Maybank



# FX Monthly

## 2024, Issue 2: Monitoring US and China Policy Developments

### What Has Changed This Month?

- We raised the USDCNY forecast from 7.15 to 7.20 to take into account risks of hawkish China sentiments rising in the US during the US elections period. We have also revised our USDTHB forecasts to reflect that the BOT could ease ahead of the Fed.

### Our Strategies and Views

- The DXY ended Feb marginally higher as economic exceptionalism and the US dollar's concomitant yield advantage keep the greenback supported. We are now at a curious juncture where markets' implied pricing and Fed's dot plot (Dec's Summary of Economic Projections) are in sync. That could suggest less room for hawkish repricing. Most Fed officials seem in consensus that rate cuts are in order later this year. The inevitability of a rate cut could continue to cap US rates as well the USD. However, recent PMI readings in the Eurozone and to some extent, China suggest that growth differential between the US and the Rest of the World could narrow and US exceptionalism may continue to fade gradually which could take the USD a tad lower.

- RBNZ surprised markets by sounding less hawkish than expected. That unwound quite a bit of long NZD positions. As markets pare rate hike bets, we could once again be at risk of underestimating how committed RBNZ could be to its single mandate of inflation fighting. We look for RBNZ to be the last of DMs to ease. BoC on the other hand could one of the earliest. This could mean NZDCAD could rise.

- These are some key areas to watch for the upcoming annual two sessions. 1) Growth and other annual targets will be released as well as Premier Li Qiang's first work report. Expectations are for GDP growth target to remain "around 5%" but our economist pencils in growth for 2024 to be much lower at 4.4%. 2) Any other strategies to stabilize demand and employment whilst the economy is in transition. 3) Any key sectors to focus on apart from high-tech manufacturing sector. 4) Watch if stance on monetary policy is still prudent 5) Expansionary fiscal policy.

- We are also believe of increased intervention risks beyond 150.00 given recent jawboning, which means that upside for the USDJPY would be more limited. Hence, we suggest to sell the pair on rallies.

- USDMYR has come off after hitting a high on 4.7987 on 20 Feb. We think that there is room for MYR to strengthen further in line with our forecasts. SGDMYR had also earlier hit a high of 3.5757 on 21 Feb and has since come off. We suggest selling SGDMYR on the belief that MYR will appreciate further. Jan SG CPI also moderated more than expected, narrowing the inflation differential between SG and MY, which should weigh on SGDMYR. We look to sell at around current 3.5250 levels or higher and would suggest taking profit at 3.48 (1Q2024 forecast) to 3.50 levels (key support, 100dma).

**Analysts**

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

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

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

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

### Top 3 Currency Plays for Feb

| |
|---|
| *Buy NZDCAD on Dips* |
| *Sell USDJPY on Rally* |
| *Sell SGDMYR* |

### Key Events for the Month Ahead

| Date | Event |
|---|---|
| 5 Mar | China NPC |
| 6 Mar | UK 2024 Budget |
| Mar | Japan Shunto Wage Negotiations |

## USD: US Disinflation Route Remain Bumpy

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

No Change to Previous Forecasts

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

The DXY is now around 2.9% stronger since the low seen on 27 Dec 2023 (around 101). The Dec 2023 move lower was due to the shift in US real yields, equities and even expectations of Fed cuts as markets become confident of a weaker inflation outlook albeit with more solid growth. The US Dollar Index (DXY) rise was in line with the further rise in the 10-Year US Treasury yield settling at 4.27% (as at 29 Feb). FOMC minutes last week pointed out that Fed officials highlighted concerns about moving too fast in easing rates. This implies that the possibility that they may not hesitate to keep rates higher for longer if need be. Some officials had also noted that they needed more proof of downward inflation and that the progress to achieving the 2% inflation target could get stalled.

On the macro data front, US economic reports continued to affect market sentiment with US data releases still generally robust. More recently, the Jan PPI came out much stronger than expected with the headline number at 0.3% MoM (est. 0.1% MoM), ex food and energy number at 0.5% MoM (est. 0.1% MoM) and the ex food, energy and trade number at 0.6% MoM (est. 0.1% MoM). The strong climb in the services costs looks to have again been the main driver as it has been with the other price measure - CPI. Jan NFP came in at 353k (exp: 185k; prev: 216k; prev rev: 333k). The bumper jobs reported added credibility to the Fed's efforts to continue pushing back against market expectations for rate cuts, an approach which other central banks have also adopted. Earlier in the Feb month, Fed Chair Powell also said that a Mar cut would be unlikely in a 60 Minutes interview – highlighting the "danger of moving too soon" and reminding the market that cuts may not happen as soon as expected. Jan ISM services printed at 53.4 (exp: 52.0; prev: 50.5), also shows that the US economy remains resilient. While the headline NFP figure was strong, there was an accompanying steep drop in weekly hours worked and a drop in employment from households surveyed.

Jan US Inflation came in hotter than expected and was extremely sticky which all but dashed hopes of the Fed cutting rates sooner. Headline CPI came in at 3.1% YoY (exp: 2.9%; prev: 3.4%) and 0.3% MoM (exp: 0.2%; prev: 0.2%). Core CPI printed at 3.9% YoY (exp: 3.7%; prev: 3.9%) and 0.4% MoM (exp: 0.3%; prev: 0.3%). Fed funds futures implied rate cut probabilities fell across the board, with the likeliest outcome now a Sep cut at 74.5% (prev: 95%). However, the softening in the economy we believe is still there as other indicators such as PPI, retail hours worked have slowed recently. The economy and inflation may likely see a bumpy move downwards and it could even take until the 2H 2024 before numbers have sufficiently fallen enough for a Fed cut.

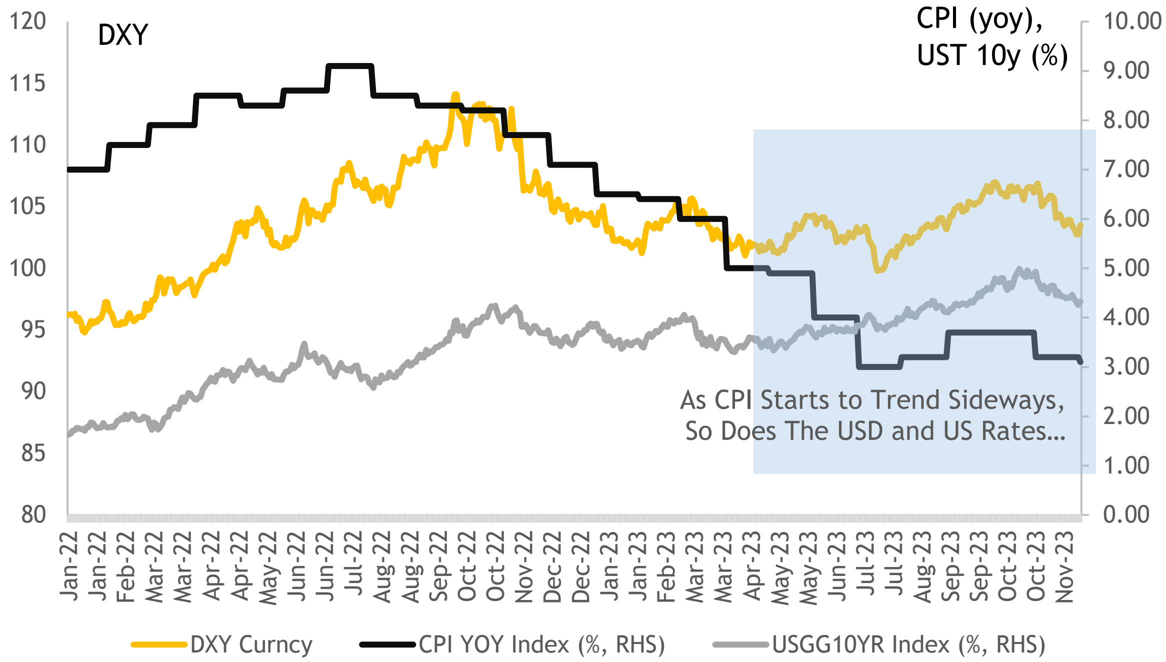
**USD easing further after 2Q 2024.** At the FOMC meeting on 30-31 Jan 2024, Fed kept the fed funds rate (FFR) at the 23-year high of 5.25%-5.50% for the fourth straight meeting. FOMC statement and Fed Chair's press conference indicate FFR has peaked, but at the same time signal no change in FFR at next FOMC on 19-20 Mar 2024. Fed's current "dot plot" signals -75bps cuts in 2024 and -100bps cuts in 2025. **Our economists have revised our 2024 FFR outlook to -100bps cuts vs -75bps previously and maintained our view of -100bps cuts in 2025.**

There is potential for US fiscal deficit to worsen into 2024 as its finances are increasingly stretched to support multiple conflicts and as such, increasing concerns on its fiscal health, not helped the least by high interest rate burden, could offset USD safe haven allure in a case of another geopolitical conflict. Markets are still cognizant that China is still weak and Eurozone PMIs are contractionary but this could shift once there is stronger evidence of recovery and therein lies the room for USD to fall further. We are already seeing some signs of rest of the world stabilization on that front. If current US presidential polling results persists, risks to the dollar from the elections will be skewed to the upside as the market processes the possibility of new tariffs ahead of the elections. Expect FX risk premiums to be affected by trade policy/tariffs, US-China relations, fiscal policy and currency policy.

Broader US-China conflict is dollar positive.

**Key Data/Events:** FOMC (21 Mar), ISM Manuf (1 Mar), NFP (8 Mar), Factory Orders, Durable Goods Orders (5 and 26 Mar), Trade Balance (7 Mar), Feb CPI (12 Mar), Empire Manuf (15 Mar), Retail Sales (14 Mar), PPI (14 Mar), Initial jobless claims (14 Mar), IP (15 Mar), GDP 4Q (28 Mar), PCE deflator (29 Mar).

**As Disinflation Progress Becomes Bumpy, the US rates and USD will Also Start to Trade Sideways**




*Source: Bloomberg, Maybank FX Research & Strategy*

**Choppy USD Ahead: FOMC Voting Panel in 2024 Mostly Made up of Voters that are Neutral**

| Members | Roles | Policy Inclination as of 2023 | Voting in 2023 | Voting in 2024 |
|---|---|---|---|---|
| Michelle Bowman | Board of Governor | Most Hawkish | Yes | Yes |
| Neel Kashkari | Fed Minneapolis | Most Hawkish | Yes | No |
| Thomas Barkin | Fed Richmond | Hawk | No | Yes |
| Christopher Waller | Board of Governor | Hawk | Yes | Yes |
| Loretta Mester | Fed Cleveland | Hawk | No | Yes |
| Lorie Logan | Fed Dallas | Hawk | Yes | No |
| Jeffrey R. Schmid | Fed Kansas City | Hawk | No | No |
| Jerome Powell | Fed Chair | Neutral | Yes | Yes |
| Philip Jefferson | Board of Governor | Neutral | Yes | Yes |
| Michael Barr | Board of Governor | Neutral | Yes | Yes |
| John Williams | Fed Vice Chair of FOMC | Neutral | Yes | Yes |
| Raphael Bostic | Fed Atlanta | Neutral | No | Yes |
| Susan Collins | Fed Boston | Neutral | No | No |
| Michael Barr | Board of Governor | Neutral | Yes | Yes |
| Raphael Bostic | Fed Atlanta | Neutral | No | Yes |
| Mary Daly | Fed San Francisco | Dovish | No | Yes |
| Lisa Cook | Board of Governor | Most Dovish | Yes | Yes |
| Patrick Harker | Fed Philadelphia | Most Dovish | Yes | No |
| Adriana Kugler | Board of Governor | Most Dovish | Yes | Yes |
| Austan Goolsbee | Fed Chicago | Most Dovish | Yes | No |

*Source: Federal Reserve Board, Bloomberg Fed Spectrometer as of 2 Jan 2024*

## EUR: Bottoming of Growth

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

No Change to Previous Forecasts

**Motivation:** We maintain our view for a gradually stronger EURUSD on the belief that growth in the Eurozone has bottomed out and is poised for a rebound over the course of 2024 eventually, which should drive the EUR stronger. In addition, a soft landing and fading US exceptionalism should lead to a gradually weaker USD. Preliminary data showed that the Eurozone economy stagnated in 4Q2023 with growth at 0% SA QoQ (exp: 0% ; prev: 0%) and +0.1% SA YoY (exp: 0.1%; prev: 0.1%). It is worrying that Germany, the largest economy, slipped into a technical recession in the last quarter. While still in line with our narrative for a bottoming, the process could also take a longer than expected time to play out.

EURUSD traded within a 1.0695 to 1.0898 range in Feb, lower than the range in Jan as lacklustre Eurozone data raised the risk of the ECB cutting rates first. The market seems wary of central bank pushback on rate cuts. Our sense remains that the ECB, and central banks in general, will err on the side of caution when it comes to rate cuts, given considerable uncertainty in the inflation outlook.

The ECB kept policy settings unchanged at their Jan 2024 meeting and reiterated that it would be premature to discuss rate cuts. They also continued their emphasis on data dependence in the setting of monetary policy. Thus far, inflation in Jan appears to be rather sticky with core CPI at 3.3% (exp: 3.3%; prev: 3.3%) and headline CPI at 2.8% (exp: 2.8%; prev: 2.8%). As such, we see the ECB standing pat at the upcoming meeting on 7 Mar 2024. This is in line with market expectations, and market is pricing in a 4.4% chance of a 25bps cut in rates.

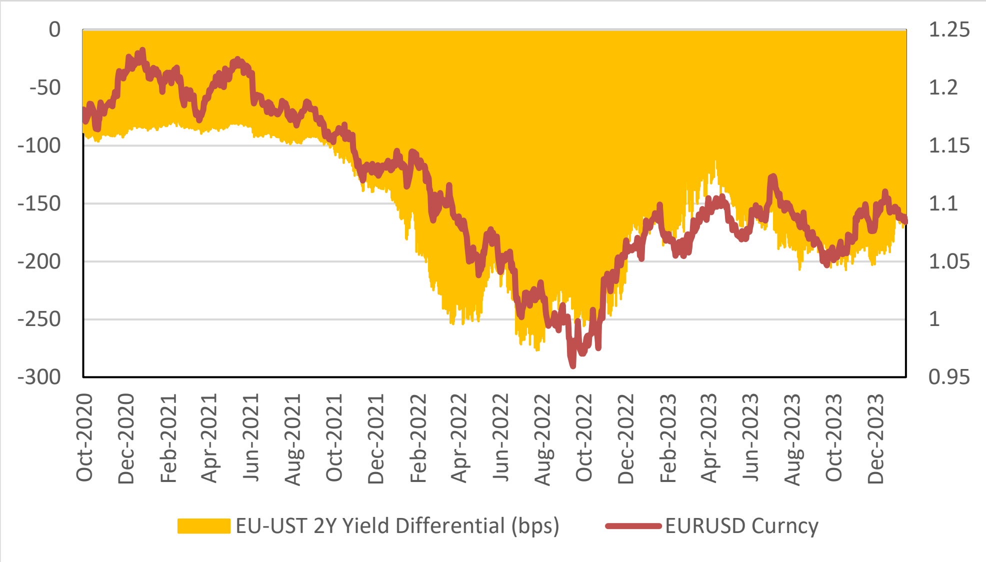
Against the backdrop of our base case scenario of a global soft landing, we see the USD gradually weaken and the potential for the EUR to strengthen even as the ECB starts to cut rates. We think that the ECB may only elect to cut rates after the Fed in 2024. We think that there could be a total of 75ps of cuts from the ECB in 2H2024 (swaps pricing: 150bps; forecast consensus: 100bps) and this is because inflation, while on the downtrend, is only expected to meaningfully return to ECB's target towards the end of 2025. This should be the key determinant for the hawks and the centrists, which make up the majority of the ECB Governing Council. On this basis, we suggest that the ECB will cut rates only after the Fed or only on a meaningful downshift in their inflation forecasts, which should be preceded by consistent lower inflation prints. Should our suggested scenario come to fruition, we should see some support for the EUR, given the current level of market positioning. In a scenario where global growth picks up and US exceptionalism fades, ECB rate cuts may not weigh on the EUR as much.

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

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. There is also a risk that this forces the ECB to cut rates first, which should result in EUR softness. This would entail a significant deviation from our base case scenario of a global soft-landing, and we do not think such a scenario is likely.

