Maybank

Macro | FX Research & Strategy

Global

FX Monthly

2024, Issue 8: Fed Matters

What Has Changed This Month?

- We have adjusted most of our FX forecasts higher against the USD after clear signal of easing from the Federal Reserve drove the greenback broadly lower against most DM and Emerging Asian currencies.

Our Strategies and Views

- US Federal Reserve Chairman Powell made a clear pivot towards supporting the US labour market in his speech at Jackson Hole. As such, that puts the market on data-dependent mode as well, sensitive to upcoming labour market indicators (Aug ADP and NFP) this week which will determine the size of the rate cut (25bps or 50bps) at the FOMC later this month. Regardless of the size, the easing narrative has become rather entrenched. USD could remain a sell-on-rally.

- More central banks (especially regional ones) are finally able to commence monetary policy easing without punitive effects on their currencies and support growth. The BSP is a case in point. Asian currencies could continue to benefit from a more benign rates environment. We remain most cautious on the yuan. We expect CNY to remain a laggard on its recovery against the greenback relative to DM and EM Asian currencies due to its fragile economic growth. With the US elections approaching, hawkish China rhetoric could surface more clearly at the US Presidential Debate on 10 Sep and shorting the yuan could still be a worthy hedge against a Trump victory.

- RBA could be the only DM central bank that remains hawkish and focused on inflation. That has been propping the AUD up. AUD is at risk of a mild correction should growth start to falter at home but we remain medium term constructive on the demand for Australia's resources exports as central banks become more aligned on their easing trajectories and global growth gain traction. Such an environment could be positive for AUD, NZD, CAD, KRW and TWD. Trade-dependent KRW, TWD may play catch up. INR may remain stable.

- ASEAN FX (MYR, SGD, THB, IDR, PHP) saw a strong performance over the last month as risk appetite strengthened amid expectations of a Fed easing coming soon. We have resultantly decided to lower our forecast on USDASEANs to better reflect this sentiment. However, *within Sep*, there could be some rebound in the pairs as the broad dollar could bounce up amid some paring back in Fed rate cut expectations. In the medium term, we expect USDASEAN to keep trending downwards and see the near term as an opportunity to sell them on rallies.

- **SGD has been outperforming for most of the past few years.** SGDNEER remains on the strong side of the band close to the band edge. We look for SGDNEER outperformance to taper amid Fed rate cuts as other more interest rate sensitive components could outperform the SGD. Other basket constituents could also outperform in an environment that is positive for global growth. As such, we suggest to sell SGDNEER on rally.

Analysts

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

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

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

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

Top 3 Currency Plays for Sep

Sell USD - Asians on Rallies
Sell CNY TWI, SGDNEER on Rallies
KRW, TWD to Catch Up

Key Events for the Month Ahead

Date	Event
10 Sep	US Presidential Debate
10 - 13 Sep	China NPC Standing Committee (NPCSC) Meeting
27 Sep	LDP's Presidential Election

USD: Waiting for the Speed and Depth of the Easing Phase

	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USD DXY	101.57 (103.75)	100.15 (102.04)	98.65 (100.34)	96.92 (99.17)

Previous Forecasts in Parentheses

Motivation: USD continues its second month of declines amid additional signs of USD exceptionalism narrative softening with the slowing US inflation and markets growing increasingly more confident that Fed is about to start its rate cut cycle in Sep. As such, we factor in these market-pricing developments and the extent of the USD weakness in Aug into our forecasts. However, the USD downtrend and its pace depends on (1) the speed and depth of the Fed cuts from Sep FOMC onwards, (2) Extent and dynamics of global growth (excluding US) and (3) how external factors such as geopolitical risks, ongoing global central bank moves after Sep and how the US elections outcome pans out. The favourable US inflation data from May, June and Jul round of inflation data easing 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 a Sep cut to be on track. In addition, given the upcoming US presidential elections, fiscal policy is unlikely to offset the slowdown in private demand, as government spending is likely to be curtailed in an election year. Elevated uncertainty ahead of Nov election and unexpected developments in the campaign in end 3Q and 4Q could spark market volatility, global risk off, dampen business investment affecting growth further, and possibly support USD even as any softer data may lead to market recalibration for more cuts, the impact on the USD could be limited on the downside. Our baseline scenario now follows from fivethirtyeight polls, which shows that Harris is at 47% as at 28 Aug and assumes a Harris win in Nov.

Amid the backdrop of concerns of a US growth slowdown following the Samh rule recession indicator signalling the start of a recession emerged in early Aug, this followed from an earlier BOJ second policy hike on 31 Jul, and had led to sell offs in global equity markets since Oct 1987 on 5 Aug 2024 “Black Monday”. The turbulent market condition in early Aug led to equity sell-off, UST bond rally and a rise in short USD positioning as concerns of a Fed cut and recession risks emerges strongly. From a DXY components perspective, developments out of Japan and G7 saw JPY, EUR, GBP strength which led to extended USD DXY softness. Our BEER model estimates show that the USD was 5% overvalued using panel data up until end June 2024 (as shown in the black bar below from our latest Aug run of the fair value estimates). As DXY has fallen around 5% since end June, USD could be close to fairly valued with risk of overshooting on the downside still a possibility. USD weakness momentum is likely to remain as we proceed into Sep. We now factor in a 2% depreciation in the DXY in our forecasts and continue to look for the DXY index to range around 100-102 before moving lower around 100 and lower by end 2024.

Fundamentally, we still remain negatively biased towards the USD in the medium term as the pivot away from current higher rates and yields materialises as the economic cycle turns and given the country’s structural twin deficits and the national debt expected to rise further over the next few years with a fiscal cliff potential in 2025. Month to date (since 1 Aug), USD DXY is down around 3.3% from a high of around 104.40 earlier in Aug due to “higher-for-longer” environment concerns. The market now looks for -102bps rate cut for the remained of this year as of 29 Aug.

On the macro data front, US economic reports saw labour market resilience and disinflationary trend from the May and Jun data. US activity data releases are showing signs of a slowdown with ISM manuf showing declines at 48.5 from previous 48.7, factory orders (-0.5% from 0.7% prev) and Uni of Michigan sentiment index seeing further declines. Job gains have fallen in Jun with headline NFP at around 206k from previous 272k, and the unemployment rate rose to 4.1% from 4.0% in the previous month. Markets will continue to monitor inflation numbers, which includes headline CPI and PCE core deflator data to see if it will come out stronger than expected and remains elevated due to services inflation. Headline CPI fell in Jun to -0.10% for the month, putting the y/y inflation rate at 3.0% (previous: 3.3%).

Fed kept the fed funds rate (FFR) at 5.25%-5.50% for the eighth consecutive FOMC meeting on 30-31 July 2024 FOMC. The FOMC statement indicates Fed is increasingly paying more attention to its dual mandate amid slowing job market on top of inflation progressing towards Fed’s 2% target, adding to the already heightened market expectation of a -25bps cut in Sep 2024 and three cuts in total by year-end. **To recap, Fed’s current “dot plot” (i.e. FOMC participants’ individual forecasts of FFR) signals just one FFR cut**

of -25bps in 2024 and -100bps cuts in 2025. Based on the 30-day Fed funds futures (@30 Aug), market continues to price in 100bps FFR cuts totaling -100bps this year i.e. in the remaining three FOMC meetings this year on 17-18 Sep 2024 (100% probability of a 25bp, 31.9% of a 50bp), 6-7 Nov 2024 (31.1% probability of a 50bp) and 17-18 Dec 2024 (38.8% probability of a 50bp). We maintain our view of Fed cutting FFR by -50bps by year-end (end-2024F: 4.75%-5.00%) and by another -100bps in 2025 (end-2025F: 3.75%-4.00%).

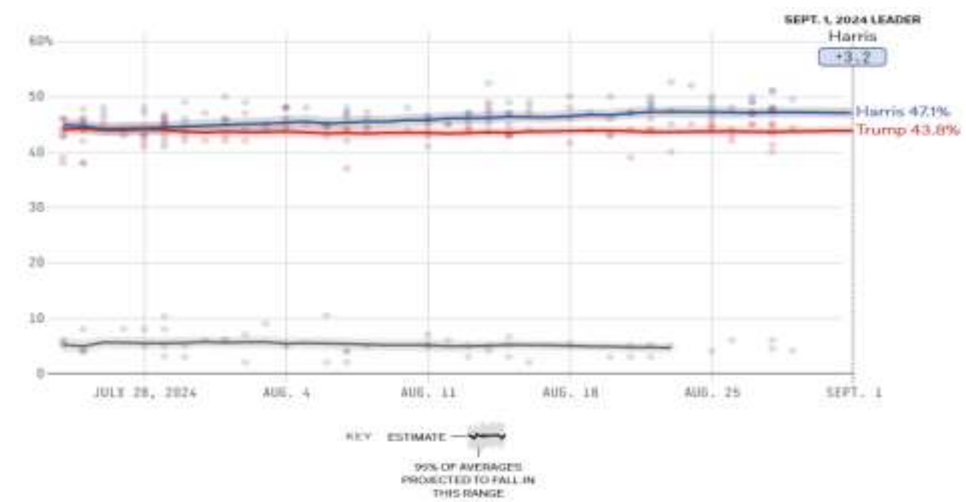
With the emergence of Kamala Harris as the Democratic presidential nominee, the race to the US Presidential elections remains fluid and we take guidance for now from how the US presidential polling results evolves. A Trump scenario raises the risks to the dollar from the elections will be skewed to the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

Key Data/Events: FOMC meeting on 17-18 Sep 2024 (19 Sep); NFP Aug 2024 (6 Sep); CPI for Aug 2024 (11 Sep 2024); personal consumption expenditure (PCE) price index for Aug 2024 (27 Sep 2024); ISM Manuf (3 Sep), ADP (5 Sep); Factory Orders, Durable Goods Orders (4 Sep and 26 Sep), Retail Sales (17 Sep), GDP 2Q (26 Sep).

USD Over-Valuation Eroded

Sources: Bloomberg, Macrobond, Maybank FX Research & Strategy

US Presidential Election Polls – Harris Ahead



Sources:https://projects.fivethirtyeight.com/polls/president-general/2024/national/, Maybank FX Research & Strategy.

EUR: Soft Landing into Goldilocks?

	3Q 2024	4Q 2024	1Q 2025	2Q 2025
EUR/USD	1.1100	1.1200	1.1300	1.1400
	(1.0900)	(1.1000)	(1.1100)	(1.1200)

Previous Forecasts in Parentheses

Motivation: We revise our EURUSD forecasts higher and maintain the upward trajectory for the pair. The upward revision is reflective of the latest bout of broad USD weakness against a backdrop of Fed rate cuts and a global soft-landing/Goldilocks scenario, in line with our base case outlook. We expect a rebound in the USD in the lead up to the elections, but view any such rebound as temporary. Specifically, a USD rebound could come from an adjustment in Fed rate cut expectations. Market is now expecting 100bps of cuts in 2024 for the Fed, relatively dovish in contrast to our house view base case of 50bps of cuts. For the ECB, we still look for 50bps of cuts, although we do not think that ECB rate cuts would lead to outsized EUR weakness and the resulting support for Eurozone growth could offset some EUR weakness. 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.

EURUSD traded within a 1.0778 to 1.1202 range in Aug, higher than the 1.0710 to 1.0948 range in Jul. EURUSD was on a broad climb through Aug, limited pullbacks on the back of broad USD weakness. Balance of risks remains two-way for the pair at current levels of around 1.1140. That said, we expect moves to be rather limited in magnitude from this point until key risk events i.e. central bank decisions have concluded. We note that ECB cutting before the Fed has not resulted in excessive EUR weakness, rather now with Fed rate cut expectations more towards the dovish end of the spectrum, broad USD weakness remains the dominant driver for the pair. Nevertheless, we expect further rate cuts from the ECB to similarly not result in excessive weakness. Key levels to watch are resistances at 1.12 and 1.13 and supports at 1.11 and 1.10.

Eurozone inflation remains sticky as the last leg of disinflation could be the toughest. Jul CPI inflation was broadly unchanged with headline at 2.6% (exp: 2.6%; prev->rev: 2.6% -> 2.5%) and core at 2.9% (exp: 2.9%; prev: 2.9%). CPI inflation was flat MoM at 0% (exp: 0%; prev: 0%). Nevertheless, current trajectory of inflation in the Eurozone is in line with the ECB's assessment and should provide them with more confidence to cut. Services inflation remains one of the hotter components of inflation at 4.2% YoY in Aug and that could be a concern for the ECB since wage increases could make the last leg of disinflation tougher.

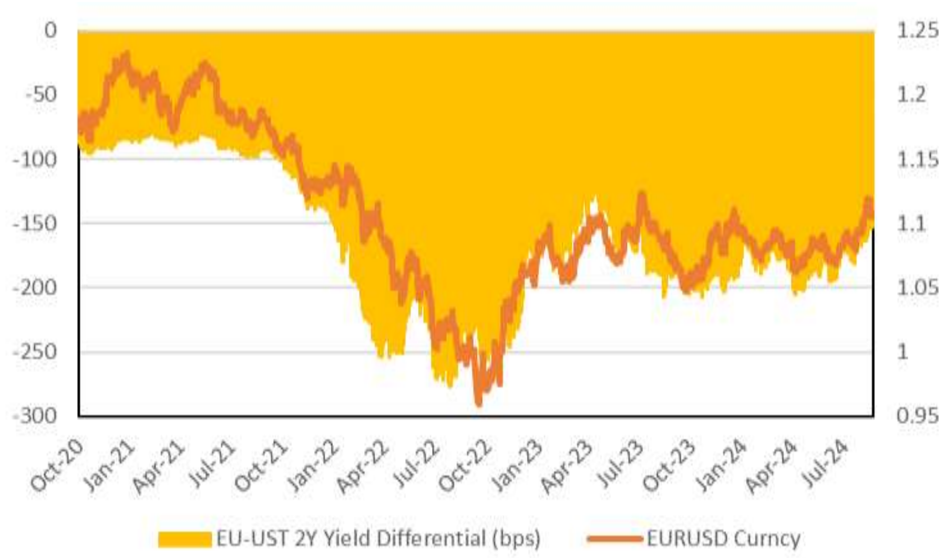
Growth should pick up in the Eurozone, although German growth is rather mixed. 2Q P growth for Eurozone stood at 0.6% SA YoY (exp: 0.6%; 0.6%) and 0.3% SA QoQ (exp: 0.3%; 0.3%). 2Q F German growth showed a small contraction QoQ at -0.1% (exp: -0.1%; prev: -0.1%), but an expansion of 0.3% YoY (exp: 0.3%; prev: 0.3%) and stronger than expected WDA YoY print of 0.0% (exp: -0.1%; prev: -0.1%). We believe the measured pace of ECB cuts and an improvement in global demand should be supportive of Eurozone growth. 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 1.4% for 2025 in real terms.

We see two further 25bps cuts for the ECB this year to bring their deposit facility rate to 3.25% (currently: 3.75%), main refinancing rate to 3.75% (currently: 4.25%) and marginal lending facility rate to 4.00% (currently: 4.50%). This slightly more hawkish than market pricing of 66bps of cuts by year end and current consensus forecasts of roughly 75bps of cuts by year end. As we have previously stated, we think that if the ECB cuts after or alongside the Fed or if Eurozone growth prospects improve, the EURUSD need not weaken and could in fact strengthen or remain supported. This is in line with our narrative for a bottoming of growth prospects in the Eurozone and has been vindicated with the EUR rising even as the ECB has cut ahead of the Fed. We have seen further evidence of this when the EURUSD rallied/was supported even as the ECB tilted a bit more dovish. EUR has also benefitted from the recent dovish Fed repricing. While we do think that further adjustments could be ahead, we still remain constructive on the EUR in the long term.

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

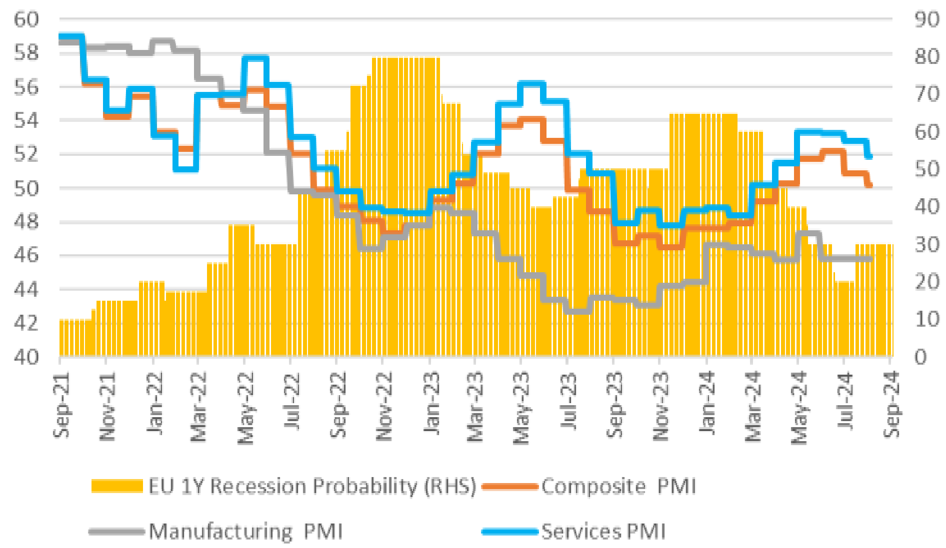
Key Data/Events: Aug F Mfg PMI (2 Sep), Aug F Svcs/Comp PMI, Jul PPI (4 Sep), Jul Retail Sales (5 Sep), 2Q F GDP (6 Sep), **ECB Policy Decision** (12 Sep), Jul Industrial Production (13 Sep), Jul Trade Balance, 2Q Labour Costs (16 Sep), Jul Construction Output, Aug F CPI (18 Sep), Jul ECB Current Account (19 Sep), Sep P Consumer Confidence (20 Sep), Sep P Mfg/Svcs/Comp PMI (23 Sep), Aug Money Supply, ECB Economic Bulletin (26 Sep), Sep F Consumer/Services/Industrial/Economic Confidence, ECB 1Y/3Y CPI Expectations (27 Sep).

