1 Mar, 2023

Maybank

FX Monthly

2023, Issue 2: “A Fine-Tuning Fed Rate Hike” Environment

What Has Changed This Month?

- We kept our FX forecasts unchanged but we acknowledge the risk that persistent inflation in the US could delay the resumption of the USD downtrend.

Our Strategies

- Strong US Jan data (inflation, labour) and hawkish Fed speaks drove the USD higher for much of Feb. Markets have clearly swung from calling the Fed’s bluff on terminal rate at 5.1% back in Jan to front-running an upward revision for the peak rate in the upcoming Summary of Economic Projections at the Mar FOMC meeting. That has significantly narrowed the room for further USD gains and skew the risks toward a “sell the USD -on-fact” should this materialize. In addition, we are wary of jumping on the USD bull wagon based on Jan’s data. Mar would see the release of Feb US data which may offer a better gauge of trend. Already, some of the leading indicators for Feb suggest softness in activity but further moderation in price pressure is required for the USD to weaken materially. We look for JPY, THB and KRW to strengthen the most should US rates fall.

- Focus for the first week of Mar is on China’s annual Two Sessions. After a dearth of activity data for Feb, markets rallied with relief on stronger Feb PMIs – evidence that recovery has remained on track for China, bolstering hope that global growth could be resilient for 2023. Key on the agenda is the leadership changes with President Xi also planning “an intense overhaul of government agencies”. After two years of regulatory crackdown and zero-Covid, the President may be eager to fire up all engines of growth to get the economy to turn around. Fiscal and monetary stimulus cannot be ruled out and that should boost yuan and other Asia pacific currencies. We remain particularly bullish on the AUD.

- Our overall bias for Asian FX is bullish as the effects of China’s reopening play out. In particular, we prefer to long the SGD against the USD as we look for MAS’s Apr monetary policy decision to come into focus in the second half of Mar. Our economist looks for the mid-point of the SGDNEER to be recentered up to its prevailing level. The SGDNEER now trades around +1.36% above the mid-point base on our inhouse model.

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Top 3 Currency Plays for Mar

Long JPY, KRW and THB
Short USDSGD
Long AUDUSD

Key Events for the Month Ahead

Date	Event
5 Mar	China’s National People Congress

Central Bank Meetings for the Month Ahead

Date	Event
8 Mar	BoC Policy Decision
9 Mar	BNM Policy Decision
10 Mar	BoJ Policy Decision
16 Mar	BI Policy Decision
16 Mar	ECB Policy Decision
21-22 Mar	FOMC Policy Decision
23 Mar	BoE Policy Decision
23 Mar	BSP Policy Decision
29 Mar	BoT Policy Decision

Same Old Same Old in Feb 2023 as it was for Much of 2022

- February has seen a rebound in the USD amid a strong set of Jan economic data (e.g. jobs/inflation) that has resulted in more hawkish Fed speaks. Market expectations (which had been too optimistic in January) are now pricing for rates to peak around 5.40%, which implies at least three more hikes of 25bps this year.

- In the environment again of higher rates and stronger USD in February, we have noticed that the same group of US rate sensitive currencies are again leading the pack in terms of weakness just like they had done so for much of 2022. However, we do note that the weakness in all of them is not necessarily only driven by higher US rates and that other coincidental negative factors could be contributing.

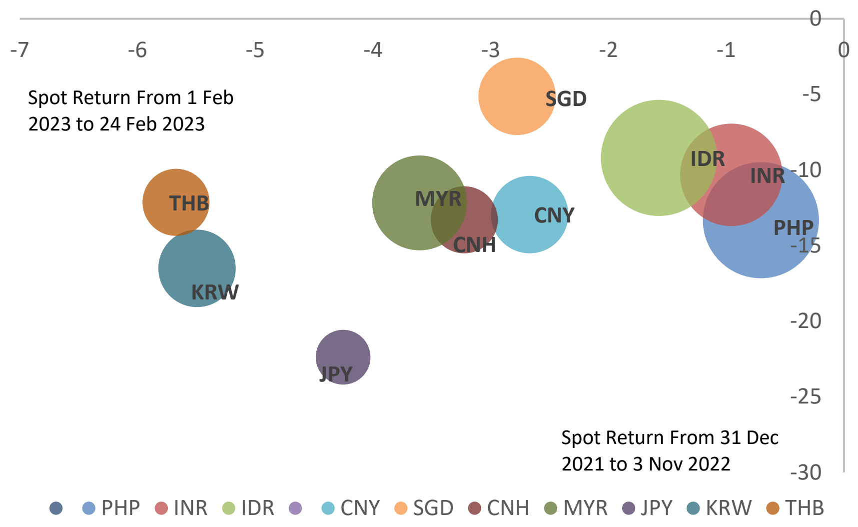
- Not surprisingly we see the JPY, KRW and THB leading the pack given their higher sensitivity to rates and being much less attractive on a carry basis. The JPY in particular remains so given that the new BOJ nominee in many respects has recently reiterated that he would continue with the BOJ current easy stance for now. BOT has also significantly lagged other countries in hiking rates.

- We also note that certain currencies with strong China links such as the KRW, THB and even the MYR may have experienced retracement recently as the initial optimism from the country's reopening and focus moved on to the actuality of the recovery pace.

- On the other end of the spectrum, we have the IDR and PHP not seeing as much of a decline compared to other peers. The traditionally high yielding currencies likely drew investor interest due to them being more attractive on a carry basis. The lower ownership of Indo bonds too at around 15% compared to levels of about 40% pre-pandemic could be playing some part in reducing volatility for the IDR. As for the PHP, the aggressive hiking by the BSP is probably holding up its carry attractiveness.

- Those who did lead the pack in chart 1 were also some of best performers in the last few months given their sensitivity to US rates. As a result, a turn again in sentiment could result in a surge for these currencies. Despite recent developments of strong US economic data, our view of US inflation easing this year albeit on a bumpy downward trend stays intact. We are therefore careful not to overextrapolate recent Fed hawkishness and our house view is still for rates to peak at 5.00% - 5.25 although we do not rule out that it could just be slightly above that. Hence, we suggest engaging long on the JPY, KRW and THB. The latter two may also receive some support from China's recovery given their reliable link to that country. The release of further data from China in the near-term would give a clearer idea of the country's recovery pace.

Chart 1: Spot Returns and Carry Attractiveness

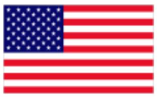


Source: Bloomberg, Maybank FX Research

Note: Size of bubble reflects the level of carry attractiveness over a 12m period with a bigger bubble reflecting more attractiveness whilst a smaller bubble less so.

Carry return is calculated with the formula (1+Long FX Rate)*(1+FX Spot Return) – Short FX Rate. The bubbles do not reflect the actual carry return but instead represent the relative attractiveness of the carry return of one currency versus the other. For example, the JPY has the smallest bubble given it has the lowest carry return whilst KRW has a bubble that is larger given its carry return is higher than the JPY. Essentially, the bubbles themselves therefore reflect a ranking of the carry return of all the FX. As a note, a substantial number of Asian FX currently have a negative carry return.

G7 Global Overview



USD: Fine-Tuning Rate Hikes and Timing the Peak Drag

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
USD Index	101.76 (--)	**100.72** (--)	**99.59** (--)	**98.47** (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** The DXY index reached a high of 105.36 on 27 Feb from a low of 100.82 in early Feb. The USD DXY index has actually fallen from its peak of around 114.78 on 28 Sep last year on the back of expectations that the Fed is slowing its pace and also amid better activity news abroad (supported by China re-opening thematic), lower commodity prices and softer inflation news in the US particularly since the end of last year. The USD has since strengthened again since the Feb FOMC meeting which says that "ongoing" rate hikes will be appropriate and came out a bit hawkish relative to expectation. The Committee also made it clear that it sees further fine tuning hikes and it seems consistent with our in-house forecast of two more 25bp hikes in 1H 2023. So this rebound in the USD was a product of a combination of hawkish Fed, stronger-than-expected US data (albeit likely skewed by warmer - than-usual Jan effect) - elevated NFP, US CPI, PCE core deflator numbers, retail sales for Jan and as well as growing jitters over US-China relations.

- In the last monthly we had highlighted the risk of potentially further tightening needed as stronger global activity growth will eventually push prices higher again. For the moment until we see changes to current market trends and no reversal indicators from trade and inflation numbers in the near term, we are maintaining our current USD trajectory largely with some start easing mostly in 2H 2023. We expect US core inflation to see a decline in 2H 2023.

- As of 1 Mar, Fed fund futures suggest a 23% probability of a 50bps move by the Fed in Mar vs. 77% probability of a 25bps move. OIS pricing now implies markets now look for terminal rate to peak at around 5.40% by Jul. Markets have clearly swung from calling the Fed bluff on terminal rate at 5.1% to front-running an upward revision in the upcoming dot plot for Mar FOMC.

- Our view remains that the Fed pace could remain intact and are careful not to over-extrapolate the peak hawkishness theme in 1H 2023. So in the near term (weeks or a month), we could see some flattishness or very mild retracement in the dollar (which panned out) but we continue to expect the greenback to still see support for the next 1-2 quarters at most before we see an eventual peak in the Dollar.

- We are also pricing in some risk of debt ceiling impasse volatility emerging in the run-up to June 2023. The debt ceiling will likely need to be raised or suspended after a $2.5 tn debt limit increase enacted in Dec 2021 is exhausted and extraordinary measures are no longer sufficient to avoid default. The government officially reached the statutory limit on Jan 19, according to a letter from Treasury Secretary Janet Yellen, although extraordinary measures will allow Treasury to continue to pay obligations until at least early June. As such, there could be further risk of USD softness after June.

- **Growth and Inflation Outlook:** US GDP increased at an annual rate of 2.7% in 4Q 2022, after increasing 3.2% in 3Q. The increase in primarily reflected increases in inventory investment and consumer spending that were partly offset by a decrease in housing investment.

- January core CPI rose 0.41%, slightly above consensus but fell one tenth to 5.6% on a year on year basis. The beginning of the year price increases were larger than normal in several categories including prescription drugs and private transportation services, but used car prices and airfares surprised to the downside. Finally the shelter categories fell. We continue to expect a 25bp rate hike at each of the next two FOMC meetings with inherent risks tilted towards additional hikes.

- Nonfarm payrolls rose 517k in Jan, exceeding consensus expectations for the past 10 months, and largely contributed by fewer end-of-year layoffs which is likely to remain intact in 1Q 2023. The household survey was firm on net, with the unemployment rate falling to 3.4%. The household survey showed a a 717k jump in employment, higher labor force participation, and a decline in the unemployment rate to 3.5%.

- **Monetary Policy Forecast:** The FOMC raised the funds rate target range by 25bps to 4.5%-4.75%, in line with consensus expectations. The Feb statement was largely unchanged from the Dec statement, with the Committee highlighting that"ongoing increases in the target range will be appropriate." One change in the statement is that it now says that the "extent" instead of the "pace" of future increases will be dependent on "the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments", possibly with some likelihood indicating 25bp increments going forward. The statement indicates that inflation has softened slightly, but again noting that it "remains elevated." However, the view of the rest of the economy was mostly unchanged, with the statement again noting that job gains have been robust" and that "recent indicators point to modest growth in spending and production".

- Our house view is for a peak at around 5-5.25% in spring (Mar and/or May FOMC). The step down to a 25bp rate hike in Feb, could see further 25bp hikes in Mar and May.

- **Key domestic events and issues to watch in Mar:** ISM Manuf (1 Mar); NFP (10 Mar); Factory Orders, Durable Goods Orders (6 & 24 Mar); ADP (8 Mar); Trade Balance (8 Mar); CPI (14 Mar); Retail Sales (15 Mar); FOMC (23 Mar); GDP (30 Mar); PCE Deflator (31 Mar).

- **Technical Outlook:** The index is seen around 104.71. Momentum indicators are bullish but waning. Next resistance remains at 106. We hold on to our view that this rally should not extend much higher beyond this resistance level. Support is seen around 103.35 (50-dma). We see consolidative move within 103-106 this month.

EUR: A Recovery in Store?

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
EURUSD	1.1000 (--)	1.1100 (--)	1.1200 (--)	1.1300 (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** EURUSD plunged on widening US-EU yield differentials as stronger US data drove UST yields back higher. 10y yield differential widened to -135bps (as of 28 Feb) from -113bps seen at the start of Feb. Uncertainties surrounding Fed's rate trajectory amplified demand for the safe haven USD, not helped the least by geopolitical tensions that arise between the US and China. Meanwhile in the EU economic bloc, stickier-than-expected core inflation for Jan is a concern at this point, justifying the upcoming 50bps move in Mar by ECB. Economic activity remains a tad uneven with services sector showing a tad more resilience vs. the manufacturing that remains in contraction. Nonetheless, there remains a possibility that growth could be more resilient than previously anticipated, given potential tailwinds from China recovery (that is yet to be seen at this point and thus priced), stronger EU-UK trading relations after the Windsor Framework deal as well as easing of energy supply kinks from 2022 that could continue to support the EUR.

