Macro | FX Research & Strategy

Global

FX Monthly

2024, Issue 6: While Pockets of USD Resilience Linger…

What Has Changed This Month?

- We raised the USD forecasts against most Asian currencies as we expect higher-for-longer environment to weigh on funding currencies such as the JPY, RMB.

Our Strategies and Views

- Into the 2H of 2024, markets are increasingly focused on political events in the West including 1) the French snap elections (2nd Round on 7 Jul), 2) the UK general election (4 Jul) and 3) run-up to the US Elections (4 Nov). We suggest fading the political overhang in the EU and think that the GBP may have frontloaded election optimism. Not helping sentiment in the least are sporadic surprises to inflation prints (Eurozone, Canada, Australia, etc) that cast doubts on whether ECB and BoC can afford to deliver another rate cut so soon after their first in Jun. Sticky inflation environment continues to weigh on preferred funding currencies - JPY and RMB – BoJ is seen unable to sustain a hiking cycle that could threaten short JPY positions while sluggish economic growth in China should continue to keep RMB on the backfoot.

- Not all Asian FX weakened against the USD. KRW, THB and INR managed to eke out some gains in Jun. While anticipated inclusions of stocks/bond to global indexes likely supported KRW and INR. THB and KRW were laggards amongst AxJ in 1H 2024 and as such, most susceptible to rebounds should US yields come off more considerably. That seems to have started in Jun as the US economy shows increasing signs of fading exceptionalism, notwithstanding the aforementioned political events and risks that continue to keep the DXY supported on dips. KRW has not been able to benefit much from the AI exuberance and could play catch-up especially if US exceptionalism continues to fade. KRW may see most gains vs. JPY, CHF and CNH. Amongst the commodity-linked currencies, we continue to favour AUD over NZD as inflation remains stickier in Australia. We expect NZD to underperform CAD as we look for RBNZ to turn dovish in the coming meetings. This was expressed in our note published 20 Jun.

- Within ASEAN, we have chosen to raise our forecast for the USDPHP, USDIDR and USDTHB to reflect the sentiment in the current global environment and USD resilience over the next quarter. Idiosyncratic factors, including both political and fiscal concerns are likely to also remain an overhang for both the USDIDR and USDTHB. Central bank dovishness with the risk of an easing much ahead of the Fed meanwhile weighs on the PHP sentiment.

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Top 3 Currency Plays for Jul

Buy KRW Vs. CNH, JPY, CHF
Buy AUDNZD, Sell NZDCAD (as published on 20 Jun)
Sell the USD on Rally

Key Events for the Month Ahead

Date	Event
1-3 Jul	Sintra ECB Forum
4 Jul	UK General Elections
7 Jul	France Elections (Round 2)
15-18 Jul	China Third Plenum

USD: Shift to Employment Mandate As Sticky Inflation Lingers

	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USD DXY	105.00 (104.04)	103.86 (103.07)	102.56 (102.24)	101.69 (--)

Previous Forecasts in Parentheses

Motivation: The US faces a tough 2H 2024 on the economic front as private consumption softens and savings no longer provides a buffer. In addition, given the upcoming US presidential elections, fiscal policy is unlikely to offset the slowdown in private demand as government spending is likely to be curtailed in an election year. Furthermore, on the data front, even as inflation remains sticky, the disinflation route may have reached a core PCE range of 2.6-2.8% and further declines from those levels may see higher adjustments in the labour market. Against that background, a rate cut emerging could emerge in the latter part of 2024 and lead to some softening in the dollar. But elevated uncertainty ahead of Nov election and unexpected developments in the campaign in end 3Q and 4Q could spark market volatility, global risk off and dampen business investment affecting growth further and possibly support USD even as any softer data may lead to market recalibration for more cuts, the impact on the USD could be limited on the downside. Furthermore, fragile global macro leading to inadvertent global central bank policy announcements, rising temperature in geopolitics (Ukraine, Middle East, US-Eurozone vs China trade tensions), the USD trajectory is likely to remain supported or at least rangebound 3Q and 4Q. From a DXY components perspective, developments out of Japan saw JPY weakness supported USD DXY move higher. In Jul, Euro and GBP volatility could help to support significant strength in the USD DXY. We now continue to look for the DXY index to range around 104 before moving only mildly now by end 2024. Fundamentally, we still remain negatively biased towards the USD in the medium term as the pivot away from current higher rates and yields materialises as the economic cycle turns and given the country's structural twin deficits and the national debt expected to rise further over the next few years with a fiscal cliff potential in 2025. **The balance of risks point to a stronger Dollar for a while longer due to the US macro & inflation outlook leading to an extension in current Fed stance and higher UST yields and global risk sentiment remaining quite vulnerable.**

Month to date (since 1 Jun), USD DXY is up 1.2% from a low of around 104 earlier in the Jun. The Jun move higher was due to recent data releases and rising "higher-for-longer" environment, less probable rate hike scenario simply limits the headroom for US rates as well as USD bulls. Market now looks for just -45bps rate cut for this year as we write, a drastic reduction from -167bps seen at the start of the year. Our view remains that the USD could continue to remain supported on dips as the FOMC meetings and projections could feed the narrative of US exceptionalism and the Fed could remain slow-moving in terms of monetary policy easing. That could also mean that the decline in the USD would be more gradual and its pace largely depends on global growth and labour market outturns this year.

On the macro data front, US economic reports saw labour market resilience and disinflationary trend from the May data. US activity data releases are showing signs of a slowdown with ISM manuf showing declines at 48.7 from previous 49.2, factory orders (0.7% from 1.6% prev) and Uni of Michigan sentiment index seeing a decline. Job gains have remained strong the past few months with headline NFP at around 272k from previous 175k, and the unemployment rate rose to 4.0% from 3.9% in the previous month. Markets will continue to monitor inflation numbers, which includes headline CPI and PCE core deflator data to see if it will come out stronger than expected and remains elevated due to services inflation. Headline CPI fell in May to 0.0% for the month, putting the y/y inflation rate at 3.3%, or 0.1% pt lower than in Apr (consensus expected a 0.1% gain and a 3.4% y/y level).

Fed kept the fed funds rate (FFR) at 5.25%-5.50% for the seventh time at the 11-12 June 2024 FOMC meet. Fed's dot plot now signals -25bps cut this year and -100bps next year vs -75bps per annum in 2024-2025 previously. Our economists maintain our view of Fed cut by -50bps in 2024 and -100bps in 2025. The FOMC meeting statement contained a couple of notable changes vs the previous statement in May 2024. On inflation, Fed said there's "modest further progress" toward its 2% inflation target vs "lack of progress" previously. Fed also said that the risks to achieving its mandate on employment and inflation "has moved towards better balance" vs "is moving into better balance" previously. These changes came amid latest monthly data showing uptrend in unemployment rate and easing in inflation rate i.e. signs that the transmission mechanism of FFR hikes in 2022-2023 are taking effect.

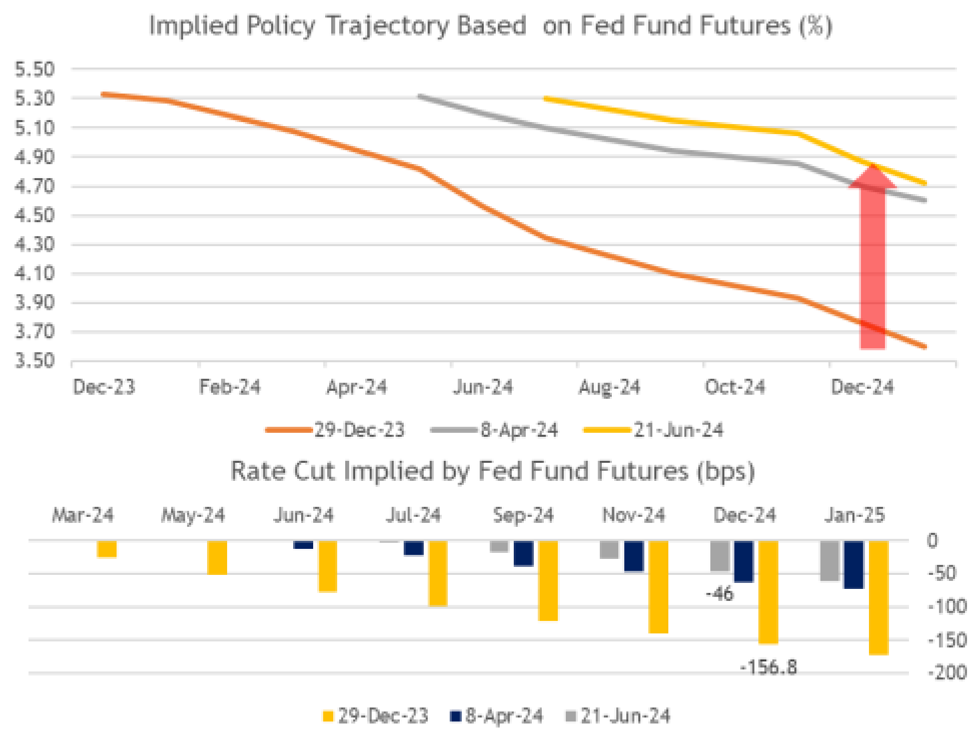
The Fed also revised its "dot plot" (i.e. FOMC participants' individual forecasts of FFR), signaling just one FFR cut of -25bps in 2024 vs -75bps previously, and -100bps cuts in 2025 vs -75bps previously. Fed possibly err on the side of caution on its FFR guidance this year as it raised 2024 headline and core inflation rate forecasts to 2.6% (from 2.4%) and 2.8% (from 2.6%) respectively, while maintaining real GDP growth and jobless rate projections at 2.1% and 4.0% respectively. Based on the 30-day Fed funds futures, market sticks to its pricing of two cuts totaling -50bps in FFR this year, starting Sep 2024 or Nov 2024, to be followed by another cut in Dec 2024. We maintain our view of Fed cutting FFR by -50bps by year-end (end-2024F: 4.75%-5.00%) and -100bps in 2025 (end-2025F: 3.75%-4.00%).

Fed announced "Quantitative Tightening (QT) Taper" after the 30 Apr - 1 May 2024 FOMC meet i.e. slowing its balance sheet reduction pace starting this month. To recap, QT began in June 2022 at the rate of -USD47.5b per month (-USD30b per month in US Treasuries and -USD17.5b per month in mortgage-backed securities) and then doubled to -USD95b per month from Sep 2022 (-USD60b per month in US Treasuries and -USD35b per month in mortgage-backed securities). Under "QT Taper", balance sheet will be reduced by -USD60b per month on slower US Treasuries runoff of -USD25bper month, while maintaining -USD35bn monthly pace for mortgagebacked securities. The "QT Taper" is to mitigate any risk of money market liquidity crunch and short-term interest rate surge given the key barometer of financial system liquidity i.e. the overnight reverse repurchase or ONRRP has shrunk from last year's high of USD2.375tr on 31 Mar 2023 to USD410.45b as of 11 June 2024.

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 rising trade policy/tariffs, G7-China relations, fiscal policy and currency policy. Broader US & G7-China conflict is dollar positive.

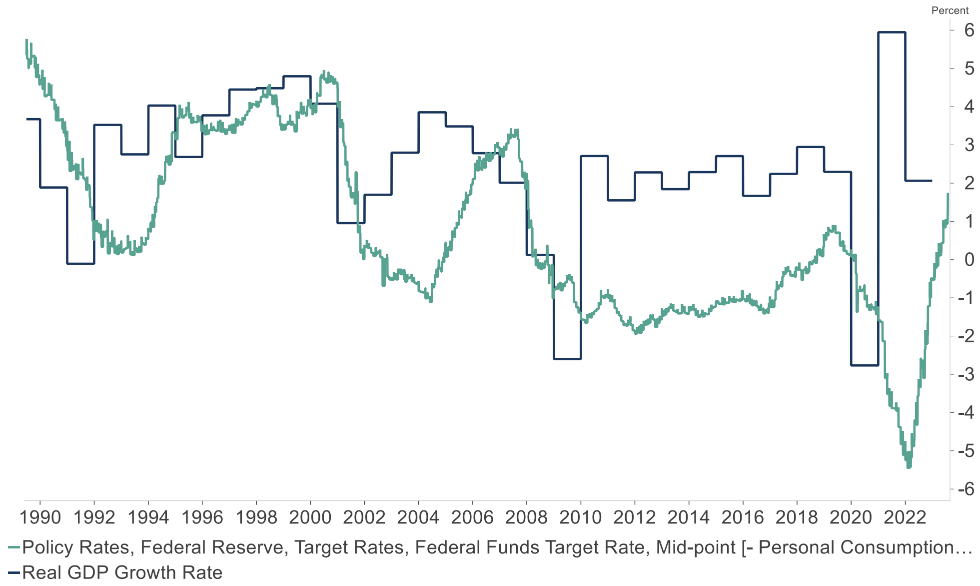
Key Data/Events in Jul: ISM Manuf (1 Jul), ADP (3 Jul), FOMC (1 Aug), Trade Balance (3 Jul), NFP (7 Jun), Factory Orders, Durable Goods Orders (5 Jul and 25 Jul), June CPI (11 Jul), Retail Sales (16 Jul), GDP 2Q (25 Jul), CorePCE deflator (26 Jul).

<u>**Rate Cut Bets Have Dropped from Seven to Two in 2024**</u>



Sources: Bloomberg. Maybank FX Research & Strategy

Real Policy Rates Remain Below Real Growth Rates in US



Sources: Macrobond, Maybank FX Research and Strategy

EUR: No Successive Cuts, Fade Political Overhang

EUR/USD	3Q 2024	4Q 2024	1Q 2025	2Q 2025
	1.0900	1.1000	1.1100	1.1200
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain our EURUSD forecasts. The ECB cut its policy rate in Jun in spite of resurgent inflation. EUR was quite well supported even after the rate cut. On the other hand, it was after Macron called for snap elections in France that a political overhang developed and weighed on the EUR. Nevertheless, we suggest to fade the political overhang amid a Eurozone economic recovery underpinning the support for the EUR and no successive rate cuts from the ECB also providing support. From a growth perspective, an ECB rate cut should be growth supportive, and could offset some of the impact of a weaker EUR from rate cuts. We therefore retain our conviction on the trajectory of a stronger EURUSD in view of fading US exceptionalism, eventual Fed rate cuts and an improvement to economic growth in the Eurozone and for the political overhang on the EUR to fade.

EURUSD traded within a 1.0661 to 1.0916 range in Jun, higher than 1.0650 to 1.0895 range in May. However, general trajectory was for EUR lower after the snap elections were called at the start of the month. At current levels of around 1.0755, risks should be tilted to the upside for the EUR, with the 1.0650 support holding very steady even in times of weakness. The ECB has cut rates and as we earlier suggested, this has not resulted in excessive EUR weakness. Breaks below the 1.0650 support should therefore be seen as very bearish for the pair.

French elections are currently ongoing and the far-right appears to be leading the polls. The election will be two-staged and this adds complication to the process. Parties could ally to stop the far-right from winning too many seats as they have done historically, although this seems less likely. As it stands, market is pricing in no one winning an absolute majority (hung parliament) with the far-right having the most seats and that could be relatively supportive of the EUR. In such an instance, not being able to be excessively loose on the fiscal front could be seen as EUR-positive. Risk of the far-left winning is potentially the most EUR negative given their loose fiscal policies. The centrists (Macron) retaining their parliamentary majority, which would be supportive for EUR, looks less likely. On balance, we suggest that EURUSD should rebound and fade the current political overhang.

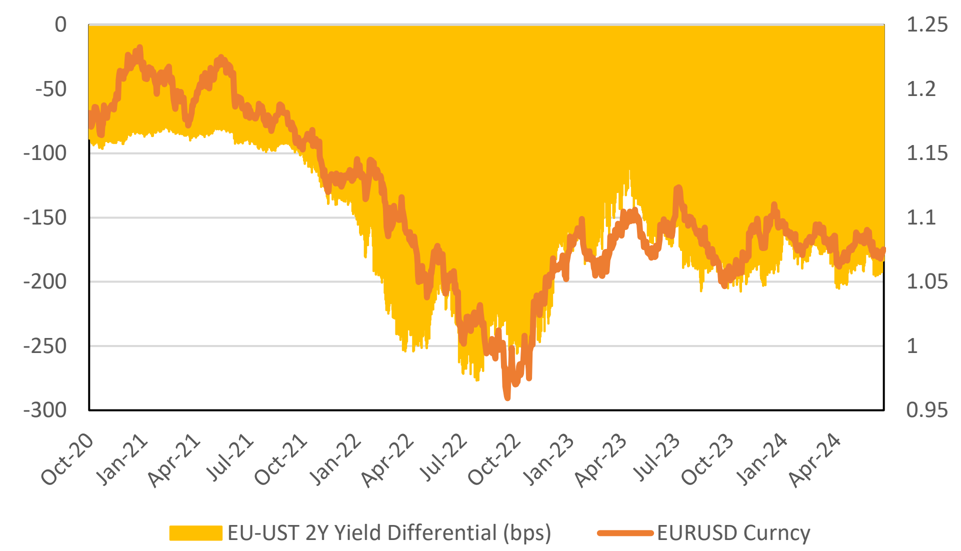
The ECB cut benchmark rates by 25bps at the Jun 2024 meeting as widely expected, despite an uptick in inflation and given said uptick are unlikely to cut rates successively. This is in line with Lagarde's earlier caution that the ECB would not be able to commit to a particular rate path even after the first rate cut. Inflation in the Eurozone saw an uptick with May headline at 2.6% YoY (exp: 2.6%; prev: 2.4%) and May core inflation at 2.9% YoY (exp: 2.9%; prev: 2.9%). As we had earlier suggested, the path to lower prices could be bumpy and central banks would factor this into their policy decisions. As such, we think that successive cuts are unlikely as the ECB could wait for more comfort from data before cutting rates again.

We see two further 25bps cuts for the ECB this year to bring their deposit facility rate to 3.25% (currently: 3.75%), main refinancing rate to 3.75% (currently: 4.25%) and marginal lending facility rate to 4.00% (currently: 4.50%). We see up to 75bps of cuts in 2025 at this juncture. This is broadly in line with market pricing of 44bps of cuts by year end and more hawkish than current consensus forecasts of roughly 85bps of cuts by year end. Market pricing has leaned a tad more hawkish, but consensus cuts have become more dovish in Jun. As we have previously stated, we think that if the ECB cuts after or alongside the Fed or if Eurozone growth prospects improve, the EURUSD need not weaken and could in fact strengthen or remain supported. This is in line with our narrative for a bottoming of growth prospects in the Eurozone and has been vindicated with the EUR remaining fairly supported even after the first ECB cut. We have seen further evidence of this when the EURUSD rallied/was supported even as the ECB tilted a bit more dovish. We saw once again that following the 21 Mar FOMC, where the Fed all but confirmed three rate cuts in 2024, EURUSD was one of the better performers. With the narrative for Fed cuts having swung so much to the hawkish side, it is also difficult to see further hawkish Fed repricing that could weigh on EUR.

