Maybank

Macro | FX Research and Strategy

Global

FX Annual Outlook 2019

Uncovering Gems in an Asymmetric World

When the Greenback Turns

The USD has had a strong year in 2018 but we see increasing risks that the drivers underpinning USD strength so far to fade in 2019. We look for the **USD to remain supported into the early part of 2019 before more evidence of a slowdown in the US economy, increasing likelihood of a pause in the Fed tightening cycle and rising focus on its twin deficit start to soften the greenback in 1H.**

Oversold Asians Can Shine

2019 could be a **better year for Asian FX in an environment of benign inflation, moderate global growth, lower USD and as costs of funding stabilize**. This is not without some weakness at first as the Fed is still on a rate hiking cycle and some political risk premium in Asia could still be built in for the earlier part of 2019. Further into the year, more signs of a deceleration in US growth could translate into smaller room for US rates to rise or even decline. **Lower oil price could provide a backdrop for current account deficit currencies INR and IDR to outperform** the rest amid a better risk environment and as the presence of their respective elections typically strengthens these currencies ahead of the events in the past decade.

Political Risk Premium - *Buy on Fear*

The build-up in political risk premium leading to risk events poses temporary headwinds to FX but we see selective opportunities in buying on fear as markets tend to overshoot. For Asia, IDR and INR typically appreciate by about 10% and 5%, respectively in the 100 days preceding their elections while THB typically underperforms and PHP is less certain. We **favor long in IDR, INR vs. Short in PHP** in the lead up to 2Q 2019. EUR remains under pressure but there are **opportunities to buy EUR on dips**. The pessimism on Brexit remains more priced than optimism; **risk for GBP is asymmetrically skewed to the upside**.

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Outperformance for the Ones with More Fire Power

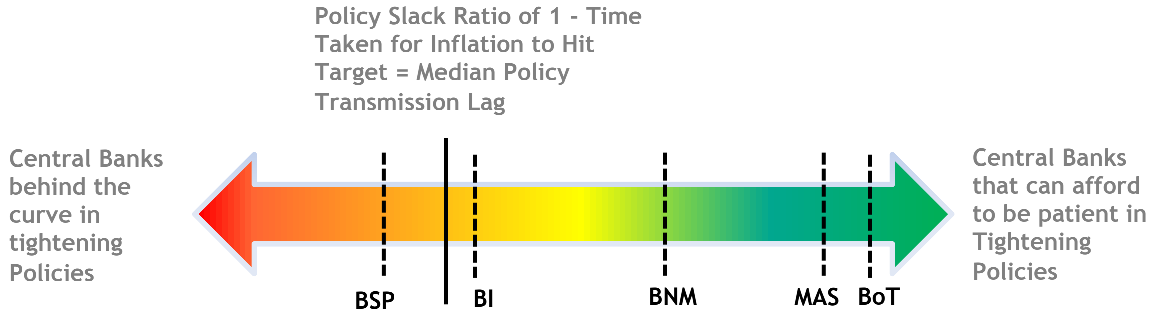
Neutral Rates vs. Policy Rates

	Indonesia	Thailand	Malaysia	Philippines	Singapore*
Nominal Neutral Rate Estimation	7.3%	2.7%	3.7%	5.0%	2.3%
Current Policy Rate	6.0%**	1.5%	3.25%	4.75%**	1.75%
Ammunition^ (in bps)	133	116	45	25	45

*We used the 3m SIBOR as the reference for Singapore's policy rates. Please note that this is for reference purpose as the MAS' policy tool of choice is the S$NEER exchange rate rather than interest rate.
**Both Indonesia and Philippines hiked their policy rate on 15 Nov 2018 by 25bp each.
^ Ammunition refers to the neutral rate estimates minus policy rate in bps.
Source: Maybank FX Research & Strategy

2018 saw policy tightening for Malaysia, Singapore, Indonesia and Philippines but not for Thailand. We estimated the neutral rates of these sovereigns and compared them with the current actual policy rates in order to assess the amount of ammunition that the central banks have to combat further pressures in times of capital outflows or if inflationary pressures increase in the respective economies. We found **Bank Indonesia, Bank of Thailand and Bank Negara Malaysia to have ample room to tighten policy rates** if the need arises. This is especially relevant as the Fed remains on a rate hike trajectory even as it is nearer to its end. On the other hand, Bangko Sentra ng Pilipinas does not have as much room to raise rates before monetary policy becomes restrictive for the economy. Correspondingly, **IDR and THB could outperform vs. the PHP**.

Need for Policy Adjustment Varies Across Different Central Banks



Source: Maybank FX Research & Strategy

Similarly, our policy slack ratio, an assessment of whether the central bank is ahead of behind the curve, also suggests that Philippines has been slightly behind the curve in combatting inflation. Indonesia, Malaysia, Singapore and Thailand can afford to be patient in tightening policies.

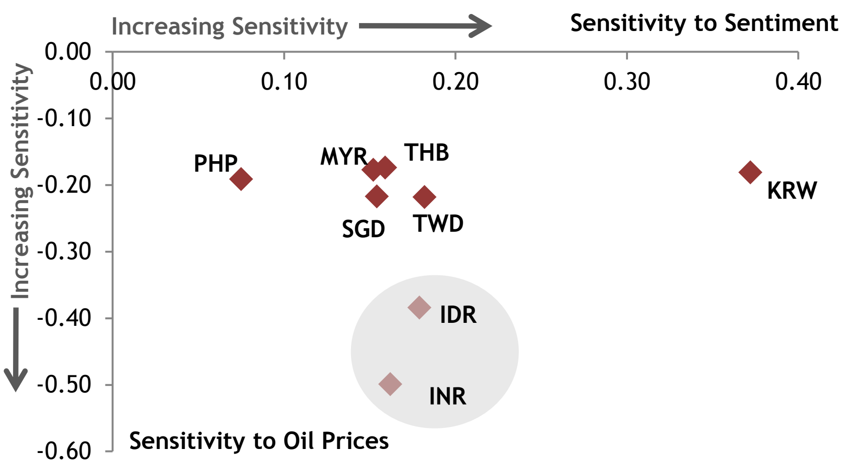
The Oil Fall Could Underpin

In an environment where the Fed is no longer expected to hike and oil price softens, currencies that were penalized for their twin deficits (current account deficit and fiscal deficit) and concomitant vulnerability to crude prices could recover and these are namely INR and IDR.

Not coincidentally, Reserve Bank of India and Bank Indonesia have raised policy rates and as such, raised the appeal of these currencies should carry trade return to favour in 2019 against a backdrop of lower USD and rates. Recall that these currencies were also the most battered amongst regional peers in 2018.

So from the valuation perspective, we expect considerably more strength in both IDR and INR for 2019. Their strength could be further exacerbated by the fact that both currencies tend to see considerable strength in the lead up to their respective elections within the past decade.

INR and IDR were the most sensitive to Brent crude price



Note: Beta of respective currencies (vs. USD) to MSCI World Index (proxy for global sentiments) as independent variable based only daily changed data (YTD: 15 Oct 2018); Beta of respective currencies (vs. USD) to brent crude price as independent variable based on daily change data (YTD: 15 Oct 2018)
Source: Bloomberg, Maybank FX Research & Strategy

The US-China Trade War Theme Could Come and Fade

The start and then, escalation of the US-China trade war has lifted the USDCNH along with selected USDAxJ. Even at this point, there are conflicting signals from the White House on whether the trade war will fade or stay. The friction between the US and China may resurface in 2019. China could still be used as a convenient issue/tool for Trump to rally both sides of the aisle for other political agenda.

So currencies that are sensitive to the China-US trade war could still be vulnerable in 2019 – namely SGD, KRW, TWD, AUD and NZD. That said, it is still unlikely to become a dominant theme for 2019 as it could risk accelerating the US economy into a deeper recession when Trump vies for a second term in 2020.

Political Risk Premium - Buy on *Fear*

2019 is dominated by political events in the DM and elections in Asia. The build-up in political risk premium leading to political risk events poses temporary headwinds to FX but we see selective opportunities in buying on fear as markets tend to overshoot.

Some of the event risks in DM include UK's Brexit (29-Mar-2019), political drama in Europe (including the risk of early elections in Spain, Italy-EU budget stand-off, spillover uncertainty on German political landscape after Chancellor Merkel resigns as party chief in Dec-2018 and European parliament election in May-2019).

In Asia, focus is on Thailand General elections (Feb 2019), Indonesia Presidential & General elections (Apr 2019), Philippines mid-term elections (13-May-2019) and India General Elections (Apr/May 2019).

Busy Election Calendar in Asia Sets Off Different Fates

Long IDR and INR in the Lead-up to Elections

We expect Indonesia's President Jokowi and India's PM Modi to retain powers for their respective second terms though the race may be close. Despite economic challenges, Jokowi's approval rating is at record high and we attribute this to the optimism on jobs market.

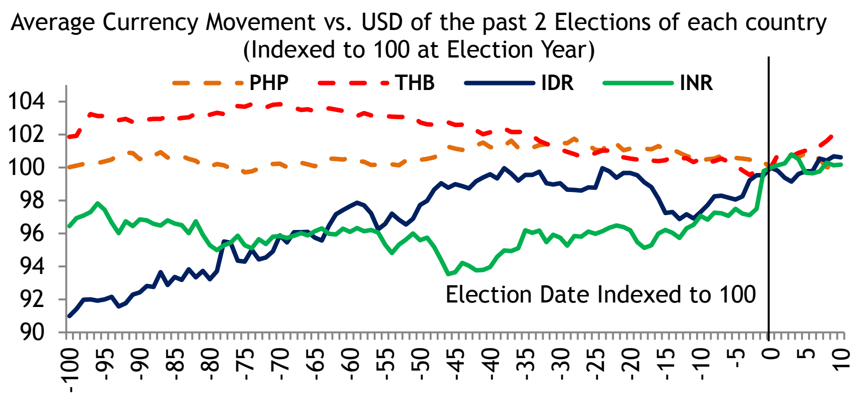
The last 2 elections saw an average of 10% gains in IDR in the 100 days preceding the GE. For India, the past 2 General Elections in 2009 and 2014 saw INR appreciate by about 5% in the 100 days preceding the GE. State elections in the coming weeks will provide an indication of how PM Modi's BJP party is doing. We see opportunity to enter long in IDR and INR in the lead-up to their respective GEs in 2Q 2019.