- **ECB has pre-**committed to a 50bps hike for Mar at the Feb meeting that would take the deposit facility rate from current 2.50% to 3.00%. Chief Economist Philip Lane has said recently that "the case for this (the 50bps hike) is still solid". In addition, there's significant evidence that the effects of monetary policy tightening has started to ease inflation pressures for "energy, food and goods". Overnight index swaps pricing suggest that a 50bps move in Mar is almost entirely priced in and policy rate is expected to peak around 4.00% by 4Q 2023 (as of 28 Feb). Base on the OIS pricing, a downshift to 25bps in subsequent policy meetings beyond Mar are already priced in.

- A warmer winter, slower drawdown in gas inventory have made all the difference for the economy, limiting the EUR decline against the USD. Germany plans to reach 70.7mn tonnes per year of LNG import capacity by 2030 which would lift the country to the world's fourth largest LNG import capacity. This comes after Russia completely halted gas supply to Germany after the Nordstream pipeline was sabotaged. Germany then rushed to install floating storage and regasification units in order to import gas. Stronger energy resilience could mean that the European stronghold would be less vulnerable to energy supply shocks and that bodes well for the EUR.

- We still look for EURUSD to head higher over the next 12 months, expecting EU's economic growth as well as that of the rest of the world to slow but not tank, potentially bolstered on the margin by a gradual recovery in China. An eventual pause in rate hike by ECB in 2H 2023, if alongside other major central banks, could even be positive for EUR sentiment as long as the decision is motivated by disinflation and growth does not deteriorate significantly. This could be possible if energy supply remains aand labour market displays resilience.

- **Risk(s) to our View:** The war in Ukraine is still ongoing and an end is nowhere in sight. Any further escalations of this war, although unlikely, present a key risk to our view for a stronger EUR. We expect peace to continue to be hard to achieve as Ukraine has retained its hard stance against Russia. We also expect most sanctions to remain, and this could imply the Eurozone's trade balance remains in deficit.

- **Growth and Inflation Outlook:**

- Growth prospect is lifted by the fall in natural gas prices that could potentially lower inflation and lift GDP. In addition, Europe also stands to benefit from China's reopening and recovery, albeit a brisker pace of demand recovery could have implications on commodity prices.

- Meanwhile, Europe continues to see rather stable unemployment rate at around 6.6%. Tight labour market conditions seem to be supportive of household spending and the services sector. Jan core CPI was a tad firmer than expected at 5.3%y/y vs. previous 5.2%, a divergence from the softening headline at 8.6%y/y vs. 9.2%, underscoring persistent underlying price pressure, fueled by demand conditions and tight labour market. There has been some concerns of wage-price spiral, particularly as the "catch-up to high inflation" is a main theme for wage negotiations.

- **Monetary Policy Forecast:** ECB delivered its well-anticipated 50bps hike to take the deposit facility rate to 2.5%, marginal lending facility to 3.25% and main refinancing rate to 3.00%. Although Chief Lagarde was explicit in the central bank's intention to hike another 50bps in Mar, she also said that the "intend" was not "irrevocable", acknowledging that risks to growth outlook have become more balanced, and as a result, retained optionality and flexibility for the Mar decision. Taken together, Lagarde strived to maintain a hawkish tone by giving an explicit guidance for another 50bps hike in Mar. Regardless, the reference to growth risks suggest that this central bank is closer to the peak of its tightening cycle with the overnight index swaps indicating another 50bps hike already priced for Mar.

- For the rest of the year, OIS suggests a further 100bps hike after the Mar policy decision. Expectations are for the central bank to hike by a gradual pace of 25bps, a downshift for the current 50bps. Any signal to persist with the current pace could actually provide further intermittent boost to the EUR. A pause would not necessarily be negative for the EUR as long as growth does not deteriorate significantly and inflation is en-route towards target.

- **Latest Fiscal and External Balance Outlook:** The Euro current account posted a surplus of EUR 13.6b in November versus a EUR -4.5b deficit in October. The surplus was largely attributable to Germany, which itself posted a surplus of EUR 16.8b. This brought the YTD measure of the Eurozone current account deficit to EUR -75.6b.

- **Key domestic events and issues to watch in Feb:** Feb Mfg PMIs, Feb EC Feb CPI estimate (1 Feb), EC Feb Services PMI, Jan PPI (3 Mar), Jan retail sales (6 Mar), 4Q GDP (8 Mar), Jan IP (15 Mar), ECB policy decision (16 Feb), Final Feb CPI (17 Mar), Jan trade (20 Mar), Mar ZEW surve expectations (21 Mar), Jan current account (22 Jan), Mar consumer confidence (23 Mar), Mar manufacturing PMI, services PMI (24 Mar), ECB Economic Bulletin (30 Mar), Consumer confidence for Mar (30 Mar).

- **Technical Outlook:** EURUSD hovered around 1.0620, unable to break below support at 1.046 levels. The 21-dma is has crossed the 50-dma, a bearish signal. Momentum indicators are also bearish, albeit oversold. Declines to slow with potential consolidation within 1.0460-1.0760 range.

GBP: Northern Ireland Protocol should provide near-term relief, medium-term pain still expected

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
GBPUSD	1.2400 (--)	**1.2100** (--)	**1.2200** (--)	**1.2400** (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** The Sunak administration has continued to deliver, with the latest development the securing of concessions for the Northern Ireland (NI) protocol with the EU under the Windsor Framework, effectively solving one of the key post-Brexit issues. We think this should provide some short-term tailwinds for the GBP, however we remain cautious that opposition towards the NI deal from the Democratic Unionist Party could create more volatility for the GBP. Moreover, the BOE has also arguably been among the more dovish G7 central banks and while the UK's recent economic data releases have shown some signs of positivity, medium-term prospects still look grim, given the existence of price pressures, labour market shortages and an ailing economy. Should inflation continue to remain sticky, the policy space for the BOE to hike rates will be narrower in the face of a recession and this underpins our bearish GBP outlook in 2Q and 3Q2023. Of late, the GBPUSD has also been pressured lower by broad USD strength, given the latest belief in the Fed's trajectory. **As such, we maintain our forecasts for the GBPUSD, and we think the bearish**

trajectory for the medium-term remains intact although we could see some short-term gains coming from the positive developments on the Northern Ireland protocol.

- **Risk(s) to our View:** The UK is in a tough position in no small part due to Brexit and the resulting protracted negotiations that have yet to be resolved. **A positive resolution to any of these unresolved issues is likely to provide some support for the GBP.** These issues are of paramount economic importance to the UK, but are ultimately politically daunting for the Sunak administration to deal with. With the NI deal now agreed with the EU, all that remains is for the deal to pass muster in UK parliament. Several UK lawmakers who opposed the previous agreement have said they now require time to digest the new details before passing judgement. The most likely opposition comes from the Democratic Unionist Party, who have taken issue to the protocol still including a role for the European Court of Justice. Should the NI agreement eventually fall through, the GBP could come under scrutiny and be subject to increased volatility once again.

- **Growth and Inflation Outlook:** The UK's 4Q2022 GDP was in line with expectations at +0.0% QoQ (exp: 0%) and +0.4% YoY (exp: +0.4; prev: +1.9%). The growth prospects for the UK economy are anticipated to be negative, indicating a contraction rather than an expansion. This suggests that the economy may struggle to recover from current challenges such as the impact of COVID-19, supply chain disruptions, and slowing global demand. Economists still expect a UK recession, with a survey of 51 economists in January seeing a 90% chance of a recession happening in the UK over the next 12 months, painting a bleak picture for the UK's growth prospects in 2023. The BOE's forecasts for growth are also dismal, expecting real GDP to contract by -1.50% YoY in 2023 and -1.00% YoY in 2024.

- On the inflation front, Jan Core CPI eased more than expected at +5.8% YoY (exp: +6.2%; prev: +6.3%), while Jan headline CPI also eased slightly at +10.1% YoY (exp: +10.3%; prev: +10.5%). However, price pressures remain sticky, with inflation remaining at levels that are still high. Bloomberg's consensus forecasts for the UK's CPI stands at +6.7% YoY in 2023. Meanwhile, the BOE's forecasts for inflation stand at +10.75% YoY for headline and +5.25% YoY for core in 2023. These levels remain above the BOE's preferred target of +2. Inflation has been kept sticky also in part due to a labour shortage in the UK, despite the UK weathering soaring energy prices better than expected.

- **Monetary Policy Forecast:** In line with expectations, the BOE delivered a 50bps rate hike (vote split: 7 hike, 2 maintain) in the last meeting on 2 February, bringing the policy rate to 4.00%. Our view is for one more 25bps hike at the March meeting as inflation remain elevated (Jan CPI at 10.1% YoY, and core at 5.8 YoY), labour market remains tight (wage growth at 5.9% YoY) and PMI numbers improved for Feb. That said, price trends have softened of late and BoE's credit conditions survey revealed that credit demand has fallen in 4Q and could continue to soften into 1Q. As the effects of monetary policy tightening start to become more apparent in the economy, BOE is equally likely to either hike by 25bps or maintain at the May meeting. This is largely in line with market consensus and pricing at the moment. Beyond the Mar meeting, the future path of the BOE is not as clear as that of the Fed/ECB as inflation remains a tad more persistent in the UK. This had been reflected in both the BOE vote split and the BOE minutes.

- **Latest Fiscal and External Balance Outlook:** PM Rishi Sunak has signaled his intentions to reduce the UK's national debt and cut inflation as priorities for 2023. He also added that he wishes he could implement tax cuts, but understands that it is practically impossible with the current level and persistency of inflation. Chancellor Jeremy Hunt is already under pressure from UK conservative MPs to show a path to lower taxes, which many believe is the easiest way to stave off a recession. However, inflation is not the only thing preventing tax cuts. If taxes are cut and government spending is to remain the same, then the government must finance the spending. The most expedient way to do this would be to increase government debt. However, this goes directly against the PM's intentions to reduce the UK's national debt. It remains to be seen how Chancellor Hunt plans to deal with this problem, with independent fiscal watchdog the Office for Budget Responsibility noting that there would be less headroom for the March budget, given weak productivity and labour market issues that have damaged the UK's economic prospects. The UK's budget deficit in 2022 stood at £125 billion, roughly 5.4% of GDP. Meanwhile, the current account deficit stands at -4.24% of GDP or about £100 billion. **We closely watch Chancellor Hunt's presentation of the Spring Budget 2023 on 15 March for further clues on how the UK fiscal position is likely to evolve moving forward.**

- **Key domestic events and issues to watch in Mar:** Jan Mortgage Approvals, Feb S&P Manufacturing PMI (1 Mar), Feb S&P Services/Composite PMI (3 Mar), S&P Construction PMI (6 Mar), Jan IP/Manufacturing Production, Jan Trade Balance (10 Mar), Jobless Claims, Unemployment (14 Mar), Chancellor presents Spring Budget to Parliament (15 Mar), Feb CPI/RPI (22 Mar), BOE Rate Decision (23 Mar), Feb Retail Sales, Mar prelim S&P PMIs (24 Mar), Feb Mortgage Approvals (29 Mar), 4Q 2022 GDP (31 Mar).

- **Technical Outlook:** GBPUSD last traded at around 1.2040 levels, having been pressured lower by broad USD strength over the past month and stochastics are flagging oversold conditions, although RSI remains in neutral territory. We see the likelihood tilted in favour of near-term rebound arising from positive developments on the NI issue and watch resistances at 1.2130 followed by 1.22 figure. Supports are at 1.20 followed by 1.19 figure. There is also a smaller chance that GBPUSD consolidates to trade within the 1.19 to 1.22 range bounded by the monthly support/resistances. Should the NI issue receive vehement opposition domestically, we closely watch breakouts to the downside for the cable.

AUD: Looking for China Recovery Boost

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
AUDUSD	0.70 (--)	0.72 (--)	0.74 (--)	0.75 (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** Our warning about a AUD bearish retracement played out well for Feb. Notwithstanding the potential for a bit more bearish extension towards 0.66-figure to go, we prefer to keep our AUDUSD forecast unchanged for now and continue to remain bullish on the currency. **Focus is now shifted from China's re-opening to its actual recovery and the latter has been slow**. Iron ore has been on the rise but that is no longer giving AUD support as broad jitters on US inflation/Fed's rate trajectory weighed on risk-sensitive AUD. We had seen this retracement coming on the back of less predictable disinflation trajectory as we move pass the peak of inflation in most parts of the world, not least the US. That generated a healthy retracement. With markets already frontrunning a rise in the median dot plot projection of the peak terminal rate base on OIS pricing, we see smaller room for USD to strengthen further. A rebound of the AUD in Mar is made even more probable as focus is on China's two sessions and there could be more growth friendly measures that could improve risk sentiment and boost global growth prospect as well as that of Australia's terms of trade.

- **Downside Risks to the AUDUSD outlook:** We assume a gradual recovery in China but should demand recovery fail to meet expectations, concomitant knock-on impact on Australia's growth as well as fears of a more severe slowdown in global growth could potentially reverse AUD gains and bring back demand for safe haven USD demand.

- **Growth and Inflation Outlook:** Jan's labour report was surprisingly weak with a net fall of -11.5k employment (-43.3K fall in full-time, +31.8K for part-time hire) seen in the month, a jump in unemployment rate to 3.7% from 3.5%. Participation rate also fell to 66.5% from previous 66.6%. The labour market report is only a nascent indication of a slowdown in hiring momentum and as the adage goes, one point hardly makes a trend.