Risks Ahead: Geopolitical headwinds could still weigh on the EUR. The war in Ukraine is not over, and French elections could complicate matters for the war. Tensions in the Middle East could worsen and this should affect the Eurozone more directly given the relative geographic proximity. Downside risks to growth and upside risks for inflation (Red Sea blockade, Middle East Crisis, Ukraine War) could place the Eurozone in a precarious position. The US Presidential Election is a possible risk for the EUR. A Trump win could spell an early end to the Ukraine War and that should be positive for the EU. 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 could also force the ECB to cut rates more aggressively.

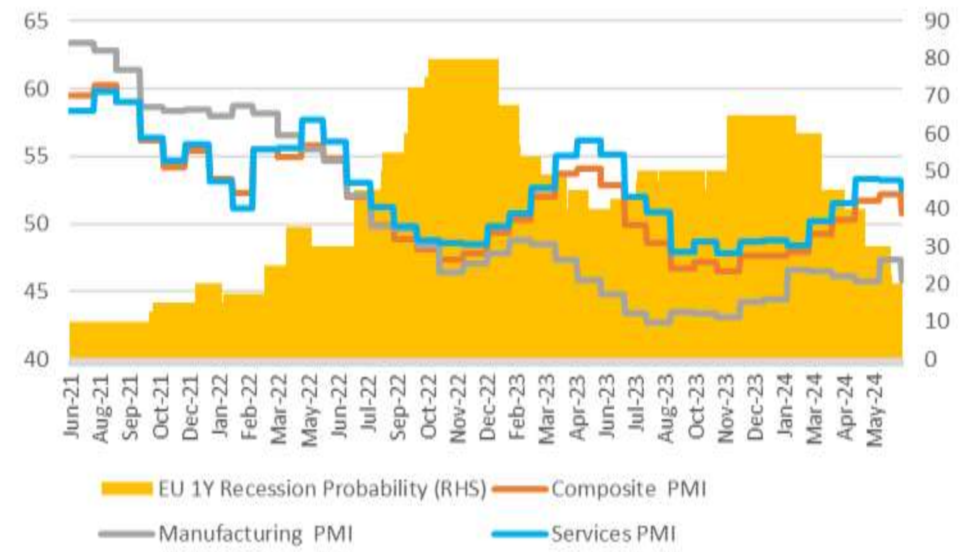
Key Data/Events: Jun F Mfg PMI (1 Jul), Jun CPI, Jun Unemployment (2 Jul), May F Svcs/Comp PMI, May PPI (3 Jul), May Retail Sales (5 Jul), Sentix Investor Confidence (8 Jul), May Industrial Production (15 Jul), May Trade Balance (16 Jul), Jun F CPI (17 Jul), **ECB Policy Decision (18 Jul),** Jul P Consumer Confidence (23 Jul), Jul P Mfg/Svcs/Comp PMI (24 Jul), Jun Money Supply (25 Jul), Jun Consumer/Services/Industrial/Economic Confidence (30 Jul), 2Q A GDP, Jul P CPi Inflation (31 Jul).

Yields Differentials Key Driver of EURUSD



Source: Bloomberg, Maybank FX Research & Strategy

Near-Term PMI Dips Should Fade



Source: Bloomberg, Maybank FX Research & Strategy

GBP: UK Elections Ahead

	3Q 2024	4Q 2024	1Q 2025	2Q 2025
GBP/USD	1.2700	1.2700	1.2700	1.2800
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain our forecasts for GBPUSD. We think that GBPUSD could trade around these levels for several quarters. Elections are due on 4 Jul 2024 and shrinking fiscal space and structural issues that have yet to be resolved from Brexit. There could be some positivity after elections and UK economic data prints have been resilient, growth has not tanked, and the economic growth numbers have been positive, against calls for a recession. These factors could contribute to GBP strength in the longer term. For now, we think that GBPUSD could consolidate around the forecast levels for the quarters ahead.

Disinflation in the UK is intact, with May headline at 2.0% YoY (exp: 2.0%; prev: 2.3%), core inflation at 3.5% YoY (exp: 3.5%; prev: 3.9%). Services remains elevated at 5.7% YoY (exp: 5.5%; prev: 5.9%). The elevated services inflation should be the only thing keeping the BOE from cutting rates. Market pricing for BOE rate cuts has swung a tad more dovish with 43bps of cuts priced in (prev: 30bps) and a cut in Aug priced at 62%. Economists' forecast consensus have turned more hawkish and are forecasting 60bps (prev: 75bps) of cuts in 2024. We maintain our view that the BOE will cut rates by 75bps in 2024 with the disinflationary path largely intact and the BOE tilting even more dovish on 20 Jun. Preliminarily, we also see 75bps of cuts for BOE in 2025.

The BOE kept rates unchanged on 20 Jun 2024. Vote split was 7-2 in favour of standing pat versus cutting rates by 25bps. Dhingra and Ramsden voted for a 25bps cut. The BOE has not been as forthcoming (as the ECB or the Fed) in terms of forward guidance or their considerations on rate cuts. The broad disinflationary trend still exists, although the path to the BOE's inflation target could be bumpy. As we earlier explained, market pricing of BOE cuts is far too hawkish, and BOE meetings should be viewed as live with regards to rate cuts. The BOE has tilted more dovish at successive meetings and revised their inflation forecasts downwards.

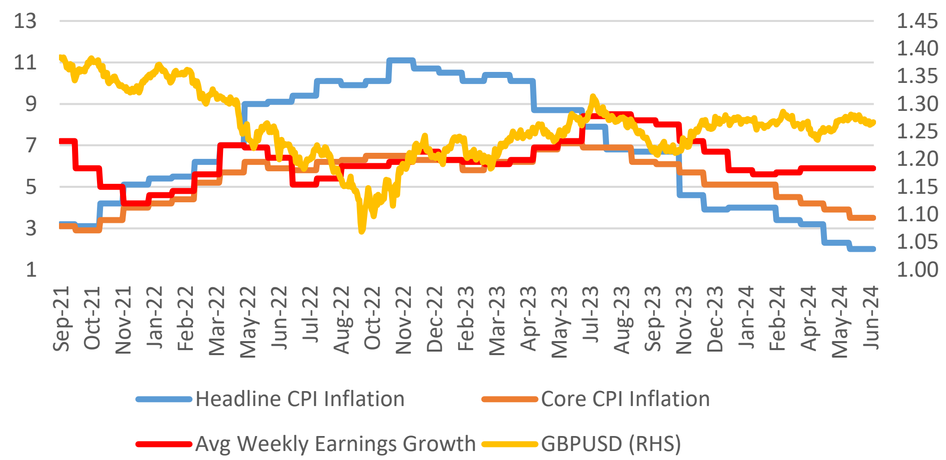
GBPUSD traded within a 1.2613 to 1.2860 range in Jun, higher than the 1.2446 to 1.2801 range in May. GBP outperformance has continued as the best performing G10 currency ex-USD YTD. We expect some of this outperformance to fade and for the GBP to consolidate as it is likely optimism has been frontloaded. This is reflected in the relatively flat trajectory for the GBPUSD from 3Q2024 to 1Q2025.

Fiscal space could be reduced as BOE QE losses add up, which could leave UK taxpayers with a hefty bill with BOE's losses indemnified by a government guarantee. Since Oct 2022, about £50b has been transferred to the BOE. BOE estimates of total lifetime losses are at £115b. 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. Elections have been called for 4 Jul 2024, and preliminary polls suggest that the Conservative Sunak administration is unlikely to be re-elected and a Labour victory is more likely. Our base case is for Labour to win a relative majority and for this to have a boost for the GBP in the longer term when their fiscal plans have become clearer. A Conservative win is less likely and should be neutral for the GBP. A hung parliament or Reform UK win which are even less likely are the outcomes we see as GBP negative. On balance, we think GBP fades its current outperformance, consolidates in the near to medium-term and strengthens on a further horizon.

Risks Ahead: Should the UK manage to successfully navigate the intricacies of a post-Brexit UK, then the GBP may perform better than we expect. We cannot rule out however, salient downside risks such as geopolitical tensions in the Middle East, the unresolved Ukraine war and the blockade of the Suez Canal that could have resulting upside risks to inflation and downsides to growth which could weigh on the GBP. UK elections on 4 Jul also presents two-way risks for the GBP.

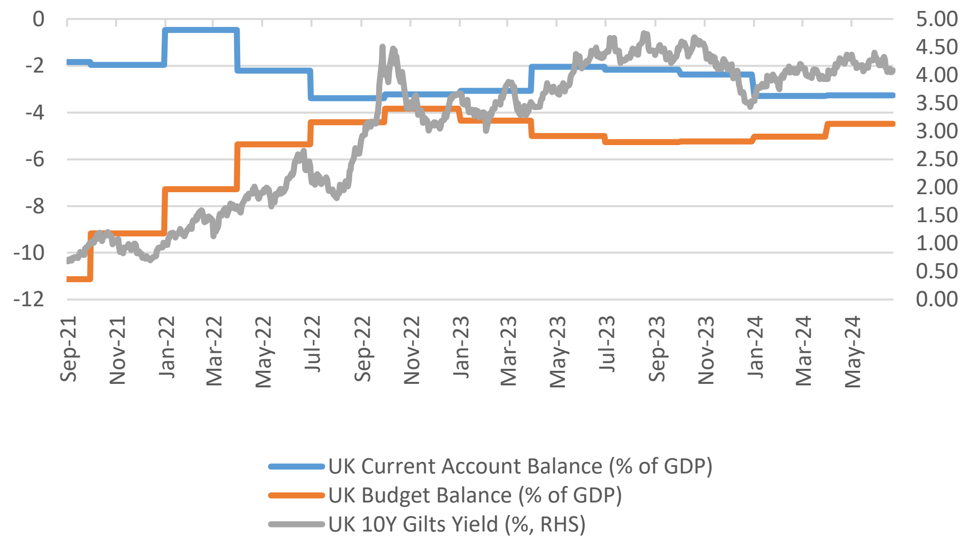
Key data/events: Jun Nationwide House Px, May Consumer Credit, May Mortgage Approvals, Jun F Mfg PMI (1 Jul), Jun BRC Shop Price Index (2 Jul), Jun Official Reserves Changes, Jun F Svcs/Comp PMI (3 Jul), Jun Construction PMI, Jun DMP Output/CPI Expectations, BOE Bank Liabilities, Credit Conditions Survey (4 Jul), UK Jobs Report (8 Jul), Jun BRC Like-for-Like (9 Jul), Jun RICS House Price Balance, May GDP, May Industrial/Manufacturing Production, May Trade Balance (11 Jul), Jul Rightmove House Prices (15 Jul), Jun CPI/RPI/PPI Inflation (17 Jul), May Average Weekly Earnings, May ILO Unemployment, Jun Claimaint Count/Jobless Claims (18 Jul), Jul Consumer Confidence, Jun Retail Sales, Jun Public Finances (19 Jul), Jul CBI Reported Sales (21 to 27 Jul), Jul P Mfg/Svcs/Composite PMI (24 Jul), Jun Consumer Credit, Jun Mortgage Approvals (29 Jul), Jul BRC Shop Price Index (30 Jul), Jul Nationwide House Px (30 Jul to 5 Aug).

Inflation Abates but Wage Growth Remains Robust



Source: Bloomberg, Maybank FX Research & Strategy

CA and Fiscal Deficits Have Shrunk, Gilts Remain Elevated



Source: Bloomberg, Maybank FX Research & Strategy

CHF: Unwilling to Intervene?

	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USD/CHF	0.8900 (--)	0.8800 (--)	0.8700 (--)	0.8700 (--)

No Change to Previous Forecasts

Motivation: We maintain our forecasts for USDCHF. We also maintain the trajectory of CHF appreciation against the USD on the belief that the USD will gradually fade alongside fading US exceptionalism and a global soft landing. SNB cut rates in Jun and this helped to alleviate the appreciating pressures on CHF that arose as a flight to safety on the snap French elections had some downward pressures on USDCHF. SNB seems to have a preference to allow for CHF weakness as it refrained from intervening in 1Q2024, where the CHF was broadly weaker against both USD and EUR.

Consensus forecasts suggest that the Swiss economy is likely to see moderate growth of +1.3% YoY in 2024 and +1.5% YoY in 2025. The chance of a recession over the next 12 months is 12.5% and 2023 GDP printed at 0.8% YoY. Other economic data showed that the Swiss economy, while not expected to tank is facing tepid growth prospects. The implication here is that the SNB could be more inclined to ease to support growth.

Latest inflation prints were benign. May CPI printed at 1.4% YoY (exp: 1.4%; prev: 1.4%), and was sequentially higher at 0.3% MoM (exp: 0.3%; prev 0.3%). Core CPI inflation was at 1.2% YoY (exp: 1.3%; prev: 1.2%). Benign inflation is largely in line with global trends where price pressures are on a broad downward trajectory. For Switzerland, the inflation target is between 0 to 2%. At its 20 Jun meeting, SNB cut rates to 1.25% (prev: 1.50%) given the significant decline in the inflation outlook for Switzerland. We see one more rate cut for SNB in 024 to 1.00% as inflation is expected to be on a broad retreat. On balance, we do still expect the CHF to appreciate against the USD over the course of the year as US exceptionalism fades and Fed cuts rates.

The key reason provided for the SNB pivot to rate cuts has been the relative strength of the CHF. Dec marked a key pivot in Swiss FX policy with interventions no longer being one-sided in favour of supporting CHF strength. One possible theory is that the surprise cut would help cap CHF strength and reduce the need for intervention to weaken the CHF as such interventions could bloat the SNB's already large balance sheet. SNB also raised the reserve requirement for domestic banks to 4% (from 2.5%) and this would lower their interest costs that they would need to pay to banks for deposits. Inflation is benign in Switzerland and is expected to remain benign with SNB's official forecasts at no higher than 1.5% through 2026. Historically the SNB has also not been too concerned with surprising the market, with the 50bps hike in 2022 and the 2015 unpegging of the CHF episodes that come to mind. Moreover, SNB declared interventions were at a negligible CHF0.3b in 1Q2024 after selling CHF22.7b in 4Q2023. CHF was broadly weaker against both USD and EUR in 1Q2024. This suggests that the SNB is willing to allow for CHF weakness after announcing that interventions would no longer be one-sided in favour of CHF strength.

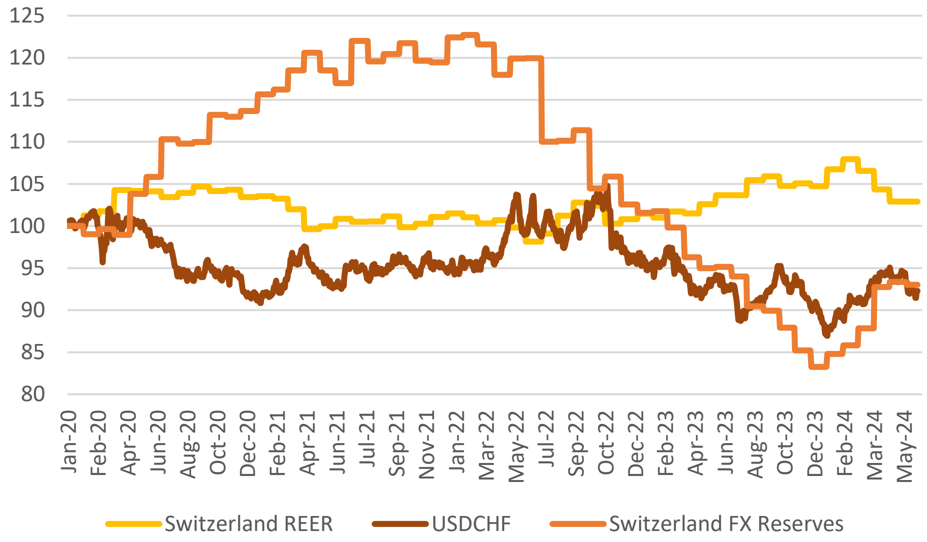
While the SNB is unlikely to be as interventionist as India in its management of the CHF, we do keenly observe for signs of SNB intervention to weaken the CHF. Given that inflation appears to be coming off and the downside risks to growth, we cannot rule out SNB easing via both weakening the CHF and reducing interest rates. We watch changes in SNB's balance sheet, official foreign reserves, and sight deposits closely for hints on SNB's future leanings. The declaration that intervention would no longer be one-sided in favour of CHF strength is also significant. We do maintain our view that the USD strength will gradually fade over the year amid fading US exceptionalism.

USDCHF traded within a 0.8827 to 0.9045 range in May, lower than the 0.8988 to 0.9224 range in May.. With its safe-haven status intact and as a higher yielding safe-haven than the JPY, we expect CHF resilience to remain in episodes of fear when risk sentiment suffers. We saw some elements of this in the flight to safety after snap French elections were called.

Risks Ahead: US exceptionalism could continue and that remains the main risk to our expectations for the trajectory of the CHF. Other risks include SNB intervening to moderate appreciation more than we expect or rising geopolitical tensions that could drive a quicker than expected pace of CHF appreciation. With the SNB on an easing bias and BOJ tightening, CHF replacing JPY as the global funding currency of choice could also present weakness. There are also potential risks for the CHF outlook if growth in the Eurozone fails to pick up as we expect. The EU is Switzerland's main trading partner and a slowdown in the Eurozone could therefore weigh on Swiss exports and the CHF.

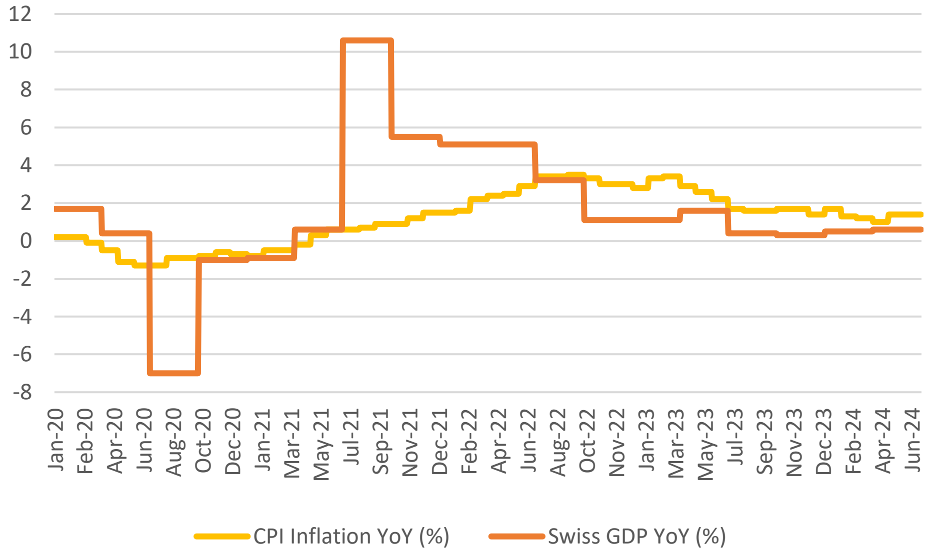
Key Data/Events: May Retail Sales, Jun Mfg PMI, Jun Svcs PMI (1 Jul), Jun Unemployment, Jun CPI (4 Jul), Jun Foreign Currency Reserves, Jun SECO Consumer Confidence (5 Jul), 2Q Real Estate Index (Family Homes) (9 Jul to 15 Jul), Jun Producer & Import Prices (15 Jul), Jun Exports/Imports (18 Jul), Jun Money Supply (22 Jul), Jul KOF Leading Indicator (30 Jul), Jul UBS Survey Expectations (31 Jul).

