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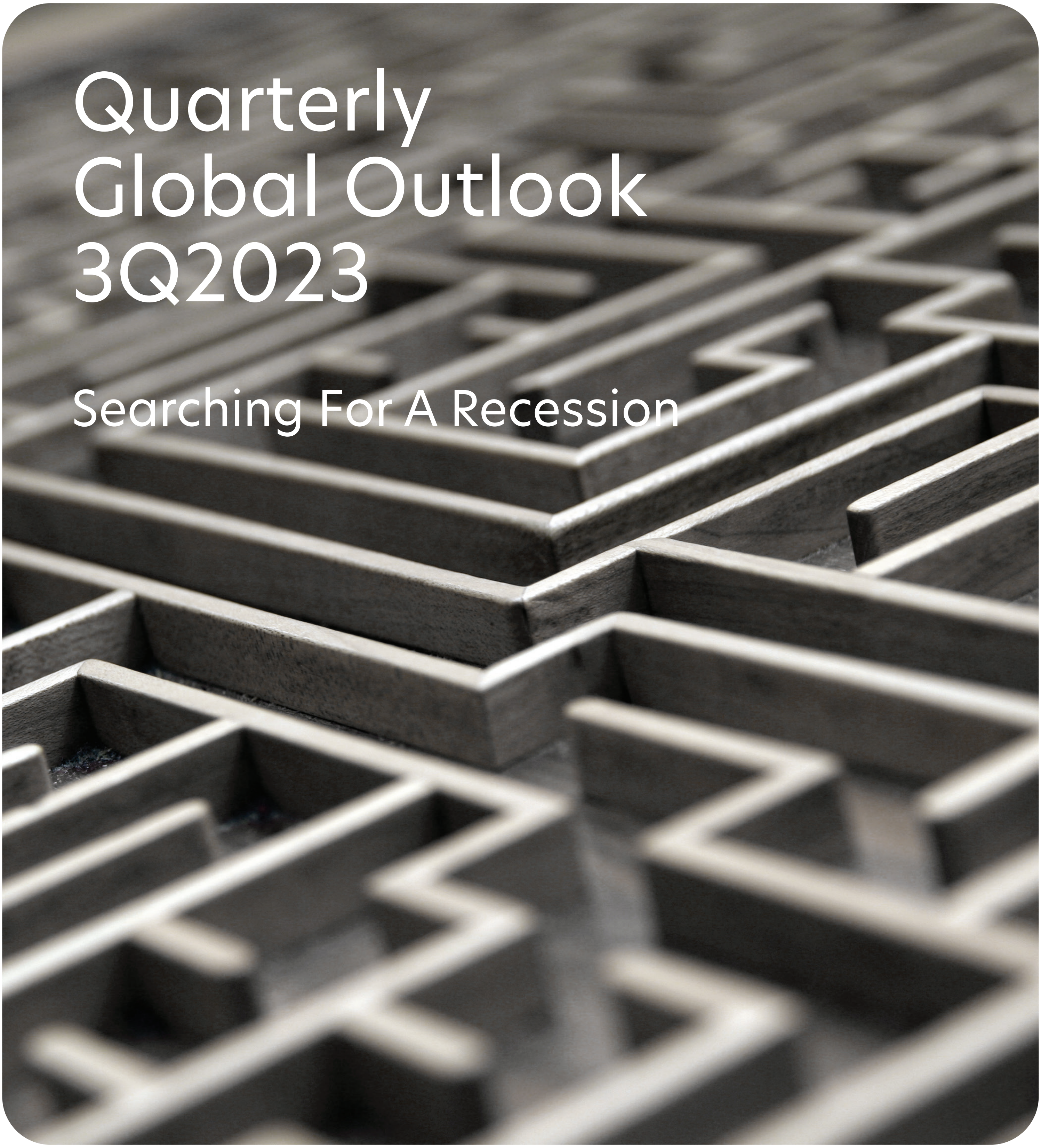

Quarterly Global Outlook 3Q2023

Searching For A Recession

Right By You

CONTENTS

Information as of 16 June 2023

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Executive Summary
Searching For A Recession

> "I still haven't found what I was looking for."
>
> — U2

The US Downturn That Has Yet To Come

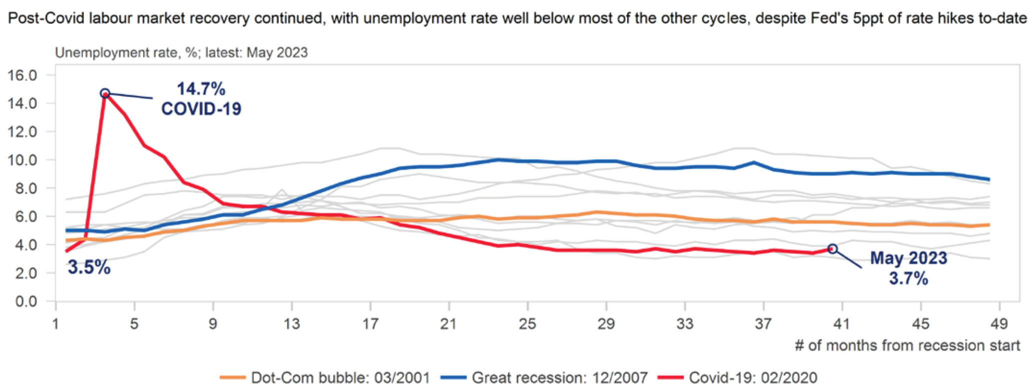
Expectations of an ominous US economic downturn have not materialized (yet) despite the very aggressive Federal Reserve's (Fed) rate hiking cycle. In addition, the US has also managed to avert major crisis events (i.e. the US debt ceiling and banking sector contagion after a string of US regional bank failures).

The main driving force for the uncanny strength of the US economy is the very resilient US labor market, with monthly job creation staying positive since Jan 2021, running above expectations in the last 14 months (since Apr 2022) and usually in excess of 200,000 while unemployment rate (3.7% as of May 2023) remains well below most of the other recovery cycles since the 1970's, despite the Fed's very aggressive 5% points of rate hikes to-date.

The buoyant jobs data in turn is due to strong post-pandemic demand for services (as services-related industries tend to be labor-intensive) and the phenomenon that firms are reluctant to cut jobs given the recent memories of the difficulties in hiring staff post-pandemic reopening of the economy. The number of job openings (based on the Job Opening and Turnover Survey or JOLTS) went back higher to 10.1 million positions in Apr, after briefly dipping below 10 million (to 9.7 million) in Mar, bringing the number of vacancies per unemployed worker to 1.78 in Apr (from 1.67 in Mar), while the number of job cuts rose by nearly three times recently in May (compared to the same period a year ago), with the tech sector announcing the most reductions followed by retail sector. Wage growth also stayed buoyant (above 4% y/y since Jul 2021) amidst tight labor market condition, which together with excess savings (accumulated during the pandemic years) helped to support private consumption.

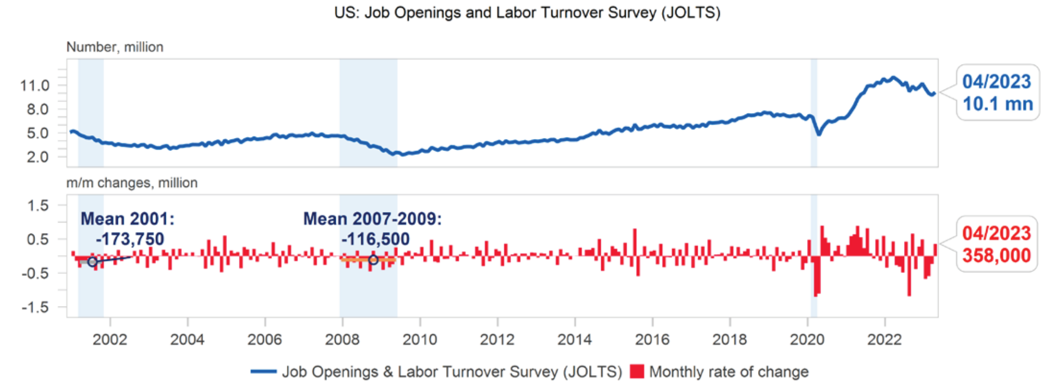
Comparing Current Unemployment Rate Trend With Previous Recession-Recovery Cycles Since 1970's

Source: Macrobond, UOB Global Economics & Markets Research



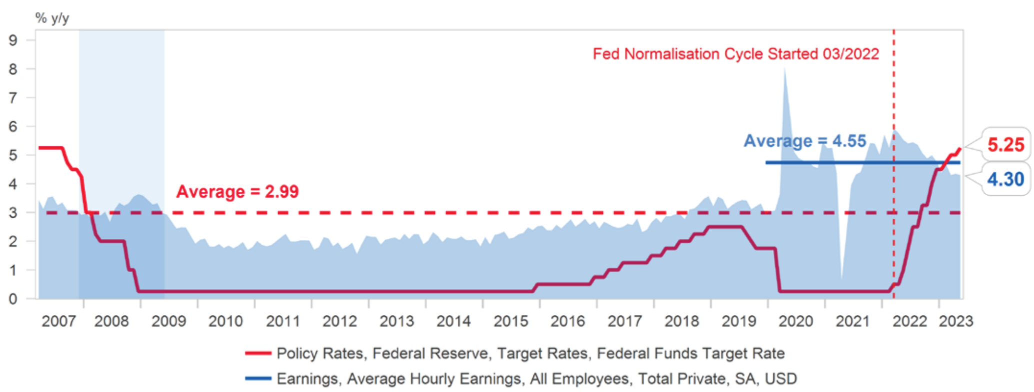
While Off Its Highs, US Jobs Openings Continued To Be Strong

Source: Macrobond, UOB Global Economics & Markets Research



US wage growth stepped down from the 5% y/y average last year, but it is still above 4% y/y monthly so far in 2023, higher than the 2007-2023 average

Source: Macrobond, UOB Global Economics & Markets Research



There are signs that some activities and segments of the US economy are slowing or even contracting. The ISM manufacturing survey (May 2023 at 46.9) has been in contraction territory since Nov 2022 while the Fed's various regional manufacturing surveys are in various degrees of negative prints (For example, US Empire State manufacturing survey at -31.8 in May and Philadelphia Fed business outlook survey at -10.4 in May). The Conference Board US leading index has been contracting on a m/m basis uninterrupted for more than a year, since Apr 2022 while the University of Michigan consumer survey which had been languishing well below 70, recently dipped to 59.2 (May 2023), well below the pre-pandemic level of 101.0 (Feb 2020).

The US housing market bore the brunt of Fed's monetary policy tightening in 2022 with mortgage rates topping 7% in 4Q 2022 and have been hovering well above 6% for 2023 to date. With the exception of Feb (2023), US existing home sales has been recording m/m declines since Feb 2022 (Apr 2023: -3.4% m/m, 4.2mn units annualised compared to Jan 2022: +3.8% m/m, 6.4mn units), as elevated mortgage rates continued to weigh on demand and consumer sentiment.

And within the US GDP, fixed residential investment continued to weigh on US growth but the pace of decline moderated to -5.4% q/q SAAR (-0.22ppt from the change in headline GDP) in 1Q 2023 from -25.1% (-1.2ppt) in 4Q 2022, and -27.1% (-1.4ppt) in 3Q and -17.8% in 2Q (-0.9ppt). The bigger elephant in the room is likely the commercial real estate (CRE) which FOMC's Chair Powell said the Fed is watching credit conditions carefully and the impact on CRE and acknowledged that the central bank expects some losses.

Updating Our US Recession View - Downturn In 2H 2023

We still expect the lagged effects of US monetary policy tightening and tighter financial/credit conditions to meaningfully slow down the US economy, while the turmoil in the US banking sector will further tighten lending standards from US banks, all of which will inevitably weigh on economic growth. In addition, the shrinking excess savings (of which a major US bank estimated to have reduced to US$600 bn from US$2.0 trillion in mid-2021) and tighter lending standards will imply that US consumers may have to tap on the brakes and pull back from spending, especially for discretionary goods and services. Unemployment will pick up more meaningfully as the spokes of Fed cumulative rate hikes wear down demand.

Our projection for that likely downturn in US growth is now being deferred to the second half 2023, instead of our previous expectation of mid-2023.

One key difference in our current growth forecasts is that we are shifting our US GDP growth forecasts higher for 2023 to 0.8% (from -0.5% previously) and lower for 2024 to 1.2% (from +2.5%) and we are no longer projecting an outright annual GDP contraction, as shown in the table of forecasts. Our improved growth number for 2023 reflects our overestimation of the monetary policy's drag on near-term growth and underestimation of the resilience of the US labor market. The lowered 2024 GDP growth forecast is to factor in the lagged effect of US monetary policy (which could be tightened a bit more in 2H 23).

These projections imply that US will experience a "technical" recession in 2H 2023 (i.e. two consecutive quarters of negative q/q headline GDP data). When we look at the y/y figures, GDP is only expected to turn negative in 4Q 2023 and persist for two more quarters till 2Q 2024, based on our latest projections. Our revised annual projections of 0.8% (2023) and 1.2% (2023) deviate to some extent from the US Fed's latest SEP (Summary of Economic Projections) of 1.0% and 1.1%, respectively. Note that the projections by the Fed staff for the Mar and May FOMC meetings projected a mild US recession later this year, a characterization of the economic outlook that is not endorsed by FOMC and is in sharp contrast to the SEP.

Concurrently, we also revised our forecasts for US jobless rates to 4.3% at end-2023 and 4.5% at end-2024 which is in line with the Fed's revised median projections of 4.1% and 4.5%, respectively).

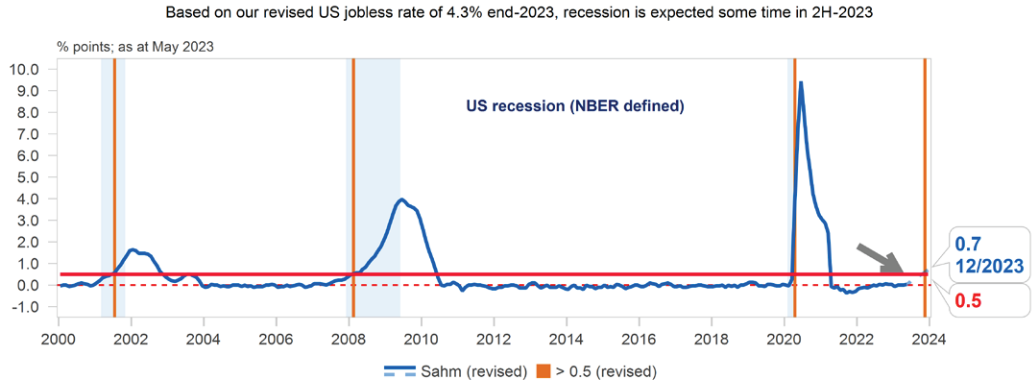
GDP (% q/q SAAR)	1Q	2Q	3Q	4Q	Full Year
GDP (% q/q SAAR)					
2023	1.3*	1.6	-3.2	-3.2	--
2024	2.3	3.4	4.1	6.1	--
GDP (% y/y)					
2023	1.6*	2.2	0.5	-0.9	0.8 (-0.5)
2024	-0.7	-0.2	1.6	4.0	1.2 (2.5)
Unemployment (%)					
2023	3.5	3.8	4.0	4.3	4.3 (4.5)
2024	4.8	5.0	4.8	4.5	4.5 (4.5)

* refers to actual historical rate, numbers in brackets refer to old forecasts
Source: UOB Global Economics & Markets Research (as of 16 Jun 2023)

With the slight downward revision to the forecasts for US jobless rate in 2023, the risks of a US recession have not decreased materially based on the Sahm Indicator, which uses jobless rate to determine when a US recession would occur. The Sahm Indicator postulates that if the unemployment rate (in the form of its three-month average) is at least 0.5% points above its minimum from the previous 12 months, then the economy is already in a recession. Based on our latest forecasts for the US unemployment rate profile, it is now likely that the US will enter into a downturn sometime in late 2H 2023, according to the Sahm Indicator. Meanwhile, New York Fed's Probability Of Recession chart 12 months ahead of term spread reading, is flashing the highest probability of a US recession in the past 30 years. The more difficult aspect to ascertain is when and how shallow (or deep) the downturn will be, due to the many moving parts including the uncertainty of how consumers, businesses, commodities prices and others react and adjust to the changes in the environment.

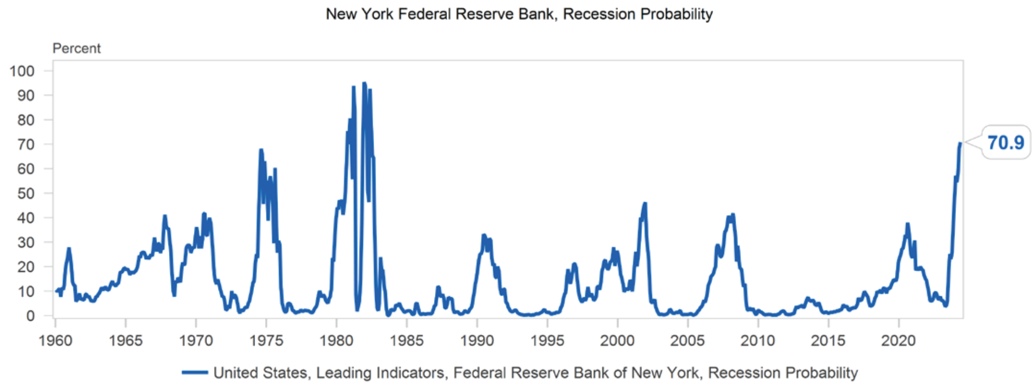
Based on our 4.3% US unemployment rate by end-2023, the Sahm Recession Indicator projects a US recession some time in late 2H 2023

Source: Macrobond, UOB Global Economics & Markets Research



New York Federal Reserve's Probability Of Recession chart shows the highest probability of a US recession in the past 30 years

Source: Macrobond, UOB Global Economics & Markets Research



That said, as we have alluded to in the Global Focus report (Assessing Resilience Against Looming Credit Downturn & Potential Crisis), aggressive Fed hikes to curb inflation was main driver of economic downturn before 1990, much like the current cycle. But this downturn if simply is due to Fed's rate hike cycle, then it will be unlikely to lead to a full-blown crisis. There will need to be triggers to transform an orderly downturn into a disorderly crisis. The Fed rate hikes alone won't, and the end result is likely moderate recessionary conditions ahead.

Central Banks' Policy Direction
Increasing Divergence In Monetary Policy Between Developed Market And Asian Central Banks

By now it is becoming apparent the increasing divergence between Developed Market (DM) and Asian central banks. The Fed has made it clear that pausing in Jun does not mean that they have stopped their rate hiking cycle. Fed Chair Jerome Powell has stressed that Jul remains a "live" FOMC while the dot plots have clearly been revised higher. Our view has been "upgraded" as well for one more 25-bps rate hike in Jul, bringing the range for the Fed Funds Target Rate (FFTR) to 5.25%-5.50%.

Similarly, both the Reserve Bank of Australia (RBA) and Bank of Canada (BOC) have surprised by hiking instead at their latest policy meeting and reiterating their concerns for inflation. As for the European Central Bank (ECB), after the latest 25-bps hike in Jun, we expect a final 25bps hike in Jul, although the risks are skewed to the upside for additional rate hike(s) beyond Jul. The Bank of England (BOE) is also projected to hike by another 25bps at the next BOE monetary policy meeting on 22 Jun, and in fact, there is also little to prevent the BOE from hiking rates again at 3 Aug. With New Zealand's economy having entered a technical recession in 1Q23, the Reserve Bank of New Zealand (RBNZ) could be an exception among the DM central banks, as it signaled that it has finished hiking after raising rate by 25-bps in late May. RBNZ was among the earliest DM central banks to undertake monetary policy tightening and its most aggressive tightening since 1999.

Whereas for Asian central banks, the majority have now signaled an outright end to their rate hiking cycle, e.g. Bank Indonesia (BI) and Bank of Thailand (BOT). Our view as well is that we do not expect further rate hikes from any Asian central banks for the remainder of the year. In fact, by 1Q24, we would expect both BI and BOT to start cutting rates. At the opposite end of the monetary policy cycle is of course People's Bank of China (PBOC). In contrast to the significant monetary policy tightening globally over the past year and a half, the PBOC has been progressively easing monetary policy on a targeted basis. Most recently, as a result of renewed manufacturing contraction and a lackluster post-Covid recovery for China, the Chinese central bank has eased monetary policy further by making the latest 10 bps cut to its key benchmark interest rates, with markets eyeing similar cuts to the 1Y & 5Y Loan Prime Rates (LPR) on 20 Jun.

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

FX Strategy

Can The USD Strengthen Again On A Hawkish Fed?

In the Majors FX space, USD weakness is expected to return as 2H23 progresses. Most G-10 central banks have now transited into "data dependent" mode depending on how their inflation trajectories evolve. Stubbornly high inflation has spurred surprise rate hikes from RBA and BOC in Jun. While most G-10 central banks have seen headline inflation peaked, they have varying degrees of success in decisively curbing core inflation. This gives the Fed a higher watermark to cross relative to its G-10 peers when it comes to considering the next tightening move. With the Fed expected to end the tightening cycle earlier than its peers, the rate advantage that USD enjoys over its peers will narrow further, sparking renewed weakness in the USD. Overall, we reiterate our view of further USD weakness against most G-10 peers in the coming quarters. We expect EUR/USD, GBP/USD, AUD/USD and NZD/USD to keep to their upward trajectory, rising from current levels to 1.16, 1.36, 0.73 and 0.65 by 2Q24 respectively.

Amongst Asia FX, the recovery of CNY and Asia FX is likely delayed till 4Q23. The signs are increasingly pointing to a longer than expected period of Asia FX weakness. A dial back of China's post-Covid recovery expectations was the key driver of renewed weakness in the Asia Dollar Index which touched new year-to-date lows in Jun. Economic indicators since Apr suggest that China's recovery is losing momentum. Based on previous observations, it would probably take months for the current bout of economic underperformance to bottom and eventually rebound. Overall, we are still of the view that CNY-led recovery of Asia FX is still intact, just delayed to 4Q23 (from 3Q23 projected previously) just as China's economy regains momentum again. Our "get worse before it gets better" base case means USD/CNY is likely to target 7.25 in 3Q23 before normalising lower. Concurrently, various USD/Asia pairs are forecasted to trade up to the following levels in 3Q23 before normalizing, specifically USD/MYR to 4.68, USD/SGD to 1.36, USD/IDR to 15,200 and USD/THB to 35.50.

Rates Strategy
A Primer On The Eventual Fed Easing Cycle

For this quarter's rates view, we want to take a step back from the debate as to whether Fed funds have hit its peak or if there is a couple more rate hikes still to come. Instead, we cast our net a little further out into the eventual Fed easing cycle to see what history has to say about the rate cutting phase. It is worth noting that historically, Fed rate cuts were front loaded with majority of the reduction being delivered within the first year. We take this opportunity to explore the dynamics of the past Fed easing cycles.

In terms of our updated rates view, our macro team expects the Fed funds rate to plateau at 5.50% for the rest of 2023 to be followed by rate cuts in 2024. Off this baseline, we are constructive on duration and expect to see bond yields drift lower across 2023, based our view that the balance of risk will increasingly tilt in favour of slowing economic growth, growing rate cut expectations, and richer safe haven premiums consequentially. For end 4Q23, we see the 3M compounded in arrears Sofr and Sora at 5.30% and 4.03% respectively. By the time we get to end 2023, bonds will be pricing in a Fed easing cycle. Based on our macro team's view, this will amount to 125bps of Fed rate cuts in 2024, and a further 150bps of reduction in 2025. Thus, we have the 10Y UST and SGS yields lower at 3.20% and 2.70% respectively by 4Q23, in view of lower US Fed policy rate over the next two years.

Commodities Strategy
Weak 1H23 Performance For Commodities Amidst Persistent Global Slowdown Fears

In terms of the outlook for gold, despite the near-term setback below USD 2,000 / oz yet again, we maintain our positive forecast. We continue to see US interest rates topping out in the months ahead as the Fed reaches the tail end of its rate hiking cycle. Our view remains for USD to top out as well (albeit with a bit of delay towards the end of this year). And gold remains an important diversifier of portfolio risk. In fact, Emerging Market and Asian central banks continue to load up on gold reserves, specifically China. Overall, we maintain our positive view for gold and forecast that gold will trade above USD 2,000 /oz in 2H23 and thereafter, rising further to USD 2,100 / oz in 1H24.

As for Brent crude oil, further production cuts by OPEC+ and Saudi Arabia have resulted in tightening supply dynamics, admist the further drop in US Strategic Petroleum Reserves (SPR). There is now little room for further supply shocks. Hence, we reiterate our modestly positive view of Brent crude oil with forecasts at USD 80 / bbl across 2H23 and USD 90 / bbl across 1H24. Nonetheless, the uncertain global demand situation will dampen any strong near term rebound in crude oil price and it is unrealistic to expect a return to USD 100 / bbl anytime soon. For LME Copper, given near term uncertainty with China's economic recovery, we maintain our mild negative outlook, forecasting USD 8,000 / MT in 2H23 and USD 7,000 / MT in 1H24.

ASEAN Focus
Deepening Trade and Financial Inter-Connectivity for Sustainable Growth

- Enhancing ASEAN connectivity will undoubtedly bring about a more integrated ASEAN that will in turn promote competitiveness, inclusiveness, and a greater sense of community.

- In this report. we consider three main aspects to be further deepened to enhance the inter-connectivity in ASEAN: physical connectivity, trade connectivity, and finally investment and financial connectivity.

Global Focus
Assessing Resilience Against Looming Credit Downturn & Potential Crisis

- This article is contributed by members of UOB Country & Credit Risk Management.

- Based on our analyses of key factors, the global economy could transit fully from a late-stage expansion to a downturn in the credit cycle ahead, driven by higher interest rates unlike past cycles in recent decades.

- We analysed the difference between the current and previous downturns as well as selected economies' resilience against more defaults and any potential future crisis.

Global FX

USD/JPY: As we expect the scrapping of YCC and exit of negative policy rate to only commence in early 2024, this current bout of JPY weakness is likely to persist through 3Q23 before reversing in 4Q23 as policy tightening speculation returns. Overall, our updated USD/JPY forecasts are at 145 in 3Q23, 138 in 4Q23, 132 in 1Q24 and 128 in 2Q24.

EUR/USD: There is a good chance that the ECB keeps its tightening bias longer than the Fed, hence offering support for EUR/USD as the interest rate gap narrows further. Overall, we keep to a positive outlook for EUR/USD, as we had since late 2022. Our updated EUR/USD forecasts are 1.10 in 3Q23, 1.12 in 4Q23, 1.14 in 1Q24 and 1.16 in 2Q24.

GBP/USD: The GBP was the best performing G-10 currency in the second quarter to date. The outperformance was underpinned by improved growth outlook and more hawkish monetary policy expectations. Overall, we keep to our positive outlook in GBP/USD and expect the pair at 1.30 in 3Q23, 1.32 in 4Q23, 1.34 in 1Q24 and 1.36 in 2Q24.

AUD/USD: When China's recovery eventually regains momentum in 4Q23, AUD/USD's upward trajectory is likely to be on firmer footing. Overall, our updated AUD/USD forecasts are 0.69 in 3Q23, 0.71 in 4Q23, 0.72 in 1Q24 and 0.73 in 2Q24.

NZD/USD: While we are anticipating further broad-based USD weakness, the recovery of NZD/USD from here is likely to be gradual as subsequent RBNZ rate cut expectations in 2024 start to build. Overall, we keep to our upward trajectory in NZD/USD with updated point forecasts at 0.62 in 3Q23, 0.63 in 4Q23, 0.64 in 1Q24 and 0.65 in 2Q24.

Asian FX

USD/CNY: Our "get worse before it gets better" base case means USD/CNY is likely to target 7.25 in 3Q23 before normalising lower. Our updated USD/CNY forecasts are at 7.25 in 3Q23, 7.10 in 4Q23, 6.95 in 1Q24 and 6.85 in 2Q24.

USD/SGD: Overall, while the SGD is tethered to CNY in the near-term, its weakness against the USD is likely more measured. Our updated USD/SGD forecasts are 1.36 in 3Q23, 1.35 in 4Q23, 1.33 in 1Q24 and 1.31 in 2Q24.

USD/HKD: We maintain the view that as the Fed's tightening cycle eventually ends this year, the rate-differential tailwind that is underpinning USD/HKD would also recede accordingly. As such, it would be a matter of time before USD/HKD returns to the middle of its allowed trading range between 7.75 and 7.85. Our updated USD/HKD forecasts are at 7.84 in 3Q23, 7.82 in 4Q23 and 7.80 in both 1Q and 2Q24.

USD/TWD: Going forth, concerns about stalling China's growth recovery may keep TWD biased to further weakness in the coming quarter. A recovery in Asia FX including TWD is now expected from 4Q23 onwards, compared to 3Q23 previously. Our updated USD/TWD forecasts are at 31.0 in 3Q23, 30.4 in 4Q23, 30.0 in 1Q24 and 29.5 in 2Q24.

USD/KRW: The uncertain domestic growth outlook together with China's growth concerns may cast an overhang in the coming quarter (3Q23). This is to be followed by a region-wide recovery in Asia FX starting 4Q23 as China's economic rebound regains momentum. Overall, our updated USD/KRW forecasts are 1320 in 3Q23, 1260 in 4Q23, 1220 in 1Q24 and 1200 in 2Q24.

USD/MYR: We update our USD/MYR forecasts at 4.68 in 3Q23, 4.60 in 4Q23, 4.50 in 1Q24 and 4.40 in 2Q24, from the previous estimated range of 4.30-4.48.

USD/IDR: While the IDR is expected to take directions from the CNY, volatility is likely to be checked and we expect USD/IDR to trade within familiar ranges. Our updated USD/IDR forecasts are 15,200 in 3Q23, 14,800 in 4Q23, 14,600 in 1Q24 and 14,200 in 2Q24.

USD/THB: Until the political fog clears up, the THB is likely to track CNY's moves more closely. Notably, we also dial back our expectations of THB's outperformance relative to regional peers this year as the anticipated resurgence of tourist arrivals, especially from China has not played out as buoyantly as we have earlier expected. Our updated USD/THB forecasts are 35.5 in 3Q23, 34.0 in 4Q23, 33.5 in 1Q24 and 33.0 in 2Q24.

USD/PHP: Overall, we expect the PHP to drop alongside CNY against the USD in 3Q23 before strengthening anew from 4Q23. Our updated USD/PHP forecasts are 57.0 in 3Q23, 56.0 in 4Q23, 55.0 in 1Q24 and 54.0 in 2Q24.

USD/VND: The stability of VND at around 23,500 /USD in 2Q23 may be coming to an end soon as a multitude of headwinds mount. Overall, USD/VND will likely follow the broad Asia FX trajectory, with updated forecasts at 24,200 in 3Q23, 24,000 in 4Q23, 23,800 in 1Q24 and 23,700 in 2Q24.

USD/INR: Going forward, the INR is likely to follow the regional trend that will see another quarter of weakness before starting to recover in 4Q23 as China's economic recovery regains momentum. Overall, our updated USD/INR forecasts are 83.0 in 3Q23, 82.0 in 4Q23, 81.0 in 1Q24 and 80.0 in 2Q24.

