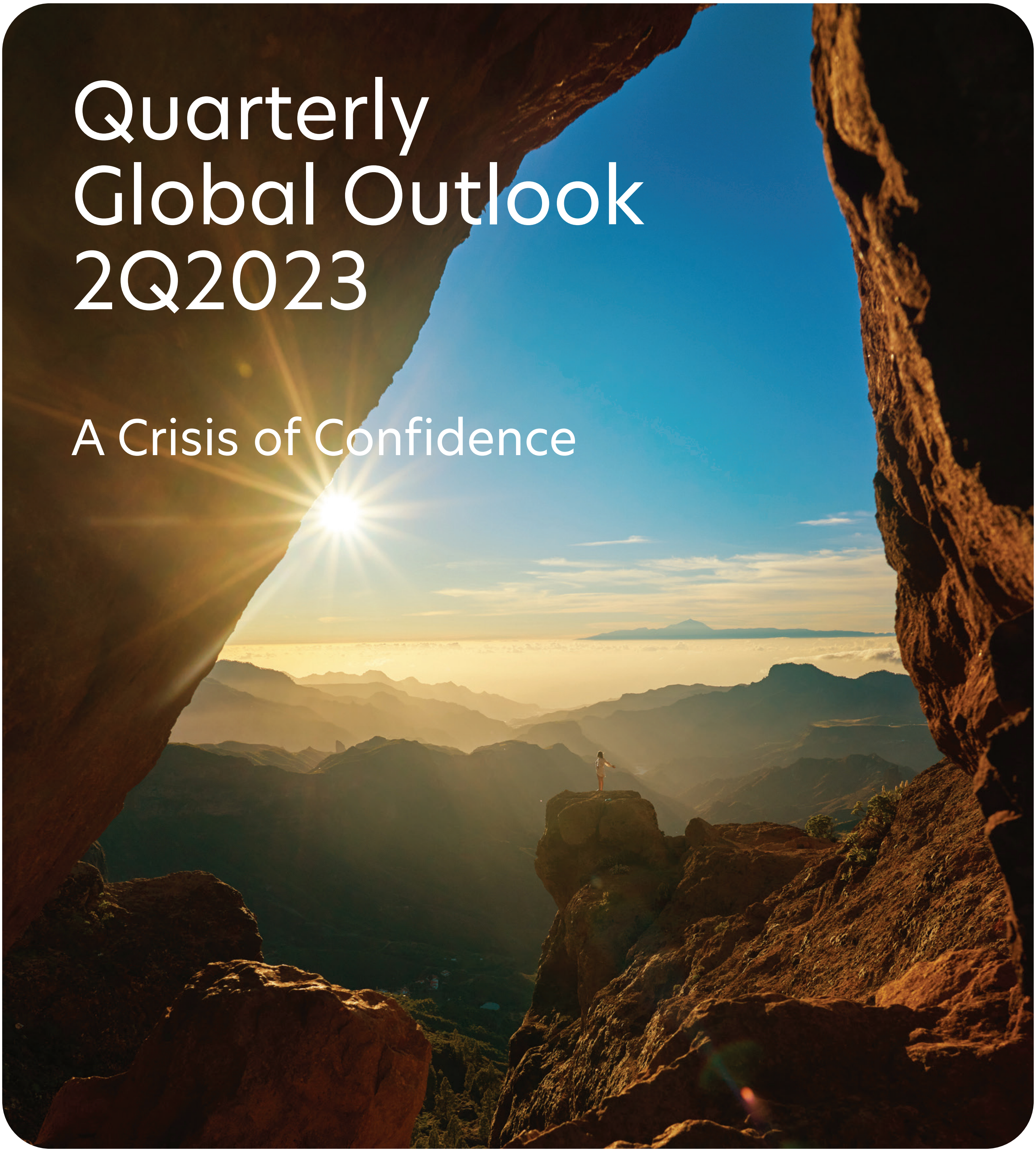
UOB

Quarterly Global Outlook 2Q2023

A Crisis of Confidence



Right By You

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Information as of 24 March 2023

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Executive Summary
A Crisis of Confidence

> “Every banker knows that if he has to prove that he is worthy of credit, however good may be his arguments, in fact his credit is gone.”
>
> Walter Bagehot
> in Lombard Street: A Description of the Money Market, 1873

The Banking Sector Undergoes Its Very Own Confidence Crisis

At the start of 2023, after one of the steepest rounds of rate hike by the US Federal Reserve (Fed), investors were on the lookout for “things that are broken”. There were indeed pockets of credit issues in commercial real estate, student loans, car loans and the private equity space etc. However, none of these concerns seemed systemic and can be easily explained away as idiosyncratic tentative stresses that the economy is facing from its nascent recovery after three years of Covid-19 disruptions. Generally, investors were heartened that “nothing is broken” and looked forward to China’s successfully reopening of its economy following its exit from the Zero-Covid strategy.

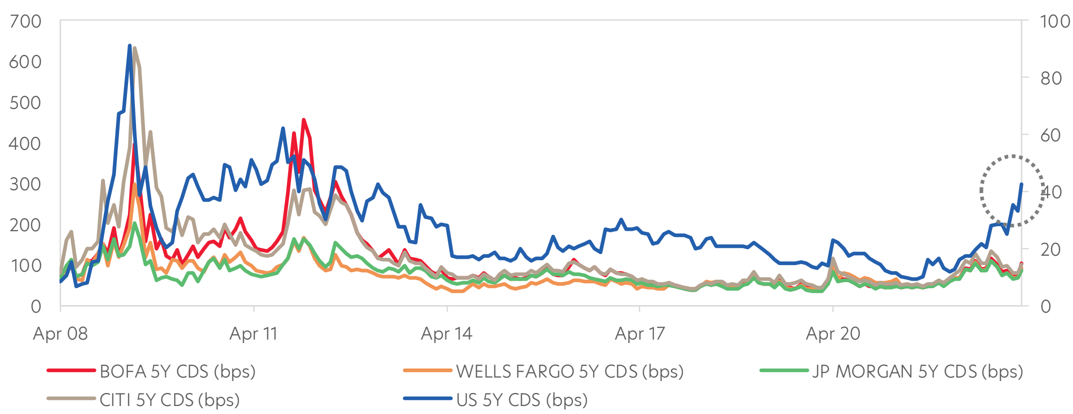
Then the banking sector black swan struck. Instead of a credit crisis for borrowers and consumers, the stresses occurred within the banking sector instead. In lightning quick succession, three US regional banks went under. The banking crisis then crossed the Atlantic to Europe and triggered the accelerated demise of a mortally wounded Swiss bank. Suddenly, banks, notably those in the US and Europe, now need to defend and fight for their credit worthiness. Every bank now needs to convince investors and customers alike that their balance sheet is liquid and that there are no major valuation losses in its “hold to maturity” bond portfolio.

At this juncture, thoughts written more than 150 years ago by Walter Bagehot in his seminal book on banking and finance seemed so prescient. In his book from 1873, titled “Lombard Street: A Description of Money Market”, Bagehot noted the peculiarity of credit worthiness. Specifically, that should a banker (or banking institution in modern day terms) need to prove that his is of good credit, then his credit would have been gone.

Bagehot also warned that “The business of banking ought to be simple. If it is hard it is wrong. The only securities which a banker, using money that he may be asked at short notice to repay, ought to touch, are those which are easily saleable and easily intelligible.” And yet, the crisis of confidence that engulfed the banking sector revolves around the mark-to-market valuation of securities that the weaker banks hold on their balance sheet.”

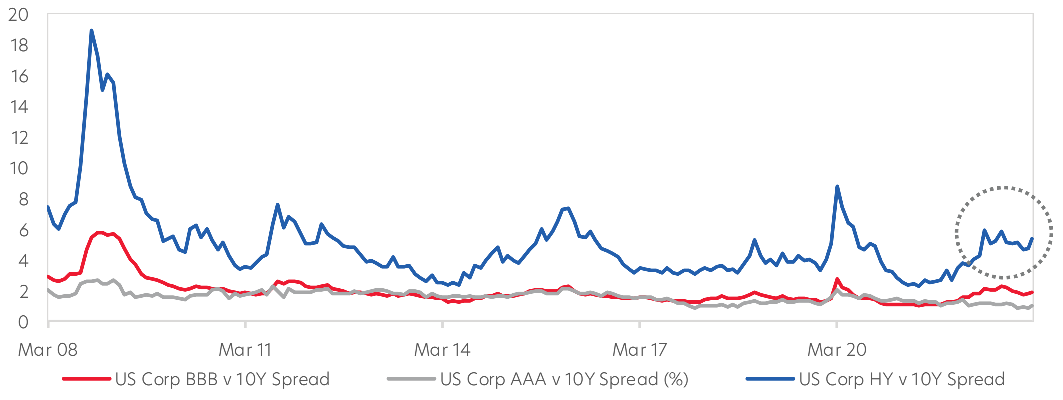
US banking sector 5Y CDS and US Sovereign 5Y CDS

Source: Bloomberg, UOB Global Economics & Markets Research



US Corp AAA, BBB vs High Yield 10 year spread

Source: Bloomberg, UOB Global Economics & Markets Research

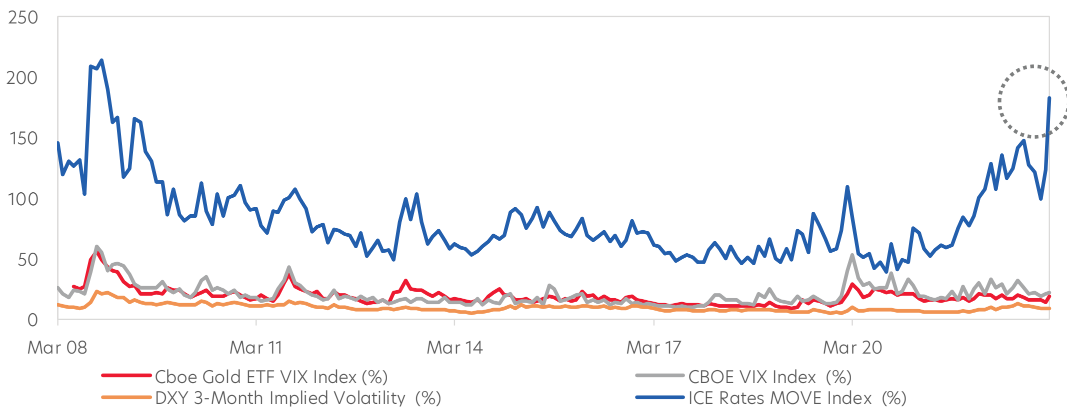


Risk Indicators Have Jumped But Still Far From 2008 GFC Highs

As a result of the crisis in the banking sector across March, various risk indicators have indeed jumped. Specifically, credit default swaps of major US and European banking names have risen. Concurrently, US sovereign credit default swap has doubled since the start of the year, from about 20 bps to just above 40 bps now. The rise in US sovereign credit default swap is also driven by investor concerns over increasing risk of US debt ceiling default. US and European high yield spreads have also risen markedly higher than the typical AAA or even BBB spreads. While the rise in these risk indicators is indeed worrying, it is important to note that they are still far from 2008 Global Financial Crisis (GFC) highs.

Rates Volatlity spiked towards 2008 level

Source: Bloomberg, UOB Global Economics & Markets Research



Volatility in the rates space has also jumped to extreme levels. That's par for the course as the epicenter of the banking sector's crisis lies in fixed income and debt instruments. It is important as well to note that volatility outside of rates, i.e. in other asset classes like FX, equities and commodities, remain relatively modest by historical standards. This would imply that the crisis is not systemic.

Swift And Targeted Central Bank Intervention To Curb Contagion Risk

So far, the Fed and various global central banks have been very proactive in various targeted policies to ring fence the crisis. To support US banks' elevated funding needs, the Fed has made available a new Bank Term Funding Program (BTFP) and dropped the lending rate at its existing discount facility. To ensure the orderly functioning of global foreign exchange market and pre-empt a USD funding crunch, the Fed has also vastly expanded its US Dollar liquidity swap lines with five other leading Developed Market (DM) central banks, namely Bank of Canada, Bank of England, Bank of Japan, Swiss National Bank and European Central Bank. From weekly operations, the additional swap lines now provide daily operations for global USD funding needs. This quick action has resulted in a rather benign FX market. Amidst the crisis, the US Dollar Index (DXY) was an oasis of calm and barely changed at 103.

The authorities' swift, targeted and decisive response has defused significantly contagion and systemic risks and will go a long way in restoring confidence in the banking system. It should be noted that these recent bank failures look to be idiosyncratic in nature and were caused in large part by the shortcomings of their internal controls, governance, and risk management/culture.

Fed Hiked By 25 bps As Expected While Powell Warns Of Increasing Risk Of Credit Tightening

As widely expected, the Fed hiked by 25 bps at its recently concluded March FOMC. While the dot plot sticks to a 5.10% terminal rate, Fed Chair Jerome Powell was much more candid at the follow up press conference. He alluded multiple times to the increasing credit tightening risk as a result of the banking crisis. Powell even went as far as hinting that the Fed will take this credit tightening into consideration in their future deliberation for rate hikes. Our updated view is that the Fed will most likely make one more 25 bps hike to 5.25% at the subsequent May FOMC. That 5.25% level will likely be the terminal rate going forward and Fed will stay on hold thereafter throughout rest of 2023.

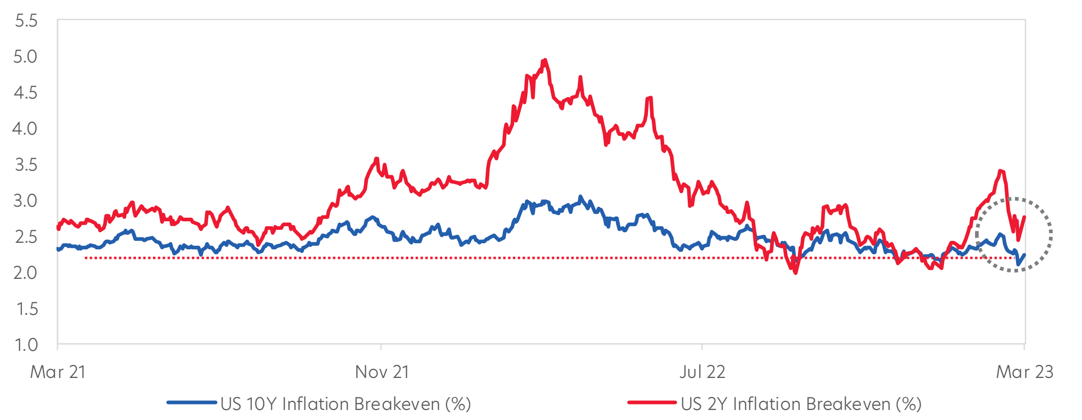
US Economy Still Seen To Be Resilient

Despite a shaken (but not stirred) US banking sector, our view remains that the US economy is still relatively resilient amidst a robust job market that is just emerging from Covid-19. While unemployment rate has inched back up to 3.6% in Feb from 3.4% in Jan, it hovers near pre-Covid historic low. Our base case remains that the US economy will endure a mild recession of -0.5% GDP slowdown before recovering to 2.5% GDP growth in 2024.

However, the distribution path of the US economic outlook is now decidedly wider. Downside risks have indeed increased should the Fed and various authorities fail to stem the crisis of confidence in the banking sector. If authorities fail to stem the banking crisis, it will undoubtedly lead to a widespread tightening of lending, triggering a more pronounced slowdown and spillover effect. On the other hand, should the Fed stop its hiking cycle prematurely, this may well result in a renewed surge in inflation which will need even more rate hikes down the road. Overall, there is now elevated unpredictability in US economic outlook.

US Inflation Breakevens fall back towards 2%

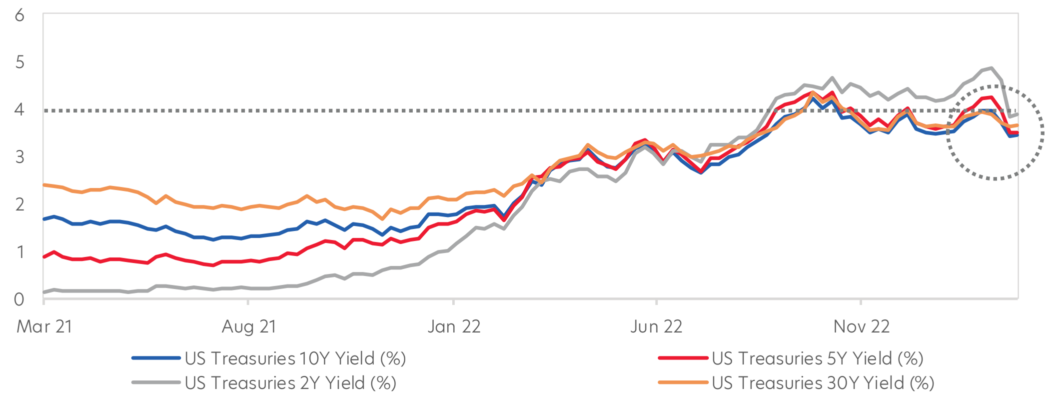
Source: Bloomberg, UOB Global Economics & Markets Research



For now, inflation expectations have receded dramatically in the US with the 2Y inflation expectation pulling back to the 2% handle. The lower inflation expectations is also evident in the marked pullback in US Treasuries yield. Prior to this credit crisis, the 2Y US Treasuries yield was in danger of making a sustained spike above 5%. It has now pulled back "to join the pack" at the sub 4% level.

2Y Treasuries yield retreats from 5% back below 4%

Source: Bloomberg, UOB Global Economics & Markets Research



China's economy is slowly (but surely) recovering

There is however one relative bright spark amidst the uncertainty, i.e. China's economy is steadily emerging from its Covid-19 stasis and is gradually recovering. Skeptics will argue that the recovery in China's economy is lackluster and disappointing. Indeed, we are not forecasting an early 2021 style snap back in China's economy. Rather, the growth recovery this time round is likely to be more modest in nature. But make no mistake, retail sales has returned to positive growth of 3.5% y/y in February. After a 2 year slump, the slide in China's residential property price also appears to have bottomed with residential property prices now registering a positive m/m growth. With the official growth target may be a disappointingly low "around 5%", newly appointed Premier Li Qiang has vowed to focus on the quality of the growth recovery rather than just focus on just achieving a numerical growth. And the second 25 bps banks' reserve requirement ratio (RRR) cut by People's Bank of China (PBOC) in recent months will go a long way to help ensure the sustainability of China's economic recovery. Our view remains that China's economy will register a growth of 5.2% y/y this year and it will be a stabilizing force to the uncertain economic path in both Eurozone and the US.

China residential property price has started to recover on a m/m basis

Source: Bloomberg, UOB Global Economics & Markets Research

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

FX Strategy

Financial Stability Risks Introduce New Downside Risks For USD

The sharp repricing of US rates lower across March will inevitably weigh on the USD. In addition, the emergence of financial stability risks now challenges the "higher-for-longer" rhetoric and introduces new downside risks for our current Fed Funds rate and USD trajectory. As such, compared to the last update of our FX forecasts (on 1 Mar), we are more convinced of the view of further USD weakness in the coming quarters. Now that the year-long US tightening cycle is almost over and with the intensifying market speculation of Fed rate cuts in 2H23, the USD is starting to lose its key interest rate support. Hence, we reiterate our view of a weaker USD against Major FX peers starting 2Q23. The US Dollar Index is expected to drift lower to 95.9 by 1Q24. Similarly, by 1Q24, we see EUR/USD, GBP/USD and AUD/USD rising to 1.16, 1.32 and 0.72 respectively. Concurrently, USD/JPY is expected to drop to 120 by 1Q24 as well.

Asia FX has appeared resilient in recent weeks even as other asset classes have gone into risk aversion mode after US financial stability risks suddenly surfaced. This was predominantly due to Fed rate cut expectations in 2H23 driving a weaker USD. Another reason for the resilient Asia FX performance is the fact that contagion risks of US banking sector woes to Asia appears low at this juncture. That said, now is probably not the time to throw caution to the wind and be overweight Asia FX, at least in the immediate quarter (2Q23). Previous episodes of risk aversion showed us that it is a matter of time before volatility catches up with the Asia FX space. Overall, we keep to the view of a modestly higher USD/Asia in 2Q23 before clearer signs of a sustained China economic recovery spur renewed weakness of USD/Asia in 2H23. With clearer signs of sustained China economic recovery in the second half of 2023, we see outright Asian FX strength thereafter. Consequently, by 1Q24, we see USD/CNY, USD/SGD, USD/MYR, USD/THB and USD/IDR dropping to 6.70, 1.28, 4.30, 32.0 and 14,800 respectively.

Rates Strategy

Looking Past Mar FOMC, Ahead To Apr MAS And Beyond

After accounting for the latest Mar FOMC, our US macro team looks for Fed funds to peak at 5.25% with no rate cuts taking place in 2023. From this US monetary policy baseline, our derived fair value for 10Y UST yield comes in at 3.80% for 2Q 23. From a medium-term holding period perspective; our framework remains that "something will break at the top", perhaps we are already witnessing this. We expect to see bond yields drift lower across 2023, based on our expectation that the Fed funds rate will peak in 2Q23 as well as accounting for our view that the balance of risk will increasingly tilt in favor of slowing economic growth and richer safe haven premiums consequentially.

Our Singapore macro team's base case sees room for the MAS to tighten monetary policy via another re-centering higher of the policy band. Indeed, based solely on the level core consumers price index (CPI) measure and an uptick in its latest rate of change, MAS tightening would be a consensus view. The SGD NEER performance gap versus last year's comparisons implies a meaningful amount of catch up should the consensus shift in favor of a MAS tightening scenario. In the rates markets, a stronger FX would be supportive of SG yield discount to US rates. If our SG macro team's base case was to come into fruition, then we could see the SG yield discount to US rates persist/deepen in the short term. However, the bigger macro picture suggests that a turn in the US monetary policy cycle is on the horizon.

Commodities Strategy
Gold Shines Brightly As Crude Oil Slumps Amidst Elevated Global Uncertainty

The first two months of 2023 were largely unexciting for commodities prices as investors were mostly sidelined while waiting for more clarity from the US Federal Reserve. Then volatility in financial markets, particularly in the fixed income space exploded in March after the sudden round of confidence crisis in global banking sector. The threat of a global growth slowdown amidst a credit crisis fueled the renewed volatility and has affected the commodities complex in very different ways. Gold is the main beneficiary of this volatility and has rallied much higher and faster despite our existing positive outlook from last year. We reiterate our positive outlook for gold. The sharp drop in long-term yield is a key positive for gold going forward. On-going market uncertainty is the added fuel for further safe haven demand for gold. In short, gold appears poised to challenge the USD 2,000 / oz headline resistance yet again. We raise our point forecasts to USD 2,000 / oz in 2Q23 and 3Q23, thereafter USD 2,100 / oz in 4Q23 and 1Q24.

As for Brent crude oil, we need to acknowledge the increasing material risks to global growth. Having said that, the energy supply risk amidst Russia's on-going invasion of Ukraine meant that it may be premature to write off crude oil just yet. It is also true that supply issues are still prevalent in the background as global sanctions against Russian sea-borne crude oil start to bite and US Strategic Petroleum Reserves (SPR) level are drawn down to historically low levels. Overall, in line with higher risk of global growth slowdown, we downgrade our Brent crude oil point forecasts by USD 10 / bbl across the coming quarters. We now see Brent at USD 80 / bbl in 2Q23 and 3Q23, followed by USD 90 / bbl in 4Q23 and 1Q24.

Similarly for LME Copper, prices have held up very well over the past month benefiting as a result from the optimism of China's post Covid reopening. However, LME Copper prices will likely see increasing downward pressure from global growth slowdown risks as well. We maintain our negative outlook and update our price forecasts to USD 8,000 / MT in 2Q23 and 3Q23, followed by USD 7,000 / MT in 4Q23 and 1Q24.

ASEAN Focus
Resilience Amid Recessionary Risks

With major central banks around the world still embarking on interest rate hikes to fight off inflationary pressures, associated risks on growth, either taking the form of recessionary risks or marked slowdown are inevitable. ASEAN have proven resilient amidst such recessionary risks, with growth holding up relatively well while inflation is notably below those in the G3 economies and fared much better compared to other Emerging Markets (EMs).

Malaysia Focus
Tourism To Lift GDP By 1.0% In 2023

Malaysia's multicultural attractions and diverse landscapes will help drive the revival of inbound tourism amid recovering global tourism activities and resumption of China's outbound travels. The effect of stronger tourism activity could boost Malaysia's GDP by at least 1.0ppt, which further supports our baseline GDP growth forecast of 4.0% for 2023.

Global FX

USD/JPY: The expected BOJ policy shift together with the ongoing repricing of US rates lower would continue to anchor a lower USD/JPY in the quarters ahead. We reiterate our current set of USD/JPY forecasts which are at 128 in 2Q23, 125 in 3Q23, 122 in 4Q23 and 120 in 1Q24.

EUR/USD: Notwithstanding near-term volatility, we reiterate a higher trajectory for EUR/USD with updated point forecasts at 1.10 in 2Q23, 1.12 in 3Q23, 1.14 in 4Q23 and 1.16 in 1Q24. A caveat to our constructive EUR/USD view is the possible negative spill over effects from US banking sector issues that spark a blow-up in Europe's peripheral spreads that would weigh on the currency pair.

GBP/USD: Against a basket of its trading peers, GBP appears to be rebounding nicely off multi-decade lows that marked previous key crises such as the ERM (1992), GFC (2008), Brexit (2016) and UK mini budget (2022). Overall, we maintain a positive view of GBP/USD with updated point forecasts at 1.25 in 2Q23, 1.28 in 3Q23, 1.30 in 4Q23 and 1.32 in 1Q24.

AUD/USD: While we keep to a positive outlook for AUD/USD, the point forecasts are marked modestly lower as compared to our last update on 1 Mar. The updated AUD/USD forecasts are at 0.68 in 2Q23, 0.69 in 3Q23 and 0.71 in 4Q23 and 1Q24.

NZD/USD: While we reiterate the view of a higher NZD/USD due to expected weakness of the USD, the resulting trajectory is more gradual compared to our last update on 1 Mar due to broadening risk aversion. Our updated NZD/USD forecasts are at 0.64 in 2Q23, 0.65 in 3Q23, 0.66 in 4Q23 and 0.67 in 1Q24. Due to heightened growth slowdown risks compared to its antipode peer, we have factored a rising AUD/NZD in our forecasts as well.

Asian FX

USD/CNY: In the near-term, global risk aversion is likely to dent sentiment on the Emerging Markets assets and currencies, including the CNY. Considering the lacklustre China's recovery momentum and rising external risks, we stay cautious on the CNY and expect a higher USD/CNY at 6.95 in 2Q23. In 2H23, we expect the CNY to strengthen anew on clearer signs of a sustained Chinese economic recovery, with updated USD/CNY forecasts at 6.85 in 3Q23, 6.80 in 4Q23 and 6.70 in 1Q24.

USD/SGD: USD/SGD is likely to continue to mirror USD/CNY moves, inching further up to 1.34 by mid-2023 followed by weakening anew to 1.32 in 3Q23, 1.30 in 4Q23 and 1.28 in 1Q24. This is in line with our view of a bumpy Chinese economic recovery which will only start to have more visible and sustained positive effect on Asia FX from 3Q23.

USD/HKD: Overall, we reiterate the view of USD/HKD returning to the middle of its allowed trading range between 7.75 and 7.85. Our USD/HKD forecasts remain at 7.82 in 2Q23, and 7.80 thereafter till 1Q24.

USD/TWD: Going forward, we expect brief weakness of the TWD in the coming quarter (2Q23) due to global risk aversion. After which, when China's reopening gains momentum in 2H23, the TWD would start to recover. Our updated USD/TWD forecasts are 30.8 in 2Q23, 30.5 in 3Q23, 30 in 4Q23 and 29.5 in 1Q24.

USD/KRW: For now, the direction of least resistance is likely for further KRW weakness from here before clearer signs of a sustained Chinese economic recovery helped stage a recovery for KRW starting from 3Q23. Our updated USD/KRW forecasts are 1,350 in 2Q23, 1,300 in 3Q23, 1,280 in 4Q23 and 1,260 in 1Q24.

USD/MYR: Like other Asian peers, after a period of weakness in 2Q23, the MYR is expected to get a boost as China's economic recovery becomes more entrenched in 2H23. Our updated USD/MYR forecasts are 4.48 in 2Q23, 4.45 in 3Q23, 4.35 in 4Q23 and 4.30 in 1Q24.

USD/IDR: Despite favourable domestic factors, IDR is likely to still be tethered by weakness in Asia FX especially CNY in 1H23. Overall, we expect USD/IDR to rise modestly to 15,500 in 2Q23, followed by reversing lower to 15,000 in 3Q23, 14,900 in 4Q23 and 14,800 in 1Q24.

USD/THB: A more noticeable pick-up in China tourist numbers and hence THB is probably reserved for 2H23. In the interim, THB may see modest weakness alongside an uptick in global aversion. In all, our updated USD/THB forecasts are 35.0 in 2Q23, 34.0 in 3Q23, 33.0 in 4Q23 and 32.0 in 1Q24. This put THB still as one of the outperformers within Asia FX this year.

USD/PHP: We do not take comfort in the near-term stability of the PHP given the uncertainties in the global environment. Together with lacklustre recovery momentum in China, we factor in a brief period of PHP weakness in 2Q23. This is to be followed by a subsequent recovery in PHP starting 3Q23 on clearer signs of a sustained Chinese recovery. Our updated USD/PHP forecasts are 55.5 in 2Q23, 54.5 in 3Q23, 54.0 in 4Q23 and 53.5 in 1Q24.

USD/VND: Overall, we expect USD/VND to trace other USD/Asia pairs higher to 24,200 in 2Q23 before easing lower to 24,000 in 3Q23, 23,800 in 4Q23 and 23,600 in 1Q24.

USD/INR: Going forward, global risk aversion is likely to pin the INR weaker against the USD in 2Q23, alongside other Asian peers. After which, a sustained economic recovery in China would help INR stage a recovery starting 3Q23. We reiterate our current set of USD/INR forecasts which are at 83.5 in 2Q23, 82.5 in 3Q23, 82.0 in 4Q23 and 81.5 in 1Q24.

