Quarterly Global Outlook 4Q 2022

Global Outlook Darkens

大华银行

CONTENTS

Information as of 27 September 2022

Email: GlobalEcoMktResearch@UOBgroup.com
URL: www.uob.com.sg/research
Bloomberg: UOBR

Scan the QR Code for a list of our reports

Executive Summary

Global Outlook Darkens

> " We have got to get inflation behind us.
> I wish there were a painless way to do that…There isn't . "

Fed Chair Jerome Powell
Post-FOMC press conference on 21 Jun 2022

Grim Growth Prospects For Developed Markets in 2023

Expectations of moderating growth has now morphed into a more ominous outlook. The main driving force for the pessimistic change is the aggressive pace of monetary policy tightening to tame an inflation trajectory that is at multi-decade highs in developed economies. And the Federal Reserve (Fed) sums it up perfectly with its pledge that they "will keep at it until the job is done" to bring inflation down to the 2% objective, even at the cost of much weaker growth or the "pain" of a recession.

In Europe, the situation feels even more dire as sky-high inflation is coupled with a potential winter energy crisis, which will further hurt both consumption and industrial activity, making a recession unavoidable across the Eurozone in 2023. As for the UK, it may already be in a recession in 3Q (2022) against the painful mix of high inflation and elevated policy rates. While the "mini budget" announced on 23 Sep may provide some fiscal support to the economy (questionable), the approach of Prime Minister Truss and Chancellor of the Exchequer Kwarteng is a huge gamble with very significant fiscal consequences, and the market already imposed a very heavy punishment via a plunging GBP (to an all-time low) and surging Gilt yields, and the finale could yet still be calamitous for UK economy. But while the narrative has turned recessionary for US, Eurozone and UK, the magnitude of the GDP contraction in 2023 is expected to be shallow for now, with US at -0.5%, UK at -0.1% and the Eurozone at -1.0%.

As for China, its problems are already well-telegraphed, an economic recovery hampered by its dynamic zero-COVID policy, a prolonged property market weakness and an expected slowdown in external demand. A diverging monetary policy between the People's Bank of China (PBoC) and the tighter Fed with the downside risk factors, has the yield spread between China government bonds and US Treasuries reversing to negative since Apr, monthly capital outflows since Feb and a weaker CNY. We expect China's growth to slow to 3.3% in 2022 before rebounding to 4.8% in 2023 while its policy rate will diverge further from the US at least till 1Q 2023. A silver lining for China and the region will be the potential surge in pent-up demand if and when the authorities relax the zero-COVID policy.

A Relatively More Benign Outlook For Asia

The electronics downcycle may also be upon us, judging by the latest PMI numbers from electronics powerhouses of South Korea, Taiwan and Singapore. The Asia-Pacific semiconductor sales are showing an unmistakable easing growth trend, from the peak growth of 35.5% y/y in Jun 2021 and it is now at just 4.1% in Jul, the slowest since Sep 2020. We have trimmed the growth forecasts for these economies due to the faltering outlook for electronics and weaker external demand. As for other Asian economies, we have also lowered some of their 2023 growth forecasts to various degrees to reflect the differences in their direct trade exposures to US and Europe (such as India, Philippines and Vietnam), while holding the growth outlook of some economies unchanged for now as country-specific factors may help cushion these economies or a upcoming budget plan may have positive drivers to growth.

Geopolitical risks have been a consistent feature in the economic landscape in recent years and there are many key events that will keep us up at night in 4Q. The Russia-Ukraine war entered into its 7th month in late Sep and remains the issue of greatest urgency to resolve but what we got instead is further escalation in the form of referendums to annex presently-occupied Ukrainian territories, a "partial mobilization" to strengthen the invading Russian forces and the threat to use nuclear weapons.

US-China relation has never been frostier, and Taiwan is the lightning rod pushing both sides further apart. After China's Communist Party holds twice-a-decade party congress on 16 Oct (where President Xi Jinping appears certain to secure his third term as party leader), there will be several events attended by leaders of China and US, including the 17th G20 Leaders' Summit in Bali (15-16 Nov) and the APEC Economic Leaders' Meeting (18-19 Nov), which can open opportunities for face-to-face meetings between the two leaders and a chance to lower the temperature, although there is very little possibility of improving the relationship.

Dissecting A Call For US Recession In 2023

With the Fed's aggressive rate hike profile extending further out, the impact on consumers and businesses will be palpable and "painful", a word that is used repeatedly by US Fed Chair Powell since his speech at the Jackson Hole Conference on 26 Aug.

There are signs that activities are slowing in response. For example, US housing market is already feeling the heat with mortgage rates topping 6% for the first time since 2008, when the US was in a recession.

There are signs that activities are slowing in response. For example, US housing market is already feeling the heat with mortgage rates topping 6% for the first time since 2008, when the US was in a recession. US existing home sales declined by -0.4% m/m in Aug to 4.8mn units annualised from -5.7%, 4.82mn units in Jul. This was the seventh straight month of decline of the US resale market, the longest stretch of declining sales since 2007, as higher mortgage rates continued to weigh on demand and consumer sentiment. And within its GDP, residential fixed investment plunged by -16.2% in 2Q (1Q: +0.4%), subtracting 0.8ppt from the change in headline GDP.

In view of the tight policy and the Fed's unwavering focus on returning to price stability, we are downshifting our US GDP growth forecasts for the US in 2022 and 2023 as shown in the table of forecasts.

US GDP Growth Forecast Revisions – A Shallow Recession In 2023

% q/q SAAR	1Q	2Q	3Q	4Q	Full Year
2022	-1.6	-0.6	-2.0	-3.6	--
2023	-0.4	-0.8	3.6	4.1	--
% y/y					
2022	3.5	1.7	0.6	-1.9	1.0
2023	-1.6	-1.7	-0.3	1.6	-0.5

Source: Global Economics & Markets Research (as of 27 Sep 2022)

Our annual projections of 1.0% (2022) and -0.5% (2023) are admittedly different from the US Fed's latest SEP (Summary of Economic Projections) of 0.2% and 1.2%, respectively. These imply that overall activities are expected to contract on a sequential basis (q/q) through 1H 2023 after having recorded a "technical" recession in 1H 2022 (with 2 quarters of negative q/q headline data). However, when looking at the y/y figures whereby activities are only expected to turn negative in 4Q 2022 and persist for 3 more quarters till 3Q 2023, based on our (and US Fed's) latest projections.

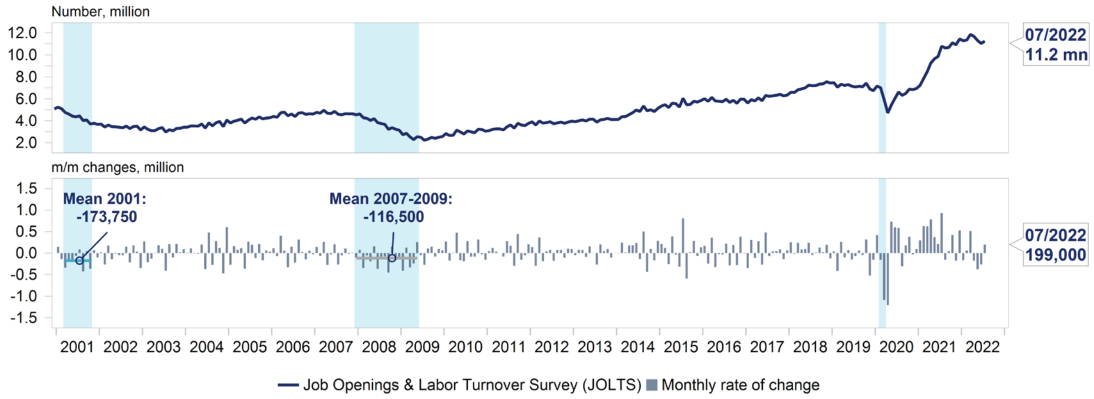
Concurrently, we also downgraded our forecasts for US jobless rates to 3.9% at end-2022 and 4.5% at end-2023 (which is in line with US Fed's median projections of 3.8% and 4.4%, respectively).

While the q/q contractions alone suggest that consecutive quarters of "technical" recession in 2022, the labour market tells a more upbeat story which is as tight as it has ever been.

While the q/q contractions alone suggest that consecutive quarters of "technical" recession in 2022, the labour market tells a more upbeat story which is as tight as it has ever been. The number of job openings (based on the Job Opening and Turnover Survey or JOLTS) has been hovering around record levels of more than 8 million positions since early 2021, with 2 job openings for every unemployed person. Indeed, the current recovery of the US labour market, in terms of improvement in jobless rate, is one of the best among the past US recessions.

US: Job Openings and Labor Turnover Survey (JOLTS)

Source: Macrobond, UOB Global Economics & Markets Research



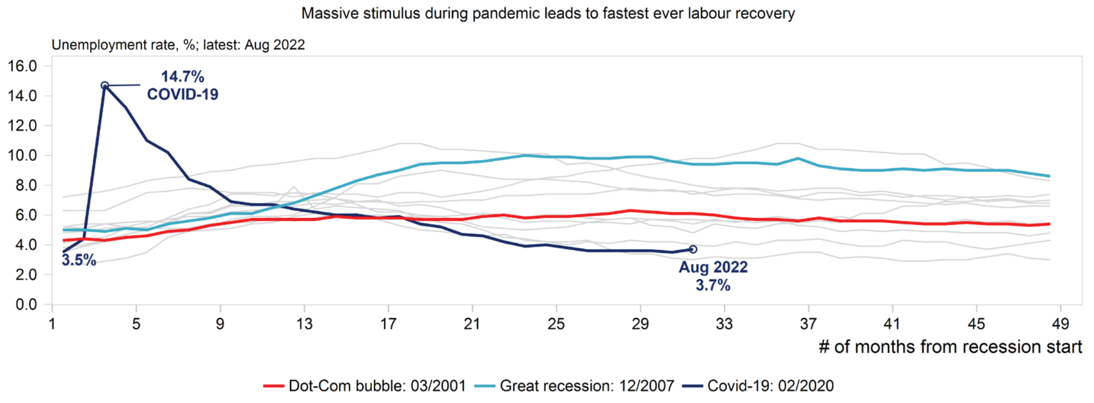
However, with the downshift of the forecasts for US jobless rates, the risks of a US recession have increased materially based on the Sahm Indicator, which uses jobless rate to determine when a US recession would occur. In short, the Sahm Indicator postulates that if the unemployment rate (in the form of its three-month average) is at least 0.50% points above its minimum from the previous 12 months, then the economy is already in a recession[1].

Based on our forecasts for the US unemployment rate profile and the aggressive US Fed's rate increases, it is very likely that the US will enter into a recession by the start of Jun 2023, if not earlier.

Based on our forecasts for the US unemployment rate profile and the aggressive US Fed's rate increases, it is very likely that the **US will enter into a recession by the start of Jun 2023**, if not earlier. The more difficult aspect to ascertain is how shallow (or deep) the downturn will be, due to the many moving parts including the uncertainty of how consumers, businesses, commodities prices and others react and adjust to the changes in the environment. Unless a crisis or shock develops abruptly like in the 2020 and 2008/09 episodes, the increases in jobless rate (and deterioration in the labour market) could well be mild and gradual, based on the record number of job openings, this could result in a moderate recessionary condition ahead.

US: Jobless Rate Trend For Each Recession Since The 1970s

Source: Bloomberg, UOB Global Economics & Markets Research



Hereafter is a brief synopsis of key Focus pieces as well as key FX and Rates views.

1 How will we know when a recession is coming? Ryan Nunn, Jana Parsons, and Jay Shambaugh, The Brookings Institution, 6 June 2019 https://www.brookings.edu/blog/up-front/2019/06/06/how-will-we-know-when-a-recession-is-coming/

FX Strategy

USD Strength Intensifies With Peak Unlikely This Year

With the Federal Funds Target Rate (FFTR) estimated to reach its terminal level of 4.75% in the upper bound by 1Q23, this would portend that a peak in the DXY will likely be around that time frame too.

Underpinned by aggressive Fed rate hike expectations, the US Dollar Index (DXY) rose for a fifth straight quarter in 3Q22 and touched the highest levels in over two decades. As to when the DXY will peak, it's important to note that Fed rate hike expectations have been a key driver for the DXY in this cycle. With the Federal Funds Target Rate (FFTR) estimated to reach its terminal level of 4.75% in the upper bound by 1Q23, this would portend that a peak in the DXY will likely be around that time frame too.

That said, the path to a DXY's eventual peak is fraught with uncertainties if the string of recent policy surprises is any indication. At the moment of writing, GBP crashed to the lowest historic level and threatens parity to the USD, after UK government announced sweeping tax cuts in its "mini budget" that led to questions about the sustainability of UK finances. And in Europe, the EUR was sold off deeper into sub-parity territory after the far right won Italy's General Election, raising concerns yet again on the sustainability of the large debt pile of Eurozone's third largest economy. In short, we expect more pain for both the GBP and EUR before things get better.

Like their developed markets peers, Asia FX weakened further in 3Q22 and the Asia Dollar Index (ADXY) fell to the lowest level in 19 years. The prospect of further portfolio outflows as the Fed continues its aggressive front-loading of rate hikes while Asia central banks normalize monetary policies on a more gradual basis keeps Asia FX on the defensive. Renewed weakness in the CNY past its psychological level of 7.0 against the USD has exacerbated pressure on Asia FX. Overall, we continue to expect Asia FX to stay weak through 3Q23. Specifically, we forecast USD/CNY rising to 7.25 by 2Q23, lifting USD/THB, USD/MYR, USD/IDR higher to 38.40, 4.69, 15,400 respectively. Further anticipated tightening of monetary policy by the Monetary Authority of Singapore (MAS) come mid-October will limit excessive SGD losses, but USD/SGD is still expected to climb in tandem to 1.45 by 2Q23 as well.

Rates Strategy

Early Stages Of Better Value In Bonds

Following the third hawkish 75 bps hike from the FOMC, our baseline on peak Fed funds has been revised higher to 4.75% by 1Q 2023. Needless to say, bonds are priced for this new hawkish baseline, with the scale tipping towards room for recession premium to grow. It follows from our view that we are gradually turning less bearish on longer maturity bonds going forward, especially with the 10Y UST yield setting new highs across September and therefore offering a much better value proposition for asset allocation compared to the low yielding days where "there is no alternative" (TINA). The big question is, when will be the optimal time to position for a turn in the monetary policy cycle and lower yields?

Overall, we expect yield top for longer maturities might come in early 2023. Until then, upside spikes are still possible, but the pace of gains in yield should slow going forward.

Overall, we expect yield top for longer maturities to come in early 2023. Until then, upside spikes are still possible, but the pace of gains in yield should slow going forward. We have refitted our yield curves to our new (higher) Fed funds baseline and now see 10Y UST and SGS at 4.30% and 3.80% respectively by the end of 2022. Thereafter, we expect to see bond yields drifting lower across 2023, based on our expectation that Fed funds peak in 1Q 2023 as well as accounting for our view that the balance of risk will increasingly tilt in favor of slowing economic growth going forward. Should our abovementioned base case become untenable, then we see the alternative scenario as one that carries higher yields across the curve with it. Conditions for the alternative to prevail will rest on two main factors: specifically, a much higher than anticipated peak in Fed funds, possibly into the 5% region as well as an unwinding of safe-haven premiums should economic growth turn out to be better than expected.

The aggressive front loading of interest rate hikes by the US Federal Reserve continued unabated. And this has added to further strength in USD and further rise in interest rates, both of which are key negative drivers which weighed down on gold.

Commodities Strategy

Is The Heavy Sell-Off In Brent Crude Oil And Gold Prices Overdone?

The aggressive front loading of interest rate hikes by the US Federal Reserve continued unabated. And this has added to further strength in USD and further rise in interest rates, both of which are key negative drivers which weighed down on gold. Both negative drivers have gotten worse over the past quarter. As a result, gold had nowhere to go but to head south. Most recently, the tentative recovery to USD 1,800 / oz in Aug failed and gold subsequently fell back below the psychological support of USD 1,700 / oz. Nonetheless, we maintain the view that once these negative drivers dissipate, gold will recover in line with on-going safe haven demand as well as the return of physical jewellery demand. Unfortunately, this recovery is likely to be delayed till after 1Q next year, when the Fed hikes are expected to peak. In the meantime, we stay positive on gold, but lower the point forecasts to USD 1,700 / oz for 4Q22, USD 1,800/ oz for 1Q23 and USD 1,900 / oz for 2Q23 and 3Q23.

Brent crude oil had a disappointing performance across 3Q22. Instead of being driven higher by rising geopolitical risk, prices were instead significantly depressed by widespread recession fears. This rising recession fear was a key trigger in the sharp pullback in Brent crude oil prices from the USD 110 / bbl handle at the start of 3Q22 to its subsequent sell-off towards USD 85 / bbl in late September after the disastrous release of the UK "Growth Plan" under the Liz Truss government. Nonetheless, it is difficult to ignore the potential looming supply issues. Overall, there is a risk that crude oil price may have fallen too much too soon. We revise our point forecasts to USD 90 / bbl for 4Q22 and 1Q23, followed by USD 100 / bbl for 2Q23 and 3Q23.

After consolidating largely around USD 7,500 to USD 8,000 / MT, LME Copper prices took a renewed dip to the low USD 7,000 / MT level after worries of a global recession intensified. However, it is worth noting key positive drivers for downside price support, including lower mining production, lower on-exchange inventory as well as potential short squeeze from financing woes of intermediaries. Overall, we maintain our forecast that LME Copper price will continue its consolidation, in the coming four quarters, but at a lower level of USD 7,000 / MT. And warn of potential short-term volatility in prices amidst the temporary short squeeze.

ASEAN Focus

Macro Risk Implications On Asia Consumer Discretionary Sector

The macro dynamics between ASEAN and Greater China have diverged as ASEAN has reopened while Greater China is keeping to its COVID zero stance. ASEAN's growth is expected to be positive in 2022 with risks skewed to the downside into 2023.

Inflation & interest rates are likely to reach multi-year highs and resulting impact on spending power will be exacerbated by:

- Changes in spending pattern upon reopening i.e. both leisure spending and "necessity" spending with return to office e.g. transportation.
- ASEAN's household debts rising to new highs except SG on low interest rate environment in last decade.

Consumer discretionary retail sales in ASEAN have begun slowing since May 2022 and could deteriorate ahead. Singapore has a higher buffer due to higher average income, return of expats/foreign workers and tourism while Indonesia may be at risk with consumer discretionary sales already falling.

Consumer discretionary retail sales in ASEAN have begun slowing since May 2022 and could deteriorate ahead. Singapore has a higher buffer due to higher average income, return of expats/foreign workers and tourism while Indonesia may be at risk with consumer discretionary sales already falling.

Performance among consumer discretionary sub-segments is likely to be differentiated along the following lines:

- Mass market could perform worse than high-end due to low-to-middle income earners facing higher expense-to-income ratio vs high income earners. Most sub-segments will be adversely affected except for watches/jewellery, although luxury brands within affected subsegments could be more resilient.
- "Stay at home" spending e.g. consumer electronics, furniture could be hit while "work in office/go to school" spending e.g. apparel and shoes could gain amid reopening/"return to office".

Greater China is facing growth headwinds from domestic policy constraints with inflation subdued (averaging <3% y/y). Greater China's consumer discretionary is under greater pressure than ASEAN's with the former's retail sales already contracting due to weak economic conditions and labour market. There is broad-based pressure across sub-segments including watches/jewellery which are more sensitive to high income earners' spending.

MAS Monetary Policy Preview Focus

Expecting A Steeper Slope In Oct, Chance Of Re-Centring

We anticipate the MAS to tighten monetary policy further in the upcoming Oct meeting via steepening of the S$NEER gradient.

Our core view has not changed. We anticipate the Monetary Authority of Singapore (MAS) to tighten monetary policy further in the upcoming Oct meeting (which we estimate to be between 10 and 14 Oct), via steepening of the S$NEER (the Singapore dollar Nominal Effective Exchange Rate) gradient. We estimate the current slope of the S$NEER to be 1.5% appreciation per annum and our expectation is for the slope to be raised to 2% in Oct.

There is a risk of another double-tightening via an added re-centring of the policy mid-point as the S$NEER is already trading at 1.8% (near the projected top end of the band as of 27 Sep) and an even steeper slope (say, 2.5%) also cannot be ruled out, especially as core inflation has accelerated above 5% in Aug.

Our expectation for the Oct announcement is premised on inflation remaining elevated beyond 3Q 2022, likely into early 2023 even as our GDP growth projection has turned significantly weaker next year. Singapore inflation has continued to trend higher, with the increase in core inflation and upward pressures on services inflation particularly concerning. The changing MAS expectations on core inflation developments further affirm our view that core inflation may stay elevated for longer. We maintain our forecasts for headline inflation to average 6.0% and core inflation to average 4.2% in 2022. Importantly, while our headline forecast is at the top end of the official forecast range (5.0-6.0%), our core inflation forecast exceeds the official estimates (3.0-4.0%). We believe that official forecasts will soon be revised higher by the authorities.

Global FX

USD/JPY: 4Q22 is likely to be a volatile one for USD/JPY as UST yields are still biased higher which lend upside to USD/JPY while heightened risk of further intervention may limit its upside. We see the 145 level in USD/JPY as a strong resistance which may eventually develop into a long-term peak as US yields start its decline next year. Overall, our updated USD/JPY forecasts are 145 in 4Q22 and 1Q23, 142 in 2Q23 and 139 in 3Q23.

EUR/USD: We expect further weakness of EUR/USD towards 0.95 in 4Q22 and 1Q23. In 2023, as the energy crisis ebbs, we are cautiously optimistic that a further recovery in the EU-US rate differential, as the Fed starts to pause, would spur a modest recovery in EUR/USD. This is on the pretext that Eurozone slowdown would not be severe enough to flip the ECB back into full-blown crisis mode, usually involving cutting rates towards zero and reviving bond purchases. Overall, we reiterate our "hockey stick" view on EUR/USD, expecting the pair at 0.95 in 4Q22 and 1Q23, 0.98 in 2Q23 and 1.00 in 3Q23.

GBP/USD: We now expect a further decline in the GBP trade-weighted index towards the Brexit (2016) lows of about 73 (from 76 currently) which in turn would drive another leg lower in GBP/USD. While we do not dismiss the prospect of an inter-meeting outsized BOE rate hike to stabilize GBP, its longer-term efficacy remains questionable given the fragile outlook of the UK economy and the broad-based strength of the USD. Overall, we update our GBP/USD forecasts to 1.05 in 4Q22, and 1Q23, 1.08 in 2Q23 and 1.12 in 2Q23. At the same time, we would highlight the meaningful risk that GBP/USD may even exceed our downside forecasts and trade below the parity level given the huge volatility and uncertainty.

AUD/USD: AUD is weighed by global risk-off sentiment and the latest round of China growth downgrade also adds to the pressure on the commodity-linked currency as demand on commodities slows. As such, we expect the AUD to stay weak till at least 1Q23 before a recovery next year as the broad USD strength normalizes. Our updated AUD/USD forecasts are 0.64 in 4Q22, 0.63 in 1Q23, 0.65 in 2Q23 and 0.68 in 3Q23.

NZD/USD: In the coming two quarters, NZD/USD is likely to remain on the defensive as the USD continues to draw strength from rising US yields. In 2023, as long as the New Zealand do not tip into a recession, we expect a gradual recovery in NZD/USD as US yields peak and USD normalizes. Our updated NZD/USD forecasts are 0.56 in 4Q22, 0.55 in 1Q23, 0.57 in 2Q23 and 0.60 in 3Q23.

Asian FX

USD/CNY: While the PBoC is unlikely to draw a hard line-in-the-sand at 7.0, it may continue to slow the depreciation of the CNY via measures such as stronger-than-expected CNY fixings or cutting the reserve requirement ratio for foreign currency deposits. Overall, we maintain an upward trajectory for USD/CNY but tweak it slightly to 7.20 in 4Q22, 7.23 in 1Q23, 7.25 in both 2Q23 and 3Q23. They were previously at 7.05, 7.08, 7.10 and 7.12 respectively.

USD/SGD: A higher USD/CNY would eventually spill over into USD/SGD and the latter is likely to begin a new trading range above the 1.40 level. Our updated USD/SGD forecasts are 1.44 in 4Q22 followed by 1.45 through 3Q23.

USD/HKD: The negative USD/HKD forward points – a result of HK rates lagging US rates in an upward move – will incentivise investors to pile on USD carry trades funded with HKD, a trend that is unlikely to change in the near term. Overall, as long as the Fed continues to hike rates or keep rates at elevated levels, we expect USD/HKD to stay at 7.85 through 3Q23.

USD/TWD: Looking ahead, there is still no respite for the TWD due to the uncertain domestic outlook, continued geopolitical tensions and broad-based Asia FX weakness led by weakening CNY. Despite the recent pullback, TWD's nominal effective exchange rate remains above its 5-year average and likely provides runway for further currency underperformance. Overall, we keep to our upward trajectory in USD/TWD and update our forecasts to 32.0 in 4Q22, 32.2 in 1Q23 and 32.4 in both 2Q23 and 3Q23.

USD/KRW: We maintain the view that USD/Asia including USD/KRW will be biased higher in the coming quarters predominantly due to a weakening CNY. As such, USD/KRW is likely to sustain above 1,400 although the pace of advance may start to moderate. Our updated USD/KRW forecasts are 1,440 in 4Q22, 1,450 in 1Q23 and 1,460 in both 2Q23 and 3Q23.

USD/MYR: As long as the Fed stays the course for outsized rate hikes (50bps or 75bps) in the coming months and China's worries persist, we think that most Asian currencies, including the MYR, will be on the defensive against the USD. We updated our USD/MYR forecasts at 4.63 in 4Q22, 4.67 in 1Q23, and 4.69 in both 2Q23 and 3Q23.

USD/IDR: As weakness in the CNY persists and risks that rising inflation may sap the domestic growth recovery, in our view it is inevitable that USD/IDR would eventually sustain above the psychological 15,000 level. Our updated USD/IDR forecasts are 15,200 in 4Q22, 15,300 in 1Q23, 15,400 in both 2Q23 and 3Q23.

USD/THB: Idiosyncrasies such as Thailand's current account deficit and one of most negative real rates in Asia continue to keep downward pressure on the THB, on top of external factors such as aggressive Fed and China slowdown concerns. Overall, we keep to our upward trajectory in USD/THB and update the point forecasts to 38.0 in 4Q22, 38.2 in 1Q23 and 38.4 in both 2Q23 and 3Q22.

USD/PHP: There is also a lack of positive catalysts locally to reinforce the PHP outlook, with the nation's current account deficit projected to widen this year, fiscal deficit expected to stay high and the interest rate gap with US rates moving closer to zero. Taken together, we think that the USD/PHP will probably trade fresh record highs as we head into 2023. We forecast the USD/PHP to reach 59.2 in 4Q22, 59.40 in 1Q23, 59.6 in 2Q23, and 59.8 in 3Q23.

USD/VND: Going forward, rising concerns of a China slowdown means VND is still likely to be biased weaker in the coming quarters although losses may be cushioned by a strong domestic growth outlook. Overall, we update our USD/VND forecasts to 24,000 in 4Q22, 24,100 in 1Q23, 24,200 in 2Q23 and 24,300 in 3Q23.

USD/INR: Going forth, we still think the path of least resistance is for further INR weakness against the USD. Worries about a global recession and China slowdown have intensified and continue to be a strong headwind for INR. A weakening CNY is likely to spill over into the INR too. Overall, we keep to our upward trajectory in USD/INR and update our point forecasts to 82.0 in 4Q22, 82.5 in 1Q23, 83.0 in 2Q23 and 83.5 in 3Q23.

CENTRAL BANK OUTLOOK
Our Projection For Policy Rates

Central Bank	Total Hike/Cut Quantum Since Start of 2022	Projected Hike/Cut Quantum In 4Q22	Projected Policy Rate By End 2022
PBOC*	15bps cut	10bps cut	3.55
RBI	90bps hike	50bps hike	5.90
BI	75bps hike	75bps hike	5.00
BOJ	-	-	-0.10
BNM	75bps hike	-	2.50
BSP	225bps hike	75bps hike	5.00
BOK	150bps hike	50bps hike	3.00
CBC	50bps hike	12.5bps hike	1.75
BOT	25bps hike	25bps hike	1.00
SBV	100bps hike	50bps hike	5.50
RBA	225bps hike	75bps hike	3.10
ECB	125bps hike	50bps hike	1.75
RBNZ	225bps hike	100bps hike	4.00
BOE	200bps hike	200bps hike	4.25
FED	300bps hike	125bps hike	4.50

Source: UOB Global Economics and Markets Research estimates and forecasts
* Refers to 1Y Loan Prime Rate

KEY EVENTS
4Q 2022

07 October

Malaysia's Budget 2023
It will be tabled before the next general election (GE) and hence, it is widely expected to be an election friendly budget with a smaller deficit target and decent GDP growth projection.

08 October

New Zealand Local Elections
Held every three years on the second Sat in Oct, the local elections decide who represents each city, district and regional councils.

Likely 10-14 October

Singapore's Semi-Annual MAS Monetary Policy Announcement
We expect the MAS to tighten policy parameters further via steepening of the S$NEER gradient with the added risk of another policy mid-point re-centring.

11-12 October

Informal Meeting of EU Energy Ministers
The challenge remains to find an EU-wide solution to tackle soaring energy costs.

16 October

China's 20th National Congress of the Chinese Communist Party
The twice-a-decade 20th Party Congress will be in session for around a week followed by the first plenum. President Xi appears certain to secure his 3rd term as party leader. Watch for the replacement for Premier Li and selection of the new Politburo Standing Committee (PSC, currently 7 members). Policy announcements to boost the growth recovery would also be closely watched.

19 October

Hong Kong Chief Executive First Policy Address
Chief Executive John Lee is expected to outline more measures to bring the economy back to normalcy.

01-02 November

HKMA Financial Summit
This will be the biggest in-person meeting of top financial executives in the city since the COVID-19 pandemic.

06-18 November

UN COP 27
The 27th UN Climate Change Conference of the Parties (COP27) will be held in Sharm El Sheikh, Egypt.

08 November

US Mid-Term Elections
This election occurs during middle of the US Presidency term year where all 435 seats in the House of Representatives and 35 of the 100 seats in the Senate will be contested. The incumbent Democrat Party is expected to lose its majority in the House, but it remains a toss-up for the control of the Senate.

10-13 November

40th & 41st ASEAN Summits
40th and 41st ASEAN Summits and Related Summits to be held in Phnom Penh. The ASEAN Chairmanship will be handed over to Indonesia for 2023.

15-16 November

17th G20 Leaders' Summit
The summit is scheduled to take place in Bali, Indonesia. Singapore is one of the invited guests. The highlight is a potential in-person meeting between US President Biden and Chinese President Xi.

18-19 November

APEC Economic Leaders' Meeting
The Asia-Pacific Economic Cooperation (APEC) is an inter-governmental forum for 21 member economies in the Pacific Rim that promotes free trade throughout the Asia-Pacific region. The meeting will be held in Thailand.

Likely in December

China's Annual Central Economic Work Conference (CEWC)
To layout the plan for 2023. The key economic targets will be announced at the National People's Congress (NPC) which is expected to take place in Mar next year.

OUR FORECASTS

Real GDP Growth Trajectory

y/y% change	2021	2022F	2023F	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22F	3Q22F	4Q22F
China	8.1	3.3	4.8	18.3	7.9	4.9	4.0	4.8	0.4	3.4	4.5
Hong Kong	6.3	-0.7	3.5	8.0	7.6	5.4	4.7	-3.9	-1.3	0.7	1.8
India	8.7	7.0	7.1	20.1	8.4	5.4	4.1	13.5	6.3	4.5	4.8
Indonesia	3.7	4.8	5.0	-0.7	7.1	3.5	5.0	5.0	5.4	4.5	4.4
Japan	1.6	1.5	1.0	-1.7	7.3	1.2	0.4	0.7	1.1	2.1	1.6
Malaysia	3.1	6.5	4.8	-0.5	15.9	-4.5	3.6	5.0	8.9	9.0	3.0
Philippines	5.7	7.0	5.0	-3.8	12.1	7.0	7.8	8.2	7.4	6.8	6.0
Singapore	7.6	3.5	0.7	2.0	15.8	7.5	6.1	3.8	4.4	4.2	1.6
South Korea	4.1	2.7	1.7	2.2	6.2	4.0	4.2	3.0	2.9	2.8	2.1
Taiwan	6.6	3.3	2.3	9.2	7.8	4.4	5.3	3.7	3.0	3.5	2.9
Thailand	1.6	3.2	3.7	-2.4	7.7	-0.2	1.9	2.2	2.5	4.7	3.5
Vietnam	2.6	7.0	6.6	4.7	6.6	-6.0	5.2	5.0	7.7	7.6	7.8
Australia	4.9	3.8	2.1	1.3	9.7	4.1	4.4	3.3	3.6	5.5	2.7
Eurozone	5.4	2.7	-1.0	-0.9	14.7	4.0	4.7	5.4	4.1	1.2	0.2
New Zealand	5.3	1.8	2.0	3.8	17.3	-1.6	1.7	2.9	2.1	1.3	1.5
United Kingdom	8.2	3.4	-0.1	-5.0	24.6	6.9	6.6	8.7	2.9	2.1	0.2
United States (q/q SAAR)	5.7	1.0	-0.5	6.3	6.7	2.3	6.9	-1.6	-0.6	-2.0	-3.6

Note that India full-year growth are illustrated based on its fiscal calendar
Source: Macrobond, UOB Global Economics & Markets Research Forecast

HEAT MAP

Key Macro Indicators In The Region

Markets	Quarterly GDP % y/y change	Headline CPI % y/y change	Mfg PMI Month	Jobless rate %	Trade balance Billion USD, month	Current a/c % of GDP, quarter	Foreign Dir Inv (FDI) Billion USD, 2021	Fiscal balance % of GDP, 2021
China	0.4	2.5	49.5	5.3	79.4	1.8	181.0	-5.2
India	13.5	7.0	56.2	8.3	-28.0	-1.5	3.7	-9.9
Indonesia	5.4	4.7	51.7	5.8	5.8	1.1	1.7	-4.6
Malaysia	8.9	4.7	50.3	3.7	3.8	1.0	6.8	-6.4
Philippines	7.4	6.3	51.2	5.2	-5.9	-7.7	10.5	-8.6
Singapore	4.4	7.5	50.0	2.1	3.5	18.8	8.3	-1.0
Thailand	2.2	7.9	53.7	1.5	1.1	-1.2	1.0	-6.1
Vietnam	7.7	2.9	52.7	2.3	3.9	-4.9	1.3	-4.5

Green = Strongest across country (rows)
Red = Weakest
Source: Macrobond, UOB Global Economics & Markets Research

OUR FORECASTS

FX, Interest Rates & Commodities

FX	26 Sep 22	4Q22F	1Q23F	2Q23F	3Q23F
USD/JPY	144	145	145	142	139
EUR/USD	0.96	0.95	0.95	0.98	1.00
GBP/USD	1.08	1.05	1.05	1.08	1.12
AUD/USD	0.65	0.64	0.63	0.65	0.68
NZD/USD	0.57	0.56	0.55	0.57	0.60
DXY	113.68	114.3	114.5	111.0	108.7
USD/CNY	7.16	7.20	7.23	7.25	7.25
USD/HKD	7.85	7.85	7.85	7.85	7.85
USD/TWD	31.84	32.0	32.2	32.4	32.4
USD/KRW	1,428	1,440	1,450	1,460	1,460
USD/PHP	58.99	59.2	59.4	59.6	59.8
USD/MYR	4.61	4.63	4.67	4.69	4.69
USD/IDR	15,153	15,200	15,300	15,400	15,400
USD/THB	37.95	38.0	38.2	38.4	38.4
USD/VND	23,731	24,000	24,100	24,200	24,300
USD/INR	81.39	82.0	82.5	83.0	83.5
USD/SGD	1.44	1.44	1.45	1.45	1.45
EUR/SGD	1.38	1.37	1.38	1.42	1.45
GBP/SGD	1.55	1.51	1.52	1.57	1.62
AUD/SGD	0.93	0.92	0.91	0.94	0.99
SGD/MYR	3.21	3.22	3.22	3.23	3.23
SGD/CNY	4.99	5.00	4.99	5.00	5.00
JPY/SGDx100	0.99	0.99	1.00	1.02	1.04

RATES	26 Sep 22	4Q22F	1Q23F	2Q23F	3Q23F
US Fed Fund Rates (Upper Bound)	3.25	4.50	4.75	4.75	4.75
USD 3M SOFR (Compounded)	2.07	3.66	4.47	4.63	4.66
USD 3M LIBOR	3.63	4.60	4.85	4.85	
US 10Y Treasuries Yield	3.87	4.30	4.00	3.80	3.80
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10	-0.10
EUR Refinancing Rate	1.25	1.75	1.75	1.75	1.75
GBP Repo Rate	2.25	4.25	5.25	5.25	5.25
AUD Official Cash Rate	2.35	2.75	3.10	3.10	3.10
NZD Official Cash Rate	3.00	4.00	4.00	4.00	4.00
CNY 1Y Loan Prime Rate	3.65	3.55	3.55	3.55	3.70
HKD Base Rate	3.50	4.75	5.00	5.00	5.00
TWD Official Discount Rate	1.63	1.75	1.88	1.88	1.88
KRW Base Rate	2.50	3.00	3.00	3.00	3.00
PHP O/N Reverse Repo	4.25	5.00	5.00	5.00	5.00
SGD 3M SORA (Compounded)	1.92	2.97	3.62	3.71	3.86
SGD 3M SIBOR	3.03	3.75	3.80	3.80	3.85
SGD 3M SOR	3.04	3.80	3.85	3.85	
SGD 10Y SGS	3.36	3.80	3.55	3.40	3.40
MYR O/N Policy Rate	2.50	2.50	2.75	3.00	3.00
IDR 7D Reverse Repo	4.25	5.00	5.25	5.50	5.50
THB 1D Repo	0.75	1.00	1.25	1.50	1.50
VND Refinancing Rate	5.00	5.50	6.00	6.00	6.00
INR Repo Rate	5.40	5.90	5.90	5.90	5.90

COMMODITIES	26 Sep 22	4Q22F	1Q23F	2Q23F	3Q23F
Gold (USD/oz)	1,631	1,700	1,800	1,900	1,900
Brent Crude Oil (USD/bbl)	85	90	90	100	100
LME Copper (USD/mt)	7,342	7,000	7,000	7,000	7,000

USD 3M LIBOR and SGD 3M SOR will be ceased by end-June 2023
Source: UOB Global Economics & Markets Research Estimates

MAS Monetary Policy Preview Focus

Expecting A Steeper Slope In Oct, Chance Of Re-Centring

- Our core view has not changed. We anticipate the Monetary Authority of Singapore (MAS) to tighten monetary policy further in the upcoming Oct meeting (which we estimate to be between 10 and 14 Oct), via steepening of the S$NEER (the Singapore dollar Nominal Effective Exchange Rate) gradient. We estimate the current slope of the S$NEER to be 1.5% appreciation per annum and our expectation is for the slope to be raised to 2% in Oct.

