April 18, 2024

Maybank

FX Insight

ASEAN FX - Staying Calm Amid Anxiety

ASEAN FX Under Pressure As Fed Rate Expectations Re-adjust

- Readjustment in market expectations of a Fed easing has recently put ASEAN FX under pressure, in part due to their sensitivity to rate differentials
- A number of the currencies though also face unfavorable idiosyncratic factors that have compounded the pressure
- On the flipside, a number of favorable idiosyncratic factors have also cushioned the extent of the blow for some currencies
- Near term, there are two-way risks at this point for ASEAN FX, however, we still believe that the Fed would eventually ease this later year, which would provide relief
- Therefore, we view that this period of pressure would eventually pass and we stick to our forecasts that USD - ASEAN pairs would end the year lower

Recent strong US data leading to a readjustment in market expectations on the pace of Fed easing has put EM FX including those in the ASEAN space under pressure. This pressure can be heavy too given that ASEAN FX exhibit sensitivity to rate differentials with the US. However, the pressure has been heavier on some compared to others. Whilst this can be attributable to their level of sensitivity to the rate differentials, idiosyncratic factors can also play a part in either exacerbating the pressure or cushioning it. Regardless, we are not inclined to believe that this pressure would last forever and that there would be relief in the medium term as we see that the Fed would eventually cut rates. Therefore, we expect USD - ASEAN pairs would still decline and stick to our forecast that USD - ASEAN pairs would finish the year lower. Near term though, we do though see two way risks for the currencies.

More recently, coordinated verbal intervention via the issuance of various statements by G7, the trilateral meeting between Finance Ministers of Korea, Japan and US as well as PBoC's comment on RMB has helped to calm sentiments in FX markets. We also note that these statements, including the one issued by G7 commenting on FX moves and comments by PBoC and BoK and others, may be sufficient to limit further USD upside and JPY as well as KRW weakness. G7 last made such statements on FX on 12 Oct 2022 and that had led to a peak in the dollar. So barring no further moves in risk sentiment or escalation in geopolitical risk, we could see limited further USD upside for now.

Analysts

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

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

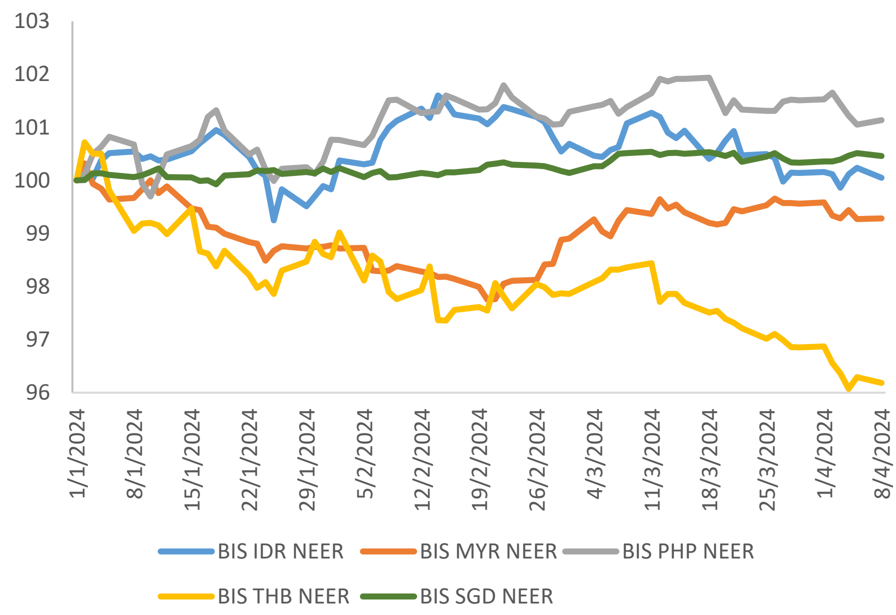
Fiona Lim
(65) 6320 1374
fionalim@maybank.com

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

ASEAN FX Under Pressure As Fed Easing Expectations Readjust

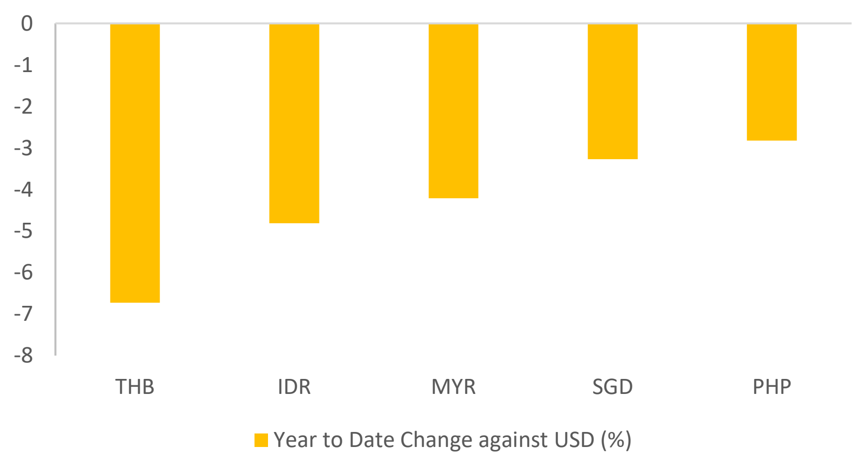
Recently, the rate sensitive ASEAN FX have come under heavy pressure as markets readjust expectations on the pace of Fed easing. Expectations had been quite lofty and an aggressive pullback for ASEAN FX is not necessarily surprising. Compounding this, a number of less favorable idiosyncratic factors have weighed on them to. That said, on the flipside, some favorable idiosyncratic factors have also cushioned the pressure these currencies face. In this piece, we explore the extent of the pressure the major ASEAN FX have felt and the drivers that have contributed to this pressure or cushioned it. We would also be providing a projection of where we believe these currencies would head in the medium term. In addition, we also highlight the nominal effective exchange rates (NEER) of the regional currencies which shows on a trade weighted basis, the SGD, PHP, MYR and IDR are holding close to around their levels at start 2024. The THB has in contrast been on the decline.

