Maybank

Macro | FX Research & Strategy

Global

FX Monthly

2024, Issue 10: Navigating US Tail Risk

What Has Changed This Month?

- Our FX forecasts are predicated on the outcome of the US elections on 5 Nov as the results could have binary effects on currency trajectories. There is a possibility that current price action might be slightly overdone at this juncture.

Our Strategies and Views

- What we got right last month [FX Monthly Issue 9]: (1) We forewarned the possibility of policy re-pricing if US data turn out to be stronger-than-expected (especially NFP). Market implied policy rates now suggest a cumulative -40bps cut for Nov and Dec vs. around -75bps seen this time last month. (2) We also cautioned on more volatility as we head into the US elections 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 (tax cuts and tariffs). That also turned out to be true. DXY is up +4%, gold is up 5%, bitcoin is up 20% and CNH is down -2.5% (vs. the USD) since the start of Oct. What we did not expect was the scenario of Japan's LDP failing to achieve a majority government with its coalition ally Komeito. BoJ's policy normalization trajectory is seen to be less certain with such a scenario and with a hung parliament.

- Into Nov, the outcome of the US elections is expected to have a binary effect on markets. To a certain extent, the moves in Oct are a reflection of the Trump trade as well as other aforementioned factors. In our FX Flash – Understanding the Trump Trade (dated 22 Jul), we had looked for PHP, IDR and THB to be more resilient compared to CNH, MYR, SGD, TWD and KRW. We continue to look for the above to play out more distinctly should Trump secure a second term. USD could continue to see broad support. TWD could be penalized further if Trump carries out his recent threat to impose tariffs on Taiwan. A Harris victory, on the other hand, may see some reversal of gains in the USD against most currencies.

- Beyond the near-term and assuming a Harris victory, three main themes may 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 can lift the growth prospect of the region.

- We continue to hold to our forecast for USDASEAN to trend downwards over the medium term given our expectations for a global easing environment. The Fed has already starting embarking on an easing cycle and other ASEAN central banks have also followed suit. This should look to support more inflows into the regions' bonds and equity markets over time. We do though recognize risks to our view which includes the potential for policy uncertainty emerging out of the US election results.

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Top 3 Currency Plays for Nov

Sell USDJPY on Rally
Short CNY against SGD, JPY
KRW, TWD to Catch Up

Key Events for the Month Ahead

Date	Event
4-8 Nov	China NPC Standing Committee Meeting
5 Nov	US Elections
27 Nov	ID Elections (Local)

SEE PAGE 40 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

USD: US Election Aftermath & Uncertain Fed Path

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

No Change to Previous Forecasts

Motivation: USD DXY climbed back up by around 3% since early Oct amid signs of US economic resilience, concerns that the Fed's easing trajectory may pause or be lower after the 50bps rate cut in Sep and risk aversion pick-up ahead of the US presidential elections. The latter was a result of candidate Trump's higher polling percentages raising concerns of higher and wider tariff imposition which may affect sentiment and global growth negatively. We had factored in the start of the US easing via the 50 bps Sep Fed cut, China fiscal stimulus announcements in Sep and the extent of the USD weakness in Sep into our forecasts last month. Last month, our forecast revisions also factor in a Harris win scenario as a baseline. 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 Dec FOMC and 125bps next year (vs 100bps previously) to bring FFR to 3.00%-3.25% by end 2025. Nonetheless, the USD moves in Nov 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 in Nov and if the results would be conclusive. 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 the 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. Our baseline scenario now follows from fivethirtyeight polls, which shows that a Harris win is at 48.1% as at 30 Oct (vs Trump at 46.6%). This compares with 48.5% as @30 Sep. Other polls also show similar implied odds of a Harris victory being the slightly more likely outcome. However, US bookmakers are showing the odds for Trump winning are rising.

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 in Sep but recent Oct announcements had less impact on risk sentiment. Further fiscal stimulus announcements around the standing committee meetings of the China NPC in early Nov, may boost global sentiment if it comes out as substantial. The DXY index slipped to a low of 100.17 on 27 Sep against a backdrop where markets are looking for indications where global growth momentum outside of the US picks up and likely to take the USD lower, but this has since reversed to reach a high of 104.56 on 28 Oct.

Our BEER model estimates in Sep show USD could be close to fairly valued with risk of overshooting on the downside but it has since then swung to slightly over-valued territory again. USD weakness momentum can continue as we approach end of the year if a confluence of factors emerge such as a Harris victory, signs of external growth recovery, China fiscal stimulus emerging strongly and US softer data. We still **factor in a 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, Oct again saw release of resilient US data – NFP was at 254k vs prior 142k (expected 150k) for Sep, unemployment rate was lower at 4.1% vs prior 4.2%, CPI YoY came in slightly higher at 2.4% vs expected 2.3%. CPI MoM also came in higher than expected at 0.2% vs expected 0.1%, retail sales also rose slightly at 0.4% compared to 0.1% prior month, the Uni of Michigan sentiment index was higher in Oct at 70.5 compared to 68.9 in previous month. However, Sep industrial production and manufacturing production fell -0.3% compared to 0.8% prior and vs expected -0.2% and US ISM Manufacturing for Sep remains flat at 47.2 vs 47.2 prior, lower than expected 47.5. Markets will continue to monitor inflation and labour market 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.

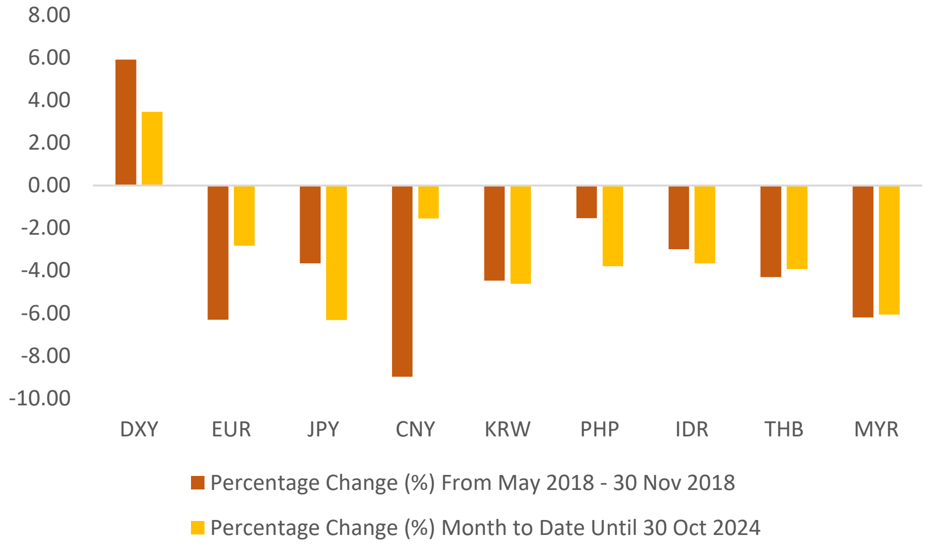
Fed lowers the benchmark rate by 50bps to 4.75-5.0% target rate with only one dissenter (Michelle Bowman) calling for a 25bps cut. The statement was more dovish pointing out “job gains have slowed” and “the unemployment rate has moved up but remains low”. However, the statement also highlighted that 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 2024 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. **As at 30 Oct 2024, Fed fund futures look for the Fed to cut by another 42bps by the end of 2024 and roughly another 82bps by the end of 2025 to take the policy rate to around 3.55%, which is higher than the Fed's estimate of the long-run policy rate (2.8% to 2.9%). This is also broadly in line with our slightly more dovish 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, there is still the likelihood of a scenario of the FOMC cutting 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: NFP (1 Nov); S&P Global US Manuf PMI (1 Nov); ISM Manuf (1 Nov); Durable Goods, Factory Orders (4 Nov and 27 Nov); Trade Balance (5 Nov); CPI for Oct (13 Nov); Uni Of Michigan Sentiment (8 Nov); Retail Sales (15 Nov); Ind Prodn (15 Nov); Housing Starts (19 Nov); GDP 3Q S (27 Nov); Core PCE (27 Nov); FOMC (8 Nov).

Comparison in Currency Movement Between 2018 Trade War and 2024 Oct



Sources: Bloomberg, Macrobond, Maybank FX Research & Strategy

DXY is Stretched on the Upside

Sources: Bloomberg, Macrobond, Maybank FX Research & Strategy

Trump's Proposed Tariffs May Need Time to be Implemented

Law	Details
Section 201 (Trade Act 1974)	US International Trade Commission determines injury to import-competing US industry and makes recommendation but the President makes final decision.
Section 301 (Trade Act 1974)	USTR must undertake investigation against relevant country that deny US free trade agreements rights or engages in unjustifiable, unreasonable or discriminatory practices. **Process can take over 12 months before tariffs are implemented.**
Section 122 (Trade Act 1974)	President can impose tariffs across the board without prior investigation although it is limited for 150 days against countries with large balance of payments surplus (note: tariffs can be up to 15% or involve quantitative restrictions or both).
Section 232 (Trade Expansion Act of 1962)	Commerce dept undertake investigation for imposition tariffs or quotas as necessary to offset adverse impact on national security and makes recommendation. However, President makes final decision.
International Emergency Economic Powers Act 1977, Trading with the Enemy Act of 1917	President can make the decision but this can be legally challenged.

Sources: Various Online Sources, Maybank FX Research & Strategy

EUR: Weakness Amid Widening Yield Differentials

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

No Change to Previous Forecasts

Motivation: We retain our forecasts for EURUSD despite the recent pullback. We hold our base case outlook of a weaker USD, with an expectation of 50bps of Fed rate cuts in 2024 (prev: 25bps) and 125bps in 2025 (prev: 100bps). We view the latest rebound in the USD and pullback in EURUSD as a risk that we envisaged ahead of the US elections. For the ECB, we 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. Lagarde also hinted that the latest developments have strengthened her conviction that inflation will return to ECB's target.

EURUSD traded within a 1.1144 to 1.0761 range in Oct, lower than the 1.1002 to 1.1214 range in Sep. The USD largely rebounded in Oct as Fed cut expectations moderated and the market digested the likelihood of a Trump presidency. The double top pattern we saw earlier has played out and we see EURUSD sharply lower. The ECB cut rates by 25bps on 17 Oct and there has been a repricing of ECB cut expectations towards the more dovish end of the spectrum. This broad USD move is evident across all currencies, as USD drivers remain more dominant as we earlier suggested. Nevertheless, we think there is a reasonable chance that a reversal in broad USD strength could occur post-elections.

Disinflationary trend in the Eurozone remained intact and should give ECB confidence to cut. Sep F CPI inflation fell further with headline at 1.7% (exp: 1.8%; prev: 2.2%) and core at 2.7% (exp: 2.7%; prev: 2.7%). CPI inflation edged lower by -0.1% MoM (exp: -0.1%; prev: -0.1%). Core inflation remained relatively sticky. Nevertheless, current trajectory of inflation in the Eurozone is in line with the ECB's assessment has provided them with more confidence to cut. ECB Wunsch suggested that while disinflation remains intact, there was no urgency to cut interest rates quicker and that the risk to a sustained undershoot of the 2% inflation target was relatively small. This led to some support for the EUR towards the end of the month.

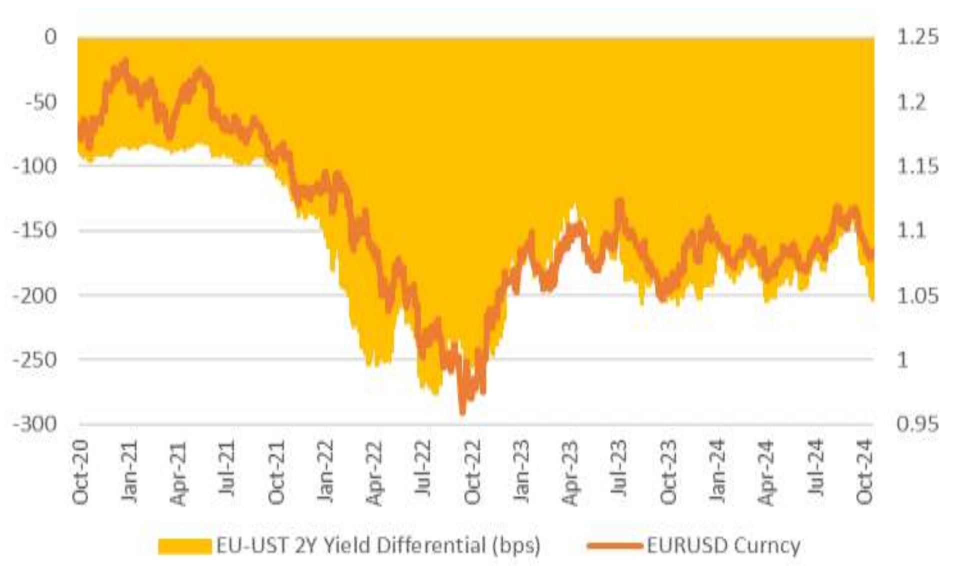
Growth should pick up in the Eurozone, with green shoots of recovery returning although German growth is expected to continue to lag. 2Q F growth for Eurozone stood at 0.6% SA YoY (exp: 0.6%; 0.6%) and 0.2% SA QoQ (exp: 0.3%; prev: 0.3%). 3Q P German growth is expected to be weak at -0.1% SA QoQ (prev: -0.1%), 0.1% NSA YoY (prev: 0.3%) and -0.3% WDA YoY (prev: 0.0%). Eurozone 3Q P GDP estimates are slightly better at 0.2% SA QoQ (prev: 0.2%) and 0.8% SA YoY (prev: 0.6%). 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. While the impetus from China's stimulus seems to have faltered, further stimulus or a return of the impetus could bode well for Eurozone growth.

We see one more 25bps cuts for the ECB this year to bring their deposit facility rate to 3.00% (currently: 3.25%), main refinancing rate to 3.15% (currently: 3.40%) and marginal lending facility rate to 3.40% (currently: 3.65%). This is more hawkish than market pricing of 35bps 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. Despite the recent rebound in the USD, 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. Going forward into 2025, we continue to look for a bottoming of Eurozone growth as the inflation squeeze abates to spur the EUR higher. In addition, there could be further impetus for Eurozone growth from a possible pick up in external demand e.g. from China in 2025. However, there are also possible headwinds from tariffs should Trump win a second term as President.

Risks Ahead: Geopolitical headwinds could still weigh on the EUR. 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. North Korea joining in the fray against Ukraine also represents a risk of the conflict broadening. 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.

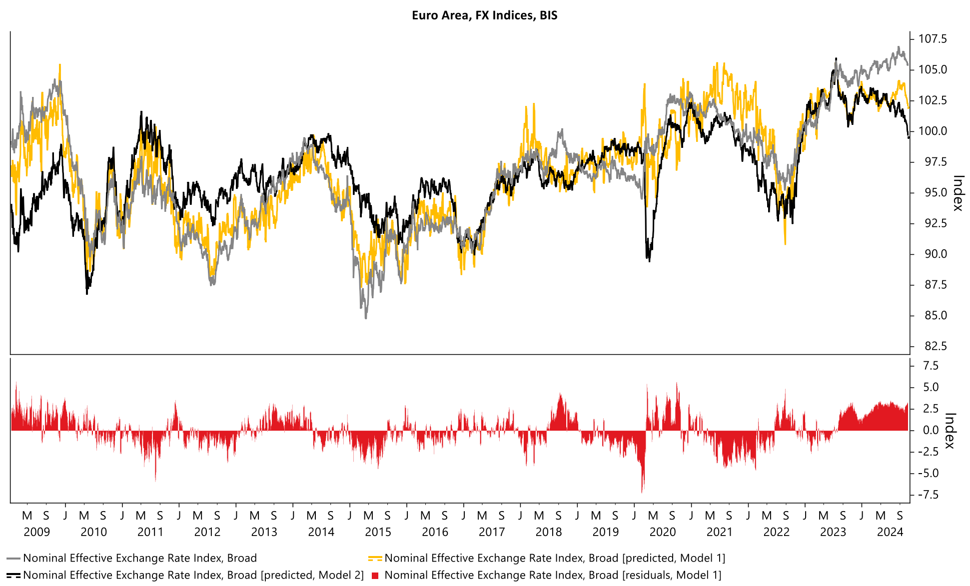
Key Data/Events: Oct F Mfg PMI (4 Nov), Oct F Svcs/Comp PMI, Sep PPI Inflation (6 Nov), Sep Retail Sales (7 Nov), Nov ZEW Survey Expectations (12 Nov), Sep Industrial Production (13 Nov), 3Q P GDP (14 Nov), Sep Trade Balance (18 Nov), **Sep** ECB Current Account, Occt F CPI Inflation (19 Nov), Sep Construction Output (20 Nov), Nov P Consumer Confidence (21 Nov), Nov P Mfg/Svcs/Comp PMI (22 Nov), Oct Money Supply, Nov Confidence Indices (28 Nov), Oct 1Y/3Y ECB CPI Expectations, Nov P CPI Inflation (29 Nov).

