UOB HOUSE VIEW

2Q2020

GLOBAL MACRO

The coronavirus disease (COVID-19) isnot only a public health crisis, but also a global economic crisis. It disrupts global supply chains, destroys demand and it is also a financial shock. Central banks & governments responded aggressively but monetary and fiscal policies only treat the effects but cannot solve a public health crisis. The critical element that determines the speed of recovery is containment of COVID-19 but tough health security measures will inevitably lead to a synchronized recession.

FIXED INCOME

As global risks took a turn for the worse, central banks around the world stepped up aggressively their policy responses. We turn positive on duration risk, as sovereign bond yields would be supported by flight-to-safety during economic and financial crises. We continue to favor USD Asian investment-grade credits.

ASSET ALLOCATION

It is important to distinguish that asset classes are reacting to two separate problems at the start of the second quarter of 2020; 1) COVID-19 and the preventive measures to slow its transmission is threatening a sharp recession and 2) a global liquidity squeeze that appears worse than GFC. We recommend being NEUTRAL in equities and cash, OVERWEIGHT in fixed income, and UNDERWEIGHT in commodities but within commodities, we still prefer gold.

COMMODITIES

Growth related commodities will find the going very tough under such recessionary backdrop. In the coming quarter, we can expect Brent crude oil to test the USD 20 / bbl lower bound, while LME Copper will likely drop to USD 4,000 / MT. As for Gold, once the USD funding crunch subsides, it will likely recover strongly, supported by the massive amount of global central bank monetary policy easing. As such, we see gold rallying towards USD 1,750 / oz by 1Q21.

EQUITIES

While we remain neutral on equities for this coming quarter, the market correction has provided very good entry points for investors looking to hold on for the medium term (three to five years) until a new bull cycle forms. A medium term view to equities at this juncture is important as we do see markets going through a period of higher volatility. As such, a strict dollar cost averaging strategy is recommended. Higher beta stocks in the financial, technology, and industrial sectors are preferred.

FX & INTEREST RATES

The US Dollar will likely stay strong and dominant over the near term, supported by the global funding crunch. In addition, sharply lower energy price is highly deflationary for EM countries and their respective currencies. Short term money market rates are elevated by credit and funding risks but should normalize over time. Longer term bond yield have been volatile but may find some support going forward from the massive amount of fiscal spending globally.

UOB

GLOBAL MACRO

The Cost Of Containment Is Synchronized Recession

The global economic outlook cannot be more starkly different compared to what we had penned down at the start of the year. It started with a coronavirus disease (COVID-19) outbreak in China late December 2019, and within months spread to all major economies, turning it into a global pandemic (announced by the World Health Organization, WHO, on 11 March 2020). So far, the outbreak in Europe and the US shows no signs of abating and could very well get worse in 2Q.

COVID-19 is not only a public health crisis, but is also a global economic crisis as economic activities worldwide shut down. The International Monetary Fund (IMF) expects a global recession this year that will be at least as severe as the one during the 2008/2009 Global Financial Crisis while the Institute of International Finance (IIF) projects a 1.5% contraction in the global economy this year, with advanced economies shrinking a larger 3.3%.

COVID-19 is like the "Black Swan" stress test scenario that came true but is much worse. It is a triple-shock: It is a supply shock as factories shut down which disrupts global supply chains. It is also a demand shock as the lockdowns, border closures, stay-home orders and travel restrictions disrupt our daily lives and decimate regular economic and consumption activities, essentially shrinking the economy. And it is also a financial shock which has now manifested into a USD funding crunch, as companies and consumers draw on their credit lines in the face of cash flow disruptions. In addition, non-US based borrowers and financial institutions face the additional dilemma of tight USD funding which is now holding financial markets hostage while the plunge in economic activity will result in a new cycle of defaults and credit failures ahead as the pandemic drags on.

Is It A "V", "U" Or Something Far Worse?

At the time of writing (as of 26 Mar), the COVID-19 pandemic epicenter has shifted from away from Asia as the number of fatalities rise rapidly there. Meanwhile the number of infections and fatalities in the US and Europe is accelerating and may well be the next COVID-19 hotspot.

Health security measures in the form quarantines, social distancing, travel restrictions, lockdowns and border closures are enforced in various jurisdictions, in an attempt to slow theinfection rate and transmission, i.e. "to flatten the infection curve", so as to protect lives and not overwhelm the health care system. However, the measures will lead inevitably to a synchronized recession, on a global scale. From our perspective, the US, large parts of Europe and many other major economies are expected to be in contraction in 2020 while China may record recessionary growth close to 4% and we conservatively project a "U" shaped recovery where COVID-19 may be contained by 4Q 2020. (See Table)

The risk is after a brief period of respite as summer approaches, COVID-19 resurges with a vengeance in 2H20, which means returning to personal restrictions, lockdown, border closures and other measures to contain the virus, and inevitably decimating economic activity again.

Aggressive Fiscal & Monetary Policies, But Not Enough

Since the pickup in severity of the COVID-19 pandemic, central banks have responded with aggressive policy rate cuts and conventional & unconventional measures to restore financial market stability, smooth out US dollar funding conditions and safe-guard their respective economies. Various governments have also deployed the extraordinary fiscal actions to tackle the negative impact brought about by the COVID-19 and more fiscal measures can be expected. However, monetary and fiscal policies are ill equipped to solve a public health crisis. The one critical element that determines the speed of recovery from this global economic crisis will largely depend on how successful the public health measures will be to contain the pandemic so as to allow normal economic activities to resume.

