Macro | FX Research & Strategy

Global

FX Monthly

2023, Issue 9: Higher for Longer Phase

What Has Changed This Month?

- We adjusted our forecast for the USD higher against most G10 and Asian currencies as the surprising resilience of the US economy boosted the USD and UST yields.

Our Strategies and Views

- Just as inflation trends soften more discernibly around the world, the surge in crude oil prices started to cast fresh doubts on disinflation trajectories. In addition, the forecasts of policy rate were raised by the Fed in its Sep Summary of Economic Projections for the next few years, giving credence to the higher-for-longer narrative that the market has been trading on. We now have to contend with more USD strength given that the US is a net oil exporter and its relative economic resilience could mean that the Fed could keep its policy rates higher and longer than other central banks, boosting the durability of the USD's yield advantage over other currencies. As such, the path of least resistance at this point seem to be higher for the USD. Focus remains on data and we caution that any signs of further slowdown in the US economy (convergence with RoW) or slack in its labour market could start to chip away at the USD's strength. The converse is also true. In addition, commodity-linked currencies AUD, NZD could continue to remain better buffered against energy-importing peers such as GBP and EUR. The former group could also benefit from any further improvement in China's data.

- The SGDNEER has appreciated by about 1.67% YTD and has also remained firm above the mid-point of the policy band, currently at +1.70%. We think that the SGD should remain better sheltered than other Asian currencies in an environment of high US yields, given the correlation of SG rates to US rates. This should likely translate to a continued strong SGDNEER and we suggest to buy the SGDNEER on dips below 1.5% of the mid-point of the policy band. We expect MAS to stand pat at the upcoming Oct policy statement which is in line with market consensus.

- We expect most ASEAN currencies in Oct to continue to be generally driven by the DXY movements. With the likelihood of greenback momentum being maintained building up to a possible Nov Fed hike, we see the risk that a number of the USD-ASEAN pairs could keep moving higher. In particular, the USDIDR could see more upside especially as BI is unlikely to hike further with inflation within target range. However, we would also note that the PHP could be an exception in the ASEAN space as the possibility of an off cycle rate hike could provide the PHP with some resilience. On a relative basis, this policy divergence results in the PHP outperforming the IDR and we therefore suggest going long PHPIDR.

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Top 3 Currency Plays for Oct

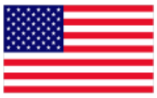
Buy AUD, NZD, CAD Against EUR, GBP
Buy SGDNEER on Dips Below 1.5%
Long PHPIDR

Key Events for the Month Ahead

Date	Event
13 Oct	Malaysia Federal Budget 2024
14 Oct	NZ General Elections 2023
Mid-End Oct	China Third Plenum

SEE PAGE 41 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

G7 Global Overview



USD: "Higher for Longer" & Government Shutdown Risk

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024
USD Index	106.29 (103.63)	106.00 (102.89)	104.61 (102.14)	103.33 (100.50)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** The DXY index rose 2.5% since end Aug on the back of resilient US data and a hawkish Fed with a higher for longer narrative. UST 10 year yields also rose to around 4.6% by end Sep from 4.1% on 1 Sep. The Sep FOMC showed that the Fed was adamant on one last hike before the year is over and staying higher for longer. We expect the dollar to remain resilient as long as the data towards the end of 2023 supported this view. For now, as long as the USD data outperforms the rest of the world (especially with China, Eurozone in weak growth territory), we still should see USD supportive coupled with higher yields and a pause or easing cycles in the RoW cental banks now. In addition, the CFTC USD positioning is still lower compared to historical levels which suggests there is still some room for USD to move higher. However, we may see some risk of a retracement in the USD towards year end as seasonally the dollar tends to weaken at year end (as seen in the past 5 years on average). There is also the risk that any signs of data releases of a likely slower quarterly growth and/or inflation pace, would also lead to a shift again towards concerns of an earlier than expected rate cut which is not priced in at the moment with most expect a cut only from around middle of 2024. Nonetheless, there are recent concerns that low unemployment could exist with lower inflation and that the Fed should be wary of making mistakes that may trigger a recession. That is the inevitability of a large trade-off between inflation and unemployment comes with the serious risk of a near-term policy error.

- We continue to monitor the labour market and inflation indicators as a strong labor market with low unemployment, now at 3.8%, is a potential source of inflation. A weaker job market could put a damper on wage growth and lead to slack, or lower demand, in the economy. So further signs of cooling in inflation, will add to the earlier timing of the Fed cuts in 2024. The "high" or "higher for longer" driver for US policy rates remains a significant driver of UST yields and US dollar in Oct in our view unless US data sees dramatic move downwards. We expect a resilient USD with some retracement by end 2023 before an initial move downwards in 2Q next year as Fed cut speculation we think will come out stronger weighing on the USD and some stronger indication of a recovery in the RoW by then.

- Our DXY forecasts moved higher also because of our downward revisions to the euro, GBP and JPY given the weaker growth data out of these countries and the unlikely policy tightening shift out of BOJ in end 2023 and early 2024.

- **Growth and Inflation Outlook:** The US economy grew at a solid 2.1% p.a in 2Q (prior: 2.1%), but consumer spending turned out to be weaker than originally reported. The increase in household spending was reduced to 0.8% from a prior estimate of 1.7%. Consumer spending rebounded in 3Q, as did the broader economy and US GDP is forecast to rise 4% or more in the 3Q. Business investment was a bit stronger than originally reported, offsetting the downward revision in consumer spending, as generous government subsidies for green-energy projects and “reshoring” — brought back manufacturing operations to the US. The change in inventory levels and exports numbers were also revised upward. Most other figures in the report were little changed. Overall, growth is likely to slow in the months ahead as higher borrowing costs are affecting the housing market and other interest-rate sensitive parts of the economy.

- The US labour market still looks resilient but the latest labour data prints seem supportive of a slowdown in the actual labour market conditions. The latest US job data showed a labor market undergoing a controlled cooling, illustrated by solid hiring, slower earnings growth and more people returning to the workforce. Non-farm payroll in Aug added 187,000 jobs in a broad-based advance, following downward revisions to payrolls in the prior two months. Combined with wage growth running at the slowest pace since early last year, the data illustrate the job market is less upbeat. While hiring and incomes are still firm enough to bolster consumer spending, job openings have retreated and layoffs are picking up. The moderation gives the Fed room to pause interest-rate increases this month while keeping options open for another hike later in the year.

- **Monetary Policy Forecast:** The Sep FOMC meeting ended with Fed hitting the pause button again after raising the target fed funds rate (FFR) range by +25bps to a 22- year high of 5.25%-5.50% at the 25-26 July 2023 FOMC that followed the pause at the 13-14 June 2023 FOMC.

- Dot plot signals one more interest rate hike this year amid “solid” growth, tight job market, elevated inflation. Despite the FFR pause, the accompanying FOMC statement highlighted the combo of “strong” economic growth (vs “moderate” in previous FOMC), the still tight labour market despite recent slowing – though still “strong” (vs “robust” in previous FOMC statement) - job gains, and the continued elevated inflation despite the downtrend (Fig 2) amid the recent surge in global crude oil prices.

- These assessments are backed by FOMC’s latest median forecasts. Underscoring Fed’s upbeat tone on economic growth, 2023 and 2024 real GDP growth projections are raised to 2.1% and 1.5% respectively from 1.0% and 1.1% previously (i.e. back in June 2023), while 2025 real GDP growth outlook is kept at 1.8%. Meanwhile, reflecting the tight job market, unemployment rate forecasts for 2023, 2024 and 2025 are lowered to 3.8%, 4.1% and 4.1% respectively from 4.1%, 4.5% and 4.5%

previously. At the same time, Fed expects headline inflation rate to slowly ease towards its 2% target i.e. 3.3%, 2.5% and 2.2% in 2023, 2024 and 2025 respectively vs previous outlook of 3.2%, 2.5% and 2.1%, while core inflation rate in 2023, 2024 and 2025 are projected to be at 3.7%, 2.6% and 2.3% compared with the predictions of 3.9%, 2.6% and 2.2% made in June 2023. Notably, the majority of FOMC members see risks to headline and core inflation rates are "weighed to upside" while taking the view that the risks to growth and unemployment rates to be "broadly balanced".

- Consequently, the updated "dot plot" signals another +25bps hike at one of the remaining two FOMC meetings of this year i.e. 31 Oct - 1 Nov; and 12-13 Dec. Fed's "dot plot" also signals a slower pace of FFR cuts in 2024 i.e. -50bps now vs -100bps back in June 2023.

- With Fed being adamant on one last hike before this year is over and staying "higher for longer", we revised our end-2023 and end-2024 FFR views. We now expect another +25bps increase in FFR to 5.50%-5.75% at the next FOMC meeting on 31 Oct – 1 Nov 2023 (vs previous view of FFR staying at the current 5.25%-5.50% level for the rest of this year), to be followed by -100bps cuts in 2024 (vs -200bps cuts next year previously).

- **Fiscal Outlook:** Congress managed to pass the stop-gap bill to keep the government functioning until 17 Nov (albeit without approval on aid for Ukraine) so as to have more time for a longer-standing budget agreement. There could still be a risk of a government shutdown. In the event of a shutdown, many government operations would come to a halt but some essential services would continue. Federal employees whose work is deemed non-essential would be put on furlough. The last government shutdown under the Trump administration from Dec 2018 to Jan 2019 was the longest in more than 40 years. The inability to reach a consensus on and pass full year spending legislation was because House conservative hardliners are pushing for deep spending cuts and controversial policy add-ons that Democrats and some Republicans have rejected as too extreme. This government shutdown if it materializes could have an impact on growth and possibly even delay releases of key economic data.

- **Key domestic events and issues to watch in Oct:** S&P Global US Manuf PMI, ISM Manuf (2 Oct), Factory Orders, Durable Goods Orders (5 & 27 Oct), FOMC (1 Nov), ADP (4 Oct), Trade Balance (5 Oct), NFP (6 Oct), Aug CPI (12 Oct), Empire Manuf (16 Oct), Retail Sales (17 Oct), Initial jobless claims (19 Oct), GDP (26 Oct), Core PCE (27 Oct), PCE deflator (27 Oct).

- **Technical Outlook:** DXY index was last seen at around 106.30, still within the rising trend channel. This rising trend channel was formed when the higher-for-longer theme surface more prominently. Support at 105.40 (21-dma). Resistance at 107.20 (30- Nov 2022 high) before the 108-figure.

EUR: Widening EU-US Yield Differentials To Weigh

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024
EURUSD	**1.0550**	**1.0600**	**1.0700**	**1.0800**
	(1.0900)	(1.1100)	(1.1300)	(--)

Previous Forecasts in Parentheses

- **Motivation for the FX View: We lower our EURUSD forecasts and look for a gentler appreciation of the EURUSD, as the USD remains better supported ahead by a resilient US economy and higher for longer US yields.** Economic data from the Eurozone alongside survey indicators showed that growth outlook is still weak for the Eurozone over 3Q and potentially 4Q and that headline inflation and core inflation have moderated, albeit still above the central bank's target. A relatively more resilient US economy could continue to keep the EURUSD under pressure for a while more and we reckon the recovery from the recent pullback could take longer.

- **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 continue to weigh on the Eurozone trade balance. This could then in turn weigh on the EUR.

- Europe's brimming gas storage puts the continent in a good position to get through the coming winter without major disruptions. High contract levels could also crimp the rising LNG demand from China. Meanwhile, the return of Freeport LNG in the US and more liquefaction projections would also improve global gas supply conditions. However, the reliance on gas imports could still pose a threat to the continent.

- **Growth and Inflation Outlook:** ECB downgraded growth forecasts for 2023-2025 and now looks for growth to slow to 0.7% for 2023 (vs. 3.4% in 2022) before recovering to 1.0% in 2024 and 1.5% in 2025. This reflects tighter financing conditions, the stronger EUR as well as the deteriorating survey statistics. While inflation is expected to decline, core HICP inflation is expected to remain above headline until early 2024. HICP inflation forecast were raised to 5.6% for 2023, 3.2% in 2024 and 2.1% in 2025 and only reaching the 2% target in 3Q 2025.