Our Forecasts
Real GDP Growth Trajectory

y/y% change	2022	2023F	2024F	3Q22	4Q22	1Q23F	2Q23F	3Q23F	4Q23F	1Q24F	2Q24F
China	3.0	5.2	4.8	3.9	2.9	3.4	7.0	4.8	5.6	5.1	5.0
Hong Kong	-3.5	4.0	3.0	-4.6	-4.2	0.4	2.0	6.3	7.6	5.0	3.0
India (FY)	6.9	6.5	6.8	4.4	4.8	6.9	6.4	5.9	6.8	7.0	6.7
Indonesia	5.4	4.9	5.2	5.7	5.0	4.9	4.8	4.7	5.0	5.1	5.3
Japan	1.0	1.0	1.8	1.5	0.4	0.7	-0.2	1.0	2.4	2.3	2.4
Malaysia	8.7	4.0	4.6	14.2	7.0	4.0	4.0	4.1	4.1	4.5	4.5
Philippines	7.6	5.0	6.0	7.6	7.2	6.2	5.0	4.7	4.2	5.6	5.8
Singapore	3.5	0.7	3.5	4.0	2.1	-0.6	0.0	1.3	1.9	3.1	3.1
South Korea	2.6	1.3	2.5	3.1	1.3	0.9	0.8	1.0	2.5	2.9	2.7
Taiwan	2.5	1.8	2.6	3.6	-0.4	-1.2	2.2	2.1	4.0	4.4	2.0
Thailand	2.6	3.1	3.5	4.6	1.4	3.0	3.1	3.2	3.2	3.5	3.4
Vietnam	8.0	6.6	7.2	13.7	5.9	6.5	6.7	6.6	6.8	7.0	7.2
Australia	3.7	1.7	1.6	5.9	2.7	2.5	1.8	1.3	1.2	1.2	1.4
Eurozone	3.5	-0.5	1.2	2.5	1.9	0.4	-0.7	-0.8	-0.7	0.9	1.2
New Zealand	2.3	1.3	0.9	6.5	2.5	4.0	2.3	-0.1	-1.0	-0.4	0.0
United Kingdom	4.2	-0.5	1.3	1.9	0.4	-0.4	-0.7	-0.6	-0.4	0.2	1.0
United States (q/q SAAR)	2.1	-0.5	2.5	3.2	2.7	1.2	-6.2	-3.2	-0.4	6.1	5.3

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

Our Forecasts
Central Bank Outlook

Central bank	Current Rate 24 Mar 2023	Rate End 2023	Rate End 2024	Change 2024 vs 2023
Fed	5.00	5.25	4.00	↓
BOJ	-0.10	-0.10	0.00	↑
ECB	3.50	3.75	3.75	–
BOE	4.25	4.50	4.50	–
RBA	3.60	3.85	3.85	–
RBNZ	4.75	5.00	5.00	–
PBOC*	3.65	3.65	3.80	↑
CBC	1.88	1.88	1.88	–
BOK	3.50	3.50	3.00	↓
BSP	6.25	6.75	5.50	↓
BNM	2.75	3.00	3.00	–
BI	5.75	5.75	5.00	↓
BOT	1.50	1.75	1.50	↓
SBV	6.00	5.00	5.00	–
RBI	6.50	6.75	6.75	–

↑ Rates higher in end-2024 as compared to end-2023

↓ Rates lower in end-2024 as compared to end-2023

– Rates unchanged in 2024 as compared to 2023

* 1Y Loan Prime Rate
Source: UOB Global Economics & Markets Research

Our Forecasts

FX, Interest Rates & Commodities

FX	23 Mar	2Q23F	3Q23F	4Q23F	1Q24F
USD/JPY	130	128	125	122	120
EUR/USD	1.08	1.10	1.12	1.14	1.16
GBP/USD	1.23	1.25	1.28	1.30	1.32
AUD/USD	0.67	0.68	0.69	0.71	0.72
NZD/USD	0.62	0.64	0.65	0.66	0.67
DXY	102.64	100.9	99.0	97.4	95.9
USD/CNY	6.84	6.95	6.85	6.80	6.70
USD/HKD	7.85	7.82	7.80	7.80	7.80
USD/TWD	30.36	30.8	30.5	30.0	29.5
USD/KRW	1,290	1,350	1,300	1,280	1,260
USD/PHP	54.36	55.5	54.5	54.0	53.5
USD/MYR	4.43	4.48	4.45	4.35	4.30
USD/IDR	15,200	15,500	15,000	14,900	14,800
USD/THB	34.10	35.0	34.0	33.0	32.0
USD/VND	23,514	24,200	24,000	23,800	23,600
USD/INR	82.24	83.5	82.5	82.0	81.5
USD/SGD	1.33	1.34	1.32	1.30	1.28
EUR/SGD	1.44	1.47	1.48	1.48	1.48
GBP/SGD	1.63	1.68	1.69	1.69	1.69
AUD/SGD	0.89	0.91	0.91	0.92	0.92
SGD/MYR	3.33	3.34	3.37	3.35	3.36
SGD/CNY	5.15	5.19	5.19	5.23	5.23
JPY/SGDx100	1.02	1.05	1.06	1.07	1.07

POLICY RATES	23 Mar	2Q23F	3Q23F	4Q23F	1Q24F
US Fed Fund Rate	5.00	5.25	5.25	5.25	4.75
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10	0.00
EUR Refinancing Rate	3.50	3.75	3.75	3.75	3.75
GBP Repo Rate	4.25	4.50	4.50	4.50	4.50
AUD Official Cash Rate	3.60	3.85	3.85	3.85	3.85
NZD Official Cash Rate	4.75	5.00	5.00	5.00	5.00
CNY 1Y Loan Prime Rate	3.65	3.65	3.65	3.65	3.65
HKD Base Rate	5.25	5.50	5.50	5.50	5.00
TWD Official Discount Rate	1.88	1.88	1.88	1.88	1.88
KRW Base Rate	3.50	3.50	3.50	3.50	3.50
PHP O/N Reverse Repo	6.25	6.75	6.75	6.75	6.25
MYR O/N Policy Rate	2.75	3.00	3.00	3.00	3.00
IDR 7D Reverse Repo	5.75	5.75	5.75	5.75	5.75
THB 1D Repo	1.50	1.75	1.75	1.75	1.75
VND Refinancing Rate	6.00	5.00	5.00	5.00	5.00
INR Repo Rate	6.50	6.75	6.75	6.75	6.75

INTEREST RATES	23 Mar	2Q23F	3Q23F	4Q23F	1Q24F
USD 3M SOFR (compounded)	4.46	4.80	5.05	5.05	4.83
SGD 3M SORA (compounded)	3.45	3.98	4.25	4.27	4.07
SGD 3M SIBOR	4.19	4.33	4.33	4.33	4.10
US 10Y Treasuries Yield	3.39	4.30	3.95	3.60	3.40
SGD 10Y SGS	2.82	3.35	3.15	2.80	2.70

COMMODITIES	23 Mar	2Q23F	3Q23F	4Q23F	1Q24F
Gold (USD/oz)	1,992	2,000	2,000	2,100	2,100
Brent Crude Oil (USD/bbl)	76	80	80	90	90
LME Copper (USD/mt)	9,031	8,000	8,000	7,000	7,000

Source: UOB Global Economics & Markets Research Estimates

Key Events
2Q 2023

- **Likely 10-14 April**
  Singapore's MAS Monetary Policy Announcement
  With core inflation still elevated (above 5% y/y), we expect the MAS to tighten policy further via another re-centring of the S$NEER policy mid-point, but this is now a close call amidst the ongoing banking sector turmoil.

- **10-16 April**
  2023 Spring Meetings of the IMF and the World Bank
  To be held in Washington DC, USA – to discuss issues of global concern, including the world economic outlook, global financial stability, inclusive economic growth and job creation and others.

- **27-28 April**
  BOJ Monetary Policy Meeting
  New Governor Kazuo Ueda chairs his first Bank of Japan (BOJ) monetary policy meeting.

- **Not later than 19 May**
  Thai General Election
  Thailand dissolved its parliament on 20 Mar to clear the way for an election which must be held within 45 to 60 days. The election will choose members of parliament, which together with an appointed Senate will choose a prime minister by the end of July, according to a timeline provided by the government.

- **19-21 May**
  G7 Leaders' Summit
  Japan holds the G7 Presidency this year and will host the summit in Hiroshima. It will be the first summit for British PM Rishi Sunak and Italian PM Giorgia Meloni.

- **02-04 June**
  IISS Shangri-La Dialogue
  The Asia's premier defence summit where ministers debate the region's most pressing security challenges, engage in important bilateral talks and come up with fresh approaches together.

- **26-28 June**
  ECB Forum on Central Banking
  The theme for this year is "Macroeconomic stabilisation in a volatile inflation environment" – which will be held in Sintra.

- **29-30 June**
  European Council meeting
  The meeting to be held in Brussels, Belgium

- **Likely in June**
  US Treasury's Semi-Annual Report
  The Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States.

- **Likely in June**
  2023 Bank Stress Test Results
  The Federal Reserve will publish the firm-specific results from the exploratory market shock along with those from the severely adverse scenario in the report.

- **Likely in June or later**
  US Debt Ceiling
  US Congress will be forced to raise the debt ceiling as it hits the limit

ASEAN Focus

Resilience Amid Recessionary Risks

With major central banks around the world still embarking on interest rate hikes to fight off inflationary pressures, associated risks on growth, either taking the form of recessionary risks or marked slowdown are inevitable. Even as the surge in inflation has somewhat slowed, it may still settle at elevated levels, requiring higher rates to stay on longer than expected, further heightening risks of prolonged sluggish economic growth, though possibilities of averting outright recession remain.

ASEAN have proven resilient amidst such recessionary risks, with growth holding up relatively well while inflation is notably below those in the G3 economies and fared much better compared to other Emerging Markets (EMs). The fiscal positions are also comparatively more prudent with manageable levels of deficit, during and in the aftermath of the pandemic. Stronger external positions are reflected by their current account positions and strong reserves have served as extremely important buffers in weathering the volatility storms that are still raging on. Resilience in the ASEAN region this year is further underpinned by sustained recovery of the travel and tourism-related businesses and personal services sectors (such as accommodation & food, retail, transport, entertainment, among others), which we believe will benefit from China's reopening of borders that should lead to greater outbound travels from China. The ongoing Russia-Ukraine conflict is expected to keep commodities prices supported due to the disruptions to supplies, which will be favourable to ASEAN members with strong endowment of natural resources.

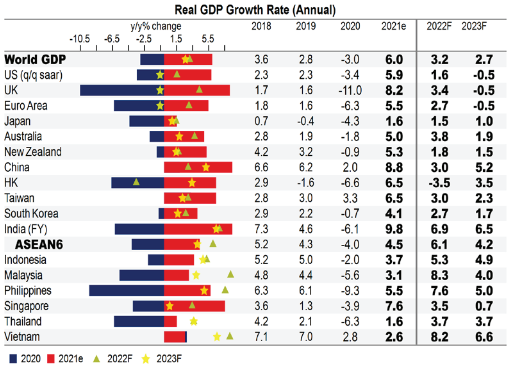
Nevertheless, ASEAN's resilience should not be taken for granted. With rising reshoring risks and possible reduced momentum of global trade integration as well as the economic repercussions from likely outcome of prolonged slowdown, ASEAN should continue to focus on its connectivity to enhance its intra-regional trade for this region to continue growing sustainably amid recessionary risks.

Data and analysis show that ASEAN region could build more synergy through its intra-ASEAN trade connectivity to build up more resilience in some of the key strategic areas that will sustain the ASEAN growth prospects in the future, such as in the areas of electronics and electrical (E&E) (Singapore, Malaysia, and Vietnam), vehicles & parts (Thailand), apparels and clothing (Vietnam) and mining and natural resources commodities (Indonesia and Malaysia). Opportunities also lie in pharmaceutical to further sustain resiliency, connectivity, and intra-regional trade within ASEAN. The findings suggest that each ASEAN country has its own core strength that they can continue to enhance by deepening the intra-ASEAN trade, leveraging on the different nature of absolute and comparative advantages that each of the economy has. The unprecedented pandemic has also highlighted an important trend that ASEAN as a region could focus on and build strategic synergy amongst member countries.

For a more detailed report, please refer to our Macro Note ASEAN: Resilience Amid Recessionary Risks dated 15 Mar 2023.

Figure 1. Slower Growth In Asia, Possible Recession In US And Europe

Source: Macrobond, UOB Global Economics & Markets Research



	2018	2019	2020	2021e	2022F	2023F
World GDP	3.6	2.8	-3.0	6.0	3.2	2.7
US (q/q saar)	2.3	2.3	-3.4	5.9	1.6	-0.5
UK	1.7	1.6	-11.0	8.2	3.4	-0.5
Euro Area	1.8	1.6	-6.3	5.5	2.7	-0.5
Japan	0.7	-0.4	-4.3	1.6	1.5	1.0
Australia	2.8	1.9	-1.8	5.0	3.8	1.9
New Zealand	4.2	3.2	-0.9	5.3	1.8	1.5
China	6.6	6.2	2.0	8.8	3.0	5.2
HK	2.9	-1.6	-6.6	6.5	-3.5	3.5
Taiwan	2.8	3.0	3.3	6.5	3.0	2.3
South Korea	2.9	2.2	-0.7	4.1	2.7	1.7
India (FY)	7.3	4.6	-6.1	9.8	6.9	6.5
ASEAN6	5.2	4.3	-4.0	4.5	6.1	4.2
Indonesia	5.2	5.0	-2.0	3.7	5.3	4.9
Malaysia	4.8	4.4	-5.6	3.1	8.3	4.0
Philippines	6.3	6.1	-9.3	5.5	7.6	5.0
Singapore	3.6	1.3	-3.9	7.6	3.5	0.7
Thailand	4.2	2.1	-6.3	1.6	3.7	3.7
Vietnam	7.1	7.0	2.8	2.6	8.2	6.6

Figure 2. ASEAN's Real Economic Output Largely Above Pre-COVID Level

Source: Macrobond, UOB Global Economics & Markets Research

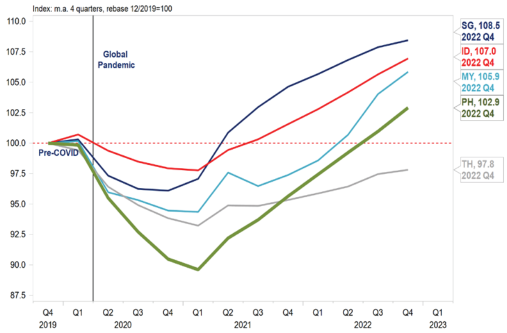


Figure 3. Inflation In Turkey Surged To More Than 80%!

Source: Macrobond, UOB Global Economics & Markets Research

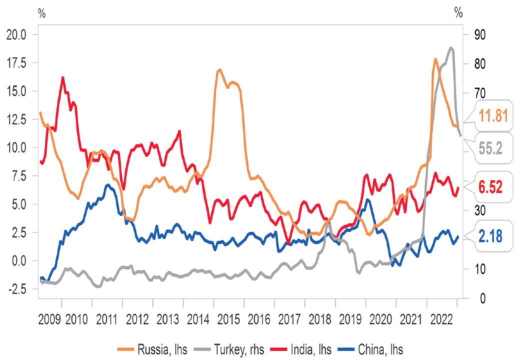


Figure 4. More Manageable Inflation Trajectory In ASEAN

Source: Macrobond, UOB Global Economics & Markets Research

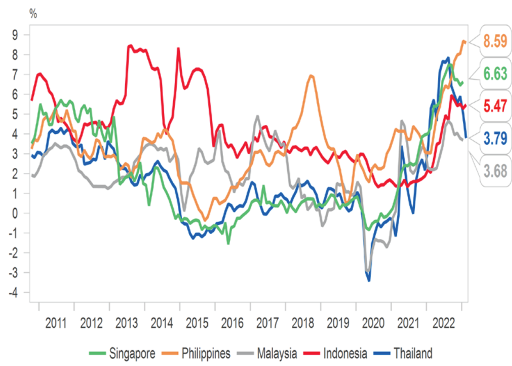


Figure 5. Higher And Much Elevated Inflation Rates In G3 Countries

Source: Macrobond, UOB Global Economics & Markets Research

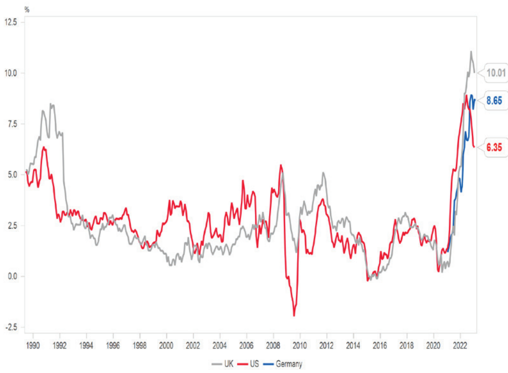


Figure 6. Regional Central Banks Expected To Hold Steady In 2023

Source: Macrobond, UOB Global Economics & Markets Research

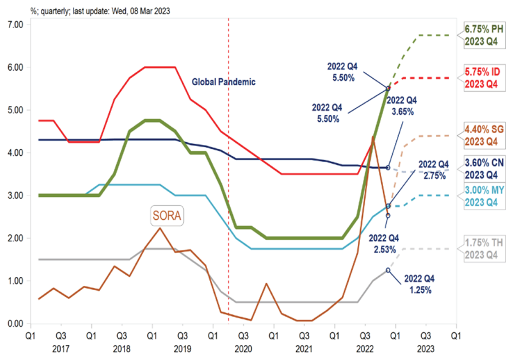


Figure 7. International Reserves, Official Reserve Assets, In USD

Source: Macrobond, UOB Global Economics & Markets Research

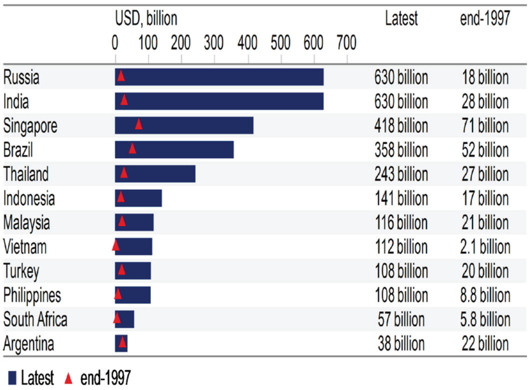


Figure 8. Fiscal Balance As % Of GDP

Source: Macrobond, UOB Global Economics & Markets Research

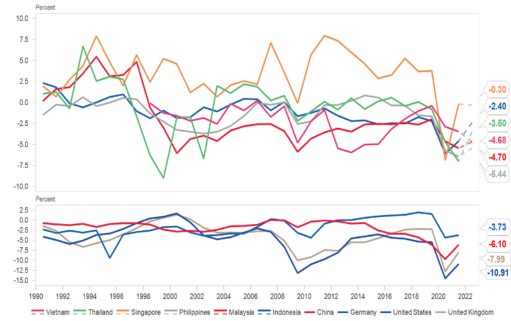


Figure 9. Strong Current Account Position To Anchor External Stability

Source: Consensus Economics, UOB Global Economics & Markets Research

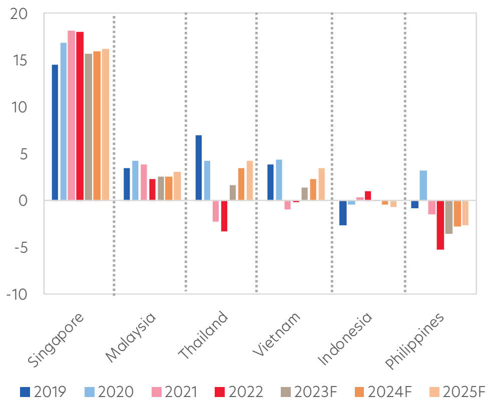


Figure 10. Import Cover Ratios (In Months Of Imports)

Source: Macrobond, UOB Global Economics & Markets Research

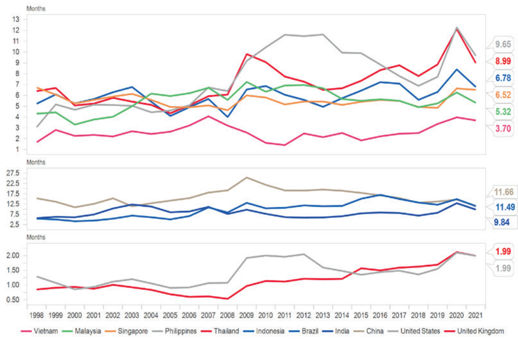


Figure 11. Top 10 ASEAN Trade (Exports And Imports Using HS Codes)

Source: UN Comtrade, UOB Global Economics & Markets Research

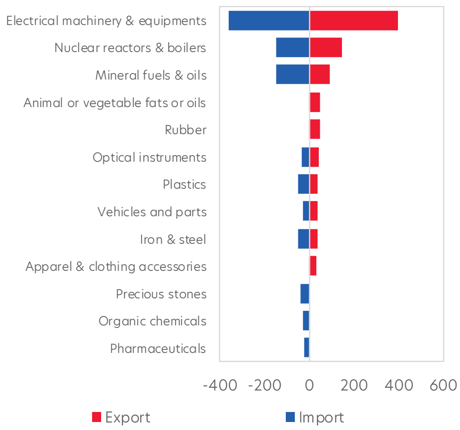


Figure 12. Major Destinations For Vietnam's Apparel Exports

Source: UN Comtrade, UOB Global Economics & Markets Research

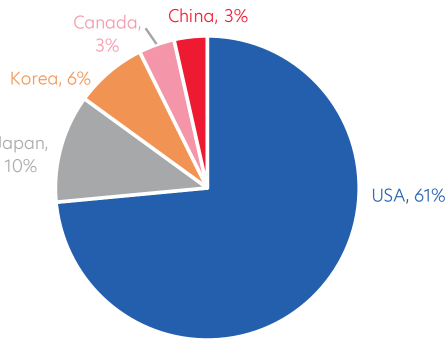


Figure 13. Exponential Increase In Imports Of Pharmaceuticals In ASEAN

Source: UN Comtrade, UOB Global Economics & Markets Research

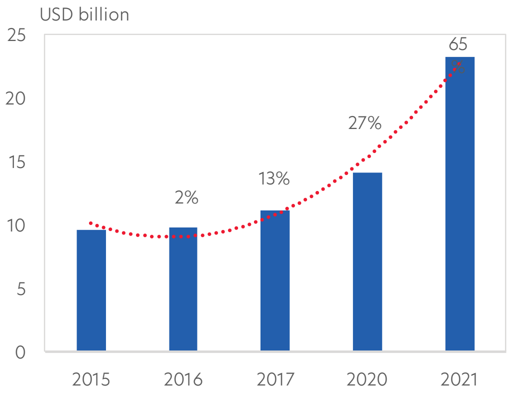
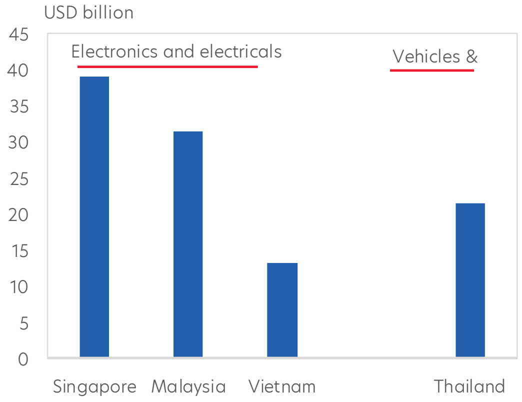


Figure 14. Net Exporters In Electronics & Electrical And Vehicle & Parts

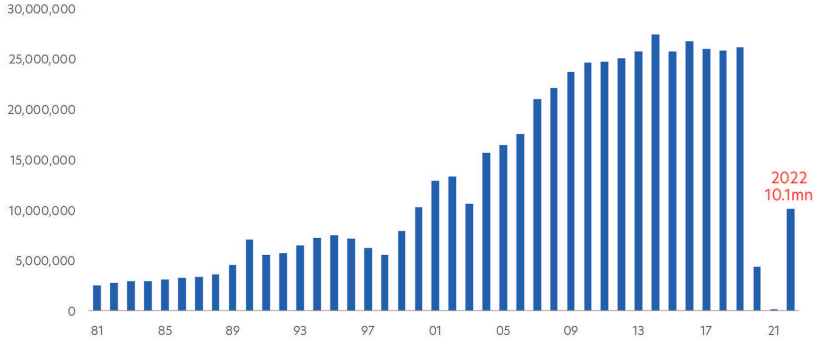
Source: UN Comtrade, UOB Global Economics & Markets Research



Malaysia Focus
Tourism To Lift GDP By 1.0% In 2023

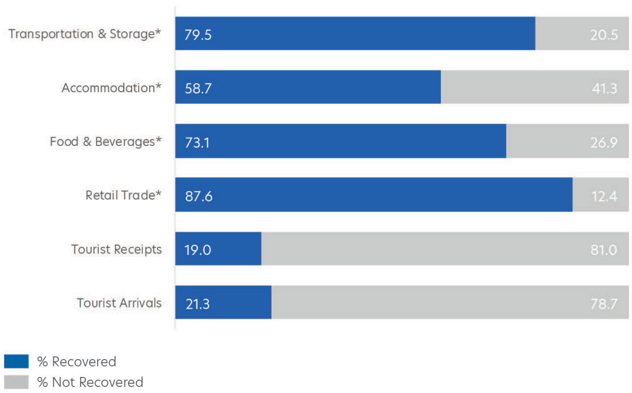
Malaysia's multicultural attractions and diverse landscapes will help drive the revival of inbound tourism amid recovering global tourism activities and resumption of China's outbound travels. The effect of stronger tourism activity could boost Malaysia's GDP by at least 1.0ppt, which further supports our baseline GDP growth forecast of 4.0% for 2023.

Malaysia Inbound Tourist Arrivals (million)



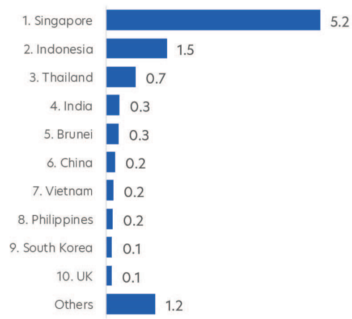
Although the tourism sector staged a rebound in 2022 as Malaysia reopened its economy and borders from 1 Apr 2022, the sector has yet to fully recover to pre-pandemic levels in part due to the prolonged COVID lockdown in China, higher global inflation particularly airline ticket prices, caution amid lingering pandemic risks, and capacity constraints including labour shortages.

% of 2019 Levels Recovered in 9M22



*Based on nominal national GDP numbers as the 2022 Tourism Satellite Account is yet to be published. The % recovery numbers for the tourism sector could be smaller due to the inclusion of non-tourism related amount in the national GDP account.

Malaysia's Inbound Tourist Arrivals in 2022 (mn)



The recovery of Malaysia's tourism sector last year was buoyed by strong domestic tourism demand while a recovery in tourism arrivals towards the end of last year helped lift inbound tourist arrivals to 10.1mn (or 38.6% of 2019 levels) in 2022.

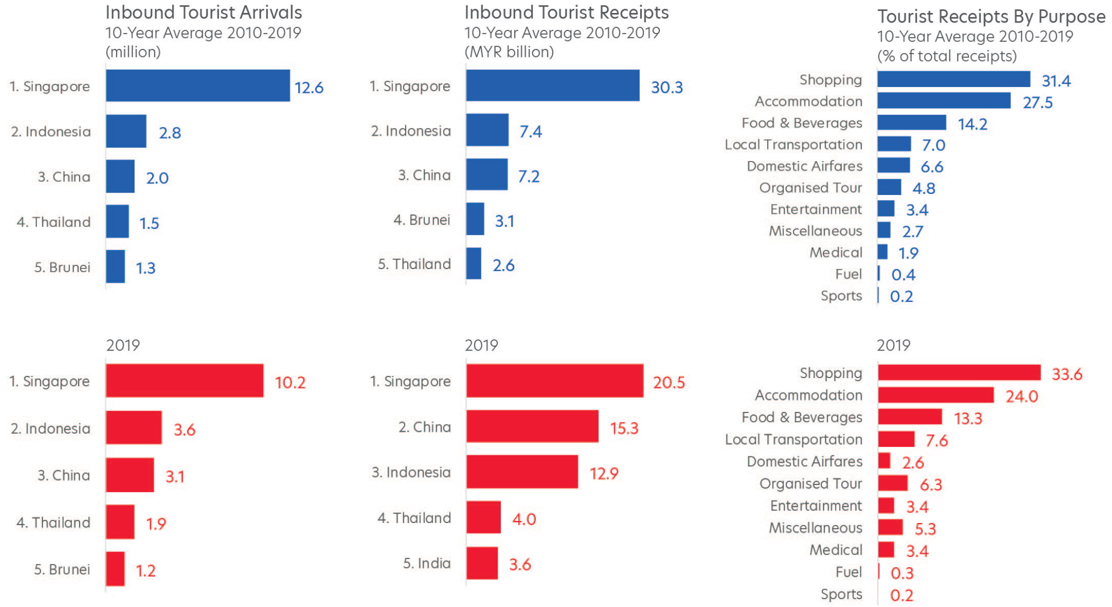
Based on past and current trends, the room to grow and recover is significant with positive effects on consumption of goods and services (i.e. shopping, retail trade, and travel agencies), accommodation, passenger transport, and food & beverages sub-sectors.

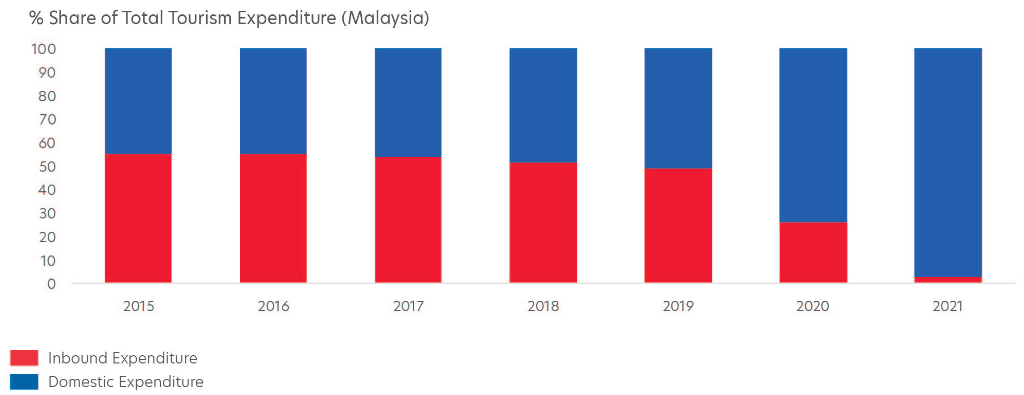
Key risks to Malaysia's tourism outlook include a weaker global outlook, slower China recovery and return of China tourists, capacity constraints, and inflation risks. According to UNWTO's latest survey of the Panel of Experts, the challenging economic environment including high inflation and interest rates, elevated oil and food prices, health concerns, and cautious spending amid global recession fears are main factors weighing on the tourism recovery.

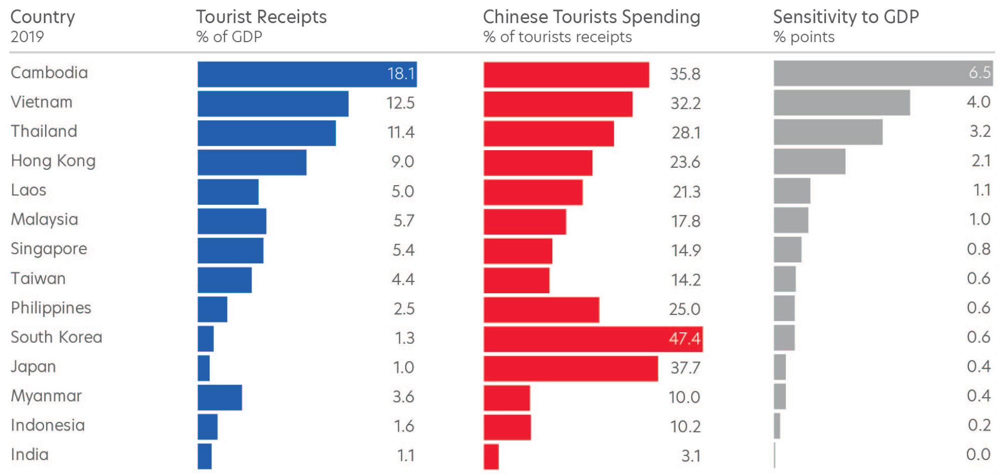
One challenge is balancing the impact on inflation as China's reopening and surge in demand may put upward pressure on prices of energy and other related goods and services. We estimated the potential effect of higher tourism demand on Malaysia's inflation. In Malaysia's consumer price index (CPI), tourism related services components including transport services; entertainment, recreation & cultural services; package tour; and accommodation services account for 4.4% of overall CPI weight. This implies that every 10% increase in the prices of tourism related services could directly add 0.4ppt to Malaysia's headline inflation (vs our baseline forecast of 2.8% for 2023). Noteworthy that we did not include the effect on prices of food and beverage as well as restaurant services due to its sizeable CPI weight that could overinflate the estimate. However, we do see potential upside risk given that it is the third largest expenditure item for tourists in Malaysia.

To mitigate these downside risks and sustain the tourism recovery will require consistent and stable reopening of countries and borders, minimal quarantine restrictions and requirements, affordable travel, improved travel connectivity, visa facilitation, processing of passports, build-up of capacity (i.e. airline seats, hotel rooms, and supply of labour), technology improvements and e-payment facilities, better safety and security.

How Does Pre-Pandemic Look Like?