Yields Differentials Key Driver of EURUSD



Source: Bloomberg, Maybank FX Research & Strategy

Near-Term PMI Dips Should Fade



Source: Bloomberg, Maybank FX Research & Strategy

GBP: Outperformance to Moderate

GBP/USD	3Q 2024	4Q 2024	1Q 2025	2Q 2025
	1.3000 (1.2700)	1.3100 (1.2750)	1.3200 (1.2800)	1.3300 (1.2850)

Previous Forecasts in Parentheses

Motivation: We revise our GBPUSD forecasts upwards and maintain the upward trajectory for the cable. GBPUSD has continued to outperform against a backdrop of Fed rate cuts and a global soft-landing/Goldilocks scenario that provides fertile grounds for USD weakness. We think that we could see a near-term rebound for the USD, reflected in our forecasts being below current spot for GBPUSD. Current outperformance has also been driven by the view that the BOE could keep a restrictive policy stance longer than other central banks. However, the BOE has also cut rates for the first time on 1 Aug and we see further possible rate cuts as a factor that could moderate GBP outperformance. We see BOE cutting by 50bps more in 2024 and up to 75bps in 2025. Growth has been healthy in the UK, while the broad disinflationary trajectory is intact.

GBPUSD traded in a 1.2665 to 1.3266 range in Aug, broadly higher than the 1.2616 to 1.3044 range in Jul. YTD, GBP is the best performing G10 currency and the second best performer (behind the MYR) in our SGDNEER basket. While the current favourable macroeconomic backdrop is likely to continue, we expect some of this outperformance to fade with further cuts from the BOE. At current spot levels of 1.3220, balance of risks tilt to the downside for the pair given how hawkish BOE rate cut expectations are vis-à-vis how dovish Fed rate cut expectations are and how stretched to the upside the GBP is.

Jul CPI inflation print largely confirmed the broad disinflationary trajectory. Headline CPI inflation rose slightly to 2.2% YoY (exp: 2.3%; prev: 2.0%), while core CPI inflation was lower at 3.3% YoY (exp: 3.4%; prev: 3.5%) and services inflation also fell to 5.2% YoY (exp: 5.5%; prev: 5.7%). Sequentially, headline inflation also retreated -0.2% MoM (exp: -0.1%; prev: 0.1%). As we earlier suggested, elevated services inflation is likely the sole source of discomfort for the BOE. Following a 25bps of rate cuts on 1 Aug, market pricing for BOE rate cuts has adjusted more hawkish with 40bps of cuts priced in (prev: 53bps). Economists' forecast consensus have leaned more hawkish at 35bps (prev: 50bps) of cuts in 2024. **We maintain our view that the BOE will cut rates by a further 50bps in 2024 with the disinflationary path broadly intact and services inflation falling further. 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.**

The BOE cut policy rates by 25bps on 1 Aug 2024 to 5.00% (prev: 5.25%). Vote split was 5-4 in favour of cutting rates by 25bps versus standing pat. Bailey, Breeden, Dhingra, Lombardelli and Ramsden voted for a 25bps cut. Greene, Haskel, Mann and Pill preferred standing pat. Note that one of the dissenters and notable hawk Haskel will be replaced on 2 Sep by Taylor. Removing a notable hawk and dissenter to rate cut could tilt the balance in favour of more cuts from the BOE. Taylor's recent research published by SF Fed concluded that tight monetary policy could weigh on a country's economic potential for at least 12 years. The broad disinflationary trend still exists, although the path to the BOE's inflation target could be bumpy. We still view market pricing of BOE cuts is far too hawkish, and BOE meetings should be viewed as live with regards to rate cuts. The BOE has tilted more dovish at successive meetings and revised their inflation forecasts down. Services inflation has also come off and while it remains elevated, the BOE MPC could be concerned about monetary policy being overly restrictive.

Growth in the UK remains healthy. 2QP GDP was in line at 0.9% YoY (exp: 0.9%; prev: 0.3%) and 0.6% QoQ (exp: 0.6%; prev: 0.7%). Growth has consistently outperformed expectations in the UK and a large part of this should already be priced into the GBP. However, we do 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. At the very least, Starmer should warm EU-UK relations, which had been frosty under Conservative administrations. We expect growth to largely continue to be supportive of GBP strength.

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

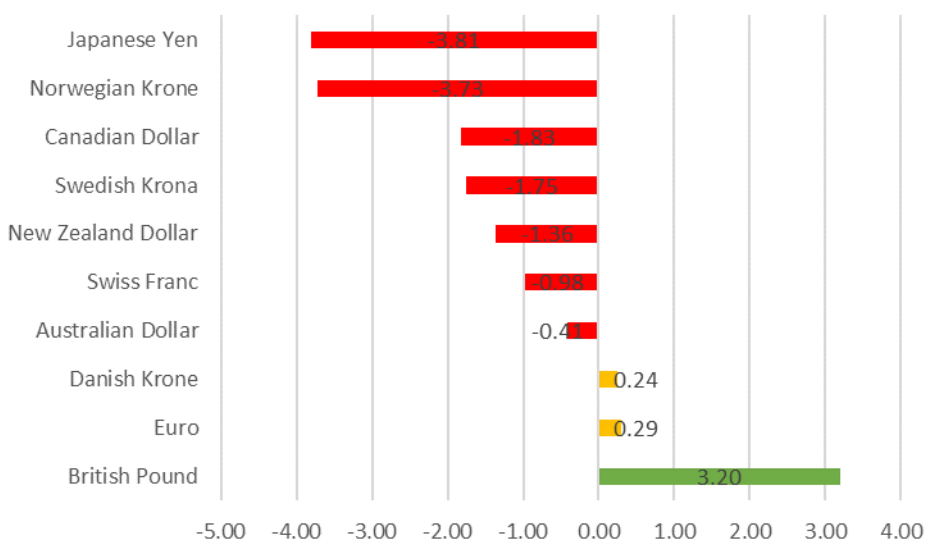
Risks Ahead: Should the UK manage to successfully navigate the intricacies of a post-Brexit UK, then the GBP may perform better than we expect. We cannot rule out however, salient downside risks such as geopolitical tensions in the Middle East, the unresolved Ukraine war and the blockade of the Suez Canal that could have resulting upside risks to inflation and downsides to growth which could weigh on the GBP. Downside risks to growth also exist, which could weigh on the GBP. More broadly, with the GBP being a high beta, a period of global risk aversion could also weigh.

Key data/events: Aug F Mfg PMI (2 Sep), Aug BRC Sales Like-for-Like (3 Sep), Aug Official Reserves Changes, Aug F Svcs/Comp PMI (4 Sep), Aug Construction PMI, Aug DMP 3M Output Price/1Y CPI Expectations (5 Sep), SP UK Jobs Report (9 Sep), Jul Avg Weekly Earnings, Jul ILO Unemployment, Aug Claimant Count, Aug Jobless Claims (10 Sep), Jul Monthly GDP, Jul Industrial/Manufacturing Production, Jul Trade Balance (11 Sep), Aug BOE/IPSOS Inflation Next 12 Mths (13 Sep), Aug CPI/RPI/PPI Inflation (18 Sep), **BOE Policy Decision (19 Sep),** Sep Consumer Confidence, Aug Retail Sales, Aug Public Finances (20 Sep), Sep P Mfg/Svcs/Comp PMI (23 Sep), 2Q F GDP, 2Q Current Account Balance, Aug Mortgage Approvals, Aug Money Supply (30 Sep).

Inflation Abates but Wage Growth Remains Robust

Source: Bloomberg, Maybank FX Research & Strategy

GBP Is the Standout Performer in the G10 Space YTD



Source: Bloomberg, Maybank FX Research & Strategy

CHF: More Rate Cuts on the Cards

USD/CHF	3Q 2024	4Q 2024	1Q 2025	2Q 2025
	0.8600 (0.8800)	0.8500 (0.8700)	0.8500 (0.8600)	0.8500 (0.8600)

Previous Forecasts in Parentheses

Motivation: We lower our forecasts for USDCHF and flatten the trajectory of CHF appreciation against the USD. This is based on the belief that while the USD will gradually fade alongside fading US exceptionalism, a global soft landing and Fed rate cuts, a dovish leaning SNB could weigh on the CHF and result in a flatter trajectory of appreciation. We note that SNB seems to have a preference to allow for CHF weakness as it refrained from intervening in 1Q2024, where the CHF was broadly weaker against both USD and EUR. CHF weakness would be supportive of Swiss export competitiveness against a backdrop of tepid growth and benign inflation.

USDCHF traded within a 0.8400 to 0.8789 range in Aug, lower than the 0.8771 to 0.8922 range in Jul. 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 +1.3% 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.

Latest inflation prints remained benign. Jun CPI inflation printed at 1.3% YoY (exp: 1.3%; prev: 1.3%), and was sequentially lower at -0.2% MoM (exp: -0.2%; prev 0.0%). Core CPI inflation was at 1.1% YoY (exp: 1.1%; prev: 1.1%). Developments are largely in line with global trends where price pressures are on a broad downward trajectory. Recall that in Switzerland the inflation target is between 0 to 2%. At its 20 Jun meeting, SNB cut rates to 1.25% (prev: 1.50%) given the significant decline in the inflation outlook for Switzerland. As inflation continues to retreat, we expect two more cuts from the SNB in 2024. This is broadly in line with market pricing of 55bps of cuts and more dovish than consensus forecasts which see about 25bps of cuts. We see no cuts for SNB in 2025, in line with consensus forecasts. Term rates in Switzerland should also be reduced by changes in the overnight, although this could take time since 3M SARON is essentially a compounding of daily SARON over three months, a cut in overnight rates today would only be fully factored in three months later.

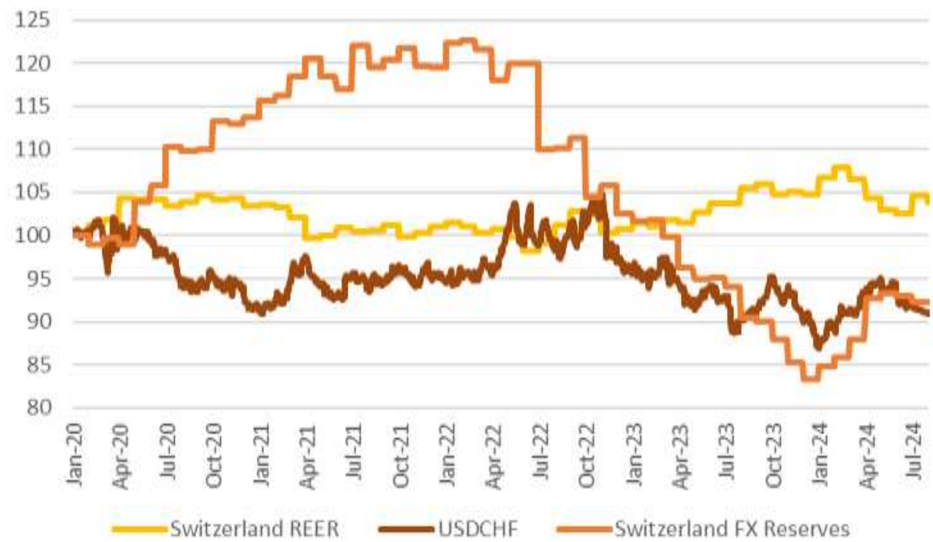
We suggest that the relative strength of the CHF has been a key reason for SNB to pivot to rate cuts. Dec marked a key pivot in Swiss FX policy with interventions no longer being one-sided in favour of supporting CHF strength. One possible theory is that the surprise cut would help cap CHF strength and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

While the SNB is unlikely to be as interventionist as India in its management of the CHF, we do keenly observe for signs of SNB intervention to weaken the CHF. Given that inflation appears to be coming off and the downside risks to growth, we cannot rule out SNB easing via both weakening the CHF and reducing interest rates. We watch changes in SNB's balance sheet, official foreign reserves, and sight deposits closely for hints on SNB's future leanings. The declaration that intervention would no longer be one-sided in favour of CHF strength is also significant. FX reserves have increased to US$792b, while sight deposits have been broadly stable at around CHF460b. We do maintain our view that the USD strength will gradually fade over the year amid fading US exceptionalism.

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

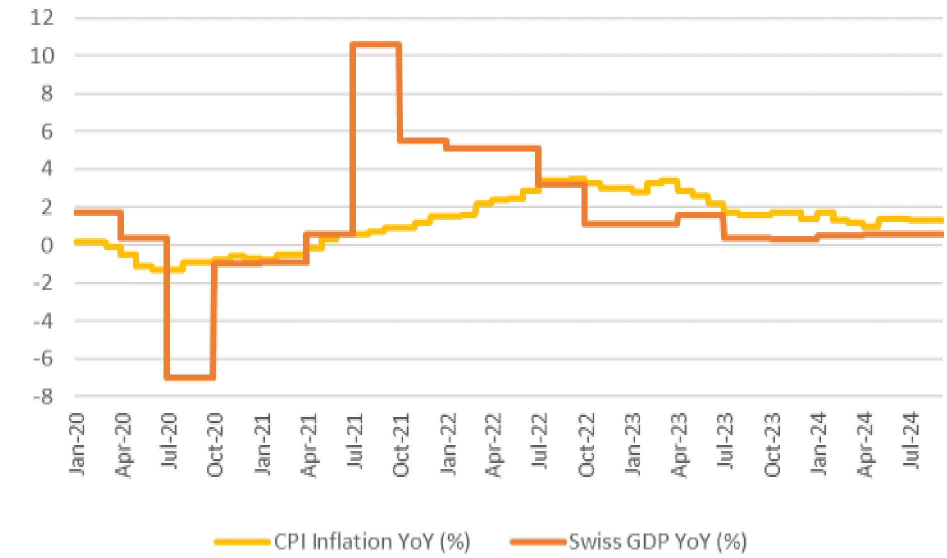
Key Data/Events: Jul Retail Sales, Mfg/Svcs PMI (2 Sep), Aug CPI, 2Q GDP (3 Sep), Aug Unemployment (5 Sep), Aug FX Reserves, SECO Consumer Confidence (6 Sep), Aug Producer & Import Prices (16 Sep), Aug Exports/Imports, Sep Economic Forecasts (19 Sep), Aug Money Supply (23 Sep), Autumn Economic Forecasts, UBS Survey Expectations (25 Sep), **SNB Policy Decision,** 2Q Foreign Exchange Transactions, KOF Leading Indicator (30 Sep).

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



Source: Bloomberg, Maybank FX Research & Strategy

Inflation is Benign and Growth is Tepid



Source: Bloomberg, Maybank FX Research & Strategy

AUD: Accumulate on Dips

AUD/USD	3Q 2024	4Q 2024	1Q 2025	2Q 2025
	0.67	0.68	0.70	0.71
	(--)	(--)	(0.69)	(0.69)

Previous Forecasts in Parentheses

Motivation: AUDUSD recovered fully from its Jul pullback and was last seen around 0.68 by the last week of Aug off its 5th Aug low of 0.6350. Our warnings about two-way risks came to fruition in light of the volatile gyrations that lasted well into the early Aug. Our call for AUDUSD to reach 0.68 also played out faster than expected. Next leg of gain may take some time as global growth continues to show signs of fragility, albeit with less risk of a severe downturn. We hold a glass half full view as we continue to expect a turnaround in the global economy as central banks ease monetary policies in tandem. That would be conducive for pro-cyclical AUD. Given our medium term view and the recent run-up, we continue to prefer the approach of accumulating AUD on dips. We adjusted our 9 to 12 month forecast higher based on our optimistic view of a global turnaround in 2025. Over the next one quarter however, potential return of volatility due to US elections and tentative growth fragility could mean more two-way trades for the AUD. However, Fed's dovish pivot would support the AUDUSD on dips.

A Harris Presidency May Be Relatively More Benign for the AUD. There is also a possibility that a scenario of US Vice President Kamala Harris winning the presidency in Nov could mean a more predictable bilateral relationship between the US and China. Kamala Harris may focus on furthering the progressive agenda at home rather than efforts to further tighten restrictions on China. That could also be a more benign environment for the AUD. Trump's volatile trade policies were undermining AUD via its impact on China and the yuan.

RBA's Hawkish Hold. RBA kept cash target rate unchanged at 4.35% and raised its underlying inflation to 3.5% for end 2024 and 3.1% by end Jun 2025 from previous 3.4% and 3.1% respectively. GDP was raised to 1.7% and 2.5% for Dec 2024 and Jun 2025 vs. previous 1.6% and 2.1% respectively. Output gap is still positive with aggregate demand still seen as exceeding supply. That cannot be said enough for the housing market. Housing costs continue to be the biggest driver of the monthly CPI for Australia. Bullock delivered a rather hawkish press conference, noting that "inflation is still too high" and a rate hike was even considered at the Aug meeting. She also mentioned that "pricing for a rate cut within the next six months doesn't align with the board's thinking". In spite of her very hawkish words, cash rate futures still imply a rate cut by the end of the year, in line with our view. We look for a 25bps rate cut in 1H and another in 2H 2025.

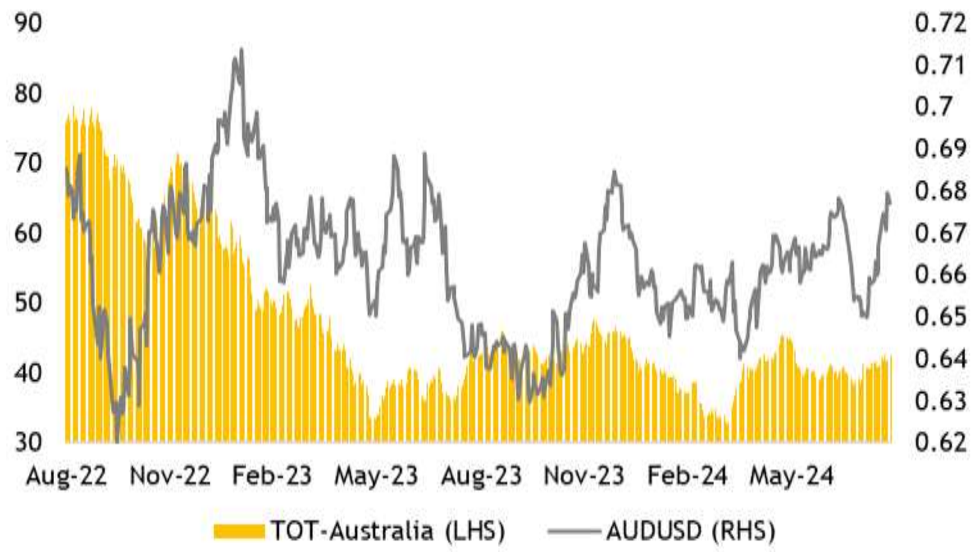
RBA to remain hawkish in Sep but a hike would be unnecessary. The next policy decision is on the 24th Sep. Australia's inflation continues to be more elevated than most even though headline inflation drifted lower to 3.5%y/y in Jul from previous 3.8% while the underlying inflation eased to 3.8%y/y from previous 4.1%. Comparing Australia's Jul inflation with peers such as Canada, the US, Eurozone, the UK and Singapore, annual pace of inflation in Australia remains faster. We also recall that even though RBA had considered a rate hike, Bullock did mention that "we are restrictive enough" and if we stay restrictive enough, we'll be able to get back to the target band. As inflation continues to ease, real interest rates are rising and that could in effect tighten monetary policy settings. Breakdown of Australia's inflation report for Aug suggest that even the housing inflation seems to be easing on an annual pace. The government just announced a national planning level for all international student commencements in 2025 to cap the intake to 175K for higher education courses and 95k for skills training sector, taking the total to 270K. That implies a 13% cut from the fiscal year that ended in June amid immigration concerts. This would be a way to curb population growth and the demand for housing. Based on the Housing Australia's estimate, the supply gap for housing based on the population forecast widened to 197847 units by 2027 from 115600 previously. RBA is likely to keep cash target rate unchanged at 4.35% and remain hawkish given sticky underlying inflation.

