Maybank

FX Annual Outlook 2023

Fragile World Opportunities

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Trading the Growth Downshift – Long JPY

2022 was very much a year of both geopolitical and policy challenges. War in Europe and the resulting supply chain disruptions added to inflationary pressures, forcing central banks to pull the plug on accommodative policy at brisk pace. However, we now see that a dovish pivot is already underway in the form of smaller rate hikes starting from Dec 2022. We do though expect the dollar to remain supported on dips in 2023 as core price pressures only gradually grind lower but the greenback strength should overall chip away. Regardless, an overall prevailing downshift trend would likely be in favour of the Japanese Yen.

FX Beneficiaries from China's Re-Opening

China provided new guidelines that suggest a softer stance on its Covid management in Nov. Regardless, strict measures were still implemented when infections surged before local authorities softened their stance again after rare protests erupted. We believe that China is likely to see more policy refinements as they face oncoming Covid waves but normalization should gradually prevail. Although the yuan may see some interim strength, we believe the CFETS RMB index would overall trend **downwards to the 95-figure** due to a resumption in outbound Chinese tourists and a recovery in import demand. In particular, the CNH is likely to weaken against ASEAN currencies who would likely benefit from China's recovery.

Lingering risk of Fuel Scarcity Push Stronger Investments in Renewables

Europe seem to have averted an energy crisis for the coming winter but the continent is not out of the woods yet as gas supplies are slated to be depleted by end Spring. Estimates have also shown that Russian gas supply cannot entirely be replaced by LNG imports and Norwegian gas. OPEC+ meanwhile has had a tendency to cut supply aggressively whenever demand and prices weaken, resulting in a lingering upside risk for oil. With energy supply still an uncertainty, we look for an increasing drive for investments in renewable infrastructure. In light of this, we see a bounce back in base metal demand in 2H 2023 that would be a boon to base-metal exporters (nickel, iron ore) such as AUD and PHP.

Pushbacks from Tech Nations to Support KRW and TWD

US President Biden pressed on to improve the US' technology competitiveness by passing the CHIPS and Science Act in Aug 2022 and imposed more curbs on semi-conductor exports to China in the name of national security. As a result, the restrictions on chips posed a challenge for semi-conductor firms that conduct business with China, adding pressure on the KRW and TWD earlier this year. Biden's harsh and extraterritorial sanctions have been met with some pushbacks from other nations. For 2023, Biden may be less keen to enact further tech-related sanctions on China that could affect his attempts at forging the CHIPS-4 Alliance. An absence of further tech-related sanctions on China could mean a better year for KRW and TWD.

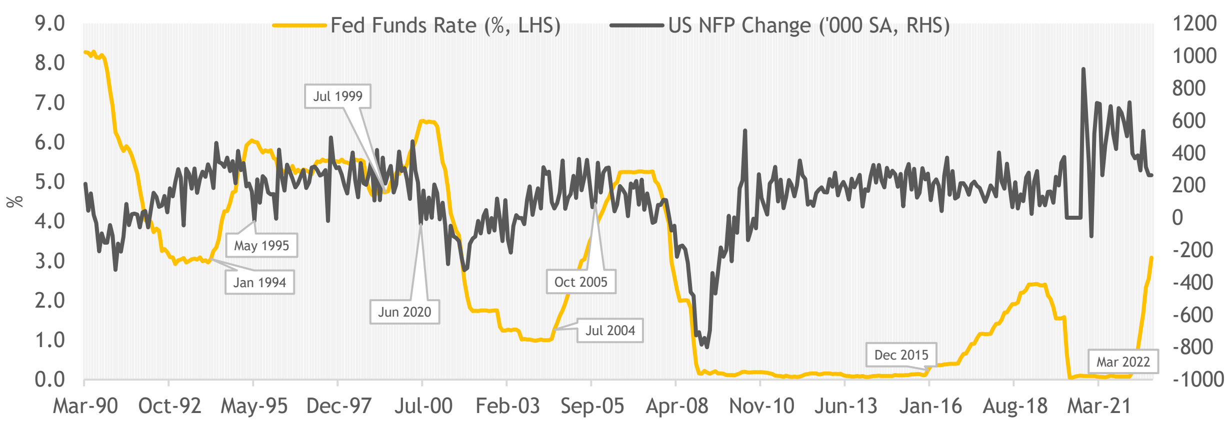
SEE PAGE 22 FOR IMPORTANT DISCLOSURES

1. Trading the Growth Downshift – Long JPY

1.1 Emerging from A Year of Conflict

2022 was a year of conflict, in both geopolitical and policy terms. War in Europe and resulting supply chain disruptions added to energy price pressures, forcing central banks to pull the plug on accommodative policy at a much brisker than expected pace. Monetary policy became increasingly at odds with fiscal bias, as the need to mitigate cost-of-living concerns grew globally. Into 2023, the crucial question facing currencies will be whether (and when) a dovish pivot in Fed stance materializes. In our view, the *first* downshift is already here in the form of smaller rate hikes starting from Dec (at 50bps). Into 1H of 2023, our base case looks for dollar to remain supported on dips, as core price pressures grinds lower only gradually. US jobs jitters may emerge more discernibly only in 1H 2023, considering policy lags.

Fig. 1: Weakness Emerges in US Jobs ~4-6 Quarters After Start of Fed Hikes

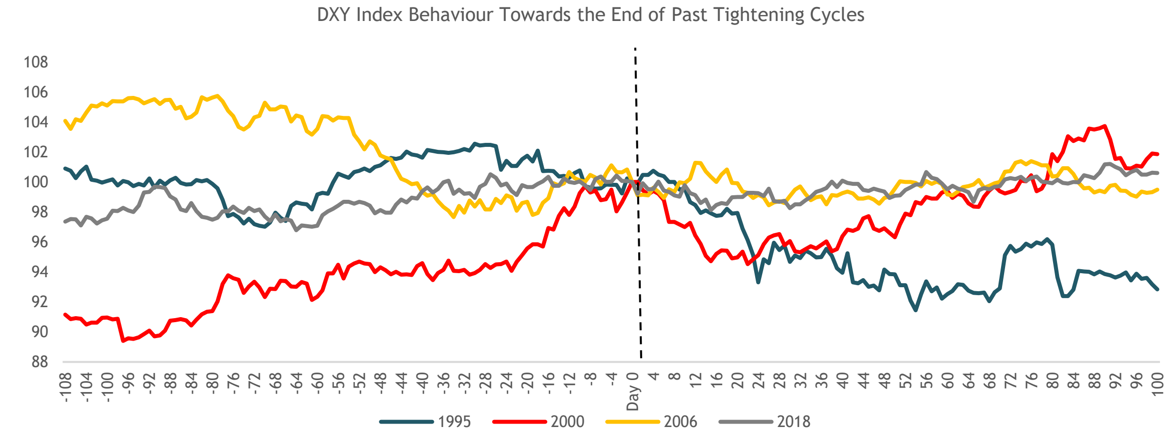


Bloomberg, Maybank FX Research & Strategy

Note: Date callouts mark (i) start of Fed rate hike cycles, (ii) start of tentative softening in NFP outcomes post Fed hikes.

1.2 USD to Trade Sideways as Fed Tightening Cycle Matures

Fig. 2: DXY Index traded Mostly Sideways around the Peak of Rate Hike Cycles

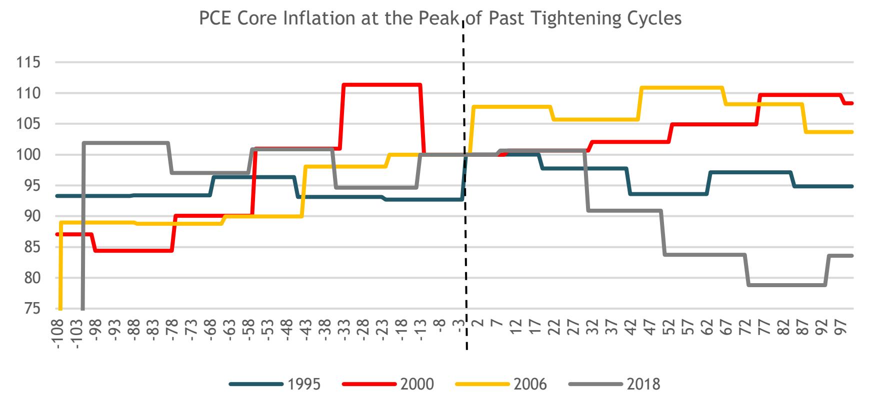


Source: Bloomberg, Maybank FX Research & Strategy

Note: DXY performance is indexed with 100 = price on the day of last rate hike

Our view is for the Fed Fund Target Rate to be raised to a terminal rate of 5-5.25% by 2Q 2023. Keeping that in mind, we looked at behaviors of the USD in the mature stages of past Fed tightening cycle and found the **DXY index mostly traded sideways in the 100 calendar days before and after the last rate hike of each tightening cycle** in the past few decades. The DXY index actually softened the most in 1995 as inflation was managed well and "soft-landing" was achieved thereafter. The tightening episode in 2000 was another exception where USD strengthened within 100 days after the last hike of the cycle. This could be due to the fact that PCE core deflator remained elevated even after the last rate hike and that kept the USD supported compared to observations in 1995, 2006 and 2018. This suggests as long as core PCE remains elevated, USD could still be supported on dips in the near-term.

Fig 3: US PCE Core Inflation was Comparatively Elevated in 2000

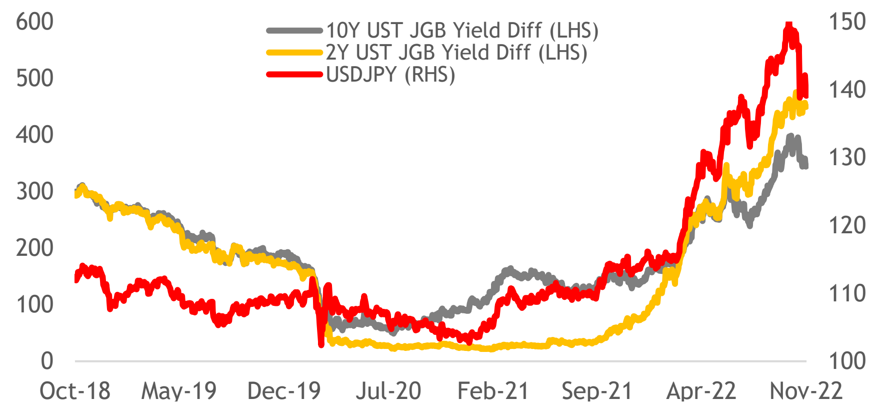


Source: Bloomberg, *Maybank FX Research & Strategy*

*Note: PCE core inflati*on is indexed with 100 = price on the day of last rate hike

Beyond that, we look for the strength of the USD that had dominated for much of this year to be eventually chipped away into 2023 as Fed slows its pace of tightening and eventually stop by 2Q. But, USD bulls will not give up without a fight. As geopolitical conflicts (war in Ukraine, tensions over Taiwan) are unlikely to fade completely, the greenback may continue to count on safe haven demand and potential for relative economic outperformance (vs. the EU) as supports. In the medium-term, we are negatively biased towards the USD given the country's twin deficits and the national debt is also expected to rise further over the next few years. Prefer to fade the USD strength but only on strong rallies given the recent move lower. With growth concerns likely to become a more dominant theme (vs. inflation) in 2023, we look for UST yields to start drifting lower and that could result in a significantly lower USDJPY.

