UOB HOUSE VIEW

1Q2021

GLOBAL MACRO

After a difficult and rather "forgettable" 2020, light can finally be observed at the end of the tunnel as investors look forward to a more hopeful 2021 thanks to positive developments of COVID-19 vaccines. Our Conservative Base Case (60%) see a containment of the pandemic by 4Q21, with gradual removal of social distancing measures across 2H21. Under such a scenario, global economy will return to growth of 5.2%, albeit with growth differentiated across different economies and sectors.

ASSET ALLOCATION

Markets will be driven by the vaccine rollouts, strong economic growth and the low interest rate environment. We see several attractive investment themes for 2021. We recommend being overweight risk assets such as equities and credit around the world. We think the outlook for fixed income is attractive in corporate bonds but government bonds will face some headwinds as bond yields gradually rise. We are neutral for the outlook of broad commodities, and underweight cash.

EQUITIES

We have upgraded our call on the broad asset class of equities from neutral to overweight. In particular, we have moved US equities from underweight to a neutral position as we expect the relative performance of US stocks to shift towards sectors which have been most negatively impacted by the pandemic. Meanwhile, we continue to maintain our overweight calls on emerging Asia and Japan equities.

FIXED INCOME

We advocate for high yield credit, EM credit, Asia investment-grade credit over sovereigns at this juncture. We remain cautious on duration risk, as sovereign bond yields would likely edge higher while remaining below 1.2% in 1Q21. US real rates could potentially normalize higher as the economic recovery gains traction, and the US breakevens would be well-supported by under the Fed's average inflation targeting (AIT) regime.

COMMODITIES

We stay positive on Gold, but the bullish case is no longer overwhelming. As such, positive gold forecast is moderated to USD 2,000 / oz by 4Q21 from USD 2,200 / oz by 2Q21 previously. LME Copper has reflected fully the reflation scenario and may consolidate above USD 7,000 / MT for now. OPEC+ compromise to start raising production will limit strong upside for Brent crude oil. As such, we see mild strength in Brent crude oil to USD 55 / bbl by 2H21.

FX & INTEREST RATES

In the FX space, we expect the USD to slide further against most G-10 Majors alongside the global reflation trade, with the DXY targeting 90. In Asia, a strong CNY continues to anchor gains in most other Asian FX. In the Rates space, while forward money market implied rate expectations were somewhat buoyed by recent vaccine news, there is no immediate risk of monetary policy tightening. As such short rates are likely glued near zero. Meanwhile, reflation of the global economy across 2021 will be supportive of steeper yield curves.

UOB

GLOBAL MACRO

"Global Vaccine Reflation"

"*Almost all the vaccines will work and with very high efficacy rates … I'm optimistic that by February it's very likely that they will all prove very efficacious and safe*" Bill Gates when asked about COVID-19 vaccine efficacy at a TV interview in late November 2020.

After a very difficult and rather "forgettable" 2020, some light can finally be observed at the end of the tunnel as investors look forward to a more hopeful 2021. A series of news on the fast paced development of COVID-19 vaccines across November raised investor hopes that global health and the global economy will have much to look forward to in 2021. Specifically, when news first broke of the progress in COVID-19 vaccine on 09 Nov, that triggered off a "Vaccine Reflation" trade that saw risk assets being snapped up and lifted the MSCI All Country World Index (ACWI) by a massive 12% across the month of November alone.

According to various pharmaceutical updates, there are many potential COVID-19 vaccines that have progressed way beyond the pre-clinical trials. Out of which, there are currently around 20 "Top" COVID-19 vaccines racing through the three important phases of clinical trials, from Phase 1 testing in small scale groups, to Phase 2 testing in larger groups and finally Phase 3 large scale efficacy and safety trials. The latest news headlines across November focused on the promising results of the top few vaccines under Phase 3 testing with a handful of around 5 vaccines having achieved regulatory approval for limited use.
Indeed, renowned medical philanthropist billionaire Bill Gates has expressed his optimism regarding the efficacy of COVID-19 vaccines. However, Gates has also cautioned that the "next big question" is that once the vaccines are available, how do we distribute the vaccines equitably to people and nations in need. Specifically, he warned that vaccines availability "should not be just rich countries winning a bidding war".

Bill Gates is correct. While there is much optimism to look forward to for 2021, there remains much uncertainty with regards to the effective use, distribution and eventual success of COVID-19 vaccines. Will there be enough vaccines for the world's population? How do nations co-ordinate a global vaccination effort to ensure that the world achieve herd immunity at roughly the same time? Will the vaccine be equitably accessible to both Developed Market nations as well as Emerging Market nations? Will the vaccine come soon enough to help reinforce the nascent global recovery that we saw in 2H20? How soon can global travel return to normalcy following the vaccinations? The list of questions goes on and on. There is so much variability and uncertainty.

With respect to the global economy, we envision three broad scenarios with respect to the vaccine progress and the pace that the COVID-19 outbreak will be brought under control. These will have their respective impact on the macroeconomic outlook for the world's economy and key global economic blocks (the US, Eurozone and China) and translate into divergent outlooks in the FX, Interest Rates and Commodities spaces.

Our Conservative Base Case scenario, which we ascribe a 60% probability calls for approvals of vaccines and effective rollout across 1H21 with social distancing measures gradually reduced across 2H21, cumulating in COVID-19 containment by 4Q21. The global economy returns gradually to growth, albeit with an uneven recovery differentiated across sectors. Specifically, the world's economic growth is expected to recover to 5.2% YoY in 2021, from -4.4% YoY in 2020. As a result, there is no change to the current trajectory for gradual USD weakness. Concurrently, reflation expectations will help yield curve steepen gradually.

Our Optimistic "Bill Gates" scenario, with a 25% probability sees a much quicker multiple vaccine rollout by early 2021 with mass vaccination. This is similar to Bill Gates optimistic assessment of a Feb 2021 timeline of a vaccine rollout. This results in COVID-19 containment by mid-2021 resulting in more optimistic global growth rate of 6.5% YoY for 2021. This is a more positive outcome, resulting in a further entrenchment of the Risk-On environment that will push Commodities-linked FX and Asian FX to further strong gains against the USD. Yield curves will be repriced significantly higher as policy rate normalisation expectations get upgraded and brought forward.

Our Pessimistic "Zombie" scenario, which we assign the lowest probability of 15% sees delay in vaccine approval, amidst worries of vaccine safety and efficacy with little willingness for vaccination. Unfortunately, in this case, there is no COVID-19 containment until end of 2021 and this will result in sub-par global growth of 2.5% YoY with on-going supply chain disruption, asset impairment and financial market stress. The flight to quality will spur broad Dollar gains and yield curves will flatten yet again as the reflation narrative gets extinguished.

Specifically, within our Base Case Scenario, there are several noteworthy themes that may play out across 2021:

Global Economic Outlook: China and Asia to lead US and Europe in global reflation

First, in terms of global economic outlook, China and Asia appear to be the safest bet in terms of a clear and consistent growth recovery path. China has controlled the COVID-19 outbreak much better than the US and Europe. Not only will China's economy be the ONLY major economy in the world to register positive growth in 2020, its economic recovery is expected to strengthen further in 2021 with a forecasted above trend GDP growth rate of 8.2% YoY. China's long term plan to double its nominal GDP in the coming 15 years would imply that GDP needs to growth an average of 4.5% per year for the next 15 years. It is important to note that across all our three scenarios, China fares the best in growth outlook and is expected to perform better than the US and the Eurozone.

On the other hand, the US economy is still being held hostage by a raging COVID-19 pandemic amidst a difficult transition for President-elect Joe Biden. A further delay in fiscal stimulus also risks extending the 4Q20 growth malaise into 1Q21. Eurozone is not faring any better as its major economies are gripped by deflation with the weaker economies weighed down by significantly elevated fiscal debt load as a result of the COVID-19 stimulus efforts. 2021 will also present much uncertainty politically for the Eurozone given that German Chancellor Angela Merkel will be due for retirement. The absence of her steady and understated leadership will be sorely missed at a time of intense economic stress across the Eurozone.

The State Of COVID-19 In 2021

A "Moderate COVID-19 4Q20-1Q21" – The surge of infections is difficult to contain unless stricter restrictions and social distancing measures are imposed. Hospitalisation rates rise but does not overwhelm the healthcare system. No country-wide lockdown but services-related industries deeply impacted. Manufacturing stay open while online economic activity thrives.

