Maybank

Macro | FX Research & Strategy

Global

FX Monthly

2024, Issue 1: Between US Outperformance and Rate Cut Bets

What Has Changed This Month?

- We left most of our forecasts unchanged except for VND and PHP which we have revised slightly lower in light of recent market developments.

Our Strategies and Views

- The DXY has retraced around 3.2% from its Dec low as Fed officials started actively pushing back rate cut expectations at the turn of the year. Other central bankers were also eager to dampen expectations for an early rate cut with Lagarde reiterating that rate cut debates are still pre-mature. Regardless of what officials say, markets clearly prefer to take their cue from data and central bank projections rather than comments from Governors themselves. As such, we are faced with a 90% probability of a rate cut in Apr by ECB. An earlier rate cut by ECB vs. Fed (expected to be in May) should be negative for the EUR but at the same time, it can be argued that this is already priced and that limits the downside to the EURUSD from here. With markets and central banks likely to be locked in calibration, most G10 FX may also be left to consolidate in tight ranges. Meanwhile, stronger-than-expected US GDP, CPI, prelim. PMIs were a contrast to weaker data seen in China and Eurozone. US exceptionalism has surfaced again to provide the USD some buoyancy.

- The THB and IDR hurt by government pressure in Jan. For THB, the BOT has faced repeated requests from the government to cut rates amid concerns of a weak economy. Despite the government's persistence, the BOT appears to stubbornly maintain its independence and we think it will continue to do so, implying a cut in the near term is unlikely to happen (still see 25bps cut later in the year). Therefore, we think any risk related to this could eventually dissipate and we recommend selling USDTHB. Regarding IDR, the risk of mass resignations of cabinet members including Finance Minister Sri Mulyani has created concern among investors given the technocrat has effectively managed the country's fiscal books. If this event does materialize, we do not rule out the possibility of USDIDR hitting closer towards 16000.

- PBoC cut RRR by 50bps and hinted of further easing. We see increasing possibility that China would deliver more fiscal, monetary stimulus to support the real economy and that tilts the risk to the downside for our USDCNY forecast. Data thus far has painted a weak growth picture with more downside risks to the property sector. Recent talks of a stocks rescue package (CNY2 trn) and additional special sovereign bond quota (CNY 1trn) in addition to the 50bps RRR cut suggest that the top officials see an increasing urgency to revive confidence and to support growth.

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Top 3 Currency Plays for Jan

Sell on USDCNH Rally
Sell on USDTHB Rally
Sell USDKRW

Key Events for the Month Ahead

Date	Event
1 Feb	India Union Budget 2023-24
14 Feb	Indonesian Elections
16 Feb	Singapore Budget

SEE PAGE 37 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

USD: Still phasing in synchronized cuts - duration and magnitude

USD DXY	1Q 2024	2Q 2024	3Q 2024	4Q 2024
	103.57 (--)	102.43 (--)	101.59 (--)	100.63 (--)

No Change to Previous Forecasts

Motivation: Near-term, there is room for rebound and consolidation as disinflation route is likely to remain bumpy and there is still lingering evidence of resilience in the US economy. We continue to look for the DXY index to hover within 103-105 before moving more decisively towards 100 in 2024. Fundamentally, we are negatively biased towards the USD in the medium term given the country's structural twin deficits and the national debt is also expected to rise further over the next few years with a fiscal cliff potential in 2025.

The DXY is now around 2.3% stronger since the low seen on 27 Dec 2023 (around 101). The Dec 2023 move lower was due to the shift in US real yields, equities and even expectations of Fed cuts as markets become confident of a weaker inflation outlook albeit with more solid growth. The recent US Dollar Index (DXY) rise was in line with the rise in the 10-Year US Treasury yield nearly 5%, settling at 4.145. Over the past weeks, markets are largely influenced by Fed policymakers' cautious remarks. They emphasized the need for more inflation data before considering rate adjustments, pointing towards potential delays in anticipated rate cuts and affecting investor sentiment. Fed's Waller expressed caution on the timing of rate cuts and pushed back on market expectations for six rate cuts in 2024.

On the macro data front, US economic reports has affected market sentiment. These include retail sales numbers which exceeded expectations, signalling a stronger US economy. Additionally, weekly jobless claims reached their lowest level since Sep 2022, and the University of Michigan's Consumer Sentiment Index surged to its highest point since Jul 2021. These indicators, combined with the Fed's cautious rate cut approach, led to a shift in market expectations. The likelihood of a Mar rate cut decreased, with the probability of a cut now at around 47% chance, down from previous high of above 70% previously. Focus has now shifted to potential rate reductions in May or later. However, the softening in the economy we believe is still there as other indicators such as PPI, retail hours worked have slowed recently. The economy and inflation may likely see a bumpy move downwards and it could even take until the 2H 2024 before numbers have sufficiently fallen enough for a Fed cut. For now, the DXY is capped by the 200-dma at 103.46 but we stay wary of more rebound amid an adjustment in the Fed rate cut bets. We expect USD to remain supported in 1H 2024 for the most part until closer to mid-year.

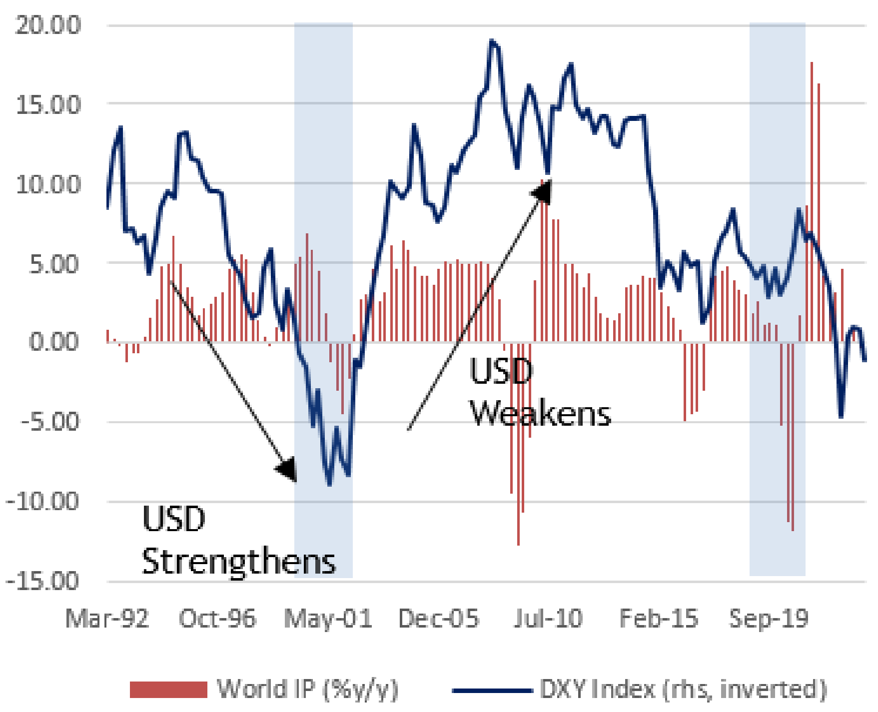
USD easing further after 2Q 2024. The Fed's quarterly review of its "dot plot" (i.e. FOMC participants' individual forecasts of FFR) signals FFR to drop to a median of 4.6% in 2024 and further to 3.6% in 2025 and 2.9% in 2026. This implies a slight revision by Fed signaling more FFR cuts in 2024 i.e. -75bps vs -50bps in 19-20 Sep 2023 FOMC's "dot plot". Our economists maintain the 2024 FFR outlook of -75bps cuts in latter part of 2H 2024, to be followed by -100bps cuts in 2025. It is important to note that central banks' interest rate decisions are also guided and influenced by inflation expectations going forward, not just actual inflation outcome thus far. In particular, we noted that the US Fed's 5-Year Breakeven Inflation Rate (i.e. a measure of market participants' expected inflation rate next five years derived from 5-Year Treasury Constant Maturity Securities and 5-Year Treasury InflationIndexed Constant Maturity Securities) point to the still "sticky" inflation expectations.

There is potential for US fiscal deficit to worsen into 2024 as its finances are increasingly stretched to support multiple conflicts and as such, increasing concerns on its fiscal health, not helped the least by high interest rate burden, could offset USD safe haven allure in a case of another geopolitical conflict. Markets are still cognizant that China is still weak and Eurozone PMIs are contractionary but this could shift once there is stronger evidence of recovery and therein lies the room for USD to fall further. We are already seeing some signs of rest of the world stabilization on that front. Any concerns about the impact of an eventual Fed slow balance sheet runoff may be limited on the USD DXY given that the rate cuts will be in focus. Correlations of recent changes in the Treasury term premiums as a proxy for Fed balance sheet policy changes on USD remains weak.

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

Key domestic events and issues to watch in Feb: FOMC (1 Feb); ISM Manuf (1 Feb); NFP (2 Feb); Factory Orders, Durable Goods Orders (2 and 27 Feb); Trade Balance (7 Feb), Jan CPI (13 Feb); Empire Manuf (15 Feb); Retail Sales (15 Feb); Initial jobless claims (15 Feb); GDP (28 Feb); Core PCE (28 Feb); PCE deflator (29 Feb).

Global Growth Could be a More Imperative Driver of the USD



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

Balance Sheet Run Off Could Have Limited Impact on the USD

Source: Macrobond, Maybank FX Research & Strategy

EUR: Pushing Back Against Rate Cuts

EUR/USD	1Q 2024	2Q 2024	3Q 2024	4Q 2024
	1.0950	1.1000	1.1050	1.1100
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain our view for a gradually stronger EURUSD on the belief that growth in the Eurozone has bottomed out and is poised for a rebound, which should drive the EUR stronger. In line with this, the latest credit data from ECB's bank lending survey showed that banks saw demand for credit bottoming out after falling for more than a year in the face of rising interest rates, which could be an indication that economic prospects will start to improve from here.

The pair has traded within a relatively narrow range of 1.085 to 1.10 for most of Jan as the market reacted to changes in the probability of central bank rate cuts. The ECB, like the Fed and BOE, has pushed back on the idea of rate cuts. ECB officials, led by ECB President Lagarde, have thus far presented a relatively united front to express the view that the market is being far too optimistic about rate cuts, which are premature to discuss at this stage. Lagarde also added that discussion of rate cuts could be counter-productive to the goal of bringing inflation back to target. Our sense remains that the ECB, and central banks in general, will err on the side of caution when it comes to rate cuts, given considerable uncertainty in the inflation outlook.

The ECB kept policy settings unchanged at their Jan 2024 meeting and reiterated that it would be premature to discuss rate cuts. They also continued their emphasis on data dependence in the setting of monetary policy. We expect them to stand pat at their next policy decision in Mar.The decision was widely anticipated, and also in line with our view. However, with regards to future policy moves, we think that both the market and economists are largely too optimistic. Markets are currently pricing in about 150bps of cuts in 2024, while economists are forecasting 100bps despite the ECB push back on rate cuts. We outline our case for why we think they are too optimistic in the paragraph below.

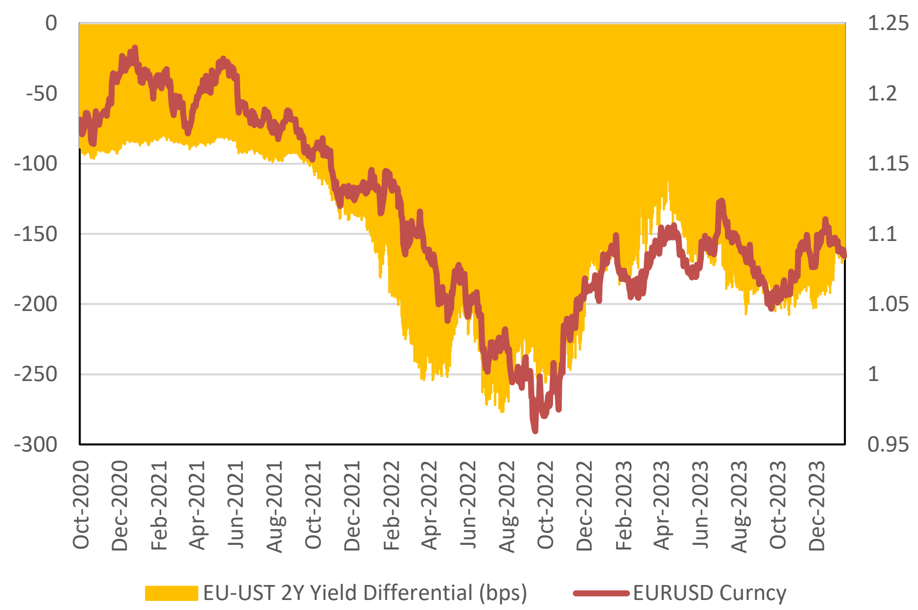
Against the backdrop of our base case scenario of a global soft landing, we see the USD gradually weaken and the potential for the EUR to strengthen even as the ECB starts to cut rates. We think that the ECB may only elect to cut rates after the Fed in 2024. We think that there could be a total of 50bps of cuts from the ECB (swaps pricing: 150bps; forecast consensus: 100bps) and this is because inflation, while on the downtrend, is only expected to meaningfully return to ECB's target towards the end of 2025. This should be the key determinant for the hawks and the centrists, which make up the majority of the ECB Governing Council. On this basis, we suggest that the ECB will cut rates only after the Fed or only on a meaningful downshift in their inflation forecasts, which should be preceded by consistent lower inflation prints. Should our suggested scenario come to fruition, we should see some support for the EUR, given the current level of market positioning.

Risks Ahead: Geopolitical headwinds could still weigh on the EUR. The war in Ukraine is not over, and the emergence of a new threat in the form of disruption of the traditional shipping route via the Suez Canal presents a salient risk to both growth and inflation. The longer route via the Cape of Good Hope could reduce Asia-Europe trade by an estimated 25% and the ECB should be keenly aware of the risks that an extended blockade should pose to the Eurozone economy. Downside risks to growth and upside risks for inflation could place the Eurozone in a precarious position.

In addition, there is the risk that the recovery in growth underwhelms, and the Eurozone could slip into a recession. In such a scenario, we would expect the EURUSD to do worse than our forecasts. This would entail a significant deviation from our base case scenario of a global soft-landing, and we do not think such a scenario is likely.

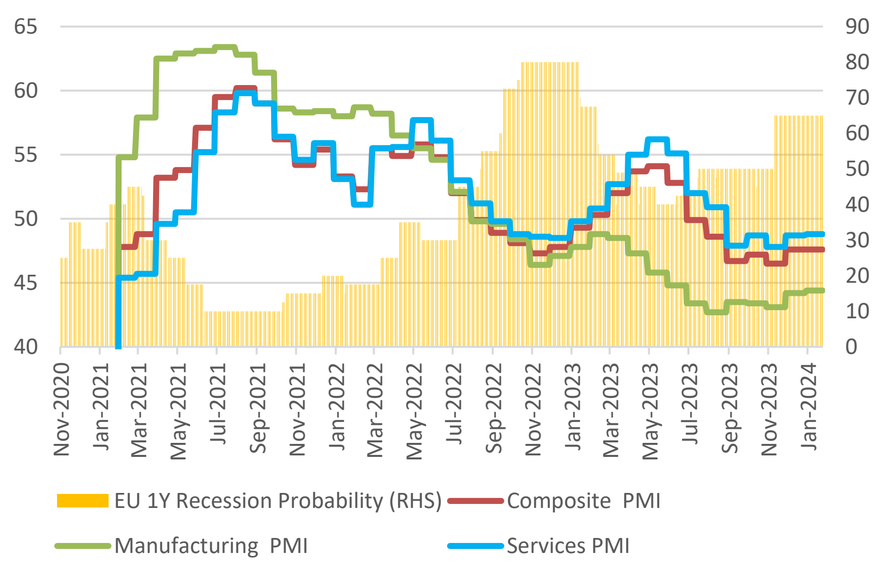
Keydata/events: Jan F HCOB EZ Manufacturing PMI, Jan P CPI MoM/Core YoY, Jan CPI Estimate YoY, Dec Unemployment Rate (1 Feb), Jan F HCOB EZ Composite/Services PMI, Feb Sentix Investor Confidence, Dec EC PPI MoM/YoY (5 Feb), Dec ECB 1Y/3Y CPI Expectations, Dec Retail Sales (6 Feb), ECB Economic Bulletin (8 Feb), ZEW Survey Expectations (13 Feb), Dec Industrial Production, 4QP GDP, 4QP Employment (14 Feb), Dec Trade Balance (15 Feb), Dec ECB Current Account SA, Dec Construction Output (20 Feb), Feb P Consumer Confidence (21 Feb), Feb P HCOB Manufacturing/Services/Composite PMI, Jan F CPI (22 Feb), Jan M3 Money Supply (27 Feb), Feb Economic/Industrial/Services/Consumer Confidence (28 Feb).