Chart 1: On a trade weighted Basis, SGD, PHP, MYR and IDR are Holding Close Around their Levels at Start 2024 whilst THB has Declined



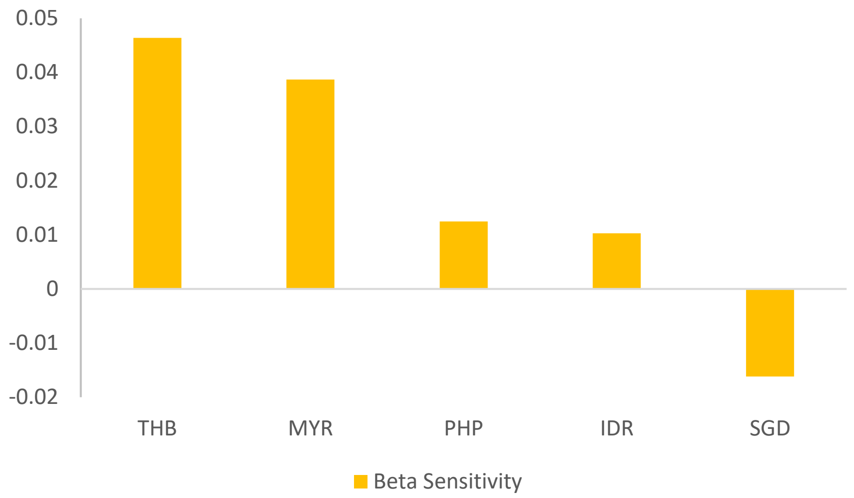
Source: Macrobond, Maybank FX Research & Strategy
Note: NEER values were indexed to 100 as of 1 Jan 2024

Chart 2: Performance of Major ASEAN FX YTD until 16 Apr 2024



Source: Bloomberg, Maybank FX Research & Strategy

Chart 3: Major ASEAN FX (Except Singapore) All Exhibit Sensitivity to Rate Differentials With the US, Putting Them Under Significant Pressure at this Point



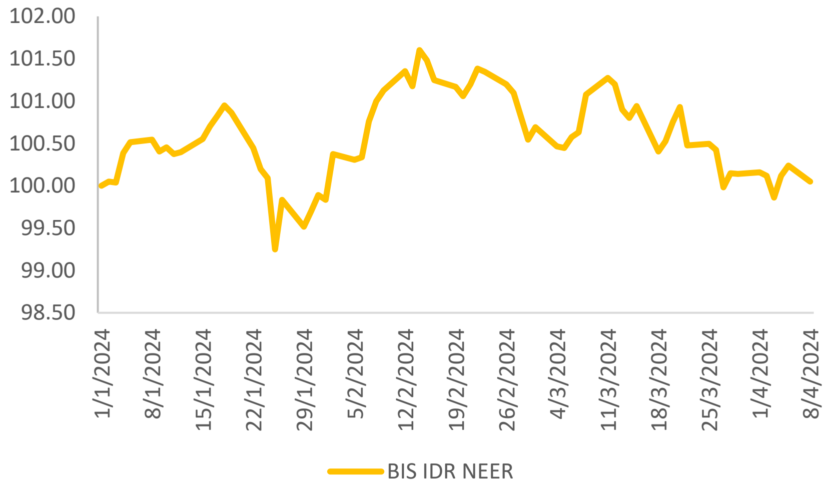
Source: Bloomberg, Maybank FX Research & Strategy
Note: Beta of the respective currency against their 10Y yield differentials utilizing weekly data from 2017 - 2023.

IDR - Relief in the Medium Term

USDIDR has recently crossed above 16000, which marks the highest level it has been at since the early 2020s.The pair though does not stand alone regionally in having hit this multi-year high as the same scenario has also played out for the USDTHB, USDKRW and USDJPY. Both external and domestic factors have played quite a role in leading to the USDIDR moving higher.

However, whilst the currency has declined against the USD, we would like to note that on a trade weighted movement of the currency has actually been quite steady. This implies that on a bilateral basis versus other currencies, the IDR has actually been holding its ground.

Chart 4: The Trade Weighted Performance of the IDR has Actually Been Steady Since the Start of 2024



Source: Macrobond, Maybank FX Research & Strategy
Note: NEER value were indexed to 100 as of 1 Jan 2024

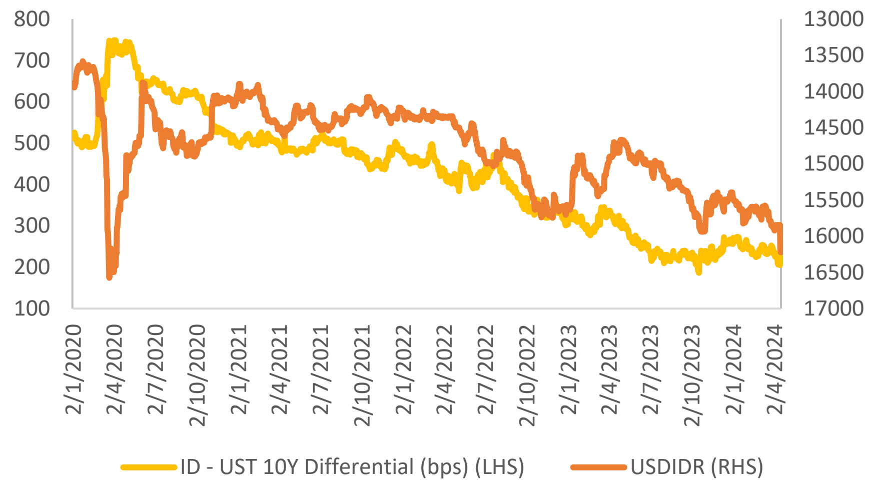
External and Domestic Factors Weigh In But May Eventually Recede

Most prominent among these factors is the recent readjustment in markets Fed rate cut expectations given the persistent strength of US data. With the IDR being a rate sensitive currency, this development no doubt has weighed quite heavily into it. The effect of this expectations shift can also be said to be more pronounced given that market did actually hold quite aggressive expectations of a rate cut this year before significantly paring it back. UST yields have risen to the highest levels since 2023, which has led again to a further narrowing of IGB – UST yield differentials. A further climb in the UST yields cannot be ruled out although this is not a "forever" development. We have always constantly stressed that the path downward for inflation is going to be one that is bumpy albeit it would still move lower. Therefore, even though market is more pessimistic now about the Fed being able to cut in 2024, we still believe that an easing would happen this year. The IDR under these circumstances should get a relief from existing pressure.

Domestically and idiosyncratically, we do note that there are concerns associated with Prabowo's ambitious spending plans and the impact it would have on the budget deficit. This has meant that the appointment of the new Finance Minister would be a closely watched matter as it would give a signal on the emphasis that his government would place on fiscal discipline. For now, it is still unclear who would be appointed the next Finance Minister although names that have been talked about include

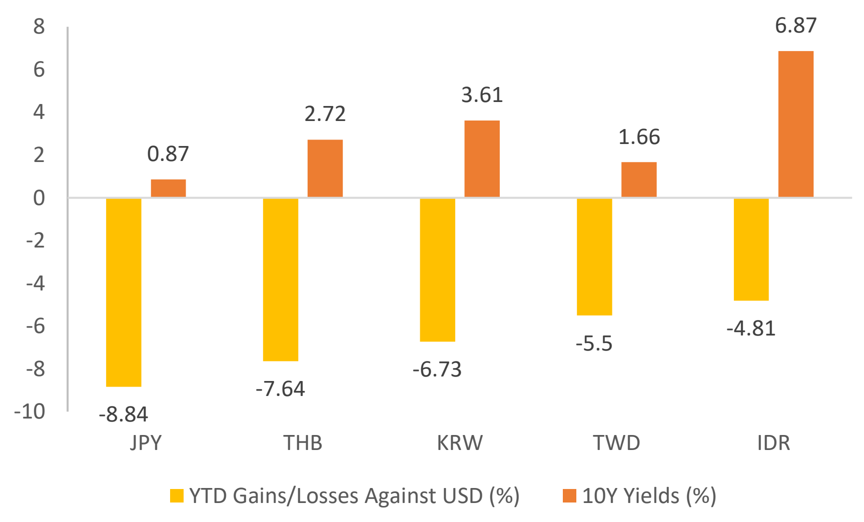
Health Minister Budi Gunadi Sadikin, Deputy State-Owned Enterprises Minister Kartika Wirjoatmodjo, financial regulator chairman Mahendra Siregar and Bank Negara Indonesia president-director Royke Tumilaar. The uncertainty regarding the appointment can risk lingering for quite a while especially given that the inauguration of the new President would only occur in Oct 2024.

