Macro | FX Research & Strategy

Global

FX Monthly

2019, Issue 10: Optimism on a Leash

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What Has Changed This Month?

- Our DXY forecast is adjusted lower, taking into account Brexit progress, Fed's assurance of rates lower for longer as well as the concretization of a partial trade deal. Most of our currencies have been calibrated accordingly based on the aforementioned events.

Our Strategies

- Our S-T call for USDCNH to possibly break the 7 (this time to the downside) is becoming less of a stretched target now as US and China officials continuously soothe market sentiments by providing updates of diplomatic communication (minus the details). With so much optimism baked in, aided of course by a softer USD environment, it takes the removal of some existing tariff as well as a potential currency pact to spur the USDCNH towards our target of 6.90. We anticipate some upside pressure thereafter as initial euphoria fade on reality that subsequent phases of deal are even harder to achieve.

- In an environment of trade optimism, Fed's assurance of lower rates for longer, receding fears of hard Brexit, benign USD terrain and steady RMB, Asian FX gains could be sustained if macro data show signs of recovery led by trade. Trade-linked currencies including TWD, KRW should continue to appreciate.

- We are cautiously looking for a bottoming and subsequent gradual recovery in the EUR going into 2020, underpinned by a potential shift towards the use of fiscal stimulus in the region, to complement already accommodative monetary policies to spur growth. Breather for government spending in EU member states (lower debt servicing burden owing to sharp drop in EU bond yields), relative calm in Euro-area politics, more clarity on Brexit progress, improvement in euro-area current account surplus and limited room for ECB to ease further (given diminishing marginal returns due to rates already in negative territories) are some of the other factors supporting the EUR upside.

- As brexit gets delayed, focus zooms in on upcoming General Elections (believed to be 12th Dec). Election uncertainty could weaken GBP in the meantime but losses can quickly reverse if BoJo is perceived to score a larger majority. Brace for more twists and turns in GBP (on election-related headlines) ahead but the confirmation of brexit deadline extension to 31st Jan 2020 and lesser likelihood of no-deal hard brexit should further reinforce our accumulate GBP on dips play.

Top 3 Currency Plays for Nov

Lean Against USD Strength

Short USDCNH

Accumulate EUR, GBP on dips

Key Events for the Month Ahead

Date	Event
Early Nov	US Treasury Semi-Annual Report on Macroeconomic and FX policies of Major Trading Partners
Mid-Nov	US-China could meet and sign phase-1 partial trade deal
19th Nov	19th Nov - US Federal Communications Commission Vote on Huawei and ZTE ban

G7 Global Overview

USD: Supported for Now with Insurance Pause

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020
USD Index	96.88 (97.62)	95.93 (97.17)	95.49 (96.69)	94.90 (96.30)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** The USD index has been on a downtrend since reaching a high of 99.21. From Jul to early Oct, the USD index rose largely due to the escalation of the trade and tech war between the US and China and the growth and policy divergence between US and the other developed economies. US rates still exceed most other developed countries, US inflation is still higher than Eurozone, and global growth expectations are being downgraded. These should for now still support the dollar into 1Q 2020. As a whole in the G7 world, the USD continued to benefit from US data outperformance, monetary policy divergence (in particular against the ECB and BoJ) and its “safe haven” appeal (especially in the face of demand for USD liquidity) as well as a lack of alternative reserve currency.

- However, we see the dollar weakening into part of 2020 on the back of a few factors, (1) Fed recent easing (albeit pause now) and still some risk of further cuts relative to other central banks, (2) the receding risk of no-deal Brexit, which supports the GBP and EUR, (3) higher probability of a trade deal with China given Trump push to make it happen ahead of 2020 US elections, thus eliminate the current tariff support for the USD, (4) Fed undertaking mini-QE of $60bn/mth over next few months, and (5) rising likelihood of pricing in the risk of front-runners for the Democratic nomination with policies that are dollar negative. Taking all that into consideration, and possibility of a confluence of these factors happening, we could see the USD softening more in 2H 2020.

- Into the end of the year, our base grey-swan scenario is still that of a protracted period of negotiation with “lines of communication” remaining open. Progression on talks taking both sides closer to a deal probably in 2H 2019 is not impossible and this could help support sentiment and support our view for trade/tech-linked FX to recover. A reversion back to risk-on mood at times, low vol environment amid central banks on easy monetary policies could still see carry plays outperform at the expense of lower yielders such as JPY.

- **Growth and Inflation Outlook:** 3Q GDP increased at a 1.9% annualized rate vs expected 1.6% consensus. The gain mainly reflected strength in consumer spending, which increased at 2.9% and exceeded projections for a 2.6% rise. For businesses, nonresidential fixed investment fell the most since late 2015.

- 3Q saw a second straight contraction in non-residential investment which fell 3% annualised after declining 1% in 2Q. Net exports were a slight drag on the expansion, subtracting 0.08% point from growth as inventories also weighed slightly. Federal spending also pushed up government consumption.

- The core CPI, which excludes food and energy, increased 0.1% from the prior month, below expectations. The annual gain of 2.4% matched projections as well as the August increase. The broader CPI was unchanged on the month and up 1.7% annually, trailing projections.

- The weaker-than-expected CPI figures reflected a 1.6% monthly drop in used-car prices, while new vehicle costs fell 0.1% for the third straight decline. Apparel prices decreased 0.4%, the first drop since April. Other categories were firmer. Shelter, which makes up about a third of total CPI, rose 0.3% in Sep following a 0.2% gain. Owners-equivalent rent, one of the categories that tracks rental prices, increased 0.3%.

- The core PCE index has shown signs of firming, increasing 1.8% annually in Aug, the most since Jan. On the CPI, energy prices fell 1.4% in Sep, the fourth drop in five months, as gasoline declined 2.4%. Food was up 0.1%, the first increase in four months. Prices for medical care rose 0.2%, the least since Feb, though components were mixed: physicians' services costs increased, hospital services were unchanged and prescription drugs fell 0.5%. Health insurance prices rose 1.4% in Sep. In the prior month, the index for such costs surged by a record 1.9%, though it's not directly based on prices paid by consumers; instead, it's an indirect measure based on retained earnings, or what insurers have after paying out claims.

- **Monetary Policy Forecast:** As expected, the Federal Reserve cut its Fed funds target rate for a third straight meeting, by 25bps to a range of 1.50% to 1.75%. The vote was 8-2 in favour of the reduction while George and Rosengren wanted no change in rates. The Fed hinted that there is possibly now a higher bar for further rate cuts, and removed its pledge to "act as appropriate" which was present in the June, July and September meetings and instead said it will continue to monitor incoming information "as it assesses the appropriate path" for federal funds rate target range.

- In the accompanying press conference, Fed Chair Powell said the rate cut was insurance against ongoing risks to the US economy. But he did highlight that while weakness in global growth and trade pose ongoing risks, he sees the risks to the outlook as having moved in a positive direction of late. He believes monetary policy is now accommodative and the current stance of monetary policy as likely to remain appropriate. He continues to expect the US economy to expand at a moderate rate.

- **Our economics team is looking at a baseline of 100bps (including 75bps cut already delivered) up to 1H 2020 and it looks unlikely that the Fed will cut rates close to the US Presidential election amid moderating growth.**

- **Latest Fiscal and External Balance Outlook:** Overall, growth in US economic activity is likely to slow toward trend as the impulse from the fiscal stimulus fades. The tax plan has not generated a sustained pickup in investment spending. The tax cut and Jobs Act are likely to widen deficit by about $1.5trn over 10 years. The bipartisan budget Act of 2018 to add $320mn in additional spending through FY 2020.

- **Key domestic events and issues to watch in Nov: NFP (1 Nov);** ISM mfg (1 Nov); Factory orders, durable goods orders (4 Nov, 24 Nov); Trade Balance (5 Nov); Oct CPI (13 Nov); Oct retail sales (15 Nov); GDP qoq (27 Nov); PCE deflator (27 Nov), **FOMC meeting minutes (21 Nov); FOMC (12 Dec).**

- **Technical Outlook:** DXY eased off 2019 highs to trade lower for the month of Oct. This is in line with our call in the FX Weekly - USD Longs at Risk of a Big Squeeze (see here for note). Dollar index was last seen at 97.45 levels. Bearish momentum on weekly, daily chart remains intact. Bearish crossovers observed: 21 DMA has cut 50 DMA to the downside and look on track to cut 100 DMA to the downside soon. Bias remains to lean against USD strength. Immediate support at 97.40 levels (200 DMA) before 96.9, 96.10 levels. Resistance at 97.80 (100 DMA), 98.40 (50 DMA).

EUR: Change of Guard at ECB; Change of Fortunes?

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020
EURUSD	**1.1200** (1.1100)	**1.1250** (1.1150)	**1.1300** (1.1200)	**1.1400** (1.1250)

Previous forecasts in parenthesis

- **Motivation for the FX View:** We are cautiously looking for a bottoming and subsequent gradual recovery in the EUR going into 2020, underpinned by a potential shift towards the use of fiscal stimulus in the region, to complement already accommodative monetary policies to spur growth. Breather for government spending in EU member states (lower debt servicing burden owing to sharp drop in EU bond yields), relative calm in Euro-area politics, more clarity on Brexit progress, improvement in euro-area current account surplus and limited room for ECB to ease further (given diminishing marginal returns due to rates already in negative territories) are some of the other factors supporting the EUR upside. In addition, EUR could see another boost if USD decline accelerates on potential dovish Fed, peak in US activity momentum and political uncertainties in US (impeachment inquiry on Trump, 2020 elections). We revised our EUR forecasts mildly higher to reflect the cautious recovery outlook.

- That said EUR could still face downward pressure in the near term owing to soft growth and inflation reading in Euro-area including Germany and the negative carry. Support at 1.0860 likely to provide firm support.

- Ex-IMF chief, former France Finance Minister **Christine Largarde takes over from Mario Draghi as next ECB President (effective 1 Nov).** She is expected to ensure monetary policy continuity but we also expect her to push EU governments to work on fiscal stimulus measures to spur economic activity rather than relying on unconventional monetary policies alone especially when monetary policy is closer to effective lower bound (as highlighted by Draghi) and could imply lower efficacy. This takes the pressure off further unorthodox ECB stimulus and help to mitigate against EUR weakness. Outgoing ECB-President Draghi called for more growth-friendly budget to spur economic activity and help raise inflation close to ECB's target. He said it is "high time for fiscal policy to take charge". In his parting comments at the last press conference (24 Oct), Draghi reiterated that "low interest rates are no longer delivering the same degree of stimulus as in the past… for monetary policy to achieve its objective faster and with fewer side effect, it needs other policies to step up". There is increasingly more talk on Euro-area members opening up to the idea of fiscal stimulus. Portuguese Finance Minister Centeno said that countries with fiscal space should use it to counter the slowdown of the economy. Germany could prepare a stimulus budget worth up to EUR50bn to address economic softness while Netherlands Finance Minister Hoekstra is planning to propose a draft 2020 budget to Dutch parliament and is expected to focus on increasing investment and cutting household taxes. If more Euro-area member countries become more receptive to use fiscal policies, they can possibly help to cushion against a deep economic slowdown.
- **Growth and Inflation Outlook: Manufacturing activity in Euro-area, Germany remains weak** as seen from contractionary mfg PMIs and slump in German factory orders (which have yet to show signs of stabilisation. ECB staff macroeconomic growth projections for **2019 and 2020 growth have been revised lower** to 1.1% and 1.2%, respectively (vs. 1.2% and 1.4% previously in Jun report). ECB President Draghi cited global trade slowdown as the main reason for "more protracted weakness" in economic growth. Euro-area 3Q Advanced GDP estimates will be released on 31 Oct (hence details are not available at time of sending this to the press).
- As a recap, Euro-area economy expanded at a slower pace of +0.2% q/q in 2Q, (vs. 0.4% in 1Q). Growth slowdown was seen broadly across most key economies in Europe including Germany, Spain, Belgium and Austria while Italy failed to record any growth for the 4th time in 5 quarters. Draghi explained that weakness in international trade was denting manufacturing activity and business sentiment in the Euro-area.
- **Headline CPI dipped below 1% to 0.8% y/y in Sep (vs. 1% in Aug).** Lower prices pressures were recorded in Cyprus, Portugal, Spain, Italy, etc. Softer price pressures were due to lower than expected inflation for industrial products and energy prices. Core inflation remains steady at 1% y/y in Sep. ECB staff macroeconomic projection for 2019 and 2020 inflation have been revised lower to 1.2% and 1%, respectively (vs. 1.3% and 1.4% previously). Euro-area PPI fell -0.8% y/y in Sep. This is also the first annual decline since Oct-2016. Softer price pressures and the risk of inflationary expectations being de-anchored justify ECB's stimulus in Sep.

- **Monetary Policy Forecast:** There is no ECB GC meeting in Nov. **The next GC is scheduled on 12 Dec.** We expect the ECB to maintain **key policy rates and Asset purchase plan (APP) status quo:** MRO at 0%, average deposit facility at -0.5% and APP to purchase EUR20bn/month starting 1st Nov. Easing bias expected to remain amid downside risks to growth and inflation.

- The last ECB meeting on 24th Oct was largely a non-event as with policy maintained at status quo. In Draghi's parting speech at his last conference as ECB President, he said that "weaker growth momentum is delaying the pass-through of stronger wage growth to inflation". He also said that labor market has lost some strength and risks to the outlook are on the downside. He reiterated that there is a need for highly accommodative stance of monetary policy for a prolonged period as underlying inflation remains muted. He reiterated that "low interest rates are no longer delivering the same degree of stimulus as in the past… for monetary policy to achieve its objective faster and with fewer side effect, it needs other policies to step up". He added that Euro-area needs a bloc-fiscal capacity large enough to stabilise the monetary union. He made reference to US able to put past crisis behind it much faster than the Euro-area because US have both a capital markets union and a counter-cyclical fiscal policy while the Euro-area had no capital markets union and a pro-cyclical fiscal policy. It remains unclear how receptive this is to European leaders as fiscal policies in Euro-area are decentralised and creating a joint budget could result in moral hazard.

- At the ECB meeting on 12th Sep, ECB unleashed stimulus on all fronts via (1) 10bps cut to deposit rate to bring rate down to -0.5% from -0.4%; (2) re-introduce asset purchase program at the monthly pace of EUR20bn starting 1st Nov till "shortly after the first rate increase"; (3) TLTROs interest rate will start at 0% and could fall as low to where the deposit rate is (or -0.5% currently) while the maturity is extended to 3years (from 2 years previously). In addition, part of banks' excess liquidity will be exempted from negative rates in 2-tier system and forward guidance will be removed – ECB to see rates at present or lower levels until inflation "robustly" converges on goal, supported by underlying dynamics.
    - Decision to introduce QE was also not unanimous and revealed a growing divide as Austrian central bank Governor Holzmann, Netherlands Governor Knot and Bundebank Weidman disagreed with quantitative easing/ cutting rates further while Finland Governor Rehn was supportive of ECB stimulus measures, saying that this is in response to shortfall in inflation.
    - We believe the bar for further monetary stimulus is raised even higher and the focus next is for the push for Euro-area member states to deploy fiscal stimulus to stimulate growth rather than relying on monetary policies alone.

- Ex-IMF chief, France Finance Minister Christine Largarde takes over as next ECB President (effective 1 Nov). She is expected to ensure monetary policy continuity but we also expect her to push EU governments to work on fiscal stimulus measures to spur economic activity.

- **Latest External Balance Outlook:** Euro area's current account surplus widened to EUR26.6bn in Aug (vs. EUR21.6bn in Jul). Surpluses were seen in services and primary income. In the 12 months to Aug, current account surplus was about 2.7% of GDP. ECB had earlier expected current account surplus to narrow further to 2.7% of GDP in 2019 and 2.5% of GDP in 2021.

