UOB HOUSE VIEW

3Q2017

GLOBAL MACRO

We are "cautiously optimistic" about the global outlook in 2H2017 anchored by a synchronized global recovery, but the positive growth outlook is tinged with a shade of grey as export expansion cycle may have peaked and could moderate in coming months. There are many known risk events in 3Q but none is expected to blow up and drag the rest of the world down with it.

ASSET ALLOCATION

The first half of 2017 has been strong for most asset classes and for equity markets in particular. Overall, 2017 has been shaping up to be a fairly "Goldilocks" environment with enough growth to support equities but not too hot so as to be a headwind to fixed income markets. We now see signs that the outlook for equities is more balanced and is shifting to a neutral positioning for portfolios between equities and fixed income allocations.

EQUITIES

Global equities have done well this year. Much of the performance can be attributed to an upward shift in growth expectations, as well as relatively benign inflation conditions and monetary policy amongst the major central banks proceeding largely as expected. We are neutral on US equities and overweight on European, Japanese and EM equities.

FIXED INCOME

One of the biggest concerns for fixed income investors in 2017 has been the potential headwinds from rising rates. If the US Fed is correct and the weak trends in inflation are transitory then the reflationary themes should bounce back and rate hikes will again be a headwind to fixed income investors. But if the trends of the first half of 2017 persist, then fixed income is likely to remain a stable performing asset class in 2017.

COMMODITIES

With global economic growth in expansionary territory, demand growth for commodities remains supported. In addition, the US dollar continues to weaken alongside mixed economic data and uncertain policy signals from the Trump administration which are generally positive for commodity prices.

FX & INTEREST RATES

After the June FOMC decision, we expect one more 25bps rate hike in September FOMC, followed by a period of pause in 4Q-2017 before resumption of rate hikes in 2018. We retain our expectation that the Balance Sheet Reduction (BSR) announcement may take place in the 12/13 Dec 2017 FOMC. If the BSR is pushed earlier in 2H 2017, then that may imply a tighter than expected US monetary policy in 2017 which may lift the US dollar.

UOB

GLOBAL MACRO

A Darker Shade Of Goldilocks

With half of 2017 now behind us, are we optimistic or pessimistic for the remaining 6 months of this year? In the true spirit of economics, we are "cautiously optimistic". The World Bank maintained its global growth forecast at 2.7% (Jun) while the IMF has a more bullish 3.5% growth expectation for 2017 (April 2017 WEO). The synchronized global revival led by (but not limited to) the developed markets including US, Europe and Japan remains intact with the outlook for Europe most promising especially after the parliamentary success of new French President Emmanuel Macron and his En Marche! Party. Expectations are that in the next five years Macron can lead the charge to reform, not just for France, but also the bigger European Union even though he still faces hurdles.

Asian economies also played their part to support the positive growth picture as they collectively drove 9.4% y/y growth in exports in the first four months of 2017, which was not too surprising as economic activities in final demand countries (mainly developed economies) continues to improve. Economic outlook for China, Asia's most important economy, is also looking up as IMF upgrades its 2017 growth forecast to 6.7% (14 Jun) notwithstanding the various challenges it is still grappling with such as the ever growing corporate leverage. That said, the stellar growth in Asian exports could moderate in 2H especially since we think that the current electronics cycle (which has been rising for 16 consecutive months) may be coming to an end. That will put Asia growth on a weaker footing in the later part of 2017, adding a shade of grey to the growth picture.

Inflation: Transitory of Disrupted? Perhaps the most confounding part of the US economy is the US price environment. While the unemployment continues to grind lower, wage growth remains largely benign and inflation even softened in recent months. Notwithstanding certain one-off factors, the tighter labor market would eventually push wage growth higher and that should feed into higher inflation in 2H. But what if it doesn't? If inflation continues to fade amidst the tightening labor market, then perhaps some factors could be at play not just in US but also globally. We think that the sharing economy (fueled by disruptive technologies) has been subsidizing costs to gain market share/kill off competition, and that could have suppressed the prices of major segments within the CPI/PCE (such as food services, and transport) while at the same time encouraging more of the workforce into the employment of the shared economy. The reason why companies can do that is because of funding from eager investors, and the reason for the eager investors is that money is cheap because the interest rate is low and investors want to seek higher returns, so they end up looking for the next "unicorn", perpetuating the "soft inflation-low unemployment" environment for longer with the inflation "spring" being wound even tighter and waiting to spring back with a greater vengeance. Thus, the paradoxical remedy to re-accelerate inflation could be higher interest rates soon and not later.

In our view, the Fed Reserve remains on course to hike rates once more in September and its monetary policy is likely to diverge from the rest further in 2H. It assumes higher wage growth will emerge in 2H and that the Fed also wants an adequate amount of interest rate buffer before it embarks on its next big project – balance sheet reduction (BSR). We expect the Fed to announce BSR in the Dec FOMC to be implemented in Jan 2018.

Forecasting the dollar direction is tough in 2017. We started the year full of enthusiasm for a stronger US dollar, driven by the expectations of "Trump effect". Alas, President Trump's promises of expansionary economic & fiscal policies faded in 1H, and the dollar slipped into ignominy despite the Fed Reserve remaining steadfast in its rate normalizing path. For more US dollar downside, the most direct and plausible factor will be, more disappointment in Trump and his administration. On the other hand, for US dollar upside, a sudden, unexpected improvement in the US political environment and the Congress approving some of Trump's expansionary policies would be dollar positive but this looks like a very tall order in current circumstances. One factor that may provide a currency surprise is the planned balance sheet reduction (BSR). If the BSR is pushed earlier in 2H 2017, then that may imply a tighter than expected US monetary policy in 2017 which may lift the US dollar. Conversely, a delay in BSR could weaken the US dollar.

