1Q2023 Macro Outlook & Advisory House View

FORWARD Your Wealth

CIMB

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1Q2023 Asset Class Outlook Summary

CIMB

ASSET CLASSES		SHORT TERM OUTLOOK (3 - 6 MONTHS)		LONG TERM OUTLOOK (6 - 12 MONTHS)		Change of view
		UW	OW	UW	OW	Previous → Current
MULTI ASSETS	CASH		●	●		OVERWEIGHT in the short term due to elevated recession risk and uncertainty around growth and inflation; UNDERWEIGHT in the longer term as we expect opportunities to add exposure to risk assets in 2H2023.
MULTI ASSETS	FIXED INCOME		●	⇨	●	OVERWEIGHT both short & longer term - compared to the volatility in 2022, we expect interest rates, and therefore fixed income, to be more stable in 2023, allowing investors to take advantage of the yields on offer. However, to benefit from yields, you need to be a medium-term investor to withstand any near-term volatility - as we head into recession, credit spreads could widen further.
MULTI ASSETS	EQUITY	● ⇦		●		UNDERWEIGHT in the short term - we don't think equity valuations are as attractive as fixed income and we need earnings expectations to come down further given recessionary risks. NEUTRAL in the longer term as we see possibility of a Fed cut in 4Q2023. Prefer Asia over US equities for better growth and cheaper valuations.
MULTI ASSETS	ALTERNATIVE	●		●		NEUTRAL both short & longer term as a portfolio diversifier, in particular an effective hedge against geopolitical risk.
EQUITY	LOCAL EQUITY	●		●		NEUTRAL both short & longer term. We are neutral on the recently announced slimmer new cabinet, aimed at stabilizing the unity government. Investors will likely be focusing on government policies to tackle cost of living and tabling of Budget 2023F, likely in 1Q23F. We believe KLCI could move higher if 1) market sentiment improves on expectation of slower rate hike, and 2) relaxation of China's zero-Covid policy. Our end-2023F KLCI target is 1633. Key potential catalysts are synergies from M&As, clarity on government policies, and higher-than-expected tourist arrivals. Key downside risks are slower global growth, regulatory risks, higher taxes, and political uncertainties.
EQUITY	REGIONAL EQUITY		●		●	Regional equity could perform better as (1) the worst is likely over for Chinese equities on attractive valuation, reopening from lockdown, signs of policy easing & regulations turning more supportive (2) a sooner and meaningful shift or easing in China zero-Covid policy would be a positive catalyst (3) rising commodity prices is tailwind for Asian commodity exporters through rising terms of trade, stronger growth, and improvement in fiscal and current account balances (4) Asia especially China and ASEAN provide value opportunities (5) Asian equities have historically displayed a strong inverse correlation to the US dollar - hence, a potentially weaker USD would help. Key risks are: (1) Covid-19 variant (2) aggressive FED rate hikes, resulting in very strong USD (3) higher government bond yields drive financing cost higher (4) sustained inflationary pressure (5) geopolitical tensions (6) Chinese American Depositary Receipts (ADRs) de-listing concerns (7) Chinese property, local government financing vehicle and rural bank credit concerns.

Note: UW=UNDERWEIGHT, OW=OVERWEIGHT, BLACK DOT=NEUTRAL.
NEUTRAL allocation equals to the Model Portfolios Allocation for respective risk profiles.

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		UW	OW	UW	OW	
EQUITY	US EQUITY	● ⇦		● ⇦		We are short term UNDERWEIGHT, longer term NEUTRAL. US equity is trading at relative P/E highs, and could lose some of the strong run that it delivered over the past 10 years. In our view, consensus earnings expectation has room to fall further given elevated recession risk. Neutral in the longer term as we see possibility of a Fed cut in 4Q2023.
	EUROPEAN EQUITY	●		●		We are UNDERWEIGHT both short & longer term. Despite the recent rally, European assets are at risk given our view on recession, continued energy crisis, and war in the east, which is unlikely to be resolved in the near term.
	JAPANESE EQUITY	●		●		We remain NEUTRAL as Japan should be relatively resilient due to solid corporate earnings from the economic reopening, attractive valuation, smaller inflation risk vs other markets, and an upcoming end to Yield Curve Control could be seen as a positive. However, a strong Yen is typically a headwind for Japanese earnings.
ALTERNATIVE	GOLD	●		●		We have a NEUTRAL weight on Gold (both short and longer term) as it is an effective portfolio diversifier during periods of equity volatility - given its appeal as a hedge against inflation, geopolitical risk, pandemic risks, increasing recession risk and potential risks resulting from large fiscal spending. As global inflation moderates and central banks pause rate hike, we expect downward pressure on gold prices to ease. We maintain our gold price forecast range of USD1,750-1,850 over the next 12 months with and end-2023 target of USD1,850. Key potential catalysts: (1) Deep recession (2) potential flare-ups in geopolitical tensions. Key risks: (1) inflation re-accelerates, more rate hike (2) faster than expected economic growth (3) swift de-escalation of Russian-Ukraine crisis.
	OIL	●		●		We have a NEUTRAL weight on Oil (both short and longer term) as it is increasingly playing a role of a portfolio diversifier, in particular an effective hedge against inflation & geopolitical risk. Our oil forecast is bearish (WTI end-2023F is $70/bbl) as downward revisions of global growth outlook have weakened the demand outlook for oil. Surging Covid-19 cases are suppressing domestic demand in China and a high price cap on Russia's oil exports that will have limited impact leads us to expect oil prices to remain depressed in the near-term amidst a volatile global backdrop. Key potential catalysts: (1) stronger demand from China reopening (2) geopolitical risk (3) OPEC+ alliance cut production to keep oil markets balanced as Russian oil production normalize. Key risks: (1) weak global growth (2) Russian oil production may fully normalize to pre-war levels by mid-2023 (3) increased US shale production (5) US-Iran nuclear deal that could return ~4mbpd of Iranian oil to the market.

Note: UW=UNDERWEIGHT, OW=OVERWEIGHT, BLACK DOT=NEUTRAL.
NEUTRAL allocation equals to the Model Portfolios Allocation for respective risk profiles.

Interest Rates Up, Economic Growth Down

The good news first - the worst of the Covid-19 pandemic seems to have passed in 2022 with most countries around the world choosing “to live with it” without any adverse impacts on their healthcare systems. This leads to a pick-up in global in person activities, allowing more economies to benefit from a broader-based rebound in service-producing industries. But this stronger demand added to some service-related inflation pressure. The bad news is that after two solid years of strong growth, global manufacturing conditions have softened with the JPMorgan-S&P Global Manufacturing Purchasing Managers' Index, compiled by S&P Global, falling further into contraction territory in Q4 amid a further downturn in global trade flows, a war in Europe, inflation at a 40-year high forcing major central banks in developed markets to tighten their monetary policies sharply and quickly.

