UOB HOUSE VIEW

2Q2021

GLOBAL MACRO

The COVID-19 vaccine development is the most important and enduring factor to bring the economy back to some level of normalcy. During the wait for a workable vaccine, the combination of expansive fiscal stimulus and ultra-accommodative monetary policies helped sustain the global economy and anchor the reflation expectations. Now, the stimulus/vaccine super-charged outlook is raising concerns of higher inflation, especially for the US.

FIXED INCOME

Returns on most global fixed income markets were negative in 1Q 2021 as improving global growth prospects was accompanied by sharply rising government bond yields. While we are neutral on the fixed income, this asset class will become increasingly more attractive as US 10-year sovereign bond yields normalise higher towards 2% by the end of 2021. At this juncture, we are underweight duration risk and overweight credit risk.

ASSET ALLOCATION

We see several attractive investment themes for 2Q2021. We recommend being overweight risk assets such as equities and credit around the world. While we are overall neutral for fixed income, we think the outlook for fixed income is attractive in corporate bonds but think government bonds will face some headwinds as bond yields gradually rise. We are moderately overweight for the outlook of broad commodities, and are underweight cash.

COMMODITIES

Gold was left out of the synchronized commodities rally. Higher long term US yield continues to weigh down on gold. We lower our year end gold forecast to USD 1,800 / oz as we now expect limited upside. As for Brent crude oil and LME Copper, both will continue to benefit positively from the anticipated strong global growth recovery in the months ahead. As long as OPEC adheres to production discipline, we should see Brent crude oil rising to USD 70 / bbl by year end. And LME Copper may well test the USD 10,000 / MT headline number as well.

EQUITIES

While we maintain an overweight in equities, we continue to advocate putting more emphasis on reflationary trades such as those in the cyclical sectors.

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 laggards due to pandemic impact.

FX & INTEREST RATES

In the FX space, higher yields may underpin USD gains in 2Q21. In the second half, a positive global growth outlook means cyclical and risk currencies within the Majors and Asian FX space would regain their footing and strengthen anew against the USD. In the rates space, while shorter dated money market rates remain anchored near zero, longer dated yields have raced higher on stronger growth outlook and increased inflation expectations. Hence, we raise our 10Y US Treasury yield forecast to 2.0% by end of 2021.

GLOBAL MACRO

“From Reflation Bliss To Inflation Woes”
“*Inflation is always and everywhere a monetary phenomenon*” **Milton Friedman**.

More than one year has passed since the onset of the Coronavirus (COVID-19) pandemic that plunged the world economy into the deepest recession post World War II. From global despair, sentiment turned into cautious optimism in second half of 2020 on hopes of discovering a workable vaccine against COVID-19. That initial guarded optimism quickly blossomed as more vaccines became approved for use in more jurisdictions, and within months, the total number of administered vaccine doses has now exceeded the total number infection cases globally (as of early Feb 2021). And although the number of fully vaccinated persons is still lower than the total number of infected persons, the gap is narrowing quickly and should turn in favour of number of inoculated persons fairly soon, especially with the approval of more vaccines for emergency use.

The war on COVID-19 is not over yet, with resurgence of the pandemic and the repeat of some social restrictions to contain the spread (such as in parts of Europe) as well as the concerns that new variants of the virus may be more transmissible, deadly and immune against the available vaccines, while news of supply bottlenecks and safety concerns about certain vaccines have also temporarily hampered the pace of rollout in some countries. Notwithstanding these issues, the longer term prognosis is still positive as long as we keep the discipline and stay the course on the vaccine rollout to achieve an acceptable level of protection/herd immunity against COVID-19.

While the COVID-19 vaccine development is the most important and enduring factor to bring the economy back to some level of normalcy, the other important factors that have helped sustain the global economy during the wait for a workable vaccine was the combination of expansive fiscal stimulus (to the tune of at least US$10 trillion globally) and ultra-accommodative monetary policies.

As a result of the “life-sustaining” stimulus and the life-saving vaccine, the global economic recovery is now expected to go from strength to strength as reflected by the forecasts upgrades by the International Monetary Fund (IMF: 5.5% in Jan 2021 WEO, from previous projection of 5.2%) and more recently, by the Organisation for Economic Co-operation and Development (OECD: 5.6% in Mar 2021, from previous projection of 4.6%).

Leading and supporting the growth charge are the world’s two biggest economies, the US and China. The Federal Reserve is now projecting US real GDP growth to top 6.5% in 2021, its strongest annual expansion in 40 years since the 1980’s and will support global activity over time. Meanwhile, China’s surging monthly data suggest that its 1Q 2021 GDP expansion may well be in the strong teens, and we have conservatively penciled full year growth at 8.5% in 2021.

That said, growth recovery is likely to be uneven elsewhere, like Eurozone and Japan, which are hampered by COVID-19 resurgence and vaccine availability. And among the industries, the K-shaped recovery dilemma remains relevant as manufacturing activity continues its revival, e-commerce activity is thriving but in-person, travel and tourism related sectors will stay under pressure for most of this year.

A consequence of the stimulus/vaccine super-charged outlook is that there are increasing concerns about higher inflation, especially for the US, brought about by the expansive fiscal stimulus and ultra-accommodative monetary policies. Even though US inflation prints remained benign, they are lagging indicators and the crux is expectations of higher inflation have been building up.

The combination of vaccine-driven reflation expectations, US “going big” on fiscal stimulus, and inflation fears that could lead to earlier than expected monetary policy tightening, has led US Treasury yields spiking higher in 1Q (2021). The 10-year UST yield breached 1.7% (on 18 Mar), less than 24 hours after FOMC Chair Powell had reassured markets that the Fed is willing to look past transient inflation impact and the Fed will not react pre-emptively to hike rates and it will supply clear communication well in advance of any bond buying taper.

We believe that US inflation worries and the rise in US bond yields will continue to be the hot potato topics for the financial market for the rest of this year, with spillover consequences to other asset classes and markets. Financial markets will continue to push ahead with their concerns of rising inflation and challenge the FED’s on-going dovish outlook of strong growth with transient inflation.

Specifically, in light of the stronger growth expectations and much quicker pace of US vaccination, we now upgrade our 2021 US growth and inflation forecast to 6.3% and 2.4% respectively. Consequently, we also raise our year-end 10-year US Treasury yield forecast to 2%.

Another issue that markets will grapple with in the upcoming quarter will be the familiar topic of US-China relations. We do not expect any significant progress or a reset of relations between the two major powerhouses, but an extended period of status quo will be helpful to prevent further deterioration to market conditions as the world economy attempts to emerge from COVID-19’s shadows with an inoculation approach.

ASSET ALLOCATION

At the start of the year we highlighted that we expected 2021 to be driven by vaccines, recovery and low rates. So far, vaccines are significantly ahead of schedule, the recovery is proving stronger than expected and fiscal and monetary policy remains very supportive. The main question mark that is starting to overhang markets is whether the recovery is too strong and may create an overheated environment that drives up bond yields. Indeed, throughout the quarter, long term bond yields continued to climb.

Vaccine rollouts are ahead of schedule. At the start of the year, the approval of vaccines for COVID were welcome news, but there remained significant doubt that they would be able to be rolled out quickly. In investor surveys we found that most investors seemed to think it would take until the end of 2021 to vaccinate most countries including the US. The US now appears set to have vaccines available for its population by May and to administer enough to achieve herd immunity by the end of May. Other parts of the world are catching up and the production and distribution pipelines appear very encouraging. We think it is fair to say that the vaccination rollout is far ahead of schedule and more and more countries are starting to talk about opening travel corridors and normalizing activities.

GDP growth and earnings growth are beating expectations. At the start of the year we also highlighted that this appeared set to be a strong year for the growth of the economies and the growth of corporate earnings around the world. Through the first quarter, economic trends continue to be encouraging, and economists continue to raise their forecasts for global GDP. For example, the Bloomberg consensus of economists projected US GDP growth to be 3.8% in December but the figure has risen to 4.8% by the end of February, and in March the US FED guided it expects 5.8% to 6.6% growth in 2021. Global GDP forecasts have been similarly rising, and global earnings forecasts are expected to grow at levels of 20% or more. In an economic cycle, the early stages of recovery usually deliver the highest levels of growth and the strongest market performance.

