December 12, 2024

FX Strategy

Landing with Turbulence

Trump's Trade War (To be Continued…?)

As inflation cools in 2024, the US Federal Reserve has finally found enough confidence to begin its easing cycle in Sep 2024 but the relief for Asian and G10 currencies was short-lived. The US elections brought Trump back to the oval office for a second term from 2025, with Republicans in control of Congress. Trump's policies of deregulation, tariffs and taxes are inflationary and could set the Fed on a shallower path of easing and we could witness greater policy divergence from the rest of the world. Tariffs could be a priority and negotiations can move a lot faster in 2025 given that Trump is more experienced. Our base case is for the first set of tariffs to be imposed on Mar 2025 (likely on China). We anticipate that there could be some escalation thereafter with tariff rates raised higher into 2Q 2025. USDCNY may peak around 7.55 in 2Q. USDCNH could remain on the upmove for much of 1H 2025 as a result, taking most of USDAxJ along with it. Focus could then be shifted towards the rest of the world in 2H of 2025. CNH, EUR, KRW, JPY, CAD could be most vulnerable based on their trade balance with the US, sensitivity to CNY and UST yields.

Playing Central Bank Divergence

2024 was another volatile year for the USDJPY and the pair remains elevated year end despite the BOJ already tightening and the Fed easing. Doubts had lingered if the BOJ and other central banks can persist with their actions, which looks to have hindered sustainable USDJPY moves downwards. However, we believe that the central bank divergence would become more established in 2025, allowing for USDJPY to trend downwards. The Japanese virtuous wage - price cycle should become more entrenched whilst US data would cool. The downward trend though may occur only until 3Q 2025 before inflation risks due to Trump policies weigh in. We do note that in the trade war of 2018 - 2019, the USDJPY fell in the latter part when the Fed eased.

Snooze in 2024, Lose in 2025

We selectively pick NZD and CHF to outperform AUD. RBNZ and SNB have been one of the more decisive central banks in this round of easing in contrast to RBA and MAS. The policy easing trajectories into 2025 for RBNZ and SNB have also likely been priced into NZD and CHF as well, a contrast to the AUD where markets are only looking for >60bps cuts from RBA in 1yr. Further growth slowdown could nudge the RBA to ease more and spur AUDNZD towards 1.0850, AUDCHF to the 0.53-handle and EURAUD to 1.68. SGDNEER may also fall further with SGDMYR potentially seeing a more discernible decline in 2H2025.

Wild Card: Turbulent Geopolitical Risks and Alternatives to the USD

There remains a significant amount of geopolitical uncertainty in 2025 and we think that two-way risks exist. Trump has declared that he will end both the Ukraine and Middle-East conflicts and there have been some steps taken to this end. However, his initial pick for Secretary of Defence has come under some scrutiny, and it is entirely possible that the conflicts escalate and broaden. Potential geopolitical fragmentation from trade tensions could also spur the pace of de-dollarization, although the USD should still remain dominant. We look for safe-havens to be better supported and suggest that Gold and Bitcoin could be excellent alternatives to the USD in 2025.

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1. Trump's Trade War (To be Continued?)

1.1 Trump is Back and Stronger

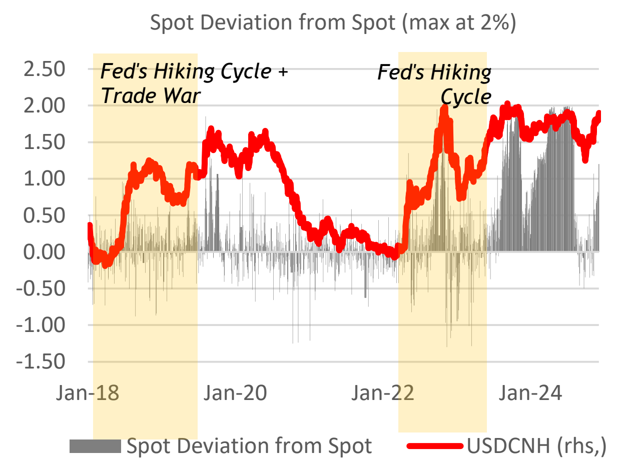
As inflation cools in 2024, the US Federal Reserve has finally found enough confidence to begin its easing cycle in Sep 2024 but the relief for Asian and G10 currencies turned out to be short-lived. The US elections brought Trump back to the oval office for a second term from 2025. With the Republicans in control of the House and the Senate, he has less opposition on policy roll-out compared to his first term.

Throughout Trump's Presidential election campaigns, he had emphasized on "deregulations", "tax cuts", "tariffs" and "immigration" which are perceived to be growth boosting and inflationary. Our economists expect Trump's tariffs (of up to 60%) on China to result in a deflationary shock for the rest of the world as Chinese goods that are not absorbed by the US could be diverted to other markets. That could result in an inflation divergence and concomitant policy divergence between the Fed's and the policy trajectories of the other central banks.

1.2 Tariffs on China are the Lower Hanging Fruits This Time

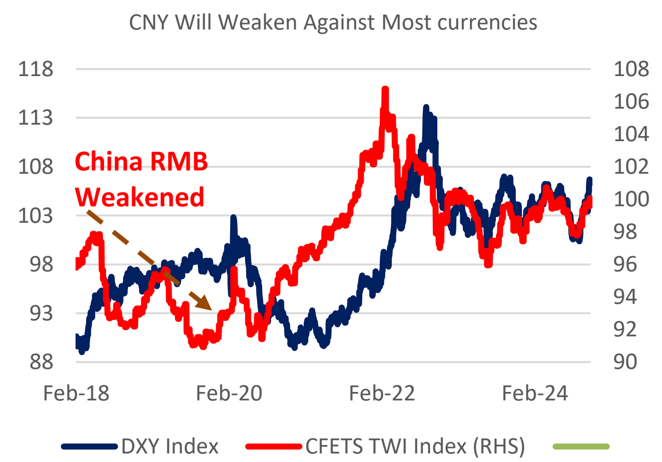
As this would be Trump's second term, he and his team are likely to hit the ground running. Trump's policies of deregulation, tariffs and taxes are inflationary and could set the Fed on a shallower path of easing and greater policy divergence from the rest of the world. Intermittent episodes of risk aversion and the potential return of U.S. exceptionalism (where the US is perceived to remain relatively stronger than the rest of the world) could keep the USD supported, especially against the CNH. How USDCNH behaves depend on how President-Elect Trump conducts his tariff negotiations with China. His nominee for US trade representative Jamieson Greer is known to be a hard-line protectionist, like his mentor, Lighthizer. Our baseline expects PBoC to allow more weakness in the yuan. The yuan may not be defended as much as it was during the 2022-2023 hiking cycle.

Fig. 1: PBoC Defends the Yuan More with the Daily Fix during Fed's Hiking Cycle vs. The 2018-2019 Trade War



Source: Bloomberg, Maybank FX Research & Strategy

Fig. 2: CNY TWI Tends to Strengthen with the DXY index but Weakens More Considerably During the Last Trade War



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

1.2.1 Negotiating and Deal-making (2018-2019 playbook) Path of Least Resistance is for More RMB Weakness

In the trade war of 2018-2019, Trump incrementally raised tariffs on imports from China. The rates were raised in steps and targeted goods were broadened over a few months until a deal announced was announced in 2019 and inked in Jan 2020. Over this period (2018-2019), USDCNH rose an accumulative 15% in two waves. A truce was agreed between Trump and Xi Jinping towards the end of 2018. Even though tariffs were raised further, subsequent tariff announcement had diminishing effects on the CNY. Trump eventually got China to agree to purchase an extraordinary amount of $200bn of US exports in Jan 2020.

Fig 3: USDCNH Rose 12% in Part 1 of Trade War (2018) and then 7% in Part 2 (2019) Despite Threats on Tariffs on all China imports in Jul 2018 (Effects of Tariff-News Diminish)

Source: Maybank FX Research & Strategy

There is a possibility that negotiations can move a lot faster in 2025 given that Trump is more experienced. The first set of tariffs could be imposed on Mar 2025. We anticipate that there could be some escalation thereafter with tariff rates raised higher into 2Q 2025. USDCNY may peak around 7.55 in 2Q. USDCNH could remain on the up move for much of 1H 2025 due to the uncertainties, taking most of USDAxJ along with it. Focus could then be shifted towards the rest of the world in 2H of 2025. CNY would probably start to strengthen on a trade-weighted basis in 2H of 2025. **This is our base case.**

1.2.2 Little Negotiation as Trump uses Tariffs to fund his Corporate Tax Cuts (An alternative scenario)

Trump has spoken about using tariffs to raise tax revenues and fund his corporate tax cuts. In that case, he may impose a high rate of tariff right at the start. If there was little room for negotiation and Trump raises the average tariff rate on Chinese imports from current 19% to 60%, there could be two scenarios undertaken by the Chinese authorities for the yuan – The first scenario is to allow yuan to cushion some of the impact by weakening to around 7.87. This is an estimated 12.5% depreciation of the CNY vs. the USD based off i) our observation of yuan behaviour against the USD between 2018-2019; ii) PIIE's findings (Jan 2020) that one third of the CNY depreciation in 2018 was due to tariff-related news (the rest is assumed to be due to China's slowdown and Fed's hiking cycle), iii) taking into account price movements since Sep 2024 where Trump started to gain traction on polls. If it is a one-off tariff, USDCNH would fall right after a knee-jerk reaction to the tariff. The second scenario is an alternative playbook. If there were little room for negotiation, China may choose to allow the American importers to feel the full effects of the price-adjustments. Yuan depreciation would be a lot limited and PBoC would defend the yuan harder. After all, Fed is on an easing cycle, BoJ is normalizing monetary policy and these two benign factors in the external environment (which were absent in 2018-2019) could weigh on the USD and reduce the cost of defending the yuan.

1.3 Relative Value Play Suggest CNH, EUR, KRW, JPY could remain most Vulnerable

CNH, EUR, KRW, VND and JPY may see the most impact vs. other currencies based on three considerations - Trump's preference to target countries with large trade surplus with the US, higher sensitivity to yuan and would suffer a bigger spill over effect from Trump's outsized tariffs on China as well as those currencies most sensitive to UST yields. We also like to add CAD to list of vulnerable FX as >70% of goods exports are shipped to the US and a 10% blanket tariff that hits the Canada would have a bigger impact relative to peers. We take VND off the list as Trump has not called out Vietnam thus far.

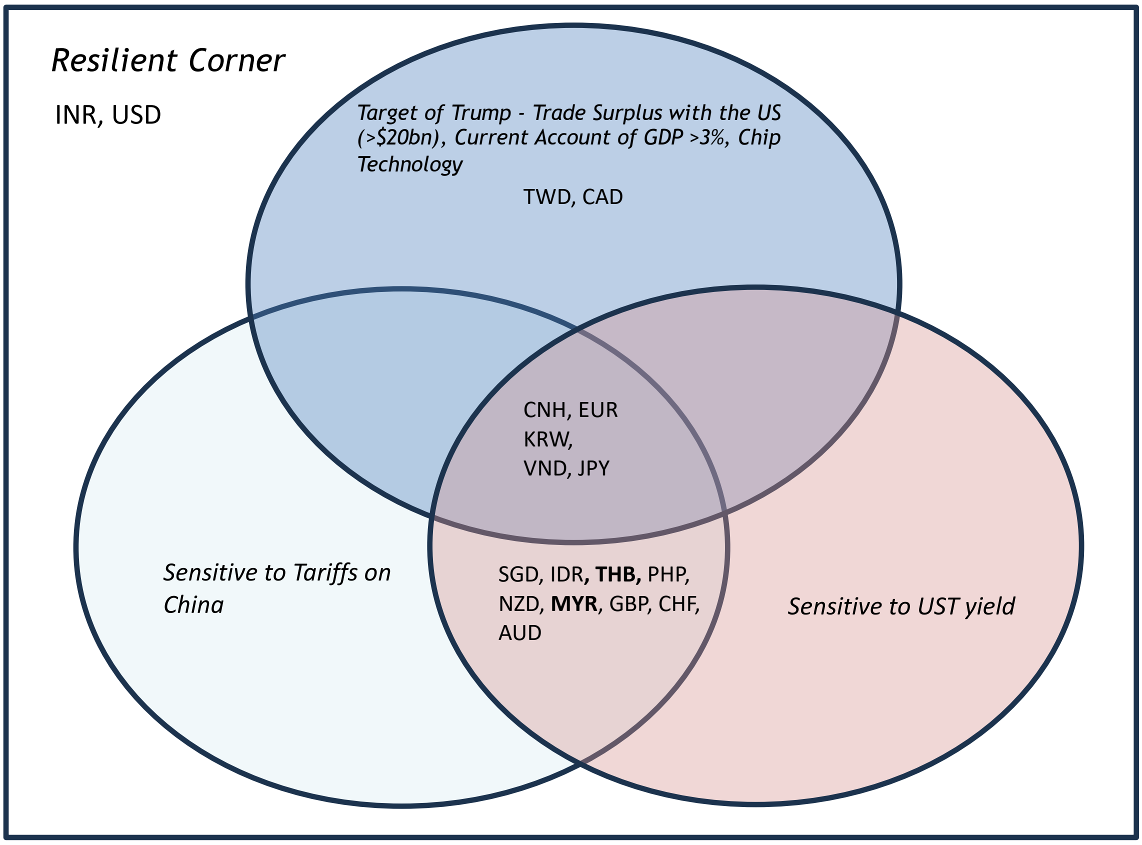
Table 1: Currencies That Are Most Vulnerable to Trump's Policies Are in Red

Currencies (Ranked)	Trade Bal with US	Current account (% of GDP)	Currencies (Ranked)	Sensitivity to Tariff on China (via CNH)	Currencies (Ranked)	Sensitivity to UST 10y yield
CNH	259,871	1.19	MYR	3.8	MYR	-0.49
EUR	202,498	2.54	THB	3.5	THB	-0.46
CAD	128,790	-0.82	JPY	2.8	JPY	-0.45
VND	99,549	5.79	CHF	2.1	CHF	-0.37
AUD	81,252	-0.7	IDR	1.8	IDR	-0.23
JPY	63,705	4.36	SGD	1.5	SGD	-0.21
KRW	44,527	3.99	GBP	1.3	GBP	-0.21
INR	40,948	-0.74	CNH	1.0	KRW	-0.16
THB	37,019	1.99	KRW	0.9	EUR	-0.16
TWD	35,352	14.69	PHP	0.9	NZD	-0.15
MYR	26,414	1.51	EUR	0.9	PHP	-0.14
CHF	19,660	7.09	AUD	0.9	VND	-0.14
IDR	15,084	-0.6	NZD	0.8	AUD	-0.14
GBP	7,455	-2.21	VND	0.8	CNH	-0.12
PHP	4,828	-2.25	TWD	0.5	TWD	-0.08
NZD	641	-6.7	CAD	0.2	CAD	-0.06
SGD	(11,869)	20.14	INR	-0.2	INR	0.02

Note: All currencies are ranked based on vulnerability with the most vulnerable at the top. Trade balance with the US is the respective annual sum of merchandise trade balance for 2023. Current account is taken as a % of GDP for 2Q 2024. A trade surplus of more than $20bn and current account surplus of more than 3% of GDP are two of the three criteria to be labelled a currency manipulator. Currencies that are underlined on the left have already been targeted by Trump regardless. Sensitivity to tariffs on China are based on each currency's sensitivity to CNH and sample period consists of daily data from 1 Jan 2024 to 7 Nov 2024.

Source: Maybank FX Research & Strategy Estimates, Macrobond, Bloomberg

Fig 4: Venn Diagram of Vulnerabilities Based on Table 1



2. Playing Central Bank Divergence (Long JPY)

2.1 BOJ Moves Opposite to Other Central Banks

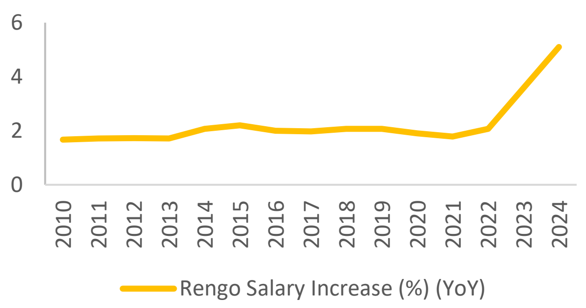
2024 was again another volatile year for the USDJPY and the pair continued to be elevated into the final quarter even as the BOJ has already begun its hiking cycle whilst the Fed has started easing. Doubts had lingered during the year if the BOJ and other central banks can persist with their actions and this looks to have prevented sustainable downward moves for the pair. However, we believe that the divergence of the BOJ and the other central banks will become more established in 2025 and guide USDJPY to trend downwards.