- In addition, leading indicators have been mixed. While consumer confidence fell -6.9% in Feb to 78.5 from previous 84.3, NAB business confidence improved to 6 from previous -1 while business conditions also lept to a score of 18 for Jan vs. previous +13. Australia's purchasing managers were also more optimistic in Feb with Mfg PMI a tad higher at 50.1 vs. previous 50.0. Services PMI also rose to 49.2 from previous 48.6. That said, these are preliminary figures for Feb.

- RBA turned hawkish right after the surprisingly hot 4Q CPI release. As such, inflation would continue to be monitored for policy cue in the near-term. Most recently, Jan's Melbourne Institute inflation report showed an acceleration to 6.4%y/y vs. previous 5.9%, underpinned by rising private motoring and rents. Month-on-month, price pressure accelerated to 0.9% vs. previous +0.2%. On the other hand, core inflation expectation eased to 5.1%y/y for Feb from previous 5.2%. RBA raised its forecast for trimmed mean inflation to 6¼% for the year ending Jun 2023 vs. previously seen 5½% but this measure is still expected to ease to 4¼% by end of the year and to hit the top band of the 2-3% by end 2024.

- Bloomberg's recession probability seen in the next one year has risen to above 30% vs. 25% seen in Dec, as persistent inflation pressure could force RBA to hike the cash target rate more. That would likely bring about more demand destruction in the economy.

- Trade surplus remained robust at A$12.2bn vs. previous A$13.5bn with China still Australia's top trading partner. Breaking down by key commodities, coal and iron ore still bring in the most receipts at A$11.5bn and A$11.0bn respectively. The next key commodity is natural gas at A$8.6bn for Dec 2022. Even as natural gas prices in Europe have eased due to a warmer winter and smaller drawdown of inventory, we can expect that the China's exit from zero-covid and concomitant recovery could boost still resource export receipts for Australia. In addition, Australian-Sino ties seem to have warmed of late and could continue to strengthen, barring a significant escalation in US-China tensions. We remain cautiously optimistic on Australia's current account's underpinning for AUD.

- **Monetary Policy Forecast:** RBA is likely to raise cash target rate by another 25bps to 3.60% at the meeting on 7 Mar as 4Q inflation had come in well above the 2-3% target. Recall that headline inflation had picked up pace to 7.8%y/y from previous 7.%. Trimmed mean was up 6.9%y/y vs. previous 6.1%. Quarter-on-quarter however, there was some moderation in underlying inflation to 1.7% from previous 1.9%. What was most worrying was the services component of the CPI which recorded the highest annual increase since 2008 at 5.8%.

- Higher frequency inflation gauges suggest that there are some signs of easing with the Melbourne-Institute trimmed-mean consumer inflation expectations slowing to 5.1%y/y from previous 5.6%. In addition, the recent wage price growth for 4Q undershot consensus with a print of 3.3%y/y vs. expected 3.5%. This probably brought some relief to RBA officials worried about wage-price spiral. However, the slight acceleration from the3.2% growth for 3Q2022 may mean that RBA cannot be complacent.

- Regardless of price trends and pace, most underlying measures of inflation are still well above the central bank's target and another 25bps hike in Mar is thus the path of least resistance. The estimates of Capex for year 2023-2024 has leapt 11.1% vs. estimates for 2022-2023 over the same period last year. This suggests that businesses are still having a rather optimistic view of the economy. Cash rate futures now imply an accumulative 100bps hike by Oct this year which would bring the cash target rate to around 4.35%.

- **Latest External Balance Outlook:** As of last available data, current account surplus was recorded at 1.00% of GDP for 3Q 2022, narrowing from the previous 2.03%. Demand recovery in China could increase its imports of Australia's resources and tourism and widen its current account surplus.

- **Fiscal Outlook:** The labour government has produced its first budget on 25 Oct 2022, projecting deficit to narrow to A$36.9bn in 2022-2023 (1.5% of GDP) from A$134.2bn (6.5% of GDP) in 2020-2021. Deficit was expected to widen to A$44.0bn in 2023-2024 (1.8% of GDP) and A$51.3bn in 2024-25 (2.0% of GDP). Deficit projections for over the four years to 2025-26 is also expected to be A$42.9bn less than Mar budget. Much of the improvement for the budget is due to the strong commodity prices and labour market. Australia also benefits from rapid return of overseas migration but is faced with higher borrowing rates. More recently, Treasurer Chalmers pledged to deliver a "responsible" budget over an interview with Bloomberg. He emphasized on "spending restraint" in order to avoid fanning inflationary pressure further.

- **The above are based on GDP growth projection of 3.**25% for 2022-2023 (vs. 3.5% projected previously), 1.5% for 2023-2024. The labour market is forecast to soften with unemployment rate seen at 4.5% in 2Q 2024.

- **Key domestic events and issues to watch:** 4Q GDP, Jan CPI due (1 Mar), Jan building approvals (2 Mar); Judo Bank Feb Services PMI, Jan home loans (3 Mar), M-I Feb inflation (6 Mar), Jan trade, RBA policy decision (7 Mar), CBA household spending for Feb, Mar Westpac consumer confidence for Mar , NAB business confidence/conditions for Feb (14 Mar), consumer inflation expectation for Mar (16 Mar), Minutes of the Mar policy meeting (21 Mar), Feb Westpac leading index (22 Mar), prelim. Services, Mfg PMI for Mar (24 Mar), Feb retail sales (28 Mar), Feb CPI (29 Mar), Feb private sector credit (31 Mar).

- **Technical Analysis:** This pair is near completion of the head and shoulders pattern and we prefer to turn long AUDUSD on dips. Support around 0.6740 could remain intact, if not at 0.6600. We see an interim bottom around here and we look for potential upmove from this area of support. On the weekly chart, moving averages are converging. There could be some consolidation within the 0.66-0.71 range.

NZD: Relative Resilience

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
NZDUSD	0.6500 (--)	0.6500 (--)	0.6700 (--)	0.6800 (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** We hold our forecast levels and trajectory unchanged from what we had envisioned in our FX Annual Outlook for 2023. Our FX monthly had flagged a bearish retracement for Feb and this had played out, even more than our expectations. NZD slipped from its year high of 0.6538 to levels around 0.6140 as we write at the end of Feb. The pullback was due to a myriad of factors including Fed's hawkish comments, elevated US CPI, PCE core deflator numbers, retail sales for Jan as well as concerns on Cyclone Gabrielle's damage at home.

- **Focus at home remains on the cost of living.** RBNZ is determined to raise official cash rate further with peak rate still projected to be 5.5%. RBNZ Chief Economist Paul Conway stressed on the "far too high" inflation and "incredibly tight" labour market that could keep the central bank on the tightening trajectory. Earlier on 22 Feb, RBNZ raised official cash rate by 50bps to 4.75%, in line with consensus. The central bank's highlighted that "weather events do not materially alter policy outlook". Noting that core inflation remains too high, labour market is still tight and near-term inflation expectations remain elevated, the central bank stuck to its resolve in getting inflation down. There was a warning that "near-term rebuilding and restocking" could lift economic activity and price pressure. That said, the central bank acknowledged that policy stance is contractionary. Recession could begin in 2Q and cash rate is seen to peak at 5.5%, unchanged from previous. The central bank even mentioned that a 75bps hike was considered. Such a hawkish stance could continue to strengthen the NZD against fellow antipodean AUD.

- **We maintain our bullish view on NZD as cyclone Gabrielle likely triggered a fiscal response that could potentially delay the onset of the recession, albeit still highly uncertain. Risks to inflation and policy rates are tilted to the upside with Governor Orr warning that the cyclone might even see rates lifted higher for longer.**

- **Downside Risks to NZD Outlook:** (1) Slower-than-expected recovery in China to reverse NZD gains. (2) Faster than expected deterioration in growth (vs contraction starting in 2Q for three quarters) to weigh on NZD.

- **Growth and Inflation Outlook:** Softer 2y inflation expectation seen in 1Q at 3.30%y/y vs/ previous 3.62% have partially contributed to the NZD's weakness in February. Not helping in the least was its trade deficit for Jan which widened to almost NZD2.0bn from previous -NZD636mn.

- Recall that the latest CPI print for 4Q at 7.2% was steady from the quarter prior, short of RBNZ's forecast of 7.5%. Breakdowns suggest that price pressure have likely peaked with tradeable and non-tradeable components decelerating to 1.4% QoQ and 1.5% QoQ from +2.2% and +2.0% respectively. Sectoral wise, food, clothing and footwear, housing and utilities, transportation saw smaller sequential price pressure, partially offset by slightly firmer healthcare (+1.6% QoQ vs. prev. +1.3%) and recreation and culture (+3.4% vs. prev. +1.9%). The somewhat broadbased slowdown in sequential price increases reflect softening demand conditions at home and abroad. **This is set to change due to the Cyclone Gabrielle as rebuilding efforts and potential supply disruptions could lead to near-term inflationary pressure.**

- REINZ home sales continue to record steep declines at -27.0% YoY for Jan, albeit a smaller fall vs. previous -39%. Such persistence in the decline of home prices could continue to hurt consumer confidence and slow consumption growth further in 2023.

- BusinessNZ Mfg PMI rose to 50.8 for Jan vs. 47.8 in the month prior. This was the first expansionary print since Sep 2022, buoyed by strong production at 52.1, employment at 51.0. New orders on the other hand was in contraction at 48.8 in Jan, albeit still improving from 47.8 for the month prior. Some deterioration in terms of trade have been built in for New Zealand as external demand weakens but that could be offset by China's recovery, although the extent of demand recovery in China is still highly uncertain at this point.

- Meanwhile, the performance of Services index rose to 54.5 for Jan from previous 52.0. Breakdown suggests rising activity/sales at 52.1 vs. previous 51.9. Employment is up 51.9 vs. previous 46.9. Growth for new orders on the other hand is expected to soften at 54.5 vs. previous 57.7.

- **Monetary Policy Forecast:** RBNZ raised official cash rate by 50bps to 4.75%, in line with consensus. Language of the presser and the statement tilts hawkish in our view as the central bank emphasized on core inflation being too high, labour market is still tight and near-term inflation expectations remain elevated. There was a warning that "near-term rebuilding and restocking" could lift economic activity and price pressure. Inflation is seen at 7.3% for 1Q 2023. Risks are that the severe storms at home will keep inflation above the 7% for a longer period of time. While the central bank wishes to look through near-term inflation shocks, concerns are more on whether higher near-term inflation could lead to elevated inflation expectations.

- That said, the central bank acknowledged that policy stance is already contractionary. Recession could begin in 2Q and cash rate is seen to peak at 5.5% and to fall only from 3Q 2024.

- Taken together, upside risks to inflation from rebuilding efforts could still skew the risk to peak rates to the upside but we still see a possibility for RBNZ to move with more caution, by a slower pace of 25bps from Apr onwards as current policy settings are already contractionary. At this point, markets are still split between a 25bps move and a 50bps move for the Apr meeting. We reckon RBNZ may opt for a smaller hike and potentially two more 25bps hike before hitting the pause in Aug 2023.

- **External Balance and Fiscal Outlook:** NZ current account could remain in deficit given a consistent deficit in its goods trade. International trade deficit consistently hovers around USD9.0 to USD9.5bn.

- At the Half-Year Economic and Fiscal update for 2022 in Dec, the Treasury Department looked for three quarters of negative GDP growth from 2Q of 2023 with the economy expected to contract 0.8% for full calendar year 2023. Budget deficit for 2022-2023 was projected to be NZ3.6bn and to return to surplus of NZ1.7bn in 2024-2025. Net debt seen to peak at 21.4% of GDP in 2023-2024 vs. 17.2% as of Jun 2022. Cyclone Gabrielle is likely to trigger a fiscal response that is expansionary and RBNZ has even As indicated in the front sections, the new PM is said to possibly shelve some of the current projects but savings could be diverted to support middle income and low income households as cost of livings remain a most pertinent issue for the Labour Party.

- **Key domestic events and issues to watch:** CoreLogic House Prices for Feb, Jan building permits (1 Mar); 4Q Terms of trade (2 Mar); ANZ Feb consumer confidence (3 Mar); ANZ commodity price for Feb (6 Mar), card spending for feb (9 Mar), Mfg PMI for Feb (10 Mar), REINZ house sales (10-14 Mar), performance services for feb, Fed food prices (13 Mar), Current account for 4Q (15 Mar), 4Q GDP (16 Mar), 1Q Westpac consumer confidence (1Q), trade feb (21 Mar), Feb building permits, ANZ activity outlook for Mar (30 Mar).

- **Technical Outlook:** NZDUSD spots an inverted head and shoulders, a bullish reversal pattern. Last seen at 0.6234. This pair may rebound back towards the 0.6530.Support at 0.6090. Momentum indicators on the daily chart are bearish but oversold.

CAD: Potential for a Soft Landing Buoys

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
USDCAD	1.3100 (--)	1.3000 (--)	1.2900 (--)	1.2800 (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** USDCAD ends the month higher, in line with broader USD gains. To some extent, CAD displayed resilience, bolstered by the stronger than expected labour report for Jan as well as steady crude oil prices. In addition, inflation has continued to ease, allowing BoC to likely stand pat in its next policy decision in Mar. We continue to look for USDCAD to fall beyond this interim bullish retracement towards the 1.28-figure over the next 12 months amid growth convergence between the US and Canada. We acknowledge some upside risks to our 1Q 2023 forecast at 1.31.

