UOB HOUSE VIEW

2Q2018

GLOBAL MACRO

Geo-politics is creating a lot of uncertainty in the outlook and the warnings have been sounded even though the economic fundamentals are healthy. Global monetary policy is still on the normalising path led by US Federal Reserve but politics & trade tensions could spoil the party. On balance, we believe we have more to be hopeful for than to be fearful, but admittedly the number/degree of “fears” is increasing.

ASSET ALLOCATION

While it is not surprising that markets are concerned about the implications of “normalizing”, there really is significant evidence that equities perform well in this type of environment. We overweight equities as it carries higher expected returns than the other asset classes, but continue to think the outlook for most asset classes including fixed income is stable.

EQUITIES

After a rather benign 2017, volatility has picked up on the back of concerns about rising US interest rates and more recently, unilateral US tariffs on its trade partners. We see the recent market volatility as part of a correction and consolidation phase, rather than the start of a bear market. From a historical perspective, equity rallies typically end on signs of an impending recession, particularly one in the US.

FIXED INCOME

Fixed income investors are naturally nervous about the implications of rising rates after years of very low rates, but the reality is that all signs point to a more modest “normalization” path. Thus, we think fixed income investors should view the outlook as one with mere “headwinds” to fixed income performance and not one where rate rises will be very disruptive to performance.

COMMODITIES

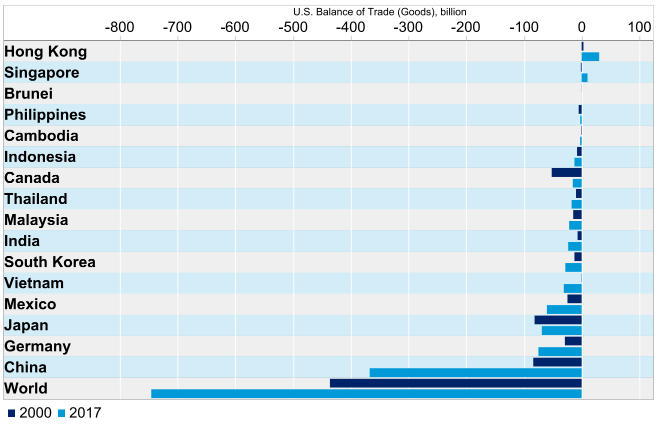
As a result of the Goldilocks euphoria since the start of the year, there has been a clear build-up in net long positioning and inventories in key commodities. Consequently, after the strong rally over the past year, we see range trading around current levels going forward for Brent crude oil as well as LME copper. As for gold, it is still expected to weaken due to rising interest rates.

FX & INTEREST RATES

After more than a year of non-stop sell-off, the outlook for the USD remains difficult and weak. On-going flattening of the yield curve and the converging of normalization of global monetary policy are two key drivers that continue to weigh on the USD. FED is on track to hike a further 2 times in 2018. Net supply outlook support higher Bond yields, while funding conditions and wider Libor vs. overnight index swap spreads may be transitional friction but nonetheless warrant careful monitoring.

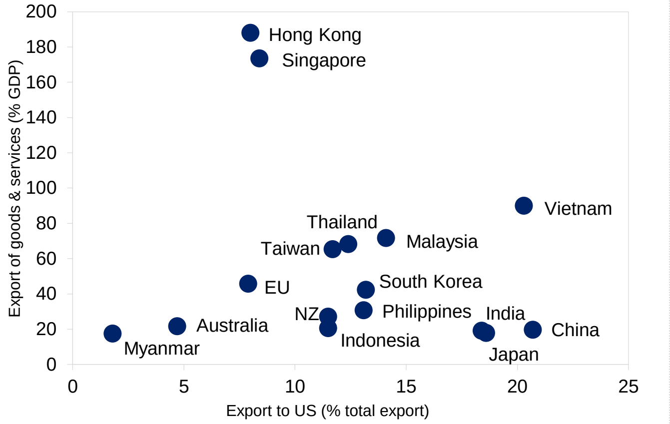
UOB

US Trade In Goods Balance With Key Partners – Bigger Deficit, Bigger Target For Trump



Source: Macrobond, UOB Global Economics & Markets Research

Vulnerability To US Based On Export Exposure: China, Japan, Vietnam & India Clearly Stand Out



Source: Bloomberg, UOB Global Economics & Markets Research

At the start of the year, the global economy was still humming along and IMF upgraded global growth as well as the outlook for several major economies (many other international agencies did similar upgrades as well). But financial markets followed a different script. After a positive January, things went south in February as the sudden spike in concerns about the possibility of a faster Fed rate hike trajectory sent stock markets tumbling, with a "timely" warning volatility is not dead.

That said, even though 1Q of 2018 did not start out as planned and it probably did not hurt as much as we initially feared, the risk is now emanating from the geopolitical space. The biggest immediate risk is likely the escalating trade tensions between US and the rest of the world, in particular China. If this looks and sounds familiar, that's because it is. Right after Trump's election victory in late 2016, this was exactly one of the key concerns everyone had since Trump campaigned on a populist platform of anti-establishment, anti-free trade, anti-immigration, imposition of trade tariffs and tax cuts (which is seen as protectionist and detrimental to global trade).

After concentrating on domestic issues in his first year in office, Trump first announced tariffs on solar panels & washing machines in early 2018, and on 1 Mar, he announced his intention to impose 25% tariffs on steel imports and 10% tariffs on aluminum imports. And now he seems ready to take aim at China as Trump signed an executive memo on 22 Mar, instructing US Trade Representative Robert Lighthizer to levy tariffs against at least US$50bn of Chinese goods over intellectual-property violations. Another venue for the US to force through trade protectionism is possibly through labelling China as a "currency manipulator" in the next semi-annual US Treasury FX report (likely in mid-April) as an indirect route of forcing trade restrictions.

But now, what we're seeing from President Trump is either a fulfilling of his presidential campaign pledges, creating a distraction from his domestic political issues, taking a risky bet to make gains in the November US mid-term elections or a combination of all three. And it would be naïve to think that Trump can keep throwing more and bigger "stones" at China and expect China not to respond. Surely Trump will get a response, and likely not a pleasant one. Our base case remains that we do not expect an all-out trade dispute but there is clearly a non-zero potential risk.

Beyond the US-led trade tensions, there are many other geo-political developments that markets need to be watchful in 2Q:

- US Special Counsel Robert Mueller's investigation into Russian meddling with the 2016 US presidential elections (a stormy time for Trump?)
- Japan domestic political stability being rocked by a controversial government land sale deal implicating Japan PM Shinzo Abe and Fin Min Taro Aso
- UK & EU Brexit negotiations seeing positive developments ahead of the EU leader's summit (22-23 Mar)
- A US-North Korea Leaders' summit potentially in May 2018 (It is unclear whether this will be a positive or a negative for the markets?)
- Increasingly rocky relationship between Russia and G7
- Italian election stalemate and new elections are likely, but the timing is not yet settled
- Malaysia likely to hold its 14th General Elections in 2Q and the ruling coalition is largely expected to win the elections
- G7 leaders' summit in June may be a messy affair if trade tensions escalate further

Geo-politics is creating a lot of uncertainty in the outlook and the warnings have been sounded even though the economic fundamentals are healthy. Global monetary policy is still on the normalising path led by US Federal Reserve but politics & trade tensions could spoil the party. China, in comparison, is on the other end of the spectrum, providing the political stability and continuity as Xi Jinping is unanimously elected as the President during the 13th National People's Congress (NPC) session. **On balance, we believe we have more to be hopeful for than to be fearful**, but admittedly the number/degree of "fears" is increasing.

ASSET ALLOCATION

Ageing Bull or Raging Bull?

By the end of 2017 and the start of 2018 we have argued that the global investment cycle had moved decisively out of a near-deflationary environment and towards a more normalized cycle. Now that the cycle is normalizing, the market's focus has shifted to trying to assess how much longer the cycle will last and whether investments can hold up in the face of rising rates. Our assessment of macroeconomic growth is to expect better growth in 2018 and thus we think the cycle continues for at least another year and probably longer. Interest rates are normalizing at a gradual rate and a level that has not slowed down growth and market performance historically.