2.2 Economic Data Supports the Divergence

Over the course of 2024, data in Japan has increasingly been pointing to a structural shift in the Japanese economy. The previously much sought after virtuous wage price cycle is now appearing to become more entrenched as core inflation holds up robustly above the BOJ's target. Wages have been on the rise and the real wage growth itself has turned positive in some months this year. Consumption based indicators also show fairly robust spending whilst underlying elements of the PPI imply that companies are passing on rising costs to consumers. Corporate profits too have been strong. The Shunto wage negotiation this year had seen strong results with the highest wage increase in years. We have reason to believe that Shunto wage growth can be strong in 2025 given the background of strong corporate profits, rising wages and robust inflation. Politically, Ishiba is pushing for pay hikes. Therefore, the BOJ is well positioned to keep tightening and we expect a 25bps hike in Dec 2024 and another 50bps next year (25bps each in Jun 2025 and Dec 2025). The increase in rates though are likely to be slow given the data improvement would be gradual. The possibility of higher government spending we do not believe would hold back BOJ tightening if economic indicators stay supportive for hikes. Carry trade funding interest is also likely to shift from the JPY to the CHF as the BOJ hikes in contrast to the SNB easing.

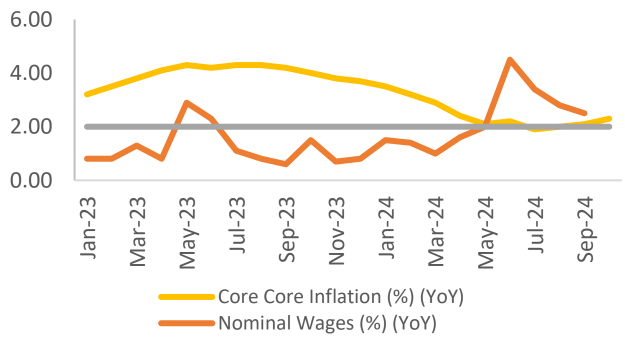
However, it is also this gradualism in the BOJ's normalization that makes the Fed's move more crucial in the narrowing of US – JP yield differentials. Our economist believes that the Fed is likely to still cut by 25bps in Dec and another 75bps next year. US economic data at this point looks to be holding up well but nonetheless, we see inflation is on a cooling trend as shelter prices play catch up in slowing down. Whilst imposition of tariffs and stricter immigration rules are likely to add upward pressure on inflation and negatively affect growth, their implementation is likely to be more gradual, implying the impact to be delayed and keeping a Fed rate cuts in play. The Fed also appears to be choosing not to "speculate" or "assume" regarding government policies. We see that they may only choose to adjust their stance once the impact of government policies look clearer by 2H 2025.

Fig. 5: Strong Shunto Wage Results Likely to Continue



Source: Bloomberg, Maybank FX Research & Strategy

Fig. 6: Inflation Around Target, Wage Growth Strong

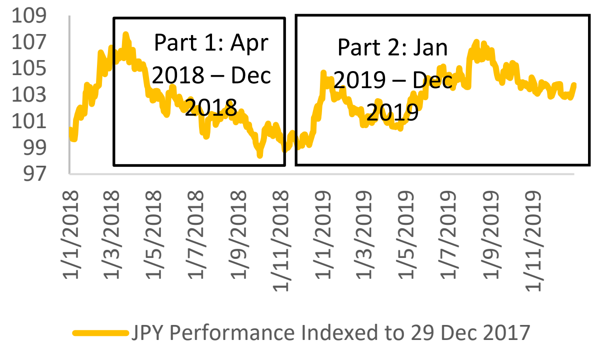


Source: Bloomberg, Maybank FX Research & Strategy

2.3 JPY Can Hold Up in the Trade War

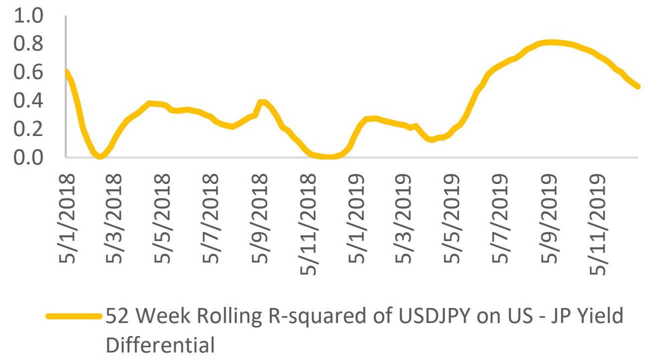
Looking at the prior trade war of 2018 – 2019, the JPY performance had differed in the first part and the second part. In the first part of the trade war (Apr 2018 to end Nov 2018), the USDJPY had risen by about as much as 6.86%. However, there was to be a turnaround in its performance in the second part of it (Dec 2018 to end Dec 2019) as the USDJPY would decline by as much as 4.37%. The reasoning behind the JPY differing performance during the two parts of the trade war looks to have actually simply been due to the movements in the UST yields. In 2018, the Fed was actually on a hiking cycle whilst in 2019, the Fed had flipped instead to rate cuts. For 2025, global central banks look to be on an easing cycle, which actually backs the JPY strengthening. In some sense, global easing can support a return of the JPY's safe haven appeal during the tense moments of another trade war.

Fig. 7: JPY Performance Stronger in Part 2 of Trade War



Source: Bloomberg, Maybank FX Research & Strategy

Fig. 8: Yield Differential Can Explain JPY Movement in 2019



Source: Bloomberg, Maybank FX Research & Strategy
Note: R-squared a measure of the proportion of the variance for a dependent variable explained by an independent variable.

Overall, we therefore recommend to go long on the JPY as the central bank rate divergence that has started this year is likely to remain in play into next year. Also, as has been the case in the prior trade war, as long as rates edge lower, the JPY can perform strongly. In terms of crosses or pairs, we suggest going short on USDJPY and CNHJPY. Regarding, the former, narrowing US – JP yield differentials would guide the JPY stronger to third quarter 2025. As for the latter, the CNY is likely to be weighed down by tariff risks which would result in an underperformance compared to the JPY. However, we see that the JPY strength may likely only play out during the first three quarters of next year. Following that, rising inflation risks in the US amid the impact of Trump policies coming in may weigh on market sentiment towards treasuries and the JPY. Another BOJ hike that we see happening at the end of next year may not fully offset such negative factors.

2.4 Risks to Our View

This goes back again to US policies where immense uncertainty related to Trump immigration and tariff proposals can create negative downside risks for the JPY. Aggressive and accelerated implementation of stricter immigration and tariff policies we do recognize can potentially lead to a stagflationary environment early on. This can complicate the Fed's rate path and risk keeping rates elevated for longer and in turn the USDJPY too. However, we reiterate that our expectations is for these policies to come in only gradually. Domestically, we would also remain wary of any political pressure for a less hawkish monetary policy amid the somewhat fragile political situation of the minority government (as a note, the next House of Councillors election would have to be held by the 27 Jul 2025).

3. Snooze in 2024, Lose in 2025

3.1 Laggards in the Easing Cycle Could Underperform Aggressive Movers

As the year 2024 comes to a close, some central banks are well into their easing cycle such as the SNB (-75bps), RBNZ (-125bps), BoC(-125bps) and to a certain extent, ECB (-75bps). This compares to BoE (-50bps) and RBA (no cut yet) and MAS (no easing yet). Sticky inflation remains a reason for RBA and MAS to keep monetary policy unchanged for much of 2024.

3.1.1 Tariff Surge to Impact Growth, Nudge Reluctant Movers into Action

In the second term of the Trump administration, tariffs are already highly anticipated and could crimp on growth. An extreme scenario of a 60% tariff on China could potentially result in China's excess capacity diverted to the other markets and potentially *exert a deflationary shock* according to our macro team. **Such a scenario could nudge the central banks that been reluctant to move in 2024 into action in 2025.**

Thus far, cash rate futures for Australia imply a 62bps cut in 2025 with the first to happen as early as Feb 2025. Even so only a 10bps cut is implied for the meeting on 18 Feb. RBA remains rather hawkish. Governor Bullock still views core CPI as "too high" to consider a rate cut in the near-term. Level of demand still exceeds supply in the economy and the central banker wants a "sustainable" return of core CPI to target before a rate cut is considered and that is forecast to happen only in 2026 (2.5%, middle of the 2-3% inflation target). There is a risk that tariffs in 2025 could negatively impact global growth (not least of all China). A deflationary shock to the rest of the world (outside US) brought about by tariffs could also help moderate price pressure in Australia further and nudge RBA into easing earlier and deeper than current market expectations.

Table 2: Market-implied policy rate and moves in 1Y

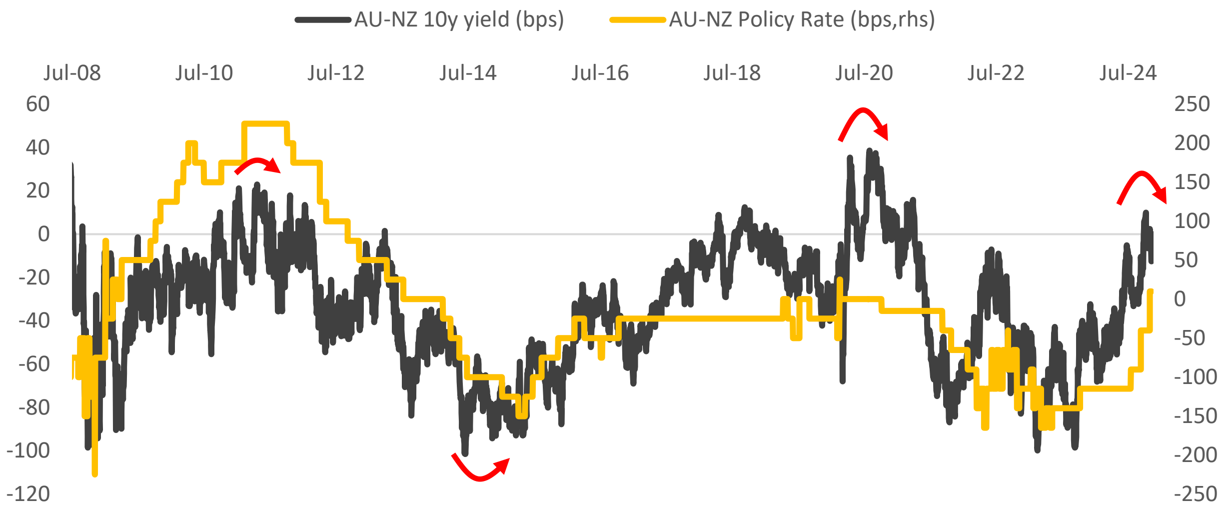
	Rate	Effective Rate	1Y Implied	Implied move (bps)
US	4.63	4.58	3.93	-70
Canada	3.75	3.78	2.9	-85
Eurozone	3.25	3.165	1.79	-146
UK	4.75	4.7	4.01	-74
Switzerland	1	1	0.09	-91
Australia	4.35	4.34	3.79	-56
New Zealand	4.25	3.26	3.26	-99
Japan	0.25	0.228	0.73	48
China	1.5	1.82	1.15	-35
India	6.5	6.82	5.75	-75
S. korea	3	3.29	2.28	-72

Source: Bloomberg (MIPR), Maybank FX Research (dated 28 Nov 2024)

3.1.2 AUD to Underperform NZD, CHF and maybe EUR

There is a possibility that the AUD would underperform NZD, CHF and potentially EUR. Based on market-implied rates, markets now expect another 100bps cut by RBNZ vs 60bps by RBA. SNB to cut another 100bps. The Fed is expected to cut another 70bps after a 75bps cut for 2024 thus far (as of 28 Nov). ECB is expected to be the most aggressive central bank in easing into 2025, to cut another 150bps due to lacklustre growth after an accumulative reduction of 75bps for the deposit rate.

Fig 9: AU-NZ Yield Differentials Tend to Peak/Trough Before Policy Differential Shifts, Taking the AUDNZD Along



Source: Bloomberg, Maybank FX Research & Strategy

To a fair extent, **SNB, RBNZ, BoC and ECB's easing trajectories could be well priced in the CHF, NZD, CAD and EUR** and as a result, into 2025, we selectively pick CHF, NZD to outperform AUD. Outlook for EUR and CAD remain a tad murky due to political uncertainties at home and Trump had called out the Eurozone and Canada - the former for its outsized trading surplus with the US and the latter for drugs and immigrants flow. For NZD and CHF, RBNZ and SNB have been one of the more decisive central banks in this round of easing. Switzerland is expected to revert back to at least zero interest rate policy one year from now. RBNZ is already expected to cut interest rates to levels (3.26%) lower than RBA based on OIS.

AUDNZD could fall towards 1.0850 from current levels around 1.0980. AUDCHF may also fall towards the 0.53-handle from current 0.57 for this reason, with safe-haven demand in times of risk aversion to amplify CHF strength even more.

There is a possibility of a EURAUD rebound towards 1.68 from current 1.63. Risk to this trade is that Trump imposes harsh tariffs on Eurozone or if political uncertainties in France and Germany start to threaten the growth prospect of the economic bloc further.

SGDNEER May Fall Further, SGDMYR to fall in 2H

Our economist looks for MAS to reduce the slope of the SGDNEER policy band sometime in the 1H of 2025 (Jan, if not Apr). Since the Fed kicked off its easing cycle in Sep 2024, the SGDNEER has fallen from the top of the band and has been trading around +1% above the mid-point. This reflects expectations for policy easing by the MAS, especially in light of the recent drop in core inflation. The rebound of the USD post-Trump win amplified the pressure on the SGDNEER. We see a possibility that this could extend a tad further into the 2025. Rebounds of SGDNEER to be seen as preferred opportunities to sell towards +0.5% (above mid-point). SGDMYR may have an opportunity to fall in 2H 2025 as we expect the worst of US-China tension to pass. Malaysia's fiscal reforms, investment upcycle and steadfast policy trajectory should support MYR.

4. Wildcard: Turbulent Geopolitical Risk, The Growing Voice of De-dollarization and Case for Alternatives to the USD (Look for Safe-havens to be Supported)

4.1 Geopolitics Could Play a Big Role

The geopolitical arena remains fraught with tensions and there are two-way risks for FX. Ongoing conflicts in Ukraine and the Middle East could further escalate, or could come to an end in 2025. President-elect Trump has pledged to put an end to these conflicts and there have already been some preliminary steps that have been taken to achieve this. There has been talk that Ukraine is willing to formally cede territory to Russia to achieve peace and the UN General Assembly has passed a resolution for a two-state solution that could hopefully end the Middle East conflict. An early end to the Ukraine war could potentially boost the EUR and risk-sensitive currencies (AUD, CAD) and an early end to the Middle East conflict could provide a boost to risk-sensitive currencies (AUD, CAD). At the same time, there is a chance that these conflicts escalate, which would see the safe-haven currencies (USD, CHF, JPY) better supported. Escalation scenarios include the potential use of nuclear weapons in Ukraine, or a more general broadening of the conflicts e.g. if Iran and Israel declare war. There remains some uncertainty over the appointment for Secretary of Defence, with rumours that Ron DeSantis will replace the relatively inexperienced Pete Hegseth.

Other potential geopolitical arenas involve China's claims of sovereignty in the South China Sea and the perennial flashpoint that is Taiwan. While it is unlikely that China escalates tensions unilaterally, risks remain on these fronts. Trump has made mention that Taiwan should pay "protection" money and claimed that they had "stolen" US semiconductor business. Should China indeed escalate on either of these fronts, it is unlikely that the USA sits on the side-lines. In such a scenario, we would expect risk-sensitive currencies to underperform and safe-havens to be better supported.

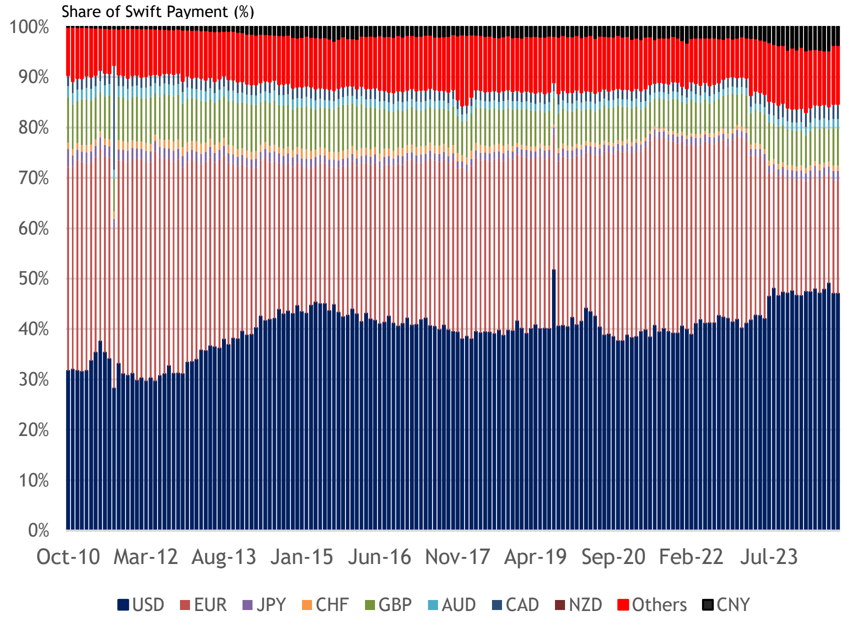
Looking beyond just geopolitical tensions and potential geopolitical flashpoints, there is also an issue of an escalation in trade related measures. Trump's trade policies could draw responses from countries that are on the receiving end and this could culminate in an all-out trade war or geopolitical fragmentation. From historical observations, we would expect safe-havens to be better supported in such a case. Another issue that needs to be considered here is that currencies could become weaponized and used as tools to extract trade concessions or trade measures be used to maintain USD dominance. A case in point is Trump's warning for BRICS not to consider alternatives to the USD as an additional 100% tariff would apply to countries that do so.