	Optimistic "Bill Gates"	Conservative Base Case	Pessimistic "Zombie"
Probability	25%	60%	15%
Vaccine Approval & Effectiveness In Rollout And Adoption	Multiple vaccines are effective and approved in late 2020/ early 2021, with quick efficient rollout and adoption. To rollout first in developed economies and followed by developing economies. Widespread willingness to receive the vaccination. Most of the social distancing measures to end by mid-2021.	Some vaccines proved to be effective and approved within 1H-2021. Relatively efficient rollout for developed economies but delayed availability for developing economies by 2H-2021. Acceptable level of willingness to receive vaccination. Most social distancing measures end only gradually in 2H-2021.	Delays in vaccine approvals due to safety concerns, and an effective approved vaccine is only available in 2H-2021. The widespread concerns about vaccine safety, resulting in low willingness to receive vaccination in the early part of the rollout. Intermittent lockdown and social distancing measures persist till 2022.
COVID-19 Containment Timeline	By Mid-2021	By 4Q-2021	By 2H-2022
Global Economic Outlook	Growth is more positive than previous projection, with services previously impacted materially by COVID-19 seeing meaningful rebound (tourism-related, F&B, travel-related, entertainment)	Return to growth but rebound is more subdued. Uneven recovery, differentiated between economies, and within economies differentiated between sectors. (manufacturing, e-commerce vs in-person services)	Sub-par growth for full year, some supply chain disruption and demand destruction, an intermittent financial stress environment
2021 Economic Growth (%) (Global / US / Eurozone / China)	6.5 / 4.0 / 6.5 / 10.0	5.2 / 2.8 / 5.2 / 8.2	2.5 / 0.5 / 2.3 / 5.5
Rates Outlook	Widespread optimism will be reflected as higher longer term yields. Policy rate normalization expectations will be upgraded. But 2021 rate hike probability remains remote. Yield curves can reprice significantly higher.	Hopes for reflation will mitigate downside in yields. Policy rate normalization expectations fluctuates between 2-3 years' time. Yield curve gradually steeper with episodes of retracement driven by uneven economic recovery.	Reflation narrative extinguished and replaced by aggressive and front loaded fiscal and monetary responses. More QE and perhaps yield curve control will drive longer term yields lower and flatten the yield curve.
FX Outlook	Asian EM currencies gained strongly vs USD as a result of portfolio inflows. Commodity-linked FX such as AUD to benefit from strong risk appetite and commodity upswing.	Our gradual USD weakness intact – most G-10 and Asian FX gained modestly against the USD.	Flight-to-quality spurred broad-based USD gains, particularly against Asian EM which relied on investors flows.

Source: IMF, UOB Global Economics & Markets Research

ASSET ALLOCATION

After a very challenging year in 2020, we expect a year of macroeconomic recovery for 2021. The conclusion of the US presidential election clears many uncertainties about future policies and the announcements of strong vaccine efficacy results set markets up for a positive investing environment in 2021. While global markets were driven on a hope of a rebound in 2020, in 2021 markets will be driven by globally synchronized growth.

We expect markets to look past the risks associated with the high number of cases in 4Q20 wave of the pandemic and look toward the improving prospects in 2021. Even as the latest wave is surpassing cases in prior peaks, markets seem confident that 1) the economic rebound following lockdowns can be sharp, and 2) vaccines imply that the pandemic can eventually be resolved in 2021. While the current wave is worse than prior waves most estimates are that lockdown measures appear only partial compared to prior round with mobility indices pointing to about only a quarter of the slowdown previously seen. Thus we expect that the economic affect will be smaller and the rebound will be more rapid.

Markets will be driven by the vaccine rollouts, strong economic growth and the low interest rate environment. We expect risk assets like equities and credit will be supported by multiple factors. The news on the vaccine rollouts have the potential to steadily boost confidence as the pandemic is managed. The success of the trials with higher risk groups implies that the rollout can have a more rapid impact as the high risk groups can be vaccinated first and rapidly bring down the case fatality rates. Economic growth levels in 2021 should be at multi-year highs due to the low base of 2020 and the steady news of strong growth should be supportive to markets. Finally, we expect central banks will maintain low interest rates throughout 2021 and beyond. The low interest rate environment will continue to support the "reach for yield" that is supportive of risk asset valuations. We think markets will shift from "trading on the hope of recovery" to being driven by the actual growth in earnings and economies.

We see several attractive investment themes for 2021. **Firstly, we would recommend being overweight risk assets such as equities and credit around the world.** Within equities we expect the laggards from 2020 to rebound in 2021 and we expect Asia to outperform in 2021 both in terms of economic growth and in market performance. The outlook for Asian equities, fixed income and currencies all look relatively stronger than the other major regions. We think the outlook for fixed income is attractive in corporate bonds but government bonds will face some headwinds as bond yields gradually rise. **We are neutral for the outlook of broad commodities and recognise some commodities will benefit from the recovery story in 2021. We are underweight cash**.

Risks remain elevated. While we have a constructive outlook on equity and credit markets, we would caution that the outlook includes high chances of volatility in 2021. The global macro-environment continues to have many structural imbalances and there remain risks that can trigger volatility. We note that debt levels of government around the world has increased in the pandemic, the vaccine rollout to the entire world will remain logistically challenging, and global geopolitics remains complicated.

Global Asset Allocation For 1Q 2021

	Underweight	Moderate Underweight	Neutral	Moderate Overweight	Overweight
Equities					•
Fixed Income				•	
Commodities			•		
Alternatives (hedged strategies)			•		
Cash	•				

EQUITIES

Despite the surge in global infection cases towards the end of 2020, we continue to see signs of recovery from recent economic data releases. Moreover, fading uncertainties over the US presidential election and recent positive developments of a COVID-19 vaccine are justifying our constructive view on equities.

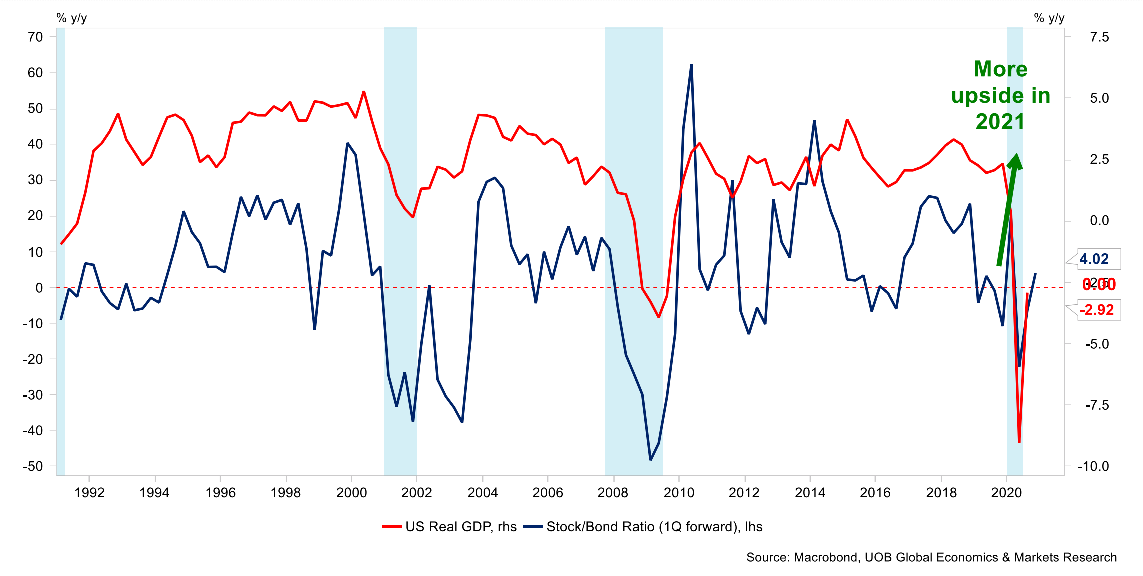
To this end, **we have upgraded our call on the broad asset class of equities from neutral to overweight**. In particular, we have moved US equities from underweight to neutral as we expect the relative performance of US stocks to shift towards sectors which have been most negatively impacted by the pandemic. These include cyclical sectors such as financials, industrials, materials and energy.

As such, this market breadth improvement will continue to support overall equity index, stock/bond ratio, and is also a leading indicator for economic growth. Growth stocks in sectors such as technology, which are defensive against the economic fallout are trading at relatively high valuations and could underperform on a relative basis going forward.

That said, we are not advising that investors shun the technology space altogether. While there was a sell-off in global technology stocks following the news on COVID-19 vaccine towards end-2020, we view this as a healthy market correction. In fact, the technology sector has seen an increase in investor interest, stoked by the higher demand for digital tools and solutions as remote working has become the new-normal. We believe the interest in technology stocks will continue. Moreover, technology stocks will remain an attractive long term investment story as it is a cyclical sector and will likely see better performance when they price in the anticipated strong gains arising from a global economic recovery.

Meanwhile, **we continue to maintain our overweight calls on emerging Asia and Japan equities.** Investors should also consider shifting some assets from North Asia to Southeast Asia equities,which have been the laggards due to impact from the pandemic.

