UOB HOUSE VIEW

3Q2020

GLOBAL MACRO

With the successful intervention by global central banks and authorities, we now look for a slightly improved 30% chance of a global V shaped recovery (from earlier forecast of 20%). However, our base case remains that of a 45% chance of a U shaped recovery. Now that financial markets have stabilized, what is the outlook going forward for key asset classes? Will interest rates stay locked in near the zero bound given that the Federal Reserve now commits to keep rates low till 2022?

ASSET ALLOCATION

Our view is the economic trajectory may be “U” shaped, but the market recovery will likely look more “square root” shaped – one that sees a quick rebound, only to be followed by a drawn out period of subpar growth. We still favor balance, income strategies. We are neutral equities, overweight fixed income with focus on investment grade credits but underweight high yield. We are neutral commodities but within it, we prefer gold. We are neutral on alternatives and underweight cash.

EQUITIES

While we are neutral in our equities weighting, on a regional basis, we have tactically reduced some weighting in Asia by allocating to Japan and Europe, both of which are more cyclically oriented and will benefit from an economic recovery. With the MSCI World now trading 20x 2021E rebounded earnings, stocks are no longer cheap but are yet consistent with a low interest-rate environment. Hence, we recommend investors to regard any sell-off as buying opportunities.

FIXED INCOME

We are strongly overweight investment-grade credit. Investment-grade credit spreads have already priced in recession risks, and looks attractive against a backdrop of historic policy support. Further, we strongly favor USD Asian investment-grade credits but we are underweight EM high yield credits. We turn neutral on duration risk, as sovereign bond yields would remain low, largely range bound at current low levels.

COMMODITIES

Gold is perhaps the only certainty within the entire commodity complex. Gold is expected to sustain its rally off the back of massive monetary policy easing. We raise our gold forecast to USD 1,800 / oz by end 2020 and USD 1,850 / oz by mid-2021. As for Brent crude oil and Copper, both continue to get plagued by weak demand dynamics and are unlikely to continue their strong 2Q rebound. As such Brent crude oil and Copper can be expected to consolidate around USD 40 / bbl and USD 5,500 / MT respectively.

FX & INTEREST RATES

In the FX space, we continue to see this gradual pullback in the USD particularly against FX Majors like the EUR and AUD. Asian FX is expected to make further gains against the USD, but at a more sustainable pace with the CNY and SEA currencies leading the way to a firmer recovery in the second half. As for rates, the front end of the yield curve is locked down almost everywhere, and in the case of US and SG markets, proximity to zero raises the specter of negative interest rates. In short, there is no “V-shaped” recovery expected for interest rates anytime soon.

UOB

GLOBAL MACRO

Financial Markets Look Forward To Post-COVID Recovery

In our previous House View 2Q 2020, we warned of a sharp and widespread global "synchronized recession" as almost every economy in the world headed into concurrent lock-down to contain the COVID-19 outbreak. The prognosis back then was pretty dire whereby we warned of a twin supply shock and demand shock morphing into a financial shock as the COVID-19 outbreak disrupted global supply chains, froze global trade and domestic spending, holding global debt and financial markets hostage.

Global Central Banks And Governments To The Rescue

Since then global central banks have sprung into action. A massive flood of monetary and fiscal stimulus was unleashed across 2Q to help tide over this difficult period and help jump start the economy after the COVID-19 meltdown. The US Federal Reserve led the charge with its unlimited Quantitative Easing (QE), expanding its balance sheet in excess of USD 3trn across 2Q alone and vastly pumping up US monetary supply, lifting M1 growth in the US to an unprecedented +27.5% YoY in April. After a tentative start, Christine Lagarde led the European Central Bank (ECB) to almost double its Pandemic Emergency Purchase Programme (PEPP) QE amount from EUR 750bn to EUR 1.3trn. On top of its long term intervention in Japanese Government Bonds (JGBs) via Yield Curve Control (YCC), the Bank of Japan (BoJ) on its part further expanded its QE to include commercial paper and corporate bonds and grew its Special Program to provide related financing to SMEs, from JPY 75trn to as much as JPY 110trn.

On the fiscal front, nearly every government in the world also issued multiple supplementary budgets to spend aggressively to ring fence local economies, jobs and livelihoods from the COVID-19 fallout. Fiscal deficit limits, which were previously red lines and sacred cows of self-imposed fiscal discipline were cast aside as budget shortfalls for many countries expanded towards previously unheard of levels of 20% of GDP. Japan leads the way with a fiscal response worth nearly 40% of GDP.

Global Asset Market Staged A Broad And Swift Rebound

All these massive coordinated monetary easing and fiscal stimulus appear to have done their job in stabilizing asset and financial markets. The deep freeze in global debt market thawed, allowing corporates to borrow and fortify their balance sheets. 10-year US investment grade benchmark borrowing cost has returned mostly to its pre-COVID level of sub-2% above US Treasuries, while 10-year US high yield benchmark borrowing cost has almost halved from its peak of near 10%, to around 5% above US Treasuries.

But Broad Economic Challenges Remain

Going forward there is an intense debate on whether this recovery in asset and financial markets is sustainable. After all, the World Bank downgraded its global outlook further and now calls for the steepest global growth slowdown in 150 years, expecting a sharp 5.2% global GDP contraction for 2020. This is worse than the previous forecast made in April by the IMF which projected a 3% global contraction in 2020. And pessimists will argue that once the government assistance wears off, credit defaults will be hard to avoid. Besides, the structural and social damage from the surge in unemployment in every economy will be felt for a long time.

FX And Rates Are "Forward Looking"

Optimists will argue global asset and financial markets are forward looking and have started to price in the return of global trade and domestic spending as global economies exit their COVID-19 lockdown. China has led this post COVID-19 rebound as their cities exit the lockdown earlier in April. The rebound in China's high frequency data, particularly industrial production and PMI, has been encouraging. In recent weeks, this rebound has taken root in both the FX and Rates market too. The US Dollar has staged a broad retreat as G7 Majors, EM and Asian currencies recover amidst the return to risk taking. The EUR/USD rebounded strongly back above 1.10 to 1.13, while AUD/USD snapped back from 0.65 to 0.70 and USD/CNH collapsed from near 7.19 to sub-7.10.

In the rates space, yield curves have started to steepen as well, with the US30s5s yield spread rising back above 100 bps. This is the result of the 30 year US Treasuries yield jumping back above its 1% low in Mar to 1.5% now. Does this mean that the rebound in longer dated yield is pricing in a recovery and a rebound in inflation? Or is this a more realistic result of rising fiscal risk going forward as a result of the unprecedented COVID-19 stimulus spending?

Overall, we now see a slightly improved 30% probability of V shaped recovery. In the previous quarter, our conclusion was that for 2020, we would see a base case of a 55% chance of a U shaped recovery, followed by a smaller 20% chance of a V shaped recovery and a larger 25% chance of a weak L shaped recovery. Given the above mentioned encouraging rebound in activity as China exits COVID-19 lockdown, and the strong risk-on rebound in global asset and financial markets following the unprecedented monetary policy easing and fiscal stimulus, we now see better odds of a V shaped recovery.

As such, we now see a lower base case of a 45% chance of a U shaped recovery, followed by a larger 30% chance of a V shaped recovery and a similar 25% chance of a weak L shaped recovery. While this is clearly a step in the right direction, one must not forget that the global economic recovery path remains highly uncertain and there is always a risk of a resurgent wave of COVID-19 outbreak. This will continue to inject regular volatility and uncertainty into global asset and financial markets.

Possible Economic Recovery Shapes In 2020

Shape of Trajectory	V-Shaped	U-Shaped	Bumpy L-Shaped
Probability	30% (Best Case)	45% (Base Case)	25% (Worst Case)
COVID-19 containment	By End-2Q 2020	By End-4Q 2020	Through 2020, 2nd wave in 4Q 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 go negative
Currencies	Commodities and energy related currencies like AUD continue to rebound strongly	Asia FX to recover gradually, led by RMB	USD to rebound against most EM and Asian currencies

ASSET ALLOCATION

Over the past quarter, global economic activities have plummeted to levels never experienced in any of our lifetime in the wake of the dislocations brought about by the coronavirus (COVID-19) pandemic. Despite this, global markets have rallied from the lows at the end of the first quarter. We noted in our 2Q20 strategy report that the decline from the US market peak to a -20% bear market was the fastest in history within a 3-week window. But since then, we have also witnessed one of the fastest recovery rallies on record that meets the +20% definition of a bull market. For the first time in history, we had a bear market (March) and a bull market (April) in back-to-back months.

