UOB HOUSE VIEW

3Q2021

GLOBAL MACRO

As COVID-19 wears on, there is an increasing divergence in growth and recovery prospects, increasing divergence in monetary policies and increasing divergence between rising inflation and the nonchalant yield curve. The most obvious divergence is the vaccination rates between developed nations vs rest of the world. While this is clearly a setback for recovery for Asia, our view remains that this is a temporary hiccup in Asia's growth recovery path.

ASSET ALLOCATION

We see several attractive investment themes for 3Q2021. We recommend being moderately overweight risk assets such as equities and credit around the world. We expect Asia equities to outperform in 2021 and 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. Finally, we are overweight for the outlook of broad commodities, and alternatives and are underweight cash.

EQUITIES

For 3Q 2021, we have tactically downgraded Equities to "Moderately Overweight", from "Overweight" previously, to signal our concern of current market valuations, but more importantly, we also want to highlight the importance of staying invested in risk assets in the current reflationary environment where we could still experience a much faster run in asset inflation than consumer price inflation.

FIXED INCOME

While we are neutral on the fixed income asset class, rising yields have made fixed income more attractive. We are overweight high yield credit, EM credit and Asia investment-grade credits. 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.

COMMODITIES

While most of the existing positive factors remain for gold, the FED's latest hawkish tilt has caused near term price weakness at around USD 1,800 / oz and will cap any strength above USD 1,900 / oz. For LME Copper, some near term consolidation around USD 10,000 / MT is needed, before further demand for infrastructure and EV lift prices to USD 11,000 / MT by 2Q22. As for Brent crude oil, further resumption of global energy demand and drawdown of inventory will lift prices towards USD 80 / bbl. This is contingent on OPEC+ maintaining its production discipline.

FX & INTEREST RATES

The latest hawkish shift by the FED means that the current bout of USD weakness since mid- 2020 may be drawing to a close. We now expect the USD to consolidate and bottom against most Major and Asian FX in 2H21 before beginning a gradual recovery in 1H22 lifting DXY towards 93. In particular, our updated 2Q22 forecasts for USD/CNY and USD/SGD are 6.48 and 1.36 respectively. However, we stay defensive on the THB, IDR and INR. No change in our year end 10Y US Treasuries yield target of 2.0%.

UOB

GLOBAL MACRO

What Diverges Will Eventually Converge
"*"There is always a divergence between our perception and what actually exists."* **George Soros**.

It's been more than a year since COVID-19 first broke out. Depending on which part of the world you are at, your perception of the global fight against COVID-19 can be vastly different. Some US cities have already declared victory against COVID-19 and no longer makes it mandatory for those who are fully vaccinated to wear masks. Whereas for many in Asia, wearing of masks is still very much a daily part of life whenever we step out of our homes. As COVID-19 wears on, there is an increasing divergence in growth and recovery prospects, increasing divergence in monetary policies and increasing divergence between rising inflation and the nonchalant yield curve. The most obvious divergence is the vaccination rates between developed nations vs rest of the world.

After a very shaky start, the US and Europe have now led by a wide margin in terms of their efforts to get their populace vaccinated. As of 10 Jun 21, more than 42% of the populations in the US and UK, and 23% of the European Union are fully vaccinated. In contrast, Asia (excluding China and its OECD members) is falling far behind in vaccination efforts with only 2.5% of population fully vaccinated. While China does not publish official data on fully vaccinated persons, its National Health Commission reported the number of administered vaccines is at about 845 million doses (as of 10 Jun) of which we estimated that China would have a vaccination rate between 30% and 37%, much higher than the sub 5% vaccination rate for India and Indonesia.

The key consequence of this divergence in vaccination rate is the resultant divergence in recovery prospects. In its latest Economic Outlook report dated May 2021, the OECD noted that this is "No Ordinary Recovery". While the OECD did upgrade global GDP growth this year significantly to 5.8% from its previous forecast of 4.2% made in Dec 2020, it also warned that the recovery remains uneven and vulnerable to fresh setbacks, depending on the effectiveness of vaccination programs and public health policies. Specifically, the OECD noted "South Korea and the United States are reaching pre-pandemic per capita income levels after about 18 months. Much of Europe is expected to take nearly 3 years to recover. In Mexico and South Africa, it could take between 3 and 5 years." While it is easy to make generalizations, the recovery path is wrought with much uncertainty given the unpredictable nature of the pandemic, with the latest outbreak across Asia triggered by the highly transmissible delta strain originating from India.

Our macroeconomic team has also noticed this divergence in economic recovery prospects. Amidst the renewed COVID-19 outbreak across Asia, the GDP growth expectations for this year for the various economies that were more impacted by the outbreak have all been downgraded in recent months. Specifically, India's GDP growth was downgraded to 8.5% from 10.5%, Thailand's GDP was downgraded to 1.5% from 3.5%, Indonesia's GDP growth downgraded to 3.8% from 4.0% and Philippines downgraded to 5.5% from 7.0%. While this is clearly a setback for recovery for Asia, our view remains that this is a temporary hiccup in Asia's growth recovery path. China's stable growth revival coupled with robust export rebounds across the region will help the rest of Asia to play catch up once this latest round of outbreak is brought under control. Growth across Asia should recover and converge once again towards the end of the year.

Beyond the diverging growth prospects, there is also divergence between the monetary policies of the US Federal Reserve (FED) vs the rest of the Developed Market (DM) central banks. On one hand, a number of DM central banks have started to embark on the path of tightening monetary policy. Specifically, the Central Bank of Iceland has hiked by 25 bps, the Norges Bank has guided for a rate hike before end of this year, while both the Bank of Canada (BoC) and Reserve Bank of New Zealand (RBNZ) have guided for rate hikes in 2022. Whereas on the other hand, the FED has until most recently insisted that inflation is transitory. Now that the dot plot in the latest June FOMC has brought forward the timeline for the start of the FED rate hike into 2023, this divergence between monetary policies between the FED and other DM central banks have started to converge. We now see a possible start to tapering at the end of this year, followed by the start of FED rate hike in June 2023.

Moving on to the topic of "Inflation is transitory", there is also a clear divergence between rising headline CPI and PPI figures across key economies vs the recent pullback in long term bond yields. Specifically, against our expectation of further climb in the 10 year US Treasuries yield, the benchmark yield has instead pulled back from its peak of 1.75% in early April and retreated to current level of around 1.5%. This retreat in long term bond yield is in stark contrast and has diverged noticeably from the sharp rise in various inflation indicators for the US, with headline CPI jumping to 5% and headline PPI spiking to 9.5%, both for the month of May.

Is inflation indeed transitory? Or have investors got it wrong about US Treasuries? While the recent spike in inflation across 2Q can be explained away in part due to the very low base effect from last year as well as various commodities supply and materials supply chain disruption, it remains to be seen whether inflation will indeed pull back across 2H.

As for the pullback in long term Treasuries yield, there is evidence to suggest that it is in a large part due to flow related dynamics. In short, US money market is flushed with cash. The repo market cash glut whereby the FED's daily overnight reverse repo operations now exceeded a record USD 500 bn, has extended to infect the longer end of the Treasuries market as well. Despite uncertain inflation risks, the 10 year US Treasuries does look very attractive at around 1.50%, compared to overnight repo that generates no yield at all. On this divergence, our view remains that longer term yield will eventually resume their climb back up once the flow related dynamics dissipate.

