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Global

FX Monthly

2022, Issue 9: Safety First

What Has Changed This Month?

- We adjusted most FX softer versus dollar as confluence of repricing in Fed policy path post Sep-FoMC and incremental haven demand amid elevated global growth/policy uncertainties lent broader support to dollar demand.

Our Strategies

- Broad risk sentiments deteriorated in Sep, with dollar pushing near two-decade highs at one point and equities slumping to late-2020 lows at last seen. Fed's clear commitment to keep US monetary policy in restrictive territory for longer was clarified at the Sep FoMC, via upward revisions to the dot plot (peak rate now at 4.6% in 2023 versus 3.8% in the June dot plot). Downward revisions to growth (2022 growth now seen at 0.2% versus Jun's 1.7% projection) also showed Fed's willingness to bring down inflation at the expense of incremental weakness in the economy. In the near term, haven demand for USD is also likely to remain intact amid elevated external uncertainties, including geopolitical troubles in Europe, spillovers to financial markets from surprises in UK fiscal plans, still-soft growth momentum in China etc.
- UK just u-turned on its most controversial plan to abolish the 45% tax rate imposed on income over £150K. That has brought tentative relief for GBP but the sharp u-turn damaged Truss' credibility. Meanwhile, BoE's support for the gilts market will only last until 14 Oct. Taken together, GBP is still susceptible to two-way swings. Elsewhere, China's Party Congress is key in Oct. Ahead of the event, China announced more policy supports (property sector, infrastructure) and data also show signs of stabilization. Jawboning is also stepped up to stabilize the yuan. However, shifting from the overarching Covid-zero strategy is still key to reviving animal spirits at home and we are cautiously optimistic that Xi Jinping may announce certain timeline/conditions to exit the current strategy after he secures his third presidential term. Yuan may find more sustainable relief from the announcement, with other AxJ FX poised to benefit.
- USD-AxJ FX pairs have seen significant upward pressures recently, and confluence of ongoing risk triggers could keep dollar crosses in buoyant ranges in the interim, notwithstanding intermittent retracements on stretched positioning. On this front, relative value plays are preferred. In our ASEAN X Macro piece published 9 Sep, we had indicated relative preference for IDR (support from trade surpluses) versus MYR (election risks) and THB (delayed tourism recovery). We had also signalled caution on PHP given twin deficit concerns, while favoring long SGD NEER on potential MAS tightening action in mid-Oct. These assessments remain largely intact for now.

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Top 3 Currency Plays for Oct

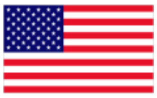
Long SGD NEER on Potential MAS Tightening
Short GBPCNH on upbeat Party Congress
Tactically Long NZD on Stretched Conditions

Key Events for the Month Ahead

Date	Event
5 Oct	In-person OPEC meeting in Vienna
16 Oct	20th National Congress of the CCP

SEE PAGE 57 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

G7 Global Overview



USD: Safe Haven Support

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023
USD Index	111.95 (108.50)	111.83 (107.27)	109.32 (105.28)	107.39 (--)

Previous Forecasts in Parentheses

- **Motivation**: The DXY index reached a high of 114.78 on 28 Sep, last printed 112.17 on 1 Oct. Year to date the USD DXY index has risen around 17%. The USD is likely to remain supported on the back of interest rate, growth and safe haven differentials which continue to be on the USD favour. First, the FOMC sharp hikes remain hawkish and no pivot in sight with any clear indication from the second factor which are strong macro fundamentals like the US labour market remaining very tight and inflation still around double the Fed's target. This comes when the rest of the world remains relatively weighed down by zero covid strategy in China, energy related concerns and a cyclical downswing. Third, the safe haven differential with other countries coupled with the reserve currency characteristics of the USD, amid recent concerns about the UK and eurozone and ongoing geopolitical situation being unchanged and protracted. We envisage the above to remain until sometime end of this year. We have revised our DXY to appreciate by a further 4% from our original forecasts taking into consideration recent developments and lack thereof of data releases that may suggest a Fed pivot earlier over the next Nov and Dec meetings.

- Furthermore, the protracted Russia-Ukraine geopolitical situation and tighter Fed policy move concerns around data releases will continue to exarcebate sentiment and further support the dollar. 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. We think this could potentially happen in 1Q 2023.

- To sum up, near-term (coming 3-6 months) risks remain skewed to the upside for broad USD. 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

1Q 2023 as inflation momentum may start to ease albeit at still high levels by end 2022.

- **Growth and Inflation Outlook:** US real GDP growth remain unchanged at -0.6% in 2Q on the back of firmer services consumption growth. But this was offset by weaker services exports growth and a larger drag from the inventories category. 2Q core PCE inflation was revised up to 4.65% annualised from 4.42%, and the year-on-year rate was revised up 0.18pp to +4.98%. Annual revisions was concentrated in the food services and accommodations, motor vehicles and parts, transportation services, and financial services categories.

- Aug core CPI rose by 0.57% m/m, above consensus of 0.3% and y/y Core CPI rose to 6.3% from 5.91% previously. It was on the back of road-based strength in cyclical and wage-sensitive services categories including shelter, restaurants, medical care, education, and personal care. Headline CPI rose 0.1%, with the y/y headline falling to 8.3% from 8.5% on lower gasoline prices.

- Nonfarm payrolls rose 315k in Aug, slightly above consensus. This is a slowdown from the 3-mth average of +402k three-month average. The household survey was strong, with employment increasing by 442k.

- **Monetary Policy Forecast**: The 20-21 Sep 2022 FOMC meet saw the target fed funds rate (FFR) raised by 75bps for third straight meet to 3.00%-3.25%. The decision was unanimous for the second straight meet.

- Fed's latest "dot plot" signals FFR at 4.375% by end-2022 – suggesting another 125bps hikes in Nov and Dec FOMC meet - and peaking next year at 4.60%. Fed cut US real GDP growth forecasts and raised projections on inflation and unemployment rates.

- Latest FOMC Statement was a "carbon copy" of 26-27 July 2022 FOMC meet. What changes are the Fed's dot plot and macro projections. Fed's dot plot signals FFR at 4.375% by end-2022 (vs June 2022's dot plot of 3.375%) – signaling another 125bps hikes in this year's remaining two FOMC meetings (1-2 Nov 2022 and 13-14 Dec 2022) vs 3.125% mid-point of current target FFR range of 3.00%-3.25% that was raised by 75bps at 20-21 Sep 2022 FOMC meet. Fed's policymakers expect FFR to increase further to 4.625% in 2023 before falling to 3.875% in 2024 and 2.875% in 2025 before settling at 2.50% in the "longer run". Market pricing of FFR by end-2022 of 4.30% is slightly below Fed's dot plot, and diverge considerably for 2023 as in factoring in FFR cuts i.e. down to 4.25% by end-2023 after 4.6% peak in 1Q 2023.

- Macro forecasts update - growth-unemployment "pain" for inflation target "gain". Fed raised its 4Q 2022, 4Q 2023 and 4Q 2024 inflation rate forecasts to 5.4% YoY, 2.8% YoY and 2.3% YoY respectively vs 5.2% YoY, 2.6% YoY and 2.2% YoY in June 2022, plus sees the 2.0% inflation target to be achieved by 4Q 2025.

- Fed bumped up its unemployment rate forecasts to 3.8%, 4.4% and 4.4% for the final quarters of 2022, 2023 and 2024 from 3.7%, 3.9% and 4.1% previously, and expects 4Q 2025 jobless rate to remain "sticky" at 4.3%. Fed's 4Q 2022 real GDP growth forecast is slashed to 0.2% YoY vs June 2022's projection of 1.7% YoY, and trimmed 4Q 2023 and 4Q 2024 numbers to 1.2% YoY and 1.7% YoY vs 1.7% and 1.9% previously, with 1.8% forecast for 4Q 2025.

- Plus faster balance sheet reduction pace this month. Fed starts its balance sheet reduction or Quantitative Tightening (QT2.0) in June 2022 after its Quantitative Easing (QE Taper 2.0) in Nov 2021 - Mar 2022. Fed started QT2.0 with monthly balance sheet runoff of USD47.5b (i.e. USD30b for Treasuries and USD17.5b for mortgage-backed securities) until Aug 2022 before doubling the pace to USD95b (i.e. USD60b for Treasuries and USD35b for mortgage-backed securities) from Sep 2022. This compares to the starting point of USD10b a month which peaked USD50b a month under Fed's QT1.0 between Oct 2017 and Aug 2019 that saw Fed's balance sheet shrank USD0.7b from USD4.43tr (22.7% of GDP) to USD3.72tr (17.4% of GDP).

- Fed's balance sheet is currently USD8.79tr (34.7% of GDP) vs recent high of 8.92tr (35.2% of GDP) in Apr 2022. The above detail on the mechanics of QT2.0 implies USD522.5b reduction in balance sheet in June-Dec 2022 and USD1.14tr run off per annum thereafter. In early-Aug 2022, it was reported that Fed expects QT2.0 to run for at least two years, implying June 2022 – May 2024 timeframe. These information on QT2.0 path suggests Fed's balance sheet size will fall to USD6.8tr (24.5% of GDP) by May 2024.

- **Key domestic events and issues to watch in Oct:** ISM Manuf (3 Oct); NFP (7 Oct); Factory orders, durable goods orders (4 & 27 Oct); CPI (13 Oct); FOMC Minutes (13 Oct); Retail Sales (14 Oct); GDP (27 Oct); PCE deflator (28 Oct).

- **Technical Outlook:** The DXY index was last seen around 112-handle. Support is seen at 110.90 (21-DMA) before 108.80 (50-DMA). Bullish momentum seems to be easing, while RSI has dipped from overbought conditions. Resistance at 113.10 before 114.80 (recent high). There could be two-way trade within the 110.90-115 in the near-term.

EUR: Uping the Ante into Winter

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023
EURUSD	**0.9800** (0.99)	**0.9800** (1.0000)	**1.0000** (1.0200)	**1.020** (--)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** For much of this coming quarter, we continue to expect EURUSD to remain swung by headlines on the energy crisis and the war in Uraine as well as ECB. Market anxiety over the possibility of energy rationing (Gazprom has three leaks in its pipelines and just cut off energy supply to Italy), inflation and economic contraction in Winter could continue keep EUR under pressure well into 4Q. While ECB officials vow to act to control inflation, the BTP-Bund yield differential has widened of late and could test the Governing Council's resolve in using the transmission protection instrument in order to hike rates. On net, risks are still skewed to the downside. Price action for the next week could remain under parity with support at 0.9520 before the 0.9380. What is not in the price is Russia's attempt to end the war after a quick annexation of the four Russian-occupied Ukrainian territories but that would require Kyiv's unlikely concession.

- **Energy crunch -** The natural gas market still faces tight supply, exacerbated by the halt in Russia's gas supply due to suspicious leaks. Up until recently, natural gas prices have drifted lower (last around EUR200/MWh) on the narrative that Europe has met its gas storage goals for winter. However, EUR is still weighed by longer-term energy concerns. Full gas storage is estimated to sustain European countries for three months at best according to Aurora Energy Research assuming an average weather condition. Energy adequacy could very much be dependent **on weather conditions and concomitant consumption (demand reduction)**. The Independent Commodity Intelligent Services had urged countries to reduce gas use to 15% below the five-year average and that would leave post-winter storage 26% full if Russia cut flows from Oct. This would have repercussion on energy adequacy for the next winter.