Possible Economic Recovery Shapes In 2020

Shape of Trajectory	V-Shaped	U-Shaped	L-Shaped
Probability	20% (Best)	55% (Base Case)	25% (Worst)
COVID-19 containment	By end-2Q 2020	By 4Q 2020	Through 2020, containment by 2H 2021
Global Economy	Recession in 1H, a rebound in 2H (similar to SARS). Growth is still positive but lower than 2.9% in 2019.	Sharp technical recession in 1H, recovery in 2H not strong enough, with global economy recording full-year contraction in 2020	Deep recession for the full year, extensive supply chain disruption and demand destruction, a prolonged financial stress environment
Rates	Near term low and possible strong rebound if inflation returns.	Remain low heading into 2021 but unlikely to head significantly lower	Developed market rates will stay pinned down at zero and in some cases stay negative
Currencies	Commodities and energy related currencies like AUD may rebound strongly	Once USD funding crunch dissipates, can expect some recovery in Asia FX, led by RMB	USD will stay strong against most EM and Asian currencies

Source: UOB Global Economics & Markets Research

ASSET ALLOCATION

We recommend <u>NEUTRAL</u> weight to equities after the sharp corrections in the first quarter of 2020. The first quarter started promisingly enough with evidence of a rebound in global growth, but ended with the sharpest correction in history. The correction that started at the end of February saw the quickest 20% drop from market highs, surpassing the pace of corrections during the Great Depression and the Global Financial Crisis of 2008 (GFC). While the correction has been faster than any seen in history it has not been as deep. Thus, while the correction presents good valuation opportunities, the coming quarter is likely to remain volatile and thus investors should stay balanced. Overall we recommend to be NEUTRAL equities, slightly OVERWEIGHT fixed income, NETURAL commodities and NEUTRAL cash.

We think it is important to distinguish that asset classes are reacting to two separate problems at the start of the second quarter of 2020. Firstly, and obviously, the coronavirus disease (COVID-19) and the preventive measures to slow its transmission is threatening a sharp recession that will affect employment, profits and the solvency of many businesses. Secondly, there is a global liquidity squeeze that appears to be greater than even that seen in the GFC. Both of these problems appear to be equally contributing to the market drawdowns.

Our base case is for a second half recovery by the 4th quarter of 2020. This may be more "U" shaped than economists were originally hoping for, but we would not be surprised that investment markets will start to anticipate a recovery a couple of quarters before. While investors may not feel confident about a recovery at this stage in the crisis, we think confidence will start to improve over the coming quarter. Investors are likely to become more confident that 1) global central banks have the resources and the conviction to solve the liquidity crisis, and 2) the economic shock is due to a temporary exogenous event and thus fiscal policy support should be able to help bridge the tough quarter ahead and help companies stay solvent for the second half of the year.

The next quarter is likely to remain volatile. Investors have legitimate concerns over the economic outlook, market behavior, and for their own health. But the correction already reached severe levels at the end of the first quarter with global equity drawdowns of 30% or more. Valuations have fallen from being expensive to being cheap. Corporate bonds have seen their credit spreads widen to levels not seen since the 2008 financial crisis. **Historically, when equity market valuations have been one standard deviation below average valuations, the future multi-year returns have been their strongest.** Thus despite the extreme volatility, we recommend keeping a NEUTRAL weight in equities. Markets remain too volatile to aggressively overweight equities, but valuations are attractive and the correction extreme enough that it warrants holding on and not selling at distressed levels.

Interest rates have been slashed and looks set to remain low for the rest of the year. This makes the fixed income outlook relatively safe if liquidity conditions improve. Credit spreads are at very wide levels driven primarily due to poor liquidity. As central banks pump in more liquidity, bond markets should start to trade better. We slightly OVERWEIGHT fixed income markets with a focus on investment grade credits.

We favor balance, and income strategies. We recommend being NEUTRAL equities. We OVERWEIGHT fixed income with a focus on investment grade credits over government bonds and staying UNDERWEIGHT high yield bonds. We UNDERWEIGHT commodities but within commodities prefer gold. We are NEUTRAL cash as short term rates have been cut and we expect choppy market behavior for the quarter to come.

Global Asset Allocation

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

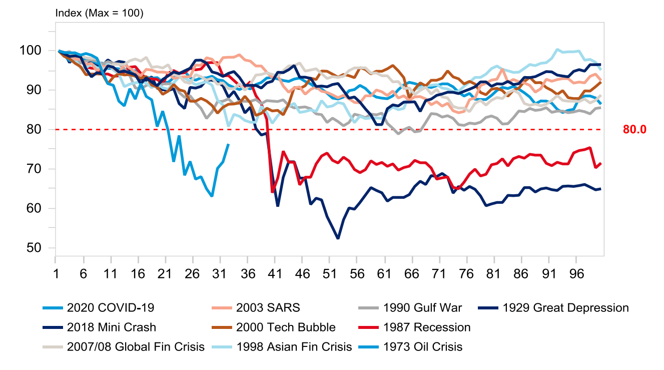
EQUITIES

Since reaching a peak on 12 Feb 2020, global equity markets have suffered from a massive sell down. While COVID-19 and the oil price collapse are real concerns, the speed of the sell-off has trumped that of even the Global Financial Crisis of 2008, or for the matter, the 1929 Great Depression. This has indeed been the fastest correction on record, and it is still unraveling. In a single month, the entire US equity market lost US$8.3 trillion.

The sell offhas brought stock valuations down to levels below the 5-year average for most markets. The exception is Chinese equities, where it is currently trading at the 5-year average PE multiple of 11.3.

