UOB HOUSE VIEW

3Q2019

GLOBAL MACRO

US-led trade policies against China and its major trading partners/allies continue to be the focus of markets, singled out as the key factor exacerbating global growth slowdown. We are not expecting US-China trade relations to suddenly become hunky-dory, but we do see the prospect of another ceasefire outcome following G20 in Japan, much like last Dec's G20 in Argentina. If talks break down, then the risk of an all-out trade war will look imminent, and the world will look to central banks to the rescue.

ASSET ALLOCATION

The complex macro environment appears to carry risks for equities and appears quite benign for fixed income. We thus overweight fixed income and underweight equities. **We would highlight that our views are more cautious than bearish.** Our view to underweight equities implies we think fixed income has a more attractive risk adjusted outlook but not that we are necessarily very bearish on equities.

EQUITIES

Our overall recommendation for equities is to stay neutral similar to the previous quarter. The recent rebound was driven by market expectations for, and the eventual confirmation of, a more dovish turn by the Fed, as well as optimism for improvements in Sino-US trade tensions. While the market is anticipating incrementally positive news from the upcoming G20 summit, we think that a substantial resolution to the trade spat between the US and China remains unlikely in the near term.

FIXED INCOME

Against the backdrop of decelerating growth across major economies and preemptive policy easing by major central banks, the fixed income outlook continues to look attractive in 2019 and we prefer income strategies focusing on rates, and high-quality credit. In the credit space, we think corporate fundamentals still moderately healthy and credit valuations of corporate bonds are reasonable notwithstanding that they have appreciated in value.

COMMODITIES

At the half way point of 2019, it is clear to global investors that the global macroeconomic backdrop has taken a turn for the worse as US-China trade talks broke down in May. Amidst such an environment of lower global growth there is no surprise that both the industrial metals and energy complex were sold off across 2Q. On the other hand, gold has staged a strong rally as the FED led global central banks to signal a new round of monetary policy easing.

FX & INTEREST RATES

USD is increasingly on shaky ground against its G-10 peers (EUR, AUD, JPY etc) as the Fed is expected to cut rates in 2H19. Asian FX led by CNY will still weaken against USD as escalated trade tensions weighs on regional growth. In view of expected Fed rate cuts, we have lowered 3M SIBOR and SOR forecasts to 1.95% by end-2019.

UOB

Possible Scenarios For The Trade Tensions			
Scenarios		**Probability**	**Implication On FX & China's Monetary Policy**
BEST CASE	Trade Truce post-G20 Negotiations result in eventual removal of most additional tariffs imposed by both countries	10%	**USD/CNY pulls back to 6.70** One or no further RRR cut for the rest of the year
BASE CASE	Trade Truce post-G20 Uncertainties remain and a breakdown in talks may still occur during the negotiations. Any agreement may not remove most existing additional tariffs	60%	**USD/CNY drifts higher to 7.10** Maintain our call for two more broad-based RRR cuts this year
WORST CASE	No agreement on trade truce at G20 US makes good on its threat to impose tariff of 25% on additional US$325bn of Chinese exports to the US which are currently not subject to additional tariff. This brings all China's exports to US (US$540bn in 2018) under additional tariff. Retaliations may involve restrictions on technology transfer and other measures	30%	**USD/CNY threatens to trade above 7.30** Two more broad-based RRR cuts this year and at least one time cut to the benchmark 1-year lending rate

Navigating Trade Cross-Currents
Taking stock of 2019 so far, growth numbers while weaker for some economies, did not turn out as bad as initially feared. For developed economies like the US and Japan, 1Q growth beat expectations although the growth drivers were of the "unhealthy" type (import decline and inventory buildup) and consumer spending softened. June's US recession probability (as measured by New York Fed) has now touched 30%, implying the likelihood of a US recession by May 2020. International organizations like IMF and World Bank have been downgrading global growth forecasts due to growing trade policy uncertainties which have weakened the global trade & investment outlook while the calls for more central bank action have grown louder. WTO downgraded global merchandise trade growth lower to 2.6% in 2019, the slowest since the global financial crisis. In short, outlook is gloomier and the world needs central banks to come to the rescue.

US-led trade policies against China and its major trading partners/allies continue to be the focus of the markets and are singled out as the key factor responsible for exacerbating the global growth slowdown. US President Donald Trump has found his calling or his weapon of choice: trade tariffs. It can be used for any occasion and almost any reason: from the US-China trade conflict to stemming illegal immigration on the US southern border. We remain wary of the risk that US may still slap auto tariffs against major car producing countries before the end of 2019. But trade is only the tip of the "iceberg" of issues between US and China. It is also about rivalry in technology, intellectual property rights, industrial practices, the CNY policies, geopolitics, and more. So is it all doom and gloom between US and China? Perhaps not, especially now with the confirmation President Trump will have an "extended" meeting with Chinese President Xi at G20 Leaders' summit in Japan (28/29 Jun).

We are not expecting US-China trade relations to suddenly become hunky-dory, but we do see the prospect of another ceasefire outcome following the G20 meeting in Osaka, much like last December's G20 in Argentina. But the stakes are much higher now, as the prospect of all Chinese goods to US being put on tariffs should the trade tensions escalate further post-G20. Our base case (at 60% probability) is that the trade negotiation will be long-drawn, well into 2H 2019 before some resolution. A trade ceasefire will be cheered by world but we believe a comprehensive agreement (covering trade, technology, FX and everything US is asking for) is unlikely to be reached this year. We expect a partial agreement on trade with enforcement measures could be feasible while the rest of the most difficult structural issues including intellectual property protection, technology transfer and other issues, could take years to resolve to the satisfaction of both sides. Trump has started his 2020 re-election campaign and while he does not necessarily need a good trade deal immediately in June, he cannot afford to be seen by his supporters that he is accepting a sub-par China trade deal. But if talks break down, then the risk of an all-out trade war will look imminent (30% probability).

Central banks to the rescue again? Needless to say, normalization of easy monetary policy among the major central banks is nearly (or already) out of the window, and there is growing expectations that everyone will re-join the easing bandwagon soon. The US Federal Reserve in its latest June FOMC signaled clearly that it will cut rates soon, possibly in Sep or earlier in July. In the face of rising global risks, we think the BOJ will ease monetary policy further via buying more JGBs to push its bond buying closer to the JPY80trn annual pace. A defiantly dovish ECB President Draghi could signal another big boy joining the easing bandwagon, possibly his final act before exiting ECB in Oct. Several major Asia-Pacific central banks have already cut policy interest rates and could do more in 2H while PBOC will also implement more easing measures if the trade conflict with the US continue to takes its toll on growth.

Beyond the already well-telegraphed trade conflict, another risk is the re-emerging geopolitical tensions in the Middle East following the oil tanker attacks in the Gulf of Oman in early June. While we do not expect a full-blown war to erupt in Middle East in 2H 2019, any miscalculation leading to even a limited conflict could still have an outsized spike in crude oil prices. And in the UK, the Conservative Party is close to choosing a new leader and Prime Minister. Boris Johnson remains the frontrunner and could be the one to lead UK out of EU without a deal, as the 31 Oct deadline looms. Back in the US, lawmakers will scrabble to resolve the Budget appropriations and the US debt ceiling limit to avoid another government shutdown and an unprecedented US default. But brinkmanship is now the norm in US politics and we may have to brace for fireworks in Sep/Oct.