Bond yields are rising but short term rates are anchored and fiscal policy is very supportive. While we have raised our bond yield forecasts for 2021, we continue to think that ultimately policy rates are going to remain low for an extended period of time. The combination of fiscal stimulus around the world, low rates and other forms of monetary policy support, are all very supportive to growth assets in 2021.

The bigger risks now have shifted from whether the recovery will be strong enough to whether the recovery might be so strong as to trigger overheated conditions. If growth is too strong and labor conditions are too robust, then stronger inflationary pressures may build and put even greater pressures on bond yields. At the same time risk remain that the vaccine rollout may falter or viral mutations may occur faster than the vaccine rollout. Thus, the central case looks positive for markets, but there are risks that conditions could turn too hot or too cold.

We see several attractive investment themes for 2Q2021. 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 think government bonds will face some headwinds as bond yields gradually rise. We are moderately overweight for the outlook of broad commodities, and are underweight cash.

Global Asset Allocation For 2Q 2021

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

EQUITIES

On one hand, the economic recovery is underway and the world is in a reflationary phase. On the other hand, many assets have climbed to unsustainable levels. Reuters reported in February that the value of global stocks was rising at a rate of US$6.2bn an hour since the lows seen in March 2020, rekindling memories of the dot-com saga of 2000/01.

Bubbles are brewing in various global assets, segments and sectors. For perspective, the 80% surge in global equities since last March's COVID- 19 meltdown was 11 times faster than that seen in the aftermath of the 2008 global financial crisis.

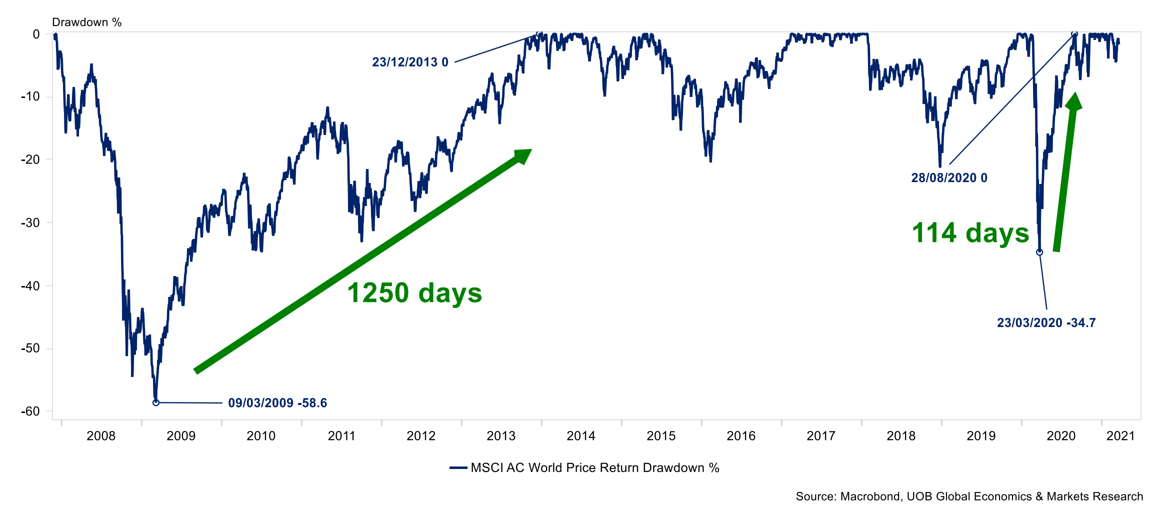
This was driven by the well over $20 trillion worth of aid provided by governments and central banks. In particular, copious synchronized global liquidity and zero interest rates fueled ballooning valuations in bonds, biotech and clean-energy stocks, cryptocurrencies, special purpose acquisition companies (SPAC), space travel ETF as well as tech-related equities.

At this stage, it will be anyone's guess how long more the bubble conditions will go on. We caution against adding huge positions in assets/sectors which are currently in "bubbly" valuations.

While we maintain an overweight in equities, we continue to advocate putting more emphasis on reflationary trades such as those in the cyclical sectors (financials, industrials, materials, and energy), while avoiding defensives (utilities, consumer staples, healthcare, communication services).

That said, recent sell-off in growth stocks provide good opportunistic positions for clients. 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 of the pandemic.

MSCI World Recovered 11 Times Faster Than During The GFC



Source: Macrobond, UOB Private Bank

COMMODITIES

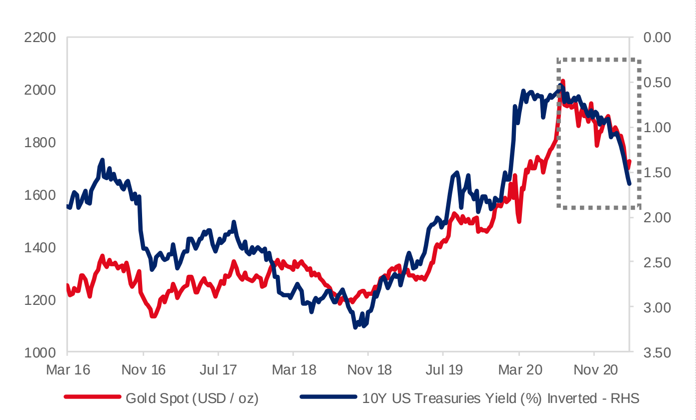
Gold Gets Left Out of the Synchronized Global Commodities Rally

What a different difference a quarter makes. During late 2020, there were nascent signs of price recovery in industrial metals and crude oil prices. But confidence in further sustained strength in commodities prices was not strong as questions remain as to whether the world was able to successfully control the COVID-19 outbreak. However, in just three months, the global vaccination effort has proceeded well ahead of schedule and global recovery expectations has jumped beyond the most optimistic of expectations. As such, our previous quarterly forecast of USD 55 / bbl for Brent crude oil and USD 7,500 / MT for LME metal by end of this year now looked looks conservatively short sighted.

Gold: Remains pressured by rising US Treasuries yield

As US Treasuries and global bond yields rose across 1Q21, gold ETFs continue to feel the pressure from on-going redemption as investors allocated capital away from gold. As a result, gold fell from USD 1,900 / oz to USD 1,700 / oz across 1Q21. Given our expectations of stronger US growth and higher inflation outlook, we have raised our 10-year US Treasuries yield forecast to 2.0% by end of this year. As such, Gold will continue to be under pressure and any further price increase will be modest. Therefore, we lower our gold forecast further to USD 1,700 / oz by 2Q21, USD 1,750 / oz by 3Q21 and USD 1,800 / oz by 1Q22 and 2Q22.

Gold: Gold remain pressured by rising US Treasuries yield

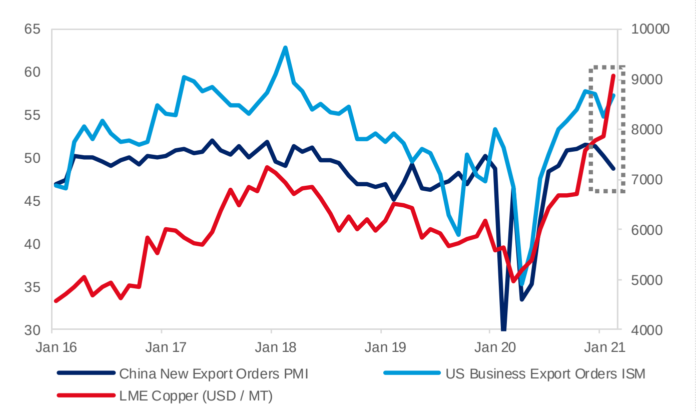


Source: Bloomberg, UOB Global Economics & Markets Research

LME Copper: USD 10,000 / MT is now within sight

Across 1Q21, LME Copper strengthened further from USD 8,000 / MT to USD 9,000 / MT. Since the start of the year, copper prices continue to surge ahead, in lock-step with the recovery in growth expectations and PMI indicators. Amidst the growth recovery, global demand for refined copper continues to surge ahead of production which have been disrupted by COVID-19 measures. Further demand from electronics vehicles (EV) as well as green tech will reinforce this recent strength in price action. Overall, in view of stronger confidence in growth recovery, we raise our LME Copper price further to USD 9,000 / MT in 2Q21, USD 9,500 / MT in 3Q21 and USD 10,000 / MT in 4Q21 and 1Q22.

