UOB HOUSE VIEW

4Q2021

GLOBAL MACRO

Re-opening of economies and borders will be an inevitable step needed to live with the coronavirus (COVID-19) but it will also bring with it a set of well-telegraphed risks and some idiosyncratic risks. In the final leg of 2021, we highlight the bag full of risks including the risks of uneven recovery, COVID-19 variants, elevated inflation, monetary normalization, capital outflows and a plenitude of political risks.

FIXED INCOME

Returns on most global fixed income markets continued to stay positive in 3Q 2021. While we are neutral on the fixed income asset class, we are underweight duration risk and overweight credit risk. We are overweight high yield credit, EM credit and Asia investment-grade credits. Finally, the fixed income asset class could become somewhat more attractive as and when the US 10-year sovereign bond yields normalise higher towards 1.85% by end-2021.

ASSET ALLOCATION

We continue to recommend being modestly overweight growth assets like equities and commodities especially on a six-month to one-year view as the cycle continues these assets should perform well. But we also highlight that the number of near-term risk issues have grown enough that we advise investors not to be too aggressive and to hold some cash in case there is near term volatility. We are neutral fixed income but focus on credits and keep duration short.

COMMODITIES

We neutralize our Copper and Gold outlook. Copper will be weighed down by renewed China industrial activity slowdown, while Gold will feel the headwinds from the more aggressive and quicker pace of FED asset tapering. Overall, we now see LME Copper and Gold consolidating around prevailing levels of USD 9,000 / MT and USD 1,750 / oz respectively. As for crude oil, we stay positive and see further strength from global energy demand recovery. We raise our Brent forecast to USD 82 / bbl by 2Q22.

EQUITIES

For 4Q 2021, we keep our "Moderately Overweight" view on Equities to signal our concern about current market valuations, particularly from the US. For Chinese equities, opportunities abound as valuations have come down significantly, and we advise careful accumulation. We continue to advocate putting more emphasis on reflationary trades such as those in the cyclical sectors (financials, industrials, energy) while avoiding defensive sectors (utilities, consumer staples, healthcare).

FX & INTEREST RATES

The FOMC's updated timeline of Nov start to tapering and at a more aggressive pace reinforces our overall positive USD outlook. We see the USD strengthening against various Major FX and Asia FX. Overall, we expect USD/CNY to rise to 6.64 and USD/SGD to 1.39 by 3Q22. The scaling back of QE will help exert a greater pull higher for money market rates in 2022. As for 10-year UST and SGS yields, our base case remains for a renewed climb higher. We see 10-year yields 2.05% in 3Q 2022 for both UST and SGS.

UOB

GLOBAL MACRO

Ending 2021 With A Bag Full Of Risks In 4Q
"*There's as much risk in doing nothing as in doing something.*" **Trammell Crow**.

Re-opening of economies and borders will be an inevitable step needed to live with the coronavirus (COVID-19) but it will also bring with it a set of well-telegraphed risks and some idiosyncratic risks as well. At the start of the year, our outlook for the economic recovery from the COVID-19 pandemic was clearly set on the vaccines while the governments buffeted the business and livelihood losses with aggressive fiscal stimulus and central banks extended their accommodative monetary policies.

Risk of Uneven Recovery: As the year progressed, the vaccine seemed to have worked its magic as COVID-19 fatalities fell, economies and borders began to re-open, and economic activity started to pick up, led by the developed markets. Judging by the improvements in the timelines of many Asian economies to vaccinate a critical percentage of the population, there is further optimism that many jurisdictions can finally embark on the process of re-opening and returning to some form of economic normalcy. (See Chart 1) However, growth/recovery remains uneven, and rightly so as the access to vaccine remains skewed to the wealthy nations. According to Our World in Data, as of 22 Sep, about 43% the world population has received one dose of a COVID-19 vaccine, but less than 2% of people in low-income countries have received at least one dose. That disparity will likely be made worse in the near term, with many developed economies already embarking on nationwide booster shot programmes.

Risk of Variants: But beyond the question of vaccine availability, the struggle to contain the COVID-19 pandemic is far from over with the emergence of COVID-19 variants that are more transmissible and potentially more deadly. The virulent COVID-19 Delta variant has become widespread across the globe and is the dominant strain seen in new infections for many countries that had previously gotten COVID-19 under control. The Chinese and the US economies are still expected to lead the growth recovery from the pandemic, but their previously rosy growth forecasts have been trimmed in recent weeks, with the Delta variant being the party pooper. In addition, the US (which was formerly a front-runner in the race to fully vaccinate its population) has seen its vaccination rate stagnate significantly in recent months, as compared to its peers in other developed markets. Many Asian economies (with some exceptions like Singapore and Taiwan) also had their GDP growth forecasts downgraded in recent months, with the Delta variant a key factor for the revisions.

Risk of More Elevated Inflation: One of the pressing challenges during this recovery year has been managing inflation risk. With demand recovery comes expectations of price pressures (which is rightfully so), and with exceptionally sharp demand recovery comes even more acute expectations of price pressures. The US and the Eurozone are the two regions leading the charge of re-opening their economies from COVID-19. And when one looks at recent inflation developments in these regions, price increases in both are running at well above historical averages at above 5% and at 3% respectively. The big question to the current state of elevated price pressure is whether this is transitory or persistent? We note that the upside price pressures related to the US economy's re-opening are starting to ease in Aug, but the lingering supply chain/logistics bottlenecks may still keep some portions of inflation pressure intact for now before tapering off next year. So while it may not be persistent in our view, prices may still stay elevated in the coming months as the supply chain issues work itself out. That said, there is an increasing segment of the market that think inflation is turning to be more permanent, although they are still a minority, albeit a growing one.

And on the flipside, Asian economies that are still grappling with re-opening for business continued to experience subdued price pressure and the extreme example among the G7 is Japan which is still enduring deflation as the country tries to contain its 4th wave of the COVID-19 pandemic. The other example is China with its CPI running at 0.6% so far in 2021, or 1/4 of the pace in 2020, leading us to revise down the CPI forecast for the year to 0.8%, from prior projection of 1.1%.

Monetary Policy Normalization Risk: Accommodative monetary policies cannot go on forever, and more central banks are stepping up to announce plans or even carrying out their very first rate hike in years (like Norges Bank on 23 Sep with Reserve Bank of New Zealand likely to follow suit on 6 Oct). Though not quite ready to hike its policy rates till much later (end-2022), the Federal Reserve (Fed) has nonetheless indicated a timeline to start reducing its asset buying program (the QE taper) "soon", likely by Nov 2021 and possibly in a shorter completion timeframe of eight months by Jul 2022 (compared to ten months in Fed's 2013/2014 QE Taper). In comparison, ASEAN central banks may need their accommodative monetary policies to stay awhile longer as they continue to grapple with COVID-19 pandemic and availability of vaccine supply.

Capital Outflows Risk: One of the risks/concerns about this policy divergence between the Fed and the ASEAN region is that it may reignite another episode of regional capital outflow like what we saw during the 2013 Taper Tantrum. Based on our analysis on a selected group of Asian emerging economies (EM), we found that these economies are relatively more resilient now compared to 2013 and are in a better position to withstand the potential portfolio capital reversals.

Political Risks: It could be a busy/chaotic end to Sep and Oct for US lawmakers as several political events come to a boiling point. For the US domestic politics, there are several politically charged events including voting on the US$1 trillion infrastructure bill and Biden Administration's US$3.5 trillion spending bill, the Federal budget (to prevent a government shutdown) and the US debt ceiling (to prevent a US default). We still expect the issues to be resolved as the Democrats have control of the Congress and the Presidency. The real political challenge would arise in subsequent years, if the Republican party manages to regain the majority control of the House and the Senate in 8 Nov 2022 mid-term elections, while a Democrat President is in the White House.