THB to Lag Other Asia FX; Cautious on PHP

For Thailand, though an election has been called for Feb-2019, there are risks that the timeline may face a delay amid declining popularity of the Junta. This could undermine social stability and weaken investors' confidence.

Typically THB depreciates in the lead up to GE. For Philippines, an opposition win at the mid-terms should not be ruled out. This could block President Duterte's parliamentary agenda. Uncertainty could sideline investors until clarity emerges. We expect THB to lag behind other Asia FX and maintain a cautious outlook on PHP.

IDR, INR Typically Appreciate In the Lead Up to GE while THB Depreciates



Source: Bloomberg, Maybank FX Research & Strategy

Political Drama in Europe

Risk of German Political Uncertainty on the Rise

German Chancellor Angela Merkel stepping down as party leader in Dec-2018 and Chancellor in 2021 as well as a lack of visibility on strong succession plans in Germany may potentially change the political landscape in Germany and Europe amid the rise in populism policies in Europe. As the largest economy in Europe and a chief anchor of foreign policies, political uncertainty in Germany may weaken its leadership (due to a fragmented Bundestag) and reduce its influence on EU matters. The EU parliamentary elections in May 2019 and the subsequent appointment of a new EU Commission in Oct 2019 are some of the risks to watch as the fate of EU hinges on the composition of the EU parliament. While the election outcome is difficult to predict, a nationalist majority poses risks to the continuity of the Euro-club and undermine the EUR.

Political Uncertainties in Spain, Italy Weigh on EUR

There is rising risk of early election in Spain next year if PM Sanchez's minority parliament cannot agree with parliamentary allies to pass next year's budget. He only has 84 Socialist deputies in the 350-seat parliament and is facing conflicts with allies including the Unidos Podemos party, the Catalan groups and with the Basque party. Elsewhere Italy's defiance on budget plans could lead to disciplinary procedures involving fines against Rome while political uncertainty in the lead up to Spain elections could see Italy and Spain credits underperforming. These typically weigh on EUR in the short term and this provides opportunity to buy EUR on dips as political risk premium unwinds.

GBP Whipped by Brexit Uncertainty

GBP remains under pressure amid Brexit uncertainty. GBP short positioning and 6m GBP/USD risk reversals at 30-month low indicate that more brexit pessimism is priced than optimism. We hold to the view that an eleventh hour deal be struck closer to Brexit day on 29th Mar 2019 and risk for GBP is asymmetrically skewed to the upside.

2018	Key Political Events
7 - 8 Dec	German CDU Party Conference
10 Dec	European Court of Justice ruling on Article 50
11 Dec	"Meaningful" Vote on Brexit
	Italy PM Conte to meet EC President Juncker
13 - 14 Dec	EU Summit
31 Dec	Deadline for Italy Budget
2019	
Up to Feb/Mar	EU and UK Parliaments to ratify Brexit deal
29 Mar, 11pm (GMT)	Brexit takes effect
Early 2019	Risk of early elections in Spain
23 - 26 May	European Parliament Election
26 May	Belgian Elections
20 Oct	Greek Legislative election

Source: Maybank FX Research & Strategy

USD: Poised for a Turn as Macro Policy Mix Support Wanes

Forecast	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q2019
USD Index	**96.96**	**99.16**	**96.39**	**94.64**	**95.40**

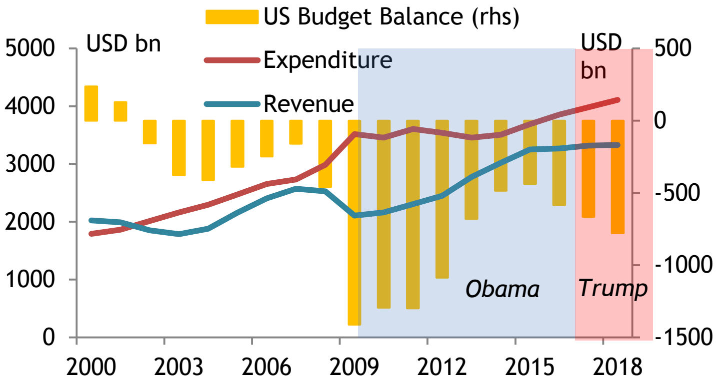
Motivation: We continue to see some support for the USD to be sustained into early 2019 on the back of expectations of rate hikes and momentum from the fiscal support, before USD softness setting in early 1H 2019 as speculative USD longs are at risk of unwinding and fatigue sets in for USD bulls as EM risk premiums look overstretched. Towards the end of 2019, our baseline builds in some expectations of heightened concerns about weaker global and US growth intensifying thus leading to some level of global risk off, supporting the USD somewhat.

In 2019, a few scenarios could start weighing on the USD in from 2Q-3Q 2019. The key factors supporting a sell USD on rally are (i) the FED is near its end of tightening. With the Fed already 200bps up from its record low and neutral rate to be around 50-100bps away, the rate hiking cycle could be near its end. Policy normalization of central banks elsewhere could catch up with the Fed. (ii) US economy peaking soon, and (iii) US twin deficits in focus as treasury sees a surge in borrowing. Other broader term shifts were already underway to support the case for broad USD downtrend, including (1) US tax reforms and its wider implication on deficit, debt and the USD; (2) reserve diversification away from the USD; (3) USD countercyclical play (USD typically underperforms when relative global growth momentum picks up).

The Debt Binge Cannot Go Unnoticed. The Trump administration has been on a debt binge. The US government closed the 2018 fiscal year with U$779bn of deficit, its highest in 6 years according to the Treasury Department. The deficit in the 12 months through Sep rose U$113bn, a rise of 17% year on year, boosted by a combination of tax cuts and higher military spending. A split congress may amplify the risk of a government shutdown (ie. debt ceiling may not be raised so easily). Growing twin deficits in a softer growth environment pose risks to the US rating outlook as well as to the USD as a quality haven of choice. In addition, US treasury bill auctions have been seeing weakening demand as bid-to-cover ratio for recent auctions continue to rise and that feeds into a vicious circle of higher rates that increases the interest burden of the Treasury. Another unfavorable side effect is an increase in the cost of funding for the private sector as well, crimping on their investment and earnings.

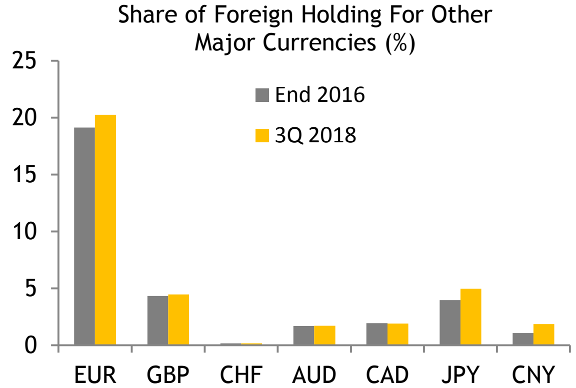
The Diversification Away From The USD. The USD's share of currency reserves held by central banks remains on the decline since 2015. While we do not expect USD to lose its position as the reserve currency, a persistent diversification away from the USD as a reserve currency of choice towards other currencies such as EUR, GBP and RMB underscores the increasing relevance of these non-USD currencies. The demand for non-USD currencies adds to the underlying weakness in the USD.

The US Budget Deficit Is Back on the Rise



Source: Bloomberg, Maybank FX Research & Strategy

Central Banks Diversify Away from USD: Foreign Holdings of EUR, JPY and CNY Rise



EUR: ECB Policy Normalisation to Offset Political Noises

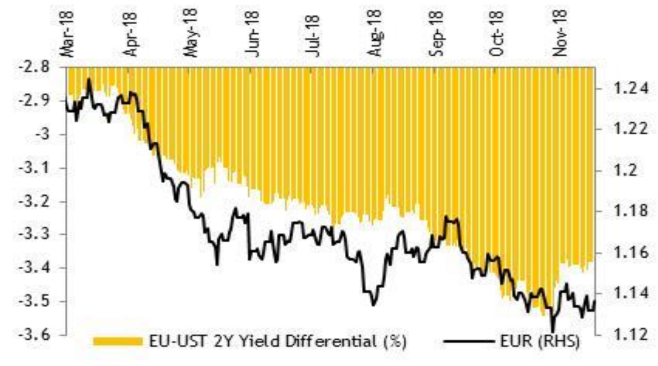
Forecast	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q2019
EUR/USD	1.1400	1.1100	1.1400	1.1600	1.1400

Motivation: We remain *mildly* constructive on the outlook of EUR but expect EUR to face some downward pressure (up to 3 months or so) on the back of slowing growth momentum and pockets of political uncertainty in Europe (i.e. potentially early elections in Spain, fuel protest in France, lack of resolution on Italy budget, Brexit uncertainty, lack of visibility on German political landscape, etc.) amid a negative yield environment (2Y EU-UST differentials still at -342bps). We expect EUR to regain strength from 2Q as ECB policy normalisation gathers momentum, political noises in Euro-area subside and a resumption of USD weakness. We expect a range of 1.08 – 1.20, with bias to buy dips.

Build up in political risk premium poses temporary headwinds to EUR. German Chancellor Angela Merkel stepping down as party leader in Dec-2018 and Chancellor in 2021 as well as a lack of visibility on strong succession plans (appointment of Annegret, Merkel's protégé is perceived as a candidate of policy continuity while appointment of Friedrich Merz, long-time critic of Merkel could herald in radical changes) in Germany may potentially change the political landscape in Germany and Europe amid the rise in populism policies in Europe. As the largest economy in Europe and a chief anchor of foreign policies, political uncertainty in Germany may weaken its leadership (due to a fragmented Bundestag) and reduce its influence on EU matters. EU parliamentary election in May 2019 is one of the key event risks to look out for as the fate of EU hinges on the composition of the EU parliament. While the election outcome is difficult to predict, a nationalist majority poses risks to the continuity of the Euro-club and undermine the EUR. Other EU-centric event risks include the (1) risk of early elections in Spain if PM Sanchez's minority government cannot agree with parliamentary allies to pass budget; (2) recent political uncertainty in France owing to increase in diesel tax may prove costly to President Macron's political career; (3) risk of EU sanction (fines of up to 0.2% of Italy GDP) on Italy on lack of budget resolution. We see opportunity to buy EUR on *fear* as markets tend to undershoot and the subsequent recovery has room to run when political risk premium subsides (unwinding of EUR shorts).