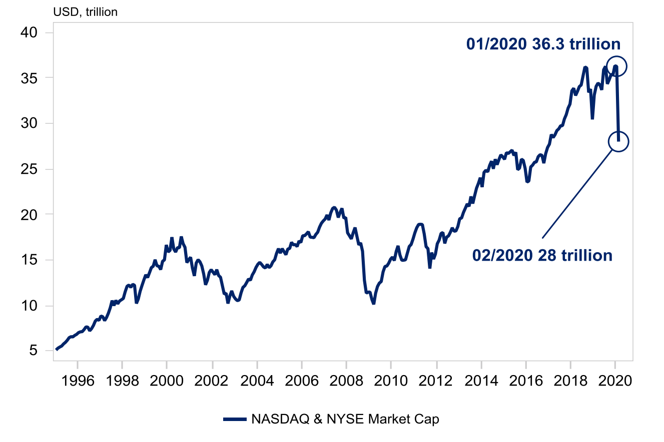
While we remain NEUTRAL on equities for this coming quarter, the market correction has provided very good entry points for investors looking to hold on for the medium term (three to five years) until a new bull cycle forms. A medium term view to equities at this juncture is important as we do see markets going through a period of higher volatility. As such, a strict dollar cost averaging strategy is recommended. Higher beta stocks in the financial, technology, and industrial sectors are preferred.

DJIA At Different Crises



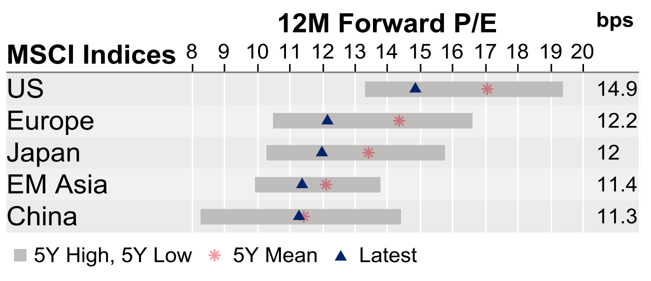
Source: Macrobond, UOB Private Bank

NASDAQ & NYSE Market Cap



Source: Macrobond, UOB Private Bank

P/E Multiple Across Countries



Source: Bloomberg, Macrobond, UOB Private Bank

COMMODITIES

No Escape From The Global Recession

It has been a brutal month of March for all asset classes. The COVID-19 outbreak spread across the world and intensified in Europe and the United States. As cities and countries imposed lock down and doubled down on social distancing measures to control the spread of COVID-19, it became abundantly clear that the entire world will now head into a deep and unprecedented recession across 1H of this year. Under such a recessionary environment, growth related commodities like Brent crude oil and LME Copper will likely remain under pressure. While Gold will remain the volatile wild card in the commodities space

Gold: To Rebound Strongly Once USD Funding Crunch Ease

Gold and the entire precious metals complex was sold off previously because global investors need to raise cash as a result of the USD funding crunch. If you plot gold price alongside the inverse of 3M US Libor (the classic indicator of interbank funding cost), the previous round of weakness in gold becomes apparent. Going forward, once this USD funding crunch dissipates after 2Q, gold should respond well to the massive amount of global monetary policy easing. By then, there is significant default risk as the global economy slows down drastically. Hence, gold's safe haven role should return with a vengeance. As such, we would expect Gold to rebound significantly in the quarters ahead. We update our gold forecast to USD 1,600 in 2Q, 1650 in 3Q, 1,700 in 4Q and 1,750 in 1Q21.

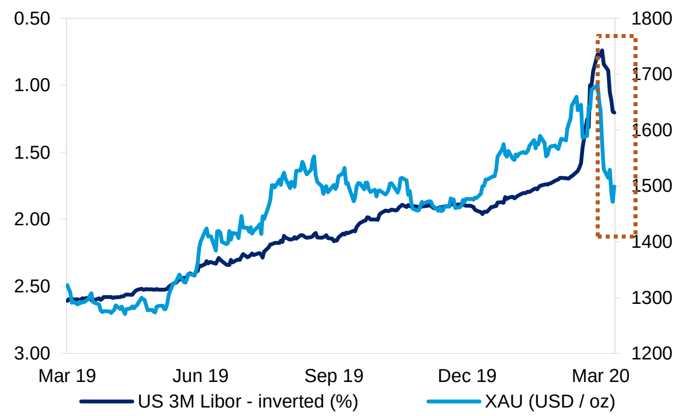
Brent: Double Whammy From COVID & OPEC+ Failure

Crude oil, together with the energy complex was dealt a double blow. Not only is global energy demand projected to drop significantly as a result of the COVID-19 outbreak, supply is also likely to jump given the failure of OPEC+. As a result, both Saudi Arabia and Russia have started a price war. Going forward, we believe that risks remain for Brent to test the USD 20 / bbl downside in 2Q. Thereafter, energy demand is expected to stay weak in the coming quarters as the global economy tries to heal itself. Thus, we further downgrade our Brent forecast to USD 20 in 2Q, USD 25 in 3Q, USD 30 in 4Q and USD 35 in 1Q21. Only a surprise reconciliation between Saudi Arabia and Russia will be able to trigger a stronger recovery in energy prices.

Copper: Risk Increases For "Catch-Up" Sell-Off

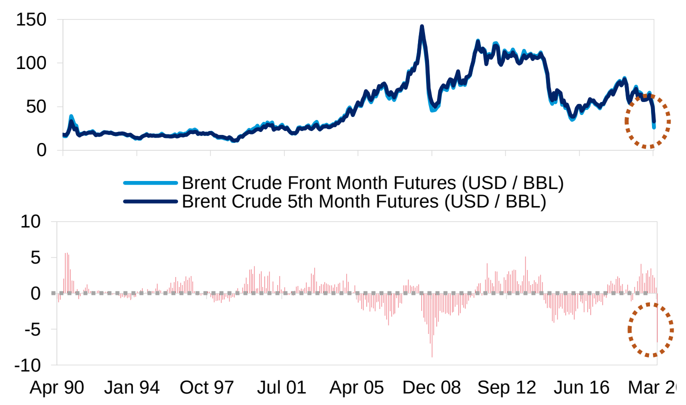
Industrial metals, including Copper are particularly sensitive to China's manufacturing activity. For a guide of how much further LME Copper may fall, a good indicator may be China's official PMI. In the latest February reading, both China's headline manufacturing PMI and new export order PMI fell hard into recessionary territory of 35.7 and 28.7 respectively. The last time we saw such a steep slump in China PMI was during the GFC period in 08/09 was LME Copper fell to nearly USD 3,000 / MT. However, on a positive note, Copper supply deficit is worsening and that may cushion somewhat the upcoming demand drop. Overall, we downgrade our LME Copper forecast further and see a risk of a further fall to USD 4,000 / MT in 2Q, before mild recovery to USD 4,200 / MT in 3Q, USD 4,400 / MT in 4Q and USD 4,600 / MT in 1Q21.

