UOB House View 3Q 2023

Friday, 07 July 2023

The Team
Global Economics & Markets Research
Private Bank

Global Macro

We still expect the lagged effects of US monetary policy tightening and tighter financial/credit conditions to meaningfully slow the US economy but the downturn is now being deferred to 2H 2023, instead of mid-2023, without an outright GDP contraction. There is divergence in monetary policy as Developed Market (DM) are more data-dependent and continuing with their rate hikes, such as Fed, ECB, BOE and RBA while majority of Asian central banks have signaled an end to rate hikes.

Asset Allocation

From an asset allocation point of view, we advocate the following: 1) a two-pronged approach into growth (technology) and defensives (e.g., telcos, utilities, healthcare, consumer staples) as a slowdown looms, 2) the investment-grade space remains attractive, and investors should take the opportunity to lock in the strong yields after a huge selloff in 2022, and 3) exposure to alternative assets such as selected hedge funds and private markets to reduce correlation risk.

Equities

Beyond any near-term market correction, we reiterate our focus on selected opportunities in stocks within defensive sectors (e.g., Healthcare) as well as quality large-cap and growth names. Overall, we remain Neutral on US equities, stay Underweight on European equities, stay Overweight on Japan's equities and downgrade EM Asia equities to Neutral from Overweight.

Fixed Income

For Developed Markets (DM), with the view to increase credit quality while extending duration, we remain Overweight on DM USD Investment Grade (IG). Given an anticipated rise in default rates, amid growth slowdown we stay Underweight on DM High Yield (HY). For EM Asia USD IG, we reiterate our preference for selected credits in this space to avoid idiosyncratic credit pitfalls. We remain neutral on EM Asia HY and continue to advocate investors to stay highly selective and diversified.

Commodities

We continue to see US interest rates topping out in the months ahead and maintain our positive view for gold and forecast that gold will trade above USD 2,000 /oz in 2H23 and thereafter, rising further to USD 2,100 / oz in 1H24. With little room for further supply shocks, we reiterate our modestly positive view of Brent crude oil with forecasts at USD 80 / bbl across 2H23 and USD 90 / bbl across 1H24. We also see LME Copper lower at USD 8,000 / MT in 2H23 and USD 7,000 / MT in 1H24, given near term uncertainty with China's economic recovery.

FX & Interest Rates

In the Majors FX space, USD weakness is expected to return as 2H23 progresses. With the Fed expected to end the tightening cycle earlier than its peers, the rate advantage that USD enjoys over its peers will narrow further, sparking renewed weakness in the USD. We are constructive on duration and expect to see bond yields drift lower across 2023, as the balance of risk will increasingly tilt in favour of slowing economic growth, rate cut expectations, and richer safe haven premiums.

Global Macro & Markets Strategy
Searching For A Recession

"I still haven't found what I was looking for." - U2

The US Downturn That Has Yet To Come

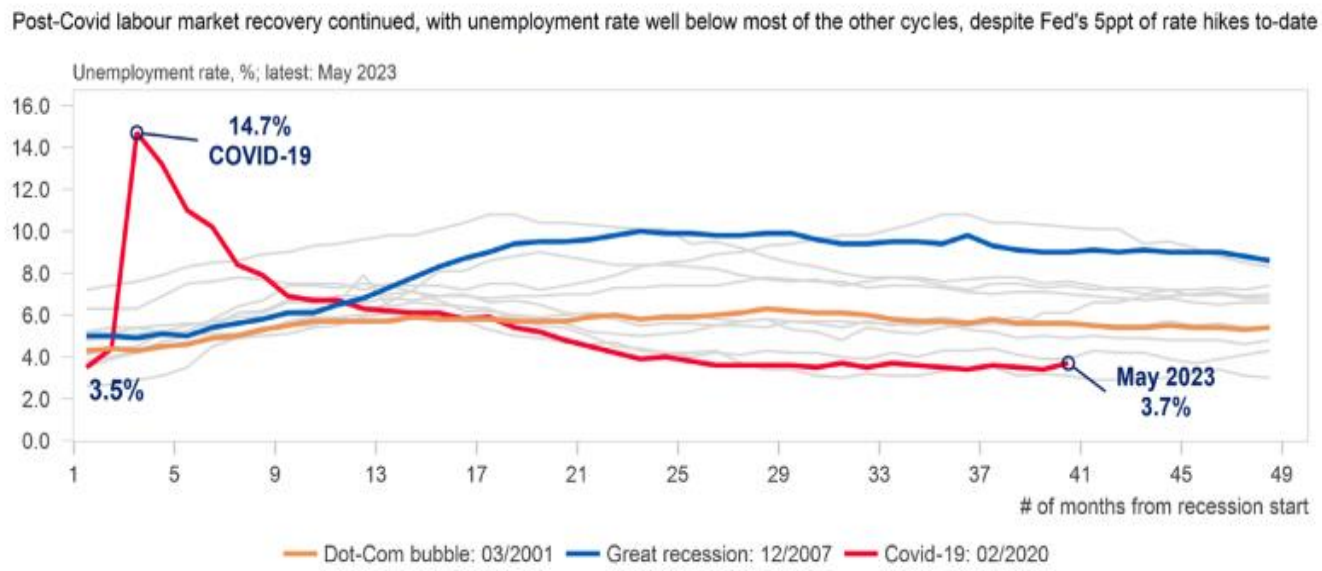
The US economy has so far turned out to be more resilient despite the very aggressive Federal Reserve's rate hiking cycle, thanks to its very robust labor market. It has also managed to avoid major crisis events of the US debt ceiling and banking sector contagion after a string of US regional bank failures, even as there are signs that some activities and segments of the US economy are slowing or even contracting. We still expect the lagged effects of US monetary policy tightening and tighter financial/credit conditions to meaningfully slow down the US economy but our projection for that likely downturn in US growth is now being deferred to the second half 2023, instead of our previous expectation of mid-2023, and we no longer expect outright annual GDP contraction. If the downturn is simply due to Fed's rate hike cycle, then it will be unlikely to lead to a full-blown crisis, as there need to be triggers (financial imbalances) to transform an orderly downturn into a disorderly crisis.

