Quarterly Global Outlook 4Q 2021

Ending 2021 With A Bag Full Of Risks In 4Q

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Executive Summary

Ending 2021 With A Bag Full Of Risks In 4Q

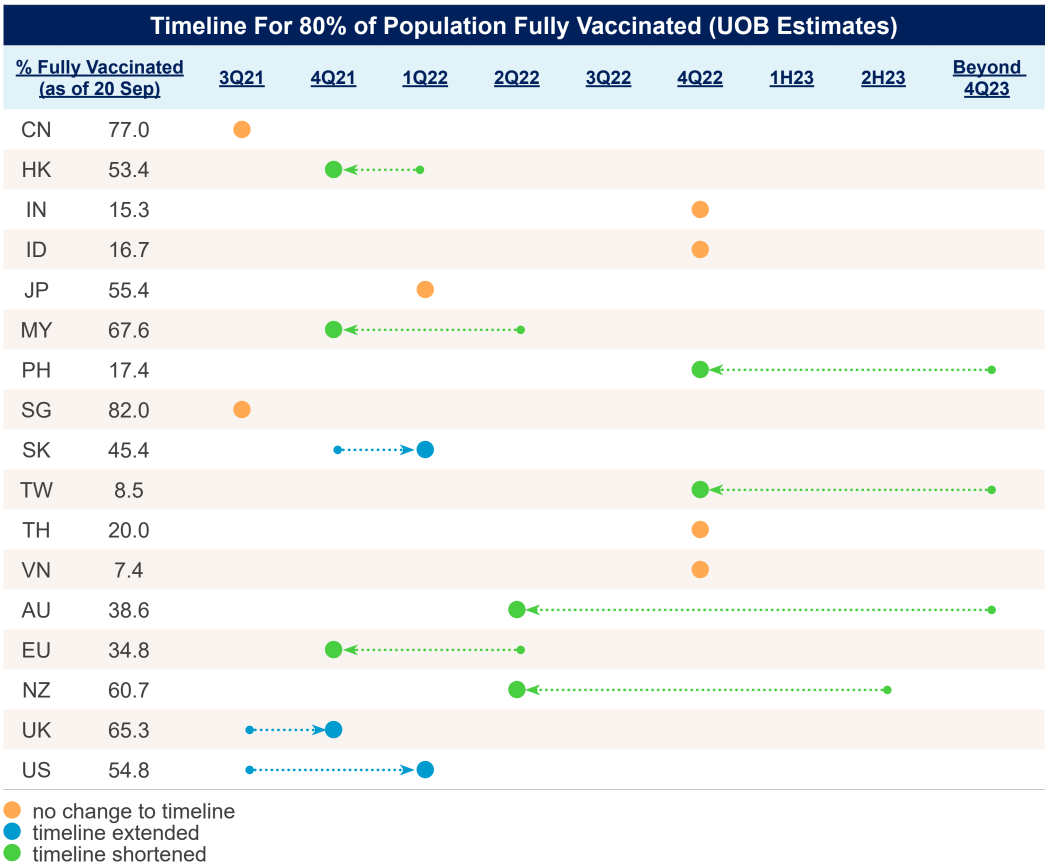
"There's as much risk in doing nothing as in doing something."

Trammell Crow

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

Risk of Uneven Recovery

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



Source: UOB Global Economics & Markets Research

Risk of Variants

But beyond the question of vaccine availability, the struggle to contain the COVID-19 pandemic is far from over with the emergence of COVID-19 variants that are more transmissible and potentially more deadly. The virulent COVID-19 Delta variant has become widespread across the globe and is the dominant strain seen in new infections for many countries that had previously gotten COVID-19 under control. The Chinese and the US economies are still expected to lead the growth recovery from the pandemic, but their previously rosy growth forecasts have been trimmed in recent weeks, with the Delta variant being the party pooper. In addition, the US (which was formerly a front-runner in the race to fully vaccinate its population) has seen its vaccination rate stagnate significantly in recent months, as compared to its peers in other developed markets. Many Asian economies (with some exceptions like Singapore and Taiwan) also had their GDP growth forecasts downgraded in recent months, with the Delta variant a key factor for the revisions. (See our latest GDP growth forecasts for selected economies on Page 11)

Risk of More Elevated Inflation

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

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

Monetary Policy Normalization Risk

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

Capital Outflows Risk

One of the risks/concerns about this policy divergence between the Fed and the ASEAN region is that it may reignite another episode of regional capital outflows like what we saw during the 2013 Taper Tantrum. Based on our analysis on a selected group of Asian emerging economies (EM), we found that these economies are relatively more resilient now compared to 2013 and are in a better position to withstand the potential portfolio capital reversals. Please see our Focus piece, “Whither Regional Portfolio Capital Flows amidst Fed's Tapering” for a more detailed discussion.

Political Risks

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

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

We hereby present our updated suite of quarterly macroeconomic, monetary policy, FX, Rates and Commodities forecasts.

FX Strategy
FED's Steady Progress In Policy Normalization Underpins The USD

In the 3Q21, the USD drew further support from the FED which has started to drop hints and discuss about monetary policy normalization plan. Finally, the recently concluded September FOMC has firmed up the stage for a tapering announcement in November. We now expect a gradual reduction in asset purchases till July 2022, followed by the first policy rate hike in December 2022. Overall, the steady progress of the FED towards unwinding its massive monetary stimulus has sent the US Dollar Index (DXY) back to its highest levels since last November, at around 93.50 as at 23-Sep.

Within the Major FX space, the performance of the respective currencies is still driven by the monetary policy stance. The GBP, CAD and NZD continues to outperform as their respective central banks have signaled or begun dialing back part of their pandemic-era monetary stimulus. The Reserve of Bank of New Zealand (RBNZ) looks set to lead with a 25 bps rate hike at the upcoming 6-Oct meeting. Interest rate futures also priced in a rates liftoff by Bank of England (BOE) and Bank of Canada (BOC) sometime in 3Q22. On the opposite end of the spectrum, the JPY has underperformed as there is hardly any inflation in Japan to sway the Bank of Japan (BOJ) away from its ultra-easy monetary policies. AUD/USD had a tumultuous quarter - falling over 5% to almost 0.71, the lowest since last November, from 0.75 at the start of the July, weighed down by an on-going COVID outbreak, a rather relaxed Reserve Bank of Australia (RBA) and steep sell-off in iron ore.

Asia FX showed its resilience in the 3Q amidst a wall of worries. Even as the region endured a persistent virus spread fueled by the Delta variant, growing evidence of a slowing economic recovery and imminent FED tapering, some Asian currencies managed to stage a modest rebound against the USD. This group of currencies include IDR, INR, and TWD. The upcoming FED taper remains the key tail risk for Asia FX. We continue to see weakness in various key Asia FX. Consequently, we see USD/CNY rising to 6.64 by 3Q22 and similarly, USD/SGD can be expected to rise in tandem to 1.39 by 3Q22 as well.

Rates Strategy
Destination Is Known, Though The Journey Will Be Bumpy

Relating to short term rates, we can now expect that the US FED will begin tapering its bond purchases in November. This scaling back of quantitative easing will incrementally tighten liquidity conditions. As such, the potential for significant upside in short dated yields may be fairly limited in the near term but will exert a greater pull on rates in 2022. Our projection is for 3-month Libor and SOR to track higher towards 0.20% and 0.25% in 4Q 2021 respectively and 0.40% in 3Q 2022 for both Libor and SOR. We see overnight SOFR and SORA as being range bound for 4Q 2021 at 0.09% and 0.10% respectively.

As for long term yield, our base case remains for 10-year UST and SGS yields to head higher. Prevailing interest rate levels are low considering a constructive macro outlook. Monetary policy tightening cycle is modestly priced and should rise to close the gap with the FOMC's Dot plot. Therefore, we see 10-year yields at 1.85% and 1.90% in 4Q 2021 for UST and SGS respectively and heading higher to 2.05% for both in 3Q 2022.

Commodities Strategy
Neutralizing Our Gold And Copper Outlook While Staying Positive Brent Crude Oil

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

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

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

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

Asian Focus
Whither Regional Portfolio Capital Flows amidst Fed's Tapering

Rhetoric from the US Federal Reserve (Fed) suggests imminent tapering and policy normalization ahead, awaking a sense of Déjà vu of the 2013 Taper Tantrum. Yet, eight years on and despite the COVID-19 pandemic still raging on, would the situation be different now compared to 2013? In this Focus Piece, we look at selected Asian EMs (Indonesia, Malaysia, Thailand, Philippines, Vietnam, China, and India), and analyse what could be the impact of the regional portfolio capital flows ahead of the Fed's tapering. In a nutshell, we found these countries' ability to weather the potential portfolio capital reversal have increased even during the ongoing challenge from COVID-19's economic repercussions. We conclude that a repeat of 2013 Taper Tantrum's effects is quite unlikely.

Singapore Focus

MAS Preview: Policy Considerations Amid Heightened COVID-19 Risks

Since the start of 2021, global economic fundamentals have painted a rosy picture into the second half of the year. In Singapore, high-frequency macroeconomic data has suggested an improving economic outlook, as seen from nine consecutive readings of expansion in NODX and industrial production.

In the upcoming Monetary Authority of Singapore (MAS) policy announcement (expected to be held between 7 and 14 October 2021), we note that policymakers will likely consider the improving global economic backdrop, benign inflation risks and rising uncertainties surrounding COVID-19. We expect that authorities will not normalise monetary policy for now, but instead, keep policy parameters unchanged.

Beyond keeping its policy parameters unchanged in October 2021, we expect policymakers to highlight the improving GDP growth prognosis for the rest of 2021, while paying heed to the magnified COVID-19 risks observed in Singapore and the region. Should the MAS adopt a relatively positive rhetoric for the rest of 2021, it could mean a heightened possibility for policymakers to inject a symbolic appreciation (estimated at 0.5%) to its SGD NEER gradient in April 2022.

Global FX

USD/JPY: Going forward, with the BOJ sticking to its ultra-easy monetary policy, higher UST yields and broad USD strength, we keep to our view of a higher USD/JPY. Our updated USD/JPY forecasts are 111 in 4Q21, 112 in 1Q22, and 113 in both 2Q and 3Q22.

EUR/USD: Due to the longer term monetary policy divergence, we keep to our bearish view of EUR/USD and update the point forecast to 1.16 in 4Q21, 1.15 in 1Q22, 1.14 in both 2Q and 3Q22. The latest forecasts are about 100-200 pips higher compared to our last review at the start of September. This is in acknowledgement of the stabilization in yield differentials observed in the month.

GBP/USD: The GBP is second best to the USD this year within the Major FX space. Supportive factors include hawkish cues from the BOE, COVID-19 hospitalization staying low despite a full reopening and attractive currency valuations. As such, we reiterate our bullish view in GBP/USD and update our forecasts at 1.40 in 4Q21, 1.41 1Q22, 1.42 in 2Q22 and 1.43 in 3Q22.

AUD/USD: AUD/USD had a tumultuous quarter, weighed by a surge in coronavirus cases in Australia, a 44% slump in iron ore prices and standout dovishness of the RBA relative to its G-10 peers. As such, we keep to our cautious view on AUD/USD and update our forecasts at 0.71 in 4Q21, 0.70 in both 1Q22 and 2Q22, and 0.69 in 3Q22.

NZD/USD: NZD/USD is still likely to be supported at 0.70 in 4Q21 and 1Q22 by the imminent rate hike in 4Q21. Further out, as the Fed tightening comes into focus, NZD/USD will be gradually guided lower to 0.69 in 2Q22 and 0.68 in 3Q22.

Asian FX

USD/CNY: Going forward, the CNY will face growing growth headwinds. Previous calls by the market for monetary tightening in the first half of the year have dissipated. Monetary policy is likely to be biased slightly looser to cushion slowing growth momentum. As the growth and monetary policy divergence between US and China continues to close, we hold our view of a modestly higher USD/CNY in the coming quarters. Our updated point forecasts are 6.52 in 4Q21, 6.56 in 1Q22, 6.60 in 2Q22 and 6.64 in 3Q22.

USD/SGD: Even amidst a worsening surge in domestic virus infections, the SGD remains largely stable in a 1.34 – 1.37 range against the USD across the 3Q. Taking cues from a broad USD recovery, we continue to expect a higher USD/SGD, with point forecasts updated at 1.36 in 4Q21, 1.37 in 1Q22, 1.38 in 2Q22 and 1.39 in 3Q22.

USD/HKD: Overall, we reiterate the view that the HKD will stay tethered to the stronger end of its Convertibility Undertaking at 7.75 / USD till 2Q22, then gradually weakens as the Fed begins its next rate hike cycle at end-2022.

USD/TWD: As growth normalises lower next year, part of the TWD's outperformance may start to fade. In addition, the broad USD strength is also expected to gain traction as the Fed embarks on tapering and rate hikes come into sharper focus. Overall, we reiterate a modestly higher trajectory in USD/TWD and update the point forecasts at 28.0 in 4Q21, 28.2 in 1Q22, 28.4 in 2Q22 and 28.6 in 3Q22.

USD/KRW: While momentum points to further weakness in the KRW, a second rate hike in November may help to stabilise sentiments on the currency. As such, we expect near term KRW weakness to be checked at 1,200 /USD across 4Q21 – 1Q22. After which, as the Fed normalisation plans come back into focus, USD/KRW is expected to resume its upward trajectory and is forecasted at 1,220 in 2Q22 and 1,250 in 3Q22.

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

USD/IDR: Despite IDR's resilience in 3Q, there are still reasons to be cautious about the IDR going forth. These include a slow vaccination drive casting uncertainty over the economic recovery and a narrowing yield advantage of Indonesia Government Bonds over USTs. A persistent and widening twin deficit also anchors a gradual uptrend in USD/IDR over the medium term. As such, we reiterate our view of a higher USD/IDR but have moderated the trajectory in view of current market developments. The updated point forecasts at 14,600 in 4Q21, 14,700 in1Q22, 14,800 in both 2Q and 3Q22.

USD/THB: The THB is the worst performing Asia FX year-to-date, dropping about 11% against the USD. By now, a large part of the negatives surrounding the THB is probably priced in. As such, we are guarded to extrapolate further excessive weakness in the THB from current levels. Our updated USD/THB forecasts are at 33.8 in 4Q21, 34.1 in 1Q22, 34.4 in 2Q22 and 34.7 in 3Q22.

USD/PHP: We continue to expect a weakening bias for the PHP well into 2022, but at a more moderate pace than previously forecasted. This comes as other economic fundamentals (i.e. sound banking system, ample foreign reserves, medium-term growth prospects) remain solid. We update our USD/PHP forecasts at 51.0 in 4Q21, 51.5 in 1Q22, and 52.0 in both 2Q22 and 3Q22 (vs. previous projected range of 51.5-52.5).

USD/VND: The outlier strength of the VND in the 3Q comes in a period where most of its Asian peers are retreating against the USD as Fed's upcoming normalization plans spurred a recovery in the USD. More importantly, a strong VND is also increasingly at odds with the uncertain and weak economic outlook inflicted by the virus outbreak. Overall, we reiterate our upward trajectory in the USD/VND and update our forecasts to 22,900 in 4Q21, 23,000 in 1Q22, 23,100 in 2Q22 and 23,200 in 3Q22.

USD/INR: While virus risks have receded, bond purchases by the RBI and India's dual deficits are structural tailwinds that will continue to weigh on the INR, on top of the broad-based USD strength due to the Fed's normalization. Overall, we keep to our upward trajectory of USD/INR but will moderate the point forecasts 100 pips lower in view of the recent stabilization of the INR. The revised forecasts are now at 75.5 in 4Q21, 76.0 in 1Q22, 76.5 in 2Q22 and 77.0 in 3Q22.

Central Bank Outlook

Central Bank	Current Rate	Quantum of rate cuts since 2020	Next Meeting	Our Forecast End-4Q 2021	Our View/Outlook
FED United States	**0.25%**	**-150bps**	**02-03 November**	**0.25%**	With the hawkish tilt in Sep FOMC, we now expect QE taper will start at the 2/3 Nov 2021 FOMC meeting (from Dec 2021 previously) with a shorter completion timeframe of 8 months by Jul 2022. The first rate hike is also expected earlier in Dec 2022.
BOJ Japan	**-0.10%**	**-**	**27-28 October**	**-0.10%**	The very weak inflation outlook (post CPI rebase) reinforces our view that the BOJ will not tighten anytime soon and will maintain its massive stimulus until FY2023. Markets are convinced the BOJ has reached its limits on normalization and will stay in a holding pattern until Governor Kuroda exits in 2023.
ECB Eurozone	**0.00%**	**-**	**28 October**	**0.00%**	The ECB will take the run rate of monthly net asset purchases down over time through its Pandemic Emergency Purchase Programme (PEPP), but we also expect prolonged accommodative monetary policy through a more flexible and larger Asset Purchase Program (APP).
BOE United Kingdom	**0.10%**	**-65bps**	**04 November**	**0.10%**	We think the BOE will not push for immediate action, and will want to slowly withdraw its monetary policy support, while allowing the recovery to continue. But the rate hike debate is definitely heating up, and we have moved forward our rate hike forecast timing from mid-2023 to end-2022.
RBA Australia	**0.10%**	**-65bps**	**05 October**	**0.10%**	We think the next QE taper will be in Feb next year, by which the rebound in the economy will be evident. As for the cash rate target, we still expect that the first rise will occur only in early 2024.
RBNZ New Zealand	**0.25%**	**-75bps**	**06 October**	**0.50%**	We believe the economy no longer requires the extreme monetary stimulus a 0.25% OCR provides, and that the current lockdown should not leave a discernible scar on the economic front. Unless the country heads into a prolonged lockdown, a hike in Oct is very likely.
PBOC China	**3.85%**	**-30bps**	**20 October**	**3.85%**	The PBOC is likely to cut its banks' reserve requirement ratio (RRR) by another 50 bps in 4Q21 to provide banks with greater ability to boost lending and make repayments for CNY2.45tn of medium-term lending facility (MLF) loans maturing in the quarter. However, the benchmark LPRs are likely to stay unchanged through 1H22.
CBC Taiwan	**1.125%**	**-25bps**	**16 December**	**1.125%**	CBC said that the economy is not overheating and inflation has remained under control. There is also comparatively less room for the CBC to hike rates given that it had only cut its rate by 25 bps last year. Thus, we maintain our forecast for the discount rate at 1.125% through 1H22.

Central Bank Outlook

Central Bank	Current Rate	Quantum of rate cuts since 2020	Next Meeting	Our Forecast End-4Q 2021	Our View/Outlook
BOK South Korea	**0.75%**	**-50bps**	**12 October**	**1.00%**	We expect BOK to pause in Oct before delivering another 25 bps rate hike in Nov (the last meeting for 2021). High growth in household loans and property prices will keep BOK's focus on prevention of financial imbalances as long as the economy stays on the path of recovery.
BSP Philippines	**2.00%**	**-200bps**	**11 November**	**2.00%**	Given that a full recovery remains distant, the near-term growth outlook is still subjected to uncertainties, and with inflation staying high, we expect BSP to keep its policy rate unchanged until mid-2022. Health and fiscal policy interventions are key tools for upholding growth momentum.
MAS Singapore	**0% slope**	**-**	**October 2021**	**No change**	Notwithstanding the rosier economic outlook and benign inflation pace seen since the start of the year, we believe that COVID-19 risks may keep policymakers cautious. As such, we expect that the MAS will keep policy parameters unchanged in Oct.
BNM Malaysia	**1.75%**	**-125bps**	**02-03 November**	**1.75%**	BNM kept a neutral tone, and we expect it to keep the policy rate unchanged until mid-2022 as vaccinations progress to 100% of adult population by year-end and more economic sectors gradually reopen. This should support a pick-up in growth momentum by 4Q21 and into 2022.
BI Indonesia	**3.50%**	**-150bps**	**21 October**	**3.50%**	BI will continue with its accommodative monetary policy stance via both rates and macroprudential policies. That said, with the Fed increasingly moving into normalization, BI will likely start tightening in 2H22 despite inflation expectations remaining muted at this juncture.
BOT Thailand	**0.50%**	**-75bps**	**29 September**	**0.50%**	We continue to observe that policy space remains very limited, while fiscal policies will likely do the heavy lifting in supporting economic growth. While we keep to our base case view for the benchmark rate to stay pat for 2021, a tail end risk of a rate cut of 25 bps could occur if Thailand's economic environment worsens in 4Q21.
SBV Vietnam	**4.00%**	**-200bps**	**-**	**4.00%**	With the uncertain outlook, it is likely for the SBV to stay put for now and keep its key policy rates unchanged, for the refinancing rate at 4.0% and rediscounting rate at 2.5%.
RBI India	**4.00%**	**-115bps**	**08 October**	**4.00%**	Given the G-SAP and the fiscal response from the Union Budget, we think that further cuts in the policy rate are off the table, and a rate hike might occur in 2022, possibly in 2H22. As such, we keep to our view for a steady policy rate at 4.0% for the rest of 2021.

Real GDP Growth Trajectory

y/y% change	2020	2021F	2022F	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21F	4Q21F
China	2.3	8.6	5.7	-6.8	3.2	4.9	6.5	18.3	7.9	5.7	5.1
Hong Kong	-6.1	6.7	3.0	-9.1	-9.0	-3.6	-2.8	8.0	7.6	5.7	5.6
India	-7.3	8.5	6.5	3.0	-24.4	-7.4	0.5	1.6	20.1	6.4	3.8
Indonesia	-2.1	3.5	5.0	3.0	-5.3	-3.5	-2.2	-0.7	7.1	2.5	4.9
Japan	-4.6	2.5	2.2	-2.2	-10.1	-5.5	-1.2	-1.3	7.6	3.0	1.0
Malaysia	-5.6	4.0	5.5	0.7	-17.2	-2.7	-3.4	-0.5	16.1	-3.5	5.8
Philippines	-9.6	5.5	6.5	-0.7	-17.0	-11.6	-8.3	-3.9	11.8	8.0	6.5
Singapore	-5.4	6.5	3.5	0.0	-13.3	-5.8	-2.4	1.5	14.7	7.1	3.6
South Korea	-0.9	4.0	3.0	1.5	-2.6	-1.0	-1.1	1.9	6.0	4.2	4.1
Taiwan	3.1	5.9	3.6	2.5	0.4	4.3	5.2	9.3	7.4	3.6	3.3
Thailand	-6.1	1.5	3.5	-2.1	-12.1	-6.4	-4.2	-2.6	7.5	-0.3	-0.9
Vietnam	2.9	5.0	6.9	3.7	0.4	2.7	4.5	4.7	6.6	3.2	5.5
Australia	-2.4	4.3	3.2	1.4	-6.3	-3.7	-0.9	1.3	9.6	3.9	2.5
Eurozone	-6.3	4.9	4.7	-3.3	-14.6	-4.1	-4.4	-1.2	14.3	2.8	4.0
New Zealand	-1.2	5.3	3.2	0.3	-9.2	3.1	1.1	3.6	17.0	-1.5	2.3
United Kingdom	-9.9	6.7	5.3	-2.2	-21.4	-8.5	-7.3	-6.1	22.2	6.7	5.3
United States (q/q SAAR)	-3.4	6.0	3.1	-5.1	-31.2	33.8	4.5	6.3	6.6	5.3	6.6

Note that India's annual growth refers to its fiscal year print
Source: CEIC, UOB Global Economics & Markets Research

Heat Map Of 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, 2020	Fiscal balance % of GDP, 2021F
China	7.9	0.8	49.2	5.1	58.3	1.2	149.3	-5.2
India	20.1	5.3	52.3	8.3	-13.9	-1.0	64.1	-10.0
Indonesia	7.1	1.6	43.7	6.3	4.7	-0.8	18.3	-5.5
Malaysia	16.1	2.2	43.4	4.8	3.3	3.9	3.5	-7.0
Philippines	11.8	4.9	46.4	6.9	-3.3	-1.2	6.5	-9.3
Singapore	14.7	2.5	50.9	2.8	4.6	20.2	90.6	-2.2
Thailand	7.5	0.0	48.3	1.5	-1.2	-2.5	-6.1	-4.9
Vietnam	6.6	2.8	40.2	3.4	-1.3	0.4	15.8	-5.2

Source: Macrobond, UOB Global Economics & Markets Research

KEY EVENTS 4Q 2021

27 September

US Infrastructure Bill
US lawmakers are scheduled to vote on the US$1 trillion bipartisan infrastructure bill by this date.

30 September

US Federal Budget
Federal budget for FY2021 ends on 30 September and to prevent a government shutdown, the lawmakers need to either

- pass the new budget for FY2022 or
- pass a short-term continuing resolution to give the government more time to pass the budget

End September

US Budget Reconciliation Bill
US President Biden's massive US$3.5 trillion budget reconciliation bill – a 10-year spending plan, is estimated to be due for voting by end-September.

1-7 October

China's National Day Golden Week
The Golden Week is usually one of the busiest times to travel in China but the tourism sector is still bearing the brunt of the Delta variant outbreak with the total number of domestic trips and tourism spending down by around 40% in 1H21 compared to the same period in 2019. The tourism industry accounted for 11% of China's GDP in 2019.

6 October

Hong Kong Annual Policy Address
Chief Executive Carrie Lam to deliver the policy address to set out initiatives and policy directives for the year ahead.

Likely 7-14 October

Singapore's MAS Monetary Policy Announcement
We expect the MAS to keep policy parameters unchanged at this meeting.

11-17 October

Annual Meetings of the IMF and the World Bank Group
The meeting will be held in a virtual format to discuss the outlook for the global economy, developments in financial markets and other pressing issues.

26-28 October

39th ASEAN Summit
A biannual meeting held by the members of ASEAN. Brunei holds the Chairmanship for 2021.

29 October

Malaysia's Budget 2022
This will be the first budget that would be negotiated and mutually agreed on a bipartisan basis. It's expected to be an expansionary budget to strengthen post-pandemic economic recovery and enhance the resilience of Malaysia's economy.

30-31 October

G20 Leaders' Summit
The summit is scheduled to take place in Rome, Italy. Singapore is one of the invited guests. The Presidency's agenda consists of three main pillars – People, Planet and Prosperity.

31 October - **12** November

UN COP 26
The 26th UN Climate Change Conference of the Parties (COP26) will be held in Glasgow. COP26 aims to accelerate the goals of the Paris Agreement and to address the widening global funding shortfall for climate action.

Likely In October

US Debt Ceiling
The debt ceiling was reinstated at around US$28.5 trillion on 1 August and the US Treasury has since deployed extraordinary measures so as to continue paying its obligations and prevent default on US debts. However, the US is at risk of a technical default sometime in late October if the debt ceiling is not raised by then.

Likely In November

Japanese General Election
The current term of the government will expire on 21 October. Under the Japan's election law, the latest possible voting date will be 14 November. If the lower house is to be dissolved, the voting date could be pushed back to as far as 28 November. Lawmakers are mindful that holding an election in 2H of November will likely affect the drafting of fiscal 2022 budget by the end of the year.

Sixth Plenum of the 19th Communist Party of China (CPC) Central Committee
This will be the final plenary session before the CPC's reshuffle in 2022. The meeting will review the "major achievements and historical experience of the party in the past 100 years".

19 December

Election For Hong Kong Legislative Council
Originally scheduled in September 2020, the election will be conducted under the new electoral system that was passed in May this year which includes the increase in the total number of the Legislative Council seats from 70 to 90.

Likely In December

China's Central Economic Work Conference
An annual meeting which sets the key objectives for China's economy, financial and banking sectors for the following year.

FX, Interest Rates & Commodities

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

RATES	23 Sep 21	4Q21F	1Q22F	2Q22F	3Q22F
US Fed Funds Rate	0.25	0.25	0.25	0.25	0.25
USD SOFR	0.05	0.09	0.09	0.13	0.23
USD 3M LIBOR	0.13	0.20	0.20	0.30	0.40
US 10Y Treasuries Yield	1.43	1.85	1.90	2.00	2.05
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10	-0.10
EUR Refinancing Rate	0.00	0.00	0.00	0.00	0.00
GBP Repo Rate	0.10	0.10	0.10	0.10	0.10
AUD Official Cash Rate	0.10	0.10	0.10	0.10	0.10
NZD Official Cash Rate	0.25	0.50	0.75	1.00	1.00
CNY 1Y Loan Prime Rate	3.85	3.85	3.85	3.85	3.95
HKD Base Rate	0.50	0.50	0.50	0.50	0.50
TWD Official Discount Rate	1.13	1.13	1.13	1.13	1.25
KRW Base Rate	0.75	1.00	1.25	1.25	1.25
PHP O/N Reverse Repo	2.00	2.00	2.00	2.00	2.25
SGD SORA	0.12	0.10	0.10	0.14	0.20
SGD 3M SIBOR	0.43	0.40	0.40	0.50	0.55
SGD 3M SOR	0.22	0.25	0.25	0.35	0.40
SGD 10Y SGS	1.47	1.90	1.95	2.00	2.05
MYR O/N Policy Rate	1.75	1.75	1.75	1.75	2.00
IDR 7D Reverse Repo	3.50	3.50	3.50	3.50	3.75
THB 1D Repo	0.50	0.50	0.50	0.50	0.50
VND Refinancing Rate	4.00	4.00	4.00	4.00	4.00
INR Repo Rate	4.00	4.00	4.00	4.00	4.00

COMMODITIES	23 Sep 21	4Q21F	1Q22F	2Q22F	3Q22F
Gold (USD/oz)	1,750	1,750	1,750	1,750	1,750
Brent Crude Oil (USD/bbl)	78	76	79	82	82
LME Copper (USD/mt)	9,274	9,000	9,000	9,000	9,000

ASIAN FOCUS

Whither Regional Portfolio Capital Flows Amidst Fed's Tapering

A Repeat Of 2013 Taper Tantrum's Effects Is Quite Unlikely

Rhetoric from the US Federal Reserve (Fed) suggests imminent tapering and policy normalization ahead, awaking a sense of Déjà vu of the 2013 Taper Tantrum. Yet, eight years on and despite the COVID-19 pandemic still raging on, would the situations be different now viz then?

In this Focus Piece, we look at selected Asian EMs (Indonesia, Malaysia, Thailand, Philippines, Vietnam, China, and India), and analyse what could be the impact of the regional portfolio capital flows ahead of the Fed's tapering.

In a nutshell, we found these countries' ability to weather the potential portfolio capital reversal have increased even during the ongoing challenge from COVID-19's economic repercussions.

Based on the 4 common key indicators (Table 1&2) representing the external balance, fiscal balance, FX reserves, and real policy rates across the focus countries, we found that these countries are relatively more resilient now versus then in 2013 Taper Tantrum.

1. A larger current account surplus for some and a smaller current account deficit for others in more recent periods vis a vis around the 2013 Taper Tantrum bodes well for higher resiliency in their external balances.
2. Fiscal deficits have increased for nearly all economies during the COVID-19 pandemic, predominantly due to massive rollout in stimulus to cushion the economic blow.
3. FX reserves built up have been much higher in recent times, save for Malaysia, and likely a reflection of stronger position to anchor more stability this time round.
4. Finally, real interest rates are still in the positive territory for some economies, a boon for capital inflows, but for others, negative real rates reflect that their strong current account surplus position that has allowed them to focus more on supporting growth recovery by keeping monetary policy looser.

Table 1: Key Indicators Comparison (Now and Then), Selected Asian Economies

Country	Current Account (% of GDP)				Fiscal Balance (% of GDP)			
	11 - 15 Avg	16 - 19 Avg	2020 Actual	2021 Forecast	11 - 15 Avg	16 - 19 Avg	2020 Actual	2021 Forecast
Indonesia	-2.2	-2.3	-0.4	-1.6	-2.0	-2.3	-6.1	-5.5
Malaysia	5.4	2.7	4.2	3.5	-4.0	-3.3	-6.2	-7.0
Thailand	1.8	8.2	3.2	-1.9	-3.5	-3.9	-5.8	-4.9
Philippines	3.0	-1.1	3.6	0.5	-1.4	-2.8	-7.6	-9.3
Vietnam	3.3	3.3	4.6	1.8	-2.1	-2.4	-6.1	-5.2
China	2.2	1.0	1.9	1.5	-2.0	-3.6	-6.2	-5.2
India	-2.7	-1.4	1.3	-0.9	-4.7	-3.7	-9.4	-10.0

Source: World Bank, IMF, UOB Global Economics & Markets Research

	Vertical	Horizontal
(red to green)	Better against peers	Improve over time
(green to red)	Inferior against peers	Deteriorate over time

Table 2: Key Indicators Comparison (Now and Then), Selected Asian Economies

Country	FX Reserve (USD bn)				Real Interest Rate (%)			
	11 - 15 Avg	16 - 19 Avg	2020 Actual	2021 YTD	11 - 15 Avg	16 - 19 Avg	2020 Actual	Latest
Indonesia	108	124	136	145	-0.1	1.6	1.8	2.0
Malaysia	124	101	108	116	0.7	1.2	2.9	-0.5
Thailand	167	201	258	251	0.3	0.8	1.3	-0.2
Philippines	80	83	110	108	1.0	0.7	-0.6	-2.4
Vietnam	25	55	95	101	1.0	3.1	0.8	2.2
China	3,566	3,181	3,357	3,232	2.9	2.2	1.4	3.2
India	315	409	590	642	-0.4	2.0	-2.6	-1.3

Source: World Bank, IMF, UOB Global Economics & Markets Research

	Vertical	Horizontal
(red to green)	Better against peers	Improve over time
(green to red)	Inferior against peers	Deteriorate over time

In conclusion, the main takeaways are summarized as follow. First, while some Asian EMs e.g., Indonesia, Philippines, and India may continue to face a twin deficit challenge ahead, their external resiliency have been stronger, supported by a build-up in FX reserve, and higher real interest rate (especially for Indonesia).

Second, the fiscal space, which has been used to battle the crisis, is still available. These countries embark on massive fiscal stimuli during the current pandemic crisis to support growth. For example, in the case of Indonesia, around 4.4ppt of the 6.1% fiscal deficit was due to the additional fiscal stimulus for the economic recovery program, leaving the "hypothetical-no-COVID" fiscal deficit of only 1.7% of GDP.

We expect fiscal deficit to narrow next year as the pandemic becomes relatively more under control, it will mean that the posture of fiscal prudence exhibited by these EMs will likely to still command sustained interest for portfolio capital flows.

Nevertheless, we reckon that as we expect fiscal deficit to narrow next year as the pandemic becomes relatively more under control, it will mean that the posture of fiscal prudence exhibited by these EMs will likely to still command sustained interest for portfolio capital flows.

Third, an accommodative monetary policy environment in these selected economies which hasten the support of domestic growth recovery would mean that they are ready to receive more benefits, in terms of portfolio inflows as well, as the global economic recovery reaches more traction and as we leave the pandemic behind.