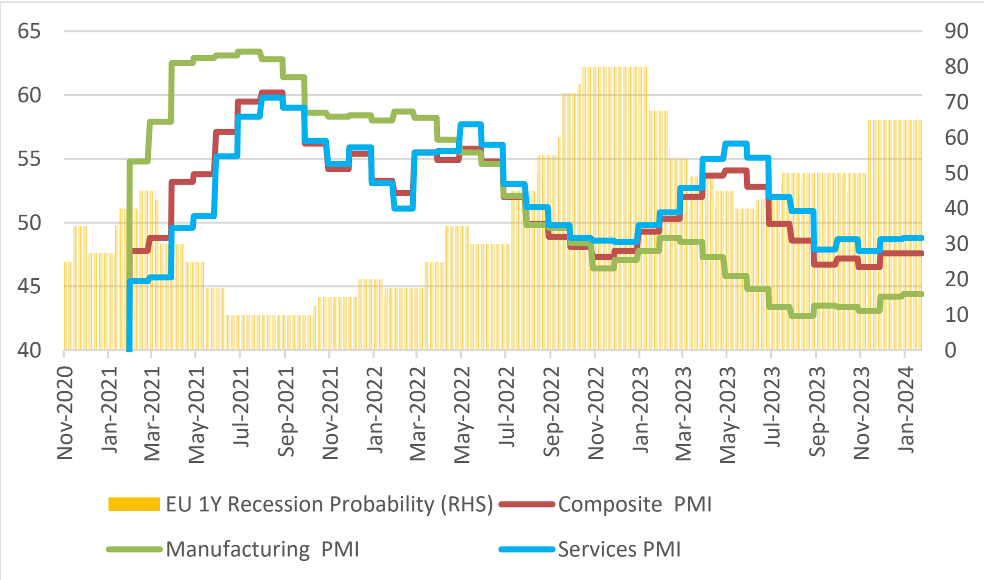
**Key Data/Events:** Feb F HCOB Eurozone Manufacturing PMI, Feb P CPI Inflation, Jan Unemployment Rate (1 Mar), Mar Sentix Investor Confidence (4 Mar), Feb F Eurozone Services/Composite PMI, Jan PPI Inflation (5 Mar), Jan Retail Sales (6 Mar), **ECB Policy Decision** (7 Mar), 4Q F GDP (8 Mar), Jan Industrial Production (13 Mar), Bloomberg Mar Economic Survey, Feb F CPI Inflation, Jan Trade Balance (18 Mar), 4Q23 Labour Costs, Mar ZEW Survey Expectations (19 Mar), Jan Construction Output, Jan Consumer Confidence (20 Mar), Mar P HCOB Eurozone Manufacturing/Services/Composite PMI, ECB Economic Bulletin, Jan ECB Current Account (21 Mar), Mar Consumer/Services/Industrial/Economic Confidence (27 Mar) and Feb M3 Money Supply (28 Mar).

**Yields Differentials Key Driver of EURUSD**




*Source: Bloomberg, Maybank FX Research & Strategy*

**Bottoming of PMIs Could Herald Growth Bottoming**




*Source: Bloomberg, Maybank FX Research & Strategy*

## GBP: Cautious Optimism

| | 1Q 2024 | 2Q 2024 | 3Q 2024 | 4Q 2024 |
|---|---|---|---|---|
| GBP/USD | 1.2400<br>(--) | 1.2500<br>(--) | 1.2500<br>(--) | 1.2500<br>(--) |

No Change to Previous Forecasts

**Motivation:** We retain our cautious outlook on the GBP and maintain our GBPUSD forecasts on the basis that there is considerable uncertainty with regards to the UK's fiscal position, growth prospects, political future, and inflation outlook. Our base case of a soft landing provides ample room for the USD to gradually weaken, although our suspicion is that the uncertainties surrounding the UK could cause drags for the GBP, which would then manifest itself in GBPUSD appreciating more gradually than other currencies.

On the fiscal front, Chancellor Hunt will unveil a budget on 6 Mar that is expected to feature tax cuts. However, tax cuts also tend to be inflationary and this could go against the BOE price stability objective. 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. Moreover, 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 £38b has been transferred to the BOE to make up for the losses.

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

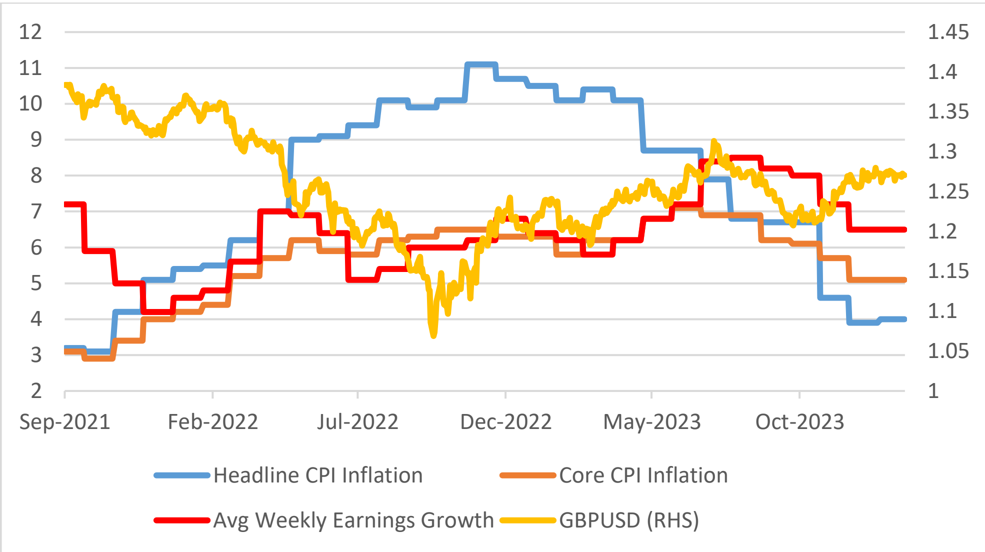
Prelim 4Q23 GDP data showed that the UK slipped into a technical recession in the last quarter of 2023. Growth came in at -0.3% QoQ (exp: -0.1%; prev: -0.1%) and -0.2% YoY (exp: 0.1%; prev: 0.2%). Full 2023 growth is expected at 0.3% YoY, although 2024 looks to be slightly better at 0.4% YoY before picking up to 1.2% YoY in 2025. Jan inflation prints showed that inflation could once again start to ease and resume on a downward trajectory. Headline was at 4.0% YoY (exp: 4.1%; prev: 4.0%) although sequentially prices fell -0.6% MoM (exp: -0.3%; prev: 0.4%). Core inflation remains sticky at 5.1% YoY (exp: 5.2%; prev: 5.1%).

BOE kept its policy rate unchanged at its 1 Feb meeting and we expect them to stand pat at the next 21 Mar meeting as well. We expect a total of 75ps of cuts (OIS pricing: 75bps) for the BOE from 2H2024 onwards this year, and it is also likely that the BOE cuts rates only after the Fed has done so. BOE policymakers are clearly concerned about the stickiness of inflation, with Deputy Governor Ramsden being quoted as saying that "Key indicators of inflation persistence remain elevated" while Greene said that more evidence was needed before voting for cuts. On the other hand, Dhingra said that inflation was on a "firm downward path" and the risks of overtightening could cause a hard landing. Governor Bailey said that market bets on rate cuts were "not unreasonable" and added that inflation need not be back at target before interest rates were cut.

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

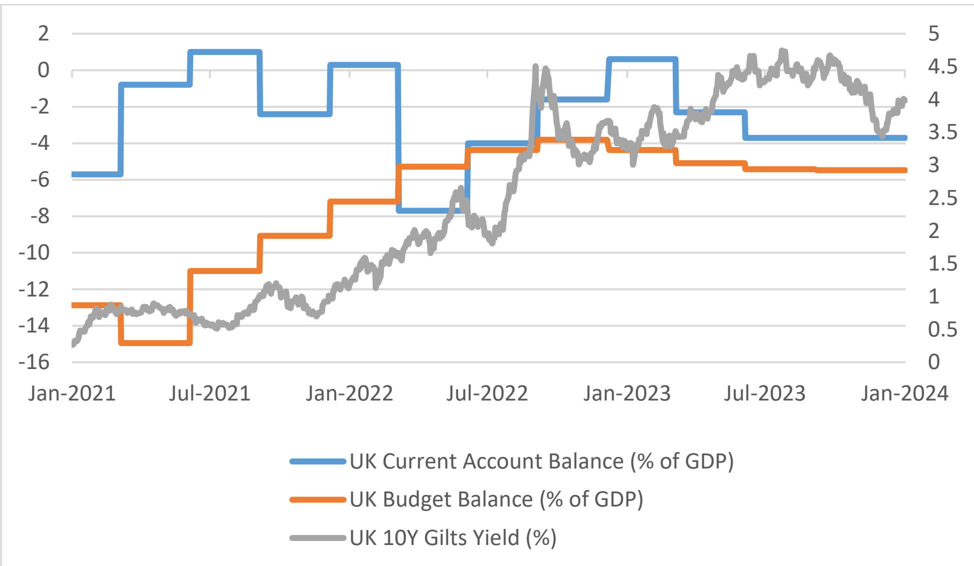
**Key data/events:** Feb Nationwide House Px, Feb F S&P UK Manufacturing PMI (1 Mar), Feb BRC Sales, Feb Official Reserves Change, Feb F Services/Composite PMI (5 Mar), Feb Construction PMI, UK Budget (6 Mar), Feb Construction PMI (7 Mar), Feb DMP 3M Output Price Expectations, Feb DMP 1Y CPI Expectations (7 Mar), SP/KPMG/REC UK Jobs Report (8 Mar), Jan ILO Unemployment, Jan Employment Change, Feb Claimant Count, Feb Jobless Claims, Jan Average Weekly Earnings, Bloomberg March UK Economic Survey (12 Mar), Jan Monthly GDP, Jan Industrial/Manufacturing Production, Jan Trade Balance (13 Mar), Feb RICS House Price Balance (14 Mar), Feb BOE/IPSOS Inflation next 12M (15 Mar), Mar Rightmove House Prices (18 Mar), Mar CBI Trends (18 Mar to 24 Mar), Feb CPI/RPI/PPI Inflation, Jan House Price Index (20 Mar), Feb Public Finances, Public Sector Net Borrowing. Mar P S&P Manufacturing/Services/Composite PMI, BOE Policy Decision (21 Mar), CBI Sales (21 Mar to 27 Mar), Mar GfK Consumer Confidence, Feb Retail Sales (22 Mar), Mar Lloyds Business Barometer/Own Price Expectations, 4Q F GDP, 4Q Current Account Balance (28 Mar) and Mar Nationwide House Px (30 Mar to 5 Apr).

## Inflation Remains a Worry, Although Wage Pressures Abate




*Source: Bloomberg, Maybank FX Research & Strategy*

## CA and Fiscal Deficits Have Shrunk, Gilts Remain Elevated




*Source: Bloomberg, Maybank FX Research & Strategy*

## AUD: Consolidation Continues

| AUD/USD | 1Q 2024 | 2Q 2024 | 3Q 2024 | 4Q 2024 |
|---|---|---|---|---|
| | 0.66<br>(--) | 0.68<br>(--) | 0.70<br>(--) | 0.70<br>(--) |

No Change to Previous Forecasts

**Motivation:** We remain constructive on AUD and look for dips to buy into as above-target inflation could keep RBA hawkish (not helped the least by upcoming relief measures to help Australians to cope with cost of living, and still rising population growth due to migrants), longer-term constructive macro backdrop for Australia's resource mix amid the global pursuit of green transition and recovery (beyond the near-term pressure). We monitor China's efforts to stabilize its property sector and ease local government debt as a lack of progress on those fronts could mean weaker demand for Australia's exports and slow AUD's climb towards the 0.70-handle vs. the USD.

**One of the Few Hawks Remaining.** RBA remains one of the few central banks in the developed world to hang on to its tightening bias. At the 6 Feb meeting, there was no clear pivot to neutral as RBA kept the reference to the possibility of further hikes unlike what we have seen in the policy statements from the Fed, BoC, BoE, etc. In her speeches and press conferences, Governor Bullock reiterated the point that a rate hike cannot be ruled out due to sticky service prices. The Minutes revealed that a hike was even considered in Feb. Taken together, RBA could be further along the hawkish spectrum compared to peers.

**Unlikely to Hike Though.** With regards to the next decision on 19 Mar, it is highly unlikely that the central bank would need to hike as consumption (as proxy by retail sales) continues to ease, labour market conditions are coming to balance and business confidence remains tepid based on surveys. We hold the view that the central bank would probably only need to cut cash target rate by 50bps starting from Aug onwards and take it from 4.35% to 3.85%. With RBA likely one of the central banks that ease later, AUDUSD may continue to enjoy some support from potential carry advantage.

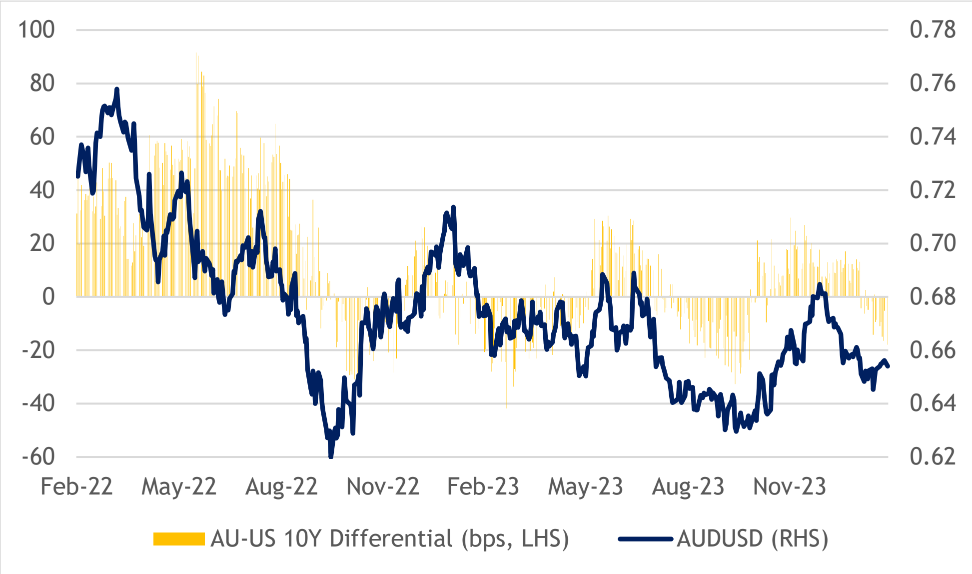
We continue to watch the impact of PM Anthony Albanese's tax adjustments to help Australians cope with the cost of living, whilst making the tax system more equitable. The adjustment will take effect from Jul 2024 and the Ministry of Finance reported that the adjustments would be "budget and inflation neutral". Still, we monitor the potential boost to spending as well as inflation in 2H. Taking these into account, subdued consumer and business confidence as well as easing labour market conditions, we anticipate that the next move by the RBA is still skewed towards a cut but that could only come in Aug and we are likely to see a total of 50bps cut for this year.

**China's economic recovery remains a question mark.** 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, the rumoured additional CNY 1 trn special sovereign bond plan on 16 Jan that did not seem to have materialized. The outlook for iron ore prices seem to have weakened with China's real estate still on a downward spiral and local government still facing financing pressure. As a result, there seems to be less room for infrastructure spending at this point. Any stronger cyclical upswing of the Chinese economy would be an additional boon.

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

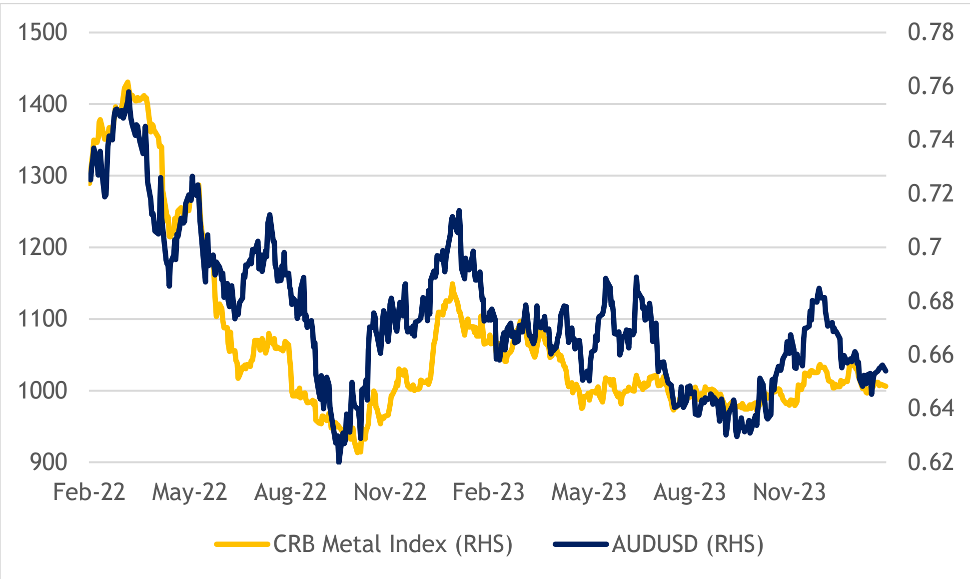
**Key Data/Events:** Feb M-I inflation, Jan building approvals [4 Mar], current account 4Q [5 Mar], Jan trade, home loans [7Mar], NAB business confidence for Feb [12 Mar], RBA Policy Decision, Prelim. Mfg PMI, Feb labour report [21 Mar], Feb CPI [27 Mar], Feb retail sales [28 Mar].

**AU-US Yield Differential Swings Between Discount and Premium**




*Source: Bloomberg, Maybank FX Research & Strategy*

**Base Metals Remain Subdued as Global Growth Slows, Crimps on AUD**




*Source: Bloomberg, Maybank FX Research & Strategy*

## NZD: Carry Superiority Retained, Buy on Dips

| NZD/USD | 1Q 2024 | 2Q 2024 | 3Q 2024 | 4Q 2024 |
|---|---|---|---|---|
| | 0.61<br>(--) | 0.62<br>(--) | 0.63<br>(--) | 0.63<br>(--) |

No Change to Previous Forecasts

**Motivation:** We retain our constructive view on the NZD as the currency continues to enjoy improvement in trade balance, demand resilience due to tight labour market and net migration inflows as well as yield advantage. This constructive view is not without risks, especially given the fact that we are in a late cycle phase of the economy for most countries and accidents could happen in light of tight financial conditions, weakening demand as well as lingering geopolitical risks (Israel-Gaza, War in Ukraine, US-China tensions). Any escalation on these front could swing the risk-sensitive NZD lower.

