

# FX Annual Outlook 2020

## Road Blocks and U-Turns

### To Carry On... Cautiously and Selectively

Fears of global slowdown turning into a global recession have increased in recent months. But we question if fears are overblown. Monetary stimuli from around the world and plans for fiscal stimuli may perhaps be timely to cushion against a deeper slowdown. Recent development on US-China trade talks and Brexit are also gaining positive traction. An environment of low growth, low inflation, low rates, with chance for rates to stay lower for longer may well suggest a hunt for yield, favoring a bias towards higher yielder plays. In particular, CAD, IDR, PHP are some of our (selective) preferred longs amongst the higher yielders in their respective DM-AXJ FX universe.

### A Window for Trade and Tech Recovery

De-escalating trade tensions between the US-China, potential signing of RCEP in 2020, build a case of a more constructive environment for trade, underpinned by a low base as well. Global semiconductor sales have also been rising since the start of 2H, which could portend a potential tech cycle recovery. Trade and tech-linked currencies such as TWD, KRW and SGD should see sustained gains, especially if trade recovery feeds through to domestic demand.

### USD (DXY) to Head Towards 90-Levels

Main sources of USD strength for most of 2019 were US growth outperformance, allure of higher “carry” relative to other majors as Fed’s monetary policy diverged in favor of US and “safe haven” characteristics in times of market uncertainties such as escalation in trade disputes, USD funding stresses, geopolitical tensions, etc. We believe USD strength cannot be sustained in the medium term and expect the USD to drift lower in 2020 on (1) an asymmetric Fed that is more ready to ease than hike; (2) US activity momentum to ease while ROW activity picks up; and (3) political uncertainty in US (amid impeaching inquiry, US elections).

### Unmanaged FOMO Can Be Ugly for EM FX

Markets looking to price in growth recovery could see a rush to re-allocate their portfolio favoring assets with higher returns (*a case of a FOMO behavior*) while shifting out of lower-yielding or even negative-yielding bonds. The corresponding rise in yields could be further amplified if inflation expectations rise amid improvements in aggregate demand or wages. An unexpected increase in rates, especially in the US, could trigger risk-off flows out of EM. Sovereigns with high short-term foreign debt exposure (especially in USD) and twin deficits are especially vulnerable. Unwinding of carry trades would potentially add pressure on typically higher-yielding INR, IDR via sell-offs in bond markets. A scenario of elevated oil prices could leave INR as the underperformer.

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# 1. To Carry On... Cautiously and Selectively

## 1.1 Are Fears of Slowdown Overblown?

Fears of global slowdown turning into a global recession have significantly increased in recent months. IMF said that the global economy is in a synchronised slowdown with 2019 growth projection being lowered to 3%, its slowest pace since GFC, while outlook remains precarious. At the same time, our Economists have also warned about a slowdown with 25 - 30% chance of recession.

## 1.2 Signs of Stabilisation Showing Up

We question if fears are overblown as economic outlook may not be as dire as it has been warned. JP Morgan Global Manufacturing PMI rose for the third consecutive month in Oct. In addition, OECD CLIs have also indicated that some economies including China, France, Canada have started to show tentative signs of stabilization in growth momentum, while labor markets around the world including US, Canada remain resilient. Taken together, there may be tentative signs of bottoming out.

Monetary stimuli from around the world and plans for fiscal stimuli may perhaps be timely to cushion against a deeper slowdown.

Recent development on US-China trade talks and brexit are also gaining positive momentum. We do not rule out a potential positive near-term surprise on growth going into 2020.

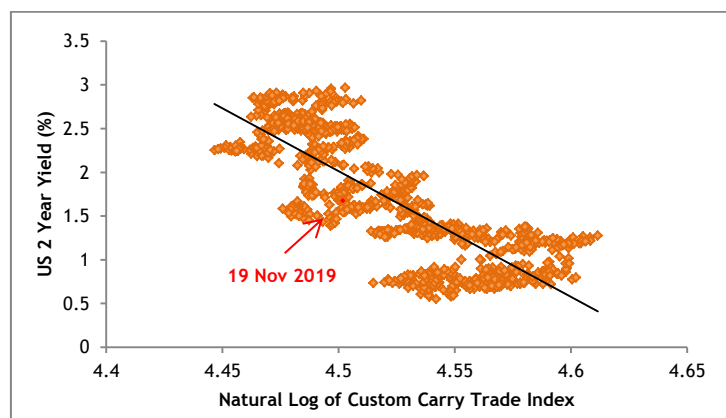
## 1.3 Selective Hunt for Yield to Persist

An environment of low growth, low inflation, low rates, with chance for rates to stay lower for longer may well suggest a hunt for yield, favoring a bias towards higher yielder plays. In particular, **CAD, IDR, PHP are some of our (selective) preferred longs** amongst the higher yielders in their respective DM-AXJ FX universe.

In particular, Indonesia and Philippines could be relative growth outperformers in EM Asia next year, with fiscal and current account twin deficits in both economies remaining manageable. Meanwhile, a strong focus on attracting FDI via tax and labour reforms, as well as a robust pipeline of infrastructure projects, could be supportive of these currencies as well.

Amongst the DM FX, Canada is on par with US as a highest yielder. Given stabilisation in growth momentum, robust labor market, inflation well within BoC target range and relative resilient oil prices, we are constructive of CAD outlook.

### Carry Trade FX Benefits from Environment of Low Rates



Note: Custom Carry Trade Index is made up of CAD, IDR, PHP, equally weighted against funding currencies of EUR and JPY. (Sample period: Jan 2016 - Nov 2019)

Source: Maybank FX Research & Strategy Estimates, Bloomberg

## 2. A Window for Trade/Tech Recovery

### 2.1 TWD, KRW and SGD Could See Sustained Gains

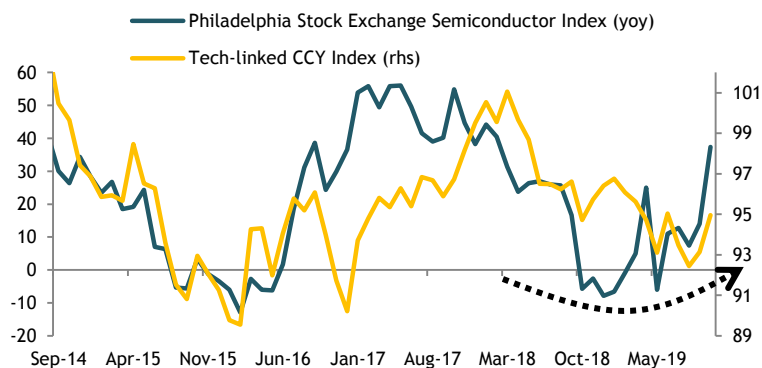
De-escalating trade tensions between the US-China, potential signing of RCEP in 2020, build a case of a more constructive environment for trade/exports to recover, underpinned by a low base as well. Global semiconductor sales have also been rising since the start of 2H, which could portend a potential tech cycle recovery. Trade and tech-linked currencies such as **TWD, KRW and SGD should see sustained gains, especially if trade recovery feeds through to domestic demand.**

In particular, Taiwan corporates relocating their manufacturing bases back home (reshoring program) alongside ongoing US-China trade dispute, ongoing shift in supply chains (Chinese looking elsewhere for their products to be manufactured) as well as optimism in tech cycle recovery driven by global demand for 5G network development are benefiting Taiwan corporates and TWD. A move towards 30 or 29.50 levels (vs. USD) should not be ruled out in 1H 2020.

Hopes of US-China phase-1 trade deal, tentative signs of reconciliation between Japan and South Korea, and swift policy responses via BoK easing and stimulus measures to cushion against deeper slowdown could be supportive of KRW. However we caution that domestic woes including slowdown in domestic growth and deflationary concerns could keep gains reined in.

In Singapore, the economic weakness this far has been largely contained in the trade and manufacturing industries. There are signs that a bottoming out could be approaching soon, including the recent upgrade to 3Q GDP growth and less steep declines in the electronics sector. Such an environment could see MAS choosing to keep SGD NEER on a mild appreciation stance in April, supportive of the SGD.

#### Trade/Tech-linked FX Benefiting from Tech Cycle Recovery/ Upswing



Source: Maybank FX Research & Strategy Estimates, Bloomberg

### 2.2 RMB May Not Matter As Much to AXJs Than Before

While we do not expect a comprehensive US-China trade deal, we also do not look for an aggressive re-escalation of trade disputes as Trump may want to avoid triggering a sell-off in the US stock markets ahead of his bid for re-election in 2020.

Barring a re-escalation in US-China tensions, RMB should be kept in range by opposing forces of decelerating growth momentum at home and tailwinds from a recovering trade environment. Regional AXJs are thus more likely to find support in the absence of sharp RMB depreciation.

### 3. USD (DXY) to Head Towards 90-Levels

#### 3.1 Asymmetric Fed, US Activity Momentum Peaking

We maintain our **bias for USD downside play** on: (1) a Fed that is more ready to ease than hike; (2) US activity momentum peaking; (3) potential political uncertainty in US given House vote on impeachment inquiry and the rise of Senator Elizabeth Warren as Democratic front-runner (i.e., policies may put strain on government budget). Elsewhere, US-China trade and brexit developments remain keenly watched. Positive progress on those fronts will also subject dollar index to further downward pressure.

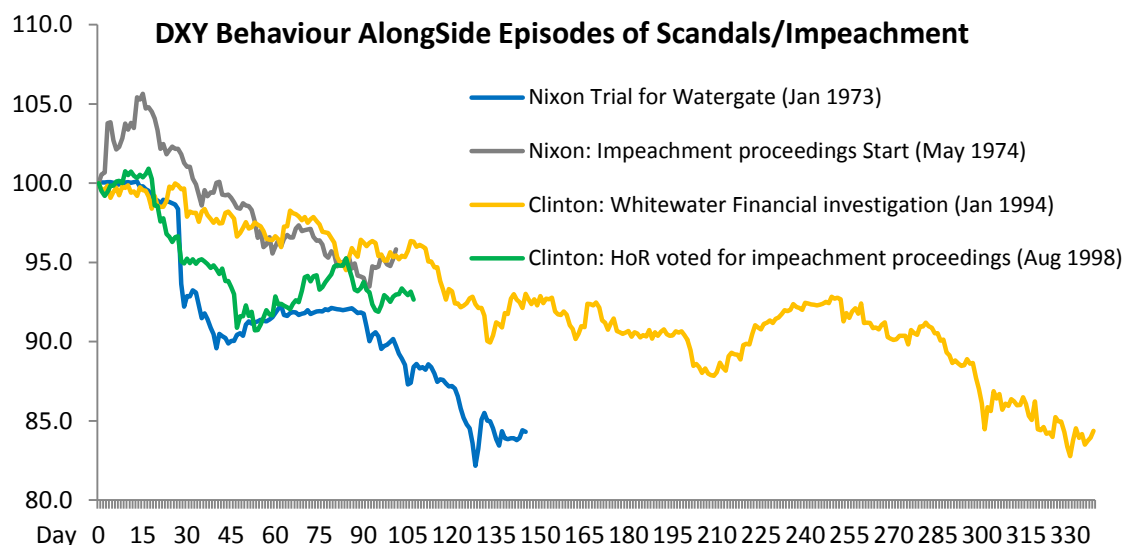
#### 3.2 Political Uncertainty is Another Negative for USD

On the political front we remain watchful of development on impeachment inquiry on Trump, as House voted 232-196 to set up a public phase of investigation. Political uncertainty here undermines Trump's negotiation stance on trade with China but that may also imply that Trump may be more eager to get at least phase-1 deal done with China. At least this could partially divert public attention away from the impeachment inquiry and swift progress on trade is supportive of risk sentiment. On the other hand, one could also argue that doubts over Trump's re-election prospects due to impeachment inquiry could disincentivise Chinese to commit to a trade deal so soon.

Although DXY reaction in past episodes of impeachment is never one way, there are some significant sub-episodes where USD fell sharply.

- In President Nixon's case, from when the Watergate trial began to the period of Nixon tapes (from Jan to Jul 1973), and when impeachment proceedings began against Nixon (in 1974), the DXY fell by ~18% and 12%, respectively.
- In President Clinton's case, from the time he faced the Whitewater real estate scandal to when he was sued for sexual harassment by Paula Jones, DXY was down 17% (Jan - Apr 1994). Subsequently, DXY was down ~9% from Aug - Dec 1998, alongside the admittance of his affair with Monica Lewinsky to House impeachment.