Fig 4.: Growing Concerns On Growth To Bring USDJPY Lower



Source: Bloomberg, *Maybank FX Research & Strategy*

2. ASEAN to Benefit from China's Re-Opening

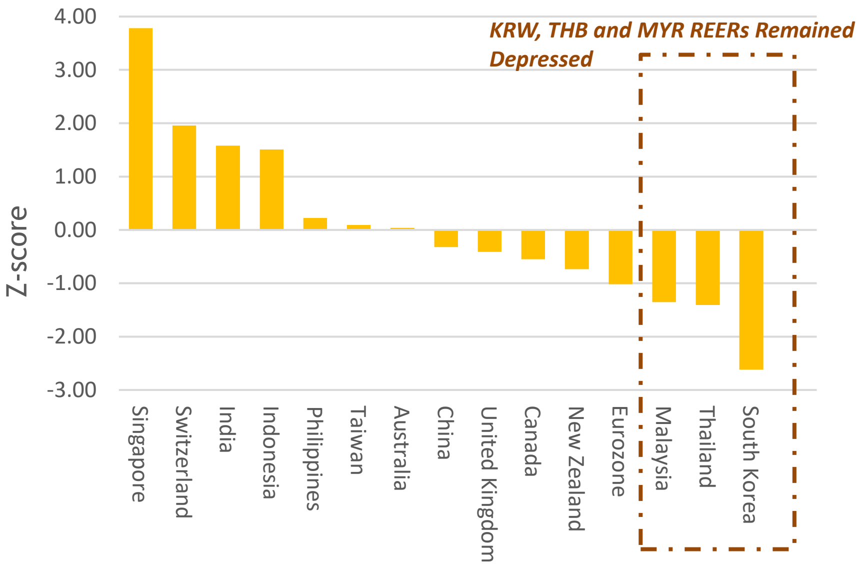
China provided 20 new guidelines for Covid management on 11 Nov that includes shortened quarantine periods for inbound travelers/close contacts, removal of mass testing and to stop excessive anti-Covid measures from being imposed by local government as well as a ramp-up of medical supplies/facilities amongst others. These new directives are put to a test by the surge of infections, exacerbated by the onset of winter. The National Health Commission scheduled an ad-hoc press briefing, urging local governments to avoid imposing restrictions that are overly "excessive". The health authorities also pledged to ramp up vaccinations for the elderly.

2.1 Short-Term Sentiment Boosts to Yuan Could Give Way to Eventual Trade-Weighted Weakness for the RMB

We widely expected China to grapple with the new Covid wave with potential refinements in policies. Normalization is thus expected to be very gradual while recovery could take quarters. Yuan sentiment had turned positive (alongside broader sentiment) on the first signs of easing in Covid-zero management announced in Nov. While we cannot rule out further positive knee jerk reactions from incremental easing of Covid-zero restrictions, an eventual narrowing of its balance of payment buffers on the resumption of outbound Chinese tourists, domestic demand recovery that can boost import bill could eventually weigh on the yuan trade-weighted index. CFETS RMB index could remain under pressure towards the 95-figure.

Regional peers may enjoy positive spillovers via the sentiment channel as well as from its growth recovery. Currencies with depressed REERs relative to their own 5-year history are seen to be stretched in terms of weakness and have more room for rebound. KRW, THB and MYR could thus be poised for further recovery in the near-term as global sentiments become more positive.

Fig 5: KRW, THB and MYR REERs Are Depressed Relative to Own 5-Year History



Note: Z-score of respective REERs are taken as of 30 Nov 2022.

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

Fig. 6: β1— Coefficient Between RMB and ASEAN FX

	SGD	MYR	IDR	THB	PHP
Dec 2020 to Nov 2022	0.418	0.979	0.670	1.298	1.379

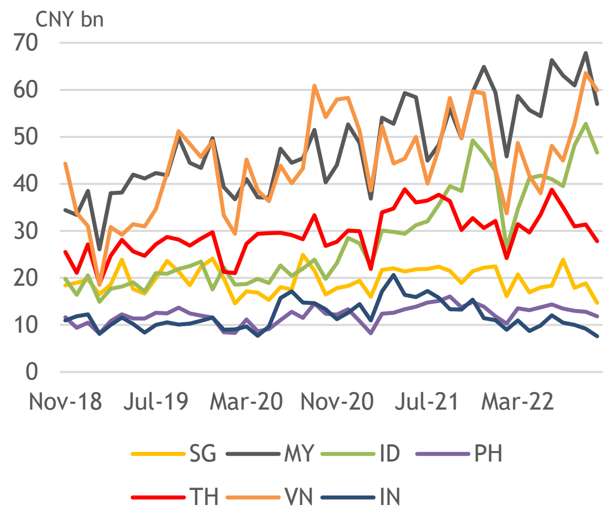
Source: Bloomberg, Maybank FX Research & Strategy Estimates
Note: Coefficient is derived from running an OLS of CNH-USD on the respective FX-USD pair

Regional currencies remain sensitive to yuan swings and the knee-jerk positive moves in the CNH could result in pretty significant spillover effects for ASEAN FX. Interestingly, the sensitivity of the PHPUSD to moves in the CNHUSD is larger than expected and we attribute it to the time period that we chose (for the sake of relevance) that could have resulted in a coincidence pattern.

2.2 MYR, VND and IDR Can Benefit from Trade with China, THB to get Tourism Boosts

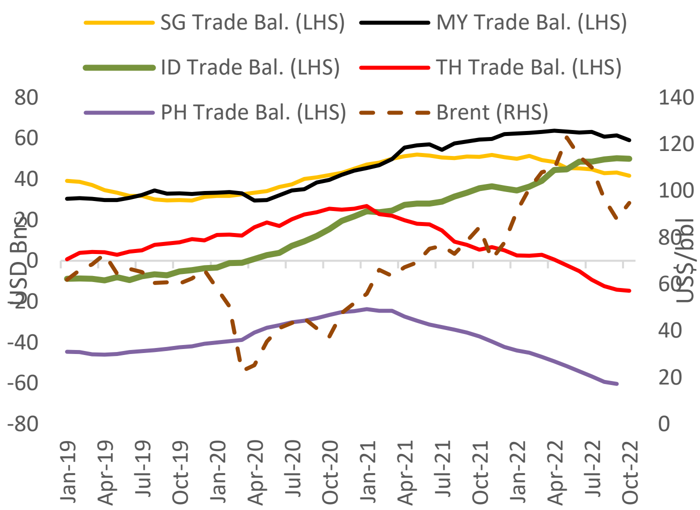
Fundamental spillovers to regional peers could come in the form of export demand as well as tourism. Trends of regional trade balances are also studied to better assess the resilience of respective currencies.

Fig. 7: China's Imports from ASEAN Economies



Source: Bloomberg, Maybank FX Research & Strategy

Fig. 8: Trends in ASEAN Trade Balances



Source: Bloomberg, Maybank FX Research & Strategy

Trends in trade balances and exports to China suggest that VND, IDR and MYR could see resilience.

For SGD, concerns over slowing chips demand and softer Oct CPI report have softened the currency but elevated inflations could rebuild expectations for another round of MAS tightening in Oct. Recent correction in the SGD NEER (+0.8% above par) provide fresh headroom.

For THB, intermittent lockdowns in major Chinese cities could disrupt supply chains and weigh on near-term output. Return of Chinese tourists will be a significant positive in 2023. For PH, exposure to Chinese demand is significantly lower versus peers, but twin deficit concerns remain a focus. So PHP remains the currency that does not benefit as much as peers.

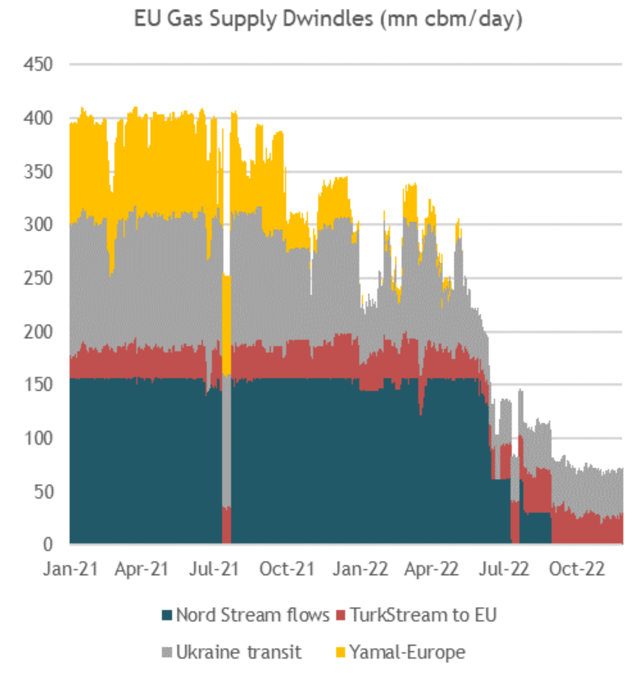
Taken together, we look for CNH to potentially weaken further against THB, MYR, IDR, VND and SGD.