In terms of central banks' policy direction, there is clearly an increasing divergence in monetary policy between Developed Market (DM) which are more data-dependent and continuing with their rate hikes, such as Fed, ECB, BOE and RBA while the majority of Asian central banks have now signaled an outright end to their rate hiking cycle, and the PBOC is on the opposite end of the monetary policy cycle, as it progressively eases monetary policy on a targeted basis.

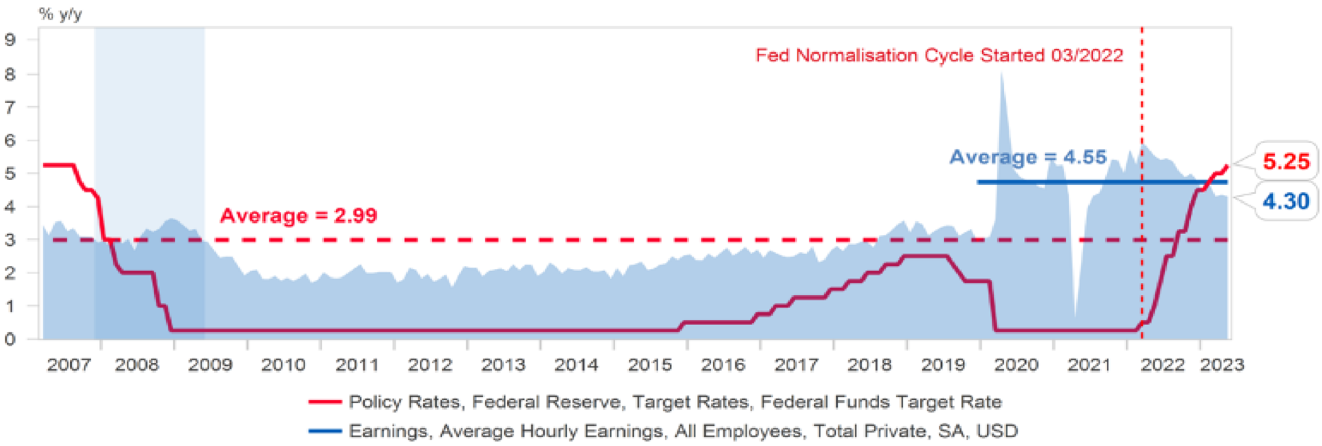
For more details, please see our 3Q 2023 Quarterly Global Outlook's Executive Summary.

A Resilient US Labor Market (Low Unemployment Rate & Still Robust Wage Growth) Amidst Rising Expectations For A US Downturn

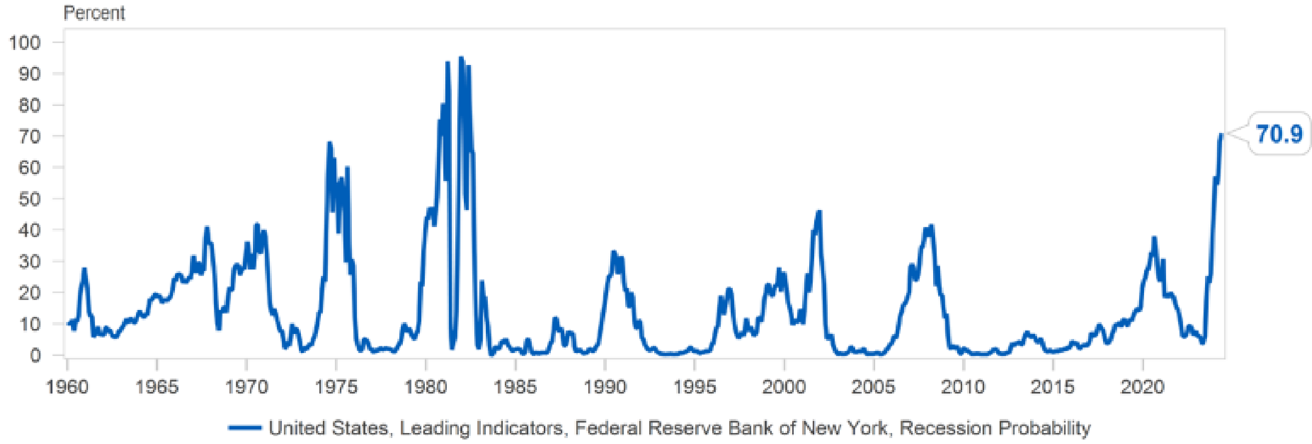
Source: Bloomberg, UOB Global Economics & Markets Research



Right By You



New York Federal Reserve Bank, Recession Probability



FX Strategy: Can The USD Strengthen Again On A Hawkish Fed?

In the Majors FX space, USD weakness is expected to return as 2H23 progresses. Most G-10 central banks have now transited into "data dependent" mode depending on how their inflation trajectories evolve. Stubbornly high inflation has spurred surprise rate hikes from RBA and BOC in Jun. While most G-10 central banks have seen headline inflation peaked, they have varying degrees of success in decisively curbing core inflation. This gives the Fed a higher watermark to cross relative to its G-10 peers when it comes to considering the next tightening move. With the Fed expected to end the tightening cycle earlier than its peers, the rate advantage that USD enjoys over its peers will narrow further, sparking renewed weakness in the USD. Overall, we reiterate our view of further USD weakness against most G-10 peers in the coming quarters. We expect EUR/USD, GBP/USD, AUD/USD and NZD/USD to keep to their upward trajectory, rising from current levels to 1.16, 1.36, 0.73 and 0.65 by 2Q24 respectively.