#### DXY Weakens 9-18% in Past Episodes of Scandals/Impeachment



Source: Bloomberg, Various News Sources

Note: DXY is indexed to 100 with respect to its price on the respective abovementioned dates. These dates marked the start of these events.

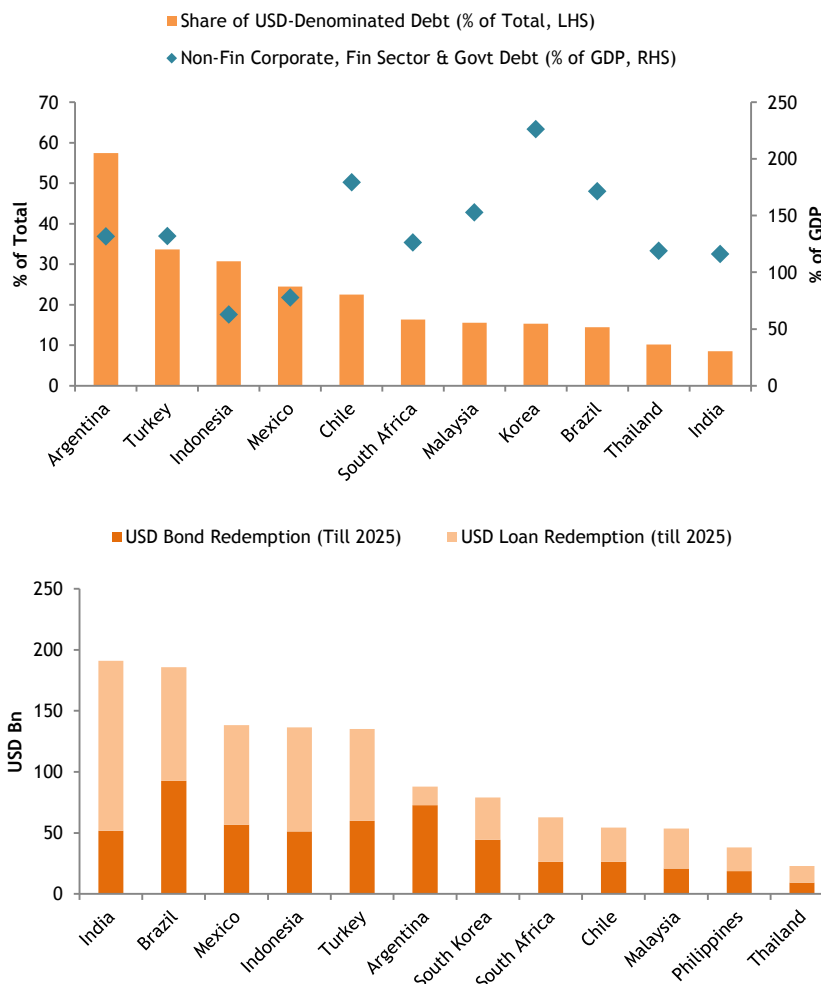
## 4. Risk: Unmanaged FOMO Can be Ugly for EM FX

### 4.1 Risk of “Complacent Carry Trade” Unwinding

Markets looking to price in growth recovery could see a rush to re-allocate portfolio favoring assets with higher returns (*Fear-Of-Missing-Out aka FOMO*) while shifting out of lower-yielding or even negative-yielding bonds. The corresponding rise in yields could be further amplified if inflation expectations rise amid improvements in aggregate demand or wages.

In particular, a case of shifts in yield differentials favouring US could lead to EM carry trade unwinding, especially in countries where reliance on USD-denominated debt is relatively high, such as Indonesia. Besides bonds, Indonesia also has relatively high exposure to USD-denominated loans among the Asian economies.

#### High Exposure to USD-Denominated Debt in Indonesia Poses Outflow Risks



Source: Institute of International Finance, Maybank FX Research & Strategy

### 4.2 INR is Especially Vulnerable to Crude Rise

The outlook for oil is finely balanced at this point. On one hand, non-OPEC crude production is expected to pick up into 2020 with long-awaited drilling projects in Norway set to rise and Brazil looking to ramp up production.

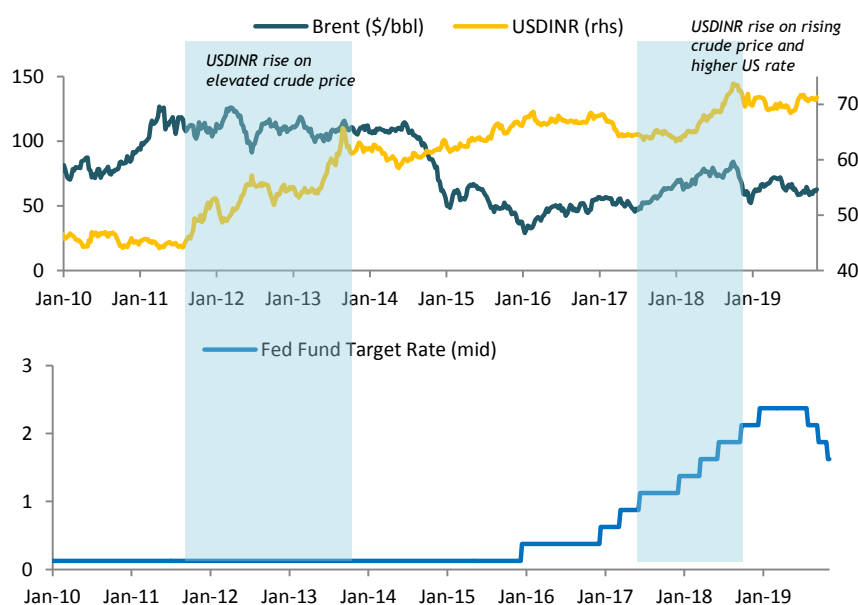
This benign supply outlook could be challenged by several factors including OPEC production cuts which are set to stay and slower US shale production. In

particular, there are signs that core operational issues could threaten shale sustainability—wells drilled too close to one another having lower yields; sweet spots in some regions running out sooner than anticipated. Disappointing returns could portend lower rig investments and production.

Such downside risks to supply could be met with increased demand for commodities in a benign global growth environment, as well as potential short-term disruptions from Middle East geopolitical risk events (similar to that seen earlier this year). A confluence of such developments could potentially lead oil price towards US\$80 or higher.

The combination of higher oil import bill, worsening current account deficit, alongside rising USD debt and fiscal constraints could leave INR particularly vulnerable.

#### INR could be Particularly Vulnerable if Oil Prices Are Elevated



Source: Bloomberg, Maybank FX Research & Strategy

In the above scenarios, INR and IDR could potentially see declines of more than 10% relative to the USD (~15-20% weakening during 2013 taper tantrum; 10-15% weakening during 2018 Fed rate hikes).

### 4.3 Extreme FX Vol Compression Calls For Hedges Against Market Complacency

We noted that as we head into end-2019, FX vols have started to fall again and to levels not seen since 2014 (prior to plunge in oil prices) and 2007 (prior to Lehman/subprime/GFC). Extreme compression of FX volatility against a backdrop of US-China trade disputes, LaTam FX sell-off and growing market illiquidity (seasonally into year-end) suggests that caution is warranted over excessive complacency. So in the short term, USD could still see some relative support (safe-haven flows) but is likely to fade. For hedges against market complacency, we prefer traditional safe haven proxies JPY and CHF instead.

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## USD: Asymmetric Fed and US Activity Momentum Easing

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q2020
USD Index	96.88	95.93	95.37	94.18	92.91

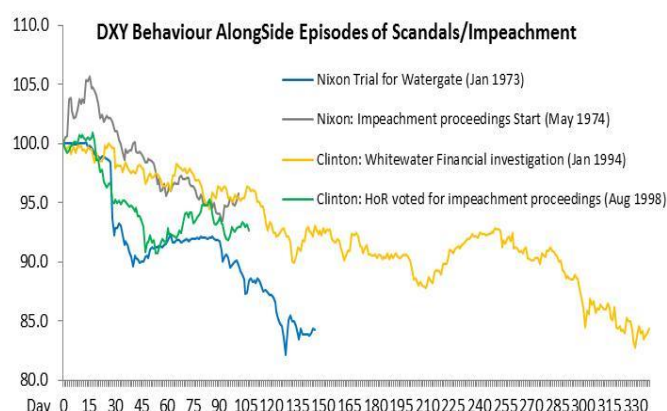
**Motivation:** We expect USD strength to fade gradually in 2020. Taking stock, USD strength for most of 2018 and 2019 was due to US growth outperformance and monetary policy divergence in favour of the Fed and for lack of alternative reserve currency. We do not expect USD strength to be sustained in the medium-term as some of those drivers start to fade on (1) asymmetric Fed that is more ready to ease than hike and to take into consideration that Fed is not likely to restart rate tightening cycle in a US election year; (2) US activity momentum easing and possible grinding slowdown; (3) heightened political uncertainty in the US. In addition, the potential for a cyclical growth upturn and trade led by technology sector should see cyclical FX (AUD, NZD, KRW, TWD) outperform at the expense of weaker countercyclical USD.

**An Asymmetric Fed and Growth Convergence.** While Fed is done with mid-cycle easing (75bps cut in 2H 2019 after 225bps rate increases since 2015) and forward guidance was neutral (our house view calls for 1 more rate cut in 1H 2020), we see signs of Fed allowing for asymmetric patience on policy responses to inflation movements as Fed said they “would need to see a really significant move up in inflation before considering raising rates to address inflation concerns. At the same time we also see further signs of US activity momentum slowing, including ISM manufacturing, new orders, capex, jobs while US consumer confidence softens. Slowdown in US comes at a time when economic activities in Rest of the World (ROW) including Europe and China shows signs of stabilisation - China manufacturing expanded at fastest pace in 3 years while Europe PMI shows tentative signs of improvement, albeit from low levels. Growth convergence supports the case for a softer USD.

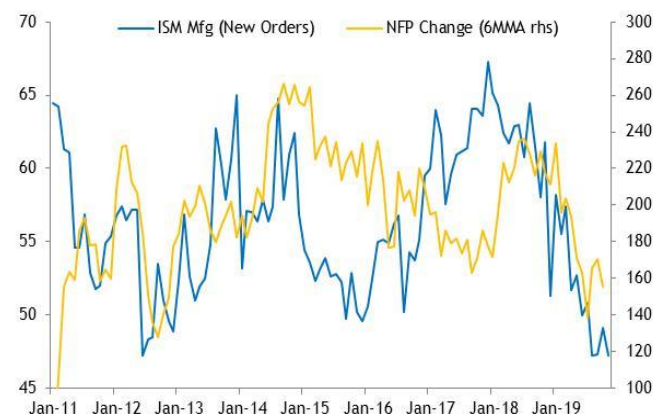
**Potential Re-allocation out of USD assets.** At the same time, greater business confidence and improved investor confidence could see funds flow back to where it came from as China may be able to absorb more inflows as its financial markets internationalise while Europe’s focus towards fiscal policies could convince investors to relook an under-appreciated Europe in 2020. Fading fears of hard Brexit could also support GBP and thus weigh on the USD DXY.

**Political Uncertainty Could Weigh on USD.** As political calendar lightens in other parts of the world, greater emphasis will be placed on the US, given the Presidential elections in Nov 2020 and impeachment inquiry proceedings/hearings likely to take place intermittently throughout the year. There were some significant sub-episodes in recent periods of impeachment where USD fell sharply. However, we think the probability of Trump being impeached is fairly low given that the Senate is Republican majority and that his approval rating is still stable around 40% and 80-90% of Republican voters based on opinion polls approve of the work he has done. We see political factors driving USD weakness as still fluid.