3. Lingering risk of Fuel Scarcity Push Stronger Investments in Renewables (+ve AUD, PHP)

3.1 Energy Supply-Demand To Remain Tight

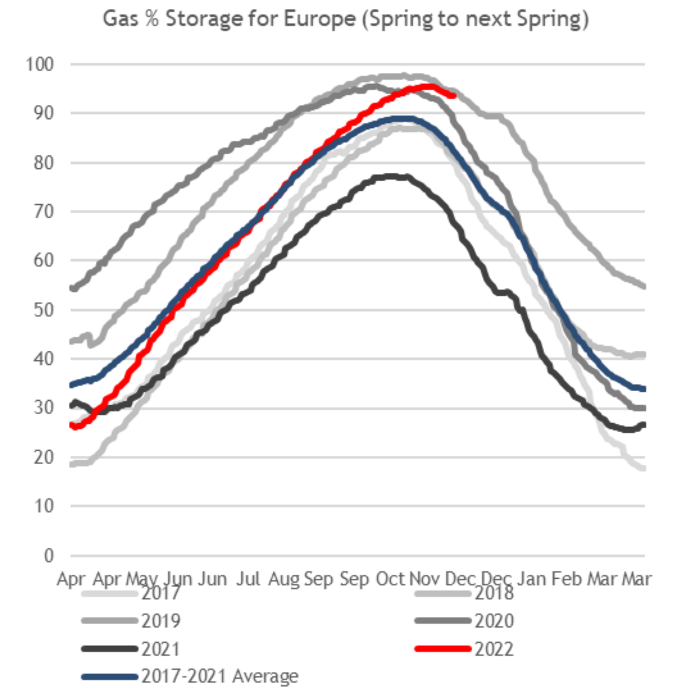
While Europe has averted an energy crisis for winter 2022, it is rather certain that its storage of gas will be almost completely depleted by the end of Spring. In the past, storage capacity is typically drawn to sub-40% then and the drawdown for this year could accelerate without Russian supply. EIU estimates that Russia's gas supply cannot be entirely replaced by imports of LNG and Norwegian gas. The absence of Russian gas for the whole of 2023 could mean an additional 20% of gas demand in order to meet its energy storage target of 95% by autumn.

Fig. 9: Europe's Gas Supply Slipped Drastically



Source: Grid, Bloomberg, Maybank FX Research & Strategy

Fig. 10: Gas Drawdown Could Accelerate into Spring Without Russian Imports

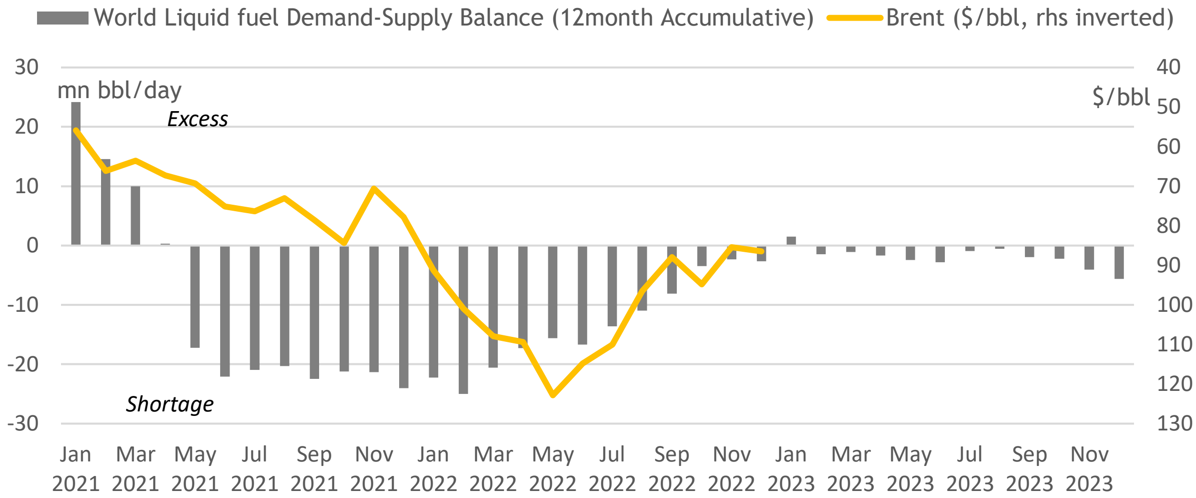


Source: Gas Infrastructure Europe, Maybank FX Research & Strategy

Meanwhile, OPEC+ has been sensitive to price changes, reacting more to the weakening demand outlook by cutting supply aggressively. For much of this year, crude oil producers in the cartel have shown a lot more inertia to raise crude production in reaction to price spikes and supply disruptions. That tilts the risks to the upside for crude oil prices into 2023.

On the demand side, rising interest rates and elevated energy prices have started to slow growth in Europe and the US while China's demand recovery is also expected to be gradual. So on net, slower global growth has eased prices of fuels and alongside other commodities and could continue to crimp on that.

Fig. 11: Crude oil prices still Vulnerable to Upside Pressure



Note: 12mn accumulative world liquid fuel demand-supply balance is the difference between the estimates of world liquid fuel production and consumption by EIA.

Source: US EIA, Bloomberg, Maybank FX Research & Strategy

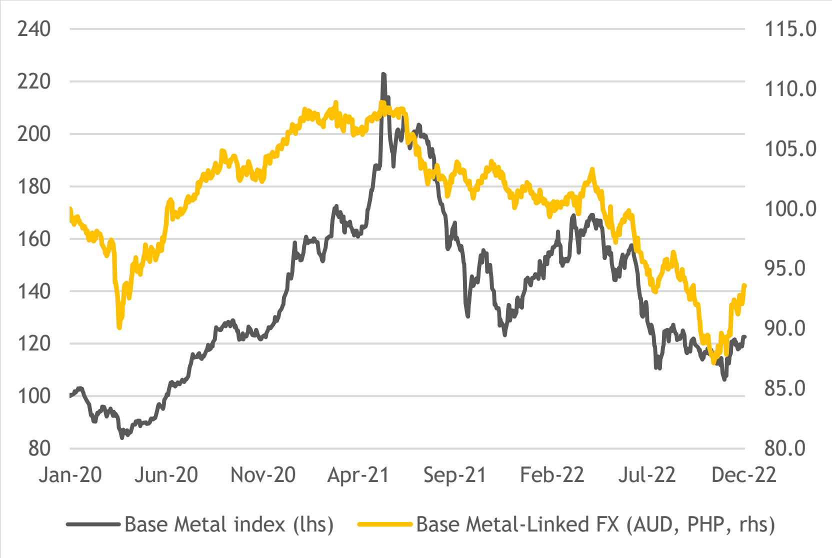
Taken together, energy supply and demand could continue to remain in tight balance, susceptible to disruptions. Asia giants have been clients of Russia's energy resources while western peers enacted sanctions for its invasion of Ukraine. An upcoming embargo on Russian oil to ensure its oil is subject to a price cap will take effect on 5 Dec. Russia has threatened to stop crude oil production in light of the embargo but has since softened its stance. Should its production continue, Asia may be able to benefit from the cheaper crude oil.

3.2 Potential for Renewed Spur for Renewable Investment

The disruption of gas supply for Europe (due to the invasion of Ukraine and concomitant sanctions) has led to fuel supply constraints for Europe for the next few years. Countries such as Germany intends to phase out fossil fuel by 2035 and using LNG as a transition fuel may no longer be viable. There have been plans to convert LNG stations into hydrogen centre but much of it is still at a nascent stage. Germany's Economy Ministry is also said to have subsidies to support the development of hydrogen production and storage technology in 1H 2023. This could eventually lead to more requirements of stainless steel and concomitant demand for iron ore and nickel.

COP27 saw a landmark agreement on new "Loss and Damage" Fund for vulnerable countries. There were new pledges that total USD230mn made to the Adaptation Fund at COP27. The Sharm el-Sheikh Implementation Plan recognizes that a global transformation require investment of at least USD4-6trn a year. Concurrently, at the G20 summit in Bali, a Partnership for Global Infrastructure and Investment (PGII) was hosted by Indonesia, the US and the EU where the Just Energy Transition Partnership (JTEP) was launched and Indonesia would be provided $20bn of support to speed up its transition to renewable power. Indonesia has targeted to work out a plan that will detail investment requirements/opportunities to accelerate its transition to renewable energy within the next six months. Projects to build renewable power generation, transmission cables and power storage system will be the priority.
Taken together, we see potential for base metals to be back in demand, particularly in the second half of the year. These could potentially lift copper, nickel, iron ore exporters such as the AUD and PHP.

Fig. 12: Base Metals could be back in Demand, Lifting AUD, PHP



Note: Base metal index consists of equally weighted prices of copper, iron ore and nickel index to levels at 1 Jan 2020. Base metal linked FX index consists of equally weighted AUD and PHP performance against the USD with price on 1 Jan 2020 index to 100.

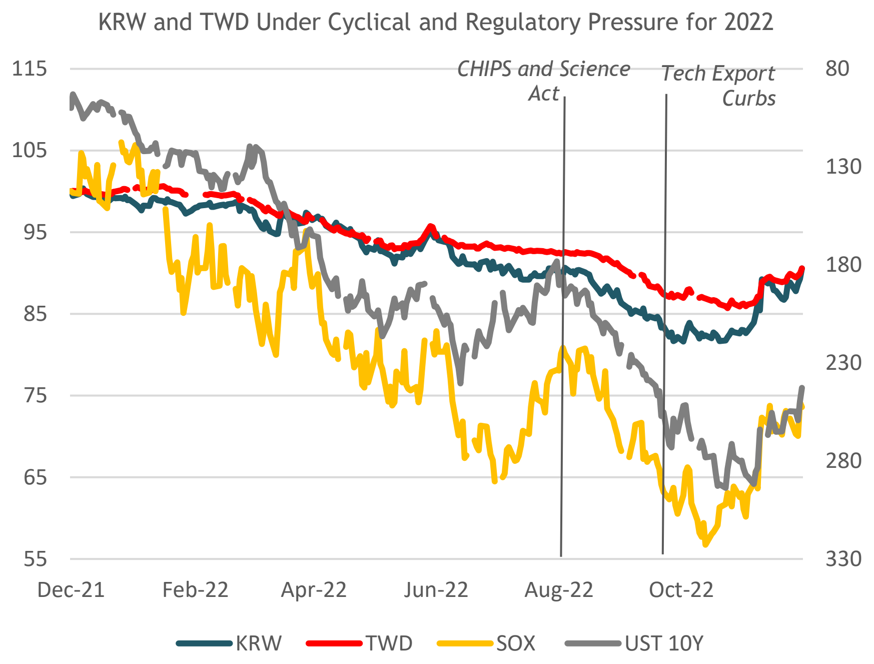
Source: Bloomberg, Maybank FX Research & Strategy

4. Wild Card: Tech-Sanctions Pushback to Support KRW and TWD

4.1 Biden Steps Up the Competition for CHIPS in 2022

Amid the focus on inflation, rising interest rates and growth slowdown, US President Biden pressed on to improve the US' technology competitiveness by passing the CHIPS and Science Act in Aug 2022 – a $280bn package of grants and tax credits for companies investing in semiconductor manufacturing and equipment in the US. Separately, in Oct, the administration increased the sanctions against China by adding more technology to the US restricted trade list and foreign firms that use US software and technology also require export licenses to sell them to China. These restrictions are meant to constrain China's military modernization and surveillance operations. As a result, the curbs have posed a challenge for semi-conductor firms to conduct business with China, adding pressure on the KRW and TWD earlier this year especially between Aug-Oct this year. This was on top of a chip down-cycle following and other headwinds for the risk-sensitive currencies such as rising UST yields and China's economic slowdown.