In the commodities space, gold tried to play catch up in 2Q, to narrow the divergence between the on-going strong rally in Brent crude oil above USD 70 / bbl and LME Copper to USD 10,000 / MT. Will this divergence between gold and the broader commodities complex narrow in the coming quarter to result in a more synchronized commodities rally? In the FX space, there is also clear divergence amongst Asian currencies. Specifically, the prospects for the IDR, INR and THB are likely to diverge further from the rest of the Asia FX complex which trade more in sync with the CNY.

What will the 3rd quarter of 2021 bring? Will there be further uncertainty and divergence in terms of economic prospects and monetary policies? Or will expectations normalize and converge once more nations are fully vaccinated against COVID-19 and resume a more confident and sustained recovery path?

ASSET ALLOCATION

Our base case view for 2021 continues to be that we see a year of strong growth that will be supportive of growth assets and less supportive for low risk assets. As of the middle of 2021, growth continues to remain on track and, month by month continues to beat expectations. 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. Through the first half of the year, markets have digested the balance of strong growth but rising inflation and bond yields. This has led to strong market performance in growth assets like equities and modest but positive performance in assets like fixed income.

Markets are looking past the pandemic. The global pandemic remains one of the most important issues to global growth, but markets appear to be looking past setbacks such as new variants and the outbreak in India. Markets appear confident that vaccines will lead to some sort of a normalization over the next year. The progress in the west has been substantial with most parts of North America and Europe approaching herd immunity levels. In Asia, the pace of vaccine rollouts has been much slower and the supply of vaccine has been frustratingly limited. However, the House View team has studied the production projections of the combined vaccine makers and it is our view that markets are likely to be positively surprised on the production levels of vaccines in the second half of 2021. Specifically, in the first half of 2021 there were about 2bn doses of vaccines produced, but in the second half of 2021 there are production targets for another 10bn doses of vaccines. The vaccine producers seem confident of their production targets and if so, we think large parts of Asia are likely to get vaccinated and start to feel more normal by the end of 2021.

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. The Bloomberg consensus of economists projected US GDP growth to be 3.8% in December, but the figure has risen to 6.0% by the end of May. Global corporate earnings forecasts have been steadily rising and global earnings forecasts are expected to grow at levels of 30% or more in the major regions. The level of GDP growth and earnings growth in 2021 are among the highest levels seen in the past 20 years and provides a solid investing backdrop for growth assets like equities and commodities.

Bond yields are rising but short-term rates are anchored in the near term. While we have raised our bond yield forecasts for 2021, we continue to think that ultimately policy rates are going to remain low until 2023. Thus, while there will be some modest upward pressure on bond yields, we continue to think that income assets (fixed income credit and dividend yields) will perform well over the next couple of years.

Inflation has become a top risk. In prior periods the main risk appeared to be on the state of the health measures to deal with the global pandemic. As the pandemic appears increasingly likely to be controlled by the end of the year, the focus on risks has shifted to whether growth will be too strong so as to trigger high levels of inflation. Core inflation in the US shot up to 3.8% in May, reaching the highest level seen in over a decade. Currently most economists believe it is driven by transitory factors but over the coming months we will see if this translates into more lasting inflation which would undermine central bank expectations of keeping interest rates low.

We see several attractive investment themes for 3Q2021. Firstly, we would recommend being moderately overweight risk assets such as equities and credit around the world. Within equities we expect Asia to outperform in 2021 both in terms of economic growth and in market performance. Secondly, 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. Finally, we are overweight for the outlook of broad commodities, and alternatives and are underweight cash.

Global Asset Allocation For 3Q 2021

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

EQUITIES

Global fiscal stimulus and monetary reflation have pushed most risk assets higher over the past year. Unprecedented government stimulus cut short the recession and pulled forward growth. This should trigger a mini boom in the global economy in the remaining 2021, spilling over to the start of 2022 amid the continued vaccine roll-out. At the same time, central banks have been resolutely anchoring yields for most fixed-income instruments.

Conceptually, a key part of the reflationary strategy has been to bring forward financial asset returns at the expense of future returns. In other words, this effectively encourages the investment cycle to dramatically front-run the economic cycle. It is common for risk asset prices to run ahead of fundamentals once policymakers are committed to drive a rebound in economic activity. What is different this time is the magnitude by which the investment cycle has run ahead. Excess liquidity created an environment ripe for overvaluation and speculative activity in a wide range of listed and unlisted securities.

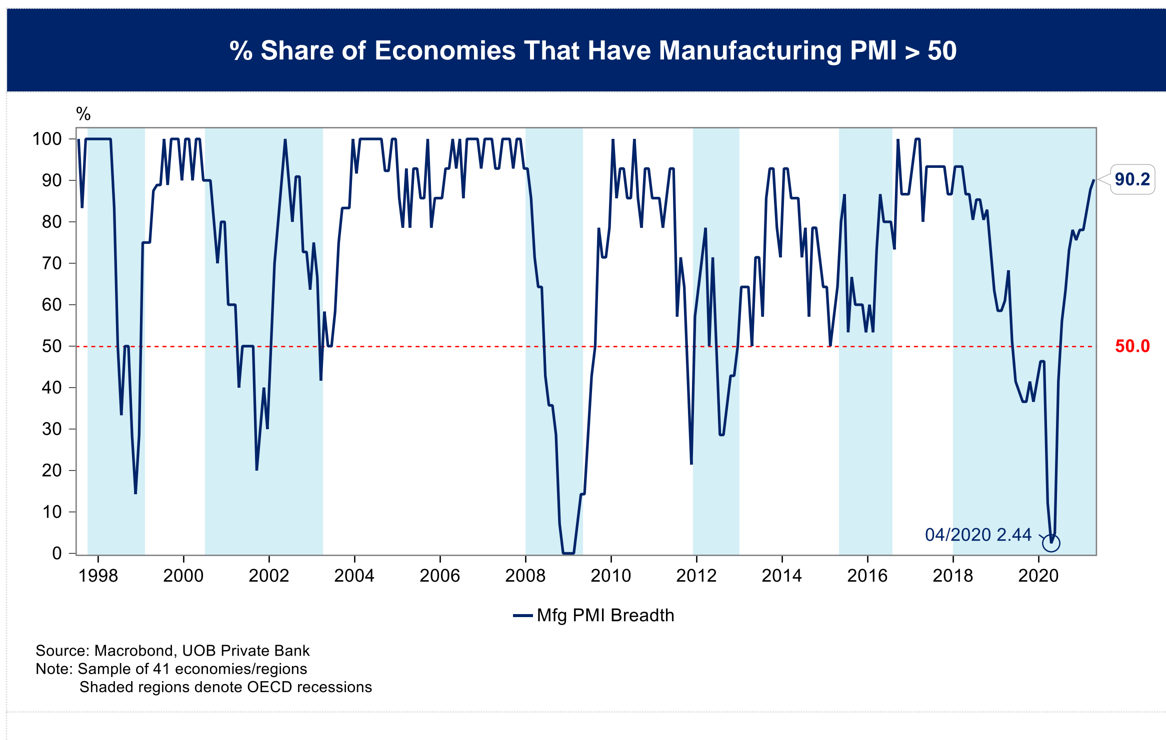
The Purchasing Managers' Index (PMI) is a popular indicator that provides a good indication of future economic activities. For now, 90.2% of a selection of 41 global economies reported an expansionary PMI of above 50. While it marks a potential strong economic recovery in the next 6 months, the investment implication is different. Investors enjoyed superior performance if they bought stocks when growth was weak (i.e. ISM below 50), as those who were willing to take risk by betting that growth would subsequently improve have been rewarded. However, the ISM's current elevated level suggests that equity markets may not experience the similar large gains recorded during the past one year.