ECB policy normalisation is likely to play catch up with the Fed from 2Q- 3Q 2019. ECB will end APP in Dec-2018 and is expected to keep key policy rates: Main Refinancing operations, deposit facility and marginal lending facility on hold at 0%, -0.4% and 0.25%, respectively till autumn 2019. However we continue to see risk that the ECB may need to move earlier than expected (relative to ECB's timeline) should inflation, in particular core CPI continues to surprise to the upside while growth and activity data regain momentum. Weaker EUR (YTD decline of 10% at one point vs. USD) could result in higher prices via the import price channel. This should add on to further upside pressure for Euro-area CPI. We do not rule out the possibility that ECB could proceed with baby steps to normalize deposit rate first (currently at -0.4%) at some stage between Jun – Aug 2019. The poses upside pressure to EUR especially when ECB-Fed policy divergence slows as Fed approaches the end of its rate hike cycle in 2019).

Reversal of Negative Yield Differentials to Support EUR



Unwinding of EUR short exert upward pressure on EUR

Source: Bloomberg, Maybank FX Research & Strategy

GBP: Cautious Optimism on *Brexit* but Wild Ride for GBP

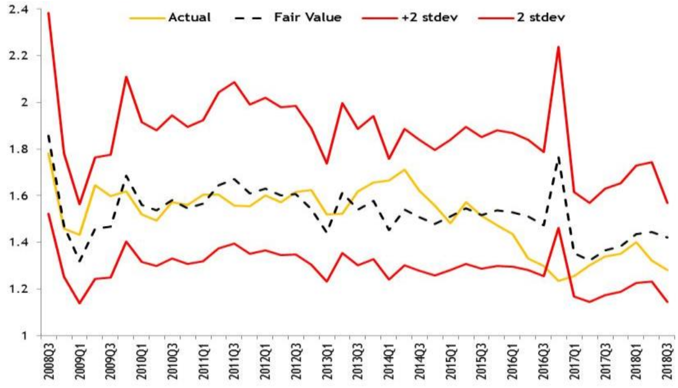
Forecast	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q2019
GBP/USD	**1.3000**	**1.2800**	**1.3200**	**1.3400**	**1.3600**

Motivation: GBP's near term outlook remains clouded by the fluid nature of *Brexit* progress and its repercussions on business investments. As of writing, the deal agreed between PM May and the EU (25 Nov 2018) needs to be agreed by the UK House of Commons (11 Dec 2018) but UK MPs are allowed to make changes to the motion before it's passed. PM May runs the risk of having a counter-deal "tweaked by UK MPs" which is not approved by the EU. Such an outcome exposes UK to another round of political wrangling between UK and EU and this typically weighs on GBP as UK gets closer to the official brexit date (29 Mar 2019, 11pm GMT). Barring these short-term nuances driven by Brexit, we continue to retain our cautious optimism on GBP's outlook, on the basis that UK will manage an orderly Brexit. Our base case remains for UK to strike a deal with EU at the eleventh hour while PM May remains in power and the cabinet divide narrows. We argue that GBP could face an asymmetric move to the upside on any signs of positive progress towards a brexit deal, given that more Brexit pessimism is priced than optimism. To be sure, future trade deal need not be negotiated before UK formally exits on 29 Mar 2019; only the separation agreement needs to be negotiated before 29th Mar 2019 to avoid a disorderly exit. We expect 1.25 – 1.38 range for GBP in 2019, with weakness front –loaded in early part of 2019 before recovery takes hold as *Brexit* uncertainty subsides.

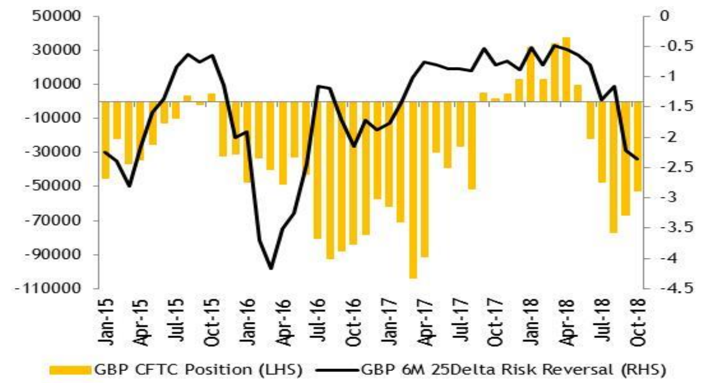
UK's economic outlook is highly dependent on future trade arrangement (beyond 1 Jan 2021) of the EU withdrawal agreement, the transition agreement (effective 30 Mar 2019 to 31 Dec 2020) and the journey (orderly or disorderly) towards *Brexit* day (29 Mar 2019, 11pm GMT). Prolonged brexit uncertainty will weigh on business decision and investments and this could dampen growth outlook. On monetary policy expectations, we expect BoE MPC to keep policy rate unchanged at 0.75% up to Summer-2019 as *Brexit* uncertainty takes precedence over policy normalisation. We expect one hike of 25bps possibly in 3Q 2019. Though inflation remains well above BoE's target of 2%, the recent decline in oil prices is helping to keep inflation profile subdued for the moment. That said we remain watchful of upward price pressures stemming from tight labor market (can add to further wage growth) and import price channel (arising out of GBP depreciation). Sustained pick-up in inflation towards 3% again could alter our expectation for additional rate increase.

We **maintain our medium term view that GBP could trade higher towards 1.40 levels** but more pain is expected in the near term before sustained gains can take hold. GBP is perceived to be undervalued from both historical and fundamentals perspective. Our fair value model estimates GBP at 1.42 levels. Past experience of UK leaving the ERM back in 1992 saw a period of consolidation at historical lows for GBP, before the eventual move higher in the subsequent years due to buoyant demand fueled by rapid growth of wealth, credit and money. If history is a guide (assuming UK manages the transition well and correct its imbalances), GBP may start to climb higher.

GBP Remain Fundamentally Undervalued relative to Our Fair Value Estimate of 1.42



More Brexit Pessimism Priced in then Optimism Suggests GBP Risk is Asymmetrically Skewed to the Upside



Source: Bloomberg, Maybank FX Research & Strategy

AUD: Turning Favourable

Forecast	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q2019
AUD/USD	0.7200	0.7100	0.7300	0.7400	0.7300

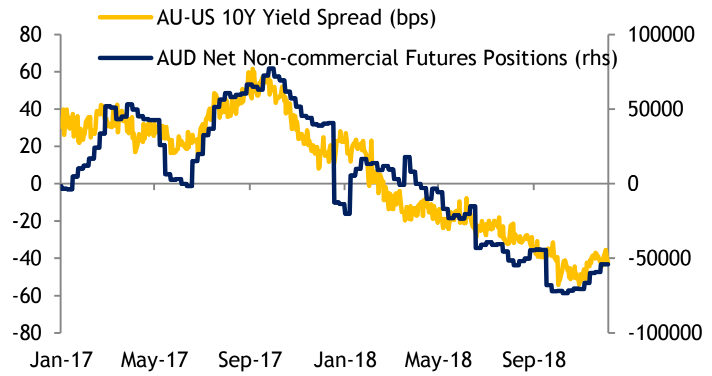
Motivation: The main drivers of AUD weakness for 2018 could fade in 2019 and the antipode had likely bottomed at sub-70 levels. As Fed started to sound less hawkish and more uncertain about the rate hike trajectory for the year, the slowing monetary divergence vs. the RBA should see at least a partial reversal in the AUD towards 0.75 against the USD. The outcome at the recent G20-Summit that resulted in the "trade truce" between the US and China also triggered the unwinding of the trade war premium. In an environment of moderate global growth, AUD could find itself in a sweeter spot where the US rates peak, the demand for its resources remains healthy and its tourism sustains its momentum.

RBA Will Not Move, Fed Will Move Less Than Before. The latest growth print for 3Q18 shocked to the downside. The inflation environment is benign and wage growth, subdued. Even as the central bank looks for a gradual pickup in inflation in the next two years, inflation central scenario is still 2.25% in 2019. That is hardly likely to test the upper bound of its 2-3% inflation target band and thus, unlikely to provide any impetus for a rate hike in the year. That would mean that the status quo would be extended for another year after the last rate action in 2016. On the other hand, as the Fed nears its peak in its rate hike cycle, so will the rate divergence between the two sovereign slow. Narrowing yield differential will lift the AUDUSD. Net short AUD contracts have already started to unwind from multiple-year low, more than a month ago.

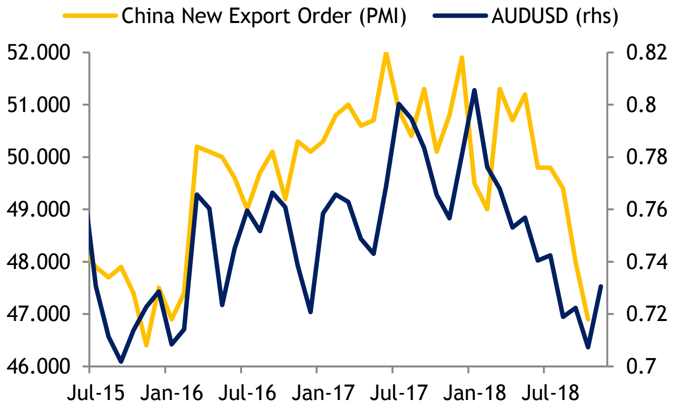
China Matters for AUD. The US-China "trade truce" comes with a 90-days deadline that will last till 1 Mar 2019. Their pledge not to impose more tariffs after 1 Jan, commitment to reduce the existing ones as well as intellectual property agreements could continue to boost the AUD. Any concrete deal from the two nations would lend additional support for the antipode. In addition, a modest rebound in activity in China, in particular as the authorities have spurred infrastructure investment, could also increase the demand for Australia's commodity resources.