Amongst Asia FX, the recovery of CNY and Asia FX is likely delayed till 4Q23. The signs are increasingly pointing to a longer than expected period of Asia FX weakness. A dial back of China's post-Covid recovery expectations was the key driver of renewed weakness in the Asia Dollar Index which touched new year-to-date lows in Jun. Economic indicators since Apr suggest that China's recovery is losing momentum. Based on previous observations, it would probably take months for the current bout of economic underperformance to bottom and eventually rebound. Overall, we are still of the view that CNY-led recovery of Asia FX is still intact, just delayed to 4Q23 (from 3Q23 projected previously) just as China's economy regains momentum again. Our "get worse before it gets better" base case means USD/CNY is likely to target 7.25 in 3Q23 before normalising lower. Concurrently, various USD/Asia pairs are forecasted to trade up to the following levels in 3Q23 before normalizing, specifically USD/MYR to 4.68, USD/SGD to 1.36, USD/IDR to 15,200 and USD/THB to 35.50.

Rates Strategy: A Primer On The Eventual Fed Easing Cycle

For this quarter's rates view, we want to take a step back from the debate as to whether Fed funds have hit its peak or if there is a couple more rate hikes still to come. Instead, we cast our net a little further out into the eventual Fed easing cycle to see what history has to say about the rate cutting phase. It is worth noting that historically, Fed rate cuts were front loaded with majority of the reduction being delivered within the first year. We take this opportunity to explore the dynamics of the past Fed easing cycles.

In terms of our updated rates' view, our macro team expects the Fed funds rate to plateau at 5.50% for the rest of 2023 to be followed by rate cuts in 2024. Off this baseline, we are constructive on duration and expect to see bond yields drift lower across 2023, based our view that the balance of risk will increasingly tilt in favour of slowing economic growth, growing rate cut expectations, and richer safe haven premiums consequentially. For end 4Q23, we see the 3M compounded in arrears Sofr and Sora at 5.30% and 4.03% respectively. By the time we get to end 2023, bonds will be pricing in a Fed easing cycle. Based on our macro team's view, this will amount to 125bps of Fed rate cuts in 2024, and a further 150bps of reduction in 2025.

Thus, we have the 10Y UST and SGS yields lower at 3.20% and 2.70% respectively by 4Q23, in view of lower US Fed policy rate over the next two years.

Commodities Strategy: Weak 1H23 Performance For Commodities Amidst Persistent Global Slowdown Fears

In terms of the outlook for gold, despite the near-term setback below USD 2,000 / oz yet again, we maintain our positive forecast. We continue to see US interest rates topping out in the months ahead as the Fed reaches the tail end of its rate hiking cycle. Our view remains for USD to top out as well (albeit with a bit of delay towards the end of this year). And gold remains an important diversifier of portfolio risk. In fact, Emerging Market and Asian central banks continue to load up on gold reserves, specifically China. Overall, we maintain our positive view for gold and forecast that gold will trade above USD 2,000 /oz in 2H23 and thereafter, rising further to USD 2,100 / oz in 1H24.

As for Brent crude oil, further production cuts by OPEC+ and Saudi Arabia have resulted in tightening supply dynamics, amidst the further drop in US Strategic Petroleum Reserves (SPR). There is now little room for further supply shocks. Hence, we reiterate our modestly positive view of Brent crude oil with forecasts at USD 80 / bbl across 2H23 and USD 90 / bbl across 1H24. Nonetheless, the uncertain global demand situation will dampen any strong near term rebound in crude oil price and it is unrealistic to expect a return to USD 100 / bbl anytime soon. For LME Copper, given near term uncertainty with China's economic recovery, we maintain our mild negative outlook, forecasting USD 8,000 / MT in 2H23 and USD 7,000 / MT in 1H24.

Asset Allocation

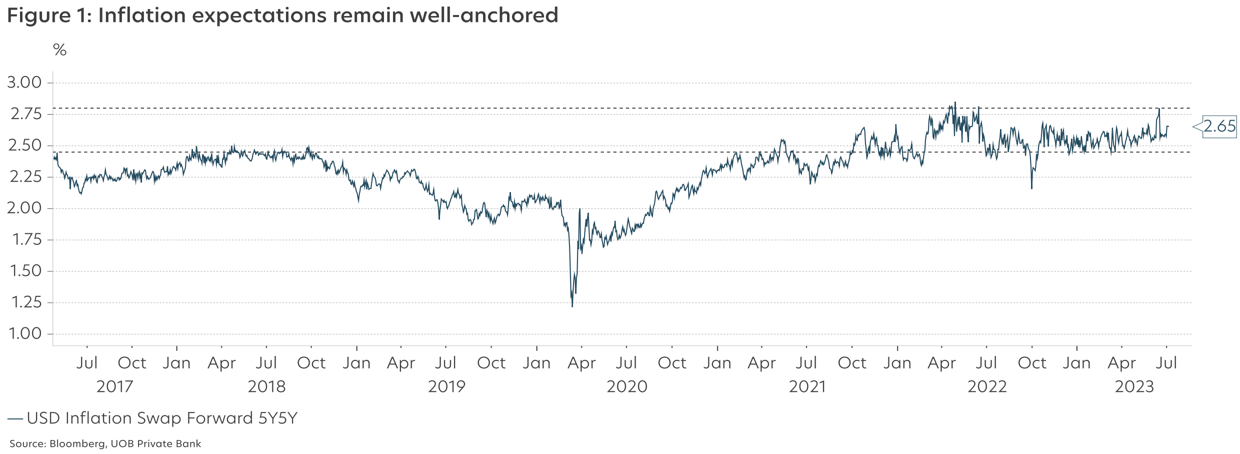
One puzzling phenomena for investors this year is a dichotomy between the equity market and the outlook for the US economy. Many economic forecasters cautioned that the US faces a high risk of recession, exacerbated by credit tightening in the small US regional banking sector. Moreover, the extensive inversion of the US yield curve warned ominously of recessions comparable to the tech bust of 2000 and the global financial crisis of 2008.