The individual country analysis section below shows overall confidence that they will likely to manage the potential ramifications from the upcoming Fed's tapering better this time round.

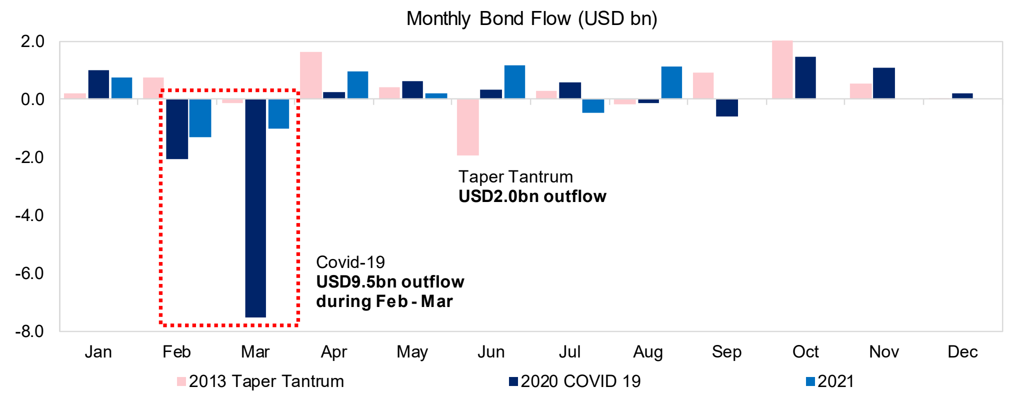
INDONESIA
Manageable portfolio outflow risks but key is narrative on burden sharing exit strategy

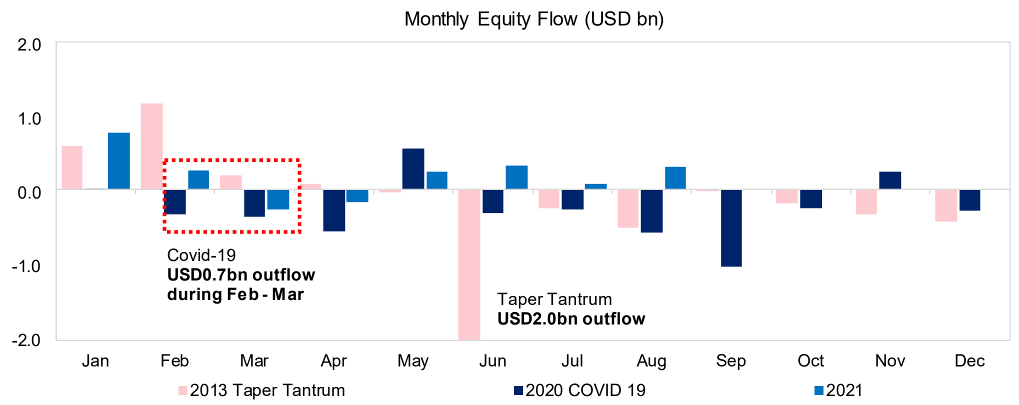
The 2013 Taper Tantrum had a significant impact on several EMs, including Indonesia. A month after Bernanke's May 22 Congressional appearance, equity and bond markets were hit hard posting a total of USD4.0bn outflow in June. The situation was exacerbated further when Bank Indonesia (BI) announced 2Q13 current account deficit of USD9.6bn or -4.2% of GDP in August, compared to 1Q13's -2.3%. As a result, IDR plummeted, JCI index decreased, and government bond yields and credit-default swaps rose.

Moving forward to 2020, bonds-dominated portfolio flows in the case of Indonesia has undoubtedly put anxiety to the markets when the foreign shareholding declined precipitously in one month, from 37% at the end of February 2020 (just before COVID-19 wreaked havoc in the country) to 32% at the end of March, and then to the current level (August 2021) of around 22%. Though there was indeed outflows following the global trend of flight to safety due to unprecedented economic ramifications at the early stage of global outbreaks in March 2020, the extent of portfolio outflows from Indonesia remained manageable. Slightly more than 10% of foreign ownership outflows was recorded in the bond market in early 2020, during which the nominal foreign bondholding dropped from a pre COVID-19 outbreak high of IDR1,077tr (~USD75bn) in January 2020 to a low of IDR927tr (~USD66bn) in just around 2 months.

Chart 1: Bond & Equity Flow Were Hit During Taper Tantrum And COVID-19 Outbreak. But The Extent Is More Manageable For The Latter On The Back Of Improving Key Indicators Over The Years

Source: Bloomberg, UOB Global Economics & Markets Research

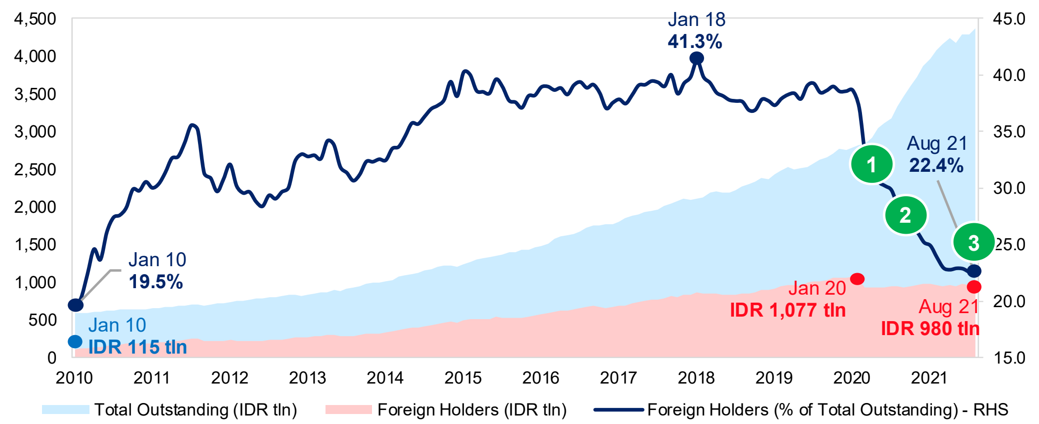




However, from May 2020 onwards, portfolio capital inflows returned. At end of August 2020, the nominal foreign bondholding has returned to around USD70bn despite the ownership level deteriorated below 30% (approx. at 28%). The key explanation for the significant decline in the foreign bondholding despite the return of portfolio capital flows from non-resident holders is none other than the dilution effect due to a significant increase of the denominator (total outstanding government bonds) as a result of the burden sharing scheme between Indonesia's Ministry of Finance (MOF) and Bank Indonesia (BI). Under the scheme, starting from April 2020, BI has acted as a standby buyer in the primary bond markets, allowing the government to increase the financing gap by borrowing from the markets and receive support from BI. As such, the total outstanding government bond position has risen more than 50% during such time it was introduced to-date, from a total outstanding of around USD216bn to USD350bn. The key takeaway is the misconception of capital flight from Indonesia which may continue to worsen should Fed's tapering were to occur sooner has to be put into perspective. In year 2021-to date, we have seen that both bonds and equity portfolio inflows are still in net inflows position and much stronger compared to year 2020.

Chart 2: The Percentage Decline on Foreign Ownership Was More Pronounced Due To Dilution Effect On The Denominator (Total Outstanding Government Bonds) – In The Light of MoF and BI Burden Sharing Scheme

Source: Bloomberg, UOB Global Economics & Markets Research



BI – MoF Burden Sharing

1 **Phase I: 16 April 2020 – 31 December 2022**
BI acted as a standby buyer on bond auction in primary market.

2 **Phase II: 7 July 2020 (2020 only, unused portion is carried over to 2021)**
Private placement in BI amounting to IDR 397.5 tr of variable-rate government bond to fund "public goods" (health sector, social safety net, & local government support).

Bear some of the interest rate amounting to IDR 177 tr fixed rate bond for business incentives, interest rate subsidies, credit restructuring, working capital injection, and state-capital participation.

3 **Phase III: 23 August 2021 – 31 December 2022**
Private placement in BI amounting to IDR 215 tr in 2021 and IDR 224 tr in 2022.
BI will bear the interest rate amounting to IDR 58 tr in 2021 and IDR 40 tr in 2022.

While we are not dismissing the likely scenario of portfolio capital outflows from Indonesia amidst Fed's tapering and normalization, we think given stronger external balance position as depicted by much lower current account deficit (viz 2013 Taper Tantrum), commitment to return to fiscal deficit cap of 3% by 2023, much higher FX reserves level (currently at an all-time high of USD144.8bn including SDR) and high positive real interest rates, the extent of potential outflows is likely to be more manageable this time round. So far in 2021, both bond and equity posted cumulative inflows of USD1.4bn and USD1.6bn (with outflows occurred mostly in February-March as the taper issue emerged and UST yield rose to around 1.75% during that time). In fact, the rupiah exchange rate has been rather stable, if not appreciating, in recent periods while the risk perception depicted by 5Y CDS is just pips away from record low.

MALAYSIA
Stronger external position would buffer risks of portfolio outflows but watch out for limited fiscal space

During the previous Taper Tantrum, Malaysia suffered a net portfolio outflow of US$0.8bn in 2013 and US$11.6bn in 2014. This was in part due to strong portfolio inflows in the preceding years that lifted foreign ownership of Malaysian debt securities above 30% of total outstanding, and for equities to 24% of market capitalisation in 2012. Latest foreign holdings (as at Aug 2021) is lower at 25.2% and 20.2% respectively. Since May 2020, there was cumulative net foreign buying of government bonds worth US$14.5bn which may be susceptible to a reversal should global financial conditions tighten and risk sentiment turn jittery. Noteworthy is domestic liquidity conditions and monetary stance remain unchanged. Net portfolio flows turned positive to US$4.9bn in 1H21 (2H20: -US$6.6bn, 1H20: -US$4.8bn) on the back of robust foreign buying of Malaysian government bonds. Net foreign direct investments chalked up US$1.3bn in 1H21 (2H20: -US$0.1bn, 1H20: +US$0.8bn). The trade and current account surplus remain healthy and further strengthens Malaysia's external position. The current account surplus totalled US$6.5bn or 3.6% of GDP in 1H21 (vs. US$3.9bn or 2.5% in 1H20). Foreign reserves hit US$116.3bn as at end-Aug, marking the highest level of reserves in nearly 7 years. There is relative stability since Malaysia's political risks abated and the outlook improved amid higher in-country vaccination rates (78% of adult population/56% of population vaccinated as at 18 Sep). **We take the view that stronger external position would buffer risks of portfolio outflows ahead of potential capital flows impact amidst tapering risks.**

A potential risk is the country's relatively higher fiscal deficit and public debt levels which limit fiscal space. Given the upwardly revised fiscal deficit to 6.5%-7.0% of GDP and higher debt ceiling of 65% of GDP, the government has been tapping other government linked institutions to prop-up the shortfall in revenue including MYR25bn from its national oil company and MYR5bn from the National Trust Fund (KWAN) for 2021. The higher level of gross borrowings and accumulation of debt relative to pre-pandemic has kept longer-ended bond yields sticky upwards. Still the credibility of the country's public finances was affirmed by international rating agencies and FTSE when they retained Malaysia's government bonds in its WGB index. Malaysia's local currency bond market is also the second largest in ASEAN after Thailand. Looking beyond the pandemic, rating agencies reiterated the country's medium-term growth potential and underlying fundamentals. The government has also made efforts to improve budget transparency, governance, and committed in pursuing fiscal consolidation measures including strategies to improve tax revenue.

Chart 3: Malaysia Net Portfolio and FDI Flows (2009 - 2020)

Source: Macrobond, UOB Global Economics & Markets Research

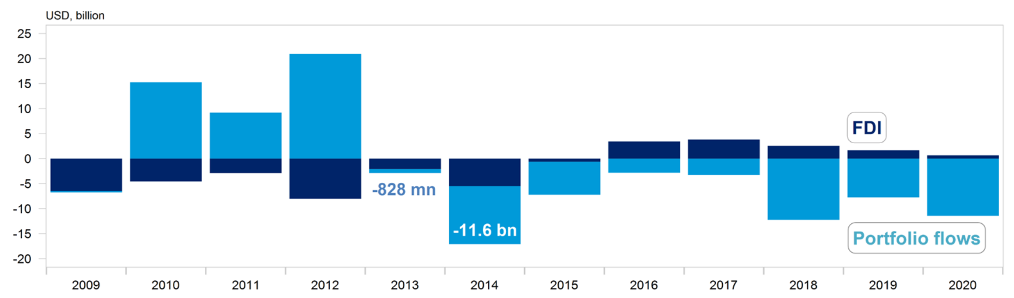
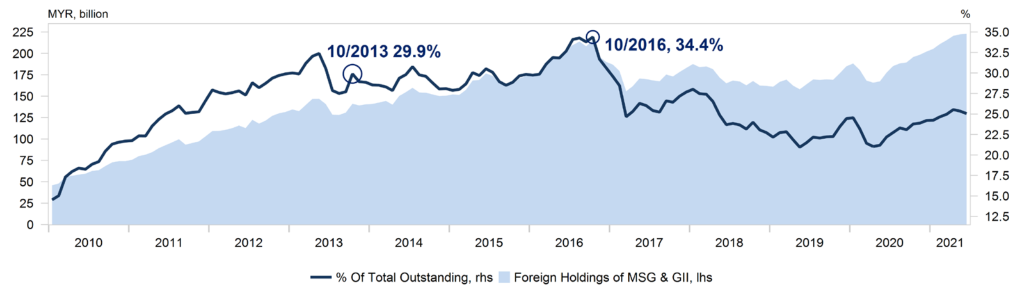


Chart 4: Foreign Holdings Of Malaysia Government Bonds

Source: Macrobond, UOB Global Economics & Markets Research



THAILAND

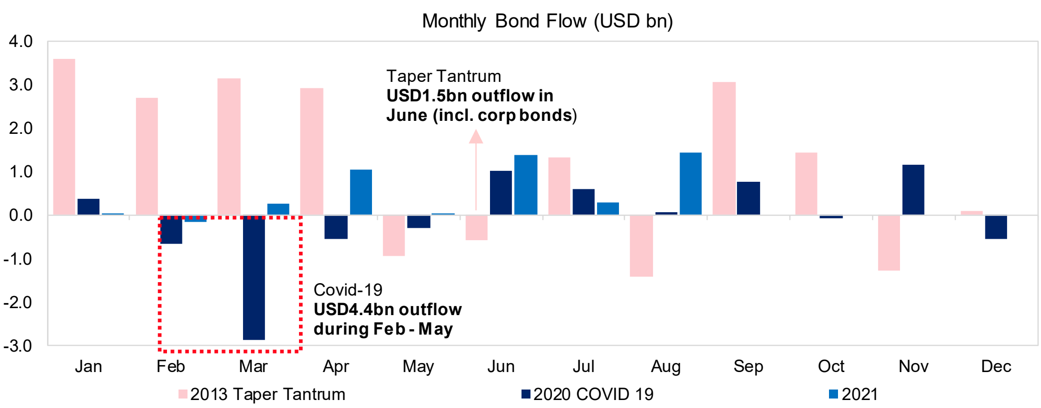
Bond inflows healthy, less so for equity but return of foreign confidence next year can lift inflows

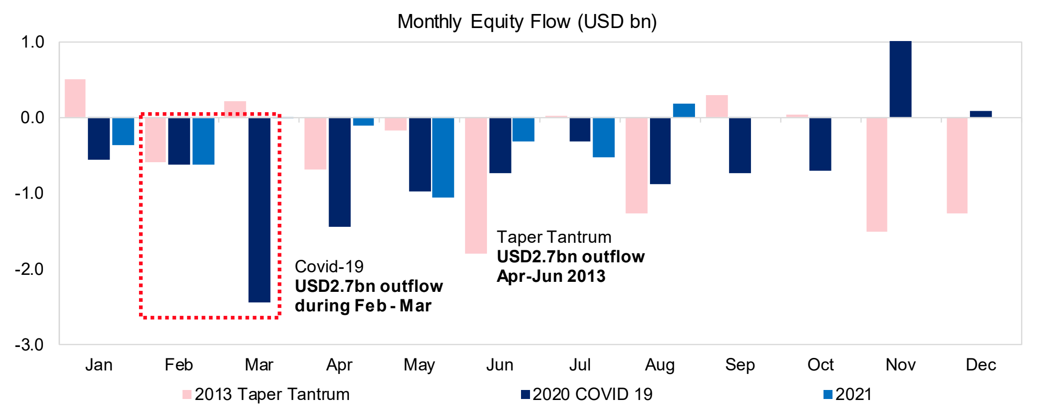
Portfolio capital outflows have clouded Thailand since 2013 Taper Tantrum followed by 2014's coup with intermittent reprieve in 2016-2017, with foreign sentiment turned even more pessimistic during the initial wave of the COVID-19 pandemic. Portfolio capital outflows are much more pronounced in the equity market compared to the bond market. During the 4-month height surrounding 2013 Taper Tantrum, equity markets recorded a net USD2.7bn outflow, and worsened during COVID-19 starting in the early 2020, of which last year recorded a net full year outflow of more than USD8.2bn. It continues till now whereby as of mid-September 2021, net outflows totalled US$2.6 billion, or 31% of total net-outflows in 2020. On the flip side, foreign buying of Thailand's bonds, including government bonds, treasury bills, state enterprise bonds, saving bonds, commercial papers, corporate bonds, remained in net-inflows territory of US$4.2 billion as of mid-September. This also holds true during 2013 and 2014. The height of COVID-19 year saw a net outflow of USD4.4bn during Feb-May period, which is bigger than USD1.5bn outflows in 2013. But bond outflows quickly reversed into inflows since mid-last year to-date as Thailand's external position continue to remain strong and resilient.

Uncertainty on growth prospects amidst the ongoing rage of the pandemic, Thailand's growth outlook in 2022 is relatively more sanguine, on assumption that COVID-19 risks will be contained amid a return of tourism flows. Historically, Thailand has been a preferred destination for investments, given its strong current account performance, prudent fiscal policies and healthy reserves. Thus, **we believe that Thailand's strong economic fundamentals, notwithstanding the downside risks in 2021, would continue to attract portfolio capital flows into 2022**, both equity and more so in the bond market. Meanwhile, any delay in Thailand's full reopening of its borders to tourist flows could add as a formidable drag to overall economic performance in 2021 and 2022. Separately, a tail-end and long-term risk could centre on Thailand's fiscal health, considering its recent decision to lift its public debt to GDP ceiling to 70% (from a previous limit of 60%).

Chart 5: Equity Flows Were Hit Badly During Taper Tantrum,2014 Coup and COVID-19 Outbreak But Less Pronounced in the Bond Market

Source: Bloomberg, UOB Global Economics & Markets Research





PHILIPPINES

Capital flow reversal risks manageable but political development poses downside risk

Our expectations of a more orderly and better communicated QE tapering by Fed this year will likely to avoid dramatic implications on capital flows in the Philippines versus 2013. The nation's net portfolio inflows narrowed by 68.8% to USD1.0bn in 2013 (Fed taper-talk year) and reversed to USD2.7bn net portfolio outflows in 2014 (Fed taper-action year), followed by USD5.5bn net portfolio outflows in 2015 (post Fed tapering). This pandemic time, it has witnessed cumulative net portfolio outflows of USD7.5bn since 2020 to 1H21. Bulk of the USD7.5bn net portfolio outflows were in 1H21, totalling USD7.0bn, marking the largest outflows on record. Having said that, it was predominantly due to debt securities outflows of USD5.9bn in 1H21 as a result of debt repayment amid a stronger currency and BSP's investments in non-reserve assets (USD3.4bn) to diversify the international reverses. The remaining USD1.1bn outflows were from equity and investment funds during the same period. Meanwhile, the country's external liquidity buffers are deemed sufficient with gross international reserves hitting a new record high of USD110.1bn as at end-2020 and staying above the USD100bn level at USD108.0bn (including an additional allocation of Special Drawing Rights (SDR) of ~USD2.8bn) as at end-Aug this year. Foreign holdings of the Philippines' total local currency-denominated (LCY) government bonds stood at a very low level of 2.5% share as of Jun 2021. **Hence, we expect the Philippines to face manageable risks of capital flow reversals brought by US Fed's QE tapering later this year.**

Nevertheless, the Philippines' portfolio flows could be susceptible to higher volatility triggered by country-specific factors such as the uncertainty surrounding the presidential election which will be held on 9 May 2022. Incumbent President Rodrigo Duterte is ineligible for re-election following the constitution's one-term limit. Half of the 24 senators and all the House of Representatives are also up for re-election at the same time. As such, uncertain policies and reforms of the next President and administration might possibly incite investor risk aversion in Philippine assets at least until the presidential election is over. Out of the past three presidential election years, the Philippines experienced net portfolio outflows of USD1.7bn in 2004 and USD1.5bn in 2016, but recorded net portfolio inflows of USD4.9bn in 2010.

Chart 6: Small Foreign Holdings Of LCY Government Bonds; Reducing Foreign Currency-Denominated Bond Issuances

Source: AsianBondsOnline, UOB Global Economics & Markets Research

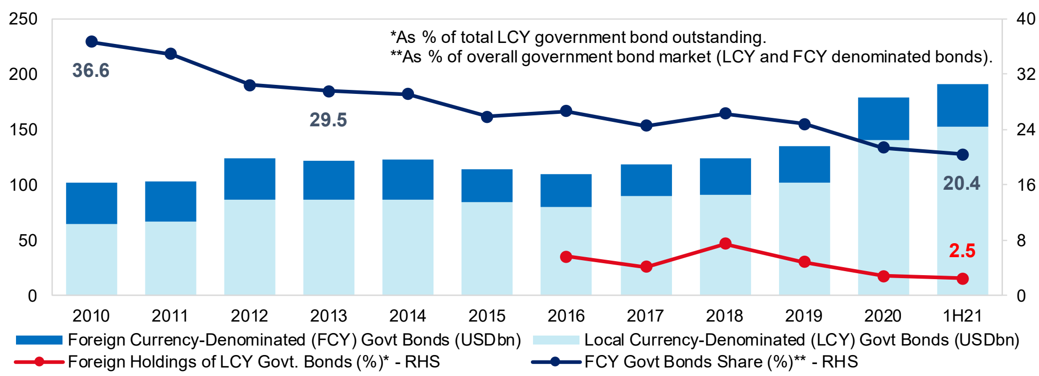
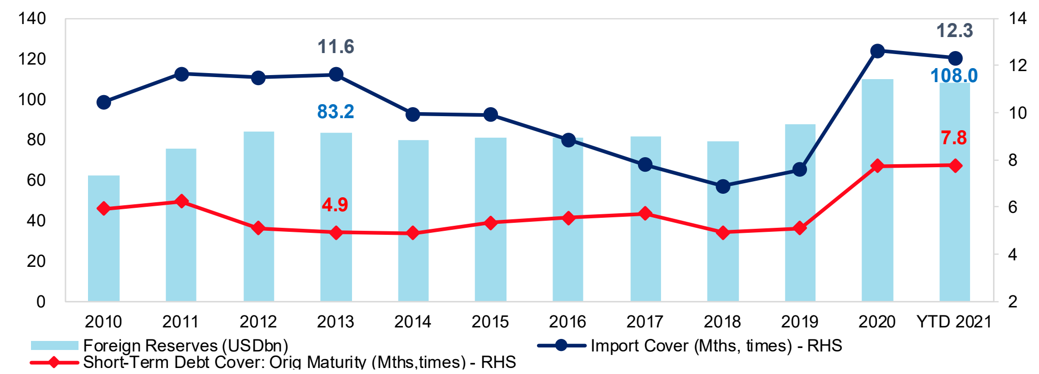


Chart 7: Stronger Foreign Reserves Buffers Than During 2013 Fed Taper Tantrum

Source: CEIC, UOB Global Economics & Markets Research



VIETNAM
Portfolio outflows to stay manageable

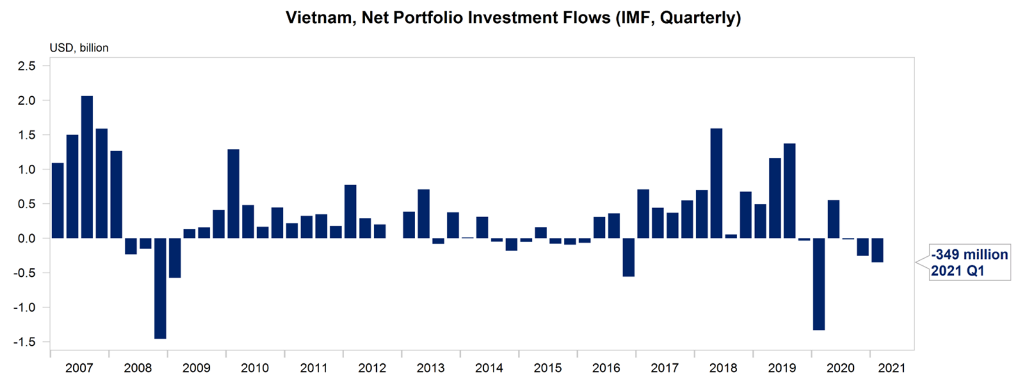
After rebounding from the jolt of the global COVID-19 pandemic in 2020, foreign portfolio flows to Vietnam reversed course, as outflows extended for the third consecutive quarter, worsening to US$349 million in 1Q21, from the US$255 million in 4Q20. Nevertheless, these outflows are far milder compared to the amount of US$1.3 billion seen in 1Q20, which is the second worst on record for Vietnam as global financial markets went into a turmoil in reaction to the pandemic in March 2020 before governments and central banks stepped in. The latest outflows were likely to be related to the fresh waves of COVID-19 outbreaks and widespread lockdowns around the country which caused significant disruptions to activities including production, retail and other daily undertakings. Since the outbreak of the fourth wave in late April 2021, COVID-19 infections rose by more than 684,000 cases in Vietnam, compared to a total of 1,500 cases in all of 2020. Meanwhile, fatalities related to COVID-19 increased by more than 17,000 since end-April, compared to 35 cases recorded in 2020.

For the remaining quarters in 2021, portfolio outflows are expected to persist in Vietnam as economic data from July and August – which reflected the brunt of the impact of the pandemic and lockdowns – suggest a very high likelihood that GDP growth would fall short of the 6-6.5% target for this year, even after securing a 5.64% y/y expansion in 1H21. Nevertheless, these outflows ahead are likely to be manageable, as they are balanced by strong foreign direct inflows (FDI) so far, as Vietnam remains an attractive location to manufacturers, particularly for those in electronics sectors which are well entrenched in the country. Registered FDI inflows in the first 8 months of 2021 increased by a cumulative US$19.1 billion, almost matching the amount of US$19.5 billion in the same period last year.

Going by the experience of the "Taper Tantrum" in 2013, the US Fed's possible tapering of its asset purchases ahead is unlikely to cause significant outflows in Vietnam. During the 2013 episode, Vietnam registered a mild outflow during 3Q13 before inflows resumed. In the current setting, State Bank of Vietnam's monetary policy stance has remained stable and is expected to remain so by end-2021, which will anchor investors' expectations and confidence. Furthermore, the government is making steady progress to vaccinate its population against the COVID-19 virus. This will help keep the pandemic under control in the months ahead given its success in managing the pandemic in 2020. Currently, the percentage of population with 2 doses of vaccines has reached more than 6.6% by 18 September, doubling from just two weeks ago. While this vaccination coverage is the lowest among its ASEAN peers, the pace of vaccination (measured by doses administered daily per 1 million of population) is among the fastest.

Chart 8: The US Fed's Possible Tapering Of Its Asset Purchases Ahead Is Unlikely To Cause Significant Outflows In Vietnam

Source: Macrobond, UOB Global Economics & Markets Research



CHINA
Steady as she goes but financial crackdown a speedbump ahead

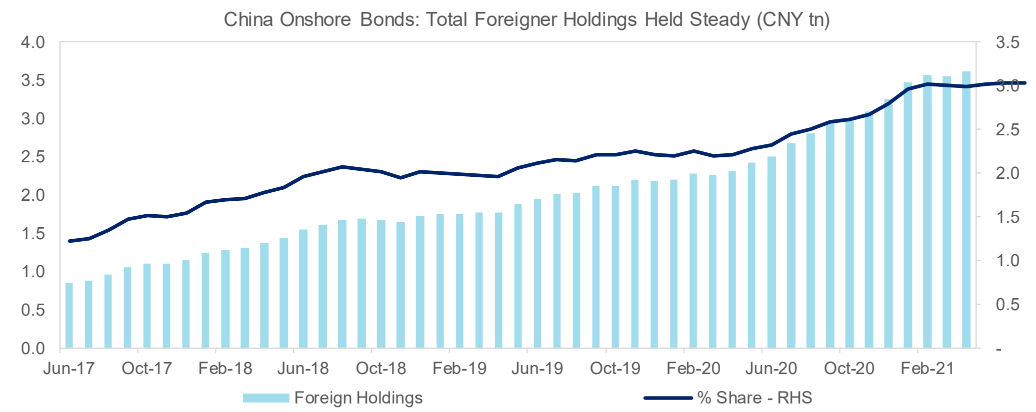
China continued to attract portfolio capital inflows in July and August despite intensifying domestic regulatory concerns. In the two months, equities inflows slowed to USD4.7 bn from USD47.8bn in 1H21 according to IIF data. Meanwhile, the Northbound Stock Connect trading volume has picked up alongside the heightened volatility with net inflows registered in July to August but net outflows YTD. On the other hand, bond trading via the Northbound Bond Connect rose to USD664bn in Jan-Aug this year, 43% higher than the USD463bn a year ago. Foreigners' holding of Chinese onshore bonds have held steady at 3.0% of total outstanding in July. China's current account surplus remained supported by strong exports, though having moderated to 1.5% of GDP in 1H21 from an average of 1.9% of GDP in 2020. Foreign exchange reserves held up at USD3.2tn end-August, stable from the start of the year.

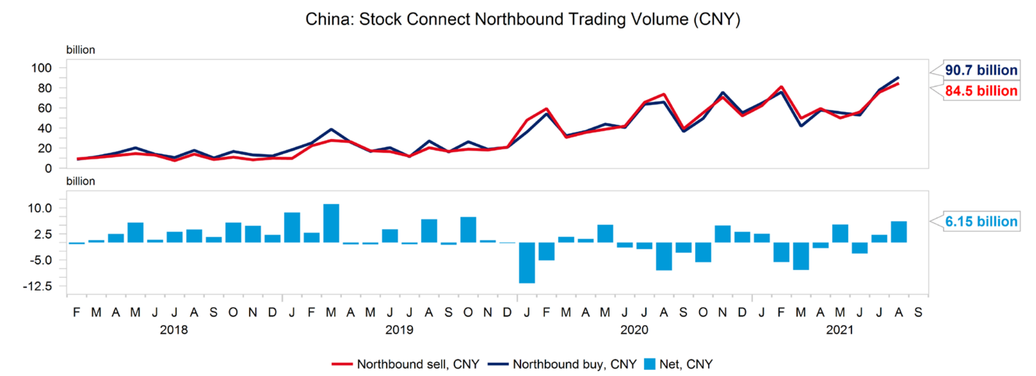
Portfolio capital flows into China are expected to remain stable due to its positive medium/ long term growth prospects and increasing market access. Near term volatility may stem from concerns of a sharper slowdown in China's economic growth in 2H21 and tightening of domestic policy towards property investment and sectors such as technology, private education and gaming. The debt fallout at one of its largest property developers highlights some of the more immediate risks, while the withdrawal of global monetary policy accommodation and resurgence in global infections also contribute to the uncertainties.

Nevertheless, we are also cognizant of the downside risks that China's growth outlook could deteriorate unfavourably amidst fluidity in the current environment, for example, COVID-19's mutation which is already bearing testament that significant economic activities have to be halted. This would then potentially dampen market sentiment as growth outlook took a dent, but more so for the equities market than bonds, in our view. China's regulatory environment which also relates to the recent crackdown on some sectors would also reduce portfolio attractions to the country and also amidst the ongoing back-and-forth in the US-China trade review and other challenge such as global monetary policy normalization.

Chart 9: Growth Disappointment And Regulatory Concerns To Pose Risk To Capital Flows But Long-Term Prospects Remain

Source: Macrobond, UOB Global Economics & Markets Research





INDIA

Investor appetite remains dependent on COVID-19 risks

Inbound Foreign Direct Investments into India had slowed significantly in 1Q21 to US$5.7 billion, from a quarterly average of US$16.1 billion in 2020, as investor confidence likely deteriorated on the back of COVID-19 concerns. From a portfolio perspective, foreign flows into India's equities registered a net inflow of US$8.3 billion as of mid-September 2021, which is relatively slow compared to 2020's total inflow of US$23.4 billion. Foreign flows into the bond space continued their outflow pace at US$1.1 billion in the above-mentioned period.

India have been significantly affected by COVID-19. Notwithstanding the risk, COVID-19 daily cases have been declining below the critical 50,000-person mark in recent weeks, from the historical peak of the 414,000-person mark in May 2021.India has been one of Asia's key economic powerhouses and attracting a total of US$47.4 billion of FDI in 2019, equivalent to almost one-third of total FDI into ASEAN over the same period. The fact that FDI had continued in 1Q21, albeit slowing from 2020's levels, suggests that investors are likely positioning for a tangible recovery for India's economy. India's FY2021/22 GDP expansion is pencilled at 8.5%, which is potentially one of the fastest economic growth rates across Asia. With COVID-19 cases declining amid a rising vaccination rate to date, India's growth prognosis remains positive, with GDP likely expanding further by 6.0% in the next FY2022/23.

Notwithstanding the positive outlook for growth and investment in India, it can also be argued that COVID-19 risks will be a key downside risk to growth. The COVID-19 "Delta" variant, had quickly spread across India and caused a sharp slowdown in economic and consumer confidence. India's inflation has also been largely affected by the pandemic, owing to the supply chain restrictions that had lifted critical food and energy prices. While it is not seen at this juncture, the potentially vaccine-resistant "Mu" variant is especially critical to watch for, given its purported ability to evade vaccination efforts and cause new COVID-19 waves in both India and Asia. **As such, investor confidence will likely hinge tightly on how COVID-19 may evolve in the coming years, and that would have a significant impact on how capital flows may trend then.**

SINGAPORE
MAS PREVIEW

Policy Considerations Amid Heightened COVID-19 Risks

Since the start of 2021, global economic fundamentals have painted a rosy picture into the second half of the year. In Singapore, high-frequency macroeconomic data has suggested an improving economic outlook, as seen from nine consecutive reading of expansion in NODX and industrial production.

In the upcoming Monetary Authority of Singapore (MAS) policy announcement (expected to be held between 7 and 14 October 2021), we note that policymakers will likely consider the improving global economic backdrop, benign inflation risks and rising uncertainties surrounding COVID-19. We expect that authorities will not normalise monetary policy for now, but instead, keep policy parameters unchanged.

