Monthly FX & Rates Strategy

Increasing Uncertainties Amidst Rising Risk To US Economy

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- The US Federal Reserve (Fed) may have hit the pause button in its rate hiking cycle, but this is of little reprieve for investors as the growing list of risks against the US economy is getting longer and more worrisome. These range from the on-going US regional banking crisis to the increasing risk of US debt ceiling default as a result of more extreme brinksmanship.

- In the Majors FX space, now that the Fed has likely paused its hiking cycle, the differentiation of monetary policy between the Fed and other Developed Markets (DM) central banks will likely set the stage for further weakness of the DXY. This means the rate advantage of the USD will continue to erode going forward, as such we stay positive on the EUR, GBP, AUD and NZD.

- As for Asia FX, we stay cautious in the current quarter due to potential risk aversion from the ongoing US banking sector turmoil. May is also a seasonally weak month for the Asia Dollar Index as a whole. Overall, we keep to the view of a higher USD/Asia in 2Q23 before clearer signs of a sustained China economic recovery spur renewed weakness of USD/Asia in 2H23.

- For USD/SGD, while it is still likely to mirror USD/CNY moves, the magnitude of SGD recovery starting 3Q23 may be more modest. This is because with the Monetary Authority of Singapore (MAS) now pausing its monetary policy tightening as well, S$NEER will likely consolidate in the later months of the year with its outperformance likely to ease. As such, we now see USD/SGD ending the year at 1.31 instead of the previous forecast of 1.30.

- In terms of Fed monetary policy outlook, a pause at 5.25% for the rest of 2023 is our base case. But markets continue to imply substantial rate cuts by end of the year, an expectation which Fed Chair Jerome Powell has characterized as "not appropriate". As such, a wide policy expectation gap exists, which creates the condition for renewed volatility in rates markets.

- The US debt ceiling default risk is back and more intense than ever. This risk is expressed unevenly across various asset classes. We take this opportunity in this monthly to discuss the implications in T-bills, Credit Default Swaps (CDS) and FX markets.

- In the front end, both 3M compounded SOFR and SORA still have some room to climb but are in the process of topping out in the months ahead, in line with our expectation that the Fed is pausing its rate hike. By 4Q23, we see 3M compounded SOFR and SORA topping out at 5.05% and 3.96% respectively.

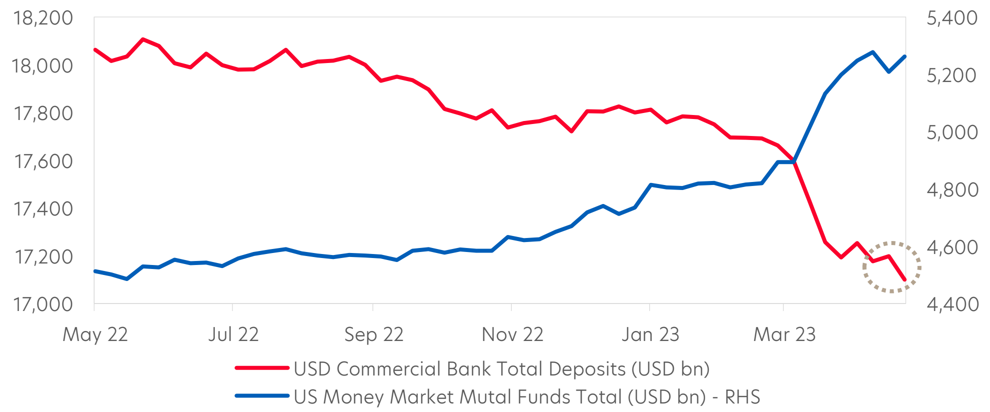
- In the back end, we expect to see bond yields drift lower across 2023, based on our view that the balance of risk will increasingly tilt in favor of slowing economic growth, growing rate cut expectations, and richer safe haven premiums consequentially. Overall, we see 10Y UST and 10Y SGS yields at 3.20% and 2.70% respectively by 4Q23.

Right By You

Now that the US Federal Reserve (Fed) has effectively signaled a pause to its monetary policy (kindly refer to Macro Note: "US May 2023 FOMC: 25bps Hike As Expected With Hints Of A Pause" dated 04 May 23), the focus turns to the growing list of risks against the US economy. First, the US regional banking crisis that started two months ago continues unabated. Lingering doubts remain about the health and quality of the balance sheet of US regional banks. Will Congress be able to restore investor confidence by raising the deposit guarantee limit for business related accounts? Will the pause in the Fed hiking cycle buy critical time for regional banks to repair and recapitalize their balance sheets? As these questions persisted, deposit outflow continued amidst the concurrent jump into the perceived safe haven of US money market mutual funds.

Chart 1: US Banking Deposits slump as Money Market Mutal Funds jump

Source: Bloomberg, UOB Global Economics & Markets Research

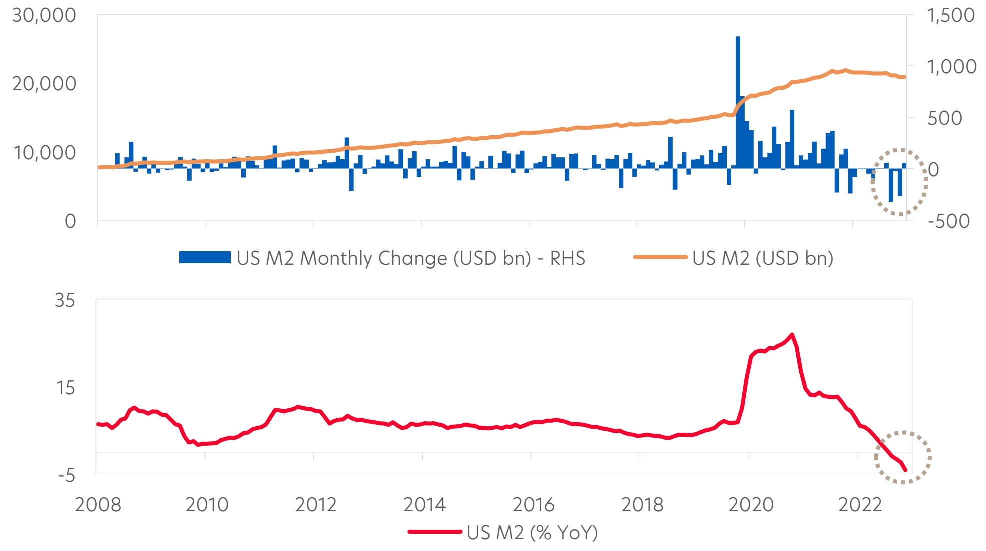


Second, the US M2 money supply declined further by -4.1% y/y in Mar (from -2.3% in Feb). The y/y declines were unprecedented as US money supply had never contracted (at least for the current set of data made available since 1960). To put things in context, there was a massive injection of liquidity due to Covid-19 fiscal and monetary stimulus. Money supply jumped from US$15.5 trillion in Feb 2020 to a peak level of US$21.7 trillion in Jul 2022 (up 40% in 29 months). Subsequently, the money supply rapidly receded as the Fed embarked on shrinking its balance sheet (Quantitative Tightening) as well as one of its most aggressive pace of interest rate hikes in history (a total 500bps in 10 meetings from Mar 2022 to May 2023).