Investment market performance at the start of the year has left many investors somewhat confused. In January, global equities started strongly with global markets rallying close to 5% in the first month alone. In February, global equity markets corrected sharply with most regional markets falling 10% before starting to recover by the end of the month. Many investors wonder if the rest of 2018 will follow the trends of January or February. We argue for 2018 to look more like January with some bouts of volatility along the way.

A 10% equity correction and a spike in volatility appears unsettling, but nevertheless is in line with equity market behavior over bull markets. We highlight that over the bull market from 2003 to 2007 there were 7 corrections of 5% or more, and in each case, equity markets recovered their losses and were making new highs again on average within 2 months. We also note that rising rates are typical backdrops to bull markets. Again through the previous expansion cycle of 2003 to 2007, the US Fed Funds rate and the 10 Year UST were trending up over several years and equities continued to perform. The bull market only really ended when the next recession came.

Thus, we continue to monitor our checklist for indicators of the next recession. Compared to last quarter, little has changed and our indicators still point to the greater likelihood of the cycle last more than a year. The yield curve has not inverted, leading indicators have not softened, credit growth is not overheated, high yield spreads over investment grade spreads have not widened, recession probability models have not increased, and market measures of stress and correlations are not showing signs of concern.

Thus we think the bull market continues and the February correction is still in line with traditional bull market corrections. The global expansion is mature as it has persisted for 9 years, but it is not giving any signs of it fading yet. **We thus overweight global equities and underweight fixed income. We are neutral on commodities and underweight cash.**

The top risks for the coming quarters remain inflation surprises, US policy, a China slowdown and geopolitical tensions. While we expect inflation to rise in 2018 we think it will take time for inflation to merely meet central bank targets. US trade policy is increasingly worrying and has the potential to slow global growth. Growth in China as of early 2018 remains stable and geopolitics appears to have been reduced as a risk compared to prior years. Geopolitical risks appear to be somewhat mitigated in recent months as Italian elections were in line with expectations and the risk of provocations from N Korea appear to have declined.

Asset Class	Policy	UOBAM Weight (%)	Benchmark Weight (%)	Change from 17 June
Equities	Overweight	60.0	55.0	+
Bonds	Underweight	32.0	38.0	-
Commodities	Neutral	5.0	5.0	=
Cash	Underweight	1.0	2.0	-

EQUITIES

After a strong start to the year in January, many of the major equity markets have since given up their gains. Following a rather benign 2017, volatility has picked up on the back of concerns about rising US interest rates and more recently, unilateral US tariffs on its trade partners. As unsettling as recent market gyrations may be for some investors, it is useful to remember that from a longer-term perspective, such volatility is not uncommon. 2017's calm in equity markets was the exception rather than the norm. We see the recent market volatility as part of a correction and consolidation phase, rather than the start of a bear market. From a historical perspective, equity rallies typically end on signs of an impending recession, particularly one in the US. At present, there are few signs of a US recession on the horizon.

We maintain a **neutral stance on US equities**. In our view, the US tariffs are not likely to derail the economy's growth trajectory, as trade does not constitute a large share of the US economy. Furthermore, the final impact of the tariffs may be blunted – key allies are receiving exemption from the steel and aluminium tariffs; while the tariffs on Chinese imports may be subject to a period of public comment that leads to changes. Overall, the US economy remains on a positive footing, and may even grow faster than expected owing to the tax cuts passed in late 2017. While US equities can be expected to deliver positive returns against this backdrop, we do not expect these returns to be large as both corporate profit margins and valuations are already high relative to history.

We maintain a **positive view on European equities**. Economic activity continues to improve and positive momentum looks intact. Importantly, from both economic and social perspectives, the unemployment rate continues to decline. Although the Italian elections were inconclusive and have led to political uncertainty in the country, the impact is likely to be localized and unlikely to metastasize into a Eurozone-wide crisis of confidence as even the anti-establishment parties have retreated from their calls for abandoning the euro or ceding from the European Union. While European equities have been under pressure recently, we see potential for them to outperform over the course of the year.

We maintain a **positive view on Japanese equities**. Japanese equities have been under pressure recently from a stronger yen as market participants continue to focus on the Bank of Japan's exit strategy from unconventional monetary policy. A political scandal concerning a controversial government land sale to an educational foundation linked to Prime Minister Shinzo Abe's wife has also weighed on the market. That said, there are hints that Japan may be making headway in defeating inflation, as wages are on the rise amongst the more flexible part-time labour force. Should investors become convinced that Japan is on track to escape nearly three decades of deflation/disinflation, Japanese equities can be expected to enjoy a substantial re-rating.

The view on emerging market equities is more differentiated. Rising US interest rates have removed what was previously a tailwind for emerging market equities in aggregate. We therefore favour markets with their own positive drivers, rather than those dependent on easy financial conditions. **We maintain our positive views on equities in China (earnings recovery), Russia (higher oil prices) and Brazil (economic recovery). We also have a positive view on Korea and Taiwanese equities, on the basis that global growth picks up in 2018 in the absence of a wider trade war.**

COMMODITIES

Overview - Clear Build-Up In Net Long Positioning And Inventories Cap Further Meaningful Gains

We had warned in the previous quarterly update published in Dec17 that after the strong rally in 2H17 in the commodities complex, net long positioning in several commodities is starting to appear rather stretched and may well limit further extensive gains. Indeed, the strong rally in various commodities appears to have stalled across 1Q18 on stretched long positioning.

Gold – Under Pressure From Further Rise In Interest Rates

Gold is expected to feel the pressure from rising interest rates. Since the start of January, 3M US Libor has risen from the 1.7% handle to above 2.0%. In other words, the funding cost to maintain a long gold position as measured by 3M US Libor has risen by 30 bps (assuming no additional leverage). Our base case remains 3M US Libor to rise further to 2.4% by end of this year. Overall, we maintain our negative view on gold. Both existing negative drivers remain, namely the on-going liquidation of long positioning as well as further rise in short term rates. From current USD 1,320 / oz, we forecast that gold will drop back to 1,290 in 2Q18, 1260 in 3Q18, 1230in 4Q18 and 1200 in 1Q19.

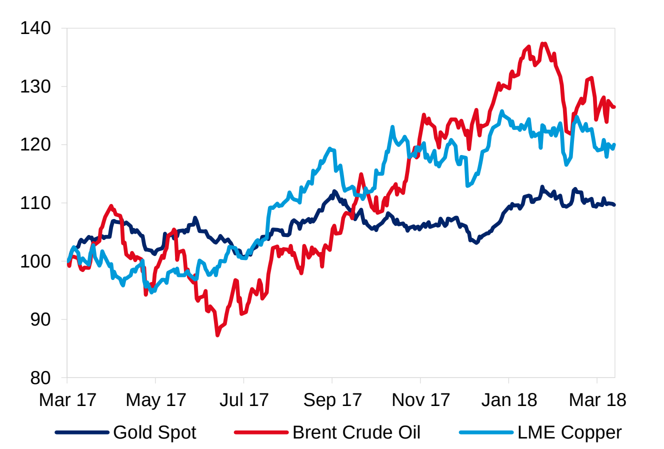
Crude Oil – Jump In US Production To Cap Further Gains

US crude oil production has now crossed decisively above 10 mio bpd. Amidst growing risks and volatility from rising US crude oil production, net long positioning in WTI crude oil as implied from futures contracts has also ballooned to decade long high. Overall, in view of the increasing risks, we moderate our positive crude oil view and now see neutral range trade ahead for the coming four quarters. In terms of forecasts, we see Brent crude oil in range trade from USD 60 / bbl to USD 70 / bbl.