Beyond keeping its policy parameters unchanged in October 2021, we expect policymakers to highlight the improving GDP growth prognosis for the rest of 2021, while paying heed to the magnified COVID-19 risks observed in Singapore and the region. Should the MAS adopt a relatively positive rhetoric for the rest of 2021, it could mean a heightened possibility for policymakers to inject a symbolic appreciation (estimated at 0.5%) to its SGD NEER gradient in April 2022.

Better Economic Prognosis A Boon For ASEAN-5 And Singapore

Since the start of 2021, global economic fundamentals have painted a rosy picture into the second half of the year. In the latest World Economic Outlook (WEO) report, the IMF upgraded its 2021 global growth outlook to 6.0%, from a previous outlook of 5.5%. Separately, the OECD expects global growth to come in at a similar 5.8% in 2021, although recovery is expected to stay uneven across sectors and economies. In ASEAN-5, export growth recovered to a double-digit rate for five straight months for the period between March and July 2021, while China's August export growth was supported by strong demand for commodities in its key export markets, thus underlining the overall improvement in the global economic outlook.

In Singapore, high-frequency macroeconomic data has suggested an improving economic outlook. Being an export-oriented economy, Singapore's non-oil domestic exports (NODX) had encouragingly clocked 9 straight months of expansion, while overall exports were led by both oil and electronic-related trade. In tandem with the improving trade winds, industrial production also expanded for 9 straight months, registering a robust 14.7% growth in the first seven months of 2021. Other indicators such as retail sales (positive growth for 6 consecutive months) and Purchasing Managers' Index (above 50 points for 14 straight months) also suggested a continued path of recovery into an endemic COVID-19 backdrop.

In view of the strong economic data year-to-date, it is not surprising to see the upgrading of GDP growth outlook for Singapore. According to the recent survey of professional forecasters, respondents have lifted their GDP outlook to a median forecast of 6.6% for 2021, from a previous outlook of 6.5%. Growth drivers for the year ahead will include manufacturing (2021F: +11.4% y/y), construction (+16.6% y/y) and finance & insurance (+6.8% y/y). Meanwhile, the MTI also revised its GDP growth forecast range higher, from between 4.0% and 6.0% (made on 23 November 2020) to a range of 6.0% to 7.0% (revised on 11 August 2021). On the back of a strong 14.7% y/y GDP growth in 2Q21, Singapore's positive output gap has widened considerably, suggesting that the economy has recovered substantially from the troughs in 2020.

Other Policy Considerations: Benign Inflation & COVID-19 Risks

The understanding behind monetary policy decisions is usually dependent on a fine balance between supporting economic growth and stable consumer prices. In Singapore, the core inflation year-to-date has been below its long-term average, suggesting that there remains little impetus to tighten monetary policy despite the positive economic prognosis seen so far.

Singapore's July's core inflation, which strips out private road transport and accommodation prices, was merely 0.5% on a year-to-date basis. This is below Singapore's average of 1.5% for the period of 2010 to 2019. Headline inflation has been relatively benign as well at 2.5% y/y in July 2021, with year-to-date inflation at 1.7% (similar to an average of 1.7% for the period of 2010 to 2019). Official estimates for headline inflation are maintained at a range of between 1.0% and 2.0%, while core inflation outlook is expected at a range of between 0.0% and 1.0% for 2021. This suggests that inflation risks are expected to be benign for the remaining part of this year.

We keep to our view that inflationary pressures should stay transitory for the year ahead. Crude oil prices have moderated from July's peak, likely on news of higher oil production plans by the OPEC+ group. The negative output gaps seen in many of Singapore's key trading partners will likely limit Singapore's overall import price inflation. Domestically, the slack in the labour market, although gradually diminishing, may continue to cap overall wage gains in the immediate months, while commercial rents are projected to stay soft on the back of COVID-19-related risks. In a nutshell, we keep to our headline and core inflation outlook of 1.4% and 1.0% for 2021, respectively.

While inflation risk appears to be well-managed at this juncture, growth risks still appear elevated given the recent exponential rise in locally-transmitted COVID-19 cases. As at the time of writing (20 September 2021), Singapore saw more than 1,000 new locally-transmitted COVID-19 cases for two consecutive days (18 and 19 September), up from low double-digit cases at the start of 2021. This marks the highest daily numbers since April 2020. The outlook on Singapore's rise in COVID-19 infections has not been positive, with the co-chair of Singapore's multi-ministry task force Gan Kim Yong commenting that the sharp rate of infections being "worrying".

In response, Singapore's multi-ministry taskforce introduced new measures to limit the spread of COVID-19, but stopped short of calling for a heightened alert or circuit breaker. Workplaces across Singapore has disallowed social gatherings and interactions since 8 September. Health risk warnings will be sent to a wider net of people when a COVID-19 cluster is identified, and more frequent routine COVID-19 tests for employees who work onsite will be mandated every week starting 13 September 2021. Other measures also include restricting visits to residential care homes till 11 October and a "one-time sweep" COVID-19 self-tests for primary school students.

The consolation perhaps, is the high level of vaccination rate in the city-state. As at 15 September 2021, 82 per cent of the population has been fully vaccinated, thus being one of the most vaccinated economy in the world. Having a high level of vaccination among Singapore residents enables the nation to treat COVID-19 as an endemic disease. This would include the crucial step of the further reopening of Singapore's economy, borders and relaxation of social restrictions. Recently, Singapore has launched Vaccinated Travel Lanes (VTLs) with Germany and Brunei, where fully vaccinated travellers are able to travel between Singapore and the above-mentioned economies, without serving quarantine, subject to conditions.

Three-Pronged Factors For Policy-Making

In the upcoming Monetary Authority of Singapore (MAS) policy announcement (expected to be held between 7 and 14 October 2021), we note that policymakers will likely consider the three-pronged factors discussed above. These include the improving global economic backdrop, benign inflation risks and rising uncertainties surrounding COVID-19. The last time MAS made a policy change in the SGD NEER was in an off-cycle announcement on 30 March 2020, where MAS flattened the SGD NEER curve and adopted a "zero per cent per annum rate of appreciation" of the policy band. Since then, the MAS had stayed its hand in making further changes to its monetary policy.

Notwithstanding the rosier economic outlook since the start of the year, we believe that COVID-19 risks will likely keep Singapore's policymakers on a cautious note in the upcoming monetary policy announcement. **Hence, we expect that authorities will not normalise monetary policy for now, but instead, keep policy parameters unchanged. This means that will be no change to the gradient and width of the policy band, as well as the level at which it is centred due to the below three factors:**

First, inflation risks are likely to stay benign in 2021. As discussed above, we expect to see an average headline inflation and core inflation rate of merely 1.4% and 1.0% in 2021 respectively, which is considered to be benign when compared with the ten-year average of 1.7% and 1.5% in the period of 2010 – 2019. That said, we recognise some marginal upside risks to our full-year headline inflation given Singapore's overall positive domestic economic prognosis and elevated external inflation pressures. On the flipside, increased COVID-19 related risks suggest the persistence of negative output gaps seen in some of Singapore's key trading partners, which will likely cap import price pressures.

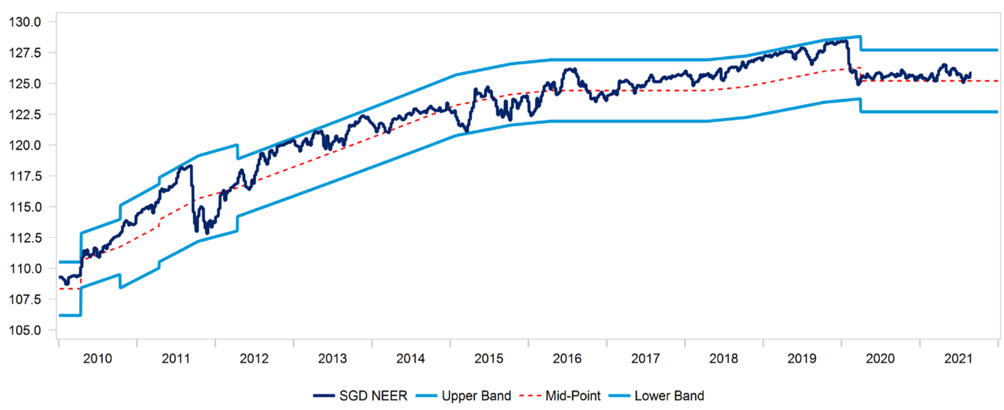
Second, there are still pronounced economic uncertainties due to COVID-19-related risks in many parts of the world, led by the contagious 'Delta' variant. Moreover, the emerging 'Mu' variant injects a new spectrum of uncertainties considering its potential ability to be vaccine-resistant. The fight against COVID-19 is far from over as infections continue to grow at high levels, especially in Vietnam, New Zealand, Japan and Thailand, while vaccination rates remain low in Myanmar (6% of the population fully vaccinated), Taiwan (7%), Vietnam (7%) and India (15%) as of September. As discussed above, the exponential rise in locally-transmitted COVID-19 cases in Singapore is "worrying", which injects a tangible amount of uncertainty for Singapore's economic recovery should cases continue to rise in 4Q21.

Third, the Singapore Dollar Nominal Effective Exchange Rate (SGD NEER) has been hovering around its mid-point since the last MAS decision in April 2021. Assuming the policy band width at +/- 2.0%, this means that the SGD NEER is approximately 2.4% points away before testing the bottom of the current policy band. This also highlights that the SGD has ample room to go either way against the NEER currency basket in line with the economic environment, under the current monetary policy stance.

Beyond keeping its policy parameters unchanged in October 2021, we expect policymakers to highlight the improving GDP growth prognosis for the rest of 2021, while paying heed to the magnified COVID-19 risks observed in Singapore and the region. That said, MAS could also cite the positive output gap which had widened significantly in the second quarter of 2021. Should the MAS adopt a relatively positive rhetoric for the rest of 2021, it could mean a heightened possibility for policymakers to inject a symbolic appreciation (estimated at 0.5%) to its SGD NEER gradient in April 2022.

NEER Has Ample Downside Room For SGD To Weaken If Needed In The Current Policy Setting

Source: Bloomberg, Macrobond, UOB Global Economics & Markets Research



FED's Steady Progress In Policy Normalization Underpins The USD

USD To Trade Higher On FED Normalization And Goldilocks US Economy

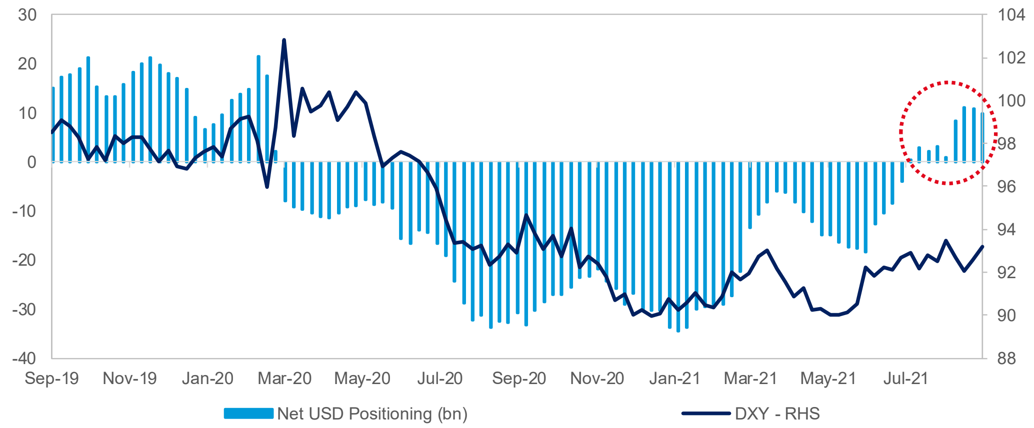
Within Major FX, We Continue To Be Bullish GBP

Persistent Virus Spread And Imminent FED Taper Will Weigh On Asia FX

In the 3Q21, the USD drew further support from the FED which have revealed further details about its policy normalization plan. While the June FOMC was the landmark meeting in which the FED has started discussions on tapering, the July FOMC marked the first deep dive on timing, pace and composition of taper although no decisions were being made. Minutes of that meeting showed FED officials build a consensus towards beginning tapering by the end of the year. The recently concluded September FOMC has firmed up the stage for a tapering announcement in November. We now expect a gradual reduction in asset purchases till July 2022, followed by the first rate hike in December 2022. Overall, the steady progress of the FED towards unwinding its massive monetary stimulus has sent the US Dollar Index (DXY) back to its highest levels since last November, at around 93.50 as at 23-Sep.

Chart 1: USD Flipped Into Net Long Positioning In July And Continues To Improve

Source: Bloomberg, UOB Global Economics & Markets Research

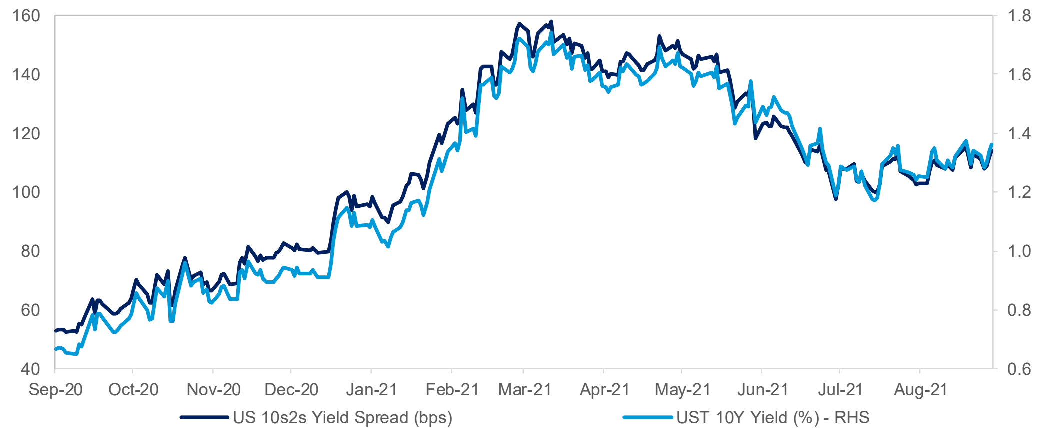


The persistent spread of the COVID-19 Delta variant remains a key risk for US economic and monetary policy outlook, and by implication the USD.

The persistent spread of the COVID-19 Delta variant remains a key risk for US economic and monetary policy outlook, and by implication the USD. The abrupt weakness in the August's nonfarm payrolls adds to a growing list of evidence that the best days of the US post-pandemic roaring economic recovery is likely over. At the same time, the ensuing Goldilocks recovery with inflation at 30-year highs means the US economy can make do with lesser policy support. At this point in time, it appears that the FED is not overly concerned of the COVID-19 Delta variant derailing its normalization plans.

Chart 2: UST Yields Have Bottomed And Started To Steepen Anew In 3Q21

Source: Bloomberg, UOB Global Economics & Markets Research

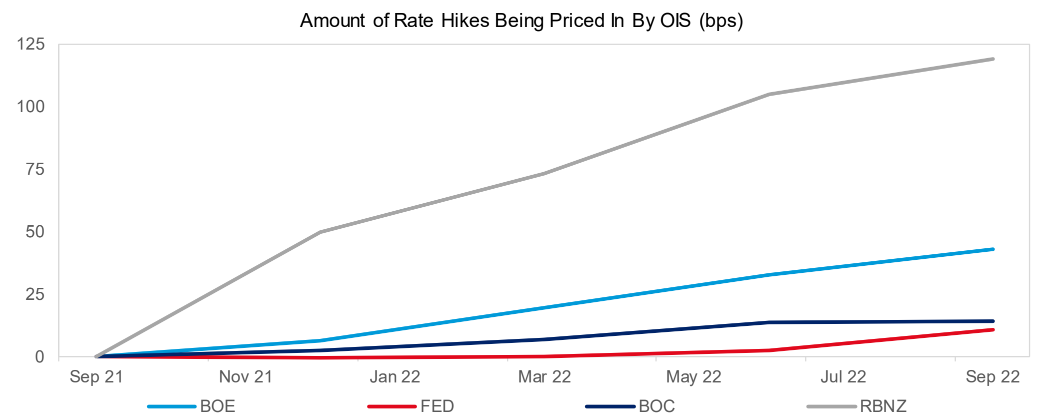


We keep to our view of further broad-based strength in the USD against both Major and Asia FX.

Overall, we keep to our view of further broad-based strength in the USD against both Major and Asia FX. Recent developments such as the flipping of net USD short positioning to modest long positioning, the bottoming of US Treasury yields and the renewed steepening of the US yield curve are encouraging signs for a sustained strength in the USD.

Chart 3: New Zealand, Canada And UK Poised To Hike Rates Ahead Of US

Source: Bloomberg, UOB Global Economics & Markets Research



Most of the developed markets (DMs) have relatively higher vaccination rates that allowed them to be in more advanced stages of their reopening plans. With their economic recovery on a firmer footing, most DM central banks embarked on some sort monetary policy normalization, either by reducing its pace of asset purchases or signaling for a rate hike. In particular, at the moment of writing, the Norges Bank has lead the way with a 25 bps rate hike. This puts most of DM central banks in a similar position with that of the FED. As such, the USD repricing effect is likely to be more gradual in the Major FX space. Overall, we expect modest strength in the DXY) towards 93.4 by end-2021 and 94.4 by mid-2022.

The resurgence of the COVID-19 amidst low vaccination rates and potential portfolio outflow spurred by the imminent FED taper, Asia FX are likely to stay on the defensive against the USD in the coming quarters.

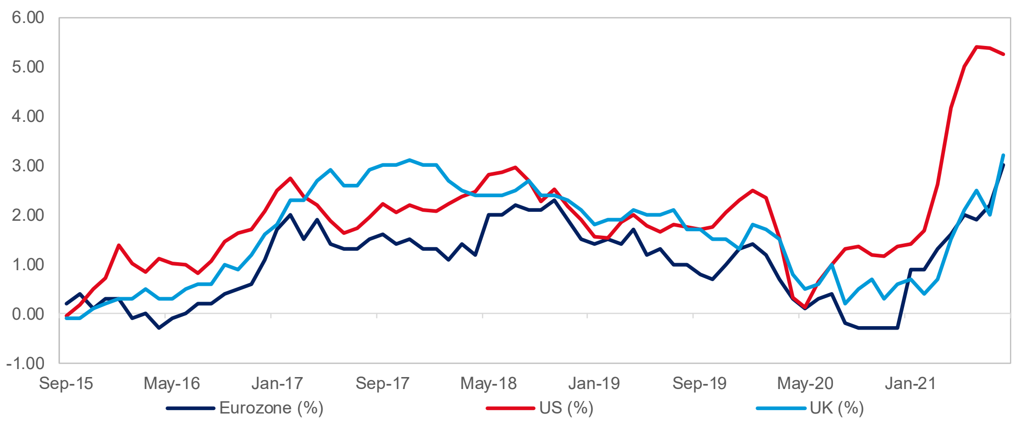
For Asia FX, while some of laggards of the region (MYR, INR etc) staged a strong rebound against the USD in the past month due to the post Jackson Hole USD retreat, these near term gains are likely to be short-lived. The resurgence of the COVID-19 Delta variant amidst low vaccination rates, particularly in ASEAN, together with potential portfolio outflow spurred by the imminent FED taper, Asia FX are likely to stay on the defensive against the USD in the coming quarters.

Major FX Outlook
Goldilocks US Economy Will Tug The USD Higher

Within the Major FX space, the performance of the respective currencies is still driven by the monetary policy stance. The GBP, CAD and NZD continues to be outperform as their respective central banks have signaled or begun dialing back part of their pandemic-era monetary stimulus. The Reserve of Bank of New Zealand (RBNZ) looks set to lead with a 25 bps rate hike at the upcoming 6-Oct meeting. Interest rate futures also priced in a rates liftoff by Bank of England (BOE) and Bank of Canada (BOC) sometime in 3Q22. On the opposite end of the spectrum, the JPY has underperformed as there is hardly any inflation in Japan to sway the Bank of Japan (BOJ) away from its ultra-easy monetary policies.

Chart 4: Inflation In Key DMs Continued To Surge, Spurring Monetary Policy Debate

Source: Bloomberg, UOB Global Economics & Markets Research



The FED is probably somewhere in between the extremes of hawkish-dovish pendulum just as the US economy has transitioned into a Goldilocks environment from the red hot recovery in the earlier part of the year. With that, the FED has also given itself flexibility to calibrate its policy normalization with respect to the economy. FED Chair Jerome Powell reiterated in the Sep FOMC also made it clear imminent tapering was not intended to carry a direct signal regarding the timing of the rates liftoff.

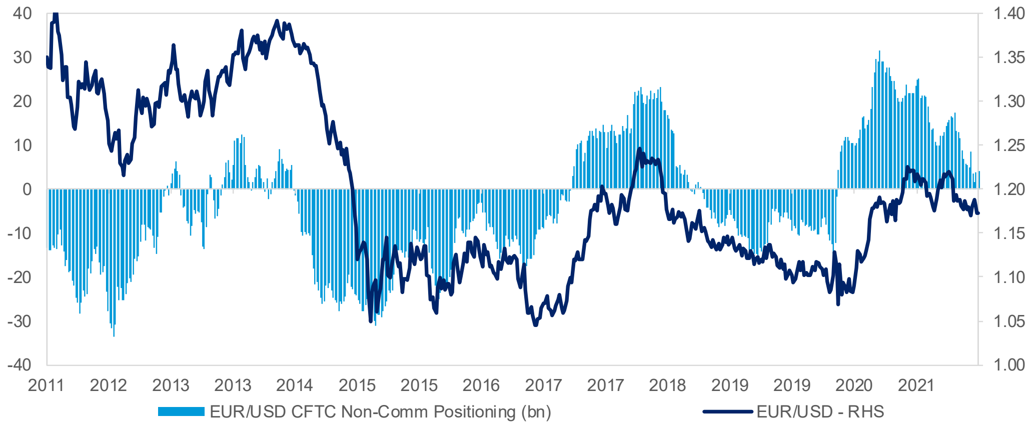
ECB has made it clear that it is not yet ready to discuss when to end emergency stimulus. This is a clear departure from the FED which looks set to start winding down its asset purchases by the end of the year.

EUR/USD endured a rollercoaster selloff from 1.19 in early July to just under 1.17 as at 23-Sep just as the a hawkish FED overshadowed an uptick in European sovereign yields relative to UST yields. While the European Central Bank's (ECB) has decided to reduce "moderately" the pace of its pandemic bond buying program (PEPP) in 4Q21 as the euro region's "increasingly advanced" rebound could be maintained with less monetary help, the central bank has made it clear that it is not yet ready to discuss when to end emergency stimulus. This is a clear departure from the FED which looks set to start winding down its asset purchases by the end of the year. Also a liftoff in rates by the ECB was not expected until 2024, at least a year later than the FED.

Due to the longer term monetary policy divergence, we keep to our bearish view of EUR/USD and update the point forecast to 1.16 in 4Q21, 1.15 in 1Q22, 1.14 in both 2Q and 3Q22. The latest forecasts are about 100-200 pips higher compared to our last review at the start of September. This is in acknowledgement of the stabilization in yield differentials observed in the month. A risk to the view is clearer evidence of a sustained pick up in Eurozone inflation that would trigger a more decisive monetary policy calibration from the ECB. There is also increasing political risk as the Merkel era ends and Germany will likely welcome a new chancellor towards the end of September after the federal elections. While major change in fiscal stance is not expected, it remains uncertain whether the new Chancellor will follow Merkel's principle of fiscal prudence.

Chart 5: EUR/USD Positioning Has Withered To Almost Neutral Level From Record Longs A Year Ago

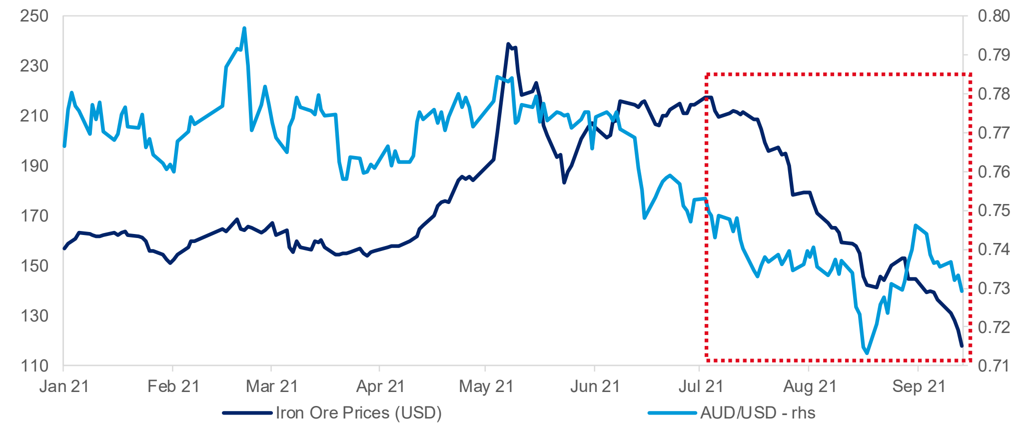
Source: Bloomberg, UOB Global Economics & Markets Research



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

Chart 6: AUD/USD Weighed By Tumbling Iron Ore Prices

Source: Bloomberg, UOB Global Economics & Markets Research



AUD/USD had a tumultuous quarter - falling over 5% to almost 0.71, the lowest since last November, from 0.75 at the start of the July.

AUD/USD had a tumultuous quarter - falling over 5% to almost 0.71, the lowest since last November, from 0.75 at the start of the July. A surge in coronavirus cases in Australia driven by the Delta variant in summer, its worst since the start of pandemic coincided with a 44% slump in iron ore prices. Also, weighing on the AUD is the standout dovishness of the Reserve Bank of Australia (RBA). Governor Philip Lowe said in mid-Sep that Australia's wage and inflation situation is quite different from other countries and reiterated that a rates liftoff is not expected before 2024. As such, we keep to our cautious view on AUD/USD and update our forecasts at 0.71 in 4Q21, 0.70 in both 1Q and 2Q22, and 0.69 in 3Q22.

Going forward, with the BOJ sticking to its ultra-easy monetary policy, higher UST yields and broad USD strength, we keep to our view of a higher USD/JPY.

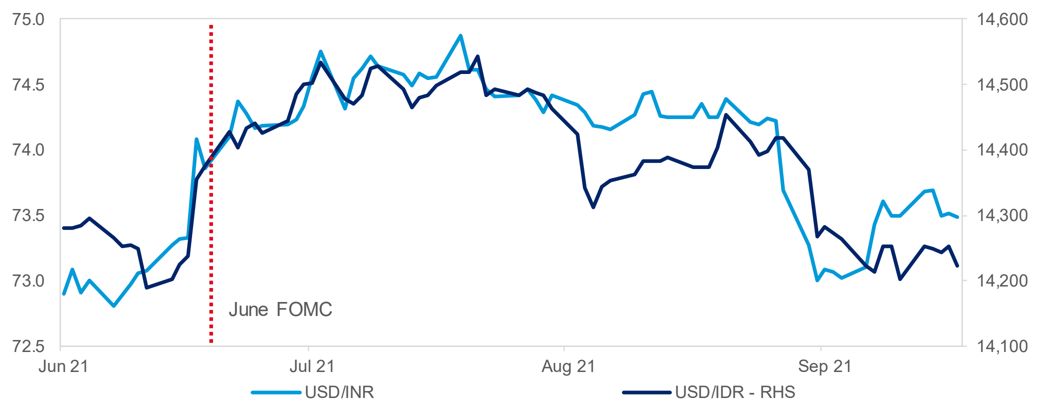
Compared to the other Major FX, USD/JPY struggled to find direction and traded within a narrow 108.72 – 111.64 range throughout 3Q21, tracking the consolidative pattern in the US 10-year Treasury yield. The currency pair's correlation to the latter rose to the highest in a year. Also, the surprise resignation of Prime Minister Yoshihide Suga in early September had little spillover into the currency markets, with USD/JPY's implied volatility falling to the lowest since last February. Going forward, with the BOJ sticking to its ultra-easy monetary policy, higher UST yields and broad USD strength, we keep to our view of a higher USD/JPY. Our updated USD/JPY forecasts are 111 in 4Q21, 112 in 1Q22, and 113 in both 2Q and 3Q22.

Asian FX Outlook
Risk Still Skewed To Downside Even Amidst Muted Fed Taper

Asia FX shows its resilience in the 3Q amidst a wall of worries. Even as the region endured a persistent virus spread fueled by the Delta variant, growing evidence of a slowing economic recovery and imminent FED tapering, some Asia FX managed to stage a modest rebound against the USD. This group of currencies include IDR, INR, and TWD.

Chart 7: USD/INR And USD/IDR Have Made a Round Trip Since The June FOMC Levels

Source: Bloomberg, UOB Global Economics & Markets Research



The upcoming FED taper remains the key tail risk for Asia FX. However, falling FX volatility in across most Asia FX across the quarter reflects the market view that FED will be prudent in communicating and executing its tapering plans in a way it would not too disruptive for financial markets. In other words, markets are not looking at a repeat of the 2013 Taper Tantrum at this juncture.

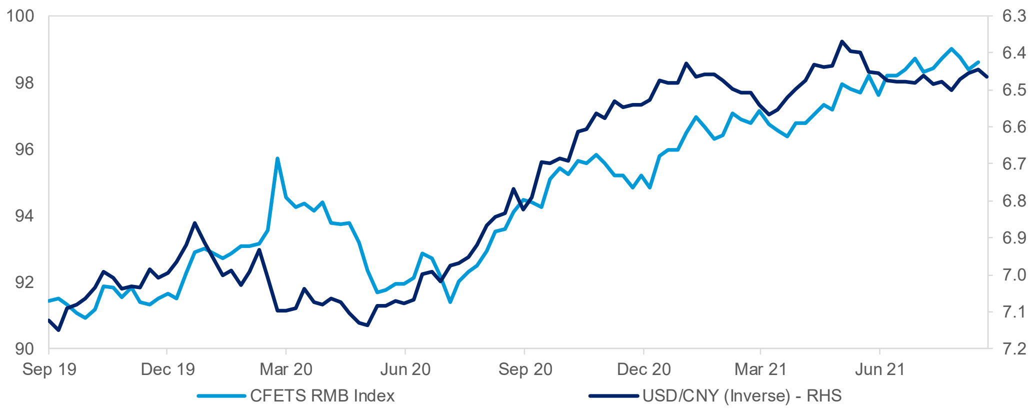
That said, even in the absence of a volatile repricing, overall risk is still skewed to further downside of Asia FX in the coming quarters. Growth outlook especially in ASEAN remains uncertain in face of the more contagious COVID-19 Delta variant and low vaccination rates. Monetary policies across Asia will lag that of the DMs in terms of normalization and will remain accommodative with rates staying low to support the economic recovery. This will inevitably dent the yield appeal of Asia FX especially when FED embarks on its tightening process.

The CNY was largely sideways within a 6.44 – 6.51 range against the USD in the 3Q. Year-to-date, the CNY is still one of the best performing Asia FX while most other Asia peers slipped. Going forward, the CNY will face growing growth headwinds.

The CNY was largely sideways within a 6.44 – 6.51 range against the USD in the 3Q. Year-to-date, the CNY is still one of the best performing Asia FX, gaining over 1% against the USD while most other Asia peers slipped. The continued outperformance of the CNY saw the CFETS RMB index push higher from 98 at the start of 3Q to about 99, the highest level since March 2016. Going forward, the CNY will face growing growth headwinds. In August, we have revised lower our forecast for China's 2021 GDP growth to 8.6% from 9.1% weighed by local COVID-19 containment measures, weakening domestic demand and tightening regulations on some sectors. In particular, China's GDP growth will likely shift to a lower gear just above 5% YoY in the second half of this year. Previous calls by the market for monetary tightening in the first half of the year have dissipated. Following the 50 bps cut to banks' Reserve Requirement Ratio (RRR) in July, we continue to see the likelihood of another 50 bps cut before year-end. As the growth and monetary policy divergence between US and China continues to close, we hold our view of a modestly higher USD/CNY in the coming quarters. Our updated point forecasts are 6.52 in 4Q21, 6.56 in 1Q22, 6.60 in 2Q22 and 6.64 in 3Q22.

Chart 8: Is The RMB Too Strong For Its Moderating Fundamentals?

Source: Bloomberg, UOB Global Economics & Markets Research



Taking cues from a broad USD recovery, we continue to expect a higher USD/SGD.

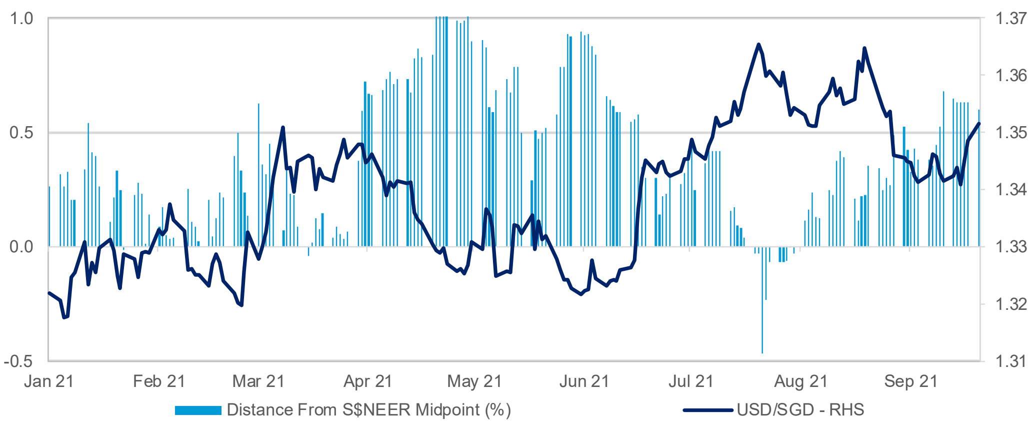
Even amidst a worsening surge in domestic virus infections, the SGD remains largely stable in a 1.34 – 1.37 range against the USD across the 3Q. Similarly, the Singapore Dollar Nominal Effective Exchange Rate (S$NEER) has been hovering around its mid-point in the same period. In the upcoming meeting in October, we expect the Monetary Authority of Singapore (MAS) to keep its monetary policy setting unchanged. Taking cues from a broad USD recovery, we continue to expect a higher USD/SGD, with point forecasts updated at 1.36 in 4Q21, 1.37 in 1Q22, 1.38 in 2Q22 and 1.39 in 3Q22.

We expect USD/MYR to retrace higher in line with a broad recovery in the USD as the FED's normalizing plans come into focus.

