UOB HOUSE VIEW

1Q2022

GLOBAL MACRO

As an eventful 2021 comes to an end, the expectations of a year of moderating growth colliding with higher inflation is now met with Omicron, a new variant of COVID-19. The key concern is whether the world will head into another lockdown for part of 2022, or is this a false alarm, or will it be somewhere in-between? As for the Fed, it has pivoted to the inflation challenge and will accelerate its QE taper in 1Q22 with an eye on hiking rates, potentially by 3 rate hikes in 2022, starting June.

FIXED INCOME

We turn moderately underweight on fixed income, underweight duration risk and neutral on credit risk. We turn neutral on credit risk (i.e. global high yield and investment-grade credit, including EM credit). That said, fixed income could become somewhat more attractive when the US 10-year sovereign bond yields normalise higher towards 2% by 1H 2022, and income strategies would likely to offer better return-risk profile over the coming year.

ASSET ALLOCATION

Our base case expectation remains that the global economy will continue on a mid-cycle expansion path which would tend to support equities and will lead to rising bond yields that will be a headwind for fixed income assets. Many characteristics of a mid-cycle expansion are evident in the current expansion. The mid-cycle expansion also leads to questions about how long the cycle could last. Overall, we target to overweight growth assets and real assets.

COMMODITIES

Gold is stuck in-between rising rates and increasing safe haven demand and is expected to continue its range trade around USD 1,800 / oz amidst rising volatility. Omicron will likely cap further near-term advances in Brent crude oil above USD 80 / bbl and LME Copper above USD 10,000 / MT. In particular, we downgrade Brent crude oil down to neutral due to the negative demand impact from Omicron as well as near term supply boost from SPR. We see Brent crude oil at USD 75 / bbl across 2H22.

EQUITIES

For 1Q22, we keep our "Moderately Overweight" view on Equities. For investors who are heavily weighted in US equities, particularly in growth stocks, we advise a slow but sure shift towards US value stocks that will benefit from the economic reopening. From our observations of past business cycles, EPS growth tends to slow during mid-stage of the business cycle but cyclical sectors like energy, financials, industrials, and materials should continue to provide good total returns.

FX & INTEREST RATES

Underpinned by expectations of the Fed ending its taper in March 2022 and delivering 3 rate hikes in 2022, the USD rally will continue amidst Omicron. Overall, we expect USD/CNY to rise to 6.55 and USD/SGD to 1.40 by end-2022. Front end rates are expected to finally come out of hibernation. While longer term yield is expected to continue their climb, the upcoming rate hikes will trigger further yield curve flattening. 3M US Libor to trade up to 1.15% by end 2022 while 10-year Treasuries yields to end 2022 at 2.15%.

UOB

GLOBAL MACRO

Omicron Adds To Moderating Growth And Higher Inflation

"*It is not clear how big the effects (of Omicron) would be on either inflation, or growth, or hiring … but I do think wave upon wave, people are learning to live with this … if you look at the state of the economy, the strength of overall demand, moving forward the end of taper is the appropriate thing to do and Omicron really does not have much to do with that*." FOMC Chair Jerome Powell, speaking to reporters after the 15 Dec 2021 FOMC.

As an eventful 2021 comes to an end, the expectations of a year of moderating growth colliding with higher inflation is now met with Omicron, a new variant of COVID-19. The key concern is whether the world will head into another lockdown for part of 2022, or is this a false alarm, or will it be somewhere in-between?

With still limited clarity on the severity of the new variant, we hypothesize three possible scenarios to assess the impact of Omicron on growth and inflation outlook: 1) Green: Neutral, 2) Amber: Slight Downside, and 3) Red: Negative/Pessimistic. Our present base case is **2) Amber: Slight Downside** scenario.

Growth Outlook: While we expect growth to ease further next year, developed markets (DM) economies could still enjoy above potential growth in 2022 and emerging markets (EM) economies will also see further growth improvement in 2022 as the gap between their vaccination rates and those of DM's narrows. Omicron adds to uncertainty as economies with a heavier dependence on tourism may see further delays in their recovery in 2022. Concurrent to the Omicron risk is the on-going growth slowdown in China, which authorities are doing their best to stabilize.

US Inflation Outlook: We believe US inflationary pressures are set to remain persistent at least until 1H 2022 before turning lower, due to the confluence of the factors including supply chain bottlenecks, labour/materials shortages, elevated housing & wage-price dynamics, and high commodities prices. The arrival of the Omicron variant will complicate the inflation analysis. If this variant replicates/replaces the Delta variant as the dominant strain, then it may also add to the inflation pressure just like its predecessor did in early 2021, worsening supply chain disruptions and extending the persistence of US inflation even further into 2022.

FOMC Policy Outlook: After the announced accelerated QE Tapering timeline (which is expected to be completed by Mar 2022), we expect three rate hikes from the US Federal Reserve (Fed) in 2022, the first one in Jun. Admittedly, there is a risk that the Fed may hike any time after the QE taper ends in Mar (2022). Our rate hike projection is based on an environment of more persistent US inflation pressures (especially in early 2022), which will translate into heightened risks of earlier and more frequent Fed funds rate hikes in 2022.

We highlight three scenarios that assess the impact of the latest COVID-19 variant on growth and inflation outlook:

Our Thoughts On Omicron In 2022

Scenario	Green: Neutral	Amber: Slight Downside	Red: Negative
Current Vaccine Efficacy	Generally effective	Partially effective	Not effective
Hospitalisation Rate	Normal	Higher, but manageable	Severe
Impact on Reopening	BAU	BAU, with adjustments	Restart – Back to early 2021
Implications on Re-opening and Recovery	Proceed for most economies, especially those with adequate or rising vax rates	Able to proceed in most economies in cautious manner, may see sporadic restrictions to curb spikes in infections/severe cases	Risks of stalling: Physical/ social distancing required ("lockdowns") until (new) vax rate rises to sufficient level – similar situation in late 2020/early 2021
Impact on Global Growth & Sector	Continues into 2022 and possibly beyond; manufacturing and services sectors continue to recover, with services likely to outperform	Dented temporarily: sporadic disruptions to personal services, tourism, travel, F&B, offline retail sectors; manufacturing able to perform. Loss in 1H, compensated by a better 2H	Derailed: Disruptions to activities at least for some months due to implementation of distancing and travel restrictions; similar to late 2020/early 2021; manufacturing will perform, but in-person services to struggle
Impact on Inflation	Upside pressures to continue into 1H2022 at least, as supply chain/ logistics bottlenecks will take months to resolve just as consumer demand continues to recover, leading to more growth-driven inflation	Upside pressures to remain as consumer demand is not affected severely. Importantly, supply chain/logistics bottlenecks persist or even worsen due to disruptions from periodic lockdowns	Upside pressures could worsen as sporadic lockdowns in manufacturing sector/logistics supply chains disruption; consumer demand dented but not sufficient to offset supply chain pressures
Impact on Central Bank Policy	Proceed to rollback accommodative measures. The Fed Reserve completes QE taper by March, proceeds with 3 rate hikes in 2022, first in Jun. Potential for faster rate hikes if inflation accelerates	Proceed to rollback accommodative measures but more cautiously due to uncertainty. The Fed Reserve completes QE taper by March, proceeds with 3 rate hikes in 2022, first in Jun	Stay accommodative or further stimulus due to rise in uncertainty. The Fed extends QE tapering timeline and delays first rate hike till late 2022 or even 2023.
Impact on Fiscal Policy	Rollback past stimulus measures	Rollback past stimulus measures	Further extension of stimulus measures
Risk Appetite	Risk on: pro-growth	Modest Downside: Sporadic disruptions, but growth intact	Risk off: Setback for some sectors, growth slows visibly

Source: UOB Global Economics & Markets Research Compilation

ASSET ALLOCATION

In the fourth quarter of 2021, global asset classes were challenged by issues of moderating growth, rising inflation, a hawkish tilt amongst key central banks and continued COVID-19 concerns. But by the end of the quarter, global macro conditions appeared to have weathered all the concerns and have positioned global markets in 2022 for a more straightforward path of what we would call a "mid-cycle expansion".

