27 Jan, 2023

Maybank

FX Monthly

2023, Issue 1: All About the US, China and Commodities

What Has Changed This Month?

- We adjusted the USD broadly lower to take into account a confluence of factors - Fed's downshift and a warmer winter in Europe easing energy concerns there. The exceptions were forecasts of commodity-linked AUD and NZD for which we were holding a more bullish view for the year already.

Our Strategies

- Risky assets rallied with relief as Fed slowed its pace of rate hikes in Dec (and possibly further in Feb) and more central banks in the rest of the world (BNM, BI, BSP, etc) took the cue from the lead hawk to ease their pace of tightening respectively or even signal a pause (BoC). This was a sharp contrast to BOJ where members of its Policy Board now contemplates the side effects of ultra-accommodative policies. Inflation trajectories are still key to the respective monetary policy stance. Central banks that face stronger inflationary pressure (such as RBA) could be forced to remain on the tightening cycle a while more. This could translate to AUD's outperformance over peers such as CAD, NZD.
- Markets were given an additional boost of euphoria by China's rush to re-open and ease (almost) all mobility restrictions ahead of Spring Festival. Bourses across the world are in the green YTD. Concerns of Europe's energy crisis also eased with the help of a warmer winter. It seems most of 2022 angst and concomitant USD underpinnings have unwound. We retain bearish call on the greenback this year. However, with the DXY index already down 11% from its Sep peak, we see risks of bullish retracement in Feb as we are well past the peak of inflation and stickier services inflation could still be a course for concern and source of USD strength. In addition, sovereigns may restore some of its foreign exchange reserves utilized in 2022 for currency defense.
- Our overall bias for USD-Asia is bearish, as the effects of China's reopening play out, and we see specifically MYR and THB likely to continue to strengthen against the USD. The political situation in Malaysia has stabilized for now, and an uptick in oil prices look to be supportive of the MYR. Meanwhile, Thailand looks set to be the largest beneficiary of China's reopening flows and in-house expectations are for the BOT to continue with another 50bps hike, which will bolster the THB.

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Top 3 Currency Plays for Feb

Tactical Short NZDUSD
Long AUDCAD
Stay Short USDMYR

Key Events for the Month Ahead

Date	Event
1 Feb	India Union Budget 2023
10 Feb	Nomination Day for next BoJ Governor
14 Feb	Singapore Budget
24 Feb	Malaysia Budget

Central Bank Meetings for the Month Ahead

Date	Event
1 Feb	FOMC (consensus: +25bps) (announcement 2 Feb 3am SG/KL time)
2 Feb	ECB (consensus: +50bps) BOE (consensus: +50bps)
7 Feb	RBA
8 Feb	RBI
16 Feb	BSP BI
22 Feb	RBNZ (consensus: +75 bps)
23 Feb	BOK

G7 Global Overview

USD: Timing the Peak Drag from Tighter Policy

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
USD Index	**101.76** (105.57)	**100.72** (105.18)	**99.59** (103.83)	**98.47** (102.50)

Previous Forecasts in Parentheses

- **Motivation for the FX View**: The DXY index reached a high of 105.63 on 6 Jan 2023 following an opening 103.52 for the year. Year to date the USD DXY index has fallen around 1.7% on the back of expectations that the Fed is slowing its pace and also amid better activity news abroad (supported by China re-opening thematic), lower commodity prices and softer inflation news in the US. The slower pace of hikes communicated would probably lower rate volatility and weaken the Dollar temporarily in Q1, even if the Fed tried to simultaneously suggest the cycle might last a little longer. Our view remains that the Fed pace could remain intact and are careful not to over-extrapolate the peak hawkishness theme in 1H 2023. So in the near term (weeks or a month), we could see some flattishness or very mild retracement in the dollar but we continue to expect the greenback to still see support for the next 1-2 quarters at most before we see an eventual peak in the Dollar. So Dollar bears could see some support over the next month or so, at least until potential upside risks in the Q1 inflation prints emerge. We are also revising our forecasts for JPY and EUR higher, which lends support to the USD softness we are seeing now.

- We are mindful that there could be risks pointing towards potentially further tightening needed as stronger global activity growth will eventually push prices higher again. For the moment until we see changes to current market trends and no reversal indicators from trade and inflation numbers in the near term, we are maintaining our current USD trajectory largely with some start easing mostly in 2H 2023.

- If risk episodes emerge in 2023, USD is likely to remain supported on the back of interest rate, growth and safe haven differentials, which continue to be on the USD favour.

- We are also pricing in some risk of debt ceiling impasse volatility emerging in the run-up to June 2023. The debt ceiling will likely need to be raised or suspended after a $2.5 tn debt limit increase enacted in Dec 2021 is exhausted and extraordinary measures are no longer sufficient to avoid default. The government officially reached the statutory limit on Jan 19, according to a letter from Treasury Secretary Janet Yellen, although extraordinary measures will allow Treasury to continue to pay obligations until at least early June. As such, there could be further risk of USD softness after June.

- To sum up, near-term we could see USD bears to remain supported but emerging risks could remain skewed to the upside for broad USD, if inflation rears its head again the next 3 months with new inflation data. Other key risk factors that would support USD again remains Ukraine situation, commodities risk and developments in the trade arena.

- **Growth and Inflation Outlook**: Real GDP rose 2.9% annualized in 4Q above consensus, after a 3.2% increase in 3Q 2022. The details were much softer. About half of the GDP increase reflected inventory growth, while government outlays matched the biggest gain since early 2021. Inventories contributed over half of the increase and will likely weigh on 1Q growth. Additionally, both consumption and business fixed investment growth slowed by more than expected. Personal consumption, the biggest part of the economy, climbed at a below-forecast 2.1% pace. Separately, core PCE YoY price index for 4Q came in at 4.7% vs 4.9% in 3Q while the initial jobless claims for the latest week fell to 186K (consensus: 205K) from 192K the prior week. Durable goods orders for Dec came in higher than expected at 5.6% (expected 2.5%) and core durable goods orders, however, declined by 0.2% (as expected).

- Dec Core CPI rose 0.3%, in line with consensus and the YoY rate fell another from 6.0% to 5.7%. Shelter categories surprisingly accelerated despite weakness in the new rental market, but wage-sensitive services categories were mixed, and used cars and airfares contributed an outsized -0.15pp to the monthly core reading. We have also seen initial and continuing jobless claims decline relative to consensus expectations for increases.

- NFP rose 223k in Dec despite worker strikes in the month, exceeding consensus expectations. The household survey was even stronger, with a 717k jump in employment, higher labor force participation, and a decline in the unemployment rate to 3.5%. Average hourly earnings were below expectations and revised lower, and YoY rate fell to a 16-month low of +4.6%.

- **Monetary Policy Forecast:** There is still some level of uncertainty on whether the next move in Jan will be 25bp or 50bp as the FOMC minutes were inconclusive. The FOMC may slow the pace of rate hikes further possibly to 25bp at the Jan 31/Feb 1 meeting. Our house view is for a peak at around 5-5.25% in spring (either Mar or May FOMC). A step down to a 25bp rate hike in Feb, could see further 25bp hikes in each of Feb, Mar and May. Alternative, Fed could hike 50bps in Jan followed by two more 25bps by Mar or May.

- The key takeaways from the Fed's Dec 2022 FOMC minutes were that the Fed is intent on hiking rates to lower inflation back toward their 2% target, highlighting concerns against early loosening and that no rate cuts were expected in 2023. They also highlighted the downshift to a 50bps hike was not a weakening of its resolve to bring inflation back to 2% target and signaled their concerns regarding market views about the future path of the policy Fed Funds Target rate.

- The minutes also showed the Fed's concerns balancing the two risks, one of which is the risk of an insufficiently restrictive monetary policy versus the risk of the lagged cumulative effect of policy tightening from last year. In addition, Fed staff economists' continued to warn for the second consecutive meeting the "possibility of a recession sometime over the next year as a plausible alternative to the baseline".

- **Key domestic events and issues to watch in Feb: ADP (1 Feb);** ISM Manuf (1 Feb); FOMC (2 Feb); NFP (3 Feb); Factory Orders, Durable Goods Orders (2 & 27 Feb); Trade Balance (7 Feb); CPI (14 Feb); FOMC Minutes (23 Feb); GDP (23 Feb); PCE Deflator (24 Feb).

- **Technical Outlook:** The DXY index was last seen at 101.92 levels. Death crosses formed on 14 Dec (50ma cross 100ma) and 9 Jan (50ma cross 200ma). Stochastics are flagging oversold conditions and RSI is approaching the oversold level. From this perspective, we remain cautious of a near-term rebound in USD strength.

EUR: Hawkish ECB Committed to Fighting Inflation

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
EURUSD	1.1000 (1.0500)	1.1100 (1.0500)	1.1200 (1.0600)	1.1300 (1.0700)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** EURUSD has steadily traded higher in Dec and Jan, as a more hawkish ECB, rebound in European growth momentum on warmer than expected weather and broadly weaker USD on expectations of a Fed downshift provided support for the pair. Our previous forecast was cautiously optimistic on the EUR based on policy convergence versus the Fed and a low likelihood of further escalation of Ukraine tensions. However, the above-mentioned developments have led to a quicker than expected pace of policy convergence and the consequent rise in EURUSD. Moving forward, it is also likely that the ECB will remain hawkish in its commitment to battle inflation. The hawkishness has not been priced in fully by markets and the EUR could receive further boosts should the ECB acts as it says it will. **As such, we have calibrated our EURUSD forecasts upwards to reflect this.**

- **Risk(s) to our View:** The war in Ukraine is still ongoing and an end is nowhere in sight. Any further escalations of this war, although unlikely, present a key risk to our view for a stronger EUR. We expect peace to continue to be hard to achieve as Ukraine has retained its hard stance against Russia. We also expect most sanctions to remain, and this could imply the Eurozone’s trade balance remains in deficit. Separately, should Eurozone price pressures alleviate faster than the ECB is expecting, then the resulting reduction in the number of actual hikes should weigh on the EUR accordingly.

- On energy, Europe has been relatively lucky with this warmer than expected weather in 2022 and a confluence of other factors that have led to energy prices plummeting. A warm autumn postponed the need for a drawdown on gas stockpiles and a warmer winter eventually resulted in Europe using only half as much gas from storage as it used over the past two winters. Weather forecasts also point to a mild end to the season. However, it is too soon to conclude that the energy crisis has ended as prices have not returned to pre-pandemic levels. In addition, even with higher than expected storage levels, the International Energy Agency reckons that Europe is still short of what they would need for a bad winter. To complicate matters, China's reopening will add to Asia's already growing demand for gas. The risk for the EUR therefore remains should the Eurozone decide to ride its luck going into winter 2023.

- **Growth and Inflation Outlook:** The ECB's December 2022 projections for growth were revised to 3.4% for 2022, 0.5% for 2023, 1.9% for 2024 (prev: 3.1% 2022, 0.5% 2023 and 1.9% 2024). The ECB is expecting a short-lived and shallow recession at the turn of the year, although growth projections for 2022 were revised upwards following positive surprises in the summer. Notably, the Bundesbank stated that Germany would be likely to avoid a recession. ECB's December 2022 projections for inflation were revised to 8.4% for 2022, 6.3% for 2023 and 3.4% for 2024 (prev: 8.1% 2022, 5.5% 2023 and 2.3% 2024). Inflation projections were revised upwards to reflect a reassessment of the strength and persistence of pipeline price pressures and their pass through, stronger wage growth, higher food commodity prices and data surprises.

- **Monetary Policy Forecast: The December ECB meeting was potentially one of the most important ECB meetings since Draghi's "whatever it takes" speech in 2013.** The ECB raised its deposit rates by 50bps to 2.00%, but was also decidedly hawkish in post-decision comments. ECB President Lagarde made three points that had implications for markets. Firstly, the ECB sees core inflation at 4.2% by December 2023, which implies that despite the increase in interest rates, the ECB thinks core inflation will be at more than double its target a year from now. Secondly, quantitative tightening is going to start in 1Q2023. The ECB will start from an initially small amount (~15b per month) and is likely preparing the market for a bigger QT in the future, committing to its intention to reduce its balance sheet. Of note, the ECB balance sheet is already shrinking fast (~300b in a few months) from TLTRO repayments which will continue in 2023. Lastly, and perhaps most importantly, the ECB has no qualms in committing to more hikes in order to fight inflation. This implies that based on the ECB expected core inflation of 4.2% in December 2023, the market expectation of a 3% ECB terminal rate (before the meeting) was too low, considering that the ECB has asserted its view that nominal rates must be above the level of core inflation.