Risks to Our View: Some upside risks could still unfold if crude price makes a sharp upmove and a combination of strong hiring momentum, concomitantly acceleration in wage growth as well as fuel-led inflationary pressure force RBA to move in 2019 rather than in 2020. These developments could pose even greater upside risks to the AUD. On the other hand, a (less probable) return to trade war theme could dampen the AUD recovery.

Once Yield Differential Start To Turn Less Negative, AUD Can Rebound



China's Demand Dictate the AUD



Source: Bloomberg, Commodity Futures Trading Commission, National Bureau of Statistics, Maybank FX Research & Strategy

NZD: RBNZ May Need to Tighten Earlier than Expected

Forecast	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q2019
NZD/USD	0.6900	0.6800	0.7100	0.7200	0.7100

Motivation: We are **neutral in the near term but mildly positive on the outlook of NZD in the medium term.** Potential mix of slowing policy divergence between RBNZ and Fed, signs of improvement in NZ macro outlook (including growth to pick up in 2019, sustained wage growth, falling unemployment) should be supportive of NZD. On the other hand, rising milk production for 2019 season may lead to "dairy glut" and this may have negative repercussion on the outlook for dairy prices and is typically a drag on NZD. Elsewhere it remains too early to tell if US-China 90-day trade truce materially progresses into a trade deal to eliminate trade and non-trade barriers. An end to US-China trade war and/or an earlier than expected RBNZ rate hike (owing to faster pick-up in CPI towards RBNZ target) would pose further upside risk to our NZD forecast. For 2019, we expect NZD to trade within 0.67 – 0.74 range.

RBNZ May Well Need to Tighten Earlier than Expected. NZ growth is expected to accelerate to 3.4% in 2019, from 2.7% in 2018. Monetary stimulus and population growth will underpin household spending and business investment while government spending on infrastructure and housing is expected to support demand. We watch business, consumer confidence – further rebound should lend strength to NZD. Recent jump in CPI towards the middle of RBNZ target range of 1 – 3% and upward pressure on wage growth (owing to tightening labor market) suggests that RBNZ may need to tighten earlier than its projection of end-2020 and the eventual market repricing of rate hikes could see NZD recover meaningfully. We see risks of potential tightening of 25bps in 2H 2019. A case of further USD and UST yield softness could further help to narrow the negative NZGB-UST yield differentials (10Y last seen at -45bps). A subsequent return of carry status for NZD could enhance its allure.

NZD is highly driven by external factors. Our study on FX sensitivity of selected currencies to market dynamics including US-China trade war, EM FX sell-off and monetary conditions show that NZD ranks amongst one of the most sensitive FX. While it is true that NZD suffers if those conditions worsen, we wish to add that NZD may see a sharper recovery in the event US-China reaches a trade deal, EM recovery extends further or global monetary conditions ease, given short NZD position. Bottom out in dairy prices at some stage in 2019 should also be another factor supportive of NZD strength.

Our **model estimation for NZD fair value is at 0.73 levels**, with lower bound of fair value estimate at 0.66 (1 standard deviation). Our study shows that historically NZD spot has hardly trade outside our model's lower bound and this adds to our conviction that NZD decline below the lower bound is an attractive entry point to buy dips (barring external shocks such as full blown trade war, escalation of geopolitical tensions, etc.).

NZD is Highly Driven by External Factors

FX Sensitivity to Market Dynamics

	US-China Trade Tensions	EM FX Sell-off	Monetary Conditions
Most sensitive	CNH	NZD	INR
	KRW	INR	NZD
	AUD	AUD	AUD
	NZD	IDR	IDR
	INR	CNH	CNH
	THB	TWD	PHP
	SGD	THB	CHF
	CAD	KRW	CAD
	TWD	MYR	TWD
	IDR	PHP	KRW
	MYR	SGD	THB
	PHP	CAD	MYR
Least sensitive	CHF	JPY	SGD
	JPY	CHF	JPY

Note: Currencies as Y variables regressed against market dynamics as X variables based on daily change data from 1 Jan 2018 to 11 Sep 2018. EUR and GBP are excluded from the analysis due to idiosyncratic factors at home.

Stabilisation or even a Rebound in Dairy Prices is Supportive of NZD at some stage in 2019

Source: Bloomberg, Maybank FX Research & Strategy

JPY: Emboldened By Safe Haven Demand & Yield Differentials

Forecast	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019
USDJPY	112	113	108	106	105

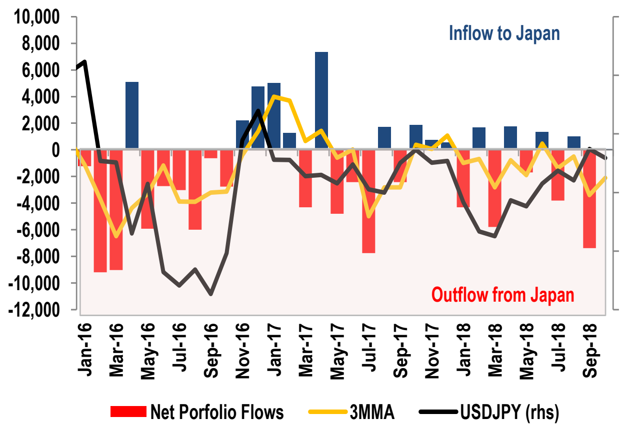
Motivation: After nearly five years, the BOJ is still nowhere close to ending its ultra-loose monetary policy. This though has not stopped market speculation that the central bank is on the brink of unwinding its monetary policy, following the trail set by its G7 peers. Such speculation could lead to the unwinding of current net short-JPY positioning and lift the JPY higher in 2019. Upside pressure on the JPY should also come from increasing demand for safe-haven assets over global growth concerns in the latter part of 2019 going into 2020. In addition, expectations that the end of Fed tightening cycle is near and the potential slowdown in US growth could weigh on UST yields, narrowing the yield differential between 10Y UST and JGB. This should keep the JPY supported. **We are positive of the JPY in 2019.**

Stealth tapering could be an ongoing theme in 2019 as market speculates that the BOJ will follow the path of its G7 peers and begin to normalise policy. The BOJ policy tweaks in Jul that allowed for greater flexibility in JGB yields as well as moves by the BOJ to reduce purchases of JGBs are suspiciously viewed as tapering in stealth by the market. Expectations that the BOJ is on the cusp of normalising policy is likely to fuel unwinding of short-JPY stale positions and see the JPY bounce even higher in 2019. Policy normalisation is not our base case for 2019.

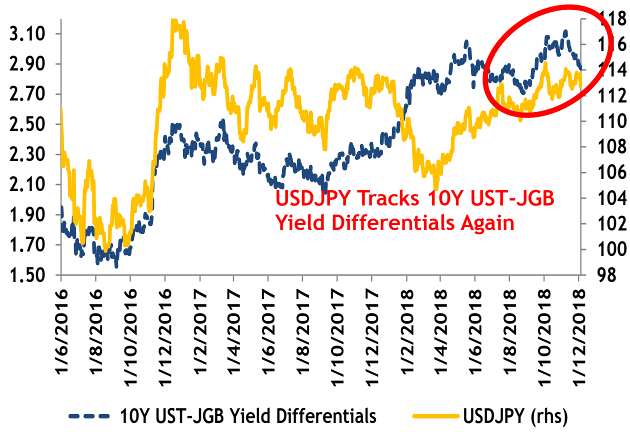
Re-rating of risk conditions in 2019 could spur greater demand for safe-haven assets. Recent US data, including PMI, points to a slowdown in manufacturing. This raises concerns that the growth momentum in the US could be peaking and possibly slow, impacting global growth. These concerns could result in a re-rating of risks conditions and reassert downward pressure on Japanese assets prices, particularly equities (where we could see the equity sell-off lead to an unwinding of hedges with investors buying back the JPY and selling the USD, thus lifting the JPY higher). Local and Upper House elections in Apr and Jul 2019 respectively as well as the potential for a referendum to amend the constitution carry risks that could also spur safe haven demand for the JPY. Implementation of the consumption sales tax hike in Oct 2019 and its potential negative impact on consumption and economic growth could also be supportive of the JPY. Thus, further JPY strength from safe-haven demand cannot be ruled out in 2019.

Narrowing yield differentials between 10Y UST and JGB could spur JPY bulls into action in 2019. The recent inversion in the belly of UST yield curve highlights growing market expectations that the Fed is near the end of its current tightening cycle and that a Fed pause could be in the works. This together with a potential slowdown in US growth could weigh on UST yields. This in turn could see yield differentials between 10Y UST and JGB yields narrow in 2019, putting upside pressure on the JPY.

Re-Rating Of Risk Conditions Could Spur A Sell-Off In Equities, Supportive Of The JPY



JPY Supported By Narrowing Yield Differentials Between 10Y UST-JGB



Source: Bloomberg, CEIC, Maybank FX Research & Strategy

RMB: A Year of Cautious Recovery

Forecast	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q2019
USD/CNY	**6.9500**	**7.0500**	**6.9500**	**6.9200**	**7.0000**

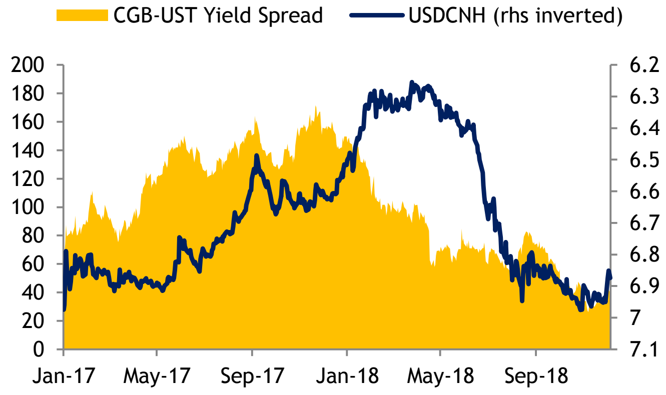
Motivation: The RMB emerged from 2018, weakened by a combination of trade war and China's deleveraging effort. For 2019, we look for RMB to recover in tandem with most of Asian FX as the greenback is set to turn softer this year with Fed turning cautious on making its next tightening move. In addition, the recently announced US-China 90-day "trade truce" that takes us through the major festive breaks (Christmas, New Year and Lunar New Year) to around 1 Mar 2019 could see the "trade war risk premium" fade in the price of the RMB. A more concrete deal within this 90 days could see USDCNY test even much lower, increasing the risk of undershooting our forecast.

