UOB HOUSE VIEW

2Q2022

GLOBAL MACRO

Earlier expectations of moderating growth colliding with higher inflation in 2022 is now dealt with geopolitical headwinds. In our base case of an extended Russia-Ukraine military conflict, most of the economies under our coverage will expect further upside risks to their generally elevated inflation rates and downward revisions to growth, though the extent of correction will be differentiated among economies and growth will remain positive in 2022).

ASSET ALLOCATION

Prior to the military action in the Ukraine, the consensus view on global growth for 2022 was very strong. But with the stiff sanctions against Russia, the growth outlook has suddenly turned very uncertain. Overall, we recommend to shift equities to a Neutral weight, and stay Underweight fixed income. We are Overweight commodities as its outlook is favourable and provide diversification from other asset classes. During this period of high uncertainty we would shift cash to Overweight.

EQUITIES

Despite investor fears of a prolonged war, most past geopolitical events showed markets will eventually look past event risks and return to economic fundamentals to determine the direction of equities. We advocate investors to take a longer-term view in their portfolio management. We are currently Neutral on equities due to geopolitical and other concerns and hesitate an Underweight position as we believe the current equity sell-offs offer opportunities to pick up some good names at better valuations.

FIXED INCOME

Fixed income markets continue to face the headwinds of rising interest rates and widening credit spreads. While 2021 was a tough year for fixed income benchmarks, 2022 is proving to be even more challenging. Eventually, we think the higher bond yields are going to make fixed income future returns attractive again, but for the coming quarter we think investors will need to continue to be cautious with their fixed income portfolios.

COMMODITIES

The Russia-Ukraine military conflict has added fuel to the commodities rally and resulted in a clear overweight. Brent crude oil to stay elevated near USD 110 / bbl as the world adjusts to a 5% supply loss upon lockdown on Russian crude oil. LME Copper to climb towards USD 11,000 / MT as global inventory stays at multi-year low. Gold has seen strong safe haven inflows across retail and institutional investors. Negative real yield is a key positive driver as well. We see gold climbing further to USD 2,200 / oz by end of this year.

FX & INTEREST RATES

With increased geopolitical tensions and Fed beginning its rate hike cycle, the USD's positive momentum has improved. Overall, we expect USD/CNY to rise to 6.65 and USD/SGD to 1.40 by 1Q23. We also expect higher outright yields, anchored on aggressive Fed hike expectations and a more persistent inflation scenario. 3M US Libor to trade up to 1.25% by end 2Q 2022 while 10-year Treasuries yields to end 2Q 2022 at 2.25%.

GLOBAL MACRO

The Price Of War
"*War is the unfolding of miscalculations*." Barbara W. Tuchman.

The expectations of moderating growth colliding with higher inflation in 2022 is now dealt with geopolitical headwinds. It is an ominous start to 2022 with the outbreak of war in eastern Europe as Russia-Ukraine military conflict erupted in late February. This is a tragic turn of events and one that has rapidly/already descended into a humanitarian crisis as thousands are killed while millions flee their Ukrainian homeland. Just as war could be sparked by miscalculations, with great trepidation we took a best-effort attempt to draw out scenarios of how this fluid situation will play out and assess the impact on growth, inflation and monetary policy for the economies that we cover.

We highlight three scenarios: 1) Extended Conflict & Occupation (Base case at 60%), Negotiated Ceasefire (Optimistic But Low Probability at 35%), Expanded Conflict (Pessimistic But Lowest Probability at 5%). See Focus Report.

In our base case of an extended conflict and occupation, and the main assumption in this scenario is the full range of sanctions imposed on Russia by US and its allies will stay on a prolonged basis. Thus, the political fallout of the sanctions will translate into higher commodity prices (from energy, to agriculture to metals) as both Russia and Ukraine are significant producers and exporters of key commodities demanded by the world.

Under our base case scenario of an extended Russia-Ukraine conflict, most of the economies under our coverage will expect further upside risks to their already elevated inflation rates and some moderate downward revisions to growth (which will remain positive in 2022). At this point, the risk of slower global growth amidst elevated inflation has moved higher, but none of the major developed economies and Asian economies are expected to slip into a recession yet.

We remain hopeful of a positive scenario of a negotiated ceasefire (at 35% probability) but the chances of that happening are reduced with each passing day of war and failed talks. And while we assign the very lowest probability (5%) to the worst outcome of an expanded conflict involving US and NATO allies, we cannot rule out that scenario as miscalculations could happen in the fog of war.

In our view, the more pronounced impact is on inflation while growth will see more moderate correction although the magnitude of the growth correction will be differentiated among economies. We have raised the inflation forecasts almost everywhere with especially marked increases for developed markets (DMs) like the US and the Eurozone, which are already experiencing elevated inflation. At the same time, our correction in US GDP growth is milder at just 0.2% points but the Eurozone will suffer a bigger growth downgrade of -0.7% points due to the proximity to the war and its reliance on Russian energy.

Major commodity exporting economies will also record higher inflation but their growth will benefit from the commodity price rally and help cushion the negative domestic effects of inflation, such as Australia where we have upgraded its 2022 growth forecast, as opposed to downward revisions for most of the economies in Asia-Pacific.

With inflation concerns more acute, we see many economies either on the cusp of or bringing forward their monetary policy normalization cycle. For the Federal Reserve (Fed), after its 25 bps rate liftoff in Mar FOMC, we expect the US central to hike at every one of the six remaining meetings for this year by at least 25bps, with a significant risk of a more aggressive 50bps hike in at least one of the upcoming meetings. As for the European Central Bank (ECB), despite the significant inflation revision, we see them treading cautiously and we expect no hike from them in 2022. And while Bank of England (BOE) continued its hiking cycle in Mar, and may most likely follow up with another 25bps hike in May, we see limited BOE rate hikes thereafter. The Bank of Japan (BOJ) is likely to be on the extreme end among the G7 central banks, as the higher energy and commodity prices could drive the inflation above its 2% objective but will be viewed as temporary and unlikely to draw any policy normalisation response.

For China, the hit of a bigger energy bill will add on the woes of domestic risk factors such as the latest wave of Omicron COVID-19 infections and the subsequent large-scale lockdowns in some cities. With growth now likely to slide below 5% and inflation higher at 2.9% (but still below the official target of 3%), we should expect more monetary policy accommodation from China, which goes in the opposite direction of most of the other economies.

For rest of Asia, North Asian economies like South Korea and Taiwan will see a bigger inflation impact compared to growth downgrade. In particular, Taiwan's recent 25bps hike (vs market expectations for no change) very much reflected the inflation concerns as a result of global geopolitical developments. As for ASEAN, inflation was revised higher in most of the economies in the region due to the commodity price surge, but growth revisions were more varied as it took into account other domestic factors. Overall, Singapore is expected to continue with its policy tightening in Apr and Oct, while Malaysia and Philippines are expected to start raising rates in 2Q22, followed by Indonesia and Thailand in 2H of this year.

FX Strategy Outlook: On top of its monetary policy advantage, the USD also draws strength from growing concerns of slower global growth amidst elevated inflation and sustained risk aversion, which adds an important tailwind for the USD.

Rates Strategy Outlook: Presently, safe haven demand from geopolitical developments is keeping a cap on 10Y UST yield. Eventually when tensions dissipate, sanctions and higher inflation prospects will likely remain. At such a point, the 10Y UST is likely to return to a firmer path of higher yields.

Commodities Strategy Outlook: Over the near term, about 5% of global oil supply has "evaporated" as Russia is hit by sanctions and oil import ban. Over the longer term, Europe will need to diversify away from its heavy dependency on Russian oil and gas. In the interim, OPEC does not seem to be in a hurry to pump more oil.

ASSET ALLOCATION

Global market conditions became much more complicated in the first quarter of 2022. In January, market first turned more volatile when central banks, led by the US Fed, turned much more hawkish than we or the markets were assuming at the end of last year. Then in February, the Russia-Ukraine military conflict rocked the understanding of the world order and clouded the growth outlook. While we do not necessarily suggest investors take a very bearish view of global markets, we think the uncertainties are high enough that it is prudent to reduce risk exposures and remove prior overweight in equities back to more neutral positions.