There is now a stunning divergence between global economic and market trajectories. The comeback rally arrived just as economic data was plunging with no clarity as to how far economic activities would fall. Many global investors have good cause for suspecting that the market movements are "delusional". While we continue to think we should be cautious about our expectations on the global economic recovery, we do think the recent market rally is more rational than many investors seem to believe.

Our view is that while the economic trajectory may be "U" shaped, the market recovery will likely look more "square root" shaped – i.e. one that sees a quick rebound, only to be followed by a drawn out period of subpar growth similar to the flat top of a square root sign. This would be in line with typical futures pricing theory in that if markets believe that there will eventually be a recovery (even if it is "U" shaped), then markets will not wait for that future point to arrive. Futures pricing models say that the only difference between the future price and the spot price lies in the time value of money. Thus, if the market expects the global economy to recover in 2H21 back to pre-crisis levels, then the only difference between the current price and that future price should be roughly the discounted cost of equity (of roughly 7%). That is, even though the US economy has fallen by an estimated 30% in 2Q20, the market should only be roughly 7-10% below pre-crisis levels. Thus as crazy as the markets may seem, the fact is that as long as the markets believe in a recovery, equities will start to climb even before the economic data turn.

Overall, we see the global equity rally as rational, but as equities edged closer or exceed pre-crisis levels, there will be less upside. In light of the "unknown unknowns" which may arise, we are neutrally weighted in equities. Nonetheless, we do see attractive investment opportunities despite the quickened pace of the markets. In particular, we are overweight in investment grade (IG) corporate credits. Global investment grade spreads had widened from 100 basis points (bps) pre-crisis to over 300bps at the peak of the crisis, and have stayed elevated at close to 200bps as of end May. We expect credit markets to normalise over the coming year like how equities are doing. The contraction in spreads will boost credit returns to the mid-single digits range. We remain confident that investment grade credits will largely avoid defaults in light of the policy support from major central banks around the world. **On a risk/reward basis, we find investment grade credits to be one of the most attractive asset classes.**

We continue to 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 are neutral commodities but within commodities prefer gold. We are neutral alternatives as they tend to achieve lower levels of volatility. We are underweight cash as short term rates have been cut and offer little return compared to credits.

Global Asset Allocation For 3Q 2020

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

EQUITIES

Global equities went on a powerful rally since bottoming on 23 March, as policymakers came out in full force to support economies and investors front-loaded expectations of the recovery. That said, while the news flow on economic restart and progress on medical therapies/vaccines are likely to be positive, the same cannot be said on the geopolitical front.

With the US Presidential elections months away, China could once again find herself caught in this crossfire of US domestic politics. From the source of COVID-19, to technology transfer and most recently, the Hong Kong security law, US-China relations are set to deteriorate. As tensions mount, markets could once again enter a period of volatility.

While escalating tensions may not be as severe as the initial effects faced during the trade conflict since 2018, it could potentially catalyze a short term correction in risk assets. In that regard, based on recent experience, Asia assets tended to underperform as the US adopts a more hawkish posture against China.

Hence, **while we are neutral in our equities weighting, on a regional basis, we have tactically reduced some weighting in Asia by allocating to Japan and Europe**, both of which are more cyclically oriented and will benefit from an economic recovery.

With the MSCI World now trading 20x 2021E rebounded earnings, stocks are no longer cheap but are yet consistent with a low interest-rate environment. Hence, while there may be short-term corrective actions, we recommend investors to regard any sell-off as buying opportunities.

Equities In Line With Expectations Of Economic Recovery

Source: Macrobond, UOB Private Bank

COMMODITIES

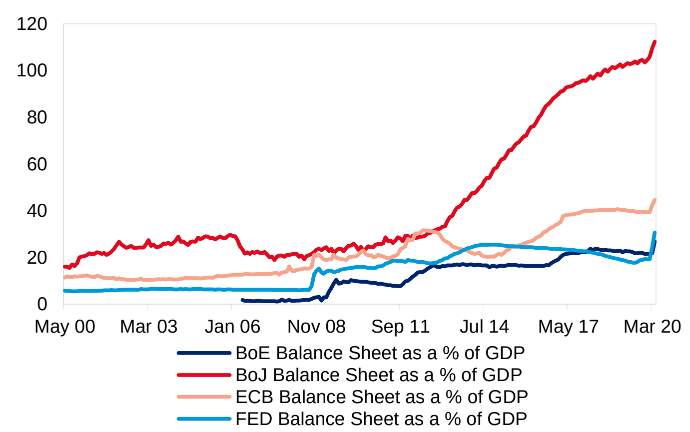
Is The Recent Sharp Price Rebound Sustainable?

By late March, things were looking really dire and dismal for the entire industrial metals and energy complex. Key benchmark commodity prices suffered steep drops as it became apparent that the global economy is going to head into a deep and sharp recession following the COVID-19 outbreak. However, as China re-emerged from the COVID-19 crisis in April and key cities reopened, industrial metals and energy prices snapped back in double quick time. With this latest rebound, is the worst truly over for the commodities sector? More importantly, is this rebound sustainable?

Gold: Medium To Long Term Rally Remains Intact

Amidst the uncertain economic times, gold is probably the only key commodity with a distinctive and clear positive outlook. All the key positive drivers remain in place. Global central banks continue their massive monetary policy easing, providing a strong and steady tailwind for gold. Adding to the tailwind, safe haven allocation demand remains strong amidst the on-going economic uncertainty. Overall, we maintain our medium to longer term gradual positive outlook for gold. We forecast gold at USD 1,700 / oz in 3Q20, USD 1,750 / oz in 4Q20, USD 1,800 / oz in 1Q21 and USD 1, 850 / oz in 2Q21.

Gold: Global Central Bank Balance Sheets Balloon Yet Again On Renewed QE

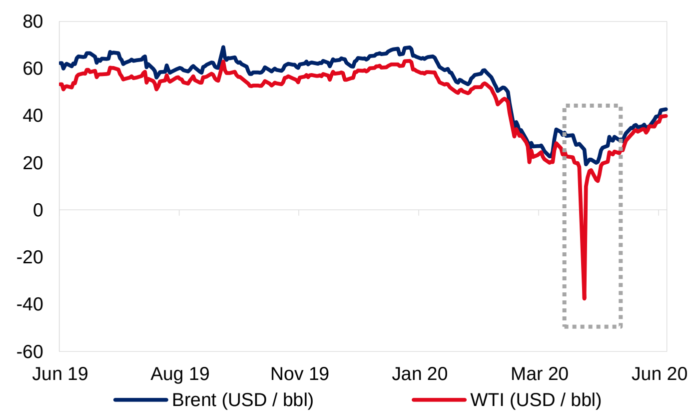


Source: Bloomberg, UOB Global Economics & Markets Research

Brent Crude Oil: Supply Cuts Stabilize Oil Prices For Now

Crude oil prices staged the most remarkable V shaped rebound across 2Q. From below USD 20 / bbl, Brent crude oil doubled to USD 40 / bbl. More incredible is the snap back in WTI crude oil from the deep negative price to just under USD 40 / bbl as well. Needless to say, a lot of this price rebound is due to the near term supply discipline and production cuts from OPEC+. Amidst on-going weak global energy demand, it is imperative for OPEC+ to continue its disciplined approach. We should be under no illusion that the OPEC+ production cuts can be enforced indefinitely. In addition, global energy demand remains weak. As such, we find it difficult for crude oil prices to recover further. Therefore, we forecast neutral Brent crude oil at USD 40 / bbl for the coming 4 quarters.