Chart 5: Narrowing Yield Differentials Are Currently Weighing on the IDR Although There Should be Some Relief Eventually as the Fed Eases



Source: Bloomberg, Maybank FX Research & Strategy

Chart 6: Regardless, the High Yielding Carry Advantage of the IDR has Given it an Advantage and Seen it Perform Better vs Other Low Yielding Regional FX YTD

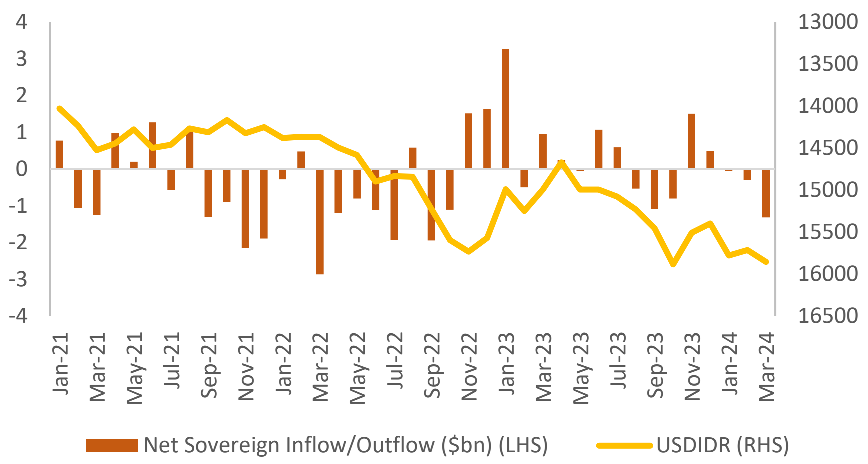


Source: Bloomberg, Maybank FX Research & Strategy
Note: Data is as of 16 Apr 2024 except for TH 10Y yields which is as of 11 Apr 2024

Outflows from IGBs But Positioning In It Could Improve

IGBs have been seeing much outflow recently and this can be attributable to both the current conditions and fiscal concerns. Given the strong link between IGB flows and the USDIDR, any improvement on the situation regarding this would be significant in seeing an appreciation in the IDR. As mentioned, we are still expecting the Fed to ease this year so that should encourage more inflows again into the IGBs and the EM space in general. Aside that, there should also be receding in concerns in time regarding the political uncertainty and fiscal matters, especially when the appointment of the new Finance Minister is announced and the new government makes clear the policies that they intend to pursue in the coming years.

Chart 7: IGB Outflows Have Weighed On the IDR But Inflows Should Return as the External/Domestic Pressures Recede

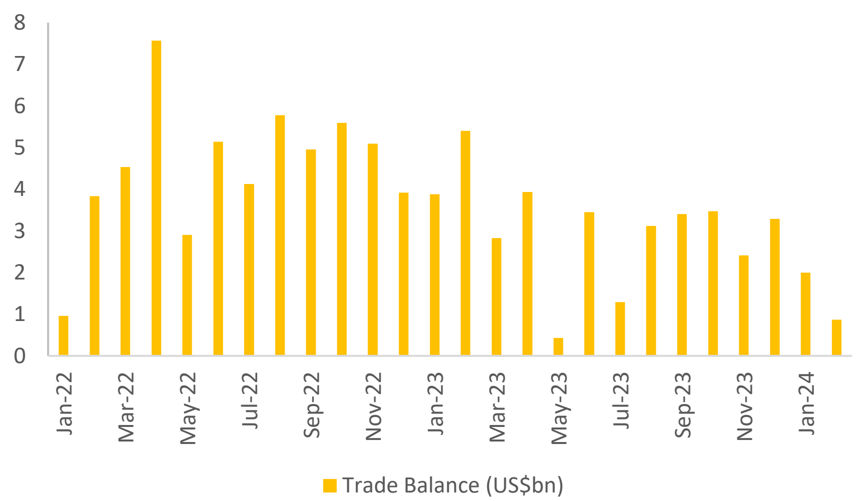


Source: Bloomberg, Maybank FX Research & Strategy

Country's Fundamentals to Remain Robust

Fundamentally, Indonesia's economic position in many respects is still fairly robust. Whilst there are concerns about Indonesia's external positon weakening, our in-house economist continues to believe that the country can still see a trade surplus. The recent narrowing in the trade balance from higher imports also arises from seasonal factors that could dissipate (these include higher food demand due to the festive Ramadan period). High palm oil prices could also give support to exports. The CA balance is expected to be in deficit albeit may it still be quite narrow.

Chart 8: Trade Balance Has Been Narrowing But Exports Should Still Hold Up Enough to Keep it in Surplus for 2024



Source: Macrobond, Maybank FX Research & Strategy

Two-Way Risks For IDR Near Term But Expect Rebound in the Medium Term

Near term, we see two-way risks for the currency. On the one hand, the greenback is stretched and there is potential of central bank intervention but on the other, US data can still keep coming out strongly. We are watching some key levels of resistance for the USDIDR that includes 16217, 16419 and 16500. Support we believe stands at 16000, 15733 (50-dma) and 15628. We do note the potential of a formation of a cup and handle pattern on the chart although there are periods in the past such as in 2018 when the pattern failed to fully play out. Interestingly, the Fed would pause and cut rates between end 2018 - 2019. In the medium term, we are expecting the USDIDR to edge lower given our belief that the Fed would still cut this year. Therefore, we continue to stick to our forecasts and see the pair hitting 15500 by year end.