- December's ECB minutes revealed that hawks were initially pushing hard for a 75bps hike but eventually compromised for a 50bps increase. This implies that while a 50bps hike is expected for February, the hawks are likely to resist a downshift to a 25bps in March and beyond. Moreover, ECB rhetoric has thus far been hawkish, with members of the Governing Council all reinforcing the ECB's desire to slay the inflation dragon. Based on market implied OIS, the ECB terminal rate is seen to be at 3.3% in September 2023. It is therefore clear that the ECB's hawkishness has not been fully priced into markets and the EUR could receive a further boost should the ECB stick to their script. **On balance, we expect the ECB to remain hawkish and for a 50bps rate increases for the next two meetings at least. The ECB could then potentially change its stance should price pressures prove to be less persistent than forecasted.**

- **Latest Fiscal and External Balance Outlook:** The Euro current account posted a surplus of EUR 13.6b in November versus a EUR -4.5b deficit in October. The surplus was largely attributable to Germany, which itself posted a surplus of EUR 16.8b. This brought the YTD measure of the Eurozone current account deficit to EUR -75.6b.
- **Key domestic events and issues to watch in Feb:** Jan Mfg PMIs, Jan EZ CPI (1 Feb), ECB policy decision (2 Feb), Dec IP, Jan Services and Composite PMIs, Dec EZ PPI (3s Feb), 4Q2022 GDP (14 Feb), S&P PMIs (21 Feb), Feb Consumer Confidence (27 Feb)
- **Technical Outlook:** EURUSD has been on an uptrend with golden crosses forming on 6 Dec (50ma crossing 100ma) and 29 Dec (50ma crossing 200ma). EURUSD is now trading at 1.0910 levels, with RSI approaching overbought levels and stochastics already flagging overbought. On the daily chart, we see supports at 1.0780 and 1.0620 levels and resistances at 1.1070 and 1.1220 levels.

GBP: Medium-term pain expected

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
GBPUSD	1.2400 (1.2000)	1.2100 (1.1700)	1.2200 (1.1800)	1.2400 (1.2000)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** GBPUSD has returned to pre-Truss levels as the Sunak administration continues to restore some credibility to the UK. However, the BOE has also arguably been among the more dovish G7 central banks and the UK's economic prospects look tougher than those faced by the Eurozone. Given that inflation remains sticky, and policy space for the BOE to hike rates will be narrower in the face of a recession, our outlook for the GBP remains bearish for 2Q and 3Q2023. However, the GBP has also received a boost of late, moving higher in line with broad USD strength, more encouraging UK economic data and sticky inflation prints. **On balance, we have revised our forecasts for the GBPUSD upwards to reflect the new circumstances, although the bearish trajectory for the medium-term remains intact.**
- **Risk(s) to our View:** The UK is in a tough position in no small part due to Brexit and the resulting protracted negotiations that have yet to be

resolved. **A positive resolution to any of these unresolved issues is likely to provide some support for the GBP.** These issues are of paramount economic importance to the UK, but are ultimately politically daunting for the Sunak administration to deal with. One such issue is the dispute over border checks between Northern Ireland and EU-member Ireland. This carries the risk of an all-out trade war. The UK and the EU reached an agreement on sharing data on trade in January 2023. This allows the EU to access UK IT systems for detailed information on the flow of goods from Great Britain to Northern Ireland. We closely watch developments on the Brexit front, which could change our outlook for the GBP.

- **Growth and Inflation Outlook:** The UK's Nov GDP came in stronger than expected at +0.1% MoM (exp: -0.2%) and beat expectations of a contraction. This lent credence to the narrative that the economic downturn in Europe may be shallower than feared. Although it was likely a one-off due to an increase in consumption fuelled by the start of the FIFA World Cup. Economists expect this to delay, but not avert a UK recession. Meanwhile, the UK's Nov Industrial Production fell by more than expected at -5.1% YoY (exp: -2.8%), while November Manufacturing Production also saw a similar fall of -5.9% YoY (exp: -4.8%). Bloomberg's survey of 51 economists in January also saw a 90% chance of a recession happening in the UK over the next 12 months, painting a bleak picture for the UK's growth prospects in 2023. The BOE's forecasts for growth are also dismal, expecting real GDP to contract by -1.50% YoY in 2023 and -1.00% YoY in 2024.

- On the inflation front, Dec Core CPI showed signs of stickiness printing at +6.3% YoY (exp: +6.2%; prev: +6.3%), while headline CPI eased slightly at +10.5% YoY (exp: +10.5%; prev: +10.7%) in line with expectations. Bloomberg's consensus forecasts for the UK's CPI stands at +9.1% YoY in 2022 and +7.1% YoY in 2023. Meanwhile, the BOE's forecasts for inflation stand at +10.75% YoY and +5.25% YoY in 2023. Inflation has been kept sticky also in part due to a labour shortage in the UK, despite the UK weathering soaring energy prices better than expected.

- **Monetary Policy Forecast:** The BOE was seen to be dovish in its split decision to raise its policy rate by 50bps to 3.50% in Dec. The vote was split with Catherine Mann preferring a 75bps hike, Swati Dhingra and Silvana Tenreyro favouring no increase, and the remaining six members voting for a 50bps increase. Moving forward, consensus expects a further 50bps hike in February, followed by one more 25bps hike, for a terminal rate of 4.25% before the BOE pauses. The OIS-implied terminal rate is slightly higher at 4.4%, expected in 3Q2023. The BOE meanwhile has kept its options open, and unlike the ECB, has not been as hawkish in its rhetoric on combating inflation or as definitive in its forward guidance. Former chief economist Andy Haldane has also warned of the dangers of undermining the UK's recovery with excessive rate hikes. Given the unenviable position the BOE is in, and in particular the inflation-growth conundrum it is facing, we expect that it is more likely to err on the side of caution for growth and hit a terminal rate of 4.25% or slightly lower than what the market is pricing in. This should eventually weigh on the GBP if it materializes.

- **Latest Fiscal and External Balance Outlook:** PM Rishi Sunak has signaled his intentions to reduce the UK's national debt and cut inflation as priorities for 2023. He also added that he wishes he could implement tax cuts, but understands that it is practically impossible with the current level and persistency of inflation. Chancellor Jeremy Hunt is already under pressure from UK conservative MPs to show a path to lower taxes, which many believe is the easiest way to stave off a recession. However, inflation is not the only thing preventing tax cuts. If taxes are cut and government spending is to remain the same, then the government must finance the spending. The most expedient way to do this would be to increase government debt. However, this goes directly against the PM's intentions to reduce the UK's national debt. It remains to be seen how Chancellor Hunt plans to deal with this problem, with independent fiscal watchdog the Office for Budget Responsibility noting that there would be less headroom for the March budget, given weak productivity and labour market issues that have damaged the UK's economic prospects. The UK's budget deficit in 2022 stood at £125 billion, roughly 5.4% of GDP. Meanwhile, the current account deficit stands at -4.24% of GDP or about £100 billion.

- **Key domestic events and issues to watch in Feb:** Jan Mfg PMI (1 Feb), BOE policy decision (2 Feb), Jan Services and Composite PMI (3 Feb), Dec IP, Dec Mfg Prod, Dec Trade Balance, 4Q2022 GDP (10 Feb), Jan Jobless Claims, Jan Unemployment (14 Feb), Jan CPI, RPI (15 Feb), Jan Retail Sales (17 Feb), Feb Prelim PMIs (21 Feb), Feb Consumer Confidence (24 Feb)

- **Technical Outlook:** GBPUSD last traded at 1.2380 levels and is making a second test of 1.24 levels. Golden crosses have formed on 13 Dec (50ma crossing 100ma) and more recently on 11 Jan (50ma crossing 200ma). A potential double top could be forming should the 1.2450 level resistance hold once more. Should a double top form, the break of the neckline at around 1.18 figure would be confirmation to short GBPUSD. Stochastics are flagging overbought although RSI is neutral. We watch supports at 1.2230 and 1.2010, followed by resistances at 1.2620 and 1.2840.

AUD: Interim AUD Retracement Cannot be Ruled Out

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
AUDUSD	**0.70** (--)	**0.72** (--)	**0.74** (--)	**0.75** (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** We keep our AUDUSD forecast unchanged for now and continue to remain bullish on the currency. China's rapid re-opening alongside Fed's policy pivots (downshift in size of rate hikes from 75bps to 50bps (in Dec) and possibly to 25bps (on 1 Feb)) have translated into significant USD weakness. Risk sentiment saw a turnaround and AUD was lifted by optimism that China's recovery would raise the demand for Australia's resources. Even as we remain bullish on the AUDUSD for most part of the next twelve months, we turn a tad wary of potential USD retracement in the next month especially as seasonal boosts to yuan fades after the Spring Festival. There could also be potential upside surprise for US inflation reports (US CPI or PCE core) as we move well beyond the peak of headline CPI and Fed may prefer to draw focus to services CPI that have proven to be stickier.

- **Downside Risks to the AUDUSD outlook:** (1) We assume a gradual recovery in China but should demand recovery fail to meet expectations, concomitant knock-on impact on Australia's growth as well as fears of a more severe slowdown in global growth could potentially reverse AUD gains and bring back demand for safe haven USD demand. (2) NATO membership remains in discussion and even as the war in Ukraine remains a stalemate between Ukraine and Russia, any signs of broadening war could also pose downside risks to the AUD via the sentiment channel.

- **Growth and Inflation Outlook:** Recent data suggest that the accumulative 300bps rate increase by RBA has started to take a toll on the economy, not helped the least the aggressive tightening by other major central banks that could affect growth in the rest of the world and concomitantly external demand. NAB businss survey for Dec fell rather sharply to 12 from 20, the lowest since Jan 2022 and business confidence polled in Dec was at -1, albeit an improvement from the previous -4. Capacity utilization rate has fallen to 83.7% from previous 85.0%. Median home prices have fallen for eight consecutive months since May 2022. That said, we remain cautiously optimistic on Australia's growth outlook as the recovery of China could have some positive spillovers for Australia.

- Retail sales for Nov remained surprisingly strong at 1.4%m/m (s.adj) vs. previous at +0.4% (also revised higher), likely underpinned by tight labour market conditions and strong revival in tourism arrivals. We saw a strong recovery in total number of arrivals but the level remains around 46% below the high reached pre-pandemic. China's re-opening process could potentially fill the gap.

- Trade surplus widened a tad in Nov, but largely due to the fall in imports at -1%m/m. Growth for exports was flat. That said, local trade data could be backward looking. China remained Australia's top trading partner and China's exit from zero-covid and concomitant recovery could boost export receipts for Australia. In addition, Australian-Sino ties seem to have warmed of late with Chinese companies reportedly resuming coal imports from Australia gradually (first batch in Feb according to Chinese tabloid Global Times). This comes after Foreign Minister Penny Wong's visit to Beijing in Dec and PM Albanese's meeting with President Xi at the G20 summit earlier in Nov. More recently, the PM told the local press that the two countries want to "develop more positive relations". To take that further, a video meeting is in the works for Australia Trade Minister Don Farell and his Chinese counterpart Wang Wentao to possibly remove restrictions on Australian wine, lobster and barley. This could be set a very constructive backdrop for Australian's exporters and the country's terms of trade.

- 4Q CPI surprised strongly to the upside at 7.8% YoY vs. previous 7.3%. Headline was underpinned by strong price increases for domestic and international holiday travel and accommodation (+13.3%) and (+7.6%) respectively, electricity prices and new homes. Sequentially, inflation accelerated to 1.9 BOE Policy Decisionvie from previous 1.8%. Underlying inflation (aka trimmed mean) eased less than expected to 1.7% QoQ from previous 1.8%. Year—on-year, trimmed mean picked up pace to 6.9% vs. previous 6.1%. ABS noted that services inflation has accelerated to 5.5% YoY, the highest seen since 2008 due to strong price increases for holiday travel, meals out and takeaway food. On the other hand, prices of new dwelling eased a tad to 17.8% YoY from previous 20.7%, albeit still elevated.

- **Monetary Policy Forecast:** RBA is highly likely to raise cash target rate by another 25bps on 7 Feb. At the last decision, the central bank had started to sound more cautious on future rate increases, noting that "the path to achieving the needed decline in inflation and achieving a soft landing for the economy remains a narrow one". We can expect this line to be reiterated. Although both headline inflation and trimmed mean had come in near the central bank's forecasts, breakdown suggest that services inflation remains on the climb and broadening inflation pressure continues to be a risk, not helped the least by strong retail sales and the potential for the return of Chinese tourists. In addition, the labour market conditions only showing very nascent signs of softening (jobless rate a tick higher to 3.5% vs. prev. 3.4%, total employment change -14.6K with full-time employment +17.6k on net).

