1 Mar, 2022

Maybank

FX Monthly

2022, Issue 2: Fed Rate Hike & Russia-Ukraine Conflict Will Dominate

What Has Changed This Month?

- We revised INR a tad lower for only 1Q given the recent rise in crude oil prices that could keep USDINR pair buoyant in the near-term. In addition, RMB forecasts are also calibrated slightly higher as war in Ukraine amplified its safe haven attributes and add to its bullish momentum.

Our Strategies

- Ukraine situation remains fluid and geopolitical risks are 2-way for markets. We cannot predict how long the conflict will last but we can draw on experience from past events (e.g., 9-11 attack, Crimea annexation in 2014 and Turkish offensive into Syria in 2009). While troughs for most FX took varied durations to materialize, most losses had been reversed on average after several weeks, if conflict remained localized. Risk is if further rounds of sanctions/counter-sanctions structurally worsens DM-Russian relations, materially raising chances for further bouts of geopolitical tensions going forward.

- Full-scale Russian invasion of Ukraine opens up the possibility of Russia eyeing other Baltic states, including Lithuania while the risk of a long-drawn battle with Ukraine should also not be ruled out. Ukraine tensions is a negative for EUR due to EU's linkages with Russia via trade, energy and sentiment channels. There is risk Russia may turn off gas supplies to Europe, in turn exacerbating Europe's energy shortage as the EU relies heavily on Russia for energy consumption (41% gas comes from Russia). Prolonged increase in energy and food prices could mean even higher price pressures adding constraints to growth (stagflation-like risk). In addition, recent ECB speaks revealed that policymakers may consider delaying policy normalization plans in light of Ukraine situation. Nonetheless if ceasefire talks progress smoothly, the EUR could stage a big relief rally.

- For AxJ FX, sentiment drags are likely to emerge through mainly sentiment channels, unlike EMEA FX where linkages extend beyond sentiments to trade, energy and investment flows. Notably, Russia's trade shares with most Asian economies are not significant, with the exception of China. But despite larger trade linkages to Russia, yuan remains relatively resilient to risk-off geopolitical headlines, on robust macro fundamentals and some semi-haven demand. A stable USDCNH pair can serve as an anchor for other USD-AxJ FX. Assuming this is not a long-drawn conflict, we expect the negativity surrounding Asian FX to slowly fade.

- Fears of faster Fed, strong US data and geopolitical concerns could see USD supported but we are of the view that USD should peak soon as (1) hawkish expectations are in the price; (2) Fed is not the only one tightening; (3) synchronous policy normalisation in the face of positive global economic backdrop allows for cyclical FX to strengthen.

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Top 3 Currency Plays for Mar

Sell DXY on Rallies
Stay Long AUD, CAD
Sell USDSGD on Rallies

Key Events for the Month Ahead

Date	Event
4 Mar	China's Two Sessions (两会)
9 Mar	Korea Presidential Election

G7 Global Overview

USD: Fed Rate Hikes & Russia-Ukraine Conflict Dominate

Forecast	1Q 2022	2Q 2022	3Q 2022	4Q 2022
USD Index	96.46 (--)	**95.12** (--)	**93.93** (--)	**92.71** (--)

No Change to Previous Forecasts

- **Motivation:** USD remains supported even more with safe haven flows by end Feb with the Ukraine crisis developing. This is on top of support ahead of the Mar 2022 FOMC. FoMC on 27 Jan saw another set of hawkish Fed messaging. (1) March lift-off is highly likely and well-priced by markets since weeks ago as Fed indicated that rate hikes "will soon be appropriate" and officials were "of a mind" to raise rate in Mar; (2) Fed opens up flexibility, optionality for rates to go higher as the statement left out phrases such as "gradual" or "measured", which were previously used in the last tightening cycle to indicate tightening path; (3) sense of urgency at the Fed as high inflation threat is real. Fears of faster Fed, strong US data and geopolitical concerns could see USD supported but we are of the view that USD should peak soon as (1) hawkish expectations are in the price; (2) Fed is not the only one tightening; (3) synchronous policy normalisation in the face of positive global economic backdrop allows for cyclical FX to strengthen.

- As of 28 Feb, 30d Fed fund futures are pricing in about 6 hikes for 2022 (vs. 3 hikes as per Fed's dots plot in Dec-2021) while a 25bps hike as early as at Mar FoMC is more than priced. There were chatters of 50bps hike in Mar as Fed may need to do more to restore inflation-fighting credibility. But this has now faded as recent comments from Fed inner circle – Williams and Brainard – whom brought down probability of 50bps hike to just 10%, from a high of >80% probability at one point. In previous speeches, Powell also took the opportunity to lay the roadmap for balance sheet normalisation – Fed to begin shrinking balance sheet after rate increases commence. Decision on timing and pace of balance sheet reduction will be made at coming meetings. He did point to the use of redemption caps to roll off balance sheet (like in 2017-19) instead of selling its holdings outright (to stem earlier speculation that Fed may consider this option). **Focus this week on Fed Chair Powell's testimony to House panel (2 Mar) and senate banking committee (3 Mar) if the Ukraine war will affect Fed's plan to normalise policies and how will Fed balance growth risks and inflation concerns. The surge in oil prices past $106/bbl at one-point last week is a stark reminder that ongoing global supply disruptions could get worst and thus further exacerbate inflation concerns and pose downside risks to global growth.**

- Concerns arise if Fed's double tightening – rate hikes (possibly starting in Mar) and balance sheet run-off (likely in 3Q) – may drive an extended sell-off in bonds and equities (which has already happened) and see risk-off sentiment driving the USD higher. This scenario of double tightening in quick succession is unprecedented. Uncertainty on this front may temporarily lend support to the USD.

- Besides Fed policy normalisation, support for the dollar also comes from the rise in energy prices (US is net energy exporter) which has exacerbated with the recent Russia-Ukraine crisis, covid variant spread lingering (element of risk aversion), growth concerns in China (risk of derailing global growth momentum) as well as concomitant risk of geo-political concerns brewing in Ukraine. However we expect interim USD support to fade (more likely from 2Q or 2H 2022 onwards) as the USD countercyclical factor comes in, and policy divergence in favor of US narrows. We base on the assumption that the geo-political risk out of Ukraine could dissipate within the quarter for now.

- Fundamentally, USD in the medium term still remains negatively weighed down after running a twin deficits of budget (-15% of GDP) and current account (-3.4% of GDP) while debt (>80% of GDP) is expected to rise further.

- **Looking for USD to Ease Off.** USD countercyclical nature can come into play, conditional upon the world exiting pandemic and global growth outside US sees broader recovery as more economies reopen, loosen travel borders amid improving covid situation and more even rates of vaccination globally. While there may be monetary policy divergence in favour of USD, we believe this factor alone can be mitigated to some extent. We had argued that Fed is not the only central bank tightening. BOE could potentially normalise as early as Feb. Other central banks that had previously held ground have somewhat bent with the wind. Other central banks (i.e. RBNZ, BoK, MAS, etc.) have already embarked on their normalisation paths and more regional central banks could follow suit in 2H 2022. To some extent, monetary policy divergence in favor of USD may not be as diverged as before. This should somewhat narrow USD's advantage, hence our modestly sloping DXY forecast trajectory despite a stronger USD in 1Q 2022.

- Overall, we had earlier already revised our dollar DXY higher in 1H 2022, on the back of the stronger USD move following the hawkish messaging by the Fed in the run-up to Mar FOMC which also manifested in a revision in our EUR and GBP forecasts lower too, last month.

- **Growth and Inflation Outlook: US economy expanded 7% q/q in 4Q.** Stronger business investment and state, local government spending, offset slightly softer consumer spending. Meanwhile forward looking survey, sentiment and activity indicators point to solid growth momentum ahead. Prelim PMIs for manufacturing and services jumped in Fed to 57.5 and 56, respectively (from 55.5 and 51.1 respectively in Jan) while conference board consumer confidence better expectations in Feb at 110.5 vs. 110 (exp). Retail sales, industrial production and capacity utlisation all see upticks in Jan.

- US jobs market report was a solid one for Jan. Jan NFP jumped +467k (vs. consensus of +125k) while there was substantial upward revisions to NFPs in Nov (+647k vs. initial report of +210k) and Dec (+510k vs. initial report of +199k). This basically shows that trend employment growth did not moderate as previously thought to be. Payroll employment also increased across most sectors, led by gains in leisure & hospitality as well as professional and business services. Though Jan unemployment rate ticked slightly higher to 4% (vs. 3.9% in Dec), this was due to a rise in labor force participation rate to 62.2%, from 61.9%. Apart from solid job growth numbers, wage growth data was impressive. Average hourly earnings saw a sequential pick up to 0.7% m/m (vs, 0.5% prior and expected). In annual terms, hourly earnings rose 5.7% (vs. 4.9% prior vs. 5.2% expected). Wage pressures could stay elevated in the interim amid labor supply constraints but as labor participation starts to show signs of rising, there may be room for wage pressures to ease in coming months. To sum it up for now, the solid jobs report of tighter labor market and accelerating wage growth added to the likelihood of a faster pace of Fed normalization.

- Headline CPI increased 0.6% m/m in Jan. On annual change, CPI rose 7.5% y/y (up from 7% in Dec). This is the 4th straight month of gains in excess of 6% and largest annual gain in 40 years. Rise was led by soaring costs for rents, electricity and food. Core CPI rose 0.6% m/m and 6% y/y in Jan (vs. 5.5% in Dec). It was the 7th time in the last 10 months that the so-called core CPI has increased at least 0.5%. Core CPI was boosted by strong gains in the prices for apparel, airline fares, household furnishings, healthcare costs and operations as well as used cars and trucks. High inflation could still be sustained, in part reflecting rising wages and in part due to another round of push up in energy prices amid Ukraine war (putting further strain on supply chain disruptions).

- **Monetary Policy Forecast:** 25-26 Jan 2022 FOMC meet ended with target fed funds rate (FFR) kept at 0.00%-0.25%. FOMC Statement shows QE Taper will end in early-Mar 2022 and signals FFR hikes to commence at the next FOMC meet i.e. 15-16 Mar 2022. Our economist's baseline is a total of 3/+75bps hikes p.a. in 2022-2023, followed by 2/+50bps hikes in 2024 and 1/+25bps increase in 2025 en route to the 2.50% terminal rate. Risk is "faster" Fed. No call on Quantitative Tightening (QT) but it's on the card as Fed shares QT "guidelines".

- Latest FOMC statement indicates FFR hike to kick off in the next FOMC meet on 15-16 Mar 2022. Fed is playing catch up with its "dual mandates" of price stability and maximum employment. Inflation rate is well over Fed's previous inflation rate target of 2% level, and under its current inflation rate target of 2% average, CPI have already averaged above-2% on multi-year basis; while US labour market is as good as back to its pre-COVID-19 condition as per the unemployment rates.

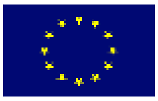
- Taking cue from FOMC's current guidance on FFR path as per the "dots plot" and terminal FFR forecast of 2.50%, as well as the above-mentioned FOMC Statement indicating FFR hikes cycle to start at the 15-16 Mar 2022 FOMC meet, our baseline scenario is 3/+75bps per annum hikes in 2022-2023, 2/+50bps hikes in 2024 and 1/+25bps rise in 2025 en route to the terminal rate.

- To note, current QE Taper's duration is faster i.e. 5 months (Nov 2021 – Mar 2022) vs 10 months previously (Jan-Oct 2014). Our forecasts on FFR hikes expect the 2.50% terminal rate to be reached in the fourth year (i.e. 2025) of the upcoming hikes cycle, same as previously (2015-2018) but with different FFR trajectory i.e. +75bps hikes p.a. in the first two years and easing next two years vs previous +25bps hikes p.a. in the first two years and accelerated in the next two years.

- The risk is Fed putting more metal to the pedal on FFR hikes to reach the 2.50% terminal rate earlier. Our alternative scenario is 4/+100bps p.a. hikes in 2022-2023 and 1/+25bps rise in 2024 to reach the terminal rate by Jan 2024. Worst-case scenario is Fed raising FFR at every FOMC meetings from Mar 2022 until the terminal rate is reached by 1Q 2023. All these scenarios assume terminal rate remain at 2.50%.
- The minutes of the Jan FOMC meeting did not reveal anything new. The minutes were very noncommittal on the anticipated pace of rate hikes - "most participants suggested that a faster pace of increases in the target range for the federal funds rate than in the post-2015 period would likely be warranted." The minutes say, "Most participants noted that, if inflation does not move down as they expect, it would be appropriate for the Committee to remove policy accommodation at a faster pace than they currently anticipate." This suggests that most participants in Jan expected a fairly gradual removal of policy accommodation (perhaps 4-5 hikes this year) under the expectation inflation will moderate. If it does not, participants will likely switch to a more aggressive posture as incoming data alter their view.
- Recent Fed speaks suggests division within Fed re size of first rate hike ,with inner circle looking for 25bps hike. Williams said there is no compelling argument for Fed to kick off with a big move, and instead called for Fed to raise rates steadily and adjust pace if needed. On balance sheet roll down, he commented that Fed will be able to shrink holdings substantially by letting securities roll off as they mature. Brainard said it is appropriate to start a series of Fed hikes in March, followed by decreases in size of balance sheet in coming meetings. Though she did not offer her view on magnitude of rate hike, she did say that the rise in mortgage rates were consistent with where the Fed is heading. Evans downplayed the idea that Fed needs to get more aggressive as he remained convinced that inflation would ease of its own. These recent Fed comments brought down probability of 50bps hike in Mar to just ~10%, from a high of >80% probability at one point. Elsewhere Chris Waller said he sees strong case for 50bps hike in Mar if economic data keep coming in hot though Ukraine conflict added uncertainty to his outlook. He further added that preference is to increase target range 100bps by mid-year and to shrink balance sheet no later than Jul's FoMC. The surge in oil prices past $106/bbl at one point this week is a stark reminder that ongoing global supply disruptions could get worst and thus further exacerbate inflation concerns. This could keep UST yields supported.
- **Latest Fiscal and External Balance Outlook:** The trade balance came in at a deficit of $80.7bn in Dec 2021, driven by a larger-than-expected improvement in the services balance. Total exports were up 1.5% on the month, while total imports rose 1.6%. Goods deficit widened to $101.4bn which was offset to some degree by services trade, where services exports bounced another 2.0% in Dec, on the back of Nov 5.3% rise, while services imports fell 0.7%.
- **Key domestic events and issues to watch in Feb**: ISM Manuf (1 Mar); Feb ADP employment (2 Mar); ISM services, Jan Factory orders, durable goods orders (3 & 24 Mar), NFP (4 Mar); Trade balance (8 Mar); Feb CPI

(10 Mar); retail sales (16 Mar); FOMC (17 Mar); services PMI (24 Mar); PCE deflator (31 Mar); 4Q GDP (30 Mar).

- **Technical Outlook:** DXY was better bid this month as military conflict in Ukraine saw safe haven proxies strengthened. DXY was last seen at 97.40 levels. Momentum on monthly, weekly and daily charts is bullish. Risks skewed to the upside for now. But we observed a potential rising wedge in the making - typically a bearish reversal - though its still early to concur. Immediate resistance at 97.72 (61.8% fibo retracement of 2020 high to 2021 low). A decisive break above this will see gains gather traction. Next resistance is at 99.72 (76.4% fibo). Support at 96.10 (21, 50 DMAs, 50% fibo), 95.57 (100 DMA), 94.50 levels (38.2% fibo).



EUR: Casualty in Russian Invasion of Ukraine

Forecast	1Q 2022	2Q 2022	3Q 2022	4Q 2022
EURUSD	**1.1400** (--)	**1.1500** (--)	**1.1600** (--)	**1.1800** (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** A **cautious outlook on EUR remains warranted in the near term amid heightened tensions in Ukraine** (Russian invasion, Western sanctions on Russia), French election uncertainty (no confirmation if current President Macron will run again) and wide EU-UST yield differentials (-193bps from -135bps at start of year). However we **do not expect EUR to stay backfooted this year. In fact we had observed emerging signs (both technical and fundamental) that a bottoming out process may be underway** (if not for Russian invasion): (1) ECB speaks of late have somewhat signalled a hawkish tilt that may have profound and positive impact on EUR if the negative interest rate policy (NIRP) era is indeed over; (2) Europe's recovery from pandemic remains intact and we retain our argument that ECB's complacency on inflation outlook may result in ECB policies needing to play catch up in normalizing. We expect this to feature as a key driver in 2H 2022 especially when inflationary pressures fail to abate; (3) USD tends to depreciate post first fed hike and we observed that in the last 2 Fed tightening episodes in 2004 and 2015, EUR traded higher post first Fed hike; (4) geopolitical tensions effects tend to have more impact on markets in early phases (like now) but the effect should fade over time (unless military aggression expands and prolong). In summary, we expect EUR to be in a bottoming process and trade within 1.10 - 1.15 range for 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 range) 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.

- **Blow-up in tensions is a negative for EUR.** EUR remains under pressure amid full-scale Russian invasion of Ukraine. The attack opens up the possibility of Russia eyeing other Baltic states, including Lithuania while the risk of a long-drawn battle with Ukraine should not be ruled out. EUR softness may persist given its trade, energy and investment ties with Russia while potential delay in ECB policy normalisation further weighs. In 2020, Russia was 5th largest partner for EU exports and imports. A military conflict could see Russia turn off gas supplies to Europe, in turn exacerbating Europe's energy shortage situation as the EU relies heavily on Russia for energy consumption (41% gas comes from Russia). Even as Russia has yet to turn off the gas taps, European gas futures jumped >60% at one point yesterday. Prolonged increase in energy and food prices could mean even higher price pressures adding constraints to growth (stagflation-like risk). That said, a diplomatic solution to end military conflict can add to EUR's recovery.

- **Beyond Geopolitical Tensions, an ECB Shift will be a Positive for EUR.** The last ECB meeting (3rd Feb) was a surprise hawkish tilt as it was the first time there was an acknowledgement from ECB that inflation is a growing concern and the the idea of a rate hike this year was not dismissed. In 2017, ECB also indicated a hawkish tilt from their very dovish stance and EUR subsequently rose about 8% (from Jun-Sep-2017). Then, the ECB did not even raise interest rates. All ECB did was to talk about reflationary forces taking over from deflation, euro-area recovery strengthening and broadening as well as tapering QE. This time round, EU inflation and macro conditions (PMIs still indicate expansion in mfg and services despite omicron spread while inflation at record high of 5.1%) as well as faster tightening cycle amongst global peers do seem to suggest that there is room for ECB to unwind some of its policy accommodation. This is supportive of EUR gains and if we get more signs that ECB's era of NIRP is nearing its end, then we could potentially see even more EUR strength as legacy large EUR shorts (typically used to fund assets) unwind. For now, markets are pricing 25bps hike to bring deposit rate to -0.25% by Dec-2022.

