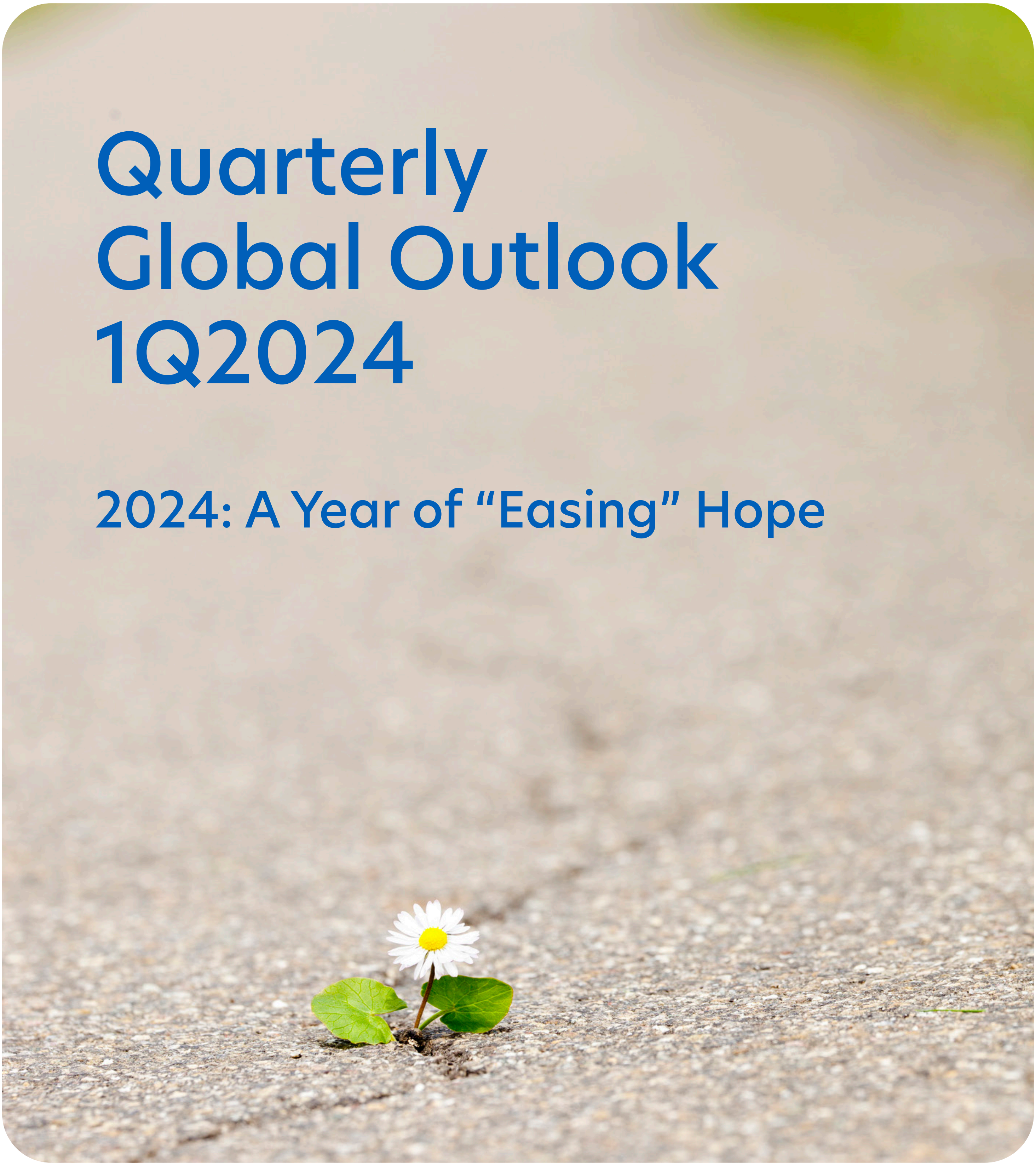
UOB

Quarterly Global Outlook 1Q2024

2024: A Year of “Easing” Hope



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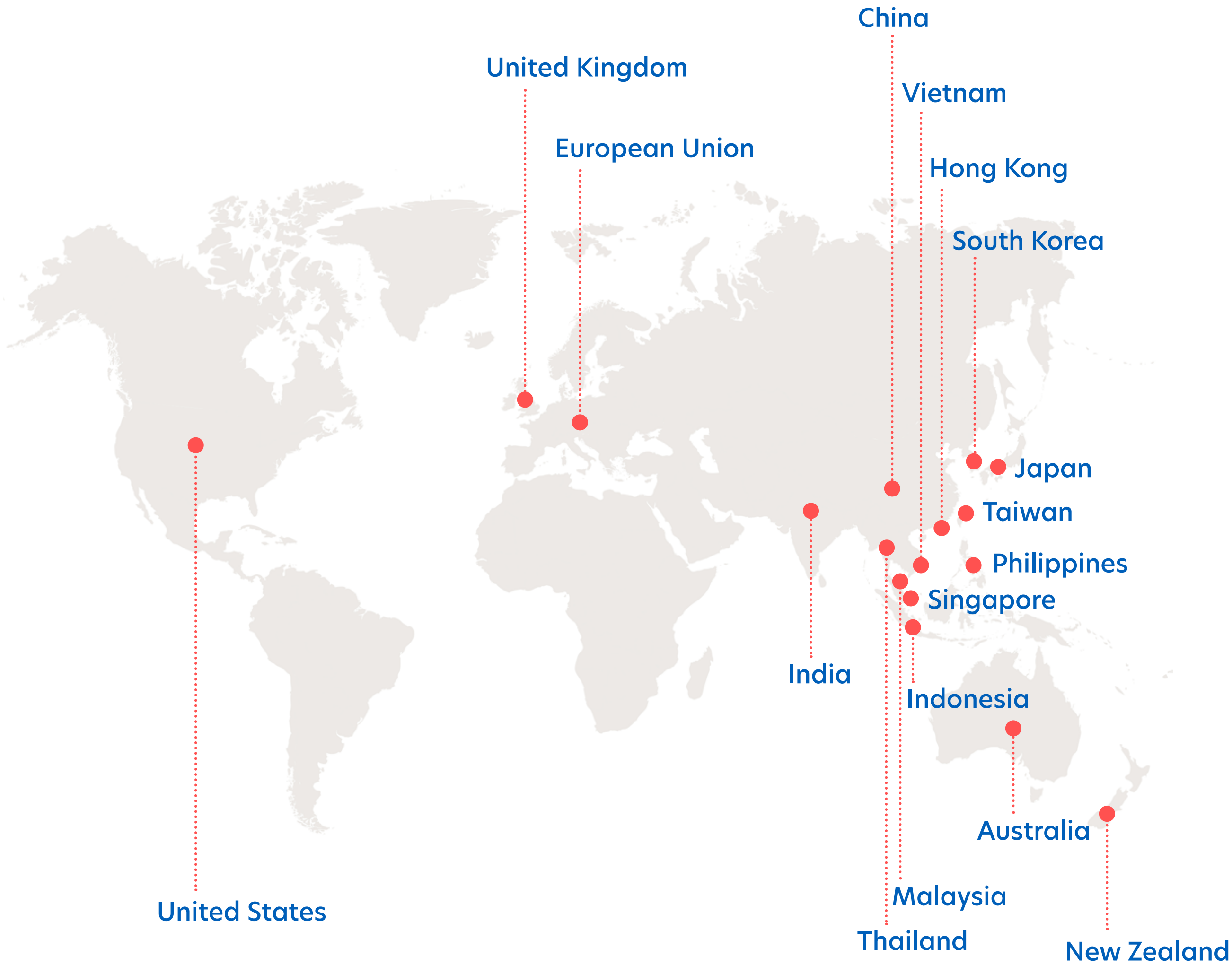
CONTENT

Outlook by Economies
Click on the economy to view insight



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EXECUTIVE SUMMARY

2024: A year of "easing"hope

As 2023 comes to an end, and we look forward to 2024, we set out some of the key themes that define our macroeconomic outlook in the new year.

The main theme for 2024 will be the expectations for easing of interest rates by the Federal Reserve (Fed) starting in mid-2024. This is set against the backdrop of slowing US growth as inflation stabilises further. Other major central banks are likely to follow suit with differing timelines. As for the Bank of Japan, we expect the long-awaited normalisation of monetary policy to take place in early 2024, without any disorderly consequences.

While recent data points to improvement, China's situation remains challenging with growth likely to stay soft in 2024 and that there will be a ramp-up of policy support measures to manage risk.

Lastly, ASEAN economic growth is expected to stabilize with external trade cycle bottoming for the region but the recovery may be lacklustre due to China's slowdown. We remain positive on ASEAN fundamentals and outlook in the medium and long term.

Another key development to watch will be the flurry of general elections in store for 2024 alongside the ongoing military conflicts in Eastern Europe and Middle East.

Slower US growth amidst easing inflation

Using the six key US economic indicators monitored by the National Bureau of Economic Research (NBER), which is the arbiter of US recession, the broad picture (Chart 1) seems to indicate that US economic growth is nearing or already at the peak. After a consumption-driven 5.2% expansion in 3Q 2023, US GDP growth is set to slow into the final 3 months of 2023 and likely to turn negative in 1H 2024 as the lagged effects of US monetary policy tightening and tighter financial/credit conditions take a more significant grip, negatively affecting business investment as interest expenses rise while for US households, the shrinking excess savings, tighter lending standards and the resumption of student loans repayments imply US consumers spending will come under pressure.

We expect the US growth slowdown to be more apparent in 1H 2024 with a technical recession (i.e. two consecutive quarters of q/q declines) but a soft landing remains possible in our base case. And inferring from the last four Fed rate hike cycles, we noted that a recession typically started between 9 and 17 months after the first Fed pause. In the current cycle, the Fed has been on pause since the last 25-bps hike in Jul 2023 (Chart 2). That said, we do not expect deep recession or an outright contraction of annual GDP due to the absence of any acute financial imbalances. Instead, we expect US growth to slow to 1% in 2024, after a projected 2.4% in 2023.

Chart 1: Six key US economic indicators broadly show US economy nearing or already at peak growth

Source: Macrobond, UOB Global Economics & Markets Research

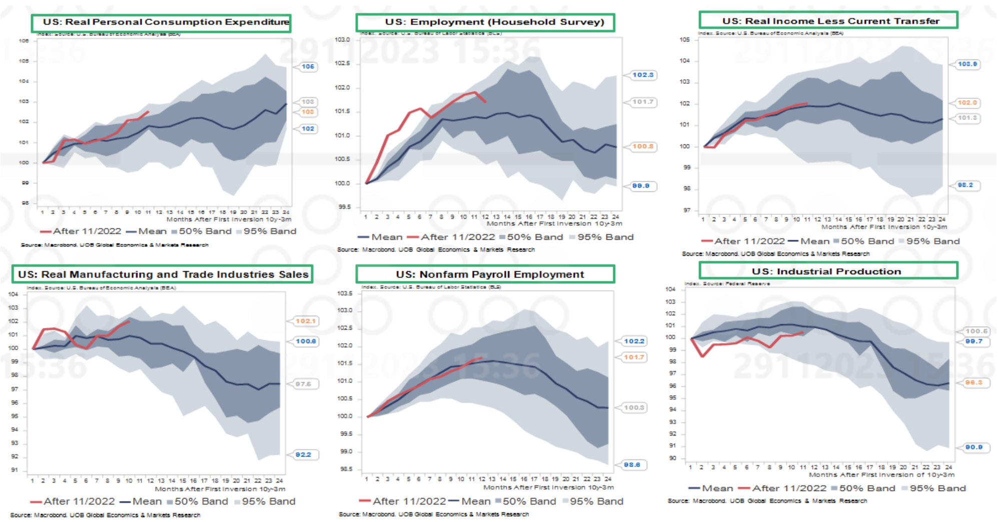


Chart 2: Based on history, a US recession would hit 9-17 months after the first Fed pause

Source: Macrobond, UOB Global Economics & Markets Research

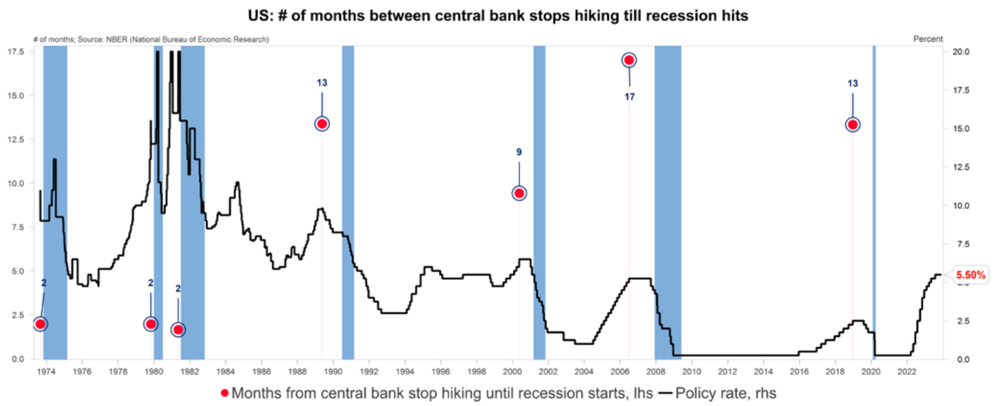


Table 1: US GDP growth forecasts – recession risks pick up in 2024 but soft landing still possible	1Q	2Q	3Q	4Q	Full Year
% q/q SAAR					
2023	2.2	2.1	5.2	1.0	--
2024	-0.6	-1.2	2.8	2.0	--
% y/y					
2023	1.7	2.4	3.0	2.6	2.4
2024	1.9	1.1	0.5	0.7	1.0

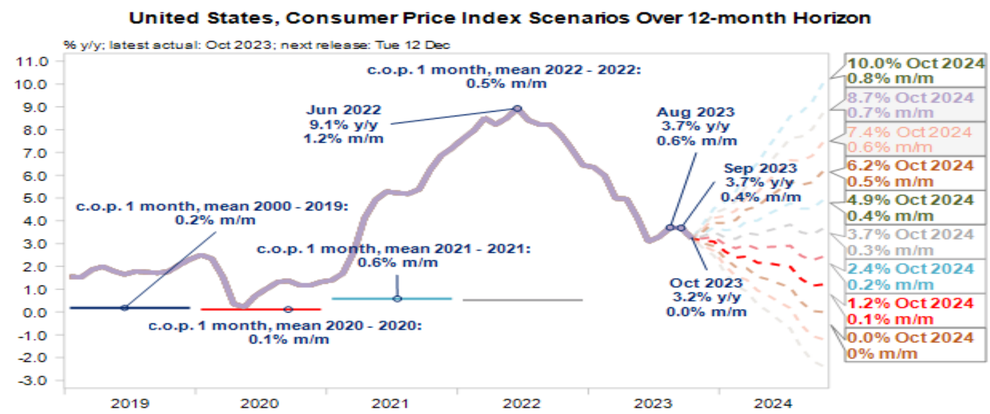
Source: BEA, Macrobond, UOB Global Economics & Markets Research

The next important question is where inflation may be heading to in 2024. The latest Oct CPI prints from US suggest that inflation continued to ease (in y/y terms) although core inflation remains stickier than headline. Subsequently, we expect US inflation to ease in 2024, with headline expected to average at 2% but core CPI still likely average above the "gold-standard" 2% objective, at 2.2% for 2024. We remain wary of US price risks from several potential inflation shocks including wage pressures arising from labor-employer tensions, resurgence in global energy prices, and renewed disruptions in supply chains.

We illustrate in a simple graph below where US inflation may be in 12 months' time. If the m/m pace stayed positive but at a more moderate 0.1% for next 12 months (it was 0.0% in Oct versus the 0.3% average in Jan-Sep), then inflation will ease to 1.2% y/y in Oct 2024. If it is 0.2%, then that will imply that inflation will be 2.4% y/y by Oct 2024. In a more extreme scenario where the m/m pace spikes higher than 0.7%, then inflation will exceed the recent high of 9.1% y/y recorded in Jun 2022. That is not anywhere near our central scenario. Instead, based on recent trends, we believe the US inflation path is tracking towards the Fed's 2% objective.

Chart 3: US CPI inflation (% y/y) projections - tracking towards 2% target

Source: Macrobond, UOB Global Economics & Markets Research

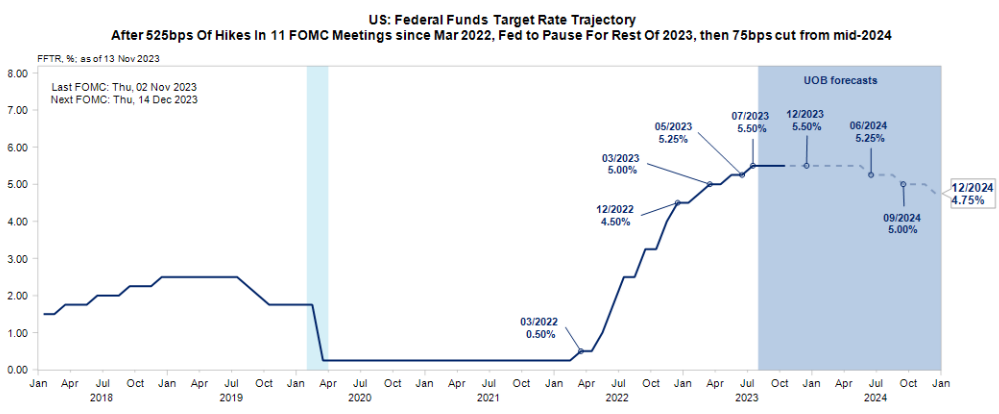


Our Fed view for 2024: 75bps of cuts

It is the combination of slower growth and stabilising inflation that drives the thinking of our Fed outlook in 2024. We expect the Fed to keep its current Fed Funds Target Rate (FFTR) range unchanged at 5.25-5.50% in Dec 2023 FOMC and maintain this terminal FFTR level till mid-2024 when we price in 75 bps of rate cuts for 2024 (i.e. three 25-bps cuts in Jun 2024, 3Q 2024 and 4Q 2024). With a US soft landing remains our central scenario, we do not expect an aggressive series of Fed cuts to counteract the prior aggressive hike cycle.

Chart 4: UOB's projected US Federal Funds target rate trajectory (as of 30 Nov 2023)

Source: Macrobond, UOB Global Economics & Markets Research



Other major central banks on the easing path, while BOJ may finally begin normalisation

Other than the Fed, it would also be a year of easing for most of the major central banks albeit likely differing timelines. The first off the block could be the Reserve Bank of New Zealand (which was one of the first central banks to hike rates in Oct 2021) sometime in 2Q 2024, followed by the Reserve Bank of Australia and Bank of England, both in 3Q 2024. The European Central Bank may only cut policy rates in 4Q 2024, as ECB policymakers may require more assurance of inflation under control at the cost of weaker growth for longer.

The BOJ is now the only major central bank that still maintains negative benchmark rate at -0.1%. But the "last central bank standing" is now poised to normalise monetary policy in 2024, in direct contrast to the other major central banking heading the opposite direction. We expect BOJ's monetary policy normalisation to begin in early 2024. First will be for its negative policy call rate to rise from -0.1% to 0% in Jan 2024 MPM, followed by Yield Curve Control (YCC) to be dropped later in Mar 2024 MPM. Admittedly, BOJ Gov Ueda's emphasis of 2024's Shunto (Spring wage negotiations between major corporations and unions that take place every Mar) as a key event for the BOJ may kick the "normalisation can" down the road by one quarter (i.e 2Q24 instead of 1Q24). Additionally, the challenging growth outlook adds further risk to a delay to our projected timeline for BOJ normalisation in early 2024. Notwithstanding the uncertain timeline even at this juncture, we expect the BOJ to provide clear forward guidance for the event to the markets and avoid any disorderly outcome.

China's outlook for 2024: Weaker growth with more policy easing to come

China's recent economic data continued to improve but consumer confidence remains fragile and the growth outlook for 2024 weak. Manufacturing and services sectors' activities continued to recover but real estate posed a significant drag. Land sales (which in the past was a key driver of local government revenue) has been sluggish because of the property sector woes, and thus further impacting on growth. Meanwhile, on-going trade tensions with the US will continue to drive supply-chain diversification as companies continue to shape their "China+1" or "China+N" strategy. We expect GDP growth to slow to 4.5% in 2024, from a projected 5.2% in 2023. Policy support will be ramped up in 2024 to manage risks including interest rate and reserve requirements ratios (RRR) cuts, property market stimulus measures and expansionary fiscal policy. The surge in liquidity injections in 4Q 2023 may have delayed further rate cuts, but we expect 1Y and 5Y loan prime rates (LPR) to be cut by 10 bps to 3.35% and 4.10% respectively in 1Q 2024, and held at those levels for the remainder of the year.

ASEAN's external trade bottoming and showing signs of a recovery

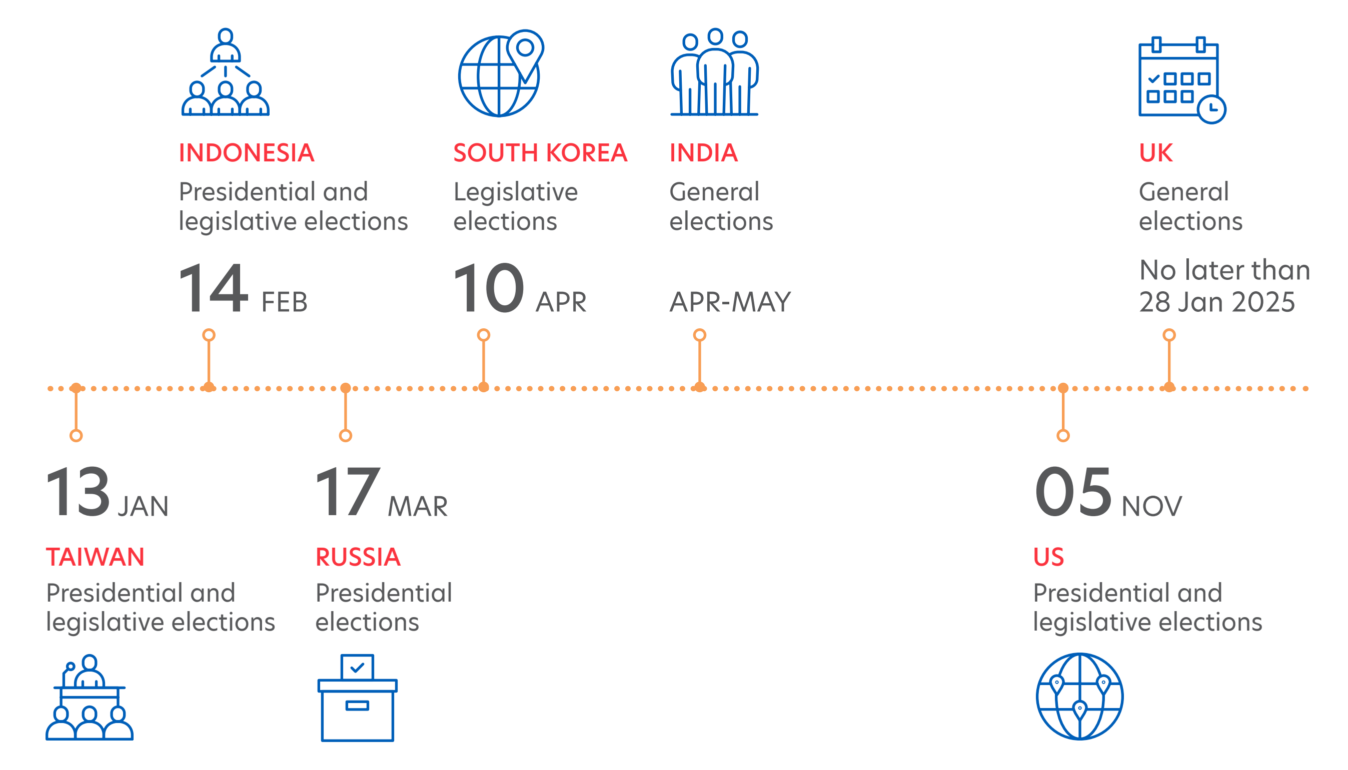
Some good news from ASEAN as the downturn in regional trade may have found its bottom and is showing signs of recovery albeit with a bumpy pace with East Asia's export recovery leading the ASEAN-6. A key catalyst is the global electronics cycle bottoming out, while a sustained and robust recovery in global semiconductor sales will also benefit heavy electronics & electrical (E&E) exporting countries in East Asia and ASEAN. A not-so-bright-spot is the weak outlook for China which may slow the recovery pace. Please see ASEAN Focus II for a more in-depth discussion of the ASEAN trade recovery in 2024.

Of war and important elections

Another year, another war. Beyond growth and inflation worries, 2024 will also present much geopolitical uncertainty. The geopolitical event of 2023 was the Israel-Hamas war, and despite the on-going truce (since 23 Nov 2023), the war is far from ending and likely to extend well into 2024. While it remains our base case for this conflict to be contained, we do see a non-negligible risk that it may escalate and spread to other parts of Middle East and involve major oil producers like Iran, which could risk endangering crude oil supply and further providing a renewed boost for oil prices.

In addition, 2024 will bring forth many important general elections. In Asia, Taiwan, Indonesia and India are top of mind. UK's general election is not due till 28 Jan 2025, but PM Sunak could bring it forward to hold the election sometime in 2024. Russian President Putin is likely to be elected in Mar without obstruction. The most consequential election is likely the US Presidential Elections in Nov, where there is a real possibility of Donald Trump returning as President. This is viewed as a challenge for 2025 onwards, not 2024. While Trump may further harden his stance against China, he may also likely be very vocal about elevated interest rates and pressure the Fed to lower rates further in 2025. So a Trump victory may mean a lot of things, especially his incessant pressure on Powell for lower rates in 2025, just as he did in 2018/2019.

General Elections In 2024



FX STRATEGY

Path is clear for USD weakness in 2024

We are confident that DXY has already peaked at around 107 in 4Q23. Next year, as expectations for US Federal Reserve's (Fed) rate cut intensify, there is scope for further weakness of the USD against Major FX peers alongside lower US rates. Should there be a sharper US slowdown that necessities more than 3 rate cuts in 2024 (our base case), there is likely downside risks to our current set of USD forecasts. In line for expectations of a weaker USD, our forecasts call for stronger EUR/USD, GBP/USD and AUD/USD to 1.16, 1.32 and 0.70 respectively by 4Q24. Similarly, we can expect USD/JPY to trade lower to 135 by 4Q24 as the BOJ normalizes its monetary policy as well, providing the impetus for a lower USD/JPY.

Similarly for Asia FX, it is likely that the USD will trade softer against Asia FX peers across 2024 especially when Fed rate cuts gradually come into focus. Specifically, the prevailing pessimistic views and sentiments on China's economy may be at their extreme. It looks increasingly likely the USD/CNY has peaked around 7.32 in 4Q23 and will trade lower across 2024 to 6.80 by 4Q24. In addition, after contracting for most part of 2023, we also expect exports growth to recover in the respective Asian countries and to post decent growth in 2024. This anticipated cyclical recovery in Asian exports will be a positive tailwind for Asia FX next year. As such, we see USD/MYR, USD/THB, USD/IDR, USD/VND and USD/SGD pulling back to 4.45, 33.30, 14,800, 23,500 and 1.30 respectively by 4Q24.

RATES STRATEGY

Lower outright rates amidst monetary policy easing across 2024

For short term rates, we expect easing monetary policy to be the main theme of 2024. As such, lower outright yield, steeper yield curve and smaller SG yield discount will feature in this new monetary policy regime. In line with our macroeconomic team's expectation of 75 bps rate cuts from the Fed across 2024, we see 3M compounded in arrears SOFR and SORA drifting lower to 4.73% and 3.28% by 4Q24, from prevailing levels of about 5.35% and 3.75% respectively.

However, for the longer end of the curve, we have the 10Y UST and SGS yields at 4.00% and 3.00% respectively by 4Q24. We forecast bond yields in the near term as staying sticky around prevailing levels. Yield declines in Nov have reversed Oct's rise, nonetheless some factors that drove the run up in yields remain substantially unchanged. These include: large US deficit, expectations of BOJ policy normalization de-anchoring low yields, and US economic resilience. In particular for the SG long term yield, our forecast assumes that the long-term relationship of SG rates adjusting lower to a lesser degree to US rate changes will continue to hold into 2024. Our forecast builds this in through narrowing SG yield discounts over time.

COMMODITIES STRATEGY

Sustained break for gold above USD 2,000/oz now within sight

We keep our positive view for gold for a sustained move above USD 2,000 / oz. The anticipated retreat in both the USD and interest rates across 2024 are key positive drivers for gold. Concurrently, while sovereign demand for gold remains strong from Asia and EM central banks, gold investments from retail investors are only just starting to bottom. Specifically, ETF holdings in gold appear to have bottomed at the year's low. This should bode well for gold as retail interest return. Over the long run, gold remains a key portfolio diversifier of risk. We therefore update our forecast for gold to USD 2,050 / oz in 1Q24, USD 2,100 / oz in 2Q24, USD 2,150 / oz in 3Q24 and USD 2,200 / oz in 4Q24.

The latest OPEC meeting ended with a fair amount of confusion. While the group claimed to commit to an additional 2.2 mio bpd of production cuts, full details of individual country quotas were lacking. Saudi Arabia did extend its 1 mio bpd production cut to end 1Q24, while Iraq, UAE, Kuwait, Kazakhstan, Algeria and Oman also joined with their additional cuts. But there remains confusion over the distribution of the rest of production cuts and this raised concerns on overall adherence to the production cuts. As such, we maintain our positive outlook for Brent crude oil, but adjust our positive price forecasts to more modest levels of USD 85 / bbl in 1Q and 2Q24 and USD 90 / bbl in 3Q and 4Q24. The USD 80 / bbl price level is likely to offer good support as it is perceived to be a key "line in the sand" for OPEC+.

As for LME Copper, we maintain our negative outlook. The sharp retreat in 3M vs Cash spread into a deeper discount is worrying and symptomatic of weak near term demand. Weak construction demand from China as well as risk of increasing surplus in refined balance in the months ahead as flagged by the International Copper Study Group (ICSG) are key negative drivers for LME Copper. Our updated forecast for LME Copper are USD 8,000 / MT in 1Q and 2Q24 and USD 7,000 / MT in 3Q and 4Q24.

ASEAN FOCUS I

Strategic transformation is called for to uplift potential growth

GDP growth in ASEAN-5 has averaged slightly lower over the past two decades this century. Rising global uncertainty and disruptions to multilateral trade would probably call for ASEAN to look inward to find new growth opportunities to uplift its potential growth from here.

As the region emerged from the COVID-19 recession, strategic transformations are called for to uplift the region's potential growth but must be done together in a concerted manner. First, the region should capitalize and enforce the promulgation of ASEAN economic community (AEC) more into action. Second, the relatively more mature economy but with lack of space and labor supply like Singapore but capital-rich, could consider channelling through many FDIs that has poured into the country to its neighbouring countries. Third and finally, as the first two strategic transformations likely to bring about higher income to the ASEAN region, the rising middle class in the region would enjoy higher purchasing power which will in turn transform the region more into a great force of consumption hub.

All in all, together as a group, ASEAN could cooperate on strategic transformations to turn their challenges into potentially new growth engine that will likely uplift their growth potential, better quality, and more sustainable in the future.

ASEAN FOCUS II

Goods trade – green shoots sprouting

The downturn in regional trade has likely found its bottom and is showing signs of recovery albeit with a bumpy pace with East Asia's export recovery leading the ASEAN-6. Improved import demand observed across key Asian countries further underpins domestic demand as a key driver of regional growth amid improving labour markets and domestic policy support.

With an upturn in the global tech cycle aiding overall exports in Asia including ASEAN-6 countries, a sustained and robust recovery in global semiconductor sales will benefit heavy electronics & electrical (E&E) exporting countries in East Asia and ASEAN, particularly Japan, Hong Kong, Taiwan, Vietnam, Malaysia and Philippines next year.

We see a brighter overall trade outlook for 2024 given the expected global tech upcycle and stabilising commodity price prospects as the effect of the Middle East conflict on commodity prices have been muted thus far. Ongoing voluntary oil production cuts by OPEC+, US plans to replenish its Strategic Petroleum Reserves which is currently at its lowest levels since 1980s and expectations for China's oil demand to stay positive could support commodity prices. That said, we remain vigilant against potential sanction risks as many key countries are due to hold their presidential or general elections next year.