Bonds/Stocks Ratios Forecast Real Economy



Source: Macrobond, UOB Private Bank

COMMODITIES

Gold's rally stalls on vaccine news as Copper and Brent play catch-up

News of strong progress in COVID-19 vaccine research injected further volatility into the commodities space in the final quarter of 2020. What looked like a "sure bet" for a further rally in gold price turned out to be frustrating price action as gold encountered heavy selling instead. As gold's rally stalled, copper continues to rally ahead and is now head-to-head with gold in terms of its year-to-date normalized return in USD. Brent crude oil was left behind as usual in the broader commodities rally, but nonetheless put up a good fight with a last minute rally from USD 42 / bbl to USD 48 / bbl across November. Will the "Vaccine Reflation" trade pull commodities even higher in 2021?

Gold: Price rally stalls as ETF in-flows reverse

Over the medium term, little has changed in terms of the positive driver for gold. In particular, DM central banks continue to ramp up their QE and this is a very positive driver for gold. Nonetheless, we need to be cognizant of the near term price weakness for gold from ETF redemption and slowdown in central bank purchases. Overall, we stay positive in our medium term outlook for gold. But we adjust our point forecasts lower given the set-back in price action. Our updated gold forecasts are USD 1,850 /oz for 1Q21, USD 1,900 /oz for 2Q21, USD 1,950 /oz for 3Q21 and USD 2,000 /oz for 4Q21.

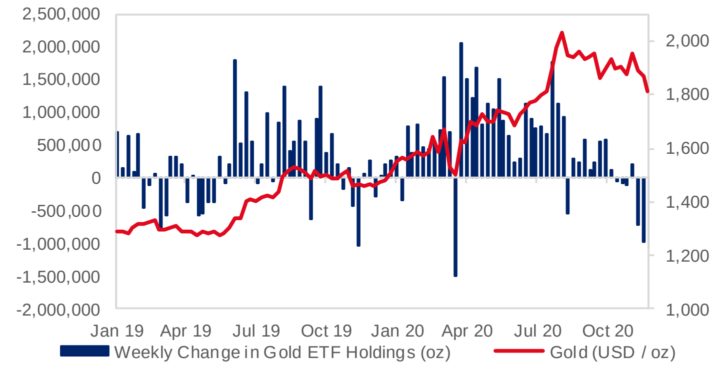
Copper: China restocking extends price rally further

LME Copper continue to rally strongly above USD 7,000 / MT to USD 7,700 / MT. Key positive drivers include restocking by China as well as on-going global inventory drawdown. Copper will stand to benefit further should the reflation of the global economy take hold. Overall, while there may be valid reasons to support the strong rally over the past few months, we reiterate that copper prices may have ran ahead of fundamentals. Our updated forecast for LME Copper sees consolidation around the USD 7,000 / MT level for 1Q and 2Q21, before climbing back to USD 7.500 for 3Q and 4Q21.

Brent: OPEC+ compromise to limit strong price gains

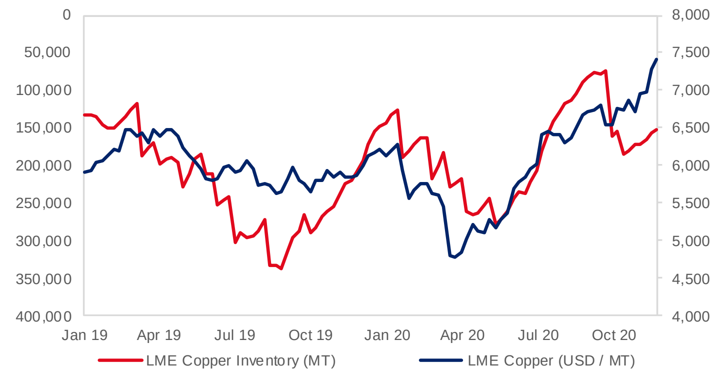
After a difficult and frustrating round of week-long talks, OPEC+ finally compromised with a controlled production hike of "just" 500k bpd from Jan 2021. This is not an ideal outcome given that previous consensus is for a further extension of production cuts. However, it is not overwhelmingly bearish either given that the 500k bpd increase is seen as manageable should the global economy continue to reflate next year. Overall this OPEC+ compromise has now opened the door to potentially more production hikes in the coming year. As such, we believe that Brent crude oil will have limited upside from here on and we forecast USD 50 / bbl in 1Q21 and 2Q21, followed by USD 55 / bbl in 3Q21 and 4Q21.

Gold: Gold's Rally Stalls As ETFs Get Hit By Redemption Wave



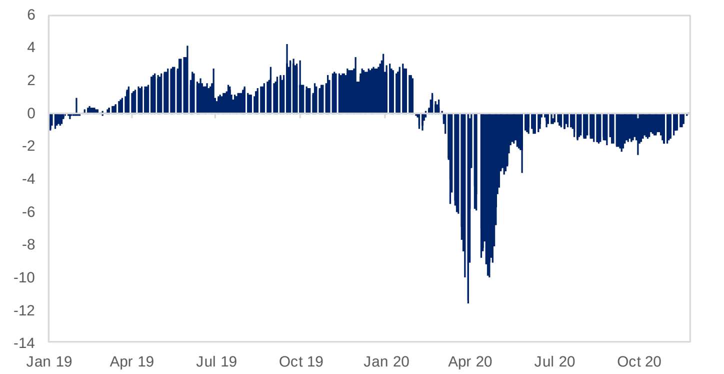
Source: Bloomberg, UOB Global Economics & Markets Research

Copper: LME Copper Price Rallies As Inventory Gets Drawn Down



Source: Bloomberg, UOB Global Economics & Markets Research

Crude Oil: Brent Has Recovered Almost All Of Its Negative Timespread



Source: Bloomberg, UOB Global Economics & Markets Research

FIXED INCOME

Returns on global fixed income markets were positive in 4Q 2020 as the global economy continued to recover. Across the major regions we see consistent signs of manufacturing rebounding with PMIs also giving strong leading signals. Retail sales have held up and are back to pre-pandemic levels, while housing activity and housing markets have remained strong. In the immediate term, global growth would slow due to adverse virus developments, and this slowdown in growth would be most dramatic in Europe. Looking further ahead, global growth would pick up once again next year as mass immunization by the summer of 2021 would lead to a resumption in economic activity. Once virus fears are largely out of the way, demand for most high-contact consumer services would quickly rebound to pre-pandemic levels, and this bodes well for the cyclical sectors of the economy—transportation, entertainment, travel, personal care, recreation, and food services.

In the US, the 3Q20 GDP was released in October and indicated growth of 33.1% (QoQ annualized). Looking ahead, the US labour market would strengthen further. Firstly, the amount of temporary layoffs has reduced significantly, and historically, this has been a reliable signal of rapid recovery. Next, a large majority of the remaining pandemic employment gap are in virus-sensitive industries, where most jobs should return together with a vaccine. Finally, the current recovery in labour demand has been unusually fast, compared to the post-GFC period. A strengthening labour market and payroll growth will spur a recovery in the services sector too.

We advocate for high yield credit, EM credit, Asia investment-grade credit over sovereigns at this juncture.

We are overweight high yield credit and EM credit. Two developments have paved the way for the recent mean reversion in US high yield spreads (and defaults): (a) positive news on the vaccine effectiveness; (b) timely resolution of US election event risk (despite some residual uncertainty). Alongside these positive macro developments, the pace of high yield defaults have also peaked. On a 12-month trailing basis, the US high yield default rate appeared to have peaked at 8.8% in August 2020, edging down to 8.3% in October 2020. Looking ahead, the combination of a continued "search-for-yield" phenomenon and expectations of a widely distributed vaccine by the summer of 2021 should further fuel spread compression (and produce a year-over-year decline in default activity next year). US high yield defaults should normalize lower to its long-run average of 4% by 4Q 2021.

In addition, we are overweight EM credit and continue to see opportunities in some of the higher beta segments though we would take a more selective approach as spreads at the aggregate levels are compressed. We maintain our preference for sectors that would benefit from a potential recovery in economic activity, such as consumer discretionary, real estate, and aviation. We also see value in systemically important banks/financials in the Eastern Europe and Middle East that trade at a healthy pickup versus their sovereign yields.

In the investment-grade space, we favour Asian investment-grade credits. North Asian economies, and especially China, have been leading the way out of COVID-19 and would be key beneficiaries as global growth continues to pick-up. In fact, China has already exceeded its pre-COVID-19 GDP levels by 4Q 2020. We like Asian investment grade (IG) credits given their relatively higher buffers (against deteriorations in corporate fundamentals) and their stable leverage profile. Within the investment-grade space, we continue to find relatively higher yields in Asia compared to other regions.

We remain cautious on duration risk, as sovereign bond yields would likely edge higher while remaining below 1.2% in 1Q21. US real rates could potentially normalize higher as the economic recovery gains more traction, and the US breakevens would be well-supported under the Fed's average inflation targeting (AIT) regime.

