

FX Strategy

Of Lukewarm Growth and Easing Bets

The Decline of the USD and the Yuan

In 2023, markets were forced to contend with bumpy disinflation progresses, relentless outperformance of the U.S. economy and rising U.S. fiscal commitments that concomitantly spurred the re-pricing of term premium (added risk premium for holding longer-term debt) in the UST curve that has been long absent. Into 2024, our base case is that the U.S. economy will continue to slow and inflation to ease gradually. The USD is expected to remain supported in the near term before seeing a bumpy decline possibly in 2Q, especially if the narrative of a global growth slowdown starts to shift and G3 currencies such as the euro mildly strengthen amid expected eurozone recovery in the latter part of 2024. Once the greenback starts to weaken, we see room for CNY to decline on a trade-weighted basis. This is due to the likely scenario that RMB is more likely to lag its peers in recovery against the greenback amid lingering concerns on its growth outlook. China's choice of economic support was to boost affordable housing, construction activities as well as infrastructure investment. That is likely to lift demand for Australia's resource exports. We look for AUDCNY to head towards the 5.00-figure.

Relative Value Plays in ASEAN

Going into 2024, ASEAN countries look to set to face diverging developments. Thailand looks to be settling down after the completion of its elections in 2023. Fundamentally, there could also be some improvements in play after a difficult few pandemic years as tourist returns and gold prices hold up. In contrast, political uncertainty could cloud Indonesia in 2024 as the country faces a tightly contested Presidential election in 2024. Meanwhile, the Philippines' economy looks like it could remain fundamentally challenged. Consequently, we suggest to long THBIDR and THBPHP.

Riding the AI Wave

There are subtle indicators that the global electronics cycle may have reached its nadir, poised for a resurgence driven by the burgeoning excitement surrounding artificial intelligence (AI). As the demand for hardware required to fuel advanced AI applications grows, the semiconductor industry stands at the forefront to power the next wave of innovation. The global electronics cycle could be on the brink of an upswing, and we think that this could benefit the KRW, TWD, and SGD via an improvement of trade balances. We suggest going long KRW, TWD against USD or CNY and being long SGDNEER.

Wild Card: An Aggressively Tightening BOJ

The BOJ has been gradually adjusting its YCC policy since end 2022 as it now no longer has a hard cap on 10y yield and instead only has a reference rate of 1.0% serving as the top end of its target range. Such moves increasingly point to the possibility of a YCC abolishment, which we actually see happening in 2Q 2024 alongside an NIRP exit. However, we would not rule out the possibility that the BOJ could move beyond just being at a neutral stance and assign a 30% chance they could embark on a more aggressive tightening cycle. As it stands, market does not look positioned for this and therefore potentially could be substantial JPY upside if this plays out.

Analysts

Saktiandi Supaat
(65) 6320 1379
saktiandi@maybank.com

Fiona Lim
(65) 6320 1374
fionalim@maybank.com

Alan Lau
(65) 6320 1378
alanlau@maybank.com

Shaun Lim
(65) 6320 1371
shaunlim@maybank.com

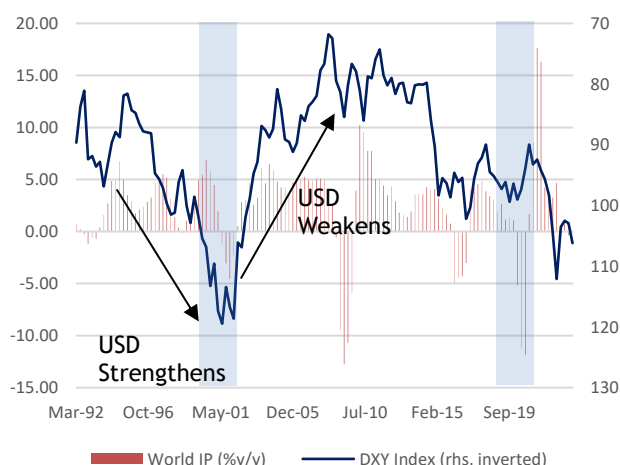
1. The Decline of the Dollar and the Yuan

1.1 The Bumpy USD Downtrend

In 2023, markets were forced to contend with bumpy disinflation progresses, relentless outperformance of the U.S. economy and rising U.S. fiscal commitments that concomitantly spurred the re-pricing of term premium in the UST curve that has been long absent. Such an environment had kept the USD buoyant for much of the year, especially against Asian currencies.

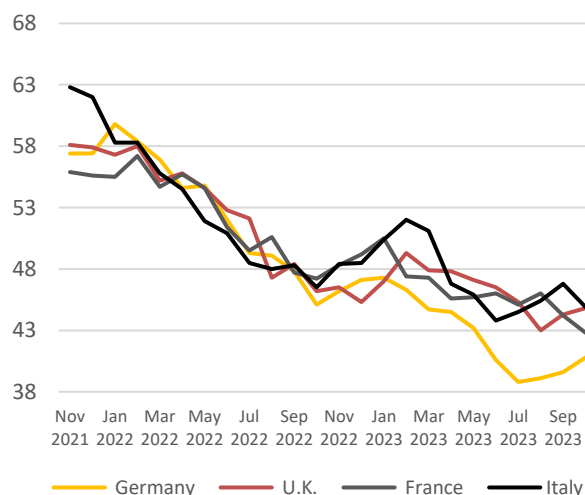
As we approach the close of the year and into 2024, the crux of the matter is whether the U.S. growth could start to converge with the rest of the world. Our base case is that the U.S. economy will continue to slow and inflation, to ease gradually. In turn, the Fed will hold policy target rate at its peak for the next few months and eventually kick-off the easing cycle from Q3 2024 onwards. UST yields and the USD have started to decline as markets shift their focus to the start of the Fed's easing cycle. While speculation on the timing and magnitude of rate cut bets could continue to provide directional cues on the USD at this stage of peak policy rates, we found that the eventual magnitude of rate cut does not necessarily correlate with the extent of USD weakness. History suggests that USD can strengthen even in periods of steep rate cuts. Global growth is likely the more important driver of the USD.

Fig. 1.1: USD Strengthens when Global Growth Slows Down, Weakens When Growth Picks Up



Source: World Bank, Bloomberg, Maybank FX Research & Strategy

Fig. 2.2: Eurozone Mfg PMIs seem to be bottoming out



Source: Bloomberg, Maybank FX Research & Strategy

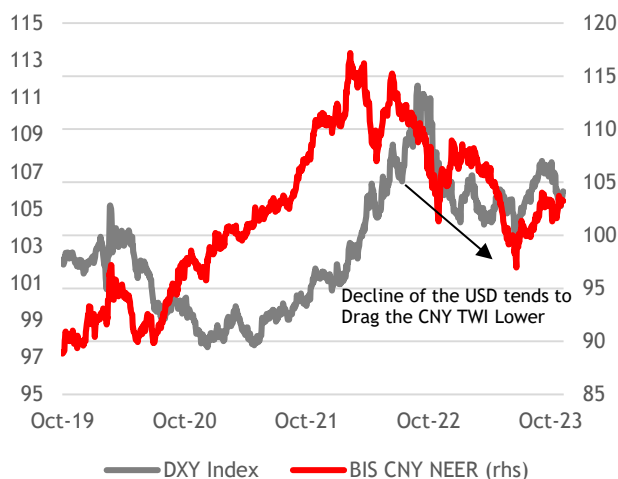
It is thus, possible that the USD still has more room to ease should the narrative of a global growth slowdown start to shift. Thus far, we have had data that suggest the US could head towards a soft-landing. However, we have not had solid evidence that suggest that Eurozone or China are on the mend and while that keeps the USD from making sharper retreats at this point, that also suggests that the USD can have room to fall further once that narrative gains traction.

As we look for a very gradual grind lower over the next months, the USD could continue to remain buoyant on dips as the USD still retains quite a bit of carry advantage and any upside surprises to its data in the near-term could also shift expectations of Fed's rate trajectory and provide support to the USD on dips.

1.2 Yuan to Fall as USD Weakens

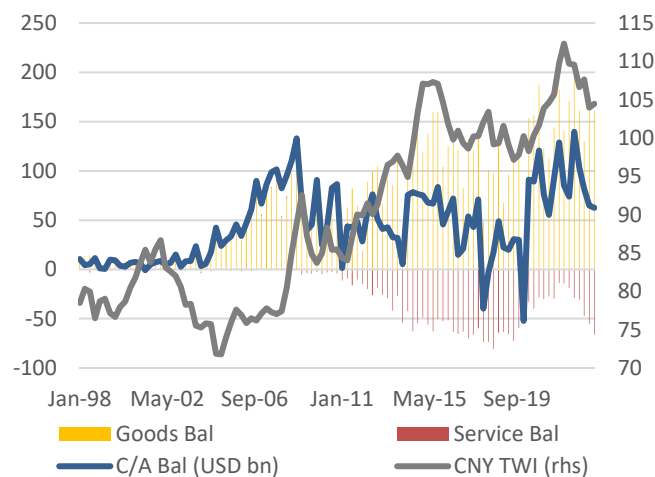
With the USD turn in mind, bumpy as it could be, we continue to be proponents of shorting the CNY TWI.

Fig. 1.3: The Fall of the USD to Provide Room for Yuan Bears



Source: Bloomberg, BIS, Maybank FX Research & Strategy

Fig. 1.4: Potential Narrowing of the Current Account Surplus Could Reduce Support for the Yuan



Source: Macrobond, BIS, SAFE, Bloomberg, Maybank FX Research & Strategy

Should the USD and UST yields continue to decline, most Asian currencies should benefit including the CNY. So it could be counterintuitive for us to see opportunities to short the CNY. PBoC's relentless support of the yuan through offshore yuan bills, daily central parity fixes, lowering of FX reserve requirement have resulted in the trade-weighted appreciation of the yuan as the yuan was unable to weaken as much as its DM and EM peers in the face of broad USD strength.

Once the greenback starts to weaken, we see room for CNY to correct lower on a trade-weighted basis. This is due to the likely scenario that RMB is more likely to lag its peers in recovery against the greenback amid lingering concerns on its growth outlook. Even as the worst could be over for the Chinese economy cyclically, a V-shape recovery is not expected. China's property sector has not stabilized and as such, consumer confidence remains weak. In addition, the Chinese government is reluctant to implement policies that boost consumption directly. A multi-year slowdown is still on the cards. Policy-wise, PBoC could still be on an easing cycle given lingering growth risks. Meanwhile, any material recovery in consumption could potentially drive the external balance into deficit and that is negative for the RMB.

We see possible opportunities to short the RMB crosses. For one, China's choice of economic support was to boost affordable housing, construction activities as well as infrastructure investment. That is likely to lift demand for Australia's base metals and other resource exports. Such an environment could continue to be mildly supportive of the AUD. **We therefore continue to remain bullish on the AUDCNY towards the 5.00-figure next year.**

2. Relative Value Plays in ASEAN (Long THBIDR, THBPHP)

2.1 Divergent Political and Economic Developments in ASEAN

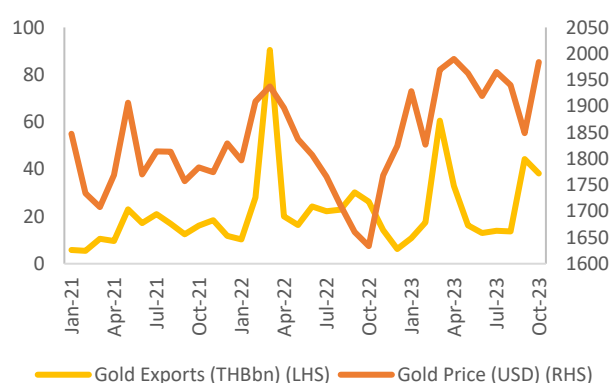
Going into 2024, we see that a number of ASEAN countries look to set to face diverging developments. Thailand looks to be settling down after the completion of its elections in 2023. Fundamentally, there could also be some improvements in play after a difficult few pandemic years. In contrast, political uncertainty could cloud Indonesia in 2024 as the country faces a tightly contested Presidential election in 2024. Meanwhile, the Philippines' economy looks like it could remain fundamentally challenged.

2.2 Looking Up For Thailand

After a difficult few years of pandemic, we increasingly believe that the situation in Thailand is now starting to improve. There appears to be more political stability in the country with the completion of the elections in 2023 and the formation of a Pheu Thai led coalition government that is encompassing of a wide spectrum of political parties. We do note that back in Aug, a survey by the National Institute of Development Administration found that 64% of 1,310 respondents did disagree with the idea of Pheu Thai forming a "special government" with military-backed rivals. However, for now, it looks like this administration would be given a chance at governing so we would just take that poll as only pre-term indicator of their popularity and continue to closely watch how opinion polls evolve.

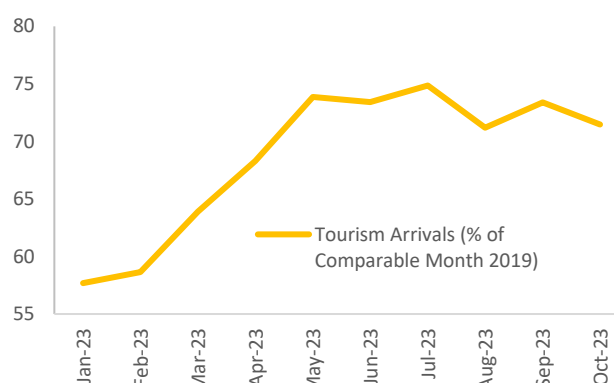
At the same time, Thailand's external position appears like it could see much improvement going into 2024. Gold prices have recently hit a record high, which in turn has given a boost to the country's gold exports. Whilst gold could see corrections in early 2024, we expect prices to continue to stay supported amid both reasonably decent safe haven demand (from on-going Israel - Gaza conflict and US Presidential Elections) and a turn in Fed policy to be less hawkish. Tourism inflows have also substantially recovered through 2023 and could see some further rise in 2024. We do note that Chinese tourism is struggling to recover amid recent unfavorable developments such as the Bangkok shooting incident. However, at the same time, we also believe that the security situation should improve and given a patchy economic situation next year, tourism travel to Thailand should be relatively more favourable amid its lower cost among other options.