Global FX

USD/JPY: The USD's rate advantage is set to decline further as Fed rate cut expectations intensify in 2024, weighing further on USD/JPY. Eventual BOJ policy normalisation in 2024 would be the icing on the cake that would secure a lower USD/JPY trajectory. Furthermore, topside in USD/JPY is likely limited due to intervention worries. Overall, our updated USD/JPY forecast are at 146 in 1Q24, 142 in 2Q24, 138 in 3Q24, 135 in 4Q24.

EUR/USD: Markets' repricing of Fed rate cuts in 2024 continues to be the key driver of EUR/USD going forth. We expect a further narrowing of the rate spread which will be a tailwind for EUR/USD, especially where we expect the ECB to begin rate cuts later (in 4Q24) compared to the Fed (Jun 2024). Overall, we keep to our upward trajectory in EUR/USD and expect the pair at 1.11 in 1Q24, 1.13 in 2Q24, 1.15 in 3Q24 and 1.16 in 4Q24.

GBP/USD: Overall, we reiterate a positive outlook for GBP/USD though the uncertain economic outlook may limit gains. Our updated forecasts are at 1.28 in 1Q24, 1.30 in 2Q24, 1.31 in 3Q24 and 1.32 in 4Q24.

AUD/USD: From here, as pessimism on China eventually peaks and the extensive set of policy support from Chinese authorities works its way into the underlying economy, CNY and hence AUD will likely receive a boost. Renewed USD weakness as the Fed embarks on its rate cut cycle in 2024 will likely catalyze AUD/USD upside as well. Overall, our updated AUD/USD forecasts are at 0.67 in 1Q24, 0.68 in 2Q24, 0.69 in 3Q24 and 0.70 in 4Q24.

NZD/USD: While the current bout of USD weakness is likely to carry over into the new year, further gains in NZD/USD may be capped by a low growth outlook and our expectations of that RBNZ may cut rates sooner (in 2Q24) than its own projections. Overall, our updated NZD/USD forecasts are 0.63 in 1Q24, 0.64 in 2Q24, 0.65 in 3Q24 and 4Q24.

Asian FX

USD/CNY: While China's tail-risks gradually recede and the prevailing pessimistic views and sentiments on China may be at their peak, the eventual recovery in CNY hinges on the broad USD trend. The catalyst for a CNY rebound will likely come next year as Fed's rate cut speculation intensifies and USD weakens anew. It looks increasingly likely the USD/CNY has peaked around 7.32 in 4Q23 and will trade lower across 2024 as we previously expected. Overall, our updated USD/CNY forecasts are at 7.10 in 1Q24, 7.00 in 2Q24, 6.90 in 3Q24 and 6.80 in 4Q24.

USD/SGD: Alongside a broad-based Asia FX recovery, we expect the SGD to strengthen further against the USD. However, the outperformance of the SGD relative to its S$NEER peers may start to falter due to our expectation of a gentler policy slope next year. Our updated USD/SGD forecasts are 1.32 in 1Q24, 1.31 in 2Q24, 1.30 in 3Q24 and 4Q24.

USD/HKD: Next year, as Fed rate cuts gradually come into focus, broad USD weakness is likely to keep USD/HKD tethered around 7.80 over the next quarters of 2024. The previous regime of USD strength near 7.85 HKD in the past two years is likely a thing of the past.

USD/TWD: In 2024, we expect the TWD to gain further against the USD alongside a broad-based Asia FX recovery. As the Fed cuts rates in 2024 while the CBC holds, the interest rate advantage of USD over the TWD would narrow as well. Overall, our updated USD/TWD forecasts are at 30.8 in 1Q24, 30.4 in 2Q24, 30.0 in 3Q24 and 29.6 in 4Q24.

USD/KRW: In 2024, the KRW recovery trend is likely to continue as China's rhetoric gradually improves and USD weakens anew due to Fed rate cut prospects. Our updated USD/KRW are at 1,280 in 1Q24, 1,260 in 2Q24, 1,240 in 3Q24 and 1,220 in 4Q24.

USD/MYR: A subsequent recovery in CNY next year and a peak in US Fed rates followed by expected rate cuts from Jun 2024 onwards would be key determinants to the MYR performance in 2024. Meanwhile, we expect a further recovery in the MYR as we enter 2024. Our USD/MYR forecasts are 4.60 in 1Q24, 4.55 in 2Q24, 4.50 in 3Q24 and 4.45 in 4Q24.

USD/IDR: In 2024, the interest rate gap may start to improve in IDR's favour as we expect BI to keep rates elevated at 6.25% while we expect the Fed to deliver rate cuts totaling 75 bps from Jun 2024. This is likely a key factor driving bond inflows and hence underpinning IDR stability amidst a stable growth and inflation outlook. Overall, we expect IDR to catch up with the regional FX recovery after election-related uncertainties recede after 1Q24. Our updated USD/IDR forecasts are at 15,400 in 1Q24, 15,200 in 2Q24, 15,000 in 3Q24 and 14,800 in 4Q24.

USD/THB: In 2024, THB is likely to draw further strength from idiosyncratic factors such a moderate growth outlook, current account surplus, stable interest rate profile and a sustained tourism recovery support. This puts THB as one of the likely outperformers within ASEAN next year. Overall, our updated USD/THB forecasts are 34.8 in 1Q24, 34.3 in 2Q24, 33.8 in 3Q24 and 33.3 in 4Q24.

USD/PHP: In sum, we project the PHP to follow the broad Asia FX trajectory, normalising lower albeit at a more moderate pace starting 1Q24 as broad USD weakness intensifies in tandem with expectations of a peak in Fed rates followed by Fed easing from mid-2024. We update our USD/PHP forecasts at 55.2 in 1Q24, 54.8 in 2Q24, 54.4 in 3Q24 and 54.0 in 4Q24 (from the previous forecast range of 53.0-56.0).

USD/VND: Like other Asian peers, it appears that the bulk of the recent VND selloff is over. USD/VND has retraced lower after meeting our 4Q23 forecast of 23,500 in Oct after the Fed signaled a possible end to its rate hike cycle. While VND may follow the broad Asia FX recovering trend, gains may be limited by the modest economic rebound in 2024. Overall, our updated USD/VND forecasts are at 24,000 in 1Q24, 23,800 in 2Q24, 23,600 in 3Q24 and 23,500 in 4Q24.

USD/INR: Eventually, we expect INR to participate in the Asia FX recovery next year as China slowdown worries recede and broad USD weakness exert. Our updated USD/INR forecasts are 83 in 1Q24, 82 in 2Q24, 81 in 3Q24 and 80 in 4Q24.

OUR FORECASTS

Real GDP Growth

y/y% change	2022	2023F	2024F	1Q23	2Q23	3Q23	4Q23F	1Q24F	2Q24F	3Q24F	4Q24F
China	3.0	5.2	4.5	4.5	6.3	4.9	5.2	4.4	4.8	4.6	4.4
Hong Kong	-3.5	3.5	2.5	2.9	1.5	4.1	5.5	0.8	3.1	3.5	2.7
India (FY)	9.1	7.2	6.9	13.1	6.2	4.5	6.1	7.8	7.6	6.9	5.4
Indonesia	5.3	5.1	5.2	5.0	5.2	4.9	5.1	5.1	5.3	5.1	5.3
Japan	0.9	1.5	1.0	2.0	1.7	1.2	0.9	0.4	0.1	1.3	2.4
Malaysia	8.7	4.0	4.6	5.6	2.9	3.3	4.0	4.3	4.8	4.9	4.5
Philippines	7.6	5.7	6.5	6.4	4.3	5.9	6.0	6.2	6.5	6.6	6.6
Singapore	3.6	0.9	2.9	0.5	0.5	1.1	1.7	2.3	2.7	3.0	3.5
South Korea	2.6	1.4	2.5	0.9	0.9	1.4	2.2	2.7	2.6	2.4	2.4
Taiwan	2.6	1.4	3.5	-3.5	1.4	2.3	4.8	5.3	4.2	3.0	1.6
Thailand	2.6	2.3	3.6	2.6	1.8	1.5	3.4	3.5	3.6	3.8	3.4
Vietnam	8.0	5.0	6.0	3.3	4.1	5.3	7.0	5.5	6.0	6.5	6.0
Australia	3.7	1.6	1.2	2.4	2.1	1.2	1.0	1.0	0.9	1.3	1.8
Eurozone	3.5	0.5	0.6	1.2	0.5	0.1	0.2	0.1	0.4	0.8	1.1
New Zealand	2.5	1.1	0.9	2.2	1.8	0.2	0.3	0.5	0.6	1.0	1.6
United Kingdom	4.5	0.5	0.4	0.5	0.6	0.6	0.4	0.3	0.3	0.4	0.8
United States (q/q SAAR)	1.9	2.4	1.0	2.2	2.1	5.2	1.0	-0.6	-1.2	2.8	2.0

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

FX, Interest Rates & Commodities

FX	30 Nov	1Q24F	2Q24F	3Q24F	4Q24F
USD/JPY	148	146	142	138	135
EUR/USD	1.09	1.11	1.13	1.15	1.16
GBP/USD	1.27	1.28	1.30	1.31	1.32
AUD/USD	0.66	0.67	0.68	0.69	0.70
NZD/USD	0.62	0.63	0.64	0.65	0.65
DXY	103.30	102.2	100.3	98.6	97.6
USD/CNY	7.14	7.10	7.00	6.90	6.80
USD/HKD	7.81	7.80	7.80	7.80	7.80
USD/TWD	31.31	30.8	30.4	30.0	29.6
USD/KRW	1,300	1,280	1,260	1,240	1,220
USD/PHP	55.53	55.2	54.8	54.4	54.0
USD/MYR	4.67	4.60	4.55	4.50	4.45
USD/IDR	15,510	15,400	15,200	15,000	14,800
USD/THB	35.22	34.8	34.3	33.8	33.3
USD/VND	24,262	24,000	23,800	23,600	23,500
USD/INR	83.40	83.0	82.0	81.0	80.0
USD/SGD	1.34	1.32	1.31	1.30	1.30
EUR/SGD	1.46	1.47	1.48	1.50	1.51
GBP/SGD	1.69	1.69	1.70	1.70	1.72
AUD/SGD	0.88	0.88	0.89	0.90	0.91
SGD/MYR	3.50	3.48	3.47	3.46	3.42
SGD/CNY	5.34	5.38	5.34	5.31	5.23
JPY/SGDx100	0.90	0.90	0.92	0.94	0.96

POLICY RATES	30 Nov	1Q24F	2Q24F	3Q24F	4Q24F
US Fed Fund Rate	5.50	5.50	5.25	5.00	4.75
JPY Policy Rate	-0.10	0.00	0.00	0.00	0.00
EUR Refinancing Rate	4.50	4.50	4.50	4.50	4.25
GBP Repo Rate	5.25	5.25	5.25	5.00	4.75
AUD Official Cash Rate	4.35	4.35	4.35	4.00	3.75
NZD Official Cash Rate	5.50	5.50	5.25	5.00	4.75
CNY 1Y Loan Prime Rate	3.45	3.35	3.35	3.35	3.35
HKD Base Rate	5.75	5.75	5.50	5.25	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	3.25	3.00
PHP O/N Reverse Repo	6.50	6.75	6.50	6.25	6.00
MYR O/N Policy Rate	3.00	3.00	3.00	3.00	3.00
IDR 7D Reverse Repo	6.00	6.25	6.25	6.25	6.25
THB 1D Repo	2.50	2.50	2.50	2.50	2.50
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate	6.50	6.50	6.50	6.50	6.25

INTEREST RATES	30 Nov	1Q24F	2Q24F	3Q24F	4Q24F
USD 3M SOFR (compounded)	5.35	5.31	5.20	4.98	4.73
SGD 3M SORA (compounded)	3.75	3.72	3.64	3.47	3.28
US 10Y Treasuries Yield	4.32	4.30	4.20	4.10	4.00
SGD 10Y SGS	2.96	3.15	3.10	3.05	3.00

COMMODITIES	30 Nov	1Q24F	2Q24F	3Q24F	4Q24F
Gold (USD/oz)	2,042	2,050	2,100	2,150	2,200
Brent Crude Oil (USD/bbl)	81	85	85	90	90
LME Copper (USD/mt)	8,465	8,000	8,000	7,000	7,000

Source: UOB Global Economics & Markets Research Estimates

Key Events 1Q 2024

JANUARY

01
Singapore
GST will be raised to 9% (from 8%) with effect from 1 Jan 2024

01
Malaysia
A 10% capital gain tax on unlisted shares will be implemented

13
Taiwan
Presidential and legislative elections

15
United States
The Republican presidential primary will kick off on 15 Jan with the Iowa caucuses, followed by New Hampshire presidential primary on 23 Jan. Former President Trump remains the top candidate to win the Republican Party nomination to run for the US Presidency against incumbent President Biden.

15-19
World Economic Forum 2024
The meeting will take place in Davos Klosters, Switzerland

31
Malaysia
Sultan Ibrahim, Sultan of Johor will be installed as the 17th Yang di-Pertuan Agong of Malaysia for a period of five years commencing from 31 Jan 2024

Late January
Singapore
We expect MAS to keep the S$NEER policy parameters (slope, width and level of the policy band) unchanged in the Jan 2024 MPS in light of the risks of a stronger-than-expected passthrough to inflation from the GST increase on 1 Jan 2024

FEBRUARY

14
Indonesia
Presidential and legislative elections

Likely 14-21
Singapore
Budget 2024 will likely focus on supporting the seniors to cope with rising healthcare costs as well as assisting the workforce to upskill and enhance productivity. We expect support to continue for the low and middle-income households.

29
Thailand
End of the visa-free travel scheme for visitors from Mainland China and Kazakhstan

In February
Hong Kong
Budget 2024-25 is likely to remain expansionary amid a weaker than expected rebound in 2023 with the focus on revitalizing the economy

MARCH

01
Malaysia
Service tax will be raised to 8% (from 6.0%) with broader taxable services scope

06
Global
ASEAN-Australia Special Summit

18-19
Europe
The 10th European Summit of Regions and Cities

In March
China
China's annual "Two Sessions". The National People's Congress (NPC) will unveil the key economic targets for 2024 including GDP growth

In March
Malaysia
BNM to release its Bank Negara Malaysia's Economic & Monetary Review 2023 and Financial Stability Review 2H23

In 1Q24
China
The third plenum of the Communist Party of China has likely been delayed to early 2024. It will unveil China's new leadership's broad economic development and reform policies.

ASEAN FOCUS I

Strategic transformation is called for to uplift potential growth

- GDP growth in ASEAN-5 has averaged slightly lower over the past two decades this century. Rising global uncertainty and disruptions to multilateral trade would probably call for ASEAN to look inward to find new growth opportunities to uplift its potential growth from here.
- As the region emerged from the COVID-19 recession, strategic transformations are called for to uplift the region's potential growth but must be done together in a concerted manner. First, the region should capitalize and enforce the promulgation of ASEAN economic community (AEC) more into action. Second, the relatively more mature economy but with lack of space and labor supply like Singapore but capital-rich, could consider channelling through many FDIs that has poured into the country to its neighbouring countries. Third and finally, as the first two strategic transformations likely to bring about higher income to the ASEAN region, the rising middle class in the region would enjoy higher purchasing power which will in turn transform the region more into a great force of consumption hub.
- All in all, together as a group, ASEAN could cooperate on strategic transformations to turn their challenges into potentially new growth engine that will likely uplift their growth potential, better quality, and more sustainable in the future.

GDP growth in ASEAN-5 has averaged slightly lower over the past two decades this century. Coming out from the scars of the Asian Financial Crisis (AFC), growth in Indonesia averaged 5.2% in 2001-2010 thanks to the insurgent commodity boom in years after the AFC.

COVID-19 crisis has brought average growth in Indonesia down to 4.6%. Similarly, Malaysia's economic growth during the first decade of this century averaged higher at 4.6% but was lower during the ensuing second decade at 4.1%, no thanks to COVID-19-led recession. Even starker, average economic growth in Thailand halved in 2011-2020 period at 2.3% from 4.6% a decade earlier as the economy entered an aging society with its associated more subdued private consumption, only to be greeted by the great flooding incident in 2011 where growth flatlined to barely 1%. While in 2020, due to COVID-19 crisis, the Thai economy shrank by more than 6%. The Philippines' economy seemed to be more resilient with its average growth in the decade post the AFC of 4.8%, which slowed to only 4.7% in the following decade, most likely due to steady contribution of overseas remittances in sustaining household consumption domestically. Singapore's economic growth momentum also decelerated markedly from an average of close to 6% during 2001-2010 to just 3.2% in the ensuing decade. Understandably, as the most mature economy in the ASEAN region with productivity levels reaching elevated levels, it has since plateaued and potential growth ahead is likely to be at to a respectable range of 2-3%, which is not vastly different from its growth average in the past decade.

Rising global uncertainty and disruptive developments on multilateral trade fronts call for ASEAN to look inward to find new growth opportunities to uplift its potential growth from here. To do that, one has to understand that even each of these larger ASEAN members, the ASEAN-5 (i.e. Indonesia, Malaysia, the Philippines, Singapore and Thailand) is still at different stages of economic development. For example, Indonesia and the Philippines each has a relatively larger and younger population while Singapore, Thailand, and to a certain extent, Malaysia, are moving into a more mature and older population.

On trading fronts, Singapore and Malaysia are leading exporters of electronics while Thailand is one of the leading vehicles and automotive-parts manufacturers and exporters. Indonesia is blessed with vast and rich natural and mineral resources in the likes of palm oil, coal, rubber, nickel, bauxite, tin, just to name a few key ones. The Philippines has established a thriving business-process-outsourcing industry.

As the region emerged from the COVID-19 recession, strategic transformations are called for to uplift the region's potential growth but must be done together in a concerted manner. First, the region should capitalize and enforce the promulgation of ASEAN economic community (AEC) more into action.

More advanced and technologically equipped countries such as Singapore, Malaysia, and Thailand could consider investing in countries like Indonesia and the Philippines to turn them into a "new" manufacturing hub to increase the much needed labour productivity, which will in turn boost growth for all involved.

More advanced and technologically equipped countries such as Singapore, Malaysia, and Thailand could consider investing in countries like Indonesia and the Philippines to turn them into a "new" manufacturing hub to increase the much needed labour productivity, which will in turn boost growth for all involved. This is especially so because the ASEAN region will not be spared from the global wave of transition towards cleaner energy in producing both goods and services in the future.

AEC can be optimized to facilitate such strategic transformation because it allows for the freer movement of goods, services, skilled labor, and capital. The intended positive end-result is to create a seamless regional market and production base in the region.

Second, the relatively more mature economy but with lack of space and labor supply like Singapore but capital-rich, could consider channelling through many of its FDI (foreign direct investment) flows that has poured into the country, and onward to its neighbouring country such as Indonesia and the Philippines. Thailand with its many companies involving in advanced vehicles and parts manufacturing capabilities could work together with partners in Indonesia to produce quality EV-based transportation that can be exported not only globally but to large consuming markets such as Indonesia itself.

Many down-streaming processes in Malaysia and Indonesia's key commodities and minerals require large capital outlays and by working with saver countries in the region, excess capital could be invested and deployed there with promising returns over the medium term.

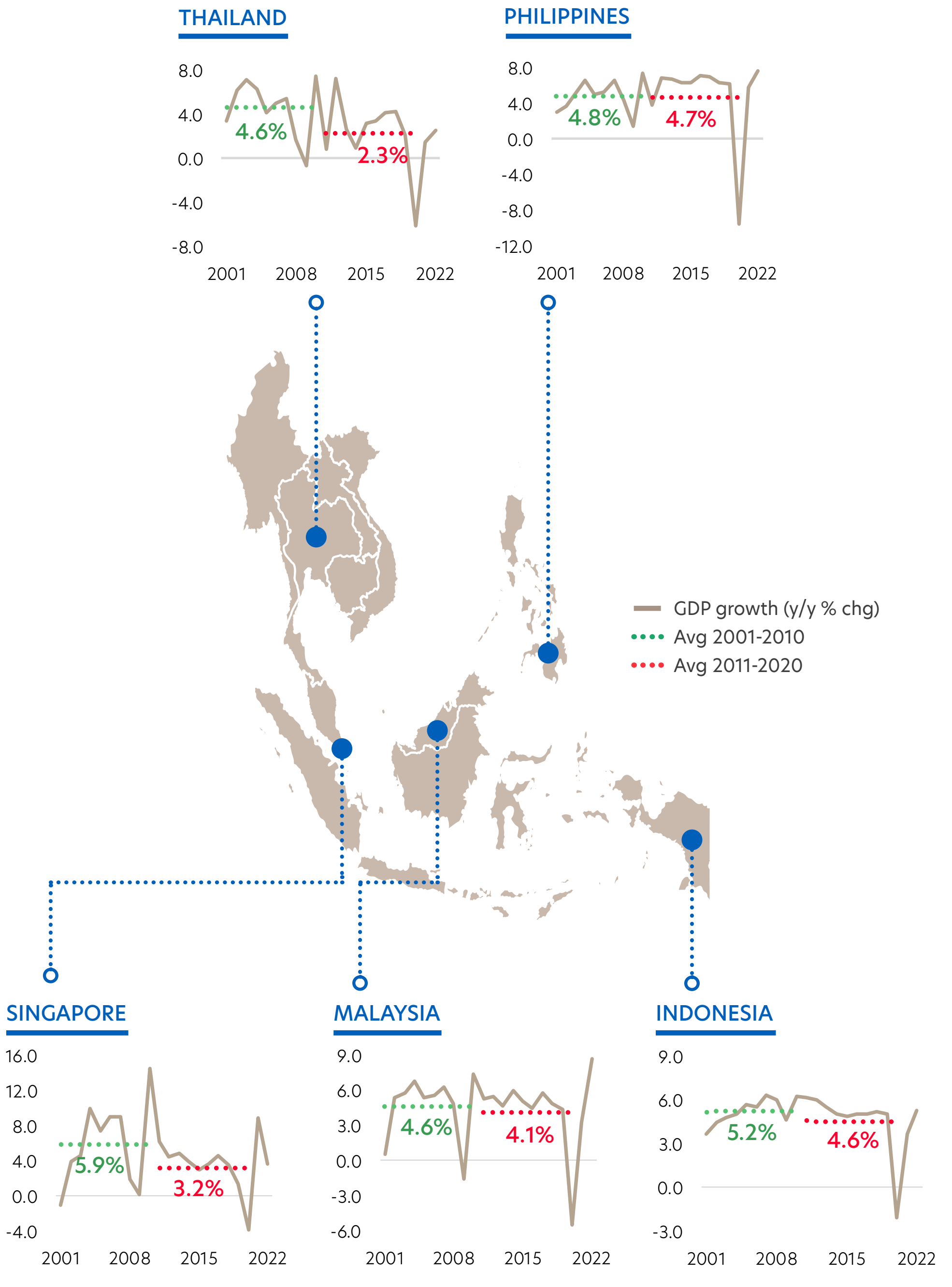
The rising middle class in Indonesia and the Philippines would enjoy higher purchasing power which will in turn transform the region more into a great force of consumption hub.

Third, as the first two strategic transformations are likely to bring about higher income to the ASEAN region, the rising middle class in Indonesia and the Philippines would enjoy higher purchasing power which will in turn transform the region more into a great force of consumption hub. Even more so, these relatively younger and more digitally-savvy would transact faster and more efficiently via many of the growing e-commerce platforms, hastening the pace of domestic consumption and propel growth higher.

More importantly, these consumers are highly focused on increasingly higher value-added consumption such as leisure, wellness, and higher quality edibles. Furthermore, they are also more brand-aware and brand-conscious in choosing their consumption of goods and services.

All in all, together as a group, ASEAN could cooperate on strategic transformations to turn their challenges into potentially new growth engine that will likely uplift their growth potential higher, better quality, and more sustainable in the future.

Singapore and Thailand's growth averages have shifted lower as these economies maturing. Indonesia's growth averages over the past two decades also trended lower, similarly in Malaysia while Philippines' growth relatively held up steady



Source: National Statistics, Macrobond, UOB Global Economics & Markets Research

Chart 1: Key ASEAN mainstay sectors relooked with new strategies

Source: UNCommtrade, UOB Global Economics & Markets Research

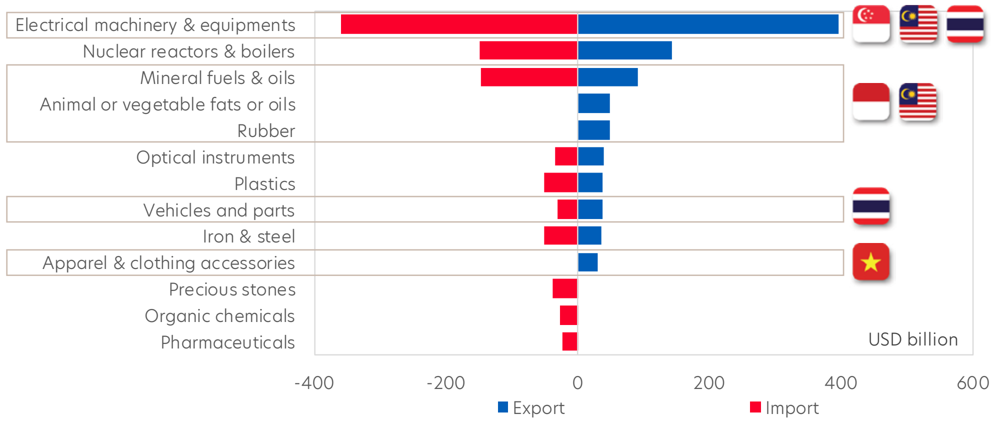
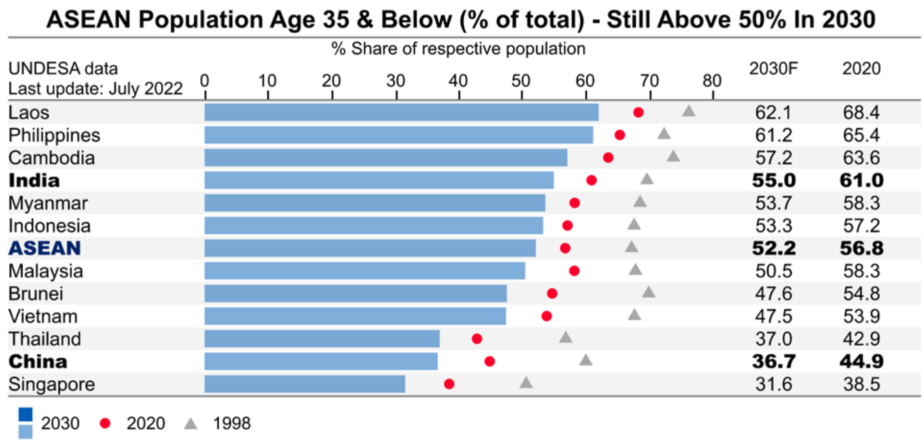


Chart 2: ASEAN middle-income consumer is expected to rise further

Source: Macrobond, UOB Global Economics & Markets Research



ASEAN FOCUS II

Goods trade - green shoots sprouting

- The downturn in regional trade has likely found its bottom and is showing signs of recovery albeit with a bumpy pace with East Asia's export recovery leading the ASEAN-6. Improved import demand observed across key Asian countries further underpins domestic demand as a key driver of regional growth amid improving labour markets and domestic policy support.
- With an upturn in the global tech cycle aiding overall exports in Asia including ASEAN-6 countries, a sustained and robust recovery in global semiconductor sales will benefit heavy electronics & electrical (E&E) exporting countries in East Asia and ASEAN, particularly Japan, Hong Kong, Taiwan, Vietnam, Malaysia and Philippines next year.
- We see a brighter overall trade outlook for 2024 given the expected global tech upcycle and stabilising commodity price prospects as the effect of the Middle East conflict on commodity prices have been muted thus far. Ongoing voluntary oil production cuts by OPEC+, US plans to replenish its Strategic Petroleum Reserves which is currently at its lowest levels since 1980s and expectations for China's oil demand to stay positive could support commodity prices. That said, we remain vigilant against potential sanction risks as many key countries are due to hold their presidential or general elections next year.

Goods trade have bottomed out

The downturn in regional trade has found its bottom and is rebounding at a more sustainable but bumpy pace. East Asia's export recovery is outperforming that of ASEAN-6, led by Japan (Oct: +1.6% y/y, Sep: +4.3%) and South Korea (Oct: +5.1%, Sep: -4.4%). Vietnam (Nov: +6.7%, Oct: +5.7%), Thailand (Oct: +8.0%, Sep: +2.2%) and Singapore (Domestic Exports, Oct: +3.0%, Sep: -14.8%) were key leaders in the ASEAN region; while Indonesia was a laggard with double-digit export contraction (Oct: -10.4%, Sep: -16.2%).

A key drag from commodity exports amid easing global commodity prices (particularly mineral products and energy prices) dampened the performance of Indonesia and Malaysia exports to some extent.

A narrower contraction in the E&E exports and base effects were main drivers of trade improvement in the forementioned countries. It is consistent with the recovery in Semiconductor Industry Association (SIA)'s global semiconductor sales that increased on a m/m basis for the seventh consecutive month in Sep, reinforcing the positive momentum since mid-2023. However, a key drag from commodity exports amid easing global commodity prices (particularly mineral products and energy prices) dampened the performance of Indonesia and Malaysia exports to some extent.

Similarly, import demand across key Asian countries have also showed a gradual turn. Vietnam outperformed with its imports rising for three consecutive months (Nov: +5.1% y/y, Oct: +6.0%, Sep: +0.3%) after ten months of contraction. Even as China continues to face a shallow recovery and persistent drag from its property sector, China's imports demand managed a positive turnaround (Oct: +2.4%, Sep: -7.0%). This underpins domestic demand as a key driver of regional growth amid improving labour markets and domestic policy support.