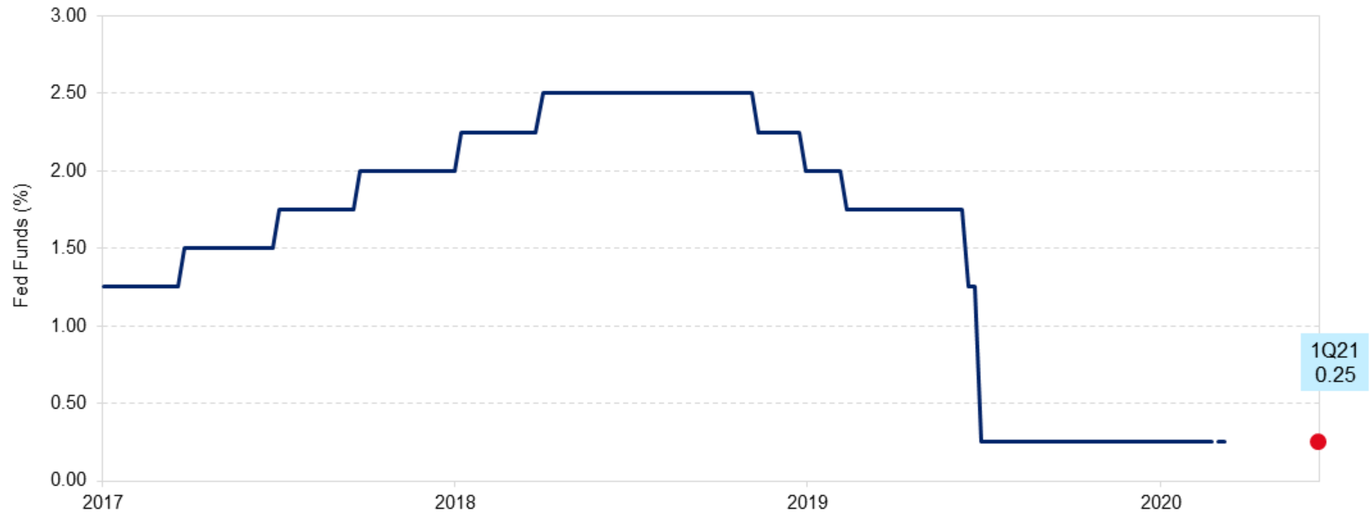
A combination of a continued economic recovery aided by vaccines, modest fiscal support and a dovish Fed would allow Treasury yields to move gradually higher into 2021, led by the back end of the curve. Having said that, we see limited risks of a sharply steeper yield curve/ higher bond risk premia. With a divided US government being the most likely election outcome, the magnitude of potential fiscal stimulus has lessened. Nonetheless, the two parties would likely find agreement on an estimated $1 trillion fiscal package, some of which could come in December and would otherwise pass in early 2021. An expansionary fiscal policy may be relegated to a secondary driver of reflationary repricing in sovereign bonds.

Despite significant declines in labour market slack which is expected to occur over the next year, core inflation is unlikely to sustainably exceed 2% until the labor market reaches full employment in 2024. Hence current market expectations are for the US policy rates to lift-off in early 2024. Notwithstanding this, the Fed's new AIT framework is likely to mean both a later date of lift-off and a slower pace of tightening. Specifically, the Fed's AIT approach means that the Fed would prefer to react to actual improvement in data, rather than expected improvement in data, particularly inflation. Under such a reactive approach, the Fed is unlikely to make substantive changes to its summary of economic projections in the near term.

FX & INTEREST RATES

UNITED STATES

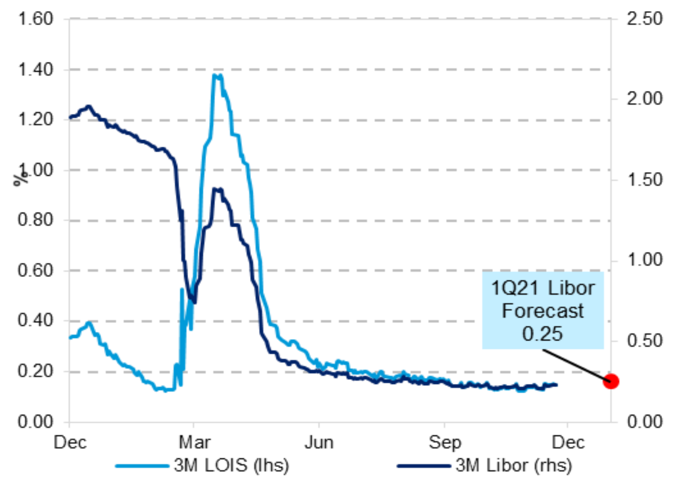
FED Funds Rate



While there was no indication in the Nov minutes that the Federal Open Market Committee (FOMC) will modify the bond buying at their Dec meeting, recent developments may have changed the course of action for Dec. The prospect of smaller (or even no) fiscal stimulus and the expiration of some of the emergency lending facilities on 31 Dec (a diminished "backstop in financial markets") are likely to lead the Fed to lower its 2021 growth estimates and add monetary easing.

We now expect more monetary easing by the Fed from its existing tool kits, and the first in line will be the asset purchase program. As was highlighted by the Fed in its minutes, we think it may come in the form of 1) shifting its UST purchases to those with longer-maturities (without increasing the overall purchases) or 2) keeping the current purchase composition but over a longer period. We expect the Fed to keep its near zero percent policy rate until at least 2023 but the Fed will not lower rates beyond zero, into negative territory. Re-visiting yield curve control is also a possibility but not in the immediate future.

3M US Libors



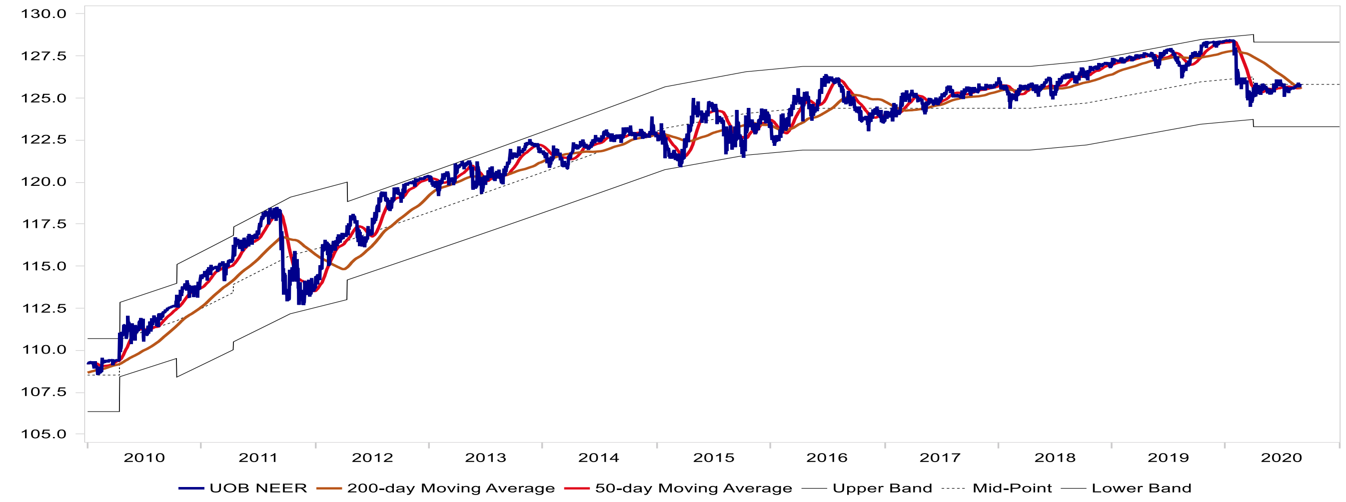
- We expect to see 3M Libor at around 0.35% by the end of 1Q2021.
- Official expectations and market-based forwards sees limited upside in short term rates until 2 to 3 years' time.
- Minimal volatility in 3M Libor vs. OIS spread has been a testament of the accommodative liquidity stanch of global central banks.

10Y US Treasuries

- We expect to see 10Y UST at 1.00% by the end of 1Q2021.
- Liquidity suppressed 10Y UST yield has room to reprice on economic growth traction from diminishing COVID-19 drag.
- We continue to favour the 2s10s curve grinding its way steeper over the course of 2021. Driven by both economic recovery and deficit concerns.