- Cash rate futures suggest that RBA is expected to raise rates to around 3.75% (around 65bps higher from current 3.10%) by 3Q this year. Australia's inflation is already expected to peak later than the US. The AU-US 10y yield differential swung between premium and discount for the past several weeks. Any persistent upside surprise to Australia's inflation trajectory (demand pull or supply push) could force RBA to tighten more than market expectations and add boost to the AUDUSD.

- **Latest External Balance Outlook:** As of last available data, current account surplus was recorded at 1.00% of GDP for 3Q 2022, narrowing from the previous 2.03%. Demand recovery in China could increase its imports of Australia's resources and tourism and widen its current account surplus.

- **Fiscal Outlook:** The labour government has produced its first budget on 25 Oct 2022, projecting deficit to narrow to A$36.9bn in 2022-2023 (1.5% of GDP) from A$134.2bn (6.5% of GDP) in 2020-2021. Deficit is then expected to widen to A$44.0bn in 2023-2024 (1.8% of GDP) and A$51.3bn in 2024-25 (2.0% of GDP). Deficit projections for over the four years to 2025-26 is also expected to be A$42.9bn less than Mar budget. Much of the improvement for the budget is due to the strong commodity prices and labour market. Australia also benefits from rapid return of overseas migration but is faced with higher borrowing rates.

- **The above are based on GDP growth projection of 3.**25% for 2022-2023 (vs. 3.5% projected previously), 1.5% for 2023-2024. The labour market is forecast to soften with unemployment rate seen at 4.5% in 2Q 2024.

- **Key domestic events and issues to watch:** Jan F Mfg PMI (1 Feb), Dec building approvals, 4Q NAB business confidence (2 Feb), Dec home loans, investor loan value, owner-occupier loan (3 Feb), Jan Services PMI (4 Feb), M-I Jan inflation (6 Feb), Dec trade, **RBA policy decision**, Jan foreign reserves (7 Feb), Westpac Feb consumer confidence, NAB Jan business confidence and conditions (14 Feb), CBA household spending (Dec), consumer inflation expectation for Feb, Jan labour report (16 Feb), *prelim*. Mfg, services Feb PMI and **Minutes of Feb policy meeting (21 Feb),** Jan Westpac leading index, **4Q wage price index,** construction work done (22 Feb), 4Q Capex (23 Feb), 4Q BoP current account bal, net exports of GDP, Jan retail sales, private sector credit, Feb CoreLogic House price (28 Feb).

- **Technical Analysis:** AUDUSD was last seen around 0.7120. While MACD is still bullish, stochastics flag overbought conditions. The rising wedge remains intact but could be at risk of being violated. A decisive close above 0.7140 would confirm violation and the likely extension of this bullish trend. We are thus still wary of retracements and we eye US PCE core. A break out of the rising wedge could mean a retracement towards the 0.6830-support (50,200-dma).

NZD: Double Topped, Tactical Short

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
NZDUSD	0.6500 (--)	0.6500 (--)	0.6700 (--)	0.6800 (--)

No Change to Previous Forecasts

- **Motivation for the FX View:** We hold our forecast levels and trajectory unchanged from what we had envisioned in our FX Annual Outlook for 2023. NZDUSD did a sprint towards our 1Q forecast, in similar fashion as AUDUSD. Drivers were similar and they include Fed's downshift in monetary policy tightening, China's re-opening euphoria and warmer winter in the hemisphere that eased fears of energy crisis and concomitantly concerns of a deep recession in Europe. Seasonal strength for the yuan ahead of Lunar New Year also lent a boost to regional currencies. We see potential for a pullback in the NZDUSD after the recent rally, especially if upcoming data suggest more deterioration in domestic demand conditions such as the next labour report for 4Q. Technical indicators also suggest a potential pullback. An arguable double-top has formed for the NZDUSD and that portends a potential reversal back towards levels around 0.63/0.62. In spite of the likely retracement instore, we hold our FX forecasts unchanged for the year.

- **Focus at home remains on the cost of living.** This is election year after all (14 Oct 2023) and PM Jacinda Ardern has handed the reins over to Chris Hipkins who became New Zealand's 41st prime minister after the former resigned abruptly.
- PM Hipkins told the press that the focus of the ruling Labour Party right now is to resolve "bread-and-butter issues" and even hinted a change in the government's projects. The cabinet will be making a decision on potentially halting "programs/projects" that are not "essential" and focus will be on "middle and low-income New Zealanders". Similar to his antipodean counterpart, he described the country's relationship with China as "incredibly important economically" and a trip there is "high on priority list". Fin Min Robertson noted in an emailed statement that the "cost of living" is a top priority. Government spending may be reduced in order to finance extended fuel tax cuts and increase support for seniors, students, beneficiaries and those on Working for Families from 1 Apr.
- Meanwhile, main opposition party leader Christopher Luxon vowed to change the mandate of RBNZ that focuses on inflation which he blames for the aggressive policy tightening that raised the cost of living. He also wants to provide tax relief and widen immigration settings to ease price pressure. As of last week (ending 22 Jan 2023), Luxon's National Party held 37.2% of the vote which could potentially allow the Party to form a minority government via a coalition with a smaller party, notably ACT New Zealand (right wing).
- Taken together, even as New Zealand is headed for election this year, we are likely to see a leader that is rather centrist in terms of policy and campaign, unlikely to jeopardize New Zealand's growth trajectory (that has been forecasted by the treasury to contract anyway) as well as making extreme changes in foreign policy. Both leaders (Chris Hipkins or Opposition Christopher Luxon) are likely to focus on ensuring that trade with China will continue to flourish whilst maintaining strong defense alliance with the US. With inflation not entirely back to 1-3% target, signficant ramp-up in government expenditure that could threaten its fiscal health is also unlikely. The Treasury had looked for three quarters of contraction this year starting from 2Q with contraction of 0.8% for 2023. We hold a slightly more sanguine view of the economy (not expecting much of a recession) and continue to remain constructive on the NZD vs. the USD beyond near-term risks of a pullback.
- **Downside Risks to NZD Outlook:** (1) War in Ukraine futher escalates into nuclear/ broaden to involve more countries or last longer may hamper global economic momentum and that will have negative spillover effects on NZ. (2) slower-than-expected recovery in China to reverse NZD gains. (3) Faster than expected deterioration in growth (vs contraction starting in 2Q for three quarters) to weigh on NZD.
- **Growth and Inflation Outlook**: The latest CPI print for 4Q at 7.2% was steady from the quarter prior, short of RBNZ's forecast of 7.5%. Breakdowns suggest that price pressure have likely peaked with tradeable and non-tradeable components decelerating to 1.4% QoQ and 1.5% QoQ from +2.2% and +2.0% respectively. Sectoral wise, food,

clothing and footwear, housing and utilities, transportation saw smaller sequential price pressure, partially offset by slightly firmer healthcare (+1.6% QoQ vs. prev. +1.3%) and recreation and culture (+3.4% vs. prev. +1.9%). The somewhat broadbased slowdown in sequential price increases reflect softening demand conditions at home and abroad. RBNZ forecast inflation to pick pace to 7.5% in 1Q 2023 and chances of reaching that forecast is even lower than before.

- Demand conditions are increasingly crimped by high interest rates and high inflation rates. Retail card spending has become rather anemic at -2.5%m/m for Dec with card spending on durable goods hit the most at -5.7% on the month vs. -1.0% in Nov. Only spending on consumables rose among the categories, up +1.5%. That said, a part of the decline in the retail card spending be due to the fact that fear of Covid-19 and more stringent mobility restrictions in 2021 has driven card spending higher in 2021 and people were more able to travel and spend in Dec 2022.

- REINZ home sales continue to record steep declines at -39% YoY for Dec. Sales of newly built home fell -4.6% on the quarter according to the HIA report as high interest rates sapped demand. Median home prices fell -12.2% YoY in the quarter. Such persistence in the decline of home prices could continue to hurt consumer confidence and slow consumption growth further in 2023. That said, the new PM Chris Hipkins have pledged to focus on helping the middle and low income households and any form of support for disposable incomes could mitigate impact on spending.

- BusinessNZ Mfg PMI came in contractionary at 47.2 for Dec, steady vs. the month prior, in line with global slowdown. Some deterioration in terms of trade have been built in for New Zealand as external demand weakens but that could be offset by China's recovery, although the extent of demand recovery in China is still highly uncertain at this point.

- Meanwhile, the performance of Services index has softened to 52.1 for Dec from previous 53.8, well off its 2022 high of 58.6 recorded for Aug. Breakdown suggests rising new orders still at 58.4 from previous 57.4. However, employment sentiment deteriorated to a score of 47.1 from previous 51.8. The New Zealand labour market had been tight with unemployment rate for 3Q at 3.3% but we anticipate potential for some softening in labour market conditions. Next labour report for 4Q would be due on 1 Feb and any significant deterioration in net employment and wage growth would likely reverse recent NZD gains against the USD.

- **Monetary Policy Forecast:** We look for RBNZ to raise cash rate by 50bps on 22 Feb. Before the decision on that date, the 4Q labour market data, consumer confidence data would have been released. Recent inflation prints have undershot RBNZ's forecast for 4Q and that have swung the bets for 22 Feb from a 75bps hike to 50bps. Previously, expectations were for RBNZ to raise cash rate by 75bps after RBNZ Deputy Governor Christian Hawkesby commented that "we have more work to do". He lamented about the little impact of higher interest rates, outside of falling house prices and a cooling of construction pipeline. However, the latest 4Q inflation numbers have undershot RBNZ's forecast for 4Q2022 and likely 1Q 2023. Breakdown also suggests that the impacts of monetary policy tightening on demand are showing. An absence of acceleration in the sequential CPI should allow room for RBNZ to make its first policy pivot by raising rates by a smaller and more cautious 25bps in Feb after five consecutive 50bps hike between Apr – Oct 2022.

- **External Balance and Fiscal Outlook: NZ current account deficit almost doubled to NZ$10.2bn in 3Q from NZ$5.4bn in 2Q.** The current account might have deteriorated due to the strong imports growth that resulted in a wider trade deficit for goods, exacerbated by lofty energy bills in the 3Q. We expect the current account deficit to narrow in the following quarter as energy prices eased globally.

- At the Half-Year Economic and Fiscal update for 2022 in Dec, the Treasury Department looks for three quarters of negative GDP growth from 2Q of 2023 with the economy expected to contract 0.8% for full calendar year 2023. Budget deficit for 2022-2023 was projected to be NZ3.6bn and to return to surplus of NZ1.7bn in 2024-2025. Net debt seen to peak at 21.4% of GDP in 2023-2024 vs. 17.2% as of Jun 2022. As indicated in the front sections, the new PM is said to possibly shelve some of the current projects but savings could be diverted to support middle income and low income households as cost of livings remain a most pertinent issue for the Labour Party.

- **Key domestic events and issues to watch:** CoreLogic House Prices, 4Q Labour report (1 Feb);Dec building permits (2 Feb); ANZ Jan commodity price (3 Feb); BusinessNZ Mfg PMI, Jan Card spending and REINZ House sales (10 Feb); Jan Performance Services Index (13 Feb); 2Yr inflation expectation for 1Q, Jan food price (14 Feb), Dec Net migration (16 Feb), 4Q PPI (21 Feb), Jan trade, **RBNZ policy decision (22 Feb),** 4Q retail sales ex inflation (27 Feb), ANZ Feb activity outlook, business confidence (28 Feb).

- **Technical Outlook:** NZDUSD rose this morning on buoyant risk sentiment. NZDUSD's double top formation is being threatened but remains intact for now. If this plays out, we look for retracement towards the 0.62/0.63-figure as RBNZ could go for its first policy pivot, making a likely smaller hike of 25bps after five consecutive 50bps hike. 4Q CPI came in at 7.2% YoY, undershooting RBNZ's forecast of 7.5% YoY. Softening demand conditions at home suggest that CPI forecast is likely to miss the 1Q forecast of 7.5% YoY as well. That said, broader USD decline could still force a break of the 0.65-resistance for this pair to head towards 0.6580. Data-wise for the rest of the week, we have ANZ business confidence for Jan due on Fri.

CAD: Dovish BoC Weighs

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
USDCAD	1.3100 (--)	1.3000 (--)	1.2900 (1.3000)	1.2800 (1.3000)

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** We keep our trajectory for USDCAD mostly unchanged and only adjusted USDCAD a tad lower for 2H, in anticipation for greater deceleration in the US growth then and stronger traction in China's economic recovery that could bring the USD lower against the CAD towards 1.28 by year end.

