1 Oct 2024

FX Monthly

2024, Issue 9: A Data Dependent Path and US Elections in Play

What Has Changed This Month?

- We have adjusted most of our FX forecasts higher against the USD as dovish comments from Federal Reserve continue to drive the greenback broadly lower against most DM and Emerging Asian currencies. BoJ's surprise rate hike and China's recent slew of supportive measures added boost to DM and EM Asian FX vs. the USD. We kept CHF and INR unchanged, due to the threat of central bank intervention.

Our Strategies and Views

- The US Federal Reserve has finally begun its easing cycle, with a 50bps "re-calibration". The latest Summary of Economic Projections suggests that the rate cuts were frontloaded compared to the Jun's guidance. An accumulative 100bps cut is now expected for 2024 (another 50bps more to go) and 100bps cut is expected for 2025 based on median projections. Projections were notably dispersed and that underscores significant uncertainties on the horizon. Markets now look for around another 75bps cut and around 120bps cut in 2025, a tad more dovish than Fed projections. We see possibility of policy re-pricing if US data turn out to be stronger-than-expected (especially NFP). As we count-down to the US elections, we are cautious that there could be more volatility as we head into the event on 5 Nov and any sign of better support for Trump could also be supportive of the USD given his penchant for policies that are inflationary (taxes and tariffs).

- Regardless of interim adjustments, three main themes continue to buoy Asian FX. The Fed easing narrative could continue to remain entrenched and the USD rebound could be limited. BoJ's hiking cycle is another tailwind for regional currencies (and headwind for the USD) and this is further amplified by newly elected PM Ishiba who has been supportive of BoJ's policy normalization plan thus far. The third boost to the Asian currencies would be China's latest stimulus. Given that China is one of the largest trade partners of most Asian countries, recent measures to support domestic demand lifts the growth prospect of the region. In addition, the positive sentiment from the long-awaited stimulus could continue to weigh on the greenback as well. MYR, JPY, NZD, KRW and PHP are most sensitive to CNH gains.

- Safe havens CHF and the JPY could continue to trend lower because of policy divergence. With only another 25bps hike expected for the BoJ at this point, balance of risks could be skewed to the upside based on modest rate hike trajectory priced in by markets. We continue to prefer to sell the CHFJPY on rally, last at 170. In a late cycle, JPYCHF could also be a more stable cross in times of risk aversion stemming from recession fears.

- We continue to see USDASEAN would head lower over the medium term amid a global easing environment. However, we have adjusted the forecast lower on the basis 1) our economists' revised forecasts for faster than initially expected pace of Fed easing and 2) stronger China stimulus support. The former would give support to ASEAN FX via yield differentials becoming even more favorable whilst the strong trade relations between ASEAN and China should lead to the latter providing a lift.

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Top 3 Currency Plays for Oct

Sell USDJPY
Sell CHFJPY on Rallies
KRW, TWD to Catch Up

Key Events for the Month Ahead

Date	Event
18 Oct	Malaysia Budget 2025
20 Oct	Inauguration of Indonesia President Prabowo
27 Oct	Japan General Elections 2024
30 Oct	UK Autumn Budget

USD: Uncertain Fed "Data Dependent" Path Remains

USD DXY	4Q 2024	1Q 2025	2Q 2025	3Q 2025
	99.19	98.61	98.02	97.47
	(100.15)	(98.65)	(96.92)	(--)

Previous Forecasts in Parentheses

Motivation: USD DXY continues its third month of decline but at a slower pace of around 1% (vs 2.8% in Aug) amid additional signs of USD exceptionalism narrative softening with the slowing US inflation and the start of the Fed's 50bps rate cut in Sep. We factor in these market-pricing developments and the extent of the USD weakness in Sep into our forecasts. We are also pricing in changes made by our economics team on the Fed policy trajectory. The baseline assumption now, factoring in the recent Fed move, looks at a total 100bps rate cut in 2024, i.e. another two rounds of 25bps in Nov and Dev FOMC and 125bps next year (vs 100bps previously) to bring FFR to 3.00%-3.25% by end 2025. Nonetheless, we reiterate that the USD downtrend and its pace depends on (1) the speed and depth of the Fed cuts from the first cut in Sep FOMC, (2) extent and dynamics of global growth (excluding US) and (3) how external factors such as geopolitical risks, ongoing global central bank moves after Sep and how the US elections outcome pans out. The US macro picture remains fluid and extent of the Fed moves ahead remain uncertain and is likely to be predicated on the growth and labour market trajectory. The favourable US inflation data since May suggests the inflation is on track to return to the 2% target despite an increase in the unemployment rate (albeit remaining low). If this pans out on the inflation front and unemployment rate is kept stable and labour demand growth holds up well, we expect the remaining 50 bps cut in 2024 to be on track. In addition, given the upcoming US presidential elections, fiscal policy is unlikely to offset the slowdown in private demand, as government spending is likely to be curtailed in an election year. Elevated uncertainty ahead of Nov election and unexpected developments in the campaign in end 3Q and 4Q could spark market volatility, global risk off, dampen business investment affecting growth further, and possibly support USD even as any softer data may lead to market recalibration for more cuts, the impact on the USD could be limited on the downside. Our baseline scenario now follows from fivethirtyeight polls, which shows that a Harris win is at 48.5% as at 30 Sep (vs Trump at 45.7%). This compares with 47% as @28 Aug. Other polls also show similar implied odds of a Harris victory being the slightly more likely outcome.

However, concerns of a US growth slowdown still remains since the Samh rule recession indicator signalled concerns of US recession risk in early Aug. Since then, **developments outside of the US, in particular the significant stimulus announcements out of China that span across monetary policy, property, and equity market cohorts has helped to exarcebate USD easing especially against EM Asia.** Following the recent PBOC monetary easing (i.e., 20bp policy rate cut, a 50bp RRR cut and a 50bp interest rate cut on existing mortgages and others), we expect more policy easing and fiscal stimulus announcements may possibly be implemented through the remainder of this year and next year. The DXY index slipped to a low of 100.17 on 27 Sep against this backdrop where markets are looking for indications where global growth momentum outside of the US picks up and likely to take the USD lower. In addition, the somewhat "hawkish" implications from the results of Japan's LDP election results also have weighed on the USD. In addition, shifts in ECB policy expectations and easing from the EM countries may slow down USD weakness.

Our BEER model estimates show USD could be close to fairly valued with risk of overshooting on the downside still a possibility. USD weakness momentum is likely to remain as we proceed into Oct and end of the year. We now **factor in a 1-2% depreciation in the DXY in our end 2024 forecasts and continue to look for the DXY index to range around 99-101** before moving down to around 99 and below into early 2025. Fundamentally, we still remain negatively biased towards the USD in the medium term as the pivot away from current higher rates and yields materialises as the economic cycle turns and given the country's structural twin deficits and the national debt expected to rise further over the next few years with a fiscal cliff potential in 2025.

On the macro data front, Sep saw release of relatively better US activity data - industrial production and manufacturing production increased by more than expected in Aug but were revised down in Jul. US ISM Manufacturing came in at 47.2 vs 46.8 prior and NFP was at 142k vs prior 114k (expected 165k). US CPI YoY and MoM numbers at 2.5% and 0.2% are in line with expectations. The Aug core PCE price index rose by 0.13% month over month, while the year-over-year rate edged up to 2.68%. Both personal spending and income increased by 0.2% in Aug. Housing starts rose by 9.6% to 1,356k (SAAR) in Aug, above consensus expectations for a 6.5% increase. Factory orders increased by 5.0% in Jul, in line with expectations. Markets will continue to monitor inflation numbers, which includes headline CPI and PCE core deflator data to see if it will come out stronger than expected and remains elevated due to services inflation.

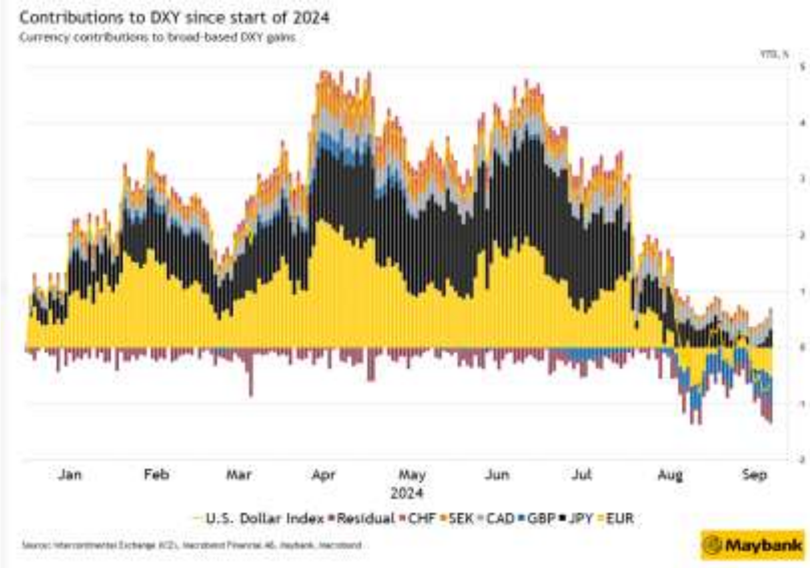
Fed lowers the benchmark rate by 50bps to 4.75-5.0% target rate with only one dissenter (Michelle Bowman) calling for a 25bps cut. The statement was more dovish pointing out "job gains have slowed" and "the unemployment rate has moved up but remains low". However, the statement also highlighted that while inflation has made further progress, it still "remains somewhat elevated". In addition, "the risks to achieving its employment and inflation goals are roughly in balance" and this suggests an arguably rather neutral tone after the relatively bigger cut undertaken today. The summary of economic projection had rather conservative revisions (much like the one in 2019) where Powell had also characterized the first rate cut as a calibration. Given the current level of interest rate (about twice as high compared to 2019), the size of calibration somewhat corresponds (50bps now compared to 25bps then).

Powell clarified that a bigger start (of 50bps) is not a "hurried start" and he emphasized that the Fed does not think it is "behind the curve". The bigger cut "shows confidence" in the inflation trajectory. Whilst the unemployment rate forecast was raised, he also noted that the labour market remains rather strong and as such, the unemployment rate is still seen at steady at 4.4% in 2025 and trending lower in 2025. Powell does not see anything in the economy that suggests a recession and throughout his press conference, he repeatedly mentioned that the economy is solid. He also added that the pace of rate cut would be adjusted based on the data and "no one" should look at 50bps and extrapolate it as the new pace. The inflation target is still at 2% and this policy adjustment in rates as well can be seen as a monetary policy normalization. He even stressed that the current monetary setting is still restrictive, but it will take some time for the fed to reach neutral rate. More recently, Powell spoke at the National Association for Business Economics and said that the recent half percentage point interest rate cut should not be interpreted as a sign that future moves will be as aggressive. He emphasized that the Fed is not on "any preset course" and future decisions remain "data-dependent". He also insists that the committee is not in a hurry to cut and emphasized that there the US economy remains on solid footing. He assured that the Fed will lower interest rates "over time" to a more neutral stance. **As at 30 Sep 2024, Fed fund futures look for the Fed to cut by another 74bps by the end of 2024 and roughly another 120bps by the end of 2025 to take the policy rate to around 2.88%, which is in the region of the Fed's estimate of the long-run policy rate. This is also broadly in line with our slightly more hawkish house view which sees 50bps more of cuts in 2024 and 125bps of cuts in 2025 which sees the Fed policy rate between 3.00% to 3.25% by end 2025.**

With the emergence of Kamala Harris as the Democratic presidential nominee, the race to the US Presidential elections remains fluid and we take guidance for now from how the US presidential polling results evolves. A Trump scenario raises the 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 and could have some downward pressure on CNY and support for USD emerge. Expect FX risk premiums to be affected by rising trade policy/tariffs, G7-China relations, fiscal policy and currency policy. Broader US & G7-China conflict is dollar positive. A Harris outcome could see vols ease off and support for Asian and high beta FX as the risk of China related risk premiums decline. In the near term, the main risk is that the FOMC could instead cut more quickly in consecutive meetings, if labour market data softens more than expected and driven by concerns of a slowdown in the economy rather than a normalisation move.

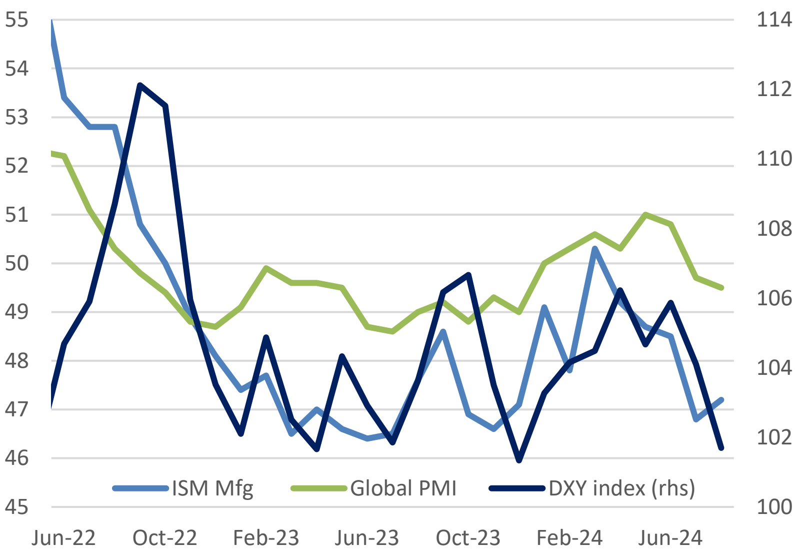
Key Data/Events: S&P Global US Manuf PMI (1 Oct); ISM Manuf (1 Oct); ADP (2 and 20 Oct); Durable Goods, Factory Orders (3 Oct and 25 Oct); NFP Sep 2024 (4 Oct); Trade Balance (8 Oct); FPMC Minutes (10 Oct); CPI for Sep (10 Oct); Uni Of Michigan Sentiment (11 Oct); Retail Sales (17 Oct); Ind Prodn (17 Oct); Housing Starts (18 Oct); GDP 3Q A (30 Oct); Core PCE (30 Oct); PCE (31 Oct); NFP Oct (1 Nov).

Gains to the DXY Come Off as Fed Pivots



Sources: Bloomberg, Macrobond, Maybank FX Research & Strategy

As the US Slows, the USD Softens



Sources: Macrobond, Bloomberg, Maybank

EUR: Shaking Off Economic Woes

	4Q 2024	1Q 2025	2Q 2025	3Q 2025
EUR/USD	1.1300	1.1350	1.1400	1.1450
	(1.1200)	(1.1300)	(--)	(1.1400)

Previous Forecasts in Parentheses

Motivation: We revise our EURUSD forecasts higher and maintain the upward trajectory for the pair. Our base case outlook now factors a quicker depreciation of the USD amid a change in the house view for Fed easing. Our economics team now expects 50bps more of rate cuts in 2024 (prev: 25bps) and 125bps in 2025 (prev: 100bps). As we approach the US elections, we do see the risk of a USD rebound. In addition, a USD rebound could also possibly come from an adjustment in Fed rate cut expectations. As at 30 Sep 2024, Fed fund futures look for the Fed to cut by another 74bps by the end of 2024 and roughly another 120bps by the end of 2025 to take the policy rate to around 2.88%, which is in the region of the Fed's estimate of the long-run policy rate. For the ECB, we maintain our view and see 25bps more of cuts in 2024 and 75bps of cuts in 2025, although we do not think that ECB rate cuts would lead to outsized EUR weakness and the resulting support for Eurozone growth could offset EUR weakness that arises from rate cuts. We also retain our conviction on the trajectory of a stronger EURUSD as it becomes more likely that the macroeconomic environment provides fertile grounds for USD weakness and EUR strength i.e. as US exceptionalism fades, Fed cuts rates and Eurozone growth improves. Moreover, China's latest round of stimulus could be positive for Eurozone growth. Lagarde also hinted that the latest developments have strengthened her conviction that inflation will return to ECB's target.

EURUSD traded within a 1.1002 to 1.1214 range in Sep, higher than the 1.0778 to 1.1202 range in Aug. Broad based USD weakness continued to be the dominant driver in Sep as the Fed slashed rates by 50bps. For now the support at 1.10 and resistance at 1.12 are very well defined. Risks of a bearish reversal are present as a double top chart pattern around the 1.12 level has formed. At the same time, USD weakness could persist and drive the pair higher. The ECB cut rates by 25bps ahead of the Fed on 12 Sep, and that did not results in outsized EUR weakness with the 1.10 support holding steady in the lead up to the ECB decision, with the pair eventually bouncing off the support and rebounding post ECB rate cut.

Eurozone inflation remains sticky as the last leg of disinflation could be the toughest. Aug F CPI inflation move downwards with headline at 2.2% (exp: 2.2%; prev->rev: 2.2% -> 2.6%) and core at 2.8% (exp: 2.8%; prev: 2.8%). CPI inflation edged up by 0.1% MoM (exp: 0.2%; prev: 0.2%). Nevertheless, current trajectory of inflation in the Eurozone is in line with the ECB's assessment and should provide them with more confidence to cut. Services inflation remains one of the hotter components of inflation at 4.2% YoY in Aug and that could be a concern for the ECB since wage increases could make the last leg of disinflation tougher.

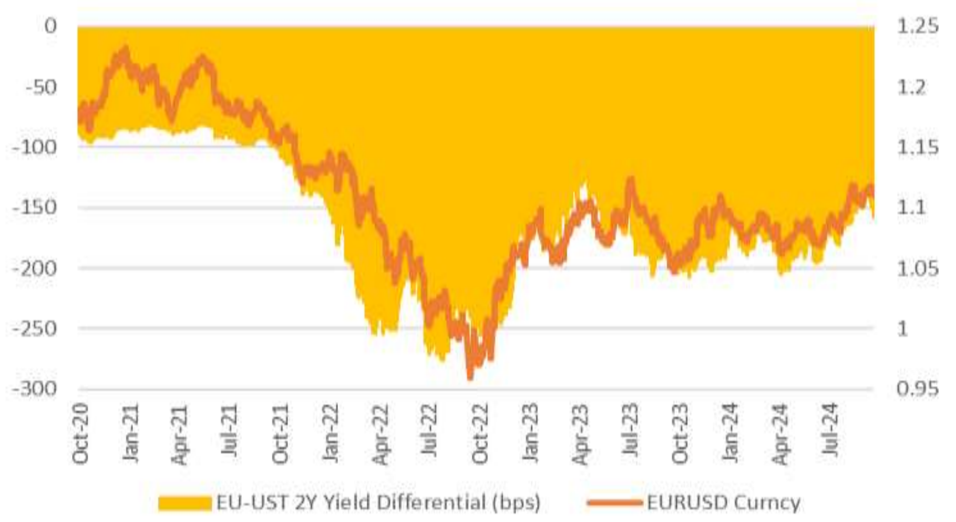
Growth should pick up in the Eurozone, with green shoots of recovery returning although German growth continues to lag. 2Q F growth for Eurozone stood at 0.6% SA YoY (exp: 0.6%; 0.6%) and 0.2% SA QoQ (exp: 0.3%; prev: 0.3%). 2Q F German growth showed a small contraction QoQ at -0.1% (exp: -0.1%; prev: -0.1%), but an expansion of 0.3% YoY (exp: 0.3%; prev: 0.3%) and stronger than expected WDA YoY print of 0.0% (exp: -0.1%; prev: -0.1%). The ECB revised its growth estimates for 2024 and 2025 slightly lower in the latest ECB economic bulletin. However, we believe the measured pace of ECB cuts and an improvement in global demand should be supportive of Eurozone growth. As inflation continues to come off, the squeeze on growth should also abate. In addition, signs that global growth is improving are starting to be seen and Eurozone growth is forecast to pick up from here with consensus at 0.7% YoY for 2024 and 1.3% for 2025 in real terms. China's latest round of stimulus should also be positive for Eurozone growth, especially so if positivity can be sustained and translate to better growth outcomes for China.