  - **We however note that recent Ukraine development may throw a curveball to ECB policy normalization plans.** ECB speaks of late suggest that policymakers may consider slowing policy normalisation process in light of the Ukraine conflict. But they will continue to assess the situation. Holzmann whom earlier said he backed 2 hikes this year has struck a cautious tone overnight - *it's possible however that the speed may now be somewhat delayed.* Schnabel said that current inflation outlook calls for gradual normalisation but will carefully assess Ukraine impact on policy. Stournaras said ECB must keep buying bonds to cushion Ukraine fallout.

  - ECB officials may not favor normalizing policy if inflation is supply side driven as they are concerned that higher borrowing cost could hit demand. However sharp rise in prices is likely to hit sentiment and consumption spending. And these give rise to stagflation troubles (risk of runaway inflation and slowing growth). Ideally, we opine they should carry on with their gradual normalization plans and maintain their previous forward guidance. To some extent, a stronger EUR could also help to mitigate imported inflation pressure as well.

- **Dramatic French Elections Can be a Source of Volatility but Not Expected to Out-last**. First round of Presential election takes place on 10th Apr. Current French President Macron's approval rating has been falling to 37% in Jan, from 41% in Dec, according to polls. Despite the decline, Macron's rating still lead his competitors, Nicolas Sarkozy and Francois Hollande. The issue is that it remains unclear if Macron will declare his bid for re-election.EUR face further downside play if president macron decide not to.

- **Growth and Inflation Outlook: Euro-area GDP rose 0.3% q/q in 4Q,** slightly softer than the 0.4% expected as omicron wave, supply chain disruptions weighed on activity. Breakdown by country showed German economy shrinking in 4Q while Spainish and French economies rebounded. In annual terms, 4Q GDP for Euro-area was 4.6%. For whole of 2021, growth for the region came in at a respectable +5.2%. Euro-area economy is now at pre-pandemic lavel. Looking on, Feb's preliminary PMIs suggest that growth momentum remains intact. Mfg PMI came in modestly lower at 58.4 (vs. 58.7 expected, prior) and this is likely due to supply chain bottleneck issues as backlogs of work index jumped to 58.7 from 56.9. Meanwhile services PMI ticked higher to 5-month high of 55.8 (vs. 52.1 expected vs. 51.1 prior). Improved demand for services saw business activity rose in German and France.

- **Headline CPI surged to new record high of 5.1% in Jan**, (up from 5% in Dec). The rise was largely driven by the surge in energy prices (+28.6% y/y) while other sectors such as food, alcohol & tobacco (+3.6%), services (+5.4%) and non-energy industrial goods (+3.6%) all rose. We retain our view that inflation could still head higher amid supply chain bottlenecks (in part driven by omicron variant) while energy prices remain supported amid geopolitical tensions between US-Russia over Ukraine. Softer EUR may also have resulted in some imported inflation. Pursuit of climate change goals could also further keep price pressures supported. Overall, we warned that ECB could be forced to normalize earlier than expected if inflation proves to stay elevated for longer. This can be a positive for EUR.

  - ECB's Schnabel had previously shared that greenflation is very real and not only is it not transitory, it is likely to get worse. She added that in the past, energy prices often fell as quickly as they rose, the need to step up the fight against climate change may even imply that fossil fuel prices will now not only have to stay elevated but even have to keep rising to meet the goals of the Paris climate agreement.

- **Monetary Policy Forecast: The upcoming ECB meeting scheduled on 10th Mar will be of keen interest as it may offer further hints of shift in policy bias.** A reassessment of its APP is also eyed amidst chatters for earlier than expected end to APP (Aug instead of Oct). Elsewhere the set of macroeconomic projection, including inflation will also guide market expectations for rates trajectory. Overall we expect no major changes to ECB's policy stance, with discount rate maintained at -0.5%. We do think it is possible that the pace of APP be reduced (from planned EUR40bn/month starting Apr) or be made flexible while an earlier end (vs. previously guided timeline of Oct-2022) is not ruled out. On sequence of policy normalization, ECB had communicated that bond purchases have to end before raising rates. Policymakers are expected to reiterate ECB's commitment to price stability as ECB will take time to assess inflation risks and not rush to tighten.

- Earlier, Lagarde had cautioned markets on not assuming too much in terms of immediacy of hikes and that the Governing Council will not rush to conclusions on its formal stance.
- Lagarde and other ECB officials also warned that policy moves will need to be gradual. Raising interest rates would not solve inflation that is caused by supply side issues. Interest rate increases is typically a domestic demand tool and may not be directly effective to deal with supply side inflation. In fact, the economy may even be doubly hit by demand and supply shocks.

- At the last Governing Council meeting (3 Feb), the ECB made a hawkish tilt from their stubborn dovish stance. Key messages out of the ECB meeting that saw EUR strengthened and EU sovereign bond yields higher include: (1) ECB's Lagarde noted there was "unanimous concern around the table of the governing council about inflation numbers" and that risks to inflation are tilted to the upside. (2) The term, "transitory inflation" was not mentioned in her presser. (3) The Governing Council (GC) also agreed that it is sensible not to exclude a rate hike this year, as opposed to previously ruling out a rate hike this year. **That was the first time there was an explicit acknowledgement from ECB GC that inflation is a growing concern and that the idea of a rate hike this year was not dismissed.** Despite hawkish tilt, ECB still lags behind **other DM central banks** including Fed, BoE, RBNZ. But we retain our caution that the ECB runs the risk of 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 turnaround for EUR.
  - Earlier at 16th Dec GC, the ECB confirmed that it would end its EUR1.85tn PEPP program, as scheduled in Mar-2022 and will expand its other bond purchase plan. The pace of bond purchases at EUR80-90bn/month (via PEPP at EUR60-70bn per month and APP at EUR20bn per month) will be slow to EUR40bn per month, starting Apr-2022 and will continue at least through Oct-2022. The ECB also stressed that during this period of bond purchases, the ECB will not increase its deposit rate (currently at -0.5%).

- **Latest Fiscal and External Balance Outlook**: Euro-area current account surplus slipped to EUR23bn in Dec, down from EUR24bn in Nov. Surpluses were recorded for services (EUR18 billion), goods (EUR11 billion) and primary income (EUR7 billion) but partially offset by a deficit for secondary income (-EUR14 billion). For 2021, EU area current account surplus stood at 2.6% of GDP (vs. 1.9% of GDP in 2020). Increase was driven by larger surpluses for services and primary income

- **Key domestic events and issues to watch:** Feb mfg PMI (1 Mar); Feb CPI (2 Mar) Feb services PMI, Jan PPI, unemployment rate (3 Mar); Jan retail sales (4 Mar); 4Q GDP (8 Mar); ECB GC (10 Mar); Jan industrial production (14 Mar); Mar ZEW survey expectations (15 Mar); Feb CPI (17 Mar); Jan trade (18 Mar); Jan construction output (21 Mar); Jan current account (22 Mar); Mar consumer confidence (23 Mar); Mar prelim PMIs (24 Mar); Feb unemployment rate (31 Mar).

- **Technical Outlook:** EUR fell amid Ukraine military conflict. Pair was last at 1.1150 levels. Bearish momentum on monthly, weekly and daily chart intact. Risks skewed to the downside. Support at 1.11 in focus before 1.1040 (76.4% fibo retracement of 2020 low to 2021 high). Decisive break below these levels could send EUR much lower to 1.10, 1.08 supports. Resistance at 1.1290 (61.8% fibo), 1.1320 (50 DMA) and 1.1380 (100 DMA).

GBP: Likely Oversold

Forecast	1Q 2022	2Q 2022	3Q 2022	4Q 2022
GBPUSD	1.3400 (--)	1.3600 (--)	1.3700 (--)	1.3800 (--)

No Change to Previous Forecasts

- **Motivation for the FX View: GBP's >2% selloff owing to Russian invasion of Ukraine could reverse in coming days to weeks.** Weeks of speculation and fears of Russian's invasion intent has now materialized and markets have priced that in to large extent. The coming sessions will focus on Russia-Ukraine negotiations. Volatility remains heightened as Western allies look set to expand sanctions but barring further escalation (i.e. Russia attempting to target other Baltic states), we expect GBP to rebound back to pre-invasion range of 1.35 – 1.3650 range. Focus ahead goes back to central bank policies, inflation, supply chain and energy concerns. Ongoing supply chain disruption could potentially deteriorate due to Russian invasion. Concerns of higher energy prices feeding into runaway inflation as well as fears of much faster pace of Fed normalization (such as double tightening of rates and QT) are some risks that could still undermine GBP in the near term. But we expect GBP to find support from hawkish BoE (to keep inflation in check), planned stimulus spending and growth normalizing (as omicron wave fades and activity rebound).

- **Hawkish Hike to Keep GBP Supported.** BoE tightening cycle is well underway with first hike of 15bps in Dec-2021 and another 25bps hike at Feb-2022 MPC. A very tight labor market and more persistent price pressures were the push factors for BoE to act. Last MPC saw the potential for BoE to quicken its pace of tightening going forward. While 5 members voted for 25bps hike, 4 members whom dissented had voted for 50bps hike. QE will also begin to unwind. These actions exhibited policymaker's increasing sense of urgency. BoE now anticipate CPI rise further (current at 30y high of 5.5%) and to peak at 7.25% in Apr. Markets are still pricing (as of 25 Feb) in as much as another 120bps hike up to Dec-2022 with the next hike coming in as soon as at the next MPC in Mar. Base case remains for 25bps hike though an upsized hike of 50bps can lend strength to GBP. Overall, BoE tightening can provide a buffer against Fed policy normalization.

- **PM Bojo Lives Another Day as No Blow-up in Domestic Politics Yet.** PM Bojo has been working hard to reshuffle his cabinet in attempt to keep his administration going, following the partygate scandal, resignation of 4 senior aides (Policy head Munira Mirza, Director of Comms Jack Doyle, Chief of Staff Dan Rosenfield and senior civil servant Martin Reynolds) to PMI Bojo in early Feb and 17 Tory MPs submitting letters of no confidence in the PM (short of the 54 required to trigger a leadership contest). Chris Heaton-Harris, a close ally of BoJo who has been working to shore up support among lawmakers is apponted the chief whip (replacing Mark Spencer). Spencer will take over as the leader of the parliamentl's lower chamber, the House of Commons, taking over from Jacob Rees-Mogg. Jacob is then appointed as Minister for Brexit opportunities and government efficiency. Lawmaker Andrew Griffith was appointed head of PM Bojo's policy department. Cabinet office minister Stephen Barclay has become his new chief of staff, taking over from Dan Rosenfield. Barclay is perceived as a calm, detail-oriented and competent figure, He has also appointed a former colleague, Guto Harri, as his new director of communications. Harri worked with BoJo when he was mayor of London. The reshuffling and focus on Ukraine suggests that political uncertainty at home may take a back seat for now – another day saved for PM Bojo.

- **Growth and Inflation Outlook: UK experienced one of the fastest pace of economic growth (+7.5% in 2021) since 1941**. Strong fiscal measures to support jobs and firms was one of the major driver of growth. But UK economy has yet to return to pre-pandemic level of output on quarterly basis. In 4Q, economy expanded 1% q/q. Monthly data showed GDP fell 0.2% as omicron spread curbed economic activities (retail and hospitality). But the decline was milder than anticipated (-0.5%). NHS, couriers and employment agencies supported economy. Looking on, forward looking surveys and activity data suggests that activity may be recovering. Prelim PMI for services rose sharply to 60.8 for Feb (vs. 54.1 in Jan) while manufacturing remain steady at 57.3. Retail sales also rebounded in Jan (+9.1% y/y vs. -1.7% prior)

- **Headline CPI rose to 30-year high of 5.5% y/y in Jan,** (up from 5.4% in dec). Prices for clothing & footwear, food & drinks were the main drivers. BoE earlier forecasted inflation to rise further before peaking at 7.25% in Apr when regulated household energy bills look set to rise by around 50%. We see risks of inflation running higher than BoE forecasts as Russian invasion of Ukraine will result in cost-push inflation, affecting prices of food and energy. These will further add to upward pressure in coming months. Meanwhile core inflation rose to all-time high of 4.4% y/y (vs. 4.2% in Dec).

- **Monetary Policy Forecast: We expect BoE to continue with its back-to- back hike of +25bps rate hike at the upcoming MPC on 17th Mar.** Taking inflation down to its medium term target of 2% is BoE's priority but at the same time, officials seem to favor raising rate in a "measured" way. BoE Chief Economist said that BoE will seek to bring inflation down in a way "that doesn't disturb the rest of the economy". BoE Governor Bailey gave a heads-up that inflation could again overshoot BoE's forecasts but warned that markets should not get carried away about the likely magnitude of hike. This implied that Bailey still prefers 25bps hike rather than the upsize hike. For now, markets are still pricing (as of 25 Feb) in as much as another 120bps hike up to Dec-2022.

- At the last BoE meeting (3 Feb), MPC voted 5-4 to raise policy rate by 25bps to 0.5%. The 4 officials whom dissented are Ramsden, Saunders, Mann and Haskel. Decision has also been made for the GBP895bn of bond holdings to be unwound – unanimous decision. BoE will stop reinvesting the proceeds of expired gilts allowing for more than GBP200bn to run-off by 2025. Elsewhere, BoE also emphasized on its inflation fighting remit and highlighted that labor market conditions remain tight (unemployment rate at near 2-year low of 4.1%), with weekly earnings rising 4.3% y/y in Jan (vs. 3.8% expected). BoE's Mann said that UK is seeing strong domestic demand, tight labor market and her vote for 50bps hike was due to robust inflation expectations. She added that research shows it is better to front load rate hikes in a time of uncertainty which dampens expectations and that means policymaker do not have to raise so much later.

- **Fiscal and External Balance Update: 3Q current account deficit widened sharply to GBP24.4bn from GBP13.5bn.** This was due to increased in imports while exports fell and primary income deficit widened due to larger earnings on investment in UK by non-residents. As % of GDP, current account deficit was at 4.2% of GDP. Public sector net borrowing (PSNB ex) posted a budget surplus of GBP2.9bn in Jan for the first time since pandemic begun but the surplus was smaller than a typical January month (i.e. Jan 2020 saw surplus of nearly GBP10bn). Borrowing last month was GBP5.4bn less than in January 2021, when the third national lockdown affected the UK economy. Government debt was GBP2.3tn or 94.9% of GDP.

- Focus on 23 Mar budget statement from Chancellor Sunak. Chancellor Sunak had earlier said that UK is on course for fastest pace of growth since 1973 as economy is expected to expand 6.5% (revised upwards from 4%) in 2021 and 6% in 2022. Economy will return to its pre -covid level at turn of year. Stronger economic growth and higher taxes leave room for more spending. Cumulative borrowing over 2022/23 to 2025/25 is projected to be GBP114bn lower than earlier projected. This was due to lower than expected medium-term scarring and higher GDP growth. Public finance consolidation targets include reduced borrowing as % of GDP from 7.9% this year to 3.5% next year and debt to GDP to fall to 83.3% after reaching a peak of 85.7% of GDP in 2023 -24. Some of the measures announced include an end to public sector pay freeze, cancellation of planned increase in fuel duty, tax cut for pubs & restaurants as well as cut duties on alcohol, GBP6.9bn spending on regional public transport, GBP10.9bn on health care facilities and R&D, GBP2.6bn education spending, GBP3bn of spending to upskill people.

- **Key domestic events and issues to watch:** Feb PMI Mfg (1 Mar); services PMI (3 Mar); Feb construction PMI (4 Mar); Jan industrial production; monthly GDP, construction output, trade, 4Q GDP (11 Mar); Feb labor market report (15 Mar); BoE MPC (17 Mar); Feb public finances (22 Feb); Feb CPI, PPI, RPI (23 Mar); mar prelim PMIs (24 Mar); Feb retail sales (25 Mar), 4Q GDP (31 Mar).

- **Technical Outlook:** GBP was trading sideways in 1.35 – 1.3650 range for most of Feb before the plunge on Russian invasion. Last seen at 1.3350 levels. Bearish momentum on daily chart intact while RSI fell, near oversold levels. Key support at 1.3320 (23.6% fibo retracement of Oct high to Dec low). Break below puts next support some miles away at 1.3160 (Dec low). Bias to buy dips. Resistance at 1.3420 (38.2% fibo), 1.35 (21, 50DMAs, 50% fibo) and 1.3580 (61.8% fibo).

AUD: On the Scenic Route Higher

Forecast	1Q 2022	2Q 2022	3Q 2022	4Q 2022
AUDUSD	0.7400 (--)	0.7400 (--)	0.7500 (--)	0.7500 (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** AUD rose almost 4% from sub-0.70 levels to mid-0.72 levels notwithstanding a dovish RBA. AUD started to gain tailwinds from a recently widened AU-US yield differential (Russian attack-triggered risk aversion), rise in commodity prices (iron ore, copper prices, energy). The broader risk-off did not seem to affect AUD as much, given Australia is seen as a possible alternative LNG provider to Europe if current conflict with Russia tarry longer. We remain constructive on the AUD even as RBA Governor Lowe keeps the AUD on the scenic route towards 0.75-figure eventually with slower moving global thematics - climate change needs (infrastructure, clean energy) to provide some longer-term TOT underpinnings.

- Another external factor that supports AUD is China's added measures to bolster its housing market in the past few weeks – including the easing of loan restrictions for rental home developments, accelerated mortgage approvals seen in Beijing and Shanghai, lower down payment ratios in reported in the Heze city. The recent rise in iron ore prices have even spurred NDRC to clamp down on hoarding of iron ore once again. A strong revival of the property sector in China is unlikely but steady iron ore gains could continue to cushion the AUD and supports our sanguine view of the currency for 2022.

- **Growth and Inflation Outlook:** The most keenly watched 4Q wage price index came in at 2.3%y/y (missing median estimate at 2.4%) and failed to provide more compelling reason for RBA to act faster in the coming months. The tick higher gives credence to RBA's insistence on wage growth being gradual (due to structural wage settings and potential for the labour supply to increase once borders reopen) and that the central bank can afford to be patient. The latest print lowers the likelihood of a rate hike in May and Aug may be a more opportune time for a move. That does not shift our constructive AUD view as we look for external drivers (buoyant energy, commodity prices on recovery and infrastructure needs) to remain on net supportive of the currency.