Our Forecasts
Real GDP Growth Trajectory

y/y% change	2022	2023F	2024F	3Q22	4Q22	1Q23	2Q23F	3Q23F	4Q23F	1Q24F	2Q24F
China	3.0	5.6	4.8	3.9	2.9	4.5	7.8	4.9	5.6	5.1	5.0
Hong Kong	-3.5	5.5	2.6	-4.6	-4.1	2.7	3.6	7.4	8.4	3.4	2.7
India (FY)	7.2	6.5	6.8	4.5	6.1	7.8	6.8	5.8	5.5	6.8	6.7
Indonesia	5.4	4.9	5.2	5.7	5.0	5.0	4.8	4.7	5.0	5.1	5.3
Japan	1.0	1.0	1.5	1.5	0.4	1.9	0.6	0.6	1.3	0.4	1.3
Malaysia	8.7	4.4	4.6	14.1	7.1	5.6	4.1	4.0	4.0	4.5	4.5
Philippines	7.6	5.0	6.0	7.7	7.1	6.4	5.0	4.5	4.2	5.4	5.9
Singapore	3.6	0.7	3.0	4.0	2.1	0.4	0.1	0.9	1.4	1.6	2.6
South Korea	2.6	1.3	2.5	3.2	1.4	0.9	0.9	1.0	2.5	2.8	2.7
Taiwan	2.4	1.4	3.5	3.6	-0.8	-2.9	1.3	2.2	4.8	6.2	3.5
Thailand	2.6	3.1	3.5	4.6	1.4	2.7	3.1	3.2	3.2	3.5	3.4
Vietnam	8.0	6.0	7.2	13.7	5.9	3.3	5.9	7.8	7.0	7.0	7.2
Australia	3.7	1.6	1.4	6.0	2.6	2.3	1.8	1.3	1.0	1.1	1.4
Eurozone	3.5	0.1	1.0	2.5	1.8	1.0	0.2	-0.5	-0.1	0.3	1.0
New Zealand	2.5	0.7	0.6	6.4	2.2	2.2	0.9	0.1	-0.3	-0.1	0.1
United Kingdom	4.3	0.3	0.9	2.0	0.6	0.2	0.1	0.4	0.3	0.3	0.7
United States (q/q SAAR)	2.1	0.8	1.2	3.2	2.6	1.3	1.6	-3.2	-3.2	2.0	3.2

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

Our Forecasts
Central Bank Outlook

Central bank	Current Rate 16 Jun 2023	Rate End 2023	Rate End 2024	Change 2024 vs 2023
Fed	5.25	5.50	4.25	↓
BOJ	-0.10	-0.10	0.00	↑
ECB	4.00	4.25	3.75	↓
BOE	4.50	5.00	4.00	↓
RBA	4.10	4.35	3.50	↓
RBNZ	5.50	5.50	4.75	↓
PBOC*	3.65	3.55	3.55	–
CBC	1.88	1.88	1.88	–
BOK	3.50	3.50	2.50	↓
BSP	6.25	6.25	5.00	↓
BNM	3.00	3.00	3.00	–
BI	5.75	5.75	5.00	↓
BOT	2.00	2.00	1.75	↓
SBV	4.50^	3.50	3.50	–
RBI	6.50	6.50	6.50	–

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

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

– Rates unchanged in 2024 as compared to 2023

* 1Y Loan Prime Rate
^ SBV announced a 50bps rate cut to 4.50% effective 19 June 2023
Source: UOB Global Economics & Markets Research

Our Forecasts

FX, Interest Rates & Commodities

FX	15 Jun	3Q23F	4Q23F	1Q24F	2Q24F
USD/JPY	140	145	138	132	128
EUR/USD	1.09	1.10	1.12	1.14	1.16
GBP/USD	1.28	1.30	1.32	1.34	1.36
AUD/USD	0.69	0.69	0.71	0.72	0.73
NZD/USD	0.62	0.62	0.63	0.64	0.65
DXY	102.20	102.1	99.9	98.0	96.3
USD/CNY	7.13	7.25	7.10	6.95	6.85
USD/HKD	7.82	7.84	7.82	7.80	7.80
USD/TWD	30.71	31.0	30.4	30.0	29.5
USD/KRW	1,275	1,320	1,260	1,220	1,200
USD/PHP	55.82	57.0	56.0	55.0	54.0
USD/MYR	4.62	4.68	4.60	4.50	4.40
USD/IDR	14,945	15,200	14,800	14,600	14,200
USD/THB	34.68	35.5	34.0	33.5	33.0
USD/VND	23,531	24,200	24,000	23,800	23,700
USD/INR	81.97	83.0	82.0	81.0	80.0
USD/SGD	1.34	1.36	1.35	1.33	1.31
EUR/SGD	1.46	1.50	1.51	1.52	1.52
GBP/SGD	1.71	1.77	1.78	1.78	1.78
AUD/SGD	0.92	0.94	0.96	0.96	0.96
SGD/MYR	3.45	3.44	3.41	3.38	3.36
SGD/CNY	5.34	5.33	5.26	5.23	5.23
JPY/SGDx100	0.95	0.94	0.98	1.01	1.02

POLICY RATES	15 Jun	3Q23F	4Q23F	1Q24F	2Q24F
US Fed Fund Rate	5.25	5.50	5.50	5.00	4.50
JPY Policy Rate	-0.10	-0.10	-0.10	0.00	0.00
EUR Refinancing Rate	4.00	4.25	4.25	4.25	4.25
GBP Repo Rate	4.50	5.00	5.00	4.75	4.50
AUD Official Cash Rate	4.10	4.35	4.35	4.00	3.75
NZD Official Cash Rate	5.50	5.50	5.50	5.25	5.00
CNY 1Y Loan Prime Rate	3.65	3.55	3.55	3.55	3.55
HKD Base Rate	5.50	5.75	5.75	5.25	4.75
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	6.25	6.25	6.25	5.75	5.25
MYR O/N Policy Rate	3.00	3.00	3.00	3.00	3.00
IDR 7D Reverse Repo	5.75	5.75	5.75	5.50	5.25
THB 1D Repo	2.00	2.00	2.00	1.75	1.75
VND Refinancing Rate	4.50^	3.50	3.50	3.50	3.50
INR Repo Rate	6.50	6.50	6.50	6.50	6.50

INTEREST RATES	15 Jun	3Q23F	4Q23F	1Q24F	2Q24F
USD 3M SOFR (compounded)	4.94	5.18	5.30	5.08	4.60
SGD 3M SORA (compounded)	3.65	3.86	4.03	3.88	3.48
SGD 3M SIBOR	3.74	3.50	3.20	3.20	3.10
US 10Y Treasuries Yield	2.98	2.85	2.70	2.70	2.65
SGD 10Y SGS	2.82	3.35	3.15	2.80	2.70

COMMODITIES	15 Jun	3Q23F	4Q23F	1Q24F	2Q24F
Gold (USD/oz)	1,958	2,000	2,000	2,100	2,100
Brent Crude Oil (USD/bbl)	76	80	80	90	90
LME Copper (USD/mt)	8,558	8,000	8,000	7,000	7,000

^ SBV announced a 50bps rate cut to 4.50% effective 19 June 2023
Source: UOB Global Economics & Markets Research Estimates

Key Events
3Q 2023

July/August
US Treasury Quarterly Refunding
The announcement will be on 31 Jul with the details out on 02 Aug. There is an expected flood of UST issuance post-debt ceiling resolution.

01 July
New BNM Governor
Bank Negara Malaysia (BNM) Deputy Governor Datuk Shaik Abdul Rasheed bin Abdul Ghaffour assumes the position as Governor for a five-year term effective 1 July 2023 to 30 June 2028. Governor Tan Sri Nor Shamsiah Mohd Yunus completes her five-year term on 30 June 2023.

03 July
Felipe Medalla's Term as BSP Governor
BSP Governor Felipe Medalla is set to finish his term, which is the unexpired term of his predecessor Benjamin Diokno, who was appointed as Finance Secretary by President-elect Ferdinand Marcos Jr in May 2022.

August
China's Beidaihe Meeting
The annual Beidaihe meeting or "summer summit" is expected to be held in early Aug. The Communist Party's senior members gather for an informal meeting. The dates and discussions of the meeting will not be announced.

24-26 August
Jackson Hole Symposium
The topic of this year's Kansas City Federal Reserve's Annual Policy Symposium is "Structural Shifts in the Global Economy". In the past, the Jackson Hole Symposium has occasionally been used as a platform to signal major Fed policy changes.

31 August
South Korea's 2024 Budget
South Korea to unveil 2024 Budget which will show its spending priorities. As the economy emerges from Covid-19, the focus will turn towards improving the mid-term fiscal sustainability.

09-10 September
18th G20 Leaders' Summit
It will be convened in New Delhi, India. The Summit will focus on the theme, 'One Earth, One Family, One Future' and is the first time the G20 Summit to be held in India as well as in South Asia.

13-14 September
The 8th Belt and Road Summit in Hong Kong
The Summit is a premier international platform for promoting business collaboration along the Belt and Road, gathering senior government officials and business leaders from countries and regions along and beyond the Belt and Road.

3Q2023
Malaysia's State Elections
Six state assemblies (Selangor, Negeri Sembilan, Penang, Kelantan, Terengganu and Kedah) are set to automatically dissolve on various dates between Jun and Aug. Party leaders in the six states have previously expressed their agreement to hold the state elections simultaneously to save costs and time.

ASEAN Focus

Deepening Trade And Financial Inter-Connectivity For Sustainable Growth

Enhancing ASEAN connectivity will undoubtedly bring about a more integrated ASEAN that will in turn promote competitiveness, inclusiveness, and a greater sense of community. We consider three main aspects to be further deepened to enhance the inter-connectivity in ASEAN: physical connectivity, trade connectivity, and finally investment and financial connectivity.

For physical connectivity, progress on major infrastructure projects supporting physical connectivity in ASEAN has continuously been stepped up. Most ASEAN countries have seen improvements in road and international ports constructions (both sea and air) to support logistics activity. On trade connectivity, ASEAN trade (exports and imports) recorded a sustained growth from USD2.4tn in 2012 to USD3.8tn in 2022 (more than 50% increase in the last decade). Intra-ASEAN trade, however, remained low as evident from just a 22.1% share while China and US accounted for 18.7% and 10.9% respectively, which yielded a combined share of close to 30%.

Within the region, ASEAN-6 accounts for almost 98% of total value of ASEAN exports with Singapore leading the pack at 26.4%, followed by Vietnam (19%), Malaysia (18.3%), and Indonesia (15%). ASEAN exports grew a strong 13.3% in 2022. On the back of higher down-streaming push in ASEAN, especially in Indonesia, Indonesia's value-added mineral exports jumped by a record 57.5%, driven by key commodities such as coal and oil & gas amid unprecedented return of demand last year. In 2022, Indonesia recorded the highest exports growth in recent history, at more than 26% y/y, followed by Malaysia at close to 20%, and Singapore at around 13%.

On trade connectivity, we look at the trade balance position of selected ASEAN economies. ASEAN recorded back-to-back trade surplus of USD93bn and USD79bn accordingly in 2021 and 2022, supported largely by surpluses of key ASEAN exports commodities such as Electronic and Electrical (E&E), animal or vegetables, and footwear products. By export destination, the largest surplus was derived from the US and EU of USD158.4bn and USD56.4bn, respectively. Meanwhile, ASEAN is a net importer from China with a trade deficit of USD137.3bn in 2022, followed by Taiwan, South Korea, and Japan. The trade deficit with China was driven by high imports of electrical machinery and equipment, as well as iron and steel boilers commodities which are mostly in raw form as well as in the final capital goods.

Similar to China, the trade deficit with Japan was mainly in iron and steel, machinery and mechanical appliances, and also vehicles. Most of the imported commodities from Japan are raw and consumer goods such as galvanized steel for vehicle body raw materials, as well as motor vehicle components. In contrast, ASEAN is a net exporter to the US with a trade surplus of USD158.4bn, of which more than 46% are electronics-related exports with a surplus amounting to USD73.1bn. Several countries in ASEAN have a long-standing comparative advantage as E&E exporters such as Vietnam, Singapore, and Thailand with a surplus of USD35.3bn, USD10.4bn, and USD10.7bn respectively in 2022. Meanwhile, ASEAN also recorded a large surplus with the European Union (EU) in 2022 of USD56.4bn, underpinned by surpluses in the electronics and footwear industries.

As for investment and financial connectivity, in 2021 the amount of FDI coming into ASEAN as a whole had returned to its pre-pandemic level at USD179.2bn with the US remaining as the largest source of FDI at 22.5% share, followed by EU at 14.8% and Intra-ASEAN at 13.1%. By industry, financial and insurance industry continued to be the largest recipient at 32% share in 2021, followed by manufacturing and wholesale & retail trade which made up 25.8% and 13.5% of the share respectively. On the other hand, FDI into the information and communication sector grew a whopping 428% from USD1.4bn to USD7.4bn in 2021. The era of "work-from-home" that precipitated huge surge of demand for devices in the communications sector during the pandemic explained such a stellar jump.

The most recent and notable progress on financial connectivity in ASEAN is the promotion of local currency settlement (LCS) initiatives. LCS has a significant impact on international trade and FDI. In 2022, international trade using LCS in Indonesia was recorded at USD3.8bn, rising 50.2% from USD2.5bn in 2021. The LCS agreement in the ASEAN region will continue to be implemented into a wider range of international trade transactions.

ASEAN connectivity master plan envisions a seamless, comprehensive, connected, and integrated ASEAN that will promote competitiveness, inclusiveness, and a greater sense of community. In conclusion, to further strengthen and deepen ASEAN connectivity through physical, trade, and investment & financial, concerted efforts are required for member countries to play a part in it. Towards this end, further enhancement towards higher and greater intra-ASEAN trade and higher utilization of LCS are crucial to bring about higher welfare for ASEAN.

For a more detailed report, please refer to our Macro Note ASEAN entitled Deepening Trade and Financial Inter-Connectivity For Sustainable Growth, published on 8 June 2023 and is currently available for download via the UOB Research website.

For a more detailed report, please refer to our Macro Note ASEAN: Deepening Trade And Financial Inter-Connectivity For Sustainable Growth dated 08 Jun 2023.

Figure 1. ASEAN's Length of Road

Source: ASEAN Statistics, UOB Global Economics & Markets Research

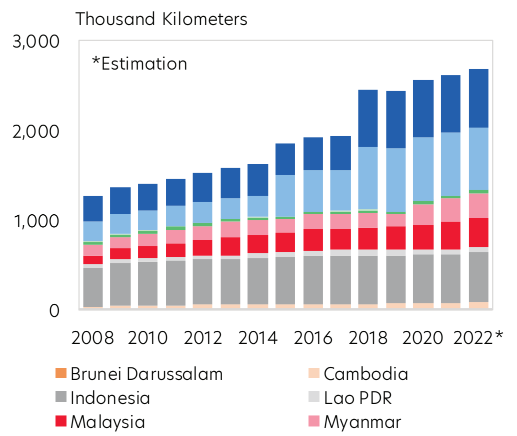


Figure 2. ASEAN International Port

Source: ASEAN Statistics, UOB Global Economics & Markets Research

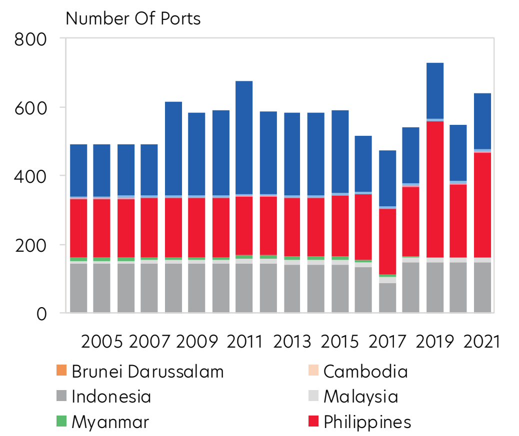


Figure 3. ASEAN Trade Recorded Steady and Recover Faster

Source: ASEAN Statistics, UOB Global Economics & Markets Research

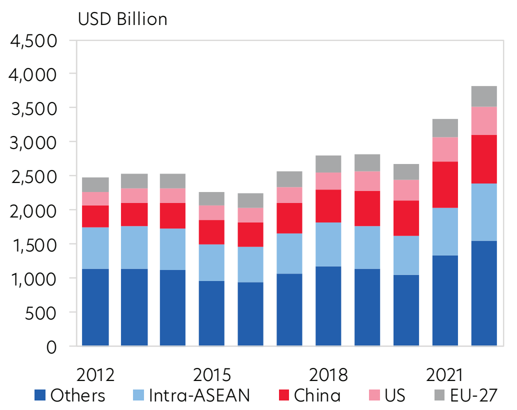


Figure 4. ASEAN Trade Balance Remained Robust in Surplus

Source: ASEAN Statistics, UOB Global Economics & Markets Research

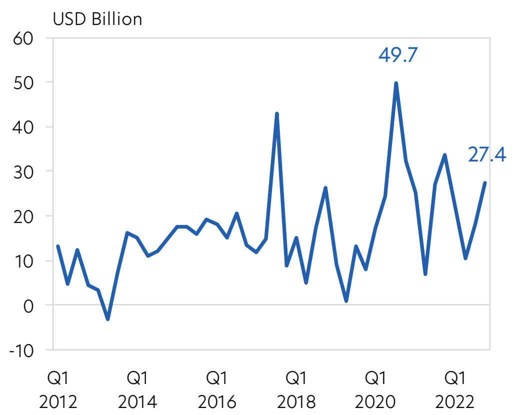


Figure 5. ASEAN Balance of Trade by Country

Source: ASEAN Statistics, UOB Global Economics & Markets Research

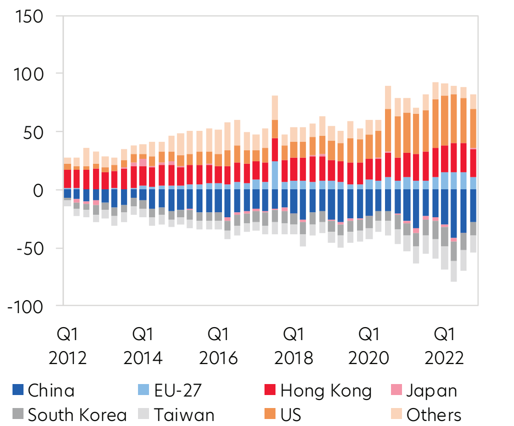
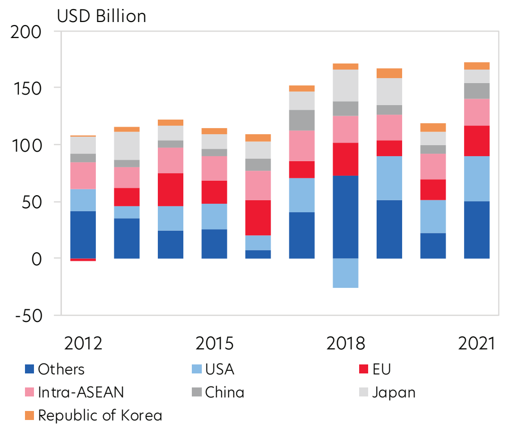


Figure 6. FDI Inward Flows to ASEAN by Host Country

Source: ASEAN Statistics, UOB Global Economics & Markets Research



Global Focus

Assessing Resilience Against Looming Credit Downturn & Potential Crisis

This article is contributed by members of UOB Country & Credit Risk Management

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- We could transit fully from a late-stage expansion to a downturn in the credit cycle ahead, driven by higher interest rates unlike past cycles in recent decades.
- We analysed the difference between the current and previous downturns as well as selected economies' resilience against more defaults and any potential future crisis.

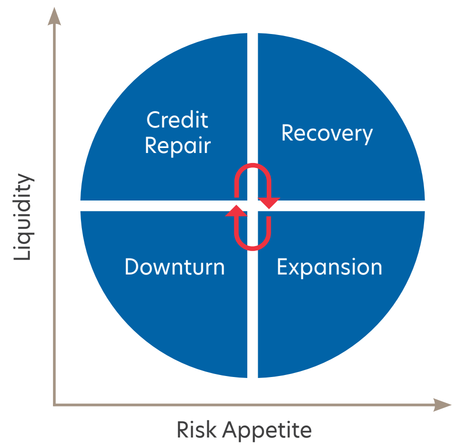
Introduction To Credit Cycles

Anatomy of Credit Cycles

- Credit cycle refers to cyclical fluctuations in credit availability, in turn characterised by four distinct phases - recovery, expansion, downturn & repair.
- Studies suggest that credit cycles coincide with stronger economic expansions and longer contractions. However, credit cycles and business cycles do not always coincide, as historical data suggests the former has lasted on average longer than the latter.
- As many factors drive the credit cycle, pinpointing where we are in the cycle is both an art and a science. The science involves measuring the changing factors that influence the cycle (see list of attributes below). The art happens when we interpret the data to shape our views on where a country, sector or issuer may be in the credit cycle.

Phases of Credit Cycle

Source: Loomis Sayles, UOB CCRM



Attributes of Credit Cycle				
Attribute	Downturn	Credit Repair	Recovery	Expansion
Economic Growth	Weak, deteriorating	Stabilising	Moderate, improving	Strong, plateauing
Credit Growth	Falling	Weak	Accelerating	High
Central Bank Policy	Easing	Easy	Starting to tighten	Tightening
Inflation	Moderate, falling	Low, stabilising	Moderate, rising	High, rising
Volatility	Above ave, rising	Above, ave, falling	Below ave, stable	Below ave, rising
Risk Appetite	Low	Low, improving	High	High
Liquidity	Low	Improving, high	High	Declining
Yield Curve	Steepening	Steep	Flattening	Flat/Invert
Fundamentals	Profit contracts	Debt contracts	Profit > Debt growth	Debt > Profit growth
Asset Valuation	Falling to below ave	Below ave, rising	Near ave, rising	Above ave, rising

Source: Loomis Sayles, UOB CCRM

Where Are We Now In The Credit Cycle?

- Based on the attributes of a credit cycle, the world is currently straddling between a late-stage expansion (tightening monetary policy, high inflation, inverted yield curve, declining liquidity) and a downturn (deteriorating economic growth, falling credit growth, above-average volatility, low risk appetite and falling asset valuation), and is likely to fully move into the latter ahead.

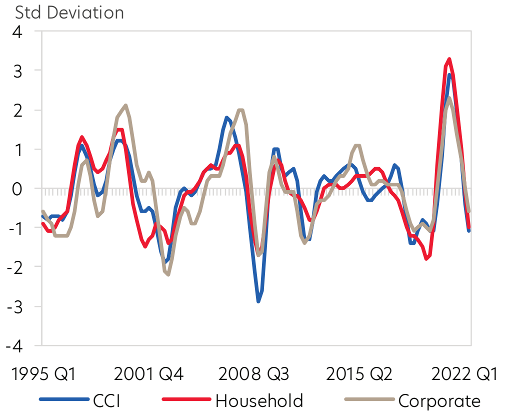
- Indeed, S&P's Credit Cycle Indicator (CCI) suggests the current credit cycle globally as well as for Asia has peaked in 2021 and the effects of the downcycle, or credit stress, may be felt most in 2023

  » The CCI consolidates info about household & corporate indebtedness, equity & house prices and regional financing conditions. Comparisons with other indicators including credit spreads, net rating downgrades, and default rates show that peaks in the CCI tend to precede negative credit developments by six to 10 quarters.

  » When the CCI's upward trend is prolonged or is at a high threshold, the associated credit stress tends to be greater. This could be the case in the current cycle with 2021 peaks higher than past pre-crisis peaks across Global and Asia ex JP ex CN CCIs.

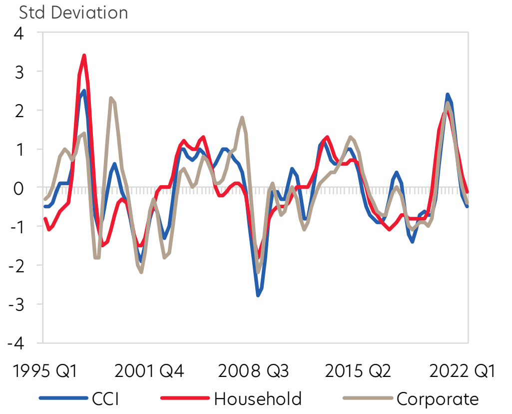
S&P's Global Credit Cycle Indicator (CCI) has peaked in 2021

Source: S&P, UOB CCRM



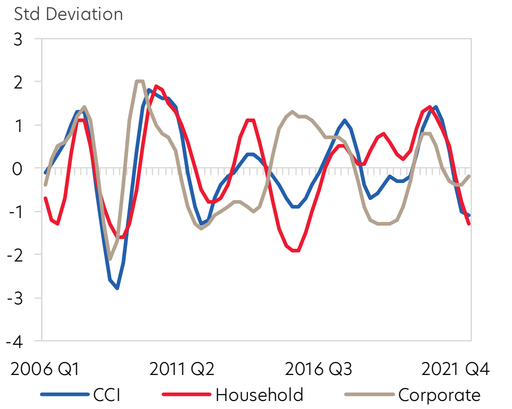
Asia ex JP ex CN CCI is showing a similar trend

Source: S&P, UOB CCRM



CN's CCI fell deeper than rest of Asia but may moderate ahead on pro-growth policies

Source: S&P, UOB CCRM



Comparison Of Past And Looming Global Credit Downturns

- Although credit downturns* in recent decades were triggered by bursting of market bubbles, aggressive Fed hike to curb inflation was main driver before 1990 like the current cycle.
- Aggressive Fed hikes not associated with higher default rates. Fed-induced downturns had seen lower High Yield bond default rates than post-1990s episodes, despite comparable level of shocks to the economy & financial markets.
    - » Instead of interest rates, studies show bursting of market bubbles and ensuing financial crises are the main culprits that exacerbate downcycles, typically preceded by larger increase in private sector leverage.

Description	Fed-induced Downturn in Response to Inflation			External Shock	Bubble Burst	
	Overheated Economy	Arab Embargo	Iranian Crisis	Overheating & Gulf War	Dotcom Bubble	Subprime Mortgage Bubble
	1969-1971	1973-1975	1979-1983	1989-1991	1999-2002	2007-2009
Peak US Inflation (% yoy)	6.2%	12.3%	14.8%	6.3%	3.8%	5.6%
Increase in Fed Rate (from year before downturn to peak)	6% to >9%	5% to 13%	10% to 20%	9.2% to 9.75%	4.75% to 6.5%	N.A.; (started cutting in 2007)
Peak Global HY Bond Default Rate	9.0%	2.2%	4.9%	12.3%	9.7%	13.5%
US Private Debt to GDP Ratio (year prior to downturn)	89.0%	94.3%	98.3%	124.4%	127.7%	159.8%
(Increase in last 5 years up till downbturn)	2.6%	4.5%	0.5%	17.9%	8.9%	15.8%

* Determination of phases in the credit cycle is a judgmental exercise looking at various relevant indicators. In our case, we have used the Global Speculative Bond Default Rate as the proxy.

Source: UOB CCRM

- The world is arguably more vulnerable than right before the pre-1900s Fed-induced downturns due to higher debt levels, but less likely to repeat bubble-/shock-induced downturns post-1990s given
    - » moderate rate of increase in private debt ...

Using US's debt levels as a global barometer	Pre-1990s downturns (ave)*	Post-1990s downturns (ave)*	Current (as of 1H22)
Pte Debt-to-GDP ratio	91%	137%	156%
Increase in last 5 years	+2.5%	+14.2%	+3.0%

Source: UOB CCRM

- » ...and (ii) lack of systemic bubbles among the usual suspects despite asset price booms during the low interest rate era.

Global Housing Market	Tech Companies	Cryptocurrencies
Reforms post-GFC ensure latest housing cycle does not feature loose credit standards and excesses	Run-up in the broader tech market in the current episode is mild compared to the dotcom bubble; Pockets of bubble among loss-making tech firms	Frothy industry has integration into financial system concentrated at selected banks which have failed

Source: UOB CCRM

Differentiating A Crisis From A Downturn

- "Irrational fear" is arguably the key element that determines if an orderly downturn becomes a disorderly crisis.
- Typically associated with unsustainable buildup of asset bubbles or credit booms, the main types of financial crisis are:
  - » Banking crisis
  - » Credit frictions and market freezes
  - » Debt crisis
  - » Sudden stops in external financing
  - » Currency Crisis
- In a credit cycle ending with a financial crisis, credit crunches and asset price busts are longer, deeper and more violent. Average duration of a recession is also two quarters longer with a larger output decline.
- There are low probability but high impact risks ahead that could trigger irrational fear and a full-blown crisis
  - » China-Taiwan conflict involving military forces
  - » Russia using nuclear weapons & cyber warfare on Ukraine's allies
  - » Iran / North Korea lashing out with nuclear weapons
  - » Unexpected default of "strong" or "safe" companies
  - » Energy crunch
- The potential risks could be amplified by new vulnerabilities in market structure
  1. Low UST liquidity esp in moments of instability as leveraged high-speed traders and hedge funds pull back. UST is used as reserves globally & their yields are key benchmarks for pricing other financial instruments.
  2. Growth of open-ended investment funds to US$41tr by 2022. Significant redemptions from funds with less liquid credit instruments
  3. Growth of private credit market to US$1.2tr by 2021. Potential for significant repricing as rates settle at higher levels

Resilience Against Credit Downturn In Our Key Asian Markets And US

- Defaults in credit downturn could be exacerbated by near-record total credit levels and/or elevated private sector debt service ratios (DSR) vs long-term 20yr average. There are also specific risk pockets (in red) and mitigating factors (in green):

	ASEAN-ex SG	SG, HK	CN	US
Credit	Total credit rose moderately at <20% of GDP vs pre-Asian & Global Financial Crisis (AFC/GFC) TH's household credit in 2Q22 higher than a developed market like US's	Inflated by roles as financial centres	Total credit grew the fastest by ~200% of GDP since pre-AFC to surpass US's, but reopening boost could prevent onset of a credit downturn	Total credit rose by 80% of GDP since 4Q96 but driven by govt debt which is immune to default due to reserve currency status
Pte DSR*	All above long-term ave, with TH most vulnerable		CN's easy monetary policy will mitigate elevated DSR levels at ~4 ppts>long-term ave	DSR likely did not exceed long-term ave

* DSR positions as of Jan 23 were estimated by extrapolating from BIS' 2Q22 positions with the following assumptions: 1) interbank rates equal borrowing rates, 2) equal debt repayments and 3) 2 years and 10 years as the lower and upper blended debt tenor limits respectively.

Source: UOB CCRM

- Reduction of systemic risk build-up & increased shock buffers from macroprudential policies (e.g. Dodd-Frank Act in US, Basel III) could however cushion impact in banking sector

- External resilience of Asian economies will further reduce capital outflows & currency depreciation pressures that deepened credit downturns in the past

  » Current account (% of GDP) & reserves coverage ratios have mostly improved in ASEAN & HK compared to pre-AFC/GFC levels respectively; MY is however vulnerable with reserve coverage ratios of short-term ext debt & foreign currency at 1x & 0.6x respectively.

Policy Backstop Against A Brewing Crisis

- Governments have learnt from past crises to provide decisive and unprecedented stimulus to prevent any fallout from becoming a full-fledged financial crisis during Covid-19 pandemic. In less than two months since Covid started, all 17 central banks in Advanced Economies had taken stimulus measures while 55 out of 81 Emerging Market Economies had done so.

- The ability of US to backstop its onshore crisis is critical to Asia as well because USD remains the world's predominant reserve and trading currency. Fed's tools to backstop markets reached new scales during Covid which instilled confidence; Fed more recently provided liquidity backstop following 3 US bank failures which limited the contagion impact.

- In Asia, policy rate cuts could help but are more limited compared to developed economies given higher capital outflow pressures. Our key markets' policy arsenal to subdue a brewing crisis have also expanded through the years.