Fig. 2.1: Gold Prices Guide Exports Higher for Thailand



Source: Bloomberg, Maybank FX Research & Strategy

Fig. 2.2: Tourism Arrivals in 2023 Recovering Gradually



Source: Bloomberg, Maybank FX Research & Strategy

2.3 Lingering Political Uncertainty For Indonesia

Meanwhile, Indonesia looks set to face a tight Presidential election contest with three candidates vying for the Presidency - Prabowo Subianto, Anies Baswedan and Ganjar Pranowo. Since nomination, the Prabowo-Girban pair is leading in opinion polling but they have not actually crossed the 50% mark. Indonesia's Presidential Election rules requires that a candidate pair must get over 50% of the votes with at least 20% of the votes spread over more than half of the provinces in Indonesia to avoid a second-round. Therefore, the risk of a two-round contest that could stretch into Jul together with unrest that may accompany it may mean that political uncertainty could linger until Oct. This could imply that stronger decisive positioning by foreign investors into Indo Government bonds could hold off even as the Fed softens.

2.4 Unchanged Fundamentals For Philippines

Meanwhile, for the Philippines, the country's fundamentals are likely to continue to be a limiting factor for its currency. There is little expectation as it stands for much change in the country's fiscal and CA deficit. The Marcos government is strongly pushing ahead "build, better, more' program", which is likely to keep weighing on the fiscal front whilst the external position remains under pressure from import needs. Such factors are likely to limit the gains for the PHP even as the Fed is expected to start easing policy. However, we do note that our in-house economists are only expecting 75bps of rate cuts in 2024 and hence, rates are still going to remain high, making it unfavourable for rate sensitive FX such as the PHP.

Fig. 2.3: No Decisive Consistent Flows into IGBs Amid Concerns About Fed Rate Path and Domestic Political Uncertainty

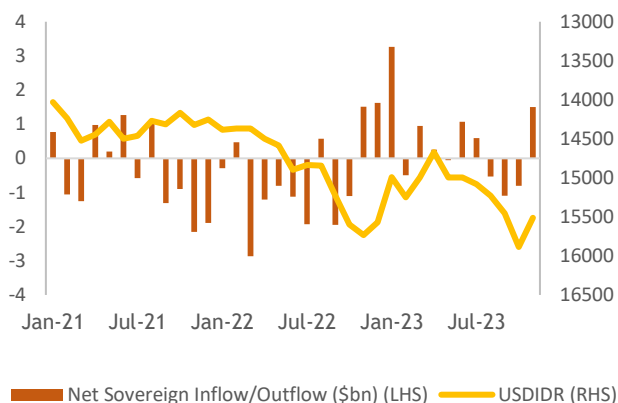
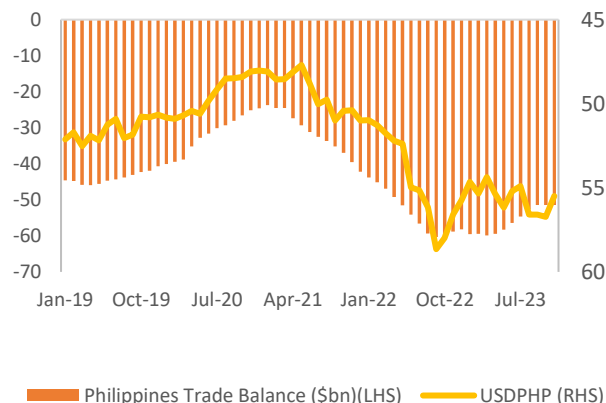


Fig 2.4: Wide Philippines Trade Balance Keeps Weighing on the PHP



Source: Bloomberg, Maybank FX Research & Strategy

Source: Bloomberg, Maybank FX Research & Strategy

Taking together the expected situation in ASEAN, it looks that Thailand would face both diverging political and fundamental outcomes compared to Indonesia and the Philippines respectively. Thailand is looking to sit more favourable fundamentally compared to the Philippines whilst its political situation looks more settled relative to Indonesia. **We therefore recommend going long THBIDR and THBPHP.**

3. Resurgence of the Global Electronics Cycle: Riding the AI Wave (Long KRW, TWD, and SGD)

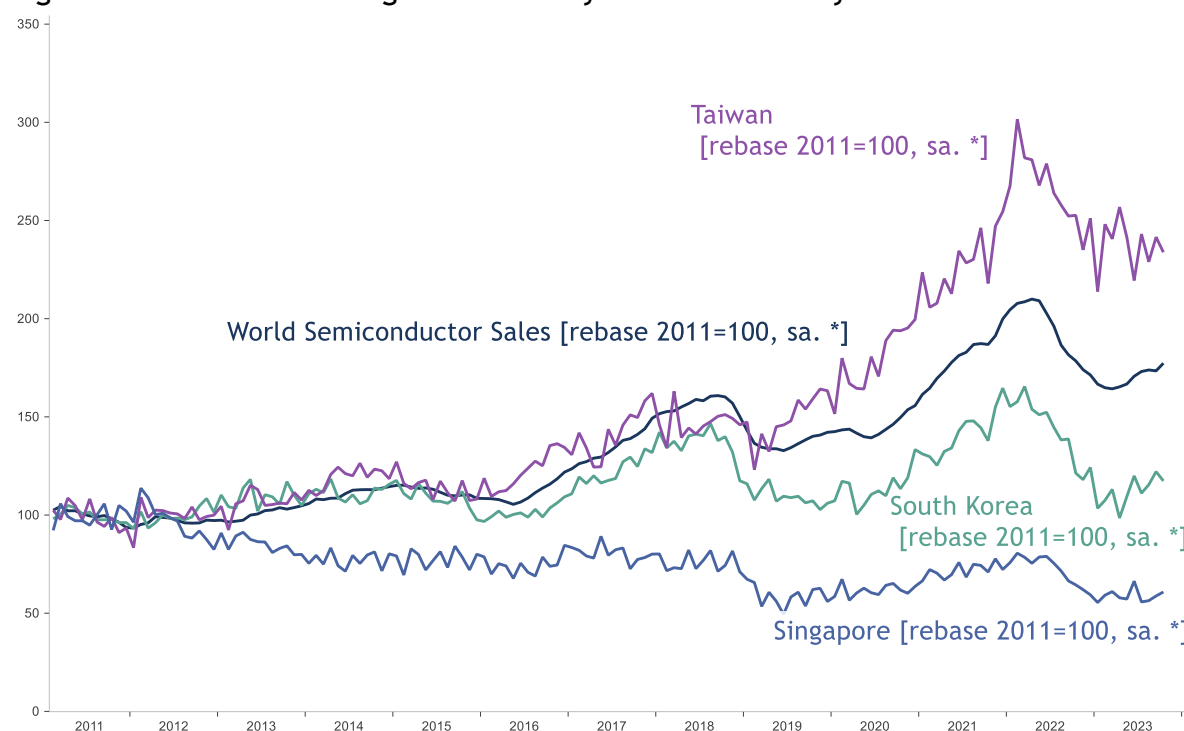
3.1 AI Wave Spurs Semiconductor Demand

There are subtle indicators that the global electronics cycle may have reached its nadir, poised for a resurgence driven by the burgeoning excitement surrounding artificial intelligence (AI). As the demand for hardware required to fuel advanced AI applications grows, the semiconductor industry stands at the forefront to power the next wave of innovation. The global electronics cycle could be on the brink of an upswing, and we think that this could benefit the KRW, TWD, and SGD.

The surge in AI development and implementation across various industries is placing an unprecedented demand on semiconductor manufacturers. From data centres to edge devices, AI applications require powerful and efficient processors, leading to increased orders for advanced semiconductor components. The increasing integration of AI-driven technologies in modern vehicles, including autonomous driving and smart features, contributes to sustained demand for semiconductor components. This surge in demand has the potential to catalyze a sustained revival in the global electronics cycle.

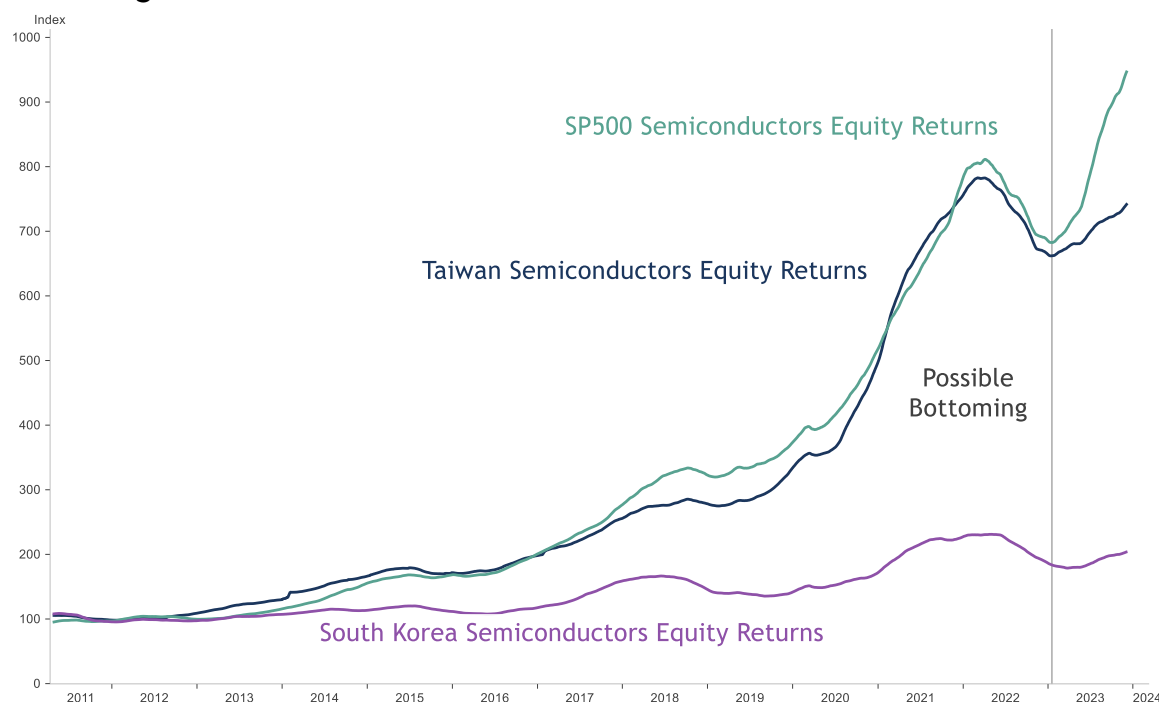
In addition, the widespread deployment of 5G networks is gaining momentum globally. As nations invest heavily in upgrading their telecommunications infrastructure, semiconductor manufacturers are faced with the demand for specialized chips to power 5G-enabled devices. This creates an additional avenue for semiconductor trade to increase.

Fig 3.1: Possible Bottoming and Recovery of Electronics Cycle



Source: Maybank FX Strategy and Research, Macrobond

Fig 3.2: Semiconductor Equity Indices Also Suggest Possible Bottoming



Source: Maybank FX Strategy and Research, Macrobond

3.2 FX Implications

The three currencies that are likely to outperform on this theme are the KRW, TWD, and SGD. We articulate strategies for each of these below.

a. Korean Won (KRW):

South Korea is home to major semiconductor manufacturers, such as Samsung and SK Hynix. As global demand for semiconductors rises, the Korean won is likely to benefit from increased exports and a positive trade balance. In addition, we think that Bank of Korea (BOK) will be on an extended hawkish hold on concerns over inflation. FTSE Russell could also potentially include Korea on its World Government Bond Index (WGBI) in Mar 2024. The confluence of these factors should provide further tailwinds for the KRW. We would look to be long KRW either against USD, on our broad belief that the greenback should decline or CNY on our belief of trade-weighted underperformance.

b. Taiwan Dollar (TWD):

Taiwan is a semiconductor manufacturing powerhouse, with TSMC (Taiwan Semiconductor Manufacturing Company) playing a pivotal role in the industry as the industry leader by revenue. The increased demand for semiconductors is likely to boost Taiwan's exports and positively impact the Taiwan dollar. Central Bank of the Republic of China (CBC) also looks to maintain restrictive policy on lingering concerns over inflation. This combination should spur the TWD higher. We look to be long TWD against the USD on the broad belief that the greenback should decline or the CNY on our belief of trade-weighted underperformance.

c. Singapore Dollar (SGD):

Singapore is a key player in the semiconductor supply chain, providing advanced manufacturing and testing services. As the global electronics cycle picks up, Singapore's economy and the SGD may experience an upswing due to increased semiconductor trade. This has been reflected in the recent pick up in electronics exports. MAS is also likely to keep policy restrictive for an extended period and this should be supportive of the SGD. We also maintain our call that the SGDNEER is likely to continue to experience upward pressures and would suggest to stay long SGD NEER or long SGD against USD on the broad belief that the greenback will start to decline into 2024.