Brent Crude Oil: Wild Roller Coaster Ride Across 2Q

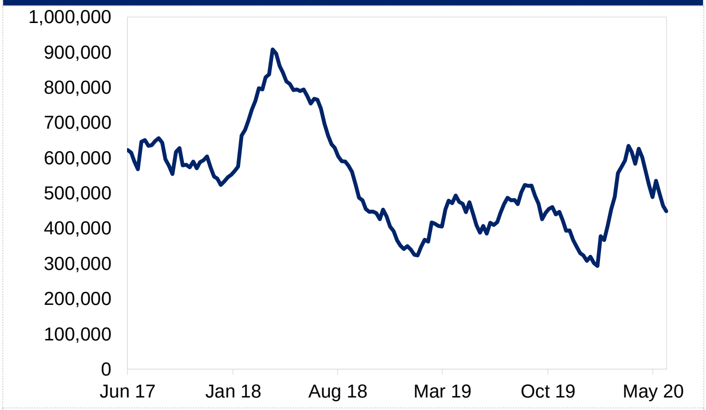


Source: Bloomberg, UOB Global Economics & Markets Research

Copper: Still The Volatile Proxy For Economic Outlook

Strictly from a long term macroeconomic outlook basis, copper should trade at a much lower "recessionary" price level. Previously, back in April, the IMF projected a 3% global GDP contraction for 2020. In early June, the World Bank refreshed its global outlook and called for an even sharper -5.2% global growth contraction. However, LME Copper bounced back up sharply across April and May, above USD 5,000 / MT to USD 5,700 / MT. Near term bounce notwithstanding, the latest update from industry consultancy CRU remains cautious for Copper. CRU warned that global demand for copper will drop by an unprecedented 5% this year, resulting in the "steepest demand decline since the 70s". CRU warned that Copper now faces considerable market surpluses in the coming 5 years and that the previously anticipated structural deficit story has been "pushed much further out to the future". As such, after such a strong near term rally, some consolidation may be in order. We therefore forecast neutral LME Copper at USD 5,500 / MT for the coming four quarters.

Copper: Global Inventory Was Drawn Down After Supply Disruption



Source: Bloomberg, UOB Global Economics & Markets Research

FIXED INCOME

Returns on global fixed income markets were strongly positive in 2Q 2020 as credit markets recovered sharply following unprecedented policy stimulus. Geographically, Asian credit markets fared better (than most of the other emerging market corporate markets) in recent months, underpinned by its higher asset quality and strong regional support (78% of the Asian credit universe is of investment grade quality, with an average credit rating quality of BBB+, in contrast to the rest of the emerging market corporate bloc which have a lower average credit quality). Likewise, Singapore corporate credit also registered positive returns within the Asian corporate credit.

Globally, economic activity has plunged sharply as COVID-19 impacted both the demand-side and supply-side dynamics. GDP growth rates in 1Q 2020 were negative throughout most developed market (DM) economies. More recently, initial signs of green shoots have recently emerged . As COVID-19 infection rates plateaued in the US and Europe, COVID-19 restrictions are being relaxed and the associated release of pent-up demand would deliver a near-term lift to economic activity. Overall, DM economies and most Asian economies have begun to follow the recovery path led by China. Considerable uncertainties remain on COVID-19 in particular, the risk of a second wave resurgence. In such a scenario, global authorities may be forced to reintroduce tighter stay in place measures (e.g. re-instate lockdown restrictions).

We continue to advocate high-quality credit over high yield at this juncture.

We are strongly overweight investment-grade credit. Investment-grade credit spreads have already priced in recession risks, and looks attractive against a backdrop of historic policy support. Quite clearly, aggressive quantitative easing and credit easing policies have addressed market functioning concerns and strong fiscal expansion has supported the real economy. The level of global policy support remains at record levels. The US Federal Reserve and the ECB remain committed to accommodative monetary policies with aggressive levels of liquidity support through bond purchases. In addition, the US Federal Reserve further bolstered its innovations in its unconventional toolkit by announcing purchases in its Secondary Market Corporate Credit Facility via a corporate bond portfolio, which allowed it to side-step eligibility determination for individual issuers and scale up the facility more quickly. Fiscal supports have smoothed over labour income losses, supporting household consumption.

Further, we strongly favor USD Asian investment-grade credits. Most Asian economies and especially China are leading the way out of the COVID-19 malaise, and one key reason has been that public health controls (e.g. testing, tracing) have proven effective. In China, factories have resumed production and construction activity has picked up as well. 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 stable leverage profile too (more specifically, Net Debt-to-EBITDA has continued to fall).

In contrast to the US and Eurozone, we note that China has proceeded more cautiously this time around. It has eased policy, to be sure, pumping liquidity into financial markets and providing greater fiscal support to hard-pressed local governments. But China's response clearly pales in comparison to what's been rolled out globally and regionally. Overall, these trends bode well for Asian corporates.

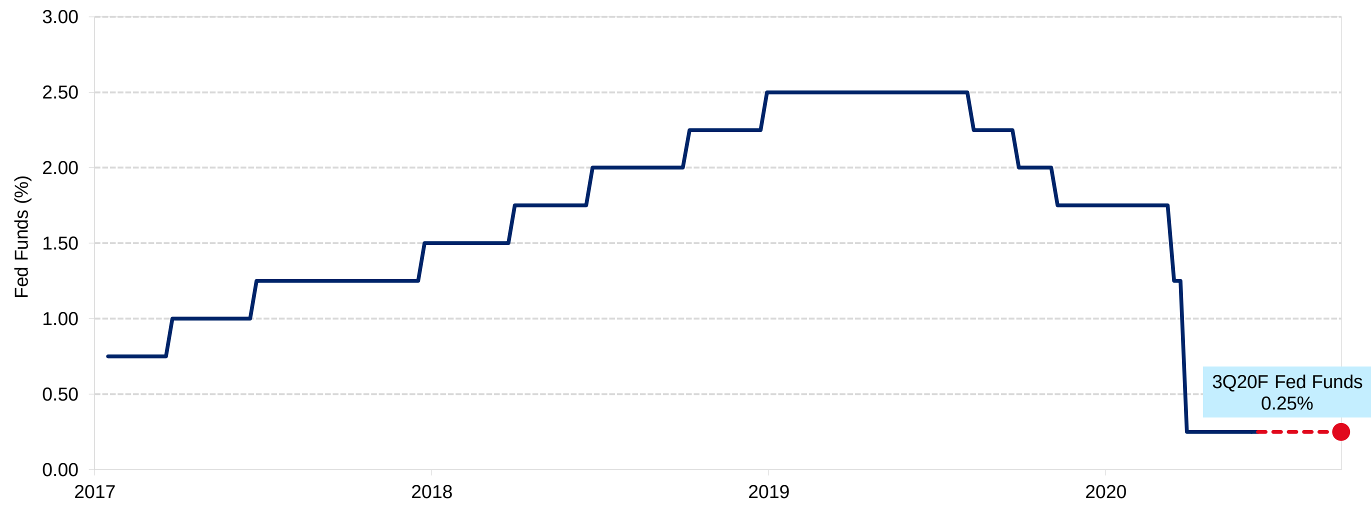
We are underweight EM high yield credits. Several EM high-yielding economies are facing large disinflationary growth shocks, and still-high infection rates which tilts the risk towards further downside if lockdowns need to be re-imposed or confidence is hit. While central banks have responded by easing aggressively, fiscal challenges are starting to move to the fore (e.g. in South Africa, where attention is turning to debt sustainability following unexpectedly large rate cuts and QE-type purchases by the SARB).

We turn neutral on duration risk, as sovereign bond yields would remain low and largely range bound at the current low levels. As the fiscal response continues to dominate the monetary 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.