First used during		AFC	Covid	Covid*	Covid*
Measures	Relax macroprudential measures & set up central bank liquidity injections or facilities	Temporary use of capital controls	Moratoriums when there is large scale real demand destruction or supply disruption	Swap line with Fed (currencies are exchanged at prevailing exchange rate and then unwound later)	Quantitative Easing (buying govt bonds in pri/sec markets)
Impact	Improve banks' liquidity access and capacity to lend esp in Asia where credit is bank-centric	Prevent a free fall of exchange rate	Prevent short term liquidity pressures from unduly punishing otherwise healthy companies/ individuals	Ease dollar funding stresses [Only SG had a US$60bn swap line during Covid; those without are dependent on their central banks' reserves]	Keep financial markets functioning while making large fiscal stimulus possible by keep govt yields down [ID and PH had set precedence during Covid]

* Fed swap lines and QE were first set up/used during GFC by developed markets; emerging Asian markets we operate in only started to have access to Fed swap line/use QE during Covid.

Source: UOB CCRM

- Policy backstops are however not a panacea if irrational fears, which are arguably at the heart of every major financial crises, cannot be contained

- Sudden surfacing of unknown shocks will be more likely to cause widespread and possibly prolonged irrational fear due to lack of precedence and/or lack of safeguard which could result in risk build-up over the years:

  » Unknown unknowns are risks hidden below the surface e.g. the extent banks were exposed to US subprime via derivatives during GFC caught the world by surprise, sudden removal of pegged exchange rates that was taken for granted during AFC

  » Among the known unknowns (i.e. identifiable triggers but unknown unfolding), some plausible catastrophic bear cases that could overwhelm the backstops are:

China-Taiwan conflict involving military forces	» Armed conflict breaks out along China/Russia/Iran and US/Japan/Korea/EU axes » Unanchored inflation expectations on extreme supply chain disruptions » USD status as global reserve currency collapses, upending world order in place since WWII » Sec sanctions applied on ASEAN even if the region is politically neutral
Russia and Iran using nuclear weapons and / or cyber warfare	» G7 and others react with strong measures, setting the stage for a protracted global conflict » Cyber warfare successfully sabotages critical systems in G7 » O&G sanctions against Russia and Iran, two major producers, could lead to energy crunch and inflation resurgence

Source: UOB CCRM

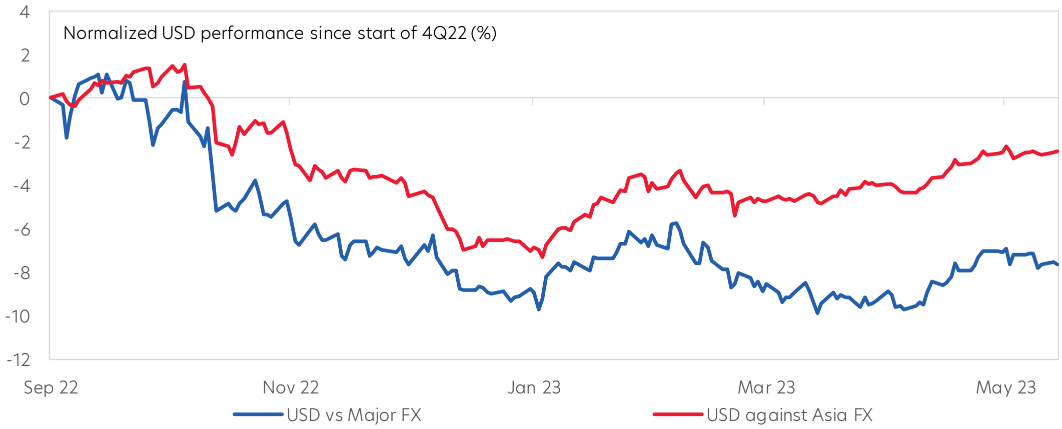
This is an abridged version of the original report contributed by members of UOB Country & Credit Risk Management. Please email us at GlobalEcoMktResearch@UOBgroup.com for the full report.

FX Strategy
Can The USD Strengthen Again On A Hawkish Fed?

Rejuvenated by a hawkish repricing of Fed rate expectations, the US Dollar Index (DXY) is on track for its first quarterly gain in three quarters in 2Q23. Not only markets erased expectations of as much 80 bps of Fed rate cuts in 2H23 just as the banking turmoil simmered, consensus was building for another rate hike by Sep for the Fed to secure victory against a persistent US inflation. With markets' Fed rate expectations shifting from a dovish outlook (in 1Q23) to a hawkish one (in 2Q23), DXY appeared to have found support at 101 after a relentless slide from highs of about 114 last Oct. Will the latest rate repricing be enough to propel USD back to the highs seen in late 2022?

Chart 1: USD rebounded more against Asia FX compared to Major FX this year

Source: Bloomberg, UOB Global Economics & Markets Research



In our last FX & Rates Monthly published 5 Jun, we updated our Asia FX outlook in view of China's sputtering recovery momentum. We now expect Asia FX to fall further in 3Q23 followed by a delayed rebound starting 4Q23 just as China's economy regains momentum again. Is this bout of Asia FX weakness as transitory as we thought?

Major FX Strategy
Return of USD Weakness as 2H23 Progresses

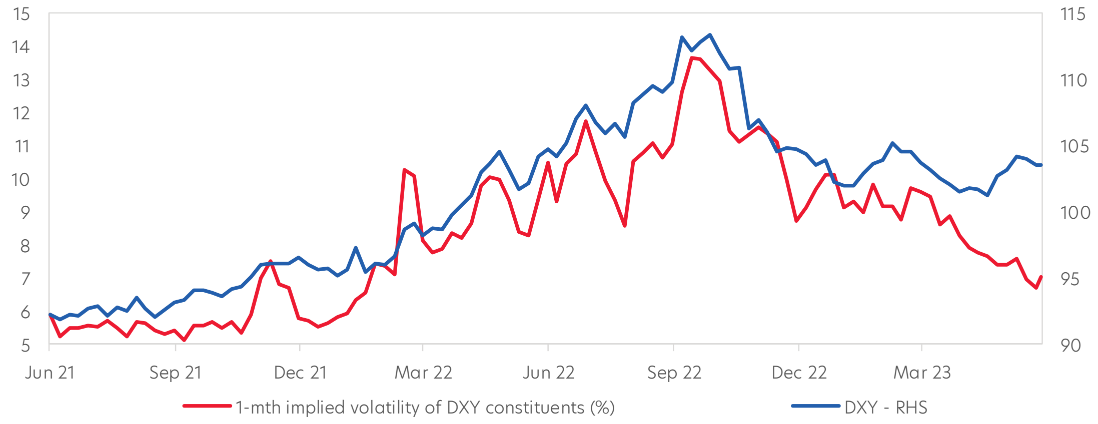
A still-tight US labour market that is balanced by easing inflation – though not as fast as what the Fed would wish for – sets the context for an US rates peak in 2H23. Even if the Fed hikes in the next two quarters, it is likely to be one-off "insurance" tightening to arrest any nascent rebound in inflation. We see little reason and appetite from the Fed to materially extend the rate hike cycle given that growth and financial stability risks have surfaced.

As the US rates tailwind eventually abates, we maintain the view that USD is likely to weaken anew against Major FX peers, as soon as 3Q23.

The lacklustre USD price action after a hawkish Jun FOMC statement and dot plot signaled little motivation from the markets to take USD materially higher with just one potential rate hike in the horizon. As the US rates tailwind eventually abates, we maintain the view that USD is likely to weaken anew against Major FX peers, as soon as 3Q23.

Chart 2: The recent USD rebound is drawing little support from falling volatility

Source: Bloomberg, UOB Global Economics & Markets Research



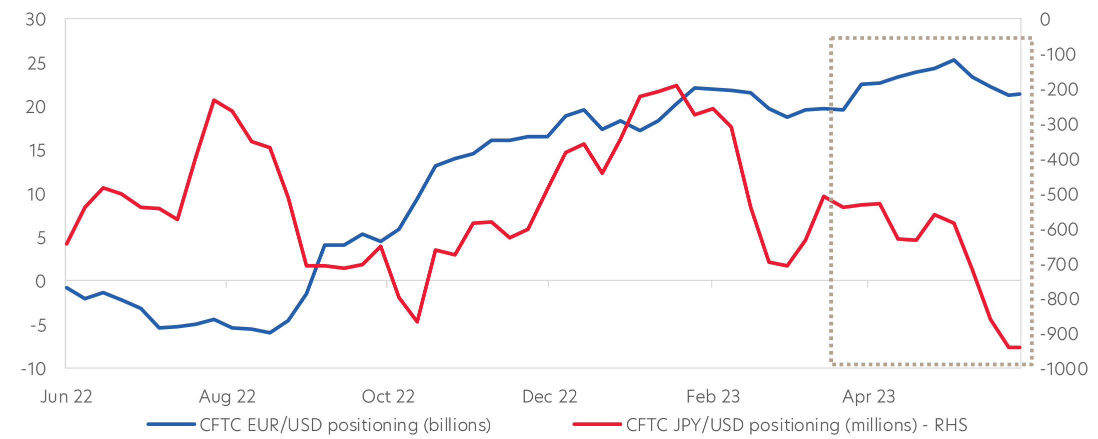
An observation that strengthens our view of renewed USD weakness is falling FX volatility.

An observation that strengthens our view of renewed USD weakness is falling FX volatility. One-month implied volatility of the DXY constituents has fallen to the lowest since Feb 2022. This lends little momentum for the DXY to break out to the upside despite the huge swing in Fed rate hike expectations over the last couple of months.

By now, most G-10 central banks have transited into "data dependent" mode depending how their inflation trajectories evolve. Stubbornly high inflation has spurred surprise rate hikes from Reserve Bank of Australia (RBA) and Bank of Canada (BOC) in Jun. While most G-10 central banks have seen headline inflation peaked, they have varying degrees of success in decisively curbing core inflation. For instance, while US core inflation remained above 5% in May, it peaked at 6.6% last Sep and has been steadily dropping since last Oct while that of the UK has yet to peak. This gives the Fed a higher watermark to cross relative to its G-10 peers when it comes to considering the next tightening move. With the Fed expected to end the tightening cycle earlier than its peers, the rate advantage that USD enjoys over its peers will narrow further, sparking renewed weakness in the USD.

Chart 3: EUR/USD net long positioning remained stable across 2Q23 while JPY/USD net short positioning increased due to BOJ staying dovish

Source: Bloomberg, UOB Global Economics & Markets Research



Monetary policy differentiation will likely see GBP and AUD outperform within the Major FX space as their respective central banks are expected to stay on the tightening path longer.

Overall, we reiterate our view of further USD weakness against most G-10 peers in the coming quarters. We expect EUR/USD, GBP/USD, AUD/USD and NZD/USD to keep to their upward trajectory, rising from current levels to 1.16, 1.36, 0.73 and 0.65 by 2Q24 respectively. Monetary policy differentiation will likely see GBP and AUD outperform within the Major FX space as their respective central banks are expected to stay on the tightening path longer. In contrast, NZD is weighed by the Reserve Bank of New Zealand signaling of the end of its tightening cycle in May. Lastly, USD is likely to keep its strength against the JPY for a while longer as expectations for monetary policy tightening in Japan has been pushed back. We reiterate USD/JPY forecasts at 145 in 3Q23, 138 in 4Q23, 132 in 1Q24 and 128 in 2Q24 which were last updated in early Jun.

Asia FX Strategy

Recovery of CNY and Asia FX Delayed Till 4Q23

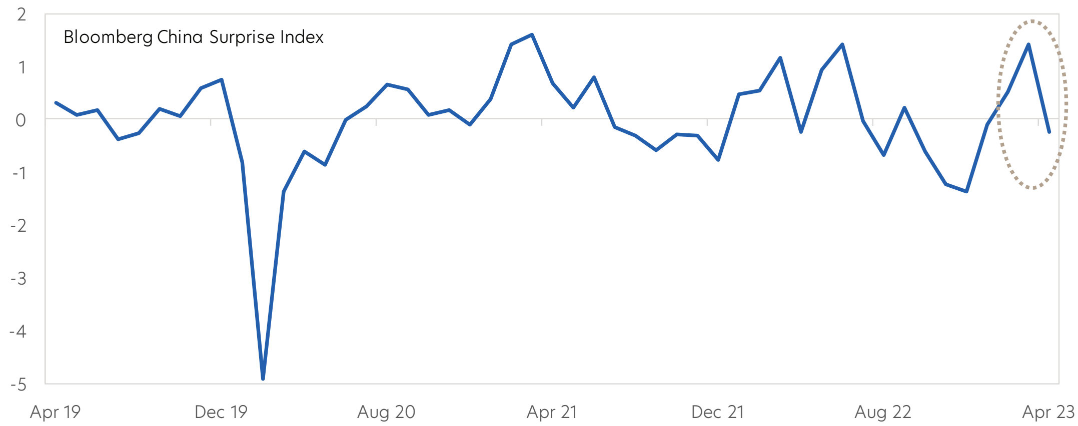
The signs are increasingly pointing to a longer than expected period of Asia FX weakness. A dial back of China's post-Covid recovery expectations was the key driver of renewed weakness in the Asia Dollar Index which touched new year-to-date lows in Jun.

The signs are increasingly pointing to a longer than expected period of Asia FX weakness. A dial back of China's post-Covid recovery expectations was the key driver of renewed weakness in the Asia Dollar Index which touched new year-to-date lows in Jun. Economic indicators since Apr suggest that China's recovery is losing momentum. Based on previous observations, it would probably take months for the current bout of economic underperformance to bottom and eventually rebound.

The regional macro backdrop is hardly supportive as well. Exports of most Asian economies are still in contractionary territory due to poor global demand, global semiconductor down cycle and faltering China's recovery. More vulnerable to recent adverse global developments, Singapore may be on the cusp of a technical recession while Taiwan has entered into a technical recession after posting negative q/q GDP growth in both 4Q22 and 1Q23. That said, both countries are still expected to still register positive (but sub-par) GDP growth this year, at 0.7% and 1.4% respectively.

Chart 4: China's economic numbers have been underperforming of late and would take time to rebound

Source: Bloomberg, UOB Global Economics & Markets Research

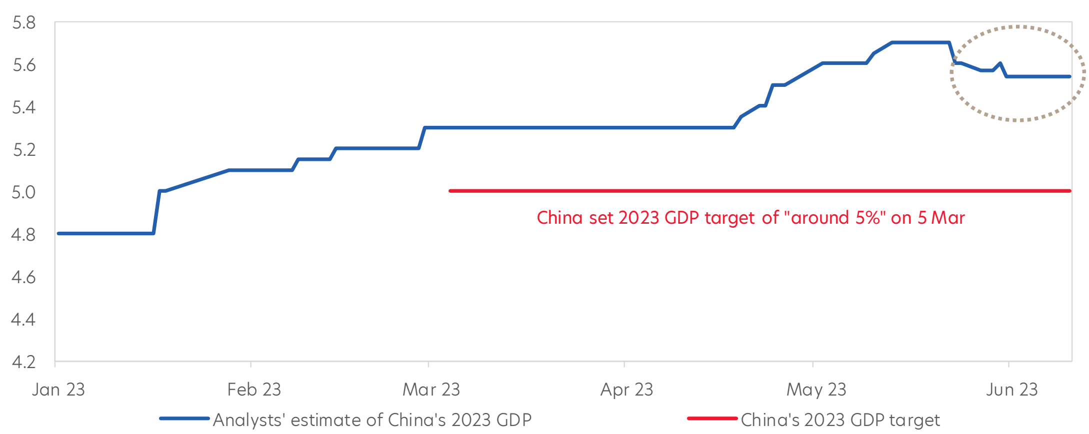


Portfolio flows into regional bond markets has been healthy this year, a reversal of relentless outflow last year and are likely to act as a support for regional FX.

However, it is not all doom and gloom in 2H23. Portfolio flows into regional bond markets has been healthy this year, a reversal of relentless outflow last year and are likely to act as a support for regional FX. There are also green shoots in China to look forward to. Positive drivers include improvements in domestic services demand, stabilising property market and a potential upturn in global electronics demand in 2H23. Expectations of stronger policy support to secure China's GDP growth target of "around 5.0%" should underpin sentiment as well.

Chart 5: Despite recent data weakness, analysts' estimates of China's 2023 GDP growth remained well above official target

Source: Bloomberg, UOB Global Economics & Markets Research



Overall, we are still of the view that CNY-led recovery of Asia FX is still intact, just delayed to 4Q23 from 3Q23 previously just as China's economy regains momentum again.

Overall, we are still of the view that CNY-led recovery of Asia FX is still intact, just delayed to 4Q23 from 3Q23 previously just as China's economy regains momentum again. Price indicators are also pointing to an orderly adjustment of CNY to fundamentals. Implied volatility on USD/CNH remained at the lowest quartile in the past year. The offshore CNH also traded close to the onshore CNY, signaling that devaluation pressures were in check.

Our "get worse before it gets better" base case means USD/CNY is likely to target 7.25 in 3Q23 before normalising lower. The zero-Covid's high of 7.32 last Nov is likely out of reach this time given that it belonged to a different macro backdrop and our expectations of broad USD weakness as Fed ends its tightening cycle. Our updated USD/CNY forecasts are at 7.25 in 3Q23, 7.10 in 4Q23, 6.95 in 1Q24 and 6.85 in 2Q24.

Tracking this abrupt bout of CNY weakness most tightly was the MYR which was one of the worst performing Asian FX quarter-to-date. For that reason, the MYR will likely be biased weaker in the coming quarter before recovering from 4Q23 onwards, assuming the correlation continues to hold. Our updated USD/MYR forecasts are 4.68 in 3Q23, 4.60 in 4Q23, 4.50 in 1Q24 and 4.40 in 2Q24.

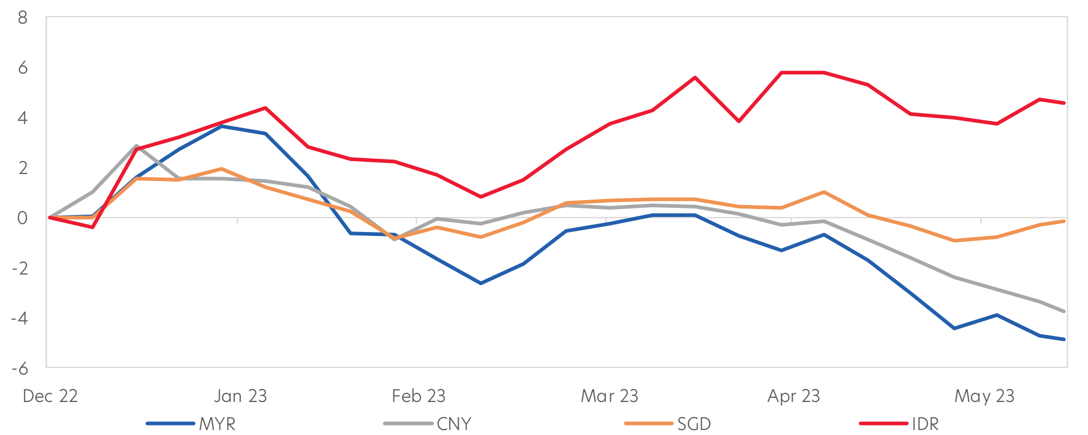
Overall, while the SGD is tethered to CNY in the near-term, its weakness against the USD is likely more measured.

Tracing weakness in the CNY, SGD weakened about 1.32 /USD to 1.34 /USD from mid-May to mid-Jun. The perceived role of SGD as a regional safe haven currency as China's recovery uncertainties mount kept the S$NEER at the strong side of the policy band, at about 1% above the midpoint. Overall, while the SGD is tethered to CNY in the near-term, its weakness against the USD is likely more measured. Our updated USD/SGD forecasts are 1.36 in 3Q23, 1.35 in 4Q23, 1.33 in 1Q24 and 1.31 in 2Q24.

While the IDR is expected to take directions from the CNY, volatility is likely to be checked by bond inflows which are on track for the fastest pace since 2019. Other initiatives that the Bank Indonesia has undertaken to anchor IDR stability include encouraging exporters to place foreign currency term deposits (TD DHE) and Operation Twist, where it sells shorter debt to boost yields and attract foreign flows. Overall, we expect USD/IDR to trade within familiar ranges, with updated forecasts at 15,200 in 3Q23, 14,800 in 4Q23, 14,600 in 1Q24 and 14,200 in 2Q24.

Chart 6: MYR tracked CNY weakness most tightly compared to regional peers

Source: Bloomberg, UOB Global Economics & Markets Research



We dial back our expectations of THB's outperformance relative to regional peers this year as the anticipated resurgence of tourist arrivals, especially from China has not played out as we have earlier expected. This is on top of the uncertainties in forming a coalition government after the recently concluded Thai elections. Our updated USD/THB forecasts are 35.5 in 3Q23, 34.0 in 4Q23, 33.5 in 1Q24 and 33.0 in 2Q24.

The stability of VND at around 23,500 /USD in 2Q23 may be coming to an end soon as a multitude of headwinds mount. A series of rate cuts since Mar and continued slump in Vietnam's exports are likely to cast an overhang on the VND. Also, the sustained weakness in the CNY towards 7.25 /USD by 3Q23 may start to inject volatility on the VND, which typically traced CNY moves, especially in periods of domestic currency weakness. As such, it will not be surprising if VND catches up with the recent bout of CNY weakness in the coming months. Overall, VND will likely follow the broad Asia FX trajectory, with higher USD/VND in 3Q23 before normalising lower starting 4Q23. Our updated USD/VND forecasts are 24,200 in 3Q23, 24,000 in 4Q23, 23,800 in 1Q24 and 23,700 in 2Q24.

Rates Strategy
A Primer On The Eventual Fed Easing Cycle

- Post Jun FOMC we see a higher peak Fed funds rate of 5.50% and no rate cuts in 2023.
- Fed easing in 2024 remains a probable outcome by our projection.
- Historically, Fed rate cuts were front loaded with majority of the reduction being delivered within the first year.

June FOMC Recap

Accounting for policy makers' updated dot plot guidance, our US macro team has revised their US Fed funds rate forecast for a higher peak rate of 5.50%, whilst keeping to the view that the easing cycle could begin in 1Q 24. Comparing our updated Fed view to the Sofr OIS forwards, we have an upside bias in the near term while holding a more sanguine view on the long term neutral rate.

Chart 1: UOB vs OIS Forwards (15 Jun)

Source: Bloomberg, UOB Global Economics & Markets Research

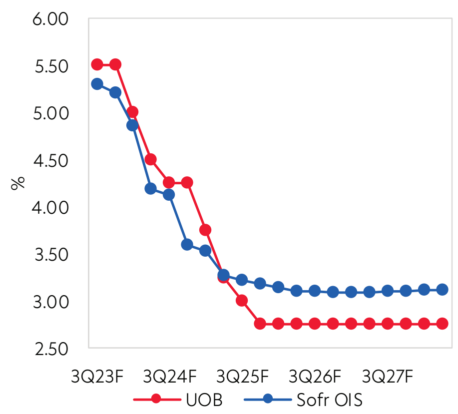
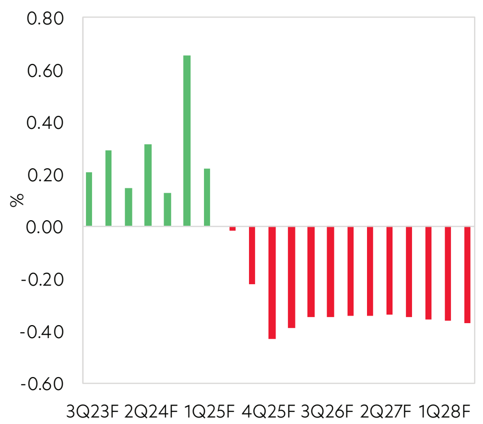


Chart 2: UOB vs OIS Forwards (15 Jun)

Source: Bloomberg, UOB Global Economics & Markets Research



The market appears to also be in agreement given that the 2s10s UST yield curve flattened post FOMC. This price action suggests that neither the "hawkish skip" nor a higher median Fed dot plot guidance had significantly altered investors' longer term yield expectations.

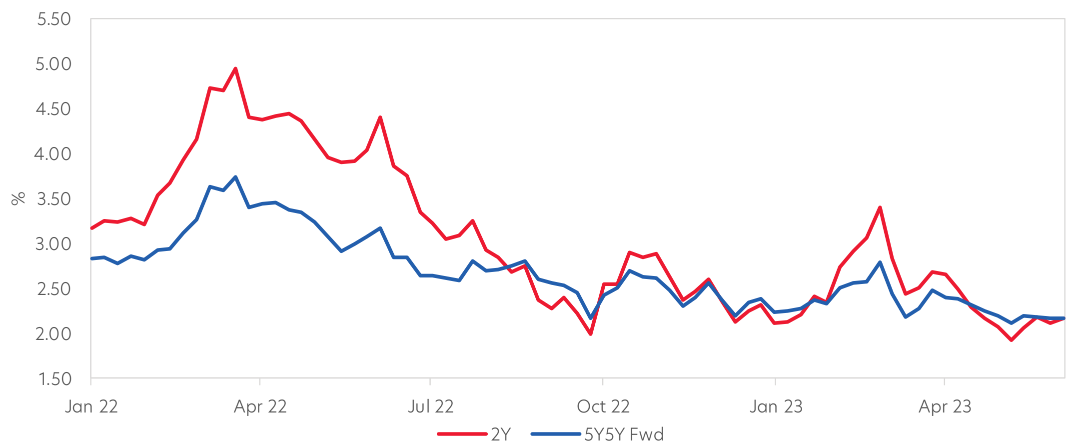
Our forecasts for longer terms yields remains unchanged with 10Y UST yield projected to head lower towards 3.20% by end 2023. On this, the market appears to also be in agreement given that the 2s10s UST yield curve flattened post FOMC. This price action suggests that neither the "hawkish skip" nor a higher median Fed dot plot guidance had significantly altered investors' longer term yield expectations.

Macro Compass Still Points To Downside Risk

As it stands, on the two big macro questions of inflation and growth, the consensus opinion sees price pressures as largely in the rearview window. Granted it is still up for debate as to how sticky prices ultimately pans out, but the upside risk for inflation is largely deemed as a tail risk scenario contingent on future supply side flare-ups. This view is also reflected in the US breakeven prices. 2Y breakevens have converged onto the 5Y5Y forwards, which implies stable inflation expectations for both the short and medium term.

Chart 3: US inflation breakevens

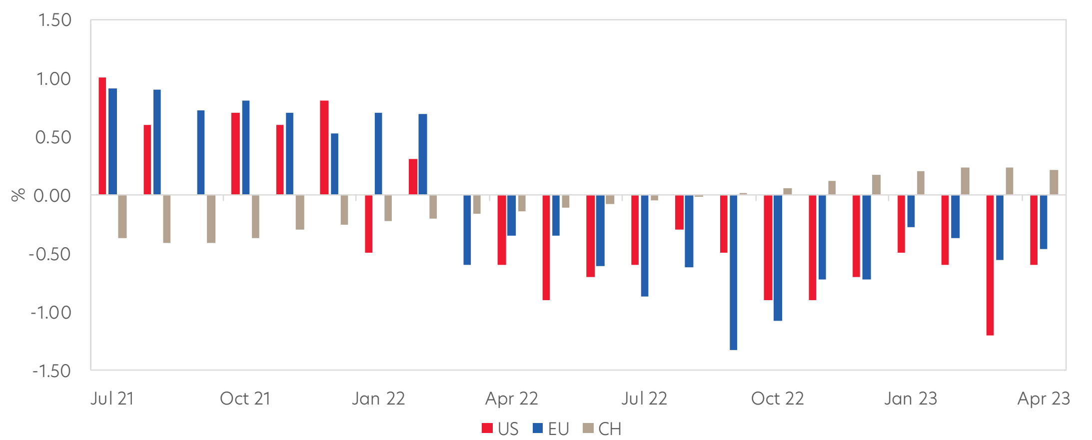
Source: Bloomberg, UOB Global Economics & Markets Research



With inflation dynamics expected to stay in check, the balance shifts in favour of growth dynamics as the marginal driver of policy action. Herein lies the challenge. Monthly changes to US and EU leading indicators have been negative for over a year. This run of negative growth momentum has historically preceded periods of recession. China's monthly leading indicator change is slightly positive; however, the rate of increase here has petered off.

Chart 4: Leading indices (monthly change)

Source: Bloomberg, UOB Global Economics & Markets Research



Overall, if one looks past the noise that comes with policy turning points, the prevailing set of economic data points would suggest that a Fed easing cycle sometime in 2024 is a probable scenario.

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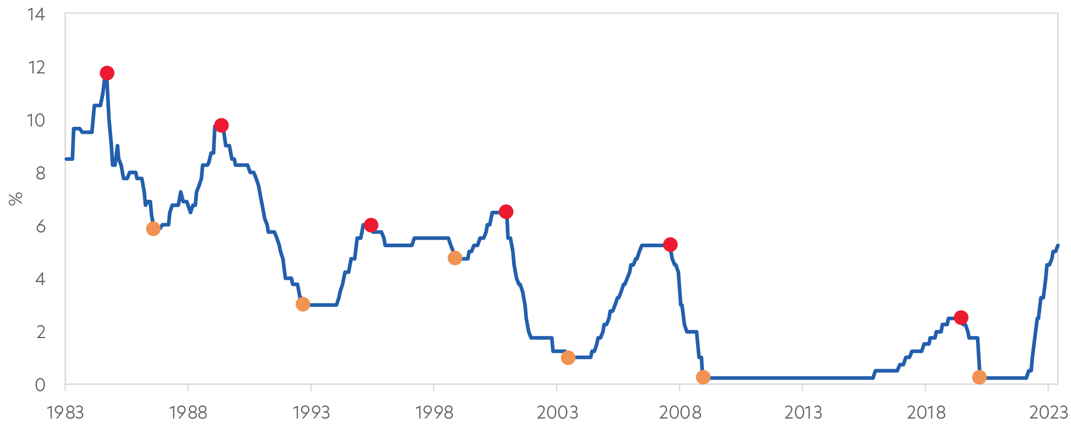
Looking At Previous Fed Easing Cycles

For this quarter's rates view, we want to take a step back from the debate as to whether Fed funds have hit its peak or if there is a couple more rate hikes still to come. Instead, we are casting our net a little further out into the eventual Fed easing cycle to see what history has to say about the rate cutting phase.

Chart 5: Fed funds rate with easing cycle

Source: Bloomberg, UOB Global Economics & Markets Research



Summary of Fed Easing Cycles

Year	Fed Funds (start)	Fed Funds (end)	Rationale
1984	11.75	5.88	Growth slowdown
1989	9.75	3.00	Growth slowdown
1995	6.00	4.75	Asian/Russian financial crisis
2001	6.50	1.00	Dot-com bubble bust
2007	5.25	0.25	US housing market bust, global financial crisis
2019	2.50	0.25	"Insurance" cut, followed by pandemic

Source: UOB Global Economics & Markets Research

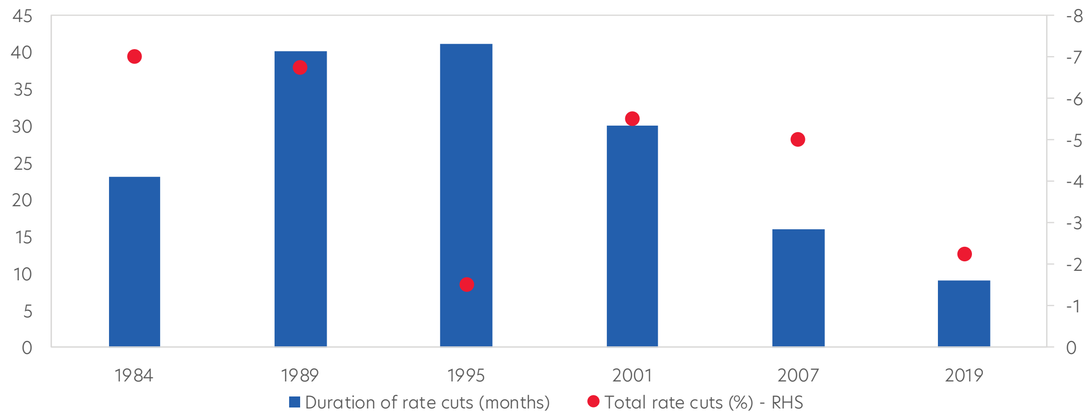
For this quarter's rates view, we want to take a step back from the debate as to whether Fed funds have hit its peak or if there is a couple more rate hikes still to come. Instead, we are casting our net a little further out into the eventual Fed easing cycle to see what history has to say about the rate cutting phase.