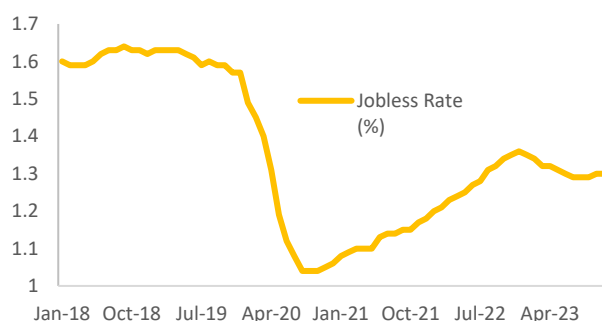
4. Wild Card: An Aggressively Tightening BOJ (Long JPY)

4.1 Changing Economics for the BOJ?

Since end 2022, the BOJ has been gradually making adjustments to its loose monetary policy. As a recap, we have seen the BOJ gradually allow more flexibility in its management of YCC by first allowing back in Dec 2022 for the JGB 10y yield to trade $\pm 0.50\%$ compared to $\pm 0.25\%$ prior. At the July 2023 meeting, there were further changes made as they decided to revise the yield of fixed-rate bond buying operations on 10-year JGBs from 0.5% to 1.0%, while maintaining the yield curve control (YCC) range cap at 0.5%. Finally, in Oct, they did another adjustment by redefining that 1.0% would only be a reference and not a rigid cap. These moves point increasingly to an eventual abolishment of YCC, which we believe would occur just before an NIRP exit in 2Q 2024. Preceding both moves would be the possibility that there would be strong results from the Spring wage negotiations which should yield strong results (as implied by Ueda at Oct meeting). As it stands, market expectations are similarly expecting such policy moves where the BOJ only moves to a neutral level. This also forms our own base case, which implies USDJPY could still trade at elevated levels given that UST-JGB yield differentials would remain wide. For now, this could still pan out to be the case even amid recent developments where Governor Ueda and Deputy Governor Himono have dropped hints of tightening (leading to the JPY sharply appreciating). If anything, Ueda is still reiterating keeping an easy monetary stance whilst the BOJ forecast still sees inflation being below 2.00% in 2025 and overall implying any adjustment could just be limited.

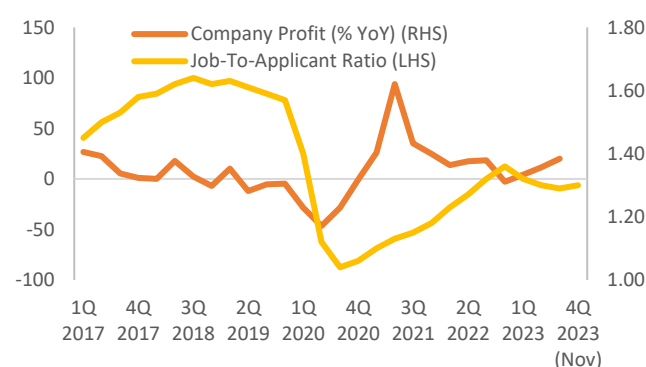
However, we would like to highlight a wildcard scenario whereby the BOJ could actually move much more aggressively in tightening beyond just a neutral level. A decision to do this by the BOJ would be premised on how the Japanese labor market pans out. There are some data points that we are keeping a close eye on in the coming year that could actually imply the possibility of a shift in the BOJ's stance in this direction. Such data points would include rising company profits and signs of a trending structurally tighter Japanese labor market. These developments can allow for a more virtuous cycle of wage increases that in turn can feed into more demand-pull inflation, which the BOJ is looking for. As it stands, jobless rates are moving downwards towards the level just before the spike during the pandemic whilst company profits have been rising significant recently. The job-to-applicant ratio has stalled recently after the post pandemic pick-up but if good recent corporate performance can persist, demand for workers could keep rising.

Fig. 4.1: Jobless Rate on the Decline From Pandemic Highs



Source: Bloomberg, Maybank FX Research & Strategy

Fig. 4.2: Job-To-Applicant Ratio Has Stalled But Can Rise in Line With Better Corporate Performance

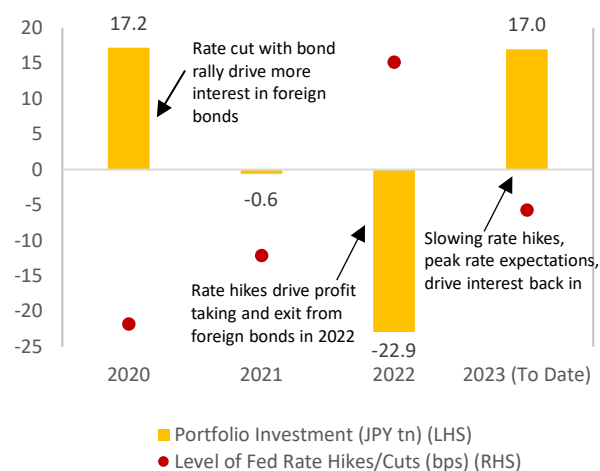


Source: Bloomberg, Maybank FX Research & Strategy

4.2 USDJPY Can See Strong Downward Moves?

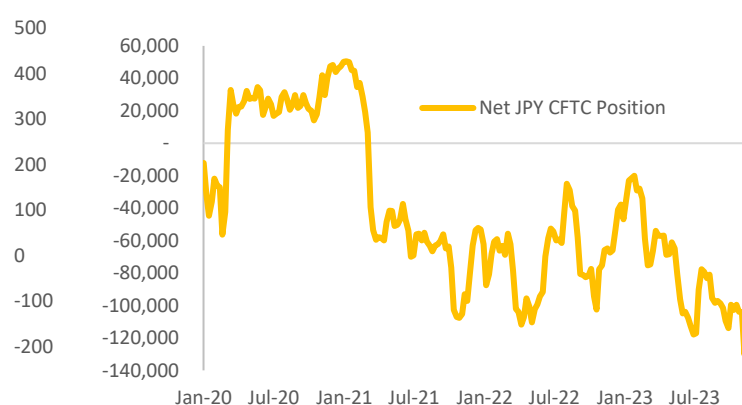
As it stands, we do not get much of an impression that the market has actually been trading on an assumption that a strong BOJ tightening cycle beyond neutral is about to start. If anything, Japanese investors still appear to be trading on the nature of the Fed's rate cycle instead. Japanese investors had appeared on net to have heavily exited from foreign bonds in 2022 amid the rise in rates but they seem to have gone back in in 2023 given expectations of peaking rates this year. At the same time, CFTC positioning in JPY remains deeply net short. **Therefore, a huge reversal in the JPY can be in play if the BOJ actually clearly embarks on an aggressive tightening cycle amid the possibility of portfolio re-allocation by Japanese investors. Going long JPY in this scenario can see some quite pronounced gains as the USDJPY could hit the 110.00 level (our 2024 forecast is at 136.00).** However, we would like to note that at this point, we are assigning about 30% probability that this could happen. The economic situation for Japan as a whole remains fragile as domestic consumption is anything but strong whilst external demand has been more of a support for the economy and corporate performance. The weak JPY in some sense has been actually the boost for this current fragile economy and therefore, the BOJ may not be so keen to move beyond neutral. Aside that, if inflation does run too hot in the US, there is a risk the Fed may embark on another tightening cycle, which in turn could limit JPY gains.

Fig. 4.3: Japanese Positioning in Foreign Bonds Looks to Be Driven Mainly by Fed Rate Cycle



Source: Macrobond, Bloomberg, Maybank FX Research & Strategy

Fig. 4.4: Net Short Positions for the JPY are Very Deep



Source: Bloomberg, Maybank FX Research & Strategy

USD: Phasing in synchronized cuts - duration and magnitude

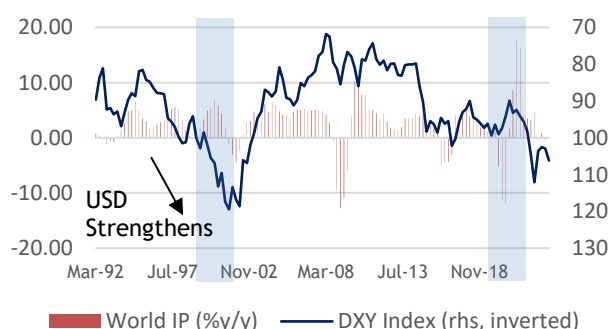
Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD Index	103.92	103.57	102.43	101.59	100.63

Motivation: The USD DXY was generally on a downtrend in 1H 2023 following the highs of 114 seen in the latter part of 2022, as the Fed slows its pace of tightening and eventually paused in Jun this year. But, USD bulls picked up as the Fed started hiking in Jul followed by the hawkish pause and strong US data. So we may still see some choppy moves in the USD ahead but the dollar strength and support will not be as strong as what we have seen in 2H 2023 as markets start pricing in eventual cuts in 2024. As geopolitical conflicts (war in Ukraine & tensions in Middle East) are unlikely to fade completely, the dollar may continue to count on safe haven demand even as there is potential for narrowing growth differentials (vs. the EU). Fundamentally, we are negatively biased towards the USD in the medium term given the country's structural twin deficits and the national debt is also expected to rise further over the next few years with a fiscal cliff potential in 2025.

USD easing further after 2Q 2024. The higher-for-longer narrative dissipates as US data continues to paint a picture of soft-landing and market shift to bets on more rate cuts and potential for policy convergence. There is always possibility that the higher-for-longer narrative could return but even if the Fed chooses not to cut and leave rates on hold at their peak, longer than what markets anticipated, this does not necessarily mean that the USD will strengthen, as illustrated in the period post Fed tightening cycle that peaked in May 2006 where Fed Funds Target Rate was held unchanged at 6.50% (upper bound) for 14 months. USD can still weaken as long as global growth starts to recover. Second, there is potential for US fiscal deficit to worsen into 2024 as its finances are increasingly stretched to support multiple conflicts and as such, increasing concerns on its fiscal health, not helped the least by high interest rate burden, could offset USD safe haven allure in a case of another geopolitical conflict (e.g over Taiwan). Third, markets are still cognizant that China is still weak and Eurozone PMIs are contractionary but this could shift once there is stronger evidence of recovery and therein lies the room for USD to fall further. We are already seeing some signs of rest of the world stabilization on that front. Near-term, there is room for rebound and consolidation as disinflation route is likely to remain bumpy and there is still lingering evidence of resilience in the US economy. We continue to look for the DXY index to hover within 103.60-105.00 before moving more decisively towards 100 in 2024.

US elections Support. If current US presidential polling results persists, risks to the dollar from the elections will be skewed to the upside as the market processes the possibility of new tariffs ahead of the elections. Expect FX risk premiums to be affected by trade policy/tariffs, US-China relations, fiscal policy and currency policy. Broader US-China conflict is dollar positive.

Global Growth Could be a More Imperative Driver of the USD



Higher-for-longer does not guarantee USD strength

	Feb-85	Feb-95	May-00	Jun-06	Feb-19
From How High? (Upper Bound)	9.00	6.00	6.50	5.25	2.50
For how long? (in months)	1	4	7	14	6
Target Rate (ppt)	-1.25	-0.50	-1.50	0.00	-0.75
10y yield (ppt)	-2.26	-1.97	-1.07	-0.06	-1.08
2y yield (ppt)	-1.94	-2.24	-2.59	-0.28	-1.06
Dxy (+/- %)	-22.8	-0.41	+5.11	-4.20	+2.49

Source: World Bank, Bloomberg, Maybank FX Research & Strategy

EUR: Cautious Optimism on Possible Growth Bottom

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024
EUR/USD	1.0900	1.0950	1.1000	1.1050	1.1100

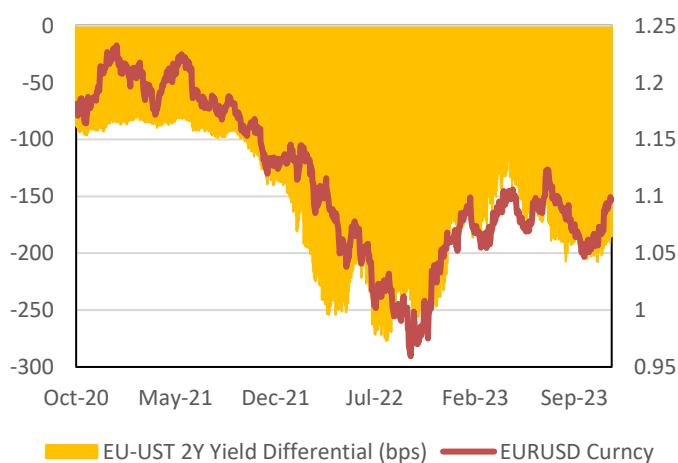
Motivation: We are cautiously optimistic of EUR on the possible bottoming of growth in the Eurozone. Eurozone real GDP growth is expected to have bottomed and grow only very slightly in 2024 (consensus: 0.6%; house view: 0.9%) against a backdrop of a broader improvement in global growth prospects and green shoots of recovery in trade and manufacturing, especially in the chips sector which may benefit Eurozone in terms of improved trade flows as the Netherlands exports advanced chip making equipment. An improvement to growth should provide some tailwinds for the EUR heading into 2024.

On the central bank front, the **ECB is also unlikely to cut rates much earlier than the Fed or the BOE and this should continue to keep the EURUSD supported.** Our house view is for a soft landing in the US and taken with an improvement in Eurozone growth, should provide ample room for EURUSD to edge higher through the year. We expect ECB to cut rates by 50bps in 2H2024. Consensus is for 125bps of cuts in 2024 starting from Apr 24, but we believe this to be too optimistic given that core inflation remains sticky at elevated levels and is expected to come off to 2.6% in 2024, still above the ECB's target of 2%. Economic data prints, with inflation being key, should continue to inform the ECB's future policy decisions.