For example, the US ISM manufacturing PMI is currently at the +1 standard deviation mark. History suggests that over the next 12 months, US equities would return a small gain of 1.3%, compared to an average of 15.4% if the PMI rises from below 50.

At the current valuation, investors should remain prudent and take some profits off the table. A "buying the market" strategy from here onwards will not work as well as when investors entered the market when PMI breadth was 2.4% on April 2020. For here onwards, "alphas" will be taking over. As such, stock selection and active asset management will be the key strategy in protecting investment portfolios. We advise increasing some cash allocation to maintain the "dry powder" to deploy when a correction comes.

For 3Q 2021, we have thus tactically downgraded Equities to "Moderately Overweight", from "Overweight" previously, to signal our concern of current market valuations, but more importantly, we also want to highlight the importance of staying invested in risk assets in the current reflationary environment where we could still experience a much faster run in asset inflation than consumer price inflation.

In the early part of a new business cycle, 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).



Source: Macrobond, UOB Private Bank
Note: Sample of 41 economies/regions
Shaded regions denote OECD recessions

COMMODITIES

Stay Bullish On Commodities As Current Rally Still Has Legs

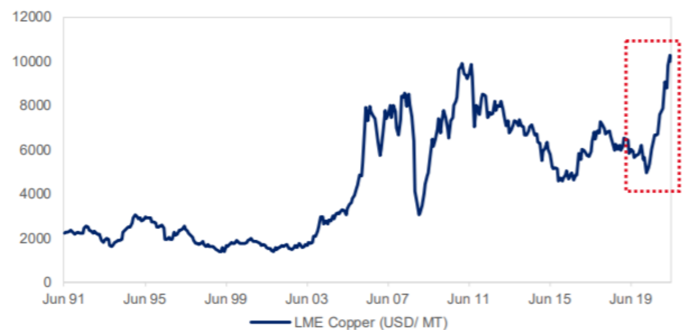
It was an eventful second quarter for the commodities complex in which both LME Copper and Brent crude oil staged strong price rallies while gold suffered a late selloff after a hawkish FOMC. The confluence of strong growth recovery following the post-COVID economic reopening coupled with the still very relaxed and expansionary monetary policies across the world helped to fuel the synchronized rally in commodities across the board. Will gold's nascent recovery be stopped now that the FED has brought forward its rate hiking timeline? Will LME Copper resume its climb above USD 10,000 / MT on a sustained basis? Will global energy demand be strong enough to push Brent crude oil towards USD 80 / bbl?

Gold: Hawkish FED Tilt Caps Gold Under USD 1,900 / oz
Most of the positive drivers cited previously for gold remain valid. These included strong rebound in China's gold jewelry demand, slowdown in outflows from gold ETFs and relative weakness in bitcoin resulting in the pullback of the bitcoin vs gold ratio. In addition, gold has benefited most recently from the renewed pullback in US real yield. However, the latest hawkish tilt at the June FOMC stopped gold's near-term rally in its tracks. Overall, while we stay positive gold, any potential upside strength is now limited and curtailed by the hawkish tilt from the FED. As such, we lower our updated forecast to USD 1,800 / oz in 3Q21, USD 1,850 / oz in 4Q21 and USD 1,900 / oz in 1Q22 and 2Q22.

LME Copper: At The Historic $10,000 Crossroad
Over the near term, increasing resumption of mining supply and moderation of strong rebound in industrial activity in China may well curtail further strength in LME Copper. However, refined copper demand has stayed strong. This is especially so for refined copper demand for China which has snapped back after the seasonal lull in 1Q. There is also some excitement that the projected surplus for copper supply may well not materialize because of the strong demand from infrastructure construction as well as electronic vehicles (EV). Overall, we see LME Copper consolidating around the USD 10,000 / MT level in 3Q21 before resuming its climb to USD 10,500 / MT in 4Q21 and USD 11,000 / MT in 1Q22 and 2Q22.

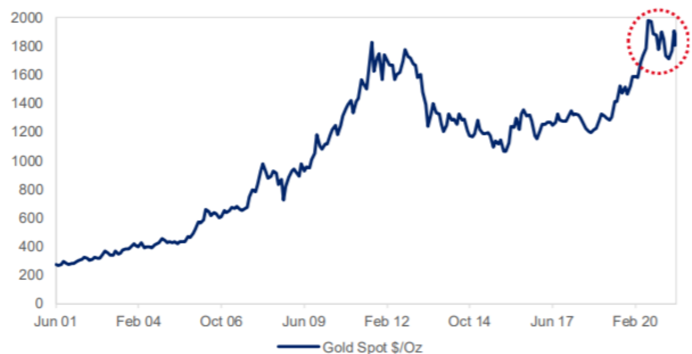
Brent: OPEC's on-going production discipline helps reinforce price rally
The latest demand projections from OPEC were decidedly bullish. OPEC now forecast a jump in global oil demand to "surpass" 99 mio bpd by 4Q this year, which OPEC notes will "put us back in the range of pre-pandemic levels". In terms of inventories, OECD crude oil stock is now just a "marginal" 30 mio bbl above the 2015 to 2019 average level. OPEC notes that this OECD inventory is likely to fall below the 5-year average in second half of this year. In terms of market parameters, Brent crude oil has reverted to a comfortable backwardation over the past quarter, indicative of the resumption of global demand. Therefore, we raise our Brent crude oil forecast further to USD 73 / bbl in 3Q21, USD 76 / bbl in 4Q21 and USD 80 / bbl in 1Q22 and 2Q22.

Copper: LME Copper Now Trades At Multi-Decade High Around USD 10,000/MT



Source: Bloomberg, UOB Global Economics & Markets Research

Gold: June FOMC's Hawkish Tilt Likely To Cap Gold Under USD 1,900 / oz



Source: Bloomberg, UOB Global Economics & Markets Research

Brent Crude Oil: Recovery In Energy Demand To Push Brent To USD 80 / bbl

Source: Bloomberg, UOB Global Economics & Markets Research

FIXED INCOME

Returns on most global fixed income markets turned positive again in the second quarter of 2021, after being modestly negative in the first quarter. Bond yields rose sharply at the start of the year, but any upward movements have been more modest in recent months. Going forward we expect fixed income markets to benefit from the higher yields established at the start of the year and to face only a modestly increasing yield trend that will allow fixed income markets to continue to generate positive returns in the second half of the year.

The UOB house view is for short term rates to be anchored but by 2023 we would expect the US FED to start raising the FED Funds rate. We expect the FED to start tapering its level of bond purchases by the end of Dec 2021 and the long-term bond yields to rise to 2% by the end of 2021.

While we are neutral on the fixed income asset class, rising yields have made fixed income more attractive. The strong global recovery and high levels of GDP growth is creating enough inflation that markets are starting to price in higher long-term bond yields even if the US FED keeps interest rates low. The rise in core inflation to 3.8% in May was viewed by most economists to be transitory, but if there are signs of rising labor wages then markets may become more concerned about inflation and put further upward pressure on bond yields. At this juncture, we are underweight duration risk and overweight credit risk (i.e. high yield credit, EM credit, Asia investment-grade).

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.