Our base case expectation remains that the global economy will continue on a mid-cycle expansion path which would tend to support equities and will lead to rising bond yields that will be a headwind for fixed income assets. We expect the pandemic to fade as being a key driver for markets but risks such as variants will remain. As we wind down December, we think it is correct to acknowledge Omicron COVID-19 variant as a risk, but not to start shifting our base case expectations yet. As global markets get more information over the next month on the level of contagiousness, the level of vaccine escape, and the level of disease severity, then we will better be able to assess if our base case needs to be modified. For now, it remains part of our constructive base case view that variant scares are likely to become a typical part of our risk management process in the coming years.

Many characteristics of a mid-cycle expansion are evident in the current expansion. Firstly, most major economies have seen overall economic activity recover from the recession in 2020 and have recovered to pre-crisis levels. As major economies continue their expansion at above trend growth rates, typical characteristics of such an expansion would be rising inflation, rising interest rates, and rising prices of real assets like properties and commodities. Global GDP forecasts for 2022 are for growth of 4.5% which is a good level above what we would call trend growth levels of about 3.5%. Inflation is rising in the US and Europe, and real assets like property and commodities have been rising. Typically, as economies go through a mid-cycle expansion, growth assets like equities outperform safe assets like bonds. Corporate earnings benefit from the above trend growth levels supporting equity prices. But rising inflation leads to interest rate hikes which become a headwind for bonds.

The mid-cycle expansion also leads to questions about how long the cycle could last. In the past 50 years, the average cycle has been about seven years, and this recovery and expansion only started in the middle of 2020. This cycle is only 1.5 years so far, that should suggest there are likely to be at least several more years of an expansionary environment to invest into. However, rising inflation could imply that the cycle may end prematurely. Overall, we recommend investing confidently in growth assets in 2022, but then start to look for signs of a shorter than expected cycle by the end of 2023. The cycle is likely to have several more years of expansion, but the downturn triggered by the pandemic has had different characteristics than downturns in other cycles and thus it would be fair to watch for different patterns in the expansion for the coming year.

Overall, we target to overweight growth assets and real assets. This implies we are overweight equites, commodities, and recommend property investments. **We are underweight fixed income** with the greatest caution on government bonds and within fixed income favor corporate credits and higher yielding offerings. We think alpha generating strategies like alternatives and hedge funds should do well in this environment. We are neutral on cash until short term yields start to rise over the next year.

Global Asset Allocation For 1Q 2022

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

EQUITIES

As we proceed into 2022, coming up from a strong global bull-run in risk assets, we observe the semblance of the broad investment environment currently with that of the late 1990s. Similar to then, coming out of an Asian-led recession, the US economy was strong, the rest of the world was weak, interest rates and bond yields were low, the dollar was rising and the CRB doubled from early 1999 to late 2000.

Investors' Fears - An Eerie Similarity To The 90s. During that period, the NASDAQ soared 120% from 1999 to March 2000 when the tech bubble began to burst, and the SPX went up by 26% over the same period. In the late 1990s, the stock market continued to advance rapidly long after the Fed began to raise rates. All of these are almost identical to today's situation, except there is a different set of equity names leading the stock market rise and there are still a few more months before the Fed begins to tighten.

History Do Not Repeat, Though It Rhymes. Of course, history may not repeat, especially since not all factors are consistent. A key difference this time around is the strong earnings recovery. The jump in the EPS since mid-2020 is unparalleled in history, which probably explains why equity multiples are still lower than in the late 1990s, even though the speed of price gains is similar. Strong corporate earnings today have much to do with rising nominal GDP growth, strong productivity growth and outsized demand growth for goods. Equity risk premium is also significantly higher than it was in the 1990s, due to much lower bond yields. As such, the current bull market could still go parabolic near term, especially if inflation eases sooner than expected (inflation rate should moderate in 2022). There is strong forward momentum as retail flows continue to be strong, although any sharp hikes in bond yields will push the yield adjusted PE ratio to higher grounds, causing over-valuation concerns.

Market Froth Is Driven By Some Segments. Looking ahead, the underlying market conditions will likely shift. In 3-6 months, the investment environment may become much more complicated, with various risks beginning to escalate. **First,** the US stock market is already expensive and could become even more so. The S&P 500 price-to-book ratio is at 4.4 times; the measure topped out at 5 times when the technology bubble began to burst in 2000. The P/B ratio is a better measure than P/E for equity valuation as it is immune to short-term earnings swings or manipulations. **Second,** the ratio of stock market capitalization to M2 money supply is peaking, despite M2 having expanded exponentially. This could suggest that the impact of the explosive money growth is already reflected or absorbed by the steep equity prices surge. Historically, when this ratio is high, the vulnerability of the stock market increases. **Third,** with the latest Dec FOMC showing that the Fed will double its pace of assets purchase tapering and bringing forward the pace of rate hikes to 3 in 2022, growth stocks with negative margins will be subjected to enhanced volatility and sell-offs. Higher ratios do not mean that it will crash, but it simply means that investors ought to get more uncomfortable at such levels and should adjust portfolio weights to pare some risks off.

2022 Investment Strategy For Equities - Prefer Ex-US, Value, Small Cap. Facing with increased uncertainties in the US, we had raised the asset allocation equity weights for Europe, Japan, and EM Asia, while pulling back that of the US. The recovery in the rest of the world EPS has lagged the US so far and hence offers more 'catch-up' potential and less earnings volatility over the next 12 months. The expected higher trend in bond yields would also be supportive of European and Japanese equities, as seen in the past, a result from our regression analysis on the total returns of equity indices to a 1pp change in the 5Y TIPS yield. Part of the reason could be due to the higher share of cyclical stocks in these indices and cyclical stocks tend to correlate positively with rising yields (as it signals an economic recovery). Growth-sensitive EM assets and the commodities complex (ex. energy) are still vulnerable. However, even though it is unrealistic to expect an immediate growth improvement, Chinese equities pretty much seemed to be priced into risk assets and is trading at deeply depressed multiples, which limits downside risks. Moreover, If the Chinese government eases policy to support growth, this will support EM assets overall, but benefit Chinese stocks first. We continue to favor Chinese stocks.

In conclusion, we maintain our "Moderately Overweight" view on Equities as a broad asset class. Although stocks could melt up in the near term, the broad investment environment will become complex in 1H 2022, as the economy goes through the last phase of economic re-opening and recovery. For investors who are heavily weighted in US equities, particularly in growth stocks, we advise a slow but sure shift towards US value stocks that will benefit from the economic reopening of the US as well as Europe, Japan, and EM Asia. This shift is due to our on-going concerns about stretched market valuations, which would mean potential selloffs when bond yields continue its rise. From our style factors regression analysis, we found that small caps and value stocks tend to provide the strongest total returns to a 1pp change in the 5Y TIPS Yield. The start of the central banks' policy normalization brings us firmly into the mid-stage of the business cycle. From our observations of past business cycles, EPS growth tends to slow during this phase but cyclical sectors such as energy, financials, industrials, and materials (technology too, but we hesitate due to current valuations) should continue to provide good total returns.

COMMODITIES

Will Omicron spell the end of the strong rallies in Brent and Copper?

Across October and early November, it appeared that the strong rally in both Brent crude oil and LME Copper were on firm autopilot throughout the final quarter of the year. For a moment, it looked like nothing could stop both Brent crude oil and LME Copper in their tracks. By mid-October, Brent crude oil had rallied past USD 85 / bbl, while LME Copper punched above USD 10,000 / MT to almost as high as USD 10,500 / MT. Then the Omicron variant came into the scene across Thanksgiving and triggered a sharp pullback in LME Copper to USD 9,400/ MT and caused an even sharper meltdown in Brent crude oil towards USD 70 / bbl. Is this strong rally in industrial and energy commodities finally over?

