Maybank

FX Flash

BOJ Likely to be Gradual, USDJPY to Stay Elevated

Analysts

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

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

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

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

BOJ Surprises by Putting Off JGB Purchase Reduction

BOJ in some sense surprised the market as they did not actually make the decision to slash bond purchases immediately and instead put it off to the next Jul meeting to actually decide on a “detailed plan for the reduction of its purchase amount during the next one to two years or so”. Prior to the meeting, there had been wide expectations for the BOJ to actually reduce the purchase from 6tn yen to 5tn yen. The central bank would instead now be holding a “Bond Market Group” meeting that would be with commercial banks group, securities firms group and buy-side group. The BOJ would be looking at asking the opinions of these participants on the future conduct of the Bank’s JGB purchases. Meanwhile, BOJ continued to hold rates at 0 - 0.1%.

As they had gone against the wide market expectations of an immediate move, we see that the BOJ had initially appeared more dovish. However, Ueda’s words during the press conference did appear to temper down some of that initial dovish perception. He said during the press conference that the cut in bond buying would be “substantial” and also mentioned that FX is a potential factor to push up inflation with a rate hike being justified if upside inflation risk intensifies. He also noted that they will begin reduction of JGB purchases soon after deciding on details at the next meeting. The word “substantial” is open to interpretation and it is difficult to ascertain what that amount would constitute. Regarding a Jul hike, he kept things open, implying that it was possible in theory depending on conditions though he would like to see more price data before making any rates decision in Jul. He also noted that both rate hikes and bond purchase cuts can possibly occur at the same meeting. However, it still looks to us that that they are taking normalization at a gradual pace.

On our part, we had constantly been calling for only slow tightening. Therefore, their words and actions today still fall in line with our bigger picture view of how we see both the BOJ and Fed policy path would evolve like. Our in-house economist expects two Fed cuts this year and that still paints a picture of gradual adjustments only. Therefore, slow tightening by the BOJ and slow easing by the Fed is likely to keep rate differentials wide and unfavourable for the JPY. We do note that USDJPY keeps heading higher even as the differentials have come down a bit recently. That said, with the differentials still so wide, the JPY has not necessarily lost its allure as a carry funding currency.

The BOJ statement also implies that they are not going to deviate from a path of normalization. It still mentions that “Japan’s economy has recovered moderately” and that the “employment and income situation has improved moderately”. The BOJ also sees “with corporate profits improving, business fixed investment has been on a moderate increasing trend". They noted that the "pass-through to consumer prices of cost increases led by the past rise in import prices have waned". They additionally see "underlying CPI inflation is expected to increase gradually, since it is projected that the output gap will improve and that medium – to long-term inflation expectations will rise with a virtuous cycle between wages and prices continuing to intensify". The BOJ expects that CPI would generally consistent with their target in the second half of their projection period of the Apr 2024 Outlook Report. In other words, the economy in their eyes is still on the right path, meriting a gradual normalization. We stick to our view that the BOJ would next hike rates by 25bps in Oct 2024.

USDJPY recently had been trading in a very tight range of 155.00 – 158.00. Markets had been on the edge building up to this meeting as favorable developments such as lower UST yields could not boost sentiment enough and sustainably push the USDJPY lower. Post the decision, the pair broke higher above the 157.50 resistance (that it had been holding below for a while now) amid an initial dovish perception of the BOJ. It went above 158.00 before gyrating around that level asfter the press conference started as Ueda's words look to be providing some support to the JPY. The Governor said that both the bond buying cut would be substantial whilst also saying that a Jul rate hike is possible in theory depending on conditions and that both can also possibly occur at the same time. Despite such words, we believe that markets are going to stay cautious on the level of hawkishness of the BOJ and likely may still expect gradual tightening from them. We had constantly warned of upside risks to the USDJPY pair near term and continue to see that it may move up closer to around the 160.00 level as differentials may stay wide for an extended period of time. However, we do continue to think that levels around the 160.00 can mark a near term limit as markets would still be wary of intervention. Any rapid rise in the USDJPY pair of 4.00% - 5.00% within a month could elicit an intervention and a level just above 160.00 would mark around that amount of increase. Markets may also be wary that intervention can happen amid high volatility. Jawboning from the authorities in the coming days cannot be ruled out as a way to limit the weakness for the JPY. Resistance for the pair is at 160.00, 162.50 and 165.00. Support at 152.00 and 150.00.