- **BoC is due to make its next policy decision on 8 Mar and we look for the central bank to stand pat and keep its overnight rate unchanged at 4.50% as almost all measures of inflation have continued to trend down.** Whilst still a distance from the 2% target, the five-man panel decision makers had a broad consensus on signalling a pause to balance the risk between over- and under- tightening according to the summary of deliberations for the last policy meet. As long as inflation continues to trend lower, Canada could be in for the gentlest landing given current growth momentum and labour market conditions. As such, CAD might have another stellar year vs. other commodity-linked currencies.
- **Growth and Inflation Outlook:** Real GDP is expected to expand 1% for 2023 according to BoC while IMF looks for a 1.5% growth for Canada this year. BoC conducted the Business Leaders' Pulse survey in 4Q 2022 and the outcome that was published in mid-Jan suggests deteriorating business sentiment due to rising interest rates. Sales expectations and investment plans have concomittantly softened, not helped the least by still elevated inflation that is affecting consumers' purchasing power and the fear of recession. The silver lining in the survey is that supply chain issues have improved and that could ease business' production capacity and cost pressure. From the survey, businesses expressed that concerns on demand and credit are rising even as cost perssures, labour shortages and supply chains remain the most pressing concerns.
- Canada added a net 150K of employment in Jan, well above the 15k expected. +121.1k of hires were full time and 28.9k part-time. Unemployment rate dropped to 4.5% from 4.7% (revised sharply lower from 5.2%). Participation rate rose to 65.7% from previous 65.4%. The solid labour report for Jan actually lifted the CAD, giving the loonie a tad more resilience against the surging USD relative to peers.
- Strong hiring sentiment is likely to have buoyed consumer confidence which rose to the highest since Sep. The Bloomberg Nanos Canadian Confidence index rose to 47 as of week ending 24 Feb, amid expectations that the housing prices would rebound.
- The CFIB business barometer index also improved to 51.4 for Jan vs. previous 50.9. The report indicated that intentions to increase staffing rose a tad to 18.7 for Feb vs. previous 18.1. Intention to decrease staffing fell to 15.2 from previous 17.4. Firms surveyed in Feb also expect to raise wage by 3.3% vs. 3.0% seen in Jan. Prices are expected to increase a tad more by 3.7% vs. 3.6% surveyed in Jan.
- CPI eased more than expected to 5.9%y/y for Jan from previous 6.3%. Core inflation (trim) also eased a tad more than expected to 5.1%y/y vs. previous 5.3%. Canada remains one of the few countries that seem to have found success in getting inflation on a more sustained path lower. Central bank's target is 2% and BoC forecast the inflation to fall to 3% by mid 2023 and to 2% in 2024.
- **Monetary Policy Forecast:** BoC became the first G7 central bank to signal a pause ahead after raising policy interest rates by 25bps on 25 Jan. Higher interest rates have started to affect not just Canada's housing sector but also household spending. With business investment

expected to slow, growth is projected by BoC to stall through the middle of 2023. The central bank made a surprisingly explicit statement that this could be the peak for policy interest rates - “If economic developments evolve broadly in line with the MPR outlook, Governing Council expects to hold the policy rate at its current level…”. While Gvernor Macklem did clarify that the pause “is conditional on economic developments”, the explicitness of the statement suggest that a pause from here is a central scenario of the bank.

- **In a subsequent speech, Governor Macklem laid out the conditions that they are monitoring.** The central bank wants price pressure for services to ease, wage growth and inflation expectations to moderate and the businsses need to normalize their price-setting behaviours in order to stave off any further rate hikes.

- **BoC released a summary of deliberations for the policy meeting for the first time which indicated broad consensus amongst the five-man panel to signal a pause rather than to maintain a “ data-dependent hiking bias”. This decision was meant to allow assessment of the full impact of the aggressive tightening cycle and “balance the risk of ‘over’ vs. ‘under’-tightening”.**

- **Latest External Balance Outlook:** As of last available data, Canada’s current account balance was at a deficit of U$10.6bn for 4Q22, a tad wider than the -U$-8.41bn deficit for 2Q. Trade balance may remain under pressure as energy prices continue to remain lacklustre and that could reduce amount of oil export receipts.

- The fall economic statement released in Nov projected budget deficit to be -1.3% of GDP for FY2022-2023 as a base line scenario and for the deficit to narrow to -1.1% of GDP for FY2023-24. More recently this month, Finance Minister Chrystia Freeland said her 2023 budget will focus on healthcare and green energy transition while ensuring that the overall fiscal plan is sustainable. These items were not taken into considerations in the Fall budget. Given that the growth outlook has softened, she acknowledged that the fiscal room is less and there is a need for a prudent approach.

- **Key domestic events and issues to watch:** Feb Mfg PMI (1 Mar); Jan Building Permits (2 Mar); Jan Trade (8 Mar), **BoC policy decision** (likely to stand pat), Feb labour (10 Mar), manufacturng sales for Jan (14 Mar), housing starts for Feb (15 Mar), wholesale trade sales for Jan (16 Mar), Bank HPI for Feb, Industrial product price (17 Mar), Jan retail sales (21 Mar), Feb CPI (21 Mar).

- **Key domestic events and issues to watch:** Jan Building Permits (2 Mar), Jan building permits (3 Mar), Jan trade (6 Mar), Feb labour report (10 Mar), Jan Mfg sales (14 Mar), Feb housing starts, existing starts (15 Mar), Jan wholesale trade sales (16 Mar), Feb industrial product price (17 Mar), Jan retail sales, Feb CPI, (21 Mar), Mar CFIB business barometer (30 Mar), Jan GDP (31 Mar).

- **Technical Outlook:** USDCAD spots a rising wedge which typically precedes a bearish retracement. Momentum is bullish but stochastics are overbought. 1.3680 is also a strong resistance level and can mark the upper bound of the 1.33-1.36 range. Next support is seen around the 1.31-figure.

JPY: Ueda Unlikely to Rock the Boat So Soon

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
USDJPY	132 (-)	128 (-)	125 (-)	122 (-)

No Change to Previous Forecasts

- **Motivation for the FX View:** We still keep hold of our USDJPY forecasts for now as we expect that the new BOJ Governor may likely undertake the same actions as we had been expecting of the BOJ this year. Based on his past comments, Ueda appears to have been more favourable towards an easy interest rate policy but less so towards QE and YCC. Resultantly, we therefore see that he is less likely to make any changes to the NIRP as it stands but he may instead work towards gradually lifting the YCC which could involve a first step of widening the band by 25bps to +/- 0.75% from +/- 0.50%. His current comments may not hint changes just yet but he may be trying to avoid being a source of volatility himself before taking office. Aside that, we also continue to believe that Fed rates would peak this year (albeit maybe at a higher level than expected) as US inflation continues to ease on a bumpy downward trend. This should provide some relief to Dollar-Asia complex. However, in light of recent developments of accelerating PCE data, we do note of the risk that US inflation can hold at elevated levels for longer. The potential of the USDJPY slightly overshooting our forecasts in the near term should also not be ruled out given anxiety on US economic data.

- **Growth and Inflation Outlook:** As it stands, economic conditions in Japan still appeared rather subdued and do not support any BOJ policy tightening. 4Q (P) GDP reading disappointed below expectations at 0.6% QoQ (est. 2.0% QoQ) amid a drawdown in inventories. Private services consumption and services exports mainly supported growth in the period but this was likely a result of the tourism boom from reopening and the effect may wear off in time. Goods spending was generally lackluster and the cost-driven inflation can risk continuously weighing in. Private investment and public expenditure were also weak. With risks to the global economy amid higher interest rates, it is challenging to expect support from the external sector.

- High frequency indicators such as Dec IP and Feb (P) Jibun PMI mfg were both at -2.8% YoY and 47.4 respectively, indicating a continued contraction in industrial activity. Dec core machine orders was also down by -6.6% YoY (est. -6.1% YoY). This only comes to highlight the underlying core weakness in the Japanese economy at this point.

- Dec retail sales came out strongly above expectations at 3.8% YoY (est. 3.2% YoY) but this could have been a result of the reopening tourism boom and the effect from it could eventually taper off. Hence, it was not necessarily a reflection of sustainably improving demand in Japan of which the BOJ has much sought for to drive inflation. The possibility for the number to slowdown in subsequent quarters can't be ruled out.

- Jan CPI continued to accelerate as the headline number hit 4.3% YoY (Dec. 4.0% YoY), which is well above the BOJ's 2.0% target level. The CPI ex fresh food figure also picked up to 4.2% YoY (Dec. 4.0% YoY). Despite the acceleration in inflation for about a year now, we stay wary if it can persist due to a number of factors. Among these factors include that the subsidies for electricity from Kishida's stimulus package is set to kick in and expectations are that it would bring down electricity bills by 20%. At the same time, it still doesn't appear that wages are sustainably picking-up, which implies that demand may still not be driving inflation. For the last year or so, it generally has been hovering around the 2% mark except for the latest Dec number which came out at 4.8% YoY. However, the Dec number was reportedly due to seasonal bonuses and hence, going forward, the growth may not hold up. Aside all that, only a slight majority of all the categories (6 out of 11) are actually above the 2% mark, which doesn't give the impression that inflation is sufficiently broad based.

- **Monetary Policy Forecast:** We stay firm on our expectations for the BOJ to widen the YCC band this year by 25bps to +/- 0.75% from +/- 0.50% and for no changes to the NIRP despite the announcement of the new BOJ Governor nominee – Kazuo Ueda. Based on our analysis of Ueda's past comments, we believe that he is likely to follow a path similar to our expectations.

- Market for much of the month had been focused on the nomination of the new BOJ Governor. Expectations had strongly initially been for Masayoshi Amamiya but instead the Japanese government nominated the relative unknown academic Kazuo Ueda. Amamiya himself had reportedly rejected the role. The Deputy Governor nominees are Shinichi Uchida, BOJ Executive Director and Ryozo Himino, former FSA Chief. A lot of information about Ueda appears to be rather dated and he last served on the BOJ board between 1998 – 2005. He is currently a professor at Kyoritsu Women's Educational Institution. That said, given his position as an academic and his long-time absence from the BOJ board, Ueda does hold an advantage of being disassociated from the current regime and their credibility issues.

- In the past, Ueda has shown support for some of the BOJ's loose interest rate policy. He had been part of the BOJ's board back in 1999 when zero interest rates were first introduced and was known to have backed the policy. Later in 2000, he had dissented against a BOJ decision to lift the zero interest rates as he was concerned about equity market weakness. Ueda would later on show support for the BOJ's decision in 2016 to introduce a negative interest rate policy (NIRP). As it stands, the economic case is not strong for the BOJ to move interest rates so it looks likely that Ueda led Board would not adjust.

- Ueda over the years looks to have repeatedly warned about the consequences of the BOJ's QE or yield targeting. The immediate impression is that he doesn't seem to have even supported the introduction of QE. He had previously emphasized that a "commitment of zero interest is stronger than quantitative terms" and warned about the disastrous impact if inflation still does not pick up and economy does not improve after such measures are introduced. He had also mentioned that YCC would only lead to more speculative activity on the bond market and that the "functioning of the market has deteriorated significantly". Given his views, existing bond market issues and the BOJ December move, there is an increasing possibility that Ueda may try to lift the YCC policy albeit more gradually as he stays cognizant of the adverse effect of a sudden move on the market. He may therefore just start with widening the band by 25bps to +/- 0.75% from +/- 0.50% within 2023.

- We are though not expecting Ueda to rock the boat so soon. Following the release of the Nikkei report mentioning him as the potential new BOJ nominee, Ueda has said that the "current BOJ policy is appropriate". This gives some indication that Ueda may refrain from commenting on making any major adjustment on the BOJ monetary stance as he may want to avoid being a source of volatility before taking office. This could make the BOJ less of a source of volatility for the JPY in the near term but volatility could instead come from the more uncertain global macro environment.

- Key dates to watch out for include the 20th March and 9 April when the new Deputy Governors and Governor respectively take office. Also, look out for the 27 – 28 April when the first BOJ meeting under the new Governor would be held.

- However, we would like to note that JGB 10 year yield continues to break the YCC cap on a number of occasions, which calls into question the sustainability of the policy. Furthermore, pressure on the bond market liquidity also persists. Hence, the case for the BOJ to eventually lift the YCC policy remains strong from the angle of policy futility and bond market functionality.

- **Latest External Balance Outlook:** The country's trade deficit saw a large widening for Jan to -3.5tn yen (Dec. -1.5tn yen) as export growth substantially slowed to 3.5% YoY (Dec. 11.5% YoY). The slowdown was a result of weaker Chinese demand due to the Lunar New Year. Imports growth also decelerated to 17.8% YoY (Dec. 20.6% YoY) as the peak in commodity prices look to have past whilst there is a limit to the JPY's weakness too. However, we stay wary of the country's external position going forward as risk to the global economy amid higher interest rates can hurt external demand.