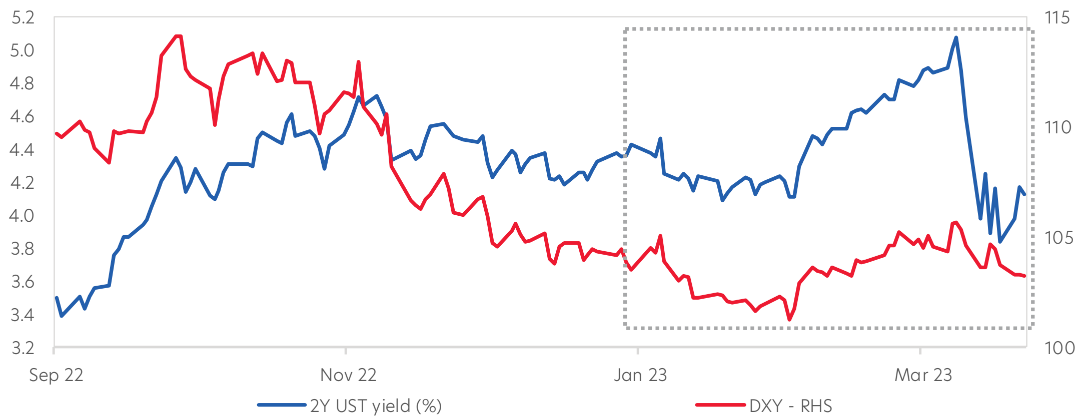
FX Strategy

Financial Stability Risks Introduce New Downside Risks For USD

What a dramatic quarter it has been. While the USD has roundtripped to roughly the same level of the 2 Feb FOMC, it did little justice to depict the volatility in the FX markets as Fed's rate expectations swung from one extreme of the pendulum to another. The year started with an extension of the pitchbook late 2022 where a Fed pivot towards smaller rate increments meant that the best days of the USD were over. By early Feb, markets were pricing that the Fed's terminal rate would be just under 5% and the prospect of a 50-bps rate cut in 2H23. The dovish view of the markets sent the US Dollar Index (DXY) to 100.82, the lowest level in 9 months. Thereafter, markets took an about turn after stronger than expected US inflation print and US payrolls together with a hawkish Powell's testimony resurrected the "higher-for-longer" rhetoric. As the rates markets repriced for a higher Fed terminal rate towards 6%, the USD recouped its losses sustained in Jan.

Chart 1: While DXY is still tethered by US rates, year-to-date movement reinforced DXY's downside bias

Source: Bloomberg, UOB Global Economics & Markets Research



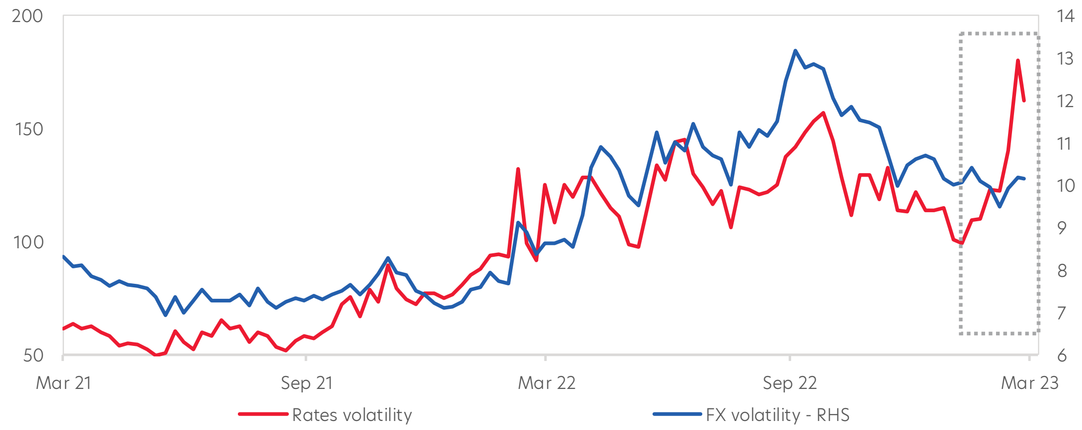
Compared to the last update of our FX forecasts (on 1 Mar), we are more convinced of the view of further USD weakness in the coming quarters.

The sudden collapse of Silicon Valley Bank (SVB) in Mar was undeniably the most defining event of the year so far. Failure of several US banks in quick succession complicated the outlook for Fed's policy path. The Fed now finds itself in a quagmire where it tries to tame the still-hot inflation without adding to financial stability risks. Rates markets are now of the view that the Fed will be asymmetrically more sensitive to the latter. While it remains to be seen whether the Fed will commence a rate-cut cycle in 2H23, we are convinced that the aggressive monetary tightening cycle which began last Mar will likely conclude through a 25-bps hike in the May FOMC.

And as the hallmark of the current cycle - "where US rates go, the USD follows" goes, the sudden repricing of US rates lower in recent weeks will inevitably weigh on the USD. Also, the emergence of financial stability risks now challenges the "higher-for-longer" rhetoric and introduces new downside risks for our current Fed Funds rate and USD trajectory. As such, compared to the last update of our FX forecasts (on 1 Mar), we are more convinced of the view of further USD weakness in the coming quarters.

Chart 2: There appears to be limited spill over to FX markets in the recent bout of volatility

Source: Bloomberg, UOB Global Economics & Markets Research



Lastly, the price action in FX markets across 1Q23 highlights a key point – two-way volatility in the USD. Even as we reiterate the view that USD has peaked late 2022, the ensuing downward trajectory is far from straightforward. Now that the fragility of the global financial system is laid bare by the SVB incident, subsequent financial accidents may again spark a funding squeeze and short-term spike in USD demand.

Major FX Strategy

A Steeper Downward Repricing in US Rates Pinned The USD Lower

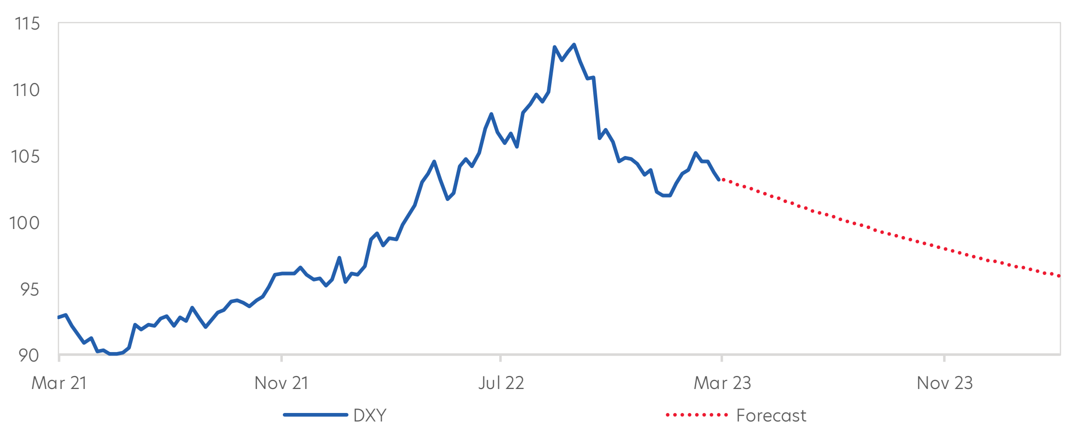
The quarter (1Q23) has played out largely as thought in the Major FX space. Since the last quarterly report published in Dec, we postulated that the USD would still be strong in 1Q23 before normalizing lower across the remainder of 2023. Factors underpinning the USD that became clearer across 1Q23 include the hawkish Fed rhetoric, the interest rate advantage USD has over its developed peers, a resilient US economy and periodic safe haven demand for the USD on global growth slowdown/recession concerns, geopolitical tensions etc.

We reiterate our view of a weaker USD against Major FX peers starting 2Q23

Now that the year-long US tightening cycle is almost over and with the intensifying market speculation of Fed rate cuts in 2H23, the USD is starting to lose its key interest rate support. Hence, we reiterate our view of a weaker USD against Major FX peers starting 2Q23. The US Dollar Index is expected to drift lower to 95.9 by 1Q24.

Chart 3: DXY expected to still normalize lower across the next 4 quarters

Source: Bloomberg, UOB Global Economics & Markets Research

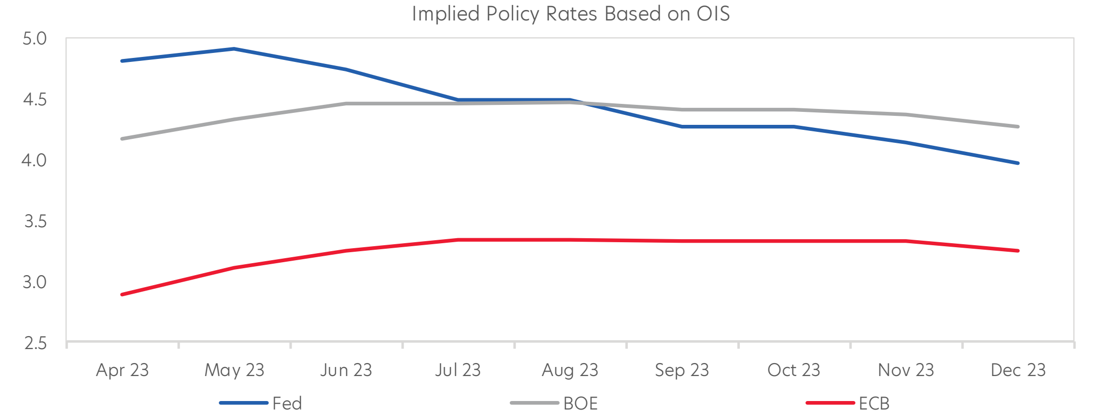


Notwithstanding near-term volatility, we reiterate a higher trajectory for EUR/USD. A caveat to our constructive EUR/USD view is negative spill over effects from US banking sector issues that spark a blow-up in Europe's peripheral spreads that would weigh on the currency pair.

While the EUR is not spared from repricing in interest rate expectations, the extent and intensity of the rate repricing is likely to be milder for the European Central Bank (ECB) compared to the Fed. This means the EU-US rate differential would continue to narrow across the remainder of 2023 and underpins a sustained EUR/USD recovery. Also, compared to a quarter ago, expectations of economic growth in the Euro area has improved, removing a key uncertainty for EUR/USD. Notwithstanding near-term volatility, we reiterate a higher trajectory for EUR/USD with updated point forecasts at 1.10 in 2Q23, 1.12 in 3Q23, 1.14 in 4Q23 and 1.16 in 1Q24. A caveat to our constructive EUR/USD view is negative spill over effects from US banking sector issues that spark a blow-up in Europe's peripheral spreads that would weigh on the currency pair.

Chart 4: Markets are expecting Fed to cut faster and deeper compared to ECB and BOE

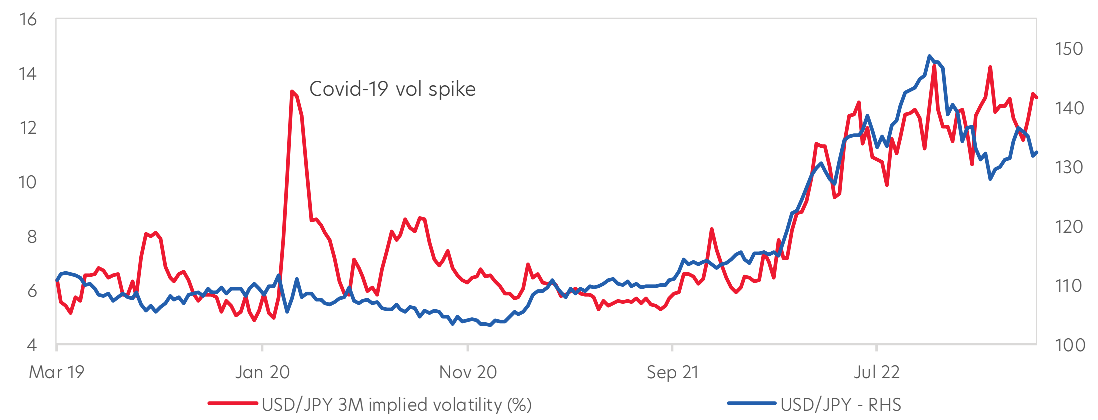
Source: Bloomberg, UOB Global Economics & Markets Research



Similar to the EUR, a less intense repricing in Bank of England (BOE) rate expectations (relative to the Fed) is helping to keep the GBP/USD supported above 1.20. Other factors helping to underpin the GBP include seemingly limited contagion from US banking sector woes and stronger than expected UK growth numbers. Preliminary 4Q22 GDP data showed UK avert the much-feared recession while monthly GDP flipped to positive territory in Jan (0.3% m/m). Against a basket of its trading peers, GBP appears to be rebounding nicely off multi-decade lows that marked previous key crises such as the ERM (1992), GFC (2008), Brexit (2016) and UK mini budget (2022). Overall, we maintain a positive view of GBP/USD with updated point forecasts at 1.25 in 2Q23, 1.28 in 3Q23, 1.30 in 4Q23 and 1.32 in 1Q24.

Chart 5: USD/JPY volatility stayed elevated on risk aversion and potential BOJ policy shift

Source: Bloomberg, UOB Global Economics & Markets Research



The expected BOJ policy shift together with the ongoing repricing of US rates lower would continue to anchor a lower USD/JPY in the quarters ahead.

The JPY outperformed within the Major FX space in Mar due to safe haven flows in the wake of a string of US bank failures. Even as the 10-year Japan Government Bond (JGB) yield has recently retreated from its top Yield Curve Control (YCC) limit of 50 bps alongside a global flight-to-quality, we keep to expectations that the Bank of Japan (BOJ) would still tweak its YCC policy further, by widening of the yield target band to +/- 100bps from +/- 50bps sometime this year followed by the scrapping of YCC and a much awaited rate hike early 2024. Overall, the expected BOJ policy shift together with the ongoing repricing of US rates lower would continue to anchor a lower USD/JPY in the quarters ahead. We reiterate our current set of USD/JPY forecasts which are at 128 in 2Q23, 125 in 3Q23, 122 in 4Q23 and 120 in 1Q24.

While the AUD is one of the main beneficiaries of the China reopening theme, near-term sentiment could be dampened by the recent bout of global risk aversion. Also, the uplift on the AUD provided by the China's reopening is likely to more modest than previously thought. This comes as China sets a conservative GDP growth target of about 5% for 2023, downplaying any need for a large stimulus to boost its recovery. Overall, while we keep to a positive outlook for AUD/USD, the point forecasts are marked modestly lower as compared to our last update on 1 Mar. The updated AUD/USD forecasts are at 0.68 in 2Q23, 0.69 in 3Q23 and 0.71 in 4Q23 and 1Q24.

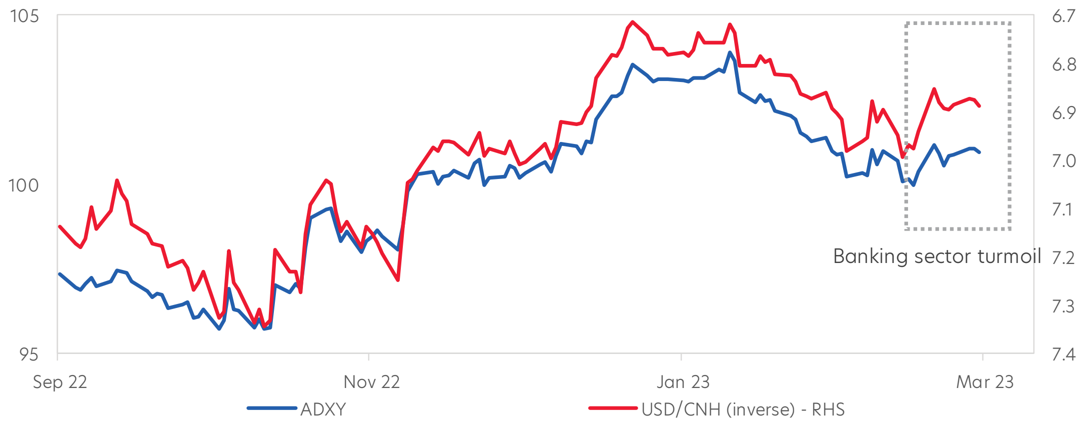
Asia FX Strategy

Stay Cautious in 2Q23 As Global Risk Aversion Takes Grip

Asia FX has appeared resilient in recent weeks even as other asset classes have gone into risk aversion mode after US financial stability risks suddenly surfaced. This was predominantly due to Fed rate cut expectations in 2H23 driving a weaker USD. Another reason for the resilient Asia FX performance is the fact that contagion risks of US banking sector woes to Asia appears low at this juncture.

Chart 6: Asia FX remains anchored to a stable RMB amidst banking sector turmoil

Source: Bloomberg, UOB Global Economics & Markets Research



One cannot dismiss the possibility that the current banking woes can intensify into a USD funding squeeze which could spark a short-term spike in USD demand.

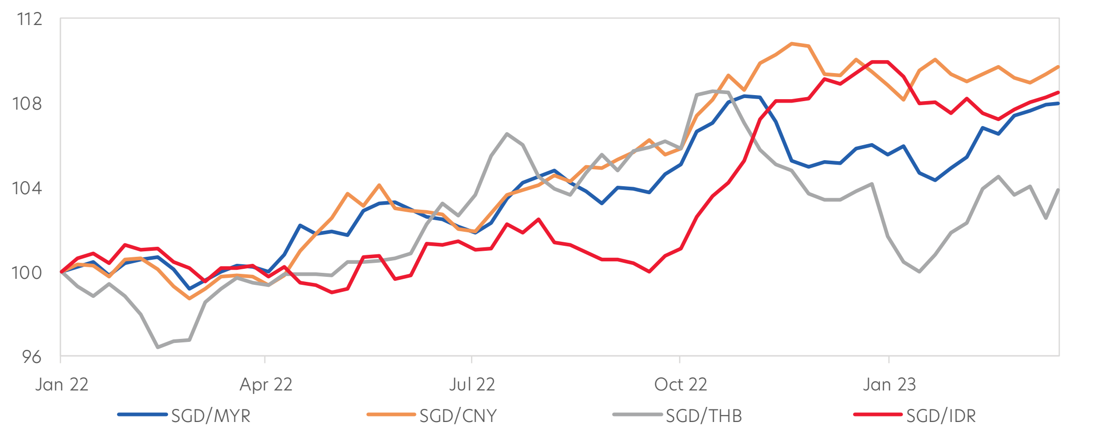
That said, now is probably not the time to throw caution to the wind and be overweight Asia FX, at least in the immediate quarter (2Q23). Previous episodes of risk aversion showed us that it is a matter of time before volatility catches up with the Asia FX space. One cannot dismiss the possibility that the current banking woes can intensify into a USD funding squeeze which could spark a short-term spike in USD demand. Another reason why we do not buy into the current strength of Asia FX is the fact that our Fed Funds Rate's trajectory is more hawkish compared to what the US swap markets are pricing. Put simply, this means the USD may be oversold in the near term. Overall, we keep to the view of a higher USD/Asia in 2Q23 before clearer signs of a sustained China economic recovery spur renewed weakness of USD/Asia in 2H23.

The latest China activity data (for Jan-Feb) was underwhelming and reflected the bumpy nature of China's recovery from the pandemic. While there was clear improvement in retail sales, the still-weak property sector and a surprise rise in the jobless rate cast a pall on the outlook. There are few reasons to expect a stimulus-led bump on the CNY given that the Chinese government has set a conservative GDP growth target of about 5% for 2023. In the near-term, global risk aversion is likely to dent sentiment on the Emerging Markets assets and currencies, including the CNY. Considering the lacklustre China's recovery momentum and rising external risks, we stay cautious on the CNY and expect a higher USD/CNY at 6.95 in 2Q23. In 2H23, we expect the CNY to strengthen anew on clearer signs of a sustained Chinese economic recovery, with updated USD/CNY forecasts at 6.85 in 3Q23, 6.80 in 4Q23 and 6.70 in 1Q24.

USD/SGD is likely to still mirror USD/CNY moves, inching further to 1.34 by mid-2023 followed by weakening anew to 1.32 in 3Q23, 1.30 in 4Q23 and 1.28 in 1Q24. As Singapore's inflation stays elevated, we expect the Monetary Authority of Singapore (MAS) to tighten monetary policy further in Apr by recentring the S$NEER higher, just as it did last Oct (2022), a step down from the double-barrelled tightening (increasing the appreciation pace and recentring of the S$NEER) in Apr (2022). That said, as long as the MAS keeps to its tightening bias, the S$NEER is likely still to be biased higher, underpinning the SGD's modest outperformance over a majority of its peers.

Chart 7: SGD keeps its outperformance relative to its trading peers in 1Q23

Source: Bloomberg, UOB Global Economics & Markets Research

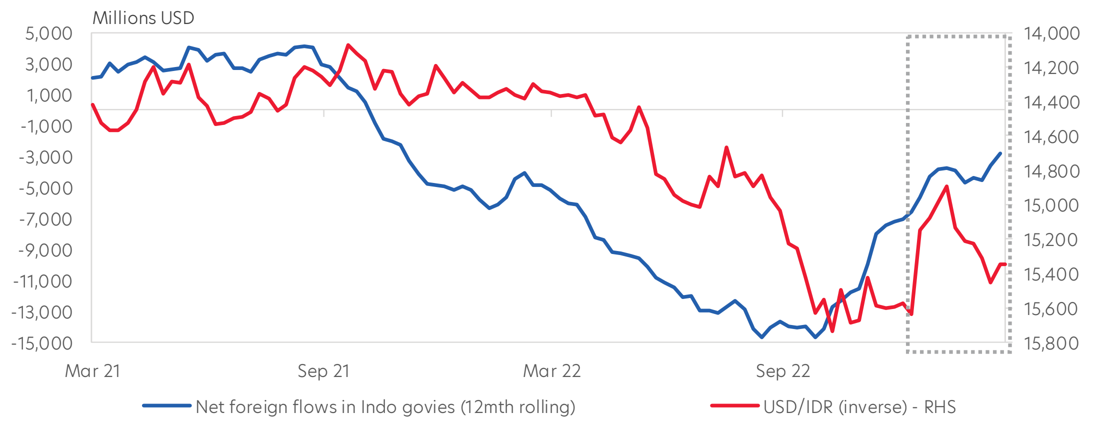


Despite favourable domestic factors, IDR is likely to still be tethered by weakness in Asia FX especially CNY in 1H23.

IDR outperformed in Asia FX and kept modest year-to-date gains against the USD. Adding to the resiliency of the IDR is strong foreigner demand in Indonesia's latest bonds and bills auction even amidst extreme volatility in the US Treasury market. The IDR is also enjoying tailwind of the commodity boom in the last couple of years which helped Indonesia book the biggest current account surplus (1% of GDP) since 2009 last year. Another initiative by Bank Indonesia that may help underpin IDR are new rules requiring exporters to repatriate their USD earnings back home. Despite favourable domestic factors, IDR is likely to still be tethered by weakness in Asia FX especially CNY in 1H23. Overall, we expect USD/IDR to rise modestly to 15,500 in 2Q23, followed by reversing lower to 15,000 in 3Q23, 14,900 in 4Q23 and 14,800 in 1Q24.

Chart 8: Healthy bond inflows helped to underpin a resilient IDR this year

Source: Bloomberg, UOB Global Economics & Markets Research



In the interim, THB may see modest weakness alongside an uptick in global aversion.

The rollercoaster ride for THB in 1Q23 reflected the rise and ebb of the China reopening play. The THB which was touted one of the key beneficiaries of China's "revenge travel" pared almost all of its close to 6% year-to-date gains after incoming data showed a slow trickle of Chinese tourists instead. A more noticeable pick-up in China tourist numbers and hence THB is probably reserved for 2H23. In the interim, THB may see modest weakness alongside an uptick in global aversion. In all, our updated USD/THB forecasts are 35.0 in 2Q23, 34.0 in 3Q23, 33.0 in 4Q23 and 32.0 in 1Q24. This means that THB is still one of the outperformers within Asia FX this year.

While the MYR has underperformed in Asia FX year-to-date, we see the relative weakness as a normalization of the outsized post-election MYR rally in late 2022, rather than the start of a new wave of MYR weakness. Outflow pressure is expected to abate as the Fed wraps up its aggressive tightening in 2Q23. Like other Asian peers, after a period of weakness in 2Q23, the MYR is expected to get a boost as China's economic recovery becomes more entrenched in 2H23. Our updated USD/MYR forecasts are 4.48 in 2Q23, 4.45 in 3Q23, 4.35 in 4Q23 and 4.30 in 1Q24.

The VND stood out as one of the most stable currency in Asia. Despite the big shifts in Fed rate hike expectations, global recession worries and US banking turmoil, the VND traded a tight 0.8% from either side of 23,600 /USD. Despite a surprise 100 bps rate cut by State Bank of Vietnam (SBV) in Mar, a strong rebound in exports and industrial production together with easing inflation are likely to anchor the VND stability. Overall, we expect USD/VND to trace other USD/Asia pairs higher to 24,200 in 2Q23 before easing lower to 24,000 in 3Q23, 23,800 in 4Q23 and 23,600 in 1Q24.

Rates Strategy
Looking Ahead To April MAS And Beyond

- Post Mar FOMC we see peak Fed funds at 5.25% and no rate cuts in 2023.
- Our SG macro team's call for MAS tightening, implies scope for stronger SGD NEER and deeper SG yield discounts in the short term.
- Forward markets have priced SG yields to decline more on average compared to the past three US easing cycles.

Market Versus Forecast On US Monetary Policy Diverge Again

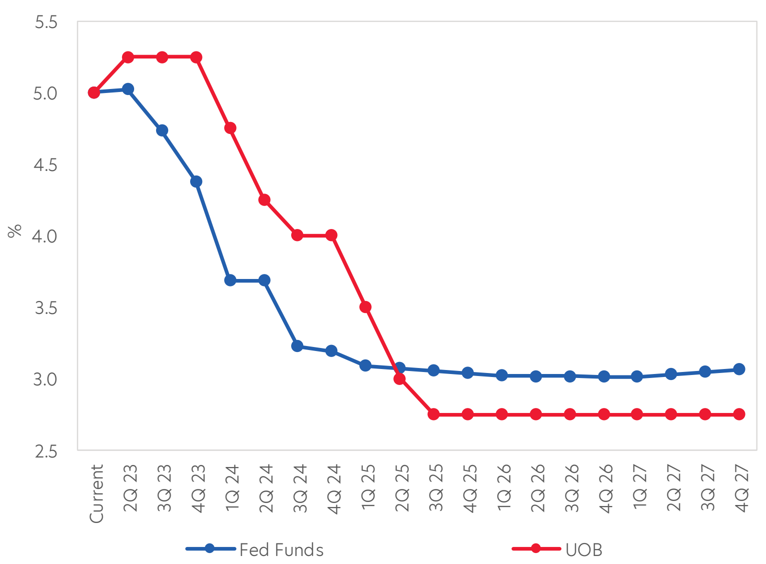
After accounting for the latest Mar FOMC, our US macro team looks for Fed funds to peak at 5.25% with no rate cuts taking place in 2023. From this US monetary policy baseline, our derived fair value for 10Y UST yield comes in at 3.80% for 2Q 23.

Our estimate sits higher than the prevailing 10 UST yield of 3.45% (23 Mar close) due to the difference in US monetary policy outlook between our forecast and the Fed funds futures market pricing which is more dovish.

Our estimate sits higher than the prevailing 10 UST yield of 3.43% (23 Mar close) due to the difference in US monetary policy outlook between our forecast and the Fed funds futures market pricing which is more dovish with (1) Fed funds peaking at 5.00% and (2) around 75bps of rate cuts in 2023.

Chart 1: Market vs Forecast

Source: Bloomberg, UOB Global Economics & Markets Research



	UOB -Mkt (%)
2Q 23	0.23
3Q 23	0.52
4Q 23	0.87
1Q 24	1.06
2Q 24	0.56
3Q 24	0.78
4Q 24	0.81
1Q 25	0.41
2Q 25	-0.07
3Q 25	-0.31
4Q 25	-0.29
1Q 26	-0.27
2Q 26	-0.27
3Q 26	-0.27
4Q 26	-0.26
1Q 27	-0.26
2Q 27	-0.28
3Q 27	-0.30
4Q 27	-0.31

During the previous episodes of divergence (from late 2022 to Jan 23), we were comfortable in warning that convergence via an upward adjustment by the market was our preferred scenario because investors had overplayed the "inflation is coming down" hand.

This time, a crisis of confidence has driven the wedge between our forecasts and market pricing. In our experience, fear-based irrationality is a much more capricious beast compared to irrational optimism built on small macro data sample sets. Thus, whilst we think that volatile markets may have overshot, there is no edge in arguing against a market dynamic that can become its own self-fulfilling prophecy.

April MAS Monetary Policy Announcement

Let's shift the discussion back onto the domestic market because we will be getting the Monetary Authority of Singapore (MAS) semi-annual monetary policy release in Apr.

Our Singapore macro team's base case sees room for the MAS to tighten monetary policy via another re-centering higher of the policy band. Indeed, based solely on the level core consumers price index (CPI) measure and an uptick in its latest rate of change, MAS tightening would be a consensus view. In addition, domestic financial conditions on a 1Y z-score has also eased since last Oct's MAS tightening.

Chart 2: MAS core CPI (y/y)

Source: Bloomberg, UOB Global Economics & Markets Research

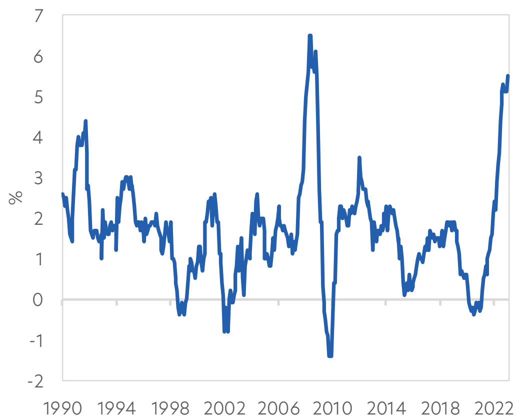
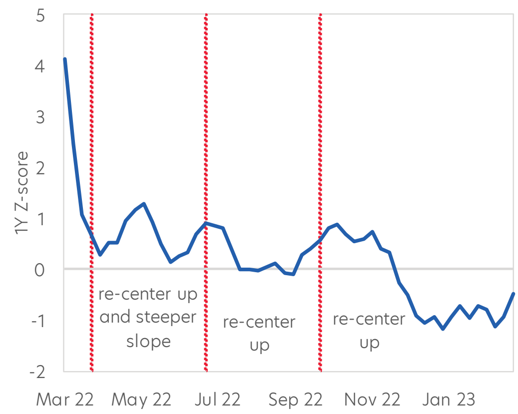


Chart 3: Singapore financial conditions

Source: Bloomberg, UOB Global Economics & Markets Research



More dominoes could be toppled in the run up to Apr's MAS announcement, but the team's view is that the current rout will not snowball into a global systemic crisis.

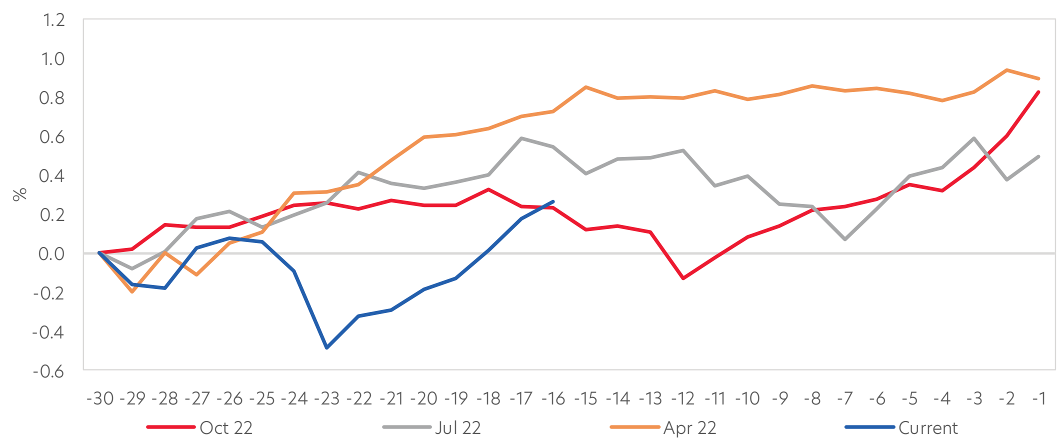
Having said that, confidence levels surrounding the team's base case is lower than usual due to the recent crisis of confidence that has been wrecking a path through the US and EU financial sectors. More dominoes could be toppled in the run up to Apr's MAS announcement, but the team's view is that the current rout will not snowball into a global systemic crisis. Nonetheless, given the febrile state of markets, rationality does not always need to apply.

How To Gauge MAS Tightening Prospect?

In an era of forward guidance, monetary policy makers have tended to avoid surprising investors. In the past year, MAS has tightened policy thrice, twice during scheduled meetings and once in an off-cycle change. In every instance, the SGD NEER posted gains in the month before policy was tightened. Presently, the SGD NEER performance does not indicate a high probability of the MAS tightening in Apr.

