Late-Cycle Interest Rates; Mid-Cycle Economy

Mid-Year Investment Outlook 2024

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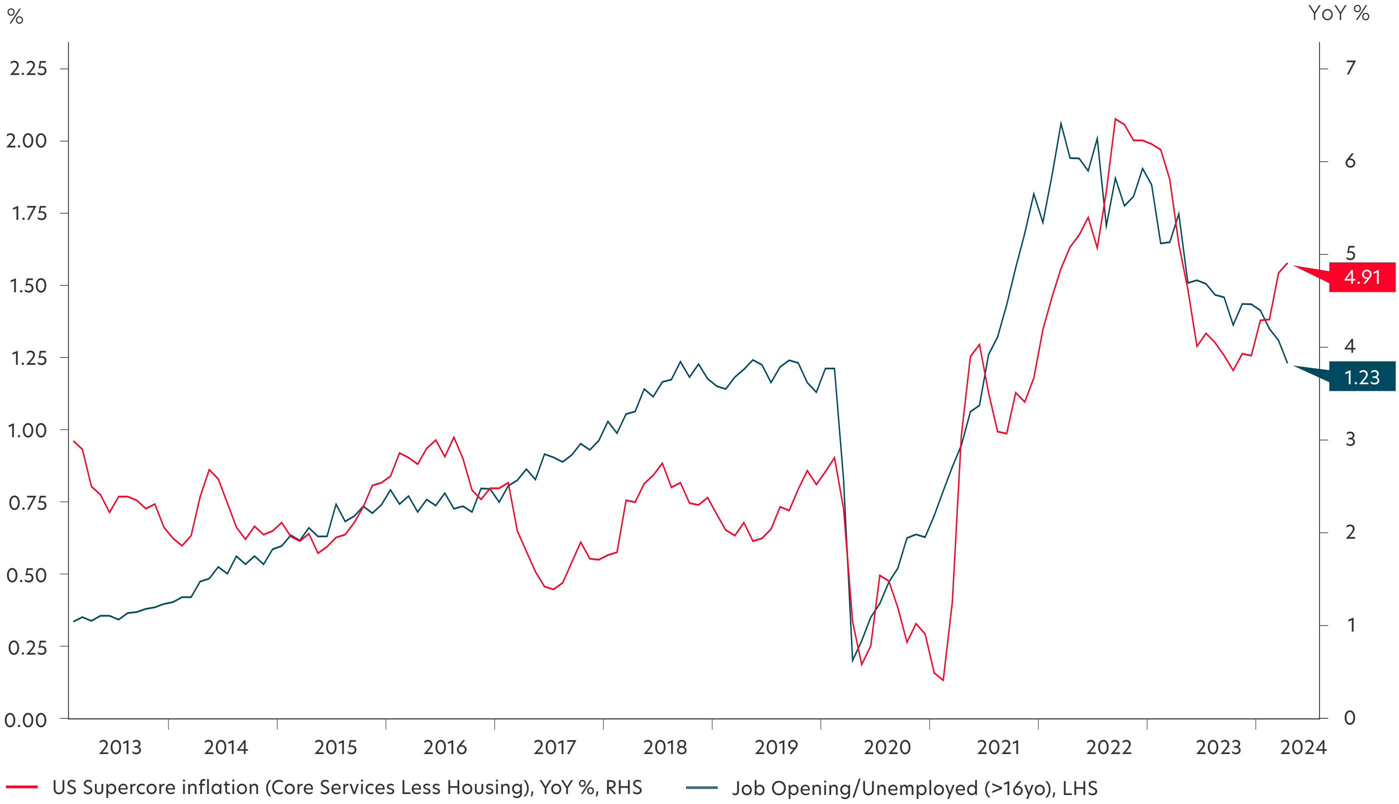
CIO Thoughts

Inflation resurgence?

In 2024, a major unexpected development has been the evolving expectation for interest rate cuts by the Fed. At the start of the year, the market, as indicated by the Fed Funds Futures, was expecting about seven rate cuts. Currently, this expectation has fallen to less than two cuts, with the timing potentially delayed to the November FOMC meeting. This shift is largely due to a higher-than-expected inflation reading in the first quarter, with the annualised first-quarter core Personal Consumption Expenditure (PCE) price index rising by 3.5%. This inflation reading surpassed that of the fourth quarter of 2023 as well as the Fed's target.

While inflation persisted for longer than expected, it is projected to decrease. The Owner Equivalent Rent (OER) component in Consumer Price Index (CPI) has lagged the declines seen in new rents, but both will eventually converge. Another area of concern is services inflation with the super core services ex-shelter rising quarterly by 1.98% from 0.99% in the fourth quarter of 2023. However, as the labor market cools with the current job-workers gap closing to pre-pandemic levels, services inflation is likely to fall going forward.

US labour market is cooling



Source: Macrobond, UOB Private Bank, U.S. Bureau of Labor Statistics (BLS)

CIO Thoughts

AI revolution: Are we at the tail-end of the hype cycle?

Artificial Intelligence (AI) has been put in the spotlight as a big investment theme, with Nvidia leading the pack and gaining nearly 10-fold from the lows seen in 2022. Companies that provide cloud services for AI deployment, such as hyper-scalers, are also seeing significant revenue growth. Unlike past technological "hypes" such as the Metaverse, investments in generative AI are yielding immediate and visible returns across various industries.

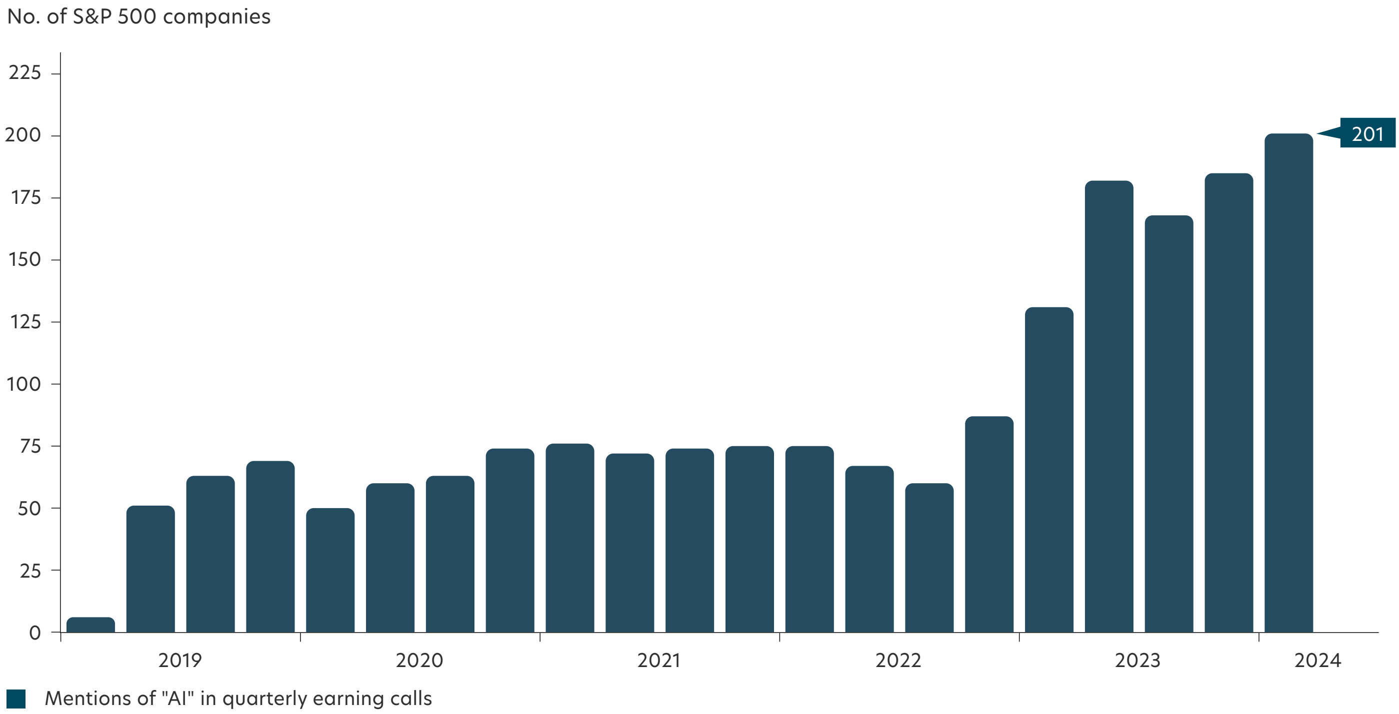
Generative AI's versatility and general application can be likened to past technology cycles like the Information and Communication Technology (ICT) boom of the 1990s, which revolutionised office work and introduced new industries like e-commerce and ride-hailing. Historically, analysts have underestimated the growth potential of such technologies. Morgan Stanley Research found that analysts typically underestimated user growth for technologies like personal computers (PCs), the internet, and cloud services by an average of 38%.

The widespread deployment of generative AI will require substantial infrastructure investments, particularly in modern datacenters that demand significant electrical power. Energy constraints, as noted by Meta's CEO Mark Zuckerberg, are a major bottleneck in building AI datacenters. Addressing these constraints will benefit the broader industrial sector and not just technology firms. Additionally, the recent launch of Microsoft's Copilot+ PCs brings AI from the cloud to the edge, while Apple is set to integrate AI-driven tools and features to its iPhones and other devices. These efforts are expected to drive strong consumer upgrades.

The AI revolution led by ChatGPT has captured the world's imagination. The recent speech by the founder and CEO of Nvidia suggests that this is only the beginning. The next frontier is to move from digital media to the physical world of robotics and fully autonomous driving.

In summary, AI is poised to trigger a broad-based investment cycle, spanning many industries and companies beyond the few obvious winners so far.

Record number of S&P 500 companies mentioned "AI" on 1Q 2024 earnings calls



Source: FactSet, UOB Private Bank

CIO Thoughts

Opportunities amid US-China tensions

US-China tensions have been a significant concern for investors since former US President Trump first initiated tariffs on Chinese imports. Despite retaliatory actions, the overall impact has not been catastrophic for either side. US President Biden has maintained Trump's tariffs and intensified restrictions on high-tech exports, employing a "low-wall, high-fence" strategy.

The upcoming US elections in November could significantly impact US-China relations. Currently, Trump holds a slight lead in swing states, but the race remains too close to call.

A potential Trump presidency and Republican control of Congress could lead to higher tariffs, up to 60% on Chinese imports and 10% on other geographies.

These geopolitical tensions and COVID-19-related supply chain diversifications have culminated in opportunities for other countries. China's loss of market share has been redirected to nations like those in ASEAN, India, and Mexico. Meanwhile, the stage is set for a manufacturing renaissance in the US. This shift will require substantial investments in infrastructure development.

Actual and potential tariff policies under President Donald Trump

Policy	Scope	Trump 2018-2019	Potential Trump 2nd term
Tariff (all import)	World	None	10.0%
Tariff on imports from China	China	7.5% - 25% on ~USD 350bn	Additional 60%+*
Permanent normal trading relations (PNTR) status	China	Ongoing	Terminated
De minimus exception**	World	USD 800	Reduced sharply/ eliminated

Source: Bloomberg, US International Trade Administration

* An additional 60% tariff on all US imports from China is modeled, though in practice average tariff levels could be very different from this figure.

** Threshold value under which an individual import shipment to a given recipient is not subject to duty.

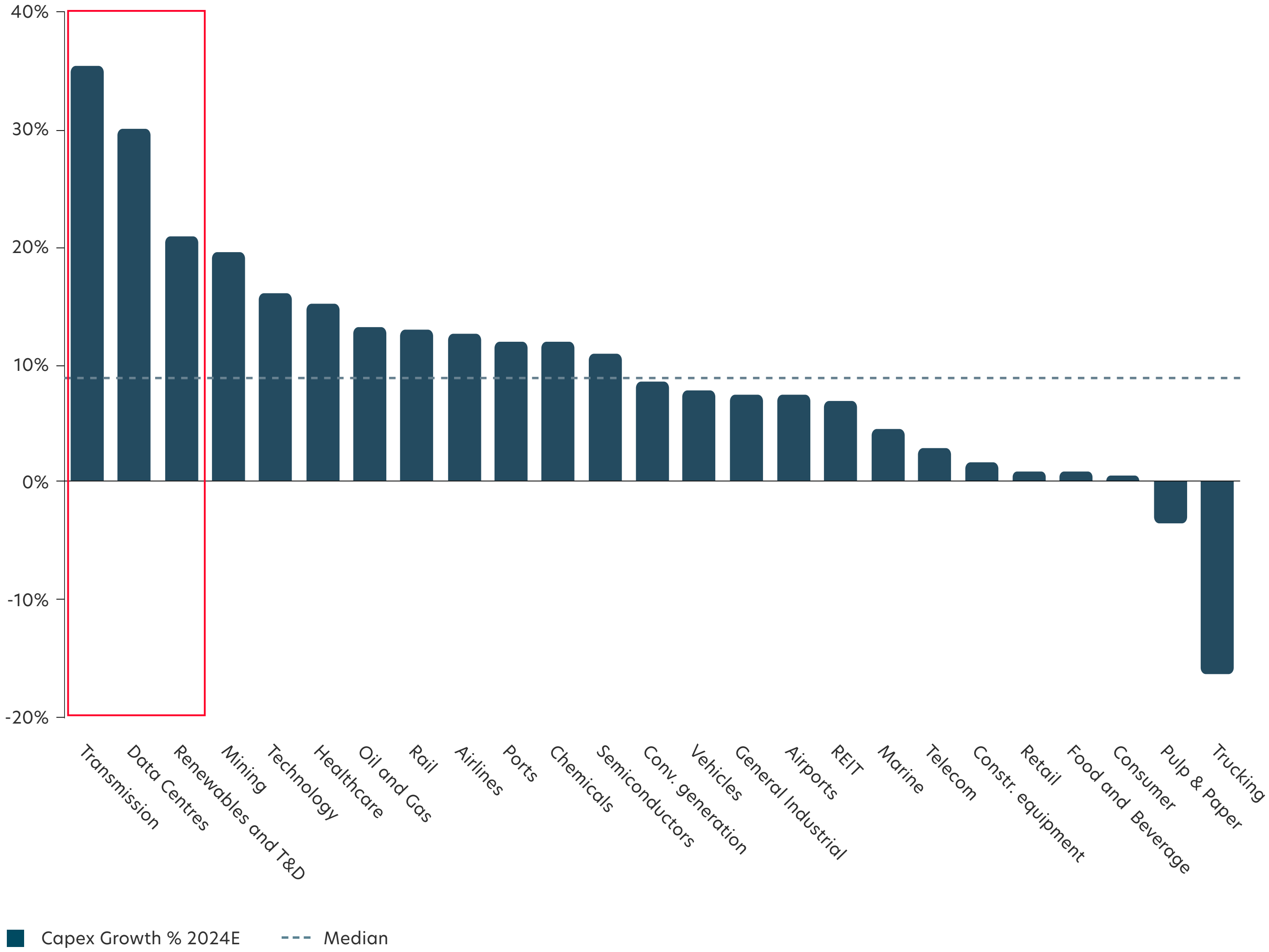
CIO Thoughts

Investment implications

The convergence of the Fed policy, shifting geopolitics, and AI will continue to shape financial markets. AI and geopolitical changes are expected to drive a prolonged investment cycle, benefiting companies involved in infrastructure development, such as datacenter, power transmission, and industrials. As generative AI moves from the cloud to end devices, the technology sector will see a demand for upgrades across mobile and personal computing devices. Other sectors such as healthcare and financials will also benefit significantly from new AI-driven offerings and productivity enhancements.

>20% capex growth in the selected structural growth areas

Summary 2024E Capex Growth %



CIO Thoughts

Investment implications

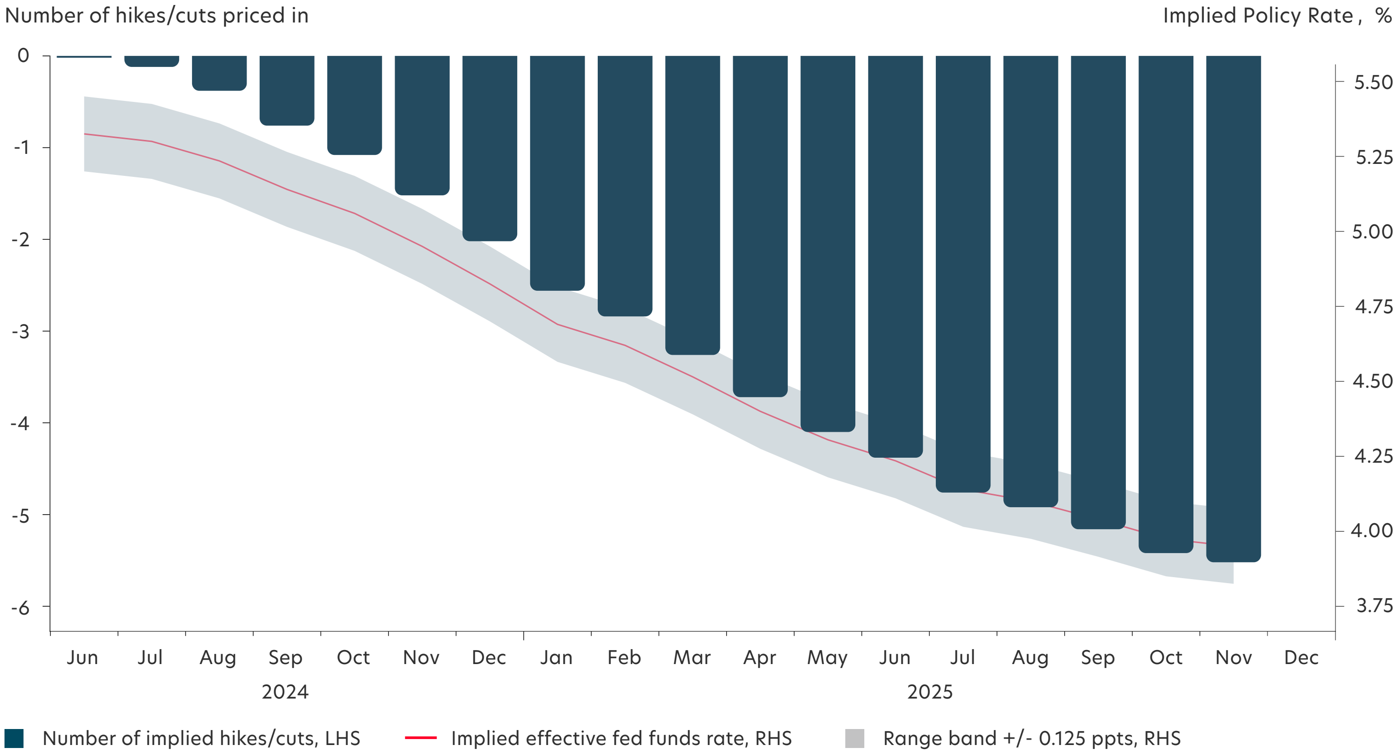
We maintain our overweight in equities given the reasonable growth outlook and expectation for lower inflation ahead. While the Fed has delayed its rate cut, it has not signaled a rate hike. This will be supportive for risk assets. We believe Japan, Asia and even Europe that are geared to the industrial sector and global manufacturing will be well-supported. China remains a valuation call and while policy stimulus remains piecemeal, the cumulative impact may become meaningful over time. Foreign investors are still lightly positioned on Chinese risk assets; their fund flows could return as growth becomes incrementally positive.

We maintain a bias to extend duration from cash and overweight credit carry, especially for financial issuers. Despite our call for the Fed to cut rates, supportive conditions do not warrant a reduction back to extremely low levels. A normalised rate environment bodes well for bank earnings. While cash rates are high, investors could be missing out on opportunities in more profitable investments. In fact, many fixed income sub-classes are yielding above cash, and will provide room for capital gains when interest rates decline or credit spreads tighten.

Finally, while we are positive on risk assets overall, we continue to recommend an allocation to less correlated alternative assets including hedge funds, private assets, gold, and commodities. Infrastructure buildout, general supply shortage and episodic geopolitical flashpoints are supportive factors.

Implied number of the Fed rate hike/cuts: No rate hike being priced in so far

Assuming uniform 0.25 ppt hikes/cuts



Source: Macrobond, UOB Private Bank, CME Group

Portfolio Strategy

Kuala Lumpur, Malaysia

Asset Class Summary

The asset class summary below is based on a "Balanced" risk profile. Please refer to the next page for details.