SINGAPORE

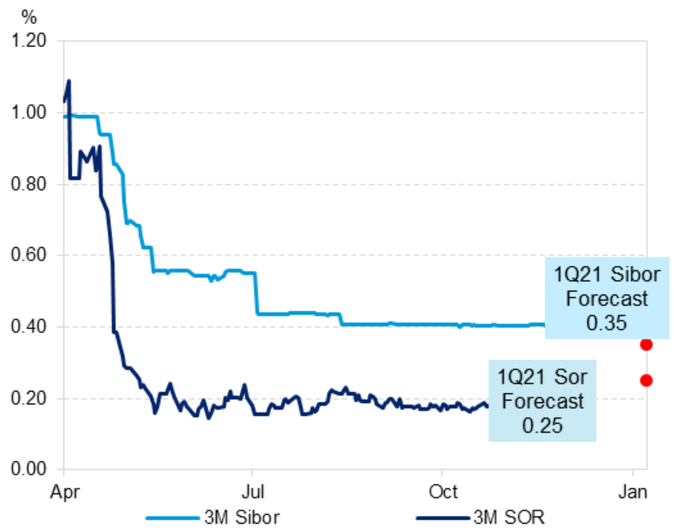
S$NEER



In its October 2020 central bank meeting, the Monetary Authority of Singapore (MAS) kept its SGD NEER policy-parameters unchanged in its October 2020 meeting as widely expected. This means keeping the rate of appreciation, band-width, and midpoint unchanged. Explicitly, the MAS has maintained a zero percent per annum rate of appreciation of the policy band, while the width is currently perceived at +/- 2.0%. Encouragingly, macroeconomic conditions have improved at the start of the second half – 3Q20 GDP fell 5.8% y/y (+9.2% q/q sa), which is better compared to MTI's advanced estimates at -7.0% y/y (+7.9% q/q sa) given the strong manufacturing momentum. Being a trade-reliant economy, Singapore's overall economy has also benefited from the expansion in its non-oil domestic exports (NODX), which expanded 5.0% in the first 10 months of 2020. Given the improving macroeconomic indicators presented so far, our base case is for the MAS to keep policy parameters unchanged in its next April 2021 meeting.

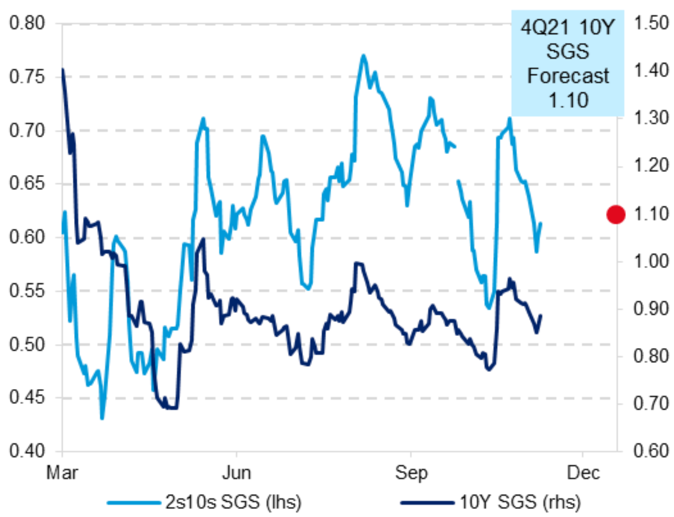
In the coming year, the global reflation theme is likely to underpin risk appetite which in turn would weigh on the USD. So, we reiterate our view of further modest SGD gains against the USD. Our updated USD/SGD forecasts are at 1.32 in 1Q21, 1.31 in 2Q21 and 1.30 in both 3Q and 4Q21.

3M SOR and Sibor



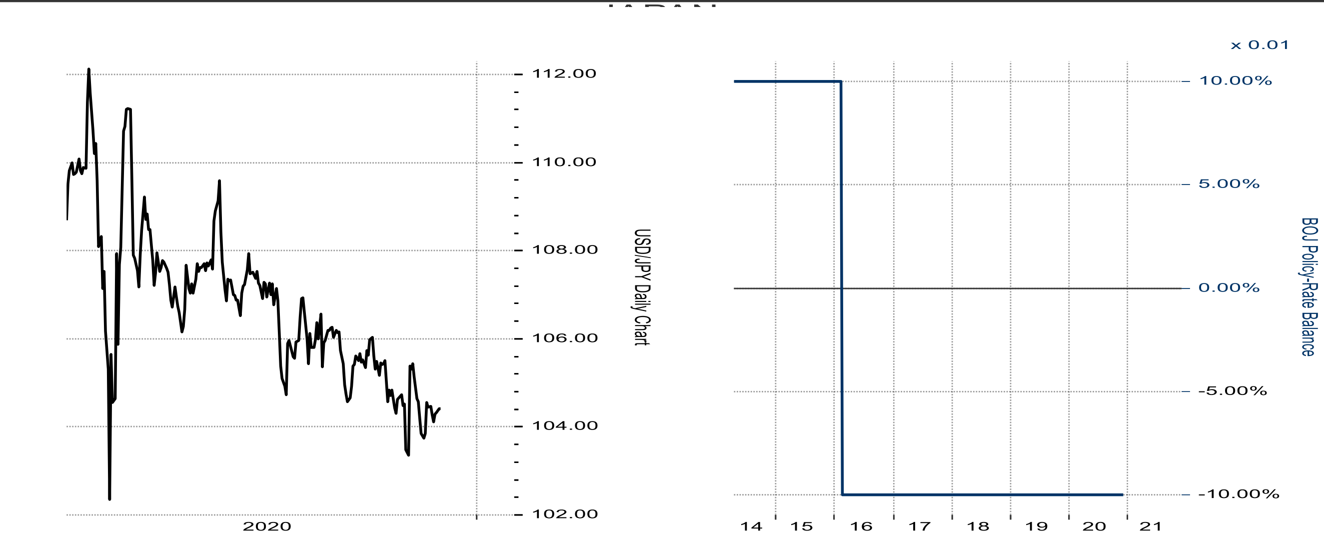
- We expect to see 3M SOR at 0.25% and SIBOR at 0.35% by the end of 1Q2021.
- Domestic liquidity conditions are not restrictive and the expectations surrounding the domestic currency are neutral.
- Lower for longer US rates will dictate a similar fate for SG rates.

10Y SG Bonds



- We expect to see 10Y SGS at 1.10% by the end of 1Q2021.
- Outright yield direction remains correlated to USTs. SGS could outperform if UST yields were driven higher by US deficit financing concerns.
- We favour steeper SG yield curves but risk off scenarios likely to result in sharp curve flattening episodes

JAPAN

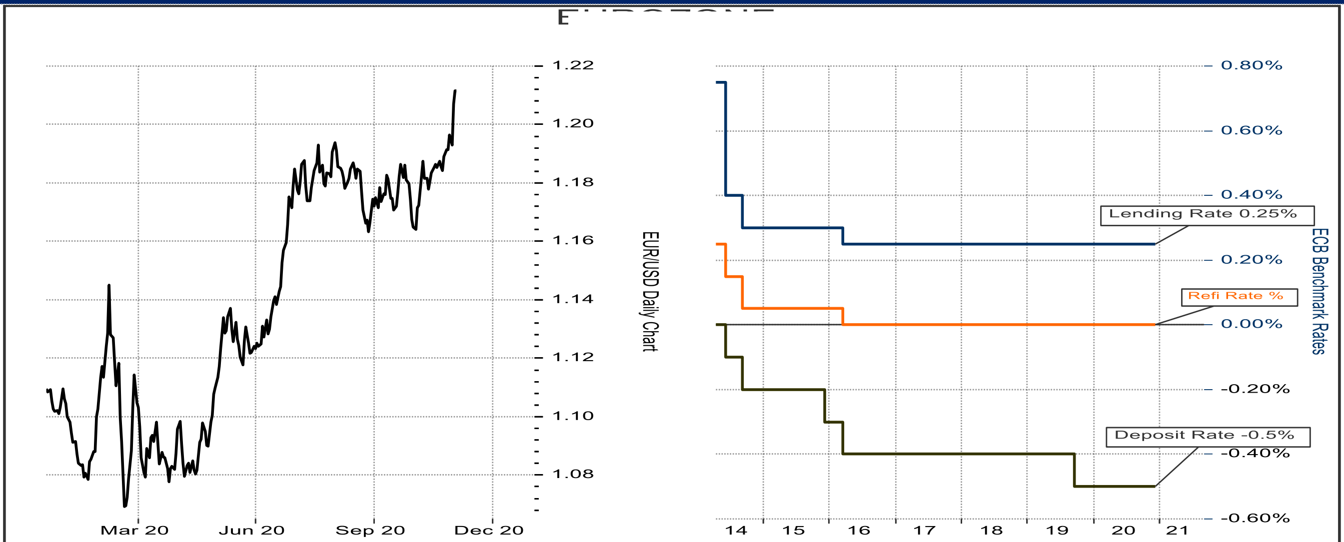


Source: Refinitiv Datastream/UOB Global Economics and Market Research

The Bank of Japan (BOJ) will continue its part to prop up the economy and support the recovery. We expect the BOJ to enhance its monetary policy easing further, most likely through increasing its JGB purchases and expanding its lending facilities to Japanese corporates and SMEs while the ETF and corporate bond buying program may be enhanced (at a later date). With policy continuity under PM Suga, monetary policy will also enjoy the same continuity under Gov. Kuroda who is likely to remain in his post with political support until April 2023. Therefore, monetary policy will stay on course as the BOJ continues to return inflation back to the 2% objective (which remains close to 0% currently) and combat the negative effects of COVID-19 on businesses and households.