As a result of a sharp rise in interest rates, there was weak demand for credit by borrower together with tightening lending standards, leading to lower provision of credit supply. And while deposits were already falling ahead of the regional banking turmoil (that started in Mar 2023), the fall of deposits accelerated thereafter. That said, most of the deposit outflow likely went into money markets (which is also part of M2), so the impact of falling deposits at banks on M2 is uncertain. The concern here is that this drop in M2 money supply may portend further unwelcomed credit and loan tightening in the months ahead. As Fed Chair Jerome Powell said candidly at the latest FOMC, the effects from this credit and loan tightening is "highly uncertain" and Fed needs to observe more closely how that will weigh down on the economy.

Chart 2: US M2 money supply growth slumps into negative

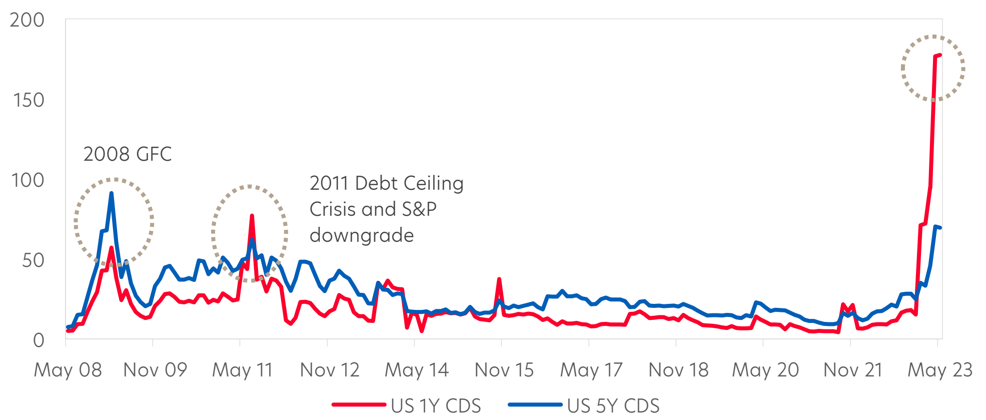
Source: Bloomberg, UOB Global Economics & Markets Research



Third, adding to this toxic mix is the upcoming debt ceiling stalemate. Needless to say, the political stakes for President Joe Biden are even much higher this time round, now that he is seeking re-election and securing his legacy. At the other side of the fence, after being forced to provide various excessive concessions to secure his appointment, US House Speaker Kevin McCartney is hardly in control of his boisterous colleagues, quite a few of whom held extreme views of why the US should be allowed to default on its debts. US Treasury Secretary Janet Yellen has warned that X-date is likely to be in June and White House has quoted various dire predictions from rating agencies on how severe a debt ceiling default will damage the US economy. Fed Chair Jerome Powell urged Congress to pass the debt ceiling increase on a timely basis and that any delay will have unprecedented consequences on the US economy. Judging from the jump in US sovereign Credit Default Swap (CDS) in recent weeks, investors are not confident that the debt ceiling stalemate will be solved anytime soon. However, we do note that due to various idiosyncrasies, the price action in the CDS may be exaggerated. Please read Rates Strategy section for more details.

Chart 3: US credit default swaps spike as debt ceiling default risk intensifies

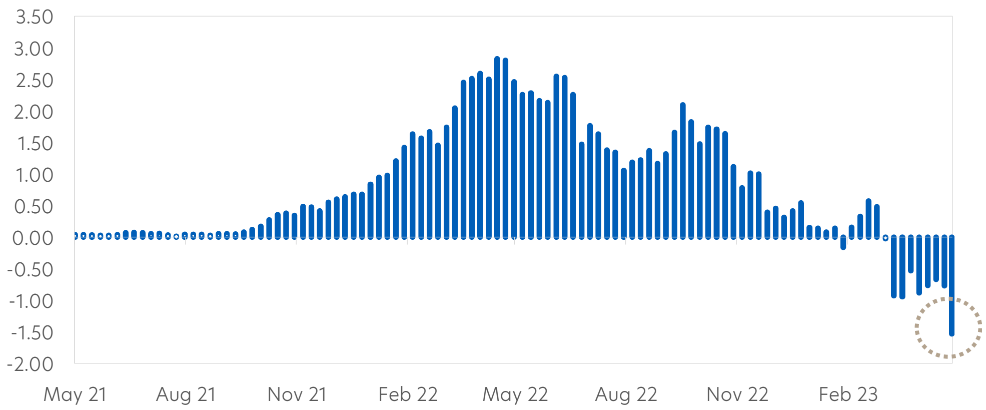
Source: Bloomberg, UOB Global Economics & Markets Research



Consequently, Fed's monetary policy outlook appears to be the least of investors' concerns. Markets acknowledge the perceived pause in the Fed's hiking cycle. However, going forward, they differ with the Fed by expecting substantial rate cuts as early as the latter half of this year. Our view is that in view of inflation staying sticky and not coming down fast enough, Fed is likely to keep Fed Fund Rate unchanged at 5.25% for the rest of this year. For now, this divergence between the Fed's insistence that the central bank is not ready to cut anytime soon versus the more dovish expectations by global markets is "ignored". Eventually, this divergence will need to be addressed and resolved either way in the later months of this year.

Chart 4: Market expects substantial rate cuts from the Fed in coming 1 year

Source: Bloomberg, UOB Global Economics & Markets Research



Amidst this frustrating list of growing risks, what is clear is that the downward shift in the USD that started at the beginning of the year has been reinforced. Similarly, longer term US Treasuries yield, particularly the 10Y Treasuries yield look like it has more downside risk. We take the opportunity of this monthly report to reiterate our overall bearish view for the USD as well as highlight further downside risk to longer term Treasury yields.