What are the known risk events in 3Q and beyond? There is the **German federal election** on 24 Sep 2017 (right after the Northern Hemisphere summer) but expectations are in favor of incumbent Chancellor Angela Merkel and her Christian Democratic Union/Christian Social Union (CDU/CSU), which still maintains double-digit lead over the main contender Social Democratic Party (SPD) led by Martin Schulz. In the US, the country is once again facing the **US government debt ceiling limit** this coming September and failure to raise the ceiling could result in a US sovereign default but we think it will not happen in Trump's first year as US President. The **UK with its Brexit negotiations** and maybe another election? **China** is another risk but nothing is expected to happen ahead of its all-important 19th National Congress of the Communist Party of China in 4Q 2017. Beyond geo-politics, **crude oil price** could be in for another volatile period in 3Q. **North Korea** will remain an on-going issue as it remains the hotspot in Asia in terms of geo-political risk. **Terrorism incidents** are another on-going, ever widening challenge. Meanwhile, volatility in financial markets is very low so far in 2017, so low that it appears that the markets have been lulled into complacency.

ASSET ALLOCATION

Global Macro Trends Are Increasingly Mixed

The first half of 2017 has been strong for most asset classes and for equity markets in particular. Global equities increased by 11% in USD terms for 2017 as of the end of May, and Asia ex Japan equities were up 20%. Global fixed income markets, while less exciting, performed adequately well, gaining 4% YTD. Overall, 2017 has been shaping up to be a fairly "Goldilocks" environment with enough growth to support equities but not too hot so as to be a headwind to fixed income markets.

While our overweight of equities over the first half of the year has performed well, we now see signs that the outlook for equities is more balanced. There are several strong supportive trends for equities as we look towards the second half of the year but there are also several worrisome trends. Additionally, as the reflation theme has disappointed, the fixed income outlook is more stable and thus fixed income offers a more stable alternative if the equity outlook is becoming more balanced, hence our shift to a neutral positioning for portfolios between equities and fixed income allocations.

There are still many positive trends that could continue to support equities in 3Q17. Most broadly we would argue that the global expansion cycle appears strong enough to continue for at least another year. Growth appears stronger in 2017 compared to 2016, and more broad-based with all regions contributing to positive growth. In the past several years, there had always been one major region, whether it be Europe, China or Latin America, that was struggling and dragged on global growth. Currently, all regions are arguably doing better than in 2016. And finally, and maybe most importantly, corporate earnings trends are positive. Most regions are seeing corporate earnings growth of over 10% in 2017. Thus, there are reasons why equity performance could continue.

However, there are enough unfavorable trends that lead us to a more balanced and neutral overall outlook. Firstly, while leading indicators remain at healthy levels, there are signs that most of them are not as favorable as they were a few months ago, especially in the US and China. In particular the manufacturing indices appear to have peaked and are starting to decline from previous levels. Also, we track economic surprise indicators which have started to decline across most regions and especially sharply in the case of the US. This implies that expectations have increased and the data is not matching these raised expectations. Also, the reflation trend had been a big theme in markets in the first half of 2017, but appears to have mostly faded by the end of 1H17. There are no signs of inflation picking up across the major markets in 2017 and in fact appear to be declining. The lack of inflation implies that interest rate normalization is less likely and thus the overweight of equities over fixed income not as imperative. Finally, we would also note that potential policy support in the US from tax cuts and infrastructure spending appear less likely as the US political environment is more gridlocked than most anticipated.

On the whole, despite many positives, the strong equity performance in 2017 leaves us with the view that much of the positive factors are already in the price. Valuations of global market have been trending up to above average levels. To us this implies that the markets might be outpacing the improvement in earnings and counting positive surprises to maintain the performance. But it increasingly appears as though it will be hard for the economic and earnings trends to surprise on the positive side.

Multi-asset income strategies have filled a useful sweet spot between fixed income and equities. The yield focus of the income strategies is likely to feel some pressure from rising yields but we expect that the income strategies will continue to offer that balance of better yields than fixed income markets but better volatility levels than what come with equities and thus will remain relevant.

Commodities usually benefit in a reflating cycle and we think economic trends are supportive of most commodity sectors but warn that there are still uncertain supply and demand situations in most commodities that make pricing more volatile.

Asset Class	Policy	UOBAM Weight (%)	Benchmark Weight (%)	Change from 13 June
Equities	Neutral	55.0	55.0	=
Bonds	Neutral	38.0	38.0	=
Commodities	Neutral	5.0	5.0	=
Cash	Neutral	2.0	2.0	=

EQUITIES

Global equities have done well this year. Much of the performance can be attributed to an upward shift in growth expectations, as well as relatively benign inflation conditions and monetary policy amongst the major central banks proceeding largely as expected. While there had been some volatility around political risk events, so far these events had generally delivered positive outcomes, benefiting investor sentiment.

We reduce our allocation to US equities from overweight to neutral. Earlier in the year, we had anticipated that the Trump administration would be unable to deliver on its pro-growth policy agenda as quickly as promised, but that those policies would eventually come through in the second half of the year. The fallout from Trump's dismissal of former FBI director James Comey however, is likely to delay those policies even further as the administration is distracted by more intense scrutiny of possible collusion with Russia during last year's election campaign. While the underlying economic momentum remains intact in the US, this appears to be priced into US equities already. In the absence of other catalysts on the horizon, we see less potential upside for US equities in the near-term.

We increase our allocation to European equities from neutral to overweight. The positive economic momentum has reached the other side of the Atlantic, with economic and investment sentiment turning higher earlier in the year and actual activity beginning to follow suite. A vital change to the investment climate in recent months is the lifting of political headwinds in the region, as the French electorate handed Emmanuel Macron and his En Marche party decisive presidential and parliamentary mandates. This election outcome allayed concerns of Eurozone disintegration, as the second-best presidential candidate, Marine Le Pen, had promised to hold a referendum on France's continued membership of the Eurozone. In view of these dynamics, we have a more positive view on European equities.