Asset Classes	U/W	N	O/W	Comments
Equities			▲	**Remain Overweight on supportive earnings and peak rates cycle.**
United States	▼			Remain Underweight. Cyclical bull market is intact amid moderate corrective forces.
Europe			▲	Upgrade to Overweight from Neutral. Funded to Europe from US amid an industrial investment cycle.
Japan			▲	Remain Overweight. Equities are supported by strong earnings and corporate reforms.
EM Asia		■		Remain Neutral. Cautiously optimistic on China's turnaround. Prefer South Korea, India and ASEAN.
Fixed Income		■		**Remain Neutral amid firm Treasury yields on US economic resilience.**
DM IG			▲	Remain Overweight. Credit spreads are holding up while all-in yields remain attractive.
DM HY	▼			Remain Underweight. Stay cautious of asymmetric risk-reward.
EM IG			▲	Remain Overweight. Fundamentals remain resilient with coupon carry in focus.
EM HY		■		Remain Neutral. Avoidance of credit pitfalls will be of utmost importance.
Alternatives			▲	**Remain Overweight as less correlated alternatives offer diversification.**
Hedge Funds			▲	Remain Overweight. Selected hedge funds can outperform the public markets.
Private Markets		■		Remain Neutral. Selected private-market funds have well-established track records.
Crude Oil			▲	Remain Overweight. Downside risks have largely been priced in after recent pullback.
Base Metals		■		Remain Neutral. China's growth stabilisation bodes well for base metals at the margin.
Precious Metals		■		Remain Neutral. Gold can hold up well on central bank buying but is susceptible to pullbacks.
Money Market	▼			**Remain Underweight as a benign macro backdrop is supportive of risk assets.**

▼ Underweight ■ Neutral ▲ Overweight ● Current quarter's position

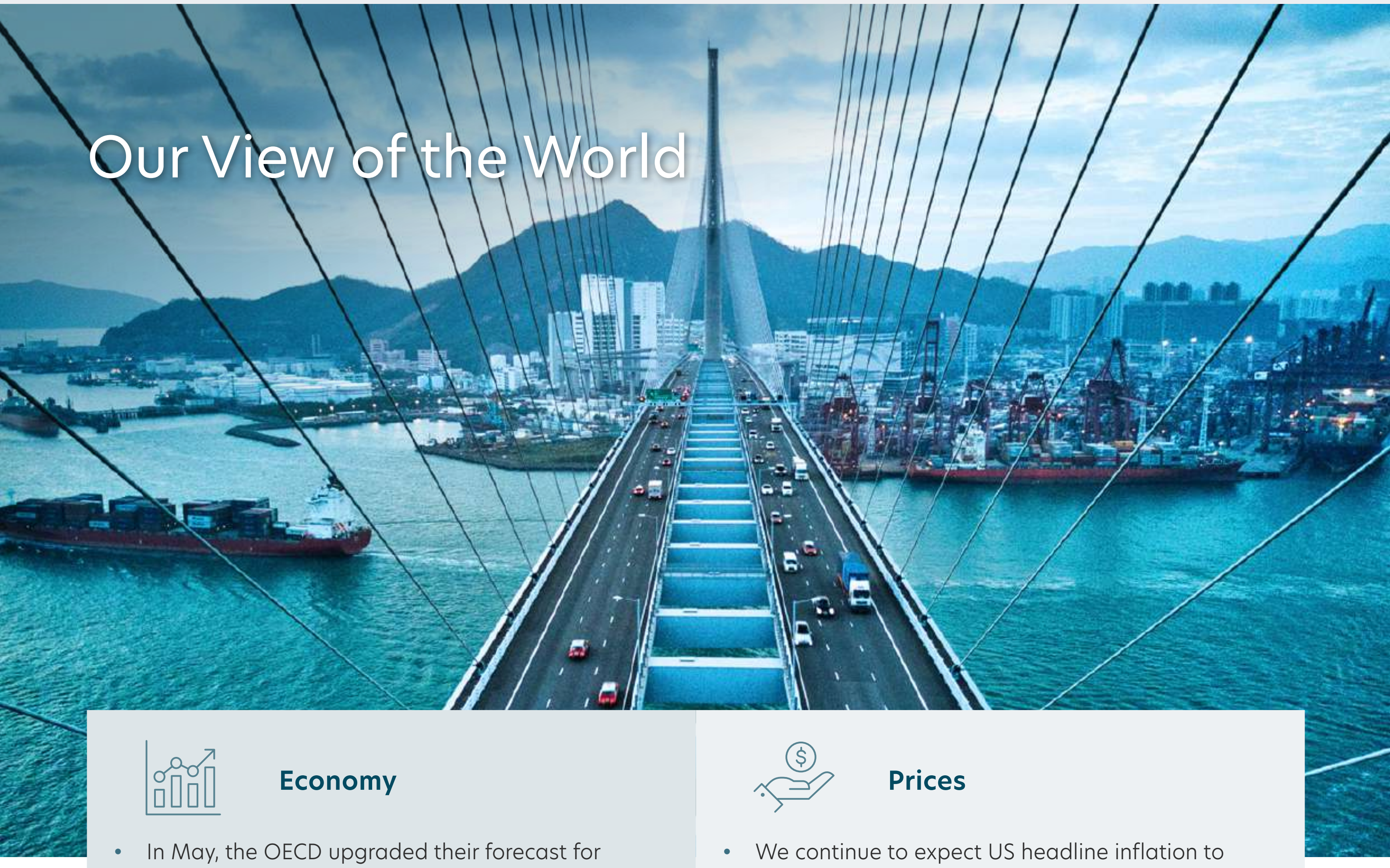
Asset Allocation

Asset Classes	Very Conservative			Conservative			Balanced			Growth			Aggressive			Comments
	Now	VS	Chg.	Now	VS	Chg.	Now	VS	Chg.	Now	VS	Chg.	Now	VS	Chg.	
Equities				**30.0%**			**50.0%**			**70.0%**			**80.0%**			
United States				15.0%	-1.5%		25.0%	-2.5%		35.0%	-3.5%		40.0%	-4.0%		
Europe				6.0%	1.5%		10.0%	2.5%		14.0%	3.5%		16.0%	4.0%		
Japan				4.5%			7.5%			10.5%			12.0%			
EM (Asia)				4.5%			7.5%			10.5%			12.0%			
Fixed Income	**90.0%**			**60.0%**			**35.0%**			**10.0%**						**Avg. duration:** 5 to 8 years
DM IG	45.0%			27.0%			15.8%			4.5%						
DM HY				3.0%			1.8%			0.5%						
EM IG	45.0%			24.0%			14.0%			4.0%						
EM HY				6.0%			3.5%			1.0%						
Alternatives				**10.0%**			**15.0%**			**20.0%**			**20.0%**			
Money Market	**10.0%**			**0.0%**			**0.0%**			**0.0%**			**0.0%**			

Notes:

- "Chg." means changes in asset allocation relative to last quarter. If any, these changes will be reflected accordingly (plus weighting in green, minus weighting in red).
- Figures might not add up due to rounding off to 1 decimal place.

Our View of the World



Economy

- In May, the OECD upgraded their forecast for global growth to 3.1% (from 2.9%) in 2024, and 3.2% (from 3%) in 2025.
- OECD cited resilient US activity but warned that lingering sluggishness in Europe and Japan showed that the pace of recoveries will diverge. It upgraded US economic growth to 2.6% (from 2.1%) in 2024, and a growth slowdown to 1.8% (from 1.7%) in 2025.
- China's economy is expected to grow 4.9% (from 4.7%) in 2024, and 4.5% (from 4.2%) in 2025 on fiscal stimulus.

Prices

- We continue to expect US headline inflation to trend lower into 2H 2024 as Owners Equivalent Rent (OER) is set to fall in convergence to declining new rents.
- Despite a recent uptick in US "supercore" inflation, services prices are likely to soften going forward amid a cooling labor market.
- It is noteworthy that global inflation had converged more quickly than expected to central banks' targets.

Monetary Policies

- Given the US economy's resilience, the Fed will have some room to be patient when it comes to the timing of the first rate cut. Investors seemed to have come to terms with this gradual "wait-and-see" approach.
- Other developed market (DM) central banks could face a tough situation as they grapple with weaker growth outlook amid stickier inflation. However, policy rates are biased downwards apart from Japan.
- Assets in emerging markets (EM) can benefit from the imminent rate-cut cycle of the DM central banks.

Asset Allocation

- We maintain our overweight in Equities given the resilient growth outlook and expectations for lower inflation ahead. Companies in Europe, Japan and parts of Asia which tap into the industrial investment up-cycle theme could perform well.
- Fixed income, specifically investment-grade credits, continue to act as effective portfolio stabilisers.
- We stay overweight on the less correlated alternative assets given their respectable risk-reward as well as diversification benefits.

Macro Trends

Shanghai, China

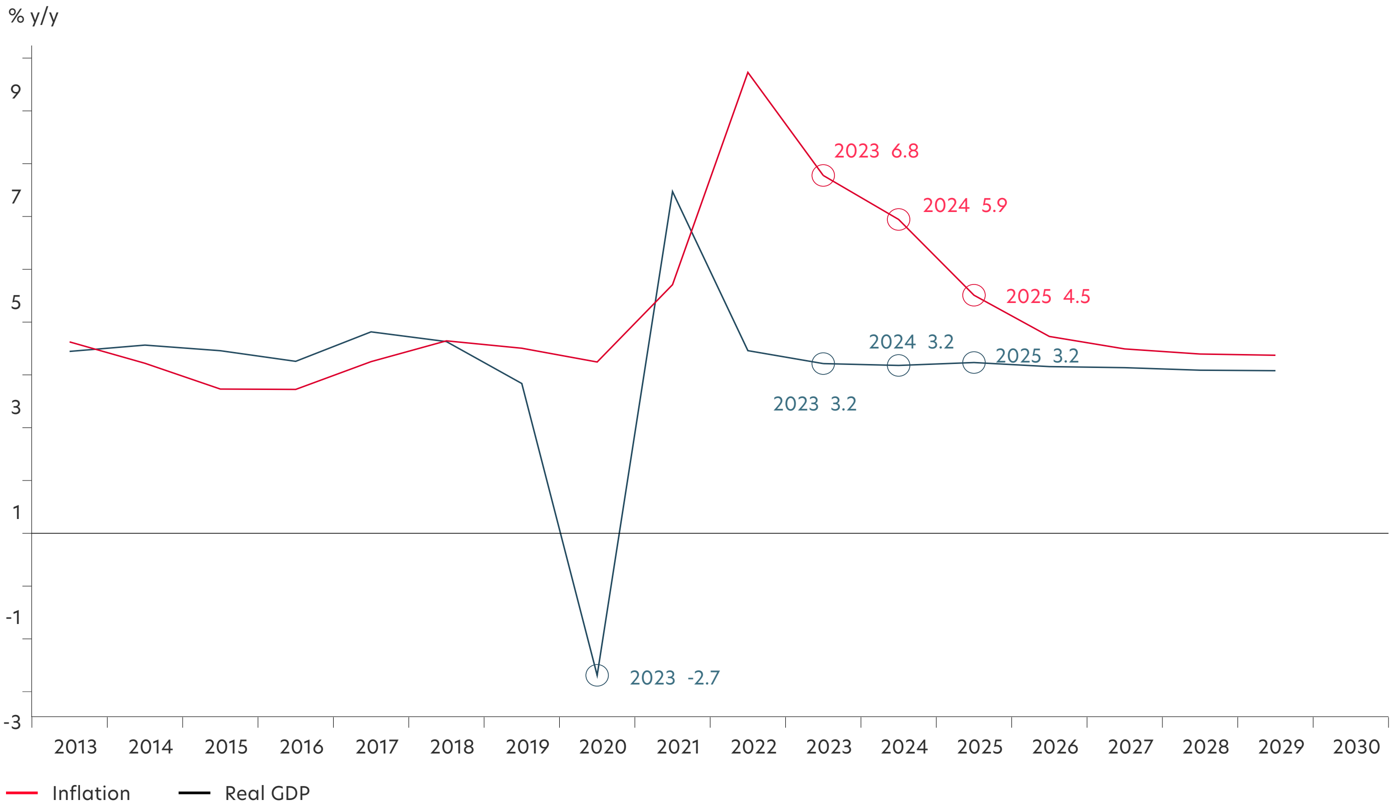
Global Economy

Steady but slow: Resilience amid growing disparities

In April, the IMF reported that global economic activity was surprisingly resilient through the global disinflation from 2022, defying warnings of stagflation and global recession. Having said that, the pace of growth expansion is expected to decelerate from here. It is noteworthy that the pace of convergence toward higher living standards for middle-and lower-income countries has slowed, implying persistent wealth and income disparities at large.

With inflationary pressures abating more swiftly than expected in many countries, the risks to the global growth outlook are now broadly balanced compared with last year. The IMF expects the global economy to grow 3.2% in 2024 and 2025, which is similar to that of 2023. Global inflation is expected to decline steadily from 6.8% (2023) to 5.9% (2024) and 4.5% (2025).

IMF GDP Growth & Inflation Forecasts



Source: Macrobond, UOB Private Bank, International Monetary Fund (IMF)

Global Monetary Policy

More embarking on rate cut cycle, but it will not be “crisis-level” rate cuts

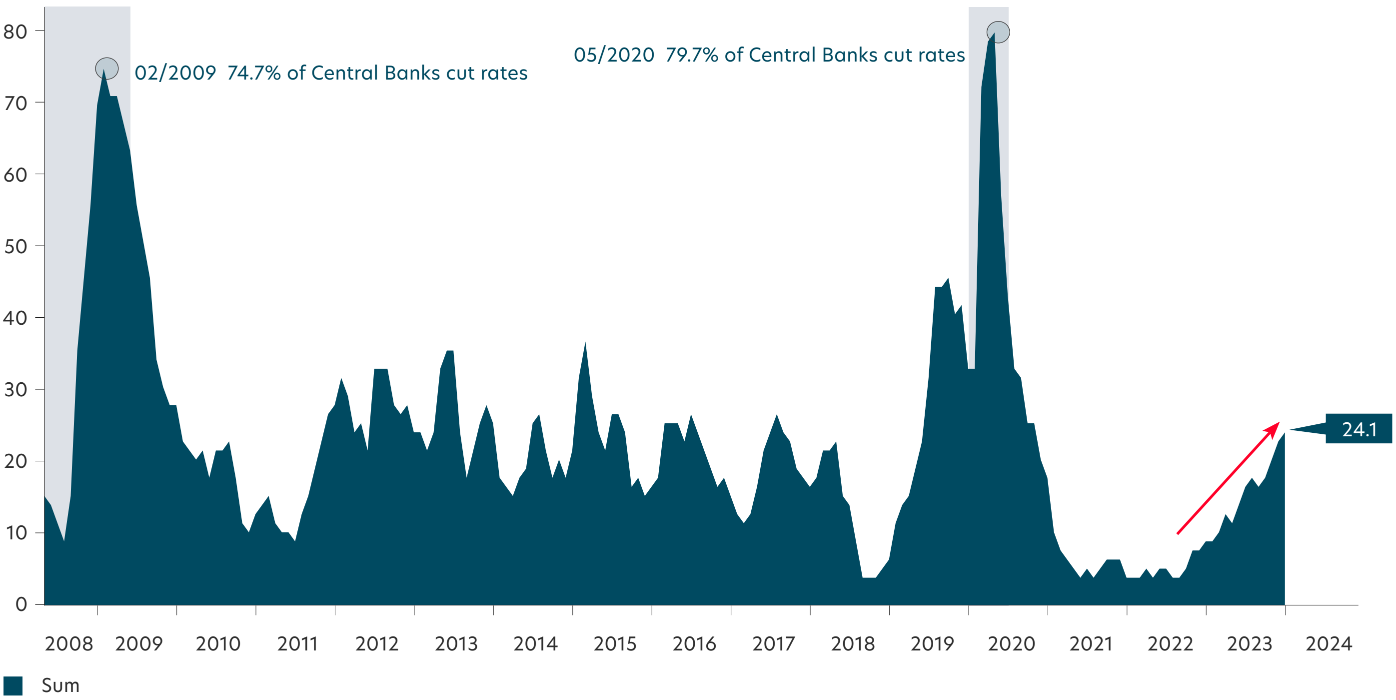
Resilient US growth and a string of higher-than-excepted inflation data have given the Fed room to wait before cutting interest rates. Investors have also calibrated their expectations, pencilling in less than 2 cuts this year. Converging rate-cut expectations between markets and the Fed will likely help contain upside risks to the US Treasury yields.

Elsewhere, Switzerland’s SNB and Sweden’s Riksbank have already started cutting rates. Market participants expect more central banks to jump on the bandwagon this year, with 24% of central banks having started the rate-cut cycle.

Other central banks such as the Bank of England (BOE) and European Central Bank (ECB) face a bigger dilemma with weak growth expectations and sticky inflation outlook. While many continue to adhere to their usual data-dependent approach when considering interest rate cuts, policy rates are biased downwards given the broad disinflation process.

More central banks expected to cut rates

% share of cental banks cutting rates (3-month sum)



Source: Macrobond, UOB Private Bank

Note: Based on 79 central banks

Manufacturing PMIs Are Recovering

S&P Global - Purchasing Managers' Index (PMI)

	PMI Composite	PMI Manufacturing	PMI Services
India	60.5	57.5	60.2
Spain	56.6	54.0	56.9
United States	54.5	51.3	54.8
Emerging Markets	54.4	52.0	54.6
China	54.1	51.7	54.0
Brazil	54.0	52.1	55.3
World	53.7	50.9	54.1
Developed Markets	53.4	50.0	53.9
United Kingdom	53.0	51.2	52.9
Japan	52.6	50.4	53.8
Ireland	52.5	49.8	55.0
Germany	52.4	45.4	54.2
Italy	52.3	45.6	54.2
Euro Area	52.2	47.3	53.2
Australia	52.1	49.7	52.5
EU	52.1	47.3	53.2
France	48.9	46.4	49.3

Source: Macrobond, UOB Private Bank, S&P Global

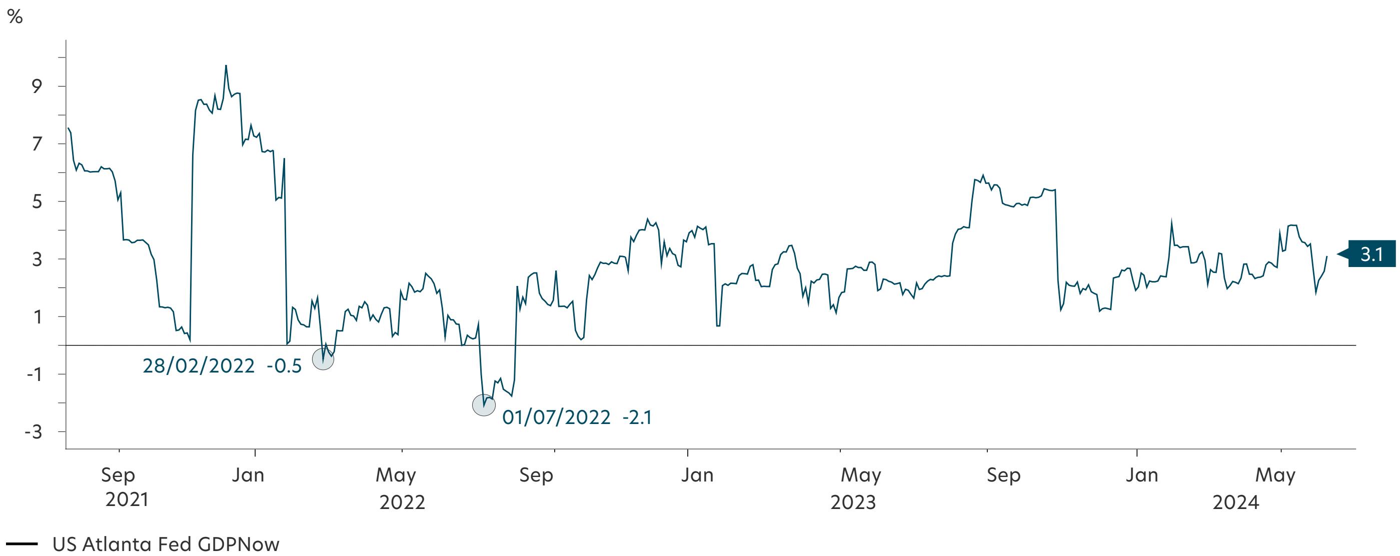
US Economy

Robust growth in 2024 with some moderation expected in 2H

While 1Q 2024 real GDP recorded below-consensus growth (1.3% QoQ SAAR), it was mainly due to larger-than-expected inventory accumulation and imports. Looking under the hood, both real consumption (+2.0%) and investment (+1.0%) remain robust. Consumer spending has been remarkably resilient.

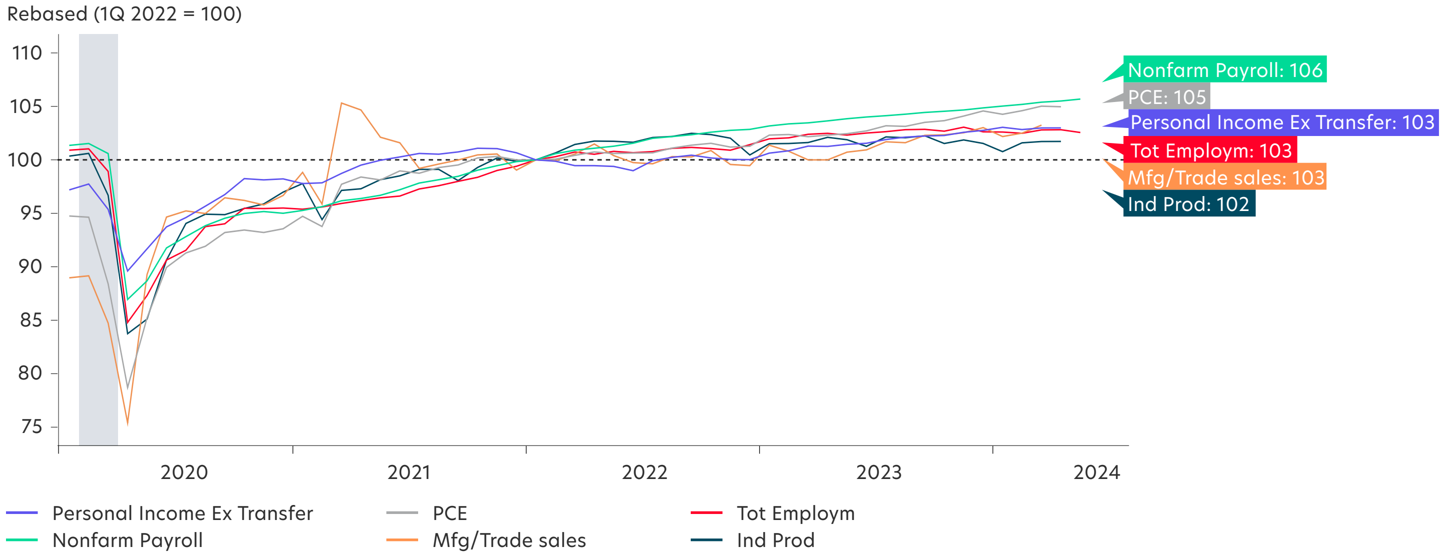
Having said that, downside risks to GDP growth for 2Q 2024 could stem from weaker personal consumption due to a cooling labour market and depleting savings accumulated since the pandemic. Private infrastructure development has also taken a hit in the wake of deteriorating commercial real estate fundamentals, dragging down overall business sentiments.