Cautiously Optimistic of China's Stability. China is Australia's biggest trading partner and as such, always a relevant concern. China had pledged to stabilize domestic demand and followed through with a CNY300bn subsidies (announced 25 Jul) meant for upgrades of factory equipment and trade-ins of consumer goods. Along with the rate cuts provided (first for 1Y LPR since Aug 2023), there could be a possibility that confidence could be lifted a tad.

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

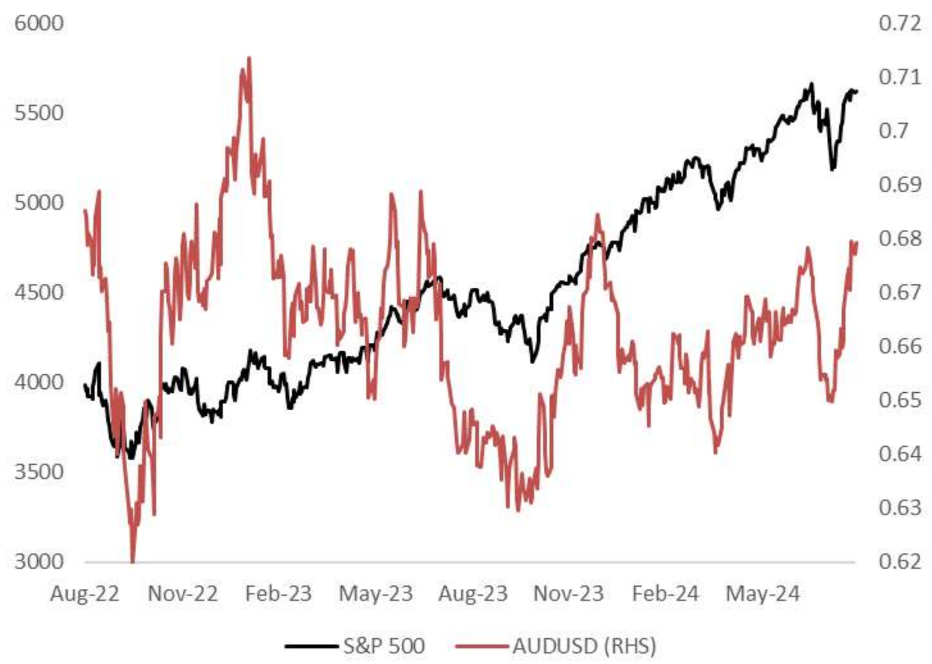
Key Data/Events: CoreLogic Aug Home Prices (1 Sep), M-I Aug inflation gauge, Jul building approvals (2 Sep); 2Q net export of GDP, current account bal (3 Sep), 2Q GDP, household Jul spending (4 Sep), Jul trade bal (5 Sep), Jul home loans (6 Sep), Sep Westpac consumer confidence, NAB Aug business confidence (10 Sep), Sep consumer inflation expectation (12 Sep), Aug labour report (19 Sep), Sep prelim. Mfg, Services PMI (23 Sep), **RBA policy decision (24 Sep),** Aug CPI (25 Sep), CoreLogic Sep Home Prices (30 Sep).

Terms of Trade Have been Supportive of the AUD



Source: Bloomberg, Maybank FX Research & Strategy

AUD was also More Sentiment-Driven of Late



Source: Bloomberg, Maybank FX Research & Strategy

NZD: RBNZ Cuts and There Will be More To Come

	3Q 2024	4Q 2024	1Q 2025	2Q 2025
NZD/USD	0.61 (0.60)	0.62 (0.61)	0.63 (0.63)	0.64 (0.63)

Previous Forecasts in Parentheses

Motivation: NZD also made a complete reversal on its decline. Rising dairy prices, improvement in risk sentiment played a part in lifting the NZD. In addition, Fed's dovish pivot at the Jul FOMC also spur a broad weakening of the greenback and boosted the NZDUSD. Similar to our view on the AUD, pro-cyclical NZD should continue on its rise in the next 12 months as we look for a turnaround in the global economy in the months ahead that could lift the antipodean. As Fed starts its easing cycle, regional central banks would be able to ease without fear of repercussions on their respective currencies. That could align most global central banks (ex BoJ) on their easing cycles and we expect recovery to gain traction. Over the next one quarter however, potential return of volatility due to US elections and tentative growth fragility could mean more two-way trades for the NZD. However, the more medium-term narrative of easing cycles, plausible recovery would support the NZDUSD on dips. We look for another 25bps cut in Oct. In 2025, we look for a 125bps cut.

RBNZ Cuts Right after Dovish Pivot, in line with our expectations and (once again), against consensus. The committee even discussed about a 50bps cut but decided on a smaller cut of 25bps to take OCR to 5.25% as a "low risk start". Orr projected a recession for 2Q-3Q 2024 but also assured that the economy at this point is in its "darkest period". Fresh projections indicate that the average official cash rate would fall to 4.36% by Jun 2025. That is roughly in line with our view for RBNZ to cut OCR by 50bps within 2024 starting from Aug. We continue to look for another 125bps cut in 2025. RBNZ would be one of the most aggressive central banks in the pace of easing for this cycle but as what Governor Orr had mentioned, this is NZ's darkest point. The Fed and RBNZ are now aligned in policy trajectory and that provides buffer for the NZD. The difference in pace when it comes to the easing cycle does not matter as much. Growth recovery should be the next narrative and that is constructive for the NZD.

Inflation is less of an issue at this point. 2Y inflation expectation eased to 2.03% in 3Q from 2.33%. Food prices slowed to +0.4%m/m from previous 1.0%. However, private wages excluding overtime still quickened to +0.9%q/q from previous +0.8%. Average hourly earnings accelerated to 1.1%q/q from previous +0.3%. Wage pressure still lingers. Activity on the other hand has weakened with retail sales ex inflation down -1.2%q/q in 2Q from previous +0.4% (also revised lower). Filled jobs fell -0.1% in Jul and the statistics department highlighted that the younger age groups could be the most affected by supply and demand shifts in the labour market. Filled jobs for 25 to 34 year olds dropped by 1.8% and have started to show annual declines from May 2024. Performance Services index for Jul rose to 44.6 from previous 40.7 but we suspect this could be due RBNZ's signal of a rate cut that saw more optimism amongst the respondents. It is still in contraction. Price pressure is more likely to continue to weaken and RBNZ could cut another 25bps in Oct.

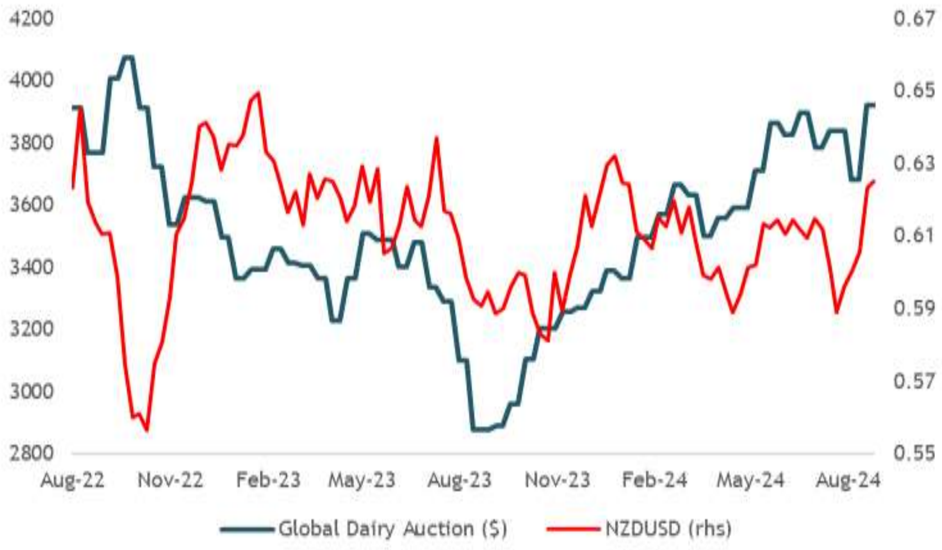
To add to the case of a further rate cut is the recent findings of RBNZ Financial Stability Report released on 27 Aug. The central bank noted that the commercial property market remains soft due to high interest rates, increased remote working and a continued rise in online shopping. That said, it noted that the financial system is still in a good position to manage the risks due to enhanced regulations and improvements in lending standards.

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 t NZD13.4bn next year and a return to budget only in 2028, a year later than previously expected.

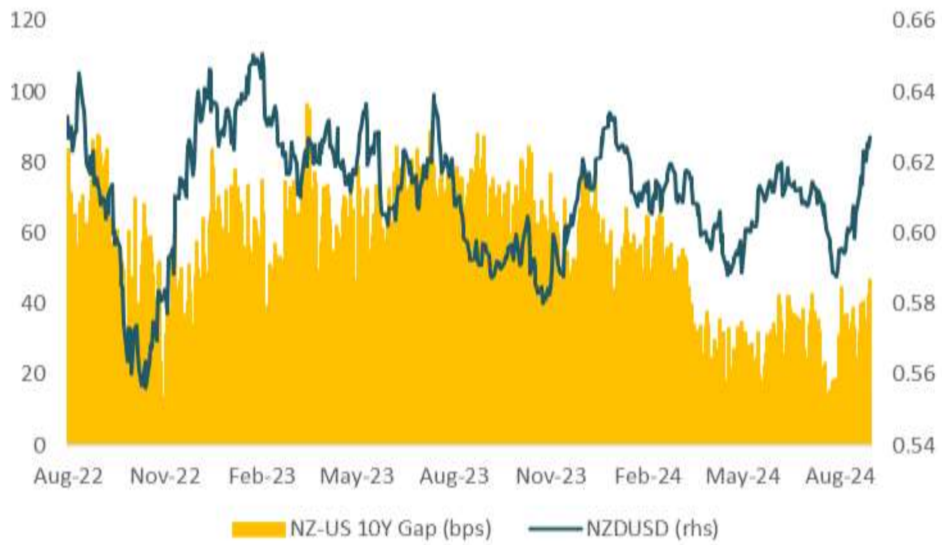
Risks: We had warned that any unexpected headwinds for major economies (China, US, Eurozone) that cause a sharper than expected global recession is negative for the NZD via the sentiment as well as the trade channel. The NZ economy now looks increasingly fragile and any downgrade to growth outlook will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

Key Data/Events: 2Q Terms of trade (3 Sep), ANZ Aug Commodity price, CoreLogic Aug Home value (4 Sep), 2Q Mfg activity, REINZ house sales (10 Sep), Jul net migration (11 Sep), Aug food prices, card spending (12 Sep), Aug BusinessNZ Mfg PMI (13 Sep), Aug Performance Services Indexl, Westpact 3Q consumer confidence (16 Sep), 2Q BOP (18 Sep), 2Q GDP (19 Sep), Aug trade (23 Sep), ANZ Sep consumer confidence (27 Sep), Aug filled jobs, ANZ Sep business confidence (30 Sep).

<u>Global Dairy Auction Has Been on the Rise, Boosting NZD</u>



<u>NZ-US 10y yield differential Widens and Lifts the NZDUSD</u>



Source: Bloomberg, Maybank FX Research & Strategy

CAD: Back-to-Back Cuts in Play

USD/CAD	3Q 2024	4Q 2024	1Q 2025	2Q 2025
	1.3700	1.3600	1.3500	1.3400
	(1.3800)	(1.3700)	(1.3600)	(1.3500)

Previous Forecasts in Parentheses

Motivation: The outlook for the CAD is a bullish one, especially against the greenback, as we look for the Fed's easing cycle to take away the USD's carry advantage, global recovery to support pro-cyclical CAD and BoC's easing cycle to potentially spur a recovery at home. We had looked for BoC to cut in Sep. That has not changed. Near-term, there is some potential for USDCAD to retrace higher from current levels. With markets pricing in 100bps cut for the Fed over the next three meetings, if US data come in more resilient than expected and that would lift US rates as well as the greenback a tad higher before the USD makes its next move lower again. On the other hand, markets are pricing in a 25bps cut for Sep, Oct and Dec after a back to back cut in Jun and Jul to take policy rate to 3.75%. For 2025, we look for 125bps cut to take policy rate to 2.50%.

BoC is more likely than not to cut policy rate again by 25bps in Sep, given the emergence of a negative output gap, noted in the summary of deliberations for the Jul meeting. In addition, they also "expressed that a pickup in economic growth was needed to sustainably achieve the inflation target over the projection horizon". Focus right now is on growth. supportive measures rather than inflation. Current slack is projected not likely to be absorbed until 2026. As long as inflation trajectory continues to trend lower towards the 2% (Jul CPI eased to 2.5%y/y from previous 2.7%), the BoC is likely to ease monetary policy further in order to support growth and employment. We now look for BoC to cut almost every meeting for the rest of the year to take the policy rate to potentially 3.75%. We then expect another 25bps per quarter next year.

Activity is easing. Hiring is slowing. CFIB business barometer for Jul slipped to 55.4 from previous 56.0 and based on the survey, hiring intentions amongst small businesses are now at its weakest in three years with only 13% of businesses planning to raise head count over the next three or four months. That said, layoff plans are not on the rise. Nearly ¾ of surveyed firms plan to keep their current head count (above the historical average of 2/3 since 2009). The latest unemployment rate was steady at 6.4% in Jul but that does not negate the uptrend of the jobless rate since its low in 2022. Retail sales fell -0.3% vs. previous 0.8%. Statistics Canada's latest survey for 3Q revealed that cost pressures have eased but businesses still face challenges linked to inflation, costs of borrowing and debt burden. That said, optimism has returned to businesses in Canada.

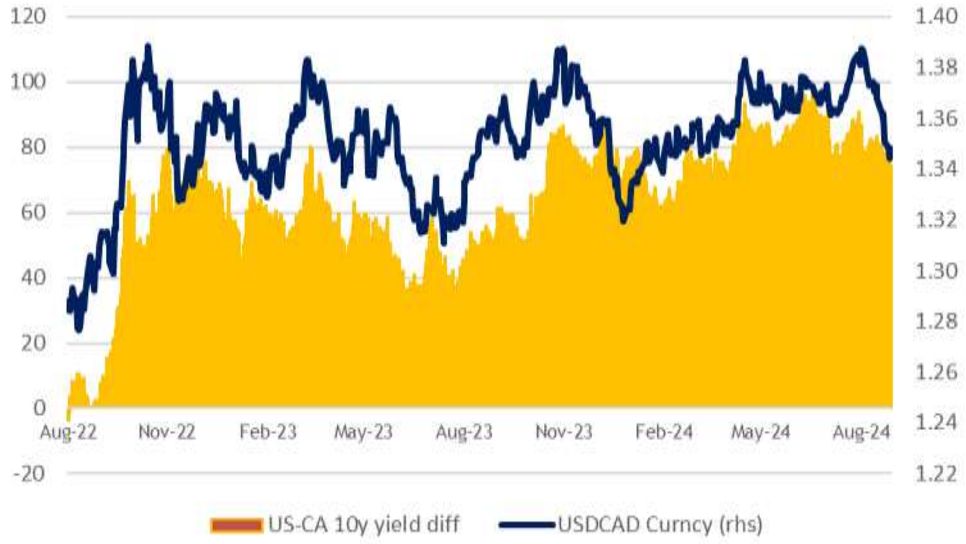
We had pointed out that BoC could be the most aggressive in easing given some signs of softening external demand, deterioration in household spending and weaker capex intentions amongst firms. That is likely well in the price of CAD. Last month, we had also pointed out the possibility that as the Fed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

We have been holding the view that oil would be of little help to CAD in the near-term. Oil swings tend to amplify the effects of market sentiment on the CAD. However, in times of supply shocks, oil price increase does not really boost CAD as much anymore (especially against the USD) and CAD tends to be more risk-sensitive in those risk-off episodes. The recent geopolitical events in the Middle-East validated the viewpoint that we have held in this space – oil spikes in this case was negative for CAD because USD benefits as a safe-haven as well as a net oil exporter. However, as global recovery starts to gain better traction and Canada's growth start to bottom, we expect the rise of crude oil prices to support the CAD.

Risks Ahead: (1) US inflation and concomitant policy trajectory is key for USD direction and any re-accelerations to boost USD against the CAD. (2) Any unexpected headwinds for major economies (China, US, Eurozone) that cause a global recession is negative for the CAD. (3) An escalation of 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) We had for months warned that Canada may move to levy tariffs on China's EV. Canada will impose a 100% tariff on Chinese-made electric vehicles and 25% tariff on aluminum and steel in order to protect its domestic manufacturers. Levies on EVs will effect on 1 Oct, on top of the existing 6.1% tariff while the levies on the industrial metals will take effect on 15 Oct. There could backlash from China.

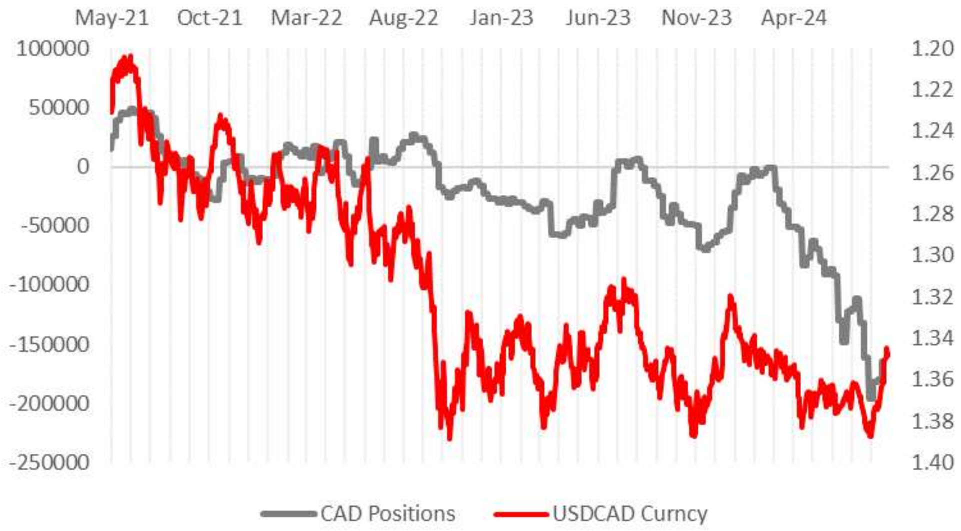
Key Data/Events: S&P Global Canada Aug Mfg PMI (3 Sep), Jul trade, BoC policy decision (4 Sep), 2Q labour productivity (5 Sep), Aug Services PMI (5 Sep), Aug labour report (6 Sep), Aug CPI (17 Sep), BoC summary of deliberations (19 Sep), Jul retail sales (20 Sep), CFIB Sep business barometer (26 Sep), Jul GDP (27 Sep).