In our view, the strong performance in equity markets rests on two important pillars: disinflation and a soft-landing in the US economy. One notable macro development of 2023 is the precipitous decline in inflation. In many developed economies, inflation has peaked around the middle of 2022 and has come off the highs. However, the inflation rates remain uncomfortably above the central bank's target. Major central banks continue to be in an inflation-fighting posture even though the global economy has slowed while stresses at the US regional banks loom.

The outlook for inflation is one of the key pillars for financial markets (Figure 1) because it sets the future course of interest rate, which in turn drives asset prices. The next pillar for stable equity markets is the absence of a hard landing as the health of the economy impacts corporate earnings. So far, major economies have held up a lot better than once thought amid reduced odds of a recession in 2023. Historically, a moderately supportive economy chugging alongside disinflation is not inconsistent with a rising equity market.

Figure 1 – Inflation expectations remain well-anchored

Source: Macrobond, UOB Private Bank, Federal Reserve



AI: Transformational Or A Fad?

The strong performance of the S&P 500 is in part due to an artificial intelligence (AI)-led rally with ChatGPT unveiled by Microsoft around March. Since then, other large tech firms have announced offerings of their own. ChatGPT has created such a sensation that it is the only application garnering over 1m users in 5 days and over 100m users in a month, breaking previous records.

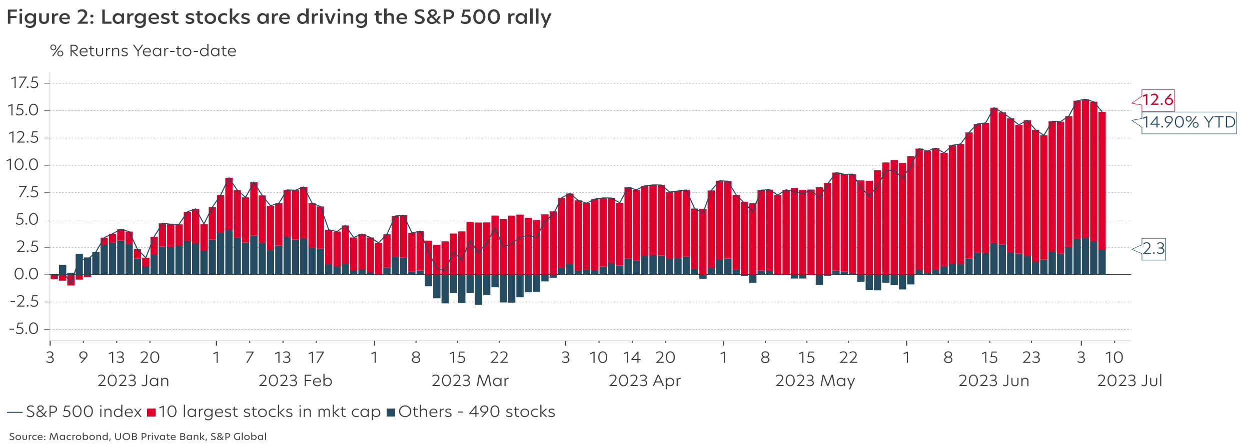
As a general-purpose technology, generative AI has implications beyond the tech companies. While not without its shortcomings, the maiden launch has not failed to impress. The AI technology can augment human knowledge, produce creative work and even aid medical diagnosis; it has a far-reaching impact on businesses. Broadly speaking, generative AI could represent a new source of revenue and higher productivity for companies which effectively harness its potential.

A Narrow Rally

In 2023 so far, if one removes the top 10 stocks of the S&P 500, the returns of the remaining 490 stocks would collectively be in the low single-digit levels (Fig. 2). The mega-cap stocks have rallied 40-50% and the poster boy for the AI rally is none other than Nvidia. On face value, Nvidia trades at a whopping 37x price-to-sales which some may argue is unambiguously a bubble. However, the price-to-earnings (P/E) based on Bloomberg consensus 2024's earnings per share (EPS) is about 55x. This contrasts against the dramatic rally in many of the "profitless tech stocks" in 2020-21, or back when the NASDAQ 100 index traded over 300x P/E in 2000. The stock is by no means cheap. Having said that, it is not without precedence for the growth-oriented NASDAQ 100 to trade at 28x forward P/E.

Figure 2 – Largest stocks are driving the S&P 500 rally

Source: Macrobond, UOB Private Bank, Federal Reserve



Bill Gates famously wrote in 1996 that "We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don't let yourself be lulled into inaction." In the same vein, generative AI should be seen in the same light. Sans a few AI platform companies, the immediate revenue and cost impact for the rest of the sector may not be realized soon albeit adoption rate can accelerate quicker than before.