- **Key domestic events and issues to watch:** Feb Tokyo CPI (3 Mar), Jan Jobless rate (3 Mar), Feb (F) Jibun Bank PMI composite and services (3 Mar), Jan Labour cash earnings (7 Mar), Jan BOP CA balance (8 Mar), Feb Bank lending (8 Mar), Jan (P) Leading index (8 Mar), 4Q (F) GDP (9 Mar), Feb (P) Machine tool orders (9 Mar), Jan Household spending (10 Mar), Feb PPI (10 Mar), BOJ policy decision (10 Mar), Feb Trade data (16 Mar), Jan Core machine orders (16 Mar), Jan (F) IP (16 Mar), Feb Tokyo dept sales (16 – 22 Mar), Feb CPI (24 Mar), Mar (P) Jibun bank PMI composite, mfg and services (24 Mar), Feb PPI services (27 Mar), Jan (F) Leading index (27 Mar), Mar Tokyo CPI (31 Mar), Feb Jobless rate (31 Mar), Feb (P) IP (31 Mar), Feb Retail sales (31 Mar) and Feb Housing starts (31 Mar).

- **Technical Outlook:** The pair was last seen at 136.05. In terms of momentum indicators, stochastics are overstretched whilst the MACD and RSI are flattening. We believe that the upside for the pair is limited and lean more bias downwards. Resistance is at 137.00, which is also around where the 200-dma is at. The next level after that is at 140.00. Support is seen at 135.00 with the subsequent at 133.60.

RMB: From a Quick Re-Opening to Recovery

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
USDCNY	**6.75** (--)	**6.70** (--)	**6.65** (--)	**6.60** (--)
USDCNH	**6.75** (--)	**6.70** (--)	**6.65** (--)	**6.60** (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** The USD retracement that we flagged panned out well with USDCNH, last seen around 6.96, en-route to head back towards the 7-figure. This rebound in the USD was a product of a combination of hawkish Fed, stronger-than-expected US data (albeit likely skewed by warmer -than-usual Jan effect) as well as growing jitters over US-China relations. With that CNH has given up all gains for the year and we see room for a rebound in the currency against the greenback after a healthy retracement, especially if data releases in March point to more signs of economic recovery. In addition, investors eagerly await the two sessions in Mar with the NPC starting on 5 Mar, a day after the CPPCC begins. More growth-friendly measures are expected.
- We do not look for the USDCNH to rally much higher and continue to hold the view that this pair can swing towards 6.60 over the next twelve months as growth in China starts to gain traction. The USD should also start to weaken once a more discernible slowdown in the US economy bring the Fed tightening cycle to a halt and market starts to position for a rate cut by the Fed.
- **The Housing Slack**: Demand for housing remains tepid overall with new home prices largely unmoved for Jan. Average new home prices in 70cities were flat, according to the NBS, after 16 consecutive months of decline in home prices. In the past few months, mortgage rates have been lowered, debt extensions were provided, the “three red lines” borrowing restrictions were reportedly eased for 30 unnamed property firms as a pilot program amongst others. More recently, Chinese regulators have also announced a pilot proram to open the property market to private equity investors in the hope of improving liquidity

conditions for developers. Some cities have started the completed home sales model as opposed to the build-to-order model used in the past, in the hope of reviving home buyers' confidence.

- Thus far, home buyers and developers have been in focus. On 25 Feb, China just released 17 new measures in a daft to expand financing for home rentals and fundraising options for related companies. These measures are meant to improve FI's capacities to lend to firms that lease residential property according to a statement jointly made by PBoC+CBIRC. Firms in the business of home rentals/leasing would be able to issue bonds to fund the construction, purchase and operation of their business. This is done in the hope that an increase in the supply for home rentals may improve the affordability of rentals.
- **Growth and Inflation Outlook:** Official Mfg PMI for Jan was mostly expansionary and there are wide expectations for growth in manufacturing and non-manufacturing to remain in expansion. Consensus looks for non-manufacturing to improve to 55.0 for Feb from previous 54.4 while manufacturing should rise to 50.7 from previous 50.1. Even the Caixin version of the Manufacturing PMI is expected to rise to 51.3 from previous 49.2.
- That said, we see mixed numbers for higher frequency activity data. While property sales in some of the tier 1 cities (such as Beijing) have been rising in Feb and shown some growth year on year, auto sales remain a tad depressed with average daily sales of 37983 passenger vehicles for week ending 19 Feb vs. 2022 average of around 54K. The silver lining is that post Chinese New Year, congestion levels are up with the number of people on the subway back to at least at pre-pandemic levels. There are also surveys suggesting that dining out and shopping activities have risen.
- The domestic demand recovery that market has been looking for is coming unevenly with less consumption in big-ticket items as well as property. NPC kicks off on 5 Mar, we can expect more growth-friendly measures that will continue to fuel market optimism a tad more. CPPCC starts on 4 Mar this year.
- Inflation numbers have thus far been benign. CPI firmed to 2.1%y/y vs. previous 1.8% while PPI fell by a steeper -0.8%y/y vs. previous -0.7%. Underpinning the CPI headline was stroner food inflation at +6.2%y/y vs. previous +4.8%. Core CPI on the othe hand, picked pace to 1.0%y/y vs. previous +0.7%. The weak core CPI suggest anemic demand but we can expect inflation pressure to build more discernibly into 2H of 2023.
- **Monetary Policy Forecast:** PBoC just released its quarterly monetary policy statement on 24 Feb, pledging "precise and forceful" monetary policy, albeit without "flood-like stimulus". The central bank also pledged to guide FIs to strengthen financial services towards finance, scientific and technological innovation, and green development. Inflation trends will be closely monitored and prices of energy and food will be kept stable.
- Most parts of the statements are similar to past statements ahead of upcoming leadership changes within the central bank. Governor Yi Gang is expected to step down to make way for Zhu Hexin. He Lifeng will also be considered for the role of party secretary at PBoC.

- We do not rule out a rate cut once we are past the peak of the Fed tightening cycle. At this point, a lack of recovery in housing demand and concomitant negative wealth effect likely weighed on overall domestic demand. Aggregate financing for Jan was stronger vs. the month prior due to plenty of encouragement from authorities to frontload credit extension, start-of-the-year-refresh of banks' credit quota. Aggregate financing was thus boosted to CNY5.98trn vs. previous CNY1.31trn. New yuan loans also jumped to CNY4.9trn vs. previous CNY1.4trn. However, much of the lending was made to corporate sector vs. the household. While the Lunar New Year holiday could have skewed the data, there is a possibility that anemic labour market condition and a lack of confidence in the housing recovery could have weighed on consumer sentiment.
- **Latest Fiscal and External Balance Outlook:** Given the rise in infrastructure spending and several support measures announced last year, we can fiscal deficit will widen substantially from original projection of 2.8% of GDP. The deficit could widen beyond 3% of GDP for 2023 in order to turn around the economy this year.
- **Key domestic events and issues to watch:** China Feb Caixin Composite PMI, Services PMI (3 Mar), NPC (5 Mar) Feb trade, Feb Foreign Reserves (7 Mar), Feb CPI, PPI (9 Mar), Feb aggregate financing, money supply, new yuan loans (9-15 Mar), Feb FDI (11-18 Mar), Feb retail sales, FAI ex rural, FX Net settlement on behalf of clients (15 Mar), Feb New home prices (16 Mar), 1Y, 5Y LPR (20 Mar), Feb industrial profits (27 Mar), Mfg, Non-Mfg PMI (31 Mar).
- **Technical Analysis:** USDCNH was last seen around 6.9090. This pair pulls back from resistance around 6.9903 (100-dma) and is testing the 200-dma at 6.9145. We do not rule out a move lower towards 6.8435 (50-dma) and even towards 6.72.

SGD: Sticky Core Inflation Keeps Tightening Risk on Agenda

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q2023
USDSGD	1.3100 (-)	1.3000 (-)	1.2900 (-)	1.2850 (-)

No Change to Previous Forecasts

- **Motivation for the FX View:** For now, we still keep hold to our USDSGD forecasts amid a number of factors that could support the SGD although we do note of various risks. For the rest of 2023, China's reopening and recovery should work in favour of the SGD although reduced appetite for its safe haven allure under such a scenario should also limit the gains. At the same time, sticky core inflation also increases the chances of an MAS April tightening, adding to some more tailwinds. The possibility of peaking Fed rates this year albeit maybe a little higher than originally expected could provide some relief to the Asian FX space. However, in light of recent developments, we do note of the risk that Fed rate hikes can keep persisting at a aggressive pace if US inflation stays elevated for an extended period of time. We assign some probability of that happening but we are not making that our base case for now. In such a scenario, the USDSGD may move closer back to even levels seen last year but the appeal of the SGD safe haven status would help limit losses for the currency.

- **Growth and Inflation Outlook:** Singapore's finalized 4Q 2023 GDP number came out at 2.1% YoY, which was just slightly lower than the preliminary number at 2.2% YoY. On a quarterly basis, it was at 0.1% YoY. Overall, that meant the entire 2022 annual growth number was at 3.6% YoY. Our in-house economists are forecasting GDP growth at 1.7% YoY although it may be uneven this year with reopening and tourism-related services expanding and cushioning the contraction in manufacturing and trade.

- High frequency indicators meanwhile showed a shallower decline than expected in manufacturing as Jan IP fell by -1.1% MoM (est. -6.3% MoM). The lower than expected level of decline can be attributed to the a jump in pharmaceutical production to the highest level in 13 months. It helped to offset some of the decline seen in electronics, precision engineering, general manufacturing and chemicals clusters. Our in-house economists expect a manufacturing recession in 1H 2023 but a China reopening will help cushion some of the impact from this.

- Dec retail sales meanwhile grew strongly and above expectations at 7.4% YoY (est. 5.8% YoY) as it was the first end of year holiday month after travel had reopened in many parts of the world. There are some expectations for retail sales to see further pick-up in 2023 amid China's reopening and the more aggressive return of global tourism.

- The bigger focus though was on Jan inflation of which the headline number accelerated to 6.6% YoY (Dec. 6.5% YoY) whilst the core figure also picked up to 5.5% YoY (Dec. 5.1% YoY). The acceleration in core inflation came on the back of higher costs for services (4.2% YoY vs Dec. 3.7% YoY), food (8.1% YoY vs Dec 7.5% YoY) and retail & other goods (3.3% YoY vs Dec. 2.8% YoY). The comes after the 1% increase in GST to 8% came into effect. Aside that, a tight labour market in addition to a housing shortage added to the pressures. Pressures from these factors may still take time to diminish. Consequently, these factors combined with an expansion of the progressive wage model to large sectors would likely result in core inflation remaining sticky and falling at a slower pace in 2023. Such a situation only serves to increase the possibility of MAS tightening in April and provide some tailwind for the SGD although we note that this is not a foregone conclusion just yet. Our in-house economists forecast for core CPI to be at 4% YoY and headline at 6% YoY in 2023.

- **Monetary Policy Forecast:** On MAS's part, they noted that the month-on-month step up in core inflation was expected partly due to the one-off increase in price levels after the GST hike. They see core CPI to remain elevated in 1H 2023 before slowing in 2H 2023 amid with an easing in the labour market and softer global inflation. Our in-house economists currently are leaning towards a tightening at the April meeting via a re-centering given their view on the stickiness of core inflation.

- **Latest Fiscal Outlook:** Budget 2023 came out in February and mainly revolved in providing more social support amid rising the rising costs of living and the hike in GST. A deficit is still expected albeit it would be at a low level of 0.1% of GDP or SGD0.4bn.

- A large SGD3bn top-up was done for the GST Assurance Package (AP) to SGD9.6bn. This is in light of the likelihood that a 2% GST hike would raise about SGD3.5bn annually. Cash payouts of various sorts were adjusted or introduced including an increase in the cash component of the AP by between SGD300 and SGD650, CVC vouchers to be raised SGD100 to SGD300 in 2024, etc. The permanent GST voucher (GSTV) scheme for eligible Singaporeans was also raised, which brings total spending for this to SGD1.7bn from 2024 onwards. In addition to all this, the Enterprise Financing Scheme, which include the 70% government risk-share for trade loans and support for domestic construction projects via project loans, will be extended for another year until end March 2024.

- On the revenue side, Singapore is looking to implement the Pillar 2-global minimum tax from 2025, via introduction of a Domestic Top-Up Tax, which will top up the MNE groups' effective tax rate in Singapore to 15%. This part of a broader international movement by other countries including the EU, UK and Switzerland to implement Pillar 2 in phrases starting from 2024.

- The FY2022 deficit meanwhile was smaller than projected at 0.3% of GDP or SGD2bn (vs initial projections of 0.5% of GDP or SGD3bn). Draw up on reserves was also lower than initial estimations at SGD3.1bn (vs expectations of SGD6bn). The overall drawdown from past reserves from FY2020 to FY2022 totaled SGD40bn, much less than the initial SGD52bn sought by the government for the President's agreement. As a whole, there was little to note of impact for the SGD from the FY2023 budget.

- **External Balance Outlook:** Trade data was anything but good in Jan as the NODX exports tumbled by -25.0% YoY to just SGD13.3bn. On absolute terms, it was the lowest level since June 2019 whilst the pace of decline itself was the worst in a decade. Electronic exports itself fell steeply by -26.8% YoY but the non-electronics exports were didn't fare any better as it plummeted by -24.5% YoY. Exports to China is also still falling (-41.1% YoY) although in contrast, exports to the EU saw a big increase (21.4% YoY). The fall is some reflection of a weakening in global demand but on the other hand, the early Chinese New Year could have played a part. The combined Jan and Feb numbers may instead provide a more meaningful assessment of the global trade situation. However, our in-house economists as a whole expect that NODX to decline by -4% YoY to -1% YoY amid a downturn in manufacturing and weak external demand.