Gold: Caught in-between FED normalization risk vs renewed safe haven demand

The to and fro pattern of trading for gold will likely repeat itself in the months ahead. On the one hand, concerns over inflation, a more aggressive FED monetary policy normalization stance will result in a stronger USD and higher US Treasuries yield, both of which will cap further strength in gold. On the other hand, uncertainties over renewed growth threats from Omicron and other event risks will no doubt fuel safe haven demand for gold. This is why fund managers continue to prescribe a small amount of allocation into gold for high risk portfolios as a hedge against tail risks. Negative real yield is also seen as another key supportive factor for gold. Overall, we continue to maintain our neutral outlook for gold and forecast gold at USD 1,800 / oz for the coming four quarters across 2022. Prevailing spot rate is USD 1,800 / oz.

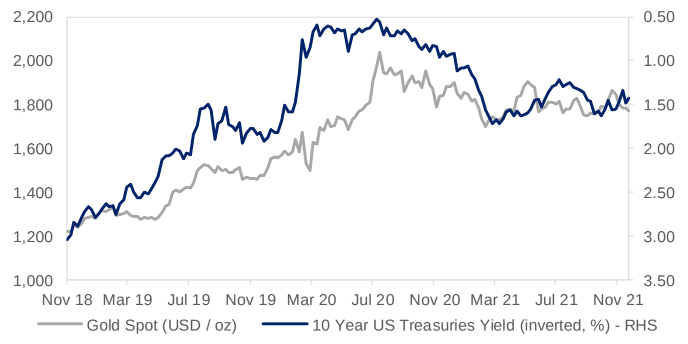
LME Copper: Omicron risk and China growth slowdown to cap further price gains

China's economy is slowing and industrial demand is also likely to taper off amidst the seasonal lull during the winter and Lunar New Year months. In addition to this China slowdown risk, the Omicron variant has also added a further uncertainty to the global economy. As such, in view of tight global inventory situation on one hand, and the risk of China's growth slowdown and potential negative impact from Omicron on the other hand, we maintain our cautiously neutral outlook for LME Copper. The key takeaway is that the USD 10,000 level is shaping out to be a key near term resistance. Overall, we maintain our forecast of USD 9,000 / MT for LME Copper throughout the four quarters of 2022.

Brent Crude Oil: Omicron triggers uncertainty over upcoming recovery in energy demand

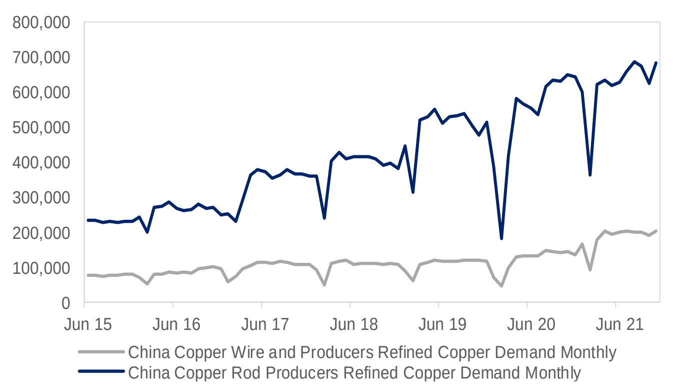
News of the Omicron variant hit financial markets across the Thanksgiving long weekend and triggered a sharp USD 10 / bbl collapse in Brent crude oil to USD 72 / bbl. The Omicron variant arrived at the same time as the fourth wave of COVID-19 is sweeping through Germany and Europe, just at a time when China is slowing down too. Given the uncertainty over Omicron's negative impact on global energy demand, we deem it prudent to downgrade our Brent crude oil forecast from positive to neutral and lower our forecast to USD 70 / bbl for 1H22 and USD 75 / bbl for 2H22. Prevailing front month futures is about USD 72 / bbl.

Gold: Rising Treasuries yield is negative for gold



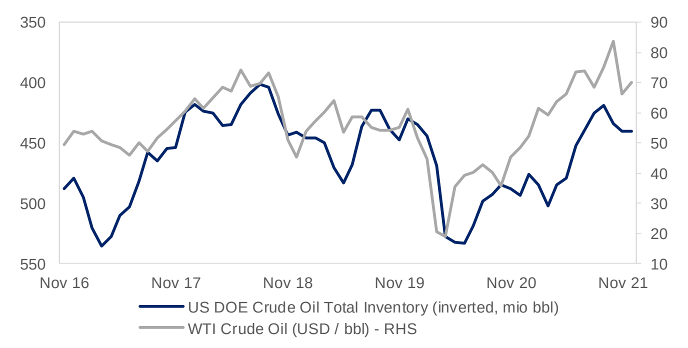
Source: Bloomberg, UOB Global Economics & Markets Research

Copper: China's copper demand may top out ahead of seasonal slump



Source: Bloomberg, UOB Global Economics & Markets Research

Brent Crude Oil: Pre-Omicron there was a healthy drawdown in US crude oil inventory



Source: Bloomberg, UOB Global Economics & Markets Research

FIXED INCOME

Returns on most global fixed income markets turned negative in 4Q 2021. Over the past quarter, short-to-intermediate bond yields moved higher as expectations on central bank policy tightening accelerated. And as the elevated prints on inflation continued, price concerns are increasingly viewed as more persistent (i.e. likely to stay high into the first half of 2022) and less transitory. Global credit spreads widened on uncertainties on policy tightening as well as on speculation that balance sheet strength may be compromised as corporates inclined towards pursuing more shareholder-friendly measures. In particular, Asian high yield spreads widened materially given the ongoing default risks faced by China's property sector.

Overall, global growth momentum remained firm notwithstanding concerns over how the Delta and the latest Omicron variants may impact supply chain bottlenecks and in turn, challenge growth and inflation. In Asia, China's dual policy objectives of debt deleveraging and "common prosperity" (i.e. reducing income inequality) would likely dampen near-term growth.

The latest Dec FOMC indicated that the Fed will accelerate tapering and dropping the word "transitory" to describe inflation. The UOB house view is that the QE taper timeline would now be completed by March 2022. We expect the US Fed to start raising the Fed Funds target rate in 2022, potentially three 25bps rate hikes, the first starting in Jun and followed by hikes in Sep and Dec. Thereafter, we expect two more 25bps rate hikes in 2023. There is a risk that the Fed may start its rate hike cycle any time after the QE taper ends in Mar (2022). Finally, we expect the US 10-year Treasury bond yield to rise towards 2% by 1H 2022.

We turn moderately underweight on the fixed income asset class, we are underweight duration risk and neutral on credit risk. While economic activity is expected to stay healthy and at above-trend levels in 2022, should Delta/ Omicron variants induced supply shortages continue to persist, the contribution to core inflation from supply-constrained categories may be more persistent than what most market participants think. For corporates, one potential challenge would be defending margins against cost pressures. In the US, there are continued signs of rising labor wage pressures stemming from a non-temporal reduction in skilled labor supply. Such scenarios would place downward pressure on profit margins and upward pressure on bond yields. At this juncture, **we are underweight duration risk and neutral credit risk** (i.e. global high yield and investment-grade credit, including EM credit).

We turn neutral on credit risk (i.e. global high yield and investment-grade credit, including EM credit). While credit spreads should continue to remain at fairly tight levels amidst the ongoing above-trend recovery, spread volatility is likely to be higher next year given the uncertainties around the tightening of monetary policy expected in 2022.