- There is a risk of another double-tightening via an added re-centring of the policy mid-point as the S$NEER is already trading at 1.8% (near the projected top end of the band as of 27 Sep) and an even steeper slope (say, 2.5%) also cannot be ruled out, especially as core inflation has accelerated above 5% in Aug.

- Our expectation for the Oct announcement is premised on inflation remaining elevated beyond 3Q 2022, likely into early 2023 even as our GDP growth projection has turned significantly weaker next year. Singapore inflation has continued to trend higher, with the increase in core inflation and upward pressures on services inflation particularly concerning. The changing MAS expectations on core inflation developments further affirm our view that core inflation may stay elevated for longer. We maintain our forecasts for headline inflation to average 6.0% and core inflation to average 4.2% in 2022. Importantly, while our headline forecast is at the top end of the official forecast range (5.0-6.0%), our core inflation forecast exceeds the official estimates (3.0-4.0%). We believe that official forecasts will soon be revised higher by the authorities.

- Currency Outlook: CNY Weakness Spills Over To SGD

We estimate the current slope of the S$NEER to be 1.5% appreciation per annum and has room to go higher when we look at historical episodes of MAS policy decisions.

Our View: MAS Will Keep To A Tightening Path In Oct

The Monetary Authority of Singapore (MAS) which has its monetary policy based on its exchange rate, has led the region in policy tightening since Oct 2021, and is poised to continue the tightening stance in the next meeting in Oct. The Oct monetary policy statement (MPS) release date has yet to be confirmed (we estimate it to be between 10 and 14 Oct) and we anticipate MAS to tighten further, via steepening of the S$NEER (the Singapore dollar Nominal Effective Exchange Rate) gradient. We estimate the current slope of the S$NEER to be 1.5% appreciation per annum and has room to go higher when we look at historical episodes of MAS policy decisions.

Our expectation is for the slope to be raised to 2% in Oct. There is a risk of another double-tightening via an added re-centring of the policy mid-point as the S$NEER is already trading at 1.8% (near the projected top end of the band as of 26 Sep), and an even steeper slope (say, 2.5%) also cannot be ruled out, especially as core inflation has accelerated above 5% in Aug.

Our expectation for the Oct announcement is premised on inflation remaining elevated beyond 3Q 2022, likely into early 2023. Meanwhile, our full year 2022 GDP growth forecasts are unchanged at 3.5% but growth will slow significantly to 0.7% for 2023 (from 2% previously), as we now project the US and European economies (which are key end markets for Singapore) to enter into a recession in the next 6-12 month amidst aggressive monetary policy tightening stance among these advanced economies, while the electronics manufacturing outlook looks precarious as we head toward end-2022. And there are the well-telegraphed external risks of: 1) the ongoing Russia-Ukraine conflict, 2) geopolitical risks, and 3) COVID-19 risk of potential new variants. China's potential rebound from its COVID-19 challenges in 2023, could be a positive factor offsetting some of the downside drivers next year.

Singapore's consumer prices continued its m/m uptrend as headline CPI rose by 0.9% m/m NSA in Aug (but much faster compared to 0.2% m/m in Jul). That sequential pace of increase translated into a higher 7.5% y/y spike for headline CPI inflation in Aug (from 7.0% in Jul), highest since Jun 2008. Both readings were above Bloomberg median expectations, but we were expecting an above 8% print.

Chart 1: Latest CPI Headline & Core Inflation Are Closing In To Reach Or Even Exceed 2008's High

Source: Macrobond, UOB Global Economics & Markets Research

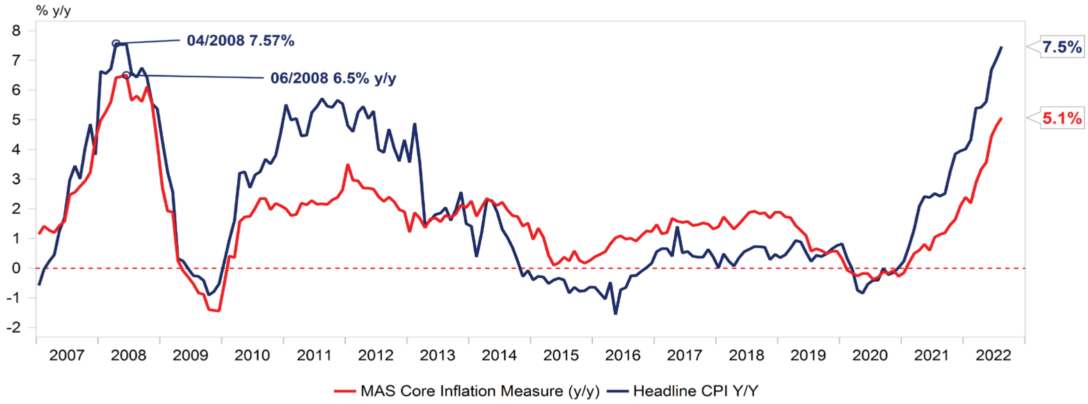
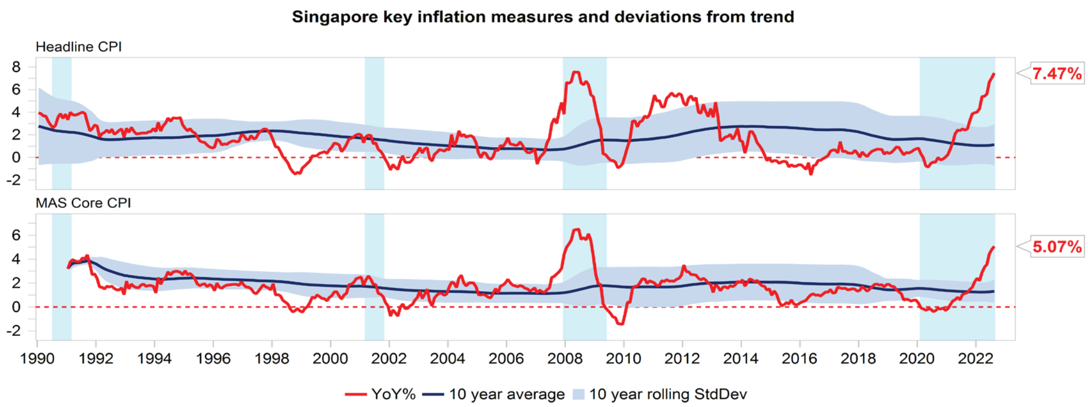


Chart 2: And Both CPI Headline & Core Inflation Are Not Returning Back To Trend Soon…

Source: Macrobond, UOB Global Economics & Markets Research



Core inflation (which excludes accommodation and private road transport) again provided the upside surprise as it surged by 0.5% m/m, 5.1% y/y in Aug (from 0.6% m/m, 4.8% y/y in Jul), the highest y/y print since Nov 2008 (5.53% y/y), above the Bloomberg median expectation of 5.0% but below our estimates (5.3% y/y).

While the surge in core inflation was a surprise, the sources of price pressures were not unexpected. Aug inflationary pressures were again broad-based with the main drivers coming from food (6.4% y/y, from 6.1% in Jul, highest since Jun 2008 (6.50%)) as poultry prices continued to surge 237.6% y/y (from 33.6% in Jul) as did frozen meats (11.1% y/y from 5.9% in Jul), services (3.8% y/y from 3.5% in Jul, largely on account of more expensive holidays, as holiday expenses rose by 8.1% y/y while package tour prices were up by nearly 10% y/y), and the retail & other goods (up 2.9% y/y from 2.8% in Jul), including higher prices of clothing & footwear and household durables.

That said, a major segment that registered a tad slower pace of price increase was electricity & gas (23.9% y/y from 24.0% in Jul), due to a smaller increase in gas prices.

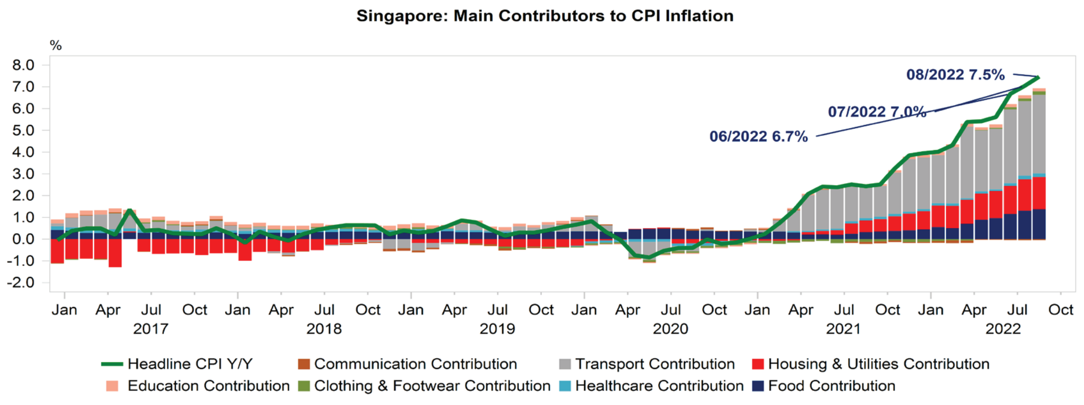
As for the headline CPI inflation, other than upside to the core CPI, the accommodation costs continued to rise (4.7% y/y from 4.6% in Jul, due to higher housing rental increases) while private transport costs saw a significant increase (24.1% y/y from 22.2% in Jul, due to higher car prices as COE premiums surged) were the key drivers of overall price increases.

On the basis of contribution to Aug's headline CPI, transport component continued to lead, with an outsized 3.6ppts out of the 7.5% inflation print (up from 3.4ppts in Jul), followed by housing & utilities (1.5ppt, up 0.1ppt from Jul) and food (1.4ppt, also up by 0.1ppt from Jul). That said, the sources of inflation contribution are broadening to other segments, like recreation (0.6ppt from 0.5ppt in Jul) and clothing (0.2ppt from 0.1ppt in Jul).

Only one major component of CPI saw a persistent fall in prices. Communication costs which have been on a y/y trend decline since Jul 2021, fell by 1.1% y/y in Aug (from -1.3% in Jul), but its "contribution" continued to be fairly insignificant compared to the other items, and it only subtracted less than 0.1ppt from headline CPI inflation in Aug.

Chart 3: Transport, Housing & Food Remained Key Contributors To Singapore's Aug Inflation

Source: Macrobond, UOB Global Economics & Markets Research

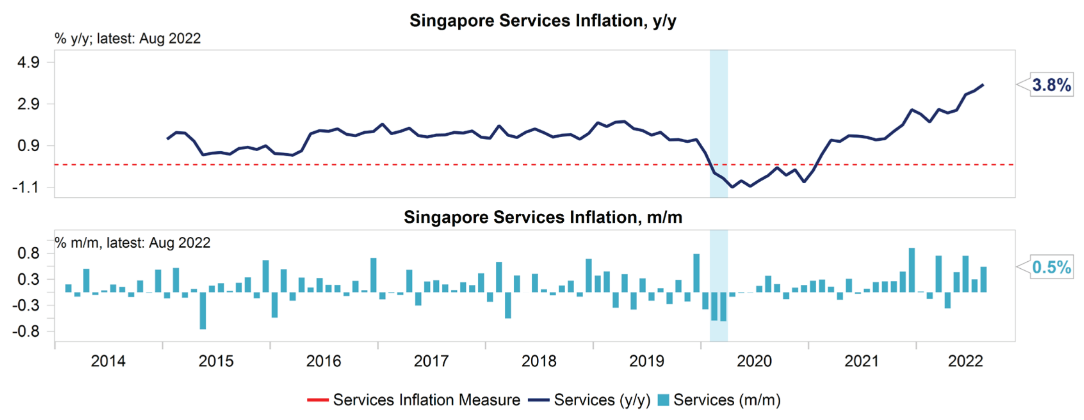


We expect services inflation to be an increasing concern for the MAS as it is a reflection of domestic wage pressures, amplifying the rising risks of a wage-price inflation spiral.

Services inflation – a more important component of CPI at 31.7% weight – continued to increase, up by 0.2% m/m, 3.8% y/y in Aug (from 0.2% m/m, 3.5% y/y in Jul), to a new high since the data was made available from 2014. We expect services inflation to be an increasing concern for the MAS as it is a reflection of domestic wage pressures, amplifying the rising risks of a wage-price inflation spiral. The sustained increase in services inflation in recent months is a clear indication that wage growth (as a result of the continued tightness in the labour market) is having a meaningful transmission to price pressures. That said, this source of price pressure may not be adequately addressed by the exchange-rate centred monetary policy which is more effective in dealing with imported inflation pressures.

Chart 4: Singapore's Services Inflation Is Clearly On The Rise

Source: Macrobond, UOB Global Economics & Markets Research



Inflation Outlook: Import & Domestic Price Pressures To Persist, But MAS Did Not Revise Core Inflation Forecasts Higher

In its latest Aug CPI report, the authorities again noted (as it did in Jun & Jul report) that "*supply chain frictions have eased slightly and some commodity price increases have levelled off… global inflation is likely to stay elevated as key commodity markets continue to face supply constraints and the labour market in many major economies remain tight." One change was that "In addition, the recovery in domestic demand in some regional economies as COVID-19 restrictions are eased could lead to higher inflation in these economies*." [In Jul report, the phrase was "raise inflation."] The MAS kept the view that "upward pressures on Singapore's import prices are expected to persist." (Unchanged from Jul and Jun 2022 report).

Meanwhile domestically, the "*labour market remains tight, keeping wage growth strong" and with consumer spending staying firm, the authorities see a likelihood businesses will "pass on the increases in the prices of fuel, utilities, and other imported inputs, as well as labour costs, to consumer prices*." (Largely unchanged from Jul report). And we certainly are still seeing higher costs feeding into higher services cost in the latest CPI print.

Earlier in the Jul report, the MAS removed its previous expectation for core inflation to peak in 3Q (2022) even as it maintained the projection for core inflation to "**ease towards the end of 2022**." However, in the Aug CPI report, it further removed that projection, only retaining the mention that "**MAS Core Inflation is projected to stay elevated over the next few months**." This further affirms our view that that core inflation may stay elevated for longer.

The official overall assessment of price risks remained on the upside due to persistent supply constraints on key commodity markets, prevalent tight labour market conditions in many major economies, and domestic demand recovery as COVID-19 restrictions are eased in regional economies will likely add upside pressures to Singapore's import prices, while domestically, car and accommodation cost increases to stay firm for rest of 2022, coupled with domestic wage pressure. There is no change to the official outlook for headline CPI (5.0-6.0%) and the official core inflation forecast range (3.0-4.0%), and with the risks still tilted to the upside, as the MAS continued to highlight the "risks to inflation from fresh shocks to global commodity prices, as well as domestic wage pressures." We maintain our forecasts for headline inflation to average 6.0% and core inflation average 4.2% in 2022. Importantly, while our headline forecast is at the top end of the official forecast range, our core inflation forecast exceeds the official estimates, and we believe that it will soon be revised higher by the authorities.

Aggregating the series of tightening policy responses since Oct 2021, we estimate that MAS policy stance has already moved above the neutral setting, into the restrictive space. And with the developments on the core inflation and services inflation, it further reinforces our view of further tightening from the MAS this Oct.

Currency Outlook: CNY Weakness Spills Over To SGD

The S$NEER rose gradually towards the top end of policy band after the MAS's off-cycle re-centring in mid-Jul, signalling further outperformance of the SGD relative to its regional peers just as the MAS is expected to tighten policy further in Oct.

The SGD continued to be one of the more resilient currencies in Asia in 3Q22. Despite broad USD strength, USD/SGD only edged up about 2.8% on the quarter to about 1.43 while other USD/Asia rose an average of about 5%. The Singapore dollar nominal effective exchange rate (S$NEER) rose gradually towards the top end of policy band after the Monetary Authority of Singapore's (MAS) off-cycle re-centring in mid-Jul, signalling further outperformance of the SGD relative to its regional peers just as the MAS is expected to tighten policy further in Oct. That said, a higher USD/CNY would eventually spill over into USD/SGD and the latter is likely to begin a new trading range above the 1.40 level. Our updated USD/SGD forecasts are 1.44 in 4Q22 followed by 1.45 through 3Q23.

ASEAN Focus

Macro Risk Implications On Asia Consumer Discretionary Sector

This article is contributed by members of UOB Country & Credit Risk Management

Mr Yap Kim Leng
Yap.KimLeng@UOBgroup.com

Ms Elaine Khoo Sue Yin
Elaine.KhooSY@UOBgroup.com

- The macro dynamics between ASEAN and Greater China have diverged as ASEAN has reopened while Greater China is keeping to its COVID zero stance.
- ASEAN's growth is expected to be positive in 2022 with risks skewed to the downside into 2023. Inflation & interest rates are likely to reach multi-year highs and resulting impact on spending power will be exacerbated by:
    - Changes in spending pattern upon reopening i.e. both leisure spending and "necessity" spending with return to office e.g. transportation.
    - ASEAN's household debts rising to new highs except Singapore on low interest rate environment in last decade.
- Consumer discretionary retail sales in ASEAN have begun slowing since May 2022 and could deteriorate ahead. Singapore has a higher buffer due to higher average income, return of expats/foreign workers and tourism while Indonesia may be at risk with consumer discretionary sales already falling.
- Performance among consumer discretionary sub-segments is likely to be differentiated along the following lines:
    - Mass market could perform worse than high-end due to low-to-middle income earners facing higher expense-to-income ratio vs high income earners. Most sub-segments will be adversely affected except for watches/jewellery, although luxury brands within affected sub-segments could be more resilient.
    - "Stay at home" spending e.g. consumer electronics, furniture could be hit while "work in office/go to school" spending e.g. apparel and shoes could gain amid reopening/"return to office".
- Greater China is facing growth headwinds from domestic policy constraints with inflation subdued (averaging <3%). Greater China's consumer discretionary is under greater pressure than ASEAN's with the former's retail sales already contracting due to weak economic conditions and labour market. There is broad-based pressure across sub-segments including watches/jewellery which are more sensitive to high income earners' spending.
- An internal analysis of the 24 largest ASEANs and Greater China listed consumer discretionary companies shows a small number is vulnerable to rising rates and falling cash inflow while most are entering the challenging times ahead from a position of strength. However, most will be susceptible to profit margin squeeze ahead given the thin margins. Small & Medium Enterprises (SMEs) in the sector could face even thinner margins given lower pricing power, making them more vulnerable.

Divergence Between Greater China And ASEAN Macro Dynamics

ASEAN's macro outlook is broadly tracking that of the global economy's, as ASEAN has reopened which also meant importing external vulnerabilities and facing similar post-COVID domestic demand rebound conditions – downward revisions in growth, albeit still positive year-on-year, amid higher inflation & interest rates.

On the other hand, Greater China is facing growth risks from domestic policy constraints (COVID zero policy, common prosperity, deleveraging in property sector), which have been severe enough to subdue headline inflation.

Tail risks that could derail the base case in this paper include (i) an escalation towards military conflict by China over Taiwan or South China Sea, (ii) a new COVID strain that is transmissible, severe and evades existing vaccines and (iii) a disorderly China slowdown that spills over into ASEAN which would hurt growth while tampering inflation.

Indicators For UOB's Key Markets

Economy	GDP (%)			Unemployment Rate (%)			CPI (%)		
y/y % change	2021	2022F	2023F	2021	2022F	2023F	2021	2022F	2023F
Singapore	7.6	3.5	0.7	2.4	1.9	2.0	2.3	6.0	3.0
Malaysia	3.1	6.5	4.8	4.2	3.5	3.2	2.5	3.5	2.8
Thailand	1.6	3.2	3.7	1.6	1.4	1.2	1.2	6.0	2.7
Indonesia	3.7	4.8	5.0	6.3	6.0	5.8	1.6	4.9	4.1
Hong Kong	6.3	-0.7	3.5	4.0	3.9	3.6	1.6	1.9	2.9
China	8.1	3.3	4.8	5.1	5.2	5.2	0.9	2.2	2.8

Source: UOB Global Economics & Markets Research Forecast

ASEAN Facing Some Degree Of Pressure From Global Inflation And Rising Rates

ASEAN is not immune to global inflationary trend. Global inflation has risen sharply and is more persistent than anticipated due to supply chain disruptions arising from the Ukraine-Russia conflict and China's zero COVID policy. This marks a shift from earlier expectations of "transitory" inflation driven by economic re-opening from COVID.

Inflation could remain elevated even after these shocks subside and monetary policies are tightened further due to longer term forces such as deglobalisation and emphasis on supply chain resilience to mitigate geopolitical as well as pandemic risks.

Chart 1: Global inflation reached new high in at least 3 decades driven by food & energy prices

Source: World Bank, Macrobond, UOB CCRM

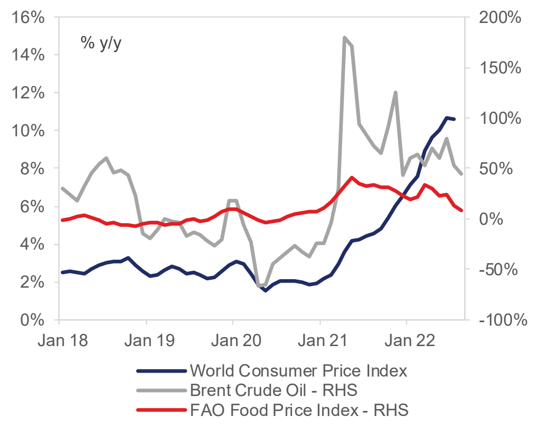
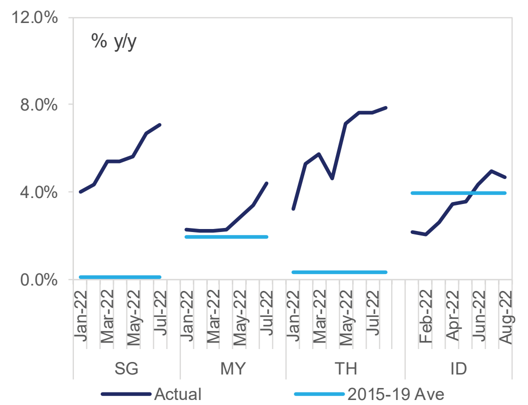


Chart 2: ASEAN's headline inflation has been lower than global average but rising above their respective 5-yr pre-Covid averages

Source: Macrobond, UOB CCRM



In comparison, ASEAN's inflation has been more moderate and lagged the global inflation rate (as compared to that of developed economies). Nonetheless, ASEAN's inflation has also been picking up, to well above 5-year pre-COVID average.

ASEAN Inflation At Risk Of Trending Upwards

Global supply and demand shocks could also cause second round effects of cost-push inflation in ASEAN. Indeed, ASEAN's inflation is showing early signs of broadening beyond just food and energy. In addition, domestic factors in ASEAN are likely to continue exerting upward pressure on inflation ahead.

First, there is still room for labour market to tighten after reopening as ASEAN unemployment rates are still higher than pre-COVID levels other than Singapore's.

Second, ASEAN's currency depreciation against USD due to aggressive Fed tightening will result in higher imported inflation, particularly when 74% of Asia Pacific's trade is denominated in USD*.

Third, inflation in Malaysia and Indonesia could stage a lagged catch-up towards global inflation rates as their price controls & subsidies become unsustainable (estimated at up to 20% of CPI basket for Malaysia; as for Indonesia, the complete list is unknown but includes essentials such as fuel and electricity)^.

Chart 3: Fed's determination to tame inflation indicated by projections of higher Fed rate at the expense of growth

Source: Macrobond, UOB CCRM
Note: Analysis done by categorising 1st level breakdown of CPI components into food and energy related parts.

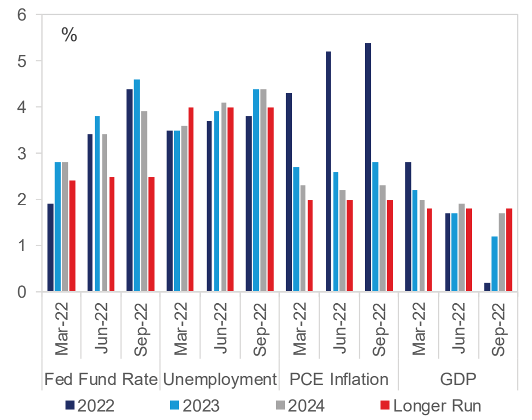
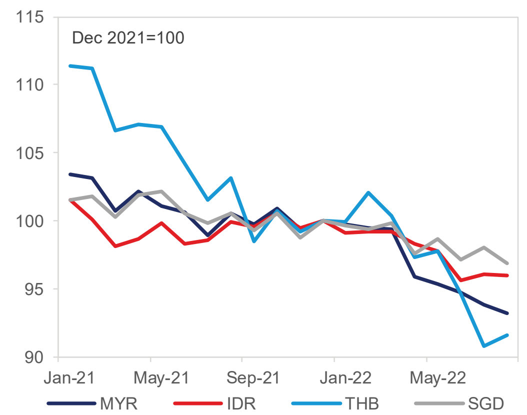


Chart 4: ASEAN currencies have depreciated against USD in 2022

Source: Macrobond, UOB CCRM



Fed's Aggressive Tightening To Spill Over Into ASEAN Interest Rates

To be sure, the Fed was not the first major central bank from the developed markets to make the leap to policy normalisation. It was the Norges Bank and the Reserve Bank of New Zealand that took the lead followed by the Bank of England. In Asia, it was Bank of Korea and then the Central Bank of Taiwan and Bank Negara Malaysia that took the lead. And the key motivation was the same as the Fed and elsewhere: dealing with elevated inflationary pressures.

In the current environment, Fed would not reverse its tightening bias until it sees a significant demand slowdown, enough to control 4-decade high inflation, in our view.

In the Jun Sep FOMC, officials projected Fed rates to increase from 0.25% in 2021 to 4.4% by 2022 & and 4.6% by 2023, which are most likely above the neutral rates (i.e. contractionary/restrictive for economic activities) and the highest since 2007.

In the ensuing financial volatility, USD prime assets are safe havens with USD strengthening & US real yields turning positive, but these in turn will heighten the risks of capital outflows from ASEAN.

ASEAN central banks may have likely defended their currencies as suggested by falling FX reserves (e.g. Thailand, Indonesia, and Malaysia) in 1H22.

* From Federal Reserve
^ MY's portion estimated by mapping controlled items under Ministry of Domestic Trade and Consumer Affairs to CPI weights

Specifically for ASEAN, it became untenable for central banks in the region to hold on to their accommodative monetary policies as the Fed accelerates its tightening cycle, widening the rate differentials to the point of detrimental financial effects, including risks of disruptive capital outflows, weakening currencies and undermining the conducive credit environment.

Overall, ASEAN would likely face the highest interest rates since the onset of the COVID-19 pandemic.

That said, we do not expect the regional central banks to increase their policy rates in lock-step with the Fed and there are valid reasons including the impact on economic growth as their economies emerge more cautiously from COVID-19, and the generally more subdued rates of inflation (as compared to that of US and Europe).

Another mitigating factor for some Asian economies is that many of the governments have been providing subsidies on certain essential goods to help households and to keep inflation down. Some Asian countries, notably Indonesia, Malaysia and to some extent Vietnam, are themselves commodities producers and able to cushion or benefit from the spikes in commodities prices.

However, with most economies having experienced the drastic impact of COVID-19 (between 2020 and 2021) and the respective governments consequently dishing out various fiscal measures to cushion the economies and support households, there are accompanying concerns on fiscal burdens ahead. With a significant strain on their fiscal positions, and if the latest inflation shock to the system is expected to be prolonged/persistent, then it would not be tenable for them to run long-term and wide-ranging subsidy programmes. So eventually, inflation will catch up and monetary policy will need to be tightened in tandem, which means higher policy rates.

Chart 5: Fed's determination to tame inflation indicated by projections of higher Fed rate at the expense of growth made in Jun 2022 vs earlier one in Mar 2022

Source: Fed, UOB CCRM

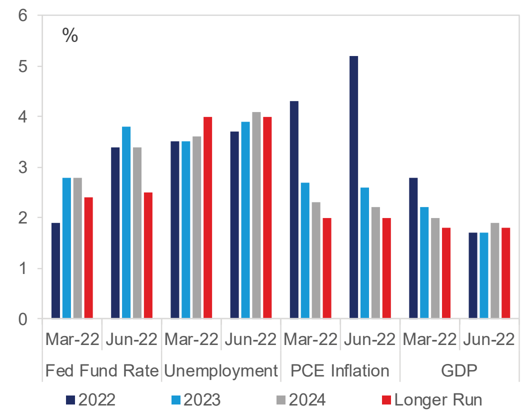
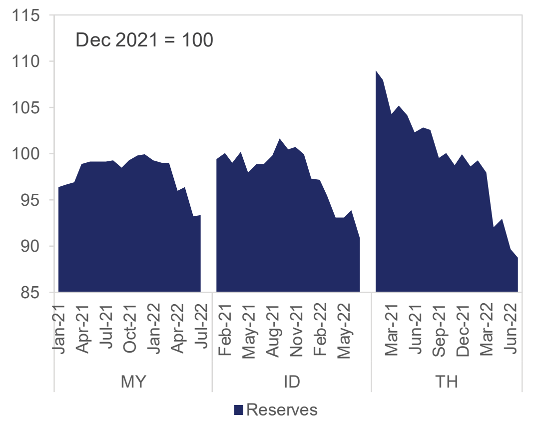


Chart 6: Central banks have likely defended currencies as suggested by ↓ reserves

Source: Macrobond, UOB CCRM



Impact On ASEAN's Consumer Discretionary Sector - Multi-Year High Inflation & Interest Rates To Weigh On Spending Power

Global phenomenon of high inflation and rising rates are weighing on consumer spending power.

In ASEAN, inflation is rising faster than nominal wage growth in 1Q/2Q22 with Thailand and Indonesia registering real wage contraction. The gap could widen ahead as sentiments weaken and employers become more cautious on wage costs.

Inflation impact for consumers is larger than official fixed-weight CPI. In addition to pent-up demand for leisure spending (e.g. holiday travel, dining out), "necessity spending" (e.g. work commute, meals outside) also increased with return to office.

ASEAN is susceptible to rising rates with household debt growing over the last decade to new highs (except Singapore) due to low interest rate environment post-Global Financial crisis which could reverse for the foreseeable future. Thailand is most vulnerable with household debt the highest among ASEAN at 91% of GDP in Dec 2021.

Chart 7: Real wage growth is on a downtrend due to rising inflation

Source: Macrobond, UOB CCRM
Note: Real wage derived by subtracting headline CPI inflation rate from wage growth

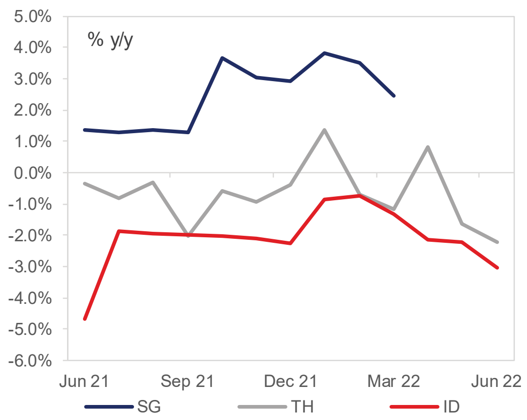
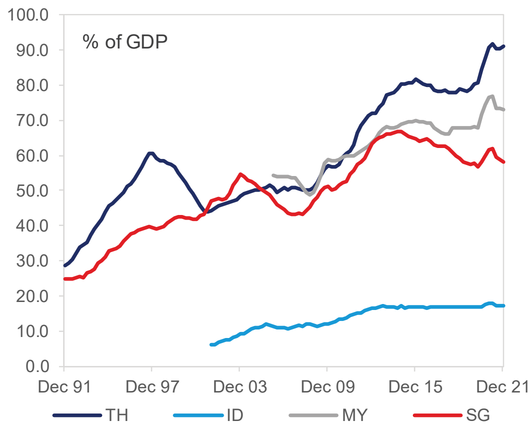


Chart 8: Household debt has been rising on low interest rate environment

Source: BIS, UOB CCRM



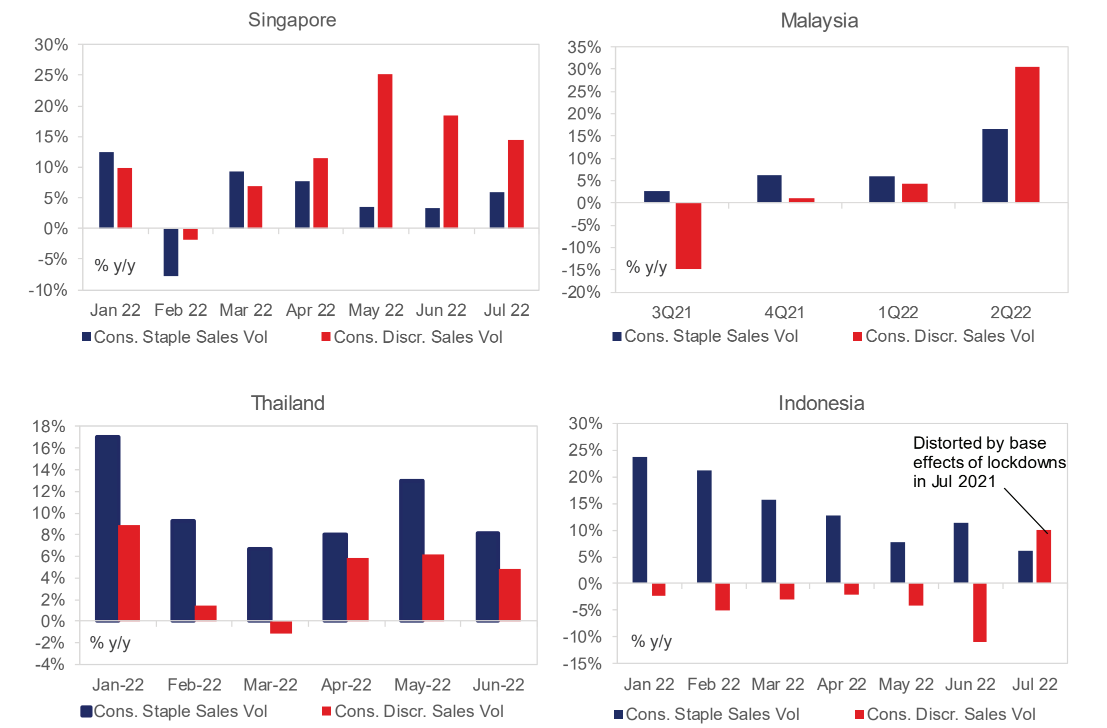
Consumer Discretionary Sector Has Begun Slowing Since May 2022

With consumers spending a higher proportion of income on essentials and servicing debt, there is less room for consumer discretionary expenditure globally and in ASEAN. Within ASEAN, consumer discretionary retail sales have slowed since May 22 and the trend is likely to deteriorate ahead with inflation & rates creeping higher since.

