Maybank

Macro | FX Research & Strategy

Global

FX Monthly

2022, Issue 8: Stuck Between Tightening Pressures and Growth Fears

What Has Changed This Month?

- We adjusted most FX softer versus dollar after Powell managed to out-hawk market expectations in his Jackson Hole comments. Forecasts for AUD and IDR are kept unchanged, given support from still resilient trade surpluses.

Our Strategies

- Broad risk sentiments appear cautious post key central banks' commitment to prioritise fighting inflation over growth at Jackson Hole event last week. In particular, Fed sounds more willing for restrictive conditions to remain around for longer to ensure sufficient demand destruction in bringing price pressures lower. A dovish pivot from the Fed remains distant for now, and may only be more possible towards the turn of the year when US growth jitters emerge more strongly and price pressures have grinded sufficiently lower. Messaging out of Jackson Hole could be supportive of a longer period of elevated dollar levels. Still, recent news of Europe meeting gas storage targets earlier than expected and similarly hawkish ECB speaks appear to be backstopping the EUR and constraining extent of broader dollar up-moves near-term.
- Meanwhile, yuan has rapidly priced in growth risk right after the surprise policy rate cuts and Jul activity that showed broad weakness in the economy. The recent step-up in covid measures for areas around Beijing in preparation of the Party Congress on 16 Oct could risk stifling growth further while the property sector has yet to see a material turnaround. PBoC has started to slow yuan depreciation in earnest by fixing the USDCNY reference rates significantly stronger than market estimates for six consecutive days (as of 31 Aug). Barring a technical pullback of the USDCNH which could provide some breather for regional peers, we still continue to maintain a cautious bias on the yuan.
- Insofar that a China slowdown triggers concerns over weakening external demand, AxJ FX sentiments could also see spillovers near-term, but the magnitude of drags could be more contained versus prior episodes of yuan softening. While positive co-movements between yuan and AxJ FX remain intact, we noticed that sensitivity magnitudes had moderated in 1H versus that seen in the past few years. More idiosyncratic trends in growth, monetary policy, domestic politics etc. could have helped temper the extent of sentiment linkages.

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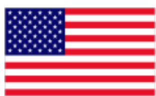
Top 3 Currency Plays for Sep

Top 3 Currency Plays for Sep
Sell USDJPY Rallies
Long SGDCNH on Dips
Long AUDCAD

Key Events for the Month Ahead

Date	Event
5 Sep	OPEC Meeting
5 Sep	UK PM (Tory Leader) Announced
25 Sep	Italy General Election

G7 Global Overview



USD: A Fed Pivot Remains Distant

Forecast	3Q 2022	4Q 2022	1Q 2023	2Q 2023
USD Index	109.92 (105.17)	108.50 (103.72)	107.27 (102.42)	105.28 (100.76)

Previous Forecasts in Parentheses

- **Motivation**: Last week, FOMC Chair Powell managed to out-hawk market expectations by flagging that the inflation fight would require the Fed to use its tools "forcefully" and bring pain to households and businesses. Drawing lessons from the past with specific mention of the 1970s (Volckerera), he noted that "a failure to restore price stability would mean far greater pain" and that has conveyed a message of utmost priority to getting inflation down at the cost of economic growth. The UST 2Y10Y yield inversion deepened and UST 2Y yield remains elevated >3.4%. Fed Fund futures now suggest that peak rate is anticipated to be higher and rate cut expectations are pushed to the later part of 2023. The DXY index reached a high of 109.47 on 29 Aug, last printed 108.69.

- We are likely to see USD swings continue over the next few months as the USD is likely to remain supported on the back of the protracted Russia-Ukraine geopolitical situation and tighter Fed policy move concerns around data releases. The global growth concerns intensifying and continued frictions in the inflation dynamics working its way through the global economy suggest that markets may be mired in a risk-based cautious view based on the global economic backdrop. These factors are likely to lead to USD support and delay any further sharp USD retracement towards end of the year. Nonetheless, signs of slowdown in the US economy and any signs of an eventual earlier than expected easing by the Fed, an improvement in the geopolitical space and positive developments out of China, coupled with reopening globally can quickly allow for some space for cyclical FX to intermittently strengthen relative to USD.

- For the remainder of the year, USD remains a function of Fed nuances, domestic data as well as global growth outlook (especially for Europe and China). An increasingly sluggish Europe, at risk of a recession due to its energy crisis (notwithstanding signs of adequate natural gas storage for Winter) could continue to pressure the EUR and GBP, inevitably lending support to the greenback.

- Amongst ASEAN FX, Fed's current hawkish monetary policy divergence may marginalize some ASEAN FX, including MYR whose monetary policy may be perceived to still be relatively accommodative. On the other

hand, SGD could find solace from a still somewhat hawkish MAS with first mover advantage in the region.

- To sum up, near-term (coming 3-6 months) risks remain skewed to the upside for broad USD. We revise our forecasts for EUR, GBP, JPY slightly weaker and some regional currencies to reflect the latest domestic and market developments.

- Global growth could see downside risks in 2H & global inflation momentum could start to peak, even as any easing in headline readings should be a slow grind. US recession risks could lead policymakers to eventually be more careful in calibrating rate hike pace towards the end of 2022, in its attempt to engineer soft growth landing. UST yields remains elevated but should eventually moderate. Current DXY strength could be more tied to haven demand, and extent of rally could be constrained, even as DXY looks to remain in elevated ranges near-term. We remain long USD in the next 3-6 months or so but factor in the risk of a slight moderation in USD as we approach 2023 as inflation momentum may start to ease albeit at still high levels by end 2022.

- **Growth and Inflation Outlook:** US real GDP growth was revised up to -0.6% in 2Q vs -0.7% consensus driven by firmer consumption growth. Gross domestic income rose 1.4% annualized following +1.8% in Q1 and is now 4% higher than GDP, providing additional evidence that the economy did not enter recession in the first half of the year.

- Jul core CPI rose by 0.31% m/m, below consensus expectations of 0.5%. Drops in airfares and used car prices contributed to the slowdown. Shelter inflation also saw a sequentially slower but still elevated pace. Headline CPI was relatively with the yoy rate falling to 8.5% on lower gasoline prices from 9.06% previously (consensus: 8.7%).

- Nonfarm payrolls rose 528k in Jul, more than double expectations expected by consensus at 250k. Further details from the report were strong with 28k of positive revisions, a 611k gain in the household survey, and a decline in the unemployment rate to the lowest level over the past 50 yrs. The tight labour market continues to suggest the demand side support in the economy remains strong and will continue to push inflation higher. Markets expect another >100bps of Fed funds rate increase over the next three meetings, with risks skewed towards earlier or larger increases.

- **Monetary Policy Forecast:** The FOMC raised the fed funds rate target range by 75bps to 2.25%-2.5% on 28 Jul, in line with consensus expectations. The FOMC statement's policy outlook was unchanged from the June statement. No voters dissented in the July decision compared to the June session. The statement's characterization of economic growth was downgraded slightly, acknowledging that "recent indicators of spending and production have softened." However, the rest of the economy was unchanged, with job gains "have been robust in recent months" and that inflation "remains elevated."

- The press conference with Powell, seems quite dovish as Powell reiterated the June dot plot and highlighted that the 75bp hikes thus far are "unusually large" and that it will likely become appropriate to slow the pace as policy tightens. Powell also shared that the full impact

of rate hikes has not been fully transmitted into the economy yet. Most importantly, he also highlighted that the FOMC would react to upcoming data on growth, labor market, and inflation compared to the focus on inflation previously.

- The June FOMC median dot in the Summary of Economic Projections (SEP)—which might be slightly outdated given 3Q developments in CPI and Fed tones—shows a funds rate midpoint of 3.375% at end-2022, up from the 1.875% rate projected at the Mar meeting - which correspond to a 75bp hike at the July meeting, 50bp at Sep, 25bp at Nov, and 25bp at Dec meetings. Sixteen out of eighteen participants projected a funds rate above the median longer-run dot in 2024, with the longer-run median edging back up to 2.5% (vs. 2.375% in March).

- **Key domestic events and issues to watch in Sep:** ISM Manuf (1 Sep); NFP (2 Sep); Factory orders, durable goods orders (2 & 27 Sep); Trade Balance (7 Sep); CPI (13 Sep); FOMC (22 Sep); GDP (29 Sep); PCE deflator (30 Sep).

- **Technical Outlook:** On the daily chart for the DXY index, support is seen at 108.20 before 107.40. Resistance still at 109.30 (2022-high). This would be closely watched as the interim double top remains intact. Beyond that, next resistance is seen at 110.90. Bullish momentum shows signs of moderating, while RSI is near overbought conditions. On net, the failure to make a clean break soon could skew risks to the downside in the near-term.

EUR: Energy Crisis To Continue to Weigh

Forecast	3Q 2022	4Q 2022	1Q 2023	2Q 2023
EURUSD	**0.9800** (1.0350)	**0.9900** (1.0500)	**1.0000** (1.0600)	**1.0200** (1.0800)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** Notwithstanding some bullish retracements, we retain a cautious bias on the EURUSD, as Europe's energy crisis continues to threaten its economy. A hawkish ECB may only provide marginal and intermittent support as recession risks loom. Russia's latest move to recruit more troops suggest that the war could drag on while Ukraine continues to receive supplies of US and European weapons for counterattacks. Sanctions would have to be enforced and Europe would soon have to halt all oil shipments from Russia by the end of the year.

- EURUSD has fallen to >20 year low as energy prices continue to rise. What is keeping EURUSD from plunging further below the parity is adequate gas storage for this winter. European nations' gas storages are

on track to reach their targeted storage level of 80% by 1 Nov with gas storage levels surpassing 70% at the start of Aug. Germany in particular, aims for the 95% level. Thus far, European nations have achieved this by powering up their coal power plants as well as importing more LNG. Even if the most pressing issue of gas-adequacy during winter is addressed (subject to winter conditions), energy supply remains uncertain into Spring when gas storage has been drawn down in winter. In the meantime, Europe faces competing demand from North Asians (Japan and South Korea) which propelled natural gas prices to record high, above EUR300/mwh at last sight, raising inflation. Key Nordstream pipeline is also set to shut for 3 days of maintenance from 31 Aug and this time, Russia may halt supply completely.

- The latest ECB Minutes suggest that the last 50bps hike was driven by uprise risks to inflation and given the recent surge in energy and electricity prices, there is a good chance of a back-to-back 50bps hike in Sep and Oct. OIS seems to have priced this in. The creation of the Transmission Protection Instrument (TPI) has provided ECB with the confidence and a certain degree of credibility to hike rates but we reckon this confidence may not sustain. The use of the TPI is subject to the “full discretion of the Governing Council”. Details of the 4 criteria namely (1) compliance with the EU fiscal framework; (2) absence of severe macroeconomix imbalances; (3) fiscal sustainability; (4) sound and sustainable macroeconomic policies are still scant and that could mean significant hurdles for any country to qualify for TPI. So while ECB still maintains credibility to hike rates from a low base, this confidence may fizzle out before long. In addition, demand destruction from sky high electricity prices may be significant enough for ECB to stop hiking rates altogether.

- **Italy Snap Election on 25 Sep.** The right wing coalition led by Brothers of Italy (and also consisting League, Forza Italia) have retained a strong lead (47.2% support on polls as of 23 Aug). The coalition is almost certain to win the snap elections on 25 Sep ever since the center-left coalition (29.6%) led by the Democratic Alliance broke up in early Aug. Meanwhile, polls indicate >10% support for the Five Star Movement. While Brothers of Italy Meloni had pledged to remain within the EU and support Ukraine’s efforts against Russia, the BTP-Bund spread widened to around 250bps more recently as the snap election nears. This risk event could still be another undermining factor for the EUR in Sep.

- **Taken together, increasing challenging economic situation (notwithstanding plausibly adequate gas storage for winter), lingering political risk in Italy and potential hurdles for decisive monetary action could continue to weigh on EUR in the near term. Further Upside Risks to EUR if** (1) war in Ukraine shows signs of abating; (2) ECB catches up on policy normalisation (i.e. +75bps hike); (3) EU growth momentum though may be impacted but not derailed.

- **Growth and Inflation Outlook: ECB lowered growth projection for 2022 to 2.1%, down from 2.8% previously while maintaining earlier projection of 2.1% growth for 2023.** Lagarde indicated that a prolongation of the war in Ukraine remains a source of significant downside risk to growth, especially if energy supplies from Russia were to be disrupted to such an extent that it led to rationing for firms and

households. In a more recent interview with Madame Figaro, she warned that rising climate disasters would have "repurcussions on prices, insurance premiums and on the financial sectors". With respect to the inflation outlook, she lamented that projections from their models had to be revised repeatedly over the past two years and can no longer be relied on.

- Preliminary PMI prints for Aug were not as dire as anticipated with Germany's manufacturing PMI even surprising to the upside with an unexpected improvement to 49.8 vs. previous 49.3. Eurozone Mfg slipped to 49.7 vs. previous 49.8 while services fell a tad more than expected to 50.2 from previous 50.2. That said, the recent surge in electricity prices could mean that the eventual final PMI prints could be revised lower. Energy prices remain elevated (with Dutch natural gas last ?EUR300/mwh) and can continue to sap demand. ZEW survey expectations are down -54.9 vs. previous -51.1.

- **Headline CPI rose to another record high of 8.9% y/y in Jul, up from 8.6% in Jun.** Core inflation (excluding energy, food, alcohol and tobacco) steadied at 4.0%. The ECB's preferred measure of core inflation picked up pace to 5.3%y/y from previous 4.8%. Key contributors to the headline are still energy at 5.4%y/y (vs. prev. 4.9%) as well as **food, tobacco and alcohol at 9.8%y/y (vs. prev. 8.9%).** Overall, we still expect ECB to play catch-up in normalizing policies especially if inflation proves to stay elevated for longer. This may only be marginally positive for EUR. ECB projected inflation at 6.8% and 3.5% in 2022 and 2023, respectively with assumption of average oil price of $105.8/bbl and $93.4/bbl for 2022 and 2023, respectively.