Chart 1: Asian exports of goods have bottomed out

Source: CEIC, UOB Global Economics & Markets Research

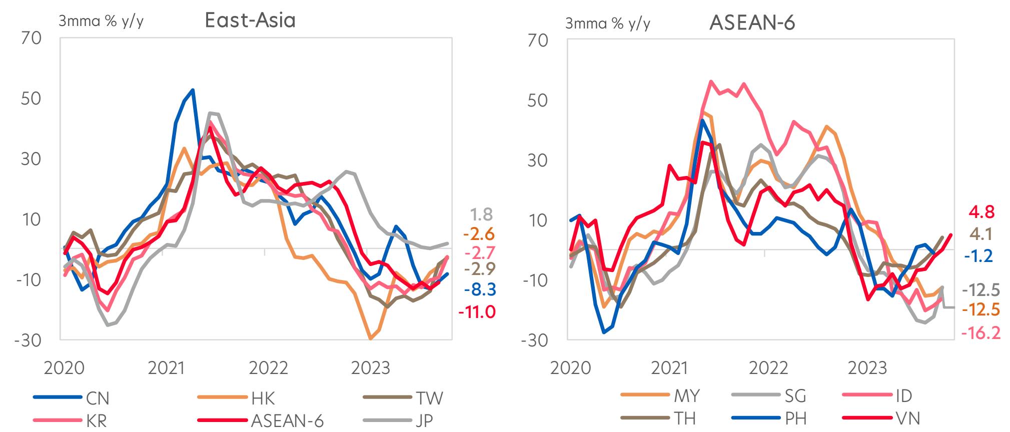


Chart 2: Sluggish commodity exports key culprit to ASEAN-6's export performance

Source: CEIC, UOB Global Economics & Markets Research

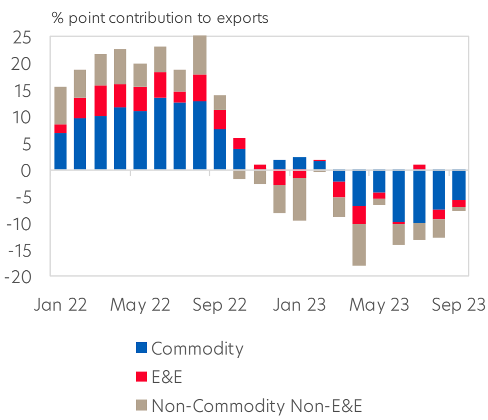


Chart 3: An upturn in global tech cycle

Source: CEIC, UOB Global Economics & Markets Research

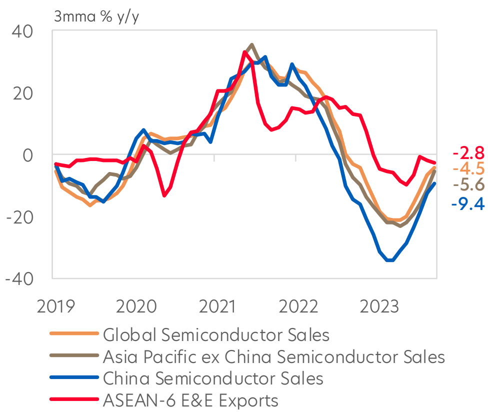


Chart 4: Asia's E&E exports rebounded in tandem with global semiconductor sales

Source: CEIC, UOB Global Economics & Markets Research
Note: E&E comprises 1) office machines and automatic data processing equipment, 2) telecommunications and sound recording equipment, and 3) electrical machinery, apparatus and appliances

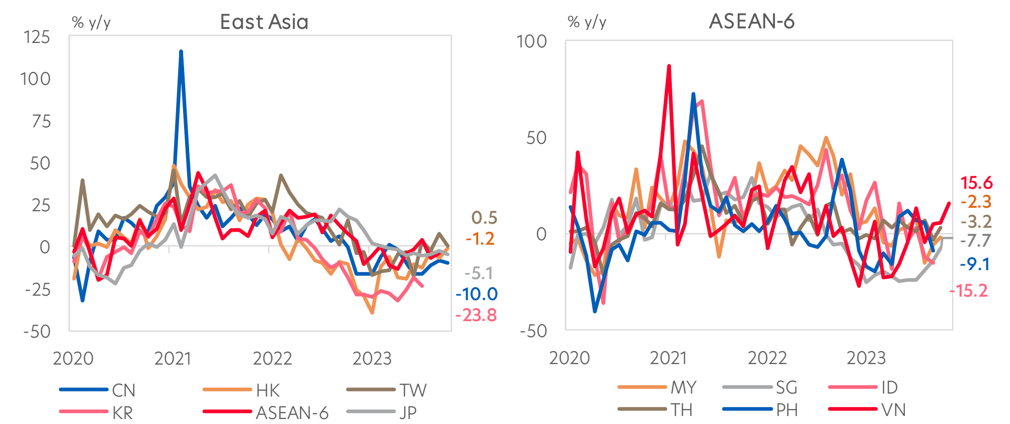


Chart 5: Performance of commodity exports in Asia including ASEAN-6

Source: CEIC, UOB Global Economics & Markets Research
Note: Commodity exports comprises commodities and commodity based exports

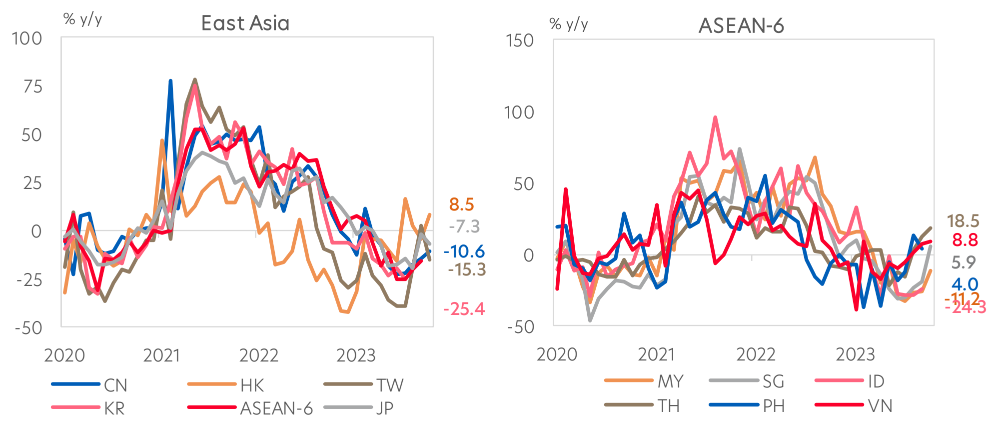
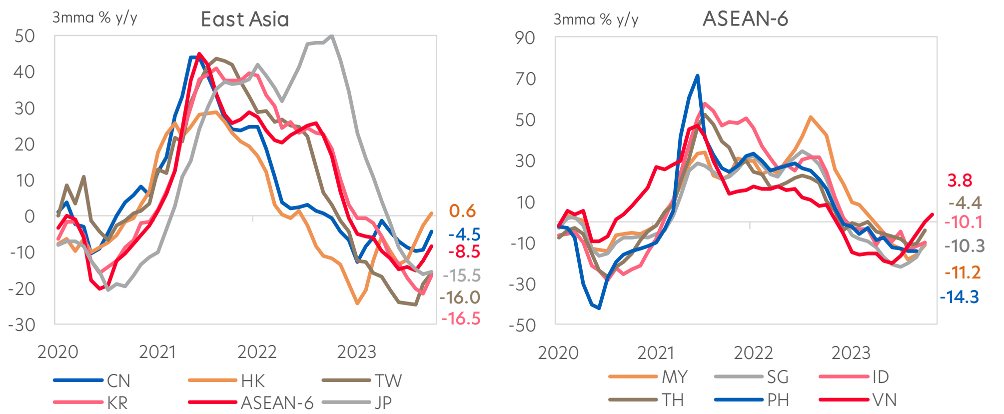


Chart 6: Asian imports of goods showed similar trend

Source: CEIC, UOB Global Economics & Markets Research



Key catalyst – global tech upcycle

We expect regional trade to recover and improve in 2024 thanks to post-supply chain diversification effects that became more apparent since 2018 and on the ongoing global tech upcycle. To recap, the flare-up of US-China trade conflicts that started in 2018-2019 forced companies to diversify their supply chains in an attempt to avoid higher tariffs. This was then accelerated by the COVID-19 pandemic crisis in 2020-2021 and Russia-Ukraine war in 2022 to mitigate supply shortages, shorten the input delivery time and reduce the input costs.

We expect regional trade to recover and improve in 2024 thanks to post-supply chain diversification effects that became more apparent since 2018 and on the ongoing global tech upcycle.

All these events alongside global climate change have expedited the transformation to automation and digitalisation despite a short-term disruption from subdued demand due to tighter monetary conditions and elevated cost price pressures in 2022-2023. The World Semiconductor Trade Statistics (WSTS) projects a persistent and robust rebound in global semiconductor sales (+13.1% in 2024 vs an estimated -9.4% in 2023 and +3.3% in 2022) which will likely benefit heavy E&E exporting countries in East Asia and ASEAN, particularly Taiwan, South Korea, Malaysia, Vietnam and Philippines. These countries carry an E&E export share of over 30%.

The long-term outlook for semiconductor demand remains strong, with chips enabling countless products the world depends on and giving rise to new, transformative technologies of the future.

WSTS projects the surge in global semiconductor sales to be driven by the Memory segment with an over 40% increase, and single-digit growth in other key categories, including Discrete, Sensors, Analog, Logic and Micro. It is also expected to be buoyed by an anticipated robust double-digit growth in sales in the Americas and Asia Pacific regions next year. Additionally, the long-term outlook for semiconductor demand remains strong, with chips enabling countless products the world depends on and giving rise to new, transformative technologies of the future.

This expected robust rebound in E&E shipments will help buffer overall exports while commodity exports find support from stabilising commodity price prospects as the effect of the Middle East conflict on commodity prices have been muted thus far. Ongoing voluntary oil production cuts by OPEC+, US plans to replenish its Strategic Petroleum Reserves which is currently at its lowest levels since 1980s and expectations for China's oil demand to stay positive could support commodity prices. Countries with a higher E&E export share or more diversified export base are expected to perform better in 2024.

Chart 7: Global semiconductor sales forecasts

Source: WSTS, UOB Global Economics & Markets Research
East Asia covers China, Hong Kong, Taiwan, South Korea and Japan

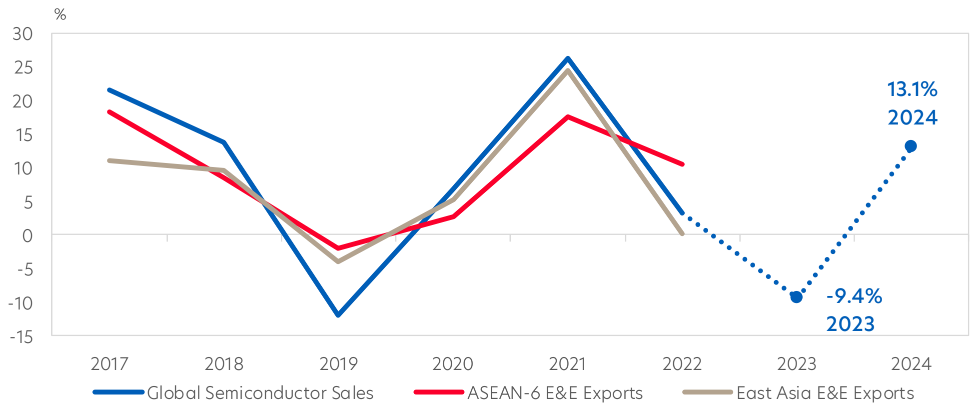


Table 1: E&E exports make up over 30% in several Asian countries

Country	Commodity (Comdty)	E&E	Non-Comdty Non-E&E	Total
East Asia	**14**	**36**	**50**	**100**
CN	13	31	56	100
HK	5	70	25	100
TW	13	60	27	100
KR	27	24	49	100
JP	15	35	50	100
ASEAN-6	**35**	**28**	**37**	**100**
SG^	61	14	25	100
MY	34	41	25	100
ID	58	7	35	100
TH	22	28	50	100
PH	17	62	21	100
VN	18	33	49	100

* Data - % of total respective exports (9M23) except for South Korea (7M23)
^ Based on domestic exports, excluding re-exports number due to country's reporting practise
Source: CEIC, UOB Global Economics & Markets Research

The regional trade outlook looks brighter for 2024. We project regional countries' exports to reverse course and expand positively between 2.0%-23.7% in 2024 despite lingering macro headwinds and a more challenging economic and financial landscape.

Brighter trade outlook for 2024 but caution on potential sanction risks

The regional trade outlook looks brighter for 2024. We project regional countries' exports to reverse course and expand positively between 2.0%-23.7% in 2024 despite lingering macro headwinds and a more challenging economic and financial landscape. This is in line with the World Trade Organisation (WTO)'s projection for world merchandise trade volumes to rise by 3.3% in 2024 (2023 est: +0.8%), underscored by Asia as the fastest growing region for both exports and imports.

That said, we remain cautious against potential sanction risks alongside impending retaliation measures. An escalation in geopolitical conflict could also threaten the trade recovery with many key countries due to hold their presidential or general elections next year including US (on 5 Nov), Russia (17 Mar) and Taiwan (13 Jan).

Other downside risks to the trade outlook as we enter 2024 include an escalation in the Middle East tensions, tighter financial and monetary conditions for a prolonged period, a lethargic recovery in China amid ongoing property woes, and heightened US-China trade conflict that could tip the global economy into a recession. We also see the risk of an underestimation of physical climate risk that could weigh on the countries covered in this report.

Table 2: Gross export performance and forecasts among Asian countries

Country	2020	2021	2022	YTD 2023	2023F	2024F
China	3.6	29.9	7.0	(5.9)	(4.5)	6.0
Taiwan	4.9	29.3	7.4	(12.9)	(10.0)	12.0
South Korea	(5.5)	25.7	6.1	(10.0)	(7.0)	8.5
Indonesia	(2.7)	41.9	26.0	(12.1)	(10.0)	3.2
Malaysia	(1.1)	26.1	24.9	(8.0)	(7.2)	3.5
Philippines	(8.1)	14.5	5.7	(6.6)	(6.6)	5.0
Singapore (NODX)	4.3	12.1	3.0	(15.0)	(12.5)	6.0
Thailand (BOP Basis)	(6.5)	19.2	5.4	(4.1)	0.7	2.0
Vietnam	6.9	18.9	10.6	(5.9)	(2.0)	23.7

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

FX STRATEGY

Path is clear for USD weakness in 2024

Juxtaposed with opposing themes, the USD saw two-way trading across 2023 as compared to the "king-dollar" scenario in 2022 due to aggressive Fed rate hikes. The first half of 2023 saw the USD stumble when other central banks closed the monetary policy gap with the Fed just as the Fed slowed the pace of its rate hikes. Across Jul to Oct saw a resurgence of the USD as the "higher for longer" rate rhetoric took hold. This is to be followed by a USD pullback as the Fed signaled in the Nov FOMC that it may be done with rate hikes. Overall, the US Dollar Index (DXY) is now back to 103.5, roughly the same levels where it started the year.

Chart 1: DXY was largely sideways in 2023 after a strong rally in 2022

Source: Bloomberg, UOB Global Economics & Markets Research

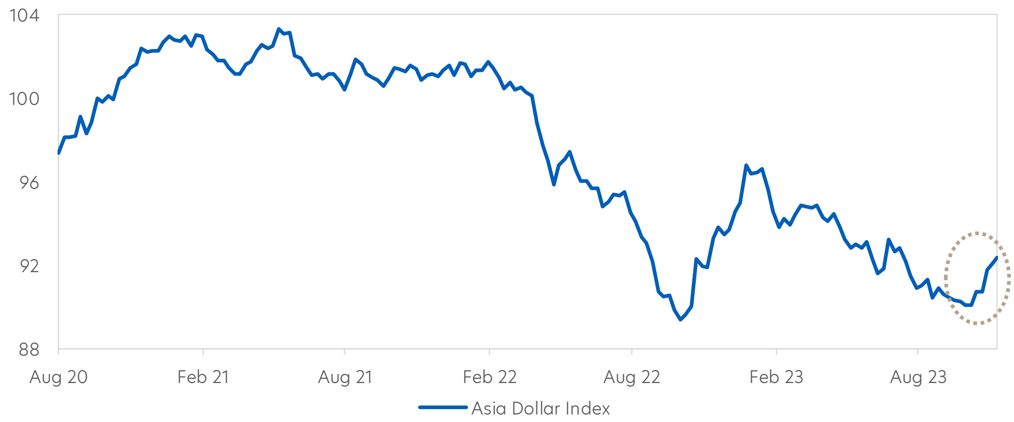
USD is likely to weaken anew in 2024 against most Major FX as it becomes clear that the Fed's tightening cycle has ended, and a rate cut cycle would follow thereafter.

As we previously forecasted, the USD is likely to weaken anew in 2024 against most Major FX as it becomes clear that the Fed's tightening cycle has ended, and a rate cut cycle would follow thereafter. As this current bout of USD weakness came sooner and is more intense than what we have expected, some of our 1Q24 forecasts have been met and we take this opportunity to review and adjust accordingly.

Underpinned by expectations of a dovish Fed pivot and perceived signs of stabilisation of the Chinese economy, Asia currencies appeared to have bottomed in end-Oct after a year-long selloff. Will this rebound persist as the worst of China's pessimism pass? And what are the risk factors that could derail this much awaited recovery in Asia FX?

Chart 2: Asia FX appeared to have bottomed end-Oct as the Chinese economy stabilised

Source: Bloomberg, UOB Global Economics & Markets Research



Major FX Strategy

King dollar fades as Fed's tightening cycle ends

Our expectations of a USD peak in 4Q23 played out as thought. While the Fed is still reluctant to declare the end of the rate hike cycle, their agreement to "proceed carefully" with rate-setting suggests little upside to US rates from here. Swap market have responded quickly to the latest dovish tilt from the Fed, with futures removing any prospects of near-term rate hikes and fully pricing in a 25-bps rate cut by Jun 2024 FOMC.

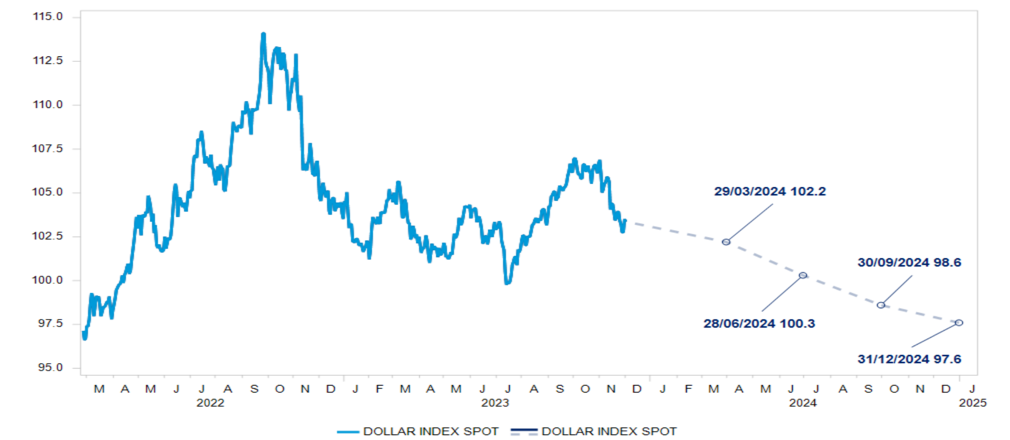
The dovish shift from the Fed came in the period where the resilient US economy is showing signs of fizzling off. In our last FX and Rates monthly published 3 Nov, we noted the sudden "crash" in Atlanta Fed's GDPNow forecast from 5.4% in late Oct to current levels of about 2%. The much-feared upside risk to US rates scenario due to Israel-Hamas war also did not materialize as oil prices have retreated to levels preceding the conflict.

Taken together with the recent price action, we are confident that DXY has already peaked at around 107 in 4Q23. Next year, as Fed's rate cut speculation intensifies, there is scope for further weakness of the USD against Major FX peers alongside lower US rates.

Taken together with the recent price action, we are confident that DXY has already peaked at around 107 in 4Q23. Next year, as Fed's rate cut speculation intensifies, there is scope for further weakness of the USD against Major FX peers alongside lower US rates. Our updated implied DXY forecasts are at 102.2 in 1Q24, 100.3 in 2Q24, 98.6 in 3Q24 and 97.6 in 4Q24. In the scenario of a sharper US slowdown that necessities more than 3 rate cuts in 2024 (our base case), there is likely downside risks to our current set of USD forecasts.

Chart 3: DXY on track to break below 100 in 2H24

Source: Macrobond, UOB Global Economics & Markets Research



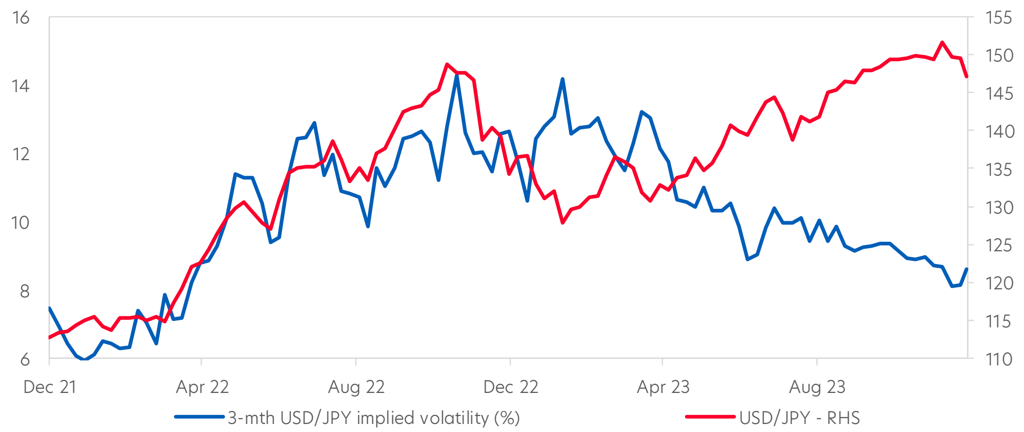
Aside from expectations of BOJ policy normalization and officials' verbal intervention, a swift retreat in US Treasury yields in the past month appears to be the straw that broke the camel's back. USD/JPY fell from a one-year high of 151.91 in mid-Nov to about 147 as the 10-year US Treasury yield reversed sharply from the well-watched 5.0% to 4.3% across Oct – Nov, closing the US-Japan rate differential to the narrowest since Sep. The USD's rate advantage is set to decline further as Fed rate cut expectations intensify in 2024, weighing further on USD/JPY. Eventual BOJ policy normalisation in 2024 would be the icing on the cake that would secure a lower USD/JPY trajectory. Furthermore, topside in USD/JPY is likely limited due to intervention worries. Overall, our updated USD/JPY forecast are at 146 in 1Q24, 142 in 2Q24, 138 in 3Q24, 135 in 4Q24.

Markets' repricing of Fed rate cuts in 2024 continues to be the key driver of EUR/USD going forth. We expect a further narrowing of the rate spread which will be a tailwind for EUR/USD.

EUR/USD appeared to have bottomed at around 1.05 in early Oct after tumbling from a high of 1.1276 in Jul. The rebound in spot to 1.10 is also accompanied by a turnaround in EUR-USD rate differentials in the EUR's favour and an improvement in net EUR/USD futures positioning. Markets' repricing of Fed rate cuts in 2024 continues to be the key driver of EUR/USD going forth. We expect a further narrowing of the rate spread which will be a tailwind for EUR/USD, especially where we expect the ECB to begin rate cuts later (in 4Q24) compared to the Fed (Jun 2024). Overall, we keep to our upward trajectory in EUR/USD and expect the pair at 1.11 in 1Q24, 1.13 in 2Q24, 1.15 in 3Q24 and 1.16 in 4Q24.

Chart 4: Falling volatility suggests an "orderly" normalisation in USD/JPY even as we except BOJ to tighten policy early 2024

Source: Bloomberg, UOB Global Economics & Markets Research



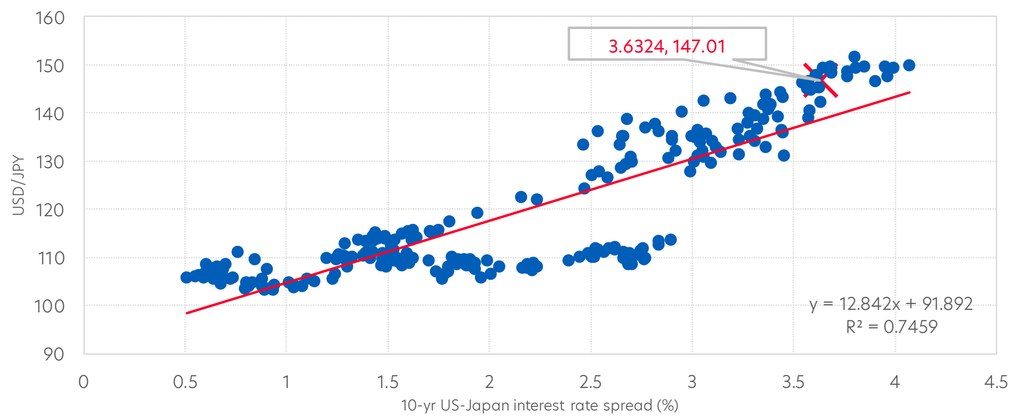
We reiterate a positive outlook for GBP/USD though the uncertain economic outlook may limit gains.

GBP/USD rebounded from 1.2037 in early Oct as the aggressive scale back in Bank of England's (BOE) rate hike expectations has probably ended. The expected peak BOE rate fell from over 6.3% in early Jul to 5.25% in late Nov, which coincided with the current BOE policy rate. Further discounting of UK rates is unlikely given UK inflation is still elevated above 6% and BOE's guidance that it is "far too early" to talk about rate cuts. With similar US and UK policy rates, we would argue that GBP's relative valuation over the USD is still attractive at the current GBP/USD spot level. Overall, we reiterate a positive outlook for GBP/USD though the uncertain economic outlook may limit gains. Our updated forecasts are at 1.28 in 1Q24, 1.30 in 2Q24, 1.31 in 3Q24 and 1.32 in 4Q24.

AUD/USD rose to 3-month highs near 0.66 alongside broad USD weakness, and a de-escalation of geopolitical tensions between China and Australia following Australian Prime Minister Anthony Albanese' successful state visit to Beijing. From here, as pessimism on China eventually peaks and the extensive set of policy support from Chinese authorities works its way into the underlying economy, CNY and hence AUD will likely receive a boost. Renewed USD weakness as the Fed embarks on its rate cut cycle in 2024 will likely catalyze AUD/USD upside as well. Overall, our updated AUD/USD forecasts are at 0.67 in 1Q24, 0.68 in 2Q24, 0.69 in 3Q24 and 0.70 in 4Q24.

Chart 5: Current USD/JPY level appears "high" relative to interest rate spread

Source: Bloomberg, UOB Global Economics & Markets Research



Asia FX Strategy

A rebound in 2024 looks likely

Most Asia FX are set to end lower against the USD for a second straight year in 2023. Sustained Fed rate hikes (though less intense than 2022) spurring capital outflows and China's slowdown worries were the key headwinds weighing on Asia FX throughout the year.

In a US soft-landing scenario where US economic strength wanes relative to the Asian economies, it is likely the USD will trade softer against Asia FX peers especially when Fed rate cuts gradually come into focus.

Next year, it is probable the Asia FX's dual concerns will diminish and even transform into favourable forces. In a US soft-landing scenario where US economic strength wanes relative to the Asian economies, it is likely the USD will trade softer against Asia FX peers especially when Fed rate cuts gradually come into focus.

The prevailing pessimistic views and sentiments on China may be at their peak. This comes as Chinese authorities have recently doubled down on efforts on curbing tail-risks relating to the troubled property sector and debts tied to local government funding vehicles (LGFVs). A CNY 1 trn (USD 137 bn) sovereign bond issue to support infrastructure rebuilding of disaster-hit areas will aid in the economic recovery as well. In view of tentative signs of stabilisation of the Chinese economy, we had recently lifted our 2023 China GDP expectations to 5.2% from 5.0% previously. But more notable is that China's outlook remains weak as we kept the 2024 GDP growth forecast unchanged at 4.5%. For more details, pls refer to Macro Note published 18 Oct here.

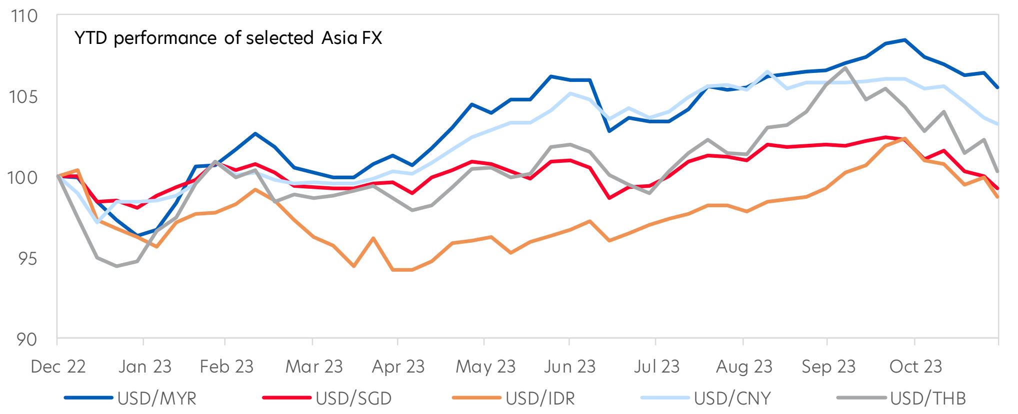
While China's tail-risks gradually recede, the eventual recovery in CNY hinges on the broad USD trend. The catalyst for a CNY rebound will likely come next year as Fed's rate cut speculation intensifies and USD weakens anew.

While China's tail-risks gradually recede, the eventual recovery in CNY hinges on the broad USD trend. The catalyst for a CNY rebound will likely come next year as Fed's rate cut speculation intensifies and USD weakens anew. It looks increasingly likely the USD/CNY has peaked around 7.32 in 4Q23 and will trade lower across 2024 as we previously expected. Overall, our updated USD/CNY forecasts are at 7.10 in 1Q24, 7.00 in 2Q24, 6.90 in 3Q24 and 6.80 in 4Q24.

On the broader Asia FX space, we also expect exports growth in the respective countries to post decent growth in 2024 – ranging from 2.0% y/y for Thailand to 23.7% y/y for Vietnam - after contracting for the most part of 2023. For more info, pls refer to the ASEAN Focus: Goods Trade – Green Shoots Sprouting in this report. A brighter overall trade outlook given the expected global tech upcycle and stabilising commodity price prospects will likely aid the cyclical recovery in Asia FX next year.

Chart 6: USD/Asia pairs appeared to have peaked in late Oct

Source: Bloomberg, UOB Global Economics & Markets Research



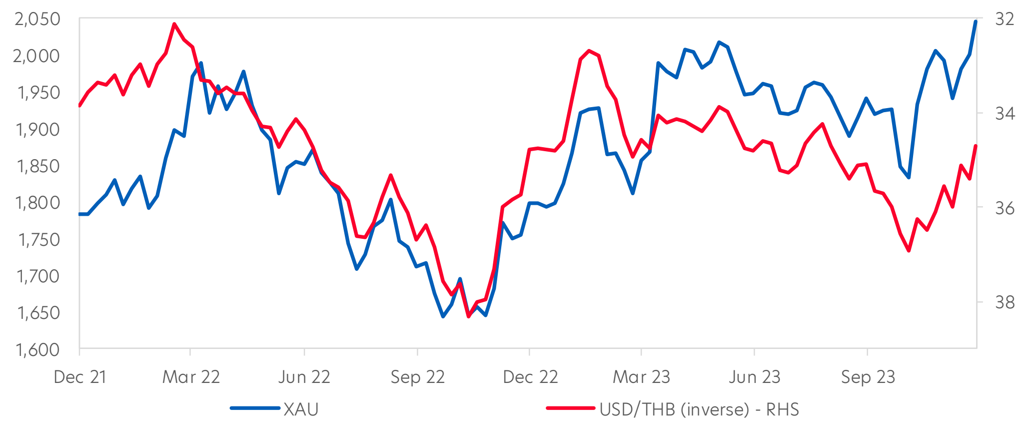
The MYR (-6% year-to-date) is one of the laggards in Asia FX this year, weakening to an almost 1998's level at 4.7937 /USD end Oct before rebounding to 4.65 /USD by end Nov. As we previously pointed out, the MYR weakness was largely due to externally driven factors amid a strong USD environment and a high correlation to CNY than other regional peers. Next year, the MYR is likely to reap dividends from a subsequent recovery in CNY together with peak US rates spurring broad USD weakness. Overall, we keep to our downward trajectory in USD/MYR with updated forecasts at 4.60 in 1Q24, 4.55 in 2Q24, 4.50 in 3Q24 and 4.45 in 4Q24.

Alongside a broad-based Asia FX recovery, we expect the SGD to strengthen further against the USD. However, the outperformance of the SGD relative to its S$NEER peers may start to falter due to our expectations of a gentler policy slope by Apr 2024.

USD/SGD was flat on the year at about 1.33 as the appreciation bias of the S$NEER offset occasional bouts of USD strength and spillover from a weak CNY due to China slowdown worries. As US economic strength fades and Fed rate cuts gradually come into focus, it is likely that USD/SGD has peaked at 1.3764 in early Oct. Alongside a broad-based Asia FX recovery, we expect the SGD to strengthen further against the USD. However, the outperformance of the SGD relative to its S$NEER peers may start to falter due to our expectations of a gentler policy slope by Apr 2024. Overall, our updated USD/SGD forecasts are 1.32 in 1Q24, 1.31 in 2Q24, 1.30 in 3Q24 and 4Q24.

Chart 7: THB has benefited from the recent rise in gold prices

Source: Bloomberg, UOB Global Economics & Markets Research



Overall, we expect IDR to catch up with the regional FX recovery after election-related uncertainties recede after 1Q24.

Despite the sharp drop across Sep - Oct (15,200 /USD to 15,900 /USD), IDR remained one of the most resilient Asia FX and was little changed on the year at about 15,400 / USD. In 2024, the interest rate gap may start to improve in IDR's favour as we expect BI to keep rates elevated at 6.25% while we expect the Fed to deliver rate cuts totaling 75 bps from Jun 2024. This is likely a key factor driving bond inflows and hence underpinning IDR stability amidst a stable growth and inflation outlook. Overall, we expect IDR to catch up with the regional FX recovery after election-related uncertainties recede after 1Q24. Our updated USD/IDR forecasts are at 15,400 in 1Q24, 15,200 in 2Q24, 15,000 in 3Q24 and 14,800 in 4Q24.

The THB rose over 3% in 4Q23 to about 35.2 /USD, outperforming regional peers and narrowing losses on the year. The strong performance of the THB can be partly attributed to its correlation to gold which touched the key $2,000 /oz level on haven demand, on top of renewed USD weakness. In 2024, THB is likely to draw further strength from idiosyncratic factors such a moderate growth outlook, current account surplus, stable interest rate profile and a sustained tourism recovery support. This puts THB as one of the likely outperformers within ASEAN next year. Overall, our updated USD/THB forecasts are 34.8 in 1Q24, 34.3 in 2Q24, 33.8 in 3Q24 and 33.3 in 4Q24.