GDP Nowcast



Source: Macrobond, UOB Private Bank, Federal Reserve Bank of Atlanta, Federal Reserve Bank of New York

NBER indicators for recession dating



Source: Macrobond, UOB Private Bank, Federal Reserve, U.S Bureau of Labor Statistics (BLS), U.S Bureau of Economic Analysis (BEA)

US Economy

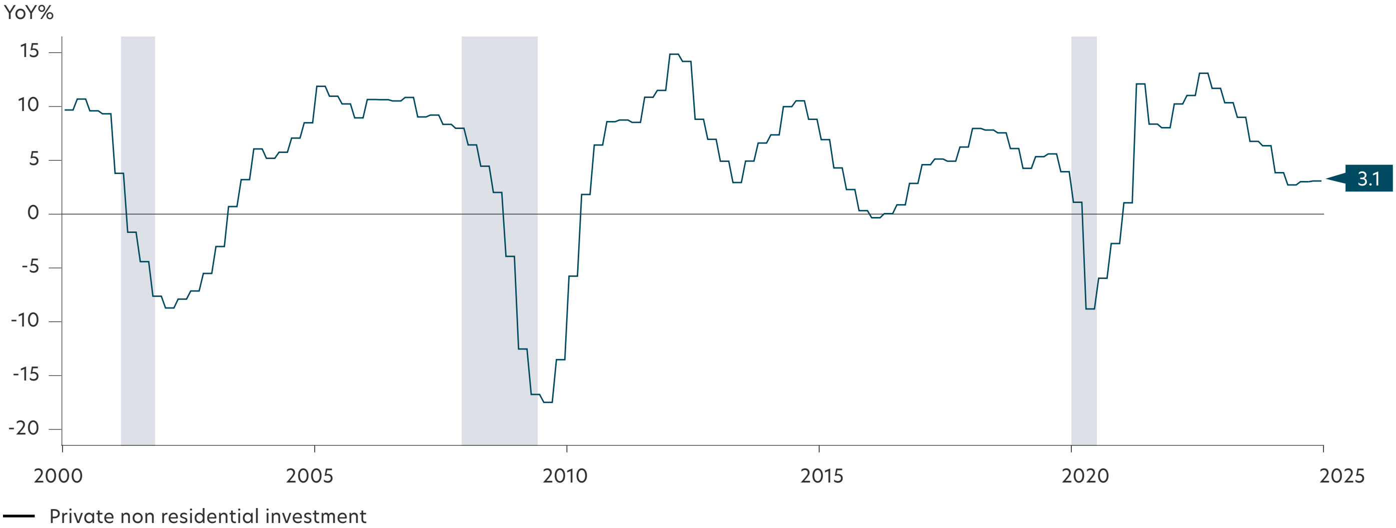
Cooling capex but AI and tech investments remain strong

Heading into 2H 2024, corporate investments could still enjoy strong investment flows into the overall technology sector amid the tailwinds from AI. However, higher borrowing costs could lead to a slowdown in broad capex growth.

While regional banks' balance sheet stress remains on the radar of investors, the Fed and the US Treasury have a plethora of tools to mitigate systemic risks in the financial system.

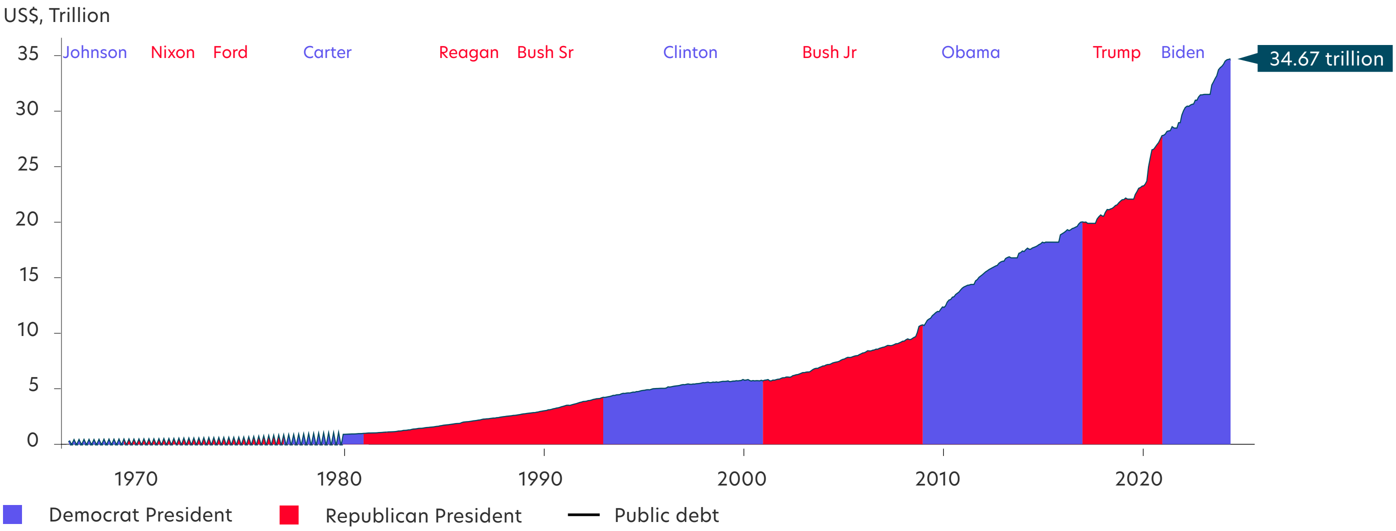
Meanwhile, the US fiscal budget will be in focus, with all eye on the upcoming US presidential and congressional elections. While government spending could be subdued in the lead-up to the elections, the US fiscal budget deficit as a share of GDP has been on the rise over the last two decades.

Broad capex is cooling down



Source: Macrobond, UOB Private Bank, U.S Congressional Budget Office (CBO)

Total US public debt



Source: Macrobond, UOB Private Bank, U.S Department of Treasury

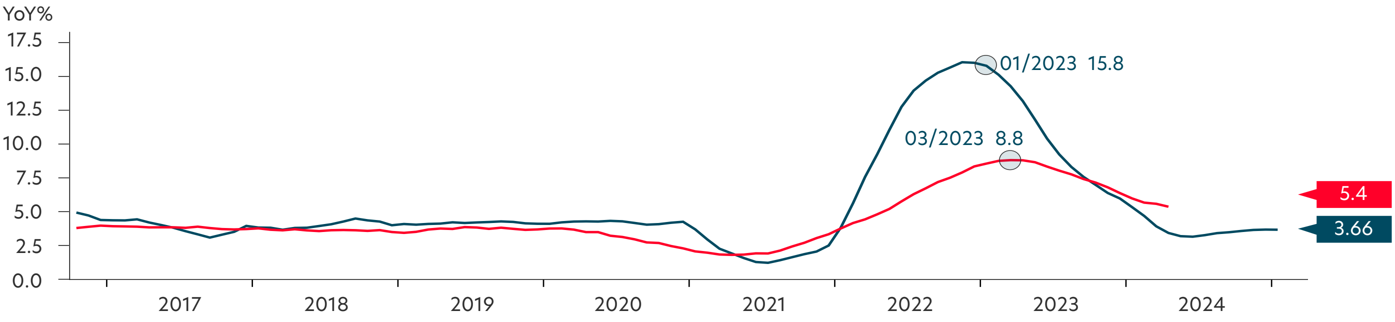
US Economy

Some pickup in inflation of late, but the disinflation process remains intact

Recent months of headline inflation data point to its stickiness at the 3.4% range. Nonetheless, core inflation has been trending lower. Shelter inflation, which carries a significant weight in the CPI basket (+36%), should continue to fade as rental market cools. While core personal consumption expenditure (PCE) inflation may face speedbumps along its way to the Federal Open Market Committee (FOMC) 2% target, we are of the view that disinflation remains firmly on track.

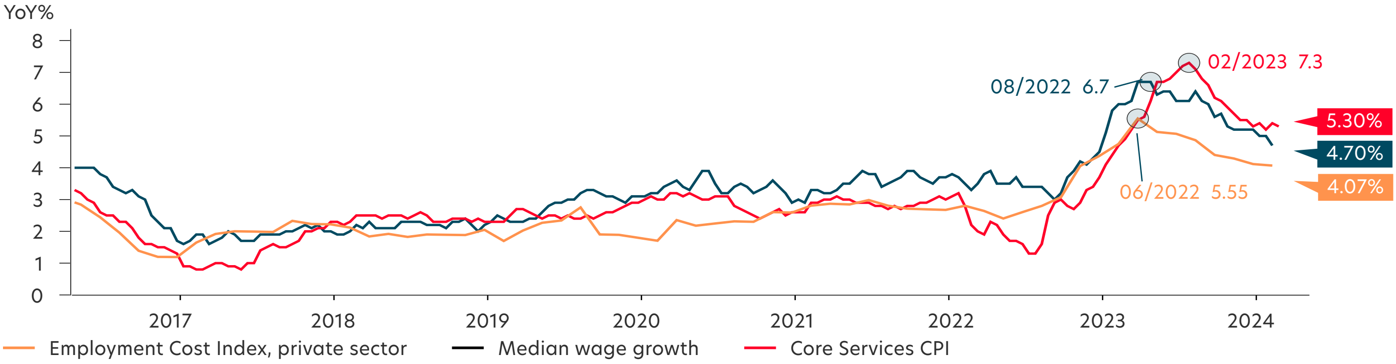
It is also noteworthy that the labour cost growth has been losing steam albeit recent headline non-farm payroll data suggesting a tight US labour market. The recent jump in the ISM manufacturing prices paid index broadly reflects a recent upshift in commodity prices; it is not a function of bottlenecks in the supply chains, which would be more problematic for goods prices to cool. Overall, softer inflation readings can be expected over the few months.

US rental inflation has more room to fall



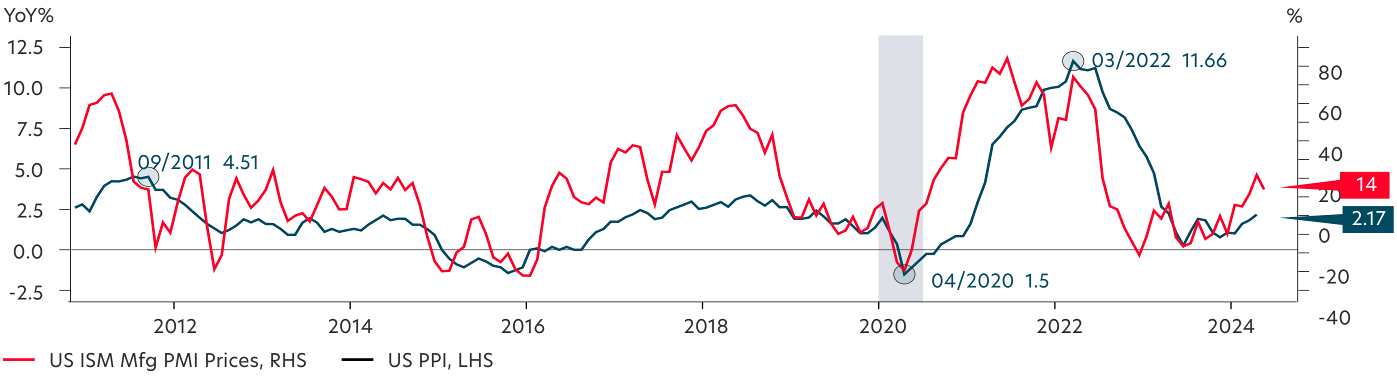
Source: Macrobond, UOB Private Bank, Zillow U.S Bureau of Economic Analysis (BEA)

US labour costs growth declining steadily



Source: Macrobond, UOB Private Bank, Federal Reserve Bank of Atlanta, U.S Bureau of Labor Statistics (BLS)

Bump in manufacturing prices paid is not a supply side issue



Source: Macrobond, UOB Private Bank, U.S Bureau of Labor Statistics (BLS), Institute for Supply Management (ISM)

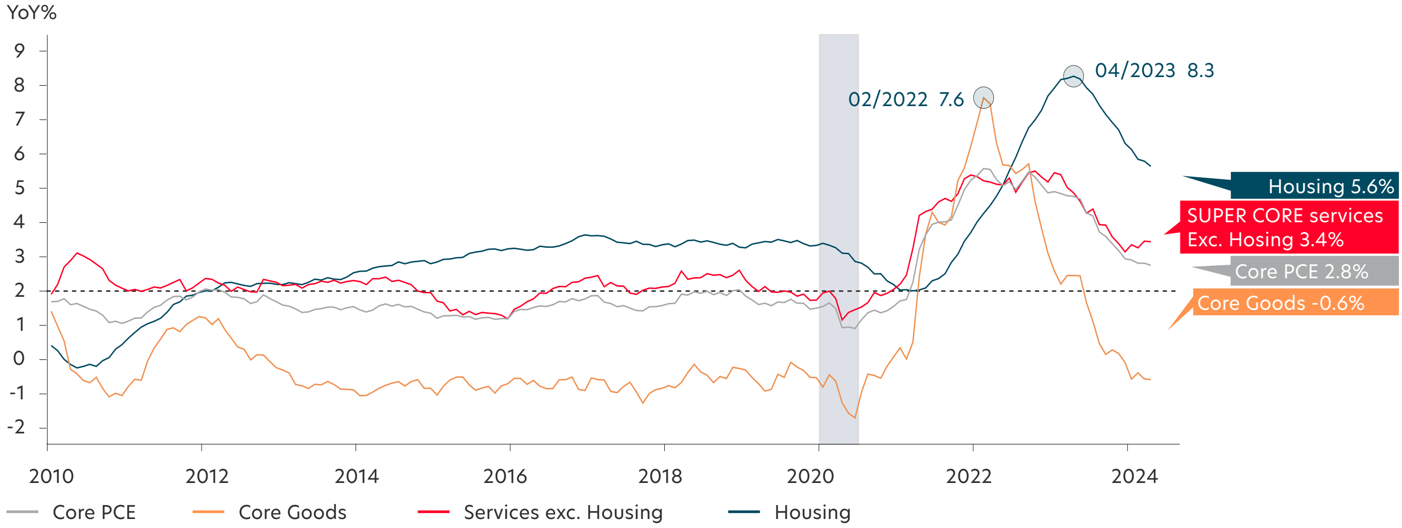
US Monetary

Rate cut expectations are delayed, not derailed

Recent upside surprises in inflation data suggest that the disinflation process has stalled, leading to market jitters around Fed rate-cut delays. Indeed, Fed Chair Jerome Powell has continued to espouse the message of patience that rates may stay elevated for longer until he has gained greater confidence that inflation is moving sustainably towards the 2% objective.

However, Powell has kept the door open for interest rate cuts. In fact, he suggested it is unlikely the next move would be a hike. In our view, the Fed rhetoric remains dovish. UOB economists expect 50 bps of rate cuts for 2024 (two 25 bps cuts, one each in September and December).

US in a disinflationary environment



Source: Macrobond, UOB Private Bank, U.S Bureau of Economic Analysis (BEA)

Fed Funds: Futures Implied Probabilities											
Meeting	**Fwd. rate**	**3.25-3.5**	**3.5-3.75**	**3.75-4**	**4-4.25**	**4.25-4.5**	**4.5-4.75**	**4.75-5**	**5-5.25**	**5.25-5.5**	**5.5-5.75**
2024-06-12	5.33%								4.7%	95.3%	
2024-07-31	5.30%								8.2%	91.1%	0.7%
2024-09-18	5.24%							5.1%	59.6%	35.0%	0.3%
2024-11-07	5.14%						1.8%	24.7%	50.8%	22.5%	0.2%
2024-12-18	4.95%					1.3%	18.0%	43.2%	30.8%	6.7%	
2025-01-29	4.69%				0.7%	10.2%	31.4%	36.6%	18.0%	3.2%	
2025-03-19	4.62%			0.4%	6.6%	23.5%	34.6%	24.9%	8.7%	1.2%	
2025-04-30	4.52%		0.2%	3.1%	13.9%	28.3%	30.4%	17.9%	5.4%	0.7%	

Source: Macrobond, UOB Private Bank

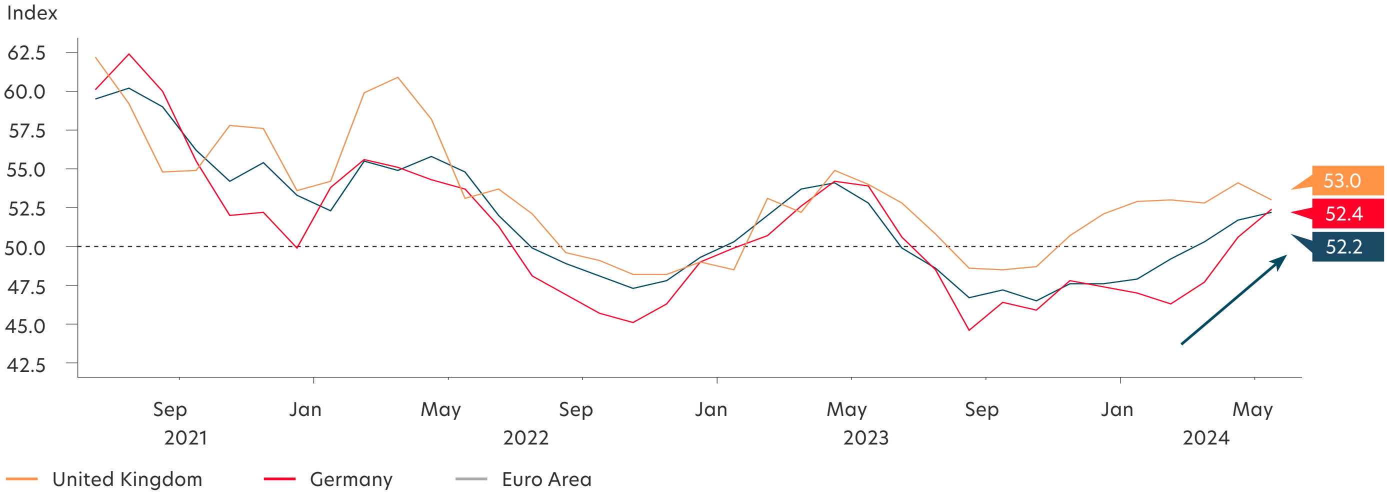
Eurozone

Growth improvement with upside surprises in economic data

The economy expanded by 0.3% QoQ in 1Q 2024, rebounding from the 0.1% QoQ decline in 4Q 2023. The region has recovered more quickly than expected from its mild technical recession in 2H 2023, supported by the higher-than-anticipated growth in the four largest economies. Importantly, macroeconomic indicators including economic confidence, industrial confidence and services, as well as private-sector business activity have surprised on the upside in recent months. Looking ahead, a growth rebound is likely to take hold.

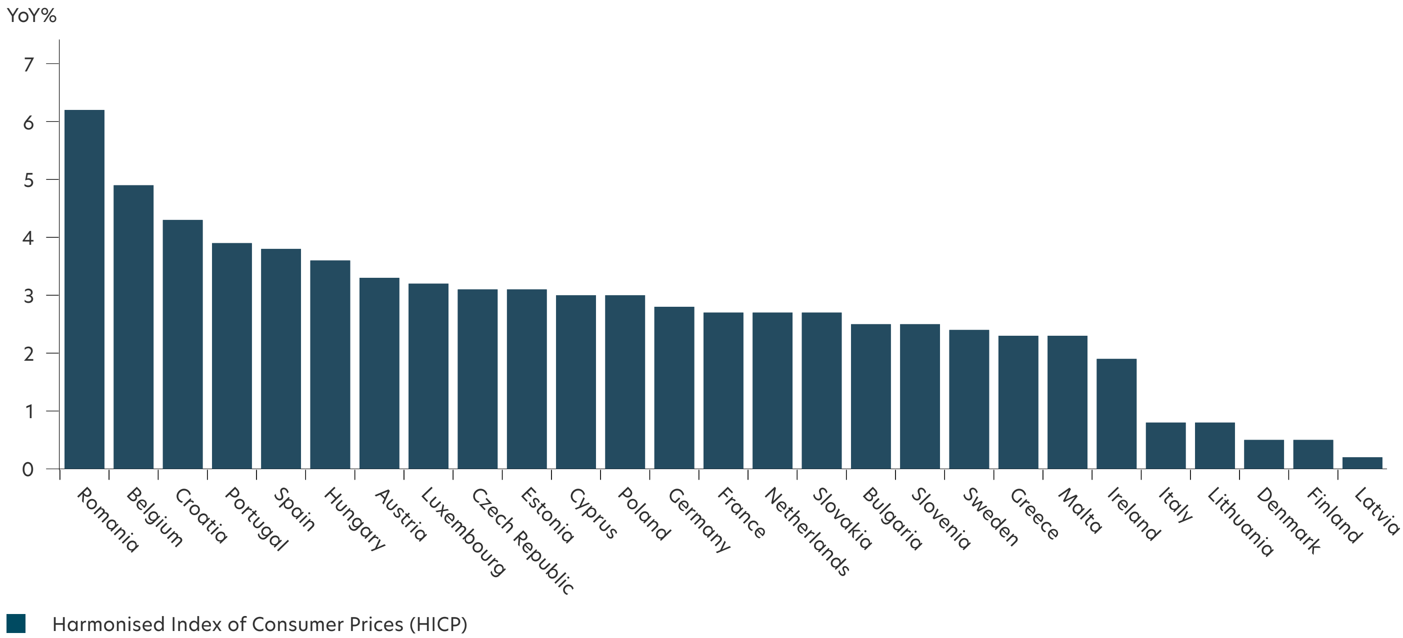
Meanwhile, the latest headline inflation reading accelerated to 2.6% in May, primarily driven by services inflation. Stripping away some of the recent volatility, ECB officials have been more confident that they are on track to meet the 2% target as the broad disinflationary trend remains underway. UOB economists expect headline inflation to continue easing into the summer towards the 2% target.