- **Key domestic events and issues to watch:** Oct Mfg PMI, Nov sentix investor confidence (4 Nov); Sep PPI (5 Nov); Oct services PMI (6 Nov); Sep retail sales (6 Nov); Nov survey expectations (12 Nov); Sep IP(13 Nov); 3Q prelim GDP (14 Nov); Sep trade (15 Nov); Oct CPI (15 Nov); Sep current account (19 Nov); Nov consumer confidence (21 Nov); prelim PMIs (22 Nov); Nov CPI estimate (29 Nov).

- **Technical Outlook:** Our caution (in the last FX Monthly) for 1.0860 – 1.11 range, with bias to buy dips played out well for the month of Oct. Intra-month low was seen around 1.0880 before the pair trended higher. Last seen at 1.1160 levels. Underlying momentum (as seen from weekly chart) is bullish with stochastics on the rise from oversold conditions. A falling wedge, albeit over long period (formed since 3Q 2018) appears to be in the making. This is typically a bullish reversal but question lies in when the break-out comes. Immediate resistance at 1.1195 (200 DMA) before 1.1275 (23.6% fibo retracement of 2018 high to 2019 low) and 1.1420 levels. Support at 1.1070 (21 DMA), 1.1040 (50 DMA). We hold to our bias to buy dips.

GBP: Election Uncertainty an Opportunity to Buy Dips

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020
GBPUSD	**1.3000** (1.2400)	**1.3200** (1.2500)	**1.3400** (1.2600)	**1.3500** (1.2800)

Previous forecasts in parenthesis

- **Motivation for the FX View**: As brexit gets delayed, focus zooms in on upcoming General Elections (believed to be 12th Dec). Election uncertainty could weaken GBP in the meantime but losses can quickly reverse if BoJo is perceived to score a larger majority. Brace for more twists and turns in GBP (on election-related headlines) ahead but the confirmation of brexit deadline extension to 31st Jan 2020 and lesser likelihood of no-deal hard brexit should further reinforce our **accumulate GBP on dips play**. Expect GBP to trade in 1.27 – 1.30 range, with bias to buy dips.

- **Perception on GE Outcome Matters:** MPs voted in support of holding early General Elections, possibly on 12th Dec 2019 by a vote of 438-20. As of writing, the bill is pending approval from the upper House of Lords. This is expected to be passed. Early opinion polls suggest a sizeable Conservative majority. But it remains too early to assume the outcome given the poor predictive showing as seen from past elections, 2016 referendum.

- It is possible that Opposition parties reshape their party manifestoes and skew their party agenda and objectives towards what the voters may want. Potentially the smaller Opposition parties could even come together to form an alliance to avoid a multi-corner fight – this may pose risks to Conservative especially if Labor party joins in the alliance (but a low probability at this stage). Labor or Liberal-democrats could also dangle a chance to vote on brexit/bremain via a second referendum.

- **Election uncertainty could weaken GBP in the interim but losses can quickly reverse if BoJo/Conservative party is perceived to score a stronger majority in parliament.** A less divided parliament/ lesser need for Conservative to rely on another political ally to form a government allow for future bills to be passed more swiftly and this is supportive of GBP gains.

- **We revised our GBP forecasts higher to reflect brexit's positive progress (fading risks of hard brexit and EU's confirmation of brexit extension) and retain our mild upward trajectory for GBP,** premised on our base case assumption that still calls for a smooth, orderly exit (with a transitional deal) on 31st Jan 2020 and Conservative party to stay as the ruling government at the upcoming GE.

  - Based on our model estimates which take into account current account differentials, interest rate differentials and inflation differentials, GBP's fair value estimate fall in the range of 1.42 – 1.46. This justifies our upward forecast trajectory over the forecast horizon into the medium term. The -14% or so deviation (spot to fair value estimate) largely reflects the Brexit uncertainty premium and this should help the UK economy to rebalance and grow sustainably over time - current account deficit should narrow, exports should become more competitive and tourism and education receipts should pick up further.

  - We hold to our belief that UK should be able to manage the exit, transform itself into a global marketplace and continue to attract capital (longer-term). In the last episode where UK left the ERM back in 1992, GBP saw a period of consolidation (for a few years) at historical lows before the eventual move higher in the following years, where GBP TWI traded above 100-levels in 1998 (from the lows of 80 in 1993-1996) due to buoyant demand fueled by rapid growth of wealth, credit and money. If history is a guide (assuming UK manages the transition well and takes the opportunity to correct its imbalances), its currency should start to climb higher.

- **Growth and Inflation Outlook: UK economic activity momentum appeared to have slipped in Sep as services, construction PMIs slumped into contractionary territories.** Industrial production surprised to the downside in Aug (-1.8% y/y vs. -0.8% expected) but could reverse in the next month as Mfg PMI improved marginally in Sep, thanks to stronger new orders. That said all readings for Sep PMIs are in contractionary territory and consumer confidence remains on the downtrend. Risk of technical recession remains but may well be shallow if there is one. We stick to our earlier call that UK should manage to escape a technical recession in 3Q as consumer spending continues to hold up amid rising wage growth. Sep retail sales also saw an uptick while 2Q household spending as strong (as seen from 2Q GDP). 3Q GDP is schedule for release on 11 Nov. **BoE had earlier lowered UK growth projections for 2019 and 2020 to 1.3%,** down from previous projection of 1.5% and 1.6%, respectively. This is due to increased brexit worries and a slowing global economy. These forecasts assume UK leaves EU with a transitional deal.

- **UK headline CPI held steady near 3-year low of 1.7% y/y in Sep,** as decline in fuel prices were offset by rise in prices of computer games, furniture, household appliances and hotel stays. Core inflation, on the other hand, inched higher to 1.7% y/y in Sep (vs. 1.5% prior). Inflation is expected to stay below BoE's 2% target in coming months partly because of lower gas and electricity prices. We are cautious that a stronger GBP (>6% appreciation in the past few weeks) could further add to lower imported prices ahead.

- **Monetary Policy Forecast:** We still expect BoE MPC to keep policy rate and size of BoE balance sheet unchanged at 0.75%, GBP 435bn, respectively at the upcoming MPC on 7th Nov. **Relatively steady CPI (no run-away pressure from BoE MPC's 2% target), with chance of some slight pullback due to lower oil prices and Brexit uncertainty leaves room for BoE to keep policy stance status quo for now**. Maintaining an accommodative monetary policy is what the BoE can do to help support growth amid ongoing Brexit uncertainties. But inflation may go higher at some stage towards later part of the year amid potential front-loading of stockpiling/imports ahead of *Brexit* on 31st Oct. We see **some risks of BoE being stuck between a rock and a hard place** as tight labor market continues to generate upward domestic price pressures (risk of monetary tightening) while on the other hand, BoE may be inclined to ease policies to support growth amid rising downside risks to growth, Brexit uncertainty and easing inflationary pressures

- At the last BoE meeting on 19th Sep, MPC voted 9-0 to keep monetary policy status quo as it balances Brexit uncertainty and weak global growth. Central bank also noted that "trade war between US and China has intensified and the outlook for global growth has weakened… shifting expectations about the potential timing and nature of brexit have continued to generate heightened volatility in UK asset prices, including its exchange rate".

- **External Balance Outlook** UK's current account deficit narrowed by GBP7.9bn to GBP25.2bn in 2Q. This was due to the narrowing of deficit on trade in goods where imports fell more than exports. This was due to "normalisation" after the ramp up of imports in 1Q amid brexit stockpiling. As % of GDP, current account deficit narrowed to 4.6% from 5.6% in 1Q.

- **Key domestic events and issues to watch:** Oct PMI Mfg (1 Nov); Oct construction PMI (4 Nov); Oct services PMI (5 Nov); BoE MPC (7 Nov); 3Q prelim GDP, Sep IP, trade, construction output (11 Nov); Sep labor report (12 Nov); Oct CPI, PPI, RPI (13 Nov); Oct retail sales (14 Nov); Oct public finance (21 Nov); Nov GfK consumer confidence (29 Nov).

- **Technical Outlook:** Our calls to accumulate GBP on dips since 11 Sep (see here) and subsequently reiterated again on 14 Oct (see here) has more than met one of our objectives. Pair was last seen at 1.2920 levels. Underlying bullish bias (as seen from weekly chart) remains intact while stochastics is weekly rising into overbought signals. We still favor trading GBP from the long side but given the "too fast too furious" rally in Oct, we do not rule out towards 1.2880, 1.2820 and 1.2720 (200 DMA) levels in the near term. Bias remains to accumulate on dips. Double cross-overs observed: 50DMA cut 100 DMA to the upside while 21DMA looks on track to cut 200 DMA to the upside. Resistance at 1.30 before 1.3170 (50% fibo retracement of 2018 high to 2019 low), 1.3450 (61.8% fibo).

AUD: Caught between QE and a US-China Trade deal

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

No change from previous forecasts

- **Motivation for the FX View:** Insofar, AUDUSD has been dragged by expectations of RBA to ease and speculation of QE. Investors expect the central bank to do the heavy lifting as the government eagerly delivers a budget surplus not seen in more than a decade for 2019-2020. Externally, the demand for Australia's key resources including iron ore, LNG and coal is expected to be lackluster without a US-China trade deal although some support can be expected from China's modest infrastructure boost. Into Nov, we see potential for these factors that have weighed on AUD to dissipate should US-China ink an agreement in Nov that includes a roll-back in tariffs, along with a currency pact. That could provide a more sanguine environment that could be constructive for the risk-sensitive AUD. At home, steady hiring pace (with some potential further fallout from the construction downturn) and dissipation of negative wealth effect from a housing recovery could bring back household spending. Based on the futures curve, terminal rate is seen to be around 0.5%. We are not far from that but speculation of QE 2020 can continue to keep crimp on the AUDUSD recovery. With AUD TWI >12% lower from its 2017 highs, current account surplus could continue to grow and that in itself could also buffer the AUD against excessive weakness and strengthen support at 0.66 vs. the USD. As a result, risk-reward ratio may still favour the AUD bulls and we continue to look for upside in the AUDUSD towards the 0.71.

- While we see a potential for AUD to form a bottom around 0.66-0.68 and a recovery towards 0.71 on the confirmation of the phase 1 of the trade deal, a softer USD profile and potential for RMB gains, further upsides beyond those levels may nonetheless be crimped by expectations of QE as subdued wage growth at home remains a drag on private consumption.
- **Growth and Inflation Outlook:** The AiG Perf of Mfg index printed at 54.7 for Sep, an improvement from previous 53.7. New orders rose to 57.1 from 53.3 while the employment subcomponent rose from 51.4 to 57.6. A concerning part of the report is the drop in exports component from 55.7 (several-months high) to 49.6 as net exports had been a more significant contributor to growth of late. Aug trade surplus narrowed t $7.27bn to $5.93bn.
- NAB business surveys show operating conditions improved marginally to a score of 2 from 1 while business confidence slipped to 0 from 1. Westpac consumer confidence weakened as well to -5.5% from previous 98.2 to 92.8. That said, outlook for employment seems to have bounced. Home loans for Aug missed the consensus of 2.3%m/m, coming in at a weak 0.7% vs. prev. 4.4%. Investment lending picked up pace to 5.7%m/m from 4.2%.
- Retail sales rebounded to 0.4%m/m for Aug, albeit still missing the consensus of 0.5%. The fall in consumer confidence bodes ill for private consumption but we note that retail sales (proxy for household spending) does not track the consumer confidence index very closely anyway.
- CoreLogic house price rose another 1.1%m/m in Sep vs. previous 1.0% - a slight improvement but nonetheless a sign of stabilization and perhaps, recovery in residential prices. We had previously noted that the stabilization in established housing prices in 2011 took around a year before investors and consumers start to regain confidence and the weak business confidence and retail sales are likely to take time to recovery unless the government is more aggressive with fiscal stimulus. Stronger global growth is likely to give a lift to international flows, business sentiments, consumer sentiments and concomitantly, growth in Australia. Hence, the widely US-China trade agreement expected to be inked in Nov at Chile may provide investors some relief although there is an increasing acknowledgement that there may not be a full resolution. A roll-back in tariffs could nonetheless provide a boost to world trade and risk sentiment.
- ABS released a detailed labour report in late Sep, revealing weakening hiring in the manufacturing, mining, construction retail trade and agriculture space for the quarter through Aug. Weakness in these sectors were on the whole offset by hiring by healthcare, professional scientific and technical services as well as education.
- 3Q inflation came into be roughly in consensus at 0.5%q/q. Year-on-year, CPI rose a tad to 1.7%. The trimmed mean CPI steadied at 0.4%q/q. Tradable prices slipped to 0.9%q/q from previous 1.2%. Along with trade surplus which has shrunk a tad, the fall in external demand may have blunted the effectiveness of a cheaper AUD to lift inflation. Non-tradable prices rose 0.4%q/q from previous 0.2%. Inflationary

pressure for goods excluding volatile items rose to 0.8%q/q vs. previous 0.5%. For services excluding volatile items, prices accelerated 0.8% from previous 0.2%. Total goods and services (excluding volatile goods) picked up pace to 0.8%q/q from previous 0.4%, suggesting some recovery in domestic demand.

- **Monetary Policy Forecast:** RBA Lowe has made it clear that negative rates are "extraordinarily unlikely" and that has given rise to expectations that the terminal rate will be around 0.5% - that is 25bp more to go from the current 0.75% as well as livelier discussions on QE options. There is an increasing belief that unconventional monetary policies are to be considered as additional ammunition and we do not rule that out (albeit still not our based case scenario). RBA Lowe, along with a Working Group, published a paper to take stock of unconventional monetary policy tools (UMPT). UMPTs were assessed to be broadly effective in providing stimulus to the real economy, avoid the un-anchoring of inflation expectations once policy reached the ELB, provided additional policy space when conventional monetary policy was constrained, overcome impairments in transmission channels of monetary policy. However, authors stressed that the deployment of UMPTs are unlikely to be in isolation, depends largely on the scenarios faced by central bankers, potential negative spillovers and undesirable side effects that may arise from their prolonged use.

- **Insofar, a key concern of the central bank is the weak household spending that is weighed by the low wage growth. Hence, the past three rate cuts undertaken this year were meant to "build inroads into spare capacity", in the hope to get more hiring momentum up and wage growth higher. However, it was also clear that domestic banks have not been transferring the full policy cuts to their consumers such as mortgage loans.**

- Taken together, we cannot rule out the likelihood of RBA to engage in new lending operations and asset purchase programme. Domestic banks' unwillingness to pass through the policy rate cuts could suggest an increasing limit to conventional monetary policy. In addition, the government is unwilling to increase fiscal stimulus as the coalition is at the cusp of getting the prized fiscal surplus that has been out of reach in more than a decade. However, given the potential negative spillovers (including excessive risk taking) and other risks arising from prolonged usage of such UMPs, RBA may not be willing to do so unless there is significant deterioration in the economy that warrants it.

- What is clear is that, a cheaper AUD has been the more efficient channel in providing stimulus to the economy. Net exports have risen along with the fall in the AUD and a key impetus for RBA would be to ensure that the AUD remains on the backfoot. In other words, AUD cannot be allowed to rise too much and that suggests that RBA would need to dangle the carrot (of QE) as the ELB is reached.

- RBA is likely to assure investors and consumers that while its conventional monetary policy is at its limits (ELB), studies have shown that unconventional monetary policy tools can be tapped on. However, that does not mean that the central bank would need to use it. The recent slip in jobless rate should see RBA hold cash target rate at

0.75% for Nov. We continue to monitor retail sales, inflation measures, wage growth and the labour report for an indication of the central bank's next move.

- **Latest External Balance Outlook:** 2Q current account surplus widened to A$5.9bn from previous deficit of -A$1.1bn (also revised narrower). This was underpinned by the wide trade surplus of goods of A$20.36bn. Terms of trade continues to improve on the depreciation of the AUD vs. its trading partners.

- **Latest Fiscal Outlook:** Treasurer Josh Frydenberg has been reiterating about delivering a fiscal surplus in spite of accusations that the government is leaving the central bank to do the heavy lifting. He projected a fiscal surplus of $7.1bn for the year through 2020. Post budget, PM Scott Morrison announced a plan to set up an Australian Business Growth Fund that is projected to grow to A$1bn when it matures, aimed at creating 250K new small businesses over the next five years. The government has recently passed the A$158bn tax-cut package that will be phased in and by 20221-25 with immediate rebates up to a limit of $1080 for low and middle income earners.