Like other Asian peers, it appears that the bulk of the recent VND selloff is over. USD/VND has retraced lower after meeting our 4Q23 forecast of 23,500 in Oct after the Fed signaled a possible end to its rate hike cycle. While VND may follow the broad Asia FX recovering trend, gains may be limited by the modest economic rebound in 2024. Overall, our updated USD/VND forecasts are at 24,000 in 1Q24, 23,800 in 2Q24, 23,600 in 3Q24 and 23,500 in 4Q24.

RATES STRATEGY

Lower outright rates amidst monetary policy easing across 2024

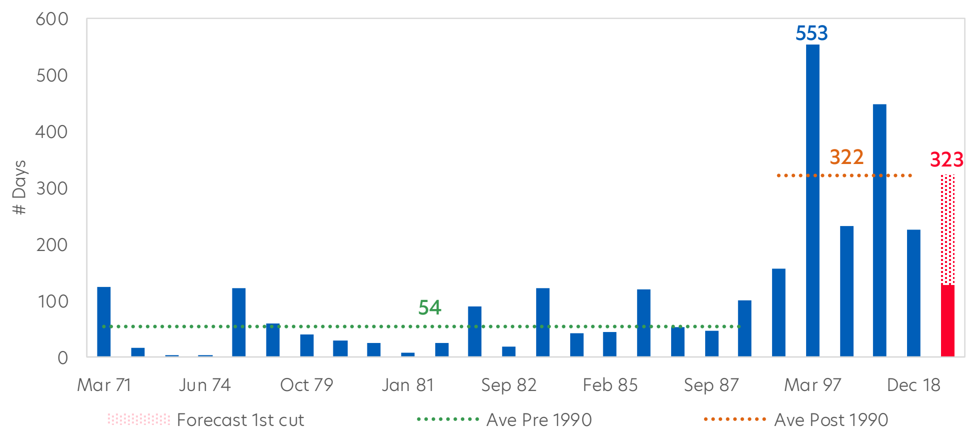
- We expect monetary policy easing to be the main theme of 2024.
- Lower outright rates, steeper curve and smaller SG yield discount will feature in the new policy regime.
- However, we forecast bond yields in the near term as staying sticky around prevailing levels
- SGD 25bn to 32bn is our range for 2024 gross SGS issuance, actual outcome could be in the lower half.

FOMC and rates view

Our US macro team expects the Fed Funds rate to stay at 5.50% until a US easing cycle kicks off in 2Q24 which is expected to extend into 2026. Based on this profile, the Fed funds rate plateau will be in line with the average post 1990s "higher for longer" experience.

Chart 1: Peak Fed Funds plateau

Source: Bloomberg, UOB Global Economics & Markets Research

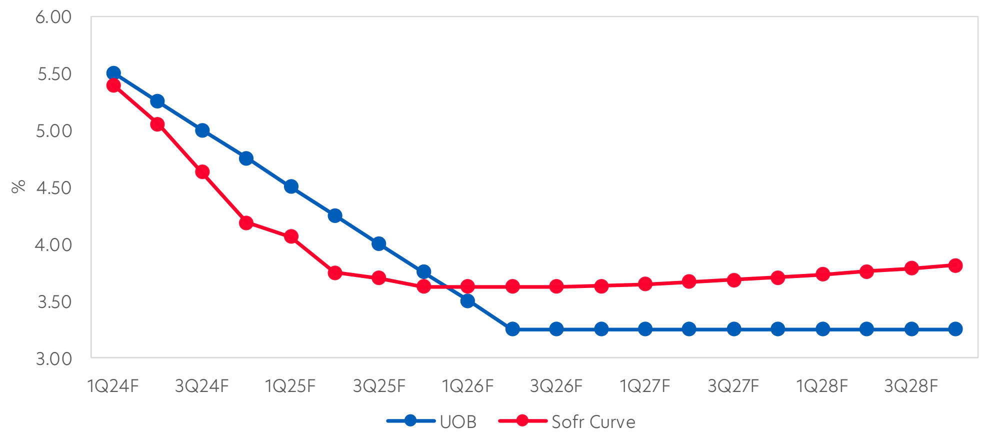


We have not assumed a severe retrenchment in economic growth when deriving our Fed baseline. In the event of a substantial negative growth shock, the policy rate will likely undershoot deep into accommodative territory.

While we are anticipating the turn in monetary policy cycle lower, this rate easing view is based on our view that the prevailing policy rate level is already restrictive. We have not assumed a severe retrenchment in economic growth when deriving our Fed baseline. In the event of a substantial negative growth shock, the policy rate will likely undershoot deep into accommodative territory.

Chart 2: Forecast vs Forwards (29 Nov)

Source: Bloomberg, UOB Global Economics & Markets Research



As it stands, we have factored in 75bps of rate cuts across 2024 and Fed funds futures market pricing as of end Nov is more dovishat 100bps. Over the full cycle, we have a more dovish profile for Fed Funds compared to what the market has priced in. Specifically, our easing cycle bottom for Fed Funds sits at 3.25% which is 50bps lower than the futures market price of around 3.75%.

Going off our Fed baseline forecasts; our bond yield outlook is also naturally aligned to be more dovish relative to what the forward markets imply.

We forecast bond yields in the near term as staying sticky around prevailing levels. Yield declines in Nov have reversed Oct gains, nonetheless some factors that drove the run up in yields remain substantially unchanged.

For 1Q 2024, we see the 3M compounded in arrears Sofr and Sora at 5.31% and 3.72% respectively. Short term rates are then expected to drift lower across 2024 in line with our expectations of 75 bps rate cuts from the US Federal Reserve. Eventually the 3M compounded in arrears Sofr and Sora will drop to 4.73% and 3.28% respectively by 4Q24.

For the longer end of the curve, we have the 10Y UST and SGS yields at 4.30% and 3.15% respectively.. Thereafter, the 10Y UST and SGD yields are forecasted to drop modestly to 4.0% and 3.0% respectively by 4Q24. We forecast bond yields in the near term as staying sticky around prevailing levels. Yield declines in Nov have reversed Oct gains, nonetheless some factors that drove the run up in yields remain substantially unchanged. These include; large US deficit, expectations of BOJ policy normalization de-anchoring low yields, and economic resilience. Whilst it could be noted that Fed speakers have toned down on their hawkish guidance, the majority still considers rate cuts in the near term as an unlikely scenario.

Our SG bond yield forecast also shows near-term potential of some yield upside relative to its 30 Nov spot rate, like the US case. A larger magnitude of adjustment comes from the fact that the SGD NEER is at its strongest level year to date.

Based on this, we have given allowance in our forecast for some small yield upside compared to the 30 Nov spot rates. For the SG rates, our forecast assumes that the long-term relationship of SG rates adjusting to a lesser degree to US rate changes will continue to hold into 2024. Our forecast builds this in through narrowing SG yield discounts over time. Our SG bond yield forecast also shows near-term potential of some yield upside relative to its 30 Nov spot rate, like the US case. A larger magnitude of adjustment comes from the fact that the SGD NEER is at its strongest level year to date. Potential for further gains is limited and we do not expect the MAS to further tighten monetary policy. Our SG bond yield forecast displays underperformance versus UST due to mean reversion by the SGD NEER back towards the mid-point.

Summary table of rates forecasts						
Rates	30 Nov 23	Forecast	1Q24F	2Q24F	3Q24F	4Q24F
US Fed Funds Target	5.50	Current	5.50	5.25	5.00	4.75
		Previous	5.50	5.25	5.00	4.75
3M Compounded SOFR	5.35	Current	5.31	5.20	4.98	4.73
		Previous	5.30	5.20	4.98	4.73
10Y UST	4.25	Current	4.30	4.20	4.10	4.00
		Previous	4.40	4.30	4.20	4.10
3M Compounded SORA	3.75	Current	3.72	3.64	3.47	3.28
		Previous	3.81	3.70	3.48	3.28
10Y SGS	2.93	Current	3.15	3.10	3.05	3.00
		Previous	3.35	3.30	3.20	3.10

Source: UOB Global Economics & Markets Research forecasts

Big picture on rates for 2024

Monetary policy easing will become the dominant price theme in 2024. Notably, Fed rate cuts have historically been front loaded with two thirds of eventual rate cuts since 1984 delivered within the first year (we covered this in our 3Q 2023 Rates Strategy: A Primer On The Eventual Fed Easing Cycle). This being the case and with markets demonstrably efficient in processing scenarios, it is useful to familiarize with common features associated with an easing cycle at a high level.

Chart 3: Market pricing of rate cuts by 2025

Source: Bloomberg, UOB Global Economics & Markets Research

How low and how fast yields will ultimately adjust is clouded by uncertainties. This is especially so when obvious anchor points such as the Fed's dot-plot should also be interpreted with caution since its members constantly cite data dependency as the principle for their decision making.

We suspect that the top end of rate cut estimate may be conservative given that monetary easing narratives haven't had a real chance of gaining traction this year in the face of recurrent "higher for longer" messaging from the Fed.

Over the course of 2023, investors have entertained a range of possibilities that a rate cut cycle might span between 100 to 200bps. We suspect that the top end of rate cut estimate may be conservative given that monetary easing narratives haven't had a real chance of gaining traction this year in the face of recurrent "higher for longer" messaging from the Fed. A change in guidance ahead of the 1st rate cut will allow for a more concerted attempt by the market to pick the bottom of this easing cycle, accompanied with probable overshooting in the process.

Chart 4: Steeper yield curve

Source: Bloomberg, UOB Global Economics & Markets Research

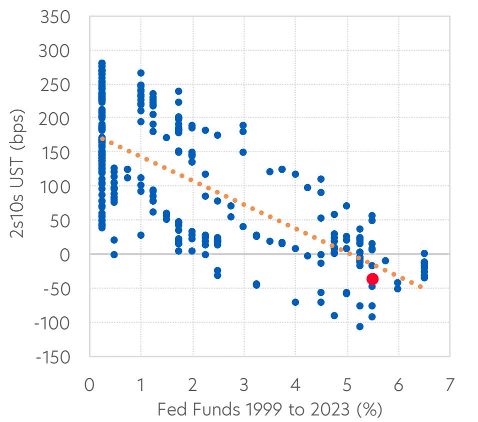
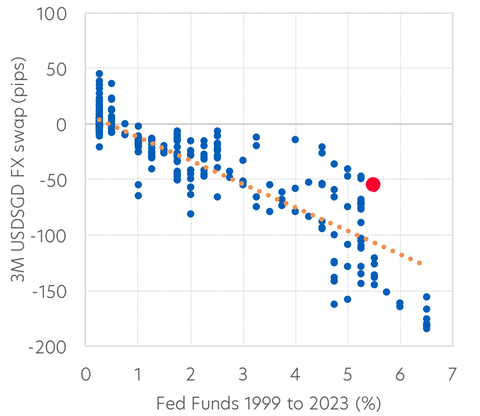


Chart 5: Lesser SG yield discount

Source: Bloomberg, UOB Global Economics & Markets Research



The shift in monetary tide also means that we can expect to see (1) steeper yield curves and (2) lesser SG yield discount to US rates. The former is the combination of short maturities tracking Fed rate cuts at the same time when the longer end of the curve discounts accommodative monetary policy settings with better growth outcomes and lower risk of deflation. The latter exists as a byproduct of our FX monetary policy regime which has resulted in the long-term sensitivity of SG yields to US yields being less than 1. We have seen SG yields rising by a smaller magnitude in the recent US rate hike cycle, and it will be the case that SG yields will fall by a smaller magnitude across the US rate cut cycle.

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SGS demand and supply 2024

For the remainder of this note, we will be looking at the SGS market as it stands and what 2024's auction calendar will bring. To begin, there have been a few notable changes in next year's auction schedule. First, the 50Y bond shifts to a regular auction after two previous rounds of syndication. Second, a new 30Y (Green) bond will be introduced via syndication. Third, the number of mini-auctions has been increased to three (from two in 2023).

Chart 6: Gross issuance (10Y duration equivalent)

Source: Bloomberg, UOB Global Economics & Markets Research

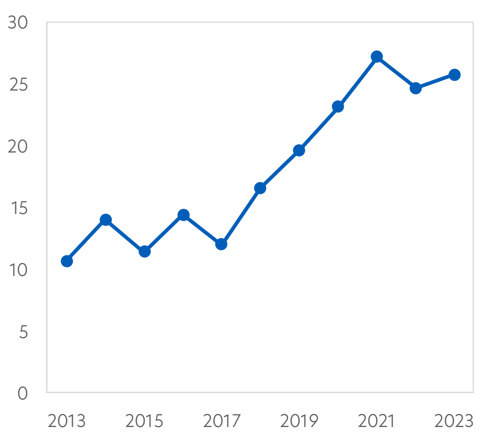
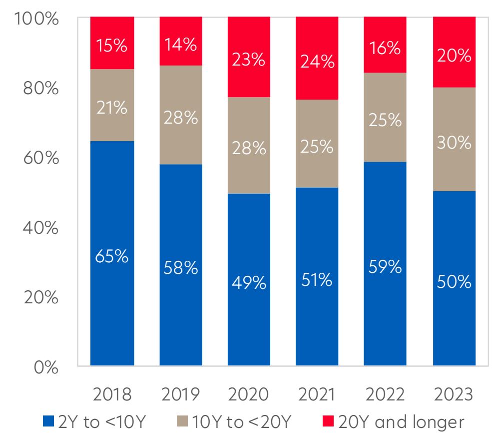


Chart 7: Composition of SGS issuance

Source: Bloomberg, UOB Global Economics & Markets Research



The 20Y bond makes its return to the schedule, replacing one of the slots previously occupied by a 10Y auction. There will also be three new issues in 2024 (5Y, 10Y, 30Y) compared to just one (5Y) in 2023. New issue supply is usually larger than re-openings as such we could experience some concession in the price action closer to their respective auction dates.

On the account of our 2024 easing cycle view, we think that some terming out by investors could also occur and this may come mainly at the expense of the mid-curve which is rich. To wit, Nov's average for the 2s10s20s constant maturity fly resides below 1 percentile of its daily closing since 29 Mar 2007.

In our view, gross supply (10Y duration equivalent) for 2024 may possibly turn out to be higher than the SGD 25.7bn that was added in 2023. The composition of supply is roughly 50:50 split between maturities of less than 10Y and 10Y or more. We think that this composition could stay largely intact in 2024, with front end demand supported whilst yield curve inversion remains. On the account of our 2024 easing cycle view, we think that some terming out by investors could also occur and this may come mainly at the expense of the mid-curve which is rich. To wit, Nov's average for the 2s10s20s constant maturity fly resides below 1 percentile of its daily closing since 29 Mar 2007.

Chart 8: SG government debt market

Source: Bloomberg, UOB Global Economics & Markets Research

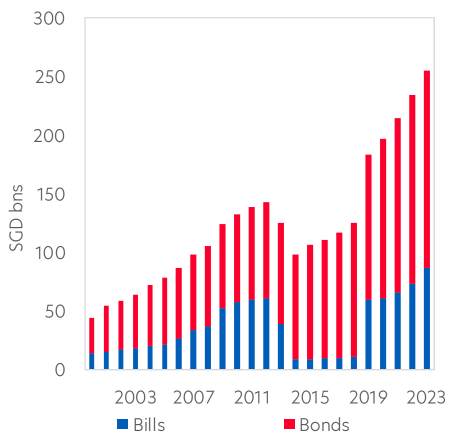
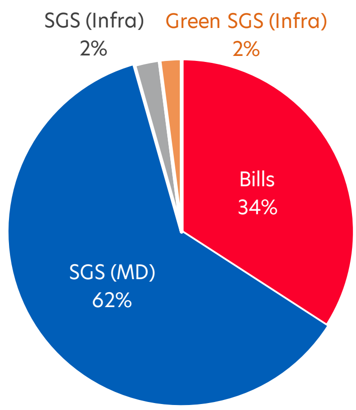


Chart 9: Composition of SG government debt market (Nov 23)

Source: Bloomberg, UOB Global Economics & Markets Research



Given our supply market's unique set-up where SGS is not used to fund government deficits, growth in outstanding debt is largely a function of demand as well as the objective to maintain adequate liquidity for trading and orderly market operations.

The Singapore government bond (SGS) market grew by SGD 6.4bn in 2023 to SGD 167.5bn and the current composition of the sovereign debt market is roughly comprised of 66% bonds and 34% bills. Over the past 10 years, the size of the SGS market has increased by an average of 6.7% per annum. The pace of growth has slowed down over recent years from the 2020 peak of 10% to 4% in 2023. Given our supply market's unique set-up where SGS is not used to fund government deficits, growth in outstanding debt is largely a function of demand as well as the objective to maintain adequate liquidity for trading and orderly market operations.

Chart 10: Net national SGS issuance (ann % change)

Source: Bloomberg, UOB Global Economics & Markets Research

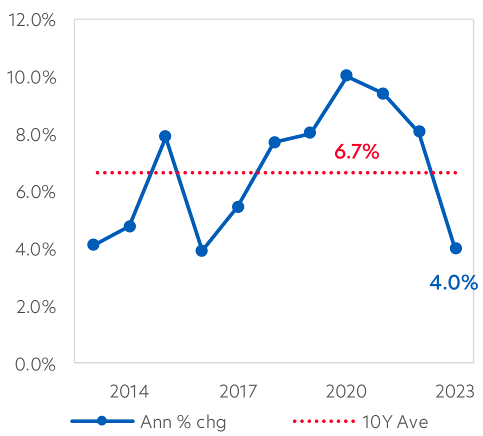
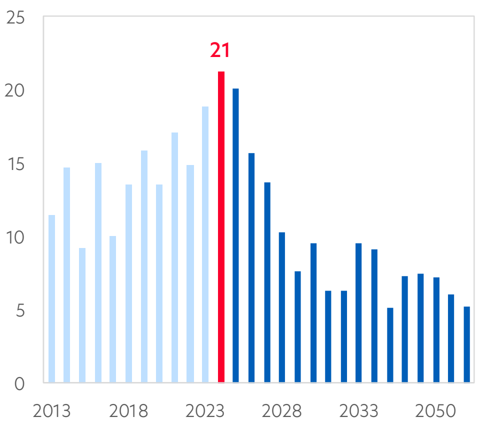


Chart 11: SGS maturity profile

Source: Bloomberg, UOB Global Economics & Markets Research



We envisage that the marginal foreign interest may be neutral at best given that on most measures our domestic currency is already on the richer end of the scale and also because if we were to enter into a rate easing cycle, the potential price appreciation by SGS has historically lagged that of UST.

Looking into 2024, official estimates for GDP growth entails room for wealth creation on the macro level which will support an expansion in the SGS market. We envisage that the marginal foreign interest may be neutral at best given that on most measures our domestic currency is already on the richer end of the scale and also because if we were to enter into a rate easing cycle, the potential price appreciation by SGS has historically lagged that of UST. One potential constraint on debt market growth may stem from a larger batch of SGS maturities in 2024 which amounts to SGD 21.2bn, compared to SGD 18.8bn in 2023. This raises the bar for SGS market size expansion particularly when we've already experienced declining annual gross issuance growth rates in the last three years.

We see a reasonable range for SGS gross issuance as bounded between SGD 25bn to 32bn based on the assumptions in the table above. Our bias for gross/net issuance outcome lies towards the lower half of the range. In terms of investor appetite, 2023's auction demand has been robust for the 2Y and 5Y tenors with bid-to-cover ratio of around +1 z-score over its past five years. Demand for the longer maturities has either been in line with recent history or around -0.5 z-score in the case of the 10Y and 20Y tenors. Given this, the 20Y auction in Feb 2024 will be an important early test of whether there has been a change in the market's demand function.

Chart 12: 2023 auction bid-to-cover average vs past 5Y

Source: Bloomberg, UOB Global Economics & Markets Research

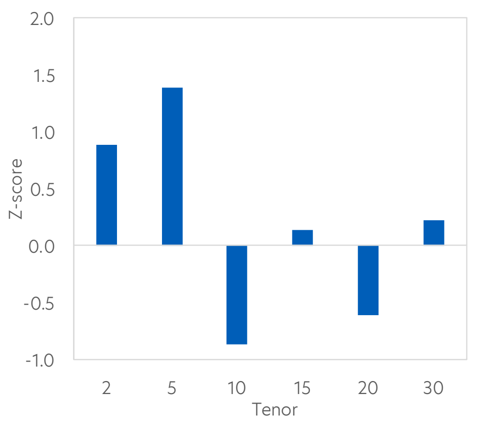


Table 1: Scenarios for 2024 net issuance

	2024 Gross ($mn)	2024 Net ($mn)	2024 Net (%)
10Y Min Gross Increase ($)	24,600	3,400	2.0%
2023 Net Increase ($)	27,600	6,400	3.8%
10Y Ave Increase (%)	32,355	11,155	6.7%

Source: UOB Global Economics & Markets Research

COMMODITIES STRATEGY

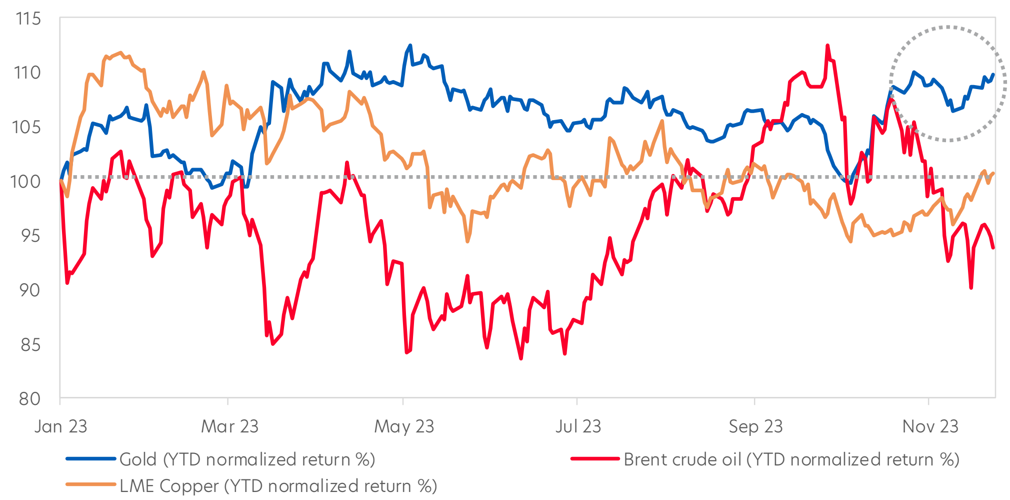
Sustained break for gold above USD 2,000/oz now within sight

Contrary to consensus (and our expectations) of a renewed climb further towards the USD 100/bbl level, Brent crude oil price fell instead back towards the USD 80/bbl level and is likely to end the year nursing a small loss.

Once again, the commodities complex gave investors yet another quarter of surprise and drama. Contrary to consensus (and our expectations) of a renewed climb further towards the USD 100/bbl level, Brent crude oil price fell instead back towards the USD 80/bbl level and is likely to end the year nursing a small loss. In line with the uncertain future of China's economy, LME Copper price went nowhere throughout the year as it continued to struggle within familiar trading range from USD 8,000 to USD 8,500/MT. And gold appears to be the surprise winner for the year, snapping back up to the USD 2,000/oz resistance yet again, as the high interest rates and strong USD headwinds subside.

Gold recovers strongly in 4Q23 after rates and USD top out

Source: Bloomberg, UOB Global Economics & Markets Research



Gold was the surprise strong performer for 4Q23 as it rebounded strongly from USD 1,850/oz to USD 2,000/oz, riding strongly on the twin tailwinds of a retreat in 10Y US Treasuries yield from 5% to 4.5% and the consequent softening of the USD with the DXY index easing.

Gold was the surprise strong performer for 4Q23 as it rebounded strongly from USD 1,850/oz to USD 2,000/oz, riding strongly on the twin tailwinds of a retreat in 10Y US Treasuries yield from 5% to 4.5% and the consequent softening of the USD with the DXY index easing from 107 to below 104. Over the past four years, this is now supposedly the 6th time that gold is back testing the key psychological USD 2,000/oz resistance level. Is this now the moment of a sustained break higher?

Meanwhile, Brent crude oil price continued its volatile price swings, caught in-between OPEC+ infighting and tightening supply worries. In particular, while this is not our base case scenario, any escalation in Middle East conflict involving Iran could risk endangering supply further providing a renewed boost for oil prices. Will global growth slowdown risks prevail and depress Brent crude oil prices at USD 80/bbl? Or will increasing geopolitical risk reignite a push back up to USD 100/bbl?

Finally, LME Copper prices went nowhere and is likely to end the year muted just above USD 8,000/MT. China's growth slowdown continues to be front and center of investor concerns. In particular, the property sector slowdown has depressed construction demand for Copper and is one of the key negative drivers this year. Will copper price be able to stay afloat above USD 8,000/MT in the coming year?

Gold

Softer USD and Lower Rates to sustain Gold's move above USD 2,000/oz

UOB's Forecast	1Q24	2Q24	3Q24	4Q24
Gold (USD/oz)	2,050	2,100	2,150	2,200

The long wait may well be over for gold to stage a sustained break above USD 2,000 / oz. Two key positive drivers are now in place and they should not come as any surprise to bullion bulls. Indeed, over the past two months, gold has responded rather positively to the topping out of US interest rates and the consequent softening of the USD.

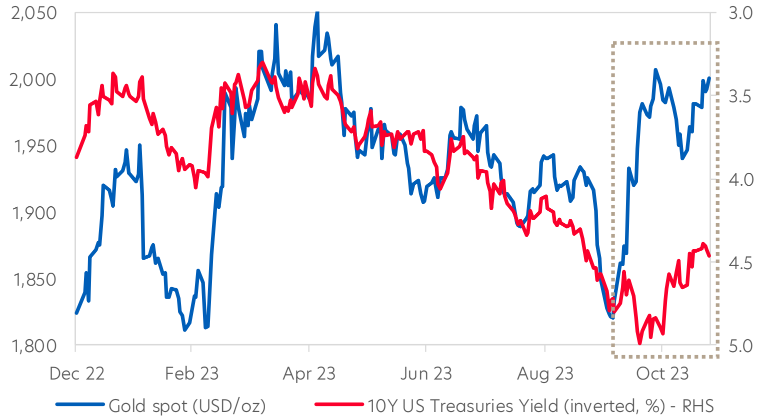
In particular, the pullback in 10-year US Treasuries yield from 5% to the 4.5% handle coincided with the snap-back in gold from USD 1,850 / oz to USD 2,000 / oz. Similarly, during the same time frame from across October and November, the USD Index (DXY) fell from 107 to below 104 and that provided gold with a strong tail wind as well.

Going forward, our House View maintains that both US Treasuries yields and USD have topped out, and are on the gradual retreat in the months ahead across 2024. Concurrently, while sovereign demand for gold remains strong from Asia and EM central banks, gold investments from retail investors are only just starting to bottom. Specifically, ETF holdings in gold appear to have bottomed at the year's low. This should bode well for gold as retail interest return.

Overall, we maintain our positive view for gold for a sustained move above USD 2,000 / oz. Over the long run, gold remains a key portfolio diversifier of risk. We update our forecast for gold to USD 2,050 / oz in 1Q24, USD 2,100 / oz in 2Q24, USD 2,150 / oz in 3Q24 and USD 2,200 / oz in 4Q24.

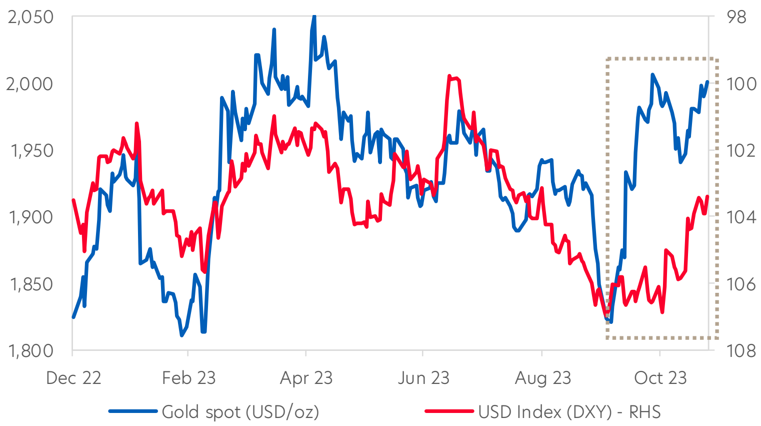
Gold recovers strongly as 10Y UST yield tops out at 5%

Source: Bloomberg, UOB Global Economics & Markets Research



A softer USD is also very positive for gold

Source: Bloomberg, UOB Global Economics & Markets Research



Gold ETF holdings have bottomed near the year's low

Source: Bloomberg, UOB Global Economics & Markets Research

Brent Crude Oil

On-going supply worries to floor Brent Crude Oil at USD 80/bbl

UOB's Forecast	1Q24	2Q24	3Q24	4Q24
Brent crude oil (USD/bbl)	85	85	90	90

Our previous worry of a rise in Brent crude oil price back to USD 100 / bbl did not materialize. Despite renewed tensions in the Middle East due to the latest conflict between Israel and Hamas, Brent crude oil price made no headway in 4Q24 and fell back instead to struggle at the USD 80 / bbl level.

However, the tail risk of a further supply shock due to a further escalation in conflict in the Middle East cannot be ignored. Iran is now a key crude oil producer and exporter, producing about 1/3 of crude oil supply as Saudi Arabia and concurrently its export volume is about 1/5 that of Saudi Arabia. The tail risk of a disruption in crude oil supply from Iran will have significant ramifications to crude oil supply and will risk propelling prices back to USD 100 / bbl (or possibly higher).

The latest OPEC+ meeting ended with a fair amount of confusion. While the group claimed to commit to an additional 2.2 mio bpd of production cuts, full details of individual country quotas were lacking. Saudi Arabia did extend its 1 mio bpd production cut to end 1Q24. While Iraq, UAE, Kuwait, Kazakhstan, Algeria and Oman also joined with their additional cuts. But there remains confusion over the distribution of the rest of production cuts and this raised concerns on overall adherence to the production cuts.

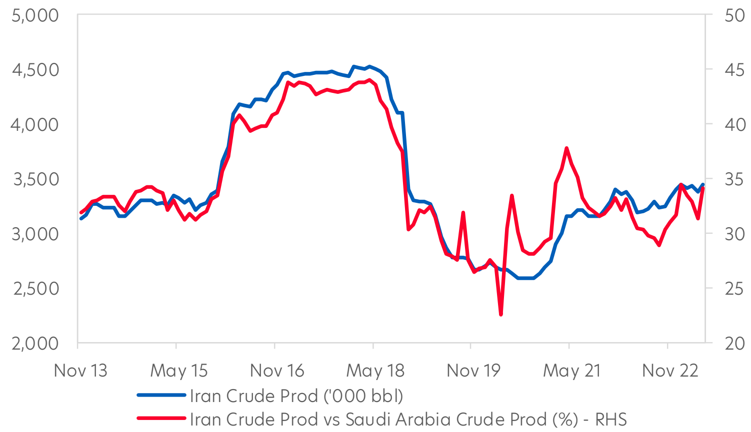
Overall, we maintain our positive outlook for Brent crude oil, but adjust our positive price forecasts to more modest levels of USD 85 / bbl in 1Q and 2Q24 and USD 90 / bbl in 3Q and 4Q24. Despite the post OPEC+ meeting confusion, the USD 80 / bbl price level is likely to offer good support as it is perceived to be a key "line in the sand" for OPEC+.

USD 80 / bbl is OPEC's perceived "floor" for crude oil price

Source: Bloomberg, UOB Global Economics & Markets Research

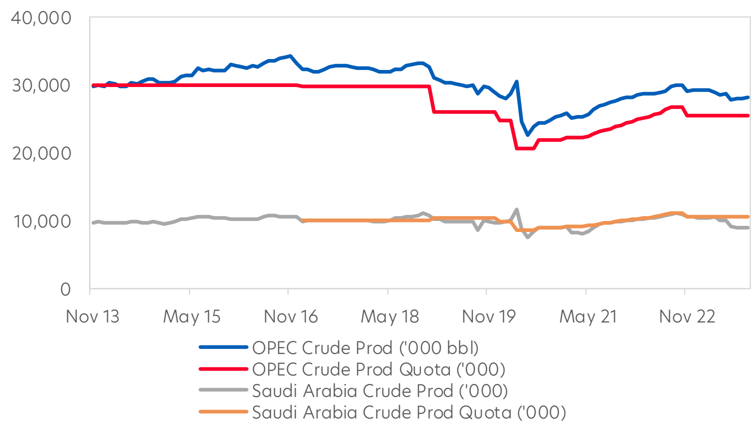
Iran now produces about 1/3 of Saudi crude oil production

Source: Bloomberg, UOB Global Economics & Markets Research



Saudi has been producing below quota and keeping overall OPEC+ supply tight

Source: Bloomberg, UOB Global Economics & Markets Research



Copper

Stay negative on increasing risks of pullback below USD 8,000/MT

UOB's Forecast	1Q24	2Q24	3Q24	4Q24
LME Copper (USD/mt)	8,000	8,000	7,000	7,000

At the risk of stating the obvious, LME Copper's outlook is tied closely to the outlook of China's economy, particularly the manufacturing and property construction sectors. Over the past year, LME Copper has been trading within a tight range from USD 8,000 / MT to USD 8,500 / MT, as China's manufacturing PMI continues to struggle around the "make or break" 50 level.