- **Monetary Policy Forecast: A 50bps rate hike on Sep is now seen as a given based on OIS** and after the rather hawkish rhetoric from a number of ECB speakers at Jackson, risks to the size of the rate hike are now skewed to the upside. As of 26 Aug, markets are pricing in slightly more than 50bps rate increase at Sep meeting and for cumulative 100bps hike for remaining 3 meetings in Sep and Oct. Chatters of a 75bps hike have gathered momentum for Sep. ECB Holzmann specifically mentioned that 75bps "should be part of debate in Sep". Knot also preferred large hikes and suggested to hike rates at every meeting until inflation is back to the 2%-target. Meanwhile, some ECB officials also want discussion on quantitative tightening in 2022. EURUSD can expect to receive some support as attention is drawn towards the increasingly hawkish ECB ahead of its policy decision on 8 Sep but gains may be short-lived and crimped by hawkish Fed speaks. ***In addition, consensus might not be reached yet for larger hikes.***

- At the last Governing Council meeting (21 Jul), ECB raised rates by 50bps for deposit rate, Main Refinancing Operation (MRO) and marginal lending facility. So these rate now stand at 0%, 0.5% and 0.75%, respectively. This is the first interest rate increase in 11 years for the ECB and the magnitude of hike was larger than earlier flagged by ECB (+25bps) though we noted that markets were split between 25bps and 50bps hike. At the press conference, Lagarde said that that an updated assessment of inflation risks and ECB's approval of the new anti-fragmentation policy tool (Transmission Protection instrument or TPI) had led to the decision to double the pace of hike. She also painted a

gloomy outlook owing to growth slowing, war in Ukraine being a drag on growth, higher cost of living as a result of high inflation while business face supply chain disruptions and higher costs. But ECB's mandate is about price stability, so raising rates to combat inflation takes priority especially when "price pressure is spreading across more and more sectors". Inflation is still expected to remain "undesirably high for some time", due to higher food, energy prices as well as wage increases. Looking on, ECB did not provide forward guidance on future rate increases, saying only that further increases will be as appropriate and decisions will be made meeting-by-meeting. On the new tool – TPI, it will allow ECB to counter disorderly moves in government bond markets (in the 1y to 10y space) if it believes the bonds of these Euro-area nations are experiencing unwarranted disorderly market dynamics that pose a risk to ECB effectively delivering on its price stability mandate. ECB also indicated that purchases of private sector securities could be considered if appropriate. Activating this instrument will be entirely at the discretion of ECB. Purchases would be terminated upon durable improvement in transmission or based on assessment that persistent tensions are due to country fundamentals.

- **Latest Fiscal and External Balance Outlook**: Euro-area current account posted a deficit of EUR4bn in May, similar to Apr's deficit. Deficits were mainly for secondary income and goods balance. In the 12 months to May 2022, the current account recorded a surplus of EUR138 billion (1.1% of euro area GDP), compared with a surplus of EUR352 billion (3.0% of euro area GDP) in the 12 months to May 2021.

- **Key domestic events and issues to watch:** Aug mfg PMI, unemployment rate (1 Sep); Jul PPI (2 Sep); Aug services PMI, Sep Sentix investor confidence, Jul retail sales (5 Sep); 2Q GDP, employment final (7 Sep); ECB policy decision (8 Sep); ZEW Sep survey (13 Sep); Aug IP (14 Sep); Jul trade (15 Sep); Jul construction output (19 Sep); P. Sep Consumer confidence (22 Sep); Sep prelim. Mfg, Services PMI (23 Sep); Sep CPI estimate (30 Sep).

- **Technical Outlook:** EURUSD remains within the falling trend channel that has formed since the start of this year. MACD forest has formed a bullish divergence and stochastics show signs of rising from oversold conditions. This pair may be able to have some headroom to rise and test the 1.01-resistance before the next at 1.0190 (50-dma). Support at 0.9910 before the next at 0.9830.

GBP: Political Risks Compound Growth Drags Near-term

Forecast	3Q 2022	4Q 2022	1Q 2023	2Q 2023
GBPUSD	**1.1600** (1.2200)	**1.1800** (1.2300)	**1.2000** (1.2400)	**1.2200** (1.2600)

Previous Forecasts in Parenthesis

- **Motivation for the FX View**: Bounce in GBP towards late Jul was not sustained and the cable largely traded lower in Aug. GBP continues to be weighed by buoyant dollar, political uncertainty and energy crisis concerns. Current frontrunner for PM role Liz Truss' (results due 5 Sep) support for tax cuts may be supportive for near-term growth (GBP-positive) but her hard stance on EU risks triggering EU-UK trade war (GBP-negative). Other areas of contention include her earlier calls for review of BoE mandate, as well as a potentially tougher stance on engaging Beijing. Energy crisis is also becoming an incrementally critical concern, with the government's latest "reasonable worst case scenario" including a plan for organized blackouts for industry and households in Jan 2023. Sentiments are expected to lean cautious in the interim, but potential improvement in the geopolitical space, coupled with reopening globally (drivers of growth) could allow GBP to intermittently strengthen relative to USD towards the turn of the year, especially if some broader softening in dollar materializes as US growth jitters become more discernible.

- **GBP short still a stagflation proxy trade**. While oil prices are on net lower in Aug vs. Jul, global inflationary pressures are likely to only grind lower over time, and stagflationary concerns are could remain intact near-term. More recently, key PMI readings and activity indicators out of major economies also confirm a broader slowdown in economic activity. BoE's dire economic projection that UK growth will stagnate into 2024, alongside double-digit inflation makes a strong case for stagflation in UK and underscores the appeal of short-GBP as a stagflation proxy trade, adding to interim GBP drags.

- **Truss as PM implies heightened volatility for GBP.** It's down to former Chancellor Rishi Sunak or Foreign secretary Liz Truss as next UK PM after 160,000 Conservative party members vote. Result should be announced by 5 Sep. Sunak is perceived as a "policy continuity" candidate while Truss is seen to embrace Brexit, from her recent hard stance against EU (took the lead to scrap parts of Brexit deal arrangement with Northern Ireland). Her manifesto also highlighted a series of tax cuts (in areas such as national insurance, planned corporate tax increase, "environmental levies" from energy bills). On net, she holds the stance that tax reductions should be positive for supply-side conditions in the economy. A Truss leadership could hence boost near-term growth outlook, but it would likely also imply further price pressures and a potentially more hawkish BoE. On the other hand, a Sunak government would likely mean slow growth while corporates will be subjected to the corporate tax hike (25% in 2023, up from 19%) he imposed when he was Chancellor. As such we envisage higher volatility (more 2-way trades) for GBP in the event Truss is elected PM. **Her manifesto may be supportive for near-term growth (GBP-positive) but her hard stance on EU risks triggering EU-UK trade war (GBP-negative).** Other areas of contention include her earlier calls for review of BoE mandate, as well as a potentially tougher stance on engaging Beijing. There is a chance that China might be defined as a national security threat under her watch, which could likely lead to renewed tensions.

- **EU-UK squabbles still a concern**. EU launched 4 new legal procedures against UK (22 Jul) after UK lower house cleared a bill to unilaterally

scrap parts of brexit deal arrangement with Northern Ireland. Further legal squabbles are expected with EU aiming to protect its single market from British violations of the NI protocol. Risks of escalations in tensions leading to a trade war should not be ruled out. Elsewhere First Minister Nicola Sturgeon told members of the Scottish Parliament (MSPs) earlier that her government wants to stage a second Scottish independence referendum on 19 Oct 2023. She has asked the supreme court to rule on the legality of holding a new referendum without Westminster's permission. It is believed that the court will rule it unlawful (likely by Oct) without Westminster giving it the powers to do so under section 50 of the Scotland Act. Play-up of multiple political risks can undermine GBP.

- **Energy crisis is becoming an incrementally critical concern**. The government's latest "reasonable worst case scenario" includes a plan for organized blackouts for industry and households in Jan 2023. According to unknown sources cited by Bloomberg, this scenario (not the base case) assumes (1) below-average temperatures, (2) reduced electricity imports from Norway and France, (3) emergency coal plants activated. The ensuing shortfall in electricity capacity could be about sixth of peak demand and UK may need to invoke emergency measures for four days in Jan. There are concerns that in more extreme circumstances (i.e., no moderation in energy prices from recent elevated levels), inflation may be pushed to near-20% levels next year, which would reinforce perceptions of short-GBP as a stagflation trade.

- **Growth and Inflation Outlook:** 2Q (P) GDP came in at 2.9%y/y, slightly higher versus expected 2.8%. In sequential terms, this is a slight sequential contraction (-0.1%q/q) versus the modest gain (+0.8%q/q) in the prior quarter. Monthly indicators suggest a broader slowdown in various activity categories, including in services, manufacturing and construction. **Risks of UK entering recession by year-end remains significant**.

- On higher-frequency indicators, we note that UK construction PMI fell to 48.9 from previous 52.6. The RICS House price balance fell to 63% for Jul from previous 65% (suggesting slightly bigger proportion of respondents reporting fall in price vs. a rise compared to Jun). The housing market survey showed a drop in sales expectations (-20 vs. prev. -11) as well as tepid new buyer enquiries (-25). Retail sales ex auto fuel fell -3.0%y/y for Jul vs. previous -6.2% (revised lower). Sequentially, retail sales picked up pace to 0.4%m/m from previous 0.2%, possibly supported by the recent disbursement of the cost-of-living payment in mid-Jul. This does not negate recent surveys that show increasing concerns expressed by consumers about rising inflation and the risk of recession.

- Another stronger CPI print for Jul had also notably weighed on cable during its release. CPI quickened to 10.1%y/y (first double-digit in >40yrs) from previous 9.4% on the back of accelerating food inflation. Core inflation also beat expectations to rise to 6.2%y/y vs. previous 5.8%.

- **Monetary Policy Forecast:** BoE raised the policy rate by +50bps to 1.75% on 4 Aug, in line with expectations. The central bank dished out grim forecasts of a recession in 4Q that will extend into 2023. Inflation is

expected to peak above 13% this year and remain elevated thereafter. Governor Bailey promised "all options" are on the table for future meetings and pledged to "act forcefully".

- As of 30 Aug, markets look for the key rate to be raised by an accumulative 260bps to around 4.3% by Aug 2023 from current rate of 1.75%. Former BoE official Andrew Sentence said that policy makers have "fallen behind the curve". **Despite growth risks, avoiding inflation expectation spirals likely takes priority and we expect at least another +50bps hike from BoE on 15 Sep.**

- **Fiscal and External Balance Update:** Public sector net borrowing was GBP4.9bn in Jul, versus revised GBP20.1bn in Jun, but we note typical seasonal weakness in the month. Public sector net debt, excluding public sector banks and BoE, totalled GBP2.07tn or 82.8% of GDP, about 1.7%-pt lower versus Jul 2021.

- Meanwhile, 1Q current account deficit widened sharply to GBP51.7bn, from deficit of GBP7.3bn in 4Q. On a seasonally adjusted basis, this represents a deficit of 4.2% of GDP, the largest shortfall since 2019. Goods deficit widened sharply while primary income turned into deficit. ONS did caution that there is more uncertainty than usual due to impact post-Brexit in how data for goods imported and FDI are being collected.

- On 26th May, **former Chancellor** Sunak unveiled a set of support measures as part of a GBP15bn package targeted at alleviating rising costs. Millions of households will receive GBP400 discount on their energy bills, a one-off GBP650 payment for 8mn of the worst-off households, a one-off GBP300 payment for 8mn pensioner households and GBP150 each to 6mn disabled people. A 25% windfall tax was imposed on profits of oil and gas (O&G) companies, but with a 90% tax relief for firms that invest in O&G extraction in the UK. The 25% windfall tax was expected to raise around GBP5bn revenue to finance the latest set of measures. Sunak said that the latest measures will have minimal impact on inflation as measures are targeted and partially funded by raising new money.

- In their contest for PM role, both Liz Truss and Sunak have signalled intention for extra cash support to households, although details on funding approach are lacking. Truss has also objected to new windfall taxes on energy companies. A combination of tax cuts and objection to new revenue streams could weigh on the fiscal deficit if Truss becomes PM.

- **Key domestic events and issues to watch:** Aug Nationwide House PX (1 Sep); Aug F PMI Mfg (1 Sep); Services PMI (5 Sep); Construction PMI (6 Sep); Jul Industrial production, monthly GDP, construction output, trade (12 Sep); Jul labor market report (13 Sep); Jul CPI, PPI (14 Sep); Aug Retail sales (16 Sep); Aug Public finances (21 Sep); Sep P PMIs (23 Sep), 2Q F GDP (30 Sep).

- **Technical Outlook:** GBP largely trended lower in Aug. Last at 1.1660 levels. Momentum on daily chart is bearish while RSI has reached oversold conditions. Down-moves could slow, but pair notably remains within a falling trend channel. Resistance at 1.1890 before the next at 1.2020 (50-DMA), 1.2170. Support remains at 1.1640 and focus is increasingly on the 2020 low of 1.1412.

AUD: Still Cushioned by Resource Demand, Hawkish RBA

Forecast	3Q 2022	4Q 2022	1Q 2023	2Q 2023
AUDUSD	0.7000 (--)	0.7000 (--)	0.7100 (--)	0.7200 (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** We retain a cautiously optimistic view on the antipode and look for AUDUSD to remain around the 0.70-figure (with possibilities of undershoot) for much of the next few months. China's property malaise have driven a steep price correction for base metals such as iron ore but officials there have stepped up on measures - PBoC rate cuts, special loans for stalled projects which lifted the metal prices and the AUD more recently. Iron ore and copper prices could still remain susceptible to swings but may see some interim support as China acts with more urgency to keep growth from sliding further. Meanwhile, exports of LNG, coal and other resources could contribute to Australia's trade surpluses, a cushion for the AUD to counter risk-off swings amid recession fears. However, eyes on potential export curbs on natural gases next year for domestic needs.

- At the last meeting, the RBA hiked cash target rate by 50bps to 1.85% and pledged to "take further steps in the process of normalizing monetary conditions" even though it is not on a "pre-set path". Economic projections were refreshed with growth downgraded to 3¼% for 2022 from previous forecast of 4¼%. Growth of 1¾% is now seen for 2023 instead of 2%. CPI is projected to rise to 7¾% by the end of this year from previous projection of 6.1% while the trimmed mean measure was also upgraded to 6% from previous 4 ¾% and may only return to 3% in 2024. Along with expectation for inflation to rise, cash futures also imply another 200bps hike by the RBA expected over the next 1 year and that could lift the cash target rate slightly above the projected Fed Fund target rate on the same horizon. The AU-US 10y yield differential maintains a premium of around 50bps and could continue to keep the AUDUSD supported.

- **Growth and Inflation Outlook:** Retail sales (ex inflation) rose 1.4%m/m in 2Q, quickening from previous 1.0% but this strong momentum is unlikely to sustain given other leading indicators such as the the preliminary Aug services PMI which slipped to 49.6 vs. previous 50.9. Business activity was reported to be dampened by rising inflation and interest rates. Most of the leading indicators paint the same picture including the 9th consecutive month of decline in consumer confidence index to 81.2 for Aug.

- The fall in consumer confidence could be due to a negative wealth effect from falling home prices. The median city values continue to fall based on data from CoreLogic, down -1.4%m/m in Jul. Price falls seem to have accelerated into 3Q.

- Labour market showed signs of softening with a fall of -40.9K if net employment for Jul vs. previous 88.4K. Unemployment rate fell to 3.4% from previous 3.5% but only because of the drop in labour force participation rate to 66.4% from previous 66.8%. Wage price index for 2Q undershot expctations with a modest acceleration to 2.6%y/y from previous 2.4%. Sequentially, wage growth steadied at 0.7%. Meanwhile, consumer inflation expectation slowed a tad to 5.9%y/y in Aug from 6.3% previously.

- Trade surplus rose to a record high of A$17.7bn and we can continue to expect demand for key Australian resource exports to continue to maintain a trade surplus for the country, especially if China's infrastructure projects and other growth measures manage to lift activity there.

- **Monetary Policy Forecast:** RBA raised cash target rate by 50bps to 1.85% from 1.35% in Aug. Within the statement, the RBA pledged to "take further steps in the process of normalizing monetary conditions" even though it is not on a "pre-set path". Economic projections were refreshed with growth downgraded to 3¼% for 2022 from previous forecast of 4¼%. Growth of 1¾% is now seen for 2023 instead of 2%. CPI is projected to rise to 7¾% by the end of this year from previous projection of 6.1% while the trimmed mean measure was also upgraded to 6% from previous 4 ¾% and may only return to 3% in 2024.