**Risks to the Inflation Outlook Becoming More Balanced.** This was the key takeaway from the RBNZ policy statement on 28 Feb. The antipodean had a rather action-packed Feb. Higher food prices, rentals spurred hawkish re-pricing of the central bank and lifted the NZD at first. RBNZ eventually held the official cash rate unchanged at 5.50% and made mention that risks to the inflation outlook have become more balanced as demand is being dampened by policy settings. This reduced the chances of another rate hike in this cycle and NZD reversed out most of its gains in Feb.

The rest of the statement was arguably less hawkish than the one in Nov 2023 as the central bank noted the decline in tradeables and non-tradables inflation, more subdued wage inflation. Pressures in the labour market are expected to continue to ease. Capacity pressure is projected to decline further. Base case scenario is for the recent rise in global shipping costs to be transitory and thus, reverse. A monetary response is only required if these costs remain elevated for longer than expected. In addition, RBNZ highlighted the downside risks to China's economy that could also weigh on global economy and New Zealand export and import prices. Taken together, RBNZ was less hawkish than expected and that unwound rate hike bets and bullish positions of NZD.

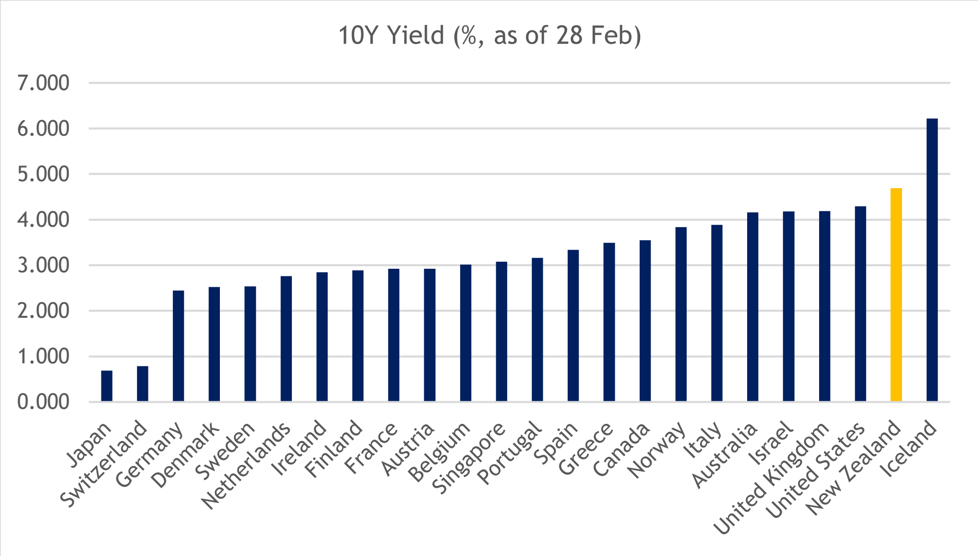
**Inflation to be Back Within Target by Sep Quarter.** Headline inflation is still expected to drift within the 1-3% target band in 3Q 2024 (Sep quarter) and current monetary policy settings could help bring headline inflation back to 2% target midpoint in 2025. RBNZ warned about its "limited tolerance to increase the time to the target mid-point" given the economy's limited capacity to absorb further upside inflation surprises. This does suggest that RBNZ would be cautious not to ease so soon. While this does not sound too different from peers, the RBNZ's estimates on its official cash rate suggest a rate cut only in 2025, much later than Fed's guidance to target rate by a median projection of 75bps this year. RBNZ's single inflation mandate gives this quite a bit of credibility. NZD is thus likely to retain a yield advantage over its peers for quite a while this year and that could probably give NZD some support. **We continue to prefer the buy the NZDUSD on dips.**

**Slower improvement in Terms of Trade.** A key supportive factor of the NZD for a while now could be the rise in Global Dairy Auction prices. The global dairy trade average prices have been on the rise since it bottomed last Aug and was last at $3664 vs. the Aug low of $2875. That is a 27% increase in dairy prices over the past few months and should continue to be supportive of its trade balance. The pace of increase could decelerate as global growth slows. New Zealand's **trade deficit had widened a tad to NZD976mn in Jan vs. previous NZD368mn.**

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

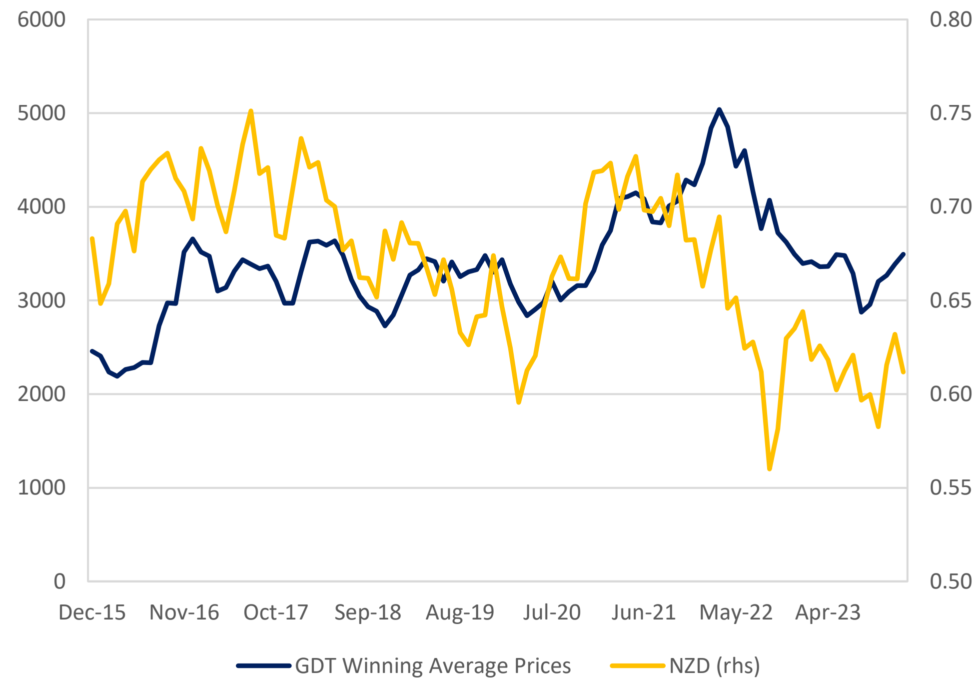
**Key Data/Events:** ANZ Feb Consumer Confidence, Jan building permits [1 Mar]; Terms of trade 4Q [4 Mar], ANZ Commodity price [5 Mar], REINZ Feb house sales [10-14 Mar], Feb card spending [12 Mar], Feb food prices [14 Mar], Jan net Migration [14 Mar], Feb BusinessNZ Mfg PMI [15 Mar], Feb Performance services index [18 Mar], 4Q GDP [21 Mar], Feb Trade [22 Mar], ANZ Consumer confidence [28 Mar]

**New Zealand Has Significant Carry Advantage**




*Source: RBNZ, Bloomberg, Maybank FX Research & Strategy*

**Modest Rise in GDT Prices to Remain Supportive of NZD**




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

## CAD: Bumpy Disinflation Risks

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

No Change to Previous Forecasts

**Motivation:** CAD started to stabilize in Feb on elevated wage growth and stronger-than-expected retail sales. Such signs of economic resilience could continue to keep the disinflation trend rather bumpy. BoC could continue to remain wary of easing too soon. Market pricing suggest a rate cut to happen only in Jun. We reckon this remains fluid, especially if the unemployment rate resumes its uptrend. As such, we retain our USDCAD forecast at 1.36 for 1Q 2024. Into the middle of 2024, we expect more central banks to get into the easing mode as inflation drifts nearer to respective targets and we anticipate USDCAD to come off more discernibly at that point. Risk-sensitive CAD should thrive as global growth outlook brightens a tad on a more benign inflation environment and as businesses and consumers look forward to a looser monetary policy environment.

**BoC To Keep Cautious Bias With Regards to First Cut.** At the last meeting, BoC had the "economy in modest excess supply", albeit still concerned about the "persistent core inflation". Since then, core inflation seems to have eased only a tad to 3.35% (average of core and median CPI), still above the 1-3% target. Risks to the rate trajectory remain rather balanced according to the Summary of deliberations as members acknowledged that the high borrowing costs have slowed demand and weakened consumer confidence. On the other hand, progress towards inflation target is still seen as slow and underlying price pressures remained. This seem similar to other G7 central banks - Macklem stressed that there needs to be "clear downward momentum in inflation" before the central bank discusses on cuts. Given that inflation has continued to ease, we still see risks that the BoC could be one of the first few DM central banks to ease. The first cut could happen in Jun.

**Small improvement seen in data.** Although Jan PMI remained contractionary, Mfg PMI rose a tad to 48.3 vs. prev. 45.4. Services PMI ticked higher to 45.8 from previous 44.6. The labour market showed a slight improvement in conditions with a surprising decline in jobless rate to 5.7% from 5.8%. Wage growth even decelerated to 5.3%y/y from previous 5.7%. Recall that 4Q business outlook survey (by BoC) suggest some signs of improvement in business sentiment, from -3.5 to -3.2. More respondents are on net more positive on future sales growth at 20 in 4Q vs. previous 14.0. However, consumer confidence might have become a tad pessimistic with 2y inflation expectation still elevated at 3.9% and probability of losing job increasing to 10.9% vs. 10.6% in the quarter prior. CFIB business barometer has risen a tad to 49.0 in Jan from previous 47.3 but it is largely still weak. There could still be a resumption of an uptrend in jobless rate and as such, we continue to see some upside risks to the USDCAD in the first quarter before the broader USD decline bring the pair lower as the world starts to embark on a more synchronized easing cycle alongside the Fed. The last shoe to drop before BoC can cut rate would have to be a more material slowdown in wage growth.

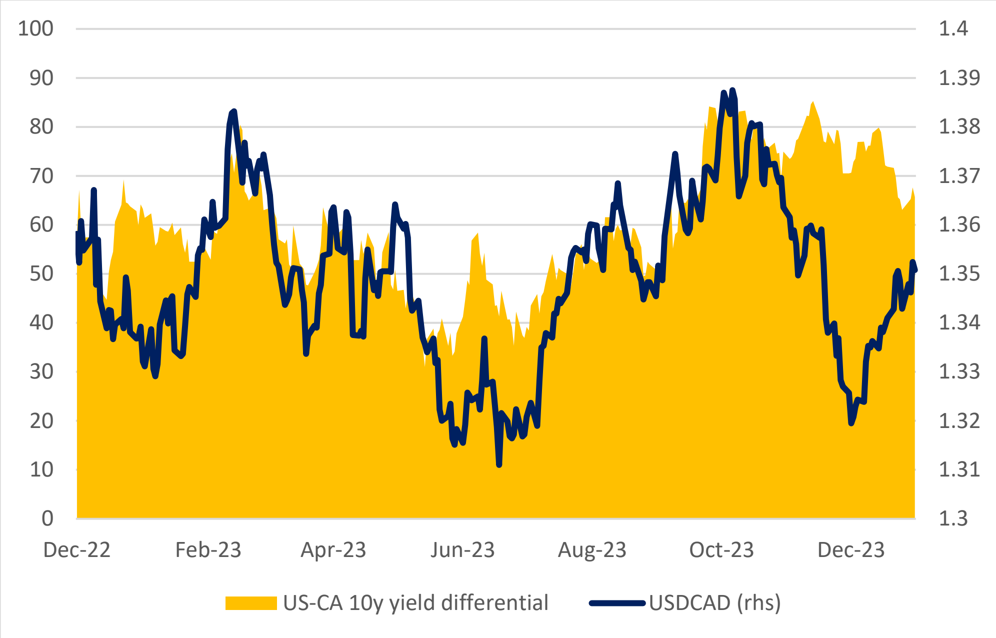
**Oil to be of Little Help now but watch for its recovery to add boost to CAD.** Oil tends to amplify the effects of market sentiment on the CAD. However, in times of supply shocks, oil price increase does not really boost CAD much and CAD tends to be more risk-sensitive in those risk-off episodes. With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

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

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

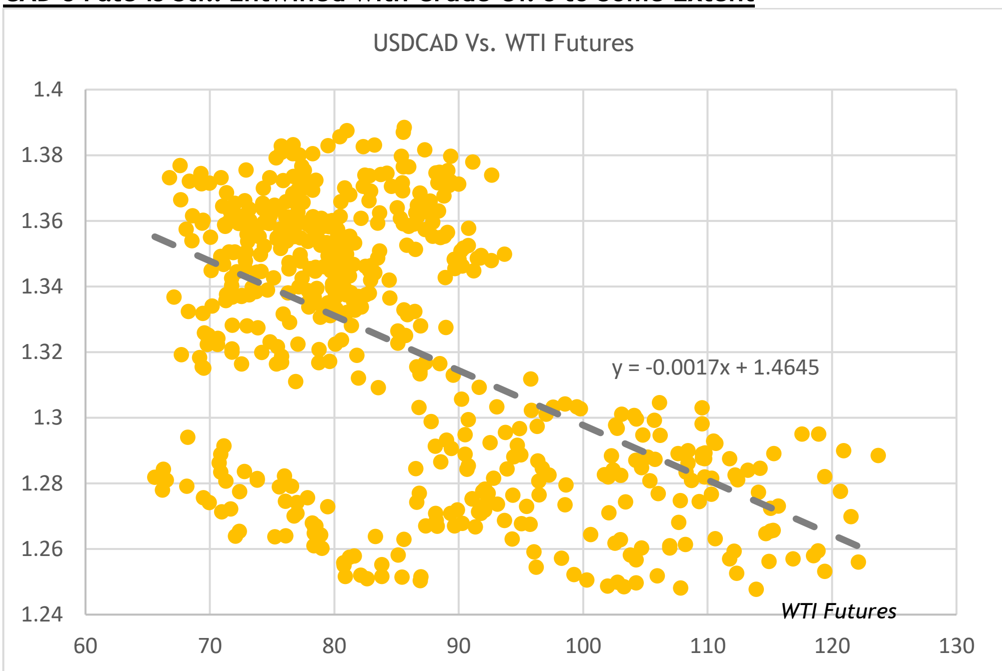
**Key Data/Events:** Feb Mfg PMI [1 Mar], Feb Services PMI [5 Mar], BoC policy decision [6 Mar], building permits, Jan trade [7 Mar], Feb labour report [8 Mar], Jan Mfg sales [14 Mar], Feb CPI [19 Mar], Jan retail sales [22 Mar], CFIB Mar business barometer, Jan GDP [28 Mar].

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




*Source: Bloomberg, Maybank FX Research & Strategy*

## CAD's Fate is Still Entwined with Crude Oil's to Some Extent




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

## CHF: Two-Way Intervention

| USD/CHF | 1Q 2024 | 2Q 2024 | 3Q 2024 | 4Q 2024 |
|---|---|---|---|---|
| | 0.8700 | 0.8600 | 0.8500 | 0.8400 |
| | (--) | (--) | (--) | (--) |

No Change to Previous Forecasts

**Motivation:** We maintain our forecasts for USDCHF on the belief that the USD will gradually weaken through 2024 as the Fed cuts rates and US exceptionalism fades. In Dec, Swiss National Bank (SNB) declared that interventions would no longer just be one-sided i.e. SNB could look to build reserves after a period of supporting CHF strength to combat inflationary pressures. This move is in line with inflation coming off and not having to be as vigilant against imported inflation as a result. Swiss reserves have seen an uptick since this announcement, although an argument could also be made that SNB may not look to actively weaken the CHF and the uptick could be due to other factors such as valuation effects. That said, we remain cautious that SNB could look to accumulate reserves and moderate any CHF appreciation moving forward.

The Swiss economy is likely to see moderate growth of +1.1% YoY in 2024 and +1.5% YoY in 2025 according to consensus estimates. The chance of a recession over the next 12 months is 20% and 2023 GDP is expected to print at +0.7% YoY. Manufacturing activity is still weak with Jan PMI at 43.1 (exp: 44.5; prev: 43.0) although services activity remains in expansion at 54.6 (prev: 56.9). Trade activity has also weakened with Jan exports at -0.4% MoM (prev: 1.1%) and imports at -4.3% MoM (prev: 2.2%). Sight deposits, the amount of cash banks held with SNB, have been rising, which is typically a sign that SNB could have intervened to weaken the CHF.

Inflation looks to be slowing in Switzerland. Jan CPI printed at 1.3% YoY (exp: 1.7%; prev: 1.7%), although prices saw a sequential rise of 0.2% MoM (exp: 0.6%; prev 0.0%). Inflation coming off 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%. President Thomas Jordan said that it is unlikely that inflation exceeds this target, although he sees it approaching the ceiling of the target. Unemployment is stable at 2.2% SA (exp: 2.2%; prev: 2.2%). Against this backdrop, we think the SNB will hold its rate steady at 1.75% at the 21 Mar meeting. While inflation is benign, SNB will likely want to be a bit more cautious, especially given Jordan's belief that inflation would approach the ceiling of the target range. Longer term, we think that SNB could cut rates up to 3 times in 2024 to 1.00% as inflation is expected to be on a broad retreat. However, we think it is likely that they cut after the Fed. On balance, we do still expect the CHF to appreciate against the USD over the course of the year.