- Italy just elected its first female PM Giorgia Meloni and whilst she was quick to pledge to Ukraine, dealing with the nation's debt would be more challenging as rising yields in anticipation of ECB tightening has lifted the debt burden of the nation. Eyes are on how willing the ECB governing council will allow the use of transmission protection instrument to ease Italian yields given the criteria on ensuring that its debt is sustainable could be arguable. A silver lining is that Italy seems to have sufficient gas supply from North Africa in case Europe. Russia just stepped up pressure on that front by cutting off gas supplies to Italy. EU wants the budget from Italy on 15 Oct and she needs to ensure that the country gets the EUR200bn share of the EU recovery fund cash. While she pledged to keep its finances on track, the task is made challenging with tax breaks extension and energy subsidy for businesses (requested by ally Matteo Salvini). Failing to show fiscal discipline could mean that Italy may not receive the full EU recovery fund.

- **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: At the Sep policy meeting, ECB raised inflation projections to 8.1% in 2022, 5.5% in 2023 and 2.3% in 2024.** Price pressure remains elevated due to rising energy and food prices, demand pressure from reopening and supply bottlencks. More recently, ECB Chief economic Philip Lane expressed concerns of wage-price spiral where higher wages (meant to shield workers from higher inflation) could drive up costs for the companies and lead to second round effects.

- **Growth on the other hand is expected to be 3.1% for 2022 (that includes stagnation towards the end of the year, 2Q GDP was at 4.1%), 0.9% in 2023 and 1.9% on 2024.** In the face of rising price pressure, Lagarde has warned that “interest rates will be raised to dampen demand and guard against the risk of a persistent upward shift in inflation expectations”. Higher energy and food prices could affect the most vulnerable households. This outlook seems to be all the more dire as Nord Stream shipment of natural gas is now halted (as of 27 Sep) due to “leaks”.

- Preliminary PMI prints for Sep continue to project contraction in services and manufacturing at 48.9 (vs. 49.8) and 48.5 (vs. prev. 49.6) respectively. Consumer confidence slid to a record low of -28.8 banticipated with Germany’s manufacturing PMI even surprising to the upside with an unexpected improvement to 49.8 vs. previous 49.3.

- **Headline CPI edged higher 9.1% y/y, up from 8.9% in Jun.** Breakdown suggests headline is driven by rising costs of housing, water, electricity, gas and other fuels (at 3.5%y/y) as well as food (2.1%y/y). Core inflation (excluding energy, food, alcohol and tobacco) picked up pace from 4.0% in Jul to 4.3% for Aug. The recent inflation report would probably require ECB to frontload rate hikes.

- **Monetary Policy Forecast:** ECB hiked +75bps overnight. The deposit facility rate is now at 0.75%, marginal lending facility at 1.50% and refinancing rate at 1.25%. Lagarde even said the same action could be part of “several” future moves to escalate officials’ counter rampant inflation. She elaborated that moves are likely to be more than two (including the recent action) and less than five. As the economic outlook becomes grimmer, Lagarde told EU parliament that interest rates will need to be raised to dampen demand and guard against the risk of a persistent upward shift in inflation expectations”. Higher energy and food prices could affect the most vulnerable household. **This underscores ECB’s determination to fight inflation at the cost of further demand destruction.**

- **A 75bps rate hike for Oct is now almost fully priced as ECB officials have been consistently hawkish** in light of the persistent price pressure. ECB Holzmann specifically mentioned on 28 Sep that 50bps should be the “minimum” for the October decision and a 75bps move is a “good figure” for Oct. He said that the QT could be discussed in the first week of Oct and should be part of monetary policy normalization. Policy rates may have to go above neutral, above the 2.5% (vs. current 0.75%). Meanwhile, Finland Rehn opined on 28 Sep that policy rate shouldhead into neutral range by Christmas. ECB economist Philip Lane is concerned of a wage-price spiral scenario. Risks are thus skewed to the upside for further frontloading.

- Also on our radar is the BTP-bund yield differential that has been widening since right-wing coalition led by Giogia Meloni won the snap election in Italy. Concerns are that the new government have to spend more in order to help businsses and households cushion against rising energy prices. At the same time, a failure to show sufficient fiscal discipline at their next report could see EU withholding their recovery fund from them. That said, the transmission protection instrument is at hand for the ECB governing council to buy BTPs in order to keep the yield spread from widening. Aggressive tightening could keep ECB on the path to catch up with the Fed and dampen the pace of EUR depreciation.

- **Latest Fiscal and External Balance Outlook**: Euro-area current account posted a deficit of EUR19.2bn in Jul, swinging from a surplus of EUR4.2bn. Deficits were mainly for secondary income and goods balance. Year to date, the current account recorded a deficit of EUR12.8 billion.

- **Key domestic events and issues to watch:** Sep mfg PMI [3 Oct]; Aug PPI [4 Oct]; Sep Services, Composite PMI [5 Oct]; Aug retail sales [6 Oct]; Aug industrial production [12 Oct]; Aug trade [14 Oct]; Oct Zew survey [18 Oct]; Aug construction output, Sep CPI [19 Oct]; Oct consumer confidence [21 Oct]; prelim. Mfg PMI, Services PMI [24 Oct]; ECB policy decision [27 Oct]; Economic confidence, industrial confidence, services confidence [28 Oct], Prelim. Oct CPI, 3Q GDP [31 **Oct].**

- **Technical Outlook:** EURUSD was hovering around 0.9810 as we write. This pair remains within a falling trend channel. Momentum indicators suggest less bearish momentum for now but bearish trend is still intact. Watch support at 0.9520. Resistance at 0.9950 before the next at 1.0020.

GBP: Truss-turmoil

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023
GBPUSD	**1.1000** (1.1800)	**1.1100** (1.2000)	**1.1300** (1.2200)	**1.1300** (--)

Previous Forecasts in Parenthesis

- **Motivation for the FX View**: The pound and gilts crashed after new UK Chancellor Kwasi Kwarteng delivered the “mini-budget” on 23 Sep. Concerns for UK’s fiscal deterioration (£193.9bn gilts to be sold) and demand boosting tax cuts that can worsen inflation pressures at home spurred GBPUSD a historic low of 1.0350 on 26 Sep. 2y yield rose to a hgh of 4.73%, up >110bps. To support the gilts market, BoE purchased £1bn of long dated gilts (residual maturity of more than 20 years) at the auction on 28 Sep and pledged to stand ready to purchase long dated gilts in a “temporary and targeted way” to stabilize financial markets. Subsequent auctions are scheduled every day until 14 Oct. This could serve to buy time for the Truss’ government to shore up confidence (get the independent OBR to vet the fiscal plan) or to modify their tax plans to one that is more targeted. S&P has downgraded the UK’s credit outlook to negative, expecting its budget deficit to widen by an average of 2.6% of GDP annually through 2025 with net general government debt to remain on an upward trajectory compared to its previous expectation of a decline from 2023. Chancellor Kwarteng just u-turned on its most controversial plan to abolish the 45% tax rate imposed on income over £150K. That has brought tentative relief for GBP but the sharp U-turn had damaged Truss' credibility. GBP is also currently underpinned by BoE's support for the gilts market but that will only last until 14 Oct. GBP is still susceptible to two-way swings.

- Truss' hard stance on EU also 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, amplified by the mini-budget that could worsen price pressure**. While oil prices are on net lower in Sep 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 (not helped the least by the mini-budget) 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.

- **EU-UK squabbles still a concern**. In addition to Truss' domestic woes, recall that 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 still a concern**. Recall that the government had a "reasonable worst case scenario" that 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. Notwithstanding the worst case scenario of potential energy rationing/blackout, the new UK government announced plans to cap average household tariffs at around £2500 per year for two years from 1 Oct with the £400/household grant this winter. Businesses are also given support for six months from 1 Oct with a discount given for wholesale power prices for companies, charities and public sector organization. This could provide some cushion but some estimates suggest that electricity prices will still be double what corporate customers experienced in Oct 2021. Risks to inflation are still to the upside.

- **Growth and Inflation Outlook:** 2Q (P) was revised higher to 4.4%y/y from previously estimated 2.9%. In sequential terms, the slight contraction (-0.1%q/q) was revised to a growth of 0.2%q/q, albeit still a slowdown from the modest gain of +0.8% in the prior quarter. Monthly indicators suggest continued weakness in various activity categories, including in services, manufacturing and construction. **Risks of UK entering recession by year-end remains significant**.

- UK construction PMI improved to 49.2 from previous 48.9, albeit still in contraction. The RICS House price balance fell to 53% for Aug from previous 62% (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 (-26 vs. prev. -20) as well as tepid new buyer enquiries (-39). Retail sales ex auto fuel fell -3.0%y/y for Jul vs. previous -6.2% (revised lower). Sequentially, retail sales fell -1.6%%m/m vs. previous +0.4%, underscoring increasing concerns expressed by consumers about rising inflation and the risk of recession.

- CPI print for Aug eased a tad to 9.9%y/y from previous 10.1%, undershooting consensus marginally at 10.0%. Core inflation actually rose to 6.3%y/y from previous 6.2%, buoyed by services inflation which rose to 5.9% from previous 5.7%. This came in the backdrop of tight labour market conditions (ILO unemployment rate for 3months to Jul fell to 3.6% from previous 3.8%). Cable rose on the report, likely buoyed by the decline in the headline. However, GBP gains were unable to sustain as the signs of broadening price pressure become apparent in the details of the inflation report.

- **Monetary Policy Forecast:** BoE raised the policy rate by +50bps to 2.25% on 22 Sep, in line with expectations. The decision was supported by 5 members. 3 members voted for a 75bps move while one preferred 25bps. The decision to reduce its GBP838bn stock of government bonds by GBP80bn over the next 12 months had unanimous support. This comes in the backdrop of rising inflation with CPI at 9.9% (almost 5 times the 2% inflation targe3t) and the central bank looks for more rate hikes even as the economy is now in recession. Measured CPI Inflation is now expected to peak just under 11% in Oct due to the Energy Price Guarantee. However, power bills are still expected to rise and inflation is still expected to remain above 10% over the next few months before easing off thereafter.

- **Current developments have to be taken into consideration:** the new fiscal revamp (significant tax cuts) and energy subsidies are likely to boost demand. The surge in Gilts supply and the absence of fiscal projections from the Office of Budget Responsibility have sparked off a slump in the gilts market and a capitulation of the GBP. BoE had stepped in to support the gilts market. - BoE pledged unlimited purchase of longer-tenor bonds along with the delay on the start of its plan to sell existing stock of bonds. The central bank had purchased £1bn of long dated gilts (residual maturity of more than 20 years) at the auction yesterday and stands ready to purchase long dated gilts in a "temporary and targeted way" to stabilize financial markets. Subsequent auctions are scheduled every day until 14 Oct. This came amid concerns that collateral requirements owed to sharply higher yields would force pension funds to liquidate long dated gilts.

- As of 29 Sep, markets look for the key rate to be raised by around 150bps to 3.75% by Nov and an accumulative of 350bps by Aug 2023 from current rate of 2.25%. Failure to meet market expectation of a 150bps hike by 3 Nov could mean further pressure on the GBP and greater imported inflation. As such, BoE should take guidance from market and hike base rate by 150bps in Nov unless the Truss government is able to make certain credible modification to their fiscal plans.