FX Strategy

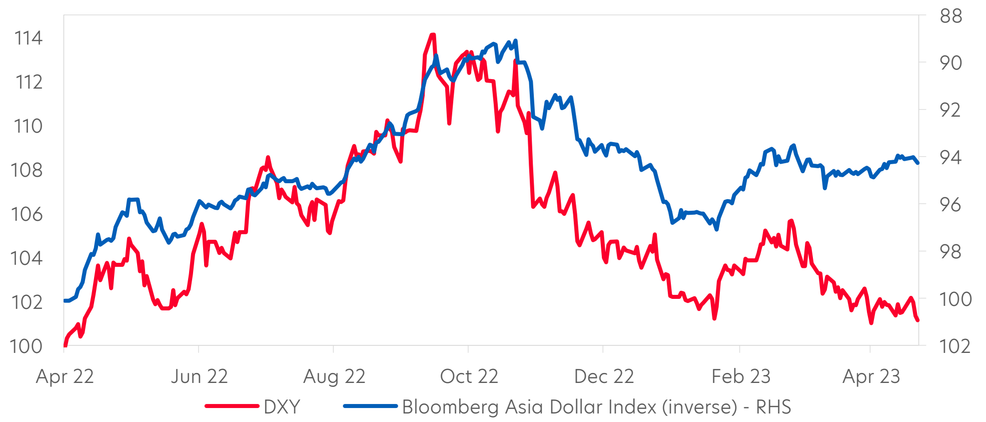
Bearish USD Outlook Reinforced by Fed's Decision to Pause

Absent new narrative from the Fed in Apr, the USD largely consolidated against its G-10 peers across the month, mirroring moves in the 2-year US Treasury yield which tethered around 4%. In Apr, the US Dollar Index (DXY) recorded the smallest monthly range of the current decline which began last Oct. Accompanying the uninspiring price action was the 1-month implied volatility of the DXY which fell to the lowest level since Mar 2022.

The recently concluded May FOMC confirmed markets' view that the Fed has probably reached the end of its tightening cycle. Going forth, the differentiation of monetary policy between the Fed and other Developed Markets (DM) central banks will likely set the stage for further weakness of the DXY.

Chart 5: DXY fell further on Fed pivot while Asia Dollar Index was largely sideways

Source: Bloomberg, UOB Global Economics & Markets Research



Most Asia FX fell against the USD in Apr, weighed by risk aversion from the US banking sector turmoil and limited positive momentum from China's reopening. The Bloomberg Asia Dollar index also grinded lower from 94.8 to 94.0 across the month. In the current quarter (2Q23), seasonality and ongoing risk aversion are likely to weigh on Asia FX. Prospects of Asia FX will likely improve starting 3Q23 when clearer signs of a sustained China economic recovery emerge.

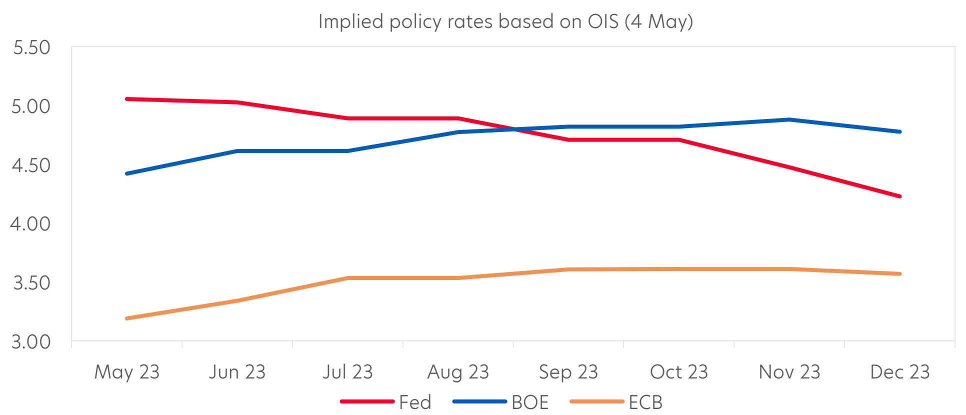
Major FX Strategy

Driven By Monetary Policy Differentiation

Monetary policy differentiation is likely a driver for Major FX going forth. Compared to last year where almost all of the DM central banks including the Fed were simultaneously hiking rates aggressively, we are starting to see how different central banks are weighing inflation versus growth outcomes this year. While the Fed has likely halted its tightening cycle, the European Central Bank (ECB), Bank of England (BOE), Reserve Bank of New Zealand (RBNZ) appear more hawkish. Even the Reserve Bank of Australia (RBA), widely perceived as the least hawkish amongst DM central banks, has delivered a surprise 25 bps rate hike in early May.

Chart 6: A clear differentiation of the monetary policy path of Fed relative to ECB and BOE

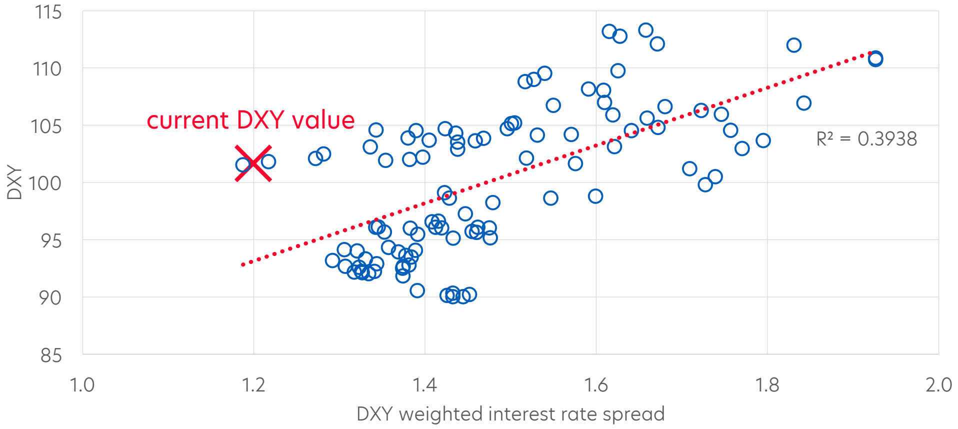
Source: Bloomberg, UOB Global Economics & Markets Research



Taken together, this means the rate advantage of the USD will continue to erode going forward. In fact, we note the current value of the DXY at about 102 screened as being "overvalued" relative to the interest rate spread of USD versus its DXY peers, lending scope for a further decline in DXY. Overall, we reiterate our view of a lower DXY, towards 96.7 by 1Q24. That said, the resulting trajectory may continue to be two-way. We note that May is seasonally bullish for USD, ceteris paribus, though it is unlikely to provide enough escape velocity from the ongoing USD downtrend.

Chart 7: Current value of the DXY appears "overvalued" relative to the interest rate spread of USD versus its DXY peers

Source: Bloomberg, UOB Global Economics & Markets Research



One of the key market-moving events in the past month came from the Bank of Japan (BOJ). While a policy review was forthcoming, markets are surprised that BOJ has assigned a very generous time frame of around one to one-and-a-half years. The out of abundance prudence from the BOJ meant that a near-term change to the ultra-accommodative monetary policy stance is unlikely. Consistent with our updated view that the scrapping of Japan's Yield Curve Control (YCC) and the lifting of the negative policy rate will only commence in early 2024, we now see a period of JPY weakness in 2Q and 3Q23 before strengthening anew in 4Q23 as policy speculation returns. It worth noting our BOJ policy view is slightly more dovish compared to the markets where most maintain expectations of tweaking or scrapping of YCC sometime in 2H23. At the same time, we do not think USD/JPY will revisit its Oct 2022 peak near 152 due to the declining US-Japan interest rate differential. Overall, our updated USD/JPY forecasts are at 136 in 2Q23, 133 in 3Q23, 132 in 4Q23 and 128 in 1Q24.