We see one more 25bps cuts for the ECB this year to bring their deposit facility rate to 3.25% (currently: 3.50%), main refinancing rate to 3.40% (currently: 3.65%) and marginal lending facility rate to 3.65% (currently: 3.90%). This is more hawkish than market pricing of 50bps of cuts in 2024 and in line with current median consensus forecast of 25bps. As we have previously stated, we think that if the ECB cuts after or alongside the Fed or if Eurozone growth prospects improve, the EURUSD need not weaken and could in fact strengthen or remain supported. This is in line with our narrative for a bottoming of growth prospects in the Eurozone and has been vindicated with the EUR rising even as the ECB has cut ahead of the Fed. We have seen further evidence of this when the EURUSD rallied/was supported even as the ECB tilted a bit more dovish. EUR has also benefitted from the recent dovish Fed repricing. We remain constructive on the EUR in the long term even as the risks of pullbacks in the short-term exist as the US elections loom and central bank rate cut expectations could re-calibrate.

Risks Ahead: Geopolitical headwinds could still weigh on the EUR. While the French elections have passed with little fuss, the war in Ukraine is not over, and the situation in the Middle East could worsen and this should affect the Eurozone more directly given the relative geographic proximity. Downside risks to growth and upside risks for inflation (Red Sea blockade, Middle East Crisis, Ukraine War) could place the Eurozone in a precarious position. The US Presidential Election is also a possible risk for the EUR. A Trump win could spell an early end to the Ukraine War and that should be positive for the EU. The key threat to our main narrative for a Eurozone growth recovery could be threatened if downside risks to global growth play out.

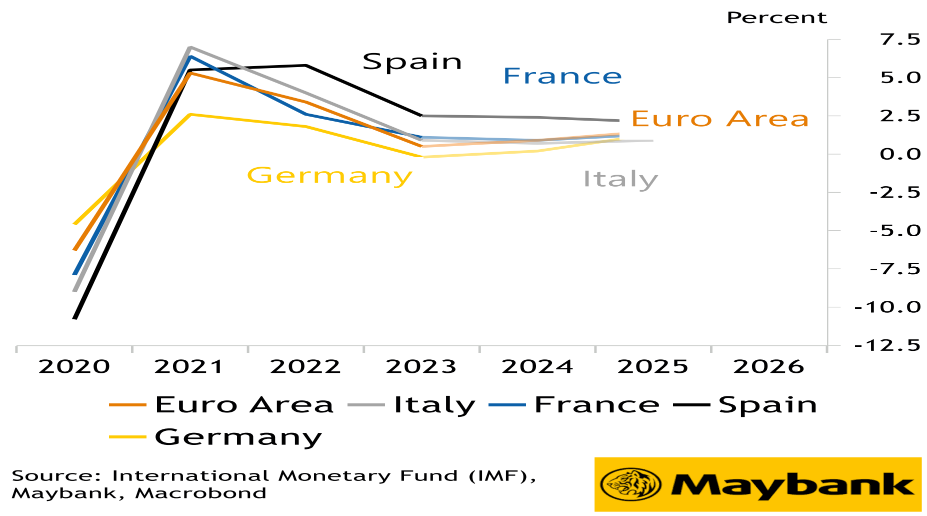
Key Data/Events: Sep F Mfg PMI, Sep P CPI Inflation (1 Oct), Aug Unemployment (2 Oct), Sep F Svcs/Comp PMI, Aug PPI Inflation (3 Oct), Aug Retail Sales (7 Oct), Oct ZEW Survey Expectations, Aug Industrial Production (15 Oct), Aug Trade Balance, Sep F CPI Inflation, **ECB Policy Decision (17 Oct),** Aug ECB Current Account, Aug Construction Output (18 Oct), 2023 F Debt/GDP Ratio (22 Oct), Oct P Consumer Confidence (23 Oct), Oct P Mfg/Svcs/Comp PMI (24 Oct), Sep ECB 1Y/3Y CPI Expectations, Sep Money Supply (25 Oct), Oct Confidence Indices, 3QA GDP (30 Oct), Oct P CPI Inflation, Sep Unemployment Rate (31 Oct).

<u>Yield Differentials Key Driver of EURUSD</u>



Source: Bloomberg, Maybank FX Research & Strategy

<u>Germany Lags, But Should Pick Up According to IMF</u>



Source: Macrobond, Maybank FX Research & Strategy

GBP: Eyes on UK Budget

	4Q 2024	1Q 2025	2Q 2025	3Q 2025
GBP/USD	1.3300 (1.3100)	1.3350 (1.3200)	1.3400 (1.3300)	1.3450 (1.3300)

Previous Forecasts in Parentheses

Motivation: We revise our GBPUSD forecasts upwards and maintain the upward trajectory for the cable. GBPUSD has continued to outperform against a backdrop of Fed rate cuts, a BOE that is more measured (and viewed as more hawkish) on rate cuts and a general improvement in risk sentiment amid a better outlook for global growth. We think that GBP outperformance could taper, with the US elections the likeliest source of support for the USD. However, we also recognize several upside risks for the pair in the form of further improvements in the global outlook and risk appetite. UK Autumn budget due at the end of the month is also a risk event that presents two way-risks for the pair. Nevertheless, we do upgrade our forecasts given that our base case outlook factors a quicker depreciation of the USD amid a change in the house view for Fed easing. Our economics team now expects 50bps more of rate cuts in 2024 (prev: 25bps) and 125bps in 2025 (prev: 100bps). We see BOE cutting by 50bps more in 2024 and up to 75bps in 2025. Growth has been surprisingly resilient in the UK, while the broad disinflationary trajectory is intact.

GBPUSD traded in a 1.3002 to 1.3434 range in Sep, higher than the 1.2665 to 1.3266 range in Aug. YTD, GBP remains best performing G10 currency (+5.28% as at 30 Sep 2024) and the third best performer (behind the MYR and THB) in our SGDNEER basket. While the current favourable macroeconomic backdrop is likely to continue, we think there is a decent chance that GBP outperformance tapers given how stretched to the upside the pair is. At current spot levels of 1.3400, balance of risks tilt to the downside for the pair given the hawkish BOE rate cut expectations are vis-à-vis dovish Fed rate cut expectations. Nevertheless, we recognize that the GBPUSD is likely to appreciate in the longer-term and also suggests that pullbacks could be shallow. This view is factored into our forecasts and forecast trajectory.

Growth in the UK remains resilient despite a recent underperformance vis-à-vis expectations. 2QF GDP underwhelmed at 0.7% YoY (exp: 0.9%; prev: 0.9%) and 0.5% QoQ (exp: 0.6%; prev: 0.6%). Prior to this print, growth had regularly outperformed expectations in the UK. This surprising resilience could be building on optimism which was previously lacking given that expectations were generally low post-Brexit and post-Truss. We do also recognize that with Labour and Starmer in charge, terms of Brexit could be re-visited, with potential positives likely to be tremendous for the GBP. While Starmer has denied that the UK will undo Brexit, we think that at the very least he should help to should warm EU-UK relations, which had been frosty under the Conservatives. Market could be pricing in some of this positivity for the GBP on this front and any meaningful outcome could be tremendous for the GBP. We expect the UK's growth trajectory to largely continue to be supportive of GBP strength.

Aug CPI inflation print was within expectations and while some measures of inflation ticked up, we view this as one of the bumps in the broad disinflationary trajectory. Headline CPI inflation was unchanged at 2.2% YoY (exp: 2.2%; prev: 2.2%), while core CPI inflation was higher at 3.6% YoY (exp: 3.6%; prev: 3.3%) and services inflation rose to 5.6% YoY (exp: 5.6%; prev: 5.2%). Sequentially, headline inflation was also in line at +0.3% MoM (exp: 0.3%; prev: -0.2%). The uptick in services inflation is likely the reason that the BOE stood pat.

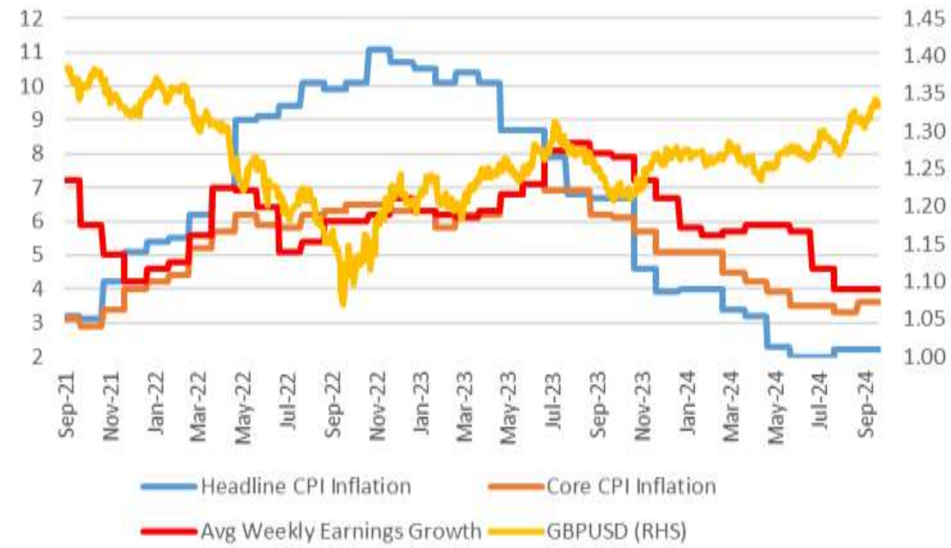
BOE stood pat on 19 Sep at 5.00% (prev: 5.00%). Vote split was 8-1 in favour of standing pat vs cutting rates by 25bps. Dhingra was the sole dissenter who voted for a 25bps cut. New member Taylor turned out less dovish than we expected. As we mentioned the disinflationary trajectory could be bumpy. The statement contains language that suggests that rate cuts could be gradual and measured if inflation remains a risk. We think that future inflation prints could be more supportive of rate cuts. Following the stand pat on 19 Sep, market pricing for BOE rate cuts has stands at about 38bps of cuts in 2024. Economists' forecast consensus are at about 30bps of cuts in 2024. **We maintain our view that the BOE will cut rates by a further 50bps in 2024 as we expect inflation to fall further in the coming months. Preliminarily, we also see 75bps of cuts for BOE in 2025. Consensus for cuts in 2025 is at 105bps, more dovish than what we look for.**

Fiscal space could be reduced as BOE QE losses add up, which could leave UK taxpayers with a hefty bill with BOE's losses indemnified by a government guarantee. Since Oct 2022, about £50b has been transferred to the BOE. Latest estimate of QE losses by 2034 stands at £95b (Apr: £85b). Chancellor Reeves has declared that she has no intention to change the way the BOE pays interest on bank reserves issued for QE purposes. We keenly anticipate the release of Chancellor Reeve's first budget on 30 Oct 2024, with tax increases expected to improve the UK's fiscal position. The budget could provide a boost to the GBP and would be a feather in the Labour government's cap if it restores some of the credibility that was damaged by Liz Truss. Chancellor Reeves has said preliminarily that there would be no return to austerity, and **some optimism could be being built in anticipation of growth supportive measures to be announced at the budget.**

Risks Ahead: Should the UK manage to successfully navigate the intricacies of a post-Brexit UK, then the GBP may perform better than we expect. Downside risks to growth also exist, which could weigh on the high beta GBP.

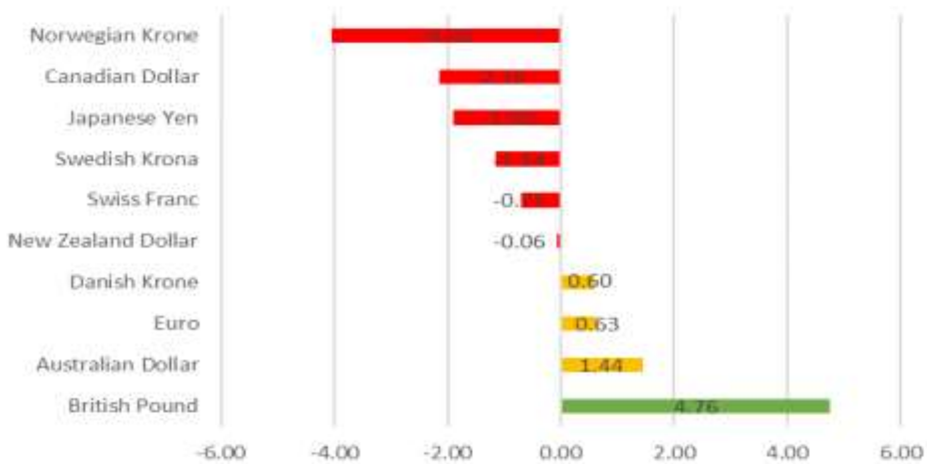
Key data/events: Sep F Mfg PMI (1 Oct), Sep Official Reserves Changes, Sep F Svcs/Comp PMI (3 Oct), Sep Construction PMI (4 Oct), REC UK Jobs Report (7 Oct), Sep RICS House Price Balance (10 Oct), Aug Monthly GDP, Aug Industrial/Manufacturing Production, Aug Trade Balance (11 Oct), Aug ILO Unemployment, Aug Avg Weekly Earnings (15 Oct), Sep CPI/RPI/PPI Inflation (16 Oct), Sep Retail Sales (18 Sep), Sep Public Sector Finances (22 Oct), Oct P Mfg/Svcs/Comp PMI (24 Oct), Oct GfK Consumer Confidence (25 Oct), Sep Mortgage Approvals, Sep Money Supply (29 Oct).

Inflation Abates but Wage Growth Remains Robust



Source: Bloomberg, Maybank FX Research & Strategy

GBP Is the Standout Performer in the G10 Space YTD



Source: Bloomberg, Maybank FX Research & Strategy

CHF: Preference for Weakness

USD/CHF	4Q 2024	1Q 2025	2Q 2025	3Q 2025
	0.8500	0.8500	0.8500	0.8400
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain our forecasts for USDCHF and the relatively flat trajectory of CHF appreciation against the USD. This is predicated on both the Fed and SNB cutting rates at a more aggressive pace than previously anticipated. Our economics team now expects 50bps more of Fed rate cuts in 2024 (prev: 25bps) and 125bps in 2025 (prev: 100bps). We now expect SNB to cut rates by a further 25bps in 2024 and up to 50bps in 2025 as inflation is benign and growth is tepid. We note that SNB seems to have a preference to allow for CHF weakness as it refrained from intervening when the CHF was broadly weaker against both USD and EUR. On the flip side, they have appeared to moderate CHF strength slightly (2Q: CHF103m) as the CHF appreciates. Overall,, they look to be relying on rate cuts as a tool to keep the CHF in check. CHF weakness would be supportive of Swiss export competitiveness against a backdrop of tepid growth and benign inflation.

USDCHF traded within a 0.8375 to 0.8550 range in Sep, broadly lower than the 0.8400 to 0.8789 range in Aug. We suggest that SNB may be trying to draw a line in the sand for the 0.8375 to 0.8400 region. CHF retains its status as a safe-haven and we expect this to provide support in times of stress. However, as the global soft-landing and Goldilocks scenario gathers steam, we should also see grounds for CHF to underperform as higher beta (AUD, NZD, GBP) currencies outperform. Our base case narrative remains for a global soft-landing and therefore we do see some headwinds for the CHF should risk appetite improve.

Consensus forecasts suggest that the Swiss economy is likely to see moderate growth of +1.4% YoY in 2024 and +1.5% YoY in 2025. The chance of a recession over the next 12 months is stable at 15.0% and 2023 GDP printed at 0.8% YoY. Other economic data showed that the Swiss economy, while not expected to tank is facing tepid growth prospects. The implication here is that the SNB could be more inclined to ease to support growth and should be more tolerant of currency weakness and less tolerant of currency strength. A weaker CHF should support export competitiveness, which in turn could boost economic growth. Swiss exporters have also begun to lobby for a weaker CHF, with the Swiss watch industry making a direct appeal to SNB recently.

Latest inflation prints remained benign. Aug CPI inflation printed at 1.1% YoY (exp: 1.2%; prev: 1.3%) and was sequentially flat at 0.0% MoM (exp: 0.1%; prev: -0.2%). Core CPI inflation was flat at 1.1% YoY (exp: 1.1%; prev: 1.1%). Developments are largely in line with global trends where price pressures are on a broad downward trajectory. Swiss inflation can be considered as benign given SNB's inflation target of between 0% to 2%. At its 26 Sep meeting, SNB cut rates to 1.00% (prev: 1.25%) given the significant decline in the inflation outlook for Switzerland. As inflation continues to retreat, we expect one more cut from the SNB in 2024. We now see up to 50bps of cuts for SNB in 2025. Market is currently pricing in about 63bps of cuts for SNB up till Jun 2025 after the SNB's very dovish rate cut on 26 Sep. Term rates in Switzerland should also be reduced by changes in the overnight, although this could take time since 3M SARON is essentially a compounding of daily SARON over three months, a cut in overnight rates today would only be fully factored in three months later. 3M SARON was last at 0.87% and should decline in tandem with SNB rate cuts. Market implied 3M SARON in 1Y is at 0.31%.

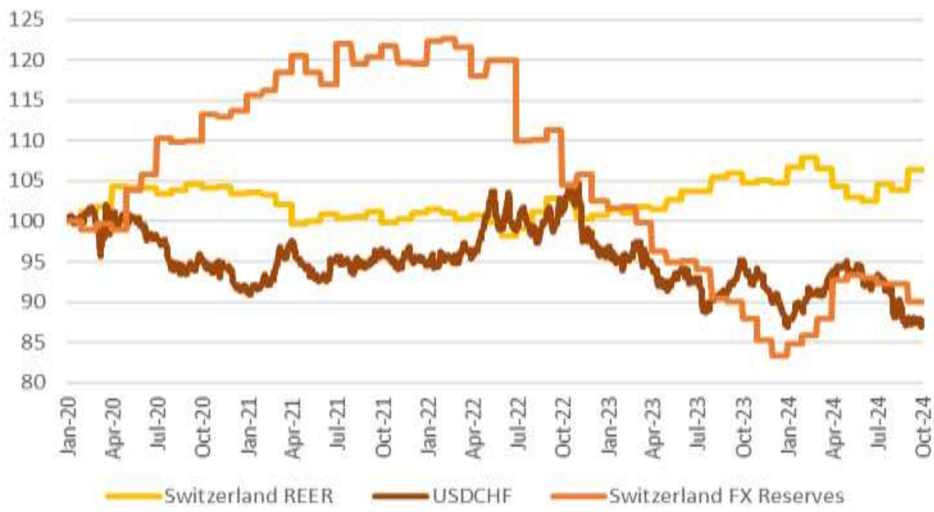
We suggest that the relative strength of the CHF has been a key reason for SNB to pivot to rate cuts. Dec marked a key pivot in Swiss FX policy with interventions no longer being one-sided in favour of supporting CHF strength. One possible theory is that the surprise cut would help cap CHF strength and reduce the need for intervention to weaken the CHF as such interventions could bloat the SNB's already massive balance sheet. SNB also raised the reserve requirement for domestic banks to 4% (from 2.5%) and this would lower their interest costs that they would need to pay to banks for deposits. Inflation is benign in Switzerland and is expected to remain benign with SNB's official forecasts at no higher than 1.5% through 2026. Historically the SNB has also not been too concerned with surprising the market, with the 50bps hike in 2022 and the 2015 unpegging of the CHF episodes that come to mind. Moreover, SNB declared interventions were at a negligible CHF0.3b in 1Q2024 after selling CHF22.7b in 4Q2023. CHF was broadly weaker against both USD and EUR in 1Q2024. In 2Q2024, SNB purchased a small CHF0.1b amount. This backs up our thesis that the SNB prefers to use rate cuts as a tool to manage the CHF rather than rely on direct intervention.

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. FX reserves edged lower to CHF693.8b (prev: 703.7b), while sight deposits have been broadly stable and were last seen at CHF472b. We do maintain our view that the USD strength will gradually fade over the year amid fading US exceptionalism.

Risks Ahead: The main risk we see for the CHF is if it replaces JPY as the global funding currency of choice given the SNB easing bias vs BOJ tightening bias. 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. 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.