- **Fiscal and External Balance Update:** Post-mini-budget, Chancellor Kwarteng has pledged to provide a medium term fiscal plan on 23 Nov that would include fiscal forecasts from the office of budget responsibility. Thus far, we seem to be looking at at least £200bn of energy subsidy bill as well as £45bn of tax cuts that would significant widen the fiscal deficit.

- Meanwhile, 2Q current account deficit widened to $137.5bn, from deficit of $104.8bn in 4Q. On a seasonally adjusted basis, this represents a deficit of 4.33% of GDP, the largest shortfall since 2019.

- **Key domestic events and issues to watch:** Sep F PMI Mfg [3 Oct]; Services PMI [5 Oct]; Construction PMI [6 Oct]; Aug labor market report [11 Oct]; Aug monthly GDP, construction output, trade [12 Oct]; Aug Industrial production. Manufacturing production, trde [12 Oct]; Sep RICS House Price Bal [13 Oct] Sep CPI, PPI [19 Oct]; Sep Retail sales [21 Oct]; Oct Prelim. Mfg, Services PMI [24 Oct]; Oct Nationwide House price [28Oct – 3 Nov]; Oct Lloyds Businss Barometer [13 Oct].

- **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: Pro-Cyclicals Are Punished

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023
AUDUSD	0.6700 (0.7000)	0.6800 (0.7100)	0.6900 (0.7200)	0.7000 (--)

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** We downgraded our AUDUSD forecast to 0.67 for the end of the year as recent escalation of the war in Ukraine, confidence crisis in the UK and still sluggish China growth prospects have weakened the pro-cyclical AUD significantly. While RBA continues to maintain its firm commitment to getting inflation under control, Governor Lowe mentioned that the case for large hikes “diminished” now that cash rate is closer to “more normal settings”. This heavily hinted consideration for smaller hikes in the horizon, contributing to drags on the AUD. China’s property malaise, growth fears have driven a steep price correction for base metals such as iron ore/copper this year but officials there have stepped up on measures – PBoC rate cuts, special loans for stalled projects (recent pledges to add quota for this purpose when needed) 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. Into Oct, we monitor the Party Congress in China and any signs of stronger policy boost or covid-zero shift that could lift base metal prices and provide that terms of trade boost to AUD.

- At the last meeting, the RBA hiked cash target rate by 50bps to 2.35% and projected more rate hikes agead even though it is not on a “pre-set path”. Inflation projections are mantained with CPI to rise 7¾% over 2022, a little above 4% over 2023 and to return to around 3% over 2024. Along with expectation for inflation to rise, cash rate futures also imply an accumulative 175bps hike by May 2023 from current 2.35%. Spread of the The AU-US 10y yield differential has narrowed to 17bps from 90bps in Jun, exacerbating depreciation pressure on the AUD.

- **Growth and Inflation Outlook:** Retail sales rose 0.6%m/m Aug, softening from the previous 1.3%. However, the Westpac consumer confidence posed a rise of 3.9% to 84.4 vs. previous 81.2. NAB business conditions held steady at an elevated score of 20 while business confidence rose to 10 from previous 8 (also revised higher).

- Australia recorded a gain of 33.5K net employment for Aug vs. previous -40.9K with jobless rate edging up only a tad to 3.5% from previous 3.4%. Participation rate rose to 66.6% from previous 66.4%. We saw a net addition of +58.8K and part-time employment fell by a net -25.3K for Aug. This is a strong labour market report and could continue to provide room for further rate hikes.

- As labour data are typically laggard indicators, we monitor the housing market for a better indication of domestic demand. CoreLogic house price fell -1.6%m/m vs. previous -1.4%. Pace of price declines have been on an acceleration with Sydney recording a drop of-2.3%, Melbourne -1.2%. Value of home loans had also dropped -8.5%m/m vs. previous -4.4% with investor loan value down a sharper -11.2% vs. previous -6.3%. Concerns are that further weakness in housing sentiment could have broader spillover effects on private consumption.

- Trade surplus halved to A$8.7bn in Jul from previous A$17.7bn as exports fell -10%m/m vs. previous +5%. Imports growth quickened to 5%m/m from previous 1%. Much of the drags on exports was due to the softening coal and iron ore shipment. Potential for further slowdown in external demand could continue to reduce the trade surplus cushion for the AUD.

- Household spending showed signs of weakening with a gain of 0.8%m/m for Aug, vs. previous 1.1%. Breakdown reveals a fall for retail, travel and entertainmen alongside transport while more is spent on home buying, motor vehicle, household services and health & fitness.

- **Monetary Policy Forecast:** RBA is expected to raise cash target rate by around 50bps on 4 Oct in order to bring the inflation closer to its 2-3% inflation target. Even with a 50bps hike that should bring the cash target rate to 2.85%, the central bank may continue to emphasize on the data-dependency on the rate trajectory and play up the possibility of smaller hikes ahead. This is especially in light of the softer inflation expectation at 5.4%y/y for Sep vs. the previous 5.9%, the third consecutive decline since its peak in Jun. With respect to the monthly inflation prints, Deputy Governor Bullock clarified that these are in focus as they are not the full CPI. Bullock also spoke about slowing the pace of rate hikes as Australia's inflation is not as high as other DM countries. Meanwhile, Governor Lowe hopes for interest to cycle around the 2.5-3.5% range. This puts the next few hikes to be potentially dovish ones as RBA seem to have put in a tentative ceiling notwithstanding markets expectations for cash target rate to peak at around 4.10% next May. Key consideration includes the impact of further rate hikes on the housing market as only 35% of housing credit is fixed-rate debt. Concerns are that further weakness in housing sentiment could have broader spillover effects on private consumption.

- **Latest External Balance Outlook:** As of last available data, current account surplus was recorded at 2.25% of GDP for 2Q 2022, narrowing from the previous 2.38%.

- **Fiscal Outlook:** Treasurer Jim Chalmers will deliver the budget alongside the full set of fiscal forecasts on 25 Oct. Recall that he 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.

- **Key domestic events and issues to watch:** Sep CoreLogic House [2 Oct]; Sep Mfg PM, M-I inflation expectation for Sep [3 Oct]; Aug home loans, RBA policy decision, Sep Commodity index, ANZ job advertisements [4 Oct]; Sep Services, Composite PMI [5 Oct]; Aug trade [6 Oct]; Sep foreign reserves [7 Oct]; Sep CBA household spending, Sep Westpac consumer confidence [11 Oct], Sep NAB business survey [11 Oct]; Oct consumer inflation expectation, [13 Oct]; Sep Westpac leading index [19 Oct]; Sep labour report [20 Oct]; prelim. Oct PMIs [24 Oct]; 3Q CPI [26 Oct]; 3Q PPI [28 Oct] Sep retail sales [31 Oct]. Treasurer Chalmers will present the budget on 25 Oct and he had been sounding a tad downbeat on the global economy and would use global growth deterioration as a reason for not getting fiscal balance back into surplus by 2025.

- **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: Stretched

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023
NZDUSD	0.5800 (0.6300)	0.5900 (0.6500)	0.6000 (0.6500)	0.6200 (--)

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** NZDUSD had been on the backfoot vs. most of its peers due to its sensitivity to risk sentiment and drags from its current account deficit. Inflation could still remain a concern as the recent decline of the NZD could fan inflationary pressure. RBNZ could thus remain on the tightening cycle in order to mitigate imported inflation. Looking forward, hawkish Fed, geopolitical escalation (war in Ukraine, US-China) and growing concerns on growth slowdown (due to synchronous central banks tightening, China's covid policy) could continue to keep the pressure on the NZD. That said, recent NZD decline has been rather sharp and short positions coul be stretched. Into Oct, any signs of China wanting to exit its Covid strategy could boost the NZD . In addition, a hawkish RBNZ walking its talk should be mildly supportive of NZD. We still maintain a mild upward trajectory profile for NZD into 2023.

- **With Fed taking pole position as lead hawk, another 50bps from the RBNZ may only provide mild support for the NZD.** RBNZ is expected to continue raising rates in clips of 50bps for 3 more meetings (Oct, Nov and Feb). 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.

- **Downside Risks to NZD Outlook**: (1) War in Ukraine futher escalates into nuclear/ 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**: **The reopening of borders, recent softening of nergy prices seem to have lifted consumer confidence from its record low**. Credit card spending surged to 29.4%y/y and picked up pace to 5.1%m/m in Aug from previous 1.8%. Card spending for retail also rebounded to 0.9%m/m from previous -0.2%. Performance services index for Aug also posted a solid rebound to 58.6 from previous 54.4. Into the rest of the year, t**ourism inflows seem to have peaked (seasonal peak is in Jul) and we caution that discretionary spending could start to slow as external demand weakens.** Recent Aug data suggests that consumption is still rather strong and strengthens the case for RBNZ to tighten further.

- Meanwhile, Aug Mfg PMI improved to 54.9 from previous 53.5 (also revised higher). This is a 13-month high, driven by the rise in new orders, employment, finished stocks and deliveries. Demand for labour remains strong based on the survey.

- 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. Food prices eased to 1.1%m/m in Aug vs. 2.1% in the month prior. These are encouraging signs of inflation pressure abating but it could be too soon to call yet when it comes to monetary policy trajectory.

- 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 three "50bps hike" fully priced for upcoming MPCs for Oct, Nov and Feb 2023 (as of 30 Sep). Peak rate as priced by markets is around 5.18% in Jul-2023.

- In Aug, 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 a tad to NZ$5.2bn in 2Q, from NZ$6.5bn in 1Q.** The current account might have improved due to the reopening of borders in Apr and arrival of tourists, the annual deficit rose to 7.7% of GDP as of 30 Jun vs. 6.8% for the year through Mar, the largest gap recorded since 4Q 2008. Higher imports bill, driven by large energy bills could continue to weigh on the external balance. Vistor arrivals surged to a high of 130K in Jul before easing off. Typically the peak of tourist arrivals would occur in Jul before tapering off into the end of the year. This could mean that the current account may remain under pressure for the rest of 2022.

- 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 [5 Oct]; RBNZ Policy decision [6 Oct]; ANZ Sep Commodity Price [6 Oct]; Sep REINZ house sales [10- 14Sep]; Sep food prices [13 Oct]; **3Q CPI [18 Oct];** Sep trade [21 Oct]; ANZ Activity outlook , business confidence [28 Oct] ANZ Oct consumer confidence [28 Oct].

- **Technical Outlook:** Technical signals suggest conditions are really stretched to the downside for the NZDUSD and pair was not able to breach the 0.56-figure and bearish momentum has waned. Strong support is also seen around 0.5470 (2020-low). We see strong rebound risk for this pair. Resistance is seena round 0.5730 bfore the next at 0.5890 (21-dma).