- Earlier in the month, the Jan labour report continued to depict healthy hiring conditions with participation rate a tad higher at 66.2% and jobless rate steady at 4.2%. Net employment change was an addition of 12.9K (with 30K part-time added and a drop in 17K full-time). Prelim. Services PMI for Feb surged to 56.4 from previous 46.6 in anticipation of open borders announced for 21 Feb. According to Australia chamber of commerce and industry, the closure of borders have dealt A$3.6bn of losses to businesses every month. So we can expect the influx of tourisms to bode well for the services sector of Australia. The labour market would be closely watched for any increase in labour supply that could slow the recent pick-up in wages.

- **Monetary Policy Forecast: Monetary Policy Forecast:** RBA chose to reiterate its message of patience on 1 Mar given the gradual wage growth, highlighting the Ukraine war as a new source of uncertainty to inflation due to its impact on energy prices and disruptions to supply chains. Overall, the policy statement was taken to be dovish with gradual steps on normalization still preferred. While price pressure is expected to rise on the back of the recent surge in petrol prices, the central bank stated it is still premature to conclude that the CPI will sustain within the 1-3% target band.

- Robust labour market conditions and positive business sentiment and capex intentions should mean that the next wage growth print and CPI print should see further acceleration, paving the way for RBA to potentially start reducing its balance sheet in May and raise rates with more confidence into the second half of the year. Risks to the AUDUSD are thus still skewed to the upside even if yield differentials narrows a tad.

- **Latest External Balance Outlook:** As of last available data, current account surplus was recorded at 3.93% of GDP for 3Q 2021. Current account is seen at A$23.9bn for 3Q2021 vs. $22.9bn in 2Q. The quarter saw wider goods surplus at A$37.4bn vs. previous A$28.2bn.

- **Fiscal Outlook:** Stronger than expected growth and tax revenue has resulted in an improvement of A$7.4bn on the budget deficit to a newly projected -A$99.2bn based on the midyear budget review. This new projection is based on a 4.5% growth for 2021 and 4.25% in 2022. The MYEFO presented in Dec.

- **Key domestic events and issues to watch:** Mfg PMI (Feb), CoreLogic House Price (Feb), home loans (Jan), commodity index (Feb), RBA policy decision (1 Mar); 4Q GDP (2 Mar) Services, Compositive PMI (Feb), building approvals (Jan), trade (Jan) (3 Mar); ANZ Job Advertisements (Feb) on 7 Feb; NAB business survey (Jan) on 8 Feb; Westpac Consumer confidence (Feb) on 9 Feb; consumer inflation expectation (Feb) on 10 Feb; Westpac leading index (Jan) on 16 Feb; labour report (Jan) on 17 Feb; Flash PMI (Feb) on 21 Feb; **wage price index (4Q) on 23 Feb; CAPEX (4Q) on 24 Feb;** M-I inflation (Feb), retail sales (Jan) on 28 Feb.

- **Technical Analaysis:** AUDUSD played out the bullish reversal that we flagged in the last FX monthly and retained a gradual ascent in spite of Russia's attack on Ukraine. Momentum is bullish so on net bias could remain to the upside but we cannot rule out a bearish reversal at some point given the fact that a rising wedge has formed. Resistance at 0.7240 before the next at 0.7314 (13 Jan high).

CAD: Rates Will Rise and QT to Follow Soon After

Forecast	1Q 2022	2Q 2022	3Q 2022	4Q 2022
USDCAD	1.2400 (--)	1.2400 (--)	1.2300 (--)	1.2300 (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** CAD should be taken higher on the back of steady domestic recovery and resilient external demand that could see BoC tighten on 2 Mar. Even as swaps indicate expectations for BoC to raise rates by 180bps over the next one year, surpassing even that of the Fed, it is worth noting that USDCAD had remained in a consolidative range of 1.22-1.29 since 2H of 2021. Light positioning as indicated by CFTC data (only slightly net long in terms of number of contracts) suggests headroom for the CAD bulls. In addition, with inflation accelerating to a three-decade high of 5.1%y/y on food and energy prices, there is increasing justification for BoC to turn hawkish or risk falling behind the curve. A recent acknowledgement by BoC Deputy Governor Tim Lane that inflationary pressure may persist longer than originally forecast could be taken as a hint that the BoC could pivot more hawkish on 2nd Mar. The recent turn of events for Ukraine might have undermined CAD sentiment for a little while but chances for energy prices to stay elevated continue to provide conducive environment for CAD bulls. We stay constructive on the currency and see a reasonable chance for this pair to head towards 1.24 within this half of the year.

- **Longer term, expect broadening growth, climate change transformation to also be structural factors for oil prices to stay supported in the medium term.** 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.

- **Growth and Inflation Outlook:** Business sentiment improved to a score of 62.5 for Feb from previous 54.7 according to the Canada Federation of Independent Business. This suggests there are more business owners projecting stronger performance in the year ahead compared to number of businesses with weaker outlooks. Capex intentions for SMEs also rebounded to 51.8 from previous 47.3 with 24.4% looking to expand headcounts.

- With regads to the labour market, Canada lost 200.1K of jobs in Jan due to the Omicron surge and jobless rate jumped from 5.9% to 6.5%. That said, hourly wage rate for permanent roles slowed a tad to 2.4%y/y from previous 2.7%. We should not take this as a start of deterioration given the robust business sentiment for Feb with strong hiring and capex intentions. The next labour report should see a material improvement.

- **Monetary Policy Forecast:** BoC is likely to raise rates on 2 Mar by at least 25bps as the country is faced with inflation at three-decade high, at risk of being fanned higher by Russia's ongoing attack of Ukraine. A war in a resource-rich region could have rippling impact on global energy and agricultural prices. As such, we see war in Ukraine as an additional factor for BoC to commence its policy rate normalization. Strong labour market conditions and an improvement in capex sentiment, above-target inflation could mean that domestic conditions are strong enough for BoC to hike policy rates and work out a timeline for quantitative tightening in the coming months.
- **Latest External Balance Outlook:** As of last available data, Canada's current account balance was at C$0 for 3Q, an improvement form the -U$9.3bn deficit. Firm commodity prices continue to bode well for Canada's external balances.
- 2021 Budget had been expansionary with $101.4bn in new spending over three years expected to spur recovery and to support the transition to a green economy. $30bn over the next five years and $8.3bn per year thereafter to create a national child care program. $17.6bn for green initiatives – to conserve 25% of lands and oceans by 2025 so as to exceed climaete change targets by cutting emissions to 36% below 2005 levels by 2030.
- Fiscal deficit is projected to be $354.2bn in 2020-21 and then $154.7bn in 2021-22. The government expects gradual decline to $30.7bn in 2025-26 and that would be around 1% of GDP. To fund the spending, the government would impose a new tax of 10-20% on luxury cars and aircrafts worth more than $100K and luxury boast over $250K. Over the past few weeks leading into the election on 20 Sep, Trudeau had also pledged to raise taxes on bank and insurer profits above C$1bn by 3ppt to 18% along with the "temporary Canada Recovery Dividend" for banks due to their stronger recovery. These tax hikes/dividend recovery on FIs are projected to claw C$10.8bn of revenue over the next five years. Stronger than expected crude oil gains are likely to boost the outlook for its fiscal balance.
- **Key domestic events and issues to watch:** GDP (Dec), Mfg PMI (Feb) on 1 Mar; BoC policy decision on 2 Mar; building permits (Jan) on 4 Mar; trade (Jan) on 8 Mar; labour report (Feb) on 11 Mar; housing starts (Feb) on 15 Mar; CPI (Feb) on 16 Mar; retail sales (Jan) on 18 Mar; CFIB business barometer (Mar) on 29 Mar; GDP (Jan) on 31 Mar.
- **Technical Analaysis:** USDCAD was last close to the 1.28 figure as we write. This pair has formed a rising wedge and is poised for a bearish reversal. 1.2710 marks the support before the next at 1.2630 (21-dma) and then at 1.25-figure.

NZD: Signs of Bottoming Out but Ukraine Tensions Weigh

Forecast	1Q 2022	2Q 2022	3Q 2022	4Q 2022
NZDUSD	0.6900 (--)	0.7200 (--)	0.7300 (--)	0.7300 (--)

No Change to Previous Forecasts

- **Motivation for the FX View: We retain our constructive bias on NZD amid sound fundamentals and a hawkish RBNZ.** Ongoing omicron wave, Ukraine tensions and the risk of faster Fed are near term downside risks for NZD. But the past few weeks have somewhat saw NZD holding up well (MTD gains of 3.5% vs. USD, leading gains in G7 and AXJ FX) in spite of its high-beta characteristic. And we attribute Kiwi's resilience to potential foreign fund inflow amid possible inclusion of NZGBs into FTSE WGBI, stable RMB as well as hawkish RBNZ. To some extent we opined that policymakers may even quietly favor a stronger currency to try and curb red hot inflation (at least on the imported inflation part). Further unwinding of NZD shorts (14-month high) to price in positive factors could further add to NZD upside. We keep our upward FX forecast trajection and levels intact.

- **Hawkish RBNZ May See 50bps Hike in May as Inflation Runs Amok.** Price pressures continue to run red hot on multiple fronts from wages to food, dairy and petrol prices. RBNZ is also projecting headline CPI to rise to 6.6% in early 2022. This justified RBNZ guiding for a faster pace of monetary policy normalization: (1) Quantitative tightening will commence in Jul with a sell-down in QE holdings at pace of NZ$5bn per year and RBNZ will not reinvest proceeds of expired debt; (2) OCR projections have been raised to 3.25% by end-2023 (up from 2.6% previously). This implies another +225bps hike projected over the next 2 years; (3) MPC is open and willing to hike OCR by 50bps if needed. In comparison to other major DM central banks, RBNZ is now perceived to be one of the more hawkish one, apart from Fed. On policy divergence play, NZD may gain the upper hand over its DM peers.

- **FTSE WGBI Inclusion a Positive for NZD.** Formal confirmation of NZGBs being added to FTSE-Russell World Government Bond Index (WBGI) is due by late Mar. To qualify for entry to the FTSE WGBI, the outstanding amount of a market's eligible issues must total at least USD 50 billion and EUR 40 billion and JPY 5 trillion of index eligible debt. Markets' estimate suggests NZGBs may have just made it. An inclusion means that fund managers will need to rebalance their portfolios to include NZGBs and there will be good demand for NZD from foreign inflows.

- **Omicron Situation to Get Worse Before Improving.** Health experts expect daily infection to double every 3 – 4 days before it peaks in mid-to-late Mar with 4,000 daily cases. Daily infection continued to rise beyond the 3k mark for the first time and at present (23 Feb), stood at 3,297 cases, running way higher than its 7-day average of ~2,000 cases. Restrictions including gathering limits and vaccine passes remain in place and will only be loosen when conditions improve, possibly after it peaks. As such, economic momentum is expected to be temporaily dampened in coming weeks to 2months. But this does not imply that growth is derailed as fundamentals remain sound. We expect a sharp economic rebound, possibly as soon as 2Q.

- **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 fails to live up to hawkish guidance will be a drag on NZD (unwinding risk); (3) faster shifts in Fed's pace of policy tightening will weigh on sentiment and narrow NZD's yield advantage.

- **Growth and Inflation Outlook: Economic activity is expected to slow further in coming month or two amid widespread of omicron variant.** Jan services PMI is already indicative of slower activity as reading slumped into contractionary territories of 45.9 (vs. 49.7 in Dec). Elsewhere manufacturing PMI, though in expansionary territory also slipped in Jan to 52.1 (vs. 53.7 in Dec). But we expect the slowdown to be temporary and economy should rebound sharply in 2Q 2022 when infections fade and restrictions eased. On employment conditions, labor market continue to exhibit signs of tightening. Unemployment rate fell further to all time low of 3.2% in 4Q (vs. 3.4% in 3Q), while hourly earnings continued to accelerate to +1.4% q/q in 4Q (vs. 1.2% q/q in 3Q). Taking stock, 3Q GDP shrank 3.7% q/q, from +2.4% growth in 2Q as delta variant outbreak in Aug and consequential tightening of restrictions and lockdown measures (mainly for Auckland for most of 3Q resulting in businesses staying shut for 100days) crimped economic activities. Data shows retail, manufacturing, construction and recereational activities were hard hit. That said the contraction was not as bad as projected (RBNZ was looking for 7% fall while consensus looked for 4.1% contraction). 4Q 2021 GDP data is scheduled for release of 17th Mar.

- Price pressures continue to rise overall with NZ food prices surging to 11-year high while dairy prices also rose to 9-year high. **RBNZ now sees headline CPI rising to 6.6% in early 2022.** 4Q headline CPI surged to more than 30-year high of 5.9% y/y, up from 4.9% in 3Q. This is the third quarter in a row that headline CPI breached above RBNZ's 1% - 3 target band. Price increase was broad-based across 10 out of the 11 main groups in NZ CPI basket. In particular the main drivers contributing to upward price pressure include construction and rental for housing as well as petrol prices. We expect price pressure to stay supported given supply chain disruption and spread of omicron variant in NZ. **1Q CPI will be out on 21 Apr.**
    - Early this year, 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.

- **Monetary Policy Forecast:** We expect RBNZ to raise rate by 25bps again for the 4th consecutive time at the next MPC on 13 Apr. A series of gradual rate hikes is highly probably instead of 50bps hike as omicron spread in NZ poses downside risks to economic activity in the near term but at the same time RBNZ needs to bring inflation under control.

Possibly a 50bps hike at 25 May MPC is likely as covid situation may stabilize by then following a projected peak by mid-Mar with about 4k cases/day. This is also in line with Governor Orr's comments that "we're looking at some economic disruptions in the near term but can see on the horizon a return to something approaching normal activity"

- The last MPC (23 Feb) saw RBNZ took another hawkish step forward. OCR was raised for 3rd time in a row by 25bps to 1% while quantitative tightening will commence in Jul with a sell-down in QE holdings at pace of NZ$5bn per year and will not reinvest proceeds of expired debt. Recall that RBNZ bought a total of NZ$55bn of government bonds under its QE program over 2020-21 due to pandemic. Accompanying MPS also indicated that more monetary tightening was needed than signalled in Nov MPS. While RBNZ considers the spike in global inflation to be temporary, it also said that long term inflation expectations have risen. Inflation is now seen to accelerate to 6.6% in 1Q 2022 and it does not expect inflation to return to 1% - 3% range until 2025. OCR projections have been raised to 3.25% by end-2023 (up from 2.6% previously). This implies another +225bps hike projected over the next 2 years. RBNZ also projected OCR to be at 2.2% at end of 2022 and indicated that the MPC is open to hike rates by 50bps if need arises.

- **External Balance and Fiscal Outlook: NZ current account deficit widened to NZ$4.8bn in 3Q 2021** (vs. deficit of NZ$3.1bn in 2Q). Wider deficit was due to widening of both foods and services deficit. For the year ended 3Q 2021, current account deficit stood at 4.6% of GDP (vs. deficit of 0.7% of GDP in the same period last year).

- **NZ government expects budget deficit to return to surplus by the fiscal year ending June 2024 (FY24),** according to its Half Year Economic and Fiscal Update. This is 2 years ahead of previous forecasts due to significantly stronger tax revenue than forecast in its mid-2021 budget. Net debt will be higher at 37.6% of GDP in 2021/22 compared to 34.0% forecasted in May. The net debt peaks at 40.1% by 2022/23 before falling to 30.2% by the end of the forecast period.

- **Key domestic events and issues to watch:** Jan building permits, 4Q terms of trade (2 Mar); Feb consumr confidence (4 Mar); 4Q mfg activity volume (9 Mar); Fed card spending (10 Mar); Feb mfg PMI, food prices (11 Mar); Fed services PMI (15 Mar); 4Q current account (16 Mar); 4Q GDP (17 Mar); Feb trade (24 Mar); Feb building permits, Mar activity outlook, business confidence (30 Mar).

- **Technical Outlook:** NZD climbed for the month of Feb. Had it not been for Russian invasion (24 Feb), NZD could have more sizeable gains. Pair was last at 0.67 levels. Bullish momentum on daily chart shows tentative signs of fading while RSI fell. Risks skewed to the downside for now. But bullish trend channel formed since early Feb remains respected. Support at 0.6660/70 (21 DMA, 38.2% fibo retracement of Jan high to low), 0.6640 (lower bound of channel) and 0.6615 (23.6% fibo). Buy dips preferred. Resistance at 0.6730 (50DMA), 0.6810 (76.4% fibo).

JPY: Fed Normalization Backstops USDJPY Near-term

Forecast	1Q 2022	2Q 2022	3Q 2022	4Q 2022
USDJPY	115 (--)	114 (--)	113 (--)	112 (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** Ukraine crisis initially led USDJPY to move lower, but extent was limited. Migitating effect came in part from the crisis' impact on inflation expectations. I.e., fears of elevated oil prices as Russian attack plays out seem to be supporting bets for steady central bank tightening pace, leading UST yields to remain elevated and possibly providing concomitant support to the USDJPY pair. While a 50bps hike from Fed in Mar looks less likely for now, the Fed is likely to stick to its normalization plans, with markets pricing in about 6 hikes in the next 12 months. This hawkish stance should continue to backstop the USDJPY near-term. In latter quarters though, dollar strength might not be as discernible. Looking at historical Fed hike cycles, USD generally tends to soften after first Fed rate hike in each cycle. Further, while it might take time, global price pressures could still moderate in 2H as energy inventories rebuild and supply chain disruptions ease. **We look for USDJPY to remain elevated in the near-term but show a gradual retracement lower in 2H.**

- **Haven demand for JPY on Ukraine crisis was more limited than expected**. Russia-Ukraine tensions had escalated quickly in recent days, with Putin recognizing two self-proclaimed separatist regions in eastern Ukraine, and subsequently sending military forces into Ukraine. US and Europe had countered with various sanctions/restrictions on Russia in retaliation, including on Russian banks, elites, Nord Stream 2, access to western financing, trade in high-tech exports etc. While USDJPY did initially tank towards 114.40 at one point, it subsequently swung back above the 115-handle. In part, concerns over elevated oil prices as Russian attack plays out seem to be supporting bets for steady central bank tightening pace, leading UST yields to remain elevated and possibly providing concomitant support to the USDJPY pair. **On net, we watch for bouts of JPY haven demand but note that such episodes are likely to be intermittent and modest in extent, rather than sustained and aggressive, particularly if a diplomatic resolution is found in the following weeks.**

- **Apart from the Ukraine crisis, Fed stance and UST-JGB yield differentials are likely to remain as key drivers of the USDJPY pair in the interim**. FoMC on 27 Jan saw another set of hawkish Fed messaging. (1) March lift-off is highly likely and well-priced by markets since weeks ago as Fed indicated that rate hikes "will soon be appropriate" and officials were "of a mind" to raise rate in Mar; (2) Fed opens up flexibility, optionality for rates to go higher as the statement left out phrases such as "gradual" or "measured", which were previously used in the last tightening cycle to indicate tightening path; (3) sense of urgency at the Fed as high inflation threat is real. Notably, a strong US jobs report for Jan (467k versus expected 125k) boosted market bets on a more aggressive Fed at one point. UST10Y yield last seen around the 1.9%-2% mark. At this point though, upward pressures on USDJPY from rising US yields seem to be contained.