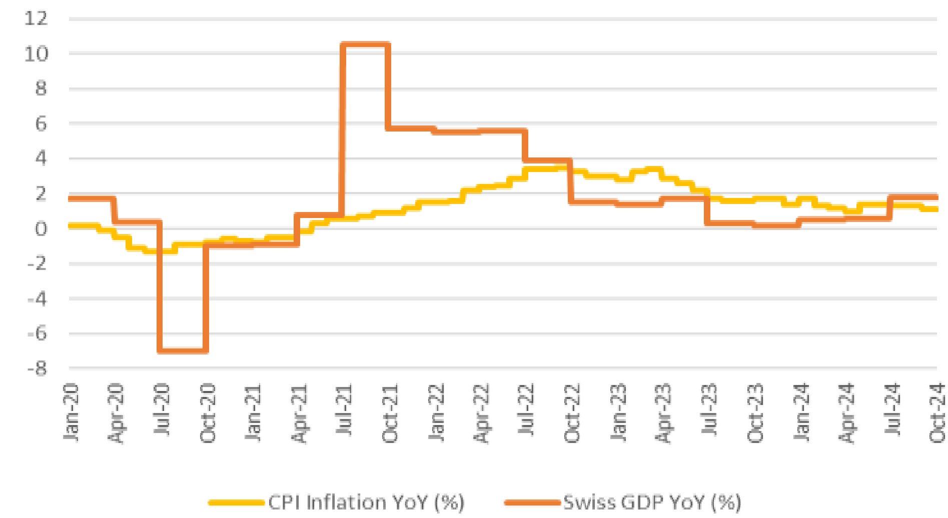
Key Data/Events: Aug Retail Sale, Sep Mfg/Svcs (1 Oct), Sep CPI Inflation (3 Oct), Sep Unemployment Rate (4 Oct), Sep FX Reserves (7 Oct), Sep Producer and Import Prices (14 Oct), Sep Exports/Imports (17 Oct), Sep Money Supply (21 Oct), Oct KOF Leading Indicator, Oct UBS Survey Expectations, Sep Retail Sales (30 Oct).

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



Source: Bloomberg, Maybank FX Research & Strategy

Inflation is Benign and Growth is Tepid



Source: Bloomberg, Maybank FX Research & Strategy

AUD: Continue to Accumulate on Dips

AUD/USD	4Q 2024	1Q 2025	2Q 2025	3Q 2025
	0.69	0.70	0.71	0.72
	(0.68)	(0.70)	(0.71)	(--)

Previous Forecasts in Parentheses

Motivation: AUDUSD extended its rise in Sep and traded mid-0.68 levels as we near the end of Sep. The pace of appreciation slowed from Aug nonetheless as markets have aggressively priced in Fed rate hikes before and global growth is being assessed now relative to the US. What is an added positive factor on the horizon is that the China Politburo has finally acknowledged the need for fiscal stimulus. We hold a glass half full view as we continue to expect a turnaround in the global economy as central banks ease monetary policies in tandem. That would be conducive for pro-cyclical AUD. Given our medium term view and the recent run-up, we continue to prefer the approach of accumulating AUD on dips. We adjusted our 9 to 12 month forecast higher based on our optimistic view of a global turnaround in 2025. Over the next one quarter however, potential return of volatility due to US elections and tentative growth fragility could mean more two-way trades for the AUD. However, Fed's dovish pivot and recent pledges of growth supports from China would support the AUDUSD on dips.

Activity has been slowing in Australia with Mfg PMI slipping further to 46.7 for Sep (prelim.) from pervious 48.5. Services PMI fell to 50.6 from previous 52.5. Part of the reason for services to remain in expansion is the tourist spending that has been propping up the services sector. That leads to a tad of a divergence between the manufacturing and the services sectors. Household spending has actually been rather weak at 2.9%y/y in Jul and the previous print was also revised lower to 2.2%. Business sentiment is also worsening because of the elevated price pressure that leaves no room for the RBA to lower borrowing costs. NAB business confidence fell to -4 in Aug from previous +1 while business conditions also deteriorated to 3 from 6.

Inflation remains rather sticky. Annual CPI inflation increased to 3.8% in 2Q, accelerating from 3.6% in Mar. However, Aug inflation eased towards 2.7%y/y from previous 3.5% and the RBA did warn that this could be temporary and distorted by cost-of-living subsidies, especially for electricity. However, trimmed mean CPI also slowed to 3.4%y/y versus previous 3.8%. This is a tad below the Aug SoMP projection of 3.5% for Dec 2024. This projection forms the justification for RBA to mention that there are no plans to cut rate within the next six months at the Aug meeting.

We look for RBA to cut cash target rate by 25bps in Nov 2024 and an accumulative 75bps cut is expected for 2025. The case for RBA to cut cash target rate to 4.10% in Nov is due to the steady rise in unemployment rate, most recent inflation report suggests quicker cooling of price pressure than anticipated. In the Sep meeting, just before the latest Aug inflation report, the central bank noted in its statement that "inflation remains above target and is proving persistent". RBA had also highlighted that inflation is not seen within the 2-3% target "sustainably" until 2026. Governor Bullock did note that a "rate hike" was not explicitly discussed this time, unlike the last meeting so that was taken as a mild pivot away from the hawkish spectrum - which is a step closer to a cut and validates our call for a rate cut in Nov, especially with the Aug inflation report.

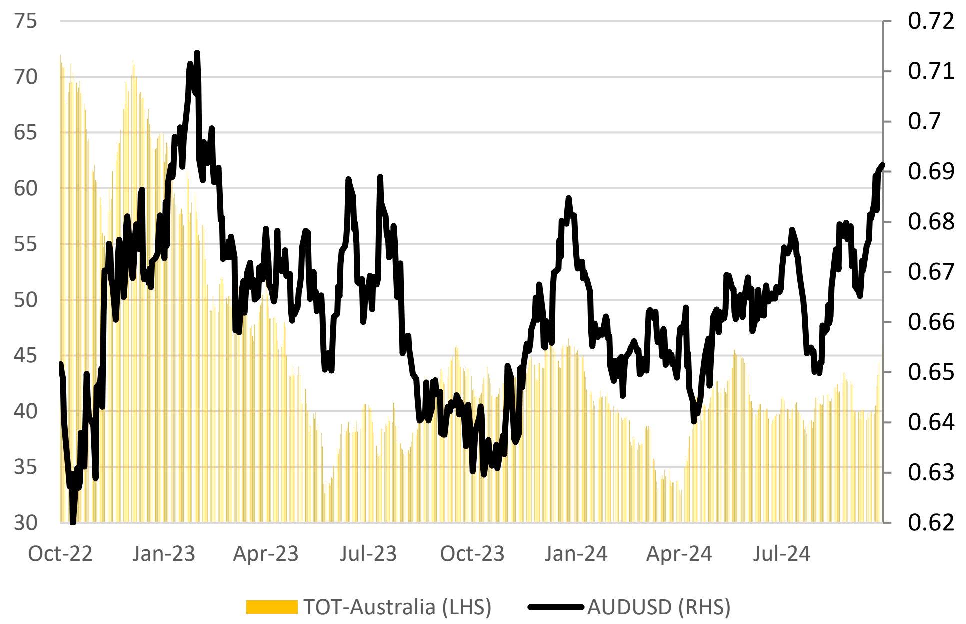
A Harris Presidency May Be Relatively More Benign for the AUD. There is also a possibility that a scenario of US Vice President Kamala Harris winning the presidency in Nov could mean a more predictable bilateral relationship between the US and China. Kamala Harris may focus on furthering the progressive agenda at home rather than efforts to further tighten restrictions on China. This however, depends on her pick of foreign policy advisors. Should that be the case, the next four years could also be a more benign environment for the AUD.

Cautiously Optimistic of China's Stability. China is Australia's biggest trading partner and as such, always a relevant concern. The recent monetary policy stimulus (across different interest rates, liquidity support for equities, recapitalization of banks as well as housing measures) started to lift sentiment. The politburo's pledge of fiscal and monetary measures more recently (26 Sep) could be another positive driver for the AUD.

Risks Ahead: (1) US inflation and concomitant policy trajectory is key for USD direction and a stickier-than-expected US inflation could dampen AUD recovery. (2) Any unexpected headwinds for major economies (China, US, Eurozone) that cause a sharper than expected global recession is negative for the AUD. (3) Australia's inflation is proving to be stickier than expected but at this point, markets' are already pricing in Fed-RBA divergence. Any sign of inflation coming off could narrow this divergence and crimp on the AUD gains.

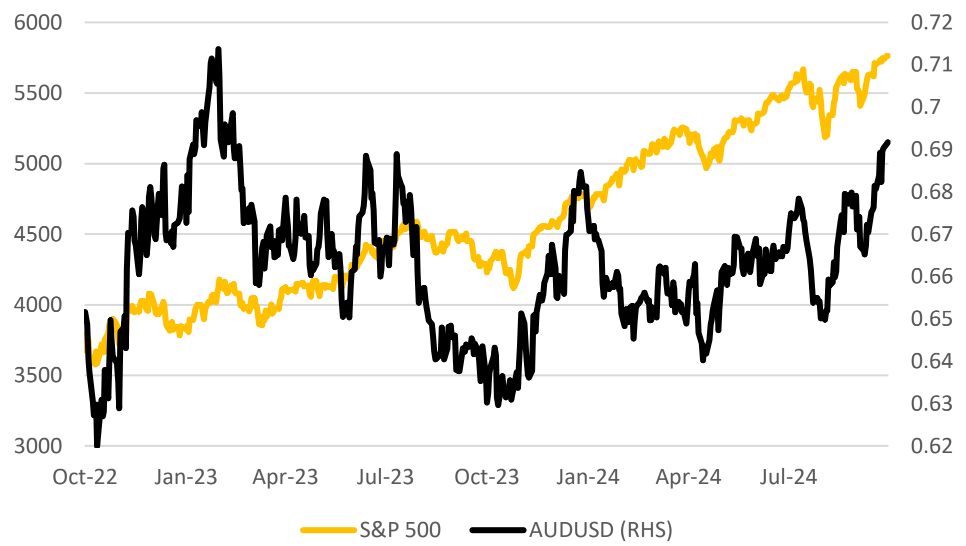
Key Data/Events: Aug Building approvals, retail sales (1 Oct), Aug trade (3 Oct), Aug household spending, home loans value (4 Oct), Sep M-I inflation gauge (7 Oct), Oct Westpac consumer confidence, Minutes of the Sep RBA meeting, Sep NAB business confidence/conditions (8 Oct), Sep ANZ-Indeed job advertisements (8 Oct), Oct consumer inflation expectation (10 Oct), Sep Westpac leading index (16 Oct), Sep labour report (17 Oct), Preliminary Oct Services, Mfg PMI (24 Oct), 3Q CPI (30 Oct), 3Q import, export price index, Sep building approvals, Sep retail sales, Sep private sector credit, Oct CoreLogic Home value (31 Oct).

Terms of Trade Have been Supportive of the AUD



Source: Bloomberg, Maybank FX Research & Strategy

AUD Has Been Driven Higher by Risk-On Environment



Source: Bloomberg, Maybank FX Research & Strategy

NZD: RBNZ To Cut 25bps or 50bps?

	4Q 2024	1Q 2025	2Q 2025	3Q 2025
NZD/USD	0.64 (0.62)	0.65 (0.64)	0.66 (0.64)	0.67 (--)

Previous Forecasts in Parentheses

Motivation: NZD was lifted by the broad USD decline, amplified by Fed's 50bps rate cut and concomitant positive risk sentiment and more lately, China's fiscal/monetary measures that could bode well. Elevated dairy prices played a part in lifting the NZD as well. As the Fed starts its easing cycle, regional central banks would be able to ease without fear of repercussions on their respective currencies. That could align most global central banks (ex BoJ) on their easing cycles and we expect recovery to gain traction. Over the next one quarter however, potential return of volatility due to US elections and tentative growth fragility could mean more two-way trades for the NZD. However, the more medium-term narrative of easing cycles, plausible global recovery would support the NZDUSD on dips.

With regards to RBNZ, **we look for a 25bps cut in Oct and 25bps cut in Nov to take OCR to 4.75% by the end of 2024. In 2025, we look for a 125bps cut to take the OCR to 3.50%. Recall that t**he RBNZ committee discussed about a 50bps cut but decided on a smaller cut of 25bps to take OCR to 5.25% as a "low risk start". This suggests that the central banker may not hesitate to quicken the pace of easing should inflation allow. Since then, food prices have been slowing to +0.2%m/m gain in Aug from previous +0.4%. Card spending fell -0.2%m/m in Aug vs. previous +0.6% (albeit with the retail component up +0.2%). Based on the last RBNZ projections, CPI tradeables are expected to fall a gentler -0.2%q/q in 3Q vs. previous -0.7%. Non-tradeables CPI is also projected to quicken in pace to +1.4%q/q in 3Q from previous +0.9%. Headline CPI is forecast to accelerate to +0.8%q/q from previous +0.4%. Based on the food prices, rebound in sentiment indexes (BusinessNZ Mfg PMI, Performance Services index, consumer confidence), inflation is still easing gradually and RBNZ's OCR guidance in Aug is likely on track with another "low-risk" 25bps cut each for Oct and Nov. That would also place RBNZ as a less aggressive central bank vs. the Fed in the easing cycle this year, adding boost to the NZD. Growth recovery should be the next narrative and that is constructive for the NZD.

Consumer, Business confidence Rose After First Cut. Based on the projections, RBNZ had assumed that the easing monetary policy settings along with falling inflation pressure would likely boost activity in 3Q. Hence whether the economy deteriorates further would also determine the pace of easing. Retail sales ex inflation slipped -1.2%q/q in 2Q vs. previous +0.4%. Since then, we had stronger sentiment gauges because of the rate cuts, filled jobs also fell at a gentler rate of -0.1%m/m in Jul vs. -0.3% in Jun. Card spending for retail rebounded +0.2% growth from previous -0.1% although this could remain choppy and there has been a sustained improvement in consumer confidence as of Sep (95.1 from around 83 in Jun, a 14% increase since). Even though markets are pricing in around 40bps cut on 9 Oct, market players may be expecting the RBNZ to take the cue from the Fed but that remains unlikely based on data trajectory.

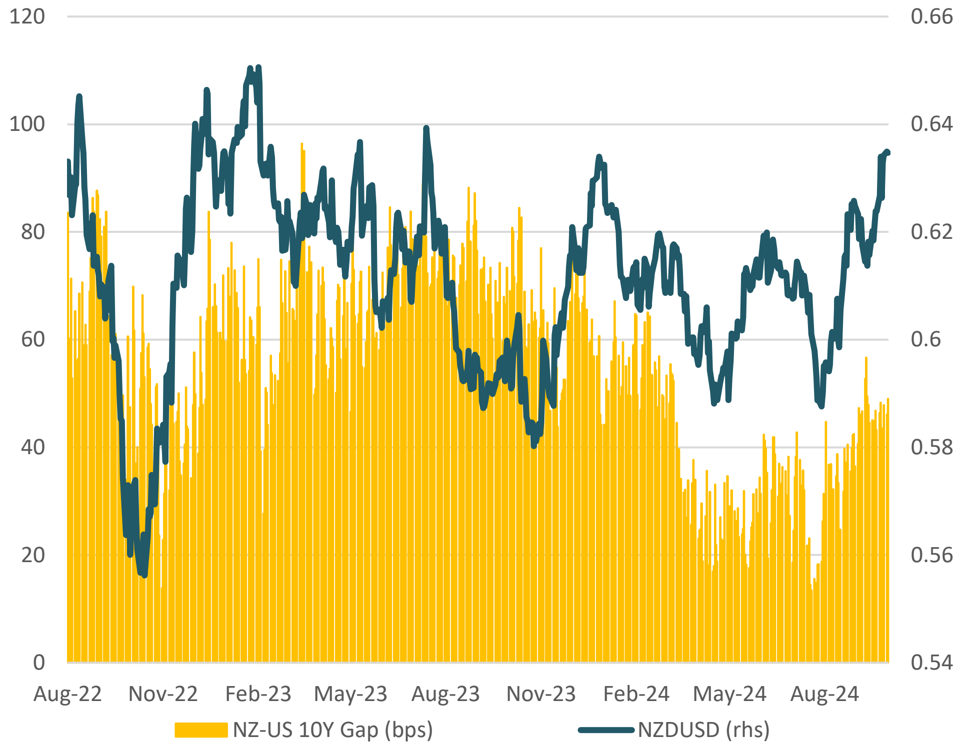
The Risks of 50bps. Perhaps the more compelling reason for RBNZ to cut a bigger 50bps on the 9th would be the rise of the NPLs. 0.56% of the mortgage lending is considered non-performing (90 or more days in arrears and impaired) and 1.06% of mortgage are more than 30 days due. The NPL ratio of 0.56% is now above 2020 pandemic levels and at more than a decade (Aug 2013) high as of Jul, albeit still *well below* the GFC levels of more than 1%. Average monthly pace of increase has been 0.02% in the past one year and as RBNZ cuts, the banks should be in a better position to lend. The study on NPLs was released on 31 Jul and likely added justification for RBNZ to cut in Aug. There has been no data update since. Without the next CPI data as confirmation and in light of the recent rebound in sentiment gauges, RBNZ is more likely to continue to remain a tad more cautious on easing and cut the overnight cash rate by just 25bps instead.

Budget 2024/2025 published on 30 May offered tax cuts for middle and low income households via higher income brackets for higher tax rates. The tax package amounts to NZ14.7bn. There will also be tax credits for some households and subsidies for early childhood education which could help given the softening labour market conditions. Treasury projects a wider deficit as a result of NZD13.4bn next year and a return to budget only in 2028, a year later than previously expected.

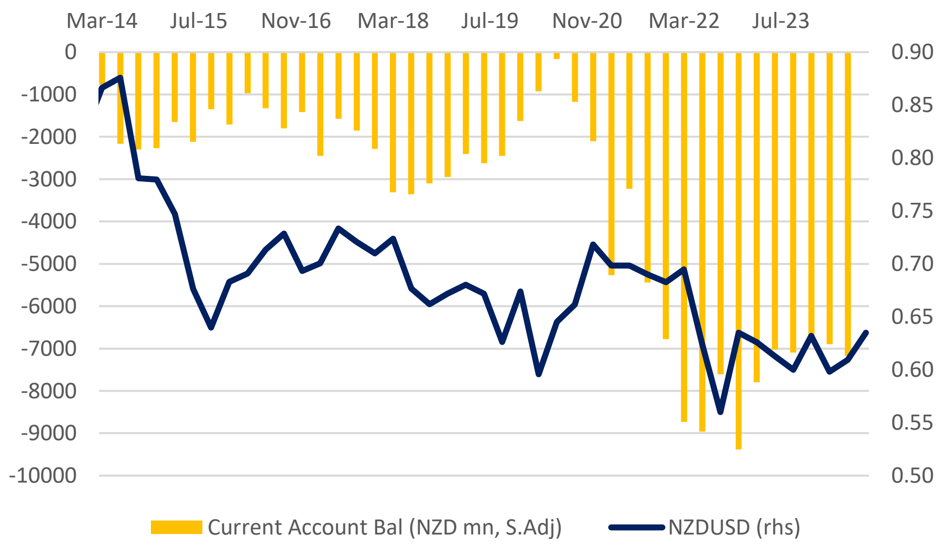
Risks: We had warned that any unexpected headwinds for major economies (China, US, Eurozone) that cause a sharper than expected global recession is negative for the NZD via the sentiment as well as the trade channel. The NZ economy still looks a tad fragile and any downgrade to growth outlook will be negative for the NZD and warrant more aggressive rate cuts by the RBNZ.

Key Data: Aug Building permits (1 Oct), Sep CoreLogic Home value (2 Oct), Sep ANZ Commodity Price (3 Oct), Aug filled jobs (4 Oct), RBNZ policy decision (9 Oct), Sep REINZ house sales (10-14 Oct), Sep BusinessNZ Mfg PMI, Sep food prices, Aug Net migration (11 Oct), Sep performance services index (14 Oct), Sep Card spending, Sep performance services (14 Oct), 3Q CPI (16 Oct), Sep trade (22 Oct), Oct ANZ consumer confidence (25 Oct), Sep filled jobs (29 Oct), Oct ANZ Activity outlook, ANZ Business confidence (31 Oct).