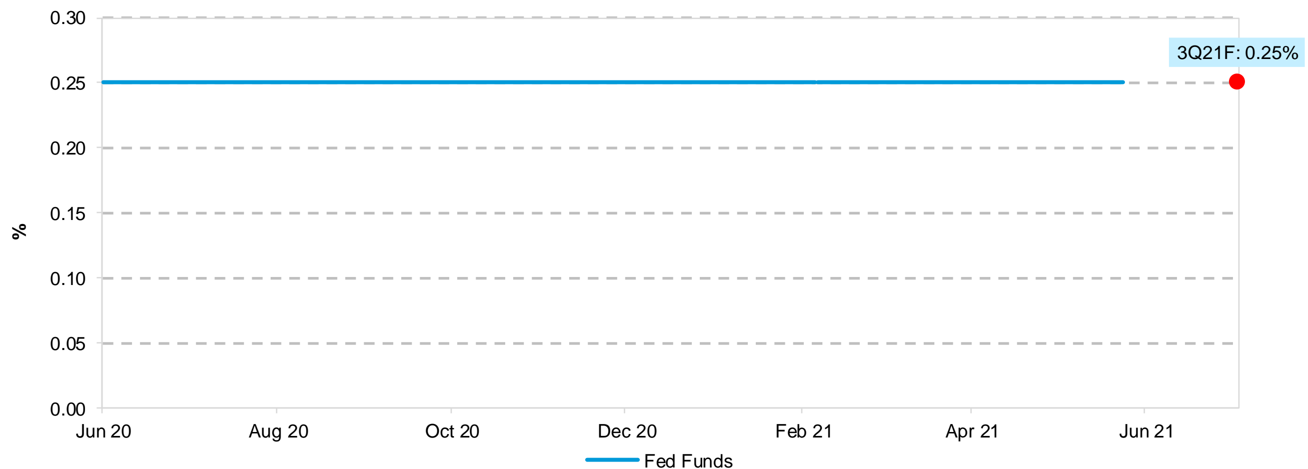
Finally, we like Asia investment-grade credit too. Asian investment grade has relatively higher buffers against deteriorations in corporate fundamentals and enjoy a stable leverage profile. Within the investment-grade space, we continue to find relatively higher yields in Asia compared to most other regions.

Income strategies are likely to offer solid risk return profiles over the coming year. So far in 2021 the investment focus has been on the sharp rebound in equities and commodities. Over the coming year we would expect growth to start to moderate from the strong rebound period after the crisis. Additionally, valuations of assets such as equities has risen sharply over the past year. If growth starts to moderate, and equity returns start to slow after the sharp rise in valuations we think investors will return toward income themes which try to balance the steady income of credit and dividend income and achieve solid returns but with less volatility than pure equities. We think this theme has been less in focus in the past year but will return to being a good alternative for investors by the end of 2021.

FX & INTEREST RATES

UNITED STATES

FED Funds Rate



In the June FOMC, the Federal Reserve's (FED) acknowledgement of the beginning of the "talk about the talk" about Quantitative Easing (QE) tapering during FOMC Chair Powell's post-meeting press conference, as well as the updated economic and interest rate projections, could now set in motion for taper discussion which will lead to the fleshing out of the tapering process of its asset purchase program.

We project the first indicative hint could be released during the Jackson Hole Symposium (26 Aug) and further articulated into a pledge of the taper timeline in the 21/22 September 2021 FOMC. We now expect the first taper to be carried out in December 2021 and the tapering process will last for nearly 1.5 years until May 2023. Thereafter, we project two 25bps rate hikes in 2023, first to 0.25%-0.50% in June and then to 0.50%-0.75% in December.

3M US Libors

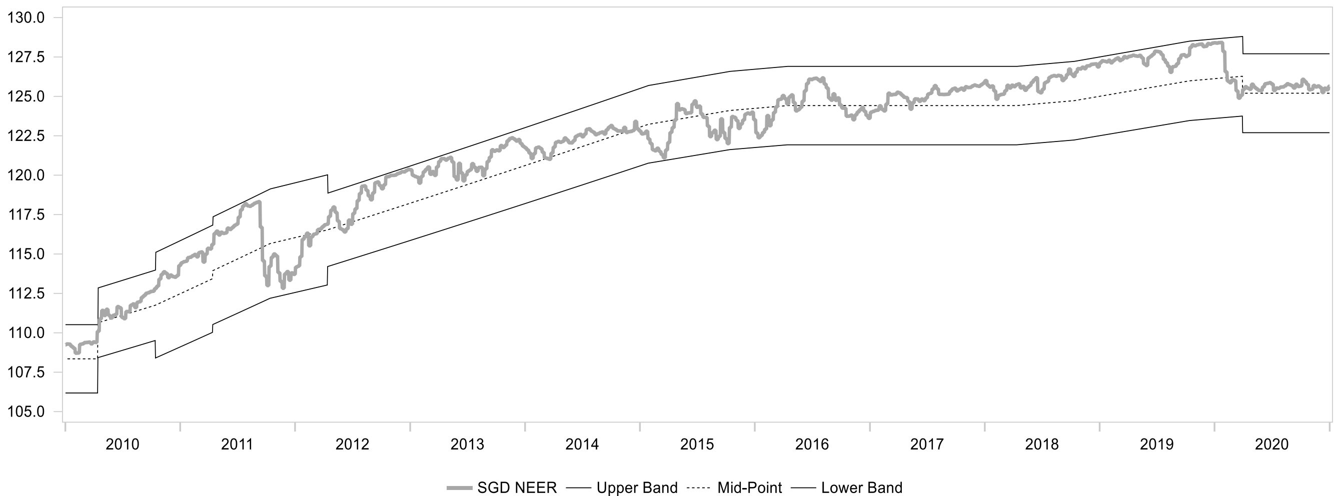
- We expect to see 3M Libor at around 0.15% by the end of 3Q2021.
- Latest FED dot plot median point has brought forward the first rate hike into 2023.
- US liquidity conditions remain in excess. Increases in IOER and Reverse Repo rate by FED to help mitigate risk of negative O/N yield, but supply pressure remains from ongoing QE program.

10Y US Treasuries

- We expect to see 10Y UST at 1.75% by the end of 3Q2021.
- Passage towards QE tapering can be supportive of higher yields initially. Further fiscal boost also in the works which could push yield higher alongside growth expectations.
- Inflation expectations remains anchored with limited downside in the short term.

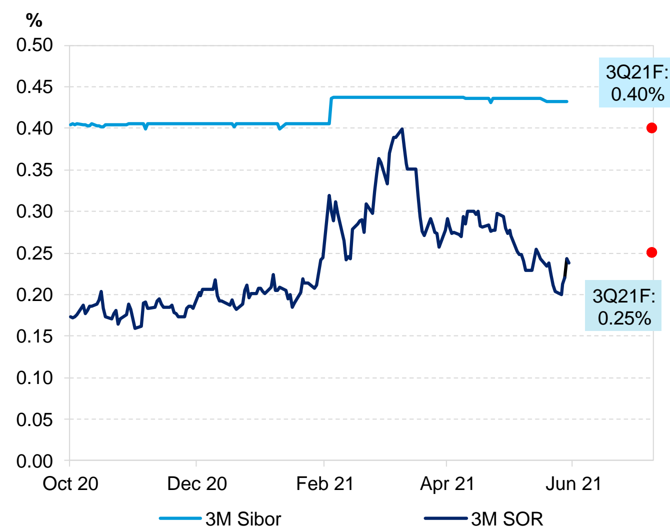
SINGAPORE

S$NEER



In the last central bank meeting in April 2021, 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 +5.5% in 2021, and +3.5% in 2022. 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 October 2021, as it may be too early for the central bank to respond at this stage of recovery from COVID-19. The ensuing relaxation of social measures meant that SGD can stay bid, consolidating at 1.33 /USD till end-2021 in-line with a strong CNY.

