Jul 2, 2019

FX Monthly

2019, Issue 6: Stage Set for US Monetary Easing

What Has Changed This Month?

- We calibrated most of our non-USD forecasts higher, taking into account our Economics team's downward revision to Fed fund target rate, the trade truce between the US and China and potential actualized progress in trade talks that could help reverse some of the 2Q softness in trade or commodity-linked currencies.

Our Strategies

- The G20 outcome of an open-ended trade truce between US and China, with some concessions on Huawei comes as a relief to risk assets. Our house view now looks for a period of ongoing trade negotiations between the US and China, with some gradual concretization of details in 2H 2019 giving form to a trade deal towards year-end. There could be several signposts along the way to guide market sentiments—(i) whether China commits to buying goods from the list provided by the US to narrow the trade gap, (ii) the extent to which US removes trade restrictions placed on Huawei and other Chinese entities currently on the trade blacklist, and (iii) negotiations on eventual rollback of existing tariffs. If these events play out in a positive manner, trade or commodity-linked FX such as CNH, TWD, KRW, AUD and NZD could benefit eventually. Meantime, we still caution that a **trade truce is not a trade deal**. **Sustained recovery for AXJs would still require material upticks in economic activity to supplement sentiment-driven rallies.**

- Further progress could be made towards the end of the year with the WTO mini-ministerial meeting in Shanghai (early Nov) and APEC Summit in Chile (11-17 Nov) that can serve as checkpoints.

- In the current environment of slower global growth, subdued inflationary pressures and central banks including Fed, ECB, RBA, RBI, BSP are adopting accommodative policies in response, **a return to "hunt for yield" could favor carry plays** especially when trade tensions fade and volatility eases. In the DM world, USD may tactically benefit as it still holds the highest carry while INR and IDR could benefit in the EM world at the expense of lower/negative yielders such as JPY and CHF.

- **Antipodeans' recovery could be delayed** as RBA and RBNZ remain dovish. The decision today (2 Jul) by RBA to make a back-to-back cut of 25bps did not take AUD much lower as it was largely priced. Nonetheless, its action would still add pressure on RBNZ to do the same. Expectations for both central banks to keep their monetary stance accommodative are likely to cap AUD and NZD though the prospect for a trade deal could mean that their strength could return in the later part of the year.

- **GBP is likely to remain under pressure amid Brexit uncertainties.** PM candidates Boris Johnson and Jeremy Hunt's preparation for an emergency budget in no-deal brexit outcome (31 Oct) is perceived as a GBP-negative.

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Top 3 Currency Plays for Jul

Long IDR, INR vs. Short JPY and CHF carry trade play
Fade The Dollar Index Up-move
Short SGD Vs. CNY

Key Events for the Month Ahead

Date	Event
5 Jul	India Budget
21 Jul	Japan Upper House Elections
23 -24 Jul	Announcement of new Tory and UK PM
30 - 31 Jul	FoMC meeting (potentially the first rate cut since 2015)

SEE PAGE 48 FOR IMPORTANT DISCLOSURES.

G7 Global Overview

USD: Trade Truce but Fed Easing Remains on Track

Forecast	3Q 2019	4Q 2019	1Q 2019	2Q 2020
USD Index	96.16 (98.27)	95.85 (98.07)	95.67 (97.77)	95.32 (--)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** The dollar is set to weaken modestly in the near term as markets focus on upcoming Fed cuts even as the US-China trade truce helps ease global trade tensions. We incorporate our economics team revisions to the FFR to "25bps cut per annum in 2019-2020" from "no change in 2019-2020" previously, in view of the overhang in US-China trade situation. The expected 25bps cut this year could happen as soon as the next FOMC meeting on 30-31 July 2019, even as the US-China trade truce helps calm trade tensions. Further, the Fed's target measure of inflation remains well below its 2% target, making more room for Fed to sustain the easing this year. Market is more aggressive as FFR futures points to 50-75bps cuts for the rest of this year followed by another 25-50bps next year, with 100% probability of 25bps cut at the 30-31 July FOMC meeting.

- Our DXY forecast was calibrated downwards to reflect the higher expectations of a Fed easing on the back of the recent negative escalation of the US-China trade negotiations. We continue to reiterate our call looking for DXY strength to ease modestly lower in the near term as market participants focus on Fed's rate cut despite an easing in trade tensions.

- President Xi and Trump agreed to restart trade talks with no new additions to tariffs while US companies can sell their equipment to Huawei (so long they do not compromise with US national security). While Huawei is still not off the US Commerce Department's "Entity list", there may still be hopes as a meeting on this topic has been scheduled this first week of July. An open-ended truce for now takes away the immediate risk of a full-blown trade war. De-escalation of trade tensions (no new tariffs added) provides a breather for trade and commodity-linked FX including CNH, KRW, TWD and MYR but bear in mind there is still no trade deal.

- For now, our base grey-swan scenario, of a protracted period of negotiation with open "lines of communication" remaining open. Progression on talks taking both sides closer to a deal in late-2019/early-2020 is not impossible and this could help support sentiment and support our view for trade/tech-linked FX to recover. The base scenario also assumes no further escalation in trade tariffs between US and China. Nonetheless a reversion back to risk-on mood, low vol environment amid central banks on easy monetary policies could still see carry plays outperform at the expense of lower yielders such as JPY.

- USD reaction was mixed in response to G20 outcome with weakness was more felt vs. Asian FX in particular CNH, KRW while USD is supported vs. negative yielding majors including JPY and EUR. Going forward a sustained recovery for AXJs would still require material upticks in economic activity to supplement sentiment-driven rallies.

- This puts focus on the string of PMI releases out of most countries including US, China this week for a gauge on economic activity. In particular, US ISM mfg (today), ISM non-mfg, durable goods order (Wed) and NFP (Fri) will be of focus for USD and UST yields.

- **Risks to our Outlook:** (1) the risk of further gains in oil prices (possibly due to supply-disruption emanating out of Middle East/Iran tensions or material progress on US-China trade deal) could translate into inflation ticking higher in US and this could reignite pressure for Fed to tighten and would be supportive of the USD (recall that oil prices and USD rose in tandem in 2018); (2) no US-China trade deal and lack of follow-through (pick-up) in global economic activity could result in a deeper economic slowdown. In this scenario, volatility will jump from current compressed levels and risk assets including equities will enter into a deeper sell-off and USD could strengthen (flight to safety); (3) if growth and monetary policy divergence resumes in favor of US, then concerns about tighter monetary conditions could expose vulnerabilities in EM assets including Turkey, Venezuela (spillover contagion) and USD could then be poised for further upside (risk-off trade); (4) *While a Jul Fed cut has now been priced in, there will be questions if Fed could adopt wait-and-see approach. If US data over the coming days and weeks turn out better than expected amid trade truce environment, then there may be some risk that markets could position for the risk of Fed holding off a cut later this month. And this could see long positioning in USTs unwind forcing an abrupt move higher in yields and possibly the USD*.

- **Growth and Inflation Outlook:** 1Q GDP third estimate came in lower than expected (+3.1% q/q vs. +3.2% expected). GDP was unchanged at 3.1% compared to the second estimate. Personal consumption rose 0.9% in 1Q after rising 2.5% in the previous quarter. Core PCE q/q rose 1.2% in 1Q after rising 1.8% prior quarter. Non-residential fixed investment, or spending on equipment, structures and intellectual property rose 4.4% in 1Q after rising 5.4% prior quarter. Gross domestic income, adjusted for inflation, rose at a 1% YoY, revised downwards from 1.4%.

- U.S. consumer spending in 1Q was even weaker than previously reported on lower outlays for services while business investment was revised higher. Consumer spending grew at a 0.9% YoY, the slowest in a year vs prior estimate of 1.3%. Nonresidential fixed investment rose at a 4.4% rate, almost double what was previously reported, as spending on intellectual property was revised sharply higher to a 12% gain.

- Filings for unemployment benefits rose to a seven- week high, a possible sign of strains in the labor market. Jobless claims increased to 227,000, compared with the median economist estimate for 220,000. The lower consumer spending reflected revisions in nonprofit hospital services, financial services and foreign travel. Within intellectual property, there were upward revisions to software investment and research and development, while construction spending was also revised higher.

- **Monetary Policy Forecast:** Target fed funds rate (FFR) kept at 2.25%-2.50% but the latest FOMC statement acknowledges increased uncertainties to economic outlook as well as the persistence of muted inflation. Revised our FFR forecast to “25bps cut per annum in 2019-2020” from “no change in 2019-2020” previously.

- Notable changes in the latest FOMC statement included: (1) Economic activity “is rising a moderate rate” vs “rose at a solid rate” in last month’s 2019 statement; (2) Market-based measures of inflation compensation “have declined” vs “have remained low” previously; (3) Acknowledgement of increased uncertainties to Fed’s continued outlook of “sustained expansion of economic activity, strong labour market conditions, and inflation near the Committee’s symmetric 2% objective”. No explicit mention of what are the “uncertainties” but US-China trade tension is the obvious suspect.

- In addition, there are some tweaks to key macro forecasts and the “dot plot”: (1) In particular, Fed cuts inflation rate forecasts for 4Q 2019 to 1.5% from 1.8% forecast in Mar 2019, and for 4Q 2020 to 1.9% from 2.0% previously, indicating a shift in view from last month’s remarks by Powell & Co. that the sub-2% inflation is “transient” to a more “persistent” muted inflation pressures. (2) 4Q real GDP growth forecast is maintained at 2.1% for this year and raised to 2.0% from 1.9% for next year, while 4Q unemployment rate projections are trimmed to 3.6% (3.7% previously) for this year and 3.7% (3.8% previously) for next year. (3) Fed’s latest “dot plot” maintains the guidance of no change in FFR in 2019 but median FFR forecast now point to a -25bps cut in 2020 vs +25bps hike previously.

- In view of the overhang in US-China trade situation, our Economics team revised the FFR forecast to “25bps cut per annum in 2019-2020” from “no change in 2019-2020” previously. The expected 25bps cut this year could happen as soon as the next FOMC meeting on 30-31 July 2019, contingent upon the outcome of President Trump – President Xi meeting at the G20 Summit in Osaka, Japan on 28-29 June 2019. Market is more aggressive as FFR futures points to 50-75bps cuts for the rest of this year followed by another 25-50bps next year, with 77% probability of 25bps cut at the 30-31 July FOMC meeting and 68% chance of another 25bps cut at the 17-18 Sep 2019 FOMC meeting.

- **Latest Fiscal and External Balance Outlook:** The portion of the shutdown at the end of Q4 will likely lead to some loss but we could see some of the loss in activity emerge in 1Q 2019 in the form of investment spending. Overall, growth in US economic activity is likely to slow toward trend as the impulse from the fiscal stimulus fades. The tax plan has not generated a sustained pickup in investment spending. The tax cut and Jobs Act are likely to widen deficit by about $1.5trn over 10 years. The bipartisan budget Act of 2018 to add $320mn in additional spending through FY 2020.

- **Key domestic events and issues to watch in July:** ISM mfg (1 Jul); Factory orders, durable goods orders (3 Jul, 25 Jul); NFP (5 Jul); June CPI (11 Jul); June retail sales (16 Jul), June empire manufacturing (15 Jul); GDP qoq (26 Jul); PCE deflator (30 Jul), FOMC minutes of Jun 2019 (11 Jul), FOMC Rate Decision (1 Aug).

- **Technical Outlook:** Our bias in the last FX monthly looking to lean against strength looking for a move towards 96.50 panned out well. DXY traded a low of 95.85 (25 Jun) and was last seen at 96.51 levels. Bearish momentum on daily chart shows signs of fading while stochastics is in oversold conditions. Potential bullish divergence (as seen on MACD) could be developing. Risk of near term rebound not ruled out though bearish bias (weekly chart and 100 DMA cutting 200 DMA to the downside) remains intact. Resistance at 96.60/70 (200 DMA, 50% fibo) before 97.1 (21, 100 DMAs, 38.2% fibo). Immediate support at 95.87 (76.4% fibo retracement of 2019 low to high) before 95.10, 94.80 levels. Look for opportunities on rallies to fade into.

EUR: May Benefit from Fed Easing Bias

Forecast	3Q 2019	4Q 2019	1Q 2020	2Q 2020
EURUSD	**1.1400** (1.1200)	**1.1450** (1.1250)	**1.1500** (1.1300)	**1.1500** (--)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** Our call (in the last FX Monthly) for EUR technical short squeeze in Jun came to fruition as EUR more than met our objectives at 1.1280, 1.1380. EUR traded an intra-month high of 1.1412 (25 Jun) yielding a +2% profit on tactical trade idea. Spot ref then was 1.1140 (31 May).

- We continue to hold to our constructive bias for the EUR (i.e. upward trend) premised on slowing Fed-ECB policy divergence (this time coming from dovish Fed), signs of stabilisation in the Euro-area and fading political uncertainties after European parliamentary elections (in line with our caution that unwinding of political risk premium after key event dates typically support EUR recovery). We calibrated EUR forecast modestly higher to reflect the recent shift in our house view for 1 Fed rate cut each in 2019 and 2020,

- At the recent ECB forum (17 – 19 Jun), Draghi said that additional stimulus will be required if the economic outlook does not improve and he added that further rate cuts remain part of ECB's policy tools. In our view, **though the door for ECB easing maybe opened, there is no need for ECB to "walk through the door" to cut if there is no need to** (i.e. if economic activity, growth and inflation holds up). In addition, Fed's recent dovish tilt (as seen from the recent FoMC meeting) suggests that Fed-ECB policy divergence is slowing. In fact if the Fed cuts as markets suggest by a total of 50bps this year vs. ECB (if they cut by 10 bps as implied by markets), policy divergence would indeed narrow in favor of ECB. USD softness as such would benefit the EUR. Putting Euro-area and US monetary policy and data together brings about a **case of Fed's dovish tilt (vs. accommodative ECB) and softer US PMIs (vs. Euro-area PMI stabilising) and this could see USD playing catch-down.**

- **Downside Risks to Outlook:** EUR could be vulnerable for further downside if (1) hopes of green shoots of recovery in Euro-area proved short-lived; (2) negative political surprises such as early elections in Italy, France, UK, Brexit uncertainties, etc. dragging on for longer; (3) markets pricing in a dovish ECB; (4) US imposition of import tariff on EU goods or re-escalation of trade tensions between US and China. In particular, US Trade Representative's Office recently 1 Jul) released a list of additional EU products including Italian cheese, Scotch Whiskey, Olives, worth about $4bn that could be subjected to tariffs. This is in addition to the $21bn list previously announced. A hearing on the proposed list is scheduled on 5th Aug. Confirmation of tariffs on EU goods could indeed drag EUR lower.

- **Growth and Inflation Outlook: Signs of stabilisation in the Euro-area are slowly showing up again.** Decline in German manufacturing PMI stabilized in Jun (45.4 vs. 44.3 in May) while services PMI picked up pace (55.6 vs. 55.4 in May). France PMIs also picked up pace within expansionary territories. The pace of decline in Euro-area industrial production has also slowed in Apr (-0.4% y/y vs. -0.6% in Mar). Unemployment rate fell to more than decade low of 7.6% for Apr-2018 (vs. 7.7% in Feb). Compared with a year ago, the unemployment rate fell in all member states. Lowest unemployment rates seen in Germany (at 3.2%) and Netherlands (at 3.3%) while highest unemployment rates were seen in Greece (at 18.5%), Spain (at 14%) and Italy (at 10.2%). While Germany is undergoing a soft patch for now, we believe this is one-off and the economy should recover once the one-off soft patch relating to auto emission scandal fades. We believe further stabilisation in EU data, in particular coming from Germany could translate into a real pick-up for the Euro-area.