- Final 2Q23 Eurozone GDP growth was revised lower to +0.1% SA q/q (prelim: +0.3%; prev: 0.3%) and +0.5% SA y/y (prelim: 0.6%; prev: 0.6%). Key drag was from net exports and PMI numbers suggest that growth could remain subdued with a lingering recession risk. Looking through the PMI numbers, the manufacturing weakness seems to be a tad worse than that seen in the services sector. The reading for the manufacturing fell to 43.4 from 43.5 but that of the services rose a tad to 48.4 from 47.9. The tightened financial conditions could continue to weigh on demand. Separately, European commission recently released the

September confidence data. Overall, services confidence continues to weaken to 4.2 in Sep vs. previous 4.3 for the Eurozone. The picture is the same for consumer confidence. However, there was a slight improvement in terms of manufacturing confidence to -9.0 for the Eurozone in Sep vs. 9.9 in the month prior.

- **Monetary Policy Forecast:** ECB hiked its policy rates by 25bps on 14 Sep, boosting the main refinancing rate to 4.50%, marginal lending facility to 4.75% and deposit facility rate to 4.00%. The ECB Governing Council indicated in the statement that "the key ECB interest rates have reached levels that maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target." This suggests that there are likely near the end of the hiking cycle. In addition, GDP forecasts were downgraded. 2023 GDP is cut to 0.7% vs. previous 0.9%. 2024 GDP is slashed to 1.0% from 1.5%. 2025 GDP is now seen at 1.5% vs. previous 1.6%. The statement had an emphasis on "keeping rates sufficiently restrictive as long as needed" as well as the fact that ECB would continue to be "data-dependent".

- Not long after the meeting, Reuters reported that upcoming discussions on how to handle the euro pool of excess liquidity could start at the next meeting in Oct. Sources were cited saying that the reserve requirements could be the first action to soak up the excess liquidity in banks. The discussion is said to possibly begin at the next ECB meeting on 26 Oct or at the autumn retreat for policymakers and could focus on the RRR, the unwinding of its bond-buying programs and a new framework for guiding short-term interest rates.

- Regardless, we reckon that we have arrived at a point where policy settings are decidedly restrictive for most central banks including the ECB and BoE amongst others. There are signs of growth slowdown in the Eurozone, especially for the stronghold Germany. Further tightening in monetary policies may only weaken growth momentum further and weigh on the EUR.

- **Key domestic events and issues to watch in Sep:** Sep final Mfg PMI [2 Oct]; Sep final Services PMI, Aug retail sales, PPI [4 Oct]; Oct Sentix investor confidence [9 Oct]; ECB 1Y, 3Y CPI expectations Aug [11 Oct]; Aug Industrial production [13 Oct]; Oct ZEW Survey expectations [17 Oct]; Sep F CPI [18 Oct]; Oct Consumer confidence [23 Oct]; Oct prelim. Mfg, Services PMI [24 Oct]; ECB Policy decision [26 Oct], EC Oct consumer, economic, industrial confidence [30 Oct]; 3Q advanced GDP [31 Oct].

- **Technical Outlook:** EURUSD waffled around 1.0570. Bearish momentum is rising on the weekly chart with bearish trend channel intact. Support at 1.0480 before the next at 1.0400. Rebounds to meet resistance around 1.0620.

GBP: Rate Differentials Weigh In as BOE Pauses

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024
GBPUSD	**1.2000** (1.2500)	**1.2000** (1.2400)	**1.2100** (1.2300)	**1.2200** (--)

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** We have revisedour GBPUSD forecast to reflect a higher level of bearishness in the next six months before a climb up can be expected from 2Q 2024 onwards. At this point, it is appearing clearer that the BOE's rate hikes are starting to break the backbone of the UK economy with Jul unemployment hitting 4.3% and at risk of edging higher. Consequently, the BOE looks to be done with rate hikes at this point. However, we do not expect any cuts next year as the BOE may keep rates on hold for the entire 2024 in order to bring down a still elevated inflation whilst a recession for now is not on our books. This pause in combination with a final Nov Fed hike and further weakening UK economic data could result in the GBPUSD hitting low levels of weakness by end 4Q 2023 amid wider real rate differentials. It would likely end 1Q 2024 at around the same level as the Fed stays on hold. However, we expect the pair to start moving up from 2Q 2024 as carry would work in the GBP's favor with speculation emerging by then of a Fed cut. An eventual materialization of the cut from 3Q 2024 onwards should give the cable further support subsequently.

- We would like to note risks to our view that includes the UK entering a recession in the coming months which could prompt the BOE to cut and further widen the real rate differentials and result in a deeper dive into the GBP. Other risks include any spike in energy prices that could feed into higher inflation and prompt more tightening. The effect in that scenario would be the converse where could see the GBP possibly moving higher than our forecasts.

- **Growth and Inflation Outlook:** The overall headline 2Q (F) GDP growth was in unchanged from the preliminary readings on a quarterly basis at 0.2% QoQ (prior. 0.2% QoQ) although it was higher on a yearly basis at 0.6% YoY (prior. 0.4% YoY). Private consumption was weaker than prior readings and so was government spending. However, this was offset by a stronger GFCF and business investment number. Even so, this stronger investment number was related to US aircraft import that may not be able to hold up in subsequent quarters. As a whole though, by this point, the 2Q GDP readings are already rather dated. The 3Q PMI numbers are pointing that the economy is grinding to a halt with services having fallen into contraction for Sept whilst manufacturing has already been trending downwards deeper into contraction territory. Unemployment at the same time keeps edging up with the latest Jul number higher at 4.3% (Jun. 4.2%). We see that it could keep edging up. It is becoming clearer at this point that the BOE's rate hikes are starting to weigh in on a still resilient economy and supporting the case for a pause.

Recession risks remain but this is not even a certainty at this point given that business confidence is still strong.

- Housing market activity appears to be showing further softening at the same time with the Aug Nationwide House PX declining at -0.8% MoM whilst Aug mortgage approvals have also declined to 45.4k (Jul. 49.5k). However, we do note that Aug secured net lending on dwellings did rise to £1.6bn (Jul. £1.3bn) although this was just a one off increase and may not hold especially given the other weaker metrics. We expect that the housing market is likely to keep softening as the BOE keep rates high which means mortgage rates should not come down too quickly.

- Wage growth meanwhile still remains too firm as Jul average weekly earnings climbed by 8.5% YoY. Given that Jul unemployment climbed to 4.3% (Jun. 4.2%) and there is a possibility that it could higher from here with weakening economic data, we expect that wage growth should slow. Given that it stands at such an elevated level, wage growth would need to fall a lot more to really take the pressure off inflation.

- Sept (P) services PMI continued to decline further to 47.2 (Aug. 49.5), which is a reflection of more weakness in the economy as the high rates weigh in. Services PMI has in fact already been in contraction territory for the last two months and the downward trend is likely to persist for the coming months. The decline in activity is certainly aiding in bringing down services inflation, which in turn has been a focus of the BOE and hence, supports the prospect of a further BOE pause.

- Aug headline CPI inflation surprised below expectations which had called for acceleration and instead slowed further to 6.7% YoY (est. 7.0% YoY and Jul. 6.8% YoY). Core at the same time fell substantially much below expectations too at 6.2% YoY (est. 6.8% YoY and Jul. 6.9% YoY). As a whole, there was broad decrease across categories. However, what was crucial was that services inflation actually slowed sharply from 7.4% YoY to 6.8% YoY. Services inflation had been a major BOE focus and therefore a major determinant to the BOE's stance. There are still upside risks from inflation that include rental price pressures and wage growth that is still too firm. However, with weakening economic data, we continue to observe if such pressures can still keep holding up. Nevertheless, services inflation should gradually keep easing helping to bring down the overall inflation numbers towards year ened although it may still stay too high to consider any BOE shift.

- **Monetary Policy Forecast:** The BOE held rates at their Sep meeting at 5.25% following a surprise slowdown in inflation especially with regards to services prices. The vote though was extremely tight with 5-4 in favour of the hold. Despite the hold and weakening economic data, the BOE looks to retain a tightening bias. Forward guidance after all remained unchanged and the MPC stuck to its commitment to tighten further if there is "evidence of more persistent inflationary pressures". Bailey himself also noted there should not be complacency whilst they keep an eye if additional increases are still needed. Wage growth still remains too firm and together with the close vote would make it rather inappropriate at this time for the BOE to put out more strongly dovish tilt. However, the BOE did revise downwards data forecasts with 3Q GDP now seen at 0.4% QoQ (prior. 0.1% QoQ) and acknowledged a weakening economic situation, which in a way is some small element of dovish expression. With some economic weakness emerging, we are not expecting the BOE to move any further this year. However, we do not expect any cuts next year as the BOE may keep rates on hold for the entire 2024 in order to bring down a still elevated inflation whilst a recession for now is not on out books.

- **Key domestic events and issues to watch:** Sept official reserves changes (4 Oct), Sept DPM 3M output price expectations and 1Y CPI expectations (5 Oct), Sept RICS house rice balance (12 Oct), Aug monthly GDP (12 Oct), Aug IP (12 Oct), Aug mfg prod (12 Oct), Aug index of services (12 Oct), Aug construction output (12 Oct), Aug trade balance (12 Oct), Oct Rightmove house prices (16 Oct), Sept payrolled and claim data (17 Oct), Aug earnings and unemployment data (17 Oct), Sept CPI (18 Oct), Sept retail price index (18 Oct), Sept PPI (18 Oct), Aug house price index (18 Oct), Oct consumer confidence (20 Oct), Sept retail sales (20 Oct), Sept public finances (20 Oct), Oct (P) PMIs (24 Oct), Oct CBI business optimism (24 Oct), Oct nationwide house PC (28 Oct – 3 Nov), Sept consumer credit (30 Oct), Sept mortgage approvals (30 Oct), Sept net secured lending on dwellings (30 Oct), Sept money supply (30 Oct), Oct Lloyds business barometer (31 Oct) and Oct Lloyds own price expectations (31 Oct).

- **Technical Outlook:** Bearish trend channel since end Aug remains intact. We expect downside in the pair and see support at 1.2075 (Fibo retracement of 38.2% from Sept 2022 low to July 2023 high) and 1.1746 (Fibo retracement of 50.0% from Sept 2022 low to July 2023 high). Resistance is at 1.2437 (200-dma) and 1.2620 (100-dma).

AUD: Range For Now

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024
AUDUSD	0.66	0.66	0.68	0.68
	(--)	(0.67)	(--)	(--)

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** We remain cautiously optimistic on AUD. We are at the end of a seasonally bearish period for the currency (Aug-Sep) and awaiting further signs of growth stabilization from China. AUD may continue to remain more resilient than its other G7 peers that non-commodity exporting with its ToT benefitting from higher iron ore prices as Chinese steel mills ramped up production in recent weeks. That said, a V-shape recovery China's economy or property sector is not on the cards. As such, we only expect modest support for the AUDUSD into the next few months.

- At this point, cash rate futures still imply a 78% probability of a 25bps rate hike by May 2024. This is likely due to the recent developments (higher fuel, food, housing, rental prices) that could drive inflation higher. We hold our view that even as RBA remains vigilant on inflation, weakening household consumption should mean that 4.10% is the peak of this tightening cycle for the RBA. That said, sticky price pressure (Aug inflation gauge quickened to 6.1%y/y from 5.4%), not helped the least by the 30% rally for Brent, could mean that RBA is forced to keep cash target rate at 4.10% for at least next 6-9 months.

- **Key risk to our AUDUSD** view is that RBA could be one of the first few G7 central banks to kick off its easing cycle, especially ahead of the Fed (as the average mortgage costs rise faster at home vs. NZ, US peers) and that could weigh on the AUD into 2024.

- **Growth and Inflation Outlook:** Recent inflation gauges suggest that the disinflation process could be hitting a bump with M-I inflation picking up pace to 6.1%y/y for Aug from 5.4%. Month-on-month, that is still a deceleration in pace to 0.2% from previous 0.8%. The 30% surge of the brent crude oil prices do not help anchor the inflation expectations in the least. Prelim. Services PMI for Sep rose surprisingly to 50.5 from previous 47.8, in line with the brighter outlook conveyed by businesses for Aug based on the NAB business conditions and confidence.

- RBA projects growth to remain subdued. GDP is expected to trough around 1% at end 2023 and the central bank looks for a gradual recovery to 2.25% by end of 2025. Employment is expected to rise, albeit outpaced by growth of the working-age population and as a result, jobless rate can rise to reach 4.5% by late 2024. There is significant uncertainty on how weak household consumption is going to be as this depends on the resilience of the labour market conditions and the housing market recovery. Stronger labour market conditions and faster housing turnover could support consumption that is being weighed by high debt (household debt at 187% of income) and low savings (household savings are at 3.2% of net disposable income as of 2Q 2023 vs 4Q 2019 of 6.8%). As such, risks to personal consumption could remain balanced.