- BoC became the first G7 central bank to signal a pause after raising policy interest rates by 25bps on 25 Jan. Higher interest rates have started to affect not just Canada's housing sector but also household spending base on recent surveys. With business investment expected to slow, growth is projected by BoC to stall through the middle of 2023 before some recovery in the second half of the year. CPI is projected to fall to 3% by mid-2023 and back to the 2% target in 2024. The central bank made a surprisingly explicit statement that this could be the peak policy interest rates - "If economic developments evolve broadly in line with the MPR outlook, Governing Council expects to hold the policy rate at its current level…". As BoC is the first G7 central bank to signal a pause, CAD is likely to remain on the backfoot against most non-USD peers, especially against the AUD.

- **Growth and Inflation Outlook:** BoC conducted the Business Leaders' Pulse survey in 4Q 2022 and the outcome that was published in mid-Jan suggests deteriorating business sentiment due to rising interest rates. Sales expectations and investment plans have concomittantly softened, not helped the least by still elevated inflation that is affecting consumers' purchasing power and the fear of recession. The silver lining in the survey is that supply chain issues have improved and that could ease business' production capacity and cost pressure. From the survey, businesses expressed that concerns on demand and credit are rising even as cost perssures, labour shortages and supply chains remain the most pressing concerns.

- When it comes to the labour market, conditions remain rather tight at this point. Canada added a net 104K of employment in Dec, well above the 5k expected. +84.5k of hires were full time and 19.5k part-time. Unemployment rate fell to 5.0% from previous 5.1%. Participation rate rose a tad to 65.0% from previous 64.8%. This was in line with the CFIB business barometer index which rose to 50.9 in Dec vs. 50.0 in Nov. The report indicated that intentions to increase staffing actually firmed for the month to 20.5 vs. previous 17.4. Clearly, the central bank leans more on its 4Q business survey and consumer survey to signal a pause at the last meeting.

- Key to future monetary policy decisions is still the inflation trajectory. CPI eased to 6.3% YoY from pervious 6.8%. Month-on-month, CPI fell -

0.6% with core down -0.1% for Dec. Lower energy prices weighed on the headline at -7.9%m/m vs. previous -1.5%. More specifically, the 13.1%m/m fall in gasoline prices contributed to the decline in the prices of transportation which was down -2.6%m/m. That said, the easing of price pressure was rather broad-based with food prices rising at a milder pace of 0.3%m/m vs. prev. 1.2% while shelter rose 0.4%m/m vs. prev. 0.6%. Prices of all goods eased -1.7% on the month while those of services recorded a growth of +0.3%. Signs of softening demand conditions as well as base effects could continue to keep the headline CPI on a downtrend.

- **Monetary Policy Forecast:** BoC became the first G7 central bank to signal a pause ahead after raising policy interest rates by 25bps on 25 Jan. Higher interest rates have started to affect not just Canada's housing sector but also household spending. With business investment expected to slow, growth is projected by BoC to stall through the middle of 2023. CPI is projected to fall to 3% by mid-2023 and back to the 2% target in 2024. The central bank made a surprisingly explicit statement that this could be the peak policy interest rates - "If economic developments evolve broadly in line with the MPR outlook, Governing Council expects to hold the policy rate at its current level…". While Gvernor Macklem did clarify that the pause "is conditional on economic developments", the explicitness of the statement suggest that a pause from here is a central scenario of the bank.

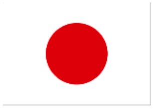
- **Market expectations have adjusted accordingly and a 50bps cut is expected by the end of the year.** Macklem clarified that it is still too early to contemplate about cut and focus remains on whether the central bank has tightened enough.

- **Latest External Balance Outlook:** As of last available data, Canada's current account balance was at a deficit of U$5.9bn for 3Q22, widening from the -U$0.5bn deficit for 2Q.

- The fall economic statement released in Nov projected budget deficit to be -1.3% of GDP for FY2022-2023 as a base line scenario and for the deficit to narrow to -1.1% of GDP for FY2023-24. More recently this month, Finance Minister Chrystia Freeland said her 2023 budget will focus on healthcare and green energy transition while ensuring that the overall fiscal plan is sustainable. These items were not taken into considerations in the Fall budget. Given that the growth outlook has softened, she acknowledged that the fiscal room is less and there is a need for a prudent approach.

- **Key domestic events and issues to watch:** Jan Mfg PMI (1 Feb); Dec Building Permits (2 Feb); Jan Purchasing Managers, Dec Trade (7 Feb), Jan Labour report (10 Feb), Jan Housing starts, Dec Mfg sales, Jan Existing home sales (15 Feb), Jan Industrial product price (17 Feb), Dec Retail sales, Jan CPI (21 Feb), Feb CFIB Business barometer (23 Feb), 4Q Current account bal (27 Feb), Dec GDP (28 Feb).

- **Technical Outlook:** USDCAD drifted lower and was last seen around 1.3340. This pair may continue to drift lower towards next support around 1.3210. However, bearish momentum is lacking and moves lower could be a grind. Resistance at 1.3440 (200-dma) before 1.3520 (50-dma).



JPY: BOJ To Be The Focus In The Near Term

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
USDJPY	132 (135)	128 (130)	125 (125)	122 (122)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** We are revising our USDJPY forecast downwards due to potential BOJ future actions and increasing speculation that the BOJ would embark on a tightening cycle. The latter speculation has risen substantially after the BOJ made a surprise move in December to widen the YCC band to +/-50bps. Our own view though is that the BOJ would not do an immediate exit out of YCC but rather take a gradual approach to it and therefore likely opt to widen the YCC band by another 25bps to +/-75 bps in the near term. Driving this view is that the YCC is unlikely to be sustainable in the long term due to the risks it can cause to bond market dysfunctionality and distortion to the yield curve. However, an immediate exit may not be ideal as it creates uncertainty on how high yields may climb and the unwanted shock it can cause. Overall, a 25bps widening is still rather incremental and hence, its effect on the FX would be limited as reflected in our forecasts. Speculation has been factored into the forecast too but the bigger effect from this would be the volatility that it can create for the JPY in the near term. Meanwhile, UST yields as a whole would continue to remain a big factor in determining the USDJPY movement. Softening US inflation leading to the possibility of peaking Fed rates soon is likely to send UST yields lower, which would be a positive to the JPY.

- **Inflation in Japan is still not showing signs of a broad-based sustainable pick-up, which makes the economic case weak for a BOJ shift.** The latest Dec headline CPI data at 4.0% YoY may be well above the BOJ target of 2.0% but the underlying number showed that half the categories still fall below 2.0%. Additionally, those categories above 2.0% that included items such as energy, processed food, furniture, etc have been driven by supply side pressures which are likely to dissipate overtime. The demand side meanwhile does not appear to be strongly driving inflation as wages or average cash earnings are still not showing any signs of a pick-up in growth. Rather, there seems to be a rising risk that the BOJ may end up dealing with inflation falling short of its target. The IMF deputy managing director Gita Gopinath has after all expressed a view that "the risk of inflation sliding back well below their target remains high".

- **However, the unwanted effect the YCC is having on the bond market may push the BOJ to widen the band further to +/- 0.75% from +/- 0.50%.** This would also be what we believe would be a part of the process to gradually exit YCC overtime. An immediate move to exit YCC by the BOJ is unlikely given the uncertainty of how high yields can go and the short-term electric shock it could create. The BOJ's drive to continue to cap JGB 10-year yields is increasingly making the bond market more illiquid. Despite the move in December to widen the band, the market actually came under more pressure as the BOJ acted more aggressively to keep the 10-year yield at 0.50% with investors increasing their bets that the YCC wouldn't hold for long. As it stands, government fund raising is increasingly becoming a pure central bank affair as outside appetite gradually dries up. At the same time, the yield curve also risks becoming even more distorted as the 10-year yield falls below those of maturities shorter than it. This can create the unintended effect of making long term lending less desirable whilst short term borrowing becomes expensive.

- **Whilst a widening of the band by another 25bps may have a limited impact on the FX itself, the move as a whole would still raise speculation of the BOJ embarking on a tightening cycle and likely increase volatility in the interim for the JPY.** Although we have marked our USDJPY forecasts lower to factor in this speculation, the bigger effect it would have is likely to be the gyrations we would see regarding the USDJPY movement. Given this, whilst we have set our 1Q2023 forecast at 132, we don't rule out a high level of volatility possibly causing the pair to trade a bit off that number nearer the end of the quarter.

- **For now, it still appears to be a very open question on who would be the next BOJ governor but the person who does fill the role would have to address the reality of the situation.** Currently, the dovish Masayoshi Amamiya and the more hawkish Hirohide Yamaguchi are seen as frontrunners. Another potential candidate Hirochi Nakaso is seen as just slightly less dovish than Amamiya. We believe that whoever becomes the next governor would still likely widen the YCC band to +/- 0.75% given the pressures the bond market is facing. Prime Minister Kishida said he would nominate a new governor in February. An earlier Reuters report had quoted sources as saying that the government would present the nominees for the next BOJ governor and deputy governors on 10 Feb. The testimony of the nominees would then likely be held for the lower house on the 16-17 Feb and the upper house on 20 – 21 Feb. The nominees would have to be approved by both houses of parliament. Kuroda's term officially ends on 8 April whilst the first BOJ meeting to be held under the new governor would be on 27-28 April.

- **Falling UST yields are likely to still be a key driver for the USDJPY given that we believe the BOJ may only make an incremental YCC move.** UST – JGB 5-year yield differential currently stands at around 340bps but it has substantially narrowed from a peak of over 400bps in Oct. The differential should continue to narrow as softening US inflation increases the likelihood of Fed rates peaking soon and leading to lower UST yields. The USDJPY should therefore head lower over the year as a result of this. As it stands, the market is expecting Fed rates to peak below the 5.00% level although our in-house view is for it to be at around 5.00 – 5.25%.

- **High frequency indicators meanwhile are showing some weakness in the Japanese economy.** Jan Jibun Bank PMI mfg was in contraction territory at 48.9 and it has been so since November as the global economy slows. The latest Nov IP number also showed a contraction of -0.9% YoY. Nov core machine orders showed a decline of -3.7% YoY whilst machine tool orders itself contracted by -7.7% YoY. As a whole, these numbers are making it challenging for the government to push for higher earnings during the key wage talks that are already underway. As mentioned earlier, the economic case for the BOJ to tilt hawkish is not strong and hence, economic data would not be a driver of USDJPY downward movement this year. In terms of forecasts, consensus is calling for 2023 growth to be at 1.3% YoY, which would also be around the current expected level for 2022.

- **The latest Nov CA balance has rebounded to positive territory, indicating that the impact of yen weakness on imports is gradually running its course.** The CA itself was also boosted by income gains from portfolio investment and direct investment overseas. Dec goods trade numbers also showed that the growth in imports continued to slow at 20.6% YoY (Nov. 30.3%). The number is also attributable to the high base in the prior year. Exports meanwhile slowed to 11.5% YoY (Nov. 20.0%) amid a weakening global economy. The overall trade balance narrowed substantially although it was still negative at -1.4 trillion yen (Nov. 2.0 trillion yen). Recent JPY strengthening should ease pressure on the country’s external position going forward. Consensus is calling for the CA balance in 2023 to still be positive at 1.5% of GDP and hence, supportive of the JPY.

- **Monetary Policy Forecast:** The BOJ stood part with regards to their policy interest rate at -0.10% in their latest meeting on 18 Jan. They also raised the inflation forecasts for the year ended March 2023 to 3.0% from 2.9%. They held it though at 1.6% for the year ended March 2024 but raised it to 1.8% from 1.6% for year ended March 2025. Meanwhile, they altered the clause about a loan program for banks to purchase JGBs. The clause now says that that the central bank will determine the interest rates regarding this program based on the formation of the yield curve. This compares to when it was previously fixed at 0%. Interestingly, the move goes more in-line with a loose policy stance. They made no other major policy moves and Kuroda if anything remained dovish, saying that he “don’t see it necessary to widen the trading band” of YCC. Regardless, we still believe the BOJ would adjust the YCC band in the future. We also don’t expect them to change their policy rate given that the economic case does not justify for them to do so.

- **On the fiscal side, Kishida continued to reiterate his policy for a balanced budget.** The cabinet office predicted that it can balance the budget in the year starting April 2026 with assumptions that growth would be around 2% annually in the medium and long term. However, that forecast appears rather optimistic given that growth has averaged around 0.6% in the last 10 years. Consensus forecasts expects the fiscal deficit to narrow to -5.0% in 2023 from the -6.7% in 2022.