Copper: LME Copper price snaps back alongside trade driven recovery

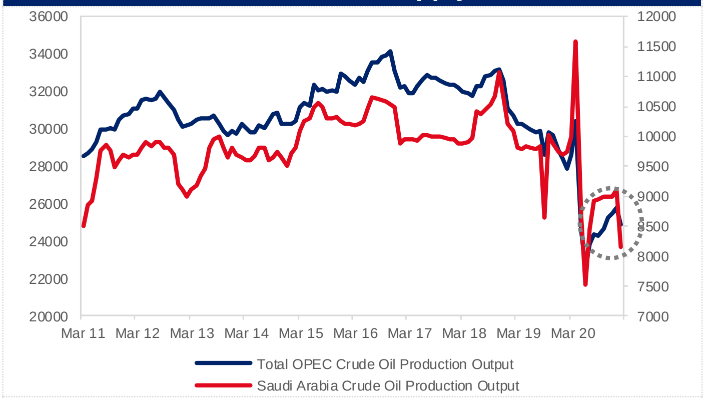


Source: Bloomberg, UOB Global Economics & Markets Research

Brent: OPEC's on-going production discipline help reinforce price rally

Over the past quarter, expectations of strong global growth recovery have triggered a strong price recovery from USD 50 / bbl towards USD 70 / bbl. At the same time, OPEC appears to have exhibited rather uncharacteristic discipline and did not "spoil the party" as initially feared. At its latest monthly meeting, amidst widespread expectations of renewed rise in production of possibly 500k bpd, OPEC instead voted to keep its production quotas unchanged. This was reinforced by Saudi Arabia's decision to further extend its unilateral production cut of 1 mio bpd. Notwithstanding the latest bout of volatility, we believe that Brent crude oil price is well supported around the current USD 60 / bbl handle and will resume their climb. As such, we forecast Brent crude oil at USD 60 / bbl in 2Q21, USD 65 / bbl in 3Q21 and USD 70 / bbl in 4Q21 and 1Q22.

Brent Crude Oil: OPEC and Saudi Arabia have maintained their supply cuts



Source: Bloomberg, UOB Global Economics & Markets Research

FIXED INCOME

Returns on most global fixed income markets were negative in 1Q 2021 as improving global growth prospects was accompanied by sharply rising government bond yields. Accelerated vaccine distribution should allow for wider re-opening, while the release of pent-up demand and ongoing monetary and fiscal support will likely help drive renewed reflation. Across the major regions we see consistent signs of manufacturing rebounding with PMIs 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 but may face headwinds from rising mortgage rates. Additionally, with US election uncertainty largely behind us, fiscal support has proved to be stronger than expected and alongside this, bond yields have risen sharply and yield curves has steepened sharply as well. In the US, fiscal policy has eased sharply via a succession of large COVID-19 stimulus packages with the latest American Rescue Plan Act taking the total fiscal stimulus to over US$5 trillion. In Europe, disbursement of roughly US$900 billion Next Generation EU funds to member states are expected to start in Q2 2021.

The re-opening of economic activity will lead to labour market recovery, with job growth shifting higher and unemployment rates gradually trending lower as labor force participation increases. We also expect stronger consumption due to heavy consumer spending in selected sectors, given that consumer savings have stayed elevated through the crisis. Demand for most high-contact consumer services would recover towards pre-pandemic levels, and this bodes well for the cyclical sectors of the economy—transportation, entertainment, travel, personal care, recreation, and food services.

While we are neutral on the fixed income, this asset class will become increasingly more attractive as US 10-year sovereign bond yields normalise higher towards 2% by the end of 2021. However, with asset prices close to record highs and economic activity expected to accelerate sharply in 2021, the focus will be on inflationary risks in the next phase of recovery. The unprecedented level of money supply currently in the system could fuel pent-up demand in consumer spending, the creation of small businesses and bank relaxation of loan requirements, all of which would generate economic activity and an upward trajectory in inflation. At this juncture, we are underweight duration risk and overweight credit risk (i.e. high yield credit, EM credit, Asia investment-grade).

We are underweight duration risk. Short-end policy rates are expected to lift-off in 2023, even as the US Federal Reserve (Fed) continued to re-iterate their dovish stance at the recent March FOMC meeting. Fed speak continues to be dovish, and this should temper market expectations of Fed lift-off to some extent. The March FOMC meeting showed that the median participant projected a 3.5% unemployment rate and a 2.1% core PCE inflation at the end of 2023. In particular, the FOMC left the funds rate target range unchanged at 0–0.25% and made only modest changes to the post-meeting statement. With this, investors are likely to interpret that the median FOMC participant has a dovish reaction function and this puts the inflation bar for lift-off above 2.1% core PCE inflation.

Still, financial markets think that the Fed would eventually signal rate hikes in the next couple of years. Specifically, market pricing in the OIS markets suggests around 2.5 rate hikes by the end of 2023 (down from around 3 hikes by the end of 2023, before this March FOMC meeting). As for the long-end of the curve, improving macro-fundamentals and continued strong fiscal support would allow long-end Treasury yields to move higher towards 2% by the end of 2021.

We are overweight high yield credit, EM credit and Asia investment-grade credits. High yield credit tends to have a higher correlation with equities than with interest rates. Looking ahead, the combination of a continued "search-for-yield" phenomenon and improving macro-fundamentals through 2021 should fuel spread compression (i.e. default activity would continue to decline this year) for both global and Asian high yield. US high yield defaults should normalize lower to its long-run average of 4% by 4Q 2021.

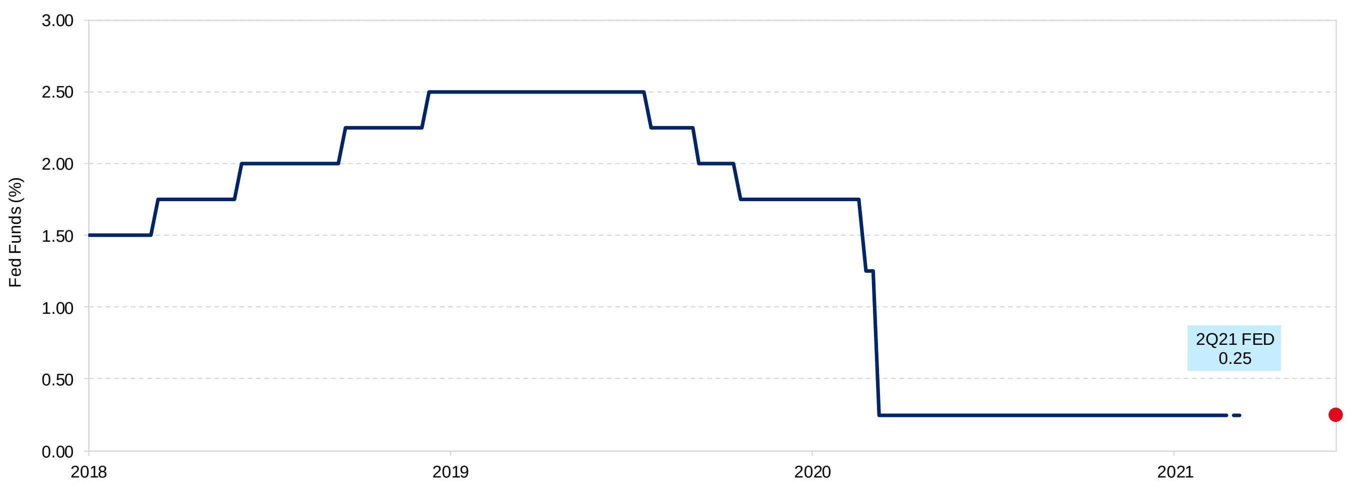
We are also overweight EM credit and continue to see opportunities in some of the higher beta segments though we would take a more selective approach as spread levels have overall compressed. We maintain our preference for cyclical sectors that have lagged the broader recovery in economic activity, such as consumer discretionary, real estate, and aviation.