3M SOR and Sibor

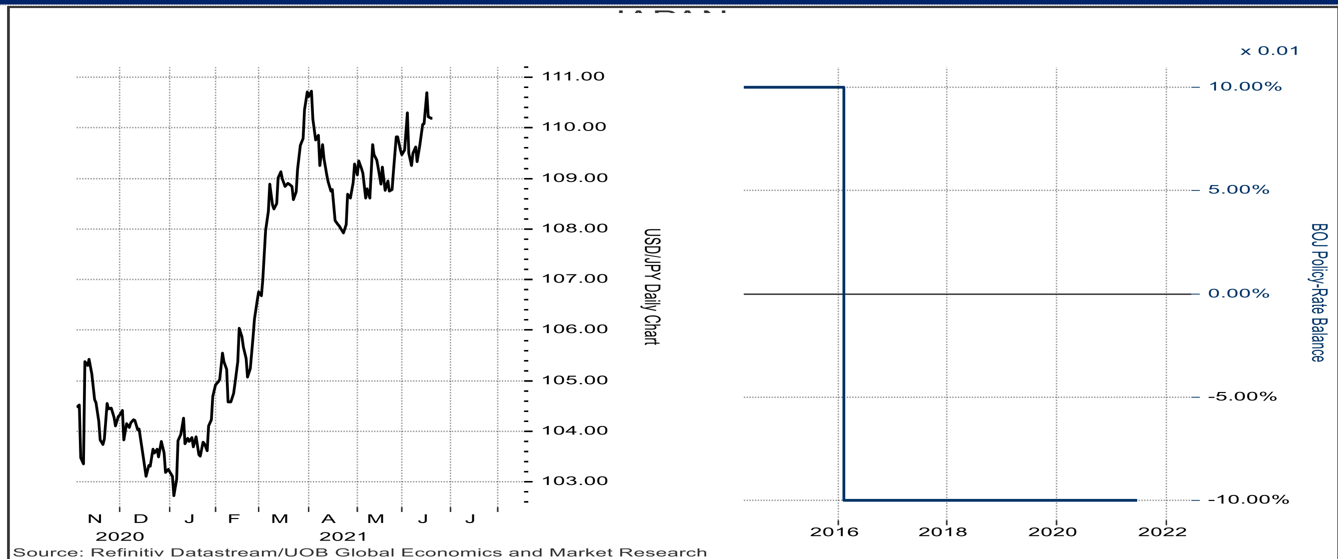


- We expect to see 3M SOR at 0.25% and SIBOR at 0.40% by the end of 3Q2021.
- Migration towards SORA continues to make good progress with bid/ask spreads tightening and volumes in SORA derivatives increasing.
- At the end of Sep, new SIBOR and new SOR derivatives products will cease.

10Y SG Bonds

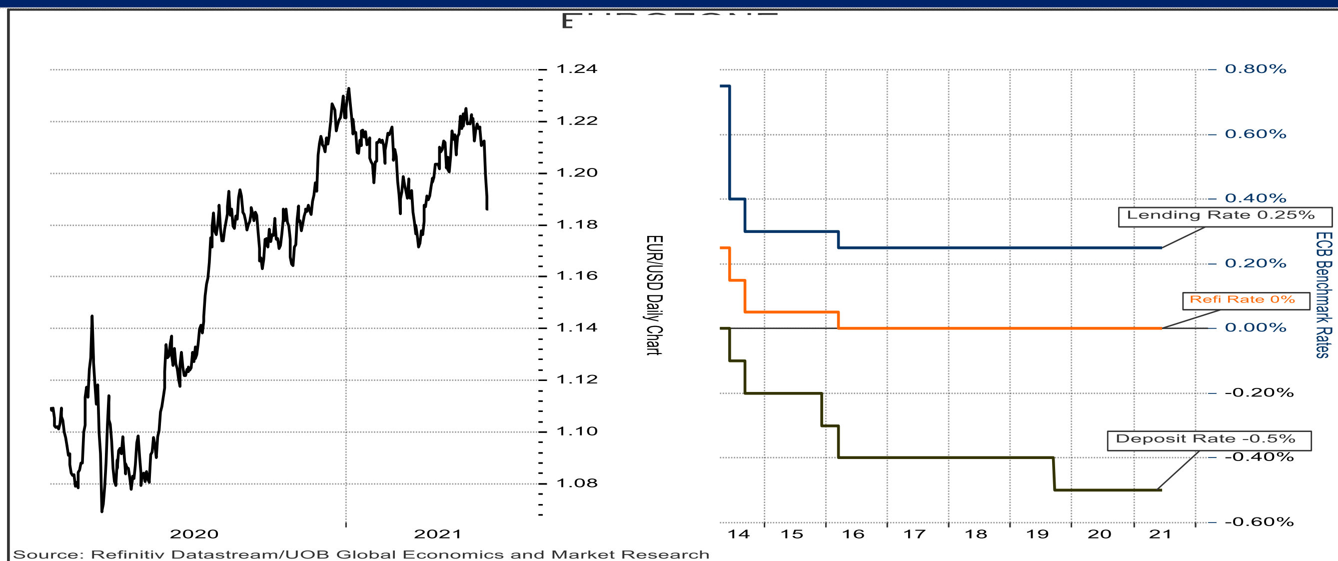
- We expect to see 10Y SGS at 1.70% by the end of 3Q2021.
- Outright yield direction remains correlated to USTs. SGS could outperform if UST yields were driven higher by US deficit financing concerns.
- Inaugural SINGA bond issue later this year may keep the back end of the SGS yield curve steep.

JAPAN



Even as several developed economies are already signalling monetary policy normalisation amidst growth recovery and significant rises in inflation, Japan's headline and core CPI remains in mild deflation (at -0.4% y/y and -0.1% y/y in Apr respectively). And while we do expect prices to return to inflation, the increase will likely be mild, averaging 1% in 2021 and 1.5% in 2022, still below the Bank of Japan's (BOJ) price target of 2%. Japan's weak inflation outlook (especially when compared to its G7 peers) and policy inaction in recent meetings reinforced our view that the BOJ will not be tightening anytime soon and will maintain its massive stimulus in the next few years, possibly at least until 2023. While we keep to our view that the BOJ could still do more and enhance its monetary policy easing, we are cognizant that the BOJ may reached the limits of its monetary policy and will remain in a holding pattern on policy until at least April 2023 when Gov Kuroda is scheduled to leave the BOJ. Next focus for BOJ is their new climate change initiative (to be unveiled in 15/16 Jul MPM), and its impact on overall economic activity and prices. With 10-year UST yield edging higher towards 2% by end-2021 while 10-year JGB yield stay tethered at 0% due to BOJ's yield curve control, a widening yield gap would spur outwardly investment and exert upward pressure on USD/JPY. We update our USD/JPY forecasts to 112 in 3Q21, 113 in 4Q21 and 114 in both 1Q22 and 2Q22.