Outside of AI, the tech sector has arguably gone through a "recession" ahead of the economy. In the depths of the COVID pandemic back in March 2020, the tech sector was rejuvenated, garnering huge investor focus as the critical enabler for economies living with lockdowns and mobility restrictions. The extrapolation of those trends turned out to be unsustainable and subsequent interest rates hikes crimped valuations, resulting in a recession-like selloff in 2022. In 2023, the sector has rebounded strongly largely due to cost rationalization after a frosty 2022; revenue growth was uninspiring. While cost cutting has its limits to drive profits, the divergent earnings profile of the sector may offer offsets to the broad market, resulting in a more muted earnings downturn, notwithstanding a slowdown.

Updates on China

The much-anticipated reopening momentum in China faltered in May 2023, with a downturn in manufacturing activity and the property sector. Youth unemployment (aged 16-24) reached a dizzy height of 20.8%. Property sales continued to slide in June despite the earlier 16-point plan announced to rescue the ailing property market.

The counter-cyclical response so far is limited with a modest 10 bps cut in the Medium-Term Lending Facilities (MLF). Fiscal measures have been cautious so far, with impaired transmission given the local government's dependence on land sales for fiscal revenues. In addition, bond issuances have slowed after a strong start this year.

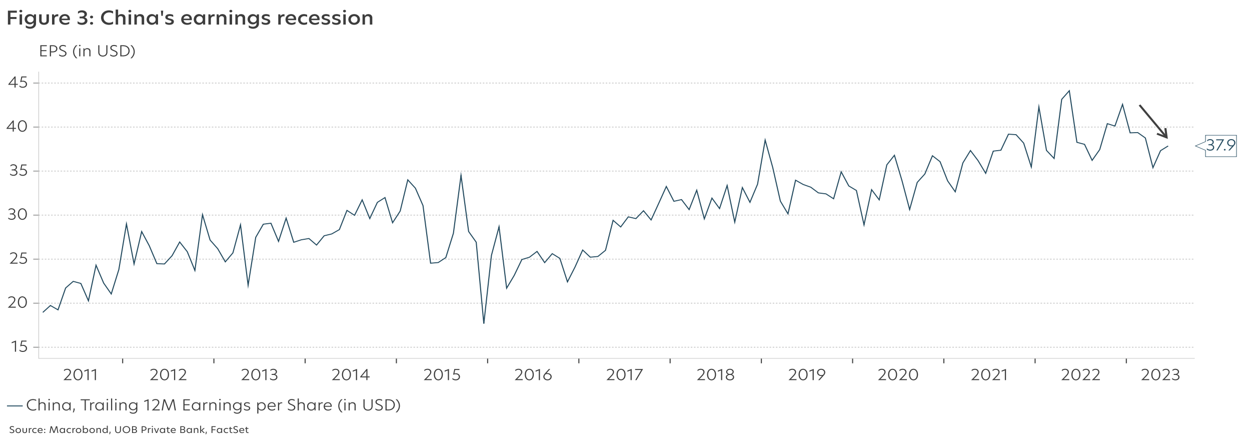
Meanwhile, private investments have failed to recover as the impact of earlier regulatory crackdowns and the ongoing geopolitical tensions with the US continue to cast a shadow on China's future role as the "factory of the world". Even if a full-scale decoupling is averted, future investments will likely be tepid. As China is an economy with high household savings, investments shortfall needs to be made up by fiscal spending. Unfortunately, meaningful fiscal impulse is largely absent given China's persistent concerns about elevated national debt levels.

On a more positive note, valuation of Chinese companies has traded close to recession levels and expectations are low. Broadly, China's earnings are already in recession (Fig. 3) and base comparisons are easy. With the economy faltering rapidly, a countercyclical response should be forthcoming. This may result in a short-term recovery in Chinese risk assets.

Having said that, given the Chinese government's fear of leverage, any response is unlikely to be large and preemptive enough to stem the underlying deflationary impulse. Chinese asset prices could trade largely in a range-bound fashion in the medium to longer term unless the government does a policy pivot. We have shifted our view on Emerging Asia equities to "Neutral" and would advise investors to lighten exposure into strength. We have also upgraded our view on Equities to "Neutral" given broad US earnings resilience and peaking bond yields.

Figure 3 – Growth Stocks Outperform As Real Interest Rates Decline

Source: Macrobond, UOB Private Bank



Equities: The worst of growth sector de-rating during this business cycle (that started with the 2020 global recession) is likely behind us. We had upgraded the "sell-off" support level of the S&P 500 to 3,800 should the economy move into a recession. Market expectations of the Fed interest rate cuts in early 2024 will continue to drive interest rate-sensitive growth stocks (e.g., Technology).

Despite the US corporate earnings resilience thus far, stocks (particularly in the cyclical sectors) remain exposed to earnings risk. As such, a two-pronged approach into growth (technology) and defensives (e.g., telcos, utilities, healthcare, consumer staples) would be an appropriate investment strategy as a slowdown looms. Large-cap stocks are also expected to outperform small-cap stocks.

Fixed Income: The investment-grade space remains attractive, and investors should take the opportunity to lock in the strong yields after a huge selloff in 2022. Given the Fed pause in June 2023 FOMC and a foreseeable pivot, we look to extend duration and raise exposure to government bonds like the US Treasuries.

Alternatives: Gold continues to act as a portfolio hedge against geopolitical uncertainties and macro tail risks. Real yields and the dollar are expected to trend lower in the medium term. To reduce correlation risk, we advocate exposure to alternative assets such as selected hedge funds and private markets.