Finally, we like Asia investment-grade credit too. North Asian economies, and especially China, have led the way out of COVID-19 and would be remain beneficiaries as global growth continues to pick-up. Asian investment grade has relatively higher buffers against deteriorations in corporate fundamentals, and enjoy a stable leverage profile. Within the investment-grade space, we continue to find relatively higher yields in Asia compared to most other regions.

FX & INTEREST RATES

UNITED STATES

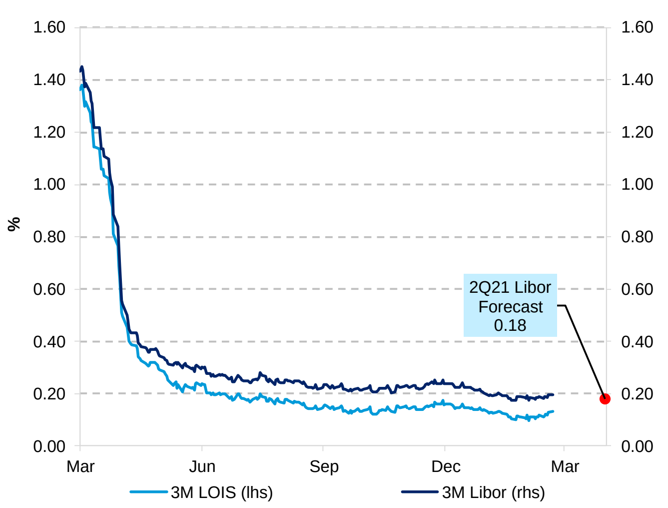
FED Funds Rate



FOMC Chair Powell hit all the right buttons to soothe concerns about any impending Fed policy tightening during the March FOMC. The US economy is expected to head into its strongest growth year in 40 years while inflation may temporarily spike above 2% in 2021, but the Fed will overlook transient inflation impact (in line with the Fed's new strategy of Average Inflation Targeting, AIT) and will not hike rates. He reaffirmed expectations that it would be "some time" before conditions to scale back their massive bond purchases were met and the Fed will give notice well in advance when it intends to taper.

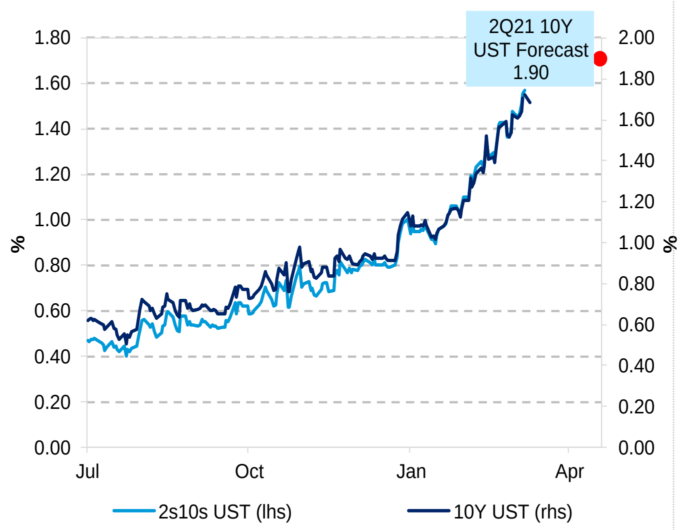
Our base case remains for the Fed to stay on hold for most of 2021 and taper discussion will only start in late 2021/early 2022. This is premised on the successful vaccine rollout, fiscal stimulus, fall in COVID-19 infections, and a return to economic/social normalcy soon. We continue to hold the view that the Fed will keep policy rates at the current 0.0-0.25% region at least until 2023. We do not rule out Fed to do "Operation Twist" if the UST yield surge is deemed excessive..

3M US Libors



- We expect to see 3M Libor at around 0.18% by the end of 2Q2021.
- Latest FED dot plot guidance points to no rate hikes in 2021.
- Liquidity conditions, due to TGA balance run down, are pressuring short term rates lower.

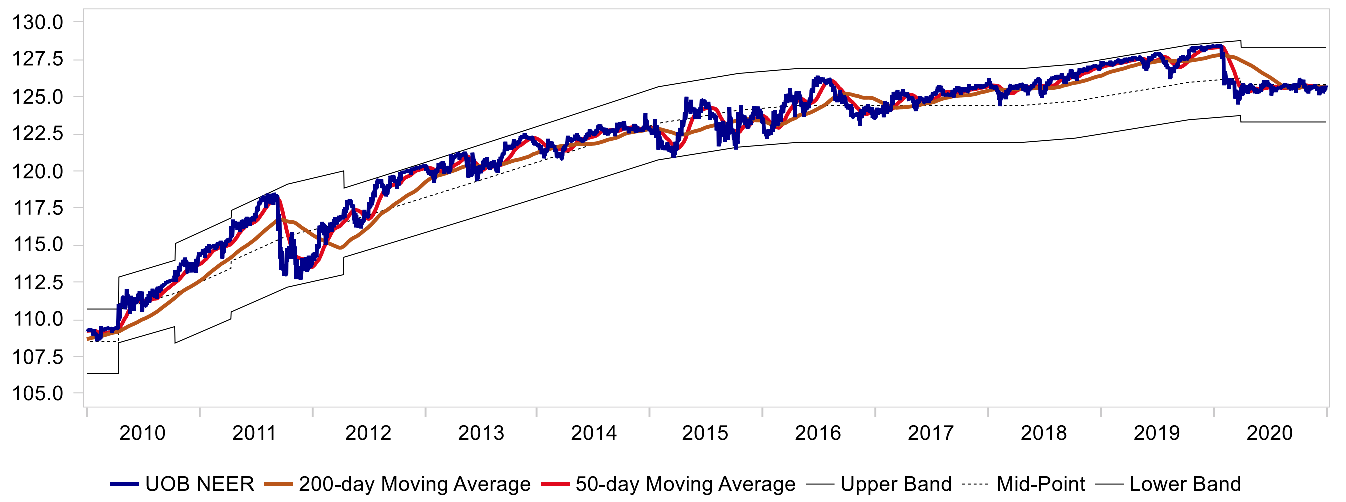
10Y US Treasuries



- We expect to see 10Y UST at 1.90% by the end of 2Q2021.
- Policy makers are sanguine about higher yields, coupled with AIT policy leaves scope for yields to overshoot in the short term.
- Steep yield curve is the norm. Driven by both economic recovery and deficit concerns.