Prior to the military action in Ukraine, the consensus view on global growth for 2022 was very strong. Consensus forecasts of global GDP growth was expected to be 4.4% which would have been one of the two highest growth rates in the last 15 years and would have been in the top 20% of growth rates since the 1970's. Through the first two months of the year, analysts continued to upgrade the earnings outlook for listed companies in the major indices. Our view at the start of the year was that this growth would be strong enough to be sustained even if interest rates rose.

But with the stiff sanctions against Russia, the growth outlook has suddenly turned very uncertain. Energy exports from Russia to Europe are now in doubt, which could trigger energy shortages which in turn could affect economic growth. Additionally, energy shortages should trigger higher energy prices which will be a cost burden on consumers and businesses around the world and add to the existing inflationary pressures. Usually, when the growth outlook becomes more uncertain, markets get some relief in financial conditions as bond yields decline and central banks delay rate hike expectations. But this period is proving more challenging as the growth concerns have hit when inflation data remains high and thus bond yields have remained elevated and rate hikes continue to be expected throughout 2022.

Overall, we recommend to shift equities to a Neutral weight, and focus on managing risks in the near term. Usually as risks rise, fixed income can be a safe haven, but in this period, both inflation and interest rates are rising, implying we need to stay Underweight fixed income. Commodities in general look favourable and provide diversification from other asset classes. We Overweight precious metals which will benefit as both a safe have and a protector against inflation. We also Overweight energy and industrial metals. Also, during this period of high uncertainty we would shift cash to an Overweight until market conditions start to become clearer.

Global Asset Allocation For 2Q 2022

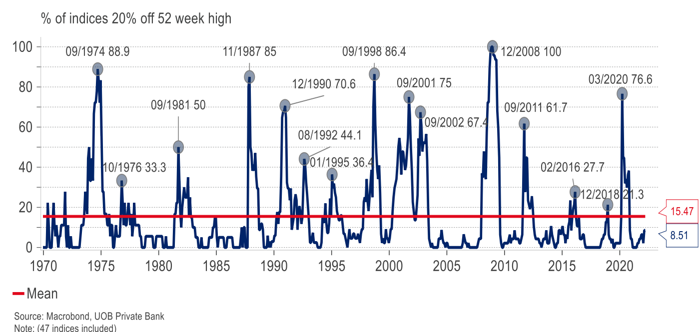
	Underweight	Moderate Underweight	Neutral	Moderate Overweight	Overweight
Equities			•		
Fixed Income		•			
Commodities					•
Alternatives (hedged strategies)				•	
Cash				•	

EQUITIES

The confluence of geopolitics, regulations, and economic factors triggered a large sell-off in global equities in 1Q 2022, rekindling memories of the previous sell-off during the COVID-19 pandemic in 1Q 2020. The Russia-Ukraine tension, and US regulator's threat to delist Chinese companies from the American stock markets for failing to meet audit requirements were the latest events causing the drawdown.

At time of writing, the percentage of global equity indices that have entered the "bear" market was around 17%, higher than a long-term average of 15.5%. We believe that investors had over-reacted, causing an extreme knee-jerk reaction of panic selling without regards to fundamentals. We discuss both event risks in further details.

Global Stock Market Diffusion Index



Source: Macrobond, UOB Private Bank

Despite investor fears of a prolonged war, **most geopolitical events in the past showed that markets will eventually look past event risks and return to economic fundamentals to determine the direction of equities**. In fact, as the broader conflict between Russia and Ukraine materializes, history suggests that market will close in towards a bottom. Time and again, **clients who start positioning into markets can build up defensive equity portfolios from a better risk-reward perspective**. If history is any guide, **the latest selloff in Chinese tech stocks represents the capitulation phase of the unwinding of a mania**, often heralding a market bottom. In fact, even at their peak last year, Chinese tech stocks were not nearly as frothy as global/US tech stocks at the 2000 peak, and the current valuation is a fraction of the global tech sector's in mid-2002.

Chinese tech stocks listed in offshore markets, measured by the Hang Seng Technology Index, are trading at 0.8 times price-to-book, 4.7 times price-to-cash flow and 8.4 times trailing earnings, all of which are substantially lower than those of global tech firms. While the prospect of delisting from American bourses complicates the trading of these Chinese stocks, it should not have a material impact on the long-term outlook for their business prospects, which drives cash flow growth, and ultimately, equity value. Moreover, most large-cap Chinese tech names are already dual-listed on the Hong Kong Exchange, and their shares are fungible with their US-listed counterparts. Therefore, the delisting from the US should have an even smaller impact on them.

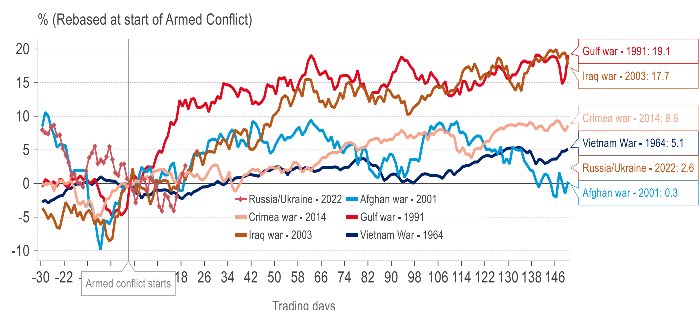
With regards to investors' worries about China's tech regulatory crackdown, we also believe that the market has exaggerated the negative impact. Cyclically, **the Chinese authorities are shifting their focus to supporting growth**, as glimpsed from the "Two Sessions" that concluded in March 2022. While there could be lingering concerns on specific companies, we view the regulatory risk for the Chinese tech sector may have peaked.

In fact, **we are more enthusiastic about the Chinese tech sector at current valuations since fundamentally**, it includes all the major players in vital consumer sectors, such as e-commerce, mobile internet, mobile payment, and electric vehicles. Our secular outlook for these vibrant sectors of China's economy is bright. While regulatory anti-monopoly moves may target certain dominant firms affecting market leadership within certain sectors, such shifts in relative competitiveness should not lead to a wholesale collapse in equity value of the entire sector and is a more sustainable way to grow the innovative economy and it will not discourage smaller players from entrepreneurship.

Even more fundamentally, **it is certainly not China's intention to hollow out its own tech sector over the long run**. If anything, the fraught external economic and geopolitical environment will only force China's leadership to support the country's domestic tech champions to improve China's self-sufficiency in key technology products.

In conclusion, while the markets may still be overly concerned with the current geopolitical and regulatory news flows, we advocate investors to take a longer-term view in their portfolio management. **We are currently Neutral on equities due to such lingering concerns and hesitate taking an Underweight position as we believe investors should in fact take opportunities of the current equity sell-offs to pick up some good names at better valuations.**

US Equity Performance During Recent Conflicts



Source: Macrobond, UOB Private Bank

COMMODITIES

Is the Commodities Supercycle Upon Us?

Russia's invasion of Ukraine in late Feb triggered a strong price rally in practically every commodity. In particular, those commodities which are more dependent on supply from Russia and Ukraine, especially crude oil, have witnessed even more explosive price rallies over the past month.

Gold: To Rally Further On Strong Safe Haven In-Flows

Across 1Q, there was clear evidence of increased re-allocation back into gold across various investor classes. Retail investors have lifted quarterly gold jewellery purchases back to pre-COVID levels. Institutional investors have also returned to gold ETFs. And central banks will most likely accelerate their reserve diversification into gold. Overall, with the onset of war, mounting fears of inflation, coupled with strong safe haven in-flows have now taken over as the dominant drivers for gold price, muting the negative impact from the anticipated rate hikes from the US Federal Reserve. As per our Commodities Strategy note "Gold To Rally Further On Strong Safe Haven In-Flows" dated 09 Mar 22, we have upgraded our forecast for gold from neutral to positive and raised our forecasts to USD 2,100 / oz for 2Q22, USD 2,150 / oz for 3Q22 and USD 2,200 / oz for 4Q22 and 1Q23.