The MYR staged a strong rebound from the recent low of 4.2450 against the USD in the second half of August. The magnitude of gains was above trend reflecting assurances of continued US FED monetary policy support, stable crude oil, abating domestic political risks, and improved outlook for Malaysia amid higher in-country vaccination rates. From here, we expect USD/MYR to retrace higher in line with a broad recovery in the USD as the FED's normalizing plans come into focus. Hence we expect the pair at 4.20 in 4Q21, 4.23 in 1Q22, 4.26 in 2Q22, and 4.29 in 3Q22.

Chart 9: USD/SGD Maintains Upward Trajectory While S$NEER Stabilized Above Its Midpoint

Source: Bloomberg, UOB Global Economics & Markets Research



By now, a large part of the negatives surrounding the THB is probably priced in. As such, we are guarded to extrapolate further excessive weakness in the THB from current levels.

The THB is the worst performing Asia FX year-to-date, dropping about 11% against the USD. The bulk of the decline occurred after the June FOMC as tapering concerns exacerbated the virus-inflicted damage to the economy. We forecast the Thai economy to grow at 0.7% y/y in 2021, amongst the slowest in the region. That said, THB appears oversold, with its valuations (in REER terms) reverting from overbought to neutral levels for the first time in over five years. By now, a large part of the negatives surrounding the THB is probably priced in. As such, we are guarded to extrapolate further excessive weakness in the THB from current levels. Our updated USD/THB forecasts are at 33.8 in 4Q21, 34.1 in 1Q22, 34.4 in 2Q22 and 34.7 in 3Q22.

We reiterate our view of a higher USD/IDR but have moderated the trajectory in view of current market developments.

Contrary to our expectations, the IDR was much more resilient in 3Q. To recap, IDR was one of the worst hit Asia FX during the 2013 Taper Tantrum, falling 18% against the USD within six months after the FED began tapering talks then. In the current “taper-talk” phase, not only did the IDR avoided a sell-off spurred by capital flight, the currency has gained 1.8% quarter-to-date against the USD at 14,240. That said, there are still reasons to still be cautious about the IDR going forth. These include a slow vaccination drive (80% of population vaccinated to reach only in 4Q22) casting uncertainty over the economic recovery and a narrowing yield advantage of Indonesia Government Bonds over USTs. A persistent and widening twin deficits also anchors a gradual uptrend in USD/IDR over the medium term. As such, we reiterate our view of a higher USD/IDR but have moderated the trajectory in view of current market developments. The updated point forecasts at 14,600 in 4Q21, 14,700 in 1Q22, 14,800 in both 2Q and 3Q22.

RATES STRATEGY

Destination Is Known, Though The Journey Will Be Bumpy

Bias for higher yields into 4Q. Our macro base cases are constructive on re-opening factors which augurs for an approaching monetary policy inflection.

Brinkmanship on debt ceiling risks self-inflicting economic harm and repricing of US sovereign risk.

SG NEER Showing Resilience

Chart 1: SG NEER Deviation From Mid-Point

Source: Bloomberg, UOB Global Economics & Markets Research

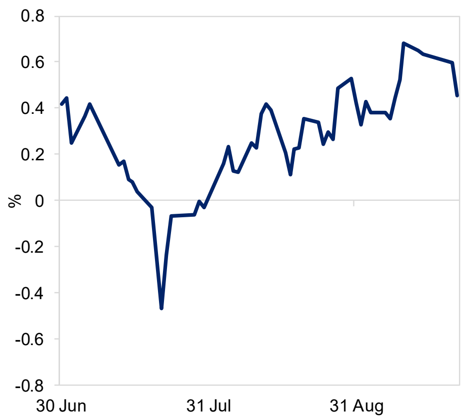
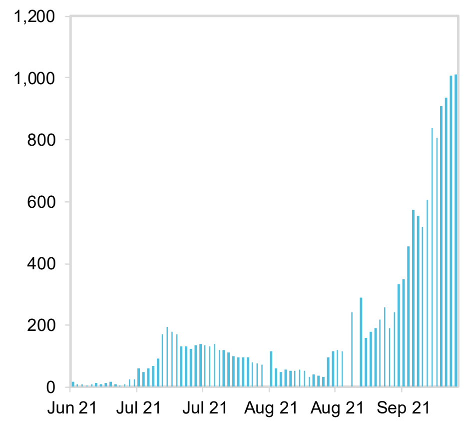


Chart 2: Singapore COVID-19 Daily New Cases

Source: Bloomberg, UOB Global Economics & Markets Research



The SG currency basket started 3Q on a weak note but is set to end the quarter on a high. The successful roll out of vaccination has been a factor underpinning the SG NEER's recovery, and the resultant currency's strength has also proved rather resilient to a sharp rise in domestic COVID-19 infections across September. SG NEER's ability to shrug off negative COVID-19 developments may partly be a reflection of the market's confidence in the government's response which has likely reduced investors' perception of lockdown risks going forward in the event of higher COVID-19 infection rates.

A sticky SG NEER is a sign that investors are pricing in the possibility that the present MAS policy stance for a neutral SG NEER slope may be coming to an end.

The upcoming MAS monetary policy meeting in October is another likely factor in play. The consensus view on the balance of risk going forward is less lopsided now, especially with the reduction in probability of future lockdowns while we also recognize that supply chain disruptions are still exerting upside pressure on prices. Therefore, a sticky SG NEER is a sign that investors are pricing in the possibility that the present MAS policy stance for a neutral SG NEER slope may be coming to an end. Our Singapore macro team thinks that MAS will keep monetary policy unchanged in October, but concurs with the view that we are approaching a policy inflection point.

If we were to see current valuation in the SG NEER prevailing into October's MAS meeting, this will not strike us as being overpriced. Assuming that there have been positive developments on the COVID-19 front, we could see an extension of currency strength into the range of +1% above the policy mid-point. That said, we will have durability concerns if SG NEER valuation was to hit the upper half of a +1% to +2% range since that will require a level of hawkishness from the MAS that does not seem warranted at this juncture.

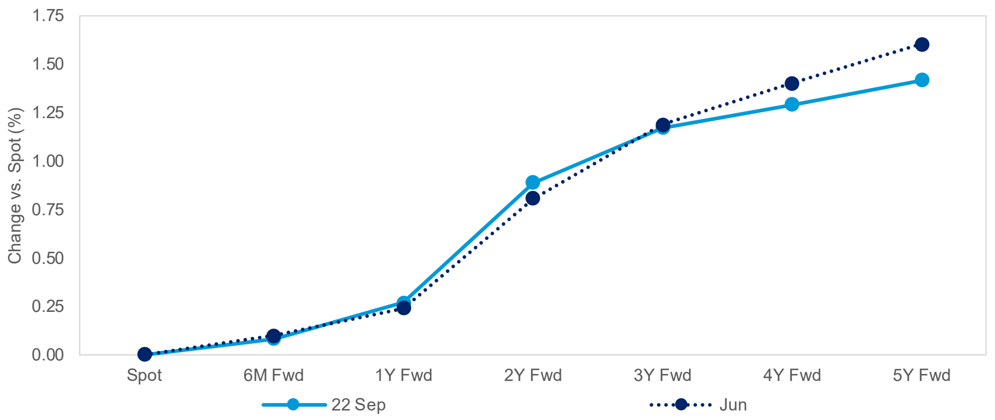
SG yield premiums is likely to contract alongside a strengthening currency.

In any case, a gathering tailwinds for a stronger currency should also pave the way for a degree of convergence in the yield spread between US and SG bonds. SG yield premiums is likely to contract alongside a strengthening currency and the magnitude of possible spread compression in the US and SG bond yield spreads will be magnified should US interest rates increase concurrently.

FED Hike Cycle Modestly Priced

Chart 3: Forward Market Expectation of US Short Rates

Source: Bloomberg, UOB Global Economics & Markets Research



Market expectation of future FED funds rates has eased slightly lower in 3Q.

Market expectation of future FED funds rates has eased slightly lower in 3Q; this has resulted in the cumulative amount of rate increases over the next five years falling under 150bps. On the other hand, the timing of liftoff in FED funds rates continues to remain stable and is priced to take place between one to two years' time.

Investors' focus over the past quarter has been on the FED's tapering announcement. Based on the latest July survey of Primary Dealers (PD), the median expectation is for tapering to begin at the end of 2021 and completed by end 2022, while the more aggressive ones are calling for completion by 1H 2022 and the more cautious PDs picking 1Q 2023. Our US macro team has revised their expected FED tapering profile to shorten the runway and now sees the bond buying program ending by July 2022. Concurrently they have also brought forward their first FED hike forecast to December 2022. This shift in policy timeline now puts us in the same camp as the more aggressive PDs based on the FED's July survey results.

Until such a time when tapering is substantially completed, changes in short term interest rates will primarily be driven by changes in liquidity conditions rather than monetary policy expectations.

Until such a time when tapering is substantially completed, changes in short term interest rates will primarily be driven by changes in liquidity conditions rather than monetary policy expectations. To wit, liquidity conditions continues to be very accommodative in the US based on the amount of overnight reverse repos transacted with the FED. While over in the overnight SORA market, average daily volumes for each month have not deviated significantly from the year to date average of SGD 1.6 billion.

Chart 4: FED Overnight Reverse Repo Volume

Source: Bloomberg, UOB Global Economics & Markets Research

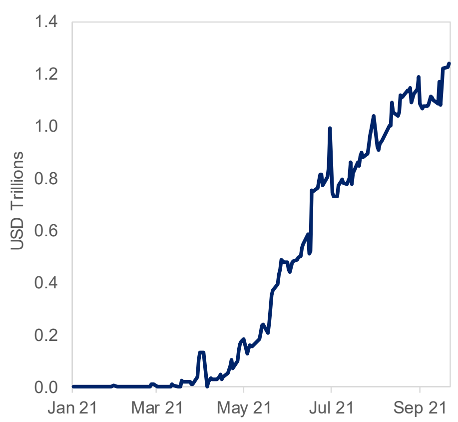
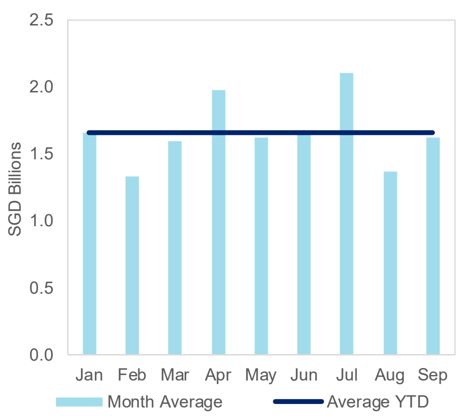


Chart 5: Average Daily SORA Volume

Source: Bloomberg, UOB Global Economics & Markets Research



Over the course of 3Q, short term rates in both US and SG have remained largely range bound. This also holds for the curvature between the 1- and 6-month tenors which have not displayed steepening nor flattening tendencies. We do not expect to see a significant change to the dynamics governing the shorter end of the yield curve in 4Q.

Chart 6: US and SG Short Term Rates In 3Q

Source: Bloomberg, UOB Global Economics & Markets Research

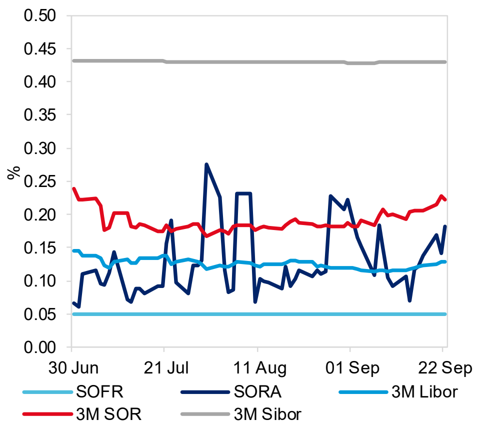
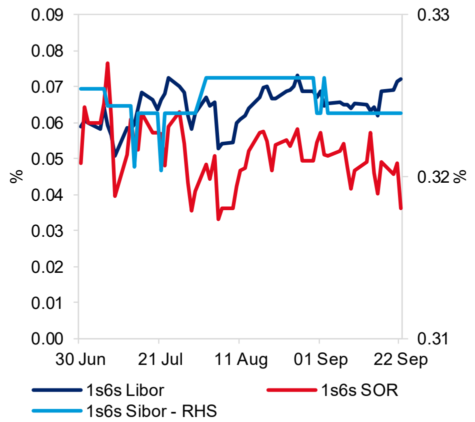


Chart 7: US And SG Short Term Rates Curve

Source: Bloomberg, UOB Global Economics & Markets Research



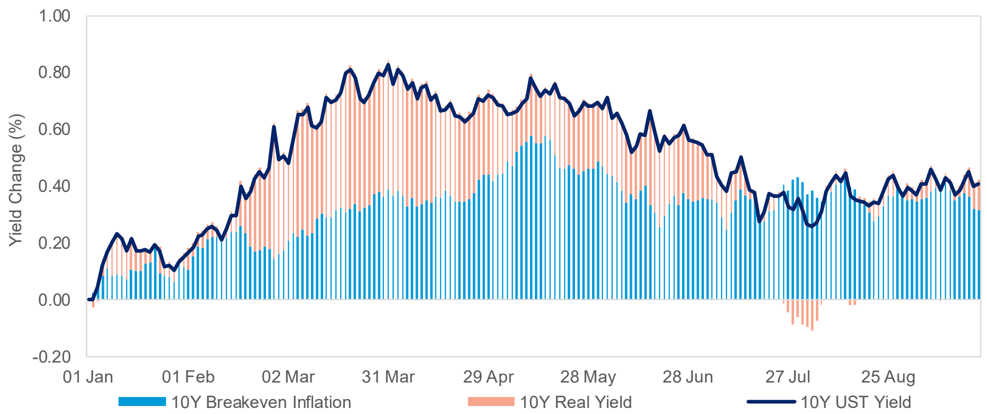
US And SG Money Market Rates Forecasts

We expect that the US FED will begin tapering its bond purchases in November. This scaling back of quantitative easing will incrementally tighten liquidity conditions. As such, the potential for significant upside in short dated yields may be fairly limited in the short term but will exert a greater pull on rates in 2022. Our projection is for 3-month Libor and SOR to track higher towards 0.20% and 0.25% in 4Q 2021 respectively and 0.40% in 3Q 2022 for both Libor and SOR. We see overnight SOFR and SORA as being range bound for 4Q at 0.09% and 0.10% respectively.

10Y Yields Downdraft Momentum Slowed

Chart 8: 10Y UST Yield Change (Year to Date)

Source: Bloomberg, UOB Global Economics & Markets Research



Yields for the 10Y UST and SGS have softened over 3Q, though there are signs that the decline in 10Y yields that began at the end of 1Q might be slowing. Prevailing 10Y UST yields (21 Sep) are lower by 15bps compared to the end of 2Q, two thirds of this decline has been due to lower real rates with inflation expectations remaining broadly sticky. 10Y SGS has performed in line with UST, thus leaving the yield spread to fluctuate in a sideways fashion over the past quarter.

Chart 9: 10Y Yields In 3Q

Source: Bloomberg, UOB Global Economics & Markets Research

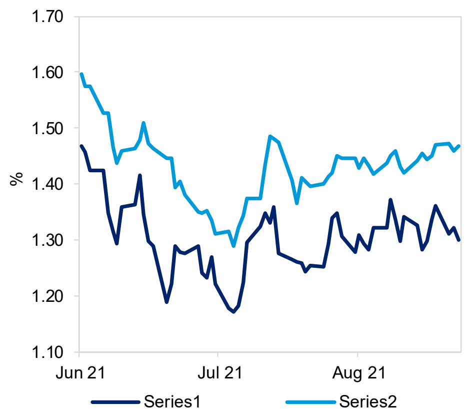
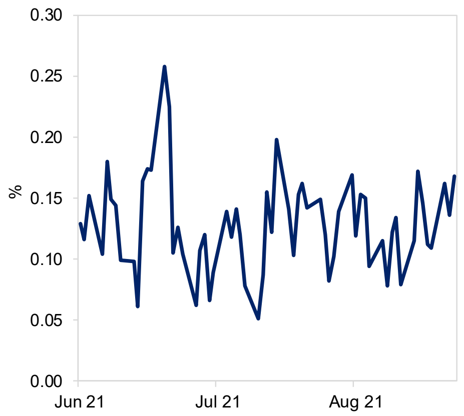


Chart 10: 10Y SGS - UST Spread In 3Q

Source: Bloomberg, UOB Global Economics & Markets Research

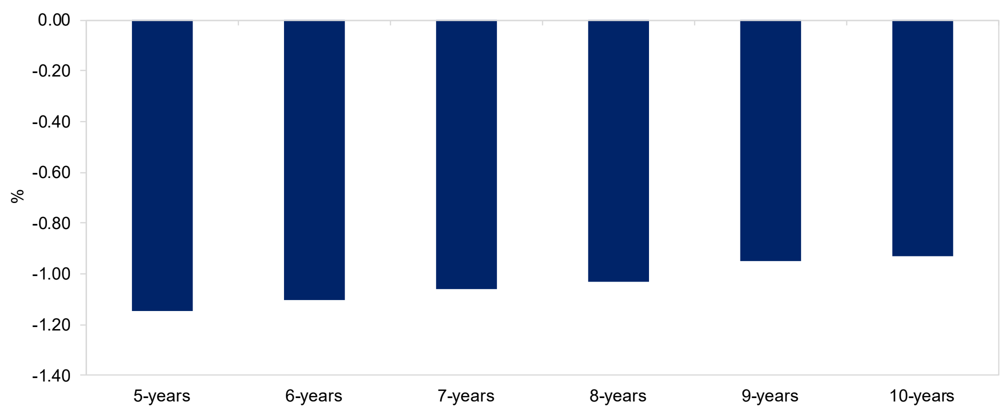


Recovery in 10Y yields over the latter half of 3Q has taken place amidst rising COVID-19 cases and a more cautious risk environment due to worries of potential spillovers from an embattled Chinese property conglomerate's possible debt default.

Since clocking in the lows during early August, 10Y yields have been grinding higher and are testing the upper end of their short term ranges. Notably, this recovery in 10Y yields over the latter half of 3Q has taken place amidst rising COVID-19 cases and a more cautious risk environment due to worries of potential spillovers from an embattled Chinese property conglomerate's possible debt default.

Chart 11: OIS Forwards vs FOMC LT Median (Difference)

Source: Bloomberg, UOB Global Economics & Markets Research



The revision by our US macro team to the US monetary policy outlook in their latest quarterly update has added to our conviction that the path of least resistance for yields lies towards the upside, particularly for the longer maturities. We are also encouraged by the recent market price action since our bias continues to lean in favour of higher 10Y yields into 4Q.

The market's expectation of future short terms rates, over the full monetary policy cycle, is benign compared to the FOMC's dot plot guidance. Measuring the difference between the FOMC's median long term projection of 2.50% and the various market based forward rates from 5 years out to 10 years (since "long term" is not an explicitly defined time horizon), forward rates are on average around 1% lower than the dot plot level. Therefore, we see scope for market prices to converge higher towards official guidance after considering our macro team's constructive base case outlook for re-opening of economies.

Chart 12: 10Y UST Quarterly Yield Changes (Average)

Source: Bloomberg, UOB Global Economics & Markets Research

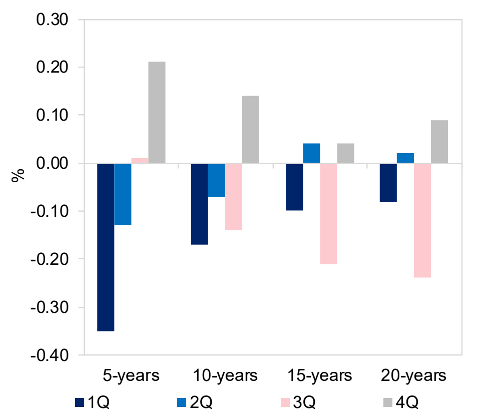
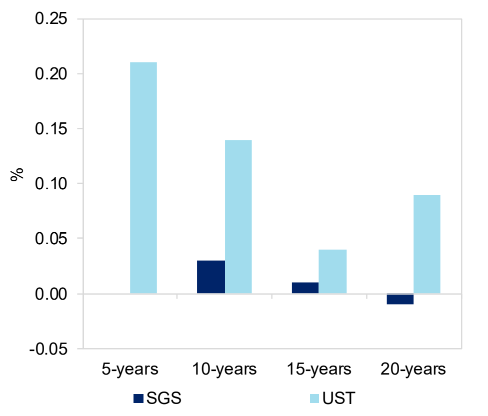


Chart 13: 10Y Yield Change In 4Q (Average)

Source: Bloomberg, UOB Global Economics & Markets Research



In addition, the grind higher from 3Q lows for 10Y yields is also shaping up to be in line with average historical outcomes that have been observed in the last calendar quarter. Historically, 10Y UST has managed yield gains on average, ranging from 4bps to 21bps, for 4Q over the past 5-,10-,15-, and 20-years. However, this seasonal outcome is not shared by 10Y SGS. The last quarter for our domestic bond has tended to be a muted one in terms of quarterly yield changes. In combination, the historical outcomes for 10Y UST and SGS in 4Q suggests that our bias for higher yields can also overlap with an expectation for SGS to outperform (i.e. diminished SGS yield premium based on current levels)

Short Term Path Muddied By Politics

Whilst further spikes in COVID-19 infections will inevitably throw sand into the wheel of re-opening economic momentum and may give rise to safe haven flows which will push interest rates lower, we are also monitoring the unresolved US debt ceiling limit situation which looms on the horizon as we head into 4Q and could evolve into a case of self-inflicted harm to the economy.

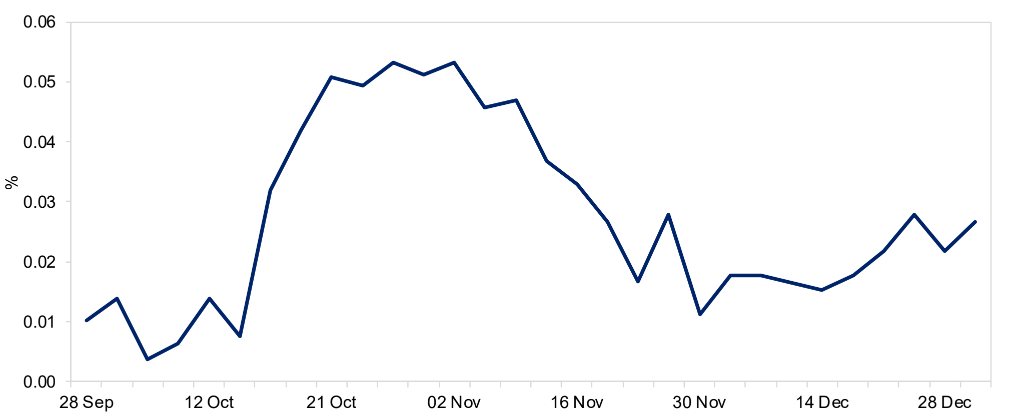
Going into the final days of September, there is still no resolution on lifting the US debt ceiling. Failure to do so will result in the US government defaulting on its debt obligation that could also threaten the functioning of the plumbing system which underpins the global financial system.

Observing the shape of the US T-bills curve, it suggests that the market's guess for X date may come between 21 and 28 October.

To buy time, the US Treasury has been using extraordinary measures to conserve cash since August. By their estimates, this should push the day of reckoning into mid-October but an official "X" date has not been set. Observing the shape of the US T-bills curve, it suggests that the market's guess for X date may come between 21 and 28 October.

Chart 14: US T-Bills Yield Curve

Source: Bloomberg, UOB Global Economics & Markets Research



Ongoing political developments have not been very encouraging in terms of forging a bipartisan solution and it could be that we might once again be heading into another debt ceiling limit brinkmanship scenario like in 2011, which resulted in the ratings agency Standard & Poor's downgrading their US credit rating from AAA to AA+.

A credit risk re-pricing scenario remains a possibility and one that will have significant spillover effects.

On hindsight, market fears of a yield spike outcome after the 2011 credit rating downgrade proved unfounded. However, this does not mean that the logic for higher yields was wrong. A credit risk re-pricing scenario remains a possibility and one that will have significant spillover effects. In the worst case scenario, a sharp spike in yields could occur alongside broadly lower prices in risk assets particularly when they are arguably priced to perfection.

Current Price Levels Versus S&P Downgrade In 2011

-	Sep 2021	Aug 2011
10Y US Real Yield	-0.97	0.32
2s10s UST Nominal Curve	1.11	2.27
5s30s US Real Curve	1.37	1.91

Source: Bloomberg, UOB Global Economics & Markets Research

From the table, it can be seen that 10-year US real yields were much higher, and the curves (both nominal and real yields) were steeper back in 2011 during the credit ratings downgrade. This offered a buffer of a reasonable cost of carry for safe haven flows post downgrade. If political brinkmanship were to trigger another ratings agency to downgrade their US credit ratings this year, the real yields that are currently on offer are not attractive beyond any kneejerk flight to quality proposition.

It is reasonable to assume that the FED will take note of any yield spikes and could adjust their monetary policy normalization plans because of it. For example, by delaying their tapering plans to temper the re-pricing in credit risk. However, it is unlikely that the FED will seriously consider obstructing the market's price discovery process in an aggressive fashion, i.e. by increasing bond purchases or introducing other quantitative easing measures, since the optics of such actions will at the very least trigger debate on its independence or worse exacerbate the selloff in US debt if investors see it as the slippery slope towards central bank condoning profligacy.

Short term risk aversion by investors due to the debt ceiling overhang may curb the upside for yields, but the possibility exists for US interest rates over the longer term to settle higher if investors chose to account for the unwelcomed regularity that the debt ceiling issue keeps repeating.

Ultimately, we do not expect the US to default. Short term risk aversion by investors due to the debt ceiling overhang may curb the upside for yields, but the possibility exists for US interest rates over the longer term to settle higher if investors chose to account for the unwelcomed regularity that the debt ceiling issue keeps repeating.

Long Term Yield Forecasts

Our base case is for 10-year US and SG yields to head higher. Prevailing interest rate levels are low considering a constructive macro outlook. Monetary policy tightening cycle is modestly priced and should rise to close the gap with the FOMC's dot plot. Therefore, we see 10-year yields at 1.85% and 1.90% in 4Q 2021 for US and SG respectively and 2.05% in 3Q 2022 for both US and SG.

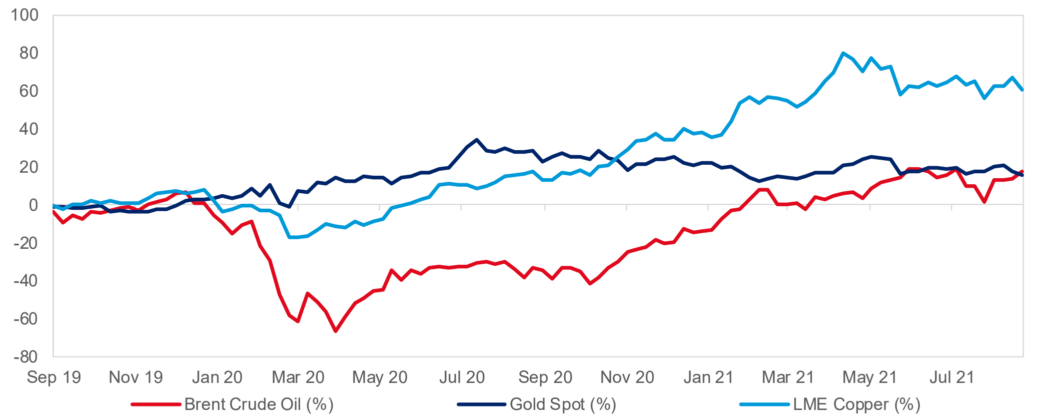
COMMODITIES STRATEGY

Brent Crude Oil And Energy Prices Power Ahead As Metals Fall Behind

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

Brent Crude Oil Plays Catch Up As Metals Pull Back In 3Q21

Source: Bloomberg, UOB Global Economics & Markets Research

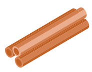


Gold

After several failed attempts to rally anew across 3Q21, gold suffered yet another mini-selloff to pullback below USD 1,800 / oz to USD 1,750 / oz. On one hand, various drivers like interest rate spreads and positioning have stabilized offering some support for gold. On the other hand, gold does appear increasingly jittery, especially now that the FED has signaled a quicker tapering and higher risk of early rate hikes in 2022. Will gold suffer a similar sell-off during the FED Taper Tantrum period of 2013/14 or will gold be able to withstand this latest round of tapering and liquidity withdrawal?

Crude Oil

Compared to gold and LME Copper, price action in Brent crude oil across 3Q21 has been decidedly stronger. Periodic sell-offs have been repelled and Brent crude oil managed to recover back to the 3Q21 high at USD 75 / bbl. OPEC seemed to have finally got its act together with a clear and consistent plan for gradual recovery of previous production cuts from last year. China's plan to sell some of its strategic energy reserves turned out to be a non-event. Will the steady recovery in global energy demand eventually lift crude oil back up above USD 80 / bbl?



Copper

LME Copper price has struggled since trading up to about USD 10,500 / MT in May. Thereafter across 3Q21, LME Copper has failed to maintain its trajectory above USD 10,000 / MT and has instead pulled back to USD 9,300 / MT by mid Sep. The latest COVID-19 Delta variant led outbreak has raised fears once again that the global battle against COVID-19 is far from over. And the recent slump in industrial activity and high frequency economic indicators for China have raised concern that growth and activity is slowing down yet again. Has LME Copper price peaked out?

Gold

More Aggressive FED Tapering A Key Risk

Back in Jun, gold suffered a heavy sell-off from USD 1,900 / oz to USD 1,750 / oz. Since then, gold has largely been struggling below the 1,800 / oz level after various failed attempts to rally.

Various negative drivers that resulted in the Jun sell-off had mostly dissipated. The drawdown in gold ETFs has stabilized as total gold ETF holdings consolidate around the 100 mio oz level. The USD has also stabilized just above the critical 90 level, while the US Treasuries yield curve has also stabilized with the 10s2s yield spread now at around 110 bps.

However, gold now faces a key test ahead of the start of FED tapering. Back in 2013, the prospect of FED tapering triggered a selloff in gold from USD 1,600 / oz in early 2013 to USD 1,300 / oz by late 2013. By the time the FED did start tapering in Dec 2013, gold was sold-off further to USD 1,200 / oz.

Going forward, gold faces more headwinds now that the FED has not only signaled an earlier start to tapering in Nov this year but at a quicker pace as well that will end as soon as middle of next year. In addition, the updated dot plot has raised risks of earlier rate hikes in late 2022 as well.

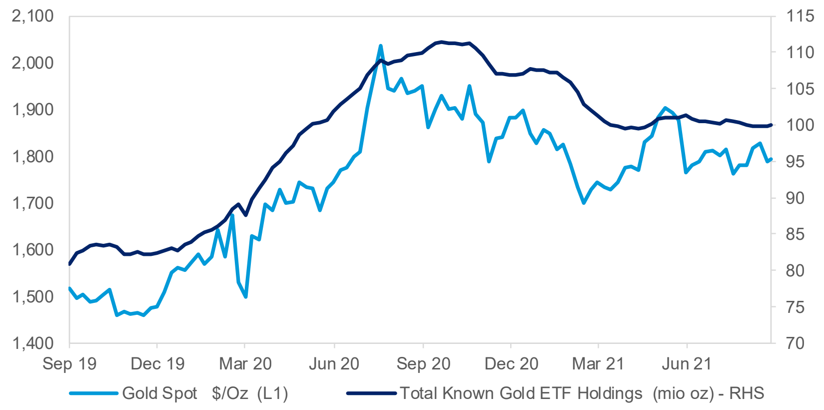
This time round, the FED's balance sheet size has more than doubled from USD 4 trn pre-COVID in early 2020 to USD 8.5 trn now. In addition, partly as a result of the US debt ceiling stalemate, an additional USD 1.2 trn of liquidity has also built up in overnight repos.

In the previous Jun quarterly update, we trimmed down on our positive gold forecast, warning that potential upside is limited by the FED. Going forward, we further neutralize gold's outlook given the impending nearer start of tapering and at a quicker pace as well. As such, we now adopt a neutral forecast for gold at prevailing spot of USD 1,750 /oz for the coming four quarters.

UOB's Forecast	4Q21F	1Q22F	2Q22F	3Q22F
Gold (USD/oz)	1,750	1,750	1,750	1,750

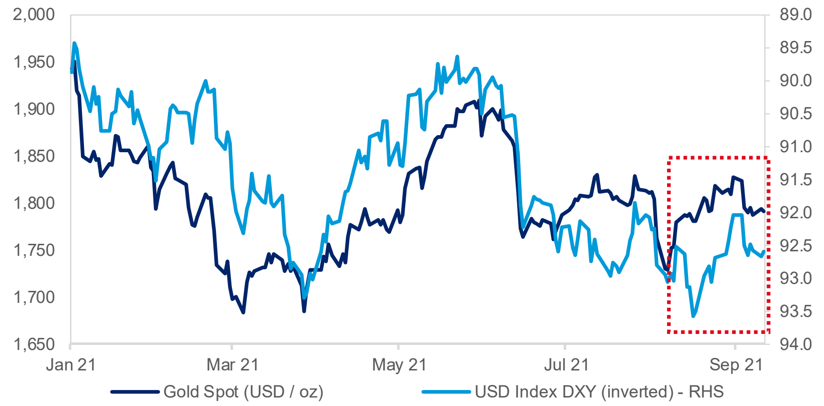
Gold 1: Gold Price Consolidated As ETF Holdings Steadied

Source: Bloomberg, UOB Global Economics & Markets Research



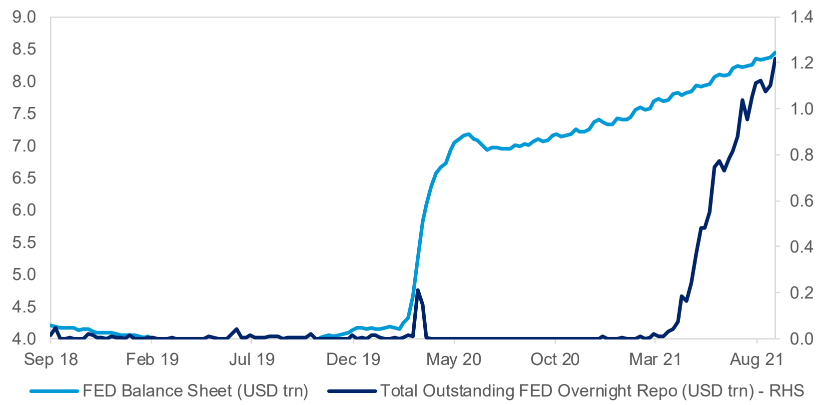
Gold 2: Gold Price Trades In Tandem With The USD Index (DXY)

Source: Bloomberg, UOB Global Economics & Markets Research



Gold 3: The Upcoming Withdrawal Of Ultra-Easy FED Liquidity

Source: Bloomberg, UOB Global Economics & Markets Research



Brent Crude Oil

On Track For Further Strength To Test USD 80 / bbl Price Level

There were no surprises at the latest OPEC meet in early September, whereby Saudi Arabia, and other key crude oil producers agreed to stick to earlier guided policy of gradual phasing out of production cuts by adding mini installments of 400k bpd a month. This was despite the "request" from the White House for OPEC to increase production at a faster pace to limit further premature rise in crude oil prices.