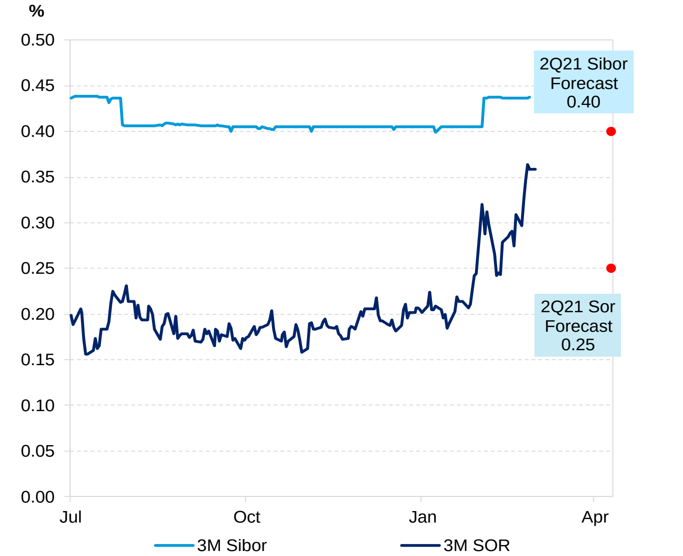
SINGAPORE

S$NEER



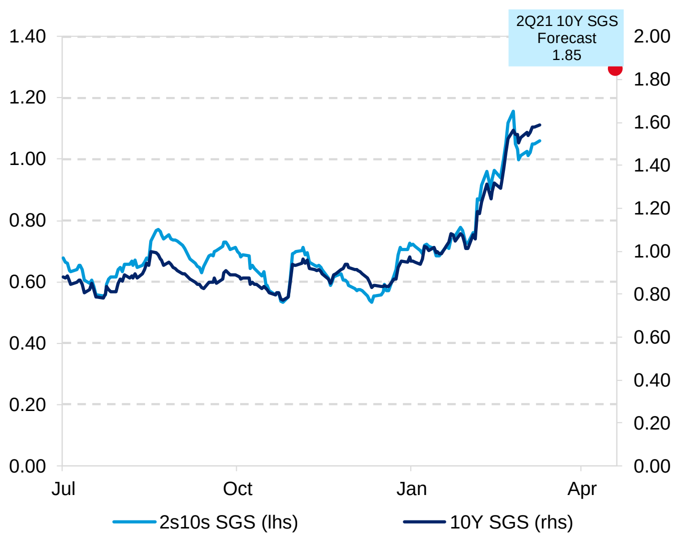
In the last central bank meeting in Oct 2020, the Monetary Authority of Singapore (MAS) kept its SGD NEER policy-parameters unchanged as widely expected. This means that there was no change to the gradient and width of the policy band, as well as the level at which it is centred. MAS has maintained a zero percent per annum rate of appreciation of the policy band, while the width is currently perceived at +/- 2.0%. Singapore's GDP is expected to recover to +5.0% in 2021, and +3.5% in 2022, while high-frequency data (Jan IP: +8.6% y/y, Feb NODX: +4.2% y/y) suggests a strong start in the new year. Notwithstanding the inflation risks, Singapore's consumer prices are expected to stay benign with both headline and core CPI expected to average +1.0% in the year ahead. Overall, we stick to our base case for MAS to keep policy parameters unchanged in April 2021, as it may be too early for the central bank to respond at this stage of recovery from COVID-19. Our updated USD/SGD forecasts are at 1.35 in 2Q21, 1.33 in 3Q21, and 1.32 in both 4Q21 and 1Q22.

3M SOR and Sibor



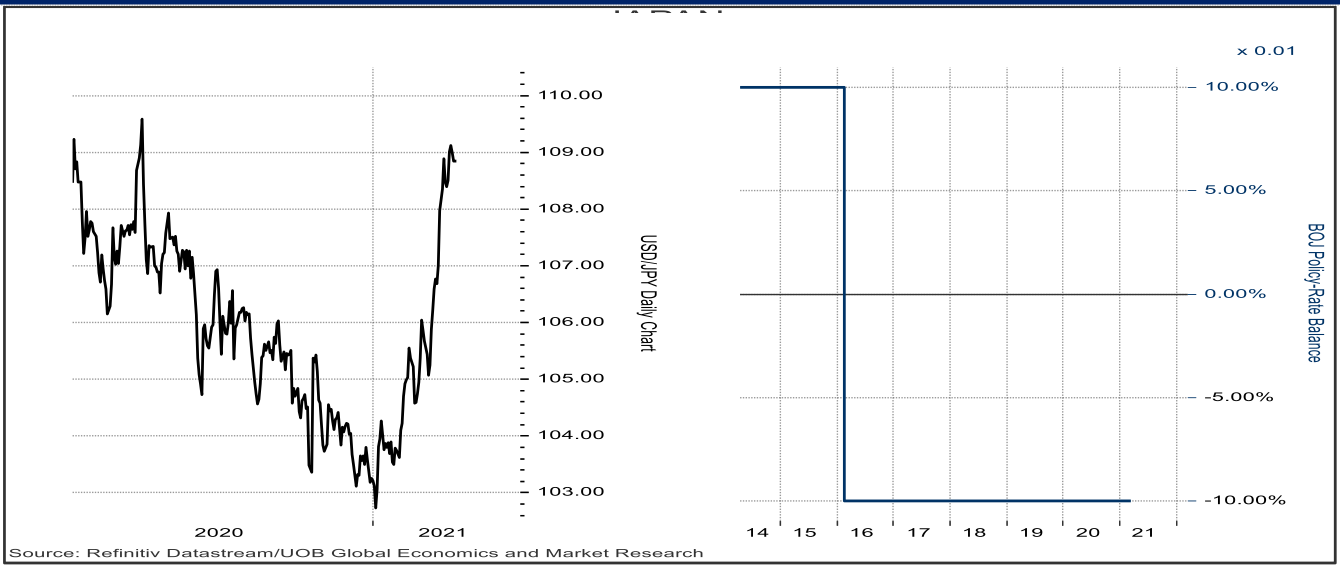
- We expect to see 3M SOR at 0.25% and SIBOR at 0.40% by the end of 2Q2021.
- Domestic liquidity conditions are not restrictive and the expectations surrounding the domestic currency are neutral.
- Lower for longer US rates will dictate a similar fate for SG rates.

10Y SG Bonds



- We expect to see 10Y SGS at 1.85% by the end of 2Q2021.
- Outright yield direction remains correlated to USTs. SGS could outperform if UST yields were driven higher by US deficit financing concerns.
- Inaugural SINGA bond issue later this year may keep the back end of the SGS yield curve steep.

JAPAN

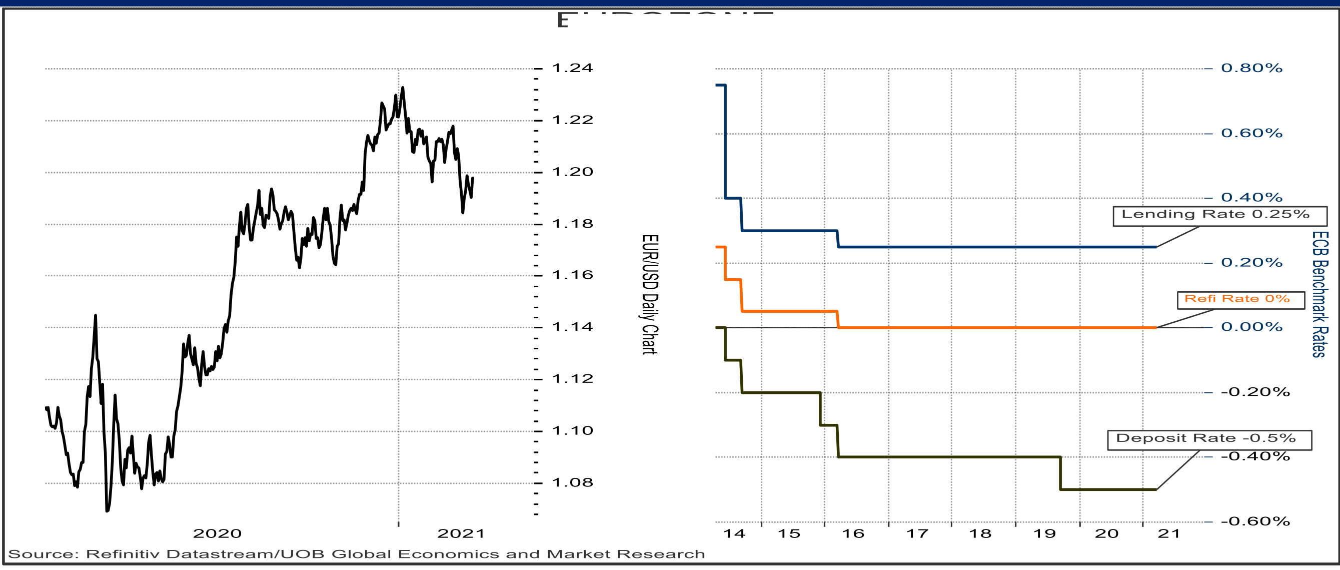


Source: Refinitiv Datastream/UOB Global Economics and Market Research

The Bank of Japan (BOJ) kept its policy measures unchanged at its March Monetary Policy Meeting (19 Mar) but the key focus was on its review of the BOJ's monetary policy framework where it announced measures to make its monetary easing policy more sustainable and effective. The key measures include widening the fluctuation band for yield curve control of the 10-year JGB yield target of 0% at +/- 25bps (with flexibility on the downside), removing the annual purchase target for ETFs, and provide incentive for financial institutions to tap into an "Interest Scheme" to help cushion the negative effect of additional rate cut. While there were quite a few adjustment measures from the BOJ's Assessment, the measures did not portend any imminent danger of BOJ lowering rates further. We maintain our view for the BOJ to do more and enhance its monetary policy easing further, most likely through re-accelerating its JGB purchases and expanding its lending facilities to Japanese firms.