4.2 The Growing Voice of De-dollarization

Considering the potential for currencies to be weaponized amid further geopolitical fragmentation, the case and by extension voice for de-dollarization continues to grow. Our thesis is that Trump's stance on trade could hasten countries moving away and reducing reliance on the USD for international trade. This voice of de-dollarization is not something that is new, and could indeed take a long time to play out given the USD-centric nature of global financial systems. However, it is something important to observe and of paramount relevance should Trump's policies and the resulting geopolitical fragmentation eventually drive countries away from the USD. Consider that there have been initiatives in ASEAN and by BRICS to move away and reduce reliance on the USD. These have included the implementation of potential replacements for SWIFT (BIS m-Bridge, BRICS Bridge, Project Nexus) or agreements to link local currency payment systems (ASEAN RPC Initiative). From the angle of improving infrastructure, steps are indeed being taken to reduce reliance on the USD.

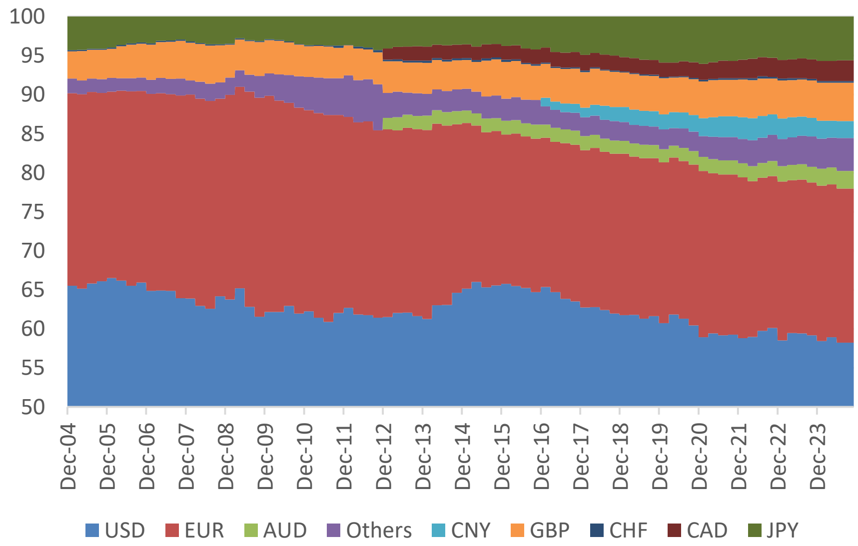
However, we do note that while the development of infrastructure or local currency settlements are a necessary step to achieve de-dollarization, in themselves are unlikely to be a sufficient condition for countries to completely de-dollarize. **The USD's share of SWIFT messages jumped from around 40% in early 2023 to 47% as of Sep 2024** but it was largely at the expense of the EUR's share which dropped from 38% in early 2023 to 22% over the same time period. USD remains the dominant choice of currency payment based on SWIFT data. What is also clear is the rise in the use of other currencies for SWIFT payment as denoted by the red bars since the invasion of Ukraine in Feb 2022. At the same time, the share of the USD in official foreign reserves has fallen from a high of 66% in 2016 to around 58%. **While the USD is still dominant, countries have indeed shifted away from holding the USD in their official foreign reserves - typically both a store of value and a countercyclical buffer that can be relied upon in times of local currency stress.**

Fig 10: The USD Remains the Dominant Choice of Currency for Transactions



Source: SWIFT, Bloomberg, Maybank FX Research & Strategy

Fig 11: The USD Also Has Lion's Share of FX Reserves



Source: IMF COFER, Bloomberg, Maybank FX Research & Strategy

We are likely to get more clarity on Trump's policies when he comes into power, nevertheless efforts to de-dollarize are likely to continue. Reduced reliance on one particular currency not only makes sense in terms of managing geopolitical risks, but also from a financial stability/liquidity perspective since funding need not overly rely on any one particular currency. To that end, we believe that there is enough impetus as it is for countries to continue on the path of de-dollarization. At the same time, it is likely that the USD remains the dominant currency of choice for cross-border transactions and as part of official FX reserves for the foreseeable future.

4.3 The Case for Fiat (USD) Alternatives

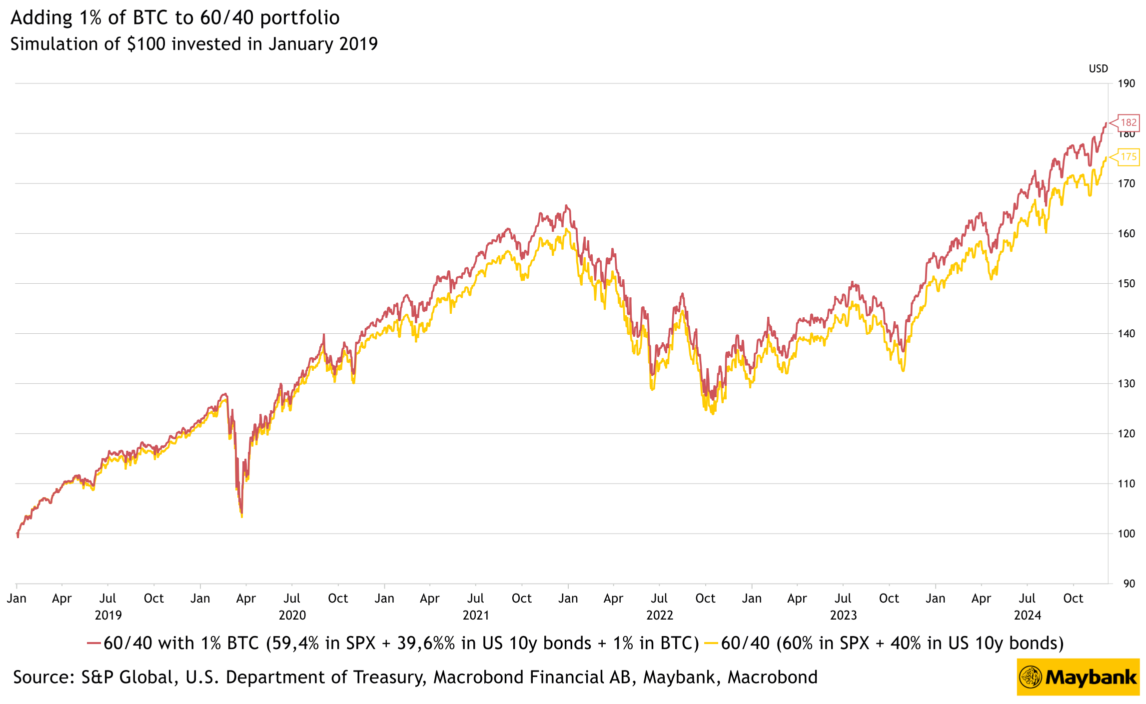
While the USD could still be the king of fiat currencies, there is now also reason to consider other alternatives to the USD that could well outperform in 2025 amid geopolitical risks, fragmentation and uncertainty. If fiscal deficits are expected to rise and the threat of inflation could once again resurface, alternatives to fiat currencies might need to be considered as potential outperformers in 2025. We examine a case for a traditional safe-haven gold and the more modern alternative, Bitcoin.

The case for gold is simple enough, interest rate cuts are expected to continue and as a safe-haven it should perform well in times of geopolitical uncertainty. It also acts as a hedge against inflation and is in general a trusted traditional store of value.

Looking at Bitcoin, it is also a store of value although it could be considered as more speculative and less of a safe-haven. With Trump's victory it has outperformed gold on expectations of deregulation, more crypto-friendly policies and the possible inclusion of Bitcoin as part of the US reserves. Trump's appointment of Paul Atkins (pro-business and crypto friendly) to run the SEC sparked a rally in cryptocurrencies, with Bitcoin gaining about 2.5% and breaking the US$100k handle on 5 Dec 2024. Bitcoin has rallied about 63%, since US elections on 6 Nov 2024. As such, there is certainly a case to be made that among alternatives for the USD, Bitcoin could be a contender against a backdrop of geopolitical fragmentation even if it is not a traditional safe-haven like gold. If Bitcoin indeed makes the official US reserves, other countries could then potentially follow suit and spur demand.

On balance, we feel that the case for Bitcoin to outperform is strong, although gold may be a safer alternative given the backdrop of geopolitical fragmentation. That is prior to considering the potential diversification benefits and the risk that fiat currencies could potentially be threatened by growing fiscal deficits, the return of inflation and potential weaponization in a trade war. Chart below shows the benefits of adding 1% of Bitcoin to a more traditional 60% equities, 40% bonds portfolio.

Fig 12: Adding 1% of BTC to 60/40 Portfolio



USD: Global Risk Premium and US Sticky Inflation Supports

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025	4Q 2025
USD Index	106.53	107.37	108.20	108.11	107.99

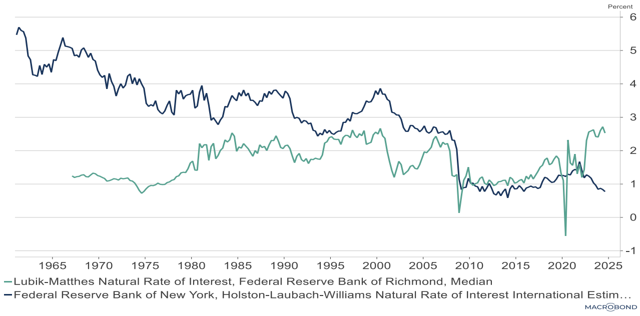
Motivation: The USD was on a resilient trajectory in 1H 2024 amid a bumpy disinflation route and still lingering evidence of resilience in the US economy. The higher-for-longer narrative dissipated from mid-year as US data continues to paint a picture of soft-landing and the expectations channel kicks-in as market shift to bets on more rate cuts and potential for policy convergence. USD usually weakens as long as global growth starts to recover but strong growth outside of the US in the Eurozone and China did not materialise. That has capped further declines in the USD even as the Fed started easing in Sep 2024 by 50bps. Concerns about Trump 2.0 has emerged and possible changes on "deregulations", "tax cuts", "tariffs" and "immigration" are perceived to be growth boosting and inflationary. Trump's tariffs on China could potentially result in a deflationary shock for the rest of the world as Chinese goods that are not absorbed by the US could be diverted to the rest of the world. That could result in inflation divergence and concomitant policy divergence between the Fed's and the policy trajectories of the other central banks. The opposing forces of tariff concerns and continued Fed easing if it continues are likely to be trumped by the tariff concerns and should keep USD elevated in 1H 2025.

Trump 2.0's agenda on "Taxes" should be the key part of the upcoming budget for fiscal year Oct 2025 – Nov 2026. The expected timelines on the rollout of Trump 2.0 policies in 2025 are as follows: (1) "De-Regulation" and "Immigration" in the first three months; (2) "Tariffs" focus on China in first six months and RoW later into the year; and "Taxes" to be in time for the next fiscal year starting Oct 2025. Meanwhile, legal challenges to Trump 2.0 policies are possible, but risk of major derailments of Trump 2.0's policies seems low.

Trump Tantrums to Be Front-Loaded. Higher global risk premium support for USD in 1H 2025. As this would be Trump's second term, he and his team are likely to hit the ground running and market reactions are likely to be more significant in 1H 2025. Trump's policies of deregulation, tariffs and taxes are inflationary and could set the Fed on a shallower path of easing and greater policy divergence from the rest of the world. Intermittent episodes of global risk aversion and the potential return of U.S. exceptionalism (where the US is perceived to remain relatively stronger than the rest of the world) could keep the USD supported for a while more. Expect the eventual soft-landing of the US economy could soften USD slightly towards the end of 2025 but we also price in some risk of inflation concerns from tariff imposition in early 2025 which could emerge as we approach end 2025 and into 2026 and potentially provide some intermittent USD support.

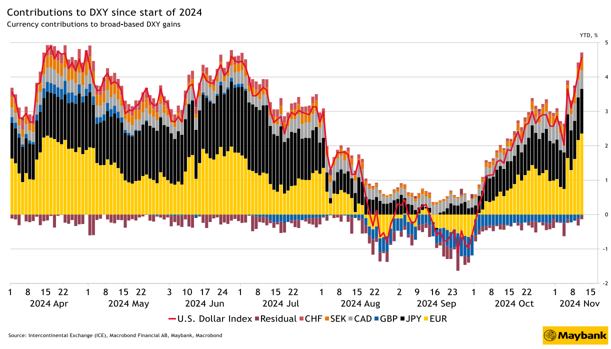
Markets are still cognizant that China is still weak, Eurozone PMIs are contractionary, geopolitical risks remain elevated. This baseline scenario will continue into 2025. With global growth (excl US) likely to moderate in 2025, that could see room for USD to be further supported at the very least into 1H 2025 in a significant way. Beyond 1H, after the sentiment channel from the tariff imposition is priced in, we expect some of the real economic data channel of the tariff imposition to be clearer as it cascades into the USD economy and inflation data, with concerns on the latter providing continued support for the USD. However, there could be some drop off in the risk premiums in 2H 2025 as Trump policies are clearer by then, which may see some of the USD longs ease off only so slightly.

Fed Estimates of R* Are Divergent (2.6% Richmond vs 0.8% NY, Natural Rate of Interest)



Source: Bloomberg, Macrobond, Maybank FX Research & Strategy

DXY Could Remain Better Supported with EUR Weakness



EUR: Multiple Headwinds Ahead

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025	4Q 2025
EUR/USD	**1.0500**	**1.0300**	**1.0200**	**1.0100**	**1.0100**

Motivation: We see headwinds on multiple fronts for the EUR in 2025 and as such have revised our forecasts lower with a depreciating trajectory for EURUSD. Headwinds are seen from (1) political uncertainty in the Eurozone with Germany facing the prospect of a no-confidence vote and France failing to pass a budget and clearing a no-confidence vote in their government, (2) tepid growth prospects which are likely to worsen as (3) Trump trade policies weigh on exports (especially of cars) and the EUR. We see EURUSD hitting parity in 2026 and pencil in appreciation in the pair from end 2026 onwards, where we see potential for Eurozone growth to recover and for a weaker USD as tariff fears and US exceptionalism fade.

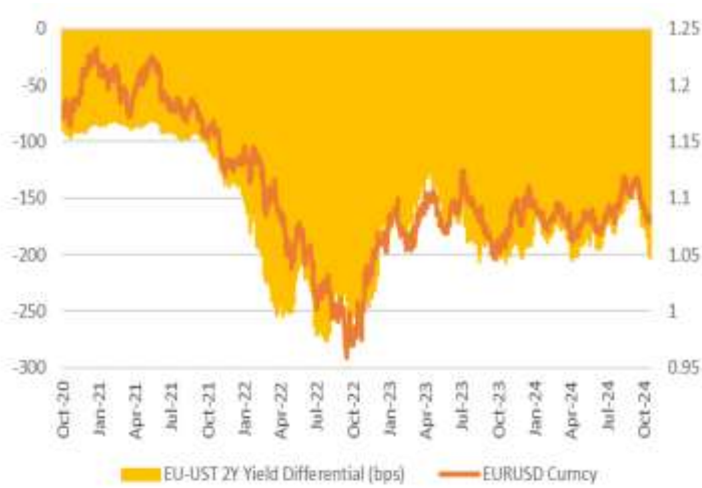
ECB dovishness is well priced-in and risks for EUR could be to the upside if ECB surprise to the hawkish side. We expect ECB not to deviate from their data-dependent approach and expect up to 100bps of cuts in 2025 with the ECB deposit facility rate at 2.00%. This is slightly more hawkish than the 123bps of cuts priced-in for 2025 (as at 10 Dec 2024). Growth has been tepid and we expect the ECB to adopt a supportive stance as Eurozone inflationary pressures ease. However, there is a risk that inflation could surprise to the upside once again and that may push ECB to the hawkish side in the latter half of 2025.