- Focus on the day of decision was on the growth downgrades and RBA's emphasis that rate trajectory is not on a pre-set path and while tightening will continue, the pace and magnitude of hikes depend on data. This puts RBA rather in sync with the Fed. Along with the expectation for inflation to rise, cash futures also imply another 200bps hike by the RBA expected over the next 1 year and that could lift the cash target rate slightly above the projected Fed Fund target rate on the same horizon. The AU-US 10y yield differential maintains a premium of around 50bps and could continue to keep the AUDUSD supported against sentiment-driven swings.

- **Latest External Balance Outlook:** As of last available data, current account surplus was recorded at 2.9% of GDP for 1Q 2022, narrowing from the previous 3.53%. Current account balance fell to A$7.5bn from A$4635b on narrower goods and services surplus (from previous $A29.1bn to $28.2bn) and wider primary income deficits.

- **Fiscal Outlook:** Treasurer Jim Chalmers delivered a ministerial statement on budget on 29 Jul, downgrading the economic growth forecast for FY2022 (ending Jun) to 3.75% from previous estimate of 4.25% (made by the former government). A slight deceleration is expected to 3% for FY2023 and then to 2% for FY2024. Inflation is expected to peak at 7.75% by Dec before moderating to 5.5% by Jun 2023. The downgrades in forecast are made due to inflation and rising interest rates that could weigh on the property market and household spending. A full set of fiscal forecasts would be presented in Oct.

- **Key domestic events and issues to watch:** Aug CoreLogic House, Aug Mfg PMI, 2Q CAPEX, Jul home loans (1 Sep); Services, Composite PMI, M-I inflation, Aud ANZ job advertisements (5 Sep); 2Q BoP current account, RBA policy decision (6 Sep); 2Q GDP, Aug foreign reserves (7

Sep); Jul trade (8 Sep); Aug CBA household spending, Sep Westpac consumer confidence, Aug NAB business survey (13 Sep); Sep consumer inflation expectation, Aug labour report (15 Sep); Minutes of the Sep policy meeting on 20 Sep; Aug Westpac leading index (21 Sep); flash Sep PMIs (23 Sep); Aug retail sales (28 Sep); Aug job vacancies (29 Sep); Aug private sector credit (30 Sep).

- **Technical Analysis:** AUDUSD hovered around 0.6870, pressed against the support around 0.6830. Stochastics indicate oversold condition and we think risks in the near-term could be skewed to the upside in the near-term. Resistance at 0.6957 (21-dma) before the next at 0.7010 (100-dma).

NZD: Unwinding Some of Global Growth Scares

Forecast	3Q 2022	4Q 2022	1Q 2023	2Q 2023
NZDUSD	**0.6200** (0.6400)	**0.6300** (0.6500)	**0.6500** (0.6600)	**0.6500** (0.6600)

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** NZD gave up early Aug gains and languished at levels around 0.6150 by the end of the month. Hawkish postures by central banks (Fed, ECB, BoC, etc), elevated inflation weighed on market sentiment, not helped the least by a grim outlook for China's economy. New Zealand's surging oil import bill has also widened its trade deficit and contributed to drags on the NZD. In the near-term, any news of US cutting China tariffs would be positive to risk sentiment. In addition, a hawkish RBNZ walking its talk should also be supportive of NZD. We still maintain a mild upward trajectory profile for NZD into 2023. The case for a more durable Kiwi rebound would however require global growth to pick up momentum, China to stand-down on their zero covid policy and see a reopening of their borders and economy.

- **Lead Hawk RBNZ Can Shore Up Support for NZD.** RBNZ is expected to continue raising rates in clips of 50bps for 2 more meetings this year at the Oct and Nov meetings. At the last meeting, household spending was noted to be resilient in spite of low consumer confidence and high inflation. The central bank was concerned that the "very tight labour market is adding to the high inflation" and there is a need for interest rates to be raised further to "return inflation back to target and employment to its maximum *sustainable* level". Thereafter, Governor Orr said "central banks may need to push toward zero growth' and "very low consumption" needed. Deputy Govenor Hawkesby also flagged that cash rate could be as high as 4.25%. A follow-through on tightening action could continue to support the NZD.

- **Downside Risks to NZD Outlook**: (1) War in Ukraine futher escalates into biochemical/ broaden to involve more countries or last longer may

hamper global economic momentum and that will have negative spillover effects on NZ. (2) further slowdown in China growth (hard landing risks), or further weakening in CNH can also weigh on NZD, given its high sensitivity to global growth and China. (3) RBNZ fails to live up to hawkish guidance will be a drag on NZD (unwinding risk); (4) Much faster shifts in Fed's pace of policy tightening will weigh on sentiment and narrow NZD's yield advantage. On net, global growth concerns, inflation worries and fears of tighter monetary conditions may keep risk appetite on a leash.

- **Growth and Inflation Outlook: We do not expect a technical recession in 2Q as economy gradually normalises** post-omicron wave and the reopening of borders in Apr, May should boost tourism and support growth. Beyond the 2Q, **tourism inflows continues to surge but we caution that discretionary spending could start to slow as external demand weakens.** The performance service index remained in expansionary territory but saw a drop to 51.2 vs. 54.7 prior.

- Meanwhile, Aug Mfg PMI improved to 52.7 from previous 50.0, for Jul fell to 51.2 from previous 54.7. The breakdown was mixed with production seeing an improvement to 49.0 from previous 48.0. Employment also improved to 52.6 from previous 51.3 . New orders rebounded back into positive territory to 50.5 from previous 47.9. Deliveries slipped into contractionary territory at 49.4 vs. previous 51.6 due to ongoing supply chain disruptions.

- RBNZ 2Y inflation expectation eased to 3.07% for 3Q from previous 3.29% based on the quarterly survey of business expectations released by the central bank – the first time it has declined since Jun 2020. 1Y inflation expectation also moderated to 4.86% from previous 4.88% in the quarter prior. This could be the first encouraging sign of inflation pressure abating but it could be too soon to call yet when it comes to monetary policy trajectory. Food prices picked up apce to 2.1%m/m for Jul from previous 1.2%.

- As of last available data, headline CPI surged to fresh 32-year high of 7.3% in 2Q, up from 6.9% in 1Q. The main contributor was housing, including the rising prices for construction and rentals while transport was the next biggest contributor to CPI (owing to prices of fuel). This is the 5th quarter in a row that headline CPI breached above RBNZ's 1% - 3 target band. Potentially, we opined that inflation may have peaked but price pressures can continue to stay elevated amid supply chain disruption and tight labor market. RBNZ expects inflation to fall to 4.4% in 2023, 2.5% in 2024 and 2% in 2025.

- **Monetary Policy Forecast:** We expect RBNZ to maintain its pace of raising rate by another 50bps to bring OCR to 3.50% at the next MPC on 5 Oct. Key focus of RBNZ is to ensure that current high CPI (2Q at record 32y high of 7.3%) does not become embedded into longer-term inflation expectations. Markets' implied still see another 2* 50bps hike fully priced for upcoming MPCs for remainder of the year in Oct and Nov (as of 31 Aug). All in, markets are looking for another 138bps hike to bring OCR to ~3.9% by end-year. Peak rate as priced by markets is at 4.3% in Aug-2023.

- RBNZ hiked by +50bps to 3.00% as expected, maintaining pace for a fifth straight meeting, and in effect leading the global pack in policy normalization. It assesses that the OCR could hit 3.69% by end-2022 before peaking around 4.1% in 2Q next year (higher than prior forecast). This compares to markets' expectations for rate to peak around 3.94% in Apr next year. Post RBNZ decision though, this has shifted closer to the central bank's new outlook—i.e., peak at +4.2% in May next year. Adjustments in expectations for peak rate likely provided some support to NZD.

- **External Balance and Fiscal Outlook: NZ current account deficit narrowed to NZ$6.1bn in 1Q, from NZ$7.3bn in 4Q 2021.** Higher imports bill, driven by large energy bills could continue to weigh on the external balance. Trade balance has slipped into deficit for Jun and Jul.

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

- In the annual budget (19 May), the government **unveiled a package of measures worth NZ$1bn targeted to help low and middle household cope with rising inflation**. 2.1mio people (those earning led than $70k per year) will receive a weekly payout of NZ$27/week for 3 months from 1 Aug while reduction in fuel duties (25c/litre) to offset rising petrol prices will be extended by 2 months, alongside hald-price public transport. Budget deficit is projected to widen to NZ$6.63bn for coming year (vs. NZ$831mio projected in Dec) and is not expected to return to surplus until sometime in 2025. The stimulus measures are targeted instead of broad-based and is temporary, hence is not likely to add to inflation pressures but to help targeted group of people cope with the surge in living costs

- **Key domestic events and issues to watch:** CoreLogic House Prices (1 Sep); 2Q Terms of trade (2 Sep); ANZ Aug Commodity Price (5 Sep); Aug REINZ house sales (12-14 Sep); Aug food prices (13 Sep); 2Q current account balance (14 Sep); 2Q GDP ()15 Sep); Aug businessNZ manufacturing PMI (16 Sep); Westpac consumer confidence (19-23 Sep); Aug trade (22 Sep); ANZ activity outlook for Sep (29 Sep); ANZ consumer confidence (30 Sep).

- **Technical Outlook:** Technical signals are mixed for the NZDUSD. On one hand, there is a falling trend channel that portends further weakness for the pair. On the other, stochastics on the daily and weekly chart suggest that this pair could susceptible to short squeezes amid stretched conditions. MACD is neutral in terms of directional bias. Support at 0.6102 before the next at 0.5940. Resistance at 0.6240.

CAD: Maintaining Relative Resilience

Forecast	3Q 2022	4Q 2022	1Q 2023	2Q 2023
USDCAD	**1.3000** (1.2700)	**1.2950** (1.2600)	**1.2900** (1.2500)	**1.2850** (1.2500)

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** USDCAD may continue to remain supported on dips as BoC's pledge to frontload rate hikes are likely to be matched by the Fed. As major central banks tighten monetary policy rapidly, global growth start to show more discernible signs of slowdown (trade data/PMI numbers). Fears of recession could continue to provide intermittent support to the safe haven USD and weigh on the risk sensitive-CAD. That said, CAD has only depreciated -3%ytd against the USD (as of 29 Aug), underscoring its resilience compared to the 14.4% gain of the DXY index over the same period. CAD has been buffered by BoC's aggressive rate hikes and oil-related terms of trade boost. So on a trade-weighted perspective, CAD can continue to outperform other non-USD FX over the next few months.

- **Growth and Inflation Outlook:** Canada continues to experience tight labour market conditions with jobless rate steadying at 4.9% for Aug even as the nation recorded a net drop of 30.6K of employment due to the fall in labour force participation rate to 64.7% (from previous 64.9%). Hourly wage rate slipped to 5.4%y/y from previous 5.6%. While this is a slight moderation in wage growth, it is hard to tell if there could be further softening as recent business survey suggest that hiring sentiment still remains strong. According to the CFIB, business barometer rose to 53.5 from previous 52.7 (a +0.8% improvement). More firms are expecting to increases staffing (+20.3 vs. previous 14.8).

- Inflation headline softened to 7.6%y/y in Jul from 8.1% in Jun. Energy detracted the most from the headline as the component had dropped -5.4%m/m vs. previous 3.9%. Ex-food and energy, the CPI measure is still a tad higher at 0.6%m/m vs. previous 0.4%. Overall, the inflation report was interpreted to be mixed.

- Retail sales for Jun slowed less than expected to 1.1%m/m from 2.2% previously. Ex-auto, retail sales also slowed to 0.8%m/m from previous 1.9%. Broadly, consumer spending seems to have pared in light of elevated inflation/rising interest rates and we continue to expect further weakness for the Jul and Aug prints as the impact of the recent rate hikes work its way into the economy.

- **Monetary Policy Forecast:** BoC took overnight rate by a stunning 100bps to 2½% on 13 Jul, doubling its tightening pace from its 50bps hike on 1Jun. Bank rate was raised to 2¾% and deposit rate at 2½%. The central bank wanted to frontload the tightening process so as to achieve a soft landing and was concerned that inflation at around 8% risk unanchoring inflation expectations. In addition, the economy is in extreme tight capacity with notable shortages of workers, goods and services. And so, the BoC wants to assure a route of short-term pain

(higher cost of living + greater interest rate burden from rate hikes) in exchange for a longer term gain of sustainable price stability. After the aggressive frontloaded hikes, policy rate is brought to 2.5% within the long-run neutral range estimated to be between 2-3%.

- Bets on more aggressive hikes picked up pace (again) after the release of the firmer-than-expected Jul core CPI at 5.0%y/y (vs. previous 4.9%). Governor Macklem also published an opinion piece on 17 Aug warning that inflation might remain "too high for some time" and "we need to bring overall demand in the economy into better balance with supply". In addition, retail sales and CFIB business barometer indicate that private consumption and hiring intentions are still rather resilient. OIS now implies a decent probability of another 100bps hike on 9 Sep.
- **We think there is a slight risk for BoC to slow its tightening pace and raise overnight rate by a 75bps hike (vs. previous 100bps) given the slowdown in headline CPI and some signs of softening in labour market conditions.** Headline CPI had eased tad to 7.6%y/y in Jul from previous 8.1%. Net employment dropped -30.6K in Aug, after a net -43.2K decline was recorded in Jul. Recall that BoC 2Q business outlook showed some moderation in demand. The balance of opinion on futures sales optimism deteriorated further to -26.0 in 2Q from -11.0 (-a positive reading of future sales optimism indicates an expected rise in rate of future sales growth). S**oftening labour market, consumer sentiment and housing activity, BoC is likely to shift from frontloading-mode to a more calibrated approach with a hike of 75bps on 7Sep.**
- **Latest External Balance Outlook:** As of last available data, Canada's current account balance was at a surplus of C$4.6 for 1Q22, widening from the previous U$0.8bn surplus. Firm commodity prices continue to bode well for the external balance of net-energy exporters such as Canada.
- In terms of the fiscal, recall that deficit for FY2021/22 came in at C$114bn , better than projected C$145bn seen in Dec. Finance Minister Chrystia Freeland's budget delivered on 8 Apr was mostly focused on fiscal consolidation and prudence. She gave a projection of $31mn in net new spending over the next five years that pales in comparison to allocations in previous budgets. The budget was focused on innovation and productivity Canada Growth Fund which is a $15bn investment vehicle to incentivize businesses to embrace change and adapt to changing usiness landscape. FY2022/23 budget targets a deficit fo 2% of GDP and to narrow further into outer years. Debt to GDP ratio to fall to 41.5% by FY2026-27 from 46.5% FY2021-2022.
- **Key domestic events and issues to watch:** Jul Mfg PMI (4 Aug); Jul labour report (5 Aug); Jun Mfg Sales (15 Aug); Jul housing starts, Jul CPI (16 Aug); raw materials price index (18 Aug); Jun retail sales (19 Aug); Aug CFIB business barometer (25 Aug); 2Q current account (30 Aug); Jun GDP (31 Aug).
- **Technical Analysis:** USDCAD was last seen around 1.3110. This pair is still bullish in momentum and the next resistance is seen around 1.3120 before the next at 1.3220. Support at 1.2950 and then at 1.2920.