Singapore has a higher buffer versus other ASEAN countries to trend down from before turning contractionary, likely due to its higher average income, return of expats/foreign worker inflow and revival of tourism. Indonesia may already be at risk with consumer discretionary sales volume contracting on a YoY basis (excluding the month of Jul due to base effects), which could be due to falling real wage (as we highlighted earlier).

Chart 9: Retail sales growth in consumer discretionary category slowing in later months of 2Q22

Source: Macrobond, UOB CCRM
Note: Consumer discretionary & staple indices derived from classification of granular retail sales data by author with components equal-weighted; categories are excluded if ambiguous e.g. “non-specialised stores”.



Consumer Discretionary Sub-Segments' Performances Likely To Be Differentiated

Low to middle income groups have a larger expenditure-to-income ratio to begin with, thus they are hurt the most by inflation and higher rates. Furthermore, the competition for talent with the right skills and experience could also mean that higher income group enjoy faster wage growth versus other groups.

Hence, mass market discretionary spending could be adversely affected while high-end item sales could be more resilient as high-income group is less compelled to cut back on spending.

Reopening also means "stay at home" spending will take a hit e.g. consumer electronics, furniture while supporting "work in office / go to school" goods e.g. apparel and shoes

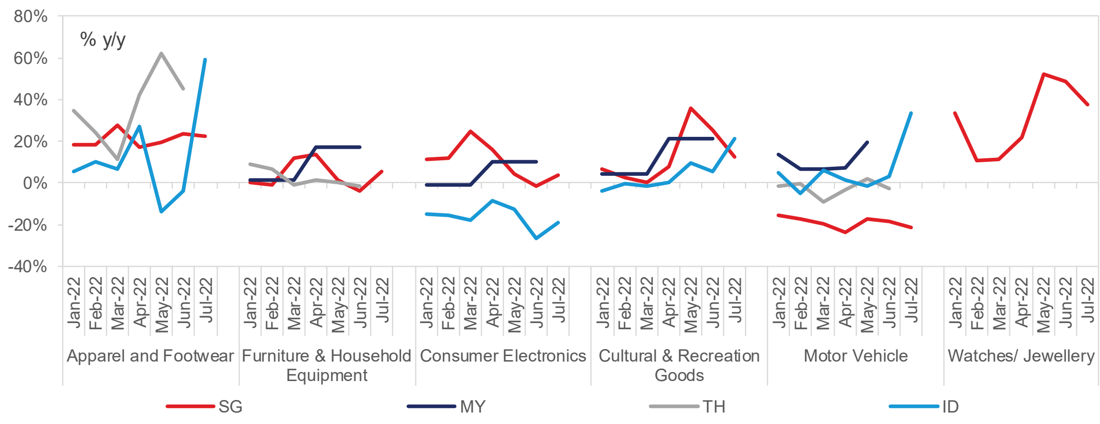
Drivers Affecting Different Consumer Discretionary Sub-Segments

Drivers	Apparel and Footwear	Furniture & Household Equip	Consumer Electronics	Cultural & Recreation Gds	Motor Vehicle	Watches/ Jewellery
Low to middle income groups hurt more than high income	Downward pressure on overall sales, but luxury brands within these sub-segments might be more resilient					
Reopening effect	▲	▼	▼			
Overall (1 most risky)	3	1	1	2	2	4

Source: UOB CCRM

Chart 10: Differentiated performance among sub-segments on reopening effect

Source: Macrobond, UOB CCRM
Note: Data above based on constant prices



Greater China's Weak Economic Conditions To Weigh On Consumer Discretionary Sector

Policy-Driven Economic Weakness In Greater China Is The Key Risk Rather Than Inflation

China Growth

Rising risk of sharper-than-expected China slowdown as officials proactively pursue its zero COVID policy, to contain its earlier highly transmissible Omicron variant via lockdowns since Mar, compounding the existing headwinds from deleveraging campaign (especially for property) and the "common prosperity" drive.

Monetary easing and infrastructure investment efforts would likely be blunted by lockdowns, with the former further constrained by rising rates globally.

Hong Kong Growth

COVID zero policy and rising global interest rates to have larger impact on Hong Kong than China due to its reliance on external economy and open capital markets.

Hong Kong's fixed exchange rate regime also implies a flexible economy to adjust to fixed external prices e.g. interest rates could rise faster than US's while asset prices (including property) fall.

As for price pressures, weak domestic demand is directly causing low inflation (averaging less than 3%) in China and Hong Kong SAR without broadening beyond energy and food.

Chart 11: Policy headwinds weighed on Greater China's growth forecasts

Source: Bloomberg, UOB CCRM

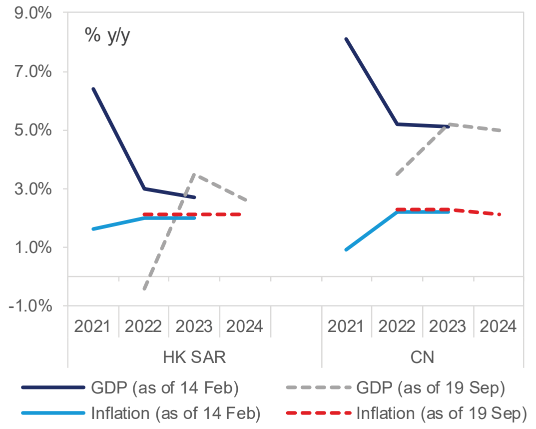
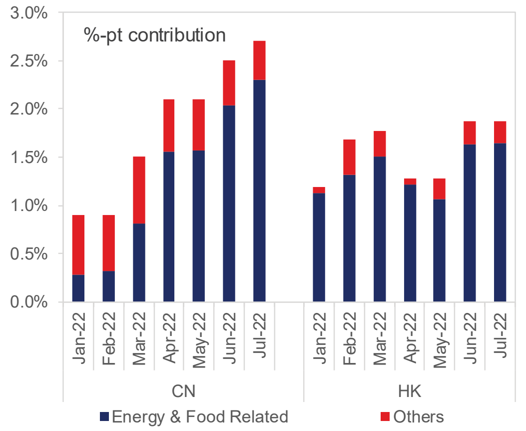


Chart 12: Inflation has been subdued in Greater China

Source: Macrobond, UOB CCRM



Broad-Based Pressure Across Consumer Discretionary Sub-Segments

Both China and Hong Kong are seeing consumer discretionary retail sales contracting due to weak economic conditions and labour markets (i.e. Jun 22 unemployment rates are higher than end 2021 levels), in contrast to ASEAN where discretionary sales growth is still positive except for Indonesia.

In addition, there is broad-based pressure across sub-segments without similar income group dynamics as in ASEAN's case.

As a result, categories which are typically more sensitive to spending by the high-income group such as watches/ jewellery are vulnerable as well and have in fact registered among the largest declines by sub-segment.

Overall, consumer discretionary sector in Greater China is likely to be under greater pressure than ASEAN's.

Chart 13: Consumer discretionary retail sales are in decline in Greater China

Source: Macrobond, UOB CCRM
Note: Data based on current prices

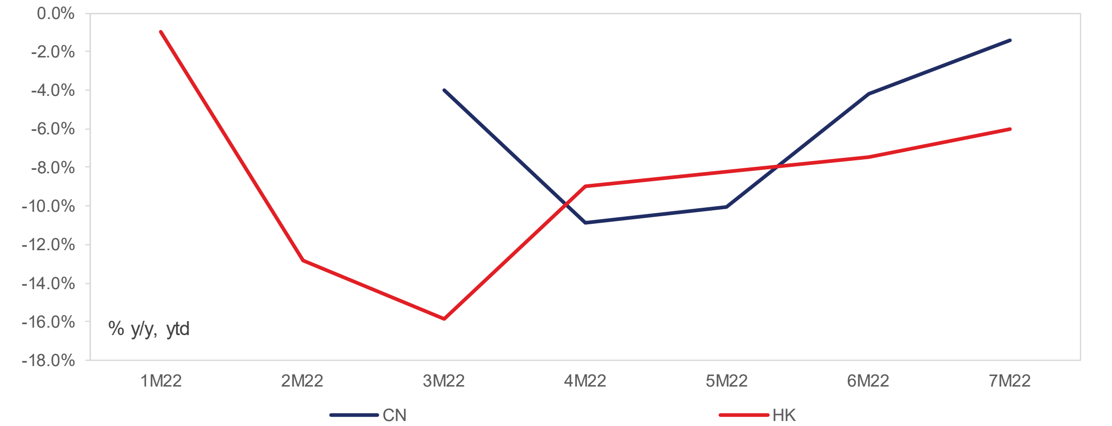
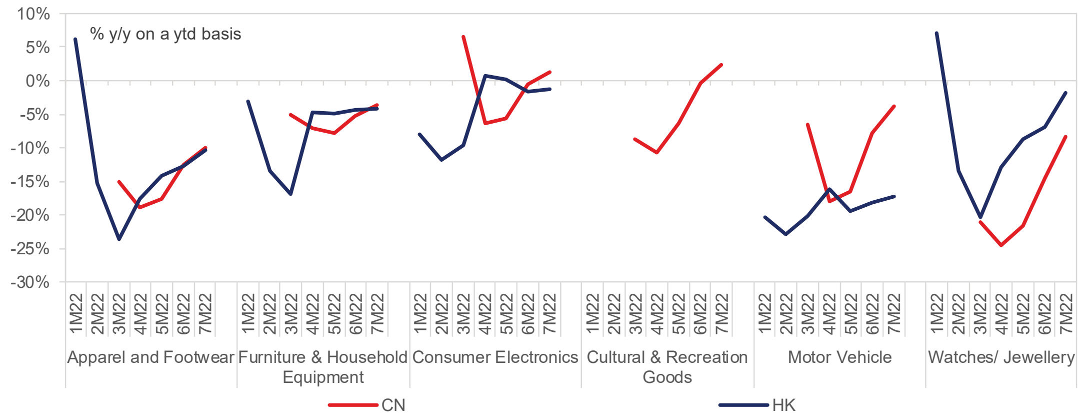


Chart 14: Broad-based decline across most sub-segments

Source: Macrobond, UOB CCRM
Note: Data based on current prices



Asia Consumer Discretionary Sector's Thin Margins Make Them Vulnerable To Macro Risks Ahead

Our internal analysis of the largest ASEAN and Greater China publicly-listed consumer discretionary companies shows most are entering challenging times ahead from a position of balance sheet strength and prudence, with a small number vulnerable to rising rates and falling cash inflow.

Given the thin margins, most will be susceptible to profit margin squeeze due to falling demand and cost inflation.

Looking ahead, ASEAN players would feel the effect of both slowing/falling demand and cost inflation while Greater China would likely be primarily affected by a more significant decline in demand.

FX Strategy

USD Strength Intensifies With Peak Unlikely This Year

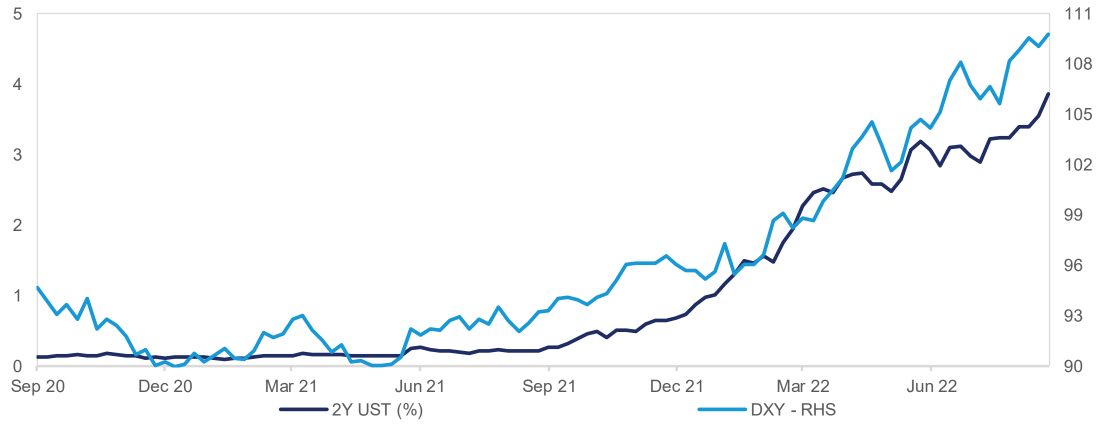
- We expect a peak in DXY in 1Q23 when FFTR reaches it terminal rate.
- That said, the path to a DXY peak is fraught with uncertainties.
- Asia FX will see extended weakness following sustained slide in CNY.

FX volatility stayed elevated as markets swung between hopes of a Fed pivot and subsequent despair after a resolute message from the Fed to fight against persistently high inflation at Jackson Hole.

Underpinned by aggressive Fed rate hike expectations, the US Dollar Index (DXY) rose for a fifth straight quarter in 3Q22 and touched the highest levels in over two decades. FX volatility stayed elevated as markets swung between hopes of a Fed pivot and subsequent despair after a resolute message from the Fed to fight against persistently high inflation at Jackson Hole. A stronger than expected Aug US CPI print also put to rest any expectations of more regular-sized rate hikes in the near term. As US fundamentals still appear sound at this juncture, the Fed can afford to look past growth concerns and prioritize its fight against inflation. We expect the Fed to press on with larger-than-usual rate increments of 75 bps in Nov, 50 bps in Dec before delivering the final 25 bps hike this cycle in Feb 2023 to reach the terminal Fed Funds Target Rate (FFTR) of 4.5-4.75%.

Chart 1: The DXY Rally May Lose Steam After 2Y UST Yield Peaks In 4Q22

Source: Bloomberg, UOB Global Economics & Markets Research



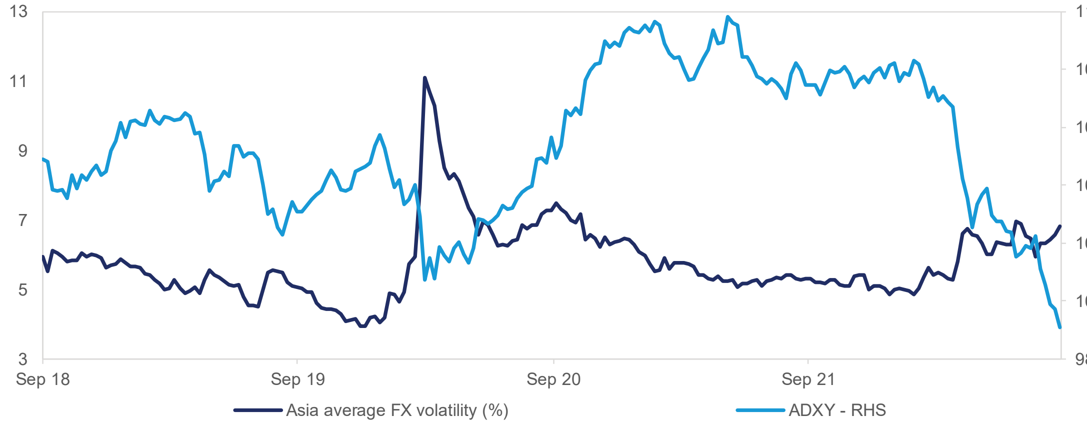
As we now see a peak in the 2-year US Treasuries yield at 4.85% in 4Q22, this is likely to portends a peak in DXY a quarter later in 1Q23 when FFTR reaches it terminal rate.

As to when the DXY will peak, it's important to note that Fed rate hike expectations has been a key driver for the DXY in this cycle. Particularly, the front end of the curve – the 2-year US Treasuries yield – has been instrumental in the surge of the DXY. As we now see a peak in the 2-year US Treasuries yield at 4.85% in 4Q22, this is likely to portends a peak in DXY a quarter later in 1Q23 when FFTR reaches it terminal rate. That said, the path to a DXY's eventual peak is fraught with uncertainties if the string of recent policy surprises is any indication. Already in Sep, the Bank of Japan (BOJ) intervened to prop up the JPY for the first time since 1998 while the GBP crashed to fresh record lows after UK government announced sweeping tax cuts that led to questions about the sustainability of UK finances.

Like their developed peers, Asia FX weakened further in 3Q22 and the Asia Dollar Index (ADXY) fell to the lowest level in 19 years. The prospect of further portfolio outflows as the Fed continues its aggressive front-loading of rate hikes while Asia central banks normalize monetary policies on a more gradual basis keeps Asia FX on the defensive. Renewed weakness in the CNY past its psychological level of 7.0 against the USD has exacerbated pressure on Asia FX. Aside to Fed policy, China is likely the wildcard that will determine of Asia FX in the coming quarters. Unlike their developed peers, Asia FX is unlikely to turn the corner soon as risks to the Chinese economy and the CNY are still biased to the downside. We continue to expect Asia FX to stay weak through 3Q23 as the CNY sustained on the weaker end of 7.00 against the USD.

Chart 2: Rising FX Volatility Lends Runway For Further Asia FX Weakness

Source: Bloomberg, UOB Global Economics & Markets Research



Major FX Outlook

Likely To Get Worse for EUR and GBP

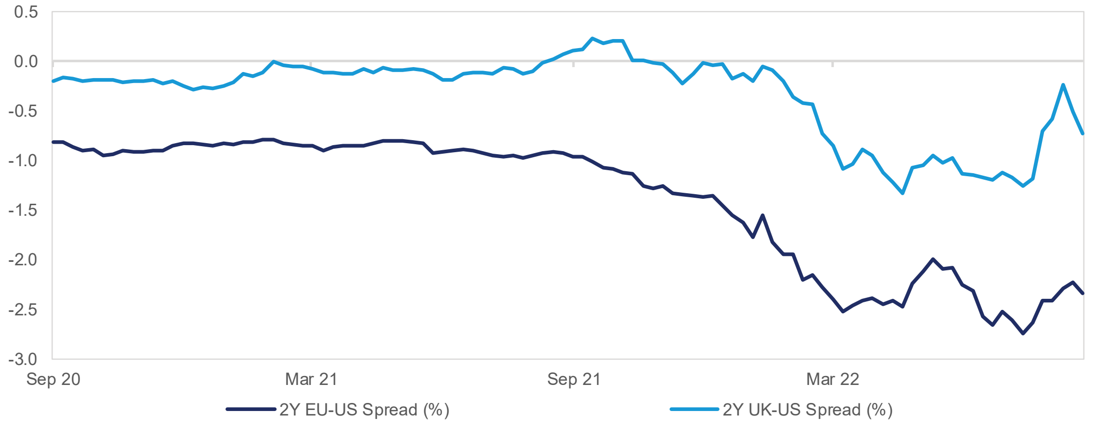
The spectacular DXY rally from the lows of about 90 in Jun 2021 to current levels of just above 110 may be entering its final stage. Previously drawing strength from the series of aggressive Fed repricing across the last one-and-half year, this favourable tailwind on DXY may start to falter as the Fed eventually slows and halts its tightening cycle in 1Q23. The Fed cannot afford to ignore US growth headwinds in 2023 as it did in most part of this Fed tightening cycle. The aggressive Fed rate hikes would eventually exert its toll on the US economy and based on our forecasts for the US unemployment rate profile, we are of the view it is very likely that the US will enter into a recession by the start of Jun 2023, if not earlier.

Overall, alongside a peak in US rates at the end of 2022, a further narrowing of US rate differentials with its G-10 peers may play a bigger role in the expected recovery of Major FX in 2023.

Overall, alongside a peak in US rates at the end of 2022, a further narrowing of US rate differentials with its G-10 peers may play a bigger role in the expected recovery of Major FX in 2023. A caveat to the view is US inflation still not showing signs of slowing down by the end of 2022 which causes the Fed to stay the course of larger-than-usual rate increments into 2023.

Chart 3: A Further Narrowing Of US Rate Differentials With Its G-10 Peers May Play A Bigger Role In The Expected Recovery Of Major FX In 2023

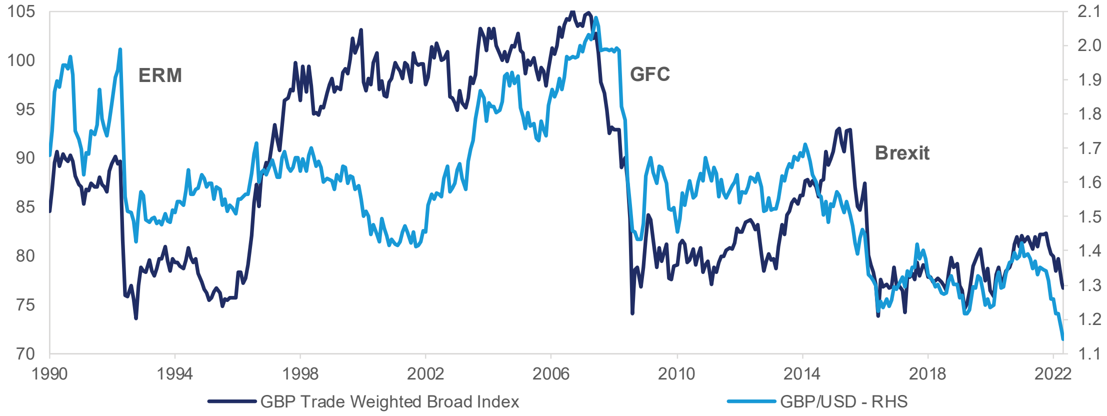
Source: Bloomberg, UOB Global Economics & Markets Research



EUR/USD cracked below the psychological parity level late Aug and touched a 20-year low of 0.9554. With the energy crisis in Europe expected to worsen into winter, near term economic outlook of Eurozone remains bleak. As such, we expect further weakness of EUR/USD towards 0.95 in 4Q22 and 1Q23. In 2023, as the energy crisis ebbed, we are cautiously optimistic that a further recovery in the EU-US rate differential as the Fed starts to pause would spur a modest recovery in EUR/USD. This in on the pretext that Eurozone slowdown would not be severe enough to flip the ECB back into full-blown crisis mode, usually involving cutting rates towards zero and reviving bond purchases. Overall, we reiterate our "hockey stick" view on EUR/USD, expecting the pair at 0.95 in 4Q22 and 1Q23, 0.98 in 2Q23 and 1.00 in 3Q23.

Chart 4: GBP Is Trading At Crisis Pricing

Source: Bloomberg, UOB Global Economics & Markets Research

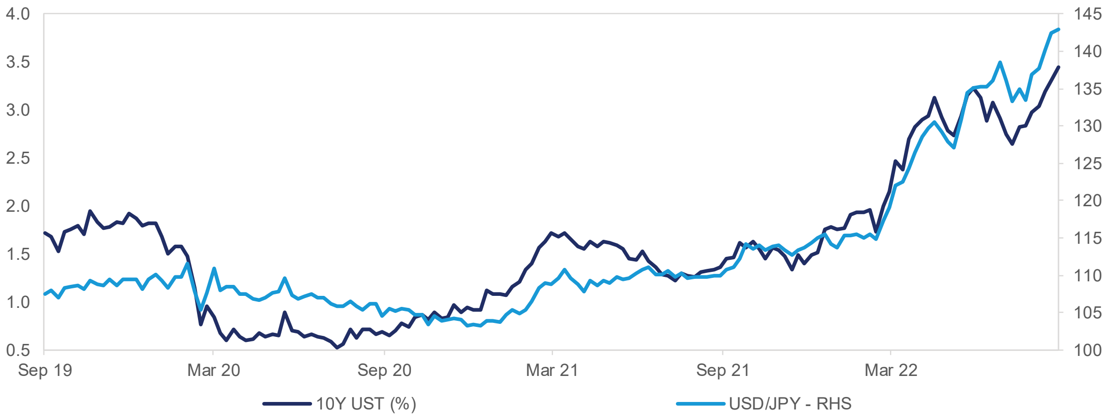


GBP/USD plummeted to record lows of 1.0350 in late Sep as Britain's ballooning twin deficits due to the latest tax cuts compounded worries that UK economy will be slipping into a year-long recession starting 4Q22.

The worst performing G-10 currencies in 3Q22, GBP/USD plummeted to record lows of 1.0350 in late Sep as Britain's ballooning twin deficits due to the latest tax cuts compounded worries that UK economy will be slipping into a year-long recession starting 4Q22. Given the UK macroeconomic instability, it is likely GBP will be the escape valve. We now expect a further decline in the GBP trade-weighted index towards the Brexit (2016) lows of about 73 (from 76 currently) which in turn would drive another leg lower in GBP/USD. While we do not dismiss the prospect of an inter-meeting outsized Bank of England rate hike to stabilize GBP, its longer-term efficacy remains questionable given the fragile outlook of the UK economy and the broad-based strength of the USD. Overall, we update our GBP/USD forecasts to 1.05 in 4Q22, and 1Q23, 1.08 in 2Q23 and 1.12 in 3Q23. At the same time, we would highlight the meaningful risk that GBP/USD may even exceed our downside forecasts and trade below the parity level given the huge volatility and uncertainty.

Chart 5: The Relentless Rally In USD/JPY May Be Ending As US Yields Eventually Peak

Source: Bloomberg, UOB Global Economics & Markets Research



The upcoming quarter (4Q22) is likely to still a volatile one for USD/JPY as US rates are still biased higher which lend upside to USD/JPY while heightened risk of further intervention may limit its upside.

Volatility in USD/JPY stayed high across 3Q22. A decisively hawkish Sep FOMC pushed USD/JPY to 145.90, the highest level since 1998 before the Ministry of Finance intervened after the Fed meeting to shore up the JPY and brought USD/JPY back towards 140. While the intervention is likely to slow JPY depreciation from here, a longer-lasting reversal of the JPY which has slumped close to 20% (vs USD) this year has to be fuelled either by lower US rates or a change in BOJ ultra-loose monetary policies. The latter is likely close to impossible with BOJ Governor Kuroda recently saying that there is no need to change policy guidance for the next 2 to 3 years (i.e. till 2025). The upcoming quarter (4Q22) is likely to still a volatile one for USD/JPY as US rates are still biased higher which lend upside to USD/JPY while heightened risk of further intervention may limit its upside. We see the 145 level in USD/JPY as a strong resistance which may eventually develop into a long-term peak as US rates start its decline next year. Overall, our updated USD/JPY forecasts are 145 in 4Q22 and 1Q23, 142 in 2Q23 and 139 in 3Q23.

Commodity-linked FX such as the AUD and NZD which are sensitive to global risk sentiments are likely to be on the backfoot as increasingly restrictive policy raises the odds of a US recession.

Commodity-linked FX such as the AUD and NZD which are sensitive to global risk sentiments are likely to be on the backfoot as increasingly restrictive policy raises the odds of a US recession. Another wave of China growth downgrade adds to the pressure on these currencies as demand on commodities slows. As such, we expect commodity-linked FX to stay weak till 1Q23 before a recovery next year as the broad USD strength normalizes. Our updated AUD/USD forecasts are 0.64 in 4Q22, 0.63 in 1Q23, 0.65 in 2Q23 and 0.68 in 3Q23 while that of the NZD/USD are 0.56, 0.55, 0.57 and 0.60 respectively.

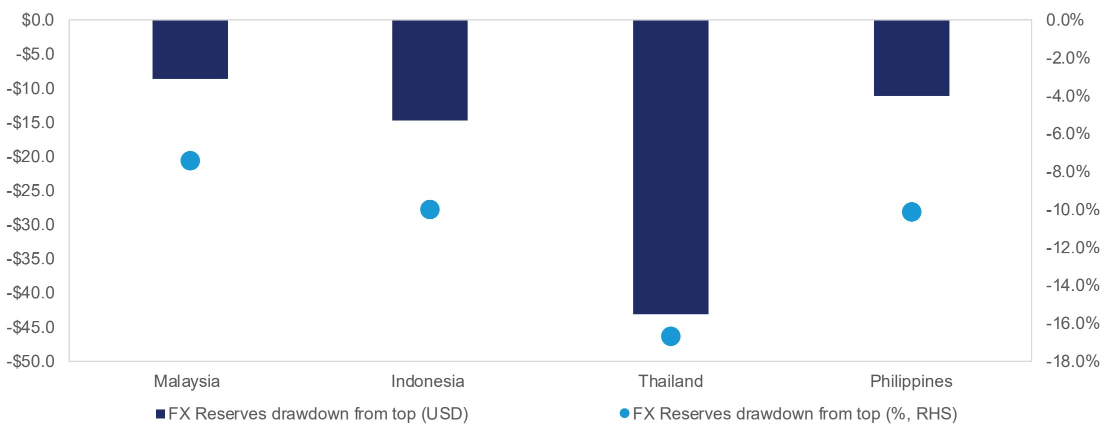
Asia FX Strategy

Extended Weakness Alongside CNY Slide

Unlike its developed peers, there is still no light at the end of the tunnel for Asia FX at least for the next couple of quarters. While the Fed may start to slow its rate hikes in 1Q23, Asia FX are unlikely to regain its rate advantage just yet due to a very gradual rate normalization trajectory adopted by most regional central banks. So, portfolio outflows are still likely to continue and in response, Asian central banks could draw down their ample FX reserves to smooth volatility on their currencies. By now, it is clear that the CNY has an outsized impact on Asia FX. The symbolic move of USD/CNY above 7.0 in mid-Sep is likely to inject further upside risks to other USD/Asia pairs. Overall, we keep to the upside bias for most USD/Asia pairs in the coming quarters and revise for some as their upside targets are met earlier than expected.

Chart 6: Asian Central Banks Have Drawn Down Their FX Reserves To Smooth FX Volatility

Source: Bloomberg, UOB Global Economics & Markets Research

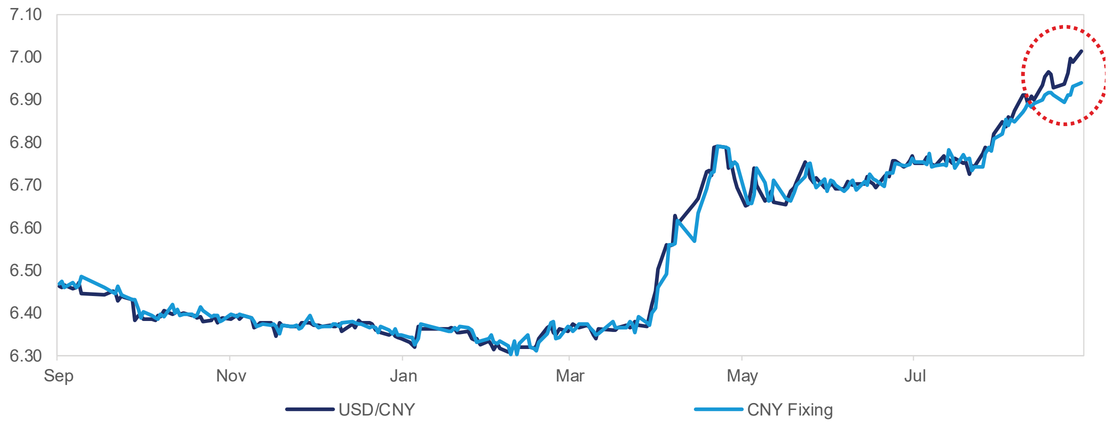


The US-China yield differential is now at the widest against the CNY since 2008, spurring further portfolio outflow from China and keeping CNY on the defensive.

It is not a familiar scene to see CNY ranked as one of the worst performing currencies in Asia given that it has outperformed most regional peers for most part of the pandemic. The rising economic toll of China's zero-COVID strategy is evident on the CNY as it weakened past the psychological 7.0 level against the USD in mid-Sep. While the improvement in retail sales, industrial production and fixed asset investments in Aug provided some relief, economic challenges remain, and authorities have warned that foundations for economic recovery are not solid yet. Another pressure point for the CNY is the widening monetary policy divergence between the PBOC and Fed. The US-China yield differential is now at the widest against the CNY since 2008, spurring further portfolio outflow from China and keeping CNY on the defensive. While the PBOC is unlikely to draw a hard line-on-the-sand at 7.0, it may continue to slow the depreciation of the CNY via measures such as stronger-than-expected CNY fixings or cutting the reserve requirement ratio for foreign currency deposits. Overall, we maintain an upward trajectory for USD/CNY but tweak it slightly to 7.20 in 4Q22, 7.23 in 1Q23, 7.25 in both 2Q23 and 3Q23. They were previously at 7.05, 7.08, 7.10 and 7.12 respectively.

Chart 7: PBOC Leans Against CNY Weakness Via Stronger-than-expected Fixings

Source: Bloomberg, UOB Global Economics & Markets Research

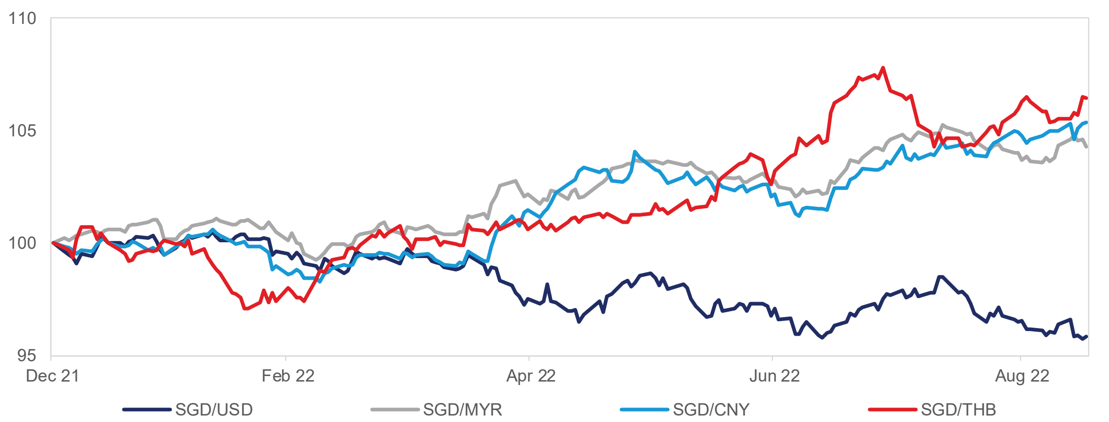


A higher USD/CNY would eventually spill over into USD/SGD and the latter is likely begin a new trading range above the 1.40 level.

The SGD continued to be one of the more resilient currencies in Asia in 3Q22. Despite broad USD strength, USD/SGD only edged up about 2.8% on the quarter to about 1.43 while other USD/Asia rose an average of about 5%. The Singapore dollar nominal effective exchange rate (S$NEER) rose gradually towards the top end of policy band after the Monetary Authority of Singapore's (MAS) off-cycle recentring in mid-Jul, signalling further outperformance of the SGD relative to its regional peers just as the MAS is expected to tighten policy further in Oct. That said, a higher USD/CNY would eventually spill over into USD/SGD and the latter is likely begin a new trading range above the 1.40 level. Our updated USD/SGD forecasts are 1.44 in 4Q22 followed by 1.45 through 3Q23.

Chart 8: SGD To Continue To Outperform Regional Peers While Lagging Behind USD

Source: Bloomberg, UOB Global Economics & Markets Research



The MYR broke the 24-year low level of 4.50 in Sep due to the US Fed's continued hawkishness and persistent CNY weakness amid looming snap election risks in the country. So long as the Fed stays the course for outsized rate hikes (50bps or 75bps) in the coming months and China's worries persist, MYR will be biased weaker against the USD. We updated our USD/MYR forecasts at 4.63 in 4Q22, 4.67 in 1Q23, and 4.69 in both 2Q23 and 3Q22.

USD/THB traded above 37.0 in Sep, the highest level since 2006 alongside broad Asia FX weakness. Idiosyncrasies such as Thailand's current account deficit and one of most negative real rates in Asia continue to keep the pressure on the THB, on top of external factors such as aggressive Fed and China slowdown concerns. That said, as the tourism-led economic rebound gains traction and Thailand returns to a current account surplus next year, loss on the THB may start to slow. Overall, we keep to our upward trajectory in USD/THB and update the point forecasts to 38.0 in 4Q22, 38.2 in 1Q23 and 38.4 in both 2Q23 and 3Q22.

Despite strong external headwinds, the IDR was resilient in 3Q22 and was only marginally lower on the quarter to 15,000 /USD. That said, as weakness in the CNY persists and risks that rising inflation may sap the domestic growth recovery, in our view it is inevitable that USD/IDR would eventually sustain above the psychological 15,000 level. Our updated USD/IDR forecasts are 15,200 in 4Q22, 15,300 in 1Q23, 15,400 in both 2Q23 and 3Q22.