Our regression study (value-based) showed that the spot move in USD/JPY is overstretched compared to the interest rate differential between US and Japan. In-line with our expectations of a modestly weaker USD this year, the overbought USD/JPY should start to normalize lower. Our updated forecasts are 109 in 2Q21, 108 in 3Q21, and 107 in both 4Q21 and 1Q22.

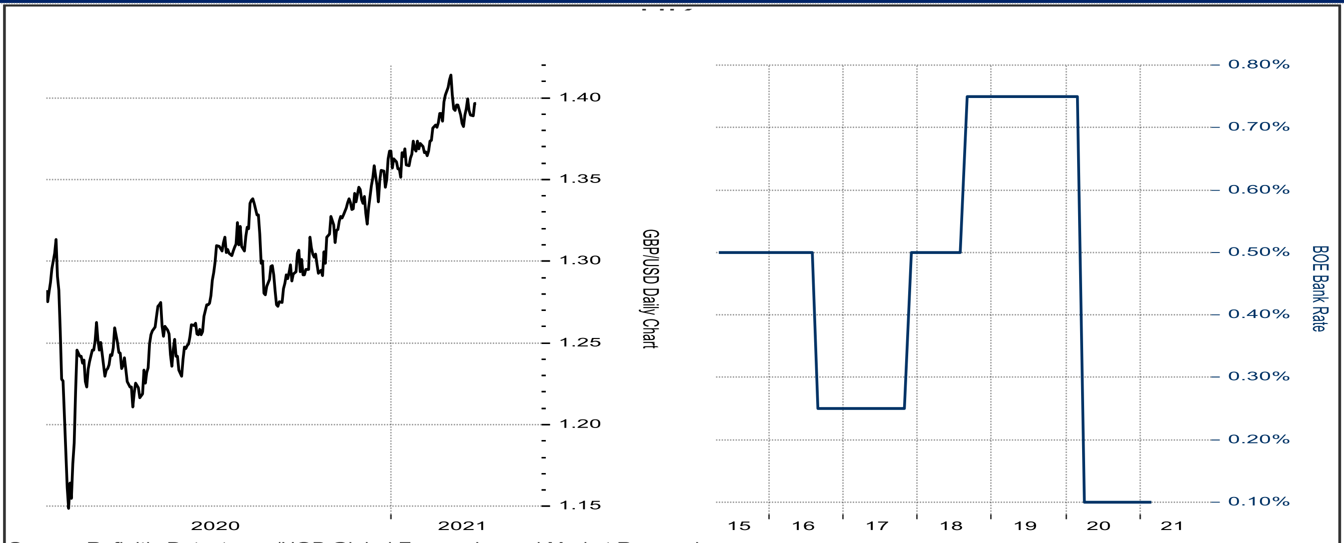
EUROZONE



Source: Refinitiv Datastream/UOB Global Economics and Market Research

The European Central Bank (ECB) decided to keep all its instruments unchanged at the March meeting. Still, the latest decisions had an important change compared with January. Based on a joint assessment of financing conditions and the inflation outlook, the Governing Council said that it expects purchases under the Pandemic Emergency Purchase Programme (PEPP) over the next quarter to be conducted at a significantly higher pace than during the first months of this year. Overall, whilst the ECB probably hopes that the first half of the year will not require major changes to its monetary policy, its commitment to preserving favourable financing conditions should not be underestimated. If anything, the ECB has reinforced our view that it will remain highly accommodative for longer. As the near term volatility fades with the backstop from the ECB, EUR would draw support from a brightening global economic outlook that would eventually revive the reflation trades of which the EUR is one of the beneficiaries. As such, we maintain an upward trajectory our EUR/USD forecasts, updated at 1.18 in 2Q21, 1.19 in 3Q21, and 1.20 in both 4Q21 and 1Q22.

UNITED KINGDOM

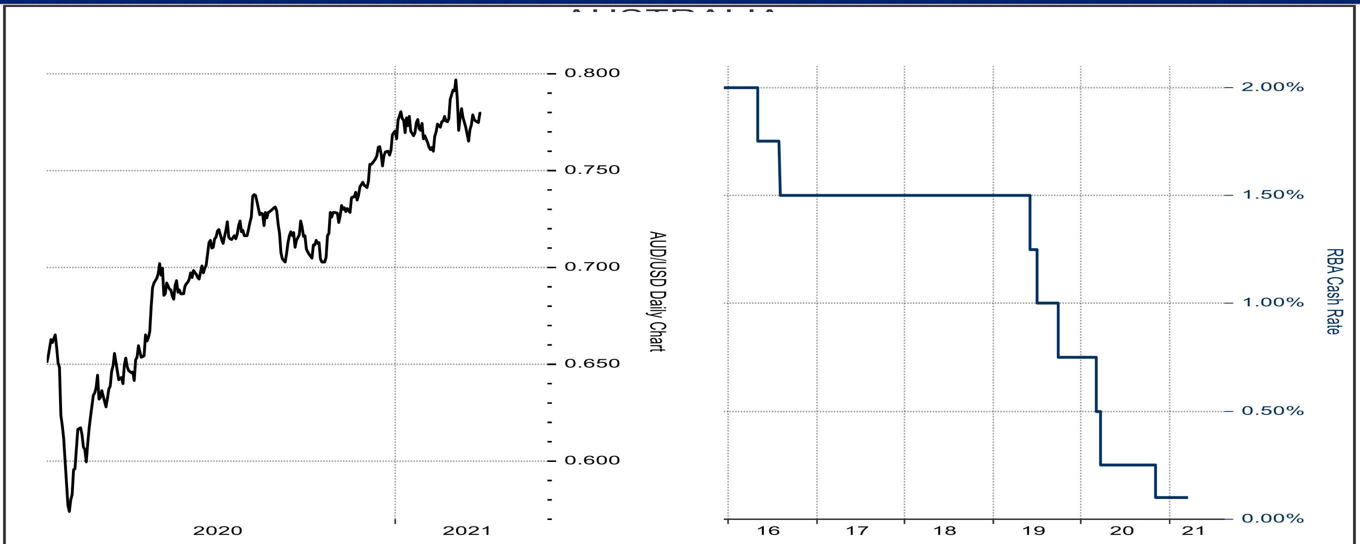


Source: Refinitiv Datastream/UOB Global Economics and Market Research

At its March meeting the BOE judged the existing stance of monetary policy remains appropriate and voted unanimously to maintain all its existing policy measures unchanged. The key takeaway is the BOE is not unduly fazed by either the rise in bond yields or the noticeable increase in rate hike expectations recently. Financial markets are now pricing roughly two rate hikes over three years (as of 19 Mar). The accompanying statement echoed recent comments from BOE Governor Andrew Bailey that the rise in yields reflects optimism, whilst financial conditions are 'broadly unchanged.' An accommodative monetary policy is likely to see the BOE's policy rate kept at current level with further quantitative easing (QE) announced later this year. We do not expect interest rates to begin normalising before end-2022, whilst any downside pressures to the economy ahead could see the policy rate cut to zero alongside further increases to the scale of the ongoing QE programme

GBP is seen as undervalued, having been battered by Brexit in the last couple of years, but is now underpinned by flows into the currency as the downside risks posed by the pandemic to UK's economic recovery later this year have reduced. As such, we remain positive on the GBP on valuation basis just as the tail risks of Brexit, negative UK policy rates and COVID-19 have more or less fully dissipated. Our updated GBP/USD forecasts are 1.38 in 2Q21, 1.40 in 3Q, 1.41 in 4Q21 and 1.42 in 1Q22.