- **1Q Euro-area growth picked up pace to +0.4% q/q in 1Q (up from +0.2% in 4Q vs. 0.3% expected).** Data came as a welcome relief as Italy emerged out of recession (+0.2% w/w vs. -0.1% in 4Q) with growth seen in most sectors including agriculture, industry and services; Spain's growth momentum accelerated (+0.7% q/q vs. +0.6% in 4Q); France held ground at +0.3% q/q and Germany shake off fears of recession (+0.4% q/q in 1Q vs. 0% in 4Q).

- **Headline Euro-area CPI slowed to 1.2% y/y in May** (vs. 1.7% in Apr). The slippage was well within expectations as Apr's boost to CPI holiday-related components such as hotels and travel (owing to late timing of Easter) unwinds. Breakdown shows decline was led by services and energy. Core inflation also dipped to 0.8% y/y (from 1.3% in Apr). Subdued inflationary environment could persist further as energy prices fall.

- **Monetary Policy Forecast:** The next ECB GC meeting is scheduled on 25th Jul. We expect ECB to reiterate its commitment to maintain key policy rates including Main Refinancing operations, deposit facility and marginal lending facility on hold at 0%, -0.4% and 0.25%, respectively. **ECB could still maintain the dovish tilt** as seen from his most recent comments at the ECB forum in Portugal (18th Jun). Draghi said that additional stimulus will be required if the economic outlook does not improve". He elaborated that **further rate cuts remain part of ECB's policy tools** and renewed asset purchases are an option even if that means raising self-imposed limits on how much it can buy. He further gave a timeline in saying that the Governing Council will review in the coming weeks how their tools can be adapted "commensurate to the severity of the risk to price stability". Several Euro-zone central bank officials said that the ECB could use interest rate cut as their first stimulus move if they need to act again to boost inflation, rather than resuming asset purchases. **In our opinion, although the door for easing may be open as ECB stands ready to lower cost and support growth if outlook does not improve but there is no need to walk through the door if there is no need to.** So if economic activity and inflation hold up, the ECB may not need to cut rates. **ECB GC member and Chief Economist Praet did say wage and inflation are improving in the Euro-area.**

- Markets are now pricing in some 67% chance of an ECB cut at the Sep ECB GC meeting. A full 10bps cut is expected by Dec-2019 (implied via OIS). Risks for ECB cut have risen given that most developed world central banks including the Fed, RBA, RBNZ, etc. have turned dovish and the ECB may want to prevent any unnecessary tightening of financial conditions (which could include stronger EUR). A dovish ECB stance or rate cut could serve to mitigate excessive EUR strength. That said we expect ECB to keep policy rates on hold for 2019 as inflation continues to hold up and economic activity is showing signs of stabilisation.

- ECB President Draghi will step down on 31 Oct 2019 and the race for the next ECB President is likely to intensify after EU parliamentary elections (26th May). The Bloomberg survey of Economists now put French Governor Francois Villeroy, Former ECB GC member Liikanen, ECB member Coeure, Finland Governor Rehn and German Governor Weidmann as the top 5 contenders. Both Liikanen and Villeroy are considered close aides of Draghi and are supportive of accommodative monetary policies while Weidmann is typically viewed as a hawk. The latter recently said he opposed to adding any extra stimulus for the Euro-area; economic momentum is slowing from very high level citing Germany as an example where capacity is overstretched while price pressures remain and is not in a situation that needed to be met with further stimulus.

- In the last ECB Governing Council meeting (6th Jun), policy rates were kept on hold at present levels. The **dovish part was that forward guidance on rates to be on hold at present levels was extended (again) out to at least through the 1H 2020 (from end-2019)** and Draghi's caution that "global headwinds continue to weigh on Euro-area outlook… the prolonged presence of uncertainties, related to geopolitical factors, the rising threat of protectionism and vulnerabilities in emerging markets, is leaving its mark on economic sentiment." And the ECB are determined to act if needed. On TLTRO-III, the rate will be 10bps above the average rate applied to MRO over the life of the respective TLTRO and as low as the average deposit facility rate +10bps for banks exceeding a certain lending benchmark.

- Though Draghi sees downside risks to growth, he sees the risk of recession low and there are no threats of de-anchoring inflation expectations. 2019 growth and inflation projections were even revised higher to 1.2% and 1.3%, respectively (vs. 1.1% and 1.2% previously projected). And the ECB said that gains in employment and rising wage growth continue to underpin the resilience of the Euro-area economy and inflation.
- At the ECB GC meeting (7th Mar), ECB announced its decision to (1) re-introduce cheap funding via quarterly TLTRO with rate indexed to MRO interest rate (currently at zero) starting in Sep-2019; (2) shifts in forward guidance on policy normalisation – ECB now expect rates to remain at present levels through end-2019, from end Summer-2019 and (3) relatively large downward revisions to 2019 growth forecast to 1.1% from 1.7%.

- **Latest External Balance Outlook:** Euro area's current account surplus further narrowed to EUR21bn in Apr (vs. EUR24.7bn in Mar). In the 12 months to Apr-2019, current account surplus as % of GDP continues to narrow to 2.7% of GDP (vs. 3.3% in the same period a year ago). ECB had earlier expected current account surplus to narrow further to 2.7% of GDP in 2019 and 2.5% of GDP in 2021.

- **Key domestic events and issues to watch:** Jun Mfg PMI, May unemployment rate (1 Jul); May PPI (2 Jul); Jun services PMI (3 Jul); May retail sales (4 Jul); May industrial production (12 Jul); May trade balance, Jul ZEW survey expectations (16 Jul); Jun CPI 17 Jul); May current account (19 Jul); Jul consumer confidence (23 Jul); Jul preliminary PMIs (24 Jul); ECB meeting (25 Jul).

- **Technical Outlook:** Our call (in the last FX Monthly) looking for a move higher more than met our resistance levels. Pair was last seen at 1.1330 levels. Bullish momentum on daily chart is waning while stochastics is showing signs of turning from near overbought conditions. Risk of acceleration in the recent pullback lower is not ruled out. Decisive close below area of support at 1.1345 (200 DMA) - 1.1320 levels could see a sharper pullback towards 1.1260 (21, 100 DMAs), 1.1230 levels (50 DMA). Resistance at 1.1420, 1.1450 (23.6% fibo retracement of 2018 high to 2019 low).

GBP: Weighed by *BoJo*'s "Do or Die" Approach to *Brexit*

Forecast	3Q 2019	4Q 2019	1Q 2020	2Q 2020
GBPUSD	**1.2700** (--)	**1.2700** (--)	**1.2800** (--)	**1.2900** (--)

No Change to Previous Forecast

- **Motivation for the FX View**: Post—G20 positive development, softer USD environment could see modest GBP strength in response but gains could still be curbed as brexit uncertainties remain. **PM-hopeful Boris Johnson's (BoJo for short) preparation for an emergency budget in no-deal brexit outcome (31 Oct) is perceived as a GBP-negative. Going forward focus is on the vote outcome for Tory Leader (23 Jul) and next UK PM (24 Jul).** Questions remain **if a fresh GE may be held soon**, if **Brexit date (of 31 Oct 2019) will be delayed again** and **how the brexit process (hard brexit or soft brexit bias) could change** going forward. Uncertainties on this front could still see 2-way trades in GBP.

- Our GBP forecast (upward trajectory) is kept unchanged and is premised on the base case that calls for a smooth exit (i.e. UK to leave EU with a modified deal by 31st Oct though there is chance of another brexit extension). We do caution the GBP could: (1) more than undershoot our forecasts if a General Election is held before Halloween or a case of hard brexit with no deal (i.e. disorderly exit) takes place or (2) more than overshoot our forecast if brexit is interpreted to be "market friendly" (characterized by smooth exit with a modified deal of possibly exiting earlier than expected). Recovery in investments and growth could come as businesses get more visibility on the road ahead. In this "better" scenario 2, the BoE may need to bring forward its policy normalisation plans. Taken together, GBP could recover more meaningfully via the market sentiment and investor confidence channels (first order effects). Risks to our trajectory and forecast would be a case of brexit without a deal by 31st Oct.

- **Busy Timeline Ahead for Brexit:** Voting among Conservative party's 160,000 members for the next Tory leader/UK PM is underway. Voting results for **Conservative party leader (either BoJo or Jeremy Hunt) is expected to be announced on 23rd Jul with the new PM formally taking over on 24th Jul.** House of Commons will then break for a long recess on 25th Jul and parliament will only re-convene on 3rd Sep. If the labour party plans to put forth a motion of no-confidence in the new PM, they would have to do so on 25th Jul. Conservative party conference is scheduled to be held from 29th Sep to 2nd Oct; an EU summit scheduled for 17th - 18th Oct may well be dominated by brexit-related events as Brexit deadline (31st Oct) approaches. **Questions remain if this deadline could be extended again.**

  - **If it is not extended and there is no deal agreed (i.e. hard brexit), then <u>there is no transitional agreement</u>.** IN this scenario UK will leave EU and will strive to forge fresh trade relations with trading partners.

  - A transitional agreement will only kick in if a deal is agreed. This will then last till 31st Dec 2020 (with an option for extension till end-2022. If at the end of transition period, there is no deal to avoid a hard border with Northern Ireland, the so-called backstop will automatically kick in and this will keep UK in a temporary customs union with the EU.

- PM Leadership race is now down to 2 candidates: Former Foreign secretary Boris Johnson (BoJo) and Secretary of State for Foreign Affairs Jeremy Hunt. Both have said they will strive to bring EU back to the negotiating table but both have indicated that UK must be prepared for no-deal scenario. Both have also started working on a no-deal budget package separately. BoJo is preparing for an emergency budget which would include aggressive tax cuts and an overhaul of stamp duty including removing stamp duty levy on homes while Hunt's team would set aside GBP6bn war chest to protect fishing and farming and prepare an emergency budget to cut taxes. Based on the last round of balloting, the odds are for BoJo to be the next PM. He is perceived to be more inclined towards hard brexit. Most recently he said he would take Britain out of EU by 31st Oct with or without a deal, "do or die". And typically no-deal brexit is perceived as a GBP-negative.

- Based on our model estimates which take into account current account differentials, interest rate differentials and inflation differentials, GBP's fair value estimate fall in the range of 1.42 – 1.46. This justifies our upward forecast trajectory over the forecast horizon. The -10% deviation (spot to fair value estimate) largely reflects the Brexit premium and should help the UK economy to rebalance and grow sustainably over time - current account deficit should narrow, exports should become more competitive and tourism and education receipts should pick up further. We hold to our belief that UK should be able to manage the exit, transform itself into a global marketplace and continue to attract capital (longer-term). In the last episode where UK left the ERM back in 1992, GBP saw a period of consolidation (for a few years) at historical lows before the eventual move higher in the following years, where GBP TWI traded above 100-levels in 1998 (from the lows of 80 in 1993-1996) due to buoyant demand fueled by rapid growth of wealth, credit and money. If history is a guide (assuming UK manages the transition well and takes the opportunity to correct its imbalances), its currency may start climbing higher.

- **Growth and Inflation Outlook: UK GDP rose +1.8% y/y in 1Q (vs. 1.4% in 4Q) thanks to Brexit-related stockpiling.** On q/q basis, economy expanded +0.5% q/q (vs. +0.2% in 4Q). The manufacturing sector grew at its fastest pace (+2.2%) since 1988, possibly due to manufacturers rushing to deliver orders before the initial brexit date of 29th Mar while the surge in imports (of cars and gold) drove the deficit in net trade for 1Q. Service and construction sectors also contributed to 1Q growth, though momentum eased off in Mar. **We caution this GDP surge could fade in 2Q as stockpiling efforts may wear off and brexit fatigue could weigh on consumer spending and investments**. Manufacturing and construction PMIs slipped into contractionary territories in May while retail sales decelerated in May.

- **The Quarterly Inflation Report (QIR) on 2nd May shows that MPC central projection looks for UK growth to start picking up next year and rise to over 2% by end of forecast period (2Q 2021).** Business investment is expected to recover and household spending continues to support demand growth. CPI is expected to the slightly below MPC's 2% target for 1H of the forecast period reflecting lower retail energy prices and expect CPI to pick up to above 2% target in 2 years' time as excess demand emerges. This projection is built on the assumption that global growth stabilizes around its potential rate and brexit uncertainties subside gradually. BoE added that economic outlook will depend significantly on the nature and timing of brexit - whether the transition is smooth or abrupt and how financial markets, businesses and household respond. BoE Governor Carney added that business investment is likely to fall for a little while longer; "Gradual and limited" rate hike rhetoric was reiterated but Carney also said that investors were underestimating how much interest rates could rise.

- **UK headline CPI rose 2% y/y in May (vs. 2.1% in Apr).** Slight pullback was due to decline in cost of transportation (as Easter effect fades) and clothing. Core inflation was at 1.7% (vs. 1.8% in prior month). for a third consecutive month in a row.

- **Monetary Policy Forecast:** We expect BoE MPC to keep policy rate and size of BoE balance sheet unchanged at 0.75%, GBP 435bn, respectively at the upcoming meeting on 1st Aug. Relatively steady CPI (no run-away pressure from BoE's MPC 2% target) and Brexit uncertainty leaves room for BoE to keep policy stance status quo. Maintaining accommodative monetary conditions is what the BoE can do to help support growth amid ongoing Brexit uncertainties. BOE had earlier cautioned for the possibility of further cliff-edge uncertainties that could have significant effect on spending. We **expect BoE MPC to keep policy stance status quo for as long as until end-2019** as **uncertainty over Brexit takes precedence over policy normalisation.** We remain watchful of inflationary pressures as tight labor market is capable of generating domestic price pressures while a case of no-deal brexit could result in sharp depreciation on GBP (brings about higher imported prices and this translates into higher CPI). Sustained rebound in CPI towards 3% again could pressure BoE to hike earlier reluctantly.

- **External Balance Outlook** UK's current account deficit widened to 5.6% of GDP for 1Q 2018. This was the largest deficit since 3Q 2016 and was driven by imports of gold. The ONS said that stripping out the large imports of gold, UK currency account deficit would have stood at 3.7%. Imports of goods amid brexit stockpiling also contributed to the widening of the current account deficit.

- **Key domestic events and issues to watch:** Jun Mfg PMI (1 Jul); Jun construction PMI (2 Jul); Jun services PMI (3 Jul); Jun house prices (5 Jul); May IP (10 Jul); May labor market report (16 Jul); Jun CPI, PPI, RPI (17 Jul); Jun retail sales (18 Jul); Jun public finances (19 Jul); Jul GfK consumer confidence (31 Jul).

- **Technical Outlook:** GBP consolidated in 1.2510 – 1.2780 range for the month of Jun. Pair was last seen at 1.2650 levels. Bearish momentum on weekly chart remains intact though there are signs they could fade while stochastics is near oversold conditions. Immediate support at 1.2590 before 1.2510, 1.2440 levels. Resistance at 1.2710 (23.6% fibo retracement of 2019 high to low), 1.2840 (38.2% fibo). Consolidation in 1.25 – 1.27 range likely with risk-reward favouring buy dips.

AUD: Recovery Could Be Pushed Back

Forecast	3Q 2019	4Q 2019	1Q 2020	2Q 2020
AUDUSD	0.71 (0.68)	0.73 (0.69)	0.74 (0.70)	0.73 (--)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** The G20 Summit ended with a trade truce between the US and China, as negotiations are officially given the greenlight to continue between the trade delegates from both nations, no more tariffs imposed for the time being and Huawei are allowed to get their technology products (those that pose no security risk) from its US suppliers. There is even a prospect for Huawei to be taken off the entity list, depending on how the meeting between Trump and his Commerce Department go within the first week of Jul. A positive outcome is a boost to the AUD, in light of the risk-on sentiment as well as its link to China's economy.