Eurozone, Germany and UK Composite PMI



Source: Macrobond, UOB Private Bank, S&P Global

Inflation across Eurozone economies



Source: Macrobond, UOB Private Bank, Eurostat

Eurozone

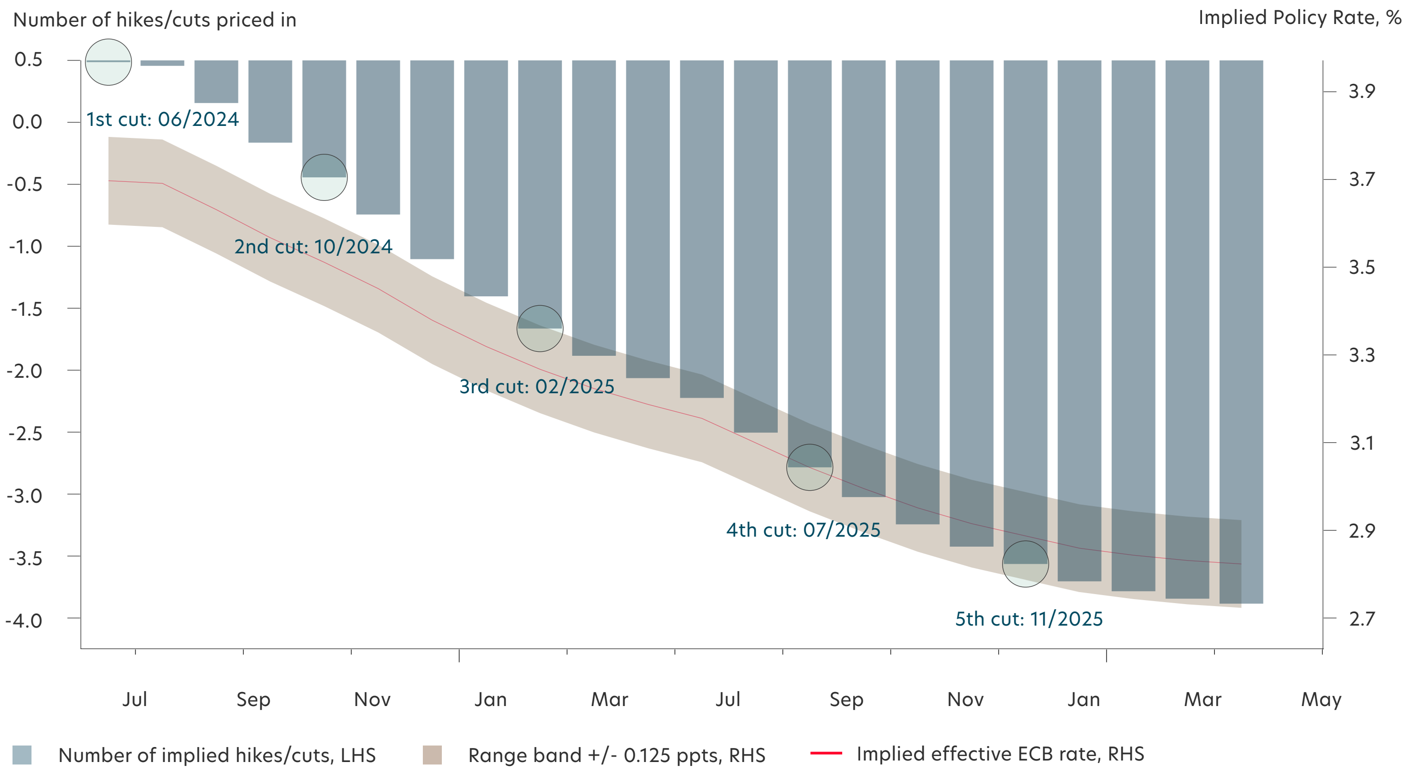
ECB cuts rate for the first time since 2019

The ECB cut its three key interest rates by 25 bps in June in a widely-telegraphed move, reaffirming its stance that inflation in the eurozone has been moving in the right direction. However, interestingly, the ECB made upward revisions to inflation as it now sees headline averaging 2.5% (from 2.3% in March) for 2024, 2.2% (from 2.0% in March) for 2025 and 1.9% (unchanged) for 2026. Economic growth is now expected to pick up to 0.9% (from 0.6% in March) for 2024, 1.4% (down from 1.5% in March) for 2025 and 1.6% (unchanged) for 2026. While forward guidance remains lacking, ECB President Christine Lagarde explained that the rationale behind the cut was to gradually reduce the level of monetary policy restrictiveness without ending restrictiveness.

The next monetary policy meeting will be held on 18 July. Given our expectations for eurozone inflation to remain well-behaved, we maintain our view of another two 25 bps cuts in 2024, one each in September and December.

Implied number of hikes/cuts from the ECB

Assuming uniform 25bps hikes/cuts



Source: Macrobond, UOB Private Bank, Intercontinental Exchange (ICE), ECB (European Central Bank)

Asia Trade

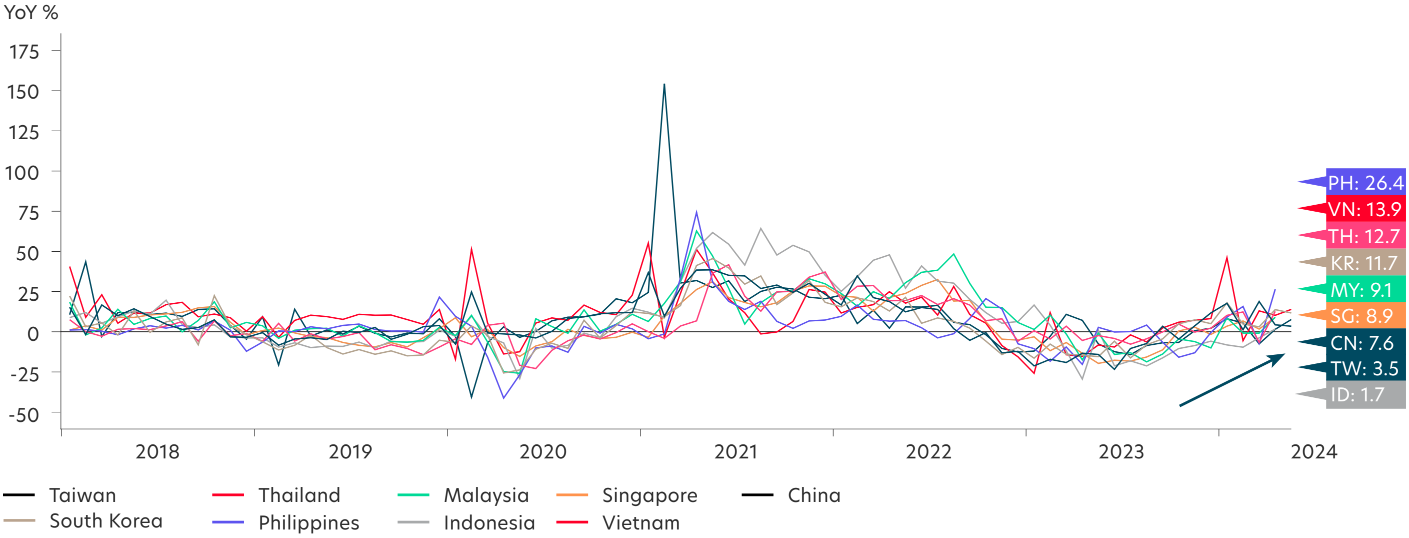
Strong Asian exports supported by semiconductor up-cycle

The global semiconductor up-cycle has boosted export revival in key Asian economies; Singapore, South Korea and Taiwan posted double-digit export growth earlier this year. With semiconductor inventories growth having fallen meaningfully, factories will likely be ramping up their production from here.

Despite expectations for slower growth in the US and Europe in the 2H of 2024, demand for electronic products worldwide will likely remain firm, fuelled by the rising demand for artificial intelligence (AI) processing power across both data centers and consumer electronics.

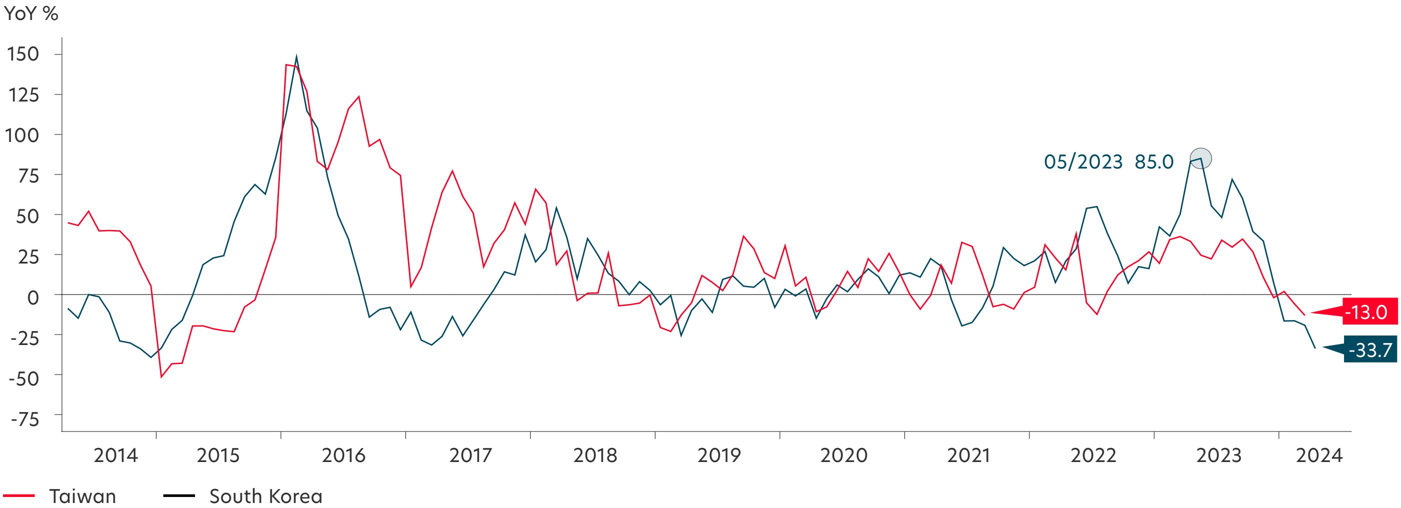
Looking ahead, the upcoming US presidential election in November and the ongoing US-China tensions will pose great uncertainty about the future state of manufacturing supply chains. Supply-chain diversification should culminate in opportunities for nations in ASEAN, India and Mexico in the development of infrastructure and labour.

Exports performance in key Asian economies



Source: Macrobond, UOB Private Bank, International Monetary Fund (IMF)

Declining semiconductor inventories in South Korea and Taiwan to strengthen case for boosting production



Source: Macrobond, UOB Private Bank, Statistics Korea (KoSIS), Taiwan Ministry of Economic Affairs

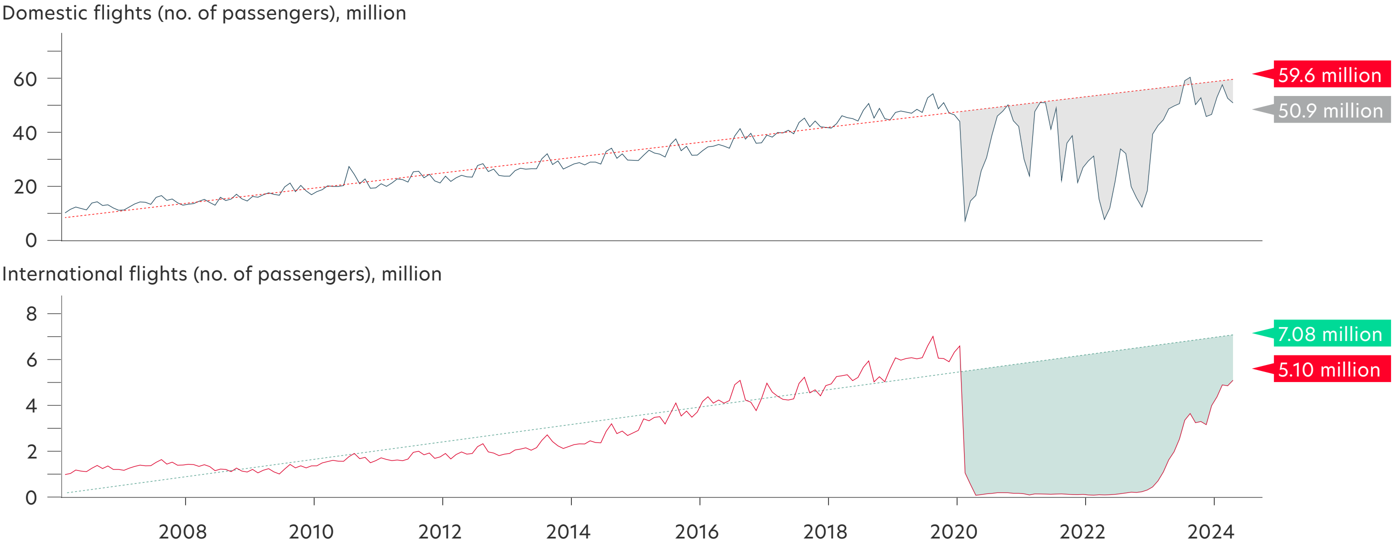
China

Consumption is picking up, but still has some way to go

The average Chinese consumer has fully recovered from the dark days of COVID-19 lockdowns. Domestic tourism had already returned to pre-pandemic levels, while international outbound travels are rising quickly. Having said that, tourism data around the lunar new year period showed that per capita expenditure remained soft although visitor volumes had risen. This is due to the cautious consumer sentiment from a weak labour market, and negative wealth effect as a result of price correction in both the housing and equity markets.

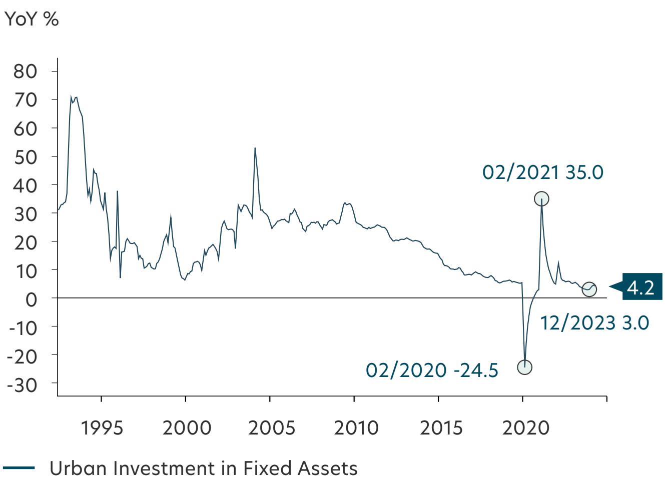
Chinese fixed asset investment is still largely supported by state spending on infrastructure, while private investment will likely remain subdued for now. For private real estate, Chinese policymakers have introduced some policy support. A "whitelist" of residential projects was drafted to guide banks to provide liquidity to selected developers. At the margin, this will help ease some financial stress facing the developers and improve buyers' confidence on project completion.

Chinese international air traffic below the pre-pandemic trend, but recovering fast



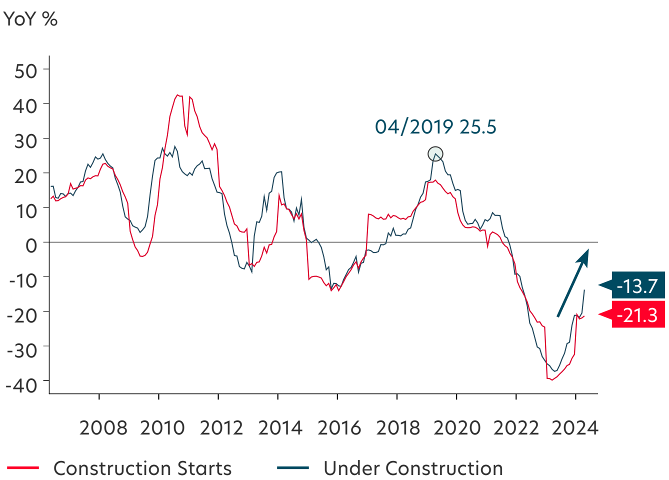
Source: Macrobond, UOB Private Bank, China Civil Aviation Administration

China Fixed Assets investment



Source: Macrobond, UOB Private Bank, China National Bureau of Statistics (NBS)

China property construction slowdown has reversed



Source: Macrobond, UOB Private Bank, China National Bureau of Statistics (NBS)

Japan

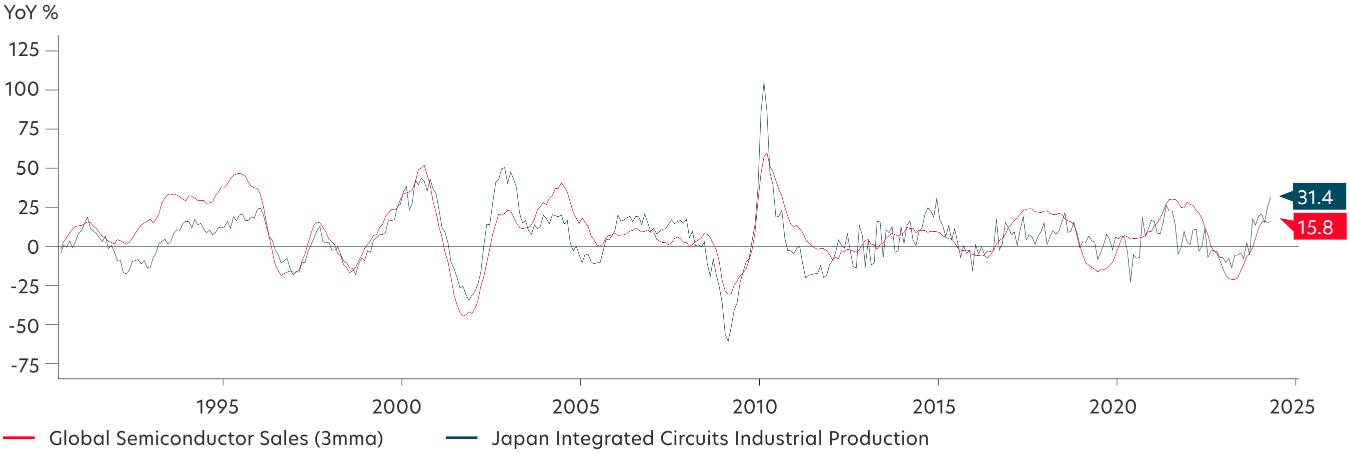
Expect swift 2Q 2024 rebound after growth disappointed

Real GDP in 1Q 2024 disappointed as the economy contracted more than expected, coming in at -0.5% QoQ (-2.0% QoQ annualised rate). Having said that, we expect a swift growth rebound in 2Q 2024 due to resumption of auto production and improved consumption on the back of rising wages post Shunto wage negotiations in March. Japan's recent accelerated capital expenditure on semiconductor technology as well as production also bode well for investments spending which augments its long-term growth potential.

On balance, Japan's growth outlook is cushioned by upside factors such as the electronics up-cycle, growing tourism and positive impact of tourism-related-in-person services. Meanwhile, downside risks such as weak domestic demand, uncertain external demand landscape and tightening financial conditions linger. We maintain our 2024 GDP growth forecast at 1.0% and expect growth to improve to 1.9% in 2025.