- More broadly, the prospect of US interest rates rising for the next few years, while the BoJ remains committed to an easing stance, could help sustain relative demand for overseas investments (such as US treasuries). Demand from pension funds such as GPIF as well as private sector entities could be in play. **Such outflows could temper the extent of support that the JPY receives from an expected current account surplus**—consensus estimates see current account surplus coming in at 2.9% of GDP in 2022 versus 2.8% in 2021. Meanwhile, there are signs that the longer-term negative correlation between Nikkei and JPY remains somewhat intact. Any larger episodes of global equity jitters and volatility in Japanese risk assets could still lend some support to the JPY.

- On energy outlook, even as interim supply disruption fears are keeping brent prices near the US$100-handle in end-Feb, extent of oil price gains could be constrained into 2H 2022 as eventual ramp-up in OPEC+ supplies could gradually edge higher than consumption demand, allowing inventory restocking. **This could translate to some moderation in global price pressures, conditional on pandemic-induced supply-side constraints starting to ease as well**. In such a scenario, UST yield and USDJPY upside risks could moderate into 2H.

- We maintain glass half-full view on Omicron. Global Covid cases have been largely on the decline since end-Jan, with parts of Europe and US largely sticking to reopening stances. Data suggests that while Omicron has high transmissibility, severity of illness and mortality rates associated with the variant might be milder. Except for rare instances where healthcare systems of countries are overwhelmed by exponential spikes in hospitalizations, and necessitate tighter interim curbs, the broader drag on global economic activity might be modest and temporary. **Omicron-led concerns on risk assets could ease off as growth momentum proves resilient**. In this case, we may not see substantial haven demand for haven JPY (i.e., down-moves in USDJPY).

- Risk to our view: Runaway global inflation, especially if Omicron or Russia-Ukraine conflict exacerbates current supply disruptions for longer or to a larger extent than expected, alongside a scenario of better-than-expected US growth outperformance (if Biden manages to push through key parts of his spending plans), could lead to further upside pressures on dollar and UST yields. This confluence could induce sharper-than-expected bouts of upswings in the USDJPY pair.

- **Growth and Inflation Outlook:** 4Q (P) GDP came in at 5.4% q/q SAAR, seeing a turnaround from -2.7% prior but still mildly lower versus expected 6.0%. Private consumption growth came in at 2.7%q/q, slightly better than expected 2.3%. Business spending expanded at 0.4%q/q, on par with expected 0.5%.

- Latest macro indicators point to more mixed domestic growth momentum in 1Q 2022. PMI Mfg came in at 52.9, still in expansionary territory albeit moderating from 55.4 prior. But services activity seems to have taken a more significant hit from Omicron-induced curbs. Feb (P) PMI Services came in at 42.7, deteriorating from 47.6 prior. Still, BoJ projections seem to imply that the Omicron drag will be transient. In BoJ's Jan projections release, w**hile FY2021 (runs till Mar 2022) growth was lowered to 2.8% from 3.4% (Oct projection), FY2022 growth was actually bumped up to 3.8% from 2.9% (Oct projection).**

- CPI for Jan came in at 0.5%, mildly lower versus expected 0.6%. The indicator less fresh food came in at 0.2%, versus expected 0.3%. In Jan, **the BoJ maintained its CPI (all items less fresh food) forecast at 0% for FY2021, but raised slightly forecasts in FY2022-2023 (FY2022: 0.9% -> 1.1%; FY2023: 1.0% -> 1.1%).**

- **Monetary Policy Forecast:** The BOJ maintained ultra-easy monetary settings in its policy meeting on 18 Jan, but tweaked its view of inflation risks (balanced, rather than downside risks) for the first time since 2014. Kuroda said that rate hikes have not been discussed internally, and that the present weakness in the yen is positive overall for the Japanese economy. While inflation forecasts were indeed raised, the extent was relatively mild, implying that the central bank does not see inflation anywhere near its 2% target anytime soon. **We think that any signalling of shifts in BoJ strategy might be more plausible towards end-2022 or later**.

- Earlier in the month, BoJ announced that it will buy an unlimited amount of 10Y bonds at 0.25% on 14 Feb. **We think this is essentially an attempt to convince markets of its commitment to yield curve policy and a reiteration of its dovish policy stance**. Market focus on the widening divergence in Fed-BoJ policy paths could keep the USDJPY supported in elevated ranges for now.

- **Latest Fiscal & External Balance Outlook:** Japan's parliament enacted a record JPY36.0trn (US$320bn) supplementary budget for FY2021. JPY31.6trn will be allocated towards the government's new stimulus plan, which is expected to cost a record JPY55.7trn.

  - JPY18.6trn utilized for measures to curb Covid spread and support medical institutions, JPY1.3trn to help promote the government's COVID-19 vaccination program and JPY601.9bn for the procurement of treatment drugs.

  - JPY1.2trn will be used for the government's handout program of JPY100,000 in cash and vouchers for children aged 18 or younger in households where the primary earner's annual income is less than JPY9.6mn.

  - JPY268.5bn is allocated to restart the government's "Go To Travel" subsidy program, to aid the fragile domestic tourism sector.

  - JPY617bn is set aside to help chip-makers construct more manufacturing bases in Japan by funding up to half of the cost.

- In Feb 2022, **a parliamentary committee approved a record JPY107.6trn (US$936bn) spending plan for FY2022 (starting Apr).** The Budget's full passage is expected in March. Kishida has vowed seamless spending for 16 months (beginning with supplementary budget mentioned above) to provide sufficient support to lift the economy from Covid-induced doldrums.

- Current account for Dec came in at a deficit of -JPY371mn, versus expectations for mild surplus of JPY106mn. Exports underperformed expectations in Jan, at 9.6%y/y (versus expected 17.1%), while imports growth remained buoyant at 39.6% (versus expected 37.1%). As a result, trade deficit widened to JPY2,191bn versus revised JPY583bn prior. We note that the trade balance has seen deficit readings from Aug 2021 to Jan 2022, versus average surplus outturns in the first 7 months of 2021. **Such developments could weigh on the current account in the interim.**

- **Key domestic events and issues to watch:** Feb Vehicle sales (1 Mar); 4Q Capital spending (2 Mar); Jan Jobless rate (4 Mar); Jan Labor cash earnings (8 Mar); Jan Current Account (8 Mar); Jan (P) Leading Index CI (8 Mar); Feb (P) Machine tool orders (9 Mar); Feb Trade (16 Mar); Jan Core machine orders (17 Mar); Feb CPI (18 Mar); Jan Tertiary Industry Index (18 Mar); Mar (P) Jibun Bank PMIs (24 Mar); Feb Retail sales (30 Mar); Feb (P) Industrial production (31 Mar).

- **Technical Outlook:** USDJPY pair was last seen around 115.20. Momentum and RSI on daily chart are not showing a clear bias. More ranged trading likely with swings potentially led by Russia-Ukraine headlines. Broad uptrend since 4Q still intact but extent of upsides may be contained with strong resistance seen at double-top 116.35 (Jan, Feb highs). Support at 114.45 (50.0% fibo retracement from Nov low to Jan high), 113.40 (76.4% fibo).

RMB: Two Sessions In Session

Forecast	1Q 2022	2Q 2022	3Q 2022	4Q 2022
USDCNY	6.35 (6.38)	6.33 (6.36)	6.32 (6.35)	6.30 (6.35)
USDCNH	6.35 (6.38)	6.33 (6.36)	6.32 (6.35)	6.30 (6.35)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** We expect CNY to retain much of its underpinnings including (1) strong current account surplus, (2) bond-related flows due to WGBI inclusion along with (3) renewed interest in local equities as China unleash various growth boosters. Into the end of Feb, CNY appreciated on the trade-weighted basis because of its relative resilience to geopolitical events. The west's pre-occupation with Russia's invasion of

Ukraine and China's diplomacy with Russia seem to have increased the demand for China government bonds (now perceived to have more safe haven attributes) and cushioned the RMB against risk-off volatility.

- Russia is China's 11th largest trading partner and is its second-largest supplier of crude and coal. While China has largely refrained from condemning Russia for its invasion, a clear alliance with Russia is unlikely to be declared and China may prefer to maintain a largely neutral stance and not take any sides. China's Foreign Ministry spokesperson had said that the two countries will continue to have "normal trade cooperation". China could potentially buy more Russian-source energy should the Western nations start to impose import limits on Russia but those are limited by the capacity of the pipelines linking the two countries. Pipes to carry the 30-year gas supply deal inked at the start of Feb need at least three years for completion. On net, there is a limit to how much support China can render to Russia via trade.
- Beyond the near-term, as the COVID-19 omicron variant is cast into the rearview mirror, we expect demand recovery may broaden in the rest of the world especially within Asia where vaccination rates have caught up. **In such an environment, even as we remain constructive on the CNY against the countercyclical USD, we are more negative on the CNY on a trade weighted basis as we expect China assets to become less attractive relative to regional peers at some point (especially when PBoC nears the end of easing cycle).**
- Risks to our view include a lack of recovery in the housing market that can precipitate into an economic hard landing or a credit crisis - With the Chinese authorities so unwilling to let go of zero-Covid policy and the three red lines for property developers, there is a chance that growth recovery could be slower than desired and PBoC is forced to ease monetary policy more aggressively. An absence of inflation at home and a runaway inflation in the US could even force Fed to be more aggressive in tightening. That could drastically narrow (or even invert) the US-CH yield differentials and at that point, fears of hard landing could dampen CNY sentiments further and spur the currency into a more dramatic tailspin.
- **Monetary Policy Forecast:** The 1Y and 5Y loan prime rates were left unchanged at 3.70% and 4.60% respectively today, taking the guidance from the 1Y MLF that was kept steady at 2.85% last Tue. Governor Yi Gang's emphasis on "strengthening cross-cyclical adjustment" suggest that the authorities are careful not to rely too much on monetary policy to stimulate the domestic demand. Monetary policy will be kept *flexible, prudent and appropriate*. Even as rates were unchanged, PBoC provided a net injection of CNY100bn via the MLF to support the economy and subsequent OMO sessions into month end also saw significant net injections of around CNY290bn daily in some sessions. The elephant in the room is China's sluggish housing market – a number of property easing measures have been provided in the past few weeks including the easing of loan restrictions for rental home developments, accelerated mortgage approvals seen in Beijing and Shanghai, lower down payment ratios (30% to 20%) in Heze city and more recently in Nantong city.
- Back in Dec, at the Central Economic Work Conference, the government has pointed out that the economy is under "triple-pressure" – shrinking demand, supply shocks and weakening expectations. These could be in focus at the two sessions. Along with

the increasingly aggressive monetary policy easing, there is a greater sense of urgency to raise confidence and domestic demand.

- **We expect the pause in rate action to be brief. Deputy Governor Liu Guoqiang mentioned about the possibility of another RRR cut even as room for it has become smaller (China's reserve required ratio is not much higher than those of peers). A variety of growth boosters (tax cuts, etc) alongside the traditional monetary policy accommodation have been implemented to support small and micro companies, private consumption as well as property developers. Another 10bps cut in MLF cannot be ruled out in the coming months. Further easing actions could eventually be negative for CNY.**

- **Latest Fiscal and External Balance Outlook:** Fiscal deficit target for 2021 has been put at 3.2% of GDP, down from 3.6%, underscoring a stance of normalization towards 3% of GDP in previous years. The key word for 2022 seems to be frontloading and overall fiscal stance could remain neutral. Vice Minister of Finance Xu Hongcai fiscal revenue has risen 10.7%y/y in 2021 due to steady GDP growth. The tax and fee cuts that were in place last year will continue into 2022 and intensified with focus on "high-quality development, manufacturing, MSMEs)" and there would be more transfers to ensure local government revenue would not be impacted.Current account for 3Q 2021 came in at $73.6bn vs. previous at $53.3bn.

- **Key domestic events and issues to watch: O**fficial PMIs for Feb on 1 Mar along with Caixin Mfg PMI; Caixin services PMI for Feb is due on 3 Mar; **CPPCC on 4 Mar; NPC on 5 Mar;** Feb trade and foreign reserves due on 7 Mar; Feb CPI and PPI on 9 Mar; aggregate financing, new yuan loans and money supply M2 on 9-15 Mar; Feb FDI due on 13-18 Mar; 1Y MLF due on 13-16 Mar; property investment, industrial production, FAI ex rural, retail sales for feb due on 15 Mar; new home prices for Feb due on 16 Mar; FX Net settlement on behalf of Clients on 18th Mar; 1-Y and 5Y LPR on 21 Mar; SWIFT global payments for Feb on 24 Mar; 4Q BoP current account balance on 25 Mar; industrial profits for Feb on 27 Mar; official Mar Mfg and non-mfg PMI due on 31 Mar.

- **Technical Analysis**: USDCNH sank towards the 6.31-figure and waffled thereabouts. Bearish bias is waning and downmove has formed a falling wedge which could be followed by a bullish reversal. Support at 6.3060 before the next at 6.2820. Resistance at around 6.3280 before the next at 6.34.

KRW: Temporary Weakness Owing to Exogenous Driver

Forecast	1Q 2022	2Q 2022	3Q 2022	4Q 2022
USDKRW	**1190** (--)	**1180** (--)	**1160** (--)	**1140** (--)

No Change to Previous Forecasts

- **Motivations for the FX View: High-beta KRW remains vulnerable in the near term as full-scale Russian invasion of Ukraine zaps risk appetite.** In addition the attack opens up the possibility of Russia eyeing other Baltic states, including Lithuania while the risk of a long-drawn battle with Ukraine may undermine sentiments. The surge in oil prices past $105/bbl is a reminder that ongoing global supply disruptions could get worst and further exacerbate inflation concerns and hurt growth. We keep a close watch on KRW. Near term resistance at 1240. We believe sharp and excessive move in USDKRW could see policymakers engaging in *leaning against the wind activities*. Elsewhere, concerns of faster fed policy normalization (adding to USD strength), ongoing omicron spread in Korea (risk of dampening economic activities) and to some extent, Korea Presidential elections (lack of clarity on frontrunner) may also pose near term downside risks to KRW.

- But geopolitical situation is fluid and risks are 2-way for markets. We cannot predict how long the conflict will last but we draw on experience from past military conflicts (such as 9-11 attack, crimea annexation in 2014 and Turkish offensive into Syria in 2009). Initial weakness in high-beta KRW tends to reverse after a few weeks. Assuming this is not a long-drawn conflict, we expect the negativity surrounding KRW to slowly fade. Moreover KRW's linkages is via sentiment channel, unlike EMEA FX and EUR where linkages extend beyond sentiments to trade, energy and investment flows. Thematic plays could underpin KRW's recovery: (1) metaverse thematic lending a boost to memory chip cycle. This should support capex, exports and see foreign equity inflows return; (2) sound macro fundamentals at home; (3) BoK tightening cycle; (4) proxy play to ride the global reopening story; (5) potential inclusion to msci pending announcement in Jun - to attract re-rating foreign flows. We maintain forecast levels and the downward trajectory for USDKRW underpinned by BoK tightening cycle, tech upcycle and global growth rebound in 2H 2022.

- **Lack of Visibility on Winner May Temporarily Weigh on KRW, KR-Assets.** Presidential elections will take place on 9th Mar. 14 candidates have signed up so far but main contenders are ruling democratic Party's Lee Jae-myung and opposition People Power Party's Yoon Suk-yeol. Polls suggests that the upcoming election is shaping up to be one of the tightest race since 2002. Typically, a likely winner may have emerged by now but it is not the case today. The scenario of no clear winner (in the first instance) may temporarily weigh on KRW and Korean assets. Similarly a Yoon victory may also undermine KRW due to foreign policy bias. A Lee victory could be least disruptive for markets, in our opinion.

- Ruling party's Lee, a former Governor or Gyeonggi province gained prominence through his tough handling of pandemic. Foreign policy continuity is likely as Lee is expected to commit to US alliance and strike cooperative relations with China. May be perceived as a experienced policymaker over Yoon.
- Opposition Yoon is a political novice but is widely known for his previous role as a prosecutor-general in investigating corruption scandals, scandals including the case with former President Park Guen-hye. His foregn policy bias leans towards resetting China ties. He had indicated plans to buy an additional THAAD US missile system. This may be a concern for KRW and markets as this risks retaliation from China. Recall that US-KR relations deteriorated in 3Q 2016 over THAAD installation.

- **Metaverse, Clean Energy, Potential MSCI Inclusion are Positives for KRW.** 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. Potential bottoming in the sector and pick-up thereafter could see foreign inflow of funds again and this should bode well for KRW. Elsewhere as the world embark on their transition to clean energy. Korea also has a part to play in global supply chain via battery (LG Energy) and electric vehicles (Hyundai Motor). Potential MSCI inclusion of Korean equities may also bring about foreign inflows as global fund managers rebalance their portfolios. This is a positive for KRW.

- **Efforts Taken to Increase Foreign Accessibility to Onshore Markets.** The government is currently considering whether to allow greater foreign participation in KRW onshore forwards and swap markets. Earlier the government also announced extension of trading hours for onshore spot and eased restrictions against overseas investors to encourage foreign participation. These efforts (current still under consideration) could help with satisfying some of MSCI inclusion criteria.

- **Risks to outlook include** (1) a much faster pace of Fed tightening; (2) variant evolution proving more fatal than past strain and vaccine ineffectiveness; (3) sharp rise in oil prices as KRW is highly sensitive to market moves and is a net oil importer. Highly sensitive KRW could succumb to sell-off in the above risk-off scenarios.

- **Growth and Inflation Outlook:** For 2022, MoF sees the economy expanding 3.1% in 2022, following a 4% growth for 2021. Looking on, forward looking surveys suggest that underlying growth, activity momentum should still remain intact. For instance, manufacturing PMI inched higher to 52.8 in Jan, up from 51.9 in Dec. Near term omicron wave and its restrictive measures may temporarily dampen momentum. Taking stock, **4Q GDP saw a sequential pick up to 1.1% q/q,** up from 0.3% in 3Q. On y/y terms, 4Q GDP was at 4.1% y/y. Improvement was broad-based but most notably, private consumption rebounded sharply. Investments also jumped, thanks to expansion in construction investment while government expenditure also rose on increased spending on goods and healthcare benefits.