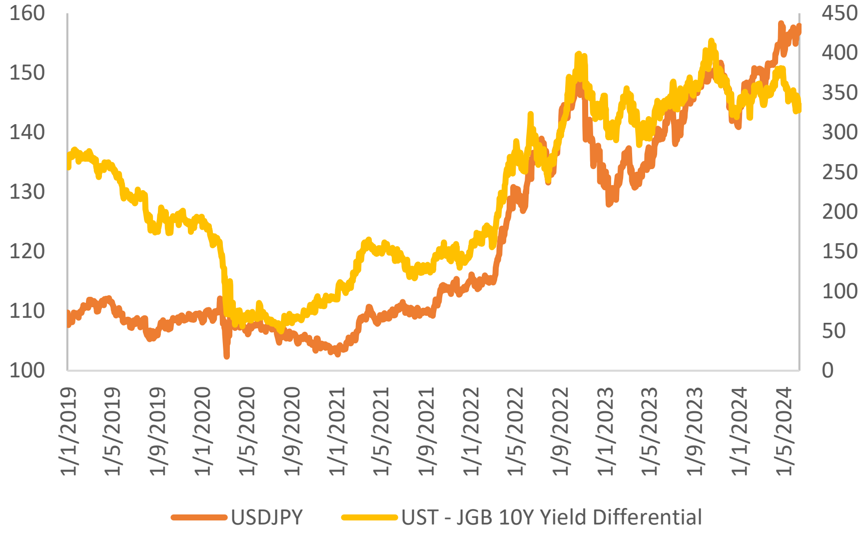
In the medium term, we keep to our USDJPY forecast, expecting that it would trade at elevated levels but still see a slow decline. US data should keep softening and we continue to expect that the Fed would cut rates twice this year for a total of 50bps whilst the BOJ gradually tightens with the next hike to come in Oct 2024 by 25bps.

Table 1: USDJPY Forecast

Forecast	2Q 2024	3Q 2024	4Q 2024	1Q 2025
USDJPY	160.00	155.00	152.00	150.00

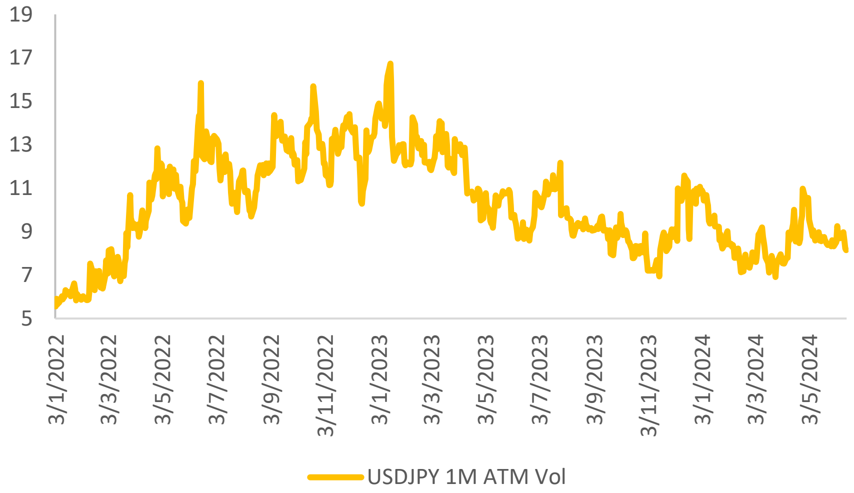
Source: Maybank FX Research & Strategy

Chart 1: Wide Yield Differentials Continue to Keep Weighing on the JPY



Source: Bloomberg, Maybank FX Research & Strategy

Chart 2: Volatility has Fallen Recently



Source: Bloomberg, Maybank FX Research & Strategy

Chart 3: USDJPY Upside Risks as it Could Move Closer to Around 160.00

Resistance Levels: 160.00, 162.50 and 165.00

Support: 152.00 and 150.00

Source: Bloomberg, Maybank FX Research & Strategy

Chart 4: USDJPY 25D 3M Risk Reversals Highlight Upside Skew

Source: Bloomberg, Maybank FX Research & Strategy

APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

DISCLAIMERS

This research report is prepared for general circulation and for information purposes only and under no circumstances should it be considered or intended as an offer to sell or a solicitation of an offer to buy the securities referred to herein. Investors should note that values of such securities, if any, may fluctuate and that each security's price or value may rise or fall. Opinions or recommendations contained herein are in form of technical ratings and fundamental ratings. Technical ratings may differ from fundamental ratings as technical valuations apply different methodologies and are purely based on price and volume-related information extracted from the relevant jurisdiction's stock exchange in the equity analysis. Accordingly, investors' returns may be less than the original sum invested. Past performance is not necessarily a guide to future performance. This report is not intended to provide personal investment advice and does not take into account the specific investment objectives, the financial situation and the particular needs of persons who may receive or read this report. Investors should therefore seek financial, legal and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report.