The other key political concern will be the US-China relations which continued to worsen, especially after the US, UK and Australia announced the formation of a new security pact, AUKUS, in light of security concerns in the Asia-Pacific region (which is evidently a pact to counter China). Meanwhile, there are political winds of change among the G7, as Germany is poised for a federal election on 26 Sep to pick a new Chancellor after Angel Merkel stepped down. Japan is also picking a new leader in the 29 Sep LDP elections, which in turn, will ascend to the Prime Minister role. The Japanese general election will subsequently need to be held before 26 Nov (2021). And finally for China, a troubled property developer tethering on the brink of collapse and the government's regulatory changes across a number sectors both point to uncertainty risks for the markets near term, even though the long term prognosis of the "common prosperity" policy is likely to be beneficial for the broader economy. While there are no indications at this point that this debt-laden property developer would be "bailed out", the Chinese government has sufficient motivation and resources to prevent the situation from deteriorating into a systemic crisis that could risk social and financial stability in the country, ahead of the Sixth Plenum of the 19th Communist Party of China (CPC) Central Committee in November and the Winter Olympics in 2022.

ASSET ALLOCATION

The medium-term and multi-year investment outlook continues to look healthy as the global economic and earnings recovery continues to be robust. However, near-term headwinds from moderating growth, managing the Delta variant and the start of policy tapering may pose some near-term volatility risks for markets. **Our overall recommendation is to continue to modestly overweight growth assets** like equities and commodities **while being aware not to get too aggressive** as near-term risks may create some volatility along the way. We are neutral fixed income but focus on credits and keep duration short. We recommend raising cash levels modestly to take advantage to buy into opportunity and near-term volatility.

Classic investment cycle theory points to growth. Investment cycle theory highlights that during expansions, focus on growth assets like equities and credits. During slowdowns focus on safe assets like government bonds and high-grade credits. We see clear evidence that we are in the midst of a healthy expansion that is likely to last several more years at least. The average global economic expansion in the past 50 years have lasted at least 5 years and we are currently one year into a healthy expansion. Global GDP and global corporate earnings growth are expected to be above trend for at least another year.

There are many aspects of the current macro investing landscape that point to a healthy backdrop of investing in growth assets. Global GDP growth is expected to be above trend for 2021 and 2022. Usually, we would say that global GDP growth above 3.5% would be considered a healthy year of expansion. In 2021, consensus global GDP is expected to be 6.0%, and in 2022 it is expected to be 4.5%. Global corporate earnings are growing by over 30% in all the major regions except for China. And even though China lags the rest of the world in 2021, it did better in 2020 and is expected to do better again in 2022. Clearly, macro environment is one of healthy expansion and if an investor wanted to keep things simple and invest for the medium term, then he would do well to keep overweight bias toward growth assets like equities, properties, and commodities.

Some risk issues have been growing. While overall levels of growth are healthy, the overall growth momentum is moderating. Growth assets perform better when GDP growth is above trend and when actual results keep beating expectations. Over the last couple of months, consensus forecasted growth remains high, but little by little consensus expectations have been modestly reduced. Economic surprises indices that have indicated previously there have been positive surprises over the past year have now turned negative in the US and China (the world's two largest economies). It appears the Delta variant remains a key reason for some of the lowered growth forecasts. While we think the world is continuing to reopen and transition to an endemic management of COVID-19, we think the progress is likely to be patchy.

Since the start of the pandemic, global fiscal and monetary support has been extremely accommodative. Over the next year policy will remain accommodative. There will continue to be fiscal supports and interest rates will remain at very low levels. But gradually the extent of the support will be withdrawn. We expect the US Fed to start tapering its bond purchases by the end of 2021 and then we expect the Fed to start hiking rates in 2H 2022. Our base case is that this will be a moderate enough pace for markets to be stable through the policy change.

In summary, we continue to recommend being modestly overweight growth assets like equities and commodities especially on a six-month to one-year view as the cycle continues these assets should perform well. But we also highlight that the number of near-term risk issues have grown enough that we advise investors not to be too aggressive and to hold some cash in case there is near term volatility. We are neutral fixed income but focus on credits and keep duration short.

Global Asset Allocation For 4Q 2021

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

EQUITIES

Despite near-term concerns about disappointing growth because of rising COVID-19 delta-variant infections, equities are benefiting from both depressed bond yields and the stellar performance of corporate revenues and profits. The cost of capital is also well below the return on capital, cementing the risk-on environment. Equities tend to perform well on average when corporate earnings are climbing, even if the rate of change of the increase slows as it inevitably will next year.

In terms of early warning signs of trouble for stocks (and corporate profits), the message from high-yield corporate bond spreads over government paper remains encouraging. Spreads have edged slightly higher but remained close to their cycle-lows (except for Asia). Spreads tend to lead, or at least coincide, with significant equity setbacks. Given that spreads are still near their historical lows; we do not expect anything more than a temporary selloff in stocks.

Corporate high-yield spreads usually blow out when the profit cycle starts to deteriorate, thereby increasing the odds of defaults. This is not likely to be the case in the next year or two, given the supportive policy and profit margin backdrop. In fact, 2Q21 US corporate revenue and profit results were incredibly strong. While the growth rates in economic activity and profits are somewhat peaking, we do not envision an abrupt downshift to the negative territory. A moderation in growth rates is probable.

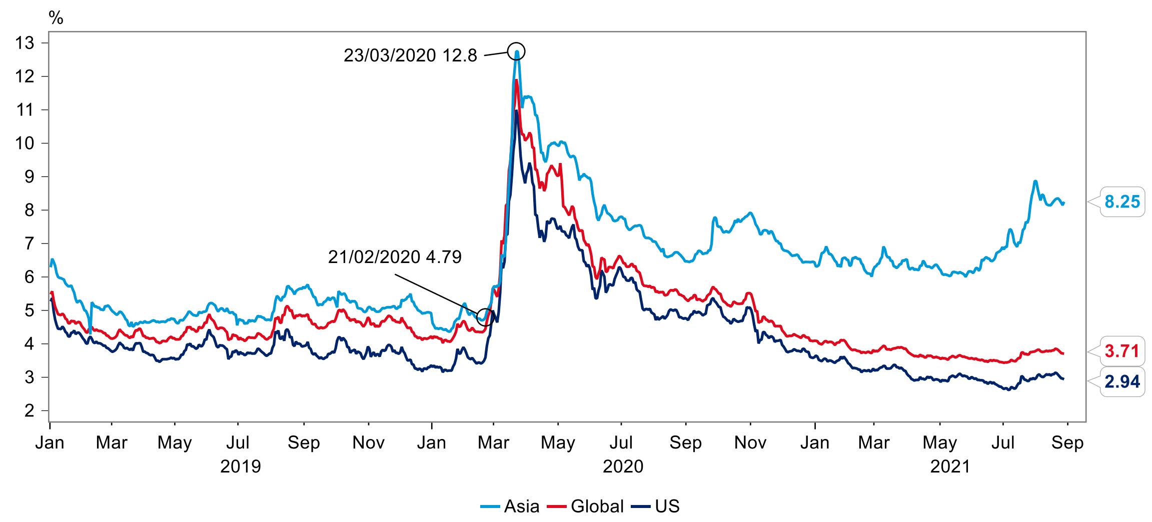
Globally, corporate revenue growth has broadly been impressively strong, relative to the GDP growth. It is incredible that profit margins have stayed elevated in the face of increased input costs; implying that companies have been able to lift their average selling prices (ASPs).

That said, equity valuations in the US has become stretched. The cyclically adjusted PE for the S&P 500 is slightly above the historic 2 standard deviation (2sd), at 38.3. Although it remains well below the 44.2 peak seen during the dot-com bubble, it is important for investors to remain prudent and not be overly exuberant. Meanwhile, the regulatory scrutiny of the Chinese private sectors, the renewed focus on "common prosperity" and the slower economic growth would likely see some form of counter-cyclical policies coming up in the quarters ahead. In our view, current valuation of Chinese assets has reflected some of these risks; the long-term risk-reward is turning more attractive.