Gold: Gold Held Hostage By USD Funding Crunch



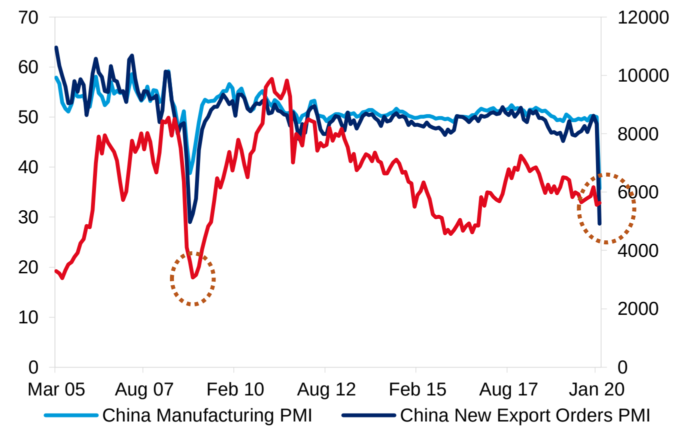
Source: Bloomberg, UOB Global Economics & Markets Research

Brent: Plunges Into A Deep Contango



Source: Bloomberg, UOB Global Economics & Markets Research

Copper: At Risk Of Significant Weakness Alongside PMI Plunge



Source: Bloomberg, UOB Global Economics & Markets Research

FIXED INCOME

Returns on global fixed income markets were positive for the first two months in 2020 as the “flight-to-quality” phenomenon triggered by COVID-19 sent sovereign bond yields sharply lower. However, returns on global fixed income markets turned negative in March 2020 as market dislocations extended to the credit markets as well. The outbreak of COVID-19 outside of mainland China, initially in Asia and thereafter reaching US and Europe, triggered investors to seek safety in fixed income assets in the initial two months of 2020. But by March 2020, alongside the sharp plunge in risk sentiment, perceptions of credit quality deteriorated together with disruptions in short-term USD funding, thus resulting in global fixed income assets giving up their earlier gains. Market liquidity conditions have sharply deteriorated in the credit markets, and signs of illiquidity such as bid-ask spreads have soared to levels comparable to those seen at the height of the global financial crisis (GFC).

The COVID-19 outbreak adversely impacts both the demand and supply of the macro-economy, and global authorities' containment measures would also cause considerable disruptions to economic activity. This comes as Eurozone and Japanese economies are already at the brink of a technical recession. More recently, the US expansion has also shown weaknesses on the employment front, with the record surge in jobless claims. Overall, we now see the global economy tracking towards a considerably lower growth path with material downside risks to earnings estimates. The tail risk scenario is a deep and prolonged global recession that could be worse than the GFC, which is being postulated by a couple of former International Monetary Fund (IMF) economists. Given the uncertainties on the growth outlook, continued “flight-to-quality” phenomenon should support sovereign bond yields even as policymakers step up both their monetary and fiscal responses.

As global risks took a turn for the worse, central banks around the world stepped up aggressively their policy responses. The US Federal Reserve cut its target Fed Fund rates to near zero, flooded the market with liquidity, and expanded its bond-buying programme. In response to the disruption in short-term USD funding, the US Federal Reserve also activated a commercial paper funding facility (CPFF) that acts as a backstop that provides short-term funding and hence liquidity to corporates in times of crises.[1] Elsewhere around the world, we also saw major central banks including the European Central Bank stepping up quantitative easing (QE) policies, bond buying programmes as well as slashing rates, and reintroducing currency swaps to ease the impact of COVID-19 on the global banking system.

Notwithstanding the lack of liquidity in credit markets, we continue to advocate high-quality credit at this juncture.

We maintain our OVERWEIGHT call on investment-grade credit. The credit spread of global investment grade (IG) benchmark index has widened from a low of 97bps at end-Dec 2019 to 262bps as of 18 Mar 2020, while the credit spread of the Asian IG benchmark index widened by 74bps from 200bps at end-Feb 2020 to 274bps as of 18 March 2020. While credit markets may possibly remain shuttered in the coming weeks or months (adversely impacting the supply of funding) with rising default risks (amidst the sharp drop in consumer demand), we continue to scrutinize issuers' profile for adequacy and advocate a more defensive positioning.

Having said that, the subsequent easing of financial stresses amid the massive QE and hence liquidity injected into the global system will likely be a strong catalyst for a sharp market rebound when the situation turns around. We remain positive over the medium term with a view to capitalise on the pick-up in yields from IG credits given the zero rates environment. The key is to stay calm and defensive to ride through this period of illiquidity and be selective in our picks. There will definitely be opportunities for decent returns over a medium-term investment horizon.

We turn positive on duration risk, as sovereign bond yields would be supported by flight-to-safety during economic and financial crises. Concurrently, alongside the fiscal response, the focus could eventually turn towards the increase in fiscal deficits, and this could lead to steeper yield curves over a medium-term time horizon.