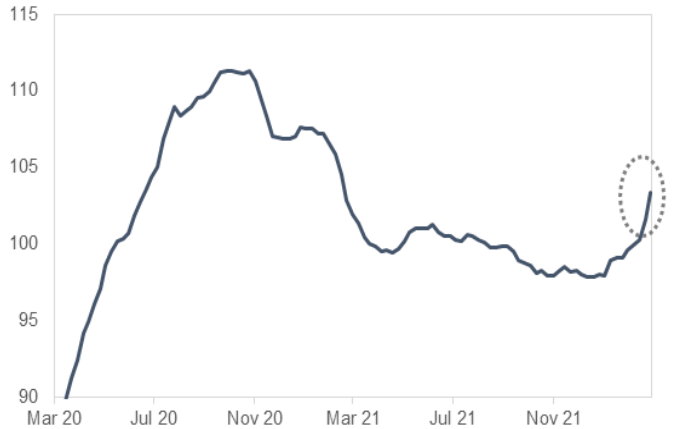
LME Copper: Consolidating gains above USD 10,000 / MT

While Russia's invasion of Ukraine has upended the supply of Nickel, it is fortuitous that global supply for Copper is more diversified across various countries like Chile, Peru and Indonesia. More importantly, the refined copper market is expected to be in a comfortable surplus this year. Prior to the war, the ICSG has forecasted that the refined copper market will improve from a 42k MT deficit in 2021 to a substantial 328k MT surplus this year. As a result, LME Copper had a more muted and controlled rally so far, rising by "just 10%" from USD 9,500 / MT in Jan to about USD 10,800 / MT in early Mar, before drifting back down to USD 10,200 / MT. Nonetheless, tight on-warrant stock coupled with decade low inventory in global exchanges is expected to keep LME Copper prices elevated above USD 10,000 / MT in the foreseeable future. Overall, we see on-going gradual grind in LME Copper prices higher towards USD 11,000 / MT by end of this year.

Brent Crude Oil: A Brave New World Above USD 100 / bbl

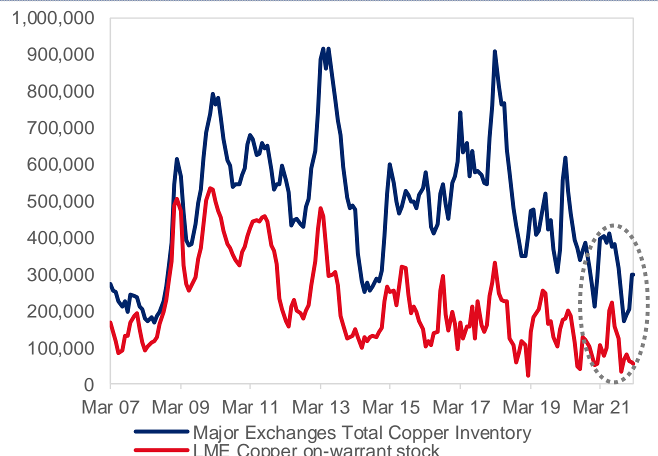
Prior to Russia's invasion of crude oil, global crude oil inventory as measured by OECD has already dropped to an almost decade low. Upon the invasion, global oil supply tightened further as the US and most of the world stopped buying Russia crude. This resulted in an "immediate loss" of about 5% of global crude oil supply. Furthermore, OPEC is not in a hurry to raise its production anytime soon as only Saudi Arabia and UAE have some spare capacity left. As per our Commodities Strategy note "A Brave New World For Brent Crude Oil Above USD 100 / bbl" dated 28 Feb 22, we have raised Brent crude oil forecast to USD 110 / bbl in 1H22 and USD 100 / bbl in 2H22. We maintain this rolling forecast at USD 110 / bbl for 2Q and 3Q22, followed by USD 100 / bbl for 4Q22 and 1Q23 and warn that outlook remains volatile and tilted to the upside.

Gold: Global Gold ETF tonnage saw renewed surge



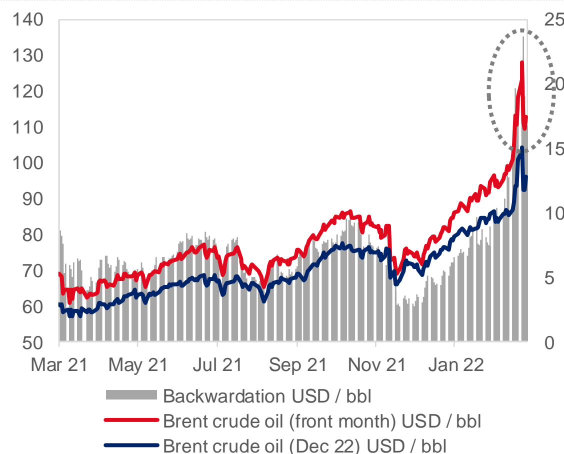
Source: Bloomberg, UOB Global Economics & Markets Research

Copper: Global copper inventory is already at multi-year low prior to Ukraine war



Source: Bloomberg, UOB Global Economics & Markets Research

Brent Crude Oil: Brent backwardation jumps to extreme levels with onset of Ukraine war



Source: Bloomberg, UOB Global Economics & Markets Research

FIXED INCOME

Fixed income markets continue to face the headwinds of rising interest rates and widening credit spreads. While 2021 was a tough year for fixed income benchmarks, 2022 is proving to be even more challenging. Eventually, we think the higher bond yields are going to make fixed income future returns attractive again, but for the coming quarter we think investors will need to continue to be cautious with their fixed income portfolios.

Returns on most global fixed income markets were modestly negative in 2021 but turned sharply negative in the first quarter of 2022. Bond yields such as the UST 10-year yield rose from 1.5% at the start of 2022,to over 2% by mid-March 2022. At the same time credit spreads widened from 100bp to over 140bp by the middle of March. The combination of rising yields and widening spreads sent fixed income benchmarks (such as the Barclays Global Credit Aggregate and the JPM Asia Credit Index) down by over 7% through March. Usually, during times of stress, bond yields will decline and help offset the widening of credit spreads. But as the current crisis in Ukraine is contributing to rising oil prices which in turn is putting continued pressure on inflation and thus bond yields have been rising, and not declining as we have seen in prior crisis periods.

The hawkish pivot by the US Fed has been very sharp and implies that markets should be ready for a steady stream of interest rate hikes in 2022. UOB now expects rate hikes at each Fed meeting in 2022 to bring the Fed Funds rate up to a range of 1.75%-2.0% by the end of 2022. This persistent upward pressure on rate hikes is likely to remain a steady headwind for global fixed income.

There is light at the end of the tunnel, that investors should be aware of. While bond yields rise, fixed income benchmarks will suffer capital gains losses, but it is also improving the outlook for future periods. We would expect that by some point in the second half of 2022, that the better yields on bond portfolios will be able to offset further losses from rate hikes. If the UST 10-year yield rises to 2.5% and credit spreads add another 1% to 1.5%, then fixed income returns should be steady and positive in the periods after that. In a world in which geopolitical risks have risen, it will be comforting to have a lower volatility asset class that can be counted on for positive returns.

Within fixed income, we prefer investment grade corporate bonds over government bonds and high yield. The risks of rising rates and the sanctions against Russia can both lead to slower global economic growth. Slower growth can put pressure on the credit worthiness of corporate bonds. But our view is that while it is realistic to see growth moderate from these issues, we don't think we would see growth slow enough to cause a recession. As such, we have confidence that investment grade credits do not usually see defaults from modest slowdowns in growth. High yield credit spreads are attractive, but with the increased levels of risks we think it is more prudent to focus on investment grade credits. Government bonds offer less carry and less protection to rising rates.