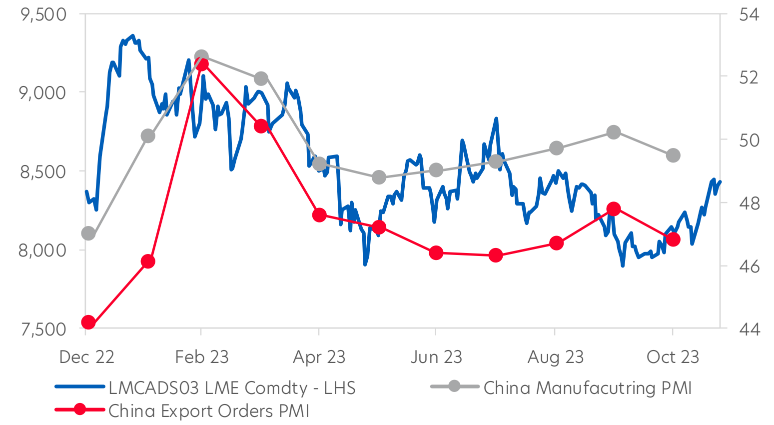
However, a worrying sign has emerged, i.e. the cash vs 3M spread for LME Copper has spectacularly collapsed. After being stuck in discount for most of the year, this discount has since doubled from USD 50 to 100 / MT in recent months. A widening discount is symptomatic of the lack of near-term delivery demand. Many attribute this to the sharp slowdown in China's property construction as developers remain mired in debt issues.

Adding to the longer-term worries, the latest update from a key industry think tank, the International Copper Study Group (ICSG) warned of a sharp rise in refined copper production in 2024, with both copper mining capacity and refining capacity ramping up strongly across 2023 and 2024, after stalling in previous years around 2020. This will lead to a surge in refined copper balance from a deficit of 27kt in 2023 to a surplus of 467kt in 2024. This projected surplus is a key negative for LME Copper price.

Overall, in view of weak construction demand from China as well as risk of increasing refined balance in the months ahead, we maintain our negative outlook for LME Copper. Our updated forecast for LME Copper is USD 8,000 / MT in 1Q and 2Q24 and USD 7,000 / MT in 3Q and 4Q24.

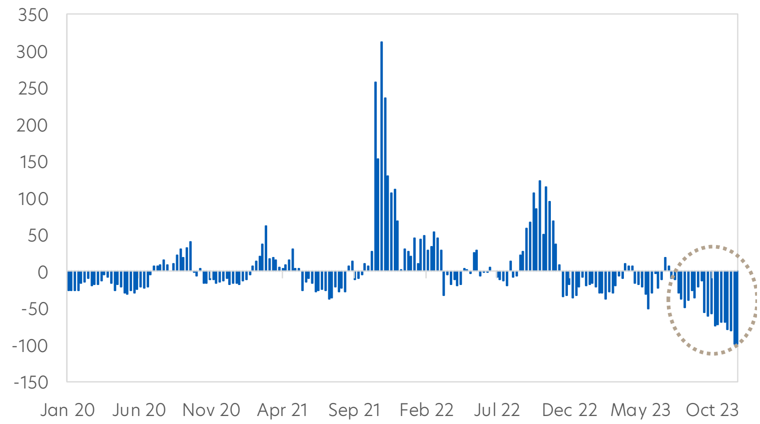
Near term copper price struggles in line with China manufactuing PMI

Source: Bloomberg, UOB Global Economics & Markets Research



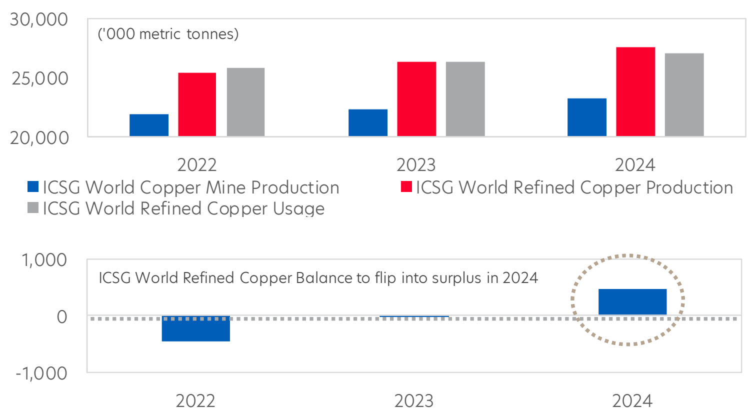
LME Copper cash vs 3M sread slumps deep into negative

Source: Bloomberg, UOB Global Economics & Markets Research



ICSG World Refined Copper Production to jump in 2024

Source: Bloomberg, UOB Global Economics & Markets Research



FX & Rates	1Q24F	2Q24F	3Q24F	4Q24F
USD/CNY	7.10	7.00	6.90	6.80
CNY 1Y Loan Prime Rate	3.35	3.35	3.35	3.35
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	8.4	3.0	5.2	4.5
CPI (avg y/y %)	0.9	2.0	0.4	1.7
Unemployment Rate (%)	5.1	5.5	5.1	5.1
Current Account (% of GDP)	2.0	2.2	1.5	1.3
Fiscal Balance (% of GDP)	-3.8	-4.7	-4.8	-4.5

ECONOMY

Stronger stimulus rolls in

China's economic recovery has stayed on two tracks. Activities in the manufacturing and services sectors continued to recover while real estate posed a significant drag. Since Aug, industrial production and retail sales have been rebounding gradually as stimulus started to roll in but investments and property prices continued to weaken. Even though the surveyed jobless rate dropped to a 2-year low of 5.0% in Sep-Oct, the employment outlook has stayed weak, with the employment index of both the manufacturing and non-manufacturing PMIs remaining in contraction.

With the real estate market in doldrums and weak growth prognosis extending into the next year, the National Bureau of Statistics' Consumer Confidence Index was near record low of 87.2 in Sep. Money supply M2 growth slowed to 10.3% y/y in Oct from 12.6% y/y in Jan while the more liquid M1 has eased sharply to just 1.9% y/y from 6.7% y/y in Jan. The widening gap in the M1 and M2 money supply measures suggested liquidity increasingly held in savings rather than for spending.

Since the Jul Politburo meeting, China has announced a slew of measures for its struggling property market as developers' liquidity and debt repayment ability continued to suffer amid poor property sales. The latest measures include PBOC's plan to inject at least CNY1 tn via the pledged supplementary lending (PSL) facility to policy banks for the urban village renovation and affordable housing programs while authorities are also reported to be drafting a list of 50 developers eligible for a range of financing support.

While China's economy has stabilised, the level of uncertainties continued to be high and risks are still skewed to the downside due to its domestic problems as well as external demand headwinds. Trade tensions with the US will continue to drive supply-chain diversification out of China. China's direct investment liabilities in its balance of payments fell in 3Q23 for the first time on record since 1998, declining by US$11.8 bn (2Q23: +US$6.7 bn) as foreign companies repatriated earnings and invested less in China.

Infrastructure spending remains one of the key areas to benefit from the fiscal policy stimulus. The government has announced an additional CNY1 tn bonds issuance to support the rebuilding of disaster-hit areas and boost the country's disaster relief capabilities, half of which will be used in 4Q23 and the rest to be carried over to 2024. Local government bonds quota used for infrastructure spending will also be frontloaded in 2024.

The annual Central Economic Work Conference (CEWC), will be held in Dec while the third plenum of the Communist Party of China has likely been delayed to early 2024. The latter will unveil China's new leadership's broad economic development and reform policies. Of importance will be the policy priorities and China's appetite for stronger economic stimulus.

With GDP growth of 5.2% y/y in 1Q-3Q this year, this likely put China's full year growth on track to achieve the official growth target of around 5%, considering that the GDP growth in 4Q23 will be bumped up by a low base of comparison. Factoring in a similar 5.2% y/y in 4Q23, we now expect China's GDP growth to be 5.2% in 2023. We are keeping the outlook for 2024 unchanged at 4.5%.

China's CPI fell back to deflation at -0.2% y/y in Oct due to a larger decline in food prices. The headline CPI had recorded its first negative reading since Feb 2021 earlier in Jul 2023. Core inflation (excluding food & energy) also edged lower to 0.6% y/y (Sep: 0.8%).

Year-to-date as of Oct, headline CPI and core CPI averaged 0.4% y/y and 0.7% y/y respectively. Risk of a sustained deflation in China remains low but we could still see some months of y/y contraction in headline CPI from now until 1Q24. Overall, we maintain our forecast for headline inflation at 0.4% in 2023 and 1.7% in 2024.

CENTRAL BANK

Further rate cuts on hold after large liquidity injections

Weak credit demand and the low inflation backdrop still provided the room for monetary policy easing but the surge in liquidity injections and possible relaunch of the PSL may delay further rate cuts to 1Q24 or even 2Q24.

The PBOC issued a record CNY1.45 tn of 1Y medium-term lending facility (MLF) in Nov resulting in net injection of CNY0.6 bn for the month and CNY1.725 tn YTD. Coupled with PBOC's measures to boost financing support to property buyers and developers, the large cash injections so far will reduce near-term pressure to cut interest rates further even as the growth risk is still biased to the downside.

Thus, we push back our call for further interest rates cuts to 1Q24. We foresee the 1Y and 5Y loan prime rates (LPR) to fall by 10 bps to 3.35% and 4.10% respectively in 1Q24 and remain flat through end-4Q24. Another 25 bps cut to banks' reserve requirement ratio (RRR) may be delivered earlier to provide additional market liquidity. The PBOC had delivered two 25 bps RRR cuts so far in 2023.

CURRENCY

USD/CNY may have peaked

While China's tail-risks gradually recede and the prevailing pessimistic views and sentiments on China may be at their peak, the eventual recovery in CNY hinges on the broad USD trend. The catalyst for a CNY rebound will likely come next year as Fed's rate cut speculation intensifies and USD weakens anew. It looks increasingly likely the USD/CNY has peaked around 7.32 in 4Q23 and will trade lower across 2024 as we previously expected. Overall, our updated USD/CNY forecasts are at 7.10 in 1Q24, 7.00 in 2Q24, 6.90 in 3Q24 and 6.80 in 4Q24.

HONG KONG

FX & Rates	1Q24F	2Q24F	3Q24F	4Q24F
USD/HKD	7.80	7.80	7.80	7.80
HKD Base Rate	5.75	5.50	5.25	5.00
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	6.4	-3.5	3.5	2.5
CPI (avg y/y %)	1.6	1.9	2.2	2.5
Unemployment Rate (%)	4.0	3.5	2.9	2.9
Current Account (% of GDP)	11.8	10.5	7.6	6.7
Fiscal Balance (% of GDP)	1.0	-4.3	-4.0	-1.4

ECONOMY

Weak Growth Momentum

Hong Kong's GDP growth strengthened to 4.1% y/y in 3Q23 from 1.5% y/y in 2Q23 on the back of a low base in the previous year. However, the economy barely nudged on a seasonally adjusted q/q basis with sequential growth of just 0.1% following contraction of 1.3% in 2Q23. This reflected the easing momentum in private consumption expenditure and services exports after preceding months of recovery while services imports held up and contributed to a weakening in net services trade.

Compared to year-ago period, growth in 3Q23 was underpinned by private consumption expenditure (+6.3% y/y), services exports (+23.9% y/y) and gross domestic fixed capital formation (+18.4% y/y). However, there was no respite for goods trade as exports (-8.6% y/y) and imports (-5.9% y/y) registered their 7th straight quarter of contraction. Goods exports continued to fall across most of its markets in 3Q23 including the Mainland, US and the EU. Meanwhile, government spending (-4.5% y/y) extended its contraction due to its fiscal consolidation.

Rising interest rates and an uncertain external outlook continued to weigh on the residential property market in the third quarter as the number of transactions slumped by 25% from the preceding quarter and prices fell by around 4%. To lift buying sentiment, the Hong Kong government eased its property market curbs for the first time in more than a decade, as it halved the home purchase tax for residents buying a second flat and shortened the applicable period of the Special Stamp Duty (SSD) from three years to two years for homeowners to sell their flats without tax penalty.

The 3M average unemployment rate has tapered down to 2.9% in Oct from 3.4% at the start of the year, back to its pre-Covid level. Total employment continued to rise to 3.71mn in tandem with the recovery in tourism and consumption since early part of the year but has yet to recover to pre-Covid level of around 3.85mn in Dec 2019.

In the second half of this year, the average daily visitor arrivals have returned to 60-70% of the level over the same period in 2018 while the total value of retail sales were around 85% of the level over the same period in 2018. Mainland arrivals continued to make up more than three quarters of total arrivals. These numbers will further recover as the handling capacity in the aviation and related sectors recover towards pre-Covid levels.

The S&P Global PMI for Hong Kong's economy has slipped below the expansion threshold since Jul, reflecting weaker sentiment due to a poorer economic recovery in the Mainland as well as tighter financial conditions. However, the narratives on private consumption will remain positive into 2024 as the tourism-related sector continues to normalise along with stabilisation in the Mainland's outlook.

Hong Kong's real GDP rose by 2.8% y/y in the first three quarters of the year. Accounting for the weaker 3Q23 GDP, the official forecast for 2023 was slashed to 3.2% from 4.0%-5.0%. We have also revised down our forecast for 2023 growth to 3.5% (from 4.2%) while keeping our outlook at 2.5% for 2024. The official forecasts for 2024 will only be released in Feb next year when the Budget for 2024-25 is tabled.

The budget deficit for the current fiscal year is expected to be double of the original estimate, exceeding HK$100bn due to weak land sales and stamp duty while measures announced at Oct's policy address will increase the government's recurrent spending. The Budget for 2024-25 is likely to remain expansionary to boost the recovery next year while housing, low fertility, talents and other measures to revitalise the economy will remain the priorities.

On the inflation front, price pressures remain largely in check due to the subdued demand. In the first 10 months of 2023, the composite and underlying inflation averaged 2.0% and 1.8% respectively. The revised official forecasts of the 2023 composite and underlying inflation are at 2.2% and 1.8% respectively. We are revising higher our forecast for composite inflation to 2.2% in 2023 and 2.5% in 2024. Although the external price pressure is expected to cool in 2024, domestic prices may start to accelerate as improving domestic demand and wage growth translate into higher costs for businesses. Planned cuts to residential electricity charges will offset some inflation for households.

CENTRAL BANK

Interbank Liquidity Remains Tight

Hong Kong's aggregate balance held steady at around HKD45bn in Nov, keeping interbank liquidity at its tightest since 2008, partly driven by HKMA's interventions to maintain HKD's peg to the USD.

The 3M Hibor crossed 5.7% to its highest level since Jan 2001 and closing the gap with the US rates. 1M Hibor topped 5.5% to a 16-year high. Short-term funding costs may continue to be squeezed higher when seasonal demand increases during quarter end while higher for longer rates in US will also keep domestic rates elevated.

CURRENCY

New Normal At 7.80

USD/HKD fell to 7.79, the lowest level this year as a HKD funding squeeze caused HKD rates to edge above equivalent USD rates. Consequently, the previously popular carry trade of selling HKD to buy USD has now turned unprofitable and is likely to keep the USD/HKD depressed.

Next year, as Fed rate cuts gradually come into focus, broad USD weakness is likely to keep USD/HKD tethered around 7.80 over the next quarters of 2024. The previous regime of USD strength near 7.85 HKD in the past two years is likely a thing of the past.

FX & Rates	1Q24F	2Q24F	3Q24F	4Q24F
USD/INR	83.0	82.0	81.0	80.0
INR Repo Rate	6.50	6.50	6.50	6.25
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	9.1	7.2	6.9	6.4
CPI (avg y/y %)	5.5	6.7	5.8	5.1
Current Account (% of GDP)	-1.2	-2.0	-1.5	-1.4
Fiscal Balance (% of GDP)	-6.7	-6.4	-5.9	-5.5

ECONOMY

Growth supported by strong end-year festival demand

India's real GDP in the 2QFY23-24 (Jul-Sep quarter) rose by 7.6% y/y, stronger than UOB's estimate of 6.8%, although a tad lower than 1Q's 7.8% y/y print. By expenditure, growth was driven by an acceleration in government spending to 12.4% y/y (1Q: -0.7%) and an improvement in GFCF to 11.0% y/y (1Q: 8.0%) with a smaller drag from net exports compared to 1Q as the expansion in exports by 4.3% y/y (1Q: -7.7%) offset the increase in imports (2Q: 16.7%, 1Q: 10.1%). However, the extent of GDP growth was mitigated by a moderation in private consumption to 3.1% y/y (1Q: 6.0%). India's real GVA rose 7.4% y/y in 2Q (1Q: 7.8%), supported by an acceleration in manufacturing to 13.9% y/y (1Q: 4.7%) and improvement in construction to 13.3% y/y (1Q: 7.9%), although partly offset by a moderation in financial and real estate services to 6.0% y/y (1Q: 12.2%) and a pullback in trade, hotel and transport services (2Q: 4.3% y/y, 1Q: 9.2%).

In the latest Nov 2023 RBI Bulletin, RBI noted that high-frequency activity indicators displayed strength in Oct, with cargo traffic at major ports recording a 18.7% y/y increase and coincident indicators of the construction sector such as steel production rose 13.8% y/y. Services sector remained robust led by festival demand and strong y/y growth in E-way bills, railway freight, port cargo traffic and air cargo.

The positive near-term outlook is also corroborated by survey data with India's S&P Global PMIs for both manufacturing (Nov: 56.0, Oct: 55.5) and services (Oct: 58.4, Sep: 61.0) still in expansion territory (above 50) although recent readings have been softer.

Looking ahead, we expect 3Q (Oct-Dec) GDP to expand 6.9% y/y (RBI nowcast: 6.3%) driven by strong year-end festival demand and ongoing public infrastructure spending. Private sector investments could pick up after the 18th Lok Sabha (lower house) elections (Apr-May 2024) as election uncertainty abates alongside continued progress of public infrastructure projects with the newly formed cabinet. In the long term, supply chain diversification on the implementation of the "China Plus One" strategy may provide a structural boost to investment in India. We upgrade our FY23-24 GDP forecast to 6.9% (prev: 6.5%) and expect growth to moderate to 6.4% for FY24-25, as tight financial conditions gradually weigh on economic activity.

India's inflation rate moderated sharply to 4.9% y/y in Oct 2023 after the food-driven re-acceleration in CPI to 7.4% y/y in Jul 2023 (Jun: 4.9%) which eased after the imposition of export measures (tariffs/bans) on certain food items (rice, onions, sugar, among others) to improve domestic supply conditions. Recent disinflation was further supported by a decline in the electricity, gas and fuel prices (6.8% weight) component following the 18% price cut on LPG announced in late Aug 2023, ahead of the recent Nov state elections and mid-2024 lower house elections. Meanwhile, core inflation moderated further to 4.2% y/y in Oct, back to levels seen at the start of 2020. In the near term, upward pressures on inflation persist on strong year-end festival demand and elevated crop prices due to lower output stemming from an uneven monsoon. Over the medium term, tighter financial conditions could keep a lid on demand and support the ongoing disinflation. Overall, we forecast CPI growth to average 5.8% (previous est: 6.0%) for FY23-24 and 5.1% for FY24-25.

CENTRAL BANK

Peak policy rates to persist through most of CY2024

At its Oct 2023 MPC meeting, the RBI left the benchmark repo rate unchanged at 6.50% as expected, marking the fourth consecutive time the RBI has stayed put. However, the RBI surprised markets by announcing its intention to conduct open market bond sales via auctions although the timing and quantum "will depend on the evolving liquidity conditions" which could increase the cost of capital, in particular for NBFCs. The current repo rate is at a level last seen in Jan 2019, right before RBI started to cut rates. We expect RBI to keep policy rates unchanged at the upcoming 8 Dec MPC meeting. With headline CPI inflation likely to remain above RBI's 4% target till late 2024, we expect RBI to keep peak policy rates unchanged for most of calendar year 2024 to anchor the disinflation process, while penciling in a 25bps rate cut in 3QFY24-25 (Oct-Dec 2024).

CURRENCY

INR to recover next year

Since Aug, USD/INR has broken above its key resistance at 83.0 and has been grinding higher since. The recent bout of USD weakness elsewhere due to a Fed's dovish pivot appears to have little impact on USD/INR which is trading close to its record high of 83.47. Investors evaluating the ongoing state and upcoming national elections may have some impact in the near term. Eventually, we expect INR to participate in the Asia FX recovery next year as China slowdown worries recede and broad USD weakness exert. Our updated USD/INR forecasts are 83 in CY1Q24, 82 in 2Q24, 81 in 3Q24 and 80 in 4Q24.

INDONESIA

FX & Rates	1Q24F	2Q24F	3Q24F	4Q24F
USD/IDR	15,400	15,200	15,000	14,800
IDR 7D Reverse Repo	6.25	6.25	6.25	6.25
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	3.7	5.3	5.1	5.2
CPI (avg y/y %)	1.6	4.2	3.6	3.0
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

ECONOMY

General election to boost growth in the short-term

Indonesia's 3Q23 GDP growth came in lower than expectation at 4.94% y/y or 1.60% q/q on the back of contraction in exports and government spending. For 3Q23, all expenditure components decelerated compared to the previous quarter, except for investment which grew stronger than 2Q23. A robust investment growth can be attributed to higher investment in the base metals industry, mining, transportation, as well as storage, and communication sectors.

Private consumption grew at a slower pace of 5.06% y/y, while government spending contracted by 3.76% y/y. From the sectoral side, most sectors grew at a slower pace in 3Q23. Trade sector with 12.96% share of total GDP grew slower from 5.25% y/y in 2Q23 to 5.08% in 3Q23. Other sectors with large shares such as agriculture and transportation also grew lower at 1.46% y/y and 14.74% y/y respectively. Meanwhile, we noted an improvement in the manufacturing and mining sectors which grew by 5.20% y/y and 6.95% y/y respectively.

We maintain our forecast for Indonesia to grow 5.1% in 2023, slightly lower vs 2022's 5.3%, but we expect it to bounce slightly higher to 5.2% in 2024 as government spending amid the general election would typically bring about multiplier effects that will drive higher domestic consumption. Indonesia maintained its external sector resiliency despite rising global uncertainty. Indonesia's 3Q23 overall balance improved from a deficit of USD7.4bn (-2.1% of GDP) to a smaller USD1.5bn deficit (-0.4% of GDP).

The Current Account (CA) position recorded an improvement, with a narrower deficit of USD0.9bn (-0.2% of GDP), improving from the previous deficit of USD2.2bn (-0.6% of GDP) on the back of higher trade surplus, lower services balance deficit, and improving primary income balance. The trade balance in 3Q23 recorded a surplus of USD10.3bn, marginally higher than 2Q23's surplus of USD10.1bn underpinned by improving exports of iron and steel commodities in line with the ongoing recovery in China's manufacturing industry. While the services balance in 3Q23 recorded a deficit of USD4.1bn, narrower than 2Q23's USD4.7bn due to an improvement in travel services, financial services, and services related to the use of intellectual property. We keep our CA forecast to turn from a surplus of 1% of GDP in 2022 into a slight deficit of around 0.3% for the full year 2023 and to widen in 2024 due to a further recovery in domestic demand, including government spending, that likely will stimulate import demand.

Better supply-and-inventory management have kept risks of higher global food prices at the bay for Indonesia, evident from the steady and mild headline inflation in Oct at 2.6% y/y. Inflation in food & beverages (F&B) and transportation continue to underpin the slight elevation in the overall inflation but other CPI basket components continued to moderate. Lower domestic rice inventories and disruptions in vegetable production during the dry season resulted in higher inflation in the F&B component in Oct but is unlikely to continue and pose significant upside inflationary risks from here. As such, we revise down our headline inflation forecast to average 3.6% this year from our previous projection of 3.8% as domestic demand continued to ease, depicted solidly from steadily declining core inflation.

CENTRAL BANK

Uncertainty may drive another rate hike next quarter

BI kept its benchmark rate (7-Day Reverse Repo) unchanged at 6.00% in Nov after an unexpected 25bps hike in Oct. BI implied during the Board's Q&A session that the main reason for Oct's rate hike (which was not followed through in Nov) was because of incipient upside risks to its inflation target trajectory for next year. That factor has dissipated, according to BI, and underpinned the key reason for Nov's rate decision to stay unchanged. In other words, as rupiah stabilized in recent sessions, BI is of the view that upside risks from imported inflation have declined.

Based on Nov's BI MPC, we adjusted our BI rate forecast, considering uncertainty in the global market developments, US Fed rate directions and length of "higher-for-longer" along with other uncertainties surrounding Chinese economic growth and geopolitical tensions as well as on global food and energy prices, we revised our forecast and expect 1 more 25bps rate hike in 1Q24 to 6.25%. That will likely be the terminal rate for the current rate hike cycle.

CURRENCY

IDR to recover

Despite the sharp drop across Sep – Oct (15,200 /USD to 15,900 /USD), IDR remained one of the most resilient Asia FX and was unchanged on the year at about 15,500 /USD. In 2024, the interest rate gap may start to improve in IDR's favour as we expect BI to keep rates elevated at 6.25% while we expect the Fed to deliver rate cuts totaling 75bps from Jun 2024. This is likely a key factor driving bond inflows and hence underpinning IDR stability amidst a stable growth and inflation outlook.

Overall, we expect IDR to catch up with the regional FX recovery after election-related uncertainties recede after 1Q24. Our updated USD/IDR forecasts are at 15,400 in 1Q24, 15,200 in 2Q24, 15,000 in 3Q24 and 14,800 in 4Q24.

FX & Rates	1Q24F	2Q24F	3Q24F	4Q24F
USD/JPY	146	142	138	135
JPY Policy Rate	0.00	0.00	0.00	0.00
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	2.1	0.9	1.5	1.0
CPI (avg y/y %)	-0.2	2.5	3.2	1.8
Unemployment Rate (%)	2.8	2.7	2.7	2.9
Current Account (% of GDP)	3.9	1.9	1.5	2.0
Fiscal Balance (% of GDP)	-14.8	-13.2	-6.0	-5.0

ECONOMY

Walking into a technical recession

Japan's first prelim estimate of the 3Q23 GDP disappointed as the economy contracted more than expected, at -0.5% q/q (-2.1% q/q annualized rate) while 2Q's annualized growth was revised lower to 4.5% (from previous estimate of 4.8%). This is Japan's first sequential decline since the strong 1H23 rebound as nearly all of the major components of the economy (including private consumption, business spending, private inventories and net exports) faltered in 3Q except for government consumption. We had warned of a more challenging second half in 2023 due to external uncertainties, and more pertinently, the persistently weak domestic demand picture as private spending is still below pre-pandemic levels and wage growth is likely still lagging cost-push inflation. With the 3Q contraction coming to pass and in line with our outlook, we are further convinced that Japan will step into a technical recession in 2H (-2.1% q/q SAAR in 3Q and our forecast of -2.2% in 4Q).

Our growth outlook is weighed by the downside factors of weak domestic demand, uncertain external demand landscape, financial market jitteriness on the back of tighter monetary policies stance among advanced economies while partly cushioned by upside factors of improving tourism and positive impact on in-person services.

Japan's manufacturing PMI has mostly been in contraction since Nov 2022 except for May 2023 (which temporarily jumped to 50.6). Thereafter, it has fallen back into contraction territory (i.e. below 50) and has further dipped in recent readings (currently at 48.1 in Nov, the worst since Feb 23). The bottoming of the electronics cycle could lead to some improvement in Japan's manufacturing sector but it is not expected to be sharply above 50 as the external demand environment remains weak in developed economies and China. And while imports already contracted (y/y) materially in recent months, the pace of decline may reverse due to a persistently weaker yen and costlier energy commodities which could inflate Japan's import bill, and that in turn will hurt net exports and weigh on growth.

The influx of foreign tourists and a cheaper yen have helped Japan's services sector fare better and anchor the domestic recovery. But the downside risk to services depends on the extent of global and China growth slowdown and the services PMI has clearly seen its uptrend easing in the recent months. Services PMI edged up to 51.7 in Nov (Oct: 51.6), but still far from the recent peak of 55.9. Prime Minister Kishida's latest JPY 17 trillion economic support package (which includes income tax cuts and handouts to low-income households to cope with inflation), may on the margin help lift domestic demand and cushion the impact of high prices for a while, but it is unlikely to provide a durable solution to the weak domestic demand problem. The slide in Kishida's approval ratings implies that he is unlikely to call for elections in early 2024. (General election is not due until 31 Oct 2025.) We keep our 2023 GDP growth forecast at 1.5% (up from 0.9% in 2022), and growth to slow further to 1.0% in 2024.

Headline CPI rose by a faster 3.3% y/y in Oct (Sep: 3.0%) while core inflation (excludes fresh food) was also higher at 2.9% y/y (Sep: 2.8%) due to higher energy prices. But the core-core CPI (excluding food and energy) bucked the trend, coming at lower at 4.0% (Sep: 4.2%). The BOJ projects core CPI inflation to rise to 2.8% in FY2023 and stayed elevated at 2.8% in FY2024 before easing to 1.7% in FY2025, still below the BOJ's 2% objective in the further out years. Similarly, the core-core CPI forecasts (that excludes both fresh food and energy items) is expected higher at 3.8% in FY2023, before easing to 1.9% in FY2024 and FY2025. We expect headline CPI inflation to average 3.2% before easing further to 1.8% in 2024 while core inflation will likely average 3.1% for 2023, 1.7% for 2024.

CENTRAL BANK

Still on the (long) edge of normalisation

Our view about the likely path of normalisation the BOJ is likely to embark on remains unchanged. In fact, the tweaks to YCC are seen to be adjustments to prepare the markets for the eventual normalistion. We still expect monetary policy normalisation to begin in early 2024 - negative policy call rate to rise from -0.1% to 0% in Jan 2024 MPM while Yield Curve Control (YCC) to be dropped in Mar 2024 MPM. Admittedly, Gov Ueda's emphasis of 2024's Shunto (Spring wage negotiations between major corporations and unions that take place every Mar) as a key event for the BOJ may kick the "normalisation can" down the road by one quarter (i.e 2Q24 instead of 1Q24). Additionally, the challenging growth outlook adds further risk to a delay to our projected timeline for BOJ normalisation in early 2024.

CURRENCY

JPY to gain in 2024

Aside from expectations of BOJ policy normalization and officials' verbal intervention, a swift retreat in US Treasury yields in the past month appears to be the straw that broke the camel's back. USD/JPY fell from a one-year high of 151.91 in mid-Nov to about 149 as the 10-year US Treasury yield reversed sharply from the well-watched 5.0% to 4.4% across Oct – Nov, closing the US-Japan rate differential to the narrowest since Sep. The USD's rate advantage is set to decline further as Fed rate cut expectations intensify in 2024, weighing further on USD/JPY. Eventual BOJ policy normalisation in 2024 would be the icing on the cake that would secure a lower USD/JPY trajectory. Furthermore, topside in USD/JPY is likely limited due to intervention worries. Overall, our updated USD/JPY forecast are at 146 in 1Q24, 142 in 2Q24, 138 in 3Q24, 135 in 4Q24.

FX & Rates	1Q24F	2Q24F	3Q24F	4Q24F
USD/MYR	4.60	4.55	4.50	4.45
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	2.5	2.6
Unemployment Rate (%)	4.2	3.6	3.3	3.3
Current Account (% of GDP)	3.9	3.1	2.0	2.0
Fiscal Balance (% of GDP)	-6.4	-5.6	-5.0	-4.3

ECONOMY

Growth prospects remain intact

Malaysia's economy grew faster at 3.3% y/y in 3Q23 (2Q23: +2.9%), mainly anchored by resilient domestic demand (3Q23: +4.8% y/y, 2Q23: +4.5%) and inventory restocking activities (3Q23: +0.2ppt to GDP growth, 2Q23: -1.2ppts). Household spending remained supported by continued growth in employment and wages; public consumption was boosted by higher supplies & services spending by the government; while investment activity was underpinned by the progress of multi-year projects and capacity expansion by firms. All these helped to offset a weaker performance in the external sector (net trade: -1.4ppts off 3Q23 GDP growth vs -0.1ppt in 2Q23).