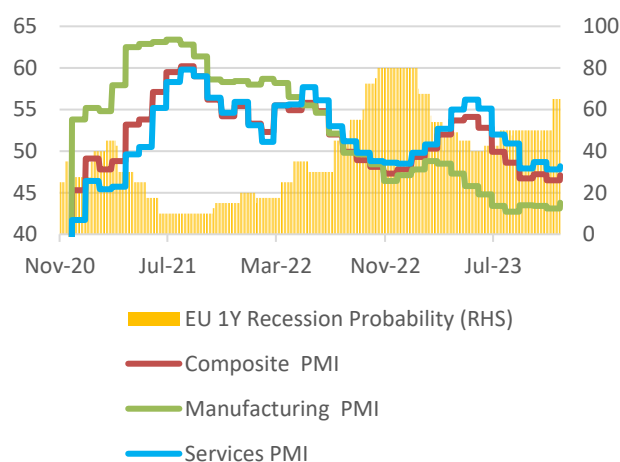
While the growth-inflation dynamic and relative growth and yield differentials should remain an important driver for EURUSD, the **Eurozone trade balance has shifted to a surplus and we look for this to be positive for the EUR.** We believe that a global recovery in trade should be net-beneficial for the Eurozone and the EUR, especially with several export-oriented countries, such as Germany and Netherlands in the bloc. The Netherlands in particular could benefit from improved trade flows on chip sector optimism.

Risks to our View: Geopolitics remains a key issue for the Eurozone with no end to the Ukrainian war in sight. While a further escalation of tensions looks unlikely, a broader war remains a risk. Even if the war does not broaden, a sustained state of war could harm in Eurozone in terms of upside risks to inflation or higher energy prices, which could threaten our view for growth to bottom. Other possible geopolitical issues such as the US becoming even more hawkish on China could also threaten our outlook on global growth, the Eurozone and the EUR.

Yield Differentials Drive EURUSD



1Y Recession Probability Elevated Although PMIs Could Indicate Bottom



Source: Bloomberg, Maybank FX Research & Strategy

GBP: Political Risks to Weigh

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024
GBP/USD	1.2400	1.2400	1.2500	1.2500	1.2500

Motivation: We retain a cautious outlook on GBP and believe that political risks should weigh on the pair. Recall that in 2022, the Truss administration caused a sell-off in GBP with ex-Chancellor Kwarteng delivering a mini-budget that caused a confidence issue in the UK. Chancellor Hunt recently delivered an Autumn budget that featured tax cuts and with unclear funding plans, which could provide some future headwinds for the GBP. It is also puzzling that the Chancellor plans to both reduce debt and implement tax cuts when inflation has come off but is still above the BOE's comfort level. PM Sunak had to later defend the tax cuts and clarified that the UK was not headed for austerity.

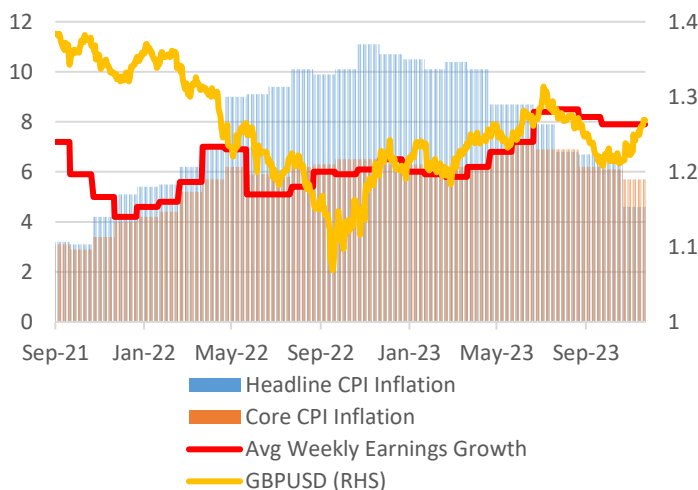
In addition to the fiscal uncertainty, there is a great deal of political uncertainty surrounding the UK. Preliminary polls show that the incumbent Conservatives are likely to lose an election to the Labour opposition led by Starmer. UK elections must be held by 28 Jan 2025, and there could be a great deal of political uncertainty in the lead up to the elections. The incumbent Conservatives are unlikely to give up power without a fight, with Hunt's recent Autumn budget labelled as a pre-election giveaway. On balance, these risks are likely to dampen the outlook for the GBP in 2024.

Our outlook for the BOE remains similar to that of the ECB and Fed. We think the BOE will cut rates by 50bps in 2024. While the market is pricing in about 75bps of cuts in 2024 for the BOE, we believe this to be a tad too optimistic given that inflation remains sticky and elevated above the 2% BOE target. In particular, inflation is also expected to come off to 3.1% (2023: 7.4%).

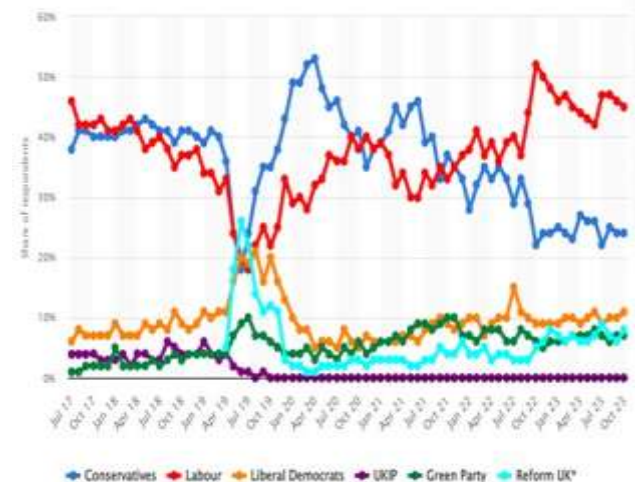
Although we expect political risks to weigh on the GBP, we think that the broader trend for a weaker USD into end 2024 will still prevail. That said, we think this should manifest itself in the GBP appreciating against the USD more gradually than other currencies, which is reflected in our forecasts. Aside from political uncertainties, structural deficiencies that have existed in the UK from Brexit should also continue to be a drag for the GBP.

Risks to our View: The UK continues to face tight labour market conditions where wage growth continues to underpin inflation. A wage-price spiral or stagflation that could ensue could potentially worsen the GBP outlook. Stagflation is the worst possible outcome as a combination of stagnant growth, high unemployment and higher prices. When rates are already at a record high, the BOE find it a challenge to deal with such a situation as they would have to choose between cutting rates to support growth or hiking rates further to combat inflation, and choosing one would exacerbate the situation for the other. On the other hand, should the UK manage to navigate political uncertainty and perhaps come to a meaningful resolution on Brexit-related issues, there could be potential upside risks for the GBP.

Sticky Inflation Underpinned by Wage Growth



Polls Show a Labour Victory



Source: Bloomberg, Statista, Maybank FX Research & Strategy

AUD: Cyclical and Structural Boosts

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024
AUD/USD	0.65	0.66	0.68	0.70	0.70

Motivation: We are cautiously bullish on the AUD in the 1H of 2024. Recent Xi-Biden meeting seem to stabilize US-China bilateral relations and that could provide a more benign backdrop for China-Aussie relations to warm further. In addition, an infrastructure-led recovery in China as well as the pursuit of green transition across the globe would underpin demand for Australia's base metals. RBA officials have reverted to more hawkish tunes since the stronger-than-expected inflation report and as labour market continues to remain tight. Economic resilience could mean that RBA could afford to keep rates on hold for longer and that could probably provide fundamental underpinnings for the AUD.

Rising Base Metals To Boost the AUD. Worldsteel forecast steel demand to pick pace to 1.9% in 2024 from 1.8% (projected) in 2023. While demand from developed economies could slow, China's infrastructure demands as well as strong growth in India could continue to underpin metal demand. Meanwhile, a gradual rise in demand for copper is forecasted for the next few years, driven by global green transitions as well as government stimulus spending and infrastructure projects. On the other hand, a primary supply deficit is projected for copper, not helped the least by the fact that more than half of copper produced came from nations that are categorized as "unstable" or extremely unstable". A situation of deficit could be exacerbated as the global decarbonisation drive is spurred further by growth recovery.

RBA Could Remain Hawkish for Longer Than Others. Towards the end of the year, RBA has become increasingly hawkish, especially since the upside surprise of the inflation report for 3Q. Labour market continues to remain really tight and even new Governor Michelle Bullock warned that wages are growing at a pace that is not consistent with Australian's productivity growth. Inflation forecasts are projected based on another 25bps hike which will take cash target rate from 4.35% to 4.60%. We cannot rule that out and see a higher possibility that RBA could keep policy rates longer than other DM peers (including the Fed) and that divergence could provide an additional carry boost to the AUD for 2024.

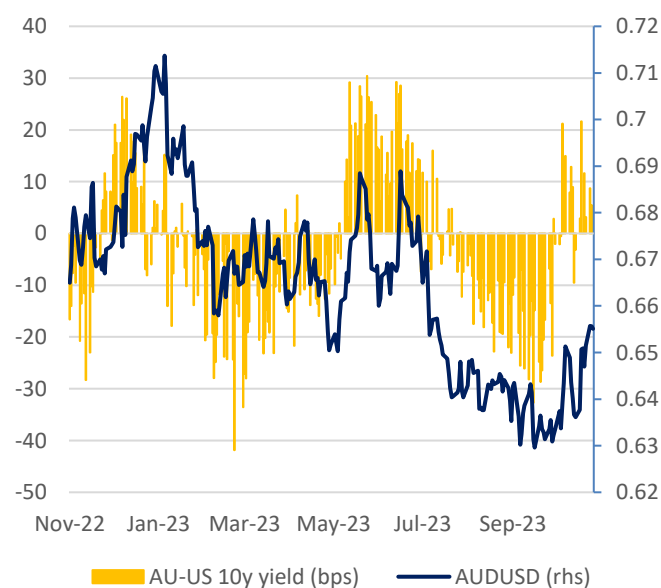
Risks to the AUD Forecast: (1) US inflation and concomitant policy trajectory is key for USD direction and a stickier-than-expected US inflation could hinder AUD. (2) Any unexpected headwinds for major economies (China, US, Eurozone) that cause a sharper than expected global recession is negative for the AUD.

Potential for metal demand to boost AUD



Source: Bloomberg, Maybank FX Research & Strategy

AUD Regains Carry Advantage over the USD



Source: Bloomberg, Maybank FX Research & Strategy

NZD: Higher Carry -For-Longer

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024
NZD/USD	0.6000	0.6100	0.6200	0.6300	0.6300

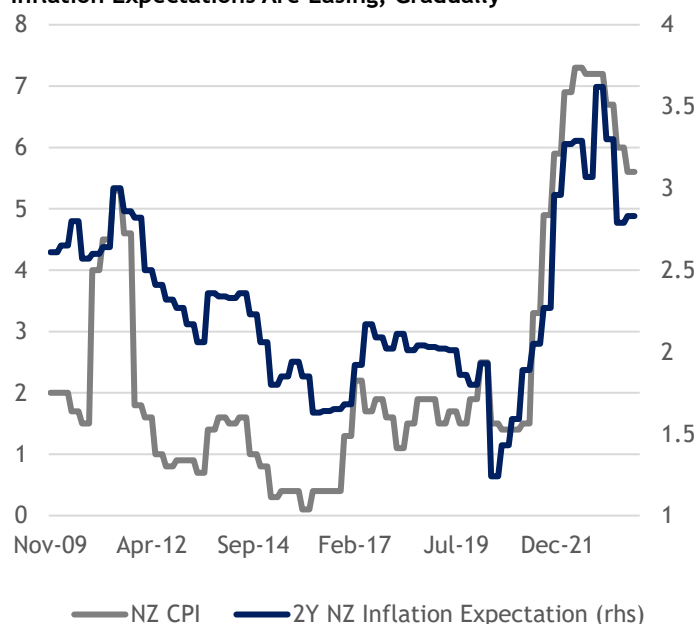
Motivation: We are constructive on the NZD as the currency continues to enjoy improvement in trade balance, demand resilience due to tight labour market and persistent net migration inflows. RBNZ has shifted a tad hawkish recently because of the immigration surge and the central bank was concerned on its potential to spur greater inflationary pressures. RBNZ could be one of the last to embark on a rate easing cycle. That could also mean that the NZDUSD can enjoy a higher carry for longer vs. most of its peers. In addition, the new coalition government had reverted RBNZ to a single mandate of inflation targeting. The former government had introduced a secondary mandate of employment. Such a reversion might also spur the central bank to be more focused on getting inflation back to target.

RBNZ Could Hike Once More, Seen as A Reluctant Dove. While food and fuel prices have eased globally as well as for New Zealand, RBNZ now has to contend with the surge of net immigration flow that supports demand and slows the moderation of non-tradeable inflation. Immigration trends do not fade quickly and New Zealand also faces an issue of tight labour market conditions. As such, RBNZ's concerns on inflation reaccelerating could force it to hold rates at its peak for longer than its peers. With its benchmark interest rate already one of the highest in the DM world, NZD is likely to retain relative strength vs. its peers. The silver lining on the inflation front, is that inflation expectation remains rather anchored and 2Y inflation expectations had been easing. Therein lies the risks for NZD as markets may have most room to position for RBNZ to cut given how hawkish RBNZ has sounded.

Trade Deficit To Narrow. Subdued external conditions could continue to weigh on oil prices and that could improve the trade deficit for New Zealand in the near-term. On the other hand, Fonterra has recently raised its earnings projection for fiscal 2024 amid strengthening demand. China stabilization should boost dairy exports even more. As a result, improvements in terms of trade should continue to support.

Risks to the NZD Forecast: (1) A three-way coalition government (National, ACT, NZ First) could be less stable than previous coalition governments that comprise of one major flanked by a smaller partner. (2) Any unexpected headwinds for major economies (China, US, Eurozone) that cause a sharper than expected global recession is negative for the NZD. (3) Ample room for markets to price in sooner rate cuts.