Copper – Increasing Uncertainty From Rising Inventory And China Related Demand Disruption

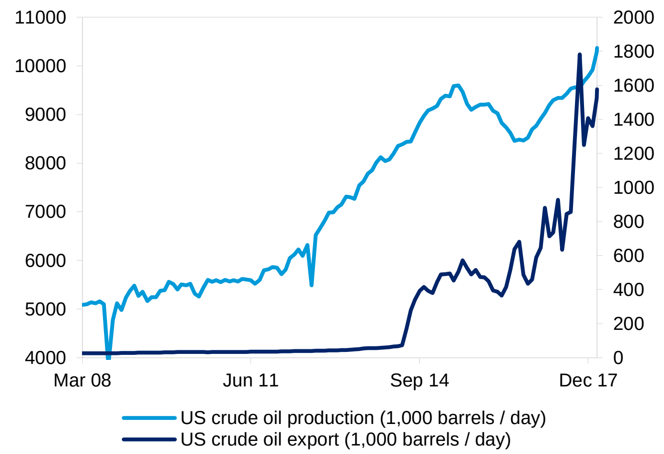
Inventory related concerns are evident in the industrial metals complex. From a broad macroeconomic point of view, the on-going synchronized global recovery is supportive of further strength in copper. However, there was a clear build–up in copper inventory across all three major global exchanges, i.e. LME, COMEX and SHFE. This led to a 40% jump in global exchange inventory in copper from about 550,000 MT to nearly 800,000 MT. As a result, copper failed to sustain its gains after the strong rally across 2017 and drifted lower across 1Q18, with LME copper pulling back from USD 7,200 / MT in Jan18 to current level of USD 6,800 / MT. At the same time, there may be demand disruption from China's upcoming ban of copper scrap. Overall it looks like copper is unlikely to repeat its strong rally across 2017. As such, we now see range trade in LME Copper going forward, from USD 6,500 / MT to USD 7,000 / MT in the coming year.

Gold And LME Copper Went Nowhere In 1Q18, While Brent Crude Oil Drifted Lower



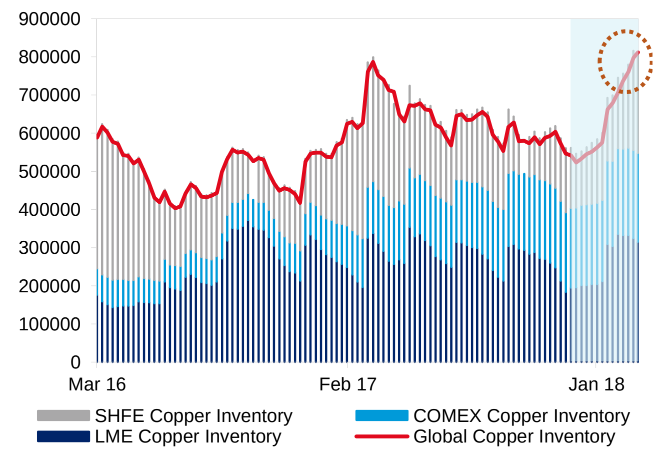
Source: Bloomberg, UOB Global Economics & Markets Research

US Crude Oil Exports Jump To 1.5 mio bpd As Production Rises Above 10 mio bpd



Source: Bloomberg, UOB Global Economics & Markets Research

There Was A Steep Rise In Global Copper Inventory Across 1Q18



Source: Bloomberg, UOB Global Economics & Markets Research

FIXED INCOME

A Challenging Start To 2018

We have generally been warning that fixed income markets face headwinds in 2018 from rising rates that should moderate return expectations but have also advocated that investors don't need to panic, and that we expect 2018 fixed income returns to be positive for the year.

The start of 2018 has been difficult for fixed income markets, but we would still stick with our original advice. In the first 2 months of the year, government bond yield shifted sharply higher with the US 10-year yield rising from 2.4% at the start of the year to 2.86% by the end of February. Singapore 10-year yields have largely followed suit, rising from 2% to 2.39% over the same period. Rising benchmark yields have put pressure on bond funds. The global benchmark of the Barclays Global Agg Index total return, year-to-date as of the end of February was -2.1% measured in SGD. The Asian benchmark of the JPM Asia Credit Core Index total return year-to-date as of the end of February was -2.9%.

The volatility from the start of 2018 hardly seems to support our view that fixed income faced more "headwinds", than losses. We would argue that the fiercest move in benchmark yields has already occurred and that over the course of the yield the carry of the fixed income funds will continue to accrue to bond funds and that total returns for 2018 should be positive. Nevertheless, it is common for fixed income markets to yield low single digit returns in years of rising rates and thus we continue to underweight fixed income relative to other asset classes.

We overweight emerging markets over developed markets as we see continued positive fund flows to emerging market fixed income markets on the back of strong globally synchronized economic growth. **With emerging markets we overweight local currency emerging market funds over hard currency funds** as we expect global currencies to gain strength in periods of good global growth.

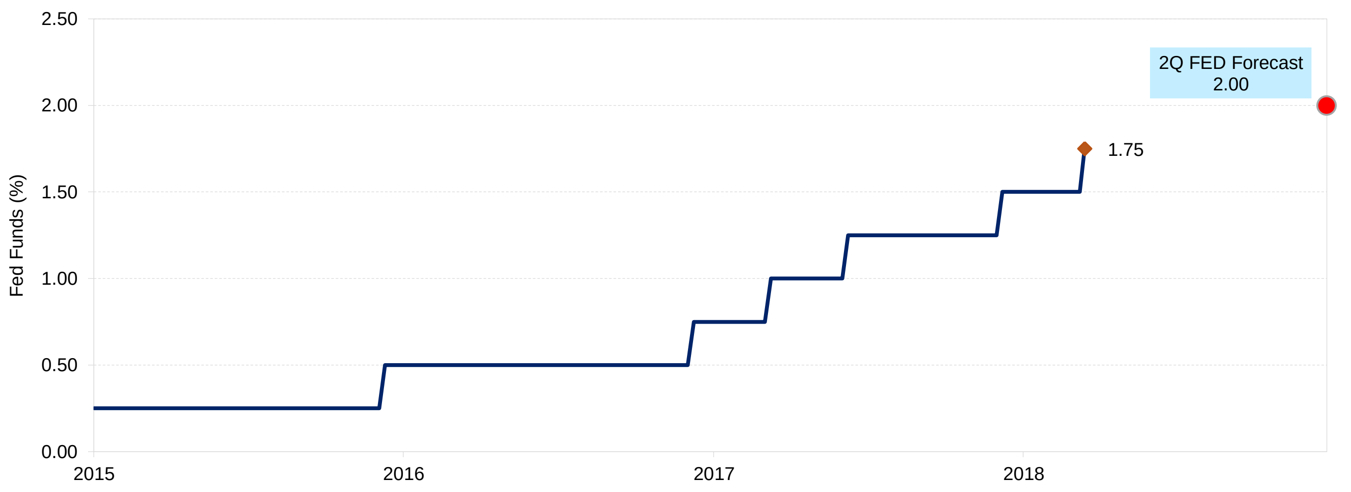
We continue to overweight corporate credits over government bonds as we expect short term and long term rates to rise at a modest pace in 2018. Another year of growth in 2018 and some pickup in inflation should put pressure on long term rates, but we think the upside risks to rates are constrained by the slow path of the FED Funds rate and the maturity of the cycle.

We continue to believe that many investors that do not have the risk tolerance for equity volatility would still benefit from being in fixed income markets than shifting to cash. Also the positive part of the fixed income outlook is that the multiyear outlook can improve as yields of fixed income funds rise.