- Australia recorded a 64.9K net employment gain last month with net 2.8K full-time employment gain + net 62.1K part-time hires. The surge in part-time hires was likely due to the Woman's World Cup event. Participation rate was bumped higher to 67.0% from previous 66.9%. Unemployment rate was steady at 3.7%. While we expect that the event-driven surge in Part-time hires to mean that this robust employment condition could potentially fade, the surprising improvement in prelim. services PMI for Sep to 50.5 (from previous 47.8) could mean that the labour market may continue to remain resilient for now.

- CoreLogic median home prices rose 1.0% in Aug on rising population growth that seem to have outstripped supply growth. The lack of supply is keeping home prices as well as rentals on the rise. National rental index rose 0.5% in Aug and 0.9%y/y, Dwelling approvals on the other hand, fell -8.13%m/m for Jul while construction insolvency has risen 75% for FY2022-23 due to labour shortages and rising material costs. Elevated rentals, housing prices on top of higher fuel and food prices could mean impediments to the disinflation process for Australia.

- **Monetary Policy Forecast:** We look for RBA to keep cash target rate unchanged at 4.10% for the next six-nine months before potentially cutting rates by 50bps to 3.60% by the end of 2024. Weak household spending, crimped by low household saving ratio (at 3.2% for 2Q 2023) and high debt could continue to weigh on growth and keep the RBA from raising cash target rate further. In addition, labour shortages, and costs of building materials have forced hundreds of construction companies to declare insolvency. The hurdle to hike at this point is quite high and cash target rate is more likely to peak at 4.10% this cycle.

- We now look for the start of the easing cycle to begin in Jul 2024 rather than in Feb. The deterioration in activity at home does not seem to be significant, likely given a small boost by the Women's world cup and there could be further modest support in net exports coming from China as the authorities strive to stabilize the property sector there. That said, an earlier rate cut in the 1H of 2024 is still a risk to watch, especially if growth slows more than expected for Australia or if China's slowdown drags on. If that materialize, AUDUSD could come under pressure.

- **Latest External Balance Outlook:** As of last available data, current account surplus was recorded at +1.2% of GDP for 2Q 2023, narrowing a tad from the previous +1.4% of GDP.

- **Fiscal Outlook:** Australia is projected to achieve a fiscal surplus of 0.2% of GDP for FY2022-2023 but this would be a fleeting one. This would be the first surplus in 15 years but Treasurer Jim Chalmers also flagged that a deficit of $13.9bn is expected for FY23-24. More recently, the government indicated that the federal spending on storm, flood and fire disasters have been on the rise. Treasurer Chalmers warned that global warming and disasters had "big, economy-wide effects" with the "Black Summer" bushfires of 2019-2020 as well as the Oct 2022 east coast floods had each cost the economy A$1.5bn. The Federal government spent $2.5bn on disaster recovery for FY2022-2023. Funding for federal government assistance had on disaster recovery had multiplied five-folds in three years. The local weather bureau had confirmed an El Nino event coming through that could create a severe wildfire season and drought. The FY2023-2024 budget an allocation of $200mn is provided to the Disaster Ready Fund to support projects include levee upgrades, seawalls and bushfire risk reduction projects. This is on top of other funding to boost its biosecurity in support of Australian farmers and agriculture exports.

- **Key domestic events and issues to watch:** Sep Australia Mfg PMI, Sep M-I inflation, Sep CoreLogic House Price [2 Oct], Aug home loans, Sep Job advertisement, Aug building approvals, **RBA Policy decision** [3 Oct]; Sep Services PMI [4 Oct]; Aug trade [5 Oct]; Sep foreign reserves [9 Oct]; Westpac Oct consumer confidence, NAB Sep Business Confidence [10 Oct]; CBA household spending [Sep], Consumer inflation expectation for Oct [12 Oct]; Sep labour [19 Oct]; 3Q CPI [25 Oct]; 3Q PPI [27 Oct]; Sep retail sales [30 Oct].

- **Technical Outlook:** AUDUSD seemed to have formed a rounding bottom around the 0.64-figure. This was tested at one point in the past month. Key support is seen around 0.6360. Momentum seems to suggest further room for bullish extension towards the 0.65-figure. A failure to break above this level could mean two-way trades within 0.6360-0.6500.

NZD: Outlook Brightens But Watch the US Rates

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024
NZDUSD	0.60	0.61	0.62	0.63
	(0.60)	(0.61)	(0.62)	(0.62)

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** Outlook for NZDUSD brightens a tad on 1) better domestic data; 2) expectations for one more hike; 3) higher dairy prices as El Nino threatens milk production. On the other hand, there are still downside risks especially if the oil rally continues to keep UST yields and concomitantly, the USD supported. NZD has been one of the most resilient currencies in Sep and may continue to be relatively stable vs. the USD should there be more traction for growth recovery, concomitant renewed bets on rate hikes and terms of trade improvement due to higher dairy prices and modest improvement in China’s demand.

- CFTC data suggests that net short NZD positions have increased in Sep to -21272, a significant drop from a high of 45010 in Jun 2022. We still see risk of a bullish reversal should domestic demand and inflation prints continue to firm and RBNZ policy divergence with the Fed narrows in favour of the NZD.

- **Growth and Inflation Outlook**: Outlook for inflation has been a benign one based on RBNZ outlook. Inflation has been on the decline with headline falling to 6.0%y/y from 6.7% in the quarter prior, driven by the significant fall in tradables inflation due to fall in airfares, petrol prices that offset the rise in food prices. A more recent survey of expectations by the RBNZ suggest that two-year ahead inflation expectations rose to 2.83% in 3Q from 2.79% while one-year inflation expectations fall to 4.17% from 4.28%. Five-year inflation expectations fall to 2.25% from 3.35%. This mix data suggest that inflation expectations are still broadly anchored. However, the recent rise in oil prices and persistent food inflation could still threaten medium-term inflation expectations.

- Net migration for Jul fell to 5786 from previous 8549. The net migration had helped to improve labour supply and contributed to retail sales at home. Card spending rebounded +0.9%m/m in Aug vs. previous -0.9% while card spending on retail also accelerated to 0.7% from previous 0.0%. REINZ house sales also accelerated to 9.2%y/y from previous 1.6%. On net, the impact of the net migration likely improved growth prospect but the net impact on inflation outlook is less certain given the improvement in labour supply that should ease wage pressure. That should counter the slight demand-pull inflation from the boost in spending.

- **Monetary Policy Forecast:** RBNZ is likely to keep OCR at 5.50% for the rest of 2023 and possibly into 1H 2024 even as OIS suggests that another rate hike cannot be ruled out. The recent improvement in activity (housing, retail sales) as well as pick-up in crude oil prices suggest that rate cuts would probably have to be pushed back to 3Q 2024. RBNZ had maintained its view for inflation to fall within the 1-3% target by 3Q 2024 and the latest inflation prints (2Q CPI at 6.0%y/y), whilst a tad firmer than expectations, continue to suggest that price pressure continues to ease. On the other hand, monetary policy settings are restrictive enough such that these factors do not fan inflation pressures higher. The central bank notes that the mortgage rates on outstanding loans have increased by around 200bps from early 2022 and average mortgage rates are expected to reach around 6% in early 2024. Such a rise in mortgage rates should continue to dampen consumption and keep inflation from rising.

- **External Balance and Fiscal Outlook:** NZ current account deficit narrowed to –NZD4.21bn in 2Q vs. NZD4.66bn in the quarter prior. Goods trade balance has swung into NZ0.442bn. Services balance swung back into deficit of -NZD1.51bn. Whilst there could be signs of economic stabilization for China, we do not expect a strong revival in demand for NZ’s resources. Global growth slowdown is still expected to worsen into 4Q and that could keep exports under pressure.

- **The Treasury projected a return to fiscal surplus in 2025/2026, delayed by one year.** New Zealand now expects the economy to avoid recession, looks for a budget deficit of NZ7.6bn in 2023-2024. GDP growth is expected to be around 1% for this FY23/24 and 3.2% in FY22/23. Net debt to peak at 22% of GDP in 2023-2024. The budget includes an extension pf 20 hours Early Childhood Education to include 2y olds, abolition of $5 prescription co-payment, subsidies for children to take public transport and $71bn of infrastructure spending. The budget was seen more expansionary than expected, funded by more borrowing. This could boost discretionary spending slightly.

- That said, the Geneal Election is scheduled to be held on 14 Oct and parties are proposing changes to the tax system. Labour pleged to remove the 15% GST from fruit and vegetable and to increase benefits for low-income households if it retains power. Main opposition National Party proposed to increase tax credits for families and lift tax thresholds to compensate for inflation that could ultimately benefit middle-income voters.

- **Key domestic events and issues to watch:** Aug Building Permits [2 Oct], Sep CoreLogic House Prices [3 Oct], RBNZ Policy decision [4 Oct], Sep ANZ Commodity Price [4 Oct], Sep REINZ House sales [10-14 Oct], Aug net migration [11 Oct], Sep food prices [12 Oct], Sep BusinessNZ Mfg PMI [13 Oct], Sep Performance services index [16 Oct], 3Q CPI [17 Oct]. Sep trade [20 Oct], ANZ Oct consumer confidence [27 Oct], Sep building permits [31 Oct], Oct ANZ Activity outlook, business confidence [31 Oct].

- **Technical Outlook:** NZDUSD rose to levels around 0.5980. The bottom seems to be forming still at around the 0.59-figure. Momentum is turning higher based on MACD forest as well as stochastics. Resistance at 0.6080 before the next at 0.6180. Support at 0.5900 before 0.5840.

CAD: Caught Between Strong USD and Oil

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024
USDCAD	**1.34** (1.32)	**1.34** (1.31)	**1.32** (1.31)	**1.32** (--)

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** CAD was one of the few currencies that managed to claw back losses against the USD in the face of higher-for-longer theme. Stronger-than-expected inflation prints also brought back expectations of another rate hike that could have given the CAD more buffer against the rise in UST yields and the USD. Along with the risk of reacceleration of inflation, rate cut expectations are pushed back.

- In addition, PM Trudeau promised to cut the federal sales tax on new rental apartment construction and to order grocery store to keep price stable in order to dampen price pressure. This comes as the labour party face falling popularity amid complaints of cost of living. Such measures could potentially support consumption, growth and BoC could keep the policy rates at their peak for a longer period of time.

- The high-for-longer narrative has been played in the favour of UST yields as well as the USD. Fighting the trend could be futile for now but CAD does display resilience compared to other G7 peers. The divergence of the US vs. RoW can persist for a while and keep the USDCAD supported. Regardless of the dominant market narrative at this point, we caution that further weakness in the US data could eventually bring about some softness in the USD that could weigh on the USDCAD. A correction in oil prices (whilst theoretically negative for the CAD) would weaken the higher-for-longer narrative, boost sentiment and soften the USD.

- **Key Risks to our view:** 1) A sudden deterioration in domestic demand that could force BoC to be caught between a rock and a hard place as inflation remains a tad elevated. 2) US data surprised to the upside in the next few months, fueling higher-for-longer narrative and exacerbating USD strength.

- **Growth and Inflation Outlook:** To be clear, data suggests growth could be picking up in Canada. Manufacturing sales picked up pace to 1.6%m/m in Jul from previous -1.7%. Retail sales also accelerated to 0.3%m/m in the same month from previous 0.1% and stripping away the auto component, retail sales rebounded 1.0% from a previous decline of -0.7%. Ivey purchasing managers index rose to 53.5 in Aug from previous 48.6 in Jul, with stronger employment, higher supplier delivery and prices. That said, the S&P Global Canada Mfg PMI suggests that the sector remained in contraction at 48.0 vs. previous 49.6.

- All these suggest that the slowdown in Canada could be near its end and that the economy could be bottoming out notwithstanding considerable uncertainties surrounding the inflation outlook.

- With regards to the labour market, unemployment rate has been rising this year and arrived at 5.5%. Hourly wage rate for permanent employees accelerated surprisingly to 5.2%y/y from previous 5.0%. Labour force participation rate inched lower to 65.5% from 65.6%. Canada added a net 39.9K of employment in Aug vs. the expected 20K. Despite the rise in the jobless rate, the net increase in employment, strong wage growth are signs that the labour market remains rather tight and suggests that consumption could continue to be supported.