Narrowing US-CA Yield Differential Brings USDCAD Lower



Source: Bloomberg, Maybank FX Research & Strategy

Net Short CAD Positions Are Retracing from Multi-Year High



Source: Bloomberg, Maybank FX Research & Strategy

JPY: Policy to Provide Support, Near Term Likely Ranged Still

	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USD/JPY	145.00 (150.00)	138.00 (140.00)	130.00 (130.00)	120.00 (125.00)

Previous Forecasts in Parentheses

Motivation: We lower our USDJPY forecast to better reflect market expectations of the likelihood of a global easing cycle becoming more established. The JPY has very much been on the short end of the stick for the last couple of years when it comes to the global rates environment. However, that looks to be strongly shifting now as economic conditions turn more supportive for the JPY. The latest data in Japan are increasingly pointing towards a virtuous-wage price cycle becoming more entrenched whilst US data meanwhile is also showing more significant signs of softening. Resultantly, this has allowed policy conditions to work more in favor for the JPY as the BOJ can continue engaging in tightening whilst the Fed may soon have the opportunity to ease rates. We see the BOJ likely to raise rates by another 25bps by year end, bringing it to 0.50% whilst we believe the Fed may cumulatively cut by 50bps. However, the pace of policy adjustment for both the Fed and the BOJ is still going to be rather slow which would mean USDJPY would only trend gradually downwards over the medium term. In the near term over the coming month, we see the possibility that the pair may trade within a range of 144.00 – 150.00 although it may just finish the quarter at the lower end of that. Meanwhile, risks to our view includes persistently high market volatility or disappointing Japanese data, delaying BOJ tightening. US data trending too strongly still, putting off Fed easing is also another risk that can weigh in.

Ueda has reiterated recently that the BOJ could raise rates further and we see them increasing by another 25bps to 0.50% by year end. In a parliamentary address in Aug, the BOJ Governor stated that “there is no change” to their basic stance that they will adjust monetary policy as they gain confidence in the likelihood of the economy achieving a stable 2% inflation. His comments had come just after Deputy Governor Uchida had mentioned that they would not hike rates if markets were to be unstable. This had created some impression in markets that the BOJ may hold off tightening until Ueda’s reiteration. However, we do note that Ueda is also cognizant of market volatility and did say himself that markets remained jittery and that may affect the BOJ's inflation forecasts. We think that most likely they would stay on hold in Sep and that the next rate increase may come at the Dec meeting. During that time, markets could also be calmer post the US elections in addition to the end of year being a more quiet period. Also, they would have more economic data then that would help reassure that the trend continues to point to a virtuous-wage price cycle becoming more entrenched.

Economic data over the last month has pointed more towards the possibility of a virtuous wage - price cycle become more entrenched. Importantly, real wages have now turned positive at 1.1% YoY, which is the first time it has done so since early 2022 and reflects the impact of the Shunto wage negotiations. 2Q company profits also grew strongly at 13.2% YoY whilst sales growth picked up to 3.5% YoY. Such numbers also give corporations more purpose and available cash to raise wages. Meanwhile, inflation data for Jul was mixed but not exactly of a major issue. The ex-fresh food, energy CPI number for Jul further slowed to 1.9% YoY (Jun. 2.2% YoY) although the ex-fresh food number accelerated slightly to 2.7% YoY (Jun. 2.6% YoY). The pace of deceleration of the former does raise some concerns whilst for the latter, it could slow in the coming months as the utility subsidies kick in again. However, we are still confident that inflation readings can fall in line with the BOJ expectations as it picks-up more strongly when we get into year-end with the impact from wage growth feeding more. We would note though too that the forward indicator - Aug Tokyo CPI was a positive reading as the numbers accelerated. Going forward, we expect that economic data should stay on track to support a BOJ tightening as conditions look to be favourable.

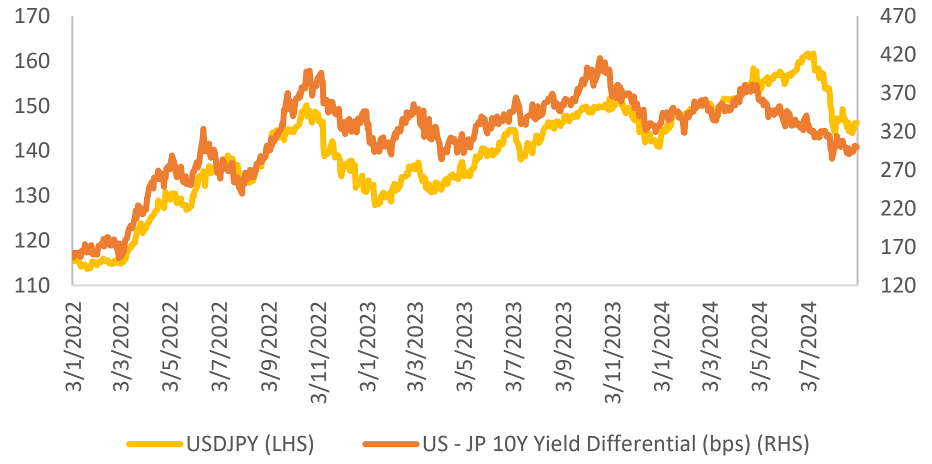
The heavy carry trade unwind recently seen was episodic in nature and going forward, it is likely to be more gradual. Over the last month, CFTC net future positioning is showing that there has already been a heavy unwind of possibly the fast element of the carry trade (interestingly, positioning on that part has turned bullish). However, there may still be quite large long-term investor positioning in the carry trade. If we look at the cross border lending in JPY, it was high as of end 1Q 2024 compared to history. Long term investors positioning can be slower at closing off and this supports the possibility of the unwinding being more gradual and spread out from now.

The election for the new LDP leader at this point looks like it could see quite a wide field of candidates. So far, there has already been four individuals that have declared their candidacy, who are Shigeru Ishiba (Former Defence Minister), Taro Kono (Minister for Digital Transformation), Takayuki Kobayashi (Former Minister of State for Economic Security) and Shigeharu Aoyama (Member of the House of Councillors). Other potential candidates include Shinjiro Koizumi (Former Minister of the Environment and son of previous Prime Minister Junichiro Koizumi), Yoko Kamikawa (Minister of Foreign Affairs), Ken Saito (Minister of Economy, Trade and Industry) and Yoshimasa Hayashi (Chief Cabinet Secretary). Some polls at this point are showing that Shigeru Ishiba and Shinjiro Koizumi could be the frontrunners. We continue to closely watch how the race is panning out and the views of the candidates regarding the JPY.

Risks Ahead: This includes persistently high market volatility or disappointing Japanese data, delaying BOJ tightening. We stay wary of this risk given the uncertainty regarding the Japanese domestic markets and economy. US data trending too strongly still, putting off Fed easing is also another risk that can weigh in but we think this is less likely to happen given that US data has already softened quite a bit and Powell has signalled that a cut is coming.

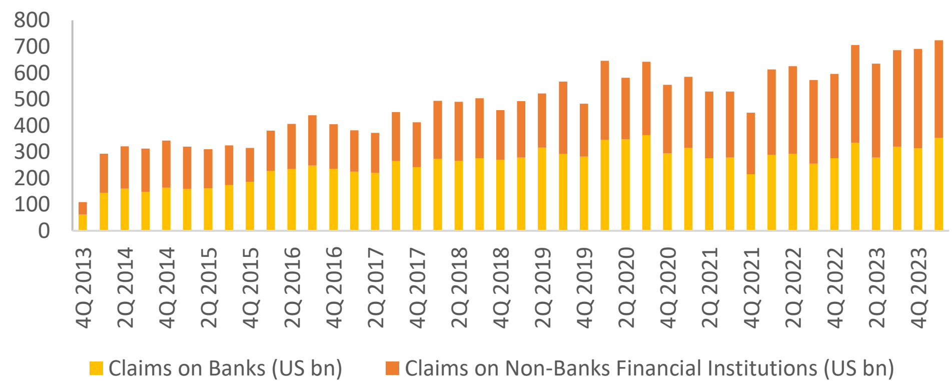
Key Data/Events: 2Q capital spending (2 Sep), 2Q company sales/profits (2 Sep), Jul cash earnings (5 Sep), Jul household spending (6 Sep), Jul P leading/coincident index (6 Sep), 2Q F GDP (9 Sep), Jul BoP CA and trade balance (9 Sep), Aug bank lending (9 Sep), Aug eco watchers survey (9 Sep), Aug M2/M3 money stock (10 Sep), Aug P machine tool orders (10 Sep), 3Q BSI large all industry/mfg (12 Sep), Aug PPI (12 Sep), Jul capacity utilization (13 Sep), Jul tertiary industry index (17 Sep), Aug nationwide dept sales/Tokyo dept store sales (17 - 24 Sep), Aug trade data (18 Sep), Jul core machine orders (18 Sep), Aug CPI (20 Sep), BOJ policy decision (20 Sep), Sep P Jibun Bank PMI composite/mfg/services (24 Sep), Aug PPI services (25 Sep), Sep Tokyo CPI (27 Sep), Aug P IP (30 Sep), Aug retail sales (30 Sep), Aug dept store, supermarket sales (30 Sep) and Aug housing starts (30 Sep).

Narrowing Yield Differential Should be More Supportive to the JPY



Source: Bloomberg, Maybank FX Research & Strategy

Cross Border JPY Bank Lending is High at End 1Q 2024 and Closing Off of Long-Term Carry Trade Positions Can Take Time



Source: Bloomberg, Maybank FX Research & Strategy

RMB: TWI Decline To Continue Well into 2025

USD/CNY	3Q 2024	4Q 2024	1Q 2025	2Q 2025
	7.12	7.08	7.05	7.05
	(7.25)	(7.23)	(7.21)	(7.21)

Previous Forecasts in Parentheses

Motivation: The rush of the USD decline has brought the USDCNY significantly lower. Markets tend to swing to extremes once there is a shift in narrative. This time, it was the Fed's pivot and markets have priced in 100bps cut for the Fed already over three months through Dec 2024. We continue to see potential for a bullish retracement especially for the USDCNY as the US elections draw near and hawkish talks on China may be revived in debates between the two US Presidential candidates. **In fact, shorting the yuan could act as a hedge against a Trump presidency.** We continue to look for CNY TWI to fall because of China's growth fragility. Most non-USD currencies should actually be appreciating faster than CNY in the current environment.

Will Exporters Repatriate and Convert Forex Holdings into Yuan? There have been talks of yuan carry trade unwinding and the repatriation of foreign currencies held by Chinese corporates overseas. However, it is hard to see the allure of any Chinese assets at home that can give a higher return vs. the multitude of alternatives found overseas that could nudge corporates into such a move. However, there is a possibility that exporters could convert more of their usual incoming forex receipts back into yuan. So while we do not believe in the "avalanche" of repatriation, the shift into easing by the Fed will definitely provide a more benign environment for the yuan. PBoC will have more wiggle room to ease its monetary policy without amplified repercussion on the currency, should it choose to do so.

Yuan will not be able to appreciate as fast as other non-USD peers because of 1) its **Weak growth.** China's 2Q GDP surprised to the downside at 4.7% vs. consensus estimate of 5.1%. Home prices declined persistently. Mfg PMI for Aug dropped deeper into contractionary region to 49.1 from previous 49.4. Non-manufacturing PMI inched higher to 50.3 from previous 50.2 due to the improvement in services while construction fell. Even the rise in services was due to summer travels. **2) A lack of fiscal stimulus or rather strategy**. While the Third Plenum had encouraging fiscal reforms and its resolutions touched on all the key points of concerns (housing, consumption, employment, local government fiscal sustainability), there was no promise of stimulus significant enough to keep the domestic demand from sliding at this point. However, our economist has also turned a tad more positive on private consumption and investment given the recent fiscal reforms that put local government in a better position to support growth. The bottoming out could still take a while and that leaves China still in an anaemic state. **3) Rate Cuts.** While we no longer look for any more rate cuts this year, our economist looks for PboC to take the 1Y LPR to 3.00% from current 3.35% next year. **The Jul rate cuts were not able to lift credit demand. As such, rate cuts in the future (without additional fiscal boost to the economy) may only make yuan a more attractive funding currency.**

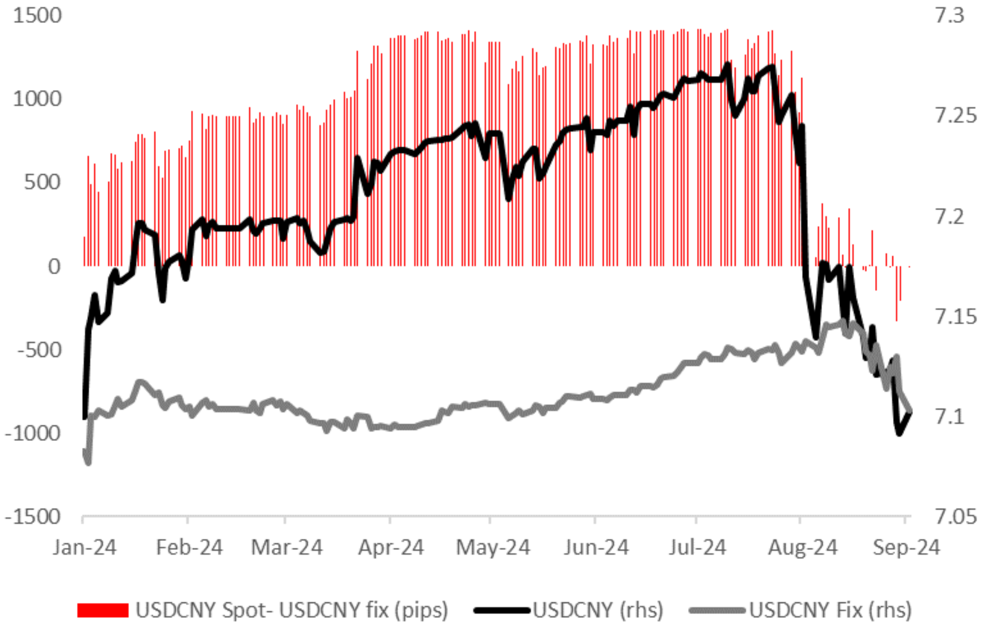
The USDCNY will take the directional cue from the USD. The steepest decline of the USDCNY might be behind us. That fall was driven by a confluence of Fed pivot and spillovers from carry-trade unwinding. However, China's abrupt shift from its reliance on real estate to high-tech manufacturing has left a void that cannot be filled at the moment. Domestic demand remains anaemic. Yuan is not likely to continue this pace of appreciation. As the USD continues to soften, expect other non-USD peers like EUR, GBP, AUD, NZD and ASEAN to clock faster pace of gains vs. the yuan.

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 Jul. 2) Capital outflow continues amid weak business/consumer confidence and yuan sentiment. 3) Rising trade tensions vs. the US/EU/CA but this time the pressure is being borne by the yuan only. All these factors could still pose a drag on the yuan sentiment. There is also possibility that yuan may strengthen more than we expected if the government provides fresh stimulus to support employment and stop the slide of the home prices.

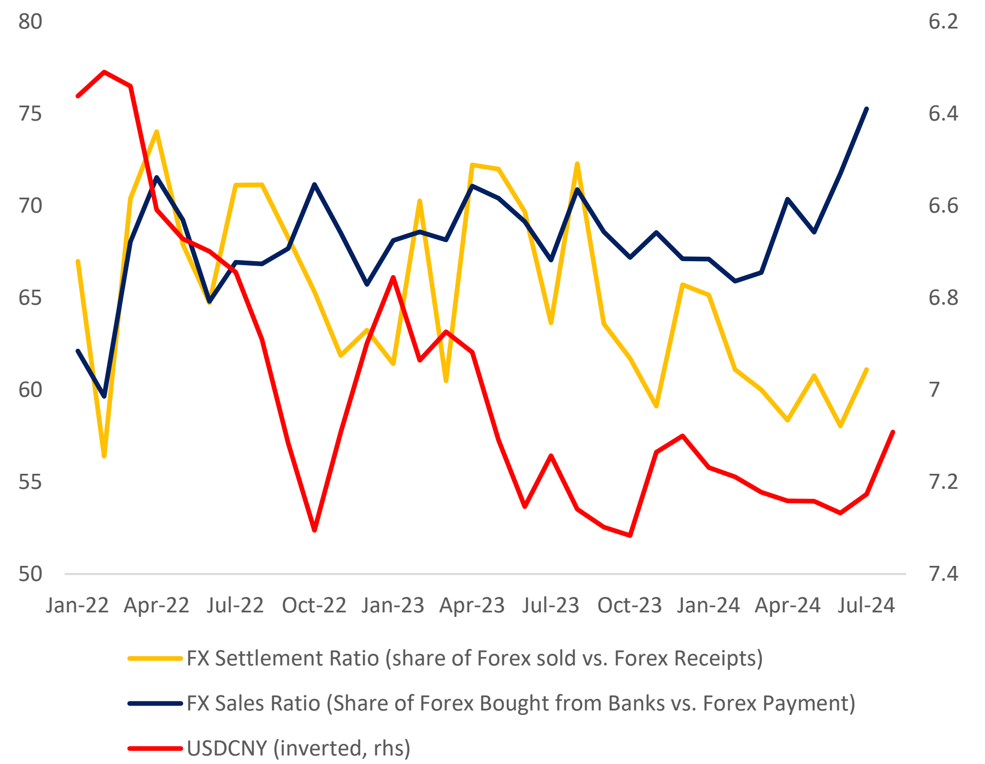
Key Data/Events: Caixin Aug China Mfg PMI (2 Sep), Caixin Aug Services PMI (4 Sep), Aug foreign reserves (7 Sep), Aug CPI, PPI (9 Sep), Money Supply, Aug new yuan loans, aggregate financing (9-15 Sep), Aug trade (10 Sep), Aug FDI (11-18 Sep), Aug new, used home prices, retail sales, IP, ex rural FAI, property investment, residential property sales and surveyed jobless rate (14- Sep), 1Y MLF (18 Sep), Aug SWIFT CNY share of global payments (19 Sep), Aug industrial profits (27 Sep), Sep NBS Composite, mfg, non-mfg PMI, Caixin Sep PMI, 2Q F current account bal (30 Sep).

