Maybank

Macro | FX Research and Strategy

Global

FX Annual Outlook 2021

Riding the Recovery

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Asia - The Big Long Trade

Into 2021, we look for healing and a return to growth normalcy. A smooth vaccine rollout soon can potentially be a game changer. Global economy could be closer to a more sustainable recovery trajectory amid unprecedented fiscal and monetary support. Procyclical-proxy FX including AUD, NZD in DM space and KRW in AXJ space can benefit while CNH, SGD, with Covid-19 under control, can also ride on the cyclical growth recovery. The signing of the RCEP agreement, further expansion of trade pacts to include more countries and potential dial-back in trade tensions between US-China, following Biden's Presidency (vs. Trump), is expected to set up a more constructive environment for global trade to extend its recovery. Trade linked currencies such as TWD, KRW, CNH and SGD could see sustained gains, especially if trade recovery feeds through to domestic demand. In current low rate environment with growth recovering from low bases and benign near-term inflation expectations, hunt for yields can persist. Asia is home to some of the highest carry in the world. INR, IDR, MYR, CNH are some preferred proxy-FX for carry play.

Reflation and Commodity Re-rating

Central banks and governments had pulled out all stops (and debts) to nurse the weakened economy back towards healthier levels of growth and inflation in 2020. The unprecedented levels of monetary and fiscal stimulus could also mean a significant reflationary process in 2021 (especially higher risk in 2H 2021) that could typically be positive for AUDJPY. Within the commodity space, industrial metal prices have been lifted by China's headstart in recovery and we continue to see chance for further gains that could broaden into other commodity prices as demand revives in other parts of the world, underpinning AUD, NZD, CAD, MYR.

Dollar Downsides Still, But More Modest

We maintain our bias for USD downside play on: (i) unwinding of dollar semi-haven demand alongside vaccine progress, (ii) Fed's commitment to dovish bias (with its AIT framework and greater tolerance on inflation overshoots), (iii) diversification out of USD in global payments and on a longer-term basis, FX reserves reallocation, and (iv) a slower recovery in US fiscal deficits compared to DM peers or Asian economies. Nonetheless, pace of dollar decline could be more modest in the next few quarters vs. the recent >10% slump since Mar 2020.

Risks of Tech Sputtering, Uneven Vaccine Schedules

Long positions in gold, tech stocks can be viewed as a proxy for the extent of Covid-19 concerns. Upward price momentum of these assets persisted through 2Q - 3Q, and tech-linked FX such as KRW, TWD, SGD have gained alongside. Nonetheless, current concern is if these trends will reverse, with rotation into cyclicals, if developments in vaccine distribution and efficacy surprise positively. This could pose some challenges to tech-linked FX, even as we largely view bouts of softness as opportunities to buy-on-dips. Elsewhere we also note that uneven vaccine rollout schedules, adoption rates can affect pace of economy reopening and sentiment.

1. Asia – The Big Long Trade

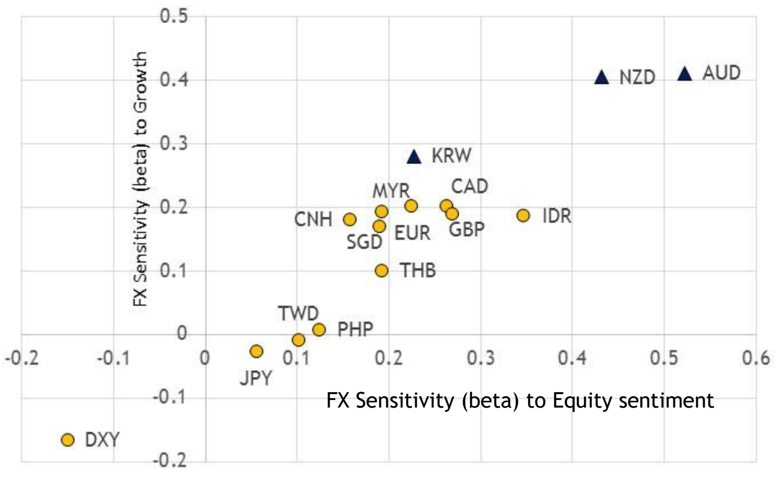
1.1 Procyclical-Proxy FX to Take the Lead

2020 was a year of global health catastrophes and the year marks the worst economic recession since the Great Depression in 1930s. Into 2021, we look for healing and a return to growth normalcy.

Vaccine progress has been encouraging. Efficacy came in at ~95% for Pfizer-BioNTech's BNT162b2 as well as Moderna's mRNA-1273 in phase 3 trial while a handful of vaccines including AstraZeneca-Oxford, China's Sinopharm and Sinovac have reported material progress. Multiple sources of successful and safe vaccines using a mix of different technology can help to ease concerns over production and distribution. A smooth vaccine rollout soon can potentially be a game changer as the consequential containment of covid-19 pandemic suggests that travel restrictions, social distancing measures can be lifted. The global economy could be closer to a more sustainable growth recovery amid unprecedented fiscal and monetary support.

Procyclical-proxy FX including AUD, NZD in DM space and KRW in AXJ space can benefit while **JPY and USD take the back seat.** In addition, **CNH, SGD with covid-19 way under control can also ride on the cyclical growth recovery**.

Fig 1: AUD, NZD, KRW, CNH and SGD to Proxy for Cyclical Rebound



Note: OLS regression of FX/USD (y-variable) vs growth proxied by global manufacturing PMI and vs. sentiment proxied by MSCI World index
Source: Bloomberg, Maybank FX Research & Strategy

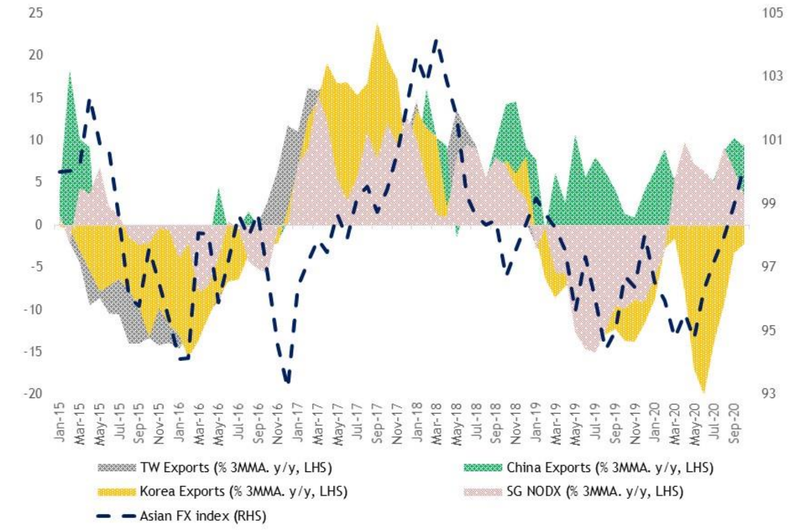
1.2 Trade Pacts, Exports Recovery Supportive of Trade-FX

The signing of RCEP agreement, further expansion of trade pacts to include more countries and potential dial-back in trade tension between US-China, following Biden's Presidency (vs. Trump) is expected to set up a more constructive environment for global trade to extend its recovery in 2021.

Exports, new orders data from the region further showed signs that a recovery is already underway. **Trade linked currencies such as TWD, KRW, CNH and SGD should see sustained gains, especially if trade recovery feeds through to domestic demand.**

Apart from the tariff eliminations that could spur trade volume growth, key to the RCEP agreement would be the common rules of origin for businesses to ship their products to anywhere within the 15 participating countries under the RCEP agreements. This would greatly enhance the access to markets for exporters across the regions and draw the 14 other countries which already have substantial trade volumes with China, closer to the country.

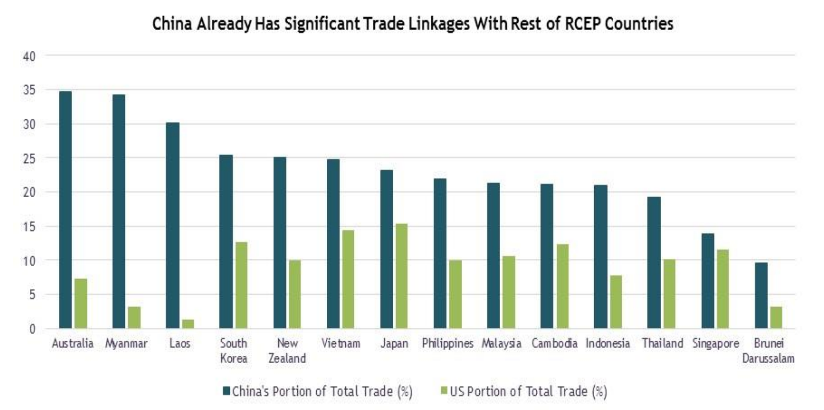
Fig 2: Trade-Linked FX Benefiting from Exports Recovery in Asia



Note: Asia custom trade linked FX made up of CNH, KRW, TWD and SGD, equally-weighted and indexed to 100 on end-Jan 2015
Source: Bloomberg, Maybank FX Research & Strategy

China's implementation of its "dual circulation" strategy, alongside potential post-Covid return of investment and portfolio flows to Asia over the medium term, could continue to bode well for yuan (potential for USDCNH to head below 6.20) and other AxJ currencies, especially when regional linkages are strengthened by RCEP and other trade pacts could gain traction (i.e. China-Cambodia FTA likely to kick in next year, UK-Japan FTA could be building blocks towards joining CPTPP while US may consider rejoining CPTPP).

Fig 3: Most RCEP Nations Have Strong Trade Ties with China



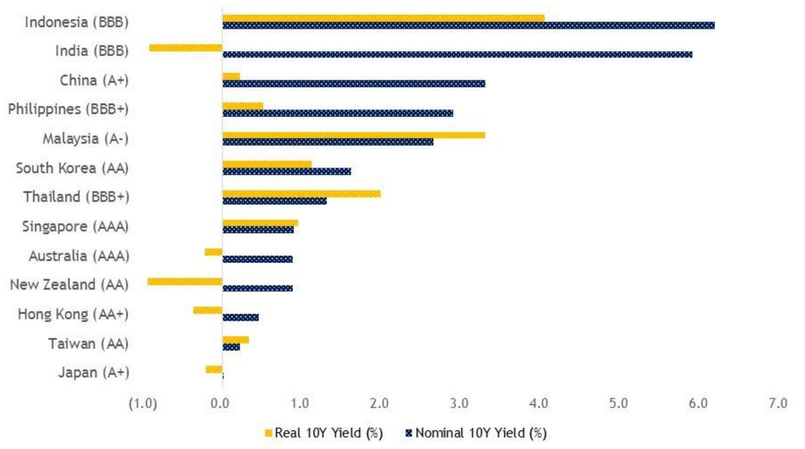
Note: Trade numbers in the chart are based on 2019 annual trade values. Each bar can be read as China or US' share of the respective country's total trade with the world
Source: Bloomberg, Maybank FX Research & Strategy

1.3 Carry Can thrive

Low rates for longer globally is likely to persist for 2021 as inflation remains subdued in the near term and policymakers are likely to allow for easy policies to run longer to secure a firmer recovery. In particular Fed's adoption of average inflation targeting (AIT) regime and tolerance for overshoots in inflation and employment, alongside other DM central banks' pledge to not withdraw monetary stimulus prematurely should help to anchor low rates for longer.

In this low rate environment with growth recovering from low bases and inflation expectations still benign in the near term, a hunt for yield can persist. Asia is home to some of the highest carry in the world. On nominal terms, India and Indonesia bonds are highest, with 10y at around 6%. In real terms (adjusted for inflation), Indonesia and Malaysia bonds are attractive at between 3 and 4%. In ratings-adjusted basis, China and Malaysia bonds have the second and third highest yields in FTSE WGBI. In particular, **INR, IDR, MYR, CNH are some of our preferred proxy-FX for carry play.**

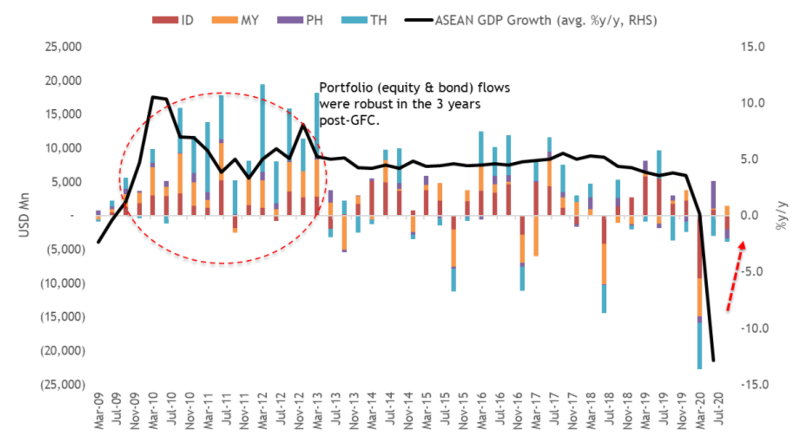
Fig 4: Carry Trade FX Benefits from Environment of Low Rates



Note: (1) Real yield calculated from nominal 10y yield – 12-month rolling average inflation of respective countries; (2) All data as of 24 Nov 2020; (3) Sovereign rating in parenthesis based on S&P ratings.

In addition, returning foreign flows is another catalyst supporting high yielding Asian-proxy FX. IIF data showed that that non-resident capital flows to EM are the strongest since immediately after the Great Recession. Our study also shows that rotation back to regional assets can gain traction over the next few years, in turn supporting underlying FX momentum.

Fig 5: Return of Foreign Flows to Support Underlying FX Momentum



Source: Maybank FX Research & Strategy Estimates, Bloomberg

2. Reflation and Commodity Re-rating

2.1 Reflation Comes with Optimism and Recovery

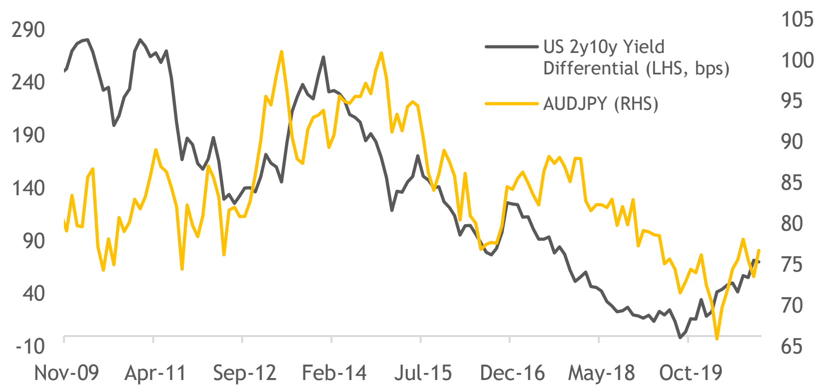
Synchronous Monetary and Fiscal Stimulus

Central banks and governments had pulled out all stops (and debts) to nurse their weakened economies back towards healthier levels of growth and inflation in 2020. Unlike past crises episodes such as the global financial crises, the level of monetary and fiscal stimulus that are provided simultaneously across the world this time have been unprecedented and that could also mean a significant reflationary process in 2021.