Yield Differentials Key Driver of EURUSD



Source: Bloomberg, Maybank FX Research & Strategy

EUR NEER Marginally Overvalued Compared to Model-Implied



Source: Macrobond, Maybank FX Research & Strategy

GBP: Eyes on UK Budget

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

No Change to Previous Forecasts

Motivation: We maintain our GBPUSD forecasts amid the pullback caused by broad USD-strength. As we earlier suggested, GBP outperformance has indeed tapered amid hawkish recalibration of Fed rate cuts and support for the USD from the US elections. The UK Autumn budget due later today is also a risk event that presents two way-risks for the pair. Nevertheless, we do maintain our base case outlook of a weaker USD as the Fed eases. Our economics team 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 1.2908 to 1.3389 range in Oct, lower than the 1.3002 to 1.3434 range in Sep. YTD, GBP remains best performing G10 currency (+2.18% as at 30 Oct 2024) and is the only G10 currency still up against the USD. GBP is the second best performer (behind the MYR) in our SGDNEER basket. As we suggested, GBP outperformance has certainly tapered and come off from previous highs. BOE rate cut expectations have adjusted more dovish, while Fed rate cut expectations have become more hawkish. At current levels, risks are largely two-way with multiple key events in Nov. Pair is currently stretched to the downside as well, which provides for favourable conditions for a reversal. We retain our view of GBP appreciation in the longer term, despite the current deviation from our forecasts.

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%). Aug monthly GDP was 0.2% MoM (exp: 0.2%; prev: 0.0%) and 0.2% 3M/3M (exp: 0.3%; prev: 0.3%). 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 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.

Sep CPI inflation print showed that the broad disinflationary trajectory was intact. Headline CPI inflation fell to 1.7% YoY (exp: 1.9%; prev: 2.2%), while core CPI inflation was lower at 3.2% YoY (exp: 3.4%; prev: 3.6%). Services inflation fell to 4.9% YoY (exp: 5.2%; prev: 5.6%). Sequentially, headline inflation was flat at +0.0% MoM (exp: 0.1%; prev: 0.3%). This should provide the BOE with confidence to cut rates at the upcoming 7 Nov meeting.

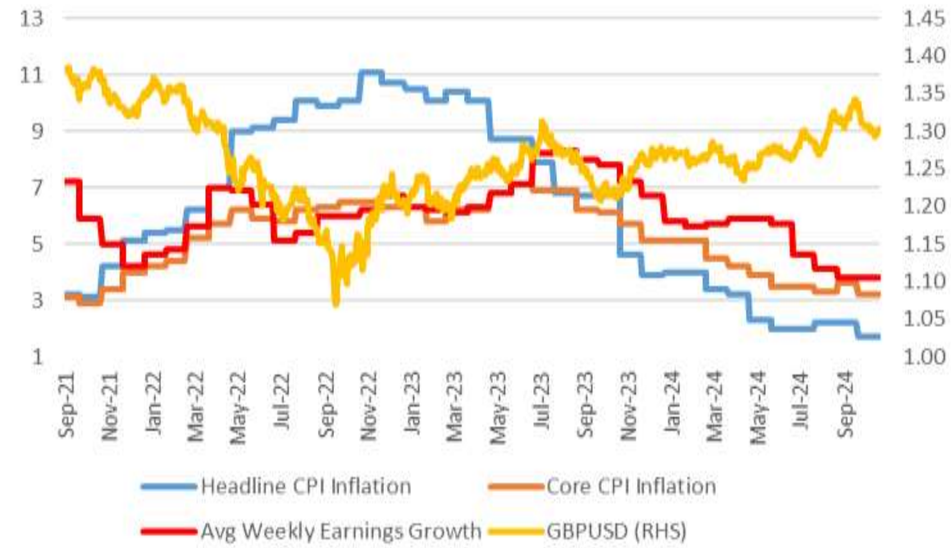
BOE stood pat on 19 Sep at 5.00% (prev: 5.00%). Vote split was 8-1 in favour of standing pat vs cutting rates by 25bps. Dhingra was the sole dissenter who voted for a 25bps cut. New member Taylor turned out less dovish than we expected. As we mentioned the disinflationary trajectory could be bumpy. The statement contains language that suggests that rate cuts could be gradual and measured if inflation remains a risk. As we suggested, the latest inflation prints are more supportive of cuts. **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.** Market pricing is slightly more hawkish at 38bps of cuts in 2024. **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. In comparison to the budget disaster of the Truss era in 2022, markets appear to be relatively calm. Key issues will be fiscal discipline, tax regime changes and growth objectives. Labour manifesto emphasized a balance between prioritizing investment and rebuilding public finances. Chancellor Reeves said that Labour would look to redefine public debt. She also preliminarily provided assurances that there would be no "return to austerity". GBP is the only G10 currency to hold on to its gains against the USD YTD and 22 Oct CFTC data suggests a bullish bias remains with net-long positions on GBP the highest among G10 currencies. There could be some preliminary positioning for a GBP positive budget with GBPUSD up 0.33% overnight and remaining above the 1.30 handle this morning. Risks for the GBP will remain two-way, even if the budget delivers on expectations with the US elections, and both a Fed and BOE decision looming next week. **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.

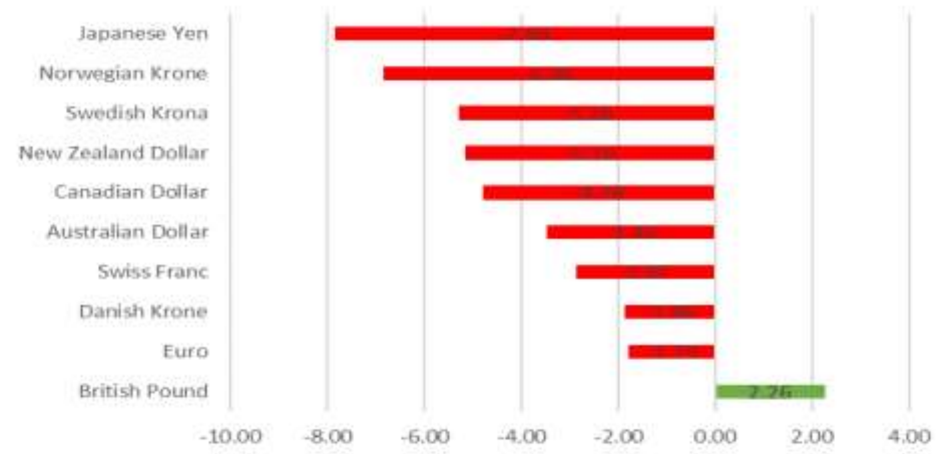
Key data/events: Oct F Mfg PMI (1 Nov), Oct Official Reserves Changes, Oct F Svcs/Comp PMI (5 Nov), Oct Construction PMI (6 Nov), **BOE Policy Decision,** Oct 3M Output/1Y CPI Expectations (7 Nov), REC UK Jobs Report (8 Nov), Sep Avg Weekly Earnings, Sep ILO Unemployment, Oct Claimant Count/Jobless Claims (12 Nov), Oct RICS House Price Balance , Sep Monthly GDP, Sep Industrial/Manufacturing Production, Sep Trade Balance, 3QP GDP (14 Nov), Oct CPI/RPI/PPI Inflation (20 Nov), Oct Public Sector Finances (21 Nov), Nov P Mfg/Svcs/Comp PMI (22 Nov), Oct Mortgage Approvals, Oct Money Supply (29 Nov).

Wages and Inflation Further Abate



Source: Bloomberg, Maybank FX Research & Strategy

Among G10 FX Only the GBP Has Appreciated Against the USD YTD



Source: Bloomberg, Maybank FX Research & Strategy

CHF: Preference for Weakness

	4Q 2024	1Q 2025	2Q 2025	3Q 2025
USD/CHF	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 and given that the SNB has shown a clear bias for a weaker CHF. Our economics team 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 0.8432 to 0.8700 range in Oct, higher than the 0.8375 to 0.8550 range in Sep. This happened against the backdrop of a broadly stronger USD amid a hawkish recalibration of Fed rate cut expectations. 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 +1.4% 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. Sep CPI inflation printed at 0.8% YoY (exp: 1.0%; prev: 1.1%) and was sequentially lower at -0.3% MoM (exp: -0.1%; prev: 0.0%). Core CPI inflation edged lower to 1.0% YoY (exp: 1.1%; prev: 1.1%). 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 of 25bps from the SNB in 2024. We now see up to 50bps of cuts for SNB in 2025. Market is currently pricing in about 71bps of cuts for SNB up till Jun 2025 after the SNB's very dovish rate cut on 26 Sep.

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 with regards to the surprise cut in Dec 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. This was further corroborated by new President Martin Schlegal who said "Our main instrument is the policy rate – but we're not excluding to be active on FX markets".

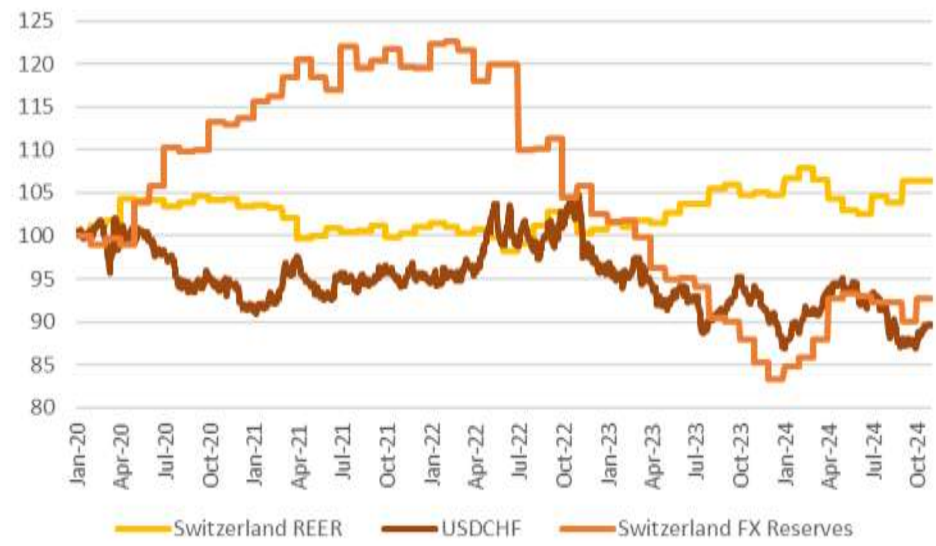
While the SNB is unlikely to be as interventionist as India in its management of the CHF, we do keenly observe for signs of SNB intervention to weaken the CHF. Given that inflation appears to be coming off and the downside risks to growth, we cannot rule out

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. Sep FX reserves edged lower to CHF715.6b (prev: CHF693.9b), while sight deposits have been broadly stable and were last seen at CHF457.4b (prev: 462.3b). We think that given the prevailing sentiment, CHF should be broadly stable before appreciating slightly against the USD in the quarters ahead.

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.

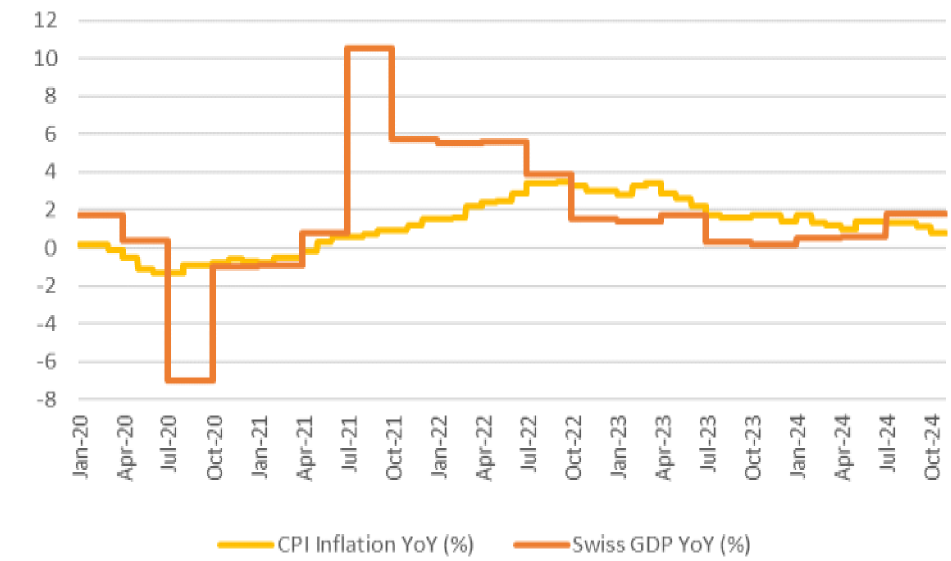
Key Data/Events: Oct CPI Inflation, Oct Mfg/Svcs PMI (1 Nov), Oct Unemployment Rate (5 Oct), Oct FX Reserves (7 Sep), Oct Producer and Import Prices, 3QP GDP (15 Nov), 3Q Industrial Output (18 Nov), Oct Exports/Imports (19 Nov), Oct Money Supply (21 Nov), Nov UBS Survey Expectations (27 Nov), 3Q GDP, Nov KOF Leading Indicator (29 Nov).

Swiss REER Remains Elevated (Base = Jan 2020)



Source: Bloomberg, Maybank FX Research & Strategy

Growth Tepid and Inflation Falling Further



Source: Bloomberg, Maybank FX Research & Strategy

AUD: Easing to begin only in 2025

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

No Change to Previous Forecasts

Motivation: AUDUSD was knocked off its high right at the start of the Oct and AUDUSD continued to extend declines to levels around 0.6600. The fall in AUD against the USD was due to a number of factors – 1) the rate re-pricing that favoured the USD in light of stronger US data and potentially fewer rate cut; 2) rising term premium amid concerns on US' fiscal trajectory as the US elections near, 3) concomitant risk aversion to a certain extent, 4) fading optimism over China's stimulus despite multiple press announcements and stimulus. Into Nov, we are confronted with the potential volatility that the US elections could bring, we will also have China's National People's Congress standing committee meeting that last from 4-8 Nov as well as the Fed decision and Powell's presser. Any hint of a pause for the Dec Fed decision would probably spur further hawkish repricing.

Impact of the US election outcome. A Trump win could potentially be negative for AUD. An escalation of a US-China trade war should Trump win would put Australia back in an awkward position. The 60% tariff on China would have negative spillovers on Australia. China's fall in exports receipts could rippling effects on its national income and demand for Australia's natural resources. Diversion of Chinese goods away from the US to other parts of the world may also produce a deflationary shock that could be negative to the AUD. On the other hand, Vice President Kamala Harris has not shown any inclination towards tariff policies. Kamala Harris may focus on furthering the progressive agenda at home rather than efforts to further tighten restrictions on China. As such, a Harris win is likely the more benign outcome for global growth and the AUD. On top of that, the potential for China's economy to surpass growth expectations is a scenario that is likely not priced and that is also AUD-positive.

We no longer look for the RBA to cut in 2024 and now expect an accumulative 75bps cut for 2025. The case for RBA to keep cash target rate unchanged for the rest of 2024 is due to the low unemployment rate. Jobless rate has fallen back to 4.1% for Sep vs. 4.2% in the month prior. In the Sep NAB business survey, wage costs remain a top issue affecting business confidence. Labour availability remains a significant constraint, according to the NAB business survey. Based on the tight labour market, less negative business confidence, resilient retail sales (+0.7%m/m in Aug), the chance for a rate cut has reduced this year. That said, the economy still looks like it is slowing with household spending softening to no growth in Aug from previous +0.8%. Year-on-year, household spending decelerated to 1.7% from previous 2.4% (revised lower). We are looking for RBA to begin easing only from Feb 2025.

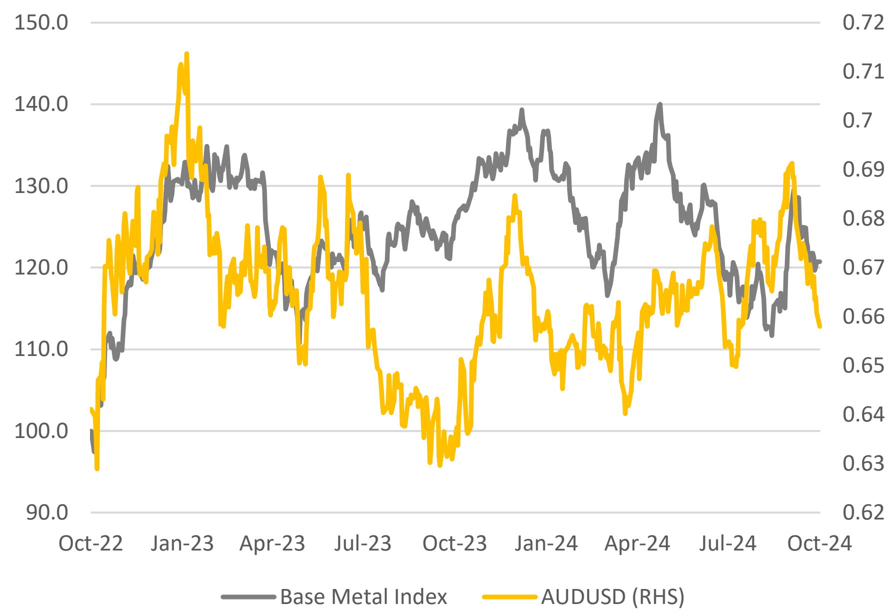
Inflation slowing gradually. However, Aug inflation eased towards 2.7%y/y from previous 3.5% and the RBA did warn that this could be temporary and distorted by cost-of-living subsidies, especially for electricity. However, trimmed mean CPI also slowed to 3.4%y/y versus previous 3.8%. This is a tad below the Aug SoMP projection of 3.5% for Dec 2024, albeit still close. It takes a major downside surprise for markets to price in a rate cut by the end of the year. The household spending has started to ease quite considerably. RBA is more likely to allow softening domestic demand conditions to continue to work its way into inflation and the labour market before starting to ease. RBA Bullock has mentioned that there is little need for RBA to cut in tandem with the other major central bank as labour market at home is stronger and monetary policy setting is less restrictive than other central banks.