Fig. 13: KRW and TWD May See Some Relief into 2023



Source: Bloomberg, Maybank FX Research & Strategy

4.2 Pushbacks from Tech Nations Could Mean Less Tech-Related Sanctions in 2023, +VE KRW, TWD

Biden's harsh and extraterritorial sanctions have been met with some pushbacks from other nations. South Korea President Yoon chose not to meet US (outgoing) House Speaker Nancy Pelosi during her trip to South Korea in Aug. A new Collaborative Supply Chain Council was also forged between China and South Korea within that month amongst other MoUs. Towards the end of Nov, the Netherlands (home to semiconductor equipment maker ASML) just made its first official stand on the US export curbs - highlighting that "its national security interest is of the utmost importance" and the government will not adopt US measures "one-to-one".

Separately, Taiwanese economic official expressed concerns that its semiconductor industry could be affected by US moves, "although the scale of impact is still unclear". Taiwan is home to the world's leading semi-conductor manufacturer TSMC. Biden has been attempting to form a so-called CHIPS 4 alliance that would include Asian tech nations (South Korea, Japan and Taiwan) and exclude China. Response has been lukewarm as well. President Biden may be less keen to enact further tech-related sanctions on China that could affect his attempts to get Asia tech economies on his side for 2023. The absence of election in 2023 as well as the growth slowdown in the US could take priority. **As such, even as the chip down-cycle potentially extend into 2024, an absence of further tech-related sanctions on China could mean a better year for KRW and TWD.**

USD: Near Term Support But Medium Term Downside Remains

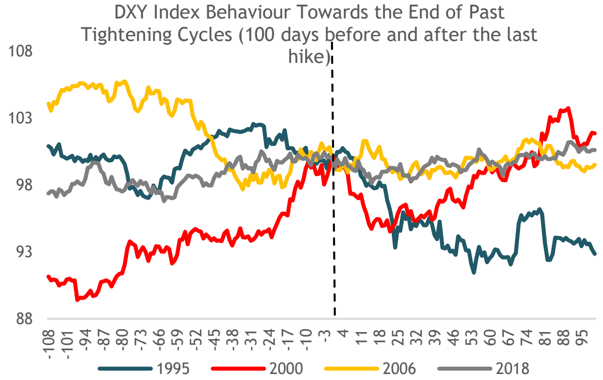
Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023	4Q2023
USD Index	106.31	105.57	105.18	103.83	102.50

Motivation: The strength of the USD that had dominated for much of this year could be chipped away gradually into 2023 as Fed slows its pace of tightening and eventually pause. But, we think USD bulls will remain in 1H 2023. So we may still see some choppy moves in the USD but the dollar strength and support will not be as strong as what we have seen in 2022. As geopolitical conflicts (war in Ukraine & tensions over Taiwan) are unlikely to fade completely, the dollar may continue to count on safe haven demand and potential for relative economic outperformance (vs. the EU) as supports. 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. However, risk-reward ratio does not favour outright USD bets for most of 2023 and conviction for USD bears may only gain more traction as we proceed further in 2023. A higher than expected Fed guidance on the terminal rate (>5% rate) and a world going into a sharper recession could see stronger dollar support vis-a-vis a pause and flat or lower terminal rate and a mild recession leading to a weaker dollar environment.

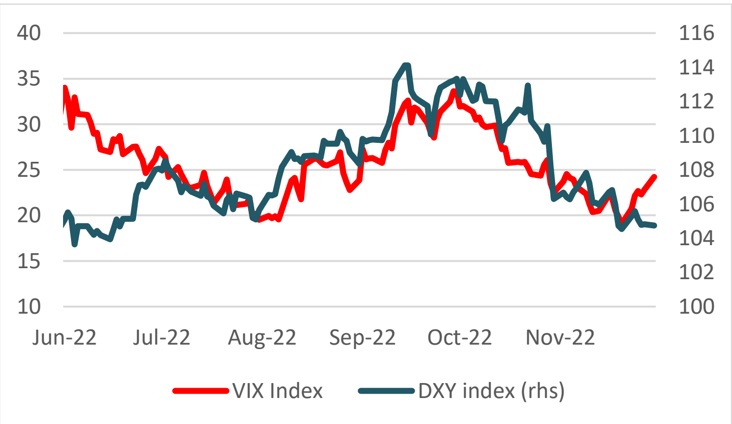
No certainty yet on timing of the USD turn. A move higher in the USD from here is likely to be choppy and fleeting at times than what we have seen this year. The dollar peaks in the past usually coincides with a bottoming out in growth activity, equity strength and an easing Fed, which are conditions that are unlikely to happen at the same time and for several quarters yet. We expect these factors to happen possibly in the latter part of 1H 2023, where we may see a confluence of these factors; (1) early signs of recovery from the effects of Europe's recession, (2) BoJ with new leadership may gradually start to tighten policy, and (3) China's zero Covid policies could be on their way out in a clear way by then, while (4) a peak in US rates is finally coming into sight alongside some moderation of US inflation and the labor market.

2-way risks on USD assets. With the rapid USD strength this year, it is not surprising there has been a rising resistance from more countries via verbal and direct interventions to mitigate the strength of the Dollar. The dollar has struggled to move higher despite recent firm NFP and still high US inflation, probably due to the sharp build-up in long dollar positioning. First, a sharper US recession and a significant worsening in the risk-taking environment, could see safe-haven dollar emerge strongly and the Fed may need to switch or signal its intent to ease earlier which would typically lead to stronger dollar situation. In the alternative scenario, if we see an early than expected end to (1) China's zero-Covid policies in line with recent signals and price action and/or (2) an unexpected easing in Russia-Ukraine tensions will lead to an earlier USD weakness on the back of more positive global growth and upturn to riskier assets.

USD Tends to Trade Sideways as Tightening Cycle Matures



Any Fresh Volatility Could Spur the USD higher Again



Source: Bloomberg, Maybank FX Research & Strategy

EUR: A Slow Grind Higher on Policy Convergence

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023	4Q 2023
EUR/USD	1.0400	1.0500	1.0500	1.0600	1.0700

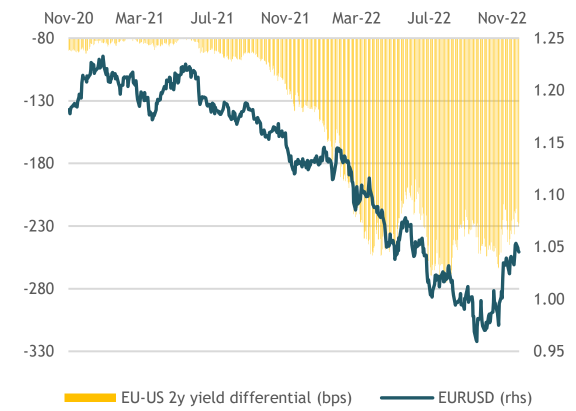
Motivation: We are cautiously optimistic of EUR on policy convergence vs. the Fed as well as low likelihood of further escalation for the war in Europe. As the Fed nears the mature stage of its tightening cycle, policy convergence between the Fed and ECB is likely to narrow the EU-US yield differentials in favour of the EUR. Notwithstanding potential volatility in 1Q that emanates from uncertainty surrounding inflation trajectory and policy rates, we expect UST yields and the USD to decline further into 2023. Our base case is for a shallow recession for Eurozone and inflation to ease only a tad, albeit still well above ECB's target. While Lagarde is adamant on fighting inflation, persistent price pressure and rising interest rates have started to weigh on growth. As such, room for ECB to tighten its monetary policy further could be shrinking. ECB is expected to raise rates to 2.8% by Jun 2023, an accumulative 130bps of rate rate hike from the current 1.5% for deposit facility rate.

Meanwhile, war in Ukraine is still ongoing. Our base case scenario is for the conflict to remain between Russia and Ukraine, albeit still financially supported by the NATO forces. The costs of the war have surged and NATO members urged both countries to come to the negotiating table. We like to hold an optimistic view that NATO will not allow the war to broaden and the risks are skewed towards a ceasefire (not our base case) which would be significantly positive for the EUR. However, peace remains hard to achieve as Ukraine retains a hard stance against Russia. Most sanctions are likely to remain and Eurozone's trade balance could remain in deficit.

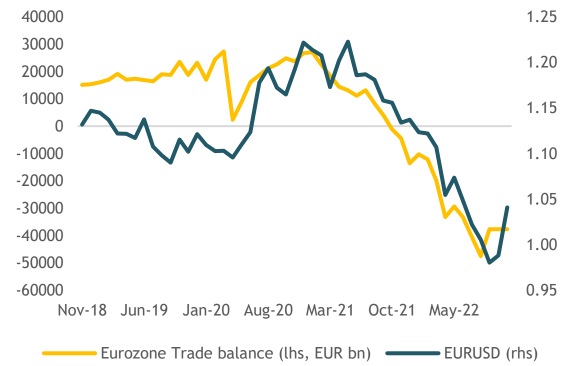
Taken together with the USD trajectory and a shallow recession scenario with no further energy supply disruptions, EURUSD could see a gentle rise for much of 2023.

Risks to our View: Geopolitical conflicts should still be monitored carefully as Russia had accused Ukraine of striking its territory. Albanian PM warned that Putin aims to "put Europe on its knees" and Russia is said to have ordered more drone missiles from Iran. Any signs of a broader conflict and sanctions against Russia that could be damaging on Europe could bring the EURUSD below parity again. Separately, US labour market remains strong with wage growth still accelerating. Any signs of wage price spiral there could force Fed to tighten more than expected and soften the EURUSD.