Stop-Go Process For Now

The combination of a Biden win, news of vaccine development progress, approvals and possible distributions in early Dec swung markets' focus back onto the reflation trade even as the pandemic show no signs of peaking in the Americas, Europe and parts of Asia at this point. Admittedly, vaccine-driven cheer could be vulnerable to correction. Potential delays in the manufacture and distribution alongside current grim pandemic realities could cause sporadic pauses in the rotation into risk assets. In addition, a reflationary process that is too strong could also be seen as premature. However, these factors are likely to be viewed as speed bumps for now rather than significant hurdles for risk assets to rally further. Investors expect eventual strong pent-up demand, buttressed by a multitude of stimulus and a future clarified by more widely-available COVID-19 vaccines.

Fig 6: Yield Curve Has Started to Steepen, Possibly Guiding the AUDJPY Higher



Source: Bloomberg, Maybank FX Research & Strategy

A Democrat Controlled Congress Underpriced

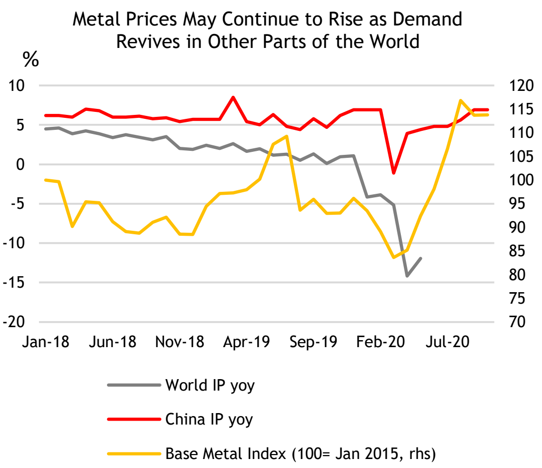
While vaccine availability might be priced a tad too well in advanced (and risk some correction), investors could be underestimating a possibility that Congress could still be controlled by the Democrats. At this point, it is widely expected for the Republicans to retain its control over the Senate with a current 50-48 lead. However, the two Georgia runoff elections on 5 Jan 2021 await and a Georgia win could cede control to the Democrats which would increase the likelihood of a bigger stimulus package, giving growth a better chance in 2020. Reflation is typically reflected in the yield curve that steepens as the outlook of the economy improves. The UST 2y10y (fig. 6) has been rising since its inversion in Mar this year and has broadly moved in line with the AUDJPY for much of past two decades. We see a **potential for AUDJPY to rise substantially into 2021** with the far end lifted by growth and inflation expectations, underpinned by the next stimulus package and Fed's pledge to keep interest rate anchored at near 0% until 2023. On the converse, a reflationary US along with recovery in the rest of the world add to the broad decline of the USD.

2.2 The Rise in Commodities To Sustain Steam into 2021

With China's initial phase of recovery spurred by construction and manufacturing, it is not difficult to see why industrial metal prices have been on the rise. Copper stockpiles have plunged 50% from its peak in Mar and remains on the downmove. With the copper prices already up around 60% from its trough in Mar 2020 (LME 3m rolling forward), the strong rally begs the question of whether this can continue. China's strive for dual circulation that includes building a more independent supply chain for its technology sector along with the revival of demand in the rest of the world may mean that demand for industrial metals should continue to rise. This is especially so as governments seek to boost spending on infrastructure (Australia's A$7.5bn spending on road and rail, US' Biden's U$2trn infrastructure promise, etc.)

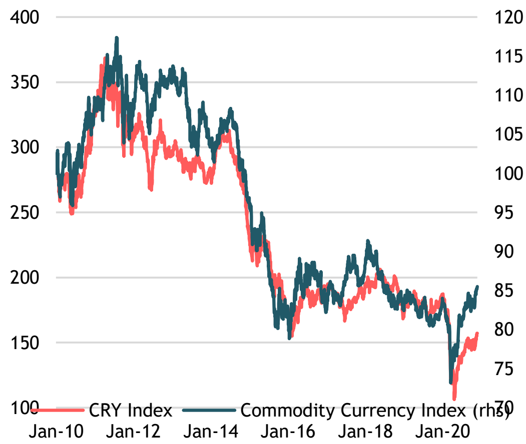
Broad demand revival in a reflationary environment will keep broad commodity prices (other raw materials, oil) on the rise. That should be **positive for commodity-linked currencies including AUD, NZD, CAD, MYR**.

Fig 7: China's Recovery Drove Metal Prices Higher and Further Gains Could Continue As Demand in Other Parts of the World Revive



Note: Base metal index consists of an average of copper, aluminum and iron ore prices indexed to 31 Jan 2015.
Source: Bloomberg, NBS, LME

Fig 8: Demand Revival Should also Spur Upsides for Broader Commodities, Likely to Lift Relevant Currencies (AUD, NZD, CAD, MYR)



Note: Commodity Currency Index is the average of the AUD, NZD, CAD and MYR performance against the USD with 1 Jan 2010 = 100. CRY Index is the Refinitiv / CoreCommodity Excess Return index, an arithmetic average of commodity future prices with monthly rebalancing.
Source: Refinitiv, Bloomberg

Along with reflation, there is always a concern over potential inflationary pressures that could eventually could sap growth. At this point, there remains too much spare capacity for inflation expectations to become unanchored. Notwithstanding some potential volatility in rates, Fed's AIT mandate should serve to dampen unexpected volatility in rates that could destabilize financial markets and crimp on growth pre-maturely.

3. Dollar Downsides Still, But More Modest

3.1 Confluence of Factors to Weigh on USD Structurally

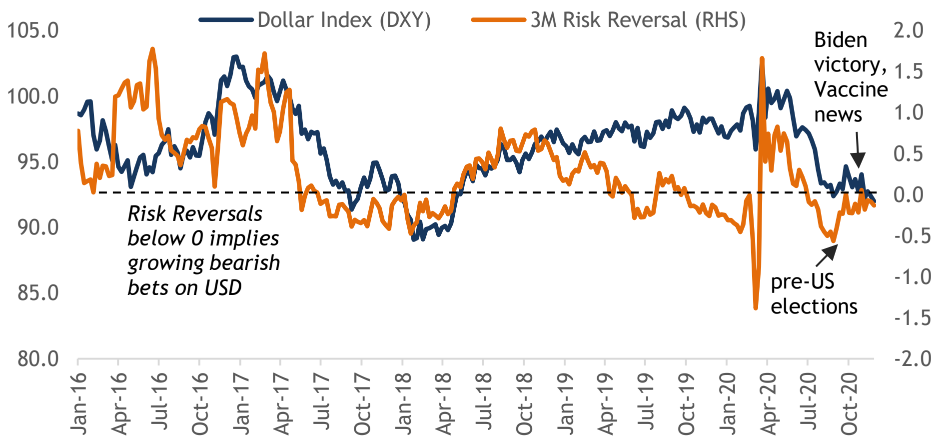
We maintain our **bias for USD downside play** on: (i) unwinding of dollar semi-haven demand alongside vaccine progress, (ii) Fed's commitment to dovish bias (with its AIT framework and greater tolerance on inflation overshoots), (iii) diversification out of USD in global payments and on a longer-term basis, FX reserves reallocation, and (iv) a slower recovery in US_fiscal deficits compared to DM peers or Asian economies.

Arguments for potential dollar debasement are not new, and we might not see a near-term continuation of the sharp fall-off in dollar strength post-March, but a combination of the aforementioned factors could still work to weigh on the dollar structurally in 2021.

3.2 A Weakening Case for USD Haven Demand

Barring new sets of risk factors, the case for holding USD on haven demand may gradually grow weaker over time.

Fig 9: 3M Risk Reversal for USD Shows Tentative Signs of Turning Lower Again



Source: Bloomberg, Maybank FX Research & Strategy

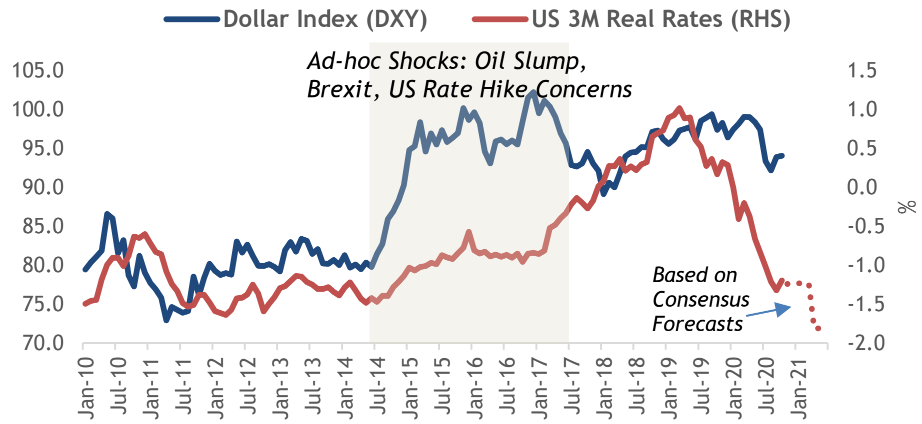
3M risk reversals for USD was on a downtrend from April, but haven demand for USD pre-US elections likely led it modestly higher then. Subsequently though, a Biden victory had curbed its upward momentum, and there are tentative signs that bearish USD bets could be gradually gaining traction again (risk reversals in modest negative territory).

Themes 1 and 2 have discussed positive developments on the vaccine and US elections front that could reduce dollar haven demand. On vaccine progress, we note too that in the US alone, between Pfizer and Moderna, potentially twenty million people could be vaccinated by the end-of December (roughly on par with the number of US healthcare workers). On policy uncertainty, we also observe that uncertainty levels (as measured by the *Baker, Bloom and Davis Economic Policy Uncertainty index*) tends to revert to "normalcy" within half a year of the presidential transition.

3.3 Negative Real US Rates Could Be Here for Some Time

Meanwhile, Fed's dovish commitment via Average Inflation Targeting (AIT) could result in negative real interest rates over the next few years, with near-term rates kept near zero while inflation potentially recovers to 2% and beyond.

Fig 10: Risks to US 3M Real Rates from Recovering Demand and PCE Inflation



Note: US 3M real rates are computed as 3M Libor less PCE Core inflation.
Source: Bloomberg, Maybank FX Research & Strategy

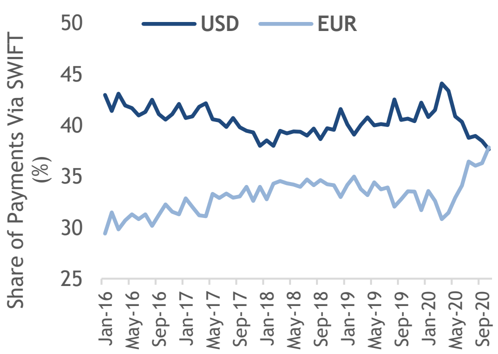
Barring a period of ad-hoc shocks to dollar sentiments emanating from oil slump, Brexit and US rate hike concerns over 2014-17, we note that directional biases in DXY and US 3M real rates have been relatively aligned. Consensus forecasts expect risks to real rates to remain biased to the downside into 2021, and this could weigh on the USD accordingly.

3.4 Payment Trends Add to Dollar Debasement Concerns

According to Swift data, EUR's usage in international payments has surpassed that of the USD as of Oct, with USD's usage peaking around Mar 2020. The plunge since then suggests accelerated diversification away from the use of USD after the occurrence of the USD liquidity crunch in Mar, adding to the USD debasement narrative.

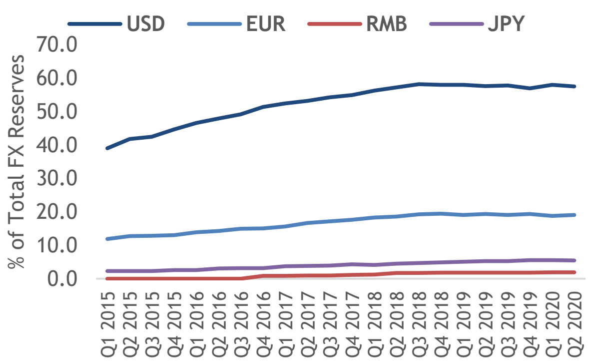
Meanwhile, IMF COFER data also shows that the rise in the share of USD in countries' holdings of FX reserves has largely tapered since peaking in 3Q 2018, even as we have yet to see any significant decline. While any significant shifts in reserve FX shares would likely take multiple decades, the bias here is still for reduced dollar holdings over time, especially with the emergence of initiatives such as the digital yuan. On net though, impact of this factor on dollar strength could be relatively mild for now.

Fig 11: Global Payments in EUR Surpassed that in USD



Source: Bloomberg, Maybank FX Research & Strategy

Fig 12: USD Share of Global FX Reserves Flatlined Since 2018

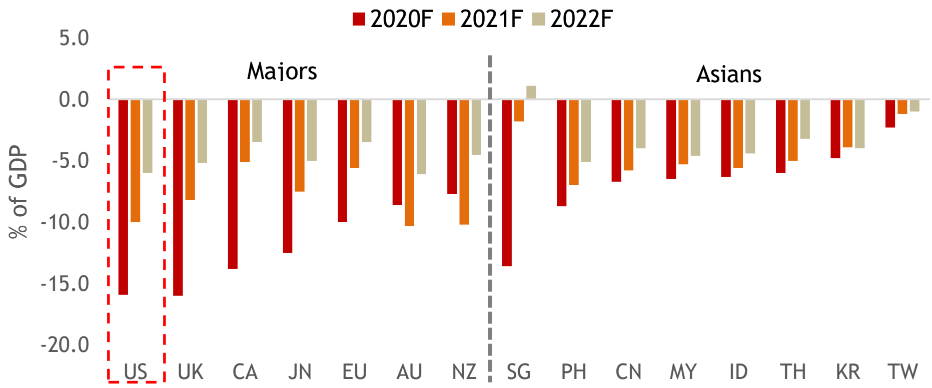


Source: IMF COFER

3.5 Fiscal Deficit an Achilles' Heel for Dollar?

The Covid-19 pandemic has forced a shift in macro balances for each economy, notably a deterioration in fiscal accounts as funds are diverted to combat Covid-induced drags. While near-term stimulus is almost always welcome by markets, concerns over ballooning debt tend to creep in over time, and the eventual tapering of support can be painful as well.