For 4Q 2021, we maintain our "Moderately Overweight" view on Equities to signal our concern about current market valuations, particularly from the US. For Chinese equities, opportunities abound as valuations have come down significantly, and we advise careful accumulation. More importantly, we remain pro-growth and it is still important to stay invested in risk assets as the current phase of the business cycle is "reflationary", 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).

Global (ex-Asia) Corporate High Yield OAS Remains Stable & Calm



Source: Macrobond, UOB Private Bank

COMMODITIES

Neutralizing our Gold and Copper outlook while staying positive Brent crude oil

After a strong rally across 1H21, key commodities indices appear to have plateaued and consolidated across 3Q21. Both the S&P GSCI Index and the CRB All Commodities Index failed to make further progress since Jun and had essentially been consolidating around familiar levels over the past 3 months. However, beneath the surface, some divergence has indeed started to occur amongst the different commodities complexes. As gold endured repeated sell-offs and industrial metals tried their best to stay afloat, energy prices have powered ahead. In particular, various idiosyncratic weather-related risks have triggered sharp rises in both US and European natural gas.

Gold: More Aggressive FED tapering a key risk

It is noted that recent price action in gold has been weak. After several failed attempts to rally anew across 3Q21, gold suffered yet another mini selloff to pullback below USD 1,800 / oz to USD 1,750 / oz. In the previous 3Q 2021 quarterly update, we had trimmed down on our positive gold forecast, warning that potential upside is limited by the FED. Going forward, we further neutralize gold's outlook given the impending nearer start of tapering and at a quicker pace as well. As such, we now adopt a neutral forecast for gold at prevailing spot of USD 1,750 /oz for the coming four quarters.

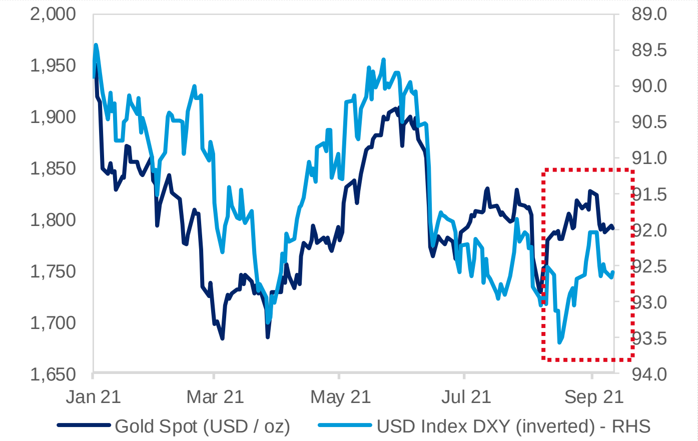
Copper: Retreat in China industrial activity to cap upside

In the latest quarter, while vaccination rates did continue to grow, a widening Delta variant outbreak coupled with the emergence of new variants that are more virulent and potentially more health threatening have started to weigh on the global economy yet again. Specifically, China's high frequency activity data for the month of August was noticeably weaker than expectations. Going forward, in view of increasing global growth uncertainty as well as moderation in industrial activity in China, we neutralize our LME Copper forecast to USD 9,000 / MT for upcoming four quarters.

Brent Crude Oil: More strength to test USD 80 / bbl level

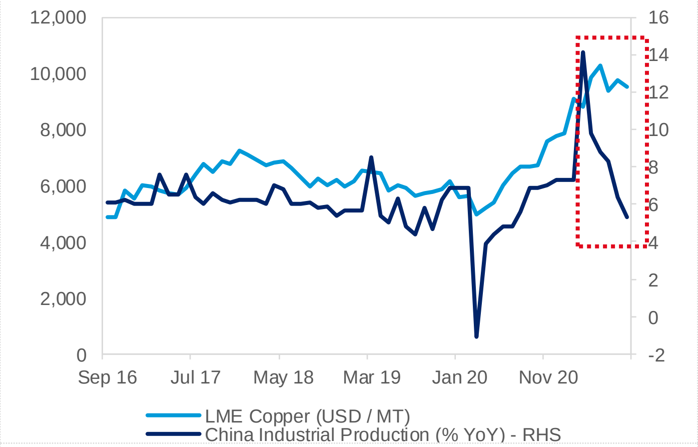
At its latest Monthly Oil Market Report, OPEC raised its 2022 global demand by yet another 900k bpd and now expects global demand to jump by 4.2 mio bpd to 100.8 mio bpd in 2022. Effectively, OPEC now sees global demand returning to pre-pandemic levels of above 100 mio bpd in 2022. Going forward, in view of OPEC's restrained production hikes and projected on-going strong recovery in global energy demand, we maintain our positive Brent crude oil forecast. We continue to see a possible test of USD 80 / bbl by mid-2022. Our updated Brent crude oil forecast is USD 76 / bbl in 4Q21, USD 79 / bbl in 1Q22, USD 82 / bbl in 2Q22 and 3Q22.

Gold: Gold price maintains close reverse relationship with USD Index (DXY)



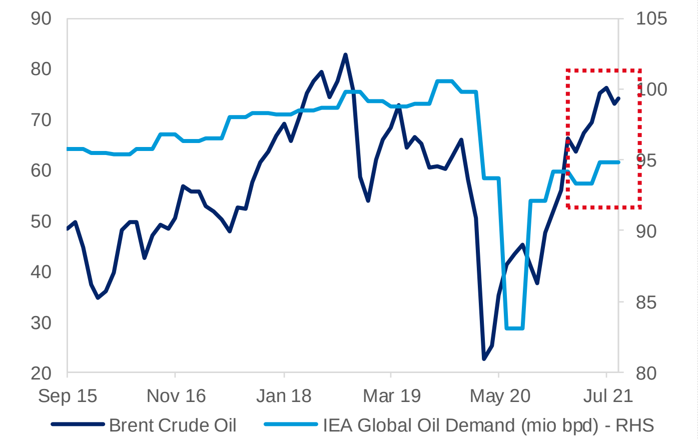
Source: Bloomberg, UOB Global Economics & Markets Research

Copper: Pullback in China industrial production to cap Copper upside



Source: Bloomberg, UOB Global Economics & Markets Research

Brent Crude Oil: Brent price rebounds as global demand recovers



Source: Bloomberg, UOB Global Economics & Markets Research

FIXED INCOME

Returns on most global fixed income markets continued to remain positive in 3Q 2021. Over the past quarter, bond yields were range-bound as global growth expectations peaked, and as recent spikes in inflation were mostly viewed as being transitory in nature. Credit spreads initially widened on increasing signs of slowing economic growth momentum but narrowed back in recent weeks. Global growth momentum was weighed down by concerns over the COVID-19 Delta variant as well as how China's regulatory policies could potentially dampen global growth. On the monetary policy front, while monetary policy remains very accommodative, the US Federal Reserve has also laid the groundwork for announcing tapering of its asset purchases come November 2021.

The UOB house view is that the QE taper timeline would be announced at the upcoming 2/3 November 2021 FOMC with a completion timeframe of around 8 months, thus ending by around July 2022. We expect the US Federal Reserve to start raising the Fed Funds target rate hike in December 2022 and followed thereafter by two more 25bps rate hikes in 2023. We note that an important development in the September FOMC was that the dot plot chart showed that half of the FOMC participants (9 out of 18 members) now expect a hike in 2022, compared to 7 members in the earlier June FOMC. Finally, we expect the long-term bond yield to rise towards 1.85% by the end of 2021.

While we are neutral on the fixed income asset class, we are underweight duration risk and overweight credit risk. With economic activity expected to stay healthy in 2022 and should COVID-19 induced supply shortages continue to persist, the contribution to core inflation from supply-constrained categories may be less immediately transitory than what most market participants think. Furthermore, signs of rising labor wage may potentially emerge should COVID-19 lead to a non-temporal reduction in skilled labor supply. Such scenarios would place upward pressure on bond yields. At this juncture, we are underweight duration risk and overweight credit risk (i.e. Global 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 investment grade and high yield. Specifically, 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.