SNB Intervention Now Two-Way (Base = Jan 2020)



Source: Bloomberg, Maybank FX Research & Strategy

Inflation is Benign and Growth is Tepid



Source: Bloomberg, Maybank FX Research & Strategy

AUD: Continue to Accumulate on Dips

AUD/USD	3Q 2024	4Q 2024	1Q 2025	2Q 2025
	0.68 (--)	0.68 (--)	0.69 (--)	0.69 (--)

No change to Previous Forecasts

Motivation: We remain constructive on AUD and look for dips to accumulate into as we keep our view that RBA will be the last central bank to ease. Green transition endeavours, AI demand, nascent signs of global recovery have been spurring a surge in demand for Australia's base/precious metals – copper, iron ore and to a smaller extent, silver and gold. While Jun had seen some corrections in the prices of those metals, aforementioned themes still hold and that could continue to support the prices of these metals alongside AUD. Meanwhile, we monitor China's efforts to stabilize its property sector. New and used home prices have remained on the decline for months there now but AUD has been comparatively resilient. A large extent of negative China sentiment is likely in the price of AUD. Balance of risks could be skewed to the upside for the next few quarters as we expect any signs of stabilization in China's economy to be an additional boon to the AUD. As the global economy continues to bottom out, pro-cyclical AUD should benefit.

RBA Still Likely to be the Last DM CB to Cut. RBA kept cash target rate unchanged at 4.35% and retained its stance of not "ruling anything in or out". The statement that accompanied the stand-pat decision was skewed hawkish, noting that "inflation remains above target and **is proving persistent**". This was a notable shift from the phrase "inflation remains high and is falling more gradually than expected". So even though outlook remains "highly uncertain", with "consumption per capita on the decline", **risks are still to the upside in light of persistent inflation and the upward revisions to consumption data. AUD rose on the back of this hawkish statement.** That said, **the bar to hike is high** - Governor Bullock clarified that the Board is more alert to the upside risks due to a few data points but that **does not mean the that case for a rate hike is increasing**. She added that the 2Q CPI release would be important (due 31 Jul). One of the concluding sentences that had been kept in the policy statement – "the path of interest rates that will best ensure that inflation returns to target in a reasonable timeframe remains uncertain" underscores that even though getting inflation back to the 2-3% target is RBA's utmost priority, the central bank remains arguably neutral and simply does not want to pre-commit to any interest rate path from here. The central bank repeatedly warned of the risks that household consumption could recover more slowly than expected and that could weaken the labour market more considerably. Taken together, risks to inflation and growth are more balanced. Rate hikes are not likely. Rate cuts will come later. We hold the view that RBA would cut once in Nov this year, well after the tax cuts have taken effect in Jul and enough time has passed to assess its effects.

RBA is expected to remain the most reluctant central bank to start its easing cycle (compared to ECB, BoC, BoE). Core inflation for most G7 countries (US, Eurozone, UK, Canada and NZ) have been falling with the exception of the Eurozone which re-accelerated to 2.9%y/y for May vs. previous 2.7%. Even so, that is still much lower than trimmed mean CPI for Australia which picked pace to 4.1%y/y for Apr vs. 4.0% in the month prior. Strong inflation drivers include sticky rentals, insurance costs and higher education inflation. That is why based on the cash rate futures, markets do not look for much of a rate cut from RBA this year. As such, along with the narrowing AU-US yield differential (in discount), AUD has been able to remain relatively resilient against most the USD and other DM currencies.

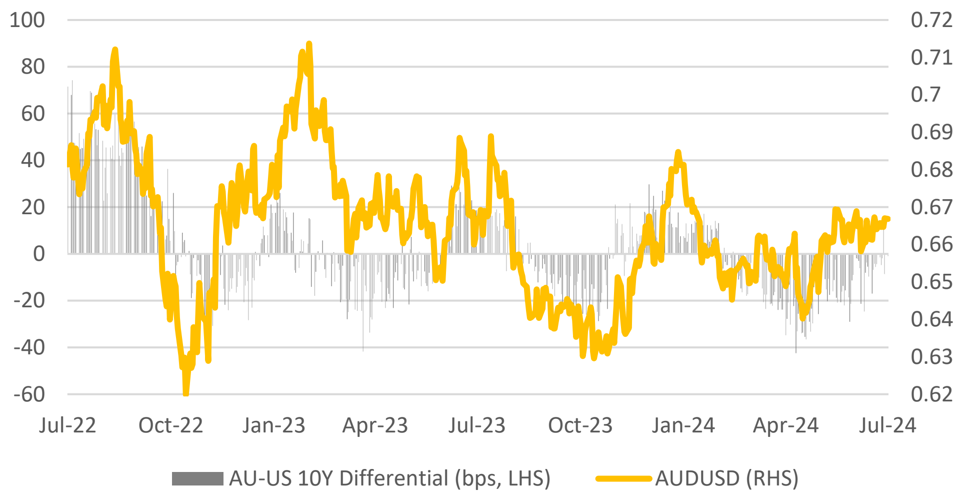
AUD has not had a good Jun thus far. Base metal prices (iron ore, copper) had fallen as optimism over China's property sector dissipate. That also negated the boost via the sentiment channel as US bourses continue to head higher. The EU parliamentary elections illuminated the risks of a more fragmented EU as the far right parties gained more support. As the US elections approach, more hawkish China rhetoric may also have negative spill-over effects on risk-sensitive AUD and that could crimp on AUD's recovery into 2H. We prefer to buy AUDNZD toward 1.0950 (target 1) and then at 1.10 (target 2) as economic data releases of late suggest that RBNZ could potentially face more risks of sooner rate cuts vs. RBA notwithstanding RBNZ's consistently hawkish posturing.

China's economic recovery remains uncertain. It is Australia's biggest trading partner and as such, always a relevant concern. We remain cautious on China's recovery given the lack of clarity on how the government can stabilize the real estate sector. While base metal prices remain on an upswing due to nascent global recovery, the real estate sector in China remains very much under pressure and a risk. We see two-way risks for the base metals as a result and that could also impart two-way volatility for the AUD. Any signs of further stabilization for the Chinese economy would be an additional boon for the AUD.

Risks Ahead: (1) US inflation and concomitant policy trajectory is key for USD direction and a stickier-than-expected US inflation could dampen AUD recovery. (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 and confidence are easing which could bring inflation lower. Should there be a sharper deterioration in confidence and labour market conditions, RBA could bring forward rate cut and that would be negative for the AUD.

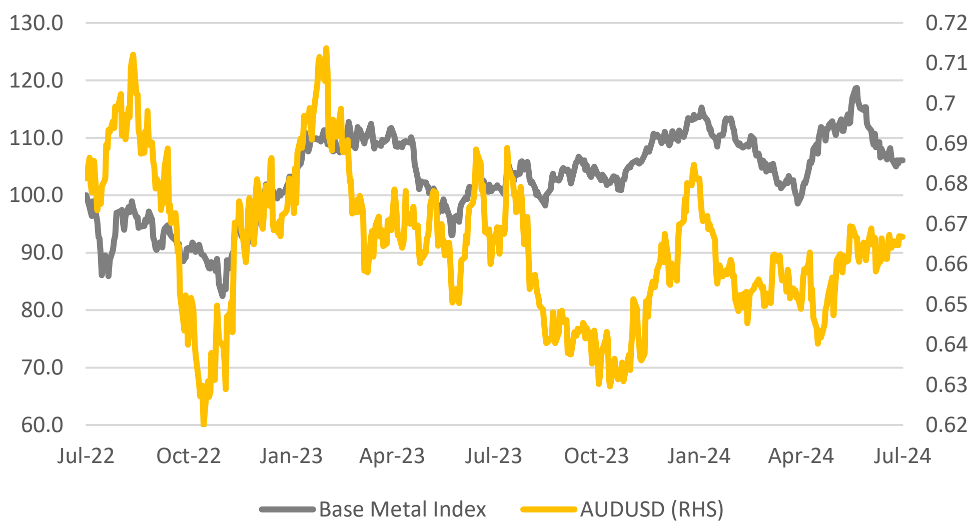
Key Data/Events: Judo Bank Jun Australia Mfg PMI, M-I Jun inflation, May retail sales [1 Jul], Minutes of the Jun RBA meeting [2 Jul], Services, Composite Jun PMI, May building approvals [3 Jul], May trade [4 Ju], May home loans [8 Jul], Jul Westpac consumer conf, Jun NAB business confidence [9 Jul], CBA Jun household spending [11 Jul], Jun labour report [18 Jul], prelim. Jul PMIs [24 Jul], Jun retail sales [26 Jul], Jun building approvals [30 Jul], 2Q CPI [31 Jul].

<u>AU-US Yield Differential Swings from Discount to Almost Premium Now..</u>



Source: Bloomberg, Maybank FX Research & Strategy

Recent Rebound in Base Metals (Ave of Iron ore and Copper) Lift AUD



Note: Base metal index consist of iron ore and copper prices weighted equally.
Source: Bloomberg, Maybank FX Research & Strategy

NZD: Bearish Risks on Possible RBNZ Pivot

	3Q 2024	4Q 2024	1Q 2025	2Q 2025
NZD/USD	0.62 (--)	0.62 (--)	0.63 (--)	0.63 (--)

No change to Previous Forecasts

Motivation: We see downside risks to the NZD in the near-term as we look for RBNZ to potentially bring rate cut guidance earlier from current 3Q 2025 to potentially 1Q 2025. Market's tendency to over-extrapolate could mean near-term downside risks to the NZD. That said, there are other factors that could cushion the NZD such as its terms of trade benefitting from rising dairy prices. While net migration has clearly peaked in 2023 and reverted back to pre-Covid average, positive net migration of around 5500/month this year should continue to support domestic demand. Hawkish RBNZ, plausible global recovery and upcoming Fed cuts between Sep-Dec this year should continue to lift the NZDUSD towards 0.63 in twelve months.

RBNZ Had Been Most Hawkish Because of its Uniquely Elevated Services Inflation. RBNZ has been one hawkish central bank, deferring the timing of the first cut further into 3Q 2025 at its May policy meeting. That resulted in a policy divergence that worked in the favour of the NZD. It does not help that their only mandate is to get inflation under control unlike most other central banks which also has full employment as one of their other key mandates. A recent analytical note (Jun 2024) released by RBNZ highlighted how services inflation for New Zealand, based on its 1Q CPI report, is higher than abroad (ie. Australia, Eurozone and even the US). "While NZ appears to be seeing a more pronounced economic slowdown than elsewhere, the level of services inflation is most comparable to the US, which has the strongest cyclical macroeconomic conditions. This implies that differences in price-and wage setting behaviour in New Zealand are resulting in a longer lag for weaker domestic demand to feed through to lower services inflation." This somewhat justifies why RBNZ has been keeping its OCR at 5.50% thus far. Regardless of this finding, latest numbers suggest the next inflation prints could potentially bring forward rate cut expectations and NZD lower vs. its DM peers

Surveys show Services Show Signs of Weakening. RBNZ Chief Economic Conway mentioned the findings on services inflation in his speech on 19 Jun. He also mentioned that "emerging spare capacity in the economy will feed through into lower domestically generated inflation". Well, based on more recent data, the drop in performance of services index for May as well as weaker pricing intentions and wages outlook suggest that the pass-through of weak demand to inflation pressures could be happening already. There could very well be a pivot in RBNZ policy stance in the next quarter. Markets have priced in 90% of a rate cut in the Nov meeting. For a while now, RBNZ has been surprising to the hawkish side. **There is a good chance that the next shift is a dovish one on 10 Jul and that would bring NZD lower.**

GDT at 20-Month High. Global dairy auction average price has been rather elevated and the last auction on the 19 Jun saw the clearing price rose by another 1.8% to $3892**, a 20-month high.** New Zealand's trade balance swung from a deficit of –NZ3mn in Apr to a surplus of +NZD204mn. This takes the cumulative 12m trade deficit to be -NZD10.05bn from previous NZD10.2bn.

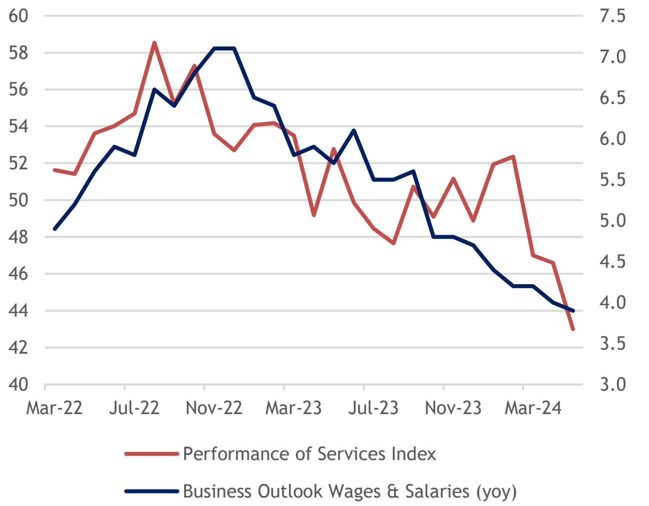
Recall that Budget 2024/2025 published on 30 May offered tax cuts for middle and low income households via higher income brackets for higher tax rates. The tax package amounts to NZ14.7bn. There will also be tax credits for some households and subsidies for early childhood education. Treasury projects a wider deficit as a result t NZD13.4bn next year and a return to budget only in 2028, a year later than previously expected. **Growth forecasts were downgraded for FY2023/24 (to -0.2%) and beyond. As such, tax revenues are also expected to fall, contributing to the wider deficit and later return to fiscal surplus. The government operating allowance is cut and thousands of public sector jobs are expected to be made redundant.**

Risks Ahead: (1) 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. (2) Markets' have pared rate cut expectations considerably. Any downside risks to NZ data (especially NZ inflation, labour market) could bring forward rate cut expectations and this risk factor is at risk of coming to fruition on 10 Jul.

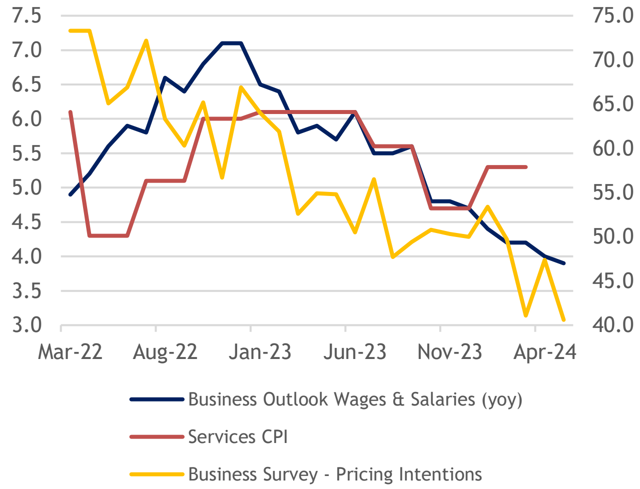
Key Data/Events: May building permits [2 Jul], ANZ Jun commodity price, CoreLogic House for Jun [3 Jul], Net Migration for May, RBNZ Policy decision [10 Jul], REINZ house sales [10-14 Jul], BusinessNZ Mfg PMI for Jun [12 Jul], Performance services index for Jun [15 Jul], 2Q CPI [17 Jul], Jun exports {22 Jul}, ANZ consumer confidence for Jul [26 Jul].

New Zealand's Inflation Expectations on the Decline

NZ Performance of Services index as well as Wages & Salaries Outlook Have Fallen

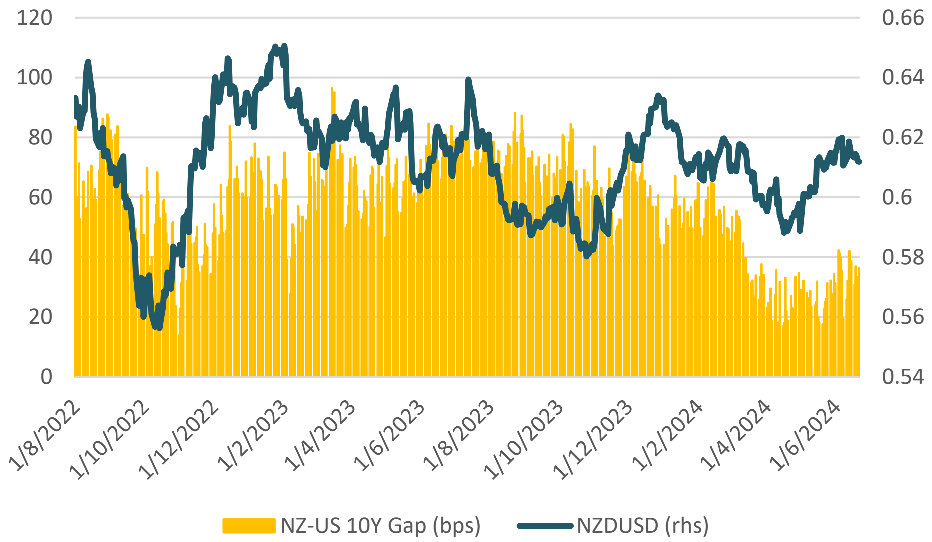


NZ Services CPI Should Decline Soon



Source: Macrobond, BusinessNZ, NZ Statistics, FX Research & Strategy

NZ-US 10y yield differential Lift NZDUSD Due to Hawkish RBNZ



Source: Bloomberg, Maybank FX Research & Strategy

CAD: The Next Cut in Oct

USD/CAD	3Q 2024	4Q 2024	1Q 2025	2Q 2025
	1.3600 (1.3500)	1.3500 (1.3400)	1.3500 (1.3300)	1.3400 (1.3200)

Previous Forecasts in Parentheses

Motivation: BoC cut the overnight lending rate by 25bps on 5 Jun but CAD was not the worst performer to date. Key reason being that there was a possibility that this rate cut could be deferred to Jul and that suggests that BoC wants to be more data-dependent and that the next rate cut may not be so quick. That goes in line with our view that BoC could turn out to be more cautious on its easing cycle than what markets had hoped for. Even as Governor Macklem paints a picture of easing wage growth, we keep our view that BoC will hold its policy rate at 4.75% for Jul and Sep before moving again in Oct, its final act for 2024.

BoC Wants to be Data-Dependent. BoC was one of the first to start easing its monetary policy when the 25bps cut was delivered on the 5th Jun to take the overnight lending rate to 4.75%. In its Summary of Deliberations (aka the Minutes) of the Jun meeting. A few of the deliberations include the timing of the first cut as there were initial considerations to defer the cut to Jul. Another deliberation was on the future rate path and it was agreed that policy easing is likely to be gradual as the fall of inflation is also projected to be gradual. Much of what comes next in terms of policy action remains data dependent. There were even some concerns that progress towards the 2% inflation target may stall because of the recent pick-up in business confidence.