ASSET ALLOCATION

We recommend being cautious but not necessarily bearish. The global expansion is entering its 11th year and is becoming one of the longest expansions ever. At the same time global growth is slowing, global geopolitical risks are rising. To offset this, policy makers are trying to support growth by hinting at interest rate cuts. This complex macro environment appears to carry risks for equities and appears quite benign for fixed income. We thus overweight fixed income and underweight equities. We would highlight that our views are more cautious than bearish. Our view to underweight equities implies we think fixed income has a more attractive risk adjusted outlook but not that we are necessarily very bearish on equities. Being underweight equities implies we want to carry a little less equities than normal in our overall portfolios but not that we want to sell all equities.

Fixed income markets are no longer at risk of rising rates and the downside risks to fixed income appear quite low. UOB's view is that the US Fed will cut the Fed Funds rate twice in 2019 which implies that assuming a flattish yield curve, most yield tenors should gravitate to yields of 2%. Furthermore, the market is starting to signal expectations of 3 rate cuts which implies there could be even more upside to fixed income portfolios if the Fed acts in such an aggressive manner.

Aging expansion and slowing growth makes the equity outlook more complicated. Supportive monetary policy has the potential to boost equities as well. But the equity story is more complicated. Equities face the threat that the economic cycle is already very mature and growth is slowing. Our view is that equities can perform in an environment of modest growth and positive policy support. But historically if the cycle is coming to an end and growth slows below average levels, a series of deep rate cuts would not lead to outperformance in equities. For example, in 2008, the US Federal Reserve cut rates throughout the year, but equities did not start to make gains until March 2009. On the other hand, if the upcoming policy easing resembles more of a shallow easing cycle seen in 1995 and 1998 (during which credit growth was relatively muted as well), equities potentially could push higher. Overall, our view is that equities positions should be somewhat moderated until the growth slowdown risks stabilize.

Trade tensions are a key risk. We remain concerned about the trade tensions between the US and China. While it remains possible that an agreement can be reached in coming months, our view is that the two sides seem far apart. The disputes do not appear to be over issues that can be compromised but rather big issues regarding sovereignty and fairness that will make it difficult for either side to back down. Furthermore, both sides appear to preparing for a protracted trade dispute. The US has postponed all other trade disputes so it can focus on the effect of raising tariffs on Chinese goods. China's leaders have indicated they need to prepare for a "new long march". Both countries appear to be preparing for a prolonged period of trade tensions. We find this worrisome as global growth has already been slowing. Trade conflicts are growth negative and could tip the already weak growth environment to end the cycle.

Income strategies are likely to be back in favor. Our overall tactical recommendation remains to focus on fixed income over equities, neutral commodities, and neutral cash. Multi-asset income strategies have that combine both fixed income and dividend focused equities are well poised to do well in a period of rate cuts. We recommend staying cautious and constantly monitoring the outlook for 2019 that has the potential to turn both positive and negative.

EQUITIES

Equities

After initially rallying to a year-to-date peak return of 15.2%, global equities (as proxied by the MSCI AC World index) sold off after trade tensions escalated following President Donald Trump's tweet on 5 May. MSCI AC World has since recouped much of the 6.2% post-May peak-to-trough decline, reducing it to -1.1%, leaving the index just 1.3 ppt away from the year-to-date peak. The rebound was driven by market expectations for, and the eventual confirmation of, a more dovish turn by the Fed, as well as optimism for improvements in Sino-US trade tensions. While the market is anticipating incrementally positive news from the upcoming G20 summit, we think that a substantial resolution to the trade spat between the US and China remains unlikely in the near term. Overall, we are underweight equities.

US

US equities rallied in early June on expectations that the Fed would conduct at least two rate cuts by the end of 2019. Despite the soggy US economic data of late, valuations are relatively rich versus other regions. 12-mth forward (12MF) P/E in the US is slightly below the 5-year average, while consensus EPS revisions have turned negative. EPS is expected to grow only about 3.2% in 2019, albeit with a base effect from last year's tax cut. Going forward, we expect the earnings of US technology firms to be adversely impacted as the US ban on Huawei reverberates across the technology supply chain. With the stimulative impact from US corporate tax cuts fading, US equities could also experience a de-rating if earnings momentum turns increasingly negative into 2H19, particularly if trade tensions escalate further. On the other hand, the strong labor market, rising wages, and healthy household balance sheets, could prolong the economic cycle through domestic consumption. With the pull and push factors for US equity markets tugging at one another, we see elevated risk of a binary outcome. As such, **we remain Neutral on US equities.**

EUROPE

Labor productivity and industrial confidence in Europe continue to be in the doldrums. The silver lining would be that macro indicators have gathered positive momentum over the last three months. Consumer confidence has picked up, while Purchasing Managers' Indices weakness could be behind us. Investor sentiment has also received a boost after the unexpectedly dovish comments by ECB's Mario Draghi on 18 June, which hinted at renewed openness to further rate cuts. That sent Europe's stock and bond markets surging. Going forward, we expect to see a gradual improvement in the European economy. European equity dividends remain attractive, while valuations are cheap relative to the 5-year average. Yet, EPS growth is expected to slow to 3.6% in 2019. The weak global trade outlook, low economic activity, tight fiscal policy and structural issues concerning the risk of populists offering simplistic solutions continue to cast doubts over any meaningful improvement in the Eurozone. As such, **we remain Neutral on Europe equities**.

JAPAN

MSCI Japan saw a peak-to-trough decline of 7.2% (in JPY terms) since President Trump's tweet on 5 May. Since then, it has rebounded to a drawdown of 3.6%. In USD terms, this translates to a decline of 1.1%, broadly in line with MSCI AC World. The rise in global risk aversion led to a rush into safe havens, with the JPY strengthening 2.8% against the USD since May. Non-resident investors also became net sellers on Japan's two main stock exchanges for the first time in two months. Concomitant with market concerns of Japan's corporate earnings slowdown, consensus expectations are for FY2020 (FY ending March 2020) EPS growth to be just 3.7%, despite the base effect from FY2019's 3.0% contraction. 12MF P/E of 12.6 is 1 standard deviation below the 5-year average, which looks to have broadly priced in the earnings outlook. Looking ahead, global trade concerns will adversely affect external demand-related stocks i.e. capital goods, materials, and semiconductor industries, while JPY strength would broadly make exporters less competitive. As such, **we are Neutral on Japan equities.**

EMERGING MARKETS

Since President Trumps' May tweet, MSCI EM has declined 1.9% in USD terms, with the bulk of this driven by MSCI China's 9.8% slump. Despite that, MSCI EM is trading at a 12MF P/E of 11.2, above its 5-year average, which has been dragged by an 11.3% reduction in consensus EPS forecasts over the past 6 months. EPS revisions have been revised lower amidst global growth concerns and escalating trade tensions, with China being particularly negatively impacted. Consensus forecast is for 6.7% EPS growth in 2019. Recent developments on the trade front have lowered the odds of a meaningful resolution between US and China, but the outcome remains binary. While the outlook for EM equities is complicated by the trade war, we see an outright bearish view as unwarranted. The fundamental drivers behind EM equities are the US Fed policy and China's growth/policy stimulus. The trade war will likely force both the U.S. and Chinese authorities into a synchronized easing cycle, bringing about a reflationary environment. For this reason, **we will remain Neutral on EM equities**.