- Based on the 2Q business survey conducted by BoC, the high interest rate environment has been affecting housing demand and consumer discretionary spending but firms also noted that there are signs of resilience due to fewer concerns on recession, improved supply chains, path of interest rates. Private investment is expected to be modest due to the weakened demand outlooks but investment intentions remain strong for firms linked to natural resources. Pressures in the labour market is easing and growth in wages is expected to "moderate from high levels". More firms are expecting inflation to take five years or more to get to 2% as inflation is perceived to be spurred by government spending and strong demand. The Business Outlook survey indicator suggests less inflationary pressure as demand outlook is weaker. **That said, these may have shifted in Q3 given the recent surge in oil prices and tight labour market conditions.**

- **Monetary Policy Forecast:** BoC is unlikely to hike further and we look for the overnight lending rate to remain unchanged at 5.00% for the rest of the year. It is highly possible that BoC will continue to maintain a hawkish stance given recent rise in fuel prices. Headline inflation as well as core inflation have surprised to the upside, above the central bank's 2% target inflation mandate. Core inflation reaccelerated to 4.1%y/y in Aug (median) from previous 3.9% (revised higher). Headline inflation accelerated more than expected to 4.0%y/y from previous 3.3%, fanned by higher fuel prices.

- Retail sales picked up pace surprisingly in Jul at +1.0m/m vs. previous -0.8%. However, it is hard to see if this could sustain given the laggard transmission of the tightening monetary policy. Meanwhile, CFIB business barometer fell to 48.7 from previous 54.6, a drop of 6.0 points in optimism. What stood out from the CFIB small business barometer was that small firms cited shortage of working capital and borrowing costs as key difficulties for doing businesses. We anticipate that there are pockets of weaknesses in the economy enough for BoC to keep rates on hold for the next 6-9 month to assess the full impact of its own tightening action.

- **Latest External Balance Outlook:** As of last available data, Canada's current account balance was at a deficit of -U$20.7bn for 2Q23, wider than the -U$12.0bn deficit for 1Q 2023. Trade balance remains in deficit with the latest recorded at CAD3.53bn for Jul. Exports rose 0.7%m/m while imports fell 5.4%m/m. Energy exports fell -0.3%m/m, -36.5%y/y in Jul. However, that was offset by non-energy exports which rose 1%m/m, up 1.7%y/y in Jul.

- The new Federal budget presented on 28 Mar was the 2023/2024 budget. Priorities were targeted inflation relief. There was also investment in public health care. Budget deficit is expected to narrow from CA$43.0bn for FY2022-2023 to $40.1bn for 2023-2024. Separately, the Federal government is considering cutting $1bn from the annual budget of the Department of National Defense. Estimates for 2023-2024 is expected to be around $26.5bn. On the other hand, PM Trudeau wants to cut the federal sales tax on new rental apartment construction.

- **Key domestic events and issues to watch:** Aug trade [5 Oct], Sep labour report [5 Oct], Aug building permits [11 Oct], BoC Overall Business Outlook survey for 3Q [16 Oct], Sep CPI [17 Oct], Aug retail sales [20 Oct], BoC Policy [25 Oct], Oct CFIB Business Barometer [26 Oct], Aug GDP [31 Oct].

- **Technical Outlook:** USDCAD has been engaged in choppy action within the 1.34-1.3690 range. Daily chart suggests that momentum has turned bullish again but stochastics on the weekly and monthly charts suggest that USDCAD is still overbought. Overall technical indicators are mixed and there is little directional bias. This range could hold until it breaks for better directional cue.

JPY: Climbing UST Yields to Hurt

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024
USDJPY	**150** (142)	**150** (140)	**145** (134)	**140** (--)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** We are revising our USDJPY forecast further upwards as we see that JPY weakness could last longer at a more elevated level than our initial expectations. The main driving force behing this revision is that yield differentials are likely to be even more unfavorable for the JPY for the next six months with the UST yields looking to trade at much higher levels than we had assumed. The Fed we believe is likely to hike again in Nov before holding during 1H 2024. However, a Fed cut which could happen in 3Q 2024 with speculation on it likely to emerge already in 2Q 2024, should start guide the USDJPY lower from 2Q 2024 onwards. Meanwhile, regarding the BOJ, we are expecting a few policy moves to occur. At the last meeting, we see Ueda could engage in some change soon as he recognized that the removal of the forward guidance easing bias given inflation has exceeded 2% for more than a year. We believe this points to a revision of the forward guidance with regards to the inflation-overshooting commitment in 4Q 2023. Following this, with signs of stronger wage pick-up, the BOJ could then move to abolish YCC by early 2Q 2024 before exiting NIRP towards end 2Q 2024. However, all these moves would only give short term interim support to the currency during those periods as yield differential remains unfavorable and the BOJ may not move too much again after this as they tend to be slow to react to economic changes. Therefore, the USDJPY moves are still overall driven more from the US story in the medium term over the next year. We see 4Q 2023 at 150, 1Q 2024 at 150, 2Q 2024 at 147 and 3Q 2024 at 140. Within this month, we see the possibility that USDJPY could hit 155.00.

- **Growth and Inflation Outlook:** 2Q GDP (F) was weaker than the previous reading at 4.8% QoQ (prior. 6.0% QoQ). Private consumption and business spending reading were much worse than the preliminary data at -0.6% QoQ (prior. -0.5% QoQ) and -1.0% QoQ (prior. 0.00% QoQ). Net export contributions were steady at 1.8% (prior. 1.8%). It is clear from the numbers that the domestic economy itself is actually depressed whilst support is mainly coming from an export boom that originates from tourism reopening and a weak JPY. A continued softening global economy together with reopening boom waning means that this form of support is unlikely to last and reflects the fragility of the Japanese economy. Whilst 2023 growth can still perform reasonably well at 2.0% YoY, there is a chance that 2024 could see it come out much slower at 1.0% YoY.

- Headline inflation for Aug was stronger than expectations but in some sense still sticky at 3.2% YoY (est. 3.0% YoY and Jul. 3.3% YoY). Both the core and core core number were also steady and sticky at 3.1% YoY (est. 3.0% YoY and Jul. 3.1% YoY) and 4.3% YoY (est. 4.3% YoY and Jul. 4.3% YoY). Despite BOJ expectations for inflation would moderate, the numbers coming out month after month are still showing that price pressures are holding up. Going forward into the final quarter, a moderation in both core and core core inflation looks likely to be limited given that firmer service prices and continued strong demand.

- Meanwhile, July labor cash earnings slowed to 1.3% YoY (est. 2.4% YoY and Jun. 2.3% YoY) as it continues to be unclear if wages are showing any sustainable pick up. Real labor cash earnings showed a deeper contraction at -2.5% YoY (est. -1.4% YoY and Jun. -1.6% YoY). Jobless rate for September remained steady at 2.7% (Jul. 2.7%), much lower than pre-pandemic levels whilst the job-to-applicant ratio was also static at 1.29 (Jul. 1.29) and still quite above the 1.00 mark. Structurally, the labor market appears tighter, providing an opportunity for workers to push for higher pay. This combined with the minimum wage increase points towards more pick up in wages. However, we stay wary of the risks amid a fragile economic setting both domestically and globally.

- Sept (P) PMI continued to show a weakening in manufacturing activity as it fell further in contraction territory to 48.6 (Aug.49.6). This was a reflection of a softening in the global goods trade. Underlyingly, new export orders declined. Services PMI fell slightly to 53.3 (Aug. 54.3) but still in expansion territory. We expect the number could continue to decline overtime as reopening boost to the economy wanes. Overall, the PMI numbers reflect the fragility of the economy.

- Aug retail sales was above expectations at 7.0% YoY (est. 6.6% YoY and Jul. 7.0% YoY) although on a monthly basis, it was below estimates at

0.1% MoM (est. 0.4% MoM and Jul. 2.2% YoY). September consumer confidence decline for a second month to 35.2 (Aug. 36.2) although we cannot confirm at this point if there is a downward trend just yet. Generally, as a whole, retail sale still holds up well as it benefits from the economic reopening with the inflow of foreign tourist and consumption momentum can still hold up well into the final quarter of 2023. However, a waning of the reopening boost from tourism especially into 2024 could lead to retail sales numbers eventually slowing substantially.

- **Monetary Policy Forecast:** The BOJ did not move at the Sep meeting as expected. Earlier, Ueda at a Yomiuri interview had said that the BOJ could have sufficient data by the end of this year to determine when it could end NIRP. Whilst the comments sounded hawkish, he went on to explain post the BOJ meeting that his own comments did not imply as "if any time frame for achieving our price target had changed" and he thought "that by ruling out the possibility completely would bind the discussion of upcoming policy-settings meetings".

- However, Ueda could engage in some change soon as he also did recognized that there were some view of the removal of the forward guidance easing bias given inflation has exceeded 2% for more than a year. We believe this points to a revision of the forward guidance in 4Q 2024 regarding the inflation-overshooting commitment "to continue to expand the monetary base until year-on-year increased in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner".

- Following this, we are seeing more changes to policy likely to come in 2Q 2024. There is a possibility that wages could start to show a more sustainable pick-up based on a few factors. There include a structurally tighter Japanese labor market (unemployment at 2.7%, being much lower than pre-pandemic), minimum wage increases and potential for more wage increase at the next Spring negotiations. We see therefore that the BOJ could abolish YCC in early 2Q 2024 before exiting NIRP towards end 2Q 2024. However, we believe that the impact on the currency from such moves are likely to be more short term in nature. However, all these moves would only give short term interim support to the currency as yield differential remains unfavorable and the BOJ may not move too much again after this as they tend to be slow to adjust to economic changes.

- On the part of intervention, the market has been on the edge on the possibility that the BOJ/MOF could come in 150.00 amid jawboning from the Prime Minister and Finance Minister. However, we continue to hold the view that the BOJ/MOF would only come in at 155.00 – 160.00. We see that it would be futile for the BOJ/MOF to come in at the lower level of 150.00 amid the strong USD momentum and that the higher range would be a better use of the limited opportunities they have to intervene. USDJPY at 155.00 and beyond may also start to frighten the government and hence, they would come in at that point.

- **Latest External Balance Outlook:** Jul BOP CA balance surplus widened to 2.8tn yen (Jun. 1.5tn yen). However, the Aug trade balance deficit further widened to 930.5bn yen (Jul. 78.7bn yen) as imports fell less than expected. Exports did not decline as much at -0.8% with auto exports holding firmly well. We continue to keep a close eye on the trade and CA balance especially in light of the weaker JPY and the risk of higher commodity prices. For now, the external position still looks manageable given the CA is in surplus since February. Support from tourism numbers should sustain for the rest of this year with the reopening boost still in effect.

- **Key domestic events and issues to watch:** Sept monetary base (3 Oct), Aug labor cash earnings (6 Oct), Aug household spending (6 Oct), Aug (P) leading/coincident index (6 Oct), Aug BoP CA balance (10 Oct), Sept eco watchers survey (10 Oct), Sept (P) machine tool orders (11 Oct), Sept PPI (12 Oct), Aug core machine orders (12 Oct), Sept bank lending (12 Oct), Sept money stock (13 Oct), Aug capacity utilization (16 Oct), Sept nationwide/Tokyo dept sales (16 – 23 Oct), Sept trade data (19 Oct), Sept CPI (20 Oct), Oct (P) Jibun Bank PMIs (24 Oct), Sept PPI services (26 Oct), Oct Tokyo CPI (27 Oct), Sept jobs data (31 Oct), Sept retail sales (31 Oct), Sep (P) IP (31 Oct), Sept housing starts (31 Oct), Oct consumer confidence index (31 Oct) and BOJ policy decision (31 Oct).

- **Technical Outlook:** Bullish trend channel is intact and we continue to see further upside. Pair is currently testing the 150.00 resistance level of which we expect that it could break it soon and that should open the way for it next to test the 155.00 mark (a key level where the BOJ/MOF could intervene at). Support is at 148.05 (21-dma) and 145.00.