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, especially if the government manages to stabilize the housing sector. At the World Bank conference held in Washington DC, Vice FinMin Liao Min had emphasized that the recent measures are meant to stimulate overall social investment and consumption, thereby increasing effective market demand.

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 further.

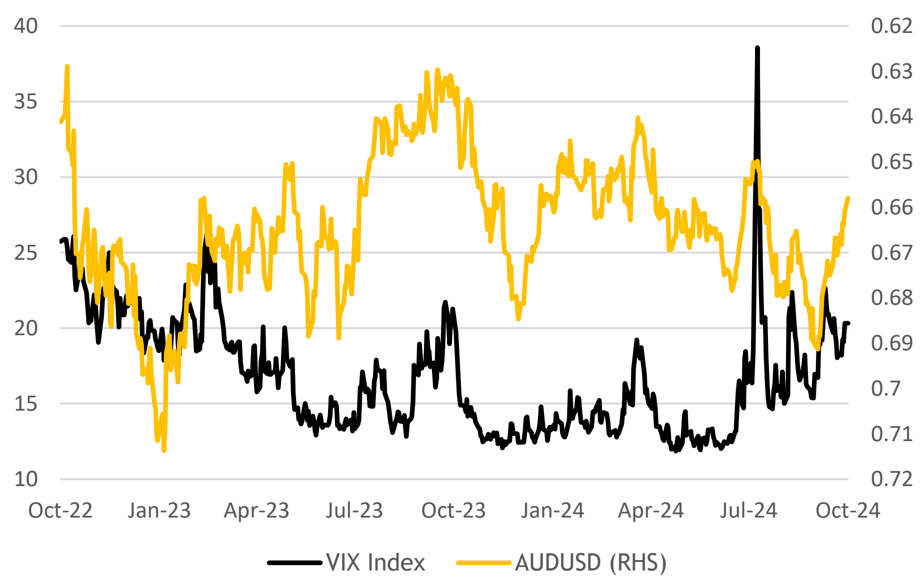
Key Data/Events: Oct Mfg PMI, Sep household spending, 3Q PPI, Sep home loans [1 Nov]; Oct M-I inflation gauge [4 Nov]; RBA policy decision and SoMP, Oct Service PMI [5 Nov]; Sep trade [7 Nov]; Nov Westpac consumer confidence, NAB business survey [12 Nov]; 3Q wage price index [13 Nov]; Nov consumer inflation expectation [14 Nov]; Oct labour [14 Nov]; Minutes of RBA Nov. Policy meeting [19 Nov], Oct Westpac leading index [20 Nov]; Prelim. Mfg, Services PMI for Nov [22 Nov], Oct CPI [27 Nov]; 3Q CAPEX [28 Nov].

Pullback of Base Metals Add Pressure on the AUD



Source: Bloomberg, Maybank FX Research & Strategy

Periods of Volatility Tend to See AUD Weakness



Source: Bloomberg, Maybank FX Research & Strategy

NZD: RBNZ To Cut Another 50bps

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

No Change to Previous Forecasts

Motivation: NZD slipped 6.6% against the USD from its 2024 high of 0.6379. Our caution that there could be volatility due to US elections and tentative growth fragility seem to have panned out. The outcome of the US elections could be binary. The move from levels around 0.6380 to levels around 0.5970 as we write (28 Oct) was spurred by 1) US rates repricing as US data surprised to the stronger side; 2) return of volatility due to US elections and concerns on the US debt trajectory that raises the term premium and UST yields; 3) fading optimism over China's stimulus effects on its economy. There is a confluence of volatility in Oct. Such weakness could reverse if Vice President Kamala Harris were to become the US next President. Tentative noise and volatility could fade and a more constructive environment were to emerge. We are more constructive on the NZDUSD in the medium-term as we look for most central banks to ease and plausible global recovery to support the NZDUSD on dips.

We expect RBNZ to take the OCR lower by another 50bps to 4.25% at the Nov policy meeting. That will be the final policy decision for the year. In a recent QnA, Governor Orr mentioned that the central bank can afford to be "more incremental" on the way down because of "calmer waters" and "lingering inflation persistence on the domestic side". This seems to be perceived as a pushback against expectations for a bigger rate cut of 75bps and instead, RBNZ could maintain a relatively more "incremental" pace of 50bps cut at every meeting. Non-tradeable CPI had been rather sticky at 1.3%q/q for 3Q vs. previous 0.9% (in line with consensus) while tradeable CPI fell -0.2%q/q vs. previous -0.5%. This is in line with what Governor Orr has cautioned and backs his guidance that the OCR would remain restrictive "over coming quarter". So while there are still domestic cost pressures, demand has been weakening as well - net migration estimate has fallen to 1840 in Aug from previous 3000, consumer confidence slipped 4.1% in Sep based on ANZ survey. Retail card spending experienced virtually no growth in Sep as well. So with growth at risk of further deterioration, RBNZ may continue to take the OCR another 50bps lower this month. The first meeting in 2025 will be held in Feb.

Since the last RBNZ meeting, markets have been veering towards a more aggressive easing trajectory before paring its expectations a tad more recently. At one point, OIS implied rates suggest markets expectations for -65bps cut on 27 Nov. This also implies 60% probability of a 75bps rate cut at the meeting. Since then, it has pared to around -56bps cut implied after Orr's comments. To be clear, RBNZ is one of the few central banks in the world that has inflation as its sole mandate. As such, the pace of rate actions could also be asymmetrical where RBNZ would hesitate less to make a bigger move on the way up. That said, it would be a mistake to perceive RBNZ as less sensitive to the labour market and output. RBNZ noted that the economy is in "excess capacity". The recent rate action of a 50bps cut (instead of a 25bps cut) is "most consistent with the mandate of maintaining low and stable inflation while seeking to avoid unnecessary instability in output, employment, interest rates and the exchange rate". The statement even pointed out that the short-term market pricing is consistent with this decision. On 9th Oct, OIS looked for another 50bps cut in Nov and around 33bps cut in Feb. OCR to be around 3.00% by Aug 2025. We look for RBNZ to take OCR down by another 100bps in the 1H 2025 to 2.75% over three meetings.

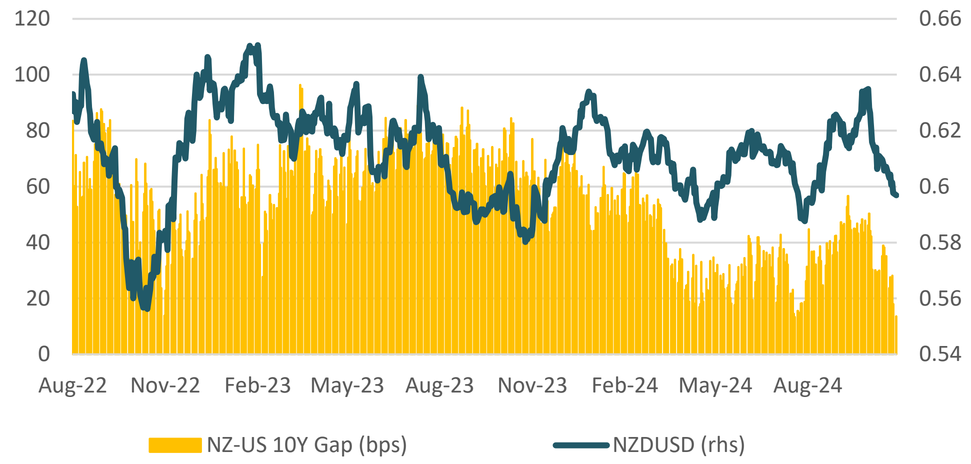
Market implied policy rates suggest that investors had somewhat priced in a rather aggressive RBNZ already. This is made possible because of lower inflation. Headline CPI has already slipped within the 1-3% target band, last at 2.2% for 3Q. This could also allow RBNZ to potentially support growth and employment. With such an aggressive positioning for RBNZ to ease, there is a possibility that NZD may rebound in an environment of stronger growth environment (US, China and Eurozone), lower UST yields as markets start unwinding the term premium that arose ahead of the US elections. Any sign of a stronger data from home could lift the NZD.

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.

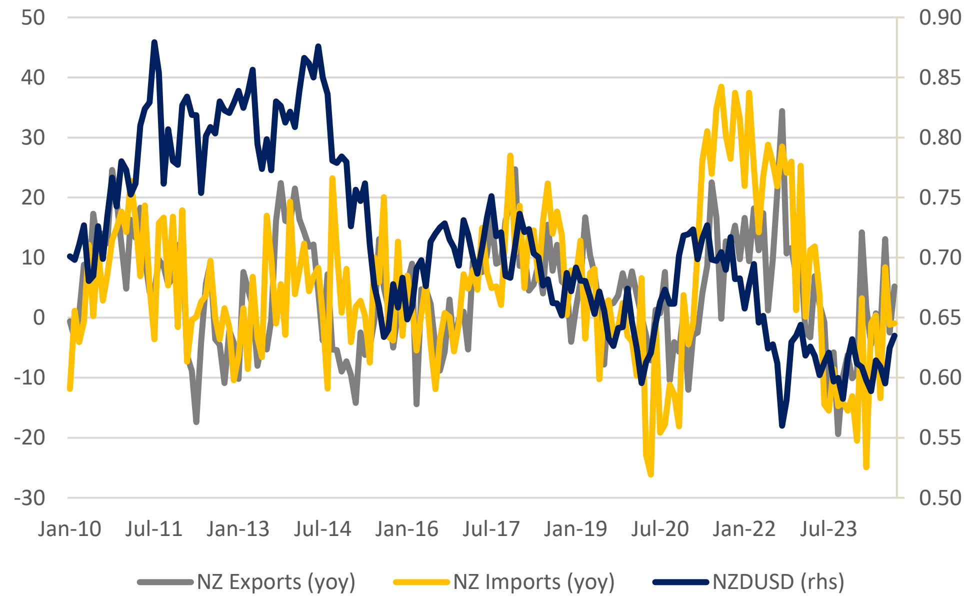
Risks: 1) Any unexpected headwinds for major economies (China, US, Eurozone) that cause a sharper than expected global recession is negative for the NZD via the sentiment as well as the trade channel. 2)A Trump victory is seen positive for USD, potentially raising term premium for UST curve and negative for trade. Greater volatility would ensue given his temperament and NZD could remain under pressure. 3) 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: Sep Building permits (1 Nov), Oct ANZ Commodity Price (5 Nov), 3Q labour report (6 Nov), Oct REINZ house sales (10-14 Nov), 2Y inflation for 4Q (11 Nov), Oct card spending (12 Nov), Sep net migration (13 Nov), food prices for Oct (14 Nov), Oct businessNZ Mfg PMI (15 Nov), Oct performance services index (18 Nov), 3Q retail sales ex inflation and trade (25 Nov), RBNZ policy decision (27 Nov), Nov ANZ Activity outlook (28 Nov), ANZ consumer confidence for Nov (29 Nov).

NZ-US 10y Differential Continues to Drive the NZDUSD



Improvement in NZ Trade Tends to Lift NZD



Source: Bloomberg, Maybank FX Research & Strategy

CAD: Frontloading Cuts to Stimulate Demand

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

No Change to Previous Forecasts

Motivation: The outlook for the CAD remains a moderately bullish one, especially at see current levels. However, it is also highly dependent on the outcome of the US elections. A Trump victory is seen as more USD positive. At home, BoC had delivered a 50bps cut in Oct, in line with our expectations, taking the policy rate from 4.25% to 3.75%. We see a risk of another 50bps cut instead of our original view of a 25bps cut in Dec as BoC Governor Macklem noted that "we are back to low inflation" and there is a desire for pick-up in demand that can gradually absorb the excess supply in the economy. Moving on, markets are pricing in around 36bps cut for the 11 Dec meeting, implying 44% probability of a 50bps cut. For 2025, we look for 75bps cut to take policy rate to 2.50%. Effectively, we expect BoC to frontload easing.

US-CA yield differential Driven by the US leg. With only one policy meeting left for the year, we expect CAD to be less driven by domestic monetary policy and more by what is happening across the borders. The US-Ca rate differential has been driven primarily by the US treasuries and its effects on global yields. Term premium has risen amid concerns on the debt trajectory of the US post elections. While there is a growing narrative that the US debt trajectory is doomed for higher regardless of who wins, we suspect that a Harris Presidency would be much less devastating. There is a chance that Harris would take a more balanced approach in fiscal management. She wants to raise taxes on big corporates and high income earners whilst providing an expansion of child tax credits. On the other hand, Trump is focused on unleashing more tariffs on China and using the tariff revenue to finance tax cuts.

We now expect a 50bps cut for Dec by the BoC vs. 25bps 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 had been on the rise. BoC was vocal on being "comfortable with its policy divergence from the Fed" (comments on 26 Oct) and this signals comfort with a bigger cut in order to cheapen borrowing cost and support demand. In addition, BoC Macklem also voiced his concern that the sudden shift in Canada's immigration policy to lower population growth would have a negative impact on economic growth. That said, Macklem also mentioned that this shift requires close monitoring but there will be no immediate change to forecast.

BoC released its business and consumer survey just ahead of the policy decision. Inflation expectations are normalizing and few firms were planning to hire or invest in the face of weak demand. Business optimism is soft but improving. In another survey, wage growth fell for the first time since 2Q of 2023 and consumers' expectations of inflation also continued to decline.

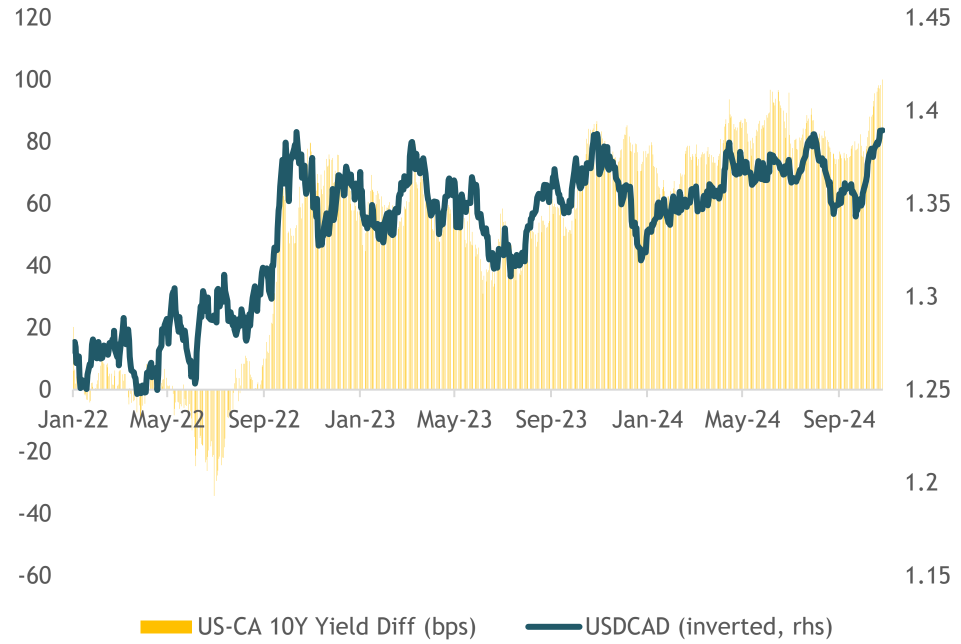
BoC used the phrase "Stick the Landing" again at the Oct policy decision. The central bank looks for GDP growth to quicken to 2.1% in 2025 from likely 1.2% this year. Inflation to slow to 2.0% in 2025 from likely 2.1% this year. These macro projections are based on the mid-point of the range of neutral nominal rate estimated to be around 2.25%-3.25% (mid-point around 2.75%) and the real neutral rate is the rate to which the policy rate would converge in the long run. We hold our view that the BoC could take the policy rate to 2.50% by the end of 2025.

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.