AUSTRALIA

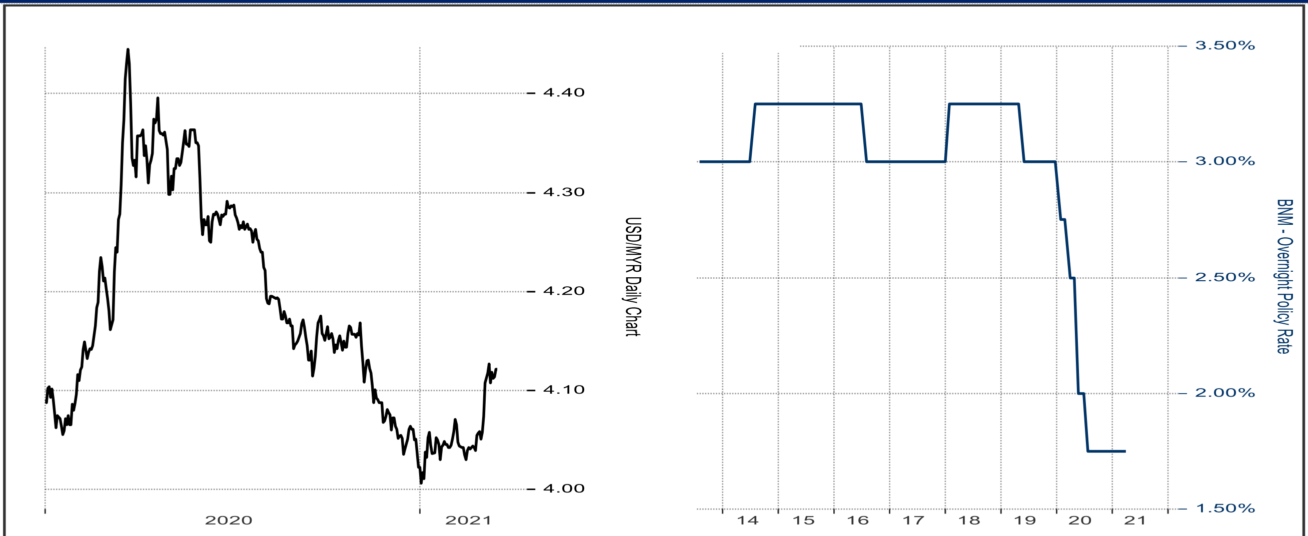


Source: Refinitiv Datastream/UOB Global Economics and Market Research

The RBA, as expected, had decided to maintain the current policy settings at its March meeting. Back in January, the RBA had surprised financial markets with an announcement that it was extending its QE program by an additional AUD100bn to the AUD100bn announced in November 2020.

So far, the RBA's rhetoric continues to reinforce our view that it will hold off bringing the policy rate into negative territory. We continue to expect the cash rate to remain unchanged until 2024 and now expect a full AUD100bn extension of QE beyond the second round. That said, we think that Yield Curve Control (YCC) will not be extended past the April 2024 bond, with the RBA no longer able to credibly commit to rates staying at 0.1% beyond this point. While near term risk may still be biased towards a weaker AUD, our positive outlook of higher commodities prices and a strong recovery in the domestic economy are likely to buoy the AUD higher over the medium term. Our updated forecasts for the AUD/USD are 0.77 in 2Q21, 0.78 in 3Q21, and 0.79 in both 4Q21 and 1Q22, little changed from our previous levels in December.

MALAYSIA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

We expect Bank Negara Malaysia (BNM) to keep the Overnight Night Policy Rate (OPR) unchanged at 1.75% through 2021. BNM said that given uncertainties surrounding the pandemic, future monetary stance will depend on new data and information. Despite weakness in GDP and ongoing containment measures, we think BNM is less inclined to use broad and blunt monetary policy tools at this stage. We think BNM may be more inclined towards targeted measures to support an uneven recovery while the government has accelerated and broadened some fiscal measures. While there was an abrupt drop in MYR to 4.14 in early March, we expect this to be temporary. Malaysia's external position remains healthy with a current account surplus that would help cushion MYR. More importantly, MYR should be supported by further recovery in Asia, anchored by China. Risks to watch include the pace of vaccine roll-out, domestic pandemic containment, and recovery of the domestic economy. Higher oil prices are also favourable for MYR. We update USD/MYR forecasts to 4.15 in 2Q21, 4.10 in 3Q21, and 4.05 in both 4Q21 and 1Q22.

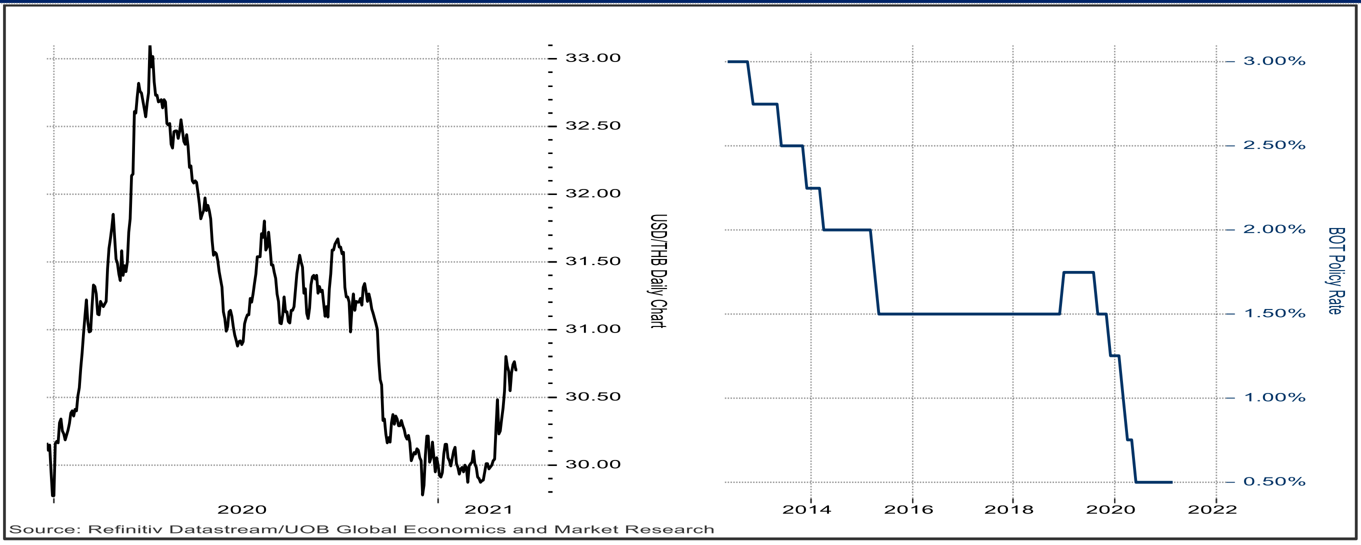
INDONESIA

Source: Refinitiv Datastream/UOB Global Economics and Market Research

In addition to 125bps interest rate cut last year, Bank Indonesia (BI) lowered its s benchmark rate by 25bps to an all-time low of 3.50% at its February 2021 monetary policy meeting (MPC); in a bid to boost the coronavirus-hit economy. BI also said that the room to cut rates further is now "limited," but stressed the bank has other measures to support the economy, such as its quantitative easing program. Going forward, we are cognizant of the external market development concerning the rising yields in the global markets. With yields on the rise, BI has less room to trim its benchmark further without undermining the yield differential to the domestic financial assets. We continue to reaffirm our view that the February MPC rate cut is likely to mark the end of the rate cut cycle by BI. We keep our BI rate forecast to remain steady at 3.50% for the rest of the year.

