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Maybank

FX Annual Outlook 2022

Treading the Inflation-Growth Tightrope

Case for Cautious Optimism in AxJ FX

Omicron may be a stumbling block in countries' reopening efforts near-term, but most countries are likely to push on with varied "living with Covid" approaches. In 2022, US, Europe and China could see a moderation in growth momentum, while ASEAN could witness a growth bounce, partly on vaccination catch-up. Broad growth dynamics could be comparable to 2017-1H 2018, which is the most recent period featuring (i) above-trend, (ii) broad-based GDP growth, (iii) Fed policy normalization. Notably, this period saw USD declines and AxJ FX gains, with counter/pro-cyclical nature of FX emerging more discernibly. More benign portfolio flows, yuan resilience could help form part of the supportive narrative for AxJ FX, mitigating risks from withdrawal of monetary policy support.

Persistent Price Pressures - Winners and Losers

Inflationary expectations risk de-anchoring in 2022 amid broad and sustained price pressures. Risk-sensitive AXJs including KRW, CNH, TWD can be vulnerable on expectations of faster pace of policy normalisation. Gold will not be spared if real yields move meaningfully higher but if the scenario with covid shifts more negatively as a result of the new variant, gold and USD will remain supported. With the emergence of metaverse* thematic, the growing demand for faster chips can pose upward pressure on prices of chips, support exports growth and at the same time, inflow of foreign funds into metaverse thematic could accelerate, providing support for the likes of tech-proxy FX, including KRW, TWD and SGD. Elsewhere we also note that the pursuit of transition to green requires a huge shift in demand for transition metals (such as lithium, cobalt as well as copper and nickel). AUD and IDR could stand to benefit in the medium term.

Uneven Policy Landscape and Divergences

In a world still shrouded with lingering pandemic uncertainties, the USD retains safe haven appeal, underpinned even more by strong growth and inflation pressures at home that tilt the risk towards potentially faster pace of Fed taper/ rate lift-off. We also look for potential gains for NZD, GBP, CAD and to some extent, KRW whose performance since the start of 3Q are not commensurate with their growth, inflation and concomitantly, relatively more hawkish monetary policy outlook. In contrast, negative yielders EUR, JPY and CHF still see interim drags on dovish policy stances. Into 2H 2022, regional laggards could start to catch up including AUD, IDR, MYR and PHP as the respective central banks are expected to lift rates off current record lows. Forerunners CAD, NZD, USD and KRW whose central banks are likely near the end of their hiking cycle may pare gains then.

An Earlier End to China's Zero-Covid Strategy

While broadening growth recovery should continue to underpin China's exports, we look for the possibility for China's depressed services trade deficit to recover should effective Covid treatment emerges and more countries find success with the endemic approach for Covid-19. Based on pre-Covid tourist receipts and recent survey done on Chinese travellers, AUD, SGD and THB may stand to benefit should China end its Zero-Covid strategy earlier than expected

** Metaverse can be described as some interconnected virtual world or communities, incorporating augmented reality technology where people can socialise, work and play*

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1. Case for Cautious Optimism in AxJ FX

1.1 Start-Stops in Curbs, But "Living with Covid" Carries On

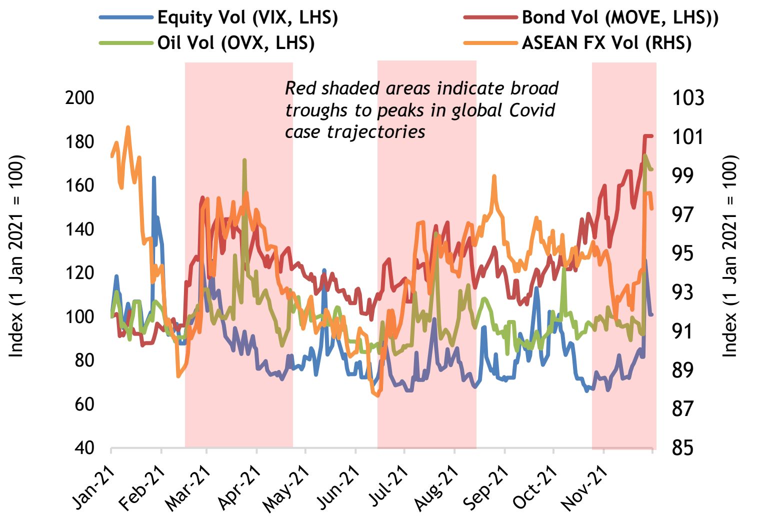
The world's journey towards a return to post-Covid normalcy has been a challenging one. While progress in vaccinations and advances in medtech (drug cocktails, booster shots) have helped contain stresses borne by healthcare systems and mitigated broader economic drags, many parts of the world are still struggling to cope with intermittent Covid waves.

The emergence of the new B.1.1.529 variant (Omicron) in South Africa in late November likely exacerbated existing concerns over global growth moderation and stretched risk asset valuations. While Omicron's infectiousness, deadliness and vaccine resistance features are as yet unclear as of writing, it carries an unusually large number of mutations, and many nations have swiftly adjusted travel curbs for visitors from South Africa. Given signs of spread of the new variant to European nations, we expect further adjustments to global reopening plans, with more countries likely to expand border curbs in the interim.

At the onset of Omicron news, a sharp bout of demand for haven assets led to a significant decline in USDJPY and US treasury yields, alongside broad equity corrections. AxJ FX saw modest drags, but with the exception of THB, net losses against the dollar are manageable at <1% over 26-30 Nov. To some extent, preliminary reports suggesting that Omicron symptoms could be mild, and vaccine producers' quick responses in announcing adaptation of shots for Omicron, have helped stabilize sentiments somewhat.

At this point, there is insufficient data on Omicron to make an informed assessment on the persistence of the negative shock to gobal growth and sentiments, but **we do not rule out a repeat of earlier market behavior, where asset volatility see upward pressures for 1-2 months on emergence of new Covid risks, and eases off as growth momentum proves resilient**. Covid-19 stringency data also shows that each bout of tightening in global curbs in 2021, has been on average less strict than the last, as key economies shift towards a "living with Covid-19" stance. **Omicron may be a stumbling block in countries' reopening efforts, but may not lead to a sharp turnaround in policy stance for now.**

Volatility Rises on Covid Risks But Usually Eases After 1-2 Months



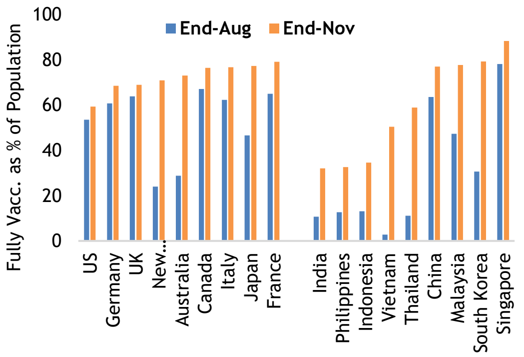
Note: ASEAN FX vol refers to average of 3M option-implied vols for SGD, MYR, IDR, THB, PHP.
Source: Bloomberg, Maybank FX Research & Strategy

1.2 Still Look for Underlying Growth to Broaden

In 2021, pace of vaccination across DMs and EMs was uneven, partly contributing to uneven growth recoveries across different economies. In particular, US, Euro Area and UK benefitted from hitting key vaccination thresholds earlier versus emerging economies, while China was also one of the earliest to stamp out Covid-19 cases to negligible levels in 2020, setting the stage for a growth rebound phase in 2021. In contrast, parts of Asia remained bogged by slow vaccination progress for much of this year.

In recent months though, more ample vaccine supplies and a renewed push in vaccination campaigns have allowed in some countries, including Malaysia and Thailand to close the gap in inoculation progress. Notably, faster inoculations in ASEAN helped anchor downtrends in Covid-19 cases, even as social curbs were broadly eased in recent months. This in turn supported a turnaround in regional consumption and manufacturing activity.

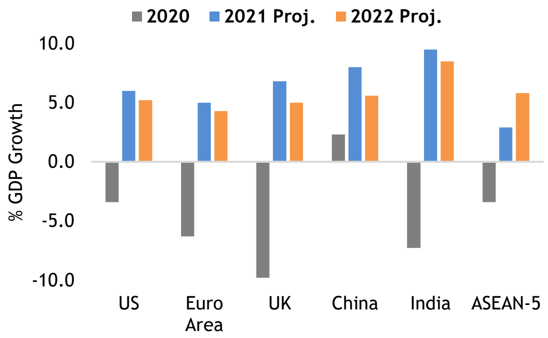
Still Room for Regional Vaccine Laggards to Catch Up, Supportive of Growth into 2022



Note: End-Nov data as of latest available in late Nov.

Source: Ourworldindata.org, Bloomberg

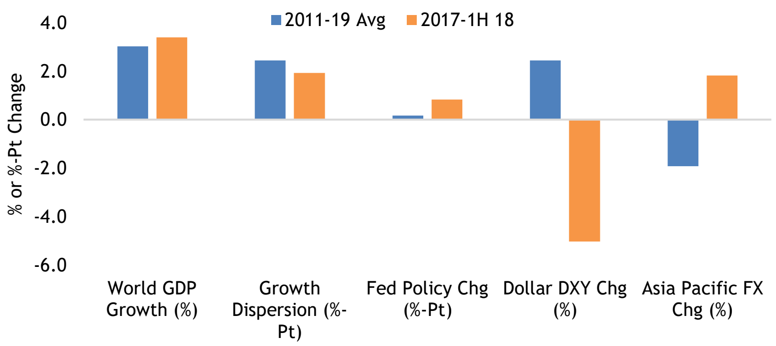
Tentative Convergence in Growth Pace into 2022, with ASEAN Rebound



Source: IMF World Economic Outlook (Oct)

The IMF expects a modest moderation in growth momentum for US, Euro Area, UK, China in 2022, while a growth bounce is expected for ASEAN, partly on vaccination catch-up. Barring Omicron risks, supply chain disruptions also show signs of easing, with the Baltic Dry index (shipping costs) on a decline in early 4Q after rising for most of 2021. For 2022, growth dynamics could be comparable to 2017-1H 2018 (2H was roiled by US-China trade tensions escalation), **which is the most recent period featuring (i) above-trend, (ii) broad-based GDP growth, (iii) Fed policy normalization. Notably, this period saw a decline in USD and gains in Asia-Pacific FX, with the counter/pro-cyclical nature of FX coming into play.**

Counter/Pro-cyclical Nature of FX during Broad-based Growth



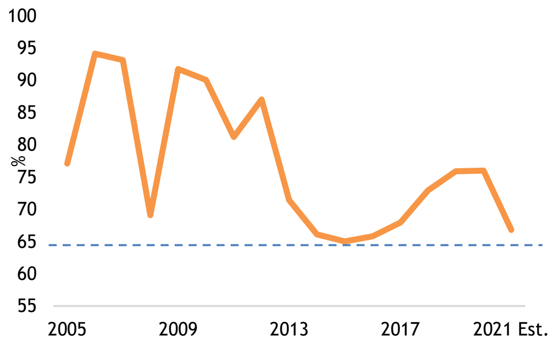
Note: Growth dispersion refers to std dev. of growth across US, GE, FR, IT, UK, CA, AU, NZ, CH, IN, SI, MA, ID, TH, PH. Asia-Pacific FX refers to average of AUD, NZD, CNY, INR, KRW, SGD, MYR, IDR, THB, PHP.

Source: Bloomberg, Maybank FX Research & Strategy

1.3 Portfolio Flows, CNH Resilience Likely Supportive of AxJ FX

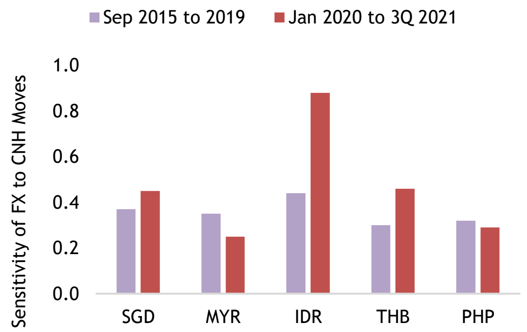
While some corners of the markets are concerned about drags to Asian assets from portfolio outflows on Fed policy normalization, such risks should be more manageable this time round. Fed rate hikes are more likely to impact US front-end versus long-end yields, with longevity of the hike cycle in question if tightening is carried out in a decisive manner. Our FI team's base case is for UST10Y yield to end 2022 at 1.9%, not too far from 2021 high of 1.74%. With BNM, BI and BSP expected to lift rates in late 2022 as well, long-end yield differentials might not narrow too excessively next year, and likelihood of strong, persistent foreign outflows from regional bonds could be relatively low on net. For equities, risk-reward dynamics suggest some chance for a potential recovery in regional equity inflows in 2022.

PE Ratio - MSCI Asia ex-Japan Relative to S&P 500



Source: Bloomberg, Maybank FX Research & Strategy

Co-movement Coefficient Between ASEAN FX & RMB



Note: Extracted $\beta 1$s from regression of form ΔASEAN FX = C + $\beta 1 * \Delta CNH + \beta 2 * \Delta EUR + \beta 3 * \Delta JPY + \beta 4 * \Delta VIX + \varepsilon$.

Meanwhile, in-house studies suggest that co-movements between AxJ FX and yuan remains significant over 2020-21, reflecting not only increased trade and investment linkages over the years, but also a more unique set of factors (lockdown drags, vaccine optimism, reopening plays, virus variant risks) nudging risk sentiments in similar directions during pandemic times. Given our baseline for a largely stable yuan in 2022, there is scope for yuan to act as an anchor for AxJ FX to some extent, mitigating concerns over Fed tapering and global growth moderation.

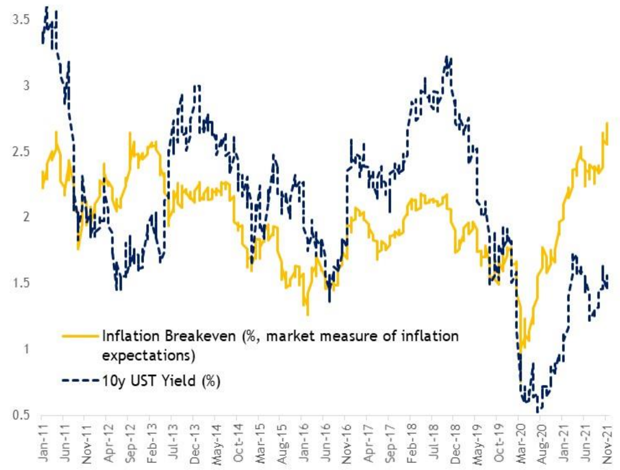
2. Persistent Price Pressures – Winners and Losers

2.1 Risk of Inflationary Expectations De-anchoring

For 2021, global inflation has seen one of its sharper pace of increase in recent decades. Supply chain bottlenecks, reopening of economies from covid lockdowns as well as rising food and energy prices were some of the factors driving inflation and is likely these factors could still keep upward price pressures sustained at least for early half of 2022 before price pressures ease.

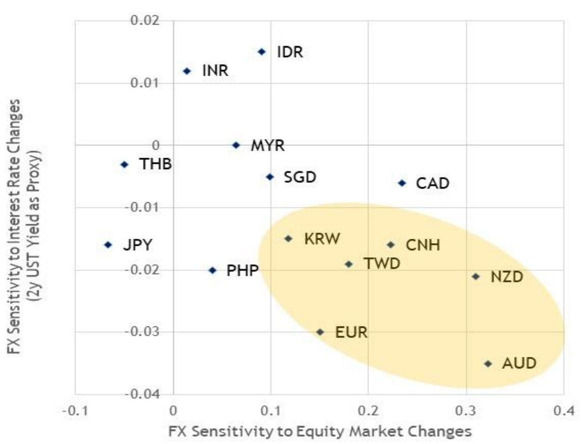
Persistent rise in inflationary pressures risks de-anchoring inflationary expectations. Already, NZ and Canada's inflationary expectations have surged to decade high. Russell Investments' quarterly survey of investors also found that 55% of fund managers expected US inflation at 2.26% to 2.75% over the next 12 months while another 20% expected inflation to move even higher. Expectations for higher prices can fuel expectations for faster pace of policy normalisation. Uncertainty on this front can weigh on risk assets and affect sentiment. Risk-sensitive AXJs including KRW, CNH, TWD can be vulnerable to spike in UST yields and sell-off in equity markets.