- **Key domestic data to watch:** Dec Jobless rate (31 Jan); Dec Retail sales (31 Jan); Dec (P) IP (31 Jan); Jan Jibun Bank PMI mfg (1 Feb); Jan Jibun Bank PMI services (3 Feb); Dec Labour cash earnings (7 Feb); Dec Household spending (7 Feb); Dec (P) Leading CI (7 Feb); Dec BOP CA (8 Feb); Jan Bank lending (8 Feb); Jan PPI (10 Feb); Jan Machine tools (11

- 20 Feb); 4Q GDP (14 Feb); Dec IP (14 Feb); Dec Core machine orders (16 Feb); Jan Trade Data (16 Feb); Feb (P) Jibun Bank PMIs (21 Feb); Jan CPI (24 Feb); Dec (F) Leading CI (27 Feb); Jan (P) IP (28 Feb); Jan Retail sales (28 Feb).

- **Technical Outlook**: The pair was last seen trading just slightly below the 130.00 handle. A bearish trend channel can be observed for the USDJPY pair. JPY bulls are very much refusing to give up despite the BOJ's dovishness at the recent January meeting. Daily momentum is not showing any clear bias. Support is seen at 127.23 (year to date low) with the subsequent at 125.00. Resistance is at 131.64 (the upper end of the channel) with the next level after that at 134.26 (50-dma).

RMB: Re-Opening Gains May Slow

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
USDCNY	**6.75** (7.00)	**6.70** (6.95)	**6.65** (6.90)	**6.60** (6.80)
USDCNH	**6.75** (7.00)	**6.70** (6.95)	**6.65** (6.90)	**6.60** (6.80)

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** China's re-opening was one of our key themes for 2023 but its aggressive pace had caught most by surprise, including ourselves. As a result, the USDCNH declined at a hurried pace to a low of 6.6975 before rebounding a tad just ahead of Lunar New Year. Over the past month, China's central economic work conference indicated greater emphasis on ensuring recovery. This was followed by quite a few measures announced thereafter to support the property market as well as allowing Didi to return to app stores in China and allowing new user registration. These were strong policy signals that regulatory pressure could ease for the property sector and the crackdown on private enterprises may end. Confidence in China's equities and bonds were revived as a result with the SAFE reporting a net purchase of $12.6bn of stocks and bonds purchased for the first half fo Jan. Yuan strengthened as a result with seasonal demand added to the boost to the local currency as well. Into Feb, we see potential for tactical USD retracement higher as seasonal demand fades.

- After such a swift move lower by the greenback, price action could be more sideways as long as the Fed continues to maintain a hawkish tone until inflation metrics are much closer to the 2% target (vs. Dec core CPI at 5.7% YoY). That said, our core view for USDCNH this year remains biased to the downside towards 6.60 or slightly lower.

- **Growth and Inflation Outlook:** Expectations were bleak for Dec as China's moved to ease mobility restrictions in Nov were greeted with fear at first. Anecdotal reports of empty streets and the drop in the congestion index underscored the fear of contracting the disease as infections/death tolls rise and healthcare capacity come under strain. Market expectations were thus dampened to such an extent that the actual activity data for Dec surprised to the upside.
- Industrial production slowed to 1.3% YoY vs. previous 2.2%, albeit stronger than expected. Headline wasbuoyed by stronger output of electricity while production of ehthylene, coal, crude products, natural gas and EVs continue to grow.
- Retail sales was not as dire as expected, falling -1.8% YoY vs. previous -5.9%. Urban retail sales a tad more than rural retail sales at -1.8% YoY vs. -1.3% respectively. Spending on consumer food did not decline as much as the month prior at -0.1% YoY vs. prev. -5.6% and there was significant ramp-up in sales of medicine (+39.8% YoY vs. previous 8.3%, likely due to the Covid wave) and beverage (+5.5% YoY vs. prev. -6.2%). Sales of automobiles also rose +4.6% YoY vs. previous -4.2%.
- Fixed assets ex rural slowed only a tad to 5.1% YoY for the full year compared to 5.3% in the first eleven months of the year. The headline was supported by the state-owned sector (+10.1% YoY vs. prev. 10.2%), boosted by the infrastructure projected being executed. Into 2023, NDRC had said that the infrastructure investment will be "moderately" front-loaded with focus on transport, energy and water conservation and reform commission.
- With Dec data not as bad as feared and domestic flights, congestion index rising, Ministry of Transports' willingness index for highway traffic mobility surpassing 2022 high alongside supportive policy measures, there is plenty of optimism for growth recovery and rebound in confidence in equities and debt at this point.
- Based on Dragontrail Jan travel sentiment survey, >60% surveyed are ready to travel overseas but most are aiming to travel from Jul onwards with Asian countries poised to benefit the most. That could also mean that most Chinese are still more comfortable with spending at home in the first half of the year, potentially boosting import bills and narrowing its Covid-era trade surplus. Further more, there is constraint in terms of its international aviation capacity. The Aviation regulator plans to restore flight capacity to 88% by 31 Jan.
- The real estate sector is expected to recover for China amid rather significant policy measures introduced (removal/adjustment of mortgage floors for first home buyers). These include the 16-point internal directives released last Nov to ensure credit support for developers, financial support to ensure completion and deferred-payment loans for homebuyers.
- Bonds issued by quality developers saw a strong rebound but demand were reportedly mostly from hedge funds and private banks (FT). Better financing conditions for developers may in turn help aid consumer confidence in new projects. That said, scars from repeated defaults by certain property names (e.g Evergrande) as well as failure in the completion of projects over the last two years could mean that

homebuyers may not be eager to return and recovery could be very gradual.

- That said, the biggest form of regulatory easing may not have been announced yet. On 5 Jan, there were rumours that the three red lines (cap on debt-to-cash, debt-to-asset and debt-to-equity ratios) could be eased for property developers but we have not heard further confirmation of any details since.
- While data from China Real Estate Information Corp as of 23 Jan suggest that new home sales in China's fell in all four first – tier cities (Beijing, Shanghai, Shenzhen, Guangzhou), this could also be due to the fact that it is the week leading into Lunar New Year.
- Focus remains on infrastructure investment. NDRC had announced that the country will "moderately" front-load infrastructure investment (focus on transport, energy and water conservation sectors) this year and aim to expand domestic demand.According to the NDRC official Luo, construction of projects funded by special local government bonds, policy bank financing tools will be sped up as well as to promote steady manufacturing investment growth via relending programs for equipment upgrading. In total constructions on more than 2750 projects have started as of end Nov, supported by policy bank financing tools.
- **Monetary Policy Forecast:** The Central Economic Work Conference reiterated its stance on prudent monetary policy and pro-active fiscal policy. Thus far this month, USDCNY and USDCNH has been intermittently boosted by larger-than-expected liquidty injection via reverse repo just before the Spring Festival for seasonal demand.
- We do not rule out a rate cut as we close in towards the peak of the Fed tightening cycle. That could also be timed for better efficacy in stimulating demand after the peak of Covid-19 infection wave where more Chinese residents are less fearful of the virus.
- **Latest Fiscal and External Balance Outlook:** Given the rise in infrastructure spending and several support measures announced last year, we can fiscal deficit will widen substantially from original projection of 2.8% of GDP. The Ministry of Finance announced that budget deficit has hit a record high in the first 11 months of 2022 with total fiscal spending exceeding revenue by RMB7.8trn vs. RMB3.7trn over the same period in 2021. Expenditure was up 15% due to the gargantuan efforts on PCR testing and centralized quarantine facilities to ensure Covid-zero while tax revenues fell due to tax cuts.
- **Key domestic events and issues to watch:** Caixin Jan Mfg PMI (1 Feb); Jan Caixin Services, Composite PMI (3 Feb); BoP 4Q Current Account (6 - 17 Feb); Jan Foreign Reserves, Jan Aggregate Financing, New Yuan Loans, Money Supply (9-15 Feb); Jan CPI, PPI (10 Feb); 1Y MLF (13-16 Feb); Jan FX Net settlement on behalf of clients (15 Feb); **(No activity data for Feb)**; Jan new home prices (16 Feb); Jan SWIFT Yuan share of Global Payments (16 Feb); 1,5Y LPR (20 Nov).
- **Technical Analysis:** USDCNH is last seen around 7.7570. Eyes on key support around 6.7150 before the next at 6.6560. Stochastics show signs of rising from overbought conditions though. We do not rule out some bullish retracement towards 6.80-figure before the 6.8410.

SGD: April Tightening Likelier With Sticky Core Inflation

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q2023
USDSGD	1.3100 (1.3550)	1.3000 (1.3500)	1.2900 (1.3400)	1.2850 (1.3200)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** USDSGD moved lower through Dec and Jan in line with broad weakness in the USD and a stronger Yuan. The move down accelerated following a combination of (i) China's rapid reopening and (ii) an increase in market bets that the Fed would downshift the rate hikes after a cooler-than-expected US CPI inflation print. In contrast, Singapore's Dec core inflation remained elevated and showed signs of stickiness, increasing the chances of MAS tightening in April. Singapore's 4Q2022 GDP also beat expectations to grow at +2.2% YoY. **Taking these factors into account, we have adjusted the USDSGD forecast trajectory lower.** However, we remain cautious of a return of USD strength in the near-term, given the pace and magnitude of the downward move in USDSGD. On a trade weighted basis, we expect the SGD NEER (last seen at +1.28%) to remain above the mid-point of the policy band and for the SGD to remain relatively strong. This view is further supported by the SGD's safe haven appeal and Singapore's robust macro fundamentals. Decomposing the contributions to the SGD NEER from last November to date, **USD, HKD and INR contributed the most to SGD NEER strength. On the flip side, JPY, MYR and KRW were the main moderators of SGD NEER strength.**

- **Risk(s) to the FX View:** The risk that the Fed is more hawkish than the market is currently being priced in. This could result from price pressures that arise from China's reopening or supply chain disruptions from further escalations in geopolitical tensions between China-Taiwan and China-US. In addition, Singapore's proximity to Taiwan and China and close relations to both China and the US would suggest that growth prospects would be negatively affected by an escalation in geopolitical tensions.

- **Growth and Inflation Outlook:** Singapore's GDP in 4Q2022 eased to +2.2% YoY (exp: +2.1%; prev: +4.2%). Manufacturing (-3%) posted its first decline since 2Q2020, while growth in services (+4.1%) slowed on the back of trade-related sectors. On a QoQ SA basis, GDP grew by +0.2% (prev: +1.1%). This brought GDP growth for 2022 to +3.8% YoY, half of the pace in 2021 (+7.6%). Meanwhile, exports ended 2022 on a grim note, with NODX posting the worst contraction in nearly a decade. NODX fell by -20.6% (prev: 14.7%), the steepest monthly decline since Feb 2013. **Maybank's economists are projecting for exports to contract in 2023 while maintaining the 2023 GDP forecast at +1.5%.**

- On inflation, December's headline CPI moderated to a 7-month low (act: +6.5% YoY; exp: +6.6% YoY; prev: +6.7% YoY) on softer COE premiums, petrol prices and slightly softer growth in housing rents. Core inflation however, remain elevated and sticky, with core CPI printing at +5.1% YoY (exp: +5.0% YoY; prev: +5.1% YoY). This was largely due to an uptick in services and food inflation, which offset an easing in the retail and electricity and gas prices. (Note: Singapore’s Core Inflation excludes transport and accommodation). **Our economists maintain 2023 inflation forecasts for core CPI (+4%) and headline CPI (+6%). In addition, core inflation is expected to be sticky and to fall slowly due to a tight labour market, housing shortage, the 1% GST hike and the extension of GST to low-value imported goods, together with the expansion of the Progressive Wage Model to larger sectors.**

- **Monetary Policy Forecast:** The prevailing stickiness in core inflation increases the likelihood that MAS will tighten in April. MAS maintained its view that core inflation would remain elevated in 1H2023, before slowing more discernably in 2H2023 as the domestic labour markets eases and global inflation softens. **As such, Maybank expects the MAS to tighten again at the April 2023 meeting, likely via another re-centering upwards.**

- **Latest Fiscal and External Balance Outlook:** Singapore’s current account surplus widened slightly to 19.5 % of GDP in 3Q2022 (prev: 19.4%), remaining relatively wide versus the quarterly average of 16.5% of GDP in 2020 to 2021. The above-mentioned contraction in December’s NODX and forecasted contraction in exports should weigh on the current account surplus and limit boosts to the current account from trade.

- On the fiscal front, Budget 2023 is due to be announced on 14 Feb 2023. Deputy Prime Minister Lawrence Wong previously mentioned that this would be his Valentine’s Day presents to Singaporeans. However, the reality is that not everyone may receive a gift. After an expansionary Budget 2022, economists expect that it is more likely that Budget 2023 will be more targeted at boosting support schemes for vulnerable groups rather than giving handouts to all. These are likely to take the form of specific enhancements to the existing package to offset the impact of the GST hike.