Yields Differentials Key Driver of EURUSD



Source: Bloomberg, Maybank FX Research & Strategy

Bottoming of PMIs Could Herald Growth Bottoming



Source: Bloomberg, Maybank FX Research & Strategy

GBP: Inflation (Yet Again) a Worry

GBP/USD	1Q 2024	2Q 2024	3Q 2024	4Q 2024
	1.2400 (--)	1.2500 (--)	1.2500 (--)	1.2500 (--)

No Change to Previous Forecasts

Motivation: We retain our cautious outlook on the GBP and maintain our GBPUSD forecasts on the basis that there is considerable uncertainty with regards to the UK's fiscal position, growth prospects, political future, and inflation outlook. Our base case of a soft landing provides ample room for the USD to gradually weaken, although our suspicion is that the uncertainties surrounding the UK could cause drags for the GBP, which would then manifest itself in GBPUSD appreciating more gradually than other currencies. For the month ahead, we think the GBP will likely trade in consolidation alongside the ebb and flow in rate cut themes. Towards the end of quarter, we look for GBPUSD to retrace gains towards the 1.24 mark, and currently trades at 1.2740 levels.

On the fiscal front, Chancellor Hunt unveiled an Autumn budget that featured tax cuts with unclear funding plans, which could provide some future headwinds for the GBP. It was also puzzling that the Chancellor plans to both reduce debt and implement tax cuts when inflation is a salient risk for the UK economy. PM Sunak had to later defend the tax cuts and clarified that the UK was not headed for austerity. Chancellor Hunt will unveil a budget in Mar 2024 and borrowing figures show that there could be headroom for £20b of tax cuts in this budget. Recall that previous confidence issues with the GBP were due to concerns over excessive borrowing in ex-PM Truss and ex-Chancellor Kwarteng's budget. While Sunak and Hunt have thus far avoided such a situation, we do not rule out the possibility of confidence issues arising from future concerns over the fiscal health of the UK.

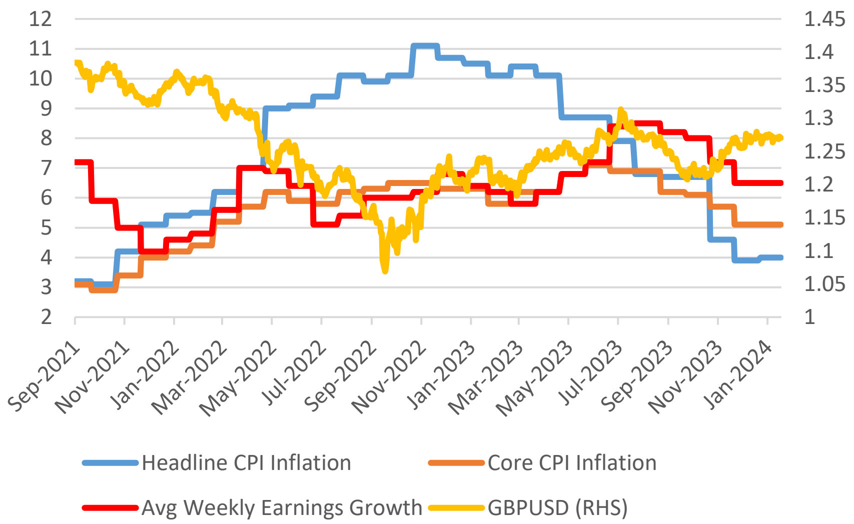
In addition to the fiscal uncertainty, there is a great deal of political uncertainty surrounding the UK. Preliminary polls showed that the incumbent Conservatives are likely to lose an election to the Labour opposition led by Starmer. However, a recent study suggests that Starmer could be facing an uphill battle to unseat Sunak with changes to electoral boundaries. Assuming all parties perform as they did in 2019, Parliament is likely to be hung with no clear winner. Had the 2019 election been determined on the new electoral boundaries, the incumbent Conservatives would have more seats and Starmer's Labour party would have fewer seats. The political situation remains finely balanced and we feel that this could dampen the outlook for the GBP.

Dec inflation prints once again showed a re-acceleration in price pressures in the UK. Dec headline CPI inflation re-accelerated to 4.0% YoY (exp: 3.8%; prev: 3.9%), while Dec core inflation remained sticky at 5.1% YoY (exp: 4.9%; prev: 5.1%). BOE Governor Bailey pushed back on the idea of rate cuts being premature and this inflation print underscores the upside risks to the inflation outlook. We think that the BOE will stand pat at the next meeting in Feb and will likely also continue the push back on rate cuts. They will likely cite sticky inflation and the considerable uncertainty in the inflation outlook. We expect a total of 50bps of cuts for the BOE from 2H2024 onwards this year, and it is also likely that the BOE cuts rates only after the Fed has done so. The bucking of a downtrend in inflation is likely to weigh heavily on BOE policymakers minds and they will no doubt be unwilling to declare an early victory on inflation.

Risks Ahead: Our outlook for the GBP remains cautious and some may even seem bearish to some, and it is entirely possible that the actual outcomes surprise to the upside and provide the GBP with some tailwinds. If the Sunak administration manages to successfully implement tax cuts into a responsible budget and navigate the intricacies of a post-Brexit UK, then they could likely be re-elected, and the GBP may perform better than we expect. We cannot rule out however, salient downside risks such as the blockade of the Suez Canal and the negative impact that the resulting downsides to growth and upsides to inflation could weigh on the GBP.

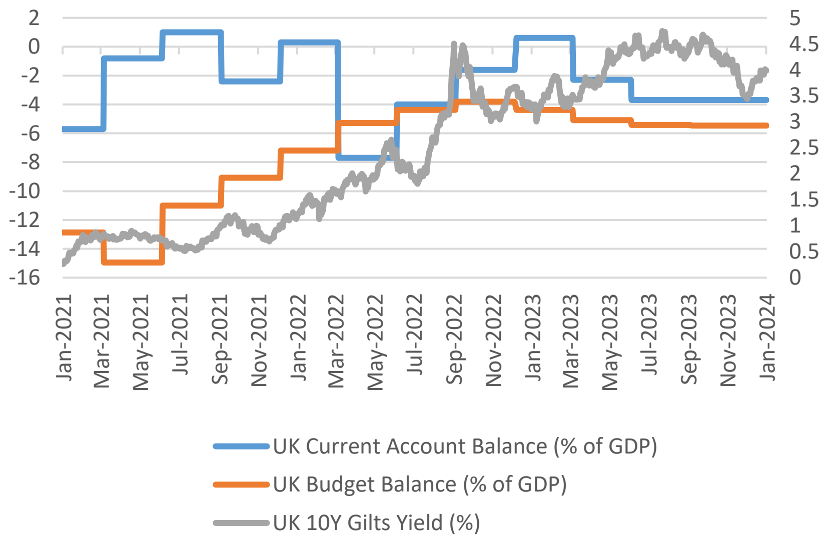
Key data/events: Jan F S&P UK Manufacturing PMI, Output Per Hour, BOE Policy Decision, Jan DMP 1Y CPI Expectations/3M Output Price Expectations (1 Feb), Jan F S&P UK Services/Composite PMI, Jan Reserves Changes (5 Feb), BRC Sales Like-for-Like, Jan F S&P UK Construction PMI (6 Feb), S&P, KPMG UK Jobs Report, Jan RICS House Price Balance (8 Feb), Dec Avg Weekly Earnings, Dec ILO Unemployment, Jan Jobless Claims/Payrolls (13 Feb), Jan CPI/PPI/RPI (14 Feb), 4Q P GDP, Dec Trade Balance, Dec Industrial/Manufacturing Production, Dec Monthly GDP (15 Feb), Jan Retail Sales (16 Feb), Feb Rightmove House Prices (19 Feb), Jan Public Finances (21 Feb), Feb P S&P Manufacturing/Services/Composite PMI (22 Feb), Feb GfK Consumer Confidence (23 Feb), Feb BRC Shop Price Index, Nationwide House Px Indices (27 Feb), Lloyds Business Barometer, Jan Money Supply, Jan Mortgage Approvals, Jan Consumer Credit (29 Feb).

Inflation Remains a Worry, Although Wage Pressures Abate



Source: Bloomberg, Maybank FX Research & Strategy

CA and Fiscal Deficits Have Shrunk, Gilts Remain Elevated



Source: Bloomberg, Maybank FX Research & Strategy

AUD: Consolidative for Now, Look for Dips to Buy into

AUD/USD	1Q 2024	2Q 2024	3Q 2024	4Q 2024
	0.66 (--)	0.68 (--)	0.70 (--)	0.70 (--)

No Change to Previous Forecasts

Motivation: We remain constructive on AUD and look for dips to buy into as elevated inflation could keep RBA hawkish (not helped the least by upcoming relief measures to help Australians to cope with cost of living, and still rising population growth due to migrants), constructive macro backdrop for Australia's base metals, lithium, LNG amid the global pursuit of green transition and recovery (beyond the near-term pressure) as well as China's endeavours to stabilize the real estate at home and infrastructure spending that could also increase its demand for Australian's resources.

One of the most glaring data release in Jan is Australia's labour report which revealed a shocking -65.1K drop in net employment and an even bigger fall of -106.6K full-time hire. Jobless rate remained steady at 3.9% but that was due to the fall in labour force participation rate from 67.3% in Nov to 66.8%. There is nonetheless a slow creep higher in the unemployment rate, albeit still well below the pre-Covid levels of around 5.00%. In addition, NAB business surveys reveal that business conditions have weakened and input costs have eased. Eyes are on the upcoming 4Q and Dec CPI that could give us a cue on how soon RBA could embark on an easing cycle and whether there could be a dovish pivot on the next meeting on 6 Feb. **We hold the view that a cut may not come so soon still.**

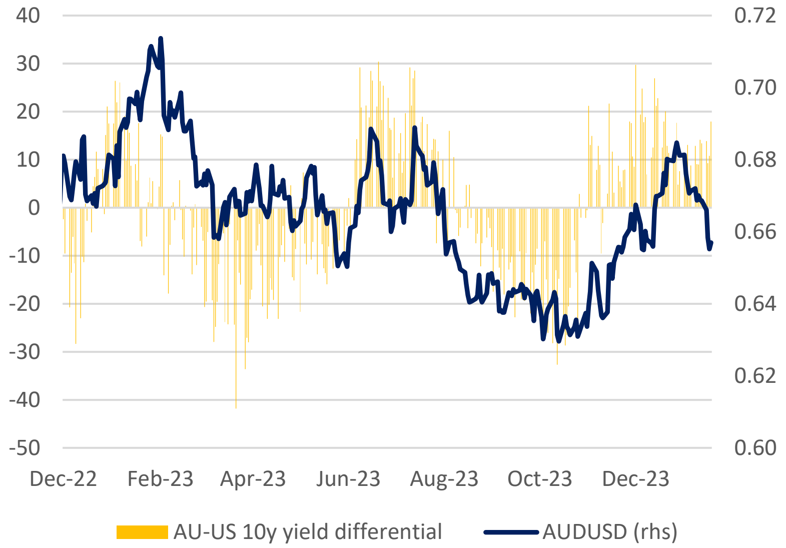
Disinflation Progress Could be Complicated by Cost-of-living Relief Measures. AUD reversed sharply lower in Jan, pressured by the rebound in UST yields, weaker Dec labour report at home as well as China's weak data. To be clear, there is still room for rate cut expectations of the Fed to pare further and that would provide a further lift to UST yields as well as more USD strength against the AUD. Regardless, policy divergence between the RBA and the Fed should remain for most part of 2024 given the fact that core inflation in Australia remains relatively elevated at around 4.6%y/y (vs. US Nov 4.0%y/y). Meanwhile, the PM Anthony Albanese has flagged that there could be some relief measures for Australians to cope with the cost-of-living (tax reliefs for the lower-income, more rebates on household energy bills) ahead of the Dunkley by-election (2 Mar). This by-election is perceived to be a referendum on the Labor-Party government and as such, the incumbent is pressed to restore its support by campaigning key issues such as the "cost of living, health and Medicare and affordable housing". A U-turn is being undertaken on its so-called stage 3 income tax cut and there is a shift of tax reliefs from the wealthy to the lower-to-middle income. The Labor caucus has backed the change proposed by the PM. The measures would be announced ahead of the Federal Budget that is scheduled for release in May. Such consumption-boosting measures could slow the disinflation process given the sticky services inflation, wage growth and housing shortage at home. We had looked for RBA to cut 75bps this year starting in 2H 2024 but it now looks more likely to be 50bps from 4.35% to 3.85%. That could mean that the AU-US yield premium could remain supportive of the AUDUSD for the most part of this year.

China's economic recovery remains a question mark. It is Australia's biggest trading partner and as such, always a relevant concern. While we are cautious on China's recovery given the lack of clarity on how the government can stabilize the real estate sector, what is quite clear is that China is keen on infrastructure spending (rumoured additional CNY 1 trn special sovereign bond plan on 16 Jan) and ensuring affordable housing in China is still a priority. The fall in metal prices (which had also weighed on the AUD) was a reflection of market's concern on China's demand due to weak data releases for Dec. While there should be a healthy dose of scepticism on whether the recent 50bps RRR cut and cut in relending rates (for agriculture, SMEs) could be followed by fiscal stimulus that could be more supportive of domestic demand/hiring conditions, China's priorities at the moment could be still supportive of the AUD. Any stronger cyclical upswing of the Chinese economy would be an additional boon.