FX & INTEREST RATES

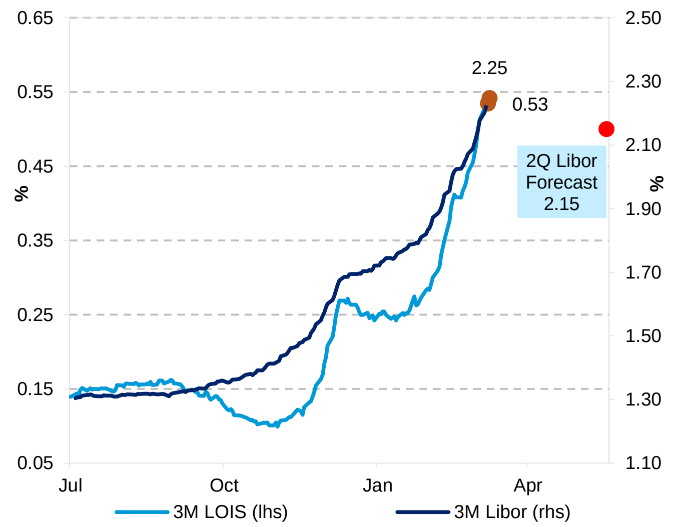
UNITED STATES

FED Funds Rate



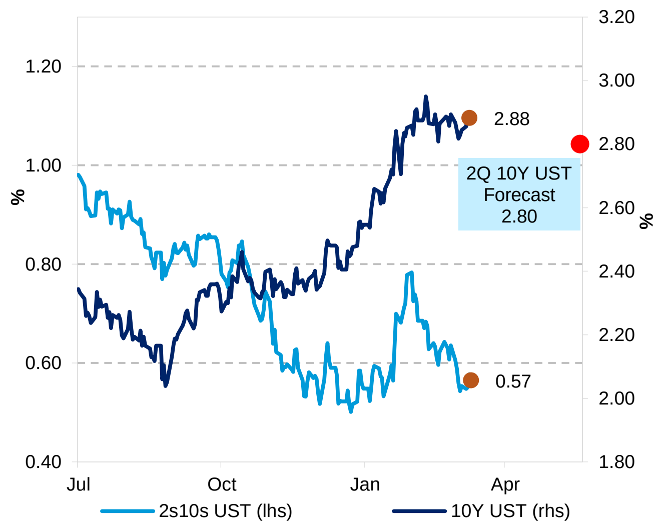
Our moderately hawkish outlook for the Fed rate trajectory in 2018 is still intact as we still expect two more 25bps hikes in 2018 (after the latest March rate hike), bringing the FFTR to 2.25% by end-2018. We revised our 2019 rate hike expectations to three (from two previously) which implies that we expect the Fed to reach their long run FFTR at 3.0% next year, ahead of the previous 1H 2020 dateline. While we remain mindful that stronger wage & inflation expectations could add to the risk of a more aggressive Fed in terms of policy normalization, the flipside is that recent US trade policy developments could warrant a more cautious Fed, at least until the cloud of trade uncertainty clears. We also expect continuity in Fed Reserve's balance sheet reduction (BSR) program and since trimming the Fed balance sheet is somewhat a 'substitute' for rate hikes, so we believe the continuation of BSR is a key factor the FOMC will take into consideration and not add more rate hikes beyond the 3 hikes in 2018 unless we get a sharp inflation surprise.

3M US Libors



- We expect to see 3M Libor at around 2.15% at the end of 2Q2018.
- A significant portion of the 1Q gains in Libor have been driven by spread widening in the Libor vs. OIS (LOIS) spread rather than FED hike expectations.
- Wider LOIS warrants caution. If spread normalization is not forthcoming this will present upside risk to our Libor expectations as well as potential negative spill over into other asset classes.

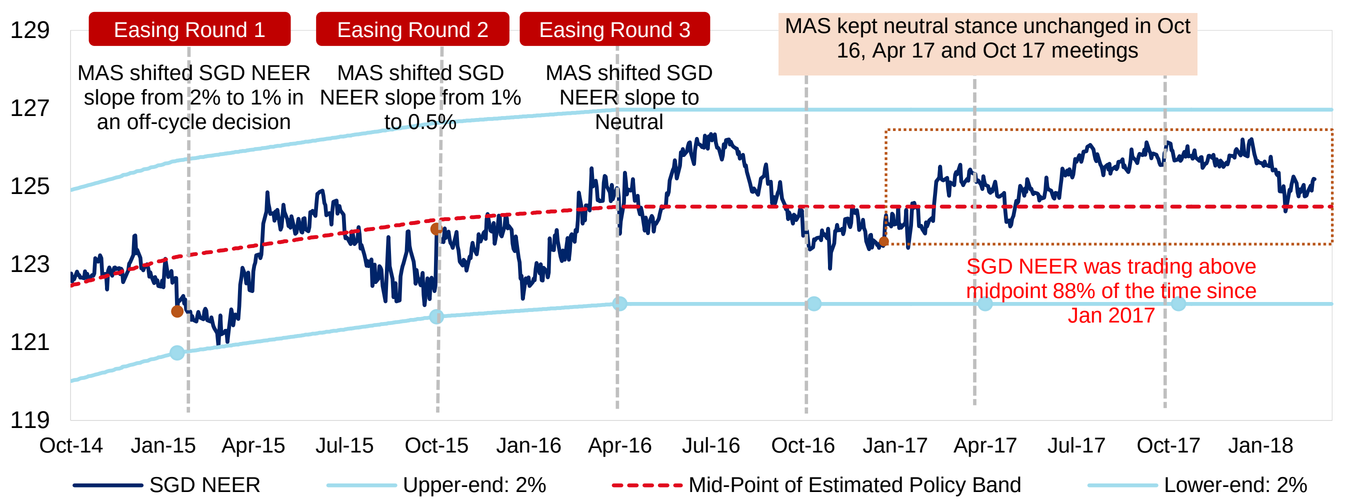
10Y US Treasuries



- We expect to see 10Y UST at 2.80% by the end of 2Q2018.
- Inflation concerns persist but the underlying dynamics are not yet suggesting accelerated price risks ahead.
- Support for higher yields will come from a more challenging supply and demand balance going forward. Tax reforms and spending cap increases from the 2 year budget will see increased borrowing, while the FED BSR will place the onus on the market to absorb supply.

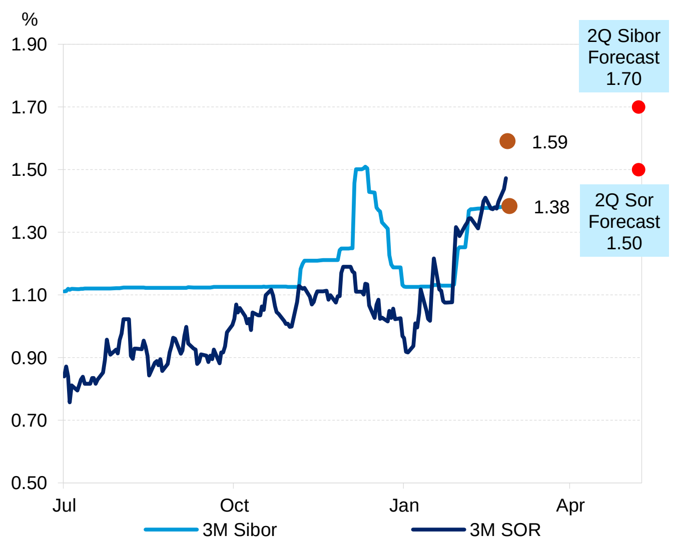
SINGAPORE

SGD NEER



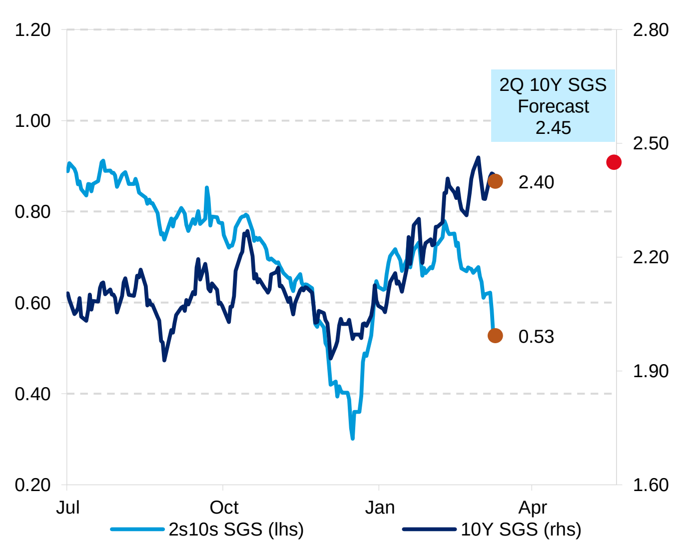
The Monetary Authority of Singapore (MAS) is expected to release monetary policy decision on the 2nd week of April 2018 (9th to 13th April) and we expect the central bank to start on policy normalization by allowing the SGD NEER on a mildly appreciating path (est: 0.5% pa) while keeping the midpoint and bandwidth of the policy band unchanged. Our policy normalization expectation is based on three key factors. Firstly, global and domestic growth-inflation-labour conditions have improved quite significantly since the lows of 2015. Central banks around the world today are biased towards tightening, rather than loosening monetary policy stance. Secondly, the forex market seems to be pricing in a more hawkish MAS stance as the SGD NEER has appreciated 1.2% since the start of 2017, while our UOB SGD NEER model also shows that the SGD NEER had been trading consistently above the midpoint 88% of the time in the same period. Thirdly, the MAS had perhaps signaled a normalization inclination by removing a forward guidance word “extended period” from its oft-used phrase “current neutral SGD NEER policy is deemed appropriate for an extended period” in their latest October 2017 policy statement. With the upcoming April policy normalization by MAS largely priced in, we see limited downside for USD/SGD below 1.30. Furthermore, any escalation of trade tension between US and China risk negatively impacting Asian exports and consequently is a negative for the SGD. Overall, we see USD/SGD testing the low of 1.29 across 2Q18, before drifting back up to 1.33 by 1Q19.