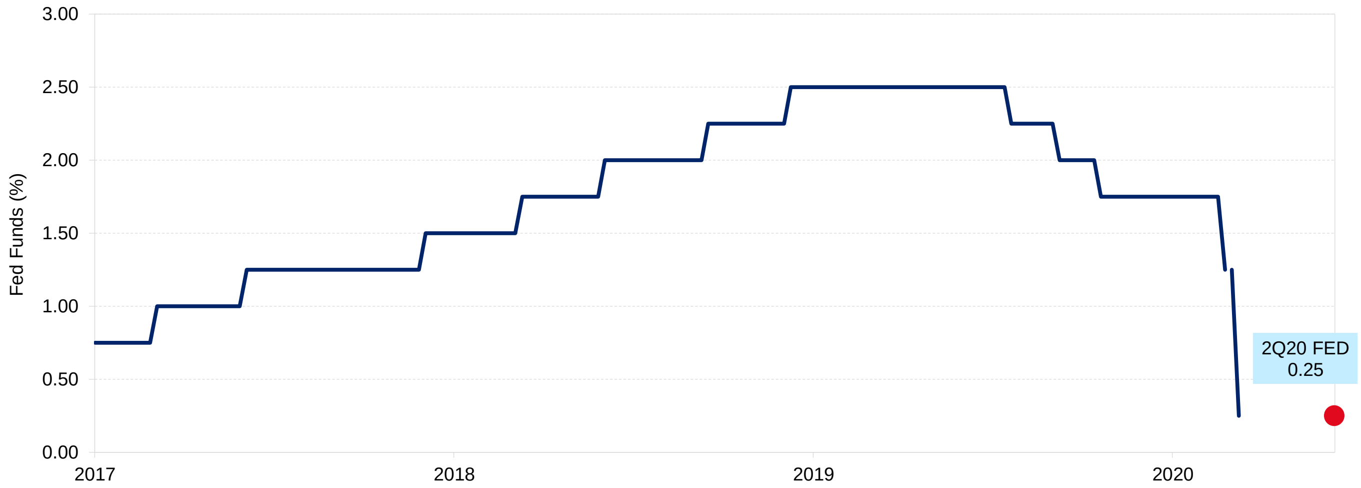
We continue to favor USD Asian investment-grade credits. We maintain our preference for Asian investment grade (IG) credits given their relatively higher buffers against deteriorations in corporate fundamentals. Also, we note that their leverage profile look stable too (more specifically, Net Debt-to-EBITDA has continued to fall). More broadly, it is an important fact that China has been able to bring COVID-19 cases under control faster than expected and we are receiving consistent reports that China factories are getting back to normal. Overall, this should bode well for Asian corporates too.

[1] The objective of CPFF is to restore liquidity by heading off any credit squeeze in the funding market by helping US businesses raise cash to meet payrolls, inventory payments and other short-term liabilities in a time of shrinking cash flows.

FX & INTEREST RATES

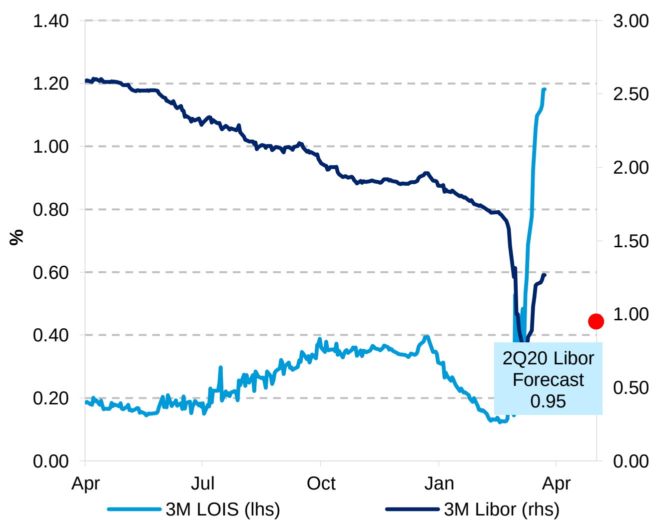
UNITED STATES

FED Funds Rate



The Federal Reserve brought forward its March 2020 FOMC in yet another unscheduled meeting on 15 March and announced a 100bps Fed rate cut to bring the Fed Funds Target rate (FFTR) range to 0.00-0.25% (GFC's low) and "to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals." The Fed has demonstrated it will do whatever it takes to restore financial market stability, smooth out US dollar funding conditions and safeguard the economy. So more measures (including unscheduled ones) can be expected. That said, we do not think the Fed will want to push rates beyond zero, into negative territory. The next Fed announcement is likely on its Main Street Business Lending program.