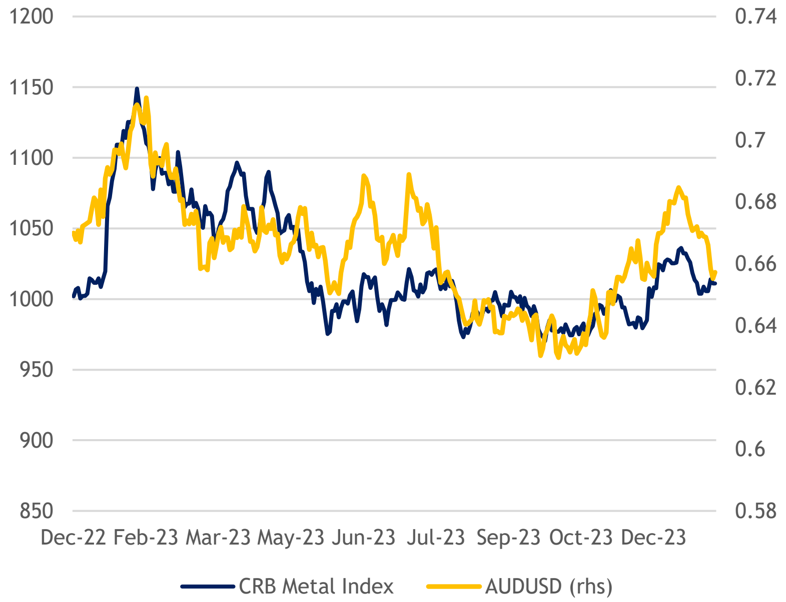
Risks Ahead: (1) US inflation and concomitant policy trajectory is key for USD direction and a stickier-than-expected US inflation could hinder AUD. (2) Any unexpected headwinds for major economies (China, US, Eurozone) that cause a sharper than expected global recession is negative for the AUD. (3) There are increasing signs that business conditions have been weakening. Should there be a sharper deterioration in confidence and labour market conditions, RBA could bring forward rate cut to the first half of 2024 and that would be negative for the AUD.

Key domestic events and issues to watch: Retail sales Dec [30 Jan], Dec private sector credit, 4Q CPI, [31 Jan], Jan Mfg PMI, 4Q import, export price. 4Q NAB business confidence, Dec building approvals [1 deb], 4Q PPI, home loans, [2 Feb], Jan F Services PMI, Dec trade [5 Feb], 4Q retail sales ex inflation, RBA policy decision, Statement on Monetary Policy [6 Feb], Feb Westpac consumer confidence, NAB business confidence for Jan [13 Feb], Jan labour report [15 Feb], Minutes of Feb meeting [20 Feb], 4Q Wage price index [21 Feb], Jan retail sales, private capex for 4Q [29 Feb], by election of Dunkley [2 Mar].

AU-US Yield Differential Should Buoy AUDUSD



Fall in Base Metal Prices Unlikely To Last



Source: Bloomberg, Maybank FX Research & Strategy

NZD: Beware of Dovish Pivot

NZD/USD	1Q 2024	2Q 2024	3Q 2024	4Q 2024
	0.61 (--)	0.62 (--)	0.63 (--)	0.63 (--)

No Change to Previous Forecasts

Motivation: We **retain our** constructive view on the NZD as the currency continues to enjoy improvement in trade balance, demand resilience due to tight labour market and some net migration inflows. **However, we are now a tad wary of a potential bearish reversal of the NZD in the near-term ahead of the RBNZ central bank meeting at the end of Feb.** RBNZ may feel more comfortable with the progress it has made on the inflation front and become more cautious about demand as credit card spending starts to falter, services index become contractionary. There is thus a key risk that RBNZ may want to sound a bit more balanced and remove guidance that "if inflationary pressures were to be stronger than anticipated, the OCR would likely need to increase further". That could be seen as a dovish pivot and bring some short-term pressure to the NZD. Meanwhile, global dairy prices have been on the rise, providing a terms-of-trade support for the NZD. Fed is also en-route to cut rates this year (our house view 75bps cut), alongside other major central banks. Easing financial conditions could benefit the NZD.

Inflation has eased to around 1.1%q/q for non-tradable and even fell -0.2% in 4Q for tradables. While the price pressure of non-tradable might have surpassed expectations a tad, the disinflation trend is still well entrenched. In addition, the net immigration seemed to have slowed quite drastically in Nov (+2740 vs. +15940 in Mar 2023) and that could ease demand-pull inflation concerns. In addition, there could continue to be an increase in labour force that could ease wage pressure as well. Year-on-year, CPI eased to 4.7% from previous 5.6%. Although the headline is well above the RBNZ inflation target between 1-3% target range, the risks to the NZDUSD could still be to the downside given how hawkish RBNZ had been in Nov. A slight dovish pivot might still be possible given the swift slide in the inflation prints. The sharp decline in NZ performance of services index into contractionary region of 48.8 vs. prev. 51.1 could also draw caution from the central bank. Card spending is clocked

Based on the OIS, markets now imply 62% probability of a rate cut in May. That would put the timeline smack in line with markets' expectations for the Fed. So while we do see some near-term bearish risks to the NZDUSD, the eventual rate cut by the Fed (and other major central banks) and the slowdown in the US economy should be a more benign environment for the NZD towards 0.63.

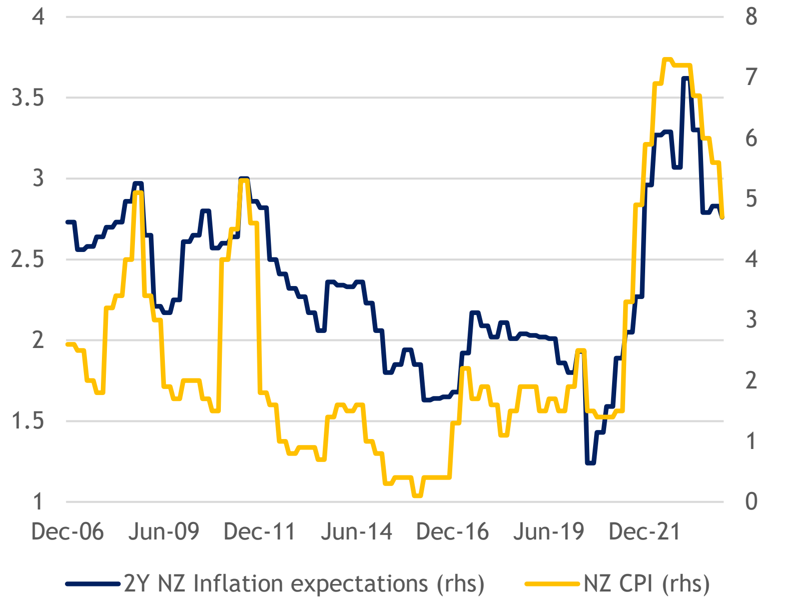
Improvement in Terms of Trade. A key supportive factor of the NZD for a while now could be the rise in Global Dairy Auction prices. The global dairy trade winning average prices have been on the rise since it bottomed last Aug and was last at $3493 vs. the Aug low of $2875. That is a >20% increase in dairy prices over the past few months and should be supportive of its trade balance. The **trade Deficit has narrowed to NZD1.23bn from -2.42bn in Sep. Shipments to China was up 27.2% in Nov and exports to the US was up 17%. This brings to fruition what** Fonterra guided last quarter after it raised its earnings projection for fiscal 2024 amid strengthening demand. With the Chinese officials seemingly keen on boosting growth, China stabilization should boost dairy exports even more. As a result, improvements in terms of trade should continue to support the NZD.

Property Sector is on the Cusp of Recovery. NZ real estate are said to be on the rebound with the median time for home sales shortened to 36 days in Dec, down from the peak of 60 days in Feb 2023. House sales for Dec picked up pace to 14.1%y/y from previous 12.2%. Once home prices start to rise, that could hamper the disinflation progress for non-tradable which is already showing signs of stickiness.

Risks Ahead: (1) A three-way coalition government (National, ACT, NZ First) could be less stable than previous coalition governments that comprise of one major flanked by a smaller partner. (2) Any unexpected headwinds for major economies (China, US, Eurozone) that cause a sharper than expected global recession is negative for the NZD via the sentiment as well as the trade channel. (3) We had seen ample room for markets to price in sooner rate cuts and that has been brought to fruition. That said, markets are still in constant calibration on timing and magnitude of rate cuts and that could keep the NZDUSD in broader consolidation within 0.60-0.62.

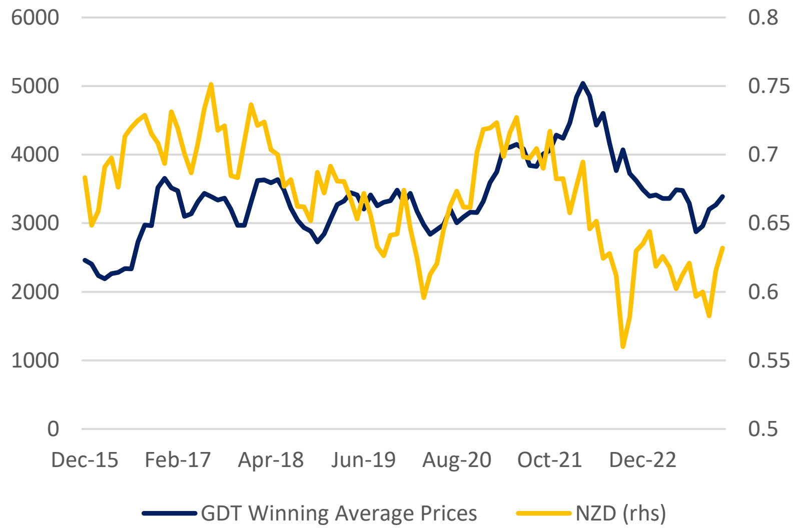
Key domestic events and issues to watch: Dec trade [29 Jan], ANZ business confidence for Jan [2 Feb], Dec building permits [2 Feb], 4Q labour report [7 Feb], 1Q 2Y inflation expectation [13 Feb], jan food prices [14 Feb], Dec net migration [15 Feb], Jan businessNZ Mfg PMI [16 Feb], Performance services index for jan [19 Feb], tJan trade [22 Feb], retail sales ex inflation for 4Q [23 Feb], RBNZ OCR decision [28 Feb], ANZ activity outlook, business confidence for Feb [29 Feb].

Inflation Expectations Are Easing



Source: RBNZ, Bloomberg, Maybank FX Research & Strategy

Global Dairy Prices Are on the Rise, Supportive of NZD



Source: Bloomberg, Global Dairy Trade, Maybank FX Research & Strategy

CAD: Shifts Dovish, Downside Risks First

	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD/CAD	1.3600 (--)	1.3300 (--)	1.3300 (--)	1.3000 (--)

No Change to Previous Forecasts

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

The BoC Pivots in Jan. The balance of risks might have shifted in the eyes of Bank of Canada at the last policy meeting on 24 Jan. The central bank now sees the "economy in modest supply", albeit still concerned about the "persistent core inflation". While cautioning that "new developments could still force rate hikes", that is clearly not the base case and as such, a signal of peak rate is sent. Similar to other G7 central banks, Macklem stressed that there needs to be "clear downward momentum in inflation" before the central bank discusses on cuts. Regardless of these rhetoric, markets have taken his statement on the economy, the downgrade in growth (to 0.8% for 2024) and inflation forecast (2.8% for 2024 from 3%) to be a dovish pivot and OIS now implies almost 50% probability of a rate cut in Apr. **This scenario, if come to fruition, would be in line with 2024 outlook as we had warned that BoC could be one of the first few central banks to cut.**

Activity Remains Weak. Dec PMI prints continue to be contractionary with Mfg PMI softer at 45.4 vs. previous 47.7. Services PMI at 44.6 vs. previous 44.5. 4Q business outlook survey (by BoC) suggest some signs of improvement in business sentiment, from -3.5 to -3.2. More respondents are on net more positive on future sales growth at 20 in 4Q vs. previous 14.0. However, consumer confidence might have become a tad pessimistic with 2y inflation expectation still elevated at 3.9% and probability of losing job increasing to 10.9% vs. 10.6% in the quarter prior. CFIB business barometer has rose a tad to 47.0 in Dec, up from previous 45.4. Despite the small rebound, sentiment still seems pretty negative. Fewer firms intend to increase staffing and average wage plans is moderated from 2.6% increase in Nov to 2.5% seen in Dec. We continue to see some upside risks to the USDCAD in the first quarter before the broader USD decline bring the pair lower as the world starts to embark on a more synchronized easing cycle alongside the Fed. The last shoe to drop before BoC can cut rate would have to be a more material slowdown in wage growth, last seen accelerating to 5.7%y/y in Dec from previous 5.0%.

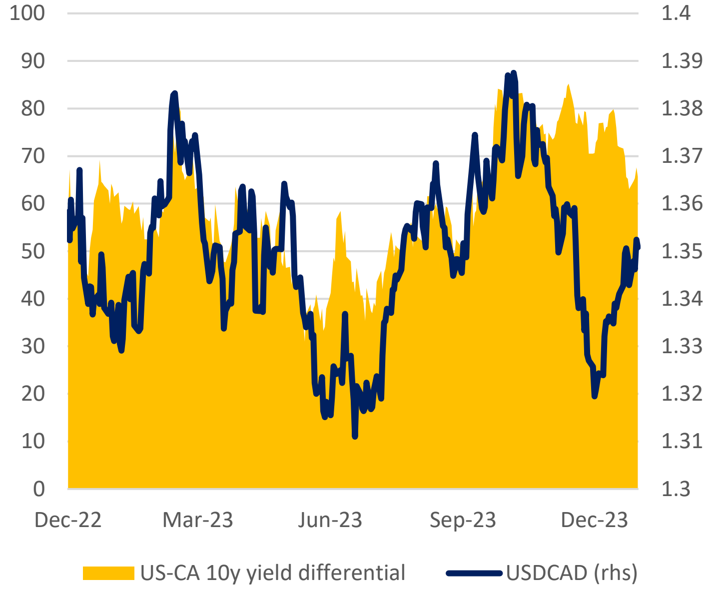
Oil to be of Little Help now but watch for its recovery to add boost to CAD. Oil tends to amplify the effects of market sentiment on the CAD. However, in times of supply shocks, oil price increase does not really boost CAD much and CAD tends to be more risk-sensitive in those risk-off episodes. With global and domestic growth looking subdued at this point, oil prices are not expected to see much of revival at the start of 2024. That could also serve to amplify CAD's weakness for now. However, when global growth starts to recover and Canada's growth start to bottom, we expect the rise of crude oil prices to support the CAD.

The CAD could be undermined by **deterioration in the fiscal position**. Budget deficit was reported to have widened sharply in Oct to a deficit of CAD6.96bn vs. just CAD1.9bn a year ago due to falling tax revenue receipts, rise in government programs, operations and jobless benefits. Should labour market continue to soften, we can expect the fiscal position to deteriorate even further and exceed the 1.4% of GDP limit set for FY2023-2024 by the FinMin. That could be inherently negative for the CAD.

Risks Ahead: (1) US inflation and concomitant policy trajectory is key for USD direction and any re-accelerations to boost USD against the CAD. (2) Any unexpected headwinds for major economies (China, US, Eurozone) that cause a global recession is negative for the CAD. (3) Fiscal impulse could spur inflation higher and force the BoC to keep rates elevated for longer. In addition, the wage growth remains rather elevated and that continues to pose a risk to disinflation trajectory and the timing of the rate cut. In that kind of environment, CAD would still be under pressure as the central bank becomes increasingly stuck between rock and hard place as growth slows at home.