Firmer-than-expected inflation diminishes Jul cut bets. May CPI turned out to be stronger than expected. In our piece published 20 Jun, we had warned that rate cut bets for Jul was aggressive. The upside surprise of the May CPI which accelerated to 2.9%y/y from previous 2.7% (vs. expectations of 2.6%) swung expectations for a cut in Jul from north of 60% to a mere 16% as of 26 Jun. Driving inflation at home is faster services inflation at 4.6%y/y vs. previous 4.2% (due to cellular services, travel tours, rent and air transportation). Mortgage interest costs rose 23%y/y and rent also rose 8.9%. Goods inflation was steady at 1.0%. On a seasonal adjusted basis, CPI rose 0.3%m/m in May. **Bumpy inflation trends suggest that BoC would prefer to hold the overnight lending rate for Jul and Sep to assess the effect of its first cut on 5 Jun before moving again in Oct.**

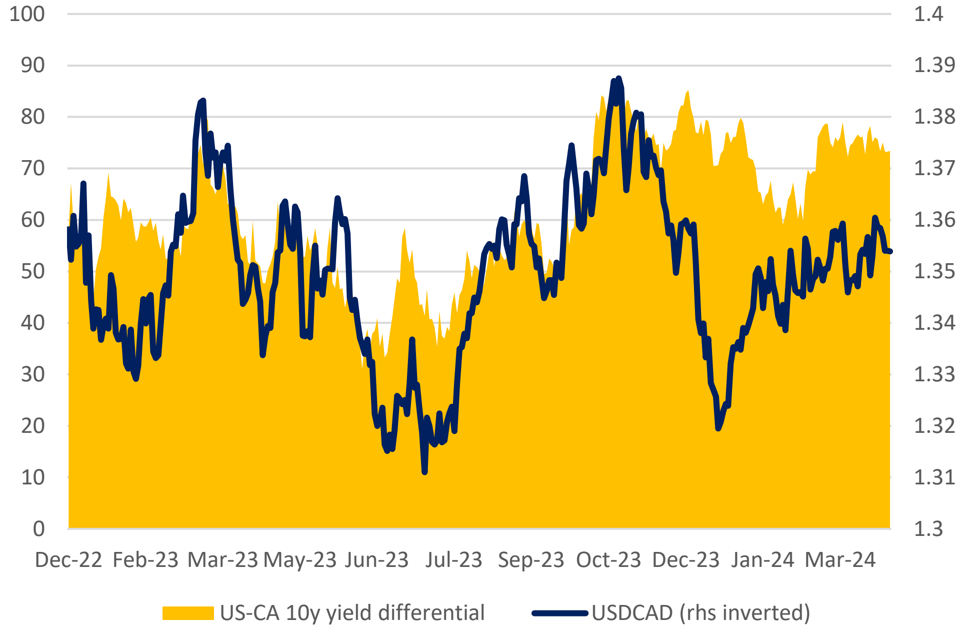
There is strong fundamental reason for markets' initial aggressiveness in pricing cuts in light of softer-than-expected 1Q GDP, rising unemployment rate (the last at 6.2% is already higher than pre-Covid levels). However, data has been a mixed bag that probably keeps the central bank on a gradual easing stance 1) wage growth is still elevated at 5.2%y/y vs. previous 4.8%.

We have been holding the view that oil would be of little help to CAD in the near-term. Oil swings tend to amplify the effects of market sentiment on the CAD. However, in times of supply shocks, oil price increase does not really boost CAD as much anymore (especially against the USD) and CAD tends to be more risk-sensitive in those risk-off episodes. The recent geopolitical events in the Middle-East validated our viewpoint that we have held in this space – oil spikes in this case was negative for CAD because USD benefits as a safe-haven as well as a net oil exporter. However, as global recovery starts to gain better traction and Canada's growth start to bottom, we expect the rise of crude oil prices to support 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) An escalation of middle-east conflict could boost the USDCAD as it had before as supply-induced higher oil prices tend to be more negative for risk sentiment and concomitantly positive for USD. (4) A tail risk is that Canada could start to consider a Chinese EV tariff. That is being considered at this point in order to be aligned with the US foreign policy. FinMin Chrystia Freeland said that China cannot dump cheap goods in Canada, noting "overcapacity and over supply" in specific sectors. Ontorio Premier Dough Ford urged the federal government to join other nations in enacting tariffs on Chinese-manufactured EVs. That said, the President of the Global Automakers of Canada Adams warned that Canada being smaller than the US could be at a bigger risk of retaliation from China.

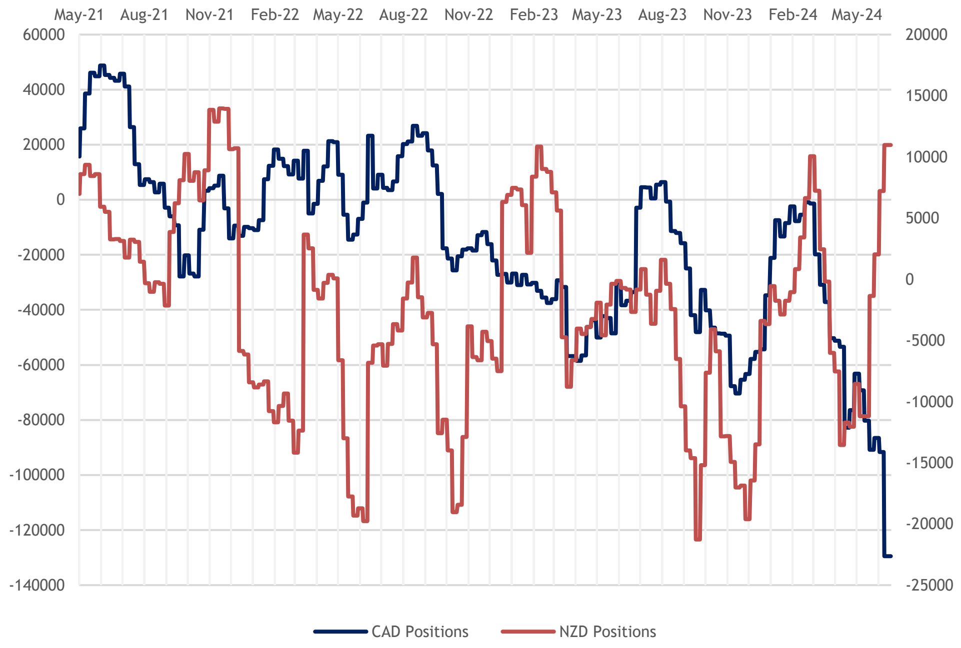
Key Data/Events: Apr GDP [28 Jun], Jun CFIB Barometer [27 Jun], May trade [3 Jul], Services PMI [4 Jul], Jun labour [5 Jul], 2Q BoC business outlook future sales, overall business outlook survey [15 Jul], May retail sales [19 Jul], BoC Policy decision, Jul CFIB business barometer [25 Jul], May GDP [31 Jul].

Wide US-CA Yield Differential Dominates USDCAD Supported on Dips



Source: Bloomberg, Maybank FX Research & Strategy

Net Short CAD Positions at Multi-Year High, A Contrast to NZD's Net Long, at Year High



Source: Bloomberg, Maybank FX Research & Strategy

JPY: Currency to Remain Weak Amid "Slow" BOJ

USD/JPY	3Q 2024	4Q 2024	1Q 2025	2Q 2025
	165.00 (155.00)	160.00 (152.00)	152.00 (150.00)	150.00 (--)

Previous Forecasts in Parentheses

Motivation: We raise our USDJPY forecasts as we expect the pair to trade at higher levels than we had previously expected given that market positioning for the JPY is likely to be even more bearish than we had foreseen. With the BOJ disappointing by not slashing bond purchase at its recent meeting, we believe that the market is likely to feel more confident in extending their short positions. We also continue to see that the BOJ is likely to only tighten at a slow pace whilst the Fed easing is similarly likely to ease gradually only. The JPY's carry funding position is therefore also going to stay very attractive to investors out there, especially as a number high yielders may choose to either keep rates elevated or even consider another hike. In the near term, the risk of intervention is certainly high as we move towards the 165.00 mark but we also note that such a move only gives temporary support to the JPY. The less favourable fundamental situation into 3Q 2024 would keep the pressure on the currency. However, we still continue to believe that the pair would eventually edge downwards overtime as the Fed and other DM/EM central banks begin to ease rates.

The BOJ's tightening path is likely to be slow, which in turn keeps the pressure on the currency. At the last meeting, the BOJ surprised the market by not actually making an immediate move to slash the level of bond purchases. Instead, they put it off to decide at the Jul meeting on a "detailed plan for the reduction of its purchase amount during the next one to two years or so". The central bank said they would be holding a "Bond Market Group" meeting that would be with commercial banks group, securities firms group and buy-side groups to ask the opinions of these participants on the future conduct of the bank's JGB's purchases. Whilst Ueda has emphasized that a Jul hike is theoretically possible and that a hike and bond purchase reduction are two separate issues, we do not think the BOJ would undertake both actions simultaneously. We think more likely that they would announce the slashing of bond purchases in Jul meeting whilst a hike of 25bps from 0% (or 15bps from 0.1%) could happen in Oct 2024 instead. The decline in core core inflation recently too is also reducing the likelihood of a hike so soon. We think that they will need a bit more time to watch if wage data can keep climbing (following the successful Spring wage negotiation) and that inflation does not fall off too much.

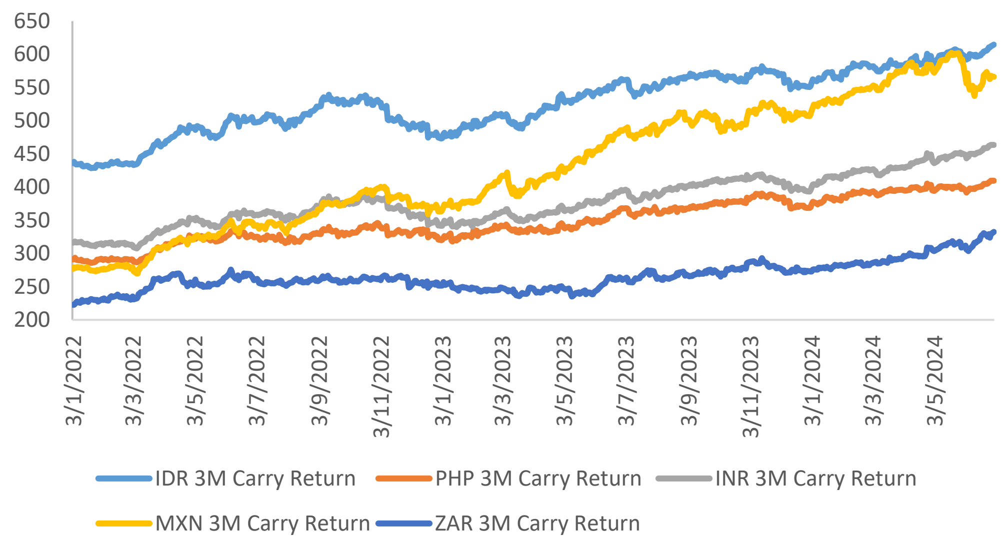
The JPY's carry funding position is likely to remain attractive for investors for a while, which would continue to weigh on the JPY. We do note that EM jitteriness in the last few months given the somewhat uncertain results in the Mexico, India and South Africa had led to an unwinding in the JPY carry trade, boosting the JPY. However, that could continue to dissipate as the election uncertainty fades in these countries and taking long positions in the high yielders with JPY funding is likely to remain strong. For that matter, we note that the carry return when going long a number of EM currencies (such as the IDR) with JPY funding has actually been on the rise. A number of these EM central banks we believe may also keep rates elevated for a while or even consider hikes (such as BI), which can in turn make the carry return either more attractive or at least keep it high.

We believe that there is an increased risk of near term intervention, which would only be of temporary support for the JPY. There are few conditions which are making the possibility of an intervention more likely. This includes firstly that the USDJPY would stand to have moved up by about 4-5% within a month from around mid-Jun when it had been fairly stable. In the past, interventions occurred when the pair had moved up by that amount within a month. At the same time, volatility has also increased for the pair, which marks another condition that could lead to intervention. However, we see that intervention only provides temporary support and with the fundamental situation looking unfavourable for the coming months, the USDJPY could still head even higher after any drop following intervention. For that matter, the USDJPY has continued to climb higher even after the last intervention at around end Apr and early May. We also believe that the authorities are committed to maintain a free floating exchange rate regime and that constant intervention can risk this being violated.

Risks Ahead: Further upside risks for the USDJPY includes the economy being weak and inflation falling below target at 2.0%, which would make it challenging for the BOJ to adjust rates any further. Another risk is inflation in the US remaining too sticky and the Fed hiking again. However, on the flipside, downside risks for the USDJPY include US economic data cooling much faster, leading to the Fed slashing at a quicker pace than 50bps.

Key Data/Events: 2Q Tankan large/small mfg/non-mfg index (1 Jul), Jun consumer confidence (1 Jul), Jun monetary base (2 Jul), May household spending (5 Jul), May P leading/coincident index (5 Jul), May labor cash earnings (8 Jul), May BoP CA balance (8 Jul), May BoP trade balance (8 Jul), Jun bank lending (8 Jul), Jun eco watchers survey (8 Jul), Jun M3/M2 (9 Jul), Jun P machine tool orders (9 Jul), Jun PPI (10 Jul), May core machine orders (11 Jul), May capacity utilization (12 Jul), May tertiary industry index (16 Jul), Jun nationwide/Tokyo dept store sales (16 – 22 Jul), Jun trade data (18 Jul), Jun CPI (19 Jul), Jul P Jibun Bank PMI composite/mfg/services (24 Jul), Jun PPI services (25 Jul), Jul Tokyo CPI (26 Jul), Jun jobless rate (30 Jul), Jun job-to-applicant ratio (30 Jul), Jun P IP (31 Jul), Jun retail sales (31 Jul), Jun dept store, supermarket sales (31 Jul), Jun housing starts (31 Jul), Jul consumer confidence index (31 Jul) and BOJ policy decision (31 Jul).

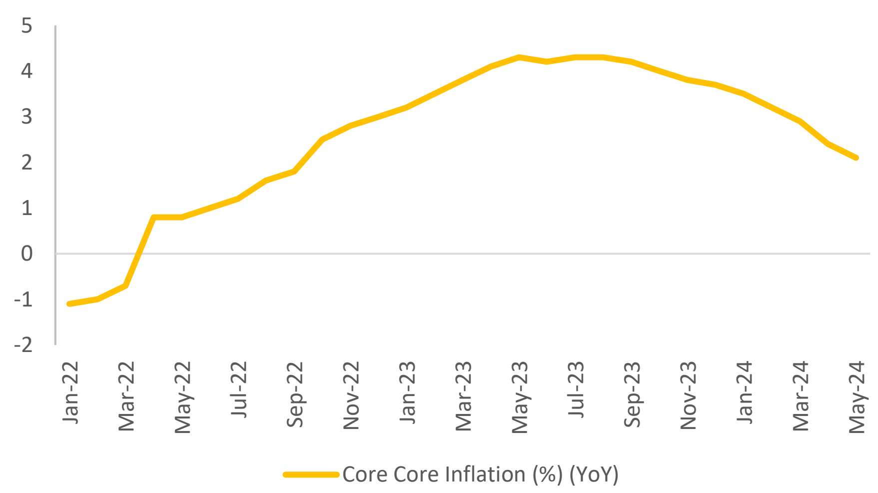
Carry Returns with JPY Funding Continues to Increase



Source: Bloomberg, Maybank FX Research & Strategy

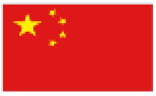
Note: Carry is reflected as a result indexed to 1 Jan 1999 i.e. a reading of 100 implies that carry is identical to carry on 1 Jan 1999 and 200 implies a carry of 2 times carry on 1 Jan 1999. Computed based on borrowing JPY placing it in at the xxx three month deposit, and selling IDR in three months based on the forward rates on the day to unwind.

BOJ May Consider Hiking at a Later Date (Oct 2024 in our view) Amid the Substantial Slowing in Core Core Inflation



Source: Macrobond, Maybank FX Research & Strategy

RMB: Slight Tweaks to FX Stance, Third Plenum Dates Set



	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USD/CNY	**7.30**	**7.28**	**7.28**	**7.25**
	(7.25)	**(7.25)**	**(7.25)**	**(--)**

Previous Forecasts in Parentheses

Motivation: We raised our USDCNY forecast a tad higher in light of a slight shift in FX policy that we observed in recent weeks. PBoC seems increasingly comfortable with weaker CNY fixes every other day, alongside with the break of the 160-resistance by USDJPY towards the end of the quarter. While there is certainly no major devaluation of the yuan, **sticky inflation environment seen in most parts of the world (ex China/Japan) seem to have certainly added pressure on lower yielders such as the JPY and the CNY.** Thus far this year, PBoC has been keeping USDCNY very stable in the hope that foreign rates will turn more benign when the Fed starts to cut. However, the higher for longer rate environment has likely forced PBoC to tweak its strategy on FX management to one that is allowing more room for weakness as this environment of higher-for-longer could potentially last a few more quarters.

Shift in PBoC FX stance in Sticky inflation Environment. The USDCNY has been held in a pseudo-peg for a while now via the use of the daily USDCNY fix. However, a subtle change has been detected more recently. In Apr and May, the USDCNY fix was raised by an average of 5.1 pips/day and 2.2 pips/day respectively. That seem to have shifted to around 9 pips/day in Jun with the 7-day moving averages rising to around 10-17pips in the last week of June. We see some downside risks to the yuan against the USD because of this shift in FX stance of PBoC. As a result, the USDCNY has been raised to mid-7.12 by end-Jun, allowing the USDCNY to end the month at 7.2670. The reason in our view is that PBoC has finally come to terms with the higher-for-longer environment and with the yield gap likely to remain unfavourable against the yuan, is willing to allow more weakness in the yuan. This higher for longer environment does not mean that rate cuts are not likely. Along with the start of easing cycles for a few G7 central banks, it is become clearer that sticky inflation could keep central bankers on a very gradual rate route. That is why even if the Fed cuts as early as from Sep (per our house view of possibility of cuts from Sep onwards), there is some risk that US rates may ease. We raised our forecasts higher for USDCNY in particular to factor in the shift in the PBOC FX stance as we see a risk that USDCNY may break above the 7.30 before a more discernible slowdown in US growth, inflation and a rebound in growth in other DM countries could soften the USD.

Outflow Could Still Weigh. Net forex purchase was reported to be CNY101.8bn by banks on behalf of clients, a smaller print than the net CNY260.3bn recorded for Apr. Ratio of FX sales to foreign-related FX payments dropped to 68.6% for May vs. 70.4% in Apr. In addition, FX settlement ratio rose a tad to 60.8% from 58.4% in the month prior. This suggests that exporters/corporates are converting a slightly higher portion of their foreign exchange receipts to CNY, albeit still well below 2023 average of 66%. FX sales ratio has also dropped a tad to 68.6% from 70.4% in the month prior. Corporates are also buying a tad less foreign currency in anticipation of their forex payment requirements. Improvements are small but corporates' sentiments on yuan still continue to remain rather weak given the divergence of growth/inflation/monetary policy between China and most parts of the world.