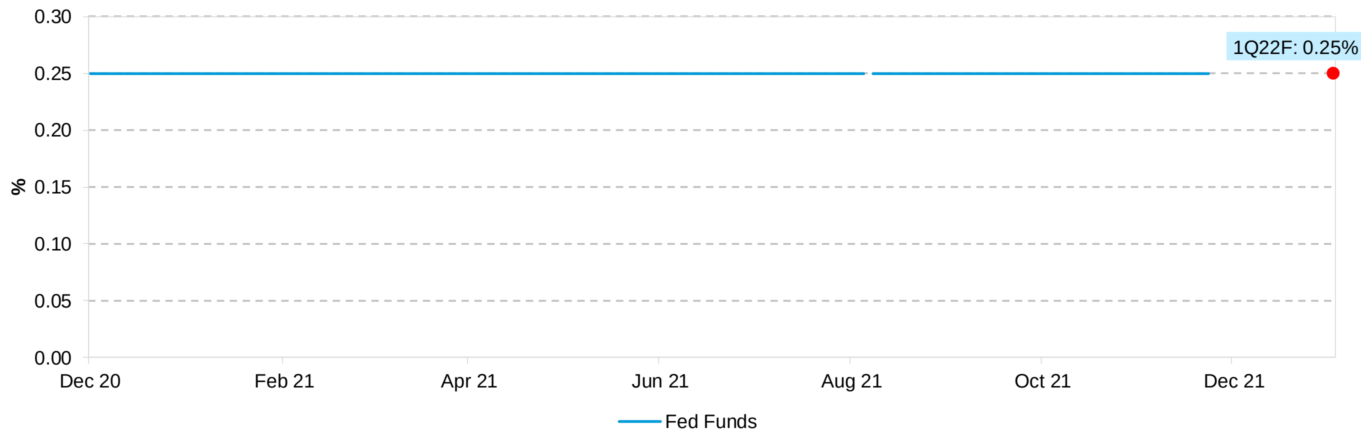
Investor attention would remain focused on how China handles the property de-leveraging and fall-out. While China's property sector, taken as a whole, is of systemic importance to the overall economy, individual property developers would not be considered systemically important. We note that property developers and related sectors (e.g. suppliers of heavy equipment and building materials) have total debts amounting to 35% of China's financial system and equivalent to 100% of the country's GDP. Beijing is very likely to take steps to ensure that the fallout for the sector will be limited, even as individual property developers might be allowed to fail. However, should signs of contagion grow, Chinese authorities would help ease funding pressures and help re-kindle investor confidence through coordination with the large state-owned banks and potential policy adjustments.

The fixed income asset class could become somewhat more attractive as and when the US 10-year sovereign bond yields normalise higher towards 2% by 1H 2022. In this sense, income strategies would likely to offer better return-risk profile over the coming year. Thus far in 2021, while equities and commodities have rebounded sharply, equity returns may start to slow from here should rising inflation place pressure on central banks to withdraw their policy support in asset purchases sooner than later. We think investors will return towards income themes which try to balance the steady income of credit and dividend income and achieve solid returns but with less volatility than pure equities. We think this theme has been less in focus in the past year but will return to being a good alternative for investors by 1H 2022.

FX & INTEREST RATES

UNITED STATES

FED Funds Rate

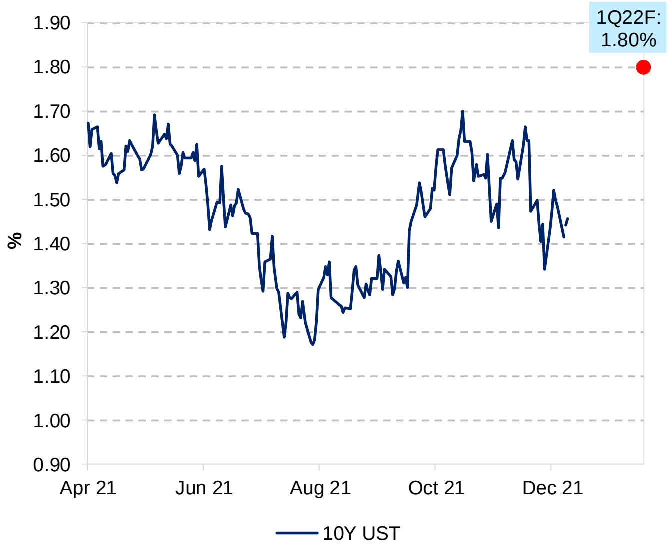


As widely expected, the Fed announced in its Dec FOMC a faster pace of QE reduction. According to the decision: for Jan 2022 (increase its holdings of Treasury securities by at least $40 billion per month and of agency mortgage-backed securities by at least $20 billion per month), Feb 2022 (increase its holdings of Treasury securities by at least $20 billion per month and of agency mortgage-backed securities by at least $10 billion per month), and then complete the tapering by Mar 2022. Thereafter, we expect three rate hikes in 2022, in line with the Dec 2021 Dotplot chart. Our projection for the first Fed funds target rate hike will be in Jun 2022 by 25bps to 0.25-0.50%, followed by 2 more hikes in Sep 2022 and Dec 2022. In 2023, we are projecting two more 25bps rate hikes (in 1Q and 3Q 2023). We highlight there is a risk that the Fed may hike any time after the QE taper ends in Mar (2022). More persistent US inflation pressures (especially in early 2022) may translate into heightened risks of earlier and more frequent Fed funds rate hikes in 2022, especially if the employment situation improves materially and exceeds pre-pandemic levels. Omicron developments, on the other hand, remains a largely unknown factor (for now) and may either dampen or accelerate rate hike expectations.

3M US Libors

- We expect to see 3M Libor at around 0.23% by the end of 1Q 2022.
- Upcycle for Libor is in play for 2022. Libor curve to steepen and spreads to FED funds to widen.
- Liquidity backdrop less accommodative but far from being tight. Could see FOMC discussion on ending rollover of maturing proceeds in later parts of 2022.

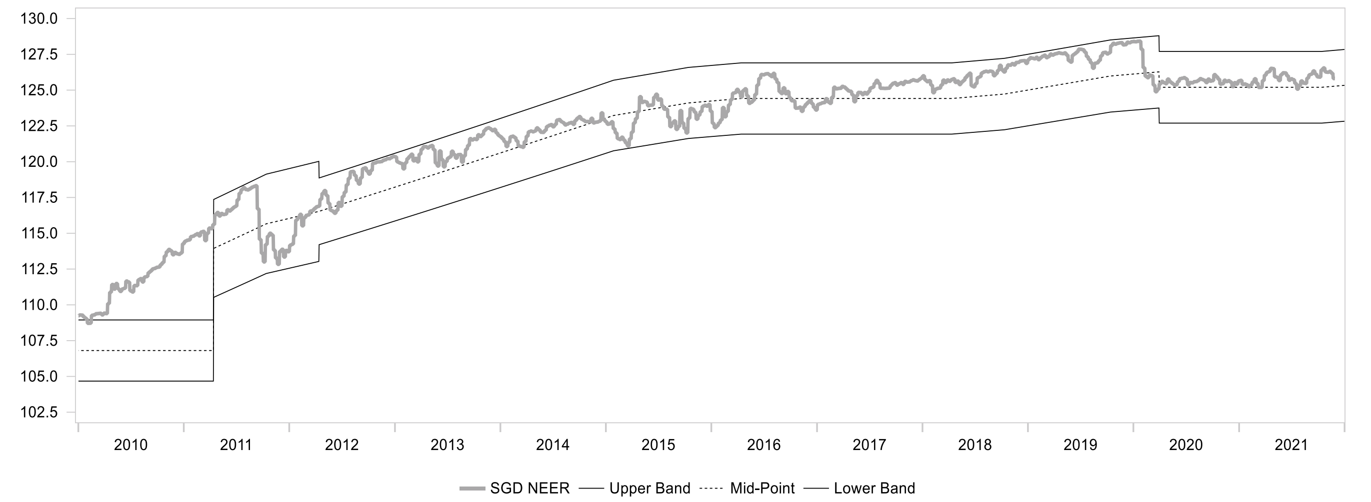
10Y US Treasuries



- We expect to see 10Y UST at 1.80% by the end of 1Q 2022.
- Hike cycle high for 10Y UST yield to come in late tightening cycle.
- Ceiling on 10-year yield will depend on how well other asset classes adjusts to higher FED funds rate going forward.