2y EU-UST Yield Differentials Drive EURUSD



Eurozone's Trade Deficit Could Stabilize but Significant Improvement is Unlikely



Source: Bloomberg, Maybank FX Research & Strategy

GBP: A Cost-of-Living Crisis To Crimp Gains

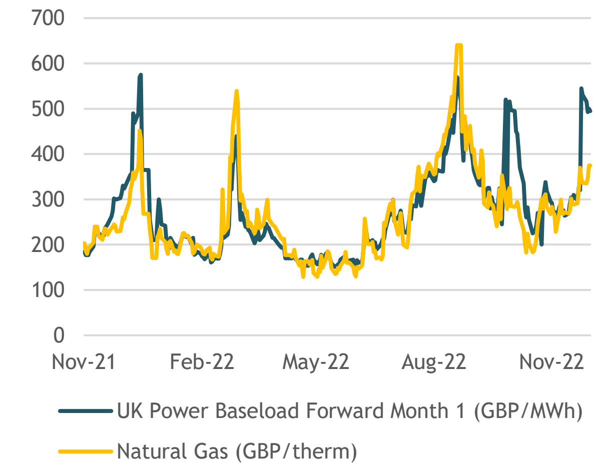
Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023	4Q 2023
GBP/USD	1.2000	1.2000	1.1700	1.1800	1.2000

Motivation: We retain a cautious outlook on GBP. Recent GBP recovery is driven by a restoration of confidence in the government after Rishi Sunak and Jeremy Hunt came into power. PM Sunak also seemed to have forged warmer ties with the EU and a agreement on Northern Ireland Protocol could even be on the horizon. In addition, UK is also in an unusual position of supplying Belgium with gas into winter. However, UK now faces a cost-of-living crisis (elevated fuel + food inflation). BoE warned that the country could experience the longest recession since 1930s and the economic contraction has already begun due to the elevated price pressure, compounded by Brexit-related trade/hiring issues and borrowing costs. That said, a recently forged US-UK energy partnership could strengthen energy security for the UK with 9-10bn cbm of LNG exports pledged from the US for UK for 2023.

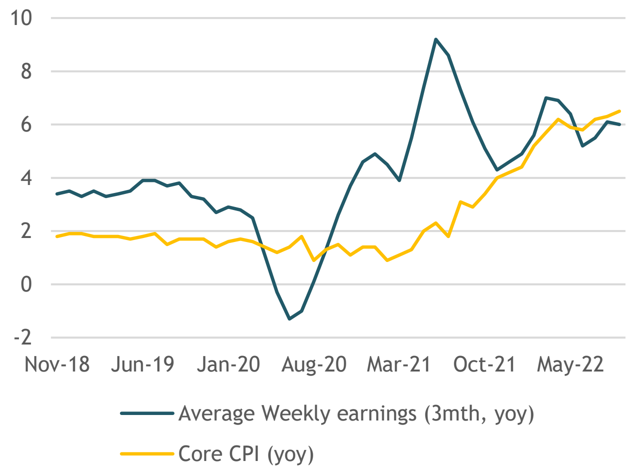
With inflation only expected to ease more materially from mid-2023, the UK could be in a period of stagflation for most of 1H 2023. In addition, further speculation on the Fed's terminal rates, US labour market and inflation trajectory could still inject some volatility in the markets for the first half of the year. UK faces an overheated labour market more so than Eurozone and will need a significant economic adjustment and possibly a larger tightening of monetary policy by BOE that could crimp more on growth. We look for a more sustained climb for the GBPUSD in the 2H of 2023, led by the softer USD trajectory and potential for price pressure to ease then.

Risks: Fuel prices and labour shortage remain key risks to UK's inflation and growth outlook that could pose downside risks to the GBP. The UK faces a labour shortage that could potentially spur a wage price spiral. Should price pressure persist, recovery could be delayed further. Meanwhile, we also like to remain watchful of the developments on the energy front given that UK's storage facility remains rather limited. As announced by Chancellor Hunt in Nov, UK will increase the energy price cap from Apr and the National Energy Authority predicts 8.4mn UK households could be in fuel poverty.

Energy Prices Still Pose A Risk



Tight labour market conditions Can Keep Inflation Elevated



Source: Bloomberg, Maybank FX Research & Strategy

AUD: China Re-Opening, Green Infrastructure Demand To Buoy

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023	4Q 2023
AUD/USD	0.6800	0.7000	0.7200	0.7400	0.7500

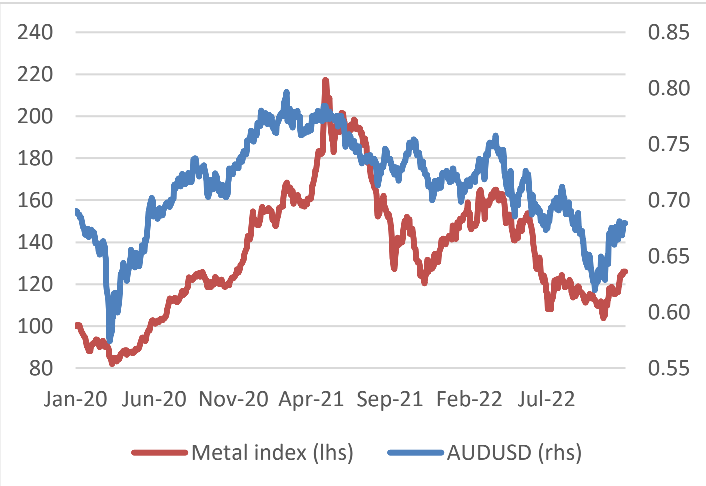
Motivation: We are bullish on the AUD. Even as the world is headed for a mild recession and AUD typically underperforms as a pro-cyclical currency, we have a rather positive driver for AUD this time - China's re-opening. Sentiment has already been lifted by China's pivot from its zero-tolerance stance and that has already given AUDUSD a significant boost from its 2022 lows apart from the Fed's downshift. In addition, there are also earnest efforts in boosting property sector in China. The combination of credit support (re-lending program, loan extensions) for developers as well as the softening of Covid management should result in modest recovery in China's property sector and demand for Australia's resource exports.

RBA is not likely to provide much impetus for the AUD this year as the central bank comes close to the peak of its tightening cycle in tandem with the Fed. Australia's growth is expected to slow but a recession is not part of our baseline. Inflation will ease more gradually and may only return to target in 2025. While strong wage growth and certain inflation gauges suggest that inflation could remain sticky to the downside and keep the RBA on a tightening trajectory a while more, the cash target rate is expected to crest around 3.6% (50bps more to go in 25bps clips) as growth slows into 2023, well below where market expects Fed's terminal rate to be. The AU-US 10y yield differentials have turned negative but that has hardly weighed on the AUDUSD as the pair is still driven primarily by China's re-opening play as well as the unwinding of long USD positions as Fed slows its tightening pace. As such, monetary policy trajectory, whilst still key to the economy, is not likely to be a boon or bane for the AUDUSD.

Green Infrastructure Demand to add to medium-term AUD tailwinds. We also look for infrastructure expansion in a number of nations such as Indonesia, Europe to underpin Australia's metal and energy demand. With energy supply and demand still expected to be tightly balanced, more countries could be spurred to invest in green infrastructure, enabled by COP 27 that focused on new "Loss and Damage" Fund for vulnerable countries, the US-EU Just Energy Transition Partnership (JTEP) to provide Indonesia $20bn of support to speed up its transition to renewable power, amongst others. Separately, AUD also

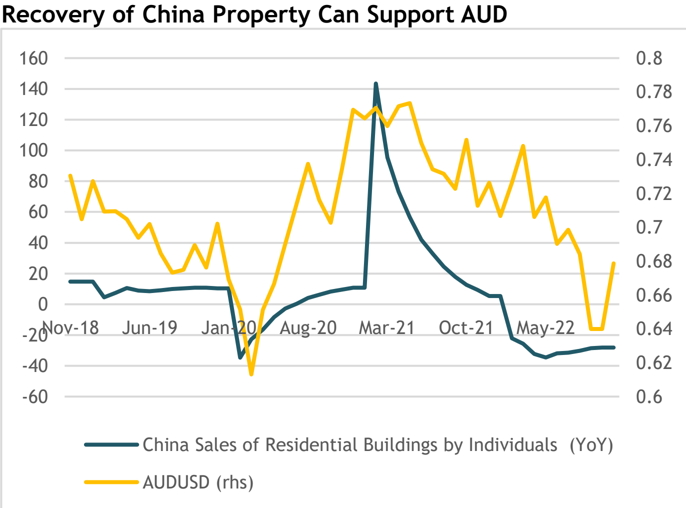
Risks to the AUD Forecast: (1) US inflation and concomitant policy trajectory is key for USD direction and a stickier-than-expected US inflation could hinder AUD recovery. (2) Any unexpected headwinds for major economies (China, US, Eurozone) that cause a sharper than expected global recession is negative for the AUD.

Potential for metal demand to boost AUD



Note: Metal index comprise of equally weighted iron, copper and gold price (100= Jan 2020)

Recovery of China Property Can Support AUD



Source: Bloomberg, Maybank FX Research & Strategy

JPY: Likely to be the Big Winner of 2023

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023	4Q 2023
USD/JPY	**140**	**138**	**135**	**130**	**125**

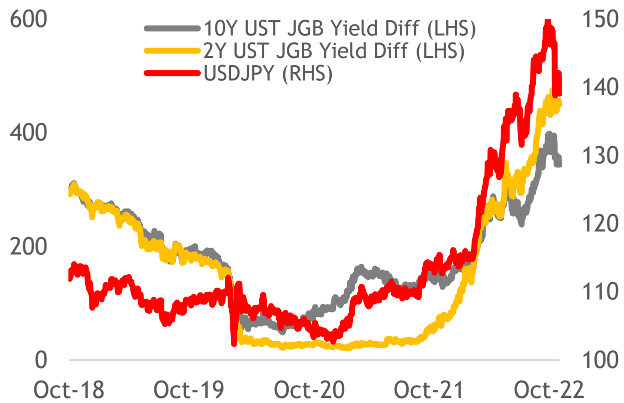
Motivation: Going into end 2022, one of this year's biggest losers - the JPY has been seeing quite the rally as market participants now increasingly speculate on the possibility of the Fed pausing going into 2023, sending UST 10 y yields downwards. Indeed, our house view for Fed rates likely to peak at 5.00% - 5.25% and the increasing probability of recessions are likely to further bring down UST yields, which would be a boost to the JPY. In the face of recession and geopolitical risks, the JPY's safe haven allure may also finally return, which was somewhat lost this year amid the central banks divergence and rising current account deficit. These two driving factors are likely to be dissipate as we go further into 2023. We are still expecting the BOJ to keep its loose policy in the interim even after Kuroda leaves in 2023. Our forecasts though are not hinged on a BOJ adjustment. In the interim, we expect volatility for the USDJPY amid market anxiety over the level that Fed rates would peak, especially in 1H 2023. However, the USDJPY should show a downward trend throughout the year.