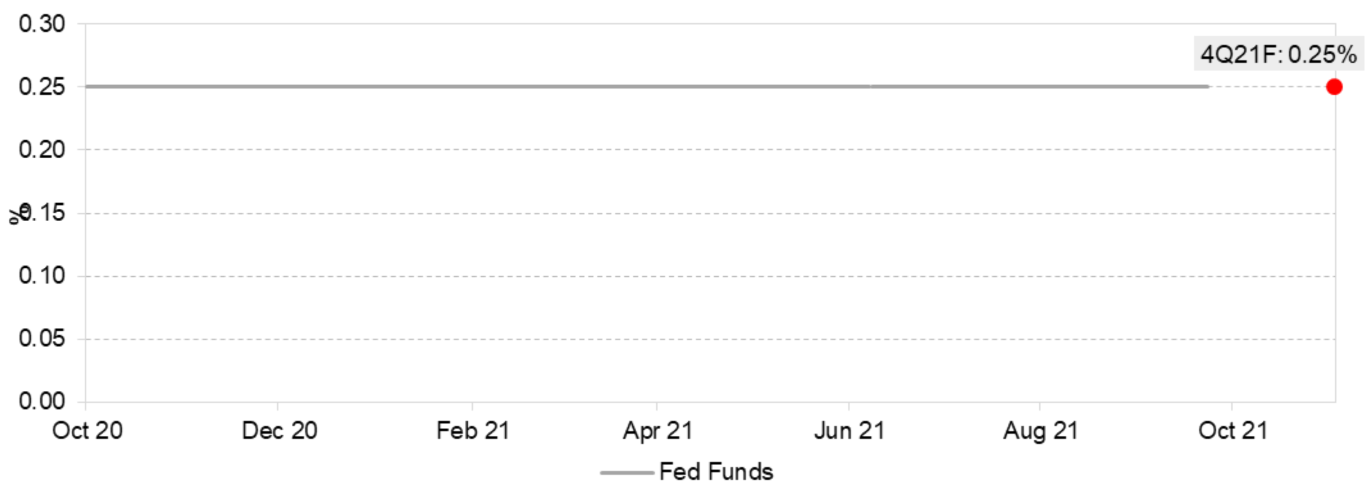
Finally, we like Asia investment-grade credit too. Asian investment grade has relatively higher buffers against deteriorations in corporate fundamentals and enjoy a stable leverage profile. Within the investment-grade space, we continue to find relatively higher yields in Asia compared to most other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

Finally, the fixed income asset class could become somewhat more attractive as and when the US 10-year sovereign bond yields normalise higher towards 1.85% by the end of 2021. In this sense, income strategies would likely to offer better return-risk profile over the coming year. Thus far in 2021, while equities and commodities have rebounded sharply, equity returns may start to slow from here should rising inflation place pressure on central banks to withdraw their policy support in asset purchases sooner than later. We think investors will return towards 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 be a good alternative for investors by the end of 2021.

FX & INTEREST RATES

UNITED STATES

FED Funds Rate



Post-Sep FOMC, the hawkish tilt in Powell's commentary and the updated Dot plot and economic projections, all indicate there is a shift forward to the Fed policy timeline. As such, we are revising the QE taper timeline forward to the upcoming 2/3 Nov 2021 FOMC (from Dec FOMC previously) and a shorter completion timeframe of around 8 months by Jul 2022 (from 1.5 years previously). Starting the taper in Nov will still give the FED enough time to see how US politicians resolve the ongoing US debt ceiling limit standoff.

We are also bringing forward the first FED funds target rate hike to Dec 2022 from Jun 2023 previously. Note that we are projecting only one 25bps rate hike to 0.25-0.50% in 2022. In 2023, we are projecting two more 25bps rate hikes. Recall in 2013, the taper timeframe was 10 months (from Dec 2013 to Oct 2014) while the first rate hike was more than a year after they completed tapering (in Dec 2015).

3M US Libors

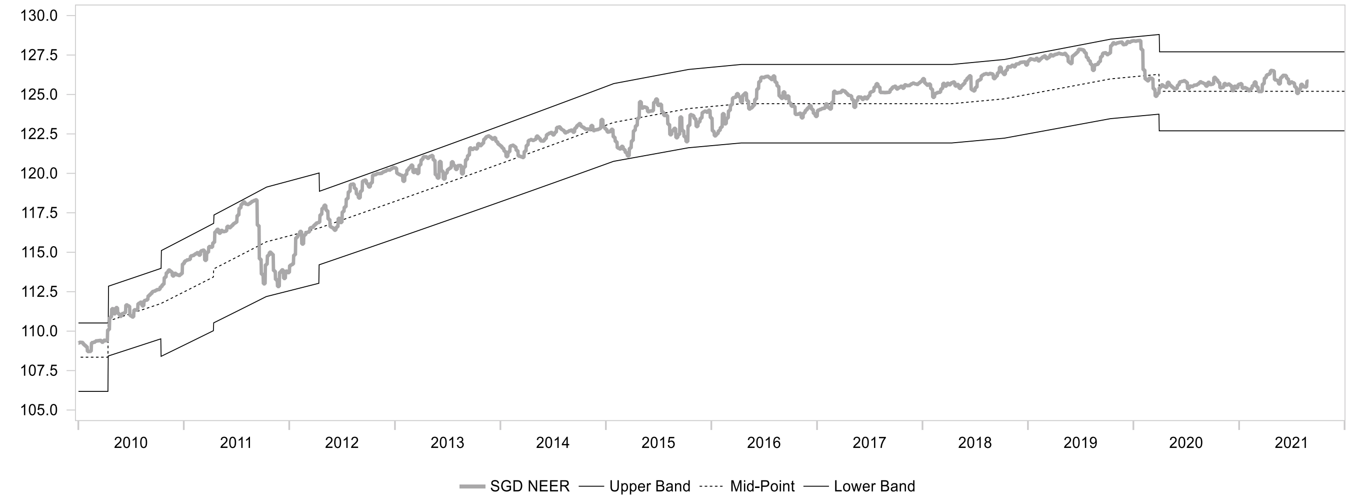
- We expect to see 3M Libor at around 0.20% by the end of 4Q 2021.
- We have shortened the runway for tapering as well as bringing forward our FED hike profile.
- Tapering to have an incrementally greater pull on rates as liquidity conditions become less accommodative.

10Y US Treasuries

- We expect to see 10Y UST at 1.85% by the end of 4Q 2021.
- Higher yield bias built on our more hawkish outlook on monetary policy, as well as yields being underpriced, and supportive 4Q seasonal trends.
- Complications to base case could come from the political front via debt ceiling brinkmanship.

SINGAPORE

S$NEER



Singapore's GDP is expected to grow 6.5% and 3.5% in 2021 and 2022, respectively. In the upcoming Monetary Authority of Singapore (MAS) policy announcement (expected to be held between 7 and 14 October 2021), we note that policymakers will likely consider the improving global economic backdrop, benign inflation risks and rising uncertainties surrounding COVID-19. Our base case is for MAS to keep policy parameters unchanged, meaning that there will be no change to the gradient and width of the policy band, as well as the level at which it is centred. Beyond keeping its policy parameters unchanged in October 2021, we expect policymakers to highlight the improving GDP growth prognosis for the rest of 2021, while paying heed to the magnified COVID-19 risks observed in Singapore and the region. Should the MAS adopt a relatively positive rhetoric for the rest of 2021, it could mean a heightened possibility for policymakers to inject a symbolic appreciation (estimated at 0.5%) to its SGD NEER gradient in April 2022. Taking cues from a broad USD recovery, we continue to expect a higher USD/ SGD, with point forecasts updated at 1.36 in 4Q21, 1.37 in 1Q22, 1.38 in 2Q22 and 1.39 in 3Q22.