- RBA cut cash target rate by another 25bps in the hope to "make inroads into spare capacity". This was a back-to-back cut ever since the central bank revised the non-accelerating inflation rate of unemployment lower from 5.0% to 4.5%. Futures implied suggest that another 25bps cut is expected by year end. We think that is a tad aggressive at this point. With the housing sector showing some signs of stabilizing in Sydney and Melbourne along with a trade truce between the US and China, investment and consumption behavior might improve in the second half of the year without the need for RBA to take the policy rate below 1%. We think it is more prudent for RBA to ration its ammunition and assess the impact of its rate cuts thus far, investors and consumer sentiment post-election and the somewhat positive outcome of the G20 summit in the rest of the year. Still, RBA's dovish stance would crimp on the AUD recovery and a return back to a low growth, low inflation, low volatility environment is unlikely to aid the AUD now that it is no longer a high-yielding currency. We are still constructive on this currency as we see quite a substantial negativity already in the price and we look for AUDUSD to end the quarter at around 0.71.

- **Growth and Inflation Outlook:** Data has **not** been supporting the AUD. China's new export order deteriorated to 46.50 from previous 49.2 in Apr while China's imports from Australia also slowed to 5.2%y/y from previous 18.0%. External growth conditions have turned less favourable for Australia with China still pursuing a modest stimulus package for its economy, careful not to abandon its deleveraging efforts. Along with the fall in tourist arrivals in Australia, exports of resources have not been able to gain much traction as demand out of China remains weak.

- At home, the labour market is still what the central bank looks at the most. Despite the uptick in jobless rate to 5.2% (seasonally adjusted) recently, the labour market condition is not exactly bad as the bump-up in the unemployment rate is largely due to the rise in labour force participation rate. The pace of hiring was healthy at around 2.9%y/y, up from 2.2% at the start of the year. The strength of the encouraged worker effect has led to speculation that full employment is actually much lower than previous estimates. Thus, RBA to lower the cash target rate to "help make further inroads into the spare capacity in the economy".

- 1Q growth came in at just 1.8%y/y vs. previous 2.3% with the seasonally adjusted number underwhelming with a print of 0.4%q/q vs. expected 0.5%. Household spending was weak at just 1.8%y/y, and contributing to 0.1ppt to the headline. The residential construction sector was a drag and the more frequent housing and construction releases continue to paint a rather grim picture.

- The AiG Performance of Manufacturing Index fell to 52.7 in May from 54.8 previously. On the other hand, Markit version of the PMI improved a tad to 51.7 from 51.0. Trend-wise, we see some signs of bottoming for the manufacturing industry based on the surveys. Building approval remained dismal, making another decline of -4.7%m/m albeit slowing from the previous -13.4%. Year-on-year, building approvals fell -24.2% vs. previous -25.4%. Home loans and investment lending contracted by -1.1%m/m and -2.2%m/m respectively. Owner-occupier loan value for Apr rose 1.0%m/m from previous -3.4%. AiG Perf of Construction Index for May came in lower at 40.4 vs. previous 42.6. We have yet to see the boost to the housing sector from the recent tweaks in the lending rules by APRA. APRA eased lending restrictions by allowing lenders to review and set their own interest floor instead of the current 7%. However, the housing sector could have received more boost from the rate cut that RBA provided on 4th Jun.

- Retail sales (s.adj) softened to 2.8%y/y in Apr from previous 3.5%. Breakdown revealed weakness in the food retailing, cafes, restaurants and takeaway food services, household good retailing as well personal accessory retailing while department stores, other retailing were slightly firmer for Apr. While the encouraged worker effect would mean that consumption may not be weakened by a tick up in jobless rate, we see a potential for negative wealth effect should the stock market corrects sharply. ASX is now slightly off its year high, albeit still up 17.6% for the year as of 26 Jun as we write. This could be the reason for RBA to remain on its easing bias and to cut another 25bps in Aug. '

- 2Q inflation will be due end of Jul. According to more frequently released data like the Melbourne institute inflation, inflation pressure remains subdued. The May print came in flat vs. previous 0.2%m/m.

- **Monetary Policy Forecast:** The rate cut done today (2 Jul; 25bps to 1.00%) did not take AUD much lower as it was largely priced. Key to RBA's policy shift in Jun had been the revision of the NAIRU from 5% to 4.5%, which is also known as the rate of unemployment in order for wage growth to pick up pace. With some already looking for RBA to take cash rate to a low of 0.5% by next year and markets looking for another 25bps cut by year end, there has been a lot more speculation of quantitative easing. With cash rate already at historical lows, we think that RBA should take its time to ration its limited ammunition. We see prudence for RBA to pause and assess the impact of its rate cuts thus far, investors and consumer sentiment post-election and the somewhat positive outcome of the G20 summit in the rest of the year. Labour conditions have not been deteriorating and there could be a potential for AUD shorts to be unwound should RBA turn out to be less aggressive than expected. The central bank has not discussed much on QE, possibly because they do not think they should consider that unless there is a crisis. Risk-reward ratio from the monetary policy perspective is thus skewed in the favour of the AUD at this point.

- **Latest External Balance Outlook:** Current account deficit narrowed to A$2.9bn for 1Q from previous –A$6.3bn. We may continue to see improvement in the current account as Australia continues to show trade surplus. Apr trade surplus came in at A$4.87bn. Terms of trade had also improved, possibly due to the depreciation in the currency vs. its trading partners.

- **Latest Fiscal Outlook:** Australia's budget deficit shrank to just 0.15% of GDP in 2018 from a peak of 4.1% in 2009. Treasurer Josh Frydenberg projects a fiscal surplus of $7.1bn for the year through 2020. Post budget, PM Scott Morrison announced a plan to set up an Australian Business Growth Fund that is projected to grow to A$1bn when it matures, aimed at creating 250K new small businesses over the next five years. Eyes are now especially on the income tax cut plan, especially for the middle income earners to see if that could boost the discretionary household spending.

- **Key domestic events and issues to watch:** AiG Perf of Mfg Index, CBA PMI Mfg, CoreLogic House Px , ANZ Job Adv on 1st Jul; RBA meeting on 2nd Jul; building approvals for May and trade balance for May on 3rd; retail sales on 4th; AiG Perf of Construction for May on 5th; NAB Business Conditions and Business Confidence Jun on 9th; Westpac Consumer Conf on 10th; RBA Minutes for Jul on 16th; Labour Report for 18th; building approvals for Jun; CPI (2Q);

- **Technical Outlook:** Bearish trend is not negated by the recent recovery although the 0.68-level proved to be a strong support level. On the daily chart, stochastics are falling from overbought conditions. Anticipate further pullback before the next upmove. Supports seen at 0.6988, 0.6958 and then 0.6930 (50% Fibonacci retracement of the Jun rebound). Resistance at 0.7040 before the next at 0.7060 before 0.71. On the weekly chart, stochastics suggest there is still room for upside in this pair even though there are a lot of expectations for RBA to take cash target rate further lower. We do not rule a rate cut out but that may take the AUDUSD towards 0.6950 but 21-dma en-route to cut 50-dma to the upside, a bullish signal so we see shallow dips and further upside thereafter.

NZD: Upside Play as Shorts Unwind

Forecast	3Q 2019	4Q 2019	1Q 2020	2Q 2020
NZDUSD	**0.6800** (0.6400)	**0.6800** (0.6400)	**0.7000** (0.6600)	**0.7000** (--)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** For the month ahead, NZD gains could extend given the more optimistic than pessimistic outcome at the G20 Summit in Osaka (28 – 29 Jun) - US and China demonstrate positive progress on trade (i.e. some degree of trade truce with no further tariffs being added and both sides return to the negotiating table). Risk assets including equities, soft/hard commodities could enjoy a lift while currencies including NZD (+1.08x beta with CNH) could outperform especially when NZD shorts look extreme at 7-month record high. We do not rule out NZD overshooting to the upside, in reaction to recent developments on the trade front but a trade truce is not a deal and the dovish bias of RBNZ could still limit NZD gains at some stage. In the meantime (1-2w), we see risks skewed to the upside.

- We also calibrated our NZD forecast modestly higher to take into account our House view's call for 25bps Fed rate cut in 2019 and 2020. Forecast trajectory remains on hold. Our house view now looks for US-China trade deal to materialize by end-2019. As such, we expect NZD weakness to fade and possibly recover towards end-year.

- Taking stock, our short term technical call (as per last FX Monthly) for NZD to rebound towards 0.6660 materialised, with a +2.1% gain (spot ref then was 0.6520). Intra-month high seen at 0.6721 (28 Jun).

- **Growth and Inflation Outlook: 1Q GDP saw a sequential uptick to +0.6% q/q** (vs. +0.4% in 4Q 2018). Uptick was supported by goods-producing industries, in particular construction and manufacturing sectors. But growth in services sector (which account for 2/3 of GDP) decelerated. Retail trade & accommodation, transport, drop in tourist arrivals surprised to the downside. On the expenditures side, private consumption was soft but business investment and net exports came in stronger than expected. On annual basis, 1Q GDP held steady at 2.5% y/y.

- **2Q CPI is due for release on 16 Jul.** Next print in CPI is likely to show a higher print given the oil prices have risen while NZD depreciated. Taken together, we see risks mildly skewed to the upside for headline inflation. 1Q Headline CPI held steady at +0.1% q/q. On annual basis, 1Q CPI declined to +1.5% y/y, from 1.9% in 4Q. Softer oil prices dragged down tradable inflation while non-tradable inflation (proxy for domestic price pressures) rose +1.1% q/q, up from +0.7% q/q. 1Q PPI fell (output -0.5%; input -0.9% q/q) for the first time since 1Q 2016. This was due to high base effects fir electricity generation prices.

- In the recent MPS (released on 8th May), RBNZ cut economic growth forecast to 2.2% in the year through Mar-2019 (vs. 2.9% previously). RBNZ said that growth slowed sharply over 2H 2018 reflecting a moderating global growth and slower growth in domestic demand and the 1H 2019 growth is expected to remain subdued as slowing global growth, subdued housing market and low business sentiment are dampening domestic activity. Slowdown is also expected to see slight softening in labour market over 2019. Increased monetary stimulus and improvement in terms of trade are expected to drive a re-acceleration in growth and capacity pressure from late-2019 as RBNZ looks for growth to rebound to 3.2% in 2020.

- The outlook of domestic inflationary pressure has softened due to slowdown in growth. Non-tradables inflation is expected to ease before gradually picking up in as capacity pressure build. RBNZ only sees a return to 2% mid-point of its target range in mid-2021. This is 6 months later than its previous projection.

- **Monetary Policy Forecast:** There is no RBNZ MPC meeting scheduled for July. We see **RBNZ possibly cutting OCR by 25bps to 1.25% at the next MPC meeting on 7th Aug though we still believe there is no urgency to cut** given that inflation is near the midpoint of its target range, headline growth still looking healthy at 2.5% and labor market conditions still tight. What tilts us to say that RBNZ could potentially cut at the Aug meeting is due to RBNZ MPC's bias to ease as recent MPC statement (26th Jun) reveals a rate cut "consensus" among MPC members given its dovish assessment to global economic outlook while 1Q GDP growth report shows that services sector (accounts for 2/3 of NZ economy) remains a drag on the domestic economy. And in light of most Developed World central banks including Fed, ECB, RBA taking a dovish tilt in their respective monetary policy stances, it is very likely the RBNZ does not want to stand out in the crowd of doves as that would have pressured NZD higher and result in tighter financial conditions. Markets expectation for a cut at the Aug MPC stands at nearly 80% (implied via OIS). We think the impetus for RBNZ to cut will increase if RBA follows up with another 25bps cut at its next meeting (2 Jul) and this would drag the NZD lower.

- At the last MPC meeting (26th Jun), RBNZ kept OCR on hold at 1.50% as widely expected. Tone of the statement was dovish as MPC judged that *global economic outlook has weakened and downside risks related to trade activity have intensified* but the dovishness appeared to be perceived as less than market expectations. In particular **RBNZ's explicit use of the phrase "over time" in the line "*lower OCR may be needed* <u>*over time*</u>" was interpreted as less urgent need for more easing.** Other points touched on by the MPC include discussions around ongoing weakening in global trade activity and that a period of protracted tension could suppress global business confidence and weigh on growth. But a resolution of these tensions could see uncertainty ease. Bottom line is more support from monetary policy was likely to be necessary given continues falls in global growth and subdued domestic demand.

- **External Balance Outlook:** NZ current account deficit narrowed to -3.6% of GDP in 1Q from -3.8% of GDP in 4Q 2018. This was due to an improvement in trade balance due to higher dairy exports and a slowdown in imports.

- **Key domestic events and issues to watch:** May building permit (2 Jul); Jun food prices (10 Jul); Card spending (11 Jul); Jun Mfg PMI (12 Jul); Jun services PMI, May net migration (15 Jul); 2Q CPI (16 Jul); Jun trade (24 Jul); Jun building permits (30 Jul).

- **Technical Outlook:** Our call in the last monthly looking for a technical rebound came to fruition. Pair was last seen at 0.6710 levels. Bullish bias on weekly, daily momentum remains intact though stochastics (on daily chart) is rising into overbought conditions. This may suggest some risks of retracement lower in the near term but dips could still find support at 0.6660 (38.2% fibo retracement of 2019 high to low), 0.6590 (23.6% fibo). Immediate resistance at 0.6710 (50% fibo, 200 DMA) if broken decisively, could see further upside gather momentum towards 0.6760 (61.8% fibo), 0.6830 (76.4% fibo). Buy dips preferred.

JPY: Downward Pressure on Risk-On/ Carry Play

Forecast	3Q 2019	4Q 2019	1Q 2020	2Q 2020
USDJPY	108 (--)	108 (108.50)	110 (--)	109 (--)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** A reversion to risk-on mood and short vol-long carry play could see JPY shorts rebuild in coming weeks as outcome of G20 Summit in Osaka (open-ended truce with no new addition to tariffs, continued trade talks between US and China, concession to Huawei, etc.) was interpreted as a positive development. Rebuilding of hopes for US-China trade deal (or even further de-escalation in trade tensions) is expected to boost sentiment and potentially support a recovery in business investment, exports and global growth. As global equities rise, volatility eases and the hunt for carry plays out, JPY as a funding currency of choice should typically come under pressure. We do not rule out a move higher in USDJPY temporarily overshooting our forecasts towards 109.50-110 in the weeks ahead (via sentiment and carry play channels) but a Fed easing bias (vs. BoJ policy status quo), softer USD environment and idiosyncratic factors (some concerns of domestic growth, imposition of VAT, etc.) could still act to offset the post-G20 up-move in USDJPY.

- We reiterate our caution that USDJPY could move lower towards end Jul to Oct on political risk factors and potential implementation of sales tax hike in Oct. Both could weigh on risk appetite. There are some concerns over the Upper House elections scheduled in Jul 2019. Dissent expressed through Upper House elections (21 Jul) could create some political instability in 2H 2019 and possibly limit the Abe cabinet from pursuing more radical measures to transform the economy. This uncertainty could in turn lead to a sell-off in Japanese equities and the unwinding of hedges, supportive of the JPY. Implementation of the consumption sales tax hike in Oct 2019 and its negative impact on domestic consumption and overall growth could also add downward pressure on the USDJPY in later part of 2H 2019.