We maintain an overweight position in Japanese equities. Japanese equities underperformed earlier in the year due to their typically positive correlation to USDJPY, which had been on the decline. More recently, the USDJPY has been recovering lost ground and is anticipated to rally further over the rest of the year. Furthermore, there signs of improvement in some segments of the economy, and foreign investors have begun to put money back into Japanese equities after being net sellers for the better part of the last two years.

We increase our allocation to emerging market equities from neutral to overweight. Emerging market equities have proven resilient both prior to and following the Federal Reserve's rate hike in June, suggesting a departure from their tendency to underperform in response to tighter US monetary policy. This is potentially due to structural reforms and asset price corrections in recent years. Additionally, the current combination of synchronized global growth and benign inflation presents an ideal combination to many export-oriented economies within the emerging market universe such as Korea. Within emerging markets equities, some of our preferred allocations include Chinese equities due to the earnings recovery and low valuations, Indian equities due to the strong support for Prime Minister Narendra Modi's reform efforts and Korean equities due to the stabilization of the domestic political situation.

COMMODITIES

Overview – With global economic growth in expansionary territory, demand growth for commodities remains supported. In addition, the US dollar continues to weaken alongside mixed economic data and uncertain policy signals from the Trump administration which are generally positive for commodity prices. On the supply side, the outlook is constrained from reduced global mining investment, and by efforts from the Chinese government to reduce pollution by closing inefficient, low quality production facilities.

Agriculture - Agricultural prices are trading at historically low levels, making them vulnerable to weather-related events that could result in poor harvests and supply shocks.

Base Metals – Strong global industrial production figures are supportive of solid demand, while new supply is likely to be constrained by the lack of new investment into mines in recent years.

Bulk Commodities – We remain with a slight underweight position in bulk commodities. The Chinese government continues to close inefficient, low quality domestic production of iron ore, coal and steel. This benefits overseas producers with higher quality product specifications.

Energy - We remain neutral on energy despite recent weakness. OPEC has extended its production cuts to March 2017. Although US onshore production is increasing, non-OPEC production from other countries is stagnant. Global crude oil demand growth remains bullish, particularly from China and India.

Gold - We remain overweight on gold due to the potential Gold continues to benefit from mixed US economic data and uncertainty over Trump's policy agenda. Investment demand remains strong with continued buying from central banks.

FIXED INCOME

Bond Markets At Odds With US Fed Actions

The US Fed hiked rates for the 3rd time in the past 7 months and signaled that in the second half of 2017 it expects to hike rates again and to start reducing its balance sheet. This appears in line with better global growth and with low unemployment rates of 4.3% that should start to create wage inflation. Equity markets have been buoyant on the positive macro trends.

But fixed income markets are not convinced. Despite the US fed funds rate hikes, market rates for the 5 year and 10 year Treasury bonds have declined. The US 10yr Treasury rate has steadily declined in 2017 hitting year lows of 2.12% shortly after the US Fed rate hike. The bond markets appear more focused on the declining inflation rates across the major regions. In the US the core PCE inflation measure that the US Fed tracks had previously climbed from early 2016 to early 2017 from 1.3% to 1.8%. But since the beginning of 2017, it has declined again from 1.8% to 1.5%. The US Fed has indicated that they believe the weakness is “transitory” and will bounce back in the second half of the year. But bond markets appear to be indicating that they fear the weak trends are evidence of secular stagnation – i.e. Japan-like low inflation. While the US Fed “dot plot chart” indicates that the Fed members expect the fed funds rate to climb to 2.1% by the end of 2019, the market fed futures imply only one more rate hike in the next 2 years to 1.5%.

One of the biggest concerns for fixed income investors in 2017 has been the potential headwinds from rising rates. Many investors are aware that global interest rates have been held at low levels for many years. If the US Fed is correct and the weak trends in inflation are transitory then the reflationary themes should bounce back and rate hikes will again be a headwind to fixed income investors. But if the trends of the first half of 2017 persist, then fixed income is likely to remain a stable performing asset class in 2017.

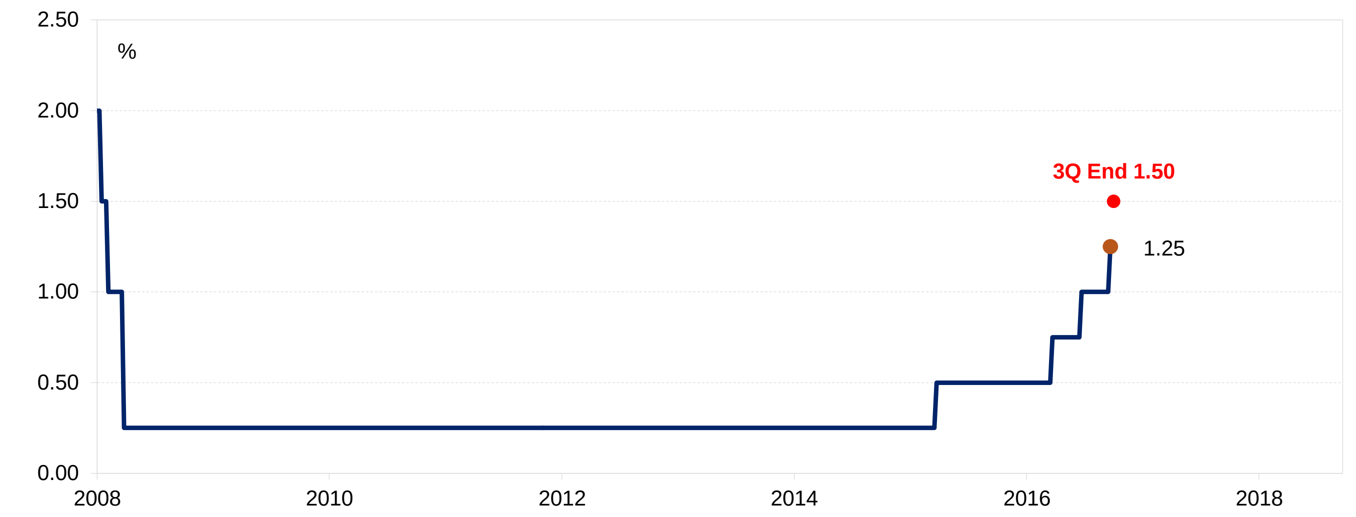
We continue to believe that many investors that do not have the risk tolerance for equity volatility would still benefit more from being in fixed income markets than shifting to cash. Also the positive part of the fixed income outlook is that the multiyear outlook can improve as yields of fixed income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

We are now neutral fixed income relative to other asset classes. Within fixed income markets we underweight government bonds relative to corporate credits and are neutrally balanced.