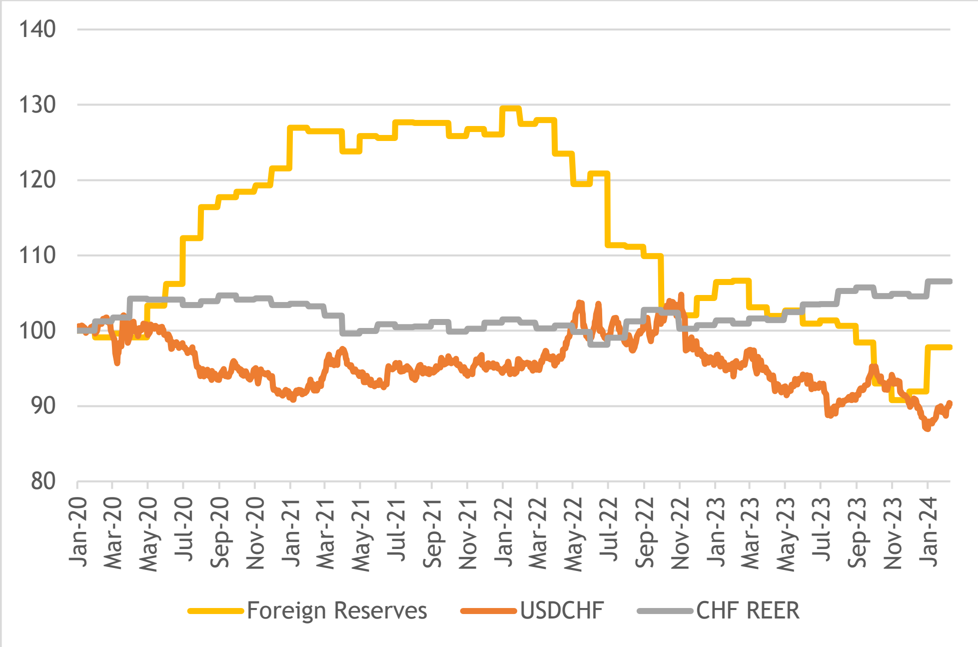
While the SNB is unlikely to be as interventionist as India in its management of the CHF, we do keenly observe for signs of SNB intervention to weaken the CHF. Given that inflation appears to be coming off and the downside risks to growth, we cannot rule out SNB easing via both weakening the CHF and 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.

**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.

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.

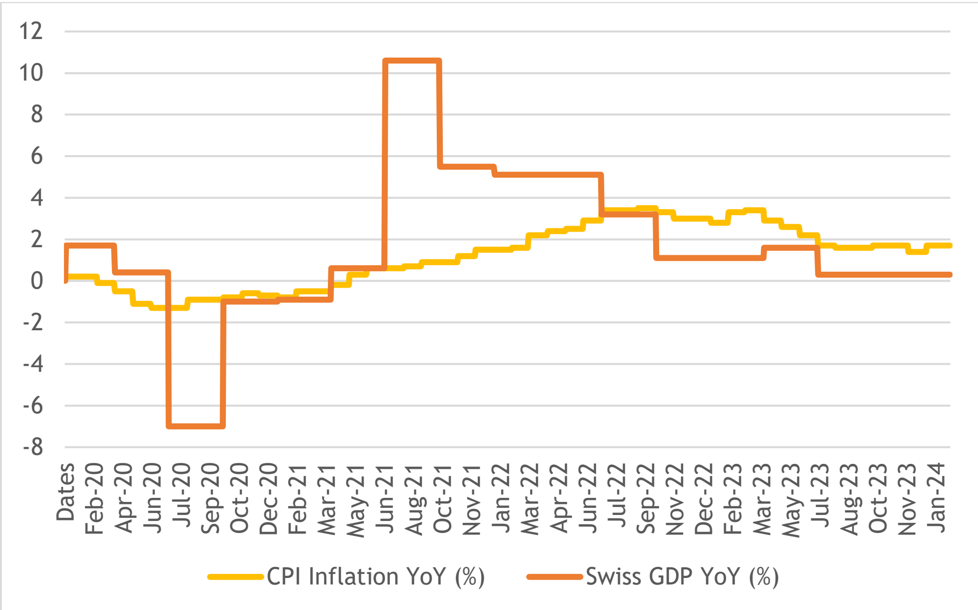
**Key Data/Events:** Jan Retail Sales, Feb Manufacturing/Services PMI (1 Mar), Feb CPI, Feb Unemployment, Feb FX Reserves (7 Mar), Feb SECO Consumer Confidence (11 Mar), Feb Producer & Import Prices (14 Mar), Bloomberg Switzerland Economic Survey (18 Mar), Feb Exports/Imports, SECO Mar Economic Forecasts (19 Mar), Feb Money Supply, **SNB Policy Decision** (21 Mar), KOF Spring Economic Forecast (26 Mar), UBS Survey Expectations (27 Mar), Mar KOF Leading Indicator (28 Mar), Feb Retail Sales (28 Mar to 2 Apr) and 4Q2023 FX Transactions (29 Mar).

**SNB Intervention Now Two-Way (Base = Jan 2022)**




*Source: Bloomberg, Maybank FX Research & Strategy*

**Benign Inflation and Moderate Growth Could Encourage Easing via Rates and Currency**




*Source: Bloomberg, Maybank FX Research & Strategy*

## JPY: Economic Weakness, NIRP Exit Still Likely

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

No Change to Previous Forecasts

**Motivation:** We leave our forecasts unchanged for USDJPY as recent developments continue to be supportive of the numbers. Japanese economic data looks to be pointing to weakness as the country is now in a technical recession and high frequency activity data such as the IP and PMI are also implying similarly. However, we continue to believe that the BOJ would exit NIRP in Apr and not earlier. The JPY is at risk of being volatile as market awaits a BOJ move although it may get a slight lift once the exit is done. However, given that the NIRP exit would not actually amount to much in terms of significantly narrowing the yield differential with the US, the USDJPY would ultimately still be more heavily affected by the path of the Fed policy rate. Due to the US economy holding up well, the Fed is likely to undertake a more measured pace of easing which would mean that the USDJPY would only see a gradual and limited fall throughout this year. Near term, we expect the pair to continue to trade in a range of 147.00 – 152.00 and finish the quarter at 150.00.

Economic data releases during the last month have shown a fragile and weak economy with the country now in technical recession. The 4Q (P) GDP alone came out at -0.4% QoQ which was the second quarter that the economy was in contraction (3Q. -3.3% QoQ). In particular, the private consumption continued to decline, which underlines the substantial domestic weakness. Business spending also continued to fall. Higher frequency data such as Feb (P) Jibun Bank PMI mfg and Jan (P) IP were also weak at 47.2 and -7.5% MoM respectively. Given the softening domestic condition, elements of doubt has emerged on whether the BOJ can actually undertake an NIRP exit.

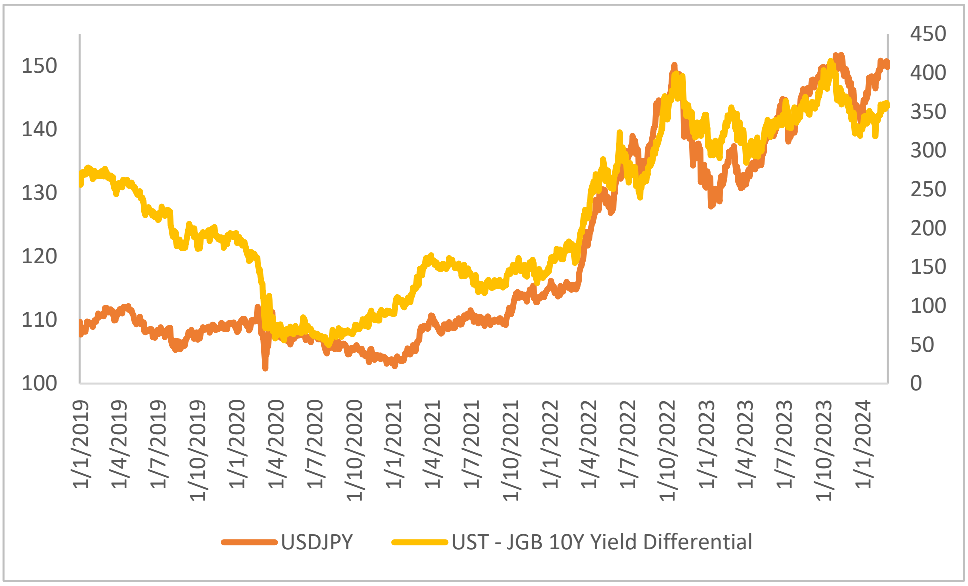
We do note however that headline Jan CPI was stronger than expected at 2.2% YoY (est. 1.9% YoY) and so were the core and core core numbers at 2.0% YoY (est. 1.9% YoY) and 3.5% YoY (est. 3.3% YoY) respectively. Inflation for now it seems still is holding above the target 2.00%, which would give leeway for a BOJ NIRP exit. We are expecting a strong result from the Spring wage negotiation which would be occurring over the first quarter. A strong number could be above 3% that would be similar to last year’s level, which in itself was also the highest rate in 30 years. For this year, some unions are aiming for levels at 5% or more but some companies are noted to already be looking at raising wages by 7%. As a whole, we continue to believe the BOJ would still choose to exit NIRP at the Apr meeting after these wage negotiations and would not do it earlier in Mar. Also, the OIS implies a 58% chance that the BOJ would move at the Apr meeting and 34% chance of an Mar move. However, at this point, we also think the BOJ would unlikely undertake any further action beyond the NIRP exit in 2024 as they would still be fairly cautious in ensuring that inflation can hold up especially amid the weak economy. This means, we also still expect that US rates would be the major driver for the USDJPY for most of 2024.

Words recently from the BOJ board member Hajime Takata are also pointing to an increased likelihood of BOJ NIRP exit this year. The more neutral board member had recently said that “there are uncertainties for Japan’s economy” but that his “view is that the price target is finally coming into sight”. He had also mentioned that Japan is “at a juncture for a shift in the entrenched belief that wages and inflation won’t rise”. The board member though has not specified a timing for when the NIRP exit would occur. Ueda’s words in Feb appear too to be pointing to an NIRP exit as he continued to reiterate that he “expect that a virtuous economic cycle in which inflation rises gradually with an increase in wages and employment will strengthen”. He also stated that “signs have been observed that businesses are becoming more active when deciding wages as labor demand tightens”. At the same time, Ueda also appeared to be pushing back at a Mar NIRP exit as he recently said, “we are not yet in a position to foresee the achievement of a sustainable and stable inflation target”. These comments came after speculation of Mar move had emerged.

**Risks Ahead:** This includes economic data weakening heavily (GDP, CPI, etc) or disappointing results from the Spring Wage negotiation that could lead to the BOJ deciding not to make any policy adjustments this year. Another risk is any reacceleration in US inflation that could lead to the Fed starting to hike again or rates staying higher for longer.

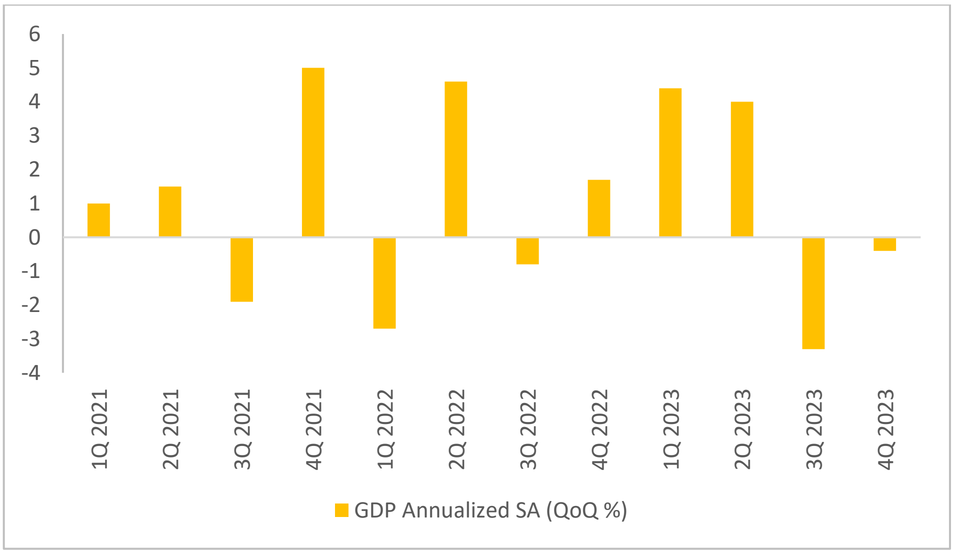
**Key Data/Events:** Jan jobless rate (1 Mar), Jan job-to-applicant ratio (1 Mar), Feb consumer confidence index (Feb), 4Q capital spending (4 Mar), 4Q company profit/sales (4 Mar), Feb Tokyo CPI (5 Mar), Jan cash earnings (7 Mar), Feb Tokyo avg office vacancies (7 Mar), Jan household spending (8 Mar), Jan trade BoP trade and CA balance (8 Mar), Feb bank lending (8 Mar), Feb eco watchers survey (8 Mar), Jan (P) leading/coincident index (8 Mar), Feb M2/M3 (11 Mar), 4Q (F) GDP (11 Mar), Feb PPI (12 Mar), 1Q BSI large all industry/manufacturing (12 Mar), Jan tertiary industry index (15 Mar), Jan core machine orders (18 Mar), Feb nationwide dept sales (18 – 25 Mar), Feb Tokyo dept store sales (18 Mar – 22 Mar), Jan capacity utilization (19 Mar), BOJ policy decision (19 Mar), Feb trade data (21 Mar), Jibun Bank PMI mfg/services/composite (21 Mar), Feb Tokyo condominiums for sale (21 Mar), Feb CPI (22 Mar), Feb PPI services (26 Mar), Mar Tokyo CPI (29 Mar), Feb jobless rate (29 Mar), Feb job-to-applicant ratio (29 Mar), Feb retail sales (29 Mar), Feb dept store, supermarket sales (29 Mar), Feb (P) IP (29 Mar) and Feb housing starts (29 Mar).

## Wide Yield Differentials with the US Continue to Weigh on the JPY



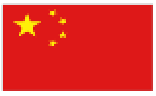

*Source: Bloomberg, Maybank FX Research & Strategy*

## Economy is now in Technical Recession But We Still See an NIRP Exit in April




*Source: Bloomberg, Maybank FX Research & Strategy*

## RMB: Watching the Two Sessions



| | 1Q 2024 | 2Q 2024 | 3Q 2024 | 4Q 2024 |
|---|---|---|---|---|
| USD/CNY | 7.15 (--) | 7.10 (--) | 7.15 (--) | 7.20 (7.15) |

Previous Forecasts in Parenthesis

**Motivation:** We hold the view that USDCNY can drift towards 7.10 by the end of 2Q, weighed by the broader USD decline as the Fed embarks on the easing cycle. Since the start of 2024, there were quite a number of plans being circulated – from a CNY1trn special sovereign debt issuance on 17 Jan 2024 (that is crisis-linked) to CNY2trn stock rescue/stabilization fund (23 Jan 2024). Only the 50bps RRR cut that was provided ahead of the Spring Festival was concrete. However, despite that liquidity provision alongside a 5Y LPR (mortgage linked) cut of 25bps, China's real estate remain in the doldrums with prices still on the decline. The key risk of a persistent fall in home prices is the negative wealth effect on consumers, the lack of land revenue for local government that keeps them cash-strapped and also limit their ability to provide support for their respective municipals and provinces. Eyes are on the NPC that starts on 5 Mar. We raised year-end forecast to 7.20 to take into account potential risks of anti-China sentiment building further in the run up to US Elections in Nov.

**Two Sessions:** These are some key areas to watch for the upcoming annual two sessions. 1) Growth and other annual targets will be released as well as Premier Li Qiang's first work report. Expectations are for GDP growth target to remain "around 5%" but our economist pencils in real GDP growth for 2024 to be much lower at 4.4%. 2) Other strategies to stabilize demand and employment whilst the economy is in transition. 3) Key sectors to focus on apart from high-tech manufacturing sector. PBoC had urged banks to provide stronger financing support for technology, green, inclusive, pension and digital. 4) Expect monetary policy to remain "flexible, appropriate, targeted and effective". 5) Fiscal policy will be "proactive, strengthened and better in terms of quality and efficiency". These have been reiterated at recent politburo meeting. Our economist looks for budget deficit to be raised to above 4% of GDP this year vs. 3.8% in 2023.

**How did China land in this state?** Harsh and draconian policies of recent years have resulted in a severe scarring of business, consumer and investors' confidence. China has begun to shift away from its unsustainable policy of relying on its real estate cycles to drive growth towards a recovery driven by infrastructure stimulus, investments in high-tech manufacturing in the interest of long-standing technology competition with the US.

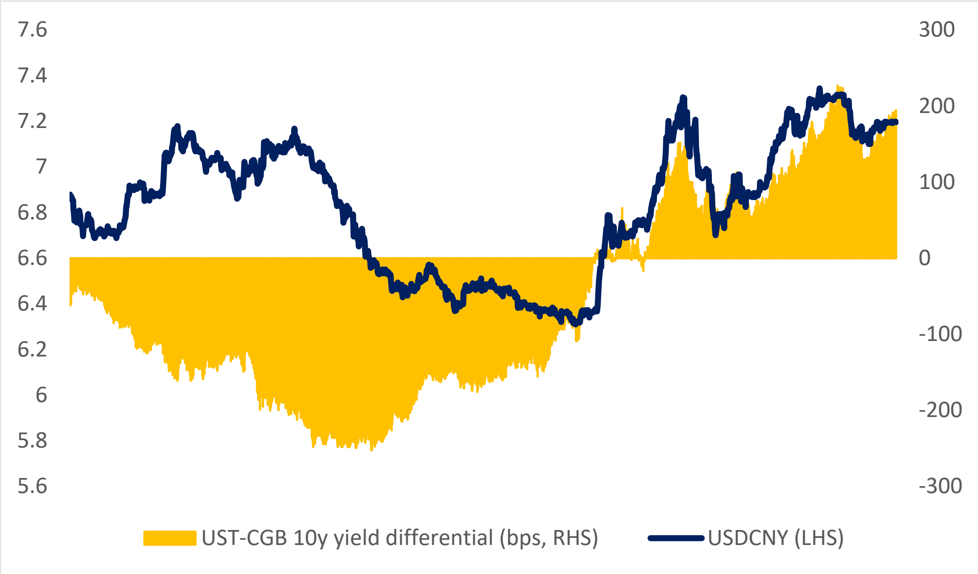
China does not release activity data in Feb. Rather, Jan-Feb data will be released in Mar which will give a better picture of overall growth momentum without the distortion of Spring Festival breaks that jump between Jan and Feb year to year. Credit data still suggest anaemic demand at home. New yuan loans slowed to 10.1% from previous 10.40%. Aggregate financing steadied at 9.50% for Jan. Lending to household rose in Jan but whether this recovery can sustain remains to be seen, especially after the Lunar New Year Festivities.