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. (4) A Trump victory could continue to support the USD.

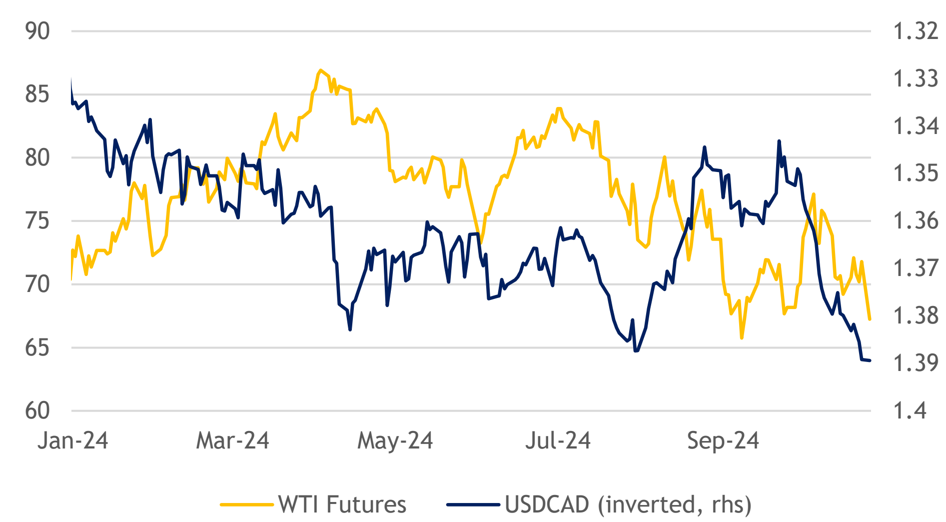
Key Data/Events: Sep Mfg PMI (1 Oct), Sep Services PMI (3 Oct), Sep Ivey Purchasing Mangers (4 Oct), Aug trade (8 Oct), Sep labour report, Boc 3Q business outlook future sales and outlook survey (11 Oct), Seo CPI (15 Oct), Sep housing starts, Aug mfg sales (16 Oct), Sep industrial product price (22 Oct),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

USDCAD is Swung Higher Because of Higher UST Yields



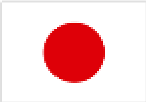
Source: Bloomberg, Maybank FX Research & Strategy

CAD is more Sensitive to Oil Price Declines than Gains



Source: Bloomberg, Maybank FX Research & Strategy

JPY: Near Term Challenges, Reflation Mode Intact



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

No Change to Previous Forecasts

Motivation: We hold to our USDJPY forecast given our expectations that a global easing cycle remains intact whilst the BOJ is also likely to continue on a tightening trend. This should help allow for the US – JP rate differentials to narrow more in favour of the JPY. Our economics team sees that the Fed should cut rates by another 50bps for the remainder of this year and by another 100bps next year. Domestic economic data meanwhile should be supportive for the BOJ to raise rates as wage growth can help inflation hold sustainably at around the target levels over time. We see that the BOJ is likely to raise rates by 25bps in Dec and by another 50bps in 2025, which should bring it up from 0.25% to 1.00%. Meanwhile, on the political front, the Japanese election sawno party able to win a majority although we expect the LDP would still be able to form the government. Ishiba who may stay on as PM could adopt a looser monetary and fiscal policy although he is unlikely to fully pursue an approach akin to Abenomics. Therefore, we do not think at this point that the political conditions would change our view on the BOJ’s tightening path. Near term, we expect USDJPY volatility to build up to the US election where the race is close and there is much uncertainty on the outcome. However, jawboning from Japanese officials and concerns about the possibility of intervention can limit the upside. Policy uncertainty from the US election outcome itself does pose a risk to our view although it is not clear if the candidates would be able to effectively roll out all their proposed policies. Other risks meanwhile include a delayed pace of Fed easing or Japanese economic data softening significantly, resulting in the BOJ holding back on rate hikes.

We expect the BOJ to hold rates at the Oct meeting at 0.25% but we continue to believe that they would hike rates in Dec by 25bps. Ueda looks to have given hints of no move in Oct as he mentioned that they have “enough time” for making a policy decision. Despite his words, we see that the BOJ would move in Dec 2024 given that they would have sufficient wage and inflation data by then. Inflation should hold up towards year end as wage growth can support demand driven price pressures. Ongoing concerns on the JPY weakness may also push them to hike in Dec 2024, especially as they are unlikely to do so in Oct. Dec is also a quieter month for markets (given seasonal holidays and the completion of US elections) and therefore, they may also choose to move then if they intend to avoid the risk of any heightened market volatility. Into 2025, we expect the BOJ to hike by another 50bps to 1.00% as the virtuous wage-price cycle continues to become more entrenched. We do note that if there is heightened volatility in markets from any extended US or domestic political uncertainty, our forecast of Dec 2024 hike maybe skewed to a later date. Regardless, we still expect rates to be at 1.00% by end 2025.

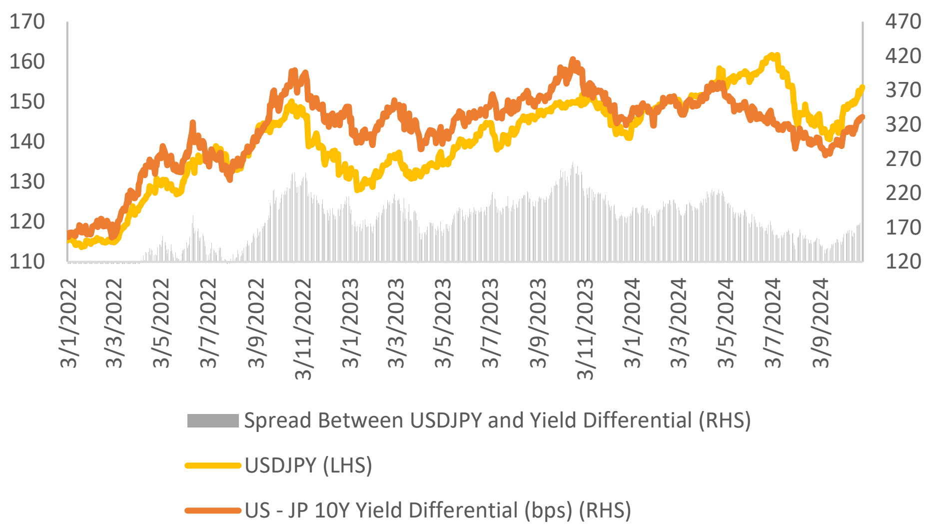
Economic data over the last month highlighted little concern about any derailing of a BOJ tightening path even amid some blips. Sep headline inflation was softer at 2.5% YoY (est. 2.5% YoY, Aug. 3.0% YoY) although core core inflation actually continued to hold up at 2.1% YoY (est. 2.0% YoY, Aug. 2.0% YoY). The softening in the headline number is likely just transitory as temporary utility subsidies came into effect. Headline inflation should again pick-up towards year end once the utility subsidies period is over and core inflation should hold up too. Also, we believe that wage growth can remain sustainable and keep supporting demand driven increase in price. Aug real wage growth was negative at -0.6% YoY (est. -0.5% YoY, Jul. 0.3% YoY) but the number had been positive in the prior two months and an upward trend on wage growth still looks intact. 3Q Tankan readings also pointed to resiliency in the economy as it indicated corporate sentiment manage to still hold up (large mfg index. 13 (13), large mfg outlook. 14 (14), large non-mfg index. 34 (33), large non-mfg outlook. 28 (27) - prior quarters in brackets). There was also indication that corporate inflation expectations are well anchored at around the BOJ’s 2% target. However, into 4Q 2024, there are some economic concerns as the Oct P PMI number were all weaker than the prior month (PMI mfg. 49.0 (49.7), PMI services. 49.3 (53.1) – prior month’s numbers in brackets). For now though, we continue to observe how that data evolves.

The Japanese general election (27 Oct 2024) saw the LDP and its ally Komeito unable to win majority, muddling the path for monetary policy. The LDP and Komeito won 215 seats whilst the opposition parties including CDP bagged 235. At this point, the political situation remains uncertain as the various parties jostle on the government formation. The major concerns associated with this political situation is whether it would muddle the path for monetary policy as the various parties may push for looser monetary and fiscal policies in order to win support. We do though believe the LDP can still form the government whether it be majority or minority. The LDP may be able to be in coalition or form a partnership with other parties – possibly Innovation or DPFP. Ishiba we see is also likely to stay on as PM and whilst he could adopt a looser monetary and fiscal policy, he is unlikely to fully pursue an approach akin to Abenomics. Therefore, we do not think at this point that the political conditions would change our view on the BOJ's tightening path. Ishiba himself has also recently indicated that he would continue as PM as he commented that "national policies cannot stagnate for even one moment".

Risks Ahead: This includes persistently high market volatility, disappointing Japanese data or local political uncertainties, delaying BOJ tightening. US data trending too strongly still, slowing the pace of Fed easing is also another risk that can weigh on the JPY. Other risks would be policy uncertainty arising from a Trump win and guiding higher UST yields.

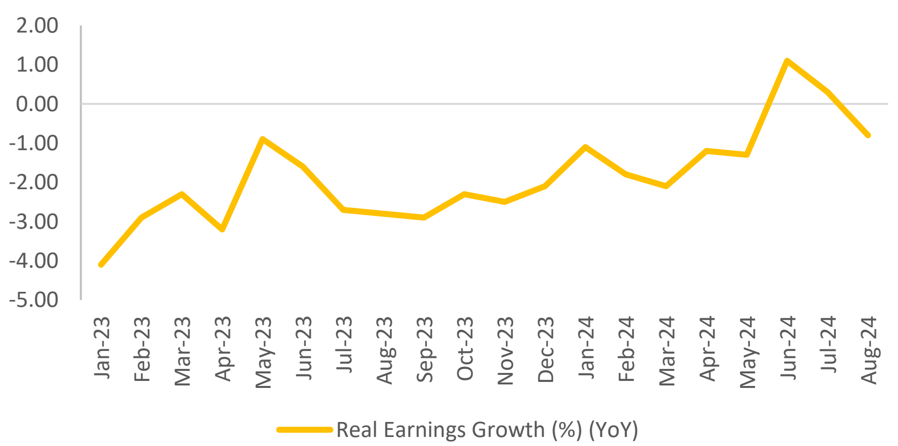
Key Data/Events: Sep labor cash earnings (7 Nov), Sep household spending (8 Nov), Sep P leading/coincident index (8 Nov), Sep BoP CA balance/trade balance (11 Nov), Oct bank lending (11 Nov), Oct eco watchers survey (11 Nov), Oct P machine tool orders (12 Nov), Oct PPI (13 Nov), 3Q P GDP (15 Nov), Sep tertiary industry index (15 Nov), Sep capacity utilization (15 Nov), Sep core machine orders (18 Nov), Oct nationwide dept sale (18 – 25 Nov), Tokyo dept store sales (18 – 22 Nov), Oct trade data (20 Nov), Oct CPI (22 Nov), Nov P Jibun Bank PMIs (22 Nov), Oct PPI services (26 Nov), Oct jobless rate and job-to-applicant ratio (29 Nov), Nov Tokyo CPI (29 Nov), Oct retail sales (29 Nov), Oct dept store, supermarket sales (29 Nov), Oct P IP (29 Nov), Oct housing starts (29 Nov), Nov consumer confidence index (29 Nov).

<u>**Yield Differentials Remain the Main Driver for USDJPY Movements**</u>



Source: Bloomberg, Maybank FX Research & Strategy

<u>**Despite Blips, Real Earnings Growth Can Keep Improving, Supporting a Virtuous Wage-Price Cycle becoming Entrenched**</u>



Source: Macrobond, Maybank FX Research & Strategy

RMB: Will the Surge in Capital Inflow Continue?

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

No Change to Previous Forecasts

Motivation: The bullish reversal of the USDCNY was swift and drastic on the back of three factors 1) the rate repricing of the Fed as US data turned out to be stronger than expected, boosting the USD, 2) the pricing of a Trump victory that is likely to be negative for the yuan, 3) the fading optimism over China's stimulus barrage. The NPC Standing Committee meeting will be held between 4-8 Nov. The government was explicit about taking the into account the outcome of the US elections. The Ministry of Finance had hinted about a larger fiscal deficit and that plenty of measures may be in the process of legislative approvals. So details are highly anticipated with the elusive fiscal spending bill expected to be released. We look for a CNY10trn fiscal stimulus bill for the next financial year. PBoC is not expected to ease further for the rest of the year. Outright reverse repo was added to PBoC policy tool and there will be monthly outright reverse repo conducted with primary dealers.

Recall the numerous measures that were announced over a number of briefings. 24th Sep brought the (50bps) RRR cuts and cuts across multiple interest rates (MLF, LPRs, 14 Day reverse repo, 7-Day reverse repo, SLF). 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 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.

MOF Briefing: To enable local government to purchase housing, undeveloped land using special bonds.

State Administration for Financial Regulation: To include more housing projects in the so-called "white list" and optimize the funding towards these projects to speed up completion. Banks and real estate developers can issue loans in advance to these companies. Total loan amount approved for these white-listed projects could exceed CNY4trn vs. CNY2.23trn as of 16 Oct. There is also a plan to redevelop 1 million urban village homes. The Housing Ministry said that the Oct data would show improvement in housing data.

The Surge in Capital Inflow for Sep. The ratio of FX settlement by bank customers to foreign-related FX receipts was up 7.9ppt to 70.1% in Sep. Customers are converting a greater proportion of their forex receipts into CNY compared to the Jan-Aug average of 60%. The ratio of FX sales (to bank customers) to their forex payment was stable around 67.5% vs the Jan-Aug average of around 68.9%. As a result, the net forex purchase from clients by Chinese banks shot up to CNY321.1bn in the last month vs. CNY6.5bn in Aug, underscoring a surge in conversion of forex receipts into yuan. This net FX sales surplus is a turnaround compared the Jan-Aug average of CNY1.48trn deficit. However, it is unclear whether this can be sustained. A lot of the optimism in the yuan and equities have faded to some extent based on Oct price action. **This may be reflected in the Oct SAFE data due in Nov.**

The USDCNY will take the directional cue from the USD. 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. Investors are likely to take a more cautious stance with regards to future stimulus measures and gains for currency could gather pace only if data confirms that the economy has clearly bottoms out.

US Election Risks. 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.

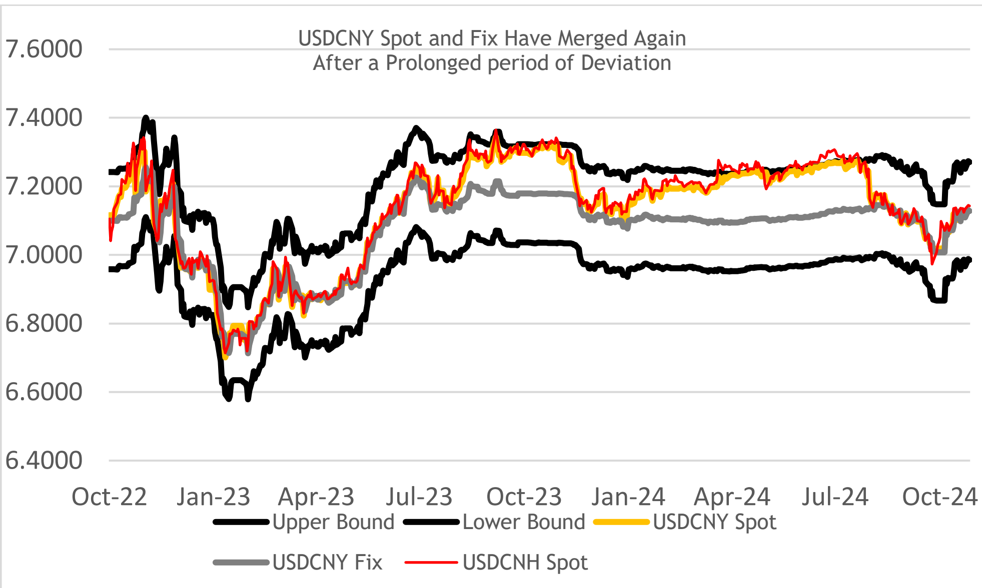
Risks: Some of the risks we identified in the past that continue to pan out to some extent. 1) Prices of new and used homes continue to fall In Aug. 2) Capital outflow could resume if the government fails to stimulate domestic demand, stabilize the housing sector and improve the outlook for Chinese assets and the economy. 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.

Key Data/Events: Caixin Oct Mfg PMI [1 Nov], Caixin Oct Services PMI [5 Nov], Oct trade and foreign reserves [7 Nov], 3Q prelim. current account [8 Nov], Oct CPI, PPI [9 Nov], money supply, new yuan loans and aggregate financing [9-15 Nov], Oct FDI [11-18 Nov], Oct new home prices, used home prices, IP, retail sales, property sales. Investment, surveyed jobless rate [15 Nov], Oct FX Net settlement on behalf of clients [15 Nov], 1Y MLF [15-25 Nov], 1Y, 5Y LPR [20 Nov], SWIFT global payments [Oct], Oct industrial profits [27 Nov], Nov Mfg, non-Mfg PMI [30 Nov].