FX & INTEREST RATES

UNITED STATES

FED Funds Rate

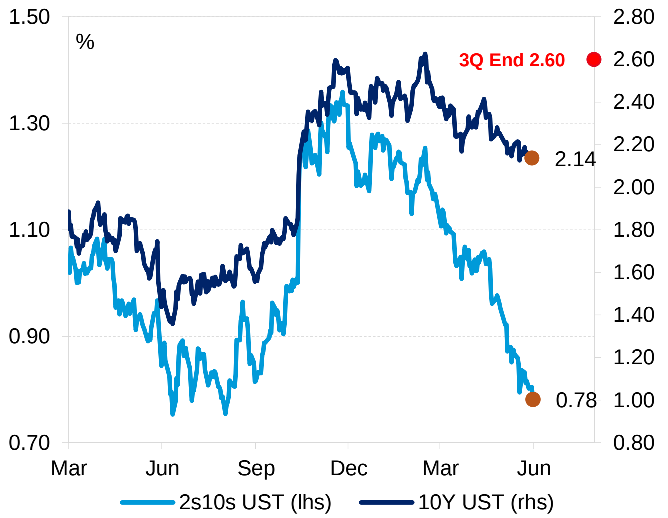


After its June FOMC decision, we still believe our moderately hawkish outlook for the Fed rate trajectory in 2017 remains intact. We expect one more 25bps rate hike in September FOMC, followed by a period of pause in 4Q-2017 before resumption of rate hikes in 2018. We retain our expectation that the BSR announcement may take place in the 12/13 Dec 2017 FOMC. While that development will not derail our 2017 rate hike trajectory, the potential December announcement may affect our 2018 Fed rate hike trajectory as trimming the Fed balance sheet is somewhat a 'substitute' for rate hikes, although the impact is likely more felt on the longer-end UST yields and it is difficult to quantify the magnitude at this current juncture. An earlier than expected BSR in 2H 2017 may imply a tighter than expected US monetary policy in 2017.

3M US Libors

- We expect to see 3M Libor resume its upward trend towards 1.70% by the end of 3Q2017 on the basis of another 25bps FED rate hike in September.
- Libor volatility may be a possibility in 3Q2017 if the FED decides to substitute rate hike with the start of BSR.
- A cautious BSR and repricing of a more benign FED rate profile will exert downward pressure on Libors. The offset to the aforementioned will stem from greater than expected tightening of USD liquidity, which will push USD funding costs higher.

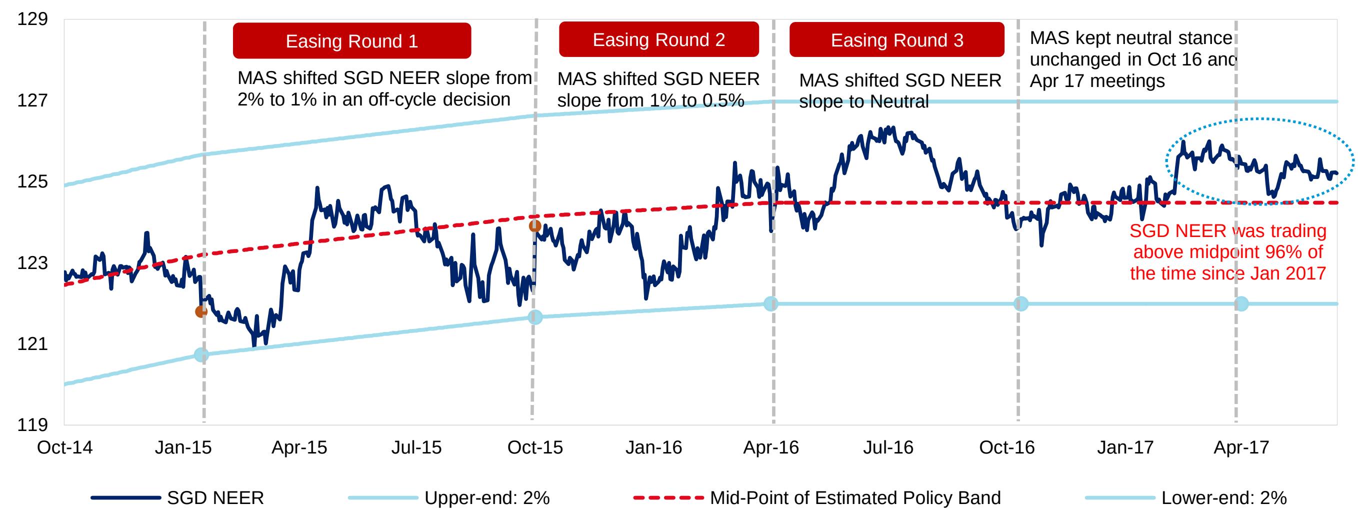
10Y US Treasuries



- We expect to see 10Y UST at 2.60% by the end of 3Q2017.
- Negative term premiums across the UST curve have deepened in June alongside weaker oil prices and macroeconomic data. Price correction in 3Q2017 may be triggered by FED BSR “go live” kneejerk reactions.
- Looking past the initial repricing, a sustainable shift into positive term premiums will require a more optimistic reassessment of supply/demand side factors.