3M SOR and Sibor



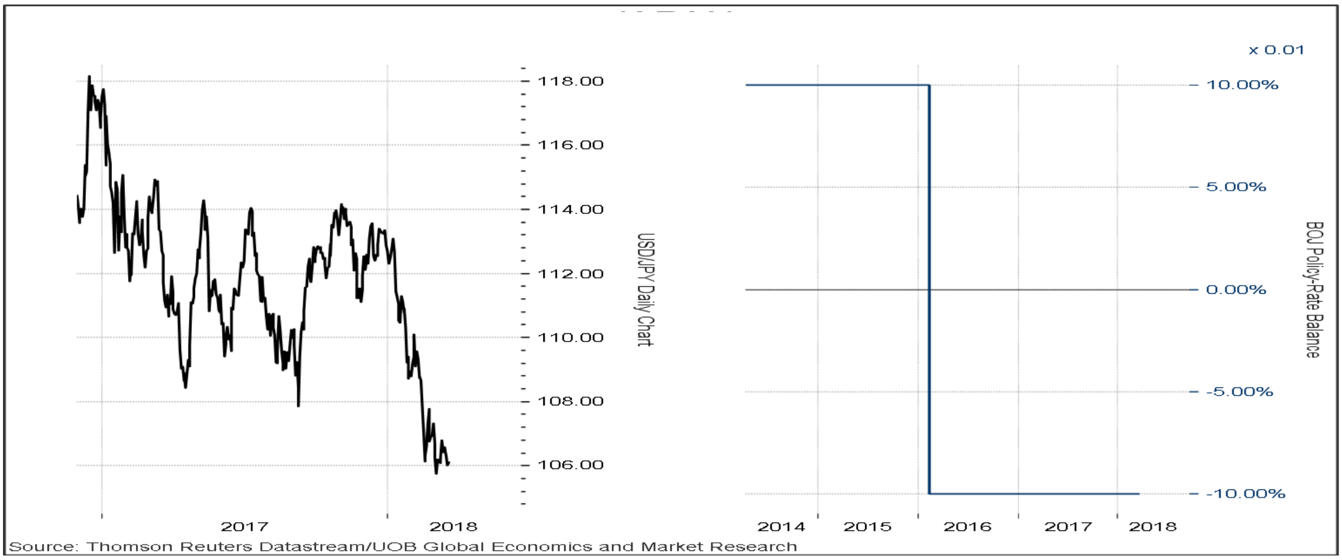
- We expect to see 3M SOR and SIBOR at 1.50% and 1.70% by the end of 2Q2018 respectively.
- Domestic rates have been volatile as investors reconciled between wider LOIS and USD funding demand capping the upside in USDSGD FX swaps.
- Idiosyncratic risk premium for SG rates will be at risk of repricing if USD funding market stress triggered deleveraging and capital flight fears.

10Y SG Bonds



- We expect to see 10Y SGS at 2.45% by the end of 2Q2018.
- SGS yield discount to UST is justified but face reversal risk whilst uncertainty reigns over potential negative feedback loop from widening LOIS.
- Domestic supply has a new 10Y bond slated for the end of April and this could drag on the tenor’s relative performance potential.

JAPAN

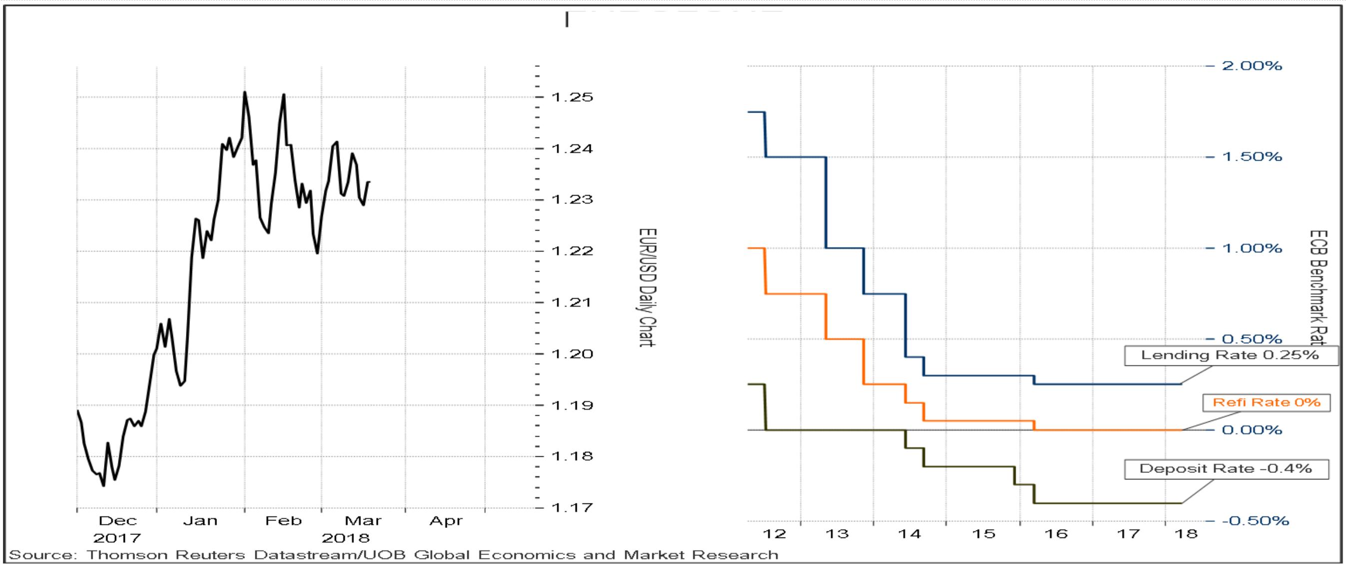


Source: Thomson Reuters Datastream/UOB Global Economics and Market Research

Despite another status quo decision on 9 March, the specter of "BOJ normalization" which crept into market psyche in late 2017 lingers on. Since BOJ Governor Kuroda's first mention of "reversal rate" (13 Nov 2017), he has subsequently repeatedly emphasized no change in monetary policy stance for Japan as long as inflation is off the BOJ 2% target. The re-appointment of Kuroda to 2023 (and appointment of 2 new "like-mined" deputies) did not help to dispel normalization concerns, failing to shift market sentiment that Kuroda will stay the course and patiently keep BOJ monetary policy broadly "expansionary till 2% is met". BOJ's cause was not helped by the fact that the projected annual pace of JGB buying has continued to moderate so far this year, from JPY58trn (end-2017) to a lower JPY53.5trn (as of 9 Mar), way below its official target of JPY 80trn.

While we keep our long-held view that it remains premature to expect the BOJ to normalize/taper its easing program anytime soon, because Japan is still far away from its 2% inflation target, the uncertainty will continue unless the BOJ finds a way to reassert its "easy monetary policy" credentials. As such, we continue to highlight the risk of near-term yen strength.