JPY: Vulnerable to Fed's "Higher for Longer" Stance

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023
USDJPY	**145** (134)	**145** (132)	**140** (128)	**135** (--)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** Shift higher in forecasts largely followed increasingly firm commitment from Fed to prioritize fighting inflation at the expense of growth, which has arguably lengthened the potential duration of elevated Fed policy rates, while broader haven demand (Europe geopolitical tensions and growth woes, untenable UK fiscal policy, China Covid-zero) is also keeping dollar strength buoyant. On day of BoJ policy, lack of any signs of a hawkish tilt from BoJ policy announcement (expectedly stand pat on YCC settings) first led markets to focus on increasing divergence with Fed and led USDJPY towards high of 145.90, before FX intervention efforts from Japanese authorities led pair sharply lower, touching 140.51 before bouncing higher. Market chatter seems to lean towards the view that the impact of intervention might be transitory. Concomitantly, USDJPY may remain in elevated ranges in the interim, even as intervention risks could dampen interim upward pressures on the pair. Downward drags on the pair may only be more discernible into 2023, conditional on broader dollar strength easing in 1H 2023 on emerging US growth jitters and moderation in price pressures. Meanwhile, softer oil prices 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. For Japan, key focus will be on whether we see a broadening in price pressures over the next two quarters, which could lead BoJ to reconsider its ultra-accommodative stance post end of Kuroda's term in Apr 2023.

- **Fed stance and UST-JGB yield differentials are likely to remain as key drivers of the USDJPY pair**. 2Y UST-JGB yield differentials widened from around +350bps on 30 Aug to +425bps at last seen, supportive of the USDJPY pair. At the Sep FoMC, Fed managed to deliver another modest hawkish tilt despite choosing the smaller "jumbo" hike of +75bps (rather than +100bps), via upward revisions to the dot plot (peak rate now at 4.6% in 2023 versus 3.8% in the June dot plot), and downward revisions to growth (2022 growth now seen at 0.2% versus

Jun's 1.7% projection). Going forward, expectations of around +140bps of Fed hikes (market pricing on 29 Sep) into mid-2023, vs. likely negligible yields for BoJ over the same period, could keep USDJPY in buoyant ranges, but further upsides could be somewhat constrained. In particular, as we head towards the turn of the year, 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.

- Meanwhile, 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 1.1% of GDP in 2022 (versus 2.9% in 2021). **This could mean that USDJPY could remain in elevated ranges for some time versus pre-Covid range of 105 to 115.**

- We note some easing of curbs, with authorities allowing non-guided package tours from 7 Sep, and raising the daily entry cap to 50k from 20k. Further, from 11 Oct, Japan will lift a ban on individual tourist visa requirements and remove daily arrival limits. **But positive spillovers to current account from these developments could be gradual and modest**. International tourism revenues accounted for around 1% of GDP in 2019, pre-Covid. On the other hand, domestic tourism contribution to GDP was about four times that of international tourism. To this end, authorities will also be launching a nationalwide travel discount program.

- 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$88 at last seen. While some support could emerge on risks of OPEC+ supply cuts, 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.

- **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. 2Q (F) GDP came in a 0.9%q/q SA, modestly better than advanced reading of 0.5%. More benign business spending (+1.4% q/q versus -0.1% prior) complemented slight improvement in private consumption (+1.2% versus 0.3% prior).

- On higher-frequency indicators, Jibun bank PMI Services for Sep (P) came in at 51.9, seeing a modest rebound versus 49.5 prior. PMI Mfg came in at 51.0, versus 51.5 prior. Aug (P) industrial production showed upside surprise at 5.1%y/y versus expected 1.8%, while retail sales also performed better than expected at 4.1%y/y (vs. consensus 2.8%). Further signs of economic recovery could be supportive of bets for a hawkish tilt in monetary policy into 2023, and constrain extent of

USDJPY upswings this cycle. But growth momentum, while resilient for now, could see downside risks if broader external demand slows. **Consensus expects GDP growth to moderate slightly to 1.6% in 2022 from 1.8% in 2021, and come in at around 1.5% for 2023**.

- Headline CPI came in at 3.0% (31-year high) in Aug, slightly higher than expected 2.9% and prior 2.6%. Core also registered slightly higher at 2.8% versus prior 2.4%. Continued broadening in domestic price pressures could raise pressures for BoJ to tilt hawkish from its ultra-accommodative stance.

- **Monetary Policy Forecast:** BOJ stood pat on policy settings (policy rate at -0.1%) on 22 Sep, leading to widening divergence in policy versus other major central banks. The YCC will be maintained at current settings (0% target yield for 10Y with 25bps cap). Authorities will be extending special Covid funding programs originally slated to end this month, and gradually phase them out through Mar 2023 instead. Other funding programs will also be expanded to support businesses. While BoJ stuck to phrasing that it "will not hesitate to take additional easing measures if necessary", we note the departure of Kataoka, a consistent dissenter in favor of more dovish stances.

- Kuroda's comments during the press conference suggested low likelihood of a tweak to BOJ's forward guidance for as far out as three years, but we think conditions could change if a weak JPY accelerates imported inflation. On net, we expect YCC settings to be kept unchanged for the next two quarters, but **chatters of potential tweaks could re-emerge around the time of Kuroda's departure (Apr 2023), especially if inflation pressures broaden more sustainably**.

- On intervention, initial efforts on 22 Sep brought USDJPY lower by about 3.5% before broader dollar strength led to paring of losses. Market chatter seems to lean towards the view that the impact of intervention might be transitory. The size of MoF's initial intervention efforts is about US$20bn, less than one-fifth of the US$110bn chunk of reserves invested in dollars outside of treasury markets.

- **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 -6.9% 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) before narrowing towards -4.5% of GDP in 2023.

- **To counter the impact of rising energy costs on the domestic economy, PM Kishida rolled out a combined JPY6.2trn emergency economic package in Apr**. 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. **Latest reports suggest that a new stimulus package is due Oct, focusing in part on price-relief steps and efforts to promote structural wage increases.**

- Current account for Jul returned to a mild surplus of +JPY229bn versus deficit of -JPY132bn prior, but was lower than expected +JPY759bn. Pre-Covid average in 2019 was surplus of JPY1600bn. Trade balance for Aug came in at a wider record deficit of -JPY2817bn, versus expected -JPY2386bn, highlighting the cost to the economy from a weak JPY. The trade balance has seen deficit readings from Aug 2021 to Aug 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:** 3Q Tankan Surveys (3 Oct); Sep Vehicle sales (3 Oct); Aug Labor cash earnings (7 Oct); Aug (P) Leading Index CI (7 Oct); Aug Current account (11 Oct); Aug Core machine orders (12 Oct); Sep (P) Machine tool orders (12 Oct); Sep PPI (13 Oct); Aug Tertiary industry index (17 Oct); Sep Trade (20 Oct); Sep CPI (21 Oct); Oct (P) Jibun Bank PMIs (24 Oct); Sep Jobless rate (28 Oct); BoJ Policy Decision (28 Oct); Sep (P) Industrial production (31 Oct); Sep Retail sales (31 Oct).

- **Technical Outlook**: Bullish momentum on daily chart has largely moderated while RSI is hovering near overbought conditions. Last seen near 145-handle. Pair could remain in buoyant ranges in the interim but upswings could slow towards key resistances at 145.90, before 147.66 (1998 high). Support seen at 143.60 (21-DMA), before 140, 139.00 (50-DMA).

RMB: Party Congress is Here

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023
USDCNY	7.14 (6.95)	7.12 (6.92)	7.10 (6.90)	7.10 (--)
USDCNH	7.14 (6.98)	7.12 (6.94)	7.10 (6.90)	7.10 (--)

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** Despite the pause in the policy easing by PBoC for Sep and some upside surprises for Aug activity data, we still witnessed a significant slump of the yuan against the USD. Aggressive tightening guidance from the Fed due to persistent inflationary pressures at home has increased the uncertainty on the tightening trajectory and strengthened the USD against most currencies, including the yuan. This was not helped the least by the geopolitical turmoil in other parts of the world that continue to underpin safe haven demand of the USD. While yuan's weakness against the USD had dominated headlines, the currency displayed a tad more resilience against the basket in such volatile environment due to the nature of the currency regime that is heavily guided by the central bank as well as the capital controls that are still in place.

- **Policy Tools that PBoC has employed to slow the pace of yuan depreciation**

  - Persistently strong yuan fixings since 24 Aug 2022 astill not letting up). *Strong yuan reference rates result in the USDCNY touching the upper bound of the -/+2% trading band last Fri (23 Sep). This underscores diminishing impact of the USDCNY fixes on the spot USDCNY.*

  - PBoC also lowered forex reserve ratio by 2ppt to 6% with effect from 15 Sep. The lower forex reserve ratio released the supply of USD and probably aim to slow the widening rate differential between the USD-CNY. However, this proved to have little impact on the interbank rate of the USD onshore. As such, there was little effect on the direction of the CNY which continued to weaken against the greenback thereafter.

  - PBoC imposed 20% risk reserve requirement on FX forwards, effective 28 Sep. This is meant to stabilize forex market expectation and strengthen macro prudential management.

  - A few weeks ago, there were whisper of banks' models being asked to be tweaked for fixing submissions. As such, the counter-cyclical adjustment factor could be already factored in for a while. Only on 28 Sep, there was an official order from the central bank to imbue the countercyclical adjustment factor into the banks' models for their daily USDCNY reference rate submissions.

  - Jawboning from PBoC got a tad more serious on 28 Sep. The central bank urged the banks (charged with the dollar-yuan reference rate quote submissions), to "safeguard the stability of the market and prevent volatile movements in the exchange rate". In addition, there was an explicit strongly-worded warning "do not bet on one-way appreciation or depreciation of the yuan, as losses will definitely be incurred in the long term".

What else can they deploy? All of the above tools can continue to be utilized again with possibly greater intensity. In addition, PBoC could choose to issue of the yuan bills in Hong Kong to tighten offshore yuan liquidity conditions on top of the regular issuance. We think this could be timed around the release of the Sep foreign reserves (7 oct).

- Into Party Congress on 16 Oct, it is widely expected for President Xi to get his third term. President Xi may choose start this term with more impactful policy measures compared to fiscal packages and credit announced this year so far. We are thus, **cautiously optimistic on better clarity of conditions/timeline of the exit of Covid-zero after President Xi gets his third term. This would imply a trough for the yuan in 4Q 2022.** But USDCNY could remain elevated into 2023 as global growth concerns continue to support USD haven demand.

- **Growth and Inflation Outlook:** OECD revised its growth outlook for China to 3.2% for 2022 vs. 4.4% seen in Jun while that of 2023 is also downgraded a tad to 4.7% vs. previous 4.9%. The growth downgrade was rather mild for next year, underscoring some optimism of a recovery. In fact, the activity data for Aug was already looking a tad stronger with retail sales beating expectations at 5.4%y/y vs. previous 2.7%. Breakdown suggests consumer goods Industrial production also quickened to 4.2%y/y from previous 3.8%. FAI ex rural has edged higher to 5.8%.
- **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 strongest measure thus far is a special loan for property developers to ensure incomplete property projects can be completed for 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. New home prices are still on the decline, down -0.29%m/m for Aug vs. prev. -0.11%.
- Focus remains on infrastructure investment with the additional CNY300bn loan quota meant for infrastructure projects (declared at the 24 Aug State Council meeting) disbursed via the three policy banks. EX-IM Bank of China has offered CNY50bn, Agricultural Development Bank of China offered CNY100bn while China Development Bank already disbursed CNY150bn in loans. With that, FAI ex rural should
- **Monetary Policy Forecast**: Market volatility and significant pressure on the yuan could keep PBoC from easing policy rates in Oct. This is especially in light of the key event Party Congress that will start on 16 Oct and the central bank may not want to risk triggering any volatility in the yuan that could spill-over to other asset classes.
- In Aug, Chinese banks lowered 1Y LPR by 5bps to 3.65% and 5Y LPR by 15bps to 4.30%. The steeper cut for 5Y LPR this morning was meant 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.
- We do not look for Xi Jinping to announce any major shift in property-related policies post party. The strongest support rendered thus far is to provide backstop for the projects that are being delayed. More recently, Premier Li Keqiang had said measures will be customized to the needs of

respective regions to meet demand of first-time home buyers, upgraders and to ensure pre-sold housing projects can be completed on time. PBoC has assured on 29 Sep that more loans can be added to ensure property delivery if necessary. As the Fed continues to tighten more aggressively, the current pause in easing cycle may extend into the next year until inflation in the US shows ease more materially to slow the tightening pace of the Fed.