JPY: Fed-BoJ Divergence Back in Focus

Forecast	3Q 2022	4Q 2022	1Q 2023	2Q 2023
USDJPY	138 (135)	134 (132)	132 (128)	128 (125)

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** USDJPY saw more two-way swings in early Aug but headed decisively higher in late Aug as Fed stuck to hawkish tones and markets pared back bets on the possibility of near-term dovish tilts. Against this macro backdrop, new US activity/CPI releases are likely to induce two-way swings in dollar, UST yields and USDJPY. Pair may remain in elevated ranges in the interim, potentially even testing psychological threshold of 140. We see more scope for a stronger downward bias in USDJPY towards the turn of the year or into 2023, particularly if US growth jitters become more discernible in the coming months, and global inflation starts to grind lower, providing Fed a tad more wriggle room to tilt dovish in tones. Meanwhile, slightly softer oil prices in 2H (vs. 1H) and a gradual return of tourists to Japan on reopening measures could help ease earlier current account drags, providing further support to JPY into 2023. Downward pressures on USDJPY could increase if we see a broadening of price pressures in Japan over the next few quarters, leading BoJ to reconsider its ultra-accommodative stance.

- **Fed stance and UST-JGB yield differentials are likely to remain as key drivers of the USDJPY pair**. 2Y UST-JGB yield differentials remain wide at around +350bps on 30 Aug, back to levels last seen in 2007. Going forward, front-loading of Fed rate hikes could keep UST yields (and USDJPY) in buoyant ranges, but upsides could be somewhat constrained. In particular, as we head towards year-end, some corners of the markets might revive bets that Fed might have to tilt dovish next year if US growth risks escalate. In particular, US price indicators are showing tentative signs of grinding lower, alongside softer energy prices in 3Q.

- Still, ongoing normalization in US interest rates, while the BoJ remains committed to an easing stance, could help sustain relative demand for overseas investments (e.g., US treasuries). Demand from pension funds such as GPIF as well as private sector entities could be in play. **Such outflows could offset the support that JPY conventionally receives from an expected current account surplus**—consensus estimates see current account coming in at 1.5% of GDP in 2022 (versus 2.8% in 2021). **This could mean that USDJPY could remain in elevated ranges for some time versus pre-Covid range of 105 to 115, even as risk could be skewed to the downside for the pair (versus current spot levels) into 2023.**

- Admittedly, over the course of 1H 2022, Japan's energy importer status also likely meant drags on JPY on hit to current account balances amid elevated commodity prices. But there are tentative signs that this burden could be easing, albeit modestly. Brent has declined from US$124/bbl in early Jun to US$100 at last seen. While some support could emerge on risks of OPEC+ supply cuts, we also note potential return of Iran supply if talks with US conclude on a positive note. Upside risks to energy prices should be more manageable on (i) mounting concerns over softening global aggregate demand, (ii) signs of interest in Russian oil from parts of Asia, including China, India. On net, **oil price shifts could act as an amplifier for USDJPY moves—elevated oil import burdens could be supportive of USDJPY near-term, while easing in oil import burden into 2023 could help nudge USDJPY lower then.**

- On politics, we note that in the Jul upper house elections, LDP and its junior coalition partner Komeito won 76 seats, above the 56 needed to retain majority and the 69 needed to increase their size in the body. **Markets could have taken the results to reflect resilient public support for recent government policies, including ultra-accommodative central bank stances**. This could help moderate the extent of domestic pressures on BoJ to tilt hawkish, and any such move will likely be data-dependent; i.e., requiring more sustained demand-side price pressures, improving growth momentum. Subsequently in Aug, a cabinet reshuffle took place, but key figures such as Finance Minister Shunichi Suzuki will retain their posts, and larger policy shocks are expected to be unlikely.

- **Growth and Inflation Outlook:** 2Q (P) GDP came in at 2.2% q/q SA annualized, versus expected 2.6% and revised 0.1% prior. More benign business spending (+1.4% q/q versus expected 0.9%) mitigated slight underperformance in private consumption (+1.1% versus expected 1.3%).

- On higher-frequency indicators, Aug P PMI Mfg came in at 51.0, while PMI Services came in at 49.2, both moderating from prior readings. Growth momentum, while resilient for now, could see downside risks if broader external demand slows. Consensus expects GDP growth to moderate slightly to 1.5% in 2022 from 1.8% in 2021.

- Jul inflation came in at 2.6%y/y, on par with expectations and slightly higher than 2.4% prior. The ex-fresh food and energy reading also inched higher to 1.2% from 1.0% prior. BoJ viewed earlier current cost-push inflation as being unsustainable as the impact of energy prices could eventually ease, while wages have yet to rise sustainably. But we note incremental risks on these fronts. Potential OPEC+ cuts for instance could lead oil to trade in elevated ranges, while a government panel agreed to a record hike of JPY31 in the average minimum wage for FY2022 to JPY961 ($7.28) an hour, post prolonged consultations taking into consideration imported price pressures.

- **Monetary Policy Forecast:** BoJ stood pat on policy settings (policy rate at -0.1%) on 21 Jul. The YCC will be maintained at current settings (0% target yield for 10Y with 25bps cap). There was arguably less of an impetus for an immediate move given that domestic prices have yet to

see runaway momentum. New macro forecasts from BoJ in Jul indicate some caution in growth (FY2022 growth projection at 2.4% vs. 2.9% prior), but a tad more near-term inflation risks (CPI all items less fresh food for FY2022 forecast at 2.3% vs. 1.9% prior). Notably though, core inflation is expected to come in at around 1.4% in FY2023, still modestly lower versus the 2% target; i.e., price pressures are still not entrenched yet. **While BoJ noted risks from rapid JPY depreciation, Kuroda's comments in the QA session remained largely dovish**. There also appears to be no plans to review the YCC framework for now.

- **Meanwhile, even as Kuroda quashed hopes for near-term policy changes, chatters of potential tweaks will likely continue into 2H and 2023, especially if inflation pressures broaden more sustainably**. There are very tentative signs that this could be occurring. Looking at Jul price data, the trimmed mean (a measure of price growth that factors out biggest gains and falls), rose 1.8%y/y, fastest since 2001 and accelerating from 1.6% prior. Meanwhile, the share of components in the consumer price basket seeing price increases also rose to 73.2%, the highest proportion on record. A pick-up in the intensity and pace of such developments could gradually lead BoJ to reconsider their policy stance.

- On possibility of FX intervention, we note that officials from the BoJ, the Ministry of Finance and the Financial Services Agency met in mid-Jun after the JPY saw a significant bout of softening, and in a joint statement, expressed their concern about the sudden weakening of the JPY, saying they will take action if necessary. **Risks on direct intervention by authorities might be higher now, and could help keep USDJPY resist upswings towards the psychological threshold of 140, even as the threshold for intervention might be high**.

- **Latest Fiscal & External Balance Outlook:** In Feb 2022, **a parliamentary committee approved a record JPY107.6trn (US$936bn) spending plan for FY2022 (starting Apr)**. Kishida has vowed seamless spending for 16 months (beginning with supplementary budget mentioned above) to provide sufficient support to lift the economy from Covid-induced doldrums. Consensus forecasts see the fiscal deficit coming in at around -6.7% of GDP in 2022, slightly wider versus the -6.4% seen in 2021, and significantly wider than the -3.2% average seen in 2015-2019 (pre-Covid).

- **To counter the impact of rising energy costs on the domestic economy, PM Kishida is rolling out a combined JPY6.2trn emergency economic package**. The key features of the package include cash handouts of JPY50k per child for low-income households, more subsidies for oil wholesalers to reduce retail gasoline costs, and support for SMEs and livestock farmers. The package aims to prevent rising raw material costs from adding to supply-chain bottlenecks as the domestic economy attempt to recover from Covid drags. To finance the new spending, the government will tap JPY1.5trn from reserve funds allocated for emergency spending in the current FY beginning Apr, around JPY2trn secured in the FY2022 budget and other sources, as well as JPY2.7trn from an extra budget to be compiled later.

- Current account for Jun deteriorated to a deficit of -JPY132.4bn, versus surplus of JPY128.4bn prior, adding to dampened sentiments for JPY.

Pre-Covid average in 2019 was surplus of JPY1600bn. Trade deficit for Jul also remained wide at -JPY1437bn, versus -JPY1399bn prior. The trade balance has seen deficit readings from Aug 2021 to Jul 2022, versus average surplus outturns in the first 7 months of 2021. **Such developments could remain as interim drags on JPY**. On a more positive note though, recent decline in oil prices could help moderate energy import burden for Japan going forward.

- **Key domestic data to watch:** 2Q Capital spending (1 Sep); Aug Vehicle sales (1 Sep); Jul Labor cash earnings (6 Sep); Jul (P) Leading Index CI (7 Sep); 2Q F GDP (8 Sep); Jul Current account (8 Sep); Aug (P) Machine tool orders (12 Sep); Aug PPI (13 Sep); Jul Core machine orders (14 Sep); Aug Trade (15 Sep); Jul Tertiary industry index (15 Sep); Aug CPI (20 Sep); BoJ Policy decision (22 Sep); Sep (P) Jibun Bank PMIs (26 Sep); Aug Jobless rate (30 Sep); Aug Retail sales (30 Sep); Aug (P) Industrial production (30 Sep).

- **Technical Outlook**: USDJPY pair was last seen near mid-138 levels. On weekly chart, RSI remains near overbought territory, while bullish momentum in pair has largely moderated. Meanwhile on daily chart, momentum and RSI are bullish. Further upside risks not ruled out but extent could be somewhat contained. Resistance at 139.40 (Jul high), 141. Support at 136.40 (23.6% fibo retracement from May low to Jul high), 134.50 (38.2% fibo).

RMB: The Danger of Ignoring the Covid Elephant

Forecast	3Q 2022	4Q 2022	1Q 2023	2Q 2023
USDCNY	**7.00** (6.75)	**6.95** (6.70)	**6.92** **(6.68)**	**6.90** **(6.65)**
USDCNH	**7.02** (6.75)	**6.98** (6.70)	**6.94** **(6.68)**	**6.90** **(6.65)**

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** USDCNH finally broke out of the 6.60-6.80 range. We still think the worst of yuan weakness could be seen within these few months as China battles with power crunch, growth-stifling effects of its zero-covid strategy and its property slump. There is still a faint possibility that zero-Covid strategy could be shifted in a more significant way after President Xi gains his third term in 4Q and that is when some recovery can be expected from the yuan. In the meantime, apart from growth concerns and capital outflows, USDCNY could also be influenced by broader USD cues - stronger US data, sticky inflation could increase the likelihood of larger rate hike in Sep and that could continue to underpin the greenback. Even as USD bulls can pause on softer data and slower rate hikes, the greenback also enjoys safe haven demand as high energy prices and inflation slows global demand. Stable

current account surplus may cushion the yuan for now but as global demand weakens, so may the trade surplus cushion thin.

- So will the USDCNY breach the 7-figure sustainably? Consecutive days of stronger yuan fix into the end of Aug is a strong signal from PBoC to slow yuan depreciation and PBoC's next move could be to lower forex required reserve ratio in order to boost USD supply and prop up the yuan. Efforts to support the yuan could be paramount to retain a semblance of stability especially in a weak macro environment where bearish FX bets tend to snowball. Thus far, market players seems to have ignored the fix and chose to focus on the step-up in Covid measures in areas around Beijing, especially for Tianjin port city that could stifle activity further. We remain cautious on the yuan, notwithstanding the latest 19-point measures to broadly stabilize growth.

- **Growth and Inflation Outlook:** The unexpected slowdown in the economy in Jul was rather broad-based. Industrial production eased unexpectedly to 3.8%y/y from previous 3.9%. Retail sales also decelerated to 2.7%y/y from previous 3.1%. Fixed assets ex rural for Jan-Jul also slipped to 5.7%y/y from 6.1% (Jan-Jun). New home prices for Jul also fell a tad more than expected by -0.11%m/m. The latest activity report underscores anaemic domestic demand with youth unemployment rate continued to rise to 19.90% from prev. 19.30%, dangerously high.

- **Key to China's outlook is how the officials stem a potential downward spiral of its property sector and it is still a work-in-progress.** The latest measure is a special loan for property developers to ensure stalled property projects are delivered to buyers via policy banks. The amount is said to be around CNY200bn. The backstop is meant to instill confidence in the property sector. Thus far this year, sales of residential buildings continue to fall year-on-year while average home prices continue to record month-on-month declines (last at -0.1% for Jul). The zero-Covid strategy has likely contributed to the negative sentiment in the property sector but there is little sign of a turnaround. We still see a need for a more decisive shift in the dynamic zero-Covid strategy in order for businesses and consumers to sustainably regain confidence. That would in turn provide boost to most sectors of the economy, including the property sales.

- The surprise policy rate cuts might have taken attention from the main economic support - infrastructure spending. We recall that China Development Bank has set up a fund to invest CNY1.3bn in the construction of a highway in Shanxi and an airport in Henan province. Separately, the Agricultural Development Bank of China also set up a fund to invest CNY500mn in the construction of a hydro-power station in Chongqing. In total, infrastructure spending (raised from financial bonds issuance, local government special bonds, land sales and other sources) of around CNY7.2trn would be the main thrust for the economy in the face of the property malaise and Covid uncertainties. More recently, China has pushed out another CNY1trn economic stimulus that includes CNY300bn allocated to finance infrastructure projects.

- **Monetary Policy Forecast**: PBoC delivered a surprising 10bps cut to the medium term lending facility rate as well as the 7-day reverse repo rate

on 15 Jul, accompanied by a net withdrawal of CNY200bn of liquidity via a partial rollover of the MLF.

- Chinese banks lowered 1Y LPR by 5bps to 3.65% and 5Y LPR by another 15bps to 4.30%, giving the USDCNH another nudge higher. Given that 1Y LPRs are used to price corporate loans while 5Y LPRs are used for mortgage rates, the steeper cut for 5Y LPR this morning is clearly to render greater support to the sluggish property sector. On that front, there was another administrative support - the housing ministry, Finance Ministry and PBoC issued a joint statement last Fri (19 Aug) declaring the provision of special loans to ensure property projects are delivered to buyers via policy banks. These special loans are only meant to support projects experiencing delays.
- USDCNH sprung higher on the policy rate cuts as the rate cuts themselves were a signal that economy is under significant downside pressure.
- On 10 Aug, PBoC actually released a rather hawkish monetary policy statement right after a firmer Jul CPI at 2.7%y/y vs. previous 2.5%. Within the statement, PBoC had pledged to provide stronger and higher -quality support to the real economy. The central bank also warned that “structural inflation may increase in the short - term, and the pressure of imported inflation remains”. This came after Jul CPI accelerated to 2.7%y/y from previous 2.5%, underpinned by pork prices. The old pledge of “no flood - like stimulus” is reiterated and there were even warnings that CPI could rise above the 3% target.
- Given the rather hawkish statement, the cuts made to key lending rates were all the more shocking (consensus expected no cut to MLF) and only underscores the weakness of the economy. This was thus reflected in the yuan depreciation against the USD. As long as the zero-covid policy and there is a lack of a significant turn around in the property sector, PBoC has to remain in easing mode. Such an environment would be negative for the yuan.
- **Latest Fiscal and External Balance Outlook:** Fiscal target for 2022 was projected to be 2.8% of GDP, down from 3.2%, underscoring a stance of fiscal consolidation but that is increasingly unlikely as we look for further fiscal spending to support the economy. Recently, China Center for international Economic Exchanges Vice Chair Wang Yiming said that the fiscal deficit-to-GDP ratio could be raised to support domestic demand.
- **Key domestic events and issues to watch:** Aug Caixin Mfg PMI (1 Sep); Aug Caixin Services PMI (5 Sep); Aug foreign reserves, trade(7 Sep); Aug CPI, PPI (9 Sep); Aug aggregate financing, new yuan loans, money supply (9-15 Sep); Aug FDI (11-18 Sep); 1Y MLF (13-16 Sep); Aug new home prices, industrial production, retail sales (16 Sep); 1,5Y LPR (20 Sep); Aug FX Net settlement on behalf of clients (23 Sep); Aug industrial profits (27 Sep); Sep Mfg, Non-mfg PMI, Caixin Mfg PMI (30 Sep); 2Q F BoP current account balance (30 Sep). Party Congress Set on 16 Oct.
- **Technical Analysis:** Technical indicators suggest some retracement with a rising wedge formed for the USDCNH. That said, timing of retracement is uncertain given strong bullish momentum. Support at 6.8880 before 6.8490. Resistance remains at 6.9490.