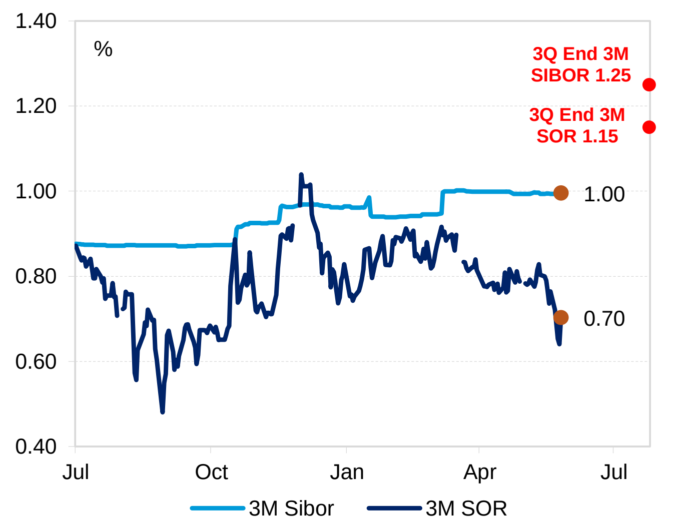
SINGAPORE

SGD NEER



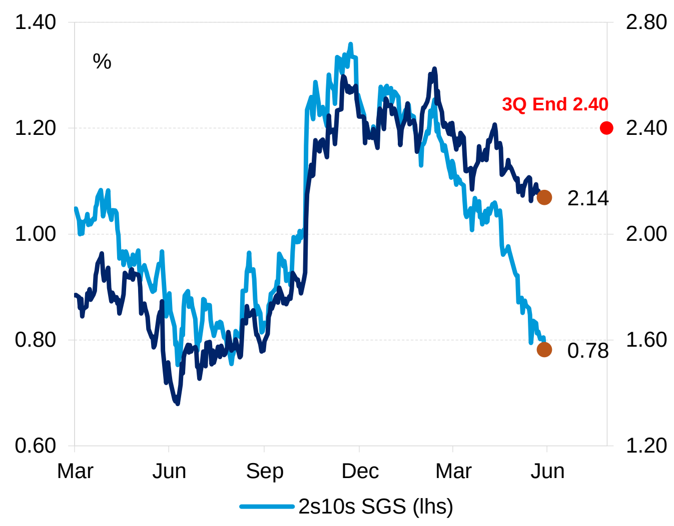
As we enter the second half of 2017, we remain optimistic in the continuing growth for the electronics and precision engineering clusters. However, the double-digit growth for semiconductor production may slow into the single digits, due to base effects and a slower 2H capex growth expected in China. With no strong upside to economic growth, and inflationary pressures capped by the weaker labour market conditions, we believe that the MAS will keep the SGD NEER on the current neutral appreciation stance in the upcoming October policy meeting. The USD/SGD should continue to trend higher from current levels to end 2017 at 1.42, while the 3m SIBOR is projected to reach 1.40%.

3M SOR and Sibor



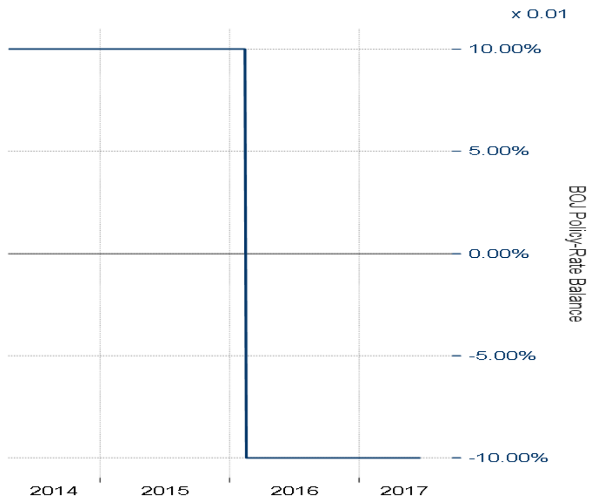
- We expect to see 3M SOR and SIBOR at 1.15% and 1.25% by the end of 3Q2017 respectively.
- Benign domestic liquidity conditions and a SGD NEER on the strong half of the policy band continues to persist whilst risky asset volatilities remain subdued.
- The primary trend in SORs and SIBORs will be dictated by US rates over the cycle. However, a low volatility environment will continue to make this adjustment process a lagging one.

10Y SG Bonds



- We expect to see 10Y SGS at 2.40% by the end of 2Q2017.
- Benign emerging market sentiments and cautious normalization of global monetary conditions should help keep capital flight fears in check, thus supporting a progressively wider SGS discount to UST.
- 7y SGS auction in July and 15Y SGS auction in August will weigh on the ability of 10Y SGS to richen significantly on a relative value basis.

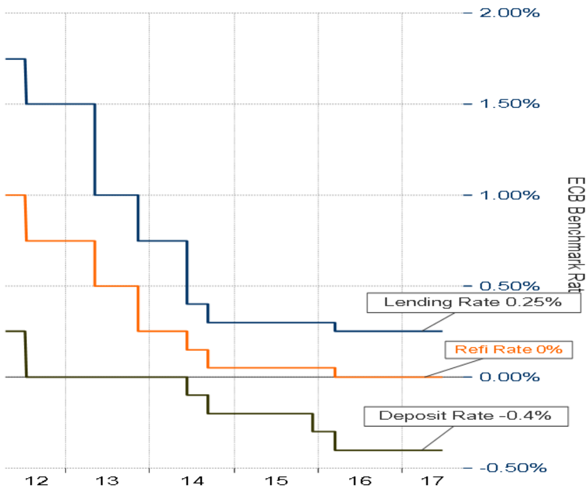
JAPAN



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

The June BOJ decision came as no surprise as the Japanese central bank have continued to signal that loose monetary policy (including its yield curve control) will be here to stay for a while and the BOJ also refrained from any explicit discussion of tapering its ultra-expansionary monetary policy. And we agree that it is premature to expect the BOJ to taper its easing program anytime soon, especially in 2017 because Japan is still far away from its 2% inflation target and it is inappropriate to debate exit of monetary policy easing at this early stage, just as Kuroda highlighted in many occasions. After June's policy decision of no change, we expect status quo may likely be maintained at least in the next 6-9 months. We factor in a small probability for more BOJ policy easing in 3Q.