- **Latest Fiscal and External Balance Outlook:** Given the rise in infrastructure spending and several support measures announced, we can fiscal deficit will widen substantially from original projection of 2.8% of GDP.
- **Key domestic events and issues to watch:** National Day Break (Golden Week) [1-7 Oct]; Sep foreign reserves [7 Oct]; Sep Caixin Services, Composite PMI [8 Oct]; aggregate financing, new yuan loans, money supply [9-15 Oct]; Sep FDI [11-21 Sep]; 1Y MLF [13-16 Oct]; Sep CPI, PPI [14 Oct]; Sep trade [14 Oct]; **Party Congress Begins on 16 Oct.** Sep new home prices, industrial production, retail sales, 3Q GDP, jobless rate, property investment [18 Oct]; 1,5Y LPR, Sep SWIFT Yuan share of Global Payments [20 Oct]; Sep FX Net settlement on behalf of clients [21 Oct]; industrial profits [27 Oct]; Oct official Mfg, Non-mfg PMI, Caixin Mfg PMI [30 Oct].
- **Technical Analysis:** USDCNH hovered around 7.1460 as we write. Pair could continue to see two-way trade but stochastics show signs of falling from overbought conditions at this point on the daily chart. Support is seen around 7.0425 (21-dma) while resistance is seen around 7.20. On the weekly chart though, momentum is still modestly bullish. Pair could remain supported on dips.

KRW: High-Beta Amplifies Drags from Global Recession Risks

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023
USDKRW	**1450** (1320)	**1420** (1300)	**1370** (1270)	**1320** (--)

Previous Forecasts in Parentheses

- **Motivations for the FX View:** We expect KRW to remain under pressure in the near-term amid accelerating global growth concerns, tighter financial conditions (as central banks prioritize dampening inflation at the expense of growth). KRW's high-beta to global chip demand and global equity performance likely implies that sentiments drags could remain intact near-term, particularly with Europe and regional geopolitical tensions still in play. Declining foreign reserves is also a cause of concern. USDKRW could hence remain in buoyant ranges in 4Q 2022 and early 2023. But signs of moderation on domestic Covid infection pace, still-hawkish BoK, slowing up-moves in UST yields, softer oil prices vs. 1H, more clarity on global growth momentum etc., could imply some chance for USDKRW to head lower from 2Q 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. **The Philadelphia Stock exchange semiconductor index is now back to late-2020 lows near 2300, versus peak near 4000 in end-2021**.

- 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 ongoing 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 US Terminal High Altitude Area Defense (THAAD) anti-missile system to defend against North Korea missile threat. President Yoon had earlier indicated plans to buy an additional THAAD 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. Meanwhile, inter-Korean tensions are also in play as North Korea ramps up missile tests in recent weeks. **South Korean president Yoon has warned of "overwhelming" response if North Korea attempts any nuclear action**.

- **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 declined to around 29k as of late Sep, versus highs of >120k in mid-Aug. Meanwhile, BoK presented slight declines in Forex reserves in Aug (US$436.4bn vs. US$438.6bn prior). Levels are about US$33bn lower versus high in Oct 2021 after earlier intervention efforts.

- **Growth and Inflation Outlook: Prelim estimates show economic growth 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. 3.0% prior.

- As of Aug, 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.

- Aug CPI came in modestly below expectations as it rose 5.7%y/y (vs. expected 6.1%) and actually declined by -0.1%m/m on a sequential basis. Core CPI dipped slightly to 4.4%y/y from 4.5% prior. BoK's Aug forecasts see inflation and core inflation averaging 5.2% and 3.2% respectively in 2022, before declining to 3.7% and 3.1% in 2023.

- **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 Jul narrowed to US$1.09bn from US$5.61bn prior, with the goods balance declining to US$1.18bn from US$3.59bn prior. Higher-frequency indicators also imply increasing caution on trade outturns. 20-day exports for Sep declined by -8.7%y/y versus +3.9% prior, although trade deficit narrowed to -US$4.1bn from -US10.2bn prior.

- **Fitch has maintained Korea's rating at AA- (outlook stable), citing robust external finances and resilient macroeconomic performance** versus geopolitical risks related to North Korea and structural challenges from an ageing population. The new administration has proposed a fiscal rule of 3% of GDP managed deficit (consolidated balance minus social security surplus) and 60% of GDP debt limit, which implies incremental fiscal discipline, though its passage is uncertain. Fitch forecasts a deficit decline to 1.2% of GDP in 2023 alongside lower expenditure. Debt-to-GDP ratio could rise marginally from an estimated 49.5% in 2022 to 51.5% by 2025.

- **Key domestic data to watch:** Sep Mfg PMI (4 Oct); Sep CPI (5 Oct); Sep FX reserves (6 Oct); Aug Current account (7 Oct); BoK Policy Decision (12 Oct); Sep Unemployment rate (14 Oct); Sep PPI (21 Oct); 1st 20 days of exports (21 Oct); Oct Consumer confidence (25 Oct); Nov Business survey – mfg and services (26 Oct); 3Q A GDP (27 Oct); Sep IP (31 Oct).

- **Technical Outlook:** USDKRW headed significantly higher in Sep, as global risk sentiments slumped. Last at 1430 levels. Bullish momentum on daily chart shows signs of moderating while RSI is in overbought conditions. We also note bearish divergence in MACD. Up-moves could slow and there are modest retracement risks (lower). Support at 1394 (21-DMA), 1349 (50-DMA). Resistance at 1450, before 1480.

SGD: NEER Resilient, Tightening Likely in Oct

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023
USDSGD	1.4100 (1.3700)	1.4000 (1.3600)	1.3800 (1.3500)	1.3700 (--)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** For the whole of Sep, SGD NEER has been seeing two-way swings around +1.0% to +1.6% 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, then at the Sep FoMC. Alongside haven demand for USD amid elevated external uncertainties (geopolitical troubles in Europe, uncertainties tied to UK fiscal plans, still-soft growth momentum in China etc.), dollar saw broad upward pressures, with DXY pushing towards two-decade highs, and USDSGD testing 1.45 at one point in time. But while slowing in external demand will continue to drag on trade and economic activity, we 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. At the same time, recent elevated price pressures in Singapore might lead the MAS to implement another round of tightening in Oct. A recentring might not be fully priced at this point and could be a positive for SGD sentiments if it materializes. On net, we look for USDSGD to remain in buoyant ranges near-term, but risks could be skewed to downside for pair into 2023.

- At the Sep FoMC, Fed managed to deliver another modest hawkish tilt despite choosing the smaller "jumbo" hike of +75bps (rather than +100bps), via upward revisions to the dot plot (peak rate now at 4.6% in 2023 versus 3.8% in the June dot plot). **Downward revisions to**

growth (2022 growth now seen at 0.2% versus Jun's 1.7% projection) also showed Fed's willingness to bring down inflation at the expense of incremental weakness in the economy. Treasury yields headed higher on net, with UST10Y yield hitting 4.0%-handle before retracing lower.

- Fed Fund futures are now leaning towards another 75bps Fed hike in Nov. Futures pricing also suggests that peak rate is anticipated to be higher at around 4.5% by mid-2023, with rates remaining above 4.0% even into end-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.

- **Back in Singapore, Covid has largely become endemic in society**. Authorities have been on a broad easing stance with regards to Covid curbs since 2Q, with mask-wearing indoors made optional in Aug, 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.** Soft China Jul-Aug activity indicators added to the narrative of a slowdown in global growth. Markets have likely also grown a tad desensitized to larger yuan fixing biases. Current fragile macro outlook does not warrant a fuller recovery in yuan sentiments at this point. Spillovers to SGD and other regional currencies could be intact, even as drags could slow alongside Chinese authorities' sterner warnings against one-way yuan bets. Our analysis suggests that with the exception of MYR and THB, co-movement of ASEAN FX with yuan moves have largely moderated in extent (versus last two years) thus far in 2022.

- **Growth and Inflation Outlook:** Final 2Q GDP (+4.4%) came in lower than advance estimate (+4.8%), mainly due to the downgrade for manufacturing.

- Manufacturing growth (+0.5%) decelerated in Aug, weighed down by the contraction in semiconductors and chemicals production. Our economist team expects the manufacturing slump to persist for the rest of the year due to weakening global growth, particularly electronics demand. Singapore is tipping on the edge of a technical recession. 3Q flash GDP is expected at around +2.2%, which would imply a -0.6% decline from the previous quarter (SA basis). **GDP growth forecast is maintained at +2.8% and 1.5% for 2022, 2023 respectively.**

- Core CPI (+5.1%) and headline CPI (+7.5%) continued to climb in Aug, mainly driven by faster increases in prices of food and services. Inflation will likely peak only in 4Q, led by lower energy and electricity prices, and softer demand-side pressures from a probable technical recession. **Our economist team raises 2022 inflation forecasts slightly for core inflation to +4.2% (from +4%) and headline inflation to**

+6.2% (from +6%) to account for the larger than expected pickup in food and services costs.

- **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), our economist team expects the MAS to tighten monetary policy in Oct yet again, by re-centering the S$NEER to the prevailing level**. 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 1.4350, and trades around +1.3% from the new implied mid-point of 1.4536, with the top estimated at 1.4246 and the floor at 1.4827. 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 +1.3% as of writing.

- Domestic interest rates continued rising in Sep. The 3M SORA and 3M SIBOR are at 2.0655% and 3.1689% at the time of writing, higher than the 1.5793% and 2.6709% seen in end-Aug. 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. Recent set of cooling measures introduced on 29 Sep—with stricter borrowing criteria and tighter limits for HDB loans—could help blunt upside pressures on public housing prices and better contain default risks. **House view for 3M SIBOR forecast is raised to 3.8% (from 3%) by end-2022 and 4% (from 3.2%) by end-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 (+11.4%) picked up pace in Aug, partly due to last year's low base for non-electronics. The sharp decline in electronics exports (-4.5%), however, raises the risk of a "technical recession" - defined as two consecutive quarters of negative quarter-on-quarter GDP growth. Our economist team maintains 2022 NODX forecast at 5%-6%. **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**: Sep PMI (3 Oct); Aug Retail sales (5 Oct); Sep Foreign reserves (7 Oct); 3Q (A) GDP (10-14 Oct); Sep NoDX (17 Oct); Sep CPI (25 Oct); Sepg Industrial production (26 Oct); Sep Unemployment rate SA (27-28 Oct).

- **Technical Outlook**: USDSGD pair last seen near 1.4350, significantly higher versus end-Aug on broader dollar strength. For USDSGD pair, bullish momentum on daily chart shows signs of moderating while RSI remains in overbought conditions. Up-moves could slow. Resistance at 1.4440, 1.4650 (2020 Covid high). Support at 1.4160 (21-DMA), 1.3930 (100-DMA).