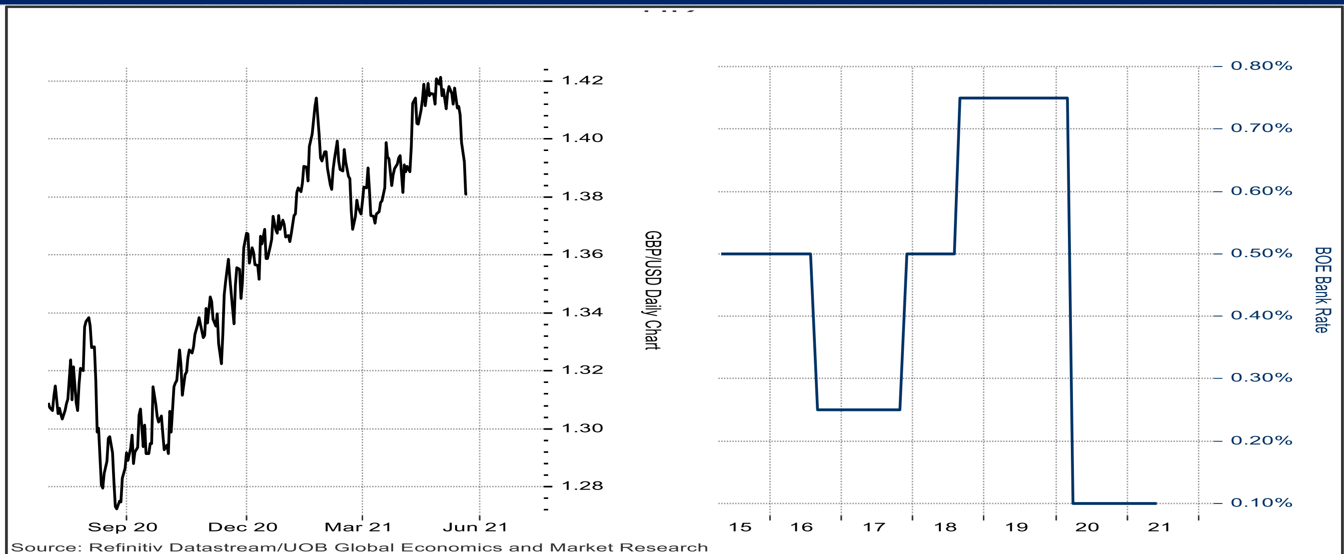
EUROZONE



The European Central Bank (ECB) continues to provide the Eurozone economy with plenty of monetary stimulus. In June, it renewed its pledge to buy bonds at a 'significantly higher' pace than in the first few months of the year; despite the improving economic outlook and concerns on inflation. This latest announcement reinforces our view that the ECB will remain highly accommodative for longer.

Underpinned by an improvement in sentiment from 1Q21 to 2Q21, EUR/USD has re-emerged above 1.20 since 19 April and have largely stayed above the key psychological level since. Brightening growth prospects are also showing up in the gradual grind higher in German bund yields, with the 10-year rising to -10 bps in May, the highest level in a year. The yield gap relative to the US Treasuries has also narrowed to -168bps in early June from -200bps at the start of the quarter in favor of the EUR against the USD, before retracing to -182bps post-June FOMC. From here, we see a period of consolidation for EUR/USD at around 1.19 across 3Q21 and 4Q21, followed by a retreat to 1.17 in 1Q22 and 1.16 in 2Q22.

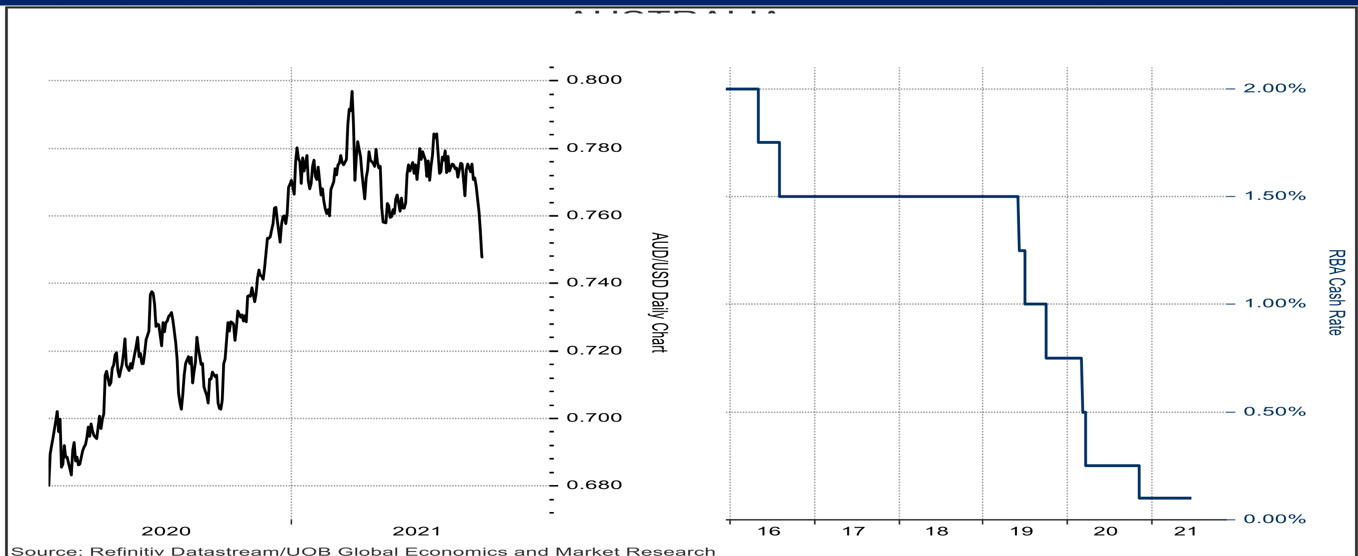
UNITED KINGDOM



The Bank of England (BOE)'s decision, in May, to keep the key rate steady at 0.1% was unanimous, and the decision to keep buying UK government bonds until the end of the year under a maximum portfolio of GBP875bn (and corporate bonds for an additional GBP20bn) was affirmed by an 8-1 majority. Of more significance, the BOE decided that it will be slowing the pace of its bond-buying. With "tapering" out of the way, the next question will probably be how – and when – the BOE will enter a formal tightening cycle. We doubt any form of rate increase will happen before 2023.

The GBP was one of the best-performing currency within the Major FX group year-to-date, gaining 2.3% against the USD to 1.40 on hawkish cues from the BoE, UK economic recovery optimism and attractive valuations. GBP drew further strength after BOE policymaker Gertjan Vlieghe hinted of a rate hike in early 2022 – one of the first amongst DM central banks – if the labour market recovers smoothly. Even with steady recovery from the lows last March, GBP is still attractive on valuations. To recall, GBP/USD was trading above 1.45 and GBP/SGD above 1.90 before the Brexit referendum on June 2016. However, we will moderate our trajectory for GBP/USD given the emerging USD. Overall, we update GBP/USD to be at 1.40 in 3Q21, 1.41 in 4Q21 and 1.42 in both 1Q22 and 2Q22.