### USD Fell in Past Episodes of Scandals/Impeachment



### US Economic Activity, Job Growth Momentum Slowing... Possible Grinding Slowdown





## EUR: Slow Bottoming and a Gradual Recovery into 2020

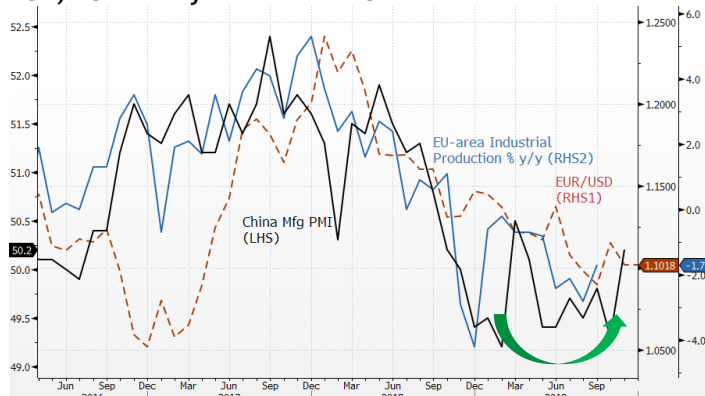
Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q2020
EUR/USD	1.1200	1.1300	1.1300	1.1500	1.1650

**Motivation:** We are cautiously looking for a **slow bottoming and subsequent gradual recovery in the EUR going into 2020**, underpinned by the shift in ECB's focus towards a "policy mix" following Christine Lagarde's appointment as ECB President, improvement in euro-area current account surplus, relative calm in Euro-area politics (less elections in 2020 as compared to past 2 years) and more clarity on Brexit progress (receding fears of hard brexit). Lower debt servicing burden (owing to decline in Euro-area bond yields) provide a fiscal breather for EU member states to increase spending, investments. This should in turn help to support growth and eventual policy normalisation, but with a lagged effect. Hence we think a slow bottoming may be forming around 1.08 levels with chance for mild recovery but short of a sharp recovery (as growth and inflation outlook remain sluggish while EUR retains its negative carry). We expect a range of 1.08 - 1.18 for 2020, with bias to buy dips.

**ECB's "Policy Mix" Suggests Fiscal Can Help with Heavy-Lifting.** While rates may stay low near its lower bound (of -0.5%) for a little longer, policymakers may be reluctant to lower them further given diminishing marginal returns. ECB has started to publicly discuss the positives and negatives associated with easy policies. Former ECB President Draghi said it is "high time for fiscal policy to take charge" and that "low interest rates are no longer delivering the same degree of stimulus as in the past... for monetary policy to achieve its objective faster and with fewer side effect, it needs other policies to step up". He added that Euro-area needs a bloc-fiscal capacity large enough to stabilise the monetary union. He made reference to US able to put past crisis behind it much faster than the Euro-area because US have both a capital markets union and a counter-cyclical fiscal policy while the Euro-area had no capital markets union and a pro-cyclical fiscal policy. It remains unclear at this stage how receptive this is to European leaders as fiscal policies in Euro-area are decentralised and creating a joint budget could result in moral hazard. Meanwhile newly appointed ECB President Chief called for a new policy mix, saying that public investments should be stepped up to ease burden on monetary stimulus. This reinforced our call that taking pressure off ECB to do more should provide a floor to rates and puts the bottom in place for EUR. For 2020 we expect limited ECB easing from current levels, little expectation for policy normalisation but a greater push to convince EU governments to increase spending and investments

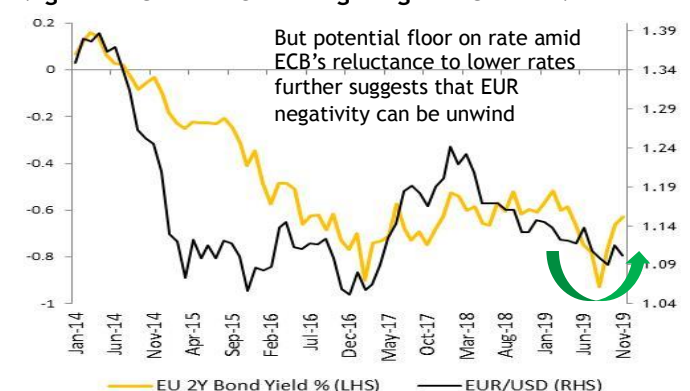
**A Pick Up in Growth and Inflation is needed to Support EUR's Recovery.** Growth remains sluggish in the Euro-area as manufacturing slump appeared to have spread to services sector. Euro-area consumer confidence and business conditions have also yet to show improvement, though recent data point to tentative signs of stabilisation at low levels. As such EUR's recovery is slow and limited owing to sluggish growth, subdued inflationary expectations and negative carry. However the potential for a reversal of growth and inflation fortunes amid timely policy responses could support a more meaningful recovery in EUR for 2020.

### EUR, EU Activity to Benefit if China Recovers



Source: Bloomberg, Maybank FX Research & Strategy

### Negative EU Yields Still a Big Drag on EUR for Now



## GBP: Accumulate on Dips

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q2020
GBP/USD	1.3000	1.3200	1.3400	1.3600	1.3800

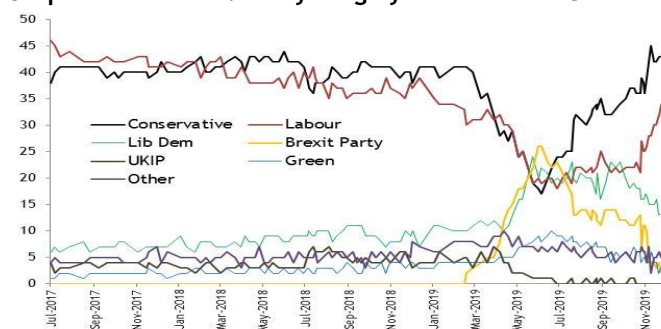
**Motivation:** While GBP brace for more twists and turns, we see **more reasons to be constructive of GBP's recovery** as balance of risks are shifting in favor of a soft and swift exit (with transitional agreement), possibly as early as on 31 Jan 2020, from fears of hard brexit while on the domestic front, the potential for a significant Tory's victory at the upcoming GE should strengthen PM BoJo's negotiation stance with EU on brexit with his deal. A less divisive cabinet means that decisions can be decisively passed and an eventual brexit (instead of further delays) puts a closure to brexit v1.0 uncertainty, paving the way for UK to negotiate future trade agreements with the EU, and other nations (which we believe could form the basis for brexit uncertainty v2.0 at some stage next year) - an uncertainty for GBP. That said we are constructive and expect Brexit negativity to further unwind. This reinforces our long-standing bias to accumulate on dips for an eventual choppy move higher towards 1.38-1.40. Key support at 1.27 but this is not a line in the sand, especially if our base case assumption turns awry - PM BoJo loses election and/or brexit is delayed again/ no transitional agreement brexit suffices. In this alternative scenario, GBP could re-test 1.20.

**Immediate focus is on the upcoming General Elections on 12/12.** There is growing confidence that PM BoJo's Conservative party could win by a large margin (as indicated by various polls including yougov which showed that Tories could win by a significant majority of 68 seats) and signs of greater unity amongst Conservative MPs (as they pledged to vote for PM BoJo's brexit deal if he is elected). These bode well for sentiment and help to anchor some confidence as risk of a hung parliament fade. However it is equally important to caution that opinion polls in the UK have incorrectly predicted the outcomes of the EU referendum and 2017 GE, resulting in large GBP declines following actual outcomes. For this episode, we caution that GBP's downside could potentially be more amplified than upside if Conservative party loses GE or win by a smaller margin as Tories victory is already priced-in.

**BoE Rate Cut Not Ruled Out in 2020.** Relatively steady CPI (no run-away pressure from BoE MPC's 2% target), with chance of some slight pullback due to lower oil prices and Brexit uncertainty leaves room for BoE to keep policy stance status quo for now. But risk of shallow recession remains as services, manufacturing and construction PMIs are in contractionary territories. This could still force the BoE's hand to cut rate to support growth in data does not improve soon.

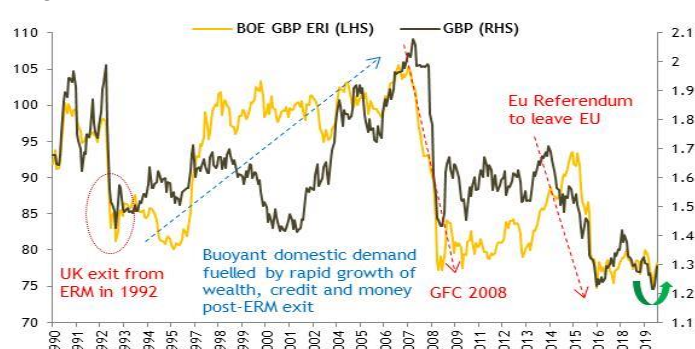
We maintain our medium term view that **GBP could trade higher** despite volatile and choppy trade in the near term before sustained gains can take hold. GBP is perceived to be undervalued from both historical and fundamentals perspective. Our fair value model estimates GBP at 1.42 -1.46 levels. Past 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 thanks to buoyant demand fueled by rapid growth of wealth, credit and money. If history is a guide (assuming UK manages the transition orderly and correct its imbalances), GBP may start to climb higher.

### GBP Downside Risk Could Be Amplified on Negative Surprise as Tories Victory Largely Priced In for GE



Source: Bloomberg, BOE, Yougov, Maybank FX Research & Strategy  
December 3, 2019

### GBP Can Extend Its Recovery on Conservative Victory at GE and Soft Brexit on 31 Dec 2020



## AUD: Crimped Recovery

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q2020
AUD/USD	0.68	0.69	0.70	0.71	0.70

**Motivation:** In an environment of trade and tech recovery, AUD would have an opportunity to rise alongside most non-USD FX but recovery could be crimped by persistently negative AUD-USD yield differential, lingering QE expectations on trade uncertainty and potentially weakening hiring momentum, terms of trade deterioration as China remains on a structural slowdown. While better risk environment and trade recovery should boost AUD, domestic weakness and lower Australian rates could mean that AUD may fall out of favour with yield hunters.

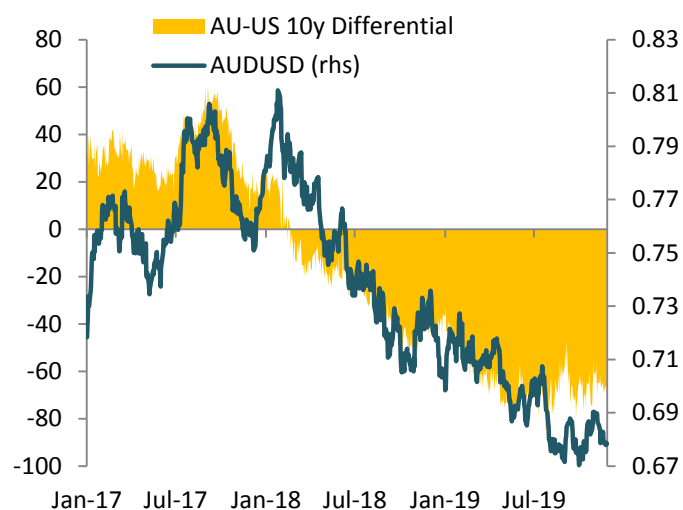
**Trade Recovery To Boost AUD vs. USD.** A window of trade recovery could emerge and we expect typically procyclical-AUD to benefit in an environment of trade recovery. Phase 1 of the US-China trade agreement should see some rollback in tariffs which could lift the AUD along with other AxJ currencies. The concomitant boost in exports that China might experience could also translate into mildly stronger Chinese demand for Australia's resources. That said, subsequent phases of trade deal could be harder to achieve and while we do not expect further escalation, lingering trade uncertainty could keep a lid on the AUD.

**Household Spending A Concern.** Elevated household debt and low wage growth have hurt private consumption expenditure and hiring momentum seems to have weakened recently. That could negate the positive wealth effect expected from the housing price recovery. In addition, the triple rate cut by the RBA had an unintended effect of spooking consumers at home. The ANZ Roy Morgan Consumer Confidence plunged to lows not seen since 2015. Fortunately, rising housing prices may lift dwelling investment and along with a more constructive trade outlook, consumer sentiment could still recover and keep RBA from starting QE.

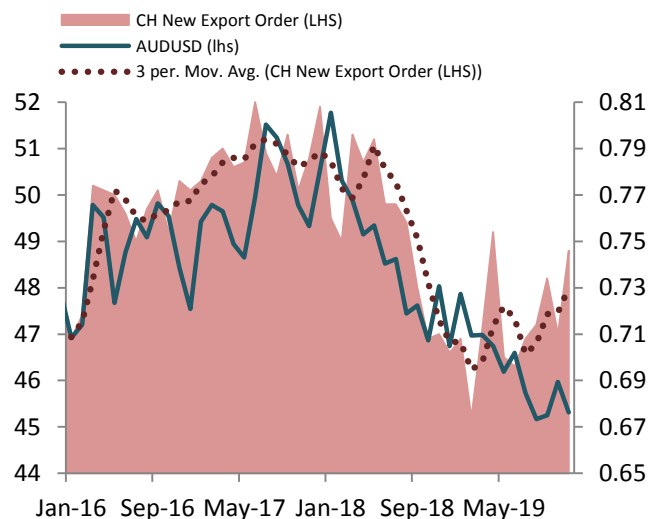
**AU-US Rate Gap Stabilizes.** The AUD-USD yield differential is to remain negative and keeps AUD from outperforming the USD. Since Apr 2019, the 10y yield differential between Australian and US government bonds have been stabilizing at around 70bps discount, also providing a bottom for the AUDUSD.