COMMODITIES

Gold Outperforms in a Difficult Macro Environment for Commodities

At the half way point of 2019, it is clear to global investors that the global macroeconomic backdrop has taken a turn for the worse as US-China trade talks broke down in May. Amidst such an environment of lower global growth there is no surprise that both the industrial metals and energy complex were sold off across 2Q. On the other hand, gold has staged a strong rally as the FED led global central banks to signal a new round of monetary policy easing.

Copper: A clear casualty of the escalating US-China trade war

The further escalation of tariffs between US and China was too much to bear for the Industrial Metals complex as 3M LME Copper finally succumbed to fears of global growth slowdown and fell from USD 6,500 / MT in late April to USD 5,800 / MT in early June. Given the broader growth slowdown and export contraction, we now downgrade 3M LME Copper and see more weakness ahead to USD 5,200 / MT.

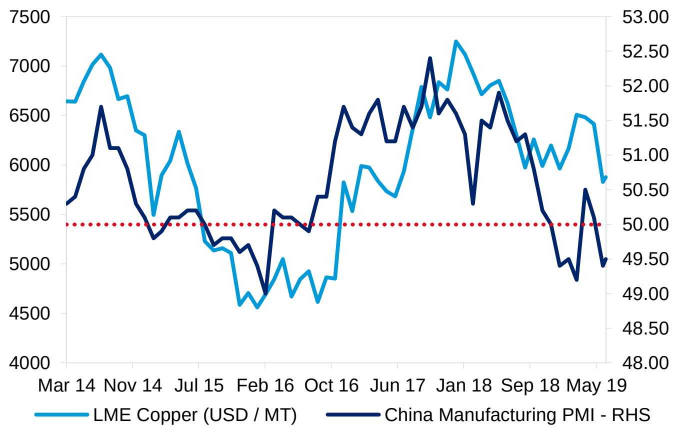
Brent Crude Oil: Caught in-between growth slowdown and rising geopolitical risks

Brent crude oil remains caught in-between the opposing forces of geopolitical risks vs global growth slowdown. The oscillation between euphoria and risk aversion resulted in a fair amount of whip-saw over the past four quarters. The latest round of tariffs in May resulted in sell-off from USD 75 / bbl in Apr to USD 60 / bbl in Jun. As geopolitical risks are always in the background, we can expect Brent Crude oil to encounter the occasional short covering. Overall, we see Brent Crude Oil gyrating within the USD 60 to 70 / bbl level in the coming four quarters.

Gold: Imminent FED rate cuts to cement gold's rally towards USD 1,500 / oz

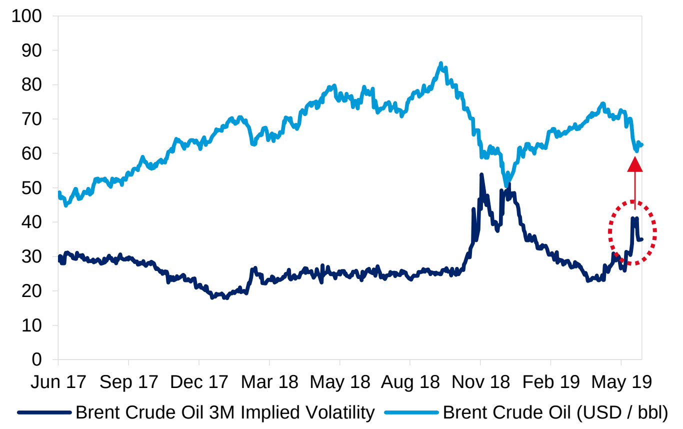
Finally, there is no change in our strong positive conviction view for gold. In fact, prospects for gold has got even brighter after the US Federal Reserve made it clear that it will soon cut rates. In addition, other global central banks like ECB and RBA seemed to be joining this renewed easing cycle. This has pushed global bond yields lower and is a key positive driver for gold. With the recent rally above USD 1,400 / oz, we now upgrade our positive gold call further and see gold rising further to USD 1,500 by mid-2020.

LME Copper Price Retreats With Weaker Manufacturing PMI



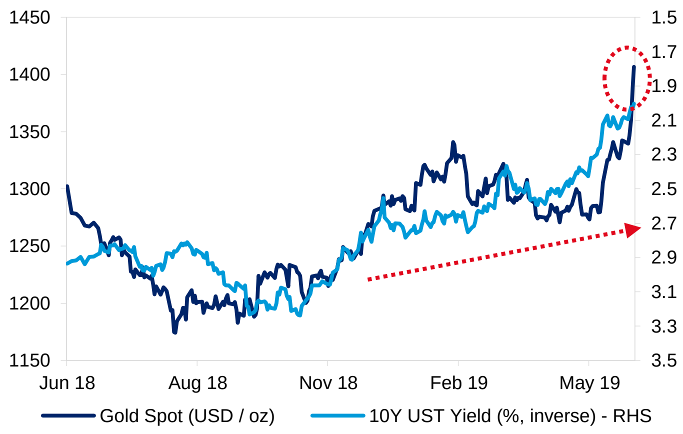
Source: Bloomberg, UOB Global Economics & Markets Research

Brent Crude Is Increasingly Volatile



Source: Bloomberg, UOB Global Economics & Markets Research

Gold Rallied As US Treasuries Yield Dropped



Source: Bloomberg, UOB Global Economics & Markets Research

FIXED INCOME

As the earlier optimism over growth prospects waned in 2Q 2019, fixed income markets continued to post positive returns. Global macro data disappointed market expectations, and signs of an aging expansion are increasingly apparent in major economies such as US and China. Uneasiness over US-China trade tensions and politics – fast turning into a “tech cold war” – further clouded the macro outlook. Central bank monetary policy continues to dominate the trajectory of risk assets, with dovish rhetoric from policymakers raising market expectations of further policy easing. The US Federal Reserve Chair Jerome Powell discussed the possibility that escalating trade risks could lead to rate cuts at a closely-watched monetary policy conference in Chicago, while the European Central Bank committed to leave rates unchanged through the first half of 2020 and has started to discuss additional steps including quantitative easing. Such anchoring in short-end rates, coupled with an aging expansion in major economies, paints a supportive backdrop for fixed income markets.

Against a backdrop of decelerating growth across major economies and preemptive policy easing by major central banks, the fixed income outlook continues to look attractive in 2019 and we prefer income strategies focusing on rates, and high-quality credit. In the credit space, we think that corporate fundamentals remain moderately healthy and credit valuations of corporate bonds are reasonable notwithstanding that they have appreciated in value.

We upgrade both investment-grade credit and government bonds, and downgrade EM local currency bonds. Interest rates now seem likely to say lower for longer. Notwithstanding that the sovereign bond yields are fairly low given that several rate cuts have already been priced in, sovereign bonds may be an attractive defensive option should recession risks spike higher. With the central banks clearly signaling their willingness to sustain the ongoing expansion, such preemptive cuts would likely cap recession risks from rising higher. As for corporate credit, most trends suggest some deterioration in global corporate conditions, cash flows and earnings growth would decelerate alongside the moderation in global growth prospects. In the late stage of an aging expansion, we think that investment-grade credit would outperform high-yield.