FX & INTEREST RATES

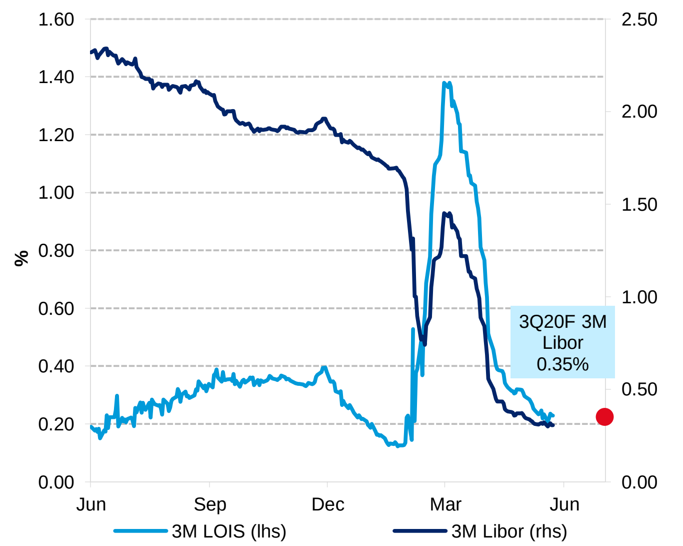
UNITED STATES

FED Funds Rate



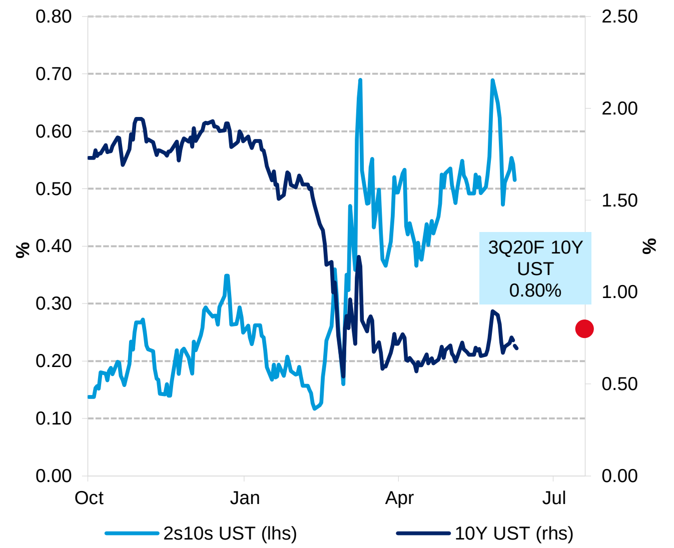
The Fed has demonstrated it will do whatever it takes, beyond interest rate cuts and asset buying, to restore financial market stability, smooth out US dollar funding conditions, and safeguard the economy. Going forward, as FOMC Chair Powell pledged, we expect the Fed will do more especially when the “unprecedented” 2Q comes to pass. On 15 Jun, Fed’s Secondary Market Corporate Credit Facility (SMCCF) started to buy individual corporate bonds (instead of just ETFs), and it also launched its US$600bn Main Street Lending Program administered by Boston Fed. We expect the Fed to keep its near zero percent policy rate until at least 2022. With the Fed now engaging in discussion on yield curve control (even as its effectiveness “remains an open question”), we believe the next Fed move will be yield curve control (YCC) so as to make monetary policy even more accommodative, to be announced possibly by 15/16 Sep 2020 FOMC. That said, we still hold the view the Fed will not want to push rates beyond zero, into negative territory, a view affirmed by the latest dot plot chart.

3M US Libors



- We expect to see 3M Libor at around 0.35% by the end of 3Q2020.
- Official expectations and market-based forwards sees limited upside in short term rates until after 2022.
- 3M Libor vs. OIS has normalized, a testament of the massive liquidity response by the Fed and global central banks. This may be a template for future episodes of liquidity tightness.

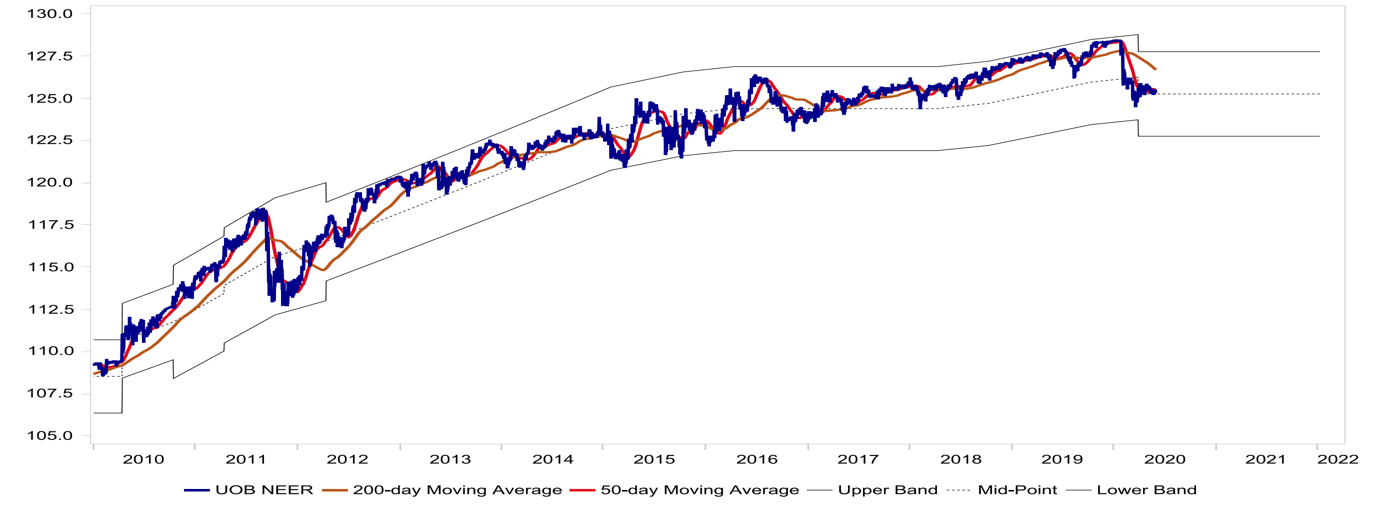
10Y US Treasuries



- We expect to see 10Y UST at 0.80% by the end of 3Q2020.
- Stuttering economic growth weighs on higher yields despite wider deficits and increased issuance.
- We continue to favour the 2s10s curve grinding its way steeper over the course of 2020. Driven by recovery, deficit, and supply chain redesign.

SINGAPORE

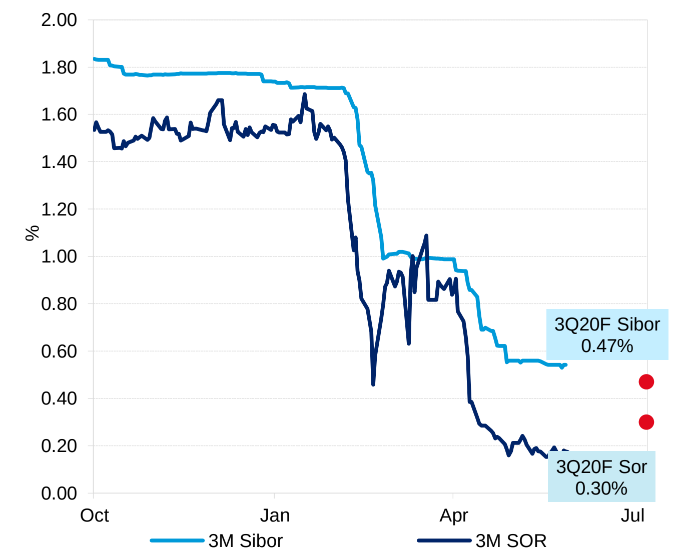
S$NEER



In its 30 March 2020 release, the Monetary Authority of Singapore (MAS) eased monetary policy by adopting a "zero percent per annum rate of appreciation of the policy band". It also re-centred the policy band lower, while keeping the width of the band unchanged. MAS highlighted that a "degree of labour market slack could emerge", while inflation is penciled to average between -1.0% and 0.0% in2020.Singapore's response to the COVID-19 fallout will be largely underpinned by fiscal policy measures, as seen from four budget packages amounting to S$92.9billion (19.2% of GDP). As such, we think further monetary easing may be off the table for now, especially if Singapore'sCOVID-19 containment efforts prove to be effective in curbing further outbreaks. Our expectation is for MAS to keep monetary policy unchanged in October 2020, which means keeping the rate of appreciation band, and its centre, unchanged from April's decision.

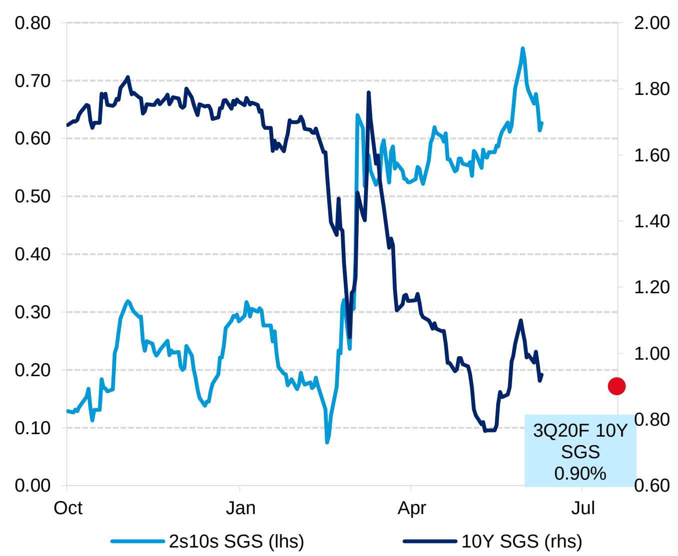
While we are convinced that the medium term top for USD/SGD is put in place at 1.4646 in March, further weakness in the USD/SGD may be checked by weakness in the S$NEER. A key upside risk to USD/SGD to note is an uncontrollable flare up in US-China relations which would trigger renewed weakness in the CNY which the SGD is closely correlated to. As such, in line with the recent weakness in broad USD and MAS to stand pat in October, we update our point forecasts to 1.39 in 3Q20, 1.38 in 4Q20, 1.36 in 1Q21 and 2Q21.