Rates Strategy

Early Stages Of Better Value In Bonds

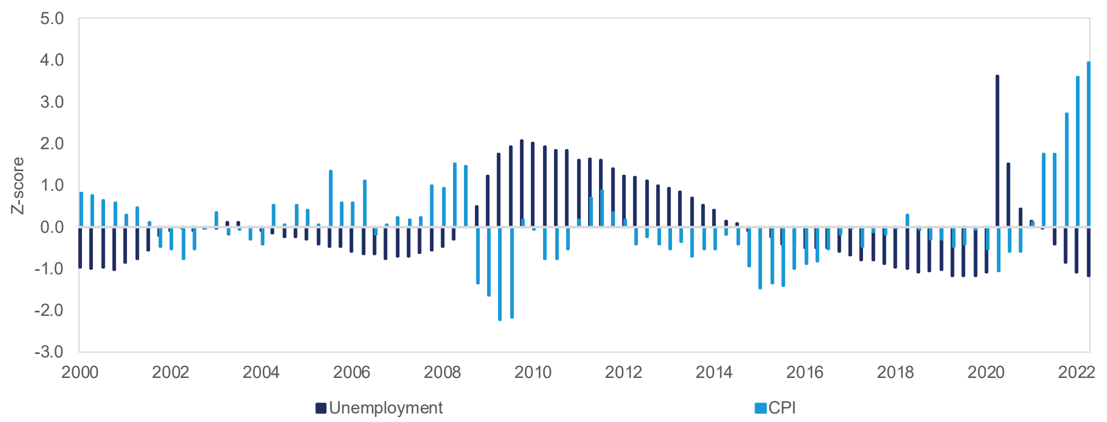
- Our baseline on peak Fed funds has been revised to 4.75% in 1Q 2023.
- Bonds are priced for new hawkish baseline, scale tipping towards room for recession premium to grow.
- On the other hand, uncertainty over sticky inflation means we cannot write off possibility of an even higher Fed funds baseline.

September FOMC Takeaways

The US Fed delivered another 75bps of rate hike to lift the Fed funds rate up to 3.25%. This latest round of tightening was in line with futures market pricing heading into the event. Looking ahead towards November's FOMC, pricing by the futures market is roughly split 30:70 between 50bps and 75bps respectively. Our US macro team's forecast is for one more 75 bps rate hike in Nov FOMC, followed by a 50bps hike in Dec FOMC and lastly, a 25bps rate hike in Feb 2023 FOMC, bringing our terminal Fed funds rate to 4.50-4.75% by end 1Q-2023.

Chart 1: US Fed Dual Mandate 2000 To 2022 (z-score)

Source: Bloomberg, UOB Global Economics & Markets Research



Overall, US policy makers are seen as unwavering in their focus on dealing with inflation and understandably so, given that for the Fed's dual mandate; inflation is running hot while unemployment is holding closer to its lowest levels as illustrated by the z-score chart above.

Yield upside potential will remain intact in the short term, much like it has been this year. However, looking at the 2024 and 2025 dot plot guidance, what is striking is the wide dispersion in policy makers' expectations. Which serves to illustrate that even policy makers are uncertain about the fallout from the aggressive tightening that they have implemented.

This means that yield upside potential will remain intact in the short term, much like it has been this year. However, looking at the 2024 and 2025 dot plot guidance, what is striking is the wide dispersion in policy makers' expectations. Which serves to illustrate that even policy makers are uncertain about the fallout from the aggressive tightening that they have implemented.

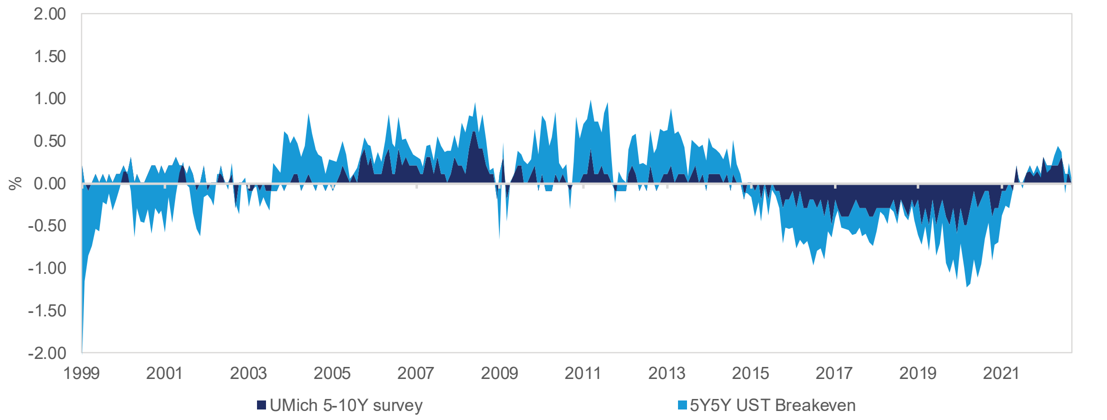
In addition, even though the direction of travel for short term yield is unchanged, we do think that the magnitude of yield changes for longer maturity bonds may be smaller than what we have experienced so far due to accumulating signs of monetary tightening lag feeding into slower growth.

Structurally Higher Inflation Regime?

In 1H 2022, stagflation fears touched their highest levels since 2008 based on Google Trends searches. This outcome shouldn't be surprising given the avalanche of "bill shock" stories that have been showing up in the news media. However, it would be a mistake to mechanically extrapolate what we are seeing on a "spot" basis into the future. While longer term inflation expectations measures have indeed ticked higher from their COVID-19 pandemic lows, neither their outright levels nor their deviation from long term averages are priced for a significant, and structurally higher inflation regime.

Chart 2: Deviation Of Inflation Expectations From Mean (1999 To 2022)

Source: Bloomberg, UOB Global Economics & Markets Research



Year to date, the University of Michigan's survey of expected change in prices for the next 5 to 10 years is averaging at around 18bps above its long-term (1999 to 2022) mean. Similarly, market-based measures of inflation expectations, such as the 5-year forward 5-year UST breakeven inflation is averaging at around 3bps over its long-term mean.

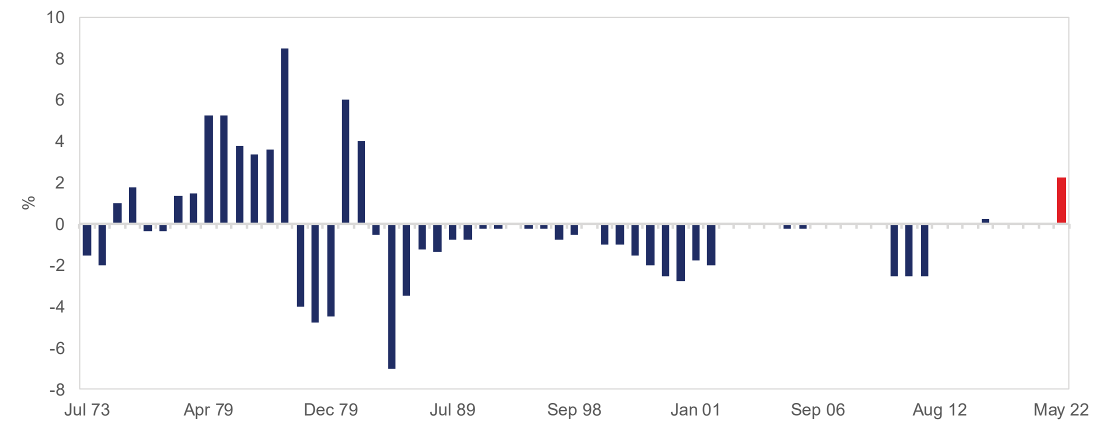
Both survey and market-based measures suggest that the base case for what lies ahead is tilted towards a return to a 2% inflation world rather than a future that rhymes with the experience of the 1970s/80s. An unchanged view in the Sep dot-plot for the Longer-Term median rate at 2.50% also implies that policy makers have not upgraded their assessment to a structurally higher inflation regime.

Tightening Into A Slowdown

Our own outlook for inflation outcomes converges with the preceding paragraph. As such, we do not see a need for an escalating series of Fed tightening in order to break the back of an unhinged inflation scenario. Especially after considering that the current monetary policy tightening profile has already been the most aggressive in decades. Instead, with signs of economic slowdown already showing up, we have begun to contemplate the late cycle playbook for bond markets. Incremental policy hawkishness may still be able to shorten the time needed for inflation to drop, but this will increasingly come at the cost of an economic hard landing and its attendant negatives.

Chart 3: Change In Fed Funds 6-Months After LEI Warning

Source: Bloomberg, UOB Global Economics & Markets Research



Even with monetary policy lag still yet to fully exert its influence, the Conference Board Leading Economic Index (LEI) is already showing signs of economic slowdown.

Specifically, we filter on instances where the LEI's diffusion was under 50 and when the 6-month change in LEI was negative to exclude any one-off effects. Historically, we observe that the change in US Fed funds rate 6-month after first triggering the LEI filter criterion has usually been either 1) unchanged or 2) lower. In other words, this suggests that the Fed's monetary policy bias shifts towards being neutral/accommodative when the LEI signals a slowdown. At present, we have satisfied the LEI criterion since May and both 6-month change, and the diffusion have worsened in the latest LEI update.

The main exception to flat/lower Fed funds rate happened in 1979/1980 when Volcker tightened into a slowing economy. Recent guidance from policy makers has indicated another 150bps of rate hikes will be delivered by early 2023, thus we are very much on the path of the Fed tightening while the economy is slowing. This combination is obviously unsustainable.

We recognize that on balance, inflation (particularly its sticky components) is the primary adversary. However, the catch-up response by policy makers globally has been aggressive and markets are priced for an equally front-loaded follow through into early 2023. Accelerating the policy tightening pace from current baselines may instead enrichen recession premiums in the longer maturity bonds and deepen yield curve inversion.

Short Term Pain, Long Terms Gains In Bonds?

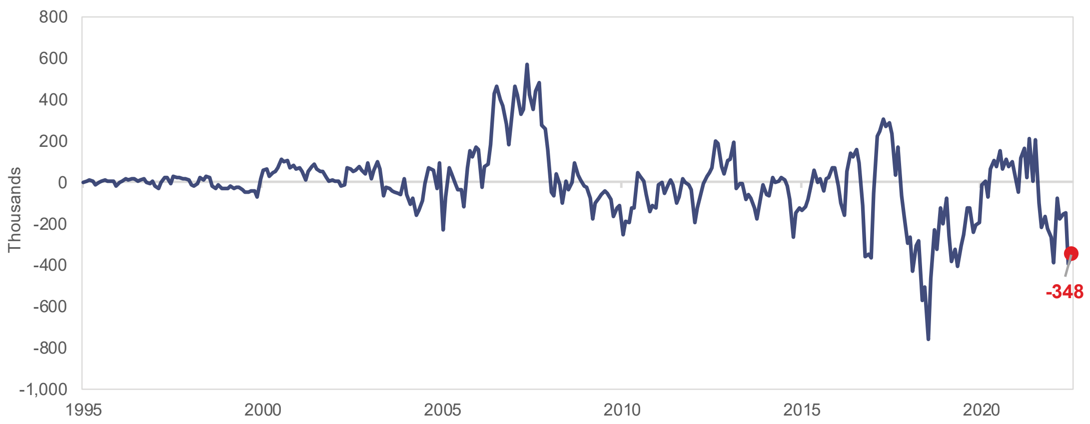
We are gradually turning less bearish on longer maturity bonds going forward, especially with the 10Y UST yield setting new highs in September and therefore offering a much better value proposition for asset allocation compared to the low yielding days where "there is no alternative" (TINA).

It follows from our view that we are gradually turning less bearish on longer maturity bonds going forward, especially with the 10Y UST yield setting new highs in September and therefore offering a much better value proposition for asset allocation compared to the low yielding days where "there is no alternative" (TINA). It also helps, from a contrarian perspective, that the CFTC net non-commercial combined positioning for 10Y UST is currently holding deep within net short territory.

The big question is, when will be the optimal time to position for a turn in the monetary policy cycle and lower yields?

Chart 4: CFTC 10Y UST Net Non-Commercial Combined Position

Source: Bloomberg, UOB Global Economics & Markets Research



For this report, we looked at how the 2Y, 5Y and 10Y SGS bonds behaved during the last two Fed hike cycles; 2004 to 2007 and 2015 to 2019. It can be observed that the peak in SGS yield has usually been recorded before the last Fed hike. On this point, the 10Y tenor has been the more consistent one with its yield topping out at around 70 days before the last Fed hike during both of its previous cycles.

Chart 5: SGS Yield Tops Out (Usually) Ahead Of Last Fed Hike

Source: Bloomberg, UOB CCRM

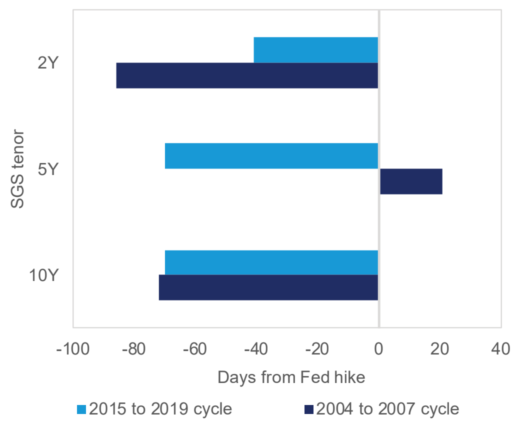
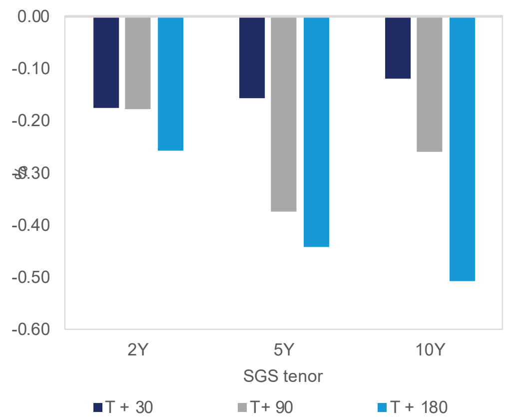


Chart 6: Average SGS Yield Change From Peak

Source: Macrobond, UOB CCRM



The takeaway here is that SGS bond yields have historically turned before the last Fed hike. This peak in yield has also been persistent rather than transitory.

Cumulative yield decline from their peaks has also been sticky, persisting over a 30, 90, and 180-day window for all three SGS tenors. Here, the 5Y tenor holds the sweet spot, enjoying the best risk-adjusted returns. In addition, absolute cumulative decline in yields also increases with the tenor, this feature ties in with the forward-looking nature of markets.

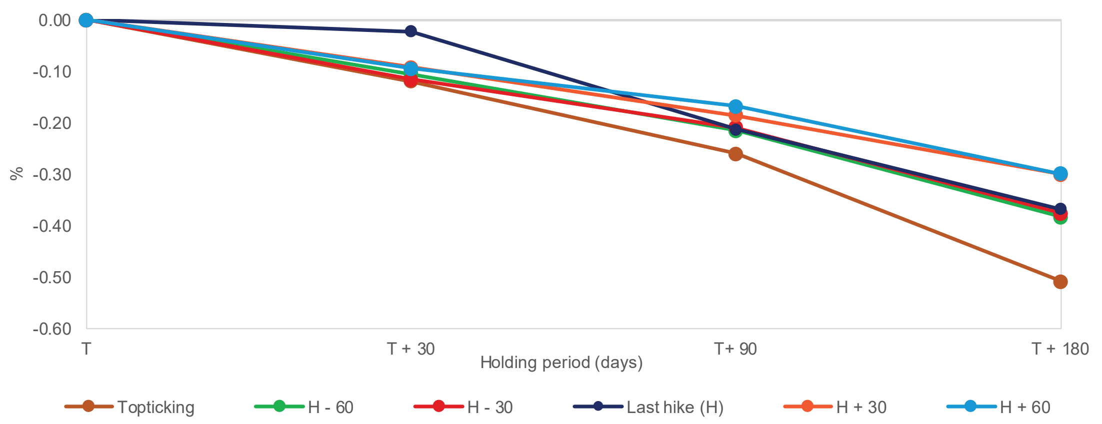
The takeaway here is that SGS bond yields have historically turned before the last Fed hike. This peak in yield has also been persistent rather than transitory. Circling back to our US macro team's forecast for a final 1Q 2023 hike in Fed funds, this could mean that SGS yields may top out sometime around the turn of the year.

Timing The Entry Is Relatively Forgiving

Lest we give the impression that the cumulative yield outcomes shown above is only achievable for "sharp shooters", i.e. catching the absolute yield peak, we've also extended the entry points to 30 and 60-days before and after the last Fed rate hike.

Chart 7: 10Y SGS Average Yield Change

Source: Bloomberg, UOB Global Economics & Markets Research



Top ticking has been rewarded by around 10bps of additional yield decline over a 180-day holding period compared to the "second best" entry. However, we regard a focus on entry point precision to be missing the forest for the trees. Instead, we are more heartened to see that the dispersion of outcomes has been reasonably tight for all the other entry point variations.

This suggests that the period around the cresting of Fed funds has generally been forgiving to long bond entries. We also note that the 10Y SGS tenor displays a cleaner dichotomy between being early versus late. Contingent on one's view of when the final Fed hike will occur, being early on a long 10Y SGS position has historically been more advantageous than being late.

Anticipating The Anticipation?

Long duration has undoubtedly inflicted significant pain on portfolios this year, thus a bond positive view may be difficult to digest. Further policy rate hikes are also enshrined in the short term, so the view also runs into accusations of "fighting the Fed".

We will be the first to admit that the slant of this note might be early, and it could turn out to be a story for late 2023 instead. Nonetheless, we do think that bonds are well priced for a hawkish baseline and outright bond yield levels do offer scope for richer safe-haven premiums.

Alternative Scenario? A Higher Starting Point Possibly

Should our base case become untenable, then we see the alternative scenario as one that carries higher yields across the curve with it. Conditions for the alternative to prevail will rest on two main factors;

1. A much higher peak in Fed funds, possibly into the 5% region. This could be due to inflation outcomes that worsen significantly relative to our assumptions.

2. An unwind of safe-haven premiums. This could come about if economic growth turns and starts to surprise on the upside despite lagged feed through from aggressive monetary policy tightening.

Summary of Our Views

We have refitted our yield curves to our new Fed funds baseline and now see 10Y UST and SGS at 4.30% and 3.80% respectively by the end of 2022. Thereafter, we expect to see bond yields drift lower across 2023, based on our expectation that Fed funds peak in 1Q 2023 as well as accounting for our view that the balance of risk will increasingly tilt in favour of slowing economic growth going forward.

Summary of Our Views	
Outright Yield	Yield top for longer maturities might come in early 2023. Until then, upside spikes are still possible, but the pace of gains should slow going forward.
Curve	Flatter yield curves with risk of deeper inversion. Possible transitory countertrend steepening post QT implementation.
Spread	SG yield discount to US enshrined for the rate hike cycle. Chance to deepen remains. Spread reversion to pick up alongside looser monetary policies.

Source: UOB Global Economics & Markets Research

Our Forecasts

Rates	26 Sep 22	Forecast	4Q22F	1Q23F	2Q23F	3Q23F
US Fed Funds Target	3.25	**Current**	**4.50**	**4.75**	**4.75**	**4.75**
		Previous	4.00	4.25	4.25	4.25
3M Compounded SOFR	2.07	**Current**	**3.66**	**4.47**	**4.63**	**4.66**
		Previous	3.52	4.04	4.19	4.20
3M USD LIBOR	3.64	**Current**	**4.60**	**4.85**	**4.85**	
		Previous	4.30	4.40	4.40	
10Y UST	3.92	**Current**	**4.30**	**4.00**	**3.80**	**3.80**
		Previous	3.50	3.40	3.30	3.10
3M Compounded SORA	1.92	**Current**	**2.97**	**3.62**	**3.71**	**3.86**
		Previous	2.96	3.49	3.63	3.64
3M SGD SOR	3.09	**Current**	**3.80**	**3.85**	**3.85**	
		Previous	3.70	3.80	3.80	
10Y SGS	3.32	**Current**	**3.80**	**3.55**	**3.40**	**3.40**
		Previous	3.20	3.10	3.00	2.80

USD 3M LIBOR and SGD 3M SOR will be ceased by end-June 2023
Source: UOB Global Economics & Markets Research forecasts

UK Rates Update
Implications of "Mini Budget" And "Growth Plan"

Key Takeaways
- Planned QT sales by BOE unlikely to proceed.
- Market reprice real yields higher, more to go.

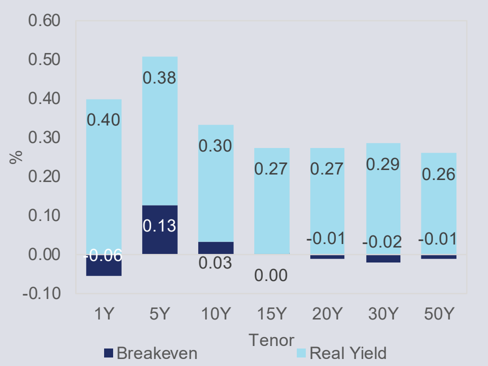
In their September meeting, the Bank of England (BOE) unanimously endorsed a plan to shrink their balance sheet by GBP 80bn over the next 12 months, otherwise known as Quantitative Tightening (QT). BOE's QT plan is now highly unlikely to proceed after the mini-budget announcement, which will rely on public borrowing to fund spending shortfalls.

Estimates see a doubling of net borrowing this year compared to the March baselines published by the Office for Budget Responsibility (OBR). Net borrowing is also expected to remain structurally higher over the next five years.

Investors have been quick to pick up on the mini-budget's implication, and UK's risk premium is undergoing a swift and significant repricing. The announcement impact saw the Gilt yields spike higher across all tenors, driven almost exclusively by higher real yields.

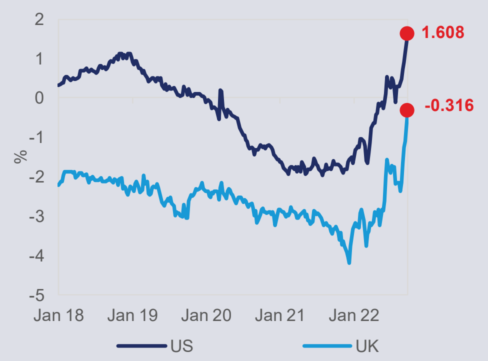
Mini - Budget Announcement Impact On UK Gilts (1D yield change)

Source: Bloomberg, UOB Global Economics & Markets Research



5-Year Real Yields

Source: Bloomberg, UOB Global Economics & Markets Research



Existing pressure from inflation and now compounded by a sharp deterioration in the fiscal situation mean that UK's real yields have scope to reprice higher, particularly when the 5 and 10-year tenors are still negative after Friday's (23 Sep) repricing. UK's 5-year real yield also trails the US 5-year which has settled above par since June this year.

One consolation, thus far, from the mini-budget fallout has been that UK's credit default swap remains a distance below its 2016 Brexit and 2020 Covid-19 levels.

UK CDS 5Y USD SR

Source: Bloomberg, UOB Global Economics & Markets Research

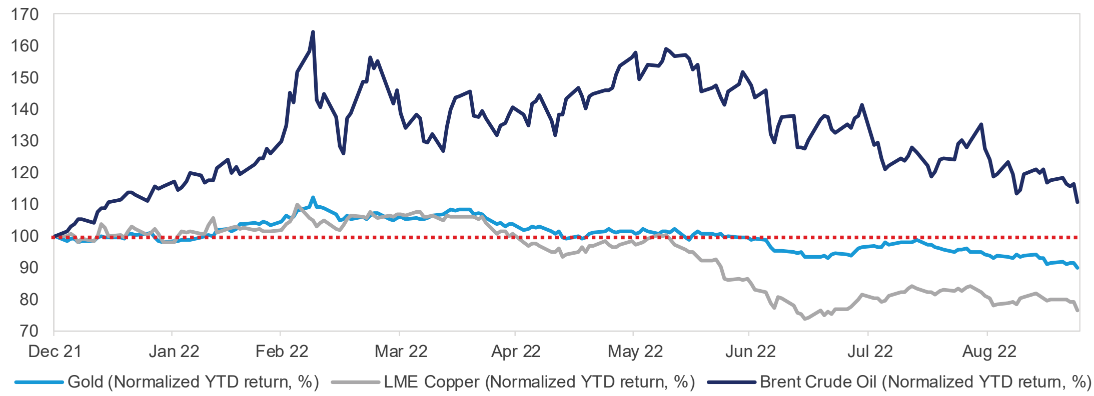
Commodities Strategy

Is The Heavy Sell-Off In Brent Crude Oil And Gold Prices Overdone?

Overall, 3Q22 has been a rather disappointing quarter for the commodities complex. Instead of rising further as widely anticipated due to supply disruption issues, prices of key commodities like Brent crude oil and gold headed south instead. This volatile and unpredictable price action is a clear indication of the more complex global economic cycle that investors are witnessing now. Specific to the commodities space, supply disruptions and geopolitical risks are still worrying factors that may drive prices back up. Yet, on the other hand, widespread and increasing global recession fears have started to weigh down heavily on prices as well.

Key Commodities Prices Retreat Further Across 3Q22

Source: Bloomberg, UOB Global Economics & Markets Research



Specific to gold, further strengthening of the USD and the sharp rise in US and global interest rates across 3Q22 weighed down heavily on its price. A tentative attempt to recover the USD 1,800 / oz handle failed and gold price subsequently pulled back below USD 1,700 / oz, nursing a year-to-date loss of about 11%. Now that gold price has corrected, will safe haven demand return to trigger renewed investor in-flows back into gold investments?

Brent Crude oil encountered the most intense sell-off in 3Q22 as it was sold-off heavily alongside other key asset classes after global recession fears intensified. Across 3Q22, instead of rising further due to on-going geopolitical risks emanating from Russia's invasion of Ukraine, Brent crude oil price tumbled below USD 100 / bbl to seek support at the USD 90 / bbl handle. Thereafter, in late September, the release of the controversial "mini budget" by UK's Liz Truss government further pushed Brent crude oil below USD 90 / bbl to USD 86 / bbl. Have crude oil prices fallen too fast too much, now that it has given up most of its year-to-date gains? Will the on-going supply issues and low global inventory levels support prices from here on?

In contrast, LME Copper was a relative sea of calm over the past month as it consolidated within a tight trading range of USD 7,500 / MT to USD 8,000 / MT. Prices were already sold-off earlier in 2Q as LME Copper reacted first to nascent signs of growth slowdown. Interestingly, despite the overall rising risk of recession, there are increasing signs of supply tightness in global copper market. Production has not increased in a meaningfully way and inventory levels stay low. Will LME Copper prices continue their consolidation from here or will volatility return?

GOLD

Strong USD And Rising Rates Are Key Near-Term Negatives

UOB's Forecast	4Q22F	1Q23F	2Q23F	3Q23F
Gold (USD/oz)	1,700	1,800	1,900	1,900

The aggressive front loading of interest rate hikes by the US Federal Reserve continued unabated. And this has added to further strength in USD and further rise in interest rates, both of which are key negative drivers which weighed down on gold. Both negative drivers have gotten worse over the past quarter.

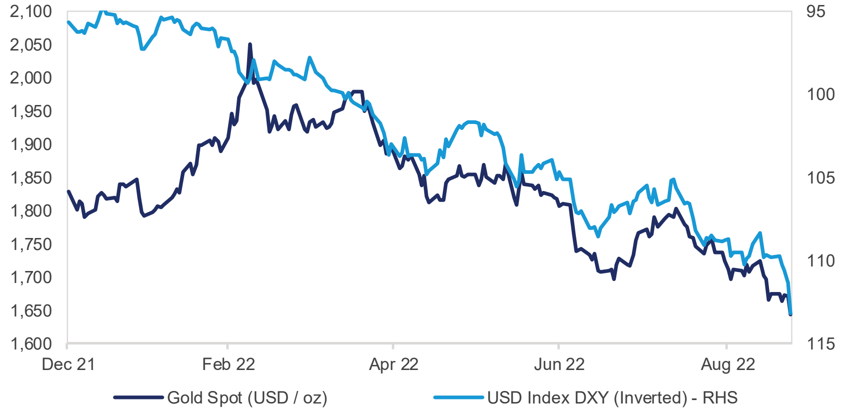
Since the start of the year, the USD Index (DXY) had risen by about 19% from 95 to113. Similarly, the 10-year US Treasuries yield had more than doubled from 1.5% in Jan to 3.7% currently. As a result, gold had nowhere to go but to head south. Most recently, the tentative recovery to USD 1,800 / oz in August failed and gold subsequently fell back below the psychological support of USD 1,700 / oz.

As USD strengthened and rates rose, investors started to trim down their long gold positioning, further weighing down on gold. The total amount of gold tonnage held at ETFs took a disappointing turn in 3Q, falling from 105 mio oz to back below 100 mio oz. Similarly, the net positioning for gold at CFTC also headed south.

Nonetheless, we maintain the view that once these negative drivers dissipate, gold will recover in line with on-going safe haven demand as well as the return of physical jewellery demand. Unfortunately, this recovery is likely to be delayed till after 1Q next year, when the Fed hikes are expected to peak. In the meantime, we stay positive on gold, but lower the point forecasts to USD 1,700 / oz for 4Q22, USD 1,800/ oz for 1Q23 and USD 1,900 / oz for 2Q23 and 3Q23.

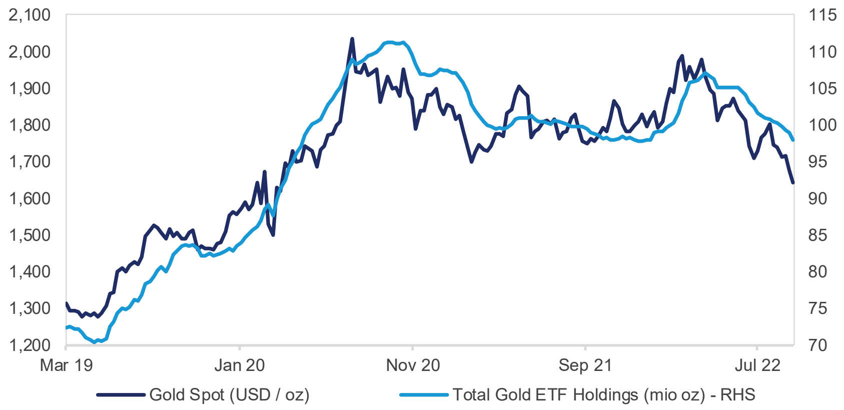
Gold Weighed Down By Strong USD

Source: Bloomberg, UOB Global Economics & Markets Research



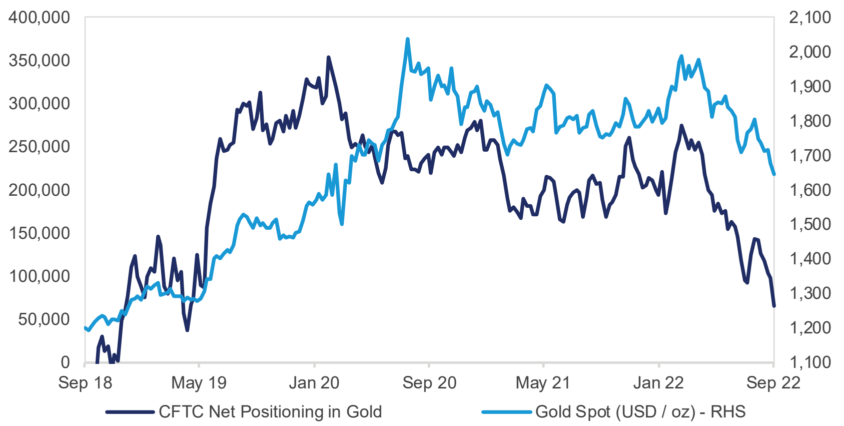
Gold Weighed Down By Drop In ETF Holdings

Source: Bloomberg, UOB Global Economics & Markets Research



Gold Weighed Down By Drop In CFTC Net Positioning

Source: Bloomberg, UOB Global Economics & Markets Research



BRENT CRUDE OIL

Sharp Retreat In Oil Price Due To Widespread Recession Fears

UOB's Forecast	4Q22F	1Q23F	2Q23F	3Q23F
Brent Crude Oil (USD/bbl)	90	90	100	100

Brent crude oil had a disappointing performance across 3Q22. Instead of being driven higher by rising geopolitical risk, prices were instead significantly depressed by widespread recession fears. The New York Federal Reserve's recession probability indicator for the US economy in the coming 12 months had risen rapidly across the past quarter, from under 10% to above 25%. This rising recession fear was a key trigger in the sharp pullback in Brent crude oil prices from the USD 115 / bbl handle to under USD 90 / bbl. As recession woes rose, the concurrent retreat in gasoline price over the past quarter resulted in lower crack spread and weighed down on crude oil price as well.

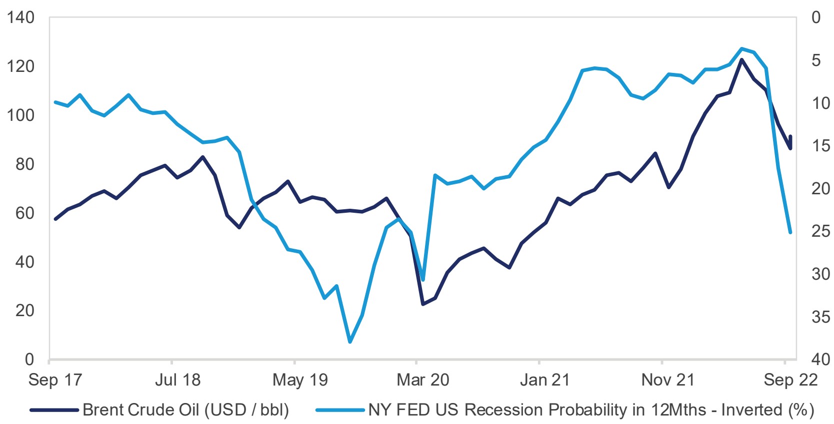
Nonetheless, it is difficult to ignore the potential looming supply issues. Global crude oil inventory remains low by historical standards as the US is now poised to accumulate oil stock instead. This is because in just one year of steep drawdown, the US Strategic Petroleum Reserves (SPR) holding has now dropped perilously to multi-decade lows, falling from about 600 mio bbl to just about 430 mio bbl.

In the meantime, the nuclear deal with Iran is delayed further, limiting the odds of the return of Iranian crude oil supply to international markets. Furthermore, now that OPEC production is back to pre-COVID levels, there are rising concerns that OPEC and specifically Saudi Arabia are near full capacity and are unable to pump more oil.

Overall, there is a risk that crude oil price may have fallen too much too soon. We revise our point forecasts to USD 90 / bbl for 4Q22 and 1Q23, followed by USD 100 / bbl for 2Q23 and 3Q23.

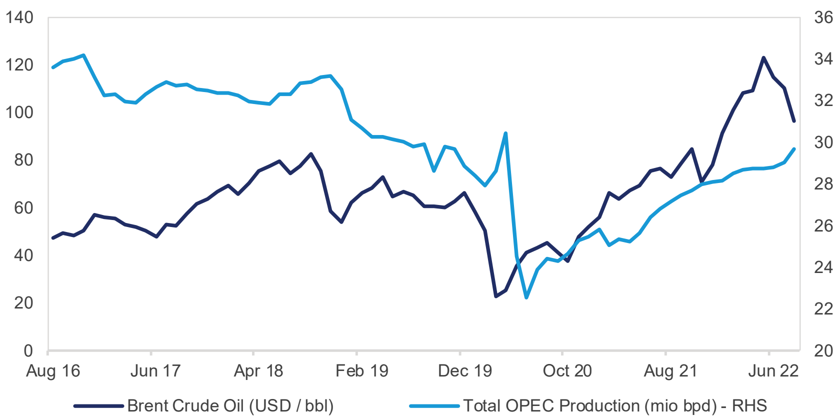
Rising US Recession Risk Weighs On Crude Oil

Source: Bloomberg, UOB Global Economics & Markets Research



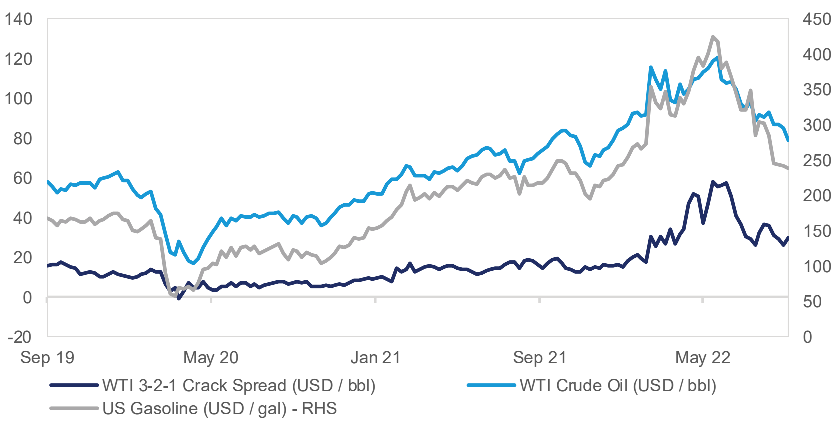
Return In OPEC Production To Pre-COVID Levels Weigh Down On Crude Oil

Source: Bloomberg, UOB Global Economics & Markets Research



Pullback In US Gasoline Price Weigh Down On Crude Oil

Source: Bloomberg, UOB Global Economics & Markets Research



LME COPPER

Low Global Inventory Cushion Near Term Downside Risk

UOB's Forecast	4Q22F	1Q23F	2Q23F	3Q23F
LME Copper (USD/mt)	7,000	7,000	7,000	7,000

In the late July issue of the Monthly FX & Rates Strategy, we had neutralized our LME Copper view and anticipated price consolidation around the USD 7,500 / MT level going forward. The view was that the sell-off in prices across the middle of the year was excessive and there will be near term support going forward due to low inventory levels.