- **Key domestic events and issues to watch Nov:** AiG Perf of Mfg index (Oct), PPI (3Q) due on 1st Nov; CBA PMI Mfg for Sep (F), CoreLogic House Price, Commodity index (Aug, building approvals for Aug, RBA Meeting on 1st Oct; AiG Perf of Services Index (Sep), CBA Australia PMI ()Sep F(), trade (Aug) on 3rd; RBA Financial Stability Review, retail sales (Aug) on the 4th; foreign reserves (Sep), NAB business survey (Sep) on 8th; home loans, investment lending and owner-occupier loan value (Jul) on 10th; Minutes of the RBA Policy Meeting on the 15th; Labour report on the 17th; CBA PMI Mfg (Oct P); CPI (3Q), building approvals for Sep on 31st Oct.

- **Technical Analysis:** AUDUSD had a rather bullish month, in line with our anticipation for this pair to head towards 0.6830 and in this moment of risk-on play, exceeded our target to levels last seen around 0.6930 as Oct comes to an end. Into Nov, hopes are running high for the US and China to ink a deal. Momentum is bullish but with this 3-month high, AUDUSD seems to have formed a tentative bearish divergence. In addition, there is a rising wedge formed. Hence we do not rule out a pullback towards 0.68 before the next leg higher. On the weekly chart, a bullish divergence seems to have formed. We hold our view that AUDUSD has somewhat bottomed around 0.66-0.68.

NZD: Decline Nearing an End?

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

No Change to Previous forecasts

- **Motivation for the FX View:** We maintain our call that Kiwi's near-10% decline from YTD high is nearing its bottom on a combination of factors including de-escalation in US-China trade tensions as US, China looks on track to sign phase-1 partial deal in coming weeks, easier financial conditions (on expectations for Fed to remain accommodative for longer) and possibly further broad USD softness ahead. But on the other hand, caution over RBNZ's open-ness to unconventional monetary policies could still limit NZD upside We retain our forecast values and mild upward trajectory projection into 2020.

- **Risks of RBNZ Catching Down with RBA but Bias for Hold:** Unlike street expectations (75% implied via NZOIS) looking for another 25bps cut at the Nov meeting, we expect RBNZ to retain watch-and-see accommodative stance to allow for the 50bps cut in Aug and lower NZD to work its way into the economy. In particular, RBNZ's measure of NZ TWI has fallen to 4-year low of below 70-levels (mid-Sep) from the high of 74 levels in Jul-2019. This level is now way below RBNZ's working assumption of NZ TWI range of 72.8 – 73.4 from 3Q 2019 to 4Q 2020. On the interest rates aspect, OCR at historical low of 1% after the 50bps cut to deliver maximum effectiveness to meet its dual policy objectives of inflation and employment as well as to play catch-down with its RBA peer may imply that the bar for further rate cut may be set higher. Nonetheless we are mindful RBNZ can do a "copycat" to cut OCR by 25bps, in tandem with RBA (whom cut in Oct again) and continue to caution that RBNZ will not drop its dovish tone anytime soon and this could still have the effect to keep market expectations for another rate cut intact, hence a risk factor weighing on NZD.

- **Growth and Inflation Outlook: RBNZ expects NZ growth to remain subdued** and have lowered growth forecasts through 2019 and 2020 to 2.7%, 2.4%, respectively (as of the last MPS, Aug 2019). On inflation, RBNZ noted that most measures of core inflation remain below 2%. Subdued inflation partly reflects low imported inflation and this is expected to decline in the near term before gradual convergence to below its long-term average. RBNZ also noted on weak pricing behaviour. The next quarterly MPS will be release on 13 Nov.

- 2Q GDP saw a sequential downtick to 0.5% q/q (vs. +0.6% in 1Q). Goods-producing industries was the main drag driven by declines in manufacturing and construction while services industries rebounded, led by retail trade/accommodation, arts/recreation, public administration, etc. On expenditures, exports declined due to lower dairy and meat shipments while household spending rose at a faster pace led by durable goods and services. Other survey, activity and confidence data was mixed: Mfg PMI remains in contractionary territory in Sep at 48.4 (unchanged from Aug) while services PMI is steady in expansionary territory (54.4).

- 2Q headline CPI picked up for the second consecutive quarter in 3Q to +0.7% q/q (vs. +0.6% in 2Q). Surprise uptick was due to rise in food and fuel prices (tradable inflation which is typically transitory in nature and could ease off in 4Q when oil prices stabilise). However non-tradable inflation (a measure of domestic price pressures) jumped to 3.2% q/q in 3Q (vs. 2.8% in 2Q), highest level since 2009. This could still keep inflation well within RBNZ's inflation target range of 1 - 3% and suggests that there is less urgency to cut rates drastically. On annual basis, headline CPI rose 1.7% in 3Q.

- **Monetary Policy Forecast:** We still maintain our out-of-consensus call for **RBNZ to keep OCR on hold at 1% at its upcoming MPC meeting on 13 Nov.** We believe **RBNZ will "watch and monitor" to allow for the transmission effects from the earlier 50bps surprise cut in Aug (cumulative 75bps cut YTD) and currency adjustment (NZ TWI declined by nearly 7% from its 2019-high) to work its way into the economy**. We previously noted that the latter is also another form of monetary stimulus and could help to support exports and growth. Though 2Q GDP disappointed to the downside and this may justify another rate cut, we think this has already been taken into consideration by MPC, hence the 50bps cut decision in Aug in 2020. Elsewhere we note that markets (via NZ OIS) are pricing in 87% chance of 25bps cut at the 13th Nov MPC.

- Nonetheless caution remains as RBNZ could still ease further if need arises especially when synchronous monetary easing gains traction in most parts of the world including US, Australia and Asia amid synchronous slowdown and to keep in tandem with RBA (whom cut 25bps again in early Oct). RBNZ's repeated warnings on the ability to deploy unconventional policy tools – large scale bond purchase and/or negative interest rates – reinforces RBNZ's dovish bias and its policy space to lower rates further (from current levels of 1%) if need arises. We do not expect RBNZ to join ECB, BoJ to unleash unconventional QE-type of monetary policies in the near future as economic conditions do not warrant such drastic measures for now.

- At the last MPC meeting (25th Sep), RBNZ kept OCR unchanged at 1%, as expected. Accompanying statement noted that employment is around its maximum sustainable level and though inflation is within the target range, it is below the 2% mid-point. It also noted "there remains scope for more fiscal and monetary stimulus, if necessary, to support the economy and maintain inflation and employment objectives". It also made reference to global long-term interest rates near historically low levels which is consistent with low expected inflation and growth rate in the future. "Consequently, NZ interest rates can be expected to be low for longer".

- **External Balance Outlook:** NZ current account deficit narrowed to -3.4% of GDP in 2Q from -3.6% of GDP in 1Q. This was due to an improvement in services surplus owing to tourism receipts and narrowing in primary income deficit.

- **Key domestic events and issues to watch:** Oct consumer confidence (1 Nov); 3Q employment change, hourly earnings (3Q); Oct food prices, RBNZ MPC (13 Nov); Oct Mfg PMI (15 Nov); Oct services PMI (18 Nov); 3Q PPI (19 Nov); Oct credit card spending (21 Nov); 3Q retail sales 26 Nov); Oct trade (27 Nov); Nov business confidence (28 Nov); Oct building permits (29 Nov).

- **Technical Outlook:** Our call (in the last FX Monthly) for bullish reversal met our first objective at 0.6340 and came close to meeting our second objective at 0.6440. Pair was last seen at 0.6420 levels. Weekly momentum turned bullish while stochastics is rising. Bullish divergence on weekly MACD is underway. Directional bias remains skewed to the upside. Resistance at 0.6470 (100 DMA) before 0.65 and 0.6590 (200 DMA). Look for further upside, technically. Support at 0.6340 (21, 50 DMAs).

JPY: External Tensions Partly Defused, Domestic Growth Worries Remain

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020
USDJPY	107.5 (105)	107 (106)	106 (106)	105 (105.5)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** Forecasts for USDJPY are adjusted broadly higher from previous month on (i) easing of global trade tensions on potential US-China partial trade deal in 4Q, and (ii) significantly reduced hard Brexit risks. While a smattering of geopolitical risks are still intact, including in Hong Kong, Argentina and Chile, their impact on global sentiment is significantly lower than aforementioned trade war/Brexit risks. We look for further confirmation of the twin deals (US-China, Brexit) in 4Q to support USDJPY, but note that domestic growth concerns, the ongoing Japan-Korea spat, and a softer dollar could exert a tad of downward pressure on the pair. Moreover, uncertainty over phase 2/3 US-China deal (once the lower-hanging fruits in phase 1 are plucked) could see continued rifts over structural issues between the two sides further out. This could imply some demand for the yen into 2020 still, even as USD continues to soften, and drags on the economy from the Japan-South Korea trade spat potentially persist.

- Korea-Japan spat remains in dire conditions for now. A quick recap of events: in July, Japan announced curbs on exports (to Korea) of certain components needed for making smartphones and TV displays, which prompted a wide-ranging boycott of Japanese products by South Korean consumers. South Korea also retaliated by ending a military intel-sharing pact with Japan, souring relations between the two powers further. Both Japan and Korea are also now effectively removed from each other's trade whitelist, meaning that exports to the other party may be faced with increased administrative burden and delays. Japanese clothing brand Uniqlo got into trouble in South Korea after a new ad by the company was criticized as mocking victims of wartime forced labour. Nonetheless, there are very tentative signs of a recovery in relations, as a meeting between Japanese PM Abe and South Korean Premier Lee Nak-Yon in the third week of Oct ended with both sides issuing statements expressing desires to repair ties.

- Meanwhile, repercussions for Japan in business output terms continue to snowball, with impact on Japanese auto sales being particularly severe. Despite a rise in overall foreign car sales in South Korea in September, total sales from Toyota, Honda and Nissan declined by an estimated -74%y/y. As cautioned in the last Monthly, the impact on tourism for Japan also continues to worsen. Only ~200,000 South Koreans visited Japan in September, a -58%y/y decline (Aug: -48%, Jul: -7%). Both Korean and Japanese airlines are also starting to cut flights between the two countries. If the conflict remains unresolved, and hits Japanese firms' margins further, negative sentiments on the Japanese bourse could be supportive of JPY.

- The yield differential between Japanese 10 year bonds and US 10 year bonds have narrowed from -2.7% at the start of the year to around -1.9% now. Further yield compression (lowering of US rates vs. limited room for Japan rates to fall) would be supportive of the JPY, but this effect is expected to be more modest now that Fed has indicated its preference to keep Fed funds rate on hold for a while.

- On balance, we expect JPY to be supported, but do not expect it to strengthen significantly from here (i.e., unlikely for USDJPY to head much lower than 105). Anecdotal evidence and fund flow statistics suggest that extent of yen rallies may be capped by one key channel—when the yen is strong, Japanese residents may be more inclined to send funds overseas for higher returns. Investments in overseas bonds by Japanese residents were at JPY17.8tn in the first nine months of 2019, significantly higher than the JPY7.6tn recorded in the same period last year. In current conditions, Japanese investors can potentially get >1% from some currency-hedged DM sovereign debt, while domestically 10-year bonds have negative yields. This supports our caution against projecting the USDJPY at below 105 for the next few quarters.

- **Growth and Inflation Outlook:** Final print for 2Q GDP growth was at 1.3%q/q SA annualized, compared with 1.8% in 1Q. The Economic & Social Research Institute's Coincident Business Cycle Indicator softened to 99.3 in Aug, from 99.7 in Jul. More worrying, the Leading Indicator declined by a larger extent to 91.7 in Aug, from 93.7 in July, hinting at a softer growth outlook in 4Q. Meanwhile, core machine orders for Aug declined at a double-digit -14.5% (vs. -8.7% expected). The prelim Oct Jibun Bank PMIs also showed signs of weakness, slipping to 48.5 for Manufacturing and 50.3 for Services, compared to 48.9 and 52.8 prior. Nonetheless, Sep retail sales came in better than expected (7.1%y/y vs. 3.5% expected), which could imply some front-loading in purchases ahead of the Oct sales tax hike. Sep prelim IP was also positive at 1.1%y/y, vs. -0.1% expected.

- On balance, growth indicators continue to indicate soft, but non-recessionary outcomes for the economy. Consensus estimates are for the Japanese economy to expand by a modest 0.9% in 2019 for now, slightly lower than the 1.0% estimate previously. With both external and domestic challenges to overcome, consensus figures also expect growth to dip further to 0.3% in 2020.

- Headline CPI slowed to 0.2% y/y in Sep (vs. 0.3% y/y in Aug) due to softness in fresh food and energy prices. Core inflation, which excludes fresh food, came in at 0.3% y/y (slightly lower than Aug's 0.5%). A separate core gauge that strips out prices of fresh food as well as energy posted a 0.5%y/y gain, slightly lower than Aug's 0.6%. Prices of goods excluding fresh food in Tokyo, a leading indicator for national price pressures, rose 0.5%y/y in Oct—the impact of the sales tax hike seemed to have been mitigated by the implementation of free pre-school education starting Oct.

- **Monetary Policy Forecast:** At its meeting today, the BOJ kept the short-term policy rate at -0.1% and 10-year bond-yield target around 0%. Two of nine board members dissented in a dovish direction. The board had also tweaked its forward guidance, promising to keep short-term and long-term interest rates at their present levels or lower, "as long as it is necessary to pay attention to the possibility of losing price momentum." After relooking at macro outcomes post the sales tax hike this month, the BOJ had assessed that there was no further increase in the risk of inflation momentum being lost, which supported its decision to stay pat this month.

- Forecasts for growth and inflation have also been lowered by BOJ. Inflation projections for FY 2019/20/21 are at 0.7% (1.0%), 1.1% (1.3%) and 1.5% (1.6%), respectively. GDP projections for FY 2019/20/21 are at 0.6% (0.7%), 0.7% (0.9%) and 1.0% (1.1%), respectively. Numbers in parentheses refer to previous BoJ forecasts.

- Despite softer growth and inflation outlook, receding geopolitical risks (which resulted in a weaker JPY recently) and resilient domestic demand could yet mean that the BOJ might yet hold off on further action in its Dec meeting. With short-term interest rates in negative territory, there might be limited room for BOJ to cut rates further, even as the revised forward guidance attempts to convince markets that it is prepared to add stimulus to spur inflation if needed.

- **Latest External Balance Outlook:** Current account surplus widened further in Aug to JPY2.16tn, from JPY2.0tn in Jul. For Sep, the trade balance remained at a mild negative (-JPY123.0bn vs. revised -JPY145.7bn prior), as exports (-5.2%y/y) contracted by a larger extent compared to imports (-1.5%y/y). We note that exports have recorded y/y declines for 10 straight months since Dec 2018. The weakness in exports was due to lacklustre demand for auto parts and semiconductor-making equipment. In particular, exports to China had slid -6.7%y/y, while exports to the US also declined by -7.9%. We note that Japan's dispute with South Korea is a pertinent concern for the trade outlook. South Korea accounted for about 7% of Japan's exports in 2018. Current account for the year is expected to be softer than 2018's 3.5% (of GDP), but may remain resilient at above 3%.

- **Key domestic events and issues to watch:** Sep Jobless Rate (1 Nov); Oct Vehicle Sales (1 Nov); Sep ESRI Leading, Coincident Indices (8 Nov); Sep Current Account Balance (11 Nov); Sep Core Machine Orders (11 Nov); Oct Machine Tool Orders (12 Nov); 3Q GDP (14 Nov); Oct Trade (20 Nov); Oct National CPI (22 Nov); Nov Prelim Jibun Bank PMIs (22 Nov); Oct Retail Sales (28 Nov); Oct Prelim IP (29 Nov); Oct Housing Starts (29 Nov).