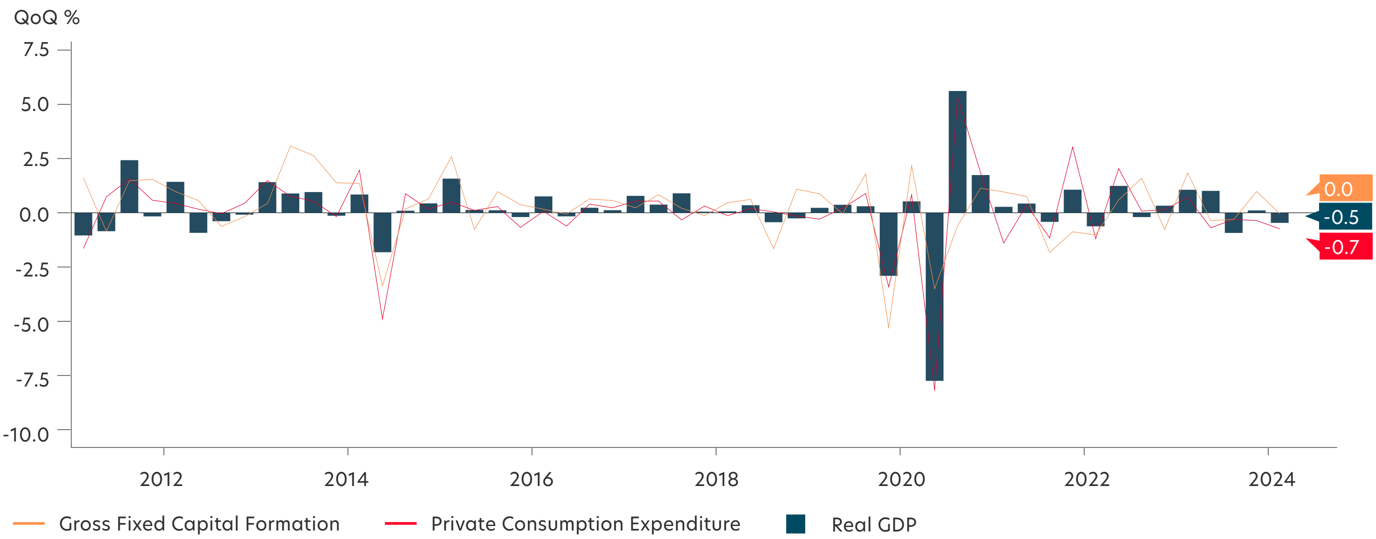
Against this backdrop, we maintain our cautious expectations for BOJ's normalisation path to be long, gradual and limited. We expect BOJ to stay pat for now and lift short-term policy rates from 0.10% to 0.25% towards end-2024.

Semiconductor upcycle bodes well for Japan's production



Source: Macrobond, UOB Private Bank, Japanese Ministry of Economy, Trade & Industry, SIA (Semiconductor Industry Association

Weaker Japanese economic growth in 1Q 2024



Source: Macrobond, UOB Private Bank, Japanese Cabinet Office (CAO)

Equities

Jakarta, Indonesia

United States

A cyclical bull market with moderate corrective forces

MSCI USA (+13.5% in USD terms) outperformed all other regional markets year-to-date (as of 13 June 2024). Out of the ~3,000 US companies which have reported their latest quarterly results, close to 65% saw positive earnings surprise. It is noteworthy that more than 70% of those in Technology (highest across the sectors) beat their earnings estimates. Stocks leveraged to the Momentum factor continued to outperform, led by the poster child for AI boom, Nvidia Corp.

On economy, the impacts of the Fed's tightening cycle have so far been offset by expansionary fiscal policies, limiting vulnerabilities and lending support to the US growth resilience. Yet, the rising interest burden on public debt could constrain fiscal policy going forward. Consumer data remained healthy for consumers and small businesses. While consumer cash buffers are substantially lower than at the peak of the pandemic, they are still higher than pre-pandemic. Meanwhile, household wealth effect still dominates. Having said that, the ISM manufacturing PMI rebound has stalled, suggesting that demand could be weakening.

Looking ahead, forthcoming bad economic news could be tantamount to good news for the markets. Continued growth slowdown and disinflation, albeit with speedbumps along the way, will lay the groundworks for the Fed to cut interest rates later this year. It is noteworthy that markets have not priced in any Fed rate hikes; rate-cut expectations have simply been delayed. Barring a recession or financial crisis, anticipated rate cuts will likely spur the next up-leg in risk assets.

Equity performances

USD Price Returns (rebased start of 2024 = 100)

Source: Macrobond, UOB Private Bank

United States

A cyclical bull market with moderate corrective forces

While inflation has been stubborn for the last two years, it is projected to decline. Indeed, the US super core services inflation has been stickier than expected, with the services sector still generating solid labour demand. Yet, the underlying trend points to a softening US labour market, with the current job openings to unemployed ratio falling back to pre-pandemic levels. At the headline level, an upside surprise in the labour market strength or inflation could periodically lead to Fed Funds Futures pricing in a less/no-cut scenario for this year. Nonetheless, policy rates are biased downwards.

On markets, a consolidation or pullback can be expected following an overextended equity rally. Having said that, the corrective forces for the equity market will likely be moderated due to several factors. First, a dovish Fed rhetoric and an encouraging earnings outlook (with the latest earnings season tilting to positive surprises) should lend support to risk sentiment. Second, the "Magnificent 7" continue to generate resilient sales growth and robust operating margins in aggregate. Third, the recent string of downside economic surprises could bring forward rate cuts (Fig. 1).

Against a backdrop of imminent US elections, markets could see higher volatility in the coming months. With a view that the cyclical bull market remains intact, investors could consider buying on pullbacks or engaging defensively via structured products. We advocate diversifying some exposure away from the "Magnificent 7" to the value-oriented sectors like Energy, Commodities, Industrials and Utilities. Some of these stocks can hedge against higher inflation expectations and/or benefit from a manufacturing rebound as well as the AI investment cycle.

CIO's recommendation: We expect limited upside to US equities, and recommend to diversify exposure away from the "Magnificent 7" to value-oriented sectors like Energy, Commodities, Industrials and Utilities.

Figure 1: Huge divergence in the Fed rate-cut expectations vs. US economic surprise

Source: Bloomberg, UOB Private Bank

Europe

Seeking opportunities in an industrial investment cycle

MSCI Europe (+5.2% in USD terms) underperformed several regional markets year-to-date (as of 13 June 2024). The positive price returns thus far can be attributed to valuation rerating amid a lackluster earnings growth, offset mostly by the EUR depreciation. For 2Q 2024, European growth stocks fared better than their Value peers. French President Macron's latest decision to hold snap elections led to a huge increase in political uncertainties as well as risk premium, culminating in the latest drawdown which accounted for Europe's regional underperformance.

On economy, European growth had a reset last year and is looking sequentially better this year. While Euro area core services inflation has been sticky of late due to strong wage growth, the European Central Bank (ECB) has been optimistic that inflation is on track to fall to its 2% target next year. This optimism is driven by a relief in supply-side pressures. A rebound in productivity growth and moderating wage gains should culminate in lower unit labor costs. Overall, the process of disinflation remains firmly on track for the eurozone economies.

Following the ECB's latest 25 bps rate cut in June which was in line with our expectations, markets are set to focus on the future moves. The ECB President Christine Lagarde did not provide firm guidance on further easing in her typical adherence to a data-dependent approach. However, further slowdown in wage growth amid fewer upside risks to prices, as well as the slump in commercial real estate, would render it difficult for the ECB to justify a restrictive policy stance.

Equity Performances

USD Price Returns (rebased start of 2024 = 100)

Source: Macrobond, UOB Private Bank

Europe

Seeking opportunities in an industrial investment cycle

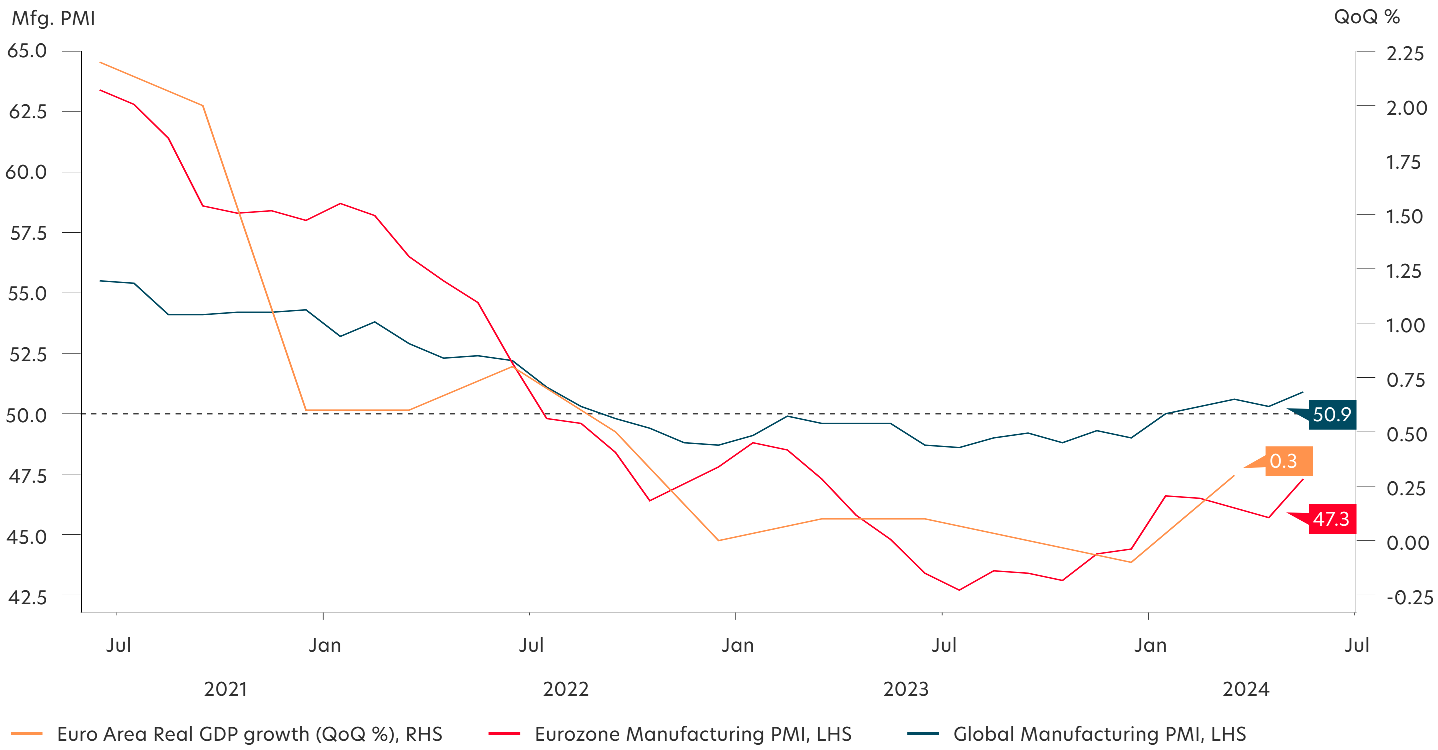
On markets, Europe's relative earnings growth momentum could be bottoming out amid undemanding valuations. Notably, the European banks, especially those in the peripheral regions like Italy and Greece, have rallied on the back of much reduced systemic stress. Overall, the risk-reward for European equities has improved, especially with the ECB beginning its policy pivot ahead of the US Federal Reserve.

Looking ahead, Europe's industrial exports growth are poised to rebound amid nascent signs of growth stabilisation in China. Eurozone's manufacturing PMI has already bottomed alongside the global peers (Fig. 1). Importantly, continued "friend-shoring" and re-shoring trends will favour selected industrial players which are leveraged to the infrastructure buildout. Structural capex growth in the areas of transmissions, renewables and datacenters will benefit some of these names. Concurrently, given the mounting geopolitical tensions and policy uncertainties, rising military defense spending across sovereign states will feature as a big macro theme.

While growth prospects for eurozone economies are brightening, it is imperative for investors to stay selective. We remain on watch for China's growth trajectory and manufacturing activity levels, which have huge implications for the eurozone exports. We reiterate preference for quality large-cap stocks which are leveraged to the industrial theme, and stocks with resilient fundamentals and a solid track record of dividend payouts. Healthcare stocks are also favoured for their growth characteristics with defensive tilts.

CIO's recommendation: We are modestly optimistic on Europe, and reiterate preference for quality large-cap names geared to the industrial theme, and stocks with solid track record of dividend payouts.

Figure 1: A manufacturing activity rebound and growth improvement in the Euro area



Source: Bloomberg, JP Morgan, UOB Private Bank

Emerging Asia

Cautiously optimistic on China's pro-growth pivot

MSCI Asia ex-Japan (+8.2% in USD terms) staged a strong comeback in mid-April, trailing only behind China (+7.9% in USD terms) and the US year-to-date (as of 13 June 2024). China broadly remains a valuation call. Latest fund managers' surveys suggest that sentiments towards China have turned incrementally less pessimistic, as some institutional investors seek to reduce their heavy underweight on allocation to China's equities. It is noteworthy that while China's policy stimulus remains piecemeal, the cumulative impact may become meaningful over time.

On economy, there have been nascent signs of growth stabilisation in China. Exports growth has been resilient amid a global tech upswing, firm external demand and competitive pricing. Meanwhile, the supply-side of the economy has been recovering amid strong industrial production and easing deflationary pressures (seen in producer prices). Having said that, China's manufacturing PMI surprisingly slipped into contraction in May, sparking concerns that weak demand could short-circuit China's growth recovery. Expansion in services also slowed. Retail sales growth has been lackluster amid domestic consumption downgrade.

For now, the Chinese government continues to provide drip-feed stimulus to the economy despite excess household savings. The government's property loosening measures could provide some support, but the slump in housing market requires more policy efforts to be effectively reinvigorated. Looking ahead, downward pressures in the economy will force President Xi to pivot to pro-growth policies.

Equity performances

USD Price Returns (rebased start of 2024 = 100)

Source: Macrobond, UOB Private Bank

Emerging Asia

Cautiously optimistic on China's pro-growth pivot

On markets, Chinese equities have tended to rebound from a wide earnings yield relative to bond yield gap (Fig. 1). As the yield gap narrows from a record high, there is still further upside potential in Chinese equities from current levels.

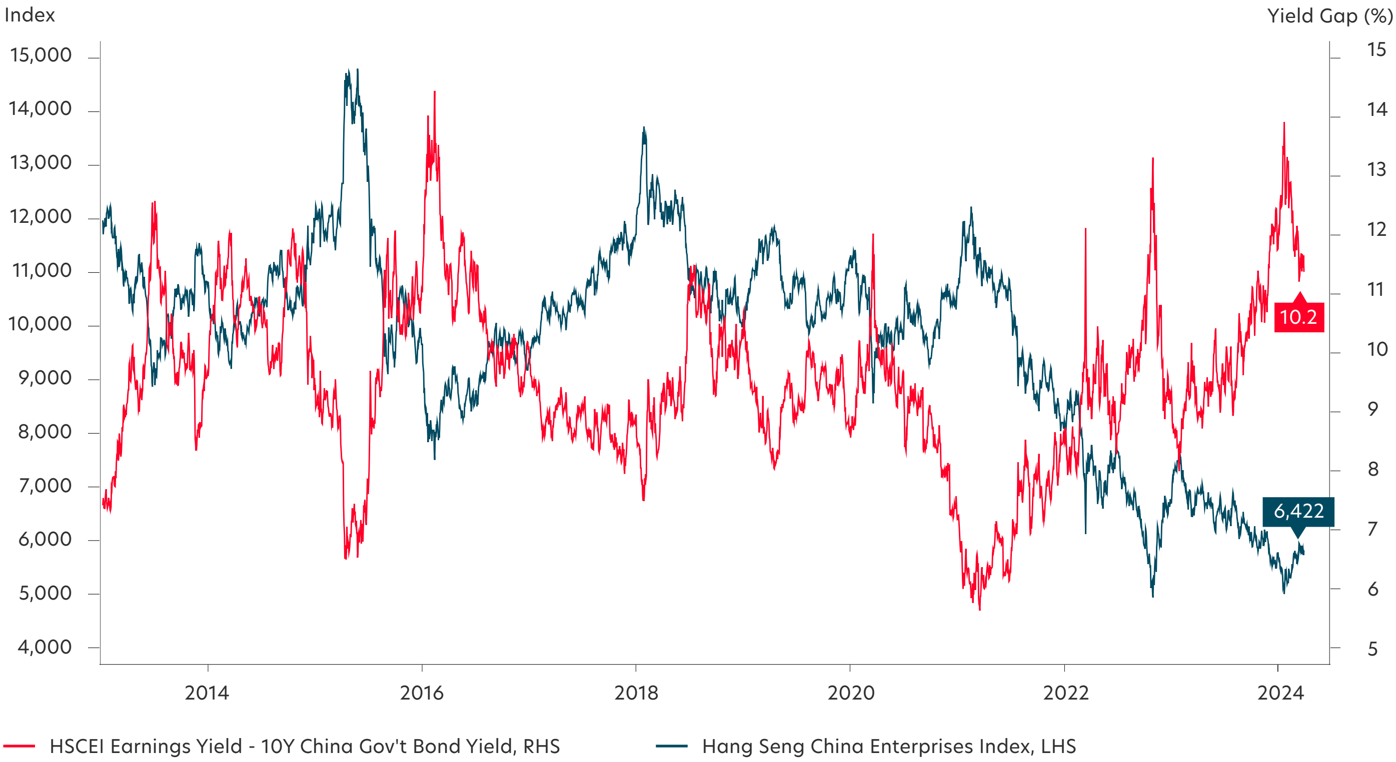
It is also noteworthy that a golden cross, where the 50-day moving average cuts above the 200-day moving average, has been established in both the Hang Seng Index (HSI) and the CSI 300 Index. This is a bullish technical set-up that typically signals further share price gains. Importantly, based on several indicators, China's current market conditions resemble those of 2016 (which saw a sustained market recovery) as opposed to those of 2015 (which saw a temporary bounce). Finally, any positive catalyst could drive Chinese equities higher from here given low expectations and their deep valuation discount relative to global and EM peers.

In terms of positioning, investors could consider a barbell strategy with high-dividend names on one end, and selected beta options (e.g., China Internet) on the other end. High dividend-yielding stocks could benefit from a potential dividend tax waiver which is under consideration for Hong Kong-listed stocks via Stock Connect. Meanwhile, foreign inflows are expected to return to selected Internet names which have seen strong growth in their latest earnings results.

Within emerging Asia, we prefer stocks in South Korea, India and ASEAN region. Selectivity remains key in Chinese equities. Investors can consider engaging them defensively via structured products.

CIO's recommendation: We prefer South Korea, India and ASEAN within emerging Asia. Stay selective in China - consider a barbell strategy with high dividend names on one end, and selected beta options on the other end.

Figure 1: Yield gap is narrowing from record high; risk-reward for equities is still attractive



Source: Macrobond, UOB Private Bank

Japan

Corporate earnings and reforms underpin equity rally

MSCI Japan (+4.9% in USD terms) underperformed all other regional markets except their EM peers (as of 13 June 2024). This can be largely attributed to the yen's continued depreciation against the US dollar given their wide interest rate differential for carry trades. The rise in Japan's long-term bond yields also posed as a drag to semiconductor names and other growth stocks. While bearish guidance for FY2024 was perceived as a near-term setback in the fiscal year results reporting season which ended in mid-May, the acceleration of corporate governance reforms remains supportive of Japanese equities in the longer term.

On economy, revised real GDP growth for 1Q 2024 showed a narrower annualised contraction of 1.8%, suggesting domestic demand is weak and the economy lacks vigor. Notably, net exports dragged alongside private consumption and capital expenditure. Household spending has been retreating as wage growth has not been able to keep up with the broad inflation. These could temper expectations for the Bank of Japan (BoJ) to hike policy rates in the near term.

Despite a worsening economic environment, the BoJ is cognisant of the effects of a weaker currency on inflation and the broader economy. Domestic consumers lament the higher costs of living, which are passed through from imported energy and materials. Given BoJ's expectations for a pickup in demand-led inflation, markets expect the BoJ to hike rates towards the end of this year. Coupled with the Fed rate cuts, the weak yen pressure could peak out in the coming months.

Equity Performances

USD Price Returns (rebased start of 2024 = 100)

Source: Macrobond, UOB Private Bank

Japan

Corporate earnings and reforms underpin equity rally

On markets, FY2023 results confirmed that corporate reforms are accelerating. The total value of share buybacks rose ~60% year-on-year, while raising return on equity (ROE) targets and shareholder returns has become a focal point. Looking ahead, there is still potential for Japanese companies to put large sums of the excess cash on their balance sheets to more efficient use. i.e., further share buybacks and higher growth investments. A reduction to net cash positions by increasing leverage could also culminate in further uplift to the share prices.

While MSCI Japan's valuation has pulled back slightly to 16x 12-month forward P/E in 2Q 2024, the structural rerating is well-sustained. At the same time, the earnings momentum has remained favourable (Fig. 1). In this vein, companies could look to raise guidance as FY2024 progresses. Strong corporate earnings as well as corporate actions aimed at improving capital efficiency are expected to drive a recovery in Japanese equity performance and support shareholder returns.

We reiterate preference for investors to keep the yen unhedged to defend against any abrupt shifts in BoJ's policy. Selected Consumer Discretionary names should continue to hold up well on firm inbound consumption. Meanwhile, upward pressure on Japan's interest rates typically bodes well for the Financials sector. Finally, companies tapping into strong AI and semiconductor demand remain well-positioned for long-term outperformance. Investors can consider engaging them defensively via structured products.

CIO's recommendation: We are bullish on Japan, and expect outperformance in selected consumer discretionary and financials names. We also recommend to keep the yen unhedged.

Figure 1: A sustained structural rerating amid strong earnings momentum for Japanese equities

Source: Macrobond, UOB Private Bank

Fixed Income

Taipei, Taiwan

Developed Markets Investment-Grade

Stable spreads against a benign growth backdrop

DM Investment-Grade (IG), proxied by the US Corporate IG Index (Bloomberg US Corporate Bond Index), delivered a total USD return of +0.4% year-to-date (as of 13 June 2024). This was driven by a trio of offsetting effects: marginal credit spread tightening, coupon carry and negative US treasury ("UST") returns. UST yields rose to a year-to-date high in end-Apr before paring back on softer manufacturing data.