As for the other Major FX, EUR and GBP continued to grind higher against the USD, supported by improved positioning. Notably, non-commercial positioning for GBP/USD has flipped into net long position for the first time since Feb 2022. GDP forecasts for Eurozone and UK appeared to have bottomed in early 2023 and have been marked up gradually over the last couple of months, with the latter increasingly likely to avert the much-feared recession this year. As such, we keep to our positive outlook in EUR/USD and GBP/USD, expecting the pairs at 1.14 and 1.30 respectively by end-2023.

RBA's resumption of rate hikes in May is likely a positive catalyst for the AUD, bringing the RBA more in tune with the hawkish bias of other DM central banks such as the Fed, ECB, and its antipode peer – RBNZ. Together with the China recovery story that is expected to pick up steam in 2H23, we keep to a positive outlook for AUD/USD and expect the pair at 0.71 by end-2023, unchanged from the previous revision late Mar.

Asia FX Strategy

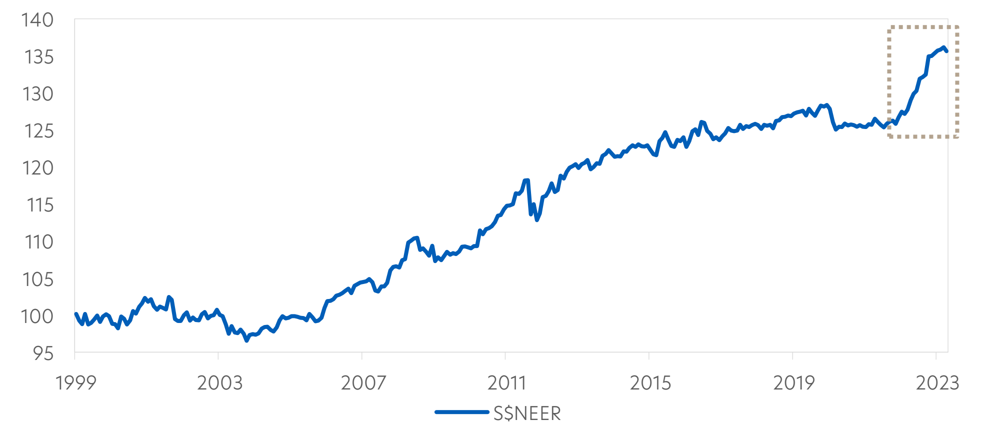
Seasonality And Risk Aversion Weigh In The Near Term

We continue to be cautious on Asia FX in the current quarter (2Q23) due to potential risk aversion from the ongoing US banking sector turmoil. May is also a seasonally weak month for the Asia Dollar Index as a whole, and the weakest month for KRW (-1.8%, average over last 10 years), MYR (-1.7%), INR (-1.2%), SGD (-1.2%), THB (-1.0%) and TWD (-0.7%). Overall, we keep to the view of a higher USD/Asia in 2Q23 before clearer signs of a sustained China economic recovery spur renewed weakness of USD/Asia in 2H23.

China's macroeconomic data continues to paint a mixed outlook at the current juncture. Despite the surge in Mar's exports and stronger than expected 1Q23 GDP, an unexpected contraction in Apr's manufacturing PMI due to external demand headwinds cast doubts on the recovery momentum. As the economic fog stays in the near term, we maintain our cautious view on CNY and expect USD/CNY at 6.95 by end-2Q23. In 2H23, when clearer signs of a sustained and broad-based economic recovery emerge, CNY is likely to strengthen anew. The recent upgrade of China's 2023 GDP to 5.6% from 5.2% also adds conviction to a subsequent recovery of CNY to 6.80 /USD by 4Q23. For more details, pls refer to China: 1Q23 GDP Outperforms Expectation, Room For Stronger Full-Year Growth published 18 Apr. We also see encouraging signs of increasing recovery momentum after China's domestic tourism and consumer activities rose sharply over the five-day Labour Day holiday.

Chart 8: A noticeable steeper rate of S$NEER appreciation this cycle which is unlikely to be sustainable now that the MAS has likely ended its monetary tightening

Source: Bloomberg, UOB Global Economics & Markets Research



According to our Macroeconomic team, the latest policy pause by the Monetary Authority of Singapore (MAS) in Apr probably marked the end of the tightening cycle that began in Oct 2021. For more details, pls refer to Singapore: MAS Tightening Cycle Is Over, Status Quo For Oct published 14 Apr. In this cycle, the S$NEER rallied strongly from about 126.6 at Oct 2021 to about 135.6 at end-Apr 2023, a steeper pace of appreciation compared to previous tightening cycles. Consequently, the SGD has gained against all of its trade basket peers (except CHF), even against the strong USD in the reference period. As the MAS has ended the tightening cycle, outperformance of the SGD will probably start to wane and portends a period of consolidation for the S$NEER. While USD/SGD is likely to still mirror USD/CNY moves, we reduce our forecast of the magnitude of SGD recovery starting 3Q23 to factor in our updated S$NEER view. In all, our updated USD/SGD are at 1.34 in 2Q23, 1.32 in 3Q23, 1.31 in 4Q23 and 1.30 in 1Q24, compared to previous forecasts of 1.34, 1.32, 1.30 and 1.28 respectively.

IDR continued to outperform in Asia FX and gained 2.2% in Apr to a 10-month high of 14,633 /USD. Underpinning the strong currency performance is moderating inflation which drove sustained inflows to the high-yield local government bond. Also, Bank Indonesia (BI)'s USD term-deposit facility is seen gaining traction among exporters and is expected to boost BI's foreign reserves. In the near-term, seasonal weakness and global risk aversion to ongoing US banking turmoil may dent sentiment on the IDR before the China-effect kicks in starting 3Q23. Our updated USD/IDR forecasts are 15,000 in 2Q23, 14,700 in 3Q23, 14,500 in 4Q23 and 14,400 in 1Q24.

The THB has been unusually stable heading into the election on 14 May. This probably sets a low bar for FX volatility to emerge if there is any surprise election outcome. As it is, our macro team has put in a baseline scenario (75% probability) for the continuation of the current conservative led government, 20% for the survey based leading party of Pheu Thai to form the government and 5% for possible political stand-off. For more details, pls refer to Thailand Monthly: Election In Focus As Inflation In Rear View published 3 May. As such, we reserve our caution for THB in 2Q23. Starting 3Q23, as we see a more noticeable pick-up in China tourist numbers, THB is likely to strengthen anew. In all, our updated USD/THB forecasts are 34.5 in 2Q23, 33.5 in 3Q23, 32.5 in 4Q23 and 32.0 in 1Q24. This continues to put THB as one of the outperformers within Asia FX this year.