Fig 13: Consensus Forecasts See US Fiscal Deficits Faring Worst Over 2020-22



Source: Bloomberg (ECFC), Maybank FX Research & Strategy

Historically, broad periods of wide US fiscal deficits have tended to weigh on the dollar. We note that comparatively:

(i) The US' cumulative fiscal deficits for 2020-22 is expected to be the largest among countries under consideration, and could potentially be even wider in the off-chance that Democrats gain a Senate majority (i.e., unified Congress raises likelihood of larger stimulus package and elevated public spending efforts).

(ii) We note that the Covid-led bouts of deterioration in fiscal balance trajectories tend to be more serious for DMs vs. Asia, either due to more manageable contagion trends in Asia, or instances of fiscal regulations limiting debt increases.

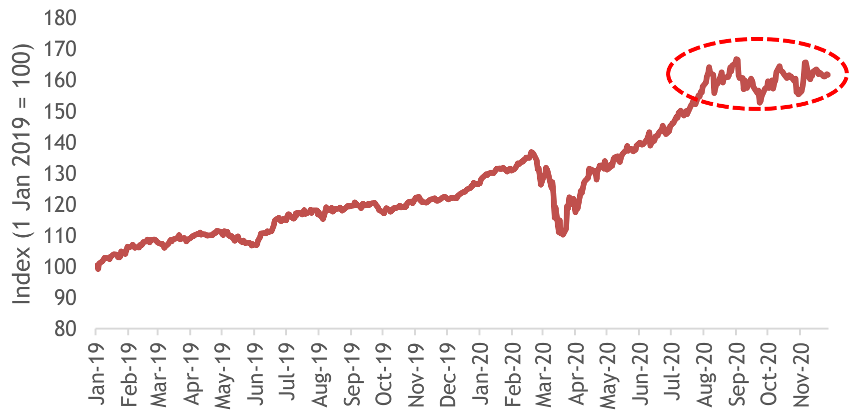
The latter in particular, could point to **more sustained dollar softness against the Asian currencies in the quarters ahead**.

4. Risks: Tech Sputtering, Uneven Vaccination Schedules

4.1 Covid-proxy Longs Look Toppish

In a way, long positions in assets such as gold, tech equities, supermarket stocks etc., can be viewed as a proxy for the extent of Covid-19 concerns. Upward momentum in the prices of these assets have largely persisted through 2Q and 3Q, and tech-linked FX has gained alongside. Nonetheless, the current concern is if these trends will reverse as vaccine rollouts proceed apace and the world heads towards some semblance of normalcy again in 2021. Chart below shows that gains in a basket of gold & Nasdaq has already begun plateauing since end-3Q.

Fig 14: Index of Gold & Nasdaq Slowed in Gains in 4Q



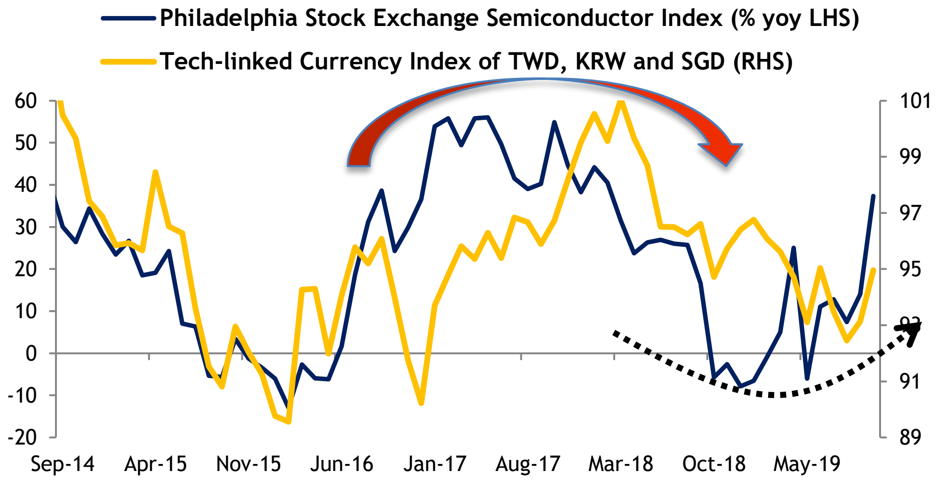
Note: Index is equally weighted in gold and Nasdaq. Index value of 100 in 1 Jan 2019.
Source: Bloomberg, Maybank FX Research & Strategy

For big tech in particular, another risk to watch could be the chances of increased scrutiny in tech regulation. In US, recent senate hearings largely assess that self-regulation is necessary but not sufficient, and that the industry may need to review its business models. Efforts to rein in big tech could gain further traction if Democrats win the Georgia runoffs (less likely but not impossible) and we see a unified Congress. In China, we also saw regulators showing signs of increased watchfulness on its Fintech leaders (e.g., pulling the plug on Ant Financial's IPO).

4.2 Sporadic Tech-linked FX Softness Could Provide Buy-on-Dips Opportunities

More broadly, if developments in vaccine distribution and efficacy surprise positively (i.e., quicker than expected, with accompanying implications for return of tourism, activity flows etc.), some of the aforementioned Covid-proxy longs could be unwound, and rotated more quickly into cyclicals. This could **pose some challenges to tech-linked FX such as KRW, TWD and SGD**, given the significant positive correlation between global tech trends and these currencies.

Fig 15: Positive Correlation between Tech-Linked Proxy FX and SOX Intact



Note: Tech-linked currency index consists of equally-weighted SGD, KRW, TWD vs. the USD (Index value of 100 in Jan 2011); SOX is Philadelphia Stock Exchange Semiconductor Index for short.

Source: Bloomberg, Maybank FX Research & Strategy

We note though that these development—even if it comes to pass—needs to be considered against a backdrop of broader regional sentiments. It is likely that the factors discussed in detail in Theme 1 can mitigate the impact of any tech-linked pullbacks to a significant extent. In this case, **bouts of softness in KRW, TWD, SGD on negative global tech headlines may provide opportunities for buying-on-dips**.

4.3 Uneven Vaccine Roll Out Schedule Can Affect Sentiment

Differentiated crisis management (i.e. COVID-19 pandemic control, vaccine logistical, diplomacy issues, vaccine efficacy, eventual vaccine rollout timeline and vaccine adoption rates) can affect the pace of economy reopening and growth normalisation. For instance US and UK are likely to be amongst the first few countries to have access to vaccines (as soon as end-2020) but a slower take-up rate of vaccination could delay pandemic control. For instance according to a Gallup poll (ended 1 Nov), 58% of Americans said they would get vaccinated. In contrast, countries with greater adoption and access to vaccines such as China could see a faster reopening of its economy. This could suggest **another positive factor underpinning CNH's resilience**.

Within ASEAN, Indonesian authorities have been relatively more active in communicating near-term vaccination plans (starting Dec 2020, ramping up in 2021), possibly contributing to IDR positivity in Nov. The risk for Indonesia, therefore, could be whether implementation efforts keep up with expectations. In contrast, countries such as Philippines are looking for bulk vaccinations to occur in late 2021 or early 2022, which could be more neutral for sentiments.

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USD: Global Economic Recovery, On-hold Fed, Weaker Dollar

Forecast	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q2021
USD Index	92.03	90.55	89.95	88.69	87.73

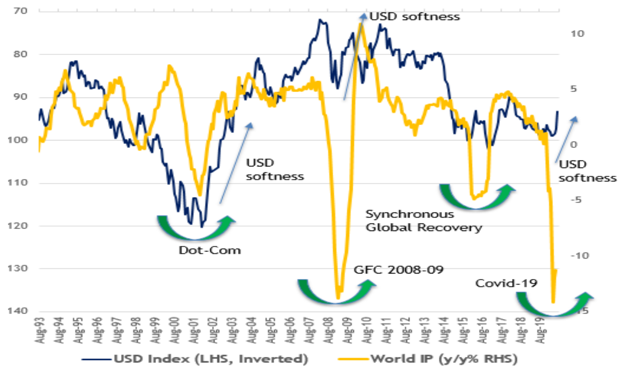
Motivation: We expect USD softness to continue in light of a combination of several factors including (1) USD as a counter-cyclical FX thematic; (2) Fed likely to keep policy rate lower for longer under Average Inflation (AIT) Targeting framework; (3) eroding US rate advantage (both nominal and real); (4) sharp deterioration in US twin deficits (tend to accelerate USD softness); (5) a Biden administration is associated with less demand for safe haven USD. **USD likely to weaken against currencies that may benefit from rising commodity prices, higher investor risk appetite and rising trade and industry related activity.**

Dollar is a counter cyclical FX. USD tends to weaken in episodes of global growth rebounds (outside US) and strengthens on episodes of broad market risk-off. In the last 12 years or so, there have been 2 notable episodes of USD weakness - (1) when global growth rebounded from a low point in 2009 post-GFC, DXY fell by about 16% and (2) when synchronous economic recovery, led by exports upswing in 2017, DXY fell more than 10% - both over 2 -3 quarters time frame depending on the durability and sustainability of the growth rebound. In the current episode, DXY has already fallen by around 6% from end Jun and >10% decline since Mar peak. **The trade-weighted US Dollar will likely weaken by a further 5% over the next 12 months.** We continue to see a strong case for structural Dollar weakness over the coming years given a likely slowdown in bond portfolio inflows, an improving global economic outlook and attempts by countries to diversify their reserve assets away from the Dollar in the face of heavy Treasury issuance and political concerns and considerations over the medium term.

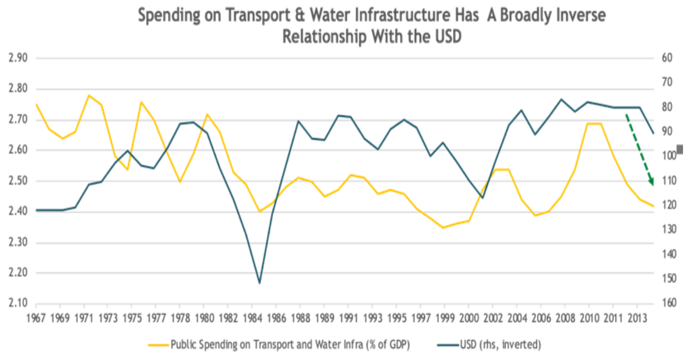
Potential Re-allocation out of USD assets. At the same time, greater business confidence and improved investor confidence could see funds flow back to where it came from possibly in drips, as China for example may be able to absorb more inflows as its financial markets internationalise while Europe's focus towards fiscal policies could convince investors to relook again at an under-appreciated Europe and UK in 2021. While it is true that USD remains the top funding currency according to a BIS report, EUR's usage has surpassed that of the USD as of Oct/Nov with USD's usage peaking around Mar 2020. The plunge since then suggests accelerated diversification away from the use of USD after the occurrence of the USD liquidity crunch in Mar, adding to the debasement of the USD

USD International Role and Financial Channel Dynamics. When the global economy improves, demand for US Treasuries tends to fall, and if (unhedged) investors allocate into assets denominated in other currencies the value of the Dollar may also decline. In addition, as hedge rebalancing and FX reserve recycling develops, it may also contribute to the negative correlation between the Dollar and global growth. The opposite causation could also be working its way supporting the dollar depreciation theme as it improves the balance sheets of overseas borrowers with USD-denominated debt.

USD is a Counter Cyclical Currency: As Growth Momentum Picks Up, USD Weakens



USD To be Pressured Lower by Biden's $2trn Infrastructure Plans



Source: Bloomberg, CBO, Maybank FX Research & Strategy

EUR: Upside Potential

Forecast	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q2021
EUR/USD	**1.19**	**1.21**	**1.22**	**1.24**	**1.25**

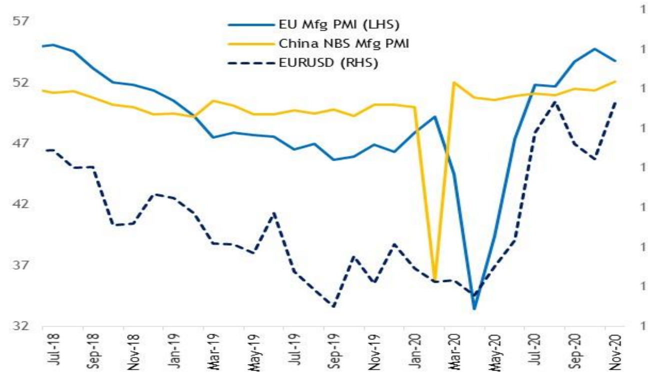
Motivation: We maintain our bias for EUR to trend higher on (1) expectations for more sustained global growth recovery as covid-19 pandemic retreats amid the roll-out of vaccination; (2) the birth of an 'New Generation EU' fund as a joint commitment to building EU resilience and planned debt issuance that should potentially encourage foreign inflows; (3) resumption of structural and cyclical USD softness, which EUR could stand to benefit from. We look for **EUR to trade 1.17 – 1.26 range, with bias to buy dips**. Near term, covid-19 spread in Europe remains a risk that could come and go until vaccine is rolled out or herd immunity is achieved. Fears of lockdown will dampen economic activity and undermine EUR but judging from recent experience, each round of lockdown is getting shorter and policymakers have more visibility today on what works and what needs to be done to keep infection contained. Another risk we watch is ECB's outright caution against excessive EUR strength as policymakers had previously voiced concerns over currency strength and its impact on negative prices, export competitiveness. Jawboning of EUR strength could temporarily keep EUR gains restraint.

ECB had earlier projected >8% contraction for Euro-area economy for 2020 but is projecting 5% rebound for 2021. Vaccine **supply is building up for EU (possibly near 2bn doses for a population of 450mio)** as policymakers inked deals with key pharmaceutical firms including Moderna, Pfizer-BioNTech, J&J, etc. A smooth vaccine rollout soon can be a game changer as the containment of covid-19 pandemic suggests that travel restrictions, social distancing measures can be lifted. The global economy including the EU could be closer to a more sustainable growth recovery amid unprecedented fiscal and monetary support. **EUR can stand to benefit given Europe's exposure and linkages to global and China trade and growth rebound**.