Can the world avoid a recession in 2023?

The pace of global economic outlook is set to be weaker in 2023 with the main drag force being the lagged effects of the aggressive pace of global monetary policy tightening led by the US central bank to tackle multi-decade elevated inflation pressure. Although the commodity prices peaked out in 1H22, with the UN FAO Food Price Index falling further to 135.7 in November 2022 from 135.9 in October 2022, and sharply below a record high of 159.7 hit in March 2022, it is still above the pre-Ukraine war levels (120.8 in 1H21).

The global economy should avoid a recession in 2023 according to the Organization for Economic Cooperation and Development (OECD) in its November update to its Economic Outlook publication. But the OECD warned that the worst energy crisis since the 1970s will trigger a sharp slowdown, with Europe hit hardest. Energy prices, Ukraine and China's reopening remain the biggest wild cards in the coming months.

The OECD forecast that global economic growth would slow from 3.1% in 2022 - slightly more than the OECD foresaw in its September projections - to 2.2% in 2023, before recovering to 2.7% in 2024.

Prospects in the Asia Pacific region, where many countries have relatively low inflation and policy support is projected to grow at faster pace again than overall global growth in 2022 and 2023.

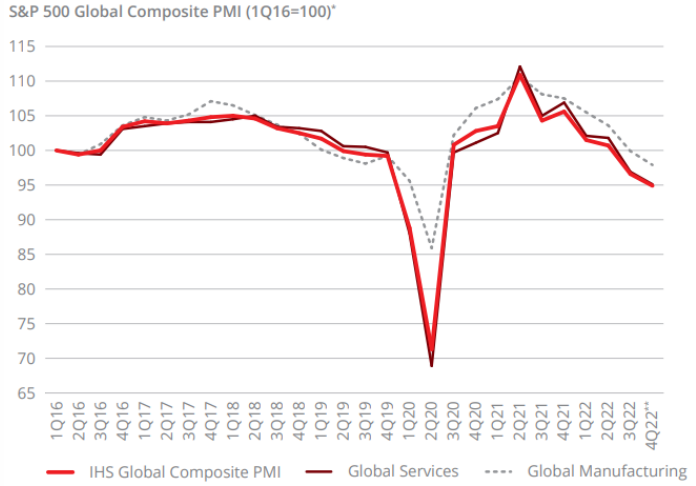
In China, recurring waves of lockdowns have disrupted economic activity in 2022. With weaker housing investment also remaining a significant headwind, growth in 2023 and 2024 will be sustained by infrastructure investment and other measures to moderate the correction in the real estate sector. After 3.3% in 2022, GDP growth is projected to pick up to 4.6% in 2023 before easing to 4.1% in 2024, according to the OECD report in November 2022.

Growth in ASEAN10 is projected to remain buoyant owing to firm demand for the region's main export commodities, as well as pent-up consumption from the pandemic period. ASEAN GDP growth will remain close to 5% in 2023 vs. 5.1% in 2022, according to the Asian Development Bank in an update to its Asian Development Outlook 2022, while inflation should fall back to 4.1% in 2023 from an estimated 5.2% in 2022 as the effects of monetary tightening are felt.

Downside risks? A sharper-than-forecast deceleration in global growth, stronger-than-expected monetary policy tightening in advanced economies, worsened global geopolitical risks as well as and negative pandemic developments could all dent Asia and ASEAN's growth.

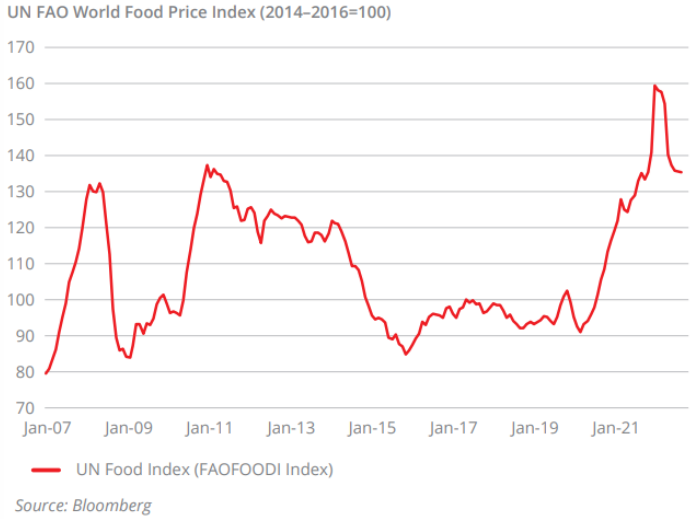
Globally, inflation will remain high in 2023 but will moderate. Inflationary pressures intensified in 2022, largely due to the war in Ukraine, which pushed up energy and food commodity prices, triggering higher prices across a broad basket of goods and services. As tighter monetary policy takes effect and energy and other commodity price pressures ease, inflation across the developed economies should ease on a year-on-year, especially given the higher bases of comparison and decelerating growth. Consumer price inflation in OECD countries is forecast to ease from more than 9% in 2022 to 5.1% by 2024. Price pressures in the US will recede as energy prices stabilise and demand slows, but core inflation is not projected to return to the vicinity of the Federal Reserve target until late 2024, according to the latest OECD economic report. As such, there is still some uncertainty around the actual policy path of the US Federal Reserve over the next 12 to 24 months.

Chart 1: Global growth momentum continues to slow



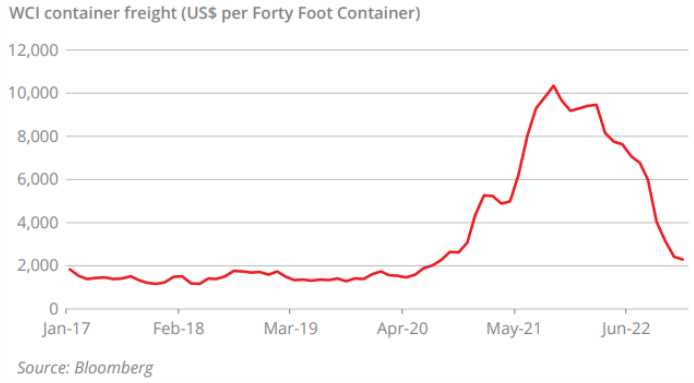
*Monthly S&P Global PMIs rebased to 1Q=100 ** Based on Oct and prelim Nov22 data
Source: S&P Global, Bloomberg