The MYR remained tied to the CNY in the past month and edged lower to 4.45 /USD as at 3 May from 4.42 /USD at 3 Apr. Consistent with expected weakness of the CNY towards 6.95 /USD by end-2Q23, we reiterate the view of MYR sliding to 4.48 /USD in the same quarter. Like other Asian peers, after a period of weakness in 2Q23, the MYR is expected to get a boost as China's economic recovery becomes more entrenched in 2H23. Our updated USD/MYR forecasts are 4.40 in 3Q23, 4.35 in 4Q23 and 4.30 in 1Q24.

The VND continues to stand out as one of the lowest volatility currencies in Asia, little changed at around 23,450 /USD in the past month. In view of the domestic growth slowdown, the State Bank of Vietnam (SBV) became the first Asian central bank to ease policy and has also set a 12-month debt suspension for struggling firms. At this juncture, we do not expect the domestic growth headwinds to be severe enough – our 2023 GDP forecast is still respectable at 6.0% vs 2022's 8.0% - to derail USD/VND from the broad USD/Asia trend. Overall, we expect USD/VND to trace other USD/Asia pairs higher to 23,600 in 2Q23 before easing lower to 23,500 in 3Q23, 23,400 in 4Q23 and 23,300 in 1Q24.

Rates Strategy

Monetary Policy Temporarily Takes Back Seat To Debt Ceiling Uncertainty

May FOMC Recap: Fed Funds may be topping out; but premature to expect cuts

Key takeaways from May's FOMC are (1) the Fed funds rate has possibly topped out at 5.25% and (2) rate cuts this year still looks premature. These are in-line with our thoughts that underpin our forecasts, thus we maintain the view for Fed funds to stay at 5.25% for the rest of 2023 and have penciled in a total of 125bps of cuts in 2024. Fed funds futures-based expectations are significantly more dovish with up to 100bps of cuts priced in for 2023 and a further 125bps of reductions in 2024.

Chart 9: Policy expectations gap

Source: Bloomberg, UOB Global Economics & Markets Research

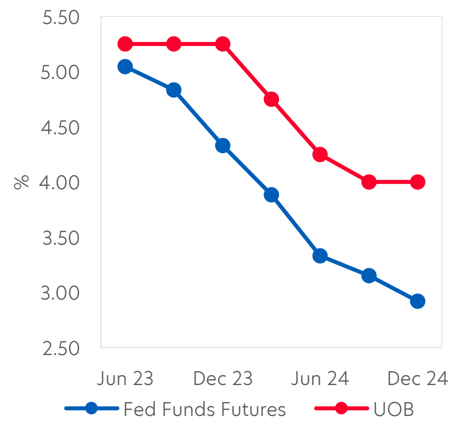
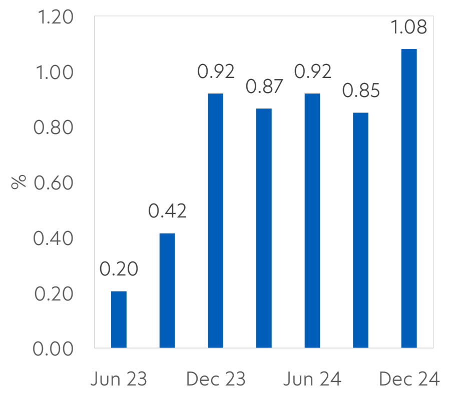


Chart 10: UOB - FF Futures

Source: Bloomberg, UOB Global Economics & Markets Research



This policy expectations gap suggests that rates markets will continue to be volatile. In addition, the extent of embedded dovishness may mean that in the short term, downside for yields are limited except for the direst of financial market scenarios.

On balance, the path of least resistance is for lower yields, but the wildcard currently are the developments taking place within the US regional banking sector. Should there be a period of calm, then we do not rule out the possibility that 10Y UST could retrace higher towards 3.70%.

US debt ceiling default risk is back and more intense than before

We turn our attention this month to the topic of the US debt ceiling. In a nutshell, the debt ceiling is a legislative cap on the national debt and is unrelated to the ability of the country to service a given level of debt. The US hit the current ceiling of USD 31.4tn on 19 Jan 2023 and the Treasury has been employing "extraordinary measures" in order to continue meeting federal obligations since.

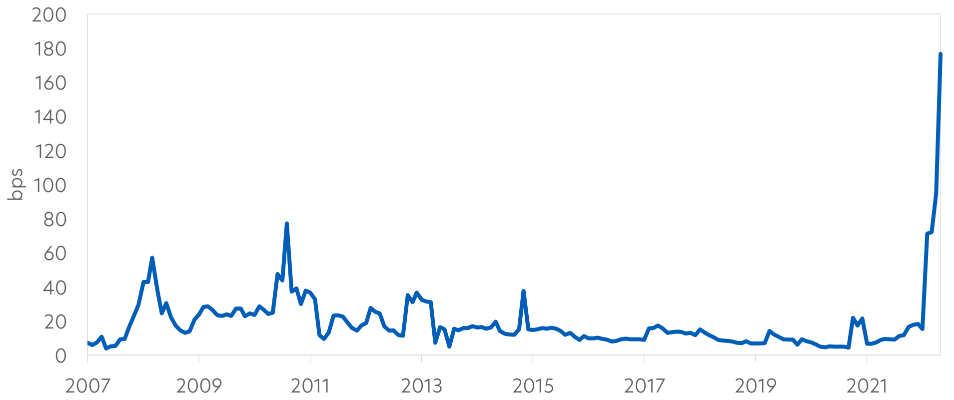
In a similar vein to past debt ceiling episodes in 2011 and 2013, we are once again on a trajectory towards legislative brinkmanship. The level of urgency has been raised after Treasury Secretary Janet Yellen notified Congress on 1 May that based on the latest cash flow projections, the country could fail to meet its debt obligations "potentially as early as 1 Jun". On the same day, the Congressional Budget Office (CBO) also reported that it too saw a greater chance that funds will run out in early Jun.

Credit default swaps signal concern

The poster child encapsulating investors' debt ceiling concerns has undoubtedly been the chart of the 1Y US sovereign credit default swap (CDS). This series has broken previous highs and continues to push higher.