Subsequently, at its latest Monthly Oil Market Report, OPEC raised its 2022 global demand by yet another 900k bpd and now expects global demand to jump by 4.2 mio bpd to 100.8 mio bpd in 2022. This was despite some downward revision in 4Q21 global demand due to the Delta variant clouding near term demand. Effectively, OPEC now sees global demand returning to pre-pandemic levels of above 100 mio bpd in 2022.

Indeed, the recovery in global energy demand does not seem to be slowing down. This time round, the steady-handed approach by OPEC to "slow drip" the scaling back of COVID-19 related production cuts has helped to ensure that production increase does not overtake this recovery in global energy demand.

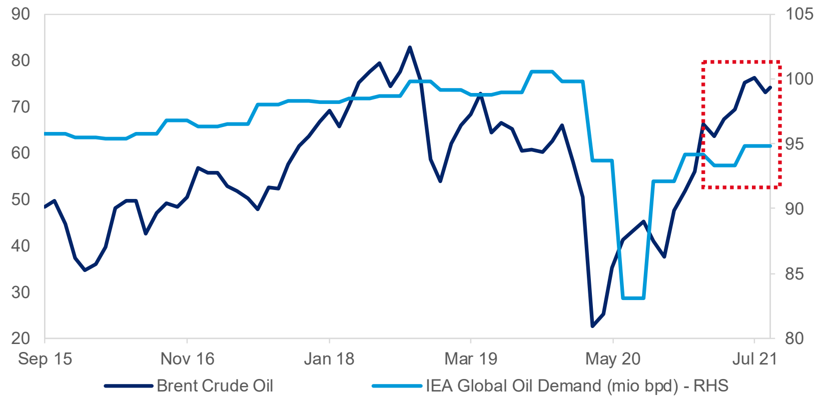
On a related note, China's quarterly crude oil demand and imports have stayed strong. Although, recent slowdown in industrial activity in August bears closer scrutiny. The latest announcement that China will sell some crude oil reserves in late Sep appears to have been well absorbed by the energy market. The announced auction amount of about 7 mio barrels appears conservative compared to China's estimated energy reserve size of about 220 mio barrels.

Going forward, in view of OPEC's restrained production hikes and projected on-going steady recovery in global energy demand, we maintain our positive Brent crude oil forecast. We continue to see a possible test of USD 80 / bbl by mid-2022. Our updated Brent crude oil forecast is USD 76 / bbl in 4Q21, USD 79 / bbl in 1Q22, USD 82 / bbl in 2Q22 and 3Q22.

UOB's Forecast	4Q21F	1Q22F	2Q22F	3Q22F
Brent Crude Oil (USD/bbl)	76	79	82	82

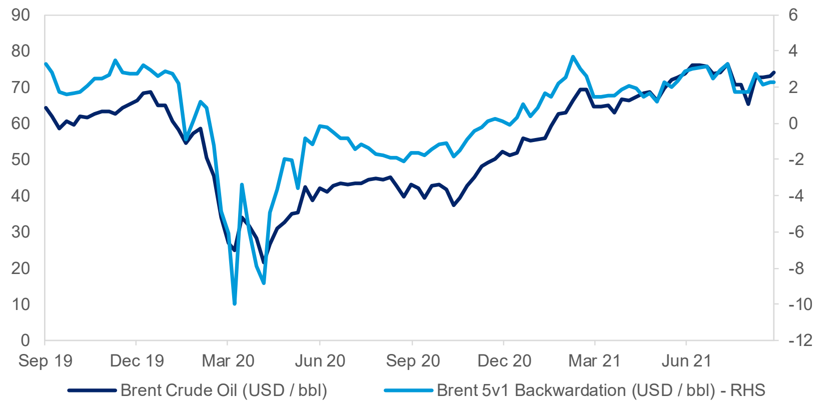
Brent 1: Brent Crude Oil Price Rebounds As Global Demand Recovers

Source: Bloomberg, UOB Global Economics & Markets Research



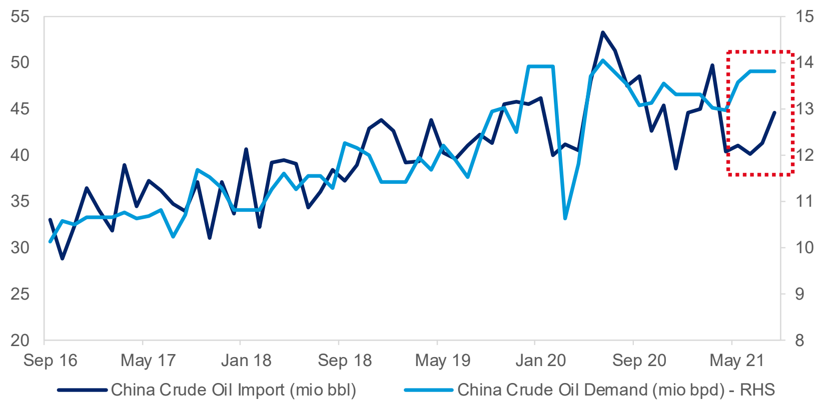
Brent 2: Rebound In Brent Crude Oil Price In Line With Rising Backwardation

Source: Bloomberg, UOB Global Economics & Markets Research



Brent 3: China's Quarterly Crude Oil Demand And Imports Stay Strong

Source: Bloomberg, UOB Global Economics & Markets Research



Copper
Moderation In China Industrial Activity To Cap Upside

In the previous quarterly update, we had a positive outlook for LME copper. This was mainly due to improving growth prospects of the global economy amidst rising vaccination rates against COVID-19. In addition, it was noted that global demand for refined copper remained strong while global mining supply and production plays catch up after the initial disruption last year.

However, in recent months, while vaccination rates did continue to grow, a widening Delta variant outbreak coupled with other the emergence of new variants that are potentially more health threatening have started to weigh on the global economy yet again.

Specifically, China's high frequency activity data for August was noticeably weaker than expectations. Retail sales and fixed asset investments surprised on the downside. Relating to copper, China's growth in industrial production also surprised with a weaker reading of +5.3% YoY for Aug, compared to +6.4% YoY in Jul.

LME Copper has been consolidating around USD 9,500 / MT across 3Q21 after trading above USD 10,000 / MT back in May. The premium in cash vs 3M price spread has been largely dissipated across 3Q21 as well. Similarly, the LME Copper vs Gold price ratio has been stuck around 5.3x since topping out at about 5.7x back in May.

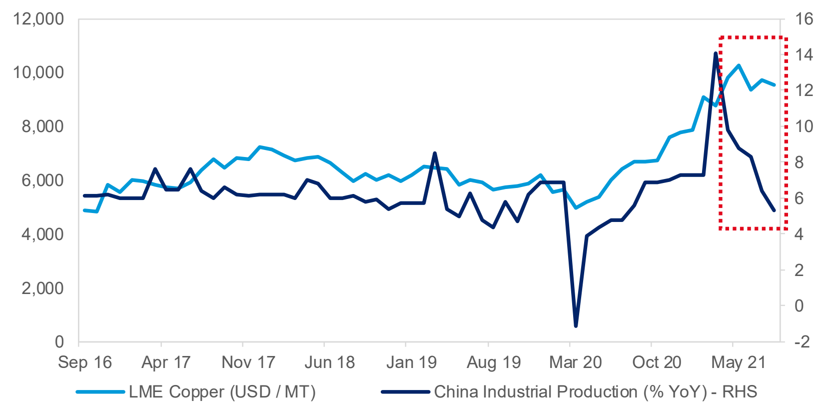
Going forward, in view of increasing global growth uncertainty as well as moderation in industrial activity in China, we neutralize our LME Copper forecast to USD 9,000 / MT for upcoming four quarters.

On a related note, the sharp pullback in iron ore price across 3Q has also raised concerns over potential growth slowdown in China. Policy related factors may be in play here as China tries to control environmental pollution ahead of winter. Incidentally, domestic steel prices have stayed buoyant due to emissions related production cuts.

UOB's Forecast	4Q21F	1Q22F	2Q22F	3Q22F
LME Copper (USD/mt)	9,000	9,000	9,000	9,000

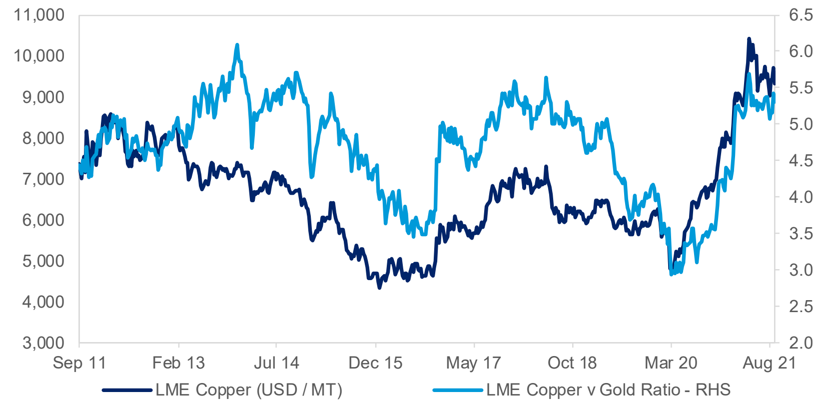
Copper 1: Pullback In China Industrial Production To Cap Copper Upside

Source: Bloomberg, UOB Global Economics & Markets Research



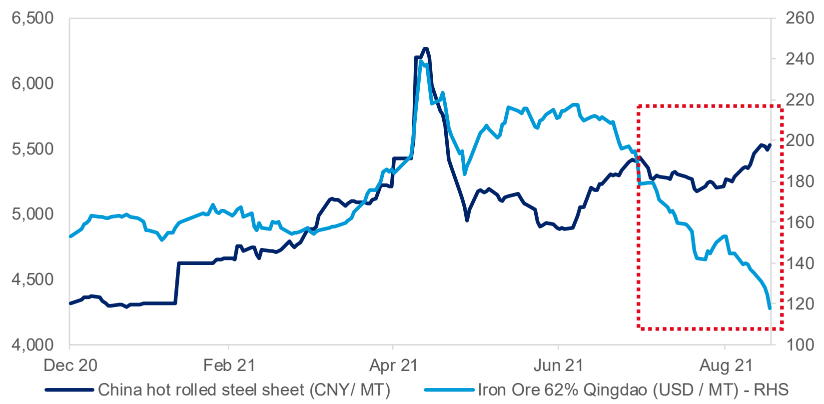
Copper 2: LME Copper v Gold Ratio Consolidating Under 5.5x

Source: Bloomberg, UOB Global Economics & Markets Research



Copper 3: Iron Ore Price Tumbles On Environment Related Production Curbs

Source: Bloomberg, UOB Global Economics & Markets Research



CHINA

FX & Rates	4Q21F	1Q22F	2Q22F	3Q22F
USD/CNY	6.52	6.56	6.60	6.64
CNY 1Y Loan Prime Rate	3.85	3.85	3.85	3.95

Economic Indicators	2019	2020	2021F	2022F
GDP	6.0	2.3	8.6	5.7
CPI (average, y/y %)	2.9	2.5	0.8	2.2
Unemployment rate (%)	5.2	5.2	5.2	5.3
Current account (% of GDP)	0.7	1.9	1.5	1.2
Fiscal balance (% of GDP)	-4.9	-6.2	-5.2	-4.0

ECONOMY
Risk Of Bigger Growth Disappointment

China's growth engines are losing steam rapidly as data in July to August have shown. There remain more downside risks in the horizon as a result of the tightening regulatory environment while domestic zero-COVID policy continues to hinder the recovery in private consumption. The recent sporadic lockdowns demonstrated the extent of economic disruptions that can be expected from more contagious virus strains. China has already fully vaccinated more than 70% of its population and is beginning to offer a third booster jab. However, the care that the government has taken so far to prevent any local coronavirus infection only reaffirms that its borders will stay closed despite the high vaccination rate, possibly until after the Winter Olympics in February 2022.

The debt fallout at one of the country's largest property developers, China Evergrande Group is also threatening to have a wider contagion on the economy. Credit has tightened for Chinese property developers since the second half of 2020 following August's issuance of the 'three red lines' guidance on developers' refinancing eligibility. The government's regulatory tightening in real estate will impact the investment demand. Property fixed asset investment (FAI) accounted for 24% of total FAI in 2020 and 21% in 2019, contributing 0.3-0.5% point to the full-year GDP growth rate. The greater fear is contagion on other sectors such as banking and construction materials as well as consumption demand which could then cause a sharper economic slowdown in China. The indirect impact is more difficult to estimate. As a guide, Evergrande's liabilities are reported to be around 2% of China's GDP but the impact is unlikely to be of this magnitude.

The government may moderate the pace of regulatory tightening to shore up confidence. There is also room for both the monetary and fiscal policies to be stepped up to support the economic growth in 2H21. While there are no indications at this point that Evergrande would be "bailed out", the government has sufficient motivation and resources to prevent the situation from deteriorating into a systemic crisis that could risk social and financial stability in the country, ahead of the Sixth Plenum of the 19th Communist Party of China (CPC) Central Committee in November and the Winter Olympics in 2022. Having said that, with the drive for the "common prosperity" policy still at its early stage, the authorities could take this opportunity to further restructure the property sector, thus dampening investment demand.

In Jan-Jul, general government revenue grew 20.0% y/y while expenditure only rose 3.3% y/y. There is also room for the local government to step up infrastructure spending. Special bond issuance by the local government totaled CNY1.35 trillion in Jan-Jul, accounting for just 37% of the CNY3.65 trillion quota for this year. This paled in comparison to CNY2.27 trillion (60% of 2020 quota) and CNY1.69 trillion (78% of 2019 quota) issued in the same period of 2020 and 2019 respectively.

Our baseline 2021 growth forecast for China is at 8.6% which assumes growth of 5.7% y/y in 3Q21 and 5.1% y/y in 4Q21 (1Q21 at 18.3% and 2Q21 at 7.9%). We think the impact from Evergrande's debt crisis on 2021 GDP will be less than 0.5% point, depending on how the scenario plays out. In any case, the government's growth target of "above 6%" will still be on track and this is likely to preclude aggressive easing of fiscal and monetary policies.

So far, the surge in the producer prices (PPI) has limited pass-through to consumer price inflation (CPI). Factors including supply chain bottlenecks and high commodity prices will be the key drivers for further PPI gains. The PPI has averaged 6.2% y/y in Jan-Aug and our forecast for the full-year remains at 7.5% (2020: -1.8%). Despite that, CPI only averaged 0.6% y/y in Jan-Aug and we have lowered our forecast for 2021 and 2022 to 0.8% and 2.2% respectively. For the coming months, CPI is expected to receive a boost from the low base of comparison in 4Q20.

CENTRAL BANK
Another RRR Cut Imminent As PBoC Boosts Liquidity

We retain our call for another 50 bps cut to banks' reserve requirement ratio (RRR) in 4Q21 as economic growth slows. This will provide banks with greater ability to boost lending and make repayments for CNY2.45 trillion of medium-term lending facility (MLF) loans maturing in 4Q21. However, the benchmark loan prime rates (LPR) are likely to stay unchanged through 1H22 given PBoC's concerns of financial imbalances.

CURRENCY
Mild USD/CNY Strength Ahead

The CNY was largely sideways within a 6.44 – 6.51 range against the USD in the 3Q. Year-to-date, the CNY is still one of the best performing Asia FX, gaining over 1% against the USD while most other Asia peers slipped. The continued outperformance of the CNY saw the CFETS RMB index push higher from 98 at the start of 3Q to about 99, the highest level since March 2016.

Going forward, the CNY will face growing growth headwinds. Previous calls by the market for monetary tightening in the first half of the year have dissipated. Monetary policy is likely to be biased slightly looser to cushion slowing growth momentum. As the growth and monetary policy divergence between US and China continues to close, we hold our view of a modestly higher USD/CNY in the coming quarters. Our updated point forecasts are 6.52 in 4Q21, 6.56 in 1Q22, 6.60 in 2Q22 and 6.64 in 3Q22.

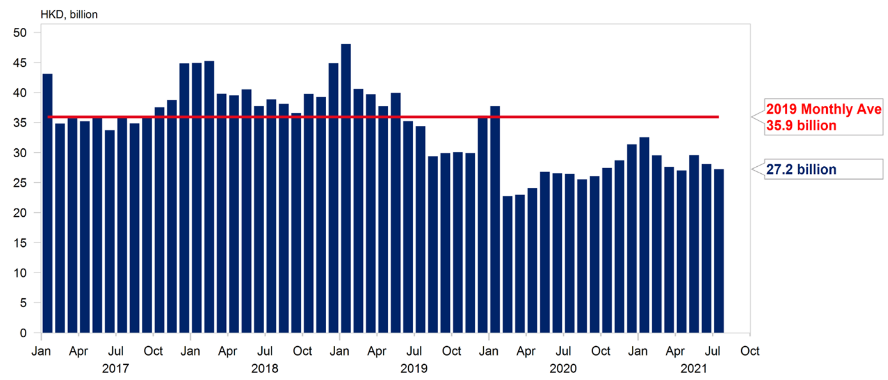
HONG KONG

FX & Rates	4Q21F	1Q22F	2Q22F	3Q22F
USD/HKD	7.75	7.75	7.75	7.78
HKD Base Rate	0.50	0.50	0.50	0.50

Economic Indicators	2019	2020	2021F	2022F
GDP	-1.7	-6.1	6.7	3.0
CPI (average, y/y %)	2.9	0.3	1.8	1.8
Unemployment rate (%)	3.3	6.6	4.8	4.0
Current account (% of GDP)	5.8	6.5	6.3	6.0
Fiscal balance (% of GDP)	-1.3	-9.6	-3.5	-1.0

Hong Kong: Consumption Vouchers May Give A Little Boost To Retail Sales

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY
Uneven Growth Recovery

The low comparison base continued to support growth recovery across the key GDP components in 2Q21, particularly for investments and goods exports. Private consumption, which accounts for 65% of the GDP, maintained its recovery momentum although it was still sub-par to pre-pandemic levels. Consumption was supported, in part by improvements in the labour market, as employment recovered further since March while the unemployment rate eased to 4.7% in Jun-Aug 2021, lowest since Apr 2020.

The uneven recovery can also be seen in the retail sales which have continued to run well-below its 2019 average as tourism remains at a standstill. The government's rollout of HK$5,000 (US$643) in electronic vouchers to eligible residents as announced in the 2021/22 Budget will help to cushion the hit on consumption demand with an estimated 0.7 ppt boost to the full-year GDP growth rate. The payout, which will be in two to three instalments started on Aug 1.

Hong Kong's zero-COVID-19 strategy continues to weigh on its outlook. As of mid-Sep, less than 60% of the population are fully vaccinated. The reopening of Hong Kong's borders will not only depend on when it can achieve at least 80% fully vaccinated rate amongst its population, but is also closely linked to the approach that the mainland is adopting since the opening of borders with the mainland will be prioritised. Although Hong Kong has eased quarantine restrictions for residents from the mainland and Macau, they will still be required to be quarantined on their return. This has reduced the programme's attractiveness.

Another major concern is the exodus of its residents due to Hong Kong's tight borders control and for political reason. The population had fallen by 87,100 or 1.2% to 7.39 million in mid-2021, compared to the year-ago period. Hong Kong's competitiveness will be eroded if this trend continues.

Having said that, we continue to expect near-term growth support from sustained recovery in external demand, an improving domestic job market and pent-up domestic demand. China's growth slowdown may pose some downside risks. With the low comparison base from two preceding years of GDP contraction and taking into consideration of 1H21 GDP growth of 7.8% y/y, we maintain our full-year 2021 GDP forecast for Hong Kong at 6.7% (official forecast at 5.5-6.5%). Our forecast for 3Q21 and 4Q21 GDP growth are at 5.7% y/y and 5.6% y/y respectively.

Higher import prices and low base effect will translate into higher inflation in 2021. Headline inflation averaged 1.4% y/y in Jan-Aug and our full-year forecast is at 1.8% (previously 1.9%). However, underlying inflation (netting out the government's one-off relief measures) is likely to remain subdued at 1.0% this year (2020: 1.3%), capped by still-weak domestic demand. Underlying inflation averaged just 0.3% y/y in Jan-Aug.

CENTRAL BANK
Liquidity Remains Flushed

The Hang Seng Index has fallen by more than 10% YTD (as of 20 Sep), inflicted by Chinese regulatory crackdown and contagion fears from problems at Chinese property developers. Notwithstanding the risks, domestic interbank liquidity has remained flushed. The aggregate balance may have moderated but is still near its record high at around HK$447 bn. Meanwhile, the 1M Hibor has remained below 0.1%, its lowest in more than a decade.

In September, Hong Kong and the mainland have launched the Greater Bay Area (GBA) Wealth Management Connect and the southbound leg of the Bond Connect. This should help to facilitate inflows into Hong Kong and maintain its position as an international financial centre.

CURRENCY
HKD To Stay Tethered At 7.75/USD Till 2Q22

USD/HKD has grinded higher to an average of 7.777 in 3Q21 from 7.766 in the prior quarter. This is in line with the broad USD strength and near term volatility in the Hong Kong stock markets that is weighing on the HKD. That said, there is still a lack of trigger for further upside in USD/HKD. The Libor-Hibor spread stayed stable around zero, giving little incentive for USD carry trades funded out of HKD.

The previous US Fed rate hike cycle showed us that USD/HKD will only trade at the top half of its allowable range (7.80-7.85) closer to the Fed lift-off.

Overall, we reiterate the view that the HKD will stay tethered to the stronger end of its Convertibility Undertaking at 7.75 / USD till 2Q22, then gradually weakens as the Fed begins its next rate hike cycle at end-2022.

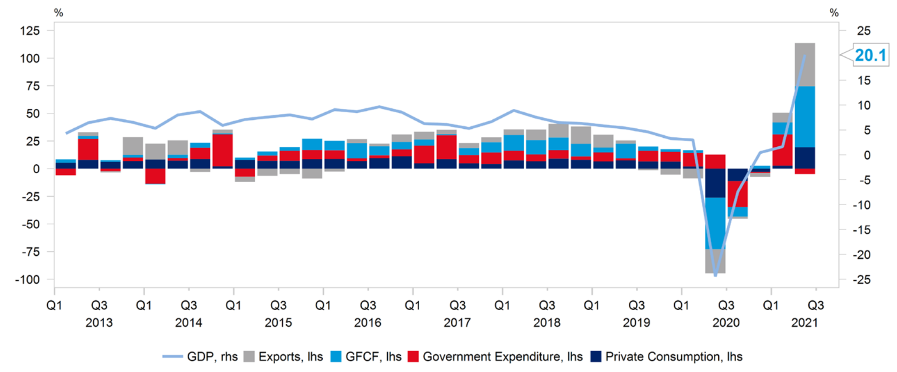
INDIA

FX & Rates	4Q21F	1Q22F	2Q22F	3Q22F
USD/INR	75.50	76.00	76.50	77.00
INR Repo Rate	4.00	40	4.0	4.0

Economic Indicators	19/20	20/21	21/22F	22/23F
GDP	4.0	-7.3	8.5	6.0
CPI (average, y/y %)	4.8	6.2	5.5	5.0
Current account (% of GDP)	1.3	1.0	-0.9	-1.3
Fiscal balance (% of GDP)	-5.0	-9.5	-10.0	-6.0

India Expanded 20.1% Y/Y In 1QFY2021/22, The Fastest Growth Pace On Record

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY
Starting The Fiscal Year Well, But?

Across Asia, India is perhaps one of the economies that has been most affected by the COVID-19 pandemic. Yet, on a year-to-date (YTD) basis, COVID-19 new daily infection rates have hovered below the critical 50,000-person mark, from the historical peak of 414,000 in May 2021. Encouragingly, COVID-19 vaccination rates have increased to over 10% of its population YTD, from 7.3% as at end-July, while over 50% of the eligible population has received at least one vaccine shot.

Reflective of the relative improvement in its COVID-19 situation, India's GDP expanded at its fastest pace in history at 20.1% y/y in the first quarter of its fiscal year (1QFY2021/22: April - June 2021). This compares with a 1.6% y/y growth in 4QFY2020/21, but was slightly. It is encouraging to see most GDP components performing better when compared to the contraction pace in the same period last year. Notwithstanding the strong GDP data, India's domestic consumption, which had traditionally been a driving force of growth, only expanded 19.3% y/y in FY1Q21, and falling short of the contraction of 24.4% in the same period last year.

Economic recovery has been uneven in India. As such, India's growth prospects will depend largely on how the COVID-19 outbreak evolves. We note that the lower COVID-19 infections and higher vaccination rates are credible signals that the economy is gearing towards a more resilient growth pattern, which should provide a fillip to domestic consumption in the year ahead. Barring an unexpected surge in COVID-19 cases, the accommodative monetary policy expected in the year ahead, coupled with a strong fiscal response as seen from the Union Budget, should see India expanding by 8.5% for FY2021/22.

Unlike the rest of Asia, India's inflation risk is comparatively more elevated vs its regional peers. Data-wise, consumer prices rose 5.3% y/y in August 2021, despite a high-base in the same time last year (Aug 2020: +6.7% y/y; 2015 – 2019 5-year average: +4.1%). Similar to previous months, food (+3.1%) and fuel (+13.0%) inflation accounted for the bulk of the price increase. Given that fiscal YTD inflation is already at 5.5%, we keep our full fiscal-year inflation at a similar rate of 5.5%.

CENTRAL BANK
A More Positive Tone, A Possible Change In Stance?

In light of the uncertainties posed by COVID-19 pandemic, the Reserve Bank of India (RBI) kept its accommodative policy rate at a record low of 4.0% in its August's monetary policy meeting. What is different in the latest policy meeting, however, was the lack of unanimous decision to continue with RBI's "accommodative stance (for) as long as necessary to revive and sustain growth on a durable basis", suggesting that the improvement in GDP growth and higher inflation levels may warrant some tightening in the near future.

Nonetheless, policy manoeuvres from RBI's G-sec acquisition programme (G-SAP) and the ambitious Union Budget announced earlier this year, are key apparatuses in cushioning any surprise downside risk to the GDP growth momentum. Note that RBI Governor Das previously commented that the asset purchase programme "will ensure financial stability and (yield) stability from global uncertainty."

Given the G-SAP and the fiscal response from the Union Budget, we think that any further cuts in the policy rate is off the table, and a rate hike might occur in 2022, possibly in 2H22. As such, we keep to our view for a steady policy rate at 4.0% for the rest of 2021.

CURRENCY
USD/INR Still Biased Higher

As the worst of India's virus situation has passed, INR has also started to stabilise across July – September. The INR drew support from foreigner inflows into the local stock and bond markets. In late August, the INR even strengthened to a 2-month high of about 73 /USD just as the RBI stepped away from USD purchases amid inflows.

While virus risks have receded, bond purchases by the RBI and India's dual deficits are structural tailwinds that will continue to weigh on the INR, on top of the broad-based USD strength due to the Fed's normalization. That said, INR volatility is likely to be smoothed by RBI interventions, if necessary.

Overall, we keep to our upward trajectory of USD/INR but will moderate the point forecasts 100 pips lower in view of the recent stabilization of the INR. The revised forecasts are now at 75.5 in 4Q21, 76.0 in 1Q22, 76.5 in 2Q22 and 77.0 in 3Q22.

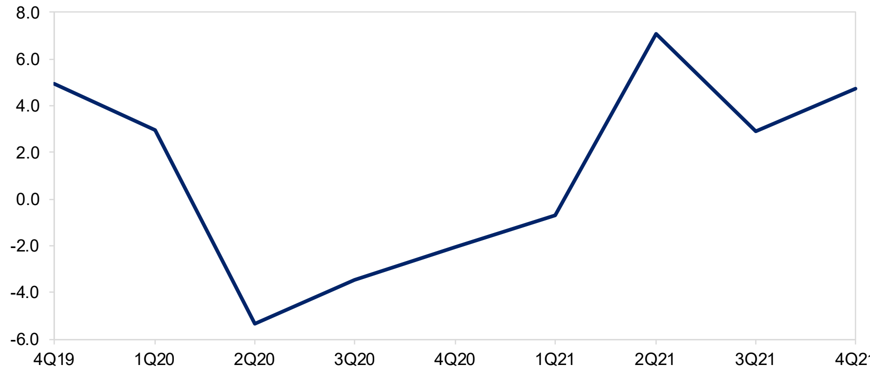
INDONESIA

FX & Rates	4Q21F	1Q22F	2Q22F	3Q22F
USD/IDR	14,600	14,700	14,800	14,800
IDR 7D Reverse Repo	3.50	3.50	3.50	3.75

Economic Indicators	2019	2020	2021F	2022F
GDP	5.0	-2.1	3.5	5.0
CPI (average, y/y %)	3.0	2.0	1.8	2.4
Unemployment rate (%)	5.3	7.1	6.1	5.4
Current account (% of GDP)	-2.7	-0.5	-1.6	-2.0
Fiscal balance (% of GDP)	-2.2	-6.1	-5.5	-4.8

Economy Is Expected To Regain Momentum In 4Q21

Source: Statistics Indonesia, UOB Global Economics & Markets Research



ECONOMY

Economy Is Regaining Momentum Slowly as Restrictions Are Eased Post COVID-19 2nd Wave

After 4 quarters of year-on-year (y/y) contraction, Indonesia managed to post its strongest annual growth rate in more than a decade at 7.07% y/y in 2Q21, underpinned by higher domestic and external demand and low base effects. Private consumption grew 5.9% y/y in 2Q21 vs. 2.2% contraction in 1Q21 as easing of movement restriction and Ramadhan-Eid festivities boosted sentiment. Investment posted a strong rebound, increasing by 7.5% y/y vs. 0.2% drop in the previous quarter, on the back of government's capital expenditure and higher investment in all categories (building, machinery and equipment, vehicle, etc). Moreover, government consumption accelerated 8.1% y/y in 2Q21 vs 1Q21's 2.3% in the light of higher spending in healthcare (for vaccination and testing). Meanwhile, external demand also contributed positively to the economy, as exports rose by 31.8% y/y in 2Q21 vs 7.0% in 1Q21 aided by high commodity prices and economic recovery from Indonesia's key trading partner (mainly China and US among others). Overall, net exports contributed about 1ppt to the GDP growth figure.

Importunely, the Delta variant stroked in July and likely to disrupt the strong consumption recovery momentum and put a significant dent to our 3Q21's GDP growth forecast. Nonetheless, the negative ramifications might not be as bad as initially expected; as the multi-tiered public activity restrictions (PPKM) implemented by the government managed to bring down the 7-day moving average of daily confirmed cases to around 5,000 from the peak of 50,000 2 months prior. Hospital occupancy rates have been decreasing. This is especially true in Jakarta, where more than 90% of the population has received at least a first vaccine dose. To date, 73 million (40%) population is partly vaccinated and 42 million (23%) is fully vaccinated.

Going forward, with vaccination rates being ramped up in key economic areas, Indonesia will once again experience a strong comeback of domestic demand from all expenditure angle. Consumption is expected to recover back slowly as restrictions are eased, notably in 4Q21. Investment, too, should recover at a faster pace, supported by rising FDI and recent government efforts to ease business licensing. Fiscal policy will continue to be expansionary, supported by continued National Economic Recovery (PEN) fund disbursements in the coming months. On the external front, we expect strong export growth to persist, amidst a combination of higher demand from trading partners and higher commodity prices. However, downside risk remains on variant mutation and pace of Fed's normalization. On balance, we are revising our 2021 GDP growth forecast lower to 3.5% from 3.8%.

CENTRAL BANK

BI Might Start Normalizing The Policy Rate Next Year

Bank Indonesia (BI) left its benchmark rate unchanged at an all-time low of 3.50% since Feb'21. BI reiterated that the decision is consistent to support growth while anchoring financial stability. Nonetheless, we view that BI could begin normalizing the policy rate next year during 2H22. Inflation might start to post a cause for a policy rate change, in line with domestic demand recovery. In addition, external factors i.e., the Fed tapering, and at the same time, we expect sizeable current account deficit to re-emerge alongside still-large fiscal deficit, leading to twin deficit challenge ahead. While Indonesia is in a better position compared to 2013 Taper Tantrum, those variables are still required to be balanced by an attractive investment yield differential to maintain Indonesia's external resilience. We expect BI to start the rate normalization in 2H22 by 50bps in each quarter, bringing BI 7D reverse repo to 4.50% at the end of 2022.

CURRENCY

IDR Still Biased Weaker Despite Near Term Resilience

Contrary to our expectation, the IDR was much more resilient in 3Q. To recap, IDR was one of the worst hit Asia FX during the 2013 Taper Tantrum, falling 18% against the USD within six months after the FED began tapering talks then. In the current "taper-talk" phase, not only did the IDR avoided a sell-off spurred by capital flight, the currency has gained 1.8% quarter-to-date against the USD at 14,240. That said, there are still reasons to be cautious about the IDR going forth. These include a slow vaccination drive (80% of population vaccinated to be reached only in 4Q22) casting uncertainty over the economic recovery and a narrowing yield advantage of Indonesia Government Bonds over USTs. A persistent and widening twin deficit also anchors a gradual uptrend in USD/IDR over the medium term. As such, we reiterate our view of a higher USD/IDR but have moderated the trajectory in view of current market developments. The updated point forecasts at 14,600 in 4Q21, 14,700 in1Q22, 14,800 in both 2Q and 3Q22.

JAPAN

FX & Rates	4Q21F	1Q22F	2Q22F	3Q22F
USD/JPY	111	112	113	113
JPY Policy Rate	-0.1	-0.1	-0.1	-0.1

Economic Indicators	2019	2020	2021F	2022F
GDP	0.7	-5.5	2.5	2.2
CPI (average, y/y %)	0.5	0.0	-0.2	1.7
Unemployment Rate (%)	2.4	3.0	2.8	2.6
Current account (% of GDP)	3.6	3.3	3.8	4.0
Fiscal balance (% of GDP)	-2.7	-17.3	-6.0	-4.0

ECONOMY
Economics And Politics

Japan's economic growth came out stronger than expected in the second quarter despite the resurgence of COVID-19 infections and the imposition of the 3rd state of emergency in mid-Apr. Its 2nd preliminary estimate of 2Q 2021 GDP grew by 1.9% q/q SAAR, (topping Bloomberg Est +1.6%, and up from prelim Est of 1.3%) but the 1Q decline was revised lower to -4.2% (from -3.7% previously). Growth revision was led by business spending (2.3 % q/q from prelim Est 1.7%) and government private consumption (1.3% q/q from prelim Est 0.5%) although the negative impact of private inventories was revised lower (to -0.3ppt from prelim Est -0.2ppt) which weighed on the 2Q rebound.