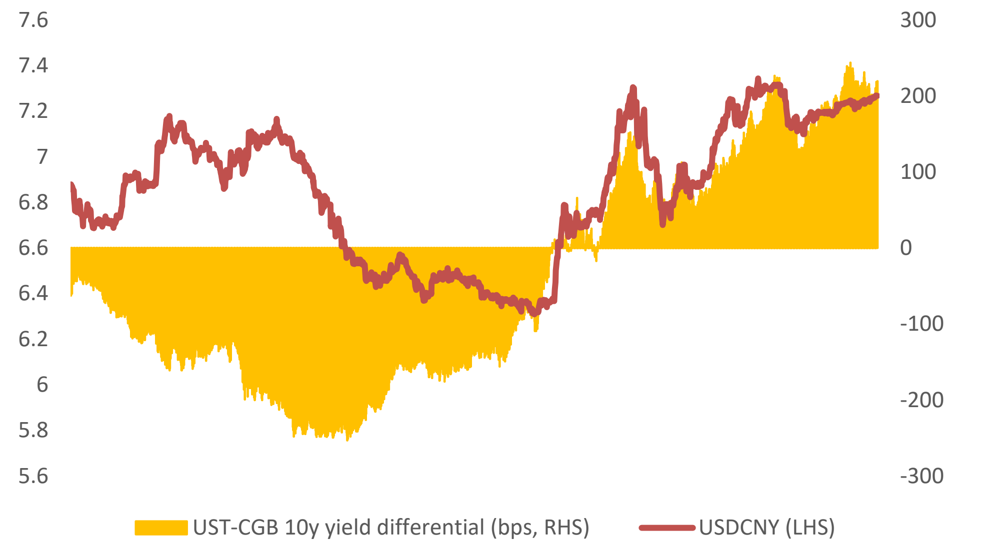
Monetary Policy Reforms in the Making. China's monetary policy could be undergoing a structural shift 1) Role of MLF is downplayed; 2) PBoC to trade government bonds in the secondary market. With regards to the latter, bond trading could be included as part of liquidity management. Interest rate reform is also being considered - PBoC hinted that MLF may not play a significant role in its toolkit in the future and the central bank prefers a "short-term interest rate". Thus far, monetary policy has been arguably fragmented with MLF cut also (more often than not) accompanied with cuts in the 7-day reverse repo rates and the use of various lending facilities and RRRs. PBoC wants to "simplify" policy and make -day reverse repo could ultimately be the main policy rate to 1) directly influence the "cost of funding for banks". 2) provide a stronger market signal. Separately, Pan Gongsheng was also cited saying that the central bank wants a more accommodative monetary policy whilst enhancing "counter-cyclical" adjustments to support economic recovery. We do not expect much interest rate cut near-term, given PBoC's fixation with the yuan's decline.

Some of the risks we identified in the past that continue to pan out some extent. 1) Prices of new and used homes continue to fall In May. 2) Capital outflow continues amid weak business/consumer confidence and yuan sentiment. 3) Rising trade tensions vs. the US/EU/CA but this time the pressure is being borne by the yuan only. Biden has re-imposed some tariffs on $18bn on Chinese goods including EVs, batteries, semiconductors, steel, etc.

The rest of the G7 communique critiqued China's overproduction and accused China of dumping cheap goods. There were even hints of collective action. All these factors could be at risk of worsening from this point and as such still pose a drag on the yuan sentiment.

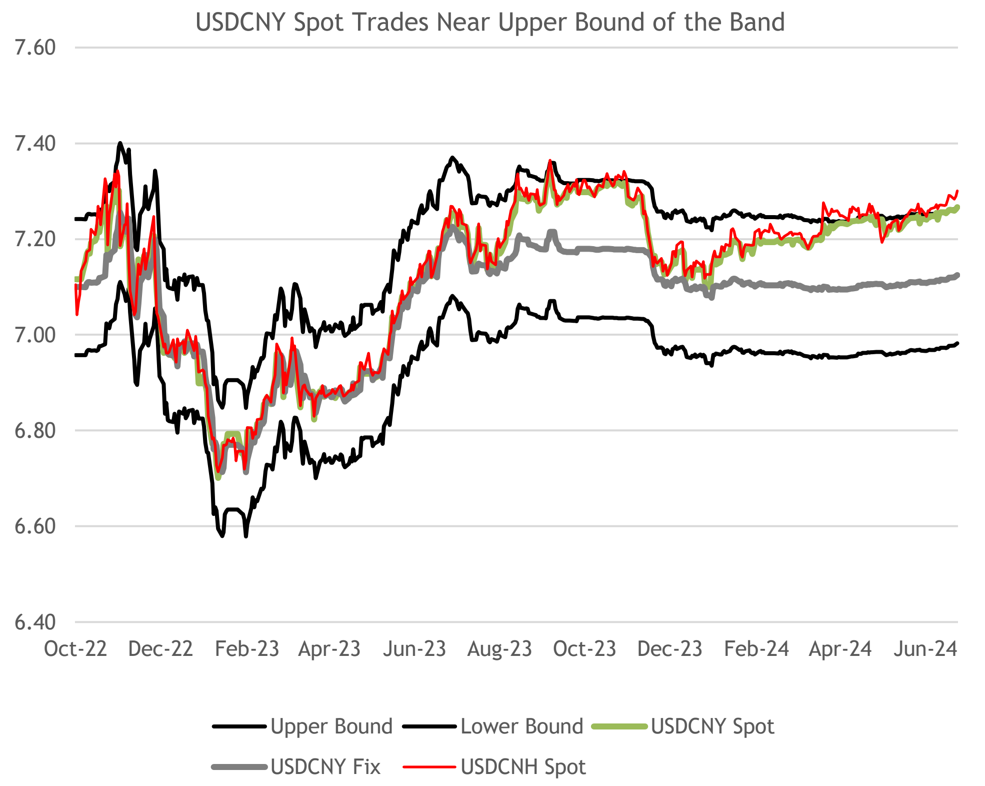
Key Data/Events: Caixin Services PMI (3 Jul), Foreign reserves (7 Jul), Jun credit data (9-15 Jul), PPI, CPI for Jun (10 Jun), Jun trade (12 Jun), 1Y medium term lending facility rate (15 Jul), Third Plenum (15-18 Jul), Jun activity data + 2QGDP (15 Jul), FX Net settlement on behalf of clients (19 Jul), 1Y 5Y LPR (22 Jul), industrial profits for Jun (27 Jul), Official Mfg, Non-Mfg PMI for Jul (31 Jul).

<u>**USDCNY on the Rise as US-CH Yield Gap Remains Unfavourable**</u>



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

<u>**USDCNY Spot Trades Near Upper Bound of the Band**</u>



Source: Maybank FX Research & Strategy

KRW: Near Term Pressures Persist

	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USD/KRW	1360 (1330)	1340 (1310)	1320 (1290)	1310 (1280)

Previous Forecasts in Parentheses

Motivation: We revise our USDKRW forecasts higher for the next four quarters in line with our broader view for USD to be better supported against Asian and specifically North Asian currencies. KRW has been pressured by USD being stronger against North Asians (JPY, CNY). As Korean equities forge fresh highs, hedging interest could also be weighing on the KRW as end-investors could be looking to mitigate their KRW exposures. Nevertheless, we maintain a positive outlook and appreciation trajectory on KRW and see the recovery of the chip cycle and electronics demand as a key driver for KRW path for the four quarters ahead. The global chip cycle has bottomed 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. Given our broad expectations for a global soft-landing and fading US exceptionalism a high beta currency like the KRW should also outperform.

Economic growth is picking up in South Korea. 1QP GDP moderated slightly to 3.3% YoY (exp: 3.4%; prev: 3.4%) and was in line 1.3% SA QoQ (exp: 1.3%; prev: 1.3%). Despite the slight moderation from the advance estimate, this growth print is still positive and should be supportive of the KRW. Additionally, further 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. However, a small dip to chip production and exports could be partly culpable for the near-term drags on KRW. Moreover, the exuberance over AI could be fading a little and when combined with other factors such as weaker North Asians could contribute to KRW weakness. Growth tends to be a factor that could take a longer time to play out and as such pressures on the KRW could persist.

May inflation prints showed that inflation was coming off with headline at 2.7% YoY (exp: 2.8%; 2.9%) and core at 2.2% YoY (exp: 2.2%; prev: 2.3%). Taken together, growth and inflation prints should support the BOK holding its policy rate steady at 3.50% at the next meeting in Jul. At the most recent May meeting, BOK stood pat despite inflation being on a disinflationary trajectory. BOK remained concerned that the path to inflation could be bumpy and uncertain and specifically cited exchange rates as a concern. 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 part of 2024. Past episodes have also shown that BOK has tended to hold for an extended period before pivoting to a cut. As of now, we suggest that BOK could cut two times in 2024, after the Fed has cut or provided more clarity on when it might cut. In the absence of that, pressure on the KRW from cutting before the Fed would be a likely consideration for BOK.

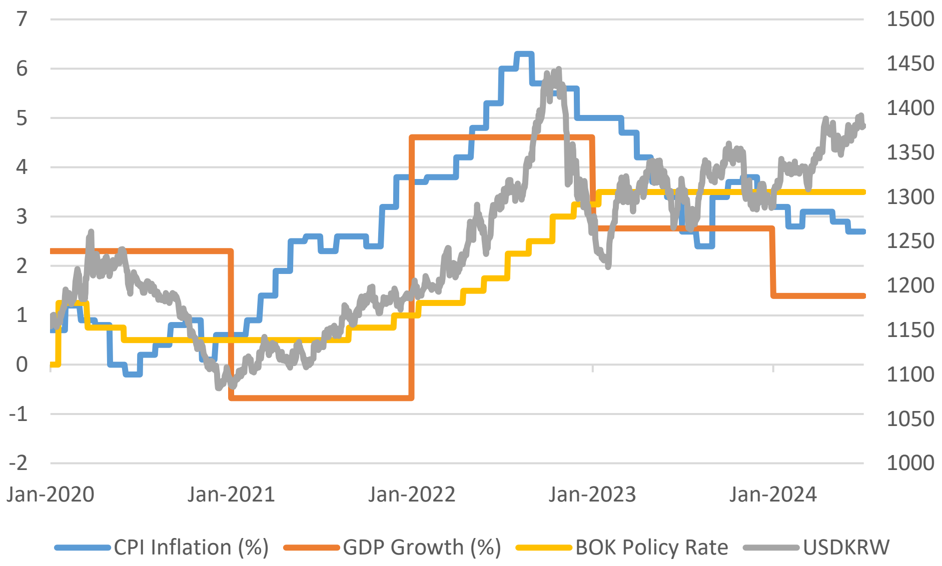
KRW has continued its underperformance and has largely been tracking the CNY and JPY weaker**.** Rate differentials are also not in favour of the KRW and there have been episodes of supposed intervention for the KRW over this period of stress, showing that pressures on the currency are a concern of the authorities. For this reason, we do suggest that BOK could hold off rate cuts for longer. Moreover, economic growth is healthy and they remain worried about inflation, so not cutting rates would still be a defensible position.

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 despite having met the quantitative criteria for inclusion. These are namely (i) market size of at least US$50b of outstanding issuances, (ii) sovereign credit rating of at least A- (S&P) and A3 (Moody's). They have however not met the qualitative requirement for investor accessibility. This is likely due to both capital controls and non-resident tax burden. There is already some preliminary work done to meet the qualitative requirements. According to Finance Minister Choo, an omnibus account is to be opened at an ICSD by Jun 2024, which should facilitate better investor access and anonymity. The government will consider introducing night trading of 3Y and 10Y bond futures to enable better risk management. It seems more likely that Sep-24 will be the entry date with the FTSE Russell semi-annual review conducted in Mar and Sep every year. 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.

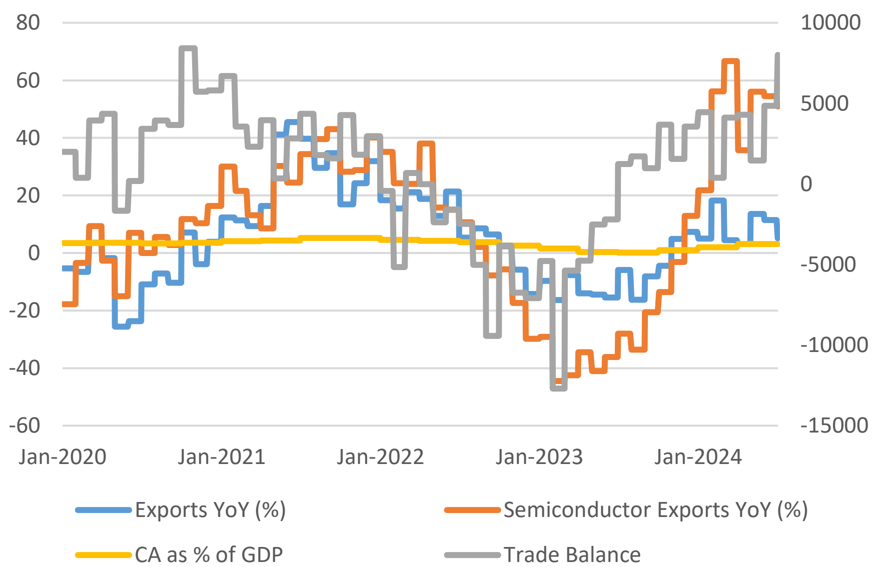
Risks Ahead: Risks to our KRW outlook would include issues with debt and potential meltdown of the property sector, although at this stage signs do not point to wider contagion that could weigh on the KRW. In addition, the AI/chip recovery theme could disappoint and this would also threaten our positive 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: Jun Trade Balance, Exports/Imports, Jun S&P Mfg PMI (1 Jul), Jun CPI Inflation (2 Jul), Jun FX Reserves (3 Jul) , May Goods/Current Account Balance (5 Jul), Jun Bank Lending to Household (9 Jul), Jun Unemployment rate (10 Jul), **BOK Policy Decision** (11 Jul), May Money Supply (15 Jul), Jun Import/Export Price (16 Jul), Jun Exports/Imports 20 Days, (22 Jul), Jun PPI Inflation (23 Jul), Jun Consumer Confidence (24 Jul), Jul Business Survey Mfg/Non-Mfg, 2Q A GDP (25 Jul), Jun Retail Sales (29 Jul), Jun Industrial Production, Jun Cyclical Leading Index (31 Jul).

QoQ Growth Moderates and Inflation Comes Off (Albeit Bumpy)



Trade Balance Remains Healthy Amid Moderation in Semiconductor Exports



Source: Bloomberg, Maybank FX Research & Strategy

SGD: Resilient Amid Bumpy Moves

USD/SGD	3Q 2024	4Q 2024	1Q 2025	2Q 2025
	1.3450	1.3350	1.3300	1.3300
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain our USDSGD forecasts and the trajectory for the pair to come off gradually i.e. for SGD to strengthen against the USD gradually for the four quarters ahead. This is based on the belief that SGD will continue to stay resilient as MAS stands pat on policy and as the Fed cuts rates amid fading US exceptionalism. 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 basket constituents more than the SGD. SGD could also benefit from a manufacturing recovery that could be driven by the broader AI/tech upswing narrative.

As widely expected, MAS kept policy settings unchanged in Apr and continued to see its current appreciation of the SGDNEER as appropriate in ensuring medium term price stability. MAS is likely to stand pat in Jul, given that there is no rush to ease policy amid an export-driven economic recovery and elevated inflation. The current stance should still be seen as appropriate for medium term price stability. Our economists see MAS standing pat in 2024 and maintain their inflation forecasts at 2.8% (core) and 2.6% (headline) in 2024. Our inference from Chief Economist Robinson's speech on monetary policy is that MAS may not be able to ease quite as easily as an interest rate regime would, even if inflation targets are met. SGDNEER remains firm and trades at +1.70% above the mid-point on our model, and is likely to remain within the +1.50% to 2.00% region in Jul.

USDSGD currently trades around our forecasts (2Q: 1.3500) and hovers around 1.3540 levels. SGDNEER has remained firm on the upper end of the band following MAS' successive stand pats and Singapore's robust macro fundamentals and unique exchange rate policy, which results in SG rates being highly correlated with US rates, maintained the resilience of the SGDNEER against a narrative that US rates would remain higher for longer. We think that eventual 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.

Singapore's Budget 2024 catered for more balanced spending providing broad support to corporates and households, the first installment of the Forward Singapore programmes. A small fiscal surplus of 0.1% of GDP (S$0.78b) is projected for FY24, the first planned surplus in 7 years. FY23 deficit came in at 0.5% of GDP (S$36b), due to the S$7.5bn Majulah Package top up. This was despite higher-than-expected revenues and was below our economists' expectations of a surplus. Our economists maintain the GDP forecast at 2.2% in 2024 and 2.1% in 2025 and expect the longer-term schemes in the budget to improve productivity and raise social inclusivity, boosting long term growth.

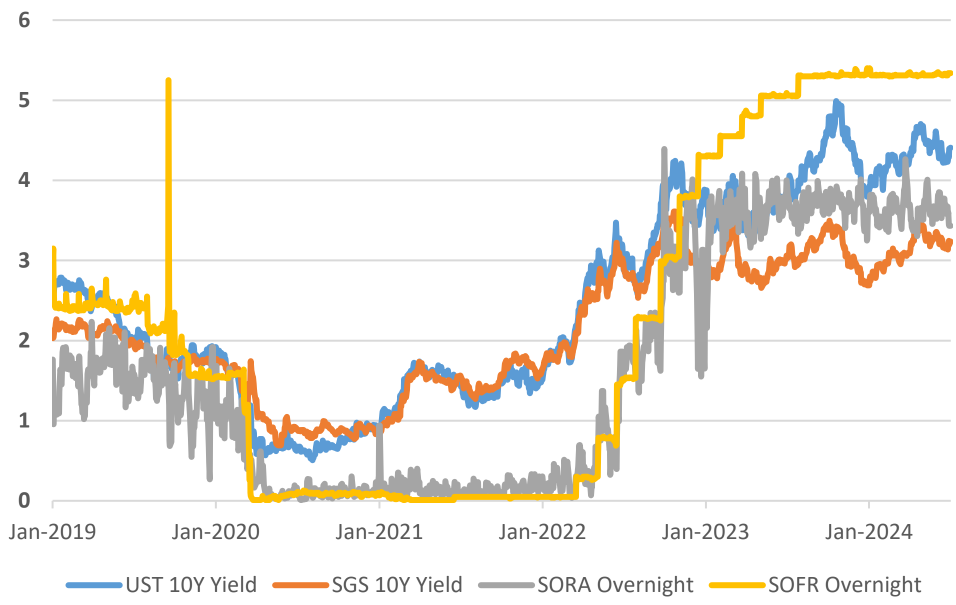
Leadership transition has occurred with no fuss, with the new Prime Minister Lawrence Wong taking over the helm on 15 May. This is no surprise, given that Singapore's credibility has always been in the strength of its institutions that have been precisely engineered to thrive regardless of political change. Of note, the amount of outstanding Reserve Management Government Securities (RMGS) has increased to S$260.1b (Dec 2023: S$247.0b), suggesting that some S$13.1b in OFR has been transferred by the Government from MAS to GIC for longer-term management. Even with this transfer, stock of OFR with MAS has risen to S$500b (Dec: S$463b), suggesting that MAS could have intervened to moderate strength in the SGDNEER, although some part of the increase may be due to currency translation effects or investment gains or losses. Watch closely the next release of MAS' intervention operations which should be due in Sep 2024 for Jan to Jun 2024.