Inflation Expectations Are Easing, Gradually



Source: RBNZ, Bloomberg, Maybank FX Research & Strategy

RBNZ is Perceived to be a Reluctant Dove

	Current Policy Rate (%)	Implied Policy Rate Change (Cumulative in bps)		
		3 months	6 months	1 year
US	5.5	-0.16	-0.51	-1.21
Canada	5	-0.09	-0.42	-1.11
EU	4	-0.08	-0.52	-1.29
UK	5	0.25	0.07	-0.51
Japan	-0.01	-0.03	0.04	0.16
Australia	4.35	0.01	-0.07	-0.29
New Zealand	5.5	0.02	-0.07	-0.59
S.Korea	3.5	-0.05	-0.12	-0.36

Source: Bloomberg, Maybank FX Research & Strategy

CAD: Risks of Early Easing to Undermine

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD/CAD	1.3600	1.3600	1.3300	1.3300	1.3000

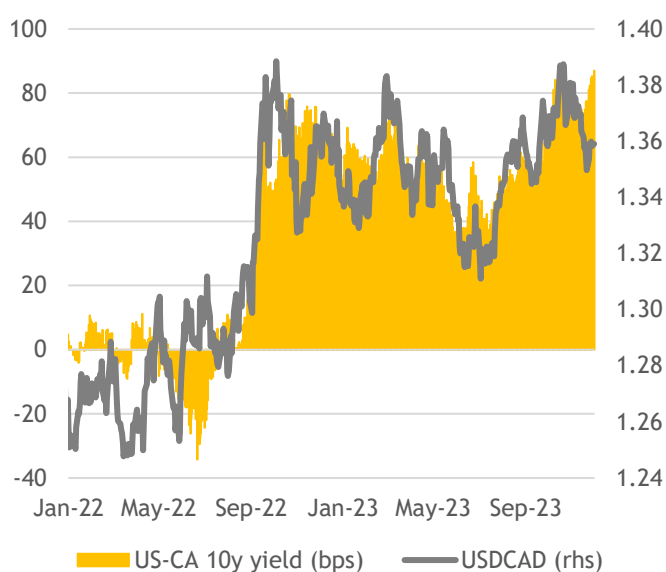
Motivation: Deteriorating business sentiment, weak consumption growth and gradually rising jobless rate are signs that the tightened policy settings have slowed the Canadian economy. As a result, CAD has been a laggard compared to G7 peers in the past three months. CAD may remain weak around 1.36 into 1Q 2024 as markets continue to pile on rate cut bets for BoC to ease early *and* to ease more vs. other major central banks next year. More central banks should get into the easing mode as inflation drifts nearer to respective targets and we anticipate USDCAD to come off more discernibly. Risk-sensitive CAD should thrive as global growth outlook brightens a tad on a more benign inflation environment and as businesses and consumers look forward to cheaper borrowing costs.

BoC To Be An Early Easer and CAD Could Remain on The Backfoot At first. 3Q GDP revealed private consumption to be anaemic, net exports, a detractor of the headline and government spending and investment doing the heavy lifting. CFIB business barometer has fallen to 45.6 in Nov, a low not seen since Apr 2020. Fewer firms described general business situation as good on the survey. A cut is already fully priced as early as Apr 2024. That is only slightly earlier than markets' bet on Fed to cut in May. There is a chance that the softening in Canada's labour market could be a tad more than the US. We see some upside risks to the USDCAD in the first quarter before the broader USD decline bring the pair lower as the world starts to embark on a more synchronized easing cycle alongside the Fed.

Oil to be of Little Help now but watch for its recovery to add boost to CAD. Oil tends to amplify the effects of market sentiment on the CAD. With global and domestic growth looking subdued at this point, oil prices are not expected to see much of revival at the start of 2024. That could also serve to amplify CAD's weakness for now. However, should global growth as well as Canada's growth start to bottom, cyclical gains of crude oil prices are likely to support the CAD.

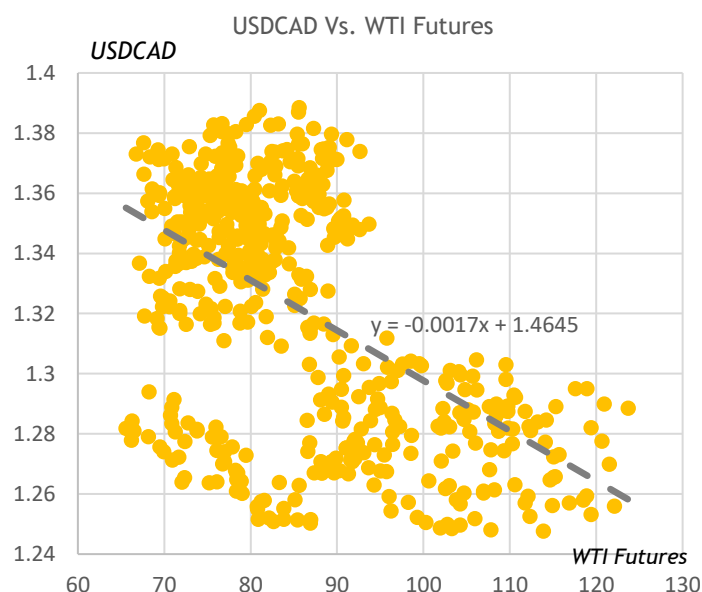
Risks to the CAD Forecast: (1) US inflation and concomitant policy trajectory is key for USD direction and any re-accelerations to boost USD. (2) Any unexpected headwinds for major economies (China, US, Eurozone) that cause a global recession is negative for the CAD. (3) Fiscal impulse could spur inflation higher and force the BoC to keep rates elevated for longer.

Wide US-CA Yield Differential Could Keep USDCAD Supported on Dips



Source: Bloomberg, Maybank FX Research & Strategy

CAD Could Still Get a Boost Should WTI Futures Rebound



Note: Sample consists of daily data between Nov 2021 - Nov 2023
Source: Bloomberg, Maybank FX Research & Strategy

JPY: Modest Strengthening Expected as BOJ and Fed Turn

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD/JPY	150	150	145	140	136

Motivation: Underpinning our trajectory for the USDJPY is our view on the changing monetary cycle between the Fed and the BOJ. Initially, up until the end 1Q 2024, we do not expect any adjustment in policy settings for the two, which would mean that US-Japan rate differentials would remain wide. Consequently, the USDJPY could still be at elevated levels until then. However, our expectations is for the USDJPY to edge lower from 2Q 2024 onwards. This is predicated on the BOJ turning neutral then with an exit from NIRP and YCC following strong results from the Spring Wage negotiations. Speculation of a Fed cut emerging then too together with a materialization of it in 2H 2024 should also push the USDJPY to the downside. However, even so we would like to note that US - Japan rate differentials would remain wide and hence, there would be a limit to the extent of JPY appreciation.

Stage set for BOJ to turn neutral amid tighter labor market. We see that it would be increasingly likely that the BOJ would abolish YCC and exit NIRP in 2Q 2024. The decision for the BOJ to turn neutral we believe would come in the background of a Japanese labor market that is increasingly looking structurally tighter. The unemployment rate is gradually heading lower after the pandemic had disrupted its prior downward trend. The latest Sep reading was at 2.6% which is coming closer to the early 80s or early 90s level of 2.0%. Meanwhile, the jobs-to-applicant ratio was last seen still standing quite above the 1.0 ratio at 1.29 in Oct. However, strong corporate profits could help push up labour demand in the country, guiding the jobs-to-applicant ratio higher. The upcoming Spring Wage negotiations we believe therefore could result in a strong result which would precede the policy revision by the BOJ. This would contrast to a Fed easing and overall, USDJPY can move lower.

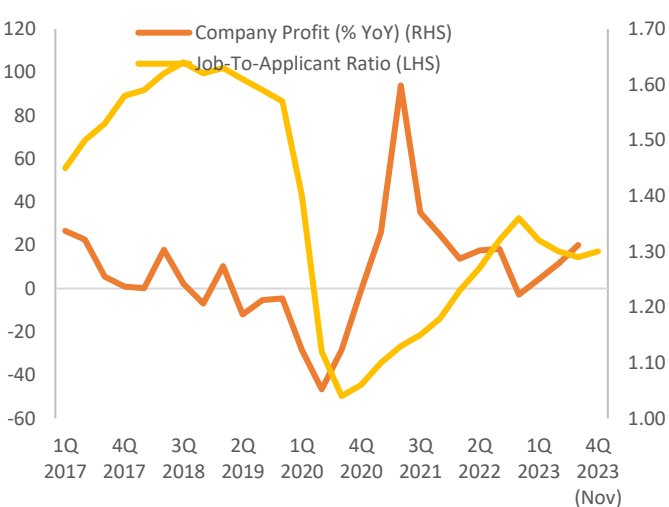
Even so, yield differential could remain wide. Expectations for now are that the US could achieve a soft landing. In such a scenario, our in-house economists see only 75bps of rate cuts by the Fed. As a whole, this is still well above a BOJ neutral rate of 0.00%, which in turn would imply that the carry between the JPY and the USD or for that matter other DM currencies would remain attractive. In summary, we are saying that the standard deviations of policy rates between the BOJ and other central banks looks to still remain high.

Risk to our view: If a hard landing was to occur instead of a soft landing as in our base case, the substantial drop in UST yields in line with more aggressive Fed cuts could guide the JPY to a much stronger level than our forecasts. Another upside risk to the JPY would be any strong pick-up in inflation that would be sufficient to push the BOJ to lift rates beyond the neutral level and lead to greater portfolio reallocation from overseas back to Japan.

Wide UST-JGB Yield Differential Still Keeping USDJPY Elevated



Job-To-Aplicant Ratio Has Stalled But Can Rise in Line With Better Corporate Performance



Source: Bloomberg, Maybank FX Research & Strategy

RMB: Cyclical Bottom, Fragile Recovery, Current Acc Pressures

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD/CNY	7.15	7.15	7.10	7.15	7.15

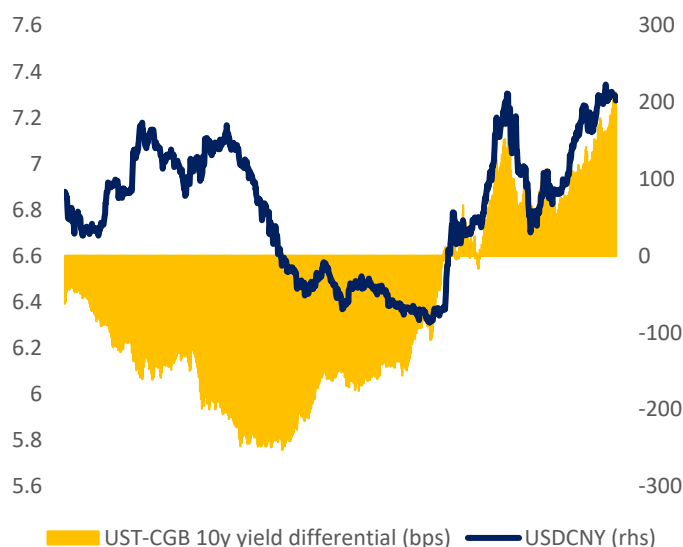
Motivation: The re-opening boost did not translate into recovery for 2023. Rather, harsh and draconian policies of recent years have resulted in a severe scarring of business, consumer and investors' confidence. In addition, China has shifted away from its unsustainable policy of relying on its real estate cycles to drive growth. As such, consolidation and risk curtailing is key for the sector rather than growth. That said, recent data suggests that China has bottomed cyclically and recovery would be driven by infrastructure stimulus as well as investments in high-tech manufacturing in the interest of long-standing technology competition with the US. The transition away from the real estate as a pillar of growth could mean that domestic demand requires recovery in its labour market to support income as well as to support spending. Yuan will strengthen against the USD but the pace of appreciation to lag most of DM and EM peers. We continue to look for its TWI to fall especially in light of likely current account pressures.

US-CH yield differential to Narrow. PBoC has not reached the trough of its easing cycle but the Fed has likely peaked in its rate trajectory. We expect rate differential between the UST and CGBs to narrow further, driven more by the moves of US treasuries. On the other hand, rate cuts will be minimal in China as PBoC is more likely to cut RRR, utilize PSL for targeted credit support rather than reduce policy rates. USDCNY could trend towards 7.10 by mid-2024 as US slowdown becomes more discernible and rate cuts are priced more aggressively in advance while China's growth remains somewhat supported still in the first half of next year.

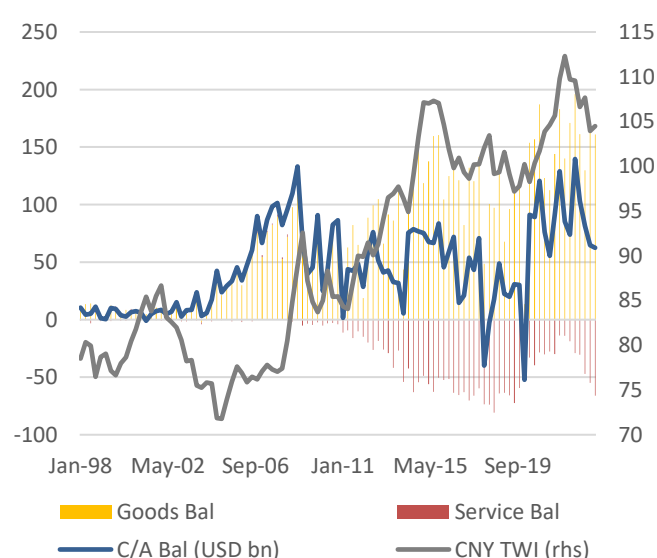
Current Account Pressure. China's consumption recovery had been disappointing without the typical cyclical rebound in the housing market that typically provide that additional positive wealth effect. Still, spending on travelling is still a priority for most Chinese residents compared to other goods/services and that could play out further into 2024. With tourism outflow set to continue, we can expect this to crimp on the pace of yuan appreciation.