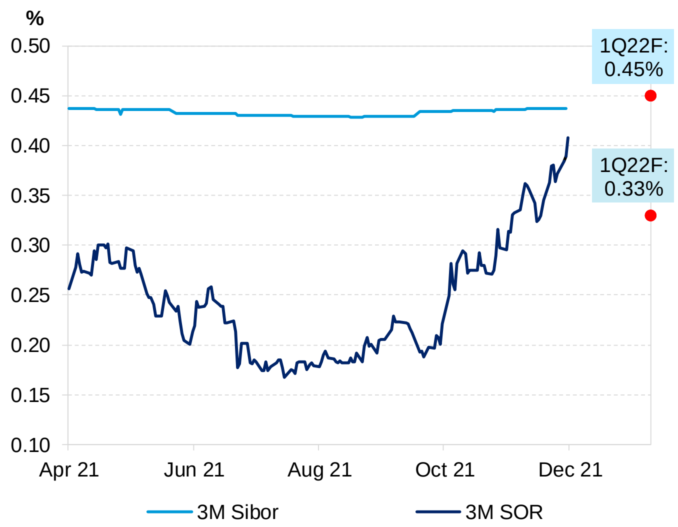
SINGAPORE

S$NEER



Singapore's GDP is expected to grow 6.8% and 3.5% in 2021 and 2022, respectively. In the latest Monetary Authority of Singapore (MAS) policy announcement in October, policymakers surprised market expectations and lifted the S$NEER slope, while keeping the centre and width of the band unchanged. This suggests that the MAS are increasingly cautious over inflationary pressures over the medium term. Barring any unexpected deterioration of economic conditions, we think that further tightening in April 2022 and beyond is possible to normalise policy stance to pre-pandemic levels. As such, we think that another "slight" steepening of the policy band in April 2022 by another 0.5% may be possible, to bring the full gradient to 1.0% then. Against a backdrop of broad USD strength, what it means is that the SGD will drop lesser against the USD compared to its trading peers. As such, we reiterate our modestly higher trajectory in USD/SGD, with point forecasts at 1.38 in 1Q22, 1.39 in 2Q22, 1.40 in both 3Q and 4Q22.

3M SOR and Sibor

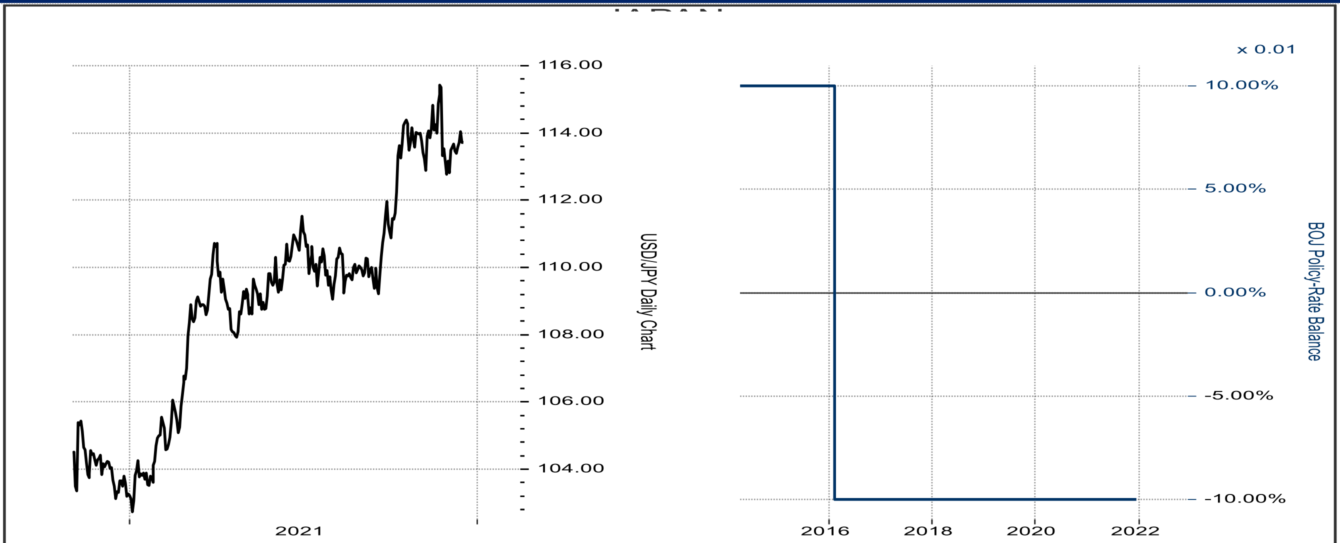


- We expect to see 3M SOR at 0.33% and SIBOR at 0.45% by the end of 1Q 2022.
- 6M SIBOR fixings will be discontinued at the end of March 2022.
- SOR curve to steepen alongside US Libor curve changes.

10Y SG Bonds

- We expect to see 10Y SGS at 1.90% by the end of 1Q 2022.
- Upside bias feeds off UST view.
- SGS auction calendar for 2022 is skewed towards the 2 and 5 year maturities. Would be complementary to cyclical flattening forces that are taking hold of the UST yield curve.

JAPAN

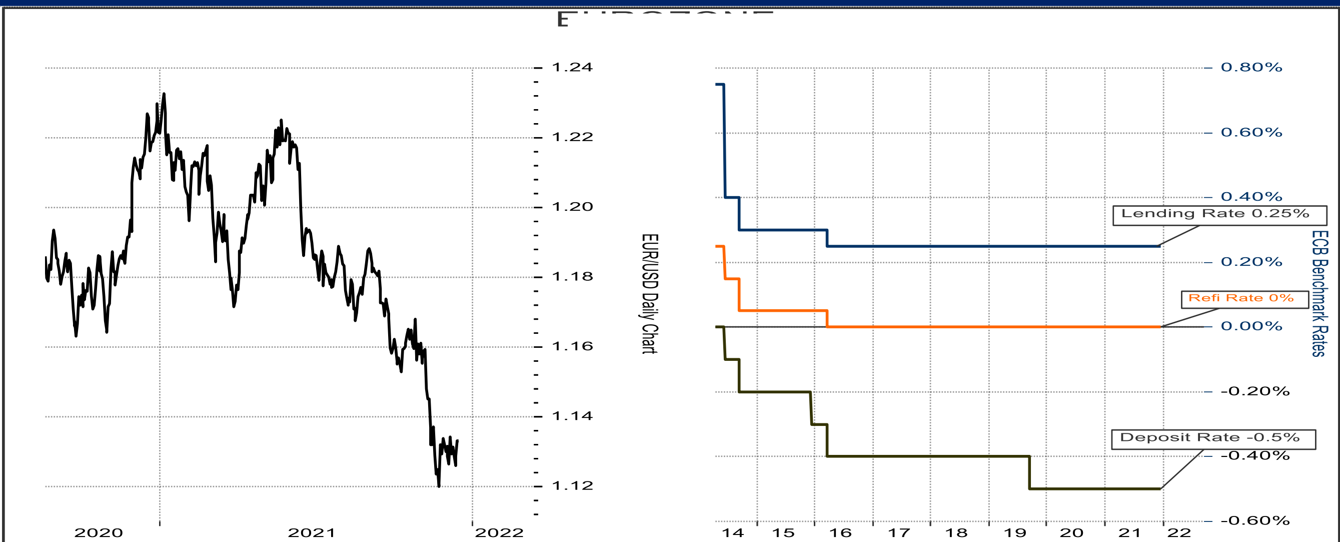


Source: Refinitiv Datastream/UOB Global Economics and Market Research

In its Dec MPM, the BOJ kept policy rates unchanged but made adjustments including a 6-month extension to the COVID-19 loan schemes for SME while tweaking conditions, and to moderate purchases of corporate bonds and commercial paper to pre-pandemic levels from Apr (2022) as “financial conditions in Japan have improved”. Our monetary policy outlook is unchanged as the uncertain near-term growth outlook and potentially even weaker inflation outlook (due to crude oil price correction) keeps our view the BOJ will not be tightening anytime soon. There is an entrenched belief that unlike its G7 peers, the BOJ has little (or no) room for normalisation and will remain in a holding pattern on policy until at least April 2023 when Governor Kuroda is scheduled to leave the BOJ.