The lookback period that applies to the rest of this section covers from the mid-1980s to the last easing cycle in 2019. A total of 6 easing cycles fell within this lookback period. We've excluded the earlier periods and the high inflation episodes of the 1970s and early 1980s (even though inflation outcomes parallel current times) because the Fed shifted its monetary policy approach to targeting the quantity of money between 1979 and early 1982 before reverting back to a price targeting approach in late 1982.

On average, the last 6 easing cycles has lasted for around 26 months and delivered 470bps of rate cuts. However, each easing cycle is different and there is no relationship between (a) the time taken for the Fed to complete its rate cuts and (b) the magnitude of rate cuts that is delivered in total. For example, monetary easing spanned around 40 months in 1989 and 1995 but the Fed funds rate dropped by 675bps in the former and fell by only 150bps in the latter. Another more recent example, the Fed funds rate was reduced by around 500bps in 2001 and 2007, but the easing cycle spanned 30 months for the former and only took half the time (16 months) in the latter.

Chart 6: No relationship between time and magnitude of rate cuts

Source: Bloomberg, UOB Global Economics & Markets Research



The lesson here is that rate cuts do not play out on a linear path. We can see this point when visualizing the rate cuts as a cumulative function.

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Chart 7: Average completion of Fed cuts (1984 to 2019)

Source: Bloomberg, UOB Global Economics & Markets Research

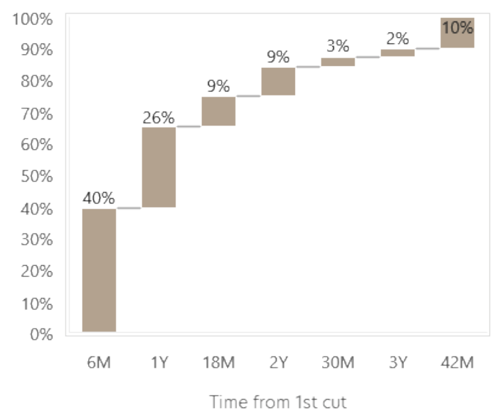
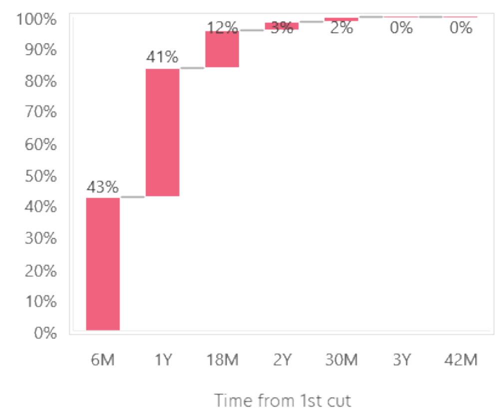


Chart 8: Average completion of Fed cuts (post 2000)

Source: Bloomberg, UOB Global Economics & Markets Research

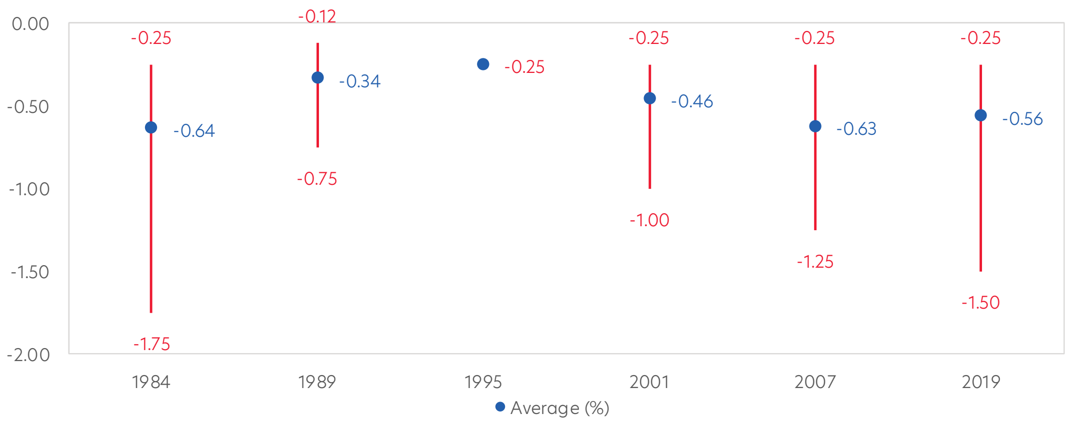


History has showed that US monetary policy easing have usually been front loaded. This result is hardly surprising considering that periods of crisis demand forceful and decisive policy responses.

History has showed that US monetary policy easing have usually been front loaded. This result is hardly surprising considering that periods of crisis demand forceful and decisive policy responses. In the last three easing cycles, the Fed has shown its willingness to accommodate through cutting rates by more than 100bps in a single month. The 1995 easing cycle was an outlier having been a prolonged easing cycle which experienced only 25bps clips of rate cuts. This measured monetary policy response was the result of US economic resilience despite external crisis occurring at the time.

Chart 9: Rate cut range and average

Source: Bloomberg, UOB Global Economics & Markets Research



Pockets of economic weakness that are currently observable could still compound into a more severe scenario which would clear the way for the Fed to dust off its monetary "bazooka".

In sum, the duration of past Fed easing cycles has varied according to the relative severity of shocks that impact on the US domestic economy. The Fed's reaction function has also been to address growth challenges in a front-loaded fashion and policy makers have not shied away from delivering large rate cuts in a single month when the situation calls for it.

US monetary tightening is approaching its final curtain call, but how the subsequent easing cycle plays out is still an unknown. On one end of the spectrum, a soft/no landing scenario (i.e. positive or even accelerating economic growth while inflation converged back to the Fed's 2% target) could see a repeat of 1995's measured and prolonged easing cycle. On the other hand, pockets of economic weakness that are currently observable could still compound into a more severe scenario which would clear the way for the Fed to dust off its monetary "bazooka".

Summary of Our Views

Our US macro team expects the Fed funds rate to plateau at 5.50% for the rest of 2023 to be followed by rate cuts in 2024.

Off this baseline, we are constructive on duration and expect to see bond yields drift lower across 2023, based our view that the balance of risk will increasingly tilt in favour of slowing economic growth, growing rate cut expectations, and richer safe haven premiums consequentially.

For end 4Q 23 we see the 3M compounded in arrears Sofr and Sora at 5.30% and 4.03% respectively. By the time we get to end 2023, bonds will be pricing in a Fed easing cycle. Based on our macro team's view, this will amount to 125bps of Fed rate cuts in 2024, and 150bps of reduction in 2025. Thus we have the 10Y UST and SGS yields lower at 3.20% and 2.70% respectively by 4Q23, in view of lower US policy rate over the next two years.

Summary of Our Views	
Outright Yield	FOMC guides no rate cuts in 2023, we expect the same. Transition to easing cycle is consensus view, volatility driven by repricing of timing of first cut.
Curve	Cycle shifting towards steeper yield curves, with likelihood of larger repricing taking place later in the year. Nonetheless, a negative 2Y10Y UST yield curve will remain for most of 2023.
SG-US Spread	SG yield discount to US stay largely intact until conviction builds for a turn in monetary policy cycle. Yield discount to diminish over time.

Our Forecasts						
Rates	16 Jun 23	Forecast	3Q23F	4Q23F	1Q24F	2Q24F
US Fed Funds Target	5.25	Current	5.50	5.50	5.00	4.50
		Previous	5.25	5.25	4.75	4.25
3M Compounded SOFR	4.94	Current	5.18	5.30	5.08	4.60
		Previous	5.05	5.05	4.83	4.35
10Y UST	3.72	Current	3.50	3.20	3.20	3.10
		Previous	3.50	3.20	3.20	3.10
3M Compounded SORA	3.65	Current	3.86	4.03	3.88	3.48
		Previous	3.89	3.90	3.76	3.40
10Y SGS	3.00	Current	2.85	2.70	2.70	2.65
		Previous	2.85	2.70	2.70	2.65

Source: UOB Global Economics & Markets Research forecasts

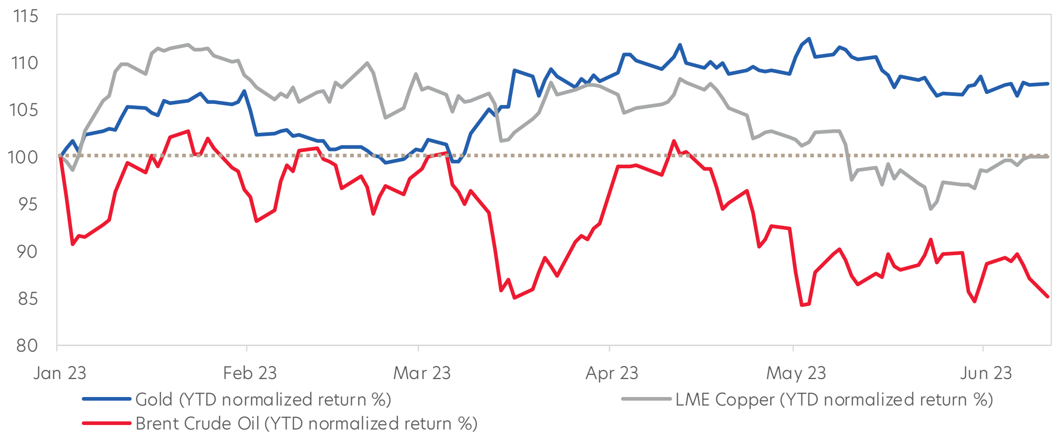
Commodities Strategy

Weak 1H23 Performance For Commodities Amidst Persistent Global Slowdown Fears

The first half of 2023 can be said to be a disappointment for commodities bulls. LME Copper went nowhere and continues to struggle just above the USD 8,000 / MT level. Crude oil failed to recover and instead fell back below the USD 80 / bbl support. Gold was unable to hold onto its gains above USD 2,000 / oz and retreated back to USD 1,950 / oz yet again. Persistent global growth slowdown fears continue to weigh down on most of the commodities complex.

Weak 1H23 outing for commodities amidst persistent global slowdown fears

Source: Bloomberg, UOB Global Economics & Markets Research



LME Copper started the year with a pop above USD 9,000 / MT. As the months progressed, the "China Post Covid Re-opening" trade started to deflate and LME Copper dropped back to struggle at the USD 8,000 / MT level yet again. Over the near term, it is clear that copper prices are biased to the downside, given the renewed weakness in China's manufacturing activity as well as further contraction in exports. However, over the longer run, slower mine production volumes as well as on-going strong transition to Electric Vehicles are key positives. When will the tide turn for copper price?

As for Brent crude oil, it was even more of a disappointment amidst the renewed price slump back below USD 80 / bbl after failing to sustain gains towards the USD 90 / bbl level. OPEC's renewed production cuts have so far failed to stem the further slide in crude oil price. Similar, to LME Copper, Brent crude oil also has a "global growth slowdown" issue. Are the latest supply cuts from OPEC+ and Saudi Arabia able to turn the tide?

Finally, gold was also a disappointment for bullion bulls as well. Despite near perfect conditions, gold failed to sustain its gains above USD 2,000 / oz and pulled back to USD 1,950 / oz yet again. The raising of the US debt ceiling reduced near term safe haven hedging needs for gold. In the meantime, renewed rise in US Treasuries yield coupled with return of USD strength as well both weighed down on gold. Will gold be able to make a sustained push above the psychologically important resistance of USD 2,000 / oz?

Gold
Still waiting for gold's sustained break above USD 2,000 / oz

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

Broadly speaking, little has changed in terms of the key drivers for gold. As in the previous few quarters, gold remain mostly driven by USD and US interest rates movements. Specifically, gold maintains its inverse relationship with USD and interest rates. As such, whenever USD strengthens and / or when US interest rates rise, gold tends to weaken anew.

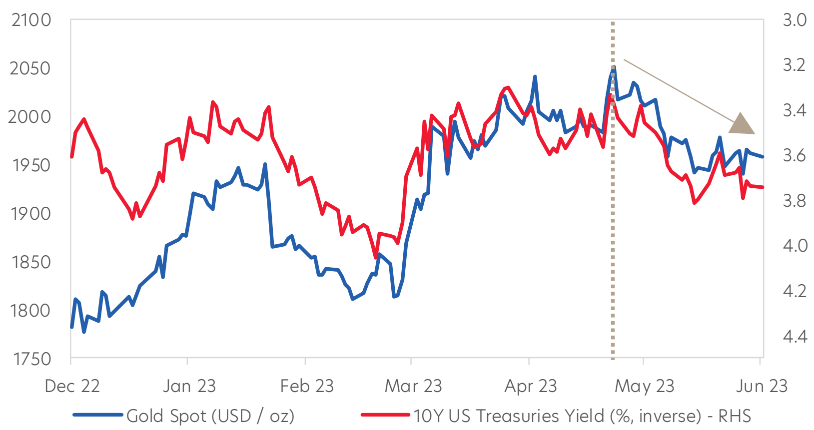
This is precisely what happened over the past month across May 2023. Against our expectations of USD weakness against both the Developed Market and Asian FX space, the USD strengthened instead, particularly against the EUR and CNY. Concurrently, US interest rates, particularly long-term bond yields pushed higher on sticky inflation as well as the anticipated deluge of US Treasuries issuance now that the US debt ceiling has been raised. As such, gold pulled back from its early May high of about USD 2,055 / oz, back below USD 2,000 / oz to around USD 1,950 / oz yet again.

Despite the near term set back, we maintain our positive outlook for gold. We continue to see US interest rates topping out in the months ahead as the Fed reaches the tail end of its rate hiking cycle. Our view remains for USD to top out as well (albeit with a bit of delay towards the end of this year). And gold remains an important diversifier of portfolio risk. In fact, Emerging Market and Asian central banks continue to load up on gold reserves, specifically China.

Overall, we maintain our positive view for gold and forecast that gold will trade above USD 2,000 /oz in 2H23 and thereafter, rising further to USD 2,100 / oz in 1H24.

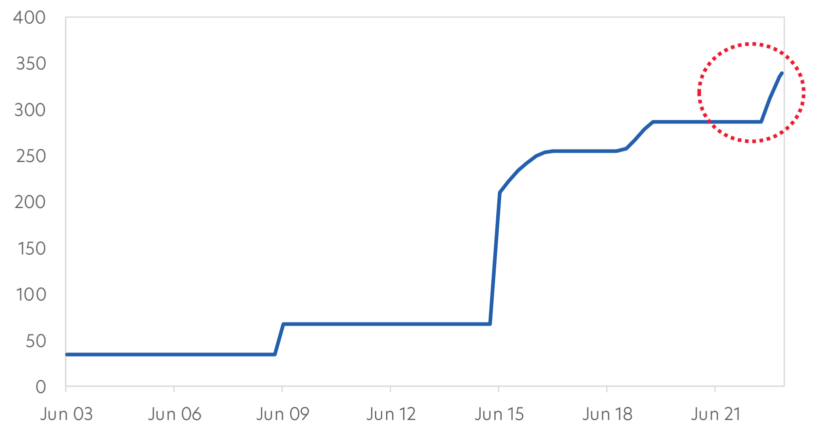
Gold price softens as 10Y UST yield rises back above 3.5%

Source: Bloomberg, UOB Global Economics & Markets Research



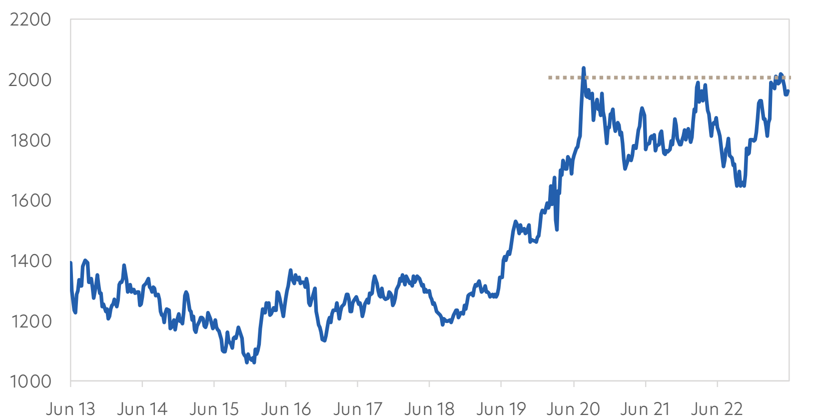
China continues to load up on gold reserves

Source: Bloomberg, UOB Global Economics & Markets Research



Gold continues its dance just under USD 2,000 / oz

Source: Bloomberg, UOB Global Economics & Markets Research



Brent Crude Oil
Continues to struggle under USD 80 / bbl despite on-going supply cuts

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

The latest OPEC+ Ministerial Meeting in early Jun resulted in even more supply cuts in crude oil production. OPEC+ not only agreed to extend its existing 3.6 mio worth of production cut from end 2023 to end 2024, but also decided to increase its production cut by an implied 1.4 mio bpd. Furthermore, in what was a surprise move, Saudi Arabia upped the ante by announcing a unilateral voluntary supply cut of 1 mio bpd for the month of Jul. By Saudi Arabia's own admission, this will lower its crude oil production to as low as 9 mio bpd, way below its official quota of 10.5 mio bpd.

Despite both extensive supply cuts from OPEC+ and Saudi Arabia, Brent crude oil price stays soft and was unable to recover back above USD 80 / bbl. There are a few possible reasons for this weak performance in crude oil price. First is that market remains skeptical of OPEC+ members commitment to the official supply cuts with Russia seen flouting international sanctions against its production and export of crude oil. Second is growing worries of a global growth slowdown, particularly from China, that will dampen global energy and crude oil demand.

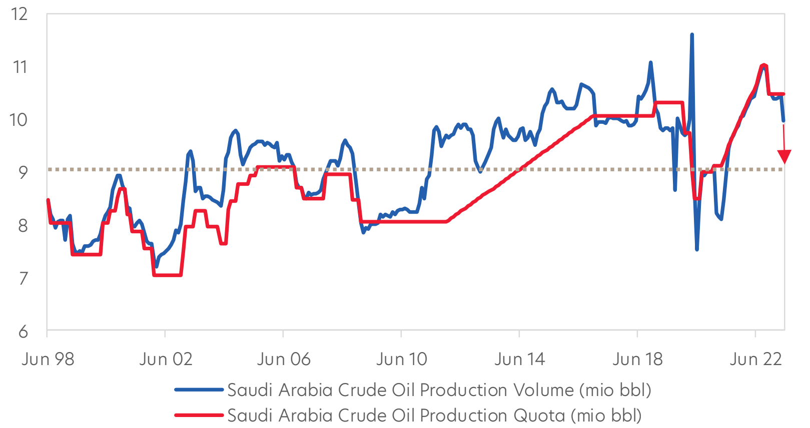
Overall, in line with the above tightening supply dynamics and further drop in US Strategic Petroleum Reserves (SPR), there is now little room for further supply shocks. Hence, we reiterate our modestly positive view of Brent crude oil with forecasts at USD 80 / bbl across 2H23 and USD 90 / bbl across 1H24. Nonetheless, the uncertain global demand situation will dampen any strong near term rebound in crude oil price and it is unrealistic to expect a return to USD 100 / bbl anytime soon.

Brent crude oil has given up all of its gains since start of 2022

Source: Bloomberg, UOB Global Economics & Markets Research

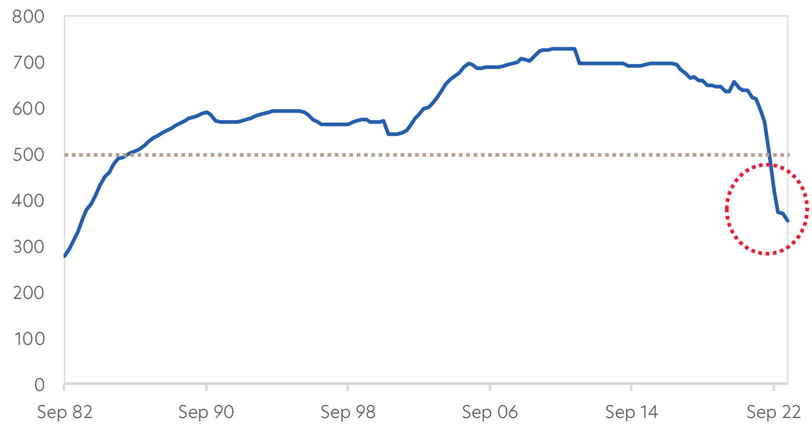
Saudi Arabia announces unilateral production cut to 9 mio bpd in Jul

Source: Bloomberg, UOB Global Economics & Markets Research



Back to the 80s for US Strategic Petroleum Reserves (SPR)

Source: Bloomberg, UOB Global Economics & Markets Research



LME Copper
Consolidation around the USD 8,000 / MT level continues

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

Over the past quarter, increasing worries of disappointing growth slowdown in China weighed down on Copper. As 2Q23 progressed, it became apparent that the much-anticipated post Covid recovery for China did not materialize as most investors had hoped for. Instead, together with other high frequency activities, China's Manufacturing PMI started to turn south yet again, amidst the further slowdown in industrial production, and renewed pullback in credit growth.

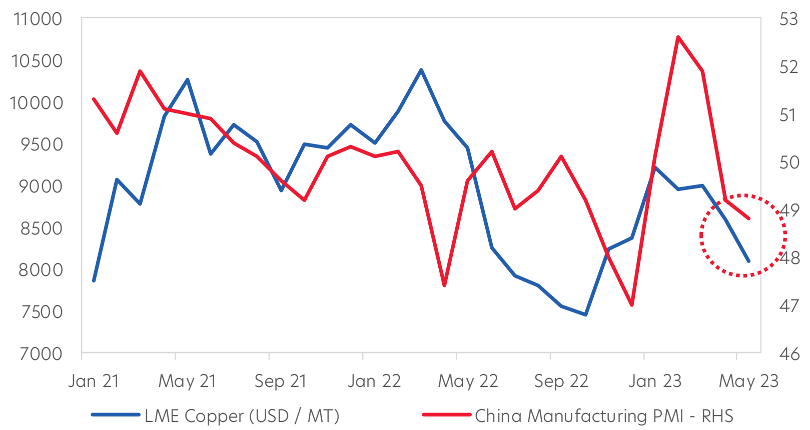
As such, LME Copper fell back from USD 9,000 / MT in Apr to test the USD 8,000 / MT floor in late May. It was only recent renewed talk of fiscal stimulus and renewed support for the property sector for China that helped trigger the mild rebound back to current level of USD 8,300 / MT. Given the backdrop of disappointment over the growth recovery of China, the near term indicators for Copper are uninspiring. Specifically, the cash vs 3M spread remained deflated and was stuck in mild discount over the past year.

Despite the near term weak dynamics, as we have highlighted over the past year, the longer term prospects for Copper is not so dire. Slowing mine production volumes add to potential longer term supply bottlenecks. In addition, the longer term transition to electric vehicles (EV) adds to longer term demand for Copper. E.g. China's demand for refined copper has kept pace with its increasing electricity consumption.

Overall, given near term uncertainty with China's economic recovery, we maintain our mild negative outlook for LME Copper, forecasting USD 8,000 / MT in 2H23 and USD 7,000 / MT in 1H24.

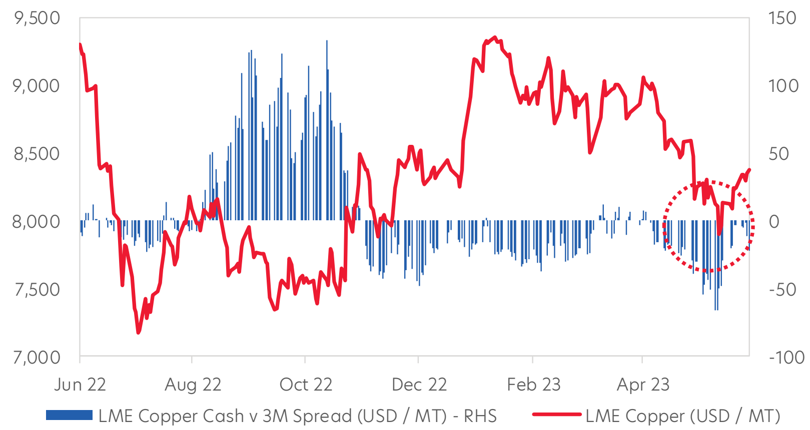
LME Copper weighed down by growth slowdown fears

Source: Bloomberg, UOB Global Economics & Markets Research



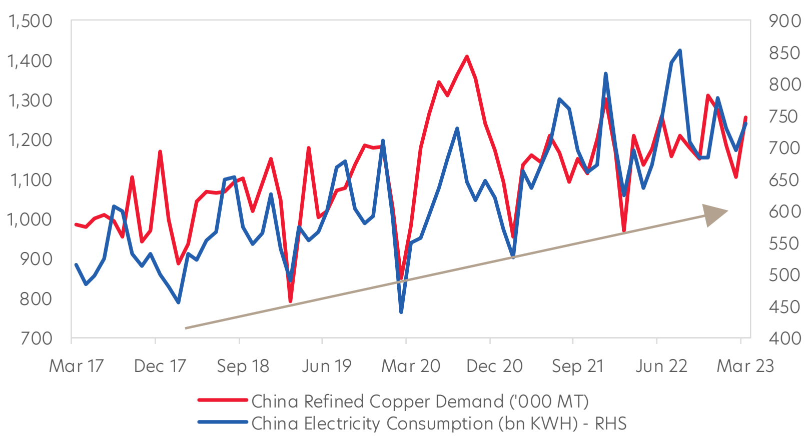
Cash premium for Copper has largely been absent over the past year

Source: Bloomberg, UOB Global Economics & Markets Research



Over long run, China's Copper demand has kept pace with electricity usage

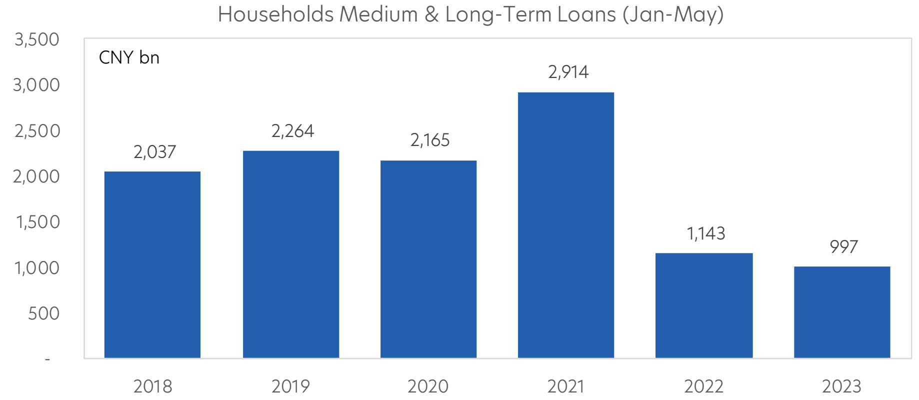
Source: Bloomberg, UOB Global Economics & Markets Research



FX & Rates	3Q23F	4Q23F	1Q24F	2Q24F
USD/CNY	7.25	7.10	6.95	6.85
CNY 1Y Loan Prime Rate	3.55	3.55	3.55	3.55
Economic Indicator	2021	2022	2023F	2024F
GDP (%)	8.4	3.0	5.6	4.8
CPI (avg y/y %)	0.9	2.0	0.8	2.2
Unemployment Rate (%)	5.1	5.5	5.2	5.1
Current Account (% of GDP)	2.0	2.2	1.6	1.3
Fiscal Balance (% of GDP)	-3.8	-4.7	-4.5	-4.0

Mortgage Demand Continues To Weaken Compared To Year Ago Periods

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY
Recovery Falters

China's post-Covid recovery appears to be running out of steam with risks that the economy could soften further without stronger fiscal and monetary policy support. The slowdown in external demand is exerting a far greater downside pressure on China. Furthermore, the latest data showed that China is still undergoing a property market correction which continued to hamper investment and keep the consumer sentiment soft.

In May, all the key macroeconomic data moderated with particular concerns over the sharper than expected easing in retail sales and fixed asset investment growth. New home prices rose at its slowest pace in four months and the youth unemployment rate hit a fresh record high of 20.8% in May. With an estimated 11.58 mn graduates poised to enter the labour market this year, the youth unemployment rate is set to increase in the months ahead.

After rising by a record amount in 1Q23, credit growth had weakened anew in Apr-May. Mortgage demand remained particularly sluggish as reflected in the new medium/long term loans to households, which slowed to CNY997 bn YTD as of May from CNY1,143 bn in the same period last year and is only a third of that in 2021.

We maintain our 2Q23 GDP growth forecast for China at 7.8% y/y which is measured against the low base during Shanghai's two-month Covid-19 lockdown in 2Q22. With stronger monetary and fiscal support, we think China's full-year GDP growth is still on track to reach our forecast of 5.6% in 2023. Having said that, the downside risks have certainly increased.

China's recovery in 2H23 will be dependent on further improvement in domestic services demand, stabilising property market and a gradual upturn in global electronics cycle. The risk factors are both internal and external including tightening of global liquidity, increase in domestic Covid-19 infections, and geopolitical tensions. Increased technology competition and security concerns with the US continue to drive a more cautious outlook for FDI into China. Domestically, potential risks of defaults by the local government financing vehicles (LGFVs) have also resurfaced.

China's economy continued to experience disinflation in May, driven by broad-based weakness in both food and services inflation as well as lower commodity prices. Headline and core inflation averaged 0.8% y/y and 0.7% y/y respectively in Jan-May. Given the price trajectory, we now expect full-year headline inflation to average 0.8% compared to our earlier forecast of 2.0% and well-below the government's target of 3.0% for 2023. We are also revising our PPI forecast for 2023 to -2.0% from earlier forecast of -1.0%. The PPI averaged -2.6% y/y in Jan-May. Thus, the conditions for monetary policy easing have remained intact.

CENTRAL BANK
PBOC Resumed Interest Rate Cut In June

The People's Bank of China (PBOC) cut key interest rates including the 7-day reverse repo rate, 1-month standing lending facility (SLF) rate and the 1Y medium-term lending facility (MLF) rate by 10 bps in Jun, likely with corresponding declines in the 1Y and 5Y loan prime rates (LPRs).

For the rest of the year, we do not anticipate additional interest rate cuts after the10 bps in Jun unless economic conditions worsen further. Nonetheless, we maintain our forecast for a 25bps reduction in banks' reserve requirement ratio (RRR) in 2H23 to release more long-term funding into the banking system. This may be used to partly replace the CNY2.9 tn of 1Y MLF maturing in 2H23. This follows a 25bps cut in Mar which released an estimated CNY500 bn of long-term liquidity into the system.

There is also anticipation of stronger property support measures as signaled by officials earlier in Jun. This will likely include the fine-tuning of the 16-point property sector support measures that were unveiled in Nov 2022, to boost liquidity support to developers and construction companies as well as ease home-buying requirements and support home buyers.