3M SOR and Sibor



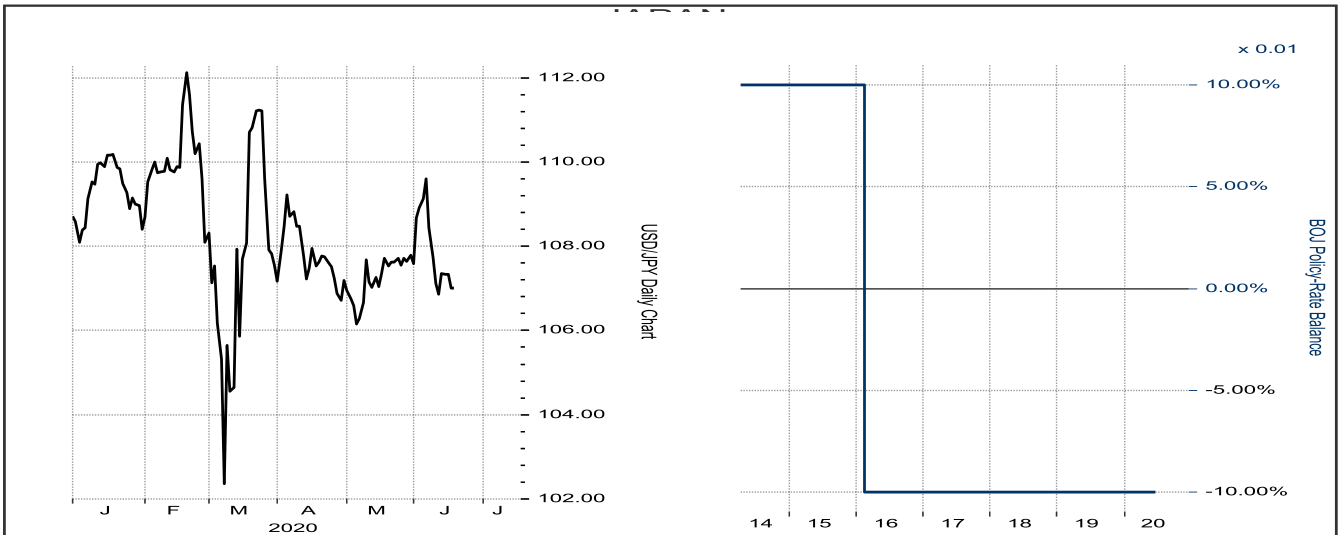
- We expect to see 3M SOR at 0.30% and SIBOR at 0.47% by the end of 3Q2020.
- Liquidity conditions are not restrictive and the expectations surrounding the domestic currency are neutral.
- Lower for longer US rates will dictate a similar fate for SG rates.

10Y SG Bonds



- We expect to see 10Y SGS at 0.90% by the end of 3Q2020.
- Outright yield direction remains correlated to USTs. SGS could outperform if UST yields were driven higher by US deficit financing concerns.
- We favour steeper SG yield curves but risk off scenarios likely to result in sharp curve flattening episodes

JAPAN

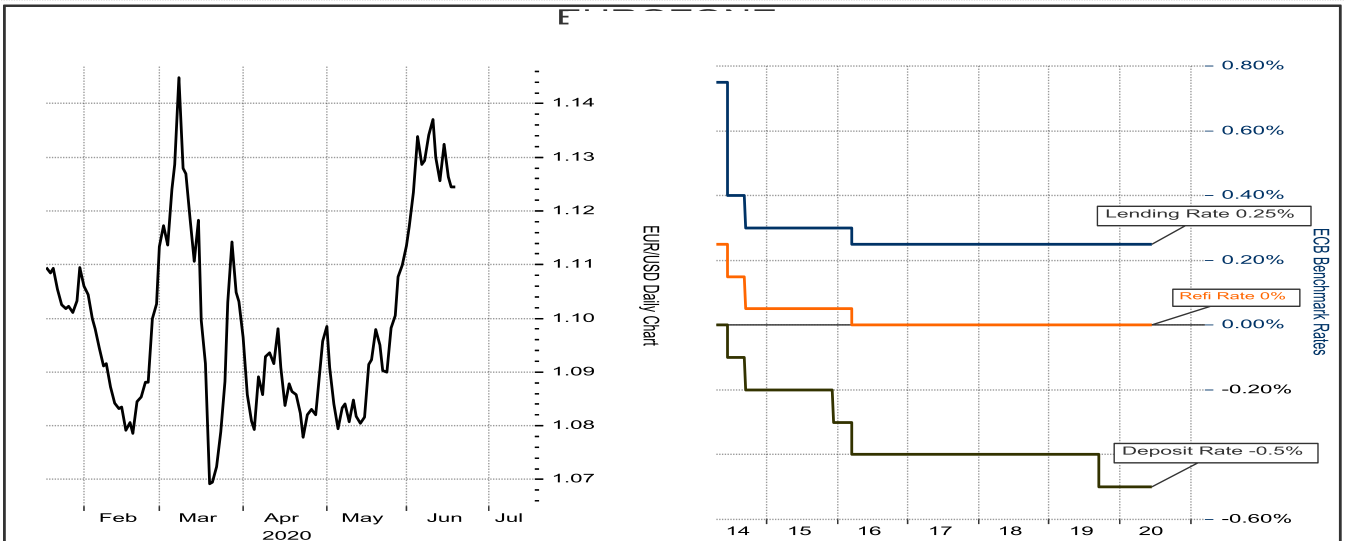


Source: Refinitiv Datastream/UOB Global Economics and Market Research

We believe the Bank of Japan (BOJ) will expand and enhance its monetary easing stance in 2H 2020, especially in the face of the unprecedented impact by COVID-19. And while we still expect the BOJ to do more, our long held view that the BOJ will ease via deepening its negative policy call rate to -0.2% (from-0.1%) is now an increasingly remote possibility, as recent MPMs clearly demonstrated its immense resistance to push rates deeper into negative territory. Governor Kuroda in his testimony to Japanese lawmakers in May, listed off the BOJ's policy options and negative rates came last, a shift in his preference for lowering policy rates further. That said, Kuroda (16 Jun) projected rates to remain ultralow into 2023.

Instead, we re-visit the notion that the BOJ will reassert its easy monetary policy position via increasing its JGB purchases in the secondary market. This comes as the BOJ has temporarily implemented unlimited QE and the Finance Ministry is expected to issue more government debt (JGBs), including JPY22.61 trillion in deficit-covering bonds, to finance the 2nd extra budget of nearly JPY32 trillion that was passed on 12 Jun.