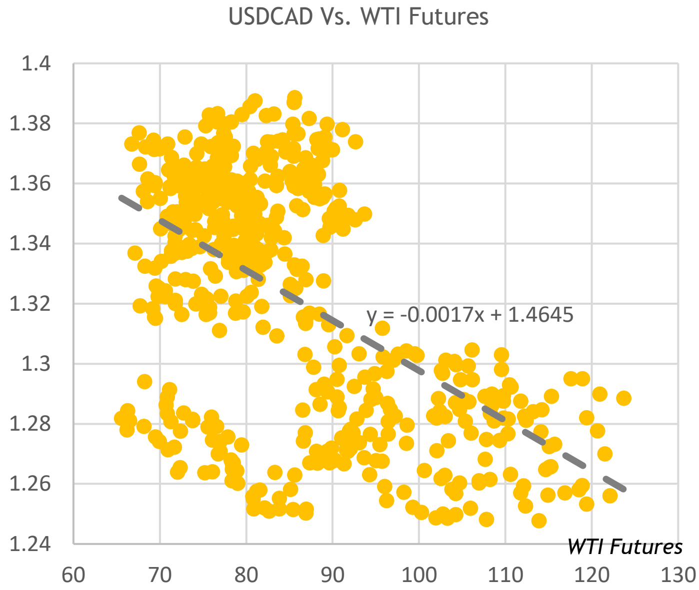
Key domestic events and issues to watch: Nov GDP [31 Jan], Jan Mfg PMI [1 feb], dec trade [7 Feb], Jan labour report [9 Feb], Jan housing starts [15 Feb], Jan CPI [20 Feb], Dec retail sales [22 Feb], current account 4Q [28 Feb], CFIB business barometer for Feb [29 Feb], Dec GDP [29 Feb].

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



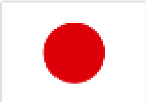
Source: Bloomberg, Maybank FX Research & Strategy

CAD Could Still Get a Boost Should WTI Futures Rebound



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

JPY: Rising Signs of NIRP Exit



	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD/JPY	150.00 (--)	145.00 (--)	140.00 (--)	136.00 (--)

No Change to Previous Forecasts

Motivation: We leave our forecasts unchanged for USDJPY as it appears that developments are looking to play out as we had expected. A BOJ exit from NIRP in April is looking more likely following the BOJ Jan meeting as Ueda had stated that chances of durably meeting the price goal is “gradually rising”. At the same, the Fed is unlikely to cut rates so quickly given the continued underlying strength in US economic data. The latter we would like to reiterate would continue to be the main driver of the JPY given that the BOJ is unlikely to undertake significantly more actions beyond the NIRP exit. The USDJPY is likely to still hold at elevated levels earlier in the year but it should gradually move lower from 2Q 2024 onwards as both the Fed and BOJ undertake their policy adjustments. Near term, we expect USDJPY to gyrate around the 140.00 – 150.00 range as markets continue to be in calibration mode of monetary policy adjustment.

The main focus of Jan had been on the BOJ meeting and the tone Ueda would express. The Governor this time around did appear to lean more hawkish as he stated that chances of durably meeting the price goal is “gradually rising”. He also mentioned that higher wages are gradually pushing up inflation and labour unions are asking for higher pay. The BOJ outlook report had described that the virtuous wage-price cycle is also gradually intensifying. A strong result from the Spring Wage negotiation, which we see as likely, would allow the BOJ we believe to undertake an NIRP exit in April. However, the BOJ is unlikely to undertake any further action beyond that for a while given that they would still be fairly cautious in ensuring that inflation can hold up. We therefore also do not see that the NIRP exit would be the major driver for the USDJPY but rather it would be the US rates.

Data for the month has tended to indicate weakness in the Japanese economy. Nov labor cash earnings showed a big slowdown in growth below expectations to 0.2% YoY (1.5% YoY) whilst Dec nationwide dept store sales also slowed to 5.4% YoY (Nov. 7.4% YoY). Jan (P) Jibun Bank PMI mfg also continued to remain in contraction territory at 48.0 (Dec. 47.9). The services PMI was stronger at 52.7 (Dec. 51.5) which could be some reflection of strong performance in the tourism sector. However, the strength of the tourism sector could fade overtime as last year could have just represented a reopening boom. Nov core machine orders also decline against expectations at -5.0% YoY (est. 0.1% YoY).

Inflation indicators did indicate more slowing in price pressures too. Dec headline CPI came out at 2.6% YoY (Nov. 2.8% YoY) whilst the core core number was at 3.7% YoY (Nov. 3.8% YoY). Jan Tokyo CPI which tends to be a fairly decent early indicator of the price situation came out much slower than expectations for the headline at 1.6% YoY (Dec. 2.4% YoY) whilst the core core number was at 3.1% YoY (Dec. 3.5% YoY). The decline in inflation numbers could be some reflection that the impact of imported price pressures could be declining. However, we do not think any of this data would stop the BOJ from exiting NIRP in April as we still expect a strong result from the Spring Wage negotiation to support that decision to do so. Meanwhile, the BoP CA remained in surplus, which is one supportive factor for the JPY.

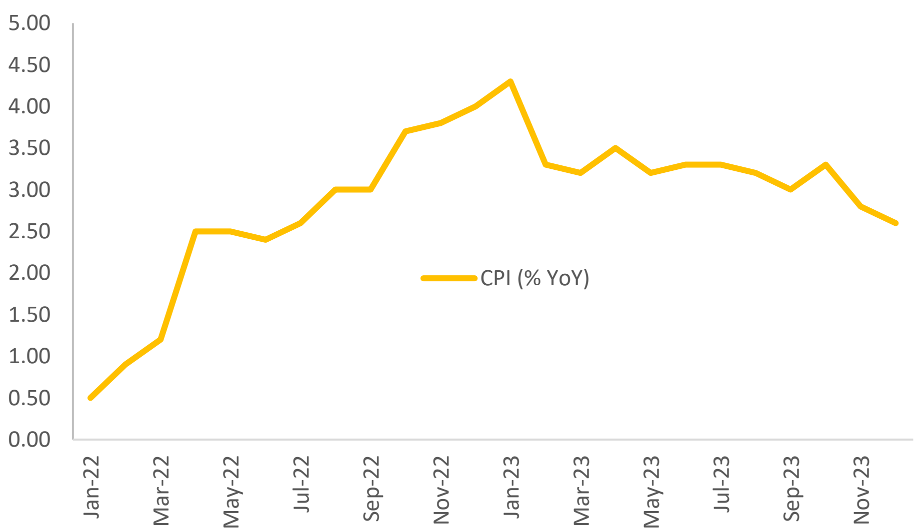
Risks Ahead: This includes disappointing results from the Spring Wage negotiation that could result in the BOJ not making any policy adjustments this year and we stay wary of this happening. Another bigger risk is if there is a reacceleration in US inflation that could lead to the Fed holding rates at elevated levels for longer. However, we do not assign a high probability for this to happen.

Key Data/Events: Dec cash earnings (6 Feb), Dec household spending (6 Feb), Dec (P) leading index/coincident index (7 Feb), Dec BoP CA balance (8 Feb), Jan bank lending (8 Feb), Jan ecowatchers survey (8 Feb), Jan money stock (9 Feb), Jan PPI (13 Feb), Jan (P) machine tool orders (13 Feb), 4Q (P) GDP (15 Feb), Dec capacity utilization (15 Feb), Dec tertiary industry index (16 Feb), Jan nationwide/Tokyo dept store sales (16 – 22 Feb), Dec core machine orders (19 Feb), Jan trade data (21 Feb), Feb (P) Jibun Bank PMI mfg/services/composite (22 Feb), Jan PPI services (26 Feb), Jan CPI (27 Feb), Jan retail sales (29 Feb), Jan dept store, supermarket sales (29 Feb), Jan (P) IP (29 Feb) and Jan housing starts (29 Feb).

Path of US Rates the Biggest Driver of USDJPY Given Wide Yield Differential

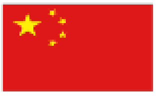
Source: Bloomberg, Maybank FX Research & Strategy

Price Pressures Are Slowing Although This Should Not Prevent A BOJ Adjustment



Source: Bloomberg, Maybank FX Research & Strategy

RMB: China Ramps Up Support



	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD/CNY	7.15 (--)	7.10 (--)	7.15 (--)	7.15 (--)

No Change to Previous Forecasts

Motivation: We hold the view that USDCNY can drift towards 7.10 by the end of 2Q, weighed by the broader USD decline as Fed embarks on the easing cycle. At home, PboC cut RRR by 50bps and hinted of further easing. We see increasing chance that China would act more decisively (fiscal, monetary stimulus) to support the broader economy and that tilts the risk to the downside for our USDCNY forecast.

How did China land in this state? Harsh and draconian policies of recent years have resulted in a severe scarring of business, consumer and investors' confidence. China has shifted away from its unsustainable policy of relying on its real estate cycles to drive growth towards a recovery driven by infrastructure stimulus, investments in high-tech manufacturing in the interest of long-standing technology competition with the US. However, the slump in the property sector and sporadic restrictions imposed on certain private sectors still weigh on domestic demand.

Data thus far has painted a weak growth picture with more downside risks to the property sector despite piecemeal stimulus provided throughout 2023. Dec data was mixed at best but inarguably weak with IP at 6.8%y/y vs. prev. 6.6%. FAI ex rural at 3.0%y/y vs. prev. 2.9%. Retail sales slowed more than expected to 7.4%y/y. **However, the most worrying data could be the new home prices that clocked its steepest fall in nine years at -0.45%m/m.** Property investment for 2023 fell -9.6%. Recent talks of a stocks rescue package (CNY2 trn) and additional special sovereign bond quota (CNY 1trn) suggests that the **top officials see an increasing urgency to revive confidence and to support growth.**

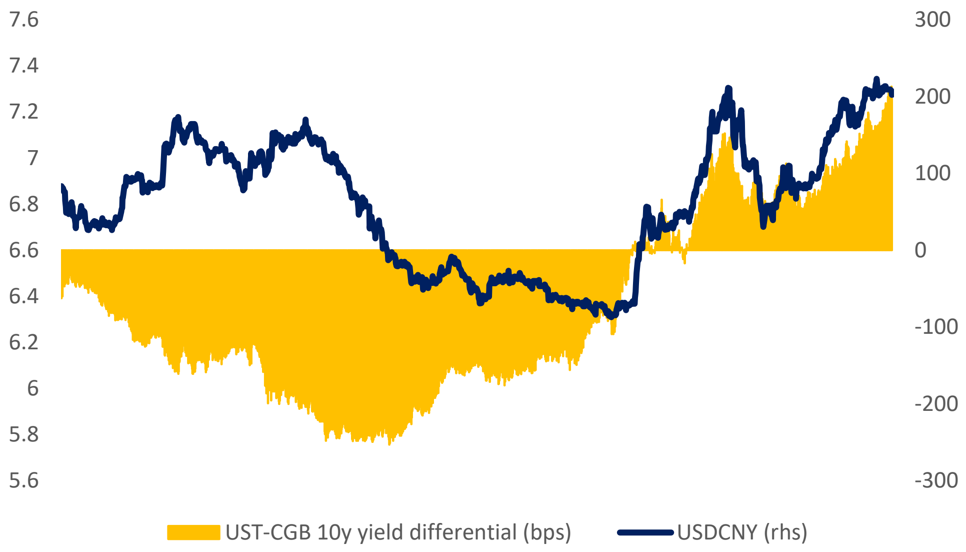
More Massive Dual Stimulus? With the Fed pivoting into an easing cycle this year and most major central banks also at the brink of easing monetary policies, we still look for the USD to weaken broadly and that should bring USDCNY and USDCNH towards 7.10 by the mid of 2024. A more benign monetary policy landscape globally could provide PBoC a bit more room to utilize its monetary policy tools to stimulate growth this year. Right after the 50bps RRR cut announced (to take effect on 5 Feb), PBoC Governor Pan hinted of more rate cuts in store. Our economist looks for the 1Y LPR to be lowered from the current 3.45% to 3.00% by the end of the year. While rate cuts have not been considered to be the primary tool to boost growth, we detect a sense of urgency from the government officials and that should continue to keep USDCNY supported on dips towards 7.10. At this point, given that the officials seem to be more keen on boosting growth, we cannot rule out the possibility that more fiscal reforms/policies could be announced to support the private sector as well as the labour market. This could strengthen the CNH even more. While this has not yet become the base case, we cannot rule out a test of the 7.00 if that were to come to fruition.

Current Account Pressure. China's consumption recovery had been disappointing without the typical cyclical rebound in the housing market that typically provide that additional positive wealth effect. Still, spending on travelling is still a priority for most Chinese residents. We continue to expect tourism outflow to continue, albeit at a potentially slower momentum. This, on top of the weak external demand, could add to the pressure on China's current account this year. we look for TWI to fall towards 97 at the very least.

Risks Ahead: 1) The continuous fall in new home prices underscore the risk of the property sector and slump in confidence. As such, there is still a fair extent of fragility in the economy. Foreign investors may continue to hesitate to re-enter Chinese financial markets. Domestic investors may look abroad. That could continue to generate net capital outflow and that is negative for the yuan. 2) That said, we also would like to caution that a lot of the bad news (real estate sector slump, anaemic domestic demand, weak external sector, geopolitical risks even) could be priced. >75% of 2023 inflows into the equity markets (likely in anticipation of the re-opening economic revival) have left (according to FT) by Nov. So the downside to the RMB on this front is limited and risks are skewed to the upside should the authorities are able to pull off a meaningful revival in confidence. 3) Any further supply chain disruptions that threaten the disinflation narrative could pose risk to rate cut bets and revive fears of higher-for-longer. That would lift the USDCNH significantly. 4) As the US Presidential race heats up, there could be a rise of nationalism in the US as well that could see candidates resorting to China-bashing again. Our 2H 2024 USDCNY forecasts are thus, imbued with the risks of US-China tensions heightening then.

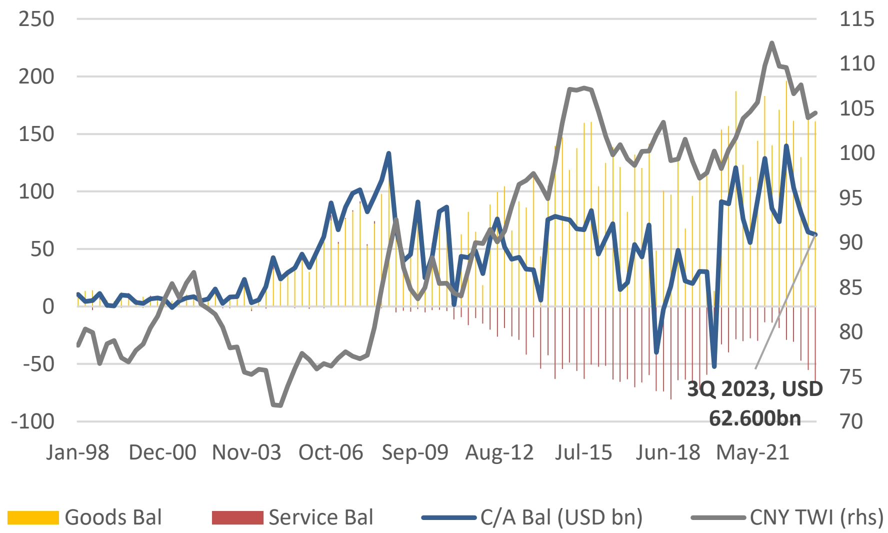
Key domestic events and issues to watch: Industrial profits for Dec [27 Jan], NBS Mfg, non-Mfg PMI for Jan [31 Jan], Caixin Mfg PMI for Jan [1 Feb], Services PMI [5 Feb], foreign reserves for Jan [7 Feb], Jan PPI, CPI [8 Feb], new yuan loans, money supply, aggregate financing for Jan [9 – 15 Feb], BoP current account [4Q P], 1Y MLF [19 Feb], 1,5Y LPR [20 Feb], New home prices for Jan [23 Feb], FX Net settlement for Jan [23 Jan], Feb NBS Mfg, Non-Mfg PMI [29 Feb],

Narrower UST-CGB Yield Differential Boost RMB vs. USD



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

A Narrowing C/A Buffer is Negative for RMB TWI



Source: Macrobond, Maybank FX Research & Strategy

KRW: Appreciating Stance to Boost

	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD/KRW	1290	1270	1250	1220
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain a positive outlook on USDKRW and see the recovery of the chip cycle and electronics demand as the main factor for KRW strength in 2024. The global chip cycle has shown signs of a bottoming and coupled with increased exuberance over artificial intelligence (AI) could potentially drive outperformance for the KRW with potential boosts to both the economy and trade. Against our broad expectations for a global soft-landing, a high beta currency like the KRW would also tend to outperform. For the month ahead, we see potential for USDKRW to trade lower amid the recent exuberance over AI.