Eurozone growth has been tepid with significant downside risks from Trump trade policies. Eurozone growth has not rebounded as much as we had expected in 2024 and one key issue that remains is that Germany's growth remains weak. Eurozone recession probability is estimated at 30% and Germany's is at 55%. Leading indicators for major Eurozone economies are weak and the EUR is vulnerable to potential Trump tariff policies. We see this as a headwind for the EUR, which is unlikely to reverse in 2025.

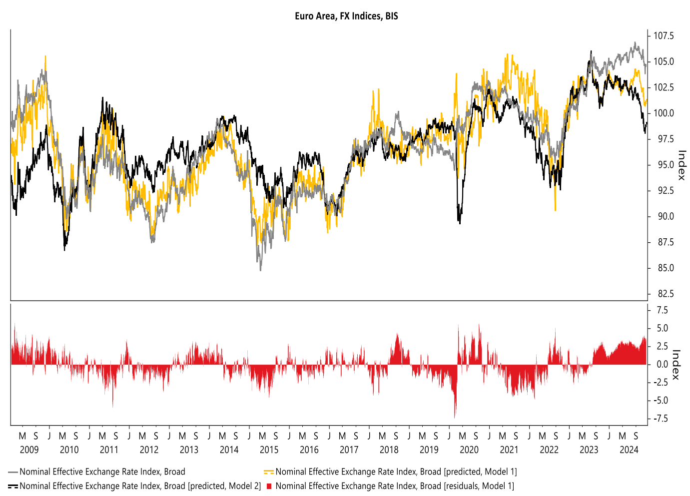
Political uncertainty is likely to continue to weigh on the EUR into 2025. France is in a state of limbo with parliament unable to pass a budget. The earliest another legislative election can be called for France is in Jul 2025. Meanwhile German chancellor Scholz will face a no confidence vote on 16 Dec with German elections scheduled in for 23 Feb 2025. The headwinds from political uncertainty could ease as early as 2Q 2025, but there is the risk that it continues to weigh for longer, especially with the tricky situation in France.

Risks to our View: An early resolution to the Ukraine war should provide the EUR with a boost although this remains the sole potential upside for the EUR that we see as likely. Trump has pledged to end the conflict and Ukraine has suggested it could cede territory to end the war. However, escalation is also possible and that could weigh further on the EUR.

Yield Differentials Drive EURUSD



EURNEER Marginally Overvalued and Could Have Room to Fall



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

GBP: To Display Some Resilience

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025	4Q 2025
GBP/USD	**1.2700**	**1.2650**	**1.2600**	**1.2650**	**1.2700**

Motivation: We stay cautiously optimistic that the GBP will remain somewhat resilient in 2025. We make an adjustment to reflect a relatively flat trajectory and to factor in some weakness against the USD in 2025 on the basis that the UK as a services-oriented economy is less likely to be influenced by Trump trade policies. As a close ally of the US, it will probably also be spared from significant actions by the Trump administration. The Starmer administration is also taking steps at implementing fiscal discipline and potentially improving ties with the EU post-Brexit, which could be GBP supportive.

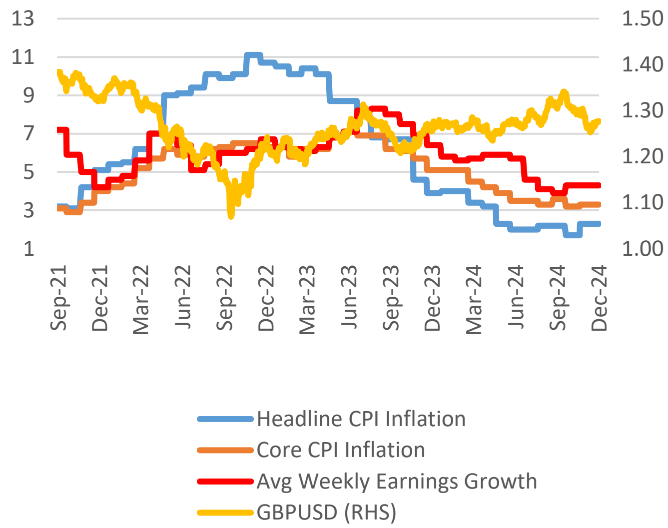
The BOE is in our view likely to cut rates by 75bps in 2025. This should bring the policy rate to 3.75%, assuming a 25bps cut on 19 Dec 2024. This is slightly more dovish than the 80bps of rate cuts priced by the market, although it is broadly consistent Governor Bailey's suggestions of four rate cuts for the BOE's central planning scenario. Disinflation in the UK remains intact and wage pressures are moderating. As such, the BOE should be able to cut more than what is priced to support the economy.

UK growth is also likely to remain resilient. Probability of a UK recession is 25.0% and UK economic data has generally been robust. The prospects for a services oriented economy are also likely better than for goods oriented economies against a backdrop of tariffs and potential escalation in trade tensions. As a close ally of the US, the UK is also unlikely to be flagged by the Trump administration for further trade measures. This is a good basis to go short EURGBP as it is likely the GBP outperforms in the EUR against this backdrop.

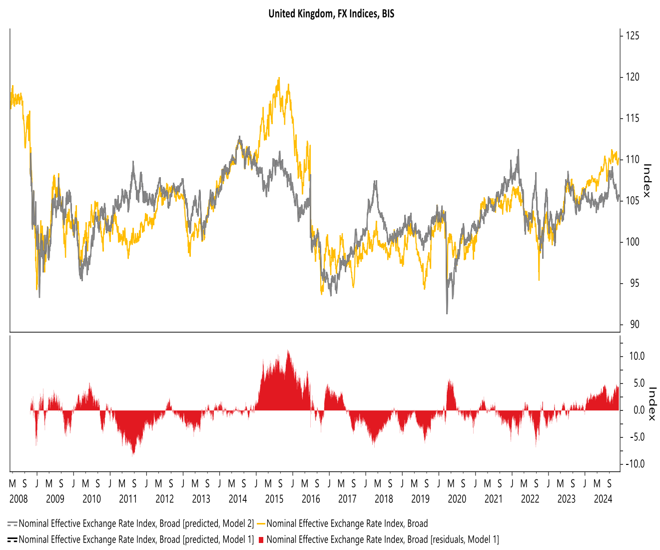
Continued approach by Starmer administration towards greater fiscal discipline and improving relations with the EU should be supportive of the GBP. UK fiscal deficits are expected to narrow to 3.8% of GDP in 2025 and 3.3% of GDP in 2026. Budgets will likely continue to be closely watched and if fiscal discipline is achieved we expect upside for the GBP. There are also renewal talks scheduled for 2025 between the UK and EU for trade and cooperation and there is every possibility that closer relations could be established, especially if Trump's policies eschew the EU. On net, we expect this to be GBP supportive.

Risks to our View: GBP remains a high beta currency that is susceptible to changes to the global economic outlook. More specifically, if Trump's policies threaten a soft landing for the global economy and threaten the resilient economic outlook for the UK, that could weigh on the GBP. Fiscal discipline could also be threatened by domestic politics, although this remains unlikely. The Conservatives could derail also efforts to improve UK-EU relations and this could ruin the expected boost for the GBP from warmer relations between the EU and the UK.

Inflation and Wages Abate in Tandem



GBP NEER Remains Slightly Overvalued



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

CHF: Watch a Possible Pivot

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025	4Q 2025
USD/CHF	0.8800	0.8825	0.8850	0.8850	0.8850

Motivation: We see a relatively flat trajectory for USDCHF amid USD-support persistence and a dovish SNB. The outlook for the CHF is nuanced in that as a safe-haven it should perform well in an uncertain environment, which is in abundance in 2025 from geopolitics and Trump policies. At the same time, the SNB has expressed a preference for CHF weakness and its dovishness could bring it to a pivot point where the CHF becomes the funding currency of choice over the JPY. When that pivot is crossed, we would expect significant pressures on CHF and more specifically on the CHFJPY cross.

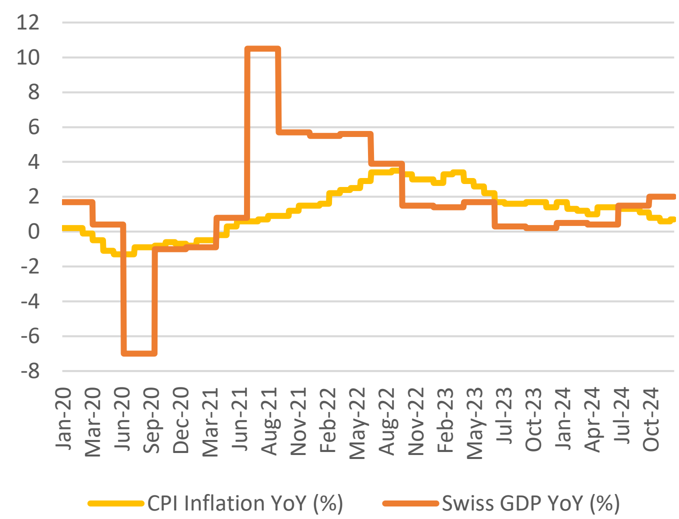
We expect the SNB to cut rates by 75bps to bring its policy rate to 0% in 2025. This assumes a 25bps cut in Dec 2024. This is slightly more dovish than market expectations for 93bps of cuts from now till Sep 2025. Nevertheless, it is broadly in line with low inflation levels in Switzerland and a CHF that the SNB views as too strong with the CHF REER still elevated. Cuts should also be supportive of a tepid Swiss economy that could potentially be threatened by Trump tariffs.

Economic growth in Switzerland is tepid. While probability of a recession is relatively low at 17.5%, growth is expected to print at 1.4% in 2025 and 1.5% in 2025. Risks to the growth outlook are to the downside given the uncertainty over Trump's trade policies and the potential impact on demand for luxury watches. The CHF is expected to remain resilient given its safe-haven status, but a strong CHF would also make Swiss exports relatively expensive and unattractive.

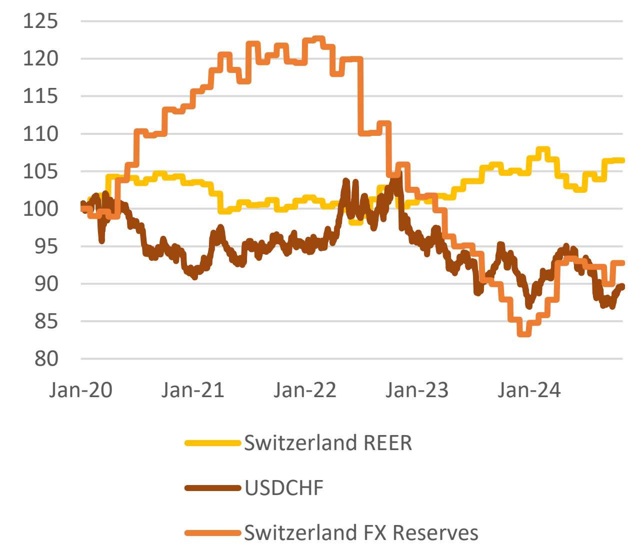
With BOJ expected to hike and SNB expected to ease, we approach a potential pivot where CHF could replace JPY as the funding currency of choice. We are now only a few hikes/cuts away from reaching the pivot with the BOJ policy rate at 0.25% and the SNB policy rate at 1.00%. Should the conditions for carry trades continue to persist i.e. if volatility remains low, that could weigh heavily on the CHF. Nevertheless, safe-haven flows should keep USDCHF relatively supported and the CHFJPY cross could be more directly affected.

Risks to our View: Upside risks to inflation that could overturn the SNB's dovish stance although that is unlikely. In addition, the chance that the BOJ turns dovish and chooses not to hike rates, that could result in CHF's status as the preferred safe-haven currency persisting and a more prolonged period of relative CHF strength. A more rapid escalation of geopolitical tensions that expected could also result in demand for CHF and be more supportive of the CHF that we initially anticipated.

Swiss Inflation Benign, Growth Tepid



Swiss REER Remains Above SNB Comfort Level



Source: BIS, Bloomberg, Maybank FX Research & Strategy

AUD: Of Tariff Woes and Fading RBA Support

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025	4Q 2025
AUD/USD	0.65	0.64	0.62	0.60	0.60

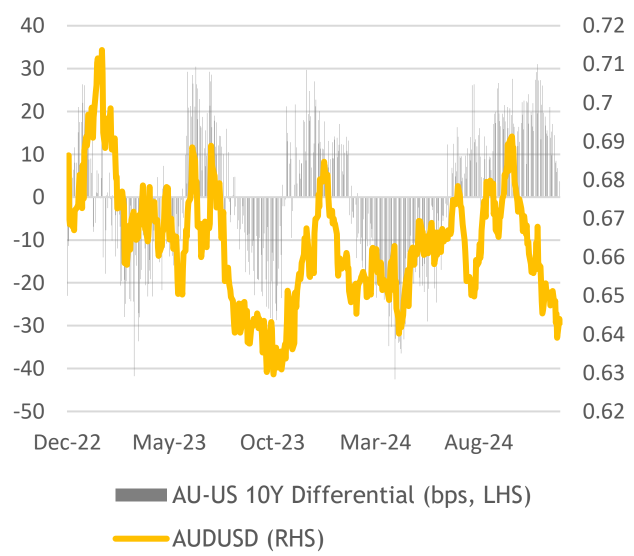
Motivation: We are bearish on the AUD, especially in the 1H 2025 – a contrarian call amongst peers. This is based on our expectations for Trump to start imposing tariffs on China within the first half of the year. Risk-sensitive AUD could weaken as tariff-related news will hit sentiments. The potential impact on China's growth as well as demand for Australia's base metals (copper and iron ore) will also drag on the AUD. At home, AUD has been underpinned by hawkish RBA for much of 2024 as RBA refused to start its easing cycle even as other central banks (RBNZ, ECB, Fed) eased in earnest. Into 2025, we expect RBA to cut interest rates and we look for AUD to come under more discernible pressure once that happens.

Global Growth to Moderate, Falling Base Metals To Weigh. Global growth is expected to moderate from 2.9% to 2.8% in 2025 and China's property market outlook continues to look sluggish, the outlook for iron ore continues to remain weak. Since late Sep, China has been making pledges of support for the property market, monetary policy stimulus as well as fiscal support for domestic demand, effects on the yuan and the equity markets have been diminishing with every announcement as it becomes clear that what the Chinese aims to achieve is not a cyclical recovery but rather to force a trough for the economy. Trump's penchant for using tariffs as bargaining chips could also worsen business confidence and hurt global trade even more in 2025, potentially exacerbating the decline in the demand for Australia's resources (iron ore, copper, LNG, etc).

RBA To Start Easing in 2025 (-75bps). For much of 2024, RBA Bullock remained stubbornly hawkish. The phrase "not ruling anything in or out" has been in RBA's monetary policy statement since its Mar 2024 meeting and removed at the Dec meeting. This phrase has been in the statement since Mar 2024 and greatly distinguished RBA's relatively hawkish stance compared to most of its G10 peers. Along with that, the RBA is more confident that inflation pressures are declining whilst labour market conditions remain tight. With private consumption and investment under pressure from restrictive policy settings, we continue to see the risk of a RBA starting to move in Feb and that will continue to exert downward pressure on the AUD. With the external environment likely to turn even more challenging in 2025, risks might tilt more towards growth and we look for RBA to cut 75bps next year.

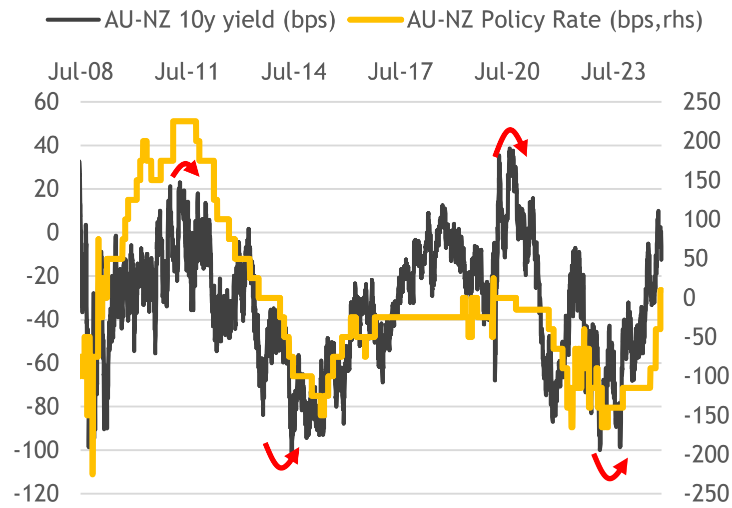
Risks to the AUD Forecast: (1) US inflation and concomitant policy trajectory is key for USD direction and a stickier-than-expected US inflation could weigh on AUD even more. (2) Any unexpected headwinds for major economies (China, US, Eurozone) that cause a sharper than expected global recession is negative for the AUD. (3) Trump's trade agenda is key and an absence of tariffs on China would be positive for AUD.