**Risks to Our View:** A key risk to our view is a failure for US and China to reach even a partial agreement or worse, an escalation of the US-China trade war. That could mean an increased likelihood of faster rate cuts to 0.25% (effective lower bound as mentioned by Lowe on 26 Nov) as well as the launch of the QE and AUDUSD could be plunged towards 0.65.

### Negative AU-US Yield Gap To keep AUDUSD from Outperforming



### China's New Exports Order Rebounds But AUD bulls still leashed by Trade Uncertainty



Source: Bloomberg, PMI, Maybank FX Research & Strategy

## NZD: Decline Nearing an End

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q 2020
NZD/USD	0.6400	0.6600	0.6600	0.6800	0.6900

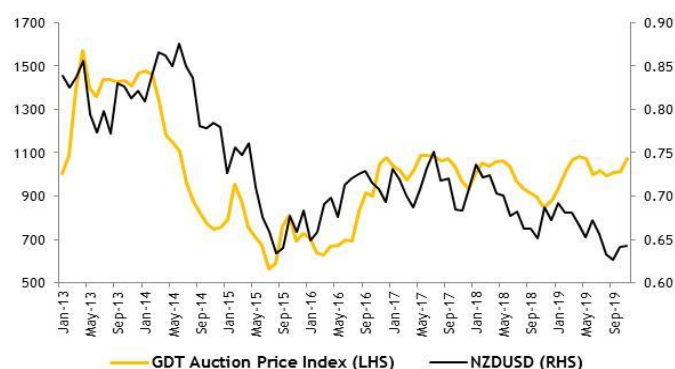
**Motivation:** We believe Kiwi's near-10% decline from 2019-high could be nearing an interim bottom on a combination of factors including RBNZ on hold (albeit at low OCR levels), room for fiscal stimulus, more constructive outlook for dairy prices, de-escalation in US-China trade tensions and easier financial conditions (on expectations for Fed to remain accommodative for longer). NZD could potentially bottom out around 0.63 levels with chance for a mild recovery towards 0.65-0.66 levels in 1H and another slow grind higher towards 0.68-0.69 amid USD softness. We however remain cautious over RBNZ's open-ness to unconventional monetary policies, especially if its peer RBA surprises by introducing QE (this would increase the risk of RBNZ keeping tab with RBA) as that would subject NZD to renew downward pressure.

**De-escalating trade tensions between the US-China and potential signing of RCEP (in which NZ is one of the members) in 2020, build a case of a more constructive environment for trade/exports to recover,** underpinned by a low base as well. The bigger driver to watch is how US-China trade negotiations develop. In particular if talks progress into the signing of phase-1 deal in coming weeks. Though the partial deal may not be as comprehensive as what most would wish for, this could be sufficient for a start to get the momentum going and is supportive of sentiment. Trade-linked FX including NZD could benefit from this.

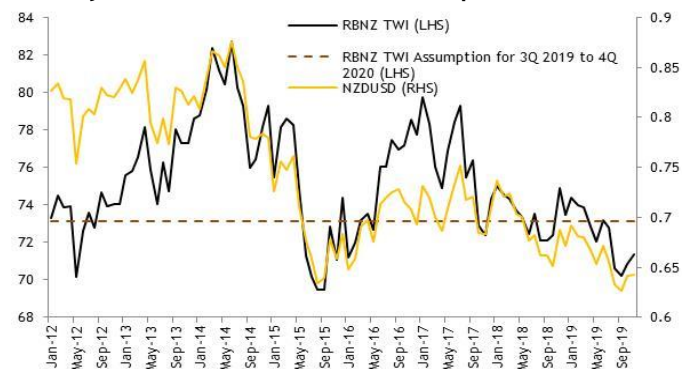
**More-Balanced, Less Dovish RBNZ is Another Factor Supporting NZD.** In RBNZ's recent forward guidance, rates are expected to remain at low levels for a prolonged period (to support RBNZ's dual mandate) and RBNZ could still be poised to add to stimulus (if growth worsens). Bloomberg median forecast looks for about 50bps cut from current level of 1% for 2020, we are slightly less dovish at this point and expect RBNZ to continue with its "watch and monitor" accommodative stance to allow for the cumulative 75bps cut in 2019 and lower NZD (TWI fell as much as more than 6% at one point in 2019) to work its way into the economy. Lower lending rate can support investment and spending. Domestic activity could possibly pick up further into the turn of the year, as seen from the encouraging upticks in recent activity and survey data including manufacturing, services PMIs; retail sales; business and consumer confidence. CPI and PPI have also been rising. 3Q non-tradable inflation (measure of domestic price pressure) jumped to highest level since 2009. Taken together price pressures are building and headline CPI looks on track to stay within RBNZ's inflation target of 1 - 3%. Chance for domestic activity, exports to pick up, and steady CPI suggest that RBNZ does not need to rush into rate cuts (as suggested by most Economists) and can stay on hold, albeit at low levels of 1% for 2020.

**Constructive Dairy Price Outlook Adds to Sustainable Recovery.** Consecutive rise in dairy prices at the GDT auction has raised expectations that Fonterra farmers payout could rise towards the upper bound of its forecast price range of \$6.55 - \$7.55 for 2020/21 season. In addition softer dairy production in Northern hemisphere against rising global demand is another factor supporting NZ dairy prices, exports and NZD.

### Constructive Dairy Outlook Supports NZD Recovery into 2020



### Earlier Sharp Adjustment in TWI and Easy Policies Allow Activity Momentum and NZD to Pick Up into 2020



Source: RBNZ, GDT, Bloomberg, Maybank FX Research & Strategy



## CAD: Easing Cycle, if Any, Should Be Shallow

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q2020
USDCAD	1.32	1.31	1.29	1.28	1.25

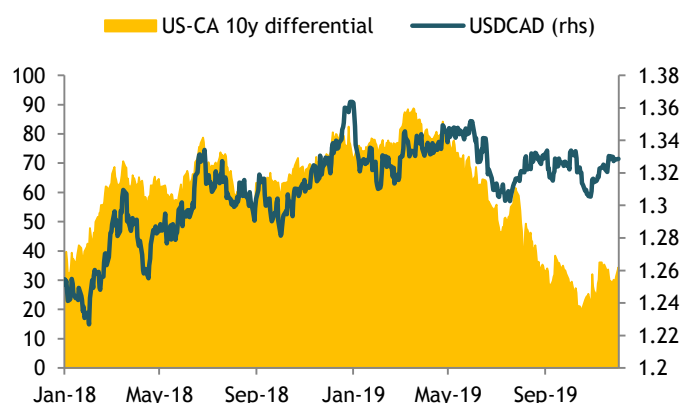
**Motivation:** We see potential for CAD to remain supported by a constructive trade environment, positive risk sentiment (in case of a partial trade deal) that concomitantly lifts the crude prices as well as strong hiring momentum and wages growth that could keep BoC from making that “insurance cut”. Insofar, CAD’s strength has been capped by the AUD weakness as well as the deterioration in its terms of trade when its crude exports were affected by the rail strike. Dovish comments from central bankers may remain a drag on the CAD in the near-term but these effects could dissipate in a more benign trade environment.

**Wary of Inflexion Points.** The Canadian economy could be at a possible inflexion point. Solid hiring pace and enviable wage growth of  $>4\%/y$  should have lent more support to the CAD but the currency is already dragged by expectations for BoC to begin easing as Poloz warns of external headwinds from persistent trade conflicts and uncertainty. With jobless rate near record low and inflation smack in the middle of the 1-3% target, BoC has started to warn about the “spread of the global slowdown beyond manufacturing and investment”. Retail sales have admittedly drifted lower and typically foreshadow weakness in the CAD. USDCAD could thus remain somewhat supported in the near-term with rate cut expectations possibly priced.

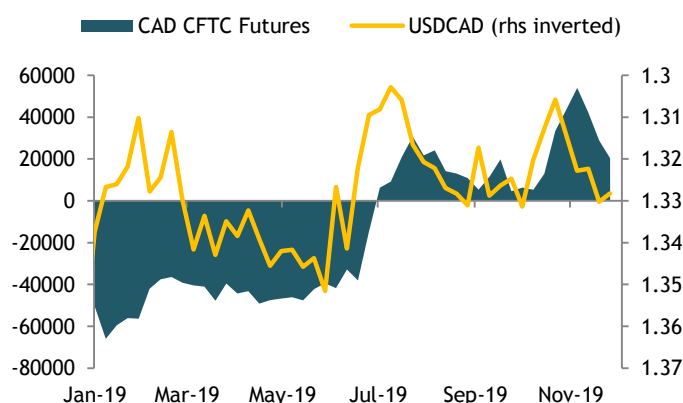
**Insurance Cuts.** Even as BoC touts potential insurance cuts, Poloz also expressed concerns on household debts that could worsen with more monetary accommodation. As such, it is likely that rate cuts, if any, are likely to be gradual and well-stocked rate ammunition (not drawn down in 2019 unlike its peers) could mean that Canada may weather this global growth slowdown better than most other DM peers.

**A More Benign Trade Environment Can Help.** As the US Fed eased rates, the US-CA 10y yield premium narrowed but that was unable to bring the USDCAD much lower due to the recent slump in global growth that affected sentiments. This was not helped by the fact that the US-China trade deal is still not certain and the USMCA still not ratified. A US-China partial trade deal and a ratification of the USMCA in 2020 should boost investment decisions, lift crude prices and reduce the need for BoC to ease the overnight rate from current 1.75%. In addition, a trade deal could potentially bring about a rise in the crude prices as demand for crude is perceived to increase in a more benign trade environment. We anticipate the CAD could also strengthen considerably in a risk-on environment that typically favours carry trade.

### Narrowing of US-CA 10Y Premium Failed to Bring USDCAD lower Due to External Headwinds



### Long CAD Positions Have Unwound Quite A Bit, Room to Accumulate?



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

## JPY: Demand Amid Global Risks, Soft Domestic Growth

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q 2020
USDJPY	108	107	105	103	103

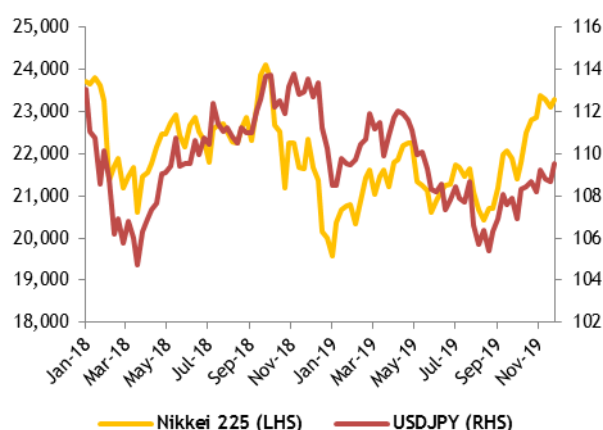
**Motivation:** Despite a potential US-China phase-1 deal being signed in the near term, structural rifts in policy stances between two of the world's largest economies will be very challenging to overcome. Meanwhile, growth in developed economies is likely to remain soft, even as some Asian economies could see modest recoveries. Such a cautious external backdrop would continue to anchor demand for the JPY as a safe haven asset. Meanwhile, domestic growth in Japan is likely to slow in 2020, on soft private consumption and investment momentum. Drags on tourism and industrial production, partly due to the Korea-Japan spat, could take time to fade, even if relations between the two countries see mild improvements. Any concomitant slippages in Japanese equities could be accompanied by upsides in the JPY. **We are modestly positive on the JPY in 2020.**

**Global risk factors are unlikely to fade away in 2020, anchoring demand for safe haven assets.** While recent US data shows signs of resilience, consensus view is for growth momentum to slow next year, as heightened election and trade uncertainty constrains corporate investment. In Europe, there are also signs that manufacturing weakness is beginning to spill over to services sectors. An overall picture of softer growth outlook in the developed markets, coupled with sporadic tensions in US-China trade relations, is likely to lead to some demand for the JPY.