CURRENCY
CNY's Recovery Delayed To 4Q23

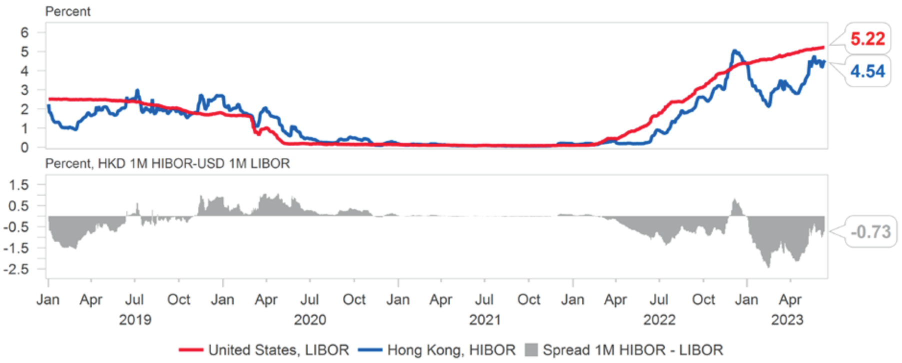
Overall, we are still of the view that CNY-led recovery of Asia FX is still intact, just delayed to 4Q23 from 3Q23 previously just as China's economy regains momentum toward end-2023. Price indicators are also pointing to an orderly adjustment of CNY to fundamentals. Implied volatility on USD/CNH remained at the lowest quartile in the past year. The offshore CNH also traded close to the onshore CNY, signaling that devaluation pressures were in check.

Our "get worse before it gets better" base case means USD/CNY is likely to target 7.25 in 3Q23 before normalising lower. The zero-Covid's high of 7.32 last Nov is likely out of reach this time given that it belonged to a different macro backdrop and our expectations of broad USD weakness as Fed ends its tightening cycle. Our updated USD/CNY forecasts are at 7.25 in 3Q23, 7.10 in 4Q23, 6.95 in 1Q24 and 6.85 in 2Q24.

FX & Rates	3Q23F	4Q23F	1Q24F	2Q24F
USD/HKD	7.84	7.82	7.80	7.80
HKD Base Rate	5.75	5.75	5.25	4.75
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	6.4	-3.5	5.5	2.6
CPI (avg y/y %)	1.6	1.9	2.6	2.4
Unemployment Rate (%)	4.0	3.5	3.1	3.0
Current Account (% of GDP)	11.8	10.5	6.5	6.1
Fiscal Balance (% of GDP)	1.0	-4.9	-1.8	0.7

1M Hibor-Libor Spread Stays Negative Until Fed's Pivot Becomes Clear

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

GDP On Track To Top The Official Forecast

Hong Kong's GDP rebounded in 1Q23 after a prolonged economic drought through 2022. Its real GDP rose 2.7% y/y or 5.3% q/q SA, spurred by the reopening of its borders in Jan.

In 1Q23, private consumption (13.0% y/y), services exports (16.5% y/y) and gross domestic fixed capital formation (5.8% y/y) were the key beneficiaries of the normalisation in economic activities while merchandise exports (-18.7% y/y) continued to contract due to weaker external demand. Growth in government consumption moderated (0.9% y/y) following strong expansions earlier on.

The labour market is also starting to turn around after concerns over the exodus of corporates and expatriates during the Covid-19 pandemic. Although the unemployment rate has fallen back to the pre-pandemic level of around 3.0%, total employment is still 190k lower at 3.66 mn.

The recovery of inbound tourism and domestic demand will gain further traction amid strong promotional efforts as seen in the series of "Happy Hong Kong" events. Tourist arrivals to Hong Kong has improved to slightly more than half of the pre-pandemic level in Apr with mainland arrivals accounting for 80% of the total. This helped to lift retail sales towards the average in 2019. The disbursement of the government's electronic consumption vouchers from Apr will be an added boost to private consumption.

The key downside risks pertain to the sluggish external demand which affects trade flows through Hong Kong while US/ EU banking sector problems may contribute to a tightening of credit conditions. A slower than expected recovery in the mainland's economy and tighter financial conditions could temper the strength of the consumption rebound. Hong Kong banks have raised their prime rates by 75bps since Sep 2022 with a cumulative 62.5bps last year and another 12.5bps year-to-date. With US interest rate close to its peak, this should limit the rise in domestic interest rates.

Hong Kong's private property prices have started to turn higher in Mar and Apr. Prices fell 15% in 2022 for the first annual drop since 2008 as a weaker economy, higher interest rates and expatriates leaving the city weighed on demand. The stabilisation in the real estate market will be positive for consumer sentiment.

Incorporating the stronger than expected 1Q23 GDP and our expectation of further strengthening in tourism activities and private consumption, we have revised higher our growth forecast for Hong Kong this year to 5.5% which sits at the top of the official forecast range of 3.5 - 5.5%. Our forecast for 2Q23 GDP is at 3.6% y/y while we see growth accelerating sharply to 8.0% y/y in 2H23, helped by the depressed numbers in the same period a year ago.

Hong Kong's inflation is muted as demand pressure remains largely contained. Price gains were led by utilities, clothing and footwear as well as meals out and takeaway food. The headline and underlying CPI (netting out the effects of the government's one-off measures) rose 2.0% y/y and 1.9% y/y respectively in the first four months of 2023. While cost pressures are likely to increase as the economy recovers, we now expect the full-year inflation to be 2.6%, lower than our earlier forecast of 2.9%.

CENTRAL BANK

Interbank Liquidity Shrinks To Lowest Since 2008

Hong Kong's aggregate balance has fallen to under HKD45bn in Jun, the lowest since 2008. This is only a tenth of its highest level in 2021. The tightened interbank liquidity has kept Hibor rates elevated, which will also be more sensitive to volatilities in the financial markets.

The 1-month Hibor has come off its recent high of 5.08% in Dec 2022 to around 4.5%. The Hibor rate remains lower than corresponding Libor rate and the negative spread may start to reverse when it becomes clear that the Fed has reached the end of its rate hike cycle and would be planning to normalise interest rates as US inflation eases.

CURRENCY

USD/HKD To Gradually Drop As Fed Ends Tightening Cycle

USD/HKD briefly dipped to a 4-month low of 7.8066 on 19 May from 7.85 early May as the Hibor rates squeezed higher on tighter liquidity. This narrowed the Libor's rate advantage over the Hibor, denting the appeal of popular USD/HKD carry trade.

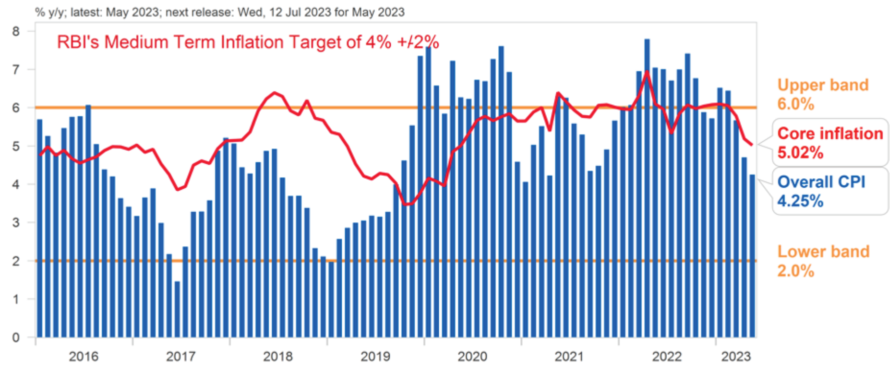
We maintain the view that as the Fed's tightening cycle eventually ends this year, the rate-differential tailwind that is underpinning USD/HKD would also recede accordingly. As such, it would be a matter of time before USD/HKD returns to the middle of its allowed trading range between 7.75 and 7.85. Our updated USD/HKD forecasts are at 7.84 in 3Q23, 7.82 in 4Q23 and 7.80 in both 1Q and 2Q24.

INDIA

FX & Rates	3Q23F	4Q23F	1Q24F	2Q24F
USD/INR	83.0	82.0	81.0	80.0
INR Repo Rate	6.50	6.50	6.50	6.50
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (FY, %)	9.1	7.2	6.5	6.8
CPI (avg y/y %)	5.5	6.7	5.3	5.4
Current Account (% of GDP)	-1.1	-3.5	-2.9	-2.3
Fiscal Balance (% of GDP)	-6.3	-6.0	-6.4	-5.9

India: GDP growth contribution % points; by Expenditure

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Upside Surprise In 4QFY22

India's real GDP in the final quarter (Jan-Mar) of FY22-23 expanded by 6.1% y/y, vs. +4.4% in the Oct–Dec quarter. The outcome was ahead of the 5.0% forecast polled by Bloomberg and our call of 4.8%. Overall, the Indian economy rose by 5.3% y/y in the second half of FY22-23, a sharp deceleration from the 9.7% pace in the first half of the fiscal year. For FY22-23, GDP growth registered at 7.2% compared to 9.1% in FY21-22, slightly ahead of Bloomberg survey of 7.0% and our expectation of 6.9%.

As has been the case for most of the year, private spending and investment remained the two key growth drivers, contributing nearly 89% of the 6.1% expansion in the quarter, similar to the 90% share contributed in 3QFY22-23, despite the aggressive rate hikes during most of 2022 by Reserve Bank of India (RBI).

Final consumption expenditure accelerated to 2.8% y/y gain from 2.2% in the prior quarter while investment kept up the momentum with an increase of 8.9% y/y from 8.0% in prior quarter. Unlike other Asian exporting regions, external demand remained surprisingly resilient, with exports rising nearly 12% y/y from 11.1% in the previous quarter, extending its streak of double-digit growth to the 8th consecutive quarter. However, net exports again failed to contribute to the growth during the quarter as strong imports demand negated entirely the exports' gains.

Taking into account the above and with the outperformance in 4QFY22-23, we maintain our view that GDP growth momentum could sustain for the following 1-2 quarters, with 1QFY23-24 growth projected at 7.0% and 2QFY23-24 at 6.5%.

As such, we keep our FY23-24 growth forecast at 6.5% (RBI: 6.5%). On a calendar year basis, this would translate to 6.6% for 2023 (vs. 6.7% for 2022).

CPI inflation eased to 4.7% y/y in Apr from 6.4% in Feb, within the upper band of RBI's inflation target (4%±2%). This is on the back of favourable base effects, as well as easing price pressures in food and fuel while core inflation (excluding food and fuel prices) decelerated on cheaper clothing and footwear, household goods and services.

Of note is that core inflation has stayed below the 6% upper band target for the second month in May after exceeding for six straight months.

With the assumption of a normal monsoon season and easing crude oil prices, RBI trimmed its CPI inflation forecast to 5.1% for 2023-24 (vs. prior expectation of 5.3%), with 1QFY23-24 at 4.6%, 2Q at 5.2%, 3Q at 5.4% and 4Q at 5.2%, with risks evenly balanced.

These forecasts are largely in line with our revised CPI projections (6.7% for FY22-23; 5.3% for FY23-24). It is worth noting that these forecasts are near to the top end of the inflation target.

CENTRAL BANK

Staying Put

At its Jun 2023 Monetary Policy Committee (MPC) meeting, the RBI left the benchmark repo rate unchanged at 6.50% as widely expected. This is the second time in 2 months that the RBI has stayed put, effectively pausing its rate hike cycle that started in May 2022 in an effort to quell inflation pressures. The current repo rate is at a level last seen in Jan 2019, just before RBI entered its policy accommodative phase.

RBI's policy priority is containing inflation pressures while being mindful of the ongoing pass-through of input costs, as well as concerns over the weak external demand, geoeconomic fragmentation, and protracted geopolitical tensions, which pose risks to the outlook. As such, we expect the RBI to keep the key rate at 6.50% at its next monetary policy meeting scheduled on 8-10 Aug 2023.

CURRENCY

INR Likely To Remain Within Recent Ranges

The INR traded in a narrow range between 81.61 and 82.85 across 2Q23 despite big shifts in Fed rate hike expectations and renewed concerns over China's economic recovery.

While INR was weighed by a weakening CNY, the impact was cushioned by a return of portfolio inflows in the local bond and stock markets.

Going forward, the INR is likely to follow the regional trend that will see another quarter of weakness before starting to recover in 4Q23 as China's economic recovery regains momentum. Overall, our updated USD/INR forecasts are 83.0 in 3Q23, 82.0 in 4Q23, 81.0 in 1Q24 and 80.0 in 2Q24.

FX & Rates	3Q23F	4Q23F	1Q24F	2Q24F
USD/IDR	15,200	14,800	14,600	14,200
IDR 7D Reverse Repo	5.75	5.75	5.50	5.25
Economic Indicator	2021	2022	2023F	2024F
GDP (%)	3.7	5.3	5.0	5.2
CPI (avg y/y %)	1.6	4.2	3.8	3.5
Unemployment Rate (%)	6.3	6.0	5.8	5.7
Current Account (% of GDP)	0.3	1.0	-0.3	-0.8
Fiscal Balance (% of GDP)	-4.6	-2.6	-3.0	-2.9

ECONOMY

Indonesia To Maintain Its Growth Trajectory, Albeit Likely Slowing

1Q23 GDP growth came in higher than expectation at 5.03% y/y (consensus: 4.97%), though contracting 0.92% on a q/q basis.

Contribution from all the expenditure side continued to sustain the growth momentum. For the past quarter, household consumption held up reasonably well while contribution from net exports increased. From the sectoral side, all sectors recorded growth in 1Q23, with transportation and logistics topping the growth pace over the last 5 quarters, consistent with the reopening that has undone all the pandemic mobility and activity restrictions. The acceleration of social protection programs and other subsidy programs all had a positive impact on stronger public consumption in 1Q23. In addition, the government's strategic projects per 2023 state budget (mainly in infrastructure sectors) signal government spending to continue accelerating, an early precursor for higher public consumption and higher investment expectation ahead.

Easing inflationary pressures amid declining fuel and food prices, coupled with the acceleration of national strategic projects and downstream programs as well as higher mobility and business activity could mitigate some of the potential downside risks to growth. All in all, we keep our forecast for growth to hover around 5% in 2023 (2022: 5.31%), which is still within the official range of 4.5-5.3%.

Indonesia's external sector remains strong and managed to maintain its growth trajectory as Indonesia recorded another quarter of current account (CA) surplus of USD3bn (0.9% of GDP) in 1Q23, continuing the previous period's surplus of USD4.2bn (1.3% of GDP). The capital and financial account recorded a surplus of USD3.4bn (1% of GDP) a marked increase from a surplus of USD0.3bn (0.1% of GDP) in 4Q22. Overall, Indonesia's balance of payments (BOP) position in 1Q23 remained strong and steady at USD6.5bn, higher than 4Q22's USD4.7bn.

Going forward, we forecast a marginal CA deficit this year of around -0.3% of GDP, narrower than our previous estimation of -2.1%, though still a reversal from 2022's surplus of 1% of GDP. The end of commodity windfall after the spike in commodity price last year coupled by export restrictions in Indonesia's commodities is expected to hold back Indonesia's trade surplus further. Nevertheless, strong foreign direct and portfolio investments are expected to attract consistent capital inflows. The latest trade surplus in Apr rose higher to USD3.9bn from USD2.8bn in Mar. A larger import decline by 25.5% m/m to USD19.8bn than exports contraction of 17.6% m/m to USD27.3bn was a key factor for the higher trade surplus in the beginning of 2Q23. The sharp decline of capital goods imports especially for machinery and electrical was a key reason of imports declining in Apr. Indonesia's foreign exchange reserves remained high, though it eased by USD4.9bn from Apr's USD144.2bn to USD139.3bn in May.

Starting this year, Indonesia continued to attract higher total investment of IDR328.9tn, registering a robust 16.5% y/y growth. Foreign Direct Investment (FDI) into Indonesia increased 20.2% y/y to a new record peak of IDR177tn or USD12bn in the first quarter of 2023 driven by extra efforts from the government to ease business and licensing rules, in addition to the government's program to enhance the down-streaming capacities onshore and strengthen the domestic value chain capabilities.

Indonesia's headline inflation in May slowed to 4% y/y viz. 4.3% in Apr, underpinned largely by a decrease in food prices on the back of improvement in food production and consumption normalization after the festive month and moderated airfares in line with the government's policy to lower the upper limit of airfares by 12% to 16% since 15 May. We continue to hold on to our view for headline inflation to return to BI's target range of 2-4% in 2H23.

CENTRAL BANK

Interest Rate Cutting Cycle Could Start In 1Q24, If Not Earlier

Bank Indonesia (BI) kept its benchmark policy rate (7-Day Reverse Repo) unchanged at 5.75% following its May's MPC meeting, in line with consensus and our expectations. BI remains of the view that inflation expectations are "well-anchored" and it expects headline inflation to return to its target range of 2-4% by 3Q23. May's MPC decision also signaled that BI is not too defensive about the possibility of rate cuts. We keep our view for the rate cut cycle to start in 1Q24. Since its first auction in Mar, the implementation of foreign currency term deposits (TD DHE) showed steady and consistent amount of placement to anchor rupiah's stability. TD DHE has thus far saw a cumulative amount of USD752mn per Jun 2023, however given maturing short-term tenor (mostly 1 month maturity), the latest outstanding of stood at around USD292.5mn.

CURRENCY

IDR To Weaken In 3Q23 Before Recovering

The IDR was also not spared from the fallout of the abrupt CNY weakness starting May. The best performing Asian currency fell from an 11-month high of 14,565 /USD in early May to about 15,000 /USD at the end of May, effectively reversing the prior month's gains. Seasonal IDR weakness may have played a part too as the IDR lost ground to most regional peers as well.

In May, foreign investors also turned net sellers of Indonesia government bonds for the first time since Feb. That said, it is probably premature to extrapolate a reversal in portfolio flows as the BI has pledged to continue steps like the Operation Twist, where it sells shorter debt to boost yields and attract foreign flows to anchor the IDR. While the IDR is expected to take directions from the CNY, volatility is likely to be checked and we expect USD/IDR to trade within familiar ranges. Our updated USD/IDR forecasts are 15,200 in 3Q23, 14,800 in 4Q23, 14,600 in 1Q24 and 14,200 in 2Q24.

FX & Rates	3Q23F	4Q23F	1Q24F	2Q24F
USD/JPY	145	138	132	128
JPY Policy Rate	-0.10	-0.10	0.00	0.00
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	2.1	1.0	1.0	1.5
CPI (avg y/y %)	-0.2	2.5	3.5	1.8
Unemployment Rate (%)	2.8	2.7	2.9	2.7
Current Account (% of GDP)	3.9	1.9	1.5	2.5
Fiscal Balance (% of GDP)	-14.8	-13.2	-6.0	-5.0

ECONOMY

Still In The Woods

Japan's 2nd estimate of 1Q23 GDP was revised higher than expected to 2.7% q/q SAAR, 0.7% q/q (compared with the prelim estimate of 1.6% q/q SAAR, 0.4% q/q). Perhaps the more consequential revision was the 4Q22 GDP contraction of -0.1% q/q SAAR was revised to an expansion of +0.4%, which meant the economy avoided a technical recession last year. When compared to the same period one year ago, GDP growth rose by 1.9% y/y in 1Q (from 0.4% y/y in 4Q).

The upward revision in 1Q growth was attributed to stronger business spending (1.4% q/q, from prelim est of 0.9%) and private inventories (0.4ppt, from prelim est of 0.1ppt), even though private consumption expenditure growth was revised lower to 0.5% (from prelim est of 0.6%). The biggest downside for 1Q was the 0.3ppt decrease of the q/q change in GDP due to net external demand. The fall in commodity prices helped further trim Japan's ballooning import bill (+0.6ppt to headline GDP), but weaker external demand (as overseas markets slowed down) hindered export recovery, exerting a drag on growth (-0.9ppt).

Japan's industrial production has been in contraction on a y/y basis since Nov 2022 while the latest May trade data showed exports still in y/y expansion but the pace has eased to 0.6% y/y (from 2.6% in Apr), slowest since Feb 2021 (-4.5% y/y). Exports to China – Japan's biggest trading partner – fell for the sixth straight month by -3.4% y/y (from -2.9% in Apr) while exports to Asia fell for the fifth straight month by -8.1% y/y (from -6.3% in Apr). Given the expectations of weaker external demand and the daunting high base comparison for rest of 2023, we expect Japan's exports to contract (y/y) in the next few months of 2023 (Jun onwards). Imports contracted by -9.9% y/y in May (from -2.3% y/y in Apr), possibly the beginnings of washing out of the high base effect due to the surging commodity prices of 2022. In 2022, Japan recorded a trade deficit of nearly JPY 20 tn (2021: JPY 1.7 tn deficit), as higher fuel costs and raw materials drove up import bill by nearly 40% y/y, outstripping the 18% export increase. Trade deficit remained significant at the start of 2023, (due to the lethal combination of high commodity prices and a weak Japanese currency), as it reached a record JPY 3.5 tn in Jan (2023) narrowing to JPY 0.4 tn in Apr and now rewidened to JPY 1.4 tn in May. We expect trade deficit to be JPY 7 tn in 2023.

In comparison, services PMI (at 55.9 in May) has been trending higher since the easing of COVID-19 restrictions in 2H22. Indeed, services may fare better and help anchor the domestic recovery as upside growth factors will be due to the continued recovery in leisure and business air travel, which will benefit many in-person services sectors, and the impact of China's reopening is likely to be positive for these sectors. The downside risk to services will be the extent of global slowdown and an underwhelming Chinese recovery. In view of a weaker 2023 manufacturing outlook, financial market uncertainty and weaker external demand amid tighter monetary policies while partly cushioned by improving services and barring external risk events (such as escalating war in Europe, worsening US-China relations), we keep our 2023 GDP growth forecast of 1.0%.

After spiking to 4.3% y/y in Jan, headline CPI inflation moderated due to base effects and the impact of new subsidies for electricity and utilities. But inflation picked up again in Apr to 3.5% y/y (from 3.2% in Mar). Excluding fresh food, core inflation rose by 3.4% y/y (from 3.1% in Mar). Previously it spiked to 4.2% in Jan, the fastest price growth since 1981. If we exclude energy items, the core-core inflation rose by 4.1% (from 3.8% in Mar).

In its Apr 2023 Outlook for economic activity and prices (The Bank's View), the BOJ raised inflation forecasts for FY2023 and FY2024 due to "higher projections for wages" (The 2023 Shunto saw unions reach an agreement to increase overall wages by 3.7%, the most since 1993 and much higher than 2022's 2.1%). Notably, FY2024 CPI inflation forecast was revised higher to 2.0% (from 1.8%), touching the BOJ price objective. Near-term wage inflation remained soft as labor cash earnings grew by just 1% y/y in Apr (from 1.3% in Mar) after a brief 4.1% spike in Dec. Real wage growth remained dismal, declining by -3% y/y in Apr (from -2.3% in Mar). We expect headline CPI inflation to average 3.5% while core inflation will average 3.4% for 2023.

CENTRAL BANK

Buying Time

The Bank of Japan (BOJ), as widely expected, kept its accommodative monetary policy stance unchanged in Jun. In Apr, BOJ Gov Ueda announced the BOJ will undertake a policy review that would span between 12 and 18 months. While the review was expected, the length of the review came as a dovish surprise. With the policy review in place, this has likely secured "policy inaction" in the interim. This also reinforced our belief policy normalisation/unwinding under Ueda will be carried out at a gradual, well-telegraphed pace, and not a sharp and sudden reversal. In addition, we think that there is a strong likelihood that Prime Minister Kishida will call for a general election in 4Q 2023, that may be an added factor to expect BOJ policy tightening – via scrapping of the Yield Curve Control (YCC) and the lifting of the negative policy rate – only in early 2024, not in 2023.

CURRENCY

JPY Stays Weak For A While Longer

USD/JPY rallied to six-month highs of 141.50 mid Jun on the back of recovering US Treasury yields and expectations that the BOJ is still some distance away from dialling back their ultra-accommodative monetary policies. As we expect the scrapping of YCC and exit of negative policy rate to only commence in early 2024, this current bout of JPY weakness is likely to persist through 3Q23 before reversing in 4Q23 as policy tightening speculation returns. At the same time, we do not think USD/JPY will revisit its Oct 2022 peak near 152 due to the declining USD/JPY interest rate differential. Overall, our updated USD/JPY forecasts are at 145 in 3Q23, 138 in 4Q23, 132 in 1Q24 and 128 in 2Q24.

FX & Rates	3Q23F	4Q23F	1Q24F	2Q24F
USD/MYR	4.68	4.60	4.50	4.40
MYR O/N Policy Rate	3.00	3.00	3.00	3.00
Economic Indicator	2021	2022	2023F	2024F
GDP (%)	3.1	8.7	4.4	4.6
CPI (avg y/y %)	2.5	3.3	2.8	2.8
Unemployment Rate (%)	4.2	3.5	3.2	3.2
Current Account (% of GDP)	3.8	2.6	2.0	2.3
Fiscal Balance (% of GDP)	-6.4	-5.6	-5.0	-4.5

ECONOMY

Growth Downtrend Continues

Malaysia's economic growth momentum moderated further to 5.6% y/y in 1Q23 from 7.1% in 4Q22 and 14.1% in 3Q22. It was anchored by domestic demand, particularly private consumption and investments during the quarter, as well as a positive net trade contribution (+2.1ppts) that offset the impact of destocking activities (-0.8ppt). All sectors also recorded an expansion in 1Q23, led by services, manufacturing, and construction industries.

On a seasonally adjusted basis, real GDP expanded 0.9% q/q, reversing the 1.7% decline in 4Q22. It affirms that Malaysia will not fall into a recession this year. The sustained growth in 1Q23 also justified Bank Negara Malaysia (BNM)'s 25bps hike in the overnight policy rate (OPR) on 3 May.

We project full-year GDP growth at 4.4% (BNM est: 4.0%-5.0% with point estimate of 4.4%, 2022: 8.7%) given the better-than-expected 1Q23 GDP outturn. We expect the growth trend to decelerate further in coming quarters given high base effects setting in from 2Q23 onwards. We are also mindful of potential slowdown in activity due to external uncertainty surrounding the global banking sector turmoil, geopolitical tensions, global monetary policy tightening, and China's post-pandemic recovery. On the local front, we see signs of normalisation and moderation in domestic economic activities which is expected to set in further post Hari Raya Aidilfitri celebrations. There is also the prospect of subsidy rationalization measures in 2H23 that could post more upside pressure for inflation, living and business operating costs, and subsequently weighing on private sector consumption. However, the results of the upcoming six state elections could sway the pace of subsidiary rationalisation in Budget 2024 that is tentatively scheduled to be tabled on 13 Oct.

Conversely, brighter avenues in 2H23 include stronger investment recovery, higher tourism activity, lower unemployment rate, and supportive policy measures particularly gradual removal of price controls and subsidies that help to contain inflation pressures.

CENTRAL BANK

Status Quo For OPR

BNM resumed its rate hike by 25bps to 3.00% on 3 May after keeping rates unchanged during the previous two meetings since Jan. The central bank cited that resilient domestic growth prospects allowed them to further normalise the degree of monetary accommodation in May and the need to ensure that the stance of monetary policy is appropriate to prevent the risk of future financial imbalances. With the latest rate hike in May, BNM has withdrawn the monetary stimulus intended to address the COVID-19 crisis, bringing OPR back to its pre-pandemic level.

Although the May monetary policy statement indicated that BNM continues to leave the door open for further rate hikes, we think the odds for another hike is diminishing as external downside risks linger or escalate, growth momentum moderates, and consumption drivers slow weighed by prospects of higher costs amid potential adjustments in domestic subsidy policies.

In addition, manageable inflation expectations give BNM breathing room to manoeuvre its monetary policy stance. BNM expects both headline and core inflation to moderate over the course of 2023, averaging between 2.8%-3.8% (UOB est: 2.8% for headline and 3.0% for core). While core inflation will remain at elevated levels amid firm demand conditions, existing price controls and fuel subsidies will continue to partly contain the extent of upward pressures to inflation. In other words, wildcards to the inflation outlook are changes to domestic policy including on subsidies and price controls, financial market developments, as well as global commodity prices.

Our House view is for the US Fed and other key central banks to pause rate hikes and keep rates steady in 2H23. Therefore, we maintain our expectations for OPR to remain at 3.00% for the rest of the year.

CURRENCY

A Slower Recovery For MYR

The MYR extended its weakness to 2Q23, carrying a year-to-date depreciation of 4.4% to about 4.60 against the USD as of 7 Jun. It was also underperforming most of its regional peers, in part due to the re-emergence of safe-haven demand and a steep fall in CNY past the 7.00 handle since 18 May amid concerns of China's recovery losing steam and a persistent negative interest rate gap with US.

Headwinds including increased correlation to CNY weakness and depressed oil prices are likely to persist and weigh on the MYR in 3Q23. Consistent with our updated view of further CNY weakness towards 7.20 / USD by end-3Q23 before recovering, we now expect MYR to recover starting 4Q23 compared to 3Q23 previously.

In view of lingering domestic policy uncertainty and concerns about the upcoming six state election results in the one to two months' period, we think the MYR may regain its strength at a slower pace relative to regional peers in 2H23. Expectations of a narrower current account surplus, continuation of negative interest rate differential with US rates, and lower global energy prices will also cap any MYR rebound in the near term. However, if China's economy stages a meaningful recovery in 2H23, this could be a saviour for MYR.

Therefore, we update our USD/MYR forecasts at 4.68 in 3Q23, 4.60 in 4Q23, 4.50 in 1Q24 and 4.40 in 2Q24, from the previous estimated range of 4.30-4.48.

FX & Rates	3Q23F	4Q23F	1Q24F	2Q24F
USD/PHP	57.0	56.0	55.0	54.0
PHP O/N Reverse Repo	6.25	6.25	5.75	5.25
Economic Indicator	2021	2022	2023F	2024F
GDP (%)	5.7	7.6	5.0	6.0
CPI (avg y/y %)	3.9	5.8	5.3	2.5
Unemployment Rate (%)	8.0	5.5	4.7	4.6
Current Account (% of GDP)	-1.5	-4.4	-3.8	-3.5
Fiscal Balance (% of GDP)	-8.6	-7.3	-6.0	-5.0

ECONOMY

Growth Moderation Remains In Sight

The Philippines' economy grew by 6.4% y/y in 1Q23 (4Q22: +7.1% y/y), marking the second quarter of growth deceleration and the slowest expansion post pandemic since 2Q21. It reflected the normalisation of economic activities that were associated with monetary policy tightening. The persistent moderation in household consumption and a drag from net trade during the quarter were cushioned by higher government spending, total investment, and stock replenishment activities. There was also mixed performance across all sectors in 1Q23, with services sector remaining the key growth driver.

On a seasonally adjusted basis, real GDP also posted a smaller gain of 1.1% q/q (4Q22: +2.4% q/q), with absolute real GDP value reaching PHP5.21tn. It remained above the pre-pandemic 4Q19's level of PHP4.89tn for the third straight quarter by 6.5%.

Given that the softening growth momentum is still in line with our expectations and lingering downside risks, we maintain our 2023 full-year economic outlook at 5.0% (official est: 6.0%-7.0%, 2022: +7.6%). We continue to expect GDP growth to decelerate further over the next few quarters with year-ago high statistical base effects also playing an important role.

The inevitable knock-on effects of restrictive monetary policy and sticky consumer price pressures on household consumption will become more apparent entering 2H23 given the lagged effects of monetary policy tightening. The return of El Niño is expected to affect crop output over the next couple of months.

Externally, recession risks in the advanced economies remain on investors' radar screen following the flare up of global banking sector crisis amid tighter financial conditions and lingering geopolitical tensions. This alongside a slower-than-anticipated recovery in China's economy point to persistent weakness in global demand and cautious sentiment in the near term.

CENTRAL BANK

A Dovish Tilt

Bangko Sentral ng Pilipinas (BSP) hit a rate pause button on 18 May after a series of back-to-back interest rate increases by a total of 425bps since 19 May last year. It kept the overnight reverse repurchase (RRP) rate steady at 6.25%, citing the latest assessment of a continued inflation downtrend, signs of softening demand, and tighter global financial conditions as main reasons.