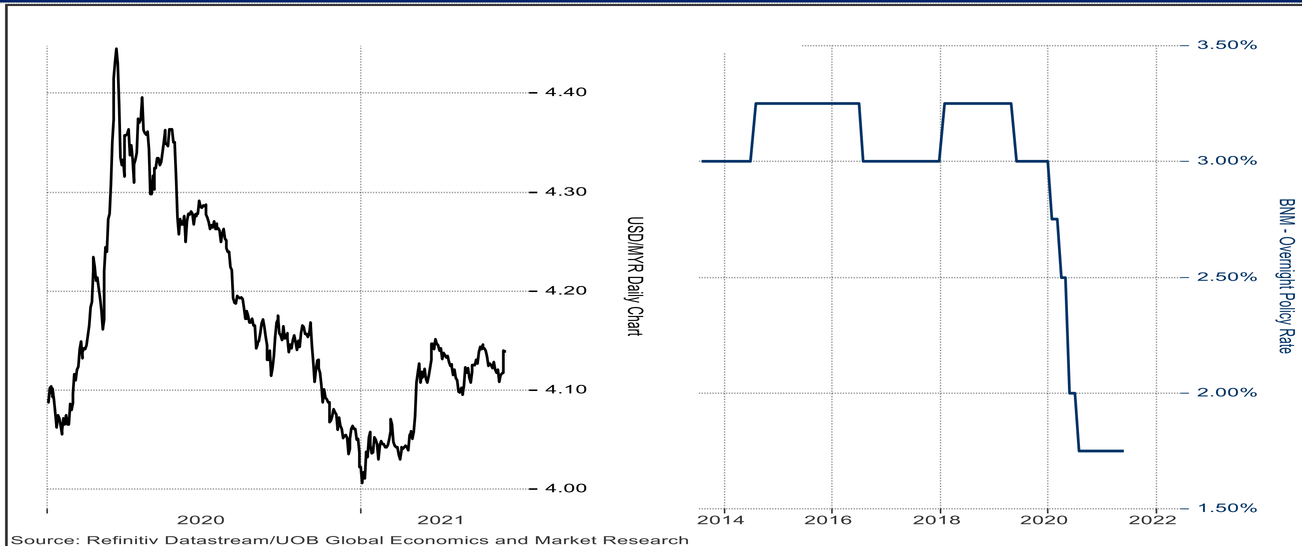
AUSTRALIA



The Reserve Bank of Australia (RBA) has emphasised that the cash rate path will be based on actual economic outcomes and will not be lifted until full employment has been achieved and inflation is sustainably at target. We do not see these conditions occurring until late-2023.

AUD/USD struggled to extend gains above 0.78 as the RBA appears comfortable sticking to its accommodative policies given that inflation stayed benign (at 1.1% in 1Q21 vs 0.9% in 4Q20). Volatility in iron ore prices in the 2Q21, a key export product of Australia, also dampened sentiment on the AUD. In 2H21, global commodity prices are likely to stay well bid as more economies reopening would spur further demand. Also, we expect the RBA to taper its bond buying program to AUD75bn from AUD100 bn in July. These are factors likely to lift sentiment on the AUD, which would be measured against the repricing on the USD due to the Fed's taper. Overall, we expect AUD/USD to consolidate at 0.75 in 2H21, followed by 0.74 in 1Q22 and 0.73 in 2Q22.

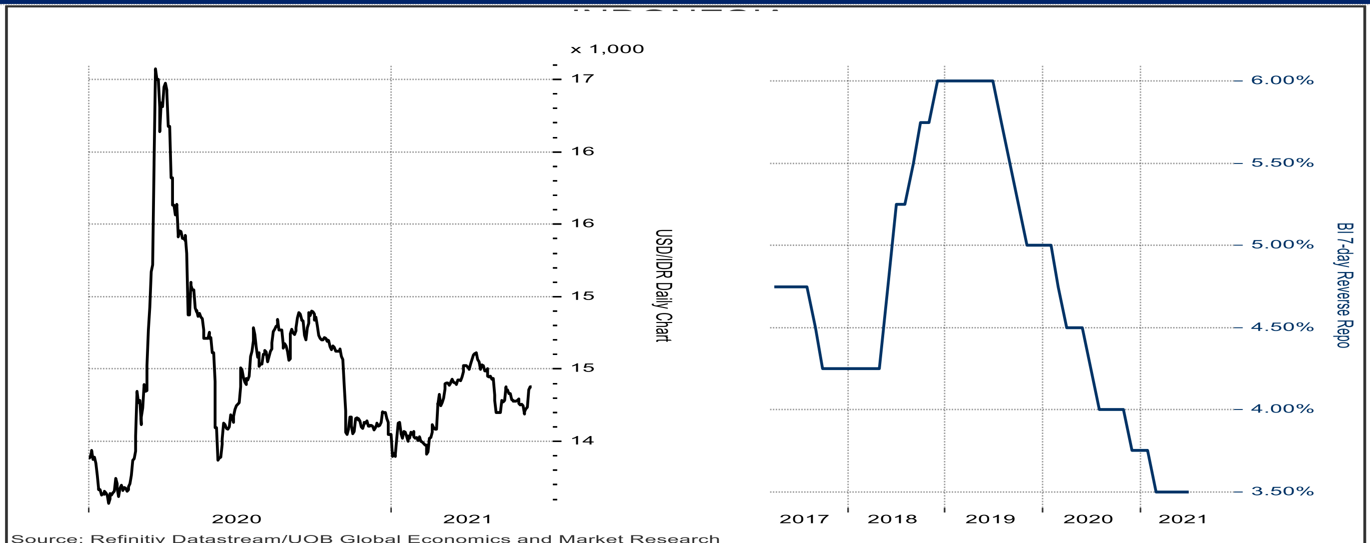
MALAYSIA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

Given that the government announced additional fiscal support to cushion the adverse impact of the nationwide lockdown on the economy, we expect Bank Negara Malaysia (BNM) to monitor the fluid situation leading up to the next monetary policy meeting on 7-8 July. In earlier guidance, BNM kept a neutral stance and indicated a preference for targeted measures as opposed to using broad and blunt policy tools. In the latest stimulus package, BNM is increasing the available funds for SME loan facilities by MYR2bn to MYR7bn. We think BNM will likely maintain its neutral stance, keeping the overnight policy rate (OPR) unchanged at 1.75% until end-2021.Despite near-term downside risks to growth prospects, underlying support for the MYR includes healthy external positions (i.e. sustain current account surplus, ample foreign reserves, and continued FDI inflows) and higher oil prices. Increasing global crude oil prices and progressive COVID-19 immunization program to contain the pandemic provide impetus for MYR recovery towards 4.14 / USD in 3Q21. After which, USD/MYR will track a broad recovery in the USD as the Fed's normalizing plans come into focus. Thus, we expect the pair at 4.15 in 4Q21, 4.16 in 1Q22 and 4.17 in 2Q22.

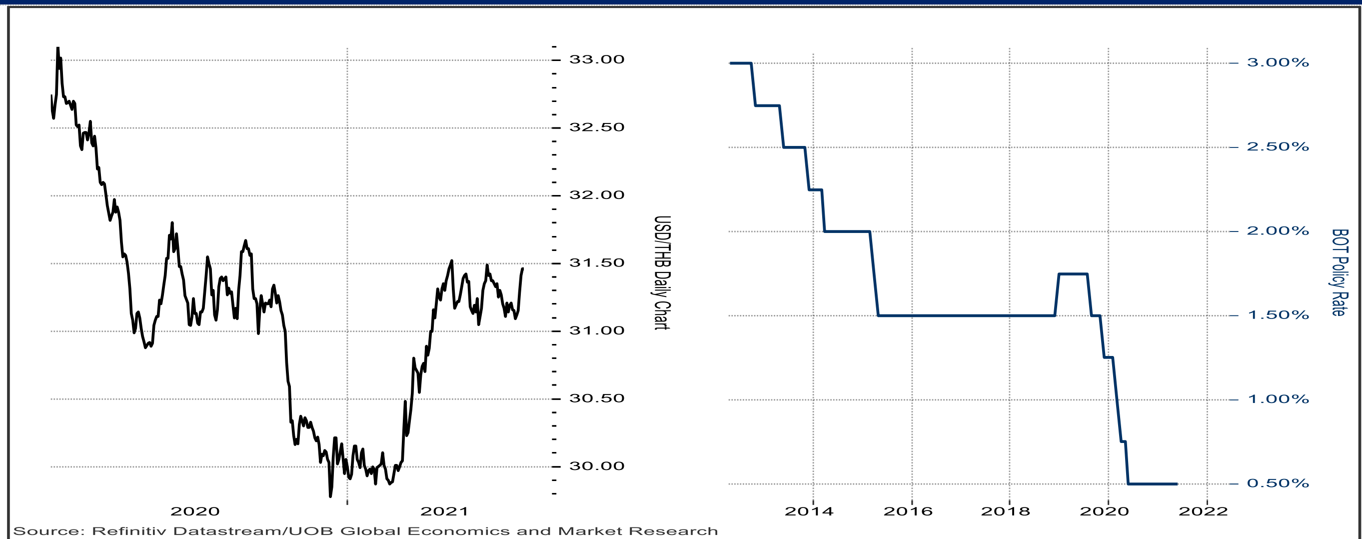
INDONESIA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