An improvement in the services (3Q23: +5.0% y/y, 2Q23: +4.7%), agriculture (3Q23: +0.8%, 2Q23: -1.0%) and construction (3Q23: +7.2%, 2Q23: +6.2%) sectors helped to cushion the sluggishness in the manufacturing (3Q23: -0.1%, 2Q23: +0.1%) and mining & quarrying (3Q23: -0.1%, 2Q23: -2.3%) sectors last quarter.

On a seasonally adjusted basis, real GDP posted the largest expansion in five quarters by 2.6% q/q (2Q23: +1.5%), suggesting a sustained recovery amid rising challenges but an accommodative monetary policy stance during the quarter. This further affirms our 2023 full-year real GDP growth projection of 4.0% (MOF est: ~4.0%, 2022: +8.7%) and our 4Q23 real GDP forecast at ~4.0% y/y (year-to-date (ytd) as of Sep: +3.9%).

For next year, we expect annual growth to improve further to 4.6% in 2024 (MOF est: 4.0%-5.0% or mid-point forecast of 4.8%), backed by a base case scenario of a soft landing in the global economy despite rising global uncertainties. Positive catalysts to domestic growth include a slightly expansionary Budget 2024 announced on 13 Oct and initiatives outlined under the New Industrial Master Plan 2030, National Energy Transition Roadmap, Mid-Term Review of 12th Malaysia Plan, which all align to the Madani Economic Framework. The favorable labor market conditions, pick-up in tourism activity, recovery from tech cycle downturn, continuation of existing investments and realization of investments approved would further support domestic demand.

That said, downside risks to our growth outlook for Malaysia could emanate from a potential fallout in the Middle East crisis, over-restrictive global monetary policy conditions and financial contagion fears from China's property sector default woes that could tip the global economy into an outright recession in 2024. Renewed political instability that creates more hurdles for bold policy reforms and restoring market confidence would be key threats on the local front.

CENTRAL BANK

Keeping rates status quo in 2024

BNM left the Overnight Policy Rate (OPR) unchanged at 3.00% for the third straight meeting on 2 Nov, with a neutral statement and no changes made to the forward guidance. The central bank continued to highlight downside global risks and held a positive view on domestic growth prospects, adding that inflation risks are subject to volatile commodity prices, changes to domestic policy on subsidies and price controls, as well as financial market developments.

Hence, a respectable growth outlook and manageable inflation prospects (UOB est: 2.6% for 2024 without factoring any effects of subsidy rationalisation, MOF est: 2.1%-3.6%) along with broad market expectations for a Fed easing starting from the middle of 2024 continue to support our call for the OPR to stay unchanged at 3.00% through 2024. As monetary policy operates with a lag, previous rate hikes continue to have its effect on the economy. The external environment remains uncertain with more downside risks, which counter a more restrictive monetary policy stance while inflation risks are tilted higher given the implementation of targeted subsidies, hike in service tax rate by 2% and progressive wage policy in 2024, making it harder for BNM to lower rates that could exacerbate the MYR weakness and lift imported inflationary pressures.

CURRENCY

MYR has likely bottomed, to recover in 2024

The MYR has weakened to an almost 1998's level at 4.7937 /USD on 23 Oct 2023, before rebounding to 4.68 /USD, resulting in a depreciation of 6% ytd as of 24 Nov 2023. That said, BNM stressed in the Nov monetary policy statement that the developments are not expected to derail Malaysia's growth prospects. BNM reiterated that the MYR depreciation is largely due to externally driven factors amid a strong USD environment. BNM would continue to manage risks of heightened volatility, including liquidity provision, to ensure the orderly functioning of the domestic foreign exchange market.

Nevertheless, we believe that geopolitical and macro risks will continue to keep investors on edge in the near term. This could lead to a prolonged bottoming process for Asia FX (including the MYR) alongside the CNY. Presently, the MYR has a higher correlation to CNY than other regional peers and Malaysia is encountering a relatively bigger negative interest rate differential with US rate than most countries. Hence, a subsequent recovery in CNY next year and a peak in US Fed rates followed by expected rate cuts from Jun 2024 onwards would be key determinants to the MYR performance in 2024.

Meanwhile, we expect a further recovery in the MYR as we enter 2024. Our USD/MYR forecasts are 4.60 in 1Q24, 4.55 in 2Q24, 4.50 in 3Q24 and 4.45 in 4Q24.

PHILIPPINES

FX & Rates	1Q24F	2Q24F	3Q24F	4Q24F
USD/PHP	55.2	54.8	54.4	54.0
PHP O/N Reverse Repo	6.75	6.50	6.25	6.00
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	5.7	7.6	5.7	6.5
CPI (avg y/y %)	3.9	5.8	6.0	3.5
Unemployment Rate (%)	8.0	5.5	4.8	4.7
Current Account (% of GDP)	-1.5	-4.5	-3.0	-2.5
Fiscal Balance (% of GDP)	-8.6	-7.3	-6.1	-5.1

ECONOMY
Held up by domestic support measures

The Philippine economy expanded at a stronger-than-expected pace of 5.9% y/y in 3Q23 (2Q23: +4.3%). It was primarily driven by higher government spending (3Q23: +6.7%, 2Q23: -7.1%), investments (3Q23: +7.9%, 2Q23: +4.0%) and a persistent positive net trade contribution (3Q23: +1.4ppts to GDP, 2Q23: +1.1ppts), which offset softening household consumption (3Q23: +5.0%, 2Q23: +5.5%) and stock withdrawals (3Q23: -2.1ppts from GDP, 2Q23: -1.0ppt).

All major economic sectors pencilled in bigger gains with the services sector (3Q23: +6.8%, 2Q23: +6.1%) remaining the key growth driver. This was followed by construction (3Q23: +14.0%, 2Q23: +3.6%), utilities (3Q23: +7.0%, 2Q23: +4.7%), manufacturing (3Q23: +1.7%, 2Q23: +1.1%), mining & quarrying (3Q23: +4.5%, 2Q23: -2.9%) and agriculture, hunting, fishery & forestry (3Q23: +0.9%, 2Q23: +0.2%) sectors.

On a seasonally adjusted basis, real GDP also staged a strong growth rebound to 3.3% q/q last quarter (from -0.7% in 2Q23), marking the biggest rise since 4Q21 amid a disinflationary trend with steady monetary policy during the quarter. Household consumption recorded a sturdy seasonally adjusted q/q growth turnaround, suggesting that domestic demand had remained resilient and strong. All major economic sectors also registered a decent positive seasonally adjusted q/q gain, led by services sector.

Taking the latest upbeat GDP growth reading and year-end festive demand into consideration, we have raised our 2023 full-year real GDP growth forecast to 5.7% (from 5.0% previously, official est: 6.0%-7.0%). We have also upgraded the growth outlook for next year to 6.5% (from 6.0% previously, official est: 6.5%-8.0%), mainly backed by the passage of a larger national budget for 2024, softer inflationary pressures with less restrictive monetary policy stance and the national government's non-monetary intervention measures, as well as an expected upturn in the global tech cycle.

Our revised growth outlook for the Philippines also assumes (i) a soft landing in the US economy; (ii) ongoing recovery in China's economy; (iii) still favourable financial and monetary conditions despite volatility; (iv) the Israel-Hamas war remains confined to Gaza's borders; and (v) no significant escalation in other geopolitical tensions particularly on US-China tech conflicts.

CENTRAL BANK
Meeting-by-meeting approach

BSP kept its overnight reverse repurchase (RRP) rate unchanged at 6.50% on 16 Nov after introducing an off-cycle hike on 26 Oct and following a sharp slowdown in Oct inflation. It cited that such rate pause would allow previous policy interest rate adjustments to continue to work through the economy, and reflected moderating inflation risks. BSP's baseline inflation forecasts are 6.0% for 2023 (UOB est: 6.0%) and 3.7% for 2024 (UOB est: 3.5%), with upsides risks largely arising from the potential impact of higher transport charges, electricity rates, international oil prices and minimum wage adjustments in areas outside the National Capital Region.

Nevertheless, the Nov monetary policy statement still sounded hawkish. Official comments during the post-meeting briefing continued to suggest a meeting-by-meeting approach and data dependency in the near term. Recognizing this and extremely fluid global conditions, we see a 50:50 chance for BSP to hike one more time by 25bps at the next and final meeting this year on 14 Dec. Barring another big positive surprise in the nation's inflation report for Nov and/or the US Fed officially announcing an end to its rate hiking cycle in the coming month, we maintain our call for the RRP rate to end 2023 higher at 6.75% for now. Thereafter, the BSP is expected to stay put until mid-2024.

CURRENCY
PHP to gain further in 2024

The PHP has erased its year-to-date losses with the USD/PHP spot level reverting below the 56.0 level since 15 Nov to 55.45 on 28 Nov, stronger than where the currency started the year at 55.7 on 2 Jan. This translates to a 0.4% gain year-to-date (ytd). The local currency is also expected to reverse course and record its first quarterly appreciation in 4Q23 after weakening for the previous two quarters, backed by higher personal overseas remittances and expectation of a peak in the US Fed rates.

Other improving macro factors, including the stabilisation in China's economy, stable credit outlook for the country and narrowing twin deficits, suggest that the PHP will likely sustain its appreciation trend going into 2024. BSP's implicit intention to keep its interest rate differential positive with US rates at around 100bps would also provide some support to the PHP as we head into 2024.

In sum, we project the PHP to follow the broad Asia FX trajectory, normalising lower albeit at a more moderate pace starting 1Q24 as broad USD weakness intensifies in tandem with expectations of a peak in Fed rates followed by Fed easing from mid-2024. We update our USD/PHP forecasts at 55.2 in 1Q24, 54.8 in 2Q24, 54.4 in 3Q24 and 54.0 in 4Q24 (from the previous forecast range of 53.0-56.0).

FX & Rates	1Q24F	2Q24F	3Q24F	4Q24F
USD/SGD	1.32	1.31	1.30	1.30
SGD 3M SORA (compounded)	3.72	3.64	3.47	3.28
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	8.9	3.6	0.9	2.9
CPI (avg y/y %)	2.3	6.1	4.8	3.5
Unemployment Rate (%)	2.4	2.1	2.2	2.4
Current Account (% of GDP)	18.0	19.3	18.8	18.6
Fiscal Balance, FY (% of GDP)	0.3	-0.3	-0.1	0.4

ECONOMY

Broad recovery in manufacturing & externally-oriented sectors towards mid-2024

Singapore's 3Q23 GDP was revised upwards to 1.1% y/y (prev: 0.7%) and 1.4% q/q sa (prev: 1.0%) since the advance estimates. The contraction in manufacturing was narrowed to -4.6% y/y (prev: -5.0%) while construction was adjusted higher to 6.3% y/y (prev: 6.0%) which should remain resilient on completion of backlog of projects delayed during the pandemic. Meanwhile, the services sector remained the anchor for growth and was tweaked higher to 2.3% y/y (prev: 1.9%) with the finance & insurance segment turning positive at 1.5% y/y following 3 consecutive quarters of y/y contraction. Tourism-related sectors (accommodation, F&B, retail) moderated from 2Q23 but remained resilient. We nudged our 2023 GDP forecast higher to 0.9% (prev: 0.6%) given the stronger-than-expected 3Q23 final GDP outturn.

The MTI expects growth prospects in manufacturing and trade-related sectors to improve in 2024, in tandem with the expected turnaround in global electronics demand. In addition, tourism-related sectors continue to enjoy tailwinds from the recovery in air travel and tourist arrivals while consumer-facing sectors (retail and F&B) are projected to continue to expand amid resilient labour market conditions. Overall, MTI forecasts 2023 GDP growth at "around 1.0%" (prev: lower half of 0.5-1.5%) and expect 2024 GDP growth to come in between "1.0 to 3.0%".

For 2024, we expect full year GDP to come in around potential at 2.9%. Within manufacturing and externally-oriented sectors (wholesale trade, transport & storage, finance & insurance), activity is likely to stay weak in 1H24 as external demand continues to be weighed down by tight financial conditions stemming from an elevated interest rate environment while ongoing stresses in the property sector in China could continue to dampen consumer and business sentiment there. However, recent indicators such as IP and NODX suggest the electronics cycle has likely bottomed. In 2024, y/y recovery in NODX and IP will largely be driven by base effects given the sharp downturn in 2023 but sequential momentum could remain weak given soft external demand. Towards mid-2024, signs of a broader recovery in manufacturing could emerge as major central banks may begin to cut policy rates as inflation in their economies moderate closer to their targets, with the consequent easing of financial conditions supporting consumption and investment activity, implying a gradual recovery in external demand. While recovery in tourism-related sectors is still ongoing on the resumption of inflow of Chinese tourists, the extent of growth may moderate.

Singapore's core inflation is likely to moderate further as global food prices continue to recede while services inflation eases as wage growth slows in 2024, in addition to the ongoing appreciation of the S$NEER to help curb imported inflation. The effect of the 1%-pt GST hike (starting 1 Jan 2024) is likely to keep 2024 core CPI (est. 3.0%) above the long-term average of 1.8% and may inch closer only in 2025, aided by base effects from the GST hike. There remain upside risks to inflation on oil-related price shocks should the Israel-Hamas conflict broaden or on stickiness in food prices due to climate-related events impacting supply.

CENTRAL BANK

No change in Jan 2024 MPS; expect a slight slope reduction in Apr 2024 MPS

We expect MAS to keep the policy settings (slope, width and level of the S$NEER band) unchanged in the Jan 2024 MPS while penciling in a slight slope reduction (50bps) to est 1.0% p.a. only in the Apr 2024 MPS. It may be slightly premature for MAS to reverse policy tightening in Jan 2024, given risks of a stronger-than-expected passthrough to inflation from the upcoming 1%-pt GST hike and core inflation will still likely be above the long-term average in 1Q24 (MAS Oct MR est: 3.2%). Into 2Q24, we project core inflation to inch closer (MAS: 2.8%) to the long-term average, but only on an ex-GST basis. Furthermore, with the output gap expected to be still negative in 2024 (MAS: -0.6%), a milder appreciation of the S$NEER via a gentler slope could ease concerns over export competitiveness. However, we see a rising risk that the reversal of monetary policy tightening may be delayed to the Jul/Oct 2024 MPS, given the possible lagged transmission of earlier wage increases and elevated business costs into services inflation.

CURRENCY

SGD outperformance may start to falter

USD/SGD was flat on the year at about 1.34 as the appreciation bias of the S$NEER offset occasional bouts of USD strength and spillover from a weak CNY due to China slowdown worries. As US economic strength fades and Fed rate cuts gradually come into focus, it is likely that USD/SGD has peaked at 1.3764 in early Oct. Alongside a broad-based Asia FX recovery, we expect the SGD to strengthen further against the USD. However, the outperformance of the SGD relative to its S$NEER peers may start to falter due to our expectation of a gentler policy slope next year. Our updated USD/SGD forecasts are 1.32 in 1Q24, 1.31 in 2Q24, 1.30 in 3Q24 and 4Q24.

FX & Rates	1Q24F	2Q24F	3Q24F	4Q24F
USD/KRW	1,280	1,260	1,240	1,220
KRW Base Rate	3.50	3.50	3.25	3.00
Economic Indicator	2021	2022	2023F	2024F
GDP (%)	4.3	2.6	1.4	2.5
CPI (avg y/y %)	2.5	5.1	3.6	2.5
Unemployment Rate (%)	3.6	3.1	2.7	3.0
Current Account (% of GDP)	4.7	1.8	1.7	2.8
Fiscal Balance (% of GDP)	-4.5	-3.2	-0.7	-1.9

ECONOMY

Growth momentum strengthened across most key segments

South Korea's advance 3Q23 GDP growth came in better than consensus and our forecasts at 1.4% y/y, 0.6% q/q SA. This was also the third consecutive quarter of sequential growth.

Apart from facilities investment, all the components on the expenditure side registered q/q expansion in 3Q23. Private consumption, government consumption, exports and imports have all rebounded from their declines in the preceding quarter. Meanwhile, services imports continued to surge with further normalisation in travel and business activities.

In further signs that the electronics cycle is bottoming out, South Korea's merchandise exports turned positive in Oct for the first time in 13 months, helped by a low comparison base. Semiconductor shipments remained in contraction but narrowed further while exports of petroleum products, ships and cars had remained robust. Demand from the US, Japan and ASEAN recovered strongly but exports to China continued to contract in Oct. Concurrently, the Markit manufacturing PMI has recovered to near the expansion threshold in Sep and Oct. Although we expect improvements in South Korea's manufacturing and trade activities in 2024, the extent of recovery may disappoint if demand from the US and China turns out to be weaker than expected. Having said that, investments may stay lagged. Other risk factors include persistently high global inflation, US-China tension and widening conflicts in the Middle East.

The recovery in tourism has been slower than expected due to capacity constraints and weaker demand from China. In the first nine months of the year, international tourist arrivals reached 7.65 mn which was only 59% of the same period in 2019 with Chinese tourists at just 1.29 mn or 29% in the same period of 2019. Meanwhile, tourism receipts recovered to around 70% of pre-Covid level in the same period.

The unemployment rate (seasonally adjusted) fell to record low in Aug at 2.4% and has continued to stay resilient. Total employment rose 392k in the first 10 months of the year to 28.515 mn, bringing total job gains to around 1 mn from pre-Covid levels. However, due to global uncertainties and tightening financial conditions, consumer confidence has softened in Sep and Oct.

Looking ahead, private consumption will remain constructive on the back of a favourable labour market condition, further recovery in tourism and the turnaround in the property market. With domestic interest rate at its peak and expected unwinding of the monetary policy next year, this could set the stage for a resilient consumption demand.

South Korea's economy expanded by around 1.1% y/y in the first three quarters of the year. Accounting for the above consensus growth in 3Q23, we marginally lift our GDP growth forecast for 2023 to 1.4% from 1.3%. Our GDP forecast for 2024 remains at 2.5%. The BOK's latest GDP growth forecasts are at 1.4% for 2023 and 2.1% for 2024.

The current account has swung back to a strong surplus position since May, supported by the trade surplus which more than offset wider deficit in the services account. We adjust slightly higher our forecast of the current account surplus for 2023 to 1.7% of GDP from 1.5% and expect continuing improvement to 2.8% in 2024.

Headline inflation had reaccelerated after easing over the first seven months of the year, primarily due to higher food and fuel prices. Core inflation remained high at 3.2% y/y in Oct but stayed below the headline rate of 3.8% y/y and thus still contain pressure to further tighten monetary policy. The trajectory suggests that headline inflation rate will stay above 3% until 1Q24 and ease below BOK's 2% target only in 2H24. Our forecast of the headline CPI stands at 3.6% for 2023 and 2.5% for 2024, largely in line with the BOK's Nov revision.

CENTRAL BANK

BOK tones down hawkish guidance

BOK has kept its benchmark 7-day repo rate unchanged at 3.50% for the seventh consecutive meeting in Nov, its last meeting for the year. It appeared to have softened its hawkish stance in Nov. It still sees inflation continuing its underlying trend of a slowdown despite the recent pick up while four of the six board members (excluding himself) are open to higher interest rate, down from five in Oct.

We think the interest rate has peaked but with inflation more persistent and household loan growth staying strong, we push back our call for BOK's rate cut to start in 3Q24 instead of 2Q24. We expect 25 bps cut each in 3Q24 and 4Q24 to bring the benchmark interest rate to 3.00% by the end of 2024. The first BOK decision in 2024 will be on 11 Jan.

CURRENCY

KRW to gain further in 2024

Being a high beta currency, KRW outperformed within Asia FX in 4Q23 and gained about 4.3% to 1,292 /USD. The rebound was triggered by a dovish pivot by the Fed in its Nov FOMC meeting where it signalled a possible end to its tightening cycle. Other favourable domestic factors such as improving exports, bottoming semiconductor cycle and hawkish BOK helped support the KRW as well.

In 2024, the KRW recovery trend is likely to continue as China's rhetoric gradually improves and USD weakens anew due to Fed rate cut prospects. Our updated USD/KRW are at 1,280 in 1Q24, 1,260 in 2Q24, 1,240 in 3Q24 and 1,220 in 4Q24.

FX & Rates	1Q24F	2Q24F	3Q24F	4Q24F
USD/TWD	30.8	30.4	30.0	29.6
TWD Official Discount Rate	1.88	1.88	1.88	1.88
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	6.6	2.6	1.4	3.5
CPI (avg y/y %)	2.0	2.9	2.5	1.8
Unemployment Rate (%)	3.7	3.6	3.4	3.5
Current Account (% of GDP)	15.3	13.3	11.8	12.0
Fiscal Balance (% of GDP)	1.4	1.3	-1.6	-1.0

ECONOMY

Slight outperformance in 3Q23 GDP, momentum picked up

Taiwan's real GDP growth strengthened to 2.32% y/y from 1.41% y/y in 2Q23. Sequentially, GDP expanded for the second straight quarter by 1.90% q/q seasonally adjusted in 3Q23, marginally quickening from 1.82% q/q in 2Q23.

Private consumption was the main growth driver in 3Q23 as spending on services such as transportation, dining, accommodation, recreation, and tourism continued to improve. On a y/y comparison, private consumption was up 9.23% in 3Q23, continuing the robust 12.94% growth in 2Q23. Government consumption was flat as the economic recovery reduced the need for government stimulus.

On the contrary, weakness persisted for exports and investments. Goods and services exports contracted for the fourth straight quarter though the decline eased to -1.35% y/y in 3Q23 from -7.75% y/y in 2Q23. The contraction in imports of goods and services similarly eased to -4.45% y/y in 3Q23 from -9.03% y/y in 2Q23. Gross capital formation sustained double-digit contraction of -12.29% y/y due to a decline in investment in construction and machinery equipment as well as a reduction in inventory.

As such, the key contributions to the headline GDP growth rate came from private consumption (4.15 ppt). Despite the decline in exports, contribution from net exports (1.65 ppt) turned positive for the first time in a year, owing to a relatively larger fall in imports while export contraction narrowed. However, gross capital formation (-3.49 ppt) offset most of the gains from private consumption and net exports.

Growth will continue to be underpinned by expansion in private consumption on the back of employment gains, wage growth and further recovery in tourism. Taiwan's unemployment rate has fallen to a fresh record low of 3.41% in Oct, improving from 3.60% at the beginning of the year led by services jobs creation. In 2024, the minimal wage and public sector pay will be raised by 4% which maintains consumers' purchasing power amid an expected slowdown in inflation.

Despite signs of the electronics sector bottoming out, the recovery has been patchy. The S&P Global Taiwan manufacturing PMI fell into contraction since Jun 2022. The restrictive monetary policy settings in the major economies continue to hinder recovery in global demand and investment. Nonetheless, the low base effect will start to lift the export growth from 4Q23.

Overall, Taiwan's real GDP was up 0.11% y/y in the first three quarters of the year. We retain our forecast for GDP growth at 1.4% and 3.5% for 2023 and 2024 respectively with base effect a significant boost to 1H24. Although the presidential and legislative elections in Jan may affect geopolitics, Taiwan's near-term growth outlook should stay intact.

Higher fresh food prices due to typhoons as well as demand for consumer goods, entertainment and services contributed to the reacceleration in domestic inflation. Headline inflation rose to 3.05% y/y in Oct, its highest this year similar to the pace in Jan. Core inflation (excluding fruit, vegetables, and energy items) showed little signs of easing but appeared to have peaked already.

In Jan-Oct, the headline and core inflation averaged 2.43% y/y and 2.63% y/y respectively. Accounting for the higher inflation so far, we have raised our headline CPI forecasts to 2.5% (from 2.3%) and 1.8% (from 1.6%) for 2023 and 2024 respectively. We see inflation below 2% only in 2H24 where the inflation rate is expected to ease to around 1.2% by the last quarter of next year. CBC's forecasts for headline CPI is at 2.22% this year and 1.83% in 2024, as of its Sep update.

CENTRAL BANK

Extended hold

The CBC's last policy meeting for the year will be on 14 Dec where we expect it to extend its rate pause at 1.875%. The CBC last hiked its discount rate by 12.5 bps at the Mar quarterly monetary policy meeting. In total, the central bank has raised rates by 75 bps in the current tightening cycle in addition to two 25 bps hikes to banks' reserve requirement ratio (RRR) at the Jun and Sep meetings in 2022 to tighten liquidity. The central bank also made five adjustments to its selective credit control measures since Dec 2020.

Although CBC Governor Yang Chin-long said that its rate hike cycle may not have ended yet, we see less risk that the central bank will resume rate hike in Dec as external demand headwinds persist while inflation is still on track for further moderation in the absence of a sharp rebound in demand. Notably, M2 money supply growth has settled into the CBC's 2.5%-6.5% reference range in Sep-Oct. Our forecast for the discount rate remains at 1.875% through to end-2024 with no rate cuts factored in as well.

CURRENCY

Further recovery in sight

The TWD rose 3.2% to 31.3 /USD in 4Q23, narrowing losses on the year to 1.8%. Rebounding for the first time in three quarters, the TWD drew strength from a recovery in CNY, renewed USD weakness due to a dovish Fed pivot in Nov and a bottoming of the semiconductor cycle.

In 2024, we expect the TWD to gain further against the USD alongside a broad-based Asia FX recovery. As the Fed cuts rates in 2024 while the CBC holds, the interest rate advantage of USD over the TWD would narrow as well.

Overall, our updated USD/TWD forecasts are at 30.8 in 1Q24, 30.4 in 2Q24, 30.0 in 3Q24 and 29.6 in 4Q24.

FX & Rates	1Q24F	2Q24F	3Q24F	4Q24F
USD/THB	34.8	34.3	33.8	33.3
THB 1D Repo	2.50	2.50	2.50	2.50
Economic Indicator	2021	2022	2023F	2024F
GDP (%)	1.6	2.6	2.3	3.6
CPI (avg y/y %)	1.2	6.0	1.6	2.6
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

ECONOMY

Uncertain growth trajectory though expecting better in 2024

The economy grew at a slower-than-expected pace of 1.5% y/y in 3Q23 from 1.8% y/y in 2Q23, much lower than the market expectations of around 2.3%. On a seasonally adjusted basis, real GDP expanded by 0.8% q/q (2Q23: +0.2%), below the +1.3% q/q consensus estimate. During the Jan-Sep period, the Thai economy expanded by 1.9% y/y. The weak outturn was weighed by exports of merchandise and government expenditure, while private consumption and tourism continued to be the key growth drivers. Private consumption rose by 8.1% y/y from 7.8% y/y in 2Q23, and, cumulatively, it increased by 7.3% y/y during the Jan-Sep period. Exports of services also registered a strong growth of 23.1% y/y from 53.4% y/y in the previous quarter. In the first 9 months of 2023, exports of services grew by 48.9% y/y. This suggested that the recovery in tourism continued to support employment and income of workers in the services sector, has partly translated into strong household consumption. Exports of goods fell at a slower pace of -3.1% y/y, compared to -5.7% y/y in 2Q23 as export growth turned positive in Aug and Sep. Government consumption continued to drop (3Q23: -4.9% y/y, 2Q23: -4.3%) due in part to a high base effect. Private investment edged up to 3.1% y/y from 1.0% y/y in 2Q23 driven by machinery and equipment investment (3Q23: +3.1%, 2Q23: +1.0%) and construction investment (3Q23: +3.6%, 2Q23: +2.0%). Imports of goods slipped further (3Q23: -11.8%, 2Q23: -4.3%) reflecting a softer prospect for export-oriented manufacturing and investment. Overall, the current account balance (CAB) registered a small positive in 3Q23 of USD3.3bn.

Based on the actual outturn in 3Q23 and a softer overall economic activity, we revised down our growth projection for 2023 to 2.3% from the previous estimate of 2.7%. Plans of fiscal stimulus and policy tweaks to stimulate the economy may likely support Thailand's economic recovery to continue in the near term, but foreseeably at a gradual pace. Excluding the base effect, the relatively sanguine near-term outlook may also be supported by improving household consumption and private investment as well as an anticipated bottoming out in merchandise exports. However, growth momentum should remain moderate owing primarily to limits on the upside of domestic demand as tighter financial conditions abound and slower pace of Chinese tourists' return and global uncertainty. CAB is expected to improve driven by a trade surplus and a steady tourism rebound. This should fundamentally support the currency next year. Overall, in 2024, we currently keep our GDP growth forecast at 3.6% from our forecast of 2.3% in 2023.

CENTRAL BANK

Data-dependent to drive monetary policy

We believe that the BOT has already reached the peak of its rate hike cycle at the current level of 2.50%. This was reflected in the central bank's latest policy communication on inflation and growth outlook. At its Nov Meeting, the MPC voted unanimously to keep the policy rate unchanged at 2.50% as we expected, citing the need to keep inflation expectations in check in the context of the ongoing recovery, while growth is expected to expand in line with potential. Despite dimmer prospects for the global economy and slower economic activity in major trading partners in 2024, the BOT remained relatively sanguine on the growth outlook and reiterated that the economic recovery from the pandemic was intact, temporarily derailed only by short-term external headwinds. With the impact of announced fiscal stimulus package included, the MPC projected the economy to expand by 4.4% in 2024 from 2.8% in 2023 underpinned by anticipated strong domestic demand, a continuing tourism rebound, and improved merchandise exports on the back of government stimulus measures, amid a moderate inflationary pressure.

Looking into 2024, we expect the policy rate to remain unchanged at 2.50% on the back of a favorable inflation outlook and the need to maintain the macro-financial stability continuously echoed by the central bank. Pressures on inflation should be contained. Tighter financial conditions as the real policy rate turns positive will be a drag on the consumption of semi-durable and durable goods and to some certain extent on private investment. We also view that inflationary pressured induced by anticipated fiscal stimulus measures could be meaningfully offset by soft domestic economic activity amid a sluggish tourism rebound. As a result, the headline inflation is projected to ease precipitously to just 1.6% in 2023 from 6% in 2022 and for it to consolidate to the average of 2.6% in 2024. However, we note the possibility of rate cuts by the BOT in 2H24 should downside risks to growth take place.

CURRENCY

THB may outperform in 2024

The THB rose over 3% in 4Q23 to about 35.2 /USD, outperforming regional peers and narrowing losses on the year. The strong performance of the THB can be partly attributed to its correlation to gold which touched the key $2,000 /oz level on haven demand, on top of renewed USD weakness. In 2024, THB is likely to draw further strength from idiosyncratic factors such a moderate growth outlook, current account surplus, stable interest rate profile and a sustained tourism recovery support. This puts THB as one of the likely outperformers within ASEAN next year. Overall, our updated USD/THB forecasts are 34.8 in 1Q24, 34.3 in 2Q24, 33.8 in 3Q24 and 33.3 in 4Q24.

VIETNAM

FX & Rates	1Q24F	2Q24F	3Q24F	4Q24F
USD/VND	24,000	23,800	23,600	23,500
VND Refinancing Rate	4.50	4.50	4.50	4.50
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	2.6	8.0	5.0	6.0
CPI (avg y/y %)	1.8	3.2	3.9	3.7
Unemployment Rate (%)	3.6	2.3	2.4	2.3
Current Account (% of GDP)	-0.3	0.3	1.0	1.0
Fiscal Balance (% of GDP)	-4.1	-4.5	-3.0	-2.6

ECONOMY

On track for a further rebound in 4Q23

Vietnam's real GDP growth accelerated further to 5.33% y/y in 3Q23, from 4.14% y/y in 2Q23. This was underpinned by improvements in the trade performance, manufacturing sector output and domestic activities, after struggling in the first half of 2023.

Data releases for the Oct-Nov period reaffirm that activities have stabilized, and in some cases, improved markedly compared to the first half of the year. Retail sales of goods and services rose by 10.1% y/y in Nov from 7.0% in Oct, and at the fastest pace since May. Industrial production rose 5.8% y/y in Nov, driven by the 6.3% growth in manufacturing output, bringing total industrial production year-to-date (ytd) growth to 1.0%. Both industrial production and manufacturing sectors' ytd readings have returned to positive since Sep, after hovering in the negative zone in the earlier part of 2023. Manufacturing output has been accelerating uninterrupted since its negative reading in May, suggesting that the sector's momentum is likely to persist into 2024.