USDCNY Has Dropped Towards Fix



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

Yuan Weakness Drove FX Settlement Ratio Lower and FX Sales Higher



Source: Maybank FX Research & Strategy

KRW: Catch Up Could Begin

	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USD/KRW	1320 (1350)	1300 (1330)	1280 (1310)	1270 (1300)

Previous Forecasts in Parentheses

Motivation: We lower our USDKRW forecasts as we believe that the KRW, one of the laggards in Asia (alongside TWD), could begin to catch up to its peers. This is broadly in line with the broad adjustment lower for USD-Asia pairs. KRW and TWD are two laggards in the Asian currency space. Our view is that the KRW could play catch up as global recession fears and growth concerns ease when monetary policies become less restrictive. We also think that continued exuberance over artificial intelligence (AI) could potentially drive outperformance for the KRW with potential boosts to both the economy and trade. As a high-beta currency, a global soft-landing and Goldilocks economy provides a favourable backdrop for the KRW.

Economic growth remains on track to be healthy despite a small QoQ contraction in 2Q2024. 2QA GDP came in at 2.3% YoY (exp: 2.5%; prev: 3.3%) and -0.2% SA QoQ (exp: -0.1%; prev: 1.3%). Moderation of growth should be viewed as temporary after hotter than expected growth in 1Q was largely driven increased global demand for chips. Further boosts are expected as long as the AI narrative remains intact. However, we do note that growth tends to be a factor that could take a longer time to play out in the currency space and as such pressures on the KRW could persist.

Jul inflation prints showed some stickiness in inflation with headline at 2.6% YoY (exp: 2.5%; prev: 2.4%) and core at 2.2% YoY (exp: 2.1%; prev: 2.2%). Taken together, growth and inflation prints should support the BOK holding its policy rate steady at 3.50% at the next meeting in Oct. As we suggested, BOK stood pat in Aug and given the balance of risks judged it to be prudent to stand pat i.e. that downside to growth is outweighed by risks of inflation, with the statement specifically citing volatility in exchange rates as a concern. BOK also made specific reference to the Sep FOMC and as we suggested is likely to take cue to cut from the Fed and other major central banks in determining when to cut rates. Past episodes have also shown that BOK has tended to hold for an extended period before pivoting to a cut. As of now, we suggest that BOK could cut up to two times in 2024, after the Fed has cut or provided more clarity on when it might cut. In the absence of that, pressure on the KRW from cutting before the Fed would be a likely consideration for BOK. For 2025, we pencil in 50bps of cuts for the BOK with the first cut likely to happen in 1H2025.

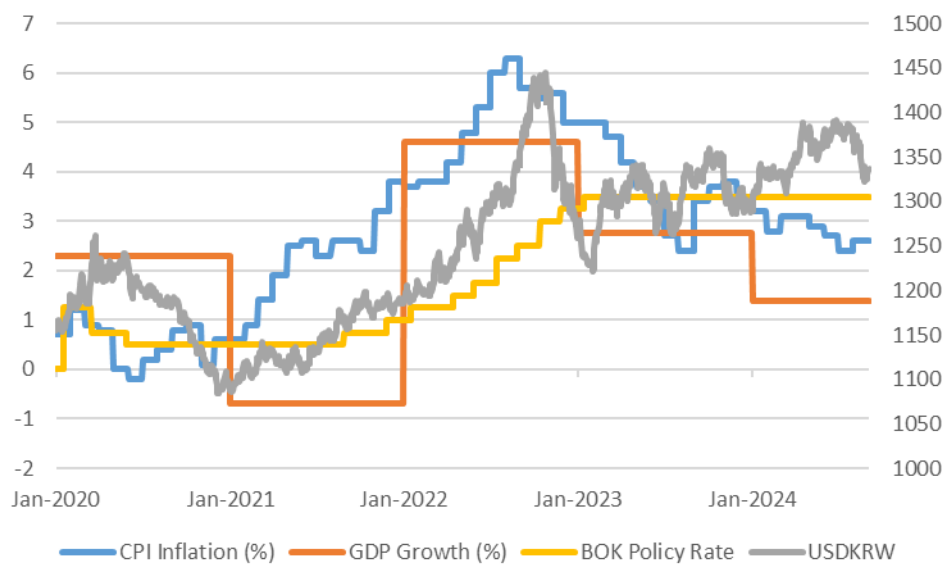
KRW has shown some nascent signs of catching up to its peers in Aug. 1M USDKRW NDF traded between 1316.31 to 1377.40 in Aug, lower than the 1364.58 to 1389.54 range in Jul. USDKRW easing both on spot and NDF basis in Aug shows that KRW could be catching up to other Asian currencies. YTD, KRW and TWD remain laggards in the Asian currency space. Over the last month however, KRW and TWD have jumped to the middle of the pack in Asia, with KRW performance roughly on par with the SGD. As we suggested, BOK remains concerned about KRW volatility and although they might not admit it the weakness of the KRW and the knock on effects on inflation in Korea. Yield differentials remain unfavourable with KRW one of the lower yielding currencies and as such we believe they are likely to stand pat until the Fed cuts.

The inclusion of Korea onto global bond benchmarks in Sep could spur USDKRW lower. Market watchers suggest that it is highly likely that Korea is included onto major bond indices this year amid abating inflation driving higher demand for government bonds. Korea was on FTSE Russell's watchlist as of last year but had not been added despite having met the quantitative criteria for inclusion. These are namely (i) market size of at least US$50b of outstanding issuances, (ii) sovereign credit rating of at least A- (S&P) and A3 (Moody's). They have however not met the qualitative requirement for investor accessibility. This is likely due to both capital controls and non-resident tax burden. There is already some preliminary work done to meet the qualitative requirements. According to Finance Minister Choo, an omnibus account is to be opened at an ICSD by Jun 2024, which should facilitate better investor access and anonymity. The government will consider introducing night trading of 3Y and 10Y bond futures to enable better risk management. It seems more likely that Sep-24 will be the entry date with the FTSE Russell semi-annual review conducted in Mar and Sep every year. If the index inclusion does happen, we would expect the resulting inflows to Korea to spur KRW strength. Official government estimates place the size of inflows at around US$38b to US$45b should Korean govvies be placed on the FTSE Russell World Government Bond Index.

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

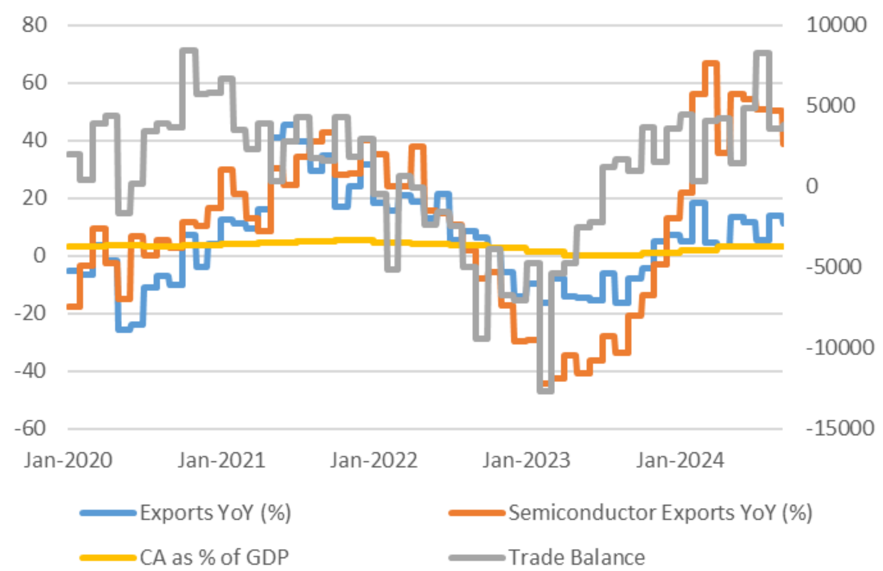
Key data/events: Imports/Exports/Trade Balance (1 Sep), Aug Mfg PMI (2 Sep), Aug CPI (3 Sep), Aug FX Reserves (4 Sep), 2Q P GDP (5 Sep), Jul Goods/Current Account Balance (6 Sep), Aug Bank Lending to Household (9 Sep to 16 Sep), Aug Unemployment Rate (11 Sep), Aug Import/Export Price Index, Jul Money Supply (13 Sep), Sep Exports/Imports (23 Sep), Aug PPI (24 Sep), Sep Consumer Confidence (25 Sep), Aug Retail Sales (25 to 30 Sep), Oct Business Survey Mfg/Non-Mfg (27 Sep), Aug Industrial Production, Cyclical Leading Index Change (30 Sep).

<u>**QoQ Growth Moderates and Inflation Comes Off (Albeit Bumpy)**</u>



Source: Bloomberg, Maybank FX Research & Strategy

<u>**Moderation in Trade Balance and Semiconductor Exports**</u>



Source: Bloomberg, Maybank FX Research & Strategy

SGD: Bias to the Downside

USD/SGD	3Q 2024	4Q 2024	1Q 2025	2Q 2025
	1.2950	1.2900	1.2850	1.2850
	(1.3350)	(1.3250)	(1.3200)	(1.3200)

Previous Forecasts in Parentheses

Motivation: We lower our USDSGD forecasts and maintain the trajectory for the pair to come off gradually i.e. for SGD to strengthen against the USD gradually for the four quarters ahead. This is based on the belief that SGD will continue to stay resilient as the USD weakens against a backdrop of a global soft-landing, a Goldilocks economy and Fed rate cuts. This is also in line with a broad downward adjustment across our USD-Asia forecasts. The current pace of SGDNEER appreciation (estimated to be 1.5%) should continue to be supportive of the SGD. Fed rate cuts should also be supportive of SGD strength, although cuts could benefit other basket constituents more than the SGD. SGD could also benefit from a manufacturing recovery that could be driven by the broader AI/tech upswing narrative.

As widely expected, MAS kept policy settings unchanged in Jul and continued to see its current appreciation of the SGDNEER as appropriate in ensuring medium term price stability. MAS is likely to stand pat in Oct, given that there is no rush to ease policy amid an export-driven economic recovery and elevated inflation. The current stance should still be seen as appropriate for medium term price stability. Our economists see MAS standing pat in 2024 and maintain their inflation forecasts at 2.8% (core) and 2.6% (headline) in 2024. Our economists view moderating core inflation opening the door for MAS to ease in Jan 2025. Our inference from Chief Economist Robinson's speech on monetary policy is that MAS may not be able to ease quite as easily as an interest rate regime would, even if inflation targets are met presents the risk that MAS may not ease as promptly as the market expects. SGDNEER remains firm and trades at +1.85% above the mid-point on our model, and is likely to remain within the +1.50% to 2.00% region in Sep.

USDSGD has traded sharply lower in Aug within a 1.2999 to 1.3384 range, in contrast to the 1.3358 to 1.3590 range in Jul. SGDNEER remains firm and averaged +1.91% deviation from mid-point in Aug, higher than the +1.75% average deviation in Jul. Singapore's robust macro fundamentals and unique exchange rate policy, which results in SG rates being highly correlated with US rates, provides SGDNEER with resilience amid adjustments in market expectations. We think that eventual Fed rate cuts could lead to a tapering off in SGDNEER strength – specifically if basket constituents start to outperform the SGD i.e. appreciate by more against the USD than the SGD as the Fed cuts rates. This would also enable USDSGD to go lower without violating the SGDNEER band edge.

While there remain risks to both growth and inflation. Actual growth and inflation prints have largely come in line with MAS' forecasts, which reinforces our expectations for an extended hold from MAS. Our economists recently upgraded their 2025 GDP forecasts for Singapore to 2.4% (prev: 2.1%) with expectations for growth to be underpinned by strength in the modern services sectors, and a recovery in manufacturing and trade-related sectors. Lower global interest rates should also boost activity in finance and real estate sectors. MTI raised their 1Q2024 growth estimate to 3.0% (prev: 2.7%). 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 cooled to 2.5% in Jul (prev: 2.9%), the lowest print since Feb 2022.** Our economists do not expect core inflation to continue moderating at the same pace in Jul, given that the last leg of disinflation could be tougher, with frictions in the labour market and costs being passed on to consumers by businesses. core inflation to come in at 2.8% and headline inflation to come in at 2.6% in 2024. In line with this view, our economists also expect MAS to stand pat in Oct and only ease via a slope reduction in Jan 2025.

Reserves have grown amid a strong SGDNEER. The amount of outstanding Reserve Management Government Securities (RMGS) has increased to S$265.5b in Jul (Jun: S$263.5b; Dec 2023: S$247.0b), suggesting that some S$18.5b in OFR has been transferred in 2024 from MAS to GIC for longer-term management. Even with this transfer, stock of OFR with MAS has risen to S$506.4b (Jun: S$503.7b; Dec: S$463b), suggesting that MAS could have intervened to moderate strength in the SGDNEER, although some part of the increase may be due to currency translation effects or investment gains. Watch closely the next release of MAS' intervention operations which should be due in Sep 2024 for Jan to Jun 2024. The fuss-free leadership transition of new PM Lawrence Wong underscores the strength and credibility of Singapore's institutions, which in turn contributes to confidence in the SGD.

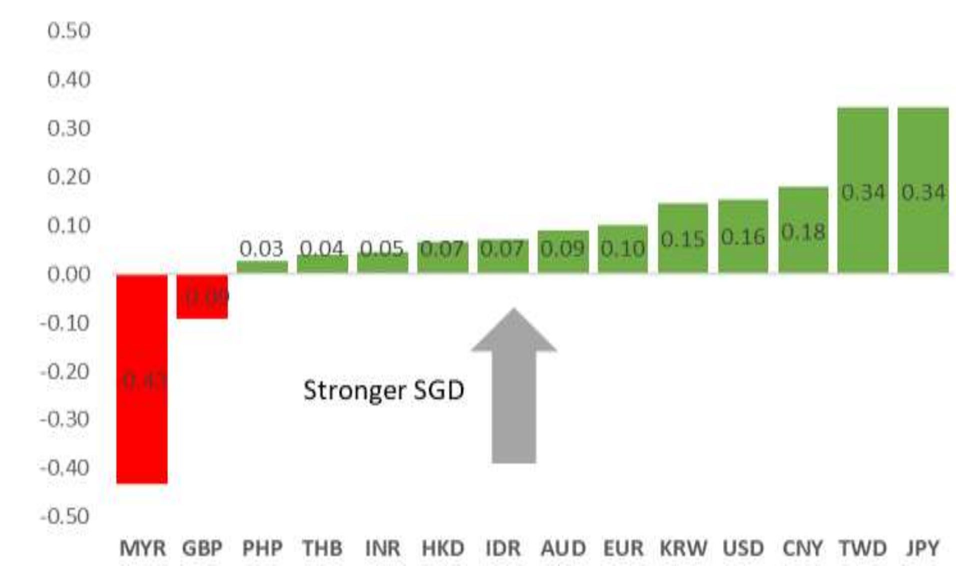
Risks Ahead: The bottoming of the electronics/chip cycle could fail to pan out and this would be less favourable for the SGD. Lingering inflationary risks also present a real risk for the Singapore economy and could affect the SGD. Should actual growth and inflation outcomes turn out contrary to MAS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

Key data/events: Aug PMI/ESI (2 Sep), Aug Global PMI (4 Sep), Jul Retail Sales (5 Sep), MAS Survey of Professional Forecasters (6 to 11 Sep), Aug FX Reserves (9 Sep), Aug Electronic Exports, NODX (17 Sep), Aug CPI (23 Sep), Aug Industrial Production (26 Sep), Aug Money Supply and Deposits and Balances of Residents Outside Singapore (30 Sep).

<u>**USD Rates and SGD Rates Are Moderating (And Highly Correlated)**</u>

Source: Bloomberg, Maybank FX Research & Strategy

<u>**SGDNEER Strength Only Moderated by MYR and GBP (%)**</u>



Source: Bloomberg, Maybank FX Research & Strategy

MYR: Continued Resilience and Outperformance

USD/MYR	3Q 2024	4Q 2024	1Q 2025	2Q 2025
	4.30 (4.55)	4.25 (4.45)	4.20 (4.40)	4.15 (4.35)

Previous Forecasts in Parentheses

Motivation: With FOMC chair Powell in Aug signalling the high likelihood of a Sep Fed cut and US data releases supporting that view as well as better global growth data (excluding US) supporting Asia, we are pricing these developments into our MYR and regional forecasts. However, we remain mindful that risks remain from global geo-politics and run up to US elections. Market pricing firmed for cuts in Sep and Dec (with an off chance for a 50bps cut) and overall cuts in 2024 increased to about 100bps (prev: 87bps). Fed takes precedence now, but sentiment can turn if US data shifts. Despite the Fed easing this year and UST 10 year yields falling since end Apr, US yields remaining high relative to other countries and continued interest in US equities in search of higher returns as rates fall suggest some caution on too rapid an expectation of a USD decline in our USDAsia forecast changes.

The implications on USD FX comes about as shifts in fiscal, foreign and trade policies may occur, depending on whether Trump or Harris is elected as the next President come Nov. Indeed, the emergence of Kamala Harris as Democratic presidential nominee after President Biden dropped out of race suggests fluid developments and remains early to call but based on current US election polls a Harris win seems more likely. A Trump win may see an escalation of US-China trade tensions and should inject some uncertainty to markets, causing USD volatility to rise and support USD while a Kamala Harris win could lead to a more domestic policy focused scenario with easing market volatility, support for Asian FX and global equities. Taking into consideration, positive domestic growth drivers, the Sep Fed rate cut and our baseline view of a Harris election win based on current election polls, USD downtrend momentum could continue into year-end. Other Ringgit-positive factors include improving domestic economic growth prospects, given growth pickup and trifecta of positives, as well as the expectation of stable Overnight Policy Rate (OPR) of 3.00% vs market amid our expectations of 2-3 cuts in the US federal funds rate between Sep 2024 and Dec 2024. On balance, USD trajectory aside, assuming an improvement in growth outlook, fiscal position and assuming a stable political environment ahead, we believe it is still generally MYR positive into year-end. **We revise USDMYR to end 2024 at 4.25 (previous: 4.45). We continue to hold to our view of a gradual downward trend for the USDMYR remaining in place by end 4Q 2024 and into 2025. Our BEER model finds the MYR is somewhat relatively fairly valued given current external factors.**

Ringgit has appreciated around 6% since 31 Jul vs USD and around 9% since 1 Jul. It is currently at around 4.3135 (@30 Aug), close to around 50 sen adjustment lower from the high of 4.80 on 20 Feb 2024. Our view that the MYR effective exchange rate was undervalued by around 8% at the start of the year seems to be appropriate and the recent adjustment panned out given current adjustments have slightly overshot those levels. BNM's FX market interventions as well as coordinated communications and measures by Bank Negara Malaysia and Ministry of Finance that include encouraging Government-linked companies (GLCs) and Government-linked investment companies (GLICs) to repatriate and convert their foreign exchange earnings and overseas investment incomes has played a significant role in ensuring there was no major overshooting in the MYR weakness.