- **Growth and Inflation Outlook:** Japan industrial production saw one of its biggest increase in more than a year to +2.3% m/m in May despite an escalation in US-China trade tensions. Surprise increase was due to stronger output of cars and general machinery. Other data also showed a surprise improve to the upside: 1Q capex spending accelerated to +6.1% y/y for 1Q while company profits jumped to +10% in 1Q (vs. -7% in 4Q 2018). Even the coincident index, a key indicator of Japan's current economic health may start to show that the decline in the economy has stabilised. Taken together, 2Q growth may well be sustained (1Q was +2.1% q/q) and this gives PM Abe the confidence to impose VAT come-Oct.

- 1Q growth surprisingly expanded at its fastest pace in a year at +2.1% q/q SAAR. (vs. 1.6% in 4Q). Positive net exports and increase in government spending offset the softness in private investment and consumption. But concerns remain as strong headline growth masked underlying weakness. Strong net exports was due to sharper decline in imports (-4.6%) while exports also fell (-2.4%). Together with soggy private consumption and investments, these may reflect weak domestic demand and is a concern especially in the face of Japan possibly going ahead with VAT increases in Oct (previously delayed twice). Economic Revitalization Minister Toshimitsu Motegi said (20 May) there is no change to the plan to increase VAT to 10% (from 8%) in Oct. Any imposition of VAT could further curb consumption especially when wage growth is not strong. This exposes Japan to growth slippage in later part of 2H 2019.

- Headline CPI slowed to +0.7% y/y in May (vs. +0.9% y/y in Apr) due to weaker gains in electricity prices. Core inflation slipped slightly to +0.8% y/y (vs. +0.9% in Apr). inflation is expect to ease as mobile phone charges were cut by more than 40% while free pre-school education will start in Oct. Softer inflationary pressures suggest that BoJ will need to persist with its ultra-loose monetary policy until its 2% inflation target is achieved.

- **Monetary Policy Forecast:** We expect BoJ to keep monetary policy status quo at the upcoming MPC meeting on 30th Jul, with yield curve control at -0.1% for short term rates and 10Y JGB yield at around 0 %; permitted deviation of 10Y JGB yield from target will also be kept at +/-20bps; asset purchase of JGB holdings, ETF and J-REIT will be maintained at JPY80tn, JPY6tn and JPY90tn, respectively. **With inflationary pressures easing, ultra-loose monetary policy remains BoJ's choice of policy tool but we doubt there is a need for additional stimulus being added as economic activity has continue to hold up**. The risk for additional easing (if any) will probably be due to other major central banks undertaking easy monetary policies (but we see this as a lesser risk for now).

- In the summary of BoJ opinions at the last BoJ meeting (21st Jun), policymakers debated the feasibility of increasing stimulus. One member said that "All policy measures, including adjustments in short- and long-term interest rates, an acceleration in the pace of money printing and an increase in the amount of asset buying, should be deliberated when considering additional easing" while another said that "amid changes to the external environment such as growing expectations of monetary easing in US and Europe, the BoJ will need to strengthen monetary easing.

- BoJ has tweaked its forward guidance (at the Apr 25 BoJ meeting) to make "clearer its policy stance to continue with powerful monetary easing" by vowing to keep extremely lower short- and long-term interest rates at least through spring 2020. Previous forward guidance was "to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time". At the same time, the BOJ also suggested that it could introduce a lending facility for its ETF buying programme, i.e. temporarily lending ETFs to market participants. This would allow for the creation of a market and greater activity for the ETF market that is 77% owned by the central bank.

- **Latest External Balance Outlook:** Current account surplus narrowed for the second consecutive month in Apr to JPY1.71tn. Goods account fell into deficit for the first time since Jan as exports fell 3.7% from a year ago. Exports to China including semiconductor manufacturing devices fell while imports rose due to the rise in oil prices.

- **Key domestic events and issues to watch:** 2Q Tankan mfg index, Jun PMI mfg (1 Jul); May coincident index (5 Jul); May core machine orders (8 Jul); Jun PPI (10 Jul); Jun trade (18 Jul); Jun CPI (19 Jul); Jun retail sales (29 Jul); Jun preliminary industrial production, BoJ MPC (30 Jul).

- **Technical Outlook:** Our call for USDJPY to head lower (as highlighted in the last monthly FX outlook) more than met our objectives on the downside (108.6, 107.5) again for the second consecutive month (spot ref then was 108.80). Pair traded as low as 106.78 (25 Jun) and was last seen at 108.20 levels. Daily momentum and stochastics are mild bullish bias. Bullish divergence on MACD may be playing out. Area of resistance at 108.20 (21 DMA) – 108.40 (61.8% fibo retracement of 2018 low to high). Decisive break above could then see the pair test higher towards 109.40 (50 DMA). Support at 106.90 levels.

RMB: Short Positions To be Unwound

Forecast	3Q 2019	4Q 2019	1Q 2020	2Q 2020
USDCNY	6.80 (6.98)	6.78 (6.95)	6.75 (6.92)	6.72 (--)
USDCNH	6.80 (6.98)	6.78 (6.95)	6.75 (6.92)	6.72 (--)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** Outcome of the Trump-Xi meeting (which lasted for around 80mins) at the G20 was a trade truce with key details as follows:
  - Trump promised no further tariffs on Chinese goods "for the time being".
  - China will be given a list of goods that the US wants to sell to narrow the trade gap.
  - US and China trade delegation teams to continue their trade negotiations
  - Trump will allow Huawei Technologies Co. to buy products (that do not pose national security risk) from US suppliers as a concession. (But Huawei is still not allowed to sell its products in the US).
  - Trump will have a meeting with the Commerce Department to consider taking Huawei off the list of entities that are restricted from purchasing part and components from US technology companies.
- As a gesture of goodwill, China had reduced the list of industries that are not accessible for foreign investors. The list was 48 in 2018 and has been reduced to 40 this year, to take effect from 30 Jul 2019. Key to this is the removal of hydrocarbon exploration and development, natural gas provision in cities. This is in line with its commitment to open up its economy for foreign investors.
- To be sure, there is no deal yet. However, with the near-term prospect of more tariffs removed, the green shoots that were seen, before the escalation in trade war in May, may still have promise at this point. The last truce that was declared last Nov, lasted for six months and that had taken the trade deal to 90% completion, according to Treasury Secretary Mnuchin. We see potential for CNH shorts to unwind further towards 6.82 first before some retracement thereafter with biased still to the downside, to end this quarter around 6.80. Note that this does not even constitute full retracement

as USDCNH was trading around 6.67 in Apr before the May rally when trade talks broke down as we take into consideration the weakness in the data that we have witnessed since as well as the vulnerability of its current account surplus.

- Further progress on the US-China trade negotiations could be made towards the end of the year with the WTO mini-ministerial meeting in Shanghai (early Nov) and APEC Summit in Chile (11-17 Nov) that can serve as checkpoints.

- **Growth and inflation outlook:** Activity, prior to the G20 summit, was not able to gained traction due to the uncertain outlook of the economy and the prospect of more tariffs on the rest of China's exports to the US weighed on investment decisions even more. The NBS PMI-mfg print for Jun came in at 49.4, steady from the previous print, and a tad lower than the expected 49.5. Details of the latest report (for Jun) indicate further deterioration in output, new order and new export order. Ex-rural fixed asset investment also weakened to 5.6%y/y for the first five months, from 6.1% for the first four months. Industrial production dropped to 5.0%y/y in May from previous 5.4%y/y and we expect activity to remain subdued for June, as indicated by the PMI number.

- On the other hand, retail sales seemed to have picked up from previous 7.2%y/y for Apr to 8.6%. This came in the midst of the trade war where Chinese tourist arrivals in Australia and the US have fallen. As a result, the spending seems to have shifted from overseas to home.

- Inflation firmed further to 2.7%y/y for May from 2.5% previously while PPI slipped to 0.6%y/y. The impact of the African swine flu that resulted in the culling of pigs continue to keep food prices on the upmove. Food subcomponent picked up pace to 7.7%y/y from previous 6.1%. Meat and poultry is up 12.5%y/y from 10.1%. Prices of eggs are also bid, up 8.7%y/y 3.7%. The rise in the headline should still be seen as transitory and is unlikely to be the reason for PBoC to loosen monetary conditions.

- **Monetary Policy Forecast:** The result of the G20 Summit is somewhat positive in the sense that investors may put aside its fear of more tariffs being imposed by either the US or China in the near-term. We see potential for investment to improve modestly. The last truce lasted for a good six months but the impact of the previous tariffs shows in economic data.

- With exports still weak at 1.1%y/y for May and the latest PMI-mfg for Jun showing further deterioration in new export order and new orders, we still see a need for further easing even with a trade truce. The activity prints for Jun as well as the 2Q GDP are likely to make the case for further easing in the near-term. We anticipate that the next significant move would be for PBoC to lower the 1y lending rate for the TMLF from the current 3.15% as most of the exporters affected by the tariffs are SMEs. The latest PMI-mfg report by the NBS showed that new export orders and new orders for SMEs are still deep in contractionary region which suggests that purchasing managers in SMEs do not envisage production to expand in the near-term.

- With the external headwinds alleviated for now, further RRR cuts or a move lower in TMLF could be positive for the CNY as they are seen as more growth positive than before. Anticipate that the bond rally that has pause in the wake of the trade war to see some traction in the current external environment and if PBoC maintains dovish monetary stance.
- Latest Fiscal and External Balance Outlook: The fiscal target is 2.8% of GDP in 2019. Focus is on infrastructure spending as well as tax cuts in order to ensure economic and social stability and that has also showed up in the This is also to ensure that China avoids the “flood-style stimulus” that had resulted in the surge in corporate debt since 2019.
- **Key domestic events and issues to watch:** Caixin PMI-mfg for Jun on 1st; Foreign Reserves for Jun on the 7th; money supply, aggregate financing and new yuan loans on 9-15th; CPI and PPI on the 10th; trade data on 12th; Jun urban FAI, industrial production and retail sales, 2Q GDP, Jan-Mar property investment, new home prices due on 15th; FX Net settlement on 18th; industrial profits on 27th.
- **Technical Analysis:** USDCNH started July with a gap down to a low of 6.8168 before coming back to where it opened at 6.8450. Momentum is still bearish on the daily chart. On the weekly chart, stochastics are turning lower from overbought conditions. 6.8160 is the immediate support for this pair, 50% Fibonacci retracement of the Mar-Jun rally. 6.80-6.82 is still an area of support ahead of the next support around 6.7820 before the next at 6.74, 6.70. We do not rule out short term rebounds to meet resistance around 6.895. Next resistance at 6.8940.

KRW: Pessimism to Unwind

Forecast	3Q 2019	4Q 2019	1Q 2020	2Q 2020
USDKRW	**1150** (1195)	**1145** (1185)	**1140** (1170)	**1135** (--)

Previous Forecasts in Parenthesis

- **Motivations for the FX View:** Some degree of negativity on KRW is likely to fade following the recent G20 outcome in Osaka (open-ended truce with no new addition to tariffs, continued trade talks between US and China, concession to Huawei, etc.). Early positive development on US-China trade front could boost market sentiment and potentially reboot business confidence. This could spur a pick-up in business, investment and exports activity and lend support to growth. The semi-conductor down-cycle could also turn around and further lift exports and fuel an investment recovery. Moreover, Fed easing bias creates a softer USD environment and this helps to ease financial conditions while a recovery in Korean manufacturer’s business outlook survey (27th Jun) could well add up to support a recovery in KRW. We revise our USDKRW forecast lower to take into account the recent developments.

- President Xi and Trump agreed to restart trade talks with no new additions to tariffs while US companies can sell their equipment to Huawei (so long they do not compromise with US national security). While Huawei is still not off the US Commerce Department's "Entity list", there may still be hopes as a meeting on this topic has been scheduled for today-tomorrow. An open-ended truce for now takes away the immediate risk of a full-blown trade war. De-escalation of trade tensions (no new tariffs added) provides a breather for trade and commodity-linked FX including CNH, KRW, TWD and MYR but bear in mind there is still no trade deal. A sustained recovery for AXJs would still require material upticks in economic activity to supplement sentiment-driven rallies

- A recovery in tech sector is needed to reverse the fortunes of Korean exports where shipments of semiconductors account for 1/5 of overall Korean exports. While economic statistics are typically a retrospective take of past events (Exports for first 20days of Jun continued to fall for the 7th consecutive month), recent business surveys have shown there are reasons to be more hopeful than hopeless. Korean's manufacturers' business outlook jumped to 76 for Jul (up from 72 in Jun). Improving business sentiment together with Micron's upbeat earnings does bring relief to the semiconductor sector. With a US-China trade truce, a 2H rebound in trade could potentially take place – a positive for KRW.

- That said ongoing concerns of slowing global and domestic growth, exports slump in Korea and most trading nations remain and the turn-around in global semi-conductor sector has yet to materialise. There is still a risk of US-China trade negotiations turning sour. These factors may still limit KRW gains or even more than offset if conditions indeed worsen and the post-G20 enthusiasm fades.

- **Growth and Inflation Outlook: 2Q Preliminary GDP is scheduled for release on 25 Jul.** South Korea's economy contracted in 1Q (-0.4% q/q vs. +1% in 4Q). This is the largest magnitude of decline in 10 years. Contraction was led by facilities, construction investment as well as exports. On y/y terms, 1Q GDP growth expanded 1.7% in 1Q (final print revised lower from second print of +1.8% y/y). Exports for first 20days of Jun continued to fall for the 7th consecutive month. Shipments of semiconductors fell 24% while exports to China fell 21%. A recovery in chip sector is needed to reverse the fortunes of Korean exports where shipments of semiconductors account for 1/5 of overall Korean exports.

- Korean Development Institute (state-run think-tank) downgraded 2019 growth and inflation forecast to 2.4% (vs. 2.6% in its last projection) and 0.7%, respectively. The downward revision was due to headwinds from US-China trade dispute with a slowdown in China dragging Korea's export-dependent economy (KR exports 25% of its exports to China). Note that KDI's forecasts are more bearish than BoK and the government's growth forecast of 2.5% and 2.6 – 2.7%, respectively. BoK's rationale for the downside in 2019 growth was due to weakening exports in particular semiconductors and slowing business investments. Governor Lee noted that uncertainties have grown over the prospects of trade talks between US and China, but he did not sound overly panic in saying "we need to calmly watch as there are considerable expectations that the 2 countries will continue efforts to strike a deal" (10th May). Recall that in late Apr, Governor Lee said that concerns over recessions were "excessive" and the economy is still expected to grow roughly in line with its potential rate. He added that exports and capital spending should improve in 2H 2019. BOK also lowered 2019 inflation outlook for a second time this year to 1.1% y/y (down from 1.4% y/y previously).

- **Headline inflation picked up pace to 0.7% y/y in May** (vs. 0.6% in Apr) owing to the increase in utility prices due to higher international crude prices and milder fuel price cuts domestically. Core inflation was up +0.8% y/y in May, a touch softer than +0.9% in Apr.

- **Monetary Policy Forecast**: We **expect BoK to keep policy rate unchanged at 1.75% at the upcoming MPC meeting on 18 Jul.** BoK would prefer not to send any negative signals to markets as a rate cut could exacerbate household debt problems and trigger capital outflow. The slowdown in growth is not entirely unexpected (though the magnitude may be larger than expected) given semiconductor down-cycle while policymakers have responded with supplementary budget of KRW6.7tn. In addition BoK officials and policymakers remain optimistic of growth turnaround in 2H and believe that semiconductor down-cycle is nearing its end. In addition we believe the slightly more positive than negative outcome of the G20 Summit in Osaka (28 – 29 Jun) could give policymakers some room to monitor situation rather than rush into a cut. We do acknowledge there are some possibility for BoK to cut policy rate by 25bps given a dovish Fed and subdued inflationary environment but wait-and-see approach could shore up policy toolkit. We see a cut materializing sooner than later only if economic activity, exports and inflation continue to show no signs of recovery.