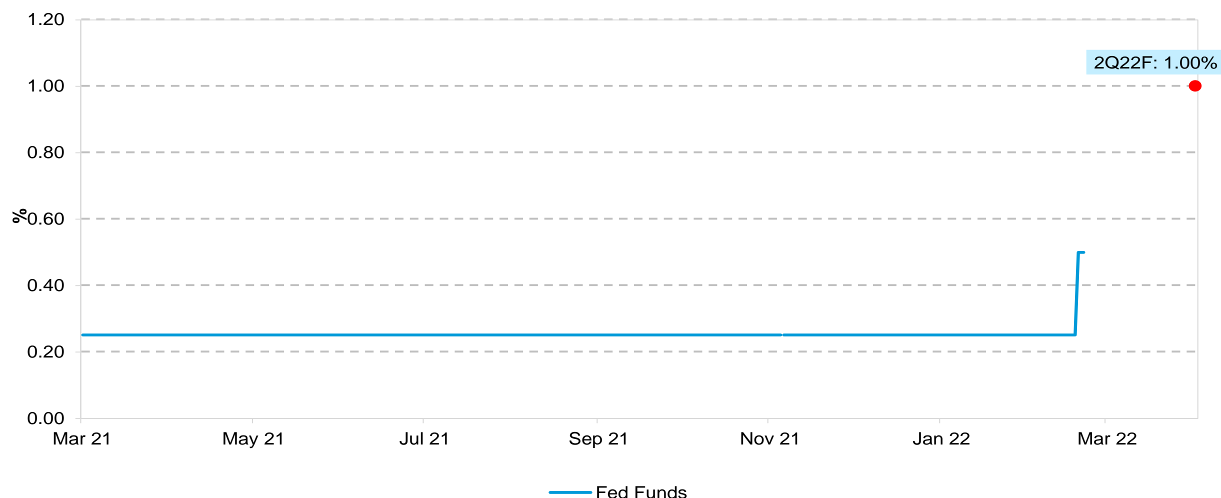
Continue to overweight Asian credits over global credits. We continue to like the Asian credit markets over the global credit markets due to better credit spreads and due to fewer direct risks associated with the conflict in Europe. Over the past year, Asian credits have outperformed and we would expect this trend to continue. China remains very influential on the Asian credit markets and while we expect China's growth to remain low in the first half of 2022, we think China's policies have been incrementally more supportive of growth for 2022.

Overall, we remain Underweight fixed income for 2Q22. We would advise keeping duration in the 3 to 5-year range where yields are nearly as high as the 10-year yield but carries less interest rate sensitivity to rising rates. We would also continue to overweight Asian investment grade credits.

FX & INTEREST RATES

UNITED STATES

FED Funds Rate



The 15/16 Mar 2022 FOMC was visibly hawkish as the Fed took the first step of liftoff with a 25bps hike of the policy Fed Funds Target rate (FFTR) to 0.25-0.50% and signaled clearly that that more rate hikes will follow with its focus on reining in inflation. The other key element was the Mar Dot-plot chart which showed FOMC policymakers pivoting to an even faster pace of normalisation as they now gravitate towards the view of the Fed policy rate at 1.9% by end of 2022 (up from 0.9% in Dec 2021 FOMC) which implies six more 25bps rate hikes in 2022 (i.e. one 25 hike in every meeting for the rest of 2022). Importantly, the dots distribution showed a desire among the FOMC members for at least one 50bps hike in 2022. **FOMC Outlook – Faster, Higher, Shorter:** Given the explicit hawkish trajectory spelt out in the Mar FOMC, we now expect the FFTR hiked faster by clips of 25bps in every remaining meeting of this year. Including the Mar FOMC's 25bps hike, this implies a cumulative 175bps of increases in 2022, bringing the FFTR higher to the range of 1.75-2.00% by end of 2022 (from our previous forecast of 150bps hikes to 1.50-1.75% by end 2022). We also see a risk that the Fed could still surprise with a more aggressive 50bps hike in May, especially if Mar CPI inflation (due on 12 Apr) prints well above 8% y/y. We also project three more 25bps rate hikes in 2023 before the Fed concludes its current rate hike cycle, bringing the terminal FFTR to 2.50%-2.75% by 3Q 2023.

3M US Libors

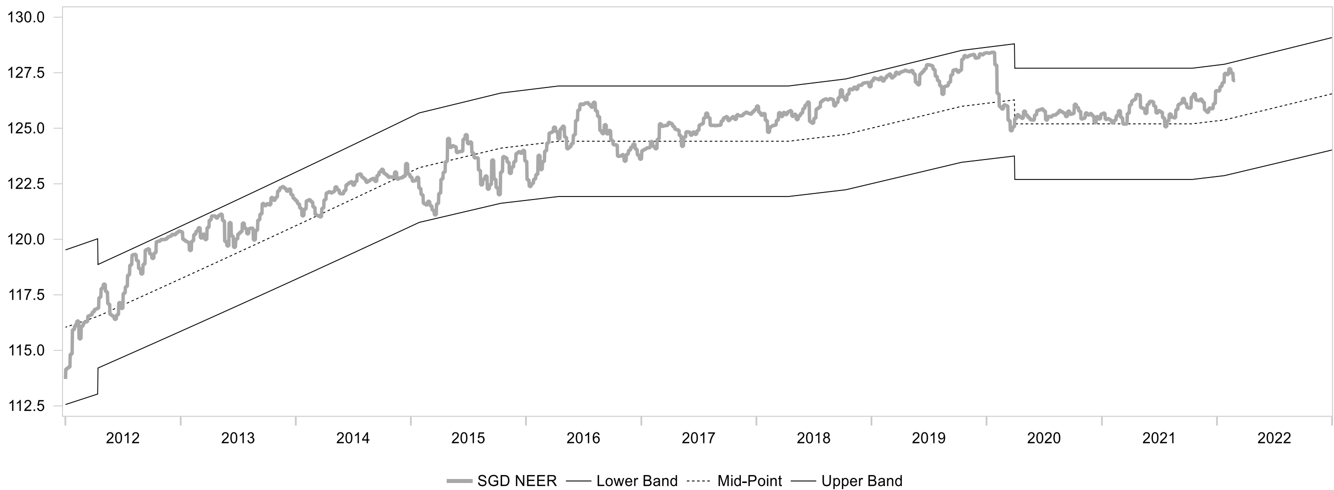
- We expect to see 3M Libor at around 1.25% by the end of 2Q 2022.
- Upcycle for Libor is in play for 2022, off the back of aggressive Fed hike expectations.
- Liquidity conditions incrementally less accommodative but far from being tight.

10Y US Treasuries

- We expect to see 10Y UST at 2.25% by the end of 2Q 2022.
- Hike cycle high for 10Y UST yield to come in late tightening cycle.
- Ceiling on 10-year yield will depend on how well other asset classes adjusts to higher FED funds rate going forward.

SINGAPORE

S$NEER



The MAS responded in an off-cycle policy shift in Jan 2022 to the elevated inflation environment. In the statement, policymakers raised the S$NEER policy slope "slightly", while keeping the width of the policy band and the level at which it is centred unchanged. For the scheduled Apr 2022 monetary policy release, we expect the MAS to further steepen the S$NEER gradient "slightly". This is estimated to bring the policy band gradient to an appreciation of 1.5% then. That said, there will also be a material risk for added tightening by policymakers via a recentring of the policy mid-point, given that the S$NEER has already appreciated within the upper half of the policy band since Oct 2021's policy meeting.

Even after the MAS surprise off-cycle move to increase the policy slope late Jan, our call for a higher USD/SGD were not derailed. Our view appears prescient as USD/SGD did not make further ground below 1.34 after MAS's move (compared to about 1.3460 immediately before) and the subsequent Russian invasion jolted the pair above 1.3600. While the MAS is expected to tighten policy further in Apr in response to rising inflation, the knee-jerk strength in the SGD is likely to be limited, considering the current challenging risk backdrop. Also, front-loaded Fed rate hikes will continue to underpin broad USD strength. Overall, we maintain an upward trajectory in USD/SGD and update the point forecasts to 1.38 in 2Q22, 1.39 in 3Q22, and 1.40 in both 4Q22 and 1Q23.