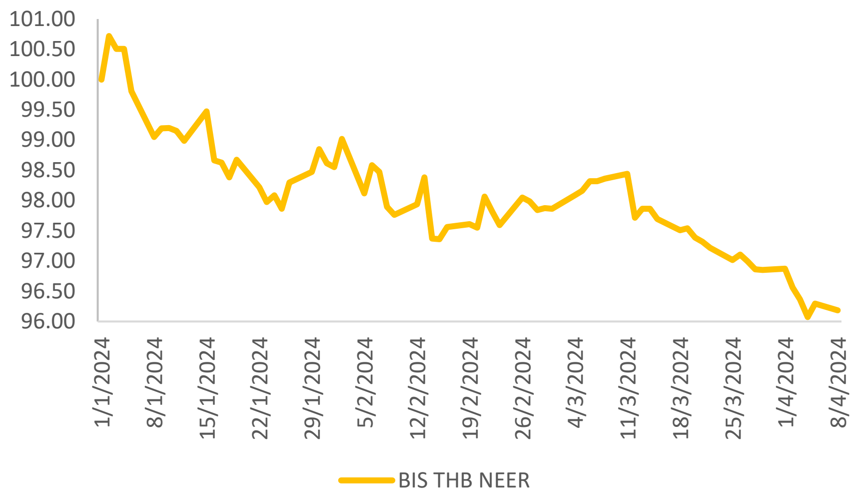
Table 1: USDIDR Forecasts

Forecast	2Q 2024	3Q 2024	4Q 2024	1Q 2025
USDIDR	15750	15650	15500	15250

THB - External and Domestic Concerns to Limit Performance

Regionally, the THB has been amongst the worst performer since the start of the year, only just behind the KRW and the JPY. From the close of 28 Dec 2023 to 11 Apr 2024, the USDTHB pair has moved up an astounding 7.22% and has nearly pared back the entirety of its downward move between the high of Oct 2023 to the low on 28 Dec 2023. Any reversal this year has been short lived for USDTHB and ever since the recent low on the 11 Mar 2024, the pair has moved up until 3.44% as of 11 Apr 2024. On a trade weighted basis, the THB has seen decline.

Chart 9: THB has Declined on a Trade Weighted Basis



Source: Macrobond, Maybank FX Research & Strategy
Note: NEER value were indexed to 100 as of 1 Jan 2024

Both Domestic and External Factors Work Unfavorably

Driving the THB weakness is not one single factor alone but a multitude of both domestic and external issues, which range from a pressuring political situation to robust US data. Such factors for now are looking to be unlikely to recede for the THB in the near term.

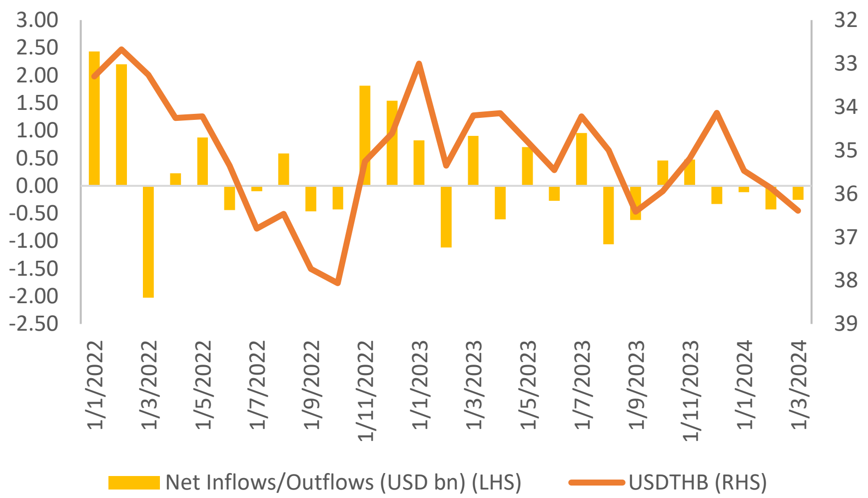
Recently, PM Srettha's attempts to boost the economy is looking like it would keep hurting the THB via its impact on the country's monetary policy and fiscal position. Regarding the former, the BOT did hold rates at the recent Apr meeting whilst at the same time, they did not appear towards lean to any cuts in the future given that they assessed policy rate to be closed to neutral. They also mentioned "that the effectiveness of monetary policy on resolving structural impediments is limited". Even so, the pressure on the BOT from the government to cut rates is likely to persist, which would only serve to sap sentiment towards the currency. After all, just after the BOT meeting, PM Srettha again reiterated the benefits of a rate cut as he said that interest rates affected people's decision to purchase homes and that "purchasing one house covers expenses for home decorations and electrical appliances, which would result in money circulating in many industries". He noted that tourism could get a lift from a weaker currency. Our in-house economist still believes that there is a possibility of one rate cut this year on the 12 June meeting and this would do the THB no favors especially in light of the risk that they could move ahead of the Fed.

Meanwhile, the PM is still insistent on pushing ahead with the digital wallet handout plan with funding for it coming from budget sources. This would include THB175bn from the 2024 fiscal budget, THB172.3bn from Bank of Agriculture and Agricultural Cooperatives 2025 budget and THB152.7bn from 2025 fiscal budget. The fiscal pressure therefore is likely to persist especially in light of a weaker economy where revenues can risk being lower. Concerns related to this issue is looking like it could keep being a drag in the coming months given the contesting opinions of various stakeholders towards this matter.

Compounding these problems is externally the risk that the Fed may have to slow its pace of rate cuts compared to the three cuts as implied in the dot plots. Appetite towards the EM assets is possibly going to remain subdued amid concerns that nominal rate differentials between the US and Thailand are unlikely to see any major narrowing in the coming year.

Foreign investors we believe are unlikely to consider positioning substantially into Thai bonds in the near term given that the anxiety on these issues are going to keep persisting and weigh on sentiment. Whilst outflows have already been heavy in the last couple of months, we are still expecting that it may continue as investors have little reason to remain in. Regarding equity inflows, we believe it is unlikely to see sustainable pick-up if the economy continues to stay under pressure or there is no notable green shoots that can be highlighted.

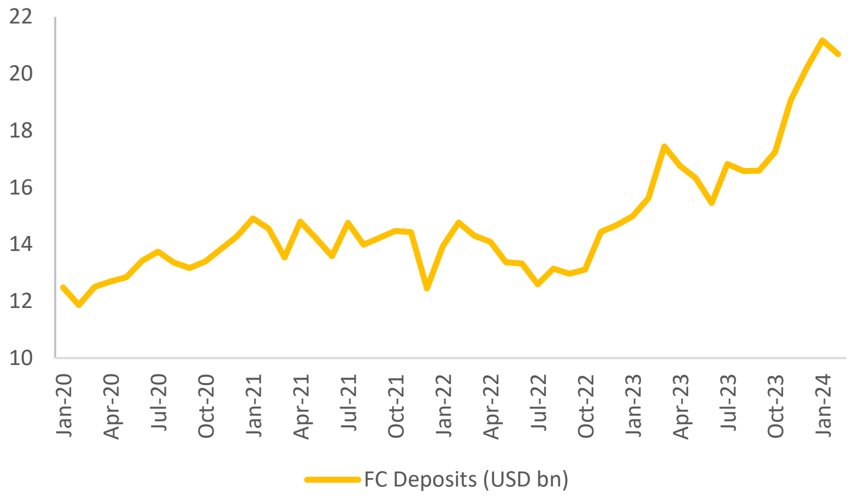
Chart 10: Outflow from Thai Bonds Could Persist for a While