Chart 2: Global food prices have peaked but remain high



Source: Bloomberg

Chart 3: Cost of shipping goods have tumbled



Source: Bloomberg

Table 1: ADB's ASEAN Growth and Inflation Forecast

GDP growth (%YoY)	2021	2022	2023
ASEAN10	3.3	5.1	5.0
Brunei	-1.6	2.2	3.6
Cambodia	3.0	5.3	6.2
Indonesia	3.7	5.4	5.0
Loas	2.3	2.5	3.5
Malaysia	3.1	6.0	4.7
Myanmar	-5.9	2.0	2.6
Philippines	5.7	6.5	6.3
Singapore	7.6	3.7	3.0
Thailand	1.5	2.9	4.2
Vietnam	2.6	6.5	6.7
Inflation (%YoY)	**2021**	**2022**	**2023**
Developing Asia*	4.1	6.6	5.5
East Asia	1.1	2.5	2.5
ASEAN10	2.0	5.2	4.1

** excluding China*
Source: ADB's Asian Development Outlook 2022 Update (Sep 2022)

Policy vs economic health. We think a slower pace of Fed rate hikes in the next few policy meetings could provide near term market support. However, inflationary pressures and higher interest rates will constrict growth prospects in 2023F. The US will likely experience a shallow recession sometime in 2023F, but we expect growth in Asian economies helped by China's policy easing and gradual reopening. The recent peaking of the US dollar, improved dialogue between the US and China presidents, and relative market valuations are additional reasons to prefer Asian equities over US equities. We would look for opportunities to add beaten-down stocks that have clear competitive strengths to outperform over the medium term.

Opportunities. We believe thematics that may play out include: 1. Peaking sovereign yields in 1H 2023F as policy rates reach a plateau – potential beneficiaries include REITs and structural growth stocks that had previously de-rated on rate hike concerns. 2. China's reopening – potential beneficiaries include regional travel and domestic consumption plays.

Key risks: 1. Sharp global economic slowdown. 2. Geopolitical tensions – between US and China, Russia and Ukraine. 3. Investor-unfriendly government policies, particularly in China and/or Malaysia.

US – On recession and earnings watch. We believe the US equity market has not fully priced in a potential recession and further risks in earnings revision. Consensus forecasts aggregate earnings growth for the S&P 500 index of 5.5% in 2022F and 3.1% in 2023F. Further earnings downgrades would weigh on equity performance.

US equities could remain volatile as investors watch for key economic data. The Fed's stance on smaller quantum rate hikes that will be data dependent going forward could provide some near term support to the market. However, Asian indices are considerably more attractive than the US S&P 500 index, in PER, earnings growth and price-to book terms, and the prospective environment of US and Europe facing recessionary conditions, vis-a-vis the fairly resilient growth conditions in Asia. We would watch for pullbacks to accumulate quality leaders, particularly within the technology and consumer (services and discretionary) sectors, for medium term upside.

HK/China – Stars aligned for reopening. The outcome of the National People's Congress in October was long term negative for China, in our view, as key leadership changes implied tighter social control and a likely continuation of the 'Common Prosperity' agenda. However, highly supportive policies were announced soon after to drive a cyclical recovery. Among these were financing support for the embattled property sector and significant easing of Covid-19 restrictions in China.

Although US-China relations appear to be warming, underlying issues are not easily resolved. At the forefront is the US CHIPS Act which prohibits US firms from selling advanced semiconductors to China. This will have negative repercussions on China's electric vehicle and server sectors, among others. The market has arguably priced in significant concerns with the Hang Seng Index having de-rated to 9.4x 2023F PER and 1.1x P/B. We would position in consumer and travel stocks to ride on the reopening, and Hong Kong blue chips for the longer term.

Singapore – A safe haven. We view Singapore as a safe haven with a selection of quality companies offering steady growth prospects and attractive dividend yields. GDP growth is expected to moderate to 2.2% in 2023F due to the global slowdown, albeit the impact will be cushioned by China's reopening.

However, STI corporate earnings growth is forecasted to remain strong at 18.6% in 2023F, driven by higher earnings from banks, REITs, telco and consumer sectors. Market valuations are supportive with the STI trading at 10.8x 2023F PER and 4.8% yield, according to Bloomberg estimates. We believe investors should gradually rotate from banks to REITs in 1Q 2023F, ahead of the anticipated pause in Fed rate hikes.

Malaysia – A new government. The stock market staged a short relief rally benefitting sin stocks (gaming and brewers) and large caps after Datuk Seri Anwar Ibrahim (DSAI) was sworn in as Malaysia's 10th Prime Minister on 24 November 2022.

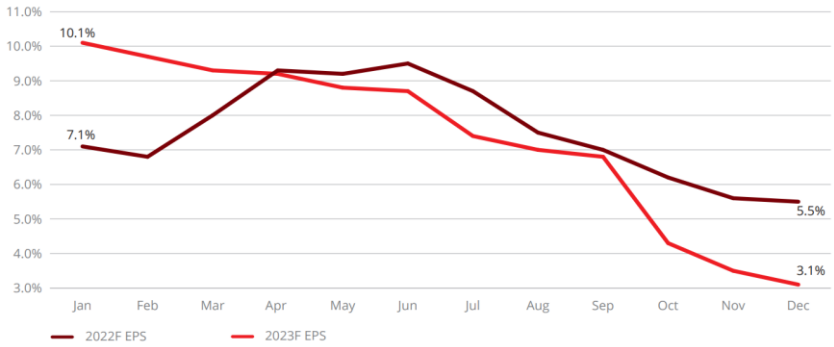
The new DSAI-led government is expected to be reform-minded, but compromise with coalition partners (to create the coalition) may limit the extent of reforms possible. Government spending in 2023-24F is poised to be reset by a new Budget plan expected in 1Q 2023F, and initial predictions are for flat or less spending (no big new projects). The political stability so sought after is within striking distance. Potential fund inflows, coupled with Malaysia's 12.8% expected earnings growth in 2023F helped by the absence of Cukai Makmur, could re-rate the FBMKLCI from subdued levels in the past few years.