NZ-US 10y Differential Has Been Widening, Lifting the NZDUSD



Improvement in NZ Current Account Deficit Should Lift NZD Further



Source: Bloomberg, Maybank FX Research & Strategy

CAD: Moving on To Bigger Cuts

USD/CAD	4Q 2024	1Q 2025	2Q 2025	3Q 2025
	1.32	1.31	1.30	1.30
	(1.37)	(1.36)	(1.35)	(--)

Previous Forecasts in Parentheses

Motivation: The outlook for the CAD remains a moderately bullish one, as we look for the Fed's easing cycle to take away the USD's carry advantage, global recovery to support pro-cyclical CAD and BoC's easing cycle to potentially spur a recovery at home. We had looked for BoC to cut in Sep and the 25bps cut was delivered. Moving on, markets are pricing in around 80bps cut by the Bank of Canada (BoC) for Oct and Dec (as of 27 Sep), a pick-up in pace from the three back-to-back 25bps cuts since Jun. Markets are now split on whether the Oct decision for the BoC is a 25bps or a 50bps cut. We expect BoC to cut by 50bps in Oct and then another 25bps in Dec. For 2025, we look for 100bps cut to take policy rate to 2.50%.

We now expect a 50bps cut for Oct by the BoC vs. 25bps clip seen previously. It is a close call based on market implied rate. However, we have quite a bit of conviction on this call given that jobless rate continued to climb higher to 6.6% and inflation had surprised to the downside with the core trim CPI easing more to 2.4%y/y from previous 2.7%. Headline inflation even fell -0.2%m/m vs. previous +0.4%. On 25 Sep, BoC Governor Macklem spoke about growth "not as strong as expected" and that the "slack" in the economy "needs to come out". He highlighted that consumer spending, business hiring and investment will be scrutinized.

On that note, business confidence is deteriorating and the rise in unemployment could be reason enough for BoC to cut. In addition, the slip in the CFIB business barometer for Sep (to 55.0 from previous 56.9) after rising in Aug might also add to the case of a bigger cut so as to encourage businesses to continue investing and employing. The proportion of small businesses intending to decrease staffing has risen from 10.3% to 16.0% and a smaller proportion of businesses now describe the general business situation as good. This is in spite of steady stream of 25bps cut since Jun and it could be time for BoC to stem this deterioration in sentiment by providing a larger 50bps cut in Oct.

"Sticking the Landing" on Inflation. The risks between growth and inflation have become more balanced according to BoC officials. Governor Macklem also mentioned that 3Q growth might be weaker than forecast and he wants growth to be above 2% and inflation (which has come to the target of 2%) to remain at the centre of the 1-3% target band. There could thus be a need for bigger rate cuts to lift growth and keep the headline inflation around the 2% mark.

USDCAD trajectory based on growth/policy divergence. We had pointed out that BoC could be the most aggressive in easing given some signs of softening external demand, weakening household spending and weaker capex intentions amongst firms. That is likely well in the price of CAD. Last month, we had also pointed out the possibility that as the Fed start to cut, the policy trajectory will start to converge in the favour of the CAD and bring the USDCAD lower. That seems to have played out and Fed cuts and recovery could become the dominant narrative that could be positive for the CAD.

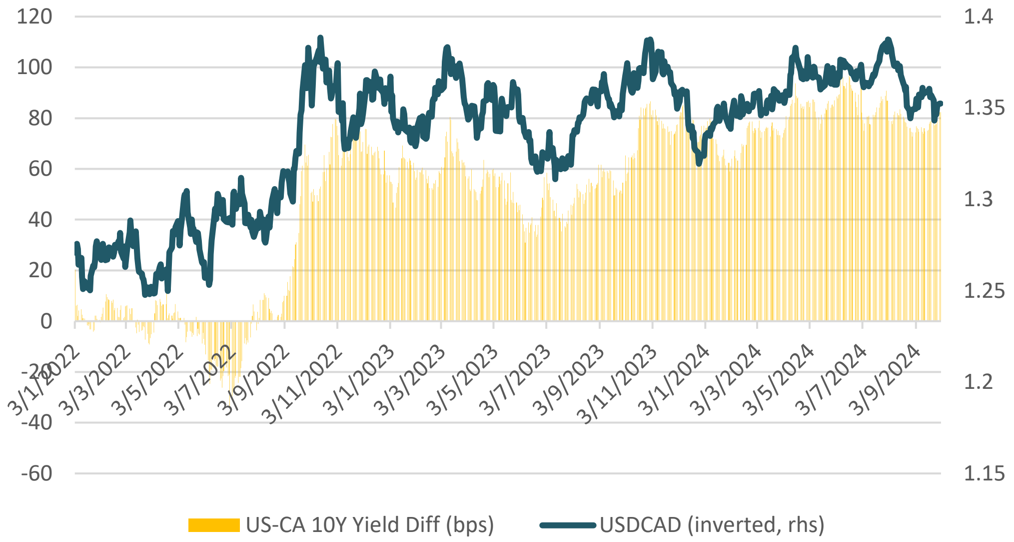
We are now in an environment of global growth assessment. As such, the slide in oil futures due to concerns on growth and demand actually did have an impact on the CAD and CAD benefitted from the more recent rebound in WTI futures. The rebound in oil came after the Fed cut and was moving in tandem with US equities and broader risk sentiment. As global recovery starts to gain better traction and Canada's growth start to bottom, we expect the rise of crude oil prices to support the CAD. The converse is also true – should oil prices start to sag on weaker demand prospect, we can also expect the CAD to fall in tandem.

Trade Sanctions and Retaliations. Canada introduced a 100% tariff on Chinese-made electric vehicles and 25% tariff on aluminium and steel in order to protect its domestic manufacturers. Levies on EVs will effect on 1 Oct, on top of the existing 6.1% tariff while the levies on the industrial metals will take effect on 15 Oct. On top of that, the government also launched a 30-day consultation period to consider the imposition of a surtax on batteries, battery parts, semiconductors, critical minerals and metals and solar products from China. China's Ministry of Commerce launched an anti-discrimination investigation into Canada's trade measures against China.

Risks Ahead: (1) US inflation and concomitant policy trajectory is key for USD direction and any re-accelerations to boost USD against the CAD. (2) Any unexpected headwinds for major economies (China, US, Eurozone) that cause a global recession is negative for the CAD. (3) An escalation of the middle-east conflict could boost the USDCAD as it had before as supply-induced higher oil prices tend to be more negative for risk sentiment and concomitantly positive for USD.

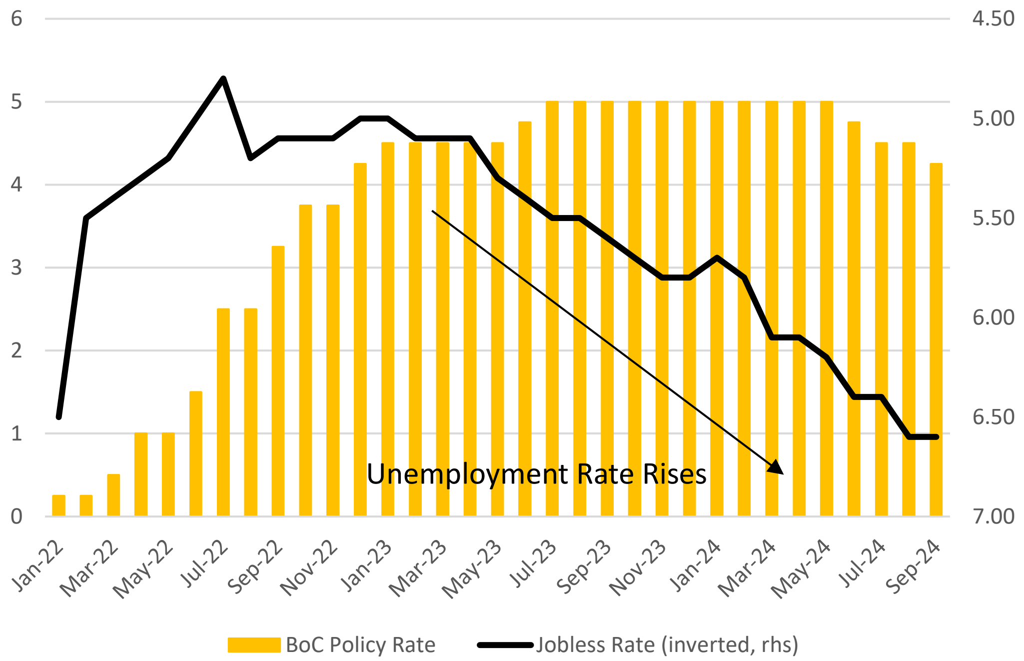
Key Data/Events: Sep Mfg PMI (1 Oct), Sep Services PMI (3 Oct), Sep Ivey Purchasing Mangers (4 Oct), Aug trade (8 Oct), Sep labour report, Boc 3Q business outlook future sales and outlook survey (11 Oct), Seo CPI (15 Oct), Sep housing starts, Aug mfg sales (16 Oct), Sep industrial product price (22 Oct), BoC policy decision (23 Oct), Aug retail sales (25 Oct), CFIB business barometer (25 Oct), Oct CFIB business barometer, Aug GDP (31 Oct).

Narrowing US-CA Yield Differential Brings USDCAD Lower



Source: Bloomberg, Maybank FX Research & Strategy

Jobless Rate Continues to Rise Even as BoC Delivers back-to-back Cuts



Source: Bloomberg, Maybank FX Research & Strategy

JPY: Broadly in Reflation Mode

USD/JPY	4Q 2024	1Q 2025	2Q 2025	3Q 2025
	138.00	136.00	134.00	132.00
	(--)	(130.00)	(120.00)	(--)

Previous Forecasts in Parentheses

Motivation: We continue to see a downward trend being intact for USDJPY although we revise our forecasts in 1H 2025 to factor in the recent 50bps Fed easing and changes to our US policy rate assumptions for 2024 and 2025. The global environment both in the near and medium term are likely to stay favorable for the JPY with a rate cycle starting to look more stablished. The Fed has started easing with a 50bps cut in Sep and our economists expect another 50bps cuts this year with 125bps next year. The BOJ at the same time is likely to continue with a tightening cycle as the economic data is showing more signs that the virtuous – wage price cycle is becoming more entrenched. We expect another hike of 25bps in Dec 2024 and another two more of the same amount to occur next year in Jun 2025 and Dec 2025 respectively. The LDP presidential elections has also seen Shigeru Ishiba emerge as the winner and the new leader is seen to be more supportive of BOJ normalization. US – JP US yield differentials should therefore narrow further and provide more support to the JPY. We do though note of some risks to our view, which include US data holding up too strongly leading to the Fed slowing down on its pace of rate cuts or markets being too volatile and delaying BOJ hikes. Other risks would be a US and global recession that would lead to more downside in USDJPY compared to our forecast.

We continue to stick to our view for the BOJ to hike rates by 25bps to 0.50% at the Dec meeting and by another 25bps each in Jun 2025 and Dec 2025. The central bank held rates at its recent Sep meeting and Governor Ueda reiterated patience when it comes to tightening. In his own words, Ueda had said they “need to scrutinize market moves and overseas economic developments behind them in setting monetary policy” and that they “can afford to spend time doing this”. He has also noted that upside risk to inflation from the yen’s weakness were easing. The market appeared to have reacted disappointingly then to Ueda’s comments and perceived it as appearing to be more dovish. USDJPY post the meeting then had climbed. However, we are less inclined on our part to believe the Ueda as any more dovish. We had always expected that the pace of tightening would be slow and the Ueda’s comments reflect a sense of gradual hiking with data strengthening overtime. Economic data at this point we do not believe is deviating from the BOJ’s expectations, allowing for hikes to continue to occur as per our forecast.

Economic data over the last month continue to reflect signs that the virtuous wage-price cycle is becoming more entrenched. Jul real cash earnings was positive again for the second month in a row and beat expectations at 0.4% YoY (est. -0.6% YoY, Jun. 1.1% YoY). The effect of the strong Shunto wage negotiation results look to continue to impact and feed into wage increases. Aug CPI data also continued to hold up well with the core core or ex fresh food and energy number coming out at 2.0% YoY (est. 2.0% YoY, Jul. 1.9% YoY) whilst the headline number is at 3.0% YoY (est. 3.0% YoY, Jul. 2.8% YoY). Inflation may slow in the coming months due to energy subsidies but we see that the number should still pick up closer to year end as demand should fuel more price pressures. Other economic data meanwhile was mixed although there is no cause for panic just yet. Manufacturing has continued to remain rather weak and highlights one section of weakness in the economy. Aug P industrial production fell more than expected at -4.9% YoY (est. -1.5% YoY, Jul. 2.9% YoY) whilst Sep P mfg PMI continued to be in contraction at 49.6 (Aug. 49.8). Aug retail sales on the other hand was stronger at 2.8% YoY (est. 2.6% YoY, Jul. 2.7% YoY) whilst services continued to perform reasonably as the Sep P services PMI was still in expansion at 53.9 (Aug. 53.7).

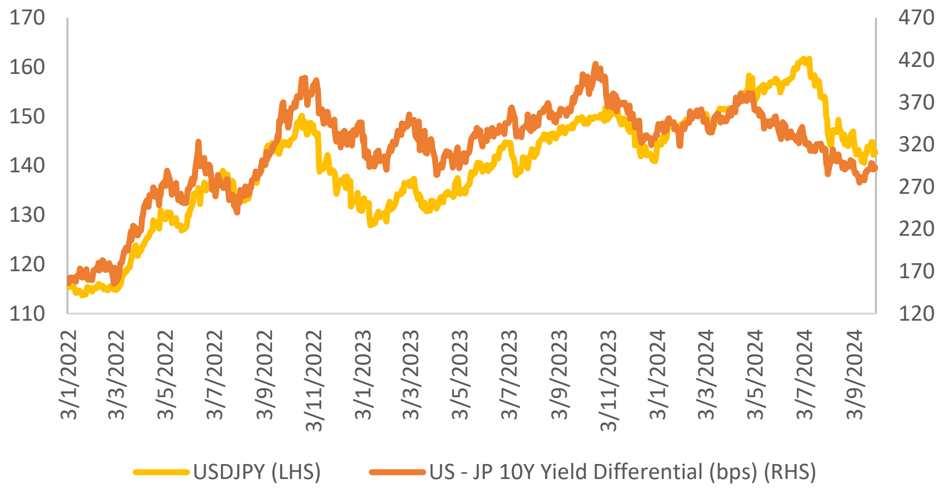
Shigeru Ishiba emerged as the winner in the LDP Presidential election with the new LDP leader calling for a general election to be held on the 27 Oct. Ishiba has been perceived as supportive of BOJ normalization and post his election, USDJPY fell back down from its highs just before the results were announced. Japanese equity markets have also initially saw heavy weakness amid concerns related to both JPY appreciation and increases in capital gains tax. Ishiba does look to have attempted to calm down markets as he has said that monetary policy must remain accommodative as a trend. Markets are likely to continue to assess Ishiba’s economic leanings into the 27 Oct general election and that can cause some volatility for USDJPY. As a whole, our expectations for the BOJ to continue to only hike at a gradual pace has not changed regardless of Ishiba’s election.

Risks Ahead: This includes persistently high market volatility or disappointing Japanese data, delaying BOJ tightening. We stay wary of this risk given the uncertainty regarding the

Japanese domestic markets and economy. US data trending too strongly still, slowing the pace of Fed easing is also another risk that can weigh. Other risks would be a US and global recession that would lead to more downside in USDJPY compared to our forecast.

Key Data/Events: Aug jobless rate (1 Oct), Aug job-to-applicant ratio (1 Oct), 3Q Tanakan indicies (1 Oct), Sep F Jibun Bank PMI mfg (1 Oct), Sep monetary base (2 Oct), Sep consumer confidence (2 Oct), Aug P leading/coincident index (7 Oct), Aug labor cash earnings (8 Oct), Aug household spending (8 Oct), Aug BoP CA and trade balance (8 Oct), Sep Eco watchers survey (8 Oct), Sep P machine tool orders (9 Oct), Sep PPI (10 Oct), Sep bank lending (10 Oct), M2/M3 (11 Oct), Aug capacity utilization (15 Oct), Aug core machine orders (16 Oct), Sep Nationwide/Tokyo dept sales (16 – 22 Oct), Sep trade data (17 Oct), Aug tertiary industry index (17 Oct), Sep CPI (18 Oct), Oct P Jibun Bank PMI composite/mfg/services (24 Oct), Oct Tokyo CPI (25 Oct), Sep PPI services (25 Oct), Sep jobless rate (29 Oct), Sep job-to-applicant ratio (29 Oct), Oct consumer confidence index (30 Oct), Sep P industrial production (31 Oct), Sep retail sales (31 Oct), Sep dept store, supermarket sales (31 Oct), Sep housing starts (31 Oct) and BOJ policy decision (31 Oct).

Narrowing Yield Differential Should be More Supportive to the JPY



Source: Bloomberg, Maybank FX Research & Strategy

Real Earnings Growth is Positive for a Second Month in a Row, Creating More Hope that a Virtuous Wage-Price Cycle can become Entrenched

Source: Macrobond, Maybank FX Research & Strategy

RMB: Now, Will the Consumers Spend?

USD/CNY	4Q 2024	1Q 2025	2Q 2025	3Q 2025
	6.92	6.90	6.87	6.85
	(7.08)	(7.21)	(7.21)	(--)

Previous Forecasts in Parentheses

Motivation: The USDCNY continued to trade on the backfoot. The break of the 7 (by USDCNH) came when the top policymakers showed a change of heart and announced more measures with a sense of urgency ahead of National Day Golden Week. Despite the (50bps) RRR cuts provided and cuts across multiple interest rates (MLF, LPRs, 14 Day reverse repo, 7-Day reverse repo, SLF), the CNY actually reacted positively – a sign that markets took this to be a positive for the economy. There was also a promise to recapitalize top tier banks and even a swap facility to provide NBFIs to access CNY500bn to buy shares. The comparatively significant rate cut of 20bps in Sep along with more supportive housing measures (cuts to mortgage rates, downpayments for second houses) is a shift away from Xi's past attitude. The government is now seen more willing to actively support growth/demand during this period of transition for the economy towards high-tech manufacturing and innovation. The subsequent Politburo meeting (26 Sep) saw further pledges of fiscal and monetary measures to support growth, talks of another CNY2trn issuance of special sovereign debt (to target consumption and help local government repay debt) and a promise to stem the decline of property prices. Taken together, this is one of the strongest slew of actions pledged, in contrast to piecemeal measures before and should the government follow through with strong/timely pump priming, yuan could have the potential to strengthen further against the USD. Eyes are on the next set of economic data to gauge the efficacy of recent stimulus.

The Directive Set, the Stimulus Pledged, Now for Consumers to Respond

Into the first week of Oct, major cities in China eased home-buying curbs further and PBoC even issued a statement allowing borrowers to refinance at prevailing mortgage rates for new loans. That could potentially decrease the interest rate burden and increase their disposable income on the margin. With the slew of measures announced, CSI 300 is up around 30% and USDCNH down -1.2% since 24th Sep. <u>Markets are likely to monitor how well the box office will do in China this Golden Week along with other spending as well as whether property transactions can rise.</u>

Beyond the Golden Week data, we watch the next set of property data for Sep. New home prices have fallen for 15 consecutive months and a failure to see some stabilization on this front is likely to quickly deflate the recent euphoria seen in the stock markets and the yuan post -stimulus announcement. Fiscal measures will also be closely scrutinized and more infrastructure projects are expected to be announced. However, even with significant pump priming, there is still some uncertainty on whether it is enough to lift private consumption and investment out of this extended period of depressive state, without President Xi himself becoming more supportive of the private sector.

The latest set of PMI prints still suggest a fragile sentiment among purchasing manager with Sep Mfg PMI still in contraction at 49.8, Non-mfg barely in expansion at 50.0 (vs. prev. 50.3). Caixin Mfg PMI, Services PMI worsened to 49.3 and 50.3 vs. previous 50.4 and 51.6 respectively. Earlier in Sep, the Aug activity data was also weaker (IP at 4.5% vs. prev. 5.1%, Aug retail sales at 2.1% vs. prev. 2.7%, FAI ex rural at 3.4% vs. prev. 3.5%) and that had probably prompted the officials to take more drastic actions in late Sep. Our China economist Erica Tay sees much of the recent stimulus to have lift growth in 2025 and upgraded the 2025 GDP forecast to 4.5% from 4.3%. She maintains GDP forecast for 2024 to be 4.8% as she looks for local government to take some time to identify worthy projects for investment even if additional bonds are issued by the end of 2024. She sees marginal benefit for consumption over the Golden Week break and sustained improvement would require the job market to recover.

<u>**The USDCNY will take the directional cue from the USD.**</u> The steepest decline of the USDCNY might be behind us. That fall was driven by a confluence of Fed pivot and spillovers from carry-trade unwinding. However, China's abrupt shift from its reliance on real estate to high-tech manufacturing has left a void that has yet to be filled at the moment, notwithstanding growing optimism at this point.