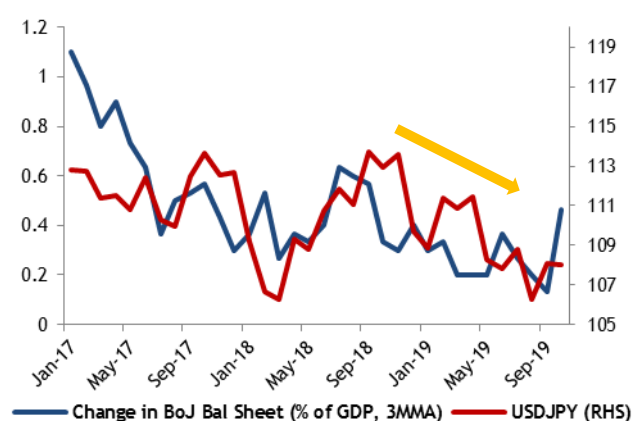
**Domestic growth concerns should also be supportive of the JPY.** Aside from the soft external backdrop, the recent implementation of the consumption sales tax hike in Oct 2019, from 8% to 10%, could dampen near-term personal spending and economic growth. Despite some signs of reconciliation amid the ongoing Japan-South Korea spat—i.e., a suspension of a decision to withdraw from a military intel sharing pact, a potential summit between Japanese PM Abe and South Korean President Moon Jae-In in December—souring relations continue to weigh on the performance of Japanese companies with high exposure to South Korean demand, including in tourism, automotives, apparel and other consumer goods. Further JPY strength from these developments cannot be ruled out in 2020.

**Still-narrow yield differentials between USTs and JGBs, coupled with BoJ's "stealth tapering", could lead USDJPY lower.** The Fed has signalled that it could hold policy rates at current levels for a prolonged period to support US growth, and this could cap increments in UST yields in 2020. Meanwhile, there is limited room for the BoJ to bring policy rates lower, due to the risks this poses for the financial sector. UST and JBG yield differentials should not widen significantly. In addition, if recent reductions in purchases of longer-maturity bonds by the BoJ continue, it could be seen as "stealth tapering" or a partial normalization of monetary policy. These developments could lead markets to still favour JPY in 2020.

**Japanese Equities Could Soften Alongside Weak Growth Outlook, Supportive of the JPY**



**JPY Supported by BoJ "Stealth" Tapering, Especially in Longer-Maturity JGBs.**



Source: Bloomberg, Maybank FX Research & Strategy

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## RMB: Weakness More Pronounced Against A Basket

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q2020
USD/CNY	7.10	7.08	7.05	7.03	7.05

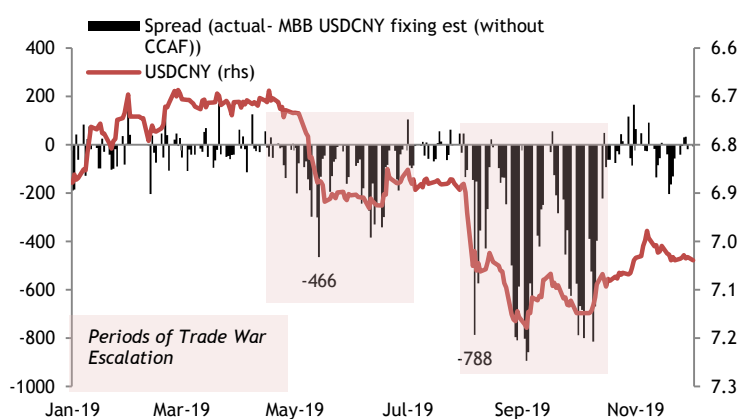
**Motivation:** 2020 is likely to be a year of a softer USDCNY profile as we look for a more sanguine trade landscape to chip away at the USD strength. This is based on an assumption that a hard-won partial trade deal is reached between US and China along with the signing of the RCEP agreement in 2020. However, deleveraging priorities could re-emerge once external headwinds fade and we expect CNY to weaken against most other non-USD currencies as the structural slowdown continues.

**Easing Via Rates Would Be Limited.** Persistently weak domestic demand saw China shift its priority towards growth recently (from deleveraging) a trade deal with the US remains uncertain. The 1Y loan prime rate was cut twice this year to 4.15%. The second rate cut was in tandem with 7D reverse repo rates, 1Y medium term lending facility rate in Nov - the first time rates see congruent easing. We expect further cuts to the 1Y LPR but downsides could be limited to levels around 4.00%. In a more benign trade environment, PBoC may refrain from easing rates and tap on other tools such as RRR, targeted RRR cuts, MLF and TMLF to cushion against a sharp deterioration in aggregate demand. Another broad RRR cut could be announced before the end of the year, ahead of the Lunar New Year celebrations. However, it would be premature to call for a recovery in 2020 as China still takes its deleveraging endeavours seriously and could revert to reining in credit growth once external headwinds fade.

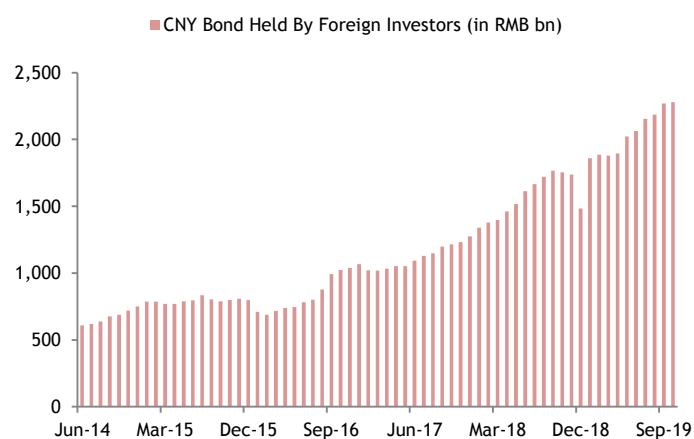
**US-China Tensions Could Linger.** We assume a partial trade deal to be reached that includes a tariff rollback, some agreement on intellectual property and maybe even a currency pact. However, the race for technology dominance is still on. The US Federal Communications Commission just voted to block domestic telecoms from using Federal funds to buy ZTE and Huawei equipment as they are deemed as threats to national security and 5G future. Lingering US-China tension could still weigh on the RMB in a softer USD environment and keep the USDCNY from venturing far below the 7-figure. While USDCNY could be on a gentle decline, CNY's slide against other trading partners should be more pronounced.

**Bond inflows to Continue.** Improvement in current account surplus in a better trade environment may be able to buffer the CNY against excessive weakness. In addition, the potential inclusion of China into FTSE Russell's World Government Bond Index at the interim review in Mar 2020 and foreign holdings of local bonds could gain traction and concomitant inflow should also be supportive of CNY.

### USDCNY Normally Steadies in the Absence of Escalation



### Foreign Investors Are Buying Up CNY Bonds



Source: Bloomberg, CEIC, Maybank FX Research & Strategy Estimates



## KRW: Cautious Optimism

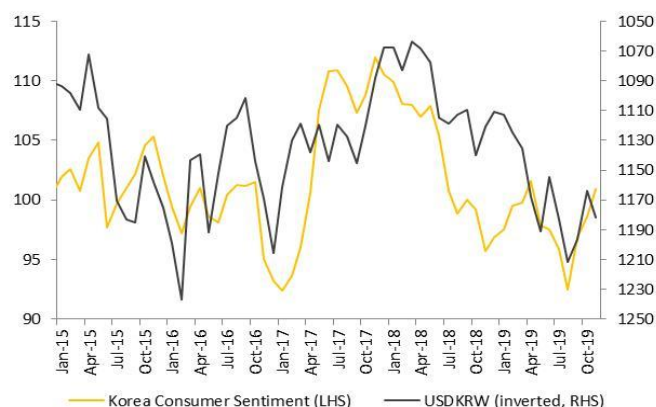
Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q 2020
USD/KRW	1180	1160	1150	1140	1130

**Motivation:** We expect 2019's weakness in KRW to fade on tech cycle recovery, the potential for de-escalation in trade tensions between US-China as well as Japan-Korea, swift policy responses via BoK easing and stimulus measures could also be timely to cushion against a deeper slowdown and tentative signs of turnaround in sentiment, survey and exports data (albeit from low levels). Elsewhere an asymmetric Fed (that is more ready to ease than hike) as well as a potential case for softer USD amid political uncertainty in US (elections, impeachment inquiry on Trump) and US activity momentum peaking could make the environment conducive (i.e. accommodative financial conditions globally, lower USD helps with USD debt repayment, etc.) for KRW. We look for a gradual down-move in USDKRW towards 1120/30 levels for 2020. But caution remains warranted as US-China trade negotiations will continue to pose volatility to KRW. We also do not rule out another 25bps rate cut in **2020 should domestic growth conditions fail to improve sustainably (OECD leading indicator fell for 28 straight months - longest on record) and negative price pressures persist for longer than expected.**

**Sustained rise in Korea's consumer confidence, Growth Rebound a Plus for KRW.** We had previously highlighted the historical positive correlation between Korea's consumer confidence and KRW. Korea's consumer confidence had plunged to 31-month low back in Aug-2019, together with a weaker KRW towards 1220 levels (more than 3-year low vs. USD). The last time both consumer confidence and KRW declined this sharply was back in Jan-2017. But subsequently for the rest of 2017, both consumer confidence and KRW strengthened sharply amid global synchronous recovery. Into the turn of the New Year, we see tentative signs of global slowdown bottoming out while trade recovers as global monetary and fiscal stimuli take effect. A potential growth, trade and tech (semiconductor) rebound is positive for pro-cyclical, trade proxy-FX such as KRW.

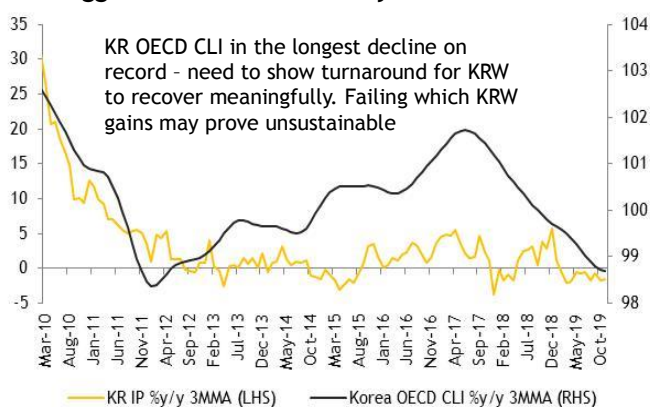
**Trade uncertainty to pose intermittent downward pressure on KRW.** Though US-China trade tensions may show tentative signs of de-escalation with a phase-1 deal possibly in sight, the risks of a delay remains real as well. Trump's signing of the HK Human Rights and Democracy bill into law (27 Nov 2019) could potentially lead to China's retaliation and this poses risk to phase-1 deal being delayed or de-railed. Uncertainty on this front could keep sentiment leashed and pose intermittent downward pressure to KRW (the cautious aspect). That said even as we get a phase-1 deal, subsequent phases may prove challenging. As such USDKRW trajectory will be subjected to greater volatility ahead, given its high-beta nature. JP-Korea relations have soured in 2019 over wartime labor issues but lately, PM Abe and Premier Lee met and though there is no material conclusion, this sparked tentative hopes for reconciliation. Further progress on this front could improve bilateral trade, tourism and this bodes well for sentiment - an additional "dark horse" factor that could support KRW for 2020.

### Sustained Rise in Consumer Sentiment Positive for KRW



Source: OECD, Bloomberg, Maybank FX Research & Strategy

### But Sluggish Growth Outlook May Limit KRW Gains



## TWD: Relative Outperformer

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q 2020
USDSGD	30.40	30.00	29.70	29.50	29.50

**Motivation: TWD outperformance seen in 4Q 2019 is likely to extend into 1H 2020** as semiconductor upswing takes hold and reshoring accelerates. Potential for cyclical upturn in global economy and global trade as well as an asymmetric Fed (more ready to ease than tighten) provides the additional sweeteners to the business climate favouring pro-cyclical/trade-linked FX such as TWD. In addition if USD weakens in 2020 amid political uncertainties, more hedge flows to sell USD/TWD coming from Taiwanese Lifers could suffice. This will further add to TWD strength. We look for TWD to test below 30 (vs. USD) in coming months before stabilising into 2H 2020 as we price in the end of semiconductor cyclical recovery. Events/risks to watch in 2020 include: (1) TW Presidential elections in Jan but will only matter if there is radical change in policy towards China (not our baseline assumption); (2) sharp rise in UST yield resulting in outflows; (3) US-China relations, which remains anyone's guess. Deterioration in US-China trade talks will dampen sentiment and that will negatively affect TWD, alongside other high-beta AXJs. However, beyond the sentiment channel in the near term, TWD may even stand to benefit in the medium term should US-China trade disputes worsen (i.e. phase-1 deal derailed, etc), leading to supply chain shifts, reshoring to accelerate (out of China to Taiwan, etc.). This on the contrary, may be beneficial for TWD.