Risks to our View: While we expect growth to be stable, sustained by fiscal stimulus and infrastructure initiatives, there could still be some extent of fragility due to its housing sector. Foreign investors may hesitate to re-enter Chinese financial markets. As the US Presidential race heats up, there could be a rise of nationalism in the US as well that could see candidates resorting to China-bashing again. Our 2H 2024 USDCNY forecasts are thus, imbued with risks of US-China tensions heightening then.

Narrower UST-CGB Yield Differential Boost RMB vs. USD



A Narrowing C/A Buffer is Negative for RMB TWI



Source: Macrobond, BIS, SAFE, Bloomberg, Maybank FX Research & Strategy

SGD: Strength to Persist

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD/SGD	1.3500	1.3500	1.3450	1.3400	1.3350

Motivation: USDSGD ends the year at levels close to where it began at 1.34 levels. The SGD has been relatively resilient on both a bilateral USDSGD basis and strong on a trade weighted SGDNEER basis. We look for this theme to continue into 2024 as SGD supportive factors look to persist moving forward. Specific to USDSGD, rate cuts could fuel SGD outperformance. In addition, the bottoming of a chip cycle and AI-related flows could benefit the SGD via trade flows.

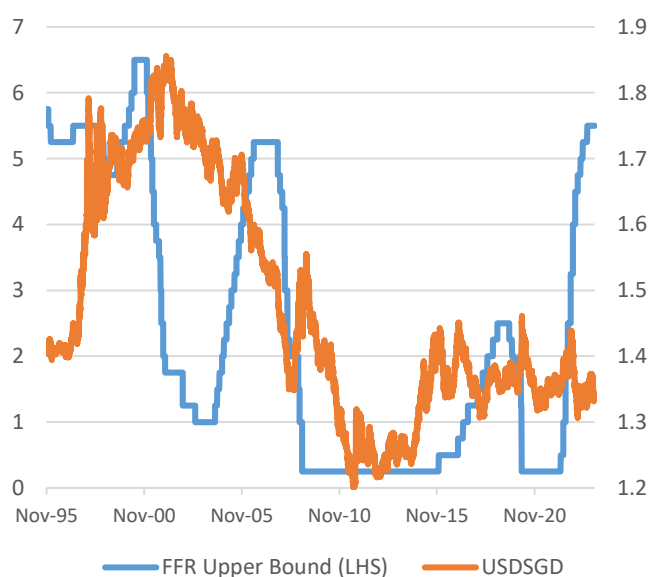
Core inflation could remain sticky and is expected to only decline marginally in 2024. Our economists forecast core inflation at +2.8% in 2024, still above MAS' comfort zone. There will likely be an uptick in inflation in early 2024, given the planned GST and carbon tax increases as well as other hikes in administrative prices (water tariffs and public transport fares). Growth is expected to improve in 2024, with our economists forecasting growth to improve to +2.2% (2023: +1.1%) on a manufacturing recovery and improved external demand. The pick-up in growth and marginal easing of inflation should remain supportive of the SGD.

That said, MAS is likely to stand pat at the Jan meeting. MAS elected not to tighten in Apr or Oct 2023. Growth and inflation have thus far turned out to be fairly in line with MAS' own expectations and there is no discernible reason for MAS to surprise by easing or tightening policy at the upcoming Jan meeting. That said, with MAS recognizing both upside and downside risks to growth and inflation, major surprises in the data could shift the needle for MAS to act. Till then, the current pace of SGDNEER appreciation (assumed to be 1.5%) should remain supportive of the SGD.

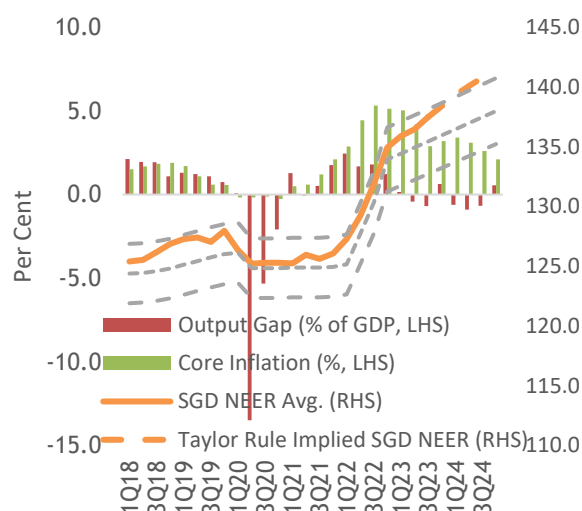
Fed rate cuts should be supportive of SGD strength. Through the various ebbs and flows to the USD this year, the SGD has remained relatively resilient. Notably the SGD has appreciated (depreciated) by more (less) than most other currencies in the SGDNEER basket in times of USD weakness (strength). We expect this to continue into 2024. In an environment where the Fed is expected to cut, this should continue to provide a backdrop where the SGD can continue to strengthen. Indeed, our Taylor Rule estimates do suggest continued SGDNEER strength.

Risk to our view: Developments that could derail MAS' expected path for inflation to come off. This could include oil price shocks or supply chain disruptions that could arise from geopolitical conflicts. In the absence of such developments, our base case expectations for SGD should hold.

Fed Cuts Supportive of SGD Strength (Lower USDSGD)



SGD NEER Could See Upward Pressures in 2024 (Taylor Rule Estimates)



MYR: Slated for Cautious “Take-Off”

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD/MYR	4.70	4.70	4.60	4.50	4.40

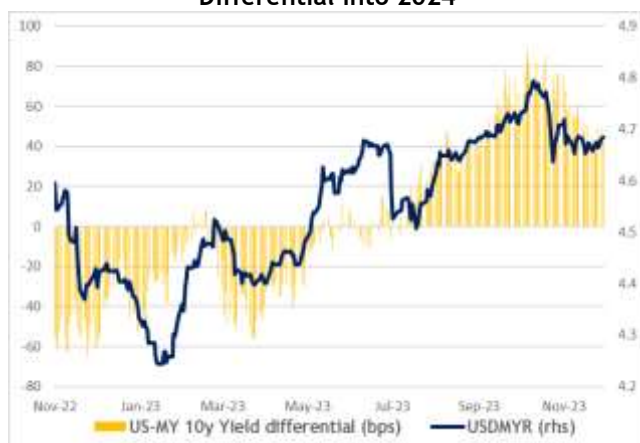
Motivation: We maintain a mildly positive outlook on the MYR relative to the USD from around 1H 2024, with support largely from external factors – eventual softer USD environment on the back of build-up of expectations from Fed cuts amid US soft landing scenario and signs of global growth (excluding US) recovery as we proceed into 2024. We are mindful that oil prices have fallen albeit with limited impact on the MYR. In addition, on the domestic front, our economists are expecting real GDP growth forecast of +4.4% in 2024, underpinned by factors such as consumer spending resilience despite the outlook of higher inflation in view of stable BNM’s monetary policy and job market. These are accompanied by tourism sector recovery, positive investment growth momentum as the surge in approved private sector investment since 2021 is translating into rising actual/realised private investment and progress seen in on-going major infrastructure projects and new ones in 2024, as well as the expected rebound in tech cycle next year after the downturn this year which is already showing signs of bottoming and inflecting.

Last year, we assessed positive developments afoot in Malaysia which panned out in 2023. Political uncertainty factor has dissipated and signs of credible policymaking direction has emerged. With stable political outlook and the “political runway” of four years before the next general election, 2024 should be the year where we see “take off” in the aforementioned medium-to-long-term blueprints, masterplans and roadmaps for economic “transition”. In this regard, we watch out for developments in fiscal reforms, namely the implementation of targeted subsidy rationalisation; economic restructuring and sector/industry-specific policy announcements and measures to complement the “macro” or “big picture” blueprints, masterplans and road maps.

BNM has been able to strike a balance between addressing inflation and supporting growth despite the pressures the MYR faces from the stronger USD and will continue to do so in amid 2024 gyrations - expect OPR to remain at 3.00% in 2024 given our current forecasts of moderate pick up in GDP growth and inflation rate, plus US Fed on “hold-for longer” stance from Dec 2023 until into 2H 2024. Taking all that into consideration, we expect MYR to strengthen in a sustained way from 2Q 2024 onwards. The MYR still looks relatively “cheap” in Real Effective Exchange Rate (REER) terms and trade balances remain benign, which allows for a bigger pick-up once external events turn favourable.

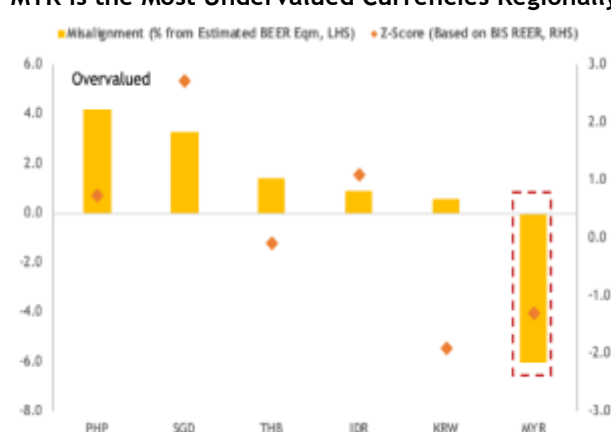
Risks to look out for in 2024. MYR likely to face the downside risks due to external demand and commodity output in 2024. Some of the external risk factors, include exacerbation of weakness in China recovery, a restart of the US Fed hawkish stance, a sharp decline in oil prices and an escalation of various geopolitical tensions as well as risk of escalation of trade sanctions ahead of the run-up to the US Presidential elections in 2H 2024 that may contribute to US Dollar strength and raise concerns about export recovery and heightened volatility.

MYR Should Benefit from a Narrowing US-MY Rate Differential into 2024



Source: Bloomberg, Maybank FX Research & Strategy

Both the Maybank BEER and BIS REER Implies the MYR is the Most Undervalued Currencies Regionally



KRW: Chip Bottoming and AI Flows Could Bolster

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD/KRW	1350	1290	1270	1250	1220

Motivation: We see the recovery of the chip cycle and electronics demand as the main factor for KRW strength in 2024. The global chip cycle has shown signs of a bottoming and coupled with increased exuberance over artificial intelligence (AI) could potentially drive outperformance for the KRW with potential boosts to both the economy and trade.

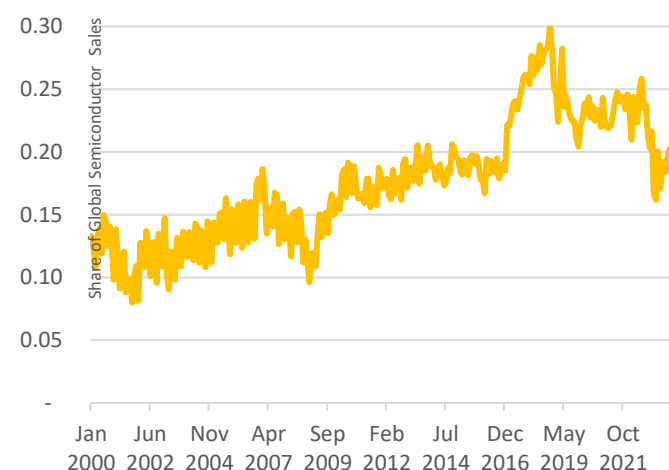
Core inflation is expected to exhibit some stickiness, with a marginal decrease anticipated in 2024. Consensus sees CPI inflation at 2.4% (2023: 3.6%), which remains above the 2% Bank of Korea (BOK) target. Economic growth is poised to improve in 2024, with our economists predicting a growth rate of +2.1% (compared to +1.3% in 2023), driven by better external demand and a turn in the electronics cycle. Growth and inflation dynamic should therefore remain supportive of the KRW.

BOK is likely to maintain its current hawkish hold stance at the Jan meeting. The BOK has raised rates once in Jan 2023 and has been on a hold at 3.50% since. Given that economic growth and inflation have generally aligned with the BOK's expectations, there seems to be no compelling reason for a policy shift at the upcoming meeting in January. Longer term consensus sees cuts from as early as 2H2024. Our own sense is that they could wait to take cue from the Fed or other major central banks and cut their policy rate after accordingly. Overall, the hawkish hold stance should provide the KRW with some tailwinds.

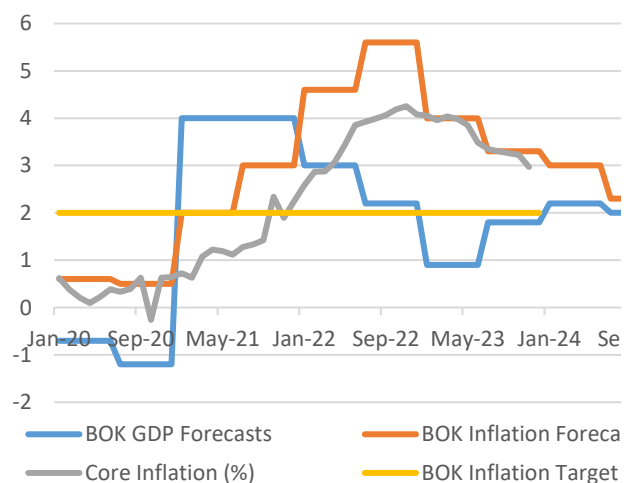
We also look for a recovery of electronics and specifically semiconductor exports. There are indications that the global chip cycle has bottomed. Coupled with increased exuberance over AI, this could provide the KRW a boost and enable it to outperform other currencies against the backdrop of a broadly weaker USD amid Fed rate cuts. Samsung and SK Hynix are two major players in the semiconductor industry and semiconductors are one of Korea's most significant exports. Exports accounted for 42% of GDP with semiconductors making up about 19% of total exports for South Korea in 2022. As such, an improvement in semiconductor exports should enable the KRW to outperform.