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

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

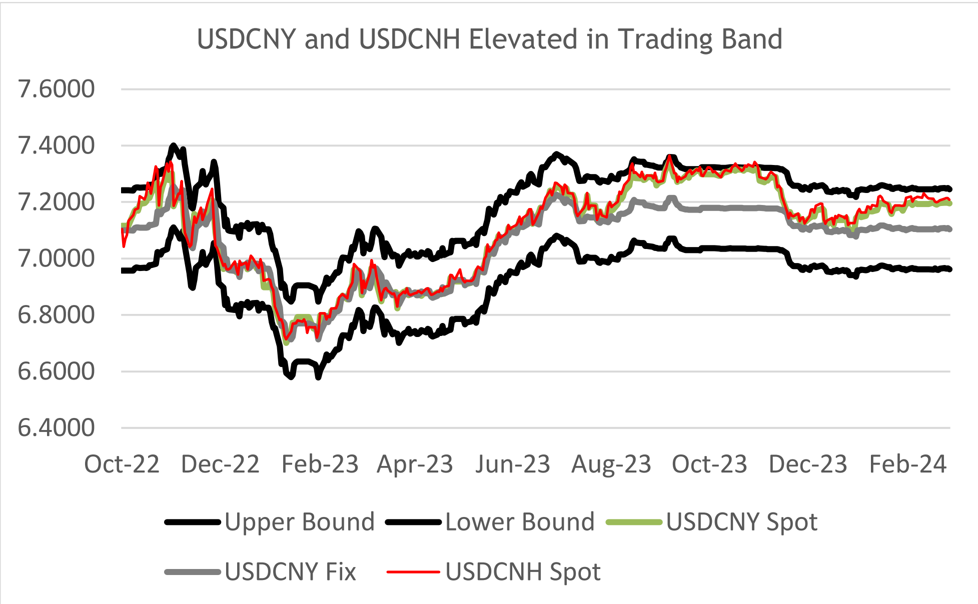
**Key Data/Events:** Caixin Feb Services PMI [5 Mar], Feb trade, foreign reserves [7 Mar], Feb CPI, PPI [9 mar], Feb credit data [9-15 Mar], Feb FDI [11-18 Mar], 1Y MLF [15 Mar], New home prices, used home prices for Feb, FX Net settlement [15 Mar], Feb retail sales, FAI, IP [18 Mar], 1Y,5Y LPR [20 Mar], Feb industrial profits [27 Mar], NBS Mfg, Non-Mfg PMI for Mar [31 Mar].

**UST-CGB Yield Differential Still Keeping USDCNY Elevated**




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

**Strong Daily CNY Fix Keeps USDCNY on a Flat-Line**




*Source: Macrobond, Maybank FX Research & Strategy*

## KRW: Likely Boost from AI Exuberance

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

No Change to Previous Forecasts

**Motivation:** We maintain a positive outlook on USDKRW and see the recovery of the chip cycle and electronics demand as a key driver for KRW strength in 2024. The global chip cycle has shown signs of a bottoming and coupled with increased exuberance over artificial intelligence (AI) could potentially drive outperformance for the KRW with potential boosts to both the economy and trade. Given our broad expectations for a global soft-landing, a high beta currency like the KRW would also tend to outperform should this come to fruition.

The latest 4Q23 advance GDP prints suggest that the Korean economy could be on a cusp of a recovery. GDP grew by 2.2% YoY (exp: 2.1%; prev: 1.4%) in the last quarter of 2023, implying an annual growth rate of 1.4% YoY (exp: 1.4%; prev: 2.6%). The steady rate of growth should be supportive of the KRW, and we think that an uptick to growth could occur on AI exuberance and a bottoming of the global electronics/chip cycle. This should provide a further boost to the KRW. Jan Exports showed signs of improvement at 18.0% YoY (exp: 17.6%; prev: 5.0%).

Jan inflation prints reaffirmed the downward trajectory for inflation with headline CPI coming in at 2.8% YoY (exp: 2.9%; prev: 3.2%) and core CPI at 2.5% YoY (exp: 2.7%; prev: 2.8%). Taken together, growth and inflation prints should support the BOK holding its policy rate steady at 3.50% at the next meeting in Apr. At the most recent Feb meeting, BOK elected to stand pat even after the sharper than expected drop in Jan inflation. BOK is certainly concerned that the path to inflation could be bumpy and uncertain. We think BOK is likely to take cue to cut from the Fed and other major central banks in determining when to cut rates. Given the considerable uncertainty around the inflation outlook, they may start to consider rate cuts only in the later half of 2024. Past episodes have also shown that BOK has had a tendency to hold for an extended period before pivoting to a cut. As of now, we suggest that there could be an extended hold in the works for the BOK and see a total of 75bps of rate cuts for Korea in the later half of 2024.

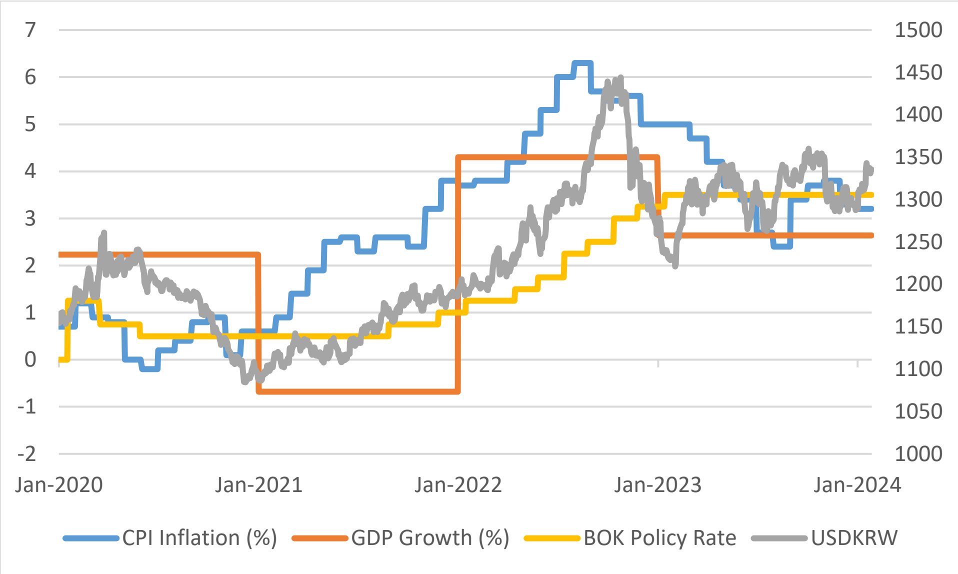
One potential factor that could spur USDKRW lower would be the inclusion of Korea onto global bond benchmarks. Market watchers suggest that it is highly likely that Korea is included onto major bond indices this year amid abating inflation driving higher demand for government bonds. Korea was on FTSE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

On the equities front, South Korean equities posted inflows of US$2.3b in Jan led mainly by AI exuberance. This is supportive of our narrative for the recovery of the electronics cycle and increase in demand for semiconductors. Taiwan, another big player in the semiconductor space is also seeing inflows and should this continue, we would suggest that this would bode well for the KRW.

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

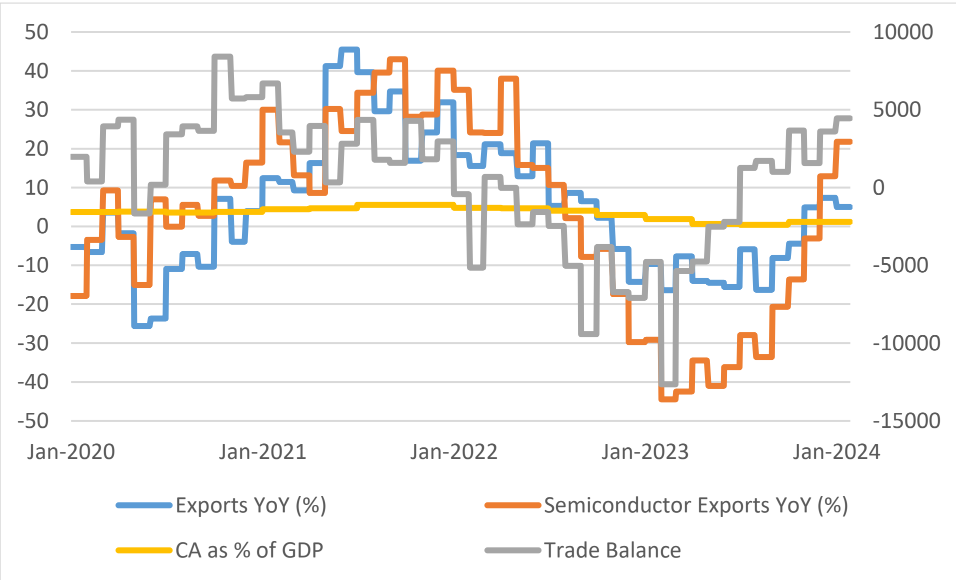
**Key data/events:** Feb Imports/Exports/Trade Balance (1 Mar), Feb S&P Mfg PMI, Jan Industrial Production, Cyclical Leading Index (4 Mar), 2023P GDP, 4QP GDP (5 Mar), Feb Foreign Reserves, Feb CPI (6 Mar), Jan BoP Goods/Current Account Balance (8 Mar), Feb Bank Lending to Household (9 Mar to 16 Mar), Bloomberg Mar South Korea Economic Survey (12 Mar), Feb Unemployment Rate (13 Mar), Feb Export/Import Price Index, Jan Money Supply (15 Mar), Mar 20-days Exports/Imports (21 Mar), Feb PPI Inflation (22 Mar), Feb Retail Sales (25 Mar to 28 Mar), Mar Consumer Confidence (26 Mar), Apr Business Survey Mfg/Non-Mfg (27 Mar), Feb Cyclical Index Leading Change and Feb Industrial Production (29 Mar).

**Extended BOK Pause Could Support KRW**




*Source: Bloomberg, Maybank FX Research & Strategy*

**Semiconductor Exports Rising Alongside Exports with Trade Balance**




*Source: Bloomberg, Maybank FX Research & Strategy*

## SGD: Appreciating Stance to Boost

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

No Change to Previous Forecasts

**Motivation:** We maintain our forecasts for USDSGD to come off gradually i.e. for SGD to strengthen against the USD gradually through 2024. This is based on the belief that SGD will continue to stay resilient as MAS stands pat on policy and 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 constituents more than the SGD. We see that AI exuberance and the electronics cycle could be on the brink of an upswing, and we think that this could benefit the SGD.

As widely expected, MAS kept policy settings unchanged and continued to see its current appreciation of the SGDNEER as appropriate in ensuring medium term price stability. MAS expects the 1% GST hike to lead to a one-off increase in inflation and tilted a bit more hawkish with the change of “sufficiently tight” to “appropriate” suggesting that they do not rule out further tightening. Our economists see a slight slope reduction at the Oct meeting, although if inflation comes off quicker than expected, a Jul easing could be on the cards. However, continued sticky inflation, which is likely to come largely from services, could lead to the SGDNEER policy remaining unchanged. We also cannot rule out further MAS tightening if inflation once again rears its ugly head and is resurgent. On growth, 4Q 2023 F GDP came in at 2.2% YoY (exp: 2.5%; prev: 2.8%) and 1.2% SA QoQ (exp: 1.4%; prev: 1.7%). Full 2023 growth came in at 1.1% (exp: 1.1%; prev: 1.2%), within the previously stated 1% to 3% MTI growth estimate range. Growth in Singapore is relatively healthy, given that the UK and Japan are in technical recession and the Eurozone is basically stagnant. Jan NODX came in at 16.8% YoY (exp: 4.3%; prev: -1.5%), with an export recovery needed to support our narrative for an upswing in the electronics cycle. Jan Industrial Production also returned to growth at 1.1% (exp: 3.7%; prev: -2.4%) albeit below expectations. Jan CPI moderated by more than expected at 2.9% YoY headline (exp: 3.8%; prev: 3.7%) and 3.1% YoY core (exp: 3.8%; prev: 3.7%). Our economist suggests that the average of Jan and Feb data points should offer a better gauge given base effects that arise from Lunar New Year being in a different month.

USDSGD currently trades a tad below our forecasts and hovers around 1.3450 levels. SGDNEER has remained robust on the upper end of the band following MAS’ Jan stand pat. Singapore’s robust macro fundamentals and unique exchange rate policy, which results in SG rates being highly correlated with US rates, underpinned the outperformance of the SGDNEER against a narrative that US rates would remain higher for longer. As we approach a time where potential rate cuts are being discussed, we think that the expectation of Fed rate cuts could lead to a tapering off in SGDNEER strength – specifically if basket constituents start to outperform the SGD i.e. appreciate by more against the USD than the SGD as the Fed cuts rates.

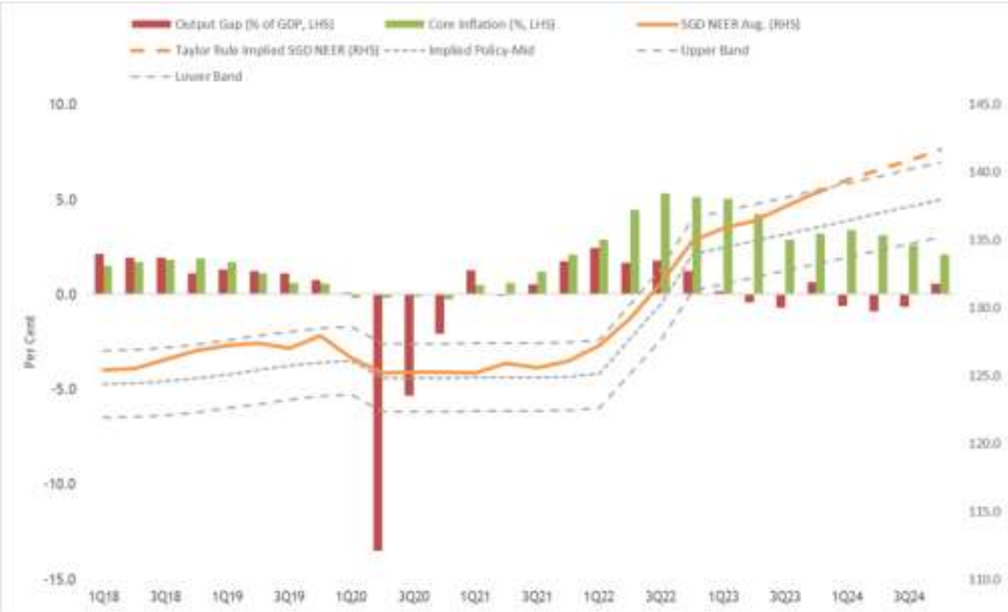
Singapore’s Budget 2024 catered for more balanced spending providing broad support to corporates and households, the first installment of the Forward Singapore programmes. A small fiscal surplus of 0.1% of GDP (S$0.78b) is projected for FY24, the first planned surplus in 7 years. FY23 deficit came in 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.

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

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

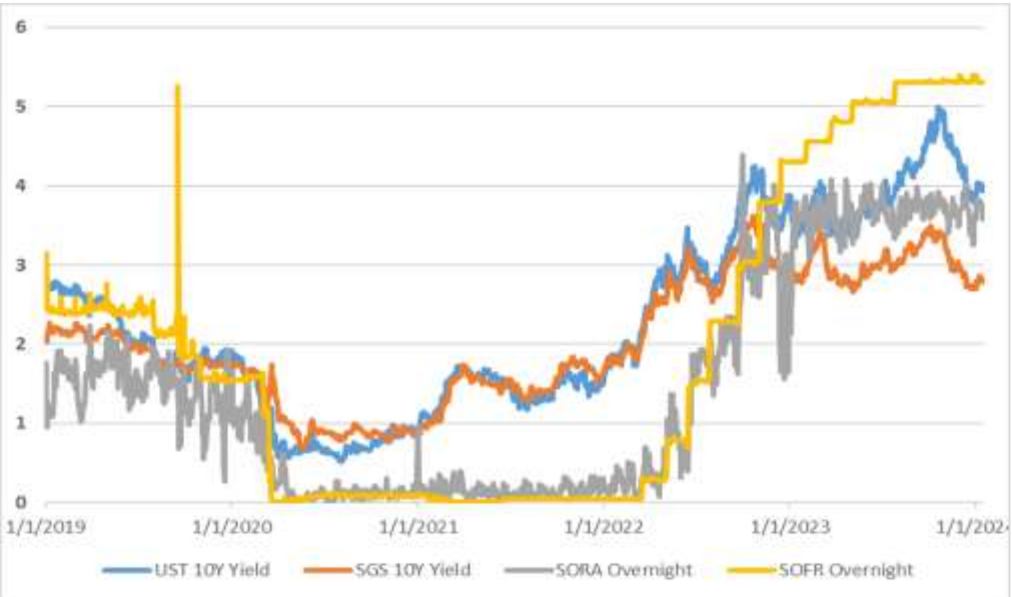
**Key data/events:** Feb Purchasing Managers Index, Electronics Sector Index (2 Mar), Feb S&P Singapore PMI, Jan Retail Sales (5 Mar), Feb Foreign Reserves (7 Mar), Bloomberg Mar Singapore Economic Survey (8 Mar), MAS Survey of Professional Forecasters (11 Mar to 13 Mar), Feb Electronics Exports, Feb NODX (18 Mar), Feb CPI Inflation (25 Mar), Feb Industrial Production (26 Mar) and Feb Money Supply (28 Mar).