KRW: Broad Risk Aversion, Geopolitical Risks and Slowing Chip Demand as Drags

Forecast	3Q 2022	4Q 2022	1Q 2023	2Q 2023
USDKRW	**1340** (1280)	**1320** (1260)	**1300** (1240)	**1270** (1230)

Previous Forecasts in Parentheses

- **Motivations for the FX View:** We expect KRW to remain under pressure in the near-term amid global growth concerns, tighter financial conditions (as highlighted by central banker comments in Jackson Hole) and ongoing Covid wave in Korea. Slowing global chip demand growth is also a concern, given KRW's sensitivitity to domestic equity performance. Potential tensions with China, North Korea are additional risk triggers to consider. But signs of moderation on Covid infection pace, still-hawkish BoK, slowing up-moves in UST yields, softer oil prices in 3Q (vs. 1H), potential peaking in hawkish Fed narrative post Jackson Hole adjustments etc., could imply some chance for USDKRW to head lower into end-year and 2023.

- **Global growth worries remain a persistant drag on high-beta/pro-cyclical KRW.** We note various sets of growth downgrades from various agencies such as IMF, World Bank, OECD in recent months, given the complex set of risk factors currently in play—including Russian war and concomitant energy crisis in Europe, ongoing Covid pandemic (more aggressive or contagious variants), China's zero covid policy disrupting supply chains, US-China tensions over Taiwan. On chips in particular, warnings from companies such as Micron Tech and Analog Devices on slowing demand for PCs and smartphones had permeated into Korean tech blue chips sentiments at one point. Concerns over moderating external demand is likely to remain intact in the interim, given traction by softer data out of major economies recently.

- Korea's energy importer status also likely meant drags on KRW alongside elevated oil prices in 1H. Upside risks to energy prices should be more manageable on (i) mounting concerns over softening global aggregate demand, (ii) signs of interest in Russian oil from parts of Asia, including China, India. While some support to oil prices could emerge on risks of OPEC+ supply cuts, we also note potential return of Iran supply if talks with US conclude on a positive note. **On net, while energy import burden could continue to be a drag factor, the magnitude of drags could ease a tad.**

- **We also note potential tensions with China, North Korea as risk triggers.** Recall that China-Korea relations deteriorated in 3Q 2016 over US-Korea alliance decision to deploy a US THAAD to defend against North Korea missile threat. President Yoon had earlier indicated plans to buy an additional Terminal High Altitude Area Defense (THAAD) anti-missile system. This may be a concern for KRW if it induces risks of

retaliation from China. But we also note some recent efforts from Yoon to avoid antagonizing China. Yoon, who earlier pledged to rebuild security ties with US and take a tough line with China, had put off meeting Pelosi in person during her visit, opting for a phone call instead. Meanwhile, inter-Korean tensions are also in play as South Korea resumed joint military drills with the US. Pyongyang has taken on a hostile tone in recent weeks with regards to such drills, and we note reports of NK potentially readying for its first nuclear test since 2017. Kim Jong Un's sister also reportedly rejected deal proposed by President Yoon which involves economic aid in exchange for North Korean denuclearization, calling it "stupid".

- **Covid's impact on domestic activity and changes to forex reserves are two other risk factors to watch**. 7-day average in Covid cases has jumped to above 100k in late Aug, versus lows of <10k in late Jun—although pace of infection shows signs of moderating. Still, impact on broader sentiments may be contained with authorities largely sticking to a reopening stance. Latest headlines note that authorities are considering scrapping pre-entry Covid test requirements for arrivals. Meanwhile, BoK presented slight increases in Forex reserves in Jul (US$438.6bn vs. US$438.3bn prior), ending four straight months of declines. Levels are about US$30bn lower versus high in Oct 2021 after earlier intervention efforts.

- **Technically a potential turn lower in USDKRW should not be ruled out.** We note that past periods of sharp USDKRW run-up in 2014-16, 2018-20 saw KRW depreciate by around 22% vs. USD on average. The current run-up since late-2020 is similarly seeing ~24% depreciation in KRW (vs. USD). We opine that the current sell-off in KRW could potentially be near a turning point. Taking other technical signals in consideration, the bearish divergence in MACD may add to further signs that pace of decline in KRW may moderate and a USDKRW interim top may be near.

- **Growth and Inflation Outlook: Advance estimates show economic growth unexpectedly ticking up to 0.7% q/q SA in 2Q (vs. 0.6% in 1Q).** Strong private consumption (+3%) as well as a bump up in government spending offset dismay exports (-3.1%) and ongoing decline (4th consecutive quarters) in corporate spending (-1%). These can be attributed to slowing Chinese economy (affecting external demand), supply chain disruption owing to war in Ukraine and tighter financial conditions globally. In year-ago terms, 2Q GDP was at 2.9% y/y vs. expected 2.6%.

- BoK has revised down its latest growth forecasts for 2022 and 2023 to 2.6% and 2.1% respectively, from 2.7% and 2.4% in May, taking into account weakening external demand conditions and the concomitant impact on exports. Private consumption is expected to see some resilience on reopening momentum and rising wages, but investment growth may see more drags on rising interest rates and broader global macro uncertainty.

- Jul CPI was broadly in line with expectations as it rose 0.5%m/m and 6.3%y/y. Core CPI ticked up to 4.5%y/y from 4.4% prior. Price pressures can partly be attributed to summer tourist spending trends. This is evident as inflation prints were higher in top tourist areas (7.6%) and

lowest in Seoul (5.5%). Meanwhile, a government survey shows major South Korean firms with more than 100 workers agreeing to the biggest pay rises (5.3% in 1H) in 19 years, possibly adding to wage-price spiral concerns.

- BoK now sees headline inflation at 5.2% in 2022 and 3.7% in 2023, up from 4.5% and 2.9% prior. The upward revision was attributed to continued demand pressures on reopening momentum and rising agricultural prices.

- **Monetary Policy Forecast**: While BoK hiked by a more measured +25bps on 25 Aug, market focus was partly on the upward revisions to their inflation forecasts (+0.7%-pt and +0.8%-pt to 2022 and 2023 forecasts in May) and comments on inflation potentially remaining high in the 5-6% range for a considerable period, which would be supportive of bets for a hawkish BoK stance for longer. For now, BoK tones suggest that fighting inflation still takes priority over growth concerns. Recent comments from Governor Rhee also suggests that despite prior preference for more measured +25bps moves, a +50bps move in Oct cannot be ruled out if prices remain "out of control" (i.e., continues to be well above 5%). Rhee in particular pointed out rising imported inflation on account of weak KRW (tied to hawkish Fed policy) as a potential consideration for policymaking.

- BoK is reportedly monitoring offshore speculative drivers more closely, and could continue with actual intervention moves to avoid sharper KRW losses. We also note comments from Vice FM on potential measures to counter "herd behaviour" in markets.

- **External Balance and Fiscal Outlook:** Current account surplus for Jun ballooned to US$5.61bn from US$3.86bn prior, with the goods balance increasing to US$3.59bn from US$2.74bn prior. But higher-frequency indicators are less encouraging. 20-day exports for Aug slowed to +3.9%y/y from +14.5% prior, with trade deficit widening to –US$10.2bn from –US$8.1bn prior.

- The national debt is forecast to reach KRW1,075.7tn this year, marking the first time that the debt would exceed the 1,000 trillion-won mark. Debt-to-GDP ratio is also expected to rise to a record high of 50.1 percent this year and the fiscal deficit is likely to reach 70.8 trillion won, equivalent to 3.3% of GDP.

- Increasing fiscal stresses might be one factor for more careful spending going forward. The Finance Ministry announced a spending programme for 2023 which is +5.2% versus 2022's budget, the slowest pace of growth in 6 years. Taking into account the two supplemental budgets this year, the 2023 budget would be a 6% decline instead. Fiscal tightening, while indicative of a disciplined spending approach, could induce concerns over limited ammunition to support the economy during a period of heightened external uncertainty and macro drags.

- **Key domestic data to watch:** 2Q P GDP (1 Sep); Aug Trade (1 Sep); Aug Mfg PMI (1 Sep); Aug CPI (2 Sep); Aug FX reserves (5 Sep); Jul Current account (7 Sep); Aug Unemployment rate (16 Sep); 1st 20 days of exports (21 Sep); Aug PPI (23 Sep); Sep Consumer confidence (27 Sep); Oct Business survey – mfg and services (29 Sep); Aug IP (30 Sep).

- **Technical Outlook:** USDKRW headed largely higher for the month. Last at 1338 levels. Bullish momentum on daily chart shows signs of moderating while RSI is dipping lower from near-overbought conditions. We also note bearish divergence in MACD. Up-moves could slow and there are modest retracement risks (lower). Support at 1327 (Jul high), 1321 (21-DMA), 1286 (100-DMA). Resistance at 1352, before 1380.

SGD: NEER Resilient, Another Possible Tightening in Oct

Forecast	3Q 2022	4Q 2022	1Q 2023	2Q 2023
USDSGD	1.3850 (1.3700)	1.3700 (1.3600)	1.3600 (1.3500)	1.3500 (1.3400)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** For the whole of Aug, SGD NEER has been seeing two-way swings around +0.9% to +1.3% range, and swings in USDSGD pair has essentially been driven by broader dollar biases. Fed's clear commitment to keep US monetary policy in restrictive territory for longer, even at the expense of growth and jobs, was clarified at Jackson Hole. This will lend dollar some support near-term, and we adjust our 3Q forecast modestly higher in response. But at the same time, recent elevated price pressures in Singapore might lead the MAS to implement another round of tightening in Oct, which will be a positive for SGD sentiments if it materializes. We note signs of slowing in external demand impacting trade and economic activity, but maintain that robust macro fundmentals such as ample fiscal space, current account surpluses, healthy labor market etc., will continue to impart SGD some "safe haven" appeal in this period of elevated external uncertainties.

- Powell managed to modestly out-hawk market expectations at Jackson Hole by flagging that the inflation fight would require the Fed to use its tools "forcefully" and bring pain to households and businesses. Drawing lessons from the past with specific mention of the 1970s (Volcker-era), he noted that "a failure to restore price stability would mean far greater pain". It was an explicit acknowledgement that growth will suffer in exchange for bringing inflation under control. That is, Fed will be willing to let restrictive conditions remain around for longer to ensure sufficient demand destruction in bringing price pressures lower. Treasury yields and dollar heading higher on the comments, with UST 2Y yield elevated at >3.4% in end-Aug.
  - Fed Fund futures are now pricing in about three-quarters chance for a 75bps Fed hike in Sep, versus more even odds for 75 vs. 50 bps hikes just 1.5 weeks ago. Futures pricing also suggests that peak rate is anticipated to be higher at almost 4%, and rate cut expectations are pushed to the later part of 2023.

  - Based on these shifts in market expectations regarding Fed stance, dollar strength might be maintained in elevated ranges for longer than we initially envisaged. Nonetheless, DXY upswings seem to be a tad more hesitant for now, and more two-way swings may be seen amid incoming US CPI, jobs, activity data points.

- **Back in Singapore, lower likelihood of return to strict Covid curbs could help anchor sentiments.** Authorities have been on a broad easing stance with regards to Covid curbs since 2Q, with the latest adjustments being the removal of mandatory mask-wearing indoors, with the exception of public transport and healthcare facilities. Given sufficient healthcare capacity, high vaccination rates, well-communicated policy measures and significantly-reduced chance of wider lockdowns, domestic sentiments are likely to remain benign on this front. Continued recovery in domestic consumption could put a floor on GDP growth, despite concerns over softer interim external demand.

- **Negative contagion from China growth moderation or yuan depreciation concerns to SGD is intact, but likely modest. Weak** China Jul activity indicators added to the narrative of a slowdown in global growth, and we note other triggers for sentiment drags such as US-China tensions over Pelosi's visit to Taiwan. On the latter, China's initial response mainly revolved around missile tests and military drills near the island, but we note authorities' comments on asking the populace to give it more time to carry through on threats to punish US and Taiwan. For now, recent policy support in China (US$43.7bn 19-point policy package), and a series of stronger-than-expected yuan fixings in late Aug could help to slow yuan depreciation pace (even as they are unable to induce a turnaround in sentiments), and that could translate to some sort of backstop for AxJ FX as well.

- **Growth and Inflation Outlook:** Final 2Q GDP (+4.4%) came in lower than advance estimate (+4.8%), mainly due to the downgrade for manufacturing. **Our economist team maintains GDP growth forecast at +2.8% in 2022 (below MTI's revised range of 3%-4%), and +1.5% in 2023**. These GDP forecasts factor in a significant slowdown to +1.3% in 2H (vs. +4.1% in 1H). The boost from the reopening tailwinds will dissipate, while global headwinds including rising global interest rates, China's slowdown, and a probable Europe recession will dampen exports.

- On higher-frequency indicators, PMI for Jul came in at 50.1, easing from 50.3 prior. Notably, manufacturing growth (+0.6%) slowed sharply to a 10-month low in July, weighed down by the decline in semiconductor production (-4.1%) as global chip sales softened. After two years of robust GDP growth led by the healthy demand for chips, our economist team expects manufacturing growth to stagnate and dip below zero for some months in 2H. Risks of a technical recession has risen with the sudden and sharp downturn in electronics manufacturing.

- Core CPI soared to +4.8%y/y in July, mainly driven by faster increases in costs of food and utilities. Headline CPI (+7%) also surged as both private transport and accommodation costs strengthened. Our economist team raises forecasts for average headline CPI to +6% (from

+5.5%) and core CPI to +4% (from +3.5%) for 2022 given the stronger-than-expected inflation print.