- **Technical Outlook:** Pair last seen around 108.70. It saw broad upward pressure in Oct, alongside easing in global tensions as signs of US-China partial deal in 4Q firmed, and hard Brexit risks receded. We observe potential bearish divergence on the daily chart, which could indicate downside risks for the pair. Momentum on daily chart is neutral, while stochastics show signs of inching down from overbought territory. Resistance at 109.30 (Aug high), 110. Support at 108.45 (Sep high), 107.50 (23.6% Fibonacci retracement from Aug low to Sep high).

RMB: This 7 is Neither An Age, Nor A Dam

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020
USDCNY	7.10 (7.20)	7.08 (7.18)	7.05 (7.15)	7.03 (7.10)
USDCNH	7.10 (7.20)	7.08 (7.18)	7.05 (7.15)	7.03 (7.10)

No change from previous forecasts

“人民币汇率“破7”，这个“7”不是年龄，过去就回不来了，也不是堤坝，一旦被冲破大水就会一泻千里；“7”更像水库的水位，丰水期的时候高一些，到了枯水期的时候又会降下来，有涨有落，都是正常的”

- SAFE (5 Aug 2019)

“This ‘7’ is not an age that is irreversible, nor is it a dam that will collapse once it's broken,” “‘7’ is more like the water level of a reservoir: it rises during rainy seasons and falls during dry ones.”

- **Motivation for the FX View:** As we write, USDCNH and USDCNY have drifted to levels around 7.03 as market players gradually price in an increasingly likely trade deal in Nov. The US and Chinese authorities have been soothing market sentiments by consistently providing positive headlines on the phase 1 of the US-China trade deal progression. These headlines do provide some distraction from the economic carnage of the trade war itself. China's industrial profitability slipped by another -5.3%y/y for Sep, a deeper fall vs. the previous -2.0%. The contraction was already hinted by the fall in the PPI released mid of Oct at -1.2%y/y.

- Ahead of the US-China high level call that happened on 25th Oct, Reuters cited a few US sources stating China would exempt some US farm products from tariffs including soybeans, wheat and corn and around $20bn of agricultural purchases could be made annually. China is expected to ask US to drop plans for tariffs on $156bn worth of Chinese goods and seek the removal of 15% tariffs imposed on Sep 1 on about $125bn of Chinese products. Subsequently, after that call, China's Ministry of Commerce confirmed that both sides have agreed on "agricultural product regulatory issues" and that there would be more conversations. If the source is right on the removal of tariffs, that would be in line with our expectations for the US to rollback some existing tariffs on China, stated here. We believe that it could be more tempting for the US to remove tariffs that were imposed on 1st Sep as final consumer goods took the brunt of that tariff then. We do not think a roll-back of any existing tariff is in the price of the RMB and that, along with a US-China currency pact, could bring USDCNY and USDCNH below the 7.

- In a scenario of talks breaking down or inadvertent escalation in trade/tech war, a potential break of the 7.20-figure could open the way towards 7.30 into the next year.

- We have admittedly, been on the more optimistic camp, expecting USDCNY to breach the 7-figure in the near-term but gains beyond 7 are unlikely to be sustained as we anticipate subsequent phases of trade deal to be harder to achieve. In a nutshell, phase 1 is most likely to be a "Trade (only) Deal". The broader technology conflict and issues on intellectual properties would be harder to tackle. We are less optimistic on the RMB on a basket basis. Based on our current forecast numbers for 2020, RMB is poised to weaken modestly against most other trading partners although the softer USD profile could mean small gains/neutral against the greenback.

- **Growth and inflation outlook:** GDP softened to 6.0%y/y for 3Q, a low not seen in decades. However, higher frequency data suggests that there could be some signs of stabilization with industrial production accelerating to 5.8%y/y for Sep from previous 4.4%. There was stronger output for mining at 8.1%y/y vs. previous 3.7%. Manufacturing output also picked up pace to 5.6%y/y from previous 4.3%. Power supply steadied at 5.9%. Industrial profitability, on the other hand, slipped a deeper -5.3%y/y for Sep vs. previous -2.0%.

- Retail sales picked up pace to 7.8%y/y from previous 7.5%, suggesting marginal improvement in consumer sentiments. FAI-ex rural on the other hand, slipped to 5.4%y/y vs. previous at 5.5%, underscoring a lack of traction on the infrastructure push at home. As China's growth downshift continues, our economist has adjusted China's growth forecast to 6.1% from 6.2% previously. Growth for 2020 is also now seen at 5.9% vs. previous 6.0%.

- Aggregate financing came in well above the expected CNY2270bn vs. expected CNY1900bn. Year-on-year, aggregate financing still slowed a tad to 10.80% from previous 10.83%. Credit growth was crimped by the declines in trust loans, entrusted loans and banker acceptance bills – aspects of the shadow financing that have been discouraged by authorities anyway. Net corporate bond financing and Non-financial enterprise equity financing have been rising, but rather modestly - a reflection of weak financing demand and a lack of risk appetite.

- Inflation rose to 3.0%y/y from previous at 2.8%y/y in Sep, underpinned by the continuous surge in poultry costs (46.9%y/y vs. previous 30.9%) as pig culling due to the African swine flu underpins prices of the pork. The poultry surge is negated by fall in prices of vegetables and fresh fruit (by -11.8%y/y). On the producer front, PPI slipped a deeper -1.2%y/y in Sep vs. previous at 0.8%. The fall in PPI indicate a squeeze in the industrial profitability and only underscores the headwinds faced by the manufacturers.

- **Monetary Policy Forecast:** MLF rates were kept at 3.30% and PBoC also kept the 1Y Loan Prime Rate (LPR) at 4.20%, 5Y LPR at 4.85% - an unexpected decision. The central bank seems adamant about keeping monetary policy prudent and to preserve ammunition in the conventional monetary policy space. That said, earlier in Sep, PBoC had cut broad RRR by 50bbps and targeted RRR for qualified banks by 100bps. We continue to expect the central bank to rely on RRR adjustments for its major monetary stimulus tool and we look for another one in Nov. Another 5bps cut to the 1Y LPR is also not ruled out in Nov, post Oct FOMC.

- Slow credit growth and the recent fall in industrial profits should prompt a 5bps cut in the TMLF to precede one for the 1Y LPR in Nov. We anticipate a broad and targeted 25bps RRR cut to be announced in Dec ahead of the Lunar New Year holiday in late Jan.

- **Latest Fiscal and External Balance Outlook: The** fiscal target is 2.8% of GDP in 2019. Ahead of the 4th plenary session that started 28th Oct, the State Council announced a plan to shift the tax revenue sharing towards local governments so that a larger portion of revenue from value-added and consumption taxes to the local governments. This reform could alleviate the fiscal stress on the local government and in turn support corporates. In addition, the country also has plans to shift the collection of consumption tax to the point of sales from the previous production and import stage. This is also expected to boost local government's revenue and motivate local government boost consumption, rather than production.

- China government bonds failed to win inclusion into FTSE Russell's WGBI, remaining on FTSE Russell's watch-list for potential upgrade to Market Accessibility Level 2. There were some concerns about limited hedging options and relative liquidity vs. other markets. While there have been some reported concerns that China's non-inclusion would mean that the country would not be able to benefit from inclusion-related portfolio inflows, we think that this is a matter of "when" not a "if". As such, the impact on RMB is rather muted. We would continue to monitor if there are more talks of US limiting portfolio flows into China as another branch of focus for the US-China tension. In reaction to this, there were a few measures rolled out recently to address investors' concerns – most notably removing the quota of foreign currency accounts under capital accounts to facilitate foreign exchange settlements under certain capital accounts.

- **Key domestic events and issues to watch <u>for Nov</u>:** Caixin PMI-mfg due on 1st Nov; Foreign Reserves (Oct), BoP current account balance (3Q P), trade (Oct) on 8th; CPI, PPI(Oct); Aggregate financing, new yuan loans, money supply (Oct) on 9-15th ; FDI (Oct) on 11-18th; urban FAI, IP and retail sales on 14th; new home prices (Oct) on 15th; FX Net Settlement (Oct) on 19th; 1Y, 5Y LPR announcement on 20th; SWIFT global payments in CNY for Oct on 21st; industrial profits on 27th; NBS PMI for Nov on 30th Nov.

- **Technical Analysis:** USDCNH was last seen around 7.0370 and the neckline is cleared. With this, we expect USDCNH to head beyond the 7.00 towards the 6.90, marked by the 200-dma. Interim support levels seen around 6.9935 (61.8% fibo retracement of the Jul-Aug rally) before 6.9456 (76.4% fibo). Resistance at 7.0710 before 7.12. 21-dma has crossed the 50-dma to the downside and is en-route towards the 100-dma at 7.0240, a stronger bearish signal.

KRW: US-China Trade Optimism Supports but Domestic Woes a Drag

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020
USDKRW	**1180** (1200)	**1170** (1185)	**1160** (1170)	**1150** (1160)

Previous forecasts in parenthesis

- **Motivations for the FX View:** Recent de-escalation in US-China trade tensions is the main driver (via the sentiment and confidence channels) behind KRW's >2% recovery this month. In particular it now appears that phase 1 US-China partial trade deal looks on track to be signed at the APEC leaders' summit in Chile on 17th Nov 2019 when both President Xi and Trump are expected to meet at the sidelines. However we remain cautious if KRW gains can be sustained as domestic woes including slowdown in domestic growth and deflationary concerns remain while trade dispute between JP-KR shows little signs of progress. We **revised USDKRW forecasts modestly lower to partially reflect the positive development on US-China trade progress but retain our cautious bias for KRW to stay on the weaker side (due to domestic woes).**

- We do **however acknowledge 3 key risks to our cautious bias on KRW** - (1) meeting between Premier Lee and PM Abe though did not yield any material progress, there are however very tentative signs of hopes of reconciliation. Further progress here could be supportive of KRW; (2) swift policy responses via BoK easing and stimulus measure could be timely to cushion against deeper slowdown. Improvement on the data front could also be supportive on KRW; (3) sustained rebound in Korea consumer confidence supports KRW strength.

- **We previously highlighted the historically positive correlation between Korea's consumer confidence and KRW.** Korea's consumer sentiment had plunged to 31-month low back in Aug-2019, together with a weaker KRW towards 1220 levels (more than 3-year low vs. USD). The last time both consumer confidence and KRW declined this sharply was back in Jan-2017. But subsequently for the rest of 2017, both consumer confidence and KRW strengthened sharply amid global synchronous recovery. Indeed KR consumer confidence rebounded in Oct to 98.6 from 96.9. This "coincided" with the strengthening of KRW in Oct. We continue to watch this space – sustained recovery in consumer confidence could possibly be another catalyst for strengthening of the KRW.

- **Growth and Inflation Outlook: South Korea's economy expanded at a slower pace of 0.4% q/q for 3Q (vs. 1% in 2Q).** Slowdown was largely attributable to lower government spending. On the plus side, private sector's contribution to GDP rebounded to +0.2ppts from -0.2ppts in2Q while net exports marked its first rebound in a year. On annual basis, 3Q GDP was at 2% and is now sitting at its lowest level since 1954. Government has already added KRW5.8tn to its earlier budget of KRW469.6tn, intended to support growth. However there is somewhat a lagged transmission effect for fiscal stimulus to be positively felt on the economy. For now, negative repercussions arising out of ongoing trade disputes between Korea and Japan, US-China, concerns of slowing global growth will continue to be of immediate focuses and will drag on domestic growth, business confidence and weigh on KRW.

- **Headline inflation slowed to its lowest level of -0.4% y/y in Sep (vs. 0% prior).** Decline was due to sharp fall in prices of agricultural, livestock, fisheries (owing to base effects) and industrial goods. Authorities reiterated that negative price pressures are not a deflation story where "broad fall in consumer prices continue for a lengthy period". Authorities also said that these are due to high base effects and is expected to recover to mid-high zero percent range when base effect fades away from year end. We reiterate our view that may be more than just supply-side factors as ongoing trade disputes and rising concerns of slowing global growth have dented demand and resulted in shifts in supply chain network. Potentially S. Korea may enter into a few months of deflation. If this is not quickly addressed and becomes longer than expected, investments, asset values and incomes could be affected and this can lead to lower consumption and further weigh on growth. Core inflation also slipped to 0.6% y/y in Sep (vs. 0.9% prior).

- **Monetary Policy Forecast**: We expect the **BoK to pause and keep policy rate unchanged at 1.25% at the upcoming MPC on 29th Nov** to allow for earlier rate cut in Oct to work its way into the real economy. **Risk of another 25bps rate cut is not ruled out should domestic growth conditions worsen and negative price pressures prove longer than officials expect.**

- At the last MPC meeting on 16th Oct, the BoK cut policy rate by 25bps to 1.25%, as expected. Decision was not unanimous as 2 members voted against rate cut. Though BoK Governor Lee had warned that BoK cannot lower rates as much as other key economies can, it is still possible that the BoK still has room to lower rates if need be. He went on to say that BoK was exploring options outside of rate cuts should room for policy adjustment shrinks but reasserts unconventional policy measures are not needed to support growth and prices at this stage. He also warned that economic growth would be weaker than the 2.2% forecast BoK gave back in Jul. Growth projection could be lowered again in Nov. A headline GDP below 2% would send negative signals to markets.

- **External Balance Outlook:** Current account surplus narrowed to $5.27bn in Aug, from $8.55bn a year earlier. Exports decline more than offset the improvement seen in services balance (that came amid decline in travel to Japan).

- **Fiscal Balance Outlook:** Ministry of Finance expects revenue to rise only 1.2% next year while fiscal deficit is expected to increase to KRW72tn next year from KRW42tn this year amid expanded budget. National debt to GDP is expected to rise to 39.8% of GDP in 2020, from 37.1% of GDP this year. Government is expected to fund its shortfall by selling KRW60tn of deficit-covering treasury bonds (nearly doubling this year's KRW34tn). We do not expect South Korea's rating to be affected in the near term as debt-to-GDP ratio is still generally healthy below 40% and expansionary fiscal stimulus amid downturn may help to address short term growth concerns and build the foundation for medium term resilience. Looking ahead government looks to gradually increase debt-to-GDP ratio to mid-40 levels in 2023.

- **Key domestic events and issues to watch:** S. Korea releases Oct exports, CPI, PMI Mfg (1 Nov); Oct FX reserves (5 Nov); Sep current account (6 Nov); Oct unemployment rate (13 Nov); Oct PPI (20 Nov); Nov consumer confidence (27 Nov); Dec mfg/non-mfg business surveys (28 Nov); BoK MPC, Oct IP (29 Nov).

- **Technical Outlook:** Our technical bias (in the last FX Monthly) to sell USDKRW rallies (spot ref then was 1198) looking for a move towards 1180, 1173 more than materialized this month. Pair subsequently traded a low of 1159.6 before closing the month at 1163 levels. Bearish momentum on weekly chart remains intact but stochastics has fallen into oversold conditions. Cautious of rebound risks in the near term. Resistance at 1168 (200 DMA), 1183 (23.6% fibo). Nonetheless bearish divergence seen on weekly MACD remains intact – bias to sell rallies. Immediate support at 1158 (38.2% fibo retracement of 2018 low to 2019 high, lower bound support of the bullish trend channel (formed since 2018). Caution that a break below this could see further downside play out towards 1148 (Jun low), 1138 (50% fibo).

SGD: Potential Bottoming Out In Growth Outlook

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020
USDSGD	1.3650 (1.3950)	1.3600 (1.3900)	1.3550 (1.3800)	1.3500 (1.3700)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** The downward-sloping trajectory for the forecasts is maintained but levels are shifted lower from last month. The de-escalation in US-China trade tensions came earlier than expected, with a "phase 1" deal potentially encompassing Chinese commitments on currency provisions, resumption of Chinese purchases of US agricultural goods (at least US$20bn), and a suspension of US tariffs originally planned for October, possibly being signed in 4Q. Trade deal optimism had led to re-emergence of AxJ currency strength vis-à-vis the dollar, with the USDSGD pair declining by around -1.6% since the start of Oct. More concrete evidence of progress in trade negotiations could be required before downward momentum in the pair can re-exert more strongly, and further downsides in USDSGD could be capped in the interim. Meanwhile, easing of global trade and Brexit risks could mean lower demand for "safe" SGD-denominated assets in 4Q. We still look for SGD to strengthen relative to USD in 2020, alongside our view that (i) the Singapore economy could see some growth recovery next year, (ii) USD strength remains too elevated, (ii) trade talk details could concretize further in phases 2 and 3 next year.