This year saw USD/JPY's sensitivity to risk assets and US Treasury yields fade. Instead, the currency pair had a stronger correlation to the US Dollar Index (DXY). We expect broad USD weakness to persist in 2021, and USD/JPY will grind lower. We reiterate our existing set of forecasts, which are at 104 in 1Q21, 103 in 2Q21, and 102 in both 3Q and 4Q21.

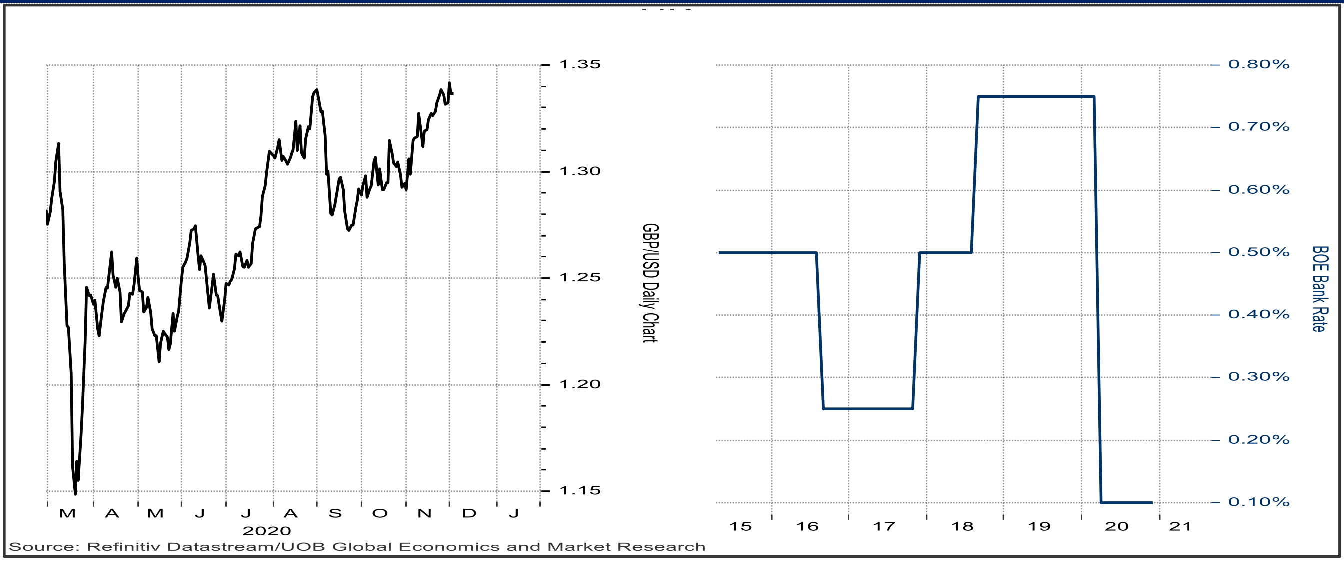
EUROZONE



Source: Refinitiv Datastream/UOB Global Economics and Market Research

The ECB is likely to extend and increase the PEPP - be expanded by EUR450bn to EUR1.8tn, and the implementation period could stretch further beyond the current guidance that purchases will be made until at least June 2021 with reinvestment "at least" to the end of 2022. Gains in the EUR slowed in 4Q20 after appreciating over 4% in the prior quarter against the USD. Jawboning on the single-bloc currency by the ECB, record futures positioning, a second wave of COVID-19 cases in Europe dented sentiment on the EUR/USD, just as the currency pair transited into a consolidative pattern between 1.16 and 1.20. Despite the positive vaccine developments, the ECB looks set to ease again in December, casting a near term overhang on the EUR. Short of bringing benchmark rates more negative, tweaking asset purchases or lending programs are unlikely to have a lasting dampening effect on the EUR. Beyond that, the global reflationary tailwind is likely to continue to bid up the EUR/USD but gains may be limited by rate differentials which are now closer to neutral levels after closing aggressively in favor of EUR in 2020. Overall, our updated EUR/USD forecasts are lifted from the previous review, at 1.22 in 1Q21, 1.23 in 2Q21, and 1.24 in both 3Q and 4Q21.

UNITED KINGDOM



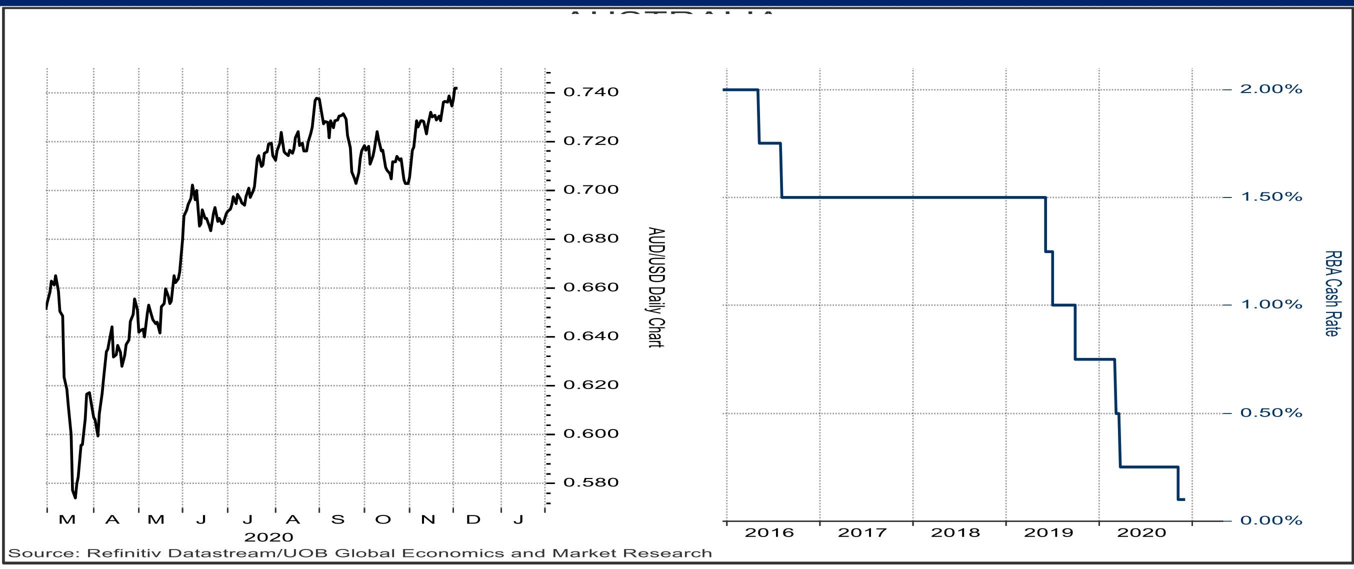
Source: Refinitiv Datastream/UOB Global Economics and Market Research

We think the BOE may hold the QE target at its current level of GBP895bn for now. Whilst negative rates remain an available monetary tool and possible choice, we think a fall in the Bank Rate to zero will be the preferred option first.

With our expectation for an eleventh-hour Brexit deal in the coming days or weeks, the multi-year malaise in GBP could finally be over. Since UK's surprise decision to leave the EU in June 2016, GBP/USD was mired in three-decade low trading range between 1.14 and 1.43. The underperformance of the GBP was also broad-based as its trade-weighted index was stuck in the lowest quartile in the last 4 years. As such, a Brexit deal, shall it comes to pass, could be the trigger the GBP needs to break through those ranges.

As such, our previously cautious stance on GBP/USD has now been upgraded to a moderately bullish view. While the fog of Brexit can finally clear, at the same time, we also curb our enthusiasm on the GBP. The economic outlook remains highly uncertain depending on the virus situation in the UK and the specter of negative rates is a lingering headwinds for the currency. Overall, our GBP/USD forecasts are updated to 1.35 in 1H21 followed by 1.36 in 2H21.