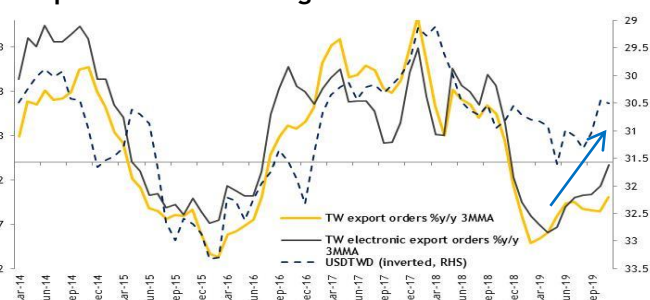
The global semiconductor market is expected to recover 5.4% in 2020, following a projected decline of 12.1% in 2019 (according to a report published by World Semiconductor trade statistics). All regions are forecasted to grow with Memory contributing the highest growth, followed by Optoelectronics and Logic. So far our observation is that the global semiconductor downcycle is likely to have bottomed in 3Q 2019, after 4 consecutive down quarters (Typically, a semiconductor downcycle involve about 4 - 5 down quarters before a turnaround takes place). Prices of DRAM/NAND (memory chips). Inventory drawdowns (after chip producers cut production in response to the down-cycle and decline in memory prices in late-2018 to 1H 2019) as well as an improving demand environment led by increase in orders for 5G network deployment, cloud providers and Internet of Things (IOT) supports a cyclical recovery story. In particular TSMC, market leader also announced that it raised its capex spending by 40%, citing strong demand in 5G deployment, high performance computing, smartphones, IOT, etc. And TWD could extend its relative outperformance given that Taiwan is a key market player (possibly taking over South Korea as 2<sup>nd</sup> largest market share (~20%) in global semiconductor industry after US which has a market share of 40%). Increase in foreign inflows into local equities is also expected to support TWD.

**Growth and employment prospects to benefit from reshoring and tech upswing.** President Tsai's 3-year (2019-21) reshoring incentive program is starting to bear fruits as government statistics showed that the 84 applications from companies reshoring under this initiative had their investments valued at US\$14bn and are expected to create more than 39,000 jobs (as of Jun-2019). In addition, the bill passed in Jul allowing Taiwanese entrepreneurs to bring home offshore money to invest under preferential tax rates is expected to attract about US\$25b - 29b in investment. Continued capital inflows via reshoring, increase in exposure to local equities is expected to keep TWD supported.

### Semiconductor Down-cycle Shows Signs of Bottoming



### TW Exports Orders Gaining Momentum



Source: WSTS, Bloomberg, Maybank FX Research & Strategy

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## SGD: Bottoming Out in Growth, Less Need for Policy Easing

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q 2020
USDSGD	1.3650	1.3600	1.3550	1.3500	1.3450

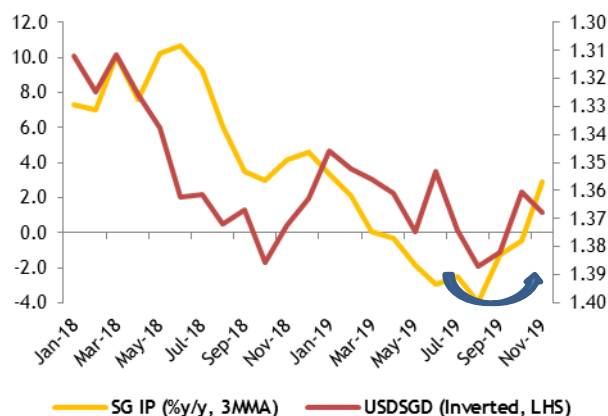
**Motivation:** SGD has seen multiple rounds of two-way swings since the start of the year, alongside shifts in expectations regarding US-China trade relations. Despite structural challenges facing a potentially protracted episode of US-China negotiations next year, there is still a fair chance that lower-hanging fruits (e.g., partial tariff rollbacks, agricultural purchases) can be inked in a phase-1 deal soon. Other factors that could support a strengthening of the SGD relative to the USD in 2020 include: (i) bottoming out and gradual recovery in Singapore growth next year, (ii) MAS maintaining current mild gradual appreciation path in its policy settings as need for further policy accommodation dissipates. **We are mildly positive on the SGD in 2020.**

**Risks are pointing to the upside for the SGD in 2020.** Even as part of the market angst over the US-China trade deal seen this year could persist into 2020, a complete derailment in trade talks is not expected by markets at the moment. Eventual signing of the phase-1 deal could boost near-term sentiments and help support a recovery in regional exports, positive for AxJ FX. Meanwhile, market expectations are for the Fed to cut policy rate once more next year, which could exert downward pressure on the USDSGD pair.

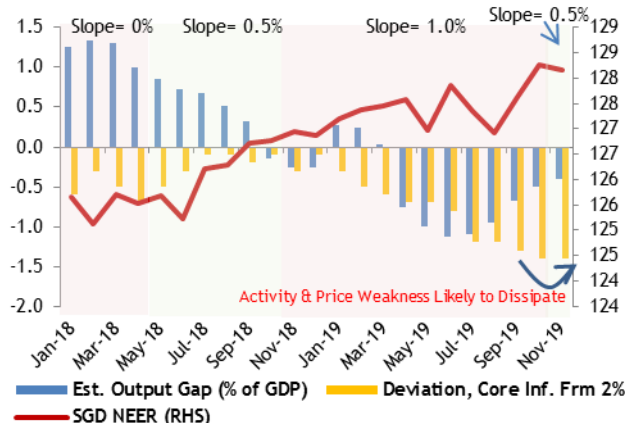
**Recent higher-frequency indicators such as industrial production point to a bottoming out in growth outcomes for Singapore.** This could occur alongside a broader recovery in the global tech cycle—semiconductor chip sales have improved in recent months, and could continue to see positive growth in 2020, anchored by robust smartphone and 5G-related demand. Services growth could also recover modestly on strengthening of activity in financial, business and tourism-related sectors. House view is that after dodging a technical recession in 3Q, 2019 growth could come in at 0.9%, before a potential step-up to 1.8% in 2020. Such a growth trajectory would be supportive of the SGD.

**MAS could maintain current mild, gradual SGD appreciation stance next year.** The recent Macroeconomic Review highlighted that despite a potentially softer labour market and limited pass-through of external price pressures to domestic inflation, both core and headline inflation are still expected to come in at around 0.5-1.5% ranges next year. While somewhat below the 2% implicit target, downside risks should be capped, especially if domestic demand recovers and the dampening effect of the OEM (Open Electricity Market) developments on electricity prices dissipates. With deflationary risks still low and the need for further policy accommodation dissipating, downward pressures on the SGD could fade as well.

### Recovery in Manufacturing Growth Outlook Should Be Supportive of the SGD in 2020



### Mild, Gradual Appreciation in SGD NEER Could Be Kept Intact in 2020



Source: Bloomberg, Maybank FX Research & Strategy

## MYR: Could Benefit More from Easing Trade War Concerns

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q2020
USD/MYR	4.1500	4.1200	4.1000	4.0800	4.0800

**Motivation:** We maintain a mildly positive outlook on the Ringgit relative to the USD, on the back of a “cautiously constructive” trajectory of the economy relative to a reduction in US economic activity. This is likely to happen within a global environment of low growth, low inflation and probability of low rates staying low for longer. Regional central banks are likely to see additional rate cuts in 2020 reflecting available monetary policy space to cyclically boost growth in terms of current nominal interest rates relative to GFC losses. There is also some space for fiscal support to invest and enhance long term/potential growth.

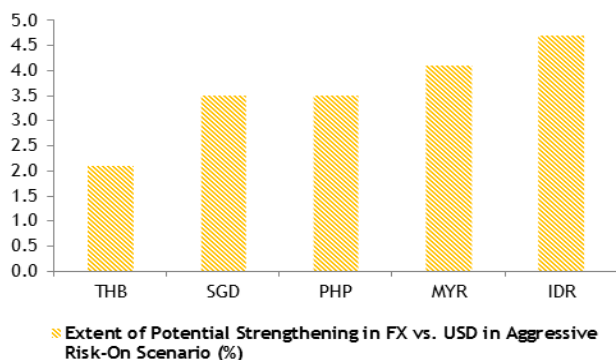
**MYR fundamentals remain well anchored** by sustained current account surplus, stable FX reserves to retained imports & short-term debt despite episodes of capital outflows. We expect the monetary and fiscal support from OPR cuts and government development & infrastructure projects as well as growth supportive Budget 2020 allocations and measures to revive capex and boost private consumption. In addition, the government has indicated that it will seek ways to resolve the issue of the ringgit's depreciation as it is a source of concern. This provides some expectations that MYR weakness may be capped somewhat in 2020.

We maintain our lower USDMYR forecast trajectory beyond 2020 based on the above, however, we acknowledge **there could still be some uncertainty amid knock-on effect to domestic economy from external uncertainties** and downside risk from global growth slowdown and trade tension overhang. Downside risks to USDMYR are a more prolonged Fed pause; oil price moving higher as production cuts materialise and regulatory changes on use of biodiesel supporting the palm oil industry. We should still see support on MGS curve, given easing bias on monetary policy, neutral supply profile and resilient domestic demand for bonds, as long as growth outlook remains cautious and UST curve does not steepen sharply.

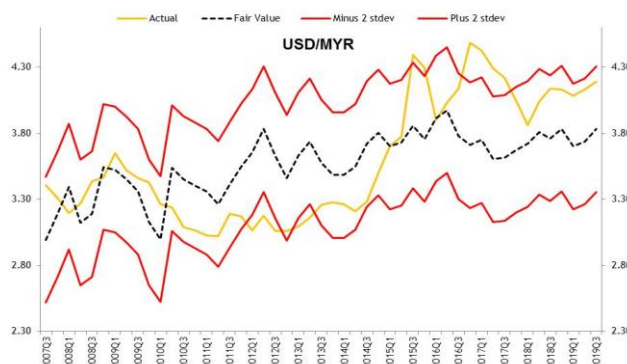
**Existing market concerns about bond exclusion in the FTSE-Russell index** in the upcoming review in March and its impact on the bond market could still weigh on the MYR coupled with the occasional concern about softer oil prices. In addition, EM market risks could emerge leading to asset reallocations by fund managers if inflation expectations rise, triggering risk off flows out of EM. In a confluence of such scenarios, we expect the pair to remain elevated above 4.10.

Trade war/deal developments could remain fluid. We're only at the beginning of “phase 1”. **Our simulations suggest gains in ringgit (relative to USD) could be higher than that in SGD, THB and PHP**, if trade and growth sentiments see a sharp recovery, with USDMYR potentially seeing declines of up to 4%. The magnitude of MYR strengthening could be more modest if trade tensions only ease gradually over time, with sporadic swings in tones still expected.

### MYR Could See Relatively Greater Gains if Risk-On



### MYR Fair Value Remains Around 3.80



Source: Eviews, Bloomberg, Maybank FX Research & Strategy

Note: Results in LHS Chart are median changes from 10,000 Monte Carlo outcomes, based on FX behaviors in environment of aggressive risk-on tones, utilizing relationships with gold, MSCI AxiJ, UST term premiums and USDCNH.