Interest rate cuts from the central bank (SBV) help to reduce business costs, while the government has launched various policies to support businesses. A recent report noted that Vietnam has decided to cut value-added tax by 2ppts from 10% to 8%, effective 1 Jan to 30 Jun 2024, with certain industries excluded from the reduction. Nonetheless, these measures will help to ease costs burden for businesses and will further encourage greater output.

The real estate market in Vietnam is showing some signs of stabilisation and price recovery, with reports of several investors resuming sales activities and launching new projects while the Vietnam Association of Real Estate Brokers (VARS) reported a flurry of large-scale projects, spanning various categories from north to south, initiating sales campaigns to bolster supply.

Despite a stronger growth in 3Q23, the drag from the first six months of the year is the main reason the pace of expansion in the full year is likely to be constrained. We expect the momentum from 3Q23 to carry over to the final quarter of the year, especially with more supportive domestic policy. We maintain Vietnam's full-year growth forecast at 5.0%, with the assumption of further acceleration of real GDP growth in 4Q23 to 7.0% y/y.

Vietnam CPI, monthly

Source: Macrobond, UOB Global Economics & Markets Research

CENTRAL BANK

SBV to keep policy rates steady in 2024

SBV responded swiftly to the economic slowdown earlier this year with rapid succession of interest rate cuts. The last policy rate reduction took place in Jun 2023 when it lowered its refinancing rate by a cumulative 150bps, to 4.50%. However, with the pace of economic activities on the mend and inflation rates already easing below the target level, the possibility of further rate cuts have diminished. Indeed, the government has turned its focus to non-interest rate measures to support the economy. Local media reported that Vietnam PM Pham Minh Chinh has asked SBV to ensure sufficient credit supply in the remainder of this year, as the 14%-15% credit growth target for this year could fall short by several percentage points. As such, we believe SBV will maintain its refinancing rate at current level of 4.50%, reversing our earlier call for a 100bps cut.

CURRENCY

VND may have bottomed

Like other Asian peers, it appears that the bulk of the recent VND selloff is over. USD/VND has retraced lower after meeting our 4Q23 forecast of 23,500 in Oct after the Fed signaled a possible end to its rate hike cycle. While VND may follow the broad Asia FX recovering trend, gains may be limited by the modest economic rebound in 2024. Overall, our updated USD/VND forecasts are at 24,000 in 1Q24, 23,800 in 2Q24, 23,600 in 3Q24 and 23,500 in 4Q24.

FX & Rates	1Q24F	2Q24F	3Q24F	4Q24F
AUD/USD	0.67	0.68	0.69	0.70
AUD Official Cash Rate	4.35	4.35	4.00	3.75
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	5.3	3.7	1.6	1.3
CPI (avg y/y %)	2.9	6.6	5.6	3.4
Unemployment Rate (%)	5.1	3.7	3.8	4.5
Current Account (% of GDP)	3.0	1.1	1.4	0.7
Fiscal Balance, FY (% of GDP)	-5.3	-3.2	0.2	-0.8

ECONOMY

Inflation remains a challenge

The Australian economy has evolved more or less as we expected. GDP growth has slowed, labour market conditions have eased a little and headline inflation has fallen from its peak of close to 8% in late 2022.

Headline CPI growth came in at 1.2% q/q for 3Q23, a tad higher than expectations of 1.1% q/q, and against a reading of 0.8% q/q in 2Q23. The rise for 3Q23, however, continued to be lower than that seen throughout 2022. Compared to the same period a year ago, CPI rose 5.4% y/y in 3Q23, continuing to ease from the previous print of 6.0% y/y in 2Q23, though a tad higher than expectations of 5.3% y/y. This marks the third quarter in a row of lower annual inflation, down from the peak of 7.8% in 4Q22.

Underlying inflation measures reduced the impact of irregular or temporary price changes in the CPI. Annual trimmed mean inflation was 5.2%, down from 5.9% in 2Q23, but higher than expectations of 5.0%. The trimmed mean measure rose at a quicker pace of 1.2% q/q, compared to a revised 1.0% q/q in 2Q23 (0.9% q/q previously). As for the RBA's weighted median CPI, it came in higher at 1.3% q/q, from the previous revised reading of 1.0% q/q. Compared to the same period one year ago, however, it came in lower at 5.2% y/y in 3Q23 from the revised reading of 5.4% y/y in 2Q23 (5.5% y/y previously).

While inflation has passed its peak in this current cycle, how it evolves from here remains highly uncertain and volatile, given the large swings in prices (including commodities) as well as the introduction and unwinding of policy responses to cost of living pressures. We see inflation continuing to moderate, but more slowly from here. Our 2023 forecast remains at 5.6%, while we have penciled in a forecast of 3.4% for 2024.

Employment came in much stronger than expected in Oct as the economy added 55,000 jobs, following a 7,800 increase in Sep. This was more than double the consensus estimate for a 24,000 gain. The unemployment rate rose to 3.7% from 3.6% previously. The jobless rate has hovered in a 3.4%-3.7% range since Jun 2022. Higher unemployment was driven by more people looking for work, with the participation rate jumping to 67.0% from 66.8% in Sep. The participation rate is just 2 bps below the record-level in Aug 2023. Hours worked rose 0.5% m/m in Oct, following a 0.4% decline in Sep. Hours worked were just 1.7% higher than a year ago.

Despite the latest surge in headline jobs, the labour market is showing signs of softening. We expect further slowing in labour demand with the unemployment rate rising to around 4.5% by late 2024. Wage growth is expected to peak at around 4%, strongest pace since 2009, before declining gradually as labour market conditions ease.

Overall, the Australian economy is expected to grow by 1.6% in 2023 and 1.3% in 2024, but still below trend, largely because of subdued growth in household consumption as cost-of-living pressures, higher interest rates and higher tax payable all continue to weigh on disposable incomes for some time.

CENTRAL BANK

RBA warns more rate hikes may be needed

After a very aggressive 400 bps of rate rises in little over a year, the RBA had paused over four meetings, before deciding to raise the cash rate target again by 25 bps to 4.35% in Nov.

In justifying the hike, the RBA in its accompanying statement said that "Inflation in Australia has passed its peak but is still too high and is proving more persistent than expected a few months ago". The RBA also revised the end-2024 inflation estimate to 3.5% y/y (from previous estimate of 3.25%), adding that inflation subsequently can be expected "at the top of the target range of 2 to 3 per cent by the end of 2025". Previously, in the Oct statement, the RBA had expected inflation to be "back within the 2–3 per cent target range in late 2025". On the labour market, the RBA revised its view, saying that "employment is expected to grow slower than the labour force and the unemployment rate is expected to rise gradually to around 4¼ per cent" (versus the previous estimate of 4.5%).

In the minutes release on 21 Nov, the RBA noted that its forecasts for inflation to decline to within its 2%-3% target range by the end of 2025 were based on one or possibly two more interest rate increases. The board did discuss the possibility of a pause at the Nov meeting, highlighting that inflation was decelerating and the geopolitical and economic outlook was "highly uncertain"; however, it decided that the case to hike was stronger.

While we are keeping our RBA policy outlook unchanged (expecting the RBA to keep the policy rate unchanged at the 5 Dec meeting and in 1Q24), the chance of another interest rate rise remains a live option, especially amid concerns inflation may remain stubbornly high for longer than expected. We have also now pushed back our first rate cut to take place in 3Q24.

CURRENCY

AUD has bottomed

AUD/USD rose to 3-month highs near 0.66 alongside broad USD weakness, and a de-escalation of geopolitical tensions between China and Australia following Australian Prime Minister Anthony Albanese' successful state visit to Beijing. From here, as pessimism on China eventually peaks and the extensive set of policy support from Chinese authorities works its way into the underlying economy, CNY and hence AUD will likely receive a boost. Renewed USD weakness as the Fed embarks on its rate cut cycle in 2024 will likely catalyze AUD/USD upside as well. Overall, our updated AUD/USD forecasts are at 0.67 in 1Q24, 0.68 in 2Q24, 0.69 in 3Q24 and 0.70 in 4Q24.

EUROZONE

FX & Rates	1Q24F	2Q24F	3Q24F	4Q24F
EUR/USD	1.11	1.13	1.15	1.16
EUR Refinancing Rate	4.50	4.50	4.50	4.25
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	5.3	3.5	0.5	0.6
CPI (avg y/y %)	2.6	8.4	5.6	2.7
Unemployment Rate (%)	7.7	6.7	6.5	6.7
Current Account (% of GDP)	2.8	-0.6	1.3	1.7
Fiscal Balance (% of GDP)	-5.2	-3.6	-3.5	-3.0

ECONOMY
Significant downside risks

GDP for the Eurozone decreased by 0.1% q/q in 3Q23, from a revised 0.2% q/q gain in 2Q23 (+0.1% q/q previously). Compared with the same quarter of the previous year, seasonally adjusted GDP increased by 0.1%, following a gain of 0.5% in 2Q23. This means that the economy has failed to grow in three of the past four quarters. Of the Eurozone's four biggest economies, Germany contracted by 0.1% q/q, France grew by 0.1% and Italy's growth remained unchanged, while Spain grew by 0.3%. Ireland suffered the biggest contraction (-1.8%), while Latvia (+0.6%) and Belgium (+0.5%) posted the strongest growth.

We expect economic activity in the Eurozone to remain subdued amid weak domestic consumption. Weaker foreign demand and tight financing conditions are also seen dampening growth, especially in the manufacturing sector. The services sector, which had been resilient so far, is also starting to soften. The road ahead is a challenging one, and the recovery of the Eurozone will differ across countries within the bloc. Geo-economic fragmentation and the effects of climate change will also bite. In emerging market economies, a failure to raise growth could further delay income convergence with the continent's advanced economies. For now, we continue to expect the Eurozone economy to expand by 0.5% in 2023 and 0.6% in 2024.

Meanwhile, consumer inflation for the Eurozone sank to its lowest level in more than two years. CPI rose 2.9% y/y in Oct, down from the previous reading of 4.3%, and lower than expectations of 3.1%. Although seasonally unadjusted, this was a significantly weaker reading than a seasonally normal reading in Oct. Core CPI also eased to 4.2% y/y, from the previous reading of 4.5%. Month-on-month, inflation in the bloc came in at 0.1%, below consensus forecast and the previous month's reading of 0.3%. Looking at the details, food, alcohol & tobacco had the highest annual rate in Oct (7.5%, compared to 8.8% in Sep), followed by services (4.6%, compared to 4.7% in Sep) and non-energy industrial goods (3.5%, compared to 4.1% in Sep). Meanwhile, energy was down -11.1%, compared to -4.6% in Sep.

The latest readings on inflation are certainly encouraging, given elevated oil prices. Momentum in services prices is still strong but is starting to decline. Moreover, momentum in core goods prices is falling rapidly owing to the reversal of supply shocks, the easing of supply-chain issues and lower input costs, setting up a period of low core goods inflation. We see Eurozone inflation at 5.6% in 2023 and 2.7% in 2024, with most countries not reaching their inflation targets before 2025.

CENTRAL BANK
ECB to stay pat

The latest growth and inflation backdrop certainly adds to the case of the ECB staying pat, as it decided to keep its three key interest rates unchanged at the Oct meeting. The accompanying press release was pretty much identical to the one in Sep, with the Governing Council saying it "will continue to follow a data-dependent approach to determining the appropriate level and duration of restriction. In particular, the Governing Council's interest rate decisions will be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission".

At the subsequent press conference, ECB President Christine Lagarde even went as far as saying that the Pandemic Emergency Purchase Programme (PEPP) parameters and minimum reserve requirements were not discussed at this meeting and did not elaborate on when these may be addressed. The ECB may be waiting for the discussion on its framework review to pick up, which will likely occur in late-2023 or early-2024. Meanwhile, given higher bond yields, it is likely the ECB will continue to adhere to the existing framework through the end of 2024.

All in all, the Governing Council kept the language on remaining data dependent, leaving the door open to a hike if upside risks to inflation were to materialize; the risk assessments to growth and inflation in the press conference statement were also similar to Sep. It failed to acknowledge that downside risks to growth have intensified since last month and once again focused more on upside than downside threats to inflation. This may suggest that the weakening in the economic outlook and the easing in inflation since the last meeting have done little to change the trajectory of monetary policy.

Geopolitical risks and/or the steep climb in yields (or periphery-core widening) over the last few months may have kept the ECB's hand. The central bank weighs in on 14 Dec for its final monetary policy meeting of the year. Given already adverse financing conditions and a slowing economy, we expect the ECB to maintain rates at the current levels for now. While policy rates may have reached their peak in the current monetary policy tightening cycle, keeping them "on hold for longer" may be the ECB's indirect policy tool to manage inflation expectations.

CURRENCY
EUR to head higher

EUR/USD appeared to have bottomed at around 1.05 early Oct after tumbling from a high of 1.1276 in Jul. The rebound in spot to 1.09 is also accompanied by a turnaround in EUR-USD rate differentials in EUR favour and an improvement in net EUR/USD futures positioning.

Markets' repricing of Fed rate cuts in 2024 continues to be the key driver of EUR/USD going forth. We expect a further narrowing of the rate spread which will be a tailwind for EUR/USD, especially where we expect the ECB to begin rate cuts later (in 4Q24) compared to the Fed (Jun 2024). Overall, we keep to our upward trajectory in EUR/USD and expect the pair at 1.11 in 1Q24, 1.13 in 2Q24, 1.15 in 3Q24 and 1.16 in 4Q24.

FX & Rates	1Q24F	2Q24F	3Q24F	4Q24F
NZD/USD	0.63	0.64	0.65	0.65
NZD Official Cash Rate	5.50	5.25	5.00	4.75
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	6.4	2.5	1.1	0.9
CPI (avg y/y %)	3.9	7.2	5.7	3.0
Unemployment Rate (%)	3.8	3.3	3.8	4.9
Current Account (% of GDP)	-4.1	-7.9	-7.0	-6.2
Fiscal Balance (% of GDP)	-3.9	-4.9	-2.3	-1.8

ECONOMY
Patchy outlook
New Zealand's GDP rose by 0.9% q/q in 2Q23, surpassing expectations of 0.4% q/q, while the revision to the previous quarter (flat versus -0.1% q/q previously) showed the country narrowly avoiding a recession. Compared to the same period last year, GDP rose by 1.8% y/y. This follows a 2.2% y/y print in 1Q23, better than expectations of 1.2% y/y. 3Q23 GDP figures will be due on 14 Dec.

A challenging economic backdrop remains, for both households and businesses. Subdued house price growth and easing labour market conditions will weigh on the former, constraining growth in household consumption. As for the latter, rising costs and subdued domestic demand will weigh on investment, offset partially by the North Island weather event rebuild. The export sector also faces headwinds amid slowing global economic growth.

The slowdown in employment growth, and the fall in the labour force participation rate are clear indicators that the labour market is softening. Consumer price inflation has begun to ease, slowing to 6.0% y/y in 2Q23, from a peak of 7.3% in 2Q22. Still, price pressures remained entrenched above the RBNZ's 1%-3% target band. Inflation is expected to ease further largely on the back of high base comparisons and the lagged effects of monetary policy tightening. The evolution of commodity prices will also be a crucial factor.

Overall, we forecast GDP growth to slow to 0.9% in 2024, from 1.1% in 2023. Positive factors include a turning housing market, surging net migration, and expansionary fiscal policy; while negative factors include contractionary monetary conditions, softer global demand, and heightened geopolitical tensions. As for inflation, our forecast for 2023 is at 5.7%. For 2024, we expect inflation to ease further to 3.0%.

At the 14 Oct election, New Zealand's National Party won enough votes to oust the ruling Labour Party, but insufficient to hold a majority in parliament. Preliminary discussions to form a new government were held soon after, though negotiations were a lot more intense following the official results on 3 Nov. On 24 Nov, the National Party announced that it will form a center-right government with the libertarian ACT Party as well as the nationalist New Zealand First Party, after reaching an agreement on cabinet positions and policies. Key planks for the new administration will be cutting government spending and proceeding with tax cuts.

The government will also amend the RBNZ Act to remove the existing dual mandate which includes employment. While that move was expected, it also said it will take advice on giving the RBNZ time targets for monetary policy, removing the Treasury Department observer from the Monetary Policy Committee and returning to a single decision maker model. Currently, the RBNZ is required to achieve and maintain annual inflation between 1%-3% over the medium term, with a focus on the 2% midpoint. The government will consult on whether to replace "medium term" with specific time-frames.

CENTRAL BANK
RBNZ on hold
The RBNZ was one of the first central banks to begin hiking rates in the wake of the pandemic. At its Nov meeting, it decided to leave its official cash rate (OCR) unchanged at 5.50%, as expected. In its accompanying press release, the RBNZ said that "interest rates are constraining economic activity and reducing inflationary pressure as required", adding that "the Committee agreed that the OCR needs to stay at a restrictive level to ensure that annual consumer price inflation returns to the 1% to 3% target range and to support maximum sustainable employment".

The RBNZ still sees inflation returning to the 1%-3% target band by 2H24, and its projections for the OCR indicate a first cut in 1H25. However, tighter fiscal policy will further weigh on growth, though most fiscal measures will likely be announced only during the May 2024 budget, and implementation likely to take some time. Nonetheless, we think the RBNZ will have to cut rates sooner than its own projections imply, and we are penciling in the first rate cut in 2Q24.

CURRENCY
NZD's recovery to continue in 2024
NZD/USD rose 2.8% in 4Q23 to 0.6170 after dropping for the first three quarters of the year. The rebound was underpinned by renewed USD weakness after the Fed signaled an end to its tightening cycle.

While the current bout of USD weakness is likely to carry over into the new year, further gains in NZD/USD may be capped by a low growth outlook and our expectations of that RBNZ may cut rates sooner (in 2Q24) than its own projections. Overall, our updated NZD/USD forecasts are 0.63 in 1Q24, 0.64 in 2Q24, 0.65 in 3Q24 and 4Q24.

FX & Rates	1Q24F	2Q24F	3Q24F	4Q24F
GBP/USD	1.28	1.30	1.31	1.32
GBP Repo Rate	5.25	5.25	5.00	4.75
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	9.6	4.5	0.5	0.4
CPI (avg y/y %)	2.6	9.1	7.4	3.1
Unemployment Rate (%)	4.6	3.7	4.2	4.5
Current Account (% of GDP)	-0.5	-4.9	-3.3	-3.1
Fiscal Balance (% of GDP)	-7.2	-4.3	-5.0	-3.6

ECONOMY

Outlook remains bleak

The UK economy performed better than expected in 3Q23. GDP flat-lined relative to the second quarter, compared to expectation for a 0.1% q/q decline. The reading follows a 0.2% gain in 2Q23. In the details, household consumption contracted by 0.4% q/q and so did government spending (-0.5%) as well as investment (-2%). Net exports supported growth, partly thanks to a fall in imports which reflected weak domestic demand. While we expect the UK to avoid a recession in 2023, the anemic growth and ongoing 'cost-of-living' crisis, alongside the possibility of rising unemployment, will continue to see many households struggling, thus negatively affecting domestic demand. We expect growth to remain weak, with a full-year GDP forecast of only 0.4% in 2024.

Inflation continues to fall. Headline CPI fell further to 4.6% y/y in Oct, from 6.7% y/y in Sep, down from the peak of 11.1% in Oct 2022. The BOE had expected an Oct reading of 4.8% in its Nov monetary policy report, while the consensus view was for 4.7%. The largest contribution to the fall in the headline rate came from household energy bills. Prices rose by 24.7% between Sep and Oct 2022. Between the same two months this year they fell by 7.0%. Importantly for the BOE, services inflation dropped to 6.6% from 6.9%. The BOE had expected the gauge to remain unchanged.

Not only does the latest jobs data show a further cooling in the labour market, pay growth has also eased. Average weekly earnings fell to 7.7% in the three months to Sep, from 7.9% previously. Regular pay growth in the private sector fell too, to 7.8% in the three months to Sep, from 8.1% previously, a touch lower than the BOE's projection of 7.9%. The fall in annual private sector pay gains mostly reflects a softer pace of underlying growth. On a 3M/3M basis, pay growth dropped to an annualized 5.8% in Sep, much weaker than the pace recorded in spring, though still nearly double the 3% level that is consistent with the BOE's 2% inflation target.

Set against the backdrop of a cost-of-living crisis, UK Chancellor of the Exchequer Jeremy Hunt delivered his second Autumn Statement on 22 Nov, the main focus being a two percentage point reduction to the headline rate of national insurance to 10% (from 12%), a move he said would help 27mn people. Among the other announcements were changes to benefits programs, a freeze on alcohol duty, additional business tax breaks, investment in AI and manufacturing, and a rise in the minimum wage.

Nonetheless, the long-awaited independent forecasts from the Office for Budget Responsibility (OBR), were decidedly gloomy, and presented a much bleaker picture than prior projections unveiled in Mar. Back then, the OBR said inflation would fall to 0.9% by the end of 2024, but it revised that upwards to 2.8%, down from 11.1% last year when Hunt and Rishi Sunak took office. CPI is not expected to hit the BOE's 2% target until 2025. This is a year later than it expected in Mar. Growth forecasts were also downgraded sharply to 0.6% this year and 0.7% next year, from the 1.8% and 2.5% predicted respectively in Mar. GDP is then set to expand by 1.4% in 2025, 1.9% in 2026 and 2% in 2027.

CENTRAL BANK

BOE to keep rates higher for longer

As expected, the BOE decided to maintain the Bank Rate at 5.25%, for a second consecutive meeting on 2 Nov. The latest vote to stay on hold was by a slightly increased majority of 6-3 (from 5-4 in Sep) although markets expected a 7-2 split. There were little changes to the accompanying Monetary Policy Summary and Minutes. Overall, various statements surrounding guidance and economic assessment only saw slight tweaks, some in a more hawkish direction, some more dovish. There was, however, an addition of the sentence "The MPC's latest projections indicate that monetary policy is likely to need to be restrictive for an extended period of time" to the final paragraph.

BOE Governor Andrew Bailey's press conference provided some interesting soundbites but nothing too surprising. He said the MPC is watching closely to see if further rate hikes are needed; adding that it is much too early to think about rate cuts. He emphasised that the BOE will keep interest rates high enough for long enough to return inflation to target; and there is no room for complacency as inflation is still too high.

Our view remains data dependent like the BOE, keeping the view that all options are on the table. With falling inflation, easing pay pressures and weakening activity, our base case remains for the Bank Rate to stay at its peak of 5.25% for now, following 515 bps of tightening since Dec 2021, barring any huge upside surprises to services inflation or wage data.

CURRENCY

Further recovery in GBP

GBP/USD had rebounded from 1.2037 in early Oct as the aggressive scale back in BOE rate hike expectations has probably ended. The expected peak BOE rate has fallen from over 6.3% in early Jul to 5.25% in late Nov, which coincided with the current BOE policy rate. Further discounting of UK rates is unlikely given UK inflation is still elevated above 6% and BOE's guidance that it is "far too early" to talk about rate cuts. With similar US and UK policy rates, we would argue that GBP's relative valuation over the USD is still attractive at the current GBP/USD spot level.

Overall, we reiterate a positive outlook for GBP/USD though the uncertain economic outlook may limit gains. Our updated forecasts are at 1.28 in 1Q24, 1.30 in 2Q24, 1.31 in 3Q24 and 1.32 in 4Q24.

FX & Rates	1Q24F	2Q24F	3Q24F	4Q24F
DXY	102.2	100.3	98.6	97.6
US Fed Funds Rate	5.50	5.25	5.00	4.75
Economic Indicator	2021	2022	2023F	2024F
GDP (%)	5.8	1.9	2.4	1.0
CPI (avg y/y %)	4.7	8.0	4.1	2.0
Unemployment Rate (%)	3.9	3.5	4.1	4.5
Current Account (% of GDP)	-3.6	-3.8	-3.3	-3.5
Fiscal Balance (% of GDP)	-11.9	-5.3	-5.5	-6.0

ECONOMY

Slower growth & easing inflation, troubling politics ahead

US 3Q expansion was revised higher to 5.2% q/q SAAR (vs. prelim est 4.9%), the strongest since 4Q 2021 (7%), thanks to resilient consumption (3.6%, 2.4ppts), private inventories (1.4ppts), a boost of government spending, both federal (0.4ppt) and state (0.5ppt) and a surprise revision to business spending (1.3%). Residential investment rose by 6.2% (0.24ppt), for the first gain since 1Q 2021, while net exports of goods and services extracted -0.04 ppt. But we believe growth is likely to slow from here as the lagged effects of US monetary policy tightening and tighter financial/credit conditions take a more significant grip, adding to business interest expense, translating to weaker business investment. The shrinking excess savings, tighter lending standards and resumption of student loan repayments also imply US consumers may have to reduce their spending, especially for discretionary goods and services. Despite the surprise 3Q uptick in residential investment, the highest US mortgage rates since 2000 (30-year mortgage rate at 7.73% as of 27 Nov, off recent high of 8.09%) and related deterioration in home affordability will hamper the housing market recovery and related-construction activity. But, excluding 3Q, residential investment has been on a significant decline since 2Q 2021, so housing may already be under-supplied versus the level of household formation and vacancy rate, so downside may be limited.

Meanwhile, there are some sectors showing positive signs of stabilization. The semiconductor cycle seems to have found a bottom and may continue to improve amidst a global tech upcycle. Resolution of the auto industry strikes by the United Auto Workers will help bring this important US industry back to normal production, but at higher labour costs which will push up production costs. The rise in wages and costlier US cars will add upside price pressure.

Fed's "higher for longer" policy rates and tighter financial condition is largely the basis for our projections of slower growth and stabilising inflation in 2024. An important distinction we make is that these conditions have not and will likely not lead to any acute stress in the financial system. The growth slowdown is expected to be more apparent in 1H 2024 with the likelihood of a technical recession within a soft landing, and we do not expect deep recession or an outright contraction of annual GDP next year. We expect **US growth to slow to 1% in 2024, after a projected 2.4% in 2023.**

Job creation remained positive but have eased below expectations to 150,000 in Oct while jobless rate rose to 3.9% in Oct (Sep: 3.8%), highest since Jan 2022 (4%) as unemployed numbers rose by 150,000 even as participation rate slipped 0.1ppt to 62.7%. If participation returns to pre-pandemic levels of 63.3%, then US unemployment rate is likely to rise further. We expect US jobless rate to inch up to 4.0% for 2023 and to 4.5% by end-2024. Oct wage growth eased to 4.1% y/y, slowest since Jun 2021, but may re-accelerate after conclusion of strikes in different industries.

Oct headline CPI inflation came in at a cooler 0.0% m/m, 3.2% y/y (from 0.4% m/m, 3.7% y/y in Sep), as rise in housing and food costs was offset by falling gasoline prices. In comparison, Oct core CPI inflation rose by 0.2% m/m, 4.0% y/y (from 0.3% m/m, 4.1% y/y in Sep). Core goods inflation measure fell for the fifth straight month. While Oct services inflation continued to climb at 0.2%, it was at half the m/m pace of Sep, and importantly, the core services inflation (excluding housing and energy) rose by 3.7% y/y, the slowest in nearly two years. We still expect headline inflation to ease towards 3.2% by Dec 2023 and average 4.1% for 2023, and 2.0% in 2024. We expect core inflation to ease but may only reach 3.9% y/y by end-2023, still well above the Fed's 2% objective. For the full year, core inflation is likely to average 4.8% in 2023 and lower to 2.2% in 2024.

The US averted a government shutdown in 2023 but kicked the can down the road, at least to 1Q 2024, whereby the funding issue surfaces again. A partial shutdown on 19 Jan when the first part of the stopgap funding bill expires is a real threat but no permanent economic damaged is expected. The most significant political event is the US presidential election (5 Nov) with the possibility of Donald Trump returning as President. An issue for 2025, not 2024.

CENTRAL BANK

Fed rates likely peaked, cuts expected in mid-2024

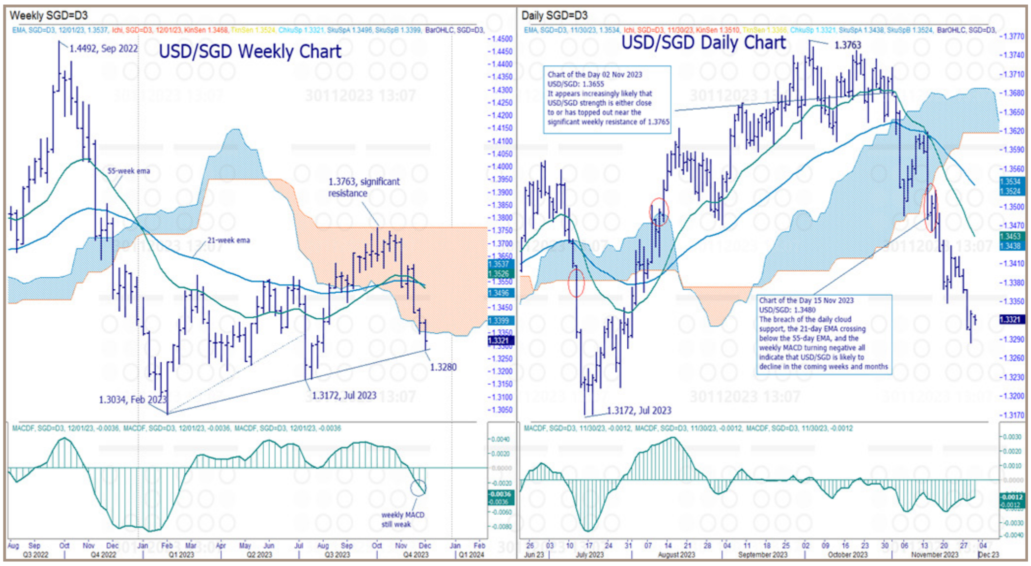
The Fed in its 31 Oct/1 Nov 2023 Federal Open Market Committee (FOMC) meeting, unanimously agreed to keep the target range of its Fed Funds Target Rate (FFTR) unchanged at 5.25%-5.50%. This was the third pause in Fed's current rate hike cycle after having raised rates for ten meetings in a row before taking a first pause in Jun followed by the last 25-bps hike in Jul. While Powell has not taken future rate hikes off the table and repeated his "meeting-by-meeting" data-dependence approach, there is a good case to argue that the higher Treasury yields, tighter financial and credit conditions are helping to do some of Fed's work and reduces the need for the Fed to tighten monetary policy further, as long as prices continue to ease.

We now expect the Fed to keep its current FFTR unchanged at 5.25-5.50% in Dec 2023 and maintain this terminal FFTR level till mid-2024 when we price in 75 bps of rate cuts for 2024 (i.e. three 25-bps cuts in Jun 24, 3Q 24 and 4Q 24). That said, a soft US landing is very much in the works so we do not expect an aggressive series of cuts to counteract the prior aggressive hike cycle.

FX TECHNICALS

USD/SGD: 1.3320

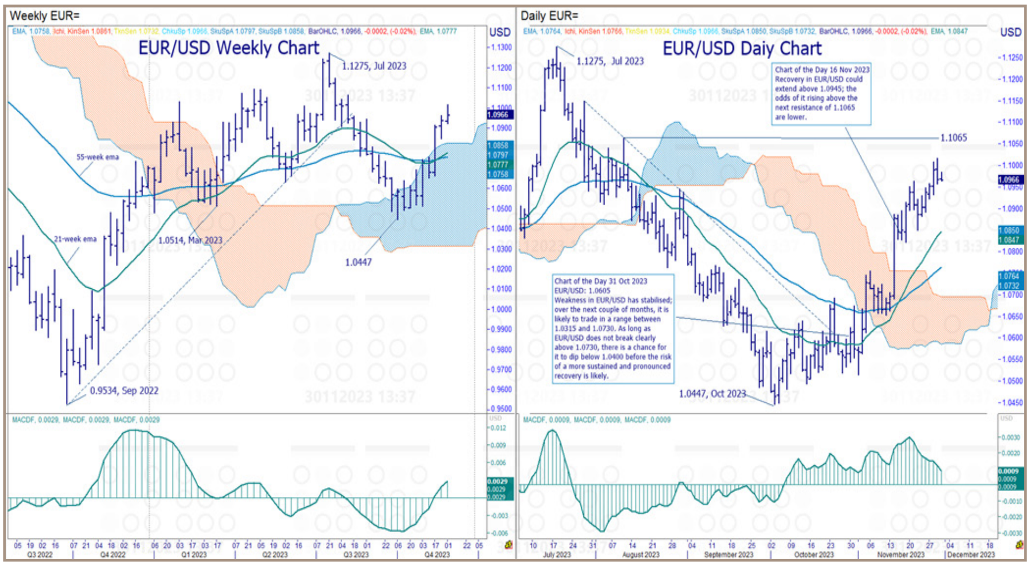
USD/SGD is likely to break below the weekly rising trendline. If USD/SGD breaks this major support, the focus will shift to July's 2023 low, near 1.3170.