Narrowing AU-US Yield Differential Weighs on AUDUSD



Source: Bloomberg, Maybank FX Research & Strategy

AU-NZ Yield Differentials Tend to Peak/Trough Before Policy Differential Shifts, Taking the AUDNZD Along



Source: Bloomberg, Maybank FX Research & Strategy

NZD: Looking for Cyclical Recovery

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025	4Q 2025
NZD/USD	0.5900	0.5700	0.5600	0.5500	0.5500

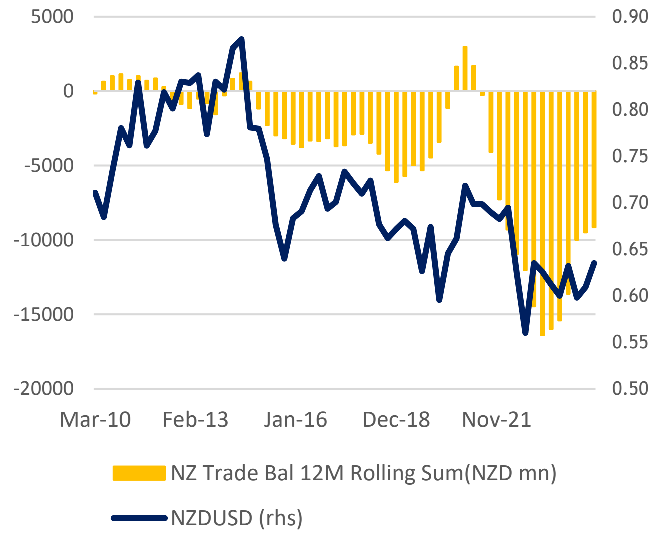
Motivation: NZDUSD will not escape unscathed should global trade take a hit from Trump's trade agenda. We look for pressure to be most intense in 2Q 2025 before it stabilizes around 0.55 for the rest of the year. RBNZ has been aggressive and decisive in easing and markets expect another 110bps cut over the next one year to take OCR to 3.20%. A large portion of this easing trajectory is likely priced in the NZD and further drag from policy easing could be limited. As such, we also look for NZD to outperform the AUD as RBA is expected to start easing in 2025. Gains against the USD would be crimped by inflationary concerns that could emerge towards the end of 2025.

RBNZ to Cut Another 100bps and Take OCR to 3.25%. Retail sales have started to see shallower declines. We revise our rate trajectory to a shallower one for RBNZ as there are signs of an improvement in business confidence and consumer confidence. 3Q unemployment rate rose less than expected to 4.8% from previous 4.6% as RBNZ continues to cut borrowing costs. In the latest MPS guidance, RBNZ lowered the OCR guidance from 3.85% seen by Dec 2025 to 3.55%, which is still higher than what market expectations currently are, around 3.19%. While our RBNZ call is now in line with markets, it is still more aggressive than RBNZ's guidance at a time where we expect the New Zealand economy to be on a gentle cyclical recovery. RBNZ has been decisive in this easing cycle and its dovishness have been well-priced, especially in light of New Zealand's technical recession. Along with the downward revision to rates projection, there was also a narrower output gap seen (from -2.2% of GDP in Aug MPS to -1.4% for Nov). Should recovery in 4Q pan out in line with RBNZ's outlook, NZD could swing higher, especially against the AUD.

Dairy milk prices have been on the rise at the Global Dairy Trade auctions for much of this year due to supply issue. Into 2025, there are some projections of a recovery of supplies around the world due to lower feed costs and rising dairy prices. A better balance of supply and demand could potentially slow the climb of milk prices in 2025. NZD may not have as strong an underpinning as it had enjoyed from dairy in 2024. Trade deficit may not see further improvements based on this outlook but pressure on exports receipts may be offset by potential for oil prices to fall amid the global slowdown. Pressure on NZD may thus be cushioned as well.

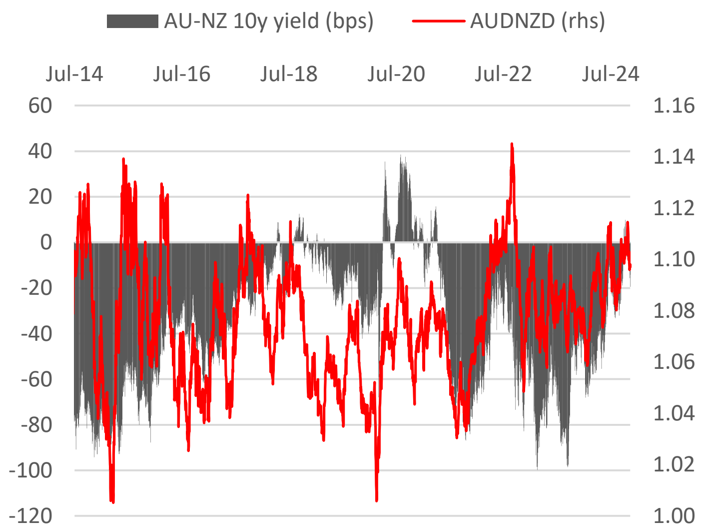
Risks to the NZD Forecast: (1) Any unexpected headwinds for major economies (China, US, Eurozone) that cause a sharper than expected global recession is negative for the NZD.
(2) RBNZ looks for a long easing cycle but should there be a need for steeper cuts, NZD will also be affected.

Trade Deficit Has Been Rising, Cushioning the NZD



Source: RBNZ, Bloomberg, Maybank FX Research & Strategy

AU-NZ 10y yield Differential May at its Narrowest



Source: Bloomberg, Maybank FX Research & Strategy

CAD: Front-Loaded Pain Before Relief

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025	4Q 2025
USD/CAD	1.42	1.43	1.45	1.44	1.43

Motivation: USDCAD should see a year of two-halves. Trump has named China, Mexico and Canada to be targeted for tariffs apart from the BRICs after he won the elections. There is a good chance that negotiations between President-Elect Trump and PM Trudeau will commence soon after Trump is sworn in as President and the two leaders can potentially resolve the issue of drug and immigrant flows across their borders. With BoC already easing rather aggressively, CAD may be able to find some relief beyond 1H 2025 unless inflation in the US becomes a serious threat due to Trump's pro-growth/inflationary policies. The policy mix and order of execution are hard to tell at this point.

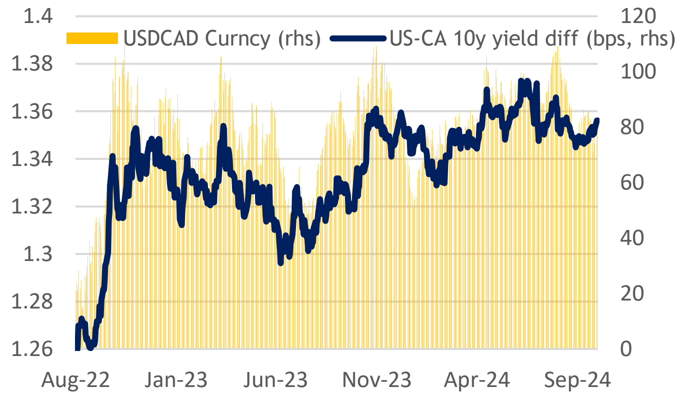
The Olive Branch and the Stick. Canada was one of the first few countries to be targeted by Trump for tariffs. He threatened to impose 25% tariff on all goods from Canada for the flow of illegal immigrants and drugs across the borders. In response to that, Trudeau had already reached out to Trump and pledged to tighten border security. At the same time, Trudeau had also spoken about retaliation should Trump impose new tariffs. In 2018, Canada's response was tariffs on politically sensitive items such as "bourbon and Harley Davidsons and playing cards and Heinz ketchup". Canada might do the same this time. Regardless, Canada ships >70% of its exports to the US. A 10% tariff from the US would trim GDP by estimates of around 0.4ppt-2.5ppt. This is not a scenario we envisage. Our forecasts encapsulate sentiment-effect of threats and intermittent episodes of risk aversion, not a reality of tariff.

BoC To Continue to Ease Aggressively. The rising slack in the labour market, weak consumer expectations continue to beckon further easing from the Bank of Canada. However, there are also signs of improving business sentiment, especially amongst SMEs (CFIB business barometer) as the easing cycle gets underway. A further 100bps rate cuts is expected over the next one year and the possibility of further economic hit from tariffs is only going to weigh on the CAD further. We expect CAD to witness more front-loaded pain in 2025. USDCAD may plateau into 2H 2025 with some concerns on inflation in the US likely to keep the USDCAD supported on dips.

Oil could be a risk. Oil tends to amplify the effects of market sentiment on the CAD. With global and domestic growth looking subdued at this point, Trump's intention to ramp up fuel production could weigh on oil further in 2025. That could also serve to amplify CAD's weakness for now. However, should global growth as well as Canada's growth start to bottom, cyclical gains of crude oil prices are likely to support the CAD.

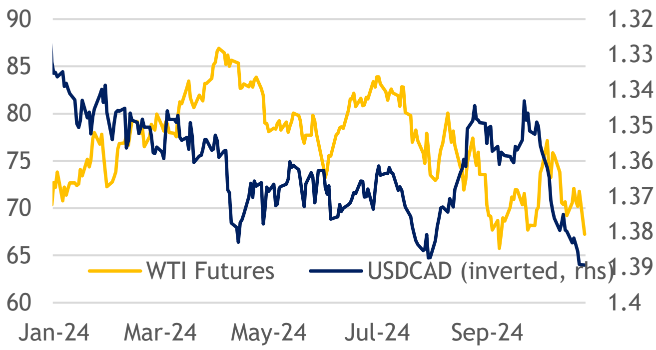
Risks to the CAD Forecast: (1) US inflation and concomitant policy trajectory is key for USD direction and any re-accelerations to boost USD. (2) Any unexpected headwinds for major economies (China, US, Eurozone) that cause a global recession is negative for the CAD. (3) Tariff negotiations that turn awry between the US and Canada would be CAD-negative too.

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



Source: Bloomberg, Maybank FX Research & Strategy

CAD is more Sensitive to Oil Price Declines than Gains



Source: Bloomberg, Maybank FX Research & Strategy

JPY: Go Long With Central Bank Divergence

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025	4Q 2025
USD/JPY	150	145	145	140	140

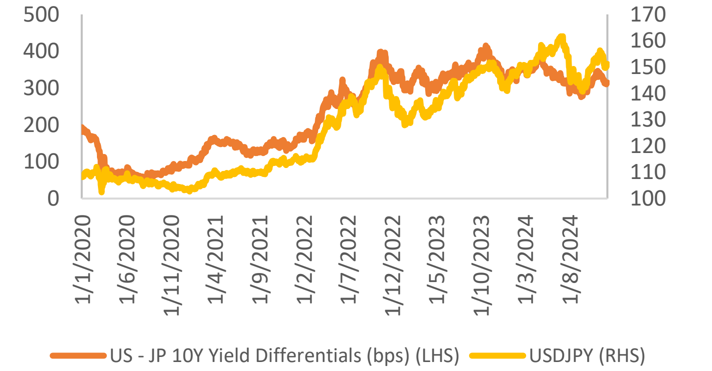
Motivation: We expect USDJPY to edge lower into 2025 as the central bank divergence of the BOJ hiking (75 bps of hikes expected into 2025) and the Fed easing (100bps of cuts into 2025) would narrow the US – JP yield differential. Robust Japanese economic data is pointing towards the virtuous – wage price cycle becoming more entrenched and backing the BOJ to keep tightening. At the same time, the gradual cooling of US inflation should allow the Fed to stay on an easing trajectory. Regardless, expect volatility in USDJPY in 2025 as markets remain anxious about the extent of central bank divergence amid the inflationary pressure of the proposed Trump policies and occasional challenges by BOJ members/Japanese government officials against BOJ tightening. Meanwhile, risks to our view include a hot US economy and aggressive implementation of Trump policies, raising US price pressures and keeping US yields up. Also, a return of the carry trade can hurt the JPY though this is less likely given the possibility of high USDJPY volatility.

Expect strong wage, price data to keep the BOJ on track to hike by 75bps into 2025 (25bps in Dec 2024 and another 25bps in Jun and Dec 2025). Shunto wage negotiation results are likely to come out strongly again in 2025 after having hit 5.1% in 2024. Several factors do continue to back wage increases including corporate profits being strong and Prime Minister Ishiba pushing for higher wages. This should in turn continue to feed into inflation as higher wages support consumption whilst companies also pass on rising wage cost to consumers. Therefore, it appears increasingly likely that the virtuous wage-price cycle is becoming more entrenched and inflation should meet BOJ expectations in 2025. Regardless, the pace of improvement in Japan's data is likely to happen gradually overtime, making the BOJ's tightening pace slow as indicated by the number of hikes we see happening. However, this coupled with the expected Fed easing of 100bps would effectively guide yields narrower and USDJPY lower.

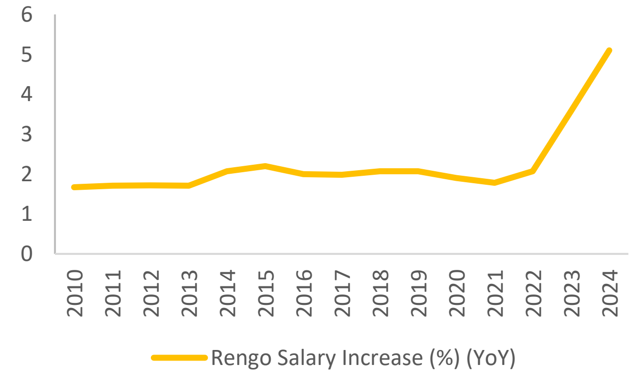
We take note that BOJ gradual hiking, political uncertainty and US policy pressures can result in wild USDJPY swings in 2025. We recognize that the long time span between BOJ moves can create anxiety in markets on the pace of tightening. Over 2024, there is a tendency we notice for USDJPY to be volatile after meetings. This anxiety also coupled with the shaky 2024 Japanese political situation (where the LDP was only able to form a minority government after elections). PM Ishiba has stated that he would not be revising the BOJ joint statement (committed to achieving the 2% inflation target) whilst noting Japan has not escaped deflation and BOJ policies do not target FX. On the opposition side, there seems to be some lull in the differing views on tightening with the main leader Yoshihiko Noda of CDPJ actually calling for gradual hiking whilst the DPP has said that BOJ won't change policy abruptly enough to derail budget discussions. Even so, we are wary of the 2025 political situation (upper house elections due by Jul 2025) leading to contestation over hikes. Meanwhile, Trump policy uncertainties may create volatility for US yields and USDJPY.

Risk to our view: Downside JPY risks include a ramp up in the JPY carry trade although this is less likely to happen given expectations of high volatility, Fed easing and BOJ hiking. Other risks include US economy running too hot or a quick implementation of Trump's tariff and immigration policies, leading to inflationary pressures and delaying Fed cuts.

Narrowing UST – JGB Differential to Guide USDJPY Lower



Rengo Salary Increases Expected to be Strong Again



Source: Bloomberg, Macrobond, Maybank FX Research & Strategy

RMB: Caught between Tariff Threats and Stimulus

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025	4Q 2025
USD/CNY	7.30	7.40	7.55	7.50	7.50

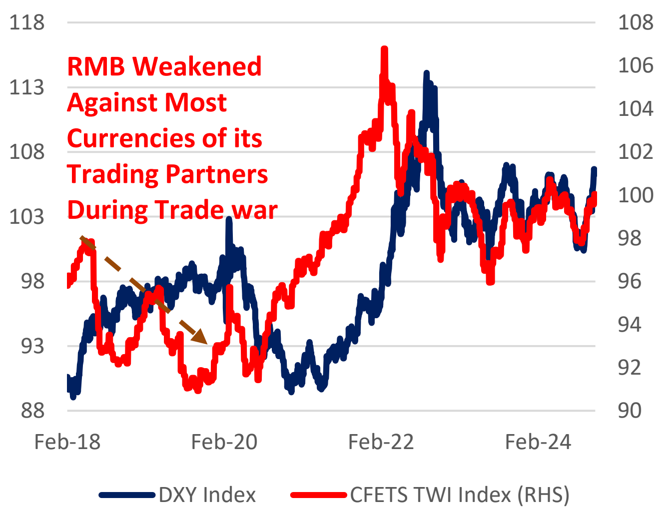
Motivation: Hawkish China Cabinet Nominees Suggests Likely Tariffs on China. As this would be Trump's second term, he and his team are likely to hit the ground running. Trump's policies of deregulation, tariffs and taxes are inflationary and could set the Fed on a shallower path of easing and greater policy divergence from the rest of the world. Intermittent episodes of risk aversion and the potential return of U.S. exceptionalism (where the US is perceived to remain relatively stronger than the rest of the world) could keep the USD supported, especially against the CNH. How USDCNH behaves depend on how President-Elect Trump conducts his tariff negotiations with China. His nominee for US trade representative Jamieson Greer is known to be a hard-line protectionist, like his mentor, Lighthizer. Our baseline expects PBoC to allow more weakness in the yuan. The yuan may not be defended as much as it was during the 2022-2023 hiking cycle. We look for USDCNY and USDCNH to peak around 7.55 in 2Q before plateauing thereafter, caught between US slowdown and concerns on inflation in the US potentially emerging.