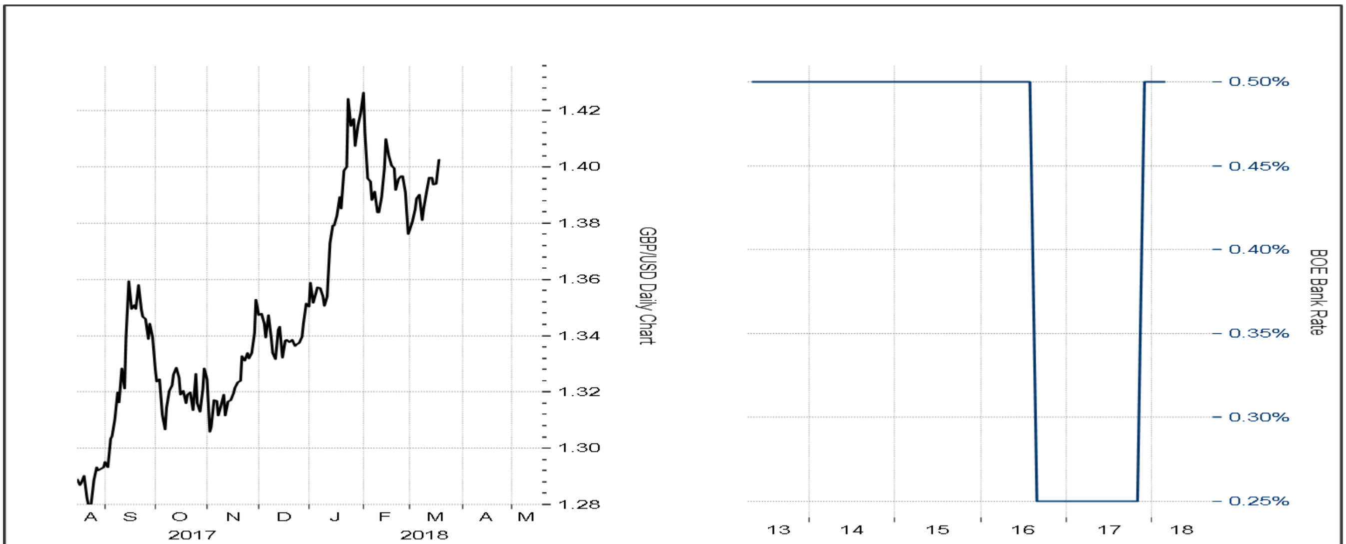
EUROZONE



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

Overall, as we get nearer to the eventual stop in asset purchase towards the end of the year, we believe that EUR/USD will appreciate slowly from here on, in line with the gradual climb higher in various Eurozone and German bund yields. It is worth nothing that 5 year German bund yields is now back above zero, from -50 bps at the start of last year. Similarly, 10 year German bund yields have popped above 50 bps, after range trading around 30 bps for most part of last year. From 1.25 in 2Q18, we see EUR/USD climbing gradually to 1.27 in 3Q18 and 1.29 in 4Q18 and 1Q19. Any strength above 1.30 is unlikely for now, given that the US Federal Reserve is also in the process of monetary policy normalization.

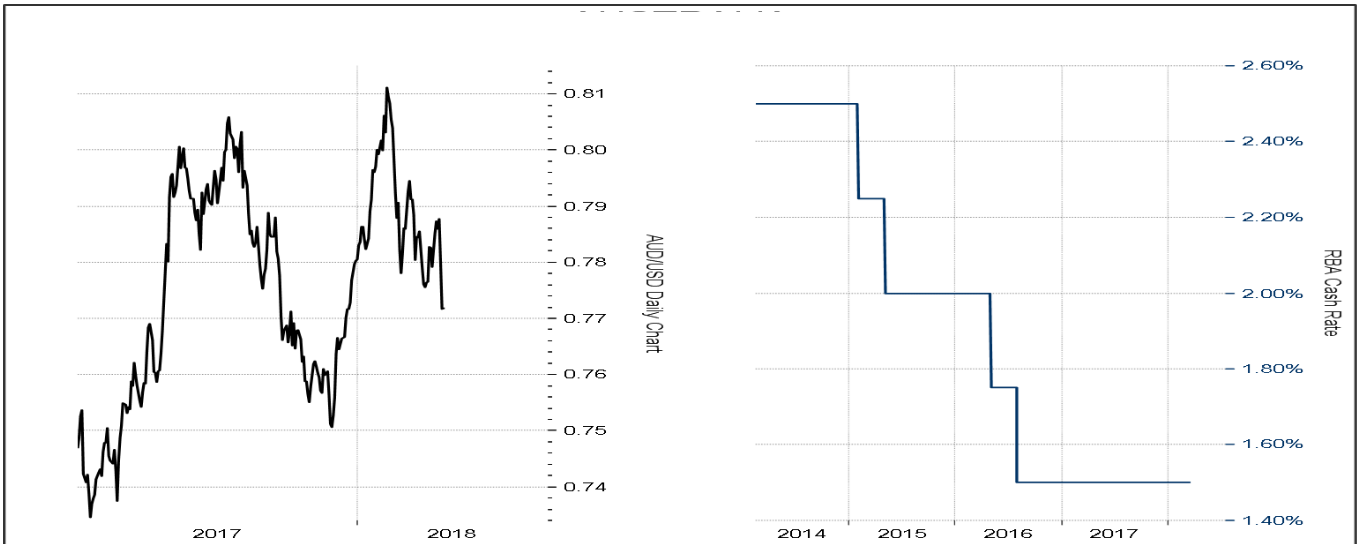
UNITED KINGDOM



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

The recovery in the GBP/USD can be attributed in a large part to the on-going support from the BoE, which hiked by 25bps last November and has signaled once again that it is likely to hike a second time by May. However, at its current level of just around 1.40, we believe that the upcoming BoE rate hike in May is largely priced in. Furthermore, the BoE's rate hikes are mostly built on the premise of rising inflation in the UK. And the latest monthly print showed that inflation in the UK has drifted further back down to 2.7% YoY in Feb, from its peak of 3.1% YoY last Nov. Going forward, amidst further intense Brexit discussions, growth outlook of the UK economy remains uncertain as the economy continues to nurse a growing current account deficit. Overall, we maintain our view that GBP/USD will not be able to sustain gains above 1.40 and will drift back down from here on. We forecast GBP/USD at 1.40 in 2Q18, 1.38 in 3Q18, 1.36 in 4Q18 and 1Q19.