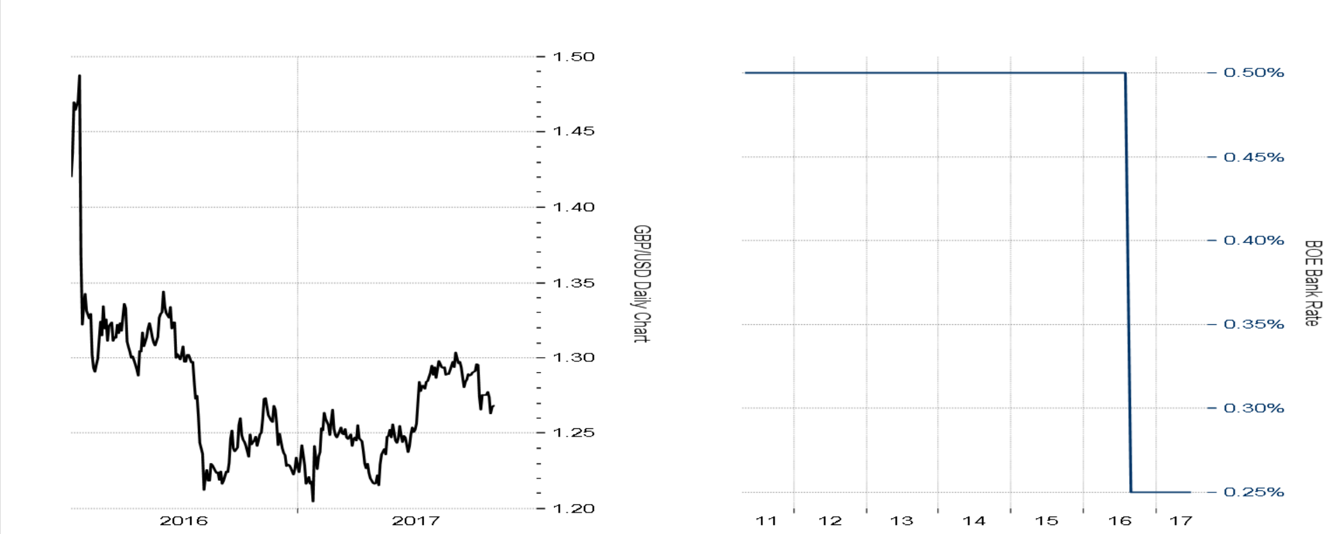
EUROZONE



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

There has been a big shift in European politics during the past 3 months. Fears over Eurozone instability have been replaced by optimism following the French Presidential election victory. There was also a weaker than expected performance for the Italian 5-Star party in the recent local elections, which eased immediate concerns over a fresh round of instability surrounding the Italian government. German Chancellor Merkel has regained support in opinion polls and is now favourite to win the Federal Election in September. EUR has strengthened steadily since the start of this year reflecting both positive economic momentum and broad political relief. Still rate hikes by the ECB are still a distant prospect, although we expect the ECB to outline plans on its asset purchase programme, and in this regard, some sort of Euro-area "taper-tantrum" cannot be ruled out over the next six months. Much of these have been priced in though, and unless we see more aggressive ECB rhetoric, we are not convinced of too much upside in the EUR/USD from current levels.

UNITED KINGDOM



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

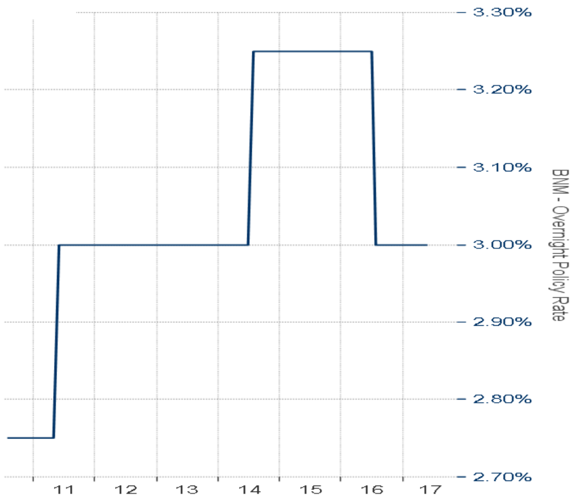
With the Brexit clock already ticking towards the March 2019 deadline, the tone of the forthcoming negotiations will be a crucial factor in how GBP performs. The UK election was intended to strengthen British PM Theresa May's hand and to provide financial markets with more confidence during the negotiation process. Instead, the hung Parliament outcome was a shock and only adds to the uncertainty, with a weak minority government an added risk. In the short term, the prevailing political drama will keep the GBP soft and volatile. What matters for the GBP further out are the terms surrounding Brexit. The pursuit of a "softer" Brexit stance has given hope for some that come March 2019 there will be no cliff-like scenario on trade policy. Still, EU leaders hold all the ace cards at the negotiating table. With ongoing risks associated with Brexit, alongside an environment of slowing growth and muted domestic inflationary pressures, we keep to our view the BoE will stay on hold this year and next.

AUSTRALIA

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

We did get a sense that the RBA's June accompanying statement was incrementally more positive – from the language on the transition of the economy post the mining construction boom, to improved business conditions, rising capacity utilization, and increased business investment. But overall, there is nothing to suggest that the RBA is positioning for a near term move. Areas of focus for the RBA remain the labour market, housing and inflation. We see the RBA firmly on hold in 2017. Ongoing low interest rates in Australia and rising interest rates in the US would suggest that the interest-rate differential between Australia and the US will continue to widen. With Australia's hands tied on monetary and fiscal policies, this makes it difficult to be optimistic on the AUD.