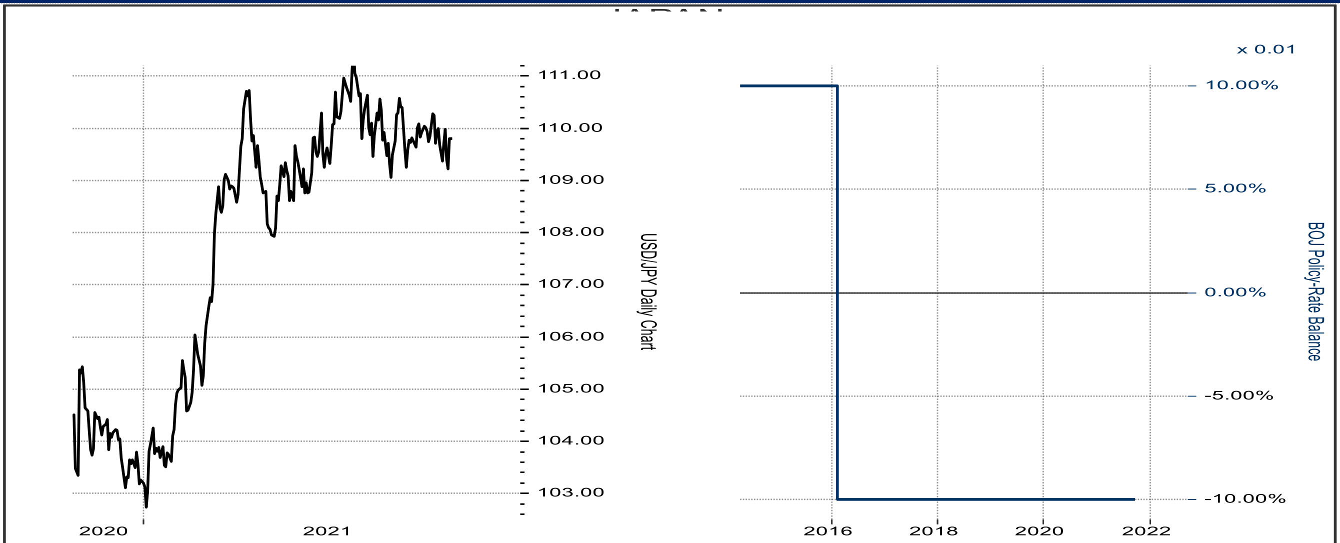
3M SOR and Sibor

- We expect to see 3M SOR at 0.25% and SIBOR at 0.40% by the end of 4Q 2021.
- Market relevance of SOR and SIBOR will wane after September's cut off for new products.
- Next transition milestone will see the discontinuation of 6M SIBOR at the end of 1Q 2022

10Y SG Bonds

- We expect to see 10Y SGS at 1.90% by the end of 4Q 2021.
- Upside bias feeds off UST view.
- SGS auction calendar for 2021 ends in October after a 5-year issuance. Supply hiatus will be supportive of tighter SGS versus UST spreads.

JAPAN

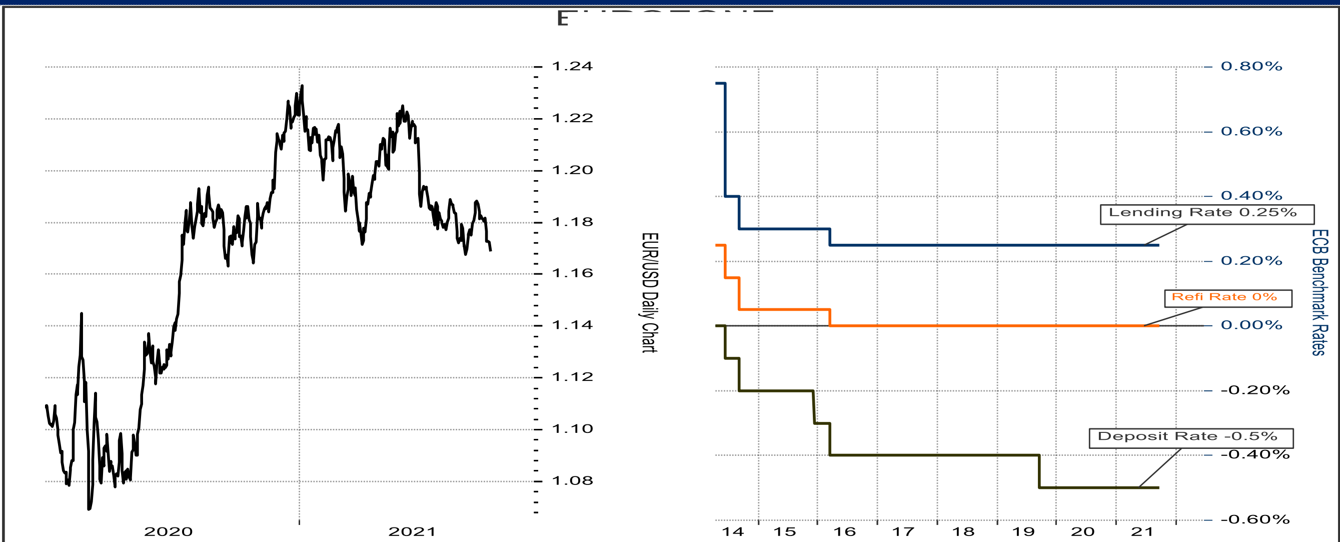


Source: Refinitiv Datastream/UOB Global Economics and Market Research

The policy inaction in September was in line with market expectations, and does not change our monetary policy outlook for Japan., The even weaker inflation outlook (post CPI rebase), as compared to its G7 peers, reinforces 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 FY2023, with BOJ Governor Kuroda seeing inflation back to 2% target not before 2023.

And even though Kuroda recently said (15 Sep) that BOJ will further relax monetary policy such as by reducing interest rates, if needed, we do not see the central bank having any appetite to stomach more negative rates, due to its consequential impact to the Japanese banking system. At the same time, markets are convinced that the BOJ has reached the end of the line on normalization and will remain in a holding pattern on policy until at least April 2023 when Governor Kuroda is scheduled to leave the BOJ. Attention for the BOJ will now likely shift to dealing with the long-term climate change issues as the central bank starts operationalizing its key measures for its green strategy. Going forward, with the BOJ sticking to its ultra-easy monetary policy, higher UST yields and broad USD strength, we keep to our view of a higher USD/JPY. Our updated USD/JPY forecasts are 111 in 4Q21, 112 in 1Q22, and 113 in both 2Q and 3Q22.

EUROZONE

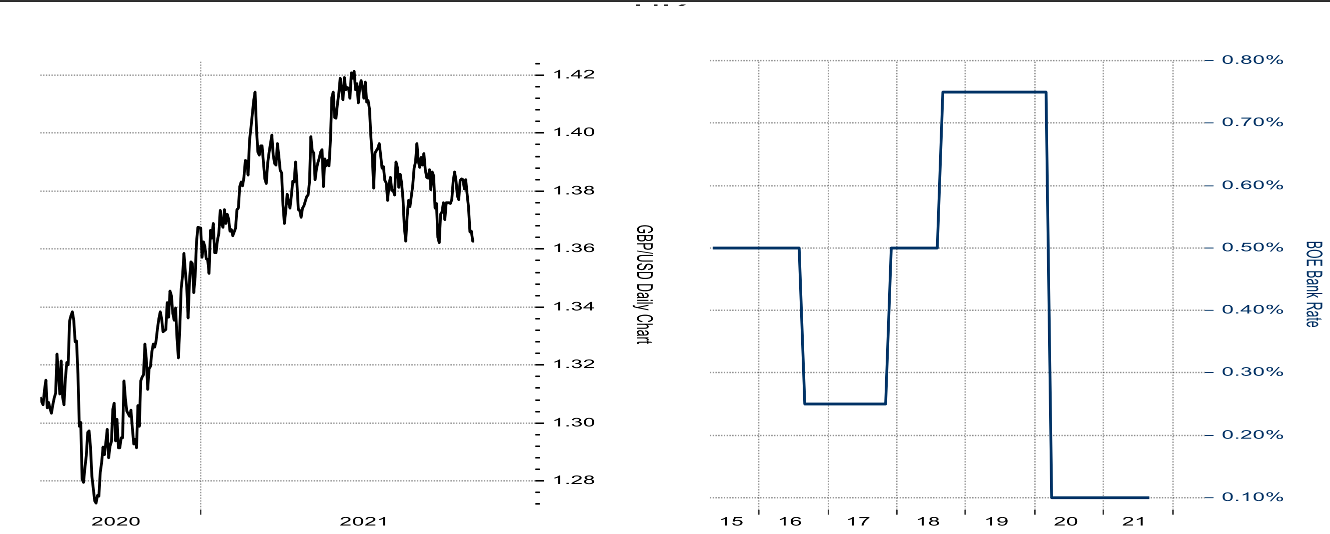


Source: Refinitiv Datastream/UOB Global Economics and Market Research

The European Central Bank (ECB) will take the run rate of monthly net asset purchases down over time through its Pandemic Emergency Purchase Programme (PEPP), but we also expect prolonged accommodative monetary policy through a more flexible and larger Asset Purchase Program (APP), and that the ECB is unlikely to increase interest rates before 2024.