**Upward Pressures on SGDNEER Persist (Taylor Rule Estimates)**




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

**USD Rates and SGD Rates Are Highly Correlated**




*Source: Bloomberg, Maybank FX Research & Strategy*

## MYR: Poised for a Turnaround in External Drivers

| USD/MYR | 1Q 2024 | 2Q 2024 | 3Q 2024 | 4Q 2024 |
|---|---|---|---|---|
| | 4.70 | 4.60 | 4.50 | 4.40 |
| | (--) | (--) | (--) | (--) |

No Change to Previous Forecasts

**Motivation:** The USDMYR rose to a high of 4.7987 on 20 Feb on the back of continued USD strength & China weakness and some external balance concerns. The pair though has since come-off amid in part possibly due to some month-end export proceeds activity. We continue to hold to our view of a gradual downward trend for the USDMYR remaining in place over 2024. US data as it stands continues to support the likelihood of Fed easing this year (100bps cut in 2024) and this should likely give the EM FX space including the MYR some relief eventually. Given that our own BEER model 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 +4.4% in 2024. This should reduce the pressure on BNM to cut rates and in turn together with a US easing, help reduce the impact that the wide rate differentials have had on the MYR. Aside that, a continued improvement in the tourism sector as well as a turnaround in electronics export should help lift Malaysia's external position. Meanwhile, the surge in approved private sector investment since 2021 is also translating into rising actual/realised private investment. Consequently, we continue to stick to our view that the pair would hit 4.40 by year end. Near term, the currency is likely to edge lower from current levels and end 1Q 2024 at 4.70.

Economic fundamentals underpinning the MYR as we see it continues to stay robust. We would not be immediately too concerned about the 2023 GDP reading missing expectations at 3.7% YoY (est. 3.8% YoY) as our economist is expecting a better outlook for 2024. Growth is expected to come out at +4.4%, which would be driven by resilience in domestic spending that is in turn supported by stable job market conditions, implementation of the progressive wage policy and the consumer friendly budget. CPI for 2024 is also likely to stay manageable at 3.0%. The underlying economic conditions imply that pressure would be reduced for BNM to cut rates. This would proof to be of quite some importance for the MYR given that widening rate differentials between the US and Malaysia have been a weighing factor. With the Fed likely to ease in the latter half of 2024 and our economists seeing BNM staying on hold in 2024, the impact on the MYR from the wide differentials should at least start to subside by end 2Q. We are also expecting some gradual improvement out of China into 2024.

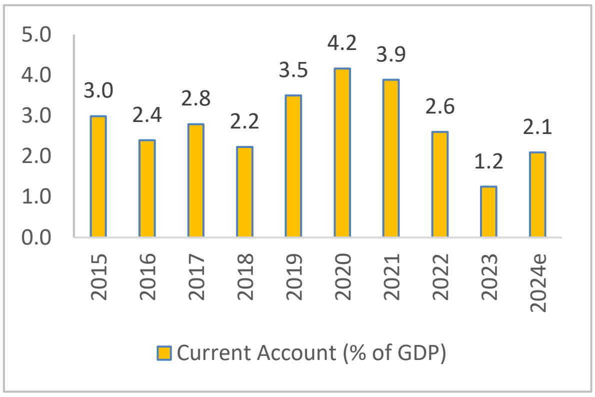
We also anticipate an improvement in Malaysia's external position in 2024 on the basis of both increased tourism spending and a rebound in tech exports. Malaysia's tourism in 2023 has been strengthening as the country became quite a favoured destination among Singaporean, Indonesian and Mainland Chinese visitors. The country recorded a staggering 29m visitor arrivals in 2023, which is much higher than the 26m in 2019. The number is even more so incredible given PM Anwar had set a target in budget 2024 for 26.1m visitors in 2026 – the next Visit Malaysia Year. Tourism could continue to see further improvement especially in light of visa-waiver for Mainland Chinese and Indian tourists for up to 30 days stay. Aside that, goods exports is expected to rebound this year given notes of recovery in the electronics sector. Whilst the 4Q BoP CA balance narrowing to RM0.3bn (3Q. RM9.1bn) may have raised some eyebrows, we again also would not be too concerned about this given the better 2024 outlook. The reading too may have been a result of some one-off occurrences such as net repayments of interbank loans. The MYR should therefore be getting more support from an external position angle. Investment inflows should also rise as the surge in approved private sector investment since 2021 is translating into rising actual/realised private investment.

Fiscally, we also like to take note that the government is already moving on the subsidy rationalization front. In 2023, there was already the roll-out of the targeted electricity bill subsidy and the removal of chicken price ceiling. The gradual implementation of the Central Database Hub (PADU) would also help to layout the way for fuel subsidy rationalization programme by acquiring the required eligibility data. Meanwhile, Moody's recently has said that the weak MYR would not trigger a sovereign rating downgrade given that most of the country's debt is denominated in local currency.

**Risks to look out for in Mar 2024.** Downside risks include any exacerbation of weakness in China's recovery (Malaysia's largest trading partner), further delay in the expected Fed easing trajectory or escalation in geopolitical tensions in the run-up to the US Presidential elections. All these can lead to a stronger USD, which in turn hurts the MYR.

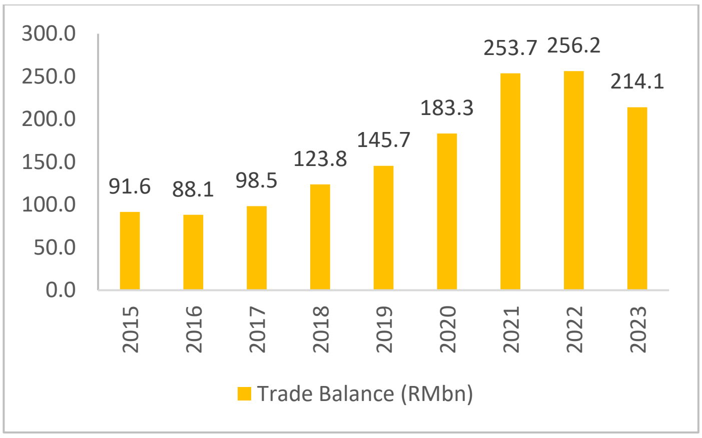
**Key domestic events and issues to watch in Mar:** S&P Global PMI mfg (1 Mar), BNM policy decision (7 Mar), 29 Feb foreign reserves (7 Mar), Jan mfg sales (12 Mar), Jan IP (12 Mar), Feb trade data (18 Mar), 15 Mar foreign reserves (22 Mar) and Feb CPI (25 Mar).

**Wider CA Balance Surplus Expected in 2024**



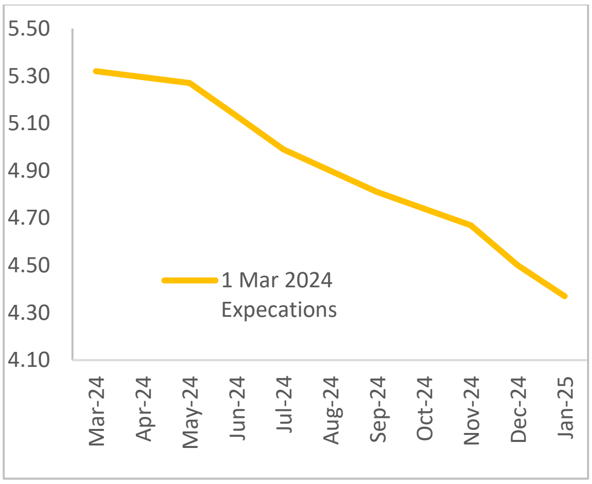

*Source: Bloomberg, Maybank FX Research & Strategy*

**Trade Position Remains Robust**



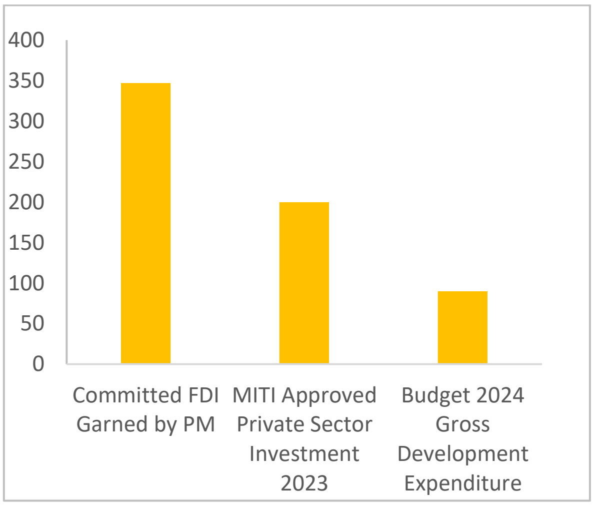

*Source: Macrobond, Maybank FX Research & Strategy*

**Market Expects ~75bps of Fed Rate Cuts by End 2024, Providing Possible Relief to the MYR**




*Source: Bloomberg, Maybank FX Research & Strategy*

**A Number of Positive Factors Could Support the MYR Going Forward**




*Source: Various News Sources and Government Websites, Maybank FX Research & Strategy*

## IDR: One Round Only, Stay Bullish

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

No Change to Previous Forecasts

**Motivation:** We expect the USDIDR to gradually trend downwards throughout the year as the Fed eventually starts to engage in policy easing. However, near term, the pair may still trade at elevated levels given sentiment may remain rather measured. Markets is looking to choose to hold a more cautious approach towards the currency as they continue to assess US data (which we believe should soften with time) and the policies of Mr Prabowo, who has declared himself victor of the recent Presidential election. Regarding the latter, the election commission results as of 28 Feb 2024 shows that Prabowo-Gibran so far have won 58.84% out of the 77.69% of the vote counted, meaning a second round run-off is less likely. However, concerns have emerged about the country's fiscal position as some of Prabowo's major campaign promises such as the free lunch and milk programme can be quite costly. We do though think that the government would still work to ensure a sustainable budget. Near term, the pair could keep trading between 15600 – 15800 range although it could edge to the lower end of that level by end of the quarter.

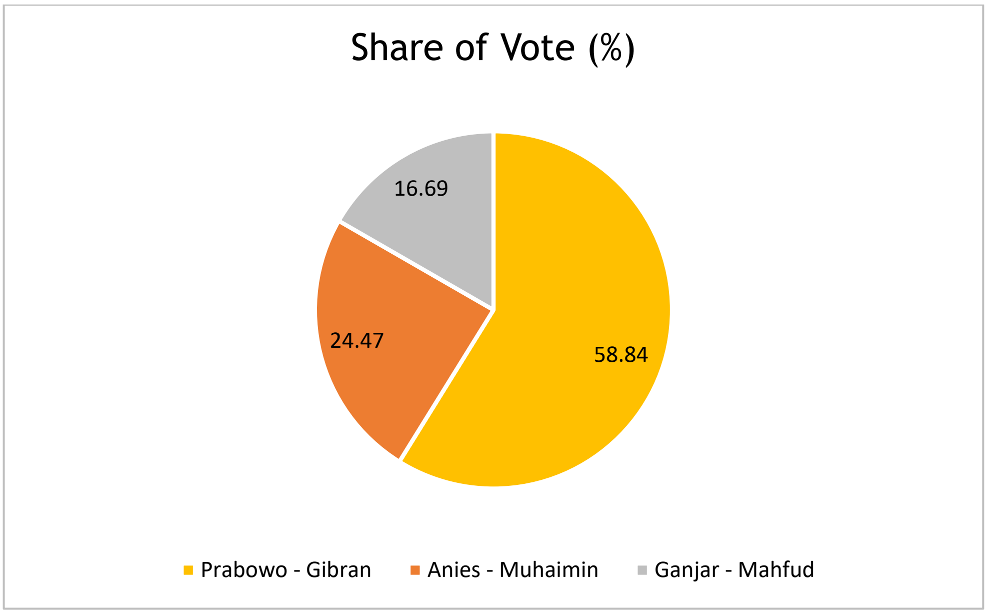
Election commission results as of 28 Feb 2024 shows that the Prabowo-Gibran so far have won 58.84% out of the 77.69%, which implies less likelihood of a second round. Prabowo himself has already declared victory in this election. Focus from now would increasingly be on his cabinet appointments and campaign policies. Regarding the former, a Bloomberg report based on people familiar with the matter, Prabowo is setting his sights on former bankers as the Finance Minister. Among names the report had mentioned, included Health Minister Budi Gunadi Sadikin, Deputy SOE Minister Kartika Wirjoatmodjo, financial regulator Chairman Mahendra Siregar and PT Bank Negara Indonesia President Director Royke Tumilaar. It remains open at this point who would be appointed as the next Finance Minister. Meanwhile, Prabowo's campaign promise such as the free lunch and milk programme for students could risk leading to a wider budget deficit. Recently, Finance Minister Sri Mulyani has said that these campaign promises could result in the 2025 fiscal deficit being at 2.45% - 2.80% in 2025, which compares to 2.29% this year. Fitch has warned though that the programme could cost around 2.00% of GDP. We continue to keep a close eye on developments in this area but we do have some believe that even a Prabowo government may choose to keep the budget deficit within 3.00% of GDP as they may keen to ensure IDR stability. Foreign investors though may still keep a more cautious approach to IGB as they continue to see how this situation pans out. There was net outflow in bonds mtd to 27 Feb although equities has seen net inflows mtd to 27 Feb.

From a fundamental perspective, economic data this month continues to be quite supportive of the IDR. 4Q GDP continues to be strong growing at 5.04% YoY whilst Jan trade balance continues to be in surplus even if may have narrowed. Jan CPI also continues to stay within the 2 – 4% target range at 2.57%. Overall, it appears BI is in a good position to be supportive of the IDR. The economy is holding well enough that BI is no hurry to cut ahead of the Fed. At the same time, once the Fed does start to ease, BI would be in the position to start pivoting to a cut too, which would allow for IGB yields to fall and encourage more inflows, which would be supportive for the IDR. Given the possible timing of Fed easing around mid-year, inflows into IGBs could increase more by then.

**Risks Ahead:** This could include any escalation in the political situation if any candidates choose to challenge the result or if there is friction in cabinet selection. Other risks also would include US inflation re-accelerating, which could result in the Fed either keep rates higher for longer or even possibly hiking again. Rhetoric from the US President election can also risk hurting the EM currencies such as the IDR.

**Key Data/Events:** Feb S&P Global PMI mfg (1 Mar), Feb CPI (1 Mar), Feb foreign reserves (7 Mar), Feb local auto sales (11 - 15 Mar), Feb consumer confidence index (13 Mar), Feb trade data (15 Feb), Jan external debt (15 Mar) and BI policy decision (20 Mar).

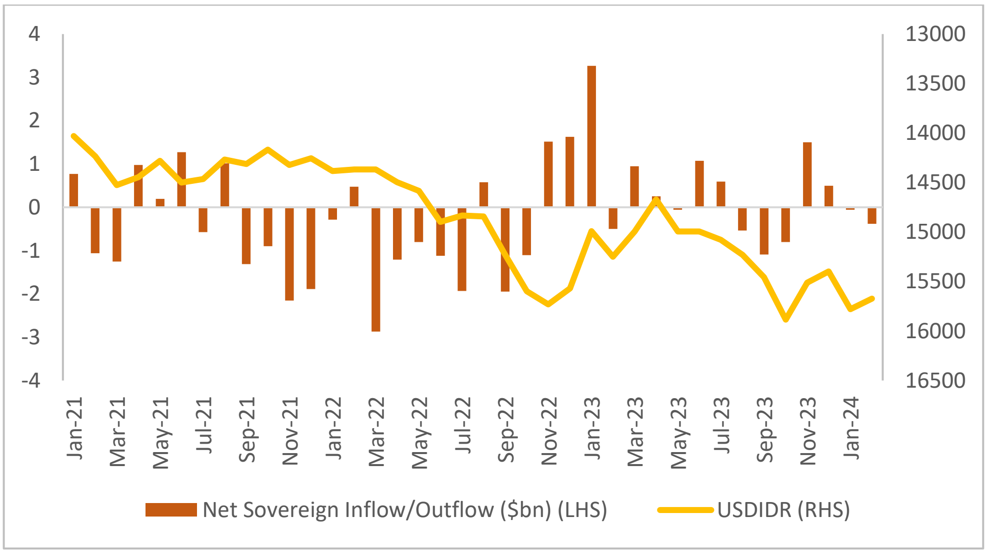
**Election Commission Results So Far Imply that Prabowo - Gibran are Set to Garner More than 50% of the Vote, Avoiding a Run - Off**




*Source: Bloomberg, Maybank FX Research & Strategy*

*Note: This represents Election Commission results as of 28 Feb 2024 with 77.69% of the vote counted*

**Bonds are Seeing Outflows Amid Fiscal Concerns and Uncertainty on Timing of Fed Easing**




*Source: Bloomberg, Maybank FX Research & Strategy*

*Note: Feb 24 is up until 27 Feb 2024*

## PHP: Ranged Amid Supportive BSP

| | 1Q 2024 | 2Q 2024 | 3Q 2024 | 4Q 2024 |
|---|---|---|---|---|
| USD/PHP | 55.50 | 54.50 | 54.00 | 53.50 |
| | (--) | (--) | (--) | (--) |

No Change to Previous Forecasts

**Motivation:** We keep to our forecasts for the USDPHP, expecting the pair to keep trading at elevated levels amid weak fundamentals although the BSP's hawkish stance should continue to give the pair support. The trade data remains in deficit whilst the fiscal position stays under pressure from the government's drive to build infrastructure. However, the possibility of the Fed easing rates this year should provide relief to the PHP and guide the USDPHP gradually downwards. Near term, the pair is likely to continue range trading between 55.50 – 56.50 as the markets continue to assess the timing and pace of Fed rate cuts in addition to the hawkishness of the BSP (which is likely to hold for a while until the Fed actually cuts).