External demand continued to contract on a net basis in 2Q, subtracting 0.3ppt from headline GDP growth (unchanged from the prelim estimate). The exports of goods and services grew by 2.8% q/q, 26.2% y/y in 2Q, a good expansion helped by strong demand from China and the US, but would probably have been stronger if it was not held back by global semiconductor chips shortage which inevitably curbed the expansion of key Japanese exports like cars. At the same time, imports also rose by 5.0% q/q, 5.1% y/y in 2Q.

The latest August trade data continued to show exports (26.2% y/y) growing at double-digit pace for 6 straight months. Overall, robust external demand has helped anchor Japan's export-oriented manufacturing activity although the on-going global chip shortage may continue to hold back the sector from its full capacity (as reflected by Japan's lagging manufacturing PMI versus other developed economies) while emerging signs of stalling growth and COVID-19 related disruptions in China are also increasingly areas of concern.

The resurgence of COVID-19 infections and the negative impact on domestic demand is the immediate downside risk for Japan (although infection numbers seemed to have peaked) while the positive factor is the ongoing manufacturing recovery, amidst the acceleration of the vaccine rollout but services remained weak.

Overall, **we expect Japan to continue its growth trajectory in 2H (3.0% q/q SAAR in 3Q and 3.2% in 4Q) and we maintain our full-year GDP growth at 2.5% in 2021 (but risks are towards downside)**, compared to the 4.7% contraction in 2020. Growth is thereafter expected to ease further to 2.2% in 2022.

Looking ahead, attention will be on domestic political developments after the surprise announcement by PM Suga to step down, putting the spotlight on Japan's new leadership with the ruling LDP's 29 Sep Party Elections in focus. The new PM may potentially inject more fiscal stimulus to help the economy tide over the new waves of COVID-19 infections, ahead of the general election that needs to take place on or before 28 Nov (2021).

In sharp contrast to its G7 peers who have seen sharp increases in inflation, Japan's consumer prices continued to deflate in Jul, for the 12th consecutive month with headline CPI declining by -0.3% in Jul (from -0.5% in Jun) and core CPI (excluding fresh food) down by a lesser -0.2% y/y (from -0.5% in Jun). The decline in prices was partly due to a change in the base year for the CPI that now gives a heavier weighting to mobile charge fees, which have fallen materially in recent months, but even without the impact from lower mobile phone fees, inflation was bordering close to 0%, nowhere nearthe Bank of Japan's (BOJ) 2% inflation objective.

CENTRAL BANK
Hanging On Till 2023

Our monetary policy outlook for Japan is unchanged as the even weaker inflation outlook (post CPI rebase) reinforced our view that the BOJ will not be tightening anytime soon and will maintain its massive stimulus over the next few years, possibly at least until FY2023, given that BOJ Governor Kuroda sees inflation back to 2% target but not before 2023. And even though Kuroda recently said (15 Sep) that BOJ will further relax monetary policy such as by reducing interest rates, if needed, we do not see the central bank having any appetite to stomach deeper negative rates due to its consequential impact to the Japanese banking system. At the same time, markets are convinced that the BOJ has reached the end of the line on normalization and will remain in a holding pattern on policy until at least April 2023 when Governor Kuroda is scheduled to leave the BOJ. Attention for the BOJ will now likely shift to dealing with the long-term climate change issues as the central bank starts operationalizing the key measures for its green strategy.

CURRENCY
JPY Expected To Weaken Against USD

Compared to the other Major FX, USD/JPY struggled to find direction and traded within a narrow 108.72 – 111.64 range throughout 3Q21, tracking the consolidative pattern in the US 10-year Treasury yield. The currency pair's correlation to the latter has rose to the highest in a year. Also, the surprise step-down of PM Suga in early September had little spillover into the currency markets, with USD/JPY's implied volatility falling to the lowest since last February.

Going forward, with the BOJ sticking to its ultra-easy monetary policy, higher UST yields and broad USD strength, we keep to our view of a higher USD/JPY. Our updated USD/JPY forecasts are 111 in 4Q21, 112 in 1Q22, and 113 in both 2Q and 3Q22.

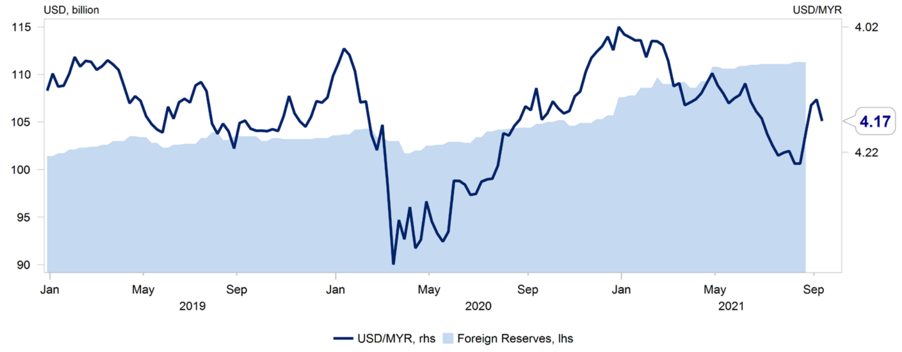
MALAYSIA

FX & Rates	4Q21F	1Q22F	2Q22F	3Q22F
USD/MYR	4.20	4.23	4.26	4.29
MYR O/N Policy Rate	1.75	1.75	1.75	2.00

Economic Indicators	2019	2020	2021F	2022F
GDP	4.4	-5.6	4.0	5.5
CPI (average, y/y %)	0.7	-1.2	2.5	2.5
Unemployment rate (%)	3.3	4.8	4.5	4.0
Current account (% of GDP)	3.5	4.2	3.5	2.0
Fiscal balance (% of GDP)	-3.4	-6.2	-7.0	-6.5

MYR Weakness Capped

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY
Better 4Q21 And 2022

After a strong double-digit growth of 16.1% y/y in 2Q, we expect GDP to revert down again in 3Q amid renewed lockdown measures in Jun-Aug due to elevated new infections. Key economic regions in the country were placed under a stricter restriction order in July which allowed only essential sectors to operate with a 60% limit on operating capacity.

However, as vaccinations progress towards 100% of adult population and the government prepares to transition into an endemic phase, we expect more sectors to reopen under new COVID-19 norms. Most economic sectors are now allowed to operate with capacity levels corresponding to vaccination rates of employees with the objective of encouraging all employees to be vaccinated. Social activities are also gradually resuming. This should support a pick-up in economic momentum by 4Q and 2022. We project full-year GDP to expand 4.0% in 2021 and 5.5% in 2022.

Domestic political risks have abated with a new Prime Minister appointed (on 20 Aug) following resignation of the previous PM and cabinet. A Memorandum of Understanding (MOU) on bipartisan cooperation was signed between the government and Pakatan Harapan (PH) opposition leaders that paves the way for bipartisan agreement on political stability, key reforms, and the upcoming budget that will be tabled on 29 Oct. It was agreed that parliament would not be dissolved and elections held before 31 July 2022.

CENTRAL BANK
Rates On Hold

Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) on hold at 1.75% for the seventh straight meeting in Sep. BNM stayed neutral and balanced. The central bank sounded caution on the emergence of COVID-19 variants of concern and the potential risks of heightened volatility as major economies embark on monetary policy normalisation. On the domestic economy, there was optimism that further easing of containment measures, vaccination progress, and higher global demand will support the recovery and growth.

The absence of heightened inflation pressures and domestic financial risks (e.g. muted property prices) infers no urgency for BNM to normalise rates at this juncture. We expect BNM to keep rates status quo until mid-2021, before a 25bps hike in 2H 2022.

Despite higher input cost pressures, consumer inflation slowed for the third month to 2.2% y/y in Jul. The extension of government relief measures particularly electricity bill discounts and the impact of prolonged lockdown on non-essential demand has kept a lid on price pressures. High unemployment rate and continued spare capacity is expected to keep demand pressures in-check. We project headline inflation to average 2.5% in 2021-22. Key to watch is whether the government maintains utility discounts and price ceiling on domestic fuel prices in 2022.

CURRENCY
MYR Weakness Capped

The MYR staged a strong rebound from the recent low of 4.2450 against the USD in the second half of Aug. The magnitude of gains was above trend reflecting US FED assurances of continued monetary policy support, stable crude oil, abating domestic political risks, and improved outlook for Malaysia amid higher in-country vaccination rates.

Malaysia's overall foreign portfolio flows rose by MYR7.7bn in Aug, which more than offset declines in the two preceding months. Trade and current account surplus remains healthy. The current account surplus totalled MYR26.7bn or 3.6% of GDP in 1H21 (vs. MYR16.5bn or 2.5% in 1H20). Foreign reserves hit USD116.3bn as at end-Aug, marking the highest level of reserves in nearly 7 years. The higher reserves reflect an additional allocation of Special Drawing Rights (SDRs) to Malaysia by the IMF. Malaysia was allocated SDR3.5bn, equivalent to USD5bn.

A potential risk for MYR is the country's relatively higher fiscal deficit and public debt levels. However, the credibility of the country's public finances was affirmed by international rating agencies and FTSE when they retained Malaysia's government bonds in its WGB index. Looking beyond the pandemic, rating agencies reiterated the country's medium-term growth potential and underlying fundamentals. The government has also made efforts to improve budget transparency, governance, and committed in pursuing fiscal consolidation measures including strategies to improve tax revenue.

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

PHILIPPINES

FX & Rates	4Q21F	1Q22F	2Q22F	3Q22F
USD/PHP	51.00	51.50	52.00	52.00
PHP O/N Reverse Repo	2.00	2.00	2.00	2.25

Economic Indicators	2019	2020	2021F	2022F
GDP	6.1	-9.6	5.5	6.5
CPI (average, y/y %)	2.5	2.6	4.5	3.5
Unemployment rate (%)	5.1	10.4	7.8	6.0
Current account (% of GDP)	-0.8	3.6	0.5	-1.0
Fiscal balance (% of GDP)	-3.4	-7.6	-9.3	-7.5

ECONOMY
Bracing For A Setback

Despite 2Q21 GDP growth hitting the strongest level since 4Q88 at 11.8% y/y (1Q21: -3.9% y/y), the Philippines is expected to face an economic setback in 3Q21 as the resurging COVID-19 cases had forced the government to further extend stricter containment measures in the Manila capital region until 7 Sep. The mobility restrictions in Metro Manila, which is home to some 13 million people or about one-tenth of the country's population and accounts for about a third of the national economy, were then relaxed and switched to targeted curbs from 8 Sep until the end of Sep.

With the emergence of new COVID-19 variants, the slow pace of vaccination roll-out in the country might further delay the plan for a safe full re-opening of the economy in 2H21. As of 19 Sep, nearly 17.2% of population or 18.6 million Filipinos have been fully vaccinated against COVID-19, with about 53 million vaccine doses received. The year-to-date vaccination rate is still far short of the government target of inoculating 70 million Filipinos or 100% of adult population by end-2021. The government expects an additional 142 million doses of vaccine to be delivered in the remaining months of 2021, which are more than enough to vaccinate the entire adult population by then.

Externally, there are growing concerns about a softer-than-expected global growth recovery and potential risks of heightened financial market volatility amid adjustments in monetary policy in major economies. This could undermine business sentiment, external trade, and investment flows, and subsequently further delaying a stronger domestic economic recovery into 2022. We maintain our 2021 full-year GDP growth forecast for the Philippines at 5.5% (official forecast: 4.0%-5.0%; 2020: -9.6%), backed by continued policy support, a persistent expansion in global demand, and favourable base effects.

Owing to the prolonged COVID-19 lockdown associated with new variants of concern, we now see the Philippine economy fully recovering from the impact of the pandemic late next year (4Q22), at the earliest. The expected long-term scarring effects of the pandemic will lead to structural changes in the nation's economy post pandemic, undermining the strength of the economic revival in the short term. With next year's presidential election (on 9 May) adding to uncertainties, we reiterate our 6.5% real GDP growth projection for 2022, against the government's forecast of 7.0%-9.0%.

CENTRAL BANK
Accommodative Policy Until Signs Of Full Recovery

Given that a full recovery remains distant, the near-term growth outlook is still subjected to uncertainties, and with inflation rate staying high, we believe that Bangko Sentral ng Pilipinas (BSP) will continue to hold its policy rate unchanged at 2.00% until mid-2022. Health and fiscal policy interventions including the vaccination roll-out are key tools for upholding growth momentum and averting long-term scarring effects. BSP Governor Benjamin Diokno has also reiterated that the central bank would keep monetary policy stance accommodative until there is hard evidence of full recovery from the pandemic-induced recession, and is mindful that unwinding policy support prematurely will be costly.

Aug's inflation outturn, which reverted to a 2½-year high of 4.9% (Jul: 4.0%), alongside firmer global commodity prices, persistent broad USD strength and global supply chain bottlenecks, as well as bad weather suggest that it may be too early to expect the abatement of cost and price pressures. Hence, we had in early Sep tweaked our 2021 full-year inflation forecast higher to 4.5% (from 4.0% previously; 2020: 2.6%).

While the possibility of a prolonged African swine fever (ASF) outbreak in the Philippines could keep prices elevated until 2022, the continued implementation of direct non-monetary measures and reforms to address directly supply-side pressures on key food items, as well as a moderate labour market recovery will help cap any drastic hike in consumer prices going into next year. 2021's high base effects should also underpin a gradual normalisation in the inflation rate back into BSP's 2.0%-4.0% target range next year. We project the Philippines' inflation to average 3.5% in 2022.

CURRENCY
Peso Could Still Weaken

Both external and local forces suggest that the Philippine Peso (PHP) remains exposed to downside risks over the next 6-12 months. Global investors are expected to rebalance their portfolio, particularly towards USD-denominated assets, in tandem with the global monetary policy normalisation pace in the near term.

Domestically, expectations of a return of twin deficits in 2022 and uncertainty surrounding the forthcoming presidential election in May 2022 are expected to heighten risk aversion, undermining the near-term performance of PHP. Thus, we continue to expect a weakening bias for the PHP well into 2022, but at a more moderate pace than previously forecasted. This comes as other economic fundamentals (i.e. sound banking system, ample foreign reserves, medium-term growth prospects) remain solid. We update our USD/PHP forecasts at 51.0 in 4Q21, 51.5 in 1Q22, and 52.0 in both 2Q22 and 3Q22 (vs. previous projected range of 51.5-52.5).

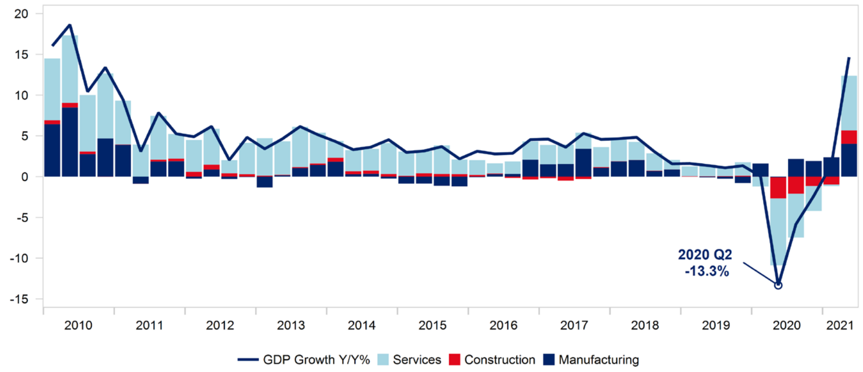
SINGAPORE

FX & Rates	4Q21F	1Q22F	2Q22F	3Q22F
USD/SGD	1.36	1.37	1.38	1.39
SGD 3M SIBOR	0.40	0.40	0.50	0.55

Economic Indicators	2019	2020	2021F	2022F
GDP	1.3	-5.4	6.5	3.5
CPI (average, y/y %)	0.6	-0.2	1.8	1.5
Unemployment Rate (%)	2.3	3.0	2.6	2.3
Current account (% of GDP)	14.3	17.6	17.0	17.7
Fiscal balance (% of GDP)	-0.2	-13.9	-2.2	0.4

Singapore's Economy Is On Track To Recover In 2021

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY
Living With An Endemic COVID-19

Singapore's encouraging economic backdrop seen year-to-date is largely a function of a recovering export environment, and the high vaccination rate seen. As of 15 September 2021, Singapore has fully vaccinated 82% of its population, making it one of the world's most vaccinated economies.

Incoming economic data has been heartening - Singapore's 2Q21 GDP expanded by 14.7% y/y (-1.8% q/q sa), surpassing the MTI's advance estimates of 14.3% y/y (-2.0% q/q sa). The key reason for the better-than-expected performance has been the stronger growth seen in both Services and Construction clusters. Both clusters outperformed the advance estimates, with the former strengthening to 10.3% y/y (from advance estimate of 9.8% y/y) while the latter accelerated to 106.2% y/y (from advance estimate of 98.8% y/y).

High-frequency numbers such as non-oil domestic exports (NODX), industrial production (IP) and purchasing managers' index (PMI), have all pointed at a resilient recovery for the Singapore economy in 2H21. Specifically, NODX rose 2.7% y/y (-3.6% m/m sa) in August 2021, marking its ninth straight month of expansion, while IP surged 16.3% y/y in July, its ninth consecutive positive reading. the manufacturing PMI continue to print above its expansionary 50.0 handle for the 14th straight month, as producers stay optimistic over Singapore's export momentum.

Following the strong GDP performance in 1H21, MTI has revised its full-year 2021 GDP growth expectation higher to a range of 6.0% - 7.0%, from its previous range of 4.0% and 6.0%. MTI's growth upgrade is also in line with our GDP outlook to expand 6.5% in 2021.

Despite the improving economic backdrop, Singapore's labour market has taken a hit from the tightened COVID-19 restrictions with retrenchment rising slightly in 2Q21. Employment declined in sectors including the food & beverage services, retail trade, and tourism-related arts, entertainment, recreation and accommodation. Overall, the seasonally-adjusted unemployment rate rose for the first time after seeing 8 straight months of improvement to 2.8% in July 2021. We maintain our view for unemployment rate at 2.6% at end-2021, in view of the strong vaccination rate and the relaxation of social restriction measures seen to-date.

On the inflation front, we keep to our view that inflationary pressures should stay transitory for the remaining part of 2021. Core inflation rose 0.6% in the first eight months of 2021, well below Singapore's average of 1.5% for the period of 2010 to 2019. Headline inflation was also manageable at 2.4% y/y in August 2021, with year-to-date inflation at 1.8% (close to the average of 1.7% for the period of 2010 to 2019).

Official estimates for headline inflation are maintained at 1.0% and 2.0% range, while core inflation is expected at 0.0% and 1.0% range for 2021. This suggests that inflation risks are expected to be benign for the remaining part of this year. As such, we expect to see an average headline inflation and core inflation rate of 1.8% and 1.0% respectively for 2021.

CENTRAL BANK
Policy Considerations Amid Heightened COVID-19 Risks

The Monetary Authority of Singapore (MAS) is expected to release its monetary policy statement between 7 and 14 October 2021. Notwithstanding the rosier economic outlook since the start of the year, we believe that COVID-19 risks may keep policymakers cautious. As such, we expect that the MAS will keep policy parameters unchanged in October. For more details, please read our MAS Preview Report in this quarterly report.

CURRENCY
Further Weakness In SGD On The Cards

Even amidst a worsening surge in domestic virus infections, the SGD remains largely stable in a 1.34 – 1.37 range against the USD across the 3Q. Similarly, the Singapore Dollar Nominal Effective Exchange Rate (S$NEER) has been hovering around its mid-point in the same period. In the upcoming meeting in October, we expect the MAS to keep its monetary policy setting unchanged. Taking cues from a broad USD recovery, we continue to expect a higher USD/SGD, with point forecasts updated at 1.36 in 4Q21, 1.37 in 1Q22, 1.38 in 2Q22 and 1.39 in 3Q22.

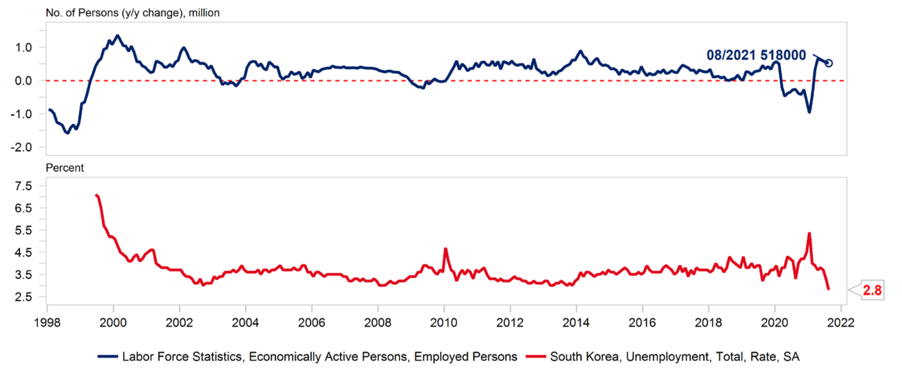
SOUTH KOREA

FX & Rates	4Q21F	1Q22F	2Q22F	3Q22F
USD/KRW	1,200	1,200	1,220	1,250
KRW Base Rate	1.00	1.25	1.25	1.25

Economic Indicators	2019	2020	2021F	2022F
GDP	2.2	-0.9	4.0	3.0
CPI (average, y/y %)	0.4	0.5	2.1	1.5
Unemployment rate (%)	3.7	4.5	3.6	3.8
Current account (% of GDP)	3.6	4.6	5.2	4.7
Fiscal balance (% of GDP)	-2.8	-5.8	-4.5	-3.0

South Korea: Labour Market Added Jobs For The 6th Consecutive Month In Aug

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY
Recovery Outlook Remains Positive

South Korea's economy continued to recover in 2Q21, expanding for the fourth straight quarter by 0.8% q/q compared to 1.7% in 1Q21. The noticeable pick-up in private consumption in the quarter pointed to further broadening out of the economic growth drivers but it should also be noted this was before the spike in COVID-19 infections in early July.

The ongoing fourth wave of COVID-19 outbreak is by far the most serious in the country. Despite the high number of cases, the government is prepared to soon ease social restrictions to limit the impact on the economy. The country has achieved its target to vaccinate 70% of its population with their first shot but only 43% of the population are fully vaccinated as of mid-September.

While consumer sentiment has taken a hit from the pandemic (as evident from the pullback in consumer confidence index), external demand and investment are expected to continue anchoring growth. Importantly, the jobs market is forecast to stay resilient and the expansion in vaccination will support service demand recovery in 4Q21.

Total employment rose (year-on-year basis) for the sixth consecutive month in August. However, the sharp improvement in the unemployment rate to a record-low of 2.8% in August from 3.3% in July is unlikely to be sustained as this was due to the reduction in the participation rate. The government's second supplementary budget this year at KRW 34.9 trillion providing direct cash handouts to most of its population, will also cushion the pandemic impact.

The outlook for South Korea's economic recovery remains positive despite persistent risks from domestic COVID-19 infections and growth slowdown in its largest export market – China. South Korea's GDP grew 4.0% y/y in 1H21 and this growth pace is likely to be sustained in 2H21. We expect GDP growth of 4.2% y/y in 3Q21 and 4.1% y/y in 4Q21, with full-year growth at 4.0%.

Headline inflation continued to stay above Bank of Korea's (BoK) 2% target in August at 2.6% y/y. Indicating that demand-side pressure was also picking up despite the surge in domestic COVID-19 infections, core inflation (excluding agricultural products & oils) continued to rise to a 4-year high of 1.8% y/y in August from 1.7% y/y in July.

In Jan-Aug, headline and core inflation averaged 2.0% y/y and 1.3% y/y respectively. A relatively low comparison base in the coming months as well as elevated commodity prices will keep headline inflation running above the BoK's target for the rest of the year and is only expected to come off in 1Q22. We expect inflation to average 2.1% in 2021 and then moderate to 1.5% in 2022.

CENTRAL BANK
BoK May Hike A Second Time In November

The central bank has flagged some demand-side price pressure when it raised interest rate in August but mentioned it is unclear if this will become persistent. Having said that, higher asset prices and rapid increase in household debt rather than CPI inflation risks were the key drivers for rate normalisation.

There is scope for further rate increases as the current interest rate is still below neutral level but the pace of increase will be gradual. We maintain our forecast for the BoK to pause in October before delivering another 25 bps rate hike in November (the last meeting for 2021) to bring the benchmark base rate to 1.00%. Thereafter, we expect a further 25 bps increase in 1Q22 to bring the rate to pre-COVID level of 1.25%. High growth in household loans and property prices will keep BoK's focus on prevention of financial imbalances as long as its economy stays on the path of recovery.

CURRENCY
Key Level of 1,200 In USD/KRW Comes Into Focus

The KRW was one of the worst performing Asia FX in the 3Q as it dropped over 4% against the USD to 1,187. Against a worsening outlook, global funds dumped record amounts of key Korean chipmakers in August, prompting weakness in the stock market and the KRW. The persistent high COVID-19 caseloads also added to the woes of the won.

While momentum points to further weakness in the KRW, a second rate hike in November may help to stabilise sentiments on the currency. As such, we expect near term KRW weakness to be checked at 1,200 /USD across 4Q21 – 1Q22. After which, as the Fed normalisation plans come back into focus, USD/KRW is expected to resume its upward trajectory and is forecasted at 1,220 in 2Q22 and 1,250 in 3Q22.

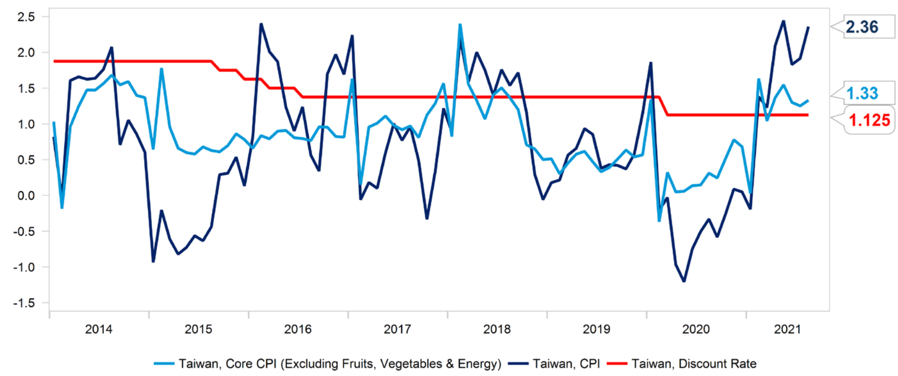
TAIWAN

FX & Rates	4Q21F	1Q22F	2Q22F	3Q22F
USD/TWD	28.0	28.2	28.4	28.6
TWD Official Discount Rate	1.13	1.13	1.13	1.25

Economic Indicators	2019	2020	2021F	2022F
GDP	3.0	3.1	5.9	3.6
CPI (average, y/y %)	0.6	-0.2	1.8	1.5
Unemployment Rate (%)	3.7	3.8	3.8	3.6
Current account (% of GDP)	10.6	14.2	14.7	13.0
Fiscal balance (% of GDP)	0.1	-0.7	-1.5	-0.5

Taiwan: Inflation Boosted By Low Base And Higher Food & Commodity Prices

Source: Macrobond, UOB Global Economics & Markets Research



ECONOMY
Fiscal Support An Added Boost To Consumption In 2H21

Strong expansion in Taiwan's exports and capital investments had cushioned the economy in 2Q21 as private consumption slipped back into contraction due to the mid-May's local COVID-19 outbreak. Overall, real GDP growth moderated to 7.43% y/y in 2Q21 from more than a decade high growth rate of 9.27% y/y in 1Q21.

By late-July, with the local outbreak brought under control, Taiwan has lowered its COVID-19 alert level and began lifting social restrictions. As a result, the jobs market bounced back with 63,000 increase in employment in July which partly offset 223,000 losses in May-June. However, Taiwan's relatively low vaccination rate will see the government guarding against potential virus resurgence and thus measures may continue to be tightened from time to time if cases pick up due to the more contagious Delta variant. This remains the key risk to the economic outlook.

As of end-August, Taiwan has vaccinated 42% of its population with at least one dose of the vaccine but less than 5% are fully vaccinated. To confront the shortage of COVID-19 vaccines, Taiwan has begun to roll out locally produced Medigen vaccine. The target is to vaccinate 70% of the population with at least one dose by end-October and raise the fully vaccinated rate to around 30% by then.

Domestic demand recovery is likely to remain weak in the meantime. Taiwan will be repeating its consumption vouchers programme in October, the size of which will be larger than the first Triple Stimulus Vouchers (July 2020) at NT$5,000 per eligible person compared to previous NT$3,000 worth of vouchers in exchange for NT$1,000. Secondary voucher programs targeted at economic sectors hardest hit by the COVID-19 pandemic will also run concurrently. The programmes are estimated to boost consumer spending by NT$200 billion, double from first round's NT$100 billion.

We maintain our GDP growth forecast for Taiwan at 5.9% for 2021 which embeds a moderating growth trajectory for 3Q21 to 3.6% y/y and 4Q21 to 3.3% y/y, mainly due to the high base of comparison in 2H20. We will also be upgrading our forecast for 2022 GDP growth to 3.6% from 3.0%, taking into consideration of the sustained strength in external demand and investment related to the semiconductor industry and a stronger recovery in domestic demand next year.

In Jan-Aug, Taiwan recorded headline and core CPI of 1.64%y/y and 1.18% y/y respectively. The acceleration in inflation was mainly due to higher raw material prices and freight costs as well as the impact of adverse weather on food prices. The low base of comparison further compounded the rise in inflation rate. We maintain our forecast for the headline CPI to stay above 2.0% for the rest of the year, bringing full-year inflation to 1.8%.

Meanwhile, monetary aggregate M2 growth has moderated to 8.7% y/y in July from 9.2% in the two preceding months as bank loans and investments slowed but still remained above the central bank's reference range of 2.5%-6.5%.

CENTRAL BANK
Staying Put

The Central Bank of the Republic of China's (Taiwan) sees higher near-term inflation as transitory while targeted macroprudential measures remain the preferred tools to regulate the real estate market without having to resort to the broader monetary policy. The CBC has tightened its selective credit control measures (loan-to-value caps) in Dec 2020 and Mar 2021 to contain gains in property prices. This was followed by the tightening of property capital gains tax rules in July and further regulations to cool the real estate market at the September monetary policy meeting. Considering the uncertainty of the pandemic and low vaccination coverage we maintain our forecast for the discount rate at 1.125% through 1H22.

CURRENCY
TWD To Lose Its Shine

In the last quarterly report published in June, we opined that the domestic virus resurgence across May-June was not a game changer for TWD. Indeed, the TWD only weakened modestly to 28.15 /USD in early July and as soon as the COVID-19 cases started to flat line, the TWD appreciated anew towards 27.60 /USD. At the same time, as growth normalises lower next year, part of the TWD's outperformance may start to fade. In addition, the broad USD strength is also expected to gain traction as the Fed embarks on tapering and rate hikes come into sharper focus. Overall, we reiterate a modestly higher trajectory in USD/TWD and update the point forecasts at 28.0 in 4Q21, 28.2 in 1Q22, 28.4 in 2Q22 and 28.6 in 3Q22.

THAILAND

FX & Rates	4Q21F	1Q22F	2Q22F	3Q22F
USD/THB	33.80	34.10	34.40	34.70
THB 1D Repo	0.50	0.50	0.50	0.50

Economic Indicators	2019	2020	2021F	2022F
GDP	2.4	-6.1	0.7	3.5
CPI (average, y/y %)	0.7	-0.8	1.0	1.2
Unemployment rate (%)	1.0	1.9	1.5	1.3
Current account (% of GDP)	7.0	3.7	-1.9	1.8
Fiscal balance (% of GDP)	-1.9	-5.2	-4.9	-4.0

ECONOMY
COVID-19 Risks Continue To Weigh

Thailand remains to be one of Asia's most affected economies from the COVID-19 pandemic. Renewed COVID-19 risks remain to be the key drag to economic performance, considering the negative impact it could have on Thailand's tourism, labour and domestic consumption. As such, the economic recovery has been uneven as private consumption and tourism-related drivers continued to stay lacklustre.

Disconcertingly, Thailand expanded merely 7.5% y/y in 2Q21, at a level insufficient to cushion the contraction of 12.1% y/y in 2Q20. Official GDP growth outlook was downgraded due to COVID-19 risks. Thailand's National Economic and Social Development Council (NESDC) shaded its full-year growth outlook to a range of between 0.7% and 1.2%, from a previous outlook range of between 1.5% and 2.5%, citing "fragile financial conditions" in both households and businesses.

Growth outlook for Thailand in 2021 will depend on three key factors: (1) COVID-19 infection rate and speed of vaccination, (2) tourism demand and (3) global trade backdrop. The third wave of COVID-19 infections which started in April 2021 continued to show little relent, and could discourage private consumption and potentially cap both investment and business confidence. Meanwhile, the continued softness in Thailand's tourism industry could further negative impact economic performance, which would further impact tourism-related industries such as retail, transport, F&B and accommodation. A ray of hope perhaps, may be gleaned from the continued recovery in Thailand's external environment, which has been the best performing cluster year-to-date.

Accounting for how Thailand's economy has performed so far, we keep to our full-year growth outlook of 0.7% in 2021. This suggests that Thailand could see a contraction of 0.6% in 2H21. However, economic prognosis should be more favourable in 2022, assuming that authorities would likely have a better rein on COVID-19 amid a tangible return of tourism demand into Thailand's shores. Should our assumptions come to pass, Thailand could see a GDP expansion of 3.5% in 2022.

On the inflation front, Thailand's consumer prices surprisingly registered a deflation of 0.02% in August 2021. The decline in consumer prices was led by the government's move to cut electricity and water tariffs to alleviate the rising costs of living amid the COVID-19 pandemic. We note that higher consumer prices are expected to return in September if the government does not extend the rebates on utilities, Given the lower-than-expected inflation seen year-to-date, we downgrade our full-year inflation outlook to 1.0% in 2021.