Higher Inflation Expectations Can Imply More Upside on UST Yields



KRW, AUD,NZD Vulnerable to Expectations of Faster Pace of Policy Normalisation

Betas of FX/USD to 2y UST yield and S&P500



Note: Regression analysis between FX/USD on 2y UST yield and S&P500 over a 2y Dec-2019-21 daily log levels sample period
Source: Bloomberg, Maybank FX Research and Strategy

2.2 Metaverse Thematic Can Add to Tech Demand Pressures

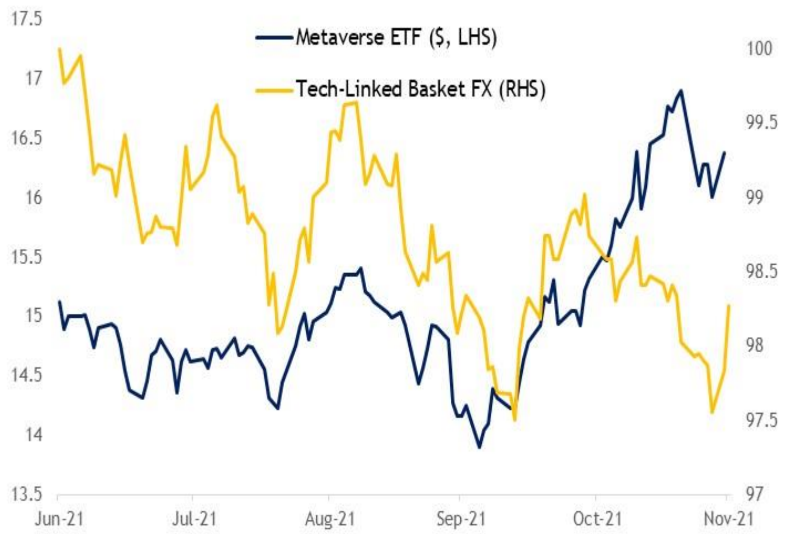
While the ongoing shortage in the semiconductor world may gradually ease into later part of 2022 and as more production capacity comes onstream in 2023, the emergence of metaverse thematic could potentially further drive tech demand going forward.

Metaverse was a term first coined in 1992 by science fiction novelist Neal Stephenson in his work, snow crash and the buzz word, metaverse has recently garnered attention after Facebook rebranded itself as Meta Platforms while other big corporates such as Microsoft, Nike, Dropbox, Tencent and even Seoul Metropolitan Government announced plans to enter the metaverse. Metaverse can be described as some interconnected virtual world or communities, incorporating augmented reality technology where people can socialise, work and play. To some extent, it is often touted as the next generation of internet, social media. Building the metaverse world would require huge computing architectures, advanced AI capabilities, memory chips and diverse ICT technologies. Korea and Taiwan are key infrastructure, component parts supplier in the technology value chain. For instance, Taiwan accounts for 63% of global semiconductor market share, Korea accounts for >70% of global DRAM memory market share while Singapore is world's

4th largest global exporter of high-tech goods. Taiwan, Korea and Singapore goods exports can benefit from the Metaverse value chains. In particular for Korea, the current downcycle in memory chip market could potentially be reversed if the world races to adopt metaverse technology. Memory chip is a critical component in which users interact with each other in the virtual world.

Metaverse thematic can add to further demand for chips and this can pose upward pressure on prices of chips while at the same time inflow of foreign funds into metaverse thematic could accelerate, providing support for the likes of tech-proxy FX, including KRW, TWD and SGD. In South Korea, 4 metaverse-focused ETFs were launched in Oct-2021 and they have soared >30% since their respective launches in mid-Oct. According to data compiled by Bloomberg, inflows into Korean metaverse ETFs could double to $600mio by end-2021, from earlier inflow of $300mio. For Taiwan, apart from TSMC being the world's largest suppliers of semiconductor chips, there are also other electronic devices ODMs such as Quanta, Inventec that have the capability to ride the metaverse trend, in terms of layering the infrastructure and technology that enable devices to connect to the faster network (moving beyond 5G to 6G) to access the content.

Metaverse Thematic Is Supportive of Tech-linked FX

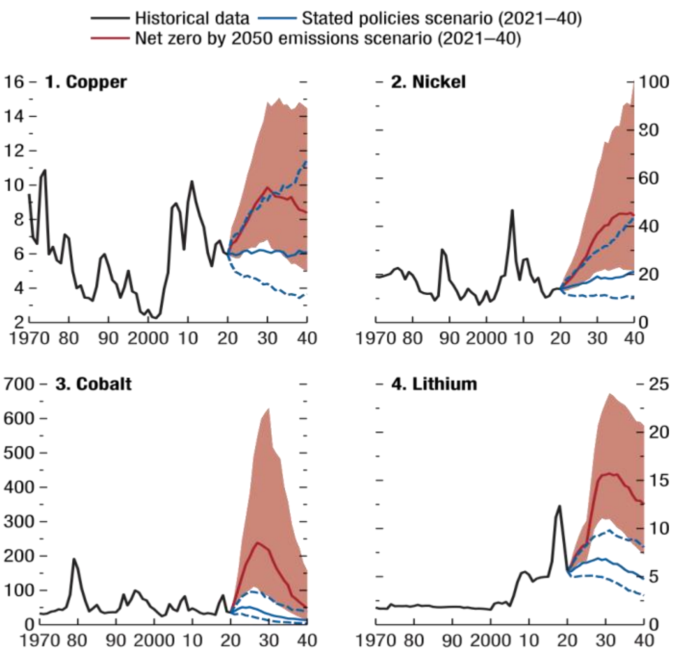


Note: Tech-linked FX basket comprises of TWD, KRW, SGD vs. USD, equally weighted and indexed on 30 Jun 2021. Metaverse ETF refers to Roundhill Ball metaverse ETF listed in US and it comprises of leading companies such as Nvidia, roblox, Meta platforms, Tencent, Unity, etc. across major categories of the Metaverse
Source: Bloomberg, Maybank FX Research and Strategy

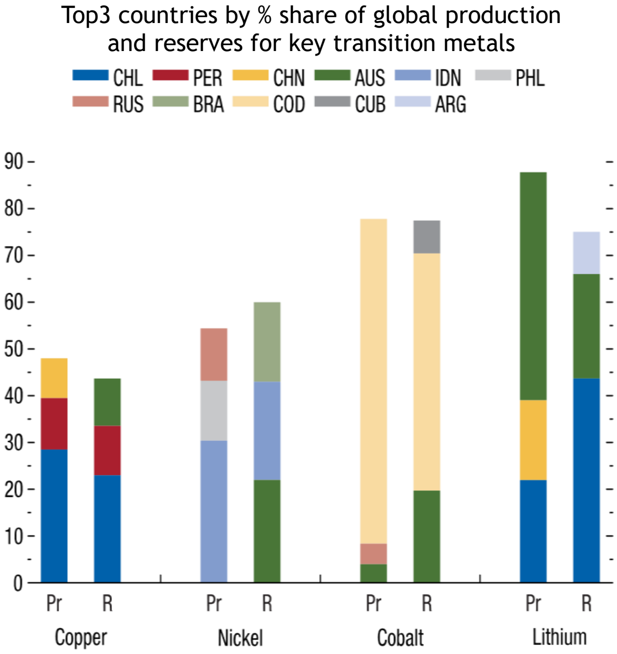
2.3 Pursuit of De-Carbonisation Adds to Price Pressures

The shift towards net-zero greenhouse gas emission reduction target is accelerating with more nations and corporates making pledges. Reaching this goal requires a transformation of traditional energy system and to push for EVs, carbon capture, green hydrogen, etc. The switch to renewables, clean requires a huge shift in demand for transition metals (such as lithium, cobalt as well as copper and nickel) vs. fossil fuels. IEA projects 6-fold increase in value of metal production, totalling $12.9tn. Spending on new plants, technologies could feed through to price pressures. IEA esimates that hitting net zero targets requires investment of $5tn/year in energy systems by end of 2030, more than double the average in the past 5 years. Potentially global economy could be on the brink of a new commodity "supercycle" if all governments act on their green commitments.

Prices of Transition metals projected to rise and peak around 2030 in pursuit of net-zero emissions committment



Apart from LaTAM, supply of metals are largely concentrated in Australia and Indonesia

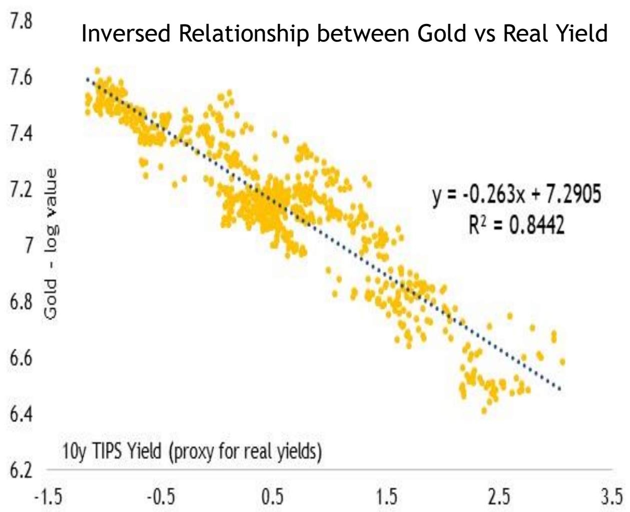


Note: Price scenarios from IEA's stated policies scenarios and net zero emission scenario. PR refers to production; R = Reserves
Source: IMF WEO, Oct 2021, Maybank FX Research and Strategy

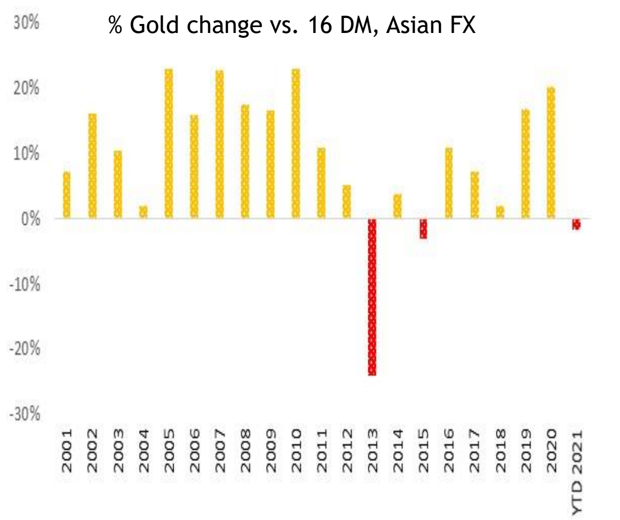
2.4 Gold May Not Necessarily Shine. . .

Negative real rates is typically supportive of gold prices. But in the environment of markets anticipating policy normalisation and rate hikes, one may want to be careful even if inflation may be on the rise as historically, gold prices fell in period of policy tightening. And for 2022 – 23, it is likely global policy normalisation takes centre-stage, albeit at gradual pace. A growth surprise to the upside could catalyse gold's decline.

Depressed Negative Real Yields is Supportive of Gold but Less Negative Real Yields Could Dampen Gold's Appeal



Historically Gold Fell in Episodes of Policy Normalisation (i.e. Fed taper, Rate Hikes)



Note: Left panel: Sample period of regression using weekly data from Jan 2007 to end-Nov 2021. Right panel: Average % gold change vs 16 major, Asian currencies on calendar basis from 2000 to YTD as of 29 Nov 2021
Source: Bloomberg, Maybank FX Research and Strategy

3. Uneven Policy Landscapes and Divergences

3.1 Rates Rising

Regardless of how transitory inflation is arguably going to be, current price pressure alongside growth and labour market recovery are impetus enough for certain central banks to begin removing monetary accommodation this year. Monetary policy normalization could become an even more dominant theme for more economies into 2022.

In a world still shrouded with lingering pandemic uncertainties, the USD retains safe haven appeal, underpinned even more by strong growth and inflation pressures at home that tilt the risk towards potentially faster pace of Fed taper/ rate lift-off. The confirmation of Powell's re-nomination was perceived as policy continuity and even deemed as a possible greenlight for a step-up in pace of normalization.

In addition, more hawks are rotated to become 2022 voters in the FOMC even as a few resigned recently. This could give rise to less hesitant tightening decisions next year. USD could thus remain supported on dips based on these monetary policy-related factors.

Members	Roles	Policy Inclination	Voting in 2021	Voting in 2022	Voting in 2023
~~Eric S Rosengren~~ ^	Fed Boston	*Hawk*		*~~Yes~~*	
Loretta Mester	Fed Cleveland	Hawk		Yes	
James B Bullard	Fed St. Louis	Hawk		Yes	
Esther L George	Fed Kansas City	Hawk		Yes	
Raphael W Bostic	Fed Atlanta	Hawk	Yes		
Patrick Harker	Fed Philadelphia	Hawk			Yes
~~Robert Kaplan~~ ^	Fed Dallas	*Hawk*			*~~Yes~~*
~~Randal Keith, Quarles~~ @	**Board of Governor**	Neutral	~~Yes~~	~~Yes++~~	~~Yes~~
Michelle W Bowman	**Board of Governor**	Neutral	Yes	Yes	Yes
John C Williams, New York	**Fed New York**	Neutral	Yes	Yes	Yes
Thomas I Barkin, Richmond	Fed Richmond	Neutral	Yes		
Mary C Daly, San Francisco	Fed San Francisco	Neutral	Yes		
Jerome H Powell *	**Board of Governor**	Dovish	Yes	Yes	Yes
Richard H Clarida ++	**Board of Governor**	Dovish	Yes	Yes	Yes
Lael S Brainard	**Board of Governor**	Dovish	Yes	Yes	Yes
Christopher Waller	**Board of Governor**	Dovish	Yes	Yes	Yes
Charles Evans	Fed Chicago	Dovish	Yes		Yes
Neel Kashkari	Fed Minneapolis	Most Dovish			Yes

Note: Board of Governors and the President of the Federal Reserve of New York are Permanent Voters (7 in bold) while the rest rotates. The spectrometer can change based on developments. ++Fed officials whose term will be up in coming months. *Fed Chair Powell's term ends in Feb 2022 and has been re-nominated for another term pending confimation. *Montgomery is an interim President ^ Pending replacement. @ Tendered resignation effective Dec-2021

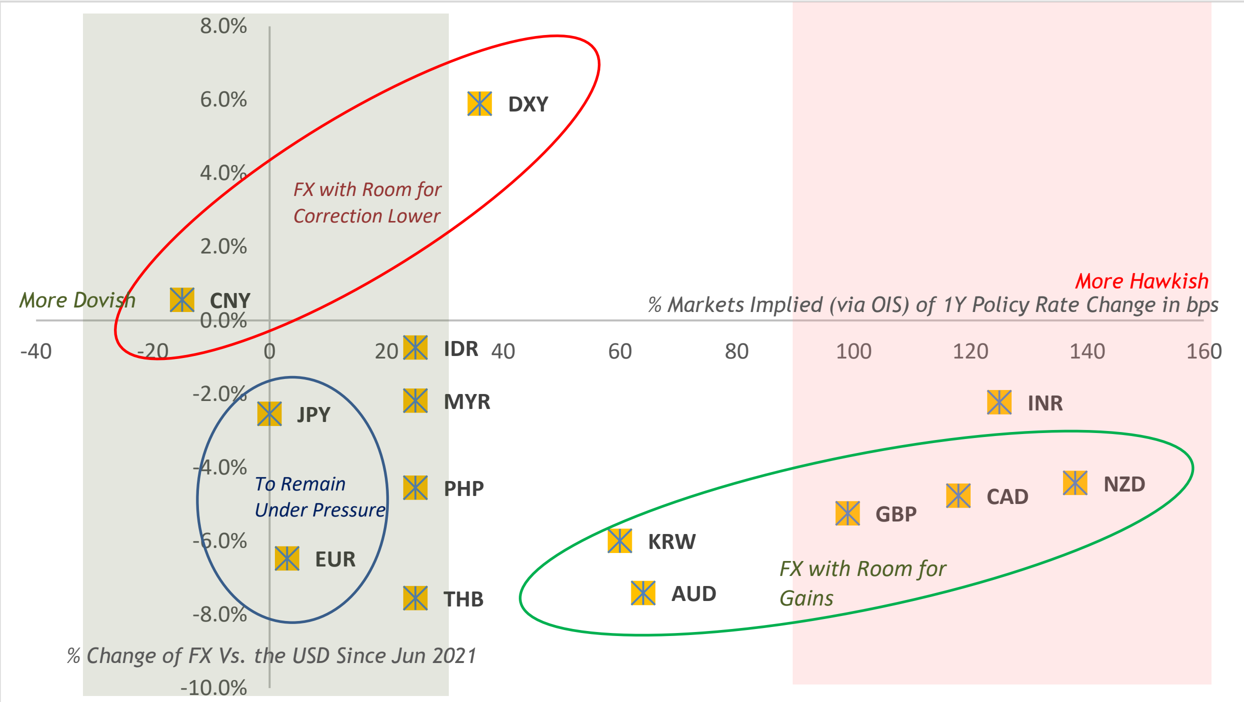
Source: Bloomberg Spectrometer (as of 23 Nov 2021), Federal Reserve, Maybank FX Research & Strategy

3.2 Divergence Give Rise to Opportunistic Cross-Plays

For all the attention that the Fed receives, other central banks have already acted in removing monetary policy accommodation this year as growth and inflation overshoot. Into 2022, the pace and timing of rate liftoffs could remain uneven. Divergences could bring about opportunistic FX plays. The most notable doves are ECB, SNB and BoJ while the hawks that have already begun normalization include RBNZ, BoK and BoC.