Table 2: Asian Markets offer cheaper valuations and higher growth than the US market

	US	HK/CHINA	SINGAPORE	MALAYSIA
Index levels on 15 Dec 2022	3,995	19,369	3,272	1,467
YTD index price performance	-16.2%	-17.2%	4.8%	-6.4%
2023F PER (x)	**17.4**	**9.4**	**10.8**	**13.0**
5-year mean PER (x)	18.6	10.8	12.9	15.3
2022F EPS growth	5.5%	20.2%	24.4%	-2.9%
2023F EPS growth	3.1%	13.6%	18.6%	12.8%
2023F ROE	21.7%	11.2%	9.9%	11.1%
2022F P/B (x)	3.84	1.12	1.08	1.44
2023F dividend yield	1.8%	3.8%	4.8%	4.5%

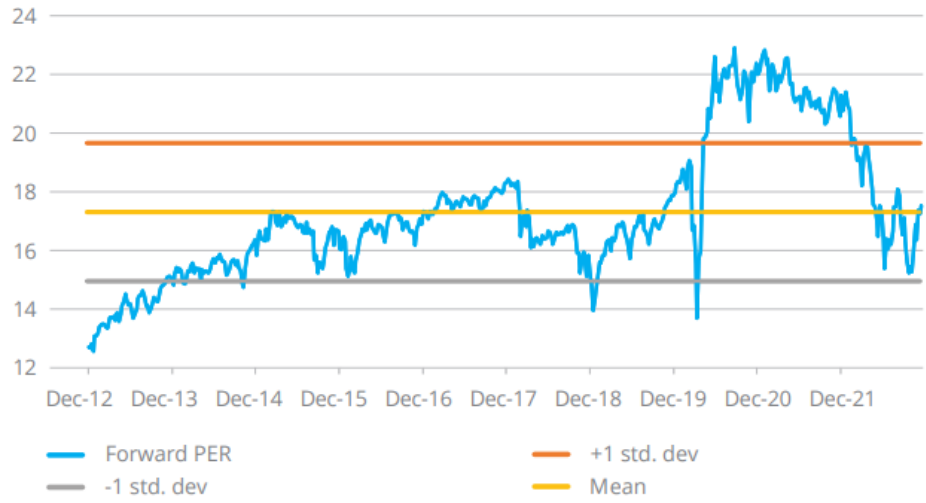
Source: Bloomberg, CIMB Private Banking *As at 15 Dec 2022*

Chart 4: S&P 500 earnings revisions are on a downward trend S&P 500 earnings revisions are on a downward trend



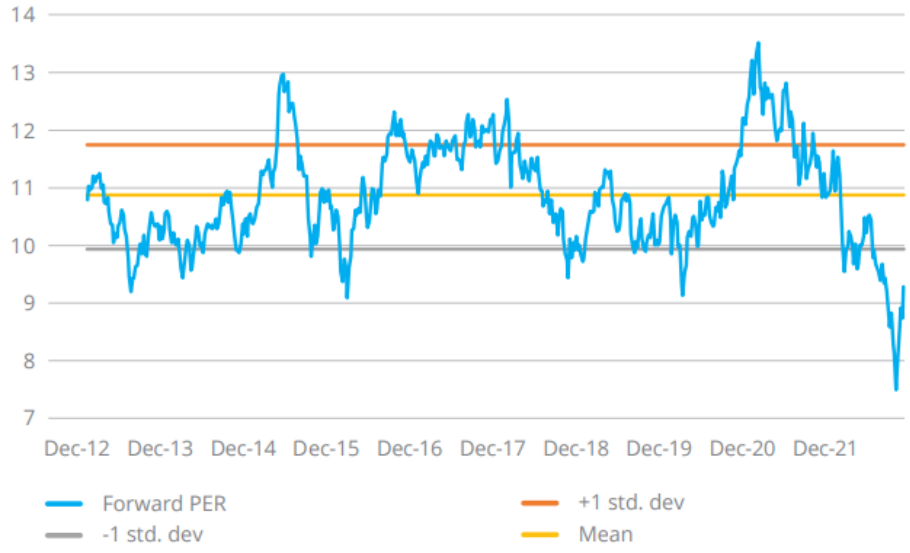
Source: Bloomberg, CIMB Private Banking

Chart 5: S&P 500 Index is trading at its 10-year mean



Source: Bloomberg, CIMB Private Banking

Chart 6: Hang Seng Index is trading -1.5 std. dev. below historical mean



Source: Bloomberg, CIMB Private Banking

One swallow does not make a summer. Recent US inflation data indicate that the pressure has begun to decline, but we believe more inflation downside surprises are needed to form a bullish bond trend. UST yields are likely to consolidate or rebound after the recent gap-down rally, before they trend sideways within a narrow trading range. Although the Fed chair has signalled for a slower pace of rate hikes during a speech on fiscal and monetary policy in Washington, D.C. at the Brookings Institution in November, the policy rate is still set to be pushed higher in the coming quarter and expected to remain restrictive for some time. The still-strong US labor market could support a long period of elevated inflation and interest rates, which is against what many market players have positioned for. From a technical perspective, 10Y UST yield is peaking and has not entered into a firm downtrend (see Chart 7). Hence, we are cautious over the optimism in the UST market and the recent yield compression.

US recession not fully reflected. There is considerable uncertainty over whether the Fed can deliver a soft landing, which makes positioning a bond portfolio for what may lie ahead somewhat challenging. We believe that the threat of US recession is not fully reflected in the US corporate bonds spreads, and that is ahead of us. As the US economy treads closer to a cyclical downturn, fears about deteriorating corporate credit profiles and credit events are likely to drive the US bond spreads higher, possibly reverting to the July 2022 peak levels (IG spread: T+200bps, HY spread: T+600bps; see Chart 9).

Prefer Investment Grade (IG) over High Yield (HY). Both segments of the USD bond market will head into the new year from different positions. US IG bonds have seen milder spread tightening recently and therefore could experience less spread widening in 1H23, which can be neutralized by a mild compression in UST yields. We expect US IG bonds to deliver flat to mildly positive total returns in 1H23. Meanwhile, US HY bond spreads have tightened by c.170bps from their recent peak, outperforming the US IG bonds by a significant margin (US IG spreads were just c.40bps tighter). This leaves the US HY bonds more vulnerable to spread widening in 2023 as credit sentiment deteriorates. The US HY spreads could widen out to T+600bps by end-1H23 and a mild compression in the UST yield will not be able to fully neutralize the impact, resulting in negative total returns for the US HY bonds.