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: Looking for a Rate Cut

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

No Change to Previous Forecasts

Motivation: We maintain our USDKRW forecasts and continue to expect USD to come off. Our base case outlook sees the USD falling amid Fed rate cuts and fading US exceptionalism. Our economics team expects 50bps more of rate cuts in 2024 (prev: 25bps) and 125bps in 2025 (prev: 100bps). KRW is being pressured weaker alongside the JPY. 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. We think both the KRW and TWD can continue to play catch up to other Asian currencies, although we recognize some possible downside risks for semiconductors should tariffs come into play.

KRW has broadly weakened against the USD. 1M USDKRW NDF traded between 1313.94 to 1391.36 in Oct, higher than the 1300.67 to 1345.80 in Sep. YTD, KRW is the currency 2nd from the bottom in Asia (after JPY). Over the last month, KRW is the 3rd worst performing currency in Asia (behind the MYR and JPY). As we suggested, BOK remains concerned about KRW volatility, and although they may not explicitly mention it, are also concerned about 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 this is likely to be accounted for in their future decisions.

Economic growth in 3Q looks a tad underwhelming. 3QA GDP came in at 1.5% YoY (exp: 2.0%; prev: 2.3%) and 0.1% SA QoQ (exp: 0.4%; prev: -0.2%). This undershoot in growth comes after a small QoQ contraction in economic growth in 2Q likely due to base effects from a strong 1Q growth figure. Export momentum continues to be driven by demand for AI chips, and we expect further boosts to growth with the AI narrative remaining intact. Growth is expected to be healthy with consensus forecasts at 2.4% in 2024 and 2.1% in 2025.

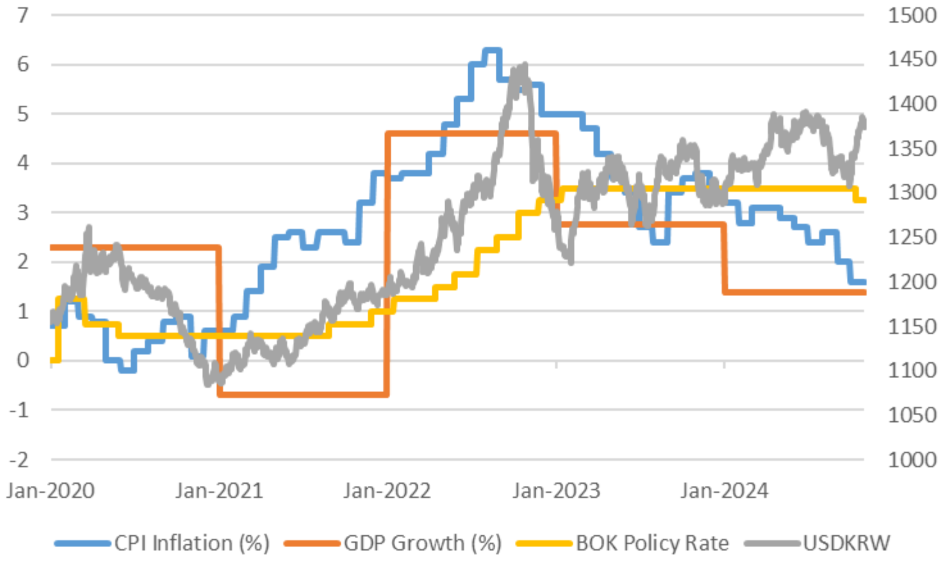
Sep prints showed that prices continued on a disinflationary trajectory with headline at 1.6% YoY (exp: 1.9%; prev: 2.0%) and core at 2.0% YoY (exp: 2.0%; prev: 2.1%). Taken together, growth and inflation prints imply that the BOK may consider cutting rates again in Nov. BOK cut rates in Oct as widely expected and is likely to continue to take cue from the Fed and other major central banks in determining when to cut rates. Currency weakness/volatility is an obvious concern for the BOK. Nevertheless, we think BOK may cut rates by a further 25bps in 2024 given the balance of risks with inflation coming off and downside risks/headwinds for growth. We pencil in 50bps of cuts in 2025.

The inclusion of Korea onto global bond benchmarks could spur USDKRW lower. South Korean government bonds will feature on FTSE Russell's WGBI in 2025, with a weighting of 2.22% in the index. We think that the resulting inflows should buoy the KRW with official (South Korean Finance Ministry) estimates of inflows at about US$56b. Extending KRW trading hours to improve access has seen average daily trading volumes in the extended hours almost double from Aug to US$2.46b (Aug: US$1.26b) in the first two weeks of Oct. Market chatter suggests that major conglomerates have traded during extended hours.

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. Military cooperation between Russia and North Korea in Ukraine is also viewed as a potential national security threat to South Korea.

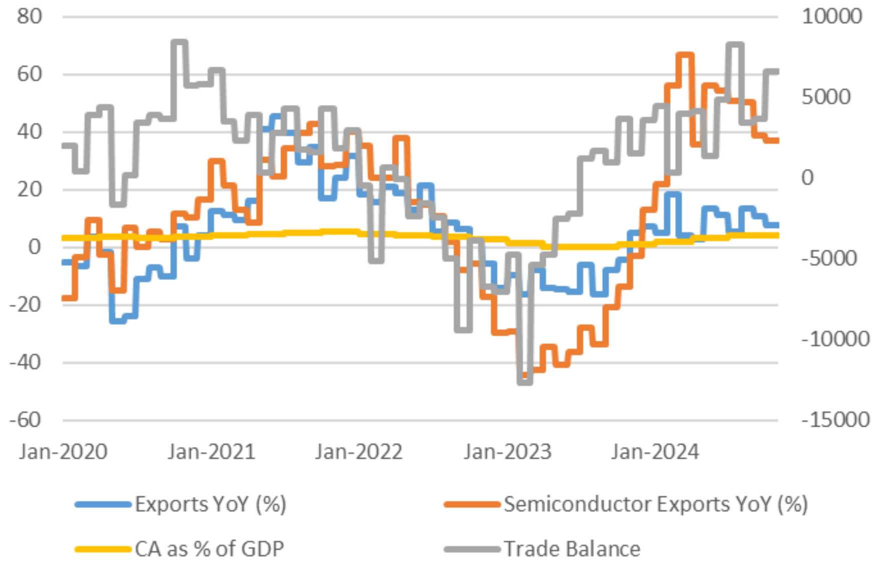
Key data/events: Oct Exports/Imports/Trade Balance, Oct Mfg PMI (1 Nov), Oct Foreign Reserves, Oct CPI Inflation (5 Nov), Sep BoP Goods/CA Balances (7 Nov), Sep Bank Lending to Household Total (9 to 16 Nov), Oct Import/Export Price Indices, Oct Unemployment Rate (13 Nov), Sep Money Supply (14 Nov), 3Q Household Credit (19 Nov), Oct PPI Inflation, 3Q Short-Term External Debt (20 Nov), Nov 20-days Exports/Imports (21 Nov), Oct retail Sales (25 to 29 Nov), Nov Consumer Confidence (26 Nov), Dec Business Survey Mfg/Non-Mfg (27 Nov), **BOK Policy Decision (28 Nov),** Oct Industrial Production, Cyclical Leading Index (29 Nov).

Disinflationary Trajectory Intact (Albeit Bumpy)



Source: Bloomberg, Maybank FX Research & Strategy

Trade Balance Ticks Up Despite Moderation in Semiconductor Exports



Source: Bloomberg, Maybank FX Research & Strategy

SGD: SGDNEER Outperformance Tapers

USD/SGD	4Q 2024	1Q 2025	2Q 2025	3Q 2025
	1.2750	1.2700	1.2700	1.2650
	(--)	(--)	(--)	(--)

No Change to Previous Forecasts

Motivation: We maintain our USDSGD forecasts and the trajectory for the pair to come off for the four quarters ahead. Our baseline scenario, factors a depreciation of the USD amid Fed easing, a global soft landing and the fading of US exceptionalism. 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. 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 Oct and continued to see its current appreciation of the SGDNEER as appropriate in ensuring medium term price stability. As we suggested, MAS has stood pat in 2024. Our economists maintain their inflation forecasts at 2.8% (core) and 2.6% (headline) in 2024. They pencil in a Jan 2025 easing by MAS although they do not rule out MAS delaying easing to Apr 2025 should economic growth remain robust or core inflation is sticky. 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 strength has tapered with the latest broad based strength in the USD and the index is at +1.42% above the mid-point on our model.

USDSGD traded within a 1.2831 to 1.3263 range in Oct, higher than the 1.2789 to 1.3099 range in Sep. SGDNEER remains relatively firm and averaged +1.69% deviation from mid-point in Oct, lower than the +1.97% average deviation in Sep. Singapore's robust macro fundamentals and unique exchange rate policy, which results in SG rates being highly correlated with US rates should continue to be supportive of the SGDNEER. We did suggest 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. It turns out that we were half-correct as SGDNEER strength tapers even as expectations of Fed rate cuts turn more hawkish. That is not at all surprising given the USD-bloc (USD and HKD) account for roughly a quarter of the basket. In addition, there has been a narrative floated that hedge funds could be using the SGD as proxy for US election bets. Asian currencies are expected to fair worse in the event of a Trump win and Depository Trust and Clearing Corporation (DTCC) data shows that recent reported trades near or over US$100m on USDSGD options have been calls. This is in line with the increase in the premium to purchase a USDSGD call option.

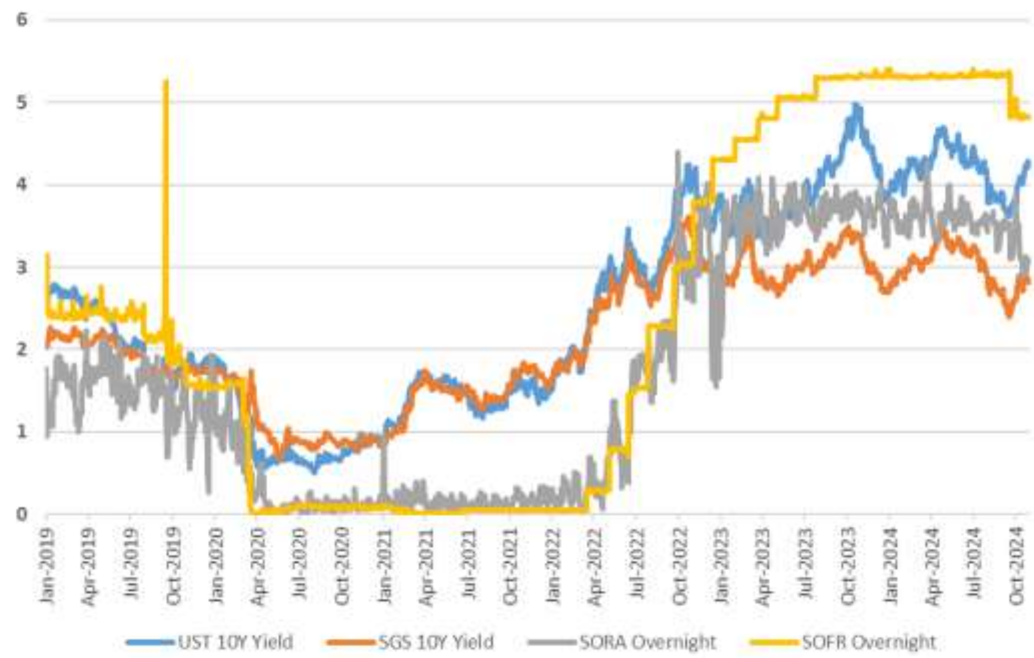
Actual growth and inflation prints have largely come in line with MAS' forecasts. MAS recognizes downside risks to growth however. Our economists upgraded their 2024 GDP forecasts to 3.5% (prev: 3.0%) above the MTI's 2% to 3% official estimate and 2025 GDP forecasts for Singapore to 2.5% (prev: 2.4%) after a manufacturing surge in Aug. A further pick up in manufacturing in Sep means our economists expect a 4.6% YoY (flash estimate: 4.1%) 3Q final figure, given that manufacturing was only assumed to be 1.3% YoY in MTI's flash estimate and this print takes output growth to 11% YoY. 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 2.8% in Sep (prev: 2.7%) highlighting the more sticky nature of the final legs of disinflation.** Our economists think that MAS' guidance of 2% by end-2024 looks ambitious and retain their forecasts for core inflation to average of 2.8% in 2024 and to end 2024 at 2.5%. The implication here is that MAS could opt to delay easing should core inflation remaining sticky and/or GDP growth remain robust.

Reserves have grown amid a strong SGDNEER. The amount of outstanding Reserve Management Government Securities (RMGS) was stable at S$273.2b in Sep (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. This is broadly similar to the declared net purchase of FX by MAS of US$25.1b in 1H2024. MAS purchased US$23.8b in 2H2023 and has consistently been purchasing since 2019, when the release of intervention operations first started. Stock of OFR in Sep (prelim) rose to US$389.8b (prev: US$384.6b).

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. Risks to the global growth outlook could also weigh heavily on Singapore's growth prospects and in turn weigh on the SGD.

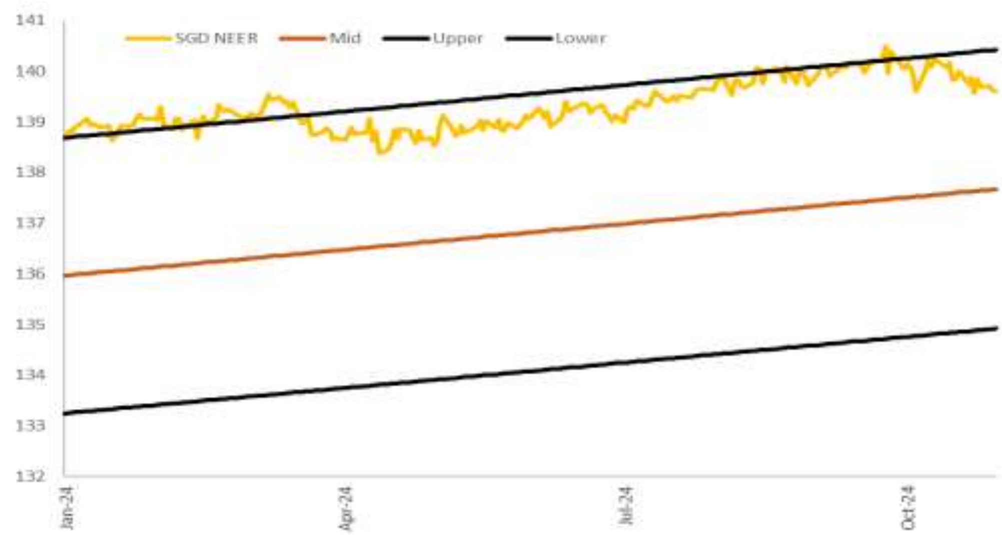
Key data/events: Oct PMI/ESI (2 Nov), Oct Global PMI, Sep Retail Sales (5 Nov), Oct Foreign Reserves (7 Nov), Oct Electronics Exports/NODX (18 Sep), 3Q F GDP (21 to 25 Nov), Oct CPI Inflation (25 Nov), Oct Industrial Production (26 Nov), Oct Money Supply (30 Nov).

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



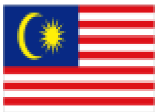
Source: Bloomberg, Maybank FX Research & Strategy

SGDNEER Outperformance Tapers, SGDNEER Remains Elevated



Source: Bloomberg, Maybank FX Research & Strategy

MYR: Resilience Amid US-China & Fed Path Uncertainties



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

No Change to Previous Forecasts

Motivation: Following the broad USD decline in Sep due to the Fed's Sep 50bps rate cut and China's fiscal/monetary measures, USD strength emerged in Oct as concerns about the Fed easing pace picked up amid resilient US labour market and inflation data as well as underwhelming China fiscal stimulus actions since Sep. USDMYR has depreciated around 4% in Oct, slightly more than the 3% appreciation in the USD DXY index. The moves in the USD and CNY we believe may have overshot. We maintain our forecast for now as 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 and aftermath of the US elections. The results from the US elections may see some retracement in the USD if a Harris presidency emerges, the latter of which is assumed in our baseline view. Our forecast also has priced in the baseline Fed policy assumption 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. Second, developments outside of the US, in particular the fiscal stimulus announcements out of China that span across monetary policy, property, equity market cohorts and local government debt which has helped to exarcebate USD easing in Sep, may have ebbed but recent news reported that China's National People's Congress (NPC) may approve up to a CNY10tn stimulus package next week to address local government hidden debt risks and support the property market. The implementation of the debt swaps and its financing approach would be key but such impending announcement if it comes to fruition may lead to CNY appreciation again and support MYR again.

Third, even if diminishing US exceptionalism with narrowing rate differentials appear again, it can only do so much to MYR assets if a country's fundamentals and macroeconomic situation is not positive. We expect domestic economic fundamentals 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 legally binding 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.