RMB: Signs of Stabilization Need to be Sustained

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024
USDCNY	**7.25** (7.25)	**7.25** (7.20)	**7.20** (7.15)	**7.20** (7.15)
USDCNH	**7.25** (7.25)	**7.25** (7.20)	**7.20** (7.15)	**7.20** (7.15)

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** We continue to maintain a moderately bullish profile for the CNY towards 7.20. **Our expectations for some signs of economic stabilization came to fruition** and that likely had made defending the 7.37-peak for USDCNY and USDCNH slightly easier for the PBoC. Our assumptions have not changed - (1) that the Fed is at the end of its tightening cycle (or at most one hike away from it), (2) global growth continues to slow gradually (with growth differential between the US and RoW narrowing), (3) recent signs of economic stabilization in China could sustain. Regardless, any hope for growth rebound in 4Q could still be pre-mature and pressures remain upwards for USDCNY, especially given the wide growth, policy divergence between the US and China.

- Even though there were signs of growth stabilization, RMB was by no means strengthening. Fed's shift in dot plot that suggests only 50bps cut in rates next year vs. Jun's projection of 100bps alongside growth upgrades in the US lifted UST yields and USD. As such, the RMB along with other non-USD peers were also under pressure from rate and growth differential. However, it was also clear that PBoC wanted to keep RMB from weakening against the USD. Thus far, RMB has been supported by the PBoC via the daily USDCNY reference rate fixes (persistently 1000-1200pips lower than market estimates), cross-border financing parameter adjustments, a fair extent of jawboning as well as tighter CNH liquidity. **The recent recovery of the RMB was both a reflection of peak pessimism (aided by better data) and the efforts from the authorities to defend the RMB.**
- **Ratio of FX settlement by bank customers to foreign-related FX Receipts was 72.3% in Aug, a** rise of around 8.2ppt from levels recorded in the month prior. **Ratio of FX Sales to foreign-related FX payments was also 3.9ppt higher in Aug at 70.9%** compared to a month ago. This indicates higher conversion of forex receipts in Aug as well as rising forex sales. This could also be due to repeated jawboning efforts by the PBoC who had been scrutinizing bulk FX purchases and speculations against the RMB.
- Flows-wise, China posted a net equity outflow of around USD14889mn based on IIF estimates and USD5120mn of net outflow for bonds. Local bourses remain weighed by concerns on China's recovery prospect as well as China-Western relations. The US imposed limits on US investments in China in the name of national security and that has likely weakened investors' appetite for Chinese assets.
- A rebound in confidence for consumers, businesses and investors could take some time. **The strained relations between US and China would probably hamper that in the medium term.** In the meantime, higher-for-longer narrative could weigh on RMB and more discernible slowdown in the US that could bring back rate cut expectations, as well as signs of sustained growth in China are needed for RMB to strengthen against the USD. **Golden week is upon us and we may be able to see some strength in the RMB based on post National Day Holiday seasonality (which is slightly bullish), especially if China's data turn out favourable.**
- **Growth and Inflation Outlook:** Our economist looks for a growth of 4.6% for 2023. That would be well below the growth target set at the Two Sessions by the NPC. Three key risks were pencilled in by our economist and that is the property spiral which is the negative feedback loop between property sector, financial system and real economy. The second key risk is further deterioration in private investment. The third is the problem with labour market weakness - the youth (age 16-24) refusing to seek employment and the enforcement of salary limitations that could weigh on private consumption.
- China's Aug activity data indicated some stabilization after multiple measures provided to support property market. Industrial production quickened to 4.5%y/y from previous 3.7%. Retail sales also accelerated to 4.6%y/y from 2.5%. FAI ex rural for Jan-Aug slowed to 3.2%y/y from 3.4% (Jan-Jul). Residential property sales for the first eight months fell

-1.5%y/y from a growth of 0.7%. Property investment ytd also declined by a sharper -8.8%y/y from previous -8.5%. WoW property sales data released more recently suggest stronger interest in the property market in the Tier 1 and Tier 2 cities and we could see shallower declines on a year-on-year basis for Sep.

- The first sign of economic stabilization appeared in Aug data as we had flagged as the cut for interest rates of existing mortgage should raise disposable income slightly and reduce mortgage repayment pressure. Easing of criteria to become a first-time home buyer could also support the property sector but the extent of support and whether growth can be sustained is still uncertain due to the broader lack of confidence in the economy.
- **Monetary Policy Forecast:** PBoC held 1Y MLF at 2.50% for Sep and provided CNY591bn yuan via the facility. The 1Y and 5Y loan prime rates were kept unchanged at 3.45% and 4.20% respectively on 20 Sep. The property sector as well as the broader economy had likely benefitted from the Aug directive on SOE banks to cut interest rates on the majority of the nation's CNY38.6trn of existing mortgages. The reductions will only affect loans on first homes. In order to ease the pressure on the NIMs, *interest rates for yuan deposits were also cut across tenors and could be announced as soon as 1 Sep.* By doing so, existing mortgage owners face less interest burden due to the rate cuts and the mortgage repayment is also reportedly reduced because of these actions. When households are less compelled to reduce their debt burden by repayments, we may be able to see more spending on services and goods.
- **Latest Fiscal and External Balance Outlook:** The MOF pledged to prevent and resolve the local government debt risks and strengthen its fiscal discipline. The Finance Ministry will ramp up and implement active fiscal policies and hasten the transfer of payments to localities. In a separate report to the NPC Standing Committee that day, the NDRC urged local government to accelerate issuance and utilization of special bonds. External balance could remain in surplus given weak domestic demand. Imports remained in decline, alongside contractions in exports.
- **Key domestic events and issues to watch:** National Day break [1-6 Oct]; Sep foreign reserves [7 Oct]; Sep credit data [9-15 Oct]; Sep FDI [11-18 Oct]; Sep CPI, PPI [9 Sep]; Sep Trade [13 Oct]; 1Y MLF [16 Oct]; 3Q GDP, Sep IP, retail sales, FAI [18 Oct]; 1Y,5Y LPR [20 Oct]; Sep industrial profits [27 Oct], Oct NBS Mfg, Non-Mfg PMI [31 Oct].
- **Technical Analysis:** USDCNH is last seen within the 7.27-7.37 range. Momentum indicators are not able to provide much directional cues. There could be further consolidation within the range.

SGD: Trade-Weighted Outperformance Likely

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024
USDSGD	1.3650 (1.3500)	1.3650 (1.3400)	1.3550 (1.3250)	1.3450 (1.3150)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** We raise our USDSGD forecasts again this month to reflect a greenback that could remain stronger for a bit longer. This is in line with our broad view for Asian currencies in general as USD strength has been in large part the main driver for Asian currency moves of late. The Fed remains the most likely DM central bank to continue to hike and this should result in US rates being higher for longer and greater persistence in USD strength.

- On a trade-weighted basis, the SGDNEER has appreciated by about 1.67% YTD. In terms of deviation from the mid-point of the policy band, the SGDNEER has remained firm and is currently at 1.70%. The SGD should remain better sheltered than other Asian currencies in an environment of high US yields, given the correlation of SG rates to US rates due to the lack of an interest rate policy. Our assessment is that MAS is likely to stand pat in Oct, and the continued appreciating stance (assumed to be +1.5% p.a.) in the SGDNEER should provide plenty of support for the SGD and result over time in a lower USDSGD.

- On 14 April, MAS stood pat and left policy settings (slope, centre and width) unchanged. This is the first stand pat after a series of five tightening moves that began in October 2021. This decision goes against our expectations for a tightening via a re-centre upwards, given that core inflation remained well above MAS' comfort levels. In our view, this was largely due to MAS' inflation outlook being more sanguine and expectations for growth being more pessimistic than we had expected.

- The trajectory for a lower USDSGD remains intact although it could take a longer time to come to fruition. While MAS stood pat, the current policy stance still implies a +1.5% appreciation in the SGDNEER against its trade-weighted constituents, which will also provide support for the SGD against the USD. Given that Singapore's robust macroeconomic fundamentals such as a persistent current account surplus, strong governing institutions and pro-growth policies remain intact and are fundamentally unchanged, we remain convicted on our positive medium-term view on the SGD.

- The fundamentals for the SGD have not materially changed - robust macro fundamentals in Singapore such as ample fiscal space, current account surpluses, healthy labour market and political stability etc. will continue to impart SGD some "safe-haven" appeal, which is likely to be reflected in SGD resilience in the future. Indeed since 14 Apr, the SGD continues to display signs of resilience against most other currencies on both a bilateral and trade-weighted basis.

- **Risks to our View:** There is a chance that global growth prospects could deteriorate further and that China's anticipated reopening effects do not live up to expectations. In such a scenario, it would be difficult for Singapore as a small country that is highly dependent on trade to escape a recession. We would therefore expect that in such a scenario, the SGD could underperform, and any SGD weakness could be further exacerbated should MAS decide to support growth by easing the current appreciating policy stance via moving to a zero appreciation path. For now this is not our baseline scenario and we do not expect MAS to ease to move to a zero appreciation path in a sudden move and expect easing, if any, to be gradual and measured.

- Our economists ascribe a 20% chance that MAS could ease via a "slight" reduction of the SGDNEER slope in Oct to address a stagnating economy amid falling core inflation. This could affect our view that the SGDNEER will continue to outperform. We think that inflationary pressures still exist, which in combination with upside risks for inflation, should continue to be a major driving factor for the upcoming policy decision.

- **Growth and Inflation Outlook:** On growth, 2Q 2023 final GDP showed that the Singapore economy grew by +0.1% SA QoQ (exp: 0.4%; prev: -0.3%) and by +0.5% YoY (exp: 0.8%; prev: 0.7%), narrowly avoiding a technical recession, but missing the earlier advance estimates. MTI has lowered the growth forecast to 0.5% to 1.5% (prev: 0.5% to 2.5%) in 2023, showing that challenging headwinds lie ahead for Singapore, especially as China languishes. Our economists maintain their full-year GDP growth forecast at +0.8% YoY, which is at the lower end of MTI's forecast range. Manufacturing is expected to remain tepid in 2H2023 due to weak external demand and services may remain supported by consumer-facing segments with the tourism recovery.

- On inflation, MAS lowered its forecasts for both core CPI (2.5% to 3.0% YoY; prev: 2.5% to 3.5%) and headline CPI (4.5% to 5.5% YoY; prev: 5.5% to 6.5% YoY). MAS recognized both upside and downside risks exist to inflation and central bank chief Ravi Menon has said that the central bank will not pivot to a growth supportive stance as it remains vigilant of the risks that upside shocks to inflation could cause price pressures to be more persistent than expected, even as the forecasts for inflation are lowered.

- Aug headline CPI inflation printed at 4.0% YoY (exp: 4.0%; prev: 4.1%) while MAS core inflation fell to 3.4% YoY (exp: 3.5%; prev: 3.8%). This print shows that while inflationary pressures are coming off, they still exist and core inflation in particular remains above MAS' comfort zone, given that the historical mean associated with medium term price stability stands at around 2%.

- **Monetary Policy Forecast:** The poorer than expected growth outlook and the balance of risks skewed to easing of inflationary pressures likely influenced MAS' decision to stand pat rather than to tighten further. We note that MAS used "sufficiently tight" to describe the current policy stance in addition to their usual use of the word "appropriate". We think this could be a possible hint to their policy leaning in Oct. **Given the current outlook for growth and inflation, we think it is**

likely that MAS will be biased towards a stand pat in Oct as long as MAS' core inflation is on their projected trajectory.

- This latest decision was in line with the narrative that the Fed and other central banks around the world are coming to an end of the tightening cycle. Should global inflation trends indeed show a significant deceleration in core inflation prices, we then think that the case for MAS standing pat in Oct should further strengthen. Upside risks to inflation look to be under control and core inflation has come off in line with MAS' expectations going into next month's meeting.
- **Latest Fiscal Outlook:** Budget 2023 came out in Feb and mainly provided more social support amid rising costs of living and the hike in GST. A deficit is still expected albeit at a relatively low level of 0.1% of GDP or SGD0.4bn.
- A large SGD3bn top-up was done for the GST Assurance Package (AP) to SGD9.6bn. This is in light of the likelihood that a 2% GST hike would raise about SGD3.5bn annually. Cash payouts of various sorts were adjusted or introduced including an increase in the cash component of the AP by between SGD300 and SGD650, CVC vouchers to be raised SGD100 to SGD300 in 2024, etc. The permanent GST voucher (GSTV) scheme for eligible Singaporeans was also raised, which brings total spending for this to SGD1.7bn from 2024 onwards. In addition to all this, the Enterprise Financing Scheme, which include the 70% government risk-share for trade loans and support for domestic construction projects via project loans, will be extended for another year until end March 2024.
- On 28 Sep 2023, DPM Lawrence Wong announced an increase to the cost-of living support package for Singaporeans. This builds on measures announced at Budget 2023 and includes a roughly S$800m increase to the previously announced AP. The motivation behind this was to further cushion the impact of the increased cost of living. Overall, the total additional amount of S$1.1b remains within the fiscal budget.
- On the revenue side, Singapore is looking to implement the Pillar 2-global minimum tax from 2025, via introduction of a Domestic Top-Up Tax, which will top up the MNE groups' effective tax rate in Singapore to 15%. This part of a broader international movement by other countries including the EU, UK and Switzerland to implement Pillar 2 in phrases starting from 2024.
- The FY2022 deficit meanwhile was smaller than projected at 0.3% of GDP or SGD2bn (vs initial projections of 0.5% of GDP or SGD3bn). Draw on reserves was also lower than initial estimations at SGD3.1bn (vs expectations of SGD6bn). The overall drawdown from past reserves from FY2020 to FY2022 totaled SGD40bn, much less than the initial SGD52bn sought by the government for the President's agreement. As a whole, there was little to note for the SGD from the FY2023 budget, given that Singapore's overall fiscal health remains sound and it does not need to borrow to spend.
- **External Balance Outlook:** NODX recorded an 11th straight mine of decline in Aug, falling -20.1% YoY (exp: -17.1%; prev: -20.3%).