## IDR: Outperformance Amid Carry Demand, Committed Reforms

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q 2020
USDIDR	14000	13950	13900	13850	13800

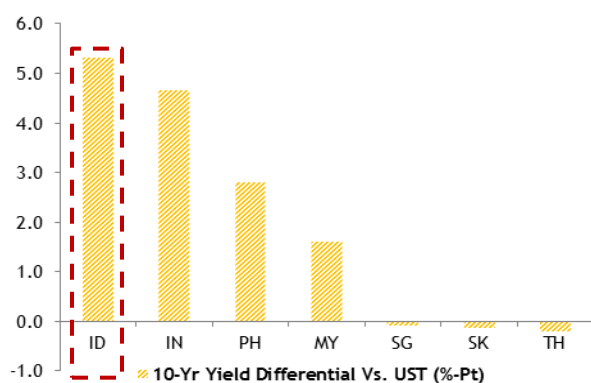
**Motivation:** Post April elections, key drivers of IDR seem to be (i) progress in domestic tax and labour reforms, (ii) BI monetary policy, and (iii) regional growth and trade outlook, hinging on state of US-China trade relations. Coming to year-end, as markets await confirmation of the phase-1 US-China deal, IDR seems to be consolidating around the 14,000 to 14,200 range. Going into 2020, while modest IDR swings may continue alongside potentially protracted US-China negotiations, we still look for a broad strengthening of the currency. An environment of attractive yields (further BI cuts possible, but likely limited), discernible progress in reforms, accelerated infrastructure flows, and manageable twin deficits, should lift IDR higher. **We are cautiously optimistic on the IDR in 2020.**

An environment of low growth, low inflation, low rates, may well suggest a hunt for yield, favoring higher yielder plays such as IDR. The Fed has signalled that it could hold policy rates at current levels for a prolonged period to support US growth, and this should cap increments in UST yields in 2020. Meanwhile, BI opted to stand pat on policy rate and instead utilize RRR cuts to inject liquidity into the financial system in its latest monetary policy decision in November, suggesting that it is still wary of fund outflow risks. Any further policy rate cuts in 2020 could be limited in magnitude (expected ~50bps more), and yields are unlikely to narrow significantly. Carry trade could still favor IDR demand over the next few quarters.

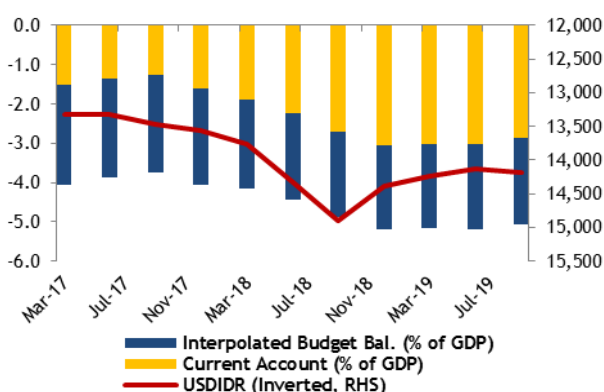
A strong focus on attracting FDI via tax and labour reforms, as well as a robust pipeline of infrastructure projects, could be supportive of IDR. FM Sri Mulyani recently announced more details on the government's proposed tax reforms, ranging from reduced income and value-added taxes and zero tax on dividends, to lower non-resident taxes. Changes to labour legislation are also expected to make it easier for companies to hire and retrench workers. Meanwhile, of the US\$430bn needed for infrastructure development over the next five years, only a tad more than half is expected to be funded by the government and state-owned companies. There are ample opportunities for external private sector participation. Higher FDI inflows could support increased IDR demand.

**Twin deficits are likely to be manageable in 2020.** Despite 2019 fiscal deficit likely exceeding the initial 1.9% of GDP target, it is likely to come in better than the 2.4% average in the preceding five years. On-the-grounds efforts are also being planned to expand the tax base, in an effort to improve collections in 2020. Meanwhile, the current account deficit could come in below 3% of GDP in 2019, and improve further next year, alongside focus on higher value-added downstream industries (exporting processed goods instead of raw materials) and intensifying usage of biodiesel to reduce oil imports. Reduced macro vulnerabilities could potentially lead to a repricing of Indonesian assets and spur greater inflows.

### IDR-USD Yield Differentials Likely To Remain Attractive Despite Potential BI Rate Cuts



### Manageable Twin Deficits Will Bode Well for IDR Strength



Source: Bloomberg, Maybank FX Research & Strategy

Note: 10-Yr Yields as follows—ID: 7.1%, IN: 6.5%, PH: 4.6%, MY: 3.4%, SG: 1.7%, SK: 1.7%, TH: 1.6%.

## PHP: Optimistic Growth Trajectory, Twin Deficits Manageable

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q 2020
USDPHP	51.00	50.50	50.00	49.50	49.00

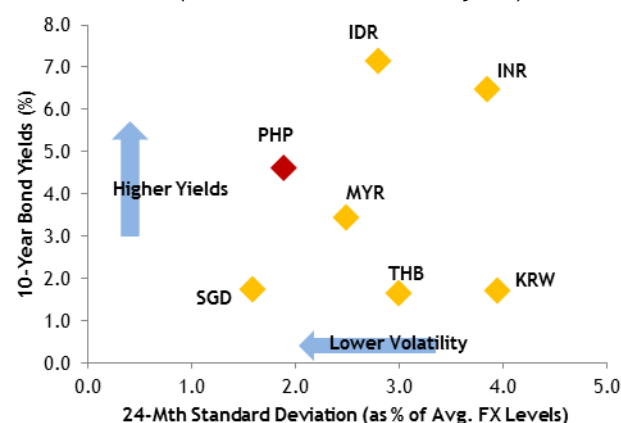
**Motivation:** Like the IDR, the PHP has gained in strength relative to the dollar in the second half of 2019, as election-related uncertainties dissipated and yields remained attractive in a global low yield environment, despite BSP rate cuts. While US-China trade talks could still see potential swings in tones next year, Philippines' lower trade dependence should shield it a tad from excessive trade-induced volatility. The broad upward trajectory for PHP, relative to USD, should continue in 2020. USD strength could fade alongside a Fed which stands more ready to ease than tighten monetary policy, and as US growth momentum sees some slippage. Meanwhile, the cumulative 75bps policy rate cut and 400bps RRR cut thus far, as well as a recovery in fiscal spending, should continue to support firmer growth over the next several quarters. **We are positive on the PHP.**

While offering lower yields than IDR, PHP has also been historically less volatile. Domestic macro fundamentals in the Philippines are still largely intact, and while the easing cycle could continue next year, further rate cuts are likely to be limited. The BSP could try to utilize RRR cuts more—potentially another -300bps worth next year, in addition to the -400bps this year—rather than excessive rate cuts, to avoid yield differentials with USTs from overly narrowing. Further, given historically low PHP volatility, mildly-lower carry returns from PHP could be an acceptable trade-off for market participants who are trying to diversify away from DM assets, while also being slightly more risk adverse.

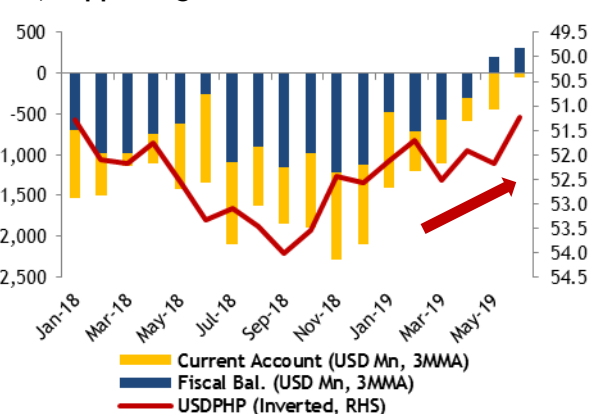
**Benign growth outlook should support PHP sentiments.** GDP growth could improve a tad to above 6.0% in 2020 as ongoing stimulus from monetary policy easing works its way through the economy, and fiscal spending recovers alongside. Latest assessment is that Budget 2020 could be sized at around PHP4.1tn, significantly higher than the revised PHP3.662tn in Budget 2019. The omnibus tax bill taking effect in 2020 will include reduced corporate tax rates and exemptions on capital gains and value-added taxes for qualifying corporates, anchoring FDI flows. Realization of the government's recently-revised Build Build Build programme should also support the longer-term economic outlook.

**Similar to IDR, twin deficits will likely remain manageable.** Fiscal deficit next year should come in lower than -3.2% of GDP, not too different from 2019 and significantly narrower compared to 2018's -4.5%. More importantly, it is estimated that about three-quarters of next year's government borrowing will be from local sources, underscoring the lower dependency on external funds. While current account deficit may widen modestly to -2.4% of GDP in 2020, from expected -2.0% in 2019, this should be less worrying if the increase in imports was due to demand for productivity-enhancing equipment and raw materials for infrastructure usage.

### PHP's Lower Volatility Could Compensate for Its Lower Yields (Relative to Other Carry FX)



### Twin Deficits Should Remain Under Control in 2020, Supporting PHP



Source: Bloomberg, CEIC, Maybank FX Research & Strategy

## THB: BoT Measures Unlikely to Curb THB's Rise in 2020

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q 2020
USDTHB	30.40	30.20	30.00	29.80	29.60

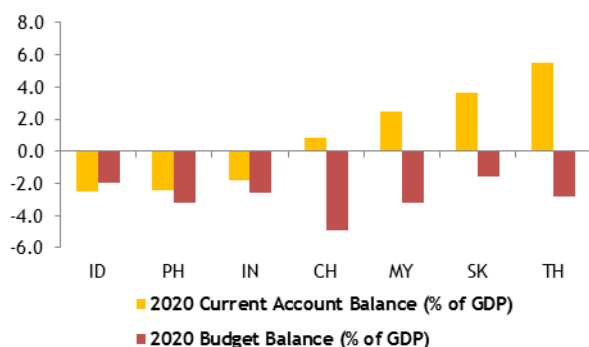
**Motivation:** The THB has strengthened by more than 7% against the dollar YTD. Part of the strength can likely be attributable to Thailand's current account surplus, which is higher than most regional peers. Strengthening in gold prices also led to a rise in gold trading activity from mid-year onwards, and coupled with reduced political uncertainty post-elections, likely boosted THB further. Subsequently, BoT resorted to easing capital outflow regulations in early Nov in an attempt to curb THB strength. As these measures work through the economy, a near-term mild correction in USDTHB may be possible. Nonetheless, our assessment is that their overall effectiveness in curbing THB strength will be modest. Going into 2020, factors such as shrinking monetary policy space, capex and growth rebound, will support THB strength. **We remain positive on the THB on a 12-month outlook.**

**Recovering economic fundamentals should keep the THB supported.** House view is for GDP growth to pick up to 3.4% in 2020 (vs. expected +2.6% in 2019), alongside a recovery in exports and investment, and continued strength in tourism. In particular, supply chain reconfiguration towards Thailand and ASEAN amid the US-China trade war, and progress on major infrastructure projects such as the Eastern Economic Corridor, should support a tentative capex recovery. Despite having only a razor-thin majority, the ruling coalition managed to pass the annual budget bill in the Oct reading (251 for, 234 abstaining). Base case is for the bill to pass the January voting round as well, which could signal further reduced political uncertainty. Meanwhile, current account is likely to come in at more than 5% of GDP in 2020, which will be a pertinent driver in sustaining THB strength.

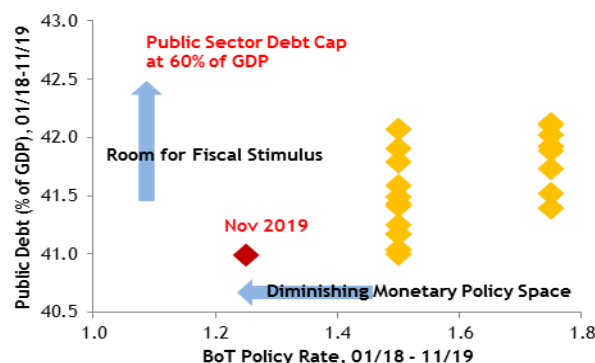
**Shrinking monetary policy space could also be positive for the THB.** Despite recent comments from the central bank governor that BoT stands ready to utilize monetary policy if needed, we think that room for further rate cuts could be fairly limited. Financial stability risks have been addressed to some extent by macroprudential measures, but are still a concern. Instead, attention would likely turn to fiscal policy. With public debt (41% of GDP) significantly below the debt ceiling (60%), and a low fiscal deficit (slightly below 3% of GDP in 2019), there is considerable fiscal space to help stimulate growth.

**Recent relaxation of capital outflow measures is unlikely to stop THB's rise.** Alongside recently announced BoT measures designed to curb THB strength, PM Prayuth also commented that Thailand has to spend more in USD (likely via higher imports), to support this aim. One key BoT measure involves raising the threshold of foreign currency proceeds exporters can keep overseas, which could help address pressures from the CA surplus. Nonetheless, only around one-tenth of FX turnover transactions conducted by commercial banks was related to import-export demands. Companies would also likely have to convert revenues back to THB to pay off domestic liabilities at some point. A [review](#) of existing/potential BoT measures suggests that the overall effectiveness of these measures could be modest.