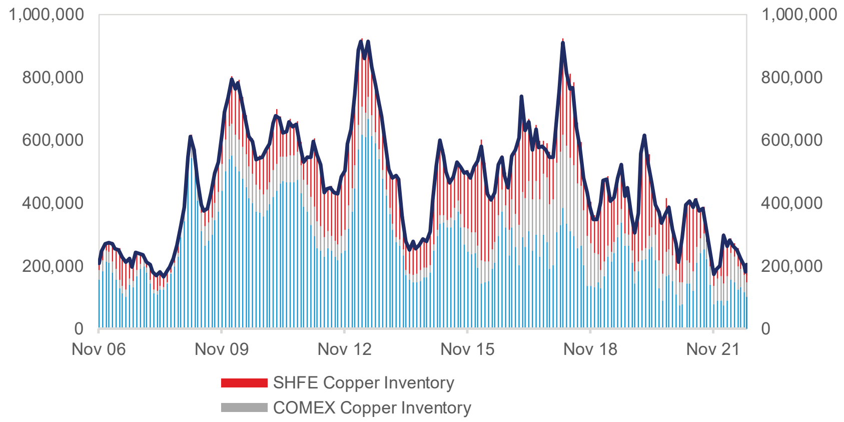
Indeed, over the past month, LME Copper prices had consolidated around the USD 7,500 / MT to USD 8,000 / MT level. Despite rosy predictions of a long-term jump in demand for copper due to the clear trend of transition to electric vehicles in the decade ahead, copper prices are in no hurry to rise on a sustained basis due to more immediate fears of global recession as well as further growth slowdown in China.

However, it is worth noting key positive drivers for downside price support as well. First, key copper production countries in Latin America, particularly in Chile, appear to have difficulty ramping up mining production. Second, as highlighted above, despite recession fears, global copper inventory held in key exchanges like LME, COMEX and SHFE remain at historically low level similar to the mid-2000s. Third, there is some risk of short squeeze in copper prices due to financing woes of key intermediaries. The cash vs 3M LME premium as well as China's onshore premium, have both risen.

Overall, we maintain our forecast that LME Copper price will continue its consolidation, in the coming four quarters, but at a lower level of USD 7,000 / MT. And warn of potential short-term volatility in prices amidst the temporary short squeeze.

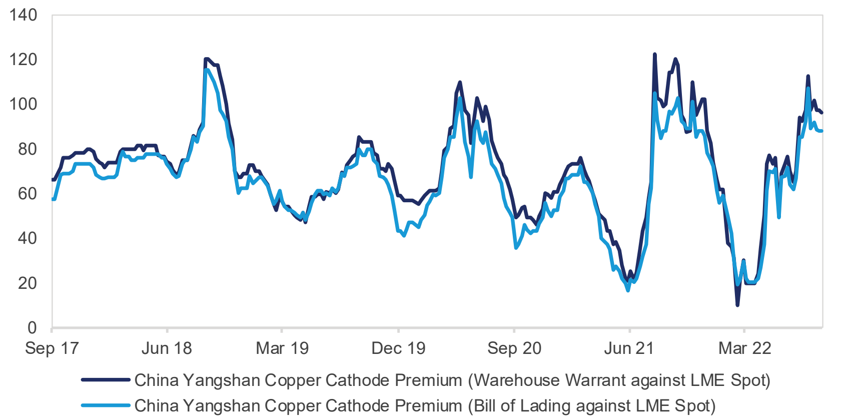
Global Total Exchange Inventory Back At 2007 Low

Source: Bloomberg, UOB Global Economics & Markets Research



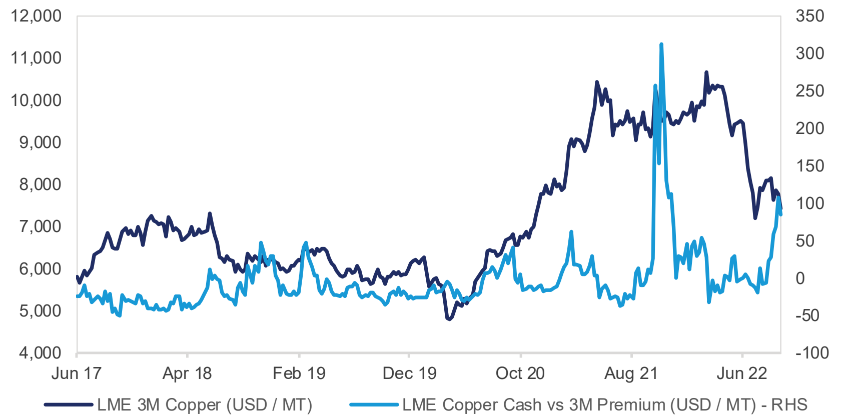
China Onshore Copper Premium Rises On Inventory Tightness

Source: Bloomberg, UOB Global Economics & Markets Research



Renewed Rise In LME Cash Premium May Portend Short Squeeze Ahead

Source: Bloomberg, UOB Global Economics & Markets Research



CHINA

FX & Rates	4Q22F	1Q23F	2Q23F	3Q23F
USD/CNY	7.20	7.23	7.25	7.25
CNY 1Y Loan Prime Rate	3.55	3.55	3.55	3.70

Economic Indicators	2020	2021	2022F	2023F
GDP	2.2	8.1	3.3	4.8
CPI (average, y/y %)	2.5	0.9	2.2	2.8
Unemployment Rate (%)	5.2	5.1	5.2	5.2
Current Account (% of GDP)	1.7	1.8	1.5	1.3
Fiscal Balance (% of GDP)	-8.6	-5.2	-8.0	-5.5

ECONOMY

Slow Recovery Ahead

Improvements were seen across China's data including industrial production (IP), retail sales, fixed asset investment (FAI) and surveyed jobless rate in Aug after an unexpected slump in Jul. This was despite resurgence in COVID lockdowns and a power crunch in Southern China.

While the data provided some relief, the recovery in production, consumption and investment remains vulnerable in the coming months as China continues to face challenges from its dynamic zero-COVID policy, prolonged property market weakness and a slowdown in external demand amidst recession risks in the US and European economies by next year. All these are happening against the backdrop of rising geopolitical tensions.

Near-term outlook for consumption recovery has remained weak as the government has discouraged traveling and tightened requirements for COVID testing till end-Oct to keep COVID-19 in check, in view of the 20th Party Congress that will kick off on 16 Oct. Latest data showed tourism revenue declined 22.8% y/y over the Mid-Autumn Festival. Similarly, consumption demand is expected to be dampened during the traditionally busy period of the week-long National Day holidays (1-7 Oct).

The government's priority remains on stabilising the job market as its COVID policy created significant uncertainties for businesses and consumers. The surveyed jobless rate has continued to decline to 5.3% in Aug from as high as 6.1% in Apr, keeping in line with the official target of urban surveyed jobless rate below 5.5%. Concerns for the job market has centred on providing employment for new graduates. The youth unemployment rate has stayed high at 18.7% in Aug despite coming off a record 19.9% in Jul.

More needs to be done to stabilise the property market where developers' liquidity crunch has spilled over to hurt buyer sentiment. Residential property sales have tumbled 30.3% y/y in Jan-Aug and prices in the 2nd and 3rd tier cities continued to slide. Local governments across the country have eased buying curbs, provided home purchase subsidies and credit support as well as reduced down-payment requirements. The central government also announced special loans to help developers with the completion of stalled housing projects. Despite the measures, recovery will take time due to substantial inventory build-up and a weaker growth outlook.

Meanwhile, investments will be buoyed by stronger infrastructure spending to offset declines in real estate investment. The State Council in Aug unveiled a fresh round of 19 measures to support growth, with the bulk of the more than CNY1 tn in additional funding targeted at infrastructure spending.

We are maintaining our 2022 GDP growth forecast for China at 3.3% with 3Q22 at 3.4% y/y and 4Q22 at 4.5% y/y, a recovery from 2.5% y/y in 1H22. Growth is expected to be lifted to 4.8% in 2023 mainly due to a low comparison base and its domestic drivers while a weakening external outlook and fiscal constraints are the limiting factors. Having said that, this is below the around 6% growth trend prior to the pandemic.

There is no doubt the 20th Party Congress is the key political event in 4Q22. President Xi appears certain to secure his third term at the Congress as party leader for the next five years. Important things to watch include the replacement for Premier Li and selection of the new Politburo Standing Committee (PSC, currently 7 members) at the first plenum after the week-long Party Congress, as eyes will be on a potential successor to Xi from this reshuffle. Xi Jinping and Li Keqiang were promoted to the PSC at the 17th Party Congress before assuming their positions as President and Premier, respectively, at the 18th Party Congress so a similar succession planning could be in store. Policy announcements to boost the growth recovery would also be closely watched.

CENTRAL BANK

Further Policy Support Still Needed

Inflation is relatively mild in China so far as food and oil prices have moderated while services inflation stayed modest due to a weak domestic demand. We expect headline inflation to continue to print below 3% y/y in the next few months. Key risks are from international commodity prices and local food supply disruption. With CPI averaging just 1.9% y/y in Jan-Aug, we expect full-year inflation at 2.2%. Similarly for the producer price index (PPI), we have lowered our forecast to average 4%-5% in 2022 compared to our earlier estimate of 5%-6% (2021: +8.1%).

The People's Bank of China (PBoC) has cut its 1Y medium-term lending facility (MLF) rate twice this year, by 10bps each in Jan and Aug. We continue to see scope for a further 10bps cut to the 1Y MLF in 4Q22. Coupled with deposit rate cuts at the Chinese banks in Sep, this is likely to translate to lower loan prime rates (LPR). We forecast the 1Y LPR to fall to 3.55% by end-4Q22 (from current 3.65%). After 35bps cut YTD, the 5Y LPR is also poised for further decline (from current 4.30%) as PBoC extends support to the property market.

One upside risk is the expected easing of COVID measures after the 20th Party Congress and eventual lifting of border restrictions by 2023, which could result in a turning point for inflation, putting pressure on the PBoC to start reversing its monetary policy easing next year, likely in 2H23.

CURRENCY

USD/CNY Sustains Above 7.00

It is not a familiar scene to see CNY ranked as one of the worst performing currencies in Asia given that it has outperformed most regional peers for most part of the pandemic. The rising economic toll of China's zero-Covid strategy is evident on the CNY as it weakened past the psychological 7.0 level against the USD in mid-Sep. While the improvement in retail sales, industrial production and fixed asset investments in Aug provided some relief, economic challenges remain, and authorities have warned that foundations for economic recovery are not solid yet. Another pressure point for the CNY is the widening monetary policy divergence between the PBoC and Fed. A wide US-China yield differential continues to spur portfolio outflow from China, keeping CNY on the defensive. The PBoC may continue to slow the depreciation of the CNY via measures such as stronger-than-expected CNY fixings or cutting the reserve requirement ratio for foreign currency deposits.

Overall, we maintain an upward trajectory for USD/CNY but tweak it slightly to 7.20 in 4Q22, 7.23 in 1Q23, 7.25 in both 2Q23 and 3Q23. They were previously at 7.05, 7.08, 7.10 and 7.12 respectively.

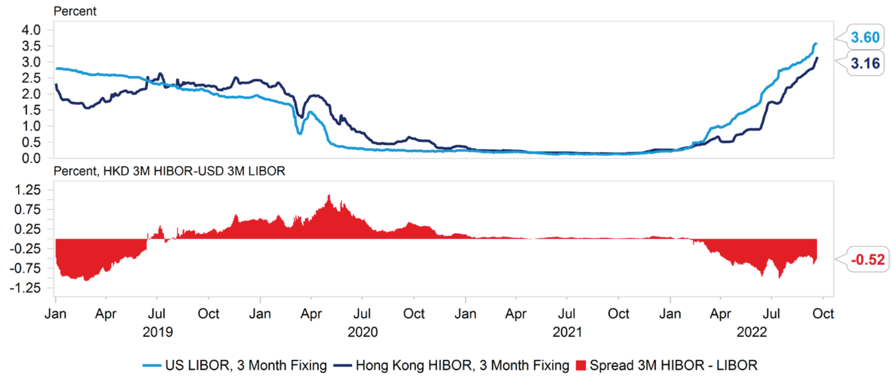
HONG KONG

FX & Rates	4Q22F	1Q23F	2Q23F	3Q23F
USD/HKD	7.85	7.85	7.85	7.85
HKD Base Rate	4.75	5.00	5.00	5.00

Economic Indicators	2020	2021	2022F	2023F
GDP	-6.5	6.3	-0.7	3.5
CPI (average, y/y %)	0.3	1.6	1.9	2.9
Unemployment Rate (%)	6.6	4.0	3.9	3.6
Current Account (% of GDP)	7.0	11.3	8.0	8.5
Fiscal Balance (% of GDP)	-8.7	1.0	-5.5	-1.0

Hibor-Libor Spread Narrows As HKMA Drains Liquidity

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY
Continues To Struggle

Hong Kong's GDP declined further in 2Q to bring the economy to a contraction of 2.6% y/y in 1H22. The poor economic performance in 2Q was the result of a larger contraction in exports, stalled recovery in private consumption while fixed investments continued to contract due to the uncertain outlook.

Exports took a hit from weaker external demand and disruptions to cross-boundary land cargo flows between the Mainland and Hong Kong. Meanwhile, domestic COVID outbreak had peaked in Mar but started to pick up again since early Jun. The stringent border control and quarantine measures as well as tightened financial conditions had been a significant drag on private consumption in 2Q. These factors also drove a correction in property prices with residential prices down 4.5% ytd as of Jul.

The labour market has improved since the peak of the pandemic earlier this year but is still far from its pre-COVID level. The seasonally adjusted unemployment rate dropped to 4.1% for the three months ending Aug from as high as 5.4% in Apr. For the retail, accommodation and food services sectors which are most affected by the COVID curbs, the unemployment rate had also eased to 6.2% in Jun-Aug from 10.0% in Apr. Despite the recovery since Jun, total employment is still down 96.3k ytd as of Aug and around 240k lower than the pre-pandemic level.

As a result of the uncertainties, net outflows of residents continued through 1H22. Hong Kong's population fell 109.9k to 7.29 mn from 7.40 mn end-2021. The population is now down 3% from its pre-pandemic peak of 7.52 mn.

Private consumption may receive a temporary boost from Phase II of the consumption vouchers disbursement in Aug but overall demand will be dampened by rising interest rates and uncertainties in the Mainland.

One positive development is the long-awaited scrapping of the city's mandatory hotel quarantine and replaced by a self-monitoring system from 26 Sep. This comes ahead of mega events in 4Q such as the HKMA's financial summit and the Hong Kong Sevens rugby tournament in Nov. Chief Executive John Lee's first policy address on 19 Oct is expected to outline more measures to bring the economy back to normalcy. The easing of its COVID restrictions is expected to help revitalise Hong Kong's economy and support a stronger recovery from 4Q onwards. More significant moves such as borders reopening with the Mainland and complete lifting of the COVID curbs will be able to provide a significant boost to its outlook.

We expect Hong Kong's GDP to contract by 0.7% in 2022 as we factor in the performance in 1H22, weaker than the official outlook of -0.5% to +0.5%. Our forecast assumes that the quarterly GDP will return to modest growth of 0.7% y/y and 1.8% y/y in 3Q and 4Q respectively. In 2023, the low comparison base, gradual recovery in domestic demand as tourism returns and expected stabilisation of the Mainland's economy will counter increased pessimism for global demand, bringing Hong Kong's GDP to a growth of around 3.5% next year.

The composite CPI and underlying CPI (after netting out the effects of all government's one-off relief measures) averaged 1.6% and 1.7% respectively in Jan-Aug. Higher inflation was mainly observed in energy-related items, clothing & footwear and food. Weak domestic cost pressures from falls in rentals and modest rise in nominal wages provided an offset to higher imported inflation. The relative HKD stability due to its peg to the dollar as well as a subdued domestic demand will continue to keep price gains in check while the reopening of its borders is the key upside risk. We have updated our headline CPI forecast to 1.9% for this year and 2.9% for 2023.

CENTRAL BANK
Hibor-Libor Gap Narrows As HKMA Drains Liquidity

The HKMA has been draining liquidity to support the HKD. Interbank liquidity measured by the aggregate balance fell to the lowest in more than two years, recording HK$125bn in mid-Sep, compared to its all-time high of HK$450bn a year ago. As a result, Hibor has narrowed the gap with the surging Libor. Looking ahead, Hibor is expected to rise further as US Fed continues to hike interest rates. Further tightening in the domestic liquidity could also be seen coming from increased HKD demand from Chinese corporates as RMB weakens.

CURRENCY
HKD To Stay At 7.85 /USD

Baring a short-lived dip below 7.83 in mid Aug, USD/HKD was largely tethered at 7.85 for most part of 3Q22, underpinned by aggressive Fed rate hikes in the quarter and broad USD strength. The negative USD/HKD forward points – a result of HK rates lagging US rates in an upward move – also incentivise investors to pile on USD carry trades funded with HKD, a trend that is unlikely to change in the near term. Overall, as long as the Fed continues to hike rates or keep rates at elevated levels, we expect USD/HKD to stay at 7.85 through 3Q23.

INDIA

FX & Rates	4Q22F	1Q23F	2Q23F	3Q23F
USD/INR	82.0	82.5	83.0	83.5
INR Repo Rate	5.90	5.90	5.90	5.90

Economic Indicators	2020	2021	2022F	2023F
GDP	-6.6	8.7	7.0	7.1
CPI (average, y/y %)	6.2	5.5	6.8	6.0
Current Account (% of GDP)	1.3	-1.1	-3.0	-2.5
Fiscal Balance (% of GDP)	-9.3	-6.7	-6.0	-5.5

ECONOMY

Growth To Moderate After A Surge In Apr-Jun Quarter

India's real GDP in the Apr-Jun quarter (1QFY22-23) surged 13.5% y/y from 4.1% in the Jan-Mar quarter (4QFY21-22), in line with our expectation of 14% but well below Bloomberg survey for a 15.3% gain as well as Reserve Bank of India's (RBI) forecast of 16.2%. This double-digit growth rate of 13.5% places India as the best performer among Asian countries in the Apr-Jun period, well ahead of China's 0.4%, and surpassing Malaysia's 8.9% and Vietnam's 7.7%.

The jump in headline growth in Apr-Jun quarter was driven primarily by the low base a year ago when the COVID-19 Delta wave began to ease. Despite the sharp rise of 20.1% y/y in the same quarter in 2021, the absolute amount of output only reached INR32.5 tn (the lowest in 4 quarters), compared to INR36.9 tn for the latest quarter. The other key drivers in this Apr-Jun quarter were the easing of mobility restrictions as the Omicron wave subsided, with improved sentiment and confidence propelling both private consumption expenditure (PCE), which accounted for 60% of GDP, and investment spending.

Despite the upbeat performance in the Apr-Jun quarter, the growth pace is expected to moderate as the base effect wanes, and activities normalise while the RBI (Reserve Bank of India) continues its policy tightening in addition to the US Fed's rate hikes and geopolitical developments that would dampen global demand and disrupt supply chains.

As such, we expect the pace of activities to moderate to 6.3% y/y in the Jul-Sep quarter (2QFY22-23), 4.5% in Oct-Dec, and 4.8% in Jan-Mar 2023. This will translate to growth rate of 7.0% in FY22-23 (from 8.7% in FY21-22). On a calendar year basis, these will translate to 6.8% in 2022 (from 8.3% in 2021). For FY23-24 we anticipate India's expansion to keep pace at 7.5% (calendar year basis: 6.7%).

In its Aug policy statement, RBI pegged India's GDP growth forecast for FY2022-23 at 7.2% (after having downgraded it from 7.8% in Apr), with projections of 6.2% in 2QFY22-23, 4.1% in 3Q, and 4.0% in 4Q. The Jul-Sep quarter (2QFY22-23) GDP report will be released on 30 Nov.

However, with recession a likely scenario in the US and Europe next year, we are downgrading India's FY23 growth forecast to 7.1% from earlier projection of 7.5%.

On inflation, the latest CPI report provided little comfort with 7% y/y gain in Aug, from 6.7% in Jul, as the headline inflation rate rose 7% or higher in 5 out of the last 6 months since Mar 2022 and staying well above RBI's upper tolerance band of 6%. The food and beverages (F&B) component has been the main inflation driver in India, responsible for about half of the headline inflation rate since Mar after global commodities surged in response to the Russia-Ukraine conflict erupted in Feb 2022.

Upward pressures on consumer prices are expected to remain, although the recent pullback in crude oil prices may provide some relief. With RBI assuming crude oil price at an average of USD105/ bbl (Indian basket) and a normal monsoon in 2022, the latest inflation rate projection has been raised to 6.7% in FY2022-23 (from previous forecast of 5.7%) with risks "evenly balanced" and the following projections: 7.5% y/y in 1QFY22-23; 7.4% in 2Q; 6.2% in 3Q; and 5.8% in 4Q. On our part, we expect inflation rate to rise to 6.8% in FY2022-23, from 5.5% in the prior fiscal year.

CENTRAL BANK

Rate Hikes To Continue Through End-2022

With mounting inflationary pressures that exceeded the upper boundary of central bank target, the RBI lifted its benchmark repo rate by a further 50bps to 5.40% at its 2-4 Aug Monetary Policy Committee (MPC) meeting, more aggressive than market expectation of a 25bps move. The decision followed the 50bps hike at Jun policy meeting and the surprise, unscheduled 40bps hike on 4 May, right before the US Federal Reserve raised its policy rate for the second time this year.

After raising 140bps so far in 2022, we think there is room for the RBI to tighten further with a slower pace, by adding on the final 50bps rate hikes in the two remaining MPC meetings this year to bring the repo rate to 5.90% by end -2022. This would be the highest level since May 2019 when the repo rate stood at 6.00%. RBI had previously noted that anything below 5.15% (the pre-pandemic level) is considered an ultra-accommodative monetary policy. The next MPC meeting is scheduled for 28-30 Sep and the last meeting for the calendar year 2022 will take place on 5-7 Dec.

CURRENCY

INR Likely To Weaken Further

The INR fell against the USD for a fourth straight quarter in 3Q22 and losses extended beyond the key 80 /USD level after a hawkish Sep FOMC which spurred further USD strength. Authorities have started to lean against the INR weakness as RBI Governor Das said in early Sep that the central bank is in the currency market almost every day with the twin objective of curbing volatility and anchoring expectations for INR depreciation. Falling oil prices across the quarter and talks about potential inclusion of Indian bonds in global debt indices helped anchor INR's resilience relative to its Asian peers.

Going forth, we still think the path of least resistance is for further INR weakness against the USD. Worries about a global recession and China slowdown have intensified and continue to be a strong headwind for INR. A weakening CNY is likely to spill over into the INR too. Overall, we keep to our upward trajectory in USD/ INR and update our point forecasts to 82.0 in 4Q22, 82.5 in 1Q23, 83.0 in 2Q23 and 83.5 in 3Q23.

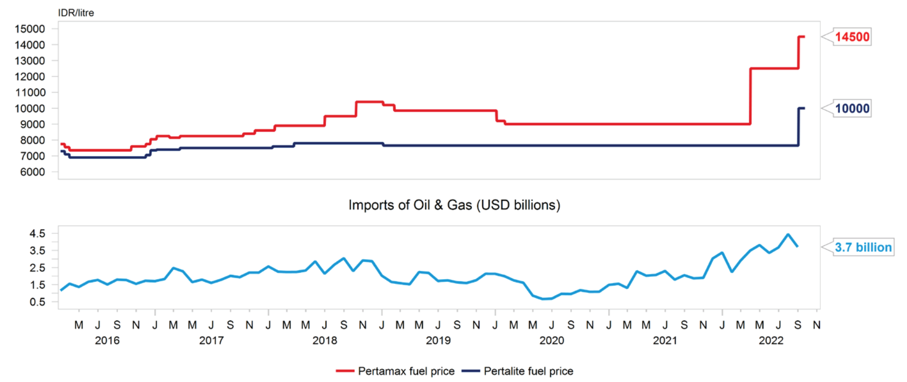
INDONESIA

FX & Rates	4Q22F	1Q23F	2Q23F	3Q23F
USD/IDR	15,200	15,300	15,400	15,400
IDR 7D Reverse Repo	5.00	5.25	5.50	5.50

Economic Indicators	2020	2021	2022F	2023F
GDP	-2.1	3.7	4.8	5.0
CPI (average, y/y %)	2.0	1.6	4.9	4.1
Unemployment Rate (%)	7.1	6.3	6.0	5.8
Current Account (% of GDP)	-0.5	0.3	-0.2	-1.0
Fiscal Balance (% of GDP)	-6.1	-4.6	-3.6	-3.0

Higher Inflation Ahead Following Removal of Fuel Subsidies

Source: Statistics Indonesia, UOB Global Economics & Markets Research



ECONOMY

Risks Of Inflation Biting On Growth Recovery Ahead

Indonesian economy grew faster at 5.4% y/y in 2Q22 as compared to 5.0% in the preceding quarter, the fastest increase in a year amidst further loosening of COVID-19 curbs and rising exports boosted by higher commodity prices. On a sequential basis, Indonesia's economy advanced by 3.7% q/q in 2Q22, beating market consensus of 3.4%, marking the strongest quarterly rebound since 3Q20. Household consumption and investment spending continued to grow, with household consumption in particular registering accelerated growth of 5.5% y/y in 2Q22 vs 4.3% in 1Q22. On the other hand, government expenditure sustained its contractionary momentum seen since 1Q22, continuing to shrink in line with fiscal consolidation policies, albeit at a slower rate. Both exports and imports continued their double-digit growth, with exports rising at an increased rate compared to 1Q22. Bank Indonesia (BI) forecasts a 5.5% y/y GDP growth in 3Q22, which will render an above 5% growth this year with Indonesia's economic growth in 2022 is expected to be within the range of 4.5%-5.3%. Our forecast currently sits on the low-end of BI's forecast range, but we shall review this forecast when 3Q22 GDP figures are due in early Nov. On the external front, Indonesia's current account posted a wider surplus amounting to USD 3.9bn (1.1% of GDP) in 2Q22, up significantly from a surplus of USD 0.4bn (0.1% of GDP) in 1Q22. Indonesia also posted a balance of payment (BOP) surplus of USD 2.4bn in 2Q22, supported by a significantly larger current account surplus and a narrower capital and financial account deficit. However, for 2022, we forecast that the current account will return to a deficit of 0.2% of GDP as import demand is likely to hasten, while exports revenue is expected to moderate in 4Q22.

Despite the economy reopening more sustainably and durably, higher inflationary pressures ahead, notably with the pervasive effects from the recent fuel price hikes of around 30% for Pertalite and diesel (see graph above), may start biting the pace of growth recovery. This is likely so as consumer demand will shift to essential items such as food, clothing, and education while deferring the non-essential consumption. We therefore revise our average inflation forecast higher to 4.9% (previous forecast was at 4%) in 2022 with inflation rates likely jumping to circa the 8% y/y level from this month and over the next 6 months or so. For 2023, we also revise our average inflation forecast to 4.1%. Upside inflation risks, coupled with a consistent decline in retail sales, may raise concerns regarding the future growth trajectory as higher inflation may start to bite on GDP growth momentum. Still, we remain optimistic that policy coordination in the fiscal, monetary, and financial spaces will continue to be in synergy to ensure that the growth momentum and trajectory will not decline significantly from the current pace. With headwinds remaining in place on the back of elevated global uncertainty, especially rising inflationary pressures, and expected interest rate hikes by the central bank that may dampen the speed of growth trajectory in the near future, we maintain our GDP growth forecasts of 4.8% for 2022 and 5.0% for 2023.

CENTRAL BANK

BI Will Hike To 5.00% Until End 2022

BI raised its benchmark rate (7-Day Reverse Repo) by 50bps to 4.25% at its Sep MPC and such rate hike quantum is the biggest since 2018 amidst mounting inflation risks, emanating from the recent fuel price adjustments and also higher imported prices as dollar keeps on appreciating. BI said that the decision is a front-loaded, preemptive, and forward-looking step to anticipate and mitigate the risk of rising inflation and inflation expectations in light of the recent increase in non-subsidized fuel prices and volatile food inflation, as well as to strengthen the rupiah exchange rate stabilization policy amidst high global uncertainty and increasingly strong domestic economic growth. BI stated specifically that "there is a four quarter time lags" from monetary policy in impacting the real economy. Additionally, the front-loaded 50bps hike, which was in line with our expectation, is also delivered to address the second-round impact of inflation and as pre-emptive steps to anchor rupiah stability, while complementing the triple-intervention strategy. We now brought forward our BI rate forecast to continue hiking in months to come with three more 25bps hikes in 4Q22, taking its benchmark rate now to 5.00% by the end of 2022 (previous forecast: 4.50%).

CURRENCY

USD/IDR To Sustain Above 15,000

Despite strong external headwinds, the IDR was resilient in 3Q22 and was only marginally lower on the quarter to 15,000 / USD. That said, as weakness in the CNY persists and risks that rising inflation may sap the domestic growth recovery, in our view it is inevitable that USD/IDR would eventually sustain above the psychological 15,000 level. Our updated USD/IDR forecasts are 15,200 in 4Q22, 15,300 in 1Q23, 15,400 in both 2Q23 and 3Q23.

JAPAN

FX & Rates	4Q22F	1Q23F	2Q23F	3Q23F
USD/JPY	145	145	142	139
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10

Economic Indicators	2020	2021	2022F	2023F
GDP	-4.6	1.7	1.5	1.0
CPI (average, y/y %)	0.0	-0.2	3.5	2.0
Unemployment Rate (%)	3.0	2.8	2.4	2.6
Current Account (% of GDP)	3.3	2.9	1.5	1.3
Fiscal Balance (% of GDP)	-17.3	-12.2	-8.0	-6.0

ECONOMY

Challenging Recovery

Japan's 2nd preliminary estimate of 2Q 2022 GDP growth was revised higher to 0.9% q/q, 3.5% q/q SAAR (versus first est of 0.5% q/q, 2.2% q/q SAAR) while the expansion in 1Q was further revised to 0.2% (from 0.1%). Upward revisions of 1H growth affirmatively lifted the real GDP to JPY544.0 trillion in 2Q, above the pre-pandemic level of JPY 540.9tn in 4Q 2019, although output is still off the high of JPY557.6tn in 3Q 2019. When compared to one year ago, GDP growth picked up pace to 1.6% y/y in 2Q (versus prelim estimate of 1.1%), from 0.6% y/y in 1Q 22, the fifth straight quarter of y/y expansion following 6 quarters of declines from 4Q 2019 to 1Q 2021.

2Q's growth was due to a 1.2% q/q increase in private consumption (contributing 0.6ppt to the 0.9% q/q increase), a 2.0% q/q (0.3ppt) rise in business spending growth, a 0.7% q/q (0.2ppt) rise in government consumption while public investment was also revised higher to 1.0% q/q (but it did not materially affect GDP growth) and a small 0.1ppt contribution by net external demand/net exports of goods and services after import growth was slightly revised lower to 0.6% q/q with exports growth unchanged at 0.9% in 2Q. The negatives to GDP included a -0.3ppt drag from private inventories while residential investments fell by 1.9% (-0.1 ppt) in 2Q from -1.4% in 1Q.

We had expected the economy to rebound although the extent of stronger inflation impacting demand was uncertain. Adding to inflation woes is the weaker yen which is a double-edged sword for Japan as it makes Japan's exports more attractive, but it worsens the import bill along with the surging commodity prices. In the first 8 months of 2022, Japan recorded a trade deficit of JPY12.2 trillion (well above the JPY1.7 trillion deficit in whole of 2021). And it all boiled down to surging fuel and raw materials costs which drove up imports by more than 40% y/y, outstripping the 16.5% increase in export for the same period, leading to a ballooning trade deficit. We are further revising Japan's trade deficit of JPY15.0tn in 2022 (up from JPY10.5tn). Meanwhile, a weaker outlook for Japan's key trading partners (especially Eurozone) will also imply weaker demand for Japan's exports, adding further downside risks to growth even though industrial production data has been encouraging on a m/m basis in Jun and Jul. One positive for Japan (which has been slow to re-open borders to tourism, compared to its G7 peers and many of the Asian economies) is that it may be turning a corner in this aspect, as it is finally lifting the tourist arrival cap and scrap tourist visa requirements in Oct, amidst easing domestic COVID-19 daily infections and rollout of new vaccines targeting Omicron variants.

Despite the slightly more positive growth outcome in 1H 2022, there will be greater caution on the external outlook which has deteriorated materially compared to a few months ago and the external risks include: the on-going Russia-Ukraine conflict, aggressive monetary policy tightening in advanced economies, deepening geopolitical risks, further disruptions to global supply chains, power shortages in winter and COVID-19 risk of potential new variants. **We expect Japan to continue its growth trajectory but are mindful of the external risks. We keep our full-year 2022 GDP growth forecast at 1.5% (1.7% in 2021), and remain soft at 1.0% for 2023, due to the external uncertainties.**

Japan's headline CPI inflation rose to 3% y/y in Aug (from 2.6% in Jul), the highest since Sep 2014. Excluding fresh food, the core inflation also beat expectations as it was up by 2.8% (from 2.4% in Jul). That said, if we further exclude energy items, the core-core inflation rose by 1.6% (from 1.4% in Jul). While both CPI headline and core inflation are now above the Bank of Japan's (BOJ) 2% inflation target, the drivers are mainly the commodity price surge, worsening trade factors and dissipating 2021 drag from plunging mobile charge fees, which is seen as temporary and not for the desired reason as wage driven inflation remains largely absent. The subdued inflation (compared to US and Europe) is also a function of the modest activity but that may change as the economy reopens more broadly which will most likely add to inflationary pressures. We keep our headline CPI inflation forecast to average 3.5% while core CPI will likely average 2.8% in 2022.

CENTRAL BANK

The Man That Can't Be Moved

In its 22 Sep MPM, the BOJ again kept policy rates unchanged, a stark divergence with its G7 peers. The view of no change to its ultra-loose monetary policy was further cemented during the post-MPM press conference when Gov Kuroda said that the BOJ need not change forward guidance for the time being, in fact for the next 2 to 3 years (i.e. till 2025!) That said, Kuroda's term in BOJ will end well before 2025, on 8 Apr 2023. In the meantime, we should continue to expect the BOJ to keep its current easy monetary policy intact and maintain its massive stimulus for the rest of 2022 and 1Q 2023, at least until "the man who can't be moved" exits the BOJ.

CURRENCY

Volatility To Persist

Volatility in USD/JPY stayed high across 3Q22. A decisively hawkish Sep FOMC pushed USD/JPY to 145.90, the highest level since 1998 before the Ministry of Finance intervened after the Sep FOMC to shore up the JPY and brought USD/JPY back towards 140. While the intervention is likely to slow JPY depreciation from here, a longer-lasting reversal of the JPY which has slumped close to 20% (vs USD) this year has to be fuelled either by lower US rates or a change in BOJ's ultra-loose monetary policies. The latter is likely close to impossible with BOJ Gov Kuroda (22 Sep) saying that there is no need to change policy guidance for the next 2 to 3 years. 4Q22 is likely to be a volatile one for USD/JPY as UST yields are still biased higher which lend upside to USD/JPY while heightened risk of further intervention may limit its upside. We see the 145 level in USD/JPY as a strong resistance which may eventually develop into a long-term peak as US yields start its decline next year. Overall, our updated USD/JPY forecasts are 145 in 4Q22 and 1Q23, 142 in 2Q23 and 139 in 3Q23.