- Given that Singapore-based electronics manufacturers account for around 11% of global market share for semiconductor wafer foundry output, and that nearly 10% of Singapore's GDP is attributable to exports to China (both final and intermediate demand), the economy is likely to remain vulnerable to shifts in the tech cycle and Chinese demand. There are tentative signs that the global tech cycle could be seeing the beginnings of a turnaround, with positive m/m growth recorded in global semiconductor sales in Jul and Aug. In China, the Caixin China Mfg PMI for Sep was also recorded at 51.4, an unexpected recovery compared to Aug's 50.4.

- Concomitantly, there are signs that a bottoming out in growth momentum in Singapore could be approaching over the next few quarters. MAS managing director Ravi Menon commented this month that thus far, the economic weakness has been largely contained in trade and manufacturing industries. The recently released *Macroeconomic Review* also stated that "a deeper analysis of sectoral outturns confirms that the downturn in activity has been largely confined to the electronics-related segments", while "domestic-oriented cluster posted incremental gains". These suggest that negative spillovers from soft external demand to services sectors have not been overly worrying.

- The Industrial Production for Sep came in at +0.1%y/y, the first positive reading since April. While a sudden and significant recovery in growth momentum is unlikely, the dissipation of downside risks could mean less need for continued monetary policy easing next Apr. If the recovery in growth outlook takes hold in regional ASEAN economies as well, Singapore could see positive spillovers in areas such as rising business and infrastructure loans to the region.

- **Growth and Inflation Outlook:** Based on Advance estimates, 3Q GDP grew at 0.6% qoq saar and 0.1% y/y. Manufacturing contracted (-3.5%y/y vs. -3.3% prior) due to output declines in the electronics, precision engineering and transport engineering clusters. Services rose at the slowest pace since the global financial crisis (+0.9%y/y vs. +1.1% prior), with finance and business services activities helping to instil some resilience. Another tentative bright spot was the construction sector, where positive expansions were sustained (+2.7%y/y, vs. +2.8% prior).

- MAS' latest assessment is that Singapore's GDP growth for 2019 is expected to come in at around the mid-point of the forecast range of 0% to 1.0%, and then improve modestly in 2020. In line with the improvement in IP data, our economist team is also more optimistic on outturns in the manufacturing, finance, business and tourism-related services sectors. Full-year growth forecast for 2019 is revised upwards to 0.9% (from 0.6% previously), while 2020 forecast is maintained at 1.6%.

- On the inflation front, Core Inflation remained soft at 0.7%y/y in Sep (3.5-year low), slightly lower than Aug's 0.8%. Declines in utility costs and retail prices had mitigated the pickup in food and services prices. Headline CPI rose by a mild 0.5%y/y in Sep (on par with outcome in Aug), as private road transport inflation eased slightly (0.5%y/y vs. 0.6% in Aug), alongside the decline in petrol prices. MAS expects core inflation to come in within the lower half of its 1% to 2% forecast range, while headline inflation could come in at around 0.5%. In 2020, both measures of inflation are projected to average within 0.5% to 1.5%. Our Economist's estimates for Core and Headline Inflation in 2019 are trimmed to 1.1% (from 1.2% previously) and 0.6% (from 0.7% previously) respectively, as demand conditions remain muted. As our economists note, while bus and train fares will be raised by +7% starting 28 Dec, but impact on inflation could be minimal as hike could be cushioned for more than half of Singaporeans who enjoy concessionary fares.

- **Monetary Policy Forecast**: After MAS affirmed a pause in its policy normalization process in April, it proceeded to reduce slightly the rate of appreciation of the S$NEER policy band in mid-Oct, alongside muted inflationary pressures and a slightly negative output gap. There will be no change to the width of the policy band and the level at which it is centred. MAS' estimates for the output gap in 2019 and 2020 (as released in the *Macroeconomic Review*) are at -0.46% and -0.66% of GDP, respectively. We estimate that the new slope is at +0.5% p.a. (from +1.0% previously).

- This is still consistent with our Taylor Rule estimates for the SGD NEER, which highlight that an appropriate SGD NEER slope consistent with current growth and inflation projections could be in the 0% to +0.5% range. We think that if the cyclical component of the core CPI does not significantly soften in momentum, and if the output gap does not widen significantly to more than -1% of GDP, there is a fair chance that MAS will opt to maintain its policy stance next April.

- As at writing, USDSGD is around 1.3600, and trades around +1.6% above the implied mid-point of 1.3816, with the top estimated at 1.3540 and the floor at 1.4093. The extent of how elevated SGD NEER is relative to policy-mid has turned to levels seen back in June. On a basket basis therefore, SGD has limited room to appreciate further. It could thus be a tad challenging for USDSGD to see a sharp step-down (i.e., SGD strengthening relative to USD) in the interim. Nonetheless, a risk to this view is an aggressive decline in USD strength at some point, stemming from triggers such as a US growth momentum softening and aggressive Fed easing, which could lead most USD-AxJ pairs to see downward pressure.

- Domestic interest rates have continued to trend downwards from the highs in May. The 3-month SOR (3MSOR) and 3-month SIBOR (3MSIBOR) are at 1.52742% and 1.80788% respectively at the time of writing, lower than the 1.69050% and 1.87700% recorded at end-Sep. With Fed's commitment to stand pat for a while after yesterday's 25bps cut, there might not be any significant upsides for Singapore rates in the near-term. House view is for another 25bps of Fed cuts in 1H 2020. Deposit rates (for 12-month fixed) was unchanged at around 0.57% (last data point at end-Sep). Below-2% interest rates should help mitigate financial stability risks in interest-sensitive sectors (e.g., property, O&G) for now. We expect the 3MSOR and 3MSIBOR to hover around 1.57% and 1.83% respectively by end-4Q 2019.

- **Latest Fiscal and External Balance Outlook:** The FY2019 budget is modestly expansionary, with the primary deficit initially projected at SGD5.4bn (1.1% of GDP). Authorities estimate a fiscal impulse of around +0.4% for CY2019, providing an appropriate boost to the economy given presence of external headwinds. Expenditure is projected to increase SGD1.3bn to SGD80.3bn, while operating revenue is expected to increase SGD1.2bn to SGD74.9bn. The overall deficit is pencilled to come in at SGD3.5bn (0.7% of GDP) due to the record-high special transfers of SGD15.3bn in the FY2019 budget (FY2018: SGD9bn).

- With 1H 2019 figures in, the picture is one of broadly lower operating revenues (S$39.0bn vs. S$42.3bn in 1H 2018) and higher government expenditure (S$40.4bn vs. S$38.8bn in 1H 2018). Lower revenues were partly due to lower contributions from Statutory Boards, following an exceptional contribution from MAS in 2018. Meanwhile, higher expenditures were due to increased spending on higher education and public transport infrastructure. Alongside these changes, a primary deficit of S$1.4bn was recorded in 1H, vs. surplus of S$2.5bn for 1H 2018. Nonetheless, the strength of the official FX (~US$272bn in Sep) and fiscal reserves should allay any concerns regarding the modest deficit.

- The current account (CA) surplus remained at healthy levels, dipping very slightly to SGD21.5bn in 2Q, from SGD21.6bn in 1Q. As a percentage of GDP, the CA surplus was at 17.3% in 2Q 2019 vs. 18.0% in 1Q. While exports continued to be in contractionary territory (-5.1%y/y in Sep), similar contractions in imports (-4.7%y/y in Sep) has led the trade balance to remain at a significant surplus (~S$4bn in Sep). The continued impact of the US-China trade tensions on Singapore's trade balance outlook will continue to be of some concern, although the structurally higher level of current account surpluses should still assure international investors of the country's long-term resilience.

- **Key domestic events and issues to watch**: Oct PMI (4 Nov); Oct Foreign Reserves (7 Nov); Sep Retail Sales (12 Nov); Oct Exports (18 Nov); 3Q Final GDP (18-25 Nov), Oct CPI (25-29 Nov); Oct IP (26 Nov).

Technical Outlook: USDSGD largely trended down for in Oct, although the downward momentum has subsided somewhat over the past week. Last seen at 1.3600 (76.4% Fibonacci retracement from Jul low to Sep high), which we view as a key support level. Momentum on daily chart is largely neutral, while stochastics remain in oversold conditions. The 21-DMA has just cut the 100-DMA to the downside, which could be a potential bearish signal. If 1.3600 breaks, next support is some distance away at 1.3500 (Jul low). Resistance at 1.3660 (200 DMA), 1.3770 (38.2% fibo), 1.3840 (23.6% fibo).

MYR: "Cautiously constructive" from fiscal support

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020
USDMYR	4.1500 (4.2500)	4.1200 (4.2200)	4.1000 (4.1800)	4.0800 (4.1500)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** The MYR trended stronger in Oct but was fluctuating within the 4.17 to 4.20 range for the most part of the month. Recent higher probability of a Phase 1 US-China trade deal, has reduced risk of further escalation in the trade war and eliminates any further tariff support for the USD which has pushed the USD/MYR and other USD/AXJs higher the past 3 months.

- Similar to other regional currencies, the MYR still faces event risk pressure from any external downside risk if the US-China trade situation worsens or the trade deal discussion breaks down, but it could see resilience via the sentiment channel from resumption in major infrastructure projects and Government development spending, as well as evidence of Malaysia benefiting from some trade diversion.

- Our house view on BNM OPR decision has now shifted to no cut at the upcoming 4-5 Nov MPC meeting (vs. 25bps cut previously). This is in view of the sanguine official growth and inflation forecasts, growth-supportive budget 2020, easing in financial conditions and US-China trade war de-escalation.

- **Any positive news emanating from the resumption of US-China trade talks including any potential positive outcomes, or further investment inflows into Malaysia and MYR-denominated assets could support the MYR.** Into the end of the year, progression on talks taking both sides closer to a deal probably in 2H 2019 could help support sentiment and support our view for trade/tech-linked FX to recover. But the risk of escalation remains.

- However, in the emerging markets space, we could see a sustained rally in emerging-market bonds as EM central banks may continue to embark on a rate-cutting cycle to support growth due to domestic reasons. Even though, the Fed has eased to "insure against downside risks" and paused for now, the market has moved very quickly to pricing in rather dovish outcomes for the Fed. In addition, Fed that is still more ready to ease than hike; US activity momentum may have peaked and the potential political uncertainty in US given House vote on impeachment inquiry and the rise of Senator Elizabeth Warren as Democratic front—runner (policies may suggest higher taxes ahead - strain on government budget) could weigh on the USD/MYR.

- Against the backdrop of weaker global growth, even after the Fed easing lately and pause, we should on average still see USD supported against the regional currencies until 1Q 2020 but to see downside pressures on the USDMYR intensify as the dollar softens in 2020. Fundamentally, we think the picture for risk assets including EM FX such as MYR remains quite bright if global growth sees some sustained green shoots amid extended easy monetary policy, provided markets and policymakers manage to navigate near-term event risks. USDMYR is still expected to end around 4.15 in 2019.

- External reserves increased in 1H Oct 2019 +USD0.3b to USD103.3b (end Sep 2019: USD103.0b) after the decline in Aug-Sep 2019 amid net foreign selling of equities so far in the month, indicating offsetting net inflows from bonds especially. Latest external reserves figure is equivalent to 7.6 months of retained imports; 1.1x total short-term external debt; and 6.1% above the estimated minimum required reserves of USD97.4b under IMF's Assessment of Reserve Adequacy (ARA) framework.

- Foreign investors were net sellers of equities so far this month (1-21 Oct 2019) at -MYR0.81b (Sept 2019: -MYR0.6b), looking set to extend the net selling for the fourth month in a row.

- This was despite US-China trade war ceasefire reached after the highlevel trade talks on 10-11 Oct 2019 that saw US suspended its plan to increase import tariff on USD250b worth of Chinese goods from 25% to 30% on 15 Oct 2019, in exchange for China purchasing USD40b-US50b agriculture products and commitments on intellectual property rights, financial services liberalisation and currency policy. Some form of trade deal may be finalized by early/mid Nov 2019.

- Taking cue from the rebound in external reserves in 1H Oct 2019 despite net foreign equity outflows, foreign investors likely have remained net buyers of bonds in 1H Oct 2019. Foreign bond investors were net buyers of +MYR0.9b in Sep 2019 (Aug 2019: -MYR0.1b) and +MYR6.5b in 3Q 2019 (2Q 2019: -MYR7.4b) as the prospect of prolonged low/negative interest rates in developed markets lifted demand for Emerging Market (EM) bonds that offers higher yields.

- Decision by FTSE Russell on 27 Sep 2019 to keep Malaysia in its flagship World Government Bond Index (WGBI) by virtue of extending Malaysia's watch-list status until the next review in Mar 2020 helped sentiment in the short-term despite the overhang. Consequently, 10-year MGS yield stabilised at 3.3%-3.4% range so far this month after the 30bps rise to 3.5% on 29 Sep 2019 from 3.2% on 16 Aug 2019. Our Fixed Income research estimated potential gross outflows of as much as MYR20bMYR25b in the event of Malaysia being removed from FTSE Russell's WGBI.

- External reserves decline in Aug-Sep 2019 was also partly due to some FX market intervention by BNM to smooth USDMYR, which have stabilised in 4.17-4.20 range this month after the 2.6% move to 4.22 on 3 Sep 2019 from 4.11 on 15 July 2019.

- **Growth and Inflation Outlook:** Staying "cautiously constructive", our economics team maintained its 2019 growth forecast of +4.4% (2018: +4.7%). We remained "cautiously constructive" on macro outlook as highlighted in our 2H 2019 Outlook and Lookout published on 2 July 2019 (2H 2019 Outlook and Lookout_MKE_20190702.pdf). The theme mainly reflects external downside risk from US-China trade situation vs mitigation from stimulus to domestic demand from monetary policy easing and resumption in major infrastructure projects and Government development spending, as well as evidence of Malaysia benefiting from some trade diversion.

- In July-Aug 2019, industrial production and retail trade indices slowed to +1.5% YoY (2Q 2019: +3.9% YoY) and +8.0% YoY (2Q 2019: +8.9% YoY) respectively. These data are key indicators for manufacturing, mining, services (electricity, retail) and private consumption growth. They point to slower real GDP growth in 3Q 2019 (2Q 2019: +4.9% YoY), consistent with our view of tapering economic growth in 2H 2019 to 4.2%-4.3% YoY (1H 2019: +4.7% YoY) implied by our full-year +4.4% growth forecast.

- Inflation rate eased in Sep 2019 to +1.1% YoY from +1.5% YoY in Aug 2019 on slower rises or declines in CPI components except "education" and "miscellaneous goods & services". YTD inflation is +0.6%. Maintain our full-year forecasts (2019F: +0.8%; 2020F: +2.0%) reflecting further broadening of SST base via Digital Service Tax - and pending clarity on the floatation of currently subsidized and fixed fuel prices following the implementation of targeted fuel subsidy - next year.

- Headline inflation slowed to +1.1% YoY in Sep 2019 (Aug 2019: +1.5% YoY; Jan-Sep 2019: +0.6% YoY; 2018: +1.0%). The lower inflation rate during the month was contributed by slower increases or declines in prices of CPI components, except "education" and "miscellaneous goods & services". On MoM basis, CPI was unchanged (Aug 2019: +0.2%).

- Meanwhile, core CPI rose by a slower +1.5% YoY (Aug 2019: +2.0% YoY; Jan-Sep 2019: +1.0% YoY; 2018: +1.0%).

- Our economics team maintains the 2019 and 2020 inflation rate forecasts of +0.8% and +2.0% respectively. The expectation of higher inflation rate next year primarily reflects the impact of changes in fuel subsidy and consumption tax.