3M US Libors



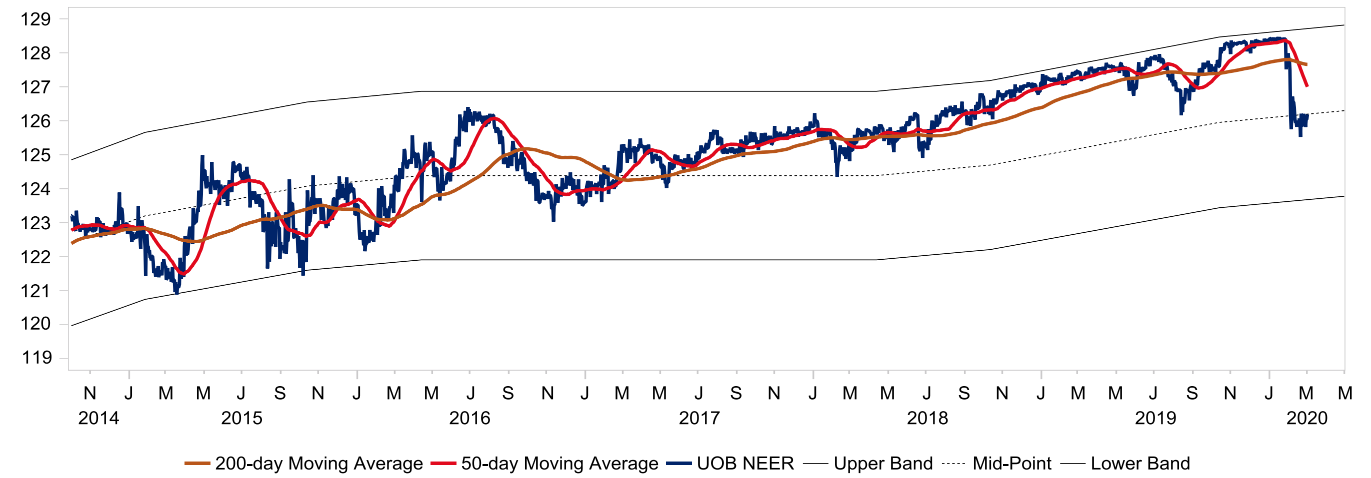
- We expect to see 3M Libor at around 0.95% by the end of 2Q2020.
- FED funds have been slashed to the zero bound and is expected to remain there for the rest of the year.
- Elevated 3M Libor vs. OIS due to a global acute USD funding squeeze will take time to normalize. Aggressive FED actions are encouraging and supports spread mean reversion.

10Y US Treasuries

- We expect to see 10Y UST at 1.00% by the end of 2Q2020.
- Rates volatility spike has been extreme, and COVID-19 uncertainty will impede normalization.
- A flood of global fiscal stimulus will help to support longer maturity real yields. In addition, the deficit implications may yet return after the COVID-19 crisis to lift yields and risk premiums.

SINGAPORE

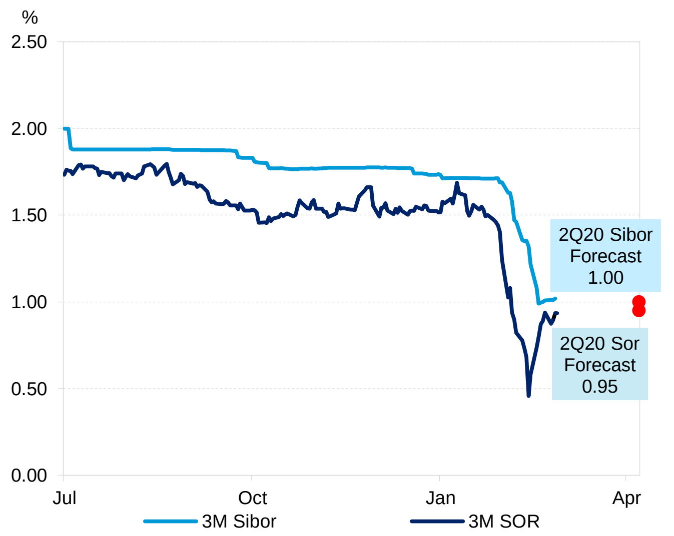
S$NEER



The Monetary Authority of Singapore (MAS) is slated to announce its monetary policy decision on 30 March 2020. MAS previously reduced its S$NEER slope by an estimated 0.5% in Oct 2019, while keeping other policy parameters unchanged. We identify three drivers that could lead to another round of monetary easing in the upcoming meeting, seen from (1) lower interest rates globally, (2) the softness in the S$NEER below its mid-point and (3) a likelihood of a persistent negative output gap in 2020.

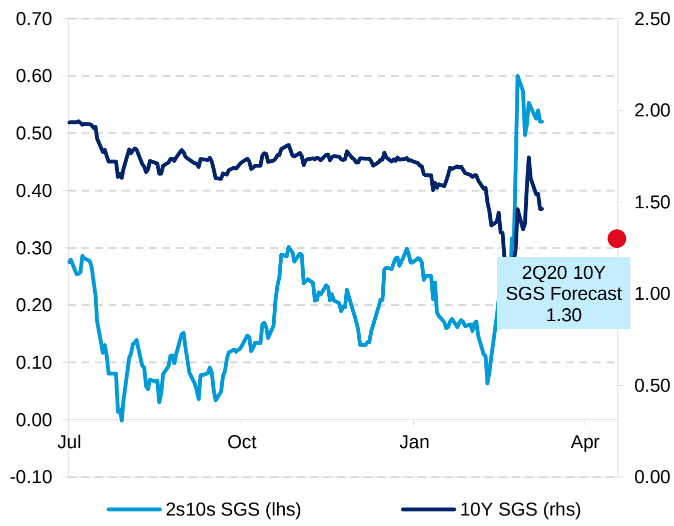
We reiterate our base case call for MAS to ease policy to neutral, down from a currently perceived +0.5% appreciation slope. This is predicated on the recent deterioration in economic fundamentals. While not our base case, there is also a growing risk that MAS could re-centre the S$NEER band lower.

3M SOR and Sibor



- We expect to see 3M SOR at 0.85% and SIBOR at 1.00% by the end of 2Q2020.
- SGD NEER is biased to the weak half due to recession risks and this would help support a SG yield premium over US.
- Downward yield trajectory will largely be driven by normalization of funding premiums.

10Y SG Bonds



- We expect to see 10Y SGS at 1.30% by the end of 2Q2020.
- UST volatility has spilled over into SGS spreads against IRS and UST.
- 10Y SGS expected to stay cheap relative to UST in 2Q as risk aversion favour UST and the increased downside risk on SGD weighs on SGS.

JAPAN

Following the footsteps of the Fed Reserve, the Bank of Japan (BOJ) brought forward its March monetary policy meeting (MPM) but it was of little effect as the BOJ announced that it will keep its short term and long term policy rates unchanged. It did ease a part of its monetary policy stance by buying more ETFs and other risky assets.