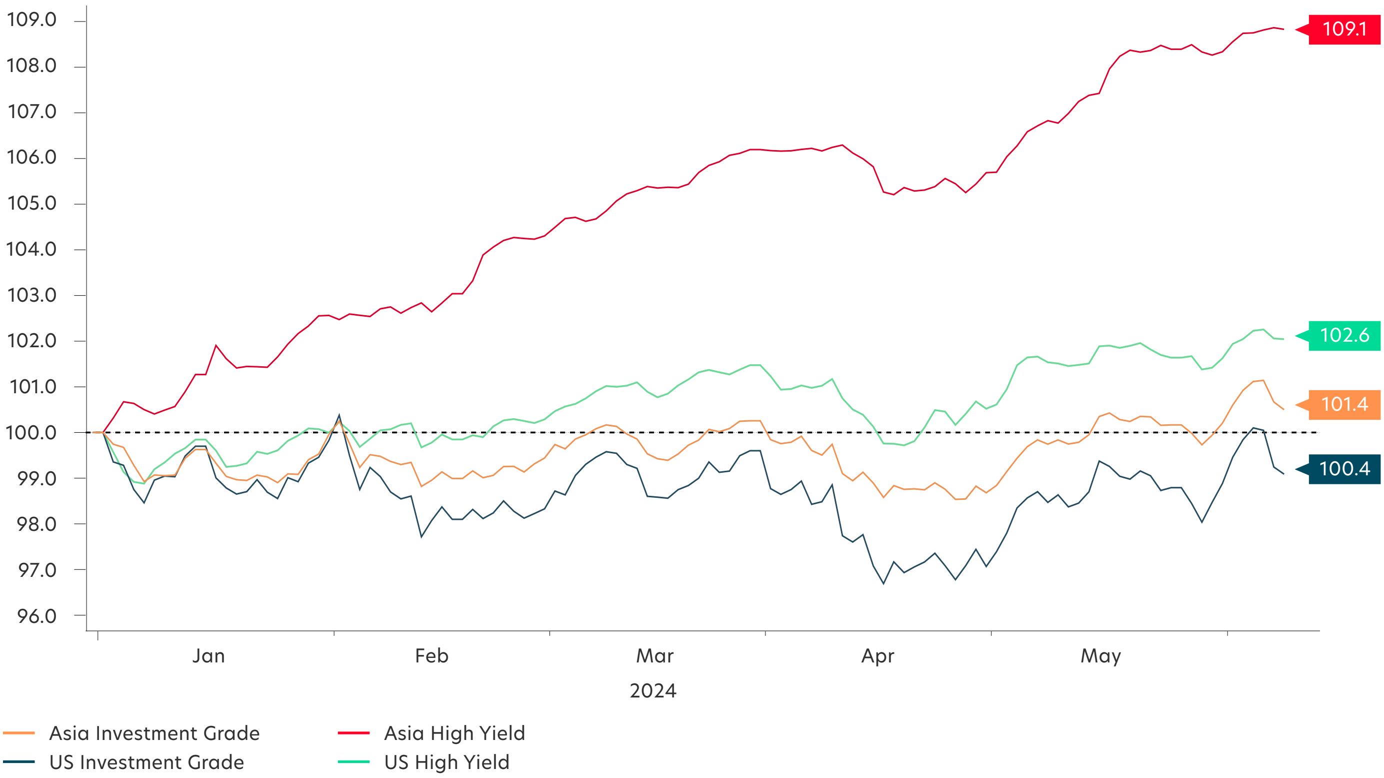
Expectations for eventual Fed rate cuts and a soft landing in the US economy provide an accommodating backdrop for credit spreads to stabilise. At current juncture, spread differentials are pricing in consensual likelihood of about 2 rate cuts over the next 6 months.

Credit valuations appear stretched but all-in yields remain attractive from a historical perspective. Excess returns for the rest of 2024 will likely be driven by credit selection; avoiding adverse credit events will prove paramount. We continue to advocate a bottom-up approach in selecting fundamentally-robust credits to secure income over a longer horizon.

CIO's recommendation: We are constructive on DM USD IG.

Fixed Income year-to-date performances

Total USD Return (rebased, start of 2024 = 100)



Source: Macrobond, UOB Private Bank

Developed Markets High Yield

Idiosyncratic risks an ongoing concern

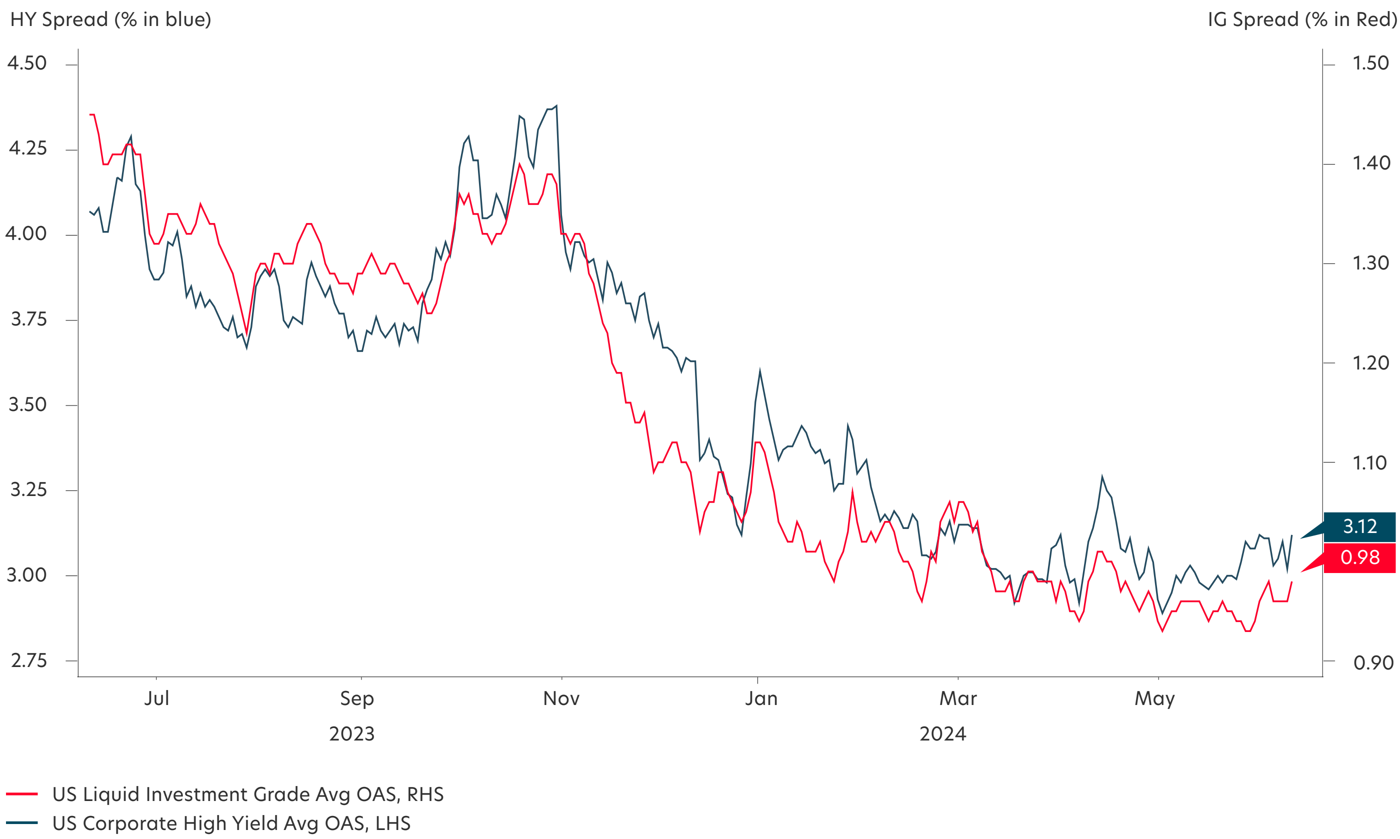
DM High Yield (HY) continued its outperformance over IG, with the US Corporate HY index (Bloomberg US Corporate High Yield Index) posting a total USD return of +2.6% year-to-date (as of 13 June 2024). The performance is largely idiosyncratic in nature, with selected distressed names leading overall returns on improved risk sentiments.

HY credit spreads outperformed by tightening ~25 bps year-to-date. Elevated credit carry at 312 bps average option-adjusted spread (OAS) on index level (as of 13 June 2024) remains a source of excess return, with systematic risks stay well-contained.

Having said that, default rates are projected to edge higher amid the elevated interest-rate environment. Overall, the material credit spread compression between IG and HY, as well as rising tail risks from a potential acceleration in defaults, lead us to be cautious of the asymmetric risk-reward.

CIO's recommendation: We are cautious on DM USD HY.

Figure 1: Asymmetric risk-reward following material spread tightening in High Yield



Source: Macrobond, UOB Private Bank

Emerging Markets Asia Investment-Grade

Resilience with coupon carry in focus

EM Asia Investment-Grade (IG) delivered a total USD return of +1.4% year-to-date (as of 13 June 2024) at the index level (Bloomberg EM Asia USD Credit High Grade Index). Notably, IG credit spreads were ~30 bps tighter year-to-date. EM credits have been a beneficiary of a supportive macro backdrop and favourable demand-supply dynamics. Apart from coupon carry, treasury performance under the scenario of eventual Fed rate cuts will be an important contributor to total returns for 2024.

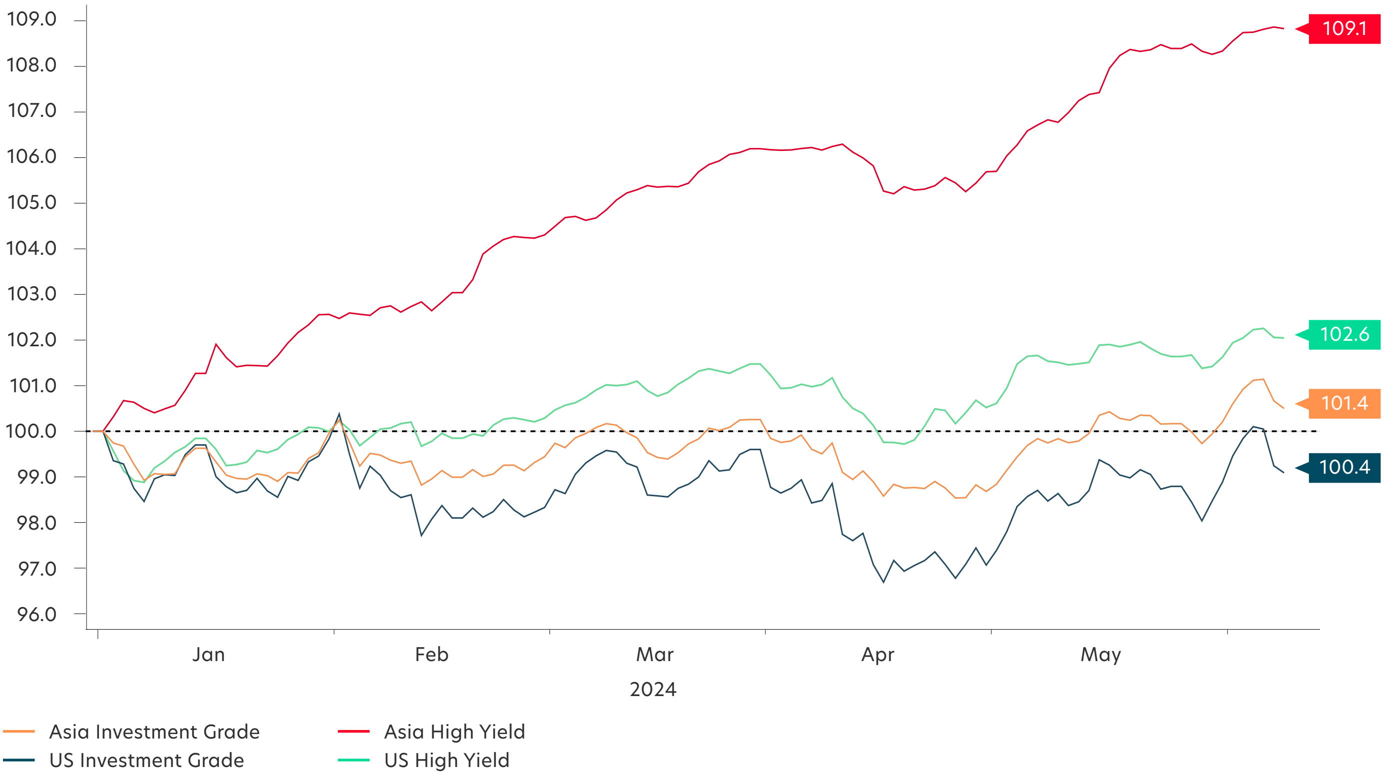
Within EM Asia IG, we maintain our preference for Asia financials, select Asia-focused insurers, quasi-sovereigns/strategic state-owned enterprises, as well as defensive consumer names. We emphasise the importance of adopting a diversified approach in managing duration risk, with an average modified duration target of 5-8 years.

We continue to advocate buying on dips whenever such opportunities present themselves.

CIO's recommendation: We are constructive on EM Asia IG.

Fixed Income year-to-date performances

Total USD Return (rebased, start of 2024 = 100)



Source: Macrobond, UOB Private Bank

Emerging Markets Asia High Yield

Avoidance of credit pitfalls is key

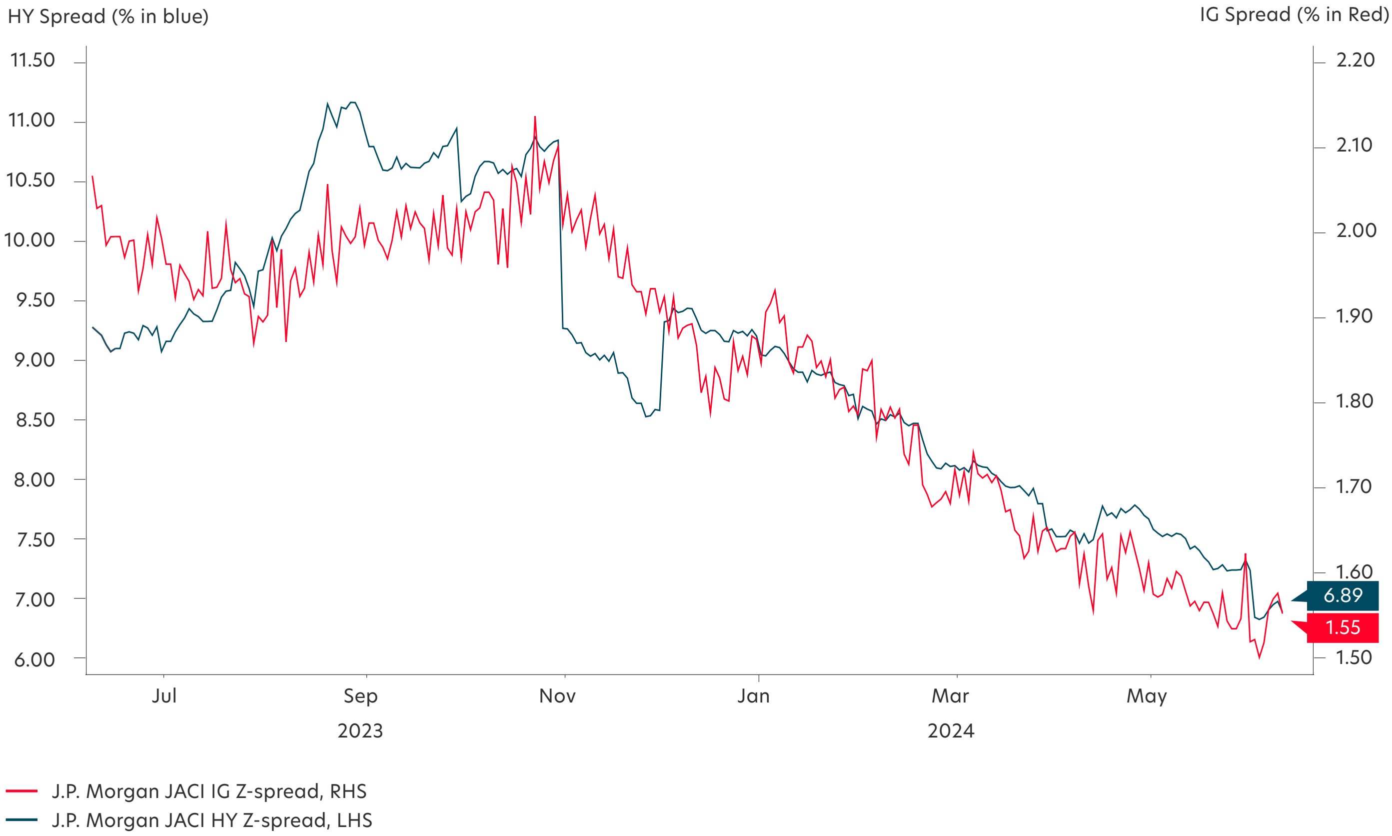
EM Asia High Yield (HY) maintained its standout performance with the reference index (Bloomberg Asia USD High Yield Bond Index) delivering a total USD return of +9.1% year-to-date (as of 13 June 2024). Apart from the removal of defaulted China property developer bonds which contributed to base effects at the index level, the profound recovery of idiosyncratic dollar curves (i.e., Vedanta, Sri Lanka, Pakistan and select mainland China/HK SAR developers) pulled returns higher.

We continue to maintain a cautious stance on the China property space given the lack of meaningful, direct policy support for developers. Moreover, positive restructuring outcomes have faced significant headwinds as liquidation possibilities (e.g., Evergrande, Country Garden) remain an overhang. In this regard, caution and high selectivity remains our modus operandi within the EM Asia HY sector.

Overall, we favour select ASEAN infrastructure, Indonesian utility and Indonesian property development credits.

CIO's recommendation: We are neutral on EM Asia HY.

Figure 1: Emphasise selectivity spread after material spread tightening



Source: Macrobond, UOB Private Bank

Commodities

Bangkok, Thailand

Crude Oil

Downside risks largely priced in after recent pullback

Brent crude price has fallen to USD 82/bbl. (as of 13 June 2024) following OPEC+'s latest decision to gradually unwind some production cuts in October. The OPEC+'s plans to boost oil flows into the global market came earlier than expected; the market at large saw the move as a sign of more supply in a period of uncertain demand (Fig. 1).

On the demand side, the OPEC+ had forecast global demand of 2.25m barrels per day (bpd) for 2024, suggesting oil demand will be stronger in the second half. However, demand growth in Asia, the top-consuming region, has not been living up to OPEC+ expectations. While economic signals from China remain mixed, depressed sentiments could pave the way for an upside surprise. Meanwhile, whether the US manufacturing activity rebound will fade following its latest decline in May remains to be seen.

On the supply side, the US crude stockpiles continued to rise alongside oil inventories in the Strategic Petroleum Reserve (SPR). Meanwhile, OPEC+'s decision sparked market jitters when it unveiled its plans to gradually increase production. In addition, Iraq, OPEC+ second largest producer behind Saudi Arabia, has consistently pumped crude above its OPEC+ quota. A planned phasing out of an additional 2.2m bpd voluntary cuts in 4Q 2024 is consistent with OPEC+ hopes that their demand forecast pans out.

Demand and supply risks have largely been priced in after the latest pullback. Markets still see limited contagion risk for the rest of the Middle East, but we maintain the view that a geopolitical risk premium is warranted. We have a modestly bullish forecast for Brent crude at USD 85/bbl. by end-2024.

CIO's recommendation: We are modestly constructive on Brent crude, and maintain the view that a geopolitical risk premium is warranted.

Figure 1: OPEC+ supply risks put pressure on Brent crude prices amid uncertain demand

Source: Macrobond, UOB Private Bank, Intercontinental Exchange (ICE)

Base Metals

China's stimulus and growth trajectory will be key

China accounts for a large part of the global demand for base metals. Despite China's ongoing property woes, Iron Ore and Copper prices have both rallied since the start of 2Q 2024. Notably, Copper rose quickly as traders piled in on expectations for a looming shortage. Iron Ore caught up to Copper's rally on China's policy loosening for the housing market, but excessive optimism has been unwound from late May (Fig. 1).