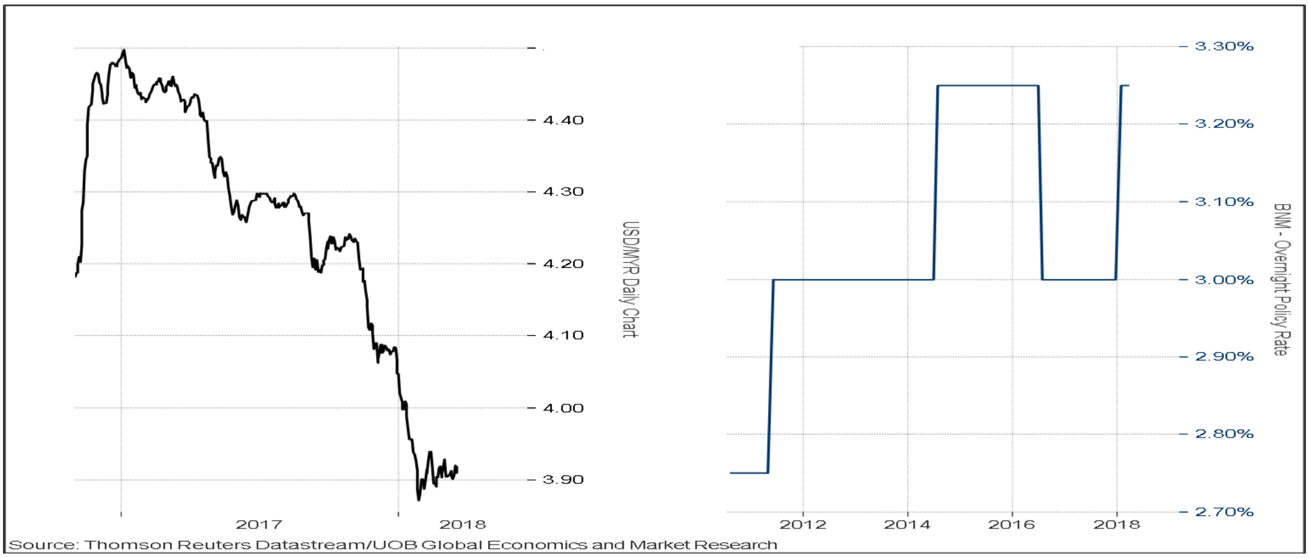
AUSTRALIA



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

Over the past year, the RBA had made clear on multiple occasions its desire to maintain its steady monetary policy, keep OCR rate unchanged at 1.50%. The sluggish local economy, coupled with benign inflationary outlook and slow wage growth does justify the RBA's decision to stay on hold. Despite a reluctant RBA, we continue to maintain a positive outlook for the AUD/USD. This is mainly driven by support from commodities. However, across1Q18, we witnessed an increase in inventory and positioning levels in various industrial metals like copper, limiting further strong upside. Similarly, amidst concerns of strong increases in US production levels, crude oil price seemed to have been capped ahead of USD 70 / bbl. As such, AUD/USD has pulled back from its high of 0.81 in Jan18 to the current level of 0.78. Going forward, we believe that after the recent pullback, further weakness may be limited. Despite recent consolidation, key industrial metals and energy commodities remain supported due to on-going strong synchronized growth recovery. As such, we see mild AUD/USD strength ahead to 0.79 in 2Q18, 0.81 in 3Q18 and 0.83 in 4Q18 and 1Q19.

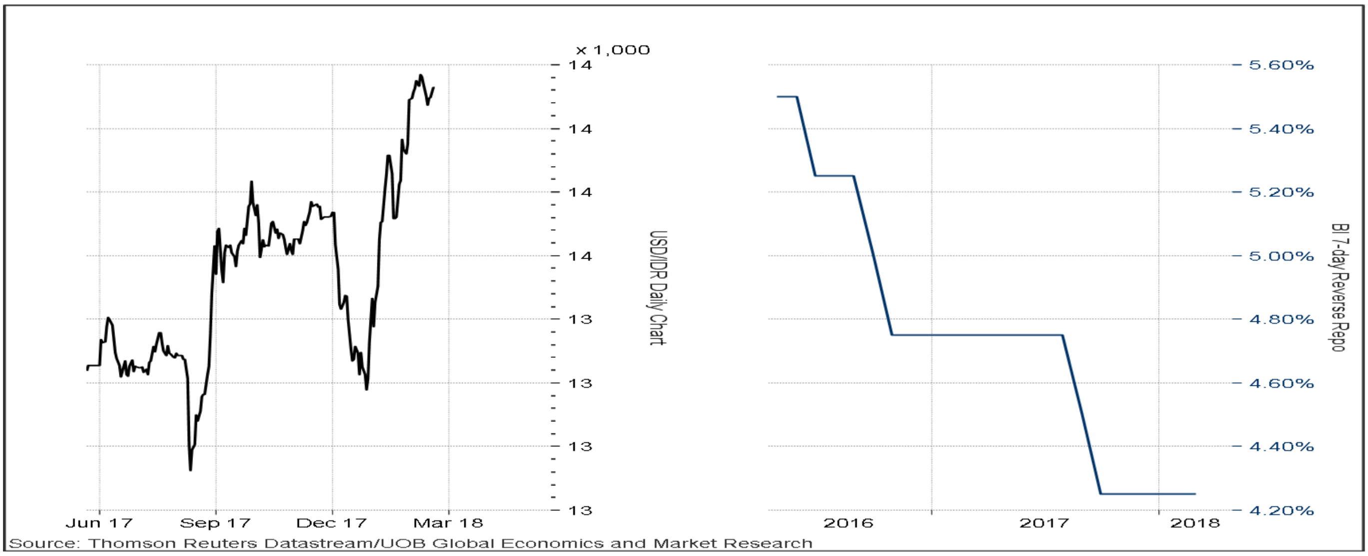
MALAYSIA



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

Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) at 3.25% on 7 March following a 25bps hike on 25 January. Real policy rate has widened to +1.8% amid slower inflation. With regards to forward guidance, BNM reverted to a more neutral tone. BNM kept a balanced view such that despite renewed signs of emerging volatility and rising trade tensions, they expect continuity in global economic expansion. BNM kept a positive view on the domestic economy and reiterated that inflation is expected to moderate in 2018. We maintain our year-end OPR projection of 3.25%, implying no further rate adjustments for the year. If incoming data suggest that growth could overshoot official forecasts of 5.0%-5.5%, then this raises the odds of another hike this year. Brent crude oil is now expected to settle within a broad trading range of USD 60 / bbl to USD 70 / bbl for the coming 4 quarters. As such, supported by strong export growth and various positive domestic demand drivers, the pace of MYR strengthening will likely ease going forward. Overall, we see USD/MYR drifting lower to 3.88 in 2Q18, 3.85 in 3Q18 and 3.80 in 4Q18 and 1Q19.

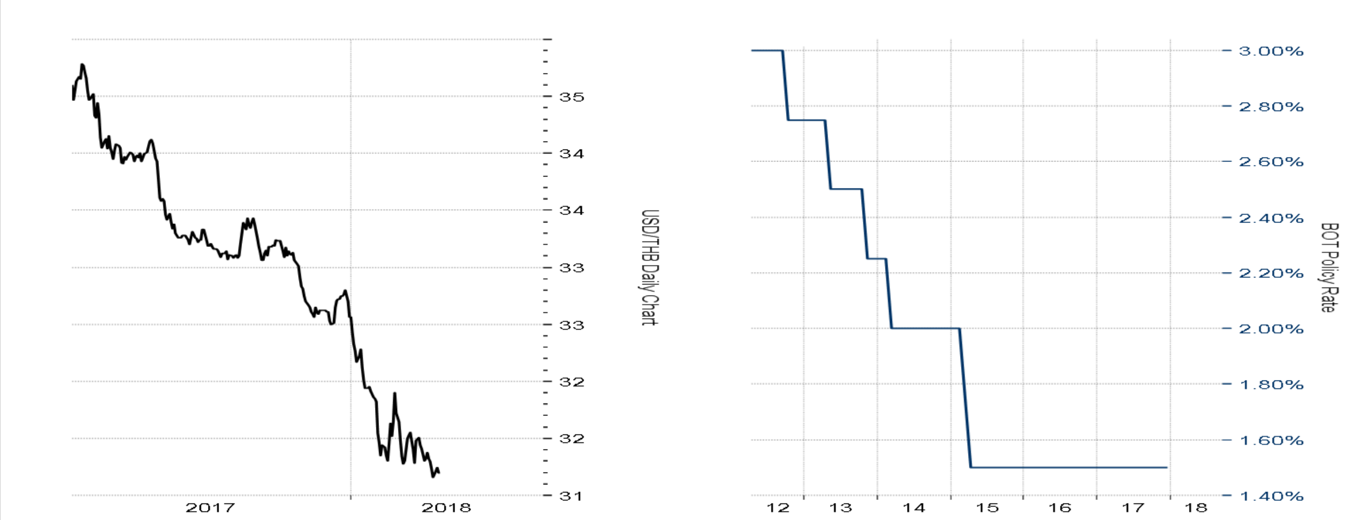
INDONESIA



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

Inflation is estimated to be at a range of 2.5-4.5% for 2018, our current 2018 forecast is now slightly revised lower to 4.0% (from 4.2% before) but remains at the upper range of BI's inflation target. We expect inflation to turn higher in the second half of this year. With the backdrop of inflationary pressures coming fairly soon, we reiterate our forecast for BI to stay neutral for the most part of 2018 and we only pencil in currently a 25bps rate in December 2018. Our BI rate forecast (7-Day Reverse Repo) remains consistent with our inflation forecast and still lend support to overall growth. As US Fed continues to raise interest rates, this will typically have a negative impact on Asian and Emerging Market currencies with underlying current account and fiscal deficits, including the IDR. As such, we see risk of further IDR weakness in line with the rest of Asian currencies. Overall, our forecast for USD/IDR is 13,800 in 2Q18, 13,850 in 3Q18, 13,900 in 4Q18 and 13,950 in 1Q19.