EUROZONE

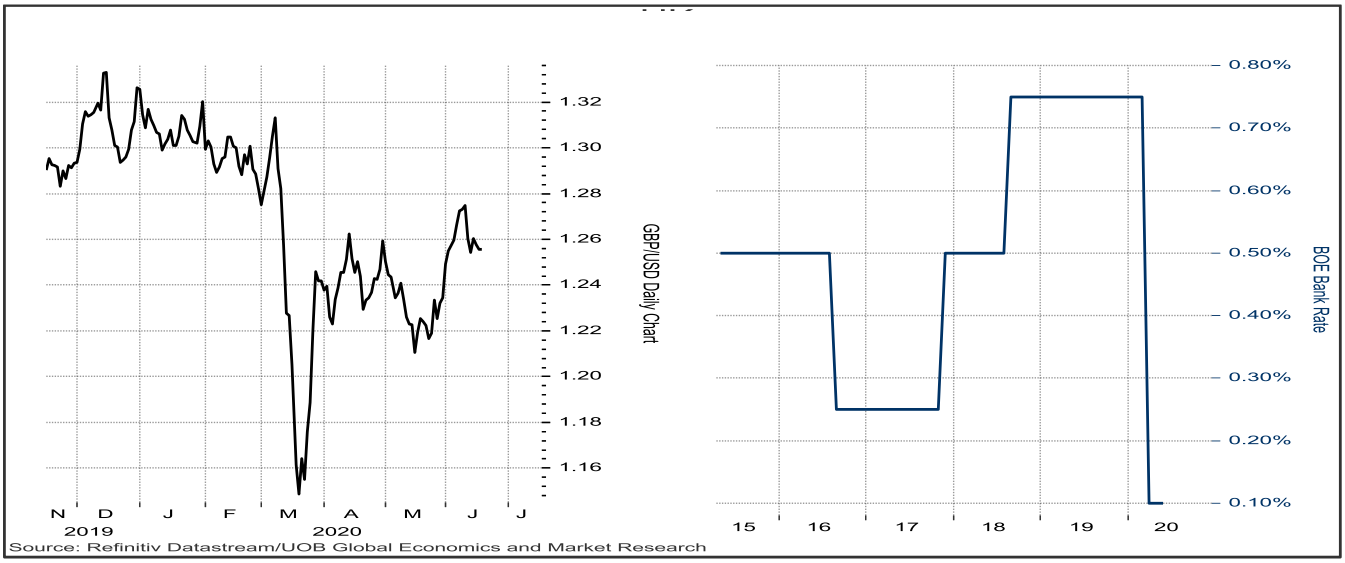


Source: Refinitiv Datastream/UOB Global Economics and Market Research

At its June meeting, the ECB decided to add a further EUR600bn to its EUR750bn COVID-19 rescue plan, bringing the total stimulus package to an astonishing EUR1.35tn. This was more than expectations for a EUR500bn increase to the ECB's so-called Pandemic Emergency Purchase Programme (PEPP). The ECB noted that purchases will be conducted through to "at least June 2021" compared to previous guidance they would be conducted "until the end of 2020" or until the Governing Council "judges that the coronavirus phase is over" with the latter guidance being retained. Meanwhile, the Asset Purchase Programme (APP) purchases and reinvestments, as well as low interest rates and forward guidance remain unchanged.

We think the ECB has once again made an aggressive move. Whilst we are not excluding the possibility of further monetary stimulus down the road, the latest measures announced by the ECB should dent any talks or concerns (for now) about whether or not the ECB is willing to play its role of lender of last resort for the Eurozone. Overall, our EUR/USD point forecasts are updated at 1.13 in 3Q20 and 4Q20, 1.14in 1Q21 and 1.15 in 2Q21.

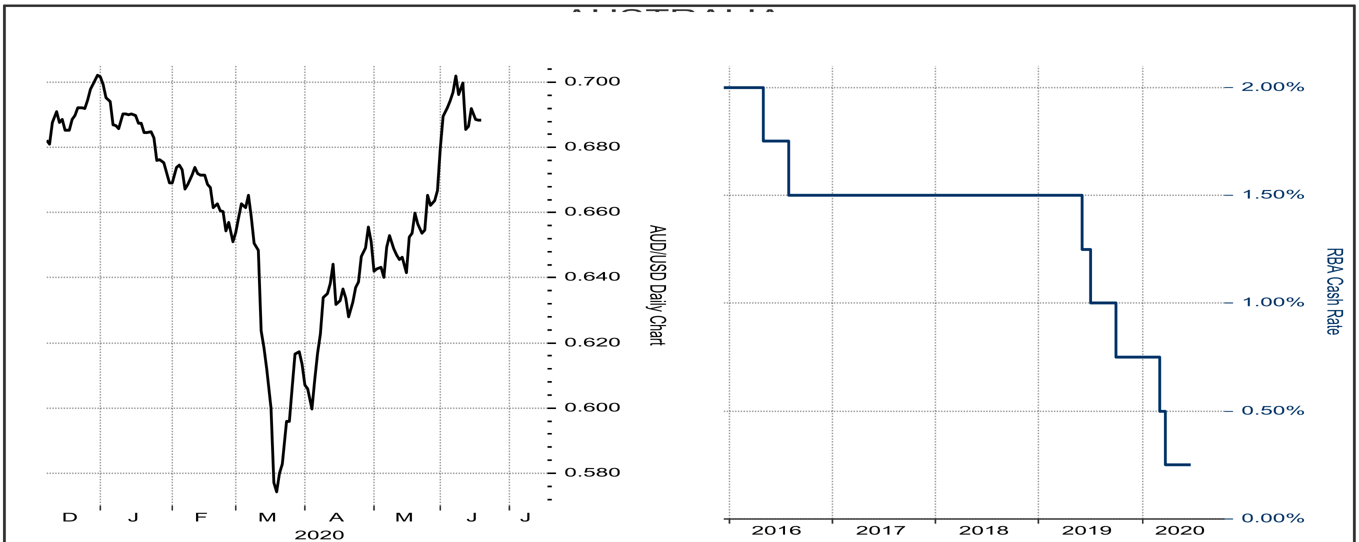
UNITED KINGDOM



Source: Refinitiv Datastream/UOB Global Economics and Market Research

The BOE announced, at its June meeting, a boost to its QE programme by GBP100bn. The additional bond purchases will take the total value of the Asset Purchase Facility (APF) to GBP745bn. Led by Gov. Bailey, the MPC voted 8-1 in favour of the move, with Chief Economist Haldane dissenting, favoring no change. Meanwhile, all nine MPC members agreed to keep its key benchmark interest rate at the historic low of 0.10%. Despite increasing speculation that the BOE might cut interest rates to below zero for the first time, there was nothing in the accompanying minutes that gave any clues about the MPC's latest thinking. Whilst tempting, it remains unclear as to how negative rates would aid the recovery, given the negative impact on bank profitability. The decision to introduce negative interest rates will not be taken lightly, although we do not rule out this option should the economic outlook deteriorate further. We think the latest move by the BOE is unlikely to mark the end of its efforts to counter the economic slump, and we forecast a further extension of GBP100bn by the November meeting. Overall we see limited upside in GBP/USD, likely to stay flat at 1.25 in 2H20 before a modest recovery to 1.27 in 1H21.

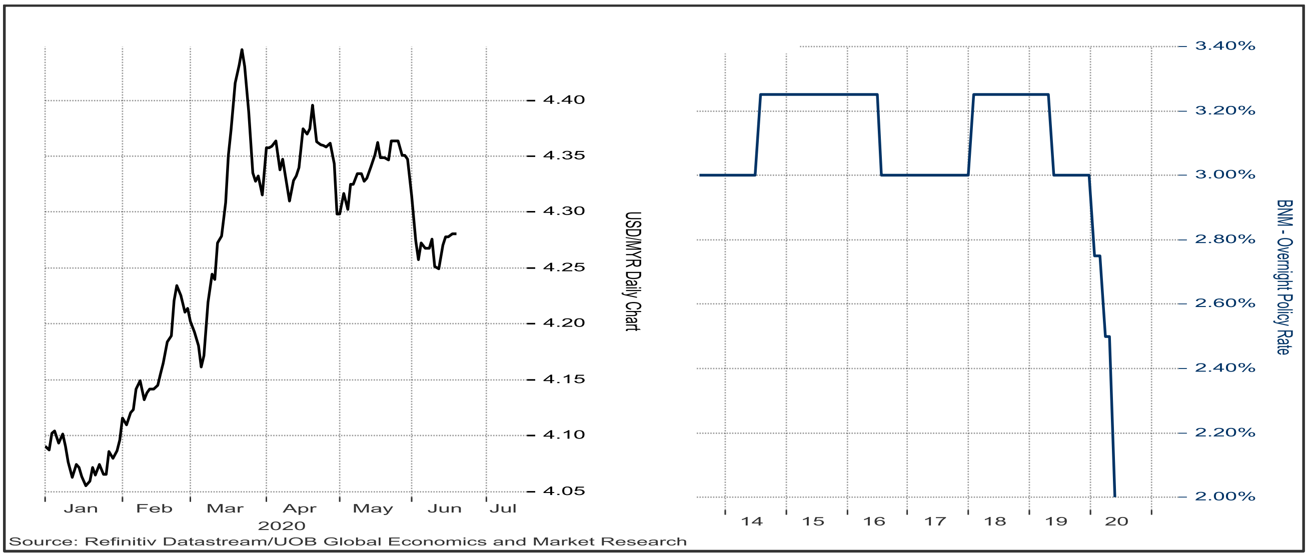
AUSTRALIA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