However, lingering pandemic uncertainties continue to prop up the safe-haven USD and weigh on other risk-sensitive FX such as NZD, KRW. As a result, market expectations for rate changes do not immediately translate to commensurate FX movements. In this section, we make a glass half-full assumption on the pandemic and assume markets would eventually re-focus to monetary policy divergence and growth recovery. That could mean unwinding of the countercyclical USD and to some extent, CNY which have seen marked outperformance in 2021.

FX and Rates Do Not Move At the Same Time, Leaving Room For Cross-Plays



Note: Data as of 30 Nov 2021. Note also that the OIS numbers are not available for MYR, PHP, IDR and THB and so we used our house view instead.
Source: Bloomberg

The chart above shows that DXY and CNY have been the outperformers since Fed first turned hawkish in Jun 2021. As growth recovery broadens with possibly less pandemic-related uncertainties in 2022, some correction for CNY and USD could be expected with more expected for the latter.

On the other end of the spectrum, RBNZ, BoC, BoE and BoK are expected to be the most hawkish central banks but their currencies at this point remained under pressure due to the current risk environment that is centred on the new Covid-19 variant – the Omicron variant. We look for potential gains for these currencies whose performance since the start of 3Q are not commensurate with their growth, inflation and concomitantly, monetary policy outlook. The gains of these currencies (NZD, GBP, CAD and to some extent KRW) could also act to crimp on the USD. In contrast, negative yielders EUR, JPY and CHF still see interim drags on dovish policy stances, effectively also providing support for the DXY index on dips.

With regards to ECB, rate hike expectations for 2022 is unwound and dovish bias largely priced. We are wary that the ECB may be underestimating inflationary pressures and the central bank could normalize sooner than expected. EUR may risk a sharp rebound when this occurs.

3.3 Catch-Up Later - Asian FX

Within the region, majority of the Asian central banks are poised to keep their monetary policy settings broadly unchanged with the exception of MAS (slight tightening), BoK (raising rates) and to a smaller extent, RBI (reducing surplus liquidity). Most other Asian central banks choose to keep their monetary policy accommodative to provide growth while inflation pressure at home remain relatively stable. Our house view looks for BNM, BI and BSP to start their rate lift-off in 4Q 2022. With risks to the inflation trajectory still skewed to the upside in the US, a faster and more aggressive Fed in terms of tightening could inevitably render some pressure on these regional currencies MYR, IDR, PHP and to some extent INR (sensitive to UST 10y yield).

China is on the easing end of the spectrum and has just started an easing cycle (albeit a shallow one) with one 50bps RRR cut in 3Q 2021. While we do not look for interest rate cuts, another RRR cut cannot be ruled. CNY could weaken but greater reliance on a mixture of targeted credit supports and fiscal stimulus could mean that easing impact on the currency should be less adverse and may even continue to provide a form of anchor for regional currencies.

We also like to point out that similar to some Asian countries, inflation in Australia has been modest relative to G7 peers. RBA's delay in terms of monetary policy normalization could keep the pressure on the AUD in the near-term.

Into the second half of 2022, laggards could start to catch up including AUD, IDR, MYR and PHP as the respective central banks are expected to lift rates off current record lows. Forerunners CAD, NZD, USD and KRW whose central banks are likely near the end of their hiking cycle may pare gains vs. the AUD, IDR, MYR and PHP.

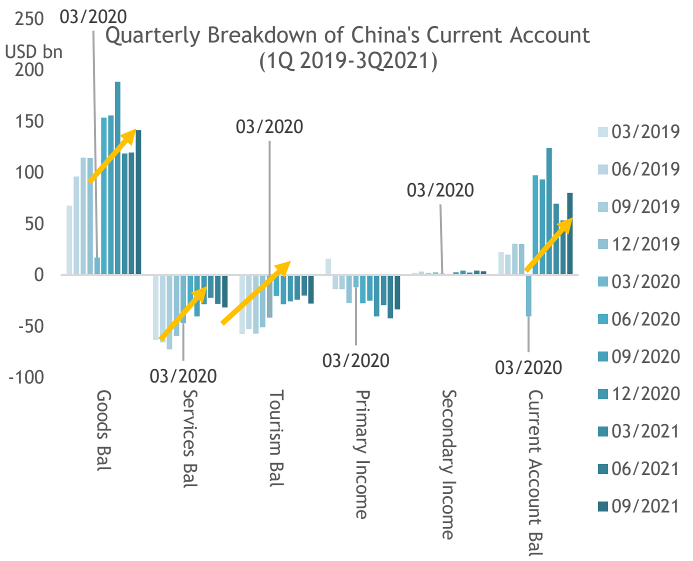
In the alternative scenario of a new infectious,deadly Omicron-wave that require a restart in vaccination process, re-newed restrictions in the world could prolong and worsen supply-side bottlenecks and raise inflation pressure. With governments' coffers dug deep in the past two years, fiscal stimulus could be much weaker this time and monetary policy normalization could even take a pause or reverse with safe havens EUR, CHF, JPY, USD in demand. CNY would remain resilient. Stagflation concerns could be reignited.

4. An Earlier End to China's Zero-Covid Strategy?

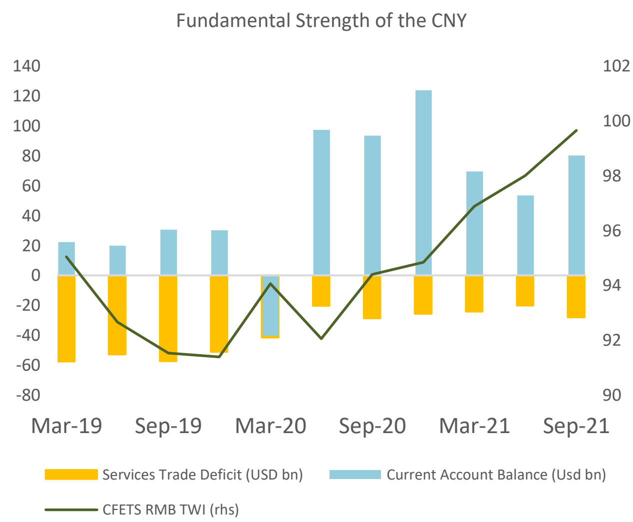
4.1 Can China's Current Account Stay Strong Always?

Insofar, one significant underpinning for the RMB came from China's current account due to a combination of a sharp increase in goods surplus as well as a decrease in net tourist outflows that narrowed the services deficit. The shift happened around 1Q 2020 when the pandemic was announced officially.

Reduced Tourism Outflow and Strong Goods Trade Surplus Widened the Current Account...



... Providing Support for the CNY



Source: SAFE, Maybank FX Research & Strategy

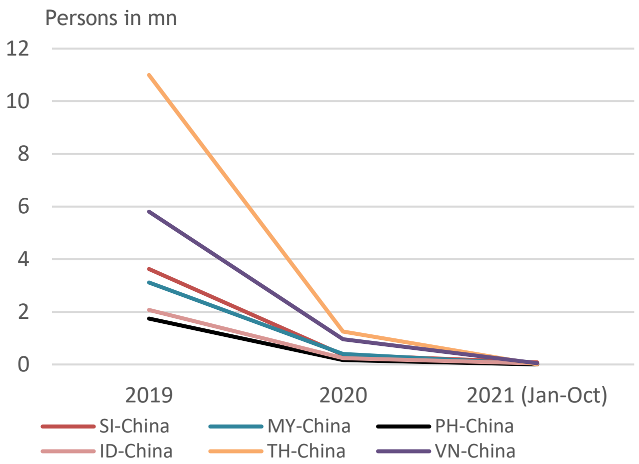
Looking at the 4-quarterly rolling average, goods trade surplus for 3Q 2021 is around $43.8bn higher compared to pre-Covid 4Q 2019 while that of the services trade deficit narrowed by $37.7bn over the same period. Both contributed to the strong current account surplus and by extension, CNY strength. Exports of goods could continue to remain underpinned by broadening recovery (in the optimistic scenario that Omicron cases out to be an infectious but mild variant).

Potential for Services Trade Deficit To Widen Gradually Later in 2022

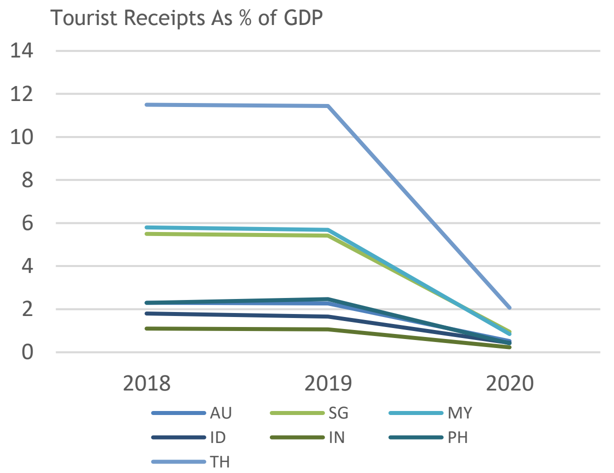
For this section, we prefer to focus on services trade deficit which could widen gradually should China choose to be more open to an endemic approach. A large part of the services trade deficit in pre-Covid era was due to the tourist outflows but net tourism services for 3Q 2021 is around $30bn narrower vs. 4Q2019 on a 4-quarterly rolling basis as China kept its international borders largely closed and travel visas are only granted for specific reasons – humanitarian, family reunion, fast lane agreement with Singapore (similar for South Korea) for business travelers amongst others with administrative regions (HK and Macau).

Taking ASEAN nations as an example, the level of Chinese tourist arrivals into regional countries had fallen drastically over the years. We think this leaves room for CNY to weaken should China ease restrictions but that may still take time to play out given its current Covid-zero strategy.

Chinese Tourists flows into ASEAN Have Diminished Since Covid-19 Hits



Tourist Receipts Into Regional Countries Plummeted

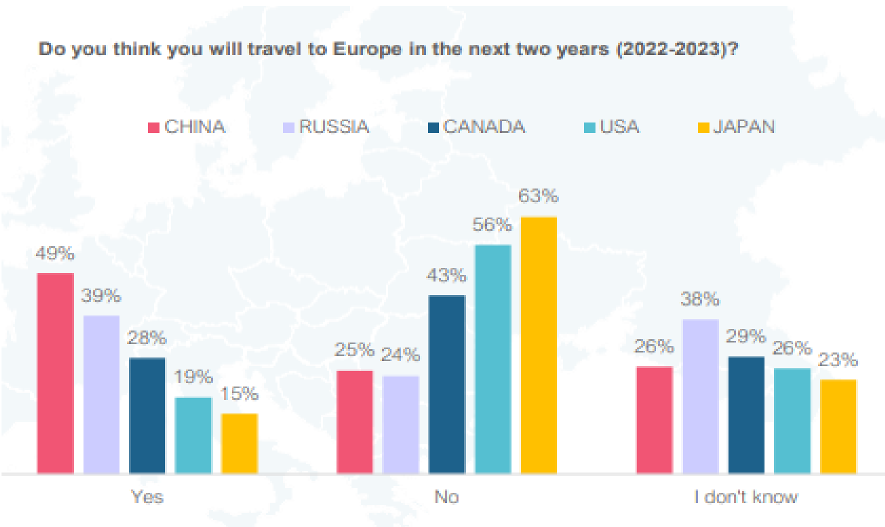


Source: CEIC, Maybank FX Research & Strategy

We acknowledge that the shift to open international borders may not occur in the near-term given the emergence of the Omicron-variant. In fact, Dragon Trail's China's Travel Sentiment Report for Sep 2021 suggests that Chinese travellers' perceptions about safety of overseas destinations fell substantially over the past six months and this is likely to worsen with Omicron recently uncovered. Of note, Singapore is still seen as the safest international destination out of 13 queried in the survey.

The Chinese Centre for Disease Control and Prevention published a study on 24 Nov that showed a projection of a "colossal outbreak" by researchers at the Peking University should China shift towards an "American-style" approach with fewer restrictions and estimate that daily infections could surge up to 637,155. This was deemed as a "clear warning" that the country is not ready to "open up" given a potential for a devastating impact on its healthcare system. Researchers noted that many countries were affected when they reopen their economies and China needs a combination of high vaccination rate and effective Covid treatments for restrictions to ease. As of 19 Nov, 75% of the Chinese population is fully vaccinated according to Our World in Data.

The Chinese Could Still Be Open to Travel Over The Next Two Years



Source: European Travel Commission

According to a survey done by the European Travel Commission that is published in Sep 2021, Chinese and Russian respondents were most positive about visiting Europe in the next two years. The survey also noted that 32% of Chinese surveyed view Australia and New Zealand as most desired.

While the research finding Chinese Centre for Disease Control and Prevention suggests that easing restrictions may not be an easy option for China in the near-term, it also listed out the criteria for it to open up. We cannot rule out the possibility of effective COVID-19 treatments that could emerge in 2022. China may find itself under pressure to loosen its strict restrictions then, especially if more countries are able to find success in being endemic with COVID-19. At that point, China's services deficit may see some widening, removing some support for the CNY. Countries that used to have benefit from strong tourist inflows such as Thailand, could see the biggest boost to its THB as its current account recovers. Based on tourist receipts in pre-covid level and the findings of the abovementioned surveys, AUD and SGD could also stand to benefit the most should international borders are eased further.