Asset Allocation Table (3Q 2023)

Asset Classes	U/W	N	O/W
Equities	○ →	●	
United States		●	
Europe	●		
Japan			●
EM (Asia)		●	← ○
Fixed Income			●
DM IG			●
DM HY	●		
EM IG			●
EM HY		●	
Alternatives			●
Hedge Funds			●
Private Markets		●	
Crude Oil			●
Base Metals	●		
Precious Metals			●
Cash	●		

Equities

MSCI US has outperformed the broad markets year-to-date (as of 30 Jun 2023). It is worth noting that the US stock price surge in 2Q 2023 was largely driven by names in the Information Technology, Communication Services and Consumer Discretionary sectors. In particular, the top 10 stocks by market capitalization in the S&P 500 were the heavy lifters in returns year-to-date.

Markets have shrugged off contagion fears from a series of bank failures as well as recession concerns amid the broad US earnings resilience. Meanwhile, leading indicators of shelter pricing and labor market dynamics suggest potentially sharp disinflation going into end-2023.

Against this backdrop, the US markets have been front-running an inevitable rollover in Fed fund rates despite the Fed's hawkish rhetoric. It is worth noting our base case of a mild US recession has been pushed back. Having said that, the US earnings could hold up well, and decouple from the real economic growth slowdown.

The durability of the recent boost in US equities rests on four key factors: (1) a mild US economic recession; (2) a downside surprise in US inflation; (3) a decline in US real yields; and (4) continued dollar weakness.

Beyond any near-term market correction, we reiterate our focus on selected opportunities in stocks within defensive sectors (e.g., Healthcare) as well as quality large-cap and growth names. Investors will likely continue to seek shelter in recession-resilient companies, while quality large-cap and growth stocks can benefit from safe-haven demand and peaking bond yields. Investors can consider gaining exposure via structured products for buffer against downside risks. **We remain Neutral on US equities**.

MSCI Europe (+11.4% in USD terms) trailed behind the US and Japan year-to-date (as of 30 Jun 2023). Companies in Europe have large exposure to China via trade; this primarily explains the highly positive correlation in returns observed between the two regions year-to-date. Notably, Eurozone's composite purchasing managers' index (PMI) has seemingly peaked. Recent PMI data of Germany and France have missed estimates, pointing to a waning economic momentum.

Europe's robust services activity has also slowed down, while the manufacturing activity remained weak against a backdrop of China's disappointing economic data. Meanwhile, falling energy prices have mitigated the risk of a wage-inflation spiral developing in Eurozone economies despite the ongoing crisis in Ukraine. Having said that, the European Central Bank (ECB) is still focused on tackling sticky core inflation, which trends higher than their target. Relative to the US Federal Reserve, the ECB still has more monetary tightening to do.

Investors can consider taking advantage of any spikes in market volatility using structured products for better risk-reward. Integrated oil majors as well as selected stocks from the Utilities sector riding on the theme of renewable transition are possible candidates for the underlying.

Meanwhile, selected European tech and luxury stocks could continue to hold up well relative to the broad market as investors seek safe havens amid weaker growth. Overall, we continue to advocate caution following the rally in 2Q 2023 amid a potential ECB monetary overkill. **We stay Underweight on European equities.**

MSCI Japan (+11.7% in USD terms) saw a spectacular rally through 2Q 2023 despite yen's depreciation, trailing only behind the United States year-to-date (as of 30 Jun 2023). We have been constructive on Japanese equities since the start of the year, on the grounds of room for valuation re-rating, an earnings growth inflection, as well as foreseeably strong foreign inflows.

MSCI Japan has surged, catalyzed by Warren Buffett's purchases and rising share buybacks. We saw bouts of profit-taking towards end-June 2023 as composite purchasing managers' indices (PMIs) across the developed markets suggest slowing economic momentum ahead. The recent weakness can be construed as a healthy consolidation following a streak of share price gains in MSCI Japan through 1H 2023.

Looking ahead, we expect globally diversified portfolios which are still under-allocated to Japanese equities to boost their holdings into recent weakness. This suggests further foreign portfolio inflows.

Private consumption is expected to hold up well on the back of strong wage gains while Japanese stocks in Consumer Discretionary could see further positive earnings revisions from travel recovery. Share buybacks or capital returns to shareholders have also been on the rise. Given these favorable trends, we see scope for further upside from current levels. **We remain Overweight on Japan's equities**.

MSCI Asia ex-Japan (+1.8% in USD terms) edged higher slightly through the first half of 2023, dragged primarily by MSCI China (-6.4% in USD terms) which languished following a strong start (as of 30 Jun 2023). Our investment thesis rested mainly on the Chinese government ramping up their policy stimulus amid a continued slowdown in economic activity.

However, policy reflation efforts in China have been lackluster despite manufacturing weakness and peaking services recovery. China's industrial deflation also showed no sign of easing amid weak demand for factory goods.

Chinese government officials have been slow to introduce policy stimulus albeit the People's Bank of China (PBoC) lowered its short-term lending rate in a signal to looser monetary policy ahead. Notably, activity at small-medium enterprises (SMEs) has been shrinking while private sector firms have been struggling amid limited access to financing. A record-high youth jobless rate also undermines household consumer confidence.

While Chinese equities are trading at attractive valuations relative to their historical averages and peers in the developed markets, there is a lack of catalyst on China's policy front. As such, Chinese equities could be trading in a protracted range-bound fashion. Our view is to reduce Chinese positions on stimulus-related relief rallies. Overall, **we downgrade EM Asia equities to Neutral from Overweight**.