Chart 4: SGS NEER performance into MAS announcements

Source: Bloomberg, UOB Global Economics & Markets Research



Confidence in the policy tightening scenario will be improved alongside better performance in the SGD NEER over the remaining days leading up to the Apr MAS announcement.

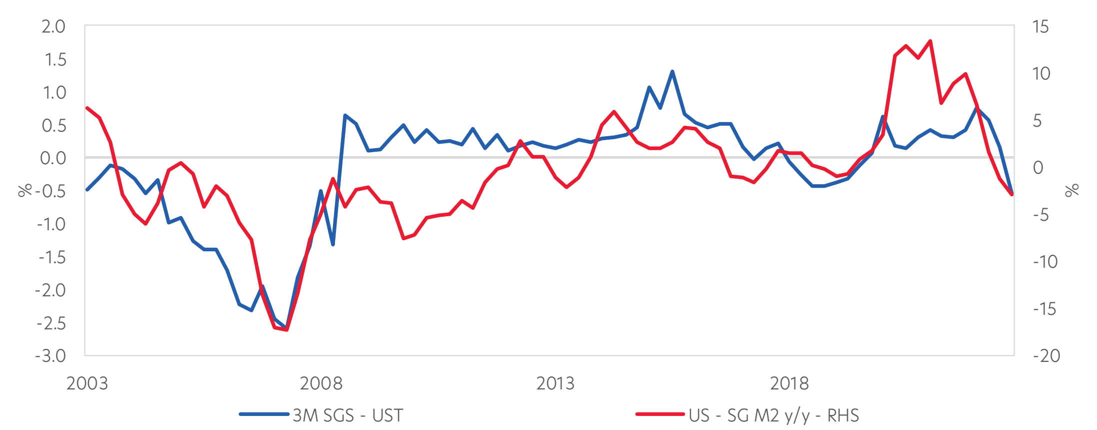
The SGD NEER performance gap versus last year's comparisons implies a meaningful amount of catch up should the consensus shift in favour of a MAS tightening scenario.

What To Expect If MAS Tightening Scenario Improves?

The SGD NEER performance gap versus last year's comparisons implies a meaningful amount of catch up should the consensus shift in favour of a MAS tightening scenario. In the rates markets, a stronger FX would be supportive of SG yield discount to US rates. As it is, the relative money supply dynamics is already conducive towards the maintenance of a SG yield discount. M2 growth on a y/y basis is negative in the US and remains positive in SG, thus relative scarcity favours USD funds and this translates into a cheapening (yield wise) of SGD funds.

Chart 5: Relative money supply growth and yield spread

Source: Bloomberg, UOB Global Economics & Markets Research

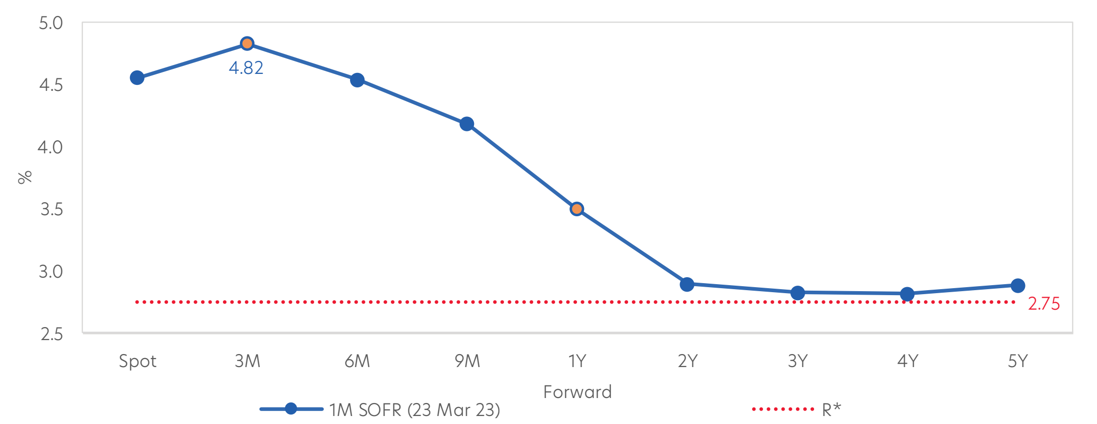


Beyond The Short Term, SG Yield Discount Faces A Limited Shelf Life

If our SG macro team's base case was to come into fruition, then we could see the SG yield discount to US rates persist/deepen in the short term. However, the bigger macro picture suggests that a turn in the US monetary policy cycle is on the horizon.

Chart 6: 1M SOFR OIS Forwards

Source: Bloomberg, UOB Global Economics & Markets Research

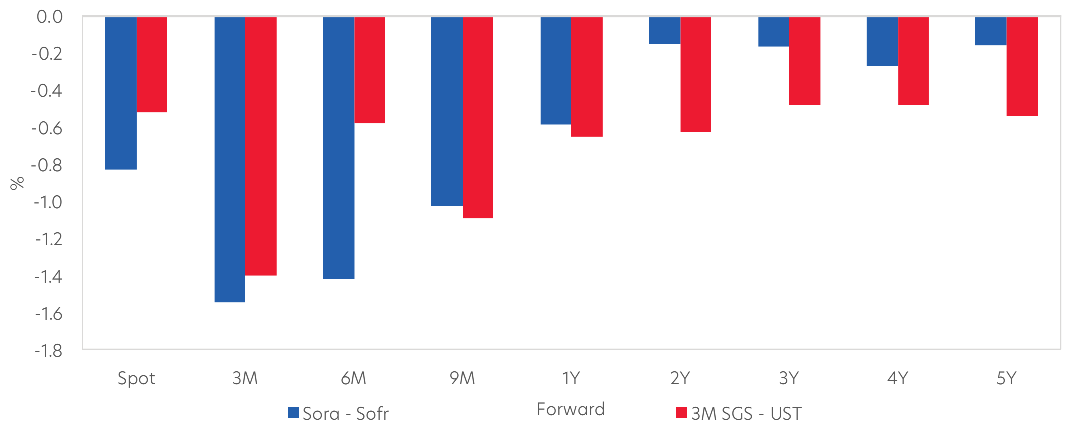


In general, investors have priced SG yield discounts to reach a nadir in the middle of 2023 before contracting thereafter.

The forwards market is handling this switch in monetary policy cycle by pricing in a diminishing profile for the SG yield discount to US rates over time. This profile holds for both the overnight index swaps (OIS) as well as the bond (SGS – UST) markets. In general, investors have priced SG yield discounts to reach a nadir in the middle of 2023 before contracting thereafter.

Chart 7: Yield spread across the Forward curve

Source: Bloomberg, UOB Global Economics & Markets Research



We do think that the forward market might be underpricing the magnitude of contraction in the SG yield discount.

We do not disagree with a diminishing profile for the SG yield discount during a US monetary policy easing cycle. But we do think that the forward market might be underpricing the magnitude of contraction in the SG yield discount. When we use the forward market implied path of US rates and fit this to the average changes in SG yield discount derived from the past three cycles, we get a much higher profile compared to the prevailing forwards.

Chart 8: Average change in yield spread per 25bps of Fed hike

Source: Bloomberg, UOB Global Economics & Markets Research

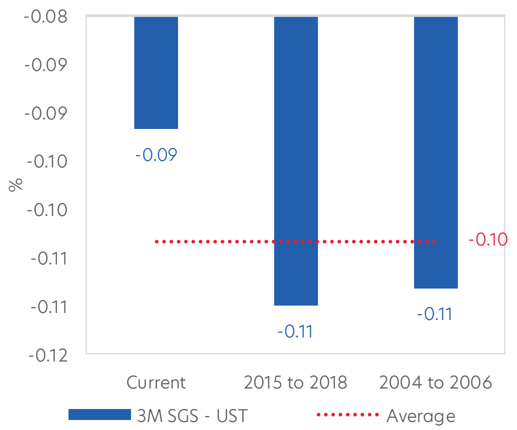


Chart 9: Average change in yield spread per 25bps of Fed cut

Source: Bloomberg, UOB Global Economics & Markets Research

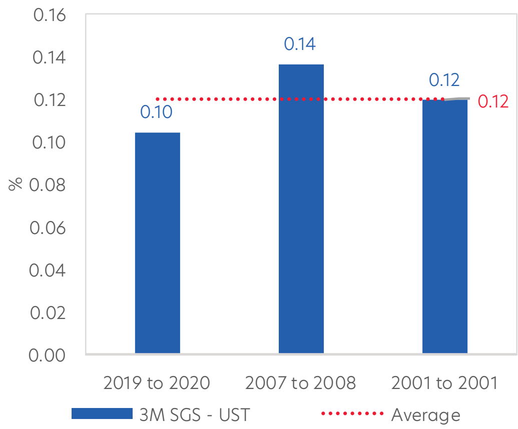
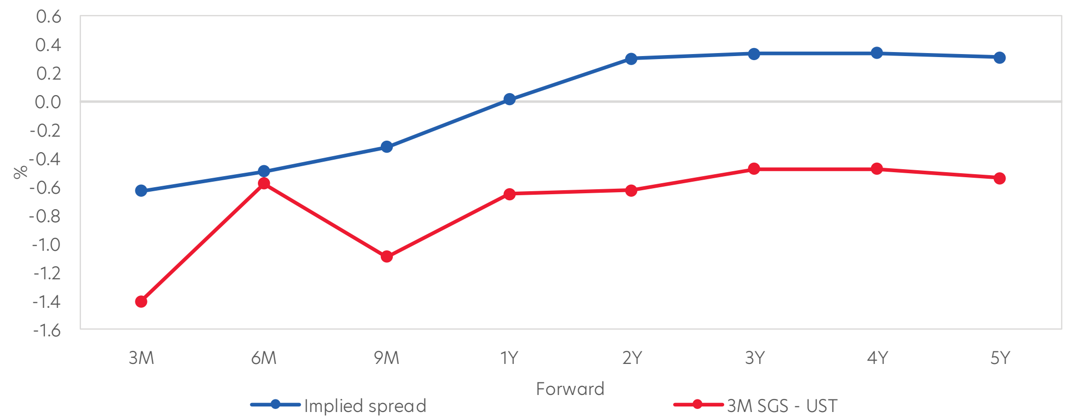


Chart 10: Actual versus implied yield spread

Source: Bloomberg, UOB Global Economics & Markets Research



Put simply, based on the expected US monetary policy easing cycle, the forward markets are projecting SG rates to decline by a larger than average magnitude compared to the three previous easing cycles. In our opinion, factors that would support outperformance in SG rates markets during a Fed easing cycle are limited. Instead, we think that the path of least resistance favours positioning for narrower SG yield discounts in the forward space.

Summary of Our Views

Divergence has returned between our forecasts and market pricing regarding the trajectory of US monetary policy. Financial markets are undergoing a crisis of confidence and even if we suspect that prices have overshot, the timing for leaning against the crowd is not yet opportune.

From a medium-term holding period perspective; our framework remains that "something will break at the top", perhaps we are already witnessing this. We expect to see bond yields drift lower across 2023, based on our expectation that the Fed funds rate will peak in 2Q 23 as well as accounting for our view that the balance of risk will increasingly tilt in favour of slowing economic growth and richer safe haven premiums consequentially.

For 2Q 23 we see the 3M compounded in arrears Sofr and Sora at 4.80% and 3.98% respectively. At the same time, we have the 10Y UST and SGS yields at 3.80% and 3.20% respectively.

Summary of Our Views	
Outright Yield	FOMC guides no rate cuts in 2023, we expect the same. Market is priced for around 75bps of cuts. Closing the gap favours upside for yield level, but "converge down" scenario cannot be ruled out.
Curve	Cycle shifting towards steeper yield curves, with likelihood of larger repricing taking place later in the year. Nonetheless, a negative 2Y10Y UST yield curve will remain for most of 2023.
SG-US Spread	SG yield discount to US stay largely intact until conviction builds for a turn in monetary policy cycle. Yield discount to diminish over time.

Our Forecasts

Rates	24 Mar 23	Forecast	2Q23F	3Q23F	4Q23F	1Q24F
US Fed Funds Target	5.00	Current	5.25	5.25	5.25	4.75
		Previous	5.50	5.75	5.75	5.25
3M Compounded SOFR	4.46	Current	4.80	5.05	5.05	4.83
		Previous	4.93	5.43	5.55	5.33
10Y UST	3.41	Current	3.80	3.70	3.50	3.40
			4.25	4.00	3.70	3.40
3M Compounded SORA	3.44	Current	3.98	4.25	4.27	4.07
		Previous	3.95	4.40	4.55	4.35
10Y SGS	2.78	Current	3.20	3.15	3.00	3.00
			3.65	3.45	3.20	3.00

Source: UOB Global Economics & Markets Research forecasts

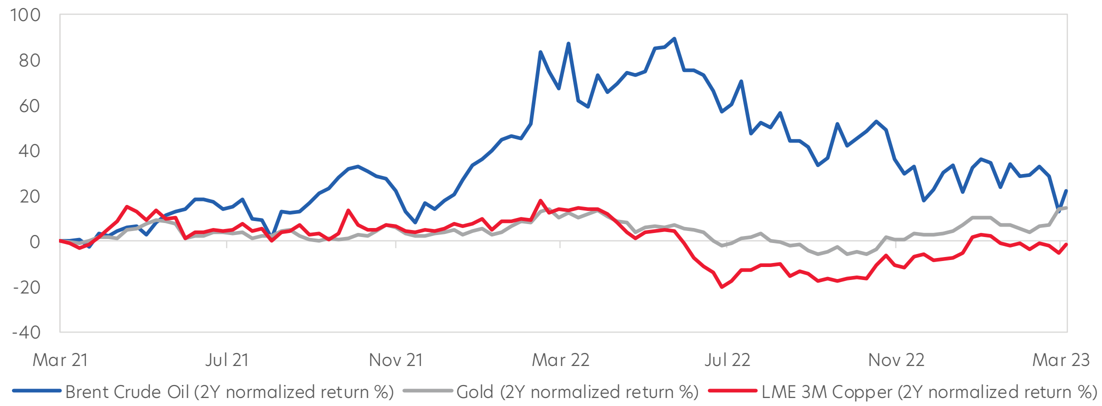
Commodities Strategy

Gold Shines Brightly As Crude Oil Slumps Amidst Elevated Global Uncertainty

The first two months of 2023 were largely unexciting for commodities prices as investors were mostly sidelined while waiting for more clarity from the US Federal Reserve. Then volatility in financial markets, particularly in the fixed income space exploded in March after the sudden round of credit crisis in global banking sector. The threat of a global growth slowdown amidst a credit crisis fueled the renewed volatility and has affected the commodities complex in very different ways.

Despite elevated volatility, Brent, Gold and Copper prices mostly unchanged on 2Y horizon

Source: Bloomberg, UOB Global Economics & Markets Research



At the very forefront of the renewed volatility is the sudden surge in gold prices back up towards the USD 2,000 / oz handle. We were positive on gold prices since late last year as we noticed rising buying demand from global central banks as well as the return of physical gold buying from retail investors, both signs of rising safe haven demand. Nonetheless, the sharp rise in gold prices in recent weeks did catch us by surprise. Can we now expect gold prices to rally further past the critical USD 2,000 / oz resistance on a sustained basis?

On the other hand, many research forecasts, including us have been wrong about the outlook of energy prices. The conventional wisdom is that amidst the on-going threat of supply disruption from Russia-Ukraine conflict, energy prices should stay elevated. Instead, crude oil prices have fallen back to pre-conflict levels of a year ago. Similarly, European gas and electricity benchmarks have also tumbled as the winter that passed turned out to be less severe than initially feared. In recent weeks, crude oil prices were sold-off further with Brent tumbling below USD 80 / bbl amidst a sudden global banking crisis. Is the market correct to just focus on growth slowdown concerns and ignore the persistent supply disruption issues?

As for LME Copper, prices have held up relatively well above USD 8,000 / MT. Copper price appears to have found more support from China's reopening of its economy. Will the rebound in Chinese manufacturing activity be able to help ringfence LME Copper prices from renewed price weakness?

Gold
Strong rally fueled by elevated uncertainty and rising risk aversion

UOB's Forecast	2Q23F	3Q23F	4Q23F	1Q24F
Gold (USD/oz)	2,000	2,000	2,100	2,100

In the previous quarterly publication, we had reiterated "our confidence in gold as a portfolio diversifier of risk as well as a long-term safe haven asset". Our forecast made back in Dec 2022 was for gold to rise gradually towards USD 1,800 / oz by 1Q23, thereafter USD 1,900 / oz by 2Q23 and finally USD 2,000 / oz by 3Q23.

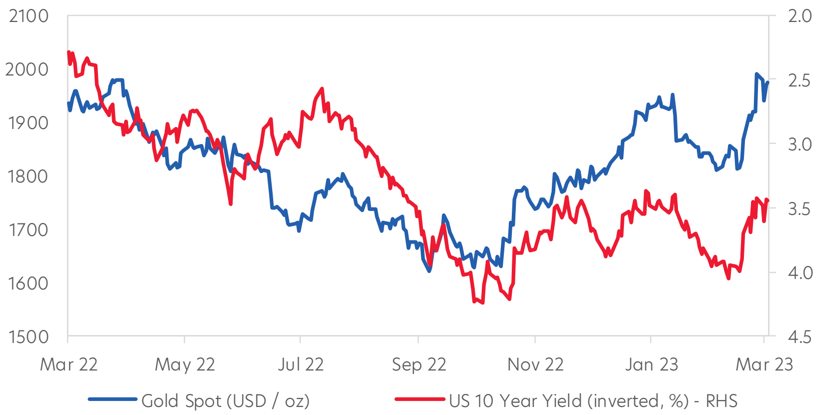
The sudden onset of credit crisis in the global banking sector has accelerated this rise in gold price. Amidst the sharp rise in investor fear and uncertainty, gold price rallied hard, way ahead of our expectations. As 10-year Treasuries yield pulled back from 4% to 3.5%, gold price snapped higher from the low USD 1,800s / oz to almost USD 2,000 / oz.

In addition, amidst the banking crisis and increasing risk of US debt ceiling default, the US 5Y sovereign credit default swap doubled from around 20 bps at the start of the year to just above 40 bps now. In this aspect, the concurrent strong rise in gold price over the past quarter has reinforced our thesis that gold is a good safe haven asset to own.

Overall, we reiterate our positive outlook for gold. The sharp drop in long-term yield is a key positive for gold going forward. On-going market uncertainty is the added fuel for further safe haven demand for gold. In short, gold appears poised to challenge the USD 2,000 / oz headline resistance yet again. We raise our point forecasts to USD 2,000 / oz in 2Q23 and 3Q23, thereafter USD 2,100 / oz in 4Q23 and 1Q24.

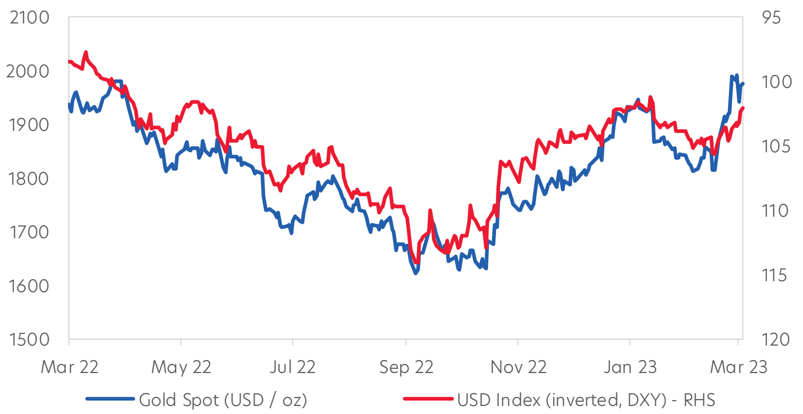
Gold shoots higher amidst sharp drop in 10Y US Treasuries yield

Source: Bloomberg, UOB Global Economics & Markets Research



Does gold's rally signal potential USD woes ahead?

Source: Bloomberg, UOB Global Economics & Markets Research



Gold rallies in line with rise in US 5Y CDS spread

Source: Bloomberg, UOB Global Economics & Markets Research

Brent Crude Oil
Dilemma between global slowdown and on-going supply risks

UOB's Forecast	2Q23F	3Q23F	4Q23F	1Q24F
Brent Crude Oil (USD/bbl)	80	80	90	90

In the previous quarterly report, we noted that signs of increasing global growth slowdown had started to weigh down on Brent crude oil. However, the energy supply risk amidst on-going Russia-Ukraine conflict meant that it may be premature to write off crude oil just yet. It is also true that supply issues are still prevalent in the background as global sanctions against Russian sea-borne crude oil start to bite and US Strategic Petroleum Reserves (SPR) level are drawn down to historically low levels.

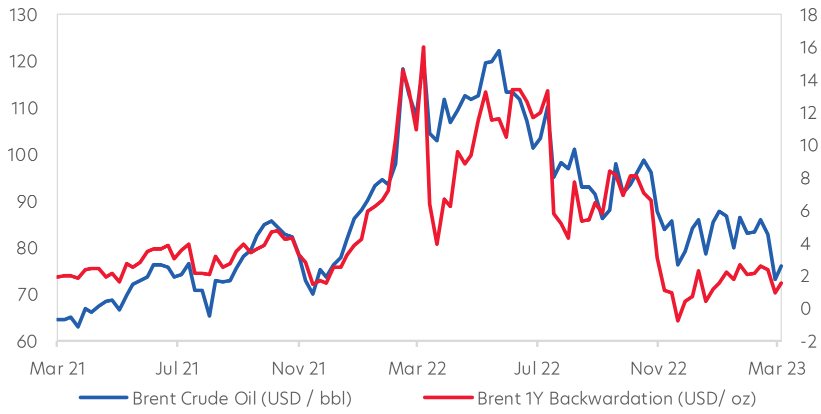
In the ensuing quarter that followed in 1Q23, the various drivers for Brent crude oil had got more conflicting and volatile. On one hand, China has successfully reopened its economy and exited its Zero Covid strategy. There are nascent signs of growth recovery in China and this is a positive for crude oil.

But on the other hand, this sudden round of turmoil in the global banking sector has triggered a new black swan to global growth outlook. Global energy inventory has started to rise yet again amidst rising recession fears from the fallout of banking sector crisis. Prices of various energy products like jet fuel, gasoline and marine fuel have fallen further, implying weaker demand. The backwardation in Brent crude oil futures have all but disappeared as prices fell back below USD 80 / bbl.

As such, we need to acknowledge the increasing material risks to global growth and downgrade our Brent crude oil point forecasts by USD 10 / bbl across the coming quarters. We now see Brent at USD 80 / bbl in 2Q23 and 3Q23, followed by USD 90 / bbl in 4Q23 and 1Q24.

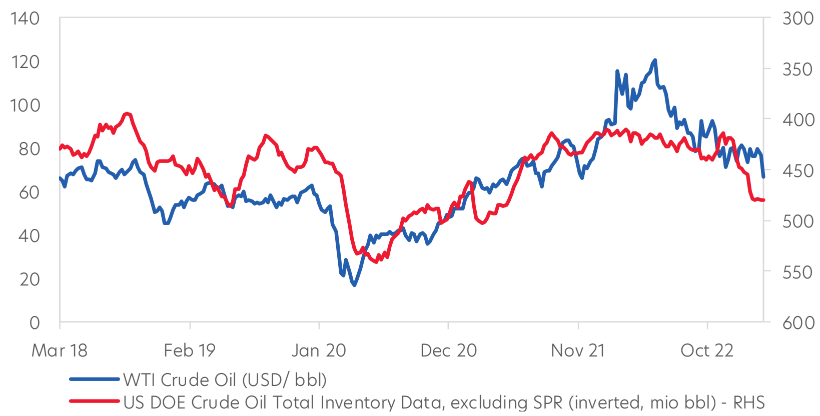
Brent backwardation evaporates amidst sell-off to the low USD 70s / bbl

Source: Bloomberg, UOB Global Economics & Markets Research



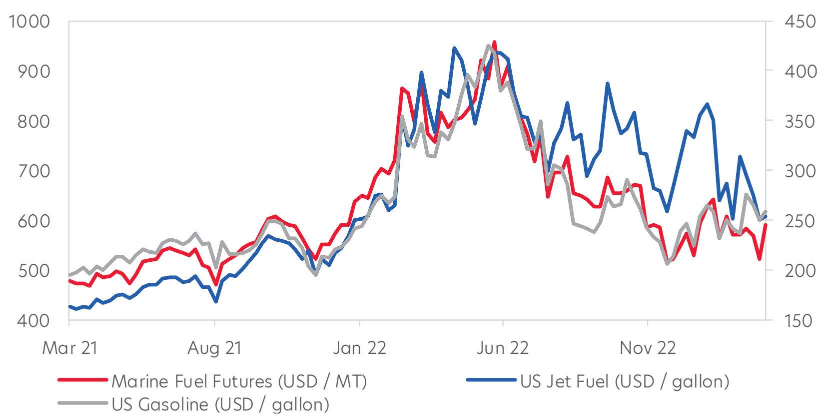
WTI crude oil starts to feel weight of rise in inventory

Source: Bloomberg, UOB Global Economics & Markets Research



Prices of broader energy complex sold-off further as slowdown fears mount

Source: Bloomberg, UOB Global Economics & Markets Research



LME Copper
More downside risks as global growth slowdown outweighs China's economic recovery

UOB's Forecast	2Q23F	3Q23F	4Q23F	1Q24F
LME Copper (USD/mt)	8,000	8,000	7,000	7,000

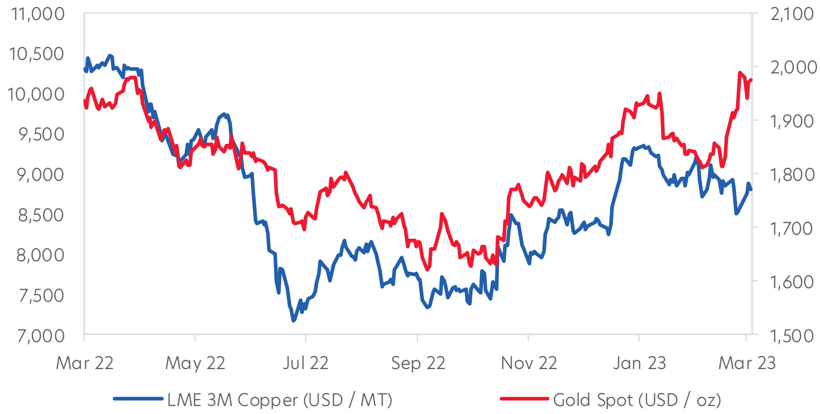
LME Copper prices have held up very well over the past month. This was despite the widespread retrenchment in prices of risky assets as well as energy prices. The sudden onset of credit crisis in global banking sector has unleashed an intense round of investor fear for global recession and has resulted in a more than 10% sell-off in crude oil prices. Yet, 3M LME Copper has endured a relatively modest 3% drop in price to just USD 8,800 / MT.

Part of the reason for LME Copper's relative resilience is the larger positive impact from China's economic outlook. Specifically, China has successfully re-opened its economy and there are increasing signs of a growth recovery (albeit a gradual one), ranging from the retail sales returning to positive growth, to the tentative stabilisation in domestic residential property prices and strong rebound in manufacturing PMI. As such, the Yangshan price premium for Copper, which is a proxy of China's demand for copper imports has rebounded from the lows.

Nonetheless, going forward, LME Copper prices will likely see increasing downward pressure from global growth slowdown risks. We maintain our negative outlook and update our price forecasts to USD 8,000 / MT in 2Q23 and 3Q23, followed by USD 7,000 / MT in 4Q23 and 1Q24.

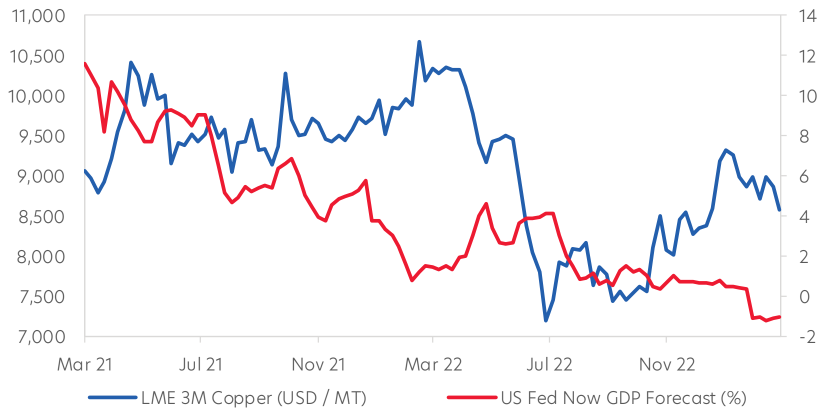
Gold and Copper start to go their opposite ways

Source: Bloomberg, UOB Global Economics & Markets Research



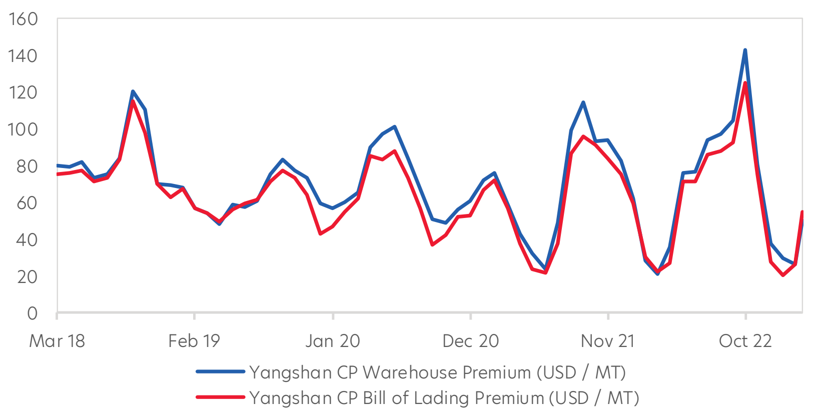
Increasing growth slowdown fears to weigh down on Copper price

Source: Bloomberg, UOB Global Economics & Markets Research



China's Yangshan Copper premium start to rebound

Source: Bloomberg, UOB Global Economics & Markets Research



FX & Rates	2Q23F	3Q23F	4Q23F	1Q24F
USD/CNY	6.95	6.85	6.80	6.70
CNY 1Y Loan Prime Rate	3.65	3.65	3.65	3.65
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	8.4	3.0	5.2	4.8
CPI (avg y/y %)	0.9	2.0	2.8	2.5
Unemployment Rate (%)	5.1	5.5	5.2	5.1
Current Account (% of GDP)	1.8	2.3	1.6	1.4
Fiscal Balance (% of GDP)	-5.2	-7.4	-5.0	-4.5

ECONOMY

Data Underwhelms But Still Affirms Recovery In Jan-Feb

Economic stability is the top priority in China this year and policy support will remain in place to ensure it achieves the official GDP growth target of "around 5.0%" for 2023. This is however, the lowest annual growth target on record. The target for urban surveyed jobless rate is set similar to the two preceding years at around 5.5% while the urban employment creation goal was set higher at 12 mn this year compared to 11 mn in 2022 given the anticipated recovery in services demand.

Domestic demand will be the key growth driver. In the Jan-Feb data releases, the improvement was most apparent in retail sales which reversed from declines in the three preceding months to register a growth of 3.5% YTD y/y in Feb. The real estate market has continued to stabilise with new home prices rising 0.3% m/m in Feb, the first gain in 18 months. However, the unexpected rise in the national surveyed jobless rate in Feb, extended declines in exports and real estate investment continued to indicate a challenging outlook from softer demand in the developed markets while the recovery in the domestic real estate market still requires policy support.

Despite affirming a recovery is underway in China, the data so far had been underwhelming. Given a relatively high base of comparison, we forecast GDP to expand by around 3.4% y/y in 1Q23 (4Q22: 2.9% y/y). For the full-year, we expect the GDP growth to recover to 5.2% from 3.0% in 2022.

The effectiveness of its fiscal and monetary policy will be improved despite not announcing a more expansionary policy. With China moving to Covid endemicity, this would mean that less resources to be spent on testing and virus containment, leaving more to boost the real economy.

China raised the local government special bond quota to CNY3.80 tn at the 2023 National People's Congress (NPC) session against CNY3.65 tn set in 2022. However, that meant the special bond issuances to finance large infrastructure projects will be lower this year as the total amount raised in 2022 was CNY4.04 tn including unused quota from the preceding year.