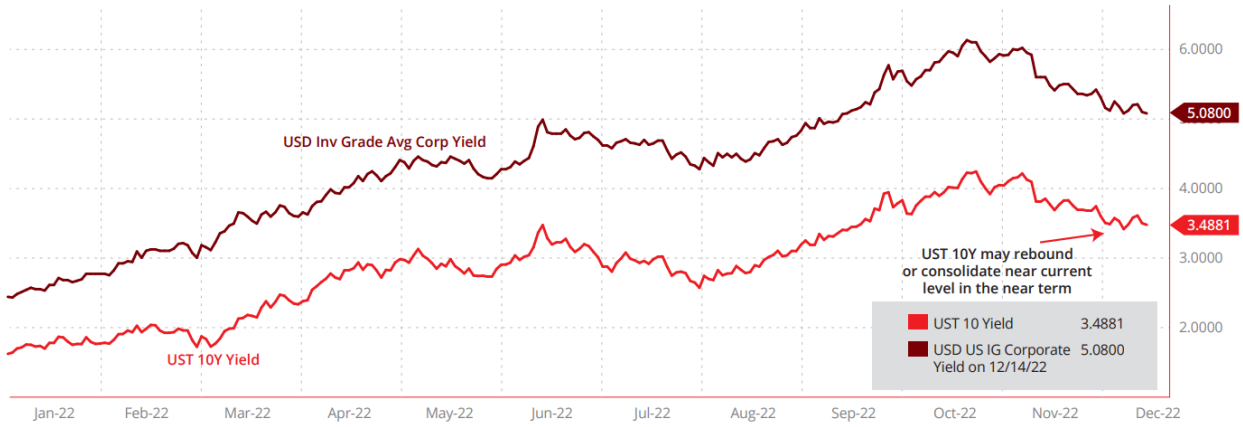
IG first, HY later. We believe the best strategy for 1H23 is to position in US IG bonds first and then switch to US HY bonds after the HY spreads have widened sufficiently. In 2H23, once the worst of the recession is upon us, we believe total returns will be chiefly driven by spread tightening. A recession would be mild in our view as central banks can deploy a range of counter-cyclical tools.

Add duration at peak yields. If US recession is the central case, then investors should seek higher duration rather than extending down the credit curve to find yields. Duration benefits from monetary easing and yield curve flattening while lower credits suffer from spread widening during a recession. We are extending our tenor recommendation to include 10-year bonds.

Opportunity in the UK. The GBP bond market has curiously turned from a fiscal mine field into a land of opportunity after recovering from the mini-budget mayhem and LDI turmoil. Firstly, the UK is closer to (if not already in) a recession than other developed markets, leaving the BOE with less room for further tightening. Secondly, with GBP IG spreads still trading at the high-end of the range, the market has priced in a high degree of economic uncertainty comparable to the early periods of the Covid-19 pandemic. And lastly, the Bank of England is further ahead in the tightening cycle than other European countries, allowing them to pause rate hikes (or slow down) sooner than others. Though some risks remain, the bar is low for GBP IG bonds to surprise to the upside. Since the yield peak in October, GBP IG yields have already rallied by c.180bps alongside the Gilts (see Chart 8).

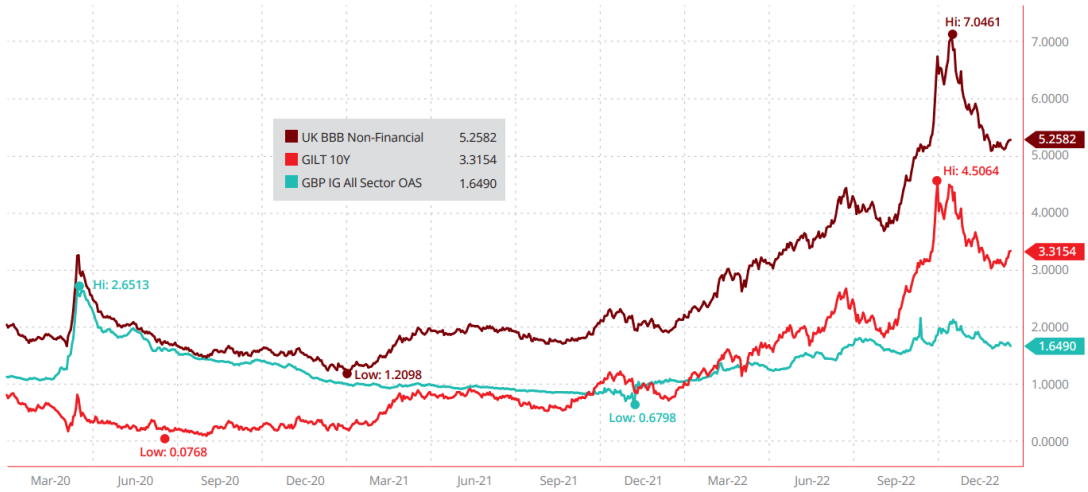
Key risks to our view. (i) Should the Fed fail to soften the US labor market and wage cost pressure, a wage-cost spiral could develop, leading to inflation re-accelerating at some point. (ii) Weaker than expected economic recovery could lead to wider US corporate bond spreads. Since markets do not operate in a vacuum, spread widening in the US could spill over into other markets. (iii) A steeper and prolonged US recession puts the bond market at greater risk of becoming dysfunctional.

Chart 7: UST 10Y yield may rebound or consolidate near current level, has not entered a downtrend yet



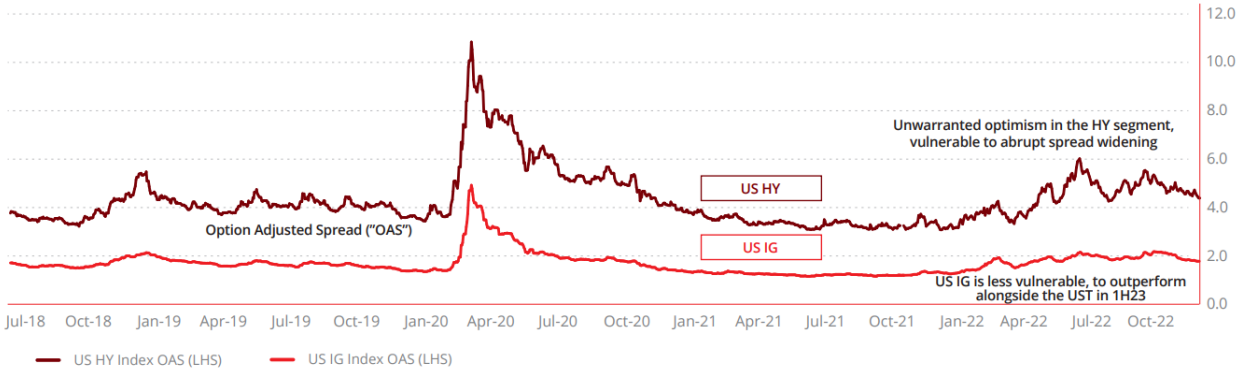
Source: Bloomberg

Chart 8: GBP IG Corp Bonds starting from a position of weakness, poised to deliver positive total return in 2023



Source: Bloomberg

Chart 9: Recession risk not fully reflected in the US Corp bond spreads; US IG to perform better in 1H23 alongside the UST; US HY to catch up in 2H23



Source: Ice Data Indices, LLC, Federal Reserve Bank of St. Louis

We believe the USD peaked when the dollar index, DXY, reached a high of 114.8 (28 Sept 22). In 2023, the DXY could stage a rebound in 1Q23 to approximately quarter of its decline, or around 106. This rebound in the DXY should be fueled by expectations for US's monetary policy to remain tight with the FFR potentially peaking in 1Q23 while other central banks are likely to pause rate hikes before the Fed. Expectations for USD to rebound or gain in 1Q23 should keep the pressure on other Majors (AUD, GBP, EUR and JPY).