Fixed Income

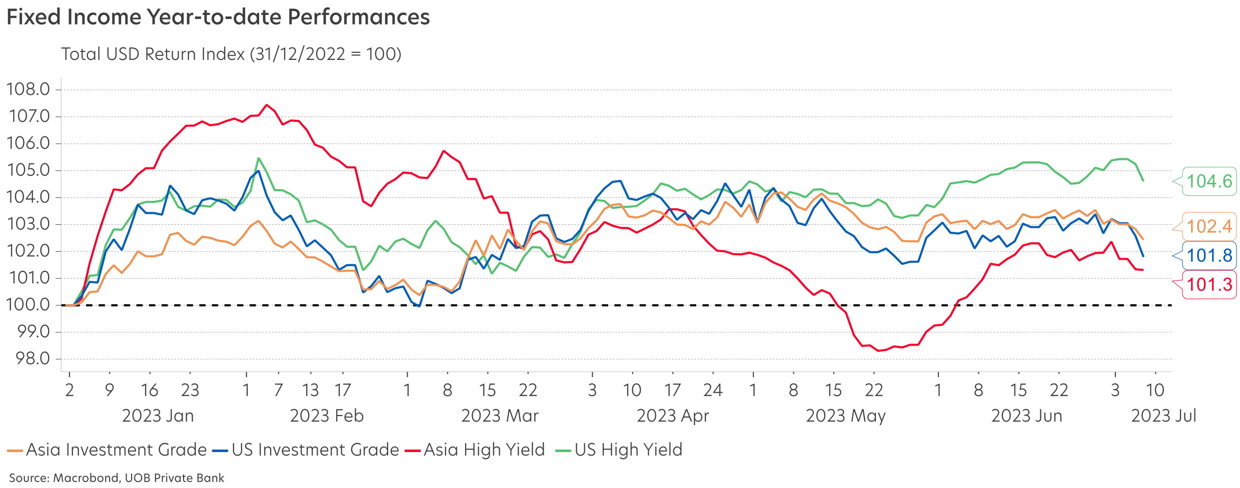
Developed Markets Investment Grade (DM IG): Increase the credit quality and extend the duration

DM Investment Grade (IG), proxied by US Corporate IG, saw +3.2% USD total returns year-to-date (as of 30 Jun 2023), underperforming its DM High Yield (HY) peer. Despite spread tightening through 2Q 2023, total returns were almost flat during this period as Treasury yields edged higher. The Fed Chair Powell signaled their rate hike campaign is likely to resume after a pause in June 2023; this hawkish rhetoric continued to anchor the Treasury yields higher. Looking ahead, we see limited scope for further spread compression although the firm momentum (chart on bottom right) could persist in the near term.

DM IG credits are backed by resilient fundamentals; many issuers have strong balance sheets as well as robust free cash flows despite macro headwinds. Having said that, a great deal of spread tightening has materialized. Treasury returns will have to do the heavy lifting. The UOB Global Economics & Markets Research team expects 1 more 25 bps Fed rate hike in July and a pause, before rate cuts in 1Q 2024. While the US economy has demonstrated great resilience, a growth slowdown is within sight. Default rates are expected to trend higher. Our view is to increase the credit quality while extending the average bond modified duration to 5-8 years (up from 3-5 years). **We remain Overweight on DM USD IG.**

Fixed Income Year-To-Date Performances

Source: Macrobond, UOB Private Bank



Developed Markets High Yield (DM HY): An anticipated rise in default rates amid growth slowdown

DM High Yield (HY) saw +5.4% USD total returns year-to-date (as of 30 Jun 2023), outperforming all its peers. Spread compression more than offset the rise in Treasury yields, culminating in positive total returns through 2Q 2023. We had recognized the potential for further spread tightening in DM HY given US economic resilience and the sheer number of energy issuers which benefited from steady oil prices. However, we reiterate caution given deteriorating funding conditions as DM central bankers continued to tighten monetary policies. It is essential to avoid idiosyncratic pitfalls as many of these issuers have weak balance sheets. With an anticipated rise in default rates, **we remain Underweight on DM USD HY**.

Emerging Markets Asia USD Investment Grade (EM Asia IG): Better relative value and yield pick-up than DM peers

Emerging Asia Investment Grade (IG) saw +3.2% USD total returns year-to-date (as of 30 Jun 2023), outperforming its EM Asia High Yield (HY) peer. EM Asia IG credits have demonstrated great resilience against a challenging economic growth and interest rates backdrop. Total returns were broadly flat through 2Q 2023 as spread compression was mostly offset by a rise in Treasury yields.

We reiterate our preference for selected quality credits within the EM Asia IG space to avoid idiosyncratic credit pitfalls. Relative to their DM IG peers, EM Asia IG credits offer better valuation and yield pick-up. It is also worth noting that central banks in EM Asia typically do not raise interest rates as aggressively as their DM peers. We continue to emphasize taking a diversified approach in terms of duration management, preferring an average modified duration of 5-8 years (up from 3-5 years) at the overall bond portfolio level.

We like selected quality credits within Asian Financials, Asian quasi-sovereigns, strategic Chinese state-owned enterprises (SOEs) and Indonesian Utilities. As with DM IG, Treasury returns will have to do the heavy lifting following material spread tightening through 2Q 2023. We reiterate a buy-on-dips stance to lock in higher yield carry at opportune times. Overall, **we remain Overweight on EM Asia IG**.

Emerging Markets Asia USD High Yield (EM Asia HY): Selectivity and diversification remain key

Emerging Asia High Yield (HY) saw +2.4% USD total returns year-to-date (as of 30 Jun 2023), underperforming all its peers. Having said that, EM Asia HY credits staged a strong rally from late-May 2023 on >100 bps of spread compression at the index level (chart on bottom right, blue line).