Deleveraging Continues Along with RRR cuts and Fiscal Boosts. Monetary policy is to remain prudent and neutral according to PBoC in its 3Q monetary report. There has been greater emphasis on credit support for SMEs and hints of more expansionary fiscal policy including corporate tax cuts. Despite the "trade truce", we still expect another reserve requirement ratio cut in the first quarter to counter the likely drop in the exports after a few months of exports frontloading due to the widely anticipated tariff increase on 1st Jan 2019. However, liquidity conditions could still be constrained as China looks to increase the capital requirements of financial institutions that have been deemed to be "too big to fail". Despite the challenges, these are reforms that are investor-friendly and foreign institutional investors may look past the short-term pain for long term gain.

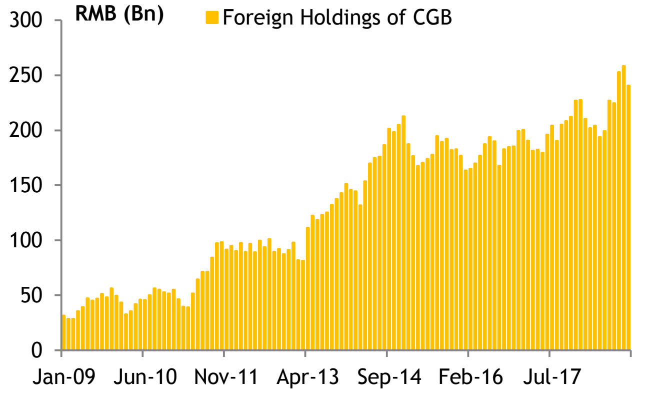
Trade War Could Still Come and Fade. While we do not expect the US-China trade war to become a dominant theme for 2019 as it did in 2018, tensions between the two nations could still come and fade in 2019 – the arrest of Huawei CFO Wanzhou Meng is an example. The US' demands for intellectual property reforms may not be entirely acceded by China and China could still be used again as a convenient tool to rally up support for Trump's campaign for a second term in 2020. That could still bring about sporadic episodes of RMB weakness.

RMB internationalization would continue cautiously with more bond inflows. Our fixed income analyst favours China Government Bonds and we concur. As foreign institutional investors continue to allocate towards RMB-denominated bonds and even equities, capital inflows could buoy the RMB. This is especially so as a number of international bond and equity indices plans to include more RMB-denominated securities into their respective EM indices next year.

Widening Yield Spread can Support RMB



Foreign Institutional Investors Are Allocating Towards RMB Bonds



Source: Bloomberg, China Central Depository & Clearing Co. Ltd, CEIC, Maybank FX Research & Strategy

KRW: Temporarily Weighed by Chip Supply Glut and Trade War

Forecast	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019
USD/KRW	**1130**	**1140**	**1120**	**1110**	**1130**

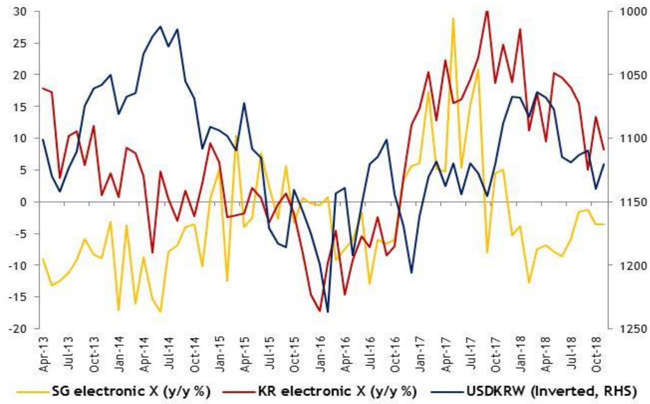
Motivation: We expect KRW to stay on the defensive into early part of 2019 as slowdown in global semiconductor market weighs on Korean assets while US-China trade war concerns remain unresolved (lack of clarity on what was agreed between Trump and Xi) despite the 90-day truce as well as sustained USD strength (but limited headroom) on the back of Fed policy normalisation and momentum from fiscal support. But we expect **KRW to regain strength into 2Q – 3Q 2019** on expectations that Fed-BoK policy divergence could slow as markets reprice the end of Fed normalisation, risk of US growth peaking resulting in narrowing growth differential, and a window of opportunity for risk proxies including KRW to appreciate. Progression towards a trade deal from truce by the end of the 90-day period will be another additional factor benefiting KRW. Into end-2019, we pencil in the risk of weaker global growth leading to risk asset sell-off and concomitant weakness in KRW. For 2019, we expect a 1060 – 1150 range, following a range of 1054 – 1144 range in 2018 (fairly close to the 1060 – 1150 annual range we called for in the last FX Annual Outlook.

The global semiconductor market is expected to contract in 2019 (according to a report published by the World Semiconductor trade statistics) **and this may bode ill for Korea** whose economy is reliant on semiconductors (exports of memory chips accounted for about 20% of Korea's total exports). Some of Korea's large conglomerates such as Samsung Electronics and SK Hynix command a combined global DRAM market share of nearly 75%. The chip supply glut amid a ramp-up in production and sluggish smartphone sales could drag DRAM prices lower and weigh on Korean exports and equity markets (as earnings are impacted). This would have negative repercussion on KRW.

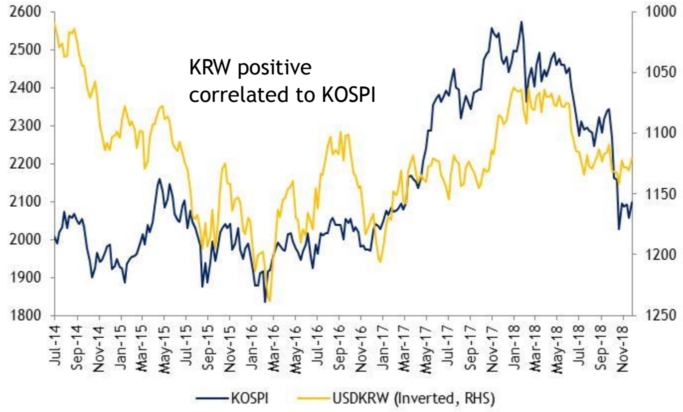
KRW is Sensitive to US-China Trade War Thematic. While it remains unclear what was agreed between Trump and Xi with regards to the 90-day truce, it is clear that KRW is highly correlated to movements in the RMB and risk sentiment. A case of no deal between US and China without extension of truce duration could lead to additional and increased tariff rate to 25%. This would expose further upside risks to our baseline USDKRW forecast, which currently assumes some form of optimism.

25bps BoK rate Hike in 2H 2019 not ruled out. Headline CPI in now running close to 2% target and we believe true inflation (defined as excluding the so-called "administered prices", which is controlled by the government for policy purposes and it applies to 30 service items including utilities and government subsidized welfare sectors such as medicine, education, etc.) is well above 2%. Though pace of economic growth may slow further in coming months, we believe the planned fiscal stimuli should help to support consumers and business investments. In addition we continue to see risks of capital outflow if Fed-BOK policy rate differential is currently at +50bps widens further. Another BoK rate hike could help to contain the risk of financial imbalance caused by accommodative monetary policy.

Down Cycle in Electronics Export to Weigh on KRW



Risk Sentiment Remains a Key Driver for KRW



Source: Bloomberg, Maybank FX Research & Strategy

SGD: Mild Gains After Temporary Weakness

Forecast	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019
USDSGD	1.3850	1.4000	1.3900	1.3800	1.3900

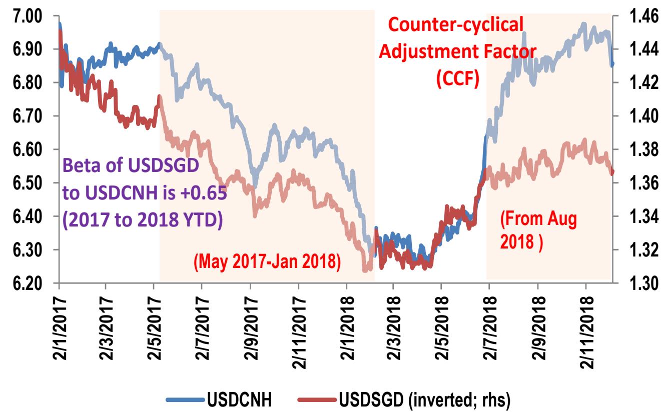
Motivation: The SGD has been on the depreciation path for most of 2018. We expect SGD weakness to extend at least into 1Q 2019 as the Fed is expected to hike rates once more in 1Q. Additionally, the SGD should face downside pressure from the expected weakness in the yuan amid a slowdown in economic growth and disruption from Sino-US trade war concerns as well as from uncertain political environment in the EU that should be a drag on the EUR. Thereafter, the expected pause in Fed rate hike and slowdown in US growth momentum should weigh on UST yield and USD, allowing for the SGD to recover. Expectations of policy normalisation by ECB in 2019 should see the EUR supported in the run-up to summer of where monetary convergence between the EU and US is expected to take place should lift the EUR and along with it the SGD. We also cannot rule out further moves by MAS to remove policy accommodation should core inflation rise beyond the 2% levels in 2019. **We are mildly positive on the SGD in 2019.**

Risks are pointing to the downside for the SGD in 1Q 2019. The expectations that Fed will hike the fund rate once more in 1Q could lift UST yields higher, and given the sensitivity of the SGD to 10Y UST yield moves, a widening in yield differentials between UST and SGD could spark a portfolio outflow from Singapore. This should put downside pressure on the SGD. At the same time, market angst over the Sino-US trade that should persist into 2019 as the trade deal sought by Trump is unlikely to be easily attained. This together with slowing Chinese growth which could impact Singapore's exports should drag the SGD lower in 1Q 2019.