Chart 11: US 1Y CDS

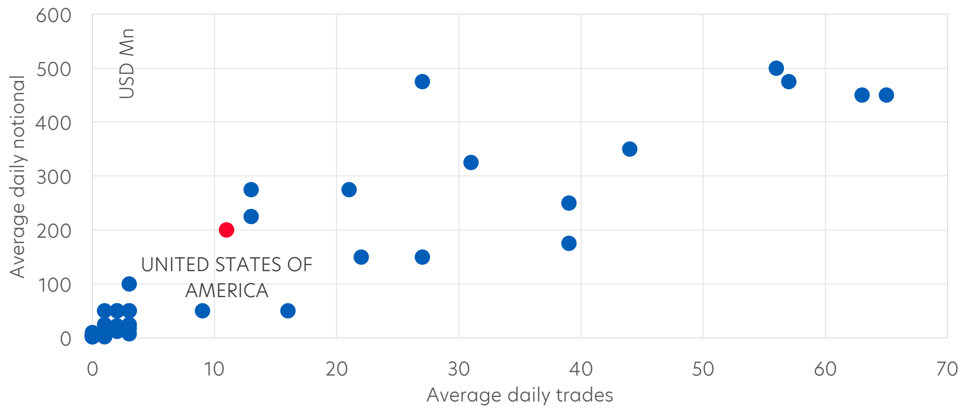
Source: Bloomberg, UOB Global Economics & Markets Research



However, the price information from the 1Y US CDS is probably exaggerated. One issue being the low base effect which gives rise to headline grabbing rate of change values. Comparison to the 1Y Greek CDS back during the Euro-government crisis of 2011 gives a clear sense that the presence of all-time highs, whilst sensational, has not reached levels that are threatening to uproot one of the foundations of our global financial market system. The US CDS market also suffers from illiquidity, which also contributes to volatile prices. There has been 11 average daily trade in 1Q23 for the entire US CDS curve, placing the US as the 16th most traded sovereign name behind the likes of Turkey (1st with 65 average daily trades) and Saudi Arabia (15th with 13 average daily trades).

Chart 12: Aggregate Sovereign CDS transactions (1Q 2023)

Source: Bloomberg, UOB Global Economics & Markets Research



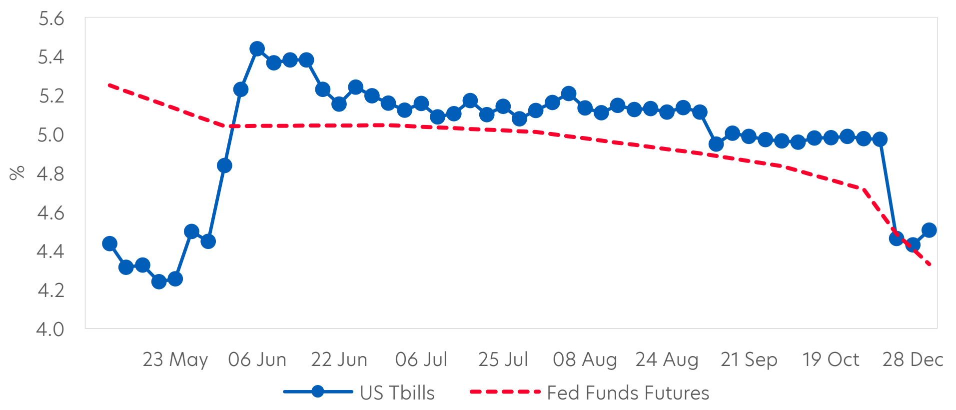
The 1Q23 snapshot flatters the price discovery capabilities of the US CDS market. Looking back to 2022, the entire US CDS market averaged zero daily trades with an average daily notional value of between USD 2.5 to 5mn. This is hardly the characteristics of a robust marketplace.

Some Risk Premium on US T-bills

Even if CDS prices are flawed, there is still a non-zero probability of a technical debt default scenario. The occurrence of a technical default should have an impact across all asset classes in the short term. But we do not think that a lasting risk premium will become embedded in the US Treasuries curve.

Chart 13: US T-bill Jun kink

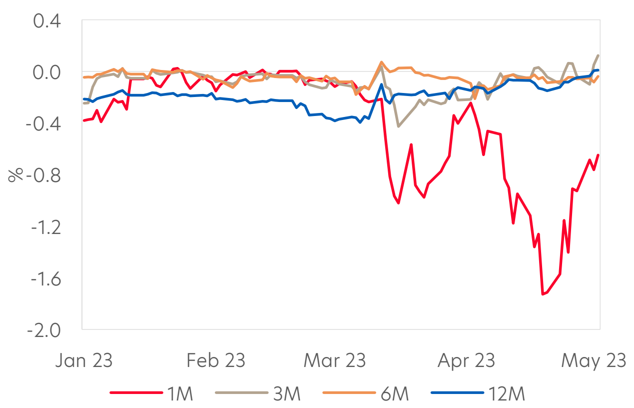
Source: Bloomberg, UOB Global Economics & Markets Research



Overlaying the Fed funds futures curve onto the US Treasury Bills (T-bills), we can see that T-bills yields are not extreme when compared to the background expected Fed funds rate. In addition, the drop in T-bills yields towards the end of the year is also mostly explained by monetary policy expectations.

Chart 14: US T-bill - OIS spread

Source: Bloomberg, UOB Global Economics & Markets Research



US T-bill less OIS yield spread (past year)

Tenor	Current	Percentile
1M	-0.65	14%
3M	0.12	100%
6M	-0.04	66%
12M	0.01	100%

From a yield spread perspective, US T-bills have mostly been trading at a yield discount to the Sofr overnight index swaps (OIS) curve over the past year. Currently, the T-bills – OIS spread is elevated for tenors beyond 1M which ties in with debt ceiling risk being embedded to a degree. In addition, a positive yield premium, most notably in the 3M tenor, is also unusual and indicative of event risk being priced in.

Equity Market Volatility Acknowledging Event Risk to Some Extent

The US equity market has priced in some spillover potential from the debt ceiling event based on the belly of the Implied volatility futures (VIX futures) curve repricing towards the richer end of its past year's range.

Chart 15: VIX Futures belly curve fly

Source: Bloomberg, UOB Global Economics & Markets Research

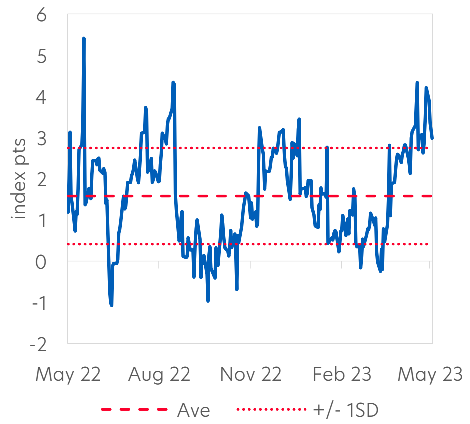
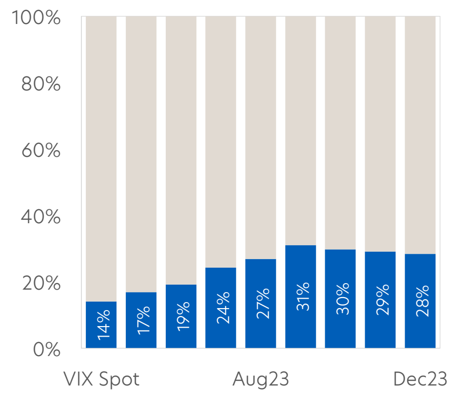


Chart 16: Current versus 52 week range (%)