The RBA decided to maintain its current policy settings during the June meeting, including the cash rate target at 0.25%and the three-year Australian Government securities (AGS) yield target of 0.25%. Bond purchases have wound back as yields continue to track at target. The accompanying statement concluded that "this accommodative approach will be maintained as long as it is required. The Board will not increase the cash rate target until progress is being made towards full employment and it is confident that inflation will be sustainably within the 2–3 per cent target band". At our end, we do not see this occurring in the next two years with the unemployment rate continuing to remain above 6% until 2022. We see inflation remaining soft at around 1.2% in 2021 before pressure begins to build and rises to around 1.6%by 2022. This will see inflation continue to undershoot the RBA's target of 2%-3%. As such, we do not see further reductions in the cash rate, with negative rates ruled out by RBA Governor Phillip Lowe (for now). However, it is likely the RBA will keep the cash rate on hold at 0.25% for an extended period. The focus will thus remain firmly on end-user rates via the yield curve target, as well as ensuring sufficient liquidity in bond markets and the free flow of credit to households and business. Our updated AUD/USD point forecasts are 0.69 in 3Q20 and 4Q20, 0.71 in 1Q21 and 2Q21. Key risk is further deterioration in US-China relations which may trigger a bout of risk aversion.

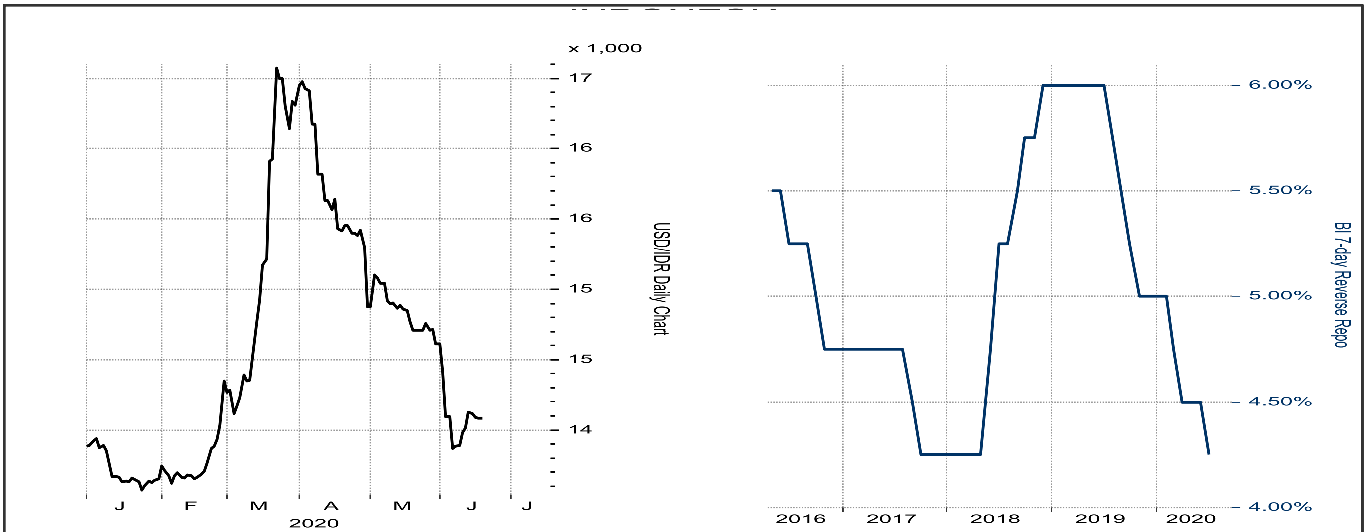
MALAYSIA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

Bank Negara Malaysia (BNM) cut the Overnight Policy Rate (OPR) by another 50bps to 2.00% in May, bringing cumulative rate cuts to 100bps between Jan-May. BNM also allowed all banks to use Malaysian Government Securities (MGS) and Malaysian Government Investment Issue (MGII) to fully meet the SRR compliance effective 16 May 2020 until 31 May 2021. This measure will release about MYR16bn worth of liquidity into the banking system. The SRR reduction by 100bps gives flexibility for banks to use MGS and MGII to fully meet the SRR compliance, reverse repo operations, and outright purchase of Government securities from banks have released MYR 58bn to FI's since March. Despite ample room for BNM to cut OPR further, we expect policy rates tos tay unchanged at 2.00% based on projections for a modest recovery in2H20. The odds for further rate cuts will increase if the recession becomes more protracted, potential flare up of infections that warrants a reinstatement of restrictions, and if there is a weak resumption of economic activity. While the MYR has rallied modestly from 4.35 /USD at early June to about 4.27 /USD currently in line with the pick-up in global risk appetite, further gains from here may take on a more measured pace. Our updated point forecasts for USD/MYR are 4.28 in 3Q20, 4.25 in 4Q20, 4.19 in 1Q21 and 4.15 in2Q21.

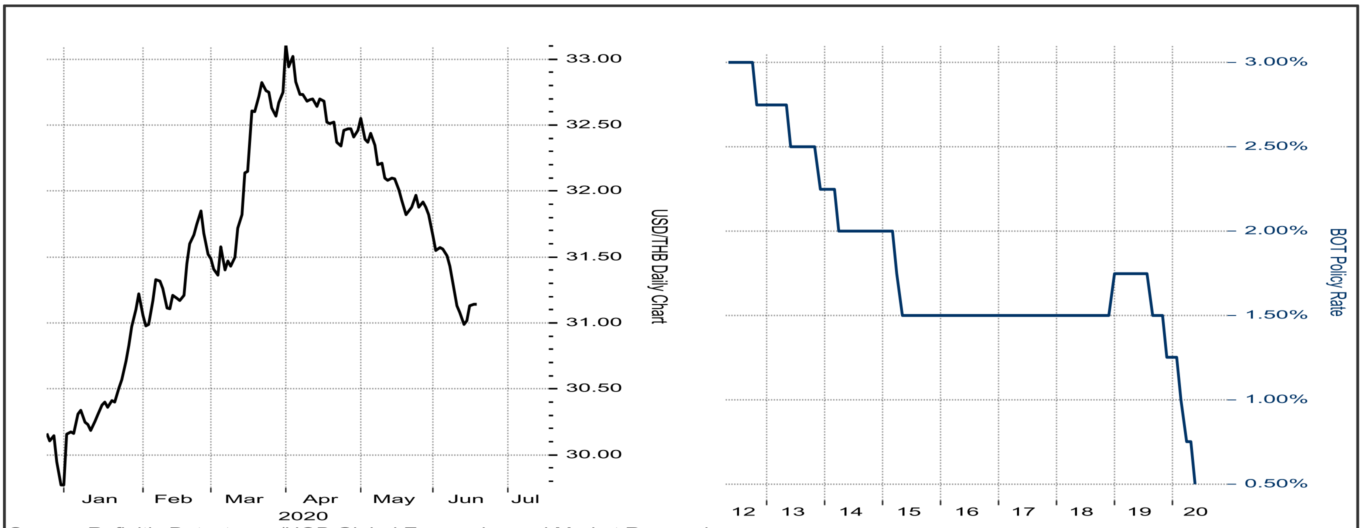
INDONESIA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

Bank Indonesia (BI) decided to cut its benchmark interest rate by 25 basis points (bps) in the June 2020 monetary policy meeting (MPC) to 4.25%. The move is aimed to support the slowing economy amidst negative ramifications from the COVID-19 pandemic that will derail the growth momentum. With the latest cut, the central bank has trimmed the benchmark rate three times this year by a total of 75 bps in response. to the pandemic, bringing the 7 Day Reverse Repo rate back to its lowest point before the 175bps hike in 2018.We continue to keep our forecast of a further 25bps rate cut in Q3 but will now look at a lower level of 4.00% by end 2020. The risk to our forecast remains on the downside, i.e. more than just one 25bps rate cut, given the lingering uncertainty. In addition, the other policy of anchoring stability of the Rupiah exchange rate and easing liquidity ("quantitative easing") will continue, aiding the economic recovery. Overall, the IDR is looking excessively overbought in the near term and is starting to diverge from gloomy fundamentals on the ground. As such, IDR is likely to consolidate gains at 14,300 in 3Q20 and 14,500 in 4Q20 before recovering to14,300 in 1Q21 and 13,900 in 2Q21.