Meanwhile, inflationary pressure has remained muted. The headline inflation was at its 1-year low at 1.0% y/y in Feb and core inflation (excluding food & energy) eased to 0.6% y/y. Prices of most services dropped sequentially after the Lunar New Year, including air tickets, transportation rental fees and tourism prices. It thus seems that the upside risks to prices from the recovery in domestic demand will be well-contained.

Despite the weaker than expected inflation in Feb, we maintain our headline inflation forecast of 2.8% this year for now, with a stronger pick-up in inflation to above 3% in 2H23. However, the producer price index (PPI) is likely to remain in deflation through 1H23 due to the high base comparison and could be slightly negative at -1.0% in 2023 after rising 4.1% in 2022 and 8.1% in 2021.

CENTRAL BANK

PBOC Delivers First Cut To Banks' RRR This Year

The reappointment of Yi Gang as PBOC Governor suggests monetary policy continuity, i.e. its pro-market approach, prudent policy with a focus on targeted measures will stay.

The PBOC announced its first cut to banks' reserve requirement ratio (RRR) this year, shortly after the full release of Jan-Feb data. The 25 bps cut takes effect from 27 Mar and will bring the effective RRR to 7.6%, with an estimated release of CNY500 bn in long-term liquidity into the system.

Banks have issued a record CNY6.71 tn of new loans in the first two months of the year (vs. CNY5.21 tn in the same period of 2022) and there may be concerns that the pace of credit expansion could ease sharply in the later part of the year. The PBOC will continue to maintain ample liquidity to support the demand recovery and sees the RRR as an effective tool as it increases the long-term funding source.

As such, another RRR reduction later this year cannot be ruled out. But we think the prospect of rate cuts is now lower. Governor Yi said that the real interest rates are at an appropriate level. Despite the mild inflation so far, we now see the 1Y MLF rate steady at 2.75% and consequently the 1Y LPR at 3.65%, for the rest of 2023. More important to watch will be the 5Y LPR, as a reduction to the rate will signal stronger government support to the real estate sector.

There are also measures implemented across the Chinese cities to boost property demand such as easing of purchase curbs and banks' lowering of lending rates for first time home-buyers and increasing credit to developers to stave off a hard-landing in the property market. Having said that, efforts will be made to prevent "unregulated" growth in the property market to promote its stable development.

CURRENCY

A Sustained Recovery In CNY To Only Begin In 3Q23

The performance of the CNY in 1Q23 reflected the bumpy nature of China's recovery from the pandemic. Markets have recalibrated to the muted recovery just as USD/CNY rebounded from lows of 6.69 touched in mid-Jan. Also, there are few reasons to expect a stimulus-led bump on the CNY given that the Chinese government has set a conservative GDP growth target of about 5% for 2023.

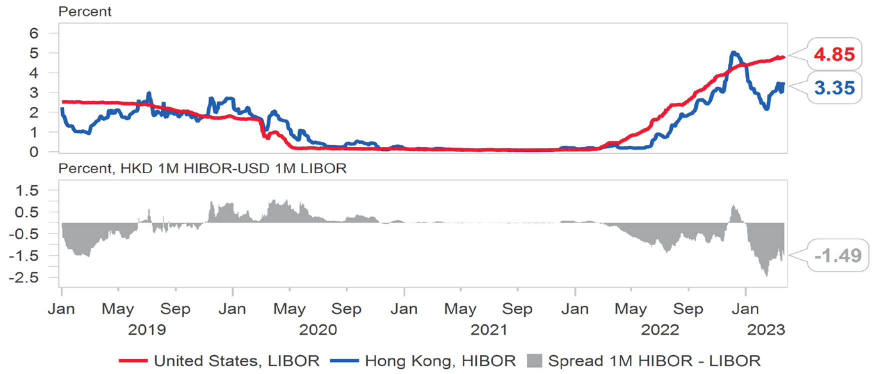
In the near-term, global risk aversion is likely to dent sentiment on the Emerging Markets assets and currencies, including the CNY. Considering the lacklustre China's recovery momentum and rising external risks, we stay cautious on the CNY and expect a higher USD/CNY at 6.95 in 2Q23. In 2H23, we expect the CNY to strengthen anew on clearer signs of a sustained Chinese economic recovery, with updated USD/CNY forecasts at 6.85 in 3Q23, 6.80 in 4Q23 and 6.70 in 1Q24.

HONG KONG

FX & Rates	2Q23F	3Q23F	4Q23F	1Q24F
USD/HKD	7.82	7.80	7.80	7.80
HKD Base Rate	5.50	5.50	5.50	5.00
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	6.4	-3.5	4.0	3.0
CPI (avg y/y %)	1.6	1.9	2.9	2.4
Unemployment Rate (%)	4.0	3.5	3.3	3.1
Current Account (% of GDP)	11.8	11.2	7.8	6.0
Fiscal Balance (% of GDP)	1.0	-4.9	-1.8	0.7

1M Hibor-Libor spread returns to negative

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Hong Kong GDP Growth To Turn Positive In 2023

Hong Kong's GDP contracted for the fourth straight quarter in 4Q22, by a sharper-than-expected -4.2% y/y. On a q/q seasonally adjusted basis, the GDP was flat after contracting -2.6% in 3Q22. This brings Hong Kong's economy to a full-year decline of -3.5% in 2022, the third contraction in four years.

In the last quarter, Hong Kong was still under the shackles of its stringent Covid policy which weighed heavily on consumption. Also negatively affecting the economy were the tightening of financial conditions, falling property prices and downturn in external demand. While many of the economic risks will still persist in 2023, the reopening of China's borders is a strong catalyst for Hong Kong's recovery this year. Since 6 Feb, all borders with the Mainland have reopened with regular services and no entry quota. Most of the restrictions for inbound visitors have been lifted and there is no longer quarantine or vaccination requirements. Mainland tourist arrivals have jumped to 1.1 mn in Feb, around a quarter of that in the same month of 2018-2019 and account for three-quarters of total visitors to the city.

To build on the momentum, Budget 2023/24 contained strong measures to revive tourism and boost consumption which include earmarking of HKD100 mn to attract more mega events, HKD200 mn for securing the staging of more international meetings, incentive travels, conventions and exhibitions (MICE) as well as a fresh round of consumption vouchers (HKD5,000) to boost retail spending.

There are other positive signs that the economy has turned the corner and consumer confidence is recovering. Hong Kong's PMI returned to expansion in Jan-Feb with a reading of 51.2 and 53.9 respectively after contracting in the four preceding months. Retail sales growth has accelerated in Jan and the value reached the monthly average in 2019. The labour market also showed signs of improvement as the unemployment rate for the three months ended Feb fell to 3.3%, the lowest since the onset of the Covid pandemic in 2020.

On the downside, external demand slowdown, high global interest rates, banking sector risks and a weak domestic property market are potential headwinds to the outlook. Hong Kong's private residential prices fell 15.6% in 2022, the first annual decline since 2008 when it was down 11.1%. Transactions slumped nearly 40% to 45,000 last year.

Taking into consideration the fiscal support and full borders reopening with the Mainland, we now expect 2023 growth at 4.0%. This is in line with the official forecast of 3.5 - 5.5%. We expect the quarterly GDP growth to pick up pace through the year with 1Q23 at a marginally positive 0.4% y/y. The real GDP is expected to recover to above the 2019 levels in 2H23.

Inflation is expected to pick up with stronger activities and the return of tourism spending while external price pressure may ease as global demand softens. Headline inflation edged slightly higher to 2.1% y/y in Jan-Feb from 2.0% y/y in Dec, driven by increases in the prices of food, electricity charges and clothing. The government forecasts the underlying inflation rate (netting out the effects of the government's one-off measures) and the headline inflation rate at 2.5% (2022: 1.7%) and 2.9% (2022: 1.9%) respectively this year. Our headline inflation forecast is in line with the official forecast of 2.9% for 2023 as we expect price gains to accelerate above 3.0% in 2H23.

CENTRAL BANK

More Volatile Hibor As Interbank Liquidity Shrinks

The Hibor-Libor spread has opened up and turned negative again since the start of the year as capital inflows helped to bring down the Hibor while Libor continued to trend higher. Although Hibor has come off, domestic interbank rates may be more sensitive to external developments such as volatility in the financial markets arising from the US and European banking sector problems given that Hong Kong's interbank liquidity as measured by the aggregate balance is now at its lowest since Apr 2020, at HKD77 bn from as high as HKD457 bn in Sep 2021.

CURRENCY

Gradual Normalization

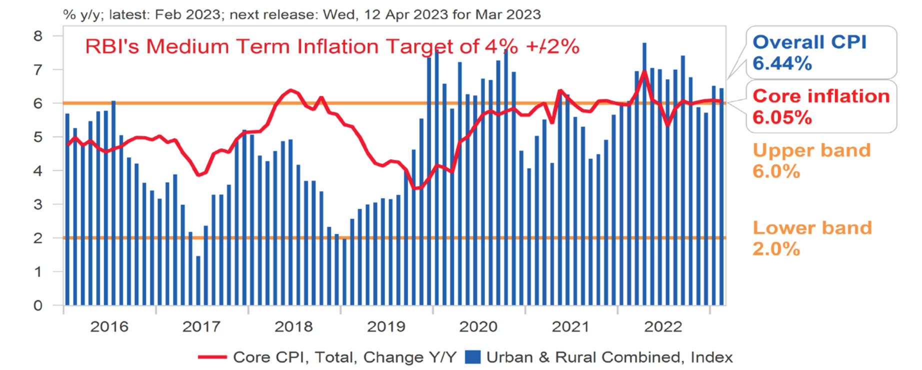
USD/HKD was largely stable in a smaller range around 7.84 across Feb – Mar as the Libor-Hibor spread boosted carry trades in favour of the USD. That said, as the Fed tightening cycle eventually ends this year, the rate-differential tailwind would also recede accordingly.

Overall, we reiterate the view of USD/HKD returning to the middle of its allowed trading range between 7.75 and 7.85. Our USD/HKD forecasts remain at 7.82 in 2Q23, and 7.80 thereafter till 1Q24.

FX & Rates	2Q23F	3Q23F	4Q23F	1Q24F
USD/INR	83.5	82.5	82.0	81.5
INR Repo Rate	6.50	6.75	6.75	6.75
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (FY, %)	9.1	6.9	6.5	6.8
CPI (avg y/y %)	5.5	6.7	5.7	5.4
Current Account (% of GDP)	-1.1	-3.5	-2.9	-2.3
Fiscal Balance (% of GDP)	-6.3	-6.0	-6.4	-5.9

India: GDP growth contribution % points; by Expenditure

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Slower Growth In 2023

In line with the theme of moderating activities globally, India's real GDP growth slowed markedly to 4.4% y/y in the Oct-Dec quarter (3QFY22-23), from 6.3% y/y in the prior quarter (2QFY22-23) and the 13.5% pace in the Apr-Jun quarter (1QFY22-23).

In the latest quarter, private spending and investment were the two key drivers, accounting for more than 90% share of the 4.4% expansion. But these factors have been increasingly weighed down by the central bank's aggressive rate hikes in the past year. Similar to many Asian economies, India is also facing softer global demand and its impact on manufacturing and export sectors, with the slack being offset somewhat by domestic demand and services sector.

Recent data point to a mixed picture. Exports fell for the third consecutive month, with 8.8% y/y decline in Feb 2023, from -6.6% in Jan. Manufacturing has stabilized, after a negative reading in Oct 2022. Retail activities have held up well which will be the driving force for the months ahead. Motor vehicle sales rose for the second month in Feb 2023, with about 1.8mn units sold compared to the 1.6mn units seen in the 1H22.

We maintain our view that GDP growth momentum ahead will be somewhat lacklustre, with a projection of 4.8% growth in the Jan-Mar quarter in 2023 (4QFY22-23). This will translate to a growth rate of 6.9% in FY22-23 (from 9.1% in FY21-22). On a calendar year basis, this will be 6.8% in 2022 (from 8.7% in CY2021). For FY23-24, we maintain our call for GDP growth to moderate further to 6.5%. The next GDP release for the Jan-Mar quarter (4QFY22-23) and FY22-23 will be on 31 May (Wed), 8pm SGT.

The Reserve Bank of India (RBI) expects a 6.4% real GDP growth for FY23-24, with 1Q at 7.8% and risks broadly balanced. RBI's forecasts are largely in line with our call of 6.5%.

Domestic inflation pressures remain a concern, with both headline and core inflation rate (i.e. CPI excluding food and fuel) remaining stubbornly above the upper band of inflation target (4%+/-2%). Of note is that core inflation has stayed above the 6% target for the 6th straight month, with 6.1% y/y in Feb 2023, unchanged from the prior month.

RBI expects inflation rate at 6.5% in FY22-23, with 4Q at 5.7%. Assuming a normal monsoon season, CPI is projected to ease to 5.3% for FY23-24, with 1Q at 5.0%, 2Q at 5.4%, 3Q at 5.4% and 4Q at 5.6%, with the risks evenly balanced. These forecasts are in line with our refreshed CPI growth projections (6.7% for FY22-23; 5.7% for FY23-24). It is worth noting that these forecasts are near to the top end of the inflation target.

CENTRAL BANK

One Final Hike

RBI at its Feb 2023 Monetary Policy Committee (MPC) meeting lifted the benchmark repo rate by 25bps to 6.50%, as widely expected. This followed the downshifting to 35bps hike (to 6.25%) at the Dec 2022 MPC after three consecutive rounds of 50bps move. The current repo rate is at a level last seen in Jan 2019, just before RBI entered its policy accommodative phase.

RBI's policy priority is containing inflation pressures while being mindful of the ongoing pass-through of input costs, and the stickiness of core inflation is "a matter of concern". The recent banking sector in the US and Europe is a reminder that there will be costs from policy tightening, couple with the expectations that the US Fed is nearing the end of its rate hike cycle. Hence, we believe the RBI is likely to deliver one final interest rate hike of 25bps, to 6.75%, at the next MPC meeting (3-6 Apr 2023), and keep it unchanged thereafter.

CURRENCY

Stable INR

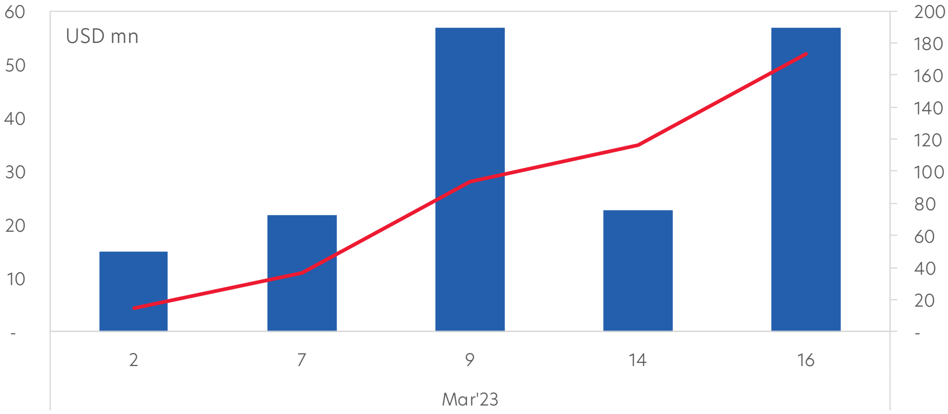
The INR was largely sideways across 1Q23 despite big shifts in Fed rate hike expectations, global recession worries as well as US and European banking turmoil across the quarter. USD/INR traded between 80.88 and 82.95, the smallest quarterly range since 3Q21. Stability in the domestic government bond yields also helped underpin the INR. It is encouraging to see foreign bond inflows remain in positive territory throughout 1Q23 even amidst a multitude of uncertainties.

Going forward, global risk aversion is likely to pin the INR weaker against the USD in 2Q23, alongside other Asian peers. After which, a sustained economic recovery in China would help INR stage a recovery starting 3Q23. We reiterate our current set of USD/INR forecasts which are at 83.5 in 2Q23, 82.5 in 3Q23, 82.0 in 4Q23 and 81.5 in 1Q24.

FX & Rates	2Q23F	3Q23F	4Q23F	1Q24F
USD/IDR	15,500	15,000	14,900	14,800
IDR 7D Reverse Repo	5.75	5.75	5.75	5.75
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	3.7	5.3	4.9	5.2
CPI (avg y/y %)	1.6	4.2	4.0	3.5
Unemployment Rate (%)	6.3	6.0	5.8	5.7
Current Account (% of GDP)	0.3	1.0	-0.3	-0.8
Fiscal Balance (% of GDP)	-4.6	-2.6	-3.0	-2.9

New Policy Thrust of USD TD is Hoped to Anchor IDR Stability

Source: Bank Indonesia, Macrobond, UOB Global Economics & Markets Research



ECONOMY

Indonesia Likely To Emerge Stronger Amidst Challenges

4Q22 GDP growth came in relatively well within l expectations at 5.0% y/y (3Q22: 5.7%) or slowing to 0.4% q/q from 1.8% in the preceding quarter. This has brought about the full year 2022 GDP growth at 5.3%, strongest in the aftermath of post-pandemic recovery (2020: -2%; 2021: 3.7%). Though easing, contribution from all the expenditure side, except continued contraction in government spending, continue to sustain growth momentum. From the sectoral output basis, all sectors recorded growth in 3Q22, with transportation and logistics topping the growth pace for two quarters in a row, consistent with the ongoing reopening that virtually has undone all the pandemic mobility and activity restrictions. Moderating global commodity prices as well as the inflation-biting impact on the domestic household consumption are likely to render slower growth for the Indonesian economy this year. We have also factored in seasonally higher fiscal impacts from election-related unto growth in the latter half of this year. All in all, we forecast Indonesia's GDP to grow by around 5% in 2023.

Indonesia's external sector remains strong as Indonesia recorded another quarter of surplus to the tune of USD4.3bn (or an equivalent of 1.3% of GDP) for its 4Q22 current account (CA) position, though slightly lower than 3Q22's USD4.5bn (1.3% of GDP). The capital and financial account recorded a significantly lower deficit of just USD0.4bn (0.1% of GDP), down from USD5.5bn (1.6% of GDP) on the back of stellar FDI inflows into the country and the easing of portfolio capital outflows in 4Q22. Overall, Indonesia recorded an even stronger CA surplus amounting to USD13.2bn in 2022 (1% of GDP), after registering USD3.5bn surplus in 2021 (0.3% of GDP). We expect lower commodity prices, possibly higher imports notably due to higher services deficit, and higher primary deficit to turn its CA position into a deficit of circa 0.3% of GDP in 2023. Nevertheless, its trade surplus persisted for 34 consecutive months, with the latest trade surplus in Feb, which widened to a high of USD5.5bn from USD3.9bn in Jan on the back of imports' contraction of 4.3% y/y (vs. consensus of a 9.1% gain and a reversal of Jan's +1.3%) alongside growth in exports of 4.5% despite a marked slowdown from 16.4% in Jan. Indonesia's foreign exchange reserves increased by almost USD1bn to USD140.3bn in Feb 2023.

Indonesia's headline inflation rate rebounded higher to 5.5% y/y in Feb from 5.3% in Jan, beating consensus forecast slightly. Significantly higher food prices and relatively elevated level of prices in key consumer baskets such as transportation, utilities, and clothing underpinned the pick-up in headline inflation last month. Feb's inflation data reinforces our 2023 average inflation forecast of 4% (2022: 4.2%). Our view remains for inflation to edge back to be within BI's target range of 2-4% only in 2H23.

CENTRAL BANK

Hiking Cycle Has Reached A Terminal Point of 5.75%, New Policy Thrust To Anchor Rupiah's Stability Continues To Be Enforced

Bank Indonesia (BI) kept its benchmark policy rate (7-Day Reverse Repo) unchanged at 5.75% in Mar MPC meeting, in line with consensus expectation. BI remains of the view that inflation expectations is anchored and rupiah stability is here to stay. We keep our BI rate forecast to remain unchanged at 5.75% for the rest of this year and for BI to potentially embark on a rate cut cycle in 1H24. BI has introduced a new policy thrust coined the foreign currency term deposits (TD) as an instrument for exporters to place foreign exchange proceeds of exports (Devisa Hasil Ekspor or DHE) through banks to BI effective from 1 Mar this year. To-date (see Chart), the total amount of DHE that has been placed through this instrument has amounted to USD173mn from 9 exporters in the mining and plantation sectors. Currently, BI has appointed 20 banks to participate in the DHE Term Deposit. In the future, BI will expand the participation of TD DHE to all banks.

CURRENCY

IDR To Weaken Further

IDR outperformed in Asia FX and kept modest year-to-date gains against the USD. Adding to the resiliency of the IDR is strong foreigner demand for Indonesia's latest bonds and bills auction even amidst extreme volatility in the US Treasury market. The IDR is also enjoying tailwind of the commodity boom in the last couple of years which helped Indonesia book the biggest current account surplus (1% of GDP) since 2009 last year. The DHE initiative by BI may also help underpin relative IDR stability.

Despite favourable domestic factors, IDR is likely to still be tethered by weakness in Asia FX especially CNY in 1H23. Overall, we expect USD/IDR to rise modestly to 15,500 in 2Q23, followed by reversing lower to 15,000 in 3Q23, 14,900 in 4Q23 and 14,800 in 1Q24.

FX & Rates	2Q23F	3Q23F	4Q23F	1Q24F
USD/JPY	128	125	122	120
JPY Policy Rate	-0.10	-0.10	-0.10	0.00
Economic Indicator	2021	2022	2023F	2024F
GDP (%)	2.1	1.0	1.0	1.8
CPI (avg y/y %)	-0.2	2.5	3.5	2.4
Unemployment Rate (%)	2.8	2.7	2.9	2.7
Current Account (% of GDP)	3.9	1.9	1.5	2.5
Fiscal Balance (% of GDP)	-14.8	-13.2	-6.0	-5.0

ECONOMY

Extra Uncertainty In 2023

Japan's 2nd estimate of 4Q 2022 GDP was revised to a smaller growth of 0.1% q/q SAAR (versus prelim estimate of +0.6%) while the contraction in 3Q was revised slightly deeper to -1.1% (from -1.0%). When compared to the same period one year ago, Japan's GDP growth slowed visibly to 0.4% y/y in 4Q (from 1.5% y/y in 3Q and 1.7% y/y in 2Q), but this was still the 7th straight quarter of y/y expansion following 6 quarters of declines between 4Q 2019 and 1Q 2021.

The near stalling of 4Q growth was partly due to a downward revision to private consumption (0.3% from prelim est 0.5%) offsetting the upward revision to net external demand (0.4ppt from 0.3ppt previously) while business spending declined in 4Q at an unchanged pace of -0.5%. Private inventories (-0.5ppt) added to the negative drag while the fall in residential investments remained less material (-0.0% from -0.1% previously).

Our 2023 outlook is largely premised on broad based moderation in external economies this year, as we project the US and European economies to enter a (shallow) recession this year amidst aggressive monetary policy tightening in experienced by these advanced economies. This will directly impact the manufacturing and external-oriented services sectors and will imply softer demand for Japan's exports. Reflecting the manufacturing challenges, industrial production has been either in contraction or near zero on a y/y basis since Sep 2022. We expect Japan's exports to contract (y/y) in the first few months of 2023 while the manufacturing PMI will also stay in contraction (i.e. below 50) during this period, before improving in 2H. Even as external demand contributed to growth in 4Q, Japan's trade deficit remained significant, from a nearly JPY 20 trillion deficit in 2022 (due to the lethal combination of high commodity prices and a weak Japanese currency), it reached a record JPY 3.5 trillion in Jan (2023) before narrowing to JPY 0.9 trillion in Feb. And while we expect softer demand for Japan's exports, we also see import growth slowing, reducing the trade deficit. We expect Japan's trade deficit to hit sub-JPY 7 trillion in 2023.

Services may fare better and help anchor the domestic recovery as upside growth factors could be due to the continued recovery in leisure and business air travel, which will benefit many in-person services sectors, and the impact of China's reopening is likely to be positive for these sectors. With the weaker 2023 manufacturing outlook and financial market uncertainty but cushioned by the improving tourism and barring external events (such as escalating war in Europe, worsening US-China relations and a deadlier variant of COVID-19), we keep our modest 2023 GDP growth forecast of 1.0% (same pace as 2022).

Headline CPI inflation spiked to 4.3% y/y in Jan (from 4% in Dec). Excluding fresh food, core inflation was up by 4.2% y/y (from 4% in Dec) the fastest price growth in four decades, since 1981. If we further exclude energy items, the core-core inflation rose by 3.2% (from 3% in Dec). While both CPI headline and core inflation are now well above the Bank of Japan's (BOJ) 2% inflation target, there are expectations that inflation will moderate towards 3% range in Feb due to base effects and the impact of new subsidies for electricity and utilities. As a forward indicator of those impacts, Tokyo core-inflation slowed markedly to 3.3% y/y in Feb (from 4.3% in Jan). Wage inflation remained elusive as labor cash earnings grew by just 0.8% y/y in Jan after a brief 4.1% spike in Dec. Real wage growth was more dismal, declining by -4.1% y/y in Jan, while Dec's marginal +0.1% growth was revised to -0.6%.

But this year's Shunto (Spring wage negotiation) saw Japan's main labor unions winning an agreement to increase overall wages by 3.8%, the most since 1993 and much higher than 2022's 2.07%. While the final tally for the increase may come in lower, it will still likely be at around 3.6%. More importantly, the results above fulfilled BOJ Gov Kuroda's comments that suggested sustained pay hikes of 3% are needed for the bank to normalise its massive easing policy. We are now more confident that headline CPI inflation will average higher at 3.5% while core inflation will average 3.4% for 2023 following the wage hike confirmation.

CENTRAL BANK

Enter Ueda

Attention will shift to the new BOJ Gov Kazuo Ueda's first policy meeting on 27-28 Apr. BOJ data showed the central bank's holding of JGB already exceeded 50% share of the entire market since end-Sep 2022, which really questions the sustainability of its yield curve control (YCC) policy even with the surprise Dec (2022) widening of the trading range of the 10-year JGB yield. BOJ Gov Ueda is not known as either very dovish or very hawkish in his policy view. Thus, we believe the normalising will be carried out at a gradual, well-telegraphed pace, and not a sharp and sudden reversal.

We expect Ueda to carry out the unwinding in two broad steps: 1) A protracted period (Apr to Dec 2023) of forward guidance to prepare market for an orderly exit of BOJ's ultra-easy monetary policy which may also involve a widening of the trading range of the 10-year JGB yield (to +/- 100bps). 2) We expect monetary policy normalization to begin only in early 2024 - YCC to be dropped and negative policy call rate to rise from -0.1% to 0% in Jan 2024 MPM.

The Shunto success will help justify the start of the normalisation of monetary policy but the banking turmoil may provide the BOJ more runway in terms of the timing to unravel their YCC.

CURRENCY

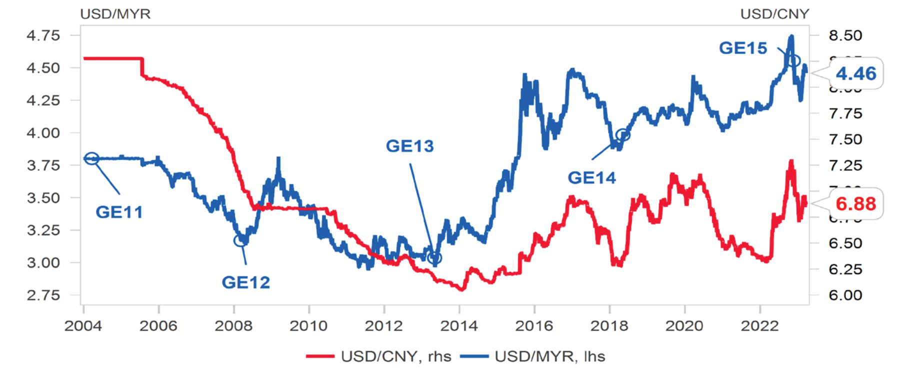
Safe Haven Flows Underpin JPY Further

The JPY outperformed within the Major FX space in Mar due to safe haven flows in the wake of a string of US bank failures. Even though the 10-year JGB yield has recently retreated from its top Yield Curve Control (YCC) limit of 50bps alongside a global flight-to-quality, we keep to expectations that the BOJ would incrementally shift away from its ultra-easy monetary policies. Overall, the expected BOJ policy shift together with the ongoing repricing of US rates lower would continue to anchor a lower USD/JPY in the quarters ahead. We reiterate our current set of USD/JPY forecasts which are at 128 in 2Q23, 125 in 3Q23, 122 in 4Q23 and 120 in 1Q24.

FX & Rates	2Q23F	3Q23F	4Q23F	1Q24F
USD/MYR	4.48	4.45	4.35	4.30
MYR O/N Policy Rate	3.00	3.00	3.00	3.00
Economic Indicator	2021	2022	2023F	2024F
GDP (%)	3.1	8.7	4.0	4.6
CPI (avg y/y %)	2.5	3.3	2.8	2.8
Unemployment Rate (%)	4.2	3.5	3.2	3.2
Current Account (% of GDP)	3.8	2.6	2.7	2.5
Fiscal Balance (% of GDP)	-6.4	-5.6	-5.0	-4.5

MYR oscillates amid market uncertainty

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Slower Growth Momentum

Economic growth moderated to 7.0% y/y in 4Q22 (3Q22: 14.2%) as low base effects waned. This brought full-year GDP growth to 8.7% in 2022, marking the highest expansion since 2000. Key growth drivers in 4Q22 were mainly from robust private consumption, a steady rise in investments, and higher net exports amid slower import demand. All sectors expanded with support from services, mining and construction.

However, there are signs of slower growth momentum as higher cost of living, interest rate hikes, and normalising spending behaviour takes hold. Compared to the previous quarter, seasonally adjusted GDP fell 2.6% (3Q22: +1.9% q/q). Private consumption also declined for two straight quarters (4Q22: -2.9%, 3Q22: -1.2%) on a quarter-on-quarter seasonally adjusted basis.

We maintain our GDP growth outlook of 4.0% for 2023, which is lower than the official growth targets of 4.5% as we factor in a more cautious investment and trade performance amid slower global demand. On the positive side is the reopening of China that supports the recovery in tourism. The effect of stronger tourism activity is expected to boost Malaysia's GDP by at least 1.0ppt. Domestic policy support from a higher budget allocation (that was re-tabled on 24 Feb) would also provide impetus for growth.

The government raised total expenditure by 3.7% to MYR386.1bn (or 20.4% of GDP) compared to the initial budget tabled last year by the previous government. Income tax cuts for the middle-income groups (worth MYR1.2bn) and a higher allocation for subsidies, social assistance, and incentives to ease the cost of living (worth MYR64bn) will help support private consumption.

Despite higher spending allocation, the fiscal deficit is expected to narrow to 5.0% of GDP (2022: 5.6%) amid higher growth and revenue targets. Several new tax measures were announced in the re-tabled budget including introducing a luxury tax, higher tax rates for high-income brackets, capital gains tax on sale of unlisted companies, and voluntary tax disclosure to foster a more inclusive budget and narrow the losses from tax cuts for middle-income groups.

On the political front, performance of the ruling coalition in the upcoming six state elections will be closely watched. The results of the polls could sway the spending allocations and pace of subsidy rationalisation in Budget 2024 (which will be tabled on 13 Oct).

CENTRAL BANK

More Cautious

Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) unchanged at 2.75% in its second meeting this year, following cumulative rate hikes of 100bps last year. The central bank continues to assess the impact of previous rate hikes and potential new shocks. BNM keeps their options open and maintains flexibility in deciding on further rate normalisation. We think the latest financial market turmoil could steer BNM even further into cautious mode as the risks to growth and financial stability outweigh inflation concerns. BNM has said the country's lenders had no direct exposure to the failed US banks, and that the Malaysian banking system remains well capitalised. Any indirect exposure from counterparties or borrowers with linkages to the US banks is also very limited.

We are cognisant that authorities are conscious over the effect of higher interest rates and cost of borrowing on lending and repayment activities, in addition to higher cost of living. We anticipate a gradual removal of subsidies in 2H 2023 starting with some food items e.g. poultry and eggs, followed by electricity tariffs for a targeted segment of high-usage consumers, and diesel. Thus, the government widened their inflation targets to 2.8-3.8% (vs. 2.8-3.3% previously). Inflation risks are capped by ongoing subsidies, existing price controls, and remaining spare capacity.

We expect the OPR level to be capped at 3.00% (projected terminal rate) which implies one more 25bps rate hike at the next meeting. However, this is subject to developments surrounding the US banking sector and potential spillovers to regional markets.