MYR: Not immune to USD strength and FX volatility

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q2023
USDMYR	**4.60** (4.50)	**4.50** (4.40)	**4.50** (4.40)	**4.45** (--)

Previous Forecasts in Parentheses

- **Motivation for the FX View**: USD/MYR reached a new peak of 4.6495 on 29 Sep as dollar strength continued amid concerns emanating out of UK and market volatility intensified. Since then the pair has retraced and remained around 4.60-4.65 range. We expect MYR to remain under pressure over the next few months as long as USD remains supported amid global growth concerns, CNY weakness and with BNM still catching up on the rate hike cycle. In addition, softer oil prices and expectations of upcoming domestic elections coming closer are expected to add further pressure on the MYR. The extended weakness in the CNY towards the 7.25 mark on 28 Sep on the back of FX volatility which emanated from GBP and EUR sharp declines also helped push riskier currencies lower. Our USD view above suggests that USDMYR wil continue to be slightly supported and to reflect this we have revised the pair higher for 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 sharp 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 particularly in Sep – and concerns about global growth and risk aversion in Oct 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 4.65 level and/or remain ranged bound around 4.60-4.70 range.

- On the domestic front, the fractious and fluid dynamics of domestic politics does raise the possibility of general elections in 2H 2022.The recent call for elections before the end of this year has led to heightened concerns for increased volatility towards end 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.

- On 23 Sep Bank Negara made a press release on the ringgit - highlighting that it continues to closely monitor and ensure orderly financial market conditions amidst external developments that have led to persistent strength in the US dollar against almost all currencies, including the ringgit. The US dollar has strengthened significantly due to aggressive monetary policy tightening in the US.

- BNM also said that the tighter global financial conditions and higher volatility in the foreign exchange markets are not expected to derail Malaysia's economic growth and that the foreign exchange market continues to function and intermediate effectively. Daily onshore FX transaction volume has been increasing throughout, reaching a current average of USD13.3 billion against USD11.3 billion in 2021, amid two-way flows. Bond market activity remains healthy, well supported by institutional investors and financial institutions. BNM’s market operations will ensure sufficient liquidity and orderly functioning of financial markets. The press release also indicate a statement by the governor that rather than resorting to capital controls or re-pegging of the ringgit, the policy priority now is to sustain economic growth in an environment of price stability and to further strengthen domestic economic fundamentals through structural reforms - for a more enduring ringgit.

- **Growth and Inflation Outlook:** Our economics team expect another quarter strong YoY 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 4Q 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 +50bps hikes to reach 3.00% by 1Q 2023 from current 2.50%.**

- Headline inflation rose to +4.7% YoY in Aug 2022 (Jul 2022: +4.4% YoY; 8M2022: +3.1% YoY) mainly on rising food & non-alcoholic beverages (FNAB) cost. Core inflation was up to +3.8% YoY (Jul 2022: +3.4% YoY). Maintain our 2022 and 2023 inflation forecasts at +3.3% and +4.0%, respectively. Forecasts also factor in the impact of announced and expected rationalization in price subsidies for essential food, fuel and energy

- Our economics team maintain their 2022 and 2023 inflation rate forecasts at +3.3% and +4.0%, respectively. 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 Jul 2022; assumption of some adjustments in fuel prices and electricity tariffs due to subsidy reviews in 2023. With the firm annual inflation rate plus stronger economic growth in 2Q 2022 and this year, we expect Bank Negara Malaysia (BNM) to raise OPR further by +25bps to 2.75% by end 2022 at the 2-3 Nov 2022 Monetary Policy Committee (MPC) meeting. 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 2.50% at the 7-8 Sep 2022 Monetary Policy Committee (MPC) meeting. This followed two 25bps hikes at the 10-11 May and 5-6 July MPC meets. Monetary Policy Statement (MPS) keeps the message that BNM's unwinding of the accommodative monetary policy – hence OPR hikes - will be "measured and gradual". No change in our view of OPR reaching 2.75% end of this year and 3.00% early next year.

- BNM's MPS assessment remains that of slowing global economic growth amid rising inflationary pressures, tighter global financial conditions, China's strict containment measures and financial market volatility, versus positive domestic growth prospect, underpinned by private sector demand, improving labour market and income, and the impact of full economic opening – including international borders that lift tourismrelated sectors. Slower external demand and increased financial and FX market volatilities are not expected to derail Malaysia's growth. The official real GDP growth forecast for Malaysia is currently a range of +5.3% and +6.3% (1H 2022: +6.9% YoY; 2021: +3.1%). BNM also keeps its view that global and domestic growth outlook comes with downside risks e.g. weaker-than-expected global growth; further escalation of geopolitical conflicts; worsening supply chain disruptions; elevated inflation; potential European energy crisis; sharp tightening in financial market conditions.

- BNM maintains its 2022 forecast for headline inflation rate of +2.2% to +3.2% (7M 2022: +2.8%; 2021: +2.5%), expecting monthly inflation rate to peak in 3Q 2022 (July 2022: +4.4% YoY; June 2022: +3.4% YoY) on dissipating base effect as well as recent easing in global commodity prices, while core inflation rate is expected to come in at the upper end of the +2.0% to +3.0% forecast range (7M 2022: +2.3%; 2021: +0.7%), reflecting demand pressures and high cost environment. BNM sees the upward pressures on inflation to be partly contained by price controls and subsidies, but the outlook is also contingent on especially domestic policy measures, implying the risk from reviews in price controls and subsidies.

- MPS reiterated that the process of unwinding monetary policy stimulus will be "measured and gradual", implying continuation of the +25bps hike quantum in future hikes.

- 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 that led to surges in commodity prices, food, energy and fuel costs i.e. food, fuel and energy contributed 73% of the 2.8% inflation rate in 7M2022 (Fig 3). Historically, BNM has tolerated periods of negative real OPR and negative differentials between OPR and US fed funds rate (Fig 4-5). Nonetheless, the risk to inflation remains amid acceleration in wages and salaries (Fig 6) to a pace that is historically consistent with OPR of around 3.00%-3.25%, and weaker MYR vs USD given import costs account for 15% of household expenditure.

- Our OPR outlook is total of +100bps hikes to 2.75% in 2022 – of which +75bps hikes to 2.50% have materialized, implying another +25bps hike at the next MPC meeting on 2-3 Nov 2022 - and another +25bps hike to 3.00% in early-2023, likely at the first MPC meeting next year.

- **Fiscal and External Balance Outlook:** Our economics team expect Budget 2023 to be “less expansionary” in terms of budget deficit to GDP ratio i.e. down to 5.0% vs the 6.0%-6.4% range in 2020- 2022E. This is in line with the aims of Medium-Term Fiscal Projection (2022-2004) and the 12th Malaysia Plan (12MP, 2021-2025) to bring down Federal Government’s deficit spending to 3.5% of GDP by 2025. To also note, the value of Federal Government deficit spending is targeted to drop to MYR68.5b 2025 vs the MYR88b-MYR99b range in 2020-2022E. With 2023 being the mid-point of 12MP period, the medium-term fiscal consolidation process must therefore begin next year to moderate the negative fiscal impulse by spreading the targeted budget deficit reduction over several years. The economics team forecast of next year’s 5.0% budget deficit to GDP ratio is essentially premised on a modest +1.1% increase in total spending (2022E: +12.3%), mainly on the expiration of COVID-19 Fund, and hence its removal from Federal Government’s expenditure line item. We expect a slower +4.0% increase in operating expenditure (2022E: +19.0%), largely reflecting the net savings from the expected fuel subsidy shift to “targeted” mechanism from current “blanket” system

- **Key domestic events and issues to watch:** Sep PMI Mfg (3 Sep); BNM Monetary policy decision (3 Nov); Foreign Reserves (7 & 21 Oct); BoP Current Account balance (19 Oct); CPI (21 Oct).

- **Technical Outlook:** Pair was last seen near 4.65-levels, continuing to trend higher for most of Sep. On technicals, momentum on daily chart is still bullish. While overbought RSI suggests chance for intermittent pullback lower, we note that uptrend since May remains largely intact, and any pullback lower could be modest in extent for now. USDMYR could still remain buoyant near-term. Support at 4.5540 (21-DMA), 4.5010 (50-DMA), 4.4540 (100-DMA). Resistance nearby at 4.65, before 4.70.

IDR: Trade Surpluses Still a Source of Support Despite Elevated External Uncertainties

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023
USDIDR	15,100 (14,500)	15,000 (14,400)	14,700 (14,300)	14,600 (--)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** Pressures on AxJ FX complex remains amplified from dollar buoyancy, with global growth risks, geopolitical tensions in Europe, untenable UK mini-budget etc. magnifying haven demand. Elevated UST yields are also weighing on the IDR, with net bond outflows seen for much of the month. While equity inflows was a bright spot in the first half of Sep, support wavered in latter weeks as hawkish FoMC and aforementioned risk events sapped risk appetite. Going forward, price trends of key commodity exports such as CPO and nickel will be increasingly watched. Both are treading near softer end of recent ranges, but if prices manage to find support on dips, broader bouts of IDR depreciation may be able to be averted. USDIDR could remain in buoyant ranges near-term, but we look to drivers such as resilient domestic growth momentum, benign trade surpluses, more BI rate hikes etc., to help cap extent of further USDIDR upswings.

- **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 thinks CPO price will continue to trade sideways near-term as the market continues to digest the large palm oil stockpile residing in Indonesia (due to earlier export restrictions) aggravated by seasonal peak production period.

  - One potential interim exports drag 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.

  - Authorities are planning measures to reduce Indonesia's dependence on imported liquefied petroleum gas (LPG), via various prongs such as developing domestic gas infrastructure, produce coal-derived dimethyl ether, increasing electric stove utilization etc. This could help improve current account dynamics over the medium-term as well.

- IGB-UST 10Y yield differential narrowed from around interim high of 500bps in early Mar to around 365bps at last seen. Bond outflows remain a drag on IDR for much of Sep, with MTD net outflows reaching -US$1.26bn as of 26 Sep. While equity inflows was a bright spot in the first half of Sep, support wavered in latter weeks as hawkish FoMC and aforementioned risk events sapped risk appetite. **On net, bond outflow levels appear manageable versus past episodes of market stresses (-US$7.3bn in Mar 2020), and yield differentials likely remain sufficiently wide to avoid triggering a larger exodus of foreign funds.** Towards, end-Sep, we also note UST10Y yield moving lower versus psychological resistance at 4.0% (last seen at 3.78%), which could help ease portfolio outflow drags into 4Q.

- **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 for Aug came in at US$132.2bn, on par with levels seen in the prior month. This is about 10% lower versus 2021 Sep peak of US$147bn but remains near 2018-22 average of US$131bn.

- On Covid, 7-day average in Covid-19 cases was seen at around 1.8k in late Sep. 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 cuts GDP forecast slightly to +5% (from +5.1%) for 2022 and to +5.1% (from +5.2%) for 2023**, as recent fuel price hikes and a more aggressive BI tightening will weigh on private consumption going forward.

- On higher-frequency indicators, PMI Mfg for Sep came in at 53.7 versus 51.7 prior, indicating some resilience in the domestic economic recovery. Retail sales rose by +5.4% as consumer confidence index picked up slightly from the previous month.