Base Case of Escalations and Negotiations: There is a possibility that negotiations can move a lot faster in 2025 given that Trump is more experienced. The first set of tariffs could be imposed on Mar 2025. We anticipate that there could be some escalation thereafter with tariff rates raised higher into 2Q 2025. USDCNY may peak around 7.55 in 2Q. USDCNH could remain on the up move for much of 1H 2025 due to the uncertainties, taking most of USDAxJ along with it. Focus could then be shifted towards the rest of the world in 2H of 2025. CNY would probably start to strengthen on a trade-weighted basis in 2H of 2025.

Export Resurgence Expected Before Fading into 2H 2025. In anticipation of the tariffs, the surge in Chinese shipment to the US as well as to Southeast Asia has already started. This could provide some support for the yuan into the 1H 2025, especially when the sentiment effect from tariff-related news (which we anticipate) will be at its strongest. The cushioning impact would be limited. China has only started to see nascent signs of consumption recovery but this could be limited should housing prices continue to fall. Our economist anticipates fiscal stimulus to kick into high gear in 2Q 2025. That could also keep USDCNH from testing much higher.

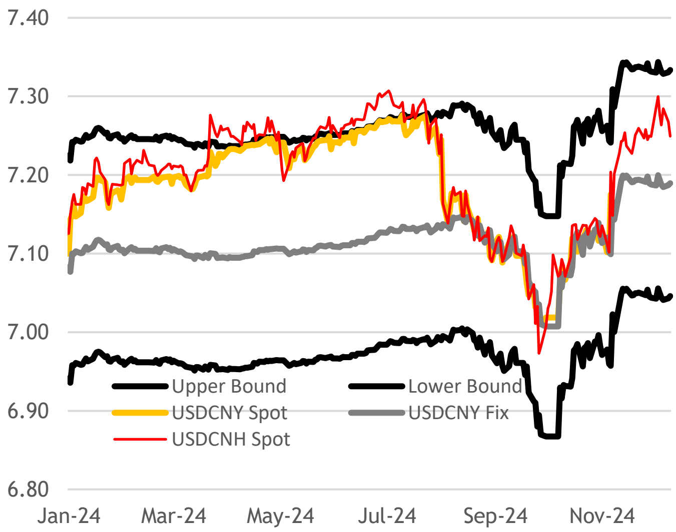
Risks to our View: While growth could be stable (4.8%), sustained by "more pro-active" fiscal stimulus and "moderately loose", there could still be some extent of fragility due to its housing sector. Foreign investors may remain hesitant to re-enter Chinese financial markets. There is also the risk that the escalation of trade war towards 60% tariff could lead USDCNY to a lot higher at 7.87 (estimated), amplified by potential supply shocks in case of other geopolitical events that affect oil supply.

CNY TWI May Weaken Again Should US-China Continue Trade War



Source: Bloomberg, Maybank FX Research & Strategy

USDCNY is Still Within the Band, Well Defended for Now



Source: Bloomberg, Maybank FX Research & Strategy

KRW: Front-Loaded Vulnerabilities

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025	4Q 2025
USD/KRW	1450	1460	1470	1410	1400

Motivation: We see some vulnerabilities for the KRW in the next couple of quarters ahead, but think that it could take some time for the positive factors for KRW to come into play. Our USDKRW forecasts factor in a peak some time in 2Q 2025 and we think that greater clarity on Trump policies then could lead to a repricing of risk premiums. Vulnerabilities for the KRW are likely to be front-loaded with current political uncertainty and uncertainty over China weighing on the KRW. At the same time, strengths for the KRW could take some time to be priced.

We expect the BOK to cut rates by 100bps in 2025 with the policy rate ending at 2.00%. This is largely in line with market pricing, but slightly more dovish than consensus forecasts (50bps, ending at 2.50%). BOK cut rates at end-Nov against consensus but in line with our own view by 25bps to bring the policy rate to 3.00% as balance of risks for the BOK appeared to shift to favour being growth supportive as the broad disinflationary trajectory remained intact.

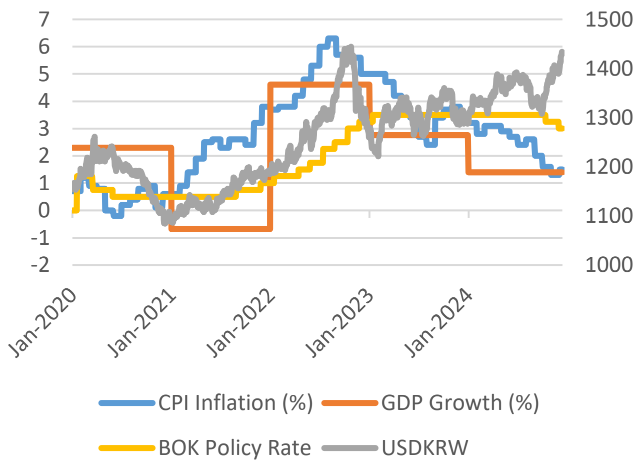
Growth could be hindered by a challenging external environment in 2025. Consensus forecasts see 2025 growth moderating to 1.9% in real terms, with a 15.0% probability of a recession. Korea is somewhat potentially vulnerable to further US trade measures. Trump has already signalled potential measures on Taiwan for "stealing" US chip business and Korea could also similarly be flagged. Moreover, Korea has a trade surplus with the US and that could be a reason for further trade measures being applied.

Political uncertainty is a near-term headwind. President Yoon's brief declaration of martial law has shaken confidence in Korea, with the KOSPI and KRW both selling off in tandem in the wake of the brief declaration of martial law. The subsequent failure to impeach and continuing uncertainty is likely to exert some pressures on the KRW, but this is unlikely to last beyond 1Q 2025. There is sufficient outrage in the country and appears to be some consensus that Yoon has failed and will need to be replaced. This will likely happen sooner rather than later, with even members of Yoon's party publicly chastising his actions.

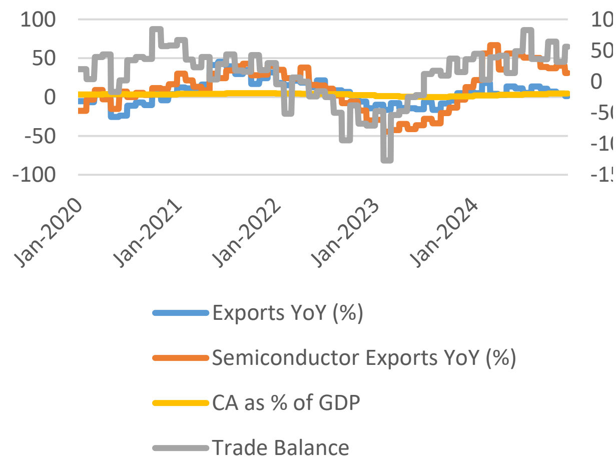
While the external environment in 2025 remains uncertain and challenging, structural inflows to Korea bonds should continue. Korea was included onto major government bond indices and structural inflows are expected to continue into 2025. This should provide some support for the KRW at the margin, although our base case expectations for KRW support to come in only from 3Q 2025 onwards.

Risks to our view: Extended period of political uncertainty should President Yoon choose to linger in his role could weigh heavily on confidence on Korea and the KRW. Potential further action from the Trump administration on China could also weigh on the KRW.

Balance of Risks Tilts to Growth Over Inflation for BOK



Exports and Semiconductor Exports Falling



Source: Bloomberg, Maybank FX Research & Strategy

SGD: Regional Safe-Haven Support

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025	4Q 2025
USD/SGD	1.3500	1.3600	1.3750	1.3600	1.3450

Motivation: We see support for SGD as a regional safe-haven against a backdrop of elevated trade tensions, tariffs and geopolitical frictions. USDSGD is likely to hit a peak in 2Q 2025 where there would be more clarity on Trump policies and thereafter moderate to end the year lower. While Singapore is an open economy and trade frictions could negatively impact growth, a bilateral trade deficit with the US is likely to keep it out of Trump's crosshairs. In addition, Singapore is well positioned to gain from potential re-routing of trade flows. MAS SGDNEER appreciation policy is expected to remain positive, but with our estimate of the current pace of SGDNEER appreciation at 1.5% annually to ease off slightly in 2025.

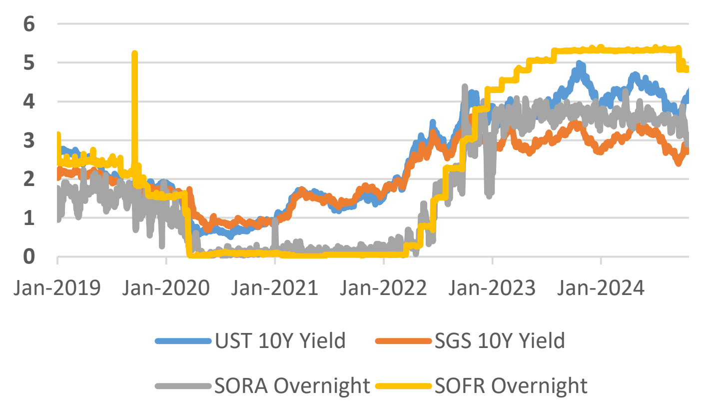
Our economists see MAS easing in Jan via a slight slope reduction as core inflation dips closer to historical mean of 2%. MAS has stood pat for six straight meetings, starting in Apr 2023 to Oct 2024 as inflation and growth outturns have largely been in line with expectations. The current level of SGDNEER appreciation (1.5%) could be seen as being consistent with a long-term equilibrium level of SGDNEER appreciation. MAS may want to retain some policy space and to ease only when it is required given the considerable external uncertainty and as such, signs of the risk of robust growth could continue to delay easing. Furthermore, a slight easing via a slope reduction (estimated at 0.5%) would still imply an appreciation in the SGDNEER, albeit at a gentler (1.0%) pace. Our Taylor Rule estimates suggest that the SGDNEER trajectory should remain elevated given that inflationary pressures still exist into end 2025 and 2026.

Core inflation dips closer to the historical mean of 2% and is expected to fall further. Growth however is set to remain relatively strong after a robust 3Q GDP print. Our economists forecast core inflation at +2.8% and see real growth of +3.6% in 2024. Our economists expect core inflation to dip below the 2% historical level in early 2025 and suggest that could allow MAS to ease in Jan. Core inflation is expected to average +1.8% and real growth is expected to moderate to +2.6% in 2025.

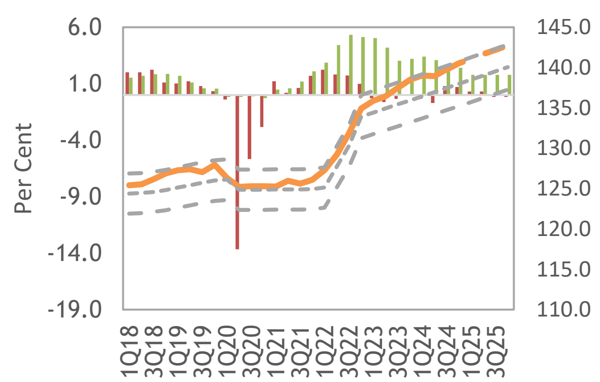
Our economists see a budget boost from the last budget of the current term of government, before elections are called no later than Nov 2025. Our economists expect the budget will likely be generous and mildly expansionary and do not see a surprise in the election results. Similarly, we suggest that the baseline election outcome is not expected to shake confidence in Singapore and the strength of its institutions. It remains the sole AAA rated sovereign in the region, and is required by legislation to operate a balanced budget over a term of government. In uncertain times, this would make the SGD a relatively attractive currency to hold.

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

High Rate Correlation with USD Should Shelter SGD



SGD NEER Could See Upward Pressures in 2025 (Taylor Rule Estimates)



Source: Bloomberg, Maybank FX Research & Strategy

MYR: Domestic Tailwinds in Trump 2.0 Waters

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025	4Q 2025
USD/MYR	4.40	4.60	4.70	4.55	4.45

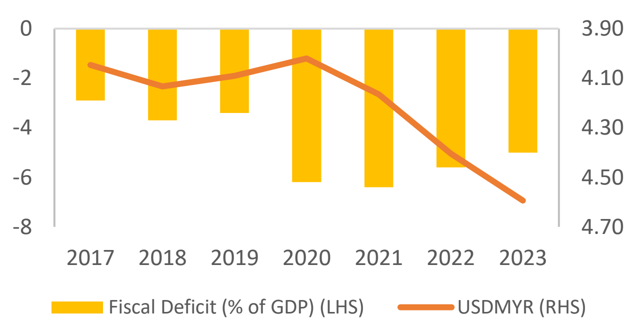
Motivation: The 2018 trade war did not bode well for the MYR due to its sensitivity to the CNY, yield differentials and the country's high export exposure. With the Trump win, trade risks have risen. However, we see differences for 2025. While tariffs would weigh on the MYR, other factors such as effective fiscal consolidation, stable (unchanged) monetary policy and an investment upcycle can provide support to the currency. Furthermore, ASEAN will not be a priority on Trump's radar in his first year with initial focus being domestic and tariffs on Mexico, Canada and China. Within ASEAN, Malaysia runs a bilateral trade surplus of about US26.8bn or 6.7% of GDP which smaller in comparison with Vietnam at 24.4% of GDP. Malaysia has also recently been dropped from the US Treasury "currency manipulator" watchlist. BNM is also expected to hold rates in 2025 and ensures some yield differential stability. Other factors which could support the MYR include the potential of Malaysia's sovereign positive re-rating if it delivers positive fiscal surprises, in addition to continued efforts to drive investments, improve institutional strengths, and raise per capita income and Malaysia's growth potential. Overall, we still see MYR to be weighed down by tariff related concerns on trade and growth, CNY weakness and rising global risk premiums. This is likely to keep MYR weaker until around middle of 2025 before easing after the Trump 2.0 effects are front loaded. MYR could see some slight retracement in 2H 2025 on the back of positive domestic drivers but remaining elevated in second half 2025 as USD supports remain.

Investment Upcycle Support. Our economists see Malaysia's third investment upcycle (since 1980s) is on-going as per the trend in gross fixed capital formation as sustained robust momentum in approved investment since 2021 is feeding into rising actual investment. Further evidence of investment upcycle is provided by indicators showing uptrends in the implementation rate of approved manufacturing investment, imports of capital goods, banking system loans for "industrial buildings, factories and lands" and corporate earnings.

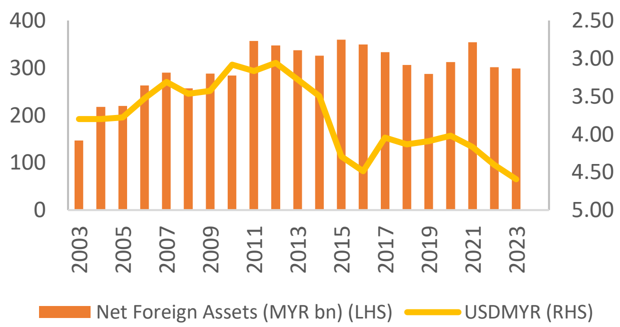
Other Upside Support. On monetary policy, BNM is expected to keep the Overnight Policy Rate (OPR) at 3.00% in 2025 amid upside to inflation (2025F: +3.0%; 2024E: +1.9%) from Budget 2025 measures like the further broadening of the Sales and Services Taxes (SST) coverage, RON95 petrol subsidy rationalisation, and higher labour costs (minimum wage hike and foreign workers' multi-tier levy and mandatory EPF contribution), and the downside to growth from external uncertainties. Our economists expect real GDP growth to moderate to +4.9% in 2025 from +5.2% in 2024 given the domestic tailwinds and external headwinds. However, domestically, 2025 will see several key policy events i.e. signing of Johor-Singapore Special Economic Zone (JSSEZ) agreement in Jan 2025; RON95 petrol subsidy rationalisation and announcement of 13th Malaysia Plan (13MP, 2026-2030) in mid-2025; and unveiling of National Investment Incentives Framework (NIIF) in 3Q 2025. Taking all that into consideration, we expect MYR to see some support in 2025 with more pronounced resilience in the latter part of 2025. The MYR still looks relatively "cheap" in Real Effective Exchange Rate (REER) terms and trade balances remain benign, which allows for a bigger pick-up once external events turn favourable.