The latest 4Q23 advance GDP prints suggest that the Korean economy could be on a cusp of a recovery. GDP grew by 2.2% YoY (exp: 2.1%; prev: 1.4%) in the last quarter of 2023, implying an annual growth rate of 1.4% YoY (exp: 1.4%; prev: 2.6%). The steady rate on growth should be supportive of the KRW, and we think that an uptick to growth could occur on AI exuberance and a bottoming of the global electronics/chip cycle. This should provide a further boost to the KRW.

Latest inflation prints for Dec also confirmed the downward trajectory for inflation with headline CPI coming in at 3.2% YoY (exp: 3.3%; prev: 3.3%) and core CPI at 2.8% YoY (exp: 2.9%; prev: 3.0%). Taken together, growth and inflation prints should support the BOK holding its policy rate steady at 3.50%. Notably at their most recent 11-Jan meeting, the BOK removed hawkish language removed language on further rate hikes if needed. Governor Rhee had however cautioned on the significant uncertainty surrounding the inflation outlook and pushed back against rate cuts.

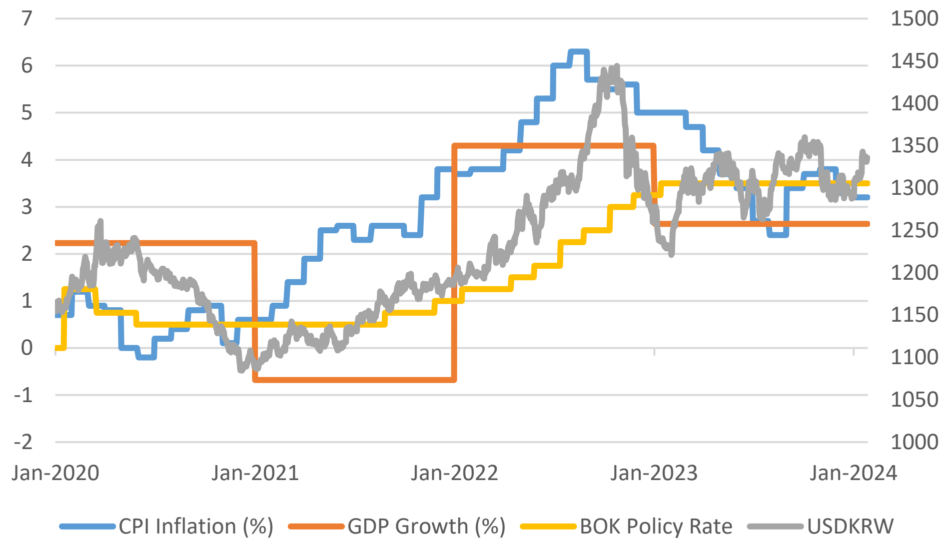
We think BOK is likely to take cue to cut from the Fed and other major central banks in determining when to cut rates. Given the considerable uncertainty around the inflation outlook, they may start to consider rate cuts only in the later half of 2024. Past episodes have also shown that BOK has had a tendency to hold for an extended period before pivoting to a cut. As of now, we suggest that there could be an extended hold in the works for the BOK and see a total of 50bps of rate cuts for Korea in the later half of 2024. We expect the BOK to stand pat and keep their language largely similar at the next meeting in Feb.

One potential factor that could spur USDKRW lower would be the inclusion of Korea onto global bond benchmarks. Market watchers suggest that it is highly likely that Korea is included onto major bond indices this year amid abating inflation driving higher demand for government bonds. Korea was on FTSE Russell's watchlist as of last year, but had not been added. If the index inclusion does happen, we would expect the resulting inflows to Korea to spur KRW strength. Official government estimates place the size of inflows at around US$38b to US$45b should Korean govvies be placed on the FTSE Russell World Government Bond Index. The Korean government is also making a push to be included, and strong political will could eventually prevail in this case.

Risks Ahead: Risks to our KRW outlook would be include issues with debt and potential meltdown of the property sector, although at this stage signs do not point to wider contagion that could weigh on the KRW. In addition, the AI/chip recovery theme could disappoint and this would also threaten our positive medium term outlook on the KRW. Should a global soft landing not materialize as expected, we would also suggest that USDKRW could remain higher than we suggest in our forecasts.

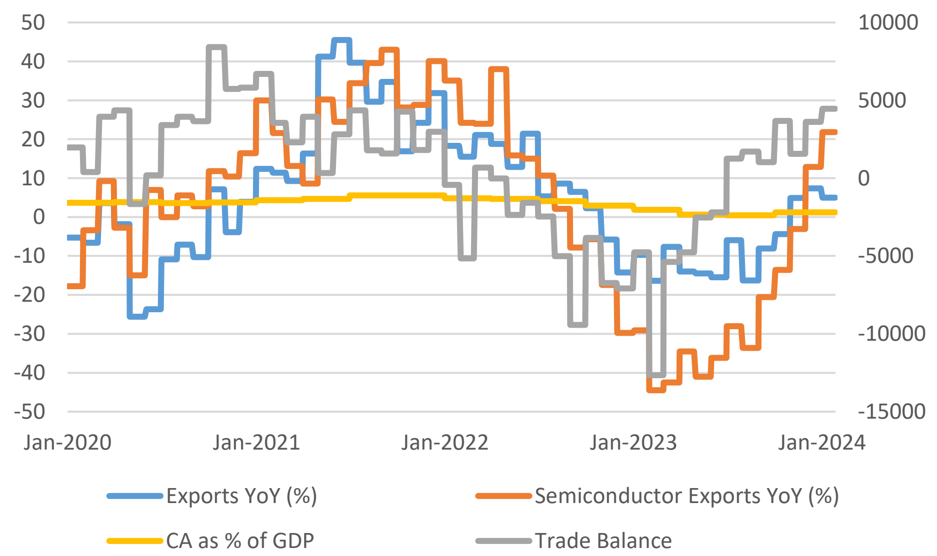
Key data/events: Jan Imports/Exports/Trade Balance, S&PMfg PMI (1 Feb), Jan CPI (2 Feb), Jan Foreign Reserves (5 Feb), Dec BoP Goods/Current Account Balance (7 Feb), Jan Bank Lending to Household (9 Feb to 16 Feb), Import/Export Price Indices, Jan Unemployment Rate, Dec Money Supply (16 Feb), Feb Consumer Confidence, 4Q Household Credit (20 Feb), Jan Retail Sales (20 Feb to 29 Feb), Jan PPI, Mar Business Survey Mfg/Non-Mfg, Feb 20 Days Imports/Exports (21 Feb), BOK Policy Decision (22 Feb), 4Q Short Term External Debt (27 Feb).

Extended BOK Pause Could Support KRW



Source: Bloomberg, Maybank FX Research & Strategy

Semiconductor Exports Rising Alongside Exports with Trade Balance



Source: Bloomberg, Maybank FX Research & Strategy

SGD: Appreciating Stance to Boost

	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD/SGD	1.3500	1.3450	1.3400	1.3350
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain our forecasts for USDSGD to come off gradually i.e. for SGD to strength against the USD gradually through 2024. This is based on the belief that SGD will continue to stay resilient as MAS stands pat on policy and the Fed cuts rates. The current pace of SGDNEER appreciation (assumed to be 1.5%) should continue to be supportive of the SGD. Fed rate cuts should also be supportive of SGD strength, although cuts could benefit other constituents more than the SGD. We see that AI exuberance and the electronics cycle could be on the brink of an upswing, and we think that this could benefit the SGD.

Consensus is for MAS to stand pat at its Jan policy decision. Our economist and FX strategy teams look for MAS to maintain the prevailing monetary policy parameters at the upcoming Jan policy meeting. The economic recovery continues as the latest 4Q GDP print showed an acceleration in growth to 2.8%, with rebounds in both manufacturing and construction. Core inflation remains above MAS' comfort levels and is forecasted to remain sticky above historical norms in 2024 at 2.8%. The most recent inflation prints showed the risk of sticky inflation with both headline and core CPI elevated at higher than consensus forecasts. Dec headline CPI inflation came in at 3.7% YoY (exp: 3.5%; prev: 3.6%), while core inflation was at 3.3% YoY (exp: 3.0%; prev: 3.2%). MAS is thus likely to stand pat at the Jan meeting and could continue to see the current stance as "sufficiently tight". Our economists see a slight slope reduction at the Oct meeting.

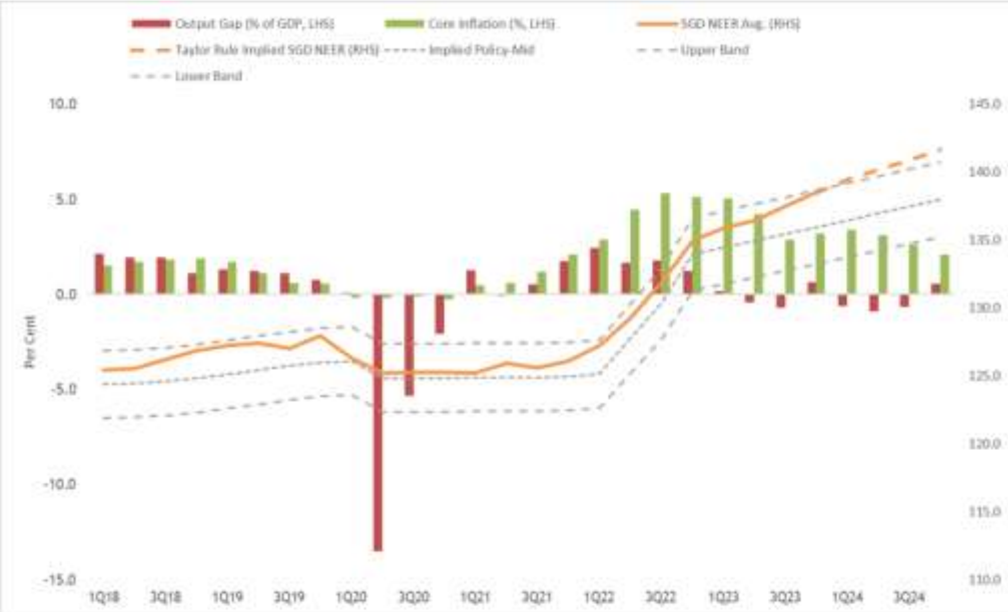
Back in Oct-23 (see here), we maintained a bullish bias on the SGDNEER and suggested that the SGDNEER could outperform, suggesting to buy the SGDNEER basket on dips. We saw continued outperformance of the SGDNEER from "haven" characteristics versus its peers in a period of elevated uncertainty and our Taylor Rule implied SGDNEER model continued to suggest upward pressures on the SGDNEER. Indeed, in the wake of MAS' Oct stand pat, the SGDNEER has been extremely strong (average: +2.10%) as the USDSGD also traded lower (from highs of 1.37 levels to lows of 1.32 levels) over the same period. USDSGD currently trades a tad below our forecasts and hovers around the 1.34 mark. Singapore's robust macro fundamentals and unique exchange rate policy, which results in SG rates being highly correlated with US rates, underpinned the outperformance of the SGDNEER against a narrative that US rates would remain higher for longer. As we approach a time where potential rate cuts are being discussed, we think that the expectation of Fed rate cuts could lead to a tapering off in SGDNEER strength - specifically if basket constituents start to outperform the SGD i.e. appreciate by more against the USD than the SGD as the Fed cuts rates.

Against the narrative of a global soft landing, we therefore maintain our forecasts for USDSGD to come off gradually i.e. for SGD to strength against the USD gradually through 2024. This is based on the belief that SGD will continue to stay resilient as MAS stands pat on policy and the Fed cuts rates. The current pace of SGDNEER appreciation (assumed to be 1.5%) should continue to be supportive of the SGD. Fed rate cuts should also be supportive of SGD strength, although cuts could benefit other constituents more than the SGD. That is not to say that the SGDNEER will crash, but rather that it could come off from current elevated levels.

Risks Ahead: There are also salient risks on the horizon for the SGD. Notably, the blockade of the Red Sea could precipitate a drop in global trade volumes and result in a structural upward shift for inflation. This could also threaten our suggested narrative for the bottoming of the electronics/chip cycle. Should actual growth and inflation outcomes turn out contrary to MAS expectations, we do not rule out either further tightening or an earlier than expected easing.

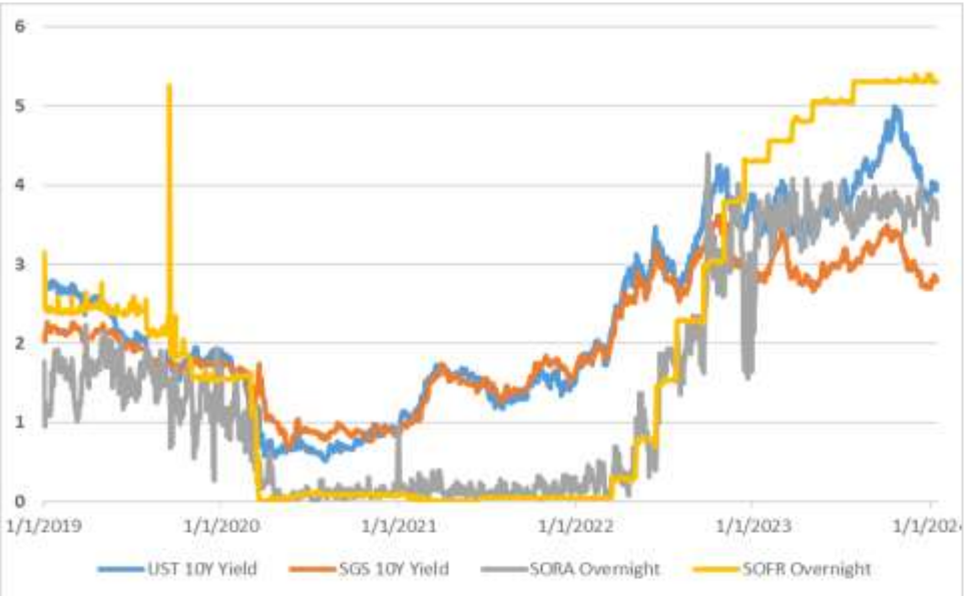
Key domestic data/events: Jan PMI/ESI (2 Feb), Jan S&P Singapore PMI, Dec Retail Sales (5 Feb), Jan Foreign Reserves (7 Feb), Jan Electronics Exports, Jan NODX, 2024 Fiscal Budget Statement, 2024 Budget Balance (16 Feb), 4QF/2023F GDP (19 Feb to 23 Feb), Jan CPI (23 Feb), Jan Industrial Production (26 Feb), Jan Money Supply (29 Feb).