In regard to that, BSP revised down its inflation projections to an average of 5.5% for this year (from 6.0% previously) and 2.8% for 2024 (from 2.9% previously), after taking into consideration the assumptions of lower energy prices and an appreciation in Peso (PHP) amid dissipating base effects and ongoing whole-of-government actions to ease food supply constraints. The same goes for our view, whereby we have downgraded the Philippines' inflation forecasts this month (6 Jun) to 5.3% for 2023 (from 6.0% previously) and 2.5% for 2024 (from 3.5% previously), barring any potential changes in domestic policy as well as adverse impact of weather and external forces.

We also observe a dovish tilt from May's monetary policy statement and comments made by BSP Governor Felipe Medalla during post-meeting briefing. He stated that at this juncture, the central bank seems unlikely to raise rates further but is also reluctant to cut rates ahead of the US Fed. He also hinted a rate pause for two or three meetings is more likely, with the domestic inflation outlook and future Fed rate moves being key determinants to their decision in the coming MB meetings. Thus, we now think that the BSP may have been done with its rate hikes, revising our year-end RRP rate forecast to be unchanged at current 6.25% (from 6.75% previously).

Separately, BSP also announced on 8 Jun that it will reduce the reserve requirement ratios (RRRs) by 250bps for big banks to 9.5%, 200bps for digital banks to 6.0%, 100bps for thrift banks to 2.0%, as well as 100bps for rural and cooperative banks to 1.0%, effective 30 Jun. The lower RRRs do not constitute any shift in the BSP's monetary policy settings but it is an operational adjustment to ensure stable domestic liquidity and credit conditions.

CURRENCY

Regional Trend Weighs On PHP In 3Q23

Year-to-date as of 7 Jun, the PHP has weakened by 0.5% to about 56.0 /USD. It reversed the gains in 1Q23 and began to lose its appeal in 2Q23 largely due to a hawkish repricing of Fed rate hike expectations boosting the USD and concerns over a stalling China economic recovery.

Although BSP introduced a rate pause in May with an end to its rate hike cycle in sight, a decent interest rate gap with US rates (100bps currently) and first month of positive real interest rate in May will help to stabilise the PHP going into 2H23. Other positive catalysts for the PHP include an expected improvement in the country's current account and fiscal balance, expectations of broad USD weakness in 2H23, as well as an upgrade to the nation's credit outlook by Fitch Ratings to 'Stable' from 'Negative' on 22 May.

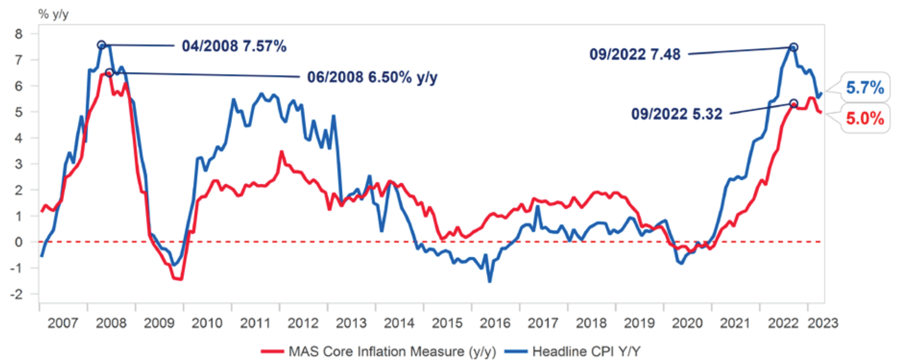
Overall, we expect the PHP to drop alongside CNY against the USD in 3Q23 before strengthening anew from 4Q23. Our updated USD/PHP forecasts are 57.0 in 3Q23, 56.0 in 4Q23, 55.0 in 1Q24 and 54.0 in 2Q24.

FX & Rates	3Q23F	4Q23F	1Q24F	2Q24F
USD/SGD	1.36	1.35	1.33	1.31
SGD 3M SORA (compounded)	3.86	4.03	3.88	3.48

Economic Indicator	2021	2022	2023F	2024F
GDP (%)	8.9	3.6	0.7	3.0
CPI (avg y/y %)	2.3	6.1	5.0	3.5
Unemployment Rate (%)	2.4	2.1	2.3	2.1
Current Account (% of GDP)	18.0	19.3	15.0	19.0
Fiscal Balance (% of GDP)	0.3	-0.3	-0.1	0.5

Core inflation still sticky at 5%

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Technical Recession Risk Still Looms

Singapore's final 1Q23 GDP growth was revised higher to 0.4% y/y (-0.4% q/q SAAR) from the prelim estimate of 0.1% y/y (-0.7% q/q SA), but visibly weaker compared to 2.1% y/y (+0.1% q/q) in 4Q22. Despite the revision, 1Q's growth was still the weakest since 1Q21. Growth was dragged by manufacturing sector (-4.8% q/q, -5.6% y/y) in 1Q with all major sectors within manufacturing recording declines except transport engineering. Services (0.5% q/q, 2.0% y/y) supported growth with aviation- and tourism-related sectors outperforming but trade-related services declined. Construction activity supported growth although its 1Q pace was revised lower (to 0.6% q/q, 7.2% y/y).

Despite 1Q's upward revision, external developments continue to affirm our cautious growth outlook for Singapore this year. The Ministry of Trade & Industry (MTI) in their outlook, was more downbeat about US and Europe but more positive on China. MTI also warned of a more prolonged and deeper electronics downturn and highlighted two rising downside risks to the global economy: 1) tightening of global financial conditions and 2) escalations in the Russia-Ukraine war and geopolitical tensions among major global powers. The MTI maintained its previous forecast for Singapore to grow by 0.5-2.5% in 2023, with growth likely to be in mid-point of the range (i.e. 1.5%). In comparison, we still expect full year GDP growth at 0.7% in 2023 (lower end of the official forecast range) reflecting our more cautious external outlook. We see a substantial risk Singapore may enter a technical recession in 1H 2023, largely driven by the weakness in manufacturing. Note that Singapore's non-oil domestic exports have contracted in y/y terms for 8 months and manufacturing output have already contracted for 7 months since Oct 2022.

We still expect manufacturing sector to contract by 5.4% in 2023. The export outlook remains dire and more pronounced y/y NODX contractions for a few more months will be likely before improving in late 2023. We now expect NODX to contract by 10% in 2023 (from previous forecast of -5.5%). Services could fare better in 2023 as upside factors could come from the continued recovery in leisure and business air travel and inbound tourism, which will benefit in-person services sectors, but the extent of services' improvement may be curtailed by the risk factors of global growth weakness, banking sector issues and geopolitics will evolve.

Headline inflation rose 5.7% y/y in Apr (from 5.5% in Mar) while core inflation remained elevated at 5.0% y/y (unchanged from Mar). The MAS kept its inflation forecasts (that were first made in the 14 Oct 2022 MPS) unchanged in the Apr CPI report and said core inflation rate will remain "elevated in the next few months" but "on a broad moderating path" and "to slow more discernibly in the second half of the year". However, the MAS omitted the previous mention that "MAS Core Inflation is projected to reach around 2.5% y-o-y by the end of 2023".

We still expect headline inflation to average 5.0% and core inflation at 4.0% in 2023. Excluding the 2023 GST impact, we expect headline inflation to average 4.0% and core inflation to 3.0% in 2023, both still above the "standard" 2% objective. If the stickiness of inflation (especially for core) persists, then we will revise our forecasts higher.

CENTRAL BANK

MAS To Keep Status Quo For Oct 2023

The Monetary Authority of Singapore (MAS) which has its monetary policy based on its exchange rate, has led the region in policy tightening (5 rounds since Oct 2021). While inflation concerns remained in Apr, it was also evident the growth outlook has been also subjected to greater uncertainty and biased to the weaker side. That said, it is also too soon to expect monetary policy to reverse course given the stickiness of core inflation. Faced with sticky inflation and a weaker growth outlook, we keep the view that the tightening cycle to have ended in Apr and the MAS to maintain this pause in the next meeting in Oct. If there is an off-cycle announcement before Oct, we think it will likely be due to a sudden worsening in external conditions leading to a sharp growth downgrade, so the MAS will likely shift to a more accommodative policy rather than further tightening in its next move, but that is not our base case to expect an off-cycle policy announcement for now.

CURRENCY

SGD Weighed By CNY

Tracing weakness in the CNY, SGD eased from 1.32 /USD to 1.34 /USD from mid-May to mid-Jun. While the SGD tracked the directional moves of CNY, we note that the beta is considerably lower (less than 0.5) based on observations of previous periods of China uncertainties. This is likely due to the perceived status of SGD as a regional safe haven currency. The resilience of the SGD kept the S$NEER at the strong side of the policy band, at about 1% above the midpoint.

Overall, while the SGD is tethered to CNY in the near-term, its weakness against the USD is likely more measured. Our updated USD/SGD forecasts are 1.36 in 3Q23, 1.35 in 4Q23, 1.33 in 1Q24 and 1.31 in 2Q24.

FX & Rates	3Q23F	4Q23F	1Q24F	2Q24F
USD/KRW	1,320	1,260	1,220	1,200
KRW Base Rate	3.50	3.50	3.25	3.00
Economic Indicator	2021	2022	2023F	2024F
GDP (%)	4.3	2.6	1.3	2.5
CPI (avg y/y %)	2.5	5.1	3.5	2.2
Unemployment Rate (%)	3.6	3.1	3.0	3.1
Current Account (% of GDP)	4.7	1.8	0.9	2.0
Fiscal Balance (% of GDP)	-4.4	-3.3	-1.2	-0.9

ECONOMY

Outlook Stays Weak

South Korea's advance 1Q23 GDP came in at 0.9% y/y, 0.3% q/q SA from 1.4% y/y, -0.3% q/q SA in 4Q22. The sequential rebound in GDP meant that South Korea's economy has avoided a technical recession which is defined as two consecutive q/q contraction.

The year-on-year growth rates were affected by strong base effects. The contributions came from private consumption (+2.3ppt), government spending (+0.9ppt), inventories (+0.9%) and gross fixed capital formation (+0.8ppt) which continued to offset a significant drag from net trade (-4.2ppt) on the headline GDP. Both goods and services exports contracted while the imports improved sharply. The goods exports remained weighed by weaker electronics demand but robust motor vehicle shipments provided some cushion.

Economic data had remained weak in Apr-May. Exports contracted by 13.6% y/y in the period amid further weakening of electronics shipments by 38.5% y/y. As exports weakened while imports strengthened, the current account recorded a quarterly deficit in 1Q23 for the first time in more than a decade. We have revised down our forecast for the current account surplus to 0.9% of GDP in 2023 from our earlier forecast of 1.7%. The S&P Global manufacturing PMI has stayed in contraction for the 11th straight month in May at 48.4 (Apr: 48.1) and there is little to suggest that the manufacturing sector has bottomed out yet.

The outlook for domestic demand is more favourable. Although consumer sentiment has yet to turn positive (reading of 100), the index improved to its highest in a year at 98.0 in May. However, the high domestic interest rate is expected to continue to weigh on the household sector. Bank of Korea (BOK) Governor Rhee Chang-yong warned of growing financial sector risks amid a rise in real estate loan delinquencies despite signs of a broader housing market recovery.

The unemployment rate has edged down to a record low of 2.5% in May with services job gains more than offsetting losses in the manufacturing sector. As the indicator tends to lag overall economic conditions, we may see a pick-up in the unemployment rate in 2H23.

Despite the initial optimism, South Korea has not seen much positive spillover from China's borders reopening. Exports to China continued to contract at a double-digit pace. Tourist arrivals in South Korea recovered to only half of its pre-pandemic level in 1Q23. Chinese tourists accounted for around 8.4% of 1Q23 arrivals which remained a far cry from a third of its total arrivals before the pandemic. This should further improve with the release of bottlenecks in China's tourism sector and as confidence amongst Chinese consumers turns around.

South Korea's key electronics sector is expected to stabilise and improve in 2H23 but US' ongoing moves to restrict investments into China's high-tech sectors will continue to impact on the global electronics supply chain and remain a key risk to watch for. The electronics sector is central to South Korea's exports outlook which accounted for 19% of its total exports in 2022.

We expect South Korea's GDP growth to remain slow at 0.9% y/y in 2Q23 and 1.0% y/y in 3Q23 before a recovery to 2.5% y/y in 4Q23. Our full-year GDP forecast remains at 1.3% for 2023.

Inflation remains a concern especially the core inflation which had stayed elevated at 4.3% y/y in May even as headline inflation cooled to 3.3% y/y from as high as 6.3% y/y in Jul 2022. A second 5.3% hike in electricity prices in May (in addition to 9.5% hike in Jan) will also contribute to the inflationary pressure in South Korea. Higher utilities costs have been one of the main drivers of inflation in the last few months, offsetting the decline in transport costs from lower oil prices.

We forecast headline inflation to average 3.5% in 2023 before easing to 2.2% in 2024.

CENTRAL BANK

BOK On Pause

The BOK was on hold for the third consecutive meeting in May after hiking the benchmark 7-day repo rate to 3.50% with a cumulative 300bps increase from Aug 2021 to Jan 2023.

While all six BOK board members (excluding the Governor) signaled room to bring the rate to a terminal level of 3.75% at the May meeting, we think the BOK's hands are tied due to the growth risks. It should start to tone down its relatively more hawkish rhetoric as US' Fed rate peaks (likely in 3Q) and provide early signals for interest rate cuts that are expected to materialize early next year. The inflation rate will be firmly under 3% only in early 2024 which may then give the BOK greater confidence to start to reverse some of its rate hikes.

We maintain our forecast for the benchmark interest rate to stay at 3.50% through 2023 and that the BOK will start cutting interest rate in 1Q24.

CURRENCY

Recent Gains In KRW To Fizzle

The KRW was amongst the best performing Asia FX in 2Q23, gaining over 2% to 1275 /USD. The currency which is seen as a proxy to the technology sector benefited from the recent optimism on Artificial Intelligence (AI) spurring a faster bottoming of the semiconductor down-cycle.

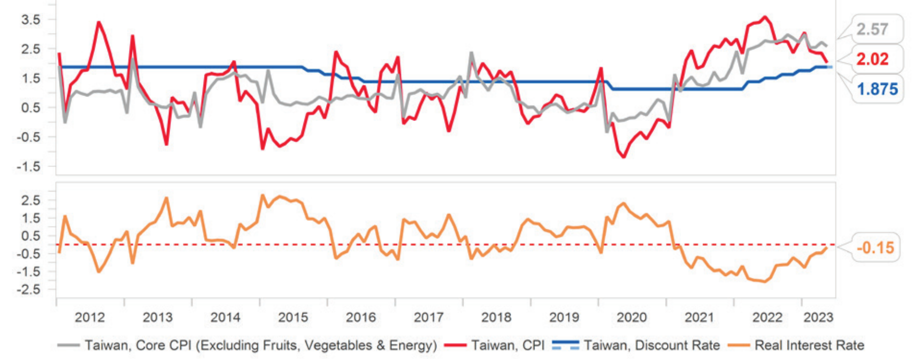
That said, the uncertain domestic growth outlook together with China's growth concerns may cast an overhang in the coming quarter (3Q23). This is to be followed by a region-wide recovery in Asia FX starting 4Q23 as China's economic rebound regains momentum.

Overall, our updated USD/KRW forecasts are 1320 in 3Q23, 1260 in 4Q23, 1220 in 1Q24 and 1200 in 2Q24.

FX & Rates	3Q23F	4Q23F	1Q24F	2Q24F
USD/TWD	31.0	30.4	30.0	29.5
TWD Official Discount Rate	1.88	1.88	1.88	1.88
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	6.5	2.4	1.4	3.5
CPI (avg y/y %)	2.0	2.9	2.3	1.7
Unemployment Rate (%)	3.7	3.6	3.6	3.6
Current Account (% of GDP)	15.2	13.2	12.0	12.0
Fiscal Balance (% of GDP)	1.4	1.3	-1.6	-1.0

Real Interest Rate Turning Less Negative

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

More Prolonged Weakness

The final 1Q23 GDP confirmed a technical recession in Taiwan, defined as two consecutive q/q contraction. The economy contracted by -2.87% y/y (-0.59% q/q) in 1Q23 following -0.78% y/y (-0.48% q/q) in 4Q22. The drags on headline GDP came from net exports of goods and services, inventory drawdowns and gross fixed capital formation while private consumption and government consumption were the main drivers.

Taking into account of statistical effects, we expect the momentum in Taiwan's economy to pick up over the next three quarters but the pace will remain slow due to the uncertainties posed by the electronics cycle, patchy recovery in China's economy and the geopolitical tensions which may intensify going into the presidential and legislative elections in Jan 2024.

The weakness in Taiwan's manufacturing sector has not shown signs of abating yet as the exports and export orders continued to contract at double-digit pace. In May, the manufacturing PMI for Taiwan plunged to its lowest this year at 44.3, same level as in Jan.

Overall, we lower our forecast for Taiwan's GDP growth to 1.4% in 2023 (from 1.8%), with 2Q23 at 1.3% y/y versus the official forecast of 1.82% y/y and thereafter to 3.5% y/y in 2H23.

The official GDP growth forecast for 2023 has been revised lower by 0.08 ppt to 2.04%. This is much more optimistic than our projection as it factors in exports of goods & services returning to growth in 2H23. The Directorate General of Budget, Accounting & Statistics (DGBAS) also sees investment supported by the semiconductor industry, offshore wind energy and airline companies. Despite a slowdown in global demand for smartphone and PC chips, Taiwan's semiconductor companies will continue to benefit from surging demand for high-end chips for artificial intelligence (AI) applications and high-performance computing (HPC). Meanwhile, manufacturing inventory adjustments may remain a drag until 3Q23.

Tourist arrivals were back to half of the pre-pandemic level in Mar. The sustained improvement in the services sector continues to prop up the labour market, more than offsetting the job losses in the manufacturing sector. Consequently, Taiwan's unemployment rate has reached its lowest since 2001, at 3.56% in Apr.

Headline inflation moderated to a two-year low of 2.02% y/y in May from 2.35% y/y in Apr. Core inflation remained above the headline inflation, staying elevated at 2.57% y/y in May vs. 2.72% y/y in Apr. Factors driving the inflation include the recovery in services demand, rising rents, the government's surplus tax rebates and a hike in the electricity rates. Specifically, the electricity tariff hike in Apr is expected to contribute an additional 0.2 ppt to the annual CPI inflation rate.

However, inflation risks should be capped in the coming months considering the high base, moderation in raw material prices and softer growth outlook this year. Factoring in the Jan-May average of 2.4% y/y, we expect the full-year inflation to be 2.3%, lower than 2.9% in 2022. Thereafter, average inflation will moderate to below the central bank's 2% target in 2024.

CENTRAL BANK

Rate Has Likely Peaked

The Central Bank of the Republic of China (Taiwan) (CBC) kept its discount rate at 1.875% in Jun, after five back-to-back hikes totaling 75-bps since 1Q22 and two 25-bps hikes to banks' reserve requirement ratio (RRR) at the Jun and Sep meetings in 2022 to tighten liquidity.

In view of the strong real estate lending despite the hike campaign, the CBC instead introduced a 70% cap on the loan-to-value (LTV) ratio for a second home loan of a natural person for house purchases in "specific areas" effective on 16 Jun.

We think this is the start of an extended rate pause as the CBC contemplates a more prolonged period of inflation that is above trend as well as the downside growth risks. Our forecast for the discount rate remains at 1.875% through at least 1H24. To address risks in the housing market, the CBC will instead use its selective credit control measures.

The next CBC meeting is scheduled on 21 Sep. By then most of the central banks including the US Fed would likely have reached their terminal interest rates and the trajectory of global growth and inflation would also be clearer.

CURRENCY

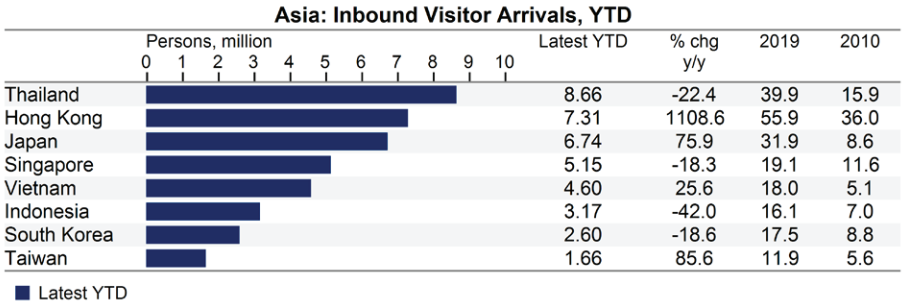
TWD To Weaken In 3Q23

Despite lacklustre growth, the TWD was largely sideways across 2Q23 and traded well within the range of the prior quarter. Strong foreigner inflows into Taiwan's technology stocks helped underpin TWD and buffer against emerging USD strength. Going forth, concerns about stalling China's growth recovery may keep TWD biased to further weakness in the coming quarter. A recovery in Asia FX including TWD is now expected from 4Q23, compared to 3Q23 previously. Our updated USD/TWD forecasts are at 31.0 in 3Q23, 30.4 in 4Q23, 30.0 in 1Q24 and 29.5 in 2Q24.

FX & Rates	3Q23F	4Q23F	1Q24F	2Q24F
USD/THB	35.5	34.0	33.5	33.0
THB 1D Repo	2.00	2.00	1.75	1.75
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	1.6	2.6	3.1	3.5
CPI (avg y/y %)	1.2	6.0	2.7	2.2
Unemployment Rate (%)	1.6	1.4	1.2	1.0
Current Account (% of GDP)	-1.6	-0.8	2.8	3.0
Fiscal Balance (% of GDP)	-3.7	-4.6	-3.8	-4.0

Inbound tourists growth into Thailand seem to be waning

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

On Track To Grow At Least 3%

The Thai Economy expanded by 2.7% y/y in 1Q23, accelerating from 1.4%. As observed from the final quarter of last year, strong recovery in services exports had continued to underpin Thailand's economic recovery momentum, also aided by favorable expansion of private consumption and public investment. However, goods exports and government expenditure contracted. Private consumption expenditures increased by 5.4%, continuing from a 5.6% expansion in 4Q22 underpinned by the tourism rebound and the recovery in the spending of durable goods. Services expenditure increased by 11.1% on the back of strong spending growth in hotels and restaurants.

Total investment expanded by 3.1% y/y, slowing from 3.9% in 4Q22 amid slowdown in private investment that grew slower by 2.6% vs. 4.5% in 4Q22. The machinery and equipment investment, and construction investment increased by 2.8% and 1.1 % respectively, slowing from 5.1% and 1.9% before. However, public investment increased by 4.7%, more than tripled the 1.5% pace in 4Q22. On external trade, exports contracted by 4.6% y/y, which has lessened as compared to a 7.5% contraction in 4Q22, consistent with the economic slowdown of key trading partners.

On the account of the 1Q23 GDP data, the Thai economy remains on track to grow at least 3% for this year. We, however, keep our 2023 growth forecast unchanged at 3.1% as the strength of domestic economic recovery appears to be more modest than expected.

CENTRAL BANK

Terminal Peak Rate Could Potentially Be Higher Than We Thought

Bank of Thailand (BOT) voted unanimously to raise the policy rate by 25bps from 1.75% to 2.00%, pushing its policy rate higher than the pre-pandemic level. BOT was not explicit in signaling the end of its rate hike cycle and seemed relatively sanguine. BOT is more confident of stronger growth momentum ahead, of which we are less sanguine of. BOT forecast the Thai economy to grow at 3.6% in 2023 and further accelerate to 3.8% in 2024. Full year inflation is projected to return to its 1-3% target range this year and next at 2.5% and 2.4% respectively.

BOT recognizes upside risks to growth that is underpinned by forthcoming government economic policies. BOT did acknowledge some downside risks to growth but only stated that "there is [only] a need to monitor the uncertain economic and monetary policy outlook of major economies."

BOT views that inflation should continue to decline towards its 1-3% range, at a gradual pace at is projected at 2.5% and 2.4% in 2023 and 2024, respectively, due to easing electricity and oil prices. Core inflation is projected to stabilize at 2% this year and next, an elevated level compared to its recent past according to BOT's May MPC Statement. BOT is of the view that upside inflationary risks may emanate from greater demand pressures in light of higher economic activities and greater cost pass-throughs amid supply squeezes, partly due to government economic policies ahead.

We revise our forecast that the terminal rate is now at 2.00% and differ in the view of BOT in that we are less sanguine about the near-term upside risks on growth. The anticipated resurgence of tourist arrivals, especially from China has not played out as we have expected before (see chart). Next, the less than sanguine view of ours also stems from the fact that given a more sluggish return of tourists spending, domestic trade activities have not meaningfully picking up pace, unlike during the initial phase of Thai reopening. Finally, given our ongoing expectations of a more sluggish global growth, we pare back our expectation of strong goods and services exports, which mean that consistent with our GDP forecast of 3.1% this year, we are much less sanguine compared to BOT's view.

Therefore, we continue to keep our view that the interest rate cycle would have reached its peak at the current level of 2.00% and based on our assessment, the interest rate should stay at the current level throughout the rest of this year. We currently pencil in a rate cut of 25bps to 1.75% in the BOT benchmark rate in 1Q24.

CURRENCY

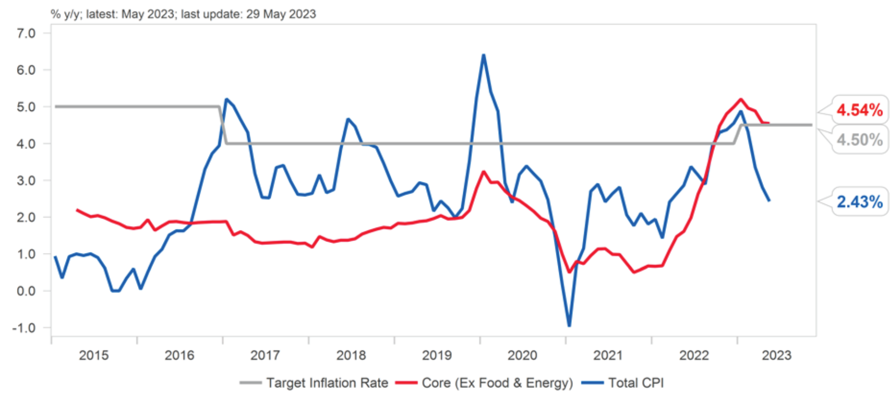
Dial Back On THB's Expectations

The unusual stability of the THB heading into the 14 May national elections was upended by uncertainties in forming a coalition government. USD/THB rose a two-month high of 34.92 after the elections. Until the political fog clears up, the THB is likely to track CNY's moves more closely. Notably, we also dial back our expectations of THB's outperformance relative to regional peers this year as the anticipated resurgence of tourist arrivals, especially from China has not played out as buoyantly as we have earlier expected. Our updated USD/THB forecasts are 35.5 in 3Q23, 34.0 in 4Q23, 33.5 in 1Q24 and 33.0 in 2Q24.

FX & Rates	3Q23F	4Q23F	1Q24F	2Q24F
USD/VND	24,200	24,000	23,800	23,700
VND Refinancing Rate	3.50	3.50	3.50	3.50
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	2.6	8.0	6.0	7.2
CPI (avg y/y %)	1.8	3.2	5.0	5.8
Unemployment Rate (%)	3.6	2.2	2.2	2.2
Current Account (% of GDP)	-0.3	0.3	1.0	1.0
Fiscal Balance (% of GDP)	-4.1	-4.4	-2.6	-2.6

Vietnam Consumer Price Index, Monthly

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY
Slowing Momentum

Vietnam started the year in a sluggish mode, with real GDP growth in 1Q23 decelerating further to 3.32% y/y, from 5.92% in 4Q22 and missing both consensus and our forecasts. The main cause for the weak performance was due to manufacturing (23% share of the economy) which dipped into negative territory with a 0.4% decline, for the first contraction since 3Q21. This is a marked reversal from the 3% gain in 4Q22 and 7.7% rise in the same quarter in 2022, suggesting that exports sector is under significant pressures from weakened external demand. Meanwhile, services sector (45% share) managed to cushion some of the losses, rising 6.8% y/y in the quarter, compared to 8.1% increase in 4Q22 and ahead of the 4.6% pace in 1Q last year.

Latest data also do not inspire much confidence. Vietnam's purchasing manager's index (PMI) in May plunged to the lowest since Sep 2021, at 45.3 as the worst performer in Asia and the index has underperformed the ASEAN's equivalent for the 9th straight month. Both exports and imports have declined for the 5th straight month at double-digit rates, at -12.2% y/y and -18.3% in May, although that has helped Vietnam building up its trade balance so far this year. Exports to its largest market, the US which accounts for about 30% of total exports, has fallen by 20.3% y/y in May, extending the 23% fall a month earlier, for the third straight month of declines.

While Vietnam's 1Q23 GDP performance far weaker than expected, largely due to the softening global demand, domestic demand managed to hold up well as shown in the decent pace of growth for services sector output.

However, the strong rebound in 2022 is unlikely to be sustainable and overall growth momentum is likely to moderate further in 2023, with 1Q23 moving off on a slow start and will likely hamper full year's performance. As such, we are lowering Vietnam's full year GDP growth forecast for 2023 to 6.0% from our earlier call of 6.6% and against official forecast of 6.5%. The revised projection assumes a rebound of GDP growth to 5.9% y/y in 2Q23, and an average pace of 7.4% y/y in 2H23 on the back of a recovery in global demand and strengthening of domestic services activities.

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

Consumer prices are showing signs of turning around, particularly with the continued easing of transport component. However it is still early to tell whether the trend is sustainable and the pace of the deceleration. Of concern is that core inflation remains above overall target, which will be one key consideration for the central bank.

CENTRAL BANK
Rate Cuts Likely To Extend Into 3Q

The State Bank of Vietnam (SBV) further lowered its key refinancing rate by 50 bps to 4.5%, from 19 Jun. So far, the SBV has made a cummulative 100bps cut (in Mar and May). The discount rate will also be cut by 50bps to 3.0% following 100bps reduction in Mar and the overnight lending rate in the inter-bank market to 5.0% from 5.5%.

With the cuts, SBV has shifted towards a more accommodative stance and further rate cuts are likely in 3Q23. Latest data reflect the soft patch that Vietnam is currently experiencing with headline inflation rate now well below the SBV's inflation target. Weak exports that may spill over into domestic demand, US Fed's rate pause in Jun and potential cuts in 2024 as well as confidence from a steady VND exchange rate despite the previous rounds of rate reductions have bolstered the prospect of further rate cuts in Vietnam this year. As such we factor in another 100 bps rate reductions in 3Q23 before the SBV pauses to assess the effects.

Having said that, the SBV is likely to approach further rate cuts cautiously and deliberately, balancing between financial stability, support for economic growth and VND exchange rate, just as core inflation (ex food, energy, and other public services prices) eased to 4.56% y/y in Apr 2023, slightly slower than the 5.01% y/y pace in 1Q23. This trend is likely to be of concern to the central bank with core inflation hovering above the 4.5% pace for the 6th straight month.

CURRENCY
VND May Play Catch Up With CNY

The stability of VND at around 23,500 / USD in 2Q23 may be coming to an end soon as a multitude of headwinds mount. Domestically, a series of rate cuts since Mar and continued slump in Vietnam's exports are likely to cast an overhang on the VND. Externally, the sustained weakness in the CNY towards 7.25 /USD by 3Q23 may start to inject volatility on the VND. We noted that VND typically traced CNY moves, especially in periods of domestic currency weakness. As such, it will not be surprising if VND catches up with the recent bout of CNY weakness in the coming months. Overall, USD/VND will likely follow the broad Asia FX trajectory, with updated forecasts at 24,200 in 3Q23, 24,000 in 4Q23, 23,800 in 1Q24 and 23,700 in 2Q24.