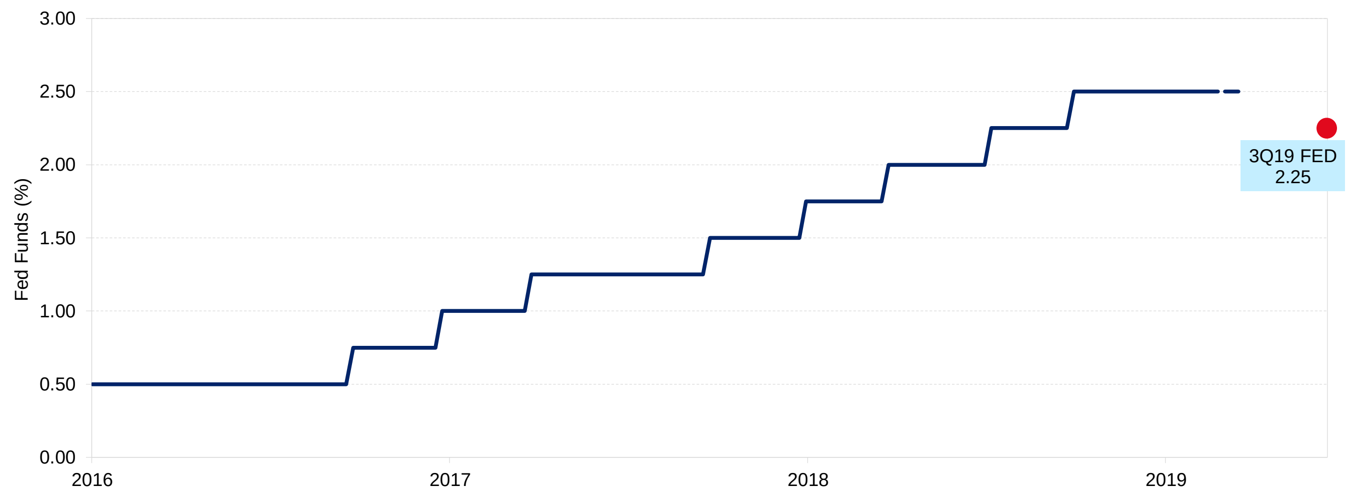
Long duration no longer cheap but may serve as a defensive option if recession risks spike. In 2Q 2019, US long-end yields continued to be pulled lower by weaker-than-expected data as well as preemptive Fed rhetoric, and consequently the yield curve continued to flatten. We are closely monitoring for growth slowdown risks to stabilize, but remain cognizant that a prolonged period of US-China trade tensions could complicate the macro outlook.

We favor USD Asian investment-grade credits. In light that market volatility could pick up in the near term, we would prefer USD Asian investment-grade credits. We overweight investment grade credits over high yield due to the uncertainties in the macro environment, as the former is a more defensive play at this late stage of the aging expansion.

FX & INTEREST RATES

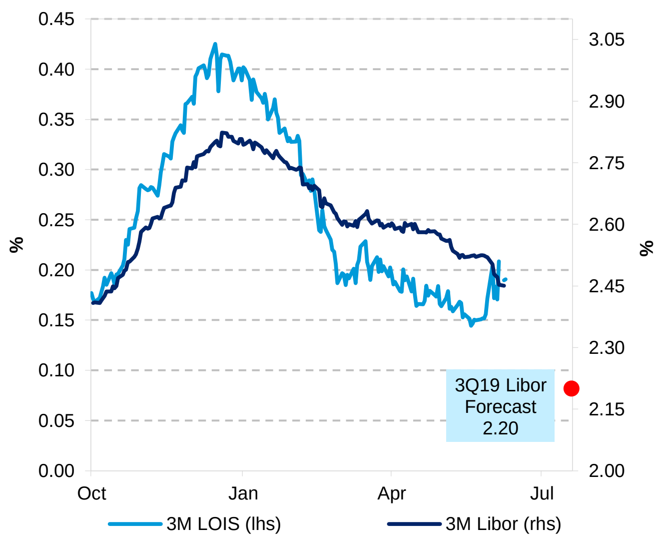
UNITED STATES

FED Funds Rate



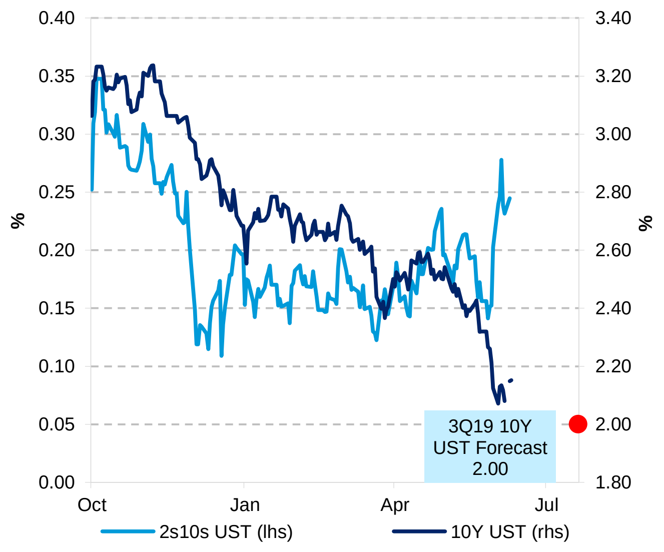
The FOMC kept its policy Fed Funds Target Rate (FFTR) unchanged at the 2.25%-2.50% range in Jun (2019) as widely expected, but the key change in the Fed June FOMC statement is the removal of "patient" and the inclusion to "act as appropriate to sustain the expansion" which opens the door to Fed rate cuts. From the latest June FOMC Dotplot, the bias has clearly shifted to rate cuts as there are now 8 Fed policy makers that expect rate cuts in 2019 (from none previously in Mar). We think the Fed will cut rates for two reasons: 1) US trade policy direction & developments, and 2) weakening inflation expectations, which dwindled to a 40-year low. We expect the Fed to cut its FFTR by 25bps in Sep, followed by another 25bps cut in Dec, bringing the upper bound of FFTR to 2.00% by end-2019, which matches the Fed's 2% inflation target. We acknowledge the risk that rate cuts could be brought forward to the July FOMC. While we currently do not price in further cuts in 2020, we do see the risk of another 25bps cut in 1Q 2020 and Fed will leave the door open to do more if needed.

3M US Libors



- We expect to see 3M Libor at around 2.20% at the end of 3Q2019.
- 3Q marks the start of a FED easing cycle. Dovish expectations to keep 6M and 12M tenors inverted versus 3M.
- Libor vs. OIS not expected to widen significantly unless fresh credit concerns emerges.

10Y US Treasuries



- We expect to see 10Y UST at 2.00% by the end of 3Q2019.
- Already low term premiums and sticky inflation expectations due to tariffs may limit the extent of yield decline.
- Curve steepening is the path of least resistance and will become increasingly obvious.