- **Monetary Policy Forecast**: Reacting to concerns that core inflation is expected to rise above 4% near-term, while the economy remains on track to expand at a creditable pace, MAS implemented another off-cycle tightening move on 14 Jul to “lean against price pressures becoming more persistent”; i.e., to prevent inflation expectations from becoming entrenched, via re-centring the mid-point of the SGD NEER band up to its prevailing level. There is no change to the slope (estimated at 1.5%p.a.) or width of the policy band. Given that SGD NEER was estimated at +1.6% above par in the last session close prior to the re-centring, the mid-point/band is estimated to have shifted higher by this extent.

- **Given upside inflation risks (see above), we note increased likelihood for another tightening move from MAS in Oct, i.e., at least a steeper slope versus current 1.5%p.a. estimate; while not ruling out another re-centring if core prices soar again ahead of Oct policy.** A recent IMF report also commented that further monetary policy tightening may be needed in Singapore if elevated inflation is seen to be “unexpectedly persistent”.

- As of writing, USDSGD is around 1.3970, and trades around +1.0% from the new implied mid-point of 1.4110, with the top estimated at 1.3830 and the floor at 1.4395. Output gap is expected to see a slight positive reading in 2022, while core inflation saw a broad-based step up in 2022 and risks remaining elevated for some time. Given these macro conditions, our Taylor rule estimates suggest that SGD NEER is likely to see a modest upward bias near-term. **We had proposed on 14 Jul that SGD NEER could trade within a +0.5% to +1.5% range above the new implied mid-point**, given some “haven” characteristics versus peers in this period of elevated external uncertainties, with preference to buy SGD NEER on dips. SGD NEER has crept higher from estimated trough of +0.2% mid-Jul to around +1.0% as of writing.

- Domestic interest rates continued rising in Aug. The 3M SORA and 3M SIBOR are at 1.5793% and 2.6709% at the time of writing, higher than the 1.2295% and 2.5321% seen in end-Jul. While risks might continue to be skewed to the upside for rate moves, MAS’ stress test (published Dec 2021) shows that the household mortgage servicing ratios (MSRs) remain manageable under a conservative scenario of shocks to income and interest rates. Specifically, the observed median MSR remains below the maximum threshold of 60% for the Total Debt Servicing Ratio (TDSR) guideline, even if income falls by 10% from the lows seen during the COVID-19 pandemic and interest rate increases by 250bps. As the bulk of the household liabilities are housing loans, the results suggest that the median household would still be able to service its debt. **House view for 3M SIBOR forecast is at 3% in 2022 and 3.2% in 2023. 3M SORA forecast is at 2.75% in 2022 and 2.95% in 2023**.

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

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

- In Jun, a S$1.5bn package was announced to help combat domestic inflation, including cash handouts (GST vouchers), utilities credits and one-off relief for taxi and private-hire car drivers. Given the overall limited scope of the new measures, spillover impact to SGD should be relatively limited.

- More recently, in light of supply-side shocks to energy markets globally, MTI Minister Gan Kim Yong said that the government does not intend to cap energy consumption by energy-intensive industries, and instead has other measures to help businesses improve their energy efficiency and tide over this period of elevated prices.

- The current account surplus narrowed slightly to 19.4% of GDP in 2Q versus improved to 19.8% of GDP in 1Q, but remained wide versus quarterly average of 16.5% of GDP in 2020-21. A broad recovery trend has been observed since the trough in 4Q 2019. On higher-frequency indicators, NODX growth slowed to +7% in July, mainly weighed down by the plunge in China demand. Exports continue to be driven and flattered by higher prices rather than volumes. Real NODX fell for the sixth straight month by -2.2%. Our economist team expects NODX growth to continue slowing in the coming months amid the weakening global growth outlook. Electronics exports will likely soften on weaker demand for chips and lower prices. Maintain 2022 NODX growth forecast at 5%-6%, and 2023 forecast at -2% to +1%. **Further boosts to current account from trade outturns could be somewhat limited, even as some resilience is likely**.

- **Key domestic events and issues to watch**: Aug PMI (2 Sep); Jul Retail sales (5 Sep); Aug Foreign reserves (7 Sep); Aug NoDX (16 Sep); Aug CPI (23 Sep); Aug Industrial production (26 Sep).

- **Technical Outlook**: USDSGD pair last seen modestly below 1.40, swinging higher in late Aug on dollar strength. For USDSGD pair, momentum on USDSGD daily chart is modestly bullish while RSI is approaching near-overbought conditions. Up-moves could slow. Resistance at 1.40 (76.4% fibo retracement from Jul high to Aug low), 1.41 (Jul high). Support at 1.3830 (38.2% fibo), 1.3670 (Aug low).

MYR: Drags from China and Domestic Factors Emerge

Forecast	3Q 2022	4Q 2022	1Q 2023	2Q2023
USDMYR	**4.50** (4.40)	**4.50** (4.40)	**4.40** (4.35)	**4.40** (4.30)

Previous Forecasts in Parentheses

- **Motivation for the FX View**: USD/MYR reached a new peak of 4.49 on the last few days of Aug as dollar strength continued and the CNY weakened. Since then the pair has retraced and remained around a narrower the 4.47-4.49 range. We expect MYR to remain under pressure amid global growth concerns, tighter financial conditions, CNY weakness and with BNM still catching up on the rate hike cycle. Nonetheless, chatters of the potential peak in Fed hawkishness, easing UST yields and USD moderation are some factors that could see the intermittent bounces in MYR. Our expectsations that USD support will pick up again in the run up to Aug and next FOMC on 22 Sep has panned out. More recently softer oil prices and expectations of upcoming domestic elections coming closer are expected to add further pressure on the MYR. The latest development has been the extended weakness in the CNY beyond 6.90 and we expect it to continue towards the 7.00 mark on the back of weak Chinese growth, PBoC policy easing, and USD strength. Given these new developments we are revising the MYR slightly upwards to reflect some of the uncertainties building up over the next 3-6 months.

- Malaysia's external trade outlook is still a "battle" between the ongoing commodity price support and the downside of global economic outlook amid Russia-Ukraine war, US monetary tightening and China growth developments. Risks of fallouts from Russia-Ukraine war (especially on Europe), US-led global monetary policy tightening and China's lockdowns are clouding global economic – hence trade - outlook. Thus far, Malaysia is benefitting from commodity and tech exports. Palm oil, LNG and crude oil contributed to 23% of 5M 2022's +23.5% exports growth, with E&Eaccounted for another 48%.

- In summary, MYR weakness was largely driven by exogenous factors, including the earlier rise in UST yields, USD strength, sharp and continued decline in CNH (of which MYR has a strong correlation to), IMF's downgrade of global growth, risks of China slowdown amid extended lockdowns and ongoing war in Ukraine (sentiment, china proxy play). These concerns may ease at times but have remained elevated and increased in Aug and potentially rise in Sep – concerns about global growth and risk aversion will continue to support USD and raise cautious view of risky assets for the next few months or so, which may keep MYR testing the 4.50 level and/or remain ranged bound around 4.45-4.55 range

- On the domestic front, the fractious and fluid dynamics of domestic politics does raise the possibility of general elections in 2H 2022.

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

- **Growth and Inflation Outlook:** Our economics team expect anotherquarter mid-to-high single-digit growth in 3Q 2022, partly reflecting the low base effect in 3Q 2021 when the economy shrank -4.5% YoY following another round of lockdown back then. However, they expect the environment of rising inflation and interest rates domestically and globally; the outlook of slower global economic growth; and the unwinding/withdrawal of domestic stimulus measures put in place during the pandemic (e.g. the end of Sales tax exemption for passenger car sales and the options for lower workers' EPF contribution of 9% (back to 11%) after 30 June 2022; the expected fuel subsidy rationalization in 2023) will result in slower growth in 2H 2022 and 2023. Therefore, they **maintain growth forecasts of +6.0% for this year and +4.0% for next year (1H 2022: +6.9%; 2021: +3.1%), and also expect BNM to proceed with "gradual and measured" OPR increases, penciling in another +75bps hikes to reach 3.00% by 1Q 2023 from current 2.25%.**

- Headline inflation rose to +4.4% YoY in Jul 2022 (Jun 2022: +3.4% YoY; 7M2022: +2.8% YoY) mainly on rising food & non-alcoholic beverages (FNAB) cost. Core inflation up to +3.4% YoY (Jun 2022: +3.0% YoY). Tweak our 2022 and 2023 inflation forecasts to +3.3% (previous: +3.4%) and +4.0 (previous: +4.1%) respectively to incorporate year-to-date performance. Forecasts also factor in the impact of announced and expected rationalization in price subsidies for essential food, fuel and energy.

- Our economics team has tweak their 2022 and 2023 inflation rate forecasts to +3.3% (previous: +3.4%) and +4.0% (previous: +4.1%) respectively to incorporate year-to date performance. Forecasts also consider the impact of announced and expected rationalization in price subsidies for essential food, fuel and energy e.g. removal of bottled cooking oil price subsidies in July 2022; assumption of some adjustments in fuel prices and electricity tariffs due to subsidy reviews in 2023. With upward trajectory in annual inflation rate plus stronger economic growth in 2Q 2022 and this year, we expect Bank Negara Malaysia (BNM) to raise OPR further by +50bps to 2.75% by end 2022 i.e. 25bps hike each at the 7-8 Sep 2022 and 2-3 Nov 2022 Monetary Policy Committee (MPC) meetings. We also expect another +25bps hike early next year to bring OPR back to the pre-COVID-19 level of 3.00% by end-1Q 2023.

- **Monetary Policy Forecast:** BNM raised OPR by 25bps to 2.25% at the 5-6 July 2022 Monetary Policy Committee (MPC) meeting. This followed the 25bps hike to 2.00% at the 10-11 May 2022 meet. BNM's Monetary Policy Statement (MPS) maintains the messaging that BNM's unwinding of accommodative monetary policy – hence OPR hikes - will be "measured and gradual". No change in our view of total +75bps hikes this year to 2.50% and another +50bps hikes next year to 3.00%.

- We noted BNM's Monetary Policy Statement (MPS) assessment of slowing global economic growth on one hand amid the downside risks from rising inflationary pressures, conflict in Ukraine, global supply chain conditions and financial market volatility, and strengthening domestic economic activities and demand - including retail spending - as well as improving labour market conditions on the other hand, reflecting the impact of full economic opening – including international borders that facilitates the recovery in tourism-related sectors. BNM's real GDP growth forecast for Malaysia is currently a range of +5.3% and +6.3% (1Q 2022: +5.0% YoY; 2021: +3.1%). BNM also keeps its view that this growth outlook comes with downside risks stemming from external factors i.e. weaker-than-expected global growth; further escalation of geopolitical conflicts; worsening supply chain disruption.

- BNM maintains its 2022 forecast for headline inflation rate of +2.2% to +3.2% (5M 2022: +2.4% YoY; 2021: +2.5%; 2020: -1.2%) and for core inflation rate of +2.0% to +3.0% (5M 2022: +2.0% YoY; 2021: +0.7%; 2020: +1.1%). BNM foresees higher inflation rate in coming months (May 2022: +2.8% YoY; Apr 2022: +2.3% YoY) but the upward pressures on monthly inflation will be contained primarily by price controls and subsidies.

- MPS concluded that with positive domestic economic growth outlook for this year, the conditions and time is right to further adjust the degree of monetary policy accommodation via the announcement of another 25bps hike in OPR. MPS also reiterated that the process of unwinding monetary policy stimulus will be "measured and gradual".

- We interpret "measured and gradual" to mean further/future OPR hikes will be by 25bps quantum, notwithstanding the ratcheting up of US Fed's interest rate hikes from 25bps in Mar 2022 to 50bps in May 2022 and 75bps in June 2022.

- Inflation rate, while rising, is slower relative to regional peers and major economies and is predominantly cost-push and supply-driven so far this year as Russia-Ukraine war led to surges in commodity prices, and food, energy and fuel costs. Historically, BNM has tolerated periods of negative real OPR and negative differentials between OPR and US fed funds rate.

- Our OPR outlook is total of +75bps hikes to 2.50% in 2022 and another +50bps hikes to 3.00% in 1H 2023. Interest rate swap (IRS) curve is currently pricing in OPR hikes of +50bps next 6 months and +100bps increases over next 12 months.

- **Fiscal and External Balance Outlook:** Budget 2022 will likely see a third consecutive year of >6% budget deficit to GDP at 6.0% (2021E: 6.5%). Meanwhile, Fiscal Outlook 2022 report indicates budget deficit to GDP ratio will go sub-5% from 2023 onwards (2023E: 4.8%; 2024: 4.3%)

en-route to the 12th Malaysia Plan target of 3.0%-3.5% in 2025. Trajectory of narrowing fiscal deficits, if maintained, should be net positive for medium-term MYR sentiments.

- **Key domestic events and issues to watch:** Aug PMI Mfg (1 Sep); BNM Monetary policy decision (8 Sep); Foreign Reserves (7 & 23 Sep); Industrial Production (9 Sep); BoP Current Account balance (20 Sep); GDP (12 Aug); Trade data (20 Sep); CPI (23 Sep).
- **Technical Outlook:** Pair last seen near 4.48. Bullish momentum on daily chart has largely moderated, while RSI remains in near-overbought conditions. On net, up-moves could slow. Support at 4.4660 (21-DMA), 4.4460 (50-DMA), 4.3960 (100-DMA). Resistance at 4.50 (2017 high).

IDR: BI Begins Hikes; Trade Surpluses Impart Resilience

Forecast	3Q 2022	4Q 2022	1Q 2023	2Q 2023
USDIDR	14,700 (--)	14,500 (--)	14,400 (--)	14,300 (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** USDIDR was in a consolidative phase for most of the first four months of the year and only broke out higher towards May-Jul, alongside China partial Covid lockdowns, hawkish Fed shifts, uncertainty relating to export policy, and more recently, global growth risks (likely weighing on commodity demand outlook). Still, the magnitude of USDIDR upswing has been somewhat contained versus historical episodes of IDR depreciation. Resilient domestic growth momentum and trade surpluses, start of BI rate hike cycle etc., could continue to help cap USDIDR upside risks in the interim. But broader recovery in IDR will be likely slow, given Fed commitment to more restrictive monetary policy stance for longer, global growth jitters playing out.
- **CPO export volume recovery could help anchor trade surpluses despite moderation in prices**. Indonesia's top exports include palm oil, coal, copper and nickel. It ships about a third of the world's edible oil supplies, consuming just over a third of production domestically. Our regional plantations analyst views CPO inventories in Indonesia as bloated, with exports likely to pick up in coming months (as permit bottlenecks ease) and providing further support to trade balance, despite softer CPO prices. Earlier comments from Sahat Sinaga, acting chairman of the Indonesia Palm Oil Board, suggests that Indonesia could ship up to 17.3 million tons of palm oil overseas in 2H, versus just 10.7 million tons in 1H due to export ban imposed in late April and other curbs. Our regional plantations analyst noted that the Indonesian (ID)

government recently announced 3 key initiatives: (1) raising DMO requirement to 1:9 (from 1:7) which, in theory, means there is "no longer" any export restrictions; (2) commitment to review its CPO reference price every 2 weeks (instead of every month); (3) on 9 Aug, the ID government revised its export duty structure, which resulted in significant reductions in export duties. These measures are likely to boost ID's exports at the expense of MY exports. Meanwhile, we also note reports of Europe potentially importing more coal from exporting countries, including Australia, South Africa, Indonesia and Colombia, from Sep onwards.