FX & Rates	3Q23F	4Q23F	1Q24F	2Q24F
AUD/USD	0.69	0.71	0.72	0.73
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	1.4
CPI (avg y/y %)	2.9	6.6	5.6	3.1
Unemployment Rate (%)	5.1	3.7	3.8	4.5
Current Account (% of GDP)	3.0	1.1	1.4	0.7
Fiscal Balance (% of GDP)	-5.3	-3.2	-0.4	-1.5

ECONOMY

Inflation To Dominate

The Australian economy continues to soften. GDP came in at 0.2% q/q in 1Q23, below expectations for a reading of 0.3% q/q, and below the revised 0.6% q/q print in 4Q22 (0.5% q/q previously). This is the sixth consecutive rise in quarterly GDP but marks the slowest growth since the COVID-19 lockdown contraction in Sep 2021. From a year earlier, the economy expanded by 2.2% y/y, also a tad below expectations of 2.4% y/y, and lower than 4Q22's revised reading of 2.6% y/y (2.7% y/y previously).

The latest GDP print is in line with our view of economic growth turning softer as high inflation and interest rates weigh. Previous falls in house prices will exert further pressure on consumption via their effect on household wealth. Retail sales for Apr showed consumers are struggling. Sales came in flat, confounding consensus forecasts for a 0.3% m/m increase. The result was driven largely by weaker food-related spending. Sales have notably tracked sideways since Sep 2022, despite the boost to nominal figures from elevated inflation.

Australia's business confidence slipped into negative territory and conditions slumped in May, suggesting that businesses are turning gloomier. Meanwhile, consumer confidence stabilized at "near recession lows" as a significant rise in the minimum wage offset the RBA's unexpected rate rise.

Consumer prices rose by more than expected in Apr on a jump in fuel prices and strong gains in housing. CPI rose 6.8% in Apr from a year earlier, compared with 6.3% in Mar and market forecasts of 6.4%. On a monthly basis, CPI rose by a strong 0.8% from Mar. Prices excluding volatile fruit, vegetables and fuel and holiday travel, rose 6.5% in the year to Apr, down from 6.9% in Mar.

As for the labour market, the seasonally adjusted unemployment rate fell to 3.6% in May from 3.7% in Apr. Seasonally adjusted employment increased by 75,900 people, from a revised fall of 4,000 people (4,300 fall previously). Full-time employment increased by 61,700, while part-time employment was up by 14,300. The seasonally adjusted labour participation rate rose 0.2ppt to 66.9% in May. The increase in employment in May also saw the number of employed people in Australia reach 14mn for the first time. In line with the increase in employment, the employment-to-population ratio rose 0.2ppt to 64.5%, a record-high.

The extended period of inflation above target amidst a tight labour market poses the risk of stronger wage and price expectations becoming embedded. As such, there are risks that inflation may remain higher for longer. Our full year 2023 inflation forecast is now at 5.6%, up from 5.4% previously. It will be some time yet before inflation returns to within the Reserve Bank of Australia (RBA)'s target band of 2%-3%.

Key factors to watch will be how households are impacted by higher interest rates, how quickly inflation is able to moderate, and how wage growth ties in with labour market dynamics. Overall, we see Australia's GDP growth at 1.6% this year and only around 1.4% in 2024.

CENTRAL BANK

Persistent Inflation Testing RBA's Patience

The RBA has hiked by 400bps since May 2022. At its Jun meeting, the RBA decided to increase the cash rate target by 25bps to 4.10%. It also increased the rate paid on Exchange Settlement balances by 25bps to 4.00%. The latest decision came as a surprise, and against majority as well as our forecast for the policy rate to remain unchanged.

It justified the increase by repeating that "inflation in Australia has passed its peak, but at 7 per cent is still too high and it will be some time yet before it is back in the target range". The RBA also repeated guidance that "some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe, but that will depend upon how the economy and inflation evolve".

The move showed the RBA's concern over inflation risks proving persistent alongside its implications for the economy. Providing more details with regard to the decision, RBA Governor Lowe delivered a speech the following day (7 Jun), highlighting four key areas critical for the RBA's navigation of the 'narrow path'. These include; the global economy, household spending, unit labour costs and inflation expectations. The Board still believes that it can lower inflation whilst maintaining the economic gains from earlier expansionary policy, but the risks are considerable.

We continue to emphasize that every meeting in the near term will be live. Following the latest employment data, we are now pencilling in a 25bps hike at the next monetary policy meeting on 4 Jul. Employment strength has been a key factor in the RBA's confidence that Australia can avoid a recession. The latest job figures showed that annual jobs growth rose to 3.4%, from 3.1% at the start of the year.

But what this also means is that the key risk to our cash rate target call is the reaction function of the RBA to inflation data. It may prefer to have the benefit of the full 2Q22 CPI data release on 26 Jul before moving the cash rate target again.

CURRENCY

Hawkish RBA Boosts The AUD

AUD/USD jumped over 4% in Jun to 0.6770, on track for the biggest gain since last Nov. This came after the RBA unexpectedly hiked rates and signaled further hikes, partially offseting the drag caused by the sputtering China's economy.

Given growing uncertainties on China in the near-term, further gains in AUD/USD from here are likely more measured, at least in the coming quarter (3Q23). When China's recovery eventually regains momentum in 4Q23, AUD/USD's upward trajectory is likely to be on firmer footing.

Overall, our updated AUD/USD forecasts are 0.69 in 3Q23, 0.71 in 4Q23, 0.72 in 1Q24 and 0.73 in 2Q24.

FX & Rates	3Q23F	4Q23F	1Q24F	2Q24F
EUR/USD	1.10	1.12	1.14	1.16
EUR Refinancing Rate	4.25	4.25	4.25	4.25
Economic Indicator	2021	2022	2023F	2024F
GDP (%)	5.3	3.5	0.1	1.0
CPI (avg y/y %)	2.6	8.4	5.5	2.5
Unemployment Rate (%)	7.7	6.7	6.8	6.7
Current Account (% of GDP)	2.3	-0.7	1.5	1.7
Fiscal Balance (% of GDP)	-5.3	-3.6	-3.5	-3.0

ECONOMY

Slips Into Technical Recession

The Eurozone economy fell into a technical recession in the first three months of 2023. GDP fell 0.1% q/q in 1Q23. In the fourth quarter of 2022, output had also dipped 0.1%. Previous estimates suggested the single-currency bloc had narrowly avoided recession with zero growth in both quarters. Compared to the same period a year ago, seasonally adjusted GDP increased by 1.0% in 1Q23, following a +1.8% y/y reading in 4Q22.

Manufacturing activity in the Eurozone shrank in May at the fastest pace since the pandemic shuttered factories three years ago. An index based on surveys of purchasing managers across the region unexpectedly dropped to 44.6 in May, further below the 50 level that indicates contraction. A similar gauge of services also fell, though its reading of 55.9 still signalled robust expansion. Overall, the PMI numbers still point to expansion, though they leave a question mark over its pace, potentially casting doubt on whether the Eurozone economy can achieve the growth of as much as 0.4% per quarter shown in the European Commission forecasts released earlier in May. We are, nonetheless, revising higher our forecast for 2023 growth to 0.1%, compared to a contraction of 0.5% previously.

Inflation surprised to the downside in May. Headline CPI fell to 6.1% from 7.0% in Apr. The core reading also eased to 5.3% from 5.6%. The decline was primarily driven by a drop in energy contributions. While this is positive news for the European Central Bank (ECB), it remains too early for the central bank to stop hiking rates as base effects and statistical distortions are likely to send core inflation higher again through the summer months, before easing materially from 4Q23 onwards. Our average headline inflation forecast for 2023 is around 5.5%.

The Eurozone's unemployment rate rose from 7.5% in Dec 2019 to 8.6% in Aug 2020 before declining to 6.5% in April 2023, the lowest since the start of the series in January 2000. The tightening of the labour market is translating into larger pay gains in the region and this is likely to persist this year as workers receive compensation for past price increases. As price increases ease and monetary tightening takes some heat off the labour market, those pay gains will probably moderate. This should allow inflation to return to the ECB's target of 2% in the medium term.

CENTRAL BANK

ECB Pre-Announces Hike In July

At its Jun meeting, the ECB decided to raise its three key interest rates by 25bps, in line with our expectations. Accordingly, the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will be increased to 4.00%, 4.25% and 3.50% respectively, with effect from 21 Jun 2023. The ECB also confirmed that it will discontinue the reinvestments under the asset purchase programme as of Jul 2023, as announced in May.

In justifying the increase, the ECB stated in the accompanying press release that "inflation has been coming down but is projected to remain too high for too long". During the subsequent press conference following the decision, ECB President Christine Lagarde struck a more balanced tone than the initial takeaway of the statement. With regard to where the terminal rate may be, Lagarde said that "I don't want to comment about the terminal rate…The terminal rate is something that we will know when we get there because it is not what is driving our analysis and our deliberations".

Lagarde practically guaranteed a hike in Jul, saying that "We are not thinking about pausing" …adding that "it is very likely the case that we will continue to increase rates in Jul". Lagarde also discussed on wages and said "we're not seeing this wage-price spiral". The main issue behind the sizable upward revision of the inflation outlook was unit labour costs and productivity.

The ECB's decisions were underpinned by fresh quarterly projections, suggesting inflation will moderate more slowly than previously envisaged. It now expects headline inflation to average 5.4% (prev 5.3%) in 2023, 3.0% (prev 2.9%) in 2024 and 2.2% (prev 2.1%) in 2025. Core inflation is expected to come in at 5.1% in 2023, 3.0% in 2024 and 2.3% in 2025. The ECB also slightly lowered their economic growth projections for this year and next year, now expecting the economy to grow by 0.9% (prev 1.0%) in 2023, 1.5% (prev 1.6%) in 2024 and 1.6% (prev 1.6%) in 2025.

Ahead of the Jun meeting (15 Jun), financial markets had priced in about a 72% probability of another 25bps increase in Jul, but little tightening was priced in for Sep. ECB officials have previously suggested that it is more important to bring down prices than to avoid an economic slowdown. There is no meeting in Aug, and while the ECB looks set to hike again in Jul, Lagarde refrained from providing any hints on what will be done in Sep.

Fresh quarterly forecasts in Sep will once again offer the ECB an opportunity to reassess its views on inflation and growth. For now, we continue to expect a final 25bps hike in Jul. This will bring the interest rate on the main refinancing operations to 4.25%, and the interest rate on the deposit facility to 3.75%. The risks are, nonetheless, skewed to the upside for additional rate hike(s) beyond Jul.

CURRENCY

EUR's Recovery Remains Intact

The pullback of EUR/USD from 1.10 to 1.07 across May was largely driven by USD-specific factors, i.e. hawkish repricing in Fed expectations. The rhetoric from the ECB remains skewed towards furthering tightening to rein in the stubbornly high core inflation. There is a good chance that the ECB keeps its tightening bias longer than the Fed, hence offering support for EUR/USD as the interest rate gap narrows further.

Overall, we keep to a positive outlook for EUR/USD, as we had since late 2022. Our updated EUR/USD forecasts are 1.10 in 3Q23, 1.12 in 4Q23, 1.14 in 1Q24 and 1.16 in 2Q24.

FX & Rates	3Q23F	4Q23F	1Q24F	2Q24F
NZD/USD	0.62	0.63	0.64	0.65
NZD Official Cash Rate	5.50	5.50	5.25	5.00
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	6.5	2.5	0.7	0.6
CPI (avg y/y %)	3.9	7.2	5.3	2.7
Unemployment Rate (%)	3.8	3.3	3.9	4.9
Current Account (% of GDP)	-4.2	-8.1	-7.5	-5.6
Fiscal Balance (% of GDP)	-3.9	-4.9	-2.1	-0.9

ECONOMY

New Zealand Enters Technical Recession

New Zealand's GDP contracted by 0.1% q/q in 1Q23, in comparison to the revised 0.7% q/q fall in 4Q22 (-0.6% q/q previously), in line with expectations. The reading was sharply below the Reserve Bank of New Zealand (RBNZ)'s projection for 0.3% growth. Compared to the same period one year ago, GDP rose by 2.2% y/y. This follows a revised 2.3% y/y print in 4Q22 (+2.2% y/y previously), and less than expectations of 2.6% y/y.

In real (price-adjusted) expenditure terms, GDP contracted 0.2% q/q, with strong growth in private consumption (+2.4% q/q) offset by weaker net trade (total exports down 2.5% q/q; imports down 1.6% q/q), and softer residential construction (-0.4% q/q).

Overall, there is a high degree of uncertainty surrounding the latest GDP figure, as the COVID-19 pandemic has significantly disrupted the usual seasonal patterns in the data. However, the downturn was exacerbated by the effects of extreme weather that hit the country through Feb and Mar. We have lowered our GDP growth forecast for 2023 to 0.7%, from 1.3% previously.

The labour market remained tight in 1Q23. Employment rose by 0.8%, more than the consensus forecast for growth of 0.5% q/q. Jobs growth outpaced the acceleration in labour supply. As such, the unemployment rate was steady at 3.4%. Private sector wages rose by 0.9% q/q, undershooting expectations for a 1.1% q/q gain. From a year ago, wages climbed 4.5%, less than the RBNZ's forecast of 4.7%, but the most in data going back to 1992. We expect the reopening of international borders to continue boosting the supply of workers, relieving pressure in the hiring market. Labour demand is also likely to soften going by a decline in job ads in recent months.

Inflation, on the other hand, has undershot the RBNZ's projection for two consecutive quarters. Headline CPI inflation eased to 6.7% y/y in 1Q23 (from 7.2% y/y in 4Q22), faster than the consensus forecast for a 6.9% y/y increase. Crucially, the 1Q23 inflation outcome was weaker than the 7.3% estimated by the RBNZ in its Feb Monetary Policy Statement. The main drivers of inflation were largely due to food prices, household energy costs and increases in tobacco prices.

While we do expect CPI inflation to slow from here, it is still running near a multi-decade high, and annual non-tradables inflation, alongside a few other measures of typically-sticky inflation, were still accelerating as at 1Q23. Our CPI growth forecast for 2023 is at 5.3%. For 2024, our forecast is now at 2.7%.

CENTRAL BANK

RBNZ Signals Possible End To Rate Hikes

The RBNZ has undertaken its most aggressive policy tightening since 1999, when the official cash rate (OCR) was introduced, lifting it by 525bps since Oct 2021 to 5.50%, a 14-year high. It slowed its pace of tightening by raising the OCR by 50bps in Feb and Apr; and then slowing the tightening pace further by raising the OCR by 25bps in May. Similar to the Feb Monetary Policy Statement, the RBNZ's OCR forecasts in the May Monetary Policy Statement showed the OCR peaking at 5.50%.

The RBNZ expects inflation to return to its target band in 3Q24. Its forecasts show the economy will not slow as much as it previously expected, with a very mild recession projected for the second and third quarter of this year.

In comparison, the updated economic forecasts in its release of the fifth Wellbeing Budget on 18 May, showed the Treasury no longer predicts New Zealand will enter a recession as the economy cools this year. Still, a sharp uptick in unemployment and weak economic growth is expected ahead. Inflation is expected to fall rapidly from its current levels to 4.5% by the end of 2023 and returning to the RBNZ's inflation target band of 1%-3% by late-2024.

Migration has been one of the key risks to the inflation outlook, and was brought up by the RBNZ back in Apr. The other major factor was the fiscal outlook. The risk of the latter has now increased following the 18 May Budget, which revealed more than NZD8bn of additional spending over the next five years.

Meanwhile, the RBNZ noted that the surge in immigration is expected to bolster growth and add to inflation pressure, but said it expects the pace of the migrant inflow to ease over coming quarters. It also downplayed concerns about fiscal policy boosting demand. The RBNZ concluded that "the Committee is confident that with interest rates remaining at a restrictive level for some time, consumer price inflation will return to within its target range of 1% to 3% per annum, while supporting maximum sustainable employment".

While it is important for the RBNZ to appropriately account for the lags with which monetary policy typically works, there are still significant upside risks to the domestic inflation outlook. The RBNZ has paused in previous tightening cycles before hiking again. For instance, in 2005, it paused for six months before hiking twice, then went onto hold for over a year before hiking four more times. A pause is not necessarily a peak and economic data will dictate the path going forward.

That said, given that the RBNZ has signalled that it has finished hiking, we are maintaining our view for the OCR to remain at 5.50% for now. The next RBNZ meeting is on 12 Jul.

CURRENCY

A Slower Climb In NZD

Being one of the first G-10 central bank to signal the end of its tightening cycle, RBNZ's dovish tilt in May sent the NZD tumbling. NZD/USD touched a 6-month low of 0.5985 before recovering.

While we are anticipating further broad-based USD weakness, the recovery of NZD/USD from here is likely to be gradual as subsequent RBNZ rate cut expectations in 2024 start to build.

Overall, we keep to our upward trajectory in NZD/USD with updated point forecasts at 0.62 in 3Q23, 0.63 in 4Q23, 0.64 in 1Q24 and 0.65 in 2Q24.

FX & Rates	3Q23F	4Q23F	1Q24F	2Q24F
GBP/USD	1.30	1.32	1.34	1.36
GBP Repo Rate	5.00	5.00	4.75	4.50
Economic Indicator	2021	2022	2023F	2024F
GDP (%)	8.5	4.3	0.3	0.9
CPI (avg y/y %)	2.6	9.1	7.0	2.8
Unemployment Rate (%)	4.6	3.7	4.1	4.5
Current Account (% of GDP)	-1.5	-4.9	-3.5	-3.2
Fiscal Balance (% of GDP)	-7.2	-4.4	-5.3	-3.6

ECONOMY

Less Risk Of Recession

The UK economy grew by 0.2% in Apr, following a 0.3% contraction in Mar. The services sector grew by 0.3% in Apr, following a 0.5% fall in Mar, and was the main contributor to the growth in monthly GDP. Output in consumer-facing services grew by 1.0% in Apr, following a fall of 0.8% in Mar. Production output fell by 0.3%, after growth of 0.7% previously. The construction sector fell by 0.6% in Apr, following growth of 0.2% in Mar. On a monthly basis, output is now estimated to be 0.3% above its pre-COVID levels. Looking at the broader picture, GDP grew by 0.1% in the three months leading to Apr, when compared with the three months leading to Jan. Services fell by 0.1%, while production and construction grew by 0.2% and 1.6%, respectively.

The positive start to the second quarter adds to evidence that the UK will likely avoid a recession, highlighting the economy's resilience in the face of high inflation, rising interest rates and industrial action. This is encouraging news for businesses and consumers, though the economic outlook remains downbeat, since the UK is still lagging behind its major peers and the economy has yet to fully recover the output lost during the COVID-19 pandemic. We now see marginal growth of 0.3% in 2023, compared to a forecast of -0.5% previously.

Headline CPI inflation eased to 8.7% y/y in Apr, from 10.1% y/y in Mar due to base effects associated with the large rise in household energy bills in Apr 2022. Energy prices rose by 47.5% between Mar and Apr last year. This year, bills posted a 1.2% fall reflecting the influence of the government's Energy Price Guarantee, which has capped the unit cost of gas and electricity since Oct such that the average household pays a maximum of GBP2,500 annually.

Core CPI inflation, however, surprised on the upside, climbing 6.8% y/y from 6.2% y/y in Mar. The details of the release suggest core goods inflation, which rose to 6.6% from 5.7%, was the main source of surprise again, having come in hotter-than-expected since the start of the year. Services inflation, which will be of most interest to the Bank of England (BOE), as this is the part of the inflation basket that is more closely linked to the domestic economy and tends to be slower-moving, rose to 6.9% from 6.6% in Mar. Looking ahead, we look for headline inflation in the UK to ease this year to around 7.0%. There are good reasons to think services inflation is at its peak, and we think the fall in gas prices should alleviate one major source of cost pressures in the sector.

The UK labour market remains tight. The drop in jobless rate to 3.8% in the three months leading to Apr, reflected a bigger increase in employment (+94,000) than in participation (+70,000). The number of employees on payrolls rose by 23,000 in May, following an increase of 7,000 in Apr. Vacancies continued to fall, totalling 1.05mn on a three-month basis in May. While this is down from the 1.14mn reported at the start of the year and a peak of 1.3mn in mid-2022, job openings remain well above the pre-COVID average.

Regular wage growth accelerated to 7.2% in the three months to Apr from 6.8% previously. Wages including bonuses also picked up, climbing to 6.5% from 6.1%. More important for the BOE is regular pay growth in the private sector, which accelerated to 7.6% in the three months to Apr, from 7.1% previously. Looking at three-month-on-three-month annualized growth, the underlying pace of private sector wage growth for Apr ticked up to 8.2% from 6.4%, well above the 3%-3.5% that's consistent with the BOE's 2% inflation target. Particularly worrying for the BOE will be the pickup in pay growth on a single-month basis, which rose to an annualized 9.1% in Apr. This is much higher that the BOE's most recent projection of private sector pay growth at 6.3% in 2Q23.

CENTRAL BANK

BOE To Hike As Inflation Proves Sticky

As expected, the Bank of England (BOE)'s Monetary Policy Committee (MPC) voted to increase the Bank Rate by 25bps to 4.50% at its May meeting. The latest decision marked the 12th increase since the BOE started hiking in Dec 2021. The vote split of 7 voting for a hike and 2 voting for a pause (Swati Dhingra and Silvana Tenreyro again) was also expected.

According to the Monetary Policy Summary and Minutes, the MPC "will continue to monitor closely indications of persistent inflationary pressures, including the tightness of labour market conditions and the behaviour of wage growth and services price inflation". Similar to Mar, the MPC kept the statement, "If there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required".

The BOE will no doubt be concerned about the pace of wage growth, and the stickiness of core inflation at this juncture. On 17 May, BOE Governor Andrew Bailey said in a speech that UK inflation was being fuelled by "second-round effects" that would prove sticky. He noted that the central bank's monetary policy committee was paying close attention to "indicators of inflation persistence, including labour market tightness and wage growth, and services price inflation", adding that the BOE will continue to adjust its bank rate "as necessary" to reach its 2% inflation target.

Taking into account the BOE's guidance and the latest slew of economic data releases, a 25bps rate hike at the next BOE monetary policy meeting on 22 Jun is very likely. In fact, there is also little to prevent the BOE from hiking rates again at 3 Aug monetary policy meeting. Note that there is no monetary policy meeting for the month of Jul.

CURRENCY

GBP/USD Targets 1.30 Next

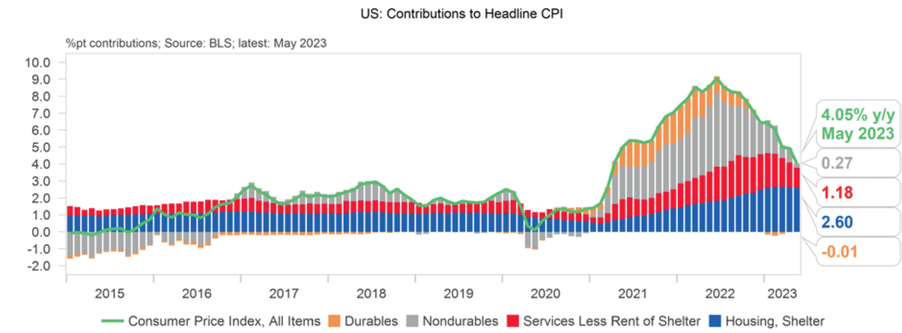
The GBP was the best performing G-10 currency in the second quarter to date, with GBP/USD rising 2.5% to 1.2650, on track for a third straight quarter of gains. The outperformance was underpinned by improved growth outlook and more hawkish monetary policy expectations. The interest-rate swap market has priced in over 125 bps of additional BOE rate hikes – the most amongst G-10 central banks - by the end of the year. With the interest rate support, it is no surprise that investors continued to pile on to GBP/USD long positions amidst a mild pullback in May.

Overall, we keep to our positive outlook in GBP/USD and expect the pair at 1.30 in 3Q23, 1.32 in 4Q23, 1.34 in 1Q24 and 1.36 in 2Q24.

FX & Rates	3Q23F	4Q23F	1Q24F	2Q24F
DXY	102.1	99.9	98.0	96.3
US Fed Funds Rate	5.50	5.50	5.00	4.50
Economic Indicator	**2021**	**2022**	**2023F**	**2024F**
GDP (%)	5.9	2.1	0.8	1.2
CPI (avg y/y %)	4.7	8.0	3.0	2.5
Unemployment Rate (%)	3.9	3.5	4.3	4.5
Current Account (% of GDP)	-3.6	-3.7	-3.9	-3.5
Fiscal Balance (% of GDP)	-11.9	-5.4	-5.0	-5.5

US Inflation easing, but services and housing costs remain uncomfortably high

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Downturn Risks In 2H23

After 15 months of unprecedented pace of Fed rate hikes, the US economy in particular its labour force, has remained surprising resilient. We still expect the lagged effects of US monetary policy tightening and tighter financial/credit conditions to meaningfully slow the US economy, while the turmoil in the US banking sector will further tighten lending standards for US banks, and that will inevitably weigh on economic growth. In addition, the shrinking excess savings and tighter lending standards imply that US consumers may have to tap on the brakes and reduce their consumption, especially for discretionary goods and services. Unemployment will pick up more meaningfully as the spokes of Fed cumulative rate hikes wear down demand.

That said, our initial projection of a mid-2023 recession is now being deferred to the second half of 2023 and importantly, we are shifting our US GDP growth forecasts higher for 2023 to 0.8% (from -0.5% previously) and lower for 2024 to 1.2% (from +2.5%), so we are no longer expecting outright annual GDP contraction in 2023. Our improved growth forecast for 2023 is a reflection of our overestimation of the monetary policy's drag on near-term growth and underestimation of the resilience of the US labour market. The lowered 2024 GDP growth forecast is to account for the lagged effect of US monetary policy (which could be tighten a bit more in 2H 23).

US job creation has consistently stayed above 200,000 per month since 2021, but we expect that to slow in 2H23. Unemployment rate ticked up to 3.7% in May, but that is still close to the pre-Covid level of 3.5%. Wage growth momentum slowed from the above 5% average in 2022 but still stayed above 4% y/y in 2023 to-date. While we expect unemployment rate to continue to rise in 2023, we moderated the increase to 4.3% (from 4.5% previously) and expect it to further edge higher to 4.5% by end-2024, which is in line with Fed's revised median projections made in the Jun Summary of Economic Projections (SEP). This is also just 0.5% point above the long run US unemployment rate of 4%.

While the latest May CPI report was not showing broad disinflation in US, it was benign enough to indicate further easing of US headline inflation (May: 4.0% y/y) below the 9.1% pace recorded in Jun 2022. May core inflation also eased further from its recent high of 6.6% y/y (in Sep 2022), but it proved to be stickier than the headline, at 5.3% y/y.

For 2023, we still expect both headline and core inflation to ease to an average of 3.0%, and above the Fed's 2% objective. While the m/m decline in prices of energy (especially gasoline) and some discretionary items were welcomed developments, the modest but positive m/m reacceleration of shelter costs and food prices showed that it is premature to say that a clear disinflation trend has set in for US CPI, even though we still expect accommodation costs to ease more visibly in 2H 2023. Core and services inflation remained elevated (y/y) and rising (m/m), while the continued wage growth may still add to services cost pressure, and that will keep US Fed policymakers vigilant on their inflation watch. In its Jun SEP, the Fed markedly revised higher the core PCE inflation forecast for 2023 to 3.9% (from 3.6%) while slightly lowering 2023 headline PCE to 3.2% (from 3.3%), reflecting the stickiness of core prices.

CENTRAL BANK

One More and Done At 5.50%

The Fed in its 13/14 Jun 2023 Federal Open Market Committee (FOMC) meeting, unanimously agreed to keep the target range of its Fed Funds Target Rate (FFTR) unchanged at 5.00%-5.25%. This was the first pause in the Fed's current rate hike cycle after having raised rates for ten meetings in a row.

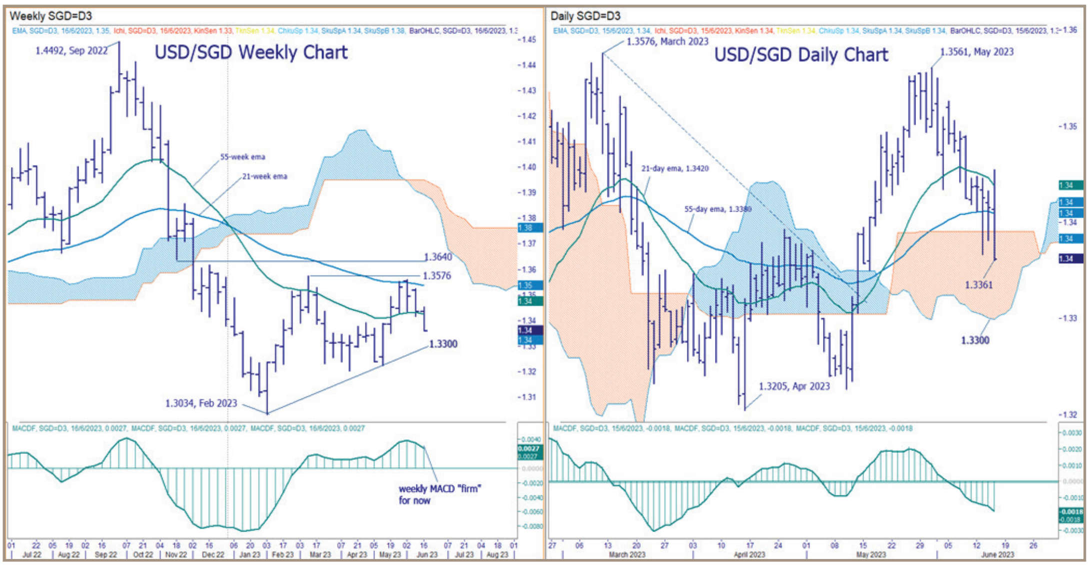
Our original expectation was for the Fed to hold the terminal FFTR level at 5.25% for the rest of 2023. But the latest FOMC statement and Dotplot's upward revision together with Powell's comments ("stretching out to a more moderate pace of hiking") is making us reassess (again) the terminal rate, especially against the still elevated core PCE this year. As such, it seems that the Fed will hike some more, but as Powell alluded to during Jun FOMC, the [hiking] cycle is near the end, so there are possibly more hikes to come but very limited. We think that it could potentially be one or two more 25-bps hikes but unlikely to see FFTR go to 6%.

We now expect the Fed to hike one final time by 25-bps in Jul 2023 FOMC and pause thereafter. This means, with the FFTR currently at 5.00-5.25%, we are adjusting our terminal FFTR level higher to 5.25-5.50%. We continue to expect no rate cuts in 2023, so this terminal rate of 5.50% is forecast to last through 2023. We expect rates cuts only in 1Q24.