UST-JGB differentials expected to substantially narrow in 2023. Inflation is expected to fall, albeit remain sticky downwards and staying above the Fed's target, which is likely to lead the central bank to hit the pause button at 5.00% - 5.25%. At the same time, the probability of recession in 2023 is also rising. Taken together, our FI team is expecting that UST yields would hit 2.75% by year-end 2023, a big drop from the levels seen at end 2022 and implying a large narrowing in UST - JGB yield differentials. This should send the USDJPY lower in the medium term.

BOJ is likely to keep a loose policy stance for 2023. As it stands, it doesn't appear that Japan's Prime Minister Fumiko Kishida is going to rock the boat and deviate from status quo. Among the field of potential replacements, current deputy governor Masayoshi Amamiya stands out as the favourite to take over, implying some continuation in policy. He has recently said that Japan inflation is "very high" now but likely to slow back below 2% in 2023. Amamiya is also known for having pioneered many of the central bank's monetary policy tools and masterminded its conventional monetary steps. In any circumstance, our bullish view of the JPY does not hinge on BOJ adjustment but rather on the falling UST yields. A surprise of an adjustment by the BOJ would instead provide an additional upside.

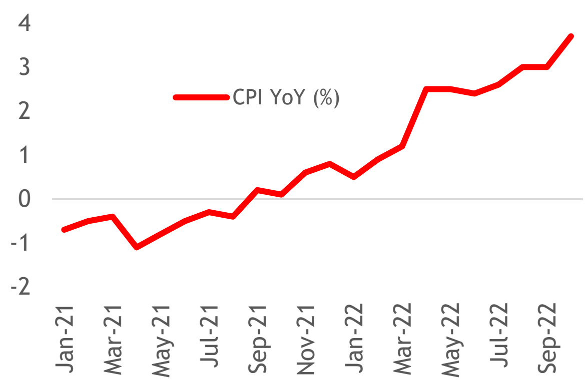
Risk to our view: Any event or development that could challenge the expectation of Fed rates peaking at 5.00% - 5.25% that in turn would lead to higher inflation and UST yields. This could include rising oil prices resulting from a bigger than expected economic rebound from China's reopening. Emergence of geopolitical tensions such as in the Taiwan straits can also risk disrupting supply chains and resulting in increase price pressures.

Narrower UST-JGB Yields to Support JPY into 2023



Source:Bloomberg, Maybank FX Research & Strategy

CPI Creeping Upwards but BOJ Staunchly Holds



RMB: Re-Opening to be Negative for USD and Eventually, RMB TWI

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023	4Q 2023
USD/CNY	7.05	7.00	6.95	6.90	6.85

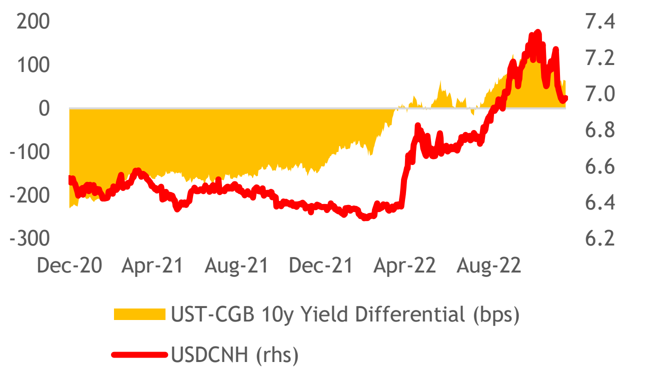
Motivation: The pivot is here as China shifts towards growth-friendly policy including the Covid-zero exits as well as property supports. That said, we widely expected China to grapple with the new Covid wave with potential refinements in policies. Normalization is expected to be very gradual while recovery could take quarters. Yuan sentiment had turned positive (alongside broader sentiment) on the first signs of easing in Covid-zero management announced in Nov. While we cannot rule out further positive knee jerk reactions from further incremental easing of Covid-zero restrictions, an eventual narrowing of its balance of payment buffers on the resumption of outbound Chinese tourists (likely in 2H of 2023), domestic demand recovery that can boost import bill could eventually weigh on the yuan trade-weighted index. CFETS RMB index could remain under pressure towards the 95-figure over 2023.

Property Sector Gets its Three Arrows. Thus far, the confidence level in the property sector has failed to improve even as the government produces multiple sets of measures to boost the sector over the course of 2022, crimp by financing limitations and weak domestic demand. Focus for this year thus far has been on home buyers whose home constructions have been delayed as developers face financing distress. As such, the first significant credit support was project-targeted. Mortgage rates were cut incrementally over 2022. Then came the more recent 16-point plan for property which was announced almost in tandem with the 20-point Covid management refinements in Nov. These provided more direct support for developers and more specifically three arrows – bank lending, bond issuance and equity financing. That said, recovery of the real estate is still uncertain and greater traction could provide a significant boost to the RMB.

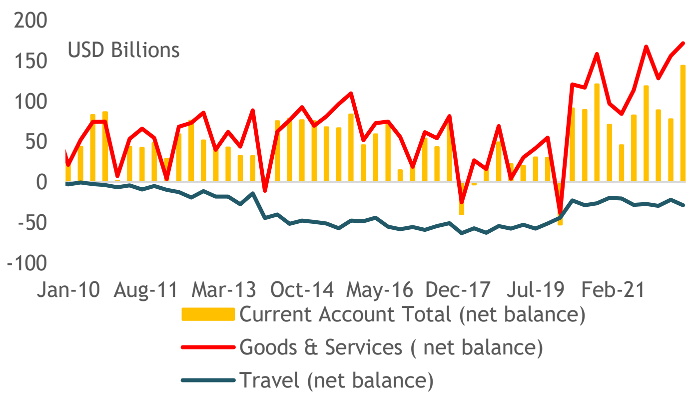
Carry Advantage Will Not be Restored. PBoC has not reached the trough of its easing cycle just as the Fed has not reached its peak but they are both close. As such, market speculations narrowed the UST-CGB 10y yield differential but a carry advantage is unlikely to be restored for the RMB in 2023. Beyond the near-term appreciation pressure against the USD, further gains for the RMB is likely to remain more gradual for the rest of the year against the greenback. In an environment of better risk sentiment, especially in the 2H of 2023, look for yuan to start underperforming more discernibly against the other non-USD FX.

Risks to our View: 1Q of 2023 could see quite a bit of volatility as infections and possibly death counts surge. Likely strains on healthcare capacity could complicate re-opening efforts. So that poses downside risks in the near-term. By the end of this wave (likely Feb 2023), elderly vaccination and healthcare capacity are likely to be ramped up for China to "live with Covid". A rebound in real estate could potentially follow and risks are thus skewed to the upside for the RMB vs. our current gentler appreciation trajectory.

Narrower UST-CGB Yield Differential Boost RMB vs. USD



A Resumption of Tourism Outflows Could Weigh on C/A



Source:Bloomberg, Macrobond, SAFE, Maybank FX Research & Strategy

SGD: More Upside in 2023 as Inflation May Stay Sticky

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023	4Q2023
USD/SGD	1.3600	1.3550	1.3500	1.3400	1.3200

Motivation: Coming into end 2022, the USDSGD has returned to levels seen around the beginning of the year. We are though expecting the USDSGD to head further downwards in 2023 as the USD strength gradually diminishes amid a potential peaking in Fed rates and declining UST yields. Additionally, our house view is such that probability is skewed to MAS tightening yet again in April 2023, via another recentering given that core inflation is likely to still remain well above their comfort zone. China's reopening over the coming months may also improve sentiment, which could provide further upside for the SGD.

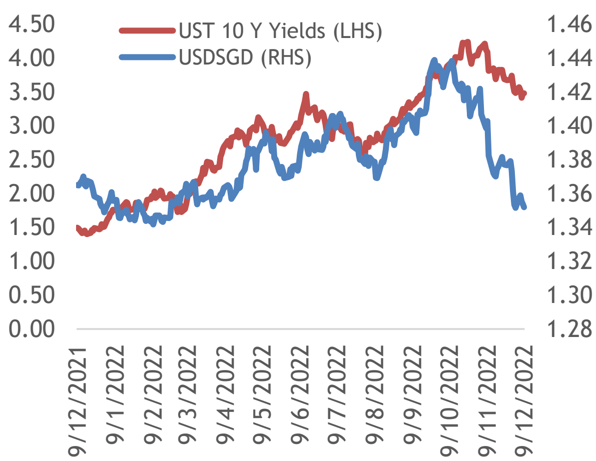
Core inflation may remain well above the MAS's comfort zone going into 2023. Price pressures are likely to stay sticky and only gradually fall amid various factors. These include a tight labour market, housing shortage and an expansion of progressive wage model. Unemployment is down to 2% as of 3Q 2023 and in fact stands at the lowest level since 2016 whilst wage growth remains strong at +7.1%. Accommodation costs at the same time could continue climbing due to a return of non-resident workers in addition to delays in property construction.

For now, the probability remains skewed for MAS to tighten policy again in April 2023, via a recentering. In their October statement, the MAS itself had stated its expectations that they see core inflation will stay elevated in the next few quarters given the tight labour market and imported inflation remains significant. However, they did also state that inflation would ease more discernibly in 2H 2023. Any more aggressive move also appears to be unlikely given the rising risk of recession. As a note, we are not ruling out the chances that MAS could stay pat should the economic dynamics evolve accordingly for them to do so.