Upward Pressures on SGDNEER Persist (Taylor Rule Estimates)



Source: Bloomberg, Maybank FX Research & Strategy Estimates

USD Rates and SGD Rates Are Highly Correlated



Source: Bloomberg, Maybank FX Research & Strategy

MYR: Cautious Trajectory Ahead

USD/MYR	1Q 2024	2Q 2024	3Q 2024	4Q 2024
	4.70	4.70	4.60	4.50
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: USDMYR has risen by around 3% year-to-date largely on the back of a rebound in USD strength from higher UST yields and cautious comments by Fed officials, although China and domestic related concerns have also emerged in Jan. Nonetheless, we still maintain a mildly positive outlook on the MYR relative to the USD from around 1H 2024, with support largely from external factors — eventual softer USD environment on the back of build-up of expectations from Fed cuts amid US soft landing scenario and signs of global growth (excluding US) recovery as we proceed into 2024. We are mindful that oil prices have fallen on the back of rising oil supply, albeit with limited impact on the MYR. In addition, on the domestic front, our economists are expecting real GDP growth forecast of +4.4% in 2024, underpinned by factors such as consumer spending resilience despite the outlook of higher inflation in view of stable BNM's monetary policy and job market. These are accompanied by tourism sector recovery, positive investment growth momentum as the surge in approved private sector investment since 2021 is translating into rising actual/realised private investment and progress seen in on-going major infrastructure projects and new ones in 2024, as well as the expected rebound in tech cycle next year after the downturn this year which is already showing signs of bottoming and inflecting.

Even as the political uncertainty factor has mildly emerged again, we still believe it has generally dissipated relative to past cycles and signs of credible policymaking direction has emerged. With stable political outlook and the "political runway" of four years before the next general election, 2024 should be the year where we see "take off" in the aforementioned medium-to-long-term blueprints, masterplans and roadmaps for economic "transition". In this regard, we watch out for developments in fiscal reforms, namely the implementation of targeted subsidy rationalisation; economic restructuring and sector/industry-specific policy announcements and measures to complement the "macro" or "big picture" blueprints, masterplans and road maps.

Headline inflation was steady at +1.5% YoY in Dec 2023 (Nov 2023: +1.5% YoY; 2023: +2.5%, MIBG 2023E: +2.6%; 2022: +3.3%) as core eased a little further to +1.9% YoY (Nov 2023: +2.0% YoY; 2023: +3.0%; 2022: +3.0%). Maintain our 2024 inflation forecast at +3.0% - for now pending more information and details on Budget 2024 measures especially the removal of price control and subsidies (quantum and timing to be announced later) for eggs and fuel (diesel & RON95 petrol). We expect the water tariff increase to have minimal impact on inflation as "water supply" has 0.9% weight in the CPI basket.

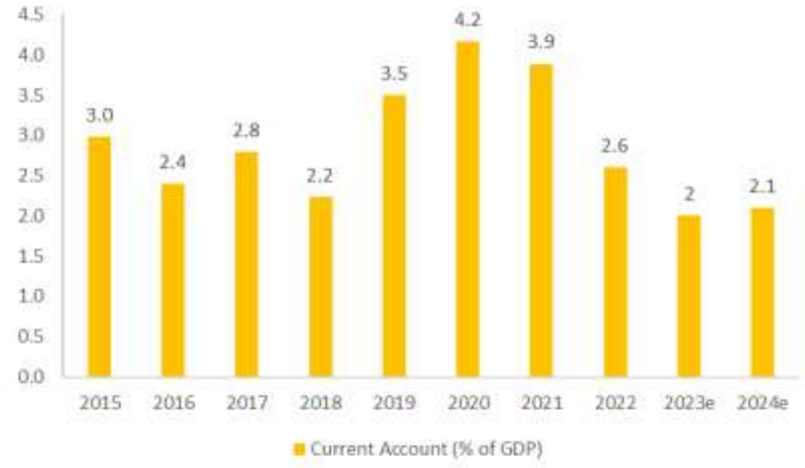
BNM has been able to strike a balance between addressing inflation and supporting growth despite the pressures the MYR faces from the stronger USD and will continue to do so in amid 2024 gyrations - expect OPR to remain at 3.00% in 2024 given our current forecasts of moderate pick up in GDP growth and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

Dec 2023 saw continued – and larger - decline in exports but faster imports growth resulting in narrower trade surplus (Dec 2023: +RM11.8b; Nov 2023: +RM12.2b). Both exports and imports were down by -8.0% and -6.4% respectively in 2023 amid correction in commodity prices and electronics downcycle, and made worse by the base effect following 2022's surge in exports and imports of +24.9% and +31.0% respectively. For 2024, our economists forecast exports and imports to rebound by +4.7% and +5.6% respectively. A major driver for the expected exports rebound this year is the projected turnaround in electronics cycle as WSTS expects global semiconductor sales to rebound by +13.1% in 2024 (2023E: -9.4%).

Risks to look out for in Feb 2024. Downside risks in Feb due to both external and domestic risk factors, which include concerns about emergence of domestic political uncertainty, risk of an exacerbation of weakness in China recovery, emergence of a delay in the expected Fed easing trajectory, a sharp decline in oil prices and an escalation of various geopolitical tensions as well as risk of escalation of trade sanctions ahead of the run-up to the US Presidential elections in 2H 2024 that may contribute to US Dollar strength and raise concerns about export recovery and heightened volatility.

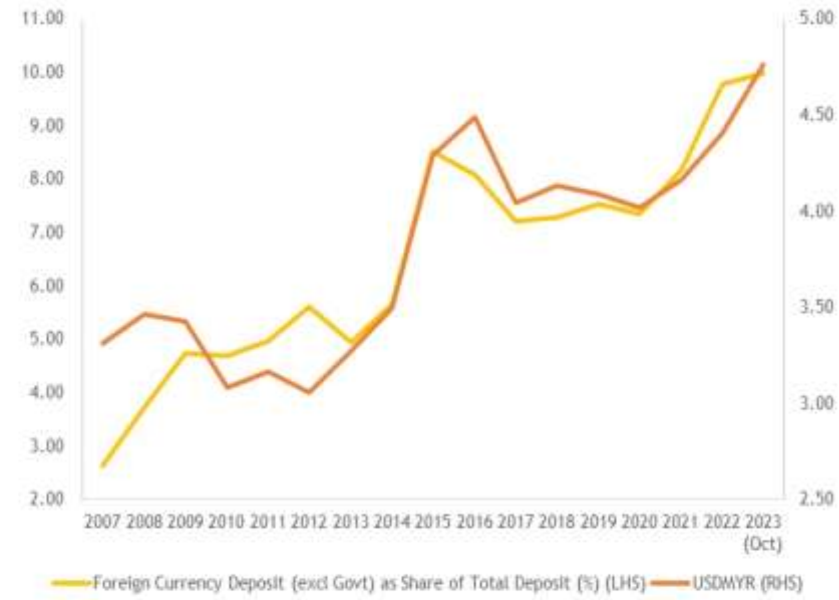
Key domestic events and issues to watch in Feb: PMI Manuf (1 Feb); Ind Prodn (7 Feb); Foreign Reserves (8 & 22 Feb); GDP (16 Feb); BOP Current Acct Balance 4Q (16 Feb); Exports & Import YoY (20 Feb); CPI YoY (23 Feb).

Although CA Balance has Narrowed, it Remains Positive and Hence, it should still be Supportive of the MYR



Source: Macrobond, Maybank FX Research & Strategy

However, Foreign Currency Deposit (excl govt) as Share of Total Deposits Rising With Climb in USDMYR



Source: Macrobond, Maybank FX Research & Strategy

IDR: A Tale of Political Uncertainty

	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD/IDR	15500 (--)	15200 (--)	14800 (--)	14600 (--)

No Change to Previous Forecasts

Motivation: We hold on to our forecasts, seeing that the USDIDR would continue to trade at elevated levels until 2H 2024 amid the political uncertainty of an extended presidential election race, risks of fall out in Jokowi's cabinet and the Fed still holding rates at high levels. The pair should come off closer to end 2Q 2024 amid speculation of Fed easing but the risk of a presidential election run-off (1st round on 14th Feb) would limit the downward movement in the pair. As it stands, polls are showing that no candidate pairing would be able to get more than 50.0% of the vote. This could keep the race going until Jul 2024. Dissatisfaction with results may keep the uncertainty continuing until inauguration in Oct 2024. In the near term, we stay wary of more upside to the USDIDR amid the political situation.

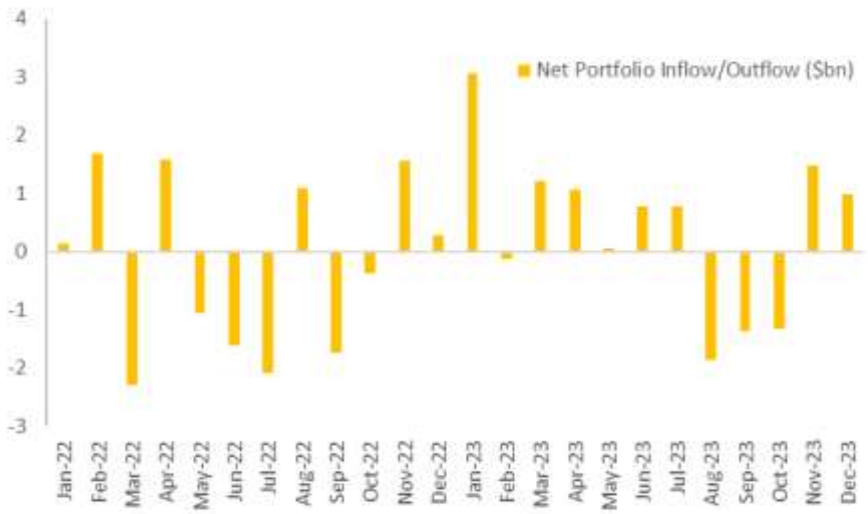
As it stands, the presidential election (1st round on 14th Feb) is looking like it could see a run off that could extend the race until Jul 2024. None of the three candidate pairing – Prabowo - Gibran, Anies – Muhaimin or Ganjar – Mahfud are able consistently to maintain a clear decisive opinion level support above 50.0%. A candidate pairing is required to get more than 50.0% of the vote in order to avoid a run-off. Ganjar has also said that working with Anies in a run-off is very possible, which could make a second round race very close. As a note, Anies has tended to be more of the critic of Jokowi whilst the other two have in some sense tried to show they represent more continuation from Jokowi. Any concerns about differences in policies of the candidates from current status quo can hurt sentiment towards the IDR. The presidential race is also appearing to be leading to concerns about the unity of the Jokowi cabinet. There is talk that Finance Minister Sri Mulyani Indrawati, Foreign Affairs Minister Retno Marsudi and Public Works and Housing Minister Basuki Hadimuljono are all mulling resignation due possibly to Jokowi's tacit behind-the-scenes support of Prabowo. USDIDR has already edged higher from such talk and if in particular Mulyani's resignation materializes, it risks pushing the pair even higher. For now, we stay extremely cautious of this development materializing. However, portfolio inflows still seem to be holding up well even amid the political situation. Inflow into bonds mtd 23 Jan stood at $0.37bn whilst equity inflows mtd was at $0.44bn. Some positioning into EM and belief that BI is done with rate hikes could be supporting sentiment for these assets. The JCI has seen a strong rally hitting a record high this month before coming off. We stay wary on inflows turning negative if the political situation becomes more uncertain.

Meanwhile, headline Dec CPI fell to 2.61% YoY (Nov. 2.86% YoY) although BI is unlikely to move in the near term given the concerns about the IDR. The CPI number as it stands is well within BI's target range of 2 – 4%. BI did hold as expected in their Jan meeting and expressed that they remain vigilant on inflation risks and the currency. For this year, we still expect the central bank to cut by 75bps, which should come in 2H 2024, in line with when we see the Fed would be undertaking its easing. Dec foreign reserves continued to rise to $146.40bn (Nov. $138.10bn) and remains at healthy levels. On the external position, Dec trade data showed the surplus widened to $3.3bn (Nov. $2.4bn), which is a positive for the IDR as imports declined more than expected. We remain vigilant of the possibility that the trade balance could narrow into 2024 given lower commodity prices.

Risks Ahead: On the downside, this would include the materialization and worsening of a political fallout in the Jokowi government involving the resignation of more key personnel. We as a whole would stay very vigilant of this. Other risks would be if US inflation picks up again possibly due to escalating oil or food prices and leading the Fed to keep rates elevated for longer (hikes also not being ruled out) though we do not see it likely this would happen. In this scenario too, the trade surplus could also substantially narrow given the higher cost of imports. An upside risk would be if any presidential candidate pairing can achieve a decisive win with more than 50% of the vote in the first round and prevent a run off. This in turn can help minimize the period of political uncertainty although chances of this happening for now are looking less likely.

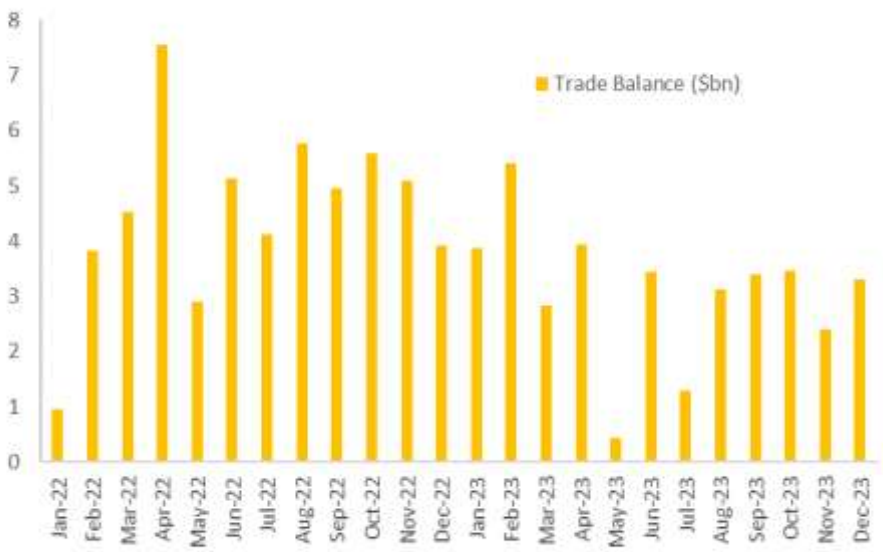
Key Data/Events: Jan S&P Global PMI mfg (1 Feb), Jan CPI (1 Feb), 4Q and 2023 GDP (5 Feb), Jan foreign reserves (7 Feb), Jan local auto sales (11 – 15 Feb), Jan consumer confidence index (13 Feb), Jan trade data (15 Feb), BI policy decision (21 Feb) and 4Q BoP CA balance (22 Feb).

Portfolios Inflows Recently Strong But Political Uncertainty Could Weigh In



Source: Bloomberg, Maybank FX Research & Strategy

Trade Surplus Stays Wide But Low Commodity Prices Can Lead to Narrowing



Source: Bloomberg, Maybank FX Research & Strategy

PHP: Remain Ranged at Elevated Levels

	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD/PHP	55.50 (55.00)	54.50 (54.00)	54.00 (53.50)	53.50 (53.00)

Previous Forecasts in Parenthesis

Motivation: We keep a cautious outlook for USDPHP, expecting the pair to continue trading at elevated levels throughout the year due to the country's weak fundamentals. The latest Nov trade deficit remains wide and we expect it to continue to do so in 2024 amid import pressures. The fiscal deficit is likely to stay wide too given the government's push to build and develop infrastructure. Any relief for the pair is likely to come from a Fed easing but that may only happen in 2Q 2024 (consequently BSP cuts could hold off until then). Our economists also see the OFWR should hold stagnant at 3.0% YoY 2024 (2023f. 3.0% YoY), which should at least be some form of support although we stay wary of downside risks to that number given the possibility of a global economic slowdown. We do choose to revise our forecasts slightly upwards though to better reflect sentiments towards the pair. Near term, we expect the pair to be range trade between 55.50 – 56.50 but we believe it would still edge to the lower end of it towards the end of 1Q 2024.