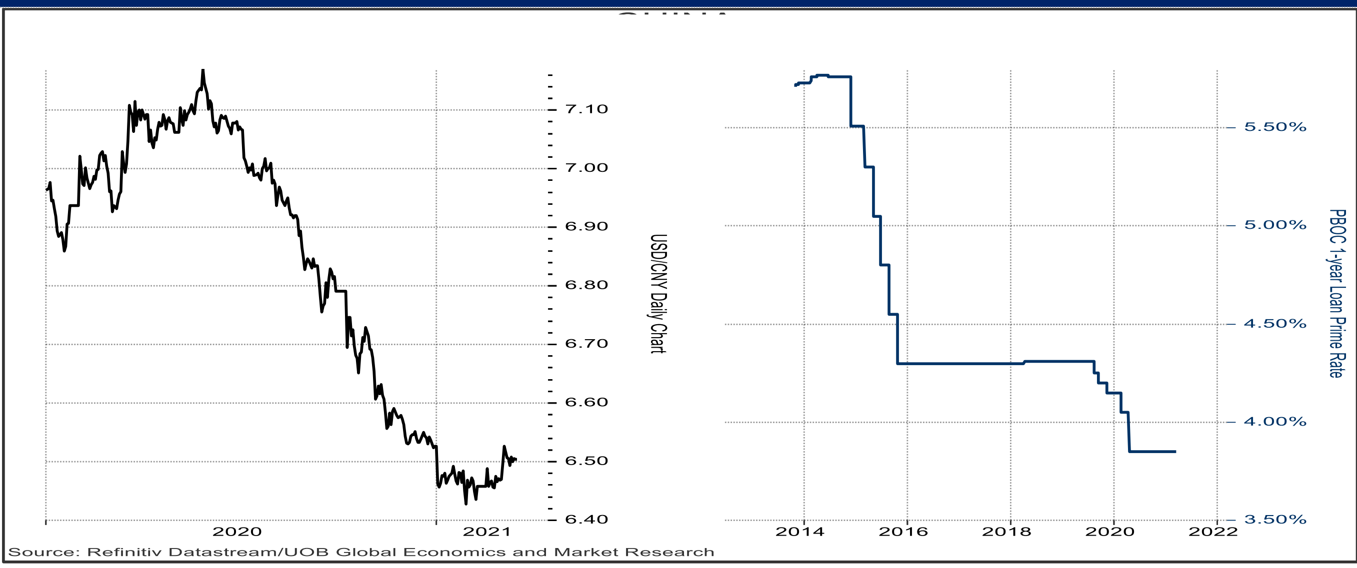
However, it should be emphasized that rising bond yields this time reflect a brightening global economic outlook rather than an abrupt negative risk event. As such, global risk appetite would stay supported and offset some of the effects on the IDR. In addition, BI could also intervene to smooth the FX moves given that it has built up a strong war chest. Indonesia's FX reserves stood at a record high of USD 138.80 billion in February. Overall, our updated USD/IDR forecasts are 14,600 in 2Q21, 14,700 in 3Q21, and 14,800 in both 4Q21 and 1Q22.

THAILAND



Thailand's economy has improved from the trough seen in 2Q20. GDP fell 4.2% y/y (+1.3% q/q sa) in 4Q20, up from the previous quarter which registered a contraction of 6.4% y/y (+6.5% q.q sa). With two consecutive quarter-on-quarter expansions in 3Q20 and 4Q20, Thailand has officially seen a technical recovery. The Bank of Thailand (BOT) kept its one-day repurchase rate unchanged at 0.50% as widely expected for the sixth consecutive meeting on 3 February 2021. The last time it made a move was in May 2020, where the benchmark rate was cut by 25 bps then. We keep our call for BOT to leave its benchmark rate unchanged at 0.50% for the whole of 2021. Still, Thailand's economic growth is likely to be uneven, amid pronounced downside risks should COVID-19 worsens. Should macroeconomic fundamentals stay unexpectedly subdued in 2H21, a 25 bps rate cut could materialise then. Our updated USD/THB forecasts are 31.1 in 2Q21, 31.2 in 3Q21, and 31.5 in both 4Q21 and 1Q22.

CHINA



The People's Bank of China (PBoC) targets growth of M2 money supply and total social financing to be in line with nominal GDP growth after both rose sharply last year to support the economic recovery. The PBoC also said that there should be "no sudden U-turn" of policy operations while the monetary policy must be flexible and precise as the economy continues to recover this year. While loans growth is set to moderate this year, we continue to expect the benchmark 1Y loan prime rate (LPR) to stay flat at 3.85% for the rest of 2021.

While incoming macro data for China continues to paint a strong economic recovery momentum, a shrinking yield differential dent the attractiveness of Chinese bonds to foreign investors. The 10-year yield between China and US government bonds has narrowed to 165 bps on 8-Mar, the smallest since last March and down from a high of 253 bps last November. This development reduces capital inflows and may start to cap CNY gains. At the same time, it is likely the CNY is insulated from the expected volatility within the broader EM FX space due to its solid fundamentals and low reliance of USD-denominated debt. As such, our updated USD/CNY forecasts are 6.55 in 2Q21, 6.50 in 3Q21, and 6.40 in both 4Q21 and 1Q22.

FX, INTEREST RATE & COMMODITIES FORECASTS

FX	18 Mar 21	2Q21F	3Q21F	4Q21F	1Q22F
USD/JPY	109	109	108	107	107
EUR/USD	1.19	1.18	1.19	1.20	1.20
GBP/USD	1.39	1.38	1.40	1.41	1.42
AUD/USD	0.77	0.77	0.78	0.79	0.79
NZD/USD	0.72	0.72	0.73	0.74	0.74
DXY	91.8	92.4	91.5	90.8	90.9
USD/CNY	6.51	6.55	6.50	6.40	6.40
USD/HKD	7.77	7.75	7.75	7.75	7.75
USD/TWD	28.47	28.50	28.30	28.20	28.20
USD/KRW	1,131	1,150	1,130	1,100	1,100
USD/PHP	48.66	48.50	48.20	48.00	48.00
USD/MYR	4.12	4.15	4.10	4.05	4.05
USD/IDR	14,455	14,600	14,700	14,800	14,800
USD/THB	30.86	31.10	31.20	31.50	31.50
USD/VND	23,074	23,100	23,050	23,000	23,000
USD/INR	72.55	74.00	74.50	75.00	75.50
USD/SGD	1.34	1.35	1.33	1.32	1.32
EUR/SGD	1.60	1.59	1.58	1.58	1.58
GBP/SGD	1.87	1.86	1.86	1.86	1.87
AUD/SGD	1.04	1.04	1.04	1.04	1.04
SGD/MYR	3.07	3.07	3.08	3.07	3.07
SGD/CNY	4.85	4.85	4.89	4.85	4.85
JPY/SGDx100	1.23	1.24	1.23	1.23	1.23

RATES	18 Mar 21	2Q21F	3Q21F	4Q21F	1Q22F
US Fed Funds Rate	0.25	0.25	0.25	0.25	0.25
USD SOFR	0.01	0.09	0.10	0.10	0.11
USD 3M LIBOR	0.19	0.18	0.22	0.25	0.25
US 10Y Treasuries Yield	1.70	1.90	1.95	2.00	2.10
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	0.26	0.11	0.12	0.12	0.13
SGD 3M SIBOR	0.44	0.40	0.40	0.40	0.40
SGD 3M SOR	0.36	0.25	0.25	0.25	0.25
SGD 10Y SGS	1.59	1.85	1.90	1.95	2.05
MYR O/N Policy Rate	1.75	1.75	1.75	1.75	1.75
IDR 7D Reverse Repo	3.50	3.50	3.50	3.50	3.75
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	4.00

COMMODITIES	18 Mar 21	2Q21F	3Q21F	4Q21F	1Q22F
Gold (USD/oz)	1,734	1,700	1,750	1,800	1,800
Brent Crude Oil (USD/bbl)	63	60	65	70	70
LME Copper (USD/mt)	9,056	9,000	9,500	10,000	10,000

THE TEAM

Global Economics & Markets Research
Asset Management
Private Bank

All chart data from Bloomberg unless otherwise specified.

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