When Omicron stuck, the USD/JPY plummeted 2% to 113.05 (on 26-Nov), the biggest 1-day drop since last March. Net-short JPY futures positioning were also scaled back at the fastest weekly pace since March 2020 in the week when Omicron was announced. Near term safe haven flows are likely to keep the USD/JPY tethered to current level of around 114 before a further recovery in FED rate hike expectations and Treasury yields underpins a subsequent gradual recovery in USD/JPY. Our updated USD/JPY forecasts are 114 in 1Q22, 115 in 2Q22, 116 in 3Q22 and 117 in 4Q22.

EUROZONE

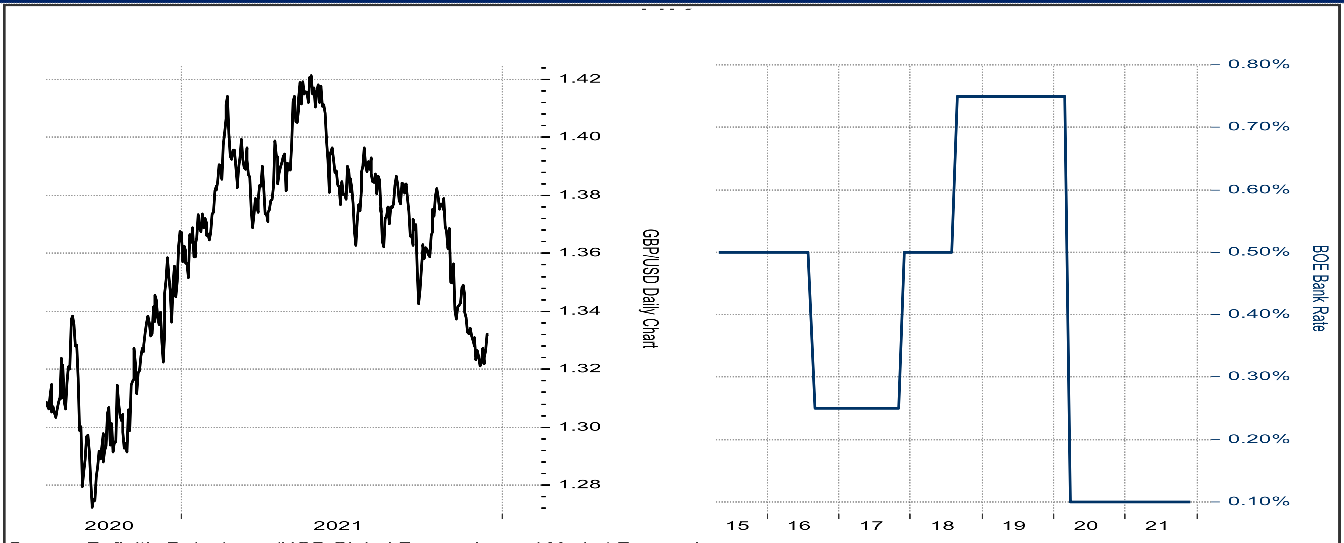


Source: Refinitiv Datastream/UOB Global Economics and Market Research

Bond buying under the European Central Bank (ECB)’s EUR1.85tn Pandemic Emergency Purchase Programme (PEPP), which is due to end in March 2022, will be at a lower pace in 1Q22 than in 4Q21 as the scheme winds down. However, bond buys under the Asset Purchase Programme (APP) will be ramped up to serve as a quantitative easing bridge through the end of the PEPP, at a monthly net purchase pace of EUR40bn in 2Q22 and EUR30bn in 3Q22, after which the ECB will maintain net asset purchases under the APP at a monthly pace of EUR20bn for as long as necessary. As for policy rates, we are not expecting any increase until well into 2023, at least.

While Omicron has spurred a relook at consensus short EUR/USD positioning, it is unlikely to result in a sustained recovery in EUR/USD as the yield differential continues to fall. As such, we keep to our negative view on EUR/USD and update the forecasts at 1.12 in 1Q22, 1.11 in 2Q22, 1.10 in both 3Q22 and 4Q22.

UNITED KINGDOM

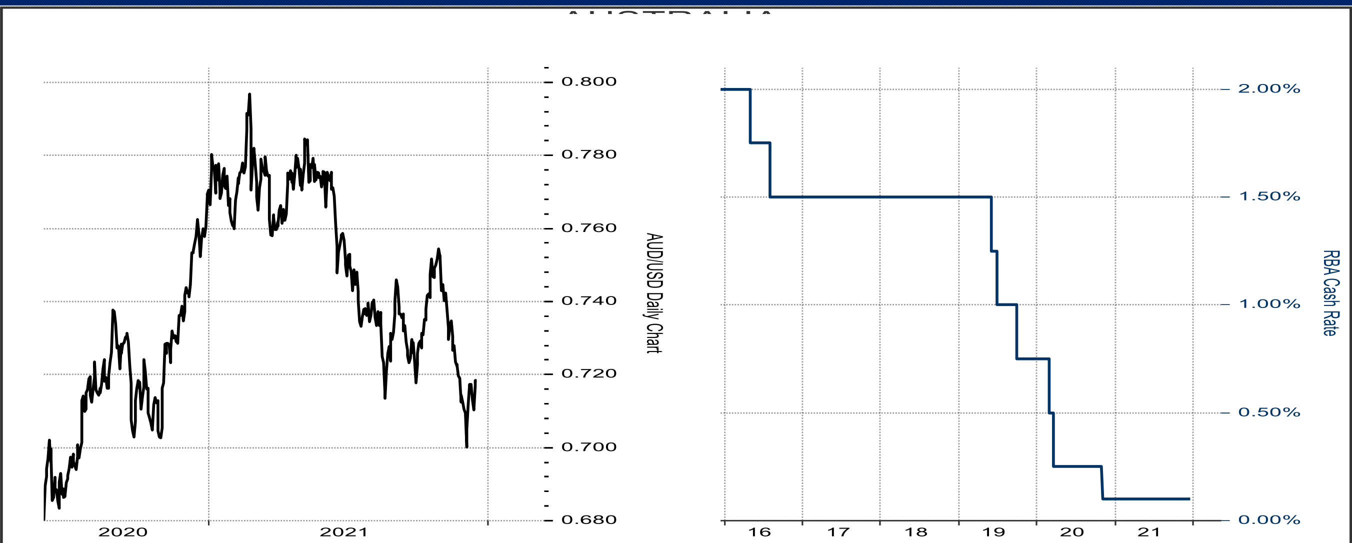


Source: Refinitiv Datastream/UOB Global Economics and Market Research

For now, we are expecting another two rate rises by the Bank of England (BOE) next year. We have penciled in a 25bps hike in February to 0.50%, which is reportedly the threshold after which policymakers may let gilts that mature in its GBP875bn asset purchase program roll out of the portfolio without being replaced. It could also determine whether the BOE reinvests GBP28bn of proceeds from bonds maturing in March. Subsequently, we expect another 25bps hike in August, which would bring the Bank Rate to 0.75% by end-2022.

Stacked against the aggressive rate hike pricing, GBP/USD trading at 1-year lows appears out of place. It is likely that this disparity will be resolved via a higher GBP/USD going forward. Also, we continue to argue that GBP is attractive on a trade weighted basis over the long term. Overall, we keep to our upward trajectory in GBP/USD and update the forecast to 1.36 in 1Q22, 1.38 in 2Q22, 1.40 in 3Q22 and 4Q22. Risks to our positive GBP outlook include the return of lockdowns if the Omicron outbreak intensifies as well as from the UK potentially invoking Article 16 of the Northern Ireland Protocol which would suspend parts of the Brexit deal reached two years ago.