MALAYSIA

FX & Rates	4Q22F	1Q23F	2Q23F	3Q23F
USD/MYR	4.63	4.67	4.69	4.69
MYR O/N Policy Rate	2.50	2.75	3.00	3.00

Economic Indicators	2020	2021	2022F	2023F
GDP	-5.6	3.1	6.5	4.8
CPI (average, y/y %)	-1.2	2.5	3.5	2.8
Unemployment Rate (%)	4.8	4.2	3.5	3.2
Current Account (% of GDP)	4.2	3.8	2.0	2.5
Fiscal Balance (% of GDP)	-6.2	-6.4	-5.0	-4.5

MYR Continues To Track CNY Weakness

Source: Macrobond, UOB Global Economics & Markets Research

ECONOMY

More Cautious On 2023

Real GDP growth accelerated further to 8.9% y/y in 2Q22 from 5.0% y/y in the previous quarter, taking the 1H22 growth to 6.9% (2H21: -0.4%, 1H21: +7.0%). The improvement in 2Q22 GDP was driven by normalising economic activity as the country moved towards endemicity and reopened international borders, as well as supported by government policy support. Domestic demand was the main contributor to overall GDP with further lift from private consumption (18.3%), private investments (6.3%), and government spending (2.8%). Growth was also propelled by positive expansion in services (12.0%), manufacturing (9.2%), and construction (2.4%) sectors.

We believe that this growth momentum will extend into 2H22 despite multiple external headwinds. Apart from the low base effects and the country's ongoing transition into endemicity, other notable developments that brighten Malaysia's growth prospects include: 1) record FDI flows and investment approvals, 2) sharply higher electrical & electronics production base, and 3) high commodity prices despite easing in recent months. Meanwhile the government has also maintained subsidies for fuel and key food items that helps to alleviate the effects of higher inflation.

Given the strong GDP print of 6.9% in 1H22, we have upgraded our full-year GDP estimate to 6.5% for 2022 (from 5.5% previously, BNM est: 5.3%-6.3%) which implies 6.0% growth for 2H22.

The outlook for 2023 is expected to be more challenging amid uncertainties surrounding the global economy. Malaysia continues to have adequate domestic drivers to sustain the growth momentum, albeit prolonged and elevated external headwinds could affect local consumer and business sentiment that in turn could lead to more moderate demand and investments ahead. While waiting for the announcement of Malaysia's Budget 2023 details on 7 Oct, we maintain our 2023 real GDP growth projection of 4.8% for now. This has not taken into account recession prospects for several advanced economies. Potential reopening of China and normalising domestic growth in the region can provide some buffer.

CENTRAL BANK

BNM Not On "Pre-Set" Course

Bank Negara Malaysia (BNM) on 8 Sep raised the Overnight Policy Rate (OPR) by 25bps to 2.50%, marking the third back-to-back rate hike since May this year as the economy recovered at a stronger pace and inflationary pressures jumped higher. This implies a cumulative rate hike of 75bps to date, partly reversing the 125bps of rate cuts since the start of the pandemic in Jan 2020.

In the latest monetary policy statement (MPS), BNM remained positive on the domestic economy but cautioned that external demand would moderate amid softer global growth. Regarding price pressures, BNM expects inflation to peak in 3Q22 before moderating thereafter amid abating base effects and easing global commodity prices. We concur with the central bank's view and continue to see domestic policy measures and global commodity price developments being wildcards for the inflation outlook ahead. Our full-year inflation forecasts are 3.5% for 2022 (BNM est: 2.2%-3.2%, 2021: 2.5%) and 2.8% for 2023. This does not factor in the impact of potential new targeted fuel subsidy mechanism that is currently under pilot testing.

Given the uncertainties surrounding the growth and inflation dynamics, we think BNM may have signalled a temporary pause for rate hikes. Our view comes after (i) the central bank added a new line in Sep's MPS that "*the Monetary Policy Committee (MPC) is not on any pre-set course*"; and (ii) BNM reiterated that the MPC "*will continue to assess evolving conditions and their implications on the overall outlook to domestic inflation and growth. Any adjustments to the monetary policy settings going forward would be done in a measured and gradual manner, ensuring that monetary policy remains accommodative to support a sustainable economic growth in an environment of price stability*."

While cognizant of the full transmission effects of recent rate hikes on the domestic economy, BNM may also wait for the 2023 budget announcement and further details on the implementation of new targeted fuel subsidies scheme that is now seen as the biggest uncertainty for inflation. As such, we maintain our OPR target at 2.50% by year-end, and 3.00% by mid-2023.

CURRENCY

MYR Stays Weak Against USD

The MYR has broken the 24-year low level of 4.50 in Sep due to the US Fed's continued hawkishness and persistent CNY weakness amid looming snap election risks in the country. As long as the Fed stays the course for outsized rate hikes (50bps or 75bps) in the coming months and China's worries persist, we think that most Asian currencies, including the MYR, will be on the defensive against the USD.

We updated our USD/MYR forecasts at 4.63 in 4Q22, 4.67 in 1Q23, and 4.69 in both 2Q23 and 3Q23.

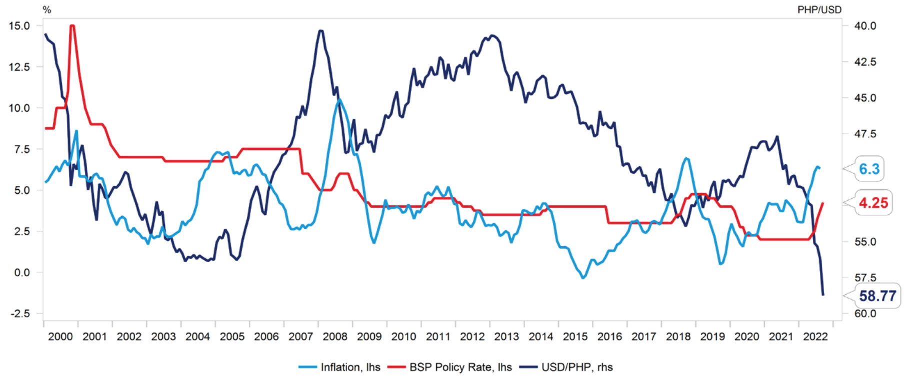
PHILIPPINES

FX & Rates	4Q22F	1Q23F	2Q23F	3Q23F
USD/PHP	59.2	59.4	59.6	59.8
PHP O/N Reverse Repo	5.00	5.00	5.00	5.00

Economic Indicators	2020	2021	2022F	2023F
GDP	-9.5	5.7	7.0	5.0
CPI (average, y/y %)	2.4	3.9	5.5	4.5
Unemployment Rate (%)	10.4	8.0	5.6	5.2
Current Account (% of GDP)	3.2	-1.8	-5.2	-4.5
Fiscal Balance (% of GDP)	-7.6	-8.6	-7.6	-6.1

Possibility Of Even More Active Intervention In FX Market

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Cautious Outlook Into 2023

The Philippines' economy held up its strong growth momentum with 2Q22 GDP expanding 7.4% y/y (1Q22: +8.2% y/y). It was largely credited to the easing of COVID-19 restrictions on mobility, election-related spending, and continued government policy support during the quarter. All but mining & quarrying sector continued to pencil in expansion while higher domestic demand fully cushioned the drag from external sector last quarter.

However, on a seasonally adjusted quarterly basis, the real GDP contracted for the first time in two years by 0.1% q/q (1Q22: +1.5% q/q), resulting in a smaller absolute seasonally adjusted GDP value of PHP4.877tn (1Q22: PHP4.882tn). This indicates that the economic output has not returned to the pre-pandemic levels as yet (4Q19: PHP4.893tn and 3Q19: PHP4.899tn).

In 1H22, the economy grew 7.8% (vs +7.4% in 2H21) after a robust gain of 8.2% y/y in 1Q22 and 7.4% y/y in 2Q22. To reflect this encouraging performance in 1H22, we have raised our 2022 full-year GDP growth forecast to 7.0% (from 6.5% previously, official est: 6.5%-7.5%).

Our revised full-year projection has also factored in a slower growth momentum for 2H22, which we expect to be capped at around 6.4% as headwinds to growth have intensified. Higher interest rates to contain elevated inflation and the emergence of second-round effects in the country will begin to weigh on growth in household consumption and business expansion from 3Q22 onwards. The darkening global economic outlook, which is triggered by intensifying geopolitical tensions, elevated inflation, growing recession risks, tighter global financial conditions, potential debt distress in emerging markets, renewed COVID-19 outbreaks and lockdowns as well as a further escalation of the property sector crisis in China, will eventually hamper the Philippine economy particularly via trade, investment and overseas remittances.

It is going to be an even tougher 2023 with our in-house projection of a shallow global recession next year and the likelihood of still-high consumer price inflation. Hence, we lower Philippines' growth outlook to 5.0% for 2023 (from an earlier projection of 6.5%, official est: 6.5%-8.0%).

CENTRAL BANK

Above Pre-Pandemic Interest Rates

The Bangko Sentral ng Pilipinas (BSP) decided to escalate its inflation fight with a second back-to-back 50bps rate hike on 22 Sep, taking the overnight reverse repurchase (RRP) rate to 4.25%. This came after a more aggressive shift in US Fed's hawkishness at the Sep FOMC meeting, steeper depreciation in Peso (PHP) to an all-time low, and expected broadening of second-round effects on inflation from an approved fare hike for public transports that will take effect on 3 Oct.

The cumulative 225bps interest rate increases so far this year, which fully unwound the 200bps cuts in 2020 with a tighter rate than pre-pandemic by 25bps, indicates that BSP is willing to tolerate a pullback in domestic growth as the necessary trade-off for bringing inflation back to target range. We project the national headline inflation to decelerate and return to its target range from 2H23 onwards, bringing the full-year inflation down to 4.5% in 2023 (BSP est: 4.1%) and 3.5% in 2024 (BSP est: 3.0%), from an estimated 5.5% in 2022 (BSP est: 5.6%, 2021: 3.9%). That being said, global commodity prices, the currency movement, the continued shortage of domestic fish supply and further transport fare hikes are wildcards for the inflation outlook ahead.

Given that BSP's primary goal is to achieve a target-consistent inflation path amid an even faster pace of Fed tightening, we believe that BSP will roll up its sleeves to hike again over the next few months. Hence, we raise our year-end RRP rate target to 5.00% (from 4.00% previously), which imputes another 50bps hike in Nov and a 25bps increase in Dec. Thereafter, we stick to our view that BSP will press the rate pause button at 5.00% through 2023 unless the global and domestic landscape warrants a change.

CURRENCY

USD/PHP To Trade Fresh Record Highs

The depreciation trend in PHP is likely to persist in 4Q22 and into 2023 as the US Dollar Index (DXY) made new cycle highs in Sep and drivers underpinning this outsized DXY rally (i.e. Fed rate hikes, elevated FX volatility, and safe-haven demand) are still intact. Moreover, the intensifying weakness in the CNY will have negative spillover effect to Asia FX including PHP.

There is also a lack of positive catalysts locally to reinforce the PHP outlook, with the nation's current account deficit projected to widen this year, fiscal deficit expected to stay high and the interest rate gap with US rates moving closer to zero. Taken together, we think that the USD/PHP will probably trade fresh record highs as we head into 2023. We forecast the USD/PHP to reach 59.2 in 4Q22, 59.40 in 1Q23, 59.6 in 2Q23, and 59.8 in 3Q23.

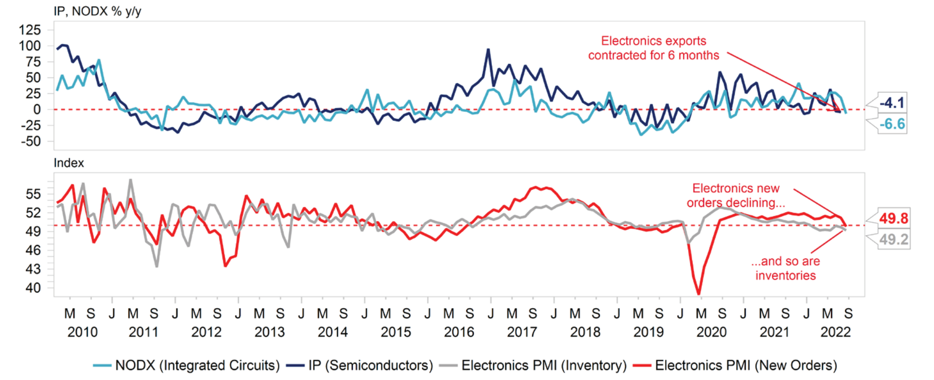
SINGAPORE

FX & Rates	4Q22F	1Q23F	2Q23F	3Q23F
USD/SGD	1.44	1.45	1.45	1.45
SGD 3M SIBOR	3.75	3.80	3.80	3.85

Economic Indicators	2020	2021	2022F	2023F
GDP	-4.1	7.6	3.5	0.7
CPI (average, y/y %)	-0.2	2.3	6.0	3.0
Unemployment Rate (%)	3.3	2.4	1.9	2.0
Current Account (% of GDP)	14	18.1	17.0	15.9
Fiscal Balance (% of GDP)	-4.6	-0.9	-0.5	1.0

Beginning Of The Electronics Downcycle

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Domestic Boom, Manufacturing Woes & A Slower 2023

Singapore's final 2Q GDP was revised lower sequentially to a contraction of 0.2% q/q SA (versus prelim print of 0.0%) after recording a downwardly revised 0.8% expansion in 1Q (from 0.9%). Compared to a year ago, GDP grew by 4.4% y/y in 2Q (down from prelim estimate of 4.8% y/y), from a downwardly revised 3.8% in 1Q. In addition to the 2Q GDP downward revision, the official message was one of greater caution as external outlook has deteriorated materially since end-1Q..

The momentum in services output was revised to -0.1% q/q (from +0.2%) while the construction sector momentum was being revised slower to +0.9% q/q (from +1.9%). Only manufacturing sector saw a slight pickup in momentum, to +0.4% q/q (from +0.3%).

Domestic consumption continued to recover well, with retail sales for Jul coming in strongly at 13.7% y/y (from 14.9% in Jun), the 4th consecutive month of double digit gains as the overall sector benefited from the "dividends" of COVID-19 measures relaxation and border reopening that began in late Apr, coupled with the low base last year when "Heightened Alert" was in place with WFH still the default then. In addition, the average monthly retail sales value (constant dollars) at S$3.9 bn in Jul, and at S$3.9bn and S$3.8bn for May and Jun respectively, has already exceeded the average pre-pandemic figure (of S$3.7bn in 2019). Domestic retail sales will continue to stay supported in 2H22, with a strong line up of activities ahead such as F1 race, various concerts and BTMICE activities (Business Travel and Meetings, Incentive Travel, Conventions and Exhibitions) attracting tourist arrivals, and in line with the tightening domestic labour market. Overall, we expect retail sales to grow by 8.5% in 2022 (from previous forecast of 6%).

External trade, lifeblood for Singapore's economy, has been robust since 2021 and a key pillar in supporting overall growth. The non-oil domestic exports (NODX) expanded for its 21st straight month in Aug (11.4% y/y), but the rise in NODX was contributed by non-electronic products, which surged by 16.9% y/y, while electronic NODX declined by 4.5% y/y, the first y/y contraction since Nov 2020, led by integrated circuits (ICs) (-6.6% y/y) which accounted for nearly 50% of electronics exports in 2021. Demand in Aug was surprisingly strong from key trading partners, US (60% y/y) and EU-27 (57.3% y/y) which is unlikely to sustain, but our biggest concern was that demand from China continued to weaken, along with Hong Kong and Taiwan.

The latest dip in Aug electronics PMI (to 49.6, first contraction after two years of continuous expansion, and the lowest reading since Jul 2020) painted a consistent picture from what we saw in the latest NODX and manufacturing data. We are cautiously positive on the outlook for transport engineering, general manufacturing, and precision engineering, to drive overall manufacturing growth (which likely explains why the headline Aug PMI remains in expansion) but we see a weaker electronics performance and slowing demand from North Asian economies that could increasingly weigh on NODX momentum and manufacturing demand.

We keep our Singapore manufacturing growth forecast at 4.5% in 2022 (from 13.2% in 2021) but we expect the sector to contract by 3.7% in 2023 due to the faltering outlook for electronics and weaker external demand. In the same vein, our 2022 GDP growth forecasts are unchanged at 3.5% but growth will slow significantly to 0.7% for 2023 (from 2% previously), as we now project the US and European economies (which are key end markets for Singapore) to enter into a recession in the next 6-12 month amidst aggressive monetary policy tightening stance among these advanced economies, while the electronics manufacturing outlook looks precarious as we head toward end-2022/early 2023. And there are the well-telegraphed external risks of: 1) the ongoing Russia-Ukraine conflict, 2) geopolitical risks, and 4) COVID-19 risk of potential new variants. China's potential rebound from its COVID-19 challenges in 2023, could be a positive factor offsetting some of the downside drivers next year.

CENTRAL BANK

MAS To Stay On Tightening Path In Oct

Please see Focus article "**Expecting A Steeper Slope In Oct, With A Chance Of Re-Centring**".

CURRENCY

CNY Weakness Spills Over To SGD

The SGD continued to be one of the more resilient currencies in Asia in 3Q22. Despite broad USD strength, USD/SGD only edged up about 2.8% on the quarter to about 1.43 while other USD/Asia rose an average of about 5%. The Singapore dollar nominal effective exchange rate (S$NEER) rose gradually towards the top end of policy band after the Monetary Authority of Singapore's (MAS) off-cycle re-centring in mid-Jul, signalling further outperformance of the SGD relative to its regional peers just as the MAS is expected to tighten policy further in Oct. That said, a higher USD/CNY would eventually spill over into USD/SGD and the latter is likely to begin a new trading range above the 1.40 level. Our updated USD/SGD forecasts are 1.44 in 4Q22 followed by 1.45 through 3Q23.

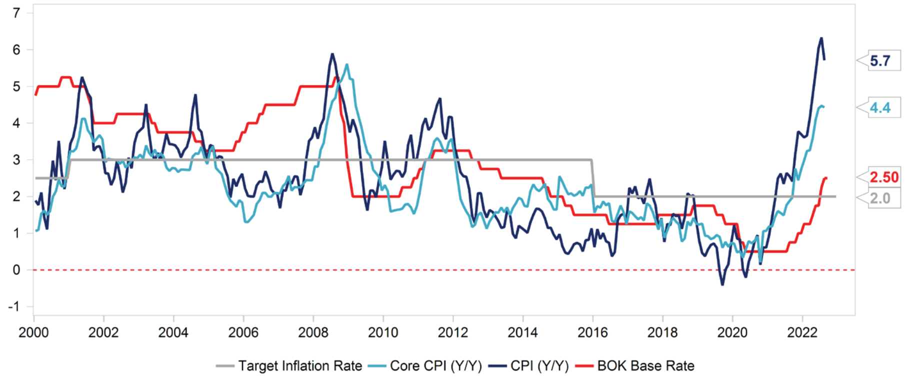
SOUTH KOREA

FX & Rates	4Q22F	1Q23F	2Q23F	3Q23F
USD/KRW	1,440	1,450	1,460	1,460
KRW Base Rate	3.00	3.00	3.00	3.00

Economic Indicators	2020	2021	2022F	2023F
GDP	-0.7	4.1	2.7	1.7
CPI (average, y/y %)	0.5	2.5	5.2	3.5
Unemployment Rate (%)	4.5	3.8	3.2	3.7
Current Account (% of GDP)	4.6	4.9	2.9	3.5
Fiscal Balance (% of GDP)	-4.4	-4.4	-3.3	-0.6

Inflation Trajectory Determines Next Course Of Action For The BOK

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Outlook Weakens

South Korea's GDP rose sequentially for the 8th consecutive quarter with the momentum picking up to 0.7% q/q in 2Q22 from 0.6% in 1Q22 as stronger private consumption and government expenditure offset weaker exports while facilities investment stabilised. On a year-on-year basis, growth was modestly lower at 2.9% compared to 3.0% in 1Q22.

An expected slowdown in external demand amidst accelerated pace of global monetary tightening will weaken the prospects for South Korea's exports and investment ahead. China which forms the largest market for its exports has also remained under growth pressure. And with electronics accounting for 20% of its exports, the economy is further exposed to a cyclical slowdown in the consumer electronics and semiconductor sectors which had been driven by strong global consumer demand during the pandemic. The S&P Global South Korea manufacturing PMI fell sharply by 2.2 points to 47.6 in Aug, its lowest since Jul 2020. This is also the second month of contraction (below 50).

The weakening outlook for exports and rising import costs will keep the trade balance in a deficit. South Korea has recorded six out of eight months of trade deficit with Aug at a record deficit of USD9.47bn. As such, we see the current account surplus falling to its lowest in a decade to around 2.9% of GDP this year.

However, private consumption is likely to continue to recover on the back of normalizing activities and an improving labour market. The unemployment rate has fallen to a record low of 2.5% in Aug.

We maintain our full-year 2022 GDP growth forecast for South Korea at 2.7%, with an expected slowdown to 2.8% y/y in 3Q and 2.1% in 4Q. In 2023, we now expect GDP growth to slow to 1.7% compared to our earlier forecast of 2.2%.

Going into 2023, government's belt tightening could further weigh on the growth outlook. President Yoon's administration has committed to refocus on fiscal discipline to manage government debt within a low to mid-50% range to the GDP until 2026. The government expenditures are projected to increase 5.2% in 2023 compared with the original budget in 2022 versus an 8.9% increase in the 2022 original budget. Barring supplementary budgets next year, government expenditure will fall by 6.0% compared to the final in 2022 which included two supplementary budgets. Thus, the consolidated fiscal deficit is projected to fall to 0.6% of GDP in 2023 from 3.3% this year. Excluding social security funds, the fiscal deficit is expected at 2.6% of GDP in 2023 from 5.1% this year.

Headline inflation moderated more than expected to 5.7% y/y in Aug from 6.3% y/y in Jul, its highest in nearly 24 years. This was contributed by lower oil prices and domestic fuel taxes cut but all other major CPI components were either flat or higher on a sequential basis, suggesting that inflation pressure has stayed elevated. We expect inflation to remain in the 5%-6% range until 1Q23. Our inflation forecasts remain at 5.2% and 3.5% for 2022 and 2023 respectively. Bank of Korea (BOK) will keep its focus on bringing headline inflation rate to a level of around 3% by end-2023.

CENTRAL BANK

Maintain Our Call For 50bps Hike In 4Q

BOK has raised its benchmark base rate by a cumulative 200bps to 2.50% as of its last meeting in Aug since it began tightening monetary policy slightly over a year ago. We keep our forecast for BOK to continue raising the base rate by 25bps per meeting in Oct and Nov to bring the base rate to 3.00% by end-4Q22. Thereafter, we expect the BOK to stay on hold through 2023. However, BOK could do more should the inflation trajectory stay higher than expected.

The central bank is also highly concerned about the imported inflation, contributed by a weakening won and has signalled difficulty for it to end its monetary tightening before the Fed. As such, the BOK's decision will also be shaped by the outlook for Fed's rate hikes. However, bearing in mind the lower pace of inflation in South Korea than in the US, we should not expect the BOK to closely track Fed's tightening ahead.

CURRENCY

KRW To Weaken Past 1,400 /USD

Being a high beta currency sensitive to global growth expectations, the KRW was one of the worst performing Asian currency and plummeted over 10% to 1,435 /USD in 3Q22, the lowest level since Mar 2009. Other headwinds include a weakening domestic outlook together with rising concerns of a China slowdown.

Due to the rapid fall in the KRW, authorities were reported to have stepped up oversight of the FX markets and have met major exporters and importers to discuss ways to stabilize USD supply and demand. Overall, we maintain the view that USD/Asia including USD/KRW will be biased higher in the coming quarters predominantly due to a weakening CNY. As such, USD/KRW is likely to sustain above 1,400 although the pace of advance may start to moderate. Our updated USD/KRW forecasts are 1,440 in 4Q22, 1,450 in 1Q23 and 1,460 in both 2Q23 and 3Q23.

TAIWAN

FX & Rates	4Q22F	1Q23F	2Q23F	3Q23F
USD/TWD	32.0	32.2	32.4	32.4
TWD Official Discount Rate	1.75	1.88	1.88	1.88

Economic Indicators	2020	2021	2022F	2023F
GDP	3.4	6.6	3.3	2.3
CPI (average, y/y %)	-0.2	2.0	3.0	2.0
Unemployment Rate (%)	3.7	3.7	3.7	3.7
Current Account (% of GDP)	14.2	14.8	13.0	11.8
Fiscal Balance (% of GDP)	-1.0	-0.2	-1.0	-0.8

ECONOMY

Downside Risks Rising

Taiwan's economy grew at its slowest pace in two years, by 3.05% y/y in 2Q22. On a sequential basis, the GDP contracted for the first time in a year, by 1.80% during the quarter.

Capital investment, government consumption and private consumption rebounded in 2Q22, offsetting slower exports of goods & services even as imports strengthened. Investment in machinery equipment and transportation equipment rose sharply while exports continued to be supported by demand for technology goods. Notable gains in private consumption growth were partly due to a low comparison base as a surge in local COVID-19 infections in May-Jun dampened the demand recovery.

The largest contributions to the headline 2Q22 GDP growth were from gross capital formation (+2.77% point), private consumption (+1.28% point) and government consumption (+0.76% point) while net exports (-1.56% point) subtracted from the GDP growth.

Taiwan continues to register relatively high COVID infections from the more contagious Omicron subvariant but is planning to end its quarantine requirement for visitors in mid-Oct as the outbreak subsides. The government has launched a domestic travel subsidy program from 15 Jul to 15 Dec to boost the tourism industry. Private consumption growth will also be lifted by wage gains and a low base. The seasonally adjusted unemployment rate has stabilised this year, recording 3.67% in Aug with total employment picking up again after falling in the earlier part of the year due to the COVID outbreak.

Recent data including the exports, export orders and manufacturing PMI are all affirming a slowdown in Taiwan's export and investment ahead despite some ongoing reshoring of Taiwan's overseas companies and a rise in green energy investment. The slowdown in China's economy does not bode well for Taiwan's export outlook given that Mainland China and Hong Kong account for nearly 40% of its exports. Export orders from Mainland China and Hong Kong had fallen by double-digit pace since Apr, with the latest data in Aug showing a 25.5% y/y drop.

Global uncertainties have increased sharply while a cyclical slowdown in consumer electronics demand and heightened geopolitical tensions further increase the downside risks to Taiwan's economy. We expect Taiwan GDP to expand by 3.3% in 2022 which assumes 3.5% y/y growth in 3Q22 before slowing to 2.9% y/y in 4Q22. And taking into consideration of further mark-down in global outlook for 2023, we have revised lower our growth forecast for Taiwan to 2.3% (from 2.8%) next year. In its Sep update, Taiwan central bank lowered its 2022 GDP growth outlook to 3.51% from its Jun forecast of 3.75% and expected growth to moderate to 2.90% in 2023.

Taiwan's headline CPI inflation eased sharply to 2.66% y/y in Aug, the first time it fell below 3% in six months. Near-term, the headline inflation has likely peaked in Jun at its 14-year high of 3.59%. Meanwhile, core inflation has stayed elevated at 2.73% y/y in Aug. Further gains may be capped by the weaker growth outlook but stronger demand-side pressure may emerge when Taiwan fully reopens its borders while the trend in global energy and food prices remains an uncertainty.

Given the sharper than expected pullback in Aug CPI, we now think headline inflation will remain under 3% for the remaining months of the year and average 3% for 2022 and 2% for 2023. Our forecasts are in line with the central bank's updated forecasts for headline and core inflation at 2.95% and 2.52% this year which are then expected to ease to 1.88% and 1.87% respectively in 2023.

CENTRAL BANK

Measured Hikes

The Central Bank of the Republic of China (Taiwan) (CBC) is not expected to deviate from its measured pace of monetary policy tightening. Headline inflation is forecast to moderate to levels around the CBC's 2% threshold in 1H23 while growth risks are becoming more evident.

The CBC has raised its benchmark discount rate by 50 bps so far this year, reverting to 12.5 bps increase in Jun and Sep after a more hawkish than expected 25 bps hike in Mar. CBC also lifted the reserve requirement ratios (RRR) by 25 bps at both the Jun and Sep meetings to tighten liquidity. The decision to raise the RRR for a second time took into consideration that it will be a more effective tool to contain property price gains while reducing the impact of policy tightening on small and medium sized businesses as well as households.

We stick to our projection that the CBC will continue to lift interest rates by a modest 12.5 bps in both 4Q22 and 1Q23, to bring the discount rate to a terminal level of 1.875% from current 1.625%. The prospect of more hawkish moves is limited unless the inflation trajectory turns unexpectedly higher.

CURRENCY

No Respite For TWD Yet

The pace of declines in the TWD has accelerated in 3Q22, with the currency falling over 7% on the quarter to 31.93 / USD, the weakest level since Aug 2019. The TWD has effectively given back the gains it accumulated in the early stages of the pandemic when it was lauded for its effective COVID-19 containment. Besides the broad USD strength, the TWD was also weighed by record year-to-date equity outflows and geopolitical uncertainties.

Looking ahead, there is still no respite for the TWD due to the uncertain domestic outlook, continued geopolitical tensions and broad-based Asia FX weakness led by weakening CNY. Despite the recent pullback, TWD's nominal effective exchange rate remains above its 5-year average and likely provides runway for further currency underperformance. Overall, we keep to our upward trajectory in USD/TWD and update our forecasts to 32.0 in 4Q22, 32.2 in 1Q23 and 32.4 in both 2Q23 and 3Q23.

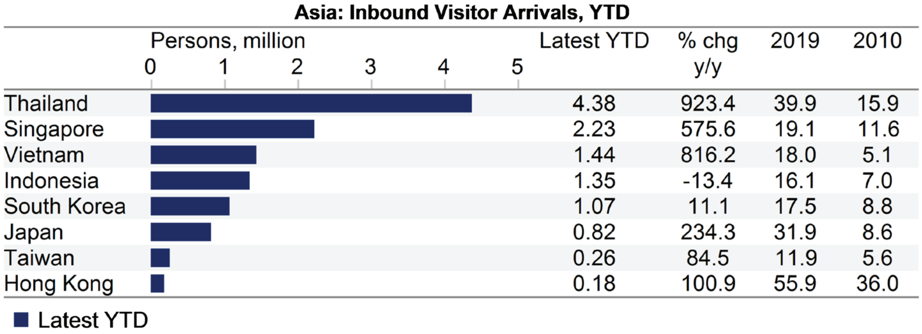
THAILAND

FX & Rates	4Q22F	1Q23F	2Q23F	3Q23F
USD/THB	38.0	38.2	38.4	38.4
THB 1D Repo	1.00	1.25	1.50	1.50

Economic Indicators	2020	2021	2022F	2023F
GDP	-6.2	1.6	3.2	3.7
CPI (average, y/y %)	-0.8	1.2	6.0	2.7
Unemployment Rate (%)	1.9	1.6	1.4	1.2
Current Account (% of GDP)	0.3	-1.6	-0.8	2.8
Fiscal Balance (% of GDP)	-3.0	-3.7	-4.6	-3.8

Thailand Leading the Pack of Regional Tourist Arrivals that Supports Growth Recovery

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Hoping For Faster Growth Momentum in 2H22

Thai GDP expanded by 2.5% y/y in 2Q22, though faster compared to 2.3% in 1Q22 it was weaker than consensus' expectation of 3.1%. Growth in 2Q22 was primarily driven by higher private final consumption expenditure, which accelerated to 6.9% y/y in 2Q22 from 3.5% in 1Q22. The stronger household consumption was reflected by the 13.7% increase in net services, compared to 4.1% in the previous quarter and further supported by spending on durable and non-durable goods that rose by 3.4% and 2.7% respectively in 2Q22 (they were at 4.5% and 3.3% previously). However, spending on non-durable goods slowed that were driven by food and non-food items, likely due to higher inflation rates. Government spending slowed in 2Q22 at a pace of 2.4% y/y, significantly decelerated from the preceding quarter of 7.2%. Meanwhile, investment spending contracted by 1% y/y, reversing 1Q22's growth at 0.8%.

Externally, Thailand registered a significant current account deficit of USD4.1bn, which is the highest deficit recorded since Apr 2013 during the Bernanke's Taper Tantrum episode. The deficit was persistent so far in 2022 as the country continued to clock in negative net service, income, and transfers amidst sluggish return of inbound tourists into Thailand. On a year-to-date run rate till Jul, the shortfall in current account position reached near a high of USD15bn. With global tourism recovery and tourist inflows, this will bode well for Thai's services balance. With this assumption, we forecast that Thailand's current account balance will return to surplus in 2023.

Despite growth underperforming in the first half, we are much more positive for growth momentum in the second half of the year (2H22 growth rate will likely average 4%), based on our assumptions of significantly higher inbound tourists that will propel domestic trade activities and further shore up domestic consumer confidence and spending. We carry the view that output levels will be back to the pre-crisis level but given slower than expected recovery, now we think it will only happen in 4Q22. all in all, we keep our 2022 GDP forecasts unchanged at 3.2% and to accelerate further to 3.7% next year.

CENTRAL BANK

One More Hike In Sep And Pause, Then Possibly Resuming In Early 2023

Thai inflation continues edging higher in Aug with headline inflation rose to 7.9% y/y, the fastest pace in 14 years and largely in line with forecasts. The recent bouts of inflationary pressures may soon reach its peak, though we think that eventuality is closer to year end rather than in the immediate month. BOT Governor Sethaput stated recently that inflation is set to peak in 3Q22 and is likely to average more than 6% this year but the central bank will act to prevent the inflation engine from starting. He further stated that inflation was mainly supply driven, while taking comfort that long-term expectations were still within the central bank's target range and there was a low chance of a wage-price spiral.

One of the key factors driving inflation higher in months to follow is policy allowance to raise instant noodles prices in Thailand, one of the important food staples in the country. Flour and flour product prices have increased significantly in recent periods and producers have repeatedly asking permission from the authority to pass on these higher costs into product prices. It has been approved by the regulator recently and with a weightage of around 5% in the CPI basket, we reckon that this will feed directly into higher consumer prices going forward. BOT does not expect inflation to return to the target until next year though it forecasts average inflation for 2023 at 2.5%, which lies on the upper half of the target range. Our forecasts are for inflation to average 6.0% this year before normalizing back to around 2.7% next year.

Despite slower than expected growth in 2Q22 but with inflationary pressures unlikely to abate anytime soon, we believe that BOT will continue with another 25bps hike of its benchmark 1D-Repo Rate to 1.00% in Sep MPC. For now, we keep to our view that BOT will pause in its last meeting in Nov 2022 as it assesses the incoming data and the effects of tighter policy, notably the impact on the strength of growth recovery and trajectory of inflation rates in the coming months. We also expect the BOT to resume its rate hike streak in 1H23 to reach a terminal point of 1.50% next year.

CURRENCY

THB Stays Defensive

USD/THB traded above 37.0 in Sep, the highest level since 2006 alongside broad Asia FX weakness. Idiosyncrasies such as Thailand's current account deficit and one of most negative real rates in Asia continue to keep downward pressure on the THB, on top of external factors such as aggressive Fed and China slowdown concerns. That said, as the tourism-led economic rebound gains traction and Thailand returns to a current account surplus next year, loss on the THB may start to slow.

Overall, we keep to our upward trajectory in USD/THB and update the point forecasts to 38.0 in 4Q22, 38.2 in 1Q23 and 38.4 in both 2Q23 and 3Q22.

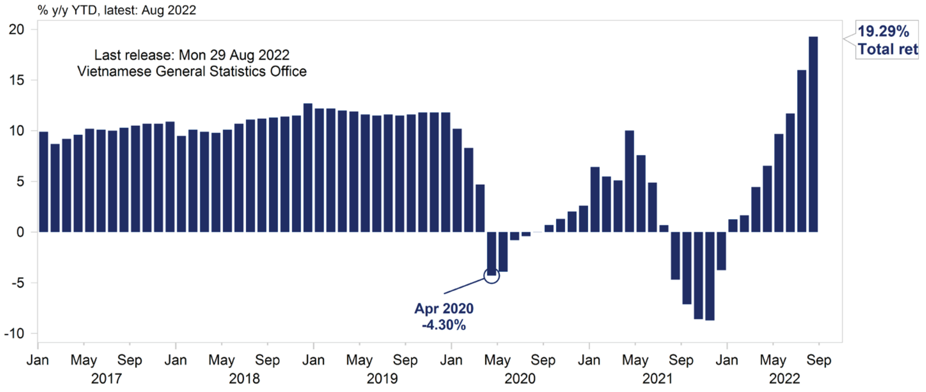
VIETNAM

FX & Rates	4Q22F	1Q23F	2Q23F	3Q23F
USD/VND	24,000	24,100	24,200	24,300
VND Refinancing Rate	5.50	6.00	6.00	6.00

Economic Indicators	2020	2021	2022F	2023F
GDP	2.9	2.6	7.0	6.6
CPI (average, y/y %)	3.2	1.8	3.6	4.9
Unemployment Rate (%)	2.4	3.6	2.3	2.2
Current Account (% of GDP)	4.4	-0.3	1.3	0.6
Fiscal Balance (% of GDP)	-4.0	-4.1	-4.2	-4.0

Vietnam: Retail Trade YTD, Aug 2022

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Growth Momentum Remains Favourable For Now

Vietnam's real GDP growth surprised on the upside in 2Q22, which expanded 7.7% y/y against 5.0% in 1Q22, surpassing consensus estimate of 5.9% (range of 4.5-6.5%) and our expectation of 6.0%.