Risks Ahead: The bottoming of the electronics/chip cycle could fail to pan out and this would be less favourable for the SGD. Lingering inflationary risks also present a real risk for the Singapore economy and could affect the SGD. 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 data/events: 2Q URA Private Home Prices QoQ (1 Jul), Jun Purchasing Managers Index, Electronics Sector Index (2 Jul), S&P Global PMI (3 Jul), Jun Foreign Reserves (4 Jul to 8 Jul), May Retail Sales (5 Jul), 2Q A GDP (8 Jul to 12 Jul), Jun Non-oil Domestic Exports, Electronics Exports (17 Jul), Jun CPI Inflation (23 Jul), **MAS Policy Statement (24 Jul to 31**

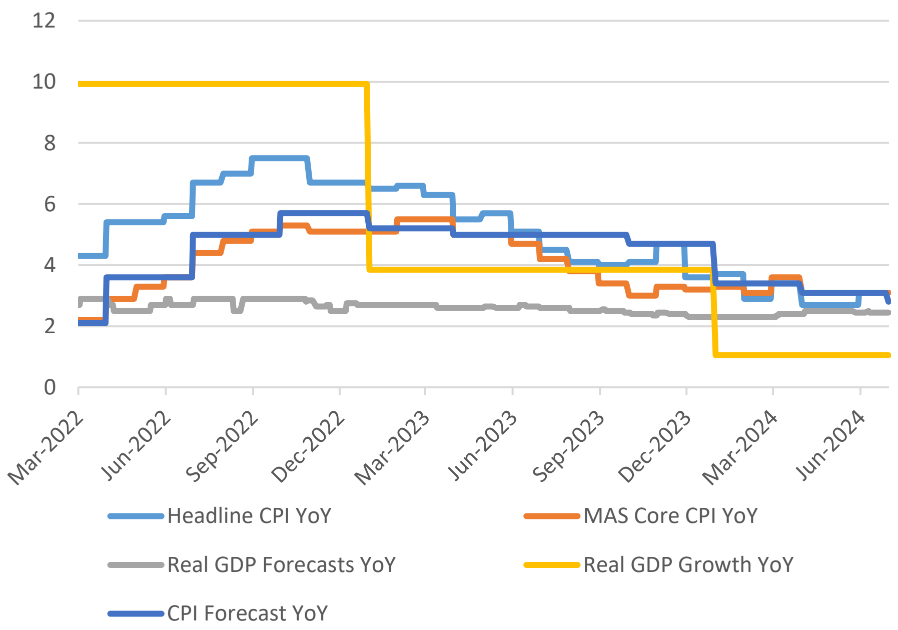
Jul), 2Q F URA Private Home Prices, Jun Industrial Production (26 Jul), Jun Unemployment Rate (30 to 31 Jul), Jun Money Supply (31 Jul).

USD Rates and SGD Rates Are Highly Correlated



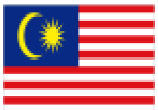
Source: Bloomberg, Maybank FX Research & Strategy

Inflation Coming Off (Albeit Bumpy), Real Growth Can Pick Up



Source: Bloomberg, Maybank FX Research & Strategy Estimates

MYR: Grinding Resilience



	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USD/MYR	4.65	4.60	4.55	4.50
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain our USDMYR baseline view amid continued near term support in the USD, UST yield levels and higher FX volatility in the near term. This incorporates our economist view of Fed to cut by -50bps cuts in 2024 and -100bps in 2025 vs -100bps per annum in 2024-2025 previously. As such, we expect USD strength to be somewhat sustained into 3Q leading to continued pressure on emerging market currencies including the MYR with some relief eventually by end 2024. The announcement of the cabinet approval for the targeted diesel subsidy rationalisation can save the government MYR4bn annually. The targeted diesel subsidy rationalisation started in June and with pending RON95 petrol subsidy rationalisation. On balance, USD trajectory aside, assuming an improvement in growth outlook, fiscal position and assuming a stable political environment ahead, we believe it is still generally MYR positive into year-end.

We continue to hold to our view of a gradual downward trend for the USDMYR remaining in place by end 3Q and 4Q 2024. Given that our own BEER model still finds the MYR is among the most undervalued regionally, the currency can potentially see good gains upon a turn in the external environment. Furthermore, domestic economic fundamentals look to remain robust with GDP expected at +4.7% in 2024 and +5.1% in 2025 revised upwards from +4.4% and +5.0% respectively previously. May 2024 saw sustained growth in both exports (May 2024: +7.3% YoY; Apr 2024: +9.0% YoY) and imports (May 2024: +13.8% YoY; Apr 2024: +15.5% YoY). External trade recovery as per the year-to-date rebounds in exports (5M 2024: +4.5% YoY; 2023: -8.0%) and imports (5M 2024: +13.7% YoY; 2023: -6.4%) support our outlook of firmer real GDP growth this year (2024F: +4.7%; 1Q 2024: +4.2% YoY; 2023: +3.6%).

Given 1Q 2024 growth performance, our economics team had previously raised 2024 and 2025 real GDP growth forecasts with key revisions in the projections for gross fixed capital formation on stronger private investment and public investments that feed into upgrades in growth forecasts for construction and imports of goods and services. These revisions reflect growing momentum in the realization of robust approved private sector investment over the past three years, which lead to higher construction activities in the non-residential buildings/structures (e.g. factories, datacentres, industrial and solar energy parks) and increase in capex for machinery and equipment, thus imports of capital goods. This should reduce the pressure on BNM to cut rates and in turn together with an eventual US easing, help reduce the impact that the wide rate differentials have had on the MYR. ***Near term, the currency is likely to be range bound at around 4.70-4.75 levels with some upward pressure as USD strength variability emerges more strongly in 2H 2012 ahead of the upcoming last 4 FOMC meetings***.

Headline inflation inched up to +2.0% YoY in May 2024 (Apr 2024: +1.8% YoY; MIBG: +1.9% YoY; consensus: +1.9% YoY; 5M 2024: +1.8% YoY), after three consecutive months at +1.8% YoY. Core inflation was stable at +1.9% YoY (Apr 2024: +1.9% YoY; 5M 2024: +1.8% YoY; 2023: +3.0%). Maintain our full-year 2024 forecast at +2.4% (2023: +2.5%), signaling upside risk to monthly inflation, mainly due to the fuel subsidy rationalization that kicked off with diesel this month and pending RON95 petrol, y, where the timing and quantum of adjustments remain a "black box". As for diesel, starting from 10 Jun 2024, diesel price in Peninsular Malaysia was set higher at MYR3.35/l from MYR2.15/l as the government embarked on targeted diesel subsidy rationalization. Nevertheless, several exemptions are given i.e. MYR2.15/l for eligible logistics vehicles; MYR1.88/l for land public transport; MYR1.65/l for fishermen; while Sabah, Sarawak and Labuan still enjoy subsidized diesel price of MYR2.15/l. Given diesel's 0.2% weight in the CPI basket of goods and services (vs 5.5% for petrol), the direct impact of targeted diesel subsidy rationalization on inflation should be small. The wildcard is the knock-on effect on prices of other goods and services.

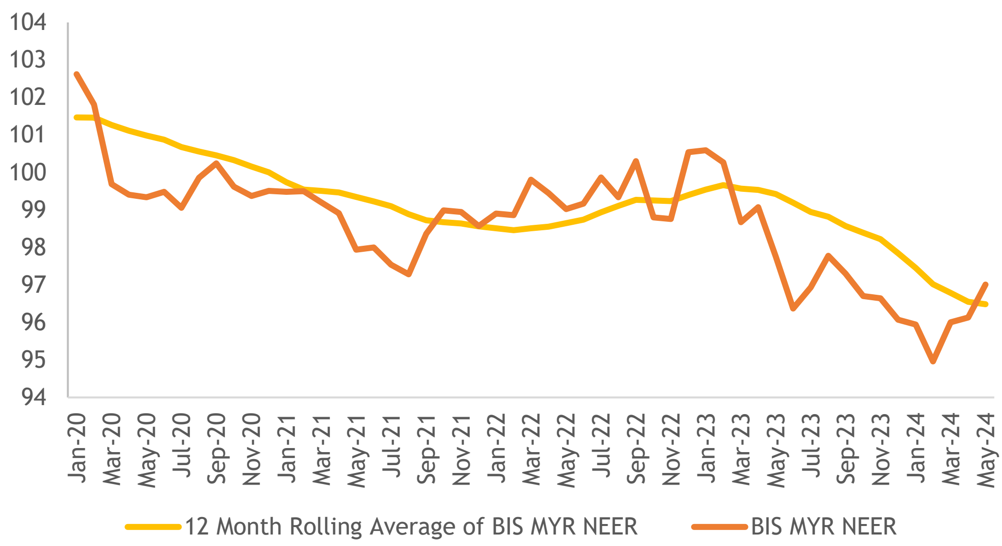
Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) at 3.00% for the sixth consecutive Monetary Policy Committee (MPC) meeting on 8-9 May, amid moderate growth pick up, continued tame inflation as well as stabilisation and improvement in Ringgit vs USD following "coordinated communications and actions" by BNM and MOF. Maintain our view of OPR staying at 3.00% this year. The latest MPS essentially maintained BNM's view that Ringgit current level does not reflect Malaysia's economic fundamentals and growth prospects i.e. undervalued. Notwithstanding the "hold-for-longer" interest rate policy of US Fed, Ringgit has stabilized in May, improving to 4.6775 on 16 May from recent low of 4.7740 on 2 May 2024. This follows coordinated communications and actions by BNM (e.g.

Governor's, Financial Market Committee (FMC) and Monetary Policy statements on 20/27 Feb 2024, 1 Mar 2024 and 7 Mar 2024 respectively) and Ministry of Finance (e.g. Second Finance Minister's statement in the Parliament on 29 Feb 2024) that include Ringgit-supporting measures, including encouraging Government-linked companies (GLCs) and Government-linked investment companies (GLICs) repatriating AND converting their foreign exchange earnings and overseas investment incomes. In addition, we believe there were FX market interventions by BNM, as indicated by the -USD2.1b drop in external reserves during Feb-Apr 2024 as well as the buildup in BNM's net short forward position of USD4.1b in Apr 2024 to a new high of USD26.92b (previous high was USD26.73b in Mar 2023).

Risks to look out for in Jul 2024. Downside risks include any exacerbation of weakness in China's recovery (Malaysia's largest trading partner), further extended delay in the expected Fed easing trajectory or escalation in geopolitical tensions in Middle East and between US, G7 & China in the run-up to the US Presidential elections. The latter is in view of recent US decision to impose tariff hikes to be phased in over 2024-2026 on products imported from China i.e. semiconductors, lithium-ion batteries, solar cells, critical minerals (e.g. natural graphites), and medical equipment (e.g. surgical gloves). All these can lead to a stronger USD, which in turn hurts the MYR for an extended period. Key domestic risk is the effect of the introduction of Account 3 by the Employees Provident Fund (EPF) this month, which allows EPF members to withdraw from the account at any time for any purposes. In the event of consumer spending surge due to withdrawals from EPF's Account 3, this could trigger additional upside risk to inflation via demand-pull inflation, on top of the expected cost-push inflation due to the implementation of the targeted fuel subsidy rationalisation this year, pending details on the timing, quantum and mechanics. This, in turn, could lead to upside risk in OPR outlook, which we currently expect to remain stable at current level of 3.00% until end-2025.

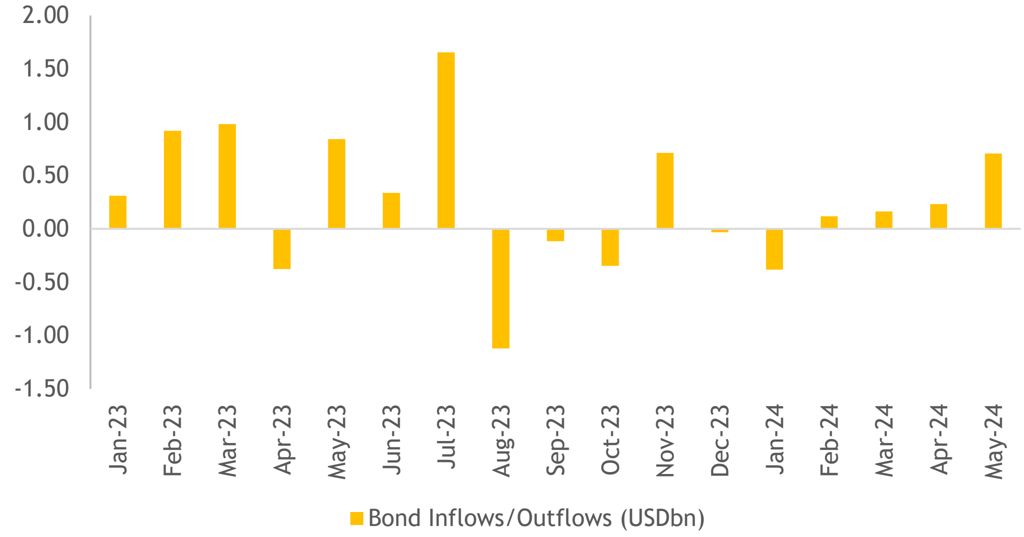
Key domestic events and issues to watch in Jul: S&P Global PMI mfg (1 Jul), Foreign reserves (5 Jul), BNM Policy Announcement (11 Jul), May mfg sales (12 Jul), May IP (12 Jul), Jun trade data (18 Jul), Foreign reserves (22 Jul) and Jun CPI (24 Jul).

On a NEER Basis, the MYR Has Been Climbing



Source: Bloomberg, Bloomberg, Maybank FX Research & Strategy

MYR Bonds Appetite Improved



Source: Maybank FX Research & Strategy

IDR: Pressured But Should Ease Medium Term

	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USD/IDR	16600	16000	15800	15700
	(16250)	(15900)	(15700)	(--)

Previous Forecasts in Parentheses

Motivation: We continue to see a downward trend staying intact for USDIDR pair over the next year albeit it may still trade at elevated levels. However, we have decided to revise our forecasts upwards to better reflect sentiment in the current global environment and USD resilience over the next quarter. Both domestic and external factors continue to place pressure on the IDR. On the domestic front, concerns about the country's fiscal position due to Prabowo's ambitious economic plans have weighed on sentiment towards the currency and the country's bonds. These concerns look like they could persist for awhile and be a less favourable factor for the currency but at the same time we also note that Prabowo's team have recently been expressing words that look to calm the market. This should help temper significant weakness for the IDR beyond current levels. Meanwhile, Bank Indonesia (BI) has also constantly been strongly reaffirming their commitment to ensure IDR stability although at the same time they also give out the impression that they would not be pressured by the market to undertake strong actions constantly. In the medium – long term, with the Fed gradually easing (our in-house economist expects two cuts of 25bps this year), we expect that the USDIDR should also slowly come off from its current levels.

Fiscal concerns are likely to persist although we believe that it should be measured. IDR and for that matter other Indonesian assets such as the Indo GBs took a major hit over the last month from certain fiscal related headlines. In particular, Bloomberg's report on Prabowo looking to raise the debt-to-GDP ratio from 39% to 50% caused the USDIDR to spike on the day itself. A member of Prabowo's team would later come out to deny this. Subsequently, Prabowo had reportedly agreed to a 71tn rupiah allocation for the free school meal program and according to Thomas Djiwandono – a member of Prabowo's transition team, that allocation may help keep the budget deficit below the 3% legal limit. We believe that these actions and words by Prabowo and his team may point to them being more cognizant of the impact that their announcements can have on the markets. Therefore, we see that fiscal related announcements from Prabowo's team are likely to be more measured and that could temper the pressure on the IDR. Importantly, we are also looking out on who would be filling the role of Finance Minister and any credible appointment can really go some way to calm investors nerves. However, regardless, we will still stay cautious of the risk of any negative announcements.

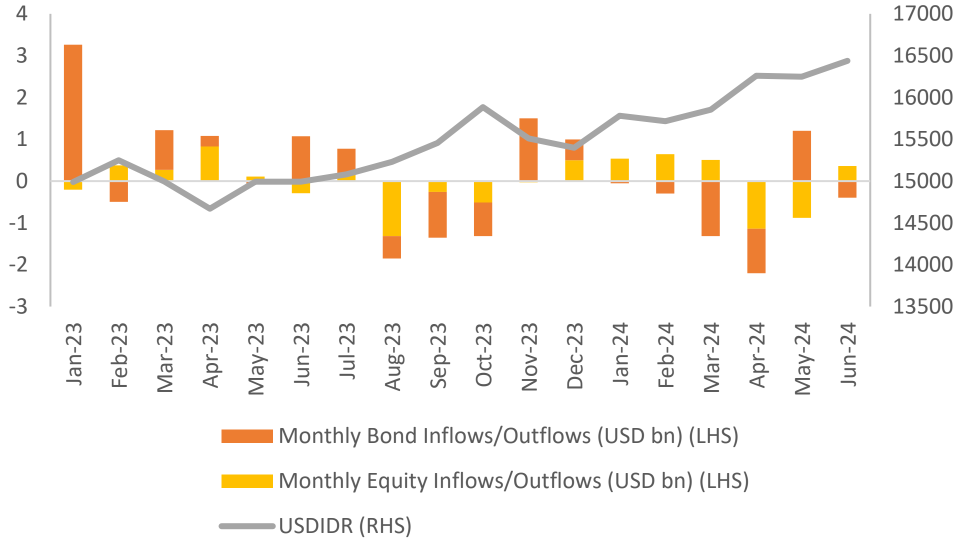
BI's commitment to ensuring IDR stability is unwavering, which should help temper the IDR weakness. Recently, Governor Perry Warjiyo had said, "we will maintain the stability of the rupiah exchange rate with three instruments: interventions, SRBI instruments and – if necessary – an increase in the BI rate". These words from him reflect their strong determination to use what tools they have available to stabilize the IDR even if it may require strong actions. Even though, Perry has played down the urgency to hike rates so soon again as he said, we think that he may just be doing this to show to markets he would be pressured by their speculation. Whilst we think BI is likely to stay on hold this year, we also do not rule out a rate hike if the USDIDR climbs much higher. BI we note also has the option to issue SRBIs at attractive yields and interventions (with their sufficient reserves) to be able to give the IDR support. Any hike together with their other available tools should go somewhere in limiting the pair's upward climb.