The information contained herein has been obtained from sources believed to be reliable but such sources have not been independently verified by Maybank Investment Bank Berhad, its subsidiary and affiliates (collectively, "Maybank IBG") and consequently no representation is made as to the accuracy or completeness of this report by Maybank IBG and it should not be relied upon as such. Accordingly, Maybank IBG and its officers, directors, associates, connected parties and/or employees (collectively, "Representatives") shall not be liable for any direct, indirect or consequential losses or damages that may arise from the use or reliance of this report. Any information, opinions or recommendations contained herein are subject to change at any time, without prior notice.

This report may contain forward looking statements which are often but not always identified by the use of words such as "anticipate", "believe", "estimate", "intend", "plan", "expect", "forecast", "predict" and "project" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. Such forward looking statements are based on assumptions made and information currently available to us and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward looking statements. Readers are cautioned not to place undue relevance on these forward-looking statements. Maybank IBG expressly disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

Maybank IBG and its officers, directors and employees, including persons involved in the preparation or issuance of this report, may, to the extent permitted by law, from time to time participate or invest in financing transactions with the issuer(s) of the securities mentioned in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. One or more directors, officers and/or employees of Maybank IBG may be a director of the issuers of the securities mentioned in this report to the extent permitted by law.

This report is prepared for the use of Maybank IBG's clients and may not be reproduced, altered in any way, transmitted to, copied or distributed to any other party in whole or in part in any form or manner without the prior express written consent of Maybank IBG and Maybank IBG and its Representatives accepts no liability whatsoever for the actions of third parties in this respect.

This report is not directed to or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for distribution only under such circumstances as may be permitted by applicable law. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Without prejudice to the foregoing, the reader is to note that additional disclaimers, warnings or qualifications may apply based on geographical location of the person or entity receiving this report.

Malaysia

Opinions or recommendations contained herein are in the form of technical ratings and fundamental ratings. Technical ratings may differ from fundamental ratings as technical valuations apply different methodologies and are purely based on price and volume-related information extracted from Bursa Malaysia Securities Berhad in the equity analysis.

Singapore

This report has been produced as of the date hereof and the information herein may be subject to change. Maybank Research Pte. Ltd. ("MRPL") in Singapore has no obligation to update such information for any recipient. For distribution in Singapore, recipients of this report are to contact MRPL in Singapore in respect of any matters arising from, or in connection with, this report. If the recipient of this report is not an accredited investor, expert investor or institutional investor (as defined under Section 4A of the Singapore Securities and Futures Act), MRPL shall be legally liable for the contents of this report, with such liability being limited to the extent (if any) as permitted by law.

Thailand

Except as specifically permitted, no part of this presentation may be reproduced or distributed in any manner without the prior written permission of Maybank Securities (Thailand) Public Company Limited. Maybank Securities (Thailand) Public Company Limited ("MST") accepts no liability whatsoever for the actions of third parties in this respect.

Due to different characteristics, objectives and strategies of institutional and retail investors, the research products of MST Institutional and Retail Research departments may differ in either recommendation or target price, or both. MST reserves the rights to disseminate MST Retail Research reports to institutional investors who have requested to receive it. If you are an authorised recipient, you hereby tacitly acknowledge that the research reports from MST Retail Research are first produced in Thai and there is a time lag in the release of the translated English version.

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information. The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey may be changed after that date. MST does not confirm nor certify the accuracy of such survey result.

The disclosure of the Anti-Corruption Progress Indicators of a listed company on the Stock Exchange of Thailand, which is assessed by Thaipat Institute, is made in order to comply with the policy and sustainable development plan for the listed companies of the Office of the Securities and Exchange Commission. Thaipat Institute made this assessment based on the information received from the listed company, as stipulated in the form for the assessment of Anti-corruption which refers to the Annual Registration Statement (Form 56-1), Annual Report (Form 56-2), or other relevant documents or reports of such listed company. The assessment result is therefore made from the perspective of Thaipat Institute that is a third party. It is not an assessment of operation and is not based on any inside information. Since this assessment is only the assessment result as of the date appearing in the assessment result, it may be changed after that date or when there is any change to the relevant information. Nevertheless, MST does not confirm, verify, or certify the accuracy and completeness of the assessment result.