The BSP continued to hold rates at 6.50% this month as we expected and expressed a still hawkish stance as they highlighted that the "inflation outlook have receded but remain titled toward the upside". Philippines inflation as it stands can still face pressure from food price increases given El Nino. The central bank may still hold off easing for a while given these price pressures and also the need to support the PHP. The latter implies that they are unlikely to move ahead of the Fed. Jan headline CPI has pulled back to 2.8% YoY (Dec. 3.9% YoY) but as highlighted, the risk of any pick-up remains amid food price pressures. Foreign reserves at the same time also continued to be sufficient at $103.4bn. The PHP overall should be receiving support from the BSP's tight monetary policy.

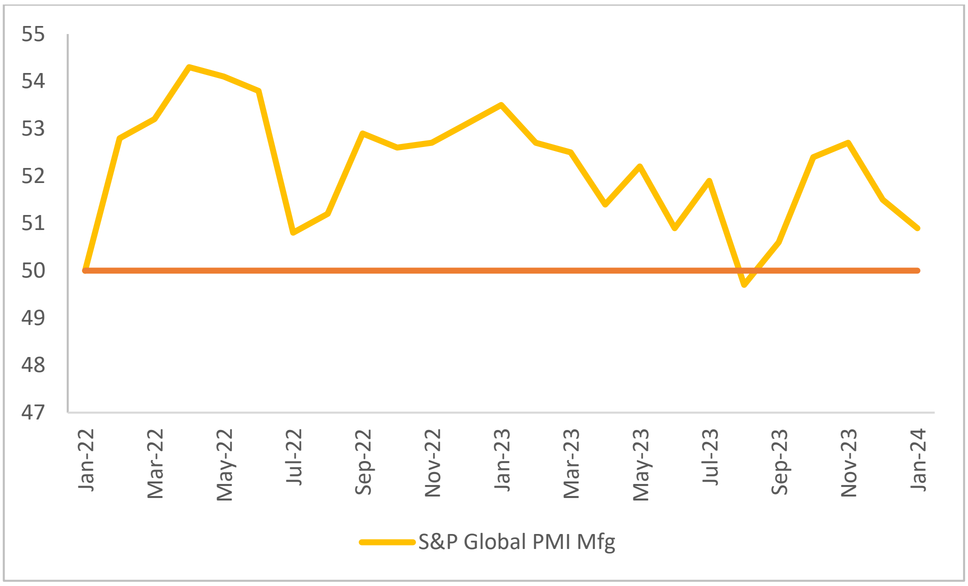
For now, domestic economic indicators still seem to be showing some strength as Jan PMI mfg remains in expansion territory and the Dec unemployment rate has fallen to 3.1% (Nov. 3.6%). Bank lending was also strong in Dec as it accelerated to 9.7% YoY (Nov. 8.3% YoY). The external position though remains under some form of pressure as the Jan BoP was in deficit at -$740m. Dec OFWR did though pick up to 3.8% YoY (Nov. 2.8% YoY), which was the fastest month on month growth for 2023. However, the stronger growth can be seasonal in nature as workers send more money home during that month for the end of year festivities. Therefore, this may not hold up in the coming months especially in light of potentially softening global economy.

Portfolio flows overall saw an outflow, driven mainly by bond outflows of -$0.89bn even. This could be a reflection of investor cautiousness on the timing of the Fed easing as the expectations of rate cuts were dialled back. We do not expect this situation to keep persisting given that market have already priced in a more "likely" level of rate cuts of 75bps. Also, when the timing of the first Fed cut starts becoming clearer, we expect there to more inflows into EM bonds including the Philippines. Meanwhile, equity saw some inflows although it was very marginal and therefore, did little if even anything to offset the bond outflows.

**Risks Ahead:** This would include if US inflation remains stubbornly elevated, leading to the Fed either having to keep rates higher for longer or even consider engaging in hikes again. This would weigh on the PHP and pressure the BSP to hike further, which in turn can increase the stress on the economy. Also, there is also a possibility that in such a scenario, high global price pressure could lead to a widen trade deficit given the country's high import requirement.

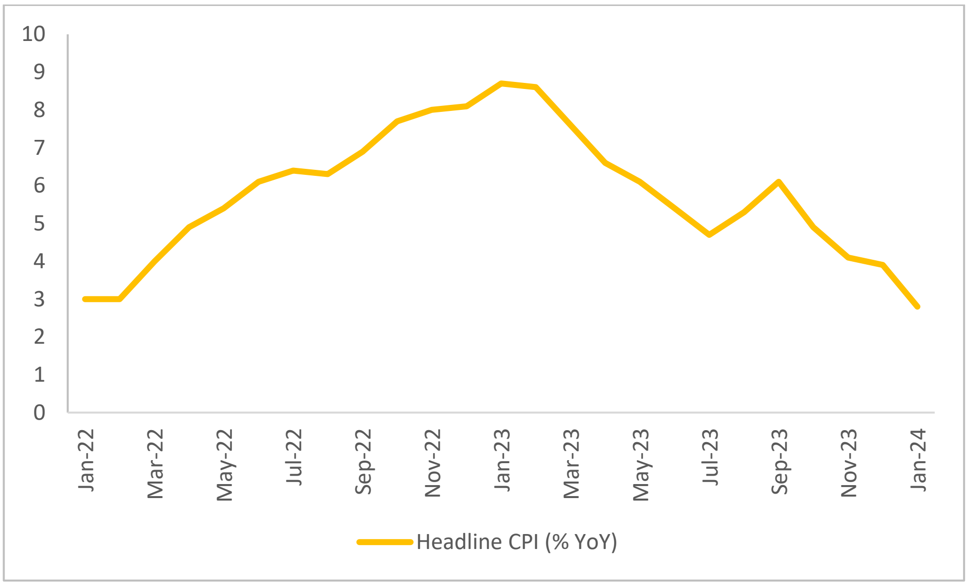
**Key Data/Events:** Feb S&P Global PMI mfg (1 Mar), Feb CPI (5 Mar), Feb foreign reserves (7 Mar), Jan unemployment rate (8 Mar), Jan bank lending (8 Mar), Jan trade balance (12 Mar), Jan OFWR (15 Mar), Jan budget balance (15 Mar), Feb BoP overall (19 Mar), Feb M3 money supply (27 Mar) and Feb bank lending (27 Mar).

**Domestic Economy Continues to Hold Up Allowing the BSP to Keep Rates High**




*Source: Bloomberg, Maybank FX Research & Strategy*

**CPI Softening But El Nino Driven Food Inflation Could Push it Up in 2Q 2024**




*Source: Bloomberg, Maybank FX Research & Strategy*

## THB: Rising Headwinds

| USD/THB | 1Q 2024 | 2Q 2024 | 3Q 2024 | 4Q 2024 |
|---|---|---|---|---|
| | 36.50<br>(34.75) | 36.50<br>(34.25) | 35.50<br>(33.75) | 34.50<br>(33.25) |

Previous Forecasts in Parenthesis

**Motivation:** We raise our USDTHB forecasts upwards due to the multiple headwinds that the THB is likely to face. This includes the rising pressure on the BOT (who are now more dovish) to start an easing cycle ahead of the Fed amid the weak economy. The latest 4Q 2023 GDP data for Thailand had already shown the economy was in contraction. Such economic conditions is also leading the government to directly pressure the BOT to cut rates with the rhetoric from the PM ramping up in the last up. Although these headwinds are going to weigh on the THB, we would like to note that we still expect the THB to end 2024 lower as the Fed easing cycle should give EM FX including the THB a lift. However, the gains may be limited by the above-mentioned unfavourable factors. Near term, we expect the USDTHB to consolidate initially around the 36.00 level although we expect it to end the quarter higher at 36.50 as idiosyncratic concerns weigh in more.

Economic concerns continue to stand as a major headwind for the THB given the pressure that it is placing on the BOT to start an easing cycle well ahead of the Fed. Whilst real rate differential between Thailand and the US stands quite high, this can risk being eroded if the now more dovish BOT starts embarking on an aggressive easing cycle ahead of the Fed. The government has also been pushing at the BOT to cut rates due to the weak economy. Both PM Srettha and the Deputy Finance Minister Julapun have been ramping up their rhetoric against the BOT to ease over the last month. The delay in rolling out the digital wallet programme has put the government in an uneasy position over the level of support it is providing for the economy. Our in-house economist though at this point is still only expecting one 25bps cut in Apr 2024, which would mean that whilst the THB would still take a hit, the damage would be more limited.

Sentiment towards the THB has already though been hurt and there is a possibility it could take a further hit if the domestic situation deteriorates further. There has been substantial portfolio outflows recently, driven mainly by bond outflows, which is a reflection of the concerning sentiment towards government policy. We do not rule out the possibility of the outflows persisting near term.

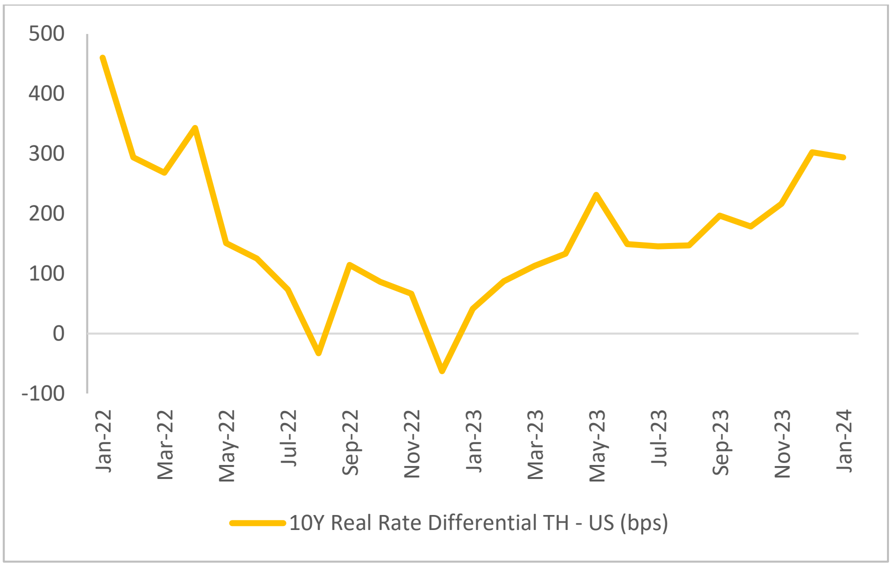
Additionally, the country's external position is also at risk of staying under pressure. Tourism numbers, whilst they have been picking up at the start of the year amid an increase in Chinese tourists, may not necessarily hold up as we enter a low season. Furthermore, it would be challenging for Chinese tourists to keep up the spending if China's economy continues to remain depressed. Meanwhile, the country's trade balance looks like it could also struggle to sustainably report a surplus given the softening global economy. The latest Jan 2024 balance was in fact in deficit after the Dec 2023 number had been in surplus.

Despite the headwinds that we have talked about, there are still some positive factors that would give the THB support and help guide the USDTHB to end the year lower (although the strengthening maybe limited). This includes the Fed starting an easing cycle this year that would still eventually give a lift to EM FX including the THB. Furthermore, the THB has a strong positive correlation with the THB and gold prices in turn are likely to get a lift from a softening in the Fed's stance. If anything, demand for gold looks to still be quite robust despite global monetary policy generally still holding rather tight. The government is also bringing forward the fiscal 2024 budget voting by two weeks earlier to the third week of March, in order to try to ensure disbursements of funds can be done faster to support the economy. State-owned enterprises have also been ordered to front-load 240bn baht of investments in the Jan – Jun period.

**Risks Ahead:** BOT engaging in an aggressive easing cycle ahead of the Fed. We stay cognizant of this happening even if our in-house economist only expects one cut of 25bps in Apr 2024. If this risk materializes, the THB could see quite some substantial weakening. Another risk is if US inflation reaccelerates or stays elevated for too long, causing the Fed to keep rates higher for longer or even engage in another round of hikes.

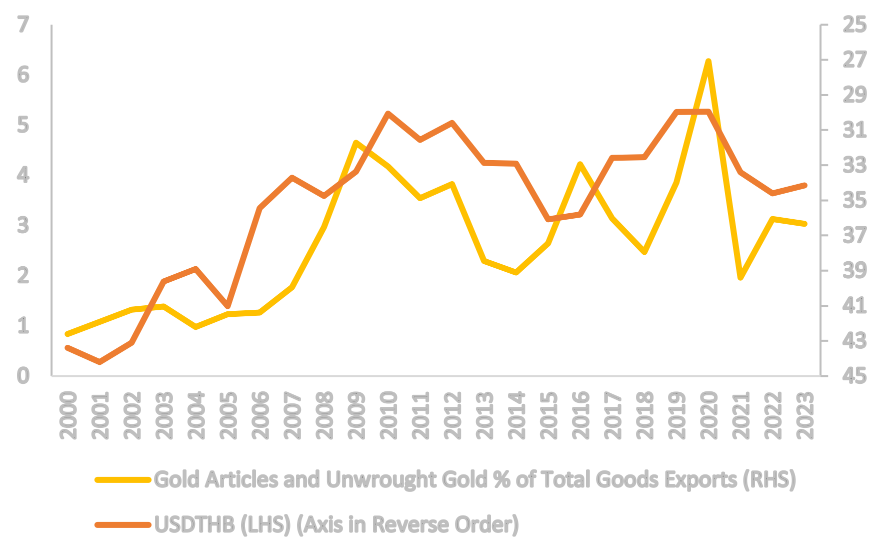
**Key Data/Events:** Feb CPI (1 Mar - 11 Mar), Feb S&P Global PMI mfg (1 Mar), Feb business sentiment index (1 Mar), Feb consumer confidence (7 - 13 Mar), Feb car sales (18 - 24 Mar), Feb customs trade data (25 - 29 Mar), Feb ISIC mfg production index/ISIC capacity utilization (26 - 30 Mar), Feb BoP CA/overall balance (29 Mar) and Feb trade data (29 Mar).

<u>**Real Rate Differentials with the US is still at an Advantage Although at Risk of being Eroded if BOT Eases Aggressively Ahead of the Fed**</u>




*Source: Bloomberg, Maybank FX Research & Strategy*

<u>**Rise in Gold Exports Correlate with THB Strength**</u>




*Source: Bloomberg, Maybank FX Research & Strategy*

## VND: Beyond the Near-term Pressure, We Remain Constructive

| USD/VND | 1Q 2024 | 2Q 2024 | 3Q 2024 | 4Q 2024 |
|---|---|---|---|---|
| | 24300 | 24100 | 24000 | 24000 |
| | (--) | (--) | (--) | (--) |

No Change to Previous Forecasts

**Motivation:** We continue to remain constructive on the VND, notwithstanding recent weakness. Recent rebound in US yields, surprising fall in Vietnam's exports receipts as well as industrial production (-6.8%y/y) likely dampened VND sentiment in the near-term. However, we are also wary of the Tet effect that likely affected the year-on-year headline. We continue to expect UST yields to ease over the course of 2024 as growth in the US slows further and that could ease the pressure on the VND. Other supportive factors are the launch of the KRX (that could garner more interest in Vietnam's equities), the amendment of the Land Law (to take effect from 1 Jan 2025), persistent FDI inflows and export recovery.

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.

Feb trade surplus narrowed more than expected to $1.1bn from previous $2.92bn. Exports fell -5.0%y/y from previous +42.0%. That fall is likely due to the Tet distortion. Taking the Jan-Feb average exports, growth actually picked pace to around 17% from 13.1% in Dec 2023. We expect export recovery to continue. Mfg PMI rose in Feb to 50.4 from previous 50.3, gelling well with the electronics recovery story. Meanwhile, the return of tourists had seen some pick-up recently. Monthly arrivals reached 1.37mn in Dec 2023, around 68.8% of pre-Covid levels. We can continue to expect modest recovery to extend further along into 2024. That should continue to bolster its current account and support the VND.