Source: Bloomberg, Maybank FX Research & Strategy

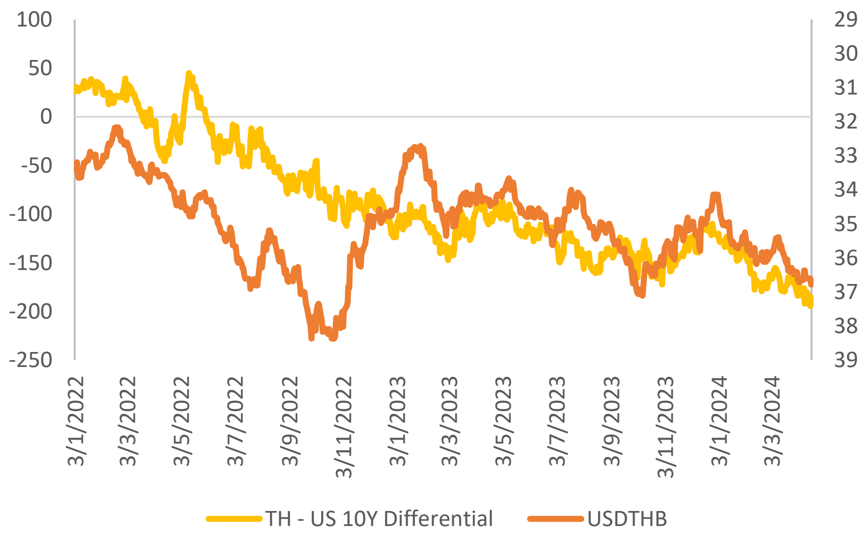
Aside these factors, another concerning development for the THB is that there appears to be a rising level of foreign currency (FC) deposit holdings. Interestingly, the liberalization of allowing residents tofreely deposit funds in FC deposit accounts was announced back in Nov 2020 back when the country faced the opposite issue of the THB strengthening quite substantially. Foreign currency deposits did not build up strongly post the announcement initially. However, the climb in the last two years of these FC deposits actually could be some reflection of possibly more attractive interest rates of FC accounts and also potentially some indication of confidence issues related to the currency (this can be very hard to turnaround even if the country’s fundamentals improve). A further increase in FC deposits due to these reasons is a very possible risk that can keep weighing on the THB in the coming future.

Chart 11: The Risk of Further Rises in FC Deposits Can Keep Weighing on the THB



Source: Macrobond, Maybank FX Research & Strategy

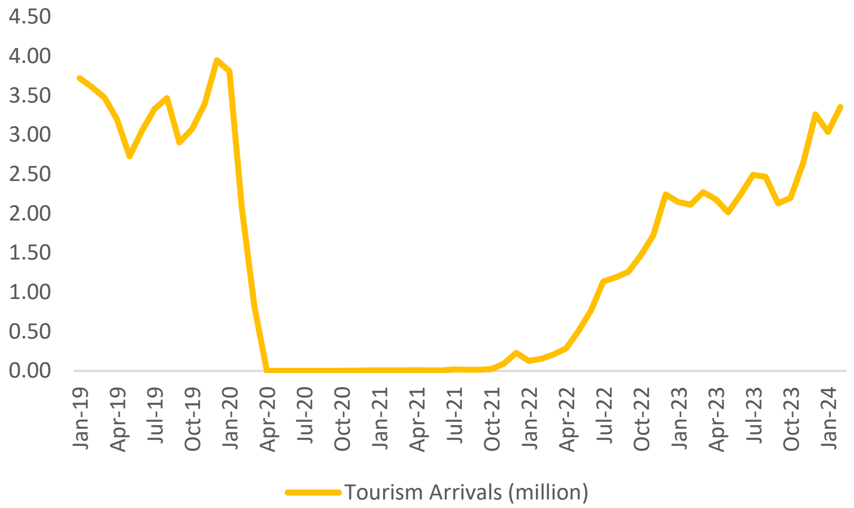
Chart 12: Pressure on the BOT to Cut Weighs on the THB Especially Given it Can Only Further Widen Rate Differentials



Source: Bloomberg, Maybank FX Research & Strategy

Fundamentally too, an improvement in the country's external position could still take time. Whilst tourism is expected to see further improvement this year, spending per visitor may be slow to recover still especially economic conditions in China could still be quite subdued. Given no major recovery in tourism or other sectors, the CA is also likely to struggle to see a significant surplus this year. Gains for the THB could consequently be limited by such conditions.

Chart 13: Tourism Has Picked Up But it Could then Slow into the Low Season, Limiting the Benefit for the THB

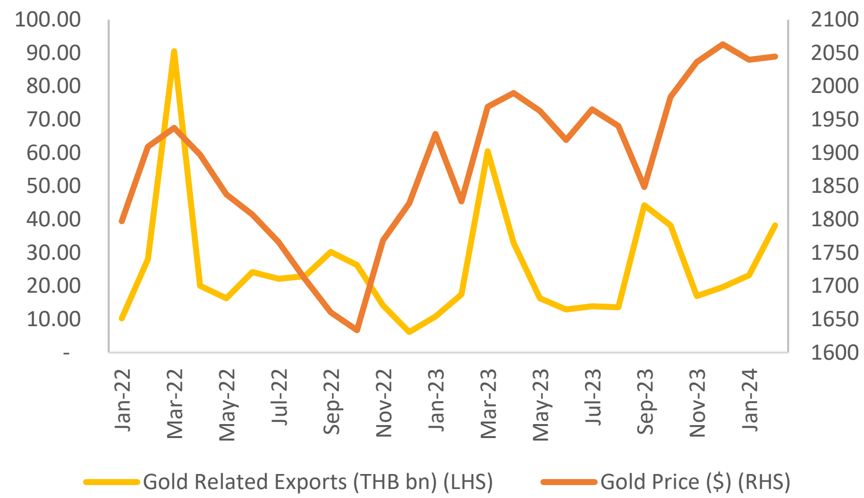


Source: Macrobond, Maybank FX Research & Strategy

Gold Could be the Supportive Factor

Recent price action between the USDTHB and gold does not necessarily seem to imply directly that gold has provided support to the THB. However, when we examine the data, the higher gold prices are climbing in sync with a greater level of gold exports for the country. In some sense, this could imply that gold could still be giving support to the THB except that other negative factors are also weighing on the currency and countering gold's positive effect. We hold a bullish view on gold going forward on the basis that investors may be seeing it as one of the few safe havens available out there. Hence, higher gold prices could keep supporting the THB and limit its losses.

Chart 14: Gold Exports Are Climbing in Line with Prices, Helping to Give the THB Support and Limiting Losses



Source: Bloomberg, Macrobond, Maybank FX Research & Strategy

Near Term, Two-Way Risks for USDTHB

Near term, we see that there are two-way risks for the USDTHB. On the one hand, the greenback is stretched and there is potential of central bank intervention but on the other, US data can still keep coming out strongly.

Key resistance levels we are watching are 37.00, which can mark a potential double top. However, 37.00 is also around the 76.4% fibo retracement from the low of the Jan 2023 to Oct 2022 high. Support is at 36.05 and 35.50.