FX Technicals

USD/SGD: 1.3360

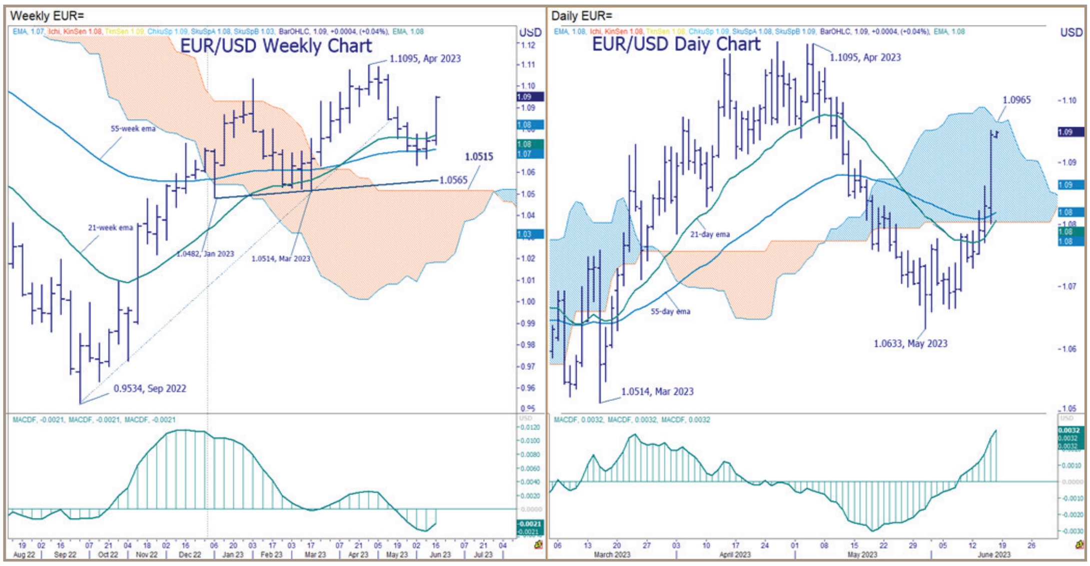
Bias for USD/SGD is tilted to the downside but it must break the formidable support at 1.3300 before further decline is likely.



After rising to a high of 1.3561 in late May, USD/SGD pulled back quickly. While the decline lacks momentum (note that weekly MACD is firm), the bias for USD/SGD going into 3Q23 is tilted to the downside. However, USD/SGD must break clearly below the formidable support at 1.3300 before further decline is likely. Note that both the rising trendline connecting the lows of February and May and the bottom of the daily Ichimoku cloud are near 1.3300. The March high near 1.3575 is solid resistance, this level is also close to the 55-week exponential moving average.

EUR/USD: 1.0945

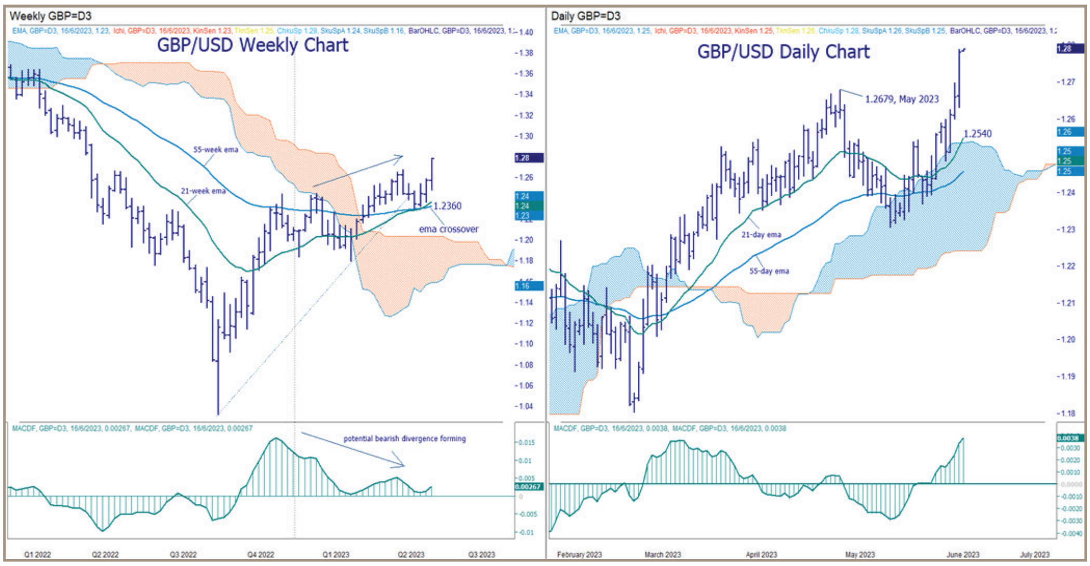
If EUR/USD breaks and stays above the daily Ichimoku cloud (1.0965), it will increase the odds for it to rise to the year-to-date high of 1.1095.



After dropping to a low of 1.0633 in late May, EUR/USD reversed and at the time of writing in mid-June, it is approaching the resistance at the top of the daily Ichimoku cloud (currently at 1.0965). If EUR/USD breaks and stays above this level, it will increase the odds for it to rise to the year-to-date high of 1.1096. To keep the momentum going, EUR/USD must stay above 1.0800. The longer-term support zone between 1.0515 and 1.0565 is unlikely to come under threat in 3Q23.

GBP/USD: 1.2785

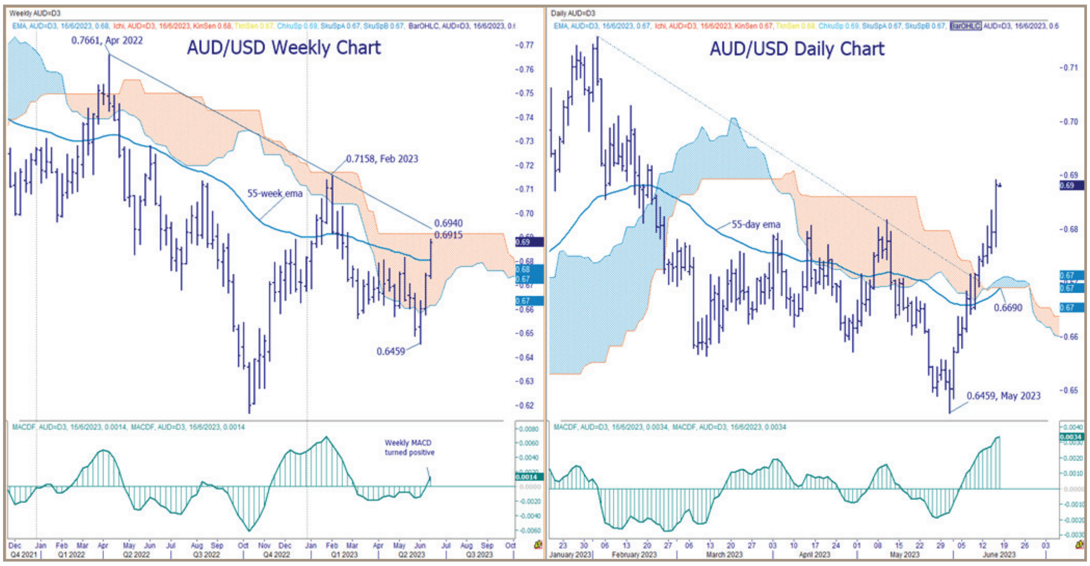
The crossover in the 21- and 55-week exponential moving averages could lead to GBP/USD rising towards 1.3100 before the risk of a pullback increases.



At the time of writing in mid-June, GBP/USD had risen to a fresh 2023 high. Upward momentum is building rapidly, but while GBP/USD is likely to strengthen further going into the third quarter of the year, it is worth noting that a potential 'bearish divergence' is forming on the weekly MACD. However, the 21-week exponential moving average has crossed above the 55-week exponential moving average, and this could lead to further GBP/USD towards 1.3100 before the risk of a pullback increases. Support levels are at 1.2680 and 1.2540. The longer-term support at 1.2360 is unlikely to come into view, at least not in the first part of 3Q23.

AUD/USD: 0.6885

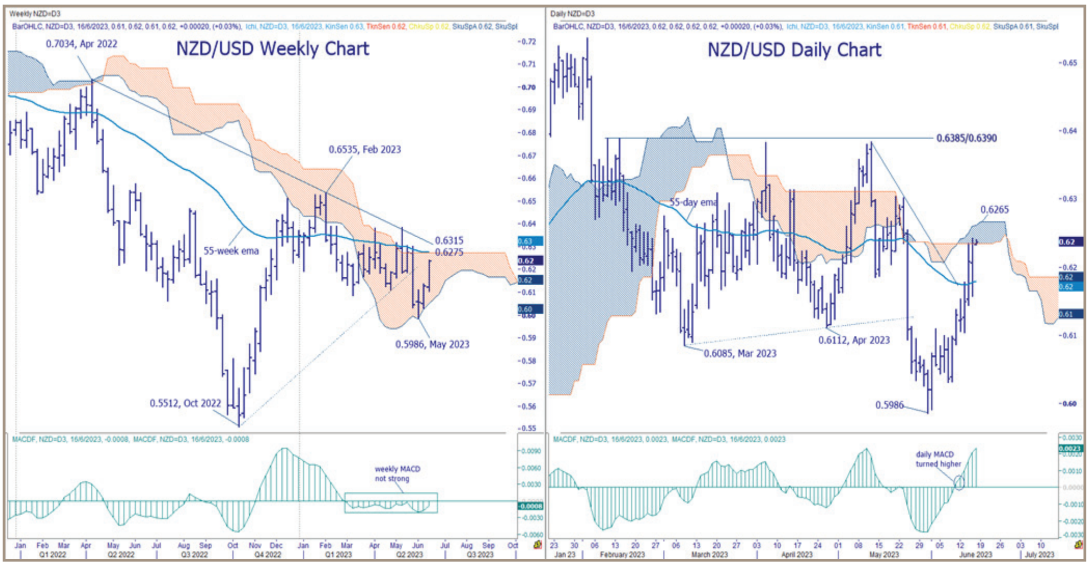
The risk for AUD/USD for 3Q23 is on the upside; in view of the strong momentum, the likelihood of a break of the major weekly resistance zone of 0.6915/0.6940 is high.



AUD/USD dropped sharply but briefly to a low of 0.6459 in late May. The rebound from the low gathered momentum quickly, and AUD/USD surged above the daily Ichimoku cloud for the first time since February. Weekly MACD has turned positive, and the risk for AUD/USD in 3Q23 is on the upside towards the resistance zone of 0.6915/0.6940 (the top of the weekly Ichimoku cloud and the declining trendline connecting the highs of April 2022 and February 2023, respectively). In view of the strong momentum, the likelihood of AUD/USD breaking this resistance zone is high. At this stage, it is premature to expect AUD/USD to rise above the year-to-date high near 0.7160. In order to keep the momentum going, AUD/USD must stay above 0.6690 (both the 55-day exponential moving average and the bottom of the daily Ichimoku cloud are near the same level).

NZD/USD: 0.6235

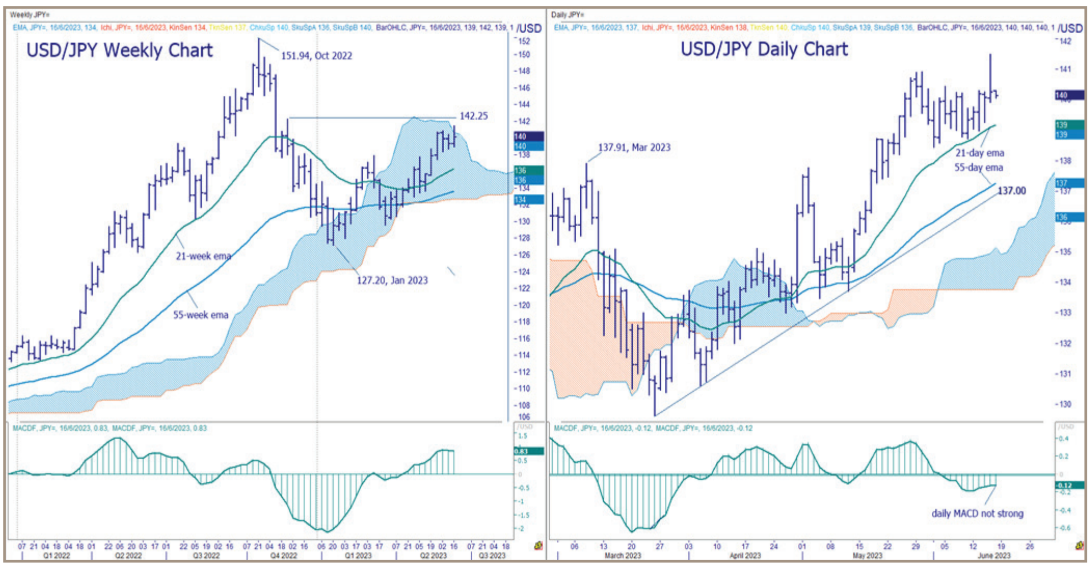
NZD/USD must break above the solid resistance zone of 0.6265/0.6315 before a sustained advance is likely.



In late May, NZD/USD dropped to a low of 0.5986. This level is very near the support at the bottom of the weekly Ichimoku cloud. Despite the rebound from the low, weekly MACD is not strong. For NZD/USD to advance in a sustained manner in 3Q23, NZD/USD must break above the solid resistance zone of 0.6265/0.6315. Support is at 0.6100, followed by May's low of 0.5986.

USD/JPY: 141.00

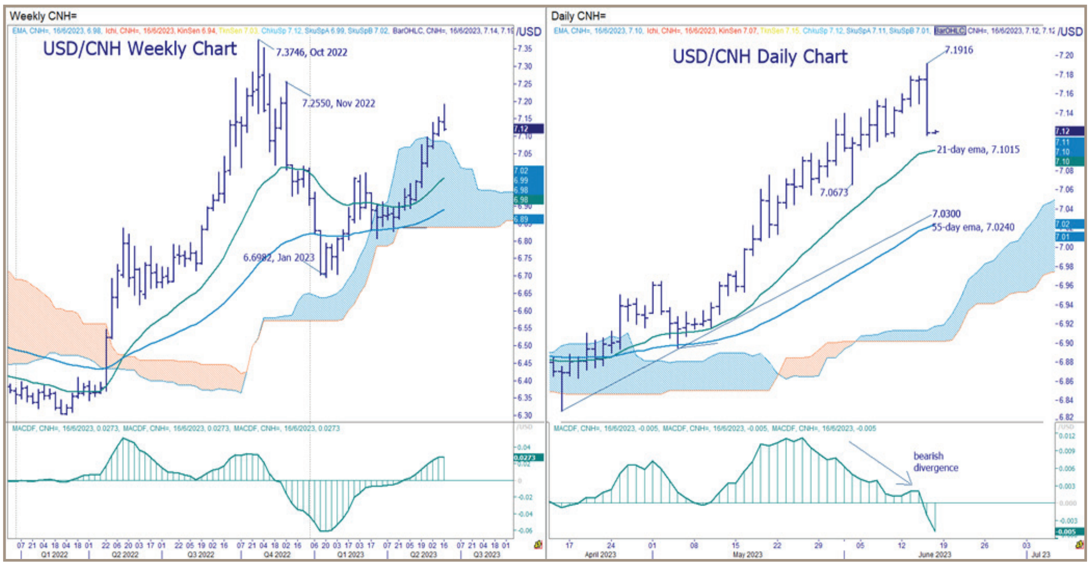
For USD/JPY to continue to rise, it must break above 142.25; the next resistance is at 145.00.



At the time writing in mid-June, USD/JPY had broken above the top of the weekly Ichimoku cloud (but has yet to close above). Despite the breach of the major resistance level, upward momentum has not caught up (note that daily MACD is still in negative territory). For USD/JPY to continue to rise in 3Q23, it must break above 142.25. Looking ahead, the next resistance level above 142.25 is at 145.00. Support is at the 21-day exponential moving average (now at 139.15) but the more critical support is at the rising trendline at 137.00 (this level is also near the 55-day exponential moving average).

USD/CNH: 7.1200

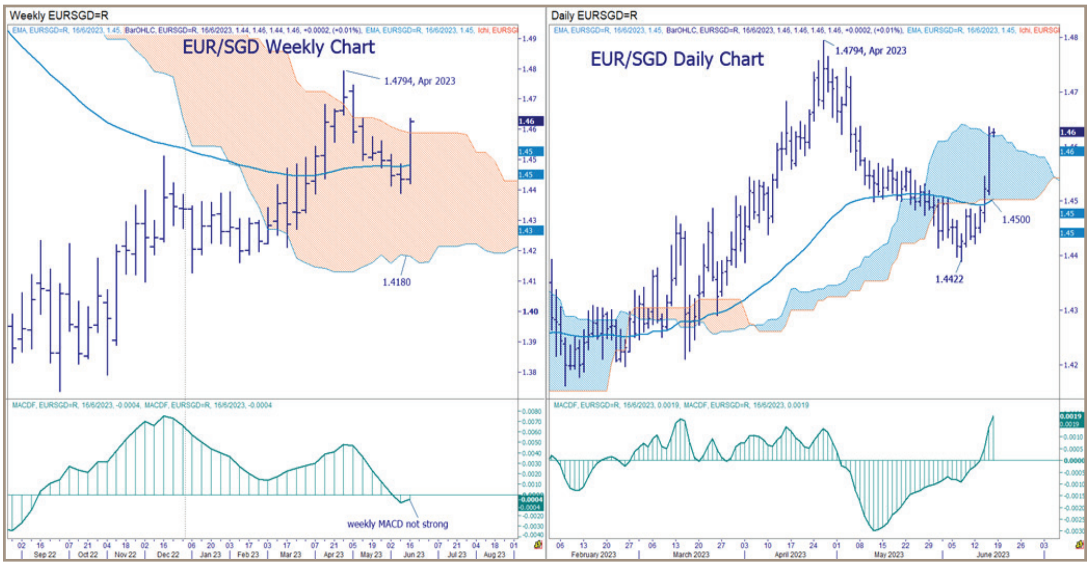
USD/CNH may have found an interim top; it is likely to edge below the 21-day ema but it is too early to tell if it can break the major support zone between 7.0240 and 7.0300.



While USD/CNH has broken clearly above the major resistance at the top of the weekly Ichimoku cloud, it sold sharply at the time of writing in mid-June. The sharp drop combined with a clear bearish divergence on the daily MACD suggests USD/CNH may have found an interim top. Going into the third quarter of the year, USD/CNH is likely to edge below the 21-day exponential moving average support (now at 7.1015). At this stage, it is too early to tell if USD/CNH can break the major support zone between 7.0240 and 7.0300 (55-day exponential moving average and rising trendline, respectively).

EUR/SGD: 1.4630

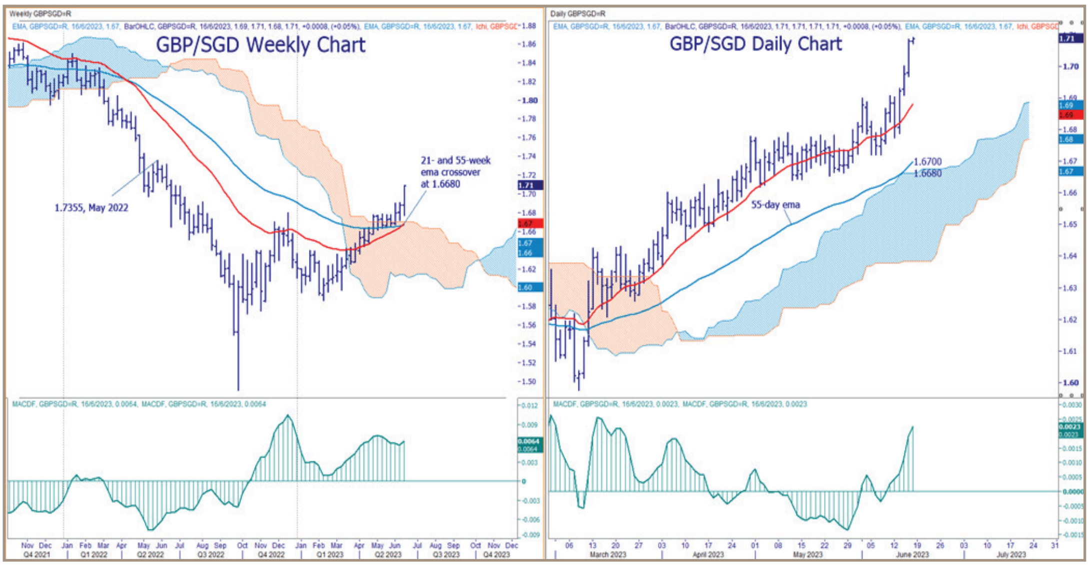
EUR/SGD could test the year-to-date high near 1.4795; the odds for a clear break above this level are not high.



At the time of writing in mid-June, EUR/SGD not only broke above the top of the daily Ichimoku cloud, it also broke above the top of the weekly cloud. While the price actions suggest EUR/SGD is likely to strengthen further in 3Q23, it is worth noting that the weekly MACD is not strong for now. Overall, as long as the major support at 1.4500 is not breached, EUR/SGD could test the year-to-date high near 1.4795. At this stage, the odds for EUR/SGD to break clearly above this level are not high.

GBP/SGD: 1.7085

The crossover of the 21-week and 55-week exponential moving averages is positive for GBP/SGD; it could rise to 1.7355; solid support is at 1.6680.



The 21-week exponential moving average for GBP/SGD has crossed above the 55-week exponential moving average. This is the first time the 21-week moving average has crossed above the 55-week moving average since April 2022. This technical development is positive for GBP/SGD, and we expect it to rise towards 1.7355. Further advance above this level is not ruled out. In order to maintain the buildup in momentum, GBP/SGD must stay above the moving average crossover level, near 1.6680. This support level is also near the 55-day exponential moving average as well as the top of the daily Ichimoku cloud.

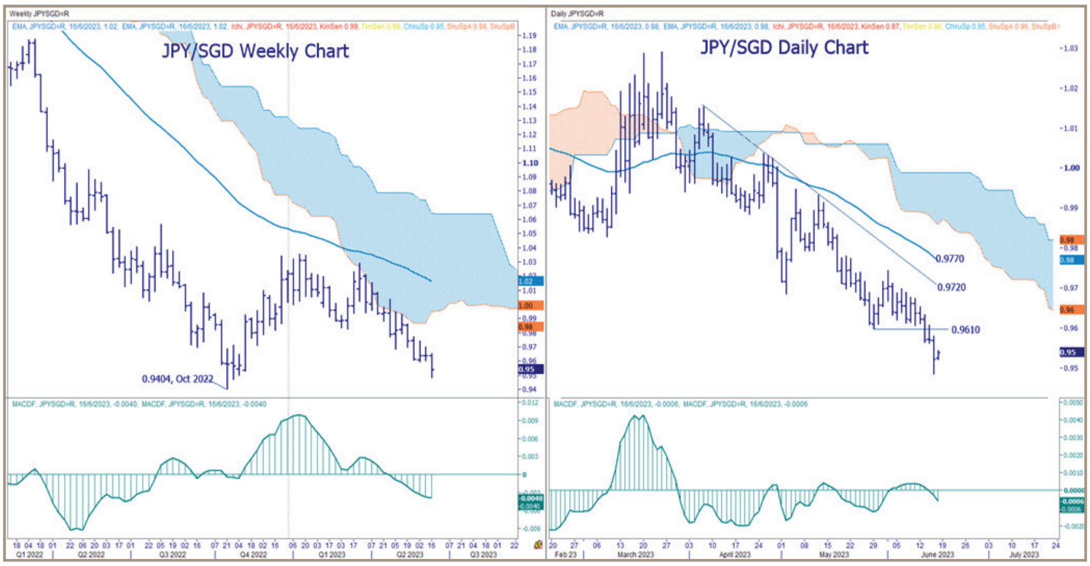
AUD/SGD: 0.9200

In view of the sharp increase in momentum, AUD/SGD is likely to break above the 55-week exponential moving average. The next resistance at 0.9365 is likely out of reach in 2Q23.

After dropping to a low of 0.8754, AUD/SGD staged a sharp reversal, blew past the major resistance at 0.9030, and at the time of writing in mid-June, it is holding just below the 55-week exponential moving average at 0.9210. In view of the sharp increase in momentum, a break of 0.9210 will not be surprising. While the next major resistance level above 0.9210 is at January's high of 0.9365, this level could be out of reach in 3Q23. Note that there is another resistance level at 0.9305. On the downside, the previous strong resistance at 0.9030 is now a solid support level.

JPY/SGD: 0.9540

JPY/SGD is likely to break below the 2022 low near 0.9400 but it remains to be seen if it can maintain a foothold below this level.

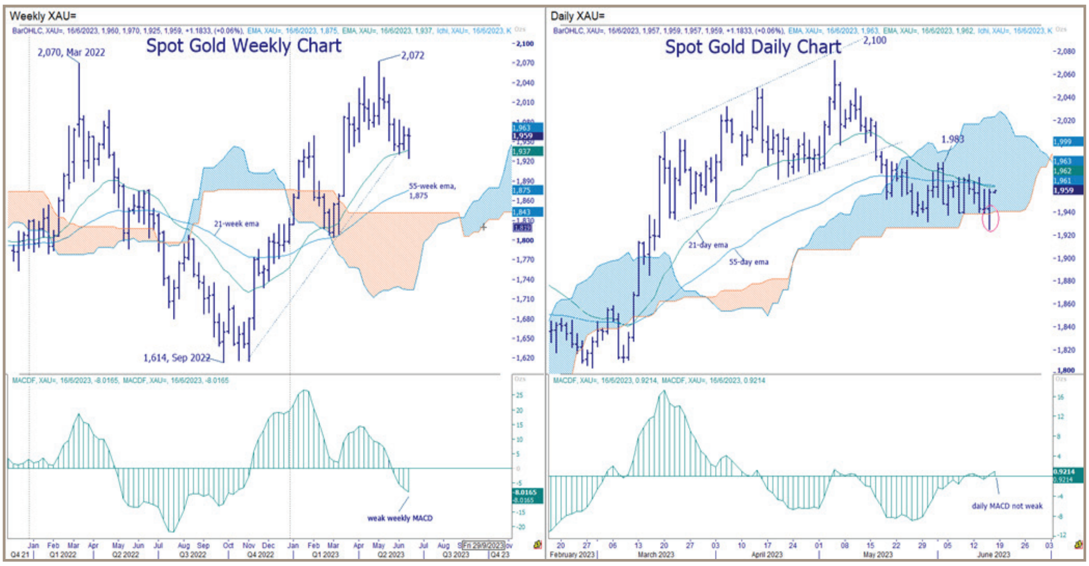


At the time of writing in mid-June, JPY/SGD fell below the support of 0.9500. While downward momentum is only beginning to build, JPY/SGD is likely to drop to last year's low near 0.9400. JPY/SGD could break below this support, but it remains to be seen if it can maintain a foothold below this level. Resistance is at 0.9610; a breach of the declining trendline resistance (now at 0.9720) will indicate that the weakness in JPY has stabilized.

Commodities Technicals

Spot Gold
$1,959/oz

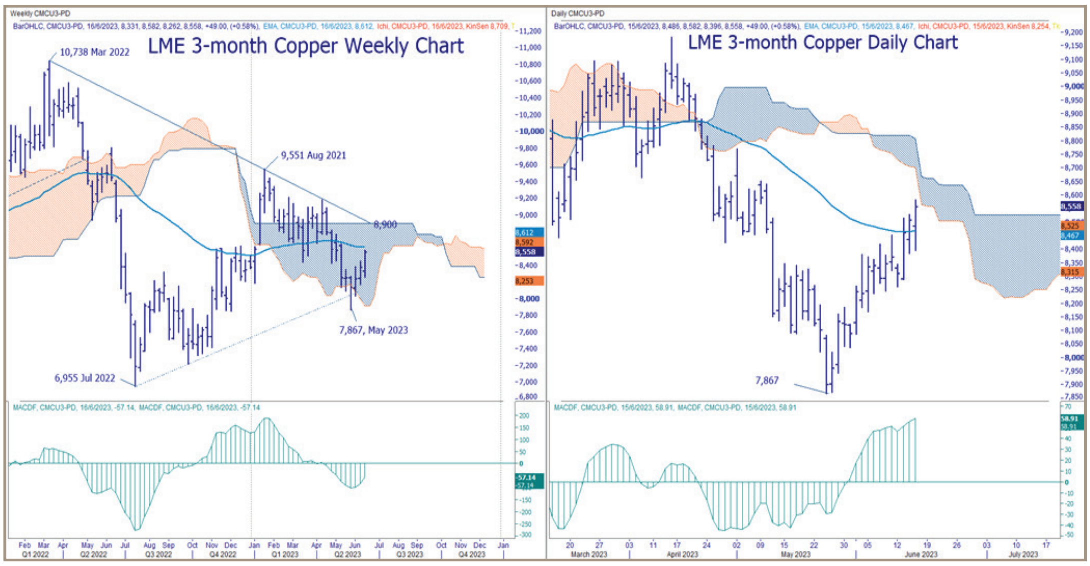
The bias for spot gold is tilted to the downside as long as it stays below $1.983.



After trading in the daily Ichimoku cloud for about a month, spot gold dropped briefly below the bottom of the cloud before snapping back into the cloud. While the weekly MACD is weak, there is no corresponding weakness in the daily MACD. That said, the bias for 3Q23 is tilted to the downside as long as spot gold stays below $1,983. Looking ahead, the support below the daily cloud is at the 55-week exponential moving average (currently at $1,875).

LME 3-mth Copper
$8,558/mt

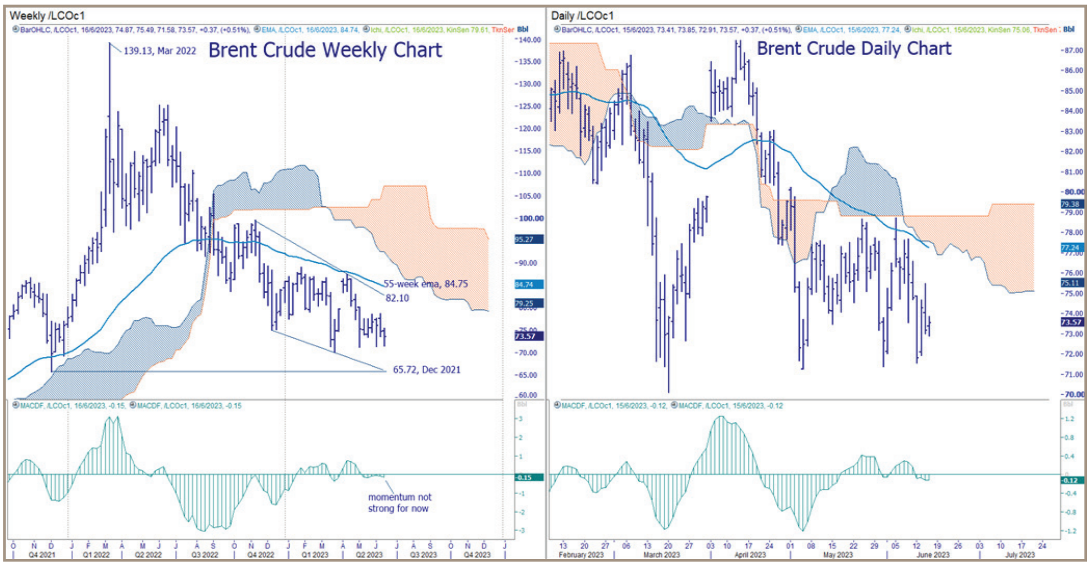
The outlook for copper is mixed; it is likely to trade between $7,867 and $8,900.



While copper broke below the bottom of the weekly Ichimoku cloud in late May, it rebounded strongly from $7,867. Now that it has moved back into the weekly cloud, the outlook for 3Q23 is mixed. Overall, copper is likely to trade between the two major levels of $7,867 and $8,900. Both the declining trendline resistance and the top of the weekly Ichimoku cloud are near $8,900. Looking ahead, if copper can break this major resistance, it is likely to advance in a sustained manner.

Brent Crude
$75.50/bbl

Brent crude could edge lower to the December 2021 low near $65.70 before the risk of a reversal increases.



The price action in Brent has stayed below the 55-week exponential moving average since November 2022. While downward momentum is clearly not strong, Brent crude could edge lower to the December 2021 low near $65.70 before the risk of a reversal increases. The $65.70 level is also near trendline support. On the upside, resistance is at $82.10, followed by the 55-week exponential moving average, currently at $84.75.

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