<u>**US Election Risks.**</u> While Democrat Presidential Candidate Kamala Harris is seen potentially to continue most of Biden's legacy if she wins, her focus from her speeches remain on domestic issues (women's right, cost of living), her foreign policy may not be as much as hawkish on China but rather, ensuring that America retain its competitiveness in high-tech

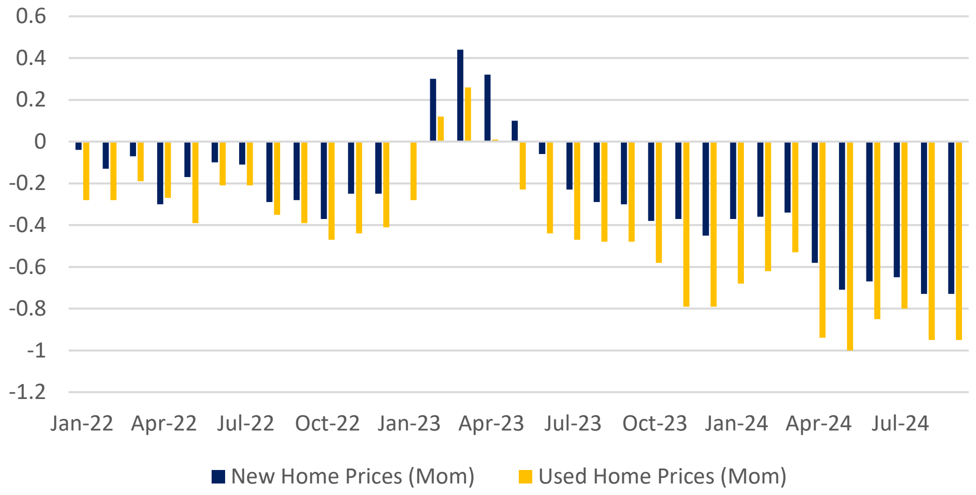
manufacturing. Trump on the other hand, is likely to be more negative on the yuan. As such, yuan remains relatively more vulnerable than other currencies.

Risks Some of the risks we identified in the past that continue to pan out to some extent. 1) Prices of new and used homes continue to fall In Aug. 2) Capital outflow continues amid weak business/consumer confidence and yuan sentiment. 3) Rising trade tensions vs. the US/EU/CA but this time the pressure is being borne by the yuan only and less by Asian currencies. All these factors could still pose a drag on the yuan sentiment.

One risk that we highlighted and it panned out recently is the "possibility that yuan may strengthen more than we expected if the government provides fresh stimulus to support employment and stop the slide of the home prices". This came right before the end of Sep ahead of Golden Week national day

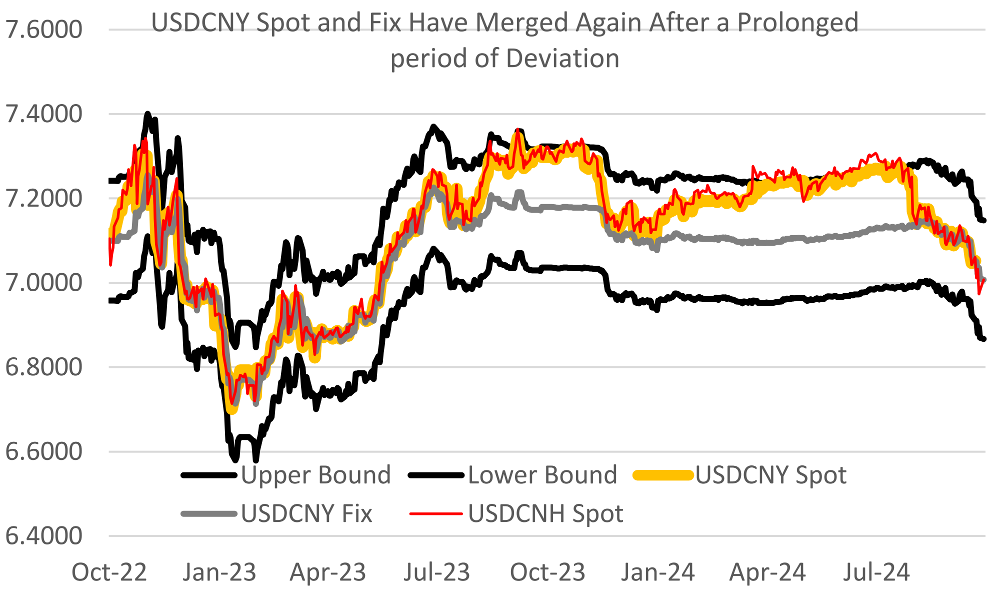
Key Data/Events: National Day Golden Week (1-7 Oct), Sep Foreign Reserves (7 Oct), Sep credit data (9-15 Oct), Sep FDI (10-18 Oct), Sep PPI, CPI (13 Oct), Sep trade (14 Oct), 1Y MLF (15-25 Oct), new home prices, used home prices (18 Oct), 3Q GDP, Sep industrial production, retail sales, FAI ex rural (18 Oct), 1Y, 5Y LPR (21 Oct), Sep FX Net Settlement (22 Oct), Sep industrial profits (27 Oct), Oct NBS Mfg, Non-Mfg PMI (31 Oct).

Will China be able to Halt the Decline of Home Prices?



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

USDCNY Spot and Fix Have Merged and FX Signalling From PBoC is Now Neutral



Source: Maybank FX Research & Strategy

KRW: AI Boost

USD/KRW	4Q 2024	1Q 2025	2Q 2025	3Q 2025
	1290 (1300)	1270 (1280)	1260 (1270)	1250 (1260)

Previous Forecasts in Parentheses

Motivation: We lower our USDKRW forecasts and maintain the trajectory of KRW appreciation against the USD. Our base case outlook now factors a quicker depreciation of the USD amid a change in the house view for Fed easing. Our economics team now expects 50bps more of rate cuts in 2024 (prev: 25bps) and 125bps in 2025 (prev: 100bps). Earlier catch-up theme is also still at play as global recession fears and growth concerns ease when monetary policies become less restrictive. We also think that continued exuberance over artificial intelligence (AI) could potentially drive outperformance for the KRW with potential boosts to both the economy and trade. As a high-beta currency, a global soft-landing and Goldilocks economy provides a favourable backdrop for the KRW.

Economic growth remains on track to be healthy despite a small QoQ contraction in 2Q2024. 2QP GDP came in at 2.3% YoY (exp: 2.3%; prev: 2.3%) and -0.2% SA QoQ (exp: -0.2%; prev: -0.2%). Moderation of growth should be viewed as temporary after hotter than expected growth in 1Q was largely driven increased global demand for chips. Export momentum continues to be driven by demand for AI chips, and we expect further boosts to growth with the AI narrative remaining intact.

Aug prints confirmed the broad disinflationary trajectory with headline at 2.0% YoY (exp: 2.1%; prev: 2.6%) and core at 2.1% YoY (exp: 2.1%; prev: 2.2%). Taken together, growth and inflation prints imply that the BOK may consider cutting rates in Oct, especially after the Fed has cut rates. As we had alluded to before, BOK stood pat in Aug and given the balance of risks judged it to be prudent to stand pat, i.e. that downside to growth is outweighed by risks of inflation, with the statement specifically citing volatility in exchange rates as a concern. BOK also made specific reference to the Sep FOMC and is likely to take cue to cut from the Fed and other major central banks in determining when to cut rates. Past episodes have also shown that BOK has tended to hold for an extended period before pivoting to a cut. We think BOK may cut rates by 50bps in 2024 and pencil in 50bps of cuts in 2025.

KRW continued to catch up with its peers in Asia. 1M USDKRW NDF traded between 1300.67 to 1345.80 in Sep, lower than the 1316.31 to 1377.40 in Aug. USDKRW easing both on spot and NDF basis in Aug shows that KRW could be catching up to other Asian currencies. YTD, KRW is the currency 3rd from the bottom in Asia (after TWD and JPY). Over the last month however, KRW is the 3rd highest performing currency in Asia (behind the MYR and THB) and broadly on par with the SGD. As we suggested, BOK remains concerned about KRW volatility and although they might not admit it the weakness of the KRW and the knock-on effects on inflation in Korea. Yield differentials remain unfavourable with KRW one of the lower yielding currencies and as such we believe they will only just be beginning to discuss rate cuts.

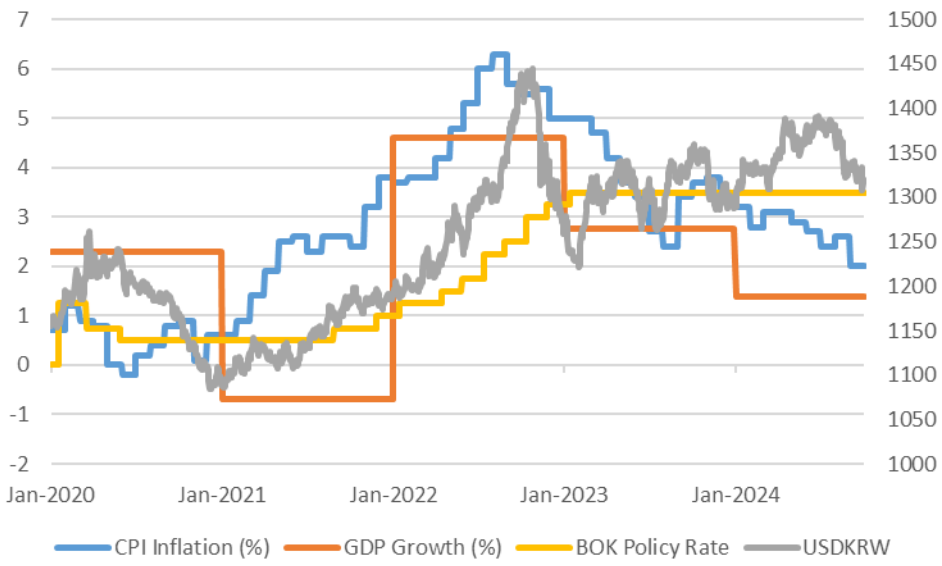
The inclusion of Korea onto global bond benchmarks could spur USDKRW lower although that has been delayed. Korea was on FTSE Russell's watchlist as of last year but had not been added despite having met the quantitative criteria for inclusion. These are namely (i) market size of at least US$50b of outstanding issuances, (ii) sovereign credit rating of at least A- (S&P) and A3 (Moody's). There is political will to support intiatives necessary for the inclusion, with former Finance Minister Choo and current Finance Minister Choi both citing that the soft criteria for inclusion have largely been met. 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 if Korean govvies be placed on the FTSE Russell World Government Bond Index.

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

Key data/events: Exports/Imports/Trade Balance (1 Oct), Sep CPI Inflation, Sep Mfg PMI (2 Oct), Sep Foreign Reserves (4 Oct), Aug BoP Goods/CA Balances (8 Oct), Sep Bank Lending to Household Total (9 to 16 Oct), **BOK Policy Decision (11 Oct),** Sep Import/Export Price Indices (15 Oct), Sep Unemployment Rate, Aug Money Supply (16 Oct), Oct 20-days

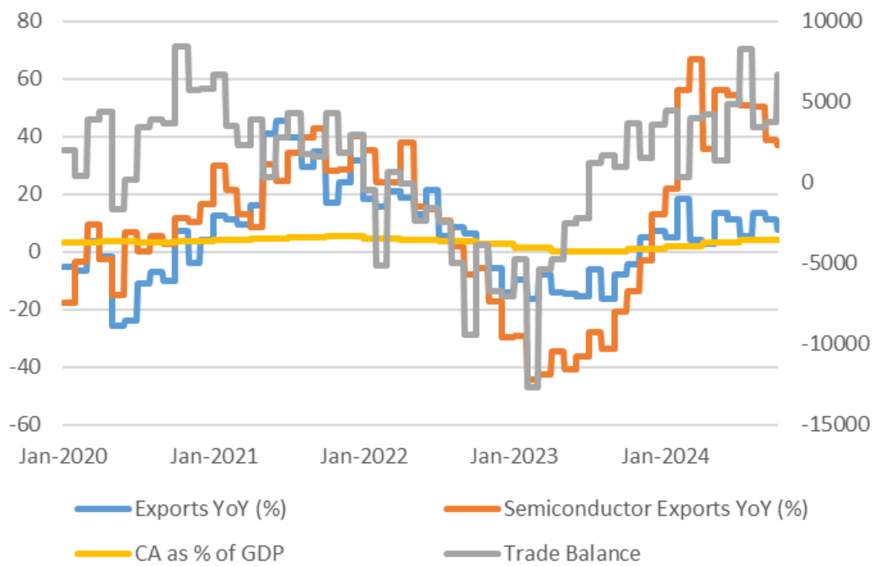
Exports/Imports (21 Oct), Sep PPI Inflation (22 Oct), Oct Consumer Confidence (23 Oct), Nov Business Survey Mfg/Non-Mfg, 3QA GDP (24 Oct, Sep Retail Sales (28 Oct to 31 Oct), Sep Industrial Production, Sep Cyclical Leading Index Change (31 Oct).

South Korean Inflation Coming Off (Albeit Bumpy)



Source: Bloomberg, Maybank FX Research & Strategy

Moderation in Trade Balance and Semiconductor Exports



Source: Bloomberg, Maybank FX Research & Strategy

SGD: MAS to Stand Pat Amid Strong Growth and Sticky Inflation

	4Q 2024	1Q 2025	2Q 2025	3Q 2025
USD/SGD	1.2750 (1.2900)	1.2700 (1.2850)	1.2700 (1.2850)	1.2650 (1.2800)

Previous Forecasts in Parentheses

Motivation: We lower our USDSGD forecasts and maintain the trajectory for the pair to come off gradually, i.e. for SGD to strengthen against the USD gradually for the four quarters ahead. Our baseline scenario, factors a quicker depreciation of the USD amid a change in the house view for Fed easing. Our economics team now expects 50bps more of Fed rate cuts in 2024 (prev: 25bps) and 125bps in 2025 (prev: 100bps). We still hold our belief that SGD will continue to stay resilient as the USD weakens against a backdrop of a global soft-landing, a Goldilocks economy and Fed rate cuts. This is also in line with a broad downward adjustment across our USD-Asia forecasts. The current pace of SGDNEER appreciation (estimated to be 1.5%) should continue to be supportive of the SGD. Fed rate cuts should also be supportive of SGD strength, although cuts could benefit other basket constituents more than the SGD. SGD could also benefit from a manufacturing recovery that could be driven by the broader AI/tech upswing narrative. Inflation in Singapore remains sticky and the last leg of disinflation could be the trickiest for MAS to manage. Nevertheless, the strength of the SGDNEER should aid in moderating imported inflation although some measures of inflation may not be as easily addressed by an appreciating SGD.

As widely expected, MAS kept policy settings unchanged in Jul and continued to see its current appreciation of the SGDNEER as appropriate in ensuring medium term price stability. MAS is likely to stand pat in Oct, given that there is no rush to ease policy amid an export-driven economic recovery and elevated inflation. The current stance should still be seen as appropriate for medium term price stability. Our economists see MAS standing pat in 2024 and maintain their inflation forecasts at 2.8% (core) and 2.6% (headline) in 2024. Our economists view moderating core inflation opening the door for MAS to ease in Jan 2025. Our inference from Chief Economist Robinson's speech on monetary policy is that MAS may not be able to ease quite as easily as an interest rate regime would, even if inflation targets are met presents the risk that MAS may not ease as promptly as the market expects. SGDNEER remains firm and trades at +1.93% above the mid-point on our model, and is likely to remain within the +1.50% to 2.00% region in Oct.

USDSGD has traded lower in Sep within a 1.2789 to 1.3099 range in contrast to the range of 1.2999 to 1.3384 in Aug. SGDNEER remains firm and averaged +1.97% deviation from mid-point in Sep, higher than the +1.91% average deviation in Aug. Singapore's robust macro fundamentals and unique exchange rate policy, which results in SG rates being highly correlated with US rates, provides SGDNEER with resilience amid adjustments in market expectations. We think that eventual 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. **This would also enable USDSGD to go lower without violating the SGDNEER band edge.**

While there remain risks to both growth and inflation. Actual growth and inflation prints have largely come in line with MAS' forecasts, which reinforces our expectations for an extended hold from MAS. Our economists recently upgraded their 2024 GDP forecasts to 3.5% (prev: 3.0%) above the MTI's 2% to 3% official estimate and 2025 GDP forecasts for Singapore to 2.5% (prev: 2.4%) after a manufacturing surge in Aug. Our economists expect a 4.3% YoY 3Q flash estimate and expect MTI to update their official estimates when the 3Q final growth figure is released in Nov. From a growth perspective, MAS' forward looking policy stance therefore suggests there is no need to prematurely shift to a growth supporting stance (i.e. easing bias) and should continue to see the current stance as appropriate. **Core inflation ticked up to 2.7% in Aug (prev: 2.5%) highlighting some lingering price pressures.** This development is in line with our economists' expectations that the pace of core inflation moderation in Jul was unlikely to be sustained, given that the last leg of disinflation could be tougher, with frictions in the labour market and costs being passed on to consumers by businesses. In line with this view, our economists also expect MAS to stand pat in Oct and some chance it may ease via a slope reduction as early as in Jan 2025.

Reserves have grown amid a strong SGDNEER. The amount of outstanding Reserve Management Government Securities (RMGS) has increased to S$273.2b in Aug (Jun: S$265.5b; Dec 2023: S$247.0b), suggesting that some S$25.2b in OFR has been transferred in 2024 from MAS to GIC for longer-term management. With this transfer, stock of OFR with MAS fell to S$501.3b (Jul: S$506.4b; Dec: S$463b). The S$6.7b transferred in Aug suggests that

MAS could have intervened to moderate strength in the SGDNEER, although some part of the increase may be due to currency translation effects or investment gains. Watch closely the next release of MAS' intervention operations which should be due in Sep 2024 for Jan to Jun 2024. MAS purchased US$23.8b in 2H2023 and has consistently been purchasing since 2019, when the release of intervention operations first started.

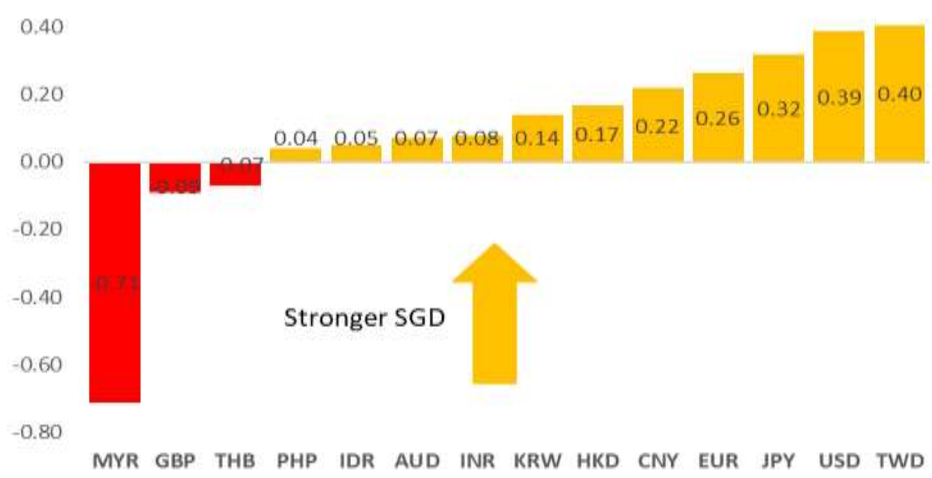
Risks Ahead: The bottoming of the electronics/chip cycle could fail to pan out and this would be less favourable for the SGD. Lingering sticky inflationary risks also present a real risk for the Singapore economy and could affect the SGD. Should actual growth and inflation outcomes turn out contrary to MAS expectations, we do not rule out either further tightening or an earlier than expected easing.

Key data/events: 3QP URA Private Home Prices (1 Oct), Sep PMI/ESI (2 Oct), Sep Global PMI (3 Oct), Aug Retail Sales (4 Oct), Sep Foreign Reserves (7 Oct), **MAS Monetary Policy Statement (7 Oct to 14 Oct),** 3QA GDP (10 Oct to 14 Oct), Sep Electronics Exports/NODX (17 Oct), Sep CPI Inflation (23 Oct), 3QF URA Private Home Prices, Industrial Production (25 Oct), Sep Unemployment Rate (29 Oct to 30 Oct), Sep Money Supply (30 Oct).