Domestic economic fundamentals look to remain robust. 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.

Given 1H 2024 growth of +5.1% YoY, our economists raised 2024 real GDP growth forecasts to +5.2% (from +4.7%) while maintaining +5.1% projection for 2025. Key revisions are for gross fixed capital formation (2024F: +9.5% from +8.3%; 2025F: +8.1% from +7.4%) on stronger private investment (2024F: +9.5% from +8.1%; 2025F: +9.1% from +8.2%) that feed into upgrades in construction (2024F: +14.0% from +10.0%; 2025F: +11.5% from +8.0%). These revisions reflect the realization of robust approved private sector investment since 2021 which lead to higher construction activities, especially in the non-residential buildings/structures (e.g. factories, datacentres, industrial parks, solar farms, logistics). Investment and construction growth performance and outlook are also supported by progress in on-going infrastructure projects (e.g. ECRL; KVLRT3; Pan Borneo Highway; JB-Singapore RTS) and the expected rollout of new ones (e.g. Penang Mutiara LRT; Johor Bahru ART; KVMRT3; airport expansions/upgrades). Our economists also adjusted consumer spending growth forecasts (2024F: +5.5% from +5.1%; 2025F: +5.6% from +5.7%) in view of 1H 2024 performance, plus the revision in civil service remuneration, namely the +15% average increase in salaries (ranging between +7% for the highest grade to +42% for the lowest grade) which will be done in two phases i.e. on 1 Dec 2024 and 1 Jan 2026, and the prospect of minimum wage review next year.

Jul 2024 saw double-digit growth in exports (Jul 2024: +12.3% YoY; Jun 2024: +1.7% YoY) and imports (Jul 2024: +25.4% YoY; Jun 2024: +17.8% YoY). 7M 2024 exports and imports rebounded +5.1% (2023: -8.0%) and +15.5% (2023: -6.4%). Data augurs well for 3Q 2024 GDP growth after 2Q 2024 pick up to +5.9% YoY (1Q 2024: +4.2% YoY) and full-year growth outlook (2024F: +5.2%; 2023: +3.6%) amid investment upcycle as per imports of capital goods (Jul 2024: +44.4% YoY; Jun 2024: +23.6% YoY; 7M 2024: +36.5%; 2023: +7.1%). Current account (CA) surplus in 2Q 2024 shrank to +MYR3.0b or +0.6% of GDP (1Q 2024: +MYR16.2b or +3.5% of GDP), mainly on smaller goods account surplus and higher income account deficit. Maintain our full year 2024 CA surplus at +MYR40b or +2.1% of GDP (1H 2024: +19.2b or +2.1% of GDP; 2023: +MYR28.2b or +1.5% of GDP).

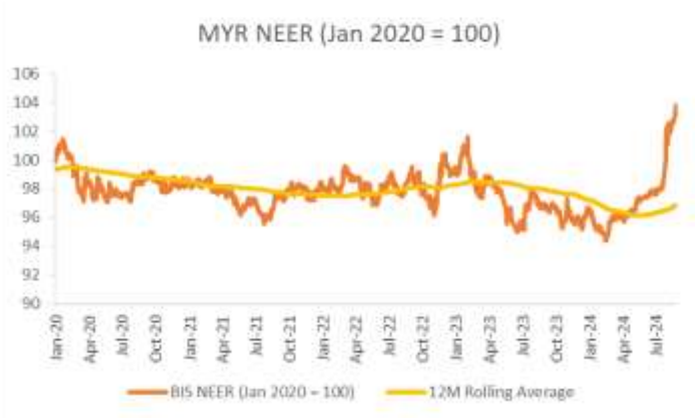
Headline inflation was stable at +2.0% YoY in Jul 2024 (Jun 2024: +2.0% YoY; MIBG: +2.1% YoY; consensus: +2.1% YoY; 7M2024: +1.8% YoY). Core inflation was also steady at +1.9% YoY (Jun 2024: +1.9% YoY; 7M2024: +1.8% YoY). With the muted inflation effect from the services tax adjustment and diesel subsidy rationalization plus the likely “no show” of RON95 subsidy rationalization this year, our economists also adjust downward the full-year 2024 inflation forecast to +2.0% (vs. +2.4% previously; 2023: +2.5%). This assumes that the blanket RON95 petrol subsidy remains and its price stays at MYR2.05/litre for the rest of the year. At the same time, we are now looking at 2.5%-3.0% range inflation for 2025 (vs. 3.0% previously), given the uncertain timing, quantum and mechanics of RON95 subsidy rationalization, which we now assume to take place next year.

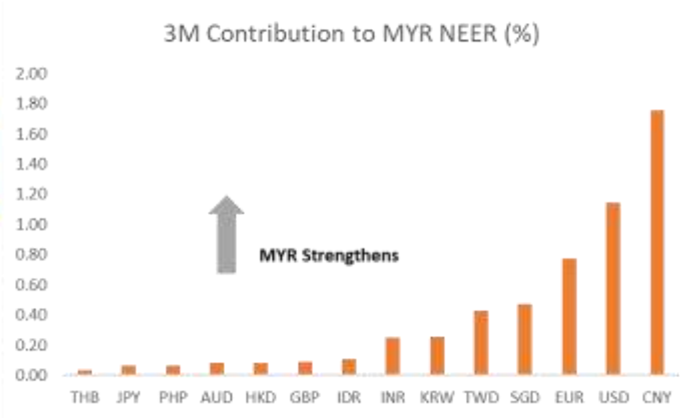
Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) at 3.00% for the seventh consecutive Monetary Policy Committee (MPC) meeting on 10-11 July 2024 amid “hold-for-longer” US Fed, as well as firmer economic growth, upside risk to domestic inflation and stable Ringgit vs USD. Maintain our view of OPR staying at 3.00% this year. However, stable OPR with the expected US interest rate cuts is positive for Ringgit’s outlook amid recent stabilization. The latest Interest Rate Swap (IRS) rate implies market is pricing in a stable OPR next 12 months.

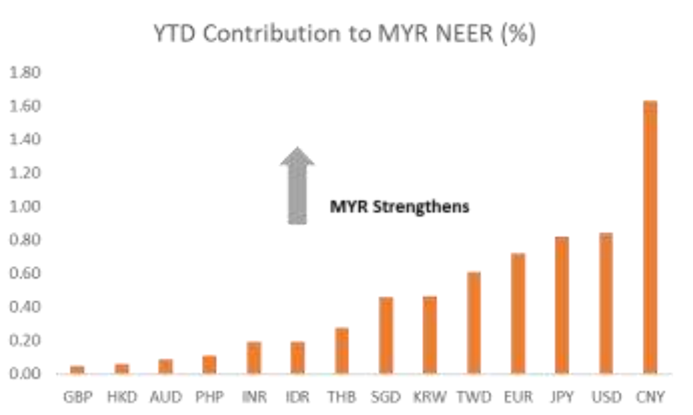
Risks to look out for in Sep 2024. Downside risks include any exacerbation of weakness in China’s recovery (Malaysia’s largest trading partner), further delay or surprise in the expected Fed easing trajectory/magnitude or escalation in geopolitical tensions in Middle East and between US, G7 & China in the run-up to the US Presidential elections. All these can lead to a stronger USD, which in turn hurts the MYR for an extended period.

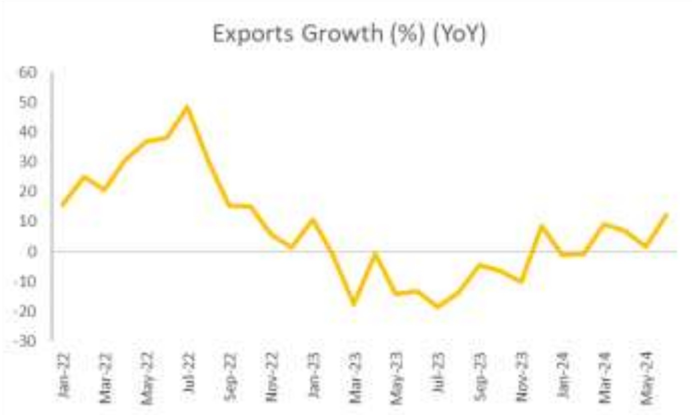
Key domestic events and issues to watch in Sep: S&P Global PMI mfg (2 Sep), Foreign reserves (6 Sep), BNM Policy Announcement (5 Sep), Jul mfg sales (10 Sep), Jul IP (10 Sep), Aug trade data (19 Sep), Foreign reserves (23 Sep) and Aug CPI (23 Sep).

Ringgit Has Performed Strongly On a Bilateral and Trade Weighted Basis Over the Last Few Months









Source: Bloomberg, Macrobond, Maybank FX Research & Strategy

IDR: Bumpy Near Term, Medium Term Strengthening

USD/IDR	3Q 2024	4Q 2024	1Q 2025	2Q 2025
	15300 (16300)	14900 (15900)	14800 (15700)	14600 (15500)

Previous Forecasts in Parentheses

Motivation: We further lower our forecasts to reflect the stronger market sentiment towards the EM space. Fed Chair Jerome Powell signalling that a first cut is coming has helped to support appetite towards risk assets especially EM FX including the IDR, which has shown extraordinary performance. The IDR itself can tend to be quite sensitive to US rates and therefore the Fed's move lower can give quite some support for the USDIDR to trend strongly downwards over the medium term. Additionally, polls are pointing towards a Harris victory, which can help reduce concerns about an inflationary environment and regional tensions (especially related to the US and China). Importantly though, there are also a number of idiosyncratic factors that are also giving support to the IDR. The 2025 budget deficit has been set well below the 3.00% ceiling at 2.53% and provides leeway if there are adjustments under the new administration. A US soft landing and potential recovery in other parts of the world into next year can also help hold up commodity prices (e.g. palm oil, metals) and support the country external position. The IDR exhibits sensitivity to the JPY and the possibility of the latter two currencies strengthening into next year can help guide the IDR higher too. Any strong strengthening of the CNY/CNH can give support to the IDR as well, especially if China's growth can pick-up. In the interim, some swings can occur amid global uncertainty as we enter the US election season. We do stay cognizant of any risks related to geopolitical tensions that can lead to higher oil prices, a Trump victory that can raise regional tensions and more China economic weakness that weighs on commodity prices. A US recession could also sap appetite for the EM assets and FX.

Bank Indonesia (BI) may cut by 25bps in 4Q 2024 to 6.00% from 6.25% and after the Fed, which should provide support for the IDR. At the latest meeting, BI continued to stand pat and Governor Perry Warjiyo appeared to still sound rather hawkish as he stated that the focus of the third quarter will be on strengthening the IDR. We believe they are likely to cut only in 4Q 2024 given their caution regarding the currency. The central bank does note that economic and credit growth remains solid although interestingly, they still have mentioned that growth "needs to be supported, especially demand". The latter words does highlight that they somewhat recognize the need to ease rates eventually to support the economy.

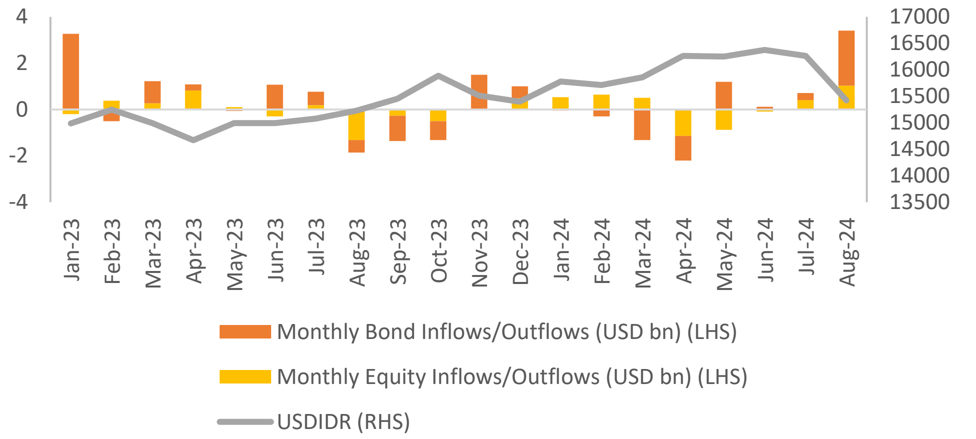
Economic data last month was still robust, albeit some signs of concerns but still not creating too much pressure immediately for a BI easing. 2Q GDP growth stayed resilient at 5.05% YoY (est. 5.00% YoY, 1Q. 5.11% YoY) as investment, trade and consumption all provided the support. Net exports of goods and services was no longer a drag as it added 0.25% to GDP (1Q. -0.05) as firmer demand for metals, metalliferous ores, iron and steel helped boost exports. Strong investment growth was fuelled by purchases of machine and equipment. Household consumption overall surprised by staying robust and unchanged at 4.9% YoY as service expenditure was strong. However, there were some concerns about the underlying data as one – off religious (hajj) spending may be sustaining the services spending. Retail spending actually slowed to 1.1% YoY (1Q. 5.6% YoY), which reflects the weakening purchasing power of consumers. Meanwhile, Jul headline inflation fell below expectations to a 29-month low of 2.13% YoY (est. 2.37% YoY, Jun. 2.51% YoY) amid a cooling in food inflation. The number remains still within BI's inflation target range of 1.5% - 3.5%. The July trade surplus hit a 15-month low at $472m as imports surge due to higher imports of machinery. The country is still likely to see a trade surplus this year and that should continue to provide support for the currency. Meanwhile, we are cognizant of the 1 percentage point increase for VAT has been considered for implementation in early 2025 although it looks unlikely that it could be done. The government is also considering an excise tax sugary beverages but that for now also is uncertain and our in-house economist sees the impact on inflation may be limited from it.

Portfolio flows in Aug was strong given the appetite for EM risk assets as a first Fed easing nears and a US soft landing is still in the game. Equity inflows month to date until 28 Aug 2024 was high at $1.03bn as investors could possibly be reallocating more out of China and India into other underappreciated regional markets such as Indonesia. BI rate cuts that could happen this year can also be supportive of the equity markets and the economy. As of writing on 28 Aug, the JCI's 1 year forward PE stood at around 14.35, which is behind those of the Nifty, FBM KLCI and Taiex. The $15.9bn iShares MSCI Emerging Markets Ex-China ETF has also seen substantial inflows with a total amount of $352m alone in the week ended 16 Aug 2024 and bringing in $5bn year to date until then. Meanwhile, bond inflows were strong month to date until 27 Aug 2024 at around $2.4bn amid rising expectations of a Fed rate cut. The inflows have also helped closed the gap between the USDIDR and the yield differential as we had expected. Indo GBs in some sense still maintain quite a spread over other Asian bonds. Overall, we expect the trend of portfolio inflows in the medium term to be fairly robust amid further rate cuts from both BI and the Fed but we also do note there can still be outflows in the interim given US election uncertainty and markets paring their Fed rate cut expectations (100bps by year end as of 29 Aug 2024).

Risks Ahead: Downside risks for the IDR include geopolitical tensions that can lead to higher oil prices, a Trump victory that can raise regional tensions (esp in relations to China) and more China economic weakness that weighs on commodity prices. A US recession could also sap appetite for the EM assets and FX. Meanwhile, upside risk include that US inflation comes down quicker and the economy still holds up allowing for a faster pace of Fed rate cuts.

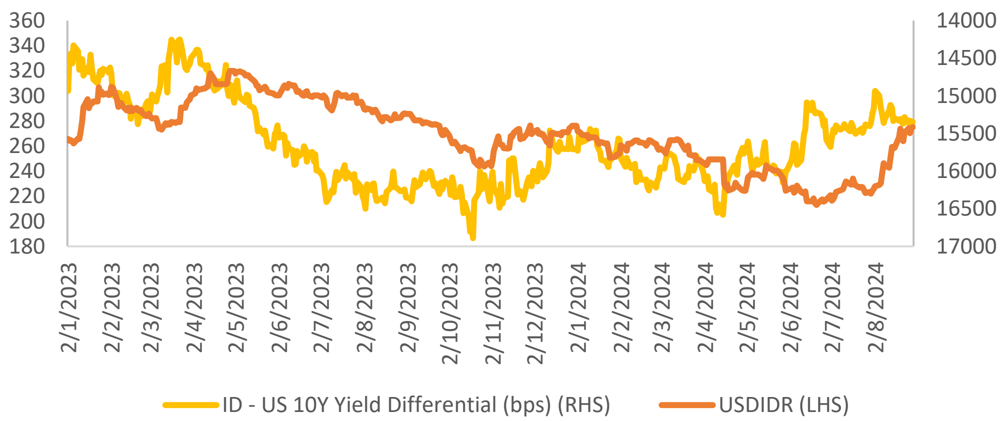
Key Data/Events: Aug S&P Global PMI mfg (2 Sep), Aug CPI (2 Sep), Aug foreign reserves (6 Sep), Aug consumer confidence (9 Sep), Aug local auto sales (11 – 15 Sep), Aug trade balance (17 Sep), Jul external debt (17 Sep) and BI policy decision (18 Sep).