- One potential interim exports drag though revolves around a potential new tax on nickel exports, which aims to shift focus towards domestic refining of the metal. While moving up the value chain (processing it domestically rather than exporting the raw material) could benefit ID in the longer-term, the short-run impact on export volumes may weigh on IDR sentiments a tad.

- IGB-UST 10Y yield differential narrowed from around interim high of 500bps in early Mar to interim low of around 384bps in early May as UST yields spiked, but has on net saw two-way swings since; last seen at around 400bps. **On net, yield differentials likely remain sufficiently wide to avoid triggering a larger exodus of foreign funds**, and there are signs of portfolio drags easing of late, with Aug MTD net inflows in equities and bonds reaching +US$449mn (as of 29 Aug) and +US$914mn (as of 26 Aug) respectively, turning around from net outflows in the prior month. We had seen a bounce in UST yields and dollar out of Jackson Hole towards late Aug, as markets digested Fed's signaling on elevated rates for longer, but further upward momentum on broad dollar strength appears somewhat capped. Any additional support for the "peak hawkish Fed" narrative could help cap interim UST yield upswings and help moderate the extent of sentiment drags on IDR.

- **In any case, extent of broad volatility spillovers from external risk events to IDR assets should be contained, given lower foreign holdings in Indo sovereign bonds, still resilient current account balance, larger FX reserves vs. earlier Fed tapering episodes**. House view looks for current account to come in at a mild surplus of 0.1% of GDP in 2022 compared to pre-pandemic deficit of above 2.5% of GDP. Foreign reserves fell to $132.2bn as of end Jul (from $136.4bn in Jun), possibly due to recent intervention efforts.

- On Covid, 7-day average in Covid-19 cases was seen at around 4k in late Aug. Case counts largely remain low versus interim highs near 56k on 20 Feb. Covid-related risks have fallen significantly. On net, **authorities are largely sticking to a Covid-endemic and reopening policy stance.**

- On medium-term FDI trends, Coordinating Minister for Maritime Affairs and Investment Luhut said that Tesla has inked deals for the purchase of nickel products from two Indonesian companies. Foxconn, Ford, Volkswagen and Bosch are other names mentioned that are interested in ramping up investments in the country. Indonesian authorities also approved two major trade deals towards late Aug—the Regional Comprehensive Economic Partnership (RCEP) as well as a bilateral pact with South Korea (focus on EVs, batteries), which should be net positive for sentiments.

- **Growth and Inflation Outlook:** 2Q GDP growth (+5.4%) came in above expectations, underpinned by firming household consumption (+5.5%) and robust external demand. **Our economist team maintains 2022, 2023 GDP growth forecast at +5.1% and 5.2%**, respectively, with the ID economy expected to demonstrate some resilience in the face of emerging global headwinds including the Russia-Ukraine war, China's slowdown, and aggressive global monetary tightening. Meanwhile Finance Minister Sri Mulyani commented that the economy has returned to pre-Covid levels as of 2Q.

- On higher-frequency indicators, PMI Mfg for Jul came in at 51.3, improving from 50.2 prior against a backdrop of moderating DM growth, signalling resilience in the domestic economy. Retail sales (+8.4%) also stayed resilient in Jul, but consumer confidence index eased to a 3-month low, possibly due to the impact of rising costs.

- Headline CPI (+4.9%) soared in Jul to a near 5-year high on the back of a jump in volatile food prices, breaching BI's target range for the second month. Core CPI (+2.9%) rose to the fastest pace since Mar 2020, as prices rose in other categories.

- The government has finally revealed plans to hike subsidized fuel prices as the subsidy burden rises. While the exact timing and magnitude have not been revealed yet, the Chief economic minister Airlangga Hartarto stated on 20 Aug that the hike will not happen in 3Q as the government is still reviewing several scenarios. Assuming that Pertalite (63% of fuel consumption) price is raised to Rp10,000/liter (+31%) in 4Q for instance, our economist team expects headline CPI to average +5.2% in 2022 (vs. base case of +4.8%) and +6% in 2023 (vs. base case of +4%). This would prompt BI to hike more aggressively, up to as high as 5.75% by end 2023.

- **Monetary Policy Forecast:** BI raised its policy rate to +25bps to 3.75% on 23 Aug, in an out-of-consensus move. Governor Perry stated that the decision was a pre-emptive step to mitigate the risk of rising core inflation. USDIDR notably fell by about ~0.5% on BI decision. BI sharply raised headline CPI to above +5% in 2022 (from 4.5%-4.6%), while core CPI is forecasted at +4.2% (from 2%-4% range). **House view expects the BI to deliver two more rate hikes this year, most likely in 4Q**. We had earlier noted the possibility of a potential inflation shock from reduction in fuel subsidies forcing BI to tilt hawkish.

- BI has also begun its own Operation Twist, which involves the sale of short-term notes and purchases of longer-term notes. The central bank expects more attractive yields on shorter-term notes to help lure foreign inflows, while tempered longer-term yields could help lower borrowing costs for the government.

- Meanwhile, with regards to concerns on unwinding of QE-era bond purchases, BI Governor Perry Warjiyo said earlier that sales would be conducted carefully. The aim is to soak up excess market liquidity, while also pushing bond yields up to make Indonesian assets more attractive amid global monetary tightening.

- One risk to look out for could be some tentative concerns over BI autonomy, given recent discussions over a new draft legislation requiring BI to take into account the government's broad economic

strategy when making monetary policy decisions. The bill could also provide a legal basis for BI to buy sovereign bonds in the primary market when needed during a financial crisis.

- **Latest Fiscal and External Balance Outlook:** In early Jan 2022, it was estimated that Indonesia recorded a budget deficit of 4.65% of GDP for 2021, "far smaller" than initial estimates, according to FM Sri Mulyani. The government collected IDR2,003trn (US$140 billion) in revenues for 2021, while spending reached IDR2,787trn. Tax revenues were 19% higher than in 2020 and about 104% of the target. **Following better than-expected revenue collections in 2021, the 2022 fiscal deficit estimate was lowered to 4.3% of GDP. This was subsequently lowered to 3.9% of GDP.**

- Finance Minister Sri Mulyani announced that first-half tax revenue has reached IDR1028.5trn, or 69.3% of the 2022 target, reflecting 58.8% y/y growth. Elevated commodity prices had contributed to the robust revenue increases.

- In late Aug, the transport ministry postponed a planned price hike for motorcycle ride-hailing services. A US$1.6bn aid package is also introduced to help mitigate the stresses on households from upcoming plans to raise prices of subsidized fuels. More than 20mn families will be receiving monthly cash handouts of IDR150k till year-end. 16mn workers currently earning <IDR3.5mn will also receive a one-time payment of IDR600k. These developments could temper, but likely not offset, the upward price pressures resulting from raising prices of subsidized fuels, keeping BI on a hawkish rate hike path for the foreseeable future.

- Exports (+32%) continued to soar in Jul, bolstered by commodities including coal, palm oil, nickel, and steel. Trade surplus remained wide at US$4.2bn. 2Q current account came in at US$3900mn, below expected US$4500mn, but significantly higher than US$407mn prior. On net, house view looks for current account to come in at a mild surplus of +0.1% of GDP, versus surplus of +0.3% of GDP in 2021. **Outlook remains resilient for the year, which could help mitigate recent IDR drags.**

- **Key domestic events and issues to watch**: Aug PMI Mfg (1 Sep); Aug CPI (1 Sep); Aug Foreign reserves (7 Sep); Aug Trade (15 Sep); Aug Local auto sales (15-21 Sep); BI Monetary policy decision (22 Sep).

- **Technical Outlook:** USDIDR last seen at 14,840, largely on par with levels seen in end-Jul. Momentum on daily chart is mildly bullish but RSI is not showing a clear bias. Support at 14,700 (100-DMA), 14520 (200-DMA). Resistance at 14,900 (50-DMA), before 15,040 (Jul high). Pair could test >15,000 intermittently, even as sustained breakout higher for longer looks less likely at this point.

PHP: Declining FX Reserves, Widening Trade Deficits to Weigh

Forecast	3Q 2022	4Q 2022	1Q 2023	2Q 2023
USDPHP	**56.00** (54.50)	**55.50** (54.00)	**54.50** (53.50)	**53.50** (53.00)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** USDPHP tried to push lower from YTD highs around late Jul and early Aug, but confluence of sentiment drags including consistently hawkish Fed, widening trade deficit (including elevated energy import burden), decline in foreign reserves, equity outflows, spillovers from China growth concerns etc., led the pair higher again in Aug. PHP sentiments could be more prudent near-term, but we see chance for some cautious optimism towards the end of the year, should drivers such as resilient domestic growth, implementation of investment-friendly policy prongs, "peaking" of hawkish Fed narratives etc. become more discernible in impact. Expectedly though, a more significant decline in USDPHP will depend on a concomitant broader softening in dollar levels as well.

- **Broad dollar levels are seeing some support after hawkish Fedspeaks at Jackson Hole pushed back against the notion of a dovish Fed tilt soon.** Powell in particular flagged that the inflation fight would require the Fed to use its tools "forcefully" and bring pain to households and businesses. It was an explicit acknowledgement that growth will suffer in exchange for bringing inflation under control. That is, Fed will be willing to let restrictive conditions remain around for longer to ensure sufficient demand destruction in bringing price pressures lower. Such messaging will lend support to dollar DXY for now, but expectations of Fed policy path into 2023 will continue to swing two-way amid new US inflation, jobs and activity data.

- While oil is not the dominant factor for PHP in this complex risk environment, rise or decline in energy import bills could continue to influence PHP. Brent has fallen from around US$124/bbl in early Jun to US$100/bbl at last seen. While some support could emerge on risks of OPEC+ supply cuts, we also note potential return of Iran supply if talks with US conclude on a positive note. Upside risks to energy prices should be more manageable on (i) mounting concerns over softening global aggregate demand, (ii) signs of interest in Russian oil from parts of Asia, including China, India. **On net, drags from elevated energy prices might remain intact, but could ease a tad in extent going forward.**

- On Covid, we note that while 7-day average in cases remain at around 3k in late Aug, versus lows near 200 in May, President Ferdinand Marcos has pledged that the country will no longer implement COVID-19 lockdowns. Instead, efforts will be made to ensure that the healthcare system does not get overwhelmed. **Sustained easing in Covid drags on the domestic economy should lend support to PHP on net**.

- OFWR growth picked up in June 2022 to +4.4%y/y (May 2022: +1.8%)—fastest growth so far this year and since Nov 2021—amid swings in the pace of monthly growth. Given the +2.9%y/y growth to US$15.35b in 1H 2022, our economist team trimmed 2022 OFWR value and growth forecast to US$32.2b and +2.8% growth versus US$32.75b and +4.2% growth previously (2021: +5.1%). Foreign reserves for Jul declined to US$98.8bn from US$100.9bn prior, a two-year low. **More modest pace of remittances, coupled with concerns over declining FX reserves, could lead sentiments to remain soft in the interim.** But on a brighter note, there are potential signs of moderation in drags from PH equity outflows in the second half of Aug versus the first half of the month.

- Despite global growth concerns (more discernible in Europe and China and emerging jitters in US), **PHP could also see relative resilience on this front given the more domestic-oriented nature of the Philippines economy**. As of 2020, share of exports to GDP is relatively low for Philippines at 25%, versus 61% for Malaysia, 176% for Singapore, 52% for Thailand. While Indonesia has a lower share at 17%, it is more sensitive to global commodity trends given its pre-dominantly commodity-linked exports.

- **Growth and Inflation Outlook:** Philippines' real GDP in 2Q 2022 expanded +7.4%y/y (1Q 2022: +8.2%, revised from +8.3%; MIBG 2Q 2022F: +7.0%; 1H 2022: +7.8%), on firm domestic demand amid easing of movement restrictions and improved labour market conditions. **Our economist team maintains 2022 growth forecast at +6.5% but with heightened external risks and BSP's interest rate hikes, the team cut 2023 growth forecast to +5.2% from +6.2% previously**.

- On higher frequency indicators, PMI Mfg for Jul deteriorated to 50.8 versus 53.8 prior, diverging from more benign outcomes in other ASEAN economies, warranting some caution. Fitch Ratings also commented that rising rates will put incremental pressures on consumers and SMEs in the Philippines, given residual drags from Covid. Meanwhile, labor market data implied some resilience (i.e., unemployment rate was unchanged at 6.0% in Jun 2022; 1H2022: 6.1%).

- Headline inflation rate accelerated further to +6.4%y/y in Jul 2022 (Jun 2022: +6.1%; 7M2022: +4.7%), well above the upper end of BSP's target range of 2%-4%, on higher FNAB and transport costs. This is the highest inflation print since Oct 2018. **Our economist team maintains 2022 and 2023 headline inflation rate forecasts at +5.3% and +3.9%, respectively (2021: +3.9%)**.

- **Monetary Policy Forecast:** On monetary policy, as expected, BSP raised the policy rate by another +50bps to 3.75% on 18 Aug 2022—the fourth hike with a total +175bps hike so far this year. This is after the surprise +75bps hike on 14 Jul 2022. Our economist team continues to expect BSP to frontload and bring forward policy normalization this year by another +25bps to 4.00% as BSP expects inflation rate to peak in Oct/Nov 2022 with average +5.4% (vs +5.0% previously) and to ease to +4.0% in 2023 (vs. +4.2% previously).

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

economic recovery momentum. Towards late Aug 2022, the Government approved a measure that would expand distressed SMEs' access to lending programmes.

- **There are early signs of increasing fiscal stresses.** Average monthly budget deficit from Jan to Jul 2022 is around -PHP108bn, vs. the pre-pandemic monthly average of -PHP55bn in 2019, reflective of the fiscal challenges associated with the pandemic. But in his state of the nation address in late Jul, **President Marcos vowed to overhaul the tax system, introducing a 19-point legislative agenda to spur growth and attract new investment flows.** A proposed VA tax on digital services is estimated to generate PHP11.7bn in revenues if implemented in 2023. The administration targets 6.5-7.5% growth this year and 6.5-8% GDP expansion through 2028. **He also pledged to bring down the fiscal deficit to GDP ratio to 3% by 2028 (consensus estimate of -7.7% this year), while lowering debt-to-GDP ratio to less than 60% by 2025**.

- Jun 2022 saw fourth month of single-digit exports at just +1.0%y/y (May 2022: +6.4%) amid tepid manufacturing exports vs continued double-digit imports growth of +26.0%y/y (May 2022: +30.2%) reflecting impact of high global commodity & input prices plus softer PHP. Trade deficit widened to -US$5.8b (May 2022: -US$5.6b). But subsequent 3Q **decline in commodity and energy prices could bring some relief on the import burden front. House view looks for current account deficit this year to come in at 3.5% of GDP, versus 1.7% prior.**

- **Key domestic events and issues to watch:** Aug PMI Mfg (1 Sep); Aug CPI (6 Sep); Aug Foreign reserves (7-15 Sep); Jul Unemployment rate (8 Aug); Jul trade (9 Sep); Jul Overseas Remittances (14-17 Sep); Aug BoP Overall (18-23 Sep); BSP Policy decision (22 Sep); Aug Budget balance (22 Sep).