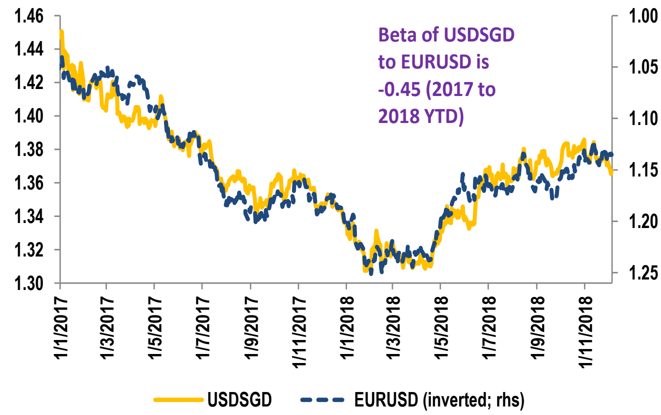
Political uncertainty in the EU could impact the EUR and in turn the SGD given the positive **correlation between the EUR and the SGD.** The eventual departure of Chancellor Angela Merkel from the political arena leaves a leadership vacuum that would be hard to replace. Similarly, concerns over Italy's commitment to the economic goals of the EU add to the uncertainty there. These concerns should prevent the EUR from strengthening at a rapid pace particularly in 1Q of 2019 and in turn weigh on the SGD. Weakness in the EUR is likely to be temporary. Monetary convergence between the ECB and the Fed when the ECB begins to normalise policy in summer should be supportive of the EUR and in turn provide the SGD with a lift for the rest of 2019.

Potential move by MAS to further tighten policy in 2019 cannot be ruled out. The recent Macroeconomic Review highlighted that the improvements in the labour market, higher oil prices and water cost, and increases in public transport costs are likely to tilt inflationary pressure to the upside. Should core inflation show signs of climbing beyond the 2% levels, MAS could move pre-emptively again to remove policy accommodation. This could provide upside impetus to the SGD in the lead-up to the Apr meeting and result in a relatively stronger SGD from 2Q onwards.

SGD Could See Some Strength In 2019 On Gains In The CNH As Trade War Concerns Fade



Re-Emergence Of EUR Strength In 2019 Should Keep The SGD Supportive



Source: Bloomberg, CEIC, Maybank FX Research & Strategy

MYR: Slow and Steady Recovery

Forecast	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q2019
USD/MYR	4.1800	4.2000	4.1200	4.1200	4.1000

Motivation: We maintain a mildly positive outlook on the Ringgit on the back of support for domestic demand especially consumer spending as rates likely to remain conducive. This is happening in an environment where regional central banks are tightening more to keep pace with the hikes in US policy.

Domestic policy uncertainty risk is slowly dissipating and should continue in 2019. That may provide an improving sentiment for MYR assets backed by continued solid fundamentals. Recent market concerns about the revised higher budget deficit and concerns about its impact on the bond market and concerns about potential ratings outlook revisions could still weigh on the MYR occasionally especially if oil prices soften sharply and if EM market risks emerge leading to asset reallocations by fund managers. We expect the pair to remain elevated around the 4.20 levels if factors such as the trade war, EM concerns and domestic factors get enhanced in 2019.

However, MYR fundamentals remain well anchored by sustained current account surplus, rising FX reserves to retained imports & short-term debt, sustained growth pick-up backed by consumption, investment and exports as well as the potential for higher oil prices. We maintain our lower USDMYR forecast trajectory beyond 2019 on efforts taken by the new government to improve governance, transparency and accountability. However, we acknowledge there could still be some uncertainty over the next few years as the new government navigates the new political environment and foreign investors still remain somewhat cautious for now.

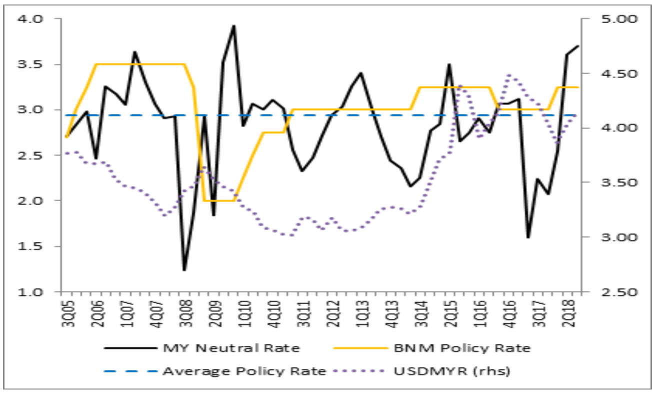
The upside risks to our outlook are (1) sharp rise in UST yields due to more aggressive than expected Fed policy normalisation could lead to foreign outflows and weigh on Ringgit and (2) risk-off plays/ rise in vols (uncertainty) due to sharper global growth and swings in crude oil and/or palm oil prices to the downside may weigh on Ringgit. The downside risks to USDMYR are an earlier than expected Fed pause; oil price moving higher as production cuts materialise and regulatory changes on use of biodiesel support the palm oil industry.

We estimated the neutral rates of regional countries and compared them with the current actual policy rates in order to assess the amount of ammunition that the central banks have to combat further pressures in times of capital outflows or if inflationary pressures increase in the respective economies. We found Bank Negara Malaysia still have ample room to tighten policy rates if the need arises. This is especially relevant as the Fed remains on a rate hike trajectory even as it is nearer to its end. This suggests that Fed asymmetric risks are well mitigated by BNM and augurs well for MYR assets in general.

Room for MYR to Slowly Recover Against USD

Currency	Actual*	Maybank's Fair Value	Deviation (%)
MYR	4.18	3.75	-11.7%
SGD	1.37	1.35	-2.2%
CNY	6.93	6.3	-10.3%
IDR	14248	12630	-16.8%
JPY	114	109	-4.6%

Monetary Conditions to Keep Business Conditions & MYR Stable



*Source: Bloomberg, Maybank FX Research & Strategy; Note: Maybank fair value = f (Interest rate differential, inflation differential, Current account differential, reflation variable); *denotes the actual value of the respective currencies against USD as of 3 Dec 2018.*

IDR: Outperformance Amid Domestic & External Tailwinds

Forecast	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019
USDIDR	14100	13400	12900	12700	12900

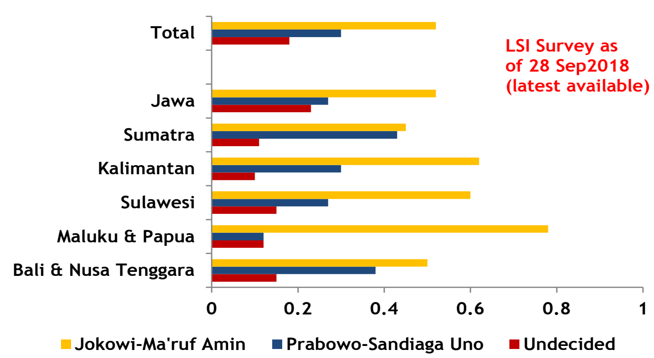
Motivation: The IDR appears to be ending 2018 on a resounding note, having gained over 4.0% against the USD in the Oct-Nov period after falling earlier in the year. Prompt action by the BI, which has lifted its policy rate by 175bp since May to 6.0%, fiscal measures to temper the twin deficits, and expectations that the Fed is nearing the end of its current tightening cycle have stopped the IDR's fall. We expect the recovery to intensify going into 2019. Market optimism over a potential Jokowi victory at the Presidential election in Apr 2019 and the expected follow-through in macro-policies amid softer oil prices that should temper the twin deficits should encourage inflows. These together with growing expectations of a potential pause by the Fed should lift the IDR higher in 2019. **We are thus positive of the IDR in 2019.**

Boost to IDR from expected Jokowi victory in Apr 2019 and macro-policies to tame the twin deficits. Risk of some volatility in the run-up to the 17 Apr 2019 Presidential and general elections cannot be ruled out, but rising expectations of a Jokowi victory mitigate. With a proven track record, a Jokowi win will be market positive and should encourage inflows. Already polls are pointing to a Jokowi victory (though it is still a long way to Apr 2019). At the same time, expectations will be high that Jokowi and his economic team will follow-through with further fiscal policies that will ensure not only economic growth but tame the twin deficits as well. Measures include tax reforms (of tax rule revision to support the property sector, removing value-added tax on some service exports, revising corporate taxes for coal miners, etc.) and changes to the "Negative Investment List" to open up previously partly closed sectors to foreign ownership. There could also be an extension and expansion of import tightening measures (including tariffs) and measures to encourage exports to curb the current account deficit (CAD). Other measures include intensifying the use of biodiesel to reduce import of oil. Paring oil imports are an important part of the government's plans to reduce the CAD given its status as a net oil importer. All of these are positive for the IDR, potentially leading to a repricing of Indonesian assets and spur greater inflows.

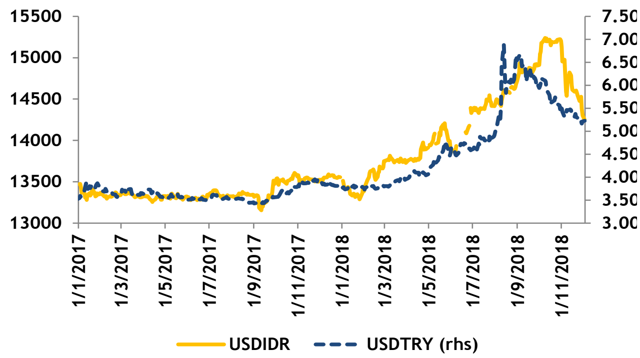
BI will remain on guard against IDR volatility. The BI has lifted its policy rate by 175bp to 6.0% since May to bolster the IDR. BI's policy is to be pre-emptive and ahead-of-the-curve to support the IDR, curb the current account deficit and to anticipate global interest rate hikes. With the Fed nearing the end of its tightening cycle and a potential pause in Fed rate hikes in 2019, the BI may not need to be as aggressive in hiking rates as it was in 2018. We expect another 50bp hike in 2019.