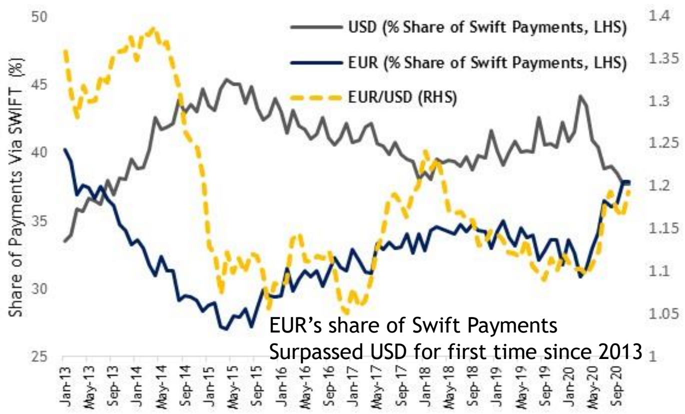
The **simultaneous and coordinated use of monetary and fiscal stimuli is a strong display of EU solidarity and demonstrates a commitment to building EU resilience**. ECB's tools of PEPP and TLTROs have helped to reduce financial fragmentation (compress spreads) and stabilize market sentiment. The 'Next Gen EU Fund' is a positive. EU's main structural weakness all these years is that it is a monetary union without a fiscal union. While the 'Next Generation EU' fund is far from a complete fiscal union; it nevertheless creates a temporary fiscal union (in less formalized terms), with some levels of central debt issuance, fiscal risk-sharing and grants to weaker nations in the fight against COVID-19 pandemic. In light of this, a planned issuance of up to EUR800bn of joint-debt (which is attractive on a valuation basis as the last tranche saw offering of higher yield than German Bunds with similar credit rating of AAA, higher than French OATS) next year should continue to see **sustained inflows of capital, fueling demand for EUR**.

EUR's role as an international currency could potentially accelerate as USD negatives piled on. IMF COFER data shows that USD share of USD global central bank reserves has been falling gradually from above 66% (in 1Q 2015) to 61.3% (3Q 2020) while EUR's share of cross border payments and SWIFT payment continue to rise, with the latter outpacing USD for the first time since 2013.

EUR, EU to Benefit from China's Recovery Momentum



Rise in EUR's International Role a Driver of EUR?



Source: Bloomberg, Maybank FX Research & Strategy

GBP: Moving Out of Brexit Shadows

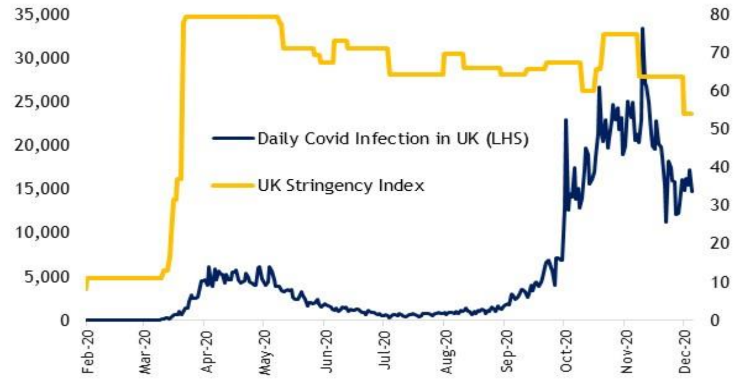
Forecast	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q2021
GBP/USD	1.3500	1.3600	1.3600	1.3800	1.4000

Motivation: Our **base case remains for a broad EU-UK FTA agreement**, with finer details to be ironed out into 2021. It is in both EU and UK's interests to come to an agreement than to go for a lose-lose outcome. Disruption to trade can affect German, French and Spanish businesses (about 50% of UK imports come from EU) while UK's services export to EU is about 7% of GDP. An agreement would be broadly supportive of GBP's outlook, a key factor underpinning our GBP upward trending baseline projection. Elsewhere ongoing trade deals between UK and other nations (such as Japan, Canada), UK to start inoculation (7 Dec), continuing policy accommodation and rapid fiscal support (cad help to cushion against downturn) and softer USD environment should continue to bode well for GBP.

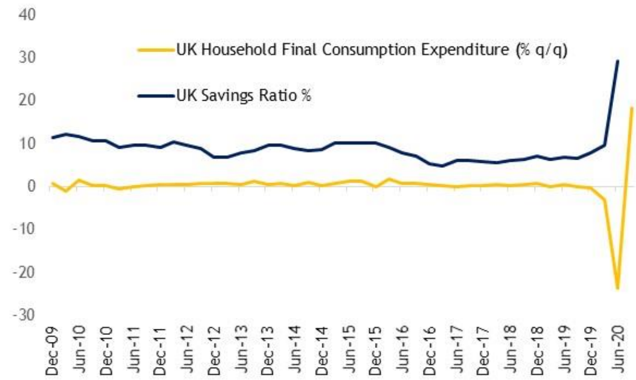
UK's **ongoing trade negotiations with other nations are medium term positives**. UK has struck its first major post-brexit FTA with Japan, that aims to boost trade by about GBP15bn. 99% of exports to Japan will be tariff-free, with focus on food and drink, finance and tech sectors. Manufacturing parts coming from Japan will benefit from reduced tariffs while British pork, beef and salmon will also enjoy reduced tariffs. UK and Canada have also reached an interim post-Brexit trade agreement (though there is no text on the deal for now). Mutual recognition agreements (MRA) have also been signed with Australia, NZ and US. MRA is one in which countries recognize the results of one another's conformity assessment and would replicate the effect of existing EU arrangements, to take effect from 1 Jan 2021. UK has also begun negotiation with a further 18 counties which have existing EU trade deals including Mexico, Singapore, Vietnam. A 'continuity' trade agreement with S. Korea has also been signed to allow businesses to keep trading "freely" after brexit.

However, there are still **risks to watch in the near term**. Covid spread and rising death tolls in UK remain a concern as restrictions could step up, posing the risk of double-dip recession. However, inoculation in UK has already commenced (first in the world) and if they can prove to contain covid spread, the economy could see a re-acceleration in economic activities. BoE Chief Economist Haldane said that **Britons have amassed GBP100bn of excess savings. Pent-up consumer demand when covid goes away could boost growth**. The biggest binary risk is the fluid development of EU-UK trade negotiations especially when the 3 key obstacles to a trade deal remain unresolved: (1) access to British waters (better known as fishing rights), (2) fair competition rules for businesses including rules of domestic subsidies (often referred to as state aid) and (3) mechanism for resolving future trade disputes. Hence we cannot ignore the alternative scenario of no-agreement (i.e. hard break-up) come 31 Dec 2020. This would mean that WTO rules stepping in for EU-UK trade (i.e. trade tariffs) from 1 Jan 2021 - a negative surprise and the GBP will be subjected to an asymmetrically larger downside (a binary risk to our forecasts) in the near term to adjust for earlier optimism. In this alternative scenario we do not rule out GBP revisiting 1.25 levels.

Ability to Contain Covid Spread Could See Restrictions Ease Further; A Plus for Economic Activity and GBP



Household Savings Surged to High of 29.1%; Economy Reopening Can Release GBP100bn Pent-up Demand



Source: Bloomberg, Maybank FX Research & Strategy

AUD: Appreciation Can Continue But China Spat a Risk

Forecast	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q2021
AUD/USD	0.73	0.75	0.77	0.78	0.78

Motivation: 2021 is a year of recovery for Australia as well as the rest of the world. Procyclical AUD should remain on the rise, underpinned by optimism that comes with the vaccine development, distribution as well as growing demand for Australia's resources as the world rebuilds itself from the carnage of the pandemic. China's green ambitions and dual circulation strategies could be still beneficial for Australia in the near-term, barring severe escalation in the current spat.

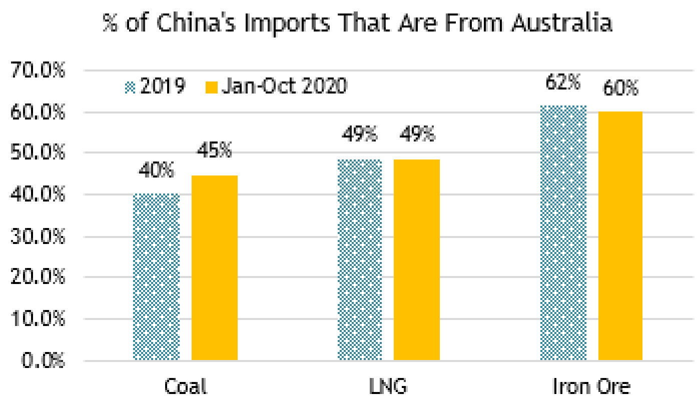
Procyclical AUD Can Still Rise. AUD had appreciated around 20% from its trough in Mar 2020. Such is the procyclical behaviour of the AUD in an environment that had to some extent been priced ahead of its recovery. With governments and central bankers around the world acknowledging that growth still requires fiscal support and accommodative monetary settings, AUD could continue to be lifted alongside most risky assets that are buoyed in such a conducive environment.

China's Dual Circulation and Green Ambition. One of China's main strategies in its "dual circulation" plan is to strengthen its supply chain and to reduce its reliance on the US. In addition, China has aggressive plans for green and low carbon development. These projections suggest that in the next few years, China still needs more of Australia's raw materials and energy (iron ore, LNG, coal) for the infrastructure plans required, notwithstanding the tensions between the two countries that are still simmering. For 2019, around 60% of its iron ore imports, 40% of its coal imports and 48% of China's LNG imports originate from Australia.

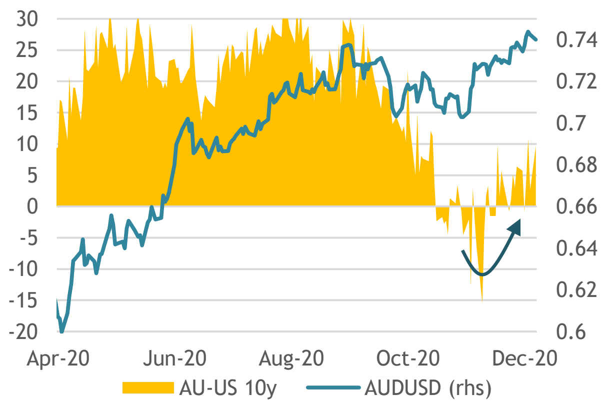
Australia's Covid Under Control. With the timeline for vaccine availability and distribution still an uncertainty, Australia remains one of the few nations that have an added advantage of having the pandemic under control. Consumer and investor confidence may recover ahead of other DM nations with the easing of internal borders to possibly see domestic tourism gaining traction into 2021. RBA remains firmly against a negative interest rate policy and should growth outpace rest of DM, so would risk be tilted upside for the AUD.

Risks to Our View: A key risk to our view is an escalation in Aussie-Sino tensions. Throughout 2020, officials from China have urged Australia "to reflect on its own deeds" and have started erecting trade barriers such as a ban on beef imports from 4 Australians abattoirs, tariffs on Australian wine, unofficial restrictions on coal (that halve its imports in recent months). A list of 14 grievances have been released from the Chinese embassy. It remains unknown whether China would broaden its actions to other key exports such iron ore or LNG as well as services imports such as tourism, education when international borders start to ease.

China May Still Need More of Australia's Key Exports



AU-10Y Yield Spread Rises as Reflation Takes Hold, Lifting the AUDUSD



Source: General Admin of Customs, Bloomberg, Maybank FX Research & Strategy

NZD: Taking Flight

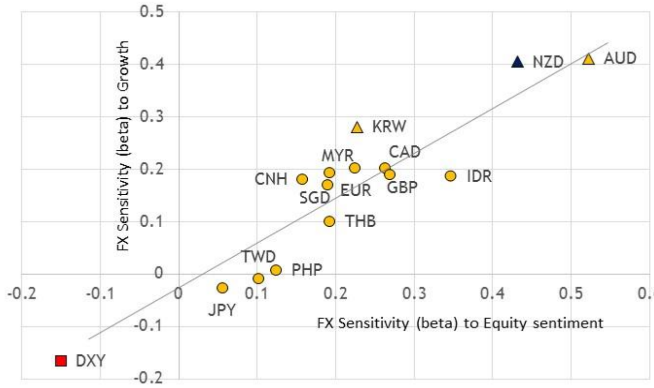
Forecast	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q2021
NZD/USD	0.6800	0.7100	0.7200	0.7300	0.7300

Motivation: We expect NZD to trade higher, riding on the global recovery wave. Covid vaccine development globally has been positive and NZ has entered into a purchase program with Pfizer-BioNTech to supply 1.5mio vaccine by 1Q 2021. Smooth vaccine rollout soon can potentially be a game changer as the consequential containment of covid-19 pandemic suggests that travel restrictions, social distancing measures can be lifted (a boost for NZ's tourism). The global economy could be closer to a more sustainable growth recovery amid unprecedented fiscal and monetary support. Procyclical FX proxy such as NZD can ride the global recovery wave (NZD is a proxy play for global growth). In particular China's growth, demand rebound should also benefit NZ (30% of NZ total exports goes to China). Typically, NZD is also highly correlated with CNH (correl at 0.68 while beta is 1). In addition, NZ being part of the RCEP and CPTPP trade pacts can also benefit (positive NZD) if trade recovery feeds through to domestic demand. On the domestic side of the equation, forward looking indicators including activity, survey and confidence indicators continued to point to a recovery (positive NZD); RBNZ further distancing itself away from NIRP (results in unwinding of NZD shorts) and la Nina weather projection could also further support NZ's economic activity and NZD.

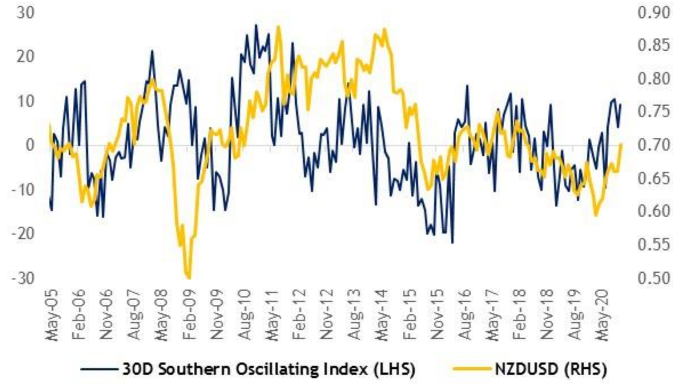
NZ rates are likely to have found a floor following RBNZ and Finance Ministry's recent comments. And this also suggest that NZD downside risks owing to expectations of NIRP have largely dissipated. Finance Minister Robertson proposed to RBNZ to add house prices to RBNZ remit. This is interpreted as potentially one less option for RBNZ to sound overly dovish to prevent property market from overheating. Since RBNZ MPC (11 Nov), officials dialing back their tone on negative rates. Markets (via OIS) were initially pricing in 27bps cut for OCR to slight negative at Apr 2021 MPC and for the remainder of 2021 but this has now been unwound. Markets are no longer pricing in negative rates for 2021. For Oct-Nov 2021, markets are looking for 16.5bps rate, implying a near-10bps cut from current OCR. We see **room for rates to adjust further (possibly to par at current OCR of 25bps) should recent NZ economic data, including consumer confidence, activity outlook, card spending, PMI - services and manufacturing continue to see sustained upward momentum. This would be supportive of NZD**. Reopening of economies including NZ, relaxation of border restrictions eventually amid vaccination should be another positive factor supporting growth recovery, NZD strength.