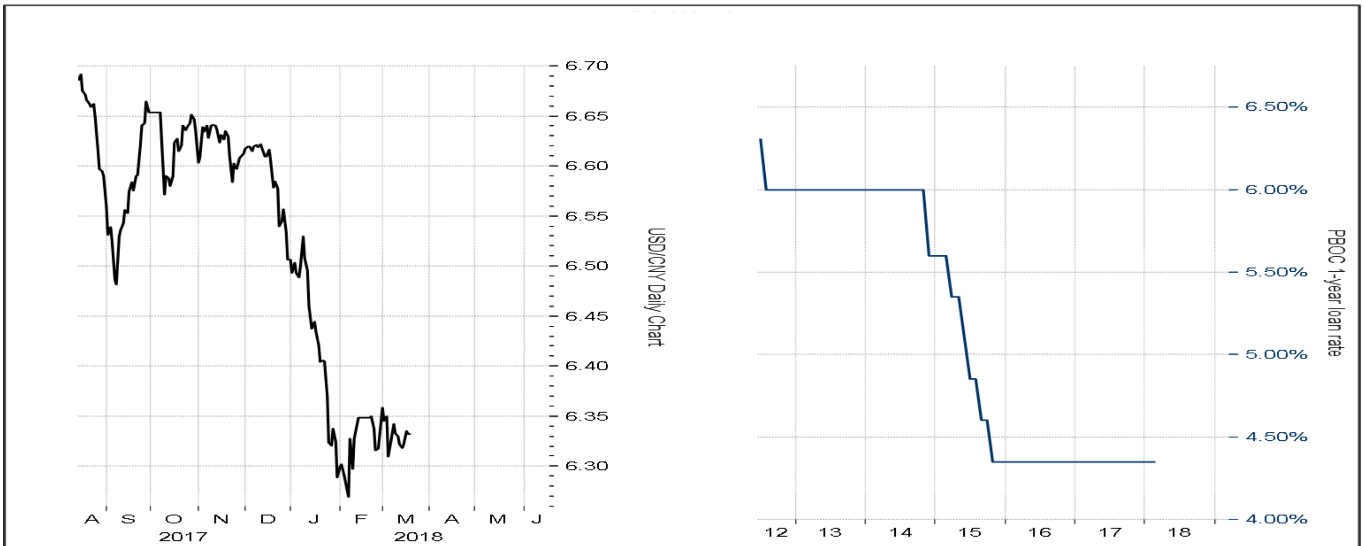
THAILAND



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

The BoT kept the policy rate unchanged at 1.5% on 14 Feb 2018. Looking forward, the BoT will likely raise the policy rate to 1.75% in 2H18 as the economy would continue to expand steadily at around its potential rate, thus lessening the need for an exceptionally accommodative monetary policy. As the year progressed in 2H18, the USD would be able to register mild gains against the THB, as financial markets would have digested the anticipated 25 bps rate hike from BoT and the US Federal Reserve would have progressed with a total of 3 rate hikes across 2018. Overall, we forecast USD/THB at 31.00 in 2Q18, before a mild recovery to 31.30 in 3Q18, 31.50 in 4Q18 and 31.80 in 1Q19.

CHINA



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

PBoC's prudent and neutral monetary policy stance has been reaffirmed in the 2018 Government Work Report. The policy implementation is expected to remain with the recent appointment of Yi Gang as Governor following the retirement of ex-Governor Zhou Xiaochuan. Other than the usual monetary policy execution, the combination of the banking and insurance regulators into one agency will see PBoC's role as a financial regulator becoming clearer and strengthened. With focus on prevention of systemic risks and deleveraging, we maintain our view that PBoC is likely to lean towards raising its policy rates at least once by end of 2Q18, with a 25bps hike from current record low of 1Y lending rate at 4.35% and 1Y deposit rate at 1.50%.

Going forward, further CNY strength will likely be capped by rising trade tensions with the US. The Trump administration is taking an increasingly tough stance against trade with nations that run large trade surpluses against the US, in particular China which runs the largest trade surplus against US i.e. USD 375 bn across 2017. Based on the timeline for the USTR to publish the tariffs specifics on at least US$50bn of Chinese exports to US and consultation with the industries, any trade tariff measures will likely be implemented only sometime in May. Until then, there would still be significant uncertainty. The CNY may be vulnerable to weakness should Chinese exports get negatively impacted. This also comes at a time when the US Federal Reserve is poised to continue its steady monetary policy normalization. Overall, we see USD/CNY inching higher from hereon, to 6.35 in 2Q18, 6.40 in 3Q18, 6.45 in 4Q18 and 6.50 in 1Q19.

FX, INTEREST RATE & COMMODITIES FORECASTS

FX	23 Mar 18	2Q18F	3Q18F	4Q18F	1Q19F
USD/JPY	105	100	103	107	110
EUR/USD	1.23	1.25	1.27	1.29	1.29
GBP/USD	1.41	1.40	1.38	1.36	1.36
AUD/USD	0.77	0.79	0.81	0.83	0.83
NZD/USD	0.72	0.74	0.75	0.75	0.75
USD/CNY	6.33	6.35	6.40	6.45	6.50
USD/HKD	7.85	7.85	7.85	7.83	7.80
USD/TWD	29.2	29.4	29.6	29.8	30.0
USD/KRW	1,081	1,070	1,080	1,090	1,100
USD/PHP	52.34	52.50	53.00	53.50	54.00
USD/MYR	3.91	3.88	3.85	3.80	3.80
USD/IDR	13,778	13,800	13,850	13,900	13,950
USD/THB	31.26	31.00	31.30	31.50	31.80
USD/MMK	1,334	1,350	1,360	1,370	1,380
USD/VND	22,785	22,800	22,900	23,000	23,100
USD/INR	65.11	65.00	65.30	65.60	66.00
USD/SGD	1.32	1.29	1.30	1.32	1.33
EUR/SGD	1.62	1.61	1.65	1.70	1.72
GBP/SGD	1.86	1.81	1.79	1.80	1.81
AUD/SGD	1.01	1.02	1.05	1.10	1.10
SGD/MYR	2.98	3.01	2.96	2.88	2.86
SGD/CNY	4.81	4.92	4.92	4.89	4.89
JPY/SGDx100	1.25	1.29	1.26	1.23	1.21

RATES	23 Mar 18	2Q18F	3Q18F	4Q18F	1Q19F
US Fed Funds Rate	1.75	2.00	2.00	2.25	2.50
USD 3M LIBOR	2.27	2.15	2.15	2.40	2.65
US 10Y Treasuries Yield	2.80	2.80	3.00	3.20	3.25
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10	-0.10
EUR Refinancing Rate	0.00	0.00	0.00	0.00	0.00
GBP Repo Rate	0.50	0.75	0.75	0.75	0.75
AUD Official Cash Rate	1.50	1.50	1.50	1.50	1.75
NZD Official Cash Rate	1.75	1.75	1.75	1.75	2.00
CNY 1Y Benchmark Lending	4.35	4.60	4.60	4.60	4.60
HKD Base Rate	2.00	2.25	2.25	2.50	2.75
TWD Official Discount Rate	1.38	1.38	1.38	1.38	1.50
KRW Base Rate	1.50	1.75	1.75	2.00	2.00
PHP O/N Reverse Repo	3.00	3.25	3.25	3.25	3.50
SGD 3M SIBOR	1.38	1.70	1.70	1.85	1.85
SGD 3M SOR	1.59	1.50	1.50	1.65	1.75
MYR O/N Policy Rate	3.25	3.25	3.25	3.25	3.25
IDR 7D Reverse Repo	4.25	4.25	4.25	4.50	4.50
THB 1D Repo	1.50	1.50	1.75	1.75	1.75
VND Refinancing Rate	6.25	6.25	6.25	6.25	6.25
INR Repo Rate	6.00	6.00	6.00	6.00	6.00

COMMODITIES	23 Mar 18	2Q18F	3Q18F	4Q18F	1Q19F
Gold (USD/oz)	1,338	1,290	1,260	1,230	1,200
Brent Crude Oil (USD/bbl)	69	60-70	60-70	60-70	60-70
LME Copper (USD/mt)	6,695	6,000-7,000	6,000-7,000	6,000-7,000	6,000-7,000

THE TEAM

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Asset Management
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