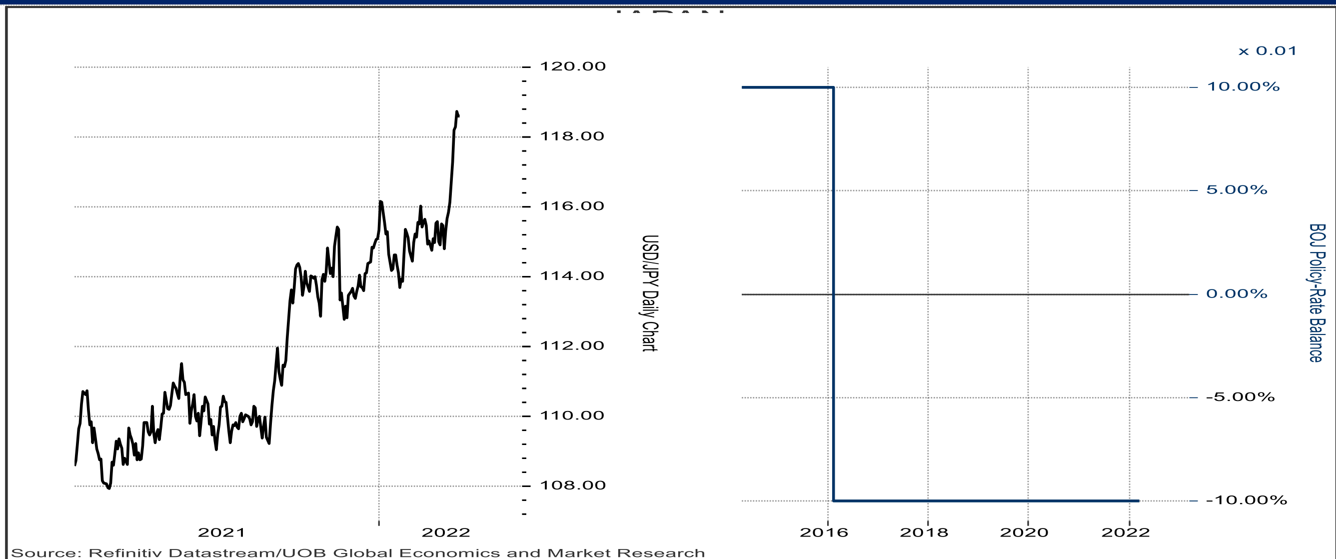
3M SOR and Sibor

- We expect to see 3M SOR at 1.10% and SIBOR at 1.15% by the end of 2Q 2022.
- USDSGD FX swap discount to persist amidst higher Fed Funds rates and a strengthening SGNEER bias.

10Y SG Bonds

- We expect to see 10Y SGS at 2.15% by the end of 2Q 2022.
- Upside bias feeds off UST view.
- SG yield discount to US to deepen over the tightening cycle.
- Yield curve to remain flat.

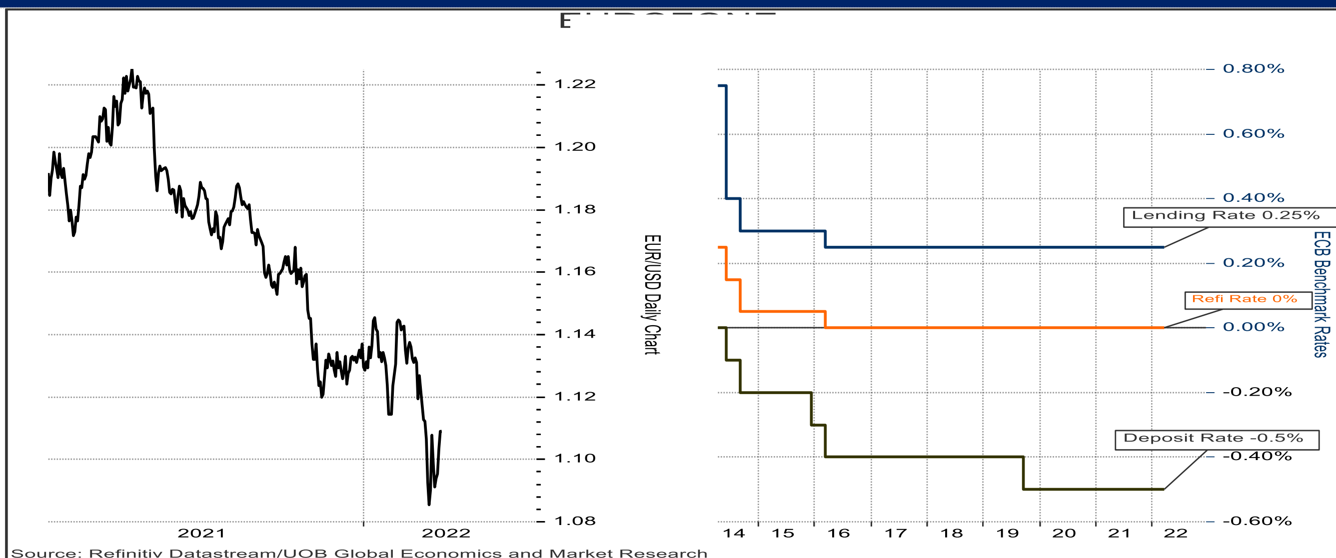
JAPAN



In its Mar MPM, the BOJ kept policy rates unchanged and downgraded the view on the economy due to impact from COVID-19. In a stark divergence with its G7 peers who are on the cusp or already normalizing monetary policy, the BOJ kept its preference for easing as it retained the statement that "it expects short- and long-term policy interest rates to remain at their present or lower levels." It also highlighted the extremely high uncertainties over how the Russia-Ukraine war will affect Japan's economic activity and prices. With the inflation largely stemming from an uncertain supply shock while domestic demand remains weak, we are certain that the BOJ will keep its current easy monetary policy intact for 2022 and will maintain its massive stimulus, possibly at least until FY2023. There is an entrenched belief that unlike its G7 peers, the BOJ has little (or no) room for normalisation and will remain in a holding pattern on policy until at least April 2023 when Governor Kuroda is scheduled to leave the BOJ.

We continue to reiterate the view that the stark monetary policy divergence between the Fed and the BOJ continues to argue for a higher USD/JPY over the medium to long term. As such, we shift up our existing USD/JPY forecasts by about 200 pips across the forecast period. The updated levels are now at 119 in 2Q22, 120 in 3Q22, 121 in 4Q22 and 122 in 1Q23.

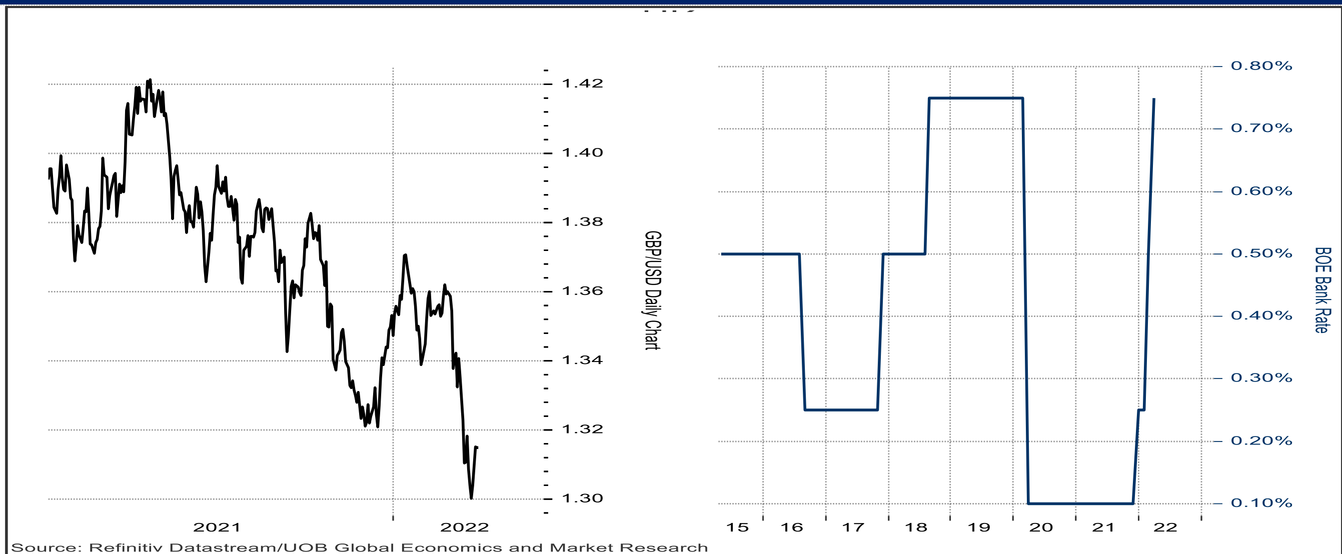
EUROZONE



How the Russia-Ukraine war evolves and the impact that has on energy prices will be crucial. We are not expecting any changes in key interest rates for now. Rather, any policy tightening by the ECB this year, will solely be in terms of ending its QE programs.