We have long held the view that the BOJ will resume its monetary easing in 2020 and expected the Bank to ease via deepening its negative policy call rate to -0.2% (from -0.1%), with potentially other measures to follow if the domestic economic situation turns down further. The March MPM clearly demonstrated BOJ's immense resistance to push rates more negative even in the face of unprecedented threats. We re-visit the notion that BOJ reassert its easy monetary policy position without changing the policy targets. The BOJ is buying JGBs at an annual pace well off the target JPY80tn objective. We re-visit the notion that the BOJ reassert its easy monetary policy position without changing the policy targets, i.e. "allow" the Finance Ministry to issue more debt (JGBs) which the BOJ in turn will buy in the secondary market so as to push its JGB purchases closer to the JPY80tn annual pace.

EUROZONE

We think the ECB has stepped up meaningfully. The onus is now on various European governments to step up fiscal efforts. Unfortunately, fiscal measures come at a cost. One that is a lot higher in Europe amid a higher public debt overhang. That said, the ECB could also get even more creative and expand the range of assets it purchases, by including, for example, equities, wholesale loans and banks' bonds, if the need arises.

The almost back-to-back QE announcements of Fed and the ECB probably remove QE as an idiosyncratic driver for the EUR/USD pair. Instead, the key driver in the pair is likely still the intense USD funding stress currently and its eventual normalization later. As such, EUR/USD is likely to be pinned lower in the coming quarter, amidst the ongoing scramble for USD funding and an inevitable recession in the euro area (alongside US). Starting 2H20 when the funding stress is more or less alleviated, we expect the USD to weaken anew. As such, our updated EUR/USD forecasts are 1.05 in 2Q20, 1.08 in 3Q20, 1.10 in 4Q20 and 1.12 in 1Q21.

UNITED KINGDOM

The BOE has long viewed 0.10% as the effective lower bound. Hence, the recent move to 0.10% was an aggressive one. As for QE, whilst the additional purchases does not come as a surprise; the scale is probably larger than most had been expecting – the additional GBP200bn is equivalent to about 9% of GDP. We think the Bank Rate will remain at 0.10% for some time, and the BOE will follow up with additional QE if more needs to be done. Fiscal measures will also increase along the way especially if the COVID-19 pandemic proves to be more protracted and severe.

GBP/USD has dropped from 1.28 at the start of March to 1.15 by the third week of March, surpassing the 1.20 low reached during the depth of the Brexit negotiations last September and for its lowest since 1985. The cliff-edge drop puts the GBP as one of the most oversold currencies in the G-7 Majors space. That said, strong USD demand is likely to persist in the coming months, pinning GBP/USD at multi-decade lows. Similar to EUR/USD, whilst we expect a 2H20 recovery for GBP/USD, the trajectory is likely to more modest, further weighed by uncertainties over the Brexit transition. Overall, our updated GBP/USD forecasts are 1.15 in 2Q20, 1.17 in 3Q20, and 1.20 for both 4Q20 and 1Q21.

AUSTRALIA

We think the RBA will not be increasing the OCR for at least three years. In terms of QE, RBA Governor Phillip Lowe emphasized that the Board did not take the latest decisions lightly. However, we believe this is probably the start, and not the end, of measures the RBA will eventually have to undertake to cushion the impact from COVID-19.

With industrial activity in China and now suddenly all parts of the world grinding to a halt due to the COVID-19 outbreak, it is no surprise that commodity-linked currencies are amongst the worst hit as demand evaporated. AUD/USD plunged over 17% to 0.58 in 1Q-to-date, on track for its biggest quarterly drop since the GFC. The RBA has already cut rates to 0.25%, matching that of the Fed whilst also starting bond purchases for the first time ever. A "phased reboot" of the Chinese economy means that demand for Australia's commodity exports will stay tepid. This leaves AUD/USD vulnerable to further downside in the coming quarter before a modest recovery in China in 2H20 anchors a sentiment revival in the AUD/USD. Our updated FX forecasts are 0.56 in 2Q20, 0.58 in 3Q20, 0.60 in 4Q20 and 0.62 in 1Q21.

MALAYSIA

Bank Negara Malaysia (BNM) cut the Overnight Policy Rate (OPR) by 50bps to 2.50% and lowered the Statutory Reserve Requirement (SRR) ratio by 100bps to 2.00% ytd. We estimated that for every100bps cut in the SRR, MYR14.8bn is released into the system. Coupled with the additional SRR flexibilities granted to Principal Dealers, this has released approximately MYR30bn worth of liquidity into the banking system. In addition, the amount of excess liquidity in the system amounted to MYR160bn.

We expect further monetary support including OPR and SRR cuts to ease domestic liquidity conditions given sharp foreign selling of domestic equities and bonds. The liquidity measures alongside easing of compliance and operational burdens on financial institutions enables more support to businesses facing cash flow issues and individuals in need of financial assistance. A benign inflation outlook will allow BNM more leeway to trim rates in the near term.

INDONESIA

Bank Indonesia (BI) has stepped up to support the slowing economy amidst the negative ramifications from the massive outbreak of the COVID-19. So far, BI has lowered its benchmark rate by 50bps throughout the 1Q20; It has also imposed macro-prudential and mitigating measures to maintain money market and financial system stability, as well as catalyze economic growth momentum.

With the inflation risk rather muted at this juncture and within the target range of 2%-4%, BI may cut policy rate by another 25bps to 4.25% at its April's monetary policy meeting. It is likely to be the last rate cut for 2020, bringing the BI 7-Day Reverse Repo rate back to its lowest point before the 175bps hike in 2018. The accommodative policy adopted by BI will also ensure that the domestic market and economic recovery will be swift and more sustained once COVID-19 risks dissipate.