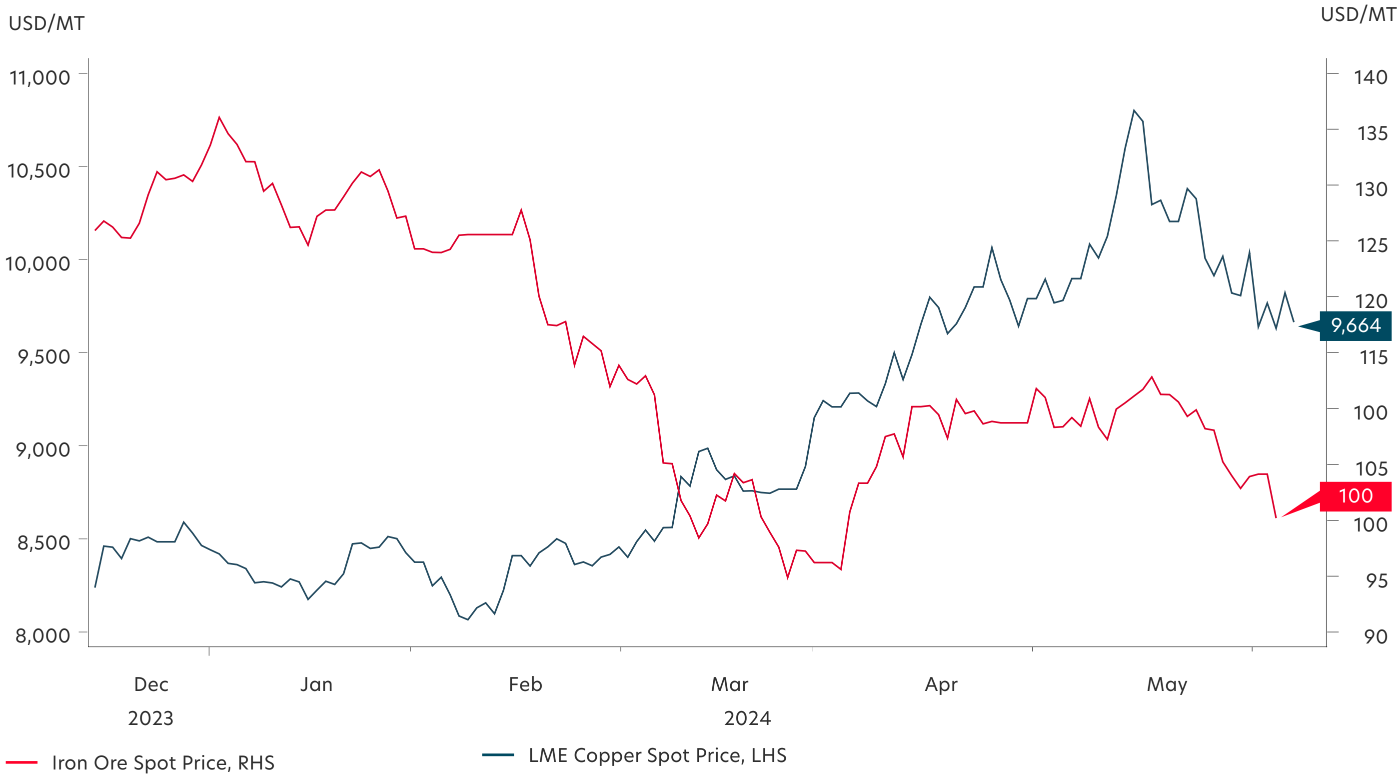
On **Iron Ore**, the protracted crisis gripping China's real estate sector continued to weigh on the steel market, with little prospect of a fundamental turnaround despite the government support. China's port inventories are at a two-year high, while its manufacturing growth is patchy at best. Looking ahead, Iron Ore prices could continue to consolidate until China's housing market emerges from its slump.

On **Copper**, the unexpected tightening in the global mine supply catalysed its rally. Concurrently, China has built an unusually large stockpile as factories tend to ramp up activity heading into summer. However, muted demand from processors of the metal has sparked concerns about the elevated prices against a backdrop of mixed Chinese manufacturing data. The silver lining is that Copper is a key component of electronics and parts for EV production and the broader electrification/green efforts.

Overall, nascent signs of growth stabilisation in China bode well for the base metals albeit the strong rallies might have gone ahead of fundamentals. Near-term corrections can be expected. A meaningful fiscal stimulus from China would aid sentiments and support base metal prices.

CIO's recommendation: We expect Iron Ore and Copper to be range-bound in the near-term, as we await a more meaningful fiscal stimulus from China to further support base metal prices.

Figure 1: Excessive optimism has been unwound since late May



Source: Bloomberg, UOB Private Bank

Precious Metals

Gold prices to stay firm, await Fed rate cuts

Gold had a strong rally in the first half of 2024, rising above USD 2,400/oz before its recent consolidation. The price uplift since end-2023 has been driven by safe-haven demand amid the ongoing geopolitical conflicts in Middle East and Ukraine, as well as robust emerging market (EM) and Asian central bank reserve allocation into Gold.

Notably, Gold has become an increasingly large part of China's central bank reserves. According to the World Gold Council, as of May 2024, China's official holding of gold has risen to about 2,300 tonnes, or just under 5% of total reserves. For context, this is a jump of about 20% from the 1,900 tonnes level just two years ago in mid-2022. In addition, there have been many industry reports of heavy retail buying of gold wafers, gold nuggets and gold ETF amongst retail investors in China.

Observably, the impact of the ongoing USD strength and high USD rates (with SOFR staying above 5%) on Gold prices has diminished (Fig. 1). Looking ahead, Gold prices could scale new heights on renewed ETF buying, especially as expectations for the Fed rate cuts start to ramp from Sep 2024. We reiterate the importance of having Gold as a portfolio stabiliser, and express optimism in Gold's longer term performance. We expect Gold prices to reach USD 2,500/oz by 4Q 2024.

Having said that, Copper prices could hold up well amid a global manufacturing rebound beyond a technical pullback.

CIO's recommendation: We expect a firm price trajectory for Gold and reiterate its importance as a portfolio stabiliser.

Figure 1: Widening divergence in real yields and Gold prices

Source: Bloomberg, UOB Private Bank

Currencies

Hong Kong SAR, China

USD

USD to stay firm near term and trend lower later

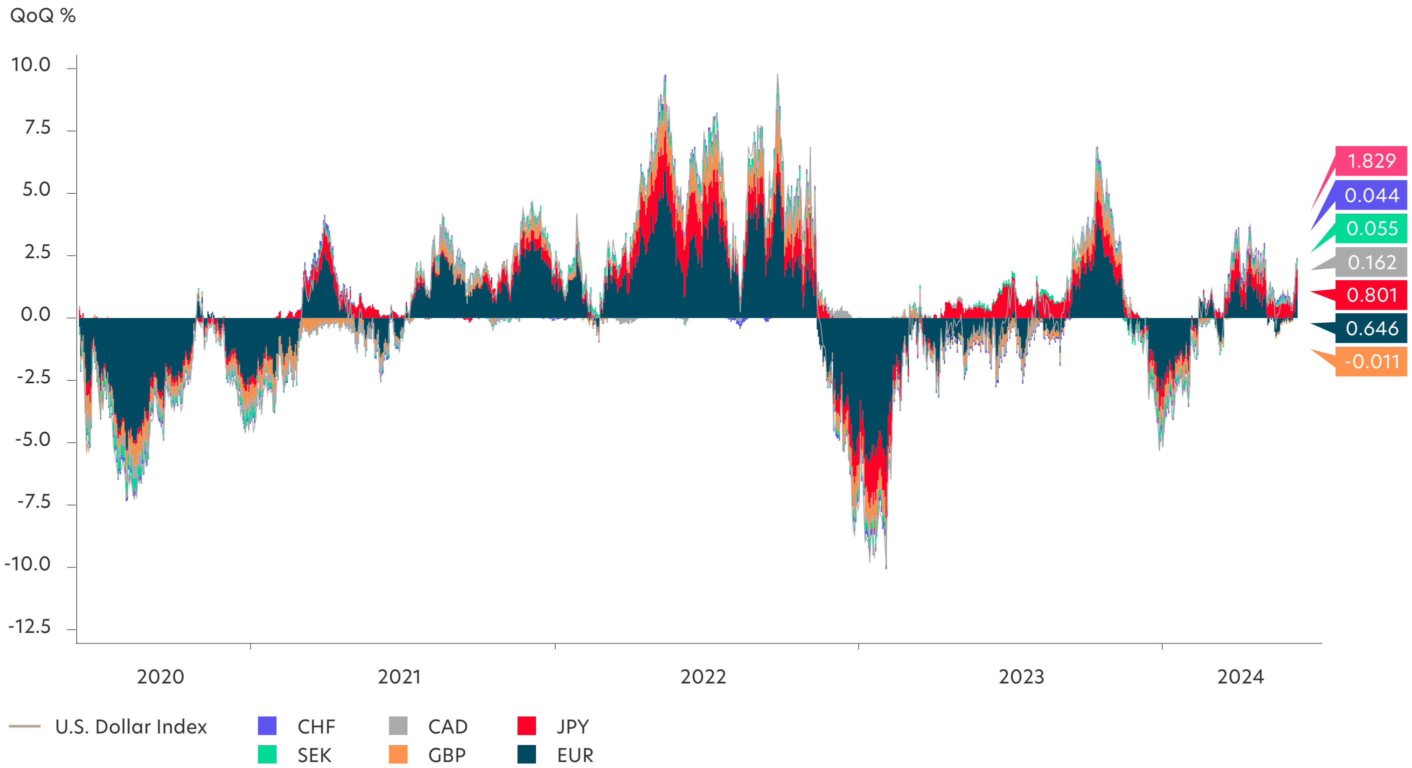
The USD held firm against major FX currencies in second quarter-to-date despite fast-changing market rate pricing expectations. After a series upside surprises to US inflation, a softer-than-expected May print has brought some relief that the Fed is still on track to cut interest rates this year. Furthermore, there have been recent signs of a US growth moderation. Nonetheless, the magnitude and timing of rate cuts have shifted dramatically since the start of the year.

UOB economists maintain the view of renewed USD weakness starting 3Q 2024. The Fed is expected to cut rates by 25 bps respectively each in September and December. The key risk to our negative USD outlook is if the Fed keeps rates on hold for the rest of 2024, on the back of sticky inflation and resilient growth. Should this scenario (not our base case) take place, the USD could stay strong into end-2024, given that other major central banks such as the ECB, BOE, RBA and RNBZ have already embarked on their rate cutting cycle.

Our US Dollar Index (DXY) forecasts are now 103.2 in 3Q 2024, 101.6 in 4Q 2024, 100.0 in 1Q 2025.

CIO's recommendation: We are neutral on the USD on a 3-to-6-month basis, and negative over a 6- to 12-month horizon.

Contributions to the US Dollar Index (DXY)



Source: Bloomberg, UOB Private Bank, Macrobond Financial AB, Intercontinental Exchange (ICE)

EUR

EUR to strengthen as yield gap with USD closes

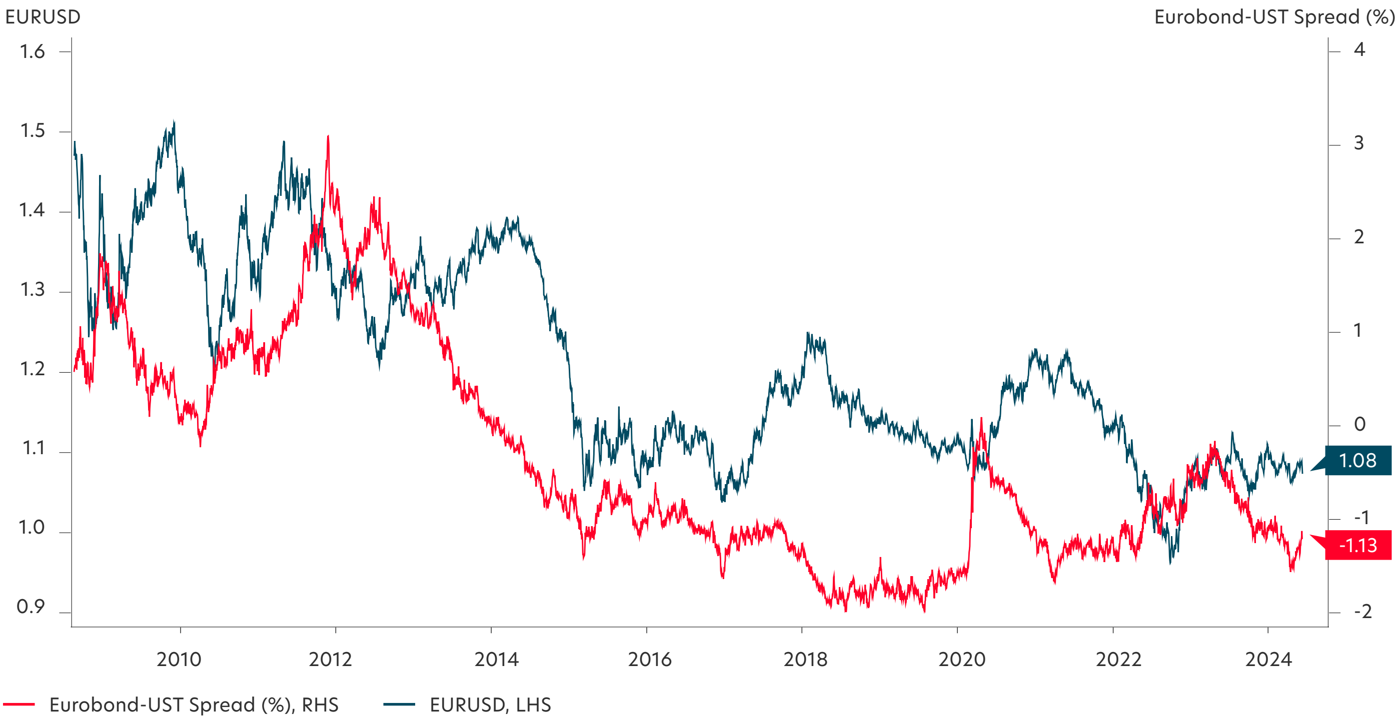
EUR/USD held steady on the back of a widely-flagged 25 bps rate cut by the ECB in June. This muted price action may be surprising given the scaling back of Fed rate-cut expectations in the 2Q, while the ECB asserts its policy independence from the Fed.

Looking ahead, with most market participants expecting the ECB to cut more than the Fed through 2024, the EUR/USD is likely to be driven by the Fed's actions.

Overall, our updated EUR/USD forecasts are at 1.10 in 3Q 2024, 1.12 in 4Q 2024 and 1.14 in 1Q 2025.

CIO's recommendation: We are neutral on the EUR on a 3- to 6-month basis, and positive over a 6- to 12-month horizon.

Closing of Eurozone-US yield gap to support EUR strenth in 2024



Source: Macrobond, UOB Private Bank, Macrobond Financial AB

CNY

CNY to strengthen as yield gap with USD narrows

The CNY was little changed through the 2Q 2024 despite widening US-China rate differentials. As the Fed rate-cut expectations grow in 2H 2024, rate differentials may start to narrow from 3Q 2024 in favour of CNY.

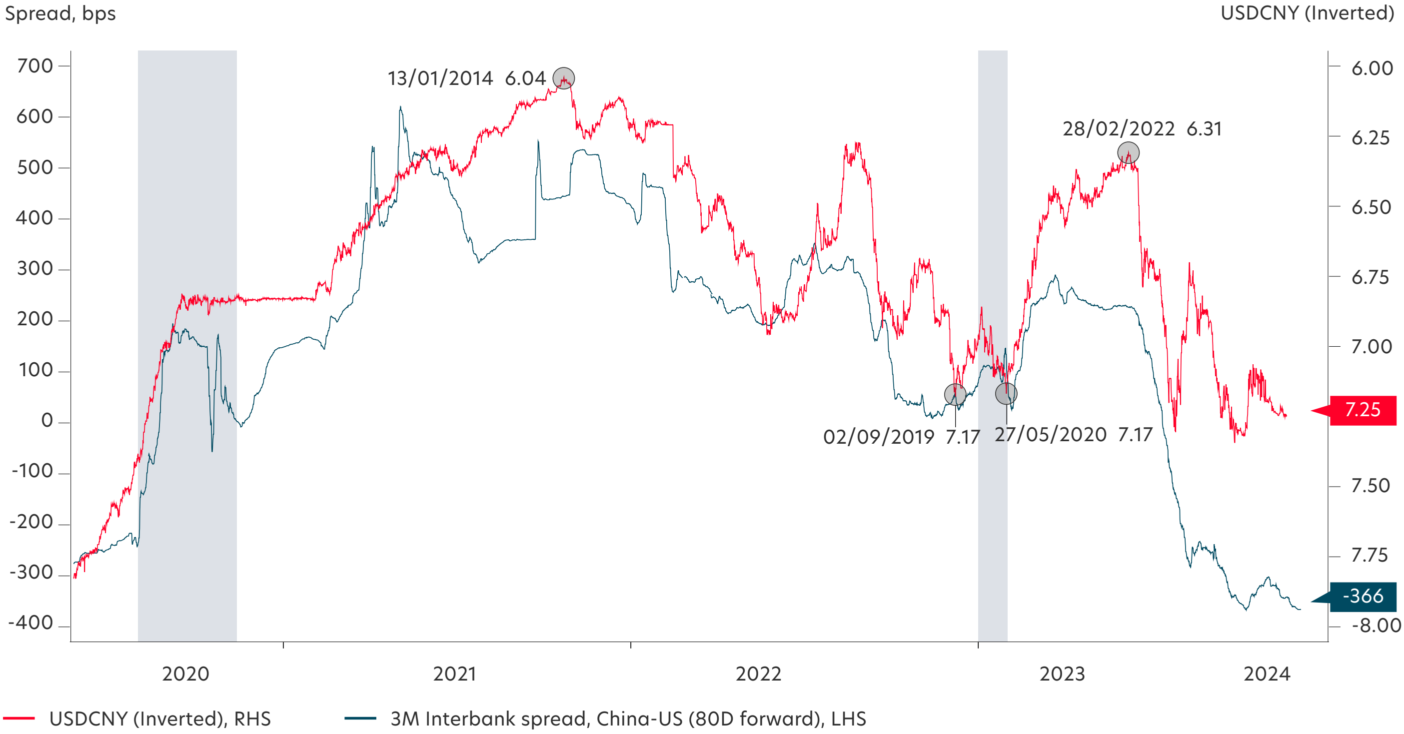
Looking ahead, we expect a better economic outlook for China, having upgraded our 2024 GDP forecast to 5.1% (from 4.8%) on the back of more government stimulus to boost growth. With reduced tail-risks on China's property sector and improving investor sentiment, the CNY is set to recover modestly in 2H 2024. Having said that, geopolitical uncertainty remains; a potential escalation of trade tariffs on China's exports could lead to a bumpy growth recovery.

The key risk to our positive view on the CNY is a sudden and unexpected CNY devaluation by the Chinese government. If the PBOC lifts the fixing to 7.15 from 7.11 currently, the USDCNY may test last year's highs near 7.30.

Our latest USDCNY forecasts are 7.20 in 3Q 2024, 7.13 in 4Q 2024 and 7.06 in 1Q 2025.

CIO's recommendation: We are positive on the CNY on both a 3- to 6-month basis and 6- to 12-month horizon.

Further narrowing of US-CN spreads expected



Source: Macrobond, UOB Private Bank, Macrobond Financial AB

JPY

Potential for JPY to appreciate on BOJ policy normalisation

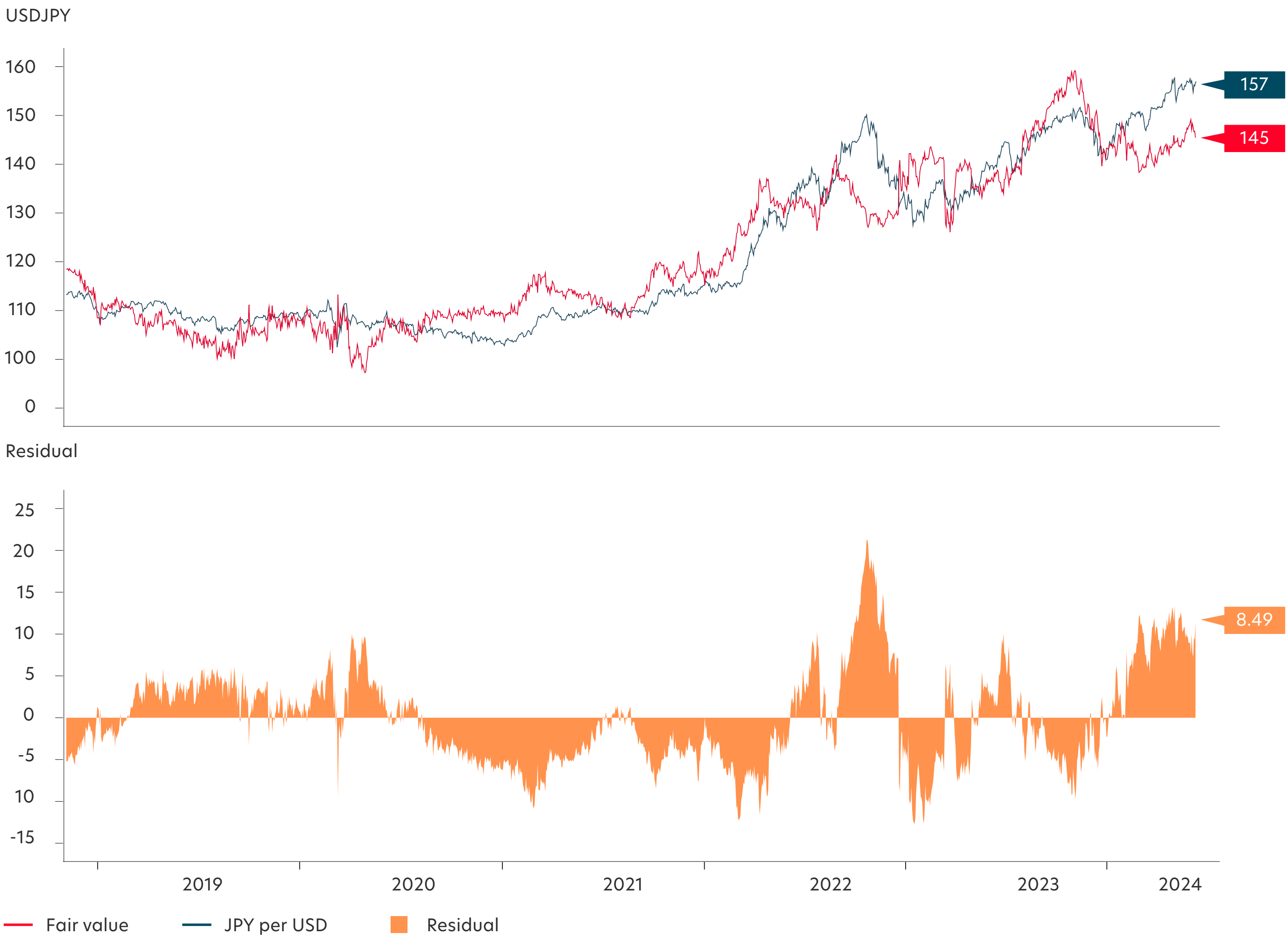
The JPY continues to depreciate against major FX currencies, weakening around 3% against the USD. BOJ's intervention at the end of April to support the JPY has proven futile. In early May, Japan's top currency official once again opined that authorities would take appropriate measures should there be excessive price actions against the JPY.