- **Key domestic events and issues to watch:** Feb Purchasing managers index (2 Mar), Feb Electronics sector index (2 Mar), Feb S&P Global PMI (3 Mar), Jan Retail sales (3 Mar), Feb Foreign reserves (7 Mar), Feb

NODX (17 Mar), Feb CPI (23 Mar), Feb IP (24 Mar) and Feb Unemployment (31 Mar).

- **Technical Outlook:** Pair was last seen at 1.3432. Stochastics are overstretched whilst the RSI is falling. Resistance is at 1.3582 (100-dma) with the next at 1.3762 (FI retracement of 50% from Feb 2023 low to Sept 2022 high). Support is at 1.3316 (50-dma) with the next at 1.3000.

MYR: Cautiously Positive Amid The Volatility

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q2023
USDMYR	4.25 (-)	4.15 (-)	4.10 (-)	4.00 (-)

No Change to Previous Forecasts

- **Motivation for the FX View:** We continue to maintain a cautiously positive outlook for the MYR even amid the sharp climb in the USDMYR pair in the last few weeks. A few factors recently have been weighing on the MYR in Feb which include a rebound in the USD (driven by anxiety about the pace of US inflation) and fading optimism from China's initial reopening. However, our view on US inflation stays intact of which we expect it to keep moving in a bumpy downward trajectory. Consequently, we are careful not to overstretch recent Fed hawkishness and our in-house views sees that the US rate would likely hit 5.00-5.25% in 2023. At the same time, further data releases from China would give more clarity on the country's pace of recovery. Therefore, we see that the MYR should receive more positive support going forward.

- Regardles, we stay mindful of the various risks related to the MYR. These include the possibility that the Fed has to hike more aggressively than expected as US inflation stays at an elevated level. Additionally, we are wary of sentiment taking a hit from political uncertainty especially in light of upcoming state elections. A recent Merdeka survey showed that PM Anwar Ibrahim has an approval rating of 68%. Mahathir in contrast in the early months during the first PH administration had an approval rating of around 70 – 80% whilst rival Muhyiddin enjoyed a rating above 70% in the period after taking office in 2020. There is also the possibility of oil prices being hurt by the pressure that high Fed rates cause on the economy although as a whole, it has been fairly stable in the last few weeks.

- Putting into context, our model estimates suggest that MYR performance going forward would depend to a large extent on the following key factors, i.e., resilience/recovery in oil prices, continued stabilization in the political environment and fiscal dynamics, and sustained positive RMB narrative amid China re-opening. At the same time, the MYR is also the most undervalued among the Asian currencies based on our Maybank BEER model. An improvement in sentiment towards the currency could therefore substantially lift the currency.

- **Growth and Inflation Outlook:** GDP growth slowed but came out better than expected in 4Q 2022 at 7.0% YoY (est. 6.6% YoY). The moderation was broad based with a major deceleration in services at 8.9% YoY (3Q 2022: 16.7% YoY), manufacturing at 3.9% YoY (3Q 2022: 13.2% YoY) and construction at 5.0% YoY (3Q 2022: 15.3% YoY). The slowdown for mining and agriculture were much less pronounced at 6.8% YoY (3Q 2022: 9.2% YoY) and 1.1% YoY (3Q 2022: 1.2% YoY). Both domestic and external demand also eased. The fourth quarter economic performance was in a way indicative of a fading of the initial reopening boost and the emergence out of the pandemic. Consequently, going forward, our in-house economists expect growth for 2023 to normalize to a fair 4.0% YoY. The number itself is also some reflection of the effects of high inflation – interest rate environment on the global economy. Offsetting those headwinds include a drawdown of household/individual “excess savings”, FDI growth momentum and faster growth from China as it emerges from its Covid19 – zero policy.

- Jan headline inflation eased marginally to 3.7% YoY (Dec. 3.8% YoY), which marks a second consecutive month of sub-4% prints. The core number also eased slightly to 3.9% YoY (Dec. 4.1% YoY). FNAB or food & non-alcoholic beverages inflation stayed elevated at 6.7% YoY. This contrasts to the non-food inflation at 2.1% YoY. Services inflation meanwhile stayed above the 4.0% YoY mark amid pent-up demand from the economic reopening. Our economists continue to maintain a forecast of 3.0% YoY for 2023 headline CPI with monthly inflation rate to go below 3.0% YoY only in 2H 2023. The forecast was also done on the assumption of no changes to the government subsidies policy of which there wasn’t as per the latest retabled Federal Budget.

- **Monetary Policy Forecast**: The next BNM policy meeting would be held in March. At the last Jan meeting, the central bank surprisingly kept interest rates on hold at 2.75% as they cited the need to assess the impact of the cumulative +100bps increases in OPR between May 2022 and Nov 2022. BNM had also indicated changes in OPR affect the economy after a 12-18 months time lag. Our in-house economists for now still see the prospect of a further OPR hike of 25bps given the growth and inflation situation. There are significant “wildcards” still at play related to US Fed monetary policy stance/guidance and the effect of China’s reopening that could result in inflation upsides vs the baseline. As a note, the MPS did state that “further normalisation to the degree of monetary policy accommodation would be informed by the evolving conditions and their implications to the domestic inflation and growth outlook” and “the MPC will continue to calibrate the monetary policy settings that balance the risks to domestic inflation and sustainable growth”. We interpret this to imply that the last pause does not necessarily means the end of OPR hike cycle and OPR has peaked at 2.75%. The central bank in their last MPS had also highlighted risks to growth are titled to the downside but did also note that inflation would remain elevated with risks tilted to the upside.

- **Fiscal Outlook:** The much anticipated re-tabled Federal Budget was released on the 24 Feb 2023 with the budget deficit seen to be at a narrower -5.0% of GDP (versus -5.5% of GDP in the original proposal) although it is still higher than -3.0 - -4.0% of GDP seen pre-pandemic. There still appeared a commitment to fiscal consolidation as the target to reduce the fiscal deficit to -3.2% of GDP by 2025 was set. The budget focused on introducing more “progressive and redistributive” tax measures through taxing higher income groups more and cutting the rate for the middle income. At the same time, there are attempts to strengthen governance in public spending through a tabling of the Government Procurement Act (GPA). However, our in-house economists noted the lack of details of sustainable revenue enhancing measures with the reintroduction of GST not appearing high on the government agenda. Fuel subsidy is also to stay in place with no specific mention of a targeted scheme being implemented in the coming year. The Malaysia 5 Y CDS did rise building up to the budget but it has since fallen lower following its release. However, it did not fully retrace all the gains it saw. The USDMYR had been climbing higher in line with the 5 Y CDS pre-budget but after it, it continued to extend its gains still.

- The budget introduced more “progressive and redistributive” tax measures with an individual income tax cut of 2% for those earning between RM35,001 – RM100,000 whilst there was a 0.5 – 2.0% hike in tax rates for those with incomes in the range of RM100,001 – RM1m. There will also be a luxury goods tax and excise duties on vape/e-cigarettes. Capital gains tax on unlisted corporations was proposed. The Special Voluntary Distribution Programme (SVDP) would be running for a third round. Whilst the government maybe attempting to try to redistribute wealth, there was notably a lack of sustainable tax/revenue enhancing measures as the reintroduction of GST does not appear high on the government agenda. The government was also silent on the previously mentioned Medium-Term Revenue Strategy.

- Regarding corporations, the government is looking to adopt the Global Minimum Effective Tax rate of 15% in 2023 via the implementation of the Qualified Domestic Minimum Top Up Tax. This would put the country in line with its participation in the GLOBE Model rules (Pillar 2) initiative and inclusive framework on BEPS. There would also be lower Micro, Small and Medium Enterprises’ (MSME) income tax rate of 15% for the first RM150,000 of taxable compared to RM100,000 proposed in the previous 2023 budget.

- On account of lower oil prices, the overall petroleum revenue is projected to drop by -20.9% to RM65.2bn and account for 22.4% of total revenue compared to 28.0% of total revenue in the prior year. Petronas would be contributing a lower level of dividends at RM40bn compared to RM50bn in the prior year.

- On the expenditure side, the government would be pushing up the gross development expenditure (GDE) by 35.5% on account of higher allocation for the third year of the 12MP as they try to aggressively drive growth. Spending would be focused on education & training in addition to developing transport infrastructure and strengthening security. The higher GDE spending is in some way a reflection of an approach to stimulate growth and raise revenue in order to improve the public financial position.

- However, regarding operating expenditure (OE), there will be -1.2% drop compared to 2022. This is less of a decline than what was actually planned in the original proposed 2023 budget, which had looked at reducing OE by -4.2%. The fall in OE for the 2023 budget is mainly driven by a lower subsidies allocation. This though was driven by an expectation for commodity prices to moderate rather than any aggressive push to reduce expenditure on subsidies. Fuel subsidies are to stay in place with no specific mention of any targeted scheme being implemented in the coming year. Our in-house economists have noted that past episodes of adjustment in fuel subsidies during periods of high crude oil prices did happen after key elections are out of the way. The country would be seeing six state elections later in the year.

- Government domestic debt is projected to stay just below 60% of GDP by end 2023, which compared to 57.7% as of end-2022. This still keeps it below the debt ceiling of 65% of GDP. Total government debt meanwhile is projected to rise to 62% of GDP by end 2023 from 60.4% of GDP as of end 2022. If the MTFF assumptions for 2023 – 2025 are realized, our in-house economists forecast that the government total debt should be at 62.8% of GDP in 2025 whilst the domestic debt level would be just over 60% of GDP in 2024 – 2025. As a note, government domestic debt as a percentage of GDP has been trending upwards since 2018 – 2019. However, we also do note the occurrence of the pandemic in the last couple of years which generally hurt the financial position of governments globally. Government debt service charge to revenue ratio has also been on upward trend for the last 10 years or so and will be at 15.9% in 2023, which is above the 15% international best practice threshold.

- **External Balance Outlook:** Jan external trade data continued to taper as exports growth slowed to 1.6% YoY (est. 9.0% YoY) whilst imports growth also heavily decelerated to 2.3% YoY (est. 9.6% YoY). There was still a trade balance surplus but it was narrower than expectations at RM18.16bn (est. RM20.95bn). The weaker month for trade could be a reflection of the first post-pandemic Lunar New Year calendar effect. Regardless, on a seasonally-adjusted basis, exports and imports still fell by -8.5% MoM and -7.7% MoM respectively. Our in-house economists overall are expecting exports and imports growth to still be at 4.0% YoY and 6.0% YoY respectively in 2023 with a trade surplus of RM240bn. The numbers mark a slowdown from the prior year given base effects and the likelihood of a global economic slowdown. China's better growth outlook as the country reopens however could help offset the negative factors. The maintenance of the country's trade and CA surplus should continue to fundamentally support the MYR going forward.

- **Key domestic events and issues to watch:** 28 Feb Foreign reserves (7 Mar), BNM Decision (9 Mar), Jan IP (13 Mar), Feb Trade data (17 Mar), 15 Mar Foreign reserves (22 Mar) and Feb CPI (24 Mar).

- **Technical Outlook:** USDMYR was last seen at levels around 4.4868 as the pair moves closer to test the 4.5000 key resistance level. In our view, there is a reasonable chance that there could be a limit on further upside for the pair at this point and it could just hold below that resistance level for a bit. Stochastics is also looking overstretched and the RSI is in overbought territory. Support meanwhile is seen at 4.4682

(200-dma) and 4.4254 (FI retracement of 38.2% of Feb 2023 low to Nov 2022 high).

IDR: Steadier She Goes

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
USDIDR	15,000 (-)	14,700 (-)	14,400 (-)	14,200 (-)

No Change to Previous Forecasts

- **Motivation for the FX View:** We stay positive about the USDIDR and hold our 2023 forecast given we continue to firmly believe that US rates would peak this year whilst expecting still for US inflation to ease on a bumpy downtrend. There has been some net foreign outflows from Indo bonds in Feb but we believe that the carry attractiveness of the IDR together with decent fundamentals should ensure better appetite for IDR assets in the future. Regarding the latter, both Indonesia's better external position (as indicated by the Jan trade surplus) and disciplined fiscal management works in favour for the IDR. Recently, the USDIDR has been remarkably stable even in the face of market anxiety about the strong US economic data (i.e. inflation, CPI and retail sales) and Fed hawkishness. In the near term, we expect the USDIDR to be ranged traded even as markets continue to assess the Fed's path of interest rate hikes and the uncertain global macro environment. However, in light of recent developments of an acceleration in US PCE, we do note of the risk of US inflation holding at an elevated level for longer. We also do not want to rule out the possibility of the USIDR pair slightly overshooting out forecasts in the near term amid anxiety over US economic data.

- **Growth and Inflation Outlook:** 4Q GDP growth was the slowest since 3Q 2021 at 5.01% YoY as the reopening tailwind faded with growth for services falling back and government Covid relief being cutback. There was though some pickup in manufacturing and agriculture. As a whole, there was a broad slowdown in all the categories such as household consumption, gross fixed capital formation and government consumption. The entire 2022 growth overall came out at 5.3% YoY. Going forward, our in-house economists expect 2023 growth to slow to 5.00% YoY on the back of softer private consumption and exports. The economic outlook therefore would back a BI pause and hence, reduce the support for the IDR from a domestic rates perspective.