Electronics exports improved, but still contracted -21.1% YoY (prev: -26.0%). Trade data remains reflective of the moderation in global demand and the challenging headwinds ahead for Singapore. Our economists maintained the 2023 NODX forecast at -12% to -9% (prev: -9% to -6%; Jan to Jul: -15.6%). Our economists expect that the NODX decline should narrow significantly or even revert to modestly positive growth in 4Q2023 as base effects turn favourable. Singapore's Current Account balance for 2Q2023 is at 18.11% of GDP (1Q2023: 18.49%). Singapore's current account has remained in a structural surplus and short term (quarterly) fluctuations are not expected to have a material impact on the SGD.

- **Key domestic events and issues to watch in Oct:** Sep Purchasing Managers Index, Sep Electronics Sector Index (3 Oct), S&P Global SG PMI (4 Oct), Aug Retail Sales (5 Oct), Sep Foreign Reserves (5 Oct to 9 Oct), **3Q Advance GDP, MAS Oct Policy Statement (no later than 13 Oct)**, Sep NODX/Electronics Exports (17 Oct), Sep CPI Inflation (23 Oct), Sep Industrial Production (26 Oct), Sep Unemployment Rate (26 to 27 Oct), 3Q Final URA Private Home Prices (27 Oct) and Sep Money Supply (31 Oct).

- **Technical Outlook:** USDSGD trades at 1.3697 levels with upward momentum tapering and looking stable. Stochastics flags overbought conditions, with RSI just below overbought levels. Resistances for the pair are at 1.3762 and 1.3934 (fibo), while supports are at 1.36 (psychological) and 1.3545 (50 dma).

MYR: Pricing in an Extended "Higher for Longer" Phase

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024
USDMYR	4.65 (4.60)	4.65 (4.55)	4.55 (4.45)	4.45 (4.35)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** We revise slightly higher our MYR forecasts to reflect recent Fed's hawkish signal of a possible extended higher for longer phase even as the China recovery remains in the background. Global and China growth concerns has weighed down regional currencies including MYR in Sep and RoW growth is likely to remain soft towards year end thus likely to weigh on the MYR. US-MY yield differentials also remain positive (since Jul/Aug 2023) with the OPR pause at 3.0% into next year suggesting the yield differential will continue to weigh on the MYR. Our house view of Fed cuts to start in 2H 2024 and 10 year yields to remain elevated by end of 1Q 2024 suggests that the USD softness may emerge in 2Q 2024 amid the possibility of rising speculation of Fed cuts coming in earlier in the latter part of 1H 2024.

- The MYR impact from the upward momentum in global commodity prices (i.e. crude oil & palm oil) has been limited, as USD resilience remains a key driver now. These prices have risen in part due to supply side factors even as growth is slowing globally, with estimates that crude demand is running at a record clip just as OPEC+ cuts back production. West Texas Intermediate and Brent has held above $90/bbl in Sep.

- **Growth and Inflation Outlook**: Jul saw rebounds in Industrial Production Index (IPI – Jul 2023: +0.7% YoY; Jun 2023: -2.2% YoY) and Crude Palm Oil (CPO) output (Jul 2023: +2.3% YoY; Jun 2023: -6.3% YoY) as well as firmer Distribution Trade Index growth (DTI – Jul 2023: +5.4% YoY; Jun 2023: +3.1% YoY).

- Based on IPI, DTI and CPO which constitute 52.5% of GDP, our monthly GDP tracker estimated that the economy grew +2.4% YoY in July 2023, the same pace as in July 2023, and indicating continued low-single digit real GDP growth in current quarter (2Q 2023: +2.9% YoY), partly due to the base effect given the +14.1% YoY growth surge in 3Q 2022 that was spurred by full-economic opening. Our full-year real GDP growth forecast is +4.0% (1H 2023: +4.2%; 2022: +8.7%).

- Headline inflation rate steady at +2.0% YoY in Aug 2023 (Jul 2023: +2.0% YoY; 8M2023: +2.9% YoY; 2022: +3.3% YoY) supported by easing in Restaurants & Hotels (Aug 2023: +4.7% YoY; Jul 2023: +5.0% YoY), Furnishings, Household Equipment & Routine Household Maintenance (Aug 2023: +1.7% YoY; Jul 2023: +1.9% YoY) and Food & Non-Alcoholic Beverages (FNAB - Aug 2023: +4.1% YoY; Jul 2023: +4.4% YoY) while non-food inflation rose to 1.0% YoY (Jul 2023: +0.8% YoY). MoM, headline CPI rose +0.2% (Jul 2023: +0.1% YoY).

- Headline inflation rate ex-fuel prices slowed to +2.4% YoY (Jul 2023: +2.5% YoY; 8M2023: +3.3% YoY; 2022: +3.2%). Core inflation continued to trend downwards to +2.5% YoY (Jul 2023: +2.8% YoY; 8M2023: +3.4% YoY; 2022: +3.0% YoY). Services inflation also eased further (Aug 2023: +2.7% YoY; Jul 2023: +2.9% YoY) amid dissipating post-pandemic pent-up discretionary spending from economic opening e.g. restaurants & hotels; recreation services & culture; furniture, household equipment & routine household maintenance.

- Keep our 2023 inflation forecast at +3.0%. We expect monthly inflation rate to stay sub-3% YoY for the rest of the year, mainly on base effect. However, inflation risk remains biased to the upside amid the fluid policy on price subsidies and controls. The Government has implemented targeted subsidies, beginning with electricity at the start of this year whereby subsidy is given only to domestic (household) and low-voltage users vs non-domestic (industrial, commercial) and medium/high voltage users. This was followed by the exclusion of very high-income households from electricity subsidies at the start of 2H2023 i.e. those with monthly electricity consumption excess of 1,500kWh. Next is the implementation of targeted fuel subsidy in 2024 that will also end the "benefits" to the high-income households.

- At the same time, we are mindful of El-Nino-related food inflation risks, especially with the upward pressures in rice prices in recent months (Aug 2023: +3.0% YoY; Jul 2023: +2.4% YoY – see Fig 9). This is attributed to global shortage in rice supply following adverse weather conditions due to El-Nino and major rice producers like India banning rice exports.

- **Monetary Policy Forecast:** Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) at 3.00% at its 6-7 Sep 2023 Monetary Policy Committee (MPC) meeting. This is the second consecutive MPC meeting of "OPR pause".

- BNM's latest Monetary Policy Statement (MPS) indicates that while global economy continues to expand, global growth outlook remained subjected to downside risks and weighed down by persistently elevated core inflation, high interest rates, subdued global trade amid E&E downcycle, and slower-than-expected growth in China.

- The above impacted domestic economic growth which moderated in 2Q 2023 due to decline in commodity output and weaker external demand, and this is corroborated by high frequency economic indicators such as manufacturing purchasing managers index and external trade. But for the rest of this year and into 2024, BNM is of the view that the Malaysian economy will be supported by resilient domestic demand as favourable labour market conditions – especially in the domestic-oriented sectors – underpins consumer spending, coupled with rebounds in tourist arrivals and thus tourism-related activities. In addition, progress in multi-year infrastructure projects plus implementation of catalytic initiatives and projects under the recently announced national master plans (e.g. MADANI Economy; National Energy Transition Roadmap; National Industrial Master Plan 2030) will support investment activity.

- Domestic inflation is slowing i.e. sub-3% YoY headline inflation rate since May 2023, mainly on base effect, though remained elevated year-todate (July 2023: +2.0% YoY; June: 2023: +2.4% YoY; 7M2023: +3.0% YoY; 2022: +3.3%). Core inflation has also dipped below 3% YoY but is "stickier" as it runs faster than headline inflation and higher year-to-date vs last year (July 2023: +2.8% YoY; June 2023: +3.1% YoY; 7M2023: +3.5% YoY; 2022: +3.0%) amid easing but lingering cost pressures. We noted BNM's MPS remains ambiguous about inflation risk vs "tilted to the upside" remark in pre-July 2023 MPC MPSs as it continues to highlight that inflation outlook is highly subjected to changes in domestic policy on subsidies and price controls, global commodity prices and financial market developments, plus the degree of core inflation persistence as another lookout for inflation. But overall, BNM expects inflation to be moderate in 2H 2023.

- Expect OPR to remain at 3.00% for the rest of 2023. The key changes in BNM's latest MPS are the removals of 1) the reference on current OPR level of 3.00% as being "slightly accommodative", and 2) the remarks on "risk of future financial imbalances". We take these "omissions" to primarily to reflect the emergence of positive real OPR – implying BNM monetary policy stance is no longer "slightly accommodative" when real interest rate factor is taken into account, which also removes the "risk of future financial imbalances".

- Meanwhile, given the current context of volatile Ringgit amid the fluid outlook on US Fed's interest rate policy, the return of positive real interest rate adds to BNM's recent statement (by the Financial Market

Committee or FMC on 27 June 2023) on Ringgit and market intervention in stabilising Ringgit against excessive volatility and movements.

- Taken together with the above views and outlook on growth and inflation, OPR is expected to remain at 3.00% for the rest of the year. To note, the 2-year forward rate of OPR implied from the IRS curve of 3.05% indicates market is pricing in - and signaling expectations of - no change in OPR over the medium term. There will be one more MPC meeting before the year is over i.e. on 1-2 Nov 2023.

- **Fiscal Outlook:** To recap, MADANI Economy targets budget deficit to GDP ratio of 3% or less over the next 10 years. MoF SecGen reiterated this year's budget deficit forecast of 5% of GDP and the targets of 4.1% in 2024 and 3.2% in 2025 based on the Medium-Term Fiscal Framework as per the retabled Budget 2023 (27 Feb 2023) i.e. no slowing in fiscal consolidation next few years. The "3% or less over the next 10 year" target reflects a desired level for sustainable budget deficit, thus government debt and debt servicing, plus the government still need to spend and invest, especially in relation to "raising the floor" for the people e.g. universal access to public infrastructure and services (transport, education, healthcare); social protections. Meanwhile, "goodies" announced during the launch of MADANI Economy (e.g. MYR300 to 1.3m civil servants and MYR200 to 1m pensioners; MYR100 e-wallet credit to 10m people in the B40-M40 category) are funded mainly by savings from cancelling and/or tendering projects previously awarded under direct negotiations. MoF SecGen also touched on Fiscal Responsibility Act (FRA) to be tabled by year-end. Among others – and in line with other countries' FRAs – there will be fiscal charter that set goals on fiscal deficit, debt level and servicing, as well as government guarantees and committed liabilities, and MoF is answerable to the Parliament for deviations from the goals.

- **External Balance Outlook:** Aug 2023 saw bigger drops in exports and imports of -18.6% YoY (Jul 2023: -13.0% YoY) and -21.2% YoY (Jul 2023: -16.1% YoY) but trade surplus was steady (Aug 2023: +RM17.3b; Jul 2023: +RM17.4b). July-Aug 2023 exports and imports fell -15.9% YoY (2Q 2023: -11.1% YoY) and -18.7% YoY (2Q 2023: -11.5% YoY) but trade surplus rose +4.6% YoY to +MYR34.7b (2Q 2023: -9.2% YoY to +MYR53.4b), suggesting net external demand may well be less of a drag to 3Q 2023 GDP.