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.

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. 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 again 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 continue to hold to our view of a gradual downward trend into 2025.**

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%).

Sep 2024 saw exports declined (Sep 2024: -0.3% YoY; Aug 2024: +12.0% YoY) amid continued – but slower - double-digit import growth (Sep 2024: +10.9% YoY; Aug 2024: +26.2% YoY). In 3Q 2024, exports and imports growth quickened to +7.8% YoY (2Q 2024: +5.8% YoY) and +20.8% YoY (2Q 2024: +15.0% YoY), signaling continued firm economic activities last quarter after 2Q 2024 real GDP growth picked up to +5.9% YoY (1Q 2024: +4.2% YoY), especially amid investment upcycle as capital goods imports surged (Sep 2024: +56.3% YoY; Aug 2024: +39.4% YoY; 3Q 2024: +46.7% YoY; 2Q 2024: + 24.0% YoY).

Both headline and core inflation eased to +1.8% YoY in Sep 2024 (Aug 2024: +1.9% YoY; 9M 2024: +1.8% YoY). With mild inflation year-to-date, our economics team trimmed full-year 2024 inflation forecast to +1.9% from +2.0% (2023: +2.5%). For 2025, they adjusted inflation rate forecast to 3.0%-3.5% from 2.5%-3.0%, taking into account of “inflationary” Budget 2025 announcements of RON95 subsidy rationalization as well as measures that raise labour costs i.e. minimum wage hike; foreign workers’ multi-tier levy and EPF contribution.

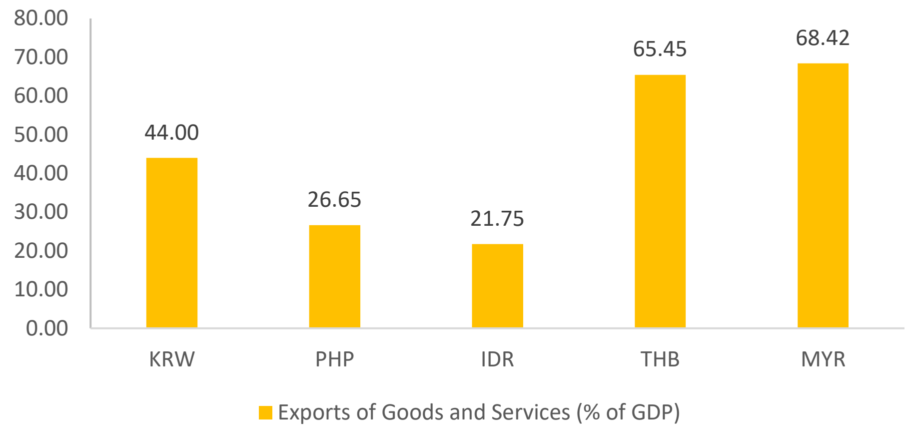
Budget 2025 maintains progress on fiscal consolidation with lower budget deficit to GDP ratio of 3.8% (2024F: 4.3%), to be achieved via revenueenhancing expansion of Sales & Services Taxes (SST) scope, increases in Sugar Tax and CPO export duty, new taxes i.e. Global Minimum Tax and the unexpected 2% Dividend Tax, plus planning for Carbon Tax on iron, steel and energy industries in 2026. In addition, 2025 Gross Development Expenditure is capped at MYR86b. There will also be further targeted subsidy rationalisation, focusing on RON95 petrol, healthcare and education by excluding top-15% income group and foreigners. These are to offset the +MYR13.5b increase in Operating Expenditure, largely due to Emoluments (+MYR6.2b) and Retirement Charges (+MYR6.1b) following the civil service salary revision. Government Procurement Bill will be tabled to further strengthen fiscal consolidation and governance.

Our economics team are positive on Budget 2025’s fiscal and growth measures. As fiscal consolidation continues, Budget 2025 measures are pro-growth with no new major taxes. The surprises are the 1) 2% Dividend Tax on individuals (we est. the impact to be small), 2) broadening of Service Tax to fee-based financial services (we est. a 2% impact to bank earnings if this cost is not passed through), 3) Carbon Tax introduction in 2026 (+ve for RE sector), 4) mandatory EPF contribution for foreign workers (mild earnings-negative in 2025F). Meanwhile, the expected are 1) a higher level of minimum wage (although the amount is below market expectation, providing a relief for businesses), 2) higher CPO price threshold for windfall profit levy (small earnings +ve for planters), and 3) RON95 subsidy rationalisation (with a clear timeline on implementation – from mid-2025 - and which targets the top 15%-income group (T15) and foreigners).

Risks to look out for in Nov 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 and after 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.

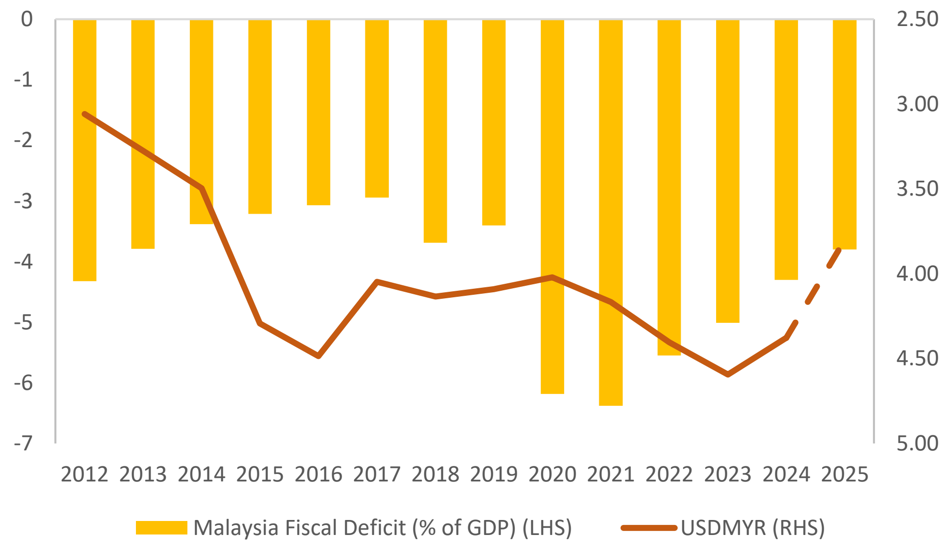
Key domestic events and issues to watch in Nov: S&P Global PMI mfg (1 Nov), Foreign reserves (7 Nov), Sep mfg sales (8 Nov), Sep IP (8 Nov), Oct trade data (19 Nov), Foreign reserves (15 Nov) and Oct CPI (22 Nov).

Malaysia has a High Export Exposure Relative to Other Regional Peers



Sources: Macrobond, Maybank FX Research & Strategy

Malaysia Fiscal Deficit Expected to Narrow



Sources: Macrobond, Maybank FX Research & Strategy estimates.
Note: 1) 2024 fiscal deficit number is the Malaysian Government estimate whilst the 2025 number is the Malaysian Government target
2) 2024 USDMYR figure is as of close 29 Oct 2024 whilst the 2025 USDMYR figure is our forecast

IDR: Near Term Challenges, Positive Medium Term

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

No Change to Previous Forecasts

Motivation: We hold to our USDIDR forecasts of a medium term down trend given our expectations that the global easing cycle remains in place. This should allow for Indo – US yield differentials to become more favorable for the IDR. Our economics team sees that the Fed would cut rates by an additional 50bps this year and another 125bps in 2025 whilst they expect that BI would engage in another 50bps of easing this year and 75bps next year. Domestically, the reappointment of Sri Mulyani as Finance Minister has helped to provide more positive assurance to investors regarding the fiscal discipline of the new government. Indonesia throughout her time as Finance Minister had been known to have mostly kept the budget deficit below the legal limit. Asideto that, the country's fundamentals should also stay robust as growth is still expected to hold up reasonably well next year whilst a trade surplus can be maintained. Inflation should remain low enough to support continued central bank easing. In the near term, we are wary of more volatility for the pair given the uncertainty regarding the upcoming US presidential elections. However, BI's continued intervention in the market should go some way in helping to support the IDR. Risks to our view include a delayed pace of Fed easing and political uncertainty related to both the US presidential and domestic regional election results.

BI in line with the consensus held rates at 6.00% at their Oct meeting although further cuts does remain a possibility. At their recent meeting, it appeared that concerns related to the IDR may have led to BI staying on hold as the Governor stated the need to prioritize IDR stability. Economic data though continues to be supportive of easing especially as headline inflation further slowed in Sep to 1.84% YoY (est. 2.00% YoY, Aug. 2.12% YoY), bringing it closer to the bottom of the central bank's target range of 1.5% - 3.5%. In addition, credit growth eased futher whilst providing support to consumption remains crucial objective of the central bank. Given this, there is still the possibility of further easing occurring this year with our economist seeing another 50bps of cuts occurring for the remainder of 2024 and another 75bps of cuts in 2025. Governor Perry Warjiyo himself had also not closed the door to further rate cuts as he sees more easing depending on the inflation outlook, IDR and the economy. Easing in line with the Fed next year should help support Indo GBs inflows and give a lift to IDR.

Month to date until 25 Oct 2024 foreign inflows into bonds have remained strong this month at $1.11bn although there have been outflows instead month to date until 28 Oct 2024 out of equities at -$0.57bn. Regarding the latter, much of the outflow had occurred earlier in the month when a rally in China equity markets (amid stimulus optimism) may have resulted in a reallocation out of other EM Asia equities into China. However, that looks to have reversed around middle of the month when China disappointed in its roll out of stimulus. Also, talk of and the eventual realization of the reappointment of Sri Mulyani as Finance Minister looks to have helped lift sentiment towards Indonesian assets. However, outflows occurred towards month end amid possible anxiety regarding the US election outcome. Risks related to the latter together with uncertainty on Fed's easing path keeps us cautious about foreign appetite for EM equities including Indonesia. Meanwhile, regarding bonds, both initial strong expectations of a global easing cycle and Mulyani's reappointments looks to have supported inflows into bonds. We are though wary too if that can hold given the same uncertainties that we think would afflict equities.

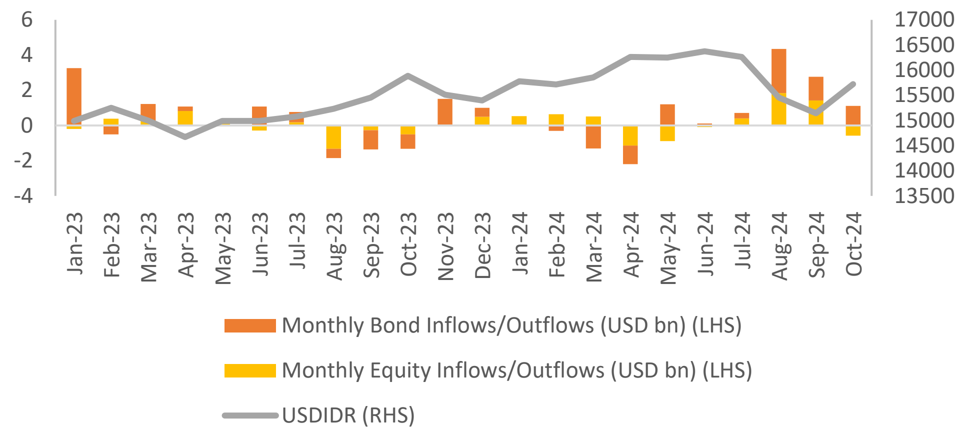
Domestic economic data meanwhile remains robust. The country's external position continued to hold up well as the Sep trade balance surplus was higher at $3.3bn (est. $2.8bn, Aug. $2.8bn), which was also the highest level since Mar 2024. Exports was slower at 6.44% YoY (est. 8.10% YoY, Aug. 6.56% YoY) although higher coal exports did help to shore up the headline number. Other exports such as manufacturing slowed whilst palm oil exports fell for the fifth consecutive month. Import growth was also lower at 8.55% YoY (est. 12.15% YoY, Aug. 9.46% YoY). Our Indonesia economist expects that the trade surplus should be maintained into next year, which in its own right would be supportive for the currency. Meanwhile, Sep headline inflation also slowed further to 1.84% YoY (est. 2.00% YoY, Aug. 2.12% YoY), which brings it to the lower end of the target range of 1.5% - 3.5% and the figure in itself continues to support further easing by BI.

On the political front, Prabowo has inaugurated a new cabinet with Sri Mulyani reappointed as the Finance Minister. Her reappointment looks to have given some lift to sentiment towards Indonesian assets although we also note that she is now essentially operating under new leadership. Airlangga Hartarto has been kept too as Coordinating Minsiter for Economic Affairs whilst Luhut Panjaitan, known as Jokowi's fix-it minister, was appointed as the Chief of the new National Economic Council, an economic expert think-tank. Overall, there would be 7 co-ordinating ministers and 41 ministers in this cabinet. Prabowo's retention of half of Jokowi's cabinet in addition to key economic personnel looks to have calmed investor's nerves regarding the political transition. Regardless, we continue to observe the eventual policies that would be rolled out by the new administration.

Risks Ahead: Downside risks for the IDR include domestic political uncertainty associated with the upcoming regional elections. Externally, other risks include a delayed pace of Fed easing and US elections uncertainty. Upside risk for the IDR include the global economy holding up together with the Fed cutting at a faster pace than expected.

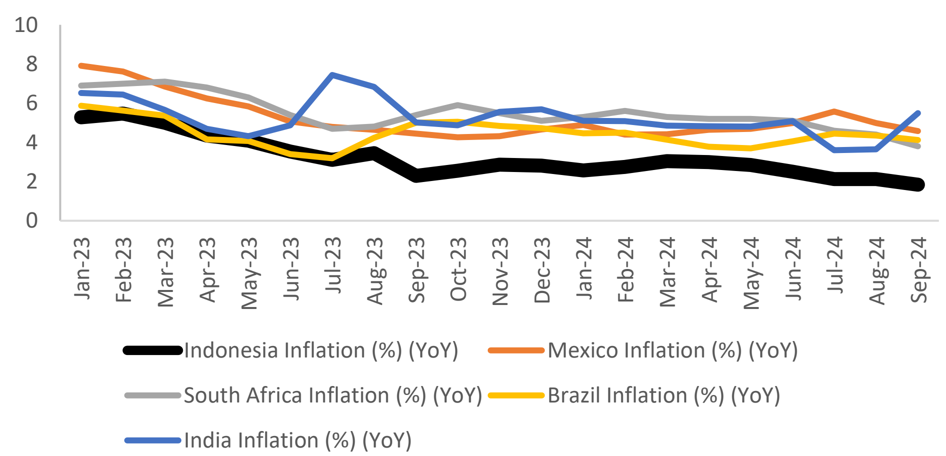
Key Data/Events: Oct S&P Global PMI mfg (1 Nov), Oct CPI (1 Nov), 3Q GDP (5 Nov), Oct foreign reserves (7 Nov), Oct consumer confidence (11 Nov), Oct trade data (15 Nov), Sep external debt (20 Nov), BI policy decision (20 Nov) and 3Q BoP CA balance (21 Nov).

Global Uncertainties Has Lead to Net Portfolio Inflows Slowing and USDIDR Climbing



Source: Bloomberg, Maybank FX Research & Strategy
Note: Oct 2024 data for equities and USDIDR is as of 28 Oct 2024 whilst bonds is as of 25 Oct 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

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

No Change to Previous Forecasts

Motivation: We hold to our USDPHP forecast given our expectations that a global easing cycle remains in place. Our economics team sees a cumulatively 225bps of easing by the Fed from their first move in Sep until end 2025 whilst they forecast the BSP to have cut in total by 175bps by end 2025. This should help both support appetite for the country's equity markets and bonds. Expectations of a global soft-landing should also help to keep flows from OFWR supportive of the PHP. However, we also see that the gains for the PHP can somewhat be limited by the country's weaker fundamentals. The country is expected to see both a fiscal and trade deficit for 2024 and 2025. This would mean overall that the medium term downward trend for USDPHP is likely to be more measured. Near term, we are wary of higher volatility for the USDPHP given the uncertainty related to the outcome of the US presidential elections. At this point though, the race is very close. This policy uncertainty from the election outcome in itself does also pose a risk to our medium term view in addition to any possibility of any delayed pace of Fed easing.

The BSP cut rates at their recent Oct meeting by 25bps and although easing remains intact, they avoided trying to sound too dovish. Governor Eli Remolona did point to the possibility of further cuts to come but he did state a preference for baby steps and 25bps at a time reductions instead. He also mentioned that the BSP would be unlikely to undertake 50bps cuts unless growth "turns out to be worse than we thought". Remolona did guide for 25bps of cuts in Dec. He noted that a 100bps easing in 2025 "may be possible" but also said that would be on the "dovish side" and that the inflation outlook for 2025 and 2026 have shifted to the upside though they are on a target-consistent path. He mentioned that they may not adjust rates at every meeting or quarter though. In some sense, the Governor's words have gone some way to temper down too dovish an expectations of the BSP and USDPHP was lower post the decision. Our economist expects that they would cut by another 25bps this year and 100bps in 2025, bringing the rate down to 4.75%.