- High frequency economic data such as Jan S&P Global Mfg PMI showed an expansion in industrial activity with the number coming out at 51.3 (Dec. 50.9) and signal a decent start for the year. For the last year or so, the S&P Global Mfg PMI for Indonesia has managed to hold up in the expansion territory.

- Headline inflation hit a 5-month low of 5.3% YoY (Dec. 5.5% YoY) whilst the core number itself also eased to 3.3% YoY (Dec. 3.4% YoY). The softer number was driven mainly by transport, energy and administered prices easing. However, the volatile food inflation did slightly pick-up. As a whole, the downward inflation trend should provide the economic case for BI to pause rate hikes.

- **Monetary Policy Forecast:** More interestingly on the central bank front, Governor Perry Warjiyo has once again reiterated a pause in the benchmark rates at 5.75%. He has cited that he sees inflation continuing to ease whilst he sees the IDR improving in line with the economic outlook. He also stated that the central bank intend to use its export earnings policy and operation twist bond buying to stabilize the IDR amid continued Fed rate hikes. As it stands, our-house view is that BI is likely to stay pat from now given the Governor's comments and therefore, this would reduce the support for the IDR from a domestic rates angle.

- More interestingly, the Governor announced that BI plans to offer FX 1-month, 3-month and 6-month term deposit at competitive rates to encourage exporters to keep earnings offshore for longer. The offer will be effective from 1st March onwards. At the same time, BI is also still in discussion with the government on the new forex earnings rule that would require exporters to keep dollar earnings onshore. Mandatory conversion for export earnings is also still under discussion. Earlier, the Coordinating Minister for Economic Affairs Airlangga Hartarto had spoken of introducing a requirement for exporters to keep their foreign exchange earnings onshore for three months. He has also mentioned about revising a 2019 regulation that mandated exporters of natural resources to keep earnings in a special account at domestic banks. Such a revision he mentioned would involve expanding it to cover more sectors and setting a minimum holding period. Overall, he believe that the planned rules could bump up Indonesia's FX reserves by as much as $40bn - $50bn. Whether such a rule or revision would eventually be introduced or undertaken are still under question and the assessment of its impact on the ease of doing business in Indonesia would likely have to be done too. BI itself has after all resorted to a softer more incentive driven approach.

- Governor Perry Warjiyo has also been nominated for a second term as BI Governor. This proved to be historic as the move to do so is rare in the history of BI. His reappointment should ensures some BI policy continuity. Parliament is set to deliberate on his nomination when they return from recess on 13 March.

- **Latest Fiscal Outlook:** The budget surplus stood at 0.43% of GDP in January on top of strong growth in tax revenue according to Finance Minister Sri Mulyani Indrawati. She also said this was a reflection that "fiscal consolidation is continuing well". State revenue itself climbed by 48.1% YoY whilst state expenditure rose in contrast by 11.2% YoY. The budget primary balance was at 113.9tn rupiah. The government itself raised a total of 99.4tn rupiah from government bonds as of Jan, from a total net bond issuance target of 712.9tn rupiah for 2023. As it stands, the government appears to be maintaining a reasonable level of fiscal discipline, which should reduce the risk to the IDR from the budget angle.

- **Latest External Balance Outlook:** The country's trade balance in January stayed resilient with a positive surplus above expectations at $3.87bn (est. $3.25bn). Exports itself rose by the fastest pace in four months but this was mainly a result of the last year's low base caused by the coal export ban the prior year. Mineral fuel exports excluding oil and gas products rose by an astounding 243%, which is a reflection of the extent coal powered export growth for the month. However, the surge in exports may only be temporary as the coal export ban was eventually eased after 10 days. Imports meanwhile also rose for the first time in three months on the back of higher raw materials demand but the increase was only at 1.3% YoY. As it stands, Indonesia's external position remains robust, which should continue to support appetite for the IDR.

- There was a net foreign outflow of -$0.38bn from Indonesia bonds as of 23 Feb 2023 but this could be simply due to some market wariness regarding the recent strong US economic data (i.e. CPI, jobs and retail sales). We still expect that foreign funds should return back into Indonesia bonds as market anxiety eventually wears off with US inflation possibly continuing to ease albeit the move downwards should be bumpy. This is likely to drive IDR strength as we progress further into 2023. We would like to note that the much lower foreign ownership in Indonesian government bonds at around 15% as of 23 Feb 2023 compared to pre-2020 levels that could be around 40% may likely also be keeping IDR volatility lower in recent times.

- There was actually a positive net foreign inflows into equities in the month of Feb so far with the amount being at $0.22bn as of 24 Feb 2023. This is a reverse from the outflow we saw last month as funds may have reallocated out of Indonesia's commodities play to bet on China's reopening then. The net inflow is coming as the JCI continues to hold up remarkably well in the month of February compared to other regional bourses such the FBMKLCI, STI and SET.

- FDI for 4Q 2022 stood at $5.3bn which brings the entire 2022 total at about $20.8bn. This marked an increase of about 5.8%, which is a reflection of the emergence of the economy out of the pandemic. For now, we are expecting that the level of FDI should at least remain stable in 2023. Indonesia as a whole is likely to still mainly see FDI inflows into the primary and secondary sectors. This is due to both the drive to boost downstream activities and grow the EV related industries.

- **Key domestic events and issues to watch**: Feb Foreign reserves (7 Mar),Feb Consumer confidence index (8 Mar), Feb Trade data (15 Mar), Feb Local auto sales (15 – 21 Mar) and BI Decision (16 Mar).

- **Technical Outlook:** The pair was last seen at 15235. Momentum indicators not showing any clear bias. USDIDR continues to test the resistance at 50-dma of 15265. The next after that would be at 15573. Support is at 15160 (200-dma) and 14837 (Feb 2023 low). The pair is more likely to trade sideways in the near term.

PHP: Caution Amid Concerning Fundamentals

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
USDPHP	54.00 (-)	53.00 (-)	52.50 (-)	52.00 (-)

No Change to Previous Forecasts

- **Motivation for the FX View:** For now, we continue to hold our cautious forecasts for the USDPHP as we note of a few concerns. These include the country's deep twin deficit condition that is likely to keep weighing on the PHP in 2023. At the same time, the BSP doesn't look like it is still able to take much of a breather as inflation came out surprisingly higher 8.7% YoY (Dec. 8.1% YoY), prompting another 50bps hike by the BSP to 6.00%. Whilst the BSP move can provide some support from a domestic rates angle to the PHP, continuous rate hikes may though eventually hurt the economy. However, recently, the PHP has appeared to be more stable compared to other regional peers such as the MYR and the THB. This could be a result of the earlier mentioned domestic rate hike support and the potential that OFWR growth may be holding up (Dec number showed that it sustained) but also that other trade exposed currencies appeared to have more recently been hurt. In light of recent developments of an acceleration in US PCE, we do take note of the risk that US inflation can hold at an elevated rate for longer and the negative impact it can have on the Asian FX space. We don't rule out the possibility of the USDPHP pair slightly overshooting our forecasts in the near term given the anxiety on US economic data.

- **Growth and Inflation Outlook:** High frequency indicators such as the S&P Global Mfg PMI released in Feb still seemed to show that industrial activity is holding up. The number for Jan rose to 53.5 (Dec. 53.1) and remained in expansion territory as it has so for the last year. Bank lending numbers for Dec saw a slowdown in growth to 13.1% YoY (Nov. 13.4% YoY), which reflect some concern about upcoming economic challenges.

- However, more concerning is that headline inflation accelerated in Jan to 8.7% YoY (Dec. 8.1% YoY) mainly due to higher costs for food and non-alcoholic beverages (FNAB) and housing and utilities. The core number also rose faster by 7.4% YoY (Dec. 6.9% YoY). The cost increase in the housing and utilities category was ironically driven by landlords passing on the higher costs of mortgage serving to tenants amid the BSP aggressive levels of rate hikes. Agricultural damage from weather disturbances, persisting elevated global food prices in addition to high fertilizer/feedmeal costs are feeding into the price pressures for the local food category. Government measures so far which mainly revolved around reducing import tariffs or the cost relating imports have so far not really been sufficiently effective especially compared to other neighbouring countries who have resorted to subsidies. As a whole, there was generally a broadening of price pressures in the latest reading. Going forward, our-house economists expect that headline inflation can potentially remain potentially elevated this year, which would only serve to keep the pressure on the BSP.

- **Monetary Policy Forecast:** Given the high inflation number, it was no surprise that the BSP hiked another 50bps to 6.00% at their latest Feb meeting. This marked an eighth successive hike bringing it to a total 450bps of increases. The central bank also drastically increased its inflation forecast to 6.1% from 4.3%, a reflection of their view that risks for CPI now lean to the upside. However, they expect the number to ease to 3.1% in 2024, which puts it around the midpoint of their target range of 2-4% but pushed back their timeline for inflation to first get back into that range to 4Q 2023, compared to previous expectations of 3Q 2023. They also noted the need to pre-empt the emergence of second-round effects and deem a strong follow-through monetary policy response as necessary to reduce the risk of a breach in the inflation target range in 2024. The Monetary Board itself sees that with domestic growth exceeding expectations in 2023, monetary action can dampen demand side pressures and second-round effects without unduly hindering the sustained momentum of economic growth. Consequently, our in-house economists are seeing rates to go up another 50bps to 6.50% in 1H 2023 and for the BSP to stay on hold in 2H 2023. Near term, the PHP can get some support from the domestic rates angle but we also stay wary of the eventual impact these rate hikes are going to have on the economy.

- **Latest Fiscal Outlook:** There are no major updates on the fiscal front in the month of Feb. As a whole, fiscal pressures are likely to keep persisting amid an expansionary budget, which would weigh on the PHP. The 2023 NEP is guided by the Medium-Term Fiscal Framework (MTFF) and the proposed 2023 budget is therefore expected to come out 4.9%, higher than in 2022. Expenditure on infrastructure is likely to be sustained at around 5.0% of GDP in 2023 (2022: 5.8% of GDP) with the focus being on the development of rail transport. The fiscal deficit for 2023 is also estimated to come out at a wide level of -6.1% of GDP (2022f: -7.6% of GDP). National government debt to GDP ratio meanwhile stands at an elevated level of 63.7% of GDP as of Sept 2022. However, we do note the MTFF is trying to reduce it to 60.0% by 2025. The MTFF is also aiming to improve revenue via the imposition of value-added tax on digital goods and excise tax on single-use plastics.

- **External Balance Outlook:** OFWR growth sustained in Dec and surprised on the upside at 5.8% YoY (est. 3.8% YoY), which makes the entire year average at 3.6% YoY. The number as a whole is rather dated by this point but it is still a reflection of the emergence of the global economy out of the pandemic. A stronger global tourism recovery driven by the return of Chinese tourists can keep supporting OWFR growth going forward. On the flipside though, risks to the global economy from higher interest rates can potentially hurt OFWR growth hurt but our in-house economists have noted that in the past, OFWs managed to sustain their repatriation even during challenging times. Hence, they are expecting OFWR show some resilience even during adverse economic times. As a whole, we expect the OFWR growth to have some moderating effect on the negative factors weighing on the PHP.

- In terms of portfolio flows, equites saw a net foreign outflow of -$0.08bn as of 27 Feb 2023 whilst it was at -$0.4bn for bonds. This could be driven by a some weakening in risk sentiment as a result of the strong US economic data (e.g. inflation, jobs and retail sales). For now, we stay cautious regarding future portfolio inflows given the challenging economic situation that the Philippines is facing.

- FX defensive buffers saw improvement in Jan as foreign reserves rose to $99.7bn (Dec. $96.0bn) as it continued a trend of increase that started in the last few months of 2022. However, this number is rather dated as the DXY rebounded in Fed after a period of weakening. Hence, we won't be surprise if foreign reserves fail to register growth in Feb.

- **Key domestic events and issues to watch:** Feb Foreign reserves (5 - 10 Mar), Feb CPI (7 Mar), Jan Trade data (14 Mar), Jan OFWR (14 – 18 Mar), Jan Budget balance (17 Mar), Feb BoP overall (18 - 22 Mar), BSP Decision (23 Mar), Feb Bank lending (28 – 31 Mar) and Feb Budget balance (31 Mar).

- **Technical Outlook:** Pair was last seen trading at around 55.02. Momentum indicators are not showing any clear bias. Resistance is at 56.32 (FI retracement of 50.0% from Feb 2023 low to Oct 2022 high) with the next level at 57.36. Support is at 54.81 (21-dma). The pair is likely to keep trading sideways in the near term.

THB: Focus Now on China Recovery Pace

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
USDTHB	32.00 (-)	31.50 (-)	31.00 (-)	30.00 (-)

No Change to Previous Forecasts

- **Motivation for the FX View:** Recently, the USDTHB has seen some rebound as traders likely squared off their positions with the initial China reopening drive running out of steam and market turning anxious about the recent strong US economic data and Fed hawkishness. However, we see this as just a temporary respite for the THB and continue to stay positive about the currency given China's economic recovery has still some way still go and our firm belief that US inflation would keep easing albeit at a choppy pace. Consequently, this also means that key economic data releases from China may keep influencing the pair going forward as the focus is now firmly on the pace of the country's recovery after the initial reopening optimism has been substantially priced in. The THB is also likely to get some additional support from a domestic rates angle as the BOT may hike more than initially expected given that inflation still remains a bit high. Overall, we keep hold of our USDTHB forecast for 2023. Given the near term anxiety on US economic data, we don't rule out the USDTHB

- **Growth and Inflation Outlook:** 4Q GDP disappointed below expectations at 1.4% YoY (est. 3.6% YoY) driven by a plunge in export of goods and a sharp fall in government consumption. This seemed quite symptomatic of an end to the pandemic as goods demand gradually slows and the government distributes a lower amount of social transfers. A fading of the reopening tailwind as a whole also meant a deceleration in domestic demand. Going forward, our in-house economists see 2023 GDP growth coming out at 4.00% YoY as China's reopening will boost both exports and tourism. As it stands, the THB has already priced in a lot of the reopening optimism of China's reopening and the focus now would be on how the recovery in China pans out and the spillover effects it hasin actuality on Thailand.