In the Medium Term, Pair Could Still Move Lower

We still expect the USDTHB to move lower in the medium term on the basis that the Fed would engage in some cuts in 2024. However, albeit the risk of a slower pace of rate cuts, the move downwards on the USDTHB is likely to be more gradual. Our forecasts have reflected this with a DXY that is still likely to hold quite strongly into year end.

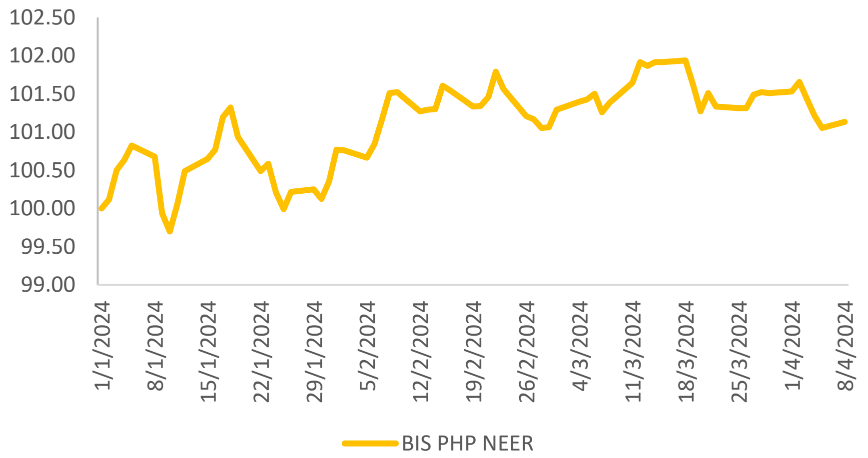
Table 2: USDTHB Forecast

Forecast	2Q 2024	3Q 2024	4Q 2024	1Q 2025
USDTHB	36.50	35.50	35.00	34.50

PHP - Higher Pressure But Likely to Hold its Ground

Just like its other regional peers, the PHP has also similarly been under pressure as it in fact has underperformed compared to its other peers month to date. However, we would like to note that on a year to date basis, the PHP is still the second best performing currency in ASEAN and on a trade weighted basis, the currency's performance has held up since the start of the year. Therefore, it can still be said that the currency has managed to some extent hold its ground. This is even as the PHP is fundamentally in a worse position compared to them given the twin deficit position it faces.

Chart 15: PHP Performance on a Trade Weighted Basis Has Been Stronger Since Start of the Year

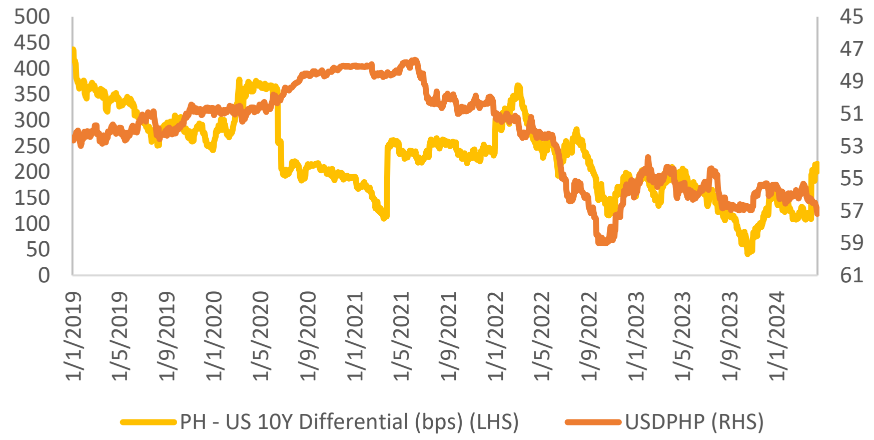


Source: Macrobond, Maybank FX Research & Strategy
Note: NEER value were indexed to 100 as of 1 Jan 2024

The currency being able to hold its ground in some respect can be attributed to the hawkishness of the BSP. Philippines nominal rates have actually been among the highest in the region given the aggressive hiking cycle that the BSP undertook over the last few years. The central bank has in fact raised rates to well beyond its pre-pandemic level with the overnight borrowing rate now standing at 6.50%. Also, unlike other regional central banks such as the BOT, the BSP in contrast is not facing any pressure to cut rates. Instead, inflation remaining above target and the risk of it edging up higher is likely to create the opposite pressure on the BSP to keep rates high. Recently, the BSP Governor Eli Remolona has said that they are "looking at staying tight for a while" and that the odds are "over 56%" that inflation would breach the BSP's 2-4% target this year. He has ruled out increasing the rate but at the same time sees that the window to reduce it in 2H 2024 is narrowing given these inflation concerns. Given that there are actually serious inflation risks that arises from both El Nino conditions, we are inclined to believe in the Governor's words and that there could be a shallow rate cut cycle for the BSP. Hence, the PHP is likely to keep receiving support from a rate angles perspective.

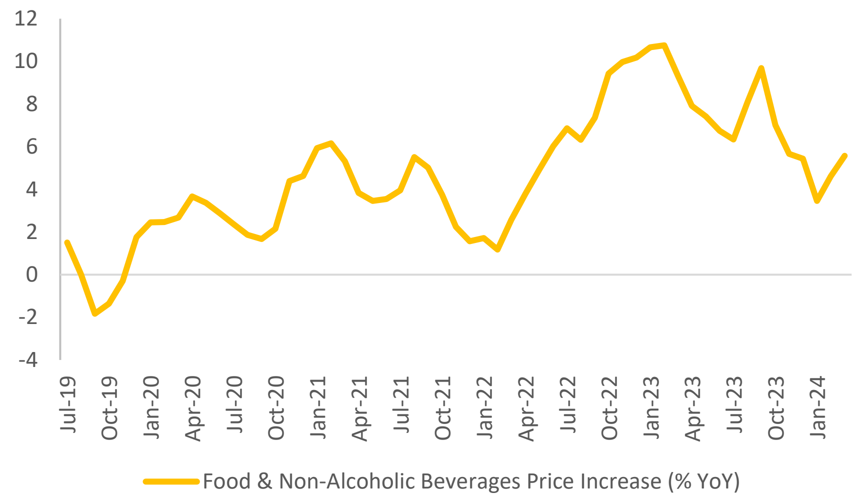
Near term, we see two way risks for the PHP. On the one hand, the greenback is stretched and there is potential of central bank intervention but on the other, US data can still keep coming out strongly. Key resistance levels that we are closely watching include 57.00 and 57.72. Support is at 56.50 (previous resistance) and 56.00 (convergence of the 50-dma and 200-dma). In the medium term, just in line with the other peers, we still expect a downward move for the pair as the Fed could still ease this year.