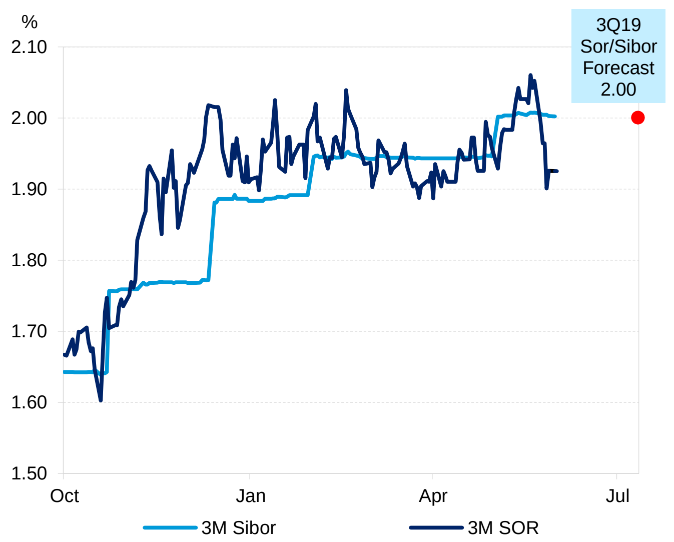
SINGAPORE

S$NEER

In tandem with our rhetoric in the previous 2Q19 UOB Houseview, the Monetary Authority of Singapore (MAS) kept its policy parameters unchanged at its April 2019 MPC meeting. This means keeping the appreciation slope, width, and centre for the Singapore Dollar Nominal Effective Exchange Rate (S$NEER) unchanged. The tone however is viewed to be relatively less optimistic versus the previous MPC in Oct 2018, where the MAS shifted its growth outlook from one of growth being "slightly above potential" made back in October 2018, to one that "pace of growth will be slightly below potential" this year. It keeps its growth outlook to come in slightly below the midpoint of between 1.5% - 3.5%. We have since downgraded our GDP growth outlook to 2.0% (from a previous 2.5%) for 2019.

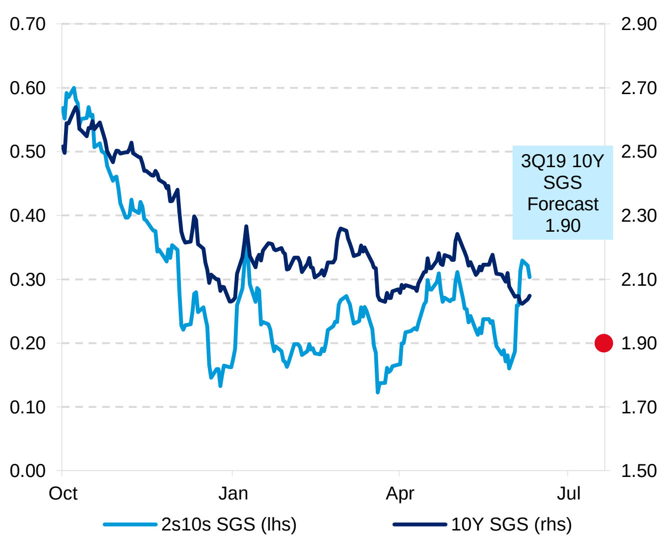
Since MAS' decision to keep policy pat, the SNEER persisted within the stronger half of the policy band, albeit falling to a low of +1.3% above policy midpoint in May before rallying to a current +1.7%, in part due to the SGD's safe haven characteristic during risk aversion. Our base case is for MAS to keep policy unchanged at its upcoming October MPS meeting, although the risk to "slightly" reduce the appreciation of the S$NEER policy band could play out if economic conditions and/or market confidence deteriorate quicker than expected. We note that the slowing economic prospects seen since the start of this year has brought the level of real output closer to Singapore's underlying potential.

3M SOR and Sibor



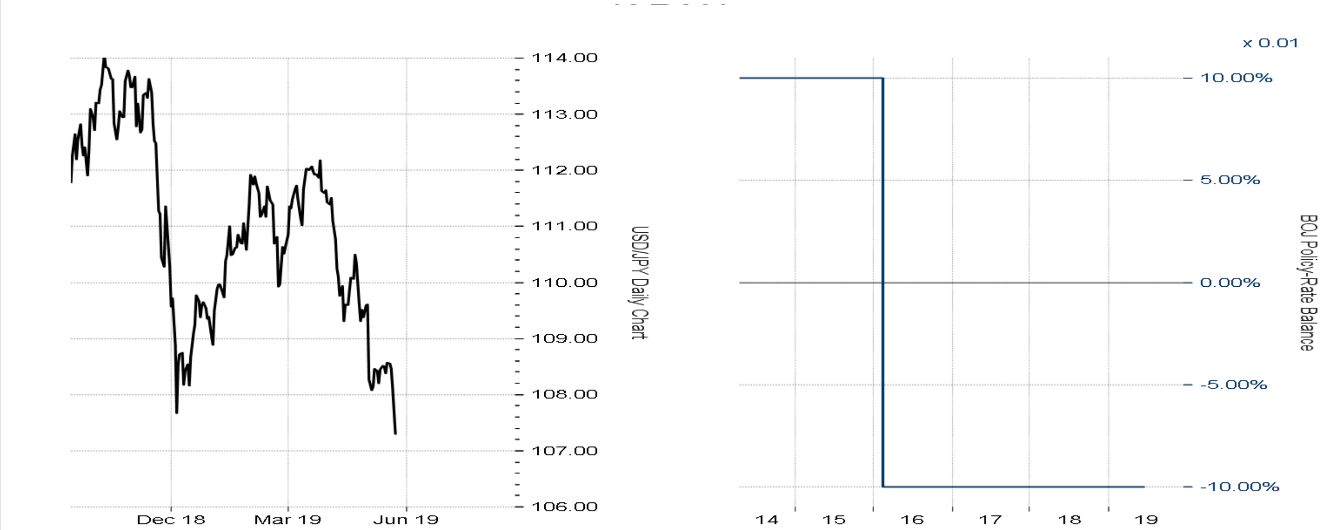
- We expect to see both 3M SOR and SIBOR at 2.00% by the end of 3Q2019.
- We have lowered our 12 month range for SG$ NEER to between 0.0% to 0.5%, implying some offset to lower US Libor from FED cuts.
- Key risk remains if EM outflows accelerates, which could tip SG rates into premium over US.

10Y SG Bonds



- We expect to see 10Y SGS at 1.90% by the end of 3Q2019.
- Q3 supply scheduled for 5Y, 10Y, 2Y, and a mini-auction.
- SGS curve to track US steepening with a smaller magnitude given the possible drag on the front end due to SG$ NEER re-pricing into a lower range.