CURRENCY

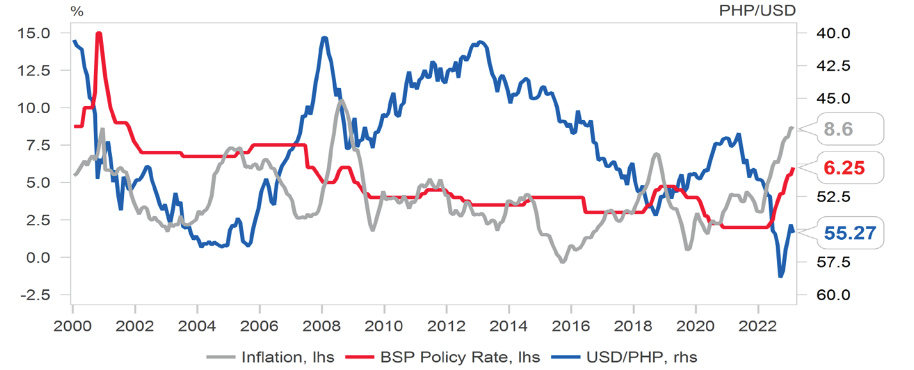
MYR To Only Recover Starting 3Q23

While the MYR has underperformed in Asia FX year-to-date, we see the relative weakness as a normalization of the outsized post-election MYR rally in late 2022, rather than the start of a new wave of MYR weakness. Outflow pressure is expected to abate as the Fed wraps up its aggressive tightening in 2Q23. Like other Asian peers, after a period of weakness in 2Q23, the MYR is expected to get a boost as China's economic recovery becomes more entrenched in 2H23. Our updated USD/MYR forecasts are 4.48 in 2Q23, 4.45 in 3Q23, 4.35 in 4Q23 and 4.30 in 1Q24.

FX & Rates	2Q23F	3Q23F	4Q23F	1Q24F
USD/PHP	55.5	54.5	54.0	53.5
PHP O/N Reverse Repo	6.75	6.75	6.75	6.25
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	5.7	7.6	5.0	6.0
CPI (avg y/y %)	3.9	5.8	6.0	3.5
Unemployment Rate (%)	8.0	5.5	4.7	4.5
Current Account (% of GDP)	-1.5	-4.4	-4.0	-3.5
Fiscal Balance (% of GDP)	-8.6	-7.3	-6.0	-5.0

BSP to continue its rate hiking in 2Q23

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Down But Not Out

The Philippines' economy expanded at a stronger-than-expected pace of 7.2% y/y in 4Q22 but trend wise, the growth rate decelerated from 7.6% y/y in the preceding quarter and the previous peak of 8.2% y/y in 1Q22. 4Q22's robust GDP growth was propelled by almost all economic sectors except for the agriculture, hunting, fishery & forestry industry (-0.3%). Resilient household consumption (+7.0%), higher government spending (+3.3%), sustained investments (+6.3%), and stronger exports (+14.6%) amid slower imports (+5.9%) helped to support the growth momentum and fully cushioned the drag from stock withdrawal activities during the quarter.

This brought full-year real GDP growth higher than anticipated to 7.6% in 2022 (2021: +5.7%), marking the strongest annual growth since 1976. That being said, we expect the Philippines' real GDP growth to moderate further throughout 2023 to an average of 5.0% (official est: 6.0%-7.0%). Our forecast takes into consideration of statistical high base effects and prevailing downside risks to the growth outlook from both external and domestic fronts. Heightened global headwinds such as prolonged Russia-Ukraine conflict, tighter monetary and financial conditions have further weighed on global demand this year. Meanwhile, the emergence of financial market stress from the US and European banking turmoil in mid-Mar is not expected to provoke global contagion risk and affect the Philippines' growth outlook materially as authorities in G5+1 countries (US, Canada, EU, UK, Japan, and Switzerland) have taken swift policy actions to mitigate the impact. BSP has also stressed that the Philippines' banks do not have any material exposure to the troubled institutions in the West.

Domestically, the inevitable knock-on effects of restrictive monetary policy and sticky inflationary pressures on household consumption will become more apparent in 2023. The government is also expected to continue with fiscal consolidation by gradually unwinding COVID-related stimulus measures, which will also weigh on the overall GDP growth this year.

CENTRAL BANK

Rate Hikes Until Mid-2023

Given stickier-than-expected inflation pressures in the country, we think that Bangko Sentral ng Pilipinas (BSP) would need to continue its rate hiking path until mid-2023. Although headline inflation moderated for the first time in six months to 8.6% y/y in Feb from a 14-year high of 8.7% y/y in Jan, it is expected to return to the central bank's 2.0%-4.0% forecast range only in late 4Q23, resulting in a higher average inflation rate of 6.0% for the entire year of 2023 (BSP est: 6.0%, 2022: 5.8%). Upside risks to the near-term inflation outlook remain owing to the prolonged Russia-Ukraine war, domestic policy changes, adverse weather, and currency volatility. In addition, both services and core inflation continue to trend higher, indicating persistent demand-side pressures.

As such, we expect two more 25bps hikes in the overnight reverse repurchase (RRP) rate at the next two meetings in May and Jun, before taking a pause at 6.75% in 2H23. Our view also takes into consideration the latest forward guidance by the Monetary Board (MB) and BSP Governor that future rate moves are still highly depending on the upcoming economic data points, especially the country's inflation readings. That being said, any unexpected systemic impact and contagion effects from the sudden eruption of financial strains in the US and Europe lately would be the key swing factor for our BSP outlook in the near term.

CURRENCY

PHP Outperformance May Start to Fade

The PHP is the best performing Asia FX year-to-date, gaining close to 2% against the USD at 54.65. Underpinning the resilient currency performance was the carry appeal of the PHP as it maintained a positive yield advantage relative to the 2-year US Treasuries.

That said, we do not take comfort in the near-term stability of the PHP given the uncertainties in the global environment. Previous episodes of risk aversion showed us that it is a matter of time before volatility catches up with the Asia FX space. The Philippines' trade deficit could be another pressure point for the PHP as well.

Together with lacklustre recovery momentum in China, we factor in a brief period of PHP weakness in 2Q23. This is to be followed by a subsequent recovery in PHP starting 3Q23 on clearer signs of a sustained Chinese recovery. Our updated USD/PHP forecasts are 55.5 in 2Q23, 54.5 in 3Q23, 54.0 in 4Q23 and 53.5 in 1Q24.

FX & Rates	2Q23F	3Q23F	4Q23F	1Q24F
USD/SGD	1.34	1.32	1.30	1.28
SGD 3M SIBOR	4.33	4.33	4.33	4.10
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	8.9	3.6	0.7	3.5
CPI (avg y/y %)	2.3	6.1	5.0	3.5
Unemployment Rate (%)	2.4	2.1	2.3	2.1
Current Account (% of GDP)	18.0	19.3	15.0	19.0
Fiscal Balance (% of GDP)	0.3	-0.3	-0.1	0.5

ECONOMY
Slower Growth, Sticky Inflation

The final 4Q22 GDP growth was revised lower to 2.1% y/y, 0.1% SA q/q from the advance estimate of 2.2% y/y, 0.2% q/q. The downward revision came about despite improvement in manufacturing sector performance (-2.6% y/y from the advance estimate of -3.0%) and instead, it was let down by downward revisions to the services (4% y/y) and construction sectors (10% y/y). For the full year, GDP growth was revised lower to 3.6% in 2022 (from advance estimate of 3.8%) as growth in the manufacturing (2.5%) and services (4.8%) were revised lower.

Overall, services sector contributed the lion's share of headline growth in 4Q22, accounting for 2.7ppt of the 2.1% headline while construction added 0.2ppt, but manufacturing subtracted 0.5ppt. For the full year, all three main sectors contributed to the headline growth of 3.6%, with services in the lead (+3.2ppt) followed by manufacturing (+0.5ppt), and construction (+0.2ppt) (The residue of 0.3ppt is due to taxes on products).

Accounting for the weaker global outlook, we continue to project Singapore's growth at 0.7% in 2023. The 2023 outlook is largely premised on broad moderation in external economies this year and that the US and European economies will likely enter a recession amidst aggressive monetary policy tightening stances among these advanced economies. The negative global banking developments add further uncertainty and downside risk to the external outlook. This will directly impact the manufacturing and external-oriented services sectors (such as wholesale trade, transport and finance & insurance). It is also evident that the worsening electronics downcycle, and increasingly weaker demand from more major export destinations, are weighing negatively on trade outlook and manufacturing demand.

We still expect manufacturing sector to contract by 5.4% in 2023. Cracks in the export outlook also became more pronounced with consecutive, deeper y/y contractions since Aug 2022. We are likely to see a few more months of y/y declines in NODX before improving in the 2H. We expect full year NODX to contract by -5.5% in 2023.

In comparison, services could fare better in 2023 as upside factors could come from the continued recovery in leisure and business air travel and inbound tourism, which will benefit in-person services sectors. China's reopening is likely to be positive for these sectors although the effect is not immediately felt in 1Q. We expect retail sales growth at 5.0% for 2023 (from 10.5% in 2022) with upside potential mainly due to China.

Headline and core CPI inflation further converged at the start of 2023. Headline CPI rose by 0.6% m/m NSA, up from 0.2% in Jan. Despite the m/m jump, CPI inflation rose at a slower pace of 6.3% y/y in Feb (Jan: 6.6%). Core inflation (which excludes accommodation and private road transport) did not rise sequentially in Feb (0.0% m/m) after the sizeable +0.8% m/m jump in Jan, but it remained elevated at 5.5% y/y in Feb (unchanged from Jan), the highest y/y print in nearly 14 years since Nov 2008".

Sources of core inflationary pressures remained broad-based and two sources stood out: food and services inflation. Other notable components that added to core inflation were health care and education expenses while the retail & other goods and, electricity & gas prices also contributed. As for headline CPI, other than upside to core inflation, accommodation costs increase stayed elevated, while private transport costs saw further moderation, which explained why headline CPI and core converged.

Notwithstanding the one-off GST impact, the MAS maintained that core inflation is expected "to stay elevated in the first half of this year [expected to stay above 5% in Q1 2023] before slowing more discernibly in H2 2023 as the current tightness in the domestic labour market eases and global inflation moderates." The MAS expects that in 2023, after taking into account all factors including the GST increase, average core inflation will be at 3.5-4.5%, while headline inflation will be at 5.5-6.5%. We maintain our 2023 forecasts for headline inflation to average 5.0% and core inflation average 4.0% in 2023.

CENTRAL BANK
MAS Apr Tightening View Shaken But Unchanged

The Monetary Authority of Singapore (MAS) which has its monetary policy based on its exchange rate, has led the region in policy tightening (5 rounds since Oct 2021). The Apr monetary policy statement (MPS) release has yet to be confirmed (we estimate 10-14 Apr).

We believe monetary policy has moved further into a restrictive stance but it may be still too early to call a pause given the stickiness of core inflation (above 5% in 1Q), wage pressures due to a tight labour market and the subsequent pass through to domestic inflation as reflected by the uptrend in services inflation, and we remain vigilant against further sequential momentum to prices in coming months. Admittedly, our confidence level for further tightening has been lowered due to the US and European banking sector turmoil in recent weeks. If systemic impact and contagion risks on the US and global financial sector continues to be reduced by actions from the major central banks, then it will be reasonable to expect the MAS to tighten further, via a re-centring higher of the S$NEER (the Singapore dollar Nominal Effective Exchange Rate) policy mid-point as the S$NEER is currently at +1% above the midpoint (within the upper part of the estimated +/- 2% trading bands).

CURRENCY
SGD Still Mirroring CNY

USD/SGD is likely to continue to mirror USD/CNY moves, inching further up to 1.34 by mid-2023 followed by weakening anew to 1.32 in 3Q23, 1.30 in 4Q23 and 1.28 in 1Q24. This is in line with our view of a bumpy Chinese economic recovery which will only start to have more visible and sustained positive effect on Asia FX from 3Q23.
Relative to its trading peers, as long as the MAS keeps to its tightening bias, the S$NEER is likely to be biased higher, underpinning the SGD's modest outperformance over a majority of its peers.

FX & Rates	2Q23F	3Q23F	4Q23F	1Q24F
USD/KRW	1,350	1,300	1,280	1,260
KRW Base Rate	3.50	3.50	3.50	3.50
Economic Indicator	2021	2022	2023F	2024F
GDP (%)	4.1	2.6	1.3	2.5
CPI (avg y/y %)	2.5	5.1	3.5	2.0
Unemployment Rate (%)	3.6	3.1	3.2	3.1
Current Account (% of GDP)	4.7	1.8	1.7	3.0
Fiscal Balance (% of GDP)	-4.4	-3.3	-1.2	-0.9

ECONOMY

Slowing Further In 1H23

South Korea's GDP growth moderated to 1.3% y/y in 4Q22 from 3.1% y/y in 3Q22, the slowest pace since 4Q20. The economy also recorded its first sequential decline since the technical recession in 1H20, contracting by -0.4% q/q SA in 4Q22.

Private consumption recovery turned out to be weaker than expected while external demand slowed. The negative growth momentum in 4Q22 was chiefly due to a large fall in exports of goods & services (-4.6% q/q) led by weaker demand for semiconductors and chemical products. Private consumption was also lower (-0.6 q/q) as high inflation and monetary policy tightening weighed. Expenditures on goods and services such as restaurants & accommodation as well as recreation & culture fell in 4Q22.

Nevertheless, gross fixed capital formation (+0.8% q/q) continued to rise for the third straight quarter with the momentum in facilities investment (+2.7% q/q) remaining robust and construction (+0.8% q/q) rebounding. Increased government consumption (+2.9% q/q) from higher spending on goods and health care benefits also helped to offset weaker external demand.

South Korea's economic indicators have remained weak so far this year. The manufacturing PMI stayed in contraction for the eighth consecutive month in Feb. Likewise, consumer confidence was also in contraction. Meanwhile, exports continued to decline but the pace has eased in Feb as stronger automobile shipments mitigated sharp declines in semiconductor exports partly from falling prices. Exports to China, its largest market, continued to contract at a large pace. The trade deficit has persisted for more than a year now, hitting a record-high of USD12.65bn in Jan. This continues to pressure the current account position.

We expect to see further growth slowdown to 0.9% y/y in 1Q23 and 0.8% y/y in 2Q23. The positive spillover from China's economic recovery will help to cushion weaker exports and the impact of higher borrowing costs on households. Household debt-to-GDP has exceeded 100% while three-quarters of outstanding household loans are on floating rates which has increased the risks to South Korea's consumption recovery. The property prices in Seoul Metropolitan dropped 22% in 2022 and are likely to extend declines this year due to the tighter credit conditions.

Despite weaker economic outlook, the labour market has remained resilient as the unemployment rate eased to 2.6% in Feb while youth unemployment stabilised at around 6.4% compared to as high as 9.9% during the pandemic. Total employment increased 928k from the pre-pandemic level.

Headline inflation has peaked while core inflation is still holding near its 14-year high. Both measures of inflation were at 4.8% y/y in Feb. Looking ahead, we expect the headline inflation to moderate to a range of 2%-3% in 2H23 due to the high base effect. Our average headline inflation forecast remains at 3.5% for 2023 compared to 5.1% for 2022. Other than the global outlook, there is also a risk that domestic electricity and gas prices could be further raised in subsequent quarters if global energy prices stay high. That would result in further upside risk to South Korea's inflation outlook.

CENTRAL BANK

BOK To Stay On Pause

Bank of Korea (BOK) kept its benchmark 7-day repo rate unchanged at 3.50% in Feb, pausing after it hiked consecutively for the past seven meetings by a cumulative 300bps since Aug 2021. A slower economic growth and expected moderation in the domestic inflation underpinned the BOK's decision in Feb as it assessed the impact of earlier rate hikes.

The eruption of the banking problems in the US and Europe has further reduced the case for BOK to resume hiking interest rate even though the central bank signalled that its fight against inflation is not over. Back in Feb, Governor Rhee emphasised that the rate pause did not imply that the interest rate has peaked for the current hiking cycle with five board members seeing the terminal interest rate at 3.75% (out of six, excluding Rhee). That was an increase from three members in the Jan meeting. However, with heightened economic and financial risks, we retain our call for rate pause at 3.50% for the rest of 2023.

The spread between the 3M Commercial Paper and benchmark repo rate, an indicator of credit stress, has narrowed to around 50bps from as high as 240bps in Nov 2022. The financial regulator has put in place market stabilisation measures since last Oct as credit market tightened following the default of a local government-backed developer. Some of the measures may be extended to safeguard financial stability.

CURRENCY

Further KRW Weakness in 2Q23

The KRW is the worst performing Asia FX year-to-date, falling about 2% to about 1,290 /USD. Domestically, the record current account deficit and weak growth outlook weighed on the KRW. With a high beta to global developments, the KRW suffered a further setback due to uncertainties of the Fed's rates trajectory and the US banking turmoil. It did not help that the China's reopening play is not progressing as fast as initially thought.

For now, the direction of least resistance is likely for further KRW weakness from here before clearer signs of a sustained Chinese economic recovery helped stage a recovery for KRW starting from 3Q23. Our updated USD/KRW forecasts are 1,350 in 2Q23, 1,300 in 3Q23, 1,280 in 4Q23 and 1,260 in 1Q24.

FX & Rates	2Q23F	3Q23F	4Q23F	1Q24F
USD/TWD	30.8	30.5	30.0	29.5
TWD Official Discount Rate	1.88	1.88	1.88	1.88
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	6.5	2.5	1.8	2.6
CPI (avg y/y %)	2.0	2.9	2.1	1.6
Unemployment Rate (%)	3.7	3.6	3.7	3.7
Current Account (% of GDP)	14.8	13.3	11.7	12.5
Fiscal Balance (% of GDP)	-0.2	-1.4	-1.5	-0.5

ECONOMY

Exports And Investment Remain Key Drags

Taiwan's GDP contracted in 4Q22 by -0.41% y/y and -0.37% q/q (seasonally-adjusted basis). This is the first y/y contraction in Taiwan's GDP since 1Q2016 and the worst since the 2009 Global Financial Crisis. The data reflected the worsening of global demand from high inflation and rapid monetary policy tightening, as well as inventory drawdown. Goods and services exports slumped by -5.14% y/y. This was cushioned by expansion in private consumption (+3.24% y/y), government consumption (+5.79% y/y) and gross fixed capital formation (+3.31% y/y).

Taiwan's economy continues to face downward pressure in 1Q23 from the semiconductor downcycle as evidenced in further double-digit contraction in its export orders in Jan-Feb from its key markets including China, US and ASEAN. Electronics orders which account for a third of the total, contracted by 21.8% y/y in the first two months of the year. The S&P Global manufacturing PMI has stayed in contraction since 2H22 even as the reading improved to 49.0 in Feb from 44.3 in Jan. Nonetheless, exports may pick up some momentum in 2H23 on reduced inventory levels.

The uncertainties in the environment as well as the high comparison base will also work against fixed investment growth as businesses become more cautious but some sectors such as green energy and aviation may do better this year.

As a result of the normalisation in economic activities and resumption of tourism, the recovery in private consumption is likely to accelerate in 1H23. The government's cash subsidy of NT$6,000 to Taiwanese citizens and eligible foreign nationals, to be launched in Apr, will be an added boost to spending. This is part of the government's plan to disburse NT$380 bn (US$12.5 bn) in 2022 tax surplus to boost the economy.

The labour market is expected to recover in tandem as more services jobs are added and minimum wages are raised. This will help to offset manufacturing job losses. Total employment in Taiwan has recovered to 11.471 mn in Jan but is still 60k below the pre-pandemic level. However, the unemployment rate has fallen to 3.6%, its lowest since 2001.

The government forecasts GDP growth to moderate to 2.12% in 2023 from 2.45% in 2022, with 1Q23 estimated at -1.20% y/y, +0.24% q/q. The official projection factors in a stronger sustained rebound in the sequential growth from 2Q23 onwards. Our revised forecast for Taiwan's GDP is at 1.8% from 2.3% previously with 1Q23 forecast similarly at -1.2% y/y. Other than the economic uncertainties, geopolitical tensions will also be closely watched ahead.

Meanwhile, both the headline and core inflation (excluding fruits, vegetables & energy) remained elevated in Jan-Feb, averaging 2.74% y/y (4Q22: 2.60%) and 2.77% y/y (4Q22: 2.85%) respectively. Price pressures were mainly from more costly food, rental and services.

Taking into consideration the high base, moderation in raw material prices and softer growth outlook this year, we expect the headline inflation to cool to 2.1%. Thereafter, average inflation will ease below the central bank's 2% target in 2024. Taiwan's central bank expects both headline and core inflation to average 2.09% in 2023 which will be lower than the previous year's 2.95% and 2.61% respectively.

CENTRAL BANK

CBC Delivers Another Modest Rate Hike In Mar

The Central Bank of the Republic of China (Taiwan) (CBC) hiked its discount rate for the fifth consecutive meeting in Mar by 12.5bps to 1.875%.

Clearly, inflation is still a problem in Taiwan especially the core inflation. The central bank said that "uncertainties remain" over inflation trends for the rest of the year and warned that inflation expectation may get entrenched if the faster-than-usual pace of increase is prolonged.

In total, the CBC had hiked its discount rate by 75 bps since 2022. It also lifted banks' reserve requirement ratio (RRR) by 25 bps at each of the Jun and Sep meetings in 2022 to tighten liquidity.

Governor Yang Chin-Long highlighted that the CBC's subsequent rate decisions will be data dependent and will also take into consideration the lagged effect from the cumulative rate increases, the spillover of monetary policy moves by major economies and the fallout from the problems at the US and European banking sector.

Given the increased growth risks and expected slowdown in the inflation trajectory, there is little impetus for CBC to hike interest rates further. We reiterate our call for the central bank to be on an extended pause at 1.875%.

CURRENCY

Brief Weakness Of TWD In 2Q23

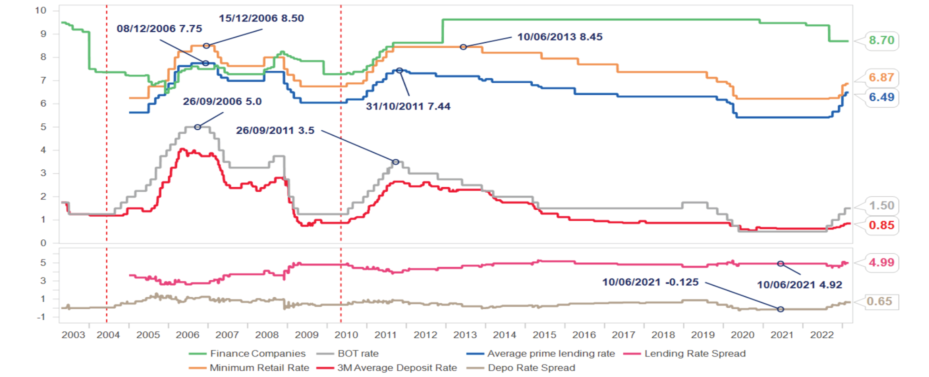
Despite domestic growth concerns, the TWD kept modest year-to-date gains against the USD due to broad weakness of the USD. The stability of the CNY this year is also another positive driver for the TWD, which tracks closely the movements of the CNY.

Going forward, we expect brief weakness of the TWD in the coming quarter (2Q23) due to global risk aversion. After which, when China's reopening gains momentum in 2H23, the TWD would start to recover. Our updated USD/TWD forecasts are 30.8 in 2Q23, 30.5 in 3Q23, 30 in 4Q23 and 29.5 in 1Q24.

FX & Rates	2Q23F	3Q23F	4Q23F	1Q24F
USD/THB	35.0	34.0	33.0	32.0
THB 1D Repo	1.75	1.75	1.75	1.75
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	1.6	2.6	3.1	3.5
CPI (avg y/y %)	1.2	6.0	2.7	2.2
Unemployment Rate (%)	1.6	1.4	1.2	1.0
Current Account (% of GDP)	-1.6	-0.8	2.8	3.0
Fiscal Balance (% of GDP)	-3.7	-4.6	-3.8	-4.0

Manageable impact from interest rate upcycle unto loans

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

A Delay In Returning To Pre-Pandemic Output Level

To the disappointment of market's consensus, economic growth decelerated to just 1.4% y/y in 4Q22 following a strong, upwardly revised growth of 4.6% y/y in 3Q22. Still, 2H22 posted a growth acceleration to 3.0% from 2.4% in 1H22. On a sequential basis, the economy contracted by 1.5% q/q sa in 4Q22 (3Q22: +1.1%).

Growth in the final quarter of 2022 was primarily driven by higher private consumption expenditures, investment, and most notably the export of services (tourism revenue). However, export of goods slowed down, while government expenditure, including its public investment decreased. Based on the much weaker 4Q22 GDP data, the Thai economy grew at just 2.6% in 2022 (Bank of Thailand – BOT, consensus, and UOB forecast all were projecting 3.2% for 2022), well below expectations, though it is still much higher than 2021's tepid 1.6% growth. Given the downside surprise, we are revising our 2023 growth forecast lower to 3.1% as the strength of domestic economic recovery appears to be more modest than expected. Nevertheless, we continue to expect higher and steadier tourism income amidst China's reopening, which will bode well for services exports performance.

CENTRAL BANK

Terminal Peak Rate of 1.75% Is Imminent With Possible Cut In Early 2024

After averaging 6.1% in 2022, inflation in Thailand has eased because of government subsidies on energy products and high base effects from last year. Inflation is likely to return to 3% this year as the government will continue to subsidize energy costs to support local demand. Inflation eased to 3.8% in Feb, a 13-month low but that's still above Bank of Thailand's target range of 1% to 3%. We expect headline inflation to average 3.9% in the first half of 2023. In the latter half of this year, we forecast inflation to average only 1.5%, partly due to base effects and on assumption of continued lowering of PPI and more anchored energy and food prices. We expect inflation to average 2.7% this year, well within the 1-3% BOT inflation target range. Slower inflation coupled with less robust growth recovery will also render BOT less room to embark on an even tighter monetary policy in 2023.

We expect that BOT may soon reach the peak of its current rate-hiking cycle, with our forecast of a final 25bps rate hike at the upcoming 29 Mar MPC meeting to 1.75%. Nevertheless, at its 1.75% terminal rate, the sustained presence of negative real interest rates will support towards continued Thai economic recovery. Combined with a likely outcome of a more persistent current account surplus amid higher services exports account that is underpinned by a resurgence of tourist arrivals , the Thai economic recovery is likely to gain momentum this year and next even as many other regional ASEAN economies see their growth momentum slow.

Our analysis shows that the impact of higher interest rates on business and household loans remain manageable. Coupled with BOT's mitigating policies of targeted support measures towards vulnerable group of households and segment of businesses, we believe that the current interest rate hike cycle would not hamper the growth recovery trajectory for the Thai economy.

Nevertheless, the underlying issues of elevated levels of household debts, in particular the implications for personal consumption, warrant close monitoring or even some sort of structural reform policies. Housing loans specifically is of importance, as far as anchoring financial stability in the Thai economy.

CURRENCY

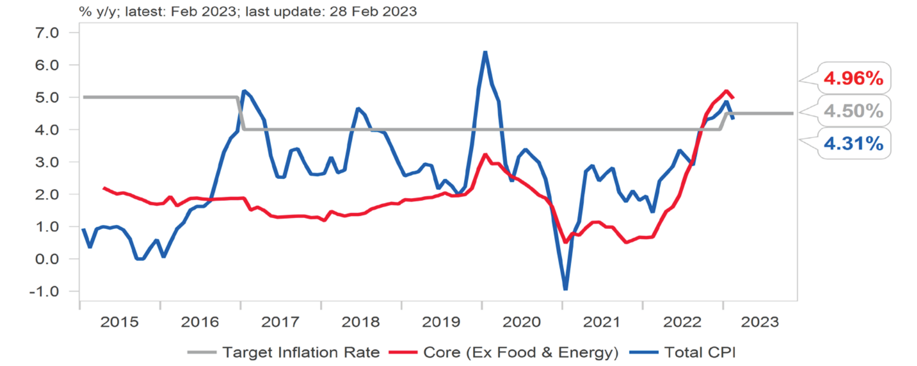
THB To Still Outperform This Year

The rollercoaster ride for THB in 1Q23 reflected the rise and ebb of the China reopening play. The THB which was touted as one of the key beneficiaries of China's "revenge travel" pared almost all its close to 6% year-to-date gains after incoming data showed a slow trickle of Chinese tourists instead. A more noticeable pick-up in China tourist numbers and hence THB is probably reserved for 2H23. In the interim, THB may see modest weakness alongside an uptick in global aversion. In all, our updated USD/THB forecasts are 35.0 in 2Q23, 34.0 in 3Q23, 33.0 in 4Q23 and 32.0 in 1Q24. This put THB still as one of the outperformers within Asia FX this year.

FX & Rates	2Q23F	3Q23F	4Q23F	1Q24F
USD/VND	24,200	24,000	23,800	23,600
VND Refinancing Rate	5.00	5.00	5.00	5.00
Economic Indicator	2021	2022	2023F	2024F
GDP (%)	2.6	8.0	6.6	7.3
CPI (avg y/y %)	1.8	3.6	5.0	5.8
Unemployment Rate (%)	3.6	2.2	2.2	2.2
Current Account (% of GDP)	-0.3	0.3	1.0	1.0
Fiscal Balance (% of GDP)	-4.1	-4.4	-2.6	-2.6

Vietnam Consumer Price Index, Monthly

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Slowing Momentum

Vietnam's real GDP growth in 4Q22 normalized to a more sustainable pace of 5.92% y/y, after the 13.67% surge in 3Q22, as signs of easing are seen in external demand. For 2022, Vietnam's GDP accelerated 8.02% from 2.58% in 2021, the best annual performance since 1997.

While the annual data showed strong performances across the board, signs of moderating growth are apparent and concerning in detailed breakdown of the data. Manufacturing sector barely expanded, while exports registered its third consecutive months of declines before turning positive in Feb 2023.

Indeed, recent data show much of the downward pressures on external sector. Exports turned positive in Feb (11.3% y/y) after 3 consecutive months of declines. However, in value terms, Jan-Feb's average exports value of US$2.6bn was nearly 20% below that of the average of US$30.8 bn in 2022, suggesting that exports weakness could extend into months ahead.

Foreign direct investment (FDI) is also showing signs of lethargy in early 2023, with YTD realized FDI inflows at US$2.6 bn in Feb, falling short of the US$2.7bn recorded in the same month a year ago.

However, one positive news is that services sector is picking up the slack. Inbound tourists already hit 1.8 mn pax YTD in Feb, against the 50,000 pax in the same month last year when COVID-19 restrictions were in force.

Taking it all together, we are keeping our 2023 GDP growth forecast at 6.6%, in line with official projection of 6.5%. This takes into account of the 1Q23 growth momentum to pick up slightly at 6.45% y/y, largely due to the low base in 2022. Vietnam's 1Q23 GDP report will be released on 29 Mar.

Several external risks continue to weigh on this outlook: 1) Russia-Ukraine conflict and its impact on energy, food and commodity prices, 2) global supply chain shifts and disruptions, 3) global monetary policy tightening, and 4) the developments in global banking sector with its impact on confidence.

Consumer prices are showing tentative signs of turning around, however it is still early to tell whether the trend is sustainable. Of concern is that core inflation remains well above overall target, which will be one key consideration for the central bank.

CENTRAL BANK

Shift In Policy Stance Ahead?

Back in late 2022 during the Sep-Nov period, the State Bank of Vietnam (SBV) had embarked on a flurry of policy moves in view of aggressive US Fed interest rate hikes, USD strength, and inflation pressures. SBV then unexpectedly raised its key interest rates by 100 bps on 22 Sep, followed by another round of 100 bps hike a month later (24 Oct). In between, the SBV on 17 Oct announced the widening of the USD/VND trading bands to +/-5% from +/-3%, to allow for greater flexibility for the VND in view of a strong USD.

Fast forward to 16 Mar 2023, the SBV unexpectedly lowered its discount rate by 100bps to 3.5% (from 4.5%) in an attempt to boost economic growth amid global uncertainties as US and European banking sector mired in a crisis of confidence. SBV also reduced the overnight lending rate in the interbank market by 100bps to 6% and trimmed the cap on the lending interest rates for short-term loans in some sectors to 5% from 5.5%.