Chart 16: Holding Up Yield Differentials Has Helped to Keep PHP More Steady Compared to Peers



Source: Bloomberg, Maybank FX Research & Strategy

Chart 17: High Food Inflation Keeps the Pressure on the BSP to Hold Rates High, Which in Turn Supports the PHP



Source: Macrobond, Maybank FX Research & Strategy

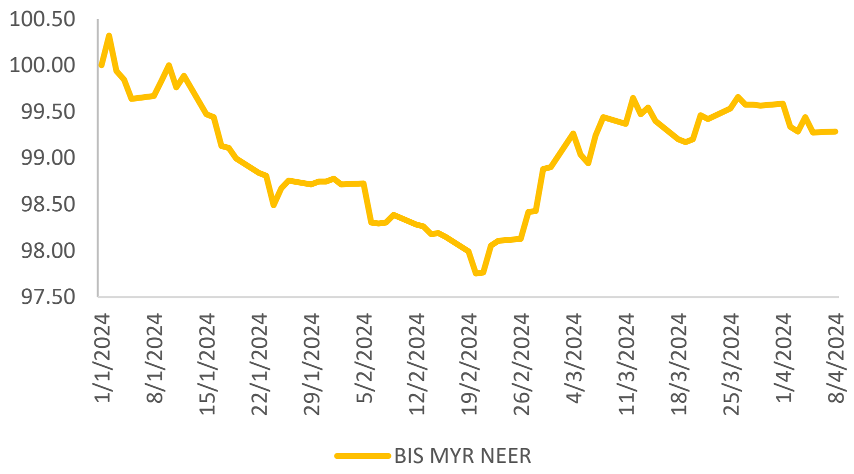
Table 3: USDPHP Forecasts

Forecast	2Q 2024	3Q 2024	4Q 2024	1Q 2025
USDPHP	56.50	56.00	55.50	55.00

MYR - Weakness Limited, Expect Rebound Medium Term

Amid this risk-off period, the MYR is not immune to the weakness against the US dollar which is due to external factors.. The currency had a challenging start to the year but within the region, it has actually been the best performer against the USD since endFeb. depreciating only 0.8% compared to SGD (1.1%), PHP (2.0%), THB (2.3%), TWD (2.3%), JPY (2.7%, IDR (3.0%), KRW (3%). The currency on a trade weighted basis has swung back up after initial decline at the start of the year.

Chart 18: MYR on a Trade Weighted Basis Has Swung Back Up After an Initial Decline at the Start of the Year



Source: Macrobond, Maybank FX Research & Strategy
Note: NEER value were indexed to 100 as of 1 Jan 2024

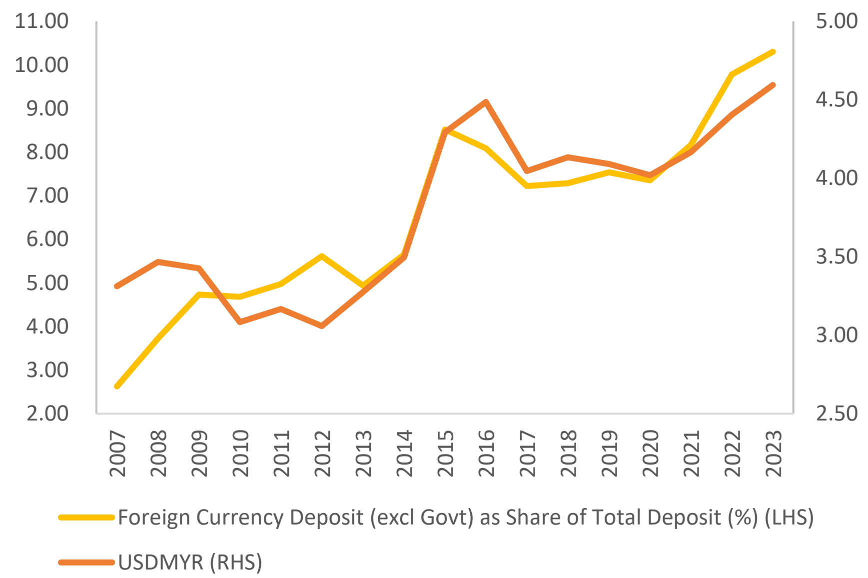
In recent times, there are a number of factors that could have given the currency quite some support. We note that the Malaysian government and BNM have been encouraging more conversions into the local currency. The central bank itself has said that they are working with state-linked companies (GLCs and GLICs) to encourage more repatriation and conversion of their foreign investment income. Second Finance Minister Amir Hamzah has mentioned that BNM is monitoring the conversion of export revenue into local currency by exporting companies. He had also said that the government controls overseas investments by private companies and encourages them to prioritize domestic investments and delay overseas investment. A continued push from the government in this area we believe could at least at the margin help to continue to slow down MYR depreciation in this risk-off global environment. In addition, the recent move up in oil prices could have supported the MYR with Malaysia still being a net oil exporter.

Aside that, the USDCNH has also been fairly steady as the PBOC continues to manage the volatility related to the CNY. Historically, there has been a reasonably strong relationship (although not always consistent) between the CNH and MYR given the strong trade connections between China and Malaysia. The MYR's outperformance has been occurring in line with the CNH's steadiness recently.

Near term, we see two-way risks for the USDMYR. On the one hand, the greenback is stretched and there is potential of central bank intervention but on the other, US data can still keep coming out strongly. Key levels of resistance that we are keeping a close eye on include 4.8000 and 4.8629 (50.0% extension). Support is at 4.7475 (50-dma) and 4.6873 (200-dma). In the medium term, we are still expecting the Fed to undertake cuts in 2024. Therefore, we believe the downward trajectory for the USDMYR remains intact and that the pair could hit 4.5500 by year end. Also, Malaysia's economic fundamentals looks to remain resilient as the country is likely to keep maintaining a CA surplus, giving the MYR support. Exports this year could get a lift too from the pick-up in the electronics cycle.

More recently, coordinated verbal intervention via the issuance of various statements by G7, the trilateral meeting between Finance Ministers of Korea, Japan and US as well as PBoC's comment on RMB has helped to calm sentiments in FX markets. We also note that these statements, including the one issued by G7 commenting on FX moves and comments by PBoC and BoK and others, may be sufficient to limit further USD upside and JPY as well as KRW weakness. G7 last made such statements on FX on 12 Oct 2022 and that had led to a peak in the dollar. So barring no further moves in risk sentiment or escalation in geo political risk, we could see limited further USD upside for now. This in our view could possibly limit further USDMYR move upwards.