USD Rates and SGD Rates Are Broadly Moderating (And Highly Correlated)

Source: Bloomberg, Maybank FX Research & Strategy

SGDNEER Strength Mainly Moderated by MYR (%)



Source: Bloomberg, Maybank FX Research & Strategy

MYR: Outperformance Boosted by CNY Stimulus Announcements

USD/MYR	4Q 2024	1Q 2025	2Q 2025	3Q 2025
	4.00	3.95	3.90	3.85
	(4.25)	(4.20)	(4.15)	(--)

Previous Forecasts in Parentheses

Motivation: The broad USD decline, amplified by Fed's Sep 50bps rate cut and concomitant positive risk sentiment and more lately, China's fiscal/monetary measures has in large part supported MYR strength. We are pricing these new developments into our MYR and regional forecasts. However, we remain mindful that risks remain from US growth assessment and concomitantly an adjustment in the Fed cut pace, global geo-politics and risk in the run up to US elections. First, our forecast change reflects us pricing in changes made by our economics team on the Fed policy trajectory. The baseline assumption now, factoring in the recent Fed move, looks at a total 100bps rate cut in 2024, i.e. another two rounds of 25bps in Nov and Dev FOMC and 125bps next year (vs 100bps previously) to bring FFR to 3.00%-3.25% by end 2025. As at 30 Sep 2024, Fed fund futures look for the Fed to cut by another 74bps by the end of 2024 and roughly another 120bps by the end of 2025 to take the policy rate to around 2.88%, which is in the region of the Fed's estimate of the long-run policy rate. **Second, developments outside of the US, in particular the significant stimulus announcements out of China that span across monetary policy, property, and equity market cohorts has helped to exarcebate USD easing especially against EM Asia.** Following the recent PBOC monetary easing (i.e., 20bp policy rate cut, a 50bp RRR cut and a 50bp interest rate cut on existing mortgages and others), we expect more policy easing and further fiscal stimulus announcements may possibly be implemented through the remainder of this year and next year. The CNY has appreciated around 1.2% both year-to-date and month-to-date.

Third, diminishing US exceptionalism with narrowing rate differentials, can only do so much if a country's fundamentals and macroeconomic situation is not positive. We see domestic economic fundamentals look to remain robust. Improving domestic economic growth prospect, as per the pickup in the 1H 2024 real GDP growth to +5.1% YoY (2023: +3.6% YoY) driven by resilient consumer spending, investment upcycle, export rebounds and the sustained momentum in post-pandemic tourism recovery. Malaysia's economic growth is underpinned by the trifecta of positives i.e. 1) investment upcycle in both foreign direct investment (FDI) and domestic direct investment (DDI) reflecting the on-going realisation of the sustained momentum in robust approved investment since 2021; 2) external demand recovery especially in electronics/tech and tourism, contributing to firmer services sector growth, pick up in manufacturing sector growth as well as rebound in exports of goods and services; and 3) resilient consumer spending on the back of favourable job market conditions as per the low and stable unemployment rate as well as income growth and support measures. So as US recession fears abate and better China sentiment emerges, it should help support the MYR.

Domestic economic reforms and restructuring are also key for Ringgit outlook. The BNM Sep MPS stated that "… domestic structural reforms, complemented by on-going initiatives to encourage flows, will continue to provide enduring support to the Ringgit". We view the execution and implementation of fiscal reforms as the "low-hanging fruit" for a sustained Ringgit-positive/supportive outcome, especially given the legallybinding target of reducing budget deficit to -3.0% of GDP (2024E: -4.3% of GDP; 2023: -5.0% of GDP) and capping Government total debt at no more than 60% of GDP (end-2023: 64.3% of GDP) in 3-5 years as per the Public Finance and Fiscal Responsibility Act (FRA) i.e. by 2026 at the earliest and by 2028 latest. To-date, the Government has rolled out revenue-enhancing broadening of the tax bases i.e. imposing Capital Gains Tax and 10% Low Value Goods Tax effective 1 Jan 2024; Services Tax base expansion and rate adjustment to 6%-8% range from 6% as well as "Sugar Tax" hike effective 1 Mar 2024. Further revenue-enhancement measures this year include strengthening tax compliance via the phasing in of "e-invoicing" starting 1 June 2024 for full implementation on 1 July 2025. At the same time, the Government made further progress in subsidy rationalisation by rolling out the targeted diesel subsidy rationalization on 10 June 2024 after the implementation of targeted electricity subsidy and ending the subsidy for chicken production last year. We also expect the Government to complement FRA with the tabling of Government Procurement Act (GPA) in 4Q 2024. Meanwhile, the Budget 2025 to be tabled on 18 Oct 2024 is expected to continue with fiscal consolidation and reforms.

Fourth, domestic monetary policy developments this year has been positive for the MYR outlook. Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) at 3.00% for the eighth consecutive Monetary Policy Committee (MPC) meeting on 4-5 Sep 2024 amid US

Fed's signal of rate cut this month, as well as domestic economic growth pick up, upside risk to domestic inflation and firmer Ringgit vs USD. Maintain our view of OPR staying at 3.00% this year and next year. The stable OPR near term (next 6 months) as priced by Interest Rate Swap rate coupled with the expected US interest rate cuts starting Sep 2024 is Ringgit-positive. The latest Interest Rate Swap (IRS) rate implies market is pricing in a stable OPR next 12 months. To note, we have previously seen the Ringgit-positive outcome - supported by net inflows of foreign funds into both the local equity and bond markets on investors' confidence and risk-on sentiment - following US Fed's interest rate cuts AND progress in domestic economic reforms and restructuring i.e. the post-GFC years of 2010-2013. In 1H 2024, BNM's FX market interventions as well as coordinated communications and measures by Bank Negara Malaysia and Ministry of Finance has been instrumental in limiting MYR weakness and that includes encouraging Government-linked companies (GLCs) and Government-linked investment companies (GLICs) to repatriate and convert their foreign exchange earnings and overseas investment incomes. These policy moves has played a significant role in ensuring there was no major overshooting in the MYR weakness earlier on.

However, the risk of USD support emerging again should not be ruled out as shifts in fiscal, foreign and trade policies may occur leading to a risk off environment, depending on whether Trump or Harris is elected as the next President come Nov. Indeed, the emergence of Kamala Harris as Democratic presidential nominee after President Biden dropped out of race suggests fluid developments and remains early to call but based on current US election polls a Harris win seems more likely. A Trump win may see an escalation of US-China trade tensions and should inject some uncertainty to markets, causing USD volatility to rise and support USD while a Kamala Harris win could lead to a more domestic policy focused scenario with easing market volatility, support for Asian FX and global equities. Taking into consideration, positive domestic growth drivers, the Sep Fed rate cut and our baseline view of a Harris election win based on current election polls, USD downtrend momentum could continue into year-end. On balance, USD trajectory aside, assuming an improvement in growth outlook, fiscal position and assuming a stable political environment ahead, we believe it is still generally MYR positive into year-end. **We revise USDMYR to end 2024 at 4.00 (with some risk of overshooting below that level) (previous: 4.25). We continue to hold to our view of a gradual downward trend into 2025. Our BEER model finds the MYR is somewhat only slightly overvalued given current external factors. Overvaluation episodes in the past can continue for a period of time if the environment is conducive and fundamentals remain aligned as seen back in 2010-2011 when MYR was overvalued and was a period of over-valuation not affected by "election" effects.** Ringgit has appreciated around 12% vs USD since 1 Jul (4.7137). It is currently at around 4.1628 (@1 Oct), close to around 65 sen adjustment lower from the high of 4.80 on 20 Feb 2024. Our view that the MYR effective exchange rate was undervalued by around 8% at the start of the year seems to be appropriate and the recent adjustment panned out given current adjustments have slightly overshot those levels.

Our economists forecasts GDP growth to pick up this year and the expected sustained momentum next year (2025F: +5.1%; 2024E: +5.2%; 1H 2024: +5.1% YoY; 2023: +3.6%), plus upside risk to inflation rate in 2025 (2025F: +2.5% to +3.0%; 2024E: +2.0%; 7M 2024: +1.8% YoY; 2023: +2.5%) amid the overhang on RON95 petrol subsidy rationalisation. Economic activities in Aug 2024 remain healthy based on the continued growth in CPO output (Aug 2024: +8.1% YoY; July 2024: +14.4% YoY) and sustained manufacturing PMI (Aug 2024: 49.7 / +4.0% YoY; July 2024: 49.7 / +4.0% YoY) which signal steady manufacturing GDP growth. At the same time, external trade upturn gains further momentum as per trends in the values and volumes of exports (July 2024: +12.3% YoY/ +5.9% YoY; June 2024: +1.7% YoY/ -4.6% YoY) and imports (July 2024: +25.4% YoY/ +22.7% YoY; June 2024: +17.8% YoY/ +16.4% YoY). These datapoints are supportive of our full-year 2024 GDP growth forecast of +5.2% (1H 2024: +5.1% 2023: +3.6%).

Aug 2024 saw further double-digit growth in exports (Aug 2024: +12.1% YoY; Jul 2024: +12.3% YoY) and imports (Aug 2024: +26.2% YoY; Jul 2024: +25.4% YoY). 8M 2024 exports (+6.0% YoY; 2023: -8.0% YoY) and imports (+16.8% YoY; 2023: -6.4% YoY) climbed higher. Data bodes well for 3Q 2024 GDP growth after 2Q 2024 pick up to +5.9% YoY (1Q 2024: +4.2% YoY) and full-year growth outlook (2024F: +5.2%; 2023: +3.6%) amid investment upcycle as per imports of capital goods (Aug 2024: +39.6% YoY; Jul 2024: +44.4% YoY; 8M 2024: +36.9%; 2023: +7.1%).

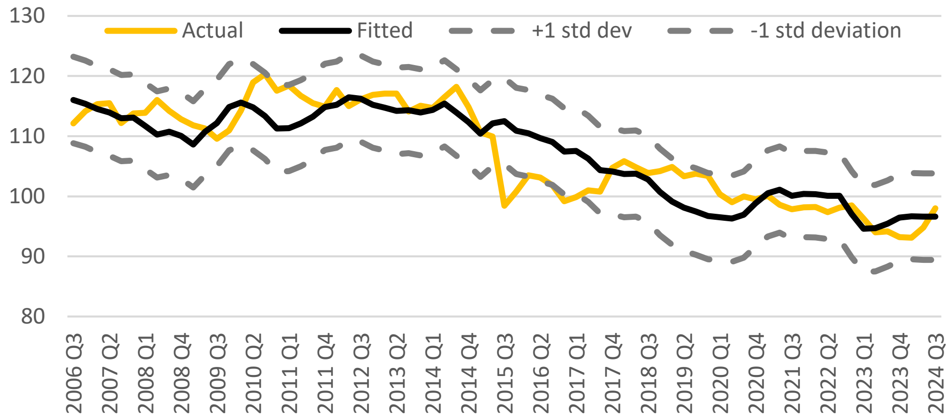
Headline inflation eased to +1.9% YoY in Aug 2024 (Jul 2024: +2.0% YoY; 8M 2024: +1.8% YoY) while core CPI remained steady at +1.9% YoY (Jul 2024: +1.9% YoY; 8M 2024: 1.9% YoY). With the mild inflation effect from the services tax adjustment and diesel subsidy rationalization plus the likely "no show" of RON95 subsidy rationalization this year, we maintain our full-year 2024 inflation forecast to +2.0% (2023: +2.5%). This assumes that the blanket RON95 petrol subsidy holds, and its price remains at MYR2.05/litre for the rest of the year. For

2025, we maintain our 2.5%-3.0% range inflation on the back of the uncertain timing, quantum and mechanics of RON95 subsidy rationalization, which we assume to take place next year.

Risks to look out for in Oct 2024. Downside risks include any signs of worsening data out of the US indicating a recession and further surprises in the expected Fed easing trajectory/magnitude. Escalation in geopolitical tensions in Middle East and between US, G7 & China in the run-up to the US Presidential elections. All these can lead to a risk off sentiment which leads to stronger USD, and in turn hurts riskier EM FX including the MYR.

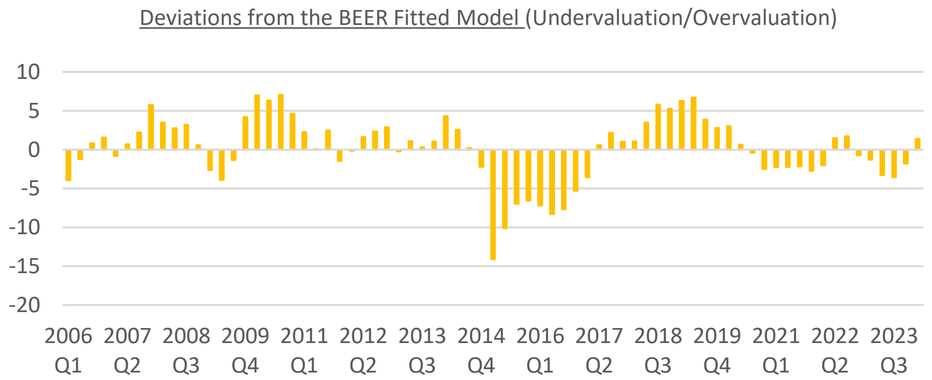
Key domestic events and issues to watch in Oct: S&P Global PMI mfg (1 Oct), Foreign reserves (7 Oct), Aug mfg sales (11 Oct), Aug IP (11 Oct), Sep trade data (18 Oct), Foreign reserves (22 Oct) and Sep CPI (24 Oct).

MYR BEER estimates shows real exchange rate is only slightly overvalued in end 3Q 2024



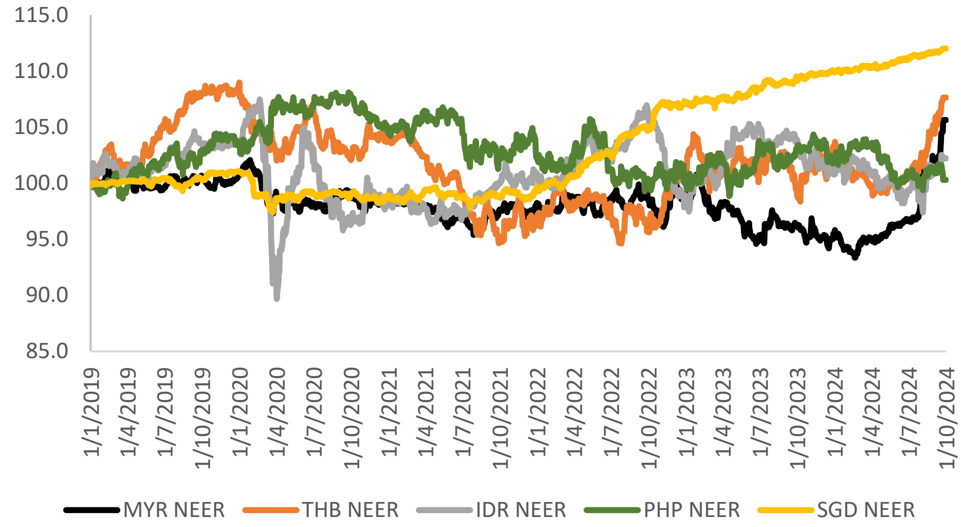
Sources: Macrobond, Bloomberg, Maybank FX Research & Strategy estimates.Our Maybank The Maybank BEER Model was first unveiled in Jan 2020. Empirically-derived "equilibrium" or "fair" FX valuations provide the most value add when they are used to supplement existing understanding of market conditions. They are not meant to provide point forecast for fixed durations and it is common for long stretches of time to pass before spot values converge towards their so-called "equilibrium" in the medium term. Still, the BEER could be useful to inform us of severe misalignments that could exist between current spot levels and valuations suggested by key structural and fundamental drivers. The greater the deviation of the currency is from its cyclical drivers or fundamentals, the more likely it is to see some form of reversions. Characteristics of the Maybank-BEER Panel, tracks Misalignments in REER terms (i.e., basket of trading partners' currencies), Quarterly Data, Dynamic OLS Panel Estimation, data used in Panel for Country I include: Net Foreign Assets (% of GDP), Trade Openness (Total Trade as % of GDP), Short-term Nominal Interest Rates Differential (%-Pt Deviation from Trading Partners' Weighted Average) and Inflation Differential (%-pt deviation from Trading Partners' Weighted Average).

Over-Valuation Phase Can Last Up to 6 quarters on average



Sources: Bloomberg, Macrobond, Maybank FX Research & Strategy estimates.
Deviations are Misalignment (% from Estimated Eqn), +ve is overvaluation.

<u>MYR NEER Catches Up with ASEAN Peers</u>



Sources: Bloomberg, Maybank FX Research & Strategy estimates.

IDR: Bullish as Easing Cycle Begins

USD/IDR	4Q 2024	1Q 2025	2Q 2025	3Q 2025
	14800	14600	14400	14200
	(14900)	(14800)	(14600)	(--)

Previous Forecasts in Parentheses

Motivation: We have further lowered our USDIDR forecasts due to a faster than initially expected pace of global easing and China stimulus support. Following the Fed 50bps rate cut in Sep, our economists see the possibility of much more easing (additional 50bps this year and another 125bps in 2025) compared to initial expectations. Bank Indonesia (BI) had also undertaken a surprise 25bps cut recently, which gave a positive signal that they are more confident with macro environment turning more supportive for rate easing. Our economist expects a further 50bps of cuts from this year and another 75bps next year, which would help fuel more interest for Indo GBs and support the IDR. Meanwhile, China's vow for more fiscal stimulus and determination to stem the housing market decline look to also give CNY/CNH more support and consequently can lift other EM Asian FX such as the IDR (given the latter sensitivity to the former). Domestically, we expect the IDR fundamentals to stay robust with growth to hold stable into next year and the country to maintain a trade surplus. We are cognizant of risks to our view that include the possibility of a US recession occurring, hurting EM appetite and domestic political uncertainty surrounding the upcoming regional elections.

BI undertook a surprise 25bps cut in Sep and our economist expects a further 50bps of easing this year and another 75bps of cuts next year, bringing it to 4.75% at end 2025. The Sep cut provided a positive signal to markets in that BI appears to be more confident of the macro environment turning more supportive for rate easing. Governor Perry Warjiyo himself had also noted that the "time is right" and the move came in stark contrast to his relatively more hawkish stance in the prior month, when he said that BI's focus for the third quarter will be on strengthening the IDR. Given softening US data and with the Fed firmly on easing path, BI should continue to be in a good position to continue with cutting rates. Domestic economic data also looks to be conducive for BI easing given that core inflation has been closer to the lower end of BI's target range (1.5% – 3.5%).

Portfolio flows have been strong for the pair amid the global monetary pivot and we expect that this can reasonably continue. Bond inflows month to date until 25 Sep have been extremely strong at $1.58bn as both BI and the Fed rate cuts strengthened appetite. We expect that interest can continue to hold up given our house view for BI to undertake further rate cuts into the final quarter. Relative to other EM central banks, BI looks to also be in a better position to keep easing given that Indonesia's inflation is much lower compared to other high yielding EM's such as Mexico, Brazil, South Africa or India. Whilst Mexico and South Africa are expected to ease too, their inflation do stand much higher than Indonesia. Brazil's central bank in contrast is still hiking as they continue to battle inflation pressures whilst RBI may stay on hold for the rest of this year. On the equities side, flows may become more moderated amid some shift to China stocks although a Fed easing should provide some support. Month to date equity inflows up until 26 Sep stood at $1.6bn.