- **Korea CPI rose 3.6% y/y in Jan,** down from 3.7% in Dec. Higher oil prices, raw materials and agricultural goods were the main drivers of inflation. This is also the 10th consecutive month of CPI staying above BoK's 2% target and was at around 10-year high. Core CPI accelerated to 3% y/y, up from 2.7% prior. BoK revised inflation outlook to decade high of 3.1% for 2022, up from its earlier projection of 2%. BoK expects headline CPI to stay high in mid-to-upper 3% range due to ongoing surge in oil prices, rise in prices of personal services and industrial products.

- **Monetary Policy Forecast**: We see chance for BoK to pause again at the next MPC on 14 Apr as policymakers continue to assess impact of its 75bps rate hike and macro development while headline CPI slowed (albeit still near its high). BoK previously said that it will monitor effects of rate hikes, covid-19 situation, GDP, inflation, financial imbalances and changes in other nations' monetary policies while deciding on timing of future rate hikes. The cumulative 75bps hike earlier can afford some time for policymakers as BoK is well ahead of its peers in unwinding pandemic monetary stimulus. This window will also allow for new Governor (pending appointment from the new government and outgoing President Moon) to come onboard and assess the situation. We opined that the subsequent MPC on 26th May could see BoK resuming its rate hike cycle in attempt to arrest red hot inflation.

- At the last MPC (24 Feb), BoK kept policy rate on hold at 1.25%, as widely expected. BoK now sees inflation hitting 3.1% this year (vs. 2% earlier projection). BOK also held to its view that economy would continue sound growth helped by recovery in private consumption and robust exports. The higher inflation for longer view and optimistic assessment of growth outlook reinforces our case for BoK to resume policy tightening in 2Q.

- **External Balance and Fiscal Outlook:** Current account surplus narrowed to $6.06bn in Dec, from $7.16bn last month. On annual terms, surplus was nearly 50% lower than the same priod in 2020. Decline was due to drop in services account. Nonetheless, this is the 20th consecutive month of current account surplus.For 2021, the country's current account surplus was $88.3 billion, higher than the previous year's $75.9 billion.

- **South Korea unveiled a KRW14tn supplemtary budget targeted to support self-**employed and small businesses. About KRW11.5tn will go to help small business owners, KRW1.5tn to be set aside to purchase covid-19 treatment pils for 400k people and 25k hospital beds and the remaining KRW1tn to be used as contingency reserves should Omicron spread further and thus requires even more support. To finance the stimulus, the government will issue KRW11.3tn of treasury bonds and use KRW2.7tn from public fund services. The total government spending would increase to a record 621.7 trillion won this year, adding to the already approved 607.7 trillion won budget.

- **Key domestic data to watch:** S. Korea releases Feb trade (1 Mar); Feb mfg PMI, Jan IP (2 Mar); 4Q GDP (3 Mar); Feb CPI (4 Mar); Jan current account (11); Feb unemployment rate (16 Mar); 1st 20 days of exports (21 Mar); Feb PPI (23 Mar); Mar consumer confidence (29 Mar); Apr Business survey – mfg and services, Feb IP (31 Mar).

- **Technical Outlook:** USDKRW was on a recovery path lower for the month of Feb until war broke up in Ukraine and subsequently USDKRW was sent higher again. But the rise did not breach the last high of 1212 in Jan. Pair was last at 1203 levels. Bullish momentum intact while RSI is rising. Risks still skewed to the upside for now. However on the monthly chart we observed a potential bearish hammer candlestick. This implies that USDKRW could possibly be near its top. We monitor this space. Bias to lean against strength. Resistance at 1212, 1220 levels. Support at 1195 (50 DMA), 1188 (100 DMA) and 1182 (61.8% fibo retracement of Oct low to Jan high).

TWD: Caught in Geopolitical Swings

Forecast	1Q 2022	2Q 2022	3Q 2022	4Q 2022
USDTWD	27.70 (--)	27.50 (--)	27.80 (--)	28.00 (--)

No Change to Previous Forecasts

- **Motivations for the FX View:** Cross asset markets remain headline-driven with geopolitical tensions the dominant driver. **TWD, like most FX is no surprise being caught up by geopolitical swings, which is systemic in nature**. Furthermore fears of chip supply chain disruption may temporarily weigh on semiconductor outlook. Over time, we expect the effects on TWD to fade. But for now, as tensions remain fluid, 2-way risks are expected. To add to uncertainty, the coming 2 - 3 weeks will bring about higher volatility as markets await much-anticipated FoMC (16 – 17 Mar) – if Fed will turn more hawkish. Near term, we see risks skewed to the upside for USDTWD with range likely in 27.80 – 28.20 within wider perimeters of 27.70 – 28.40.
  - Ukraine supplies more than 90% of US semiconductor-grade neon, a key component for lasers in chipmaking. Based on research from Techcet, The gas, a biproduct of Russian steel manufacturing, is purified in Ukraine. Russia is the source of 35% of the palladium used in the United States. The metal is used in sensors and memory, among other applications. Companies that supply chipmakers with materials for semiconductor fabrication buy gases, including neon and palladium, from Russia and Ukraine. Now with US sanctions on Russia and Russian-related firms as well as military conflict in Ukraine (affecting production), there could be shortage in supply and this could affect the semiconductor industry in general. We do note that based on various reports, semiconductors are saying that it has diversified sourcing for its

supplies and hence disruption may be kept at a minimal. We watch this space for further development.

- Broadly over 2022, we reiterate our view that though TWD may trade steady, it is not likely to 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) underpin 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) signs of slowing export orders a drag on TWD; (3) yield disadvantage as CBC lags on policy tightening (even if it tightens) vs. peers in the region and Fed moves.

  - We do however note there are chatters of Taiwan easing border restrictions soon. An "economic travel bubble" will allow business travellers to go to Taiwan quarantine-free so long they proved negative for covid. In addition, the current 14-day quarantine required for all arrivals will be shortened to 10 days. These are likely to come into effect in mid-Mar. Though measures are still restrictive, it is a step forward resume normalcy. We believe authorities could further ease measures if there is no major outbreak. Easing of measures is needed to help with some hard-hit sectors like tourism.

  - To take stock, Taiwan has earlier banned the entry of all foreign nationals without residency, with few exceptions, since May 19, 2021, following an unprecedented spike in domestic covid cases in Taiwan.

- **CBC Policy Lag a Drag on TWD.** Markets are pricing in the case of 3 hikes (12.5bps each) for CBC. Some are even calling for a 25bps hike at its upcoming MPC on 17th Mar. We doubt it and instead look for CBC to stay on hold. 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 slowed amid extended level 2 alert, border restrictions. As such, it is likely CBC stick to prudent policy accommodation to support growth until broader recovery takes hold when 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. Our base case looks for 1 -2 hikes in 2H 2022.

- **Expectations for Peak USD to Help Weigh on USDTWD.** Question remains if Fed will embark on 25bps or 50bps hike. As of writing (23 Feb), markets are pricing in ~35% chance of a 50bps hike at Mar FoMC. Fears of faster Fed normalisation - QT and rate normalisation - add to USD upward pressure. Nevertheless, we are of the view that USD should peak (also seen in past Fed hike cycles over last 50 years) after first hike as hawkish expectations are already in the price (assuming no disorderly tightening or further bump up in tightening expectations). We also see the case for USD decline premised on (1) Fed is not the only one tightening and (2) synchronous policy normalisation in the face of positive global economic backdrop allows for cyclical FX, including TWD to strengthen.

- **Tech Trend to Keep TWD Supported but Linkage Could Ease.** 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. Looking forward, semiconductor supply-demand rebalancing with China and US ramping up production, adding to supply chain may help to address the demand-supply imbalances. Hence our view that markets could move to price a peak in demand-supply imbalance in 2022 and that the tech proxy linkages with TWD may ease, as such.

- **Growth and Inflation Outlook: Taiwan's economy grew at its fastest pace of 4.88% y/y in 4Q for the first time in over a decade**. For the year, GDP grew 6.3% y/y. Tech exports was the main driver of growth. Looking on, export orders grew at a slower pace of 11.7% y/y in Jan (vs. 12.1% prior). We continue to watch this space as further slowdown can lead to TWD softness. he National Development Council set growth target of 4.6% for 2022. Rising domestic investments, improvement in private consumption and strong outbound sales were cited as drivers of strong economic growth momentum.

- **Headline CPI rose 2.84% y/y in Jan** (vs. 2.62% y/y in Dec). This comes close to a 9-year high and the 6th consecutive month that CPI comes in above 2%-target. The rise was due to Lunar new year effects - as service fees were raised. Restaurants raised prices while dining out expenses rose. Core inflation recorded its sharpest rise (of 2.4% y/y in Jan) in 13 years. DGBAS earlier forecast a 1.61% increase in headline CPI for 2022, down from a 1.98% rise anticipated for 2021.

- **Monetary Policy Forecast: We still expect CBC to keep policy rate unchanged at current level of 1.125% at the next MPC on 17 Mar,** though increasingly there is a risk of CBC reacting earlier given expectations of a faster pace of Fed normalization and faster inflation at home. Though headline GDP and inflation may seem to suggest that overall growth in TW is robust, they masked challenges for some sectors (self-employed, tourism, etc.) and we opined CBC may want to keep policy accommodative to support domestic activity especially when covid border measures may only be gradually eased in mid-Mar. We also recall that Governor Yang hinted in Nov that CBC will not kick off rate hike cycle before Fed. He also outlined 3 factors that CBC will consider when to raise interest rates: (1) inflation - but CBC sees no inflationary pressure; (2) observe effects of government measures to stimulate the economy; (3) potential rate-triggered foreign fund flows. He further elaborated that *when the central bank raises its key interest rates,* *foreign funds will flow into the country and high liquidity is expected to affect real estate, other asset prices and the Taiwan dollar's value, so long as other central banks keep their interest rates intact*. Taking the above factors into consideration, we still expect CBC to stay patient as its assessment of inflation remains sanguine and that Fed has yet to tighten. The case for 0.125% hike to bring policy rate to 1.25% in 2H 2022 is conceivable with Jun MPC a possible window for first CBC hike.

- At the last MPC (16 Dec), CBC maintained policy rate at 1.125% for the 7th consecutive quarter, as widely anticipated. Decision to hold is becaue the economy is not overheating and there are uncertainties in the outlook. CBC revised growth and inflation projections upwards for 2021 and 2022 and said it would adjust monetary policy in a "timely manner" if needed given uncertainties in global inflation. He added that current monetary policy setting is moderately loose now but it will definitely move towards tightening in 2022.

- **External and Fiscal Outlook: Current account surplus widened to US$32.19bn in 4Q,** from US$26.1bn in 3Q. Both goods and services surplus expanded. Trade was driven by demand for electronics used in digital transformation and emerging technology applications while services was due to rising freight rates mid container shortages and port congestion. For 2022, Taiwan's current account surplus climbed to a historic high of US$116.12bn. As of 4Q, Current account surplus stood at 14.95% of GDP. Taiwan's debt as % of GDP last stood at 35.2 while fiscal surplus was at 0.37% of GDP. Taiwan has a self-mandated cap of 40% of debt to GDP

- **Key domestic events and issues to watch:** Feb mfg PMI (1 Mar); Feb FX reserves (4 Mar); Feb CPI, trade (8 Mar); CBC MPC (17 Mar); export orders (21 Mar); Feb industrial production (23 Mar).

- **Technical Outlook:** USDTWD extended its run-up for the month of Feb amid Ukraine war. Pair was last at 27.995 levels. Bullish momentum intact while RSI is near overbought conditions. Immediate resistance here at 28.07 (50% fibo), 28.21 (61.8% fibo). Support at 27.93 (38.2% fibo retracement of 2021 high to low), 27.75/85 levels (21, 50, 100, 200 DMAs).

SGD: MAS to Tighten Again in Apr

Forecast	1Q 2022	2Q 2022	3Q 2022	4Q 2022
USDSGD	1.3400 (--)	1.3200 (--)	1.3100 (--)	1.3000 (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** SGD NEER hovered near the strong end of the policy band before bout of dampening in risk sentiments over Russian attack on Ukraine. But losses in AxJ FX have been contained thus far. Historically, if military conflict is short-lived, with limited global economic impact, drags on AxJ FX tend to be reversed (on average) over several weeks. Domestically, we still 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". A broader services and construction recovery will buttress growth dynamics, while metaverse plays and demand for tech/chips should still support manufacturing activity. The MAS surprised with an off-cycle policy calibration (slight steepening of policy slope) on 25 Jan. The policy move should be largely seen as a reinforcement of the strategy that MAS has embarked on since last Oct, i.e., pre-emptively adjusting policy parameters in calibrated steps as assessment of inflation risks swing to the upside. We look for gradual dips in the USDSGD pair, particularly if domestic Omicron uncertainties ease and MAS tightens further in Apr. Historically, USD strength tends to fade post the first Fed rate hike in each cycle.

- SGD NEER was estimated to be hovering near the upper bound of the policy band before recent market volatility over Ukraine. Notably, USDSGD pair surged about 1% towards the 1.36-handle at first on reports of Russian attack, but further upswings appear more hesitant. **Historically, if military conflict is short-lived, with limited global economic impact, drags on AxJ FX tend to be reversed (on average) over several weeks**.

- **As Russia-Ukraine induced volatility settles, broad shifts in USD will likely remain as the key driver of near-term moves in FX markets.** USD remains bid towards end-Feb, bolstered by Ukraine uncertainty and as somewhat aggressive Fed stance remains intact—markets expect around 6 hikes over the next 12 months. Still, after the hawkish Fed tilt in late Jan, more recent comments by Fed officials seem to be dialling back expectations for a 50bps hike in Mar. Historically, USD strength also tends to fade after the first Fed rate hike in each cycle. **Risks for the USDSGD pair could swing modestly to the downside from 2Q**.

- **Domestic Covid risks remain intact, but drags on sentiments appear manageable**. Latest Covid policy announcements largely reflect a continuation of Covid-endemic stance from authorities. Covid rules will be simplified, and safe distancing will no longer be required in mask-on settings. Close contacts of Covid cases will now be required to self-monitor for 5 days instead of 7. Households may now receive 5 visitors at any one time, versus 5 per day previously. While daily Covid cases are likely to remain in the 15-25k range for now, cases are expected to peak in a few weeks, and easing of curbs can be considered thereafter when cases fall.

- Negative contagion from China growth moderation concerns to SGD remains mild at this point. **Rather, some relative stability in the yuan could actually impart relative resilience to regional FX such as SGD**. On a basket basis, the yuan continues to be supported by strong current account surplus and interest in its bond and equities, reinvigorated by recent growth boosters. Recent CNY demand on Ukraine concerns also point to potential rise of yuan as a semi-haven in the region.

- **Growth and Inflation Outlook:** Final 4Q GDP growth (+6.1%) came in higher than advance estimate (+5.9%) but below our economist team's expectations (+6.5%) due to the downgrade in services growth.

- **Team maintains 2022 GDP forecast growth at +3.8% (within MTI's 3%-5% forecast).** A broader services and construction recovery will buttress growth dynamics, while metaverse plays and demand for tech/chips should still support manufacturing activity, even as activity in the latter moderates from 2021's high base. 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.

- In Jan, core CPI (+2.4%) rose by the fastest pace since Sep 2012, while headline CPI (+4%) remained at a 8-year high, mainly driven by rising prices for food and utilities. **Our economist team maintains 2022 forecasts for average headline CPI (+3.6%) and core CPI (+2.7%)**, with prices driven by both external and domestic factors.

- **Monetary Policy Forecast**: In mid-Oct, MAS kept the width of the policy band and the level at which it is centred unchanged, but raised slightly the slope of the SGD NEER policy band (est. 0.5%), from 0%. Subsequently on 25 Jan, in an off-cycle move, MAS raised "slightly" the slope of the SGD NEER band, while leaving the width and level at which it is centred unchanged. We estimate that the slope is now at 1.0% p.a., versus 0.5% prior. The decision is premised largely on rising inflation risks, with MAS citing "rapidly accumulating external and domestic cost pressures", amid "confluence of recovering global demand and persistent supply-side frictions".

- We think that the policy move should be largely seen as a reinforcement of the strategy that MAS has embarked on since last Oct, i.e., pre-emptively adjusting policy parameters in calibrated steps as assessment of inflation risks swing to the upside. SGD NEER could trade in the +1.5% to +2.0% above par range in the lead-up to the Apr policy decision.

- **Our economist team expects the MAS to tighten again via a re-centering of the S$NEER band at the April meeting**. The current pre-emptive move in Jan via the slope adjustment may not be sufficient to reduce imported inflation, as the S$NEER is already trading near the top side of the band.

- As of writing, USDSGD is around 1.3560, and trades around +1.23% from the implied mid-point of 1.3729, with the top estimated at 1.3454 and the floor at 1.4004. Output gap is now expected to close in 2022, while core inflation is expected to creep higher still. Given these macro conditions, our Taylor rule estimates suggest that SGD NEER is likely to see a modest upward bias over the next few quarters. We note that SGD NEER has pulled back modestly from near +2% above par levels for most of Feb to +1.23% now. The modest pullback might be in line with the recent escalation in Russia-Ukraine conflict. The announcement of staggering of GST increases starting next year in the Budget earlier, meaning slightly less near-term inflationary concerns, could have contributed to the SGD NEER dip a tad too. But on net, MAS is likely to be forward looking in policy-making and should continue to tighten policy in Apr. Maintain preference to long SGD NEER dips.

- Domestic interest rates rose in Feb. The 3-month SOR (3MSOR) and 3-month SIBOR (3MSIBOR) are at 0.542% and 0.591% at the time of writing, higher than the 0.355% and 0.438% seen in end-Jan. While risks might be skewed modestly to the upside for rate moves, financial stability risks among households and corporates are likely to remain manageable. We expect the 3M SIBOR to rise to around 0.98% at end-4Q 2022.

- **Latest Fiscal and External Balance Outlook:** Finance Minister Lawrence Wong delivered the Budget on 18 Feb. Our economist team assesses that Budget FY2022 shores up finances to meet priorities for a post-pandemic future, including growing healthcare spending; expanding the social safety net; and transitioning to a green economy.

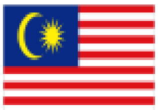
- Budget 2022 stays expansionary with a small deficit of $3bn (0.5% of GDP). There will be increases to the GST rate (7% to 9%), property taxes, personal income tax (for top earners), and carbon tax. Foreign worker policy will be tightened with the hike in minimum qualifying salaries for EP and S Pass holders. Notably, the GST rate increase from 7% to 9% will be conducted in two stages—one percentage point each time on 1 Jan 2023 and 1 Jan 2024. A $6.6bn Assurance Package will cushion the impact of the GST hike. The GST offset package includes cash payouts, GST vouchers, U-Save rebates, MediSave top-ups and CDC vouchers. The package will cover at least 5 years of additional GST expenses for a majority of Singaporean households, and 10 years for lower income households.