The US National Oceanic and Atmospheric Administration (NOAA) has issued a La Nina advisory confirming that **La Nina conditions are expected to continue through the coming months and into 1Q 2021.** For NZ, La Nina can lead to fewer westerly winds and more north-easterly winds. This can cause more rain in Northeast part of the North Island and it can impact agricultural crop production. The Southern Oscillation index (SOI) has also risen (La Nina phase corresponds with monthly averages above 1.0). And typically NZD correlates strongly with SOI.

NZD a Proxy Play for Global Growth Rebound



La Nina and NZD Correlate



Source: Bloomberg, NOAA, Maybank FX Research & Strategy

CAD: Reflationary Environment To Buoy

Forecast	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q2021
USDCAD	1.2800	1.2600	1.2400	1.2300	1.2250

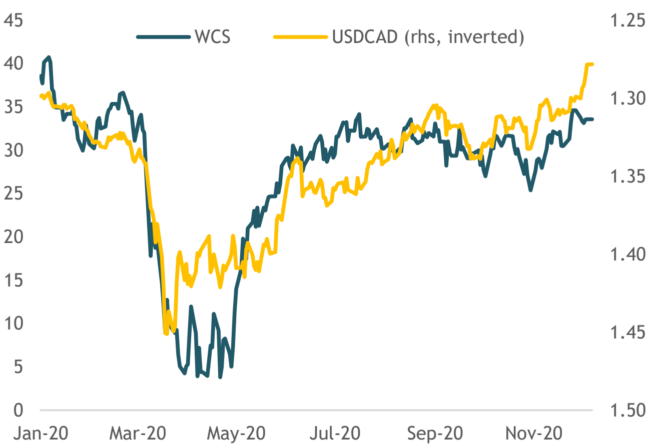
Motivation: While Canada remains a country that still struggles with COVID-19 like most of the regions in the northern hemisphere, strong and timely fiscal stimulus along with the monetary policy coordination of BoC would cushion the detrimental effects of the lockdowns. The stimulus potentially provides a significant larger boost to domestic demand compared to countries with less generous government when the vaccine becomes available. We see a possibility that BoC could be one of the first few to raise rates (again) and a monetary policy divergence could spur CAD bulls even more. A reflationary global environment is likely to lift commodity prices, including oil, positive for the CAD as well.

Strong and Timely Fiscal Stimulus. The Trudeau administration has been expanding its economic response programs in reaction to the second wave of the virus, targeting business and individual supports via rent and wage subsidies, investment in healthcare amongst others. Its budget deficit is one of the highest in the world - projected 17.5% of GDP (C$381bn). While this could risk pressuring its credit ratings, such targeted and generous support had so far calmed sentiment and could spur a strong recovery especially when the vaccine distribution starts. A potential outperformance in growth and rise in wages, could raise rates and increase the allure of the CAD even more.

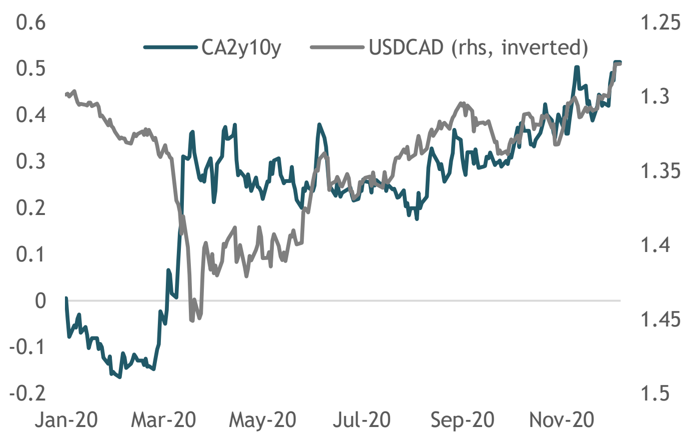
Reflationary Pressure Should Build At Home and Abroad. As Canada endures a harsh winter with elevated Covid cases, the key uncertainty for Canada as well as in the rest of the world is vaccine availability. Health Canada had said that regulators will decide on the approvals of vaccines around the same time as the US (10 Dec). PM Trudeau promised that more than 50% of Canadians will be vaccinated by Sep “if all goes well”. Household savings rate for 3Q declined from record high of 27.5% to 14.6%, compared to 2% in 4Q 2019. This is also reflected in the United States where personal savings rate had been rather elevated vs. long-term average. Taken together, CAD is poised to get multiple reflationary boosts at home and as a global phenomenal (oil-positive) in 2021 once there is greater clarity from vaccine availability.

Risks to Our View. A key risk for CAD could be an unexpected rise in inflation that could force BoC to tighten before growth has stabilized. Another risk to CAD’s strength is that an election is triggered in an environment of worsening Covid, slower distribution of vaccine (relative to expectations and other countries) along with higher fiscal spending that balloons Canada’s federal debt even further. Political uncertainty could then dampen consumer’s and investors’ confidence.

Global Growth Recovery Should Continue to Spur Crude Oil Prices and CAD



Significant Reflationary Process At Home, Backed by Strong Fiscal and Monetary Stimulus to Lift the CAD



Note: WCS refers to Western Canadian Select Crude Oil.
Source: Bloomberg, Maybank FX Research & Strategy

JPY: Intermittent Demand in 2021

Forecast	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q 2021
USDJPY	103	102	102	101	101

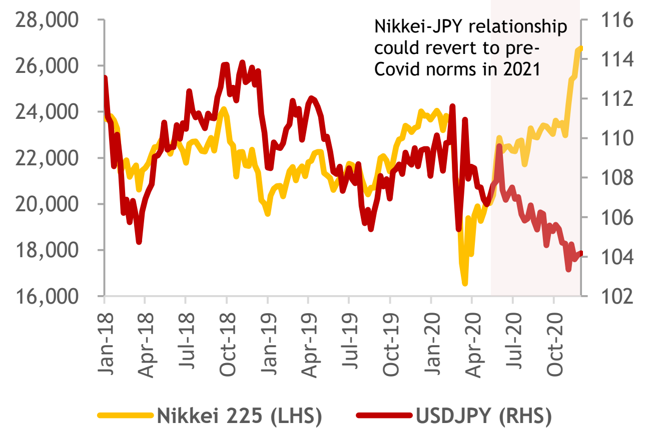
Motivation: Despite a potential improvement in risk sentiments heading into 2021, on vaccine distribution and macro growth recovery, a significant part of the positivity has likely been priced in by markets. Any pullback in JPY haven demand from here on out could be gradual, especially as the new year could bring with it renewed attention on post-Covid scars in labour markets, new bouts of geopolitical tensions, post-Brexit transition costs for UK/EU etc. Meanwhile, domestic growth in Japan could be modest in 2021, despite low base effects (2020), as private consumption and investment momentum could remain soft. Drags on tourism could take time to fade, with vaccine distribution schedules worldwide likely to be uneven. Sporadic cautiousness in Japanese equities could be accompanied by periods of upsides in the JPY. **On net, JPY could appreciate modestly against the dollar, but see more mixed performances against other FX.**

Global risk factors are unlikely to fade away in 2021. Debt overhangs and unemployment drags could also take longer to normalize in countries with stretched fiscal purse-strings. In Europe, even if a Brexit deal manages to be inked soon, the actual transition to a post-Brexit world could come with significant adjustment costs for cross-border flows. While a Biden presidency (vs. Trump) is widely expected to be less stressful for US-China relations, US may also move to reforge alliances among traditional allies to counter China's dominance. There could be periods of intermittent demand for haven assets such as JPY still.

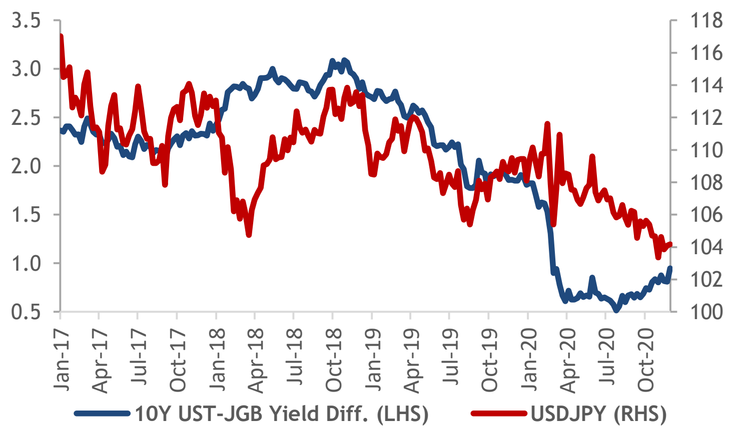
Domestic growth concerns could be supportive of the JPY. Recent global PMI data largely show a continued, albeit patchy, uptick in activity, but output in most economies are not expected to recover to pre-Covid levels till late 2021. In Japan in particular, the recovery could be more drawn out versus most peers. Consensus forecasts look for modest growth of 2.5% and 1.8% in 2021 and 2022 respectively, from a -5.3% contraction this year. Private investment especially could remain soft in the near-term as corporate margins remain under pressure. While the negative correlation between Nikkei and JPY had faded in 2020 alongside a pandemic-led distortion in risk conditions, it could re-emerge in 2021. We could see incremental demand for JPY during episodes of increased cautiousness in Japanese equities.

An upside risk to USDJPY could be rising long-end UST yields, on concerns of larger US fiscal deficits and recovering inflation, even as JGB yields largely remain low. Any widening in UST and JGB yield differentials could be supportive of the USDJPY pair, though we expect that the magnitude of any widening could be capped (i.e., 10Y UST yields unlikely to top 2% in 2021), and the concomitant boost to USDJPY, if any, could be contained.

Any Pullback in Japanese Equities Could Be Accompanied by JPY Demand



Upside Risk to USDJPY Could Come from Rising UST Yields



Source: Bloomberg, Maybank FX Research & Strategy

RMB: Gains To Continue But Not Without Risks of Moderation

Forecast	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q2021
USD/CNY	6.55	6.45	6.35	6.25	6.25

Motivation: The RMB could continue to be an anchor for regional currencies. Its decisive and effective COVID-19 management has given China a lead in recovery amongst the G20 economies. Growth and carry remain the main driver for the RMB along with the recent inclusion of the Chinese Government Bonds into FTSE Russell's World Government Bond Index. In a low rate global environment, the hunt for yield could amplify the demand for higher yielding RMB assets and thus the RMB and we do not rule out a test below the 6.20 (a key level that was seen in pre-trade war era, 2018). That said, China has shifted its focus back towards deleveraging and that would be a key risk to RMB as other currencies less encumbered with such priorities could start to shine.

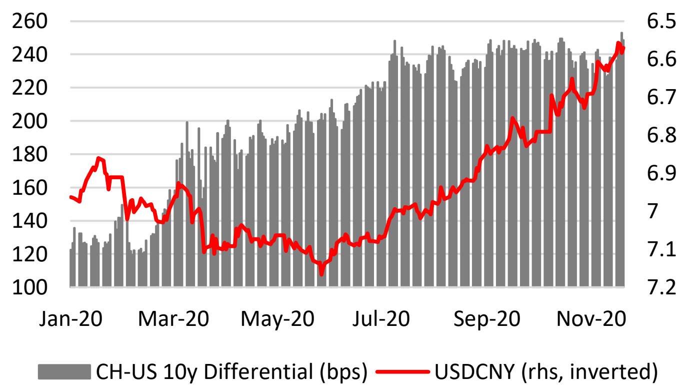
Carry advantage Remains. PBoC is a rare central bank which commenced normalization in 2020. This is a contrast to Fed's fresh AIT framework that aims to get actual inflation above the 2% target for a while before monetary policy would react to tame price pressures.10y yield has risen almost 1ppt from its May low of 2.48% to 3.3%. Rising domestic yields in China and monetary divergence could mean a solid carry advantage along with resilient fundamentals that is hard to beat in the EM and DM world. That could give CNY a fair amount of support in the first six months.

Green Plans and Technological Self-Sufficiency. As most international borders remain closed, demand for domestic tourism also be boosted all the more in the near-term, spurring household consumption and its current account surplus. Ambitious green plans for peak carbon emission before 2030 and Xi's goal of creating a more self-sufficient supply chain that would not be held hostage by the US could mean more infrastructure rebuilding. Growth prospect could thus remain driven by significant domestic demand while global growth recovery along with benign trade conditions (less confrontational US under Biden administration) could keep the trade balance in surplus.

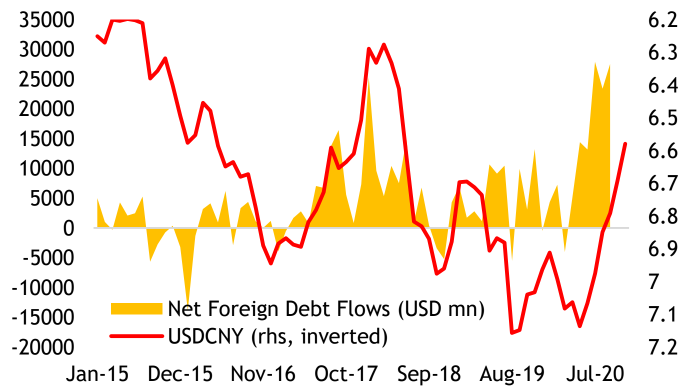
US-China Tensions To Linger. A less confrontational US does not mean a friendlier US. Biden administration is likely to galvanise the support from allies and strategic partners to counter China's influence. Already, a bipartisan panel had urged Congress to add to a list of demands on China (equal access for companies/media, stricter monitoring of Beijing's activities at the UN and preventive actions to safeguard US interest in technology and finance). Chinese MNCs could remain targeted and that is still a risk to watch for the RMB.

Deleveraging as a priority. What looks to provide a carry advantage for RMB could also be growth crimping eventually (along with equities). In a global recovery environment, prospect of a slower-than-expected growth for China could also divert flows towards other EMs that could be catching up in terms of growth and rates.