- There was no MPC meeting in Jun. At the last MPC meeting on 31st May, BoK MPC kept policy rate on hold at 1.75%, as widely expected. But the decision was not unanimous. One member Cho Dong-Chul voted for a rate cut. BoK Governor Lee acknowledged facing a "difficult situation" but cautioned against an excessively pessimistic view of the outlook as the central weighs concerns about record high household debt and a rapid decline in the KRW in recent weeks. Cutting rate may trigger capital outflows and that could depress the KRW further and send a wrong signal to markets.

- **External Balance Outlook:** Current account balance slipped into negative in Apr (deficit of US$660m vs surplus of US$4.82bn in Mar) for the first time in 7 years. Trade surplus narrowed sharply to $5.67bn in Apr (vs. $8.47bn in Mar). Deterioration is attributed to escalation in trade tensions between US and China and the seasonal increase in dividend payments overseas (US$6.87bn the second highest in history). Current account is likely to return back to surplus as one-off dividend payment fades.

- **Key domestic events and issues to watch:** S. Korea releases Jun exports, Jun Mfg PMI (1 Jul); Jun CPI (2 Jul); Jun FX reserves (3 Jul); May current account (4 Jul); Jun unemployment rate (10 Jul); Jun export/import prices (12 Jul); BoK meeting (18 Jul); Jun PPI (19 Jul); 2Q GDP (25 Jul); Aug business surveys (30 Jul); Jun Industrial production (31 Jul).

- **Technical Outlook:** USDKRW saw sharp move lower for the month of Jun, retracing the entire up-move seen in the month of May. Pair was last seen at 1158 levels. Bearish momentum on daily chart is showing signs of waning while stochastics is showing signs of turning from oversold conditions. Near term rebound towards 1172 levels not ruled out. But bias to lean against strength. Immediate support at 1150 (100 DMA), 1140 (200 DMA).

SGD: Attention Could Turn to Growth Concerns

Forecast	3Q 2019	4Q 2019	1Q 2020	2Q 2020
USDSGD	1.3600 (1.3850)	1.3650 (1.3800)	1.3600 (1.3750)	1.3600 (--)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** We revised USDSGD forecasts lower to price in the increased extent of expected Fed dovishness and moderating risks from tariff-related policy, after an eventful June. Our base case factors in a period of ongoing trade negotiations between the US and China, with gradual concretization of details in 2H 2019 potentially giving form to a US-China deal by year-end. However, we see modestly more upsides than downsides for the USDSGD pair in 2H. First, the extent of downward pressures could be capped by the upper bound of the MAS policy band. With USDSGD at around 1.356, our in-house model estimates S$ NEER at around 1.6% above mid-point. Further, any further USD softness from dovish Fed (which arguably has been priced in to a significant extent) is likely to be more than offset by the increased likelihood of potential policy easing from MAS in Oct, especially if growth and inflation remains soft. Given the large share of electronics in Singapore's factory output, and its involvement in multiple stages of regional production networks, impact from supply-side reconfigurations (e.g., as some MNCs from China relocate to other parts of Asia) may take longer to play out for Singapore. The outlook for manufacturing growth is further complicated by the possibility for US chipmakers in Singapore like Broadcom and Intel to be hit by US export controls. Looking across the region, a scenario involving some broad pare-back in tariff-risks, alongside dovish central banks globally, could also see risk assets in Indonesia, India, Korea better bid, relative to Singapore.

- June was largely a USD-softness on Fed dovishness story, even as news of resumption in trade talks on 28-29 June at the sidelines of the G20 summit in Osaka gave a modest boost to AxJ currency strength. Market sentiments in the lead-up to the summit seemed rationally hopeful, with most market participants looking not for an immediate trade deal conclusion, but rather, signs that hostilities are moderating, and of some progress in talks. That largely played out over the weekend, with the US temporarily shelving any further tariffs and both sides expected to restart trade talks. There were also reports of Huawei gaining some access to certain non-security sensitive US tech products again. Nonetheless, even with the positive summit outcomes, we caution that certain concerns remain with regards to the technology dimension of the conflict. Hua Wei and various other Chinese entities remain on US' export blacklists (with five Chinese firms added just days before the G20 summit).

- The top two categories (in value) of Chinese goods affected by existing US tariffs were “electrical machinery, sound and tv equipment” as well as “machinery & appliances”. Notably, these are goods categories where supply chains span China and many parts of Asia, including Singapore—a 2018 study by MTI reports that nearly 10% of our GDP is attributable to our exports to China (both final and intermediate demand). The damage from softer demand, disruptions to supply chains etc., can already be seen in the manufacturing growth figures. Overall industrial production fell by -2.4% y/y in May (versus +0.1% in Apr), while the electronics cluster also plunged by -11% in May (vs. -0.6% in Apr). Notably, US firms with a presence in Sg such as Broadcom, Intel and Micron could also potentially be impacted by US export controls. Even with some moderation in tariff policy risks, the re-configuration in regional tech supply chains could still pose growth drags on Singapore in the months ahead.

- The fall-off in the USDCNH 12-month forward in June suggests some moderation in upside risk to the USDCNH, alongside signs of further economic stimulus in China and news of progress in US-China trade negotiations. Policy-wise, China has also pivoted from controlling debt towards driving greater infrastructure investment, which should help anchor growth above 6% in 2019. PBoC's recent actions have been consistent with their messaging for yuan stability, and actualized progress in trade talks could reduce the need for growth support from a softer currency down the road. While the 52-week rolling correlation between USDCNH and USDSGD has come off from its high of above 0.90 in 2018 and 1Q 2019, it is still about 0.80 now. We see yuan stability as a factor which could help to cap any significant gains in the USDSGD pair.

- Trade policy aside, some volatility in the USDSGD pair could also come from USD-led movements in the interim. We had warned last month that the robust US growth momentum in 1Q was unlikely to persist, and a potential Fed easing bias could lead to some unwinding of long USD positions against its G10 peers and selected AXJs, including the SGD. This played out quite clearly in June, as the Fed's dovish tilt came to the fore and exerted strong downward pressures on the USDSGD pair. Similarly, any adjustments in expectations on US growth outlook or Fed monetary policy stance could continue to lead to some volatility in 2H 2019.

- **Growth and Inflation Outlook:** MTI highlighted last month that the global growth outlook for 2019 has weakened since their assessment in February, and narrowed the official 2019 GDP growth forecast for Singapore downwards to "1.5 to 2.5%" from 1.5 to 3.5%" previously. Taking into account a swathe of weak-growth data in May—PMI (49.9 versus expected 50.1), retail sales (-1.8% versus expected -0.2%), double-digit contraction in NODX (-15.9% y/y) and electronics exports (-31.4% y/y), disappointing IP data (-2.4% y/y versus expected -1.8% y/y)—our Economists' latest GDP forecast for 2019 is now lowered to +1.3%, from 1.6% previously. Notably, this is lower than the official forecast range, which is still under review by the authorities pending 2Q data. Our Economists also see a chance for a shallow technical recession (two quarters of quarter-on-quarter contraction) in 3Q. Even with the positivity from the trade talks this weekend, potential disruption to intermediate goods demand from the reconfiguration of regional supply chains should still continue to play out in 2H. Further out, stricter foreign worker measures (DRC cut in services starting Jan 2020) could pose modest drags on GDP growth into 2020. While sectors such as ICT, construction, health & education can potentially impart some resilience to the economy, they are unlikely to offset drags from externally-oriented sectors such as manufacturing, transport & storage and financial intermediation.

- On the inflation front, Headline CPI rose by +0.9% y/y in May (from +0.8% in March) due to a more modest decline in accommodation costs, as well as higher private road transport, retail and food inflation. Core CPI remained soft at +1.3% in May, unchanged from April, as higher retail and food inflation broadly offset a steeper decline in the cost of electricity and gas. MAS now expects Core Inflation to come in near the mid-point of the forecast range of 1-2% in 2019. Note that this was revised downwards from 1.5–2.5% previously in April, due to lower global oil price projections, as well as the impact of the liberalisation of the retail electricity market on electricity prices. Our Economist's estimate for Core Inflation is maintained at 1.4% for 2019.

- **Monetary Policy Forecast**: After tightening monetary policy at both of its semi-annual policy meeting last year, the MAS affirmed a pause in its policy normalisation process in April as growth eased and inflationary pressures remain mild. Its policy of a "slight appreciation bias" for the SGD NEER was maintained, with the slope of the SGD NEER policy band still assumed at 1.0% (house estimate). The pause came as the MAS turned more cautious given the uncertainties in the global environment, cautioning in its statement that "significant uncertainty remains over the short-term outlook". This was largely warranted, as trade tensions flared up shortly after in May. Notably, US also added Singapore to a monitoring list for currency manipulation in its US Treasury report end-May. This was largely a non-event in FX impact for the SGD, with the MAS coming out to clarify the role of the exchange rate as a monetary policy tool for Singapore.

- Our Taylor Rule estimates for the SGD NEER highlight that the SGD NEER could remain on a mild trajectory in 2H given current growth and inflation projections, although the extent of appreciation has come down significantly given the recent downward revisions in growth. Given increased downside risks to growth and continued benign inflation, there is an **increased likelihood that the MAS could ease at its next policy meeting in Oct,** compared to conditions three months ago. Given the forward-looking nature of the MAS decision, we think that the outcome could also be predicated in part on (i) 1-3 years' oil prices outlook and (ii) assessment of medium-term economic impact from regional supply chains restructuring, in the lead-up to Oct. For instance, more supported oil prices from production cut extensions, or smaller expected impact from supply-chain re-configurations down the road, could give the MAS pause in its policy considerations, even as it is worried about growth.

- As at writing, USDSGD is around 1.3560, and trades around 1.6% above the implied mid-point of 1.3782, with the top estimated at 1.3506 and the floor at 1.4057. The closeness of the S$ NEER to the upper bound of the band also implies some risk asymmetries with regards to S$ related trades. For instance, longing the USDSGD pair could be a useful hedge against potential re-emergence of trade tensions, or if regional growth concerns once again come to the fore.

- Despite a lower USDSGD, domestic interest rates have come off slightly from the highs in May. The 3-month SOR (3MSOR) and 3-month SIBOR (3MSIBOR) are at 1.81394% and 2.00167% respectively at the time of writing, lower than the 2.05224% and 2.00746% recorded at end-May. With Fed's dovish tilt in place (house view is for a 25 bps cut each in 2019 and 2020), rates could be lower going forward, although the extent of decline could be mitigated by increased expectations for policy easing by the MAS. Deposit rates (for 12-month fixed) was slightly higher at around 0.57% (last data point at end-Jun). The interest rate easing bias should help mitigate financial stability risks in interest-sensitive sectors (e.g., property) for now. We expect the 3MSOR and 3MSIBOR to decline to around 1.63% and 1.80% respectively by end-4Q 2019. For the end of this quarter, we are also pencilling the 3MSOR and 3MSIBOR to come in at 1.65% and 1.82% respectively.

- **Latest Fiscal and External Balance Outlook:** The FY2019 budget is modestly expansionary, with the primary deficit projected at SGD5.4bn (1.1% of GDP). Authorities estimate a fiscal impulse of around +0.7%, providing an appropriate boost to the economy given presence of external headwinds. This comes on the back of an increase in projected expenditure of SGD1.3bn to SGD80.3bn, and an increase in operating revenue of SGD1.2bn to SGD74.9bn. The overall deficit is pencilled to come in at SGD3.5bn (0.7% of GDP) due to the record-high special transfers of SGD15.3bn in the FY2019 budget (FY2018: SGD9bn).

- Delving into Budget FY2019, we see that various measures were specifically targeted at SMEs, with the intention of providing credible upgrading support to viable enterprises. The Productivity Solutions Grant extension, Automation Support Package and Industry Digital plans will encourage businesses to adopt automation and other tech-solutions to a greater extent in their operations, helping to achieve productivity improvements over the medium term. Concerns of skill gaps in various sectors also pushed the government to initiate Professional Conversion Programmes which will help support entry of mid-career professionals into new growth areas such as blockchain and software development. Co-investment programmes will see the government helping to catalyse private sector funding of SMEs that are ready to scale up. These measures aim to overcome medium-term challenges in capital and labour allocation for the economy, and should further backstop growth going forward.

- The current account (CA) surplus started 2019 on a positive note. The CA surplus widened to SGD20.3bn in 1Q 2019 from SGD18.0bn in 4Q 2018. As a percentage of GDP, the CA surplus rose to 16.4% in 1Q vs. 14.2% in 4Q. The larger CA surplus was due partly to an increase in the goods and services surplus of SGD30.7bn (from 4Q's SGD30.2bn) and the smaller outflow from both the primary (1Q: -SGD8.3bn vs. 4Q: -SGD9.9bn) and secondary (1Q: -SGD2.1bn vs. 4Q: -SGD2.4bn) accounts. Notably, the narrowing of the services deficit helped offset a smaller goods balance from weakening exports. Of some concern is the continued impact of the US-China trade tensions on Singapore's trade balance outlook. Latest Apr-May data for goods balance average around US$2.6bn monthly, significantly lower than the US$4.4bn over the same period last year.

- **Key domestic events and issues to watch**: Jun PMI (3 Jul); Jun Foreign Reserves (5-8 Jul); May Retail Sales (12 Jul); Jun Exports (17 Jul), Jun CPI (23 Jul); 2Q unemployment rate (26 to 31 Jul); Jun IP (26-31 Jul).

- **Technical Outlook**: USDSGD largely trended down for the month of June, after spiking to a 2019-high of 1.3837 end-May. Last seen at 1.3560. Daily momentum indicates a waning bearish bias, while stochastics shows a tentative rebound from oversold conditions. There are also signs of a bullish divergence when we compare the dip in the first week of June to the dip last week. Risks are modestly skewed to the upside. Nonetheless, previous 100 DMA support of 1.3600, which was a key support in early June, has turned resistance. Other resistances include 1.3650/60 (200 DMA, 50 DMA). Support at 1.3510 (Apr low), 1.3440 (2019 low).

MYR: US-Sino Trade & Tech Conflict to Weigh

Forecast	3Q 2019	4Q 2019	1Q 2020	2Q 2020
USDMYR	4.1300 (4.2000)	4.1200 (4.1700)	4.1000 (4.1700)	4.1000 (--)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** The MYR reached a low of 4.1240 on 1 Jul 2019 as the US dollar weakened following developments post G20 meeting between President Trump and Xi. We are looking for DXY strength to ease into year-end. For 2H 2019, we see regional central banks likely to still stay accommodative and regional exports may recover although threat from global trade underperformance has kept MYR soft. However, resumption of US-China trade talks including positive outcomes thus far on the tech war (Huawei related issues), signs of positive news from FTSE Russell in their Sep 2019 decision on Malaysia bonds in the WGBI, or further investment inflows into Malaysia and MYR-denominated assets could support the MYR. Market participants are also focusing on the upcoming Fed rate cuts even as the US-China trade truce helps to calm trade concerns. Expectations of Fed rate cuts are not expected to fall significantly despite the easing in global trade tensions as the Fed's target measure of inflation remains well below the 2% level. Nonetheless, the USD decline in 2019 will be mild as other major central banks are also likely to ease. We have generally revised the USDMYR lower to reflect the softness in USD amid latest developments and expect the USDMYR to remain around 4.13 in 3Q19 but to end the year at 4.12 to the USD, averaging 4.12 for 2019 (2018: 4.0435).