- Given the above, our economist team raises forecasts for average headline inflation to 1.8% (from 1.2%) in 2023 and core inflation to 2.1% (from 1.5%) in 2023 from the 1% GST hike. A 2% GST hike is expected to increase consumer prices by about 1.3% points over the relevant period. For 2022, forecasts for average headline inflation at 3.6% and core inflation at 2.7% are maintained. On net, forward-looking nature of policy-making could still nudge MAS to remain on a policy-tightening path, supportive of the SGD.

- The current account surplus improved to 18.1% of GDP in 4Q 2021, from 17.0% prior. A broad recovery trend has been observed since the trough in 4Q 2019. On higher-frequency indicators, we note that NODX jumped by +17.6%y/y in Jan, flattered by price effects—real NODX eased to +3.9%. Our economist team maintains 2022 NODX growth forecast at 4%-6%, higher than Enterprise Singapore's 0%-2%. **Resilient trade surpluses could help anchor SGD sentiments overall.**

- **Key domestic events and issues to watch**: Feb PMI (2 Mar); Jan Retail sales (4 Mar); Feb NoDX (17 Mar); Feb CPI (23 Mar); Feb Industrial production (25 Mar).

- **Technical Outlook**: USDSGD pair last seen at 1.3560, on net higher towards end-Feb on Russian-Ukraine crisis amid broad dollar strengthening. On the USDSGD daily chart, momentum and RSI are modestly bullish. Two-way swings near-term on geopolitical news flow, but 50-DMA just cut the 200-DMA to the downside, a tentatively bearish signal. Bearish tendencies could re-exert once market caution eases. Preference to sell USDSGD rallies. Resistance at 1.3600, 1.3670 (76.4% fibo retracement of Nov 2021 high to Feb low). Support at 1.3490 (23.6% fibo), 1.3410 (Feb low), 1.3380 (Sep low).



MYR: Support from Buoyant Oil Offsets Geopolitical Spillovers

Forecast	1Q 2022	2Q 2022	3Q 2022	4Q2022
USDMYR	4.18 (--)	4.15 (--)	4.12 (--)	4.10 (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** Notwithstanding concerns regarding hawkish Fed and Russia-Ukraine conflict, drags on MYR have been relatively contained for now, with buoyant oil prices providing offsetting support. Historically, if military conflict is short-lived, with limited global economic impact, drags on AxJ FX tend to be reversed (on average) over several weeks. Conditional on some diplomatic resolution to Russia-Ukraine conflict in the coming months, we maintain a mildly positive outlook on the MYR relative to the USD from around mid-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 current wave of Omicron cases likely eases. Continued Fed normalization could be a drag on, but likely not derail MYR recovery if a scenario of Fed miscommunication is avoided. We hence look for USD/MYR to trade largely ranged over 1H 2022, before potentially dipping lower on net in the latter quarters.

- **The relatively modest drags on MYR thus far from Russia-Ukraine developments could be due in part to the impact on oil markets from the conflict**. To some extent, concerns over potential supply disruptions have led Brent to swing higher (and intermittently breach) the US$100-handle as of late Feb. Given MYR's positive correlation with oil moves, this likely provided some offsets to sentiment drags.

- Given environment of Fed normalization, broader USD swings could account for a significant portion of USD-AxJ volatility in 2022. **There is a likely limit to the extent of dollar support from hawkish Fed.** Historically as seen in past 7 Fed rate hike cycles over the last 50 years, while 3-mth run-up to Fed's first rate hike is typically supportive of DXY strength, the DXY generally sees declines post-first Fed hike, i.e., -2% to 4% on average in a T + 90 trading days window as USD long positions unwind post-event risk. Another constraining factor is that the terminal rate of Fed policy could be lower this time round, possibly at 2.5% or lower, which could lead Asian risk assets to remain relatively in appeal over time. (A risk factor to this medium-term USD-negative view could be surprises in Fed quantitative tightening plans, if significantly more aggressive in pace than expected).

- In the near-term, the epidemiological trajectory still matters and the risk of emerging variants or rebound in cases can impinge on MYR recovery. But despite recent surge in Covid cases in Feb, daily case trajectory shows tentative signs of moderating towards end-Feb. Macro activity could recover more sustainably as curbs ease further over time. **Importantly, the government has vowed not to reimpose lockdowns amid a ramped-up COVID-19 inoculation programme**. Four-fifths of the country's 32 million population has received at least two doses of COVID-19 vaccine, while more than a third has received a booster.

- On domestic politics, 3 governments in 3 years underscore political instability after the 14th General Election (GE) in May 2018. Current government holds a slim majority via a fragile coalition. Memorandum of Understanding (MOU) on Transformation and Political Stability signed on 13 Sep 2021 ("effective" until July 2022) with Pakatan Harapan bloc of the oppositions supposedly provides a temporary respite from politicking to focus on policies for economic recovery. But the fractious and fluid dynamics of domestic politics does raise the possibility of general elections in 2H 2022.

- **Elections and associated near-term uncertainties could induce higher vols for the USDMYR pair, but a sustained period of volatility and extended MYR losses is not our base case**. While the USDMYR pair did rise by >8% from 2Q to 4Q 2018 (last elections in May 2018), the bulk of this upswing can be attributed to broad dollar strength (DXY >+6%) and oil softness (oil > -20%) over the same period. Accounting for these two factors, the actual elections-induced impact on MYR is likely modest—the BIS-estimated MYR REER (real effective exchange rate basket) notably fell by a modest 1.5% over this period. To a large extent though, a scenario of contained MYR vols/losses on election uncertainty is conditional on there being clear signs of ability of (potential) next ruling party/coalition to maintain policy continuity and economic traction post Covid-recovery.

- **Growth and Inflation Outlook:** GDP rebounded +3.6%y/y in 4Q 2021 (3Q 2021: -4.5%) and +3.1% in 2021 (2020: -5.6%). But last year's real GDP was -2.7% below 2019 level. Sectors, consumer spending and investments remained sub-2019, except manufacturing and external trade thanks to global economic rebound as well as public consumption reflecting fiscal stimulus.

- **Our economist team maintains forecast of broad-based +6.0% growth in 2022**, underpinned by sustained economic opening as the Government proceeds with "Living with COVID-19" strategy and transitioning from the pandemic phase to the endemic stage of COVID-19. This is enabled by high primary vaccinations, rollouts of booster shots and inoculations of adolescent and children, which also prevented the healthcare system from being overwhelmed and suggest stronger immunity given the de-coupling between the Omicron-driven surge in COVID-19 cases and statistics on deaths as well as patients on ICU and ventilations. Progress in economic opening is further enhanced by the

Government's plan to fully open the country's international borders on 1 Mar 2022. Where the Government is "tightening" as far as COVID-19 policy is concerned is on mandating booster shots to maintain full-vaccination status.

- Inflation rate eased to +2.3%y/y in Jan 2022 (Dec 2021: +3.2%) on diminishing base effects despite higher prices of food & non-alcoholic beverages (FNAB), but core inflation picked up to +1.6%y/y (Dec 2021: +1.1%) amid pent up discretionary spending and services demand following economic opening. **Our economist team tweaks full-year 2022 inflation slightly to +2.7% from +2.5% (2021: +2.5%; 2020: -1.2%) mainly on elevated F&B costs and food-related commodity prices (e.g. CPO price).**

- **Monetary Policy Forecast:** BNM's first Monetary Policy Committee (MPC) meeting this year (19-20 Jan 2022) kept OPR at record-low 1.75% for the ninth consecutive meeting and since July 2020. Monetary Policy Statement (MPS) remained "neutral" in our economist team's view. **Maintain call of unchanged OPR for much of 2022 before a +25bps rise in 4Q 2022 i.e. 2-3 Nov 2022 MPC meeting**, followed by +50bps hikes in 2023.

- Our economist team sees BNM's Monetary Policy Statement (MPS) remaining "neutral" as the positives of continued global economic recovery and the domestic economy's rebound last quarter which is expected to gain momentum this year is still tempered by the risks to growth remaining tilted to the downside e.g. weaker-than-expected global growth; worsening in supply chain disruptions; emergence of severe and vaccine-resistant COVID-19 variants of concern.

- BNM expects inflation to remain moderate in 2022 as the base effect from fuel inflation dissipates. Core inflation rate could edge up as economic activity normalises with the environment of high input costs but is likely to remain modest amid continued slack in the economy and labour market as per the negative output gap and still elevated unemployment, youth unemployment and under-employment rates relative to the pre-COVID-19 levels that mitigated risk of wage-driven inflation. No core inflation rate forecast is provided in the MPS, but "modest outlook" suggests 1%-1.5% range vs the high of 2.5% in 2016 since official data on core inflation is published. Manageable inflation risks mean that BNM can afford to be a tad patient on policy normalization.

- Still, we note that BNM removed from MPS the line about it being "committed to utilise its policy levers to foster enabling conditions for a sustainable economic recovery". This suggests that while current monetary policy stance is appropriate and accommodative, BNM has commenced review of various measures in place over the past two years as well as the degree of monetary policy accommodation, in turn signalling the future path of monetary policy is that of "gradual normalisation" as risk to growth remain tilted to the downside and the above-mentioned slacks in the economy.

- With regards to US Fed's monetary policy normalisation/tightening cycle, the pressure for BNM to react is likely mitigated by the absence of "2013 Taper Tantrum" like market impact, reflecting in part lower foreign holdings of Malaysian financial assets. Recent portfolio flows are still benign, with YTD net equity inflows at around +US$562mn as of 25 Feb and net bond inflows at around +US$1098mn as of 31 Jan (note that data is lagged).

- **Fiscal and External Balance Outlook: Budget 2022 will likely see a third consecutive year of >6% budget deficit to GDP at 6.0% (2021E: 6.5%).** Meanwhile, Fiscal Outlook 2022 report indicates budget deficit to GDP ratio will go sub-5% from 2023 onwards (2023E: 4.8%; 2024: 4.3%) en-route to the 12th Malaysia Plan target of 3.0%-3.5% in 2025. **Trajectory of narrowing fiscal deficits, if maintained, should be net positive for medium-term MYR sentiments**.

- Budget 2022 maintains focus on people's wellbeing via enhancements to cash assistance, welfare payments & social security system; higher allocations for education & health; initiatives to create jobs. Plus allocations, measures & incentives to support businesses & industries as well spur investment, e.g. record high MYR75.6bn gross development expenditure; MYR40bn business financing package (e.g. direct loans, financing guarantees, equity-based schemes); MYR30bn GLCs capex in renewable energy, supply chain modernization & 5G infrastructure; revive hardest hit industries (e.g. tourism, creative, retail) and develop strategic/targeted sectors (e.g. digital, aerospace, E&E, chemicals, agrofood, halal); attract FDI that complement industry value chain, drive knowledge-based jobs creation & develop opportunities for local SMEs.

- Current Government domestic debt (i.e. Malaysian Government Securities + Malaysian Government Investment Issues + Malaysian Islamic Treasury Bills) ceiling of 65% of GDP (raised from 60% in early Oct 2021) is until 31 Dec 2022. **However, Finance Minister indicated that after the projected 63.4% by end-2022, it will be around 62%-63% in 2023 before falling to around 60% in 2024, implying the 65% ceiling will stay for a few more years**. Finance Minister has the power under existing acts on Government debt to gazette the debt ceiling at level deems necessary without tabling at the Parliament for debate and voting. To note, the last two rounds of increases in debt ceiling to 60% from 55% in Aug 2020 and further to 65% in Oct 2021 involved Parliament's approval because it was in conjunction with the passage of the Temporary Measures for Government Financing Act 2020 (COVID-19 Act 2020) in Sep 2020 that set the COVID-19 Fund for the period of 2020-2022 at MYR45bn which was then raised to MYR65bn in Dec 2020 and again to MYR110bn in Oct 2021.

- **Key domestic events and issues to watch:** Feb PMI Mfg (1 Mar); BNM Monetary policy decision (3 Mar); Foreign Reserves (7 & 22 Mar); Jan Industrial Production (11 Mar); Feb Trade (18 Mar); Feb CPI (25 Mar).

- **Technical Outlook:** USDMYR inched higher for the month of Feb. But move is relatively mild as opposed to other USD/AXJs. Its relative stability is largely attributed to oil gains and steady RMB. That said we opined that MYR cannot escape unscathed as the risk of a long-drawn conflict will put strain on supply chains and global growth. USDMYR was last at 4.1985 levels. Daily momentum is mild bullish while RSI turned lower from near overbought conditions. On chart pattern, a symmetrical triangle pattern (represents a period of consolidation) with apex is in sight and a break out is imminent. But issue with this pattern is though it may hint at a break out trade soon, its directional bias is unclear at this point. Support at 4.1790 (200 DMA), 4.1520 (38.2% fibo retracement of 2022 low to high). Resistance at 4.20, 4.22 and 4.2480 levels (double-top). Interim trade in 4.1850 – 4.2050 range within wider perimeters of 4.18 – 4.22 range.

IDR: Jitters, But no Derailment in Sentiments

Forecast	1Q 2022	2Q 2022	3Q 2022	4Q 2022
USDIDR	**14,200** (--)	**14,100** (--)	**14,100** (--)	**14,000** (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** Incremental concerns over Russia-Ukraine conflict impinging on broader risk sentiments, buoyant dollar, still-pertinent Fed rate hike worries (confirmed by FoMC minutes release), domestic Covid wave etc., likely contributed to the recent up-creep in USDIDR. We expect such corrections to be intermittent and modest in extent, rather than sustained and sharp. In part, benign activity readings and expectations for BI to not lag too far behind Fed in policy normalization could help mitigate any bout of IDR losses. We look for a net gradual IDR recovery in 2022, alongside more substantial progress in domestic vaccination rates, phasing out of Omicron drags, easing of export restrictions etc., even as the pace of IDR recovery could be constrained in a broad environment of Fed policy normalization.

- **Bout of market volatility triggered by Russian attack on Ukraine modestly dampened but did not derail IDR sentiments**. One mitigating factor could be safe haven demand pushing UST10Y yield back below 2% at one point. Initial upswing and subsequent signs of downward retracement in USDIDR pair on Ukraine developments followed price patterns seen in most USD-AxJ pairs. Risks for USDIDR could be skewed mildly to downside if sentiment contagion from Ukraine concerns remains contained.

- IGB-UST 10Y yield differential narrowed from around 500bps in mid-Dec (interim high) to around 454bps as of 25 Feb**. On net, carry appeal of IGB assets might have moderated a tad and dampened IDR sentiments accordingly, but yield differentials likely remain sufficiently wide to avoid an exodus of foreign funds**. Limited upsides ahead for the UST yield rally (with Fed terminal rate expected at 2.5% or lower), could also help avoid deeper IDR losses. On bond flows, we note that net outflows in Jan (-US$283mn) was significantly more modest than that experienced in Dec (-US$1,887mn). Sovereign bond markets actually saw +US$545mn of net inflows MTD (as of 24 Feb), reversing the net outflow in Jan, which seems to suggest that drags from Fed tightening concerns could be contained for now. Notably, equities also saw +US$1,220mn net inflows MTD (as of 25 Feb).

- **In any case, extent of broad volatility spillovers from external risk events to IDR assets should be contained, given lower foreign holdings in Indo sovereign bonds, healthier current account balance, larger FX reserves, and lower inflation vs. earlier Fed tapering episodes**. Current account likely came in at a small surplus at 0.3% of GDP in 2021 compared to pre-pandemic period (deficit of above 2.5% of GDP). Foreign reserves for Jan came in at US$141.3bn vs. US$144.9bn prior, but remained near historical highs.

- On Covid, record high (>60k) in daily case counts were reported in Feb, but drag on sentiments were mild as there were no significant signs of tightening in curbs domestically. Case trajectory also shows tentative signs of moderating in late Feb. On net, **authorities are largely sticking to a Covid-endemic and reopening policy stance**, e.g., quarantine period for travellers could be cut from five to three days from Mar.

- **Recent adjustments to coal and palm oil export policy remain a concern near-term, but could ease after 1Q**. To recap, an export ban on coal was implemented in Jan, to boost inventories at power plants and ensure energy sufficiency at home. Subsequently, coal miners compliant with new regulations on domestic market sales were cleared to restart shipments. Baseline assumption is for ban-induced drag on exports to ease over time as more firms comply with the regulations. On palm oil, similar concerns over domestic supply shortages led authorities to impose a rule that exporters must allocate 20% of their shipments for local supply as well. Shortages were partly triggered by weaker production in neighboring Malaysia (major producer of palm oil). In Malaysia, foreign workers make up a large portion of harvesting jobs, and Covid-induced frictions have led to near-term labor shortages. Expectations are for production to recover later in the year.

- In Sep 2021, **the framework for local currency settlement with China officially came into effect, which is expected to result in incremental use of yuan and IDR for bilateral transactions (instead of USD)**. The LCS helps businesses benefit from lower conversion costs, and allows more options for trade financing and direct investment in local currencies. Alternative hedging instruments in local currencies are also offered. In Jan, **BI notably also published details on plans to accelerate FX market deepening to support IDR stability**, including development of a non-USD reference rate against IDR as a fixing rate for derivative transactions to support hedging activity, as well as efforts to promote LCS usage. Broadly, such developments are expected to help reduce the volatility of the USDIDR pair. Separately, a trade and investment deal with UAE is also supposedly being close to finalization, and could be signed by Mar.

- **Growth and Inflation Outlook:** GDP growth firmed to +5% in 4Q as the easing of mobility restrictions drove a recovery in domestic demand and the global commodity boom kept the export engine roaring. For 2021 overall, GDP rose by +3.7%, reversing the -2.1% decline in 2020.

- On higher-frequency indicators, Markit PMI Mfg for Jan came in at 53.7 versus 53.5 prior, still largely pointing to robust expansion momentum.

Retail sales (+16%) remained resilient while consumer confidence index firmed in Jan despite concerns over Omicron.

- **Our economist team maintains 2022 GDP growth forecast at +5.4%**, even as downside risks are emerging with Omicron wave possibly dampening the recovery in 1Q. The 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. 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.

- Headline CPI rose to +2.2% in Jan, the fastest pace since May 2020, mainly on the back of higher food and energy costs. Core CPI climbed to a 16-month high of +1.8%. **Our economist team maintains average headline inflation forecast at +3.2% in 2022 (vs. +1.6% in 2021)**. Inflation will continue to edge up in the coming months on the back of improving demand, high commodity prices, and the 1% VAT hike in April.

- **Monetary Policy Forecast:** In its policy decision on 10 Feb, BI held policy rate steady to maintain currency stability. It largely viewed the ongoing economic recovery momentum as intact, keeping its GDP growth forecast at 4.7%-5.5%, although the Omicron variant presents some downside risks. While it expects inflationary pressures to start building only in 2023, it will assess price pressures more thoroughly from 3Q. We note that pre-emptive signalling of stimulus withdrawal is underway since last meeting, with start of reserve ratio hike.