After the last 25bps interest rate cut in Feb, Bank Indonesia (BI) left its benchmark rate unchanged at 3.50% at its Mar-May 2021 monetary policy meetings (MPC). BI reiterated the decision is consistent with the forecast for inflation to stay low, and efforts to maintain rupiah exchange rate stability and accelerate economic recovery. So far, BI has been committed to other measures, such as (i) lowering the LTV/ FTV for property credit and the down payment for vehicle purchase, (ii) reinstatement of lower disincentive parameter to encourage the distribution of bank credit/financing to the real sector. Going forward, we expect BI will keep its accommodative monetary policy via other macro prudential, and liquidity-supporting measures to effectively transmit the cumulative 150bps reduction of the benchmark interest rate into the economy. We keep our BI rate forecast steady at 3.50% 2021. We do not expect the current bout of IDR strength to persist and we continue to expect a higher trajectory in USD/IDR. Reasons include a persistent and widening current account deficit and the still high virus infection rate in the country. Importantly, FED's tapering plans could spur portfolio outflows and weigh on IDR. At the same time, volatility in the FX markets could be limited by a combination of BI drawing down its FX reserves, intervention in the FX domestic NDF or local bond markets. Our updated USD/IDR forecasts at 14,700 in 3Q21, 14,800 in both 4Q21 and 1Q22, and 14,900 in 2Q22.

THAILAND



Economic prognosis has worsened since the start of 2021. Unlike other Asian economies which saw GDP growth in 1Q21, Thailand contracted 2.6% y/y (+0.2% q/q sa). Note that Thailand's National Economic and Social Development Council (NESDC) downgraded its growth outlook for 2021 to a range of between 1.5% and 2.5%, down from a previous range of 2.5% and 3.5%. Renewed COVID-19 risks remain the key drag to economic performance, considering the negative impact it could have on Thailand's tourism, labour and domestic consumption. While we keep our full-year growth at 1.5% in 2021, we note that there could still be downside risks to our outlook should COVID-19 infections continue to stay unchecked within Thailand's shores. We keep our call for BOT to leave its benchmark rate unchanged at 0.50% for the whole of 2021. With growth risks still skewed to the downside, we continue to be defensive on the THB. Moreover, Thailand's previously strong current account surplus – a strong factor that underpinned the THB's outperformance in the past couple of years has since dwindled significantly. Furthermore, the latest hawkish shift from the Fed may exert further pressure on the THB. Overall, we reiterate our view of further THB weakness, with updated forecasts at 32.5 /USD by end-2021 and 33.2 /USD by mid-2022

CHINA

The picture remains that of a gradual deleveraging in line with the People's Bank of China (PBOC) financial risk concerns and as the economy has now returned to a stronger footing. Loans growth will continue to moderate in line with guidance from the central bank to cap the increase in new loans this year at the record high level of CNY19.63 tn in 2020. With new loans clocking CNY10.64 tn in Jan-May, this would imply a sharper slowdown in loans growth for the rest of the year, in line with expectation of slower growth. However, the PBOC is likely to refrain from broad-based monetary policy tightening as private consumption is still lagging expectations. We maintain our forecasts for both the 1Y LPR and the 5Y & above LPR to stay unchanged at 3.85% and 4.65% respectively for the rest of 2021. While the robust Chinese economy continues to provide the basis of a firm CNY, against the prospect of further measures by policymakers, further gains of the CNY against the USD would be more modest with more two-way fluctuation going forth. This is in contrast to the straight-line 8% appreciation in the CNY in 2H20. Overall, we now see mild USD/CNY strength ahead, at 6.43 in 3Q21 and 4Q21, 6.45 in 1Q22 and 6.48 in 2Q22, with the latter CNY weakness spurred by a reversion of China's growth to a more sustainable level (5.7% in 2022) and broadening USD recovery.

FX, INTEREST RATE & COMMODITIES FORECASTS

FX	17 Jun 21	3Q21F	4Q21F	1Q22F	2Q22F
USD/JPY	110	112	113	114	114
EUR/USD	1.19	1.19	1.19	1.17	1.16
GBP/USD	1.39	1.40	1.41	1.42	1.42
AUD/USD	0.76	0.75	0.75	0.74	0.73
NZD/USD	0.70	0.70	0.70	0.69	0.68
DXY	91.9	91.7	91.8	92.8	93.2
USD/CNY	6.45	6.43	6.43	6.45	6.48
USD/HKD	7.76	7.75	7.75	7.75	7.75
USD/TWD	27.76	27.70	27.70	28.00	28.20
USD/KRW	1,132	1,110	1,110	1,120	1,140
USD/PHP	48.39	48.70	48.70	49.00	49.50
USD/MYR	4.14	4.14	4.15	4.16	4.17
USD/IDR	14,355	14,700	14,800	14,800	14,900
USD/THB	31.39	32.00	32.50	32.80	33.20
USD/VND	22,964	23,000	23,000	23,100	23,200
USD/INR	74.08	76.00	76.50	77.00	77.50
USD/SGD	1.34	1.33	1.33	1.35	1.36
EUR/SGD	1.60	1.58	1.58	1.58	1.58
GBP/SGD	1.87	1.86	1.88	1.92	1.93
AUD/SGD	1.01	1.00	1.00	1.00	0.99
SGD/MYR	3.09	3.11	3.12	3.08	3.07
SGD/CNY	4.81	4.83	4.83	4.78	4.76
JPY/SGDx100	1.22	1.19	1.18	1.18	1.19

RATES	17 Jun 21	3Q21F	4Q21F	1Q22F	2Q22F
US Fed Funds Rate	0.25	0.25	0.25	0.25	0.25
USD SOFR	0.01	0.11	0.11	0.11	0.19
USD 3M LIBOR	0.13	0.15	0.18	0.20	0.20
US 10Y Treasuries Yield	1.52	1.75	2.00	2.10	2.25
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	0.75	0.75
PHP O/N Reverse Repo	2.00	2.00	2.00	2.00	2.00
SGD SORA	0.11	0.16	0.16	0.16	0.24
SGD 3M SIBOR	0.43	0.40	0.40	0.40	0.40
SGD 3M SOR	0.24	0.25	0.25	0.25	0.25
SGD 10Y SGS	1.47	1.70	1.95	2.05	2.15
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	3.75	4.00
THB 1D Repo	0.50	0.50	0.50	0.50	0.50
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	17 Jun 21	3Q21F	4Q21F	1Q22F	2Q22F
Gold (USD/oz)	1,779	1,800	1,850	1,900	1,900
Brent Crude Oil (USD/bbl)	73	73	76	80	80
LME Copper (USD/mt)	9,316	10,000	10,500	11,000	11,000

THE TEAM

Global Economics & Markets Research
Asset Management
Private Bank

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All chart data from Bloomberg unless otherwise specified.

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