- **Key domestic events and issues to watch in Feb:** Retail Sales (3 Feb), Budget Speech (14 Feb), Jan NODX (17 Feb), 4Q2022 GDP (20 Feb to 24 Feb), Jan CPI (23 Feb), Jan IP (24 Feb).

- **Technical Outlook:** USDSGD was last seen at 1.3120 levels, sharply lower from December’s high of 1.3650 on broad USD weakness. On the daily chart, RSI and stochastics are suggesting USDSGD is oversold. We think USDSGD likely to see some buying on dips. Resistance levels are at 1.3470 and 1.3800. Supports at 1.31 (psychological) followed by 1.2950 and 1.2780.

MYR: Cautiously Positive Outlook Remains

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q2023
USDMYR	**4.25**	**4.15**	**4.10**	**4.00**
	(4.40)	(4.25)	(4.15)	(4.05)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** We maintain a cautiously positive outlook on the MYR relative to the USD from around 2Q 2023, with support largely from external factors — China reopening, an eventual softer USD environment on the back of a slower pace of Fed hikes and RMB stability. We are also mindful that oil prices have fallen and on the domestic front, our economists are expecting a moderation in domestic demand, on the back of slower growth in private consumption as pent-up spending from full economic reopening dissipates; and moderation in public consumption growth.

- We also assess positive developments afoot in Malaysia. First, the political uncertainty factor has dissipated after the recent GE. Although concerns still remain as in all new governments, on its sustainability and the signs of credible policymaking direction, but the uncertainty factor has fallen. Second, in our view, BNM's measured interest rate policy moves in 2022 and potentially in 2023, has been able to strike a balance between addressing inflation and supporting growth. Third, the build-up in excess savings since 2020 amid lockdowns and economic stimulus measures such as cash handouts, financial aid and pre-retirement EPF withdrawal schemes have provided a buffer and support for consumer spending growth. We also expect tourism recovery will benefit from the key re-opening tailwinds in 2023 after the full opening of the economy from 1 Apr 2022. Finally in the medium term, technology-driven investment drivers will pick up for Malaysia. Investment growth outlook remains favourable as investment approvals - including and especially FDI - hit record high in 2021 and remained robust in 1H 2022, and importantly translates into rising actual/realised investment/FDI.

- Taking all that into consideration as well as concomitant revisions to USD, CNY and other currencies, we expect MYR to strengthen somewhat in 2023. Near term, the MYR has seen some appreciation vis a vis the USD amid a retracement in UST yields, China reopening plays and expectations of a China recovery in 2023. More recent developments has led to the USD softening faster on the back of expectations that the Fed may slow down its pace of rate hikes amid cooling inflation. As such we are revising our USDMYR forecast lower to reflect this, albeit mildly to factor in still some surprises on the Fed upside risk as inflation could emerge in 1Q US data which could see USD strength emerge.

- The MYR looks relatively "cheap" in Real Effective Exchange Rate (REER) terms and trade balances remain benign. The political uncertainty factor which have dampened sentiment on MYR has receded following the recent election outcome. As such on a trade weighted basis, there could still be some catch up on the part of the MYR trade weighted index.

- **Growth and Inflation Outlook:** Our economics team expect quarterly YoY real GDP growth to slow in 4Q 2022, partly reflecting the base effect after the surge in 3Q 2022 growth to +14.2% YoY. The team's monthly GDP tracker indicated economic growth of +5.0% YoY in Oct-Nov 2022, paling the way for slower growth of -+4.0% in 2023 (2022E: +8.0%). This is on the back of high inflation and interest rates domestically and globally; the outlook of slower global economic growth. Meanwhile, BNM surprised by keeping OPR unchanged at 2.75% at the Jan 2023 MPC meeting to assess the growth and inflation impact of the +100bps hikes between May and Nov 2022. The Monetary Policy Statement (MPS) implies the pause is not necessarily the end of OPR hike cycle. Consequently, we tweaked our OPR view for 2023 to a range of 2.75%-3.00% from 3.00% previously. Near term, key event to watch is the re-tabling of Budget 2023 on 24 Feb 2023, where no major change is expected compared with the originally tabled Budget 2023 back in Oct 2022 just before the dissolution of the Parliament to make way for the 15th General Election in Nov 2022. Eyes will be on the messaging on medium term Fiscal path and Strategy given the stated objective to reduce budget deficit to 3.5% of GDP by 2025 after the average of 6% of GDP in 2020-2022.

- Headline inflation rate eased to +3.8% YoY in Dec 2022 (Nov 2022: +4.0% YoY; 2022: +3.3%); the first sub-4% print since Jul 2022, mainly as FNAB inflation moderated to +6.8% YoY (Nov 2022: +7.3% YoY). But core inflation is somewhat sticky at +4.1% YoY (Nov 2022: +4.2% YoY). Maintain our 2023 inflation rate forecast at +3.0% and expect inflation to average +2.5% in 2024 (2022: +3.3%), assuming no change for now - and pending clarity - in the government's fuel subsidy policy

- We maintain our 2023 and 2024 inflation forecasts for now at +3.0% and +2.5% respectively, assuming no change – and pending clarity - in the government's policy on subsidy rationalization; notably on the issue of moving from blanket to targeted fuel subsidies. As inflation eased, BNM decided to keep OPR unchanged at 2.75% at its first meeting for 2023. But we believe that there is still scope for further OPR hike, depending on growth and inflation situation. A key "wildcard" now is the effect of China's earlier and faster than expected exit from zero COVID-19 policy and the re-opening of its economy and international border. This is a major development that could result in potential upsides to growth and inflation vs the baseline outlook. Hence, we tweaked our 2023 OPR forecast to 2.75%-3.00% vs 3.00% previously as we do not and cannot yet rule out another 25bps hike in OPR

- **Monetary Policy Forecast**: BNM kept OPR at 2.75% in its recent Jan meeting. Monetary Policy Statement (MPS) said the decision is to assess impact of the 100bps hikes between May and Nov 2022, but also hinted the pause does not necessarily mean OPR has peaked. We tweaked our OPR forecast this year to 2.75%-3.00% from 3.00% previously.

- BNM's Monetary Policy Statement (MPS) maintains this year's outlook of slower global and domestic economic growth with risk tilted to the downside. Meanwhile, domestic headline and core inflation are expected to moderate this year although remaining elevated amid lingering demand and cost pressures. Inflation risk is tilted to the upside, especially pending clarity on the Government policies on price subsidies and controls. Inflation is predominantly cost-push and supply-driven. In particular, surges in commodity prices led to food, fuel and energy accounting for over two-thirds of the 3.4% inflation rate in 11M20.

- BNM justified its decision to pause at its first MPC meet of 2023 by citing the need to assess the impact of the cumulative +100bps increases in OPR between May 2022 and Nov 2022. BNM indicated changes in OPR affect the economy after a 12-18 months time lag. As it is, high frequency economic indicators such as manufacturing purchasing managers index (PMI), external trade and our monthly GDP tracker have trended lower since 2H/4Q 2022 signalling cooling economy. Growth in wages and salaries have stabilised in recent months after accelerating earlier. The improvement in Ringgit against USD since early-Nov 2022– notwithstanding the widening negative carry between OPR and US fed funds rate - also helped to ease pressure on BNM monetary policy and give the opportunity to pause. The OPR pause also provides some respite to households and businesses facing the issue of costs of living and doing business.

- While BNM decided to pause, MPS stated that "further normalisation to the degree of monetary policy accommodation would be informed by the evolving conditions and their implications to the domestic inflation and growth outlook" and "the MPC will continue to calibrate the monetary policy settings that balance the risks to domestic inflation and sustainable growth".

- We interpret this to imply that the pause does not necessarily means the end of OPR hike cycle and OPR has peaked at 2.75%. There is still scope for further OPR hike, depending on growth and inflation situation. A key "wildcard" now is the effect of China's earlier and faster than expected exit from zero COVID-19 policy and the re-opening of its economy and international border. This is a major development that could result in potential upsides to growth and inflation vs the baseline outlook. US Fed's FOMC meeting on 21-22 Mar 2023 is also crucial given the next review of guidance on the fed funds rate, which we currently expect to peak in springs this year. Hence, we tweaked our 2023 OPR forecast to 2.75%-3.00% vs 3.00% previously as we do not and cannot yet rule out another 25bps hike in OPR.

- **Fiscal and External Balance Outlook:** Despite budget deficit to GDP ratio going sub-6% to 5.5% in 2023 after 5.8% in 2022, down from the average 6.3% in 2020-2021, the size of deficit spending is little changed at MYR99.1b in 2023 (2022: MYR99.5b) to keep fiscal support as economic growth moderates to 4.0%-5.0% next year from 6.5%-7.0% this year.

- **Risks to look out for in 2023:** Our model estimates suggest that MYR performance going forward would depend to a large extent on the following key factors, i.e., resilience/recovery in oil prices, continued stabilization in the political environment and fiscal dynamics, and sustained positive RMB narrative amid China re-opening. Beyond commodity price volatility, some uncertainty domestically from concerns about the current government's sustainability will remain. If that worse scenario (not our baseline) materialises, it may induce some MYR volatility in 2023. There is also risk that China will still continue to remain cautious in their reopening and US Fed started reiterating their hawkish stance again amid a tick up in inflation.

- **Key domestic events and issues to watch in Feb:** Jan PMI Mfg (1 Feb); Industrial Production (7 Feb); Foreign Reserves (9 & 22 Feb); GDP (10 Feb); Trade Balance (20 Feb); CPI (24 Feb).

- **Technical Outlook:** USDMYR last traded at 4.2320 levels. Death crosses formed on 3 Jan (50ma crossing 100ma) and 19 Jan (50ma crossing 200ma). RSI and stochastics are firmly in oversold territory. We watch closely now if the USDMYR pair can slide all the way down to the 4.2000 level. If that does occur, the next level of support would be around 4.1750, which would essentially undo the entire 2022 rally for the pair. Resistance is seen at 4.3106 (FI retracement of 76.4% from Nov 2022 peak to Mar 2022 low) with the subsequent after that at 4.3597 (5 Dec low).

IDR: Boosted by Diminishing Dollar Strength

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
USDIDR	**15,000** (15,600)	**14,700** (15,400)	**14,400** (15,300)	**14,200** (15,000)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** We are revising our USDIDR forecast downwards amid the rather rapidly diminishing USD strength and strong inflows into IGB securities. Softening US inflation data has increased speculation that Fed rates would peak soon and consequently eventually lead UST yields lower and further widen the UST – IGB yield differentials. The IDR has recently been more sensitive to movements in both the UST yields and the USD. This therefore makes it of utmost important to pay close attention these two assets. The relationship between those assets and the USDIDR had actually broken down during periods of the pandemic but the likely return of a twin deficit may have reestablished it again. A correction in commodity prices from last year's peak is now slated to push the current account back into a deficit in 2023 whilst the government is also expected to report a deficit in 2023 (although it should stay within their legal limit). In the near term, there could be some rebound of the greenback, which could lead the USDIDR higher but a downward trend should remain intact, sending the USDIDR pair lower to the end of this year.

- **Yields differential between the IGB and UST should widen in coming months, bolstering the IDR.** Softer recent US inflation data together with several Fed officials hinting at a downshift in rate hikes has increased the likelihood that Fed rates are going to peak this year and hence, lead to lower UST yields. At the same time, rate hikes by Bank Indonesia (BI) the last few months has helped lift IGB yields. BI is now at the late stage of its hiking cycle too with our in-house economists expecting the central bank to pause after hiking by 25bps to 5.75% at the last meeting. This means therefore that support for the IDR from domestic rate hikes is set to come to an end. As it stands, the IGB – UST 10 y yield differential has stabilized at just over 300bps but a pick-up is likely to happen going forward.

- **Consequently, appetite for IDR bonds has seen some improvement in the last few months.** Foreign investors appear to be strongly riding on the speculation of peaking Fed rates. Total net foreign inflows into Indonesian government securities up to 20 Jan stands at $2.8bn which compares to net outflows seen in the prior four months. We continue to believe that net foreign inflows should keep increasing in the next few months amid the more favourable global macro environment for IGBs, i.e. softening US inflation.

- **However, we do note that equities have seen net outflows at -$0.3bn up until 25 Jan which could be due to reallocation and this phenomenon likely had weighed on the IDR at certain points in the month.** Funds may now be choosing to switch out of Indonesian equities as the commodities play tapers out and instead head into China equities as they try to ride the reopening boost. We won't rule out the possibility of further net equity outflows out of Indonesia but we believe other positive factors may outweigh the impact of this matter on the IDR.