USD: Near Term Support But Medium Term Downside Remains

Forecast	4Q 2021	1Q 2022	2Q 2022	3Q 2022	4Q2022
USD Index	95.02	95.40	94.64	93.93	92.71

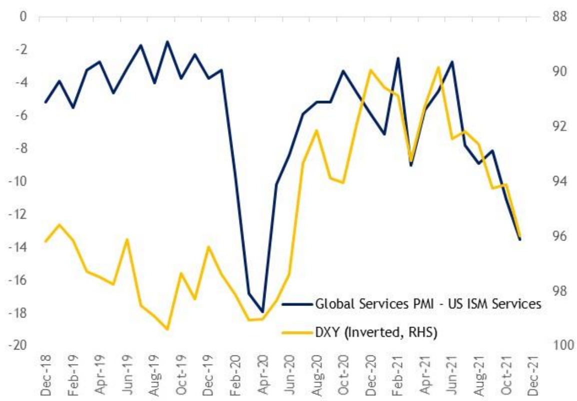
Motivation: The U.S. dollar (USD) trended higher in 2H21 with support from several factors. The normalisation of Fed policy led to some extent a policy divergence bias that was in favour of the USD. Energy price shocks (with the U.S. being a net energy exporter) as well as lingering COVID-19 uncertainties and growth concerns in China also led to increased risk aversion which supported the USD. While these factors may persist in the interim into 1H 2022, we expect the support to fade later around middle 2022 as the USD countercyclical factor comes in, and policy divergence in favour of the USD narrows and markets fully price Fed hikes next year. Fundamentally, we are negatively biased towards the USD in the medium term given the country's twin deficits and the national debt is also expected to rise further over the next few years.

Dollar is a counter cyclical FX. While USD will likely continue to be supported over the next 3-6 months, USD's countercyclical nature can come into play, conditional upon the world exiting pandemic restrictions and global growth outside US sees broader recovery as more economies reopen and rates of vaccination globally improve. While there may be monetary policy divergence in favour of USD, we believe this factor alone can be mitigated to some extent as other central banks that had previously held ground catch up.

Medium term USD risks remain. In the medium term, we expect modest USD depreciation over next 12 months given our views of an improving backdrop for risk and commodities amid existing mild USD overvaluation. This medium term narrative can be sustained if we see greater fiscal policy stimulus in the developed economies supporting a stronger global recovery and markets playing catch-up in pricing normalization for other central banks relative to aggressive Fed pricing and upcoming key Fed appointments giving the market pause on reassessing Fed hawkishness. However, we expect over the course of the next 12 months, some limited episodes of risk-off moves could continue to support the USD rather than US growth outperformance. In 2022, there could be further upside USD risks from a plausible scenario of a messy debt ceiling resolution and/or risks of other central banks overtightening in response to inflation and curbing growth prematurely. Safe haven dollar demand could also linger for longer into 2H 2022 if we see persistence in ongoing disruptions such as a protracted China slowdown, supply bottlenecks, and rising energy concerns emerging strongly again.

Potential Re-allocation out of USD assets. We do 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.

Countercyclical USD can Ease when Global Recovery Momentum Catch Up with US



Source: Bloomberg, Maybank FX Research & Strategy

USD Supported In an Environment of Higher Energy Prices and Higher Rates

Thematics	FX Beneficiaries	FX Laggards
Higher Energy Prices	USD, CAD, AUD IDR, MYR	EUR, JPY, KRW, TWD, THB, GBP, INR, PHP
Monetary Policy Space to Tighten/ On Tightening Path (Buffer against Higher Yields)	USD, CAD, GBP, NZD SGD, KRW	EUR, JPY INR, IDR, PHP, THB

EUR: ECB's Big Gamble on Inflation

Forecast	4Q 2021	1Q 2022	2Q 2022	3Q 2022	4Q2022
EUR/USD	1.15	1.14	1.15	1.16	1.18

Motivation: We maintain a cautious outlook on EUR even as the pair had declined nearly 10% (vs. USD) at one point this year. And the cautiousness is largely underpinned by ECB-Fed monetary policy divergence (in favor of Fed). 2Y EU-UST yield differentials have widened from around -80bps (at start of 2021) to as wide as -140bps. Amongst the G7 majors and apart from perpetual doves like SNB and BoJ, the ECB may still aspire to be a policy laggard (guided by Lagarde and her Governing Council) even as inflation spiked to all time high of 4.9% in Nov and growth saw sustained rebound. Such a stubborn dovish bias is sufficient to throw EUR under the bus. That said we caution that the ECB may be underestimating the persistence of price pressures and that it may need to walk back on its words and normalise policies earlier. If this happens, it would be a positive for EUR. Another scenario that could see EUR rise is that the Fed is not perceived to be as hawkish. Some unwinding of extreme negative yield differentials could help EUR move away from its lows. Overall, we expect a more subdued EUR (range-bound in 1.10 – 1.15) in 1H 2022, taking into consideration Fed's policy normalization (with risks of stepping up its normalization pace) and French election risks (Apr-2022) but we do not expect political driven weakness to persist. Eventually into 2H 2022, we expect EUR to turn higher (towards 1.15 – 1.20 ramge) as USD strength gives way. Global growth recovery is expected to broaden and find a firmer footing while persistent price pressures in Europe (and/or over US) puts pressure on ECB normalise policy.

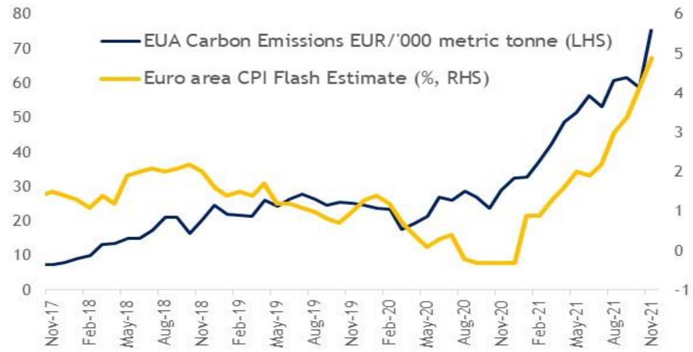
Inflation a Hump and ECB Still Lives in the Fear of Repeating Past Mistakes. Most ECB officials still insist inflationary pressures are transitory. Lagarde told FT (3 Dec) that EU inflation is a passing "hump" and 2022 rate rise is "very unlikely". ECB's Centeno said that ECB needs to be even more conservative in how it reacts to inflation in order to avoid repeating past mistakes. He said "we were fooled by some news on inflation in the past which prompted us to act in the wrong way, so we don't want to commit the same soft of errors this time". In particular we believe he was making reference to then ECB President Jean Claude Trichet's decision to hike rate in 2011 and only to reverse the move when Draghi took over. To avoid past mistake was also something Lagarde had cited in Jul's ECB meeting.

Acceleration of Climate Change Policies is Inflationary. The shift towards net-zero GHG emission reduction target is accelerating. In Jul, Europe announced ambitious climate goals to increase its emissions reduction targets to 55%, from 40% (dubbed the Fit-for-55). To meet these targets, corporates need to demand for carbon credits in the interim. EU carbon prices rose sharply this year (+100% at one point) as power generators needed to buy more carbon allowances after exceeding emission levels amid the switch to coal-fired power due to natural gas shortages. The purchase of carbon credits or offsets is needed as coal emits twice as much carbon as natural gas per megawatt of power produced. To add the rise in carbon prices was also due to measures aimed at progressively reducing carbon allowances to emitters (via the compliance markets). Persistent rise in energy prices amid bitter winter ahead, gas supply issues as well as acceleration in climate change policies can derail ECB's inflation forecasts and policymakers could be forced to normalise earlier than expected. This can be a potential positive catalyst for EUR.

2y EU-UST Yield Differentials Drive EURUSD

Source: Bloomberg, Maybank FX Research & Strategy

Acceleration of Climate Change Adds to Inflation



GBP: Cautious Outlook to Reverse in 2022

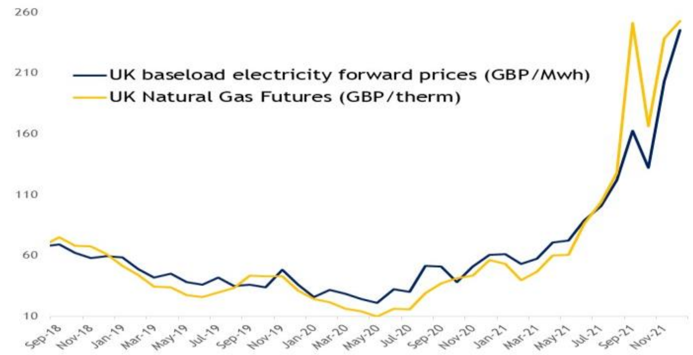
Forecast	4Q 2021	1Q 2022	2Q 2022	3Q 2022	4Q2022
GBP/USD	1.3400	1.3500	1.3600	1.3700	1.3800

Motivation: We retain a cautious outlook on GBP in the near term but expects weakness to reverse into 2022. Ongoing energy crisis, supply chain disruption at home look set to last longer than anticipated while the emergence of Brexit issues relating to Northern Ireland protocol, delay in US-UK trade deal could further undermine GBP. Elsewhere we also keep a look out on omicron variant spread in UK. This is a new source of uncertainty and it remains unclear at this point how lethal it may be. Reimposition of tighter restrictions or border rules may disrupt recovery momentum (but not to the extent of derailing economic recovery). While the BoE may seem uncomittal to tighten for now, there are signs of them embarking on tightening cycle in 2022. We also expect energy woes and supply chain disruptions to fade into 1Q 2022. Alongside BoE shifts, stimulus spending, growth normalizing, GBP could recover more meaningfully (assuming omicron fears fade).

BoE To Embark on Tightening Cycle in 2022. Recent surge in energy prices, supply chain disruptions have added to upward price pressures. But a rate hike may not be effective in arresting supply side price pressures, especially if they are deemed transitory. We believe policymakers want to tighten (from the shift in BoE officials' tone) but at the same time they want to assess how the labor market is absorbing the 1mio to 1.4mio people whom were still on furlough program when it was officially ended on 30 Sep. There are concerns if unemployment will spike if workers are made redundant or if people cannot find jobs. ONS had earlier predicted unemployment rate to rise to 5.25% in 4Q (up from Sep's 4.3%). However anecdotal findings such as advertised job vacancies (rose to >1.3mio jobs in the first week of Oct) and separate survey by indeed.com revealed that only a small proportion of British people say they are urgently looking for a new job. Incoming data should offer more insight. A scenario of rise in job vacancies and people not urgently hunting for new job will indicate continued labor market tightness and possibly further wage gains. Such a scenario would give policymakers the confidence to begin tightening. Already markets are pricing in about 100bps rate hike over 2022. BoE tightening can provide a buffer against Fed policy normalization.

Intermittent Brexit-related Noises are Sources of Volatility for GBP. Under the Northern Ireland (NI) protocol, NI (part of UK's customs territory) remains in EU's single market for goods. The dual status allows for goods to flow to and from NI to EU, including Republic of Ireland (EU territory) without customs checks or tariff. But since coming into force, the UK said that EU is applying the rules too rigidly. Certain goods such as milk and eggs are subjected to be checked when they enter NI from Great Britain while some products such as chilled meats are not allowed into NI. British government is proposing a new system in which goods can circulate freely in NI if they conform to either UK or EU standards. British government has threatened to invoke Article 16 to suspend parts of the internationally binding treaty. In response the EU could terminate the brexit deal, triggering a EU-UK trade war. Negotiations between EU-UK are still ongoing but there is no clear outcome at this point. US was going to remove tariff on UK steel and aluminium but has delayed the decision due to concerns about post-brexit trade rules affecting NI.

Energy Woes Show Little Signs of Abating



Tighter Labor Market Conditions Can Stoke Wage Inflation

Source: Bloomberg, Maybank FX Research & Strategy

AUD: Battered Enough, But Recovery to Be Gradual

Forecast	4Q 2021	1Q 2022	2Q 2022	3Q 2022	4Q2022
AUD/USD	0.73	0.74	0.74	0.75	0.75

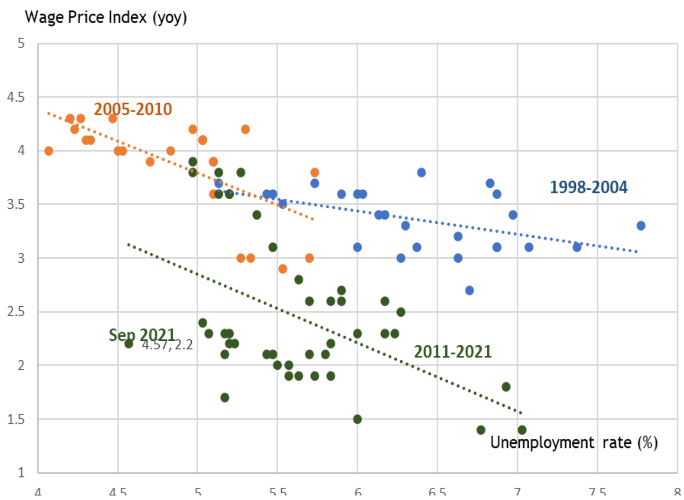
Motivation: AUD has been battered by the laggard RBA, weak property outlook in China that dampens demand for Australia's base metal as well as souring sentiment into year-end on Omicron fears. Into 2022, we remain cautious but optimistic. While bearish drivers still dominate at this point, short AUD positions are near all-time high and both Omicron fears, policy divergence between RBA and more hawkish peers are arguably well priced. Taking the glass-half full view, we assume vaccinations to remain effective against the Omicron variant and recovery at home and globally to broaden into 2022. Climate change needs (infrastructure, clean energy) to provide some TOT underpinnings via commodities such as copper, lithium, LNG for the AUD. We look for AUD to embark on a slow recovery into 2022 whch could eventually gather momentum further along into the year.

Stabilization in China's Property To Form a Floor for iron ore, AUD. New property tax, tight regulations on borrowing continue to weigh on China's property sector. The Evergrande retructuring alongside defaults by other property developers had shaken consumer and investors' confidence in the property sector, made worse by a slowing macro backdrop. Enthusiasm for new projects were dampened and demand for Australia's metals weakened. A strong revival of the property sector in China is unlikely. Looking forward, authorities have started to render support and the worst of iron ore's decline could be past.

Climate Change Endeavours Require Infra Transformation. We also look for infrastructure expansion in a number of nations such as China to underpin Australia's metal and energy demand. China has plans to increase its solar and wind energy capacity to reach its 2030 goal of 1200GW. More nations and corporates have pledged towards net zero greenhouse gas emission targets. A transformation of traditional energy system could underpin demand for transition metals such as copper, lithium as well as clean energy such as LNG that Australia exports.

Risks to the AUD Forecast: Further recovery in the labour market is expected as Australia normalizes with domestic reopening. Insofar, labour force participation has been rather sensitive to market conditions, preventing the labour market from experiencing excessive slack or tightening. Even so, wage growth has been harder to generate even as unemployment rate falls in recent years compared to decades ago. RBA's determination on getting wage growth up is a reason for AUD to underperform. Any upside surprise such as stronger-than-expected hiring momentum and wage growth could nudge RBA towards a rate hike in 2022 and some AUD gains.