### Consensus Forecasts See Robust Thailand CA Surplus Next Year, Anchoring THB Sentiments



### Shift to Fiscal Stimulus & Policy Coordination to Support Growth is Supportive of THB



Source: Bloomberg, CEIC, Maybank FX Research & Strategy



## INR: Another Vulnerable Year

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q2020
USD/INR	70.75	70.50	70.30	70.00	70.50

**Motivation:** The start of the year has always been seasonally favourable for the INR but we do not expect outperformance this time. Benign trade environment and a return to low volatility and carry environment could still benefit INR but growth concerns, issues with shadow banking and fiscal constraints could keep speculators away from the INR in a late-cycle rally. As such, we do not think INR could outperform this time. In addition, we are more wary of a rotation towards riskier assets (away from bonds) which could drive an unexpected rally in US rates, negative for the INR.

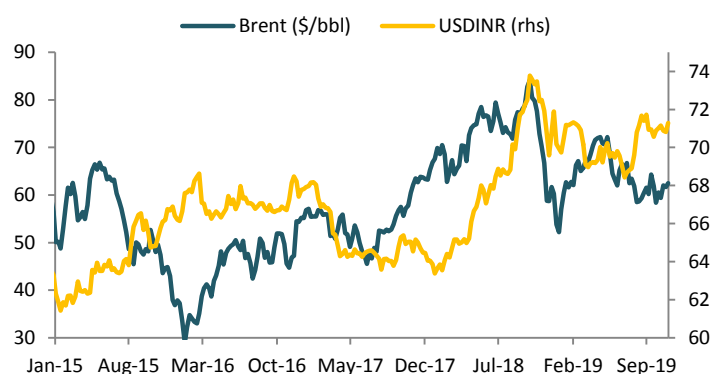
**External Headwinds.** The global growth slowdown hurts India's exports and there has been some evidence that RBI has started to accumulate its foreign exchange reserves to ensure India does not lose export competitiveness. However, there are also signs that the decline in exports have steadied and into the year, we expect external demand to improve and a manageable current account deficit could mean less drag on the INR.

**Growth Risks.** Since the cabinet reshuffle, India pushed out a corporate tax cut to support growth. This move brings it in line with other regional peers. The fact that Indonesia and Philippines also recently cut their corporate tax could have somewhat blunted the effect but still, this should be moderately growth positive. Corporate tax cuts should increase investment flows and improve profitability. Before private investment could be revived however, the government would still likely to step up and more measures are said to be announced soon. Investors would eye the fiscal deficit (still at 3.3% of GDP for 2019-20) very closely at this point for any slippages.

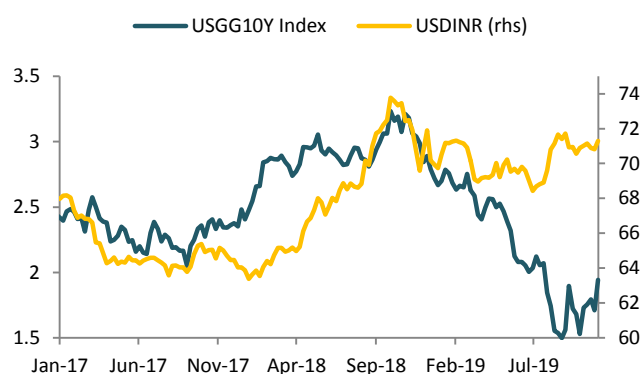
**RBI is still at risk of one more cut in 1Q.** With higher frequency data showing sluggish activity, we continue to look for just one more rate cut in 1Q as RBI still has issues with unclogging the monetary transmission of its previous cuts. However, further cuts may be unnecessary as most central banks would have ended their easing cycle along with the Fed and a more sanguine trade environment should also improve investor sentiments. Focus will still be on solving the shadow lending issue after the recent mergers and forced seizures including Dewan Housing. The government and central bank is mulling over the creation of a new RBI-backed stressed assets fund to buy stressed financial assets. Fitch has warned of a capital shortfall of about \$50bn should there be a systemic crisis in the non-banking financial industry.

**More Risks to INR.** Risks to the INR could exacerbate should crude prices rally more than expected which could in turn, swell India's import bill. In addition, we are also wary of an unexpected spike in US rates (inflation risks/rush to reallocate towards equity from bonds) as INR has always been sensitive to rise in rates.

### Oil Spikes Could Threaten INR



### INR Is Sensitive to Rise in US Rates



Source: Bloomberg, Maybank FX Research & Strategy

## VND: Frozen In Fear of “Currency Manipulator” Label

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q2020
USD/VND	23200	23100	23000	23000	23000

**Motivation:** USD/VND has been unmoved in the past few months and could continue to remain unreactive to external events so that Vietnam can avoid being labelled as a currency manipulator. This could work well in a softer USD environment as VND would be able to claw back its export competitiveness against other non-US countries which should see recovery in their respective currencies vs. the USD.

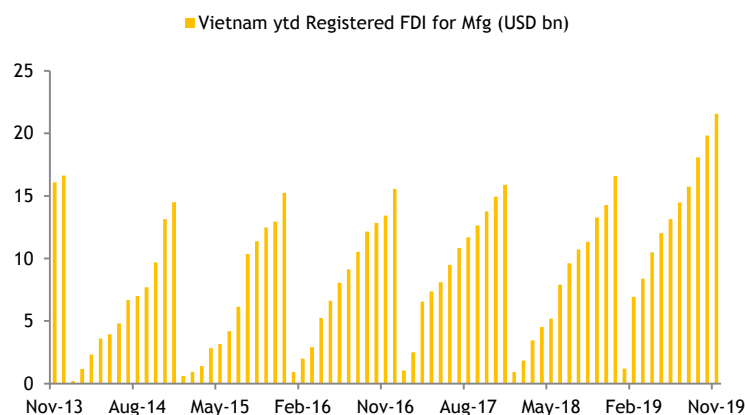
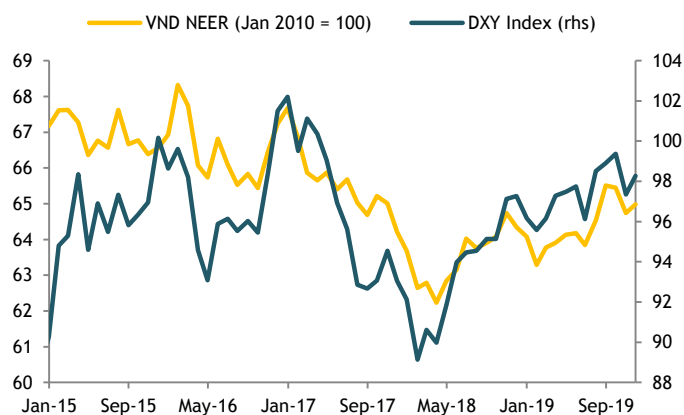
**Better US-China Relation Could Help.** PMI-mfg has been registering declines since Aug and as of Oct, the print is at 50.0. Production has been on the decline as external demand slump. Exports are also affected, not helped by the fact that VND has not been reacting to market conditions. Assuming the partial trade deal is reached and investor sentiments improve, external demand should also recover. In an environment of better US-China relation, there may not be as much pressure on Vietnam from the US as well. However, a comprehensive trade deal could be hard to achieve and a complete dismantling of tariffs could be too much to hope for. Hence, risks are still for Vietnam to remain under pressure (from the US) to avoid being an avenue for Chinese manufacturers to circumvent the US tariffs. That constant pressure from US leaders may keep VND “frozen” against the USD.

**FDI Would Still Be Supportive.** FDI inflows have been steady, especially for manufacturing. So that could continue to support the VND. This could be supported by government’s initiatives for infrastructure investments to assuage supply bottlenecks. Along with that, SBV could continue to ease refinancing rate by another 25bps to 5.75% in 2020.

**Key Risks to our VND view:** Trump may label Vietnam as a currency manipulator given the fact that Vietnam has been a key beneficiary from US’ tariff on China. Vietnam has been stepping up on measures to reduce the trade surplus with the US including the swift set-up of the LNG plant as well as measures to crack down on Chinese products fraudulently labelled as “Made in Vietnam” to avert tariff. However, the impact of being labelled as currency manipulator on VND may not be immediate until the US starts imposing tariffs on Vietnamese products, just like Argentina and Brazil. Separately, there are some signs of upside surprise to inflation at home. While the uptick in recent CPI headline is likely due to transitory factors such as the African swine flu, should inflationary expectations be unanchored (low likelihood), there could be fresh demand for USD.

### Softer DXY Environment Could Improve VN’s Export Competitiveness

### FDI flows into Manufacturing Explodes on US-China Trade War



Source: Bloomberg, Maybank FX Research & Strategy Estimates, Foreign Investment Agency  
 Note: The VND NEER index is estimated using the trade weights of Vietnam’s major partners.

## FX Forecasts

	End Q4-19	End Q1-20	End Q2-20	End Q3-20	End Q4-20
USD/JPY	107.50	107.00	105.00	103.00	103.00
EUR/USD	1.1200	1.1300	1.1300	1.1500	1.1649
GBP/USD	1.3000	1.3200	1.3400	1.3500	1.3800
AUD/USD	0.6800	0.6900	0.7000	0.7100	0.7000
NZD/USD	0.6400	0.6600	0.6600	0.6800	0.6900
USD/CAD	1.3200	1.3100	1.2900	1.2800	1.2500
USD/SGD	1.3650	1.3600	1.3550	1.3500	1.3450
USD/MYR	4.1500	4.1200	4.1000	4.0800	4.0800
USD/IDR	14000	13950	13900	13850	13800
USD/THB	30.40	30.20	30.00	29.80	29.60
USD/PHP	51.00	50.50	50.00	49.50	49.00
USD/CNY	7.10	7.08	7.05	7.03	7.03
USD/HKD	7.80	7.83	7.83	7.82	7.82
USD/TWD	30.40	30.00	29.70	29.50	29.50
USD/KRW	1180	1160	1150	1140	1130
USD/INR	70.75	70.50	70.30	70.00	70.00
USD/VND	23200	23100	23000	23000	23000
DXY Index	96.88	96.03	95.37	94.05	92.91
SGD Crosses	End Q4-19	End Q1-20	End Q2-20	End Q3-20	End Q4-20
SGD/MYR	3.0403	3.0294	3.0258	3.0222	3.0335
JPY/SGD	1.27	1.27	1.29	1.31	1.31
EUR/SGD	1.53	1.54	1.53	1.55	1.57
GBP/SGD	1.77	1.80	1.82	1.82	1.86
AUD/SGD	0.93	0.94	0.95	0.96	0.94
NZD/SGD	0.87	0.90	0.89	0.92	0.93
CAD/SGD	1.03	1.04	1.05	1.05	1.08
SGD/IDR	10256	10257	10258	10259	10260
SGD/THB	22.27	22.21	22.14	22.07	22.01
SGD/PHP	37.36	37.13	36.90	36.67	36.43
SGD/CNY	5.20	5.21	5.20	5.21	5.23
SGD/HKD	5.71	5.76	5.78	5.79	5.81
SGD/TWD	22.27	22.06	21.92	21.85	21.93
SGD/KRW	864	853	849	844	840
SGD/INR	51.83	51.84	51.88	51.85	52.04
SGD/VND	16996	16985	16974	17037	17100
MYR Crosses	End Q4-19	End Q1-20	End Q2-20	End Q3-20	End Q4-20
JPY/MYR	3.86	3.85	3.90	3.96	3.96
EUR/MYR	4.65	4.66	4.63	4.69	4.75
GBP/MYR	5.40	5.44	5.49	5.51	5.63
AUD/MYR	2.82	2.84	2.87	2.90	2.86
NZD/MYR	2.66	2.72	2.71	2.77	2.82
CAD/MYR	3.14	3.15	3.18	3.19	3.26
MYR/IDR	3373	3386	3390	3395	3382
MYR/THB	7.33	7.33	7.32	7.30	7.25
MYR/PHP	12.29	12.26	12.20	12.13	12.01
MYR/CNY	1.71	1.72	1.72	1.72	1.72
MYR/HKD	1.88	1.90	1.91	1.92	1.92
MYR/TWD	7.33	7.28	7.24	7.23	7.23
MYR/KRW	284	282	280	279	277
MYR/INR	17.05	17.11	17.15	17.16	17.16
MYR/VND	5590	5607	5610	5637	5637

Source: Maybank FX Research as of 3 Dec 2019. \*These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.

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