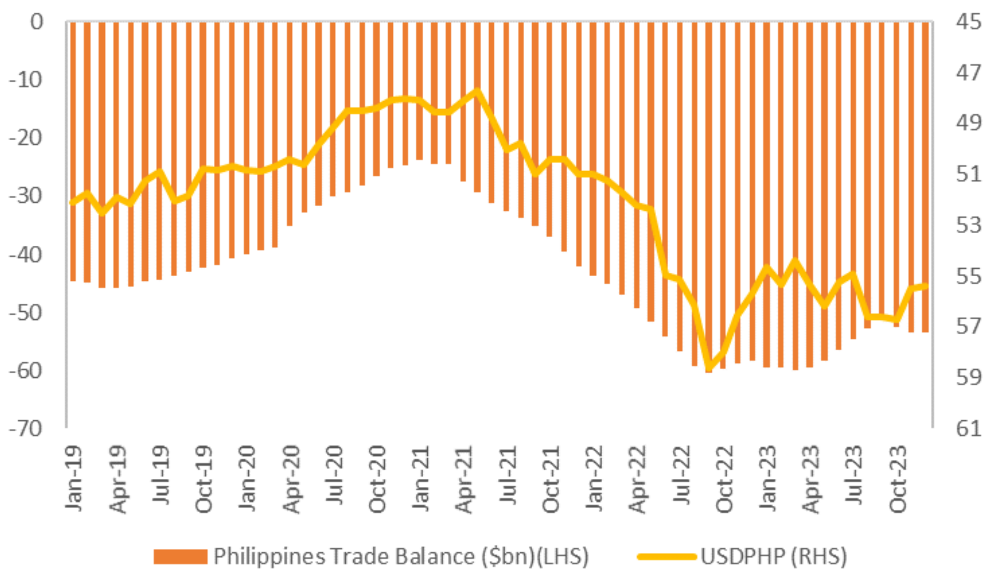
This month saw the appointment of a new Finance Secretary Ralph Recto. He would be replacing Benjamin Diokno, who in turn has been appointed as a member of the monetary board. Ralph Recto will also be joining the monetary board. We are not expecting any change in the central bank's stance from this switch and Governor Remolona has recently stated that the BSP is unlikely cut rates in Feb even as Dec inflation has cooled slightly to 3.9% YoY (est. 4.0% YoY, Nov. 4.1% YoY). For now, the central bank looks to be taking a cautious stance and see more downwards movement in price pressures before considering any cut. They may also choose to await more certainty on the Fed timing of a cut. Consequently, the PHP should still receive support from the tight monetary policy stance. On the fiscal position, we are expecting the government will keep pushing ahead with the "build better more" program to develop infrastructure, which would continue to keep the deficit wide and likely lead to it being at -5.5% of GDP at end 2024. Meanwhile, Dec foreign reserves continue to be healthy at $102.5bn.

The country's external position also continues to be unfavourable with the latest Nov trade deficit being wider at -$4.69bn (Oct. -$4.39bn). The situation is unlikely to improve into 2024 given that import pressures would remain as the government aggressively pursues its infrastructure development program – "build better more". This would continue to be a lingering negative on the PHP. The latest Nov OFWR slowed to 2.8% YoY (Oct. 3.0% YoY) although our economists still see that it would come out at 3.0% YoY in 2023 and hold at that level in 2024, which should provide support to the PHP. However, we stay wary of downside risks to that number given the possibility of a global slowdown this year. Meanwhile, bond inflows were negative for the latest Nov data at -$0.92bn though this number was daed and hurt by concerns of higher for longer rates then (before the Fed had soften its stance). The latter also means the number could better in Dec and Jan although it may not have improved enough to give significant support to the PHP. Equity inflows which is more up to date with mtd 23 Jan showed positive inflow at $0.06bn, which could be a result of better equity sentiment globally though this too small an amount to sufficiently impact the PHP.

Risks Ahead: This includes US inflation picking up again possibly due to escalating oil or food prices and leading the Fed to keep rates elevated for longer (hikes also not being ruled out). This would hurt the EM FX space including the PHP though we do not assign a high probability to this. In this scenario, Philippines inflation would also reaccelerate leading to the BSP starting to hike again and weigh on the economy, which can be a negative on the PHP. The trade deficit would also widen substantially given the high level of imports.

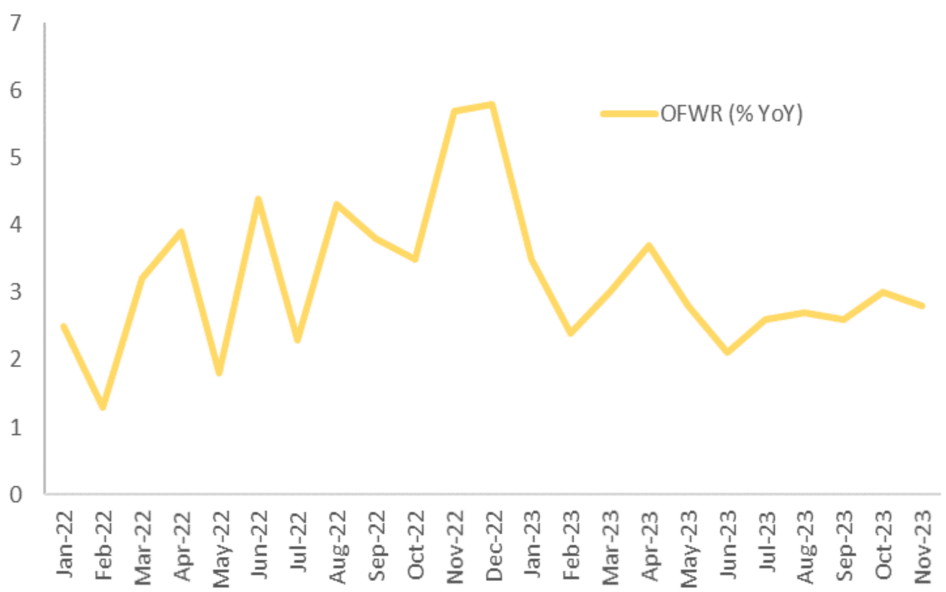
Key Data/Events: Jan S&P Global PMI mfg (1 Feb), Jan CPI (6 Feb), Dec unemployment (7 Feb), Jan foreign reserves (7 Feb), BSP policy decision (15 Feb), Dec OFWR (15 Feb), Jan BoP overall (19 Feb), Dec budget balance (19 Feb), Jan bank lending (29 Feb) and Jan money supply (29 Feb).

The Wide Trade Deficit Continues to Keep Weighing on the Currency



Source: Bloomberg, Maybank FX Research & Strategy

OFWR Still Holding Up But Risks of a Global Slowdown Can Weigh on Repatriation



Source: Bloomberg, Maybank FX Research & Strategy

THB: Patience Will Pay Off

	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD/THB	34.75 (--)	34.25 (--)	33.75 (--)	33.25 (--)

No Change to Previous Forecasts

Motivation: We continue to hold to our forecasts for the THB even as concerns of economic slowdown this month has led to a conflict between the BOT and the government of which the latter is pushing for rate cuts. We believe that the BOT would maintain its independence and continue to base their decisions on how data evolves in the coming months. As a whole we see them only undertaking a cut of 25bps later in the year whilst at the same time, we also expect the economy to improve as tourism inflows rise. Together with Fed easing to come later in the year, we therefore continue to see that the USDTHB should gradually trend downwards in 2024. Near term though, the THB is likely to be ranged around 34.50 – 36.00 as markets stay in calibration mode amid the Fed transition in policy.

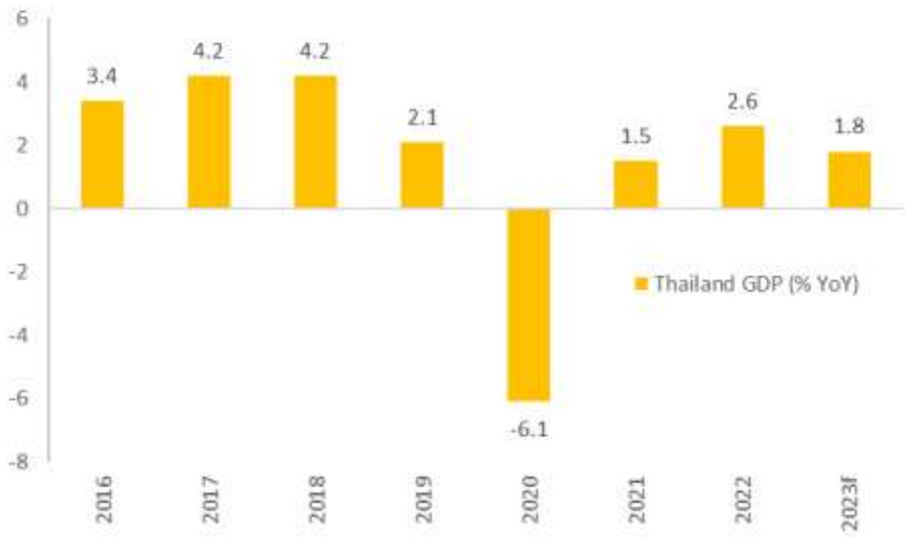
On the economic front, the government said that the recovery last year lost momentum and that it likely grew at 1.8% YoY compared to BOT expectation of 2.4% YoY. The government also mentioned that the slowdown was mainly due to a decline in manufacturing. The weak data we believe should not pressure the BOT to move given concerns about the state of the THB. If anything, we retain hope of economic improvement amid the potential for more tourism inflows. Data from China's largest online travel agency Trip.com have shown that Thailand are among the top travel destinations favoured by Mainland tourists for the upcoming Chinese New Year holidays. Safety concerns about Thailand due possibly to the release of two blockbuster films based in South East Asia may explain some of the weaker tourist numbers from China last year 2023. However, there is a possibility that some of these concerns could be dissipating with Thailand given this favourable data. In turn, this positive development should provide lift to the THB in the future. Meanwhile, portfolio flows mtd to 22 Jan was at -0.58bn, which looked to be driven by concern about growth and uncertainty on Fed cut timing. However, we think foreign inflows should also rise as the economy improves.

Idiosyncratically, Jan saw conflict between PM Srettha and BOT Governor Sethaput after the former had urged the BOT to cut rates as inflation is "very low". However, the two did meet later with Srettha then stressing he has "no power to interfere" and that the "BOT is an independent organization". Governor Sethaput would later push back at any rate cuts occurring soon and sees the 2.50% level as "appropriate". The THB initially took some hit from such concerns but would later retrace the losses. However, this issue would again sprout up as Deputy Finance Minister Julapun Amornvivat who is one of the PM's key economic advisers has said that interest rates are "too high" and hoped that the BOT "can realize the burden that's been put on Thai people and reduce the rate". He also mentioned that he "hope that they will do it soon". In spite of all this, we believe the BOT would maintain its independence and only undertake 25bps of cuts this year. Meanwhile, Dec CPI remained subdued at 0.58% but this should not pressure the BOT given that the number should pick-up as tourists come back. Foreign reserves are healthy at $223.5bn as of 12 Jan.

Risks Ahead: Concerns about any infringement of the BOT's independence and the rate cuts that they can induce can weigh on the THB although as mentioned, we do not see the BOT acceding to such pressure. Other risks include if US inflation fails to sufficiently ease towards target, leading the Fed to keep rates high for the rest of 2024 though this scenario playing out may not be strong. More fiscal spending than planned can also be another concern but we do sense some restrain on the government's part.

Key Data/Events: Jan S&P Global PMI mfg (1 Feb), Jan business sentiment index (1 Feb), Jan CPI (5 Feb), BOT policy decision (7 Feb), Jan consumer confidence (7 – 13 Feb), Jan car sales (18 – 24 Feb), 4 and 2023 GDP (19 Feb), Jan ISIC mfg production index/capacity utilization (26 – 29 Feb), Jan BOP overall/CA (29 Feb) and Jan trade data (29 Feb).

Lackluster Growth in Recent Years Piles the Pressure on More Economic Support



Source: Bloomberg, Maybank FX Research & Strategy

However, Wide Yield Differentials with the US Makes a BOT Cut Soon Unlikely

Source: Bloomberg, Maybank FX Research & Strategy

INR: Inflows Supportive of Strength

	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USD/INR	83.50	83.00	82.50	82.00
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain our USDINR forecasts on the belief that while structural factors, such as inflows should be supportive of INR strength, the RBI will continue to lean against the wind and slow the pace of INR appreciation. USDINR has been one of the most stable pairs, largely due to the Reserve Bank of India's (RBI) preference to reduce volatility in the INR by "leaning against the wind". We suggest that the RBI is very likely to continue to lean against the wind for an extended period as INR is likely to appreciate. RBI could therefore easily lean against the wind in such a situation and accumulate more foreign reserves in an environment where expectations are for the Fed to cut and for USD to gradually weaken. As such we see USDINR trading within a 83.00 to 83.50 range for the month ahead.

With the announced inclusion of India's sovereign debt on global bond benchmarks, foreign inflows into India have picked up pace. This is also against the backdrop of an economy that is prospering, with one of the highest economic growth rates in the world (Governor Das suggested ~7% for the current fiscal year) and with inflation kept relatively in check (Governor Das suggested ~4.5% for current fiscal year). On top of that, India is portraying itself as an alternative for global funds to China, which in an era where asset managers are trimming or underweighting their exposures to China could be a significant continued driver of inflows to India. Lastly, foreigners were estimated to own a mere 2% of Indian sovereigns, highlighting a massive potential for an increase to foreign ownership. As a point of comparison, foreign holdings of US sovereign debt are at around 24% and foreign holdings of China sovereign debt are around 9% (dropping off from 11%). Further inflows look very likely, and this should continue to support INR strength.

However, we have also seen that USDINR is one of the most stable pairs, in many recent episodes of big currency moves such as the post-NFP USD rout in Dec the DXY declined 1.1% while USDINR NDF was just barely 0.2% lower. Similarly, post-Oct US CPI print, DXY weakened by about 1.5% while USDINR NDF was about 0.3% weaker. As such, we think that USDINR is a rather tricky pair to express a view on FX. This is likely due in part to RBI's penchant to lean against the wind to reduce volatility in the INR. However, do consider that this stability could be seen as a positive for asset managers and investors and could potentially increase investor confidence for INR-denominated assets and spur further inflows.

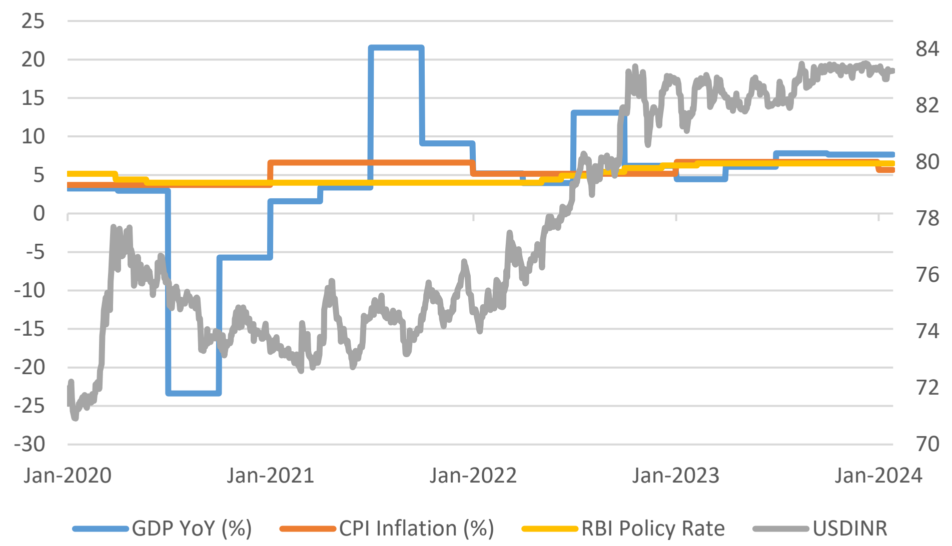
Advance GDP estimates suggest that 2024 growth could come in at 7.3% YoY (exp: 6.7%; prev: 7.2%). This suggests a continued bright economic outlook for one of the world's fastest growing countries. We do see some similarities between the China of old and India currently. In economic literature, population growth remains one of the key drivers for growth. India overtook China as the world's most populous country in Apr 2023, and with population growth dynamics looking favourable for years to come, growth could continue to remain support. We expect a global soft-landing and continued economic expansion in India should be a factor for INR strength.