Source: Bloomberg, UOB Global Economics & Markets Research



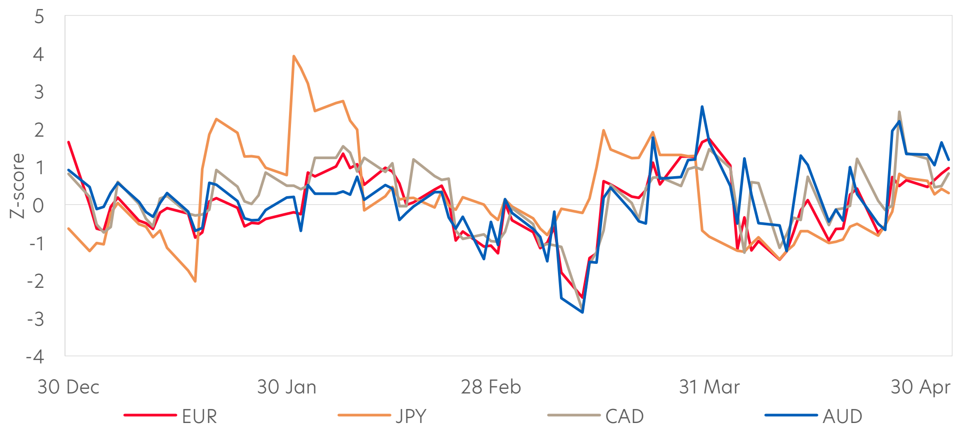
That said, outright levels across the VIX futures are still on the low side and which leaves room for higher levels should the worst come to pass, but lower implied volatility for the longer tenors also suggests that the debt ceiling impact is not expected to be persistent.

FX Market Not Pre - Judging Event Risk

Staying with the assumption that the debt ceiling event ought to have an impact across different asset classes, we don't find a material premium on the implied volatilities of either "risk-on" or "safe haven" currencies. The rolling z-score of the 3M versus 1M and 6M implied volatility curve for safe haven (EUR and JPY) as well as risk-on (AUD) currencies aren't noticeably elevated.

Chart 17: Implied Vol 3M vs 1M/6M fly (rolling 3M z-score)

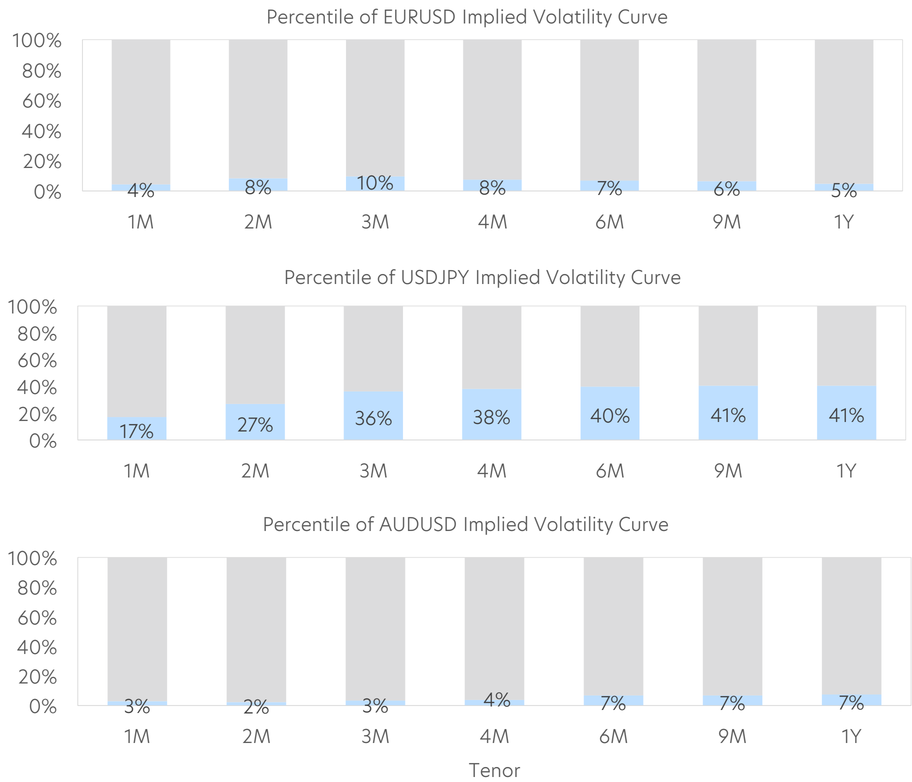
Source: Bloomberg, UOB Global Economics & Markets Research



Outright levels of implied volatility in FX are also much more sanguine (except for JPY) compared to the US equities market. We would not interpret this as a testament that FX markets will be immune from debt ceiling spillovers. Instead, it is possible that hedging interest has declined alongside speculative USD interest which, as of last update from Commodity Futures Trading Commission (CFTC), is at its lowest level since Jul 2021.

Chart 17: Percentile of Implied Volatility Curve (current versus 52 week range %)

Source: Bloomberg, UOB Global Economics & Markets Research



Summary Of Our Rates Views

Accounting for May's FOMC, we keep to our view that Fed funds will plateau for the rest of 2023 to be followed by rate cuts in 2024. A wide policy expectations gap versus market pricing provides the condition for rates volatility to persist.

From a medium-term holding period perspective; we expect to see bond yields drift lower across 2023, based our view that the balance of risk will increasingly tilt in favour of slowing economic growth, rising rate cut expectations, and richer safe haven premiums consequentially.

For 4Q23 we see the 3M compounded in arrears Sofr and Sora topping out at 5.05% and 3.96% respectively. At the same time, we have the 10Y UST and SGS yields softer at 3.20% and 2.70% respectively.

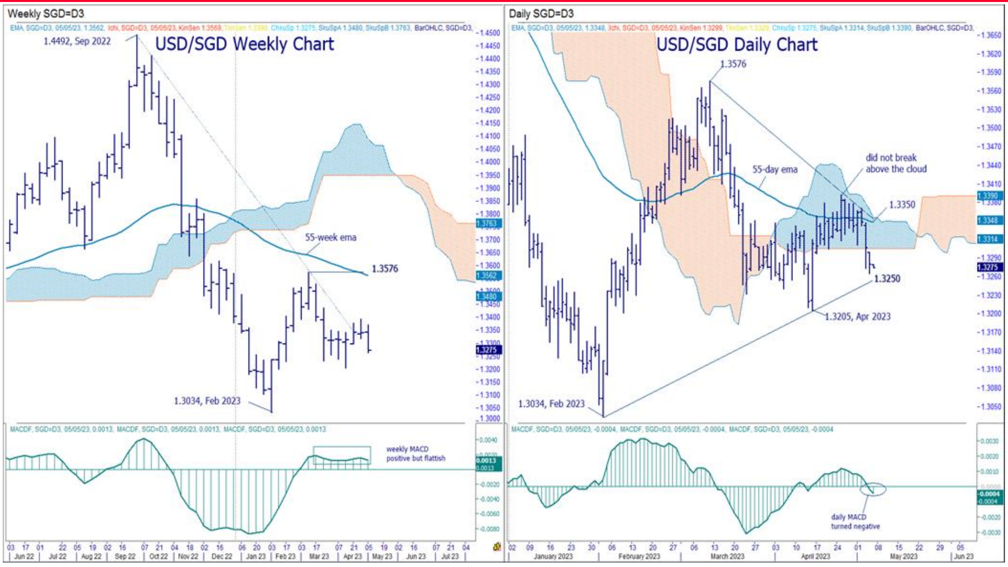
Summary of Our Rates Views	
Outright yield	FOMC guides no rate cuts in 2023, we expect the same. Market is priced for cuts. Closing the gap favours upside for yield level, but "converge down" scenario cannot be ruled out.
Curve	Cycle shifting towards steeper yield curves, with likelihood of larger repricing taking place later in the year. Nonetheless, a negative 2Y10Y UST yield curve will remain for most of 2023.
SG - US Spread	SG yield discount to US stay largely intact until a turn in monetary policy cycle. Yield discount to diminish over time.