In mid-November 2023, USD/SGD broke below the bottom of the daily Ichimoku cloud, and the 21-day exponential moving average (EMA) crossed below the 55-day EMA. In early December, USD/SGD broke another solid support level, the bottom of the weekly cloud. Weekly MACD is 'weak' and USD/SGD is likely to break below the rising trendline support connecting the lows of February and July (currently at 1.3280). If USD/SGD breaks below this major trendline support, the focus will shift to July's low, near 1.3170. Resistance is at 1.3455 (the level of the 21-day EMA at the time of writing), but only a breach of 1.3535 (55-day EMA) would mean that USD/SGD is likely to trade in a range instead of heading lower in the first quarter of 2024.

EUR/USD: 1.0965

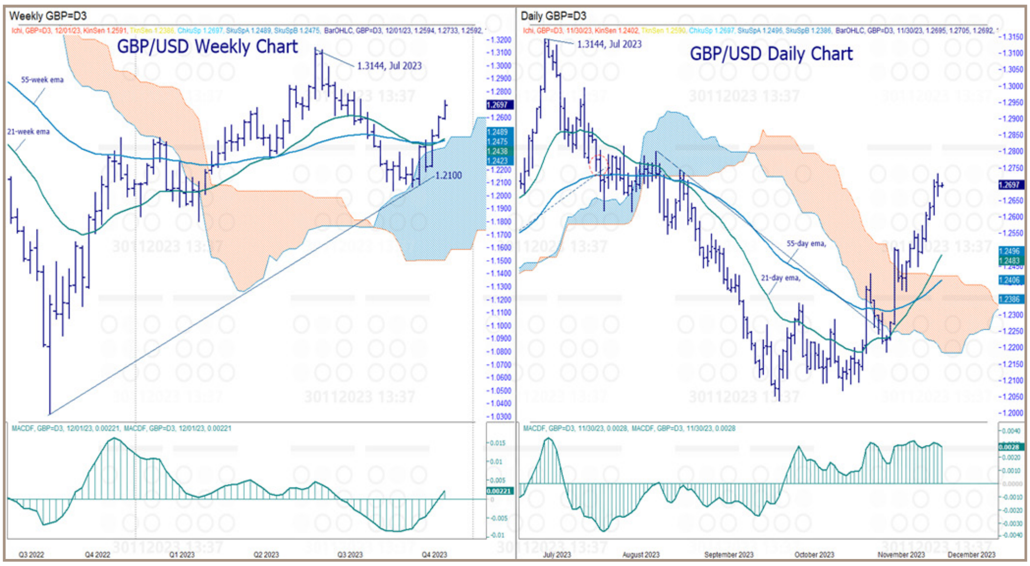
Recovery phase could extend above 1.1065; EUR/USD does not appear to have enough momentum to reach July's high of 1.1275, at least not in the first few months of 2024.



After dropping to a low of 1.0447 in early October 2023, EUR/USD rebounded. The rebound not only broke above the declining trendline resistance but also the top of the daily Ichimoiku. Both developments suggest that the downtrend that began in July has ended. The price action is likely part of a recovery phase that could extend above 1.1065. At the time of writing in early December, EUR/USD does not appear to have enough momentum to reach July's high of 1.1275, at least not in the first couple of months of 2024. On the downside, if EUR/USD breaks below the 55-day EMA, it will indicate the end of the recovery phase and the start of a consolidation phase.

GBP/USD: 1.2695

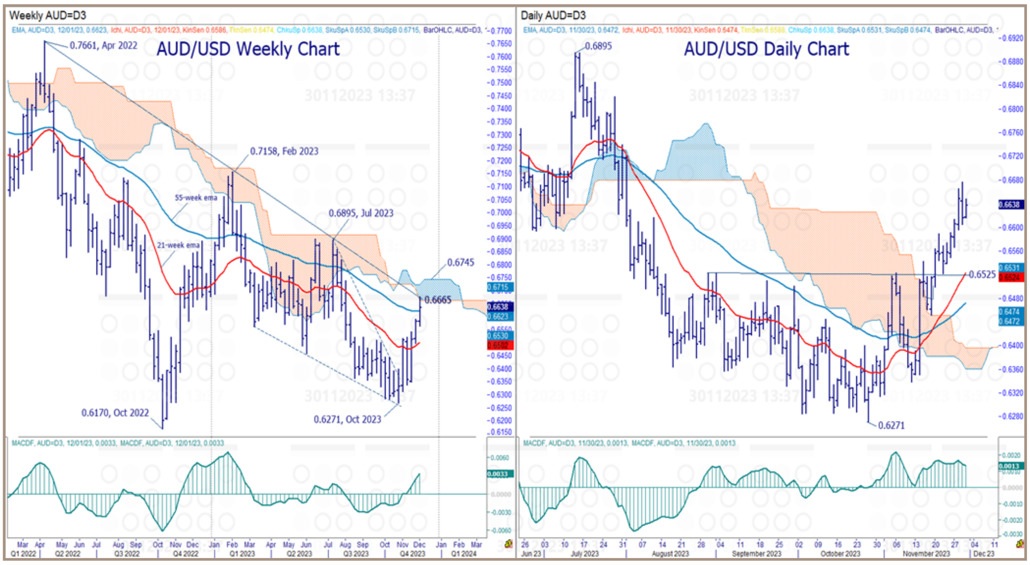
GBP/USD is likely to continue to rise and breach 1.2815, but any advance is unlikely to reach July 2023 high, near 1.3145.



After jumping above the top of the daily Ichimoku cloud in mid-November 2023, GBP/USD continues to rise. A couple of weeks later, the 21-day EMA crossed above the 55-day EMA. Also, as of early December, the weekly MACD turned positive. The overall technical developments suggest GBP/USD is likely to continue to rise in the first quarter of 2024. Resistance is at 1.2815. A breach of this level will not be surprising. However, going into the first few months of 2024, it appears highly unlikely that any advance in GBP/USD will reach July's high, near 1.3145. To keep the momentum going, GBP/USD must stay above the top of the daily Ichmoku cloud (currently near 1.2420).

AUD/USD: 0.6635

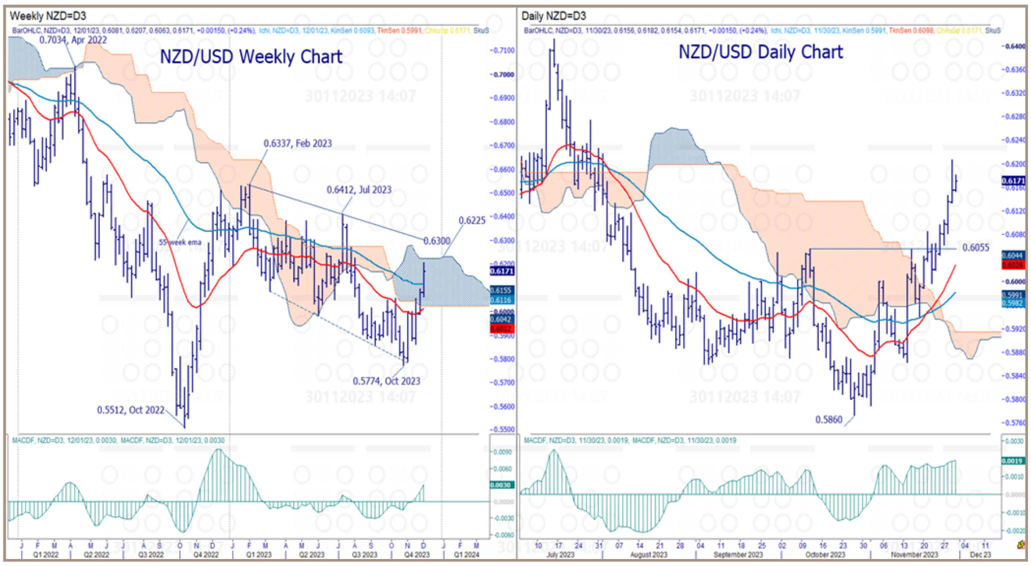
There is a chance for AUD/USD to break above the weekly trendline resistance. If AUD/USD breaks above the trendline, it will greatly increase the likelihood of it breaking above another strong resistance at 0.6745.



On the weekly chart, the trendline connecting the highs of April 2022, February 2023, and July 2023 is a solid resistance level. The trendline sits near the bottom of the weekly Ichimoku cloud, another solid resistance level. At the time of writing in early December, AUD/USD tested this formidable resistance level. In view of the increasing momentum, a breach of this resistance level will not be surprising. If AUD/USD breaks above this level, it will greatly increase the likelihood of it breaking a key resistance at the top of the weekly cloud (0.6745). The support level to watch is 0.6525.

NZD/USD: 0.6160

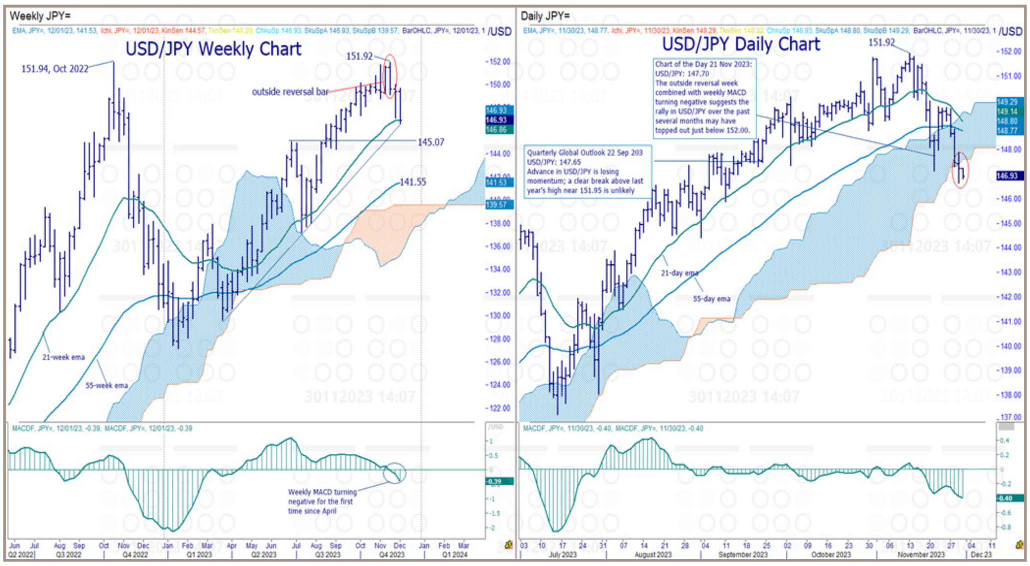
Descending broadening wedge formation is potentially bullish for NZD/USD. Ahead of the top of the wedge at 0.6300, there is another strong resistance level at 0.6225.



In late October, NZD/USD dropped to a low of 0.5774. This low appears to be the bottom of a 'descending broadening wedge' formation. While the wedge formation is potentially bullish for NZD/USD, confirmation of a breakout is only upon a breach of the top of the wedge, now near 0.6300. Ahead of this level, there is another strong resistance level at 0.6225 (top of the weekly Ichimoku cloud). The chance of NZD/USD heading higher towards the two major resistance levels indicated above will remain intact as long as NZD/USD does not break below 0.6055.

USD/JPY: 147.00

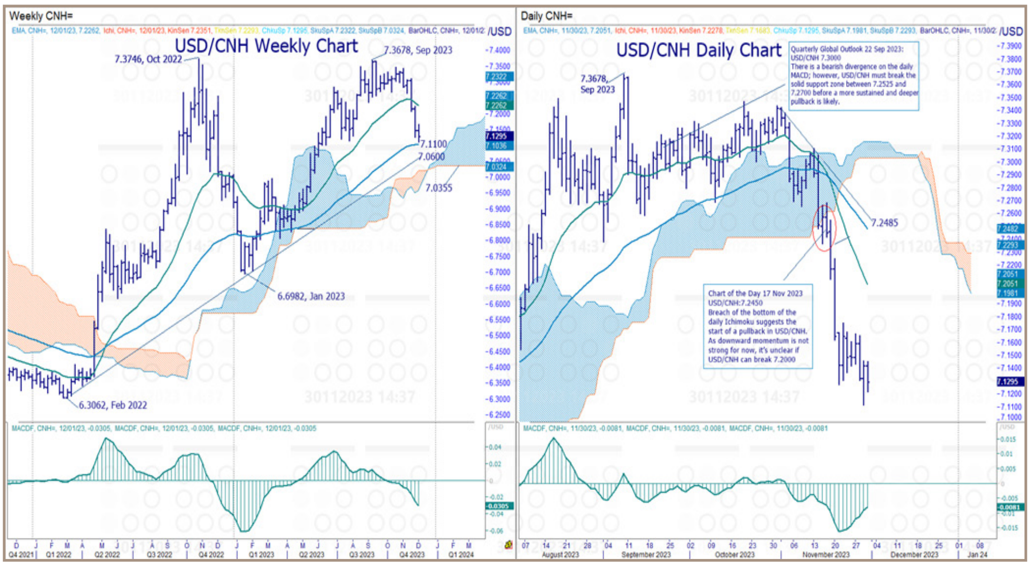
The outside reversal week combined with negative weekly MACD suggests the rally in USD/JPY over the past several months have topped out just below 152.00



USD/JPY rose to a high of 151.92 in mid-November. This level is just a couple of pips below the 2022 high of 151.94. USD/JPY fell quickly from the high and formed a bearish outside reversal week. As the term 'reversal' suggests a change in direction, it appears likely that the rally in USD/JPY over the past several months has topped out just below 152.00. Not only has USD/JPY formed an outside reversal week, but the weekly MACD also turned negative for the first time since April this year. In other words, the weekly MACD also suggests that USD/JPY is likely to decline in the next few months. Additionally, USD/JPY has broken below the bottom of the daily Ichimoku cloud. In view of the increasing momentum, USD/JPY is likely to breach the rising trendline and the 21-week EMA, both near 146.00. The next level to focus on is July's high of 145.07, followed by the 55-week EMA (now at 141.55).

USD/CNH: 7.1300

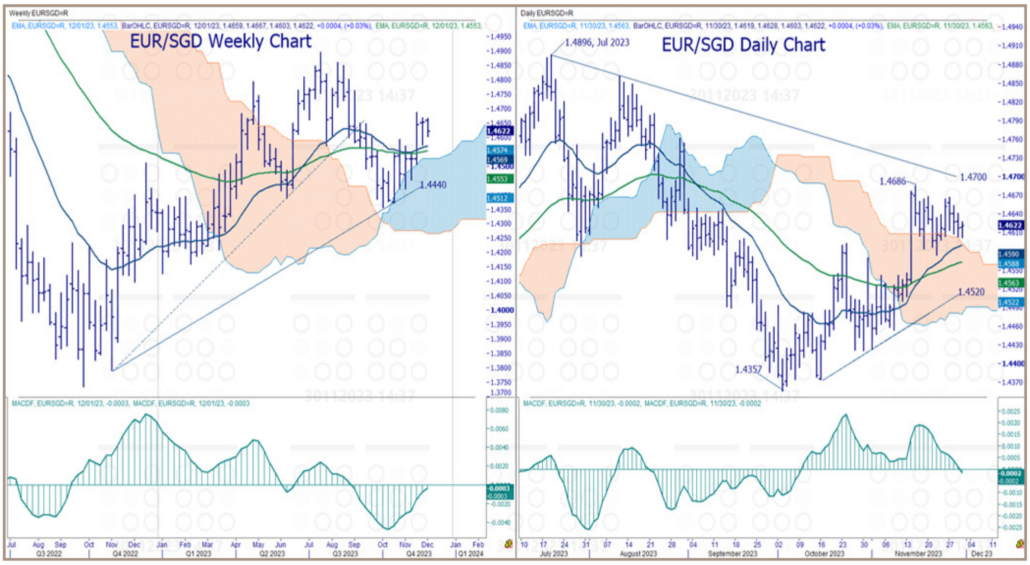
Sharp pullback in USD/CNH has scope to extend to the weekly trendline support, near 7.0600.



In mid-November, USD/CNH took a dive and broke below the support at the bottom of the daily Ichimoku cloud. Note that USD/CNH has stayed above the bottom of the cloud since April. The breach of the key support level led to a sharp pullback. In view of the increasing downward momentum, the pullback appears to have room to extend to the weekly trendline connecting the lows of March 2022 and January 2023. At the time of writing in early December, the trendline is near 7.0600 (there is another support near 7.1100, the 55-week EMA). Below this level lies the bottom of the weekly Ichimoku cloud, another solid support. The bottom of the cloud is set to move higher to 7.0355 in early 2024. In order to keep the momentum going, USD/CNH must stay below the 55-day EMA (7.2485).

EUR/SGD: 1.4620

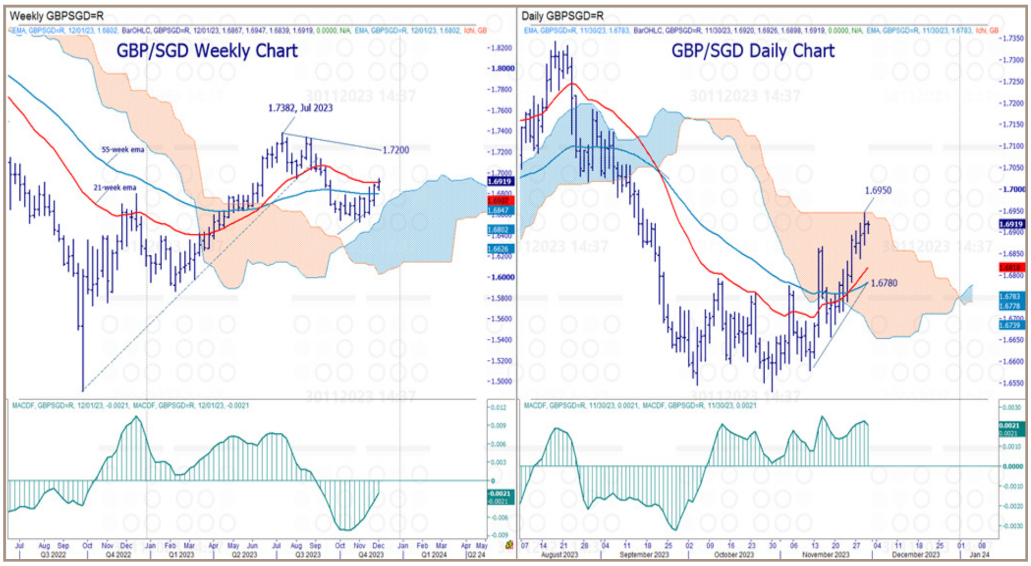
EUR/SGD is likely to trade with an upward bias, but it is unlikely to break above 1.4820.



While EUR/SGD jumped above the top of the daily Ichimoku cloud in mid-November, it has not been able to make further headway on the upside. However, as long as it does break back below 1.4520, it is likely to trade with an upward bias in the next few months. However, any advance is expected to face strong resistance at 1.4700.

GBP/SGD: 1.6925

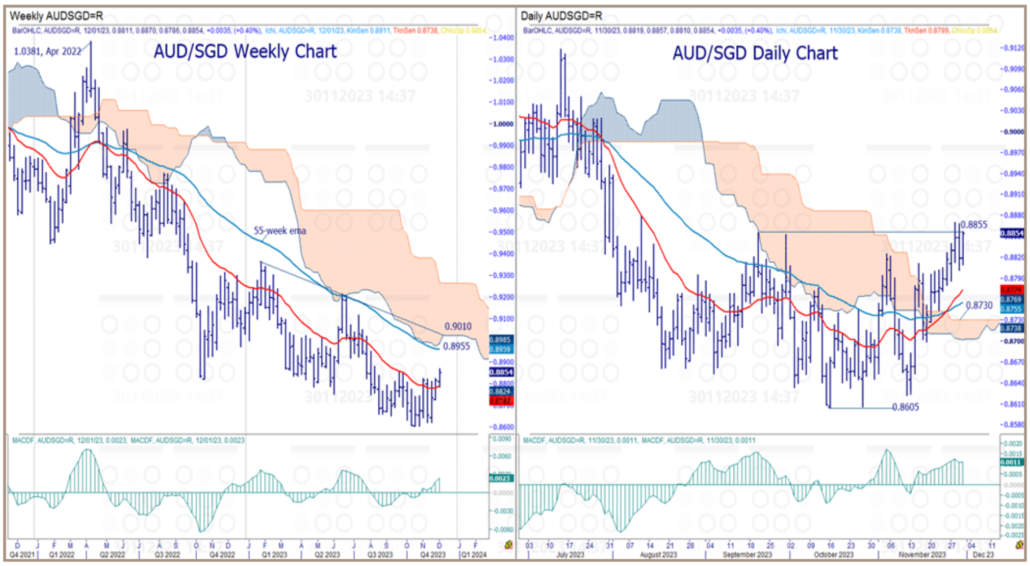
Chance for GBP/SGD to rise above the top of the daily Ichimoku cloud; any advance is unlikely to break above 1.7200.



At the time of writing in early December, GBP/SGD is trading not far below the top of the daily Ichimoku cloud. Upward momentum is increasing, albeit not much. There is a chance for GBP/SGD to break above the top of the cloud. At the time of writing, the top of the daily cloud is at 1.6950. In view of the lackluster momentum, any advance in GBP/SGD is unlikely to break above 1.7200. On the downside, if GBP/SGD breaks below 1.6780, it would suggest that the mild upward pressure has faded.

AUD/SGD: 0.8855

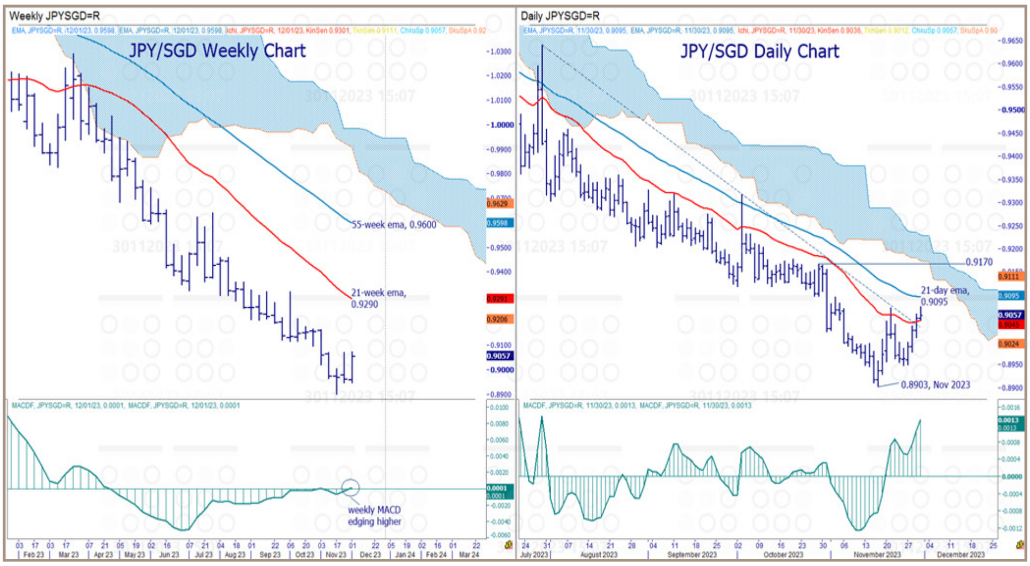
AUD/SGD is likely to recover further, but any advance is expected to face considerable resistance at 0.8955 and 0.9010.



AUD/SGD tried to break below the 0.8600 level twice in October but failed both times. The recovery from the low has not only broken above resistance at the top of the daily Ichimoku cloud but also another strong resistance at 0.8855. The risk for the first few months of 2024 appears to be tilted to the upside. Any advance is expected to face considerable resistance at 0.8955 (55-week EMA) and 0.9010 (declining trendline and bottom of the weekly Ichimoku cloud). If AUD/USD breaks below 0.8730, it would mean that it is likely to trade sideways instead of recovering further.

JPY/SGD: 0.9065

JPY/SGD appears to be basing; it is too early to tell if it can reach 0.9170.

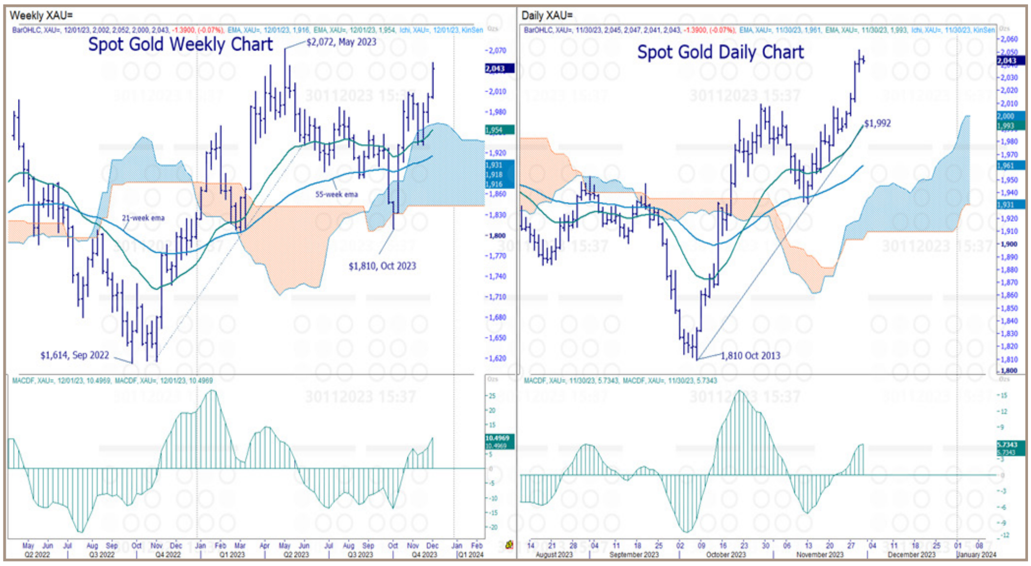


In mid-November, JPY/SGD dropped to just a few pips above 0.8900, reaching a low of 0.8903 before rebounding. The rebound seems to mark the early stages of a basing phase. While JPY/SGD has broken above the trendline that connects the highs of July and October 2023, upward momentum is not that strong. However, there is a chance for JPY/SGD to break above 0.9095 (21-day EMA). At the time of writing in early December, it is too early to tell if JPY/SGD can reach 0.9170.

COMMODITIES TECHNICALS

Spot Gold
$2,044/oz

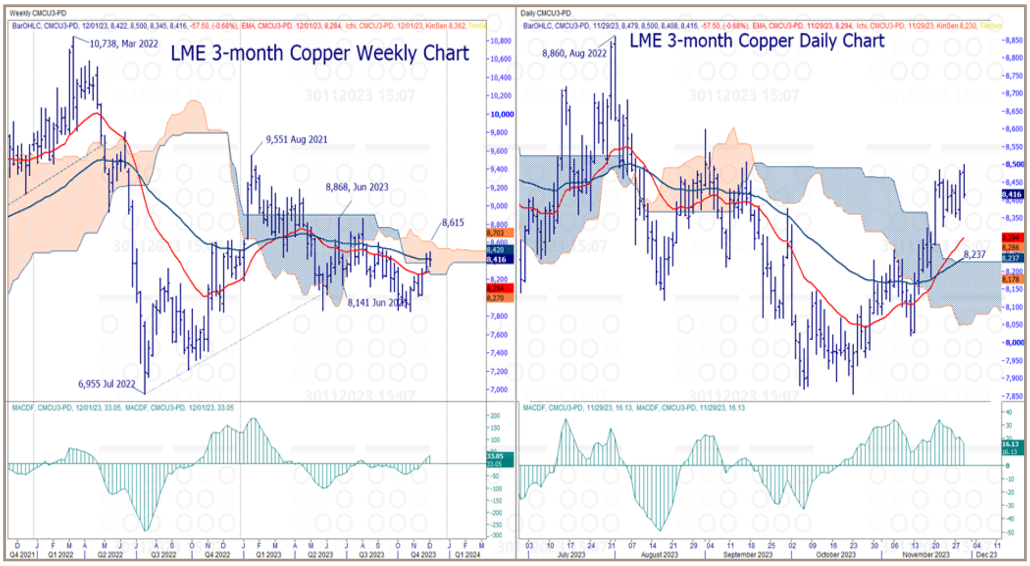
Spot gold is likely to continue to rise towards May's 2023 high of $2,072; it remains to be seen if it has enough momentum to reach $2,100.



Spot gold dropped below the bottom of the weekly Ichimoku cloud in early October and reached a low of $1,810. The decline was brief as gold then staged a strong rally from the low. The rally is accompanied by strong momentum, and gold is likely to continue to rise towards May's high of $2,072. While gold could break this major resistance level, it remains to be seen if it has enough momentum to reach $2,100. To maintain the strong upward momentum, gold must stay above $1,992.

LME 3-mth Copper
$8,416/mt

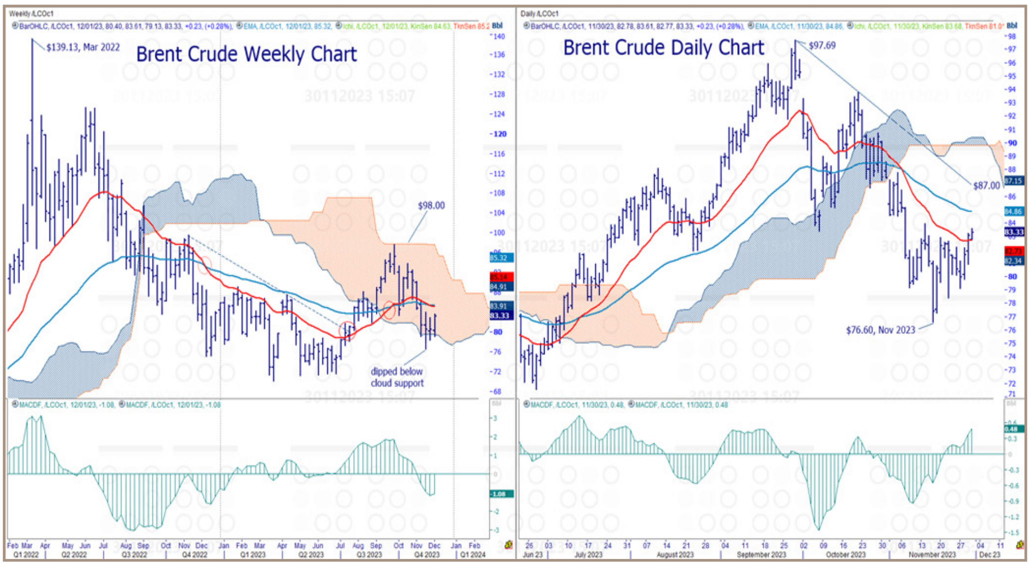
As long as it does not break below $8,237, it is likely to trade with an upward bias in the first few months of 2024



Copper jumped above the top of the daily Ichimoku cloud in mid-November. However, it has not been able to make much further headway on the upside. That said, as long as it does not break below $8,237, it is likely to trade with an upward bias in the first few months of 2024. In order for a sustained rise, it must break above the top of the weekly cloud, now at $8,615.

Brent Crude
$83.00/bbl

Outlook is mixed' Brent crude is likely to trade in a range between $76.60 and $87.00.



After failing to break above the top of the weekly Ichimoku cloud in late September, Brent crude dropped sharply and dipped below the bottom of the cloud (low of $76.60). The decline was short-lived as Brent rebounded strongly from the low. The price action has resulted in a mixed outlook. Going into the first few months of 2024, Brent is likely to trade between the two major levels of $76.60 and $87.00.

GLOSSARY

BI	Bank Indonesia
BNM	Bank Negara Malaysia
BOE	Bank of England
BOJ	Bank of Japan
BOK	Bank of Korea
BOT	Bank of Thailand
BSP	Bangko Sentral ng Pilipinas
CBC	The Central Bank of the Republic of China (Taiwan)
ECB	European Central Bank
FOMC	Federal Open Market Committee
HKMA	Hong Kong Monetary Authority
MAS	Monetary Authority of Singapore
PBOC	The People's Bank of China
RBA	Reserve Bank of Australia
RBI	Reserve Bank of India
RBNZ	Reserve Bank of New Zealand
SBV	State Bank of Vietnam

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