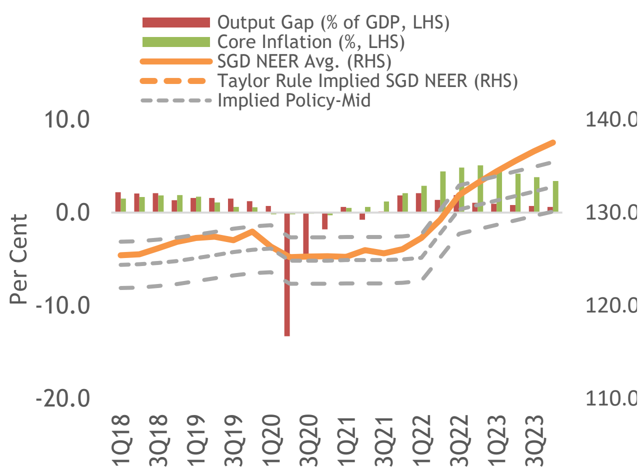
China's gradual reopening in the coming months could lift sentiment. China alone made up 17.6% share of the 2021 NODX and 19% of pre-pandemic 2019 tourist arrivals for Singapore. Hence, further reopening by the country can positively impact the SGD. We are though seeing that relaxation of the measures in China is likely to be more gradual over the year and the economic impact therefore to be more measured. Our USDSGD forecasts are however premise on basecase scenario. Any big China economic rebound from a quick reopening would be an upside to our SGD forecasts.

Risk to our view: Any event or development that challenges expectations of a Fed rate peak at 5.00% - 5.25%. Such developments would include a strong economic rebound from a China reopening leading to elevated oil prices. Regional geopolitical risks such as tensions related to Taiwan straits can also disrupt supply chains, raising price pressures.

USDSGD to Fall Together with UST Yields



SGD NEER Could See Upward Pressures in 2023 (Taylor Rule Estimates)



Source: Bloomberg, Maybank FX Research & Strategy

MYR: A Cautiously Positive Outlook

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023	4Q2023
USD/MYR	**4.45**	**4.40**	**4.25**	**4.15**	**4.05**

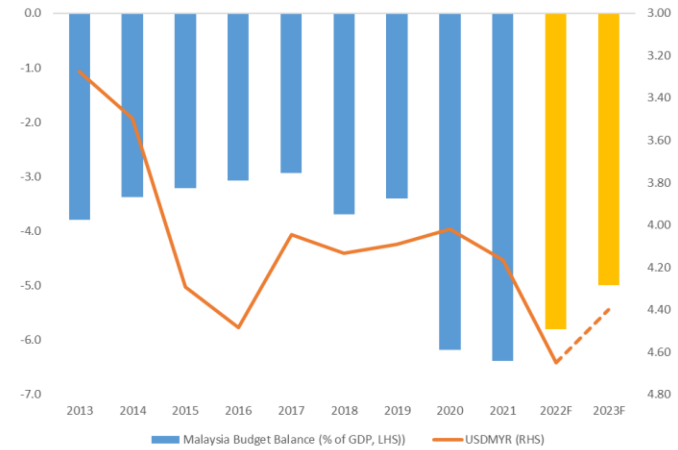
Motivation: We maintain a cautiously positive outlook on the MYR relative to the USD from around 2Q 2023, with support largely from external factors — China reopening, an eventual softer USD environment on the back of a slower pace of Fed hikes and RMB stability. We are also mindful that oil prices have fallen and on the domestic front, our economists are expecting a moderation in domestic demand, on the back of slower growth in private consumption as pent-up spending from full economic re-opening dissipates; and moderation in public consumption growth.

However, we assess positive developments afoot in Malaysia. First, the political uncertainty factor has dissipated after the recent GE. Although concerns still remain as in all new governments, on its sustainability and the signs of credible policymaking direction, but the uncertainty factor has fallen. Second, in our view, BNM's measured interest rate policy moves in 2022 and potentially in 2023, has been able to strike a balance between addressing inflation and supporting growth. Third, the build up in excess savings since 2020 amid lockdowns and economic stimulus measures such as cash handouts, financial aid and pre-retirement EPF withdrawal schemes have provided a buffer and support for consumer spending growth. We also expect tourism recovery will be the key re-opening tailwinds in 2023 after the full opening of the economy from 1 Apr 2022. Finally in the medium term, technology-driven investment drivers will pick up for Malaysia. Investment growth outlook remains favourable as investment approvals - including and especially FDI - hit record high in 2021 and remained robust in 1H 2022, and importantly translates into rising actual/realised investment/FDI.

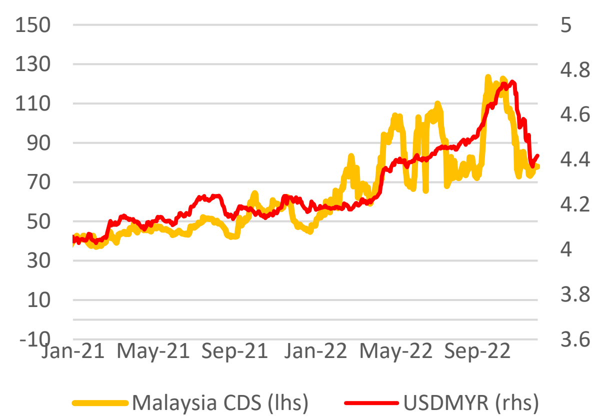
Taking all that into consideration, we expect MYR to strengthen in a sustained way from 2Q 2023 onwards. Near term, the MYR has seen some appreciation vis a vis the USD amid a retracement in UST yields, China reopening plays and expectations of a China recovery in 2023. The MYR looks relatively "cheap" in Real Effective Exchange Rate (REER) terms and trade balances remain benign. The political uncertainty factor which have dampened sentiment on MYR has receded following the recent election outcome.

Risks to look out for in 2023. 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. Beyond commodity price volatility, some uncertainty domestically from concerns about the current government's sustainability will remain. If that worse scenario (not our baseline) materialises, it may induce some MYR volatility in 2023. There is also risk that China will still continue to remain cautious in their reopening and US Fed started reiterating their hawkish stance again amid a tick up in inflation.

Budget Deficit Expected to Narrow in 2023



Some Political Clarity Supports the MYR



Source: Bloomberg, Maybank FX Research & Strategy

IDR: Upside but Falling Commodity Prices to Pressure Currency

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023	4Q 2023
USD/IDR	15700	15600	15400	15300	15000

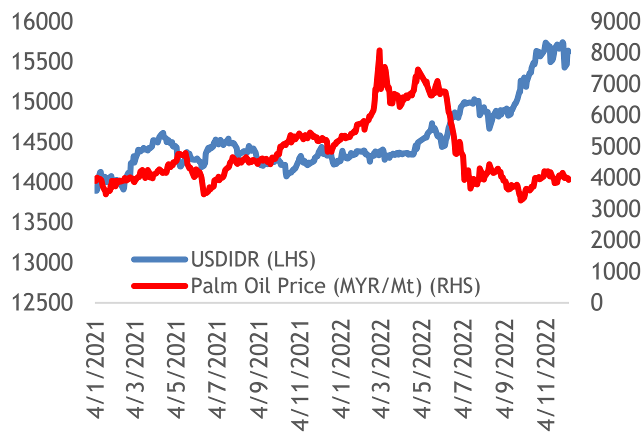
Motivation: The USDIDR pair should see a downward trend in 2023 amid some positive external developments although certain pressures may limit the extent of the fall. Expectation of a peak in Fed rates at 5.00% - 5.25% and consequently lower US yields should be supportive to yield sensitive EM currencies such as the IDR. However, on the flipside, the return of a current account deficit as export momentum fades amid a correction in commodity prices would weigh on the currency. On net though, the former factor would outweigh the latter as the overall strengthened fundamentals should limit the impact of the twin deficit return although gains may be limited. In the first half of 2023, we see that lingering uncertainty on the trajectory of the Fed's rate hikes may likely still keep the USDIDR supported on dips. Going into the second half though, more clarity on the peak level of Fed rates should be more supportive towards the IDR.

The current account is likely to revert to a deficit although the impact should be contained. Our in-house economists see the current account at -0.8% of GDP in 2023 as commodity prices, particularly palm oil and coal correct from the elevated levels we have been seeing in the last couple of years. Essentially, this implies a return of the twin deficit, a condition which has made the IDR more sensitive to sentiment driven portfolio outflows. However, strengthened overall fundamentals though should limit this impact. Foreign reserves now stand much higher than in past episodes whilst the debt profile is much healthier, i.e. lower external debt levels. The current account deficit itself is also going to be much narrower than the pre-pandemic levels of -2.0% of GDP. Fiscal consolidation should revert the balance back to -3.0% of GDP and also help improve sentiment. As a note, the IDR is unlikely to receive support from rising nickel demand due to restrictions.

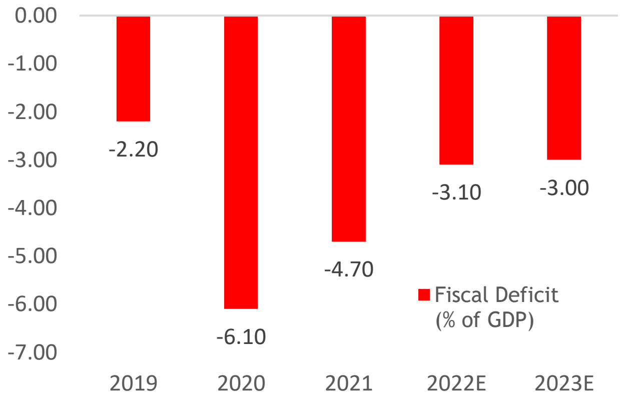
Narrower UST – ID yields differential should give some support the IDR. The possibility of the Fed rate peaking at 5.00% - 5.25% and the rising risk of recession should likely drive UST yields lower. Our house forecast is for the UST 10 y yields to hit 2.75% by year end which would imply a significant narrowing in differentials. Bank Indonesia (BI) is also expected to hike by an additional 50bps to hit a terminal rate of 6.00% as they try to contain inflation, which is likely to stay above their target range in 1H 2023 although it should fall back within it in 2H 2023.

Risk to our view: Any event or development that could challenge a peak in Fed rates at 5.00% - 5.25%. This includes a strong rebound from China's economic reopening leading to elevated oil prices and keeping inflation elevated. Aside that, other risks include a significant global slowdown that leads to a sharper than expected drop in commodity prices which would negatively impact both the current account and fiscal position.