But the most important part in the latest policy move was that SBV left the refinancing rate unchanged at 6%. This signals that the policy stance remains unchanged despite cuts in other interest rates.

As SBV balances between economic growth while ensuring price stability, there will be an increasing bias to shift towards a more accommodative stance ahead. With the US Fed poised to end its rate hike cycle as soon as May 2023 and that domestic inflation rates are showing some tentative signs of turning, we anticipate that the SBV will cut its refinance rate sometime in 2Q23, by 100bps to 5.00%. For now, we think this could be a one-off move, and more rate cuts may be on tap if domestic price pressures ease off further, although this is highly uncertain for now.

CURRENCY

VND To Stay Stable

The VND stood out as one of the most stable currency in Asia. Despite the big shifts in Fed rate hike expectations, global recession worries and US banking turmoil, the VND traded a tight 0.8% from either side of 23,600 /USD. Despite a surprise 100 bps rate cut by SBV in Mar, a strong rebound in exports and industrial production together with easing inflation are likely to anchor the VND stability. Overall, we expect USD/VND to trace other USD/Asia pairs higher to 24,200 in 2Q23 before easing lower to 24,000 in 3Q23, 23,800 in 4Q23 and 23,600 in 1Q24.

FX & Rates	2Q23F	3Q23F	4Q23F	1Q24F
AUD/USD	0.68	0.69	0.71	0.72
AUD Official Cash Rate	3.85	3.85	3.85	3.85
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	5.3	3.7	1.7	1.6
CPI (avg y/y %)	2.9	6.6	5.4	3.1
Unemployment Rate (%)	5.1	3.7	3.9	4.4
Current Account (% of GDP)	3.1	1.0	0.5	0.1
Fiscal Balance (% of GDP)	-5.3	-1.4	-1.3	-1.7

ECONOMY

Growth To Slow As Higher Rates Bite

The Australian economy is slowing down. GDP came in at 0.5% q/q in 4Q22, below expectations of 0.8% q/q, and lower than the revised 0.7% q/q print in 3Q22 (0.6% q/q previously). Although this is the fifth consecutive rise in quarterly GDP, growth slowed in the last two quarters. From a year earlier, the economy expanded by 2.7% y/y, within expectations, but much lower than 3Q22's reading of 5.9% y/y.

The latest GDP prints are in line with our view of growth turning softer as high inflation and interest rates weigh on households alongside a slowdown in global growth. The bounce-back in spending following the COVID-19 pandemic has largely run its course. More broadly, the combination of higher interest rates, cost-of-living pressures and the decline in housing prices is expected to weigh on household spending. A contraction in residential construction is also expected following the pandemic-related boom. Meanwhile, the outlook for business investment remains positive, with many firms operating at high levels of capacity utilisation. Overall, we see Australia's GDP growth slowing this year to 1.7% from 3.7% in 2022.

The labour market has improved significantly. The seasonally adjusted unemployment rate fell to 3.5% in Feb, hovering around a 50-year low, from 3.7% in Jan, and better than expectations of 3.6%. This was back to the level in Dec 2022. Seasonally adjusted employment increased by 64,600 people, from a revised fall of 10,900 people (11.500 fall previously). Full-time employment increased by 74,900, while part-time employment fell by 10,300. The seasonally adjusted participation rate rose 0.1ppt to 66.6% in Feb, back to the level in Dec 2022. In line with the increase in employment, the employment-to-population ratio increased 0.2ppt to 64.3% in Feb. The latest jobs data underscores the labour market strength as a key factor in the Reserve Bank of Australia (RBA)'s confidence that the economy can avoid a recession despite the aggressive monetary tightening cycle. The RBA expects unemployment to hold around 3.5%-3.6% through mid-2023.

The one near-term economic challenge domestically is to make sure that the current episode of high inflation is only temporary. The monthly CPI rose 7.4% y/y in Jan, down from 8.4% y/y in Dec. While the latest reading is the second highest annual increase since the start of the monthly CPI indicator series in Sep 2018, it reinforces our view that headline inflation has peaked in Australia. That said, it is worth noting that the monthly indicator is still experimental and can be volatile from month to month, so some caution is required.

We look for inflation to trend lower this year and next, but there is still a significant amount of uncertainty regarding the exact path. Our full year 2023 inflation forecast is now at 5.4%, from 4.8% previously. It will be some time yet before inflation returns to within the RBA's target band of 2-3%. In terms of wages, both the Wage Price Index and average earnings indicate that wages growth is stronger than it was a few years ago, which is a positive development. The Wage Price Index increased by 0.8% q/q in 4Q22, bringing the increase to 3.3% y/y. This is the strongest year-ended outcome in a decade, confirming a pick-up in wages growth in response to both the tight labour market and the high inflation.

CENTRAL BANK

RBA To Pause

At its Mar meeting, the RBA decided to increase the cash rate target by 25bps to 3.60%. That was the 10th straight meeting that the RBA has raised rates, with the cash rate having increased by 350bps since May 2022. Once again, it was highlighted in the accompanying statement that "the Board's priority is to return inflation to target", and that "further tightening of monetary policy will be needed to ensure that inflation returns to target and that this period of high inflation is only temporary". The RBA went on to say that "in assessing when and how much further interest rates need to increase, the Board will be paying close attention to developments in the global economy, trends in household spending and the outlook for inflation and the labour market".

Even so, the minutes of the Mar meeting released on 21 Mar took on a more dovish tone, stating that "members agreed to reconsider the case for a pause at the following (Apr) meeting recognising that pausing would allow additional time to reassess the outlook for the economy". And when asked in the Q&A session during a speech to the Australian Financial Review (AFR) Business Summit on 8 Mar, what kind of data the RBA would be looking at to stop hiking rates, RBA Governor Philip Lowe said "we've got a completely open mind about what happens in the next (Apr) board meeting. Lowe had nominated employment as one of four key economic data points that the board will monitor closely. While the signal is positive from the jobs market, business surveys – another key reading that policymakers are looking at – pointed to a darkening outlook in mid-Mar. The other two reports, retail sales (28 Mar) and monthly inflation for Feb (29 Mar), are both due later this month.

At this juncture, we are keeping our view of one more 25bps hike in Apr, which will take the cash rate target to 3.85%. There is some near-term downside risk to this view as uncertainty remains elevated. This is highlighted by the recent problems in the banking sectors in the US and Europe, with potential spillovers for Australia via lending conditions and confidence.

CURRENCY

AUD Feels The Weight Of Global Risk Aversion

While the AUD is one of the main beneficiaries of the China reopening theme, near-term sentiment could be dampened by the recent bout of global risk aversion. Also, the uplift on the AUD provided by the China's reopening is likely to be more modest than previously thought. This comes as China sets a conservative GDP growth target of about 5.0% for 2023, downplaying any need for a large stimulus to boost its recovery. Overall, while we keep to a positive outlook for AUD/USD, the point forecasts are marked modestly lower as compared to our last update on 1 Mar. The updated AUD/USD forecasts are at 0.68 in 2Q23, 0.69 in 3Q23 and 0.71 in 4Q23 and 1Q24.

FX & Rates	2Q23F	3Q23F	4Q23F	1Q24F
EUR/USD	1.10	1.12	1.14	1.16
EUR Refinancing Rate	3.75	3.75	3.75	3.75
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	5.3	3.5	-0.5	1.2
CPI (avg y/y %)	2.6	8.4	5.6	2.4
Unemployment Rate (%)	7.7	6.7	6.9	7.0
Current Account (% of GDP)	2.4	-0.3	0.7	1.1
Fiscal Balance (% of GDP)	-5.1	-3.7	-3.6	-3.2

ECONOMY
Held Up Well But Downside Risks Remain

The Eurozone economy has held up surprisingly well despite the energy crisis and a winter recession was avoided. Activity indicators have also picked up since the start of the year.

The Euro area composite PMI rose to 52.3 in Feb from 50.3 in Jan. The outcome was higher than estimates of 50.7. The average for Jan and Feb of 51.3 was above the key threshold of 50, suggesting the economy is on track to expand in 1Q23. The figure for manufacturing fell to 48.5 from 48.8 and that for services jumped to 53.0 from 50.8. The former remains the weakest sector of the economy as it struggles with energy-intensive processes and its sensitivity to borrowing costs.

We are, nonetheless, keeping our forecast for a 0.5% contraction in GDP this year. While there is a chance that a recession may be avoided, risks as a whole remain skewed to the downside, as financial instability in the region may prompt a downturn. The effect of monetary policy has not fully passed through yet, and may end up having a greater impact on the economy than financial markets expect.

Inflation remains the key challenge. Eurozone CPI moderated to 8.5% y/y in Feb, from the all-time high of 8.6% y/y in Jan, but above consensus forecast for 8.3% y/y. More importantly, core CPI rose to 5.6% y/y, above the previous reading and consensus forecasts for 5.3% y/y. Month-on-month, inflation in the bloc came in at 0.8% m/m, above consensus forecast for 0.5% m/m and the previous month's reading of -0.2% m/m.

Looking at the details, food, alcohol & tobacco had the highest annual rate of increase in Feb (15.0% compared to 14.1 % in Jan), followed by energy (13.7% compared to 18.9 % in Jan), non-energy industrial goods (6.8% compared to 6.7% in Jan) and services (4.8% compared to 4.4 % in Jan). Given that services is the largest component of the headline HICP, accounting for around 43.5% of household final monetary consumption expenditure in the Euro area, this indicates that underlying price pressures remain high. We look for core inflation to rise into the summer, only easing materially from 4Q23 onwards. Our average headline inflation forecast of 5.6% for this year remains.

CENTRAL BANK
ECB On A Wait-And-See Approach

At its Mar meeting, the European Central Bank (ECB) stuck with the 50bps hike that it had flagged in Feb as its intention for Mar. Accordingly, the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility were increased to 3.50%, 3.75% and 3.00% respectively, with effect from 22 Mar.

The new ECB staff macroeconomic projections were finalised in early Mar before the recent emergence of financial market tensions. As such, these tensions could imply additional uncertainty around the baseline assessments of inflation and growth. Prior to these latest developments, the baseline path for headline inflation had already been revised down, mainly owing to a smaller contribution from energy prices than previously expected.

The ECB now expects headline inflation to average 5.3% in 2023 (compared to 6.3% in Dec), 2.9% in 2024 (compared to 3.4% in Dec) and 2.1% in 2025 (compared to 2.3% in Dec). Meanwhile, underlying price pressures remain strong. The ECB sees core inflation averaging 4.6% in 2023, which is higher than in the Dec projections. Subsequently, it is projected to come down to 2.5% in 2024 and 2.2% in 2025, as the upward pressures from past supply shocks and the reopening of the economy fade out and as tighter monetary policy increasingly dampens demand.

The baseline projections for growth in 2023 have been revised up to an average of 1.0% (compared to 0.5% in Dec) as a result of both the decline in energy prices and the economy's greater resilience to the challenging international environment. The ECB then expects growth to pick up further, to 1.6%, in both 2024 and 2025 (compared to 1.9% and 1.8%, respectively, in Dec), underpinned by a robust labour market, improving confidence and a recovery in real incomes.

We recognize that the ECB has given itself flexibility and time to respond to economic data and to see how the situation evolves, while not feeding financial markets with a dovish message or evidence of panic within the Governing Council. All in all, it has also given us very little in terms of what to expect at the next monetary policy decision on 4 May. From now until then, a lot can happen. Even prior to the recent troubles in the financial sector, the ECB had reason to stick to a data dependent approach. The ECB could still bring the current hiking cycle to an abrupt end, especially if banking tensions worsen. Even if the ECB were to continue hiking, we think it would be prudent to move in clips of 25bps. We are now pencilling in a 25bps hike at the May meeting, on the latest indication of the ECB's willingness to put out fires in banking woes, as well as fresh forecasts confirming that it probably does not think the fight against inflation is over.

CURRENCY
Higher EUR

While the EUR is not spared from repricing in interest rate expectations, the extent and intensity of the rate repricing are likely to be milder for the ECB compared to the Fed. This means the EU-US rate differential would continue to narrow across the remainder of 2023 and underpins a sustained EUR/USD recovery. Also, compared to a quarter ago, expectations of economic growth in the Euro area have improved, removing a key uncertainty for EUR/USD. Notwithstanding near-term volatility, we reiterate a higher trajectory for EUR/USD with updated point forecasts at 1.10 in 2Q23, 1.12 in 3Q23, 1.14 in 4Q23 and 1.16 in 1Q24. A caveat to our constructive EUR/USD view is the possible negative spill over effects from US banking sector issues that spark a blow-up in Europe's peripheral spreads that would weigh on the currency pair.

NEW ZEALAND

FX & Rates	2Q23F	3Q23F	4Q23F	1Q24F
NZD/USD	0.64	0.65	0.66	0.67
NZD Official Cash Rate	5.00	5.00	5.00	5.00
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	6.4	2.3	1.3	0.9
CPI (avg y/y %)	3.9	7.2	5.2	2.6
Unemployment Rate (%)	3.8	3.3	3.9	4.7
Current Account (% of GDP)	-4.0	-7.3	-5.2	-5.0
Fiscal Balance (% of GDP)	-3.9	-4.2	-1.8	-0.6

ECONOMY

On Brink Of Recession

New Zealand's GDP came in much weaker than expected, contracting by 0.6% q/q in 4Q22, in contrast to the revised 1.7% q/q gain in 3Q22, and lower than expectations for a print of -0.2% q/q. The contraction was led by the primary sector and goods-producing industries such as manufacturing, which had fallen 1.9% q/q, led by machinery, food and beverages. Compared to the same period one year ago, GDP rose by 2.2% y/y, with annual average growth of 2.4%. This follows a 6.4% y/y print in 3Q22, and less than expectations of 3.3% y/y for 4Q22.

The latest GDP outcome was also sharply weaker than the Reserve Bank of New Zealand (RBNZ)'s projection of +0.7% q/q. The RBNZ, which is aiming to engineer a recession in 2023 to suppress demand and rein in inflation, had predicted growth of 0.7% q/q as part of its Feb MPC projection. The RBNZ had forecast the country would enter recession in 2Q23. The earlier-than-expected slump in economic growth adds to signs that higher interest rates are starting to curb consumption and could slow inflation faster than the RBNZ expects.

Responding to the latest growth figures, Finance Minister Grant Robertson, said "2023 was always going to be a challenging year. The global economy is volatile and still recovering from COVID impacts. While GDP is likely to move around a bit as we continue to recover from COVID, our economy is nearly 6.7% bigger than before the start of the pandemic, ahead of most countries we compare ourselves with".

Some of the weakness in 4Q22 may reflect difficulties in seasonal adjustment, rather than weakness in the economy alone. That said, the impacts of severe weather and flooding earlier this year will cloud the economic outlook. Should the economy fail to expand in the current cyclone-hit quarter, the country would have entered a recession six months earlier than the RBNZ predicted. Our view is that the economy is likely to experience further weakness ahead. We have lowered our GDP growth forecast for 2023 to 1.3%, from 1.5% previously.

As far as inflation is concerned, 4Q22 CPI came in at 7.2% y/y, unchanged from 3Q22, hovering near a three-decade high. Crucially, the 4Q22 inflation outcome was weaker than the 7.5% estimated by the RBNZ in its Nov Monetary Policy Statement. Annual non-tradables inflation maintained at 6.6% y/y, while core inflation measures were a mixed bag. Overall, the numbers were still high, but not as bad as feared.

In fact, inflation expectations in New Zealand eased incrementally in the first quarter of the year. Respondents to the RBNZ's 1Q23 Survey of Expectations forecast inflation will average 3.30% over the next two years, down from a projection of 3.62% in the 4Q22 survey, a 31-year high. Overall, we expect inflation pressures to ease ahead as growth slows, unemployment rises, and energy price inflation subsides.

In signs that the job market is softening, employment growth was slightly weaker than expected in 4Q22, following a surprise surge in the prior quarter. The level of employment is below the RBNZ's projections in Nov. The unemployment rate rose to 3.4% in 4Q22 from 3.3% previously. Employment growth failed to match the acceleration in labour supply from rising population growth. Private-sector wages rose 1.1% from the prior quarter, as expected. They climbed 4.3% from a year earlier, the biggest rise in the series stretching back to 1992.

Over time, the reopening of the border is likely to boost supply of workers, relieving pressure in the hiring market. Labour demand is also likely to soften going by a decline in job ads in recent months.

CENTRAL BANK

RBNZ's Tightening To Slow

The RBNZ has raised the official cash rate (OCR) at every meeting dating back to Oct 2021, lifting from the emergency-low of 0.25% to 4.75% currently, its highest level since the Global Financial Crisis. In Feb, the RBNZ slowed its pace of tightening by raising the OCR by 50bps, but continued to signal that the OCR still needs to increase, to ensure inflation returns to its target range over the medium term.

Similar to the Nov Monetary Policy Statement, the RBNZ's OCR forecasts in Feb showed the OCR peaking at 5.5% this year. It reiterated that it expects a recession starting in 2Q23, but the economy is seen rebounding back a little sooner next year. Meanwhile, the RBNZ expects inflation to accelerate to 7.3% in the current quarter from 7.2% in 4Q22.

We now, however, think the RBNZ will have to dial back on further rate hikes, especially in light of the looming policy-induced recession and surging migration domestically. The RBNZ has been a front-runner in a global shift towards removing extraordinary stimulus put in place during the pandemic as authorities try to contain surging inflation. But global central banks now find themselves caught between competing forces – persistent high inflation and banking sector instability in both the US and Europe.

The next RBNZ meeting is on 5 Apr, where we are pencilling in a 25bps hike in the OCR to 5.00%, after which we expect a pause in the current tightening cycle.

CURRENCY

A Slower Climb In NZD

Weighed by falling equities, the NZD turned lower since early Feb and was one of the worst performing currency within the Major FX space, falling close to 2% against the USD to 0.6240. While we reiterate the view of a higher NZD/USD due to expected weakness of the USD, the resulting trajectory is more gradual compared to our last update on 1 Mar due to broadening risk aversion. Our updated NZD/USD forecasts are at 0.64 in 2Q23, 0.65 in 3Q23, 0.66 in 4Q23 and 0.67 in 1Q24. Due to heightened growth slowdown risks compared to its antipode peer, we have factored a rising AUD/NZD in our forecasts as well.

FX & Rates	2Q23F	3Q23F	4Q23F	1Q24F
GBP/USD	1.25	1.28	1.30	1.32
GBP Repo Rate	4.50	4.50	4.50	4.50
Economic Indicator	2021	2022	2023F	2024F
GDP (%)	8.5	4.2	-0.5	1.3
CPI (avg y/y %)	2.6	9.1	6.5	2.4
Unemployment Rate (%)	4.6	3.7	4.3	4.7
Current Account (% of GDP)	-1.5	-5.0	-4.0	-4.0
Fiscal Balance (% of GDP)	-7.3	-4.9	-5.5	-3.8

ECONOMY

Lags G7 Peers In Post-Pandemic Recovery

The UK economy contracted by 0.5% in Dec, following growth of 0.1% in Nov. This leaves output at 0.5% below its pre-pandemic level. Over the quarter, the economy posted no growth. Over the year, GDP came in at 0.4% in 4Q22, down from 1.9% in 3Q22.

Since the 2008 Global Financial Crisis, the UK economy has been largely stagnant. It remains the only G7 country to have not recovered to pre-pandemic levels of economic activity. The Office for Budget Responsibility (OBR), the government's fiscal watchdog, now expects the UK economy to shrink by 0.2% in 2023, compared with the 1.4% fall it predicted in Nov. We are, nonetheless, maintaining our view for GDP to contract by 0.5% in 2023.

If the current jitters about the stability of the global banking system worsens, UK banks could respond by extending less credit to households and businesses, and this would weigh further on consumer demand and investment spending. Hence, how the current banking turmoil unfolds will be crucial not only for the economic outlook, but for UK Prime Minister Rishi Sunak's government with election a little more than a year away.

Elevated inflation clearly is a concern. Headline CPI unexpectedly jumped in Feb, to 10.4% y/y, the first increase in four months, after a 10.1% y/y gain in Jan. Inflation had peaked at 11.1% y/y in Oct 2022. On a monthly basis, headline CPI was up 1.1%, exceeding a forecast of 0.6%, and against the fall of 0.6% in Jan. There had been hopes that inflation in the UK would finally have retreated from its double-digit prints, but it has instead headed back upwards. Core inflation rose to 6.2% y/y from 5.8% y/y in Jan.

The print reflected a sharp rise in services inflation, which jumped from 6.0% to 6.6%, after a peak of 6.8% in Dec. The movement in services inflation is closely watched by the Bank of England (BOE) as this is the part of the CPI basket that is closely tied to the domestic economy, and tends to be more "persistent" or "sticky". For comparison, the latest figures are about twice the average of 3.3% between 2000 and 2019. More significantly, core services inflation, which excludes the price of education, package holidays and airfares, climbed up to 6.7% after having slowed to 6.0% in Jan. Adjusting for the impact of changes in value added tax, the gauge rose to 6.5% from 5.8%.

CENTRAL BANK

BOE In Tough Spot

The BOE has responded to rising inflation with monetary tightening, raising the Bank Rate eleven times by a cumulative 415bps since Dec 2021. After Feb's 50bps hike, the BOE shifted to a smaller 25bps at the Mar meeting.

Three observations, in particular, stood out for us: First, the guidance by the BOE was not too different from the one in Feb. The latest vote split, with Swati Dhingra and Silvana Tenreyro favoring no increase, was similar to the 7-0-2 split for the 50bps increase in Feb. No one else joined the dissent. On balance, the hawks still clearly have the upper hand, but Catherine Mann's shift to a 25bps hike, having favored larger moves in the past, was notable. Had she kept to a preference of a 50bps increase, then it would have resulted in a 6-1-2 split.

Second, the BOE now expects GDP growth to rise slightly in 2Q23, a sharp upgrade from the 0.4% decline it projected in Feb. On inflation, it still expects price growth to fall significantly in 2Q23, to a lower rate than anticipated in Feb. The BOE added that most of the surprising strength in the core goods component was accounted for by higher clothing and footwear prices, which tend to be volatile and could therefore prove less persistent. The labour market remains tight, but the BOE saw signs that wage growth will ease more quickly than previously thought. Unemployment is no longer expected to begin increasing in 2Q23.

Third, the BOE's Financial Policy Committee (FPC) has determined that the banking system in the UK "remains resilient" after recent bank failures in the US and Switzerland. By brushing aside concerns, the BOE has demonstrated that it will operate its monetary policy independently of the moves to clear up trouble in the banking system.

Still, the BOE is clearly in a difficult position, and rightly so, has left the door open to options, indicating that if there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required. We bear in mind that the rise in interest rates is taking place against a backdrop of difficult economic conditions in the UK. This takes the form of low post-pandemic growth and the continued negative effects of Brexit, with the economic misery exacerbated by the impact of food and energy price inflation at the heart of the cost of living crisis, which is having a particularly harmful effect on lower-income households.

There is no monetary policy decision in Apr, and the next one on 11 May is still some time away. Whether the MPC will be comfortable with pausing by the next meeting in May will depend very much on incoming data and developments. We are keeping our forecast for a 25bps hike in May (albeit with lower confidence), solely on the premise of the BOE's focus on fighting inflation.

CURRENCY

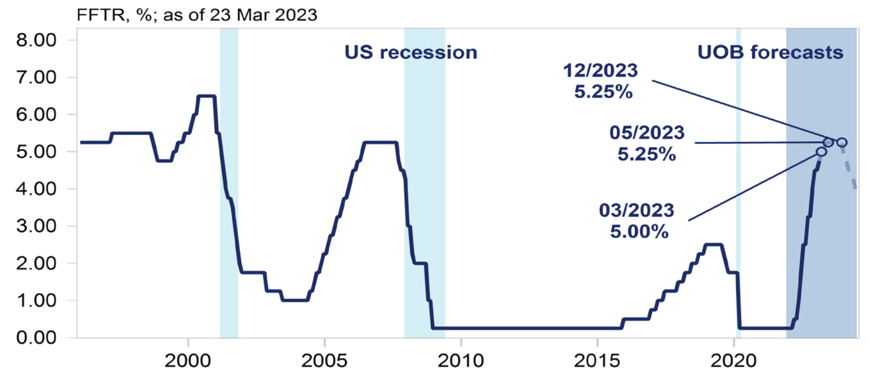
GBP Shows Its Resilience

Even amidst volatility in the other asset classes, a less intense repricing in BOE rate expectations (relative to the Fed) is helping to keep the GBP/USD supported at around 1.20. Other factors helping to underpin the GBP include seemingly limited contagion from US banking sector woes and stronger than expected UK growth numbers. Preliminary 4Q22 GDP data showed UK averting the much-feared recession while monthly GDP flipped to positive territory in Jan (0.3% m/m). Against a basket of its trading peers, GBP appears to be rebounding nicely off multi-decade lows that marked previous key crises such as the ERM (1992), GFC (2008), Brexit (2016) and UK mini budget (2022). Overall, we maintain a positive view of GBP/USD with updated point forecasts at 1.25 in 2Q23, 1.28 in 3Q23, 1.30 in 4Q23 and 1.32 in 1Q24.

FX & Rates	2Q23F	3Q23F	4Q23F	1Q24F
DXY	100.9	99.0	97.4	95.9
US Fed Funds Rate	5.25	5.25	5.25	4.75
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	5.9	2.1	-0.5	2.5
CPI (avg y/y %)	4.7	8.0	3.0	2.5
Unemployment Rate (%)	3.9	3.5	4.5	4.5
Current Account (% of GDP)	-3.6	-3.7	-3.9	-3.5
Fiscal Balance (% of GDP)	-11.9	-5.4	-5.0	-5.5

UOB's Projected US Federal Funds Target Rate Trajectory

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Higher Rates, Higher Recession Risks

Amidst a year of unprecedented pace of Fed rate hikes, the US economy in particular its labour force, was surprising resilient. After two back-to-back q/q contractions 1H 2022, GDP returned to growth in the 2nd half of the year, at clips of 3.2% q/q SAAR and 2.7% in 3Q and 4Q respectively. Full year growth came in at 2.1% for 2022, down from nearly 6% in 2021, but it was much higher than the less than 1% growth projected by the Fed in Dec (2022). The GDP growth in 2022 was attributed to resilient private consumption expenditure, a continued gain in net exports, a rebound in non-residential fixed investment (business spending) and gains in in private inventories, offsetting the continued decrease and a deeper plunge in residential fixed investments, and lower federal government spending.

Despite the better than expected bounce in GDP expansion for 3Q & 4Q, we continue to factor in a downward shift in the US growth outlook in 2023. The main tenet to our weaker US growth projection continues to be on the combination of elevated inflation, Fed rate hikes and global growth slowdown. The current US banking turmoil adds further downside risks to growth, because any missteps to contain the risks in this area by the US authorities could lead to more significant tightening of credit conditions, triggering a more pronounced slowdown and spillover effect to other sectors. Our base case remains the US economy will endure a mild recession of -0.5% GDP slowdown before recovering to 2.5% GDP growth in 2024. We are paying close attention to banking sector developments as well as the US commercial and residential real estate sectors at this juncture.

The higher interest rates already exerted a clear negative impact on the US housing market, as residential fixed investments plunged by -27.1% in 3Q and then -25.9% in 4Q, the largest falls since the onset of the pandemic while monthly housing market data continued to show weakness, signalling erosion in housing demand as mortgage rates stay elevated (with benchmark 30-year fixed mortgage currently at 6.85% as of 23 Mar, elevated but below the 7% prints).

The US economy remains resilient and this is best reflected by the strength of its labour market conditions. Job creation has consistently stayed above 200,000 per month since 2021, and the US added more than 800,000 in the first two months of 2023. Unemployment rate ticked up to 3.6% in Feb, but that is still close to the pre-Covid level of 3.5%. Wage growth momentum slowed but is still positive on a m/m basis in Feb and has consistently been so since 2021. While we expect, unemployment to rise in 2023 to 4.5%, on the back of a mild US recession, this is just 0.5% above the long run US unemployment rate of 4%.

While the latest US headline inflation continues to run further below the 9.1% pace recorded in Jun and core inflation also eased from its recent high of 6.6% y/y (in Sep), the continued upward m/m trend in US core and services inflation will keep US Fed policymakers on their inflation watch. For 2023, we still expect both headline and core inflation to ease to an average of 3.0%, but still above the Fed's 2% objective. That said, Jan/Feb CPI data showed that the balance of risk for US inflation remains on the upside as reflected by the persistent rise of food and shelter costs, and that core services (excluding housing) is not seeing much disinflation, and it is where the Fed's challenge is.

CENTRAL BANK

One More and Done At 5.25%?

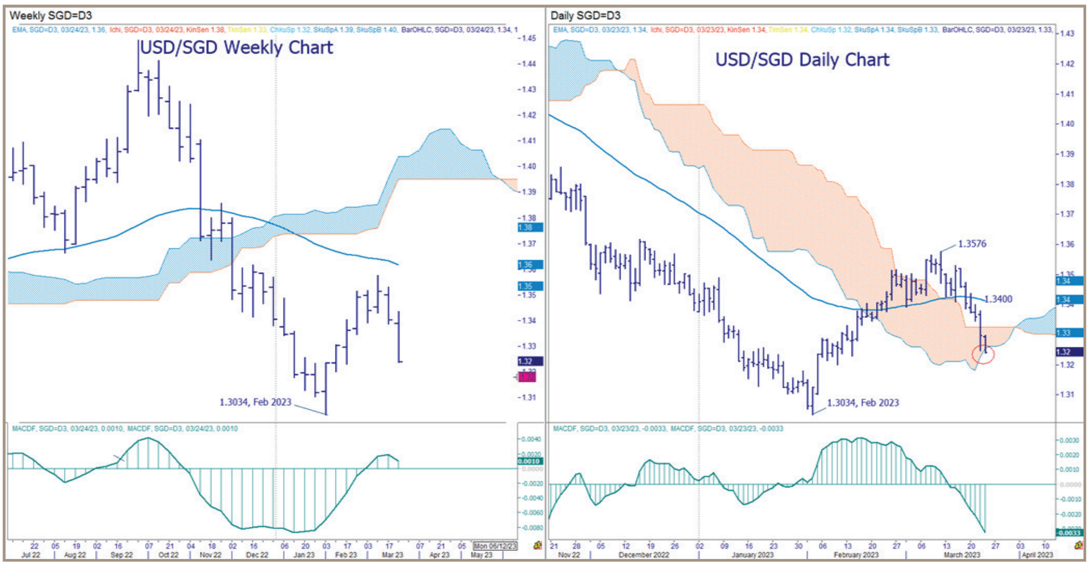
Our original expectation after Mar FOMC's 25bps hike was that the Fed would continue with another three 25bps hikes to bring the terminal FFTR level well above 5%. But the recent events made us rethink (again) on the terminal rate, especially against the backdrop of banking sector developments. We also noted the change in language of the latest FOMC statement where a key part has been adjusted to: "the Committee anticipates that <u>some additional policy firming may be appropriate</u> in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time" versus "ongoing increases in the target range <u>will be appropriate</u>" and the change sounded less assertive and even opening the possibility of a pause. We also noted FOMC Chair Powell at his Mar FOMC press conference alluded to credit tightening risk as a result of the banking crisis, and that possible tightening in credit conditions may mean monetary tightening has less work to do.

Taken together, we now expect the Fed to hike one final time by 25-bps in the May FOMC and pause thereafter. This means, with the FFTR currently at 5.0%, we are adjusting lower our terminal FFTR level to 5.25% (previous: 5.75%). We continue to expect no rate cuts in 2023, so this terminal rate of 5.25% is forecast to last through 2023. The cumulative rate increases for this current Fed rate hike cycle since 2022 till Mar amounted to 475bps, with one last 25bps increase on the cards in 2Q23.