With the tentative post-COVID economic recovery under threat, the ECB is almost certain to double down on its patience on rates liftoff, which we expect to only occur in 1Q23. As such, the widening EU-US rates differential will continue to weigh on EUR/USD. Also, the current net long EUR/USD positioning lends a long runway for additional geopolitical hedges to be deployed before positioning becomes excessive. With this sudden jolt of geopolitical risks, our previous 1.08 year-end target for EUR/USD is now outdated. Overall, with a multitude of headwinds hitting the EUR, we expect further weakness in EUR/USD. Our updated point forecasts are 1.08 in 2Q22, 1.07 in 3Q22, and 1.06 in both 4Q22 and 1Q23.

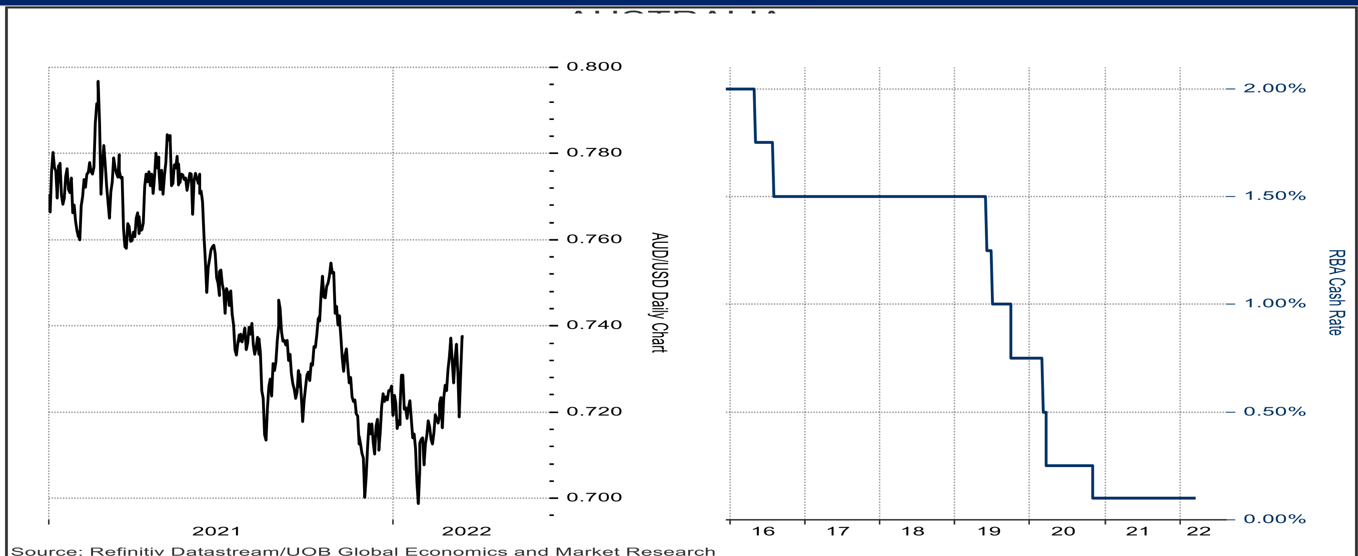
UNITED KINGDOM



We believe the BOE will tread very carefully as it considers the trade-off between strong inflation and weakening growth. We see room for a further 25bps hike, due to the strength of the labour market and upward revisions to our inflation outlook (5.0% for 2022 vs 3.6% previously). For now, we have pencilled in the next hike at the 5 May meeting. We then look for a pause for the rest of this year (given that active gilt sales should begin after the Bank Rate reaches 1.00%) before looking for the BOE to tighten again in 2023.

GBP/USD fell to a post-Brexit era low of almost 1.30 as part of a broader risk selloff amidst the Russian invasion. While geopolitics-inflicted volatility and a scale back of the aggressive rate expectations in the wake of BOE's dovish hike in Mar may weigh on GBP/USD in the near-term, longer-term valuation of GBP remains attractive. The Real Effective Exchange Rate (REER) valuation of GBP is still stuck at its lowest quartile over the last four decades and we expect the structural Brexit discount to continue to unwind. Overall, we keep to our bullish outlook for GBP/USD but have dropped the point forecasts to reflect the newly injected geopolitical risks. The updated GBP/USD forecasts are 1.30 in 2Q22, 1.32 in 3Q22, 1.34 in 4Q22 and 1.36 in 1Q23.

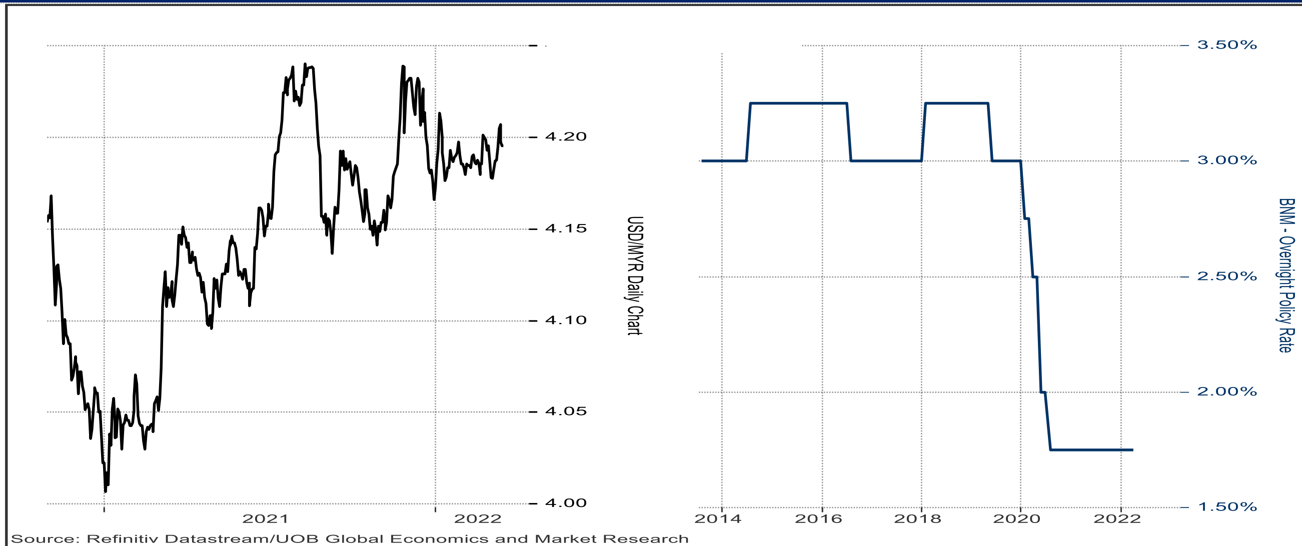
AUSTRALIA



The upgrade to our inflation forecasts, alongside an even tighter labour market, has led us to bring forward our RBA rate hike call. We now see the cash rate target being lifted by 15bps in Aug and then by 25bps in Nov. This will see the cash rate target at 0.50% by the end of 2022.

Even against a deteriorating global risk backdrop and a scramble for the USD, the AUD/USD rallied to a 4-month high of 0.7441 on 7 Mar before paring some gains. With our base case being a protracted Russia-Ukraine war, it is likely that high commodity prices will be with us for a while longer, a bone for AUD bulls. Another positive factor for the AUD probably comes in the form of the RBA bowing to markets' expectations of a rate liftoff this year given the sudden commodity price shock. We have also brought forward our RBA rate hike call and now expect a 15bps liftoff in Aug and another 25bps rate hike in Nov. Taken together, we are now shifting to a positive trajectory for AUD/USD, with point forecasts updated at 0.73 in 2Q22, 0.74 in 3Q22, 0.75 in both 4Q22 and 1Q23.