Expect portfolio flows to be less favorable still in the coming months but this may turn once the Fed easing cycle more clear starts. Month to date until the 24 Jun 2024, there was a net outflow of -$0.4bn for Indo GBs whilst equities month to date until the 25 Jun 2024 saw net inflows of $0.4bn. However, if we look at the numbers on a year to date basis, there has been net outflow of -$1.9bn for Indo GBs until 24 Jun 2024 whilst equities has only seen a small net inflow of $0.03bn until 25 Jun 2024. Overall, if the two numbers are combined, that would point to a net portfolio outflow of about -$1.9bn. Sentiment towards Indonesian assets are likely to remain subdued until the Fed begins cutting rates and the new government becomes more settled.

Risks Ahead: Downside risks for the IDR include the Fed hiking rates again if inflation remains too sticky and any escalation in political uncertainty locally. Upside risks would be if US inflation cools rapidly, allowing the Fed to ease at a faster pace than our expectations of 50bps, which in turn improves the global risk sentiment and the appetite for EM FX, including the IDR.

Key Data/Events: Jun S&P Global PMI mfg (1 Jul), Jun CPI (1 Jul), Jun foreign reserves (5 Jul), Jun consumer confidence index (8 Jul), Jun trade data (15 Jul), May external debt (15 Jul) and BI policy decision (17 Jul).

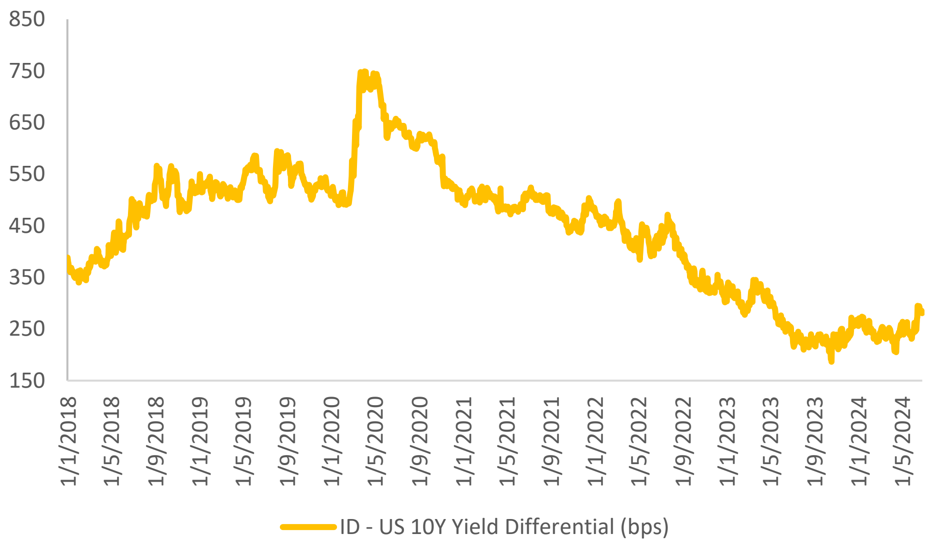
Expect Portfolio Flows to be Less Favorable still in the Coming Months



Source: Bloomberg, Maybank FX Research & Strategy

Note: Jun 2024 data for equities is until 25 Jun 2024 whilst bond data is until 24 Jun 2024

Yield Differentials Between the US and Indo are Much Narrower in the Past



Source: Bloomberg, Maybank FX Research & Strategy

PHP: Dovish BSP Weighs In, Medium Term Relief

USD/PHP	3Q 2024	4Q 2024	1Q 2025	2Q 2025
	60.00	58.50	58.00	57.00
	(57.00)	(56.25)	(55.50)	(--)

Previous Forecasts in Parentheses

Motivation: We have revised our USDPHP forecast upwards to better reflect the sentiment given current market conditions. However, we still continue to see a downward trajectory is intact for the USDPHP. In the near term, USDPHP is likely to be weighed down by a dovish tilting BSP where there is a possibility that they could cut ahead of the Fed. The central bank now sees the possibility of a first cut in Aug and a total of 50bps of cuts this year due to the balance of risks to inflation risk easing. Externally, there is also upward pressure on the pair from the USD holding up into 3Q 2024. However, we are still expecting that the Fed would start easing rates this year, undertaking a total of two cuts of 25bps each and that should give much relief to PHP and guide the USDPHP downwards in the medium term.

BSP held rates at their recent meeting although they now hint at cuts to occur this year. The governor has said that the central bank may cut rates by 50bps this year with the possibility that the first could occur in Aug. That can actually risk putting it quite ahead of the Fed if the latter does not do the first in Sep. However, there is a possibility that the Sep Fed cut could occur and that would not put the BSP too far ahead of the curve and therefore mitigate the FX pressure. The dovish tilt of the BSP looks to be attributed to the central bank now actually seeing that the balance of risks to the inflation outlook has shifted to the downside for 2024 and 2025. This seems to be due to the impact of lower rice import tariffs under Executive Order 62 (EO 62). EO 62 cuts the rice import tariff from 35% to 15%, effective 6 Jul 2024 until 31 Dec 2028 and also extended the effectivity of the lower rates on pork, mechanically deboned meat (MDM) of poultry and corn. As such, BSP's inflation baseline projections for 2024 and 2025 were cut to +3.3% (May 2023: +3.5%; 2023: +6.0%) and 3.1% (May 2024: +3.3%), respectively. Accordingly, the risk-adjusted inflation forecast for both 2024 and 2025 were also cut to +3.1% from +3.8% and +3.7%, respectively as projected in May 2024. BSP though still recognizes that the monthly headline inflation can breach the upper-end of the inflation target briefly in Jul 2024 due to adverse weather conditions and base effects. Our in-house economist for now still believes that the BSP would only cut once this year by 25bps from 6.50% to 6.25%, pending the impact of EO 62 and AO 20 and the conditions of the USDPHP.

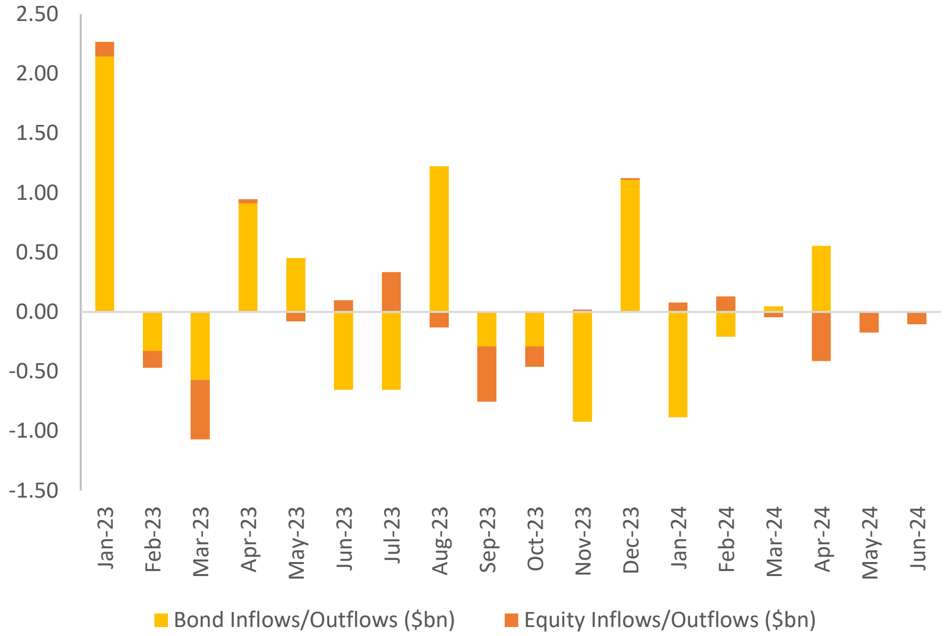
OFWR numbers continue to hold up but it is an important element to limiting PHP weakness during times of DXY strength. We have noticed over the years since 2020 that OFWR tends to run higher during the third quarter. This can be attributed to DXY tending to be stronger during the third quarter of the last three years and making it attractive for overseas Filipino workers to convert their earnings back into the PHP. Therefore, in some sense the OFWR can help mitigate weakness on the PHP when external events are actually much less favourable. The OFWR is also higher in the fourth quarter but this is possibly due to workers sending more monies home for the festive season. The latest Apr OFWR data was higher than expectations at 3.1% YoY (est. 2.7% YoY, Mar. 2.5% YoY) but number is already dated at this point. OFWR numbers do though remain useful in telling us trends related to seasonality or external developments.

Portfolio outflows do no favors for the currency and a reversal in flows may not come until the Fed clearly starts to ease. Equities saw an outflow of -$-0.1bn for the month to date until 28 Jun 2024 as the PSI came under pressure earlier in the month although it has recovered. PHP weakness is likely to hurt appetite more towards the Philippines stocks, which can risk creating a vicious cycle of more outflows, which in turn hurts the currency further and leading again to more outflows. Bond data indicated inflows at $0.6bn for the month to date 30 Apr 2024 although that data is outdated and there has likely been outflows as the Fed continues to reiterate a hawkish stance. Jittery EM sentiment in the last few months amid election results in India, Mexico and South Africa may have also weighed on the high yielders such as the Philippines. On a year to date basis up until 30 Apr 2024, there was a net outflow for bonds at -$0.5bn and the possibility of further outflows since only weighs further on the PHP. Despite the weak environment, we still think a turnaround can occur later in the year once the Fed easing cycle is clearer, which should lead to an improvement in appetite for EM assets including the Philippines.

Risks Ahead: This would include if US data remains too hot and the Fed holds for the rest of this year whilst the BSP cuts rates. Aside that, higher oil prices can also negatively impact the Philippines external position. On the flip side, the PHP may perform better than forecasted if the Fed cuts at a much faster pace than 50bps this year.

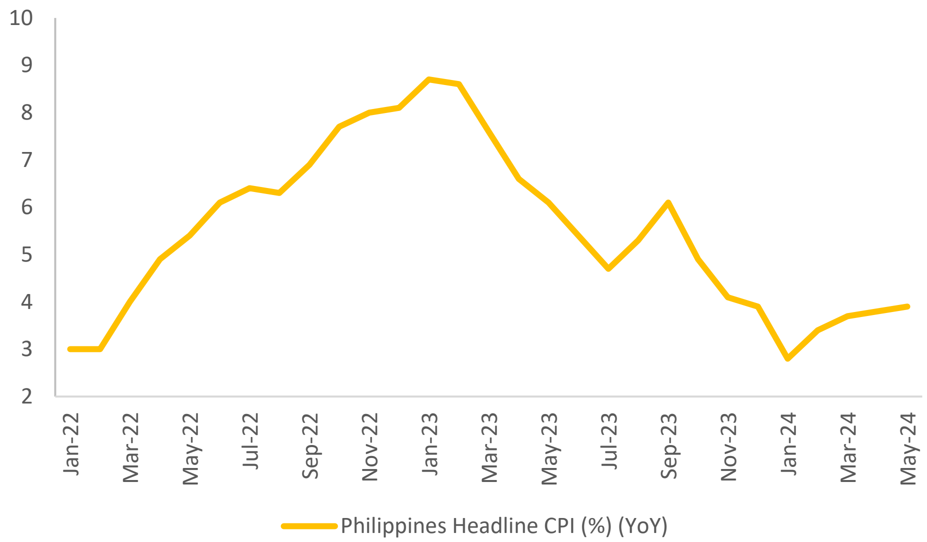
Key Data/Events: Jun S&P Global PMI mfg (1 Jul), Jun CPI (5 Jul), May unemployment rate (9 Jul), Jun foreign reserves (7 Jul), May trade data (10 Jul), May bank lending (12 Jul), May M3 money supply (12 Jul), May OFWR (15 Jul), Jun BoP overall (19 Jul), Jun budget balance (24 Jul), Jun bank lending (31 Jul) and Jun M3 money supply (31 Jul).

A Sustainable Major Reversal for Portfolio Inflows May Only Occur Once a Fed Easing Cycle has Clearly Started



Source: Bloomberg, Maybank FX Research & Strategy

CPI is Expected to Still be Elevated in the Short Term Although the BSP See it Could Ease Allowing for Rate Cuts



Source: Macrobond, Maybank FX Research & Strategy

THB: Wary of External and Domestic Concerns

	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USD/THB	37.00 (36.50)	35.50 (36.00)	35.00 (35.50)	34.50 (--)

No Change to Previous Forecasts

Motivation: We continue to see that a downward trajectory remains intact for the USDTHB except that it may trade elevated in the near term. We have decided to raise our forecast for 3Q 2024 to better reflect sentiments given current conditions. Domestic developments continue to be a lingering concern for the pair as the BOT is facing constant pressure from the government to ease rates whilst PM Srettha, former PM Thaksin and the Move Forward are all facing court cases. Those cases do create the risk of more political instability. Externally, the DXY strength amid weakness in other DM currencies (such as the Euro, JPY and CHF) can continue to keep placing upward pressure on the USD – Asian pairs including the THB. However, elevated gold prices at the same time do give the THB support. We do think the pair should manage to avoid going too much higher above the 37.00 mark as markets have already priced in the current political situation as it is. Also the DXY strength also has its limits as the Fed is still going to ease rates. It is our belief that the Fed is likely to gradually ease (with two cuts possibly this year – 25bps each) that backs our view on a downward trajectory for the USDTHB. We do note of the risk that the USDTHB can decisively break much higher above the 37.00 if the BOT aggressively eases ahead of the Fed or the political situation sees a much worse deterioration.

We continue to believe that the BOT should hold rates this year even amid government pressure. Finance Minister Pichai Chunhavajira had said that he would review the inflation target with the BOT, which currently is set at 1 – 3%. PM Srettha Thavisin has also said that a review of the inflation target should increase the chance of a rate cut. However, there appears to be some quite strong pushback from the BOT regarding this. The BOT has mentioned that that the inflation target is suitable whilst Governor Piti Disyatat has also said himself that the central bank does not favor raising the inflation target as higher prices often hit the poor. In some sense, the window for the BOT to cut is actually closing especially amid the potential for more fiscal impulse later in the year. Our in-house economist sees that the BOT would not cut rates this year and stay on hold.

For now, we stay cognizant of the political situation amid the court cases that Thaksin, Srettha and Move Forward. The criminal court has granted bail to former PM Thaksin as he faces trial for royal insult under the lese majeste law. The next hearing for the case would be on 19 Aug. The constitutional court meanwhile will be reviewing Srettha's case on this appointment of Pichit Chuenban on 10 Jul. The constitutional court also set 3 Jul as the date it would hear the case on the disbandment of Move Forward over its pledge to amend the lese majeste law. We keep a very close eye on how these cases would evolve and whether they could lead to any further destabilization for the country's political situation.

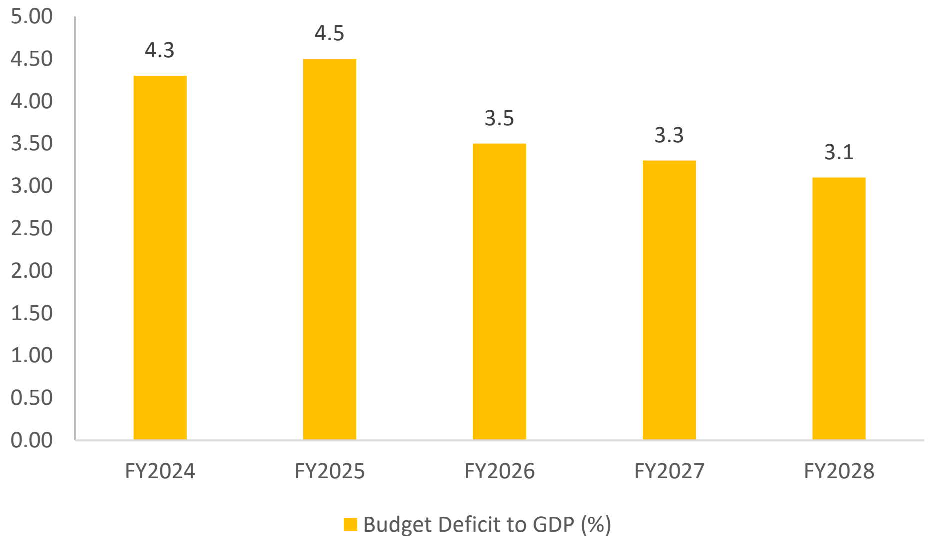
Portfolio outflows are high over the last month as the Fed continues to point to only a very gradual and slow easing path. Bond outflows stood at -\$0.14bn for the month up until the 26th Jun 2024, which was a reversal from the inflows seen in the prior month. Equities meanwhile saw large outflows month to date at -\$0.81bn, which could be attributed to investor concern about the ongoing political situation and also the currency weakness. We are still expecting outflows to persist and remain an unfavorable factor for the currency but we do expect an eventual turning point. For bonds, this could come more strongly once the Fed starts its easing cycle (our in-house economist sees two cuts of 25bps this year with the first coming from Sep onwards). As for equities, we believe that flows should see more inflow especially if the outcome of the cases not lead to any further uncertainty in the political situation.

On the fiscal front, the Thai lower house has given its approval for an increased budget next fiscal year, which can help lift growth. The budget for the fiscal year starting 1 Oct would total about \$102bn or 3.75tn baht and was backed by 311 lawmakers out of 500. As mentioned, the budget would result in more fiscal impulse in the second half of the year, which means the opportunities are reducing for the BOT to consider a cut. The deficit for this budget would be at 4.5% which would be slightly higher than the prior year at 4.3%. Debt to GDP ratio would also rise to 67.9% from 65.7%, which would put it closer to the legal ceiling at 70%. We do though think that this level of concern regarding the budget has already been priced in in the currency. However, we are also aware that the digital wallet program would be partially funded by the budget and it is still not certain just yet where the rest of the funding would come from. We keep an eye on the potential impact that the other options of the digital wallet funding can have on the country's fiscal positon.

Risks Ahead: BOT engaging in rate cuts at an aggressive pace compared to the Fed and ahead of it too, which in turn hurts the THB heavily. On the upside, US inflation could cool rapidly, leading to more aggressive Fed easing.

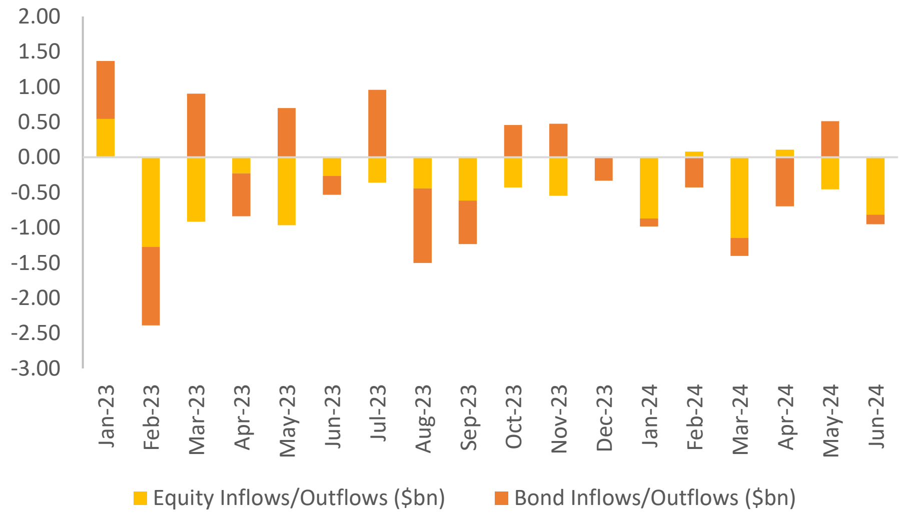
Key Data/Events: Jun S&P Global PMI mfg (1 Jul), Jun CPI (5 Jul), Jun consumer confidence (8 - 15 Jul), Jun customs trade data (24 - 31 Jul), Jun ISIC mfg prod index (26 - 30 Jul), Jun ISIC capacity utilization (26 - 30 Jul), Jun trade data (31 Jul) and Jun BoP CA and overall balance (31 Jul).