- **Key domestic events and issues to watch:** S&P Global PMI MFG (2 Oct), Sep Foreign reserves (6 and 20 Oct), Aug Manufacturing sales, Aug IP (12 Oct), Sep Trade data (19 Oct) and Sep CPI (20 Oct).

- **Technical Outlook**: Pair was last seen at around 4.71. The pair has been testing the resistance thereabouts and price action looks set to continue towards the 2022 high of 4.7480 which is the next key resistance. Support is seen around 4.6830.

IDR: Greenback Strength, Higher Yields Unfavorable

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024
USDIDR	15,500 (15,000)	15,500 (15,000)	15,200 (14,700)	14,800 (--)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** We have adjusted our USDIDR forecast upwards as we expect that the pair should remain consistently elevated in the next six months before a move downwards from 2Q 2024. Two factors are likely to keep the pair consistently high in the next two quarters which are 1) US economic outperformance together with another November Fed hike guiding the USD stronger and 2) political uncertainty arising from the upcoming Feb 2024 presidential elections (14 Feb 2024 elections (2nd round: 2-26 Jun 2024) and 20 Oct 2024 swearing-in). The presidential contest could be protracted if the results are close. This should keep foreign investors at bay and limit inflows into IGBs, leading to the risk of IDR weakness. However, we expect that a Fed cut should become clearer in 2Q 2024, which in turn would start guiding the pair lower in that same quarter before the materialization of such a development from 3Q 2024 onwards would further lead the USDIDR downwards. The possibility of BI also preempting the Fed with a rate cut could give the IDR more support around the 2Q 2024 period given it would make the IGBs more attractive to foreign investors. However, we would also like to note that our own forecasts are reflecting some limitation in the extent of IDR strengthening in the next year given the shift of the country's trade balance to a negative deficit.

- **Growth and Inflation Outlook:** 2Q GDP accelerated to the fastest pace in three quarters at 5.17% YoY (est. 5.00% YoY and 1Q. 5.03% YoY) on the back of stronger domestic consumption and investment, which in turn offset lower net exports. The latter was due mainly to lower prices for many of Indonesia's key commodity exports that include palm oil and coal. There was also notably broad-based improvement across most of the sectors. Going forward, our economists continue to maintain that growth should come out at 5% for 2023 as steady domestic demand cushions the softer demand from China and other external markets. Regardless, even so domestic demand would also ebb, which could be reflected in the already slowing credit growth.

- Sep headline inflation fell to the lowest since Feb 2022 at 2.3% YoY (Aug. 3.3% YoY). Core inflation cooled further to 2.0% YoY (Aug. 2.2% YoY). Food, beverage & tobacco inflation climbed to 4.2% YoY, the highest since May due to higher rice (resulting from the El Nino effect) and cigarettes prices. Fuel prices were also higher as global prices climbed. However, most categories moderated guiding the overall numbers downwards. Our in-house economists continue to maintain the 2023 inflation forecast at 3.7%. Transport inflation should remain benign, as favorable base effects from last year's subsidized fuel price hike dominate. Food inflation will likely climb further in the fourth quarter, as base effects dominate, rice prices remain elevated and El Nino affects agricultural supply. All in, headline inflation may not have much further to fall, or could pick up slightly from current rates. They see 2024 inflation at 3.00%.

- Retail sales in August hit a three-month low at 1.3%. On a monthly basis, it inched up +0.5% MoM although it did heavily plunge last month by -8.8% MoM (which can however be attributed to the end of the June school holidays). Aug Consumer confidence meanwhile ticked up slightly to 125.2 (Jul. 123.5). The numbers as a whole reflect demand easing from last year's levels although they still look robust enough to continue to keep supporting the economy.

- **Monetary Policy Forecast:** BI again held rates at 5.75% as expected at their Sep meeting as they continued to try to ensure IDR stability. The move comes even as Governor Perry Warjiyo actually expects the Fed to hike another 25bps in Nov. He also stated that BI's own rate pause is in line with trying to keep inflation contained within the target range of 2.00% - 4.00% against climbing food, energy costs and currency instability. Our in-house economists do not expect any rate moves for the rest of 2023 especially in light of the risk of another Fed hike. However, they see the possibility of a first rate cut in in 1H 2023, which could essentially be preempting a potential Fed cut in 3Q 2024. Overall, they expect a total of 75bps of cuts in 2024.

- So far, the SRBI instrument seems to have been reasonably well received with was oversubscribed by a factor of 4.2 times the auction target at the first auction on 15 Sep (Rp 29.9tn vs. Rp 7tn) and by 3.1 times at second auction on 20 Sep (Rp 15.6tn vs. Rp 5tn). SRBI have three main objectives 1) strengthening efforts to deepen the money market, 2) supporting efforts to attract inflows of foreign capital in the form of portfolio investments and 3) optimizing the government securities (SBN) assets held by BI. SRBI should overall allow for a more efficient transmission of monetary policy. We continue to watch how the operations of this new instrument pans out.

- **Latest Fiscal Outlook:** The budget 2024 deficit target has been set at 2.3% of GDP on the assumption of 5.2% GDP growth and inflation forecasted at 2.8% in 2024. The government will be raising expenditure by 6%. They highlighted importance on food and energy security as they earmarked Rp108.8tn to maintain stable prices, increase farm output and develop the government's ongoing food estate program. This comes in the face of adverse weather conditions such as El Nino and rising global food protectionism that could lead to upside risks to inflation. They have also set aside 12.8% of the budget for infrastructure. Rp52tn would also allocated to increases civil services salaries and raise government pensions which could be seen as a measure to boost domestic consumption and support the economy. The overall deficit target itself is not dissimilar to the 2.28% set in 2023 and it is near the pre-pandemic levels. The IDR has been favored among the high yielders given the government's disciplined fiscal approach and the trade surplus. However, the shrinking trade surplus and the current account turning into deficit (talked about in the next section) could risk unravelling this favorability.

- **Latest External Balance Outlook:** The country resiliently maintained a trade surplus in Jul as there was an increase in trade surplus to $3.1bn (est. $1.5bn and Jul. $1.3bn). Exports fell by -21.2% YoY though imports also declined heavily by -14.8% YoY. Lower commodity prices contributed to the export fall although volumes were actually generally stable compared to a year ago. Declining capital goods and raw material shipments drove the imports fall. The 3Q trade surplus is likely to be modest overall amid global softness and expectation is for the current account to remain in deficit in 3Q. The country is still likely to maintain a trade surplus for the rest of this year. However, we note the risk of the surplus shrinking and the CA deficit widening overtime, which all in turn weighs on the currency.

- Foreign reserves shrunk at $137.10bn (Jul. $137.7bn) in August. The decline came on top of the IDR coming under greater pressure from the greenback strength. The downtrend could persist in September given the continued pressure the currency is facing. Overall, the foreign reserves levels are still not of concern yet given that it stands at 6.2 months of imports (internationally adequacy standard is 3 months).

- Indonesia experienced net outflows month to date as of 25 Sep 2023 of -$0.83bn. It is likely that September is going to mark another month of outflows as concerns of the Fed staying “higher for longer” keeps hurting foreign sentiment towards government bonds. We expect there could still be substantial outflows for Oct building up to the Fed decision on 1st Nov where we see the likelihood of another 25bps hike. Following the Fed decision, the level of outflows could ease. Substantial inflows into IGBs though could take time to come back and possibly may not happen until 2Q 2024 next year when a Fed cut becomes clearer in sight. Additionally, BI could also potentially pre-empt the Fed with a cut around that time and political uncertainties related to the Indonesian Presidential election would also have dissipated. Until then though, there is much of a disincentive for foreign investors to buy into Indo GBs given the high funding costs and the interim anxieties of the Fed’s rate path. Overall, this unfavorable bond flows situation would a major factor that would keep the currency at weak levels until end 1Q 2024.

- Meanwhile, there continues to be equity outflows month to date as of 26 Sep 2023 at -$0.2bn. This was much lower compared to last month but still reflected cautious sentiment towards EM equity markets amid concerns related to Fed rates being “higher for longer”. Equity markets globally elsewhere have also been affected by this matter. We see that outflows could continue into October building up to the Fed decision on 1 Nov (where we expect a hike) although it could ease somewhat in November.

- FDI for 2Q 2023 was at $4.9bn (1Q 2023. $5.1bn) and was roughly at similar levels as the same time last year, being only -1.1% less. We stay wary that FDI could slow in the coming months building up to the general elections in Feb 2024 and investors adopt a wait-and-see approach. The risk of lower inflows from this angle also supports our thesis that the IDR could remain at weak levels for the 6-9 month horizon.

- **Key domestic events and issues to watch:** Sept foreign reserves (6 Oct), Sep consumer confidence index (9 Oct), Sept local auto sales (15 - 21 Oct), Sep trade data (16 Oct) and BI policy decision (19 Oct).

- **Technical Outlook:** Bullish trend channel since June remains intact and we continue to see further upside. Resistance at 15,600 with the next at 15763 (2022 high). Support is at 15367 (21-dma) and 15172 (200-dma).

PHP: Potential Off Cycle Hike to Limit Weakness

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024
USDPHP	57.00	57.00	56.50	55.50
	(56.00)	(55.50)	(54.00)	(--)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** We revise our USDPHP forecast upwards as we now expect that the pair should only decisively start to trend downwards as a later period. We see that the pair should maintain a flattish profile in the next six months as USD strength continues to hold up before signs of an impending Fed cut should lead markets to push the pair lower in 2Q 2024. The materialization of a Fed cut from 3Q 2024 onwards should further guide the USDPHP downwards. However, we expect weakness in the PHP to be limited and so is the extent of its strengthening in the next twelve months. This is simply because the PHP downside is likely to be capped by the hawkishness of the BSP (where further hikes cannot be ruled out amid price pressures) whilst unfavorable factors such as weaker growth, elevated inflation and the twin deficit condition should also limit PHP upside.

- **Growth and Inflation Outlook:** 2Q GDP growth fell off substantially and well below expectations at 4.3% YoY (est. 6.0% YoY and 1Q. 6.4% YoY), which was due to easing domestic demand growth. It appears that the elevated levels of interest rates is started to weigh on the domestic demand, which had been a scenario that we feared playing out. A business outlook survey by the BSP itself showed that a higher number of respondents now cite that business is constrained by higher rates. The high interest rates could keep weighing on domestic demand going into the second half of 2023. Net external demand meanwhile did improve on top of a pick-up in exports whilst imports stagnated. However, the global economic environment could see more slowdown amid higher Fed rates, which could hurt the external sector and weigh on growth. Our in-house economists are consequently revising the entire year forecast down to 5.2% from 5.5% in 2023.

- High frequency indicators such as the S&P Global Mfg PMI released in August was weaker at 49.7 (Jul. 51.9). This was in line with the downward trend observed with mfg PMI since around the start of this year. With a weakening in the global goods trade environment, we are inclined to believe that this downward trend would keep persisting and weigh on the economy.

- Headline inflation surprisingly picked up pace again in Aug at 5.3% YoY (est. 4.7% YoY and Jul. 4.7% YoY). The increase was driven by higher food prices as a result of the El Nino condition. Rice prices rose a staggering 8.7% YoY whilst vegetable inflation was at 31.9% YoY. The effects of El Nino is likely to impact prices for a while but this is not the only upside risk for inflation. Surging fuel prices amid supply tightness are also looking to raise transport costs. Meanwhile, the proposed PHP150 daily minimum wage could also put further upside pressure on inflation. Consequently, our in-house economists have raised their 2023 headline inflation forecast to 6.0% from 5.5% previously. Such higher price pressures going is now raising the likelihood of another BSP hike and we are not going to rule out that occurrence.

- **Monetary Policy Forecast:** BSP held rates at 6.25% at their Sepmeeting as expected even amid the reacceleration in inflation for August. The central bank did revise its inflation forecast upwards in 2023 and 2024 to 5.8% (prior. 5.6% YoY) and 3.5% (prior. 3.3% YoY). However, they still think that inflation will gradually return to its target range by 4Q 2023. The BSP in its monetary policy statement (MPS) is also cautious on the economy amid dissipating post-pandemic re-opening pent-up demand with the weaker than expected 2Q GDP growth. Overall, the central bank is facing a tricky situation of upside price pressure risks whilst the economy looks to be increasingly weighed down by higher interest rates. Our in-house economists see that the BSP is likely to keep rates on hold for the rest of 2023 whilst they also trimmed their expectations of the size of rate cuts in 2024 to -100bps (prior. -200bps). Even so, we are not ruling out the possibility of further rate hikes this year to reduce inflationary pressures and support the PHP. Governor Eli Remolona is after all sounding very hawkish as he is now saying that he is open to an unscheduled interest-rate hike before the November meeting. The Governor also ruled out the possibility of cuts in the 1H 2024. Remolona at one point had even talked about multiple rate hikes down the road. PHP weakness could be limited by BSP additional hikes which should help keep the USDPHP around the 57.00 level.