FX	***Commentary***
USD	**USD** should remain supported and could gain in 1Q23. Despite expectations for the Fed to moderate rate increases in 2023, Fed Chair Powell signaled (mid-December, Fed Press Conference) that rates will be higher for longer until inflation moves down to 2% in a sustained way. CIMB Treasury expects the FFR to peak by end-1Q23 which reflects the narrative of the USD strengthening at least by 1Q23 and weaken thereafter. Overall, a continuation of hawkish Fed rhetoric should keep the USD supported in the coming quarter but the USD's direction remains data dependent.
EUR	**EUR**'s outlook in 1Q23 is still biased lower due to stagflation in EU. From a monetary policy perspective, the ECB remaining on the path of tightening will narrow the rate differential, supportive of the EUR. However, a continuation on this path will dampen growth and limit significant EUR gains at least in the coming quarter. EUR should however gain thereafter supported by expectations of a weaker USD and as current headwind eases. EURUSD is expected to end 2023 higher at 1.10.
JPY	With the lack of domestic catalyst, external factors will continue to dictate **JPY**'s overall direction. The widening policy divergence with the BOJ being one of the few outliers will continue to be a headwind for JPY. In 1Q23, JPY will remain under pressure due to rate differential expectations. However, periods of support will be in the form of BOJ intervening against JPY's depreciation and if there a shift from BOJ's current stance. USD weakness further out in 2023 will also be supportive of JPY with USDJPY expected to end 2023 at 130.
GBP	In 2023, **GBP** remain prone to weakness due to the potential lower peak in BOE's rate ceiling and recession concerns. These factors along with expectation for USD to gain in 1Q23 will induce GBP weakness. GBP however, has room to gain once USD loses momentum but significant gains remains limited due to longer-term headwinds such as post-Brexit uncertainties under the new leadership of PM Rishi Sunak, challenging growth-inflation accord and weaker financial account position.
AUD	**AUD** should continue to trade in a range bound manner in 2023 due to competing factors. In 1Q23, brewing global growth concerns and expectation for USD to strengthen should keep a lid on AUD strength. AUD has room to gain potentially further out in 2023 once USD loses momentum and as China reopening tailwinds gains traction. However, headwinds including developments over global growth, impacting demand for commodities will limit near term AUD gains.

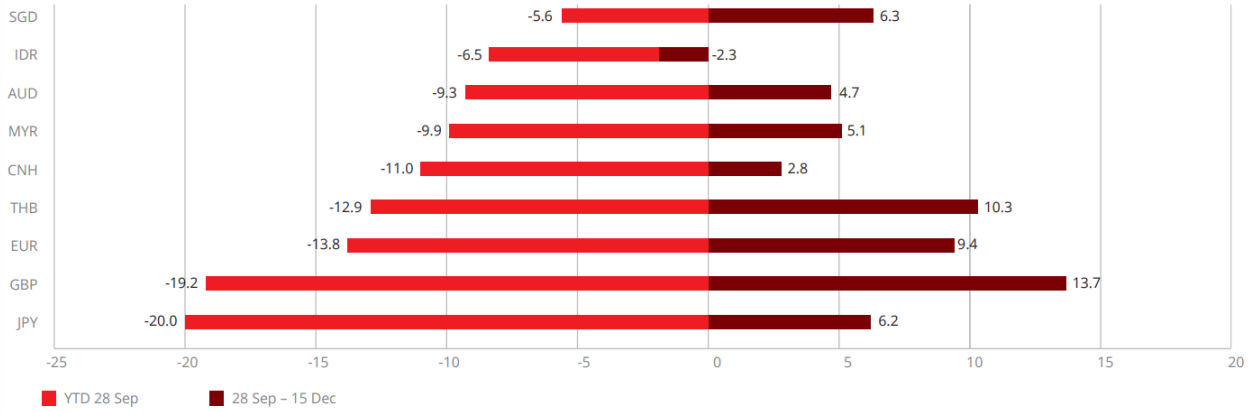
FX	*Commentary*
CNH	Optimism surrounding looser COVID restrictions after growing unrest in China has been supportive of the **CNH** and the CNH should continue to gain further out in 2023 as its economy recovers. In 1Q23, CNH is expected to remain under pressure due to the divergence in rate differential. Further out in 2023, CNH has room to gain pending clarity on China's policies but until then, CNH's gains will be limited.
IDR	Bank Indonesia (BI) delivered cumulative hikes of 175bps as of Nov 22 to combat high inflation and maintain **IDR**'s stability. ID's core inflation is expected to peak at 3.7% in 1Q23 (BI's target range 2-4%), suggesting that the 7dRRR should peak by 1Q23 which resonates with CIMB's house view for FFR to peak by 1Q23. As such, BI's pace of monetary tightening is expected to moderate and two 25bp hikes is projected by 1Q23. Overall, IDR is expected to gain further out in 2023, supported by healthy interest rate differential with the US and commodity exports.
THB	Thailand's (TH) economic recovery momentum driven mainly by private consumption activities and tourism continues to be sturdy, supportive of the **THB.** In 2023, global economic growth weakness is expected to dampen TH's growth prospects, impacting exports and tourism activities. Inflationary pressures on the other hand is expected to remain elevated due to revisions in electricity tariffs with headline inflation only expected to ease between 1.0-3.0% by end-2023. Overall, THB remains prone to weakness in 1Q23 but should gain further out in 2023 supported by sizeable upside to tourism receipts and easing current account pressures from energy imports.
MYR	**MYR** has room to weaken in early 2023 due to expectation for USD strength and potential political/policy uncertainties within the unity government. From a monetary policy perspective, BNM is expected to continue raising rates by another 50bps to peak around 3.25% by 1Q23, supportive of the MYR. Overall, headwinds surrounding global growth concerns impacting demand for commodities will limit near term MYR strength. However, in the 12-month horizon, MYR is favored due to its resilient macro backdrop.
SGD	**SGD** may succumb to weakness in 1Q23 as regional central banks catch-up on policies while brewing global growth concerns should limit SGD upside. The ease in SG's inflation print (from highs in Sept 22) and MAS's projection for SG's economy to slow to below-trend pace in 2023 (MAS October Monetary Policy Statement) amid weakening external demand, could result in MAS opting for a more moderate approach in 2023. MAS shifting away from tightening should see some SGD retracement but MAS remaining pro-active to upcoming developments should also limit significant SGD downside.