Re-emergence of Emerging Market (EM) angst is a risk to the IDR. The return of calm to EM has helped to temper weakness in the IDR but the re-emergence of market concerns over EM could undo the efforts of BI and the government. A sell-off in EM currencies, particularly the TRY, could kick-start another round of selling pressure on the IDR, unwinding the gains seen in the latter part of 2018.

LSI Survey Showed Jokowi In Pole Position Ahead Of The Presidential Elections In 17 Apr 2019



The Selling On The IDR Could Return Should EM Angst Re-Emerge As Proxied By The USDTRY



Source: Bloomberg, Reformasi Weekly Review (28 Sep 2018), Maybank FX Research & Strategy

PHP: Gains May Be Unremarkable

Forecast	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019
USDPHP	53.50	54.20	54.00	53.80	54.00

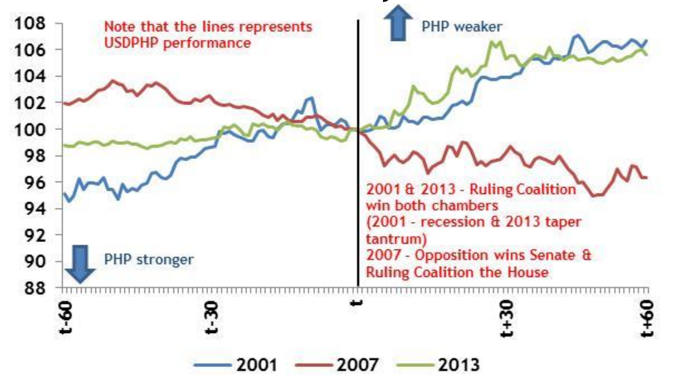
Motivation: Like the IDR, the PHP has staged a remarkable recovery in 2H 2018, paring year-to-date losses to rise over 2.4% against the USD in the Oct-Nov period. The rebound in the PHP was due to the 175bp move by the BSP to tame record high inflation as well as rising expectations that the Fed rate hikes could be nearing an end soon. The upward trajectory for the PHP is unlikely to be smooth in 2019. The PHP is expected to hit some speedbumps in 1Q 2019, namely a potential Fed rate hike in 1Q and political risks relating to the mid-term elections on 13 May 2019. Despite fading USD strength on the likely pause in Fed rate hike and US growth slowdown as well as clarity in the domestic political situation post-elections, the PHP recovery may be mild. Market expectations that the BSP might not be as aggressive in hiking rates as they were in 2018 could result in milder gains in the PHP from 2Q onwards. **We are neutral on the PHP.**

The speedbumps in 1Q 2019 are likely to be a drag on the PHP. The expectations that the Fed will hike its fund rate one more time in 1Q are likely to sap any moves by the PHP to climb higher. Meanwhile, the mid-term elections in May 2019 could prove to be a game changer. Concerns over inflation, high interest rates, and indiscriminate killings on Duterte's war on drug could back to haunt politicians in the ruling party. Political uncertainty in the lead-up to the elections could force investors to sit on the side-lines until there is clarity in the political environment. In this environment of higher global interest rates and domestic political uncertainty, it is difficult to see how the PHP could strengthen in 1Q of 2019.

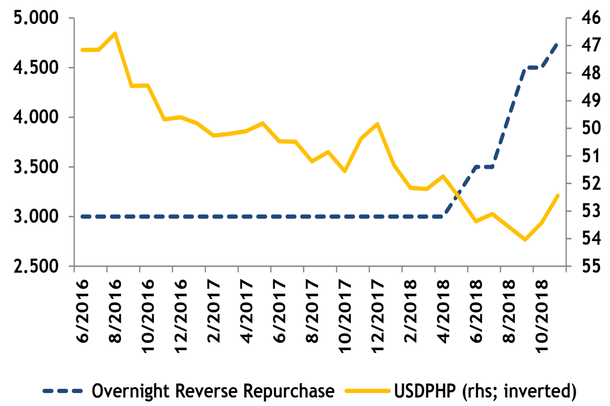
Mild recovery in PHP cannot be ruled out despite potential Fed pause, US growth slowdown, and clarity on the political front. The PHP has largely recovered from oversold positions in 2018 but we doubt that the currency will be able to strengthen sharply from 2Q onwards. Economic fundamentals remain soft with the twin deficits likely to remain a drag on the PHP. The government's ambitious PHP8tn infrastructure building programme remains in place, making it difficult for a significant reduction in the current account especially and to see a sharp gain in the PHP. Still, market expectations of a Fed pause in 2Q and 3Q and a potential slowdown in US growth, and emergence of clarity post-elections in 2Q could see USD strength fade and the PHP recover mildly amid softer oil prices.

Less hawkish BSP could temper market enthusiasm for the PHP. After lifting the policy rate aggressively in 2018, there is increasing likelihood that the BSP could soften its stance on further rate hikes or even hit the pause button. The apparent peaking of inflation in Nov could embolden the BSP to reconsider rate hikes in 2019. Our economic team believes that current tightening cycle is nearing the end and is pencilling only two 25bp hikes between now and end-1Q 2019. The team is also not ruling out a possible pause by the BSP. Thus milder PHP gains are likely.

No Discernible Trend From Mid-Term Election Results With USDPHP Movements Likely Due To Other Factors



The PHP Has Recovered As Policy Accommodation Is Aggressively Removed



Source: Bloomberg, Maybank FX Research & Strategy

THB: Election Risks Should Be Short-Lived

Forecast	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019
USDTHB	33.00	33.80	33.50	33.00	33.50

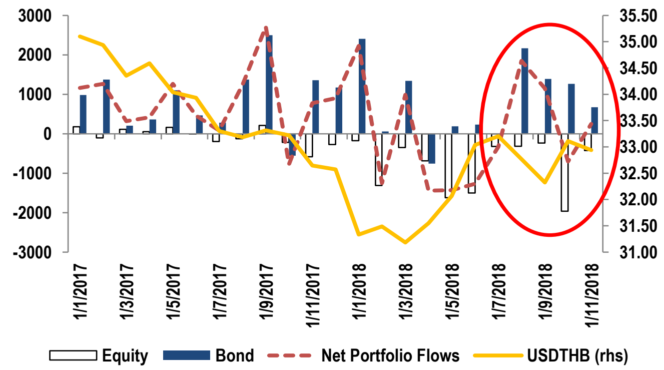
Motivation: The THB has been relatively resilient for the most part of 2018, attributable to muted inflation, healthy economic growth and relative political stability. This perception though was shattered late 2018 due to the lack of policy action on the part of the monetary authorities. The lack of clarity on the monetary policy front weighed on the THB as the BoT remains the last central bank in ASEAN to yet normalise policy as did concerns over the Sino-US trade war. In addition, political tensions could rise in the run-up to the general elections expected on 24 Feb 2019 and dampen investor sentiments and put downside pressure on the THB in 1Q before stability returns and put the THB back on the appreciation path in 2Q and 3Q. **We remain positive on the THB on a 12-month outlook.**

Healthy economic fundamentals should keep the THB supported. Aside from its persistent current account surpluses, healthy growth momentum, return of foreign interest in Thai debt, and rising expectations of BoT policy normalisation should be supportive of the THB in 2019. In addition, the possible shift in manufacturing away from China to Thailand should also be positive for the THB. Further support for the THB in 2019 could come from a pick-up in private investment that should drive the next phase of growth in Thailand. Meanwhile, the government's push to accelerate infrastructure projects going into 2019, especially the Eastern Economic Corridor, could deliver upside surprises to domestic demand, growth and the THB.

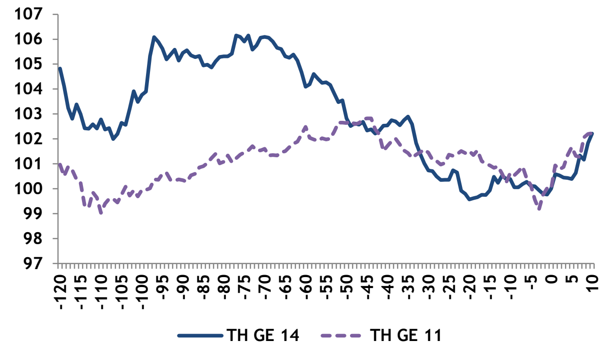
Policy normalisation by BoT could also be positive for the THB. The central bank governor has hinted in recent speeches that there was less need for extremely accommodative monetary policy given the strong economic fundamentals, though there was some walk back from these comments since. Nevertheless, removing some of the policy accommodation sooner than later would provide the BoT with policy space to response to black swan events. Policy normalisation starting in 1Q 2019 would be positive for the THB.

Election is key risk to the THB in 1Q 2019. With the necessary laws in place, the general election to return power back to a civilian government is expected to take place as soon as 24 Feb 2019. Despite the current political calm, political temperature is likely to hit a feverish pitch in the run-up to the polls. Escalating political tensions could keep investors on the sidelines until there is clarity in the political situation. We expect the 24 Feb elections to produce a fractious parliament with no single party achieving a majority, while the military dominates the Senate. This should allow the military to maintain its political influence even after the military government is dissolved. More likely than not, PM Prayuth will remain the head of the government. We do not expect any change in economic policy direction. While there is likely to be some initial market angst in the aftermath of the elections, we expect stability to return to the THB and for the THB to strengthen in 2Q and 3Q.

Sustained Foreign Interest In Thai Debt Should Keep The THB Supported



THB Tends To Weaken Into Election And Recover Thereafter



Source: Bloomberg, CEIC, Maybank FX Research & Strategy

INR: Underperformer No More

Forecast	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q2019
USD/INR	70.00	67.00	66.00	66.00	68.00

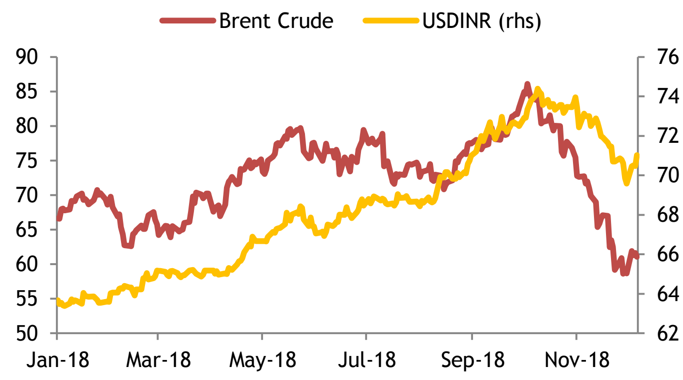
Motivation: INR could look forward to a better year as the external environment becomes more benign and a period of strong government spending precedes the general election that should happen by May 2019. A combination of subdued inflation and strong growth momentum could increase the allure of the INR, especially with its high yield. Barring geopolitical shocks (black swans), the crude oil environment could become more benign in anticipation of upcoming shale gas supply in 2020.