- **Our economist team maintains call for BI to deliver +75bps rate hikes this year, to bring its policy rate to 4.25% by end 2022**. The first rate hike could be in 2Q, as the Fed kickstarts its tightening cycle. Some convergence with Fed policy path over the course of the year could be supportive of IDR.

- As Fed tightening comes due, BI plans to allow greater yield flexibility to ensure government bonds remain attractive to foreign funds. For instance, it may become less active as standby buyer at sovereign debt auctions, which would allow the finance ministry to accept bids for higher rates.

- For the whole of 2021, BI purchased IDR358trn (2.1% of GDP) worth of government bonds to fund the budget deficit (which came in at 4.65% of GDP). Under the extended burden sharing agreement, BI will purchase IDR224trn (1.3% of GDP) in 2022.

- **Latest Fiscal and External Balance Outlook:** Budget speech in Aug 2021 saw Jokowi proposing a IDR2709trn (US$188bn) budget for 2022, a slight decrease from IDR2,750trn budget for 2021, while government revenue is expected to rise by +6.1% in 2022, as both income tax and value-added tax (VAT) are projected to grow by more than +10% with the expansion of VAT collection and the normalization of growth. In Sep 2021, parliament proceeded to approve Jokowi’s 2022 budget with a total spending of IDR2,714.2trn (US$190bn) and estimated deficit of 4.85% of GDP.

- In early Jan, it was estimated that Indonesia recorded a budget deficit of 4.65% of GDP for 2021, "far smaller" than initial estimates, according to FM Sri Mulyani. The government collected IDR2,003trn (US$140 billion) in revenues, while spending reached IDR2,787trn. Tax revenues were 19% higher than in 2020 and about 104% of the target. **Following better than-expected revenue collections in 2021**, **the 2022 fiscal deficit estimate was lowered to 4.3% of GDP.**

- 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 lower fiscal deficit target. **Signs of fiscal discipline can help mitigate drags on IDR from a return of current account surplus into modest deficit territory**.

- Towards the end of 2021, exports (+35.3%y/y) remained resilient in Dec on the back of high commodity prices including palm oil and coal. But exports (+25.3%) decelerated in Jan on the back of the coal export ban and restrictions on palm oil shipments, resulting in the smallest trade surplus ($933mn) since April 2020. **Our economist team estimates the current account deficit at -2.0% of GDP in 2022 (versus mild surplus of 0.3% of GDP in 2021), as easing exports growth (earlier commodity price rally may moderate) meets robust import demand (domestic consumption to drive growth)**.

- **Key domestic events and issues to watch**: Feb PMI Mfg (1 Mar); Feb CPI (1 Mar); Feb Foreign reserves (8 Mar); Feb Trade (15 Mar); Feb Local auto sales (15-21 Mar); BI Monetary policy decision (17 Mar).

- **Technical Outlook:** USDIDR last seen at 14,380. The pair largely saw ranged trading between 14,200 and 14,450 over the last few months. Momentum and RSI on daily chart are not showing a clear bias. Extent of upswings could be constrained near-term, with interim key resistance at Dec high of 14,450. Next resistance at 14,570 (Jul high), before 14,640 (Apr high). Support at 14,290 (38.2% fibo retracement from early Dec high to late Dec low), 14,190 (late-Dec low).

PHP: Reopening to Offset Geopolitical Drags

Forecast	1Q 2022	2Q 2022	3Q 2022	4Q 2022
USDPHP	51.00 (--)	51.00 (--)	50.50 (--)	50.00 (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** Besides broader market caution on Ukraine developments, expected policy divergence (dovish BSP versus hawkish Fed), elevated oil prices (with PH as net energy importer) could be leading PHP to trade somewhat on the backfoot in the interim. But on net, PHP looks to be less sensitive than peers towards geopolitical shocks, likely due in part to the more domestic-oriented facing nature of its economy. We look to resilient overseas remittances and easing in domestic Covid wave, to mitigate interim drags on PHP. In particular, domestic sentiments could be supported in part by easing Covid-19 curbs in Metro Manila from 1 March (to Alert level 1 from level 2), amid decline in Covid-19 cases. As Omicron risks recede and oil gains moderate later in the year on easing disruption concerns, OPEC+ supply hikes, PHP sentiments could see a modest turnaround. Notably, in-house studies also suggest that while dollar tends to trend higher heading into the first rate hike of each Fed rate cycle, some softness is usually seen afterwards. This supports our base case for a modest dip in USDPHP in subsequent quarters.

- As at end-Feb, PHP appears relatively resilient to recent bout of geopolitical concerns brought on by Russian attack on Ukraine. As of writing, PHP is -0.6% lower compared to recent Feb highs, but losses are largely contained compared to regional peers KRW, THB, INR. **The more domestic-oriented facing nature of the Philippines economy could be helping to limit sentiment spillovers from Europe**.

- Still, supply disruption concerns emerging from the Ukraine crisis have led brent to swing above US$100 at end-Feb. This could continue to act as a drag factor on PHP in the interim, i.e., importers' demand for USD is likely to remain relatively high as oil prices remained largely buoyant. **In particular, Philippines is a net energy importer, and elevated oil prices imply larger import bills.** Still, beyond near-term geopolitical swings, the extent of oil price gains could be constrained into 2H 2022 as eventual ramp-up in OPEC+ supplies could gradually edge higher than consumption demand, allowing inventory restocking, and the concomitant drag on PHP could ease a tad.

- In early Feb, authorities announced that Metro Manila will remain under the second-lowest alert tier, from 16 Feb to 28 Feb as domestic Covid case trajectory continues to fall. Under Alert level 2, indoor restaurants, gyms and cinemas can operate at 50% capacity, while outdoor businesses can be 70% full. In late Feb though, it was announced that Metro Menila and 38 other areas will be downgraded to Alert level 1, starting 1 March. Under Alert Level 1, intrazonal and interzonal travel will be allowed. All establishments, persons, or activities are permitted to operate, work, or be done at full on-site capacity, provided that health standards are observed. **Reopening optimism could be one key factor helping to constrain PHP losses despite geopolitical volatility**.

- Notably in Feb, Philippines also began reopening to foreign visitors who have been vaccinated and test negative for the virus <48 hours pre-arrival. Tourists from about 150 nations will be allowed to visit for the first time in nearly two years. **While initial stream of visitors should be slow, developments on this front could be benign for sentiments at the margin**. Meanwhile, vaccination remains key to a more sustainable growth recovery. Fully-vaccinanted share of the populace stands at around 58% in late Feb. It has closed the vaccination gap with its ASEAN peers somewhat (Singapore: 86%, Malaysia: 78%, Thailand: 71%, Indonesia: 54%). **Higher vaccination rates and a shift towards**

Covid-endemic policies could help to buffer Philippines' economic health from swings in Covid case trajectories.

- Impact on PHP from remittances flows remains a factor to watch for, with BSP Governor Diokno highlighting it as a source of support for PHP earlier. Overseas Filipino Workers' Remittances (OFWR) in Dec 2021 rose at a slower rate of +3.3%y/y (Nov 2021: +5.1%) though on a sequential basis, it rebounded +19.4%m/m (Nov 2021: -11%). For the whole of 2021, OFWR rebounded +5.1% to US$31.4bn (2020: -0.8%; US$29.9bn)—a new record i.e. surpassing previous high of US$30.1b in 2018. Remittances could see a slower start to 2022 on Omicron drags but our economist team still expects OFWR to register +4.2% growth for 2022. Foreign reserves dipped slightly to US$108.5bn in Jan, from US$108.8bn prior, but remained near historical highs. **Resilient remittances and adequate reserves can still be supportive of PHP at the margin.**

- **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, earlier restrictions on in-person campaigning could have weighed on election spending. Some level of policy uncertainty given the change in political regime could induce some caution in PHP in the lead-up to and during elections. Candidate Marcos currently hold an estimated double-digit lead in polls, but details regarding his stances on various policy prongs are still lacking for now.

- **House view is for the series of legislative reforms introduced by the Duterte government to boost Philippines' long term economic competitiveness.** Beginning with the Tax Reform for Acceleration and Inclusion Act (TRAIN) in 2018 (implemented in stages), recent reforms in place included Corporate Recovery and Tax Incentives for Enterprises (CREATE), Financial Institutions Strategic Transfer (FIST) and Retail Trade Liberalisation Act (RTL), while amendments to Public Service Act (PSA) and Foreign Investment Act (FIA) are at various stages of approval. These reforms are expected to act as catalysts to boost private investment including FDI and thus economic growth.

- **Growth and Inflation Outlook:** Philippines' real GDP growth picked up to +7.7%y/y in 4Q (3Q 2021: +6.9%), resulting in full year 2021 growth of +5.6%, in line with our economist team's +5.5% estimate. Except for agriculture, which posted marginal decline, all sectors of the economy recovered from the contraction in 2020. The decision to allow economic activities to operate with strict standard health protocols and procedures have mitigated the downsides to growth in 2Q-4Q 2021.

- On higher frequency indicators, PMI Mfg for Jan came in at 50.0 versus 51.8 prior, indicating slowing growth momentum as Omicron hit. But contagion trajectory has reverted to a downtrend since mid-Jan, so drags on sentiments could be milder. Unemployment rate for Dec came in at 6.6%, slightly higher than prior 6.5%.

- **House view for 2022 real GDP growth remains at +7.0%.** Domestic demand will continue to drive the recovery, as the economy progressively re-opens. At the current recovery momentum, the economy's quarterly real GDP value could return to pre-pandemic levels by the 3Q/4Q of this year.

- CPI for Jan came in at 3.0%y/y, versus expected 2.8%. Under the new base year of 2018 (2012 previously), monthly inflation rate eased further to +3.0%y/y in Jan (versus +3.2% in Dec), while full-year 2021 headline inflation is revised downward to +3.9% (+4.5% previously). **With the base year adjustment, our economist team revised 2022 headline inflation rate forecast upward to +3.4% (+2.8% previously) and 2023 forecast downward to +2.7% (+3.0% previously)**.

- **Monetary Policy Forecast:** As expected, BSP kept policy interest rate at 2.00% on 17 Feb, at the first meeting of 2022. Policy rate has been unchanged since -25bps cut on 19 Nov 2020. **No change to our economist team's view of a +25bps hike in 4Q 2022 (before another +50bps in 2023)**, as recovery is gaining traction but there are still downside risks to outlook. While the central bank sees risks to inflation outlook shifting towards the upside for 2022 (but remain broadly balanced for 2023), upside risks are mainly linked to the continued shortages of domestic pork and fish supply, as well as elevated global oil prices. It is largely calling for non-monetary measures to ensure adequate domestic food supply and close monitoring and appropriate interventions when necessary in order to arrest potential second-round effects from higher oil prices. On net, inflation is likely to stay within 2%-4% target in 2022-2023, affording BSP some room to remain patient.

- Increasing signs of divergence between Fed and BSP policy stances, with the former likely embarking on policy tightening from Mar, and the latter reiterating monetary support for the economy, could be weighing on the PHP in the near-term. But earlier, BSP Governor Diokno commented that **the central bank is intervening in the FX market to limit PHP volatility**, which could constrain the extent of interim PHP losses.

- **Latest Fiscal and External Balance Outlook:** The expansionary Budget 2022 of PHP5.024trn (signed by President Duterte in Dec 2021), which is +11.5% higher than Budget 2021, should help to maintain underlying economic recovery momentum.

- **There are early signs of increasing fiscal stresses.** Average monthly budget deficit for the first 11 months of 2021 is around PHP121bn, vs. the pre-pandemic monthly average of PHP49bn in 2019, reflective of the fiscal challenges associated with the pandemic. In Jul, Fitch Ratings' maintained Philippines' credit rating at investment grade "BBB", but downgraded its outlook to "negative" from "stable", citing the impact of the prolonged pandemic. Comments also mentioned "downside risks to medium-term growth" as a result of potential scarring effects, and potential challenges from unwinding stimulus and "restoring sound public finances".

- The government's outstanding debt reached PHP11.7trn (US$229bn) at end-Dec, with debt-to-GDP ratio widening to 60.5% in 2021 from 54.6% prior. The Treasury commented that the ratio is still "within the accepted sustainable threshold as the economy continues to recover from the effects of the pandemic", but signs of fiscal challenges could constrain near-term PHP recovery a tad. On a brighter note though, earlier estimates from authorities see the debt ratio likely start to decrease from 2023 onwards. Meanwhile, S&P has maintained Philippines's sovereign credit rating at BBB+ (with a stable outlook).

- Exports and imports growth picked up in Dec 2021 to +7.1%y/y (Nov 2021: +6.6%) and +38.3%y/y (Nov 2021: +36.8%), while trade deficit widened to US$5.2bn (Oct 2021: US$4.7bn). Our economist team expects 2022 trade deficit at US$49bn, with imports growth (+10% forecast) continuing to outpace exports growth (+7.8% forecast) as domestic consumption recovers. **In turn, current account could see a slight deterioration from estimated 0.5% of GDP deficit in 2021 to 0.8% deficit in 2022**.

- **Key domestic events and issues to watch:** Feb PMI Mfg (1 Mar); Feb CPI (4 Mar); Feb Foreign reserves (7-15 Mar); Jan trade (11 Mar); Jan Budget balance (14 Mar); Jan Overseas Remittances (14-17 Mar); Jan Unemployment rate (18 Mar); Feb BoP Overall (18-25 Mar); BSP Policy decision (24 Mar); Feb Budget balance (29 Mar).

- **Technical Outlook:** USDPHP last seen at 51.30. Pair has remained in the 51.0-51.5 trading range since start of year. Momentum and RSI on daily chart are mildly bearish, suggesting that risks for pair could be skewed mildly to downside for now. Support at 51.10 (23.6% fibo retracement from Dec low to Jan high), 50.90 (38.2% fibo), 50.50 (61.8% fibo). Key resistance at 51.50 (Jan high). If this is breached, next resistance could be some way off at 52.80 (76.4% fibo retracement from 2018 high to 2021 low).

THB: Confluence of Interim Risks Could Impede Near-term Recovery

Forecast	1Q 2022	2Q 2022	3Q 2022	4Q 2022
USDTHB	33.00 (--)	32.00 (--)	32.00 (--)	31.70 (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** Positive correlation with gold, and recent show of commitment to a reopening policy stance has helped THB outperform regional FX peers in the first three weeks of Feb. But ongoing external geopolitical developments (Russia-Ukraine), elevated energy prices (Thailand as net energy importer), faster pace of Fed stimulus withdrawal, Feb Covid case surge etc., remain as interim risks and has led THB to pare earlier gains in late Feb. In particular, we note that broad demand for USD on concerns of financial contagion from imposition of severe sanctions on Russia (including on Russian central bank, financial institutions, excluding several Russian lenders from SWIFT) have on net pulled USD-AxJ pairs higher. Current conditions could continue to see THB trading a tad on the backfoot, but conditional on an eventual diplomatic solution being found, we could see USDTHB revert to a slow dip in 2Q and beyond. On Fed normalization, in-house studies suggest that while dollar tends to trend higher heading into the first rate hike of each Fed rate cycle, some softness is usually seen afterwards.

- Initial signs of geopolitical tensions between Russia and Ukraine did not seem to translate to significant drags on THB in early Feb. One factor at play could be THB's interplay with gold. We note that gold prices rose from around US$1800 in early Feb to near US$1900 just before Russia attacked Ukraine. Historically, given Thailand's status as a regional gold trading hub, reduction in gold purchases (imports), and spikes in gold sales (exports) in an environment of rising gold prices tend to lend support to THB—Thai gold traders presumably offer up less THB in exchange for USD in gold purchases, and exchange more USD sales proceeds back to THB post-sales. **To some extent, this interplay with gold could explain why THB was resilient to the initial round of Russian-Ukraine developments**.

- Subsequently though, when Russian military action in Ukraine escalated, THB began to unwind its earlier Feb gains. This could be due to various developments. First, while gold prices spiked (towards US$1970) on initial Russian attack headlines, it pared gains relatively quickly, and was last seen back near the US$1900 handle. Escalation in sanctions by western nations on Russia, including on the central bank, financial institutions, and cutting off some local lenders from the SWIFT system, likely implied rising concerns over financial contagion from the crisis. As a result, USD appears to be the preferred haven asset of demand in this episode of market volatilility, versus JPY or gold, and support from gold trading towards THB likely declined in extent. Meanwhile, supply disruption concerns emerging from the Ukraine crisis have led brent to swing above US$100 at end-Feb. Given Thailand's **net energy importer role, elevated oil prices meant larger import bills, and this could act as a drag factor on THB in the interim**.

- **Domestic Covid cases have been on an upswing for most of Feb**, and daily case counts are back near peaks last seen in Aug 2021. Surge has prompted authorities to raise Covid-19 alert to Level 4, with containment measures stepped up in high-risk areas. The shift in alert levels could have reminded markets that Covid challenges at home could still weigh on broader tourism recovery prospects. **Still, extent of interim drags on sentiments could be contained given that no lockdowns are planned for now**. >70% of the ~70mn population received at least 2 shots.

- Thailand's urgency in reopening stems from its reliance on tourism, which contributed about one-fifth of economic output before the pandemic. After an earlier suspension on Omicron concerns, the Thai government lifted the suspension of "Test and Go" from 1 Feb 2022, which means re-implementation of quarantine-free travel for foreign visitors. Moreover, while earlier "Test and Go" rules only applied to "low-risk" countries, there is no restriction on the origin country this round. **Developments show that while authorities are trying to contain the latest Covid spread, they are also attempting to mitigate the drags on the tourism industry**. While reopening plans may not lead to a sharp recovery in tourist numbers initially, it could also help anchor some confidence in THB assets. Despite recent dampening in risk sentiments from Russia attack on Ukraine, we note net inflows into TH equities and bonds of around +US$1798mn, +US$2,406mn, respectively in Feb (MTD as of 25 Feb).

- **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.

- **Growth and Inflation Outlook**: 4Q GDP rebounded by +1.9% as domestic demand recovered with the relaxation of Covid measures, while exports benefited from improving external demand and reopening of borders. For 2021 overall, real GDP rose by +1.6% (vs. -6.2% in 2020).

- **Our economist team maintains 2022 GDP growth forecast at +4%, at the mid-point of the official forecast range**. The recovery will likely be driven by services exports as tourism (around 15% of GDP) improves from 2021's low base, as well as a gradual improvement in domestic demand. This forecast implies that GDP in 2022 will still be around 0.8% below 2019 levels, as tourist arrivals are unlikely to return to pre-pandemic levels (40mn in 2019) for another 2 to 3 years. We note some cautious optimism for manufacturing, with Markit PMI Mfg for Jan coming in at 51.7, improving from 49.5 prior.