EUR/USD endured a summer selloff from 1.21 to a low of 1.1664 across June to August just as the FED shifted into a hawkish stance. A lift-off in rates by the ECB is not expected until 2024, at least two quarters later than the FED. Due to the longer term monetary policy divergence, we keep to our bearish view of EUR/USD and update the point forecast to 1.16 in 4Q21, 1.15 in 1Q22, 1.14 in both 2Q and 3Q22. The latest forecasts are about 100-200 pips higher compared to our last review at the start of September. This is in acknowledgement of the stabilization in yield differentials observed in the month. A risk to the view is clearer evidence of a sustained pick up in Eurozone inflation that would trigger a more decisive monetary policy calibration from the ECB.

UNITED KINGDOM

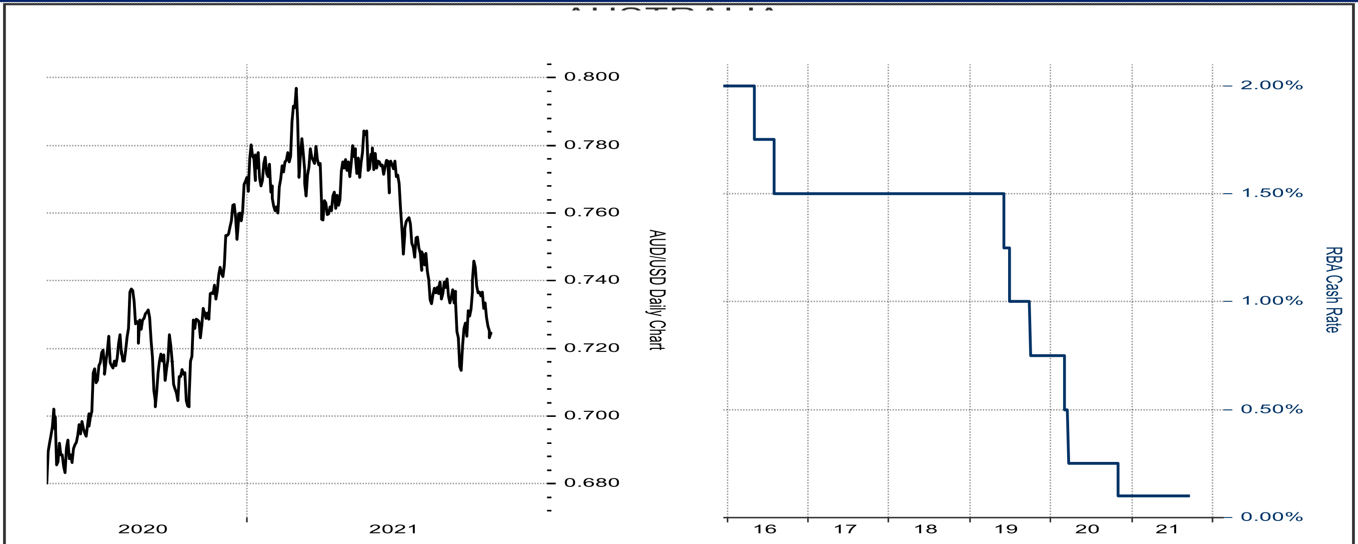


Source: Refinitiv Datastream/UOB Global Economics and Market Research

The rate hike debate is definitely heating up. We have moved forward our rate hike forecast timing to end-2022 from mid-2023 following the September Bank of England (BOE)'s meeting where Dave Ramsden joined Michael Saunders, both casting dissenting votes to cut back gilt QE to GBP840bn. Still, we think the Bank of England (BOE) will not push for immediate action, and will want to slowly withdraw its monetary policy support, while allowing the recovery to continue.

The GBP is second best candidate after the USD this year within the Major FX space. Supportive factors include hawkish cues from the BOE, COVID-19 hospitalization staying low despite a full reopening and attractive currency valuations. BOE Governor Andrew Bailey said in early September that he was among the officials (4-4 split in August MPC meeting) who thought a minimum bar for tightening monetary policy has been met and that it is "reasonable" to expect rate hikes in the coming years. UK headline inflation has also surged to the highest in 9 years in August, at 3.2% and on track for the BOE's forecast of a peak of 4% by year-end. As such, we reiterate our bullish view in GBP/USD and update our forecasts at 1.40 in 4Q21, 1.41 1Q22, 1.42 in 2Q22 and 1.43 in 3Q22.

AUSTRALIA

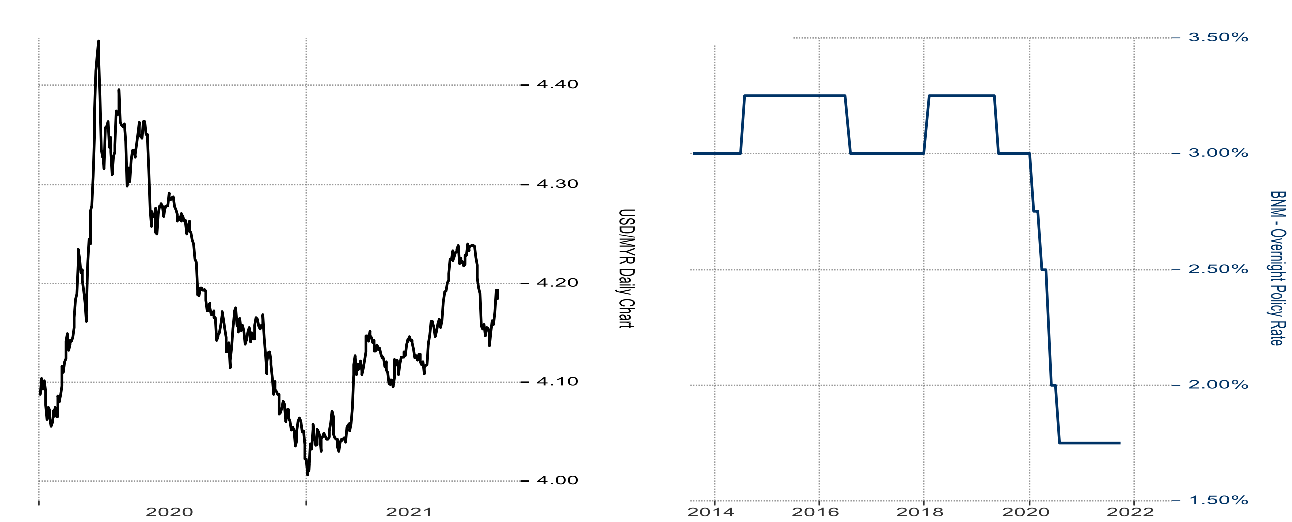


Source: Refinitiv Datastream/UOB Global Economics and Market Research

We think the next taper by the Reserve Bank of Australia (RBA) will be in February next year, by which the rebound in the economy will be evident. This will see the total Quantitative Easing (QE) program from September at around AUD130bn, with tapering to occur progressively before ending in mid to late 2022. As for the cash rate target, we still expect that the first rise will occur only in early 2024. Previously, we had considered the risk that it might occur earlier, but with economic activity below its potential for longer, wages and buildup in price pressures are likely to be delayed.