<u>The Fiscal Deficit is Expected to Rise Next Fiscal Year Although Government Believes it Should Decline in Subsequent Years</u>



Source: Thai Government, Maybank FX Research & Strategy

<u>Portfolio Outflows Have Been Strong Especially on the Equity Front But We Believe it Could Turn Once the Fed Easing Cycle Clearly Begins</u>



Source: Bloomberg, Maybank FX Research & Strategy
Note: Jun data is until 26 Jun 2024

VND: Still Under Pressure

	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USD/VND	25150	25000	25000	24800
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: USDVND has been hugging the upper bound of the +/-5% trading band. Equity-related outflow (-$563.7mn), arguably elevated USD and to a certain extent, US rates continue to buoy the USDVND. Foreigners have been persistently selling equities for the past few months. There had been reports of net ETF withdrawals in the past few months. VND seems to be caught in a vicious cycle where its currency weakness seems to have spurred net selling of its securities (equities) and that perpetuates even more currency weakness. Of course, this happens in an environment of higher-for-longer rates globally, ongoing geopolitical conflicts, strong AI narrative that seem to exacerbate this phenomenon. We look for USDVND to come off very gradually in the 2H of 2024 as global inflation eases enough for higher-for-longer concerns to fade.

That said, USDVND bids continue to remain constrained by the trading band, stabilized interbank interest rates. Gold auctions have helped to narrow the domestic-international premium from north of 20% as of end May to just sub-10% as of 28 Jun 2024. SBV has made gold purchases available online on top of gold sales to four state owned banks after gold auctions failed to narrow the gap between domestic and international gold prices. Actions to improve the accessibility of gold purchases for the masses was more successful in reducing the domestic price premium for the bullion. Smaller gold premium, higher interbank interest rates could probably help to ease demand for gold/ foreign currencies and reduce pressure on the VND.

Vietnam's Macroeconomic Outlook Brightens Further. Our economist upgraded 2024 GDP forecast to 6.4% from 5.8% seen previously after 2Q GDP accelerated to a 7-quarter high of 6.9%, from an upward-revised +5.9% in 1Q. Growth was driven by strong output from manufacturing, spurred by exports demand. Services growth also picked to 7.1% vs. previous 6.2%. GSO attributed the robust growth to the rebound in trade and tourism. Our economist maintains 2024 inflation at 3.7%, expecting the weakness in the dong to add to the price pressure at home on top of a pay hike for state employees that could spur further price adjustments by businesses. **Stronger exports performance could continue to cushion the VND from further weakness but VND's fate, like many other regional peers, are determined also by external factors to a significant extent.**

Brighter Macro Outlook Does Not Commensurate with VND's. VND continues to remain hurt by the elevated US rates that gave rise to USD strength, lingering residual domestic-international gold premium that attract arbitrage activities and possibly also some political concerns at home. The central bank has been intervening in the foreign exchange market to support the VND in the face of elevated USD as well as the US rate. In addition, reverse repo rates were raised twice by an accumulative 50bps already in order to provide better support for the VND. So while the economic outlook seems strong, VND's outlook is less certain.

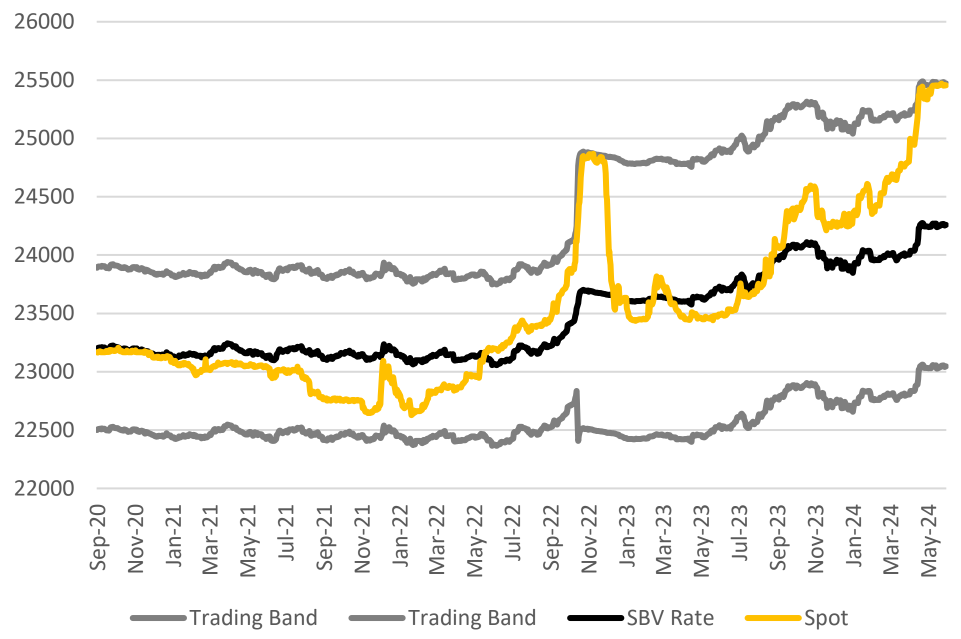
Bump Up in FDI for Jun. Vietnam enjoyed decent FDI flows with realized FDI growth of 9.3% in Jun compared to an average of 8.1%y/y growth in Jan-May. Registered FDI rose a more astounding 59.7%y/y in Jun compared to three consecutive months of yoy declines. Much of the FDI registered flowed to the manufacturing sector which saw a 79%y/y increase in FDI for Jun. Real estate also received pledged FDI of around $495mn in Jun, a 33%y/y rise. The bump up in the Jun **FDI pledges took FDIs in manufacturing to a growth of 26.3% for the first half of the year while that of real estate businesses rose to 61.5y/y in the same period. On the whole, t**here has actually been a modestly improving trend compared to 2023. However, we cannot rule out further uncertainties in the political landscape that can crimp on FDI inflows and reduce support for the VND.

Structurally, 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. We continue to remain cautiously optimistic on Vietnam's diplomacy and growth outlook. Regardless of the cyclical pressure on the VND in the near-term, this medium-term trend remains intact (as what the latest FDI suggests) and could be supportive of the currency.

Risks to the VND: 1) A sudden re-acceleration of inflation in the US could lift the USD and US rates and lift the USDVND. 2) Further political infighting that could dampen investment sentiment.

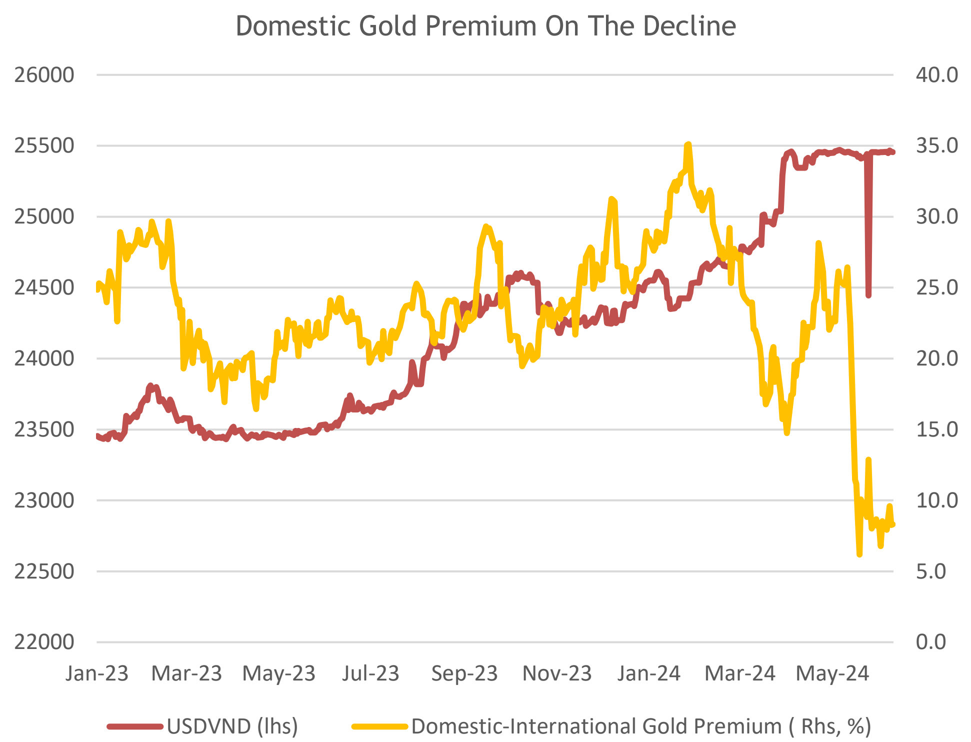
Key Data/Events: Jul trade, IP, CPI, retail sales [25-31 Jul].

VND Remains Under Pressure in 2024



Source: Bloomberg, Maybank FX Research & Strategy

Gold Premium Has Come off Rather Sharply



Source: Bloomberg, Maybank FX Research & Strategy

INR: Strong Grip of the RBI

	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USD/INR	82.50 (--)	82.00 (--)	81.00 (--)	81.00 (--)

No Change to Previous Forecasts

Motivation: We maintain our USDINR forecasts for the four quarters ahead. We also maintain our appreciating trajectory for the INR amid positive factors and the belief that the USD will gradually soften from end 2024 into next year. 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". The RBI held the INR steady even in the aftermath of the Indian elections where Modi's BJP won by a smaller than expected margin. RBI's preference should also remain to accumulate more foreign reserves in an environment that should be INR-positive in order to have the necessary ammunition to defend INR in times of stress in the future.

With the announced inclusion of India's sovereign debt on global bond benchmarks, foreign inflows into India have picked up pace. News reports estimate foreign inflows into India's bond market to be some US$10b over the past 9 months. 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. **Similarly, RBI has kept the INR relatively steady even as Modi's BJP failed to win by as large a margin as expected, which resulted in some INR weakness.** 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. Specifically, a stable INR provides a favourable backdrop for carry trades. We explore this topic further in our FX Insight published on 7 Jun 2024.

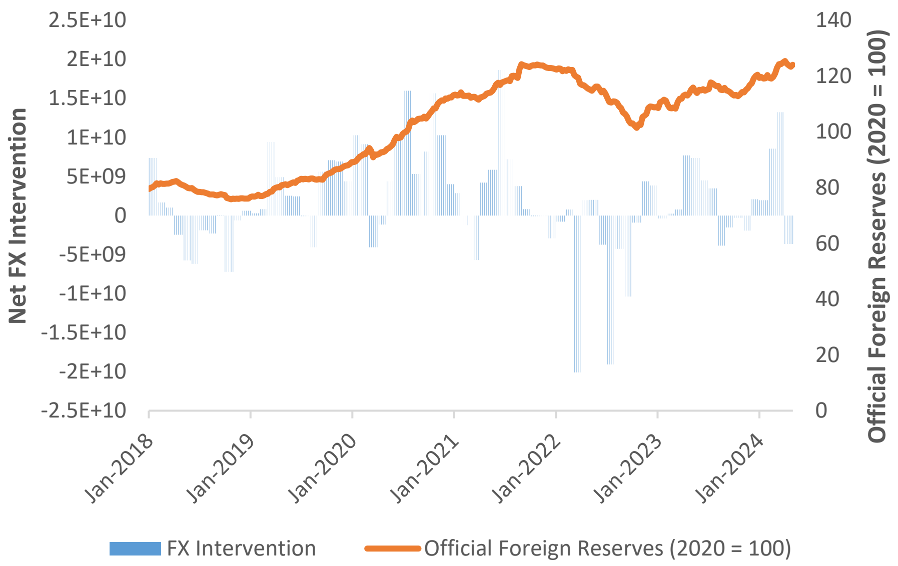
2024P GDP estimates were once again revised upwards, suggesting that 2024 growth could come in at 8.2% YoY (exp: 7.9%; prev: 7.6%). This suggests a continued bright economic outlook for one of the world's fastest growing countries. We do see some similarities between the China of old and India currently. 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. Favourable dynamics for INR should last into 2025, with Modi's BJP managing to form the government and political uncertainty out of the way.

On the monetary policy front, inflation in India remains relatively under control with May inflation at 4.75% YoY (exp: 4.85%; prev: 4.83%). 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%. RBI voted 4-2 in favour of accommodation withdrawal. Vote split seems to be changing and could pivot, although we still expect that RBI should stay on hold at their next meeting (8 Aug). Ultimately, we think they will likely hold rates through 2024. On balance, RBI remaining on hold amid strong growth prospects and a relatively benign 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.

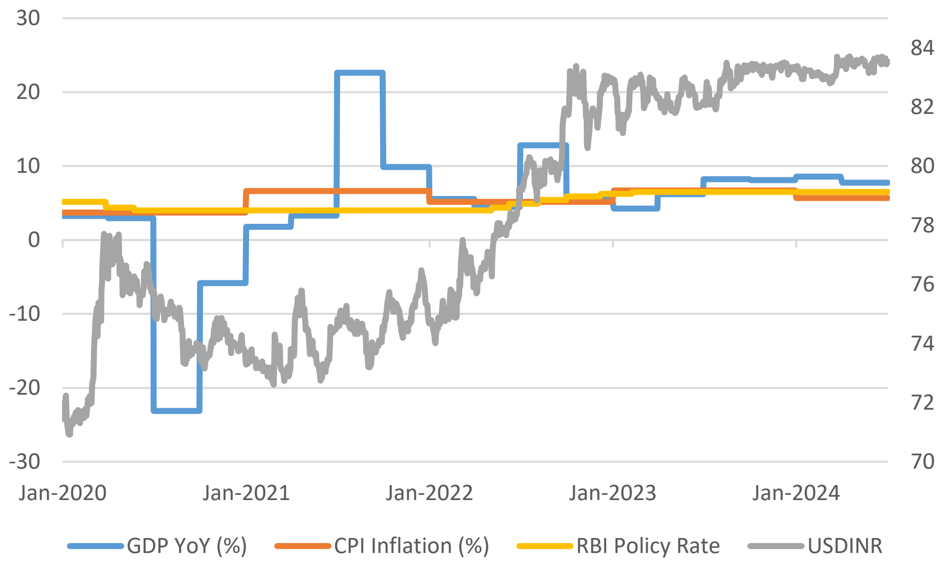
Key data/events: Jun F Mfg PMI (1 Jul), Jun F Svcs/Comp PMI (3 Jul), Jun CPI, May Industrial Production (12 Jul), Jun Exports/Imports/Trade Balance, Jun Wholesale Prices (15 Jul), Jul P Mfg/Svcs/Comp PMI (24 Jul), Jun Fiscal Deficit YTD INR Crore, Jun Eight Infrastructure Industries (28 Jul).

India's FX Reserves Rising as Intervention Becomes More One-Sidded



Source: Bloomberg, Macrobond, Maybank FX Research & Strategy

Growth is Promising and Inflation Benign in India



Source: Bloomberg, Maybank FX Research & Strategy

FX Forecast Table

	End Q3-24	End Q4-24	End Q1-25	End Q2-25
USD/JPY	165.00	160.00	152.00	150.00
EUR/USD	1.0900	1.1000	1.1100	1.1200
GBP/USD	1.2700	1.2700	1.2700	1.2800
AUD/USD	0.6800	0.6800	0.6900	0.6900
NZD/USD	0.6200	0.6200	0.6300	0.6300
USD/CAD	1.3600	1.3500	1.3500	1.3400
USD/CHF	0.8900	0.8800	0.8700	0.8700
USD/SGD	1.3450	1.3350	1.3300	1.3300
USD/MYR	4.6500	4.6000	4.5500	4.5000
USD/IDR	16600	16000	15800	15700
USD/THB	37.00	35.50	35.00	34.50
USD/PHP	60.00	58.50	58.00	57.00
USD/CNY	7.30	7.28	7.28	7.25
USD/CNH	7.32	7.28	7.28	7.25
USD/HKD	7.78	7.78	7.77	7.77
USD/TWD	31.50	31.00	31.00	30.00
USD/KRW	1360	1340	1320	1310
USD/INR	82.50	82.00	81.00	81.00
USD/VND	25150	25000	25000	24800
DXY Index	105.00	103.86	102.56	101.69
	End Q3-24	End Q4-24	End Q1-25	End Q2-25
SGD/MYR	3.46	3.45	3.42	3.38
JPY/SGD	0.82	0.83	0.88	0.89
EUR/SGD	1.47	1.47	1.48	1.49
GBP/SGD	1.71	1.70	1.69	1.70
AUD/SGD	0.91	0.91	0.92	0.92
NZD/SGD	0.83	0.83	0.84	0.84
CAD/SGD	0.99	0.99	0.99	0.99
CHF/SGD	1.51	1.52	1.53	1.53
SGD/IDR	12342	11985	11880	11805
SGD/THB	27.51	26.59	26.32	25.94
SGD/PHP	44.61	43.82	43.61	42.86
SGD/CNY	5.43	5.45	5.47	5.45
SGD/HKD	5.78	5.83	5.84	5.84
SGD/TWD	23.42	23.22	23.31	22.56
SGD/KRW	1011	1004	992	985
SGD/INR	61.34	61.42	60.90	60.90
SGD/VND	18699	18727	18797	18647
	End Q3-24	End Q4-24	End Q1-25	End Q2-25
JPY/MYR	2.82	2.88	2.99	3.00
EUR/MYR	5.07	5.06	5.05	5.04
GBP/MYR	5.91	5.84	5.78	5.76
AUD/MYR	3.16	3.13	3.14	3.11
NZD/MYR	2.88	2.85	2.87	2.84
CAD/MYR	3.42	3.41	3.37	3.36
CHF/MYR	5.22	5.23	5.23	5.17
MYR/IDR	3570	3478	3473	3489
MYR/THB	7.96	7.72	7.69	7.67
MYR/PHP	12.90	12.72	12.75	12.67
MYR/CNY	1.57	1.58	1.60	1.61
MYR/HKD	1.67	1.69	1.71	1.73
MYR/TWD	6.77	6.74	6.81	6.67
MYR/KRW	292	291	290	291
MYR/INR	17.74	17.83	17.80	18.00
MYR/VND	5409	5435	5495	5511

*Source: Maybank FX Research as of 1 Jul 2024. *These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.*

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