- The implementation of targeted RON95 fuel subsidy in Peninsular Malaysia in Jan 2020 will result in the flotation of currently subsidized and fixed RON95 petrol. The government indicated that floatation of RON95 prices will be gradual until it reaches parity with market-based price. In addition, the forecast of higher inflation rate in 2020 also reflect the impact of further expansion in Sales & Services Tax (SST) base to include Digital Services Tax (DST) on services, such as downloaded software, music, video and digital advertising, to be implemented on 1 Jan 2020.

- **Monetary Policy Forecast:** Bank Negara Malaysia's (BNM) Monetary Policy Committee (MPC) will next meet - and for the last time this year – on 4-5 Nov. We now expect no change in Overnight Policy Rate (OPR) vs our previous call of 25bps cut. This is in view of sanguine official growth and inflation forecasts, growth-supportive Budget 2020, easing in monetary/financial conditions, US-China trade war de-escalation, and Monetary Policy Statement's (MPS) "neutral" conclusion.

- BNM's MPC will next meet – and for the last time this year – on 4-5 Nov 2019. Our economics team now expect no change in OPR vs our previous call of another 25bps cut. To recap, OPR was cut by 25bps to 3.00% currently at the 6-7 May 2019 MPC.

- The change in our view reflects the following: (1) Sanguine official growth forecast of +4.7% in 2019 and +4.8% in 2020, implying resilient momentum after +4.7% in 1H 2019 that sustained 2018's +4.7% growth. Government also sees inflation picking up but staying moderate at +2.0% in next year vs +0.9% this year, partly on pledge of gradual floatation of currently subsidized and fixed fuel prices when the targeted fuel subsidy scheme is operational next year.

- (2) Growth-supportive Budget 2020 given the underlying fiscal stimulus to lift government, business and consumer spending despite headline consolidation in budget deficit/GDP ratio e.g. +4.3% increase in Government gross development expenditure; +27.5% jump in Government procurement budget; targeted "goodies" for low-and middle-income groups to boost disposable income; customized investment incentives to attract FDI, to boost sectors like E&E, high technology and tourism, and to stimulate technology capex (Industry 4.0 adoption; automation & digitalization; 5G infrastructure & rollout).

- (3) Easing in monetary/financial conditions. MPS issued after 6-7 May 2019 MPC stated "… some signs of tightening of financial conditions". Our monetary condition index (MCI) rose and was elevated early this year, but dropped with May 2019's 25bps OPR cut (Fig 3) along with MYR's depreciation vs USD (Fig 4) and undervaluation vs basket of currencies i.e. NEER & REER (Fig 5-6). Broader financial conditions have also eased e.g. 10Y MGS yield currently around historical low range/level (Fig 7) and its spread vs commercial bank's average lending rate (Fig 8) is around long-term average. Meanwhile, 10Y MGS yield spreads vs 10Y US Treasury yield and inflation rate should temper bond market's foreign flows risk (Fig 9-10), especially as FTSE Russell's WGBI review remains an overhang until Mar 2020 given Malaysia's "watch list" status, on top ample domestic liquidity.

- (4) US-China trade war de-escalation. The 25bps OPR cut back in May 2019 was amid negative headlines of US-China trade talk breakdown and subsequent renewed escalation in trade tension. Currently, there is "tit-for-tat" tariffs ceasefire and prospect of a trade deal.

- (5) "Neutral" Monetary Policy Statement's (MPS). MPS last paragraph tend to signal BNM's OPR action i.e. Mar 2019's MPS led to OPR cut at May 2019's MPC (Fig 11). Sep 2019 MPS's conclusion is ultimately "neutral" in our view, signaling no OPR change at 4-5 Nov 2019 MPC.

- **Latest Fiscal and External Balance Outlook:** Our macro view remains "cautiously constructive" with fiscal stimulus to support domestic growth given external uncertainties amid some consolidation of the headline budget deficit/GDP ratio. While Budget measures appear to be relatively neutral re equity market earnings outlook, the read-through has a positive bias, with no negative surprises (e.g. tax), confident GDP projections and suitably customized incentives aimed at escaping the middle income trap. Sectors seen to enjoy a post Budget tailwind are construction (expedited project execution), consumer (cash transfers, minimum wage hike, lower toll rates, greater enforcement vs. illegals), oil & gas (no follow-on cash call on Petronas) and tourism-related (per Visit Malaysia Year 2020-related supports).

- Our forecast is for a budget deficit/GDP ratio to decrease to -3.2% in 2020 (2019: -3.4%) related to underlying stimulus (e.g. higher development and procurement spending). There will be no new taxes and no tax cuts, except for the surprise introduction of a higher top personal income tax of 30%. We expect the government to stick to broadening the existing tax base – namely SST via digital service tax - and enhancing tax enforcement.

- Incentives will be mainly customized for export and investment opportunities from the US/China trade war, as well as to facilitate growth of high-value sectors/industries, Industry 4.0 adoption, digital economy, infrastructure development, and to encourage automation to boost productivity. "Goodies" are targeted for SMEs and people issues, such as business and affordable home financing, income, cost of living, jobs and social safety nets. Official GDP growth forecasts are in the "high fours", i.e. +4.7% this year and +4.8% next year. We maintain our relatively more conservative +4.4% GDP growth forecast for both 2019 and 2020.

- **Key domestic events and issues to watch:** FX reserves (31 Oct, 15 Nov); Trade Balance (4 Nov), Ind Production (11 Nov), CPI (20 Nov).

- **Technical Outlook:** USDMYR drifted a touch lower for the month of Oct. Pair was last seen at 4.1765 levels. Daily momentum is now showing tentative signs of turning bearish. Risks skewed to the downside but we remain cautious of symmetrical triangle pattern - represents indecision for now but typically precedes a break-out. Immediate support at 4.1680 (100 DMA), 4.1610. Break below these levels could see further downside play out. Resistance at 4.1880 (50 DMA), 4.20 levels. The potential head & shoulders pattern previously identified remains a focus but question remains on the timing and future price action. This setup is typically associated with a bearish reversal. But it remains early to conclude if the downside could extend as the neckline (around 4.16 levels) is still not breached. Only a decisive break below the neckline can confirm the bearish reversal and if true, USDMYR could extend lower towards 4.10 levels. However, if the neckline is defended, price action could consolidate in 4.17 - 4.20, with risks skewed to the upside with an eye on breaking 2019 high of above 4.22 before 4.2540 levels (61.8% fibo retracement of 2017 high to 2018 low).

IDR: New Cabinet Injects Optimism, but Reforms Still Need Credibility

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020
USDIDR	14000 (14200)	13950 (14100)	13900 (14050)	13850 (14000)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** Forecasts are shifted down a tad, but quarterly profile remains largely unchanged. The slightly more positive IDR view is predicated on signs of improvement in the US-China relationship—with a potential phase 1 deal expected to be inked in 4Q. We look for some relative stability in IDR in 4Q, as both external and domestic risk factors appear more subdued at the moment (compared to mid-year mark), and BI has shown its determination in calming markets when needed. Barring sharp shifts in EM sentiments, Indonesia could be seen as a relative outperformer in Asia next year. GDP growth for 2019/20 is still expected to hover at or above 5%, while fiscal and current account twin deficits are likely still manageable. In a global low-rates-for-longer environment, potential portfolio and FDI (including infrastructure-related) flows aimed at longer-term returns could be a supporting factor for IDR's medium-term outlook as well.

- While Indonesian equities continued to see net outflows this month (-US$227mn MTD, as at 30 Oct), it is a slower pace of outflow compared to the -US$519mn net outflow in Sep. Sovereign bonds continued to see interest among investors, with net inflows at US$2029mn MTD as at 29 Oct, extending the US$1409mn net inflow in Sep. As markets come to terms with the realization that rates are likely to be lower for longer, and optimism seep into EM sentiments alongside the breakthrough in US-China talks, appetite for high-yielding Indonesian sovereign bonds seem to be back. Even with BI's latest rate cut (from 5.25% to 5.00%) on 24 Oct, current ten-year government bond yields are still hovering around 7%. Our economist team thinks that the 100bps worth of cuts thus far could be sufficient for the year, and the next cut (if any) may only happen next year. In this case, tame inflation could mean that real yields are likely to remain attractive to foreign flows. There is a fair chance that bond inflows could continue to be healthy over the next few quarters. Concerns over debt levels are also likely manageable, given that Indonesia's overall debt-to-GDP ratio of around 30% is significantly below levels during the global financial crisis or Asian financial crisis. Foreign holdings of government bonds have also stabilized at a tad below 40% (of overall outstanding government bonds).

- Another potentially significant driver of inflows could be longer-term FDI (including infrastructure) investments. Average quarterly FDI in the first half of 2019 was robust at around US$6.0bn, compared to the US$5.3bn quarterly average in 2017-18. Due in part to its archipelagic nature, infrastructure needs in the country are massive, comprising of highways, toll roads, sea ports, airports, mass transit, telecommunications and power generation, and some estimates place the required investment at as high as US$500bn per annum. In his latest Budget 2020 speech, Widodo unveiled a record IDR2,528.8trn (~US$178bn) in projected public spending in 2020, out of which approximately IDR419.2trn is earmarked for infrastructure projects (up from IDR399.7tn this year). Projects include 837km of roads, 239km of rail lines, and three new airports. Up to 80% of the estimated US$33bn cost for the new capital in East Kalimantan will likely be sourced from private investors—representing significant opportunity for infrastructure plays.

- Earlier protests—over a proposed new criminal code which would outlaw sex outside marriage, among other things, as well as an earlier law potentially weakening the effectiveness of the country's Corruption Eradication Commission—seem to have died down, as expected. Instead, there seem to be some positivity in sentiments alongside the formation of the new cabinet. President Jokowi's second-term (2019-24) cabinet will consist of 34 ministers, as with his first. Nineteen or 56% of the positions have been filled with professionals; the rest from political parties, underscoring his continued commitment to building a professional cabinet with good support from political parties.

- The inclusion of Prabowo, his rival in the past two presidential elections, as Minister of Defence, could increase Jokowi's parliamentary support to 84% from 64%, which will be much needed for him to progress on reforms. Inclusion of well-respected Sri Mulyani as Finance Minister will assuage foreign investor concerns over fiscal discipline, while inclusion of Gojek co-founder Makarim as education minister has also led to hopes for more innovation in reform design. Reforms announced so far include lowered corporate tax rates (25% now to 22% in 2020, then 20% in 2023), easing of stringent labor laws and lifting of curbs on foreign ownership in more industries, including petrochemicals and other manufacturing industries. Bank merger rules are also set to be relaxed to boost FDI.

- Despite the host of factors supporting the IDR (i.e., weighing on USDIDR pair), the currency is still relatively susceptible to shifts in US-China trade talk expectations, although the extent of sensitivity has arguably lessened compared to earlier periods. Expectations now are for a phase 1 deal (potentially including Chinese commitments on currency provisions, resumption of Chinese purchases of US agricultural goods, and a suspension of US tariffs originally planned for October) in 4Q, followed by potential progress on other structural issues (e.g., intellectual property) in phase 2 or phase 3 deals next year. The path of tension de-escalation might be subject to some fits and starts, and BI's commitment to IDR stability via intervention will need to hold to prevent sharp fund outflows. To this end, Indonesia's level of foreign exchange reserves (currently around US$124.3bn) will be closely watched.

- **Growth and Inflation Outlook:** After growth of 5.07%y/y in 1Q, 2Q growth came in slightly lower at 5.05%. Resilient domestic spending had helped to offset a slump in exports. Government consumption grew 8.23%y/y, while household expenditures rose 5.17% (fastest pace since Mar 2014). Private investment growth also came in at 5.01%, down slightly from 5.14% in 1Q. 2Q exports, on the other hand, fell -1.81%y/y, with exports of oil & gas products down -31%.

- In 2H19, our economist team assesses that overall domestic demand could be soft. Consumption growth is likely to be slightly weaker compared to 1H, as no catalyst (e.g., Ramadhan, new school year) is in sight. Government expenditures could also be constrained by disappointing tax collection, in order to prevent excessive widening of the fiscal deficit. Nonetheless, investments should stabilize, or improve slightly, as political uncertainty is lower now. Higher-frequency indicators also suggest that underlying growth momentum could be resilient—Sep Mfg PMI came in at 49.1 (vs. 49.0 prior), even as consumer confidence dipped to 121.8 in Sep (from 123.1 in Aug). BI expects the economy to grow 5.05% in 2019 before accelerating towards the mid-point of the 5.1-5.5% forecast range in 2020.

- Headline inflation slowed to 3.39%y/y in Sep from 3.49%y/y in Aug. The softening was due in part to price declines in fresh foods such as chilli, chicken, beef and rice. In contrast, prices for clothing had increased to 5.8%y/y from 5.2% in Aug, largely due to an increase in gold jewellery prices alongside increasing global gold prices. Inflation is seen at below 3.5% in 2019 and within 2-4% range in 2020.

- **Monetary Policy Forecast:** In the recent Monetary Policy meeting on 24 Oct, BI had expectedly lowered the 7-day Reverse Repo Rate by 25bps to 5.00%. This move anchored views that BI saw growth risks as outweighing that of potential capital outflows, especially in an environment of manageable inflation. IDR had also been better behaved in recent months, giving BI confidence that the cut would likely not significantly disrupt financial markets. Our Economists expect that the 100bps worth of cuts thus far could be sufficient for the year. Further cuts might tip the scale in leading to greater risks vs. benefits. Further cuts (if any) might thus only come in next year.

- **Latest Fiscal and External Balance Outlook:** The 2019 State Budget deficit for Indonesia is around -1.7% to -1.8% of GDP as of Sep. Weaker tax collections, partly due to manufacturing players under pressure from softer external demand, could mean that the overall fiscal deficit could exceed the -1.93% estimate from the Finance Ministry previously, to potentially -2.2% of GDP. This would be roughly on par with the fiscal deficit in 2018.

- For Budget 2020, the target fiscal deficit is actually lowered to 1.76% of GDP, despite record government spending (IDR2,528.8tn or US$178bn). It seems to suggest more effective tax collection (measures to achieve better tax compliance will be monitored), as well as some prudence on the government's part, in saving some fiscal policy space should external demand conditions turn ugly. Many of the infrastructure projects will be financed partly through external FDI or borrowings.

- The current account deficit widened more-than-expected to 3.0% of GDP in 2Q, from 2.6% in 1Q, due to a decline in net exports and an all-time high primary income outflow of US$8.7bn (overseas payments on equity capital). Higher-frequency indicators show that exports in Sep still saw contraction of -5.74% (vs. revised -9.98% prior), while imports also declined by -2.41% (vs. revised -15.75% prior). As a result, trade balance came in at a small deficit of -US$161mn (vs. surplus of $112mn in Aug). We note that the trade balance has been swinging between modest surpluses and deficits since May. On net, the current account deficit likely narrowed in 3Q from 2Q. BI expects full-year current account deficit to remain at around -2.5% to -3% of GDP.

- **Key domestic events and issues to watch**: Oct Mfg PMI (1 Nov); Oct CPI (1 Nov); 3Q GDP (4 Nov); Oct Foreign Reserves (7 Nov); 3Q Current Account Balance (8 Nov); Oct Trade (15 Nov); Oct Local Auto Sales (15-21 Nov); Monetary Policy Decision (21 Nov).

- **Technical Outlook:** USDIDR pair last seen at 14020. On daily charts, momentum indicators are mildly bearish, while stochastics indicators remain in oversold conditions. Momentum and stochastic indicators on weekly chart are not showing clear biases. On net, we caution for risk of upward retracement given oversold conditions on daily chart, although magnitude could be modest. Support nearby at 14000, then 13930 (Sep low). Resistance at 14100-level (38.2% Fibonacci retracement from Aug high to Sep low), 14200 (61.8% fibo).