Falling Commodity Prices Risk Weighing on IDR



Narrowing Fiscal Deficit Could Improve Sentiment



Source: Bloomberg, Maybank FX Research & Strategy

PHP: Vulnerable Fundamentals to Limit Upside

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023	4Q2023
USD/PHP	56.50	56.00	55.50	55.00	54.00

View: The USDPHP is likely to see more limited downward movement in 2023 amid vulnerable PHP fundamentals. The PHP has been hit hard this year by the rising US rates and the BSP has raised rates by a cumulative +300bps this year. Expectations are that they would be another 50bps hike before year end to 5.50% and hold at that level for 2023. However, the pressure from a rate differential perspective on the PHP is likely to reduce going into 2023 amid the possibility of Fed rates peaking at 5.00% - 5.25%. Instead, appetite towards the currency is likely to be weighed down by concerns related to a wide current account deficit, pressured fiscal position and weakening foreign reserves' buffers, which limits upsides. Our in-house economists are calling for the current account deficit to persist at 3.8% of GDP given the country's position as a net food and fuel importer. The country's fiscal deficit is also expected to remain wide at 6.0% of GDP next year amid infrastructure outlays even as the requirements for Covid support has reduced. Meanwhile, the significant drop in foreign reserves this year has substantially weakened the central bank's buffers going forward. However, the PHP actually faces both upside and downside risks. Rising recession risks can weigh on oil and gas prices which could provide some relief to the Philippines' external position. The Philippines is also one of the world's largest nickel ore exporters in the world and China's biggest supplier. An increasing drive by global governments to invest in renewables can increase demand for Nickel and improve the current account position, much to the benefit of the PHP. On the flipside, a strong rebound from China's reopening or regional geopolitical tensions can increase inflationary pressures both challenging expectations of a Fed rate peak and further weakening the country's fundamentals.

THB: Gradual Recovery into 2023 as Tourism Returns

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023	4Q2023
USD/THB	35.50	35.00	34.50	34.00	33.50

View: The USDTHB directionally should head downwards in 2023 albeit more likely at a gradual pace as tourism returns to Thailand. Our in-house economists expect improving tourism receipts, easing freight rates and falling oil prices will likely help swing the current account back into surplus at 2.5% of GDP in 2023, which in-turn should be a boon to the THB. At the same time though, China's reopening still stands as a wildcard and the country itself amounted to 28% of visitors' arrivals and tourism receipts pre-pandemic. Our forecasts though are not factoring a big-bang of any sort from a China reopening and that for now is more of an upside risk. There are concerns of Thailand's falling FDI with applications declining -25% in the first 9 months of 2022 but the potential of supply chain relocations out of China can be a positive in this area going forward. Meanwhile, diminishing USD strength amid peaking Fed rates and falling UST yields should be supportive of the THB. Aside that, the country's fiscal position remains relatively stable with expectations that public debt should be at 60.4% of GDP in 2023, well below the 70% ceiling. Risks towards the currency lies more from an energy perspective as high fuel prices can weigh on the country external position given that it is a net importer. Developments that could lead to a realization of such a situation includes a strong economic rebound from China's reopening leading to increased demand for fuel or geopolitical tensions related to Russia. Also, events that challenge peaking US Fed rates would be another negative for the THB.

VND: Downside Risks Not Dissipating Fully

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023	4Q 2023
USD/VND	**25000**	**24800**	**24700**	**24500**	**24200**

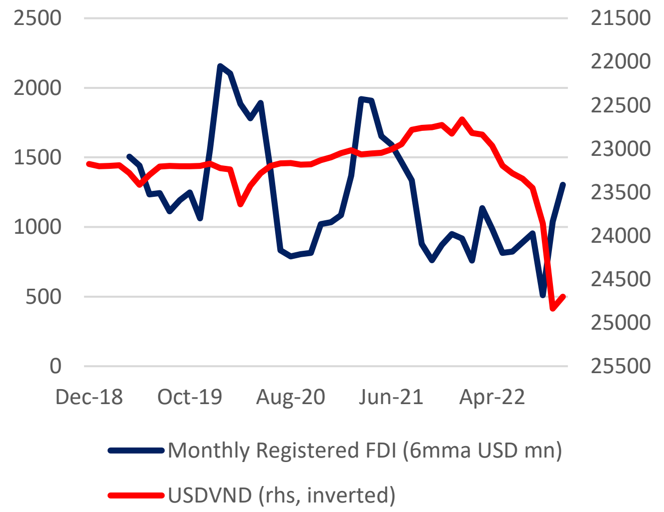
Motivation: VND is poised to start the year with downside risks still likely to emanate from US inflation/labour market conditions as well as concomitant impact from Fed's policy trajectory. Potential for liquidity strains that could impact some local real estate developers could also dampen VND sentiment. That said, VND can find its foothold on back of current account improvement (shrinking import bills due to cooling commodity prices and supply chain disruptions), moderating inflation pressure that could be constructive for growth and some positive trade spillovers from China re-opening. Our economist looks for another 50bps hike in 1Q of 2023 and that could add boost to the VND. The broader USD trajectory will provide directional cue for the USDVND.

A Year Not Without Risks. SBV was forced to raise policy rate by 200bps in 2022 to support the VND and the central bank increased its scrutiny over the bank lending to developers and homebuyers. Our economist looks for challenges in the property sector to persist into 2023 as demand is weakened by higher borrowing costs while developers see the need to improve their liquidity positions to repay corporate bond maturities over the next two years. There is a potential for some developers to face liquidity and refinancing stresses in 2023 when corporate bonds mature. That could weigh on domestic demand as well as VND sentiment. SBV is likely to tap on existing tools to alleviate liquidity crunch and a systemic impact is not in our base case.

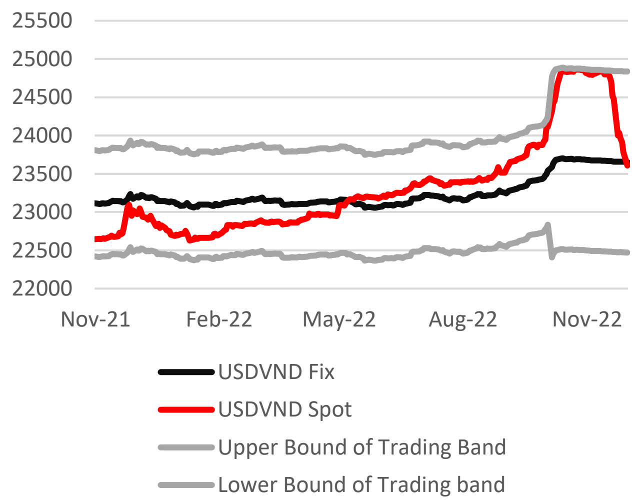
FDI Steady, Await Tourist Receipts Too. Foreign direct investment flows have rebounded recently. VND volatility as well as real estate challenges could have weighed on foreign investments previously. Recovery in inbound tourism (especially from China), better clarity on the US interest rate environment in 2023 could be a tad more conducive for FDI flows and the VND.

Risks to Our View. A more severe-than-expected liquidity crunch could be negative for the VND while stickier-than-expected US inflation could result in more aggressive tightening by the Fed and stronger support for the USD.

FDI Flows Have Rebounded



VND is now Reset, Sees Little Depreciation Pressure



Source: GSO of Vietnam, Bloomberg, Macrobond Maybank FX Research & Strategy

FX Forecasts

	End Q4-22	End Q1-23	End Q2-23	End Q3-23	End Q4-23
USD/JPY	140.00	138.00	135.00	130.00	125.00
EUR/USD	1.0400	1.0500	1.0500	1.0600	1.0700
GBP/USD	1.2000	1.2000	1.1700	1.1800	1.2000
AUD/USD	0.6800	0.7000	0.7200	0.7400	0.7500
NZD/USD	0.6400	0.6500	0.6600	0.6700	0.6800
USD/CAD	1.3300	1.3100	1.3000	1.3000	1.3000
USD/SGD	1.3600	1.3550	1.3500	1.3400	1.3200
USD/MYR	4.4500	4.4000	4.2500	4.1500	4.0500
USD/IDR	15700	15600	15400	15300	15000
USD/THB	35.50	35.00	34.50	34.00	33.50
USD/PHP	56.50	56.00	55.50	55.00	54.00
USD/CNY	7.05	7.00	6.95	6.90	6.85
USD/CNH	7.05	7.03	7.02	7.00	6.95
USD/HKD	7.85	7.85	7.80	7.80	7.80
USD/TWD	31.50	30.00	30.00	29.30	29.00
USD/KRW	1350	1330	1320	1300	1290
USD/INR	81.50	81.00	80.00	80.00	79.00
USD/VND	25000	24800	24700	24500	24200
DXY Index	106.31	105.57	105.18	103.83	102.50
SGD Crosses	End Q4-22	End Q1-23	End Q2-23	End Q3-23	End Q4-23
SGD/MYR	3.27	3.25	3.15	3.10	3.07
JPY/SGD	0.97	0.98	1.00	1.03	1.06
EUR/SGD	1.41	1.42	1.42	1.42	1.41
GBP/SGD	1.63	1.63	1.58	1.58	1.58
AUD/SGD	0.92	0.95	0.97	0.99	0.99
NZD/SGD	0.87	0.88	0.89	0.90	0.90
CAD/SGD	1.02	1.03	1.04	1.03	1.02
SGD/IDR	11544	11513	11407	11418	11364
SGD/THB	26.10	25.83	25.56	25.37	25.38
SGD/PHP	41.54	41.33	41.11	41.04	40.91
SGD/CNY	5.18	5.17	5.15	5.15	5.19
SGD/HKD	5.77	5.79	5.78	5.82	5.91
SGD/TWD	23.16	22.14	22.22	21.87	21.97
SGD/KRW	993	982	978	970	977
SGD/INR	59.93	59.78	59.26	59.70	59.85
SGD/VND	18382	18303	18296	18284	18333
	End Q4-22	End Q1-23	End Q2-23	End Q3-23	End Q4-23
JPY/MYR	3.18	3.19	3.15	3.19	3.24
EUR/MYR	4.63	4.62	4.46	4.40	4.33
GBP/MYR	5.34	5.28	4.97	4.90	4.86
AUD/MYR	3.03	3.08	3.06	3.07	3.04
NZD/MYR	2.85	2.86	2.81	2.78	2.75
CAD/MYR	3.35	3.36	3.27	3.19	3.12
MYR/IDR	3528	3545	3624	3687	3704
MYR/THB	7.98	7.95	8.12	8.19	8.27
MYR/PHP	12.70	12.73	13.06	13.25	13.33
MYR/CNY	1.58	1.59	1.64	1.66	1.69
MYR/HKD	1.76	1.78	1.84	1.88	1.93
MYR/TWD	7.08	6.82	7.06	7.06	7.16
MYR/KRW	303	302	311	313	319
MYR/INR	18.31	18.41	18.82	19.28	19.51
MYR/VND	5618	5636	5812	5904	5975

Source: Maybank FX Research as of 1 Dec 2022. *These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.

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