Strong Carry Advantage Can Buffer in Case of Rate Volatility



WGBI Inclusion Has Spurred Debt-Related Inflows



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

KRW: Outperformance on Growth and Trade Recovery

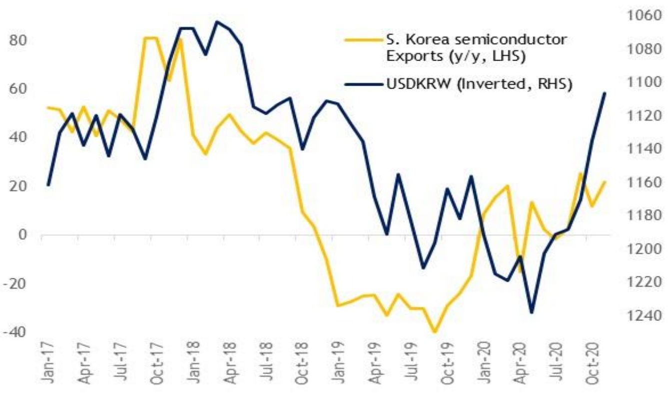
Forecast	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q2021
USD/KRW	1100	1060	1060	1050	1050

Motivation: We are constructive on KRW's outlook and expect KRW to be well-positioned to play catch-up to regional peers, into early part of 2021 before its pace of gains stabilize for the year. YTD (as of 30 Nov) KRW has appreciated by 4.5% vs USD. In contrast its peers, CNH and TWD have already appreciated between 4.8% and 5.8%. KRW's high beta characteristic, and growth proxy play allows for gains to catch-up, especially in the case of a sustainable pick-up in global growth and trade, secured by the arrival of vaccine. **The chip sector could lead recovery in capex and exports. KRW being a proxy for tech, chips should see additional support.** In addition, the signing of RCEP, potential expansion of trade pacts to include more countries and potential dial-back in trade tensions between US and China could set up a more constructive environment for global trade to extend its recovery in 2021. Korea is already emerging from a trade recession and export orders are picking up. At home, Korea has shown strong resolve and capability to contain covid-19 spread, despite on-and-off resurgences (which was quickly contained). Eventual reopening of its borders and economy, easing of restrictions as vaccination is likely to reach 60% of its population by 2Q 2021 will be another boost to growth (via consumer spending, tourism, etc.). Given the stars of growth, trade rebound, sustained foreign inflows to Korean equities and bonds, receding US-China tension, soft USD background and resilient RMB all aligned, we do not rule out KRW outperforming its peers in early part of 2021. A move lower outside of our quarterly forecasts towards 1040-50 levels should not be ruled out before finding some support thereafter.

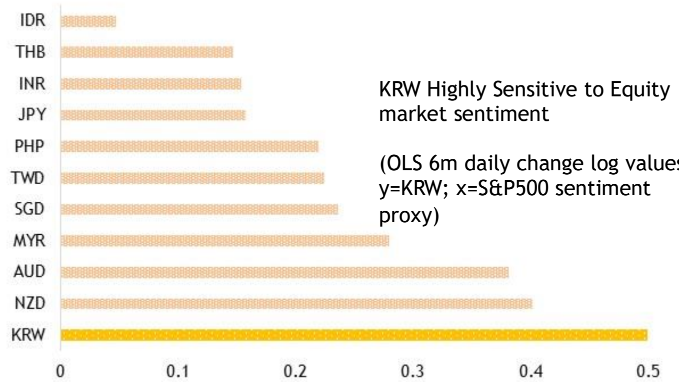
The latest RCEP agreement means **Korea has FTAs with the world's top 5 economies including US, China, Germany, India and Japan** (the latter being first-ever trade agreement). Under the trade deal, Korea has lowered trade barriers for its mainstay exports such as automobiles like cars and trucks (currently subjected to 30% to over 40% tariff), automobile parts (currently subjected to 10% - 30% tariff) and steel (currently subjected to 20% tariff) in ASEAN. Korea's steel exports to RCEP members was nearly $13bn in 2019, accounting for nearly 48% of global exports while imports stood at $12 bn (about 82% of total). Under RCEP, Korea and Japan will remove tariff on 83% export items from each country. The RCEP will also lower export tariffs of Korean beverages, including soju (currently subjected to 30% tariff) and remove tariff on dried seaweed to ASEAN. **Lower trade barriers, potential for increase in trade with the region are all positives for Korea growth and exports and KRW.**

KRW is a High beta FX and this can be a double-edged sword. Amongst most AXJ FX, KRW, with a beta of 0.5 to changes in S&P500 is very sensitive to external development. As much as KRW can appreciate sharply riding on external factors, such as global growth rebound, the reverse is also true. KRW can react more than other FX to the negatives such as geopolitical tensions (Korea peninsula or escalation in US-China tensions); global health pandemic (growth scare); tightening of financial conditions, etc. There will be periods that KRW may overshoot or undershoot our forecasts but these should correct when conditions stabilize.

Chips Exports Can Lead Recovery in Capex, Growth, KRW



High Beta KRW – Brace for Swings



KRW Highly Sensitive to Equity market sentiment

(OLS 6m daily change log values y=KRW; x=S&P500 sentiment proxy)

Source: OECD, Bloomberg, Maybank FX Research & Strategy

TWD: Appreciation Trend Intact but Pace May Moderate

Forecast	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q2021
USDTWD	28.50	28.00	28.00	28.10	28.10

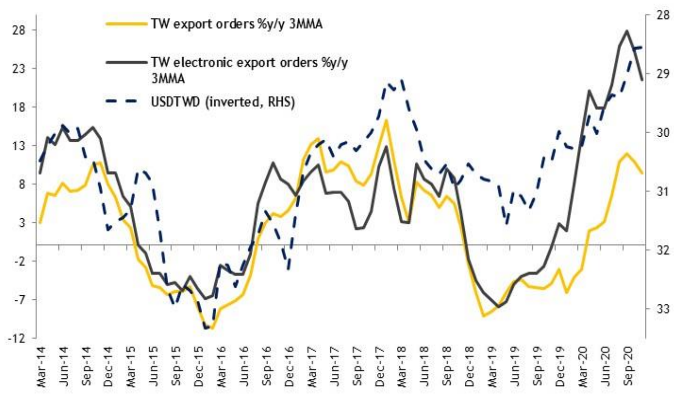
Motivation: We continue to hold to our constructive outlook on TWD, largely underpinned by (1) TWD a proxy beneficiary of tech and growth upswing; (2) resilient domestic growth amid better containment of covid spread (>200 days without locally transmitted case as of 7 Dec); (3) policymakers' tolerance for currency strength; (4) ongoing reshoring, foreign fund inflows; (5) soft USD thematic to remain entrenched in 2021. Continuing demand for technology needs – 5G network and related products, cloud computing, IOT, etc. and ongoing reshoring flows and foreign investments into technology sector will continue to boost the economy and support job growth. Eventual reopening of Taiwanese economy and borders as covid pandemic fades and covid vaccination/treatment becomes available should support Taiwan's tourism. Overall we expect the appreciation trend to continue for TWD, with gains aligned with other regional peers such as KRW, JPY, CNH and SGD but the pace of gains may moderate.

TWD Still Benefiting from Tech's Rise. A re-look at TWD (y-dependent variable) vs SOX (Philadelphia semiconductor index) as x-independent variable on sensitivity and correlation suggests that historical relationship still stands. On a 5y time frame, TWD sensitivity was 0.080 (i.e. 10% move in SOX sees TWD appreciate by 0.80%) and correlation coefficient was 0.82 (out of max of 1) to SOX. On a last 6-month timeframe, TWD sensitivity rose to 0.142 from 0.117 (in the last month). This suggests a 10% move in SOX would see TWD appreciate by 1.42%) while correlation coefficient is steady at 0.89. The close linkage suggests that TWD gains could still be sustained if tech bull trend remains intact. Tech bull trend can benefit Taiwan's economy (jobs creation, income increases), TWSE (given that IT sector carries a 57% weightage) and support foreign inflows (positive TWD). But we pay attention to **the risk of potential inventory overhang in semiconductor** sector amid corporate guidance for softer 4Q (in terms of profitability) – if inventory overhang continues to build and persist beyond this quarter, this could translate into downward pressure on prices and top line revenue. **TWD gains could moderate as such**.

Exclusion from RCEP a Small Negative for a Start. Petrochemical, textile and machine tool industries will bear the brunt of the impact of the signing of RCEP, according to the Taiwan's economic authorities. Petrochemicals is mainly exported to China and they could face strong competition from Japan and Korea (whom are both in RCEP) as tariffs are expected to be lowered in light of RCEP agreement. Elsewhere impact on the steel and automobile industries may be limited as the major export destinations for such products are in Europe and US though we note China, Japan are also key destinations for Taiwanese steel exports. For Taiwan's Information & communications technology (ICT) sector, the products are already tariff-free since joining WTO. On net, Taiwanese exports may marginally be affected due to substitution effect at first glance.

TWD and SOX Still Closely Linked

Sustained Export Orders Underpinning TWD Strength



Source: Bloomberg, Maybank FX Research & Strategy

SGD: Macro Fundamentals Remain Robust Relative to Peers

Forecast	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q 2021
USDSGD	1.3400	1.3200	1.3000	1.2900	1.2800

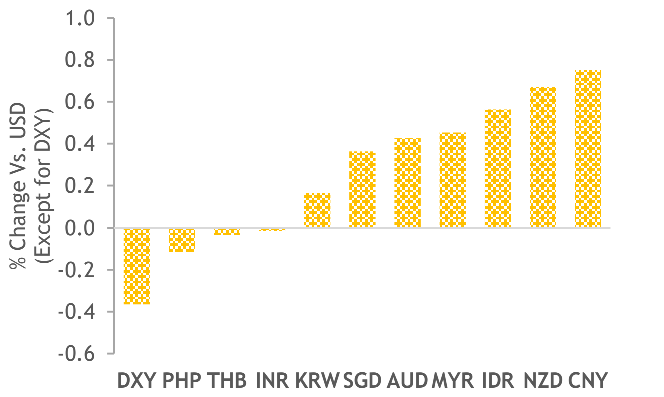
Motivation: USDSGD has been on a downtrend since its Mar-2020 peak of around 1.46. Despite some fits and starts in activity data, sentiment drags from the pandemic has been steadily fading over time. Community Covid cases remain negligible, and the risk of an escalation in domestic Covid spread is fairly low. Macro fundamentals such as labour market conditions and fiscal space remain robust relative to peers. Externally, a Biden presidency could be beneficial for AxJ FX as well, given higher likelihood of US re-engagement in multilateral trade deals and lower chances for renewed tariff threats. Given its pro-cyclical nature, as long as the global recovery in activity and aggregate demand continues apace, **SGD NEER could remain (mostly) on the stronger side of the policy band in 2021**.

Regional developments are supportive for the SGD next year. The RCEP pact (ASEAN, Australia, China, Japan, New Zealand, Korea) inked in Nov is largely viewed as a win-win for participating countries, with standardized rules of origin expected to help improve supply chain efficiency. While immediate macro impact from RCEP alone could be limited, such trade pacts could still contribute to benign sentiments surrounding the overall trade/investment environment in the region, as demonstrated by the "announcement effects" on regional FX when pact was inked. A Biden presidency also elevates the likelihood of more multilateral agreements involving Asia and the US (e.g., re-join TPP). An environment of reduced trade uncertainty could help anchor AxJ FX performance in the post-Covid period.

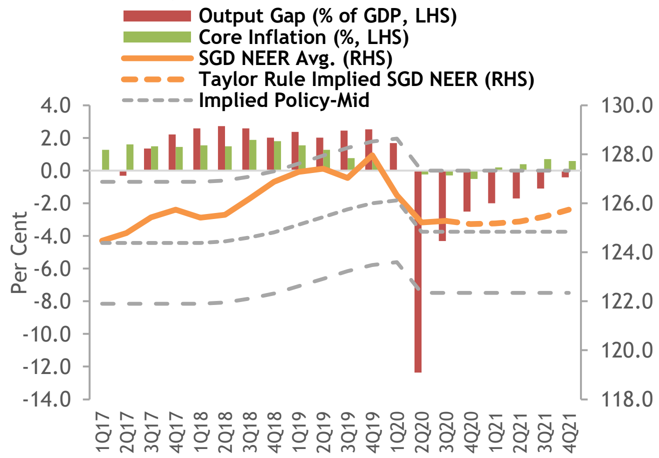
Despite mixed data recently, macro recovery trajectory for Singapore is likely intact. Our economist team forecasts GDP recovering by a modest +4.5% in 2021 and +3% in 2022, from a contraction of -5.7% in 2020. The recent vaccine breakthrough could help contain the Covid spread and ease lockdowns across the world, especially in the economies struggling to flatten the curve. This will help revive Singapore's services exports and travel & hospitality sectors in 2021, while output in electronics and pharma could remain resilient. Notably, SGD sentiments were relatively unperturbed by softer high-frequency data readings lately (PMI, exports, IP), indicating that confidence in the recovery trajectory remains intact.

MAS to maintain neutral SGD appreciation stance next year. The negative output gap will likely narrow slowly in the year ahead, while MAS Core inflation will trend higher, but likely remain below its long-term average as well. The central bank may not be in a rush to revert to an appreciating bias for the SGD. Nonetheless, Taylor rule estimates suggest that SGD NEER could continue to trade largely on the topside of the policy band in 2021 (i.e., modestly stronger vs. trading partners' FX, on average). Downtrend in USDSGD would hence be partly dependent on broad dollar softness as well (*see USD section*).

Risk-Sensitive FX Outperform Modestly Post RCEP Inking ("Announcement effects", 17 Nov vs. 13 Nov)



SGD NEER Could Remain Largely in Upper Half of Policy Band in 2021 (Taylor Rule Estimates)



Source: Bloomberg, Maybank FX Research & Strategy

MYR: Benefits from Commodity Price Rebound and Carry Allure

Forecast	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q2021
USD/MYR	4.08	4.02	3.95	3.90	3.90

Motivation: We maintain a positive outlook on the Ringgit relative to the USD, with support largely from external factors — global economic recovery, a softer USD environment, oil price pick up, RMB strength (MYR more correlated than SGD to RMB moves) and in part potentially on the domestic front - some level of Covid containment and positive progress on vaccine access from 1Q 2021 onwards. Fiscal policy remains expansionary with record spending allocation of MYR322.5bn. Monetary responses have been forthcoming and we expect BNM to maintain record low OPR of 1.75% until end 2021, including utilising policy levers to sustain the economic recovery. Inflation levels are from higher oil prices and economic recovery are unlikely to go beyond BNM's comfort range in 2021.