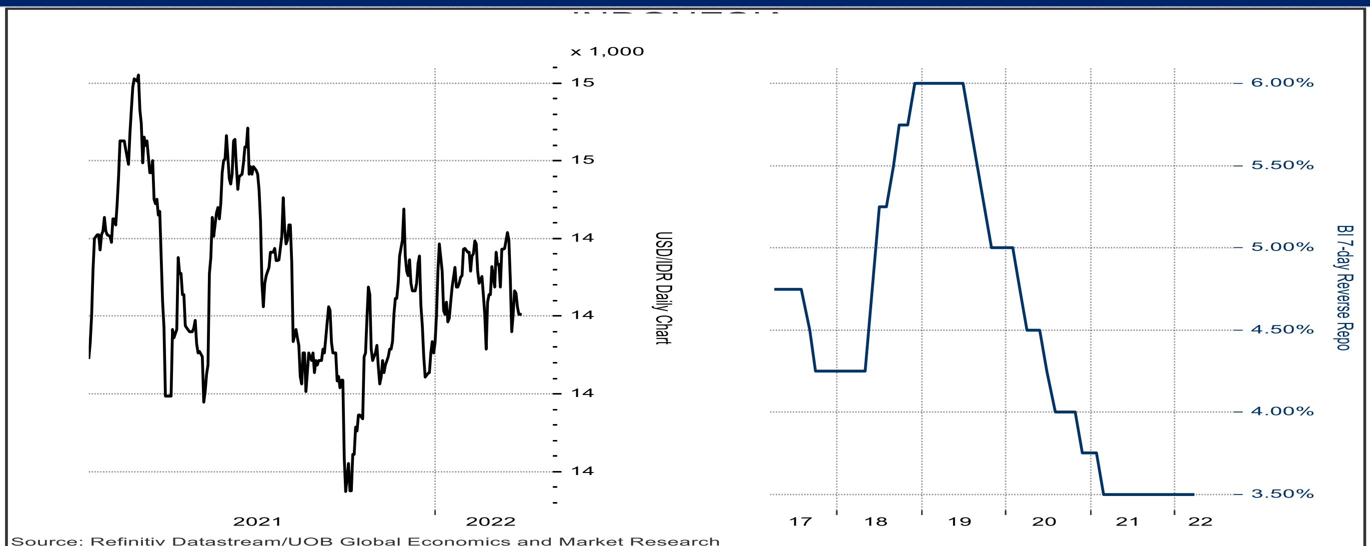
MALAYSIA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

Bank Negara Malaysia (BNM) left the Overnight Policy Rate (OPR) unchanged at 1.75% for the tenth straight meeting in Mar. BNM cautioned that the military conflict in Ukraine has emerged as a new key risk to global growth and trade outlook, commodity prices and financial market conditions. Nevertheless, the central bank maintained its optimism on domestic growth recovery and moderate inflation outlook. As geopolitical risks continue to unfold, we maintain our view for two 25bps OPR hikes for now. This would bring the target level to 2.25% by year-end. Judging by the net foreign inflows of MYR5.9bn in Feb into domestic bonds and equities, Malaysia appears to benefit from safe haven demand as Malaysia is a commodity exporter and beneficiary of trade diversification amid heightened geopolitical risks. Overall, we expect USD/MYR to be guided higher by broad strength in the USD as the Fed begins its rate hike cycle. Hence, we expect the pair at 4.26 in 2Q22, 4.29 in 3Q22, 4.32 in 4Q22, and 4.35 in 1Q23.

INDONESIA

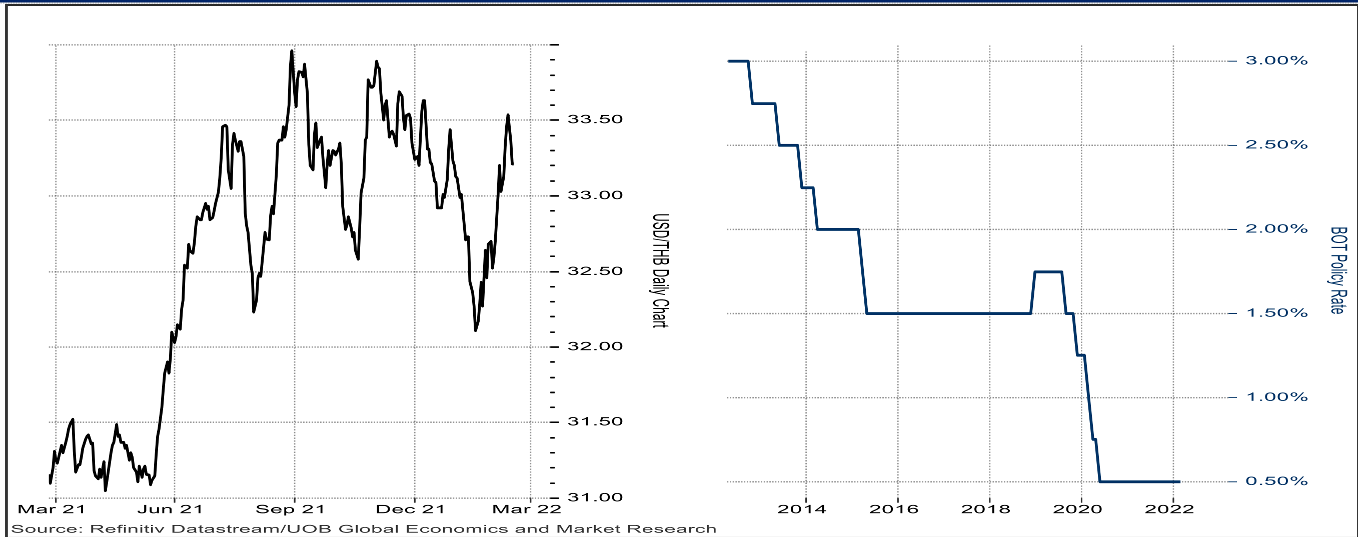


Source: Refinitiv Datastream/UOB Global Economics and Market Research

Bank Indonesia (BI) left its benchmark rate unchanged at 3.50% at its March MPC meeting. We reiterate our view for BI to continue keeping its benchmark rate unchanged in 1H22. Nevertheless, we are of the view that the rate hike cycle will begin soon, with our forecast that BI will start to hike its benchmark interest rates in the latter half of 2022. Our forecast is for two 25bps hikes in 3Q 2022 to 4%, followed by another two 25bps hikes in 4Q 2022 to 4.5%. Besides, BI for now only expects the Fed to deliver 4 rate hikes of 25 bps each against market expectations currently of at least a total of 5 hikes, with a magnitude of 25bps each time.

The IDR is in fine balancing act now. Being a net energy exporter, the IDR benefits from high energy prices but are counteracted by portfolio outflows which hurt the IDR. Looking ahead, risks are skewed to downside of IDR as portfolio outflows (both equities and bonds) appears to be accelerating since the onset of the Russian invasion. The 10-year Indonesia Government bond yield have also briefly spiked to 1-year high of 6.80% before pulling back. Overall, we keep to our expectations of a higher USD/IDR, with point forecasts at 14,700 in 2Q22, 14,800 in 3Q22, and 14,900 in both 4Q22 and 1Q23.