AUSTRALIA

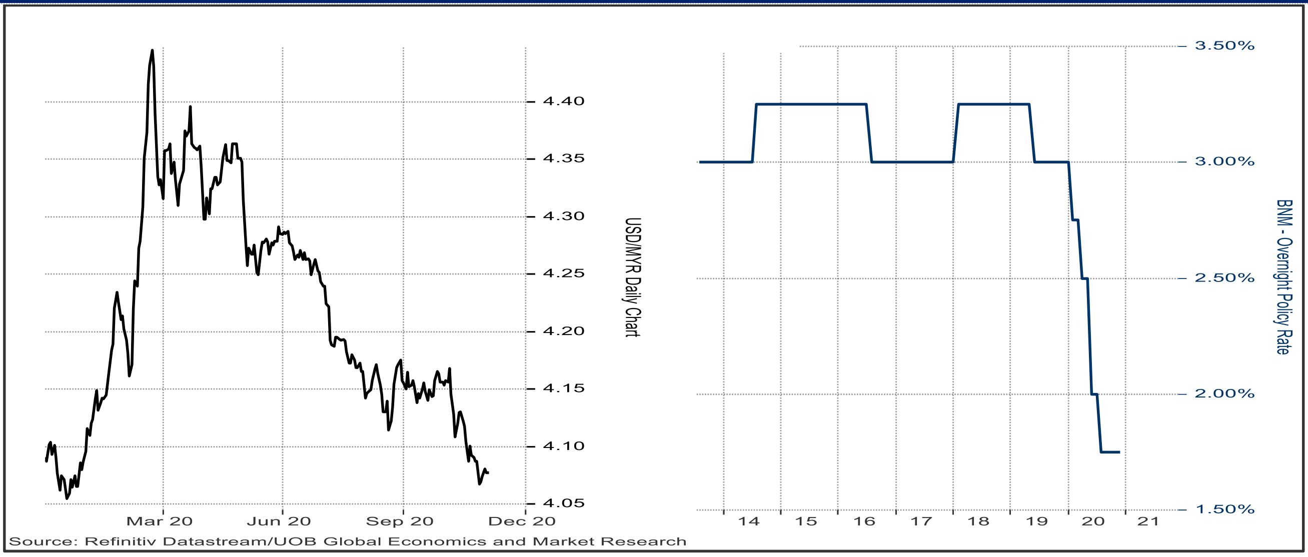


Source: Refinitiv Datastream/UOB Global Economics and Market Research

Our view remains for the RBA to hold off bringing the policy rate into negative territory. If the need for further monetary easing arises, more QE and yield curve control are likely to be considered first.

Against a backdrop of surging global risk appetite and a robust China recovery which spurred demand for Australia's commodity exports, the AUD is still unbeatable. Even the potent combination of a rate cut to the benchmark rate and yield-curve target, and a new bond buying program by the RBA in early November only had a short-lived effect on the currency. AUD/USD rebounded strongly off 0.70 and is trading closer to 0.74 as at early December. In 2021, the global reflationary theme is a key positive driver for the AUD/USD and we lift our forecasts by 100 pips across the next 4 quarters. Our updated point forecasts are now 0.74 in 1Q21, 0.75 in 2Q21, and 0.76 in both 3Q and 4Q21.

MALAYSIA

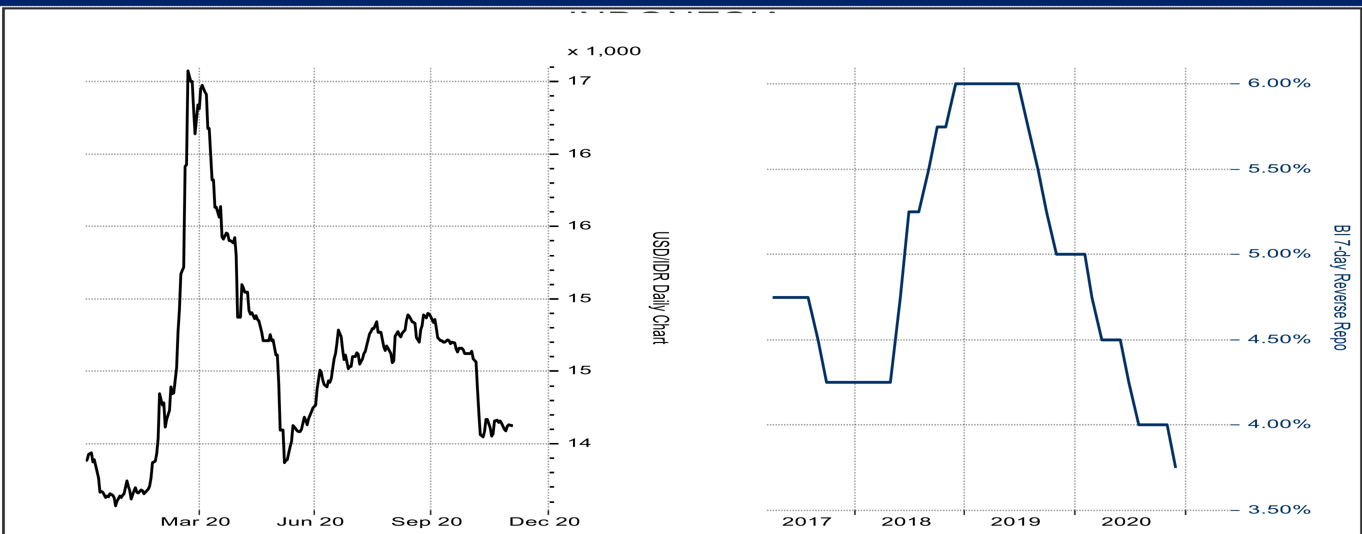


Source: Refinitiv Datastream/UOB Global Economics and Market Research

Bank Negara Malaysia (BNM) cut its key Overnight Policy Rate (OPR) by cumulative 125bps in 2020 as the effects of the pandemic and movement restrictions continued to weigh on the economy. Despite lingering downside risks to growth, we expect BNM to keep rates unchanged at 1.75% through 2021 as the government steps up fiscal and stimulus policy support. Going into 2021, our baseline expectations of broad dollar weakness and Asia's growth recovery will likely lead MYR to strengthen further. Other domestic drivers include the positive growth outlook, sustained current account surplus, and steady interest rates.

Key risks to watch include the next FTSE Russell review of Malaysia's WGBI index weight in Mar 2021, upcoming sovereign rating reviews by the international rating agencies, and domestic political events. We project USD/MYR at 4.03 in 1Q21, 4.00 in 2Q21, and 3.95 in 3Q21 and 4Q21.

INDONESIA

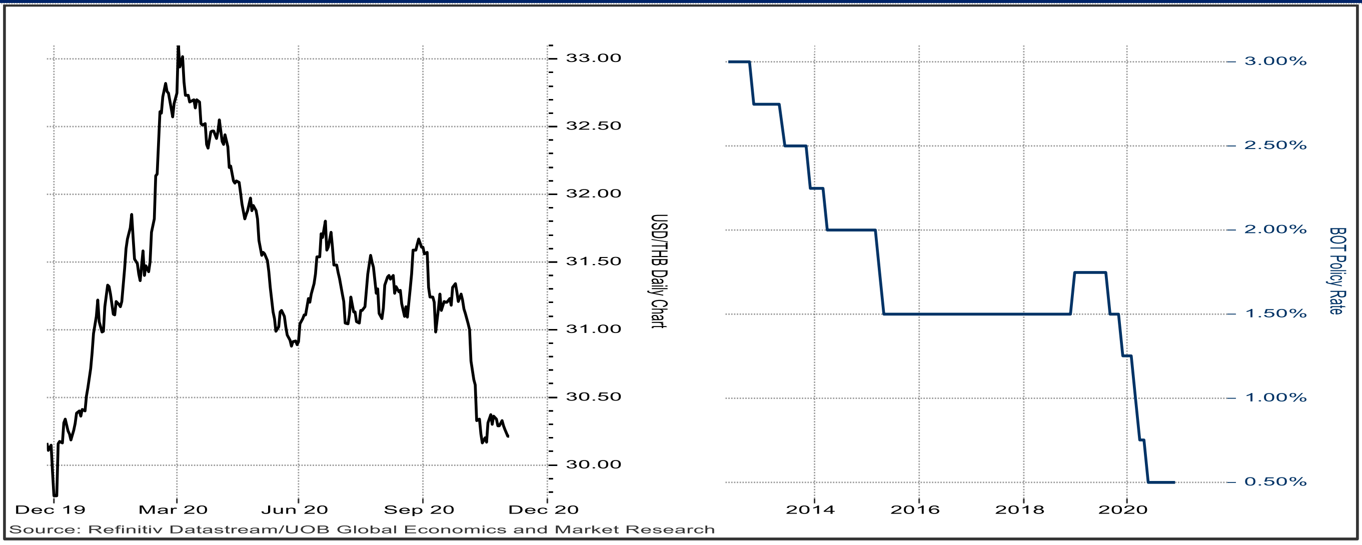


Source: Refinitiv Datastream/UOB Global Economics and Market Research

With growth recovery at best uncertain and requiring further monetary support, Bank Indonesia (BI) will likely be open to providing additional monetary stimulus in 2021. We keep the view that BI may cut its 7 Day Reverse Repo rate by another 25bps in 1Q21 to 3.50%. Meanwhile, BI remains adamant that burden sharing (direct buying of government debt through private placement) is a "one off" policy that will not be carried over to 2021. Nonetheless, BI continues to ensure that liquidity will remain ample in the domestic financial system to help accelerate the progress of economic recovery in years to follow.