Risk to our view: Developments that could derail the outlook for chips and the recovery of electronics exports and semiconductors represent a major risk for the KRW outlook. This would include further heightening of geopolitical tensions or pushing of the de-globalization narrative. Specific risk events could be to the leadup of the US Presidential elections, where one of the lowest hanging fruit would be to be increasingly hawkish on China. On the other hand, South Korea is on the watchlist for inclusion to global bond indices and if they are admitted the inflows could provide the KRW with further tailwinds and accelerate KRW strength.

South Korea Accounts for 20% of Global Semiconductor Sales



Inflation Likely to be Sticky Above BOK's Target



Source: Bloomberg, Maybank FX Research & Strategy

INR: Long Lean Against the Wind

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD/INR	83.50	83.50	83.00	82.50	82.00

Motivation: USD/INR has been one of the most stable, if not the most stable pair in 2023. This has largely been due to the Reserve Bank of India's (RBI) preference to reduce volatility in the INR by "leaning against the wind" or undertake FX intervention. We suggest that the RBI is very likely to continue to lean against the wind for an extended period as INR is likely to appreciate. RBI could therefore easily lean against the wind in such a situation and accumulate more foreign reserves in an environment where expectations are for the Fed to cut and for USD to gradually weaken.

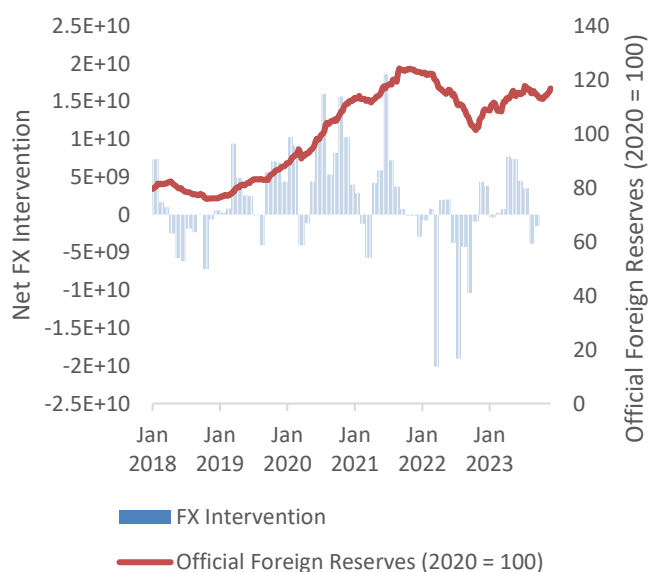
Inflation could remain sticky heading into 2024. Median inflation forecasts for 2024 are at 5.4%, remaining above the medium-term RBI target of 4%. Price pressures are likely to remain somewhat sticky in the near term with food costs (El Nino induced vegetable shortages) likely to introduce volatility into consumer prices. Growth forecasts for the fiscal year (through Mar 2024) were raised by RBI to 7% (prev: 6.5%). Growth and inflation dynamics provide favourable conditions for the INR to strengthen, although we expect RBI to cap this strength by intervening.

RBI is likely to stand pat on their policy rate at 6.50%. This is likely to continue till at least Feb 2024 (the next rate review). RBI could eventually start to cut but also have more room to hold given the thus far favourable growth and inflation outturns. Other central banks are likely to face more pressure to pick a side and choose if they want to combat inflation or support growth. Whereas RBI is not being forced into such a situation to pick a side. RBI being on a sustained hawkish hold could therefore further buoy the INR.

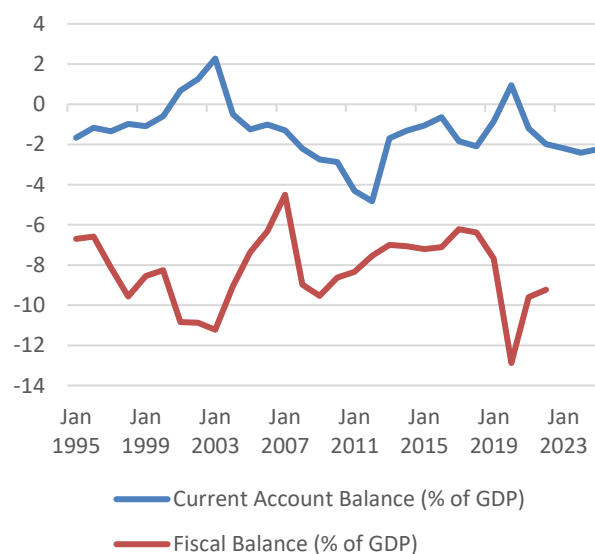
Fed is expected to cut rates in 2H 2024 and this should pressure the USD lower. As mentioned earlier, the INR is in a favourable position and if left to its own devices should appreciate over the course of 2024. The Fed eventually pivoting to a growth supportive stance should put an even greater pressure on the INR to appreciate. We do however expect the RBI to lean against excessive strengthening movements in the INR and this should contribute to moderate the pace of INR appreciation.

Risk to our view: The RBI switching out of its stance to lean against the wind. This could occur as a matter of policy change or if there is too much scrutiny, possibly by the US Treasury on the INR kept artificially weak. While not likely, a combination of higher for longer inflation and poorer growth outcomes could also threaten our outlook for the INR.

India's Reserves have grown amid two-sided FX Interventions



Fiscal and Current Account Deficits as % of GDP Narrowing



Source: Bloomberg, Macrobond, Maybank FX Research & Strategy

IDR: External and Domestic Factors to Limit Appreciation

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD/IDR	15500	15500	15200	14800	14600

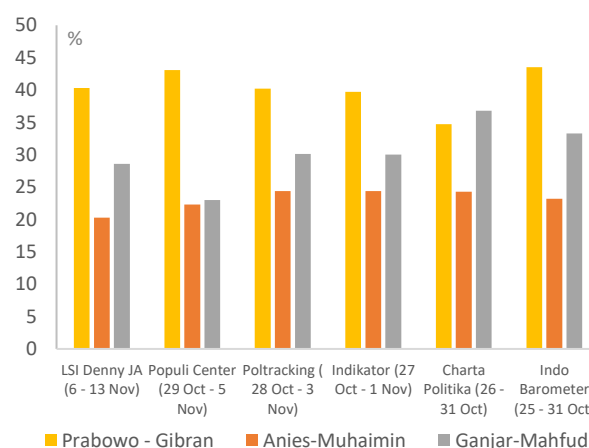
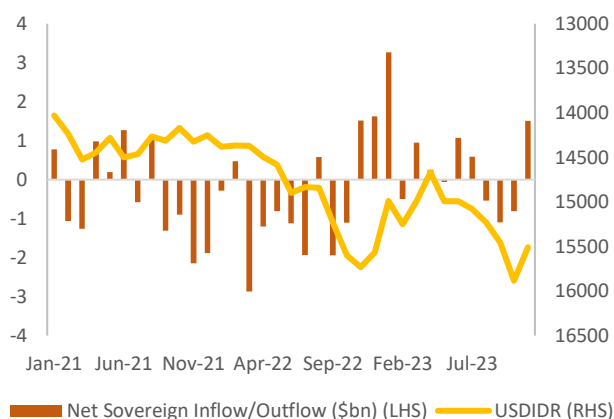
Motivation: We keep a cautious view on the USDIDR going into 2024 even as an easing Fed stance may provide some relief to rate sensitive EM currencies. As it stands, the confluence of both domestic and international developments surrounding Indonesia look to possibly dampen gains that the IDR may reap from a shifting Fed. Among these developments, include the country seeing what would likely be a close presidential elections race between three candidates in 2024. Whilst the election itself would happen in Feb, there is a strong risk that the contest itself could run over an extended period. The political uncertainty itself may even possibly only dissipate in 3Q 2024, which would be a few months after the second round is completed. However, even then, the IDR appreciation may be limited by the US Presidential elections which can weigh on sentiment towards the EM currencies. Therefore, our USDIDR forecast expects the pair to see a more gradual downward appreciation profile. A cut by BI should occur sometime in 2H 2024, which could attract some investor appetite into the IGBs and be some form of support for the IDR.

Indonesia's Presidential elections could see an extended contest with three different candidates. The first is Defense Minister Prabowo who is teaming up with Jokowi's son Gibran. The other candidate is Former Governor of Central Jakarta Ganjar from the ruling PDI-P who would be running with Security Minister Mahfud. The third candidate is former Jakarta Governor Anies whose running mate is Deputy Speaker Muhaimin. The two frontrunners - Prabowo and Ganjar are neck to neck in the latest polls. However, when the poll takes into account who voters would choose as a President - Vice President pair, Prabowo - Gibran are quite well ahead of Ganjar - Mahfud. However, no pairing has a more than 50% support, which may create a risk of a run-off (Indonesia's rules require a candidate to obtain more than 50% of the vote with at least 20% spread over more than half of the provinces). Given this, political uncertainty may not ease until inauguration in Oct or after cabinet appointments.

Any impact from changing fundamentals for the IDR should be contained. The current account is likely to be in deficit in 2024 although it should still be manageable at around at -0.5% of GDP. Weaker commodity prices is likely to weigh on the country's external position. The fiscal deficit could stabilize at -2.29% of GDP from -2.30% of GDP in 2023 (although the government has a record of beating the forecast recently). The two frontrunners look to continue Jokowi's policies so they may choose to exercise fiscal prudence. The strong fiscal conditions should uphold investor sentiment and support some inflows that could offset outflows from the current account deficit.

Risk to our view: A hard landing in the global economy could be supportive of the USD and weigh heavily on EM currencies such as the IDR amid a risk-off sentiment. Aside that, any sharp drop in commodity prices such as for palm oil could lead to a worsening external position for Indonesia.

No Decisive Consistent Inflows into IGBs Amid Concerns About Fed Rates and Political Uncertainty **No Candidate Pair Currently has More than 50% Support**



Source: Bloomberg, Respective Polling Agencies, Maybank FX Research & Strategy

PHP: Limited Upside Amid Weak Fundamentals

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD/PHP	55.00	55.00	54.00	53.50	53.00

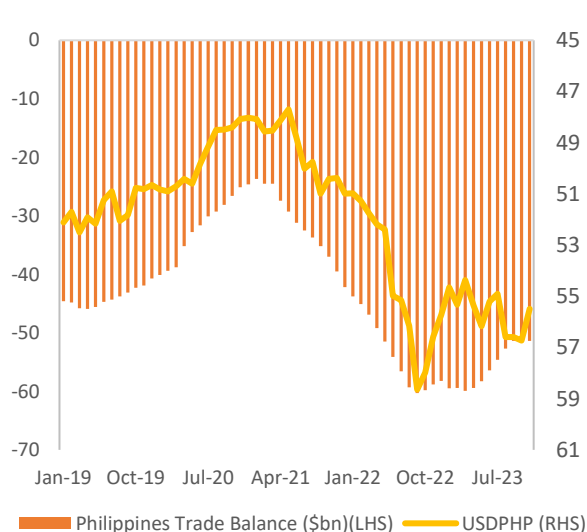
Motivation: We expect the PHP to see appreciation in 2023 although it may be limited. A softening Fed in 2024 together with the BSP likely to engage only in some modest cuts would give the PHP support next year. However, the country's continued weak fundamentals may cap the gains for the currency. The Philippines external position is likely to remain weak with the trade balance looking to still maintain a wide deficit (albeit lower oil prices helping to narrow it to some extent). Meanwhile, the Marcos government is strongly pushing ahead with the "build, better, more" program", which would keep weighing on the country's fiscal position. However, we do note some upside and downside risks to our view. Downside risks for the PHP includes a spike in commodity (oil) or food prices, which can hurt the external position in addition to raising inflation pressures, keeping domestic rates higher for longer and being a negative on the economy. Upside risks for the PHP meanwhile would be any aggressive easing by the Fed amid faster than expected cooling inflation pressures.

BSP to engage in modest cuts as the Fed similarly does. Our in-house economists are expecting the BSP to cut rates by 75bps in 2024, which brings rates down to 5.75% from 6.50%. This happens as the BSP has warned that inflation may still face upside risks in 2024 due to high food prices amid the El Nino weather conditions. At the same time, we see the Fed only easing by 75bps next year too, which makes it challenging for BSP to ease more. High rates therefore are likely to keep supporting the PHP.

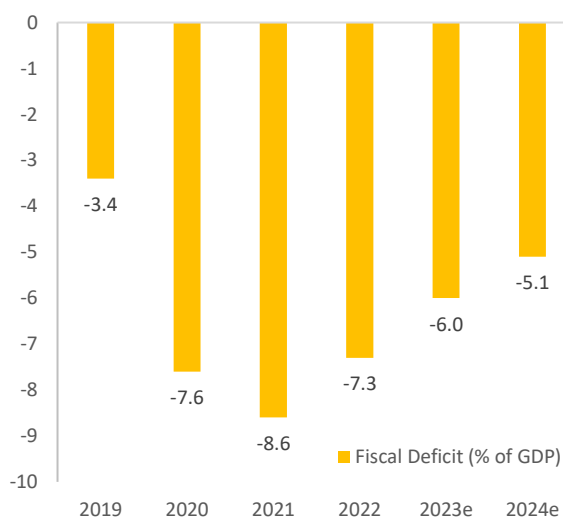
Philippines fundamentals are looking to remain weak. The country is set to see a fiscal deficit as the Marcos government pushes ahead with the "build, better, more" program", which pretty much is a continuation of Duterte's infrastructure spending programs. Such policies together with the country's reliance on foreign supply for commodities and food are looking to keep the pressure on import needs for the country. Hence, the trade balance is likely to remain wide. The PHP would therefore continue to be weighed down by this combined fiscal and trade deficit.

Risks to Our View: A spike in commodity (oil) or food prices can hurt the external position and lead to a wider trade deficit, which in turn can risk putting more pressure on the PHP. Also, the pressure it places on inflation may lead to the BSP unable to cut rates and such high rates can weigh on the economy, which can be another negative for the PHP. Other downside risks for the PHP include EM currencies being hurt by a hard landing for the global economy. On the flipside, there are also upside risks such as inflation cooling rapidly and the Fed more aggressively easing, which would then provide heavy relief for EM currencies.