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 Sep headline number came out lower and below expectations at 1.9% YoY (est. 2.5% YoY, Aug. 3.3% YoY). The slowdown is likely to continue and facilitate for the reduction of rates. Meanwhile, the country's external position remains a negative factor for the currency. Aug trade balance still saw quite a wide deficit at -$4.4bn (est. -$4.4bn, Jul. -$4.9bn) as imports grew 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 of Aug to 3.2% YoY (est. 3.1% YoY, Jul. 3.1% YoY) with the absolute number at $2.9bn. On a monthly basis, there was a decline at -6.5% MoM (Jul. 7.0% 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).

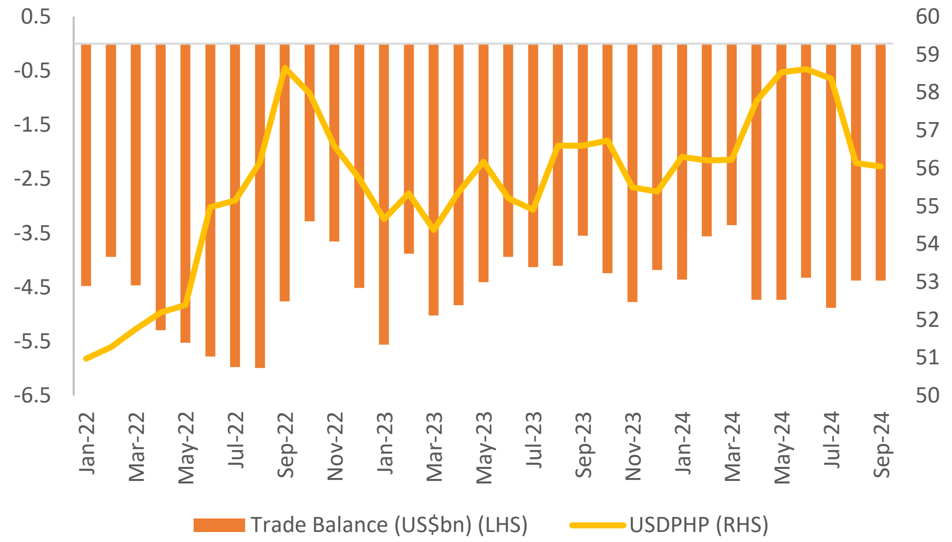
Equity inflows was more tepid at $74.7m month to data until 23 Oct 2024 as the PSEi was choppy in Oct. Anxiety about the pace of Fed easing amid strong US data and the uncertainty related to the US election outcome may have weighed on foreign appetite for Philippines's equities. Given continued concerns related to these factors, we remain cautious in the near term on foreign appetite for EM equities amid the unclear US election outcome. Meanwhile, the latest data for bond flows is lagged as it is for the month of Aug 2024 and shows an outflow of -$1.8bn. However, we believe that bond inflows should have been stronger in Sep due to optimism of a global easing cycle becoming entrenched. However, outflows in Oct could have occurred as aggressive rate cut bets were pared back.

Risks Ahead: Delayed pace of Fed rate easing and the uncertainty related to the US elections 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.

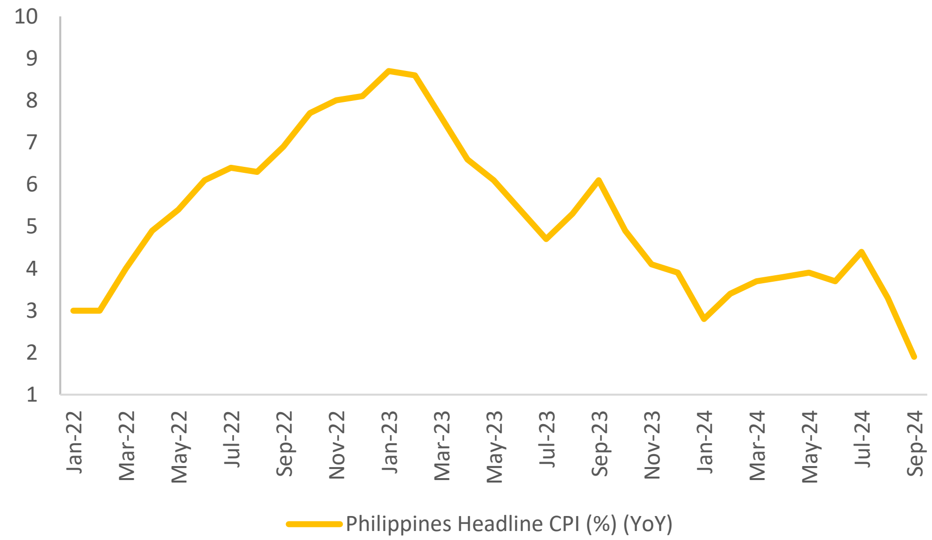
Key Data/Events: Oct S&P Global PMI mfg (4 Nov), Oct CPI (5 Nov), Sep trade data (6 Nov), Sep unemployment rate (6 Nov), 3Q agriculture output (6 Nov), 3Q GDP (7 Nov), Oct foreign reserves (7 Nov), Sep OFWR (15 Nov), Oct BoP overall (19 Nov), Oct budget balance (27 Nov), Oct M3 money supply (29 Nov) and Oct bank lending (29 Nov).

Trade Balance Deficit Continues to Weigh on the PHP



Source: Bloomberg, Maybank FX Research & Strategy

CPI Continues to Cool, Supporting BSP Easing



Source: Macrobond, Maybank FX Research & Strategy

THB: Easing Cycle to Favor Currency, Near Term Volatility

	4Q 2024	1Q 2025	2Q 2025	3Q 2025
USD/THB	31.50 (--)	30.50 (--)	29.50 (--)	29.00 (--)

No Change to Previous Forecasts

Motivation: We keep to our view of a medium term downward trajectory for the USDTHB given our expectations that a global easing cycle remains in place. This should help narrow US – TH rate differential more in favour of the THB. The BOT did surprise with a rate cut of 25bps at their recent meeting, bringing it down 2.25% but they have emphasized that this was a "recalibration" and that it did not mark the beginning of an extended easing cycle. Our economist is also not expecting any further cuts for the rest of this year and 2025. Meanwhile, gold prices are likely to get more support from both a lower rate environment and ongoing geopolitical tensions. This should provide some lift to the THB given Thailand's position as a gold trading hub. Near term, though, we note that the THB could see some volatility alongside other Asian FX given the uncertainty associated with the upcoming US presidential elections. A Trump win can weigh on Asian FX given the tariffs he has proposed to implement. However, the election race remains close. Meanwhile, regarding other risks, we are cognizant of the political situation given investigations against the ruling party for being under the influence of former PM Thaksin Shinawatra. At this point, the outcome remains uncertain. The government looks to be trying to ensure some continuity from the previous regime by going ahead with its cash handout plan. Others risks we are wary of include a delayed pace of Fed easing that can keep US rates higher for longer.

The BOT undertook a surprise rate cut of 25bps in Oct but emphasized that this does not mark the beginning of an extended easing cycle. The move brings down the rate to 2.25% and the central bank noted that the move was a "recalibration". The Governor has mentioned that policymakers assessed that financial stability risks from undertaking such a move had gone down as financial conditions in Thailand have tightened quite a bit. However, we are wary of the ongoing pressure from the government to ease rates more. The government has constantly been insisting that the BOT's current inflation target 1 – 3% be raised but the BOT Governor Sethaput Suthiwartnarueput continues to defend the target as appropriate. Our economist does not expect that the BOT would cut rates any further for the rest of this year and in 2025 too given that the economy should be sufficiently supported by a mix of fiscal stimulus, exports uplift and the monetary easing that had taken place. Financial conditions also does not merit any further move from what has already occurred. THB moves for now do not look too concerning for the BOT as the Governor has stated that they do not have a target for the THB and they do not want to see too much volatility nor moves that are too rapid.

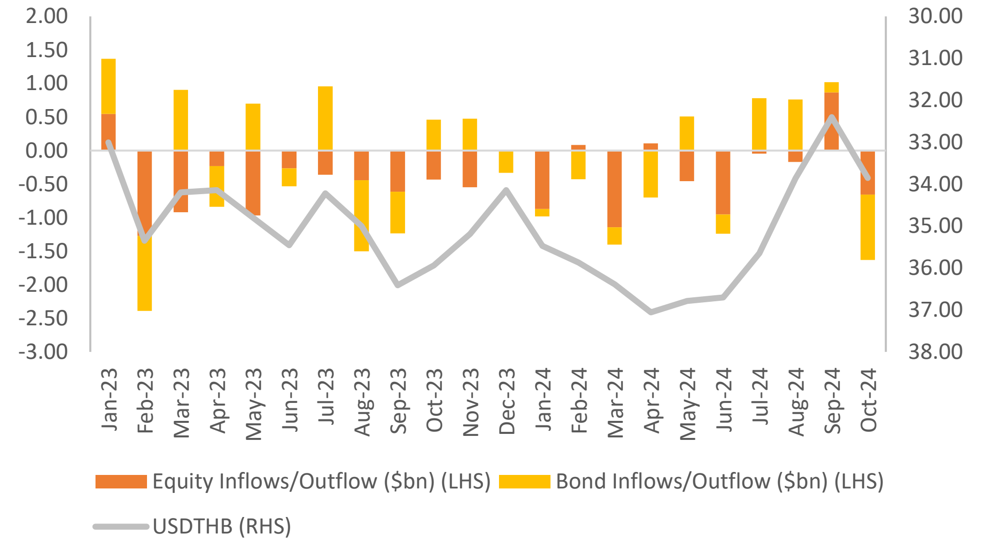
Domestic conditions meanwhile remain rather mixed at this point. Sep mfg PMI fell further for a second month to 50.4 (Aug. 52.0), raising some concerns about the health of manufacturing in the economy. For now, it is not clear if a downward trend is emerging just yet although we continue to closely watch it. Sep business sentiment index declined to 45.7 (Aug. 47.1) with this data point exhibiting a downward trend abd highlighting some concerns. Consumer confidence also continues to decline with the latest Sep number reading at 55.3 (Aug. 56.5). On the bright side though, Thailand's economy has been bolstered by an unexpected surge in hard disk drive exports, thanks to a boom in demand from data centers. A mix of fiscal stimulus and monetary easing would also help relieve pressures on household spending, albeit to a modest extent. On this basis, our economist has raised the 2024 forecast to +2.6% (from +2.4%), and reiterate an outlook of +2.8% growth in 2025.

There was net portfolio outflows month to date until 28 Oct 2024 (equities: -$0.65bn, bonds: -$0.97bn) as both domestic and external factors weighed in. Externally, the uncertainty of the US elections looks to be creating anxiety and weighing on appetite towards EM assets. The possibility of a Trump win and the impact his proposed tariffs can have on EM Asia may be keeping markets on the edge building up to the election on Nov 5. We do note that bonds did see some inflows during the period when the BOT cut rates amid speculation that the central bank could cut further. However, this was soon followed by outflows again as it looks increasingly unlikely that the BOT would engage in any further cuts so soon. Equities had also similarly been boosted temporarily in the month by the BOT cut but the impact did not last and outflows also subsequently occurred again. The effect of the Vayupak launch wearing off had also reduced support for inflows into equities. We remain cautious in the near term on foreign appetite for EM bonds and equities given the unclear US election outcome.

Risks Ahead: The major risks ahead include the uncertainty related to the domestic political situation. Lawyer Theerayuth Suwankaesorn has filed a petition accusing former PM Thaksin Shinawatra of being a threat to the constitutional monarchy through his influence over the Pheu Thai Party, and asking he be ordered to stop it. The constitutional court has order the attorney-general to report in 15 days (as of 22 Oct 2024) on the progress in handling of a lawyer's petition against Thaksin. We remain wary of the outcome of the petition and the impact it can have on the country's political situation. Other risks we note include the unclear US elections outcome and the possibility of any delayed pace of Fed easing, keeping US rates higher for longer.

Key Data/Events: Oct S&P Global PMI mfg (1 Nov), Oct business sentiment index (1 Nov), Oct CPI (5 Nov), Oct consumer confidence (7 – 13 Nov), 3Q GDP (18 Nov), Oct car sales (22 - 26 Nov), Oct customs trade data (25 – 29 Nov), Oct ISIC mfg prod index (26 – 30 Nov), Oct ISIC capacity utilization (26 – 30 Nov), Oct BoP CA and overall balance (29 Nov) and Oct trade data (29 Nov).

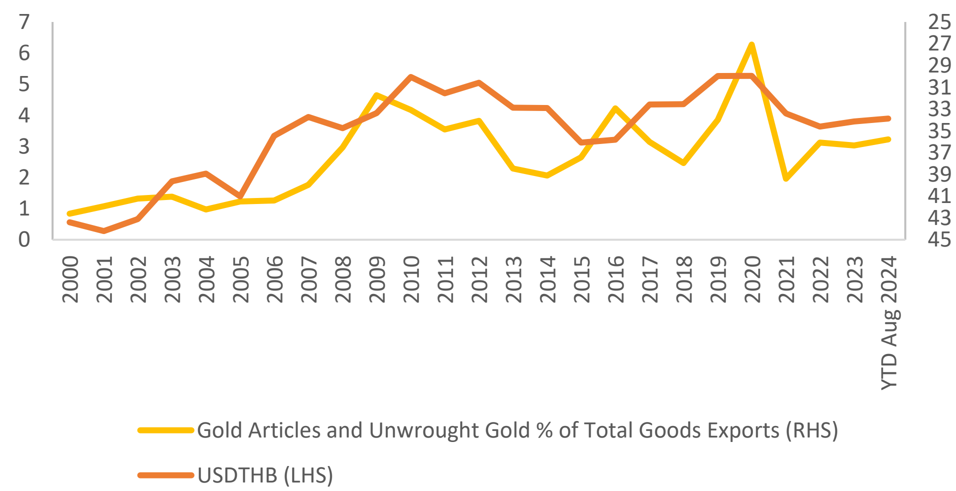
Recent Portfolio Outflows Amid EM Caution Ahead of US Elections has Weighed on the THB



Source: Bloomberg, Maybank FX Research & Strategy

Note: Equity and bond inflow data for Oct 2024 data is month to date until 28 Oct 2024 whilst the USDTHB rate is as of close 28 Oct 2024

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



Source: Macrobond, Maybank FX Research & Strategy

VND: Back to Test the Upper Bound of the Trading Band

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

No Change to Previous Forecasts

Motivation: USDVND almost completely reversed out its pullback for the whole of Oct. The pair is now seen around 25315. Pair remains swung by the movements of the UST yields and concomitantly the USD, which remain the major drivers of VND's recovery. There is also an added element of potential rate cuts by the SBV mentioned around the middle of Oct. In an environment of a rebound of UST yields, talks of rate cuts likely amplified pressure on the VND in the past month. Equity outflows are observed mtd (-$325.5bn) and the USDVND is back to test the upper bound of the trading band. SBV may hold the line around 25500 for the spot unless Trump becomes the next US President and potentially strengthen the USD a tad more.

Data turned out to be stronger for Sep. Inflation has eased to 2.63%y/y from previous 3.45%, weighed by food (+8.37% vs. prev. 10.97%), housing/construction (+4.37% vs. prev. 5.00%) and transport (-5.33% vs. prev. -1.46%). Education inflation also slowed considerably to 1.21%y/y from previous 7.1%. Core inflation actually steady around 2.5% last month. Retail sales eased to 7.6% growth from previous 7.9%. Tourism retail sales have eased to 1.9% y/y in Sep from previous 7.1%.

GDP surprised to the upside for 3Q and was last seen around 7.40%y/y vs. previous 6.93%. This was a strong upside surprise to growth given expectations for a slowdown to 6.1% based on consensus. Growth was driven by manufacturing (+11.4%y/y in 3Q vs. prev. 10.4%), wholesale trade (, . The damage of Typhoon Yagi was buffered by strong output in Jul, Aug from the agricultural sector. Based on the Sep data, our Vietnam economist Brian Lee upgraded his GDP forecast to 6.7% for 2024 and 6.4% for 2025.

FDI Accelerates. FDI flows seem to have accelerated with realized FDI growth up at a faster rate +13.2%y/y in Sep vs. previous 5.3% in Aug. Registered FDI rebounded +41.4%y/y from previous -14.5%y/y in Aug. On average, registered FDI had grown 13.9%y/y per month for the first nine months of 2024. For the same period in 2023 however, the monthly growth was around 42.0%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.