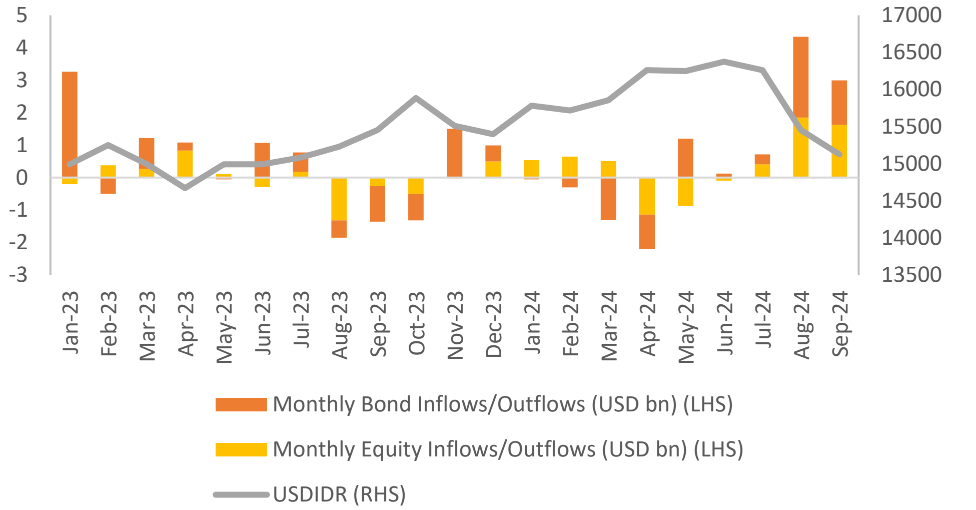
Domestic economic data in the meantime also remains robust. Sep core inflation was only marginally higher at 2.09% YoY (Aug. 2.02% YoY) whilst headline inflation fell further to 1.84% YoY (Aug. 2.12%). Our economist expects that the headline would average 2.3% in 2024 and 2.6% in 2025. As mentioned, lower inflation levels should help keep BI in a positon to cut rates. Meanwhile, the country's external position continued to hold up well as the Aug trade balance surplus was higher at $2.9bn (est. $1.9bn, Jul. $0.5bn), which also marked a three month high. Exports picked up more strongly to 7.13% YoY (est. 4.10% YoY, Jul. 6.60% YoY), the strongest print in five consecutive months of recovery amid strength in manufacturing and coal exports. Imports were slight lower at 9.46% YoY (est. 9.30% YoY, Jul. 11.07% YoY) with growth being led by capital and intermediate goods imports. Our economist expects that the trade surplus should be maintained for the rest of this year, which in its own right would be supportive for the currency.

Risks Ahead: Downside risks for the IDR include domestic political uncertainty associated with the upcoming regional elections. Some key contests include the Jakarta and Central Java Governor elections. Candidates elected who are in opposition to Prabowo can possibly have frictions with the new administration in implementing development policies and this can have some effect on growth. Whilst we would not rule out that the political developments can affect market sentiment, we still see the impact may more likely be limited. National development policies tend to be more long term in nature and therefore, it is less likely to hurt the nearer term thinking markets. Meanwhile, other risks include a

US recession which can sour appetite towards EM assets and FX include the IDR. However, we would like note that our base case is for a US soft landing. Global geopolitical tensions especially related to the Middle East is another concern given that it can lead to higher oil prices and hurt Indonesia's external position. Upside risk for the IDR include the global economy holding up together with the Fed cutting at a faster pace than expected.

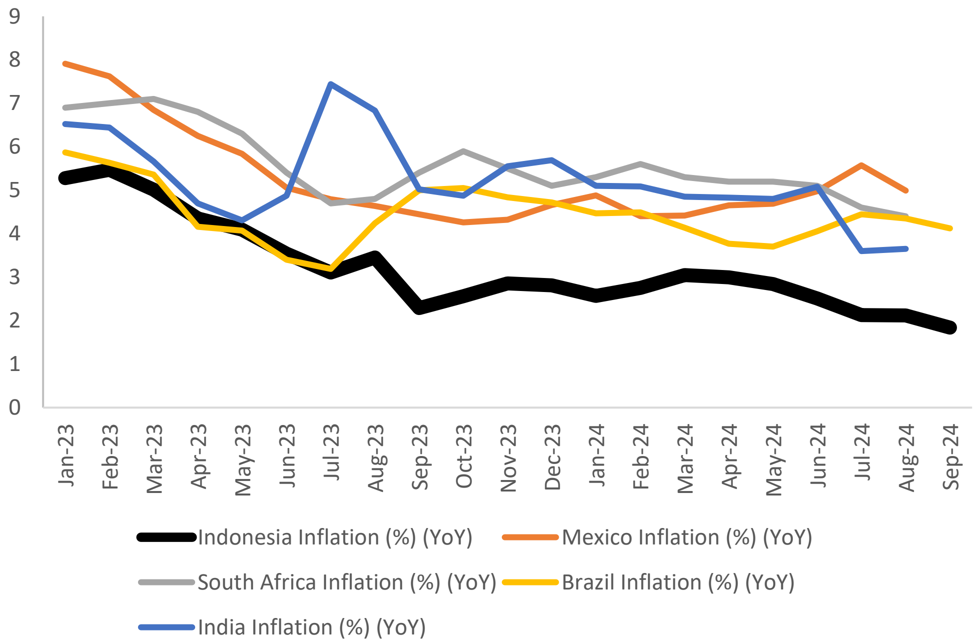
Key Data/Events: Sep S&P Global PMI mfg (1 Oct), Sep CPI (1 Oct), Sep foreign reserves (7 Oct), Sep consumer confidence (8 Oct), Sep local auto sales (11 – 15 Oct), Sep trade balance (15 Oct), Aug external debt (15 Oct) and BI policy decision (16 Oct).

Portfolio Inflows Have Strengthened as the Easing Cycle Starts But Some Moderation Expected with Equity Inflows Amid Shifts to China



Source: Bloomberg, Maybank FX Research & Strategy
Note: Sep 2024 data for equities and bonds is until 27 Sep 2024 and USDIDR rate is as of close on 27 Sep 2024

Inflation for Indonesia is Lower than Other EM Countries, Putting the Central Bank in Better Position to Ease Rates



Source: Macrobond, Maybank FX Research & Strategy

PHP: Global Easing Cycle Supports Appreciation

USD/PHP	4Q 2024	1Q 2025	2Q 2025	3Q 2025
	53.50	52.50	51.50	51.00
	(54.00)	(53.00)	(52.00)	(--)

Previous Forecasts in Parentheses

Motivation: We further lower our USDPHP forecast due to 1) our revised expectations of a faster than initially forecasted pace of global easing and 2) stronger China stimulus support. Following the Fed 50bps rate cut in Sep, our economist sees the possibility of quicker pace of easing (additional 50bps this year and another 125bps in 2025) compared to initial expectations. The BSP is expected to cut rates by an additional 50bps this year and 100bps next year but that should fall in line with our expectations of the Fed and therefore avoid weighing on the currency. China's recently announced stimulus should help lead the USDCNY/CNH lower amid improved sentiment and also in turn guide the USDPHP lower. USDPHP exhibits quite some sensitivity to USDCNY/CNH, which is of little surprise given the trade links between China and the Philippines. Meanwhile, we see appetite for Philippines equities to improve amid the global easing environment whilst the flows from OFWR should also continue to be supportive as the global economy can hold up into next year with our base case being a US soft landing. Regardless, we stay cognizant of risks which include a US recession, which can damage appetite towards EM assets.

The BSP has increasingly been sounding more dovish and we do not rule out the possibility that they could cut again in Oct by 25bps. At their prior meeting, the central bank had already given out strong dovish hints as they noted that the balance of risks for the inflation outlook leans to the downside in 2024 and 2025. The BSP did raise their inflation forecast for 2024 to 3.3% YoY (prior. 3.1% YoY) but they also reduced the 2025 forecast to 2.9% YoY (prior. 3.1% YoY). The revisions had been on the basis of food import tariffs being reduced as the Monetary Board (MB) anticipates that executive order 62 (EO62) and administrative order 20 (AO 20) should help further ease price pressures. Executive Order 62 (EO 62) would be cutting rice import tariff from 35% to 15%, effective from 6 Jul 2024 until 31 Dec 2028 and also extended for lower rates on pork, mechanically deboned meat (MDM) of poultry and corn. Administrative order (AO 20) also removes the non-tariff barriers on importation of agricultural products. **Overall, our economists are expecting Oct meeting to mark the only 25bps cut for the rest of this year and for there to be another four cuts of 25bps each in 2025.** We do however take note that Governor Eli Remolona has said that they are likely to cut by 25bps each at the two remaining policy meetings this year and that they may only consider cutting by 50bps in one meeting if they see the possibility of a hard landing.

Data continues to reflect strength in the Philippines economy although it would still allow for the BSP easing. 2Q GDP accelerated and came out in line with expectations at 6.3% YoY (est. 6.3% YoY, 1Q. 5.8% YoY) amid a rebound in public consumption growth and gross fixed capital formation. Sectorial wise, construction saw the strongest expansion at 16.0% YoY. However, private consumption growth was actually subdued at 4.6% YoY, which was the weakest level of post-pandemic quarterly growth. Elevated inflation and the high interest rate may have weighed in then. However, recent inflation data is already showing some slowing as the Aug headline number came out lower and below expectations at 3.3% YoY (est. 3.6% YoY, Jul. 4.4% YoY). The slowdown is likely to continue and facilitate for the lowering of rates. Meanwhile, the country's external position remains a negative factor for the currency. Jul trade balance still saw quite a wide deficit at -$4.9bn (est. -$4.2bn, Jun. -$4.3bn) as imports grew strongly whilst exports on the other hand only saw a very tepid increase. The trade balance is likely to continue to remain at a wide deficit for the rest of this year.

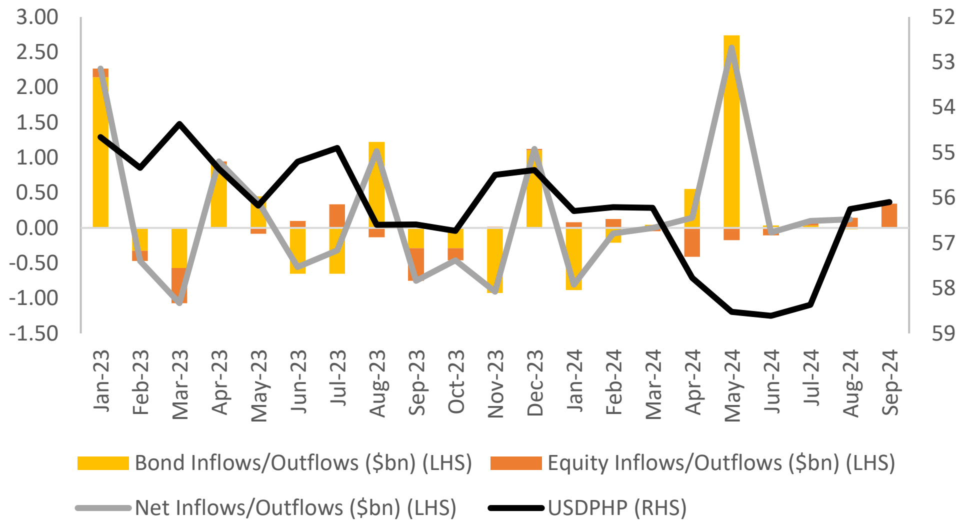
OFWR growth strengthened in the month Jul to 3.1% YoY (est. 3.0% YoY, Jun. 2.5% YoY) and established another year high at $3.09bn. On a monthly basis, growth was also strong at 7.0% MoM (Jun. 11.5% MoM). We expect that OFWR would likely continue to provide reasonable support to the PHP given that the global economy should hold up into next year (our base case is for a soft landing). Our economists see that OFWR growth should be higher in 2024 compared to prior years at 3.0% YoY (2023. 2.9% YoY).

Equity flows was astoundingly strong at $344.5m month to data until 27 Sep 2024 and this can continue. The Fed easing and global easing cycle coming into place looks to have strengthened interest for EM assets including the Philippines stock market. The PSEi continued its rally over much of the last month. As we go deeper into the easing cycle, appetite can keep improving especially as EM markets have been under-appreciated. We do note that the pick-up in China's equity markets can divert some of the interest (or flows) away although it should not completely counteract the improving sentiment to the Philippines' equity markets. Meanwhile, the latest data for bond flows is lagged as it is for the month of Aug 2024 and shows an outflow of -$19.5m. **However, we believe that bond inflows should have been stronger from Sep onwards as the global easing cycle became more entrenched.**

Risks Ahead: A global recession can be a negative risk for the PHP as it would damage appetite for EM assets. Upside risks meanwhile include the Fed being able to ease at a more rapid pace whilst still also being able to ensure that a soft landing remains the case.

Key Data/Events: Sep S&P Global PMI mfg (1 Oct), Sep CPI (4 Oct), Sep foreign reserves (7 Oct), Aug unemployment (8 Oct), Aug trade data (10 Oct), Aug OFWR (15 Oct), BSP policy decision (17 Oct), Sep BoP overall (18 Oct), Sep budget balance (24 Oct), Sep M3 money supply (31 Oct) and Sep bank lending (31 Oct).

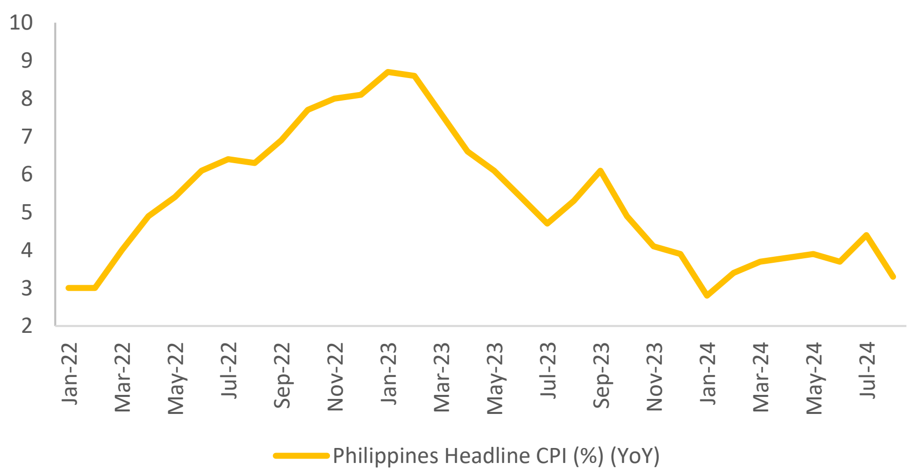
Equity Inflows Have Been Picking Up and Bond Inflows may have been too as the Global Easing Cycle Becomes More Entrenched



Source: Bloomberg, Maybank FX Research & Strategy

Note: Bond flow data not available for Sep 2024 whilst equity flow and USDPHP data for Sep 2024 is up until 27 Sep 2024.

CPI has Recently Cooled in Line with BSP Expectations and therefore, Supporting Rate Cuts



Source: Macrobond, Maybank FX Research & Strategy

THB: Global Easing Cycle to Lift Currency

USD/THB	4Q 2024	1Q 2025	2Q 2025	3Q 2025
	31.50	30.50	29.50	29.00
	(33.00)	(32.50)	(32.00)	(34.50)

Previous Forecasts in Parentheses

Motivation: We keep to our view of a medium term downward trajectory for the USDTHB but we have also lowered it due to 1) our revised expectations of a faster than initially forecasted pace of global easing and 2) stronger China stimulus support. Following the Fed 50bps rate cut in Sep, our economics team see the possibility of a quicker pace of Fed easing (additional 50bps this year and another 125bps in 2025) compared to initial expectations. The Bank of Thailand (BOT) at the same time is also likely to keep rates on hold this year and only cut by 25bps in 2025, which would result in rate differentials becoming more in favor of the THB. Falling rates would also give more support to the already elevated gold prices and provide the THB more of a lift given Thailand's position as a gold trading hub. Meanwhile, the THB should also benefit from the recently announced significant China stimulus support given the strong trade links between both Thailand and China. Despite our optimism, we still stay wary of risks that can weigh on the THB that include 1) political uncertainty associated with the Paetongtarn Shinawatra government and 2) US recession that can weigh on appetite towards risk assets.

We keep to our view that the BOT is likely to stay on hold at 2.50% this year and only cut by 25bps in 2025 despite government pressure. Minister of Finance Pichai Chunhavajira has continued to place pressure on the central bank to ease rates with the argument now recently based on the THB strength. Pichai has recently expressed concerns that the strength of the currency can risk hurting the country's exports. He has also continued to highlight that inflation is low and in particular noting that it is "six times lower than the target frame since 2015". Even so, we do not expect the BOT to undertake any cut unless the economic data does come out much weaker than their expectations. However, we also do note that reports have emerged that the government has nominated former Deputy Prime Minister and Minister of Finance Kittiratt Na Ranong as the new BOT Chairman. Kittiratt in recent months has been backing the government's call for a cut. The decision on who would be appointed as the new BOT Chairman would only be known in the coming week. Whilst, the Chairman may not exactly directly determine monetary policy, he/she on the other hand does head the board that selects the monetary policy committee including the governor. Current Governor Sethaput Suthiwartnarueput term is set to be completed in Sep 2025. Despite these rate cut pressure concerns, we are also cognizant that since the Fed is already on easing cycle, any BOT cut may not necessarily weigh too heavily on the THB.

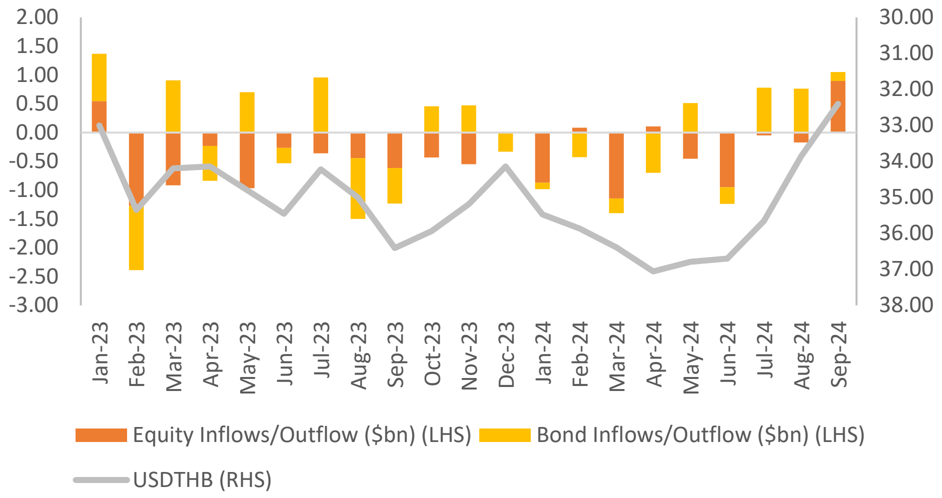
Domestic conditions meanwhile remain rather mixed still with some signs of economic weakness. Aug PMI fell to 52.0 (Jul. 52.8) although as a whole this just marks one blip in an upward trend and does not imply significant weakness just yet. Aug business sentiment index was slightly higher at 47.1 (Jul. 46.9) although this data point is exhibiting a downward trend highlighting some concerns. Consumer confidence also continues to decline with the latest Aug number reading at 56.5 (Jul. 57.7). Our economist expects GDP growth in 2024 to come out at 2.4% YoY although sequentially 2H 2024 could be weaker. On a yearly basis, she sees 2H 2024 at 2.9% YoY, which is lower compared to 3.3% YoY – the BOT's last known forecast. On the inflation front, both headline and core CPI remained rather subdued. The former was actually lower than expectations at 0.35% YoY (est. 0.40% YoY, Jul. 0.83% YoY) whilst core was slightly higher than estimates at 0.62% YoY (est. 0.56% YoY, Jul. 0.52% YoY). External position shows no clear sign of maintaining a sustainable surplus yet with the Aug trade balance number at $265m (est. $0m, Jul. -$1370m) as both export and import growth declined. Despite the numbers, we still do not believe that they show sufficient weakness for the BOT to change its rather stubborn holding stance on rates.

Portfolio flows continue to stay strong into the month of Sep amid a beginning in the Fed easing cycle. Equity inflows was at $0.9bn month to date up until 27 Sep 2024 as the SET continued to perform well amid the launch of the Vayupak fund, easing by the Fed and some growth optimism arising from a new government formation. Valuations for the Thai equity market though remains rather low and there can still be further catch up over the medium term especially as risk appetite for EM assets strengthens with the Fed easing. The new Paetongtarn Shinawatra government is also committed to rolling out the digital wallet support. However, we do note that the pick-up in China markets can divert away some of the flows from Thailand. Bond inflows is still positive month to date until 27 Sep 2024 although rather moderate at $0.15bn. As the Fed rates continue to ease, we expect inflows into EM Bonds including those of Thailand should strengthen over time.