The sharp rebound in 2Q22 was driven by manufacturing activities which accelerated for the 4th straight quarter, and a recovery in services output as it continued to regain its footing since the last contraction in 3Q21.

In the first half 2022, Vietnam's GDP rose 6.4% y/y YTD, on the back of a 9.7% gain in the manufacturing sector and 6.6% rise in services output, which came on the back of the 4.6% increase in 1Q22.

Data available so far in 3Q22 suggest that growth momentum remains intact across the economy, particularly in retail and tourism-related sectors which continue to be supported by the easing of COVID-19 related restrictions.

Manufacturing activities expanded sharply in Aug, rising 10.4% y/y YTD from 9.7% in Jul YTD, and the strongest performance since Jun 2021. Production related to computer and electronic products continued to shine, with a 11.3% y/y increase in Aug YTD and the 4th straight month of double-digit gains. This is reflected in a robust performance in exports, which surged 28% y/y in Aug, the best month since May 2021. Exports to the US have been a key driver which accounted for 30.4% of total exports in Aug compared to just 21%, five years ago. In the consumer sector, retail sales jumped by 19.3% y/y in Aug YTD, the third month of double-digit gain.

While registered foreign direct investment (FDI) into Vietnam slowed sharply to USD16.8 bn YTD to Aug, a decline of 12.3% y/y vs -7.1% in Jan-Jul period, disbursed (or realized) FDI in the country rose further by 10.5% y/y to USD12.8 bn YTD to Aug, following the 10.2% YTD Jul gain, and the fastest pace since Feb 2019.

Based on the surprisingly strong 2Q22 performance and data in 3Q22, as well as track record of generally robust performance in 2H, we are keeping our projection for Vietnam's 2022 GDP growth at 7.0%, assuming 2H growth of 7.6-7.8%. Specifically, for 3Q22, momentum is likely to be carried over from the previous quarter, for a 7.6% y/y expansion.

In early Sep, PM Pham Minh Chinh was quoted by government notice that Vietnam's growth could surpass 7% in 3Q22 and 2022, with the recovery supported by 3 main economic sectors – industrial, agriculture, and services.

Vietnam's 3Q22 GDP report, together with other remaining monthly data for Sep, will be released during the week of 25-30 Sep.

However, there are several external risks to this outlook: 1) Russia-Ukraine conflict and its impact on energy, food and commodity prices 2) global supply chain disruptions, and 3) global monetary policy tightening and as mentioned elsewhere in this report, we are pencilling in recessions in the US and Europe in 2023. After taking into account of the above, we are marking down Vietnam's 2023 growth forecast to 6.6% from 7.0% previously.

On the inflation front, YTD to Aug, Vietnam's headline CPI rose 2.6% y/y compared to 1.8% in the same period in 2021. Of note is that CPI for Aug eased to 2.9% y/y from 3.1% in Jul and after peaking at 3.4% in Jun. Accounting for higher food and commodity prices, and second round effects, we anticipate inflation rate to advance from 3% y/y in 2Q22, to 3.4% in 3Q22 and 4.1% in 4Q22, leaving a full year projection of 3.6%, and a further 4.9% gain in 2023, as domestic demand continues to gain momentum along with stronger GDP growth.

CENTRAL BANK

Normalization Begins

The State Bank of Vietnam (SBV) surprised with a tightening move on 22 Sep, hiking two of its policy rates by 100bps each, lifting the refinancing rate from historic low of 4.00% to 5.00%.

This marks an earlier than expected start of SBV policy normalization following an aggressive US Fed's policy stance. We see room for another 100bps hike to the refinancing rate over the next 2 quarters, to the pre-pandemic level of 6.00%.

CURRENCY

Weakening Bias In VND

Despite solid fundamentals, the VND has weakened alongside Asian peers in 3Q22. USD/VND rose about 1.9% in the quarter to a new record high of 23,725, edging past the previous high of 23,637 at the onset of the pandemic in Mar 2020. After the big 100bps rate hike, the SBV has said it will continue to manage the VND's exchange rates in a flexible manner and appropriately use other monetary policies to stabilize the money market.

Going forward, rising concerns of a China slowdown means VND is still likely to be biased weaker in the coming quarters although losses may be cushioned by a strong domestic growth outlook. Overall, we update our USD/VND forecasts to 24,000 in 4Q22, 24,100 in 1Q23, 24,200 in 2Q23 and 24,300 in 3Q23.

AUSTRALIA

FX & Rates	4Q22F	1Q23F	2Q23F	3Q23F
AUD/USD	0.64	0.63	0.65	0.68
AUD Official Cash Rate	2.75	3.10	3.10	3.10

Economic Indicators	2020	2021	2022F	2023F
GDP	-2.1	4.9	3.8	2.1
CPI (average, y/y %)	0.9	2.9	5.8	3.9
Unemployment Rate (%)	6.5	5.1	5.9	3.8
Current Account (% of GDP)	2.4	3.2	2.0	1.0
Fiscal Balance (% of GDP)	-8.00	-6.5	-2.9	-2.5

ECONOMY

Growth To Slow As Impact From Lockdown Rebound Ends

Australia's GDP came in at 0.9% q/q in 2Q22, within expectations, and slightly higher from a revised 0.7% q/q reading in 1Q22 (0.8% q/q previously). From a year earlier, the economy expanded by 3.6% y/y, slightly higher than an estimated 3.4% y/y increase, and also higher than last quarter's reading of 3.3% y/y. Following a rough start to the year, the economic recovery followed as the population emerged from lockdowns. While growth is returning closer to pre-pandemic rates, the level of GDP is estimated to have suffered a cumulative loss of around AUD158bn compared to its pre-pandemic trajectory.

Although household spending has been a key pillar in supporting the rebound in 1H22, our view is for economic activity to soften again towards 4Q22 as high inflation and rapid increases in interest rates weigh on households, alongside a slowdown in global growth. Our GDP forecast for 2022 is largely unchanged at 3.8%, but we have lowered our GDP forecast for 2023 to 2.1% from 2.8% previously.

The labour market remains solid, with latest figures showing the seasonally adjusted unemployment rate at 3.5% in Aug, up from 3.4% in Jul, back to the same rate as in Jun. Seasonally adjusted employment increased by 33,000 people (0.2%) in Aug, lower than expectations for a gain of 35,000, but rebounding significantly from the fall of 40,900 in Jul. Full-time employment increased by 58,800 to 9,468,500 people, and part-time employment decreased by 25,300 to 4,123,600 people. The participation rate also rose to 66.6% (from 66.4% in Jul), consistent with the increase in employment and unemployment. Going forward, slower growth will likely push the jobless rate higher back towards the 3.8%-4.0% levels.

Inflation remains a key risk. Headline CPI came in at 1.8% q/q for 2Q22, easing from the 2.1% q/q reading in 1Q22. But this was the second highest reading since the introduction of the Goods and Services Tax (GST) in 2000. Compared to the same period a year ago, CPI advanced 6.1% y/y, higher than the 5.1% y/y print in 1Q22.

The trimmed mean measure rose 1.5% q/q in 2Q22, in line with 1Q22's upwardly revised reading (1.4% q/q previously). That pushed the annual gauge, a measure closely watched by the Reserve Bank of Australia (RBA), to 4.9% y/y, significantly higher from a previous reading of 3.7% y/y. The strength in underlying inflation was also evident in the RBA's weighted median CPI, which was up 1.4% q/q, from 1.0% q/q in 1Q22. Compared to the same period one year ago, it rose 4.2% y/y, higher than the revised 3.0% y/y (3.2% y/y previously) reading in 1Q22.

We have further increased our inflation outlook, based on the ongoing strength in activity, though we think it will likely peak in 4Q22, in the absence of further significant global shocks. Our full-year inflation forecast is now at 5.8% for 2022 and 3.9% for 2023.

CENTRAL BANK

Case For Large Hikes "Diminished"

At its Sep meeting, the RBA decided to increase the official cash rate (OCR) by 50bps to 2.35%, the fourth consecutive month that it has raised rates by 50bps. The RBA also increased the interest rate on Exchange Settlement balances by 50bps to 2.25%. While the RBA signalled again that it will continue to hike in the coming months, it added that it is not on a pre-set path, with "the size and timing of future interest rate increases will be guided by the incoming data and the Board's assessment of the outlook for inflation and the labour market".

Our call on the OCR is unchanged – we have pencilled in 25bps hikes for the remaining three meetings in 2022. That will take the OCR to 3.10% by year-end. We then look for a pause thereafter. In recent speeches, RBA Governor Philip Lowe and RBA Deputy Governor Michele Bullock assessed "neutral" to be at least 2.5%. After having raised rates by 2.25ppts since May, the OCR is now approaching a neutral rate, allowing the RBA to return to smaller moves.

In fact, in response to Australian lawmakers' questions in a semi-annual testimony on 16 Sep, Lowe said the case for outsized interest-rate increases has "diminished" now that the cash rate is approaching "more normal settings", suggesting smaller moves ahead. He added that the Board will debate the merits of hiking by a quarter-percentage point or a half-point at its next meeting on 4 Oct.

Our call for shallower rate hikes is also largely due to a slowdown in the economy towards year-end, as the post-lockdown bounce in activity wanes, and the cumulative impact of higher interest rates dampens construction activity as well as the housing sector. A decline in house prices is gathering pace, recording the biggest monthly drop in Aug since 1983.

Meanwhile, on the external front, how the ongoing Russia-Ukraine conflict evolves; a slowing Chinese economy (Australia's top trading partner is China); as well as the deepening global growth slowdown are key uncertainties for monetary policy.

CURRENCY

AUD/USD To Slump Further To 0.65

AUD/USD fell for a second straight quarter in 3Q22 and traded below 0.66, the lowest level in over two years. We note that AUD is weighed by global risk-off sentiment and the latest round of China growth downgrade also adds to the pressure on the commodity-linked currency as demand on commodities slows.

As such, we expect the AUD to stay weak till at least 1Q23 before a recovery next year as the broad USD strength normalizes. Our updated AUD/USD forecasts are 0.64 in 4Q22, 0.63 in 1Q23, 0.65 in 2Q23 and 0.68 in 3Q23.

EUROZONE

FX & Rates	4Q22F	1Q23F	2Q23F	3Q23F
EUR/USD	0.95	0.95	0.98	1.00
EUR Refinancing Rate	1.75	1.75	1.75	1.75

Economic Indicators	2020	2021	2022F	2023F
GDP	-6.4	5.4	2.7	-1.0
CPI (average, y/y %)	0.3	2.6	8.0	4.3
Unemployment Rate (%)	8.0	7.7	6.9	6.8
Current Account (% of GDP)	1.9	2.5	1.3	1.9
Fiscal Balance (% of GDP)	-7.1	-5.1	-4.6	-3.1

ECONOMY

Energy Crisis Intensifies As Winter Approaches

The Eurozone economy expanded by more than initially estimated in 2Q22. According to the final estimate, GDP rose 0.8% q/q, stronger than an earlier reading of 0.6% q/q, as gains in consumption expenditure more than offset a drag from trade. GDP increased by 4.1% y/y in 2Q22, compared to an initial reading of 3.9% y/y. Separately, employment expanded by 0.4% q/q in 2Q22. From a year earlier, employment grew by 2.7% y/y, accompanied by a 3.7% y/y increase in the number of hours worked. Despite these latest numbers, significant uncertainty remains, as the energy crisis in Europe worsens. Recall that Europe, even before the Russia-Ukraine war began in Feb, was already facing severe supply chain disruptions due to the pandemic.

Today, the headwinds facing the bloc are only intensifying, with higher-than-ever inflation negatively influencing businesses and households. Eurozone CPI was finalized at 9.1% y/y in Aug, up from 8.9% y/y in Jul. A year earlier, the rate was only at 3.0% y/y. Core CPI was finalized at 4.3% y/y, up from the prior month's reading of 4.0% y/y. The highest contribution to the annual Eurozone inflation rate came from energy (3.95% y/y), followed by food, alcohol & tobacco (2.25% y/y), services (1.62% y/y) and non-energy industrial goods (1.33% y/y).

The high degree of uncertainty following Russia's invasion of Ukraine and high inflation have strained the consumer sector, which was originally supposed to drive the recovery in 2022. Current consumer sentiment data suggests that even the stable labour markets and additional savings from the pandemic will likely not be enough to offset these negative influences.

Russia has cut off gas supplies to Europe indefinitely, and these reductions have led to soaring natural gas prices, which have hit records in the past few weeks. This is why the coming winter season is certain to be the most challenging Europe has seen in decades. There have been estimates that if Europe could cut its gas use by 15% to Mar 2023, the region would be able to cope with winter despite limited supplies and soaring energy prices.

Our assumption is that the conflict in Ukraine does not escalate and that the sanctions on Russia will remain in place till end-2023. However, Russian gas flows are expected to be substantially lower as Russia tries to exploit its positon for geopolitical gains. As gas prices continue to push higher, the winter energy squeeze will cause a slump in economic activity, and we think a recession is inevitable. We look for the Eurozone economy to shrink in 2H22, leaving annual 2022 GDP at 2.7%, while the economy is expected to contract by 1.0% in 2023. The annual CPI for this year will approach 8%, while the annual average next year is seen over 4%.

CENTRAL BANK

High Uncertainty Surrounding Our ECB Call

At the Sep meeting, the ECB decided to raise its three key interest rates by 75bps. Accordingly, the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility was increased to 1.25%, 1.50% and 0.75% respectively. During the press conference, ECB President Christine Lagarde said that "If the data on our meeting-by-meeting exercise review suggests that we should take a high hike of our interest rates, we will do so". Addressing the question of how many decisions are "several," she said that "it's probably more than two, including this one, but it's probably also going to be less than five".

The implied hawkish tone by the ECB, despite the absence of formal forward guidance, has led us to pencil in further rate hikes ahead. There are two more meetings left for the year. For now, we see the ECB hiking by another cumulative 50bps for this year to bring the refinancing rate to 1.75% and the deposit rate to 1.25% by year-end. This will bring rates to the "neutral" territory of between 1% to 2%.

We see the ECB pausing thereafter amid recession and possible fragmentation risks. Although we believe the ECB wants to play catch up, we think that unlike other central banks, it needs to exercise a lot more caution as we see the Eurozone economy inevitably falling into a recession during winter, even without additional rate hikes. The question is how bad? For this reason, we acknowledge the high uncertainty surrounding our ECB call, and the "terminal rate" of this current hiking cycle.

CURRENCY

EUR/USD Below Parity Awhile Longer

EUR/USD cracked below the psychological parity level late Aug and touched a 20-year low of 0.9554. With the energy crisis in Europe expected to worsen into winter, the near term economic outlook of the Eurozone remains bleak. As such, we expect further weakness of EUR/USD towards 0.95 in 4Q22 and 1Q23. In 2023, as the energy crisis ebbs, we are cautiously optimistic that a further recovery in the EU-US rate differential, as the Fed starts to pause, would spur a modest recovery in EUR/USD. This in on the pretext that Eurozone slowdown would not be severe enough to flip the ECB back into full-blown crisis mode, usually involving cutting rates towards zero and reviving bond purchases.

Overall, we reiterate our "hockey stick" view on EUR/USD, expecting the pair at 0.95 in 4Q22 and 1Q23, 0.98 in 2Q23 and 1.00 in 3Q23.

NEW ZEALAND

FX & Rates	4Q22F	1Q23F	2Q23F	3Q23F
NZD/USD	0.56	0.55	0.57	0.60
NZD Official Cash Rate	4.00	4.00	4.00	4.00

Economic Indicators	2020	2021	2022F	2023F
GDP	-1.0	5.3	1.8	2.0
CPI (average, y/y %)	1.7	3.9	6.4	3.2
Unemployment Rate (%)	4.6	3.8	3.3	3.6
Current Account (% of GDP)	-1.0	-4.0	-7.1	-5.1
Fiscal Balance (% of GDP)	-10.6	-1.7	-5.2	-1.8

ECONOMY

Averted A Technical Recession

GDP rose by 1.7% q/q in 2Q22, in contrast to the 0.2% q/q contraction in 1Q22, and higher than expectations of +1.0% q/q. Compared to the same period one year ago, GDP rose by 0.4% y/y, following a revised 1.0% y/y print in 1Q22 (1.2% y/y previously), and more than expectations of 0.0% y/y.

The rebound was largely due to the reopening of borders, easing of both domestic and international travel restrictions, which supported growth in industries that had been most affected by the COVID-19 response measures. New Zealand had moved from Red to Orange in the COVID-19 traffic light system on 14 Apr, and remained in that setting for the remainder of the quarter.

Overall, data is still very volatile and is likely to stay that way for the next couple of months, with offsetting effects due to the normalisation and recovery from lingering COVID-19 disruptions against softer domestic demand from higher interest rates as the RBNZ tightens monetary policy. This will set the scene for slower growth towards the end of the year and into 2023. We had recently lowered our GDP growth forecast for 2022 to 1.8% from 2.4% previously and to 2.0% for 2023, from 3.0% previously.

As for the labour market, the jobless rate rose a tad to 3.3% in 2Q22 from a record-low of 3.2% in 1Q22, and higher than expectations of 3.1%. Employment growth also stalled, with the number of jobs unchanged for the quarter. The 0.0% q/q outcome was weaker than consensus of +0.4% q/q, with the number of people employed remaning below the 3Q21 level. Compared to the same period a year ago, employment was 1.6% higher. Hours worked rose 0.8% from 1Q22, as the impact of Omicron on employee absenteeism eased. However, hours worked were only 0.7% higher than a year earlier. Meanwhile, wages came in stronger than expected, with private-sector wages rising 1.3% from the prior quarter. From a year earlier, wages climbed 3.4%, the most since 2008.

Private sector wage growth has now almost caught up to CPI inflation, which climbed 1.7% q/q in 2Q22, though a tad lower from the 1.8% q/q in 1Q22, but above expectations for a gain of 1.5% q/q. Compared to the same period a year ago, CPI advanced 7.3% y/y, an acceleration from 6.9% y/y in 1Q22. The outcome was also above expectations for a reading of 7.1% y/y. This is the largest price movement since a 7.6% increase in the Jun 1990 quarter, that occurred shortly after the introduction of Reserve Bank of New Zealand Act 1989. Overall, the inflationary backdrop remains uncertain, with global inflationary pressures remaining intense. We now expect inflation to reach 6.4% for this year (compared to 5.9% previously), before easing towards the 3% levels in 2023.

CENTRAL BANK

RBNZ On An Aggressive Tightening Cycle

The Reserve Bank of New Zealand (RBNZ) has moved swiftly as far as interest rate hikes are concerned. At the last meeting in Aug, it decided to raise its official cash rate (OCR) by 50bps to 3.00%. This is the fourth consecutive month that the RBNZ has raised rates by 50bps at each meeting.

The tone of the Aug Monetary Policy Statement (MPS) was more hawkish. While the RBNZ acknowledged both downside risks to domestic and global growth, it now sees the OCR reaching 4.1% by mid-2023, 15bps higher than in the May MPS, before declining back to 3.6% by Sep 2025. Inflation clearly remains the focus. The RBNZ sees CPI inflation returning to the 2% target midpoint only in 1Q25, similar to May, but at a slightly higher OCR. The forecasts for both non-tradable inflation and wages were revised up significantly. Non-tradable inflation is expected to be 6.2% y/y by end of the year (4.6% previously), and QES average hourly earnings expected to be at 8.3% y/y by year-end (6.2% previously).

We previously highlighted that the continued surge in wage inflation will remain a major concern, and that should keep the RBNZ on track to hike the OCR to 4.00% by the end of this year, as per our forecasts. Thereafter, we see the RBNZ on hold, as we are mindful that it will not want the economy to tip over into recession and for unemployment to rise sharply, as it aims to strike a balance with higher interest rates slowing the economy and inflation. House prices are plunging at a fast pace. The REINZ house price index suffered its largest six-month decline since records began in 1992. Home values have reportedly fell across 84% of New Zealand suburbs in the three months to Aug.

Risks, however, remain skewed towards more rate hikes in 1Q23, and thus an OCR higher than 4%, before the RBNZ pauses in the current tightening cycle. The next RBNZ meeting is on 5 Oct, in which we are pencilling in a 50bps hike in the OCR to 3.50%.

CURRENCY

NZD Remains Weak In 4Q22

Like its antipode peer AUD, the NZD was not spared from the sustained USD strength and global de-risking in the 3Q22. In the quarter, NZD fell below the psychological 0.60 level against the USD. That said, the pace of decline of NZD/USD has slowed from 10% in 2Q22 to about 6% in 3Q22.

In the coming two quarters, NZD/USD is likely to remain on the defensive as the USD continues to draw strength from rising US yields. In 2023, as long as the New Zealand do not tip into a recession, we expect a gradual recovery in NZD/USD as US yields peak and USD normalizes. Our updated NZD/USD forecasts are 0.56 in 4Q22, 0.55 in 1Q23, 0.57 in 2Q23 and 0.60 in 3Q23.

UNITED KINGDOM

FX & Rates	4Q22F	1Q23F	2Q23F	3Q23F
GBP/USD	1.05	1.05	1.08	1.12
GBP Repo Rate	4.25	5.25	5.25	5.25

Economic Indicators	2020	2021	2022F	2023F
GDP	-9.3	8.2	3.4	-0.1
CPI (average, y/y %)	0.9	2.6	9.2	6.5
Unemployment Rate (%)	4.5	4.6	3.9	4.3
Current Account (% of GDP)	-2.3	-3.4	-5.8	-4.9
Fiscal Balance (% of GDP)	-12.4	-7.5	-4.5	-3.0

ECONOMY

Bleak Outlook Despite Historic Budget

The UK economy grew by 0.2% m/m in Jul, against expectations for a reading of 0.3% m/m, and more importantly, rebounding from the 0.6% m/m decline in Jun. This leaves output at about 1.1% above the pre-pandemic levels. The latest figures come amid growing concerns over soaring living costs weighing on households' spending power. But Britain's response to the cost-of-living crisis has differed from its European peers, notably in new prime minister Liz Truss's rejection of a windfall tax on energy companies' profits. On 8 Sep, Truss announced plans to freeze household energy bills and provide support for businesses in a package of measures worth more than GBP150bn. How far the package goes is yet to be seen, but the immediate focus has been on UK Chancellor Kwasi Kwarteng's Growth Plan unveiled on 23 Sep, with the aim of tackling high energy costs and inflation and delivering higher productivity and wages. His package of tax cuts was the biggest since 1972.

There is significant uncertainty surrounding the combined impact of the fiscal measures proposed, alongside higher interest rates and a slowing economy. Financial markets have thus reacted strongly and negatively in the immediate aftermath to the government's break with fiscal orthodoxy. Politically, the approach of Truss and Kwarteng is a huge gamble. The risks to Truss's position will grow if her economic gamble fails, but it will probably force the government to provide more specific commitments to return to fiscal responsibility over the longer term. It will set out its fiscal approach more fully in future and the Office for Budget Responsibility (OBR) will publish an economic and fiscal forecast before the end of this year.

But with the economy contracting by 0.1% in 2Q22, and the sluggish rebound in Jul's GDP, a downbeat economic outlook prevails. This is exacerbated by the passing of Queen Elizabeth II where the additional bank holiday for the Queen's state funeral is expected to cause a decline in activity, especially for the hospitality and tourism sectors as many businesses were shut. We thus see the UK slipping into a recession in 3Q22 but our view is that the recession will not be too deep nor too long, supported by the latest fiscal package. For this year, we expect GDP to come in at 3.4%. But for 2023, our full year GDP forecast is now at -0.1%.

The labour market remains incredibly tight. Unemployment fell to 3.6% in the three months to Jul, the lowest since 1974. The number of employees on payrolls increased by 71,000 in Aug, after a revised rise of 77,000 in Jul (73,000 previously). Wages have responded to the tight labour market, with wage growth rising 5.2% in the three months to Jul, from 4.7% in Jun. The measures including bonuses increased to 5.5%, from 5.1% in Jun. The combination of a real income squeeze, slower growth and monetary tightening should lead to a higher unemployment rate by year-end.

As for inflation, CPI rose by 9.9% in Aug, down from 10.1% in Jul. In its Aug forecast, the Bank of England (BOE) had projected a reading of 9.9%. The main factor behind the fall in the annual rate was a drop in fuel prices, which fell by 6.8% on the month, chopping 0.33ppt off headline inflation. Looking ahead, we think inflation will peak in early 4Q22, with a full-year forecast of 9.2% for 2022, before subsequently easing off as energy prices stabilise and the job market cools. Our inflation forecast for 2023 stands at 6.5%.

CENTRAL BANK

More Rate Hikes

As widely expected, the Bank of England (BOE)'s Monetary Policy Committee (MPC), at its meeting in Sep, voted by a majority of 8-1 to increase the Bank Rate by 50bps to 2.25%, its seventh consecutive policy meeting since Dec that it has raised its key interest rate. Once again, the BOE warned that "policy is not on a pre-set path", though it will act forcefully in response to persistent inflationary pressures.

Notably, this is the first time since the 2007/2008 Global Financial Crisis that a three-way split was seen. Dave Ramsden, Catherine Mann and Jonathan Haskel pushed for a 75bps hike, arguing that incoming fiscal support will also add to demand. Swati Dhingra, voting at her first meeting, was the only one voting for a 25bps rise.

The BOE has made clear (at its Sep monetary policy meeting), that they would react to an expansionary package with higher rates. Following the BOE's meeting on 22 Sep, we were expecting the BOE to increase rates to 3.25% by year-end (50bps hikes at the Nov and Dec meetings), before taking its foot off the brakes in this current hiking cycle. However, the obvious implication following the budget is that rates are likely to be higher for longer, with speculation even of a possible inter-meeting rate hike by the BOE (which we are not ruling out). We now look for the BOE to increase rates to 4.25% by year-end and 5.25% by end-1Q23.

CURRENCY

GBP Slumps Towards Parity

The worst performing G-10 currencies in 3Q22, GBP/USD plummeted to record lows of 1.0350 in late Sep as Britain's ballooning twin deficits due to the latest tax cuts compounded worries that UK economy will be slipping into a year-long recession starting 4Q22. Given the UK macroeconomic instability, it is likely GBP will be the escape valve. We now expect a further decline in the GBP trade-weighted index towards the Brexit (2016) lows of about 73 (from 76 currently) which in turn would drive another leg lower in GBP/USD. While we do not dismiss the prospect of an inter-meeting outsized BOE rate hike to stabilize GBP, its longer-term efficacy remains questionable given the fragile outlook of the UK economy and the broad-based strength of the USD.

Overall, we update our GBP/USD forecasts to 1.05 in 4Q22, and 1Q23, 1.08 in 2Q23 and 1.12 in 3Q23. At the same time, we would highlight the meaningful risk that GBP/USD may even exceed our downside forecasts and trade below the parity level given the huge volatility and uncertainty.

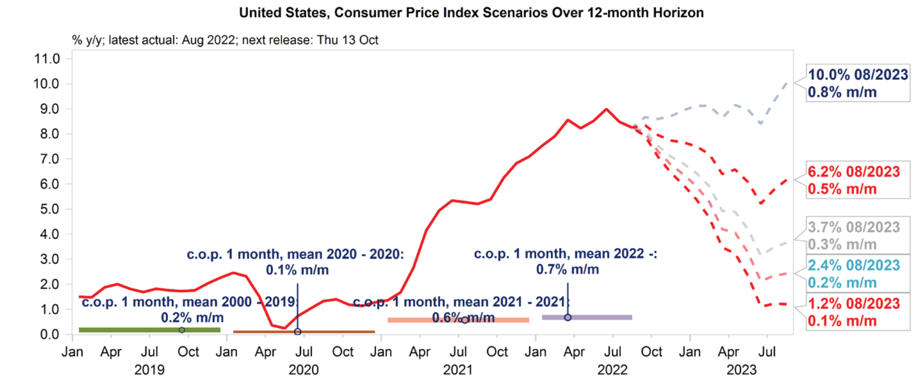
UNITED STATES

FX & Rates	4Q22F	1Q23F	2Q23F	3Q23F
DXY	114.3	114.5	111.0	108.7
US Fed Funds Rate	4.50	4.75	4.75	4.75

Economic Indicators	2020	2021	2022F	2023F
GDP	-3.4	5.7	1.0	-0.5
CPI (average, y/y %)	1.4	4.7	8.5	3.0
Unemployment Rate (%)	6.7	3.9	3.9	4.5
Current Account (% of GDP)	-3.1	-3.6	-3.5	-3.9
Fiscal Balance (% of GDP)	-18.7	-12.5	-6.0	-4.0

Where US Inflation Will be In Aug 2023 Based On M/M Projections

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY

Gloomy Outlook With A Recession In 2023

US growth outlook has taken a significant downshift. Earlier when the economy reported back-to-back q/q contractions (-1.6% q/q SAAR in 1Q 2022 followed by -0.6% in 2Q), a technical recession, it wasn't considered a "real" recession as many parts of the economy were still expanding and more importantly, the employment situation was tight with strong job creation and wage growth.

But now, the additional downside risks to growth will be due to more aggressive Fed rate hikes which will hit the brakes on aggregate demand to rein in the portion of inflation that the Federal Reserve (Fed) can have an impact on. The higher interest rates are already having a clear negative impact on the US housing market, as residential fixed investment plunged by -16.2% in 2Q (1Q: +0.4%), subtracting 0.8ppt from the change in headline GDP. Further steeper declines in residential investments are expected in coming quarters. Meanwhile, the savings rate is easing further to 5.1% in 2Q from 5.6% in 1Q and 7.9% in 4Q 2021). Coupled with lower than expected personal consumption expenditure (PCE) increases in 1H, the lower savings rates in 1H was reflecting how the accelerating inflation is eating into spending, especially discretionary spending.

The main tenet to our US growth downgrade is the Fed, in their determination to bring inflation down to the 2% objective, that they "will keep at it until the job is done" even at the cost of a recession. **We now expect GDP growth to be lower materially to just 1.0% in 2022** which is now well below trend growth (i.e. 1.8% to 2.0%). **And for 2023, we project US GDP will contract by 0.5%.** Note the Fed's 2022 GDP growth forecast was revised massively lower to 0.2% in the Sep FOMC (1.5ppt lower from 1.7% in Jun FOMC) while 2023 growth was revised lower, but still positive at 1.2% (from 1.7% in Jun). This is likely an implicit statement the Fed is willing to accept significantly lower growth in order to rein in inflation.

Higher jobless rates: We are also downgrading our forecasts for US job market, raising the jobless rates to 3.9% at end-2022 (previous: 3.7%) and 4.5% at end-2023 (previous: 3.9%), in line with Fed's median projections of 3.8% and 4.4%, respectively. Higher unemployment rates reflect the negative impact of the Fed's rate hikes on hiring and the rising participation rate (which is at 62.4% in Aug, still 1ppt below the pre-pandemic level in Feb 2020 of 63.4%).

Still elevated broad-based inflation: US headline consumer price index (CPI) inflation was off from recent highs but still elevated at 0.1% m/m, 8.3% y/y in Aug (from 0.0% m/m, 8.5% y/y in Jul). A bigger concern was core CPI inflation (excluding food and energy) which raced higher, reflecting unabating underlying momentum for price pressures. Core inflation rose by a faster 0.6% m/m, 6.3% y/y in Aug (up from 0.3% m/m, 5.9% y/y in Jul. While the latest headline inflation was below the 9.1% recorded in Jun, this reflected mainly the decline in gasoline prices but the cost of living is still materially high as shown by the persistent rise of food and shelter costs while services inflation is getting hotter amidst strengthening demand. Our inflation outlook has not changed and we expect US inflationary pressures to stay elevated, underpinned by higher commodity prices (especially energy and food), supply chain disruptions and mortgage costs, and rising services inflation. We expect headline CPI inflation forecast to average 8.5% and our core CPI inflation forecast at 6.5% for 2022. Subsequently, we still expect both headline and core inflation to ease in 2023, but it will likely average higher at 3.0% (above Fed's 2% objective).

We illustrate in a simple graph where inflation may be in 12 months' time. Even if the m/m pace stayed at the current 0.1% for next 12 months, then inflation will ease to 1.2% y/y in Aug 2023. But this is unlikely in our view, and anything that is 0.2% (or higher), will imply that inflation will be 2.4% y/y or higher in Aug 2023, higher than Fed's 2% objective.

CENTRAL BANK

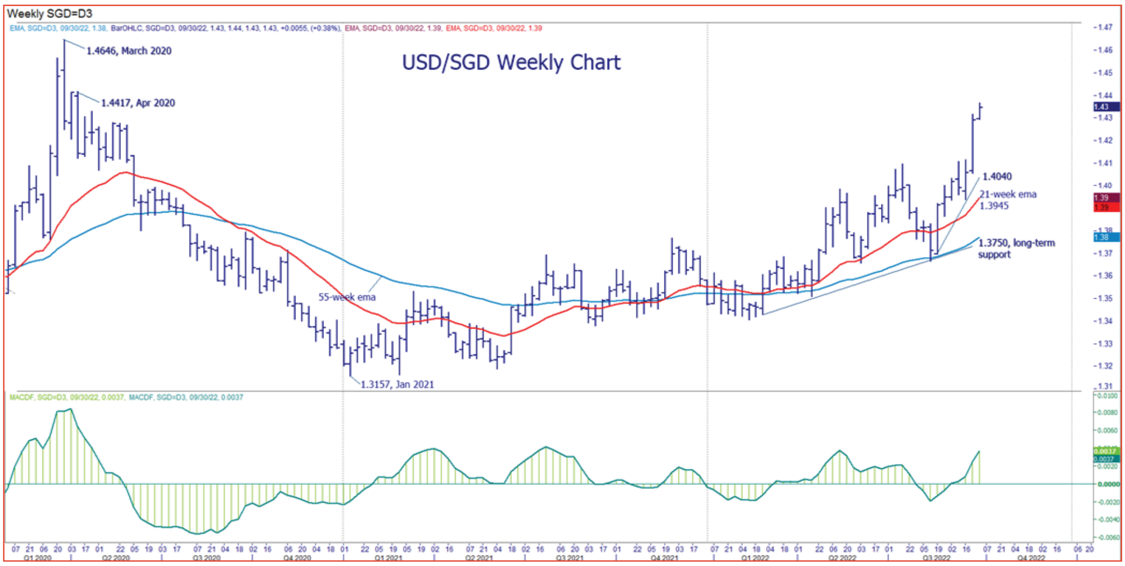
Hawkish Future

The seriousness of Chair Powell's determination to rein in inflation cannot be disputed and given the more hawkish trajectory spelt out at the Sep FOMC, we now expect the FFTR to be hiked faster for the remainder of 2022, either in clips of 50 bps or 75bps. We expect another one more 75 bps rate hike in Nov FOMC before ending the year with a 50bps hike in Dec (versus our previous forecasts of 50bps in Nov and 25bps in Dec). Including the hikes so far in 2022, this implies a cumulative 425bps of increases in 2022, bringing the FFTR higher to the range of 4.25-4.50% by end of 2022, a range well above the neutral stance (which is seen as 2.25-2.50%, the Fed's long run projection of FFTR). We maintain our forecast for one more 25bps rate hike in Feb 2023, bringing our terminal FFTR higher to 4.50-4.75% by end 1Q-2023 (from previous forecast of 4.00-4.25%), and a pause to the current rate hike cycle until 1Q 2024.