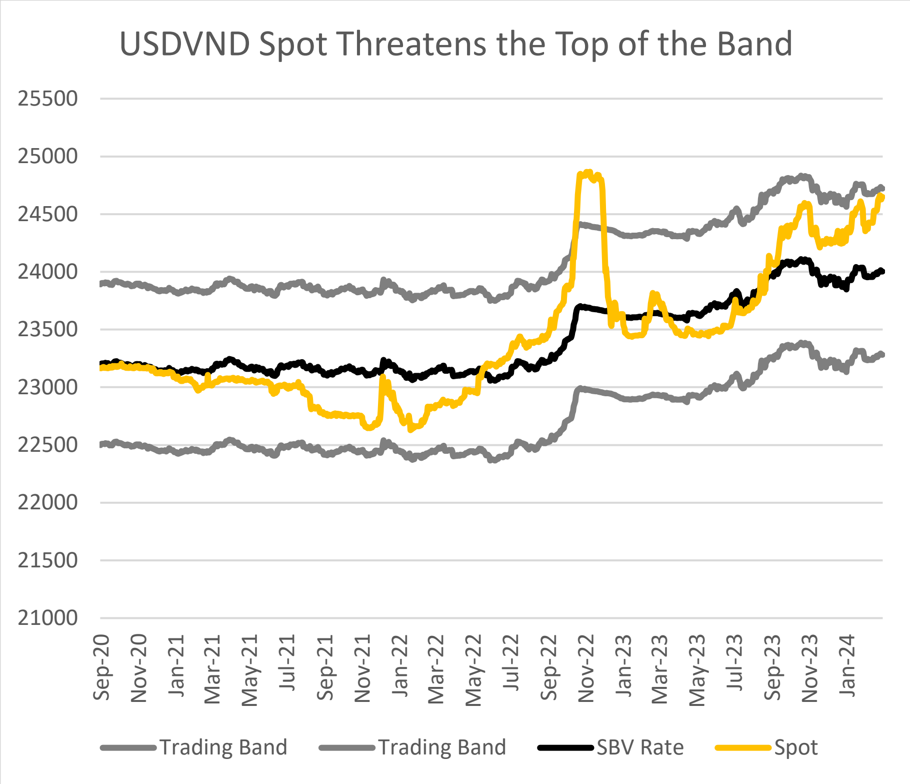
**A Growth-Focused Government.** Vietnam has toed the line (set by the US) by being one of the first few countries in the region to set the effective corporate tax minimum at 15% starting in January. Our economist has also warned that FDI flows could cool in 2024 due to infrastructure constraints. What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

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

**Risks Ahead.** 1) Any sign of a re-acceleration in US inflation or supply shocks that could spur US rates higher pose downside risks to the lift the USDVND. 2) Any deterioration of its fragile property sector could probably weigh on consumer sentiment and delay hamper Vietnam's cyclical recovery. As mentioned in the last monthly, the National Assembly had amended the Land Law, allowing the Vietnamese who are residing overseas to have full rights to land, replace the old land price framework with an annual land price list to better align prices with market conditions. This was tweaked in the hope of promoting investment and attracting remittances from the targeted group. That should reduce the risk of a property malaise this year for Vietnam. In the meantime, property developers could also be in a wait and see mode for better clarifications as the amended Land Law only takes effect in 2025.

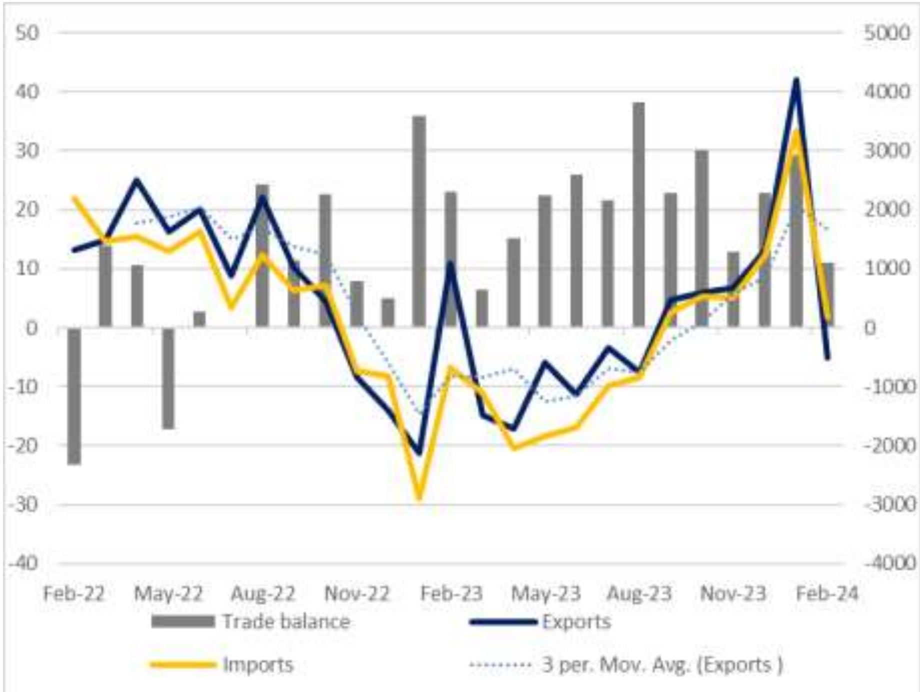
**Key Data/Events:** Mar trade, IP, CPI, retail sales [25-31 Mar].

VND is under renewed pressure in 2024 For Now




*Source: Bloomberg, Maybank FX Research & Strategy*

Beware of Tet Distortions, Exports Growth Average 17% for Jan-Feb




*Source: Bloomberg, Maybank FX Research & Strategy*

## INR: Inflows Supportive of Strength

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

No Change to Previous Forecasts

**Motivation:** We maintain our USDINR forecasts on the belief that while structural factors, such as inflows should be supportive of INR strength, the RBI will continue to lean against the wind and slow the pace of INR appreciation. USDINR has been one of the most stable pairs, largely due to the Reserve Bank of India's (RBI) preference to reduce volatility in the INR by "leaning against the wind". We suggest that the RBI is very likely to continue to lean against the wind for an extended period as INR is likely to appreciate. We think the USD will gradually weaken through 2024 as US exceptionalism fades and a global soft landing is achieved. RBI could easily lean against the wind in such a situation and accumulate more foreign reserves in an environment where expectations are for the Fed to cut and for USD to gradually weaken.

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

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

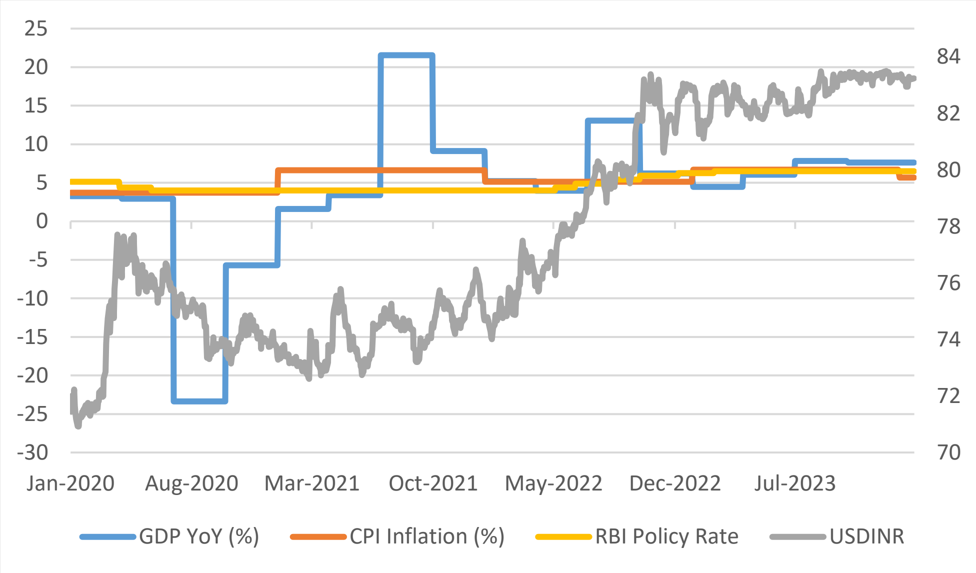
Advance GDP estimates suggest that 2024 growth could come in at 7.3% YoY (exp: 6.7%; prev: 7.2%). The second reading is expected at a slightly more modest 7.0%. This suggests a continued bright economic outlook for one of the world's fastest growing countries. We do see some similarities between the China of old and India currently. In economic literature, population growth remains one of the key drivers for growth. India overtook China as the world's most populous country in Apr 2023, and with population growth dynamics looking favourable for years to come, growth could continue to remain support. We expect a global soft-landing and continued economic expansion in India should be a factor for INR strength.

On the monetary policy front, inflation in India remains relatively under control with the latest print at 5.10% YoY (exp: 5.00%; prev: 5.69%).. 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 5-1 in favour of accommodation withdrawal and remains hawkish as of 8 Feb. RBI should stay on hold at their next meeting (5 Apr) and we think they will likely hold rates through 2024. On balance, RBI remaining on hold amid strong growth prospects and a relatively beningn inflation outlook should also be in favour of INR strength.

**Risks Ahead:** The main risks that threaten our USDINR forecasts then would be RBI switching out of its stance to lean against the wind. This could occur as a matter of policy change or if there is too much scrutiny, possibly by the US Treasury on the INR kept artificially weak. While not likely, a combination of higher for longer inflation and poorer growth outcomes for India could also threaten our outlook for the INR.

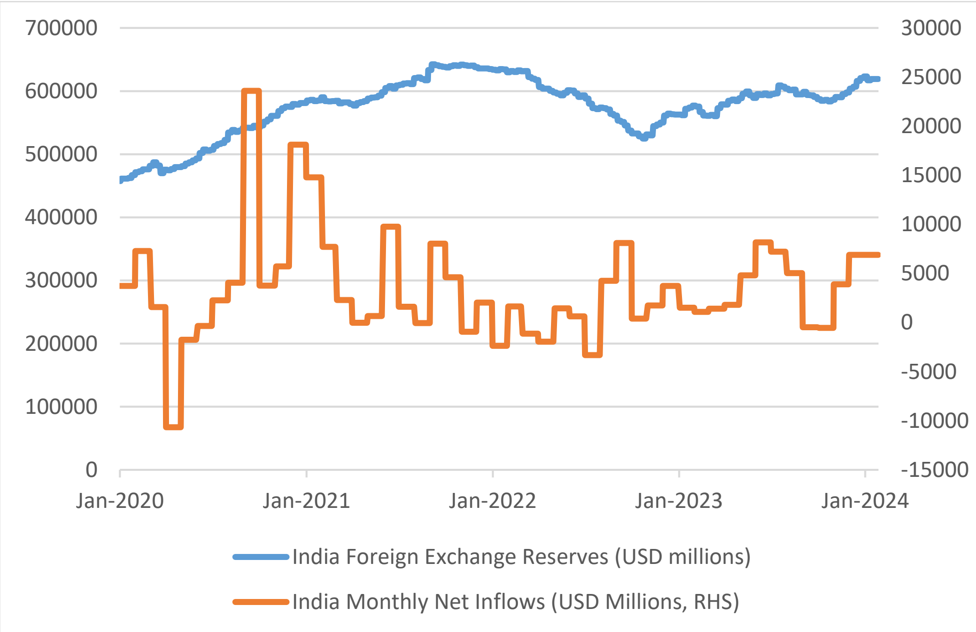
**Key data/events:** Feb F HSBC India Mfg PMI (1 Mar), Feb F HSBC India Composite/Services PMI (5 Mar), Jan Industrial Production, Feb CPI Inflation (12 Mar), Feb Imports/Exports/Trade Balance (13 Mar to 15 Mar), Feb Wholesale Prices (14 Mar), Mar P HSBC India Mfg/Composite/Services PMI (21 Mar), 4Q23 BoP Current Account Balance (25 Mar to 28 Mar), Feb Fiscal Deficit and Feb Eight Infrastructure Industries (28 Mar).

**INR Remains Stable, While Growth is Promising and Inflation Benign**




*Source: Bloomberg, Maybank FX Research & Strategy*

**India's FX Reserves and Inflows Rising at Same Time**




*Source: Bloomberg, Maybank FX Research & Strategy*

## 2024 FX Forecast Table

| | End Q1-24 | End Q2-24 | End Q3-24 | End Q4-24 |
|---|---|---|---|---|
| USD/JPY | 150.00 | 145.00 | 140.00 | 136.00 |
| EUR/USD | 1.0950 | 1.1000 | 1.1050 | 1.1100 |
| GBP/USD | 1.2400 | 1.2500 | 1.2500 | 1.2500 |
| AUD/USD | 0.6600 | 0.6800 | 0.7000 | 0.7000 |
| NZD/USD | 0.6100 | 0.6200 | 0.6300 | 0.6300 |
| USD/CAD | 1.3600 | 1.3300 | 1.3300 | 1.3000 |
| USD/CHF | 0.8700 | 0.8600 | 0.8500 | 0.8400 |
| USD/SGD | 1.3500 | 1.3450 | 1.3400 | 1.3350 |
| USD/MYR | 4.7000 | 4.6000 | 4.5000 | 4.4000 |
| USD/IDR | 15500 | 15200 | 14800 | 14600 |
| USD/THB | 36.50 | 36.50 | 35.50 | 34.50 |
| USD/PHP | 55.50 | 54.50 | 54.00 | 53.50 |
| USD/CNY | 7.15 | 7.10 | 7.15 | 7.20 |
| USD/CNH | 7.15 | 7.10 | 7.15 | 7.20 |
| USD/HKD | 7.79 | 7.78 | 7.76 | 7.76 |
| USD/TWD | 30.25 | 30.00 | 30.00 | 29.00 |
| USD/KRW | 1290 | 1270 | 1250 | 1220 |
| USD/INR | 83.50 | 83.00 | 82.50 | 82.00 |
| USD/VND | 24300 | 24100 | 24000 | 24000 |
| DXY Index | 103.57 | 102.43 | 101.59 | 100.63 |
| | End Q1-24 | End Q2-24 | End Q3-24 | End Q4-24 |
| SGD/MYR | 3.48 | 3.42 | 3.36 | 3.30 |
| JPY/SGD | 0.90 | 0.93 | 0.96 | 0.98 |
| EUR/SGD | 1.48 | 1.48 | 1.48 | 1.48 |
| GBP/SGD | 1.67 | 1.68 | 1.68 | 1.67 |
| AUD/SGD | 0.89 | 0.91 | 0.94 | 0.93 |
| NZD/SGD | 0.82 | 0.83 | 0.84 | 0.84 |
| CAD/SGD | 0.99 | 1.01 | 1.01 | 1.03 |
| CHF/SGD | 1.55 | 1.56 | 1.58 | 1.59 |
| SGD/IDR | 11481 | 11301 | 11045 | 10936 |
| SGD/THB | 27.04 | 27.14 | 26.49 | 25.84 |
| SGD/PHP | 41.11 | 40.52 | 40.30 | 40.07 |
| SGD/CNY | 5.30 | 5.28 | 5.34 | 5.39 |
| SGD/HKD | 5.77 | 5.78 | 5.79 | 5.81 |
| SGD/TWD | 22.41 | 22.30 | 22.39 | 21.72 |
| SGD/KRW | 956 | 944 | 933 | 914 |
| SGD/INR | 61.85 | 61.71 | 61.57 | 61.42 |
| SGD/VND | 18000 | 17918 | 17910 | 17978 |
| | End Q1-24 | End Q2-24 | End Q3-24 | End Q4-24 |
| JPY/MYR | 3.13 | 3.17 | 3.21 | 3.24 |
| EUR/MYR | 5.15 | 5.06 | 4.97 | 4.88 |
| GBP/MYR | 5.83 | 5.75 | 5.63 | 5.50 |
| AUD/MYR | 3.10 | 3.13 | 3.15 | 3.08 |
| NZD/MYR | 2.87 | 2.85 | 2.84 | 2.77 |
| CAD/MYR | 3.46 | 3.46 | 3.38 | 3.38 |
| CHF/MYR | 5.40 | 5.35 | 5.29 | 5.24 |
| MYR/IDR | 3298 | 3304 | 3289 | 3318 |
| MYR/THB | 7.77 | 7.93 | 7.89 | 7.84 |
| MYR/PHP | 11.81 | 11.85 | 12.00 | 12.16 |
| MYR/CNY | 1.52 | 1.54 | 1.59 | 1.64 |
| MYR/HKD | 1.66 | 1.69 | 1.72 | 1.76 |
| MYR/TWD | 6.44 | 6.52 | 6.67 | 6.59 |
| MYR/KRW | 274 | 276 | 278 | 277 |
| MYR/INR | 17.77 | 18.04 | 18.33 | 18.64 |
| MYR/VND | 5170 | 5239 | 5333 | 5455 |

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

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**Malayan Banking Berhad**
(Incorporated In Malaysia)


## Foreign Exchange

Singapore
Saktiandi Supaat
Head, FX Research
saktiandi@maybank.com
(+65) 6320 1379

Fiona Lim
Senior FX Strategist
Fionalim@maybank.com
(+65) 6320 1374

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

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

Indonesia
Juniman
Chief Economist, Indonesia
juniman@maybank.co.id
(+62) 21 2922 8888 ext 29682

Myrdal Gunarto
Industry Analyst
MGunarto@maybank.co.id
(+62) 21 2922 8888 ext 29695

## Fixed Income

Malaysia
Winson Phoon
Head, Fixed Income
winsonphoon@maybank.com
(+65) 6340 1079

Se Tho Mun Yi
Fixed Income Analyst
munyi.st@maybank-ib.com
(+60) 3 2074 7606

## Sales

Singapore
Janice Loh Ai Lin
Head of Sales, Singapore
jloh@maybank.com
(+65) 6536 1336

## Sales

Malaysia
Zarina Zainal Abidin
Head, Sales-Malaysia, Global Markets
zarina.za@maybank.com
(+60) 03- 2786 9188

Indonesia
Endang Yulianti Rahayu
Head of Sales, Indonesia
EYRahayu@maybank.co.id
(+62) 21 29936318 or
(+62) 2922 8888 ext 29611

Shanghai
Joyce Ha
Treasury Sales Manager
Joyce.ha@maybank.com
(+86) 21 28932588

Hong Kong
Joanne Lam Sum Sum
Head of Corporate Sales Hong Kong
Joanne.lam@maybank.com
(852) 3518 8790

Philippines
Angela R. Ofrecio
Head, Global Markets Sales
Arofrecio@maybank.com
(+632 7739 1739)