AUD/USD had a tumultuous quarter - falling over 5% to almost 0.71, the lowest since last November, from 0.75 at the start of the July. A surge in coronavirus cases in Australia driven by the Delta variant in summer, its worst since the start of pandemic coincided with a 44% slump in iron ore prices. Also, weighing on the AUD is the standout dovishness of the RBA relative to its G-10 peers. As such, we keep to our cautious view on AUD/USD and update our forecasts at 0.71 in 4Q21, 0.70 in both 1Q22 and 2Q22, and 0.69 in 3Q22.

MALAYSIA

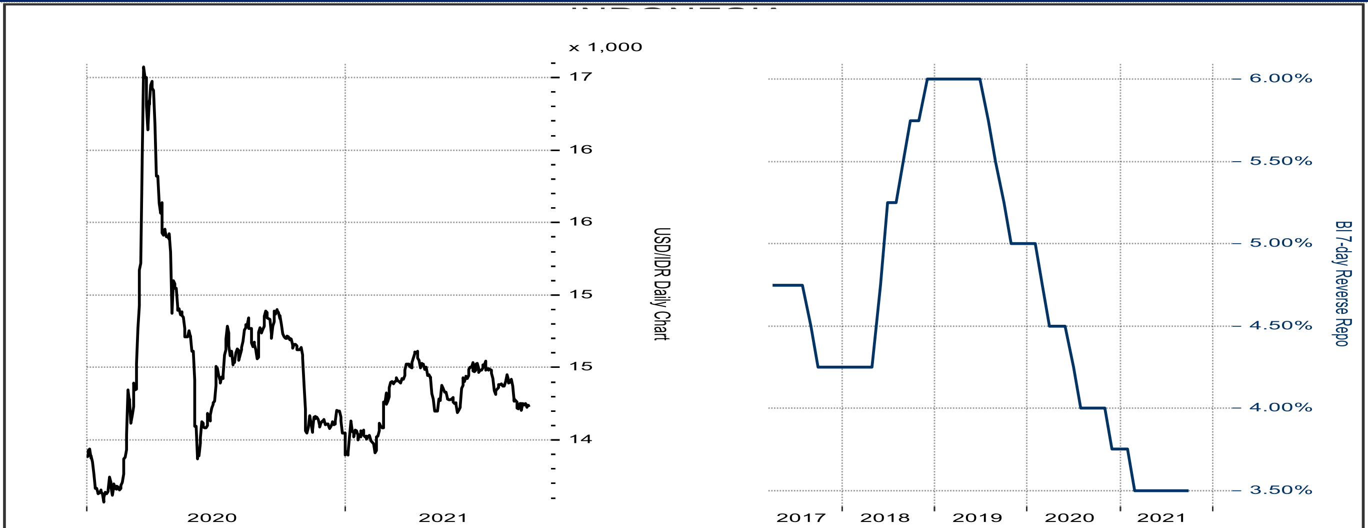


Source: Refinitiv Datastream/UOB Global Economics and Market Research

Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) on hold at 1.75% for the seventh straight meeting in Sep. BNM stayed neutral and balanced. The central bank sounded caution on the emergence of COVID-19 variants of concern and the potential risks of heightened volatility as major economies embark on monetary policy normalisation. On the domestic economy, there was optimism that further easing of containment measures, vaccination progress, and higher global demand will support the recovery and growth. The absence of heightened inflation pressures and domestic financial risks (e.g. muted property prices) infers no urgency for BNM to normalise rates at this juncture. We expect BNM to keep rates status quo until mid-2021, before a 25bps hike in 2H 2022.

We expect USD/MYR to retrace higher in line with a broad recovery in the USD as the FED’s normalising plans come into focus. Hence we expect the pair at 4.20 in 4Q21, 4.23 in 1Q22, 4.26 in 2Q22, and 4.29 in 3Q22.

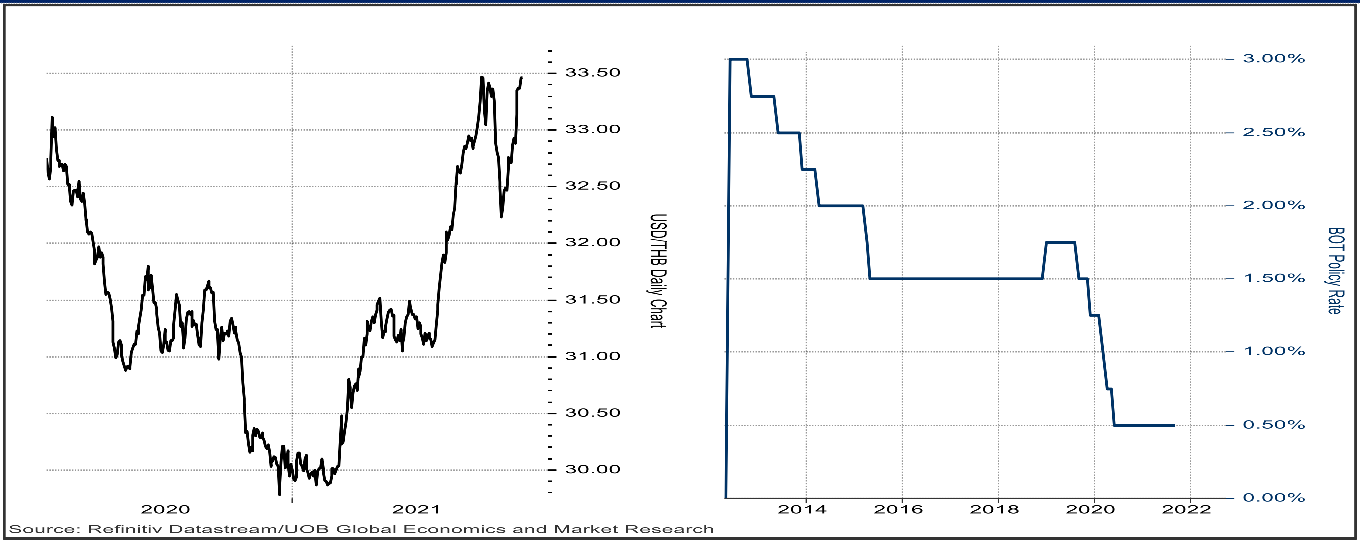
INDONESIA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

Bank Indonesia (BI) left its benchmark rate unchanged at an all-time low of 3.50% since Feb’21. BI reiterated that the decision is consistent to support growth while anchoring financial stability. Nonetheless, we view BI could begin normalizing the policy rate next year during 2H22. Inflation might start to post a cause for a policy rate change, in line with domestic demand recovery. In addition, external factors like the Fed. tapering, and at the same time, we expect sizeable current account deficit to reemerge alongside still-large fiscal deficit, leading to twin deficit challenge ahead. While Indonesia is in a better position compared to 2013 Taper Tantrum, those variables are still required to be balanced by an attractive investment yield differential to maintain Indonesia’s external resilience. We expect BI to start the rate normalization in 2H22 by 50bps in each quarter, bringing BI 7D reverse repo to 4.50% at the end of 2022. There are still reasons to be cautious about the IDR going forth, including a slow vaccination drive (80% of population vaccinated to be reached only in 4Q22) casting uncertainty over the economic recovery and a narrowing yield advantage of Indonesia Govt Bonds over USTs. A persistent and widening twin deficit also anchors a gradual uptrend in USD/IDR over medium term. As such, we reiterate our view of a higher USD/ IDR but have moderated the trajectory on current market developments. The updated forecasts at 14,600 in 4Q21, 14,700 in1Q22, 14,800 in 2Q and 3Q22.