CENTRAL BANK
BOT Likely To Keep Rates Unchanged In 2021

The Bank of Thailand (BOT) kept its one-day repurchase rate unchanged at 0.50% for its tenth consecutive meeting on 4 August 2021. The last time it made a move was in May 2020, when the benchmark rate was cut by 25 bps. Besides keeping its benchmark rate unchanged, BOT had downgraded its full-year GDP growth outlook to 0.7%, from a previous forecast of 1.8%.

The latest monetary policy statement kept its relatively bearish outlook. As written in the policy statement, "the Thai economy in 2021 would be affected by the COVID-19 outbreak more than expected with significant downside risk." Moreover, the labour market is expected to be "more fragile" particularly the services sector and the self-employed. Overall, there are significant "downside risks to the economic outlook" given the "the possibility of the outbreak situation in Thailand and other countries becoming more severe."

Importantly, the decision to keep the benchmark rate unchanged was not unanimous, unlike seen in the last nine central bank meetings, with 2 out of 6 committee members voting for a rate cut. We opine that the absence of a unanimous vote may suggest for a 'louder voice' within the committee to potentially cut its benchmark rate in 2021, especially given the poorer-than-expected economic prognosis year-to-date. While we keep to our base-case view for the benchmark rate to stay pat for 2021, a tail-end risk of a rate cut of 25 bps could occur if Thailand's economic environment worsens in 4Q21.

CURRENCY
Is The Worst For The THB Over?

The THB is the worst performing Asia FX year-to-date, dropping about 11% against the USD. The bulk of the decline occurred after the June FOMC as tapering concerns exacerbated the virus-inflicted damage to the economy. We forecast the Thai economy to grow at 0.7% y/y in 2021, amongst the slowest in the region. That said, THB appears oversold, with its valuations (in REER terms) reverting from overbought to neutral levels for the first time in over five years. By now, a large part of the negatives surrounding the THB is probably priced in. As such, we are guarded to extrapolate further excessive weakness in the THB from current levels. Our updated USD/THB forecasts are at 33.8 in 4Q21, 34.1 in 1Q22, 34.4 in 2Q22 and 34.7 in 3Q22.

VIETNAM

FX & Rates	4Q21F	1Q22F	2Q22F	3Q22F
USD/VND	22,900	23,000	23,100	23,200
VND Refinancing Rate	4.00	4.00	4.00	4.00

Economic Indicators	2019	2020	2021F	2022F
GDP	7.0	2.9	5.0	6.9
CPI (average, y/y %)	2.8	3.2	2.3	4.2
Unemployment Rate (%)	2.2	2.4	2.6	2.4
Current account (% of GDP)	3.9	3.7	1.8	0.7
Fiscal balance (% of GDP)	-3.3	-4.0	-5.2	-4.5

ECONOMY
Adjusting 2021 Headline GDP Forecast

The fourth wave of COVID-19 infections that began across Vietnam in late April has caused significant disruptions to daily lives and business activities as lockdown measures were imposed in a number of major hubs to contain the spread of the virus. In addition to the surge in infections and death cases, the negative impact was reflected in activity data for July-August, which decelerated sharply from the upbeat data in the first half of this year.

Impact of the movement restrictions was apparent in the manufacturing sector as the Markit manufacturing purchasing manager index (PMI) plunged from 53.1 to below the 50-mark in June at 44.1, followed by a further deterioration in subsequent months, to 40.2 in August. This is the worst level since April 2020 when the pandemic first made its spread globally. Along this line, Vietnam's industrial output declined 7.4% y/y in Aug, reversing 5 months of gains to suffer the biggest decline since April 2020 when industrial output contracted a record 10.6%. Disruptions in production and port handling due to various lockdowns also affected international trade, as Vietnam's exports declined 1.7% y/y in August, a reversal of 5 months of increases and the worst decline since May 2020.

Domestically, retail activities were hit hard by the lockdown measures. Total retail trade contracted 33.7% y/y YTD to August compared to the peak of 10% gain in April, as travel services suffered the most with a 97.6% decline YTD. Fortuitously, these are offset by strong foreign direct investment (FDI) inflows. Registered FDI inflows in the first 8 months of 2021 increased by a cumulative US$19.1 billion, almost matching the amount of US$19.5 billion in the same period last year.

The latest data mark a reversal of fortune for Vietnam which had a promising 1H21 that was set to extend the momentum from 2020. Recall that on the back of a 6.61% y/y gain in 2Q21, headline GDP rose 5.64% y/y in 1H21, more than 3 times the 1.82% pace in 1H20. Exports surged by 28.4%y/y in 1H21 while output from industry and construction sector grew 8.36% y/y.

Looking ahead, the COVID-19 pandemic remains a key drag for Vietnam's economic activities largely due to its low vaccination coverage, with less than 7% of the population having 2 doses of vaccines. However, with the relentless ongoing effort by the government, the pace of vaccination has picked up steadily towards the national target of getting 70% of the population aged above 18 to be fully vaccinated by beginning of next year.

In our 3Q21 quarterly report's Asia Focus article ("Recovery Delayed, Not Derailed"), we postulated in the pessimistic scenario then that Vietnam could only expand 5.4% in 2021 against our baseline forecast of 6.7%. Given the downside risks of the pandemic and trajectories of various key data components, we think that Vietnam could even underperform against our pessimistic scenario. As such we are adjusting Vietnam's headline GDP growth forecast to 5.0% in 2021 (from prior forecast of 6.7%), while tweaking our headline projection to 6.9% (from 6.8%) for 2022. This implies that 3Q21 GDP will decelerate to 3.2% y/y from 6.6% in 2Q21, before catching up to 5.5% in 4Q21, to average 4.4% in 2H21 (1H21: 5.64% y/y).

Sharing his views on Vietnam's outlook, Mr. Harry Loh, Country CEO of UOB Vietnam, said, "While the fourth wave of COVID-19 infections derailed the strong growth momentum registered by Vietnam in the first four months of 2021, there is resilience among the people and strong cooperation with the government in responding swiftly to the pandemic. Companies have also adapted nimbly, embracing digitalisation and technology in their business models and practices, which has helped to accelerate the nation's Industry 4.0 ambition. Similar to what we see in other markets, we expect the economy to rebound strongly when it reopens up with the gradual easing of travel restrictions and rise in consumer confidence."

CENTRAL BANK
Holding Steady Despite Prospects Of Weak Growth

With the uncertain outlook posed by a new wave of COVID-19 cases, it is likely for the State Bank of Vietnam (SBV) to keep its policy steady for now. As the situation is expected to be managed well eventually just like it had done in 2020, uncertainty remains high due to the relatively low immunization for the population. Both the refinancing rate at 4.0% and rediscounting rate at 2.5% are at record lows.

One factor to watch is Vietnam's inflation rate, which has averaged around 1.7% YTD in 2021 at the headline level despite a high base of 3.2% increase in 2020. While inflation rate remains well below the official target of 4% which suggests room of policy accommodation, the SBV is likely to be keeping a lookout for potential impact of disruptive capital flows as the US Federal Reserve gets underway for its next policy move to "taper" its quantitative easing program.

CURRENCY
A Strong VND Is At Odds With Economic Outlook

VND strengthened modestly against the USD in 3Q from 23,000 /USD at the start of July to 22,760 /USD as at 21-Sep, the strongest levels since mid-2018. This came as Vietnam has reached an agreement with the US Treasury in July to refrain from deliberately weakening the VND to gain an export advantage.

The outlier strength of the VND also comes in a period where most of its Asian peers are retreating against the USD as Fed's upcoming normalization plans spurred a recovery in the USD. More importantly, a strong VND is also increasingly at odds with the uncertain and weak economic outlook inflicted by the virus outbreak. We also see a strong support at 22,700 in USD/VND where further sustained gains of the VND are unlikely. Overall, we reiterate our upward trajectory in the USD/VND and update our forecasts to 22,900 in 4Q21, 23,000 in 1Q22, 23,100 in 2Q22 and 23,200 in 3Q22.

AUSTRALIA

FX & Rates	4Q21F	1Q22F	2Q22F	3Q22F
AUD/USD	0.71	0.70	0.70	0.69
AUD Offical Cash Rate	0.10	0.10	0.10	0.10

Economic Indicators	2019	2020	2021F	2022F
GDP	1.9	-2.3	4.3	3.2
CPI (average, y/y %)	1.6	0.9	2.4	2.0
Unemployment rate (%)	5.2	6.5	5.3	4.4
Current account (% of GDP)	0.7	2.2	3.1	2.0
Fiscal balance (% of GDP)	0.2	-8.0	-7.8	-4.9

ECONOMY
Lockdowns To Impede Growth

The Australian economy rose 0.7% q/q in 2Q21, higher than expectations for 0.4% q/q, but at a slower pace than in 1Q21, when it rose by a revised 1.9% q/q (+1.8% q/q previously). GDP expanded by 9.6% y/y, higher than an estimated 9.1% y/y increase, and a major turnaround from 1Q21's revised reading of 1.3% y/y (+1.1% y/y previously).

But the economic outlook for the coming months is uncertain and depends on how the health situation and the containment measures evolve. Australia is struggling to quell a third wave of COVID-19 infections that has hit its two largest cities – Sydney and Melbourne – as well as its capital, Canberra, forcing nearly half the country's 25 million people into strict restrictions.

Australia's labour market is thus, set to retrace some of its recent gains. As it turns out, seasonally adjusted employment fell by 146,300 in August, following the increase of 3,100 jobs in July. Full-time employment decreased by 68,000 to 8,956,500 people, and part-time employment decreased by 78,200 to 4,066,100 people. The relatively large fall in unemployment, which accounted for around 13% of the 168,000 person fall in the total labour force, saw Australia's jobless rate falling to 4.5%, from 4.6% previously. This, however, reflected a large fall in the participation rate during the lockdowns, rather than a strengthening in labour market conditions. The participation rate slumped to 65.2%, from 66.0% in July.

We expect to see a significant hit to economic activity in 3Q21, where we look for GDP to fall by around 3% q/q, before rebounding in 4Q21, depending on how gradually restrictions are eased, and when vaccination targets are reached. As of 21 September, only about 37% of its eligible population had been fully vaccinated.

Further out, our view is for the economy to play catch up so that the level of GDP is broadly similar to our previous set of forecasts of 4.3% in 2021 and 3.2% in 2022. The containment of COVID-19 will remain important, with renewed lockdowns a downside risk, that could dampen already weak consumer and business sentiment. A prolonged closure of international borders could result in the labor market tightening further.

CENTRAL BANK
RBA Keeps To Cautious Taper Plan

There was considerable speculation surrounding the September meeting, that in view of the deterioration in the economy since the August meeting, the decision to taper Quantitative Easing (QE) purchases would be deferred until November when purchases were scheduled to be reviewed. Instead, the Reserve Bank of Australia (RBA) chose to go ahead with the taper of its weekly bond purchases when the QE2 AUD100bn program expired in the first week of September, while keeping interest rates unchanged.

A program that had stuck with AUD5bn a week of bond purchases but left the expiry date at November could have seen the RBA adding at most AUD60bn. Meanwhile, a slower pace of AUD4bn a week through to February next year would involve at least AUD70bn. Perhaps to the RBA, there was little difference, and even at a pace of AUD4bn per week, this would still be substantial stimulus to the economy.

We think the next QE taper will be in February next year, by which the rebound in the economy will be evident. This will see the total QE program from September at around AUD130bn, with tapering to occur progressively before ending in mid to late 2022.

As for the cash rate target, we still expect that the first rise will occur only in early 2024. Previously, we had considered the risk that it might occur earlier, but with economic activity below its potential for longer, wages and buildup in price pressures are likely to be delayed.

This is the one major difference between Australia and New Zealand. Both central banks consider inflation and employment as key prerequisites. While both countries have seen recoveries in the labour market over the past year, only New Zealand has had wage growth climbing alongside higher core inflation. This is likely due to the larger increase in unemployment in Australia during 2020, compared to a stronger labour market in New Zealand in the years prior to the pandemic. There has also been a sharper rebound in household inflation expectations in New Zealand. Underlying inflation in Australia has remained stubbornly low, as wage growth across many industries remains below average, in contrast to New Zealand.

While Australia's headline CPI measure jumped to 3.8% y/y in 2Q21, looking at the RBA's preferred trimmed mean shows just how tepid underlying inflation is, with the index running at just 1.6% y/y. Wages grew at a disappointing annual rate of 1.7% in 2Q21, a period largely free of lockdown distortions, which remains far from where the RBA's target.

Of note, RBA Governor Phillip Lowe, in his speech on 14 September: Delta, the Economy and Monetary Policy, pushed back against bets on early interest-rate increases, arguing it will take time to drive faster wages growth and reiterating that he does not expect any liftoff before 2024. With rates on hold, the RBA and the Australian Prudential Regulation Authority (APRA) will likely turn to macroprudential policy tools to contain the accumulation of financial stability risks from rising house prices.

CURRENCY
Perfect Storm For AUD

AUD/USD had a tumultuous quarter - falling over 5% to almost 0.71, the lowest since last November, from 0.75 at the start of the July. A surge in coronavirus cases in Australia driven by the Delta variant in summer, its worst since the start of pandemic coincided with a 44% slump in iron ore prices. Also, weighing on the AUD is the standout dovishness of the RBA relative to its G-10 peers.

As such, we keep to our cautious view on AUD/USD and update our forecasts at 0.71 in 4Q21, 0.70 in both 1Q22 and 2Q22, and 0.69 in 3Q22.

EUROZONE

FX & Rates	4Q21F	1Q22F	2Q22F	3Q22F
EUR/USD	1.16	1.15	1.14	1.14
EUR Refinancing Rate	0.00	0.00	0.00	0.00

Economic Indicators	2019	2020	2021F	2022F
GDP	1.5	-6.3	4.9	4.7
CPI (average, y/y %)	1.2	0.3	2.2	1.6
Unemployment Rate (%)	7.6	7.9	8	7.8
Current account (% of GDP)	2.4	2.2	2.5	2.4
Fiscal balance (% of GDP)	-0.6	-7.2	-7.6	-4.1

ECONOMY
Uneven Recovery Ahead

GDP expanded by 2.2% q/q for 2Q21, in the final estimate for the period, faster than the 2.0% q/q pace reported in the second estimate. This follows a -0.3% q/q decline in 1Q21. The Eurozone economy expanded by 14.3% y/y, beating expectations and the second estimate of 13.6% y/y. The y/y decline in 1Q21 was revised to -1.2% y/y from -1.3% y/y in the second estimate.

Employment also had a stronger rebound in 2Q21, growing 0.7%. In 1Q21, employment had decreased by 0.2% in the Euro area. The bounce back in employment has been very strong in recent months as economies reopened, which has been an encouraging sign for the sustainability of the recovery.

The recovery remains uneven, though, as the COVID-19 pandemic continues to pose challenges. New waves of infections have afflicted both advanced and emerging European economies. That said, the vaccination campaign in Europe has now become one of the frontrunners, and the economy is seen returning to the pre-crisis level in the first half of next year. As of 21 September, about 61% of its eligible population had been fully vaccinated.

We think that growth in 3Q21 might match the surprisingly strong number in 2Q21, before gradually starting to decelerate. We have revised our growth forecast for 2021 upwards to 4.9% from 4.4% previously. In comparison, the European Central Bank (ECB) expects GDP to grow by 5.0% (4.6% previously) in 2021 and to remain firm at 4.6% (4.7% previously) in 2022. We also bear in mind that the EUR750bn Recovery Fund will be the focus for some years to come. Close to a dozen EU countries have already received their first tranches of funding in recent weeks.

CENTRAL BANK
Big Decision In December

The ECB continues to provide significant support to the Eurozone economy. In September, the ECB left policy settings unchanged, but opted to tweak its language on the Pandemic Emergency Purchase Programme (PEPP). The announcement prompted a lot of questions as to what a "moderately lower pace" of asset purchases really means, and whether it constitutes to tapering. After all, ECB President Christine Lagarde offered a twist on Margaret Thatcher's famous line that "the lady is not for turning", when she said "The lady isn't tapering", and went on to say that "What we have done today ... unanimously, is to calibrate the pace of our purchases in order to deliver on our goal of favourable financing conditions. We have not discussed what comes next".

The ECB did not put a time stamp, indeed, on this period of lower purchases by saying, for instance, that it applied to the fourth quarter in general or a shorter or longer period. It only guided that net asset purchases under the PEPP program would be lower than in the previous two quarters. This certainly provides flexibility around the length of time they would target lower purchases. On the one hand, the ECB went against expectations by simply tweaking the language while leaving financial markets to continue watching what they are actually doing with weekly purchases. On the other hand, however, it simply reaffirms what the ECB has shifted towards doing, with the pace of bond purchases already diminishing.

Currently the ECB buys EUR80bn worth of bonds every month under the PEPP. The ECB has also kept its Asset Purchase Program (APP), which has a current monthly pace of EUR20bn. But the big decision comes in December, when the ECB will also be introducing its 2024 forecasts. Specifically, details on the PEPP program will be of interest as it approaches its maximum size and as it nears the March 2022 expiry.

The PEPP has an envelope of EUR1.85tn and has utilized around EUR1.34bn of this amount as at the end of August. If we take the end of March 2022 as the cut-off, ending purchases at that point would imply only being able to buy an average weekly amount of EUR17.5bn before the envelope is exhausted.

In this regard, as the ECB takes the run rate of monthly net asset purchases down over time, we can interpret it as a reduction of around EUR10-EUR20bn from previous months, which in turn implies from the current EUR100bn per month to EUR70bn-EUR80bn per month in October and November, and then possibly lower to EUR60bn in December. Further out, we also continue to expect prolonged accommodative monetary policy through a more flexible and larger APP, and that the ECB is unlikely to increase interest rates before 2024.

After all, the ECB sees the current increase in inflation as temporary. Note that the ECB foresees inflation at 2.2% (1.9% previously) in 2021, 1.7% (1.5% previously) in 2022 and 1.5% (1.4% previously) in 2023.

CURRENCY
EUR Still Biased Weaker

EUR/USD endured a rollercoaster selloff from 1.19 in early July to just under 1.17 as at 23-Sep just as the a hawkish FED overshadowed an uptick in European sovereign yields relative to UST yields.

A lift-off in rates by the ECB is not expected until 2024, at least a year later than the FED. Due to the longer term monetary policy divergence, we keep to our bearish view of EUR/USD and update the point forecast to 1.16 in 4Q21, 1.15 in 1Q22, 1.14 in both 2Q and 3Q22. The latest forecasts are about 100-200 pips higher compared to our last review at the start of September. This is in acknowledgement of the stabilization in yield differentials observed in the month.

A risk to the view is clearer evidence of a sustained pick up in Eurozone inflation that would trigger a more decisive monetary policy calibration from the ECB. There is also increasing political risk as the Merkel era ends and Germany will welcome a new chancellor following the federal elections at the end of September. While major change in fiscal stance is not expected, it remains uncertain whether the new Chancellor will follow Angela Merkel's principle of fiscal prudence.

NEW ZEALAND

FX & Rates	4Q21F	1Q22F	2Q22F	3Q22F
NZD/USD	0.70	0.70	0.69	0.68
NZD Offical Cash Rate	0.50	0.75	1.00	1.00

Economic Indicators	2019	2020	2021F	2022F
GDP	3.0	-1.2	5.3	3.2
CPI (average, y/y %)	1.7	1.7	2.7	2.3
Unemployment rate (%)	4.1	4.6	4.6	4.3
Current account (% of GDP)	-3.4	-1.0	-3.4	-3.5
Fiscal balance (% of GDP)	-3.6	-10.6	-5.5	-4.8

ECONOMY
On The Recovery Path

The New Zealand economy grew by 2.8% q/q in 2Q21, following a revised 1.4% q/q increase in 1Q21 (+1.6% q/q previously), exceeding expectations of 1.1% q/q. GDP rose by 17.4% y/y, following a revised 2.9% y/y gain in 1Q21 (+2.4% y/y previously), also way above expectations for growth of 16.1% y/y.

The latest GDP numbers highlight the positive momentum in the New Zealand economy. But that was before the country's recent first COVID-19 case and the introduction of associated restrictions. New Zealand moved into Level 4, the strictest level of restrictions, on 18 August, after the detection of a positive case in the community. The rest of the country moved down to Level 3 on 1 September, and to Level 2 on 8 September. On 20 September, PM Jacinda Ardern announced that Auckland would move out of Level 4 into Level 3, which allow socially distanced services. Ardern also announced harsher fines for those who breach restriction measures.

We thus expect to see a material decline in 3Q21's GDP, although we have revised upwards our GDP forecast to 5.3% for 2021, from 4.9% previously, in response to the stronger-than-expected 2Q21 GDP print. Our forecast for 2022 has been trimmed to 3.2%, from an earlier projection of 3.3%, as border restrictions will likely stay in place next year, and amid a slow vaccine rollout. As of 21 September, only about 33% of its eligible population had been fully vaccinated.

That said, we have been seeing some incredibly encouraging data prints in recent months, signalling a significant improvement in New Zealand's economic outlook, with economic activity back above pre-pandemic levels, and household spending and investments also proving robust.

The unemployment rate fell again to an 18-month low of 4.0% in 2Q21, from a revised 4.6% in 1Q21. Employment rose 1.0% q/q, more than offsetting a small uptick in participation to 70.5% (from 70.4% previously), and leading to a much lower unemployment rate even as the labour force expanded. Private sector, ordinary time wages increased the most in 13 years.

Meanwhile, annual inflation surged to 3.3% y/y in 2Q21, from 1.5% y/y in 1Q21. The spike in prices was well above consensus (+2.7%), and 0.7ppts higher than the Reserve Bank of New Zealand (RBNZ)'s forecast in its May Monetary Policy Statement. The major drivers of the CPI outcome were vegetables prices (+17.3% q/q), gasoline prices (+6.1% q/q) and the purchase of new housing (+4.6%q/q). International air transport cost (-7.6% q/q) fell at a more moderate pace, as more flights to Australia recommenced under the travel bubble.

This is why vaccine deployment, take-up and effectiveness will be crucial drivers to the outlook for the rest of this year and into 2022. One upside factor would be the trans-Tasman travel bubble with Australia, which would boost tourism ahead of a full resumption of international travel. New Zealand suspended quarantine-free travel with Australia for a further eight weeks on 17 September. The suspension was initially due to end on 24 September.

CENTRAL BANK
Rate Hikes To Begin

Last month, the RBNZ delayed raising the OCR, with the accompanying press release stating that the decision was made in the context of the government's imposition of Level 4 COVID restrictions on activity across New Zealand. And in a subsequent virtual press conference, RBNZ Governor Adrian Orr signalled the economy is well placed to handle the lockdown and that "the resumption of government subsidies to assist workers and businesses affected by the lockdown will help the economy to maintain its pace of growth". He also stressed that the RBNZ intends to raise rates as inflationary pressures rise along with the economic recovery.

Indeed, projections in the quarterly Monetary Policy Statement (MPS) reveal the OCR being raised at least once later this year. The forecast OCR was considerably more aggressive further out, reaching 2.14% by the end of the forecast period of September 2024. This is a much more aggressive track than in the May MPS, where the OCR hit 1.78% by mid-2024 (though the OCR was still rising at that point). This OCR outlook is, strictly speaking, only relevant in the circumstance where the COVID-19 outbreak is dealt with successfully and promptly.

We still hold the view that the New Zealand economy no longer requires the extreme monetary stimulus a 0.25% OCR provides. We also think that the recent lockdown should not leave a discernible scar on the economic front. This is why we expect at least a 25bps rate hike by the end of this year. There are two more RBNZ meetings for this year – 6 October and 24 November. Although the RBNZ has previously shown a preference to initiate a rate move at meetings when it also releases a MPS, we think a rate hike in October is very likely.

CURRENCY
Stalemate At 0.70 For NZD/USD

A last minute delay to the well-anticipated OCR rate hike in August brought the NZD/USD to a new year-to-date low of about 0.6809 before rebounding. The quick containment of New Zealand latest outbreak meant that the RBNZ is still on track for a rates lift-off by the end of the year.

Within the G-10 central banks, rate hike expectations for the RBNZ are the most aggressive. The overnight index swaps are pricing the OCR at about 1.50% one year from now, compared to 0.25% currently. It remains to be seen if those high expectations can be met.

Overall, NZD/USD is still likely to be supported at 0.70 in 4Q21 and 1Q22 by the imminent rate hike in 4Q21, the first amongst G-10 central banks. Further out, as the Fed tightening comes into focus, NZD/USD will be gradually guided lower to 0.69 in 2Q22 and 0.68 in 3Q22.

UNITED KINGDOM

FX & Rates	4Q21F	1Q22F	2Q22F	3Q22F
GBP/USD	1.40	1.41	1.42	1.43
GBP Repo Rate	0.10	0.10	0.10	0.10

Economic Indicators	2019	2020	2021F	2022F
GDP	1.5	-9.9	6.7	5.3
CPI (average, y/y %)	1.8	0.9	2.1	2.5
Unemployment rate (%)	3.8	4.4	5.0	4.8
Current account (% of GDP)	-3.1	-2.3	-3.6	-3.7
Fiscal balance (% of GDP)	-2.1	-12.0	-9.4	-4.5

ECONOMY
To Be Hit Harder For Longer By Price Pressures

The UK economy expanded at the slowest pace since the height of the containment measures in January. Monthly GDP rose by just 0.1% in July, below expectations for a gain of 0.5%.

Service sector activity, which accounts for 80% of the economy, recorded no growth overall in July, with the return of music festivals and sport offset by a sharp drop in high street spending and a decline in the legal sector linked to the end of the stamp duty holiday. Rising costs and shortages of raw materials triggered a fall in construction, while manufacturing remained broadly flat as firms struggled to fill staff vacancies in July amid a lack of suitable applicants and a reduced number of EU workers.

The economic outlook is still uncertain and depends critically on the effectiveness of policies to manage the economy while limiting the spread of infections. On 14 September, UK lawmakers outlined the government's fall-winter plan to tackle the COVID-19 pandemic, detailing a series of policies aimed at averting the need for more lockdowns. This comes after British officials gave the green light to offer vaccine boosters to vulnerable people and everyone aged over 50 years old, and was fully vaccinated for more than six months. As of 21 September, over 65% of its eligible population had been fully vaccinated.

But it is inflation trends that will probably steal the limelight in the coming months, as far as economic data is concerned. UK CPI rose sharply in August to 3.2% y/y, the highest rate since March 2012. This compares with a 2.0% y/y increase in July, and above expectations for a 2.9% y/y reading. The increase of 1.2 percentage points in the annual rate of inflation is the largest ever recorded since January 1997. The largest upward contribution to this came from restaurants and hotels, given the low base created by the sales tax cut for the hospitality sector and the government's Eat Out to Help Out scheme. On a monthly basis, CPI increased 0.7% m/m in August, compared with a reading of 0.0% m/m in July.

CENTRAL BANK
Two Dissenting Votes Bring Forward Rate Hike Bets

The Bank of England (BOE)'s Monetary Policy Committee (MPC), at its September meeting, voted by a majority of 7-2 to maintain quantitative easing (QE) at the current pace of GBP895bn. Dave Ramsden joined Michael Saunders, both casting dissenting votes to cut back gilt QE to GBP840bn. All nine members of the MPC voted to make no changes to its Bank Rate of 0.10%.

Back in August, the MPC had said that if "the economy evolves broadly in line with the central projections in the August Monetary Policy Report, some modest tightening of monetary policy over the forecast period is likely to be necessary to be consistent with meeting the inflation target sustainably in the medium term". In the latest statement, the BOE noted that with regards to the "modest tightening" in policy foreseen over their horizon in August, "some developments during the intervening period appear to have strengthened that case, although considerable uncertainties remain".

The September meeting – which was notable for the participation of the MPC's two newest members, Huw Pill who replaced Andy Haldane as chief economist, and Catherine Mann who replaced Gertjan Vlieghe – comes as inflation surged higher and as the labour market appears to be able to cope with the winding down of the furlough scheme.

The BOE warned that inflation will rise above 4% by the end of this year, due to the energy price shock, and that the surge in gas prices are an "upside risk" to its inflation projections in August (when it saw inflation hitting 4% by the end of the year), adding further that inflation could remain above 4% into the second quarter of 2022. Meanwhile, latest data showed the UK had about 5.8% of its workforce on furlough at the start of this month even though that support program is set to expire on 30 September.

That said, how well the jobs market will hold up and whether there will be a potential rise in unemployment later this year remains a major downside risk. This could weigh on underlying wage growth, and ultimately, will be an important factor to determine whether or not inflation stays higher persistently. We also think that with economic growth losing steam and with the uncertain outlook as the spread of the COVID-19 delta variant continues to take a toll, the BOE will not push for immediate action. Instead, it will want to slowly withdraw its emergency monetary policy support, while allowing the recovery to continue.

But the rate hike debate is definitely heating up. We have moved forward our rate hike forecast timing to end-2022 from mid-2023 to reflect a key change in the minutes, that all MPC members "agreed that any future initial tightening of monetary policy should be implemented by an increase in Bank Rate, even if that tightening became appropriate before the end of the existing UK government bond asset purchase programme".

CURRENCY
Maintain Positive Outlook On GBP/USD

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

As such, we reiterate our bullish view in GBP/USD and update our forecasts at 1.40 in 4Q21, 1.41 1Q22, 1.42 in 2Q22 and 1.43 in 3Q22.

UNITED STATES OF AMERICA

FX & Rates	4Q21F	1Q22F	2Q22F	3Q22F
DXY	93.4	93.9	94.4	94.3
US Fed Funds Rate	0.25	0.25	0.25	0.25

Economic Indicators	2019	2020	2021F	2022F
GDP	2.3	-3.4	6.0	3.1
CPI (average, y/y %)	2.3	1.4	4.5	2.0
Unemployment rate (%)	3.7	6.7	4.5	4.0
Current account (% of GDP)	-2.2	-3.1	-2.3	-2.1
Fiscal balance (% of GDP)	-4.6	-18.7	-16.5	-10.0

ECONOMY
Adjusting Expectations

US 2Q 2021 GDP increased by 6.6% q/q SAAR, a slight upward revision from the advance estimate of 6.5%, and accelerating slightly from 6.3% growth in 1Q, but well missing Bloomberg and our forecasts. 2020's GDP decline narrowed slightly to -3.4% (from -3.5% previously).

Growth in 2Q was fuelled by government stimulus, as the US vaccine rollout proceeded at a rapid pace helping the re-opening of many parts of the economy while monetary policy remained very accommodative. But challenges in keeping inventory stocked and bottlenecks in production likely have curbed the pace of growth.

By expenditure, 2Q's growth was again largely attributed to the strength in private consumption, while business spending also contributed, albeit a much smaller share of the overall growth. Several components dragged down the headline GDP growth including residential investments, government's consumption expenditure & investment, private inventories and net exports of goods and services. Savings rate eased markedly to 10.3% in 2Q, nearly halved of the 20.5% rise in 1Q, reflecting buoyant private consumption as the US economy re-opened during 2Q.

While recovery momentum did pick up further in 2Q, the pace was somewhat disappointing perhaps to the loftier expectations from us and the markets. Adding to the uncertain outlook was an increasingly mixed/less promising set of US economic data, a marked slowdown in Aug job creation (which may extend into subsequent months) and a potential delay of the infrastructure bill (implying delayed fiscal spending). Vaccinations rates across US have slowed amidst a pickup in COVID-19 inflections and hospitalisations due to Delta variant (although mortality is lower compared to pre-mass vaccination period, while the hospitalised numbers peaked at nearly 98,000 on 2 Sep and has since eased to about 83,000 on 19 Sep).

US continued its jobs recovery in Aug but at a 7-month low of 235,000 jobs even as jobless rate eased further to 5.2%, lowest since the onset of COVID-19 pandemic (Mar 2020). The rise of Delta variant was blamed for denting US' job recovery pace with employment level still some 5.3 million jobs below the pre-pandemic level (of Feb 2020). Despite the slower job creation projected in the next few months, we still expect jobless rate to fall further to 4.5% by end-2021, as the expiration of COVID-19 jobless benefits may help to push more Americans back into jobs market, lifting participation rates.

While we stay positive about US outlook and continue to rule out a COVID-19 driven recession, the growth trajectory is seen slightly dampened by 1) COVID-19 Delta variant and 2) tapering in the take-up rate of vaccination demand (fully vaccinated rate in US is just 54% of its population while those with at least 1 vaccine shot is at 63%, as of 21 Sep, much lower than many developed economies). We still project US GDP will extend its rebound in 2H, but now at a reduced pace. The US full-year 2021 GDP is now expected to expand slower by 6.0% (from previous estimate of 6.8%), a tad above the Federal Reserve's (FED) recently revised 5.9%. There are plenty of domestic political issues for US lawmakers to address in Sep/Oct (please refer to key events on Page 12), and while there may fireworks and situation of brinkmanship, we still expect the issues to be resolved as the Democrats have control of the Congress and the Presidency. The real political challenge would arise later, if the Republican party manages to regain the majority control of the House and the Senate in 8 Nov 2022 mid-term elections.

CPI inflation stayed elevated at 5.3% y/y in Aug (from Jul's 5.4%), but sequentially, CPI increased at a slower 0.3% m/m (down from 0.5% in Jul). Core CPI (which excludes food and energy) increased at an even slower 0.1% m/m in Aug (from 0.3% in Jul), and compared to a year ago, core inflation eased lower to 4.0% y/y, down from 4.3% in Jul. While most key components within the CPI basket continued to see price gains in Aug, some of the m/m increases were more moderate, especially for key CPI items like food and shelter, as compared to Jul. The energy CPI component was an exception as it saw accelerating m/m increases, which explained why core inflation eased while headline inflation stayed elevated. Main decliners in Aug were the usual suspects (transport services index, health insurance) and pandemic-impacted items (such as used cars & trucks, air fares, and the lodging away from home including hotels and motels index), giving hope the FED's "transitory" inflation argument still holds some truth, at least for Aug.