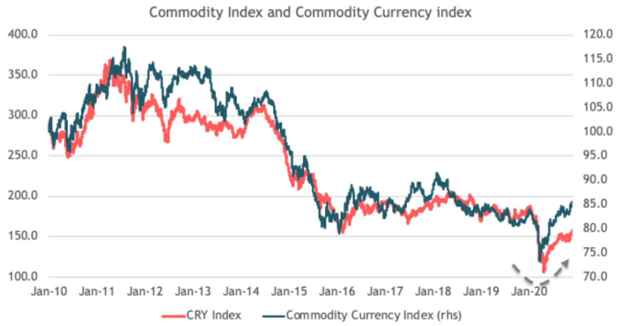
However in 1H 2021, the epidemiological trajectory still matters and the risk of covid cases in Malaysia raises immediate short term concerns, but three other factors, namely (1) oil price trajectory (Malaysia is still the largest net oil exporter in the region); (2) MYR attractive valuation (currently one of the undervalued currencies in the region) and (3) its higher relative exposures to global manufacturing (electrical machinery and equipment) and lower relative exposure to tourism compared to regional currencies; makes it primed for further support over the next 4 quarters.

Carry Allure Remains; BNM Maintains Policy Space. In a low rate environment with growth recovering from low bases and inflation expectations still benign in the near term, a hunt for yield can persist. Asia is home to some of the highest carry in the world. In real terms (adjusted for inflation), Indonesia and Malaysia bonds are attractive at between 3 and 4%. On ratings-adjusted basis, China and Malaysia bonds have the second and third highest yields in FTSE WGBI.

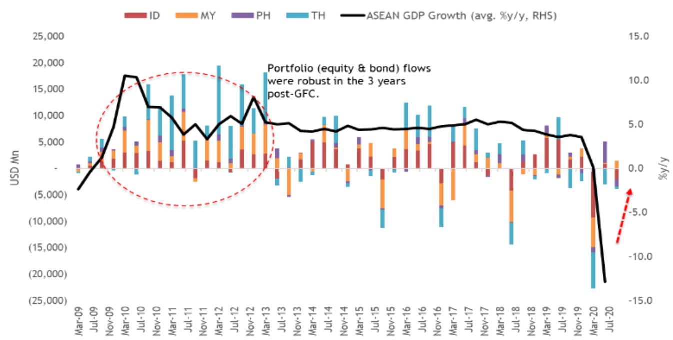
In addition, foreign holdings of Malaysia bonds are not as heavily positioned as they used to be. The existing longs are "sticky", long term strategic investors, Malaysia bond yields are still attractive and remain in major bond indices, such as WFBI. Elsewhere BNM has ample policy space to support bond market liquidity and yields through its purchases – currently holding 1.4% of MGS, way below the 10% limit. Foreign inflows into MYR's bond market recovered in 3Q2020 and foreign holdings are now up. We maintain our lower USDMYR forecast trajectory in 2021, on the back of the above factors, including a modest RMB and softer USD, however, we acknowledge there could still be some uncertainty externally and domestically from political concerns and market developments including regulatory changes in the regional competitor markets affecting the palm oil industry.

Concerns about further S&P credit rating downgrade. This follows from Malaysia's rating being lowered to BBB+ from A-by Fitch Ratings on Fri, 4 Dec. Fitch had cited weakened key credit metrics as the depth and duration on covid-19 crisis necessitated a strong fiscal response, weighing on its already high debt burden. We note that BBB+ is still an investment grade. Both S&P ratings and Moody's still have Malaysia's rating at A-/A3 (investment-grade status). Risk is whether S&P Ratings follows suit as it currently has a negative outlook watch on Malaysia.

Stimulus Spur Demand for Commodities



Rotation Back to Regional Assets May Support MYR



Source: Bloomberg, Maybank FX Research & Strategy

IDR: Carry FX Could Benefit as Regional FX Vols Dip

Forecast	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q 2021
USDIDR	14200	13900	13700	13600	13500

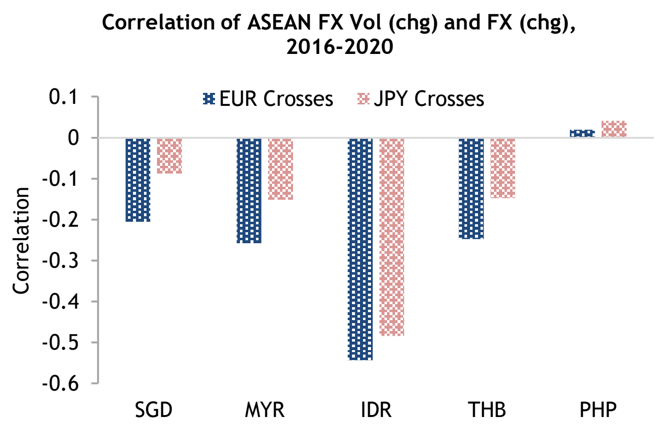
Motivation: IDR has recovered most of its Covid-led losses and is now not too far off from its start-of-year levels. In the past several weeks, USDIDR has been largely consolidating in the 14,000 to 14,200 range. Concerns over a renewed surge in domestic Covid cases is mitigated to some extent by more benign external sentiments. Notably, progress on the vaccine front and a Biden victory in Nov has induced some risk-on sentiments lately, leading to broad USD softness, and helping to offset more cautious IDR tones. There are tentative signs that domestic investment and consumption are strengthening, and that external portfolio flows are gradually returning. Markets are also observing active vaccine procurement efforts by authorities. **We are optimistic on the IDR in 2021.**

An environment of low vols, low rates, could be conducive for carry, favoring higher yielder plays such as IDR. Over the next few quarters, there is a chance for a "window" of benign macro conditions to set in, where most countries see a gradual recovery in domestic and external demand, with price pressures remaining largely soft and interest rates remaining low, which would be intuitively beneficial for carry. Historically, periods of declines in ASEAN FX volatility have been accompanied by strengthening ASEAN currencies, especially the IDR.

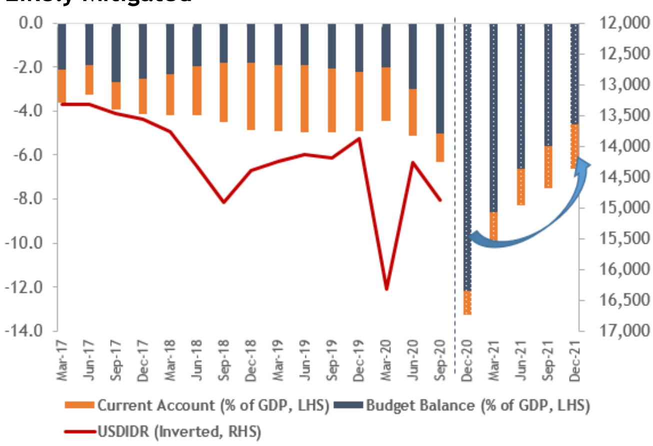
A focus on attracting FDI via tax and labour reforms next year, to aid the post-Covid recovery, could be supportive of IDR. Indonesia's parliament voted in Oct to pass into law the "Job Creation" bill, which will revise more than 70 existing laws in a single vote, and potentially help improve Indonesia's economic competitiveness. All sectors, with few exceptions, are also principally open for investments. While some labour groups have expressed explicit discontent, viewing the bill as being more pro-businesses than pro-workers, concerns over domestic protests have begun to fade. Barring flip-flops in policy, implementation of the omnibus bill could help anchor medium-term FDI flows.

Twin deficits are likely to be manageable in 2021 still, despite Covid overhangs. While funding to combat Covid drags have led to a significant widening of the fiscal deficit, expectations were likely priced in by 2Q. Heading into the turn of the year, 2020 annual deficit forecast remains at 6.34%, and while state spending for 2021 is tentatively set at a record high of US$185bn (to bring the economy back to +5% growth next year), authorities expect the fiscal deficit reading to narrow a tad, towards 5.7% of GDP. Meanwhile, BI has estimated that current account deficits would likely come in at below 1.5% of GDP in 2020 and between 1% to 2% of GDP in 2021. These relatively manageable domestic/external balance conditions are unlikely to exert significant negative drags on the IDR in the quarters ahead.

IDR Tends to Benefit in Broad Environment of Falling ASEAN FX Vols



Twin Deficits' Trajectory Contained; Drags on IDR Likely Mitigated



Source: Bloomberg, CEIC, Maybank FX Research & Strategy

PHP: Resilient to Volatility; Domestic Risks Manageable

Forecast	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q 2021
USDPHP	48.00	47.50	47.50	47.00	47.00

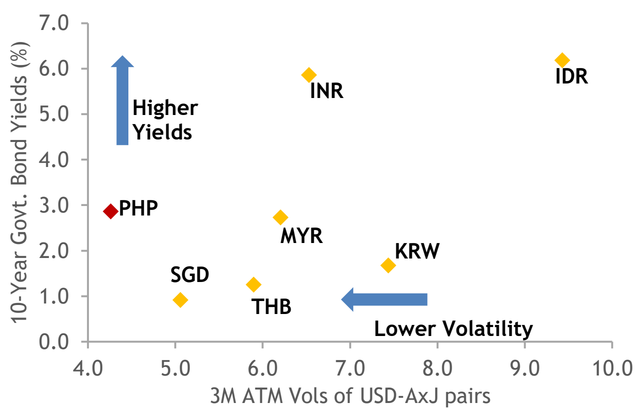
Motivation: The PHP has been a tad of an outlier in 2020. Compared to most other regional FX, which slumped in March at the onset of Covid and recovered sharply after, the PHP only saw mild losses vs. USD in March, and recorded steady, modest gains against the dollar from 2Q to 4Q. Notably, the slump in remittance flows that markets had looked for was far more modest than initially estimated. The resulting PHP resilience was stark. Going forward, most domestic risk factors, including tight fiscal purse-strings and wobbly growth momentum, may not overly impinge on PHP sentiments, as long as the broad macro backdrop of Asian trade and investment recovery remains intact, and PHP yields remain attractive. Nonetheless, if a benign risk environment materializes in 2021, gains in PHP could lag behind regional peers, given the more domestic-oriented nature of its economy. **While we look for USDPHP to head lower in 2021, extent could be more modest vs. other AxJ FX.**

Domestic risk factors remain somewhat contained. Debt-to-GDP rose past 50% at end-Sep, more than 10% pts higher than the record-low 39.6% posted in end-2019. Budget deficit is also seen widening to 9.6% of GDP this year. Nonetheless, extent of deterioration is in line with peers, and part of the negativity could have been priced in prior. Remittances had also been more resilient than expected, dropping by a less-than-expected -1.4% in the first nine months of 2020. While our economist team had recently downgraded the 2020 growth forecast to -7.8% from -6.5% prior—taking into account the pandemic overhang, and the legislative delays in stimulus approval—they had also revised 2021 growth upwards to +5.8% from +4.5%.

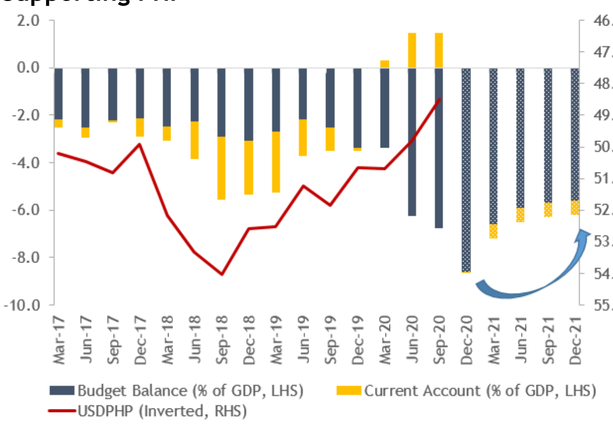
Despite offering lower yields than IDR and CNH bonds, PHP has also been historically less volatile. After 200bps cuts to the benchmark policy rate YTD, the Philippines 10Y sovereign bond yield is still just shy of 3%. While lower than the 6.2% and 3.3% for Indonesia and China 10Y sovereigns, given historically low PHP volatility, PHP bonds could still appeal to market participants who are trying to diversify away from DM assets, while also being modestly more risk adverse. For instance, despite US election-induced volatility in the rest of Asian FX in early Nov, PHP was relatively resilient to sentiment swings overall.

Similar to Indonesia, twin deficits will likely remain manageable. Current account next year may worsen a tad as domestic demand recovers and imports rise, but any deficit is unlikely to be large. Meanwhile, fiscal purse-strings should remain tight, but the fiscal deficit reading should be on a recovery/narrowing trajectory over the next few years. Finance Secretary Carlos Dominguez said that there may not be a need for outsized government borrowings, if vaccine developments and the recovery plan next year remains on track.

PHP Bonds Offer Fairly Decent Yield for Lower Vols.



Twin Deficits Should Remain Manageable in 2021, Supporting PHP



Source: Bloomberg, CEIC, Maybank FX Research & Strategy

THB: Supported While Awaiting Tourism Recovery

Forecast	4Q 2020	1Q 2020	2Q 2020	3Q 2020	4Q 2020
USDTHB	**30.50**	**30.30**	**30.10**	**29.90**	**29.70**

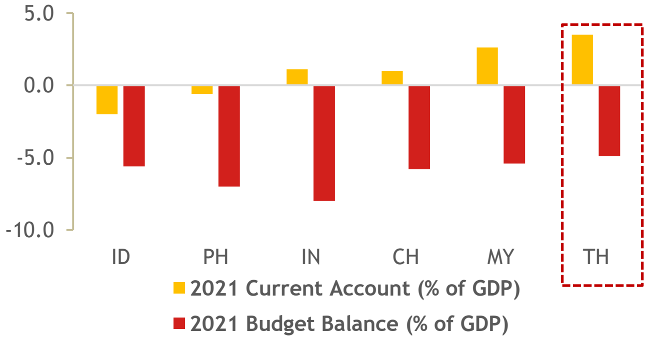
Motivation: With the recent bout of softening in broad dollar, USDTHB has reached back near start-of-year levels. The near-0% YTD change masks the sharp THB depreciation towards 33 in March at the onset of Covid, and the rapid strengthening since. In particular, broader risk-on sentiments induced by a Biden victory, positive vaccine progress, US stimulus hopes, are exerting drags on the USDTHB. Domestic risk factors such as pro-democracy protests, BoT's introduction of measures encouraging capital outflows etc., appear to be slowing, but not decisively reversing, the pace of THB gains vs. the dollar. As BoT 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. In a benign regional recovery scenario, **THB could continue to perform mixed vs. AxJ FX, but remain on a gentle appreciation path vs. USD in 2021.**

Recovering economic fundamentals could keep the THB supported. House view is for GDP growth to pick up to +5.0% in 2021 (vs. expected -6.2% in 2020). Recent growth revisions by Thai authorities point to a less dire-than-expected outcome this year, even as vaccine progress is expected to accelerate the macro recovery in 2021, with pent-up demand for travel providing some relief to the battered tourism industry in 2H. The macro recovery could be led by exports of goods and services while domestic demand will likely see a slower improvement. Meanwhile, our economist team expects current account surplus to come in at around 6% of GDP in 2021 (vs. 2020's 4%), a pertinent driver in sustaining THB resilience.