- MYR can also be supported by Brent crude oil price which may move higher to above $70/bbl. However, we expect oil and palm oil prices to remain range bound over the next few months and should have limited impact on the MYR. Fundamentally, we think the picture for risk assets including EM FX such as MYR remains quite bright if global growth sees some sustained green shoots amid extended easy monetary policy, provided markets and policymakers manage to navigate near-term risk events such as Brexit and US-China trade and tech wars.

- An open-ended truce for now takes away the immediate risk of a full-blown trade war. De-escalation of trade tensions (no new tariffs added) provides a breather for trade and commodity-linked FX including CNH, KRW, TWD and **MYR** but bear in mind there is still no trade deal. Going forward a sustained recovery for AXJs would still require material upticks in economic activity to supplement sentiment-driven rallies. While a Jul Fed cut has now been priced in, there will be questions if Fed could adopt wait-and-see approach. If US data over the coming days and weeks turn out better than expected amid trade truce environment, then there may be some risk that markets could position for the risk of Fed holding off a cut later this month. And this could see long positioning in USTs unwind forcing an abrupt move higher in yields and possibly the USD.

- External reserves fell by -USD1.1b to USD102.3b at end-May 2019 from USD103.4b in end-Apr 2019, mainly due to net portfolio capital outflows as foreign investors' risk sentiment turned negative in reaction to the reescalation of US-China trade tension. Latest figure is equivalent to 7.3 months of retained imports, 1.1 x total short-term external debts and 9.4% above the estimated minimum required reserves of USD93.5b under IMF's Assessing Reserve Adequacy (ARA) framework.

- Foreign investors net sold -MYR6.2b worth of Malaysian equities and bonds in May 2019, making this the second consecutive month of net selling after foreigners net sold -MYR11.2b in Apr 2019. Overall market reacted negatively to re-escalation in US-China trade war following stalled trade talks and the return of "tit-for-tat" tariff actions between US and China that put the prospect of a trade deal in limbo, made worse by the non-tariff actions such as exports restrictions as US-China trade tension broadened into tech war.

- In Jan-May 2019, foreigners cumulatively net sold -MYR4.8b of Malaysian equities and -MYR8.9b of Malaysian bonds. However bond market is mitigated by sizeable long-term holdings by "sticky" investors like foreign central banks, sovereign funds, pension funds and insurance companies (1Q 2019: 49.3%; 4Q 2018: 51.6%). The less "sticky" foreign investors like fund managers, banks and others make up the balance 50.7% (4Q 2018: 47.3%). By individual type of holders (Fig 9), asset managers remained the largest foreign holders of Malaysian bonds (1Q 2019: 40.3%; 4Q 2018: 38.1%), followed by central banks/governments (1Q 2019: 29.2%; 4Q 2018: 32.4%), pension funds (1Q 2019: 18.5%; 4Q 2018: 17.8%), banks (1Q 2019: 9.2%; 4Q 2018: 8.7%), foreign insurance companies (1Q 2019: 1.6%; 4Q 2018: 1.4%) and nominees/custodians and others (1Q 2019: 1.2%; 4Q 2018: 1.6%).

- **Growth and Inflation Outlook:** For Malaysia, our Economics team have trimmed 2019 real GDP growth forecast to +4.4% from +4.7% on trade tension overhang plus factoring in the actual +4.5% YoY growth in 1Q 2019. Apart from taking into account of the actual 1Q 2019 growth of 4.5% YoY, the revision mainly reflects the earlier mentioned US-China/global trade situation and the attendant risks.

- On the supply-side, the key factors for the downward revision in this year's economic growth are the cuts in growth projections for manufacturing (2019E: 4.0% from 4.8% previously; 1Q 2019: 4.2%) and construction (2019E: 1.0% from 4.0% previously; 1Q 2019: 0.3%). On the demand side, net external demand is now expected to expand by slower 4.0% vs 6.6% previously (1Q 2019: 10.9%) reflecting the downward revisions in the growth of exports (2019E: 0.5% from 2.0% previously; 1Q 2019: 0.1%) and imports (2019E: 0.1% from 1.4% previously; 1Q 2019: -1.4%) of goods and services. In addition, gross fixed capital formation is now expected to shrink -0.6% vs the previous forecast of 2.1% growth (1Q 2019: -3.5%) on slower private investment (2019E: 2.0% from 5.0% previously; 1Q 2019: 0.4%) and lower public investment (2019E: -6.5% from -4.8% previously; 1Q 2019: -13.2%).

- Mitigated by upward revisions in growth outlook for services, agriculture and consumption expenditure following better than expected 1Q 2019 performance. We raised growth forecasts for services (2019E: 6.2% from 6.0% previously; 1Q 2019: 6.4%), agriculture (2019E: 2.8% from 2.5% previously; 1Q 2019: 5.6%), private consumption (2019E: 7.0% from 6.5% previously; 1Q 2019: 7.6%) and public consumption (2019E: 4.0% from 1.5% previously; 1Q 2019: 6.3%).

- However, we remain constructive on the economy given the better-than-expected 1Q growth in consumer and Government spending as well as services; rebounds in agriculture and mining sectors; domestic stimulus via BNM's 25bps OPR cut -with room for more -as well as the revival of major infrastructure and development spending projects;

evidence of trade diversions and investment relocations; and fiscal consolidation that is on track.

- Inflation stays benign in May 2019 as it rose by +0.2% YoY (Apr 2019: +0.2% YoY) with the absence of significant upward pressure from transport prices and stable food & non-alcoholic beverages (FNAB) costs. With Jan-May 2019 headline inflation at -0.1%, we revised our 2019 and 2020 inflation forecasts to +1.0% (from +1.5%) and +2.1% (from +2.4%) respectively (2018: +1.0%). Expect inflation to rise gradually in 2H 2019, mainly on base effect.

- Despite Ramadhan and Aidilfitri celebration, Consumer Price Index (CPI) posted moderate rise of +0.2% YoY in May 2019 (Apr 2019: +0.2% YoY). The rise was mainly contributed by food & non-alcoholic beverages (FNAB) and housing, water, electricity, gas & other fuel (HWEGOF). On MoM basis, CPI was up +0.2% (Apr 2019: +0.0%). Meanwhile, core CPI rose +0.4% YoY (Apr 2019: +0.5% YoY; YTD 2019: +0.4% YoY; 2018: +0.8%). Consistent drop in clothing & footwear, transport, communication and miscellaneous goods & services prices continue to contain core inflation.

- No change in our view that headline inflation to stay benign with gradual pick-up in 2H 2019 mainly on base effect, but revised our 2019 and 2020 headline inflation forecasts to +1.0% and +2.1% respectively from +1.5% and +2.4% previously (2018: +1.0%). The revision reflects the -0.1% inflation in Jan-May 2019, delays in implementation of the targeted-andquota-based domestic fuel subsidies for the B40 households, and moderate global real GDP growth from the US-China trade tension and geopolitical issues, which in turn keeping commodity prices especially global crude oil prices in check.

- We continue to expect factors such as the broadening of the SST base; Budget 2019's new taxes e.g. Sugar Tax (postponed to 1 Jul 2019 from 1 Apr 2019), departure levy for all outbound air passengers (1 June 2019); hikes in minimum wage and utility costs; and the expected floatation of RON95 & diesel prices in 2H 2019 after the roll out of the targeted and quota-based fuel subsidy for B40 households to result in higher inflation in 2H 2019, in addition to the base effect.

- **Monetary Policy Forecast:** Our baseline expectation is for OPR to stay at 3.00% for the rest of 2019. However, we do not rule out another 25bps OPR cut if downside risk to growth from the trade tension persist and/or worsens, considering that the recent OPR cut was "event-driven" in reaction to the negative development on US-China trade situation. At the same time, we do not see BNM making any move until up to Sep 2019, pending announcement by FTSE Russell on Malaysia's status in the World Government Bond Index (WGBI).

- The room for monetary policy to be supportive of growth is also afforded by the benign inflation, which we now expect to average 1.0% in 2019 (Jan-May 2019: -0.1%; 2018: 1.0%) and 2.1% in 2020, revised from 1.5% and 2.4% previously. Domestically, 1Q 2019 real GDP growth slowed to +4.5% YoY (4Q 2018: +4.7% YoY). Maintain our 2019 growth forecasts of +4.7%, pending clarity on US-China trade situation, and in view of the stimulus to domestic demand following BNM's 25bps OPR cut and revival of major infrastructure and development spending projects.

- **Latest Fiscal and External Balance Outlook**: Aside from the headwinds from external uncertainties, businesses are also awaiting clarity on domestic policy changes post-GE14, particularly reviews of tax systems and 130 investment incentives under 32 approving authorities as stated in Budget 2019 Speech in 2 Nov 2019, which could be announced in Budget 2020 to be tabled on 11 Oct 2019.

- Fiscal consolidation on track via implementation of Budget 2019's revenues and expenditure measures. The Government aims to lower its budget deficit to MYR52.1b or 3.4% of GDP in 2019 vs MYR53.4 or 3.7% of GDP. Indicating fiscal consolidation is on track, as at Jan-May 2019, the budget deficit was MYR21.4b, down from MYR35.1b in Jan-May 2018 and 41% of the full-year 2019 target.

- Crude oil price's year-to-date average of USD66/bbl sits well within the Government's medium-term fiscal framework assumption of USD60-70/bbl that also underpins the target to lower budget deficit further to 3.0% of GDP in 2020 and 2.8% of GDP in 2021.

- **Key domestic events and issues to watch:** FX reserves (15 July); Industrial Production (12 July); CPI (24 July), Trade Balance (4 July), BNM Monetary Policy Statement (9 July).

- **Technical Outlook:** Our call (in last FX Monthly) for USDMYR to see some pullback towards 4.18, 4.15 panned out well for the month of Jun. Pair was last seen at 4.1385 levels. Bearish momentum on daily chart shows tentative signs of fading **while stochastics shows signs of turning from oversold conditions. We do not rule out some near term risk of rebound towards 4.1460 (38.2% fibo), 4.1580 (21, 50 DMAs) or even 4.1680 levels (23.6% fibo). But bias to lean against strength (if any).** Key support at 4.12 levels (100 DMA), 4.09 levels (76.4% fibo retracement of 2019 low to high).

IDR: Allure of High Yields Amid Declining Domestic Risks

Forecast	3Q 2019	4Q 2019	1Q 2020	2Q 2020
USDIDR	14000 (14500)	13950 (14200)	13900 (14200)	13850 (--)

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** IDR's sensitivity to CNY movements and to US-China trade conflict headlines of late has contributed to the currency's whipsawing over the last two months. In this sense, the modestly positive outcome of the G20 summit talks could provide a modest boost to the IDR in the interim. In addition, political risks are also deemed to have declined, with the Constitutional Court ruling effectively awarding Jokowi the election win and the mandate to continue with market-positive policies for Indonesia. Concomitantly, the broader backdrop of dovish Fed, ECB and regional central banks in a low-growth, low-inflation environment could potentially translate to greater interest in higher-yielding risk assets, and Indonesian bonds stand out as clear picks in the region, especially after S&P's recent upgrade of Indonesia's sovereign rating from BBB- to BBB.

- The USDIDR pair had seen a sharp dip around the end of May, alongside S&P's rating, as well as broad dollar softness on increasing likelihood of a more dovish Fed. The pair saw mild upward retracement in the first half of June, but news of a resumption in US-China trade talks (favouring IDR) and lower US Treasury yields (softer USD) had pushed it down towards the 14170-levels pre-G20. The IDR may potentially have some room to strengthen, if the positivity from the G20 summit talks (trade truce; resumption in trade negotiations; Huawei potentially given access to some US equipment again) is sustained.

- In particular, there could be renewed appetite for Asian bonds in a scenario where major central banks conduct policy easing, trade tensions eases somewhat and Asian growth remains soft but resilient. IDR could benefit in particular due to its attractive carry play allure, with current yields more than three times that of US Treasuries. While BI has signalled that rate cuts are on the table, Finance Minister Mulyani Indrawati had said that the central bank will "find the right timing" to adjust policy amid low and stable inflation. In its recent policy meeting, it had already added stimulus to the economy via easing reserve limits for banks. Without severe growth downsides looming, any upcoming rate cut would also likely be relatively modest in magnitude, compared to the six hikes last year.

- Fund flows into Indonesia in June had been relatively strong. As of 28 Jun, MTD flows into Indonesian equities and bonds were net positive at US$776mn and US$2.8bn respectively. In particular, the new inflows into Indonesian bonds had helped reverse the net bond outflows in Apr and May, with net bond flows for 2Q positive at around +US$1.4bn. While residual effects of the credit rating upgrade could fade, positive market sentiments post-G20 and the continued search for yield could help support sustained inflows into risk assets in Jul.

- The Constitutional Court ruling which rejected allegations of "systemic electoral fraud" by Prabowo and effectively awarded the presidential election win to Jowoki is also expected to be market-positive. Reports have surfaced indicating that there could be a further diffusion of political tensions, with Prabowo potentially weighing his options to form an accommodative truce with Jokowi, based on some sort of transactional exchange. With this latest turn of events, market attention should turn to the new cabinet make-up as well as potential policy recalibration.

- To this end, Jokowi's appointments for the key economic ministries, particularly Finance, will be closely watched. The re-appointment of Sri Mulyani to the Finance Ministry, or a more powerful role (e.g., Coordinating Minister for Economic Affairs) is highly anticipated, as she is highly respected for helping to reduce unnecessary government spending and trimming the fiscal deficit to below 2% of GDP. News of her re-appointment could hence be positive for the IDR as well. There are also expectations that Jokowi and his economic team will follow-through with further fiscal policies that will ensure not only economic growth but tame the twin deficits. The challenge for Jokowi now is to convince markets that he no longer has barriers to carry out reforms.

- The government has recently extended tax breaks to the luxury property segment as it has seen sluggish sales in the past five years. Tax on income from sales of luxury houses and condominiums priced at more than IDR30bn (US$2.1mn) or more was reduced to 1% from 5%. Value-added tax on mass-market housing has also been waived up to a certain value. Earlier announcements stated that Indonesia would intensify the use of biodiesel to reduce import of oil given its status as a net oil importer. Some of the other measures that are likely to be implemented in Jokowi's second term include further tax reforms (removing value-added tax on some service exports, revising corporate taxes for manufacturers, coal miners, etc.) and changes to the "Negative Investment List" to open up previously partly closed sectors to foreign ownership (e.g., university and vocational sector). These measures to bolster growth and curb current account deficit are positive for the IDR.

- Nonetheless, despite the host of factors supporting the IDR (i.e., weighing on USDIDR pair), there is still a modest upside risk for the USDIDR pair. This could come about on volatility in the midst of US-China trade talks, which has already seen multiple U-turns. In addition, Indonesia itself could potentially see the removal of its Generalized System of Preferences (GSP) privileges, as Indonesia's eligibility status is currently under review. Around US$2.1bn worth of Indonesian exports (1.2% of total exports) are covered under the GSP, including rubber tires, jewelry and chemicals.