- Headline CPI accelerated to +3.2% in Jan, mainly on the back of food prices driven by meat and higher energy costs. Inflation may hover close to +4% in Feb and Mar due to low base effects, but could ease back to BoT's target range by 2H. **Our economist team maintains average headline inflation forecast at +2.4% in 2022**.

- **Monetary Policy Forecast:** BoT maintained its policy rate at 0.5% on 9 Feb, in line with expectations. Rising inflationary risks on the back of energy and raw food prices were highlighted, as the BoT sounded more cautious on the cost pass-through from producers to consumer prices; i.e., it could increase if energy and raw food prices remain elevated for longer than expected. The focus on inflation risks could be contributing to discussions around eventual policy normalization. Nonetheless, recent comments from Finance Minister Arkhom also suggest that monetary policy could remain accommodative before the Thai economic recovery gains tractions. On net, a first policy hike could come from BoT in 3Q (to 0.75%) before another 2 hikes in 2023. This relative dovish leaning versus global central banks, could mean that any concomitant support to THB looks to be marginal for now.

- **Latest Fiscal and External Balance Outlook**: Parliament earlier approved the budget for FY2022 (starting 1 Oct), which sees reduced spending on defence and education, and increased outlays on combating Covid fallout. The THB3.1trn (US$93bn) plan is 5.8% less than FY2021's, and estimates the budget deficit at THB700bn. In Oct, the cabinet approved a further THB92bn in relief measures, with about THB42bn going towards cash transfers under an existing co-payment scheme to support consumption, while around THB37.5bn will go towards smaller firms to help retain jobs. The Cabinet has also approved measures amounting to THB131.6bn to support rice farmers' incomes during production year 2021/22.

- In Sep 2021, a government panel approved raising public debt-to-GDP ratio to 70% from 60% in order to raise state borrowing to finance its stimulus and to ensure debt repayment ability. Authorities planned to significantly increase the share of longer-dated sovereign bonds (vs. short-term securities) for its financing needs, with the former expected to make up around 48%-56% of the government's THB2.3trn (US$68.4bn) borrowing in the new FY compared with 31% in the prior year. **House view is for fiscal deficit to come in at around 4.8% of GDP in 2021 before narrowing to 4.3% in 2022.**
- **We note that authorities are considering various taxes to shore up fiscal revenue** as public debt climbed to 59.6% of GDP in 2021 and fiscal deficit stayed wide. Plans include a 0.1% stock transaction tax, normalization of the land & buildings tax and a THB300 fee on foreign tourists from Apr 2022, but gains will likely be small at less than 0.5% of GDP. Other ways to raise tax revenue will be improving personal income tax collection, raising VAT from the current 7%, and imposing a carbon tax.
- Customs exports (+24.2%y/y) rose to a record high in Dec, while imports (+33.4%) surged ahead, resulting in a trade deficit of $354mn. Recovery in global economy should continue to drive demand for agricultural goods and industrial products, anchoring resilience in manufacturing and goods exports. Our economist team expects exports to continue rising in 2022, but at a softer pace due to high base effects. On net, **house view is for these developments, coupled with improving tourism revenues, to help the current account deficit narrow from around 2.2% of GDP in 2021 to 0.5% in 2022.**
- **Key domestic events and issues to watch:** Feb PMI Mfg (1 Mar), Feb Business sentiment (1 Mar); Feb CPI (4 Mar); Feb Consumer confidence (4-9 Mar); Feb Customs trade (23 Mar); Feb Manufacturing Production (25-30 Mar); BoT Policy decision (30 Mar); Feb BoP Current account (31 Mar).
- **Technical Outlook**: USDTHB last seen near 32.63. Pair headed sharply lower in first half of Feb, before u-turning on Russia-Ukraine crisis. Notably, the reversal higher in USDTHB pair occurred when RSI reached oversold conditions, and RSI has rebounded towards more neutral conditions since. Momentum on USDTHB daily chart has turned mildly bullish. On net, pair could see some interim support. If bullish momentum extends, pair could rise to meet resistance at 32.85 (38.2% fibo retracement of Jun low to Dec high), 33.30 (23.6% fibo). 34.00-handle (double-top for Oct, Dec) should be a strong resistance and is unlikely to be breached. Support nearby at 32.50 (50.0% fibo), before 32.10 (recent low), 31.70 (76.4% fibo).

INR: The War in Ukraine Threatens

Forecast	1Q 2022	2Q 2022	3Q 2022	4Q 2022
USDINR	74.80 (74.50)	74.50 (--)	74.20 (--)	74.00 (--)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** We raised the 1Q USDINR forecast a tad in light of the military conflict in Ukraine that has fanned crude oil prices higher. While past episodes of military conflict typically see initial weaknesses in the INR being reversed out within a few months, we remain wary about the possibility of a long drawn conflict between Russia and Nato that could keep crude oil prices elevated. At home, with social restrictions gradually eased over the past few months, the country is still nursing its domestic demand. The Jan survey conducted by RBI (in 13 major cities) suggests that consumer confidence for the current period gradually improved, albeit still in pessimistic region because of the Omicron wave (at the time that the survey was conducted). Consumption could still be hurt if fuel prices continue to rise, unless the government release enough oil reserves. On net, risks to the USDINR in the near-term are now skewed to the upside.

- Along with the higher crude oil prices and concomitant inflation risks, swaps market indicate a projection of +138bps policy rate increase for the year ahead (as of 27 Feb). This is higher than the 110bps projected end of last month, ahead of the Feb RBI policy meeting. RBI had surprised on the dovish side on 10 Feb, chosing not to raise any policy rates. However, rising crude oil prices could lift CPI above the inflation target and orce the central bank to raise policy rates in Apr.

- Budget 2022-23 is an expansionary one. **Fiscal deficit is projected to come in a tad higher than previous estimate at 6.9% of GDP for FY2021-2022 but should ease further to 6.4% for FY2022-23.** Finance Minister Nirmala Sitharaman had proposed increasing capital spending by 35% to INR7.5trn for 2022- 2023. In addition, there is a push for infrastructure-led growth with spending focused on roads, rail, logistics and energy, bringing to fruition the National Master Plan for economic transformation, multimodal connectivity and logistics efficiency that was approved by the Union Cabinet last Oct. Effective capital expenditure is estimated to be at 4.1% of GDP. On the side, eyes are also on digital rupee that could be issued by the RBI as soon as this year. It is one-to-one exchangeable with the fiat currency and meant to be a more convenient and safe alternative to cash. Along with the announcement of the digital rupee at the budget speech, the government also announced a 30% crypto tax (applied to any transfer of digital assets).

- **Growth and Inflation Outlook:** Industrial production decelerated in Dec to 0.4%y/y vs. previous 1.3%. Manufacturing contracted -0.1%y/y after positng a growth of 0.8%. Electricity output rose to 2.8%y/y from previous 2.1%. Mfg PMI softened to 54.0 from previous 55.5. Markit reported slower growth in new orders and production. Business confidence actally softened.

- Inflation surprised to the upside at 6.1%y/y for Jan, accelerating from previous 5.6%. Headline was driven by food (5.4%y/y vs. prev. 4.05%) and clothing & footwear (8.84%y/y vs. prev. 8.30%). Housing prices slowed only a tad to 3.52%y/y from previous 3.61%. Fuel inflation also softened a tad to 9.32%y/y from previous 10.95%. Recent crude oil gains, potential INR weakness may continue to underpin inflation risks.

- Trade deficit for Jan narrowed a tad to to $17.4bn vs. previous $21.7bn. Exports slowed to 25.3%y/y from previous 38.9% but imports slowed a tad more to 23.5%y/y from 38.5%. The oil ministry's Petroleum Planning & Analysis Cell flagged that crude oil bill for FY2021-22 (ends Mar 2022) could . Along with stronger domestic demand at home, India's trade deficit could once again be at risk of deteriorating and that could keep USDINR supported on dips.

- **Monetary Policy Forecast:** On the monetary policy front, the invasion of Ukraine could put RBI between a rock and a hard place. Earlier this month, the central bank retained its accommodative monetary policy stance at the Feb meeting and kept all policy rates unchanged. Main repo rate at 4.00% and reverse repo rate at 3.35%. Cash reserve ratio at 4.00%. Bonds were jolted a tad higher because of the dovish surprise. Expectations were for reverse repo rate to be raised between 15-40bps although most (including ourselves) did not expect a hike for the benchmark repo rate. Impact on the rupee was only mildly negative but losses were quickly reversed out. At that point in Feb, the Omicron wave was concerning and multiple leading indicators suggest that economic activity had slowed. That said, the central bank maintained an upbeat outlook for the economy on strong export demand, good rabi harvest as well as supportive monetary and fiscal policies.

- Based on Minutes of the Feb meeting, members of the MPC were less worried about inflation, pinning the recent upmove to unfavourable base effects. Some members were more keen on keeping rates "lower for longer" in order to support demand. However, those views are not likely to have taken into account the invasion of Ukraine by Russia and the resulting rise in the crude oil prices. We see an increasing likelihood that RBI could be forced to raise policy rates sooner than anticipated in order to arrest inflation before the economy is entirely ready.

- **Tweaks done by RBI for liquidity management, shifting from "passive" to "agility".** As pandemic is cast into the rearview mirror, Governor Das flagged that window timings for fixed rate reverse repo and MSF could be shorten. Variable repo, 14-D reverse repo are now the main liquidity tools while auctions of longer maturity will be conducted if required.

- Monetary-fiscal dynamics have been scrutinized given that yields rose substantially after the Union budget release (10y yield +16bps on 1 Feb), in anticipation of large government borrowings required for its expansionary fiscal policy for FY2022-23. Das impored markets to help ensure "co-operative outcomes" on government borrowing.

- **Latest Fiscal and External Balance Outlook:** Fiscal deficit is projected to come in a tad higher than previous estimate at 6.9% of GDP for FY2021-2022 but should ease further to 6.4% for FY2022-23.

- **Key domestic events and issues to watch:** Markit Mfg PMI (Feb) on 2 Mar; Composite, Services PMI (Feb) on 3 Mr; industrial production (Jan) on 11 Mar; WPI, CPI (Feb) on 14 Mar; trade (feb) on 15 Mar and 4Q BoP current account balance on 31 Mar.

- **Technical Analysis:** 1M USDINR NDF looks poised for some reversal, last at 75.20. This pair forms a rising wedge recently and stochastics flag overbought conditions. This pair may have to break the 100-dma at 75.15 for further bearish extension towards 74.50 (200-dma). Broadly, this pair seems unable to break out of the 73-77 range. Momentum indicators on weekly, monthly chart not showing much bias as well. We continue to look for some consolidation here on the medium term.

VND: Weakened a Tad by Geopolitical Conflicts

Forecast	1Q 2022	2Q 2022	3Q 2022	4Q 2022
USDVND	22800 (--)	22900 (--)	22800 (--)	22800 (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** We maintain our forecast trajectory, expecting two-way actions of the USDVND with some upside risks to the pair in the nearer-term as the Fed prepares to raise rates. Another significant driver of this pair was the recent Russia-Ukraine conflict that triggered market volatility, alongside most of the USDAsians. Cautious sentiment, rising energy prices and buoyant USD could continue to keep USDVND supported on dips. Inflation risks are being carefully managed by the government with possible adjustment for environmental tax being flagged already by PM Pham Minh Chinh. Vietnam is not likely to suffer severe trade repurcussions as trade with Russia makes up 0.71% of its total trade for 2021.

- While trade deficits had been widening due to an acceleration of imports, VND has been cushioned by steady FDIs. The amount of FDI pledged for Feb rose to U$2.9bn, a tad higher from Jan $2.1bn. in addition, Vietnam is ready to fully open its international borders on 15 Mar that could see stronger tourist ceipts. Strong economic supports and a pick-up in economic activity should bode positive for the VND.

- **Growth and Inflation Outlook:** Activity seems to have picked up in pace with industrial production growth rising to 8.5%y/y from previous 2.4%, buoyed by manufacturing and electricity. Manufacturing output rose to 10.0%y/y growth from previous 2.8%. Electricity output has also quickened to 8.0%y/y from previous 5.1%. In contrast, retail sales for Jan-Feb is still weak at 1.7%y/y with receipts for tourism, hotel/restaurants and other services still posting declines. Vietnam's recent decision to fully reopen international borders (on 15 Mar, visitors only need to undergo one-day quarantine and a negative COVID-19 test result before departure and upon arrival) should see stronger recovery for the services sector.

- In addition, **recall that the National Assembly has approved a $15bn economic recovery package for 2022-2023.** This package includes upgrading healthcare capacity and pandemic resilience (VND60 trn), ensuring social welfare and employment (VND53.15trn), businesses and cooperatives aid (VND 110trn), infrastructure development (VND113.85trn) alongside other reforms. VAT for certain goods and services will also be lowed by 2% to 8%. Measures should boost domestic consumption and support local businesses after a rough 2021.

- Trade deficit widened to $2.3bn from previous -$500mn because of an acceleration in imports growth to 21.9%y/y for Feb compared to a 13.2%y/y exports. Petroleum import bill has risen 144%y/y, picking up pace from previous 16.9%. That said, the occurrence of Tet could have also affected the exports performance.

- That said, any concerns about inflation could be partially allayed by Feb CPI print at +1.42%y/y vs. previous 1.94%, well under the targeted cap of 4%. Concerns at this point is the impact of rising crude oil prices that could raise inflationary pressure at home. PM Pham Minh Chinh had directed MoIT and MoF to monitor conditions of the petroleum market and a possible adjustment of the environment protection tax on gasoline and oil products could be in the works.

- **Our economic team looks for 6.7% growth for 2022 and 6.6% in 2023. This will be above the government target of 6-6.5% for 2022.** Robust external demand could underpin manufacturing and exports and private consumption should catch up. The recent easing of re-entry restrictions for foreign workers and overseas locals ahead of Tet underscores Vietnam's determination to "live with Covid" and reinforces our optimistm for the economy.

- **Monetary Policy Forecast:** With more central banks hiking rates, our economist too look for a hike of 25bps for refinancing rate to 4.2% this year and another 25bps in 2023 to 4.5% on the back of rising food and energy prices along with economic recovery.

- Inflation is key. Apart from using VND as a way to buffer against imported inflation, the government would have to minimize any disruption to production/logistics that could affect employment, consumption as well as supply of materials. Given that Vietnam has ramped up on vaccination rate, the likelihood of a broad lockdown has decreased significantly. Potential for crude oil prices to continue to rise is still a key risk for Vietnam but the government is actively managing price pressure on that front. With CPI at just 1.4%y/y in Feb, conditions remain benign for now.

- **Latest Fiscal and External Balance Outlook: Right at the start of the year, the National Assembly has approved a $15bn economic recovery package for 2022-**2023. This package includes upgrading healthcare capacity and pandemic resilience (VND60 trn), ensuring social welfare and employment (VND53.15trn), businesses and cooperatives aid (VND 110trn), infrastructure development (VND113.85trn) alongside other reforms. VAT for certain goods and services will also be lowed by 2% to 8%. The budget defict is expected to be raised nu am average of 1-1.2% of the GDP. by about VND240trn. Our economist expects fiscal deficit to be 4% of GDP. Public debt ratio remains modest at around 43-44% of GDP in 2022 (vs. 43.7% of GDP in 2021), well below the debt ceiling of 60% of GDP.

- **Key Domestic Events and Issues to Watch:** Domestic vehicle sales (Feb) due on 6-13 Mar; CPI, trade, retail sales, industrial production and 1Q GDP (Mar) due on 25-31 Mar.

FX Forecasts

	End Q1-22	End Q2-22	End Q3-22	End Q4-22
USD/JPY	115.00	114.00	113.00	112.00
EUR/USD	1.1200	1.1400	1.1600	1.1800
GBP/USD	1.3400	1.3600	1.3700	1.3800
AUD/USD	0.7400	0.7400	0.7500	0.7500
NZD/USD	0.6900	0.7200	0.7300	0.7300
USD/CAD	1.2400	1.2400	1.2300	1.2300
USD/SGD	1.3400	1.3200	1.3100	1.3000
USD/MYR	4.1800	4.1500	4.1200	4.1000
USD/IDR	14200	14100	14100	14000
USD/THB	33.00	32.00	32.00	31.70
USD/PHP	51.00	51.00	50.50	50.00
USD/CNY	6.35	6.33	6.32	6.30
USD/HKD	7.80	7.80	7.80	7.80
USD/TWD	27.70	27.50	27.80	28.00
USD/KRW	1190	1180	1160	1140
USD/INR	74.80	74.50	74.20	74.00
USD/VND	22800	22900	22800	22800
DXY Index	96.46	95.12	93.93	92.71
SGD Crosses	End Q1-22	End Q2-22	End Q3-22	End Q4-22
SGD/MYR	3.12	3.14	3.15	3.15
JPY/SGD	1.17	1.16	1.16	1.16
EUR/SGD	1.50	1.50	1.52	1.53
GBP/SGD	1.80	1.80	1.79	1.79
AUD/SGD	0.99	0.98	0.98	0.98
NZD/SGD	0.92	0.95	0.96	0.95
CAD/SGD	1.08	1.06	1.07	1.06
SGD/IDR	10597	10682	10763	10769
SGD/THB	24.63	24.24	24.43	24.38
SGD/PHP	38.06	38.64	38.55	38.46
SGD/CNY	4.74	4.80	4.82	4.85
SGD/HKD	5.82	5.91	5.95	6.00
SGD/TWD	20.67	20.83	21.22	21.54
SGD/KRW	888	894	885	877
SGD/INR	55.82	56.44	56.64	56.92
SGD/VND	17015	17348	17405	17538
MYR Crosses	End Q1-22	End Q2-22	End Q3-22	End Q4-22
JPY/MYR	3.63	3.64	3.65	3.66
EUR/MYR	4.68	4.73	4.78	4.84
GBP/MYR	5.60	5.64	5.64	5.66
AUD/MYR	3.09	3.07	3.09	3.08
NZD/MYR	2.88	2.99	3.01	2.99
CAD/MYR	3.37	3.35	3.35	3.33
MYR/IDR	3397	3398	3422	3415
MYR/THB	7.89	7.71	7.77	7.73
MYR/PHP	12.20	12.29	12.26	12.20
MYR/CNY	1.52	1.53	1.53	1.54
MYR/HKD	1.87	1.88	1.89	1.90
MYR/TWD	6.63	6.63	6.75	6.83
MYR/KRW	285	284	282	278
MYR/INR	17.89	17.95	18.01	18.05
MYR/VND	5455	5518	5534	5561

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

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