Table 3: Selected Currency Forecasts

Pair	1Q23	2Q23	3Q23	4Q23	1Q24
DXY	105.9	104.9	103.5	101.1	100.0
EURUSD	1.05	1.05	1.07	1.10	1.12
USDJPY	139	136	133	130	132
GBPUSD	1.18	1.20	1.18	1.21	1.22
AUDUSD	0.65	0.67	0.69	0.72	0.73
USDCNH	7.11	7.00	6.85	6.71	6.60
USDSGD	1.35	1.34	1.30	1.31	1.31
USDMYR	4.40	4.36	4.33	4.30	4.27
USDIDR	15,463	15,497	15,549	15,635	15,677
USDTHB	35.26	34.50	34.14	33.54	33.26

Source: CIMB Treasury & Markets Research *As at 9 Dec 2022*

Chart 10: Performance of FX pairs against USD



Source: Bloomberg

KEY POINTS:

- The Russia-Ukraine war would accelerate the roll-out of renewable energy investment
- Hence, ESG investment theme will continue to gain global investors attention

While COVID-19 accelerated the adoption of technology among industries and sectors, the war between Russia-Ukraine would likely accelerate the roll-out of renewable energy investment, especially in the European Union countries. After the invasion of Ukraine by Russian forces, Europe is at risk of sliding into an energy crisis triggered by much of the continent's reliance on Russian gas, which arrives via pipelines. Among Europe's major economies, Germany imports around half of its gas from Russia, Italy would also be among the most impacted at a 46%. The European Union announced on 8 Mar 2022 it will reduce its purchases of Russian gas by two-thirds before the end of the year, in response to the country's invasion of Ukraine. Here's the selected ways how they could achieve it.

- ✓ Accelerating the rollout of renewables, both wind and solar, and heat pumps. For solar, the EU should accelerate the rollout of rooftop solar systems up to 15 terawatt-hours this year, which would save 2.5 billion cubic meters of gas. The European Commission promised a fuller communication on the EU's solar strategy in June. The EU also proposes rolling out 10 million heat pumps in the next five years.
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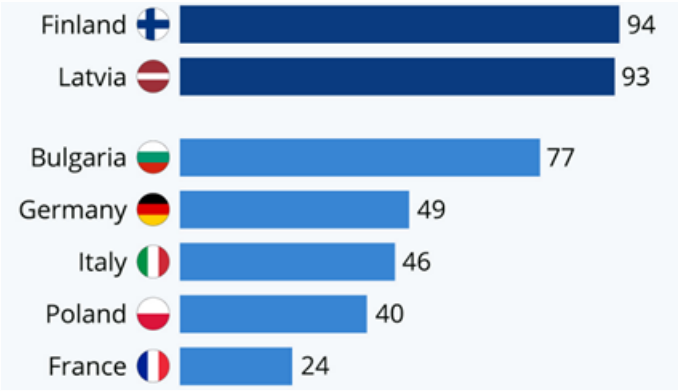
Chart 11 – % Share of the European countries gas supply from Russia (2020)



Note: Ukraine buys its gas from the EU since 2015.

Source: Statista, European Union Agency for Cooperation of Energy Regulators – 2020.

The Recent UN Climate Change Conference

The UN Climate Change Conference COP26 has taken encouraging steps towards additional major climate pledges and policy agreements to further the development and deployment of technologies that can help deliver a significant reduction in CO2 and methane emissions, as well as restore and protect the world's natural capital. The principal areas of focus at COP26 includes:

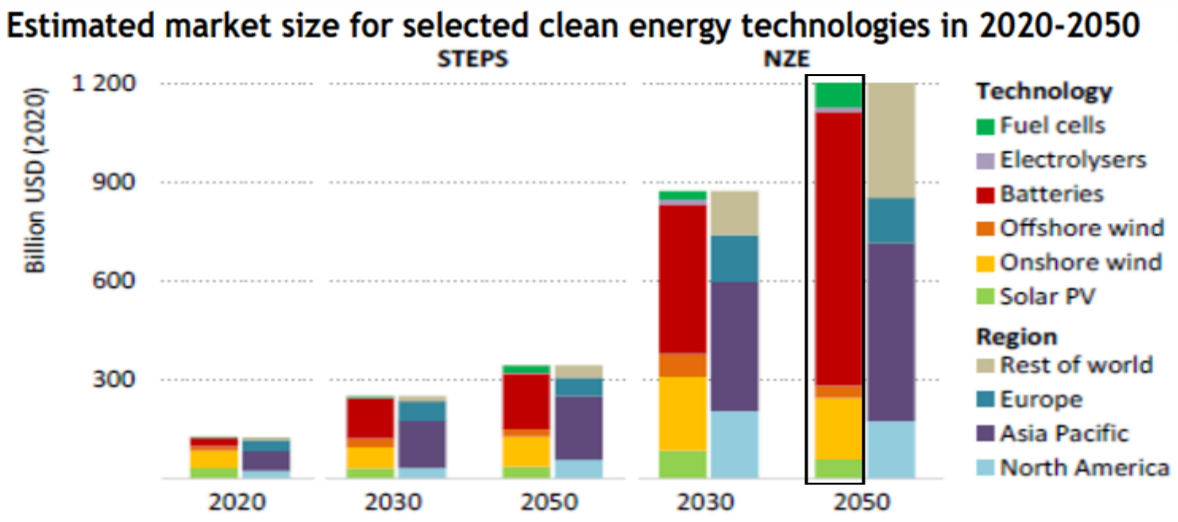
- Green hydrogen
- Residential solar energy
- Offshore wind energy development
- Energy storage to reduce carbon emissions
- Practical packaging solutions to reduce plastic pollution
- Land-based fish farming to address fish depletion
- Sustainable farming methods to protect the world's soils.

Major Commitment from the Major Players

In the US, President Joe Biden pledged for a clean energy revolution through recommitting the US to the Paris agreement on climate change, proposing US electricity production carbon-free by 2035 and the country to achieve net zero emission by 2050 by spending USD 2 trillion on upgrading 4 million buildings to improve energy efficiency, upgrading public transport by investing in electric vehicle manufacturing and charging points.