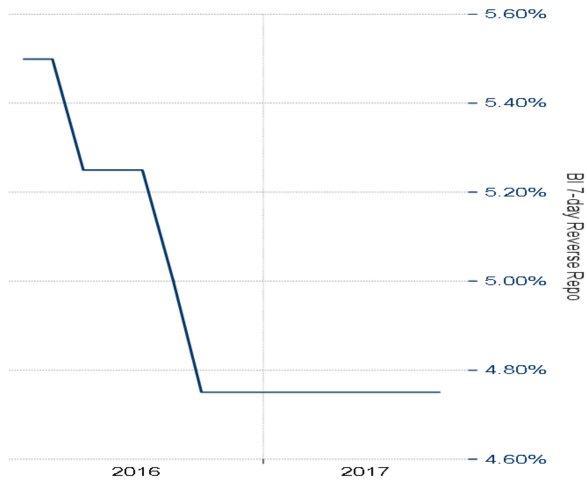
MALAYSIA



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

Despite the strength in growth and relatively high inflation, Bank Negara Malaysia (BNM) continues to signal a neutral monetary stance. We think ebbing inflation pressures from oil and transportation effects coupled with potential normalisation of real GDP growth to around 4.6% in 2H 2017 (vs. 5.6% in 1Q 2017) is likely to keep policy rates unchanged at 3.00% for now. The Ringgit has strengthened, riding on dollar weakness in recent months, and an upswing in sentiment on the local currency. This comes amid improving macro parameters and BNM's liberalisation of bond and forex hedging requirements which took effect in May. The trend going forward could turn more volatile amid speculation that general elections could be around the corner, sizeable government bonds maturing between August and November, and more volatile crude oil prices. We look for USD/MYR at 4.30 by end 2017 concurrent with a firmer USD trend.

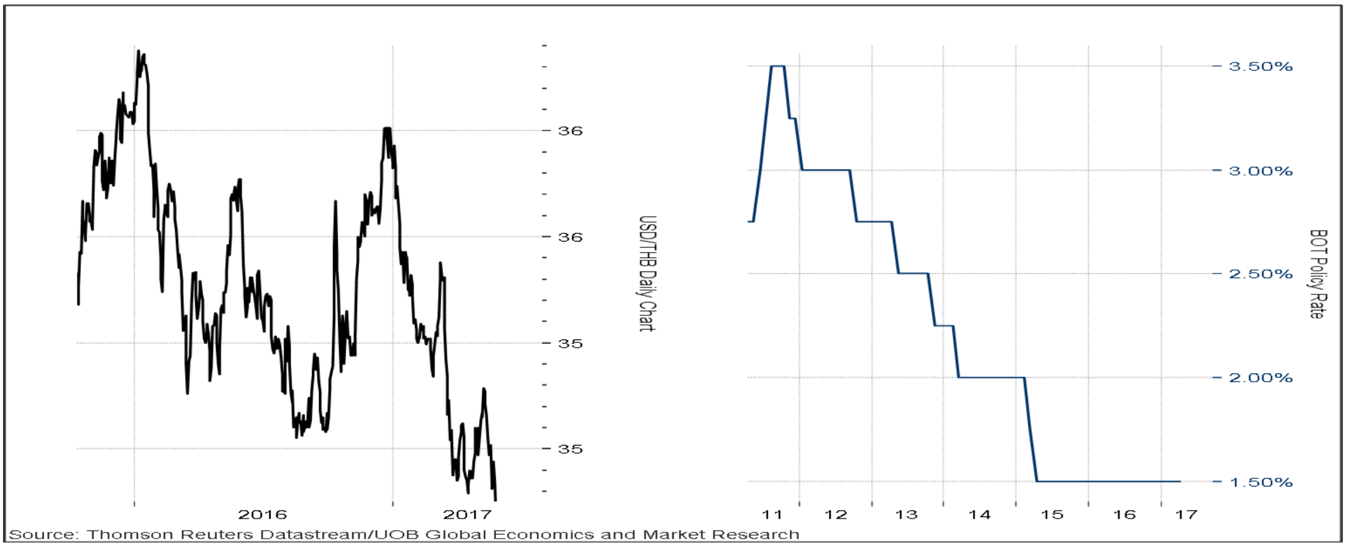
INDONESIA



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

Inflation risk is likely to be contained with the planned electricity tariff hikes the key driver of price increase this year. We forecast headline CPI to end the year at around 4.4%, full-year to average 4.1% and within BI's 3-5% target. Meanwhile, core inflation has been stable so far. Sustained stability in the IDR will push back any potential monetary tightening to 1H18. For timing of monetary tightening, we will continue to watch the key indicators including domestic inflation, the exchange rate and capital flows. Narrowing current account deficit (CAD) is positive for sentiment. CAD narrowed to 1.8% of GDP in 2016 (2015: -2.0%, 2014: -3.1%) and is expected to be maintained at 1.8% this year. Re-rating potential could drive further improvement in outlook. S&P's finally raised Indonesia to Investment Grade in May 2017 to be in line with Moody's and Fitch's. Moody's and Fitch's currently have a positive outlook on the country's rating, which means further rating upgrades may be forthcoming.