FX Technicals

USD/SGD: 1.3250

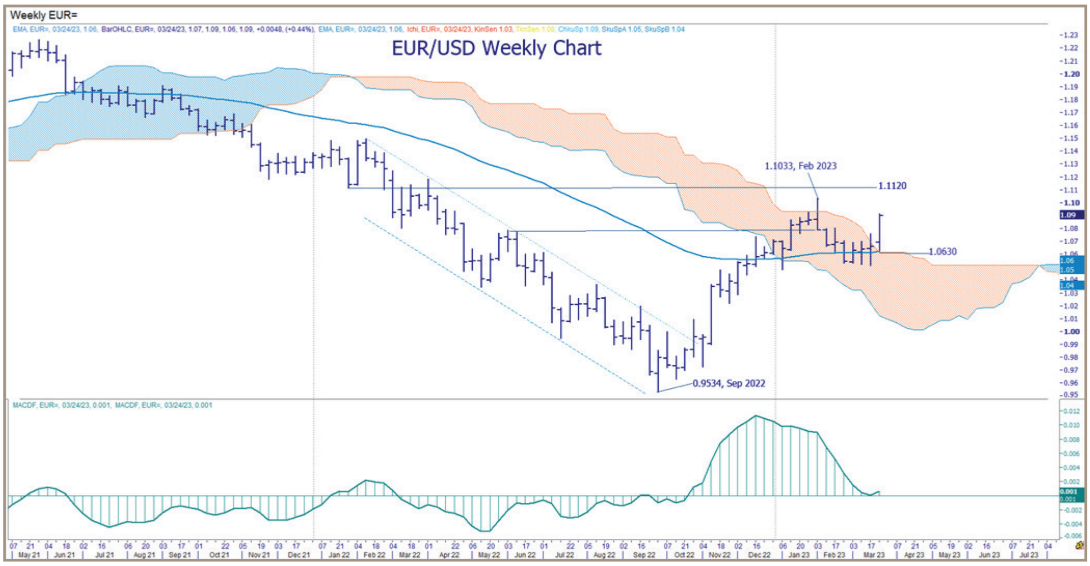
Risk for USD/SGD is on the downside but any decline is expected to meet solid support at the Feb's low near 1.3035.



At the time of writing in late Mar, USD/SGD dropped sharply and appeared to have broken clearly below the daily Ichimoku cloud. The breach of the strong support level suggests downside risk for USD/SGD, especially in the early part of 2Q. However, weekly momentum is not weak just yet, and any decline is expected to meet solid support at the Feb low near 1.3035. Resistance is at 1.3330, a break of 1.3400 would indicate that the downward risk has subsided.

EUR/USD: 1.0900

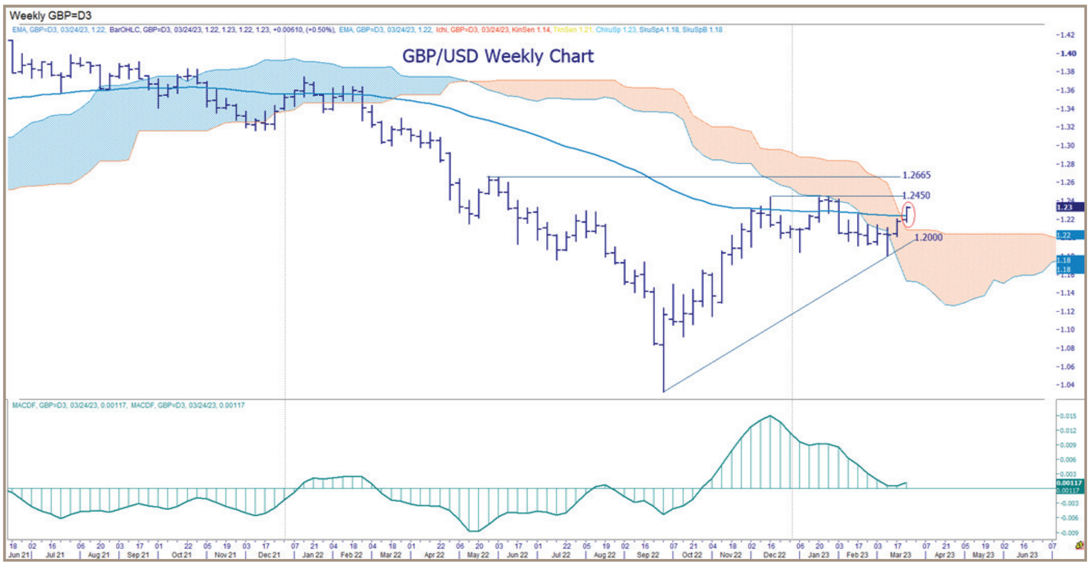
EUR/USD appears ready to head higher towards 1.1035, possibly 1.1120.



EUR/USD soared above the weekly Ichimoku cloud in early Feb 2023, but was unable to maintain a foothold above the solid resistance level. At the time of writing, EUR/USD jumped above the cloud again and this time around, it appears ready to continue to head higher towards 1.1035, possibly as high as 1.1120. In order to keep the momentum, EUR/USD should not move below the cloud support (at the time of writing, the level is at 1.0630).

GBP/USD: 1.2330

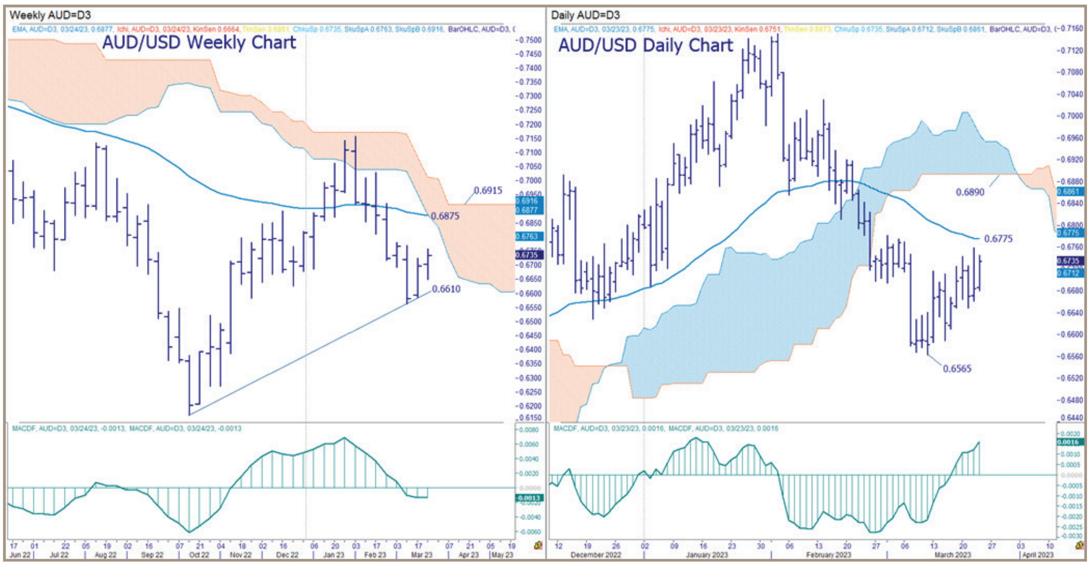
While the risk for GBP/USD is on the upside, it has to break 1.2450 before a sustained advance is likely.



At the time of writing in late March, GBP/USD soared above the top of the weekly Ichimoku cloud for the first time in a year. The clear break of the major resistance level has shifted the risk to the upside. However, GBP has to break clearly above another major resistance level at 1.2450 before a sustained advance can be expected in the second quarter of the year. The prospect of GBP/USD breaking clearly above 1.2450 will remain intact as long as it stays above the rising trendline support (currently at 1.2000). Looking ahead, the next resistance level above 1.2450 is at 1.2665

AUD/USD: 0.6740

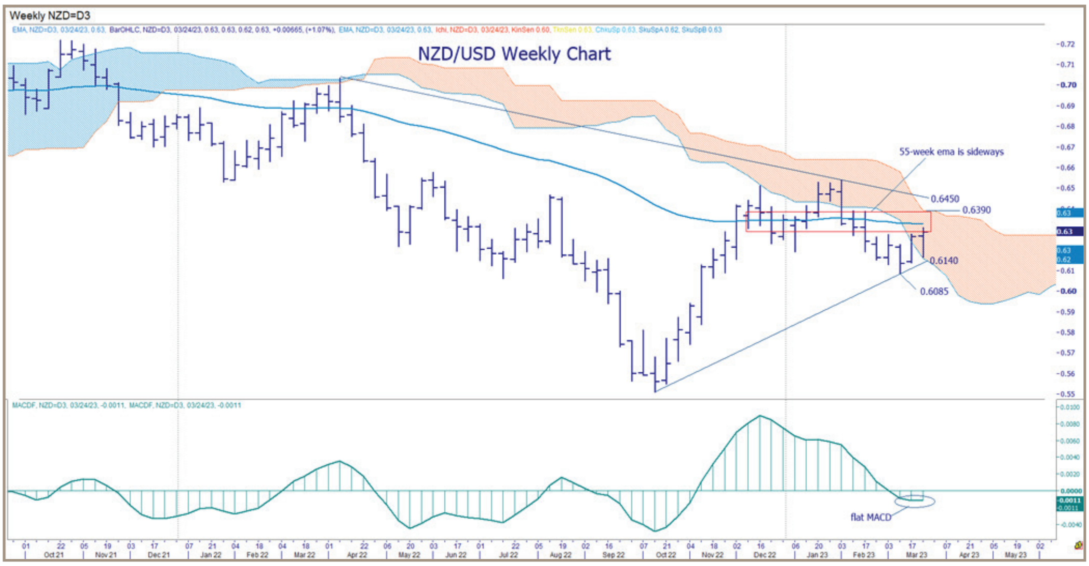
Bias for AUD/USD appears to be tilted to the upside but the resistance zone between 0.6875 and 0.6915 will not be easy to break.



Despite dropping to a low of 0.6565 in early March, downward momentum is not strong for now (note that weekly MACD is negative but daily MACD is firm and heading higher). The bias for the second quarter of this year appears to be tilted to the upside but the resistance zone between 0.6875 and 0.6915 (55-week exponential moving average, bottom of daily Ichimoku cloud and top of the weekly Ichimoku cloud) will not be easy to break. On the downside, a breach of 0.6610 would indicate that the upward bias has faded.

NZD/USD: 0.6300

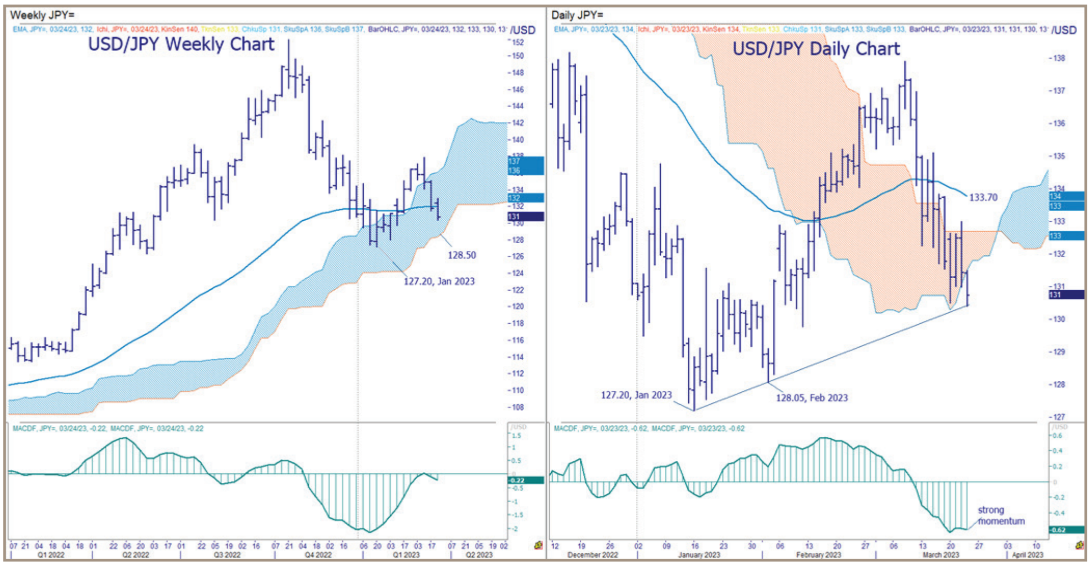
NZD/USD is likely to trade sideways going into 2Q2023.



Since late last year, NZD/USD has traded mostly sideways (note that the 55-week exponential moving average is 'flat'). Weekly MACD, while in negative territory, is 'flat' as well. Going into the second quarter of this year, NZD/USD could continue to trade sideways. Support levels are at 0.6140 and 0.6085. Resistance levels are at 0.6390 and 0.6450.

USD/JPY: 130.90

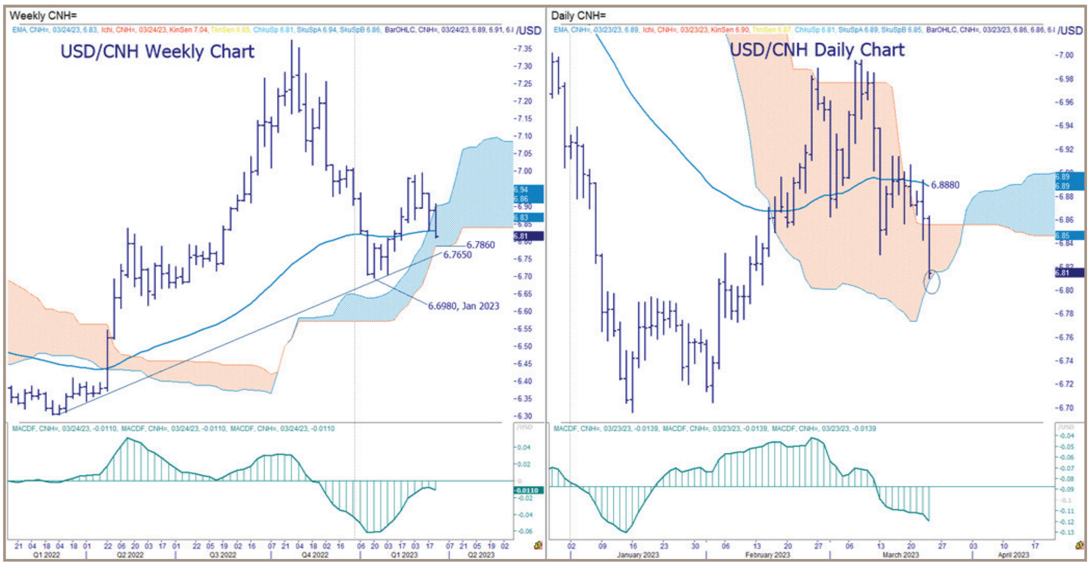
Strong downward momentum suggests USD/JPY is likely to break 128.50; the next support is at 128.05, followed by 127.20.



At the time of writing, USD/JPY appears poised to break the rising trendline connecting the lows of Jan 2023 and Feb 2023. In view of the strong downward momentum, not only a break of this trendline support appears likely, but USD/JPY could also break below the bottom of the weekly Ichimoku cloud (currently at 128.50). The next support is at 128.05, followed by 127.20. Overall, only a breach of the 55-day exponential moving average (currently at 133.70) would indicate that USD/JPY is not weakening further.

USD/CNH: 6.8150

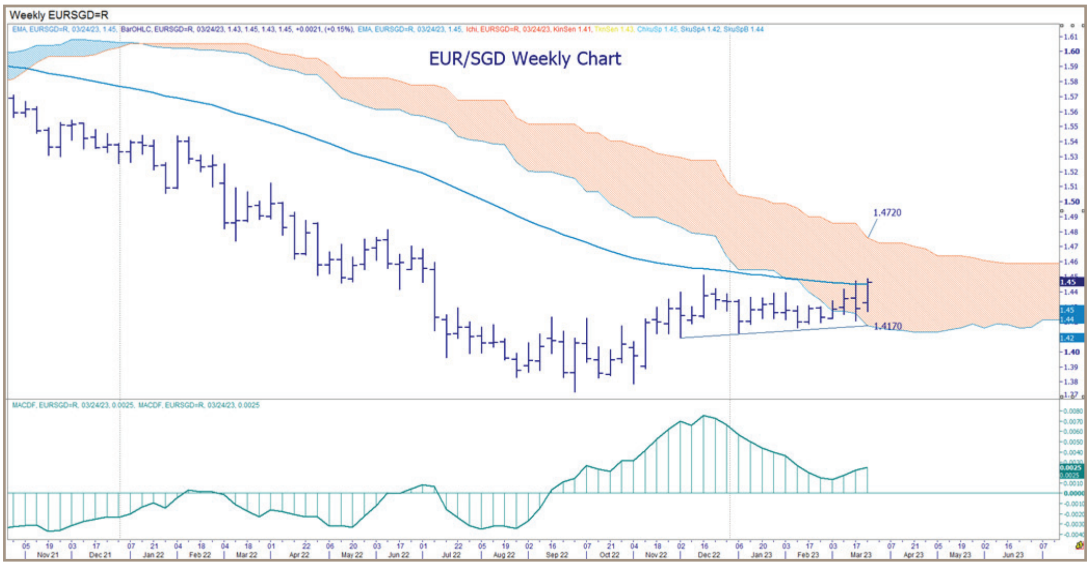
Outlook for USD/CNH for negative; it is likely to break the support levels at 6.7860 and 6.7650. The next significant support zone is at 6.6980.



USD/CNH fell sharply at the time of writing in late Mar and appears poised to break below the bottom of the daily Ichimoku cloud support. In view of the strong downward momentum, USD/CNH is likely to break the bottom of the weekly Ichimoku cloud (currently at 6.7860) and the rising trendline support as well (currently at 6.7650). The next significant support level is at early the Jan low, near 6.6980. The negative outlook is intact as long as USD/CNH stays below 6.8880.

EUR/SGD: 1.4470

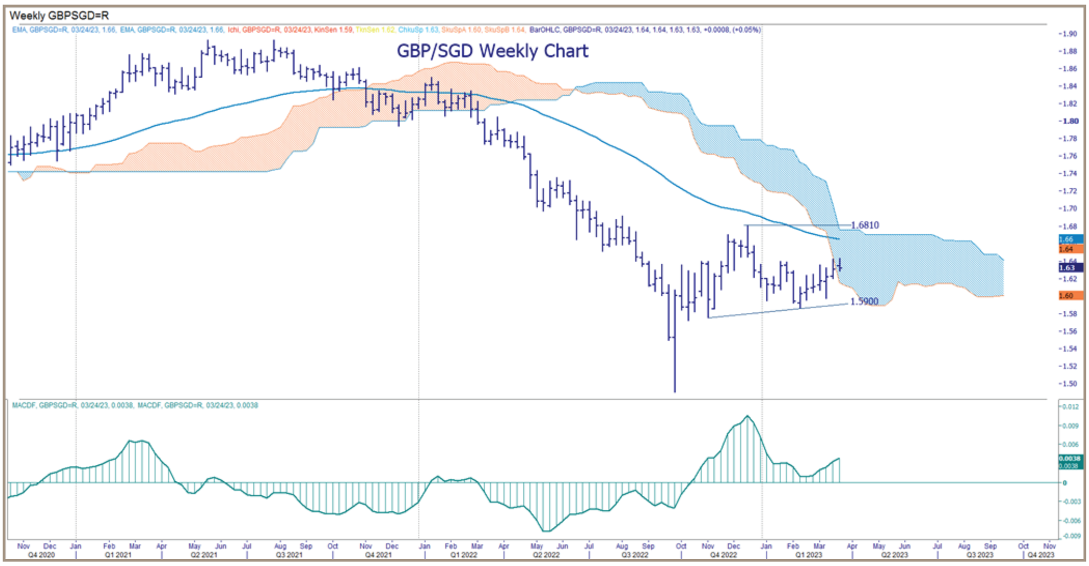
EUR/SGD is likely to edge higher but the chances of it breaking the significant resistance level at 1.4720 are not high.



EUR/SGD has traded mostly sideways for most of 1Q23. However, upward momentum appears to be building and EUR/SGD is likely to edge higher going into the second quarter. That said, 1.4720 (top of the weekly Ichimoku cloud) is significant resistance level at the chances of EUR/SGD breaking this level are not high. On the downside, strong support is located at 1.4170.

GBP/SGD: 1.6330

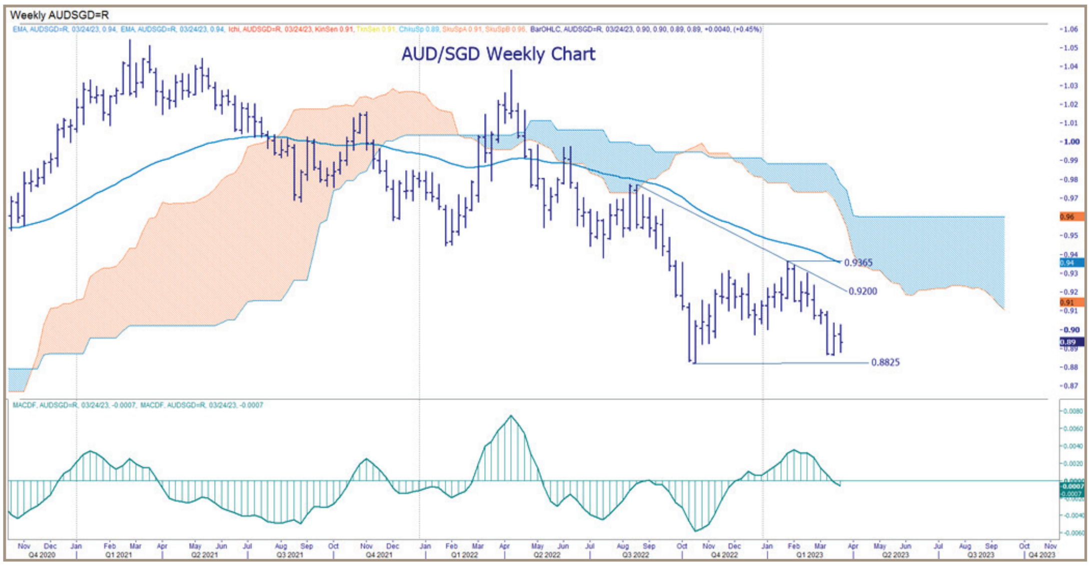
GBP/SGD is likely to consolidate and trade between 1.5900 and 1.6810.



GBP/SGD has moved into the weekly Ichimoku cloud at the time of writing. While the underlying tone appears to be firm, the price actions are likely part of a broad consolidation range. Going into 2Q23, GBP/SGD is likely to trade between the two major levels of 1.5900 and 1.6810.

AUD/SGD: 0.8865

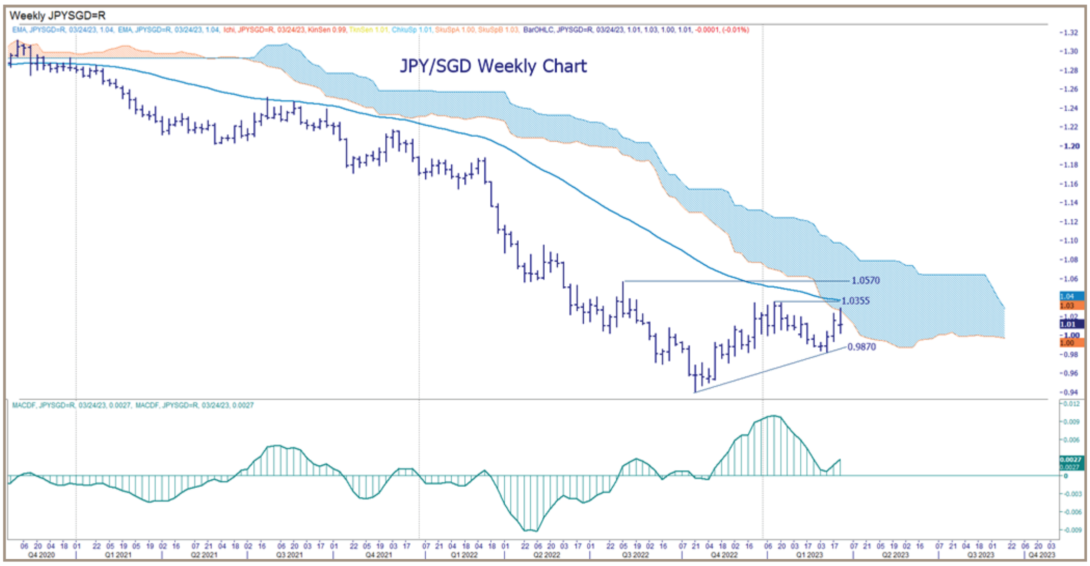
AUD/SGD could drop below the 2022 low of 0.8825, though it remains to be seen if it can maintain a foothold below this level.



While the weekly MACD has turned negative, AUD/SGD has not made much headway on the downside. However, AUD/SGD could fall below the 2022 low of 0.8825, though it remains to be seen whether it can maintain a foothold below this major support level. On the upside, resistance is at 0.9200, followed by a major level at 0.9365. The latter level is unlikely to come under threat, at least not for the first part of 1Q23.

JPY/SGD: 1.0120

JPY/SGD could edge higher but it is unlikely to break the next resistance level at 1.0570.

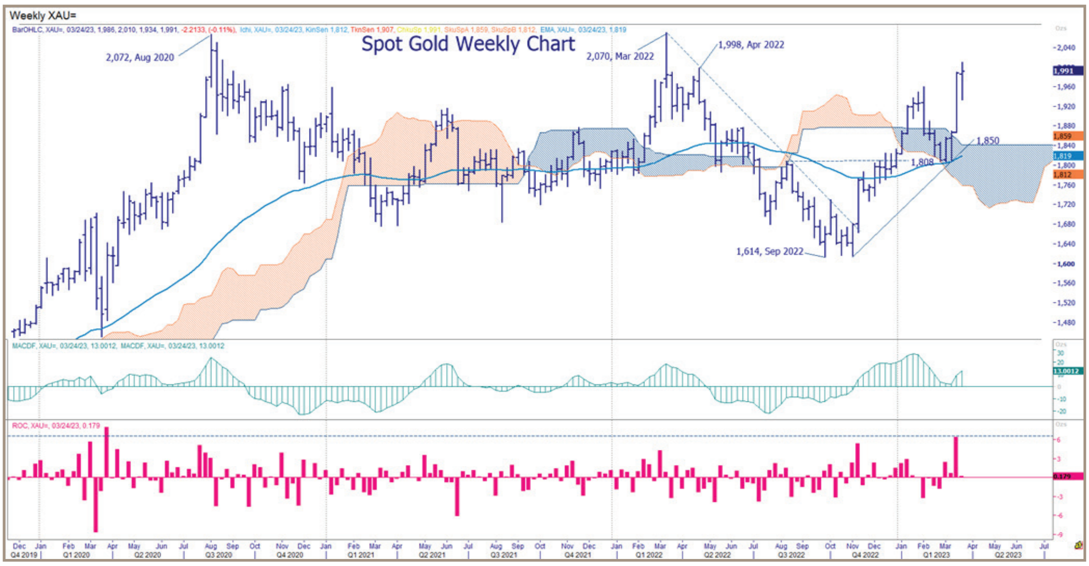


The overall price action in JPY/SGD since late 2022 appears to be part of a recovery phase (after the outsized decline in 2021). Upward momentum, while positive, is not strong for now. Going into 2Q23, JPY/SGD could edge above 1.0355. In view of the lackluster momentum, the likelihood of JPY/SGD breaking the next resistance at 1.0570 is not high. Support-wise, a break of 0.9870 would suggest JPY/SGD could trade sideways for a period of time.

Commodities Technicals

Spot Gold
$1,990/oz

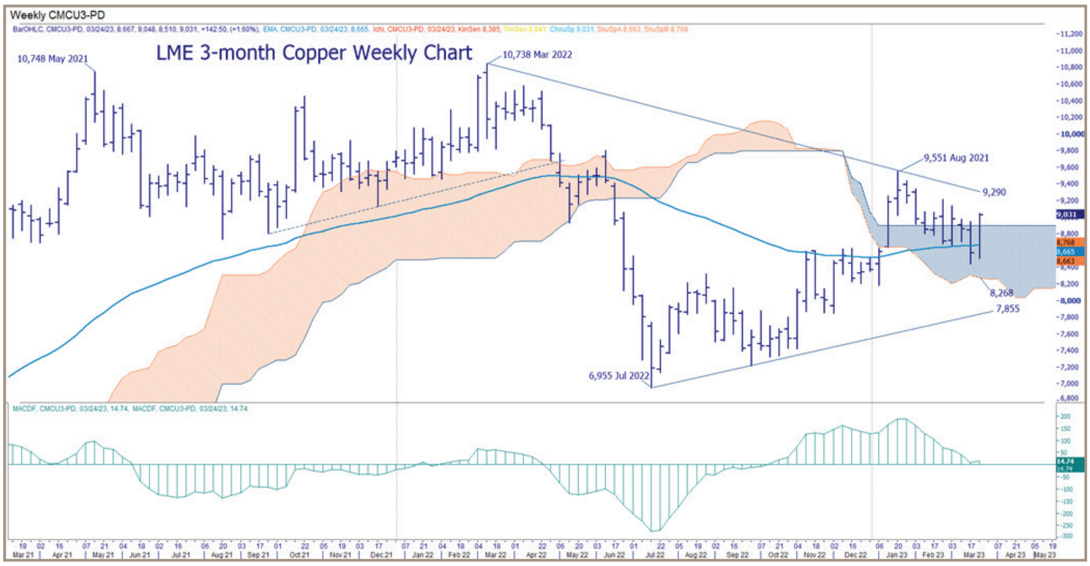
Rapid increase in momentum suggests there is potential for spot gold to advance in 1Q23 but it is premature to expect a break of the major long-term resistance at $2,070.



In mid-Mar, spot gold jumped and posted its largest 1-week gain in two years. The rapid increase in momentum suggests spot gold is likely to advance further going into the second quarter of this year. That said, it is premature to expect a break of the major and long-term resistance level near $2,070. Support is at the rising trendline, currently at $1,850.

LME 3-mth Copper
$9,031/mt

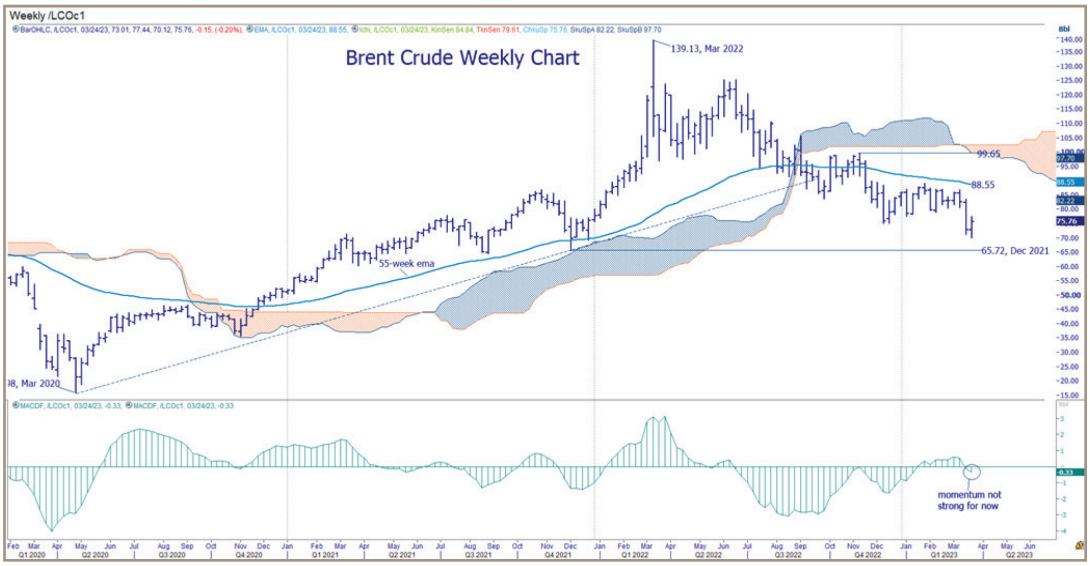
Copper could break the resistance at $9,290; it is too soon to expect the year's high at $9,551 to come back into view.



The 3-mth copper rose sharply but briefly to a high of $9,551 in Jan this year. The pullback from the high appears to be corrective. In other words, there is room for copper to advance in 2Q23. A break of the trendline resistance (currently at $9,290) is not ruled but it is too soon to expect $9,551 to come back into view. Support is at $8,268, followed by $7,855. The latter level is unlikely to come under threat in 2Q23.

Brent Crude
$75.70/bbl

Brent has room to fall but it remains to be seen whether it has enough momentum to break the Dec 2021 low near $65.70.



Brent crude traded sideways for most of 1Q23 before dropping sharply in mid-March. Downward momentum is beginning to build but it is not strong for now. Brent has room to fall in the second quarter of this year, but it remains to be seen whether it has enough momentum to break the 2021 low near $65.70. On the upside, a breach of the 55-week exponential moving average (currently at $88.55) would indicate that the buildup in downward momentum has fizzled out.

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