JAPAN

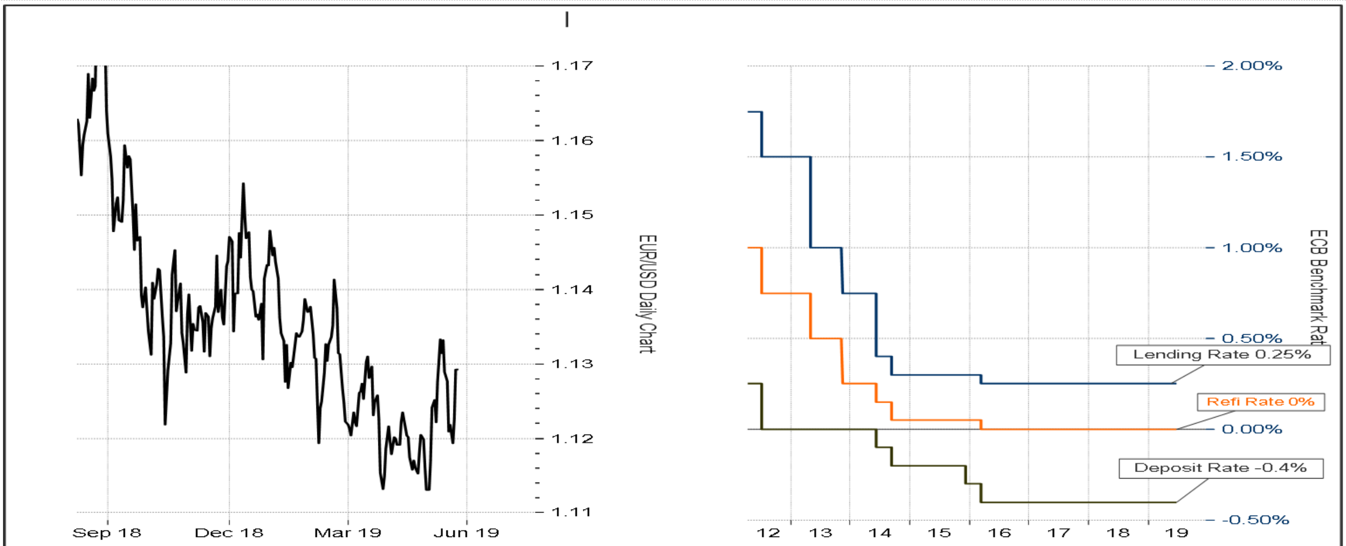


Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

There is growing expectation that the BOJ will re-join the easing bandwagon soon and the increased emphasis of risks from overseas impacting Japan's economy adds further to the easing view. We believe the gap between BOJ's actual bond buying and the official JPY80trn target presents an opportunity to increase monetary policy easing without changing the policy targets. Assume that the Japan government follows through on its Oct sale tax, that may be enough to "convince" the BOJ that the government is keeping its pledge to fiscal discipline and the BOJ may "allow" the Ministry of Finance to issue more debt (JGBs) which the BOJ in turn will buy so as to push the central bank's JGB buying closer to the policy JPY80trn annual pace.

Since early May, USD/JPY has slid from 112 to 108 as escalation from the US-China trade conflict spurred safe haven demand for JPY. Correlation of the currency pair with that of the 10-yr US Treasury yield had also picked up steadily to almost 0.7 from 0.6 in the May period. So, in-line with our expectations of lower 10-yr US Treasury yields going forward (1.90% at end-2019), downside in USD/JPY would probably continue. Overall, we have updated our forecasts to 108 in 3Q19, 106 in 4Q19 and 105 for 1Q20 and 2Q20. On the downside, support for the USD/JPY pair could come in the form of BOJ reasserting its easy monetary policy and embark on more concrete steps to bring the pace of JGB buying closer to its official target of JPY80tn.

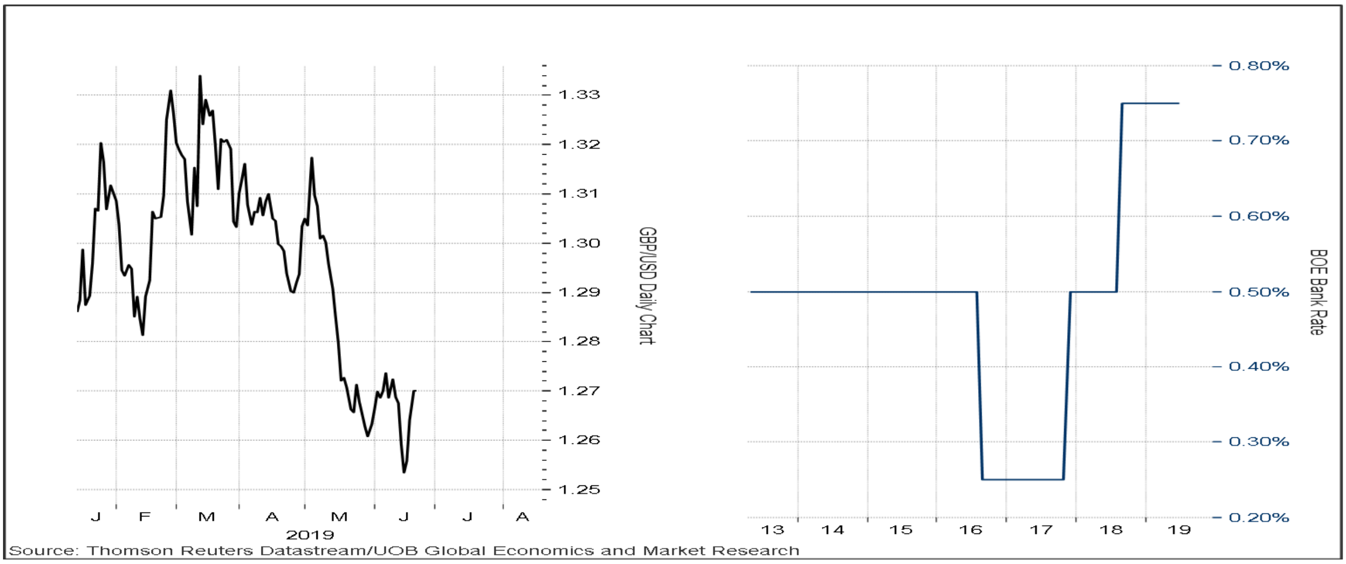
EUROZONE



Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

It was a volatile month for EUR in June. EUR/USD rallied from its 2-year low near 1.11 to as high as 1.1348 in early-June, spurred by a sudden and aggressive repricing of Fed rate cuts. From there, it has pared back more than half of its gains, trading closer to 1.12 after ECB President Mario Draghi hinted at possible rate cuts. Going forth, the tug-of-war between the ECB and Fed on the degree of dovishness would be a driver for EUR/USD. For now, we expect 50bps of rate cuts from the Fed in 2H19 while the ECB is only cutting by 10bps if data out of the Euro-area continues to deteriorate. As such, the interest rate gap between the Euro-area and the US should continue to narrow (as it had since Nov), giving EUR/USD a modest support. On balance, we remain positive on EUR/USD but the resulting trajectory is shallower than that of in the previous quarterly report where we envisaged a hawkish ECB. Our point forecasts are 1.12 in 3Q19 and 4Q19, 1.14 in 1Q20 and 1.16 in 2Q20.