- **Growth and Inflation Outlook:** After growth of 5.07%y/y in 1Q, BI expects 2Q growth to decline due to falling export performance. In particular, they see weak aggregate global demand and soft commodity prices as factors posing potential drags on growth. The slowdown in exports has also fed through somewhat to investment expectations, weighing on non-building investments in particular. Nonetheless, resilient consumption, on the back of positive public confidence, should help to mitigate external demand weaknesses. This is consistent with positive retail sales figures, up 9.0% y/y in May (vs. 6.7% y/y in Apr). The above-mentioned tax cuts and other pending stimulus measures should also help to anchor growth going forward. BI expects full-year growth for 2019 to come in below the mid-point of the 5.0-5.4% official growth range. This is in line with our Economists' estimate of 5.14%.

- Headline inflation came in slightly lower at 3.28% y/y for June (vs. 3.32% in May), largely due to lower transportation costs, which increased at a slower rate in June by 1.91% (vs. 3.58% in May). Ticketing prices for airplanes, trains and buses had softened after the end of the Ramadhan month. On the other hand, fresh food prices had increased 4.91% y/y (vs. 4.08% in May), driven by an increase in the price of beef and other vegetables. Despite a pending rate cut, effects of the previous 175bps rate hikes by BI should continue to cap price pressures. Without volatile energy prices, our Economists expect full-year inflation to be manageable and to come in within the central bank's 2.5% to 4.5% official range.

- **Monetary Policy Forecast:** Before the monetary policy announcement on 20th June, BI had said that the policy stance was "cautious neutral" and "data dependent". With inflation likely to remain firm on strong domestic consumption (albeit within the central bank's target range), we had anticipated that the reverse repo rate would be kept at 6.00% in June. This played out as expected, even as BI lowered the IDR reserve requirement for conventional and Islamic banks by 50bps to 6.0% and 4.5% respectively, effective 1 July 2019. This move is expected to add around 25 trillion rupiah of liquidity to markets. With the Fed likely to cut rates in Jul, we see BI being ready to act to address potential deterioration in external demand conditions as well. In particular, policy rate has been on hold since Dec 2018 following the six hikes totalling 175bps between May and Nov 2018. Our Economists expect the 7-day repo rate to be cut by a total of 50bps for the rest of this year, pencilling in 25bps reduction in July 2019 and Nov 2019 as the likely timing.

- **Latest Fiscal and External Balance Outlook:** The budget deficit for Indonesia came in at 0.79% of GDP for May due to external demand pressures. State revenue rose 6.2% y/y to IDR728.5trn in the Jan-May period, equivalent to 33.6% of budget. Taxation revenue was at IDR569.3trn, consisting of IDR496.6trn of tax and IDR72.7trn of customs and excise. State expenditure similarly increased by +9.8% y/y over the period to IDR855.9trn. Finance Minister Indrawati says that falling imports will be monitored to see if they have been replaced by domestic goods. For the year as a whole, the government will try to keep budget deficit as targeted at 1.84% of GDP, which should be sufficiently supportive of growth.

- External demand in May was weak with exports down -9.0%y/y (albeit less negative than expected -14.5%) and imports -17.7%y/y lower, resulting in a trade surplus of US$208mn, healthier than the US$1.4bn deficit expected by consensus. This was a sharp recovery from the -US$2.3bn deficit in Apr, but we note that the smaller export contraction could have been aided in part by some seasonal frontloading of exports ahead of the long holiday period during Moslem Festivities. Products-wise, the y/y exports fall was driven by the slump in the shipments of oil and gas (-31.8% y/y), mining and others (-14%), while agriculture exports rose by +2.6%. A moderation in global trade tensions post-G20 could potentially help arrest the negative momentum in trade outcomes going forward, but this could take some time to play out. Global trade and demand conditions will remain a key risk factor monitored by the Finance Ministry and BI.

- **Key domestic events and issues to watch**: Jun Foreign Reserves (5 Jul); Trade data (15 Jul); Monetary Policy Decision (18 Jul).

- **Technical Outlook:** 1M USDIDR NDF dipped past the 14200 level (76.4% Fibonacci retracement from Apr low to May high) again, and shows signs of heading towards the Apr low of 14040, alongside declined political risks and more positive mood on global trade policy. Momentum on the daily chart remains bearish (but waning), while stochastics are in near-oversold conditions. We think the cutting of the 100 DMA by the 21 DMA line to the downside could portend some bearish momentum for the pair in the interim. Next support at 14040 (Apr low), 13930 (2019 low). Resistance at 14200, 14260/90 (21 DMA, 100 DMA), 14370 (50 DMA).

PHP: Can Benefit From Fed Easing

Forecast	3Q 2019	4Q 2019	1Q 2020	2Q 2020
USDPHP	51.50 (52.00)	51.30 (51.90)	51.20 (51.90)	51.20 (--)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** We remain **broadly constructive on the outlook of PHP and added another factor - potential Fed easing in coming months - to further support our constructive bias on the PHP**. This comes on top of a long list of factors supporting PHP such as (1) receding political uncertainties as recent mid-term elections gave President Duterte a strong mandate to continue with his policies; (2) recent move by S&P to upgrade Philippines sovereign credit rating to BBB+ which is expected to be supportive of further foreign inflows; (3) BSP's RRR cut though may weaken the peso but is supportive of growth and activity; (4) PHP less vulnerable amongst AXJ FX if US-China trade tensions escalate; and (5) though Philippines suffers from current account deficit, the deficit-to-GDP ratio is improving and is not a top concern as deficit is investment-driven and have been funded by relatively healthy inflow from tourism, Business process outsourcing receipts and OFWR.

- We **lowered our USDPHP forecasts** In light of the above-mentioned factors and to take into account Fed possibly cutting rate soon (our house view now looks for 25bps rate cut in 2019 and 2020). Our recent study of historical FX beta and sensitivity to changes in key financial market variables show that **PHP typically outperforms in Fed easing environment**. In addition, in the environment of protracted trade talks between US and China, our study also shows that PHP sensitivity to CNH and MSCI AXJ equities is relatively lower (compared to ASEAN FX peers). This suggests that PHP is relatively more resilient than its AXJ peers if there is any escalation in trade tensions.

- **Upside Risks to Our FX forecast:** There are risks to our constructive outlook on the Peso, namely (1) if foreign inflows slowed then current account deficit outlook could be affected and this could expose PHP to downward pressure; (2) easing of monetary policies did not translate into any support for the economy and this could impact investor confidence; (3) Fed easing did not materialize. These factors could pose downward pressure on PHP.

- **Growth and Inflation Outlook:** Our Economist noted that Philippines' manufacturing activities improved in May 2019 as the Nikkei/Markit's manufacturing PMI rose to 51.2 (Apr 2019: 50.9), lifted by gains in new orders, with new export orders reporting the fastest pace in 12 months. This led to higher output for the month, which was also partially attributed to increased capacity of incoming new production facilities coupled with launches of new products. But outlook for domestic output and external trade remain cautious given the sharp fall in imports of 'Raw Materials and Intermediate Goods' (Apr 2019: -16.3% YoY; Mar 2019: +4.3% YoY) on declines in both 'Semi-Processed' goods (Apr 2019: -13.6% YoY; Mar 2019: +3.2% YoY; 93% of total raw materials imports) and 'Unprocessed' goods (Apr 2019: -40.7% YoY; Mar 2019: +18.1% YoY; 7% of total raw materials imports).

- Taking stock, 1Q growth decelerated to 5.6% y/y, down from +6.3% y/y in 4Q. The decline was due to a slowdown in government expenditure (owing to budget impasse which lasted till mid-Apr) and the consequential drag on private investment. Net export was another drag with exports slowing faster than the slowdown in imports. On the other hand, domestic demand held up well via a pick-up in consumer spending. Industry breakdown showed construction sector growth fell sharply while manufacturing and services growth improved.

- Our Economist revised 2019 growth forecast to +6%, down from 6.5%, owing to the budget impasse and persistent contraction in net exports. The budget impasse resulted in the Government applying re-enacted budget instead of new budgets. That has negative macroeconomic impact in terms of slowing aggregate demand, hence economic growth, which in turn worsened the budget balance growth. Nonetheless growth is expected to recover in 2H to the 6 – 6.5% range as budget 2019 has finally been signed into law on 15th Apr and the ban on government spending now gets out of the way post-elections. The official forecast for 2019 is at 6 – 7%.

- BSP **revised downward its 2019 and 2020 inflation rate forecasts** further to 2.7% from 2.9% and to 3.0% from 3.1% respectively. The lower forecasts are attributed to downward revisions in 2019 and 2020 average global crude oil price to USD64.56/bbl and USD61.35/bbl vs earlier projections of USD68.90/bbl and USD67.10/bbl. Our Economists maintain our 2019 and 2020 inflation rate forecasts of +3.0% and +2.8% respectively (2018: +5.2%) i.e. within BSP target of range of between +2.0% and +4.0%.

- **Inflation picked up pace to +3.2% y/y in May** (from +3.0% YoY in Apr), for the first time after 6 consecutive months of decline. Rise was due to food and non-alcoholic beverages as well as utilities.

- **Monetary Policy Forecast:** Our house view continues to look for another 25bps cut each in 3Q and 4Q 2019 to bring policy rate down to 4% this year.

- At the last BSP meeting (20 Jun), the central bank kept policy rate on a prudent hold at 4.5%, as expected to assess the impact of the recent -25bps policy rate cut in May 2019 and series of banks' RRR cuts in May-Jul 2019. Our Economist noted that The pause also allows BSP to assess developments of the US-China trade war as well as trends in quarterly GDP growth and inflation. Meanwhile Governor Diokno also said future rate cuts are "inevitable" but the timing would be "data-dependent and evidence-based." Accompanying MPS also acknowledged that while real sector activity moderated in 1Q 2019, overall domestic economic activity is likely to remain firm, supported by a projected recovery in household spending and the continued implementation of the government's infrastructure spending program.

- **Latest Fiscal and External Balance Outlook:** BoP position for period Jan - Apr saw a surplus of $4.27bn vs. deficit of $1.5bn in the same period last year. Strong performance of BoP can be attributed to remittance inflows from overseas Filipinos and net inflows of foreign portfolio investments in Jan-Feb.

- **Current account deficit remains at 2.4% of GDP** but IMF expects an improvement to 2.2% of GDP in 2019. Governor Diokno said he was "not at all worried about CAD especially if deficit is less than 3% of GDP as the composition of imports was for raw materials, equipments". He stressed that BoP position is manageable and provides resilience against external headwinds… external position is adequately supported by structural sources of FX inflow such as OFWR, IT/business-process outsourcing revenues and tourism receipts". His comments were also consistent with S&P's recent assessment - "the deficit is largely investment driven, and that this is a healthy development in light of its historical underinvestment".

- The S&P upgrade Philippines sovereign credit rating to BBB+ (30^{th} Apr). The rating agency cited strong economic growth trajectory, solid government fiscal accounts and sound external settings for its upgrade to the Philippines ratings. This should support investor sentiment and spur inflows into Philippine assets, supportive of the PHP.

- **Key domestic events and issues to watch:** Jun Mfg PMI (1 Jul); Jun CPI (5 Jul); May trade (10 Jul); May OFWR (15 Jul); Jun BoP (19 Jul).

- **Technical Outlook:** Our call (in the last FX Monthly) for USDPHP to drift lower towards 52, 51.50 support levels were more than met as the pair traded 51.17 (28 Jun). Pair was last seen at 51 levels. This sharp move lower has broken out of the bearish trend channel (formed since Dec-2018). Bearish momentum on weekly, daily chart remains intact. Bias to lean against strength remains but near term, we do not rule out some retracement to the upside given the sharp move. Resistance at 51.5 (61.8% fibo retracement of 2018 low to high), 52 levels (50% fibo). Support at 50.82 (76.4% fibo), 50-levels. And 49.70 (2018 low).

THB: A Tad Ahead of Fundamentals

Forecast	3Q 2019	4Q 2019	1Q 2020	2Q 2020
USDTHB	30.80 (32.00)	30.60 (31.80)	30.40 (31.80)	30.20 (--)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** The THB performed exceedingly well in June, strengthening by almost 3% versus the USD and outperforming most of its Asian peers. We think that this was partly due to its semi-safe haven status (as perceived by some market participants)—due in part to BoT's expected rate pause, Thailand's relatively healthy external balances, and overall economic growth expected to hold above 3%. To this end, the positivity coming out from the US-China talks over the past weekend may not impart as big of a boost to THB as other AxJs in the interim. Further, the BoT has announced that it is looking at measures to curb hot money flows, as THB's strength was starting to be a drag on exports and tourism receipts. This could potentially cap the strength of any interim rallies in THB, even as political rifts and other macro-concerns potentially come to the fore again in the months ahead. We hence look for a modest retracement in THB strength in 3Q, before a recovery in sentiments and growth fundamentals alongside easing trade tensions lead it on a more sustainable strengthening path towards year-end.

- The political environment is deemed to have improved somewhat in June, with the Junta-led coalition having managed to secure a majority in government, and Prayuth having been elected as PM, which could indicate the continuation of pro-growth policies. However, we think that both results belie the deeper rifts that exist in Thai politics. The Junta-led coalition only has a razor-thin majority, and Prayuth's "overwhelming" 500/744 win over Thanathorn (leader of third-place Future Forward Party) in the PM vote was largely due to the support of the Junta-chosen senate (250 votes)—every senator had voted for Prayuth aside from the Senate Speaker. Reports on the ground indicate doubts over the qualifications or capabilities of some members of the new cabinet, with Prayuth himself admitting that the line-up may be less than perfect, and insisting that reshuffles can happen later if candidates prove inadequate. To add to further confusion, the Constitutional Court recently accepted a petition against 32 lawmakers from the ruling coalition (on potential breaking of media shareholding rules). Any disqualifications could put the Junta-coalition's thin majority at risk.

- The wide schism in Thai politics does not seem like an issue that can be resolved quickly or easily. While the new government could be formed by mid-July, more in-fighting between the Junta-coalition and its opponents could dampen the effectiveness of the new government. Concomitantly, the Thai Chamber of Commerce Confidence Index fell for a third straight month to a 15-month low in May. We think the BoT's concerns on weaker economic fundamentals are very much valid. Prayuth and the Thai Commerce Ministry have reiterated the potential drag on Thai GDP and exports growth from the current US-China trade conflict, even as domestic demand eased and tourist arrivals declined in May.

- While there have been talks of potential diversions of US demand flows from China, this is not bearing out strongly in the weak trade data. Various reports have quoted the “true” (and maybe sole) beneficiary of the conflict to be Vietnam for now. Investment relocation flows (i.e., manufacturing FDI indicators) seem to tell a more positive story for Thailand, but this will take time to play out. Further, US’ current review of Thailand’s Generalized System of Preferences (GSP) status poses a further downside risk to growth, with the US citing market access for US porks and worker rights as reasons for the review. Up to US$4.3bn worth of goods (1.7% of exports) currently covered under GSP could be negatively impacted if GSP status is revoked.

- Meanwhile, portfolio inflows over the past month have created a headache for the BoT. June data shows net positive inflows of around US$1.5bn into Thai equities and US$2.3bn into Thai bonds. This could be due in part to Thailand’s pause in interest rate cuts (kept at 1.75%), even as the Fed, ECB and other central banks took on more dovish tones. The perceived decline in political instability post-elections also likely helped. The strong monetary inflows, and the resulting strength of the THB is particularly problematic for the economy at a time when exports and tourism are weak. To address this divergence in fundamentals and currency strength, BoT has been intervening in the FX market to curb THB strength. It has also explicitly said that it will be rolling out measures to curb speculative hot money flows. While details are scant for now, one possibility is for it to make adjustments with regards to how domestic financial institutions are allowed to interact with non-residents (e.g., tweak current limits in NRBA and NRBS balances held by non-residents with Thai Financial Institutions). These factors should help to cap the extent of any further upsides in THB.