Risks Ahead: Any political uncertainty arising can risk weighing on sentiment and hurt portfolio flows and the currency. Aside that, a US recession could lead to a global downturn and damage appetite for EM assets including those of Thailand. We do note however note that elevated gold prices in that scenario can still somewhat help give some support to the THB.

Key Data/Events: Sep S&P Global PMI mfg (1 Oct), Sep business sentiment index (1 Oct), Sep CPI (7 Oct), Sep consumer confidence (7 – 15 Oct), BOT policy decision (16 Oct), Sep car sales (23 – 25 Oct), Sep customs trade data (24 – 31 Oct), Sep ISIC mfg prod index (26 – 30 Oct), Sep ISIC capacity utilization (26 – 30 Oct), Sep BoP CA and overall balance (31 Oct) and Sep trade data (31 Oct).

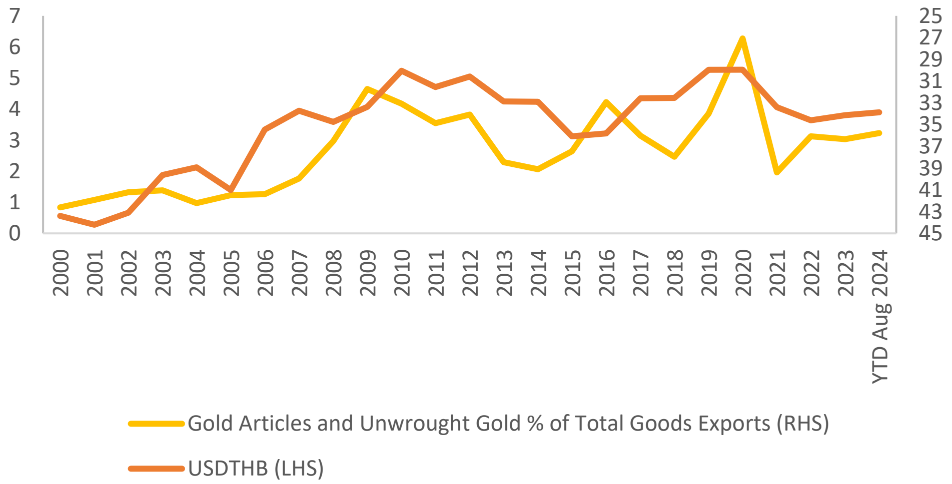
Equity Inflows have Picked Up, Which has Been One Factor Supporting THB Appreciation



Source: Bloomberg, Maybank FX Research & Strategy

Note: Equity and bond inflow data for Sep 2024 data is month to date until 27 Sep 2024 whilst the USDIDR rate is as of close 27 Sep 2024

Higher Gold Demand Supporting the THB Given Thailand's Position as a Gold Trading Hub



Source: Macrobond, Maybank FX Research & Strategy

VND: Pace of Gains to Slow

USD/VND	4Q 2024	1Q 2025	2Q 2025	3Q 2025
	24400 (24800)	24300 (24750)	24200 (24700)	24000 (--)

Previous Forecasts in Parenthesis

Motivation: USDVND continued to extend decline in tandem with USDASEANs since the start of this month. The fall in UST yields and concomitantly the USD, were the major drivers of VND's recovery. In addition, political stability after President To Lam became Party Chief as well as the reshuffling of ministers also boosted the VND. As the USD makes its move lower, the State Treasury had planned to buy as much as $100mn of foreign currencies from commercial banks on 12 Sep. With that, the conditions have turned benign for the Treasury to re-accumulate foreign reserves. That could also slow the decline of the USDVND. Since then, there are signs that equity outflows are less persistent. Our view for USDVND to come off very gradually in the 2H of 2024 as global inflation eases further is coming to fruition.

Focus for Sep was on Typhoon Yagi and the destruction caused to northern Vietnam. Officials estimated the economic damage to amount to $3.3bn. The coastal city, Haiphong was affected with workers at industrial parks and factories reporting no electricity and attempts to salvage equipment at plants. LG Electronics reported flood damages at its warehouse with refrigerators and washing machines. Leased factories also saw widespread damage to roads and prolonged power cuts in northern Vietnam.

Political Stability To Underpin VND. The recent reshuffle of Ministers and To Lam's relinquishment of his role as President has allowed Vietnam to revert back to its "four pillars" structure where four individual leaders hold the key positions of government. This also assuages concerns of further power consolidation. We note that while the rise of UST yields in the past several quarters is a key reason for VND's persistent decline, the anti-graft campaign has purged a number of senior officials and resulted in a slowdown in project approvals. So the reversion to the four pillars structure could mean further political stability and these recent headlines have coincided with the significant intra-day gains for the VND. **Along with the strength of the VND against the USD, SBV was able to re-accumulate its foreign exchange reserves.** That also slowed the appreciation of the dong vs. the USD of late.

Vietnam continues to forge good relations with foreign powers. For one, China Vice Premier He Lifeng urged for greater economic and trade cooperation with Vietnam during a meeting with Minister of Industry and Trade Nguyen Hong Dien. Separately, the Consul General of Indonesia in HCM City, Agustaviano Sofjan spoke about opportunities for collaboration at a business forum. The Vietnam Chamber of Commerce and Industry agreed to strengthen cooperation between the SMEs from both countries. Local news reported rising collation potential especially in high-tech, agricultural, and fisheries. Meanwhile, bilateral trade with the US has risen to almost $87.7bn for the first eight months of 2024 with exports to the US up 25.4%y/y while imports also rose 6.9%. President To Lam has also recently visited US Biden on 10 Sep. White House issued a statement, "hailing a historic new phase of bilateral cooperation and friend by elevating their nations' relationship to a Comprehensive Strategic Partnership for the purposes of peace, cooperation and sustainable development". Strengthening trade relations and forging trade agreements continue to be pertinent for Vietnam's medium term development.

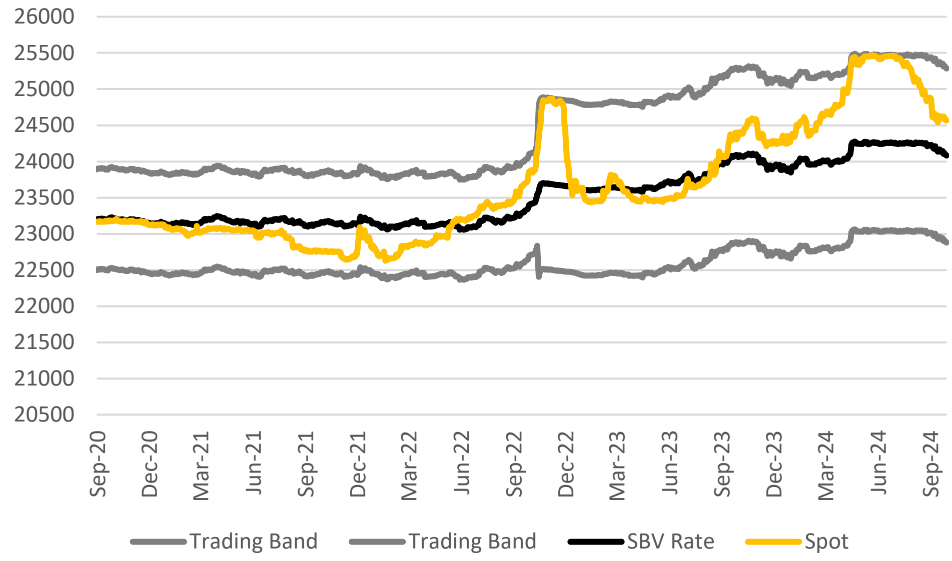
Based on the Aug data, **our Vietnam economist Brian Lee has not changed his GDP forecast**, maintaining his GDP forecast at 6.4% for 2024 and 6.2% for 2025. 3Q GDP growth is expected to remain strong at 6.7% (vs. 6.9% in 2Q), as the economic recovery broadens. We await the Sep data that could inform us the true damage of Typhoon Yagi.

FDI Slows. FDI flows seem to have slowed with realized FDI growth up at a smaller +5.3%y/y in Aug vs. previous 9.6% in Jul. Registered FDI dropped -14.5%y/y in Aug vs. previous 0.3%. On average, registered FDI had grown 10.5%y/y per month for the first eight months of 2024. For the same period in 2023 however, the monthly growth was around 40.7%y/y. Manufacturing and Real estate have always been attracting the lion share of FDIs. **More recently, Vietnamese and US firms have signed MOUs to cooperate in energy, AI and a data centre according to the government.** 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.

Risks to the VND: 1) A sudden re-acceleration of inflation in the US could lift the USD and US rates and lift the USDVND. 2) Growth slowdown of the world becomes a more severe downturn that could weaken Vietnam's external position and the VND.

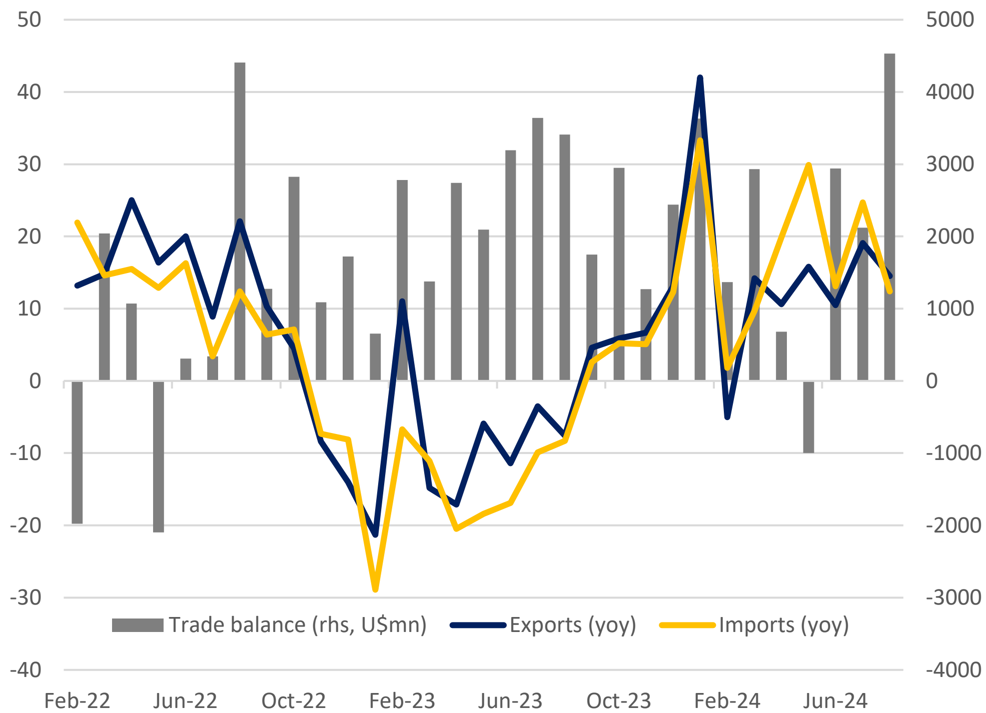
Key Data/Events: Sep trade, IP, CPI, retail sales [6 Oct].

USDVND Finally Pulls Back from Upper Bound of the Trading Band



Source: Bloomberg, Maybank FX Research & Strategy

Trade Has Been on a Recovery



Source: Bloomberg, Maybank FX Research & Strategy

INR: Do Not Fight the Central Bank

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

No Change to Previous Forecasts

Motivation: We maintain our USDINR forecasts and the downward trajectory for USDINR in the four quarters ahead on the belief that RBI could cap gains amid INR positive factors. Although the USD should weaken quicker than initially anticipated with our economics team expecting 50bps more of Fed rate cuts in 2024 (prev: 25bps) and 125bps in 2025 (prev: 100bps), RBI's penchant to keep the INR stable is likely to prevail. 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". RBI's preference should also remain to accumulate more foreign reserves in an environment that should be INR-positive in order to have the necessary ammunition to defend INR in times of stress in the future. The current risk-on environment from China stimulus should be beneficial for the INR, although we do caution that this could be volatile and be subject to swings. As gold prices rise, this could also weigh on the INR given that India is the second largest consumer of gold and higher prices weigh on its trade balances. Volatility in oil prices could also weigh on India's external balances and the INR

INR positive factors continue to be at play. News reports estimate foreign inflows into India's bond market to be some US$10b over the past 9 months. This is also against the backdrop of an economy that is prospering, with one of the highest economic growth rates in the world (Governor Das suggested ~7% for the current fiscal year) and with inflation kept relatively in check (Governor Das suggested ~4.5% for current fiscal year). On top of that, India is portraying itself as an alternative for global funds to China, which in an era where asset managers are trimming or underweighting their exposures to China could be a significant continued driver of inflows to India. Lastly, foreigners were estimated to own a mere 2% of Indian sovereign debt, 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 do note RBI's preference to keep USDINR stable. Recent episodes of big currency moves reflect this preference. In Aug, the INR was the only non-pegged Asian currency to be flat or slightly weaker against the USD even as the USD broadly weakened. 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. While a stable INR still provides a favourable environment for carry trades, global deleveraging and carry trade unwinding means we could see episodic paring back of such trades, which would be INR negative.

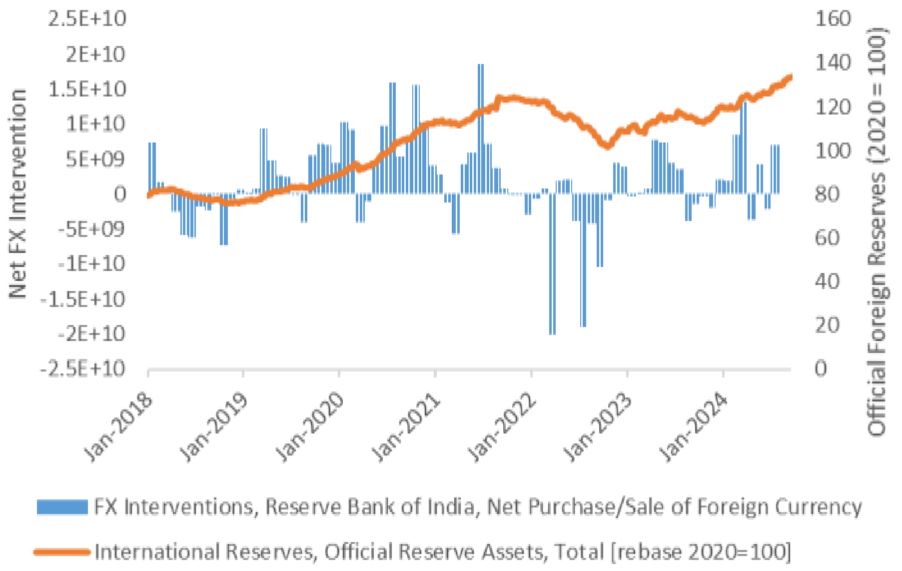
Growth in India should continue to be robust, although a slump in 2Q GDP could prompt the RBI to consider easing. 2Q GDP missed estimates and grew by 6.7% YoY (exp: 6.8%; prev: 7.8%). However we note that earlier 2024P GDP estimates were once again revised upwards, suggesting that 2024 growth could come in at 8.2% YoY (exp: 7.9%; prev: 7.6%). This suggests a continued bright economic outlook for one of the world's fastest growing countries, with some parallels to China in its fastest growing years. In economic literature, population growth remains one of the key drivers for growth. India overtook China as the world's most populous country in Apr 2023, and with population growth dynamics looking favourable for years to come, growth could continue to remain support. We expect a global soft-landing and continued economic expansion in India should be a factor for INR strength. Favourable dynamics for INR should last into 2025, with Modi's BJP managing to form the government and political uncertainty out of the way.

Inflation in India edged up in Aug to 3.65% YoY (exp: 3.47%; prev: 3.54%). The fall in inflation and slump in growth could prompt the RBI to start thinking about easing. At the last meeting in Aug, RBI voted 4-2 in favour of accommodation withdrawal. We look to the RBI's next MPC (9 Oct 2024) to see if there could be preliminary hints of possible easing. Ultimately, we think they are unlikely to act before the Fed given their preference for low volatility in the INR. On balance, RBI remaining on hold amid strong growth prospects and a relatively benign inflation outlook should also be in favour of INR strength. We think that with the Fed cut in Sep, RBI will discuss easing on 9 Oct and cut rates in Dec. For 2025, we pencil in 50bps of cuts for RBI with the first cut likely in 1H2025.

Risks Ahead: The main risk that threatens our USDINR forecasts 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. The Fed path could also present two-sided risks for our INR forecasts, should they turn more hawkish or dovish than anticipated.

Key data/events: Sep F Mfg PMI (1 Oct), Sep F Svcs/Comp PMI (4 Oct), **RBI Policy Decision** (9 Oct), Aug Industrial Production (11 Oct), Sep CPI Inflation (14 Oct), Sep Exports/Imports/Trade Balance (15 Oct), Oct P Mfg/Svcs/Comp PMI (24 Oct), Sep Fiscal Deficit, Sep Eight Infrastructure Industries (30 Oct).

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



Source: Bloomberg, Macrobond, Maybank FX Research & Strategy

Growth is Promising and Inflation Benign in India

Source: Bloomberg, Maybank FX Research & Strategy

FX Forecast Table

	End Q4-24	End Q1-25	End Q2-25	End Q3-25
USD/JPY	138.00	136.00	134.00	132.00
EUR/USD	1.1300	1.1350	1.1400	1.1450
GBP/USD	1.3300	1.3350	1.3400	1.3450
AUD/USD	0.6900	0.7000	0.7100	0.7200
NZD/USD	0.6400	0.6500	0.6600	0.6700
USD/CAD	1.3200	1.3100	1.3000	1.3000
USD/CHF	0.8500	0.8500	0.8500	0.8400
USD/SGD	1.2750	1.2700	1.2700	1.2650
USD/MYR	4.0000	3.9500	3.9000	3.8500
USD/IDR	14800	14600	14400	14200
USD/THB	31.50	30.50	29.50	29.00
USD/PHP	53.50	52.50	51.50	51.00
USD/CNY	6.92	6.90	6.87	6.85
USD/CNH	6.92	6.90	6.87	6.85
USD/HKD	7.78	7.77	7.77	7.78
USD/TWD	30.00	30.00	29.50	28.50
USD/KRW	1290	1270	1260	1250
USD/INR	82.00	81.00	81.00	81.00
USD/VND	24400	24300	24200	24000
DXY Index	99.19	98.61	98.02	97.47
	End Q4-24	End Q1-25	End Q2-25	End Q3-25
SGD/MYR	3.14	3.11	3.07	3.04
JPY/SGD	0.92	0.93	0.95	0.96
EUR/SGD	1.44	1.44	1.45	1.45
GBP/SGD	1.70	1.70	1.70	1.70
AUD/SGD	0.88	0.89	0.90	0.91
NZD/SGD	0.82	0.83	0.84	0.85
CAD/SGD	0.97	0.97	0.98	0.97
CHF/SGD	1.50	1.49	1.49	1.51
SGD/IDR	11608	11496	11339	11225
SGD/THB	24.71	24.02	23.23	22.92
SGD/PHP	41.96	41.34	40.55	40.32
SGD/CNY	5.43	5.43	5.41	5.42
SGD/HKD	6.10	6.12	6.12	6.15
SGD/TWD	23.53	23.62	23.23	22.53
SGD/KRW	1012	1000	992	988
SGD/INR	64.31	63.78	63.78	64.03
SGD/VND	19137	19134	19055	18972
	End Q4-24	End Q1-25	End Q2-25	End Q3-25
JPY/MYR	2.90	2.90	2.91	2.92
EUR/MYR	4.52	4.48	4.45	4.41
GBP/MYR	5.32	5.27	5.23	5.18
AUD/MYR	2.76	2.77	2.77	2.77
NZD/MYR	2.56	2.57	2.57	2.58
CAD/MYR	3.03	3.02	3.00	2.96
CHF/MYR	4.71	4.65	4.59	4.58
MYR/IDR	3700	3696	3692	3688
MYR/THB	7.88	7.72	7.56	7.53
MYR/PHP	13.38	13.29	13.21	13.25
MYR/CNY	1.73	1.75	1.76	1.78
MYR/HKD	1.95	1.97	1.99	2.02
MYR/TWD	7.50	7.59	7.56	7.40
MYR/KRW	323	322	323	325
MYR/INR	20.50	20.51	20.77	21.04
MYR/VND	6100	6152	6205	6234

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

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