AUSTRALIA

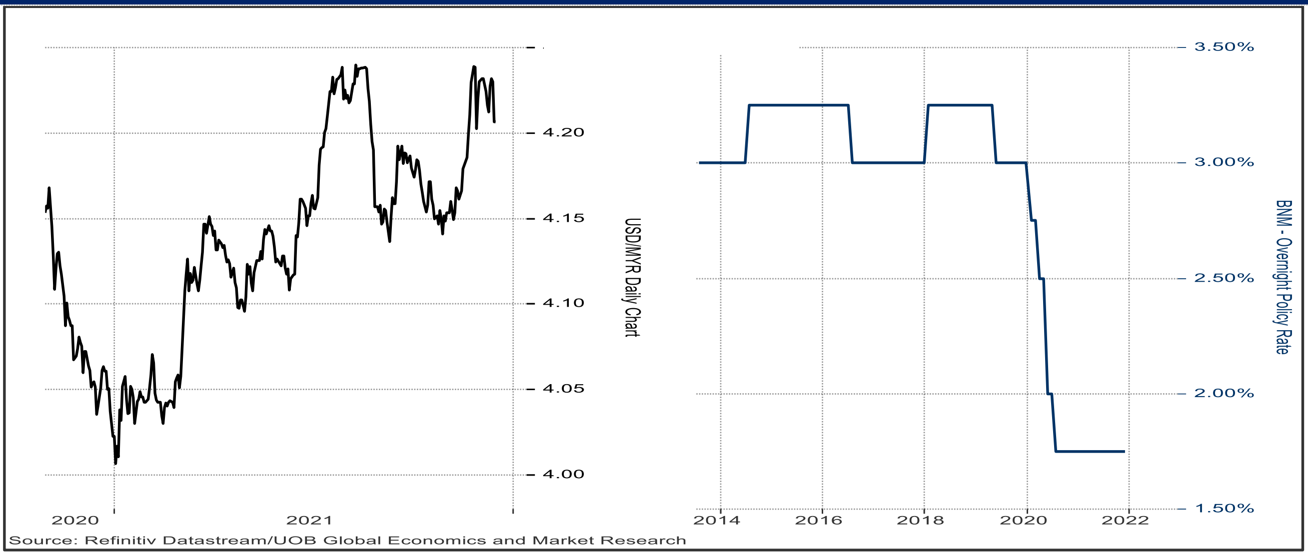


Source: Refinitiv Datastream/UOB Global Economics and Market Research

The next Reserve Bank of Australia (RBA) meeting will take place on 1 February 2022, and will take on greater significance, given the scheduled review of the bond buying program. On the cash rate target, we now flag the potential for hikes to occur earlier than our initial projection of early-2024, although we still believe that the current market pricing of RBA rate hikes is too aggressive. At this juncture, we are pencilling rate hikes in 4Q23.

From a high of 0.7556 in late October, AUD/USD tumbled to 0.7000 in late November, the lowest level in 14 months. The dovish tilt of the RBA offers little support to AUD/USD going forth. While the RBA has scrapped 3-year yield target in November, it warned that Australia does not have an "inflation problem" compared to its developed peers and that the latest data and forecasts did not warrant a rate rise in 2022. A slowing Chinese economy and the uncertainty posed by the Omicron variant are headwinds for the AUD too. Overall, we keep to our cautious view on AUD/USD and slash our point forecasts 100 pips lower across the next 4 quarters. They are now at 0.71 in 1Q22, 0.70 in 2Q22, 0.69 in 3Q22 and 0.68 in 4Q22.

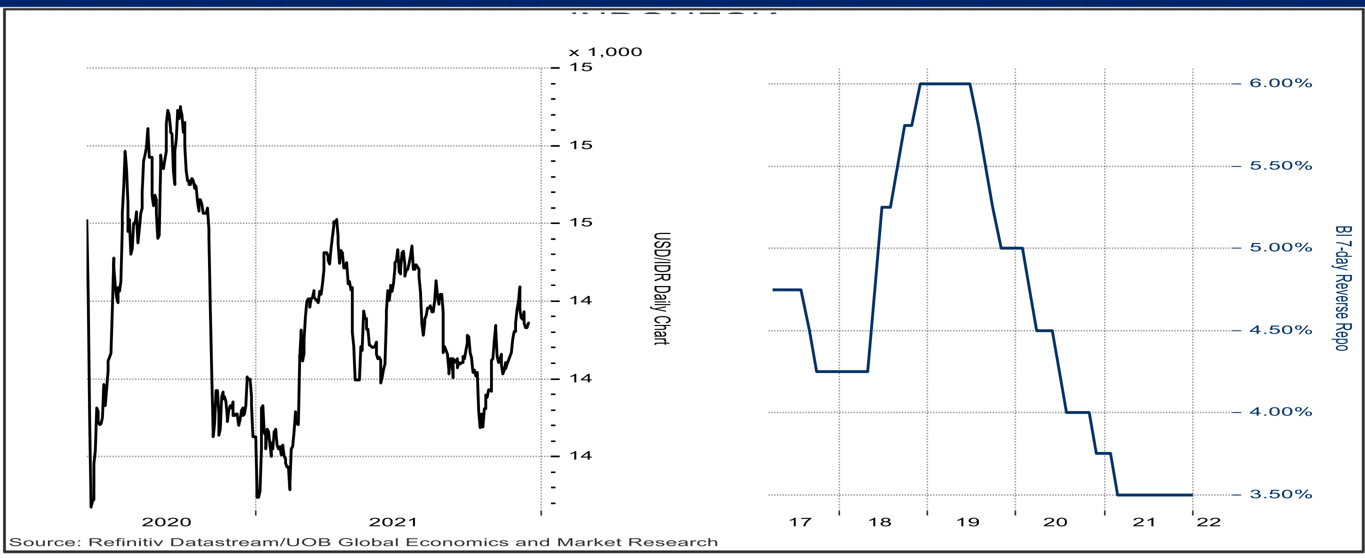
MALAYSIA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

With pandemic uncertainty and lingering impact of prolonged and worsened supply chain disruptions, Bank Negara Malaysia (BNM) left the Overnight Policy Rate (OPR) unchanged at 1.75% for an eighth straight meeting on 3 Nov. Given further fiscal policy support from Budget 2022, broadly neutral statement from Nov MPC meeting, and a nascent recovery, we continue to expect BNM to stand pat on OPR until mid-2022 and thereafter, we expect a 25bps rate hike to 2.00% in 3Q22. We think potential triggers for earlier rate hikes would be a more robust and stable domestic growth in coming months and signs of wider pass-through of higher costs to consumers as the economy recovers. We continue to see weakening bias for the local currency through 2022, as the USD is likely to gain further strength. A neutral outlook for Brent crude, the potential resurfacing of political concerns and policy uncertainties at home would also dent sentiments on the MYR next year. We update our USD/MYR forecasts at 4.25 in 1Q22, 4.28 in 2Q22, 4.30 in both 3Q22, 4Q22.

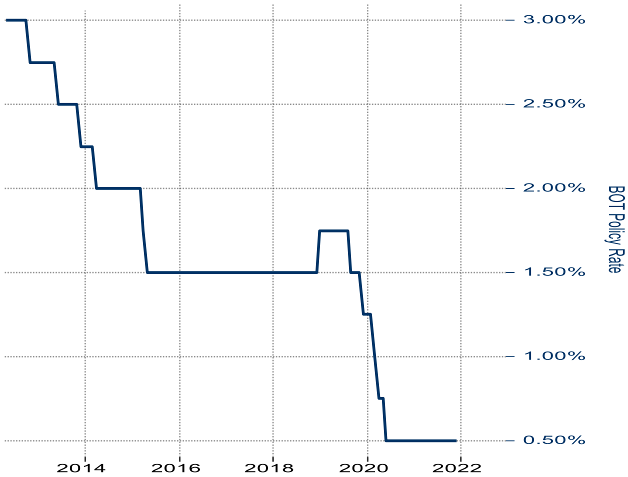
INDONESIA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

Bank Indonesia (BI) left its benchmark rate unchanged at an all-time low of 3.50% since Feb'21. BI reiterated that the decision is consistent to support growth while anchoring financial stability. Nonetheless, we view BI could begin normalizing the policy rate next year during 2H22. Inflation might start to post a cause for a policy rate change, in line with domestic demand recovery. In addition, external factors like faster Fed tapering and sooner than earlier expected hike would put additional pressures for BI to enter into a rate hike cycle soon. For now, as inflation remains below the 2% - 4% of the Central Bank's target range; BI will have the policy space to remain accommodative to support the recovery. Thus, we expect BI to continue keeping its benchmark rate unchanged in 1H22. Nevertheless, we are of the view that the rate hike cycle will begin soon, with our forecast that BI will start to hike its benchmark interest rates in 2H22. Our current forecast is for a 2x25bps hike in 3Q22 to 4.00%, followed by another 2x25bps hike in 4Q22 to 4.50%. Our terminal BI rate forecast is currently set at 5.00%, which is likely to take place in the 1Q23. There are still reasons to be cautious about the IDR going forth, including a slow vaccination drive casting uncertainty over the economic recovery and a narrowing yield advantage of Indonesia Govt Bonds over USTs. A persistent and widening twin deficit also anchors a gradual uptrend in USD/IDR over medium term. We reiterate our view of a higher USD/IDR but have moderated the trajectory. The updated forecasts at 14,600 in 4Q21, 14,700 in 1Q22, 14,800 in 2Q and 3Q22.