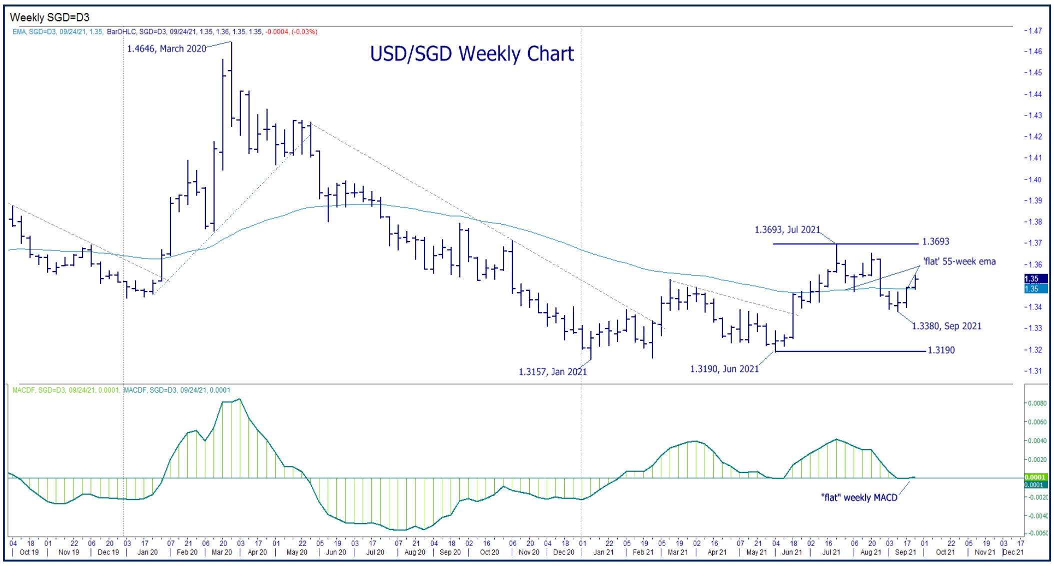
CPI inflation will likely remain elevated in coming months, driven by transport- and energy-related components (as it had been in 2Q and 3Q). And while the upside price pressures related to the US economy's re-opening are starting to ease, the lingering supply chain/logistics bottlenecks may still keep some portions of inflation pressure intact for now before tapering off next year. Going forward, we note that if the items that are expected to exert a more persistent trend to inflation (such as food, shelter and energy) increase at a faster pace, this will lead to a further divergence between headline and core CPI inflation. We expect US headline CPI inflation to average at 4.5% in 2021, before easing to 2.0% in 2022, while core inflation may average 3.5% this year, before easing to 1.6% in 2022.

CENTRAL BANK
Bringing It Forward

The hawkish tilt in FED Chair Powell's Sep FOMC comments, the updated Dotplot and economic projections, all indicate a shift forward to the FED policy timeline. As such, we now expect the QE taper will start at the 2/3 Nov 2021 FOMC (from Dec previously) with a shorter completion timeframe of 8 months by Jul 2022 (from 1.5 years previously). (Starting the taper in Nov will still give the FED enough time to see how US politicians resolve the ongoing US debt ceiling limit standoff.) We expect the first FED policy rate hike in Dec 2022 (from Jun 2023 previously) followed by two more 25bps rate hikes in 2023.

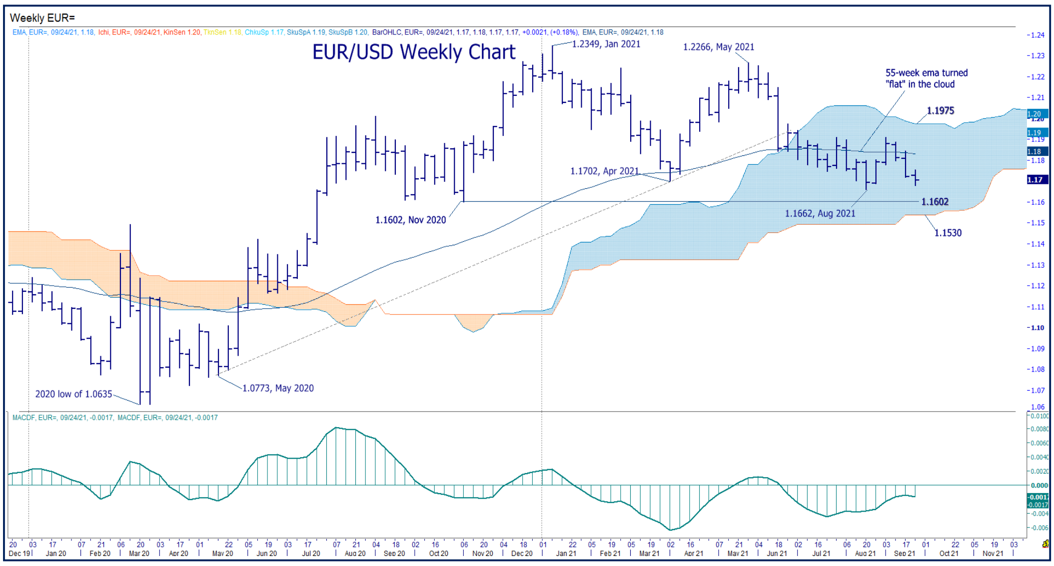
FX Technicals

USD/SGD: 1.3530
Flat momentum suggests that USD/SGD is likely to trade within a 1.3300/1.3700 range in 4Q21.



While USD/SGD dipped below 1.3400 in early September, it rebounded quickly after touching 1.3380. The overall price actions since the July's peak of 1.3693 lacks direction and momentum indicators are mostly "flat". Note that the 55-week exponential moving average has remained around the same level since late June. Weekly MACD are "flat" as well. The movement is deemed as non-directional and USD/SGD could trade sideways within a 1.3300/1.3700 going into the last quarter of 2021.

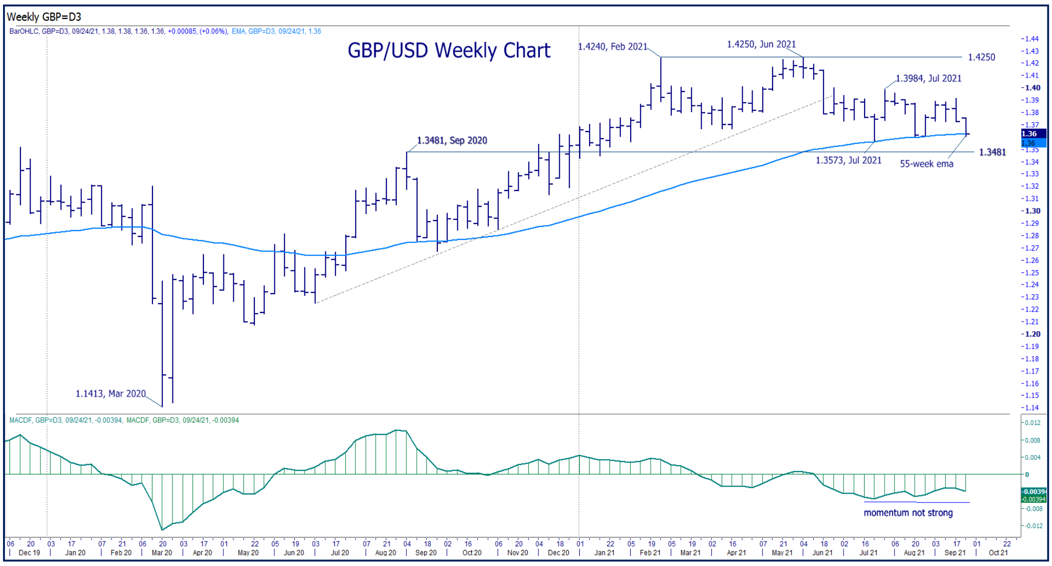
EUR/USD: 1.1700
EUR/USD is likely to stay within the Ichimoku cloud boundaries of 1.1530/1.1975 until late 4Q21.



EUR/USD moved into the Ichimoku cloud in late June and edged to a low of 1.1662 before rebounding. Being in the Ichimoku cloud, the lack of directional price actions is not surprising. Note that the 55-week exponential moving average is "flat". On a shorter-term note, there is a slight downward bias but any weakness is expected to encounter solid support at 1.1602. Overall, EUR/USD is likely stay within the Ichimoku cloud boundaries of 1.1530/1.1975 until late 4Q21.

GBP/USD: 1.3630

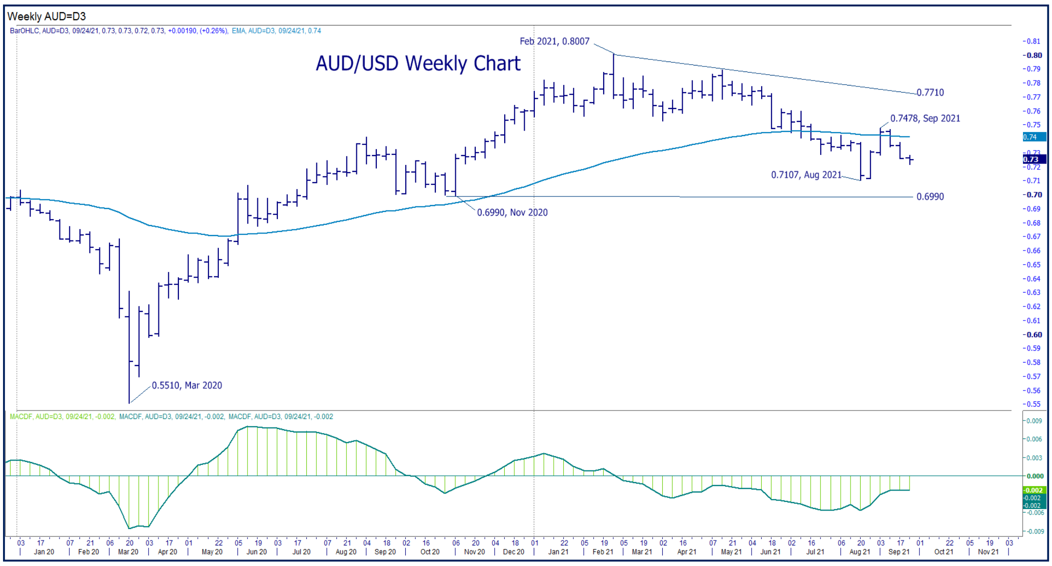
GBP/USD is under mild downward pressure; any decline is expected to encounter solid support at 1.3480.



GBP/USD dropped in late July but bounced off the 55-week exponential moving average. In August, GBP/USD tested the moving average for the second time and rebounded once again. At the time of writing in late September, GBP/USD appears poised to move clearly below the moving average. A clear break of the moving average could lead to a decline in 4Q but downward momentum is not strong and any weakness is expected to encounter solid support near 1.3480. On the upside, a break of 1.3985 would indicate that the current mild downward pressure has eased.

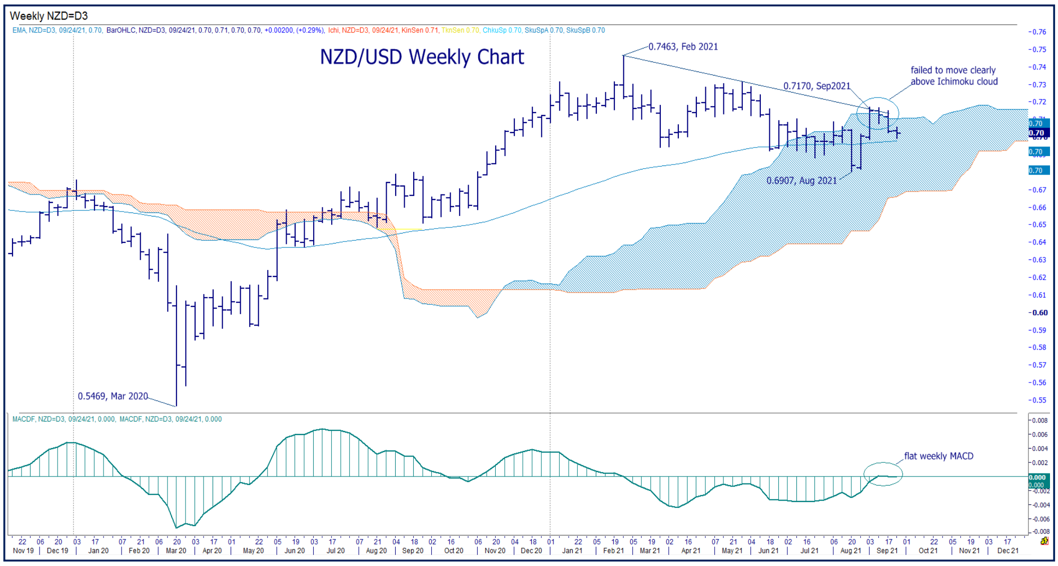
AUD/USD: 0.7230

Bias is on the downside but AUD/USD is unlikely to break the Nov 2020 low of 0.6990.



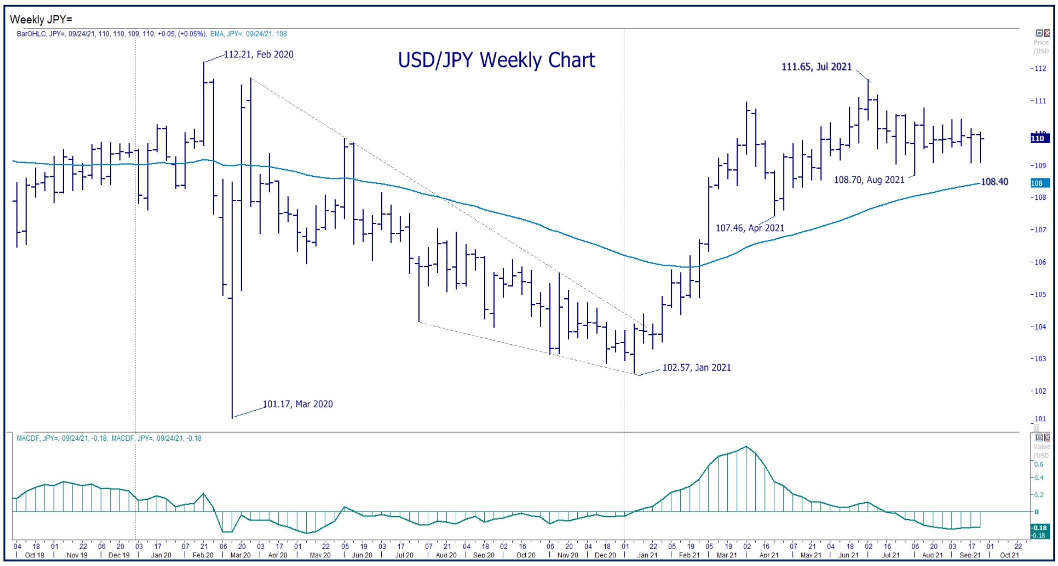
AUD/USD dropped to 0.7107 in August before rebounding to 0.7478 in September. While downward momentum is beginning to wane, it appears too early to expect a sustained recovery. Going into the last quarter of the year, the bias is tilted to the downside but barring a surge in downward momentum, AUD/USD is unlikely to break the November 2020 low of 0.6990. On the upside, if AUD/USD moves above 0.7478, it would indicate that the downward bias has dissipated.

NZD/USD: 0.7000
Outlook is mixed; NZD/USD is likely to trade between 0.6907 and 0.7170 for a period of time.



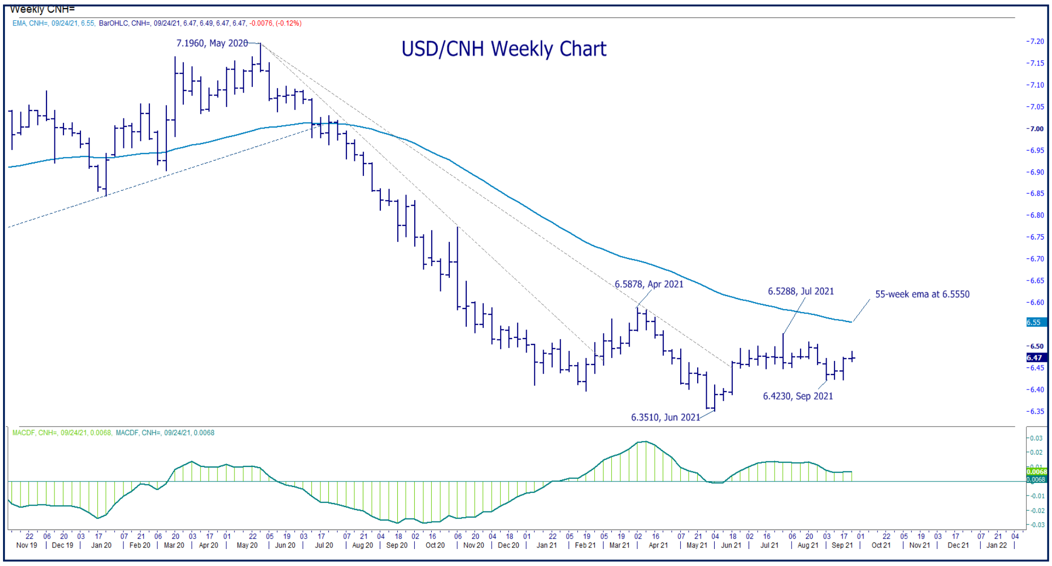
NZD/USD rebounded strongly after dropping to 0.6907 in August. The rebound tried but failed to break clearly above the top of the Ichimoku cloud that is close to the declining trend-line resistance. Weekly MACD is "flat" and the outlook for the last quarter of the year is mixed. All in, NZD/USD has to break below 0.6907 or above 0.7170 before directional price actions can be expected. To look at it another way, NZD/USD is likely to trade between 0.6907 and 0.7170 for a period of time.

USD/JPY: 109.85
Room for USD/JPY to move below the 55-week exponential moving average; April 2021 low near 107.45 is unlikely to come into the picture.



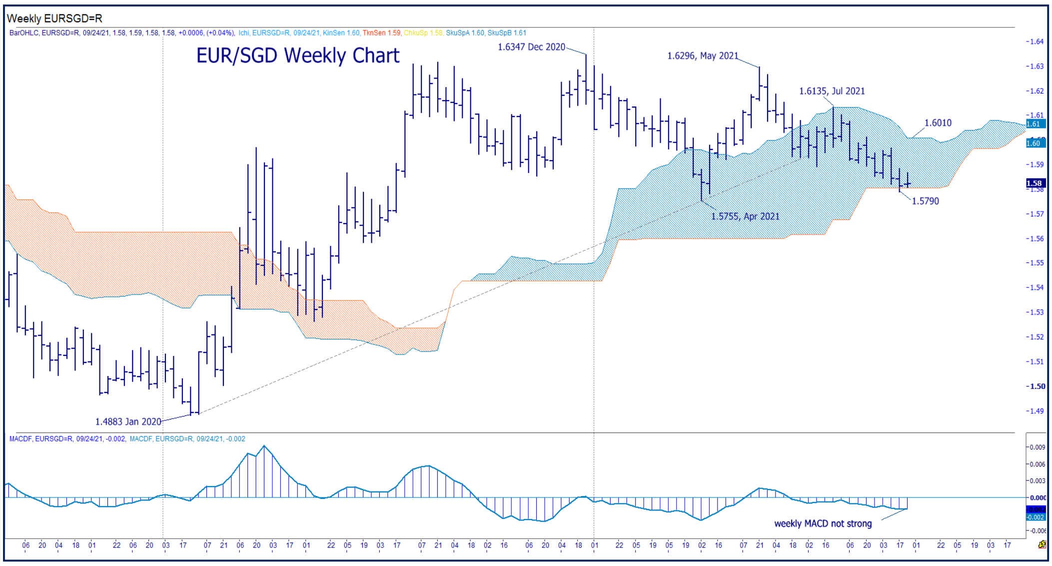
USD/JPY traded mostly sideways between 108.70 and 111.65 since early July. At the time of writing in late September, downward momentum is showing tentative signs of building up. Going into the last quarter of the year, there is room for USD/JPY to move below the 55-week exponential moving average (108.40 at the time of writing). However, the April 2021 low near 107.45 is unlikely to come into the picture.

USD/CNH: 6.4700
Outlook is mixed; USD/CNH could trade sideways within a 6.4100/6.5100 range for a period of time.



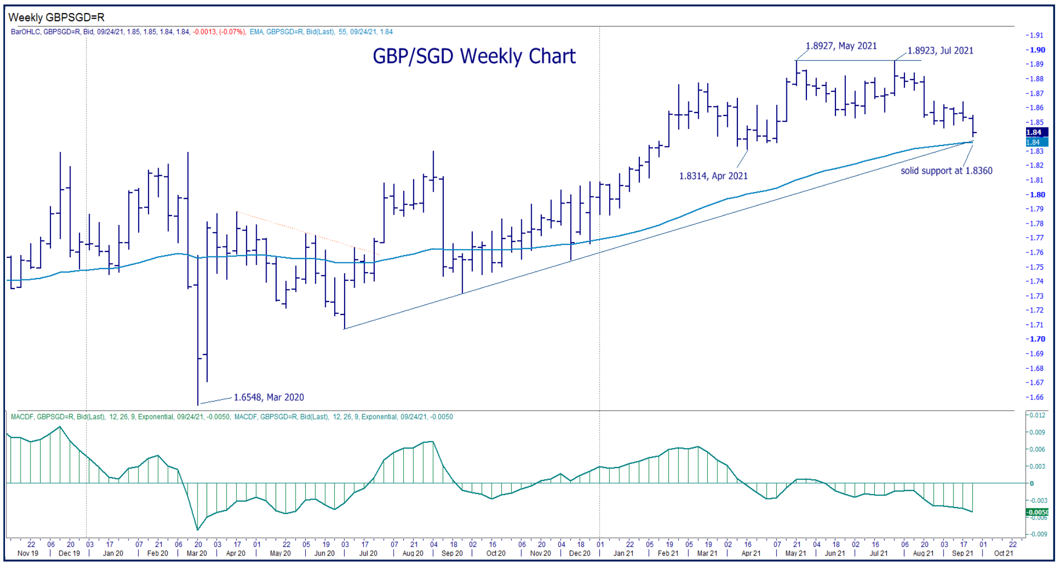
USD/CNH popped to a high of 6.5288 in late July before easing to a low of 6.4230 in early September. The sideway price actions offer no clues and the outlook going into 4Q21 is mixed and USD/CNH could trade sideways within a range of 6.4100/6.5200 for a period of time.

EUR/SGD: 1.5840
Risk is on the downside but any weakness in EUR/SGD is expected to encounter solid support at 1.5755.



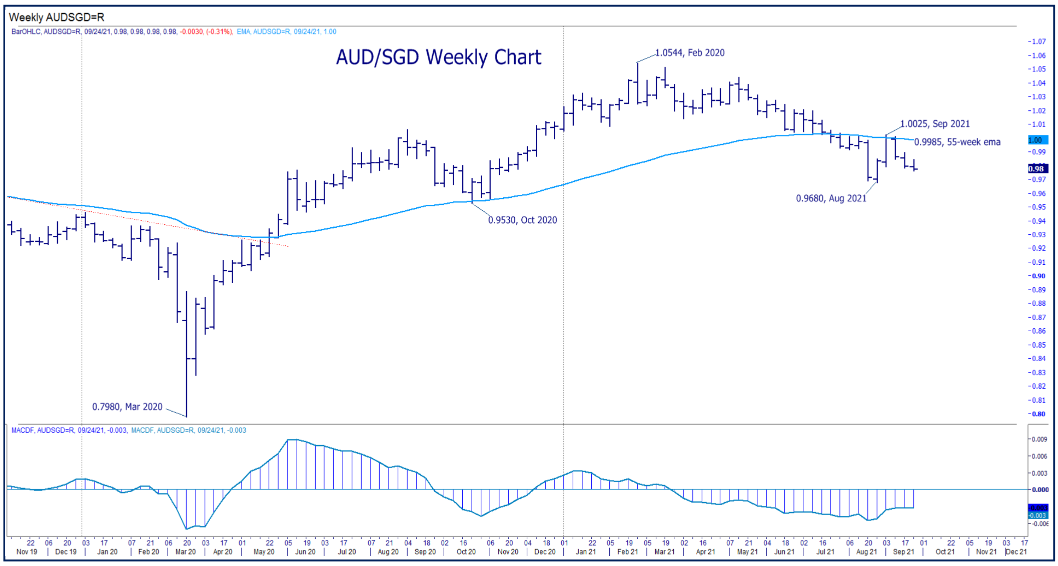
The pullback in EUR/SGD from the late July high of 1.6135 tried but failed to move clearly below the bottom of the Ichimoku cloud. While downward momentum is not strong, the risk for the last quarter of the year is on the downside. That said, any weakness is expected to encounter solid support at 1.5755. On the upside, a break of 1.6010 would indicate that the downside risk has dissipated.

GBP/SGD: 1.8440
A break of 1.8360 appears likely and could lead to GBP dropping to 1.8314, possibly 1.8200.



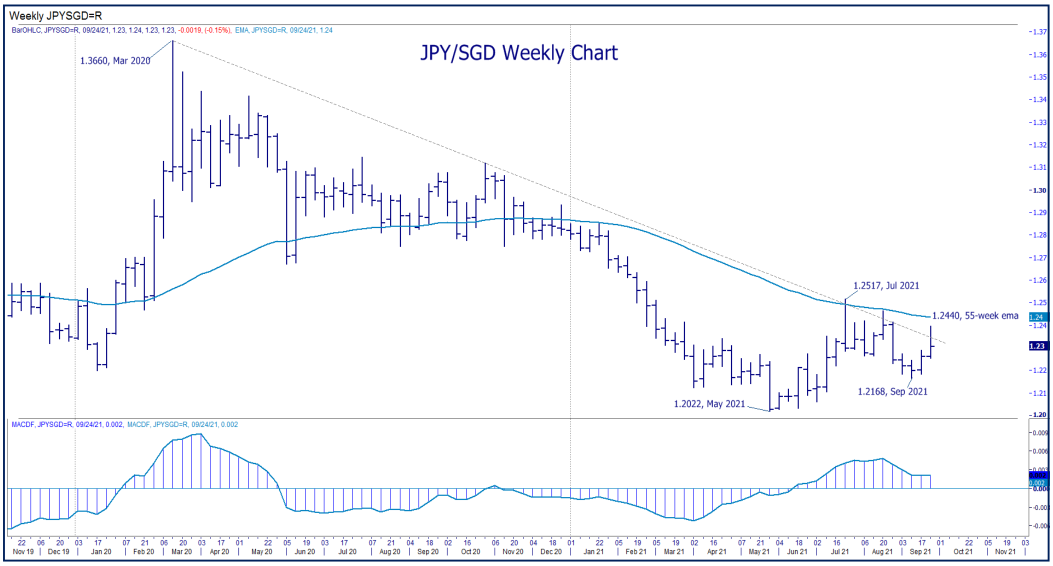
At the time of writing in late September, GBP/SGD is holding not far above the major support at 1.8360 (55-week exponential moving average that sits close to the rising trend-line support). Downward momentum is relatively strong and we are expecting a break of 1.8360. A break of 1.8360 could lead to a decline to April's low near 1.8315, possibly extending to 1.8200.

AUD/SGD: 0.9780
Risk is on the downside and a break of 0.9680 would not be surprising; next major support at 0.9530 is unlikely to come into the picture.



The rebound in AUD/SGD from 0.9680 in August was "capped" by the 55-week exponential moving average (high of 1.0025 in Sep). The pullback from 1.0025 is gathering momentum and the risk for the last quarter of the year is tilted to the downside. A break of 0.9680 would not be surprising but the next major support at 0.9530 is unlikely to come into the picture. The downside risk is deemed intact as long as AUD/SGD stays below the 55-week exponential moving average (0.9985 at the time of writing).

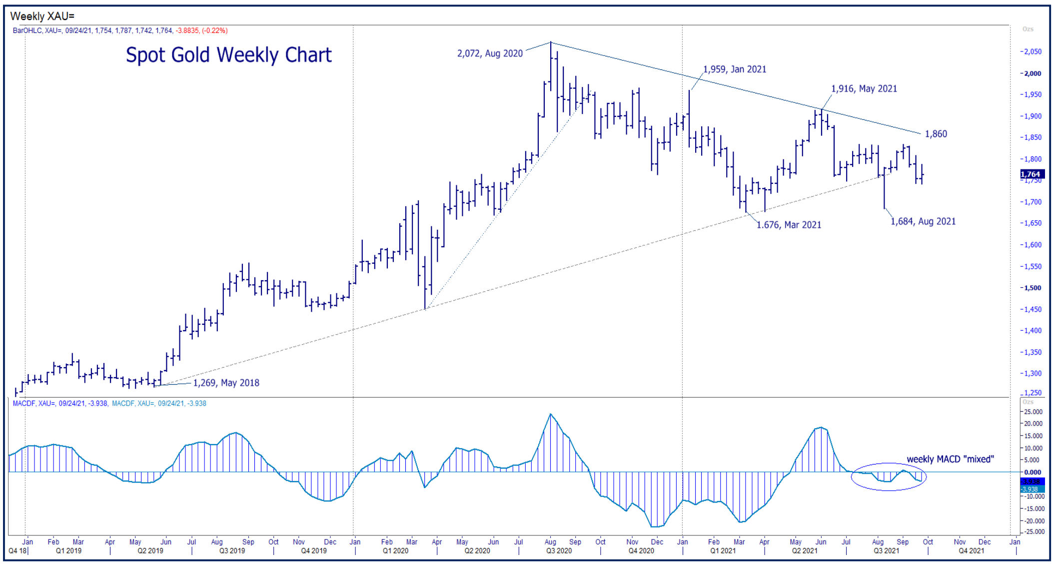
JPY/SGD: 1.2325
JPY/SGD is expected to edge above 1.2440; next major resistance at 1.2517 is likely out of reach.



At the time of writing in late September, JPY/SGD is approaching the 55-week exponential moving average at 1.2440. Upward momentum is beginning to build and JPY/SGD could edge above 1.2440. However, the next major resistance at 1.2517 is likely out of reach within the last quarter of the year. Support is at 1.2260 but only a breach of 1.2210 would indicate that JPY/SGD is not ready to move higher.

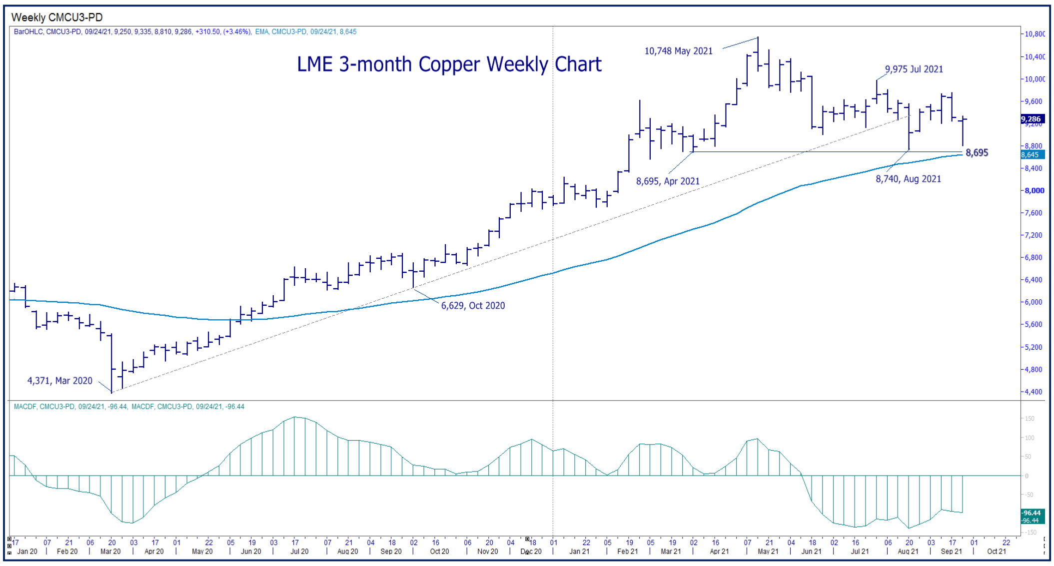
Commodities Technicals

SPOT GOLD
$1,765/OZ
Outlook is mixed; spot gold is likely to trade between $1,684 and $1,860.



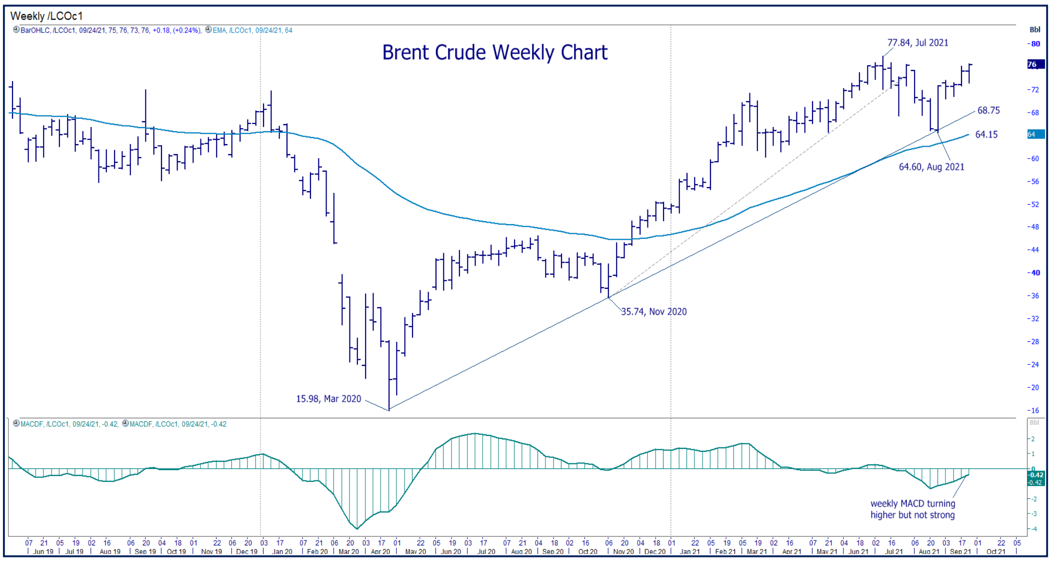
Spot gold bungee jumped in mid-August as it nose-dived to $1,684 before snapping back up. The choppy price actions have resulted in a mixed outlook. Note that weekly MACD appears mixed as well as it "vacillates" around the zero-line. Going into the last quarter of the year, spot gold could continue to trade in a choppy manner, likely between the two major levels of $1,684 and $1,860.

LME 3M COPPER
$9,285/MT
Copper is likely to trade between $8,695 and $9,975 in 4Q21.



Copper dropped to $8,740 in August before rebounding quickly. The rebound is not surprising as the April 2021 low of $8,695 is acting as solid support. At the time of writing in late September, the 55-week exponential moving average has edged up to near $8,695. In other words, $8,695 continues to act as solid support and the chance for copper to break below this level is not high. That said, any advance is not expected to rise above $9,975 as well. All in, going into the last quarter of the year, copper is likely to trade between $8,695 and $9,975.

BRENT CRUDE
$76.00/BBL
Fresh high appears likely but any advance in Brent is expected to face solid resistance at $80.00.



Brent crude tested the rising trend-line support connecting the lows of March 2020 and November 2020 at $64.60 in August before rebounding strongly. While upward momentum is beginning to improve, it is not strong for now. Going into the last quarter of the year, there is room for a fresh high in Brent. Barring a surge in momentum, a break of the round-number resistance level at $80.00 is unlikely. On the downside, the rising trend-line is still acting as key support ($68.75 at the time of writing). A break of the trend-line would indicate the start of a deeper pullback in Brent.

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