Given that China's private developers still face liquidity constraints and have mostly defaulted on their dollar-denominated debt, we continue to advocate selectivity and diversification while placing emphasis on issuer survivorship. We still prefer selected Indonesian developers and Indian commodity players. With rising default rates offsetting the potential for further spread tightening, **we stay Neutral on EM Asia HY**.

FX, Interest Rate & Commodities Forecasts

FX	15 Jun	3Q23F	4Q23F	1Q24F	2Q24F
USD/JPY	140	145	138	132	128
EUR/USD	1.09	1.10	1.12	1.14	1.16
GBP/USD	1.28	1.30	1.32	1.34	1.36
AUD/USD	0.69	0.69	0.71	0.72	0.73
NZD/USD	0.62	0.62	0.63	0.64	0.65
DXY	102.20	102.1	99.9	98.0	96.3
USD/CNY	7.13	7.25	7.10	6.95	6.85
USD/HKD	7.82	7.84	7.82	7.80	7.80
USD/TWD	30.71	31.0	30.4	30.0	29.5
USD/KRW	1,275	1,320	1,260	1,220	1,200
USD/PHP	55.82	57.0	56.0	55.0	54.0
USD/MYR	4.62	4.68	4.60	4.50	4.40
USD/IDR	14,945	15,200	14,800	14,600	14,200
USD/THB	34.68	35.5	34.0	33.5	33.0
USD/VND	23,531	24,200	24,000	23,800	23,700
USD/INR	81.97	83.0	82.0	81.0	80.0
USD/SGD	1.34	1.36	1.35	1.33	1.31
EUR/SGD	1.46	1.50	1.51	1.52	1.52
GBP/SGD	1.71	1.77	1.78	1.78	1.78
AUD/SGD	0.92	0.94	0.96	0.96	0.96
SGD/MYR	3.45	3.44	3.41	3.38	3.36
SGD/CNY	5.34	5.33	5.26	5.23	5.23
JPY/SGDx100	0.95	0.94	0.98	1.01	1.02

POLICY RATES	23 Jun	3Q23F	4Q23F	1Q24F	2Q24F
US Fed Funds Rate	5.25	5.50	5.50	5.00	4.50
JPY Policy Rate	-0.10	-0.10	-0.10	0.00	0.00
EUR Refinancing Rate	4.00	4.25	4.25	4.25	4.25
GBP Repo Rate*	5.00	5.50	5.50	5.25	5.00
AUD Official Cash Rate	4.10	4.35	4.35	4.00	3.75
NZD Official Cash Rate	5.50	5.50	5.50	5.25	5.00
CNY 1Y Loan Prime Rate	3.55	3.55	3.55	3.55	3.55
HKD Base Rate	5.50	5.75	5.75	5.25	4.75
TWD Official Discount Rate	1.88	1.88	1.88	1.88	1.88
KRW Base Rate	3.50	3.50	3.50	3.25	3.00
PHP O/N Reverse Repo	6.25	6.25	6.25	5.75	5.25
MYR O/N Policy Rate	3.00	3.00	3.00	3.00	3.00
IDR 7D Reverse Repo	5.75	5.75	5.75	5.50	5.25
THB 1D Repo	2.00	2.00	2.00	1.75	1.75
VND Refinancing Rate	4.50	3.50	3.50	3.50	3.50
INR Repo Rate	6.50	6.50	6.50	6.50	6.50

INTEREST RATES	15 Jun	3Q23F	4Q23F	1Q24F	2Q24F
USD 3M SOFR (compounded)	4.94	5.18	5.30	5.08	4.60
SGD 3M SORA (compounded)	3.65	3.86	4.03	3.88	3.48
10Y US Treasuries Yield	3.74	3.50	3.20	3.20	3.10
SGD 10Y SGS	2.98	2.85	2.70	2.70	2.65

COMMODITIES	15 Jun	3Q23F	4Q23F	1Q24F	2Q24F
Gold (USD/oz)	1,958	2,000	2,000	2,100	2,100
Brent Crude Oil (USD/bbl)	76	80	80	90	90
Copper (USD/mt)	8,558	8,000	8,000	7,000	7,000

* Forecasts updated as of 26 June 2023
Source: UOB Global Economics & Markets Research

Disclaimer

This publication is strictly for informational purposes only and shall not be transmitted, disclosed, copied or relied upon by any person for whatever purpose, and is also not intended for distribution to, or use by, any person in any country where such distribution or use would be contrary to its laws or regulations. This publication is not an offer, recommendation, solicitation or advice to buy or sell any investment product/securities/instruments. Nothing in this publication constitutes accounting, legal, regulatory, tax, financial or other advice. Please consult your own professional advisors about the suitability of any investment product/securities/ instruments for your investment objectives, financial situation and particular needs.

The information contained in this publication is based on certain assumptions and analysis of publicly available information and reflects prevailing conditions as of the date of the publication. Any opinions, projections and other forward-looking statements regarding future events or performance of, including but not limited to, countries, markets or companies are not necessarily indicative of, and may differ from actual events or results. The views expressed within this publication are solely those of the author's and are independent of the actual trading positions of United Overseas Bank Limited, its subsidiaries, affiliates, directors, officers and employees ("UOB Group"). Views expressed reflect the author's judgment as at the date of this publication and are subject to change.

UOB Group may have positions or other interests in, and may effect transactions in the securities/instruments mentioned in the publication. UOB Group may have also issued other reports, publications or documents expressing views which are different from those stated in this publication. Although every reasonable care has been taken to ensure the accuracy, completeness and objectivity of the information contained in this publication, UOB Group makes no representation or warranty, whether express or implied, as to its accuracy, completeness and objectivity and accept no responsibility or liability relating to any losses or damages howsoever suffered by any person arising from any reliance on the views expressed or information in this publication.