- High frequency indicators continued to indicate some strength in industrial activity for Thailand as the Jan S&P Global mfg PMI came out stronger at 54.5 (Dec. 52.5) and remained in the expansion territory as it has for almost the last year. China's reopening may have also given some boost. However, we stay wary on whether manufacturing activity can stay strong given the fragility of the global economic environment amid high interest rates although we do note the US economy is still holding up well.

- Jan headline CPI fell to the lowest in 9 months at 5.02% YoY as food and energy prices moderated from last year's high base. However, on a monthly basis, it still rose by as much as 0.3% MoM The core number also eased to a six month low of 3.04% YoY although it increased by 0.1% MoM. Our in-house economists see that inflation would gradually ease but it is likely to still stay above the upper end of the BOT's range (1%-3%) for 1H 2023. This should still keep the pressure on the BOT to hike further in as they try to keep a cap on price pressures.

- **Monetary Policy Forecast:** There are no major changes to our-in house view on the BOT's hiking cycle with expectations that they would make two more hikes of 25bps in 1H 2023 at the 29 March and 31 May meetings. This would bring the benchmark rate to the level of 2.00%. Such moves would be done in light of the central banks determination to counter high inflation. However, given how far the BOT is lagging other major central banks globally, it is challenging to see how the rate hikes can provide much support to the THB.

- Foreign reserves in the month of Feb has been seeing a decline with the latest number as of 17 Feb being at $221.1bn. The fall comes in light of some weakness in the THB in February. However, we see the USDTHB retracement higher as temporary and that the pair can head further downwards this year. Hence, we believe that reserves can continue to rise this year.

- **Latest Fiscal Outlook:** The budget deficit in the first four months of the fiscal year (Oct – Jan) narrowed by about 9.2% compared to the same period last year as revenue rose at a much faster pace compared to expenses. However, the Thai cabinet has recently approved a revision to the public debt management plan for the 2022 – 2023 fiscal year as they added 81.2bn baht of new borrowing with 80bn of that to finance the state oil fund. The revised debt plan implies that public debt-to-GDP ratio would rise to 61.14% but that is still below the 70% legal cap.

- Prime Minister Prayuth Chan-ocha has said that parliament would be dissolved in March. The country's poll body had previously outlined that an election could be held on the 7th May. Opinion polls are reportedly showing Prayuth trailing Paetongtarn Shinawatra, the daughter and niece of two former Prime Minister. Historically, the THB has not necessarily shown a relationship with the political developments.

- **Latest External Balance Outlook:** Dec current account balance came out better than expectation at $1.1bn (est. $0.5bn) which is also a turnaround from the November deficit at -$0.45bn. The surplus was at the highest level since Mar 2022 and was driven by higher tourist arrivals which hit 56.8% of pre-pandemic level. The impact from Chinese tourists is still yet to be felt and the effect may not be seen possibly until Feb when outbound group tours of 20 people will be allowed. The overall 4Q current account surplus was at 0.9% of GDP or $1.2bn. For 2023, our-in house economist forecasts the current account surplus to be at 4% of GDP, which is a turnaround from the 2022 deficit and hence, provide support to the THB this year.

- **From a portfolio perspective, both equity (-$0.9bn net outflow) and bonds (-$1.2bn net outflow) saw heavy outflows month to date up until 23/24 Feb.** Equity outflow has been gaining momentum recently possibly amid some weakening in the global risk sentiment amid market anxiety over strong US economic data and Fed hawkishness. Bond appetite may have also taken a hit for similar reasons. Funds could have also taken some profit after the strong rally seen in prior months. However, we stay firm that China's recovery can improve appetite towards Thai equities and that easing US inflation albeit on a bumpy downward trend should support more inflows back into EM bonds.

- **FDI performance would continue to be watch closely in 2023.** Applications plunged by -25% in the first 9 months of 2022. Total FDI for the first three quarters of 2022 stood at $7.9bn, which marked a decline of -21.1% from the same period last year. However, there is a bright spot regarding the EV industry as China's BYD and Taiwan's Foxconn plan to start production in 2024.

- **Key domestic events and issues to watch**: Feb CPI (7 Mar), Feb Car sales (18 – 24 Mar), Feb Customs trade (23 – 28 Mar), ISIC Mfg prod index (24 – 30 Mar), BOT Decision (29 Mar), Feb BOP CA balance (31 Mar), Feb Trade data (31 Mar) and Feb BOP balance (31 Mar).

- **Technical Outlook:** The pair was last seen trading just below the 35.00 mark. Stochastics now look overstretched whilst RSI has broken below the overbought territory. This implies the risk of the pair moving downwards in the near term. Resistance is at 35.51 (200-dma) with the next at 36.21 (FI retracement of 61.8% from Jan 2023 low to Oct 2022 high). Support meanwhile is seen at 33.82 (50-dma) with the subsequent at 33.00, which is around the recent low for the year.

VND: Consolidation for Now

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
USDVND	**23,200** (--)	**23,100** (--)	**23,000** (--)	**22,900** (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** USDVND rose in line with most USDAsian pairings, buoyed by a combination of broad USD strength as well as some market jitters at home amid news of Vietnam's second-largest developer looking for a debt extensions after delaying its payment on a VND1trn note due on 12 Feb. Hanoi exchange has also revealed that 54 companies (mostly property developers, builders and energy firms) were late in their payments to their bond holders as of 31 Jan. This compares to just six companies reported as of 31 Dec.

- Vietnam clocked USD2.55bn of realized FDI for the first two months of 2023, around 4.9% lower than a year ago. Somehow, investment confidence might have been slightly affected by the recent liquidity challenges faced by property developers and possible contagion effects on the financial system as well as weaker global growth outlook. Into Feb, sentiments soured in the local stock markets amid multiple defaults reported by major corporates (most notably Novaland), not help the least by broader market concerns about Fed's policy trajectory. Net equity outflow recorded for Feb was around -$23.2mn but Vietnam still enjoyed a net equity inflow for the quarter thus far at $91.9mn and that capped the USDVND upmove at 23858.

- We continue to remain cautiously optimistic on VND, especially against the USD. We reckon the dong has a chance to strengthen against the greenback in a less uncertain interest rate environment. We continue to look for policy support for Vietnam's economic growth, as well as positive spillovers from a recovering China. A more discernible slowdown in US economic activity could eventually allow the Fed to halt its tightening cycle and bring the USDVND below the 23000 sometime this year.

- **Risks to this view** is for a reacceleration of inflation to inject more uncertainties on Fed's policy trajectory or contagion from corporate defaults that could weigh on domestics assets and concommitnatly, the VND.

- **Growth and Inflation Outlook:** Notwithstanding jitters in the financial markets, Vietnam has started to benefit from tourism inflows, especially from China. **Our economist noted that foreign visitor arrivvals rose 7.1% in Feb, albeit still 46.8% of their pre-pandemic peak in Jan 2020. Arrivals from China was up the most at 246.6% followed by Taiwan and South Korea.** That said, retail sales growth still eased to 13.2% from 20% in Jan after Tet demand (in Jan) fades. Real retail sales growth moderated to 9.2% in Feb vs. 15.8%, underpinned by tourism revenue, accommodation and food services. Our economist looks for retail sales to eage further as the reo-pening tailwind could be overwhelmed by rising living cost, tight monetary policy and possible wealth/sentiment effects from the property liquidity crisis.

- **Growth forecast for 2023 is maintained at 6.**3% with 4.8% expansion expected for 1Q. Weaker external demand from Western markets, tighter monetary policy and the real estate liquidity crunch, though offset partly by the more positive China outlook.

- CPI eased more than expected to 4.31%y/y for Feb from previous 4.89%, well under the consensus of 4.50%. Moderation in prices of food & food services (+4.3% vs. previous 6.1%) dragged on the headline. Core inflation also eased from 5.2%y/y (0.46%m/m) to 5.0%, albeit higher than headline. Our economist maintains forecast for headline CPI at 4.3%. While moderating demand could start to ease inflationary pressures, headline could still remain underpinned by costpush factors such as retail electricity prices, an impending 20.8% hike to minimum wages from Jul and possible resurgence in energy costs as global oil prices recover with China's reopening.

- **Monetary Policy Forecast:** SBV is expected to hike 50bps in the 1Q of 2023 as inflation is expected to remain elevated. However, with the Fed already making two downshifts (in Feb and in Dec) and VND's recent stable performance in spite of recent market jitters, the case for another rate hike by SBV might have weakened a tad. SBV might prefer to stand pat.

- **That said, we cannot rule out a tail risk of a reacceleration of inflation in the US that could generate a tad more volatility.** However, the extent of uncertainty is likely to be limited relative to what was seen in 2022 and that should also limit the USD bullish momentum and threats to the VND.

- **Latest Fiscal and External Balance Outlook:** Current account deficit narrowed to -$0.9mn for 4Q from $6.3mn in 3Q. With external demand poise to weaken in 2023 and potential for China's recovery to boost energy prices, current account deficit could be at risk of widening again this year, thus potentially adding pressure on the VND. As for fiscal, the state budget revenue is expected to be around VND1.62 quadrillion ($68.5bn), up 0.4% from 2022 and state budget expenditure at VND2.07 quadrillion, a 16.3% increase from 2022. Deficit to come in around VND455.5trn which would be 4.42% of GDP.

- **Key domestic events and issues to watch:** Mar CPI, Industrial production, Trade are due 25-31 Mar.

FX Forecasts

	End Q1-23	End Q2-23	End Q3-23	End Q4-23
USD/JPY	132.00	128.00	125.00	122.00
EUR/USD	1.1000	1.1100	1.1200	1.1300
GBP/USD	1.2400	1.2100	1.2200	1.2400
AUD/USD	0.7000	0.7200	0.7400	0.7500
NZD/USD	0.6500	0.6600	0.6700	0.6800
USD/CAD	1.3100	1.3000	1.2900	1.2800
USD/SGD	1.3100	1.3000	1.2900	1.2850
USD/MYR	4.2500	4.1500	4.1000	4.0000
USD/IDR	15000	14700	14400	14200
USD/THB	32.00	31.50	31.00	30.00
USD/PHP	54.00	53.00	52.50	52.00
USD/CNY	6.75	6.70	6.65	6.60
USD/CNH	6.75	6.70	6.65	6.60
USD/HKD	7.85	7.80	7.80	7.80
USD/TWD	30.00	30.00	29.30	29.00
USD/KRW	1330	1320	1300	1290
USD/INR	81.00	80.00	80.00	79.00
USD/VND	23200	23100	23000	22900
DXY Index	101.76	100.72	99.59	98.47
	End Q1-23	End Q2-23	End Q3-23	End Q4-23
SGD/MYR	3.24	3.19	3.18	3.11
JPY/SGD	0.99	1.02	1.03	1.05
EUR/SGD	1.44	1.44	1.44	1.45
GBP/SGD	1.62	1.57	1.57	1.59
AUD/SGD	0.92	0.94	0.95	0.96
NZD/SGD	0.85	0.86	0.86	0.87
CAD/SGD	1.00	1.00	1.00	1.00
SGD/IDR	11450	11308	11163	11051
SGD/THB	24.43	24.23	24.03	23.35
SGD/PHP	41.22	40.77	40.70	40.47
SGD/CNY	5.15	5.15	5.16	5.14
SGD/HKD	5.99	6.00	6.05	6.07
SGD/TWD	22.90	23.08	22.71	22.57
SGD/KRW	1015	1015	1008	1004
SGD/INR	61.83	61.54	62.02	61.48
SGD/VND	17710	17769	17829	17821
	End Q1-23	End Q2-23	End Q3-23	End Q4-23
JPY/MYR	3.22	3.24	3.28	3.28
EUR/MYR	4.68	4.61	4.59	4.52
GBP/MYR	5.27	5.02	5.00	4.96
AUD/MYR	2.98	2.99	3.03	3.00
NZD/MYR	2.76	2.74	2.75	2.72
CAD/MYR	3.24	3.19	3.18	3.13
MYR/IDR	3529	3542	3512	3550
MYR/THB	7.53	7.59	7.56	7.50
MYR/PHP	12.71	12.77	12.80	13.00
MYR/CNY	1.59	1.61	1.62	1.65
MYR/HKD	1.85	1.88	1.90	1.95
MYR/TWD	7.06	7.23	7.15	7.25
MYR/KRW	313	318	317	323
MYR/INR	19.06	19.28	19.51	19.75
MYR/VND	5459	5566	5610	5725

Source: Maybank FX Research and Strategy as of 1 Mar 2023.
*These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.

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