Buy Into Rumor, Sell on Fact. The presence of the General Election (GE) could frontload the rupee appreciation. The last two elections saw an average of 5% gains in INR in the 100 days preceding the GE. In a backdrop of strong government spending that could boost growth momentum as well as rising anticipation that Fed would pause soon, the INR can shine. We expect Modi to retain power and the positive anticipation of that from investors should translate to demand for the INR and domestic bonds. This should happen prior to the event and unwound upon the result of the GE, as what we have seen in the past.

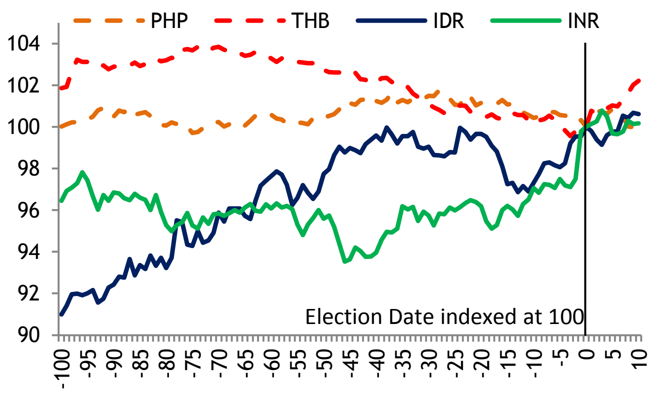
A Return to Fiscal Consolidation? Beyond the election in 2Q, expect some focus to return to getting the fiscal targets back on track. INR could give back some pre-electoral gains but should Modi focus back on managing the twin deficit and as US rates ease, EM would return to favour and not least of all India's bonds which is one of the highest yielding in the region. However, any upset at the General Election could be less positive for the INR as a Congress controlled government typically has more government spending on welfare and that could worsen the budget deficit. Still, a year without tightening financial conditions, oil stability could still be a benign one for the INR especially as the recent EM turmoil and US-China trade war had triggered more potential trade deals between India and China (as well as other nations) which could in turn improve its current account and net export contribution to GDP.

Challenges for India and the INR. The swings of the crude will still dictate the rupee given its impact on the fiscal and current account deficit. So a reasonably stable crude environment (brent between U$60-80/bbl) is still necessary for INR to strengthen. RBI is still in the midst of cleaning up the non-performing debt in the banking sector and that could continue to crimp on lending capability of some state lenders. Strong growth momentum raises the risks to the inflation as well as demand for bonds. So, its monetary policy must be managed well to anchor inflationary expectations. We see risk for USDINR to head towards 65 in 2Q.

Stable Oil Environment Will Be Conducive For INR



INR Tends To Strengthen Pre-Election



Source: Bloomberg, Maybank FX Research & Strategy

VND: Tracking the RMB

Forecast	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q2019
USD/VND	23300	23500	23200	23100	23300

Motivation: The recovery in the RMB should underpin the VND though we suspect the recovery would still lag that of the RMB. Foreign direct investment had shown some signs of deceleration in recent months and that current account surplus has been narrowing. On the other hand, portfolio inflows have been healthy, a jarring contrast to regional peers. The strength in the VND is likely to remain boosted by its economic resilience, FDI inflows as well as some support from the RMB.

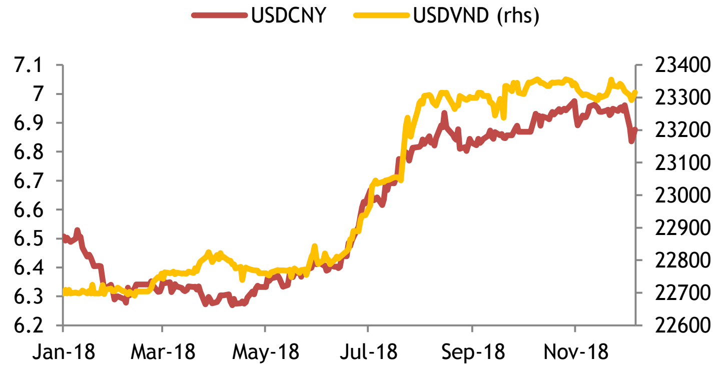
The USD environment could be supportive of the VND beyond 1Q. While the US foreign policy did not have a substantial direct impact on the VND, its tightening monetary policy certainly boosted the USD against the VND. We anticipate 2019 to be quite a different one for the Fed. With the Fed near the end of its rate hike cycle, every rate action could be seen as the last one and thus a dovish one as well. That leaves limited headroom for the USD as well as US rates. We anticipate USD to soften more considerably into 2Q and that could increase the upside risks to the VND vs. the greenback.

RMB Recovery. In a backdrop of a less hawkish Fed, slower monetary divergence of the Fed vs. the rest of the world (including PBoC and SBV) as well as growing evidence of activity momentum slowing in the US, the RMB is likely to strengthen. The strength in the RMB would typically underpin that of the VND as well. VND recovery tends to lag that of the RMB however and that could ensure the export competitiveness of Vietnam.

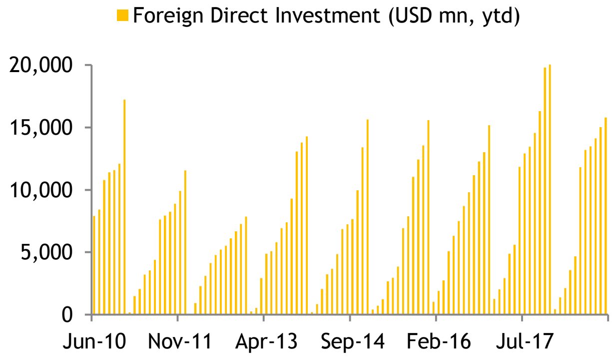
Foreign Direct Investment Slows. The monthly value of registered FDI in the past four months since Aug has been less than USD1bn. For the first 11 months of the year, FDI has shrunk 25% from the same period accumulated in 2017. This is attributed to the slow pace of privatisation in the SOEs. As of end-Nov, only 12 SOEs were privatised out of the 85 that the state plans to sell this year. We anticipate some reforms here that could ramp up foreign direct investment in 2019.

Key Risks: Stable price pressure has been conducive for the VND in the past few years but should inflationary pressure rise, SBV could be forced to hike rates and that could crimp on growth pressure. This could arise should oil price overshoot or trade tensions flare up again between the US and China that could affect inflation, as warned by Nguyen Bich lam, head of General Statistics Office. Renewed US-China trade war would also weaken the RMB, inevitably bringing the VND lower as well.

VND Tracks the CNY



FDI Has Shrunk From A Year Ago



Source: Bloomberg, Maybank FX Research & Strategy

FX Forecasts

	End Q4-18	End Q1-19	End Q2-19	End Q3-19	End Q4-19
USD/JPY	112	113	108	106	105
EUR/USD	1.1400	1.1100	1.1400	1.1600	1.1400
GBP/USD	1.3000	1.2800	1.3200	1.3400	1.3600
AUD/USD	0.7200	0.7100	0.7300	0.7400	0.7300
NZD/USD	0.6900	0.6800	0.7100	0.7200	0.7100
USD/SGD	1.3850	1.4000	1.3900	1.3800	1.3900
USD/MYR	4.18	4.20	4.12	4.12	4.10
USD/IDR	14100	13400	12900	12700	12900
USD/THB	33.00	33.80	33.50	33.00	33.50
USD/PHP	53.50	54.20	54.00	53.80	54.00
USD/CNY	6.95	7.05	6.95	6.92	7.00
USD/HKD	7.81	7.80	7.79	7.78	7.78
USD/TWD	30.90	31.00	30.80	30.60	30.80
USD/KRW	1130	1140	1120	1110	1130
USD/INR	70.00	67.00	66.00	66.00	68.00
USD/VND	23300	23500	23200	23100	23300
DXY Index	96.96	99.16	96.39	94.64	95.40
SGD Crosses	End Q4-18	End Q1-19	End Q2-19	End Q3-19	End Q4-19
SGD/MYR	3.0181	3.0000	2.9640	2.9855	2.9496
SGD/IDR	10181	9571	9281	9203	9281
SGD/THB	23.83	24.14	24.10	23.91	24.10
SGD/PHP	38.63	38.71	38.85	38.99	38.85
SGD/CNY	5.02	5.04	5.00	5.01	5.04
SGD/HKD	5.64	5.57	5.60	5.64	5.60
SGD/TWD	22.31	22.14	22.16	22.17	22.16
SGD/KRW	816	814	806	804	813
SGD/INR	50.54	47.86	47.48	47.83	48.92
MYR Crosses	End Q4-18	End Q1-19	End Q2-19	End Q3-19	End Q4-19
EUR/MYR	4.77	4.66	4.70	4.78	4.67
JPY/MYR	3.73	3.72	3.81	3.89	3.90
MYR/HKD	1.87	1.86	1.89	1.89	1.90
MYR/CNY	1.66	1.68	1.69	1.68	1.71
GBP/MYR	5.43	5.38	5.44	5.52	5.58
AUD/MYR	3.01	2.98	3.01	3.05	2.99
NZD/MYR	2.88	2.86	2.93	2.97	2.91
MYR/IDR	3373	3190	3131	3083	3146
MYR/INR	16.75	15.95	16.02	16.02	16.59
MYR/KRW	270.33	271.43	271.84	269.42	275.61
MYR/PHP	12.80	12.90	13.11	13.06	13.17
CNY/MYR	0.6014	0.5957	0.5928	0.5954	0.5857

Source: Maybank FX Research as of 7 Dec 2018. *These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.

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