- **The recent Dec trade data was still at a surplus at $3.9bn although it was the lowest in 7 months.** However, exports growth whilst higher than the prior month at 6.58% YoY (Nov. 5.58% YoY) was still at a much lower level compared to most of the year. The number further indicates a slowing growth trend in exports possibly due to falling commodity prices. Imports meanwhile further declined by -6.61% YoY (Nov. -1.89% YoY). It would be increasingly challenging to see Indonesia maintain a trade surplus going forward.

- **China's reopening may offset softer rest of the world demand but our in-house economist still calls exports to slow to 4-6% in 2023.** Prices for Indonesia's key commodity exports, namely crude palm oil (CPO) and coal are expected to moderate this year. CPO prices for now appeared to have stabilized whilst coal has been falling in January after a December rebound. As it stands, Indonesia's external position is therefore likely to come under more pressure in 2023.

- **Consequently, the country's current account is expected to see a deficit this year at -0.8% of GDP compared to a surplus that is likely to materialize in 2022.** The earlier mentioned moderation in commodity prices are likely to result in a slowdown in exports. However, the deficit is going to be at a much narrower level compared to history, which should at least go some way to limit the impact on the currency. Also, in a year where expectations are for UST yields to fall, the negative effect of the current account deficit on the IDR should be contained.

- **Exports bans for bauxite set to take effect from 2023 poses another risk to the country's external position.** The government has reiterated that the ban is on track to be implemented and they are considering expanding it to include other products such as tin, gold and copper. The country already has an existing nickel ore export ban but that product makes up a small share of the country's exports.

- **On the budget side, the 2022 unaudited deficit number came out at -2.38% of GDP, which brings it back to within the 3% legal limit.** The budget itself got a boost from higher tax revenue given a surge in company earnings and consumer spending amid high commodity prices and the economy's emergence out of the pandemic. Tax reform measures in 2021 have also helped improved collection. Going forward, the country is still expected to maintain strong fiscal discipline and the deficit for 2023 is forecasted to be at 3.00% of GDP.

- **Overall, the return of the country's twin deficit position in 2023 makes it more sensitive to movement in the USD and UST yields.** In the past such as in 2018 and 2019, the USDIDR exhibited a strong relationship with the movement of UST yields and that was due to both the country's fiscal deficit and wide current account deficit. This relationship broke down during parts of the pandemic as the country was able to report a current account surplus. **The prior relationship in 2018 and 2019 is likely to prevail in 2023 but the narrowing yield differentials and weakening USD should instead result in a downward trend for the USDIDR.**

- **The country's other fundamentals are also much stronger than in the past.** FX reserves stand at much higher levels compared to history and they have been recovering in the last few months as USD strength came off from its peaks in 2022. The Dec 2022 level itself rose to US$137.2bn.

- **FDI for 3Q 2022 was at $5.1bn whilst the total for the first three quarters of the year was at $15.4bn.** For the entire 2022, it appears that FDI is likely to remain at levels not to dissimilar from both 2021 and 2020. For now, we are expecting that the level of FDI should at least remain stable in 2023. Indonesia as a whole is likely to still mainly see FDI inflows into the primary and secondary sectors. This is due to both the drive to boost downstream activities and grow the EV related industries.

- **Regarding the high frequency indicators, the latest Dec PMI mfg was still in expansion territory at 50.9, indicating strength in the underlying economy.** The Dec number was driven by faster increases in new orders and output amid firm demand. Domestic demand as whole is expected to remain solid going forward, which would help hold up the economy. Meanwhile, Indonesia is also seen to be less vulnerable to a US recession given the inward nature of its economy. **Our in-house economists are expecting growth to still come out strongly in 2023 at 5.00% YoY (2022f: 5.30% YoY).**

- **Recent Dec headline inflation was elevated at 5.51% YoY and may take time to ease.** The number itself was actually well above the top end of BI's 2-4% range. The core number was also higher at 3.36% YoY (Nov. 3.30%). Headline inflation was mainly driven by the price pressures in the transportation category, which has been impacted by a +30% fuel hike since 3 Sept 2022. Pressures related to this category may take until 2H 2023 to wear off given that base effects would only set in by then. Headline inflation therefore is expected to stay elevated in 1H 2023 before falling into BI's range in 2H 2023. As a whole, this implies that 2023 inflation is likely to stay high at 4.2% YoY.

- **Monetary Policy Forecast:** BI hiked by another 25bps to 5.75% as expected in the recent January meeting. However, our in-house economists see this as the last hike of the cycle with the central bank set to hold from here. Governor Perry Warjiyo in particular said that they had "communicated that the culminative 225bps in rate hikes is sufficient to ensure" headline and core CPI will be within target by end 2023. BI is also expecting inflation to peak in March – April and hit 3.4% - 3.5% by year end. The bank has additionally pared back on its "operation twist" as it will stop buying long-term bonds although it will keep selling shorter-term debt.

- **Tighter regulations requiring exporters to keep USD earnings at home can bolster the IDR.** Recently, Coordinating Minister of Economic Affairs, Airlangga Hartarto has said that the government would be expanding the list of industries that would be required (to include manufacturing plus several others) to temporarily keep their FX proceeds onshore. The government may also look to revise requirements for exporters to place their earnings in the country within three months.

- **Key domestic events and issues to watch**: Jan PMI mfg (1 Feb); Jan CPI (1 Feb); 4Q 2022 GDP (6 Feb); Jan Foreign reserves (7 Feb); Jan Trade data (15 Feb); Jan Local auto sales (15 – 21 Feb); BI Monetary policy decision (16 Feb); 4Q 2022 BOP Current account balance (20 Feb).

- **Technical Outlook:** The USDIDR was last seen just below 15,000 amid the diminishing USD strength. Momentum indicators such as the RSI is showing that the pair is oversold. A near-term bounce up is not ruled out amid the potential for a USD rebound. Support for the pair is seen at 14800 with the next level after that at 14663 (FI retracement of 76.4% from Dec 2022 peak to Mar 2022 low). Resistance is at 15213 with the subsequent at 15425 (100-dma).

PHP: Cautious Amid Peaking Rates

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
USDPHP	**54.00** (56.00)	**53.00** (55.50)	**52.50** (55.00)	**52.00** (54.00)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** We adjust our USDPHP forecasts downwards albeit more modestly than we have for the other ASEAN currencies. This is due to the substantial idiosyncratic factors that weigh on the PHP even as USD strength diminishes and the UST yields fall. The country is still set to be plagued by a relatively wide twin deficit which is a major negative for the currency. The fiscal deficit is likely to stay deep given the government's push ahead to drive infrastructure development aggressively. The current account deficit meanwhile may narrow but stay wide due to the imports of goods. The BSP governor Medalla has also announced that monetary tightening would likely end in this quarter with one or two more rate increases, which is going to limit the support for the PHP from the domestic rates angle. Strong growth into 2023 on the other hand would work to the benefit of the PHP but it is unlikely to offset these unfavourable factors. China's rapid reopening to date may also help to give some lift to the currency. Overall though, sentiment towards the PHP is likely to stay cautious even as it sees some levels of appreciation this year.

- **The latest OFWR data for November continued to be robust at \$2.6bn (Oct: \$2.9bn).** However, that said remittances do also tend to be seasonally stronger at the end of the year too. Going forward, OFWR is likely to stay resilient into 2023 as Filipino workers return to work overseas with the pandemic coming to an end.

- **FX defensive buffers, namely foreign reserves should see improvement in 2023 as the pressure on the PHP has reduced.** The latest foreign reserve number for December increased to \$96.0bn (Nov: \$94.0bn). The level of reserves has been on the rise since Sept 2023 (when it hit a two-year low) after US inflation data began to show signs of softening.

- **On the domestic front, high frequency indicators appear to continue to show strong economic momentum.** The latest Dec PMI mfg rose to 53.1 (Nov. 52.7) as it stayed in expansion territory. Unemployment rate also further decline in November to hit 4.2% (Oct. 4.5%). Bank lending for Nov rose to 13.6% YoY (Oct. 13.4% YoY) as the upward trend persisted amid the economic recovery out of the pandemic. Our in-house economists continue to expect growth in 2023 to stay strong at 5.5% amid a better than expected China growth outcome, a mild and brief global economic slowdown and less intensity in the Russia-Ukraine war, US-China trade/tech war. Meanwhile, they see 2022 growth to be at 7.3% YoY.

- **Fiscal pressures are likely to keep persisting amid an expansionary budget, which would weigh on the PHP.** The 2023 NEP is guided by the Medium-Term Fiscal Framework (MTFF) and the proposed 2023 budget is therefore expected to come out 4.9%, higher than in 2022. Expenditure on infrastructure is likely to be sustained at around 5.0% of GDP in 2023 (2022: 5.8% of GDP) with the focus being on the development of rail transport. The fiscal deficit for 2023 is also estimated to come out at a wide level of -6.1% of GDP (2022f: -7.6% of GDP). National government debt to GDP ratio meanwhile stands at an elevated level of 63.7% of GDP as of Sept 2022. However, we do note the MTFF is trying to reduce it to 60.0% by 2025. The MTFF is also aiming to improve revenue via the imposition of value-added tax on digital goods and excise tax on single-use plastics.

- **Current account pressures on the currency is also going to persist with a deficit expected at -3.8% of GDP in 2023** though this is a narrowing from 2022 which is expected at -6.3% of GDP. Falling commodity prices and some receding pressure on the PHP is likely to provide some relief to the current account position. However, a persistent deficit in goods due to the Philippines limited manufacturing capacity would keep weighing on the current account position. The latest November trade data showed exports growth slow to 13.2% YoY or $7.1bn (Oct: 20.0% YoY or $7.7bn). Imports was still high at $10.8bn but it did see a yearly contraction of -1.9% YoY. Hence, the trade deficit was still wide at -$3.7bn.

- **Inflation challenges are set to ease in 2023 but remain above the BSP's target range at 4.3% YoY.** The latest Dec 2022 CPI data was at an astounding level of 8.1% YoY, capping off a year of elevated inflation which averaged 5.8% YoY. Going forward though, food and energy prices are likely to fall as pressures related to them ease. Food supply is expected to be better in 2023 as agricultural conditions improve whilst oil and gas prices have already corrected from peak levels seen in 2022 (though we do note that China's reopening can risk sending prices higher again). A positive economic output gap that has emerged may raise demand pressure on inflation but the impact should be manageable.

- **Monetary Policy Forecast:** The BSP raised their benchmark rate by an additional 50bps in December to 5.50% and we expect that the central bank would not move too far from here anymore. Governor Medalla has stated that monetary tightening is likely to end with one or two more increases this quarter which would bring the rate to around 6.00%. He emphasized the need to still raise further in the February and March meeting given "inflationary expectations are still high" and especially as the Philippines depends on monetary policy to fight inflation (unlike its neighbours who utilize subsidies). He also noted that the monetary setting would also be data dependent and expected inflation to fall within the BSP range of 2-4% by 3Q2023. Medalla has additionally mentioned that once the central bank is done with rate hikes, a 200bps cut to the RRR from the current 12% level would be on the table. **As a result of this pivot, the PHP is likely to get less support from a domestic rates angle from now on but falling UST yields would still work in its favour.** On a side note, interestingly, the governor did comment regarding the PHP that "excessive appreciation is bad for the economy".

- **Key domestic events and issues to watch:** Dec Bank lending (28 – 31 Jan); Jan PMI mfg (1 Feb); Jan CPI (7 Feb); Jan Foreign reserves (7 Feb); Dec Unemployment rate (8 Feb); Dec Overseas workers cash remittance (14 – 17 Feb); Dec Overseas cash remittances (15 Feb); BSP decision (16 Feb); Jan BOP (20 Feb); Dec Budget balance (28 Feb); Jan Bank lending (28 Feb).

- **Technical Outlook:** The USDPHP was last seen at around 54.00 – 55.00, trending lower since end of Dec amid a softening USD. A death cross looks like it could soon form as the 50-dma is about to cross below the 200-dma. However, momentum indicators such as the RSI have come off the oversold territory. A possible rebound in the USD in the near term could mean that the pair may bounce upwards. Support for the USDPHP is at 54.14 (FI retracement of 61.8% from Sept 2022 peak to April 2022 low) with the next level after that at 53.00. Resistance is at 55.46 (200-dma) with the subsequent at 56.97 (100-dma).