Portfolio Inflows Have Been Strong As the Fed Signals a Rate Cut Coming and the Trend Can Continue Medium Term as the Easing Cycle Becomes Entrenched



Source: Bloomberg, Maybank FX Research & Strategy
Note: Aug 2024 data for equities is until 28 Aug 2024 whilst bond data is until 27 Aug 2024 and USDIDR rate is as of 28 Aug 2024

USDIDR and Yield Differentials Gap has Closed as We Expected And We Believe Differentials Would Become More Favorable Time Too as the Fed Eases



Source: Bloomberg, Maybank FX Research & Strategy

PHP: Gains Limited Near Term, Appreciating Trend Intact

	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USD/PHP	56.00 (58.25)	54.00 (57.50)	53.00 (57.00)	52.00 (56.50)

Previous Forecasts in Parentheses

Motivation: We lower out USDPHP forecasts to better reflect the stronger market sentiment towards the EM space. Over the last month, Fed Chair Jerome Powell has signalled that a rate cut would be coming soon and that has strengthened the appetite towards EM FX and assets including the PHP. The BSP is also easing rates, which could support growth but at the same time, not weigh too negatively on the PHP given it would fall in line with Fed. We expect another 25bps cut this year together with cumulatively 100bps next year as the BSP sees the balance of risks for the inflation outlook leans to the downside in 2024 and 2025. Flows from OFWR should also continue to be supportive as the global economy can hold up into next year with our base case being a US soft landing. Appetite for Philippines equities can keep improving too amid the Fed and BSP easing with a strong rally having already been happening over the last month. Externally, polls are pointing to a Kamala Harris victory that could lower the possibility of an inflationary environment returning in the US and may prevent regional tensions from worsening. Therefore, over the medium term, we expect the USDPHP to trend downwards. In the interim, some swings can occur amid global uncertainty as we enter the US election season. Risks to our view includes oil prices spiking on geopolitical tensions and inflation trending back up in the US.

The BSP lowered rates by 25bps in Aug as they see inflation is on a target consistent path. The central bank raised their inflation forecast for 2024 to 3.3% YoY (prior. 3.1% YoY) but they also reduced the 2025 forecast to 2.9% YoY (prior. 3.1% YoY). They also see that the balance of risks for the inflation outlook leans to the downside in 2024 and 2025. This is mainly due to lower import tariffs on rice and other agricultural products. Specifically, executive Order 62 (EO 62) would be cutting rice import tariff from 35% to 15%, effective from 6 Jul 2024 until 31 Dec 2028 and also extended for lower rates on pork, mechanically deboned meat (MDM) of poultry and corn. Administrative order (AO 20) also removes the non-tariff barriers on importation of agricultural products. The Monetary Board (MB) anticipates that EO62 and AO 20 should help further ease price pressures. **Given such circumstances, we therefore see that the BSP could cut rates by another 25bps this year, bringing it down towards 6.00% from 6.25% by year end. The remaining BSP meetings are in 4Q 2024 and therefore the easing may only happen then. For 2025, we see the possibility of four cuts of 25bps each.**

Data over the last month looks to have reflected quite some strength in the Philippines economy. 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. However, even as inflation picked up in Jul above expectations to 4.4% YoY (est. 4.1% YoY, Jun. 3.7% YoY), there is a possibility that there could eventually be some easing in 2H 2024 as food prices decline (interim, there could be some upward bumps in inflation numbers along the way). Together with further interest rate cuts from the BSP, both factors should lead to some improvement in private consumption growth. Our in-house economist is expecting growth to come out robustly at 6.0% YoY in 2024 whilst inflation overall for the year should be around 3.2% YoY. The trajectory of economic data as it is should avoid creating pressure for the BSP to ease aggressively and support a more gradual loosening of monetary policy in line with the Fed. This can help prevent rate differentials weighing negatively on the PHP.

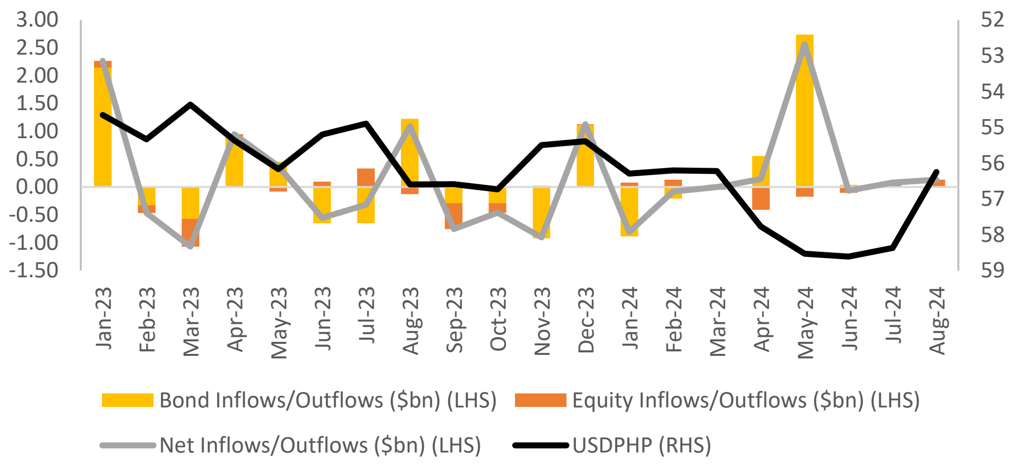
OFWR growth softened in Jun to 2.5% YoY (May. 3.6% YoY) but it still hit a year's high of US$2.88bn, which provided some support to the PHP. On a monthly basis, growth was also strong at 11.5% MoM (May. 0.8% MoM). We expect that OFWR would likely continue to provide reasonable support to the PHP given that the global economy should hold up into next year with the US in our base case likely to see a soft landing. Our in-house economists see that OFWR growth should be higher compared to prior years at 3.0% YoY in 2024 (2023. 2.9% YoY).

Equity flows strengthened month to data until 28 Aug 2024 and this could keep improving overall in the medium term. Signs of the Fed easing soon and the BSP having already done so may have strengthened appetite for Philippine stocks and inflows stood at $133.1m mtd until 28 Aug 2024. The PSEi has been seeing quite a rally over the last month as the monetary policy shifts and low valuations may have attracted more foreign interest. As the easing cycle becomes more entrenched, appetite can strengthened more, supporting further climbs and inflows although there could still be bumps along the way. Meanwhile, the latest data for Philippines bond flows is as of 30 Jun 2024 and shows a monthly flow of $37.7m. **However, we believe that bond inflows should have been stronger over the last month amid the expectations of a more dovish Fed. Alongside with other regional peers, there could be more foreign appetite for Philippines bonds over the medium too.**

Risks Ahead: This would include if oil prices spike on geopolitical tension, which can weigh quite substantially on PHP due to the impact it can have on the country's external position as an oil importer. Another risk is inflation trends upwards again in the US and causes the Fed to turn more hawkish. A global recession can also be another negative risk for the PHP. Upside risks meanwhile include the Fed being able to ease at a more rapid pace whilst still also able to ensure that a soft landing remains the case.

Key Data/Events: Aug S&P Global PMI mfg (2 Sep), Aug CPI (5 Sep), Jul unemployment (6 Sep), Aug foreign reserves (6 Sep), Jul trade data (10 Sep), Jul OFWR (16 Sep), Aug BoP overall (19 Sep), Aug budget balance (25 Sep), Aug M3 money supply (30 Sep) and Aug bank lending (30 Sep).

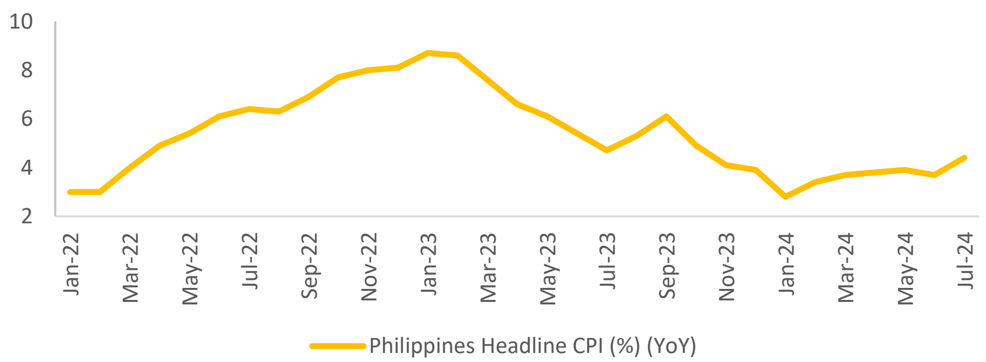
Equity Inflows Have Turned Positive and We Believe Bond Inflows Have Similarly Been Strong Amid Signs of Fed Easing Coming Soon



Source: Bloomberg, Maybank FX Research & Strategy

Note: Bond flow data not available for Jul 2024 and Aug 2024 whilst equity flow data for Aug 2024 is up until 28 Aug 2024.

CPI has Risen in Recent Times Although the BSP Sees the Inflation Outlook Faces Downside Risks, Supporting Rate Cuts



Source: Macrobond, Maybank FX Research & Strategy

THB: Some Bumps Near Term, Strengthening Trend Intact

	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USD/THB	34.00 (37.00)	33.00 (35.50)	32.50 (35.00)	32.00 (34.50)

Previous Forecasts in Parentheses

Motivation: We lower our USDTHB forecast to reflect the stronger market sentiment towards the EM space. Over the last month, Fed Chair Jerome Powell has signalled that a rate cut would be coming soon and that has strengthened the appetite towards EM FX including the THB. We believe too that the BOT is likely to stay on hold this year too. However, the positive effects of lower rates has not only been direct for the THB but also indirectly through the more elevated gold prices (where easing rates could be fuelling Western demand too for the precious metal). These favourable factors in the medium term we believe are likely to continue to persist and therefore provide the support for a downward trend for the USDTHB. In in the interim, we do not rule out the possibility of some bumps along the way as global markets can still swing quite a bit amid events such as the upcoming US elections. Meanwhile, we are aware of some risks to our view that include domestic political uncertainty, weaker than expected growth and higher oil prices.

The Bank of Thailand (BOT) is likely to hold rates this year in 2024 whilst they may only undertake one 25bps cut next year. At the last BOT meeting in Aug, the committee had voted 6 to 1 to keep rates on hold. However, the central bank did flag downside risks for private consumption and investment and see 2H 2024 growth slowing to 0.7% QoQ SA from 1.2% QoQ SA in 1H 2024. They also noted CPI inflation would come in lower than the previous forecast (0.6%) but provided no new projection. At the same time, they still mentioned that growth was panning out as anticipated. Since that meeting, Governor Sethaput Suthiwartnarueput has again reiterated that economy, inflation and financial stability remain in line with expectations even as he has noted that they can stand ready to adjust. As a whole, the Governor's words implying that the BOT is quite steadfast in keeping rates on hold this year. For now too, there does not appear to immediately be any pressure openly from the new PM Paetongtarn Shinawatra to ease rates. We are aware though that the new PM is still in the midst of forming a cabinet and back in May, she had criticized the BOT for resisting the previous PM's calls for a cut. We do not rule out the possibility that Paetongtarn would renew calls for a cut but even in that scenario, we still believe that the BOT would keep rates on hold in 2024 unless the economy significantly falls off.

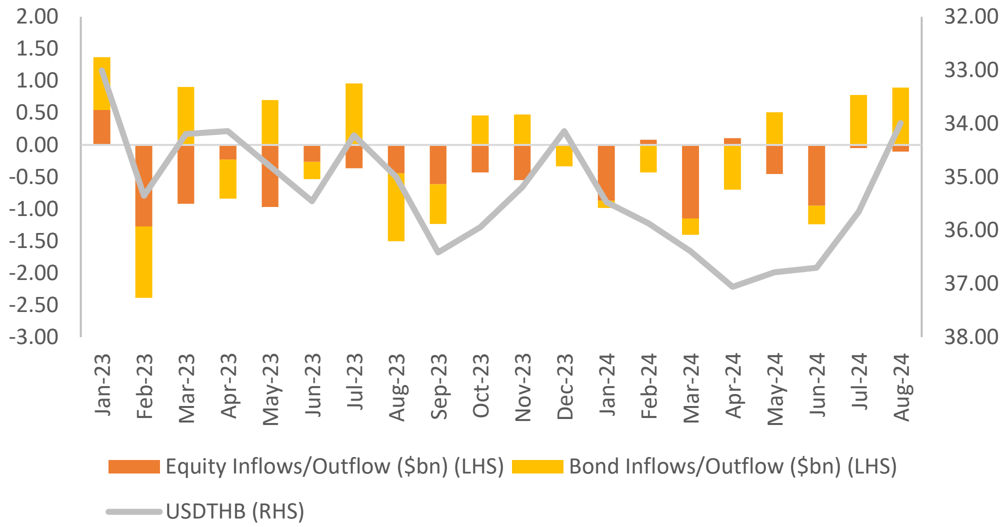
Economic conditions at this point looks rather mixed. 2Q GDP saw a pick-up and came out stronger than expected at 2.3% YoY (est. 2.2% YoY, 1q. 1.6% YoY) as rising government expenditures offset a plunge in private investments. Services was still resilient whilst manufacturing eked out a gain for the first time since 3Q 2022. The services number was driven by tourism with tourist arrivals in 2Q 2024 at 94% of pre-pandemic levels in the corresponding period. Our in-house economist expects GDP growth in 2024 to come out at 2.4% YoY although sequentially 2H 2024 could be weaker. On a yearly basis, she sees 2H 2024 at 2.9% YoY, which is lower compared to 3.3% YoY – the BOT's last known forecast. Meanwhile, on the inflation front, Jul CPI number was still soft at 0.83% YoY (est. 0.70% YoY, Jun. 0.62% YoY). On the political front, the quick appointment of a new PM Paetongtarn Shinawatra and her commitment to continue with major economic stimulus may have somewhat calm investor nerves. Her appointment has come just after previous PM Srettha Thavisin left the position when he was found guilty of a gross violation of ethics by the constitutional court. Currently at this point, Paetongtarn is still in the midst of forming a new cabinet. We continue to stay wary of the political situation and keep a close eye as to the status of the digital wallet program. As it stands, there has not been any concrete announcement regarding the program yet.

Portfolio flows in Aug up until 27 Aug 2024 has been rather mixed although it is still net positive overall (equity flows: -$157m, bond flows: $602m), supporting the THB. Bond inflows were stronger earlier in the month as hopes of a Fed easing coming soon boosted appetite. However, there was then a big outflow during the change of PM before some inflows returned after. Regardless, bond inflows are still net positive. Meanwhile, equities which had already generally been seeing weak foreign appetite witnessed large outflows when the PM changed. Since the start of 2023, the SET has been on a downward trend and had fallen from levels close to 1700 in Jan 2023 to below 1300 in early Aug. However, the SET has recently seen a rally amid its low valuations and speculation that the political situation could stabilize. Even so, we are cautious whether equity inflows can sustainably pick-up given there is still plenty of uncertainty in actuality regarding the country's politics. This could apply the same for bond inflows going forward too albeit it may still perform better than equities given the riskier nature of the latter makes it more negatively affected by unstable events. Meanwhile, gold flows may have also given much of a boost to the THB due to the precious metal's high price and the Thailand's position as a gold trading hub.

Risks Ahead: Growth coming out weaker than expected and pushing the BOT to cut rates is a risk that we will stay wary of. Aside that, greater political uncertainty and higher oil prices (from worsening geopolitical tensions) can also weigh on the currency. On the flipside, a stronger recovery in China can do its part in supporting Thailand external positon by possibly leading to greater exports (services, e.g. tourism or goods)

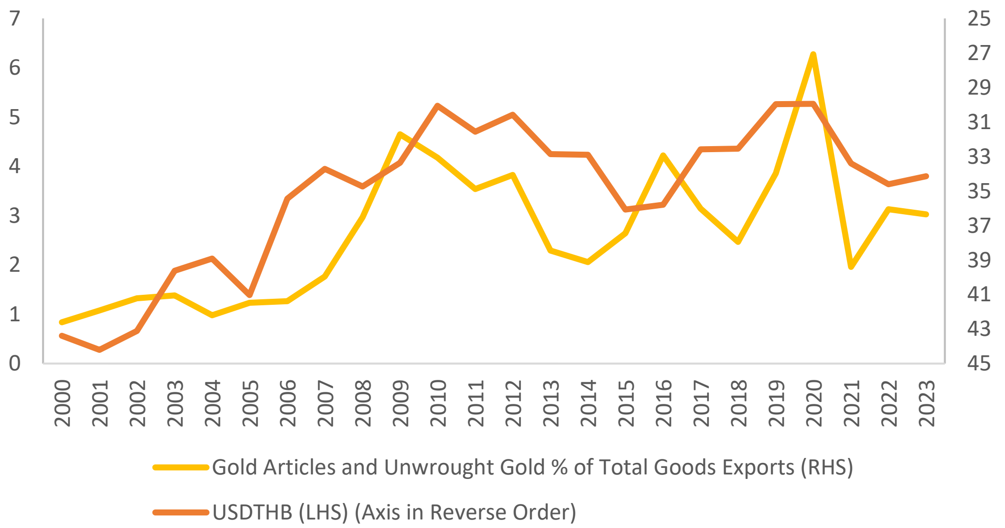
Key Data/Events: Aug S&P Global PMI mfg (2 Sep), Aug business sentiment index (2 Sep), Aug CPI (5 Sep), Aug consumer confidence (9 – 13 Sep), Aug car sales (18 – 24 Sep), Aug customs trade data (24 – 30 Sep), Aug ISIC mfg prod index (26 – 30 Sep), Aug ISIC capacity utilization (26 – 30 Sep), Aug BoP CA and overall balance (30 Sep) and Aug trade data (30 Sep).

Portfolio Inflows Have Supported the THB Although Some of the Monthly Inflows Were Pared Back During the Change of Prime Minister



Source: Bloomberg, Maybank FX Research & Strategy

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



Source: Macrobond, Maybank FX Research & Strategy

VND: Recovery on track

USD/VND	3Q 2024	4Q 2024	1Q 2025	2Q 2025
	24950 (25150)	24800 (25000)	24750 (25000)	24700 (24800)

Previous Forecasts in Parenthesis

Motivation: USDVND continued to extend decline in tandem with USDASEANs since the start of this quarter. The fall in UST yields and concomitantly, the USD were the major drivers of VND's recovery. In addition, we note that the largest intra-day gains for the VND tend to coincide with news headlines that suggest greater political stability – 1) when former President To Lam took over the duties of Communist Party chief Nguyen Phu Trong and later became Party Chief. 2) The removal of Deputy PMs and the appointment of three other Ministers along with To Lam forsaking his role as the President also saw VND making quite one of the biggest one-day advance against the USD on 26 Aug for 2024. Equity has been seeing persistent net outflow for several weeks but turned positive on 17 Jul. Since then, there are signs that equity outflows are less persistent. Our view for USDVND to come off very gradually in the 2H of 2024 as global inflation eases enough for higher-for-longer concerns to fade is coming to fruition. The drastic effects of carry-trade unwinding on JPY, CNY, USD and concomitantly the USDVND pairing forced us to adjust our forecasts lower.