Risks to look out for in 2025. Some of the external risk factors, include worsening China situation, a shift to a Fed hawkish bias, and an escalation of various geopolitical tensions. We see more upside risks from a pronounced China stimulus and improvements in geo-politics could push USDMYR lower.

Government has Been Driving at Fiscal Consolidation



Malaysia's Net Foreign Assets Have Been Holding Up



Source: Bloomberg, Macrobond, Maybank FX Research & Strategy

IDR: Volatile EM Trajectory Path

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025	4Q 2025
USD/IDR	16000	16800	17000	16500	16500

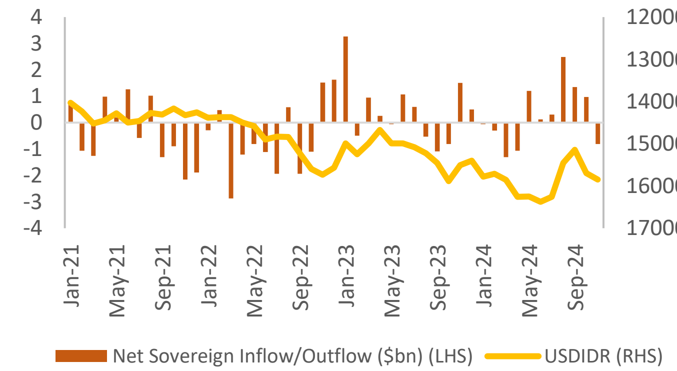
Motivation: We are cautions on the USDIDR into the next year given a challenging global environment. Even as the country may have a low trade exposure, US tariffs are still going to negatively impact the IDR as sentiment would still be weighed down by US policies hurting global growth and making investors uneasy about holding EM assets. Other supportive idiosyncratic factors such as the Bank Indonesia (BI) easing rates next year can help offset some of the negative effects. However, it would not be sufficient to offset the uneasiness investors would have to hold EM assets in the medium term. Domestically, we take note of fiscal slippage risks too but we believe the government may try to keep the deficit below 3.00%. Volatility is likely to prevail during 2025 although we note that the central bank intervention and the utilization of SRBI can go some way in stabilizing the IDR. Overall, we expect the USDIDR to substantially rise in the first half of next year as the first tariffs come in before being more stable in the second half.

We see BI would cut by 25bps in Dec 2024 and 75bps in 2025. The BI move would be in line with our view on the pace of Fed easing pace (which is also 25bps in Dec 2024 and 75bps in 2025). Inflation trends are also likely to be supportive of rate cuts with the latest headline reading currently at a low level of 1.55% and near the bottom of BI's target range of 1.50 – 3.50%. Our economist sees inflation at 2.3% YoY in 2024 and expects only a slight pick-up in 2025 to 2.6% YoY. We do take note of some upward risks to inflation that include the 1% VAT hike, 6.5% increase in minimum wage and the fuel subsidy rationalization scheme. However, the VAT is likely to only have limited impact whilst the fuel subsidy rationalization scheme is still unclear at this point. The minimum wage hike impact maybe offset with cautious consumer recovery. **Nonetheless, even if BI cuts, appetite for Indo GBs can be tempered by weaker sentiment towards the EM space amid the imposition of trade tariffs. Therefore, rate cuts prospects may not necessarily be much support for the IDR if there is not sustainable inflows into Indo GBs.**

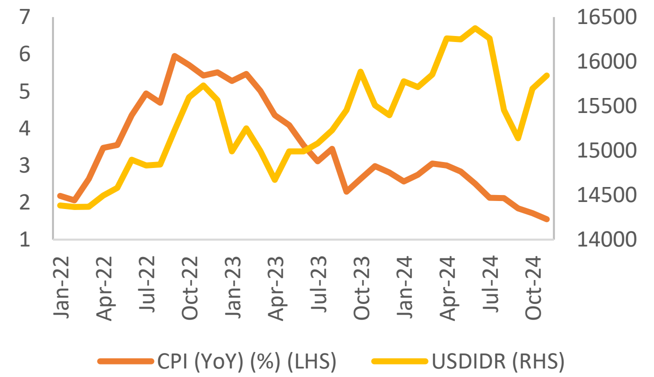
The fiscal situation warrants close attention given the impact it can have on the IDR and Indo GBs although we expect deficit below 3.00%. Investors have so far got much relief with Sri Mulyani's reappointment as the Finance Minister. Mulyani had managed to successfully keep Indonesia's fiscal deficit below the 3.00% legal limit for most of her prior term. However, there would be an increasing challenge to achieve this under Prabowo given he aims to supercharge growth to 8% from current levels of around 5%. In addition, the President is reportedly working to form a separate Revenue Ministry, which has come under criticism. However, we do take note that next year's budget deficit is still set at 2.5% of GDP. It would also be in the President's interest to maintain investor confidence and avoid the bouts of volatility that had been seen during his transition period.

Risk to our view: The risks are mainly to downside for the IDR. Domestically, this would be any fiscal deterioration if Prabowo aggressively pursues his spending plans. Externally, US price pressures from tariff and immigration policies or a hot US economy can cause the Fed to hold rates for longer, weighing on the IDR. On the flipside, if Trump does not see through his tariff or immigration proposals, the IDR could get much relief.

Indo GB Inflows Could be hurt by Global Uncertainty



Soft Inflation Back BI Cuts But IDR Weakness Holds it Back



Source: Bloomberg, Macrobond, Maybank FX Research & Strategy

PHP: Cautious Amid Weak Fundamentals

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025	4Q 2025
USD/PHP	59.00	60.00	63.00	61.00	61.00

Motivation: We expect USDPHP would trade elevated into 2025 as uncertainty on US policies primarily weigh in. Whilst the Philippines is not a heavily trade exposed economy, US tariffs risks creating upward US inflationary pressure and keeping UST yields high, supporting the USDPHP. Additionally, growth concerns arising from trade tensions can weigh on the sentiment towards EM assets. The country's persistent twin deficit condition would also add to the currency's weakness. The BSP is likely to ease by 100bps next year but the Fed we believe would similarly also ease rates by 100bps into 2025, which should prevent the BSP easing from hurting the PHP. Idiosyncratically, we do take note that the repatriation of fund by overseas workers can help limit PHP weakness.

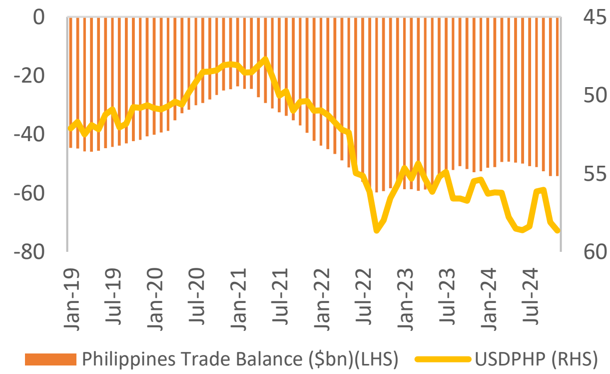
BSP is likely to ease by 100bps in 2025 with inflation levels within the target of 2- 4%. Headline inflation is projected to edge down to 3.1% YoY in 2025 and 3.0% YoY in 2026 from 3.2% in 2024 amid government measures to reduce agricultural tariffs and remove non-tariff agricultural measures too. The BSP also views inflation as manageable and see that it will head to the lower end of the target range. As we expect the Fed to ease by 100bps into 2025, the BSP easing should not put too much stress on the PHP. We do take note of concerns about currency weakness and Eli Remolona mentioning that USDPHP hitting a round number such as 60.00 can have a "psychological effect". However, he has said that FX would only be a consideration if the swings are significant and happening over a few months. Rate easing can give some support for foreign inflows into bonds and PHP. Meanwhile, we are cautious on equity flows given global uncertainty can weigh on EM equities.

OFWR is to remain a key support for limiting PHP weakness. Although global growth concerns can emanate with the imposition of US tariffs, we still expect that the US can achieve a soft landing and global growth somewhat still hold up. This should guide for OFWR growth to remain robust in 2025. For the first nine months of 2024, OFWR growth was 3% YoY, which is slightly higher than the prior year at 2.9% YoY. Our analysis has also shown that in the last few years, OFWR has also tended to be higher during months when the broad dollar is stronger. This can help limit the PHP weakness during periods of stress.

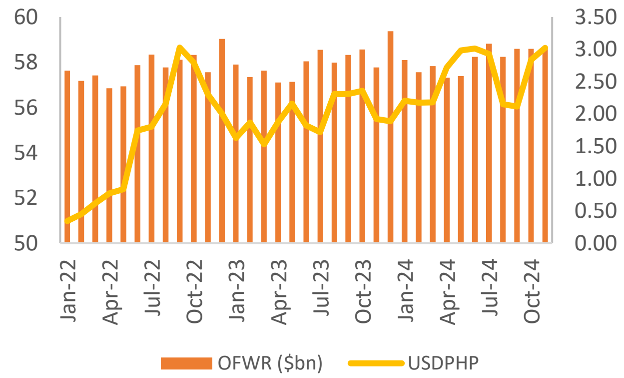
Narrowing twin deficit but nonetheless, still a deficit weighing on the PHP. The CA deficit should narrow slightly to -2.2% of GDP from the 2024 expected levels of -2.4% of GDP amid a lower goods deficit, higher OFWR and business process outsourcing income. Fiscal deficit should also narrow based on a steady increase in revenue even as expenditure increases.

Risks to Our View: Downside risks for the PHP include Fed rates staying higher for longer amid a strong US economy or price pressures from Trump policies. Another negative risk would be a worsening of the political situation due to the spat between Marcos and Duterte. Upside risks for the PHP would be significant improvements in the local bond market liquidity or a ratings upgrade. The former may take time although there has been progress as the Philippines has launched an enhanced Peso IRS market. On the latter, it may also take a while even as the S&P has recently upgraded Philippines to a positive outlook from stable. The S&P upgrade requirement for rapid fiscal consolidation may take time to achieve.

Wide Trade Deficit Keeps Weighing on the PHP



OFWR a Factor Limiting PHP Weakness



Source: Bloomberg, Macrobond, Maybank FX Research & Strategy

THB: Pressured Amid Trade Tensions

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025	4Q 2025
USD/THB	34.50	35.50	36.50	35.80	35.80

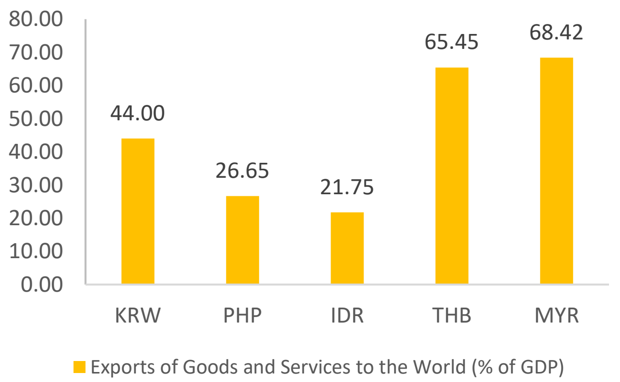
Motivation: We expect the USDTHB to trade elevated in 2025, as the country is particularly vulnerable to US tariffs due to its large trade exposure. The THB is also especially sensitive towards the CNH too given Thailand's large trade position with China. A supported broad dollar and the UST yields, which the THB is showing increasing sensitivity, would also weigh on the THB. Idiosyncratically, we do take note of some supportive THB factors that can limit weakness. This includes improving tourism levels, elevated gold prices, government stimulus (amid political stability) and BOT holding rates. Meanwhile, upside risks for THB include strong China recovery whilst downside risks is the Fed staying higher for longer.

THB is highly vulnerable to the global trade tensions given the high trade exposure. In 2023, exports of goods and services made up 65.45% of Thai GDP whilst goods exports to China itself was at 6.5% of GDP. This makes it among the highest regionally in Asia. Not surprisingly therefore, the THB is also rather sensitive to the CNY/CNH. The country additionally also maintains a current account surplus with the US. We do note though that in the last trade war of 2018 – 2019, the THB had actually outperformed its peers. However, a repeat outperformance into next year is going to be less likely due to the contrasting circumstances of the current period compared to the past. For one, the rates environment is markedly different given that back in 2019, the BOT was considered hawkish relative to its peers. For much of the last few years, the BOT has actually been lagging other central banks in hiking rates and nominal differentials are fairly wide compared to 2019. Also, on the external position, Thailand's CA surplus was much larger then compared to now.

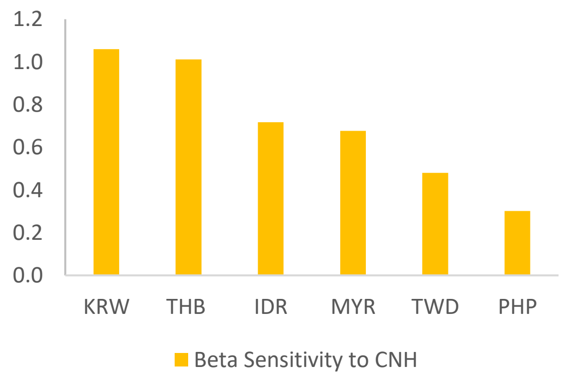
Idiosyncratically, we do take note of a number of supportive factors that can temper the USDTHB increases. This includes high gold prices, which would be positive for the THB given the country's position as a gold trading hub. We expect gold prices to remain elevated into 2025 given the global geopolitical tensions and central bank demand. Meanwhile, we also note that tourism arrivals have already climbed back to about 97% of pre-pandemic levels and it is expected in 2025 to surpass the previous peak of 40m. There is also some semblance of political stability taking hold in the country and the current government is looking determine to try to boost growth. However, we do note fiscal concerns can affect bond inflows. Our economist also sees that the BOT would stay on hold (even amid government pressure to ease) and this should avoid rate differentials weighing further on THB. At the Oct meeting, when the BOT had cut by 25bps, the Governor stated that the action was a "recalibration" and not the start of an extended easing cycle. We are aware that both the BOT and the government have not appeared concern on THB weakness over the last year (the latter pushing for more softness). Meanwhile, we are cautious on equity inflows as trade tensions may hurt appetite but government stimulus can support interest.

Risks to Our View: There can be upside risks for the THB if there is a strong China growth recovery as it can provide a boost to both Thailand's tourism and trade. A rollout of strong Chinese stimulus support can allow for this to be realized although there is immense uncertainty on this front. On the downside, Fed rates staying higher for longer or aggressive quick imposition of US tariffs (base case for it to be gradual) can hurt the THB.

Thailand is Among the Most Trade Exposed Countries



THB Exhibits High Sensitivity to the CNH



Source: Bloomberg, Macrobond, Maybank FX Research & Strategy
Note: Beta sensitivity is calculated by a regression of the respective currency on the CNH with weekly data from Jan 2020 – 6 Dec 2024

INR: New Governor, New Methods?

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025	4Q 2025
USD/INR	85.00	85.25	85.50	85.75	85.75

Motivation: We see a gentle upward sloping trajectory for the USDINR in 2025. INR is more resilient to potential Trump trade policies and we think the new governor is unlikely to deviate from the RBI's stance of leaning against the wind and preferring a stable INR. New governor Sanjay Malhotra is a career bureaucrat and should be viewed as a safe pair of hands. While the stable INR may be viewed as the cornerstone of ex-Governor Das' tenure, there is no reason for the new governor to deviate from this stance. However, yield differentials likely narrowing vis-à-vis the US are likely to pressure the INR.

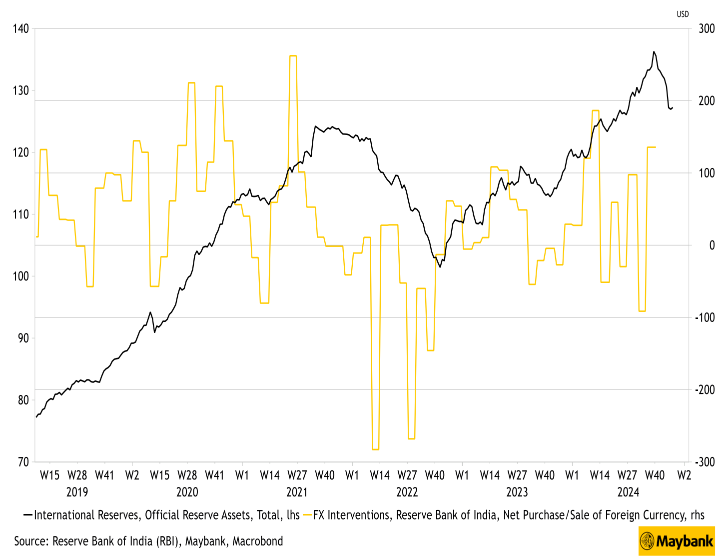
In 2025 we see RBI cutting rates by 75bps to bring the policy rate to 5.50%. RBI has pivoted to neutral but its policy rate at 6.50% is restrictive, cutting rates by 75bps should align their neutral stance and policy rate. This is largely in line with market pricing but slightly more dovish than consensus forecasts (45bps of cuts). Risks are tilted to the downside for growth and inflation is expected to ease in the months ahead which should provide RBI with the comfort to embark on their easing cycle.