- **Growth and Inflation Outlook:** The BoT recently lowered its GDP forecast to +3.3% in 2019 (from +3.8%), the third downward revision since end-2018. This is just slightly above our Economists’ forecast of +3.2%. Weaker expectations of goods & services exports growth (+0.3% vs. previous +3.1%) were cited as the main factor in BoT’s revision, amid US-China trade tensions and regional supply chain disruptions. A note of caution was also extended on tourist arrivals, as Chinese visitors continued to decline for the fourth straight month in May (-8.6%). Modest downward adjustments were also pencilled in for private investment (+3.8% from +4.4%) and public investment (+3.8% from +6.1%), with the latter confirming market expectations that there would be significant delays in the disbursement of Budget 2020 and postponement in some state investment.

- Headline inflation inched down to +0.9% in June (vs. +1.1% in May), mainly due to declining transportation & communication costs on the back of lower oil prices. Energy prices also fell by a steeper -3.9% (vs. -0.5% in May), registering the second month of decline. In contrast, food prices had picked up to a 4.5-year high of +3.1% (vs. +2.8% in

May), driven by vegetables and fruits, meat and rice. Core inflation (excluding raw food & energy) remained stable at +0.5%, on par with the previous month. The Commerce Ministry had lowered its 2019 headline forecast to +1% (from +1.2%) due to softer fuel prices and the strong THB. Our Economists expect headline inflation to come in at +1.1% for 2019.

- **Monetary Policy Forecast:** At its 26 Jun policy meeting, the BoT monetary policy committee had voted unanimously to keep the benchmark one-day repurchase rate steady at 1.75%, reiterating that the current policy rate was accommodative for continued growth and appropriate given the inflation target. This is the third unanimous vote, compared to the split vote in Feb (2 out of 6 members voted for hike). Expectations of softer economic growth this year, coupled with a decidedly more dovish Fed, could potentially lead the BoT to be more patient in its policy normalisation process. Our Economist expects the BoT to maintain its policy rate in 2019, and to resume its monetary policy normalization in 2020, in part due to financial stability risks (e.g., auto loans remain an area of concern).

- **Latest Fiscal and External Balance Outlook:** It has been three months since the general election took place on 24 Mar, and the new government is finally expected to be convened in mid-Jul. It now seems likely that the implementation of the FY2020 Budget could be delayed by 3-4 months, as the new coalition government looks to review the junta-set plan. The draft Budget bill is expected to be debated by the lower house in September in its first reading, with the second and third readings in December before it is forwarded to the senators for consideration. There have already been reports of possible postponement of 70-80 Bn THB (US$2.2 to 2.5 Bn) worth of state spending in 4Q. Any significant pushbacks in schedules in much-awaited mega projects such as the new mass transit lines in Bangkok and the Eastern Economic Corridor could further dent market confidence.

- The current account balance turned negative (-US$376mn) in May, following a +US$1.4bn surplus in Apr, due to the sharp decline in exports (-7.2% vs -3.1% in Apr) and tourism receipts (-1% vs. +3.9% in Apr). This was the first current account deficit recorded since Sep 2014, and occurred despite a modestly positive goods surplus. Weak tourism receipts (-1% vs. +3.9% in Apr) likely contributed to the negative reading, as visitor arrivals in May was weighed down by not just Chinese (-8.6%) but also European (-7.1%) and Russian tourists (-2.4%). Our Economists expect a narrowing of the current account surplus to 6.5% of GDP in 2019, from 6.9% previously. Despite the modestly healthy annual estimate, the negative headline figure in May could still raise some concerns over divergence of THB strength from fundamentals.

- **Key domestic events and issues to watch:** Jun Markit Thailand PMI Mfg (1 Jul); Jun CPI (1 Jul); Jun Customs Exports and Imports (22 Jul); BOP (31 Jul).

- **Technical Outlook:** A period of persistent bearish momentum led the USDTHB pair to decline by about -3% from end-May, with THB strength significantly exceeding our expectations. We note that bearish momentum on daily charts remains intact but shows signs of moderating. Stochastics are in oversold conditions. Risks are modestly skewed to the upside, with levels last seen at 30.65. Resistance at 31.07 (Feb low), 31.55 (100 DMA). We see 30.45 (76.4% Fibonacci retracement of the 2013-2015 rally) as the next support. If this support breaks, downward momentum could potentially bring the pair towards 30.0.

INR: Risk-on to Buoy

Forecast	3Q 2019	4Q 2019	1Q 2020	2Q 2020
USDINR	68.50 (69.50)	67.80 (69.00)	67.20 (68.50)	67.00 (--)

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** June has been a month of two-halves for the rupee with weakness seen at first before a full reversal in the past two weeks. Equity-related flows turned positive especially in the last week of June as investors started to place their bets on a more positive outcome from the Trump-Xi summit. Foreign investors bought $392.6mn of equity between 24-27 Jun, turning the net foreign flows positive for the month by a net $231.5mn. Foreign demand for bonds weakened on the other hand but 10y yields on the whole ended the month lower at round 6.88%, relative to where it had started, with demand for domestic bonds still underpinned by the central bank's easing bias.

- RBI lowered its repo rate and reverse repo rate by 25 bps, as expected but kept CRR steady at 4.00%. However, we still expect more liquidity to be provided at one point after the new framework that was put in place to shore up the liquidity buffers for non-banking financial companies (NBFCs).

- Eyes are on the upcoming budget on 5th Jul and post elections with quite substantial fiscal stimulus is expected. Our India Analyst Jigar Shah believes that fiscal stimulus should not be much in the 5 Jul budget as there is a need to provide capital for banks and broken NBF sectors. In addition, tax receipts have been short by INR830bn vs. its estimates while subsidies and other fiscal expenditures are likely to pressure the fiscal deficit target of 3.4% of GDP. There is thus, less room for the government to provide that fiscal stimulus.

- With RBI standing ready to ease further and a risk rally likely at the start of Jul, we anticipate that rupee could be boosted along with the rest of the regional peers. In addition, Fed's decision to ease as well as further broad USD weakness could also weigh on the USDINR pairing. That said, Russia's Putin and Saudi Mohammed Bin Salman have agreed to maintain current production cuts for the next 6-9months. There is some expectation for the delayed-OPEC meeting to have a similar conclusion and oil prices to remain underpinned by the decision. The idea of a trade truce is also growth positive and that is also likely to lift oil prices. We anticipate that oil could keep USDINR from heading much lower and keep USDINR at around 67.50.

- **Growth and Inflation Outlook:** Industrial production rebounded to 3.4%y/y in Apr from 0.4%y/ym buoyed by the manufacturing output that accelerated to 2.2%y/y from previous 0.1%. The breakdown shows broad-based improvement with consumer non-durables and primary goods showing outperformance of 1.7%y/y for Apr and 0.9% respectively.

- PMI-mfg actually improved for May at 52.7 vs. previous 51.8 which may suggest that the rate cuts since Feb have started to buoy manufacturing sentiment. India is also seen as a beneficiary of the trade diversion from China's manufacturing hub as a result of the trade war. Nonetheless, we do not expect a trade truce to be negative for INR. Rather, INR would benefit from a risk-on sentiment and as higher yielding currency of choice in a low volatility environment.

- INR could also be strengthened by the improvement in its current account deficit which narrowed to lowest at $4.6bn in Jan-Mar quarter which is just 0.7% of GDP. However, as consumption and investment pick up from lower interest rates along with elevated oil price, the current account deficit is thus unlikely to remain low for 2Q and beyond.

- Inflation rose a tad to 3.05%y/y vs. previous 2.99%. With inflation in the lower bound of 4% (+/-2%) target, RBI is able to switch its monetary policy stance to accommodative.

- **Monetary Policy Forecast:** Manufacturing output seems to be improving for Apr and we can expect stronger traction there since RBI delivered another 25bps cut in Jun. With policy rates already 75bps lower and some prospect for external demand to improve given the trade truce between the US and China, RBI may pause with interest rate action for Aug. Inflation outlook at this point might be less benign with the rainfall for the kharif crop stalled by a cyclone, exacerbating the rainfall for the kharif harvest after the delay in the monsoon. That is negative for agriculture output and may build the case for RBI to pause for fear of endangering its inflation target.

- Recall that RBI has issued a guideline that demands NBFCs to set aside a liquidity buffer by purchasing high-quality liquid assets. The new liquidity framework could begin next Apr. With a potential of greater liquidity demand from NBFCs as they prepare for the start of the new framework that takes effect in a year, RBI may want to lower cash requirement reserve and increase the size of their OMOs to support liquidity. We anticipate CRR to be lowered by 25bps to 3.75% in August instead.

- **Latest Fiscal and External Balance Outlook:** As of last available data, India's current account deficit narrowed to $4.6bn for 4Q FY18-19.

- **Key domestic events and issues to watch:** PMI-mfg on 1st Jul; India's FY20 budget presentation; Jun CPI and May IP on the 12th; WPI and trade data on 15th .

- **Technical Analyses:** The 1M USDINR NDF hovers within around 69.30, close to where this pair had ended in May. The trade truce between the US and China pushed this pair towards the 68.80 support before making a sharp rebound thereafter. This pair seems to have made a probable double bottom. Bias is to the upside for now with resistance seen around 69.65 (21-dma), before the next at 69.90. Support at 68.80/68.60.

VND: Bias To the Upside

Forecast	3Q 2019	4Q 2019	1Q 2020	2Q 2020
USDVND	23200 (23200)	23100 (23200)	23000 (23000)	22900 (--)

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** The Trump-Xi meeting over the weekend has concluded with a mildly positive outcome. Even though there is no deal yet, the outcome is positive enough for risk assets to rally and USDCNH to turn. That should also lead the USDVND lower. We look for USDVND to now head towards 23200 in 3Q and then 23100 at the end of the year. Growth outlook for Vietnam is rather robust and we see downside bias for the USDVND into the end of the year where we look for a trade deal between the US and China to give the VND another boost.

- In an environment of USD weakness, VND's competitiveness against its trading partner improved in Jun. Our estimate of the VND trade weighted index (TWI) slipped to 63.85 end of Jun vs. 64.2 vs. end May as most of its trading partners appreciated more against the USD (including the RMB) compared to the VND.

- **Growth and Inflation Outlook:** Growth beat expectations with a print of 6.71%y/y for 2Q from 6.79%, supported by the services, construction and industry sectors. More frequently released industrial production slowed a tad to 9.6%y/y in Jun from previous 10.0%, as output slowed a tad in manufacturing, electricity and water supply. The manufacturing sector seems to have an outsized share of foreign direct investment with inflows into the sector up 66%y/y for the first half of the year, while total FDI is actually down 9%y/y over the same period. The strong FDI inflows into the manufacturing sector could continue to support growth. Trade diversion continues to support demand for Vietnam's exports and our Vietnam Economist also highlighted that demand stems mainly from US, China, Japan.

- As indicated by our Vietnam economist, lower food, transport and housing inflation reduced inflation to the lowest reading in 38 months.

Headline inflation was at 2.6%y/y for the first half of the year and the forecast for inflation is now lowered to 2.9% from 3% previously. We expect price pressure to rise in the next half of the year as Vietnam continues to cope with the Africa Swine Flu by culling pigs.

- Retail sales remained steady at around 11.5%y/y for the first five months of the year vs. 11.9%y/y seen in Jan-Apr .Tourism actually picked up pace to 13.3%y/y for the first half of the year vs. previous 12.4%y/y (Jan-May). That could continue to support the services industry.
- Our economic team maintains their full year GDP forecast at +6.8% for 2019 on robust manufacturing performance, positive export growth and rising FDI along with buoyant private consumption.
- **Monetary Policy Forecast:** With growth outlook still intact and inflation subdued, there seems to be little motivation for SBV to use its monetary policy tools at this point. As for the VND, we see upside risks to the currency as Vietnam continues to benefit from manufacturing and trade diversion flows and FDI that resulted from the US-China trade conflicts. VND could stand to strengthen further from a stronger demand out of China as China is likely to increase monetary stimulus to support growth momentum and that could in turn increase the demand for Vietnam's exports. We still expect FDI inflows to continue because of the trade agreement/diversions and that could cushion the effects of the decline in external demand. Sustained imports growth and retail sales suggest that household consumption could also support growth.
- In terms of TWI, the VND weakened in Jun as the currency tends to move less than its regional peers because of its relatively closed capital account and managed exchange rate policy. So in an environment of USD pullback, VND recovered less than its regional peers, resulting in a weakened VND vs. its trading partners. Strong foreign direct investment cushion the VND from excessive weakness.
- **Latest Fiscal and External Balance Outlook:** As of last available data, current account surplus was at U$1.24bn in 2Q. Net trade surplus of goods slipped to U$3.0bn from previous U$5.2bn. The competitive dong could keep the current account in surplus Slower growth momentum could mean a deterioration on the trade front and we expect the current account surplus to be eroded. That would underscore the need for VND to remain competitive and our view that VND could lag in its recovery against the USD compared to regional peers.
- **Key Domestic Events and Issues to Watch:** PMI-mfg on 3rd Jun; domestic vehicle sales in 6th-13th; CPI, trade numbers, retail sales and IP are due 25th-30th Jun.

FX Forecasts

	End Q3-19	End Q4-19	End Q1-20	End Q2-20
USD/JPY	108	108	110	109
EUR/USD	1.14	1.145	1.15	1.15
GBP/USD	1.27	1.27	1.28	1.29
AUD/USD	0.72	0.73	0.74	0.74
NZD/USD	0.68	0.68	0.7	0.7
USD/SGD	1.36	1.365	1.360	1.36
USD/MYR	4.13	4.12	4.10	4.10
USD/IDR	14000	13950	13900	13850
USD/THB	30.80	30.60	30.40	30.20
USD/PHP	51.5	51.3	51.2	51.2
USD/CNY	6.80	6.78	6.75	6.72
USD/HKD	7.8	7.8	7.8	7.8
USD/TWD	30.9	30.6	30.5	30.4
USD/KRW	1150	1145	1140	1135
USD/INR	68.50	67.80	67.20	67.00
USD/VND	23200	23100	23000	22900
DXY Index	96.16	95.85	95.67	95.32
SGD Crosses	End Q3-19	End Q4-19	End Q1-20	End Q2-20
SGD/MYR	3.0368	3.0183	3.0147	3.0147
SGD/IDR	10294	10220	10221	10184
SGD/THB	22.6	22.4	22.4	22.2
SGD/PHP	37.87	37.58	37.65	37.65
SGD/CNY	5.00	4.97	4.96	4.94
SGD/HKD	5.74	5.71	5.74	5.74
SGD/TWD	22.72	22.42	22.43	22.35
SGD/KRW	846	839	838	835
SGD/INR	50.37	49.67	49.41	49.26
MYR Crosses	End Q3-19	End Q4-19	End Q1-20	End Q2-20
EUR/MYR	4.71	4.72	4.72	4.72
JPY/MYR	3.82	3.81	3.73	3.76
MYR/HKD	1.89	1.89	1.90	1.90
MYR/CNY	1.65	1.65	1.65	1.64
GBP/MYR	5.25	5.23	5.25	5.29
AUD/MYR	2.97	3.01	3.03	3.03
NZD/MYR	2.81	2.80	2.87	2.87
MYR/IDR	3390	3386	3390	3378
MYR/INR	16.59	16.46	16.39	16.34
MYR/KRW	278.45	277.91	278.05	276.83
MYR/PHP	12.47	12.45	12.49	12.49
CNY/MYR	0.6074	0.6077	0.6074	0.6101

Source: Maybank FX Research as of 2 Jul 2019.
*These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.

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