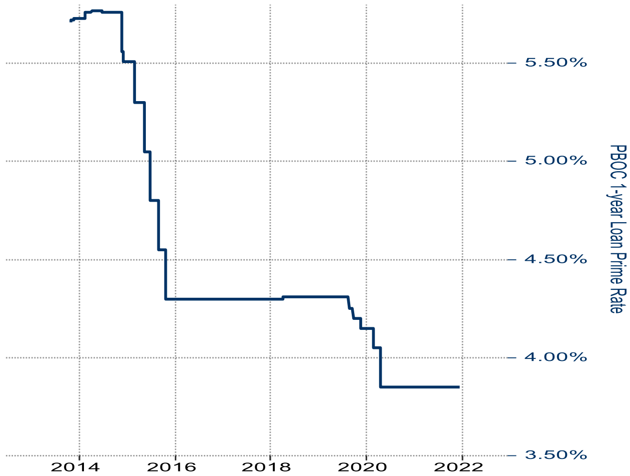
THAILAND



Source: Refinitiv Datastream/UOB Global Economics and Market Research

Thailand remains to be one of Asia's most affected economies from the COVID-19 pandemic. According to the World In Data, Thailand has merely vaccinated 56% of its population as of November 2021, albeit an improvement from October's average of 35%. COVID-19 risks remain to be the key drag to economic performance, considering the negative impact it could have on Thailand's tourism, labour market and domestic consumption. Even so, the emergence of a potentially vaccine-evading Omicron variant may inject fresh economic uncertainties in 2022. We continue to pencil GDP growth at 0.7% for 2021, suggesting another GDP contraction of 0.8% in 4Q21. In 2022, we expect GDP to grow 3.5%, versus the official estimate of 3.5% to 4.5%, as the economy gradually recovers from COVID-19. The THB is still the worst performing Asia FX this year, dropping over 10% to 33.40 /USD. We expect THB to weaken further in 2022 but in the absence of a fresh idiosyncratic driver. As such, we update our current set of USD/THB forecasts, at 33.8 in 1Q22, 34.1 in 2Q22, 34.3 in 3Q22 and 34.5 in 4Q22.

CHINA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

The PBOC's second 50 bps cut to banks' reserve requirement ratio (RRR) this year has taken effect on 15 December. The earlier than expected move was likely to prevent a tightening of the credit market due to property developer defaults. China has also lowered its relending rate by 0.25 percentage point effective from 7 December in order to support the rural sector and smaller firms. Furthermore, calls for benchmark loan prime rate (LPR) cuts have grown louder after the annual Central Economic Work Conference (CEWC) which repeatedly emphasized "stability" as a key priority in 2022. Should the economy deteriorate at a sharper than expected pace, both an LPR cut and a further reduction to the banks' RRR cannot be ruled out, although our base case is for the LPR to be kept unchanged in 2022. As for the RRR, a further cut may not come so soon given the lightening of the MLF maturity schedule in 1H22. The recent strength in the CNY is likely to be short-lived and increasingly at odds with a slowing Chinese economy. Also, the PBOC has acted in a bid to slow the CNY appreciation by hiking the foreign currency deposits reserve requirement ratio (FC RRR) for a second time this year, by 200 bps in December. Taken together, we keep to our upward trajectory in USD/CNY but have lowered the point forecasts in view of the resilient CNY. Our updated forecasts are 6.40 in 1Q22, 6.45 in 2Q22, 6.50 in 3Q22 and 6.55 in 4Q22.

FX, INTEREST RATE & COMMODITIES FORECASTS

FX	16 Dec 21	1Q22F	2Q22F	3Q22F	4Q22F
USD/JPY	114	114	115	116	117
EUR/USD	1.13	1.12	1.11	1.10	1.10
GBP/USD	1.33	1.36	1.38	1.40	1.40
AUD/USD	0.72	0.71	0.70	0.69	0.68
NZD/USD	0.68	0.67	0.67	0.66	0.66
DXY	95.92	96.2	96.6	97.0	97.0
USD/CNY	6.37	6.40	6.45	6.50	6.55
USD/HKD	7.80	7.80	7.82	7.83	7.84
USD/TWD	27.79	28.00	28.20	28.40	28.60
USD/KRW	1,181	1,200	1,220	1,250	1,250
USD/PHP	49.97	50.80	51.20	51.60	52.00
USD/MYR	4.21	4.25	4.28	4.30	4.30
USD/IDR	14,387	14,500	14,700	14,800	14,900
USD/THB	33.37	33.80	34.10	34.30	34.50
USD/VND	22,937	23,100	23,200	23,300	23,400
USD/INR	76.17	76.50	77.00	77.50	78.00
USD/SGD	1.36	1.38	1.39	1.40	1.40
EUR/SGD	1.55	1.55	1.54	1.54	1.54
GBP/SGD	1.82	1.88	1.92	1.96	1.96
AUD/SGD	0.98	0.98	0.97	0.97	0.95
SGD/MYR	3.09	3.08	3.08	3.07	3.07
SGD/CNY	4.67	4.64	4.64	4.64	4.68
JPY/SGDx100	1.20	1.21	1.21	1.21	1.20

RATES	16 Dec 21	1Q22F	2Q22F	3Q22F	4Q22F
US Fed Funds Rate	0.25	0.25	0.50	0.75	1.00
USD SOFR	0.05	0.21	0.45	0.61	0.88
USD 3M LIBOR	0.22	0.23	0.60	0.85	1.15
US 10Y Treasuries Yield	1.42	1.80	1.95	2.05	2.15
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	0.25	0.50	0.50	0.75	0.75
AUD Official Cash Rate	0.10	0.10	0.10	0.10	0.10
NZD Official Cash Rate	0.75	1.00	1.25	1.50	1.75
CNY 1Y Loan Prime Rate	3.85	3.85	3.85	3.85	3.85
HKD Base Rate	0.50	0.50	0.75	1.00	1.25
TWD Official Discount Rate	1.13	1.13	1.13	1.25	1.25
KRW Base Rate	1.00	1.25	1.25	1.25	1.25
PHP O/N Reverse Repo	2.00	2.00	2.00	2.25	2.25
SGD SORA	0.19	0.25	0.48	0.73	1.01
SGD 3M SIBOR	0.44	0.45	0.70	0.90	1.15
SGD 3M SOR	0.41	0.33	0.60	0.85	1.10
SGD 10Y SGS	1.59	1.90	2.00	2.05	2.10
MYR O/N Policy Rate	1.75	1.75	1.75	2.00	2.00
IDR 7D Reverse Repo	3.50	3.50	3.50	4.00	4.50
THB 1D Repo	0.50	0.50	0.50	0.50	0.75
VND Refinancing Rate	4.00	4.00	4.00	4.00	4.00
INR Repo Rate	4.00	4.00	4.00	4.00	4.25

COMMODITIES	16 Dec 21	1Q22F	2Q22F	3Q22F	4Q22F
Gold (USD/oz)	1,806	1,800	1,800	1,800	1,800
Brent Crude Oil (USD/bbl)	74	70	70	75	75
LME Copper (USD/mt)	9,508	9,000	9,000	9,000	9,000

THE TEAM

Global Economics & Markets Research
Asset Management
Private Bank

All chart data from Bloomberg unless otherwise specified.

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