THB: Riding on Optimism of China Reopening

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
USDTHB	**32.00** (35.00)	**31.50** (34.50)	**31.00** (34.00)	**30.00** (33.50)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** The THB has seen a strong start to 2023 as the currency rides the optimism of China's rapid reopening and the return of Chinese tourists globally. Thailand alone was the top tourist destination of Chinese tourists pre-pandemic and this group made up 28% of total visitor arrivals pre-pandemic. The country's dependence on tourism was quite evident during the pandemic when the lack of tourist arrivals weighed on the current account position as it slipped into a deficit. However, the return of global tourists to the nation should help swing the current account back into surplus and provide a boost to the THB. The economy should also get a substantial uplift from this. Meanwhile, peaking Fed rates amid softening US inflation data that lead to falling UST yields, should provide additional support to the THB. Our original forecast for the THB had been more conservative factoring in a slower pace of China reopening and therefore we see a revision as necessary given the rapidly evolving situation. Resultantly, we have therefore revised our USDTHB forecast further downwards as per above.

- **The return of Chinese tourists would be the biggest boon for the currency going into 2023.** Tourist arrivals from China accounted for 28% of total visitor arrivals and tourism receipts pre-pandemic. This would play a major role in helping to swing the current account back into a surplus in 2023. Thailand was in fact the most visited destination by Chinese travelers pre-pandemic in 2019. The country has also not implemented any covid testing requirements for inbound Chinese travelers, which also make it more attractive to these tourists versus other regional nations such as Japan and South Korea. News reports of a government minister and officials greeting the earliest group of Chinese travelers into the country should also endure Thailand more to the Chinese.

- **From a portfolio flows perspective, both equity ($0.5bn net inflows) and bond ($1.4bn net inflows) flows have been strong up until 25 January.** Such an improvement in sentiment towards the assets is again likely driven by the rapid China reopening. Thai travel companies have likely become more attractive recently as a result of the boom they may potentially face from a pick-up in the tourism industry. Thai bonds meanwhile are likely drawing interest due to falling UST yields and a strengthening in the currency. The economic recovery that is already underway could also be feeding into appetite for Thai assets. We see inflows are likely to keep picking up strongly for the rest of 2023, giving a boost to the THB.

- **Regarding inflation, the 2022 number averaged an astounding 6.1%, the highest since 1998 but pressures may take time to ease below the BOT's target range.** The latest December number alone was at 5.89% YoY as food and transport costs drove the inflation. Going forward, China's reopening is likely to drive energy prices higher. Our in-house economists therefore see that headline and core inflation will remain above the upper end of the BOT's target range (1-3%) in the first half of the year, before easing in the second half. They have also raised their 2023 headline inflation forecast slightly to +3.3% (from +3%) to account for both higher energy costs and firmer demand-side pressures as the economic recovery strengthens.

- **On the growth front, our in-house economists recently raised their GDP forecast to 4.0% YoY in 2023 (from 3.2% previously)** on the back of China's rapid reopening and the return of Chinese tourists. Visitor arrivals from China alone made up for 28% of total arrivals and China tourism receipts accounted for 3.1% of GDP. Meanwhile, domestic demand is also expected to remain firm, supported by an improving labour market with unemployment levels standing at the lowest since the start of the pandemic in 1Q 2020. Investment though may rise at a slower pace as sentiment is dampened by weaker global growth.

- **FDI performance would continue to be watch closely in 2023.** Applications plunged by -25% in the first 9 months of 2022. However, there was a bright spot regarding the EV industry as China's BYD and Taiwan's Foxconn plan to start production in 2024.

- **Monetary Policy Forecast:** The BOT hiked by another 25bps to 1.75% at the latest January meeting as per our expectations. At the same time, the Monetary Policy Committee (MPC) also sounded more upbeat on growth given the rapid China reopening. They additionally cautioned on the risk of core inflation staying elevated for longer due to demand-side inflationary pressures from the tourism recovery and higher-cost pass-through by businesses. Our in-house economists do now see that headline and core inflation is likely to stay above the BOT's target range of 1-3% for 1H2023 amid higher energy prices resulting from China's reopening and firmer demand-side pressure. Hence, they expect that the BOT would hike two more times (by +25bps each) in the first half of this year (29 March and 31 May meetings) in order to counter inflationary pressures. This would bring the terminal rate to 2.00% - the highest level since Feb 2015.

- **The risk from the fiscal space still looks manageable and it is unlikely to weigh on the currency.** Our in-house economists see that the fiscal deficit is likely to come out at around -3.5% of GDP in FY2023, similar to FY2022. Public debt more importantly, which was last at 60.7% of GDP as of Sept 2022, remains well below the 70% level. The government's own projection is for the public debt to remain steady at 60.4% of GDP in FY2023. The rapid China reopening and its positive effects on economic growth could also reduce the burden on the government's finances. As it stands, all three rating agencies also have a stable outlook for Thailand.

- **Defensive buffers for the currency are also improving as foreign reserves recover.** Foreign reserves were last at $224.3bn as of 13 Jan 2023. The level has been on the rise since Oct 2022 when US inflation started to show signs of softening. We expect foreign reserves to keep rising as the macro factors continue to turn in favour for the currency.

- **Political uncertainty could be on the horizon but we don't see this as an issue for the currency.** Historically, the THB has not always been heavily affected by the political developments in the country. The election commission has tentatively scheduled the next general election for the 7 May 2023, assuming the House of Representatives completes its 4-year term on 23 March 2023. It is unclear at this point if the current coalition can remain in power. The constitutional court has ruled that Prayut can only stay as PM for an additional two years into the next term (until mid-2025). His popularity has also plunged since the pandemic whilst the opposition Pheu Thai party is leading in polls and performed strong in the 2022 local elections.

- **Key domestic events and issues to watch:** Dec CA Balance (31 Jan); Dec BOP Overall balance (31 Jan); Dec Mfg production index (31 Jan); Dec Capacity utilization (31 Jan); Jan PMI mfg (1 Feb); Jan CPI (6 Feb); 4Q 2022 GDP and 2022 Annual GDP (17 Feb); Car sales (18 – 24 Feb); Jan Mfg production index (24 – 28 Feb); Jan Capacity utillization (27 – 28 Feb); Jan CA Balance (28 Feb); Jan BOP Overall balance (28 Feb).

- **Technical Outlook**: The USDTHB was last seen trading just below 33.00 as the pair has been moving downwards since end Dec amid the optimism of a rapid China reopening. With that in mind, the USDTHB could make a complete reversal of the entire 2022 rally to hit the 32-figure (Feb 2022 low). Resistance is at 33.56 (21-dma) with the next at 34.55 (50-dma).

VND: Gains to Slow

Forecast	1Q 2023	2Q 2023	3Q 2023	4Q 2023
USDVND	23,200 (24,800)	23,100 (24,700)	23,000 (24,500)	22,900 (24,200)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** USDVND swung lower in line with USDCNY over the past several weeks. VND rallied with relief in Dec alongside regional peers on a number of drivers - Fed's downshift in rate hikes for Dec, China's re-opening in earnest as well as dong's own seasonal boost at the end of the year. The confluence of these drivers has resulted in a stronger than expected VND rally and we adjust our forecasts accordingly. Into the rest of 2023, we continue to remain cautiously optimistic on VND, especially against the USD, albeit with potential for some bullish retracement in the near-term (Feb). Even as Vietnam's growth is slated to slow to 6.0% YoY in 2023 vs. 8% YoY in 2022 and there could lingering concerns on Vietnam's real estate sector, policy support for Vietnam's economic growth and a slowdown in US economic activity could still bring the USDVND below the 23000 sometime this year.

- FDI flows were strong for much of 2022 with realized capital for Dec alone is at USD2.7bn, a high for the year. On average for 2022, realized FDI grew 13.8% YoY each month. That had provided VND some buffer against capital outflows last year. Into Jan, along with China's efforts to re-open as soon as possible, sentiments have turned in the local stock markets. Net equity inflow recorded for this month thus far is around $77.9mn. Revival in sentiment could also bode well for the VND against the greenback and offset drags from weaker exports growth.

- **Growth and Inflation Outlook:** Our economist looks for headline CPI to rise further for 1Q from 4.5% YoY in Dec (last release), underpinned by resilient household spending. Core inflation for Dec was at 5% YoY vs. 4.8% YoY in Nov, exceeding the headline for the third consecutive month. Headline CPI for 2023 is seen at 4.3% YoY.

- GDP is expected to slow to 6% YoY for 2023 from 8% YoY in 2022 according to our economist as re-opening tailwind fades and external demand weakens from EU and the US, albeit still cushioned somewhat by China's recovery. Concerns on lower export receipts, tighter financing conditions and property sectory liquidity strains could weigh on domestic demand.

- **Monetary Policy Forecast:** SBV is expected to hike 50bps in the 1Q of 2023 as inflation is expcted to remain elevated. However, with the Fed potentially downsizing its hike on 1 Feb and VND's recent recovery, the case for another rate hike by SBV might have weakened a tad. SBV might prefer to stand pat.

- **Latest Fiscal and External Balance Outlook:** Current account deficit narrowed to $0.9bn for 3Q vs. previous -$6.3bn. With external demand poise to weaken in 2023, widening current account deficit could add pressure on the VND. As for fiscal, the state budget revenue is expected to be around VND1.62 quadrillion ($68.5bn), up 0.4% from 2022 and state budget expenditure at VND2.07 quadrillion, a 16.3% increase from 2022. Deficit to come in around VND455.5trn which would be 4.42% of GDP.

- **Key domestic events and issues to watch:** Jan CPI, Jan Industrial production, Jan Trade (28-31 Jan), Jan S&P Mfg PMI(1 Feb), Feb Trade, CPI, Feb Industrial production (25-28 Feb).

FX Forecasts

	End Q1-23	End Q2-23	End Q3-23	End Q4-23
USD/JPY	132.00	128.00	125.00	122.00
EUR/USD	1.1000	1.1100	1.1200	1.1300
GBP/USD	1.2400	1.2100	1.2200	1.2400
AUD/USD	0.7000	0.7200	0.7400	0.7500
NZD/USD	0.6500	0.6600	0.6700	0.6800
USD/CAD	1.3100	1.3000	1.2900	1.2800
USD/SGD	1.3100	1.3000	1.2900	1.2850
USD/MYR	4.2500	4.1500	4.1000	4.0000
USD/IDR	15000	14700	14400	14200
USD/THB	32.00	31.50	31.00	30.00
USD/PHP	54.00	53.00	52.50	52.00
USD/CNY	6.75	6.70	6.65	6.60
USD/CNH	6.75	6.70	6.65	6.60
USD/HKD	7.85	7.80	7.80	7.80
USD/TWD	30.00	30.00	29.30	29.00
USD/KRW	1330	1320	1300	1290
USD/INR	81.00	80.00	80.00	79.00
USD/VND	23200	23100	23000	22900
DXY Index	101.76	100.72	99.59	98.47
	End Q1-23	End Q2-23	End Q3-23	End Q4-23
SGD/MYR	3.24	3.19	3.18	3.11
JPY/SGD	0.99	1.02	1.03	1.05
EUR/SGD	1.44	1.44	1.44	1.45
GBP/SGD	1.62	1.57	1.57	1.59
AUD/SGD	0.92	0.94	0.95	0.96
NZD/SGD	0.85	0.86	0.86	0.87
CAD/SGD	1.00	1.00	1.00	1.00
SGD/IDR	11450	11308	11163	11051
SGD/THB	24.43	24.23	24.03	23.35
SGD/PHP	41.22	40.77	40.70	40.47
SGD/CNY	5.15	5.15	5.16	5.14
SGD/HKD	5.99	6.00	6.05	6.07
SGD/TWD	22.90	23.08	22.71	22.57
SGD/KRW	1015	1015	1008	1004
SGD/INR	61.83	61.54	62.02	61.48
SGD/VND	17710	17769	17829	17821
	End Q1-23	End Q2-23	End Q3-23	End Q4-23
JPY/MYR	3.22	3.24	3.28	3.28
EUR/MYR	4.68	4.61	4.59	4.52
GBP/MYR	5.27	5.02	5.00	4.96
AUD/MYR	2.98	2.99	3.03	3.00
NZD/MYR	2.76	2.74	2.75	2.72
CAD/MYR	3.24	3.19	3.18	3.13
MYR/IDR	3529	3542	3512	3550
MYR/THB	7.53	7.59	7.56	7.50
MYR/PHP	12.71	12.77	12.80	13.00
MYR/CNY	1.59	1.61	1.62	1.65
MYR/HKD	1.85	1.88	1.90	1.95
MYR/TWD	7.06	7.23	7.15	7.25
MYR/KRW	313	318	317	323
MYR/INR	19.06	19.28	19.51	19.75
MYR/VND	5459	5566	5610	5725

Source: Maybank FX Research and Strategy as of 27 Jan 2023.
*These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.

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