In our view, the USDJPY could reverse the trajectory more sustainably only when the Fed rate cuts are in sight towards the end of this year. UOB economists have pencilled in a second BOJ rate hike to 0.25% (from 0.1%) in 4Q 2024, which will help to widen the monetary policy divergence with the Fed, thereby reaffirming USDJPY's downside.

Our updated USDJPY forecasts are 152 in 3Q 2024, 149 in 4Q 2024 and 147 in 1Q 2025.

CIO's recommendation: We are positive on the JPY on both a 3- to 6-month basis and 6- to 12-month horizon.

JPY fair valuation model



Source: Macrobond, UOB Private Bank, Macrobond Financial AB

AUD

AUD to be boosted by stronger CNY and renewed USD weakness

AUD was one of the key outperformers among G10 economies in second quarter-to-date, rising 2% across April and May. This is a remarkable performance against the broad USD strength. The bounce in AUD could be attributed to a rebound in iron ore prices amid stickier inflation. UOB economists have also pushed back expectations of a policy pivot (in easing) to November (from 3Q 2024).

Another factor that could lead to further AUD gains in 2H 2024 is a pickup in the Chinese economy, which will boost the CNY and therefore the proxy AUD. While short-term volatility may persist, we see higher AUDUSD for the rest of 2024.

UOB economists forecast the AUDUSD to reach 0.68 in 3Q 2024, 0.69 in 3Q 2024, 0.70 in 1Q 2025.

CIO's recommendation: We are neutral on the AUD on a 3- to 6-month basis, and positive over a 6- to 12-month horizon.

Stronger AUD expected from positive Chinese spillovers

Source: Macrobond, UOB Private Bank, Macrobond Financial AB

SGD

SGD to appreciate modestly in 2024

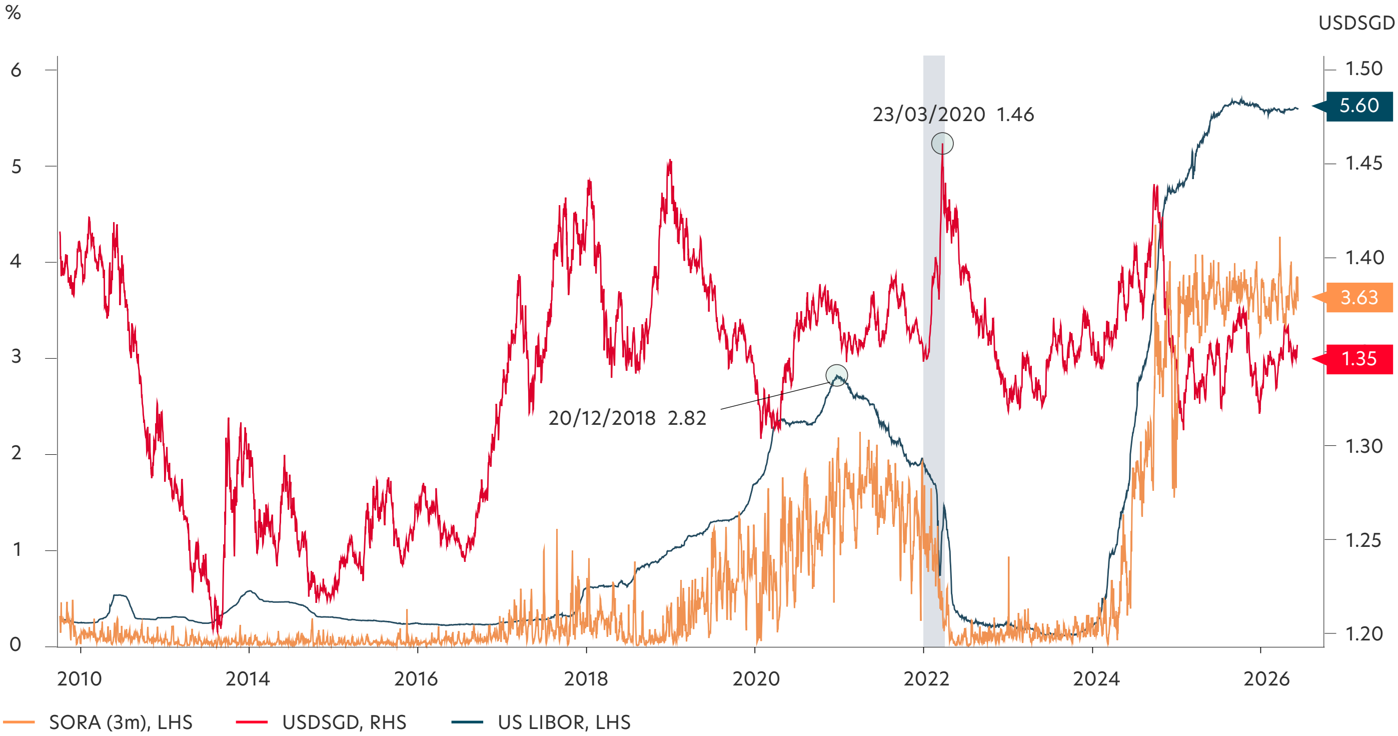
While most Asian FX currencies are on track for a second straight quarter of losses on the back of the "higher-for-longer" Fed narrative, the SGD held its ground. This is likely because the Monetary Authority of Singapore (MAS) kept its monetary policy unchanged at its latest April meeting; the positive slope of the S$NEER policy band likely facilitated a gradual pace of appreciation for the S$NEER, thus keeping SGD elevated in the near-term.

In 2H 2024, the SGD is expected to rebound alongside other Asia peers against the USD, as the Fed kickstarts its easing cycle. We also factor in a modest pullback in certain SGD-crosses such as SGDMYR and SGDCNY as we expect the MAS to lower the policy slope in the upcoming July Monetary Policy Statement (MPS), thereby resulting in a modest normalisation of the S$NEER lower.

Overall, our updated USDSGD forecasts are 1.34 in 3Q 2024, 1.33 in 4Q 2024 and 1.32 in 1Q 2025.

CIO's recommendation: We are neutral on the SGD on a 3- to 6-month basis, and positive over a 6- to 12-month horizon.

Further strengthening in SGD expected

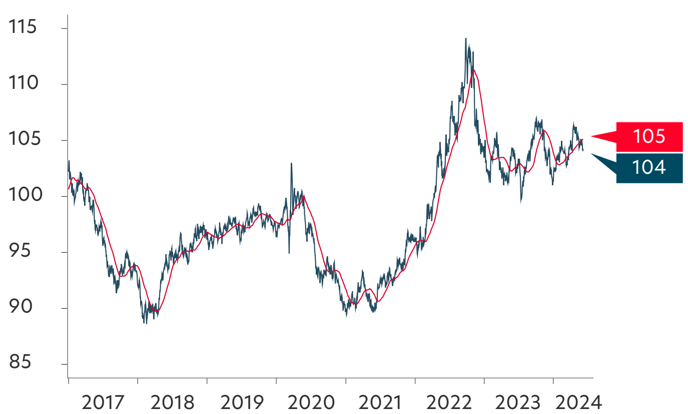


Source: Macrobond, UOB Private Bank, Intercontinental Exchange (ICE), Macrobond Financial AB, Monetary Authority of Singapore

6 Currency Price Charts

USD Index (DXY)

3-6m ■ 6-12m ▼

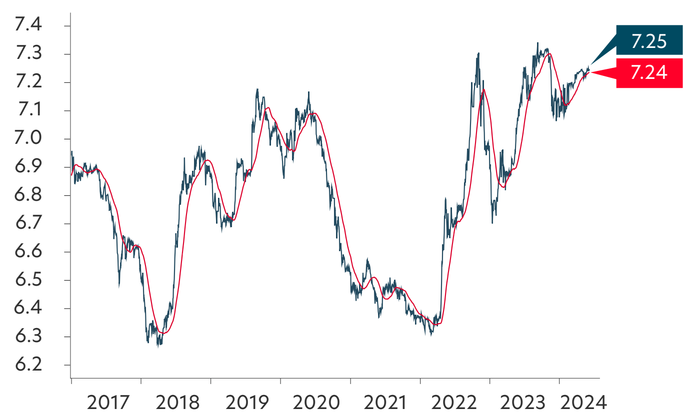


50dma — DXY

Source: Macrobond, UOB Private Bank, Macrobond Financial AB, Intercontinental Exchange (ICE)

CNY

3-6m ▲ 6-12m ▲

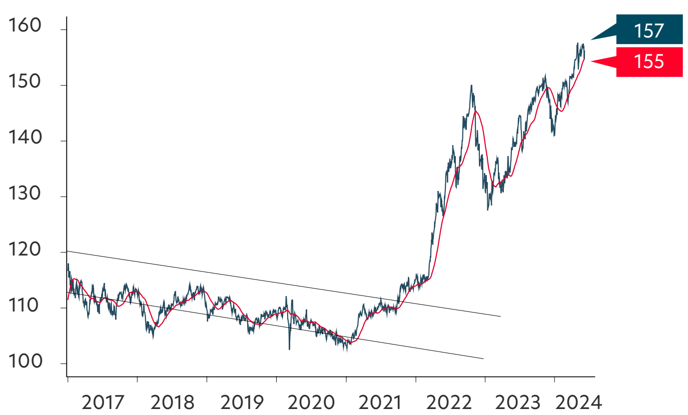


50dma — USDCNY

Source: Macrobond, UOB Private Bank, Macrobond Financial AB

JPY

3-6m ▲ 6-12m ▲



50dma — USDJPY

Source: Macrobond, UOB Private Bank, Macrobond Financial AB

EUR

3-6m ■ 6-12m ▲

50dma — EURUSD

Source: Macrobond, UOB Private Bank, Macrobond Financial AB, Intercontinental Exchange (ICE)

AUD

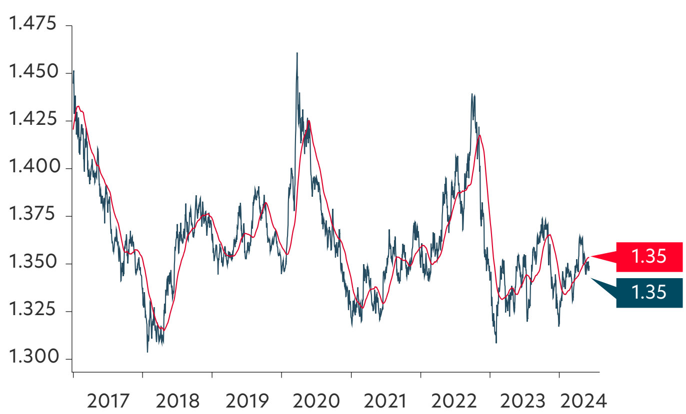
3-6m ■ 6-12m ▲

50dma — AUDUSD

Source: Macrobond, UOB Private Bank, Macrobond Financial AB, Intercontinental Exchange (ICE)

SGD

3-6m ■ 6-12m ▲



50dma — USDSGD

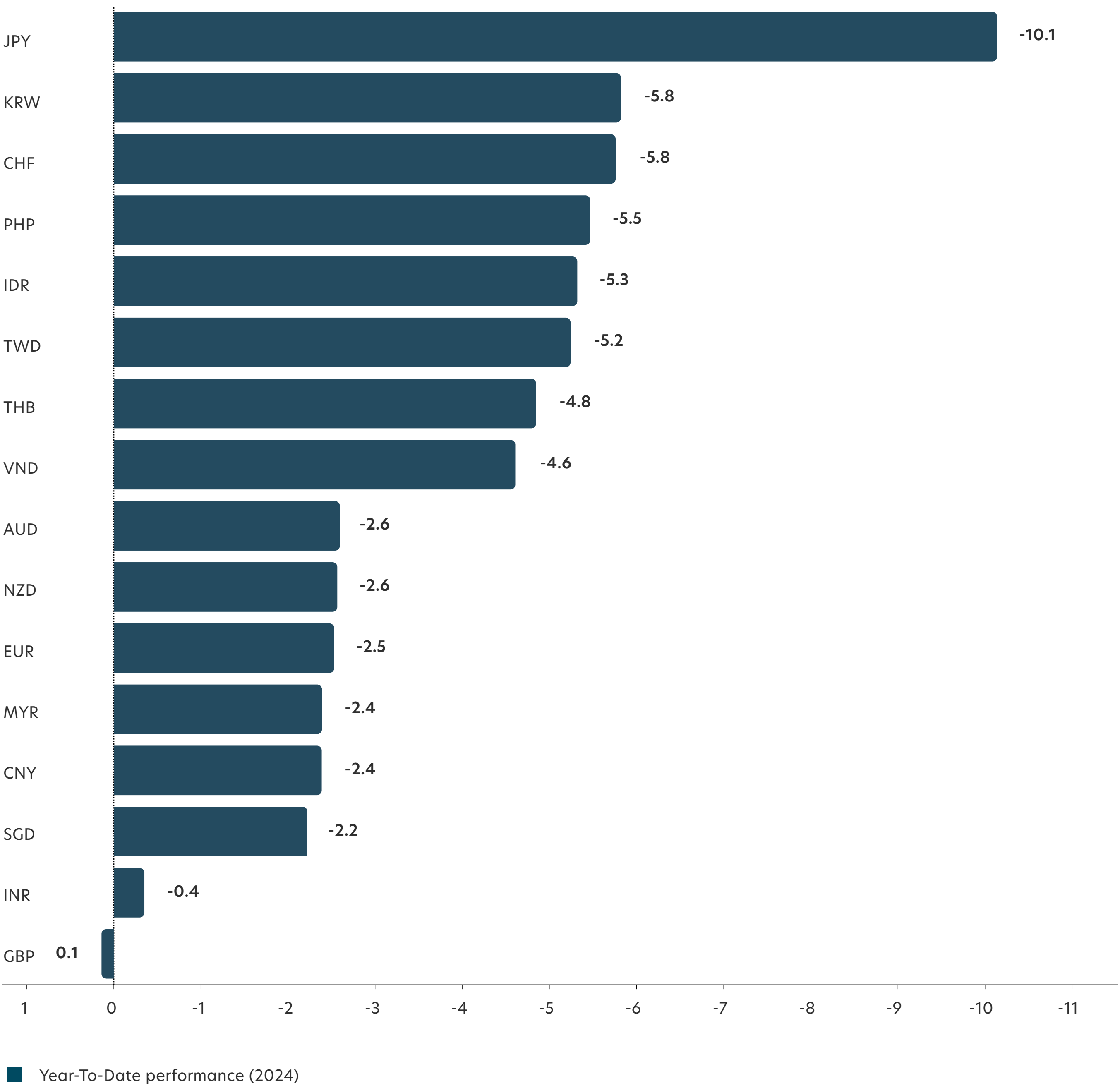
Source: Macrobond, UOB Private Bank, Macrobond Financial AB

▼ Underweight ■ Neutral ▲ Overweight

FX Performances versus the USD

Performance of Selected Currencies Against USD (2024)

% YTD



Source: Macrobond, UOB Private Bank, Macrobond Financial AB, Intercontinental Exchange (ICE)

Real GDP Growth

Real GDP Growth Trajectory

YoY % change	2023	2024F	2025F	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24F	3Q24F	4Q24F
China	5.2	5.1	4.7	4.5	6.3	4.9	5.2	5.3	5.1	5.1	5.0
Hong Kong	3.3	2.9	2.5	2.8	1.6	4.2	4.3	2.7	2.3	3.1	3.4
India (Fiscal yr)	7.0	8.2	6.7	12.8	5.5	4.3	6.2	8.2	8.1	8.6	7.8
Indonesia	5.1	5.2	5.3	5.0	5.2	4.9	5.0	5.1	5.3	5.0	5.2
Japan	1.9	1.0	1.9	2.6	2.3	1.6	1.2	-0.3	0.0	1.7	2.4
Malaysia	3.6	4.6	4.7	5.5	2.8	3.1	2.9	4.2	4.6	4.7	4.8
Philippines	5.5	6.0	6.5	6.4	4.3	6.0	5.5	5.7	6.2	6.2	5.8
Singapore	1.1	2.9	3.2	0.5	0.5	1.0	2.2	2.7	2.7	3.0	3.0
South Korea	1.4	2.8	2.4	1.1	1.0	1.4	2.1	3.3	2.7	2.5	2.8
Taiwan	1.3	4.0	2.5	-3.5	1.4	2.1	4.8	6.6	5.1	3.2	1.4
Thailand	1.9	2.8	3.1	2.6	1.8	1.4	1.7	1.5	2.1	2.5	5.1
Vietnam	5.0	6.0	6.4	3.3	4.1	5.3	6.8	5.6	6.0	6.5	6.0
Australia	2.1	1.2	2.2	2.5	2.1	2.1	1.6	1.1	1.2	1.2	1.5
Eurozone	0.4	0.8	1.4	1.3	0.1	0.1	0.4	0.4	0.6	1.0	1.2
New Zealand	0.8	0.9	2.3	2.1	1.5	-0.6	-0.3	0.3	0.2	1.2	1.7
United Kingdom	0.1	0.7	1.3	0.4	0.2	0.2	-0.2	0.2	0.4	0.7	1.5
United States (q/q SAAR)	2.5	1.2	2.5	2.2	2.1	4.9	3.4	1.3	-2.0	-1.2	1.4

Source: CEIC, UOB Global Economics and Markets Research estimates and forecasts.
For India, full-year and quarterly growth are based on its fiscal calendar (Apr-Mar).

FX, Interest Rates & Commodities

FX	06 Jun	3Q24F	4Q24F	1Q25F	2Q25F
USDJPY	156	152	149	147	145
EURUSD	1.09	1.10	1.12	1.14	1.15
GBPUSD	1.28	1.30	1.32	1.34	1.36
AUDUSD	0.67	0.68	0.69	0.70	0.71
NZDUSD	0.62	0.63	0.64	0.65	0.65
DXY	104.1	103.2	101.6	100.0	99.0
USDCNY	7.25	7.20	7.13	7.06	7.00
USDHKD	7.81	7.80	7.80	7.80	7.80
USDTWD	32.29	32.00	31.50	31.00	30.50
USDKRW	1,363	1,350	1,330	1,310	1,290
USDPHP	58.54	58.00	57.50	57.00	56.50
USDMYR	4.69	4.65	4.60	4.55	4.50
USDIDR	16,260	16,000	15,800	15,600	15,400
USDTHB	36.38	36.20	35.80	35.40	35.00
USDVND	25,433	25,200	25,000	24,800	24,600
USDINR	83.48	83.00	82.00	81.00	80.50
USDSGD	1.35	1.34	1.33	1.32	1.31
EURSGD	1.47	1.47	1.49	1.50	1.51
GBPSGD	1.72	1.74	1.76	1.77	1.78
AUDSGD	0.90	0.91	0.92	0.92	0.93
SGDMYR	3.49	3.47	3.46	3.45	3.44
SGDCNY	5.39	5.37	5.36	5.35	5.34
JPYSGDx100	0.86	0.88	0.89	0.90	0.90

POLICY RATES	06 Jun	3Q24F	4Q24F	1Q25F	2Q25F
US Fed Funds Rate	5.50	5.25	5.00	4.75	4.50
JPY Policy Rate	0.10	0.10	0.25	0.25	0.25
EUR Refinancing Rate	4.25	4.00	3.75	3.50	3.25
GBP Repo Rate	5.25	5.00	4.75	4.50	4.25
AUD Official Cash Rate	4.35	4.35	4.00	3.75	3.50
NZD Official Cash Rate	5.50	5.50	5.25	5.00	4.75
CNY 1Y Loan Prime Rate	3.45	3.20	3.20	3.20	3.20
HKD Base Rate	5.75	5.50	5.25	5.00	4.75
TWD Official Discount Rate	2.00	2.00	2.00	2.00	2.00
KRW Base Rate	3.50	3.25	3.00	2.75	2.50
PHP O/N Reverse Repo	6.50	6.50	6.25	6.00	5.75
MYR O/N Policy Rate	3.00	3.00	3.00	3.00	3.00
IDR 7D Reverse Repo	6.25	6.25	6.25	5.75	5.50
THB 1D Repo	2.50	2.00	2.00	2.00	2.00
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate	6.50	6.50	6.25	6.00	5.75

INTEREST RATES	06 Jun	3Q24F	4Q24F	1Q25F	2Q25F
USD 3M SOFR (compounded)	5.35	5.22	4.97	4.72	4.47
SGD 3M SORA (compounded)	3.67	3.60	3.43	3.28	3.08
10Y US Treasuries Yield	4.29	4.20	4.10	4.00	3.90
SGD 10Y SGS	3.21	3.20	3.15	3.10	3.00

COMMODITIES	06 Jun	3Q24F	4Q24F	1Q25F	2Q25F
Gold (USD/oz)	2,372	2,400	2,500	2,600	2,700
Brent Crude Oil (USD/bbl)	80	85	85	90	90
Copper (USD/mt)	10,149	9,000	9,000	10,000	10,000

Source: UOB Global Economics & Markets Research Estimates

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