PHP: Interim Resilience, Constructive Bias Intact

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020
USDPHP	51.00 (52.50)	50.50 (52.00)	50.00 (51.50)	49.50 (51.00)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** Forecasts are largely shifted down from last month, although the (downward) directional bias into 2020 remains intact. The shift was in line with forecast changes for most other USD-AxJ pairs, and was predicated on an improvement in US-China trade relations this month spilling over to EM Asia sentiments. Pair has seen downward pressure since mid-Aug and is currently hovering around troughs seen in end-Jul. More concrete evidence of progress in US-China trade negotiations could be required before downward momentum in the pair can come through more strongly, and some two-way swings are still possible in 4Q. Going into 2020 however, our constructive bias on PHP (i.e., downward pressure in USDPHP) remains intact. In addition to its lower trade dependence vis-à-vis its neighbours, other factors include (i) relatively attractive, higher-yielding sovereign bonds (behind Indonesia and India) in a lower-for-longer rates environment; (ii) synchronous regional easing providing support for easy financial conditions, supporting sentiment; and (iii) favourable macro fundamentals including GDP growth near 6%, sustained pipeline of infrastructure projects and FDI, as well as a manageable, improving current account deficit. Consensus estimates also suggest an uptick in GDP growth into next year.

- AxJ currencies are currently benefitting from cautious optimism alongside anticipation of the signing of the phase 1 US-China trade pact this quarter. Nonetheless we note that the pact will likely include lower hanging fruits such as resumption of agricultural purchases and the suspension of tariff hikes initially planned for Oct, while more contentious issues such as intellectual property and Huawei might be delayed to phases 2 and 3 next year. It still remains to be seen if recovery in trade relations can be smooth-sailing from here. Nonetheless, even amid potential fits and starts, Philippines' lower level of trade exposure compared to Korea, Malaysia, Singapore, could still impart it some resilience from swings in trade tensions. Philippines' export-to-GDP ratio was around 32% in 2018, compared to 44% for South Korea, 70% for Malaysia and 176% for Singapore (inflated by entrepot trade hub role). It also seems to be benefitting modestly from some import substitution by US/China arising from the trade war, in products such furniture, gloves, ethylene and polymers of ethylene.

- Philippines' 10-year government bond yield is still hovering above 4% at last reading (at 4.5%). Even though it has come down significantly from the ~7% yield at the start of the year, it remains relatively attractive for yield hunters, in an environment where around US$15tn of bonds (25% of market) are trading with negative yields in the DM part of the world. According to recent reports, the government is going to start offering prize bonds (incorporating both coupons and lottery elements) to retail investors and cooperatives starting mid-Nov, as it seeks to tap additional sources of liquidity in financial markets. The tenor will likely be 1 year and prizes could reach as much as PHP1mn. This could help boost domestic demand for government debt.

- There are reports that the list of infrastructure projects to be launched before Duterte's term ends in 2022 (in the US$180-billion "Build, Build, Build" program) is currently being revised, after some feasibility checks. Nonetheless, infrastructure investment and spending is still deemed to be on track to be one of the key growth anchors for the Philippines economy over the next several years. The new list will likely include regional airports and ICT, utilities, and urban renewal projects. Private projects include San Miguel airport and a potential upgrade to Manila airport. In the property sector, robust residential sales and stable rental income from malls and offices should still lead to healthy margins for the three largest property developers in 2H 2019.

- The current account deficit has dropped from around -4% of GDP in early 2015 to -1.7% in 2Q this year. While the FDI flows in the first seven months of this year (US$4.1bn) was lower than the US$6.8bn recorded in the same period last year, this was likely due to uncertainties related to the election in May as well as potential policy changes in the new government term. As certainty on reforms firms, there is a fair chance that FDI could recover in 2H. The Board of Investments has approved 126.1% more committed investments at PHP609.04bn in the eight months to Aug, with the top sources being Singapore, Netherlands and Thailand. Notably, the August figure of investment approvals nearly matches the aggregate figure for the first seven months of 2019, showing that big-ticket projects have begun to roll in.

- There are also signs that the government is more focused on attracting FDI this term, with potential easing of restrictions in foreign employment, foreign ownership limits in utilities and required paid-up capital for entrants into retail etc. On 13 Sep, the House of Representatives also passed a tax omnibus bill. Key components in the bill are: 1) reduce the corporate income tax rate to 20% from 30% in 2% tranches every two years between 2021 and 2029; 2) provide a 15% withholding tax on corporate dividends paid to non-residents; 3) exempt capital gains tax and VAT on qualifying corporate reorganizations. The law would take effect at the start of 2020, and is expected to anchor more favourable foreign investor sentiments over the medium-term.

- **Upside Risks to USDPHP forecast:** There are still residual risks to our outlook on the Peso. Despite the positive mood currently, if the trade conflict sees another shock u-turn from current reconciliatory tones, there is a chance that foreign investors will grow risk adverse towards EMs, despite resilient macro fundamentals in Philippines. We note that quarterly bond portfolio flows in or out of Philippines have been relatively volatile. For instance there was a net outflow of -US$437mn as trade war concerns weighed in 2Q, while this likely swung to a significant net inflow in 3Q (+US$1348mn QTD, last data point on 31 Aug).

- **Growth and Inflation Outlook:** 2Q GDP came in softer at 5.5%y/y, vs. 5.6% in 1Q. Domestic demand growth was sluggish, due in part to slightly softer private consumption (5.6%y/y vs. 6.1% prior) and public consumption (6.9%y/y vs. 7.4% prior). Gross fixed capital formation actually saw a decline (-4.8%y/y vs. +5.7% prior), reflecting the initial impasse in Budget 2019 disbursements as well as the ban on government spending during the May mid-term elections. Meanwhile, net external demand rebounded (33.0%y/y vs. -20.0% in 1Q), as exports of goods and services grew (4.4%y/y vs. 5.7% prior) amid stagnant imports of goods and services (0.0%y/y vs. 8.6% prior). Industry breakdown showed construction sector contracting while manufacturing growth eased and services growth improved.

- Higher frequency indicators continue to show resilient growth. Manufacturing PMI for Sep dipped slightly to 51.8 from 51.9 in Aug, but remained in expansionary territory. Unlike most other Asian economies, exports also continued to expand in Aug, albeit by a soft 0.6%y/y vs. 3.5% in Jul, even as imports contracted by -11.8%y/y (vs. -4.2% prior), as imports of raw materials and capital goods softened.

- Our economist team maintains their 2019 real GDP growth forecast at 6.0% as ongoing stimulus from monetary policy easing, as well as a recovery in fiscal spending post-Budget 2019 impasse will support firmer growth in 2H 2019. Latest data shows infrastructure spending up 54%y/y in Sep. Consumer confidence has also improved in 3Q 2019 on expectations of higher incomes and improvement in job availability, while softer business confidence can be attributed in part to seasonal weakness in demand during the rainy season. Growth forecast for 2020 remains at 6.3%. Further out, realization of the government's Build Build Build programme could support the longer-term economic outlook.

- Headline inflation slowed to 0.9%y/y in Sep, from 1.7% in Aug and 2.4% in Jul. This was largely due to base effects as inflation peaked in the same period last year. Core inflation also slowed to 2.7%y/y in Sep (vs. 2.9% in Aug). The current easing inflation cycle could help keep headline inflation within BSP's target in 2019, alongside base effects, stable commodity prices, as well as lower food costs from government measures to boost food supply & ensure efficient distribution. Our economist team maintains their 2019 and 2020 inflation rate forecasts at 2.6% and 3.0% respectively (i.e., within BSP target range of 2%-4%).

- **Monetary Policy Forecast:** BSP cut its policy interest rate by 25bps to 4.00% at the 26 Sep 2019 policy meeting. This is the third 25bps cut this year after May and Aug 2019. BSP's Monetary Board's outlook on growth and inflation remained largely unchanged, i.e., firm domestic growth and benign inflation outlook. In this tame inflation environment, the Board also saw room for further rate cuts to support growth and reinforce market confidence. There were concerns that global economic growth could remain weak on uncertainty over trade policies, but firm domestic spending and progress on policy reforms could serve as buffers against global headwinds. Our economist team now expect another 25bps cut in 4Q 2019 or 1Q next year, given the continued "dovish" tones of the monetary policy statement and sustained benign inflation outlook. Next meeting is on 14 Nov. With the latest RRR cut penned in for December (another 100bps), there will be cumulative 400bps cuts in the RRR this year. The RRR will decline to 14% by year-end, supporting liquidity and private sector credit growth.

- **Latest Fiscal and External Balance Outlook:** Budget Balance in Sep came in at -PHP178.6bn deficit, worsening from the -PHP2.5bn deficit in Aug, and -PHP75.3bn deficit in Jul. Nonetheless, the budget deficit for the first nine months of the year currently stands at -PHP$299bn, significantly lower than the -PHP388bn in the same period last year. On the ground, growth sentiments had also been boosted by the increased government spending in Sep.

- Fiscal deficit is expected to remain around -3% of GDP this year. The government plans to borrow PHP1.4tn (US$27.4bn) in 2020 to support a planned budget of PHP4.1tn. About three-quarters of next year's borrowing will be from local sources. Notably, the deficit cap was also raised to 3.2% of GDP for 2020 to 2022, from a previous ceiling of 3%. Government officials have commented that the debt-to-GDP ratio will likely remain manageable, within 36.3%-41.0% between now and end-2022, "showing the resiliency of the debt portfolio against macroeconomic shocks and increased funding needs".

- Current account deficit was at -1.7% of GDP in 2Q, an improvement from the -2.7% of GDP in 1Q 2019. Consensus estimates suggest that the deficit could come in around -2.1% of GDP for 2019, and could widen modestly to -2.5% in 2020. Governor Diokno had said he was "not at all worried about the deficit especially if deficit is less than 3% of GDP, as the composition of imports was for raw materials, equipment." He also sees BoP position as "manageable" and providing "resilience against external headwinds". Structural sources of FX inflows such as OFWR, IT/business-process outsourcing revenues and tourism receipts should support overall external position. His comments were also consistent with S&P's recent assessment—"the deficit is largely investment driven, and that this is a healthy development in light of its historical underinvestment".

- Looking at monthly indicators, BoP posted a surplus of US$38mn in Sep, lower than the US$493mn surplus in Aug, but remaining in surplus territory. On a cumulative basis, BoP for Jan-Sep posted a surplus of $5.57bn vs. a deficit of $5.14bn in the same period in 2018. Strong performance of BoP can be attributed to remittance inflows from overseas Filipinos during Jan-Aug and net inflows of foreign portfolio investments during Jan-Apr and Jul-Aug. Overseas Filipino Workers' Remittances (OFWR) had grown by 4.6%y/y in Aug (vs. 7.5% in Jul), driven by gains in flows from US, Japan and Korea.

- **Key domestic events and issues to watch:** Oct Mfg PMI (4 Nov); Oct CPI (5 Nov); Sep trade (6 Nov); 3Q GDP (7 Nov); BSP Policy Decision (14 Nov); Sep Overseas remittances (15 Nov); Oct BoP (19 Nov); Oct Budget Balance (25 Nov).

- **Technical Outlook:** Downswing in USDPHP persisted for most of Oct, bringing the pair to 50.730 as at writing. Momentum on daily chart is modestly bearish, while stochastics remain in oversold conditions. Pair has just dipped past key support at 50.80 (Jul low), and we caution that oversold conditions could lead to a modest upward retracement in the interim. Next support is some distance away at 50.0, then 49.7 (2018 low). Resistance at 51.50 (61.8% Fibonacci retracement from Jul low to Aug high), 51.90 (38.2% fibo).

THB: External Risks Remain, But Positive Bias in 2020

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020
USDTHB	30.40 (30.60)	30.20 (30.40)	30.00 (30.20)	29.80 (30.00)

Previous Forecast in Parenthesis

- **Motivation for the FX View:** Forecasts are shifted lower from last month, although the directional bias in 2020 remains intact. The shift was due in part to an improvement in US-China trade relations this month—US will likely ink a phase 1 deal with China in 4Q, regardless of whether the agreement is in time for Nov. Pair has seen downward pressure since July (i.e., THB strengthening) and is currently hovering near levels last seen in 2013. The strength of THB thus far has weighed on exports and tourism, and various private sector participants have called for additional measures to curb its strength. Some interim risks remain, including uncertainty surrounding US' decision to revoke Thailand's Generalized System of Preferences privileges and whether Thailand might be added to the US Treasury watch-list of foreign currency manipulators. Two-way moves could be possible in 4Q—broadly positive mood for AxJs could contend with above-mentioned risks and domestic growth concerns—before strengthening in THB continues apace in 2020. More evidence from the new Thai government with regards to its capability to implement pro-growth policies, as well as potential boosts to sentiments from phases 2 or 3 of the US-China trade deal could lead the THB on a more sustainable strengthening path (i.e., downtrend for USDTHB).

- Thailand's current account balance could come in at 5-6% of GDP or higher this year, while the budget deficit could be capped at -3% of GDP. The US had announced on 25 Oct that starting 25 Apr 2020, it will suspend US$1.3bn (Bt39.2bn) in trade preferences for Thailand under the Generalized System of Preferences (GSP) due to longstanding worker rights issues in the seafood and shipping industries. The suspension will focus on products for which the US is a relatively important market for Thailand, but where Thailand accounts for a relatively small share of US imports. Nonetheless, according to the Commerce Ministry, the impact is expected to be "limited" and will cut annual export value by at most Bt1bn (US$33mn) in 2020. We see this as weighing on sentiments, but not having a material impact on current account dynamics. Thai trade and labor officials will also be negotiating with US Trade Representative officials tomorrow in a bid to get US to retract their decision.

- Our economist team also notes that there is a chance for Thailand to be added to the US Treasury watch-list of foreign currency manipulators in its upcoming semi-annual report, after dodging the list earlier in May (Msia, Spore and Viet were added). Thailand narrowly meets two of the three criteria—trade surplus with the US in the 12 months through Aug 19 was at $19.6bn (near the $20bn threshold) and its current account surplus is at 5.7% of GDP, significantly above the 2% threshold. Thailand may also risk being charged with "undervaluing" its currency by the US Treasury, although we note that the ~7-8% appreciation in the THB REER (relative to 2018 average levels) could be a reasonable counter-argument against any accusation that THB is undervalued.

- THB's positive correlation with gold prices also remains intact. While Thailand is a net gold importer (on average), gold trading behavior appears to have deviated from longer-term norms in recent months. Alongside the rise in gold prices from just below US$1300 at the start of the year to ~US$1500 recently, Thailand's gold imports have fallen by more than -50%y/y in the first eight months of 2019, while gold exports have risen by more than 100%y/y. This has led to a modest surplus in gold trade balance over the period. Reduction in gold purchases (imports), and drastic spikes in gold sales (exports) in an environment of rising/firm gold prices tend to give some support to THB—Thai gold traders presumably offer up less THB in exchange for USD in gold purchases, and exchange more USD sales proceeds back to THB post-sales. A risk now then is that any softening in gold prices on receding global tensions could cause THB to retrace some of its recent gains as well.

- We think that the current level of political risk (i.e., large, active opposition in government) is unlikely to derail policymaking by PM Prayut's coalition. The advantage that the Junta-coalition has (i.e., the presence of the 250-member senate which was chosen by the Junta) could aid them in pushing through some pro-growth policies. The Prayut coalition has also recently built on its slim majority in parliament, with one of its members securing a by-election victory in a constituency near Bangkok. Over time, if reforms are credibly delivered, market confidence should improve.

- **Growth and Inflation Outlook:** 2Q GDP growth (+2.3%y/y vs. +2.8% in 1Q) had eased to a 5-year low as domestic demand dampened further, adding to concerns over the sharp decline in exports (-6.1%). The slump in exports was due to weakness in both goods (-5.8%) and services (-7%). Higher-frequency indicators had shown some stabilization in economic outturns recently. Mfg PMI for Sep improved to 50.6 from 50.0 prior, even as consumer confidence continued to soften slightly (to 72.2 from 73.6 prior).

- Our economist team also notes that while customs exports continued falling in Sep (-1.4%y/y), this was at a softer pace than in Aug (-4%). Exports of certain industrial products had surged due to import substitution from the US-China trade tariffs. There are also signs that exports to top markets, including ASEAN-5, US and China, are recovering. This could signal that exports could be past its worst. Nonetheless, downside risks remain (strong THB, GSP privileges removal) and GDP growth forecast is maintained at 2.8% in 2019 and 3.4% in 2020 for now.