Chart 19: Increasing Levels of FC Deposits Looks to Have Pushed the Government to Encourage Conversions



Source: Macrobond, Maybank FX Research & Strategy

Table 4: USDMYR Forecast

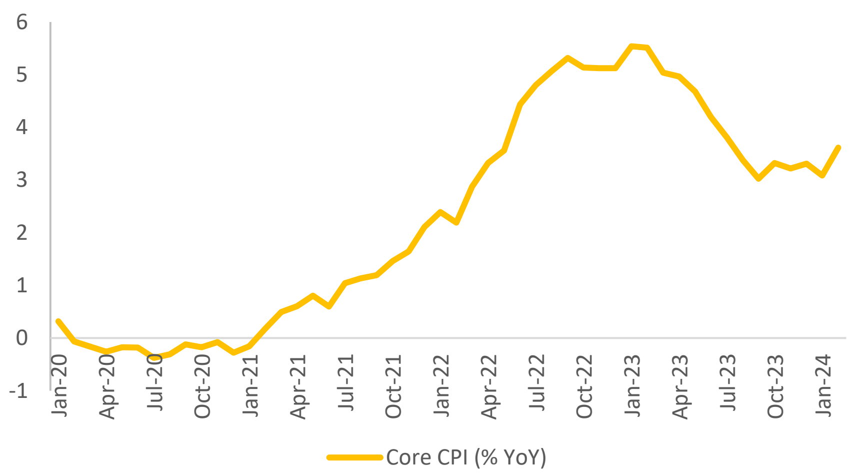
Forecast	2Q 2024	3Q 2024	4Q 2024	1Q 2025
USDMYR	4.7000	4.6500	4.5500	4.5500

SGD - Resiliency to Keep Holding

Following the turn in market expectations on the pace of Fed cuts this year, the SGD initially decline heavily although this eventually slowed. As a whole, the SGD can still be considered fairly resilient as the USDSGD is far from reaching its multi-year highs. The trade weighted performance of the SGD has also been fairly steady since the start of the year. The safe haven appeal of the SGD during stressed times in addition to MAS likely to keep a tight stance going forward is possibly giving the SGD support and limiting losses for the currency. MAS in particular may not make any move this year in 2024 given that they see core inflation is only going to hit a comfortable level in 2025. Core inflation as it appears may need time to moderate especially as it could stay sticky for at least 1H 2024 given hikes to GST, property taxes and carbon taxes. There is also increases to other administrative prices such as electricity, gas, water and public transport.

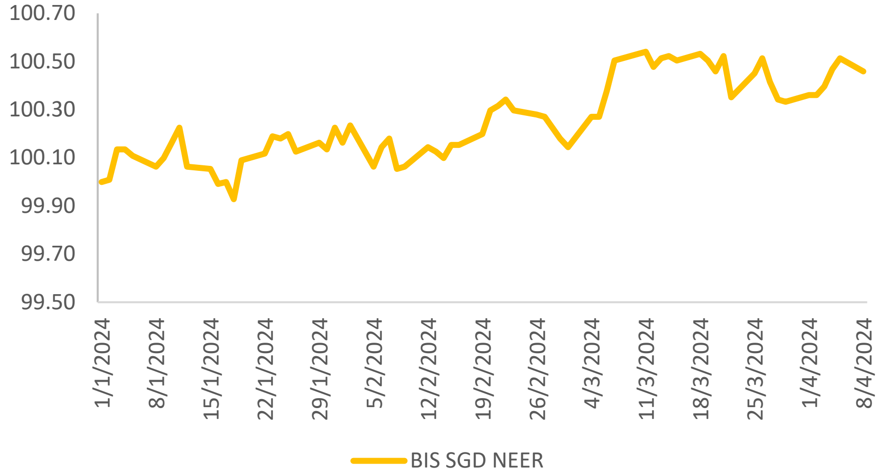
Near term, there are two-ways risks for USDSGD. On the one hand, the greenback is stretched and there is potential of central bank intervention but on the other, US data can still keep coming out strongly. In the upside case, the USDSGD could head higher towards the 1.3800 mark. However, this would not mark much of an increase for the pair which is in line with our above mentioned views that the currency's safe haven appeal would help keep it resilient in stressed times. Support levels we see are at 1.3472 and 1.3400. Medium term, in line with other USD – ASEAN pairs, we expect USDSGD to also trend downwards and end the year lower.

Chart 20: Core Inflation is Still High, Likely to Keep MAS Tight This Year and Giving the SGD Support



Source: Macrobond, Maybank FX Research & Strategy

Chart 21: SGD Performance on a Trade Weighted Basis has Been Fairly Steady Since the Start of the Year



Source: Macrobond, Maybank FX Research & Strategy
Note: NEER value were indexed to 100 as of 1 Jan 2024

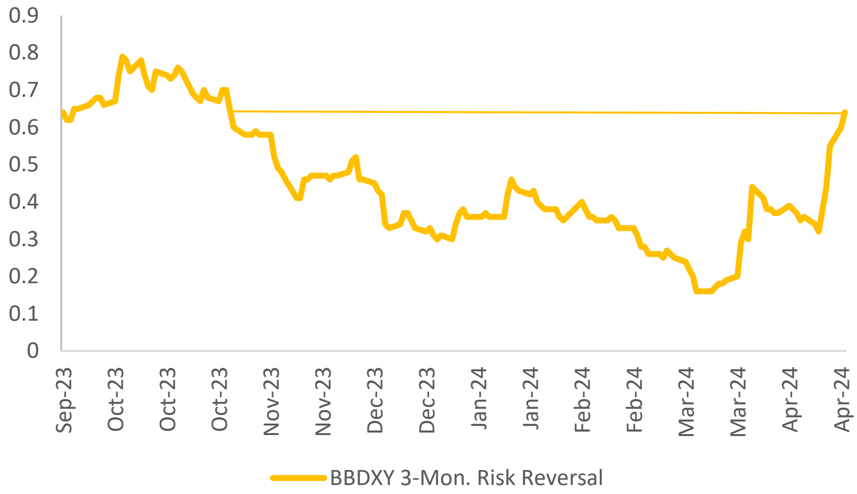
Table 5: USDSGD Forecast

Forecast	2Q 2024	3Q 2024	4Q 2024	1Q 2025
USDSGD	1.3450	1.3400	1.3300	1.3300

What Happens in the Upside Case if US Data Substantially Cools and the Fed Aggressively Eases?

In this kind of scenario, we do not rule out the possibility that there could be quite a strong pull back given how stretched USD positioning is at this point. For example, if we take a look at the risk reversals for the USD, we see that it is at the highest level it has been at since Oct 2023.

Chart 22: Long Positioning For USD is Stretch on a Recent Basis, Which Could Lead to a Strong Reversal if the Narrative Shifts



Source: Bloomberg, Maybank FX Research & Strategy

However, at this point, the signs are pointing to a US economy that looks to stay strong for quite a while. Therefore, we are not assigning a high probability that the US data can cool substantially.

Conclusion: USD - ASEAN Pairs Still to End the Year Lower

We are of view that this the current situation is certainly not a "forever" scenario and we continue to stick to our view that the US rates would ease, albeit with some risk of a delayed start of the Fed easing trajectory. Our US economist also sees the Fed cutting rates two to three times in 2024. Whilst we do believe that the USD can remain stronger for longer, it is likely still to gradually weaken alongside these cuts and fading US exceptionalism in the medium to longer term. Consequently, we therefore stick to our USD - ASEAN forecasts, which point the pairs ending 2024 lower. This anxiety that we are witnessing now in markets should subside as the year goes by.

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Malayan Banking Berhad
(Incorporated in Malaysia)

Saktiandi Supaat
Head, FX Research
saktiandi@maybank.com
(+65) 63201379

Fiona Lim
Senior FX Strategist
fionalim@maybank.com
(+65) 63201374

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

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