US

This third-party research report is distributed in the United States ("US") to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Wedbush Securities Inc. ("Wedbush"), a broker-dealer registered in the US (registered under Section 15 of the Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Wedbush in the US shall be borne by Wedbush. This report is not directed at you if Wedbush is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Wedbush is permitted to provide research material concerning investments to you under relevant legislation and regulations. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security mentioned within must do so with: Wedbush Securities Inc. 1000 Wilshire Blvd, Los Angeles, California 90017, +1 (646) 604-4232 and not with the issuer of this report.

UK

This document is being distributed by Maybank Securities (London) Ltd ("MSUK") which is authorized and regulated, by the Financial Conduct Authority and is for Informational Purposes only. This document is not intended for distribution to anyone defined as a Retail Client under the Financial Services and Markets Act 2000 within the UK. Any inclusion of a third party link is for the recipients convenience only, and that the firm does not take any responsibility for its comments or accuracy, and that access to such links is at the individuals own risk. Nothing in this report should be considered as constituting legal, accounting or tax advice, and that for accurate guidance recipients should consult with their own independent tax advisers.

DISCLOSURES

Legal Entities Disclosures

Malaysia: This report is issued and distributed in Malaysia by Maybank Investment Bank Berhad (15938- H) which is a Participating Organization of Bursa Malaysia Berhad and a holder of Capital Markets and Services License issued by the Securities Commission in Malaysia. **Singapore:** This report is distributed in Singapore by MRPL (Co. Reg No 198700034E) which is regulated by the Monetary Authority of Singapore. **Indonesia:** PT Maybank Sekuritas Indonesia ("PTMSI") (Reg. No. KEP-251/PM/1992) is a member of the Indonesia Stock Exchange and is regulated by the Financial Services Authority (Indonesia). **Thailand:** MST (Reg. No.0107545000314) is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission. **Philippines:** Maybank Securities Inc (Reg. No.01-2004-00019) is a member of the Philippines Stock Exchange and is regulated by the Securities and Exchange Commission. **Vietnam:** Maybank Securities Limited (License Number: 117/GP-UBCK) is licensed under the State Securities Commission of Vietnam. **Hong Kong:** MIB Securities (Hong Kong) Limited (Central Entity No AAD284) is regulated by the Securities and Futures Commission. **India:** MIB Securities India Private Limited ("MIBSI") is a participant of the National Stock Exchange of India Limited and the Bombay Stock Exchange and is regulated by Securities and Exchange Board of India ("SEBI") (Reg. No. INZ000010538). MIBSI is also registered with SEBI as Category 1 Merchant Banker (Reg. No. INM 000011708) and as Research Analyst (Reg No: INH000000057). **UK:** Maybank Securities (London) Ltd (Reg No 2377538) is authorized and regulated by the Financial Conduct Authority.

Disclosure of Interest

Malaysia: Maybank IBG and its Representatives may from time to time have positions or be materially interested in the securities referred to herein and may further act as market maker or may have assumed an underwriting commitment or deal with such securities and may also perform or seek to perform investment banking services, advisory and other services for or relating to those companies.

Singapore: As of 14 June 2024, Maybank Research Pte. Ltd. and the covering analyst do not have any interest in any companies recommended in this research report.

Thailand: MST may have a business relationship with or may possibly be an issuer of derivative warrants on the securities /companies mentioned in the research report. Therefore, Investors should exercise their own judgment before making any investment decisions. MST, its associates, directors, connected parties and/or employees may from time to time have interests and/or underwriting commitments in the securities mentioned in this report.

Hong Kong: As of 14 June 2024, MIB Securities (Hong Kong) Limited and the authoring analyst do not have any interest in any companies recommended in this research report.

India: As of 14 June 2024, and at the end of the month immediately preceding the date of publication of the research report, MIBSI, authoring analyst or their associate / relative does not hold any financial interest or any actual or beneficial ownership in any shares or having any conflict of interest in the subject companies except as otherwise disclosed in the research report.

In the past twelve months MIBSI and authoring analyst or their associate did not receive any compensation or other benefits from the subject companies or third party in connection with the research report on any account what so ever except as otherwise disclosed in the research report.

Maybank IBG may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment and may receive compensation for the services provided from the companies covered in this report.

OTHERS

Analyst Certification of Independence

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

Reminder

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct its own analysis of the product and consult with its own professional advisers as to the risks involved in making such a purchase.

Published by:

Malayan Banking Berhad
(Incorporated in Malaysia)

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

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

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

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