- Headline CPI (+6%) soared to a 7-year high in Sep on the back of the +30% hike in subsidized fuel prices on 3 Sep. Core CPI (+3.2%) climbed to a 3-year high, as prices picked up in other categories. **Our economist team trims average headline CPI forecast to +4.5% (from +5.2%) in 2022, and to +5.4% (from +6%) in 2023**, as the impact of the fuel price hike has not been as significant as initial estimates.

- **Monetary Policy Forecast:** BI hiked by +50bps (larger than consensus +25bps) to 4.25% on 22 Sep, in line with our house view. This was a “front-loaded, forward-looking” step to lower core price pressures and bring down inflation to the 2%-4% target range by 2H2023, as well as to help stabilize the IDR. BI maintained its GDP growth forecast at 4.5%-5.3%. **Our economist team expects BI to hike by a smaller +25bps at the next meeting on 20 Oct, following the +50bps hike last month.**

- BI also began its own Operation Twist earlier, 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.

- Another pertinent development is around BI’s efforts to ensure dollar liquidity is managed. BI plans to introduce non-USD domestic non-deliverable forwards (NDFs) in 2023 as part of its efforts to reduce the USD reliance. In addition, BI is also pursuing local-currency settlement agreements with South Korea, Australia, and China, in addition to existing deals with Malaysia, Thailand, and Japan.

- **Latest Fiscal and External Balance Outlook:** 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. **House view looks for fiscal deficit to come in at 3.5% of GDP in 2022, vs. 4.7% of GDP prior, before narrowing further to 3.0% of GDP in 2023. Fiscal discipline is relatively intact for now.**

- FM Sri Mulyani note that social assistance budgeted at IDR24.17trn may help compensate for the expected decline in purchasing power among the poor as a result of recent fuel price hikes. Some fuel cash assistance will be offered to an estimated 18.4mn beneficiary families, but the resulting boost to domestic inflationary pressures could still force BI to veer to a more hawkish path in the coming quarters.

- Exports (+30.2%) climbed to another record high in Aug, mainly driven by coal, nickel, and palm oil. Robust trade surpluses (upside surprise for Aug at +US$5.76bn versus expected +US$4.00bn) could help constrain extent of USDIDR upswings even amid buoyant dollar. 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**: Sep PMI Mfg (3 Oct); Sep CPI (3 Oct); Sep Foreign reserves (7 Oct); Sep Trade (17 Oct); Sep Local auto sales (15-21 Oct); BI Monetary policy decision (20 Oct).

- **Technical Outlook:** USDIDR last seen at 15,300, significantly higher than the 14,840-levels seen in end-Aug, on broader dollar strength. Momentum on daily chart is bullish but RSI is in overbought conditions. Near-term risks still skewed to upside but upswings may slow. Support at 15,000 (21-DMA), 14850 (100-DMA). Resistance at 15,580, 16,000.

PHP: Declining FX Reserves, Widening Trade Deficits As Archilles Heel; But Trough Could be Near

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023
USDPHP	**60.00** (55.50)	**59.00** (54.50)	**57.50** (53.50)	**56.50** (--)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** USDPHP continued to push higher in the month of Sep. While PHP losses versus USD showed signs of slowing towards late-Sep, dollar buoyancy as well as PHP drag factors could remain relatively intact near-term. Rather than a point forecast per se, our 4Q-projection of 60.0 indicates a psychological resistance that pair could test if current trends exacerbate. On one front, we note Fed's clear commitment to keep US monetary policy in restrictive territory for longer, even at the expense of growth and jobs. Coupled with elevated haven demand, dollar could remain in buoyant ranges for longer. Meanwhile, PHP drags in the form of worsening trade deficits, fiscal pressures, moderating remittance growth, declining foreign reserves etc., are likely to remain intact into early 2023. We see chance for some cautious optimism from 2Q next 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.

- At the Sep FoMC, Fed managed to deliver another modest hawkish tilt despite choosing the smaller "jumbo" hike of +75bps (rather than +100bps), via upward revisions to the dot plot (peak rate now at 4.6% in 2023 versus 3.8% in the June dot plot). **Downward revisions to growth (2022 growth now seen at 0.2% versus Jun's 1.7% projection) also showed Fed's willingness to bring down inflation at the expense of incremental weakness in the economy**. Treasury yields headed higher on net, with UST10Y yield hitting 4.0%-handle before retracing lower. **Coupled with haven demand given confluence of global**

growth risks, geopolitical tensions in Europe, untenable UK mini-budget etc., dollar could remain in buoyant ranges in the interim.

- 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$88/bbl at last seen. While some support could emerge on risks of OPEC+ supply cuts, 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 versus 2Q 2022.**

- On Covid, we note that 7-day average in cases remain at around 2k in late Sep, versus lows near 200 in May. There are tentative signs of up-creep in risk levels. Towards late Sep, Metro Manila has been classified as “moderate risk” for COVID-19 transmission amid an upswing in cases. 13 out of the 17 areas in the capital region saw growth rates entering positive territory towards late Sep. Hospitalizations in six cities in the capital region have also been classified as “moderate risk” for reaching more than half of Covid case capacities. But we note that President Ferdinand Marcos pledged earlier 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. **This could constrain the extent of drags on PHP sentiments from the Covid front**.

- OFWR growth moderated in Jul 2022 to +2.3%y/y (Jun 2022: +4.4%) amid swings in the pace of monthly growth. 7M2022 growth was +2.8%y/y to US$18.3bn. Our economist team’s 2022 OFWR value and growth forecasts are US$32.2bn and +2.8% respectively (2021: US$31.4b; +5.1%). Foreign reserves for Aug declined to US$99.0bn from revised US$99.8bn 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.**

- 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 Sep improved modestly to 52.9 versus 51.2 prior. Unemployment rate also improved to 5.2% in Jul 2022 (Jun 2022: 6.0%; 7M2022: 5.9%) as employment was up +1.7%m/m (Jun 2022: +1.1%) and labour force participation rate (LFPR) improved to 65.2% (Jun 2022: 64.8%). Our economist team maintains 2022 and 2023 unemployment rate forecasts at 5.5% and 5.0% respectively (2019: 5.1%; 2020: 10.4%; 2021: 7.8%). **Overall outturns point to some resilience in the domestic economy.**

- Headline inflation rate eased marginally to +6.3%y/y in Aug 2022 (Jul 2022: +6.4%; 8M2022: +4.9%) on slower rise in FNAB and Transport costs. Nevertheless, it is still well over BSP's target of 2%-4%. In contrast, core inflation accelerated further to +4.6%y/y (Jul 2022: +3.9%). **Our economist team maintains 2022 and 2023 headline inflation rate forecasts of +5.3% and +3.9%, respectively (2021: +3.9%).**

- **Monetary Policy Forecast:** BSP raised its policy rate by another +50bps to 4.25% on 22 Sep 2022 - the fifth successive hike giving a total +225bps hike so far this year. With the latest move, together with "zero" output gap this year vs "negative" last year, pressure on PHP vs USD, and inflation rate expected to stay above BSP's target range of 2%-4% until mid-2023, **our economist team now expects BSP to raise its benchmark interest rate to 4.50-4.75% by end 2022 (vs. 4.00% previously) and stay there in 2023**. The cumulative +225bps rate hike by BSP so far this year is the biggest since 2018, when BSP raised the policy rate by +175bps as inflation surged to +5.3% in 2018 (2017: +2.9%).

- **Latest Fiscal and External Balance Outlook: There are early signs of increasing fiscal stresses.** Average monthly budget deficit from Jan to Aug 2022 is around –PHP104bn, 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 (Maybank estimate of -7.5% this year), while lowering debt-to-GDP ratio to less than 60% by 2025**.

- July 2022's exports fell -4.2%y/y after slowing to +1.0% in June 2022 from mid-single digit growth in Mar-May 2022 due to lower manufacturing exports vs continued double-digit imports growth of +21.5%y/y (June 2022: +26.3%) amid higher import prices and softer PHP. Trade deficit widened slightly to -US$5.93b (June 2022: -US$5.87b). Our economist team expects full-year exports growth and import growth of +6% (7M2022: +5.4%) and +20% (7M2022: +25.9%) to result in -US$61b trade deficit (7M2022: -US$35.8b). **House view looks for current account deficit this year to come in at 3.5% of GDP, versus 1.7% prior, before narrowing a tad to 2.8% in 2023. Pressures from widening deficit could remain intact near term.**

- **Key domestic events and issues to watch:** Sep PMI Mfg (3 Oct); Sep CPI (5 Oct); Aug Unemployment rate (6 Oct); Sep Foreign reserves (7-15 Oct); Aug trade (11 Oct); Aug Overseas Remittances (14-17 Oct); Sep BoP Overall (18-23 Oct); Sep Budget balance (24 Oct).

- **Technical Outlook:** USDPHP last seen near 59-handle, remaining on the up-move for much of Sep on broader dollar strength. But bullish momentum on daily chart shows signs of moderating, while RSI is in overbought conditions. Upward pressures could ease in extent, even as another modest up-move towards psychological handle of 60 cannot be ruled out. Besides 60.0, next resistance at 62.0. Support at 57.7 (21-DMA), 56.6 (50-DMA), 55.3 (100-DMA).

THB: Tourism Recovery Ongoing But Gradual, Widening Fed-BoT Policy Stances Weigh

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023
USDTHB	**38.80** (35.60)	**37.80** (35.20)	**36.50** (34.80)	**35.50** (--)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** USDTHB remains near YTD high around 38-handle at last seen. Mix of drags including widening Fed-BoT policy stances (on account of firmly hawkish Fed), elevated UST yields, declining foreign reserves, widening trade deficits, diminishing positive surprises from pace of tourism recovery etc., could continue to weigh on THB sentiments in interim. Even as we are likely nearer to the trough in risk sentiments given recent rapid adjustments in risk asset pricing, recovery could take time. Dollar could remain in buoyant ranges into early 2023 on confluence of Fed's firm hawkish commitment, slow pace of decline in US price pressures and elevated haven demand (escalation in geopolitical tensions in Europe). THB sentiments could see a more discernible turnaround from 2Q next year, particularly if there are incremental signs of easing in Covid-zero stance in China, allowing for the return of Chinese tourism receipts.

- At the Sep FoMC, Fed managed to deliver another modest hawkish tilt despite choosing the smaller "jumbo" hike of +75bps (rather than +100bps), via upward revisions to the dot plot (peak rate now at 4.6% in 2023 versus 3.8% in the June dot plot). **Downward revisions to growth (2022 growth now seen at 0.2% versus Jun's 1.7% projection) also showed Fed's willingness to bring down inflation at the expense of incremental weakness in the economy**. Treasury yields headed higher on net, with UST10Y yield hitting 4.0%-handle before retracing lower. At last check, Fed futures pricing also suggests that peak rate is anticipated to be higher at around 4.5% by mid-2023, with rates remaining above 4.0% even into end-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.

- For THB, trends in portfolio flows might be a key indicator to watch. Both equity and bond flows saw more adverse performance in Sep (equities: -US$655mn net outflows as of 30 Sep vs. +US$1603mn in Aug; bonds: -US$455mn net outflows as of 30 Sep vs. +US$591mn in Aug). **This deterioration in flows could be exacerbating the magnitude of drags from other risk factors.** Foreign reserves was last seen around US$202.8bn (23 Sep), versus peak of US$259bn around Jan 2021. Pace of decline has notably accelerated since Aug this year, adding to concerns over adequateness of buffers in defending the THB.