- Headline inflation declined further to 0.32% in Sep (vs. 0.52% in Aug), mainly on the back of lower energy (-6.39% vs. -5.16% in Aug), and transportation prices (-2.86% vs. -2.20% in Aug). Food inflation also softened to a 5-month low of 2.47% in Sep (vs. 2.63% in Aug), alongside softer price pressures in meat, poultry and fish, as well as seasonings and condiments. Core inflation (excluding food & energy) also softened slightly to 0.44% (vs. 0.49% in Aug). BOT expects headline inflation to come in at 0.8% in 2019, below their target range of 1-4%. Our economist team holds a similar view, as slowing domestic demand will likely keep inflation muted.

- **Monetary Policy Forecast:** At its 25 Sep policy meeting, BOT kept its policy rate unchanged at 1.5%, in an unanimous board decision. The decision was based on the committee's view that the current monetary policy stance was accommodative for continued economic growth, and should support the rise of headline inflation towards the target. Officials pledged to continue monitoring THB's strength, and may potentially implement more measures to rein it in, if needed. Our economist team is expecting another 25bps cut to 1.25% on 6 Nov, alongside softening growth, muted core inflation and the strong THB. Nonetheless, financial stability risks remain a concern. DPM Somkid also tried to downplay the role of interest rates in propping up growth previously, arguing that confidence channels are more important. These factors could mean that extent of further cuts could be limited.

- **Latest Fiscal and External Balance Outlook**: The fiscal outlook remains somewhat cloudy. While the FY2020 Budget was approved in the first reading this month with a narrow vote of 251/500, the second and third readings in Jan 2020 may be more contentious. Total FY2020 expenditure is expected to come in around THB3.2tn, with revenues projected at THB2.73tn. This will lead to a budget deficit of THB469bn, or around 2.6% of GDP. Meanwhile, to anchor growth this year, an interim stimulus package of around THB316bn—including soft loans to be provided by state banks, additional cash handouts to welfare card holders, and subsidies for rice planting costs—is being rolled out.

- The customs trade surplus was lower in Sep (US$1.28bn vs. US$2.05bn in Aug), with gold (111%y/y vs. 378% in Aug) remaining a key export driver. With exports potentially bottoming out, current account for the full year could come in at 5-6% of GDP or higher.

- **Key domestic events and issues to watch:** Oct Mfg PMI (1 Nov); Oct CPI (1 Nov); BoT Policy Decision (6 Nov); Oct Consumer Confidence (7 Nov); 3Q GDP (18 Nov); Oct Car Sales (18-23 Nov); Oct Customs Trade (21 Nov); Oct Manufacturing Production (28-29 Nov); BoP (29 Nov).

Technical Outlook: USDTHB pair seen at 30.190; such levels were last seen in 2013. Momentum on daily chart is mildly bearish, while stochastics remain in oversold conditions. We also observe signs of a bullish divergence on the weekly MACD, which could hint at upsides for the pair. 30.00 could be a strong support level in the interim. Resistance at 30.36 (21 DMA), 30.49 (50 DMA).

INR: Range-Trades, Awaiting Break-Out

Forecast	4Q 2019	1Q 2020	2Q 2020	3Q 2020
USDINR	70.75 (71.00)	70.50 (69.00)	70.30 (68.50)	70.00 (68.00)

Previous forecasts in Parenthesis

- **Motivation for the FX View:** Growth concerns continue to keep the government focused on providing stimulus and that has also buoyed rupee assets. The officials are recently rumored to consider tax relief for individuals in a bid to boost spending (that will be accompanied by the removal of tax exemptions on house rent payment and interest earned on some bank deposits). This comes after a significant corporate tax cut to 22% on their income from 1 Apr 2019 vs. 30% previously. (New companies established from 1 Oct to pay 15% tax) along with lowered GST on certain hotel and catering services and levy on passenger vehicles, with effect from 1st Oct.

- We tweaked our year-end forecast a tad higher, taking into account stronger seasonality factor in Nov that could take the USDINR spot higher from the last seen levels under the 71-figure. That could be somewhat offset by potential RMB gains should the US-China ink a deal that includes a currency pact and an agreement to remove some existing tariffs. Retracement in the RMB thereafter back above the 7 would also bring the USDINR back within the 70.00-72.00 range. We look for price action to be largely within this band even as RBI continues to deliver more rate cuts. Unlike the previous cuts, additional cuts could erode the allure of the rupee as a higher yielder while growth prospect remains a concern. We look for the government to provide more fiscal stimulus that could translate to some support for the INR.

- **Growth and Inflation Outlook:** Industrial production slipped -1.1%y/y from previous +4.6%, undershooting the already-softer consensus of 1.7%. Output from manufacturing slipped -1.0%y/y from previous 3.6%. Mining output was flat for the month while electricity contracted -0.1%y/y vs. previous 0.5%. Weakness was broad-based in primary goods, capital goods and intermediate goods. Industrial production did not seem that bad on PMI-mfg print but that has not been very predictive of activity. PMI-mfg for Sep was unchanged at 51.4 vs. the previous. On the other hand, services deteriorated to 48.7 from previous 52.4, underscoring weak domestic spending.

- The rise in food inflation drove the CPI headline above the consensus with a print of 3.99%y/y (right smack at the target of 4% with a risk of crossing over towards the higher bound of the +2/-2% target band) vs. previous at 3.28%. While food costs rose, fuel and light prices slipped -2.2%y/y from previous -1.7%. Clothing and footwear eased a tad to 0.96%y/y from previous 1.2%. Nonetheless, firmer price pressure could crimp on household spending and weigh on growth outlook.

- Exports growth continues to decline. Trade registered another deficit of INR774bn for Sep albeit narrower than previous months. The -6.6%y/ fall in exports was outstripped by the -13.8%y/y fall in imports, another sign of falling domestic demand. As a result, RBI actually downgraded growth forecast from 6.9% for 2019-20 to 6.1%.

- **Monetary Policy Forecast:** RBI lowered repo rate by a conventional 25bps to 5.15% from previous 5.40% as expected by most analysts including ourselves. However, the central bank shocked investors by cutting growth forecast sharply to 6.1% from 6.9%. Minutes of the meeting revealed that the MPC noted that the negative output gap has widened. In spite of the recent uptick in inflation, price pressure is expected to remain below target in the remaining period of 2019-20 abd Q1:2020-21. That translates to policy space to provide further monetary stimulus. Since 1st Oct, an external benchmark framework has been in place for banks to link all new floating rate personal or retail loans and floating rate loans to MSMEs to this external benchmark. This is in the hope of improving the transmission of policy rate changes to the lending rate of banks. Governor Das noted that the transmission has been poor with the first 110bps cut has only translated to a fall of only 29bps in the weighted average lending rate.

- Das' words that accommodative stance to be retained for as long as it is necessary to revive growth suggests that this 25bps cut is meant to retain ammunition and that the easing cycle is long from over. **We anticipate another 25bps in Dec.**

- **Latest Fiscal and External Balance Outlook:** With regards to FY20 budget deficit, Sitharaman had projected the fiscal deficit to be around 3.3% of GDP in Jul but the corporate tax cuts could raise this to around 4% of GDP in 2019-2020. As of last available data, current account for 2Q 2019 widened to $14.32bn from previous $4.63bn. The deterioration could be due to the goods trade deficit which widened in the quarter to $46.2bn from previous $35.2bn.

- **Key domestic events and issues to watch:** Mfg PMI is due on 1st Nov, Sep industrial production on 12th; CPI on the 13th, WPI on the 14th; trade data is due on the 15th; 3Q GDP on the 29th.

- **Technical Analyses:** The 1M USDINR NDF was last seen around 71.00. Price action seems to have settled into range-trades within 70-7 with some bias to the upside at this point. November is seasonally bullish for the pair. Resistance at 71.25 before 71.54 (50-dma) and then Oct high of 72.00. Support at 70.72 before 70.50 (200-dma). The convergence of the moving averages seems to mean that there could be a breakout at some point. Resistance at 72.30 (38.2% fibo retracement of the 2018 rally). Support at 69.24 before 67.85.

VND: Eye The US Treasury FX Report Still

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

No change from previous forecasts

- **Motivation for the FX View:** USDVND was last seen around 23200, flat-lining for the much of the past one month, bucking the trend of the rest of regional peers that have appreciated against the USD. As a result, the VND had clawed back some of its export competitiveness against its major trading partners by around an estimated 1%, supportive of its recent weakening trade performance. We continue to eye the FX report that the US Treasury typically publishes every Apr and Oct.

- **Vietnam was included in the US Treasury's watch-list for currency manipulation in May as it had met two of its three thresholds for the three criteria including a bilateral goods trade with the United States that exceeds $20bn and a current account surplus above 2% of GDP based on the 4 quarters through Dec 2018.**

- We continue to see a risk that Vietnam would be labelled as a currency manipulator. In the 4 quarters through Jun 2019, Vietnam had a net FX purchase for 7 out of 12 months, above the threshold of 6 out of 12months. However, a potential "get out of jail card" is IMF's recent assessment (a metric also used by the US Treasury) that Vietnam's "reserves are still less than needed in the context of the managed exchange rate regime". This assessment was published in July this year. Its bilateral trade surplus with the United States had already crossed the $20bn threshold for the first half of this year and monthly goods surplus has been rising. Its current account surplus for the 4 rolling quarters through Jun 2019 is close to 2% of GDP although more recent weakening trade performance may allow room for US to reconsider if this threshold is met.

- Ahead of the next FX report, Vietnam seems to have ensured that the VND is stable against the USD even during bouts of weakness experienced by the regional currencies (with the exception of THB). Vietnam's exclusion of Huawei network hardware for its mobile carriers (citing network safety) also underscores how much Vietnam values its ties with the US. In addition, Vietnam custom works hard to crack down on falsely labelled Chinese goods including $4.3bn of aluminum in order to avoid the tariffs that the US had imposed on China. We continue to hold the view that SBV would ensure minimal weakness in the VND against the USD to avoid being labelled as a currency manipulator.

- Scrutiny is still on Vietnam's huge trade surplus with the US. Apart from the $5bn LNG project that would include an import terminal and gas-fired power plant so as to import US fuel into the country, undersecretary for trade and foreign agricultural affairs Ted McKinney urged Vietnam to clear the backlog of US imports, especially farm goods, blaming the delays for US exporters' on Vietnam's approval process during his trade mission in Ho Chi Minh City mid Oct.

- Bulk of the FDI continues flow into the manufacturing sector although other sectors including real state, wholesale and retail trade as well as electricity, gas, air con supply, water supply, sewerage, remediation also saw investment inflows. USDVND could remain at current levels as the supply chain diversion away from China continues. With Vietnam still under the US Treasury watch list for currency manipulation, VND turned out to be one of the most stable currencies in the region and the appreciation in regional peers also allowed VND to regain some of its export competitiveness with USDVND unmoved. Exports to the region (China, ASEAN and Japan) have underperformed.
- **Growth and Inflation Outlook:** PMI-mfg deteriorated further to 50.5 from previous 51.4 amid a deceleration in new order growth. Even as Vietnam was seen as a beneficiary of the US-China trade war, the weakness of global demand has finally started to bite with business confidence sliding. Profit margins were notably squeezed as input costs were up slightly while output prices were lowered. Outlook for electronics may still be positive as US and China work to ink the phase 1 of the US-China trade deal.
- As released, industrial production slowed to 9.2%y/y from previous 10.2%. The slowdown was broad-based with the exception of mining and quarrying reporting a smaller contraction of -0.2%y/y vs. -6.6% before. Manufacturing growth weakened to 10.8%y/y for Oct vs. previous 12.3%.
- Retail sales picked up pace to 12.4%y/y in Sep from previous 11.7% in tandem with the surge in tourist arrivals in the month.
- Exports surprised with a -0.8%y/y decline in Oct and our Economist note that the fall could be due to the Japan-Korea spat that has affected the sales of Samsung's Galaxy Note 10 smartphones. However, the strong electronics IP and mobile phone production data in Oct could translate to an upward revision by Vietnam Customs next month. Imports growth eased to 3.5% in Oct and trade balance is thus in deficit of -$100mn.
- Headline inflation rose to 2.2%y/y for Oct vs, previous 2.0%, underpinned by tightening live pork supply. While, we saw rise in housing and construction material costs, transport inflation slipped -3.2%y/y vs. previous -2.7% in an environment of subdued global energy prices. Our economist expect inflation to pick up in 4Q 2019 on tightening food supply and low base effects albeit maintain headline forecast at +2.6% for 2019 and 3.5% in 2020.
- **Monetary Policy Forecast:** Our Economist does not look for any further easing for 2019-2020 as further easing could raise credit risk concerns. The SBV uses "credit growth targeting" as its main monetary policy tool and the credit growth target is maintained at 14%. As for the VND, we see upside risks to the currency as Vietnam continues to benefit from manufacturing and trade diversion flows

and FDI that resulted from the US-China trade conflicts though that uptrend could be dampened by recent comments coming out of the USTR office. VND should remain stable against the USD for now. We also expect FDI inflows to continue because of the trade agreement/diversions and that could cushion the effects of the decline in external demand.

- **Latest Fiscal and External Balance Outlook:** As of last available data, current account was at -U$107bn in 2Q.
- **Key Domestic Events and Issues to Watch:** Domestic vehicle sales in 6^{th}-13^{th} Nov; Nov CPI, trade numbers, retail sales and IP are due 25^{th}-30^{th} Nov.

FX Forecasts

	End Q4-19	End Q1-20	End Q2-20	End Q3-20
USD/JPY	107.5	107	106	105
EUR/USD	1.1200	1.1300	1.1300	1.1400
GBP/USD	1.3000	1.3200	1.3400	1.3500
AUD/USD	0.6800	0.6900	0.7000	0.7100
NZD/USD	0.6400	0.6600	0.6600	0.6800
USD/SGD	1.3650	1.3600	1.3550	1.3500
USD/MYR	4.1500	4.1200	4.1000	4.0800
USD/IDR	14000	13950	13900	13850
USD/THB	30.40	30.20	30.00	29.80
USD/PHP	51.00	50.50	50.00	49.50
USD/CNY	7.10	7.08	7.05	7.03
USD/HKD	7.80	7.80	7.80	7.80
USD/TWD	30.40	30.00	30.30	30.30
USD/KRW	1180	1170	1160	1150
USD/INR	70.75	70.50	70.30	70.00
USD/VND	23200	23100	23000	23000
DXY Index	96.88	95.93	95.49	94.90
SGD Crosses	End Q4-19	End Q1-20	End Q2-20	End Q3-20
SGD/MYR	3.0403	3.0294	3.0258	3.0222
SGD/IDR	10256	10257	10258	10259
SGD/THB	22.27	22.21	22.14	22.07
SGD/PHP	37.36	37.13	36.90	36.67
SGD/CNY	5.20	5.21	5.20	5.21
SGD/HKD	5.71	5.74	5.76	5.78
SGD/TWD	22.27	22.06	22.36	22.44
SGD/KRW	864	860	856	852
SGD/INR	51.83	51.84	51.88	51.85
MYR Crosses	End Q4-19	End Q1-20	End Q2-20	End Q3-20
EUR/MYR	4.65	4.66	4.63	4.65
JPY/MYR	3.86	3.85	3.87	3.89
MYR/HKD	1.88	1.89	1.90	1.91
MYR/CNY	1.71	1.72	1.72	1.72
GBP/MYR	5.40	5.44	5.49	5.51
AUD/MYR	2.82	2.84	2.87	2.90
NZD/MYR	2.66	2.72	2.71	2.77
MYR/IDR	3373	3386	3390	3395
MYR/INR	17.05	17.11	17.15	17.16
MYR/KRW	284	284	283	282
MYR/PHP	12.29	12.26	12.20	12.13
CNY/MYR	0.5845	0.5819	0.5816	0.5804

Source: Maybank FX Research as of 31 Oct 2019.
*These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.

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