UNITED KINGDOM

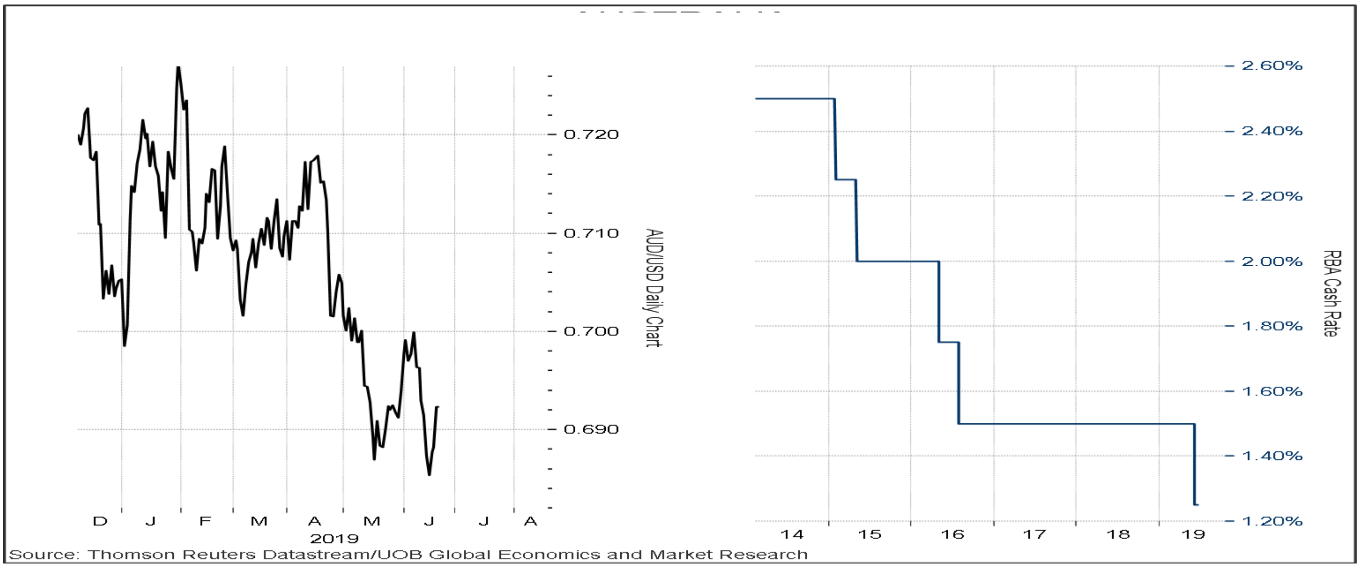


Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

As expected, the BoE left the Bank Rate unchanged at 0.75%, whilst maintaining its guidance that rates will need to move higher if the economy continues to evolve on par with the Bank's latest projections. However, it was clear the MPC is becoming more concerned about the possibility of a no deal Brexit. After all, Boris Johnson looks set to replace Theresa May as PM, and he has expressed his willingness to pull the UK out of the EU without a deal. The more "dovish" tone was reflected in the statement and minutes, which softened when compared to May, but also against recent more "hawkish" speeches. Overall, the BoE's "new" gear simply reinforces our view that until the BoE sees clarity from Brexit, an imminent move in rates is unlikely.

With rising odds of a no-deal Brexit on increasing prospects of Boris Johnson being voted by the Conservatives to be the next PM. Markets have been aggressively rebuilding short GBP/USD positions since mid-May, putting pressure on spot. We maintain our cautious near-term view on the GBP/USD, seeing the pair below 1.30 in the immediate two quarters.

AUSTRALIA

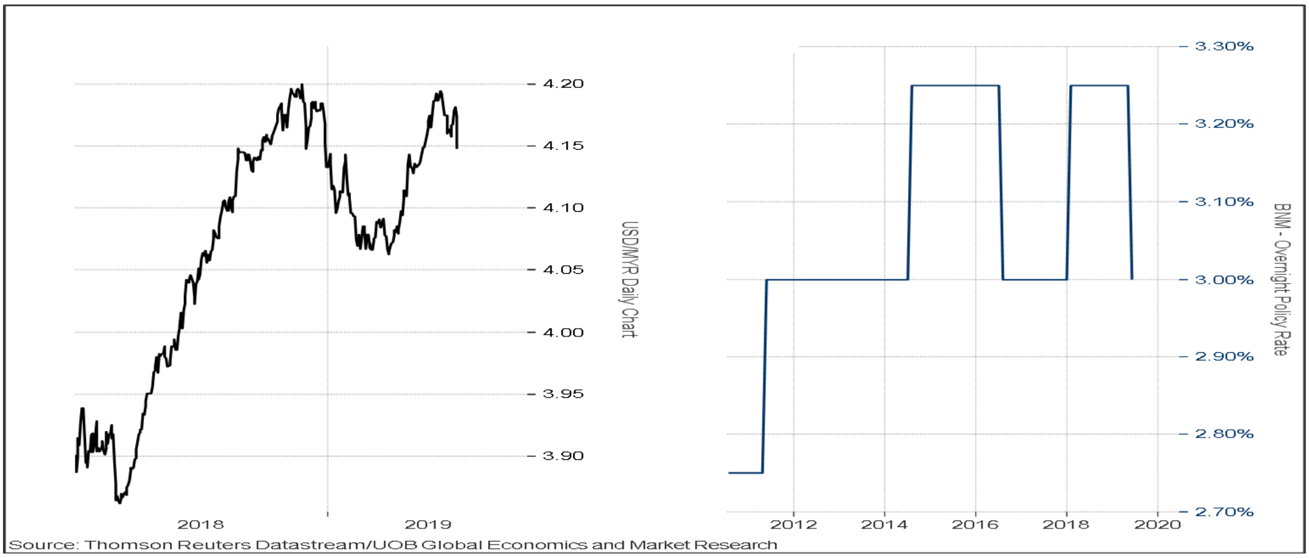


Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

The RBA has left the door open for further action, confirmed by minutes to the RBA's June meeting. We are expecting another rate cut this year. This is because RBA Governor Phillip Lowe has pointed to an ambitious objective for the labour market, with an unemployment rate of 4.5% seen as necessary to bring inflation back to target. This is despite the RBA's forecasts indicating a 5.0% unemployment rate on the basis of two rate cuts.

The specter of more RBA rate cuts together with escalating US-China trade tensions will continue to weigh on the AUD. Even after RBA's maiden cut in almost 3 years in June, financial markets have priced in almost 50bps of further cuts by December. As such, it is likely that AUD/USD will trade heavily around 0.69 for the immediate 3Q19 and in 4Q19. However, we reiterate our longer term view that once the USD turns against the Majors, the AUD will also find some form of support. As such we maintain a modest upwards trajectory in AUD/USD starting next year, looking at forecasts of 0.70 and 0.72 for 1Q20 and 2Q20 respectively.

MALAYSIA



Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

Bank Negara Malaysia (BNM) stays ahead of the curve with a 25bps cut in the Overnight Policy Rate (OPR) to 3.00% in May. This comes amid signs of slower growth and tightening of financial conditions. Going forward, we projected a flat trajectory for OPR in 2H19. Given a muted outlook on Malaysia's growth and inflation, while real interest rates hover around 2.5%, there is clearly room for more monetary easing if needed.

In line with CNY weakening beyond 7.0 against the USD in early 2020, our USD/MYR point forecasts are 4.22 in 3Q19, 4.25 in 4Q19, and 4.29 in both 1Q20 and 2Q20. Other factors underpinning MYR weakness include moderating domestic economy, weaker energy prices and dovish BNM.

INDONESIA

Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

In its June meeting, BI kept its policy rate unchanged and announced it will lower bank's reserve requirements by 50bps in July to boost liquidity. And according to BI Governor Perry Warjiyo, BI is monitoring global financial market conditions and the balance of payments and affirmed that "cutting rate is an action we will take in the future. It is a matter of time and magnitude." We believe that BI has room for rate cuts to support growth especially if external conditions become less volatile (and may result into more sustained capital inflows) while, by 4Q19, at least 2 of quarterly Balance of Payment (BOP) data would be available, which gives more assurance that CAD is more manageable. We keep our BI rate forecast to remain unchanged at 6.00% till Q3 2019before normalization occur in Q4 2019 by a cumulative 50bps rate cuts to 5.50%. However, there is now risk to our view that the cut may come sooner amidst a potential Fed rate cut in Q3 2019. We also see a risk that BI may cut rates further in 2020, if the external risks intensify further. Overall, we still foresee the IDR to weaken against the USD, albeit at a moderate pace. Our point estimates are 14,500 for 3Q19, 14,600 for 4Q19 and 14,800 for both 1Q20 and 2Q20. Should BI brings forward its rate cut or cuts rates further in 2020, this may lend upside pressure for our USD/IDR forecasts.