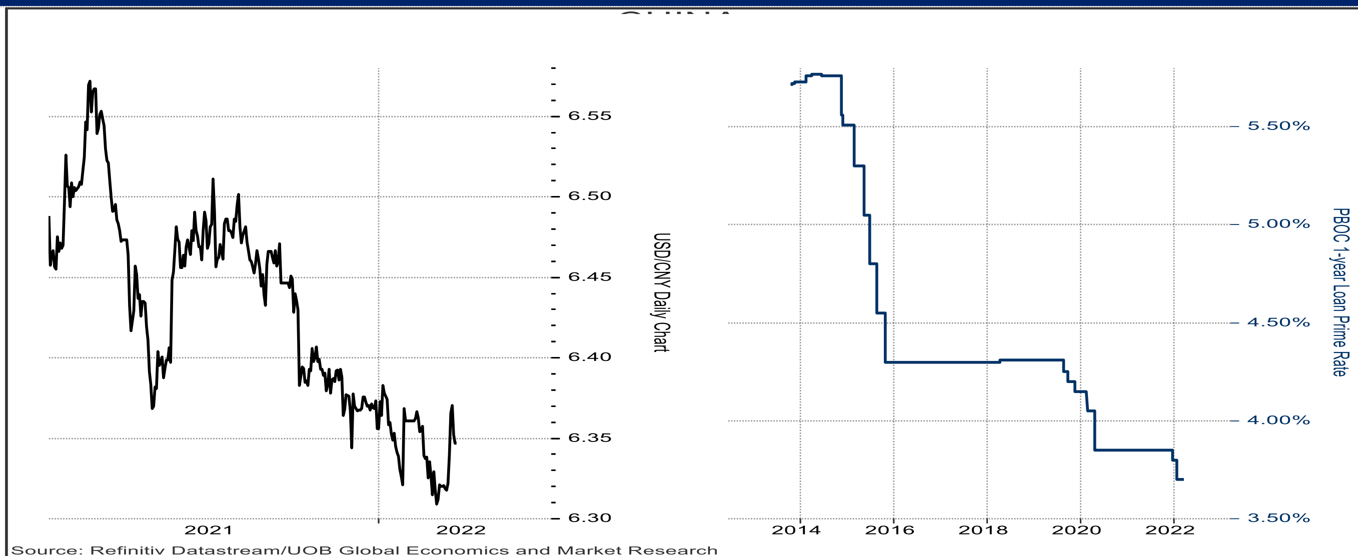
THAILAND



Source: Refinitiv Datastream/UOB Global Economics and Market Research

The Bank of Thailand (BOT) kept its one-day repurchase rate unchanged at 0.50% for its 14th consecutive meeting on 9 Feb 2022. Policy manoeuvres are now increasingly challenging given the slower growth dynamics and higher inflation climate. Moreover, BOT would need to account for higher global rates especially led by rate hikes by the Fed. We note Thailand had been vulnerable to fund outflows during the previous FOMC rate tightening cycle. As such, we expect BOT to deliver a token 25bps rate hike in 2022, possibly as early as 3Q22, in response to higher inflation risk and the faster-than-anticipated FOMC rate hike for the year ahead. Notwithstanding the projected 25bps hike later this year, we continue to view the monetary policy stance of BOT to be accommodative, especially against the backdrop of potentially higher global interest rates. The pace of the bond outflows in the last couple of weeks due to geopolitical tension is concerning and bears close watching especially now that the Fed has started its rate hike cycle. Overall, we keep to our defensive view of THB and expect USD/THB at 33.8 in 2Q22, 34.0 in 3Q22, 34.2 in 4Q22 and 34.4 in 1Q23.

CHINA



Source: Refinitiv Datastream/UOB Global Economics and Market Research

The near-term focus will stay on supporting growth. Thus, we are maintaining our forecast for the benchmark 1Y loan prime rate (LPR) to fall by another 15bps to 3.55% by the end of 2Q22. There is also possibility for a further cut in the reserve requirement ratio (RRR) to help lower the funding costs for banks. As domestic economic condition improves and credit growth rebound more strongly in 2H22, the attention could then shift to the higher global inflation backdrop.

The CNY's stability around 6.32 /USD throughout the Russian invasion was upended after China registered its biggest surge in COVID-19 cases in two years. The return of lockdowns and its disruptions to economic activities rekindled concerns over the ambitious 2022 GDP target of 5.5% set by the Chinese government just days before the recent outbreak. Taken together, we see a strong likelihood of USD/CNY turning the corner from here given the increasingly challenging outlook. In conjunction with our latest 2022 GDP downgrade to 4.9% from 5.2%, we have lifted our USD/CNY forecasts by 500 pips, with updated forecasts at 6.50 in 2Q22, 6.55 in 3Q22, 6.60 in 4Q22 and 6.65 in 1Q23.

FX, INTEREST RATE & COMMODITIES FORECASTS

FX	18 Mar 22	2Q22F	3Q22F	4Q22F	1Q23F
USD/JPY	119	119	120	121	122
EUR/USD	1.11	1.08	1.07	1.06	1.06
GBP/USD	1.32	1.30	1.32	1.34	1.36
AUD/USD	0.74	0.73	0.74	0.75	0.75
NZD/USD	0.69	0.68	0.69	0.70	0.70
DXY	98.07	99.6	99.9	100.3	100.1
USD/CNY	6.36	6.50	6.55	6.60	6.65
USD/HKD	7.82	7.84	7.85	7.85	7.85
USD/TWD	28.33	28.6	28.8	29.0	29.2
USD/KRW	1,213	1,250	1,260	1,270	1,280
USD/PHP	52.34	53.0	53.5	54.0	54.0
USD/MYR	4.20	4.26	4.29	4.32	4.35
USD/IDR	14,330	14,700	14,800	14,900	14,900
USD/THB	33.34	33.8	34.0	34.2	34.4
USD/VND	22,870	23,000	23,100	23,200	23,300
USD/INR	75.81	77.5	78.0	78.5	79.5
USD/SGD	1.36	1.38	1.39	1.40	1.40
EUR/SGD	1.50	1.49	1.49	1.48	1.48
GBP/SGD	1.78	1.79	1.83	1.88	1.90
AUD/SGD	1.00	1.01	1.03	1.05	1.05
SGD/MYR	3.10	3.09	3.09	3.09	3.11
SGD/CNY	4.69	4.71	4.71	4.71	4.75
JPY/SGDx100	1.14	1.16	1.16	1.16	1.15

RATES	18 Mar 22	2Q22F	3Q22F	4Q22F	1Q23F
US Fed Fund Rates (Upper Bound)	0.50	1.00	1.50	2.00	2.25
USD SOFR	0.05*	0.91	1.46	1.90	2.24
USD 3M LIBOR	0.95	1.25	1.70	2.15	2.35
US 10Y Treasuries Yield	2.18	2.25	2.35	2.50	2.80
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10	-0.10
EUR Refinancing Rate	0.00	0.00	0.00	0.00	0.25
GBP Repo Rate	0.75	1.00	1.00	1.00	1.25
AUD Official Cash Rate	0.10	0.10	0.25	0.50	0.75
NZD Official Cash Rate	1.00	1.50	2.00	2.25	2.50
CNY 1Y Loan Prime Rate	3.70	3.55	3.55	3.55	3.55
HKD Base Rate	0.75	1.25	1.75	2.25	2.50
TWD Official Discount Rate	1.38	1.38	1.38	1.38	1.38
KRW Base Rate	1.25	1.50	1.75	1.75	1.75
PHP O/N Reverse Repo	2.00	2.25	2.50	2.75	3.00
SGD SORA	0.28	0.81	1.34	1.72	2.05
SGD 3M SIBOR	0.63	1.15	1.55	1.95	2.10
SGD 3M SOR	0.87	1.10	1.50	1.90	2.05
SGD 10Y SGS	2.09	2.15	2.20	2.30	2.50
MYR O/N Policy Rate	1.75	2.00	2.25	2.25	2.25
IDR 7D Reverse Repo	3.50	3.50	4.00	4.50	4.75
THB 1D Repo	0.50	0.50	0.75	0.75	1.00
VND Refinancing Rate	4.00	4.00	4.00	4.00	4.00
INR Repo Rate	4.00	4.25	4.50	4.75	4.75

COMMODITIES	18 Mar 22	2Q22F	3Q22F	4Q22F	1Q23F
Gold (USD/oz)	1,937	2,100	2,150	2,200	2,200
Brent Crude Oil (USD/bbl)	108	110	110	100	100
LME Copper (USD/mt)	10,243	10,500	10,500	11,000	11,000

* Last fixed on 16 March

THE TEAM

Global Economics & Markets Research
Asset Management
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All chart data from Bloomberg unless otherwise specified.

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