Wage Growth Are Harder To Generate Even as Jobless Rate Falls



Stabilization in China Properties Can Provide Floor for AUD

Source: Australia Bureau of Statistics, Maybank FX Research & Strategy

NZD: Constructive but Cautious of Markets Getting Ahead of RBNZ

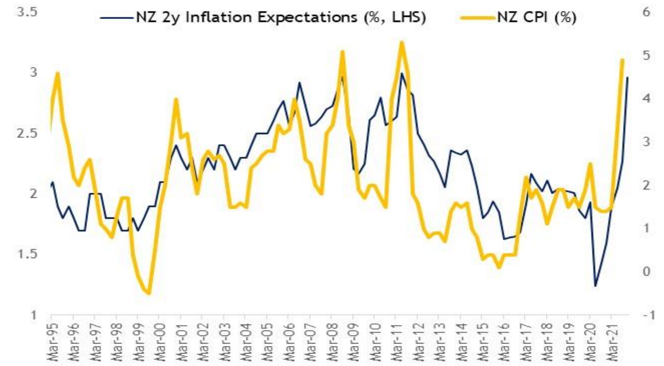
Forecast	4Q 2021	1Q 2022	2Q 2022	3Q 2022	4Q2022
NZD/USD	**0.7000**	**0.7200**	**0.7200**	**0.7300**	**0.7300**

Motivation: We retain a constructive outlook on NZD as growth, labor market and inflation overshoot conditions allow for RBNZ to embark on a series of rate hikes (possibly back-to-back) over 1H 2022. Amongst G7 majors, the RBNZ stood out as being the most hawkish, especially over BoJ, ECB and SNB and current leads DM central banks in tightening cycle. As such more gains could be seen vs. the lower yielders (JPY, EUR and CHF). Elsewhere NZD is also likely to benefit from proxy plays of global recovery and higher dairy prices. We acknowledged that the recent emergence of omicron variant undermined sentiment and NZD. Omicron's high transmissibility feature is a setback to reopening hopes as governments were seen tightening border controls. We maintained our view that uncertainty on Omicron will drive markets both ways and it will take up to weeks for experts to tell the impact variant has on vaccines. However it not likely we return back to a year ago as (1) more people are vaccinated today than a year ago and; (2) vaccine technology has advanced tremendously. There are now more variety of vaccines and treatment drugs than a year ago. As such we lean towards seeing the glass half full than half empty. Favor a buy on current dips, assuming a more balanced global growth, with reopening of more economies, borders in 2022 (as delta, omicron spread globally comes under control and vaccination cover broadens) while the Fed proceeds with gradual pace of normalization.

NZD Gains Should Commensurate with Hawkish RBNZ alongside Growth, Inflation Overshoots. RBNZ largely sticks to its script of further removal of monetary policy stimulus over time given the medium term outlook for inflation and employment. RBNZ also indicated that inflation is expected to rise above 5% (peaking at 5.7%) before easing to 2% midpoint over the next 2 years. Near term rise was due to higher oil prices, transport costs and supply shortfalls. We also note that RBNZ Governor Orr also touched on how climate change could lead to prolonged period of faster inflation that requires a monetary response. We retain our bias looking for 3 back to back hikes for 1H of 2022 (3 scheduled MPCs fall on 23 Feb, 13 Apr and 25 May) as growth, inflation and labor market overshoot. Markets are implying +150bps increase for 2022 (via OIS). Fonterra has raised its forecast milk payment to between $7.90 and $8.90 per kg of milk solids, matching the previous record paid in the 2013/14 season. This was estimated to bring nearly $13bn flow into NZ. Global milk production is also softer and is forecast to track below average levels driven by slowdown in US production, poor weather and increased feed costs. On the other hand, demand is holding steady. Such supply-demand mix supports dairy price levels, and NZDElsewhere NZ is expected to begin easing its border restrictions from Jan, with vaccinated tourists able to enter from end-Apr 2022.

Downside Risks to NZD Outlook: (1) A slower than expected global recovery or slowdown in China growth can weigh on NZD, given its high sensitivity to global growth and China. (2) RBNZ policy guidance shifts less hawkish is a dampener on NZD (unwinding risk) especially given when markets are fully pricing in 6 hikes in 2022. (3) faster shifts in Fed's pace of policy tightening will weigh on sentiment and narrow NZD's yield advantage.

2y CPI Expectations Rising to Multi-year High Hinted at Higher Price Pressures Ahead



RBNZ Perceived to be Most Hawkish DM central bank; Risk to NZD if RBNZ Underdelivers

	Current Policy Rate (%)	Implied Policy Rate Change (Cumulative in bps)			
		3 months	6 months	1-year	2-year
US	0.125	6	24	62	133
Canada	0.25	28	70	135	194
EU	-0.50	-1	1	10	33
UK	0.10	30	58	92	100
Japan	-0.03	-1	-1	-1	-1
Australia	0.10	14	11	83	174
New Zealand	0.75	22	80	153	201
S. Korea	1.00	26	44	75	69
China	2.20	2	5	13	34

Source: Bloomberg, Maybank FX Research & Strategy

CAD: Hawkish BoC a Boon

Forecast	4Q 2021	1Q 2022	2Q 2022	3Q 2022	4Q2022
USDCAD	1.2500	1.2400	1.2400	1.2300	1.2300

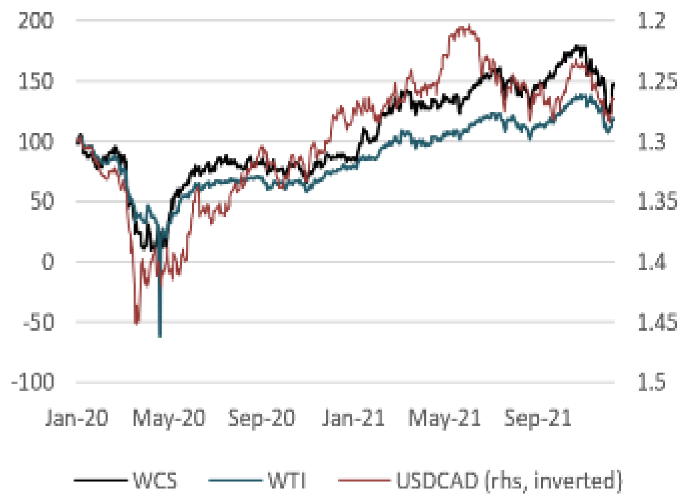
Motivation: CAD should be taken higher on the back of steady domestic recovery and resilient external demand that could see BoC tighten sooner rather than later, barring unknown pandemic risk posed by new Covid-19 variant, Omicron. The CAD is vulnerable to shifts in sentiment but episodes of weakness triggered by risk off should offer buying levels.

BoC Turns Hawkish. BoC ended QE in Oct and Governor Macklem has been sounding the alarm on inflation since. While OIS implied policy rates suggest that markets price in around 135bps increase in the benchmark overnight rate over the next one year, CAD has only started to recover recently from the rout brought about by Omicron and some softness in the crude oil prices. At home demand conditions are solid. Labour market recovery has been accelerating with jobless rate at 6%, below the 2011-2019 average of around 6.7%. CFIB business barometer and BoC business outlook report strong hiring and capital expenditure intentions. Meanwhile, inflation is fanned by logistical bottlenecks, input shortages and also a shortage of workers in certain sectors, last at 4.7% for Oct with trim CPI at 3.3%, above the 1-3% inflation target. Signs of further hawkish shifts could lift the CAD.

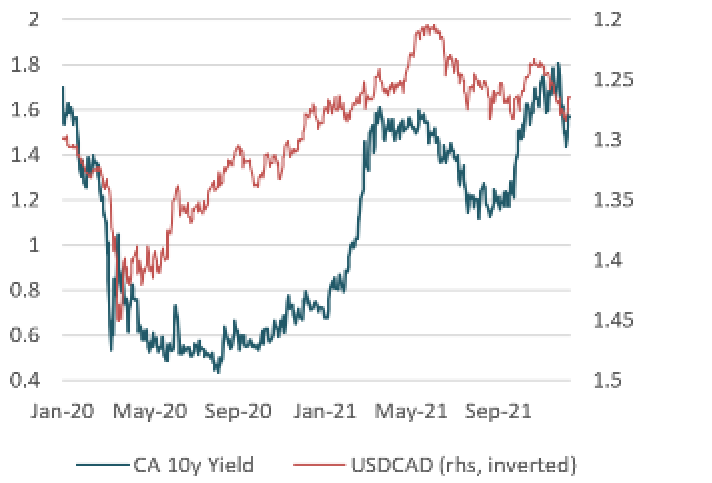
Broadening Growth, Climate Change Transformation Requires Energy. As broadening growth recovery underpin flight and freight demands, fuel consumption could also rise and keep crude oil prices and concomitantly, the CAD supported. Even as more nations pledge net zero carbon emission, infrastructure needs for energy transformation would also require fossil fuel in the interim. CAD is thus likely to benefit from structural shifts and oil prices should remain broadly benign for the currency.

Risks to Our View. A risk for CAD could be an unexpected fall in crude oil prices in case of a modest supply glut as we see a tendency for OPEC+ to stick to allocated production hikes that were agreed upon rather than face a more volatile market triggered by a lack of concensus.

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



Strong Demand Conditions and Further Hawkish Shifts To Lift CAD a Tad More



Note: WCS refers to Western Canadian Select Crude Oil. Both WCS and WTI are normalized with prices on 1 Jan 2020 = 100.
Source: Bloomberg, Maybank FX Research & Strategy

JPY: Weighed by Rising US Yields into 2022

Forecast	4Q 2021	1Q 2022	2Q 2022	3Q 2022	4Q 2022
USDJPY	114	115	114	113	112

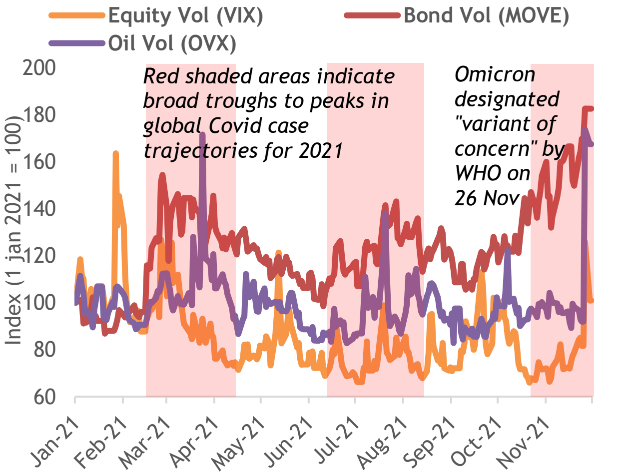
Motivation: With markets increasingly questioning central banks' "transitory" inflation view, and concomitant feedthrough to rate hike expectations, 4Q first saw upward pressures on treasury yields and a spike in USDJPY. Since late Nov though, uncertainties tied to the emergence of Omicron has boosted haven demand for JPY and treasuries, leading USDJPY to retrace sharply lower. More signs of global travel curbs, drags on activity from Omicron risks could retain near-term haven JPY demand, but incremental hawkish tilts by Fed on inflation concerns could support UST yields and pull USDJPY pair higher into early 2022. Over the course of 2022, price pressures could still moderate as seasonal (winter) demand for energy and supply chain disruptions ease. USD's countercyclical tendencies could also emerge when the world sees more synchronous growth on reopening and vaccination/booster progress. We continue to look for a gradual retracement lower in the pair later in 2022.

Maintain glass half-full view on Omicron. Early data suggests that Omicron could be rather transmissible, and South African scientists found that the variant is associated with a "substantial ability" to reinfect past Covid patients. Thus far though, such negativity is mitigated to some extent by initial reports that the severity of illness associated with Omicron might be milder. At this point, there is insufficient data to make an informed assessment on the persistence of the negative shock to gobal growth and sentiments, but we do not rule out a repeat of earlier market behavior, where asset volatility see upward pressures for 1-2 months on emergence of new Covid risks, and eases off as growth momentum proves resilient.

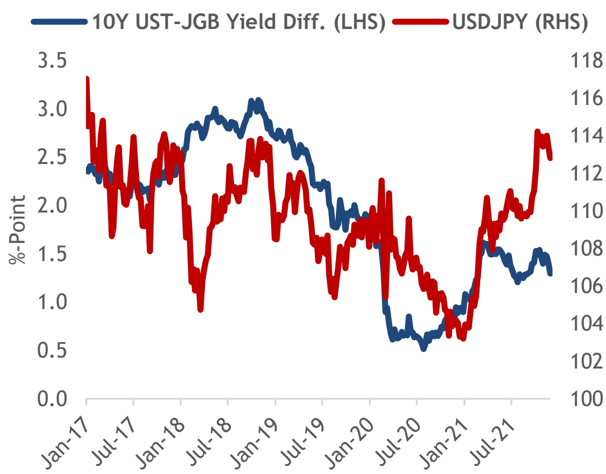
UST-JGB differentials could widen modestly into 1H 2022. Strong growth and inflation pressures in the US imply risk of potentially faster pace of Fed taper/ rate lift-off, leading UST-JGB yield differentials to widen in early 2022, and supporting USDJPY. Still, Fed rate hikes are more likely to impact US front-end versus long-end yields, with longevity of the hike cycle in question if tightening is carried out in a decisive manner. Our FI team's base case is for UST10Y yield to end 2022 at 1.9%, not too far from 2021 high of 1.74%. On net, upward pressures on USDJPY could be somewhat front-loaded in early 2022, with chance to retrace lower in latter quarters.

Risk to our view: Runaway inflation, especially if Omicron exacerbates current supply disruptions for longer or to a larger extent than expected, alongside a scenario of US growth outperformance (on injection of sizeable fiscal stimulus), could lead to upside pressures on dollar and UST yields. This confluence could induce sharper-than-expected bouts of upswings in the USDJPY pair.

Asset Vols See Upward Pressures for 1-2 Months on Episodes of Rising Covid Risks, then Eases off



Any Widening of UST-JGB Yield Differentials Could Exert Upside Pressures on USDJPY into Early 2022



Source: Bloomberg, Maybank FX Research & Strategy

RMB: Strong But Not Impervious

Forecast	4Q 2021	1Q 2022	2Q 2022	3Q 2022	4Q2022
USD/CNY	6.38	6.38	6.36	6.35	6.35

Motivation: Resilient exports performance, government's thrust for climate change transformation and high-tech manufacturing sector should underpin the RMB outlook. In addition, covid-zero strategy impart some safe-haven quality to the currency. For 2022, we cannot rule out some moderation in RMB gains as household consumption seem to become more resilient to lockdowns, possibly gaining enough traction to narrow net goods surplus that is currently driven by external demand.

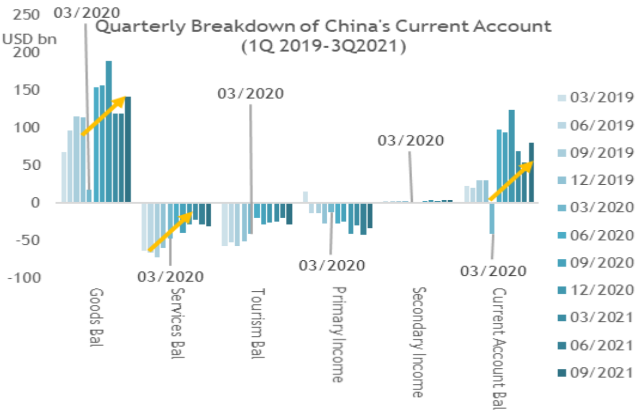
Property Sector Weakened, Growth Remain Crimped By Reforms. The three red lines (liabilities to total assets, net debt to equity, cash to short-term debt) imposed on the property developers since start of 2021 to limit borrowing has affected some developers' ability to get financing, made worse by the rout in the offshore high-yield debt. Default risks and restructuring of Evergrande cast a shadow on the property sector. Insofar, there has been certain supports (raising mortgage quota, presale funds in government escrow accounts returned back to developers, etc) but the three red lines are likely to stay. Negative wealth effect could impinge on consumer confidence that has yet to recover from Covid, helped not the least by intermittent lockdowns. Expect consumption recovery to remain gradual. As China looks to stabilize growth and focus on sustainable, high-quality growth, 2022 could be another transitory year where growth could remain lacklustre.

Carry advantage May Be Eroded. PBoC started its easing cycle in 2H 2021 and had since provided two RRR cuts that are partially meant to help banks to repay high amount of MLF due in Aug and Dec, hiked FX reserve ratio twice to tighten FX liquidity onshore. PBoC stressed that monetary policy remains prudent and aim support for SMEs. Into 2022, PBoC may be one of the few central banks in an easing cycle while most others turn hawkish. As such, China's bond yield may not no longer be as attractive as other EM peers' as global growth gains traction, bumpy as it could be. That said, inflows and interest in the debt market given recent index index inclusions should continue to render some support.