- **Technical Outlook:** USDPHP last seen at 56.15, remaining on an up-creep for much of Aug. Momentum on daily chart is mild bullish, while RSI is not showing a clear bias. More ranged moves could be seen in the interim. Resistance at 56.45 (Jul, Aug double-top). Support at 55.40 (23.6% fibo retracement from Apr low to Jul high), 54.70 (38.2% fibo).

THB: Current Account Deterioration, Lagging Policy Normalization in Focus

Forecast	3Q 2022	4Q 2022	1Q 2023	2Q 2023
USDTHB	**36.00** (35.50)	**35.60** (35.10)	**35.20** (34.80)	**34.80** (34.50)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** USDTHB touched high (since 2006) near 37-handle in Jul, before paring gains into early-Aug on broader dollar softening and signs of cautious optimism on tourism inflows. But subsequent bout of dollar rally on firm hawkish Fed messaging, growth jitters and maintenance of Covid-zero Covid stance in China (complicates timeline for return of Chinese tourists), ongoing current account softness, perceptions of lagging policy normalization versus peers and major central banks etc., led USDTHB to retrace higher in the second half of Aug. On net, USDTHB pair could remain in buoyant trading ranges for a while yet but with growth remaining largely resilient and various drag factors already baked somewhat into THB sentiments, further USDTHB upswings could be more contained. As tourism revenue receipts provide incremental support over time (focus on China Party Congress in Oct for signs of easing in Covid-zero stance), THB drags could ease into 2023.

- **Broad dollar levels are seeing some support after hawkish Fedspeaks at Jackson Hole pushed back against the notion of a dovish Fed tilt soon.** Powell in particular flagged that the inflation fight would require the Fed to use its tools "forcefully" and bring pain to households and businesses. That is, Fed will be willing to let restrictive conditions remain around for longer to ensure sufficient demand destruction in bringing price pressures lower. Such messaging will lend support to dollar DXY for now, but expectations of Fed policy path into 2023 will continue to swing two-way amid new US inflation, jobs and activity data. In particular, rising US recession risks towards the turn of the year could lead to re-emergence of bets on Fed to tilt dovish at some point in 2023.

- For THB, trends in portfolio flows might be a key indicator to watch. Both equity and bond flows saw more benign performance in Aug (equities: +US$1516mn net inflows as of 30 Aug vs. +US$128mn in Jul; bonds: +US$591mn net inflows as of 30 Aug vs. -US$96mn in Jul). **This recovery in flows could be helping to temper the magnitude of drags from other risk factors.**

- THB continues to be impacted by oil price swings, given its role as an net oil importer. Brent has fallen from around US$124/bbl in early Jun to US$100/bbl at last seen. While some support could emerge on risks of OPEC+ supply cuts, we also note potential return of Iran supply if talks with US conclude on a positive note. Upside risks to energy prices should be more manageable on (i) mounting concerns over softening global aggregate demand, (ii) signs of interest in Russian oil from parts of Asia, including China, India. **On net, drags from elevated energy prices might remain intact, but could ease a tad in extent going forward.** Authorities have budgeted an additional THB8bn towards energy bill subsidies from Sep-Dec.

- Domestic Covid cases have been on an upswing for most of Feb-Mar, but **has largely reverted to a downtrend from Apr**. 7-day average in new daily cases is below 2k in late-Aug, versus peak of near-30k in end March. Earlier, authorities released a roadmap for transitioning from pandemic status to endemic.

- **Tourism flows are improving at a healthy pace (from low base), even as absence of Chinese tourists will continue to weigh on the outlook.** Post recent scrapping of various Covid curbs, tourism recovery is ongoing. Authorities currently expect 7.5mn tourists in 2H, which may bring full-year visitors to around 10mn mark. This is still a far cry from the annual ~40mn tourists in 2019 (with tourism sector accounting for about 12% of GDP), but marks a relatively robust pace of recovery. This is expected to generate about THB400bn in tourism receipts for 2H. But we note that cautious optimism in 2H tourism figures had been communicated to markets prior, so immediate positive spillovers to sentiments could be milder in the interim. We watch for any signs of easing in Covid-zero stance in China from Party Congress in Oct, which would likely spillover to tourism outlook in Thailand.

- **THB sentiments saw some initial drags from news of Prayuth's suspension from PM duties, but drags faded a tad subsequently**. Current rules limit a PM to maximum of eight years in office. The debate revolves around when Prayut was considered to have started his term, with opponents saying it should start from 2014 when he took power, and supporters arguing that it should start from 2017, when he became Premier upon implementation of new constitution, or 2019, when delayed national polls took place. Signs of policy continuity (i.e., ongoing progress on Budget bill) could help limit interim drags on this front.

- **Growth and Inflation Outlook**: 2Q GDP growth (+2.5%) came in below expectations as the widening trade deficit and decline in investment offset the pickup in private consumption. The NESDC narrowed its 2022 GDP growth forecast to 2.7%-3.2% (from 2.5%-3.5%). **Our economist maintains GDP forecast at +3.2%**, implying that growth will accelerate to around +3.9% in 2H, partly due to a lower base (2H21: +0.8%) caused by the Delta wave outbreak.

- Headline CPI eased slightly to +7.6% in July as fuel prices fell from the peak in June. But core CPI (+3%) rose to the fastest pace in 14 years, mainly driven by higher food prices. **Our economist team maintains headline CPI forecast for 2022 at +6.3%.**

- **Monetary Policy Forecast:** BoT raised policy rate by +25bps from record low of 0.5% on 10 Aug (first since Dec 2018), with a 6-1 vote for a +25bps vs. a more aggressive +50bps hike. BoT viewed that the economic recovery will continue to gain traction, and thus the extraordinarily accommodative monetary policy will become less needed. Rhetoric largely suggested that more gradual hikes will be on the table subsequently. BoT Assistant Governor also mentioned that overly large increases could put pressure on banks. **Our economist team expects BoT to deliver another two rounds of +25bps hike in the remaining meetings in Sep and Nov**, with the pickup in GDP growth,

elevated inflation, and to narrow the interest rate differential against the Fed.

- THB notably strengthened into the meeting but was sold off after, on confirmation of gradual pace of hikes. On net though, BoT's gradual hike trajectory in 2H could have been priced in by markets somewhat, and more uncertainty could come from the Fed policy path instead.

- **Latest Fiscal and External Balance Outlook**: In recent months, fiscal efforts largely revolve around managing cost-of-living pressures, involving cash assistance, discounts or excise-tax cuts for products such as retail diesel, cooking gas purchases, electricity. Contributions under the social security system were also lowered (from 5% to 1%) for both employers and workers.

- Parliament passed a US$89bn budget bill for FY2023 (starting 1 Oct), with an estimated deficit of US$19.3bn. 258 members supported the bill, while 180 voted against, and the bill will now go to the Senate, where it is expected to be approved within 20 days. Signs of progress in the budget process could be net positive for THB, even as broader external cloudy outlook could mitigate extent of positive spillovers. In related news, a new power tariff hike has been postponed by PM Prayuth given cost-of-living considerations.

- Recent comments from Finance Minister Arkhom suggests that authorities will focus on maintaining fiscal discipline after the large bout of borrowing earlier. House view is for fiscal deficit to narrow towards 4.3% of GDP in 2022 from 4.8% prior. **While efforts to maintain fiscal discipline are largely positive for THB sentiments over the long-run, there could be near-term concerns on potentially more constrained support to growth from fiscal policy**.

- The current account deficit widened significantly to US$4.1bn in Jul (vs. $1.9bn in Jun). This is the widest since Apr 2013. Part of the widening in current account could be due to the deterioration in trade balances. Customs exports grew by 4.3%y/y in Jul, versus expected 11.15% and prior 11.85%. Coupled with robust import growth of 23.9%, trade deficit widened to -US$3.66bn versus -US$1.53bn prior. On net, elevated energy bill continues to pose drags to current account balance, but drags could be tempered in part by improving tourism receipts over time, conditional on further oil gains being capped. **Our economist team projects 2022 current account to come in at a deficit of around 2.2% of GDP, on par with developments in 2021.**

- **Key domestic events and issues to watch:** Aug PMI Mfg (1 Sep), Aug Business sentiment (1 Sep); Aug CPI (5 Sep); Aug Consumer confidence (8-12 Aug); Aug Customs trade (22 Sep); Aug Manufacturing Production (26-30 Sep); BoT Policy decision (28 Sep); Aug BoP Current account (30 Sep).

- **Technical Outlook**: USDTHB last seen near 36.45, heading lower from YTD highs in the first half of Aug before turning decisively higher after. On technicals, momentum on daily chart is modestly bullish, while RSI is nudging higher towards near-overbought conditions. USDTHB could continue to see some support amid broader risk aversion, but extent of up-moves may be more contained. Resistance at 37.0 (recent high).

Support at 35.9 (21-DMA), before 35.1 (38.2% fibo retracement from Feb low to Jul high).

VND: Drawing Strength from Within

Forecast	3Q 2022	4Q 2022	1Q 2023	2Q 2023
USDVND	**23400** (23000)	**23200** (22900)	**23000** (22900)	**22800** (22700)

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** We revised the USDVND forecasts a tad higher, taking into account the USD strength that has persisted for tad longer than expected. That said, the pair has stabilized within the 23300-23450 range since Jun, anchored by SBV via open market operations which resulted in a withdrawal of liquidity in order to curb inflation. Into mid-Aug, such operations seem to have slowed with the bidding interest rate at the last auction (30 Aug) at 4.0%.

- Thus far, Vietnam has seen a net equity-related inflow this month, estimated to be around $85.7mn between 1-29 Aug. FDI has also been steady at around $1bn a month thus far this year, supported by trade pacts and its growth outlook. **While the VND's support from trade surplus may not be entirely relied on given weakening external demand, we like to remain constructive on the VND based on its strong economic outlook that can continue to sustain inflows (portfolio/direct investment).**

- **Growth and Inflation Outlook:** Our economist upgraded GDP forecast to 8% for 2022 from 6.9% seen previously, primarily on a more resilient economy over 3Q (expected to be at 13%) and growth could remain robust into the final quarter (8%), supported by retail sales that could be flattered by favourable base effects. Household consumption is expected to strengthen as labour market conditions improve and tourists return.

- 2023 GDP forecast is slightly downgraded to 6% from 6.4%, taking into account rising probability of a mild US recession over the next 12 months with elevated inflation and aggressive policy tightening that could reduce US demand of Vietnamese goods.

- Aug activity data looked solid, albeit flattered by the base effects of last Aug when Vietnam had imposed strict lockdowns to clamp down on delta Covid cases. Retail sales picked up pace to 50.2%y/y from previous 42.6%. Industrial production accelerated to 15.6%y/y from previous 11.2%. Breakdown shows manufacturing accelerating in

growth to 16.2%y/y from previous 12.8%. Electricity and water supply also recorded faster growth at 14.8% and 11.0% (vs. previous 8.7% and 9.2% respectively). Growth pace has accelerated month-on-month at 2.9% vs. previous 1.6%.

- Exports growth picked up pace to 22.1%y/y from previous 8.9%. Imports on the other hand accelerated more than expected to 12.4% from previous 3.4%. Trade surplus is thus widened to $2.42bn from previous $21mn. That said, the Vietnam national Textile and Garment Group (Vinatex) CEO Pham Xuan Trinh said that export orders have declined as consumer demand in other countries is affected by rising inflation. Thus, we do not expect the VND's support from trade surplus to sustain.

- Our economist lowered the 2022 average headline inflation forecast to +3.4% (from +3.7% previously), on account that the 8M2022 average stands at only +2.6%. Our full-year CPI forecast assumes that Sep-Dec inflation will be around +5% on average. We maintain our 2023 inflation forecast of +3.6%.

- **Monetary Policy Forecast:** Our economist maintains view for a hike of 50bps for the refinancing rate (to 4.5%) and the discount rate (3%) in the 4Q as inflation pressure broadens, there appears to be move to withdraw liquidity in vigor most recently to counter inflation and that in turns, strengthen the VND.

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

- **Key domestic events and issues to watch:** Aug Mfg PMI (5 Sep), Sep CPI, industrial production, trade, retail sales on 25-30 Sep

FX Forecasts

	End Q3-22	End Q4-22	End Q1-23	End Q2-23
USD/JPY	138.00	134.00	132.00	128.00
EUR/USD	0.9800	0.9900	1.0000	1.0200
GBP/USD	1.1600	1.1800	1.2000	1.2200
AUD/USD	0.7000	0.7000	0.7100	0.7200
NZD/USD	0.6200	0.6300	0.6500	0.6500
USD/CAD	1.3000	1.2950	1.2900	1.2850
USD/SGD	1.3850	1.3700	1.3600	1.3500
USD/MYR	4.5000	4.5000	4.4000	4.4000
USD/IDR	14700	14500	14400	14300
USD/THB	36.00	35.60	35.20	34.80
USD/PHP	56.00	55.50	54.50	53.50
USD/CNY	7.00	6.95	6.92	6.90
USD/CNH	7.02	6.98	6.94	6.90
USD/HKD	7.80	7.80	7.80	7.80
USD/TWD	30.00	29.80	29.60	29.50
USD/KRW	1340	1320	1300	1270
USD/INR	81.00	80.50	80.00	79.00
USD/VND	23400	23200	23000	22800
DXY Index	109.92	108.50	107.27	105.28
SGD Crosses	End Q3-22	End Q4-22	End Q1-23	End Q2-23
SGD/MYR	3.25	3.28	3.24	3.26
JPY/SGD	1.00	1.02	1.03	1.05
EUR/SGD	1.36	1.36	1.36	1.38
GBP/SGD	1.61	1.62	1.63	1.65
AUD/SGD	0.97	0.96	0.97	0.97
NZD/SGD	0.86	0.86	0.88	0.88
CAD/SGD	1.07	1.06	1.05	1.05
SGD/IDR	10614	10584	10588	10593
SGD/THB	25.99	25.99	25.88	25.78
SGD/PHP	40.43	40.51	40.07	39.63
SGD/CNY	5.05	5.07	5.09	5.11
SGD/HKD	5.63	5.69	5.74	5.78
SGD/TWD	21.66	21.75	21.76	21.85
SGD/KRW	968	964	956	941
SGD/INR	58.48	58.76	58.82	58.52
SGD/VND	16895	16934	16912	16889
	End Q3-22	End Q4-22	End Q1-23	End Q2-23
JPY/MYR	3.26	3.36	3.33	3.44
EUR/MYR	4.41	4.46	4.40	4.49
GBP/MYR	5.22	5.31	5.28	5.37
AUD/MYR	3.15	3.15	3.12	3.17
NZD/MYR	2.79	2.84	2.86	2.86
CAD/MYR	3.46	3.47	3.41	3.42
MYR/IDR	3267	3222	3273	3250
MYR/THB	8.00	7.91	8.00	7.91
MYR/PHP	12.44	12.33	12.39	12.16
MYR/CNY	1.56	1.54	1.57	1.57
MYR/HKD	1.73	1.73	1.77	1.77
MYR/TWD	6.67	6.62	6.73	6.70
MYR/KRW	298	293	295	289
MYR/INR	18.00	17.89	18.18	17.95
MYR/VND	5200	5156	5227	5182

Source: Maybank FX Research and Strategy as of 31 Aug 2022.
*These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.

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