Inflation is expected to ease into 2025. Median headline inflation forecasts for 2024 are expected to moderate to 4.7% amid an anticipated easing of food costs, which should reduce volatility in consumer prices. **Growth is expected to remain reasonably strong** at 6.8% in real terms, with probability of a recession estimated to be close to 0%. The fiscal deficit is projected to narrow to 4.9% of GDP. While these factors are largely supportive of the INR, the narrowing yield differential with the US, challenging external environment and considerable uncertainty make it difficult to be positive on the INR.

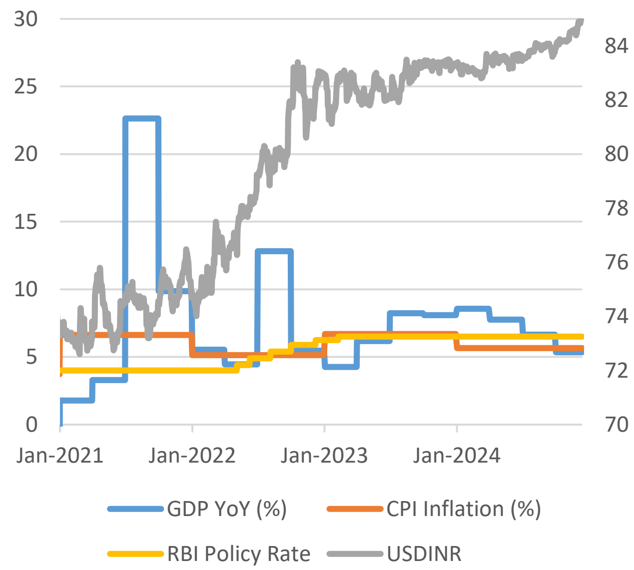
INR remains one of the more resilient currencies against Trump policies. The Indian economy is not reliant on exports to the US and they are unlikely to be flagged for specific measures from Trump. In addition, the RBI's preference for stability should provide the currency with ample resilience against a backdrop of a USD that we see being better supported in 2025. Inflows into India after its inclusion in global bond indices should also provide the INR with some support, although we expect gains to the INR to be limited by RBI's preference for stability.

Risk to our view: The RBI switching out of its stance to lean against the wind. This could occur as a matter of policy change or if there is too much scrutiny, possibly by the US Treasury. Should a challenging external environment result in higher inflation or poorer growth prospects, that should also challenge our view on the INR.

India's Preference for INR Stability Evident in Two-Sided Intervention



RBI's Rate is Restrictive and Could Hurt Growth



Source: Bloomberg, Macrobond, Maybank FX Research & Strategy

VND: Potential for Outperformance

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025	4Q 2025
USD/VND	25100	25000	25200	25200	25200

Motivation: Trump's trade agenda will be a key risk for Vietnam's outlook, much like most regional peers. Apart from that elephant in the room, the outlook for the VND had actually started to brighten as Fed eases policy and the domestic demand started to strengthen. Vietnam's monthly tourist arrivals continue to surge towards pre-Covid levels, providing the VND another tailwind into 2025. Despite Vietnam's eye-catching trade surplus with the US, the country has not been called out for it thus far. In addition, our economist noted that Vietnam has pledged to buy more aircraft, LNG and other big ticket items like security equipment and AI chips from the US, and is tightening its rules-of-origin criteria. There is a possibility that Vietnam may be seen as an important partner to the US in the eyes of Trump and that could give VND some comparative advantage in this world of turbulence. Still, VND could weaken vs. the USD but we anticipate much of the up move in the 1H 2025.

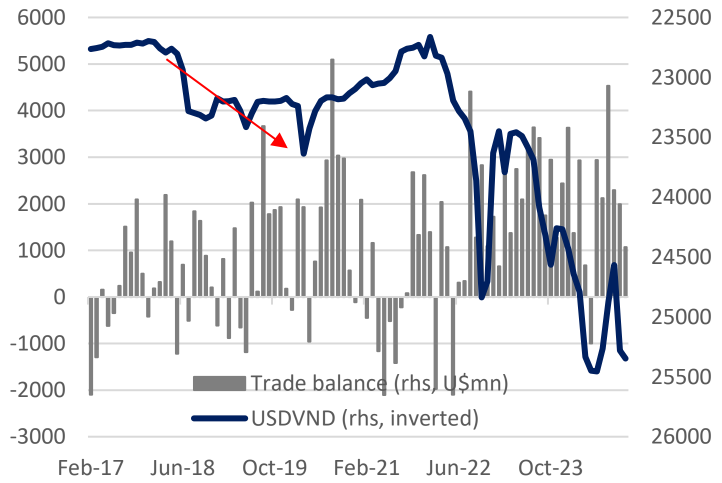
Recovering Domestic Demand to Buffer External Headwinds. Cooling inflation, strengthening consumption and private investment could help buffer the economy against a more uncertain external environment when US President-Elect Trump is inaugurated. Infrastructure spending is key - Vietnam has approved the construction of a high-speed rail that will require $67bn in funding which connects Hanoi all the way to Ho Chi Minh City. Construction begins in 2027 and will start operating in 2035. 1000km of highways and national airports are going to be constructed to increase the allure of Vietnam to foreign investors. PM Pham has also urged Chinese companies to utilize their areas of strength (innovation, green development, AI, cloud computing and the Internet of Things) in their cooperation with Vietnamese counterparts.

Tourist Arrivals Are Now Near Pre-Pandemic Levels. Tourist arrivals are now near pre-pandemic levels and the rise could continue. That should continue to bolster its current account next year and support the VND.

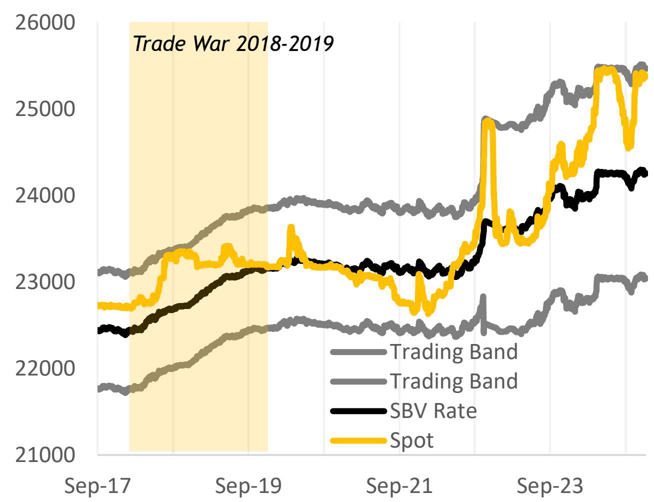
USD and US Rates Environment May be Volatile This Year. A key driver for the VND would have to be the USD and US rates environment that is likely to be volatile. Should growth pick up in the US, expect the USD and US rates to rise further and that could pressure Asian currencies, including the VND. If Fed continues to ease, that could also have some mitigating factor on the USD. We look for two-way trades. We recall that VND TWI actually rose in the last trade war as Vietnam benefits from the China+1 strategy and because VND has a lower sensitivity to external shocks.

Risks to Our View. 1) Any sign of a re-acceleration in US inflation or supply shocks that could spur US rates higher pose downside risks to the lift the USDVND. 2) Any tariffs that hit Vietnam directly is likely to result in VND weakness. 3) Shocks to the global growth because of tariffs.

VND Weakened A Tad During the Trade War 2018-2019



VND Was Defended At the Last Trade War



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

Gold: Bullish Amid Geopolitical Conflicts and Global Fragmentation

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025	4Q 2025
XAU/USD	2700	2800	2850	2900	2950

Motivation: Gold traditionally possesses a negative correlation with real yield (yield minus inflation) as gold is taken to be a hedge against inflation. However, its nature has since morphed. The negative correlation with real yield is not as strong anymore as demand for gold as a safe-haven strengthens in the backdrop of growing geopolitical conflicts. A lack of attractive assets in China has driven the Chinese to buy gold in recent years. As a result of safe-haven demand, weaponization of the dollar as well as China's shift towards gold as an alternative investment, the negative correlation between the USD and the gold weakened. **We anticipate gold to rise towards $3000/oz. We look for strong demand for gold as an alternative to the USD (amid geopolitical tensions between the US and other nations), as a safe-haven, as an alternative investment asset for Chinese in times of RMB pressure and further underpinning from rate cuts that could bring real yield down.**

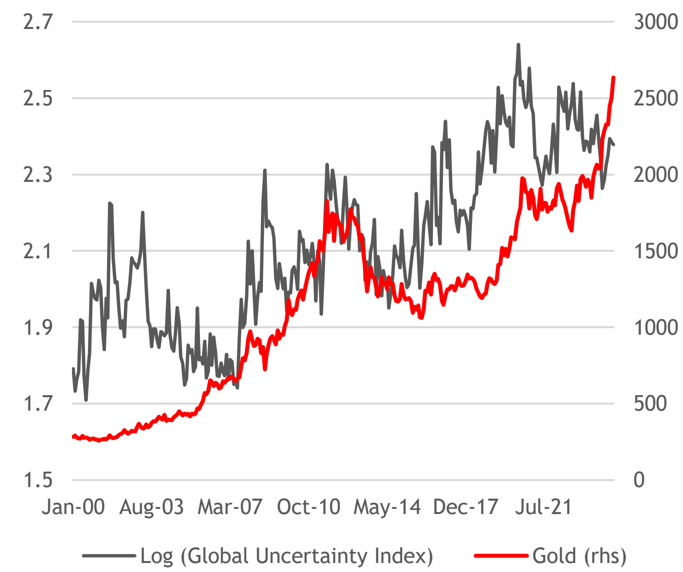
De-dollarization endeavours have spurred investors, central bankers towards buying gold as an alternative reserve. The global central banks' net purchase of gold spiked after the invasion of Ukraine by Russia and unprecedented financial sanctions imposed on Russia by the US and EU. Since then, the quarterly net gold purchases by central banks had been higher than the years preceding the invasion.

US President-elect Trump has pledged to put an end to the war in Ukraine. As such, the time is ticking for Russia and Ukraine to gain as much leverage as possible before a potential peace-deal in Jan. In the absence of Russia's support, rebels in Syria had also toppled the ruling Assad family. Trump's vow of ending the war in Ukraine ironically set off a chain of more geopolitical events and uncertainties, lifting the demand for gold more recently.

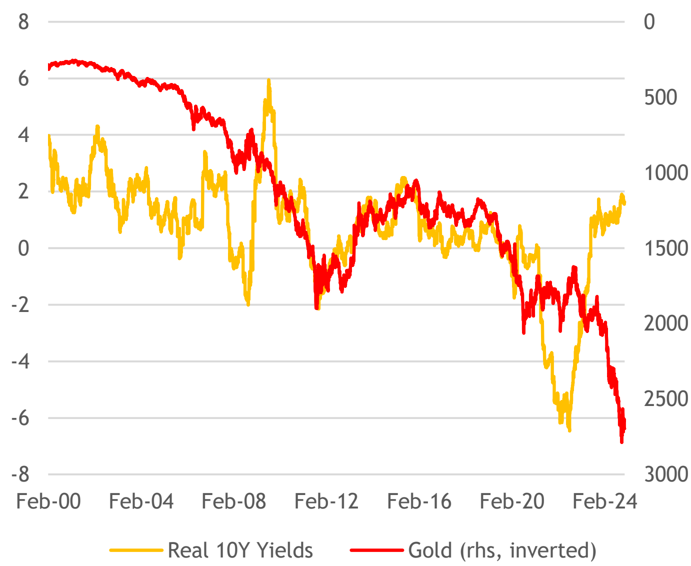
China's demand for gold to stay firm. In view of the potential continuation of a trade dispute between the US and China, the path of least resistance for the yuan could be to the downside. Outlook for financial markets at home could be uncertain, albeit likely to be supported by strong domestic measures that are growth-supportive. Similar to the observations that we have seen in times of yuan depreciation, we expect Chinese demand for gold as a form of investment to stay firm.

Risk to our view: If Trump brings an end to the war in Ukraine and should the conflict in Middle-east come to a pause, there is a possibility that gold may see another drop towards $2400.

Global Political Uncertainties Continue to Lift Gold



Relationship between Real Yield and Gold Has Weakened



Source: Global Policy Uncertainty index, Bloomberg, Maybank FX Research & Strategy

FX Forecast Table

	End Q4-24	End Q1-25	End Q2-25	End Q3-25	End Q4-25
USD/JPY	150.00	145.00	145.00	140.00	140.00
EUR/USD	1.0500	1.0300	1.0200	1.0100	1.0100
GBP/USD	1.2700	1.2650	1.2600	1.2650	1.2700
AUD/USD	0.6500	0.6400	0.6200	0.6000	0.6000
NZD/USD	0.5900	0.5700	0.5600	0.5500	0.5500
USD/CAD	1.4200	1.4300	1.4500	1.4400	1.4300
USD/CHF	0.8800	0.8825	0.8850	0.8850	0.8850
USD/SGD	1.3500	1.3600	1.3750	1.3600	1.3450
USD/MYR	4.4000	4.6000	4.7000	4.5500	4.4500
USD/IDR	16000	16800	17000	16500	16500
USD/THB	34.50	35.50	36.50	35.80	35.80
USD/PHP	59.00	60.00	63.00	61.00	61.00
USD/CNY	7.30	7.40	7.55	7.50	7.50
USD/CNH	7.30	7.40	7.55	7.50	7.50
USD/HKD	7.76	7.76	7.77	7.78	7.79
USD/TWD	32.50	32.60	32.70	32.80	33.00
USD/KRW	1450	1460	1470	1410	1400
USD/INR	85.00	85.25	85.50	85.75	85.75
USD/VND	25100	25000	25200	25200	25200
DXY Index	106.53	107.37	108.20	108.11	107.99
Gold	2700.00	2800.00	2850.00	2900.00	2950.00
	End Q4-24	End Q1-25	End Q2-25	End Q3-25	End Q4-25
SGD/MYR	3.26	3.38	3.42	3.35	3.31
JPY/SGD	0.90	0.94	0.95	0.97	0.96
EUR/SGD	1.42	1.40	1.40	1.37	1.36
GBP/SGD	1.71	1.72	1.73	1.72	1.71
AUD/SGD	0.88	0.87	0.85	0.82	0.81
NZD/SGD	0.80	0.78	0.77	0.75	0.74
CAD/SGD	0.95	0.95	0.95	0.94	0.94
CHF/SGD	1.53	1.54	1.55	1.54	1.52
SGD/IDR	11852	12353	12364	12132	12268
SGD/THB	25.56	26.10	26.55	26.32	26.62
SGD/PHP	43.70	44.12	45.82	44.85	45.35
SGD/CNY	5.41	5.44	5.49	5.51	5.58
SGD/HKD	5.75	5.71	5.65	5.72	5.79
SGD/TWD	24.07	23.97	23.78	24.12	24.54
SGD/KRW	1074	1074	1069	1037	1041
SGD/INR	62.96	62.68	62.18	63.05	63.75
SGD/VND	18593	18382	18327	18529	18736
	End Q4-24	End Q1-25	End Q2-25	End Q3-25	End Q4-25
JPY/MYR	2.93	3.17	3.24	3.25	3.18
EUR/MYR	4.62	4.74	4.79	4.60	4.49
GBP/MYR	5.59	5.82	5.92	5.76	5.65
AUD/MYR	2.86	2.94	2.91	2.73	2.67
NZD/MYR	2.60	2.62	2.63	2.50	2.45
CAD/MYR	3.10	3.22	3.24	3.16	3.11
CHF/MYR	5.00	5.21	5.31	5.14	5.03
MYR/IDR	3636	3652	3617	3626	3708
MYR/THB	7.84	7.72	7.77	7.87	8.04
MYR/PHP	13.41	13.04	13.40	13.41	13.71
MYR/CNY	1.66	1.61	1.61	1.65	1.69
MYR/HKD	1.76	1.69	1.65	1.71	1.75
MYR/TWD	7.39	7.09	6.96	7.21	7.42
MYR/KRW	330	317	313	310	315
MYR/INR	19.32	18.53	18.19	18.85	19.27
MYR/VND	5705	5435	5362	5538	5663

Source: Maybank FX Research as of 12 Dec 2024. *These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.

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