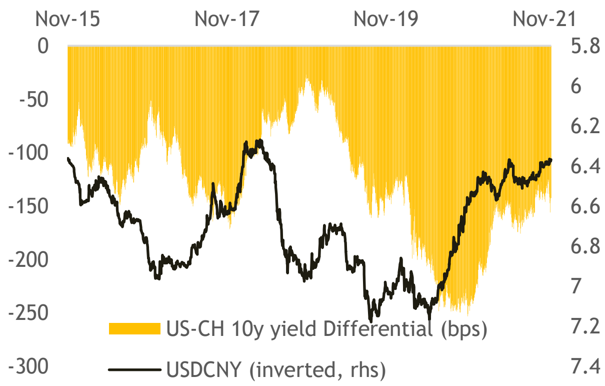
US-China Tensions Unlikely To Fade. Biden's **d**iplomatic boycott of Wnter Olympics 2022, the finalization of amendment for HFCAA to potentially force delisting of "non-compliant" foreign companies from US exchanges are more recent indicators that underscore the fundamental differences between the two nations that are hard to overcome. 20th Party Congress will take place in 2H of 2022 and one cannot discount the risk of a more nationalistic and less forgiving China especially on prickly issues such as Taiwan.

An Earlier End to Zero-Covid Strategy. Effective Covid treatments, high vaccination rates and should Omicron turn out to be a much less deadly, China may even end its zero-covid approach. Open borders could see pent-up overseas travels by Chinese, widen its services trade deficit and remove some support for the CNY.

C/A Surplus Could Still "Normalize"



Carry Advantage Could Be Eroded In 2022



Source: SAFE, Bloomberg, Maybank FX Research & Strategy

KRW: A Better "Metaverse" Year

Forecast	4Q 2021	1Q 2022	2Q 2022	3Q 2022	4Q2022
USD/KRW	1168	1165	1165	1150	1140

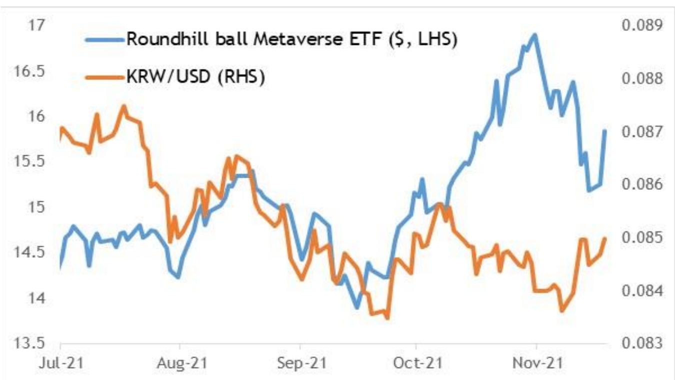
Motivation: Following ~8% decline (vs. USD) in 2021, we expect KRW to fare better in 2022, driven by (1) metaverse thematic lending a boost to memory chip cycle. This should support capex, exports and see continued foreign equity inflows (QTD up $1.7bn; its first quarterly net inflow in the year); (2) sound macro fundamentals at home; (3) BoK tightening cycle; (4) proxy play to ride the global growth recovery. The emergence of omicron variant presents fresh challenges in the near term but Korea's past experience to deal with pandemic suggests that the government and people, alongside high vaccination rate have the resolve to contain this outbreak. Furthermore "living with covid" strategy should also see Korea relaxing its border restrictions soon (positive boost to tourism).

Metaverse Thematic a Positive for Korea, KRW. Metaverse has recently gathered quite some fanfare of late especially after Facebook rebranded itself as Meta Platforms while even Seoul Metropolitan Government announced plans to enter the metaverse. Memory chips are a key component in the metaverse world, in which users interact with each other in digital worlds. And Korea accounts for >70% of global DRAM memory market share. The current downcycle in memory chip market is likely to reverse if the world races to adopt metaverse technology. Samsung has indicated that the widely expected downturn in memory market is unlikely to be as severe as precious episodes while SK Hynix said that supply flexibility has changed from the past as chip suppliers are managing capacity with demand. We also noted reports saying that analysts are shifting to buy recommendations on Korean chipmakers as projections are for them to bottom out in 4Q 2021 while seeing a positive momentum in chip cycle in 2022. Potential bottoming in the sector and pick-up thereafter could see foreign inflow of funds again and this should bode well for KRW. In Oct-2021, 4 metaverse-focused ETFs were launched in Korea and they have soared >30% since their respective launches in mid-Oct. According to data compiled by Bloomberg, inflows into Korean metaverse ETFs could double to $600mio by end-2021, from earlier inflow of $300mio.

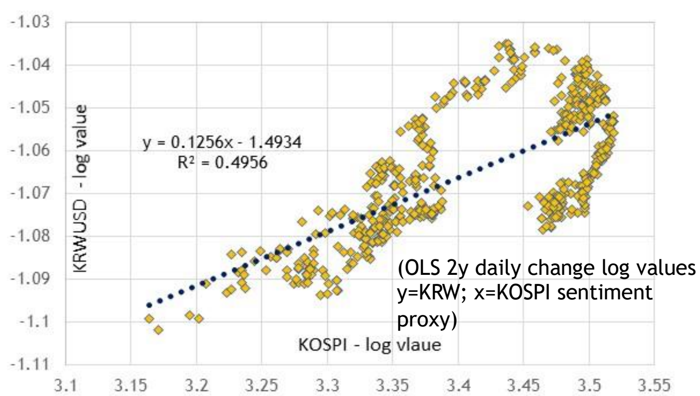
BoK Tightening Cycle Should Mitigate Against Fed Normalisation. KR's growth is projected to come in at 3% as consumption is expect to improve (as pandemic fades) alongside strong exports and investments holding up. Inflation has already surged to 10y high of 3.7% y/y in Nov and has been above BoK's 2% target for 8th straight months. Inflation may stay stubbornly elevated in the near term and we expect BoK to walk the talk in continuing its tightening cycle (even though BoK started its tightening cycle by raising rates twice in 2H 2021). Markets are pencilling in 3 hikes for 2022. We expect BoK's tightening cycle to provide buffer against Fed's policy normalization.

Risks to outlook include (1) a much faster pace of Fed tightening; (2) variant evolution proving more fatal than past strain and vaccine ineffectiveness. High sensitive KRW could succumbed to sell-off in the above risk-off scenarios.

Metaverse Thematic Can Drive KRW



KRW Remains Highly Sensitive to Equity Market Sentiment



Source: Bloomberg, Maybank FX Research & Strategy

TWD: Steady but Not Likely A Outperformer in 2022

Forecast	4Q 2021	1Q 2022	2Q 2022	3Q 2022	4Q2022
USDTWD	27.70	27.70	27.50	27.80	28.00

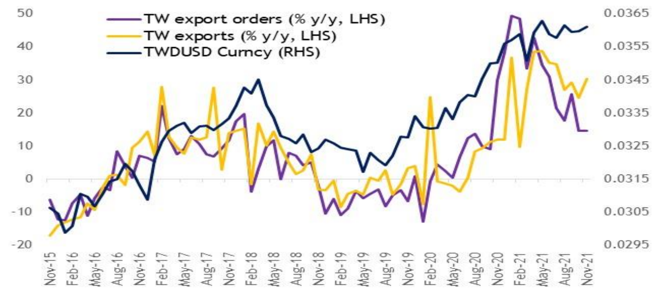
Motivation: TWD looks on track to finish the year as second best performer, with 2% gains (vs. USD). For 2022, we expect TWD to remain steady but it is unlikely it can outperform peers. While global demand for technology needs – cloud storage, 5G network, IoT, IoS (Internet of Senses), metaverse-related component parts (Augmented Reality, Virtual Reality) is supportive of investment inflows, exports and TWD, there are negatives that could offset TWD strength: (1) relatively slower pace of inoculation and zero covid strategy is a hindrance to full economic recovery; (2) falling export orders if sustained can be a drag on TWD; (3) yield disadvantage as CBC lags on policy tightening vs. peers in the region and Fed moves; (4) China-Taiwan tensions – a lesser risk but should not be underestimated.

China-Taiwan Tensions Spilling Over to Taiwanese Corporates. TW Defence Minister Chiu claimed that tensions are probably at its worst in 40 years after China sent nearly 150 military jets into TW air defence zone for 4 consecutive days in Oct-2021. Subsequently at a US-China virtual summit in Nov, China President Xi told Biden that any support for Taiwanese independence would be “like playing with fire” and “those who play with fire will get burnt”. While tensions were typically more bark than bite, we are slightly cautious this time round as tensions were seen spilling over to TW businesses. Beijing said that “businesses and financial sponsors associated with supporters of Taiwan independence will be penalised according to law” (22 Nov) as they undermine cross-strait relations and risk instability in the region. So far, 2 TW corporates, Asia Cement and Far Eastern New Century Corp were fined a total of nearly $14mio as China claimed alleged violations in environmental protection, land use, employees’ health, tax payment and product quality. However it was known that Far Eastern has made donations to DPP (current ruling party in Taiwan). Though the fines may not be a large amount, the action was a strong signal of deterrence and we do not rule out more challenges ahead for TW corporates doing businesses in China if China-Taiwan relations escalate. **Via the sentiment channel, worsening tensions is a new source of volatility for TWD**. Also of note is the sanctions against 3 top Taiwanese politicians and their relatives and any affiliated entities will also be banned from entering mainland, HK and Macau and barred from making profits there.

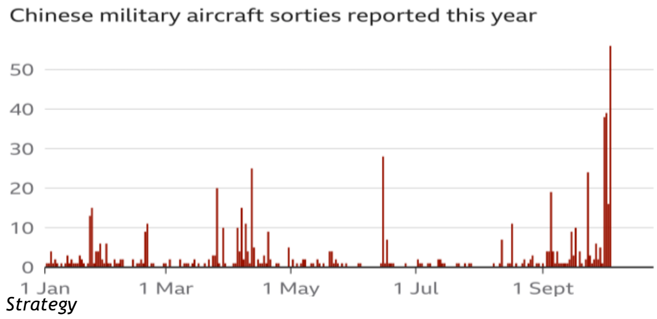
CBC Policy Lag a Drag on TWD. Though TW’s headline GDP and inflation may seem to suggest that overall macro conditions in TW is robust, the headline numbers masked challenges for some sectors (self-employed, tourism, etc.). For instance, private consumption slumped (-2.6% y/y in 3Q) amid extended level 2 alert (n force till 13 Dec and likely beyond). As such, it is more prudent for CBC to stick to policy accommodation to support growth until recovery takes hold after economy reopens. With officials expecting inflation to ease to less than 1% in 2022, the CBC may also be less inclined to tighten. Monetary policy divergence between CBC and other central banks (such as BoK, MAS, Fed) will erode its yield advantage and drag on TWD.

While the ongoing shortage in the semiconductor world may gradually ease into later part of 2022 and as more production capacity comes onstream in 2023, the emergence of metaverse thematic could potentially further drive tech demand for chips and this can pose upward pressure on prices of chips while at the same time **inflow of foreign funds into metaverse thematic could accelerate, providing support for the likes of tech-proxy FX, including TWD**. For Taiwan, apart from TSMC being the world’s largest suppliers of semiconductor chips, there are also other electronic devices ODMs such as Quanta, Inventec that have the capability to ride the metaverse trend, in terms of layering the infrastructure and technology that enable devices to connect to the faster network (moving beyond 5G to 6G) to access the content.

Persistent Pullback in Export Orders a Drag on TWD



Chinese Jets into TW Airspace Are On the Rise This Year



Source: Bloomberg, BBC,TW Ministry of National Defence, Maybank FX Research & Strategy

SGD: Covid Risks Unlikely to Derail Recovery

Forecast	4Q 2021	1Q 2022	2Q 2022	3Q 2022	4Q 2022
USDSGD	1.3550	1.3500	1.3400	1.3300	1.3200

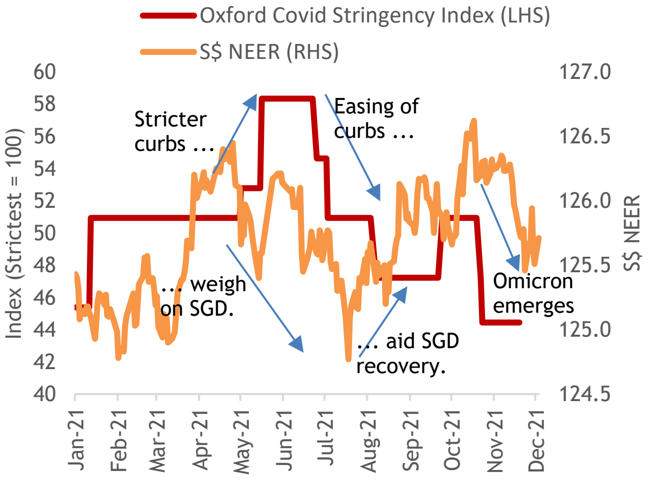
Motivation: As Omicron risks emerged, authorities tightened border restrictions and paused easing of domestic curbs. Still, we look for Omicron to be more of a near-term stumbling block rather than necessitate a major shift in policy approach. While Singapore's growth pace may moderate in 2022, it is expected to stay "above-trend". The central bank's bi-annual macroeconomic review report assesses that Singapore's trade flows may not be "materially affected by global supply chain disruptions". Given rising inflation risks, we look for MAS to potentially tighten policy again in Apr 2022. Risk-reward should remain favourable for SGD in 2022, although further optimism may only emerge more discernibly when Omicron uncertainties ease.

Omicron could be an interim stumbling block. As news of Omicron emerged in late-Nov, SGD NEER slipped from +0.8% above par to +0.3% above par at one point, before quickly retracing some losses in early Dec (+0.7% as of writing). Health authorities appear to be leaning towards the view that existing vaccines will still be effective against Omicron to some extent, especially in protecting against severe disease. About 87% of the population has been fully-vaccinated, and vaccination of children below 12 should start early 2022. Vaccine/booster progress should significantly lower the likelihood of aggressive tightening in domestic curbs, as Omicron risks play out.

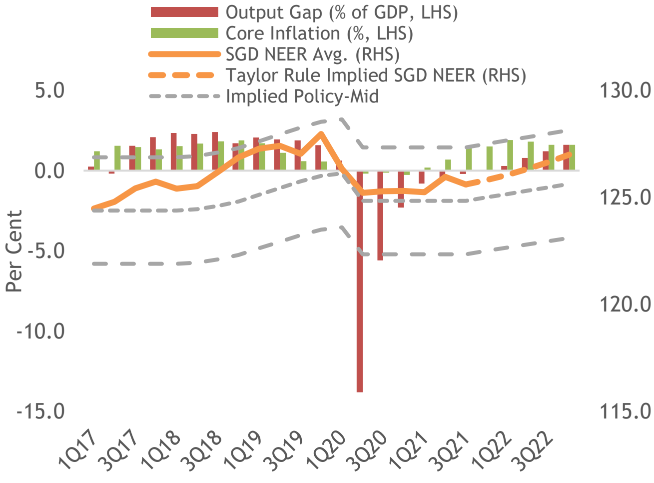
Macro recovery trajectory for Singapore remains intact. Our economist team forecasts GDP growth in 2022 at an above-trend pace of 3.8%, even as it eases from the strong 7.1% expected this year. A broader services and construction recovery will buttress growth dynamics, while metaverse plays and demand for tech/chips should still support manufacturing activity. Barring prolonged Omicron disruptions, the economic reopening and expansion of VTLs should benefit consumer-facing and travel-related sectors. Relaxation of border controls should also help ease foreign worker shortages in industries such as construction.

The MAS is likely to tighten policy again next Apr, by steepening the S$NEER slope from current +0.5% p.a. to +1%. Markets had already expected MAS to be one of the first movers in normalizing policy in the region, given SG's robust growth outlook and rising inflation momentum going into 2022. House view looks for core inflation to rise to +1.8% next year from +1% in 2021, driven by higher energy costs and wage increases from a tighter labor market. MAS' decision surprise in mid-Oct (slight slope appreciation vs. consensus for neutral slope) implied that policy focus could be shifting towards containing inflation risks when underlying recovery momentum remains robust. Continued policy normalization should be positive for SGD.