- 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$87/bbl at last seen. While some support could emerge on risks of OPEC+ supply cuts, 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 versus 2Q 2022.** Authorities earlier 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 around 600 in late-Sep, versus peak of near-30k in end March. Earlier, authorities released a roadmap for transitioning from pandemic status to endemic.

- **Absence of Chinese tourists will continue to weigh on the current account near-term.** Tourist arrivals climbed to 1.175mn in Aug from 1.124mn prior, but the pace of recovery appears to be moderating. Authorities largely expect tourist arrivals to top 10mn this year, but this is still a far cry from the annual ~40mn tourists in 2019 (with tourism sector accounting for about 12% of GDP). We note that cautious optimism in 2H tourism figures had been communicated to markets prior, so the bar for upside surprise could be higher. Tourist flows will likely remain on an uptrend in the coming quarters, but pace of interim tourism recovery could be hampered amid global growth slowdown concerns. The next positive trigger will likely come from signs of easing in China's Covid-zero policy stance, which could portend an eventual return of Chinese tourism receipts, even as shifts on this front might not take place till 1H 2023.

- **On domestic politics, we note that Thailand's top court has lifted a five-week suspension on Prayuth's PM duties, easing interim political uncertainties**. It has also ruled in his favor regarding a dispute involving his term limits. Developments imply that he could remain leader till 2025 if the ruling coalition returns to power and he is picked to lead it in general elections expected next year.

- **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.

- Domestic demand continued to recover in July from last year's low base, boosted by the rebound in tourism and reopening tailwind. However, export growth decelerated to +4.3% (vs. +11.8% in Jun), weighed down by the sharp decline in exports to China. **Our economist team maintains GDP growth forecast at +3.2% in 2022 (and 3.8% in 2023)**, as the uptick in tourist arrivals and rebound in private consumption offset easing goods exports.

- Headline CPI rose to +7.9% in Aug as surging food prices outweighed easing transportation costs. Core CPI inched up to +3.1%. Inflation has likely peaked in Aug, and will moderate in the coming months with easing energy costs and as high base effects kick in. **Our economist team maintains 2022 headline CPI forecast at +6.3%**.

- **Monetary Policy Forecast:** On monetary policy, the BoT voted unanimously to raise the policy rate by +25bps for the second straight meeting on 28 Sep to curb inflation. The committee was of the view that a gradual policy normalization remains appropriate, given the overall growth (+3.3% in 2022, +3.8% in 2023) and inflation outlook (+6.3% in 2022, +2.6% in 2023). **Our economist team expects the BoT to hike by another +25bps on 30 Nov, and another +25bps hike in 1Q2023 to 1.5%** as the tourism recovery gains momentum and helps boost the current account balance.

- On net though, BoT's gradual hike trajectory in the coming months 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. On borrowing, authorities plan to borrow ~ THB2.23trn (US$60bn) in the FY starting 1 Oct. This is ~3% less than the target in the prior year. THB793.6bn will be utilized to meet the fiscal deficit and THB1.44trn will be for refinancing and restructuring existing debt. House view is for fiscal deficit to narrow towards 4.3% of GDP in 2022 from 4.8% prior, before narrowing further to 3.8% of GDP in 2023. **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 narrowed to US$3.5bn in Aug (vs. $4.2bn in Jul). Nonetheless, the deficit remains wide when compared to the US$1.7bn average in the first six months of the year. Part of the drags on current account could be due to the continued deterioration in trade balances. Export growth (+7.5%) picked up slightly in Aug on the back of global demand for food products and the low base for industrial products, but imports (+21.1%) accelerated due to a weaker THB and higher fuel bills, which resulted in the trade deficit widening to a 9-year high of US$4.2bn. On net, **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. But some cautious optimism is in store for 2023, with a potential fuller recovery in tourism to support a turnaround in current account to reach surplus of 2.0% of GDP.**

- **Key domestic events and issues to watch:** Sep PMI Mfg (3 Oct), Sep Business sentiment (3 Oct); Sep CPI (5 Oct); Sep Consumer confidence (7-10 Oct); Sep Customs trade (25 Oct); Sep Manufacturing Production (26-31 Oct); Sep BoP Current account (31 Oct).

- **Technical Outlook**: USDTHB last seen near 38-handle, largely rising over Sep on broader dollar strength. On technicals, bullish momentum on daily chart is tentatively moderating, while RSI is 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 38.5, before 40.0. Support at 37.1 (21-DMA), 36.5(50-DMA), 35.8 (100-DMA).

VND: Risks Still Skewed to the Downside

Forecast	4Q 2022	1Q 2023	2Q 2023	3Q 2023
USDVND	**23500** (22900)	**23500** (22900)	**23400** (22700)	**23400** (--)

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** We lifted the USDVND forecast a tad to 23500 as we expect USD to remain bid in the next few weeks on haven demand and Fed tightening fears. We acknowledge that risks are still to the upside should USDVND retain its bullish momentum. This was in spite of 100bps hike by the SBV that was meant to slow the VND's depreciation. OPEC+ producers' likely decision to keep the oil prices buoyant at current levels with signals of production cuts, could exacerbate inflation/tightening/USD strength risks. Our forecast encompasses potential USD retracement into Dec due to seasonality factor and cautious optimism for stronger policy supports (such as potential for Covid-zero exit) after the Party Congress in China that could bring some relief to EM Asia FX.

- Registered FDI has been steady at around 10% increase in Aug, albeit slowing from previous 16% gain in Jul. That has offset the drags on the VND posed by the net-equity outflows. We are less optimistc on this front as weakening external demand could potentially slow financial flows into Vietnam. In addition, current account surplus could narrow further with Sep exports already showing some nascent signs of deceleration.

- **Growth and Inflation Outlook:** Our economist maintained growth forecast at 8% for 2022 and 6% for 2023 which takes into account softer GDP growth at 5.7% for 4Q as favourable base effects fade and external demand slows. This would fall within the SBV forecast range of 6.7-8.5% range provided on 23 Sep.

- 3Q GDP came in at 13.7%y/y vs. previous 7.7%, led by services, industry and construction. Services grew 18.9%y/y vs. 8.9% in the quarter prior, buoyed by the domestic consumption recovery, improving tourist arrivals and base effects. Industry & construction also surged 12.9%y/y from previous 8.7%. The double-digit headline growth was a reflection of strong demand and flattering base effects.

- Retail sales remained strong in Sep, at 36.1%y/y, albeit slowed than the 50.2% growth recorded for Aug (due to base effects). Consumption was strong in most sub-components including goods, accommodation & food services. Our economist noted that foreign direct investment realization and public infrastructure spending had bolstered construction activity and in turn significantly underpinned the industry & construction growth. Looking forward, signs of softening demand for electronic components and consumer electronics are starting to show.

- Exports growth decelerated to 10.3%y/y from previous 27.8%. Month-on-month exports fell 14.3%. The decline in global demand for smartphones and other personal electronics weighed on export receipts. Imports decelerated to 6.4%y/y from previous 12.8%, declining 7.3% on the month. Factories in Vietnam may have started to cut demand for intermediate components in light of slowing external demand. Taken together, trade surplus narrowed to $1.1bn and may continue to narrow into the end of the year.

- Our economist maintains 2022 headline inflation forecast to average +3.4% and 3.6% for 2022 and 2023. Full year CPI forecast assumes that Oct-Dec inflation will be around +5.2% on average.

- **Monetary Policy Forecast:** After the surprise 100bps hike to slow the VND's depreciation against the USD, our economist no longer looks for any more moves from SBV for the rest of the year. For now, SBV may continue to tighten liquidity by conducting open market operations to raise interbank interest rates and to mitigate pressure on the exchange rate. The refinancing interest rate is set at 5%, rediscount at 3.5% and overnight inter-bank lending rate at 6% with effect from 23 Sep (announced 22 Sep). Despite the rate hike, the SBV told local lenders not to raise lending rates in order to support the economic recovery. Another 50bps hike is expected by end 2023.

- **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:** Sep Mfg PMI [3 Oct], Oct CPI, industrial production, trade, retail sales on [25-31 Oct].

FX Forecasts

	End Q4-22	End Q1-23	End Q2-23	End Q3-23
USD/JPY	145.00	145.00	140.00	135.00
EUR/USD	0.9800	0.9800	1.0000	1.0200
GBP/USD	1.1000	1.1100	1.1300	1.1300
AUD/USD	0.6700	0.6800	0.6900	0.7000
NZD/USD	0.6000	0.6000	0.6100	0.6200
USD/CAD	1.3300	1.3300	1.3100	1.3000
USD/SGD	1.4100	1.4000	1.3800	1.3700
USD/MYR	4.6000	4.5000	4.5000	4.4500
USD/IDR	15100	15000	14700	14600
USD/THB	38.80	37.80	36.50	35.50
USD/PHP	60.00	59.00	57.50	56.50
USD/CNY	7.14	7.14	7.10	7.10
USD/CNH	7.14	7.14	7.10	7.10
USD/HKD	7.85	7.85	7.80	7.80
USD/TWD	31.50	31.00	30.50	30.00
USD/KRW	1450	1420	1370	1320
USD/INR	81.00	81.00	80.00	80.00
USD/VND	23500	23500	23400	23400
DXY Index	111.95	111.83	109.32	107.39
SGD Crosses	End Q4-22	End Q1-23	End Q2-23	End Q3-23
SGD/MYR	3.26	3.21	3.26	3.25
JPY/SGD	0.97	0.97	0.99	1.01
EUR/SGD	1.38	1.37	1.38	1.40
GBP/SGD	1.55	1.55	1.56	1.55
AUD/SGD	0.94	0.95	0.95	0.96
NZD/SGD	0.85	0.84	0.84	0.85
CAD/SGD	1.06	1.05	1.05	1.05
SGD/IDR	10709	10714	10652	10657
SGD/THB	27.52	27.00	26.45	25.91
SGD/PHP	42.55	42.14	41.67	41.24
SGD/CNY	5.06	5.10	5.14	5.18
SGD/HKD	5.57	5.61	5.65	5.69
SGD/TWD	22.34	22.14	22.10	21.90
SGD/KRW	1028	1014	993	964
SGD/INR	57.45	57.86	57.97	58.39
SGD/VND	16667	16786	16957	17080
	End Q4-22	End Q1-23	End Q2-23	End Q3-23
JPY/MYR	3.17	3.10	3.21	3.30
EUR/MYR	4.51	4.41	4.50	4.54
GBP/MYR	5.06	5.00	5.09	5.03
AUD/MYR	3.08	3.06	3.11	3.12
NZD/MYR	2.76	2.70	2.75	2.76
CAD/MYR	3.46	3.38	3.44	3.42
MYR/IDR	3283	3333	3267	3281
MYR/THB	8.43	8.40	8.11	7.98
MYR/PHP	13.04	13.11	12.78	12.70
MYR/CNY	1.55	1.59	1.58	1.60
MYR/HKD	1.71	1.74	1.73	1.75
MYR/TWD	6.85	6.89	6.78	6.74
MYR/KRW	315	316	304	297
MYR/INR	17.61	18.00	17.78	17.98
MYR/VND	5109	5222	5200	5258

Source: Maybank FX Research and Strategy as of 3 Oct 2022.
*These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.

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