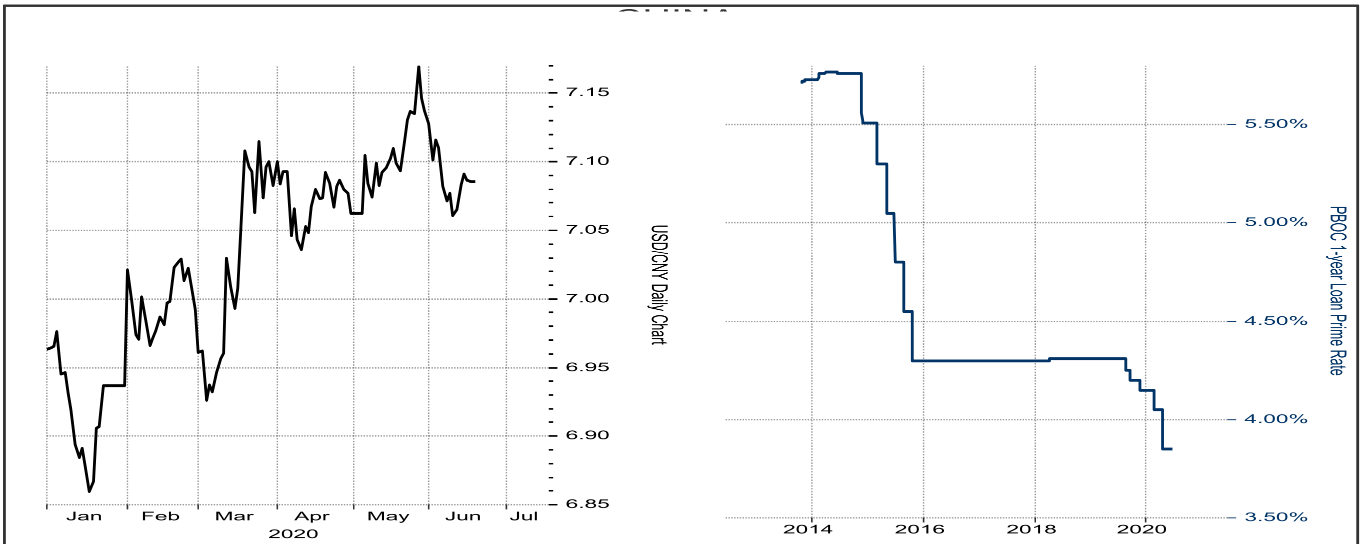
THAILAND



Source: Refinitiv Datastream/UOB Global Economics and Market Research

Although monetary policy space remains extremely limited at this juncture, we still expect another 25bps rate in 3Q20. This will then bring its one-day repurchase rate to an unprecedented low of 0.25% (from a current 0.50%). We would however sound a message of caution. Even as inflation risks remain immaterial at this point, we believe policy-makers will recognise that low rates may lead to (1) an underpricing of risks by market players, (2) debt accumulation and burden of both households and businesses and (3) an unnecessary climb of leverage by large corporates. While the THB may continue to benefit from the broad USD decline, its pace of gains will probably moderate, especially when the BOT has already flagged in early June it will consider measures to curb the THB's strength. Overall, our updated USD/THB forecasts are 30.70 in 3Q20, 30.50 in 4Q20, 30.30 in 1Q21 and 2Q21.

CHINA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

Other than the conventional interest rate and banks' reserve requirement ratio (RRR) cuts to boost the economy, the central bank will also be looking into more innovative monetary policy tools to do so given the interest rate and RRR are already at low levels. The People's Bank of China (PBoC) has started a new program to temporarily purchase uncollateralized loans to small & medium enterprises (SMEs). This will reduce banks' capital requirements and allow them to lend more to this segment.

Going forth, with the easing inflation, we still expect another 30 bps cut to the 1Y LPR to 3.55% (current 3.85%) by end-4Q20. This follows the 30 bps cut in the rate YTD. We also see room for another one to two rounds of RRR cut this year to reduce funding costs and increase the capacity for banks to expand credit. The RRR has been lowered 10 times since 2018 with the latest cut effective on 15 May. The RRR for small financial institutions is down to 6.0%, matching the record low in 2003 while RRR for the large financial institutions is higher at 11.0%, about 3.5% points from the previous low in 2006. With the Chinese economy expected to register a more broad-based recovery in the 2H and assuming the US-China relations do not deteriorate beyond the current war of words, our previous view of a recovery in CNY in 2H remains intact. Our USD/CNY forecasts are updated to 7.12 in 3Q20, 7.09 in 4Q20, 7.05 in 1Q21 and 7.00 in 2Q21.

FX, INTEREST RATE & COMMODITIES FORECASTS

FX	18 Jun 20	3Q20F	4Q20F	1Q21F	2Q21F
USD/JPY	107	109	108	106	106
EUR/USD	1.12	1.13	1.13	1.14	1.15
GBP/USD	1.24	1.25	1.25	1.27	1.27
AUD/USD	0.69	0.69	0.69	0.71	0.71
NZD/USD	0.64	0.65	0.65	0.67	0.67
DXY	97.4	97.3	97.0	95.9	95.3
USD/CNY	7.09	7.12	7.09	7.05	7.00
USD/HKD	7.75	7.76	7.78	7.80	7.80
USD/TWD	29.61	29.60	29.50	29.30	29.30
USD/KRW	1,208	1,230	1,210	1,190	1,190
USD/PHP	50.17	50.50	50.30	50.00	49.50
USD/MYR	4.28	4.28	4.25	4.19	4.15
USD/IDR	14,078	14,300	14,500	14,300	13,900
USD/THB	31.10	30.70	30.50	30.30	30.30
USD/MMK	1,394	1,400	1,390	1,380	1,380
USD/VND	23,202	23,000	22,800	22,600	22,600
USD/INR	76.15	76.00	76.50	77.00	77.50
USD/SGD	1.39	1.39	1.38	1.36	1.36
EUR/SGD	1.56	1.57	1.56	1.55	1.56
GBP/SGD	1.73	1.74	1.73	1.73	1.73
AUD/SGD	0.96	0.96	0.95	0.97	0.97
SGD/MYR	3.07	3.08	3.08	3.08	3.05
SGD/CNY	5.09	5.12	5.14	5.18	5.15
JPY/SGDx100	1.30	1.28	1.28	1.28	1.28

RATES	18 Jun 20	3Q20F	4Q20F	1Q21F	2Q21F
US Fed Funds Rate	0.25	0.25	0.25	0.25	0.25
USD 3M LIBOR	0.31	0.35	0.35	0.35	0.35
US 10Y Treasuries Yield	0.71	0.80	1.05	1.30	1.30
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	0.25	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	3.85	3.60	3.55	3.55	3.55
HKD Base Rate	0.50	0.50	0.50	0.50	0.50
TWD Official Discount Rate	1.13	1.00	1.00	1.00	1.00
KRW Base Rate	0.50	0.50	0.50	0.50	0.50
PHP O/N Reverse Repo	2.75	2.75	2.75	2.75	2.75
SGD 3M SIBOR	0.54	0.47	0.45	0.45	0.45
SGD 3M SOR	0.18	0.30	0.30	0.30	0.30
SGD 10Y SGS	0.87	0.90	1.15	1.40	1.40
MYR O/N Policy Rate	2.00	2.00	2.00	2.00	2.00
IDR 7D Reverse Repo	4.25	4.00	4.00	4.00	4.00
THB 1D Repo	0.50	0.25	0.25	0.25	0.50
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate	4.00	3.50	3.50	3.50	3.50
MMK Central Bank Rate	7.00	7.00	7.00	7.00	7.00

COMMODITIES	18 Jun 20	3Q20F	4Q20F	1Q21F	2Q21F
Gold (USD/oz)	1,723	1,700	1,750	1,800	1,850
Brent Crude Oil (USD/bbl)	42	40	40	40	40
LME Copper (USD/mt)	5,805	5,500	5,500	5,500	5,500

THE TEAM

Global Economics & Markets Research
Asset Management
Private Bank

All chart data from Bloomberg unless otherwise specified.

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