Easing/Tightening of Curbs Contributed to SGD Moves, Eventual "Living with Covid" to Buttress SGD



SGD NEER Could See Upward Pressures in 2022 (Taylor Rule Estimates)



Source: Bloomberg, Ourworldindata.org, Maybank FX Research & Strategy

MYR: Support from Commodity Price & Growth Rebound

Forecast	4Q 2021	1Q 2022	2Q 2022	3Q 2022	4Q2022
USD/MYR	4.18	4.18	4.15	4.12	4.10

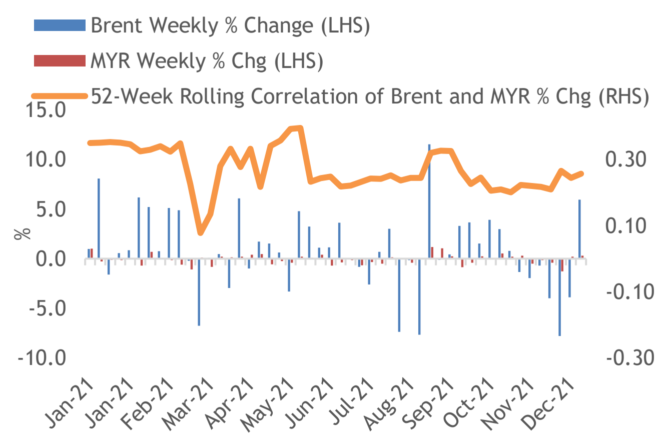
Motivation: We maintain a mildly positive outlook on the MYR relative to the USD from around middle 2022, with support largely from external factors—global economic recovery, an eventual mildly softer USD environment, oil price and RMB stability, and on the domestic front, a move to an endemic scenario as vaccine progress improves.

We look for **USD/MYR to trade largely ranged over Q4 2021 to Q2 2022**, before potentially zig-zagging lower on net over time. The pandemic trajectory looks to be on a broad downtrend after peaking in end-Aug, macro activity could recover more sustainably as curbs ease. In the near-term though, the epidemiological trajectory still matters and the risk of emerging variants or rebound in cases can derail the MYR upside. It could take time before further support sets in, on several factors. Our model estimates suggest that MYR performance going forward would depend to a large extent on the following key factors, i.e., resilience/recovery in oil prices, continued stabilization in the political environment and fiscal dynamics, and sustained positive RMB narrative.

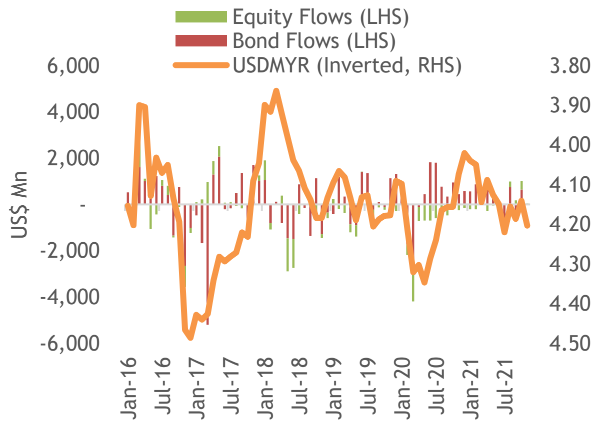
Monetary policy is expected to remain conducive well into 2022, while spillover impact to MYR sentiments from Budget 2022 looks to be relatively mild. Modest drags on equity flows might exert into 2022 on account of negatively-biased equity market read-through, due to the broad 2022 earnings drag as a result of the Cukai Makmur (CM) one-off special windfall/prosperity tax. But there are offsetting factors. Enhanced compliance in revenue collection implies adherence to fiscal discipline. Budget deficit estimate in 2022 (6.0% of GDP) remains on a broad narrowing path, plausibly reaching sub-5% from 2023 onwards. On bond flows, our FI team is neutral MGS, with the risk-reward profile looking roughly balanced. While risk of UST volatility remains intact, risks to MYR from large outflows could be contained.

Risks to look out for in 2022. Beyond Covid-driven global demand and commodity price volatility, some uncertainty domestically from concerns about upcoming general elections happening as early as 2H 2022 when a cooperation pact signed between the government and the opposition expires. If that scenario materialises, it may induce some MYR volatility from mid 2022 to 2023. The next 15th Malaysian general election, need to be held on or before July 2023. In addition, a scenario of a pullback in foreign investments from China due to China's growth concerns is also something to look out for. **Concerns about further S&P credit rating downgrade remain**. The last Malaysia rating downgrade was by Fitch last year (on 4 Dec) to BBB+ which is still an investment grade. Both S&P ratings and Moody's still have Malaysia's rating at A-/A3 (investment-grade status). There is still some risk whether there will be any ratings downgrades which may weigh on the MYR.

MYR Still Positively Correlated to Brent; Resilient Oil Prices Likely Supportive of MYR in 2022



Swings in Portfolio Flows Modest Versus Earlier Years, Drags on MYR Likely Contained



Source: Bloomberg, Maybank FX Research & Strategy

IDR: Resilience Despite Fed Taper

Forecast	4Q 2021	1Q 2022	2Q 2022	3Q 2022	4Q 2022
USDIDR	14300	14200	14100	14100	14000

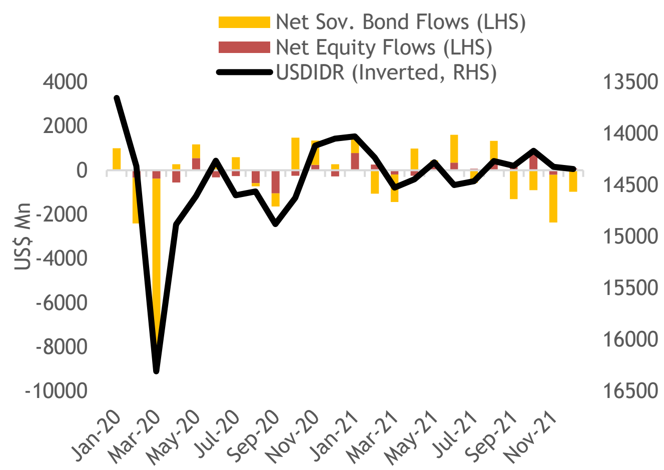
Motivation: In a bid to mitigate Omicron risks, authorities have tightened border curbs, extended quarantine durations and limited mobility on strategic toll roads. Jitters could remain while there is lack of clarity on Omicron characteristics, inducing near-term drags on IDR from intermittent portfolio outflows. While IDR may not be immune to US tapering concerns, it is likely to exhibit significantly greater resilience in 2022 versus 2013's tapering episode. Tax reforms will also take effect in 2022, which could help narrow the fiscal deficit to 4.85% of GDP (vs. 5.4% in 2021). We look for a gradual IDR recovery in 2022, alongside more substantial progress in domestic vaccination rates and phasing out of mobility restrictions, even as the pace of IDR gains could be constrained in a broad environment of Fed policy normalization.

IDR is likely to be more resilient to Fed taper. The confluence of Fed taper concerns and emergence of Omicron has induced some net outflow from Indonesian bonds in Nov. But while portfolio flow volatilities may extend into 2022, BI buying could continue to impart some stability to domestic bond markets. To some extent, Fed rate hikes are also more likely to impact US front-end versus long-end yields, with longevity of the hike cycle in question if tightening is carried out in a decisive manner. Despite scope for further narrowing of the IGB-UST yield differentials on potentially faster Fed policy normalization, the IDR could still see some resilience on net.

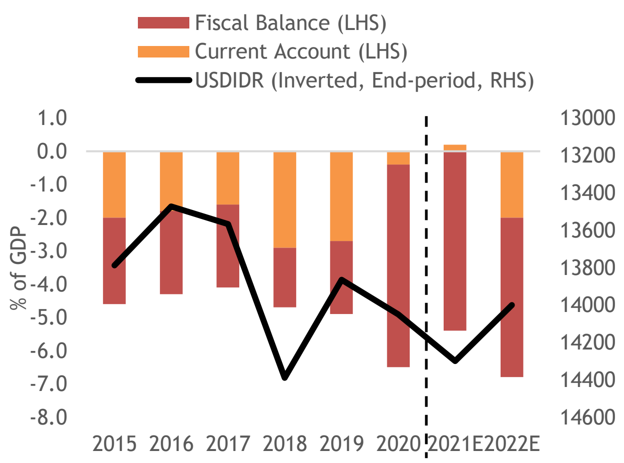
Domestic demand could lead recovery. Our economist team expects GDP growth to strengthen to +5.4% in 2022, from +3.9% in 2021. Forecasts adopt a half glass-full lens on Omicron, assuming that it is no more lethal than Delta and current vaccines prove effective, allowing Indonesia to continue their "living with Covid-19" policy approach. Vaccination rate could reach 70% by April next year, setting the stage for incremental phasing out in mobility restrictions and border controls. Private consumption should see support from extension of easy loan rules for automotives and mortgages, while investment will continue rising in 2022, on the back of initiatives such as the electric vehicle drive and infrastructure development.

Fiscal discipline appears intact, which could help to assuage concerns over a potential modest deterioration in current account next year. Tax reforms in 2022, including a VAT hike and a tax amnesty program, could generate additional revenue of around 0.7% to 1.5% of GDP, helping the government meet its fiscal deficit target of 4.85% of GDP, from around estimated 5.4% in 2021. Signs of fiscal discipline can help mitigate drags on IDR from a return of current account into deficit territory. Our economist team estimates the current account deficit at -2.0% of GDP in 2022, as easing exports growth (earlier commodity price rally may moderate) meets robust import demand (domestic consumption to drive growth).

IDR Resilient Despite Recent Bond Outflows



Narrowing of Fiscal Deficit Could Mitigate Impact of Modest Worsening in Current Account Next Year



Source: Bloomberg, CEIC, Maybank FX Research & Strategy

PHP: Cautious Optimism on Vaccination Catch-up

Forecast	4Q 2021	1Q 2022	2Q 2022	3Q 2022	4Q 2022
USDPHP	50.00	50.00	49.00	49.00	48.50

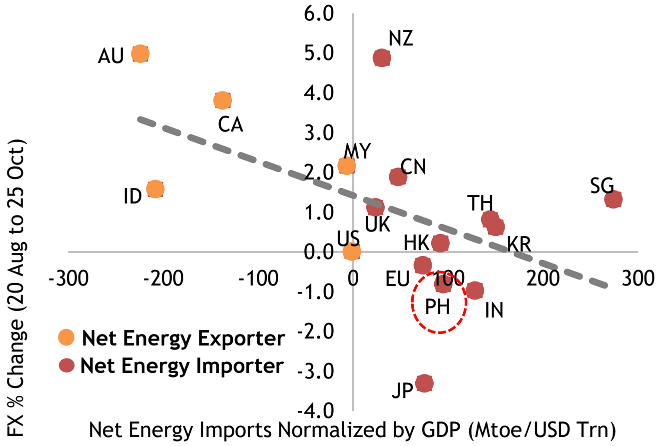
Motivation: BSP Governor Diokno said in Oct that USDPHP trading at the 50-51 range is "not worrisome" for the central bank, given robust reserves and manageable inflation. At this point, easing Covid case trajectory and signs of pick-up in growth momentum seem to be balancing out sentiment drags from concerns over lagging vaccination pace, Omicron and sticky unemployment, leading the PHP to see largely two-way swings in 4Q 2021. We expect PHP sentiments to lean towards cautious optimism into early 2022, on assumption of easing Omicron risks. But pace of recovery could be constrained as Fed policy normalization begins and energy prices remains elevated (PH is a net energy importer) in the interim. By mid-2022 though, sufficient progress in regional vaccination trends could induce a more benign regional growth outlook and a recovery in remittance flows, supporting PHP gains.

Near-term uncertainties surrounding Omicron, Fed taper, elevated energy prices, could constrain pace of PHP recovery. Even as year-end remittance flows is seasonally positive for the PHP, the emergence of Omicron spread globally threatens to derail the downward trajectory in new Covid case counts, especially when Philippines is considered a regional vaccine laggard. Equities also saw modest outflows in early Dec, alongside Fed's acknowledgement of more persistent price pressures in the US. Meanwhile, despite some moderation post Omicron emergence, brent prices remain above the US$70 support level, posing some challenges for Philippine's energy import bill.

Macro recovery could pick up pace into 2022, supporting PHP gains. With expected catch-up in vaccination rates (from current 35% of population), Omicron might not significantly derail plans to ease curbs in NCR and surrounding areas to ALERT 1 by Jan 2022. Our economist team expects GDP to expand by +7.0% in 2022, improving from 5.5% in 2021. Growth will be driven by domestic demand on steady government expenditure, pick-up in gross fixed capital formation and resilient consumer spending, with support from remittances as global economic recovery continues. Proposed PHP5.024trn Budget 2022 is notably +11.5% higher than Budget 2021.

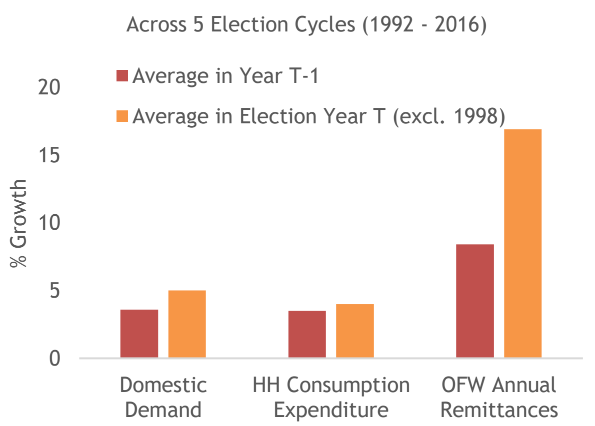
May 2022 elections could be a volatility event. Historically, presidential elections have supported domestic demand on higher government spending, GFCF and consumer spending, which usually starts in quarters preceding the election. But this time round, restrictions on in-person campaigning could weigh on election spending. We note that legislative reforms introduced by the current government including CREATE (corporate tax and incentives), PSA, FIA and RTL (foreign investment rules), are seen as catalysts to boost FDI and growth, and concerns over the new president's stances on these plans could induce some caution in PHP in the election lead-up.

Energy Import/Export Roles Emerged as Determinant of FX Moves During Period of Rising Brent Prices



Source: Bloomberg, IEA, CEIC, Maybank FX Research & Strategy
Note: Net energy import readings from IEA are as of 2018/2019.

Historically, Presidential Elections Induced Higher Consumer Spending and OFW Remittances



THB: Narrowing in CA Deficit Supportive

Forecast	4Q 2021	1Q 2022	2Q 2022	3Q 2022	4Q 2022
USDTHB	33.30	33.00	32.00	32.00	31.70

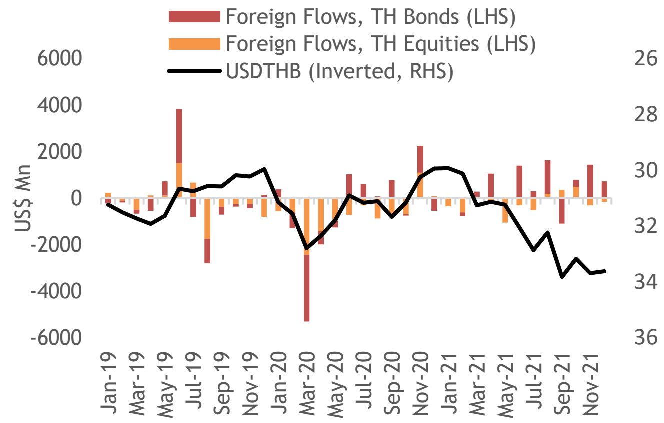
Motivation: THB gained in Oct in anticipation of domestic reopening efforts, but jitters subsequently set in as more persistent price pressures led to concerns over faster Fed tapering. Higher energy import burden amid elevated energy prices also likely weighed on the THB. Given Thailand's dependence on tourism receipts, Omicron emergence in late Nov threatened to disrupt global reopening plans, and related headlines could continue to fuel THB volatility in the interim. We adopt a glass half-full lens on Omicron, on assumptions of limited severity in illness, and easing concerns on this front could support a continued, albeit gradual, recovery in sentiments into 1Q 2022. A more discernible recovery in tourism flows could be needed, possibly in mid-2022 or later, for a more credible THB recovery.