Wide Trade Deficit Keeps Weighing on the PHP



Fiscal Deficit to Remain Wide



Source: Bloomberg, Macrobond, Maybank FX Research & Strategy

THB: Looking Up Amid Better Conditions

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD/THB	34.75	34.75	34.25	33.75	33.25

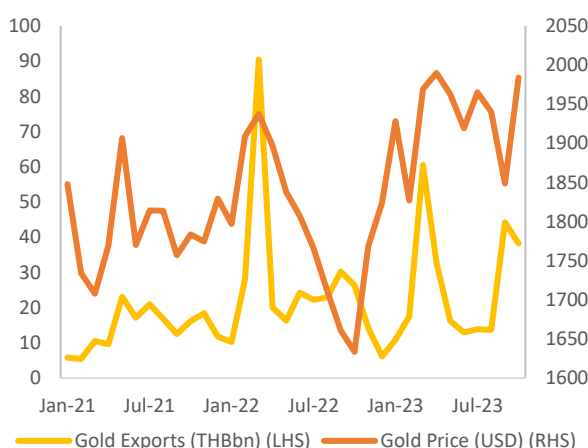
Motivation: We hold a bullish view for the THB going into 2024, expecting the currency to perform well. Our view is predicated on four factors which are 1) Improving external position as exports and tourist flows improve, 2) Gold prices to hold up high 3) Fed to ease and 4) Political stability with the formation of the new government (attract more FDI and equities inflow). 2024 itself should therefore represent a turnaround from the THB's underperformance during the pandemic period and the 2023 election year. However, we are also aware of risks for the THB that include uncertainty regarding the fiscal position. That said, we do believe the Thai government would adjust accordingly if need be although we also note the substantial spending allocation (2.8% of GDP) for the digital wallet policy.

Thailand's external position likely to see improvement. Factors to guide this include better tourism numbers in 2024. Whilst the recent Bangkok shooting has weighed on the country's reputation, government measures to attract tourists should go some way to help offset this issue. Visa waivers for travelers from China, India, Pakistan etc have after all been allowed. The security situation should also improve. Additionally, amid a potentially slower global economy, Thailand as a lower cost destination should appeal more to travelers. Whilst Chinese tourists are an uncertainty, those from other parts of Asia can make up for the numbers. Aside that, gold prices may hold up in 2024 amid geopolitical tensions and Fed easing and hence boost gold exports. Our in-house economists are expecting the 2024 current account balance to be wider at 3.2% of GDP (2023: 2.0% of GDP).

Country should see more political stability. We do note an Aug survey by the National Institute of Development Administration that found that 64% of 1,310 respondents disagreed with the idea of the Pheu Thai special military backed government. However, we still believe that this government would be given a chance at governing. Given that prior Thaksin governments have been known to be business friendly, we expect the current government to also be similarly too and therefore, this could lead to more FDI and equity inflows.

Risks to Our View: We are cognizant that a spending escalation and weak growth can hurt the credit outlook. We are not expecting any downgrade but we stay wary of the risks especially as Fitch said that Thailand must sustain growth to avoid one. We are also aware that the digital wallet policy allocation was larger than the envisaged proposals at 2.8% of GDP. Our in-house economists see the fiscal deficit at -3.9% of GDP (higher than 2023 at -3.5%) but we see the possibility of the Thai government adjusting policy if need be.

Gold Prices Guide Exports Higher for Thailand



Tourism Arrivals in 2023 Recovering Gradually



Source: Bloomberg, Macrobond, Maybank FX Research & Strategy

VND: A Stronger Year Ahead

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD/VND	24100	24100	23800	23700	23700

Motivation: Outlook for the VND has started to brighten as US rates ease and as external demand starts to improve. What the VND had been able to count on (for a few years now) is the various trade agreements forged and concomitant flow of FDIs into Vietnam as foreign investors diversify their supply chain away from China. As a result, the VND benefits not just from an improvement in its balance of payments but also from the strengthening of its export competitiveness in the medium term. Fitch had even upgraded Vietnam's credit rating from BB to BB+. We continue to keep a constructive outlook for the VND and remain cautiously optimistic that domestic challenges such as its property malaise will be contained.

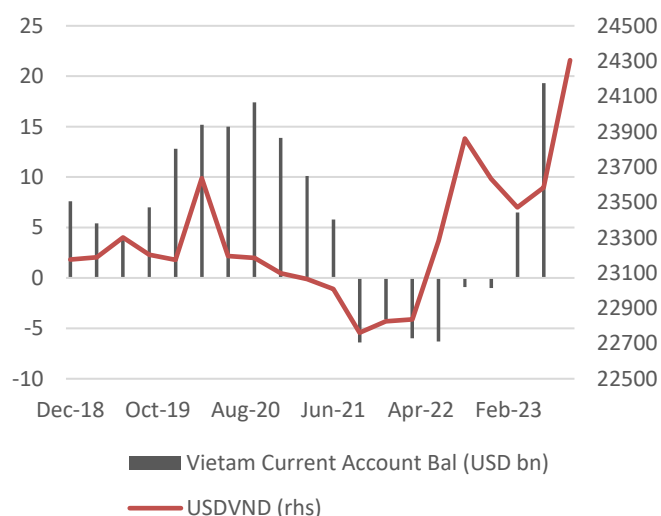
A Growth-Focused Government. Vietnam has toed the line (set by the US) by being one of the first few countries in the region to set the effective corporate tax minimum at 15% starting in January. Our economist has also warned that FDI flows could cool in 2024 due to infrastructure constraints. What is clear thus far into the new year is that the government continues to remain growth-focused via infrastructure investments as well as the extension of numerous relief measures (VAT cuts, fee reduction, etc) to support domestic demand. Meanwhile, the external environment seems to have turned benign along with the electronics recovery. VND could continue to benefit as its goods trade continues to remain in surplus, albeit checked by expected recovery in household spending.

Await Tourist Receipts Too. The return of Chinese tourists had been slow and there could be modest improvement into 2024. That should continue to bolster its current account next year and support the VND.

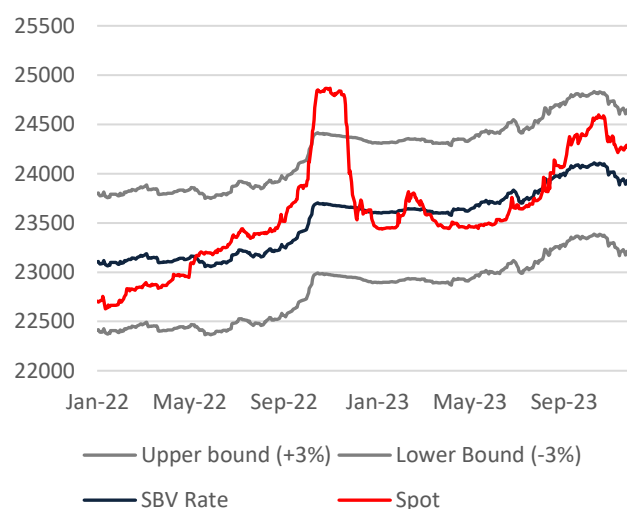
USD and US Rates Environment to Be More Benign. A key driver for the VND would have to be the USD and US rates environment that is likely to become more benign into 2024. As the world continues to head for a soft-landing (or a shallow recession for some countries), the USD and US rates could remain on a downtrend. That could undo some of the VND weakness that was seen in 2023.

Risks to Our View. 1) Any sign of a re-acceleration in US inflation or supply shocks that could spur US rates higher pose downside risks to the lift the USD/VND. 2) Any deterioration of its fragile property sector could probably weigh on consumer sentiment and delay hamper Vietnam's cyclical recovery.

FDI Flows Have Rebounded



Depreciating Pressure on the VND Eases



Source: GSO of Vietnam, Bloomberg, Macrobond Maybank FX Research & Strategy

2024 FX Forecast Table

	End Q4-23	End Q1-24	End Q2-24	End Q3-24	End Q4-24
USD/JPY	150.00	150.00	145.00	140.00	136.00
EUR/USD	1.0900	1.0950	1.1000	1.1050	1.1100
GBP/USD	1.2400	1.2400	1.2500	1.2500	1.2500
AUD/USD	0.6500	0.6600	0.6800	0.7000	0.7000
NZD/USD	0.6000	0.6100	0.6200	0.6300	0.6300
USD/CAD	1.3600	1.3600	1.3300	1.3300	1.3000
USD/SGD	1.3500	1.3500	1.3450	1.3400	1.3350
USD/MYR	4.7000	4.7000	4.6000	4.5000	4.4000
USD/IDR	15500	15500	15200	14800	14600
USD/THB	34.75	34.75	34.25	33.75	33.25
USD/PHP	55.00	55.00	54.00	53.50	53.00
USD/CNY	7.15	7.15	7.10	7.15	7.15
USD/CNH	7.15	7.15	7.10	7.15	7.15
USD/HKD	7.80	7.79	7.78	7.76	7.76
USD/TWD	30.50	30.25	30.00	30.00	29.00
USD/KRW	1350	1290	1270	1250	1220
USD/INR	83.50	83.50	83.00	82.50	82.00
USD/VND	24100	24100	23800	23700	23700
DEX Index	103.92	103.57	102.43	101.59	100.63
	End Q4-23	End Q1-24	End Q2-24	End Q3-24	End Q4-24
SGD/MYR	3.48	3.48	3.42	3.36	3.30
JPY/SGD	0.90	0.90	0.93	0.96	0.98
EUR/SGD	1.47	1.48	1.48	1.48	1.48
GBP/SGD	1.67	1.67	1.68	1.68	1.67
AUD/SGD	0.88	0.89	0.91	0.94	0.93
NZD/SGD	0.81	0.82	0.83	0.84	0.84
CAD/SGD	0.99	0.99	1.01	1.01	1.03
SGD/IDR	11481	11481	11301	11045	10936
SGD/THB	25.74	25.74	25.46	25.19	24.91
SGD/PHP	40.74	40.74	40.15	39.93	39.70
SGD/CNY	5.30	5.30	5.28	5.34	5.36
SGD/HKD	5.78	5.77	5.78	5.79	5.81
SGD/TWD	22.59	22.41	22.30	22.39	21.72
SGD/KRW	1000	956	944	933	914
SGD/INR	61.85	61.85	61.71	61.57	61.42
SGD/VND	17852	17852	17695	17687	17753
	End Q4-23	End Q1-24	End Q2-24	End Q3-24	End Q4-24
JPY/MYR	3.13	3.13	3.17	3.21	3.24
EUR/MYR	5.12	5.15	5.06	4.97	4.88
GBP/MYR	5.83	5.83	5.75	5.63	5.50
AUD/MYR	3.06	3.10	3.13	3.15	3.08
NZD/MYR	2.82	2.87	2.85	2.84	2.77
CAD/MYR	3.46	3.46	3.46	3.38	3.38
MYR/IDR	3298	3298	3304	3289	3318
MYR/THB	7.39	7.39	7.45	7.50	7.56
MYR/PHP	11.70	11.70	11.74	11.89	12.05
MYR/CNY	1.52	1.52	1.54	1.59	1.63
MYR/HKD	1.66	1.66	1.69	1.72	1.76
MYR/TWD	6.49	6.44	6.52	6.67	6.59
MYR/KRW	287	274	276	278	277
MYR/INR	17.77	17.77	18.04	18.33	18.64
MYR/VND	5128	5128	5174	5267	5386

Source: Maybank FX Research as of 7 Dec 2023. *These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.

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Published by:



Malayan Banking Berhad
(Incorporated In Malaysia)

Foreign Exchange**Singapore**

Saktiandi Supaat
Head, FX Research
saktiandi@maybank.com
(+65) 6320 1379

Fiona Lim

Senior FX Strategist
Fionalim@maybank.com
(+65) 6320 1374

Alan Lau

FX Strategist
alanlau@maybank.com
(+65) 6320 1378

Shaun Lim

FX Strategist
shaunlim@maybank.com
(+65) 6320 1371

Indonesia

Juniman

Chief Economist, Indonesia
juniman@maybank.co.id
(+62) 21 2922 8888 ext 29682

Myrdal Gunarto

Industry Analyst
MGunarto@maybank.co.id
(+62) 21 2922 8888 ext 29695

Fixed Income**Malaysia**

Winson Phoon
Head, Fixed Income
winsonphoon@maybank.com
(+65) 6340 1079

Se Tho Mun Yi

Fixed Income Analyst
munyi.st@maybank-ib.com
(+60) 3 2074 7606

Sales**Singapore**

Janice Loh Ai Lin
Head of Sales (MSL), Singapore
jloh@maybank.com
(+65) 6536 1336

Sheetal Dev Kaur

Head of Corporate Sales, Singapore
skaur@maybank.com
(+65) 6320 1335

Huilin Tan

Head of Institutional Sales, Singapore
TanhuiLin@maybank.com
(+65) 6320

Sales**Malaysia**

Zarina Zainal Abidin
Head, Sales-Malaysia, Global Markets
zarina.za@maybank.com
(+60) 03- 2786 9188

Indonesia

Endang Yulianti Rahayu
Head of Sales, Indonesia
EYRahayu@maybank.co.id
(+62) 21 29936318 or
(+62) 2922 8888 ext 29611

Shanghai

Joyce Ha

Treasury Sales Manager
Joyce.ha@maybank.com
(+86) 21 28932588

Hong Kong

Joanne Lam Sum Sum

Head of Corporate Sales Hong Kong
Joanne.lam@maybank.com
(852) 3518 8790

Philippines

Angela R. Ofrecio

Head, Global Markets Sales
Arofrecio@maybank.com
(+632 7739 1739)