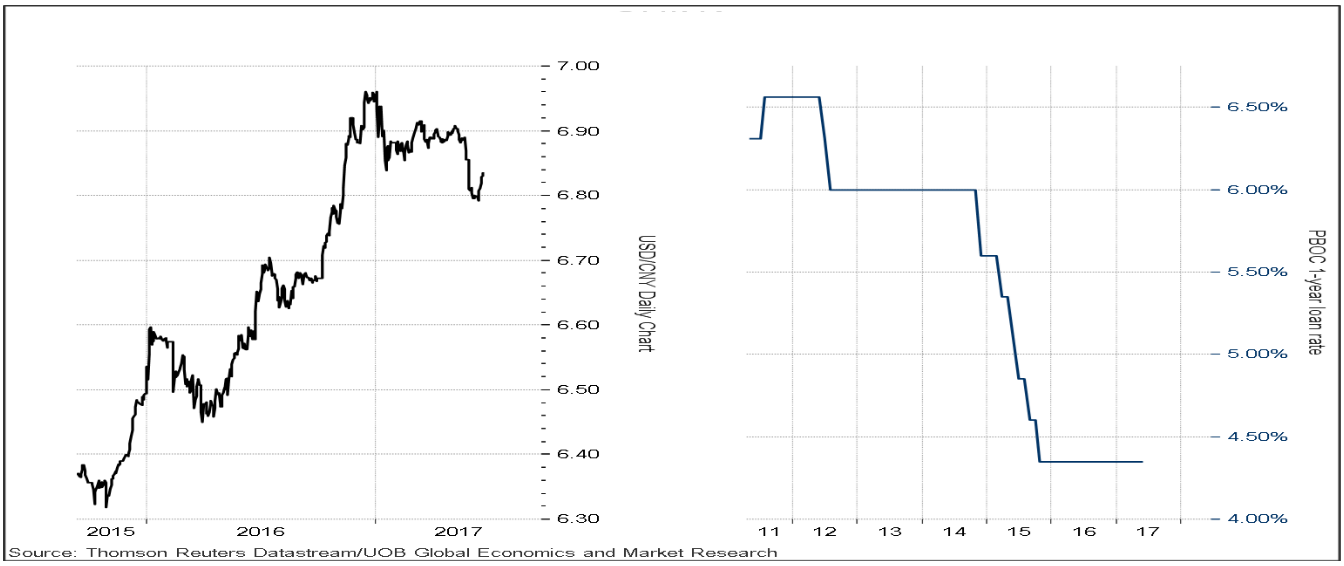
THAILAND



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

Capital flows and exchange rates will be highly volatile as external uncertainties remain considerable, relying on the direction of economic and trade policies of the US, the pace of the Fed's monetary policy normalization and the political developments in advanced countries. We see broad THB depreciation against USD going forward. For now, we expect THB to weaken against USD towards 34.8 at end-3Q17 from around the 33.9 level currently. In addition, we expect the BoT to keep the policy rate unchanged at 1.50% through 2017 since accommodative monetary policy remains necessary given that Thailand's economic growth is still in the early stages and not yet broad-based.

CHINA



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

As the authorities juggle the challenges of balancing growth, reforms/deleveraging, and social stability, we see PBoC keeping its benchmark interest rates unchanged until after 4Q17, at 4.35% and 1.50%, for the 1Y lending and deposit rates, respectively. Thereafter, we anticipate benchmark interest rates to be hiked starting from 1Q18. Meanwhile, upward pressure for OMO rates such as reverse repo rates and MLF rates would remain, especially as the US Fed gears up for its Sep FOMC meeting and the implementation of balance sheet reduction. For the RMB, the addition of a "counter-cyclical adjustment" factor into the USD/CNY central parity mechanism – announced in late May – has further reduced the risks of a sharp depreciation of the currency. This is because the adjustment factor primary aims to counter "herd mentality" and a persistent bias towards RMB depreciation against the USD. We look for the USD/CNY to edge higher towards 6.89 by end-2017 and to 6.94 by mid-2018.

FX OUTLOOK

FX	End 3Q17F	End 4Q17F	End 1Q18F	End 2Q18F
USD/JPY	114	115	116	117
EUR/USD	1.12	1.13	1.14	1.14
GBP/USD	1.25	1.24	1.23	1.23
AUD/USD	0.75	0.75	0.76	0.77
NZD/USD	0.72	0.73	0.74	0.76
USD/SGD	1.40	1.42	1.43	1.44
USD/MYR	4.32	4.30	4.28	4.26
USD/IDR	13,500	13,600	13,700	13,800
USD/THB	34.8	35.0	35.3	35.5
USD/PHP	50.6	50.9	50.9	51.0
USD/INR	66.5	67.2	68.0	68.8
USD/TWD	30.8	31.0	31.2	31.4
USD/KRW	1,140	1,150	1,160	1,170
USD/HKD	7.80	7.80	7.80	7.80
USD/CNY	6.86	6.89	6.92	6.94
USD/MMK	1,370	1,395	1,395	1,395
USD/VND	22,800	22,900	23,000	23,100

Source: Bloomberg, UOB Global Economics & Markets Research

SGD Crosses	End 3Q17F	End 4Q17F	End 1Q18F	End 2Q18F
100 JPY/SGD	1.2281	1.2348	1.2328	1.2308
EUR/SGD	1.5680	1.6046	1.6302	1.6416
GBP/SGD	1.7500	1.7608	1.7589	1.7712
AUD/SGD	1.0500	1.0650	1.0868	1.1088
NZD/SGD	1.0080	1.0366	1.0582	1.0944
MYR/SGD	0.3241	0.3302	0.3341	0.3380
1000IDR/SGD	0.1037	0.1044	0.1044	0.1043
100THB/SGD	4.0288	4.0571	4.0567	4.0563
PHP/SGD	0.0277	0.0279	0.0281	0.0282
100INR/SGD	2.1053	2.1131	2.1029	2.0930
100TWD/SGD	4.5519	4.5803	4.5851	4.5896
100KRW/SGD	0.1228	0.1235	0.1233	0.1231
HKD/SGD	0.1795	0.1821	0.1833	0.1846
CNY/SGD	0.2040	0.2060	0.2067	0.2074
100MMK/SGD	0.1022	0.1018	0.1025	0.1032
1000VND/SGD	0.0614	0.0620	0.0622	0.0623

Source: Bloomberg, UOB Global Economics & Markets Research

THE TEAM

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