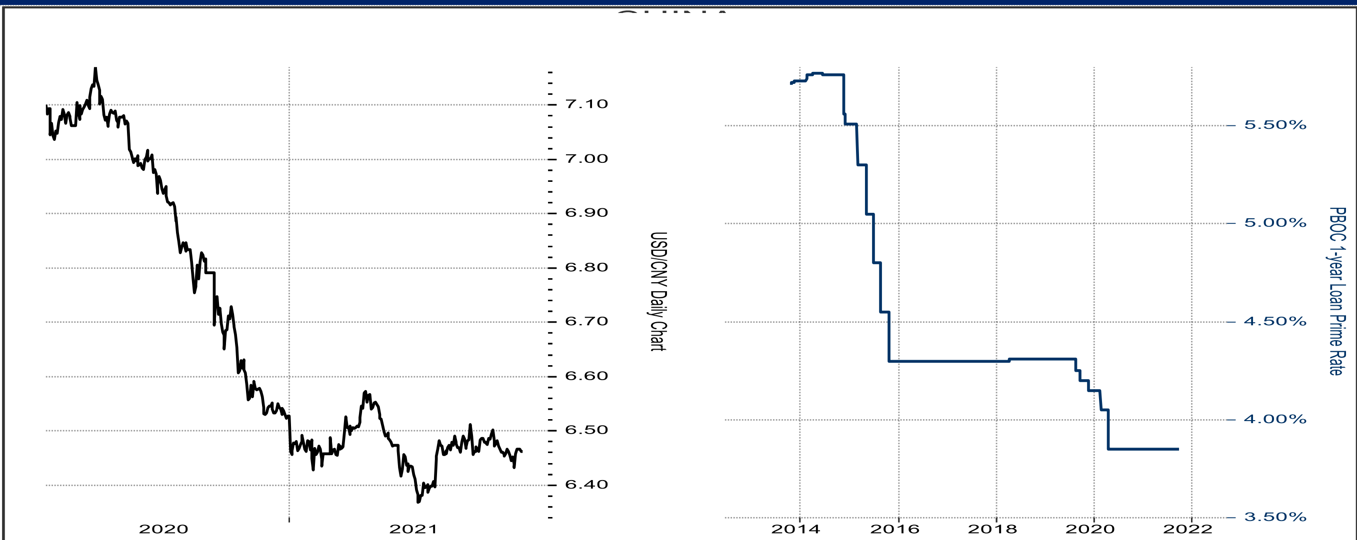
THAILAND



Source: Refinitiv Datastream/UOB Global Economics and Market Research

Thailand remains to be one of Asia's most affected economies from the COVID-19 pandemic. Renewed COVID-19 risks remain to be the key drag to economic performance, considering the negative impact it could have on Thailand's tourism, labour and domestic consumption. Note that Thailand's National Economic and Social Development Council (NESDC) shaded its full-year growth outlook to a range of between 0.7% and 1.2%, from a previous outlook range of between 1.5% and 2.5%, citing "fragile financial conditions" in both households and businesses. While we keep to our base-case view for the benchmark rate to stay pat for 2021, a tail-end risk of a rate cut of 25 bps could occur if Thailand's economic environment worsens in 4Q21. THB appears oversold, with its valuations (in REER terms) reverting from overbought to neutral levels for the first time in over five years. As such, we are guarded to extrapolate further excessive weakness in the THB from current levels. Our updated USD/THB forecasts are at 33.8 in 4Q21, 34.1 in 1Q22, 34.4 in 2Q22 and 34.7 in 3Q22.

CHINA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

China's growth engines are losing steam rapidly as data in July to August have shown. There remain more downside risks in the horizon as a result of the tightening regulatory environment while domestic zero-COVID policy continues to hinder the recovery in private consumption. The recent sporadic lockdowns demonstrated the extent of economic disruptions that can be expected from more contagious virus strains while it is still uncertain the extent of contagion from property developer, Evergrande's debt crisis. We retain our call for another 50 bps cut to banks' reserve requirement ratio (RRR) in 4Q21. This will provide banks with greater ability to boost lending and make repayments for CNY2.45 trillion of medium-term lending facility (MLF) loans maturing in 4Q21. However, the benchmark loan prime rates (LPR) are likely to stay unchanged through 1H22 given PBoC's concerns of financial imbalances. Going forward, the CNY will face growing growth headwinds. Monetary policy is likely to be biased slightly looser to cushion slowing growth momentum. As the growth and monetary policy divergence between US and China continues to close, we hold our view of a modestly higher USD/CNY in the coming quarters. Our updated point forecasts are 6.52 in 4Q21, 6.56 in 1Q22, 6.60 in 2Q22 and 6.64 in 3Q22.

FX, INTEREST RATE & COMMODITIES FORECASTS

FX	23 Sep 21	4Q21F	1Q22F	2Q22F	3Q22F
USD/JPY	110	111	112	113	113
EUR/USD	1.17	1.16	1.15	1.14	1.14
GBP/USD	1.37	1.40	1.41	1.42	1.43
AUD/USD	0.73	0.71	0.70	0.70	0.69
NZD/USD	0.71	0.70	0.70	0.69	0.68
DXY	93.1	93.4	93.9	94.4	94.3
USD/CNY	6.46	6.52	6.56	6.60	6.64
USD/HKD	7.79	7.75	7.75	7.75	7.78
USD/TWD	27.73	28.00	28.20	28.40	28.60
USD/KRW	1,175	1,200	1,200	1,220	1,250
USD/PHP	50.31	51.00	51.50	52.00	52.00
USD/MYR	4.18	4.20	4.23	4.26	4.29
USD/IDR	14,243	14,600	14,700	14,800	14,800
USD/THB	33.39	33.80	34.10	34.40	34.70
USD/VND	22,766	22,900	23,000	23,100	23,200
USD/INR	73.64	75.50	76.00	76.50	77.00
USD/SGD	1.35	1.36	1.37	1.38	1.39
EUR/SGD	1.58	1.58	1.58	1.57	1.58
GBP/SGD	1.85	1.90	1.93	1.96	1.99
AUD/SGD	0.99	0.97	0.96	0.97	0.96
SGD/MYR	3.10	3.09	3.09	3.09	3.09
SGD/CNY	4.79	4.79	4.79	4.78	4.78
JPY/SGDx100	1.22	1.23	1.22	1.22	1.23

RATES	23 Sep 21	4Q21F	1Q22F	2Q22F	3Q22F
US Fed Funds Rate	0.25	0.25	0.25	0.25	0.25
USD SOFR	0.05	0.09	0.09	0.13	0.23
USD 3M LIBOR	0.13	0.20	0.20	0.30	0.40
US 10Y Treasuries Yield	1.43	1.85	1.90	2.00	2.05
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	0.50	0.75	1.00	1.00
CNY 1Y Loan Prime Rate	3.85	3.85	3.85	3.85	3.95
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	1.25
KRW Base Rate	0.75	1.00	1.25	1.25	1.25
PHP O/N Reverse Repo	2.00	2.00	2.00	2.00	2.25
SGD SORA	0.12	0.10	0.10	0.14	0.20
SGD 3M SIBOR	0.43	0.40	0.40	0.50	0.55
SGD 3M SOR	0.22	0.25	0.25	0.35	0.40
SGD 10Y SGS	1.47	1.90	1.95	2.00	2.05
MYR O/N Policy Rate	1.75	1.75	1.75	1.75	2.00
IDR 7D Reverse Repo	3.50	3.50	3.50	3.50	3.75
THB 1D Repo	0.50	0.50	0.50	0.50	0.50
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	23 Sep 21	4Q21F	1Q22F	2Q22F	3Q22F
Gold (USD/oz)	1,750	1,750	1,750	1,750	1,750
Brent Crude Oil (USD/bbl)	78	76	79	82	82
LME Copper (USD/mt)	9,274	9,000	9,000	9,000	9,000

THE TEAM

Global Economics & Markets Research
Asset Management
Private Bank

All chart data from Bloomberg unless otherwise specified.

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