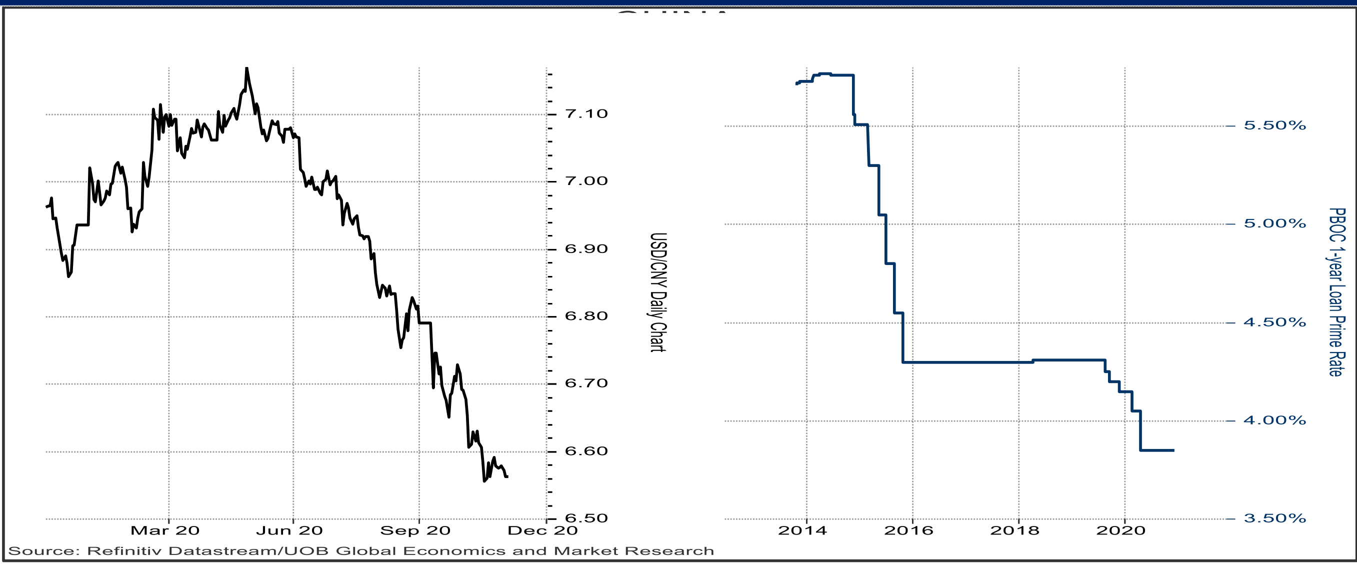
With the domestic economic outlook still uncertain and further rate cut expected, sustained gains in the IDR beyond 14,000 appears unlikely. However, broad USD weakness would mean any rebound in USD/IDR is likely to be confined within familiar ranges. Our updated USD/IDR forecasts are at 14,300 in 1Q21, 14,350 in 2Q21, 14,400 in both 3Q and 4Q21.

THAILAND



The Bank of Thailand's (BOT) decision to keep its policy rate unchanged in Nov was voted unanimously by all seven committee members. Notwithstanding the better-than-expected economic performance in 3Q20, policymakers assessed that the low policy rate is still needed to support economic recovery. The BOT also views keeping its benchmark rate unchanged will also serve to "preserve the limited policy space". Coupled with the need to preserve policy space, the better-than-expected 3Q20 GDP performance suggests that Thailand is on the path to recovery. As such, we keep our call for BOT to leave its benchmark rate unchanged at 0.50% in the last meeting in 2020 on 23rd Dec. With the authorities' clear emphasis to slow THB's gains in the near term, a sustained appreciation beyond its key psychological level at 30 /USD appears unlikely. As such, we continue to be cautious on the THB and our updated USD/THB forecasts are 30.00 for 1Q21, 30.30 in 2Q21 and 30.50 for both 3Q and 4Q21.

CHINA



Calls for an eventual monetary policy normalisation and refocus on deleveraging will only get louder in 2021 as the Chinese economy continues to gain momentum. However, there should be no surprises there as policymakers have signalled that the timing and exit strategy will be carefully deliberated. The People's Bank of China (PBoC) is likely to maintain room for its monetary policy maneuvers given an expected easing of fiscal support, risk from rising bond defaults and COVID-19 uncertainty. After 30bps cut in the benchmark 1Y Loan Prime Rate (LPR) and three reductions to banks' reserve requirement ratio (RRR) earlier this year, we do not expect further rate move with both the LPR and RRR likely to stay flat through 2021.

While China's macroeconomic advantage over its global peers may extend into 2021, a narrowing of its growth differential may see gains in CNY moderate. Also, PBoC's moves in October to cut its FX risk reserve ratio to 0% from 20% and the phasing out of its Counter Cyclical Factor (CCF) in quotation model of the CNY central parity rate were seen as signs that authorities are getting uncomfortable with one-sided CNY gains. As such, the almost 8% jump of the CNY against the USD in 2H20 is unlikely to repeat. Overall, our USD/CNY forecasts are updated to 6.50 in 1Q21, 6.45 in 2Q21, and 6.35 in both 3Q and 4Q21. From a medium to long term point of view, USD/CNY is now heading back to the middle of the broad 6.0 to 7.0 trading range.

FX, INTEREST RATE & COMMODITIES FORECASTS

FX	03 Dec 20	1Q21F	2Q21F	3Q21F	4Q21F
USD/JPY	104	104	103	102	102
EUR/USD	1.21	1.22	1.23	1.24	1.24
GBP/USD	1.35	1.35	1.35	1.36	1.36
AUD/USD	0.74	0.74	0.75	0.76	0.76
NZD/USD	0.71	0.71	0.72	0.73	0.73
DXY	90.7	90.6	89.9	89.2	89.1
USD/CNY	6.54	6.50	6.45	6.35	6.35
USD/HKD	7.75	7.75	7.75	7.75	7.75
USD/TWD	28.29	28.50	28.20	28.00	28.00
USD/KRW	1,084	1,080	1,060	1,050	1,050
USD/PHP	48.03	48.00	47.50	47.00	47.00
USD/MYR	4.06	4.03	4.00	3.95	3.95
USD/IDR	14,132	14,300	14,350	14,400	14,400
USD/THB	30.16	30.00	30.30	30.50	30.50
USD/MMK	1,325	1,325	1,300	1,300	1,300
USD/VND	23,133	23,000	22,800	22,600	22,600
USD/INR	73.93	74.30	74.50	75.00	75.50
USD/SGD	1.33	1.32	1.31	1.30	1.30
EUR/SGD	1.62	1.61	1.61	1.61	1.61
GBP/SGD	1.79	1.78	1.77	1.77	1.77
AUD/SGD	0.99	0.98	0.98	0.99	0.99
SGD/MYR	3.05	3.05	3.05	3.04	3.04
SGD/CNY	4.91	4.92	4.92	4.88	4.88
JPY/SGDx100	1.28	1.27	1.27	1.27	1.27

RATES	03 Dec 20	1Q21F	2Q21F	3Q21F	4Q21F
US Fed Funds Rate	0.25	0.25	0.25	0.25	0.25
USD SOFR	0.08	0.10	0.10	0.10	0.10
USD 3M LIBOR	0.23	0.25	0.25	0.25	0.25
US 10Y Treasuries Yield	0.90	1.00	1.10	1.15	1.20
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10	-0.10
EUR Refinancing Rate	0.00	0.00	0.00	0.00	0.00
GBP Repo Rate	0.10	0.10	0.10	0.10	0.10
AUD Official Cash Rate	0.10	0.10	0.10	0.10	0.10
NZD Official Cash Rate	0.25	0.25	0.25	0.25	0.25
CNY 1Y Loan Prime Rate	3.85	3.85	3.85	3.85	3.85
HKD Base Rate	0.50	0.50	0.50	0.50	0.50
TWD Official Discount Rate	1.13	1.13	1.13	1.13	1.13
KRW Base Rate	0.50	0.50	0.50	0.50	0.50
PHP O/N Reverse Repo	2.00	2.00	2.00	2.00	2.00
SGD SORA	0.14	0.12	0.12	0.12	0.12
SGD 3M SIBOR	0.41	0.35	0.35	0.35	0.35
SGD 3M SOR	0.19	0.25	0.25	0.25	0.25
SGD 10Y SGS	0.88	1.10	1.15	1.15	1.20
MYR O/N Policy Rate	1.75	1.75	1.75	1.75	1.75
IDR 7D Reverse Repo	3.75	3.50	3.50	3.50	3.50
THB 1D Repo	0.50	0.50	0.50	0.50	0.50
VND Refinancing Rate	4.00	3.50	3.50	3.50	3.50
INR Repo Rate	4.00	3.75	3.75	3.75	3.75
MMK Central Bank Rate	7.00	7.00	7.00	7.00	7.00

COMMODITIES	03 Dec 20	1Q21F	2Q21F	3Q21F	4Q21F
Gold (USD/oz)	1,843	1,850	1,900	1,950	2,000
Brent Crude Oil (USD/bbl)	50	50	50	55	55
LME Copper (USD/mt)	7,675	7,000	7,000	7,500	7,500

THE TEAM

Global Economics & Markets Research
Asset Management
Private Bank