New Covid variant, elevated energy prices, Fed taper remain as interim risks for THB. Even as pre-pandemic tourist arrival levels of around 40mn are not expected until 2024 or 2025, risk events that swing expectations of the tourism recovery pace can still translate to significant THB volatility. Reports on Omicron emergence led THB to quickly pare gains seen over Oct-Nov, when reopening optimism was in play. Meanwhile, despite some breather in the earlier energy price rally, brent prices remain above the US$70 support level, likely resulting in a higher energy import bill (THB-negative; Thailand is net energy importer) near-term. Expectations of quicker Fed tapering could weigh on portfolio flows into 2022, but the likelihood of a sharp reversal into outflows should be relatively low, given gradual normalization of economic activities in Thailand. Historically, the THB has also been more resilient to US yield upswings compared to currencies such as KRW or JPY.

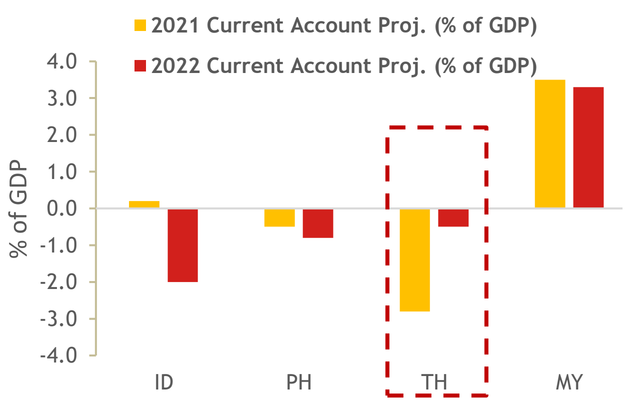
Modest tourism rebound is expected, buttressing current account next year. Assuming that Omicron is no more lethal than Delta and current vaccine/boosters prove effective, our economist team is projecting around 9mn visitor arrivals in 2022, before more than doubling to 22mn in 2023 as more countries ease border curbs. Recovery in global economy should continue to drive demand for agricultural goods and industrial products, anchoring resilience in manufacturing and goods exports. On net, house view is for these macro developments to help the current account deficit narrow from around -2.8% of GDP this year to -0.5% in 2022.

Risks of early elections needs to be monitored. With PM Prayut's popularity rating in decline and growing rifts in his Palang Pracharath Party (PPRP), there is growing speculation that an election (required to be held by 1Q 2023) may be brought forward to 2022. House view is for the PPRP to renominate Prayut, allowing him to stay in power until 2025. But in the case of an early election, we could see risks of delay in passage of Budget FY2023. If results are contentious, ensuing social unrest could dampen THB sentiments as well. During the 2013/14 political crisis, THB had experienced losses of more than 6% against USD at one point.

Portfolio Flows in Recent Months Mixed, Likely Not Large Drag on THB, Despite Fed Tapering Concerns



Modest Tourism Recovery and Benign Exports Trends Should Help TH CA Deficit to Narrow



Source: Bloomberg, Maybank KE, Maybank FX Research & Strategy

INR: Weakness Frontloaded Before Some Stabilization

Forecast	4Q 2021	1Q 2022	2Q 2022	3Q 2022	4Q2022
USD/INR	74.80	74.50	74.50	74.20	74.00

Motivation: High commodity prices, pandemic uncertainties and a pent-up domestic demand for gold pressure India's trade deficit and the INR, post-delta wave at home. Rising bond yields (especially UST) as major central banks turn hawkish on inflation do not help in the least. INR weakness could be frontloaded as a result. We expect some stability into 2022, alongside some moderation in commodity prices that were bid by supply-side bottle necks.

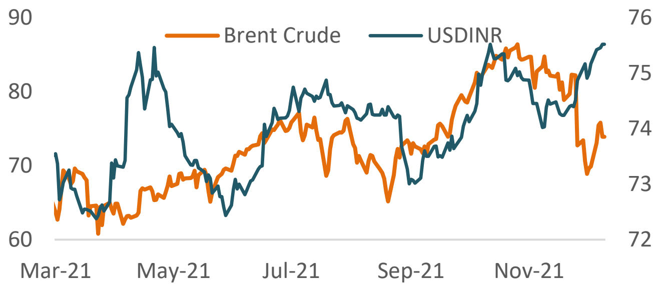
Trade Deficit Pressures on the INR Could Moderate. The easing of restrictions post delta-wave has released pent-up demand for gold imports and other high commodity costs (such as fuel) raised import bills and weighed on the INR. Into 2022, barring a deadly Omicron-variant that threatens global recovery, export growth may improve and there could also be some potential for moderation in gold demand and gradual increase in crude oil production by OPEC+ to also keep crude oil prices stable, albeit likely still elevated. The national monetsiation pipeline may help attract FDI and portfolio flows but expect some volatility as policy are being raised at home and abroad.

UST Yields May Continue to Be Supported but Upmove Limited. Much as the Fed is expected to hike in 2022, the US sovereign yield curve has started to bear flatten, in anticipation of the contractionary effect that rate hikes could bring to the US economy. Limited upside for UST 10y yield could also cap the USDINR. Broadening growth in the rest of the world on the other hand, could bring the countercyclical greenback lower against more currencies including the INR.

Accommodative Monetary Policy Stance May Not Last. Most on the RBI MPC have stuck to the accommodative monetary policy stance to support growth and the central bank has proceeded to withdraw excess liquidity in the banking system. Omicron uncertainty and lagging recovery in private consumption, investment at pre-pandemic levels continue to keep the MPC dovish. That said,the recent bi-monthly household inflation survey suggest that inflation expectations have hardened and the first rate lift-off may not be delayed for much longer. Rate hikes are expected for 2022 and markets expects policy rates to be raise around 126bps over the next one year. Gradual rate hikes in the next year could act as buffer against the impact of the rise in US yields as Fed also proceeds to raise policy rates.

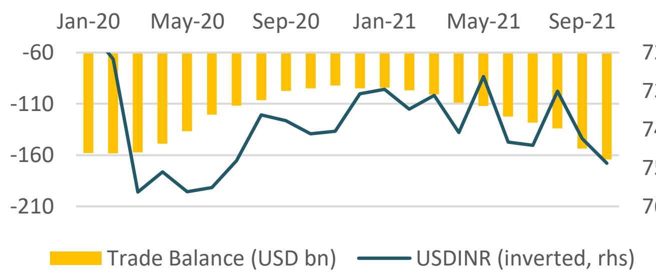
Risks to Our View. Omicron could be a significant uncertainty for INR especially if the new variant result in severe delays in economic reopenings globally and concomitant supply-side bottlenecks, exacerbating input prices and fuel costs. The cut in fuel tax (Nov-Dec) have dampened some of the effects on inflation and allow RBI more room (and time) to support growth. However, unexpected supply shocks (if any) in 2022 may still affect the INR via the trade and sentiment channel. India will have quite a number of state elections (7), Lok Sabha and Rajya Sabha. Uttar Pradesh election in Feb/Mar will be eyed more closely than the rest.

INR Susceptible to Crude Swings But Expect Some Stability



Source: Bloomberg, Maybank FX Research & Strategy

Potential for Moderation in Commodity Prices Could Alleviate Presure on the IN



VND: Bulls May Be More Hesitant

Forecast	4Q 2021	1Q 2022	2Q 2022	3Q 2022	4Q2022
USD/VND	22700	22800	22900	22800	22800

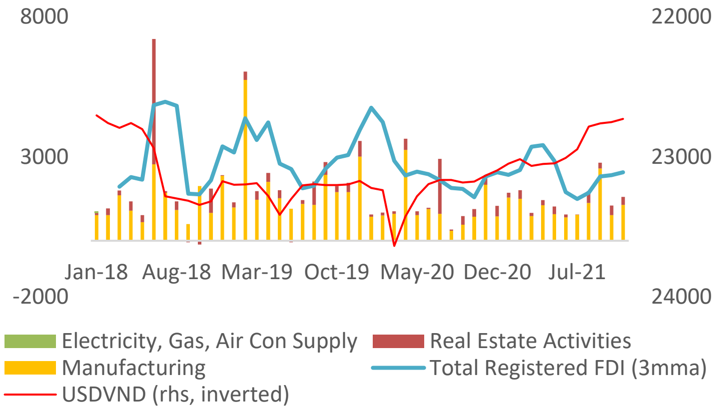
Motivation: 2022 could be a year of two halves for the VND and we pencil in some weakness for Vietnam for the first half of the year. As Vietnam seeks to "live with Covid-19", restrictions have been gradually eased since Oct. Recent data suggest that normalization is underway even as outlook is still shrouded by pandemic uncertainties and businesses could still be susceptible to sporadic partial shutdowns on detection of Covid-19 cases. Oxford stringency index suggests that Vietnam still has fairly severe restrictions - comparable to China even, and above those of Singapore and the US. Concommitantly, labour shortages remain. Lingering pandemic-linked uncertainties led to weakness in the VND recently (triggered by the US Treasury FX report) but the currency show signs of stabilization thereafter.

Catch-Up in Domestic Demand. Insofar, exports and manufacturing have been leading recovery as the economy reopens. Vaccination are also prioritized for key cities and industrial hubs. There could be a catch-up in domestic demand especially in the services sector as reopening gains traction, consumer confidence rebound if the endemic approach finds success and with the support of the government's post-pandemic economic recovery and development programme for 2022-2023. We see potential for domestic-demand catch-up to narrow trade surplus and add modest pressure on the VND.

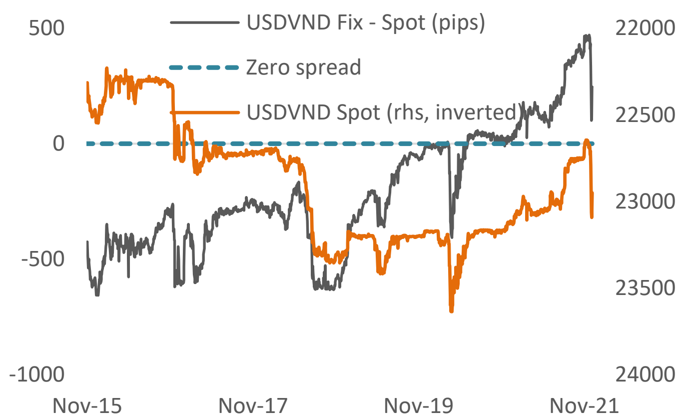
FDI Show Signs of Rising, Await Tourist Receipts Too. Vietnam continues to benefit from trade agreements such as the RCEP, EU-Vietnam FTA and CPTPP which are ratified in recent years and had paved the way for foreign direct investments inflow into the country. Flows have been slightly weakened in pandemic years, albeit still steady. Further reopening of the economy could support the recovery of FDIs and that should provide support for the VND. Later into the year, Vietnam can also await tourist receipts that could gather momentum further along 2022. The country started allowing tourists into certain tourist areas. A full reopening is scheduled to happen by Jun 2022.

Risks to Our View. Despite structural supports for the VND, current risks of inflation are skewed to the upside in the US and concomitant Fed policy uncertainty could generate some weakness in the VND against the USD as markets speculate pace of tightening. Potential for earlier-than-expected tightening could see a lift to the USDVND but countercyclical nature of the USD could set in to keep the USDVND somewhat stable for 2022.

FDI Flows Show Signs of Rising Again



Long VND positon unwinds after Dec US Treasury report, Some Stabilization for now



Note: Manufacturing, real estate Activities, electricity, gas, ar-con supply attract 80% of total registered FDI in 2020

Source: Foreign Investment Agency, Bloomberg, Maybank FX Research & Strategy

FX Forecasts

	End Q4-21	End Q1-22	End Q2-22	End Q3-22	End Q4-22
USD/JPY	114.00	115.00	114.00	113.00	112.00
EUR/USD	1.1500	1.1400	1.1500	1.1600	1.1800
GBP/USD	1.3400	1.3500	1.3600	1.3700	1.3800
AUD/USD	0.7300	0.7400	0.7400	0.7500	0.7500
NZD/USD	0.7000	0.7200	0.7200	0.7300	0.7300
USD/CAD	1.2500	1.2400	1.2400	1.2300	1.2300
USD/SGD	1.3550	1.3500	1.3400	1.3300	1.3200
USD/MYR	4.1800	4.1800	4.1500	4.1200	4.1000
USD/IDR	14300	14200	14100	14100	14000
USD/THB	33.30	33.00	32.00	32.00	31.70
USD/PHP	50.00	50.00	49.00	49.00	48.50
USD/CNY	6.38	6.38	6.36	6.35	6.35
USD/HKD	7.80	7.80	7.80	7.80	7.80
USD/TWD	27.70	27.70	27.50	27.80	28.00
USD/KRW	1168	1165	1165	1150	1140
USD/INR	74.80	74.50	74.50	74.20	74.00
USD/VND	22700	22800	22900	22800	22800
DXY Index	95.02	95.40	94.64	93.93	92.71
SGD Crosses	End Q4-21	End Q1-22	End Q2-22	End Q3-22	End Q4-22
SGD/MYR	3.0849	3.0963	3.0970	3.0977	3.1061
JPY/SGD	1.19	1.17	1.18	1.18	1.18
EUR/SGD	1.56	1.54	1.54	1.54	1.56
GBP/SGD	1.82	1.82	1.82	1.82	1.82
AUD/SGD	0.99	1.00	0.99	1.00	0.99
NZD/SGD	0.95	0.97	0.96	0.97	0.96
CAD/SGD	1.08	1.09	1.08	1.08	1.07
SGD/IDR	10554	10519	10522	10602	10606
SGD/THB	24.58	24.44	23.88	24.06	24.02
SGD/PHP	36.90	37.04	36.57	36.84	36.74
SGD/CNY	4.71	4.73	4.75	4.77	4.81
SGD/HKD	5.76	5.78	5.82	5.86	5.91
SGD/TWD	20.44	20.52	20.52	20.90	21.21
SGD/KRW	862	863	869	865	864
SGD/INR	55.20	55.19	55.60	55.79	56.06
SGD/VND	16753	16889	17090	17143	17273
MYR Crosses	End Q4-21	End Q1-22	End Q2-22	End Q3-22	End Q4-22
JPY/MYR	3.67	3.63	3.64	3.65	3.66
EUR/MYR	4.81	4.77	4.77	4.78	4.84
GBP/MYR	5.60	5.64	5.64	5.64	5.66
AUD/MYR	3.05	3.09	3.07	3.09	3.08
NZD/MYR	2.93	3.01	2.99	3.01	2.99
CAD/MYR	3.34	3.37	3.35	3.35	3.33
MYR/IDR	3421	3397	3398	3422	3415
MYR/THB	7.97	7.89	7.71	7.77	7.73
MYR/PHP	11.96	11.96	11.81	11.89	11.83
MYR/CNY	1.53	1.53	1.53	1.54	1.55
MYR/HKD	1.87	1.87	1.88	1.89	1.90
MYR/TWD	6.63	6.63	6.63	6.75	6.83
MYR/KRW	279	279	281	279	278
MYR/INR	17.89	17.82	17.95	18.01	18.05
MYR/VND	5431	5455	5518	5534	5561

Source: Maybank FX Research as of 10 Dec 2021. *These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.

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