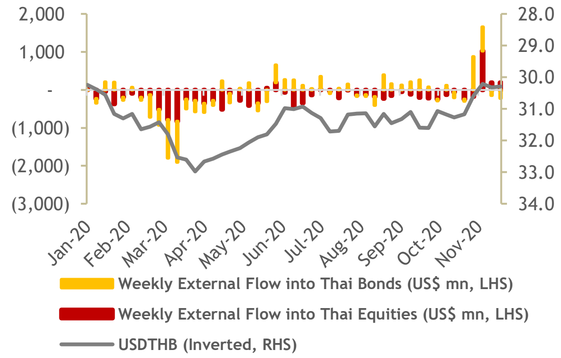
External portfolio flows to the region have begun recovering more decisively since early Nov. A Biden victory in early Nov was viewed as a positive for Asian assets given lower likelihood of further US-China tariff spats and higher chances for US' re-entry into multilateral trade pacts. Positive vaccine progress over the last month likely reinforced the narrative of trade and investment recovery in 2021. Net inflows into Thai equities and bonds from end-Oct are at around US$1.2bn and US$1.0bn respectively. Going forward, less-stretched asset valuations (vs. US) could underpin a broad recovery in portfolio flows to the region next year.

BoT measures may slow pace of gains in, but not reverse, THB strength. The BoT introduced measures on 20 Nov to relax capital outflows in a bid to curb the strengthening THB. These measures would make it easier for Thai citizens to move money overseas and invest in foreign assets, and to hold foreign currency in Thai banks. These developments were partly just a bringing forward of measures that were supposed to begin early next year, and the reaction of the THB was largely modest. Going forward, the BoT may continue to utilize some variant of its usual "playbook" (encouraging outflows, discouraging speculative inflows), but outright capital control measures are unlikely. These measures could curb, but are unlikely to decisively reverse, THB strength, especially in a benign Asian recovery scenario.

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



Tentative Signs of Recovery in Portfolio Flows Could Support THB if Sustained



Source: Bloomberg, Maybank FX Research & Strategy

INR: A Potential Outperformer

Forecast	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q2021
USD/INR	71.00	71.00	70.00	69.00	69.00

Motivation: INR would be a beneficiary in an environment of low global rates, low volatility and an environment conducive for carry. Recovery may lag regional peers because of its weaker Covid management and that could keep INR bulls on a leash for now. Relatively weaker domestic demand vs. the recovery in external demand could bode well for current account balance. However, as the economic recovery trend gets clearer with vaccine availability, yield-hungry investors may start to re-allocate towards rupee debt, particularly if inflationary pressures due to the supply-chain disruption start to ease.

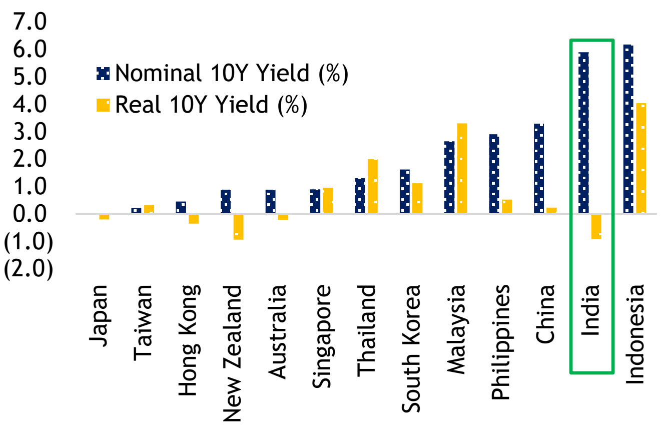
Current Account In Favour of INR. Current account has been in surplus because of the decline in imports (weaker domestic demand) which surpassed that of exports. This is a reflection of India as a laggard in recovery vs. other countries. Current account surplus could continue to remain supportive of the currency.

Potential for Rate Cuts to Support Bonds. Inflation is a threat taken seriously. Thus, RBI has gone inert in rate action since May and shifted its focus towards liquidity management. Liquidity made available to qualified banks under the TLTRO are required to be redeployed to debts issued by entities in specific sectors. The targeted nature makes it less inflationary than broad rate cuts. While 2020 has been a year of deeper rate cuts in most countries to support growth, flows into India was held back because RBI was not able to ease as much in the face of inflation. As industrial and agricultural bottlenecks ease with COVID situation, the window for RBI to cut may be available in Feb or Apr to give growth an extra nudge and that could provide some support for INR debt.

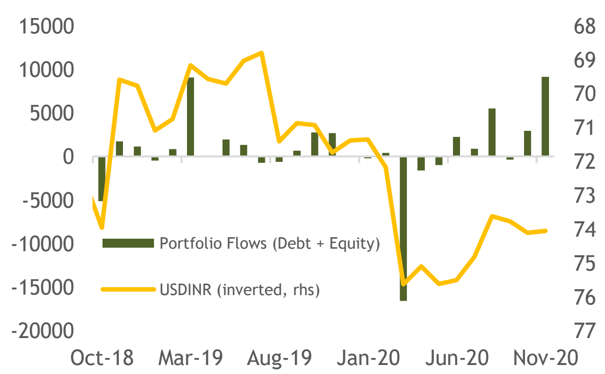
Room for Catch-Up. We see some potential for INR outperformance as investor sentiments become increasingly optimistic on vaccine distribution. Expect consumer confidence and investor confidence to rise then and activity to gain traction. Macro improvements could also increase the allure for INR debt. INR was an underperformer in 2020 and that in itself gives the currency a lot of room for catch-up.

Key Risks to Our view. While the daily tally of national covid cases has been on the downtrend, there were reports of spikes in parts of India and we do not rule out the possibility that vaccine availability do not come as quickly and as broadly as expected and subsequent waves of Covid emerges. This is especially so given the immense portion of population in rural India and a significant logistic challenge to get rural India inoculated. 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 a strong reflationary environment that could spur an unexpectedly aggressive rise in US rates, triggering a "taper-tantrum" scenario with carry trades unwinding.

INR is One of the Highest Yielding in the Region



Once Recovery Gains Traction, INR Can See More Support From Portfolio Inflows



Note: Real Yield = 10y yield of respective sovereign bond - 12m rolling average inflation
Source: Bloomberg, Maybank FX Research & Strategy

VND: Recovery in a Likely More Benign Environment

Forecast	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q2021
USD/VND	23000	22800	22700	22700	22500

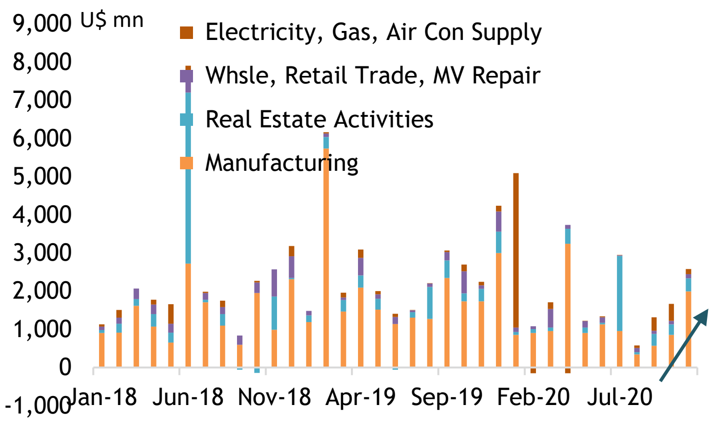
Motivation: USDVND should remain on the downdrift, guided by the broader USD softness and providing opportunities for the SBV to accumulate its USD FX reserves. FDI flows should pick up pace, lifted by prospect of gains that companies can enjoy when the RCEP takes effect in the coming years. The government has pledged to improve on the logistics infrastructure to increase Vietnam's business competitiveness and to continue to attract foreign investors. Vietnam's effectiveness in handling COVID-19 could underpin its growth and currency.

FDI Could Rise. The pandemic reduced FDI flows by around 20% for Jan-Nov 2020 compared to last year but show signs of rebounding in the recent months - a testament of global recovery and investors' confidence in the country. Apart from manufacturing that typically captures the lion's share of FDI, a key LNG power plant ($4bn) by Delta Offshore Energy Pte Ltd in Bac Lieu is eyed especially this year, making up around 18% of total foreign investment. Along with the LNG contracts with US companies this year, the gas sector could continue to attract investment. We look for FDIs to continue to rise as Vietnam strives to enhance the ease of doing business with the potential ratification of RCEP in the next two years along with Vietnam's efforts to invest in its logistics infrastructure with the primary aim of lower cost effectiveness and to improve competitiveness.

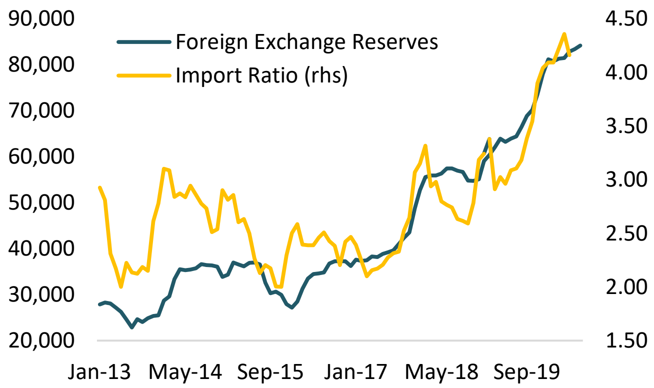
Likely Warmer Ties With Major Trade Partner, US. Vietnam was deemed as a beneficiary of the US-China war as businesses brought forward plans to shift factories from China towards Vietnam. While the Biden administration is seen as less combative towards China and we think he is highly likely to steer away from "trade war", Biden had said that he would count on gathering allies and partners to counter China's influence. Thus, Vietnam may no longer be at risk of being labelled a currency manipulator. It is also thus possible for Vietnam to have better ties with the US and even gain some support when it comes to conflict with China at the South China Sea. Any improvement in ties with the US may be supportive of the VND in terms of FDI flows as investors' confidence tend to improve with greater clarity and predictability with the US and the region.

Risks to the Upside, Mostly. Risks to the VND are mostly to the upside as the USD and US rates remain benign for the currency as much of EM. A reflationary environment in the absence of significant risks to recovery should be constructive for the VND. However, we are watchful any signs of inflation pressure or unevenness in growth recovery that could drive US rates unexpectedly higher and that could lift the USDAxJ (including VND) if left unchecked.

FDI Flows Slowed But Show Signs of Rising Again



Import Ratio Has Improved Since 2013 Taper Tantrum



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

FX Forecasts

	End Q4-20	End Q1-21	End Q2-21	End Q3-21	End Q4-21
USD/JPY	103.00	102.00	102.00	101.00	101.00
EUR/USD	1.1850	1.2100	1.2200	1.2400	1.2530
GBP/USD	1.3500	1.3600	1.3600	1.3800	1.4000
AUD/USD	0.7300	0.7600	0.7700	0.7800	0.7800
NZD/USD	0.6800	0.7100	0.7200	0.7300	0.7300
USD/CAD	1.2800	1.2600	1.2400	1.2300	1.2250
USD/SGD	1.3400	1.3200	1.3000	1.2900	1.2800
USD/MYR	4.0800	4.0200	3.9500	3.9000	3.9000
USD/IDR	14200	13900	13700	13600	13500
USD/THB	30.50	30.30	30.10	29.90	29.70
USD/PHP	48.00	47.50	47.50	47.00	47.00
USD/CNY	6.55	6.45	6.35	6.25	6.25
USD/HKD	7.75	7.75	7.75	7.75	7.75
USD/TWD	28.50	28.00	28.00	28.10	28.10
USD/KRW	1100	1060	1060	1050	1050
USD/INR	71.00	71.00	70.00	69.00	69.00
USD/VND	23000	22800	22700	22700	22500
DXY Index	92.03	90.55	89.95	88.69	87.73
SGD Crosses	End Q4-20	End Q1-21	End Q2-21	End Q3-21	End Q4-21
SGD/MYR	3.0448	3.0455	3.0385	3.0233	3.0469
JPY/SGD	1.30	1.29	1.27	1.28	1.27
EUR/SGD	1.59	1.60	1.59	1.60	1.60
GBP/SGD	1.81	1.80	1.77	1.78	1.79
AUD/SGD	0.98	1.00	1.00	1.01	1.00
NZD/SGD	0.91	0.94	0.94	0.94	0.93
CAD/SGD	1.05	1.05	1.05	1.05	1.04
SGD/IDR	10597	10530	10538	10543	10547
SGD/THB	22.76	22.95	23.15	23.18	23.20
SGD/PHP	35.82	35.98	36.54	36.43	36.72
SGD/CNY	4.89	4.89	4.88	4.84	4.88
SGD/HKD	5.78	5.87	5.96	6.01	6.05
SGD/TWD	21.27	21.21	21.54	21.78	21.95
SGD/KRW	821	803	815	814	820
SGD/INR	52.99	53.79	53.85	53.49	53.91
SGD/VND	17164	17273	17462	17597	17578
MYR Crosses	End Q4-20	End Q1-21	End Q2-21	End Q3-21	End Q4-21
JPY/MYR	3.96	3.94	3.87	3.86	3.86
EUR/MYR	4.83	4.86	4.82	4.84	4.89
GBP/MYR	5.51	5.47	5.37	5.38	5.46
AUD/MYR	2.98	3.06	3.04	3.04	3.04
NZD/MYR	2.77	2.85	2.84	2.85	2.85
CAD/MYR	3.19	3.19	3.19	3.17	3.18
MYR/IDR	3480	3458	3468	3487	3462
MYR/THB	7.48	7.54	7.62	7.67	7.62
MYR/PHP	11.76	11.82	12.03	12.05	12.05
MYR/CNY	1.61	1.60	1.61	1.60	1.60
MYR/HKD	1.90	1.93	1.96	1.99	1.99
MYR/TWD	6.99	6.97	7.09	7.21	7.21
MYR/KRW	270	264	268	269	269
MYR/INR	17.40	17.66	17.72	17.69	17.69
MYR/VND	5637	5672	5747	5821	5769

Source: Maybank FX Research as of 9 Dec 2020. *These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.

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