The anti-graft campaign seems to continue with the Deputy PM Le Minh Khai's resignation accepted by the National Assembly for violating anti-corruption rules (27th Aug). However, we could be at the tail end of major political transition. Along with his removal, there were three Deputy Prime Ministers appointed. President To Lam had also declared that he will relinquish his Presidency given that he is already the Communist Party Chief, aligning with the spirt of shared party power. With that, Vietnam is back to its "four pillars" structure where four individual leaders hold the key positions of government. This also assuage 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.

With the broader USD direction already shifted in the favour of most regional currencies (including the VND), the domestic-international gold premium may not matter as much. As such, the premium has been stabilizing around in single digit percentages. Plausible political stability as well as exports recovery could continue to boost the VND as well.

As of the Jul data, inflation pressure seems to have risen as CPI rose sequentially due to upward adjustment in health insurance premiums, higher fuel prices and domestic electricity demand. Food and food services costs also rose +0.3%m/m. Headline inflation picked pace to 4.36%y/y in Jul from previous 4.34%, closer to the SBV target of 4.5%. Core inflation steadied at 2.61%. Our economist still looks for 6.4% GDP growth and 6.2% in 2025. Recovery to be led by exports which appears to be broadening beyond tech. With growth improving, VND weakness no longer a concern for PBoC, the possibility of a 50bps rate hike has now reduced.

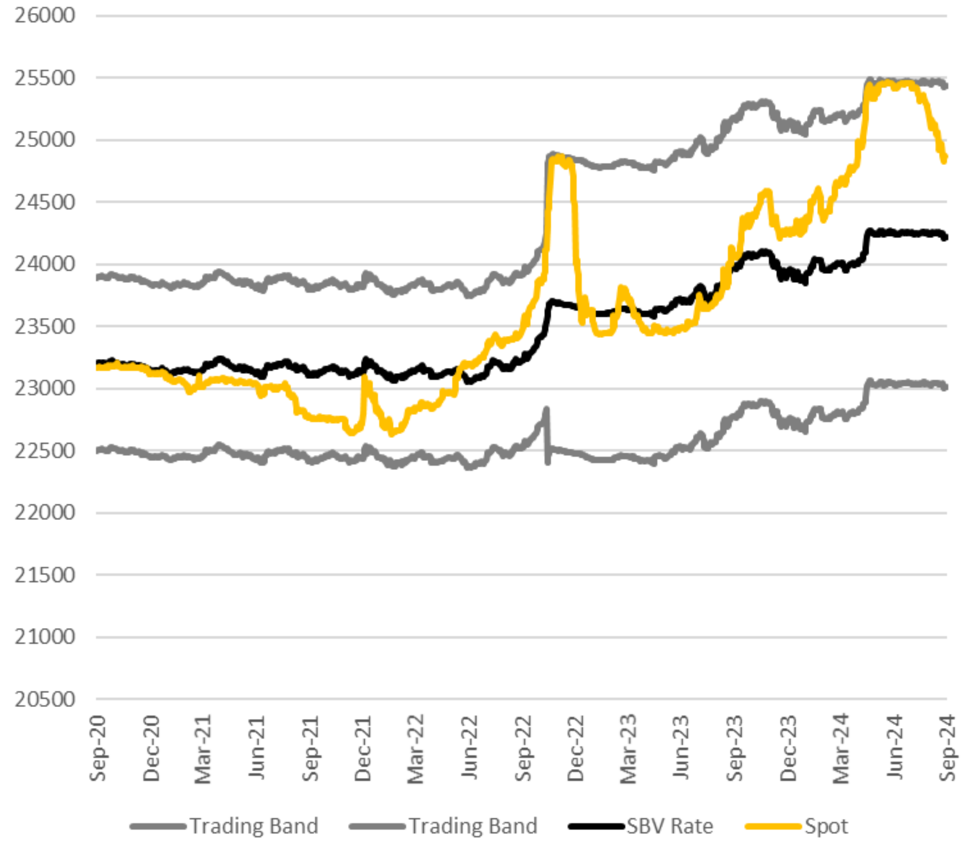
Steady FDI. Vietnam enjoyed decent FDI flows with realized FDI growth of 9.6% in Jul compared to an average of 8.1%y/y growth in Jan-Jul. Registered FDI slowed more considerably to 0.3%y/y growth vs. Jul's 60%. Still, year-to-date, manufacturing still clocked a 15.7%y/y increase while FDI flow into real estate was strong at 63.8%y/y. **On the whole,** there has actually been a modestly improving trend in realized FDI compared to 2023. However, registered FDI has been trending lower. Along with this recent turn of macro environment (more synchronous monetary policy easing) as well as greater political stability at home, the registered FDI might trend higher. For one, Alphabet's Google rumoured plans to set up a "hyperscale" datacentre near Ho Chi Minh is a good vote of confidence in Vietnam, albeit not confirmed yet.

Structurally, what the VND had been able to count on (for a few years now) is the various trade agreements forged and concomitant flow of FDIs into Vietnam as foreign investors diversify their supply chain away from China. As a result, the VND benefits not just from an improvement in its balance of payments but also from the strengthening of its export competitiveness in the medium term.

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

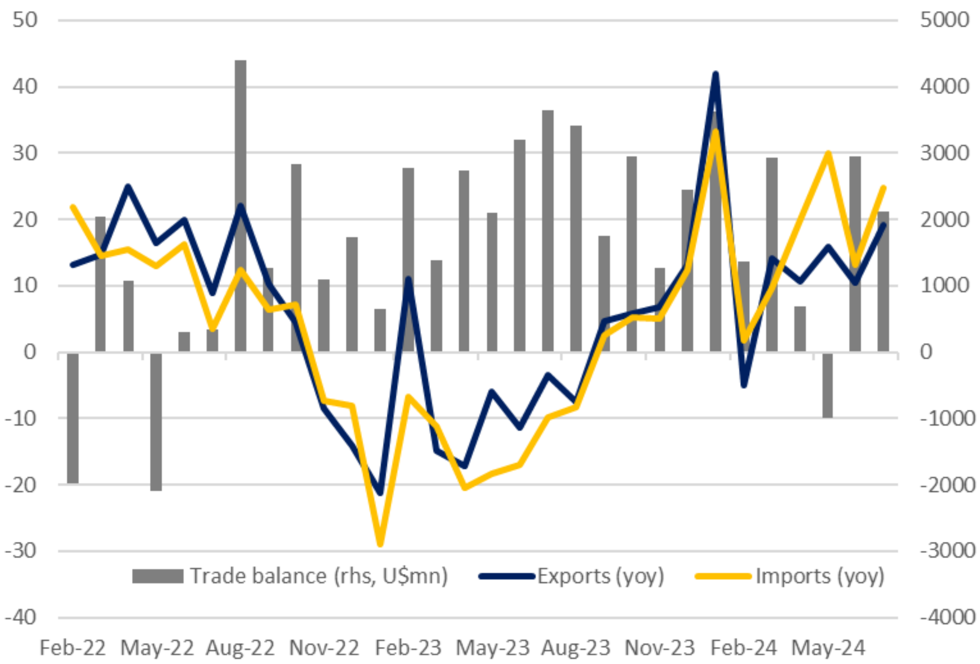
Key Data/Events: Aug trade, IP, CPI, retail sales [6 Sep].

USDVND Finally Pulls Back from Upper Bound of the Trading Band



Source: Bloomberg, Maybank FX Research & Strategy

Trade Has Been on a Recovery



Source: Bloomberg, Maybank FX Research & Strategy

INR: Steady As She Goes

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

No Change to Previous Forecasts

Motivation: We maintain our USDINR forecasts and the downward trajectory for USDINR in the four quarters ahead on the belief that RBI could cap gains amid INR positive factors and the belief that the USD will gradually soften from end 2024 into next year. The RBI will continue to lean against the wind and slow the pace of INR appreciation. USDINR has been one of the most stable pairs, largely due to the Reserve Bank of India's (RBI) preference to reduce volatility in the INR by "leaning against the wind". 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.

INR positive factors continue to be at play. News reports estimate foreign inflows into India's bond market to be some US$10b over the past 9 months. This is also against the backdrop of an economy that is prospering, with one of the highest economic growth rates in the world (Governor Das suggested ~7% for the current fiscal year) and with inflation kept relatively in check (Governor Das suggested ~4.5% for current fiscal year). On top of that, India is portraying itself as an alternative for global funds to China, which in an era where asset managers are trimming or underweighting their exposures to China could be a significant continued driver of inflows to India. Lastly, foreigners were estimated to own a mere 2% of Indian sovereigns, highlighting a massive potential for an increase to foreign ownership. As a point of comparison, foreign holdings of US sovereign debt are at around 24% and foreign holdings of China sovereign debt are around 9% (dropping off from 11%). Further inflows look very likely, and this should continue to support INR strength.

However, we do note RBI's preference to keep USDINR stable. Recent episodes of big currency moves reflect this preference. In Aug, the INR was the only non-pegged Asian currency to be flat or slightly weaker against the USD even as the USD broadly weakened. As such, we think that USDINR is a rather tricky pair to express a view on FX. This is likely due in part to RBI's penchant to lean against the wind to reduce volatility in the INR. However, do consider that this stability could be seen as a positive for asset managers and investors and could potentially increase investor confidence for INR-denominated assets and spur further inflows. While a stable INR still provides a favourable environment for carry trades, global deleveraging and carry trade unwinding means we could see episodic paring back of such trades, which would be INR negative.

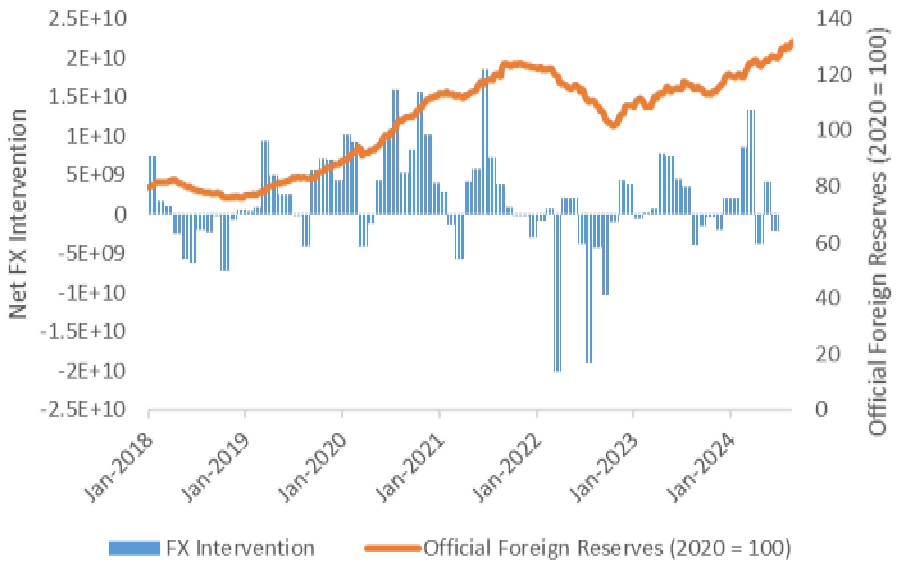
Growth in India should continue to be robust, although a slump in 2Q GDP could prompt the RBI to consider easing. 2Q GDP missed estimates and grew by 6.7% YoY (exp: 6.8%; prev: 7.8%). However we note that earlier 2024P GDP estimates were once again revised upwards, suggesting that 2024 growth could come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

On the monetary policy front, inflation in India has come off with Jul inflation at 3.54% YoY (exp: 3.60%; prev: 5.08%). The fall in inflation and slump in growth could prompt the RBI to start thinking about easing. At the last meeting in Aug, RBI voted 4-2 in favour of accommodation withdrawal. We look to the RBI's next MPC (9 Oct 2024) to see if there could be preliminary hints of possible easing. Ultimately, we think they are unlikely to act before the Fed given their preference for low volatility in the INR. On balance, RBI remaining on hold amid strong growth prospects and a relatively benign inflation outlook should also be in favour of INR strength. Assuming the Fed cuts in Sep, we expect some discussion of easing at the Oct RBI meeting and a chance for RBI to cut in Dec. For 2025, we pencil in 50bps of cuts for RBI with the first cut likely in 1H2025.

Risks Ahead: The main risk that threatens our USDINR forecasts would be RBI switching out of its stance to lean against the wind. This could occur as a matter of policy change or if there is too much scrutiny, possibly by the US Treasury on the INR kept artificially weak. While not likely, a combination of higher for longer inflation and poorer growth outcomes for India could also threaten our outlook for the INR. The Fed path could also present two-sided risks for our INR forecasts, should they turn more hawkish or dovish than anticipated.

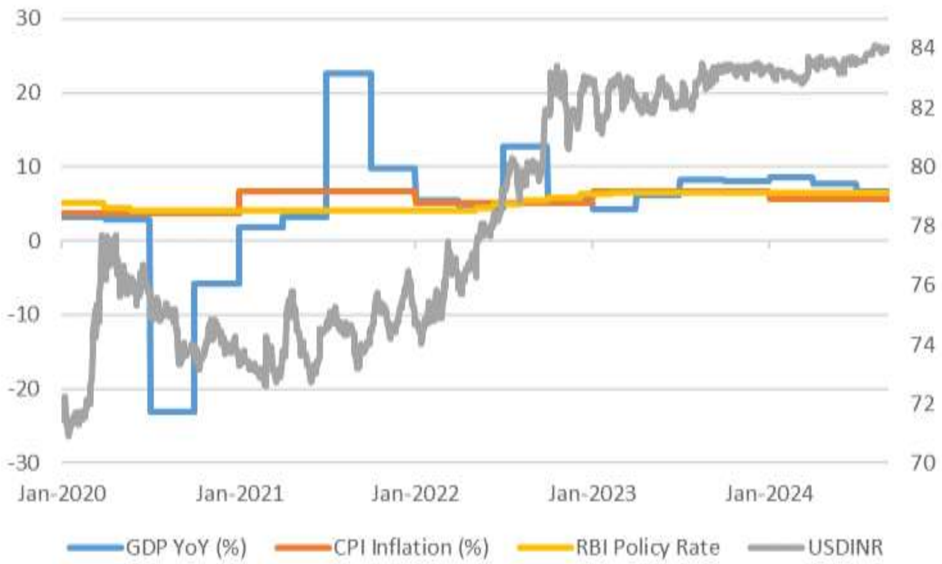
Key data/events: Aug F Mfg PMI (2 Sep), Aug F Svcs/Comp PMI (4 Sep), Aug CPI, Jul Industrial Production (12 Sep), Aug Imports/Exports/Trade Balance (12 to 15 Sep), Aug Wholesale Prices (16 Sep), Sep P Mfg/Svcs/Comp PMI (23 Sep), 2Q BOP Current Account Balance (23 to 30 Sep), Aug Fiscal Deficit YTD, Aug Eight Infrastructure Industries (30 Sep).

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



Source: Bloomberg, Macrobond, Maybank FX Research & Strategy

Growth is Promising and Inflation Benign in India



Source: Bloomberg, Maybank FX Research & Strategy

FX Forecast Table

	End Q3-24	End Q4-24	End Q1-25	End Q2-25
USD/JPY	145.00	138.00	130.00	120.00
EUR/USD	1.1100	1.1200	1.1300	1.1400
GBP/USD	1.3000	1.3100	1.3200	1.3300
AUD/USD	0.6700	0.6800	0.7000	0.7100
NZD/USD	0.6100	0.6200	0.6300	0.6400
USD/CAD	1.3700	1.3600	1.3500	1.3400
USD/CHF	0.8600	0.8500	0.8500	0.8500
USD/SGD	1.2950	1.2900	1.2850	1.2850
USD/MYR	4.3000	4.2500	4.2000	4.1500
USD/IDR	15300	14900	14800	14600
USD/THB	34.00	33.00	32.50	32.00
USD/PHP	56.00	54.00	53.00	52.00
USD/CNY	7.12	7.08	7.05	7.05
USD/CNH	7.12	7.08	7.05	7.05
USD/HKD	7.78	7.78	7.77	7.77
USD/TWD	30.50	30.00	30.00	29.50
USD/KRW	1320	1300	1280	1270
USD/INR	82.50	82.00	81.00	81.00
USD/VND	24950	24800	24750	24700
DXY Index	101.57	100.15	98.65	96.92
	End Q3-24	End Q4-24	End Q1-25	End Q2-25
SGD/MYR	3.32	3.29	3.27	3.23
JPY/SGD	0.89	0.93	0.99	1.07
EUR/SGD	1.44	1.44	1.45	1.46
GBP/SGD	1.68	1.69	1.70	1.71
AUD/SGD	0.87	0.88	0.90	0.91
NZD/SGD	0.79	0.80	0.81	0.82
CAD/SGD	0.95	0.95	0.95	0.96
CHF/SGD	1.51	1.52	1.51	1.51
SGD/IDR	11815	11550	11518	11362
SGD/THB	26.25	25.58	25.29	24.90
SGD/PHP	43.24	41.86	41.25	40.47
SGD/CNY	5.50	5.49	5.49	5.49
SGD/HKD	6.01	6.03	6.05	6.05
SGD/TWD	23.55	23.26	23.35	22.96
SGD/KRW	1019	1008	996	988
SGD/INR	63.71	63.57	63.04	63.04
SGD/VND	19266	19225	19261	19222
	End Q3-24	End Q4-24	End Q1-25	End Q2-25
JPY/MYR	2.97	3.08	3.23	3.46
EUR/MYR	4.77	4.76	4.75	4.73
GBP/MYR	5.59	5.57	5.54	5.52
AUD/MYR	2.88	2.89	2.94	2.95
NZD/MYR	2.62	2.64	2.65	2.66
CAD/MYR	3.14	3.13	3.11	3.10
CHF/MYR	5.00	5.00	4.94	4.88
MYR/IDR	3558	3506	3524	3518
MYR/THB	7.91	7.76	7.74	7.71
MYR/PHP	13.02	12.71	12.62	12.53
MYR/CNY	1.66	1.67	1.68	1.70
MYR/HKD	1.81	1.83	1.85	1.87
MYR/TWD	7.09	7.06	7.14	7.11
MYR/KRW	307	306	305	306
MYR/INR	19.19	19.29	19.29	19.52
MYR/VND	5802	5835	5893	5952

*Source: Maybank FX Research as of 2 Sep 2024. *These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.*

DISCLAIMER

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

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Published by:

Malayan Banking Berhad
(Incorporated In Malaysia)

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

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

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

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

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

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

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

Tan Yew Yan
Head, Sales Corporates & CFS
yewyan.tan@maybank.com

Singapore
Sheetal Dev Kaur
Head, Corporates Sales (MBS)
skaur@maybank.com
(+65) 63201335

Tan Huilin
Head, Sales FI
TanHuilin@maybank.com
(+65) 63201511

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

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

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

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

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

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

s