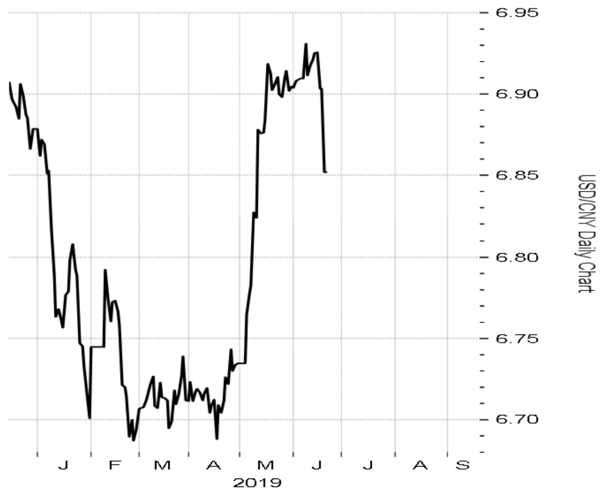
THAILAND

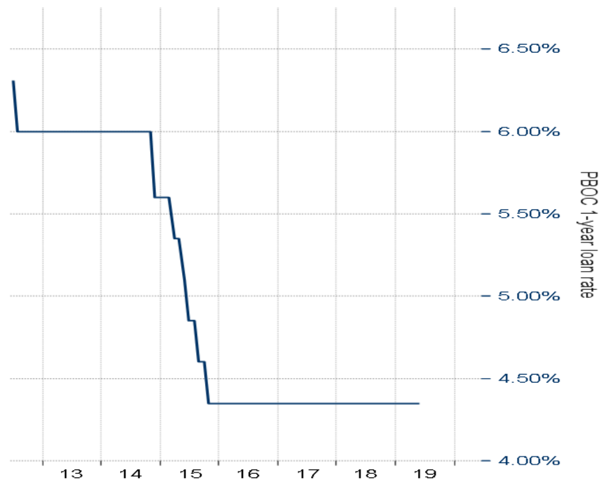
Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

For the rest of this year, we now expect the BoT to maintain the policy rate at 1.75% as the Thai economy will likely grow more slowly than its potential amid uncertainties stemming from the US-China trade tensions. There is no urgency to tighten monetary policy, as headline inflation would stay near the lower bound of the BoT's inflation target range of 1% to 4% in 2019.

Going forth, we are of the view that further gains in THB are unlikely. Thailand's macroeconomic indicators are moderating in a similar fashion as with its regional peers. Together with markets gradually unwinding earlier bets of a BoT hike in 2H19, the sails of THB may soon reverse and catch up with other Asian FX weakness. Overall, we see THB weakening to 32.00 in 3Q19, 32.20 in 4Q19, and 32.50 in 1Q20 and 2Q20.

CHINA





Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

To mitigate the growth concerns, Chinese policymakers are expected to step up their fiscal and monetary counter-cyclical measures. We believe there is still fiscal room for China to reduce taxes if needed, in particular the VAT and corporate income tax (currently 25%) which are the largest components of the government's revenue. A broad 1% cut in the VAT would amount to CNY62bn in liquidity injection into the system. As for monetary policy, the focus will remain on ensuring sufficient credit and market liquidity through cuts to banks' reserve requirement ratio (RRR) and via tools such as open market operations and the standing lending facility (SLF) and medium-term lending facility (MLF). We continue to see scope for another two broad-based cuts to banks' RRR this year. However, as PBoC moves towards market-based interest rates, there will be less emphasis on benchmark lending and deposit rates though we still see the possibility of a cut if growth comes under greater pressure.

With the uncertainties, growth weakness and accommodative monetary policy backdrop, we expect a measured up-move in USD/CNY going forth, eventually beyond the 7.00 handle by early 2020. Earlier in June, authorities alluded that a move beyond 7.00 in USD/CNY may be tolerated if the trade conflict drags on and weighs further on the domestic economy. Our point forecasts are 6.95, 6.99, 7.10 and 7.10 respectively for the next 4 quarters starting 3Q19.

FX, INTEREST RATE & COMMODITIES FORECASTS

FX	21 Jun 19	3Q19F	4Q19F	1Q20F	2Q20F
USD/JPY	107	108	106	105	105
EUR/USD	1.13	1.12	1.12	1.14	1.16
GBP/USD	1.27	1.25	1.28	1.30	1.30
AUD/USD	0.69	0.69	0.69	0.70	0.72
NZD/USD	0.66	0.65	0.65	0.66	0.68
DXY	96.6	97.6	96.8	95.4	94.4
USD/CNY	6.85	6.95	6.99	7.10	7.10
USD/HKD	7.81	7.83	7.83	7.80	7.80
USD/TWD	31.16	31.70	32.00	32.40	32.40
USD/KRW	1,162	1,200	1,210	1,230	1,230
USD/PHP	51.65	53.00	53.50	54.00	54.00
USD/MYR	4.15	4.22	4.25	4.29	4.29
USD/IDR	14,187	14,500	14,600	14,800	14,800
USD/THB	30.92	32.00	32.20	32.50	32.50
USD/MMK	1,518	1,540	1,550	1,570	1,570
USD/VND	23,305	23,600	23,800	24,000	24,000
USD/INR	69.44	70.00	70.50	70.90	70.90
USD/SGD	1.36	1.39	1.40	1.41	1.41
EUR/SGD	1.53	1.56	1.57	1.61	1.64
GBP/SGD	1.72	1.74	1.79	1.83	1.83
AUD/SGD	0.94	0.96	0.97	0.99	1.02
SGD/MYR	3.06	3.04	3.04	3.04	3.04
SGD/CNY	5.05	5.00	4.99	5.04	5.04
JPY/SGDx100	1.26	1.29	1.32	1.34	1.34

RATES	21 Jun 19	3Q19F	4Q19F	1Q20F	2Q20F
US Fed Funds Rate	2.50	2.25	2.00	2.00	2.00
USD 3M LIBOR	2.39	2.20	1.95	1.95	1.95
US 10Y Treasuries Yield	2.01	2.00	1.90	1.80	1.80
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	0.75	0.75	0.75	0.75	0.75
AUD Official Cash Rate	1.25	1.25	1.00	1.00	1.00
NZD Official Cash Rate	1.50	1.50	1.50	1.50	1.50
CNY 1Y Benchmark Lending	4.35	4.35	4.35	4.35	4.35
HKD Base Rate	2.75	2.50	2.25	2.25	2.25
TWD Official Discount Rate	1.38	1.38	1.38	1.38	1.38
KRW Base Rate	1.75	1.75	1.50	1.50	1.50
PHP O/N Reverse Repo	4.50	4.25	4.00	4.00	4.00
SGD 3M SIBOR	2.00	2.00	1.95	1.95	1.95
SGD 3M SOR	1.88	2.00	1.95	1.95	1.95
SGD 10Y SGS	1.93	1.90	1.80	1.70	1.70
MYR O/N Policy Rate	3.00	3.00	3.00	3.00	3.00
IDR 7D Reverse Repo	6.00	6.00	5.50	5.50	5.50
THB 1D Repo	1.75	1.75	1.75	1.75	1.75
VND Refinancing Rate	6.25	6.25	6.25	6.25	6.25
INR Repo Rate	5.75	5.75	5.50	5.50	5.50

COMMODITIES	21 Jun 19	3Q19F	4Q19F	1Q20F	2Q20F
Gold (USD/oz)	1,393	1,420	1,450	1,480	1,500
Brent Crude Oil (USD/bbl)	65	60-70	60-70	60-70	60-70
LME Copper (USD/mt)	5,973	5,800	5,600	5,400	5,200

THE TEAM

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