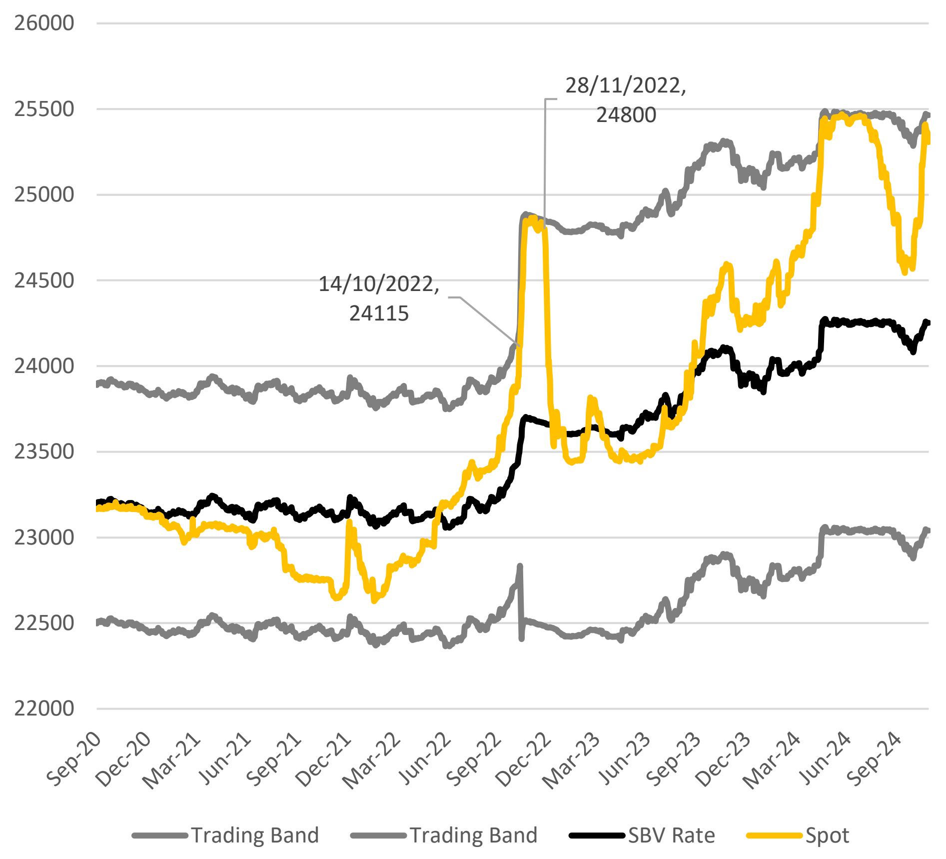
Political Stability To Underpin VND. The recent reshuffle of Ministers and To Lam's relinquishment of his role as President has allowed Vietnam to revert back to its "four pillars" structure where four individual leaders hold the key positions of government. The Army General Luong Cuong has been elected as the new state president. 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.

Vietnam continues to forge good relations with foreign powers. Vietnam was one of the four ASEAN countries (Malaysia, Indonesia, Thailand) to become partner countries of BRICS. They are part of 13 countries to be added to the alliance as partners, albeit not full members. With that, trade opportunities can be enhanced, foreign relations also forged in the backdrop of geopolitical uncertainties. Earlier this year, Vietnam has sought closer relations with China with President Xi holding talks with Vietnam's Party Chief To Lam. On the other hand, the US administration has also wooed Vietnam – the White house issued a statement after To Lam's visit to US "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.

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. 3) A Trump victory could potentially bring the USD higher against most currencies, including VND

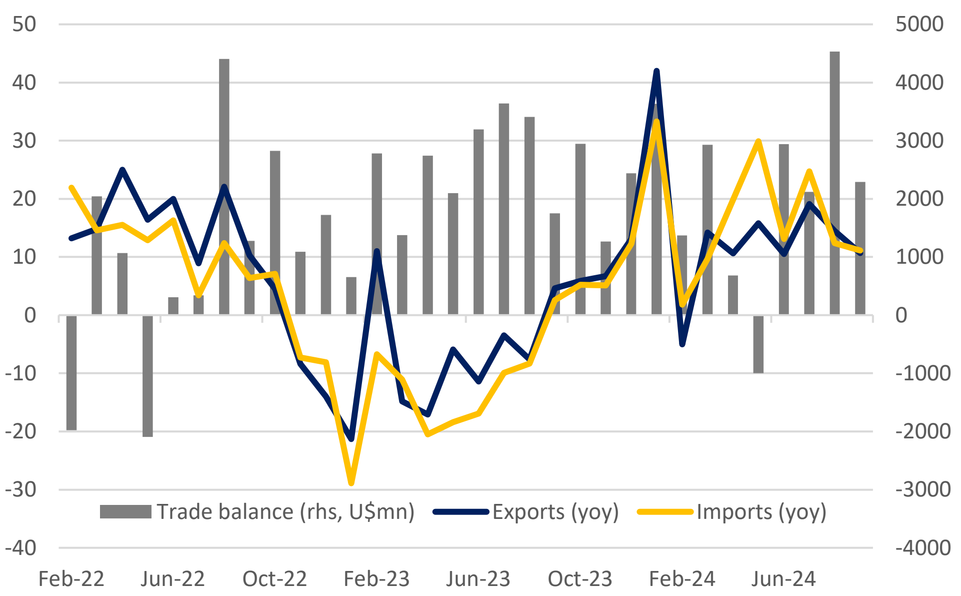
Key Data/Events: Oct trade, IP, CPI, retail sales [6 Nov].

<u>**USDVND Back To Test the Upper Bound of the Trading Band**</u>



Source: Bloomberg, Maybank FX Research & Strategy

<u>**Trade Surplus is Steady but Exports started to plateau**</u>



Source: Bloomberg, Maybank FX Research & Strategy

INR: Pivoting to a Neutral Stance

	4Q 2024	1Q 2025	2Q 2025	3Q 2025
USD/INR	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. We caution that RBI could cap gains with their preference of leaning against the wind. We expect USD should weaken with our economics team expecting 50bps more of Fed rate cuts in 2024 (prev: 25bps) and 125bps in 2025 (prev: 100bps). However, 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. 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. In a period where asset managers are trimming or underweighting their exposures to China, this 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 long-standing 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 rose in Sep to 5.49% YoY (exp: 5.10%; prev: 3.65%). The sharp pick up in inflation could threaten calls for RBI to cut. On 9 Oct 2024, RBI voted unanimously to pivot to a neutral stance from a withdrawal of accommodation. On balance, we think that RBI is likely to cut rates in Dec 2024 by 25bps. While inflation was resurgent in Sep, other central banks have already made their move and the shift to a neutral stance indicates that the RBI could make their move soon. India's policy rate remains high at 6.50% and this could crimp growth prospects further. RBI is expecting drops in food inflation and this should guide broader inflation back onto the disinflationary trajectory. For 2025, we pencil in 50bps of cuts for RBI with the first cut likely in 1H2025. RBI's terminal rate is estimated to be at around 5.50%, with the most recent low at 4.00% in 2020.

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: Oct F Mfg PMI (4 Nov), Oct F Svcs/Comp PMI (6 Nov), Sep Industrial Production, Oct CPI Inflation (12 Nov), Oct Wholesale Prices (14 Nov), Oct Exports/Imports/Trade Balance (15 Nov), Nov P Mfg/Svcs/Comp PMI (22 Nov), Oct Fiscal Deficit, Oct Eight Infrastructure Industries, 3Q GDP/GVA (29 Nov).

Food is A Major Component of India's Inflation

India: Inflation Heatmap Breakdowns

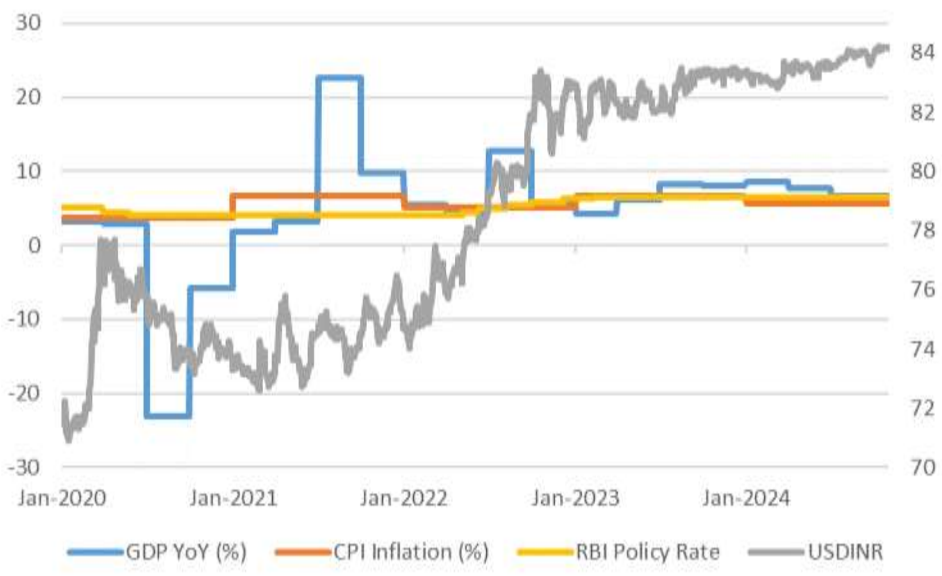
Source: Indian Ministry of Statistics & Programme Implementation (MoS&PI)

	Weights	09/2024	08/2024	07/2024	06/2024	05/2024	04/2024	03/2024	02/2024	01/2024	12/2023	11/2023	10/2023
Total	**100.0**	5.5	3.7	3.6	5.1	4.8	4.8	4.9	5.1	5.1	5.7	5.6	4.9
Food & Non-Alcoholic Beverages	**45.9**	8.4	5.3	5.1	8.4	7.9	7.9	7.7	7.8	7.6	8.7	8.0	6.3
Meat & Fish	3.6	2.7	4.3	5.9	5.4	7.3	8.2	6.4	5.2	1.2	1.1	2.2	3.3
Milk & Products	6.6	3.0	2.9	3.0	2.9	2.6	3.0	3.4	3.8	4.6	5.1	5.7	6.4
Non-Alcoholic Beverages	1.3	2.6	2.4	2.2	2.4	2.4	2.6	2.8	3.0	3.3	3.3	3.6	3.5
Alcoholic Beverages & Tobacco	**2.4**	2.5	2.7	3.0	3.1	3.0	3.0	3.1	3.1	3.3	3.6	3.8	3.9
Foreign/Refined Liquor or Wine	0.4	4.1	4.5	5.2	5.6	5.3	4.6	4.5	3.9	3.3	3.5	3.5	3.5
Cigarettes	0.2	1.1	1.5	2.4	2.2	2.6	2.7	3.0	2.9	3.1	3.1	2.9	2.9
Clothing & Footwear	**6.5**	2.7	2.7	2.7	2.7	2.7	2.9	3.0	3.1	3.4	3.6	3.9	4.3
Clothing	5.6	2.8	2.8	2.8	2.8	2.8	2.9	3.1	3.2	3.5	3.8	4.0	4.5
Footwear	1.0	2.0	2.1	2.0	2.1	2.2	2.4	2.6	2.6	2.9	3.1	3.3	3.6
Housing	**10.1**	2.8	2.7	2.7	2.7	2.6	2.7	2.7	2.9	3.2	3.6	3.6	3.8
House Rent	9.5	2.7	2.6	2.6	2.6	2.6	2.6	2.7	2.8	3.1	3.5	3.6	3.7
Residential Building & Land	0.3	5.5	5.3	5.0	5.0	5.0	5.0	4.8	5.1	5.8	6.0	6.2	6.4
Water Charges	0.2	0.9	0.8	0.6	0.1	0.4	0.3	0.8	2.2	3.1	3.0	2.7	3.4
Fuel & Light	**6.8**	-1.4	-5.3	-5.5	-3.6	-3.7	-4.0	-3.4	-0.8	-0.6	-1.0	-0.8	-0.4
Dung Cake	0.4	5.0	5.0	5.0	4.7	5.5	5.0	5.7	5.4	6.2	5.5	5.7	6.8
Electricity	2.3	5.5	4.9	4.8	8.8	10.9	10.9	10.4	10.4	10.4	10.5	10.5	10.4
LPG	1.3	-10.1	-24.6	-24.7	-24.8	-24.9	-24.9	-22.7	-13.3	-13.3	-13.0	-12.8	-12.7
Other Fuel	0.2	-1.4	-1.4	-1.1	0.4	-1.1	-0.7	1.2	2.2	2.1	2.9	2.3	3.3
Miscellaneous	**28.3**	4.0	3.9	3.8	3.4	3.4	3.5	3.5	3.6	3.8	4.1	4.4	4.5
Household Goods & Services	3.8	2.5	2.4	2.3	2.4	2.5	2.7	2.7	2.8	3.1	3.4	3.5	3.9
Health	5.9	4.1	4.1	4.1	4.1	4.2	4.3	4.3	4.5	4.9	5.1	5.5	5.9
Transport & Communication	8.6	2.8	2.7	2.6	1.0	1.0	1.1	1.5	1.8	2.0	2.0	2.1	2.0
Recreation & Amusement	1.7	2.3	2.4	2.2	2.3	2.6	2.6	2.8	2.7	2.9	3.1	3.1	3.3
Education	4.5	3.8	3.9	3.5	3.6	4.1	4.2	4.7	4.8	4.9	4.8	5.0	5.1
Personal Care	3.9	9.0	8.0	8.4	8.2	7.7	7.4	6.0	5.2	5.9	7.3	7.8	7.8

Conditional formatting based on the Z scores of the last 12 observations (round to 1 decimal)
Red indicates high inflation as compared to previous observations for each respective category

Source: 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	End Q4-25
USD/JPY	138.00	136.00	134.00	132.00	130.00
EUR/USD	1.1300	1.1350	1.1400	1.1450	1.1500
GBP/USD	1.3300	1.3350	1.3400	1.3450	1.3500
AUD/USD	0.6900	0.7000	0.7100	0.7200	0.7200
NZD/USD	0.6400	0.6500	0.6600	0.6700	0.6700
USD/CAD	1.3200	1.3100	1.3000	1.3000	1.2900
USD/CHF	0.8500	0.8500	0.8500	0.8400	0.8400
USD/SGD	1.2750	1.2700	1.2700	1.2650	1.2650
USD/MYR	4.0000	3.9500	3.9000	3.8500	3.8000
USD/IDR	14800	14600	14400	14200	14000
USD/THB	31.50	30.50	29.50	29.00	28.00
USD/PHP	53.50	52.50	51.50	51.00	50.00
USD/CNY	6.92	6.90	6.87	6.85	6.80
USD/CNH	6.92	6.90	6.87	6.85	6.80
USD/HKD	7.78	7.77	7.77	7.78	7.79
USD/TWD	30.00	30.00	29.50	28.50	28.50
USD/KRW	1290	1270	1260	1250	1250
USD/INR	82.00	81.00	81.00	81.00	81.00
USD/VND	24400	24300	24200	24000	24000
DXY Index	99.19	98.61	98.02	97.47	96.90
	End Q4-24	End Q1-25	End Q2-25	End Q3-25	End Q4-25
SGD/MYR	3.14	3.11	3.07	3.04	3.00
JPY/SGD	0.92	0.93	0.95	0.96	0.97
EUR/SGD	1.44	1.44	1.45	1.45	1.45
GBP/SGD	1.70	1.70	1.70	1.70	1.71
AUD/SGD	0.88	0.89	0.90	0.91	0.91
NZD/SGD	0.82	0.83	0.84	0.85	0.85
CAD/SGD	0.97	0.97	0.98	0.97	0.98
CHF/SGD	1.50	1.49	1.49	1.51	1.51
SGD/IDR	11608	11496	11339	11225	11067
SGD/THB	24.71	24.02	23.23	22.92	22.13
SGD/PHP	41.96	41.34	40.55	40.32	39.53
SGD/CNY	5.43	5.43	5.41	5.42	5.38
SGD/HKD	6.10	6.12	6.12	6.15	6.16
SGD/TWD	23.53	23.62	23.23	22.53	22.53
SGD/KRW	1012	1000	992	988	988
SGD/INR	64.31	63.78	63.78	64.03	64.03
SGD/VND	19137	19134	19055	18972	18972
	End Q4-24	End Q1-25	End Q2-25	End Q3-25	End Q4-25
JPY/MYR	2.90	2.90	2.91	2.92	2.92
EUR/MYR	4.52	4.48	4.45	4.41	4.37
GBP/MYR	5.32	5.27	5.23	5.18	5.13
AUD/MYR	2.76	2.77	2.77	2.77	2.74
NZD/MYR	2.56	2.57	2.57	2.58	2.55
CAD/MYR	3.03	3.02	3.00	2.96	2.95
CHF/MYR	4.71	4.65	4.59	4.58	4.52
MYR/IDR	3700	3696	3692	3688	3684
MYR/THB	7.88	7.72	7.56	7.53	7.37
MYR/PHP	13.38	13.29	13.21	13.25	13.16
MYR/CNY	1.73	1.75	1.76	1.78	1.79
MYR/HKD	1.95	1.97	1.99	2.02	2.05
MYR/TWD	7.50	7.59	7.56	7.40	7.50

*Source: Maybank FX Research as of 30 Oct 2024. *These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.*

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