Rates	03 May 23		2Q23F	3Q23F	4Q23F	1Q24F
US Fed Funds Target	5.25	Current	5.25	5.25	5.25	4.75
		Previous	5.25	5.25	5.25	4.75
3M compounded SOFR	4.70	Current	4.96	5.05	5.05	4.83
		Previous	4.80	5.05	5.05	4.83
10Y UST	3.34	Current	3.70	3.50	3.20	3.20
		Previous	3.80	3.70	3.50	3.40
3M compounded SORA	3.61	Current	3.74	3.92	3.96	3.77
		Previous	3.98	4.25	4.27	4.07
10Y SGS	2.74	Current	3.10	2.95	2.70	2.80
		Previous	3.20	3.15	3.00	3.00

FX Technicals

USD/SGD: 1.3280

Downside risk in USD/SGD is building but it has to break below 1.3205 before a more sustained and sizeable decline is likely.



Source: Eikon, UOB Global Economics & Markets Research

After dropping to a low of 1.3205 in mid-April, USD/SGD rebounded strongly. However, the advance lacked momentum as USD/SGD tried but could not break above the resistance at the top of the daily Ichimoku cloud. Two days ago (03 May 2023), USD/SGD fell sharply and dropped below the bottom of the cloud instead.

Daily MACD has turned negative, suggesting the downside risk is building. While USD/SGD could break the rising trendline connecting the lows of February and April (level is currently at 1.3250), it remains to be seen if it can break below 1.3205. It is worth noting that the weekly MACD is not exactly weak (it is positive but flattish).

Overall, in the next month or so, we expect USD/SGD to trade with a downward bias but it has to break clearly below 1.3205 before a more sustained and sizeable decline is likely. On the upside, the declining trendline resistance, the 55-day exponential moving average and the top of the daily Ichimoku cloud are all near 1.3350. A break of this formidable resistance level would indicate that the downside risk in USD/SGD has dissipated.

FX, INTEREST RATES & COMMODITIES
Forecasts

FX	04 May	2Q23F	3Q23F	4Q23F	1Q24F
USD/JPY*	134	136	133	132	128
EUR/USD*	1.10	1.11	1.12	1.14	1.16
GBP/USD*	1.26	1.26	1.28	1.30	1.32
AUD/USD	0.67	0.68	0.69	0.71	0.72
NZD/USD	0.63	0.64	0.65	0.66	0.67
DXY*	101.28	101.1	99.9	98.5	96.7
USD/CNY	6.91	6.95	6.85	6.80	6.70
USD/HKD*	7.85	7.84	7.82	7.80	7.80
USD/TWD	30.63	30.8	30.5	30.0	29.5
USD/KRW*	1,323	1,330	1,300	1,280	1,260
USD/PHP	55.29	55.5	54.5	54.0	53.5
USD/MYR*	4.44	4.48	4.40	4.35	4.30
USD/IDR*	14,684	15,000	14,700	14,500	14,400
USD/THB*	34.03	34.5	33.5	32.5	32.0
USD/VND*	23,453	23,600	23,500	23,400	23,300
USD/INR*	81.80	82.0	81.5	81.0	80.5
USD/SGD*	1.33	1.34	1.32	1.31	1.30
EUR/SGD*	1.46	1.49	1.48	1.49	1.51
GBP/SGD*	1.67	1.69	1.69	1.70	1.72
AUD/SGD*	0.89	0.91	0.91	0.93	0.94
SGD/MYR*	3.35	3.34	3.33	3.32	3.31
SGD/CNY*	5.21	5.19	5.19	5.19	5.15
JPY/SGDx100*	0.99	0.99	0.99	0.99	1.02

POLICY RATES	04 May	2Q23F	3Q23F	4Q23F	1Q24F
US Fed Funds Rate	5.25	5.25	5.25	5.25	4.75
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10	0.00
EUR Refinancing Rate*	3.75	4.00	4.00	4.00	4.00
GBP Repo Rate	4.25	4.50	4.50	4.50	4.50
AUD Official Cash Rate*	3.85	3.85	3.85	3.85	3.85
NZD Official Cash Rate	5.25	5.25	5.25	5.25	5.25
CNY 1Y Loan Prime Rate	3.65	3.65	3.65	3.65	3.65
HKD Base Rate	5.50	5.50	5.50	5.50	5.00
TWD Official Discount Rate	1.88	1.88	1.88	1.88	1.88
KRW Base Rate	3.50	3.50	3.50	3.50	3.50
PHP O/N Reverse Repo	6.25	6.75	6.75	6.75	6.25
MYR O/N Policy Rate	3.00	3.00	3.00	3.00	3.00
IDR 7D Reverse Repo	5.75	5.75	5.75	5.75	5.75
THB 1D Repo	1.75	1.75	1.75	1.75	1.50
VND Refinancing Rate	5.50	5.00	5.00	5.00	5.00
INR Repo Rate	6.50	6.50	6.50	6.50	6.50

INTEREST RATES	04 May	2Q23F	3Q23F	4Q23F	1Q24F
USD 3M SOFR (compounded)	4.70	4.96	5.05	5.05	4.83
SGD 3M SORA (compounded)	3.60	3.74	3.92	3.96	3.77
10Y US Treasuries Yield	3.38	3.70	3.50	3.20	3.20
SGD 10Y SGS	2.64	3.10	2.95	2.70	2.80

COMMODITIES	04 May	2Q23F	3Q23F	4Q23F	1Q24F
Gold (USD/oz)	2,047	2,000	2,000	2,100	2,100
Brent Crude Oil (USD/bbl)	73	80	80	90	90
Copper (USD/mt)	8,494	8,000	8,000	7,000	7,000

* Changes made to forecasts as compared to previous report dated 06 April 2023
Source for spot rates: Bloomberg

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