On the monetary policy front, inflation in India remains relatively under control with the latest print at 5.69% YoY (exp: 5.88%; prev: 5.55%). While the absolute number remains high, RBI's inflation target is also higher than normal at around 4%. When taken together with growth prospects being positive should imply that the RBI will not be in a hurry to pivot to a growth supporting stance, simply because there is no need for them to. Also, they will have ample space to support growth if they need to with the current policy rate at 6.50%. As such, we look for RBI to stand pat at the next policy decision in Feb. On balance, RBI remaining on hold amid strong growth prospects and a relatively beningn inflation outlook should also be in favour of INR strength.

Risks Ahead: The main risks that threaten our USDINR forecasts then would be RBI switching out of its stance to lean against the wind. This could occur as a matter of policy change or if there is too much scrutiny, possibly by the US Treasury on the INR kept artificially weak. While not likely, a combination of higher for longer inflation and poorer growth outcomes for India could also threaten our outlook for the INR.
Key domestic events and issues to watch in Feb: Jan F HSBC India Mfg PMI (1 Feb), Jan F HSBC India Services/Composite PMI, RBI Policy Decision (8 Feb), Dec Industrial Production, Jan CPI (12 Feb), Jan Imports/Exports/Trade Balance (13 to 15 Feb), Ja Wholesale Prices

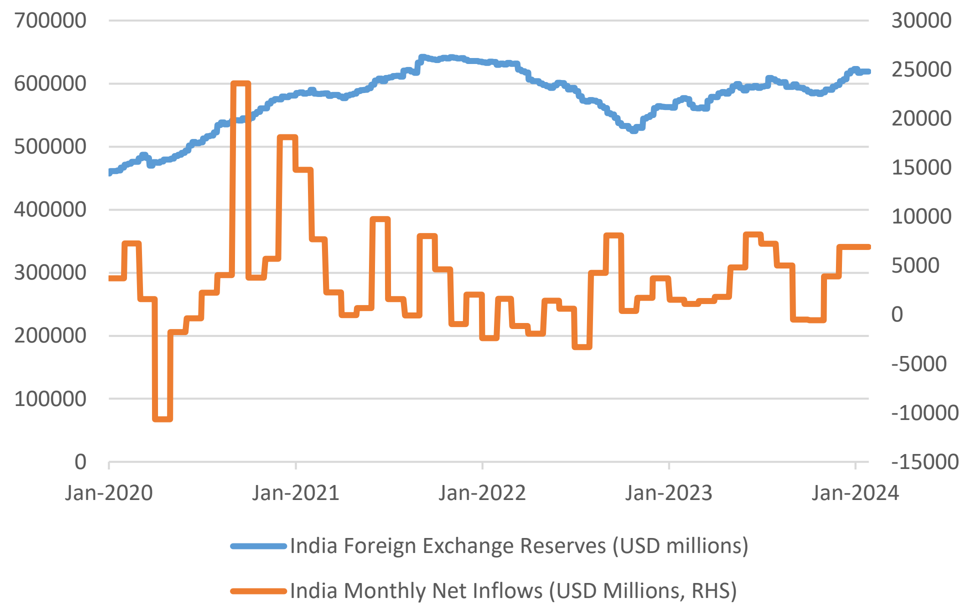
(14 Feb), Feb P HSBC India Mfg/Svcs/Comp PMI (22 Feb), Jan Fiscal Deficit, Jan Eight Infrastructure Industries, 2023 GDP Annual Estinmate, 2024 GDP Annual Estimates, 4Q GDP (29 Feb).

INR Remains Stable, While Growth is Promising and Inflation Benign



Source: Bloomberg, Maybank FX Research & Strategy

India's FX Reserves and Inflows Rising at Same Time



Source: Bloomberg, Maybank FX Research & Strategy

VND: Weighed by the Graft Investigations and US Rates

USD/VND	1Q 2024	2Q 2024	3Q 2024	4Q 2024
	24300	24100	24000	24000
	(24100)	(23800)	(23700)	(23700)

Previous Forecasts in Parenthesis

Motivation: The outlook for the Vietnamese economy as well as the VND had been bright in our 2024 outlook and we continue to remain constructive on the VND, notwithstanding recent weakness. What the VND had been able to count on (for a few years now) is the various trade agreements forged and concomitant flow of FDIs into Vietnam as foreign investors diversify their supply chain away from China. As a result, the VND benefits not just from an improvement in its balance of payments but also from the strengthening of its export competitiveness in the medium term. Fitch had even upgraded Vietnam's credit rating from BB to BB+.

Concerns on Graft Crackdown Weighs for Now. However, the VND's bright prospect seem to be marred by fresh anti-corruption drive on the energy sector declared earlier this month. This is notwithstanding the rebound in UST yields, concerns on the red sea trading route attacks that have lifted USDASEAN as a whole. For much of 2022-2023, the crackdown was largely focused on the real estate and the banking sector. The crackdown had resulted in the imprisonment of top-ranking officials. Last year, civil servants were observed to be reluctant to make decisions or grant approvals for certain public investment projects, prompting PM Pham Minh Chinh to send a warning to "slow and ineffective" officials whose sluggish decisions had contributed to power shortages last year. An inquiry on the energy sector has been launched earlier this month and some senior trade officials were being detained for bribery and other abuses of power. In addition, President Truong had been missing state visits of foreign leaders this year, adding to the political uncertainty that could have undermined the VND. While these are sources of concerns, Vietnam's parliament had demonstrated that it remains resolute in getting growth back on track and we retain our constructive view on the VND. Taking into account the prevailing concerns and market action however, we like to adjust the USDVND forecasts higher.

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

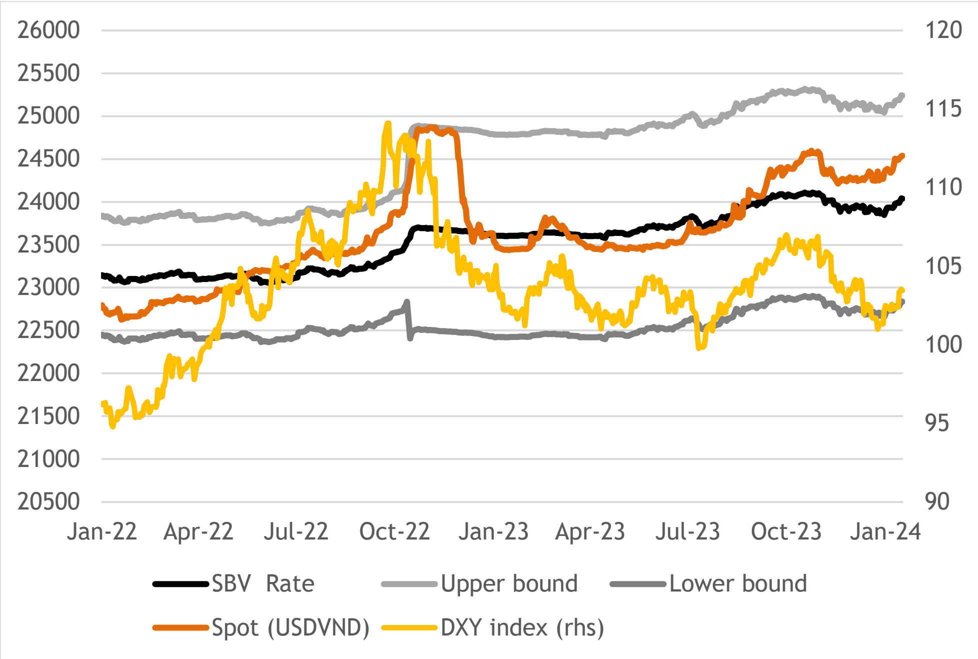
Await Tourist Receipts Too. The return of Chinese tourists had been slow and there could be modest improvements into 2024. That should continue to bolster its current account next year and support the VND.

USD and US Rates Environment to Be More Benign. A key driver for the VND would have to be the USD and US rates environment that is likely to become more benign into 2024. As the world continues to head for a soft-landing (or a shallow recession for some countries), the USD and US rates could remain on a downtrend. That could undo some of the VND weakness that was seen in 2023. In the near-term however, we expect USDVND may track the greenback's sideway action as markets continuously calibrate its positioning on the USD and the rates based on US exceptionalism as well as rate cut bets.

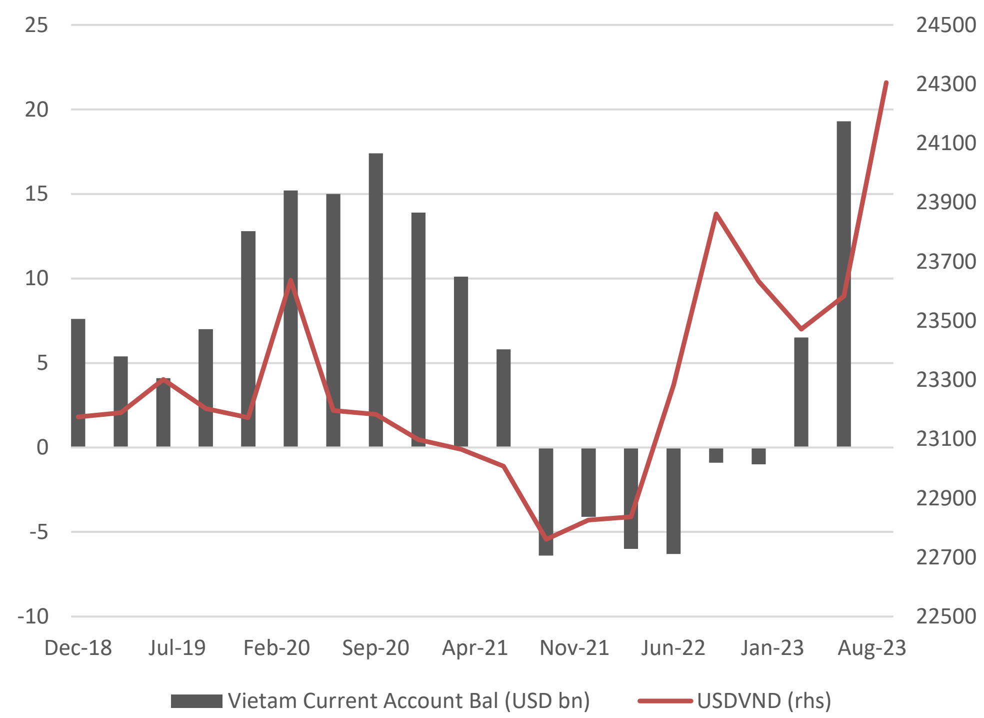
Risks Ahead. 1) Any sign of a re-acceleration in US inflation or supply shocks that could spur US rates higher pose downside risks to the lift the USDVND. 2) Any deterioration of its fragile property sector could probably weigh on consumer sentiment and delay hamper Vietnam's cyclical recovery. More recently, the National Assembly had updated the Land Law, allowing the Vietnamese who are residing overseas to have full rights to land. This was tweaked in the hope of promoting investment and attracting remittances from the targeted group. That should reduce the risk of a property malaise this year for Vietnam.

Key domestic events and issues to watch: Jan trade, IP, CPI, retail sales [29 Jan], Jan Mfg PMI [1 Feb], Feb IP, CPI, retail sales and trade [25-29 Feb].

VND is under renewed pressure in Jan Thus Far



FDI Flows Have Rebounded, Positive for VND



Source: Bloomberg, Macrobond Maybank FX Research & Strategy

2024 FX Forecast Table

	End Q1-24	End Q2-24	End Q3-24	End Q4-24
USD/JPY	150.00	145.00	140.00	136.00
EUR/USD	1.0950	1.1000	1.1050	1.1100
GBP/USD	1.2400	1.2500	1.2500	1.2500
AUD/USD	0.6600	0.6800	0.7000	0.7000
NZD/USD	0.6100	0.6200	0.6300	0.6300
USD/CAD	1.3600	1.3300	1.3300	1.3000
USD/SGD	1.3500	1.3450	1.3400	1.3350
USD/MYR	4.7000	4.6000	4.5000	4.4000
USD/IDR	15500	15200	14800	14600
USD/THB	34.75	34.25	33.75	33.25
USD/PHP	55.50	54.50	54.00	53.50
USD/CNY	7.15	7.10	7.15	7.15
USD/CNH	7.15	7.10	7.15	7.15
USD/HKD	7.79	7.78	7.76	7.76
USD/TWD	30.25	30.00	30.00	29.00
USD/KRW	1290	1270	1250	1220
USD/INR	83.50	83.00	82.50	82.00
USD/VND	24300	24100	24000	24000
DXY Index	103.57	102.43	101.59	100.63
	End Q1-24	End Q2-24	End Q3-24	End Q4-24
SGD/MYR	3.48	3.42	3.36	3.30
JPY/SGD	0.90	0.93	0.96	0.98
EUR/SGD	1.48	1.48	1.48	1.48
GBP/SGD	1.67	1.68	1.68	1.67
AUD/SGD	0.89	0.91	0.94	0.93
NZD/SGD	0.82	0.83	0.84	0.84
CAD/SGD	0.99	1.01	1.01	1.03
SGD/IDR	11481	11301	11045	10936
SGD/THB	25.74	25.46	25.19	24.91
SGD/PHP	41.11	40.52	40.30	40.07
SGD/CNY	5.30	5.28	5.34	5.36
SGD/HKD	5.77	5.78	5.79	5.81
SGD/TWD	22.41	22.30	22.39	21.72
SGD/KRW	956	944	933	914
SGD/INR	61.85	61.71	61.57	61.42
SGD/VND	18000	17918	17910	17978
	End Q1-24	End Q2-24	End Q3-24	End Q4-24
JPY/MYR	3.13	3.17	3.21	3.24
EUR/MYR	5.15	5.06	4.97	4.88
GBP/MYR	5.83	5.75	5.63	5.50
AUD/MYR	3.10	3.13	3.15	3.08
NZD/MYR	2.87	2.85	2.84	2.77
CAD/MYR	3.46	3.46	3.38	3.38
MYR/IDR	3298	3304	3289	3318
MYR/THB	7.39	7.45	7.50	7.56
MYR/PHP	11.81	11.85	12.00	12.16
MYR/CNY	1.52	1.54	1.59	1.63
MYR/HKD	1.66	1.69	1.72	1.76
MYR/TWD	6.44	6.52	6.67	6.59
MYR/KRW	274	276	278	277
MYR/INR	17.77	18.04	18.33	18.64
MYR/VND	5170	5239	5333	5455

Source: Maybank FX Research as of 26 Jan 2024. *These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.

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