In China, President Xi has also announced commitment to achieve carbon neutrality by 2060. There are 3 clusters: power (essentially focused on solar and wind), mobility (the electrical vehicles ecosystem) and environmental industries (including carbon capture and storage, waste management and engineering firms active in boosting energy efficiency).

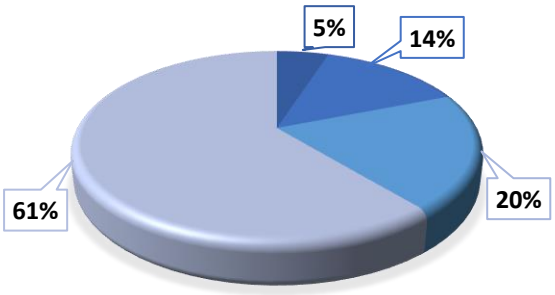
Chart 12 - Investments are increasingly being directed towards clean energy rather than traditional fossil fuels, under the Stated Policies Scenario (STEPS) and Net Zero Emissions by 2050 (NZE)



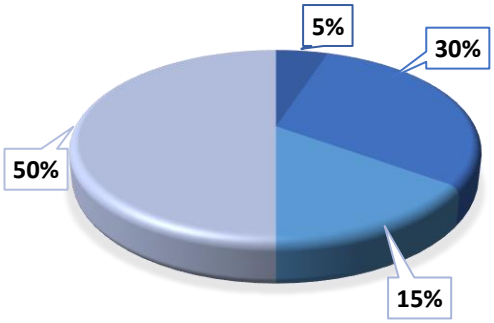
Source: IEA World Energy Outlook 2021, UN foundation.org

1H2023 Model Portfolio

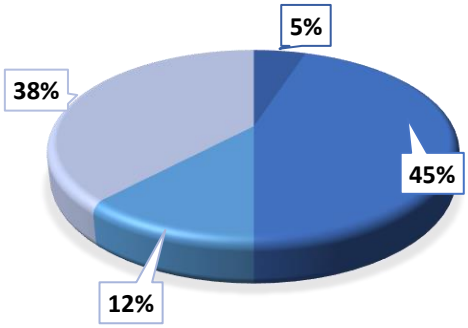
DEFENSIVE



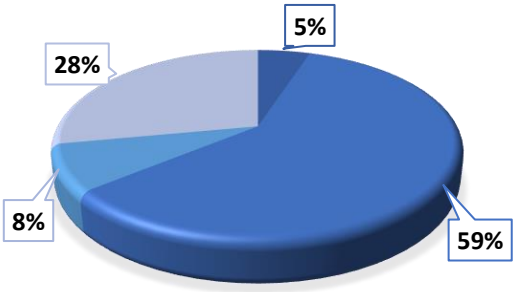
CONSERVATIVE



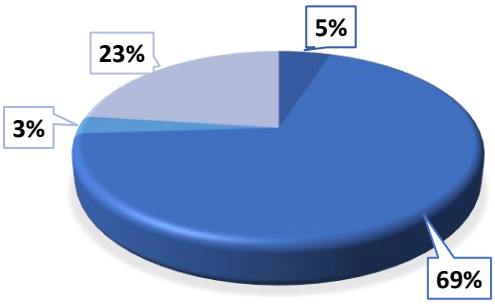
BALANCED



GROWTH



AGGRESSIVE



ASSET CLASSES:

- Equity
- Fixed Income
- Cash
- Alternative

CIMB

Source: CIMB Investment Research & Wealth Advisory.
Note: Equity includes Local Equity, Regional Equity & Global Equity. Alternative includes Gold & Crude Oil.

GLOBAL & REGIONAL FORECAST

CIMB

Economic forecasts

	2020	2021	2022	2023	2024
GDP growth					
US	-3.4	5.7	1.5	0.2	1.8
Malaysia	-5.6	3.1	8.2	4.0	5.3
Indonesia	-2.1	3.7	5.3	5.2	5.0
Singapore	-4.1	7.6	3.9	2.2	3.5
Thailand	-6.1	1.6	3.3	3.5	3.8

	2020	2021	2022	2023	2024
Inflation					
US	1.2	4.7	8.1	4.0	2.3
Malaysia	-1.1	2.5	3.3	2.8	2.2
Indonesia	2.0	1.6	4.2	3.7	3.0
Singapore	-0.2	2.3	6.0	3.9	2.9
Thailand	-0.8	1.1	6.0	3.0	2.0

Policy rate forecasts

	1Q23	2Q23	3Q23	4Q23	1Q24
Policy rates					
US (upper bound)	5.25	5.25	5.25	5.00	4.50
Eurozone	3.00	3.00	3.00	3.00	2.75
Malaysia	3.25	3.25	3.25	3.25	3.25
Indonesia	5.75	5.75	5.75	5.75	5.25
Thailand	1.75	1.75	1.75	1.75	1.75

Commodity price forecasts

	1Q23	2Q23	3Q23	4Q23	1Q24
Commodity prices (average)					
Brent (USD/bbl)	85	80	78	75	80
WTI (USD/bbl)	80	75	73	70	75
CPO (RM/ton)	4,100	3,800	3,700	3,700	4,000
Gold (USD/oz)	1,800	1,820	1,835	1,850	1,850
Copper (USD/ton)	8,250	8,250	8,500	8,350	8,600

Rates forecasts

	1Q23	2Q23	3Q23	4Q23	1Q24
Bond yields					
UST 2Y	4.25	4.05	3.80	3.60	3.45
UST 10Y	3.55	3.55	3.50	3.50	3.50
MGS 3Y	3.60	3.45	3.35	3.30	3.25
MGS 10Y	4.15	4.10	4.00	3.90	3.75
IndoGB 2Y	6.25	6.15	6.00	5.90	5.75
IndoGB 10Y	6.90	6.80	6.70	6.70	6.65
SGS 2Y	3.10	2.85	2.60	2.30	2.15
SGS 10Y	2.90	2.90	2.80	2.75	2.60
Thai GB 2Y	1.75	1.65	1.50	1.45	1.40
Thai GB 10Y	2.55	2.50	2.50	2.45	2.30

Currency forecasts

	1Q23	2Q23	3Q23	4Q23	1Q24
Currencies					
DXY	105.9	104.9	103.5	101.1	100.0
EURUSD	1.05	1.05	1.07	1.10	1.12
USDJPY	139	136	133	130	132
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USDSGD	1.35	1.34	1.30	1.31	1.31
USDTHB	35.26	34.50	34.14	33.54	33.26

Stock Indices – Year end Target

	2023
Malaysia KLCI	1,633
Singapore FSSTI	3,350
Thailand SET	1,900

Source: CIMB Treasury & Markets Research, CGS-CIMB Research – Dec 2022.

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