THAILAND

For the next monetary policy meeting on 18 Dec 2019, the BOT will likely maintain the policy rate at 1.25% to gauge the transmission mechanism of monetary policy and the easing of rules on capital outflows first before considering their next move. Barring further unexpected negative shocks, we also expect BOT to keep its benchmark rate unchanged into 2020.

The THB is on track for a second year of outperformance relative to its Asian peers, benefiting from safe haven flows and bucking the Asian FX weakening trend since the onset of the trade conflict in mid-2018. Now with the pick-up in risk appetite, safe haven demand for the THB could plateau. As such, we see USD/THB in a stable range between 30.0 and 30.8 next year.

CHINA

China’s policy responses to COVID-19 have remained measured and notably less aggressive compared to the drastic actions taken by G7 central banks. The People’s Bank of China (PBoC) announced a targeted cut to banks’ reserve requirement ratio (RRR) by 50 to 100 basis points effective from 16 March. This was the second RRR reduction year-to-date following a broad-based 50 basis points cut in January. However, the PBoC has surprised market by keeping the benchmark Loan Prime Rate (LPR) unchanged in March against consensus expectation of a 5-10 bps rate cut. Year-to-date, the PBoC has cut its 1Y LPR and 5Y & above LPR by 10 bps and 5 bps respectively. While this relatively modest cuts may hint at the authorities’ confidence that the economy has stabilized, we still see room for monetary easing via more reductions to the LPR and RRR ahead to provide further boost to the economy. Our forecast for further decline in the 1Y LPR to 3.80% by end-2Q20 remains unchanged for now while we see the possibility of one more RRR cut in the next 3-6 months. Any further easing will likely be after the National People’s Congress (NPC).

We caution that China’s solo path to economic recovery in 2H20 while the rest of the world dips in recession is unlikely to be straightforward. As such the recent stability of CNY relative to the rest of Asian FX cannot be taken for granted. Noteworthy is the recent strength in the CFETS RMB index from 93 to 96 while the ADXY fell from 104 to 100 in March. While this is not our base case yet, there could be increasing pressure for the PBOC to devalue the CNY, in the event where the expected recovery in 2H20 does not materialize.

FX, INTEREST RATE & COMMODITIES FORECASTS

FX	26 Mar 20	2Q20F	3Q20F	4Q20F	1Q21F
USD/JPY	111	112	114	112	109
EUR/USD	1.09	1.05	1.08	1.10	1.12
GBP/USD	1.18	1.15	1.17	1.20	1.20
AUD/USD	0.59	0.56	0.58	0.60	0.62
NZD/USD	0.58	0.56	0.58	0.61	0.63
DXY	100.8	103.9	102.1	100.3	98.7
USD/CNY	7.11	7.20	7.25	7.10	7.00
USD/HKD	7.75	7.76	7.78	7.80	7.80
USD/TWD	30.26	30.60	31.00	30.50	30.00
USD/KRW	1,231	1,280	1,300	1,250	1,220
USD/PHP	51.12	52.00	52.50	51.50	50.00
USD/MYR	4.36	4.50	4.55	4.45	4.40
USD/IDR	16,268	16,900	17,300	16,500	16,000
USD/THB	32.82	33.30	34.00	33.50	33.00
USD/MMK	1,396	1,400	1,420	1,400	1,380
USD/VND	23,636	23,900	24,200	24,000	23,500
USD/INR	75.28	77.00	78.00	79.00	80.00
USD/SGD	1.45	1.48	1.50	1.48	1.45
EUR/SGD	1.58	1.55	1.62	1.63	1.62
GBP/SGD	1.71	1.70	1.76	1.78	1.74
AUD/SGD	0.86	0.83	0.87	0.89	0.90
SGD/MYR	3.01	3.04	3.03	3.01	3.03
SGD/CNY	4.91	4.86	4.83	4.80	4.83
JPY/SGDx100	1.31	1.32	1.32	1.32	1.33

RATES	26 Mar 20	2Q20F	3Q20F	4Q20F	1Q21F
US Fed Funds Rate	0.25	0.25	0.25	0.25	0.25
USD 3M LIBOR	1.23	0.95	0.65	0.35	0.35
US 10Y Treasuries Yield	0.79	1.00	1.15	1.30	1.50
JPY Policy Rate	-0.10	-0.20	-0.20	-0.20	-0.20
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	0.25	0.25	0.25	0.25	0.25
NZD Official Cash Rate	0.25	0.25	0.25	0.25	0.25
CNY 1Y Loan Prime Rate	4.05	3.80	3.80	3.80	3.80
HKD Base Rate	1.39	0.86	0.86	0.86	0.86
TWD Official Discount Rate	1.13	1.13	1.13	1.13	1.13
KRW Base Rate	0.75	0.50	0.50	0.50	0.50
PHP O/N Reverse Repo	3.25	2.75	2.75	2.75	2.75
SGD 3M SIBOR	1.02	1.00	0.85	0.80	0.75
SGD 3M SOR	0.89	0.85	0.70	0.50	0.50
SGD 10Y SGS	1.42	1.30	1.35	1.50	1.60
MYR O/N Policy Rate	2.50	2.00	2.00	2.00	2.00
IDR 7D Reverse Repo	4.50	4.25	4.25	4.25	4.25
THB 1D Repo	0.75	0.50	0.25	0.25	0.25
VND Refinancing Rate	5.00	5.00	5.00	5.00	5.00
INR Repo Rate	5.15	4.65	4.65	4.65	4.65

COMMODITIES	26 Mar 20	2Q20F	3Q20F	4Q20F	1Q21F
Gold (USD/oz)	1,601	1,650	1,700	1,750	1,800
Brent Crude Oil (USD/bbl)	27	20	25	30	35
LME Copper (USD/mt)	4,855	4,000	4,300	4,600	5,000

THE TEAM

Global Economics & Markets Research
Asset Management
Private Bank

All chart data from Bloomberg unless otherwise specified.

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