FX Technicals

USD/SGD: 1.4350

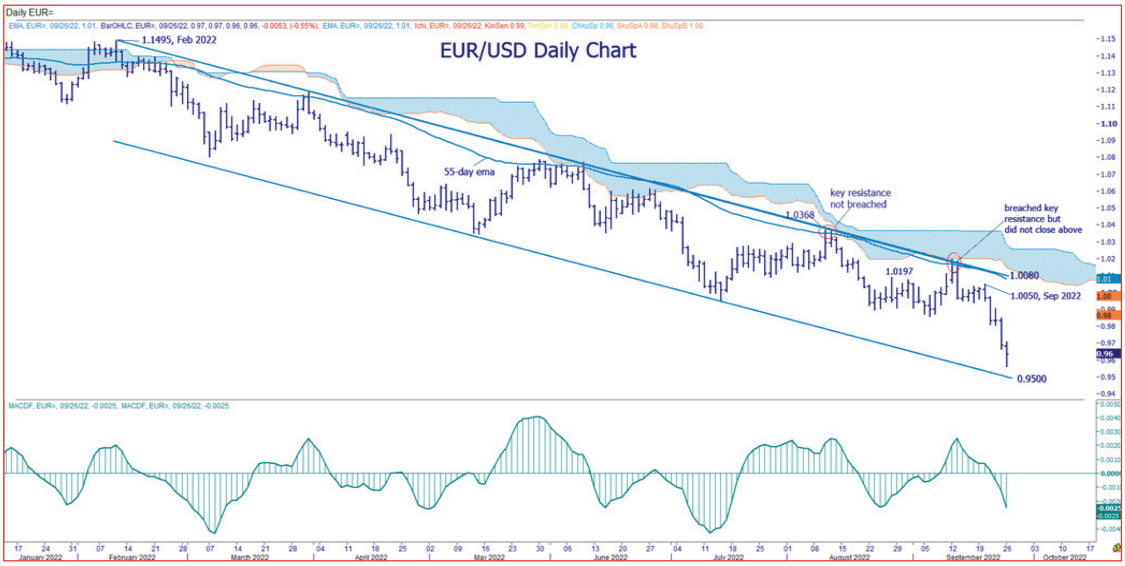
Impulsive upward momentum is likely to lead to further USD/SGD strength in 4Q22; the next level to watch is at 1.4420, followed by the 2020 high near 1.4645.



At the time of writing in late Sep, USD/SGD broke through the 1.4300 resistance level and posted its largest 1-week gain since Mar 2020. The impulsive upward momentum is expected to lead to further USD/SGD strength in 4Q22. The next level to watch is at 1.4420, followed by the 2020 high near 1.4645. To keep the strong momentum going, USD/SGD should ideally stay above the rising trend-line support, which is currently at 1.4040. However, only a break of the 21-week exponential moving average (currently at 1.3945) would indicate that the upward pressure has subsided. From a longer-term perspective (in terms of multiple months), the key support is at 1.3750.

EUR/USD: 0.9650

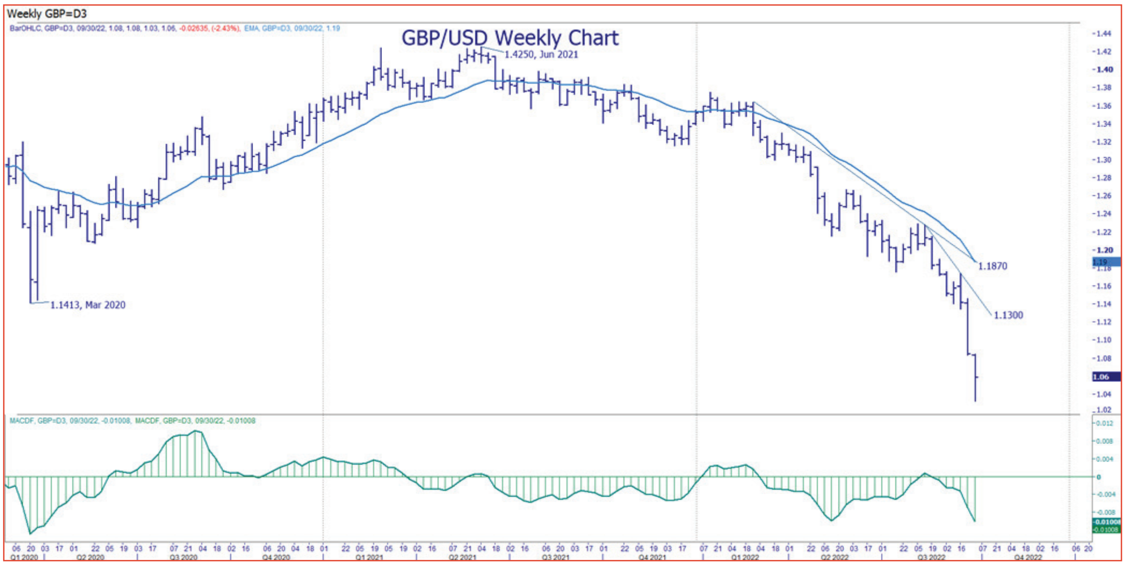
Downtrend in EUR/USD is likely to persist; the next support level to monitor is at 0.9500.



EUR/USD edged slightly above the top of the descending channel and the 55-day exponential moving average in mid-Sep but did not close above the key resistance level. As long as this key resistance (currently at 1.0080) is not breached, the downtrend that started in early 2022 is likely to persist for another few more months. The next support level to monitor is at the bottom of the descending channel at 0.9500. If EUR/USD breaks clearly below this level, it could potentially trigger a rapid drop to the next major support at 0.9000.

GBP/USD: 1.0600

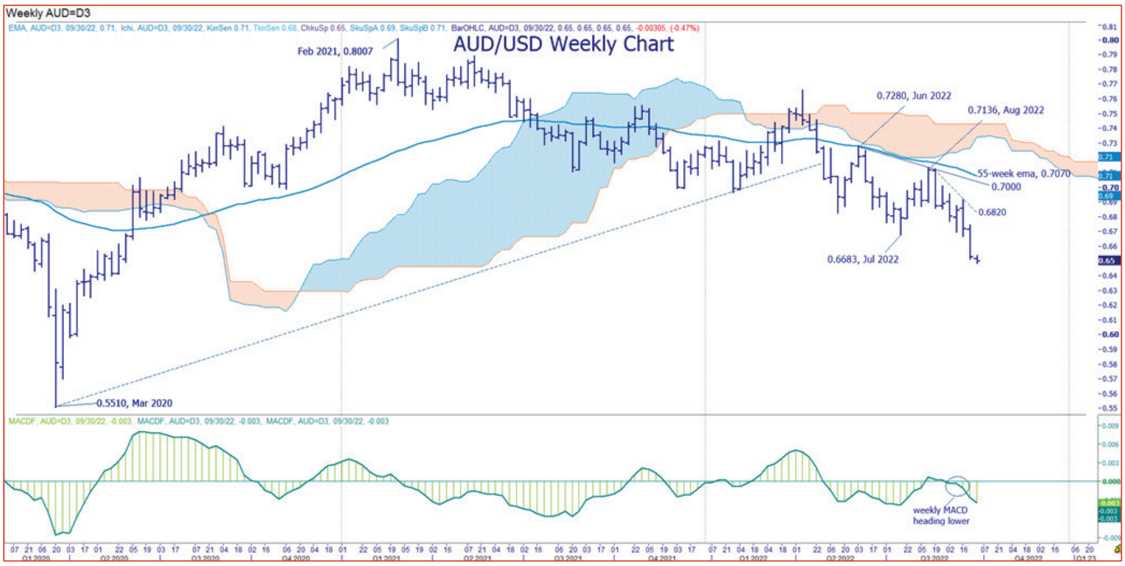
Downward momentum is very strong; a breach of 1.0000 is not ruled out.



At the time of writing in mid-Sep, GBP/USD had dived below the 1985 record low of 1.0520. The breach of the record low exposed further downside as there are no support levels of note until 1.0000. In view of the impulsive decline, a breach of 1.0000 is not ruled out. The nearest resistance level is at 1.1300. Higher up, the 21-week exponential moving average and declining trend-line resistance are clustered together (at the time of writing, the level is at 1.1870). This pair of resistance level is unlikely to come under threat within the last quarter of the year.

AUD/USD: 0.6500

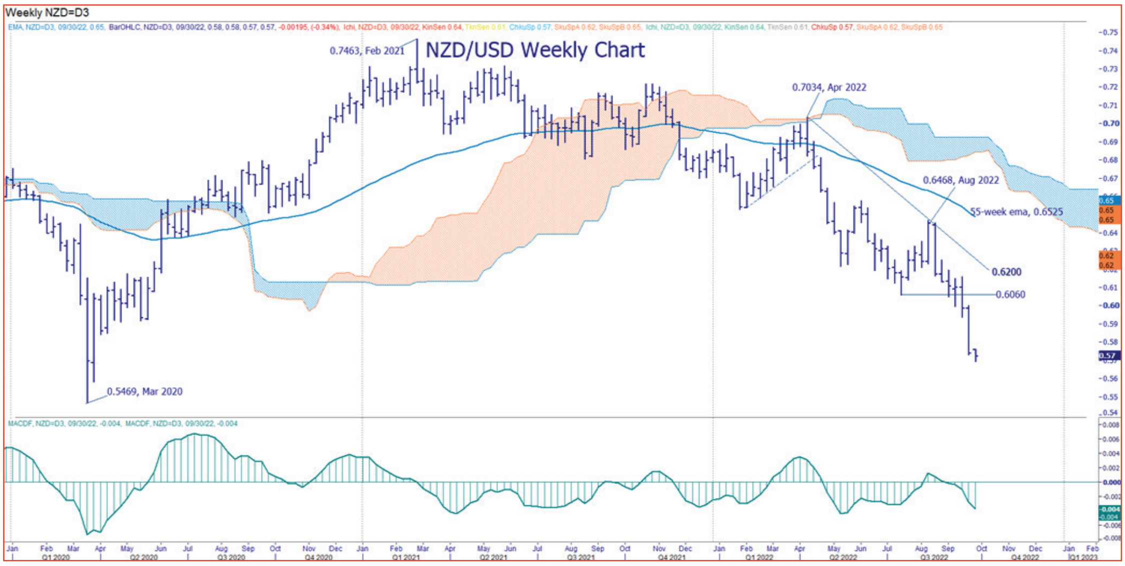
Risk for AUD/USD for the last few months of 2022 is tilted to the downside towards 0.6300.



The 55-week exponential moving average 'capped' the rebound in AUD/USD in Jun and Aug this year (see chart above). The pullback from the Aug high of 0.7136 is gathering momentum and the risk for the last few months of 2022 is tilted to the downside towards 0.6300. Resistance is at 0.6820 but only a breach of 0.7000 would indicate that AUD/USD is unlikely to weaken towards 0.6300. The 55-week exponential moving average (currently at 0.7070) is likely to continue to cap any rebound in 4Q22.

NZD/USD: 0.5750

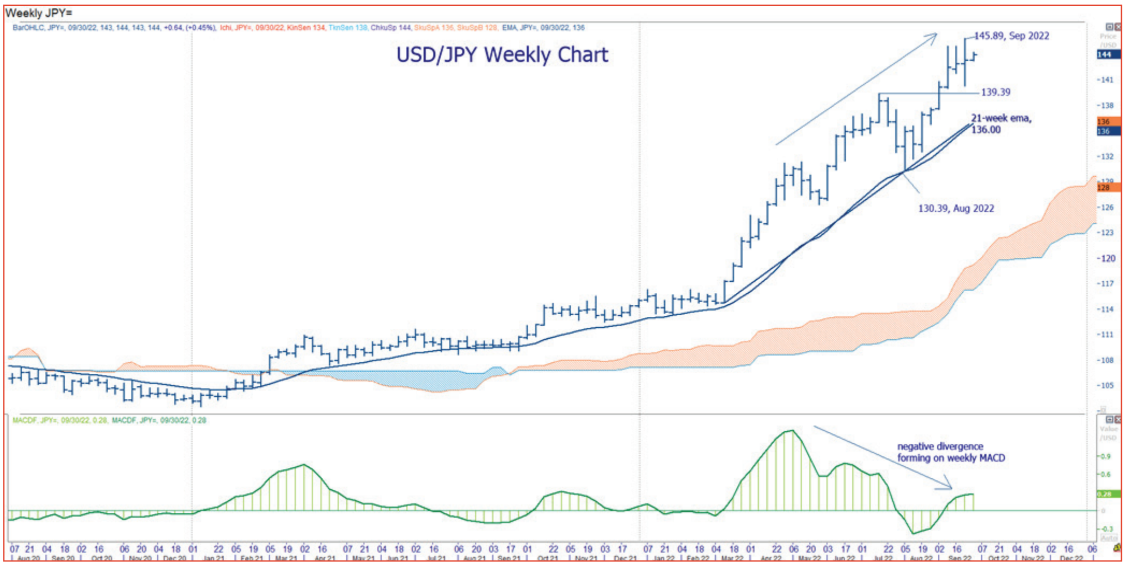
NZD/USD is likely weaken in 4Q22 but the Mar 2020 low near 0.5470 is unlikely to come into the picture.



NZD/USD soared briefly to a high of 0.6468 in mid-Aug before dropping sharply. The decline gathered momentum as NZD/USD lurched lower in late Sep and further decline appears likely. While the next support level of note is at the Mar 2020 low near 0.5470, this major support is unlikely to come into the picture in 4Q22. Resistance is at 0.6060, but only a breach of 0.6200 would indicate that the weakness in NZD/USD has stabilized.

USD/JPY: 143.60

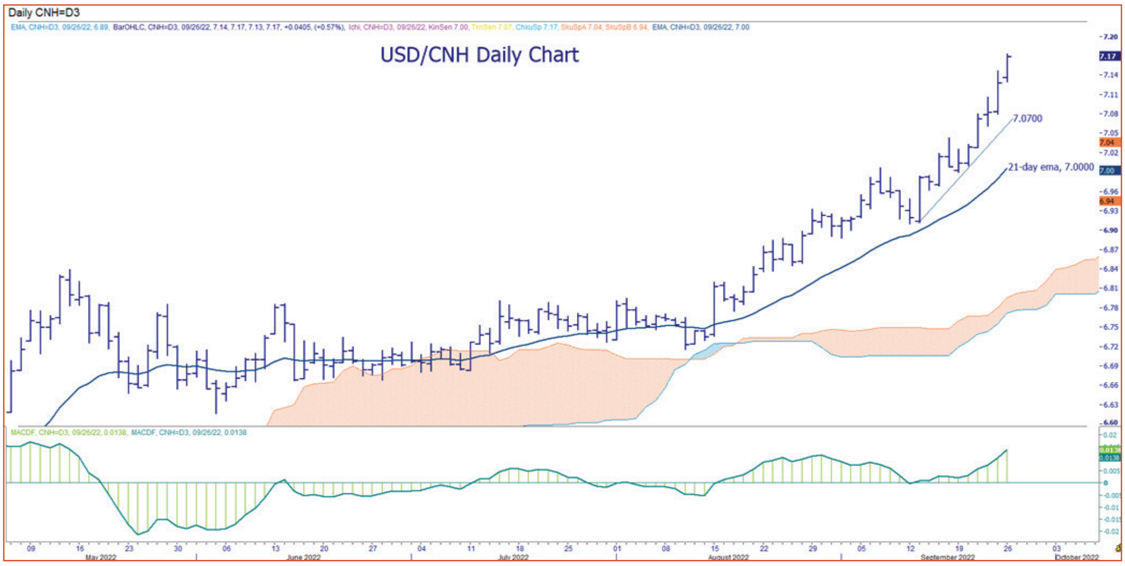
Negative divergence is forming on weekly MACD and the risk of a further sustained in USD/JPY has diminished.



USD/JPY soared briefly to a high of 145.89 in late Sep before dropping quickly. With negative divergence forming on the weekly MACD, the risk of a further sustained advance in USD/JPY has diminished. That said, only a breach of the 'break-out' level near 139.40 would trigger a pullback to 135.00. Both the rising trend-line and the 21-week exponential moving average are near 135.00 and the odds of a break of this solid support within 4Q22 are low.

USD/CNH: 7.1650

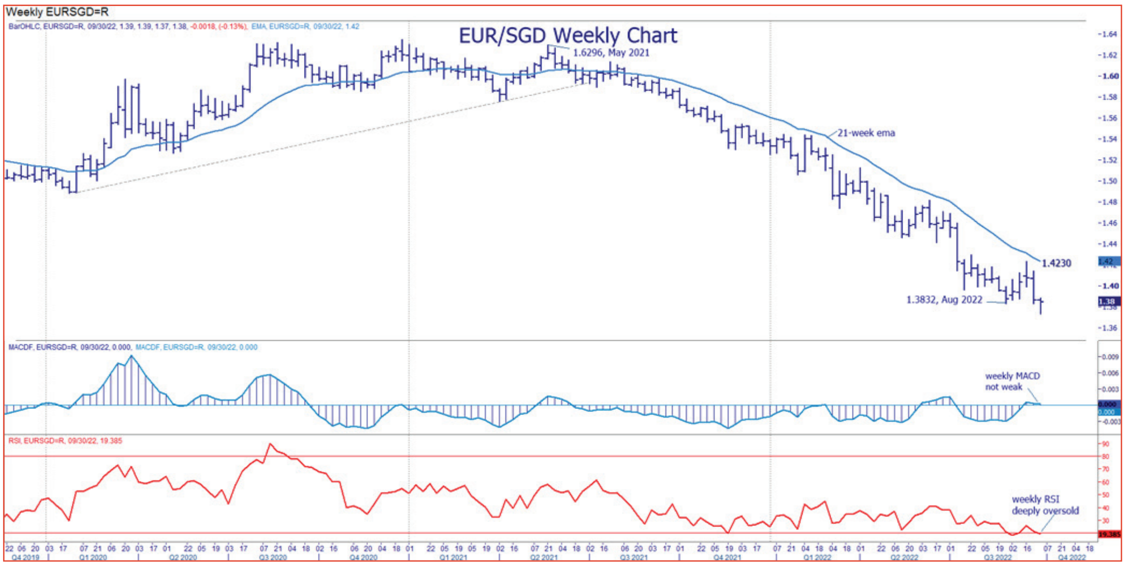
The rally in USD/CNH is likely to extend; a break of the 2020 high near 7.1960 would not be unexpected. The next resistance is at 7.2500.



While the rally in USD/CNH that started in Aug 2022 is deep in overbought territory, the rally is not showing signs of easing. In other words, USD/CNH is likely to strengthen further going into the end of the year. The obvious level to monitor is at the 2020 high near 7.1960. In view of the solid upward momentum, a break of this level would not be unexpected. The next resistance is at 7.2500. On the downside, support is at 7.0700. Further down, the 21-day exponential moving average (at the time of writing, the level is at 7.0000) could continue to hold for another couple of months.

EUR/SGD: 1.3850

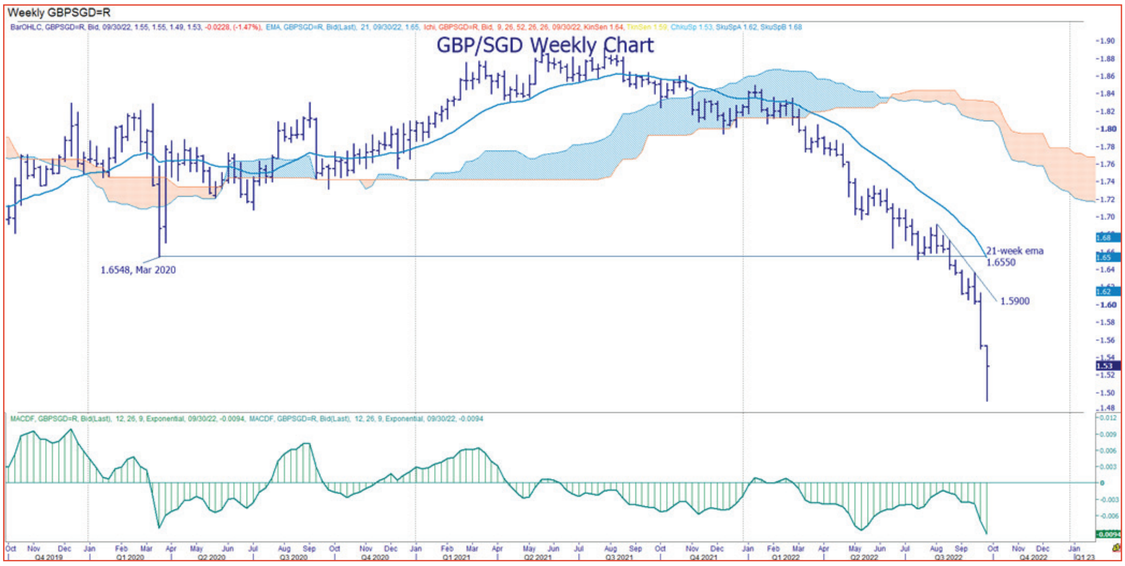
Lackluster downward momentum coupled with deeply oversold conditions suggests limited downside risk in EUR/SGD.



At the time of writing at the end of Sep, EUR/SGD dipped below the Aug low of 1.3832. Despite the decline, weekly MACD is not weak. The lackluster downward momentum combined with deeply oversold conditions suggests limited downside risk in EUR/SGD. To look at it another way, while EUR/SGD could dip to 1.3500, a sustained decline below this level is unlikely within 4Q22. On the upside, a breach of 1.4230 (current level of the 21-day exponential moving average) would indicate that the more than one-year old downtrend in EUR/SGD has ended.

GBP/SGD: 1.5300

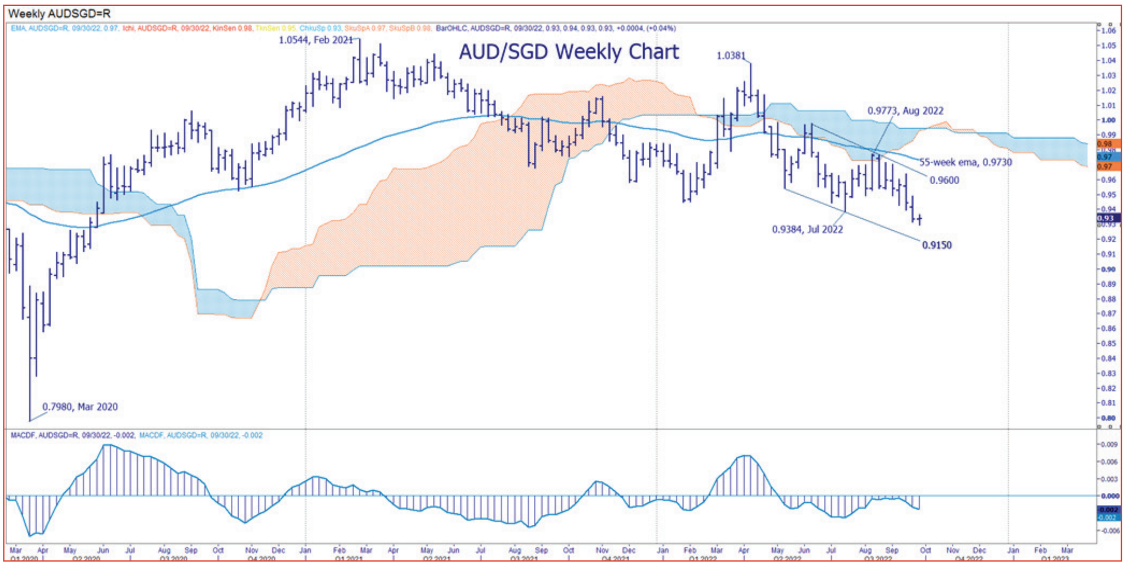
Downtrend in GBP/SGD has not stabilized even though it is unlikely to be able to maintain the frenetic pace of decline. The next support level to watch is at 1.4500.



GBP/SGD dropped below the Mar 2020 low near 1.6550 in Aug 2022. The breach of the strong support level triggered a downward acceleration that quickly took out the 2016 record low of 1.6225. At the time of writing at the end of Sep, GBP/SGD plunged briefly below 1.5000. While the downtrend from early 2022 is deeply oversold, the weakness in GBP/SGD has not stabilized. That said, GBP/SGD is unlikely to be able to maintain the frenetic pace of decline in 4Q22. The next support level to monitor is at 1.4500. On the upside, resistance is at 1.5900. The 21-week exponential moving average (currently at 1.6550) could remain unchallenged for a couple more months.

AUD/SGD: 0.9350

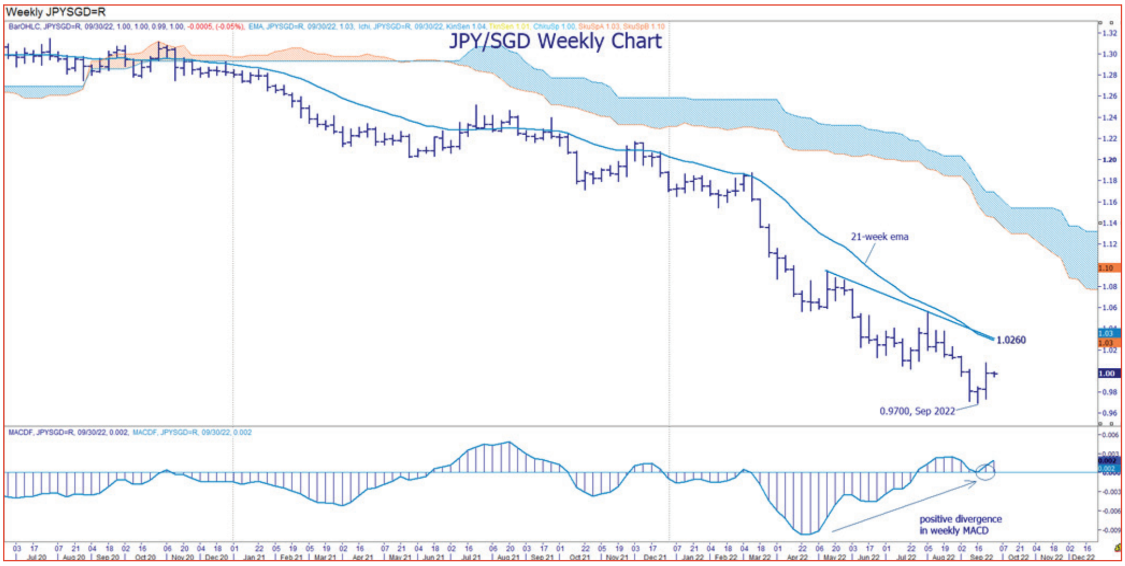
Room for AUD/SGD to edge lower but lackluster momentum suggests any weakness is likely limited to 0.9150



After dropping to a low of 0.9384 in mid-Jul, AUD/SGD rebounded but failed to break the 55-week exponential moving average (high of 0.9773 in Aug). The pullback from the high lacks momentum, but as long as the moving average resistance (level is currently at 0.9730) is not breached, there is room for AUD/SGD to edge lower in the last few months of 2022. In view of the lackluster downward momentum, any weakness is likely limited to a test of the support at 0.9150.

JPY/SGD: 0.9990

Room for rebound in JPY/SGD to extend but a clear break of the solid resistance level near 1.0260 is unlikely.

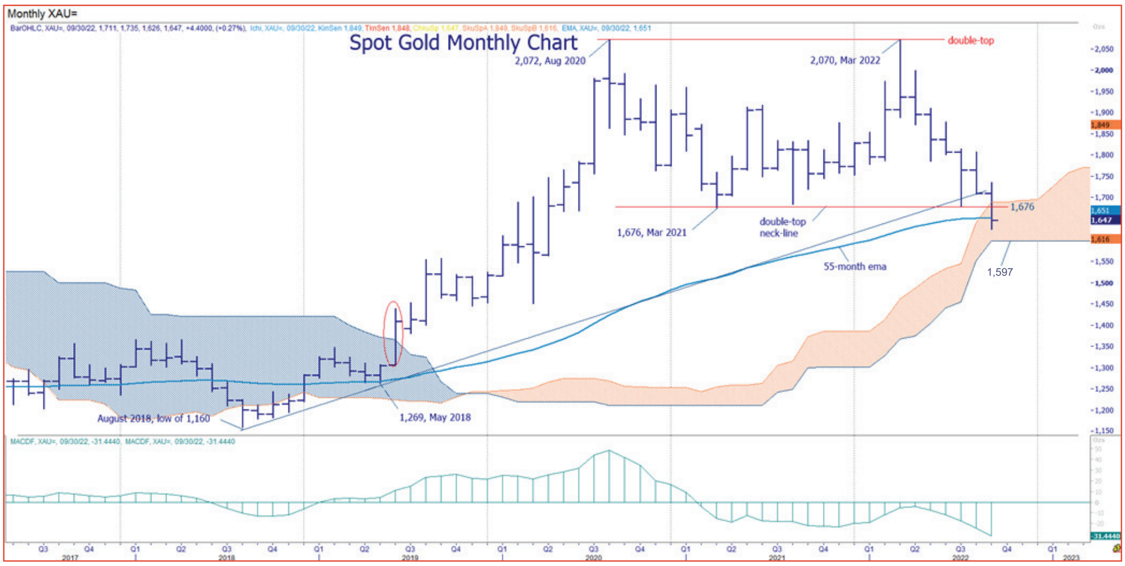


JPY/SGD took out the round-number level of 1.0000 in early Sep and dropped quickly to a low of 0.9700. The strong rebound from the low, combined with “positive divergence” on the weekly MACD suggests that there is room for the rebound to extend. That said, the 21-week exponential moving average and the declining trend-line (both near 1.0260) is a solid a solid resistance and a break of this level is unlikely.

Commodities Technicals

SPOT GOLD $1,648/OZ

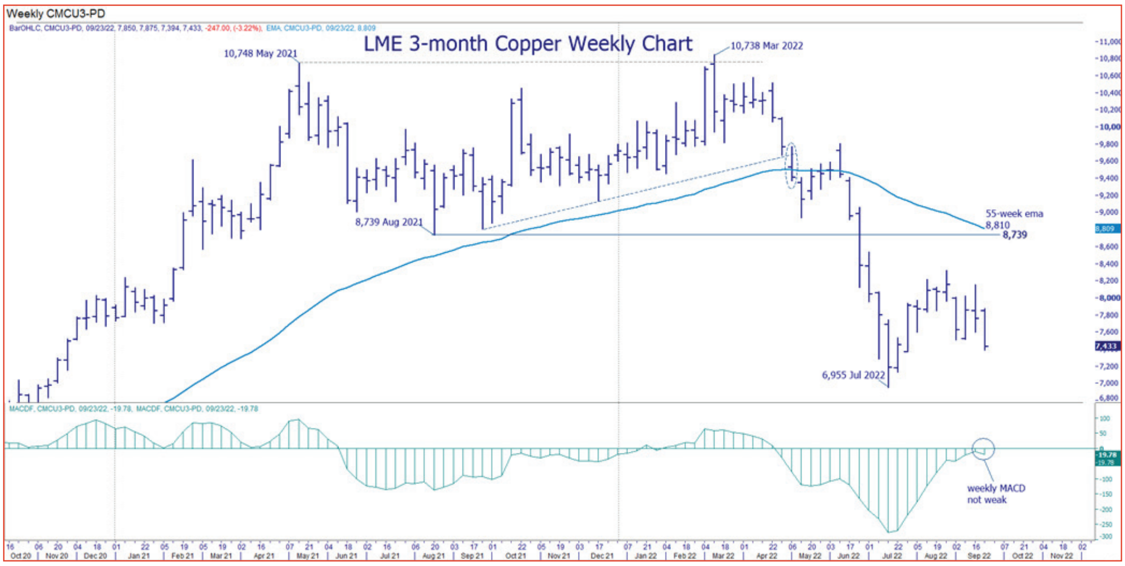
Risk for spot gold is on the downside towards the major long-term support at $1,597.



Spot gold broke through what appeared to be a “double-top” formation neckline near $1,676 at the time of writing in late Sep. Gold also dropped below the 55-week exponential moving average. The break of the major long-term support levels suggests that the rally in gold over the last few years is reversing. The next level to focus on is another major long-term support, the bottom of the monthly Ichimoku cloud (the level is at $1,597). Overall, the risk for gold is on the downside, not just for 4Q22 but also for the months ahead. Resistance is at $1,740, but only a break of $1,805 would indicate that gold is unlikely to weaken further.

LME 3M COPPER $7,435/MT

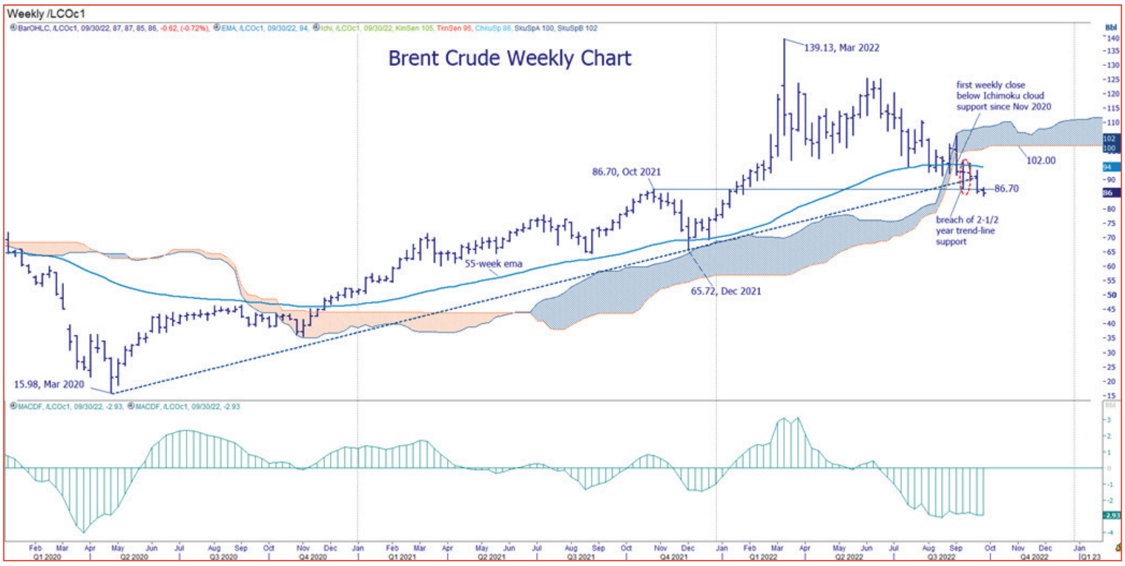
Copper is likely to consolidate and trade between $6,955 and $8,739.



Copper fell below the strong support at $8,739 in late Jun, accelerating to a low of $6,955 in Jul. Copper bounced sharply from the low and downward pressure appears to have eased. In other words, copper is unlikely to weaken further. For the last few months of 2022, copper is more likely to consolidate and trade between $6,955 and $8,739.

BRENT CRUDE
$86.00/BBL

Breach of key weekly support levels is likely to lead to further Brent weakness; next support is at $80.00.



In early Aug, late Sep, Brent crude broke below two major key support levels, the bottom of the weekly Ichimoku cloud and the 2-1/2-year old rising trend-line. The breach of the weekly support levels indicates that the weakness in Brent is likely to persist towards $80.00. Resistance wise, the bottom of the weekly Ichimoku cloud at $102.00 is a very solid level now and is unlikely to come under threat within 4Q22. On a short-term note, $97.00 is already a strong resistance level.

MEET THE TEAM

Global Economics & Markets Research

Suan Teck Kin, CFA
Head of Research
(65) 6598 1796
Suan.TeckKin@UOBgroup.com

Alvin Liew
Senior Economist
(65) 6598 1797
Alvin.LiewTS@UOBgroup.com

Ho Woei Chen, CFA
Economist
(65) 6598 1793
Ho.WoeiChen@UOBgroup.com

Heng Koon How, CAIA
Head of Markets Strategy
(65) 6598 1798
Heng.KoonHow@UOBgroup.com

Quek Ser Leang
Market Strategist
(65) 6598 1795
Quek.SerLeang@UOBgroup.com

Lee Sue Ann
Economist
(65) 6598 1792
Lee.SueAnn@UOBgroup.com

Peter Chia
Senior FX Strategist
(65) 6598 1754
Peter.ChiaCS@UOBgroup.com

Victor Yong
Interest Rate Strategist
(65) 6598 1799
Victor.YongTC@UOBgroup.com

Tan Lena
Business Data Designer
(65) 6598 1794
Lena.Tan@UOBgroup.com

Julia Goh
Senior Economist (Malaysia)
(60)3 2776 9233
Julia.GohML@uob.com.my

Loke Siew Ting
Economist (Malaysia)
(60)3 2772 6221
Jasrine.LokeST@uob.com.my

Enrico Tanuwidjaja
Economist (Indonesia)
Enrico.Tanuwidjaja@UOBgroup.com

DISCLAIMER

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

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

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

RIGHT BY YOU

United Overseas Bank Limited
Company Registration No.: 193500026Z

Head Office
80 Raffles Place
UOB Plaza
Singapore 048624
Telephone: (65) 6533 9898
Facsimile: (65) 6534 2334

www.uobgroup.com

MCI (P) 033/08/2021