- **Latest Fiscal Outlook:** Aug budget balance deficit widened to –PHP133.0bn (Jul. –PHP47.8bn) as revenue shrank by -6.58% YoY whilst spending rose by 9.66% YoY. From Jan – Aug, the budget was in deficit at PHP732.5bn, which is lower compared to the same period last year at PHP833.0bn (though that was a period when the economy was just barely emerging out of the pandemic). Fiscal pressures are likely to keep persisting amid high budget spending, which in turn would be a factor that weighs on the PHP and limit its strength going forward.

- **External Balance Outlook:** Jul trade balance stayed in deficit as it widened to -$4.2bn (Aug. -$3.9bn). Even though imports plunged by more than expected at -15.3% YoY (est. -12.0% YoY and Jun. -15.2% YoY), exports surprisingly declining at -1.2% YoY (est. 3.0% YoY and Jun. 0.8% YoY). Lower commodity prices likely led to the big decline although a softening global economy could be weighing on exports. Our in-house economists exports and imports to shrink in 2023 amid a subdued external trade environment. They see the full year 2023 trade deficit should come out at -$54.0bn.

- July OFWR growth picked up to 2.6% YoY (Jun. 2.1% YoY) to $2.99bn, which was the highest level for the year. The Department of Migrant Workers expects that 2023 OFW deployment should surpass pre-pandemic levels whilst at the same time, our in-house economists see that OFWR should grow by 3.0% YoY in 2023 to hit $33.5bn. Even if there maybe a risk of a slowdown in the global economy, our in-house economists continue to believe that repatriation should still hold up as OFWR has proven to be resilience in the last two global downturns when OFW sustained their remittance to support their families during tough economic periods.

- Bonds saw foreign net outflow of -$0.35bn for the month of August. The outflow looks to have been driven by concerns of a “higher for longer” Fed rates, leading to investors pulling out of EM bonds. We expect outflows to persist into September and also into October, building up to the Fed Nov decision, where we expect a 25bps hike. Subsequently, outflows should ease in period after that as the Fed engages in a hold. Stronger positioning into Philippines bonds may not occur until a Fed cut look clearer in sight which could be in 2Q 2024.

- Meanwhile, equities saw a heavy net outflow of -$0.56bn as of 26 Sept 2023, which was a reflection of the weakness in the global equity markets. Going forward, we expect global equity markets to remain subdued in October building up to the Fed November decision, where we expect a hike. This could lead to more net outflows out of Philippines stocks for that month. This should ease in November and December as markets gradually get a grasp that the November Fed hike should be the last of the cycle.

- FX reserves declined in Aug to $99.8bn (Jul. $100.0bn). The slightly fall came amid a strengthening greenback during that period. We expect a further decline in reserves for September given strong upward Dollar momentum during that period. October should also see some fall as we expect the USD to still perform strongly. However, there is a possibility that USD strength in November and December after the Fed November decision which could allow the reserve levels to stabilize. Meanwhile, the BSP has signaled that they have actually been intervening to keep the PHP at below 57.00 against the USD. Remolona himself said, “there are resistance levels, and when those are crossed, you’ll suddenly see trades in the same direction. There’s herding”. He then further added, “there are narratives in the market that are sometimes wrong. That pushes the peso in the wrong direction and that calls for some intervention and some clarification”.

- **Key domestic events and issues to watch**: Aug bank lending (4 Oct), Aug money supply (4 Oct), Sept CPI (5 Oct), Aug unemployment rate (6 Oct), Sept foreign reserves (6 Oct), Aug trade data (10 Oct), Aug OFWR (16 Oct), Sept BOP overall (19 Oct), Sept budget balance (25 Oct), Sept money supply (31 Oct) and Sept bank lending (31 Oct).

- **Technical Outlook**: Clear resistance at 57.00 but we think that it is unlikely to decisively break it. The next level after that would be at 57.90 (Fibo retracement of Jul 2023 low to Sep 2022 high). Support is at 56.50 and 55.51 (200-dma). We expect pair to range trade around 56.00 – 57.00 near term.

THB: Stronger Greenback to Keep Weighing In

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024
USDTHB	**36.50**	**36.50**	**35.00**	**34.00**
	(34.75)	(34.50)	(33.50)	(--)

Previous Forecasts in Parentheses

- **Motivation for the FX View:** We again revise our USDTHB forecast as we expect the pair may only start to trend downwards at a later period than our initial expectations. The pair could maintain a flattish elevated profile in the next two quarters as USD strength holds up on the back of US economic outperformance and the Fed keeping rates at higher levels compared to other central banks. Other idiosyncratic factors such as concerns related to global bond index rebalancing reducing the weightage of Thai bonds looks to also weigh on the THB. However, this weightage reduction and impact are expected to take close to a year. However, we expect a discernible downward move in the pair from 2Q 2024 onwards as speculation emerges of a Fed cut of which it should eventually materialize from 3Q 2024 onwards. We also expect that other improving fundamentals such as the increasing return of tourists, rising equity inflows and improving FDI (due to a business friendly government) should give more support for the THB.

- **Growth and Inflation Outlook:** 2Q GDP growth disappointed at 1.8% YoY (est. 3.0% YoY and 1Q 2.6% YoY) on top of a slump in public consumption and subdued exports growth due to weaknesses in China's economy. Investment also slowed amid the political uncertainty. Despite this, our in-house economists are optimistic that growth can pick up from here. With the new government in place, political uncertainty should dissipate, and government spending and private investment should be pick up. Private consumption should also strengthen as the new government rolls out supportive measures that include cash handouts to the youth, raising the minimum wage and a household income guarantee of 20,000 baht. Regardless, our in-house economists have revised down the 2023 to 3.2% from 3.8% due to the more subdued first half expansion.

- Aug headline CPI picked up to 0.88% YoY (Jul. 0.38%) although it was still at a subdued level. The increase was mainly due to petrol prices being less of a drag on price levels. Regardless, there was actually broad-based declines in inflation across most of the categories, including in food. Impact from El Nino does not seem to have emerged.

Core inflation in fact actually slipped further to 0.79% YoY (Jul. 0.86% YoY). Going forward, our in-house economists see that inflation could stage an uptick next year when the government's spending measures get underway.

- **Monetary Policy Forecast:** The BOT raised rates again by 25bps at their Sep meeting. The decision was unanimous as the BOT cited potential boosts to growth and inflation from "government economic policies". However, they signaled that this is likely to be the last rate hike given as they specifically mentioned that they now see the "current policy interest rates to be appropriate for supporting long-term sustainable growth". However, they did flag "upside risks from government economic policies", which could be seen as caveat. Our in-house economist expect that the BOT should remain on hold for the rest of this year unless the fiscal stimulus turns out to be excessively expansionary, which fuels added inflationary pressures. We also expecting the BOT to stay on hold for the entire 2024. Overall, there is likely to be no further support for the THB from a domestic rates angle.

- Foreign reserves as of 15 Sept was at $214.7bn as it continued to hover around the $215.0bn level give or take. There is a risk that reserves could decline substantially in the second half of September given that the THB has come under heavier pressure during that period. This could also continue into October amid the USD strengthening momentum. However, we believe it could ease after the Fed November decision (our expectations for a hike) as the pressure reduces on the currency.

- **Latest Fiscal Outlook:** The new cabinet has unveiled a FY24 fiscal budget that stood at 3.6% of GDP (up from the prior 3.0% of GDP proposed by previous government). It does though represent a narrowing from FY23 at 3.8% of GDP. The new budget is envisaging higher spending at THB3,480bn (prior. THB3,350bn). Revenue is expected to come out at THB2,787bn (prior. THB2,757bn). The rise in expenditure looks to be reflective of the THB560bn digital wallet policy (expected at 3.0% of GDP). There would also be energy subsidies support where a diesel tax cut by THB2.5/litre would result in forgone revenue. Electricity tariffs are also being lowered to THB4.10/kw from THB4.45/kw for September – December. The increased in deficit has certainly raised concerns about the TGB supply near term and weighed on the THB. However, we think that a substantial amount of this concern has been priced into the currency. Also, the pro-growth nature of the government's policies should gradually attract more foreign inflows in the medium term and give the THB a lift.

- Other policy priorities laid out by the budget included tourism promotion – arrivals from China and Kazakhstan will be exempt from visa requirement from 25 Sept 2023 to 25 Feb 2024 and a debt moratorium – this would cover farmers and SMEs for three years starting 4Q 2023. The former could go somewhere to bring back more tourist inflows into Thailand, improving the external position and giving support to the THB.

- **Latest External Balance Outlook:** Aug trade balance surplus was wider at $1.2bn (Jul. $0.4bn) as imports fell much more than exports. BOP CA balance also flipped to surplus at $0.4bn (Jul. -$0.5bn). At this point, it does not appear that the CA balance can sustainably be in surplus and become a resilient supporting factor for the THB. However, with the return of more tourists especially amid the Thai government drive to promote more arrivals from China, we could gradually see the CA balance hold a surplus more sustainably.

- From a portfolio perspective, the net outflow for bonds eased although it was still substantial at -$0.5bn (Aug. -$1.1bn), month to date as of 26 September 2023. Fiscal concerns and the "higher for longer" Fed narrative weighed on the appetite for Thai bonds. We are expecting outflows from Thai bonds to remain elevated still in the coming months amid a number of negative developments related to global bond indexes rebalancing. As a result of India's impending inclusion into the JPM Government Bond Index-Emerging Markets index, from June 2024, the weight of TGBs in the said index is expected to fall by 1.65% points (or an estimated $3.8bn), arising from rebalancing. Meanwhile, there were no changes made to the FTSE Russel EMGBI in relation to the inclusion of India, which provides some relief for Thai bonds for now.

- On equities, net outflows was heavy month to date as of 27 September at $0.57bn. This compared to prior months that tended to range around $0.2bn to $0.4bn. The large outflow looks to have been driven by weakness in global equity markets, rising rates and a weakening THB have all weighed on local equities. We expect equity outflows to persist building up the Fed's decision in November (where we expect a hike). However, we see that outflows could ease subsequently and turn into inflows amid the possibility of a end of year rally in global equity markets. We also expect that foreign investors would also gradually warm more to the business friendly led Pheu Thai government, spurring more equity inflows.

- **FDI performance would continue to be watched closely in 2023.** FDI for 1Q 2023 was at $2.0bn (4Q 2022. $1.5bn). It is challenging to see if FDI can pick up more strongly this year given Thailand has been facing increasing competition for neighboring peers for FDI with the country manufacturing wages being the second highest in ASEAN after Malaysia. However, we do not rule out FDI picking up into the future given the formation of a more business friendly Pheu Thai led government.

- **Key domestic events and issues to watch**: Aug money supply (4 Oct), Aug money lending (4 Oct), Sept CPI (5 Oct), Aug unemployment rate (6 Oct), Sept foreign reserves (6 Oct), Aug trade data (10 Oct), Aug OFWR (16 Oct), Sept BoP overall (19 Oct), Sep budget balance (25 Oct), Sep money supply (31 Oct) and Sep bank lending (31 Oct).

- **Technical Outlook:** Bullish trend channel since July stays intact and we expect further upside. Resistance is at 37.07 mark (Fibo retracement of 76.4% from Jan 2023 low to Oct 2022 high) and 38.47 (2022 high). Support is at 36.00 (previous resistance) and 35.50.

VND: Pressured by US rates, SBV Supports

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024
USDVND	24,500	24,500	24,200	24,000
	(23,400)	(23,300)	(23,200)	(23,200)

Previous Forecasts in Parenthesis

- **Motivation for the FX View:** The rise of the UST yields and USD strength were more than expected and have spurred the USDVND higher and we calibrated our USDVND forecast accordingly. We are cognizant however, that room for further USD strength at this point could have reduced at this point, especially if the US Congress is unable to keep the US government functioning after 17 Nov and a shutdown dampens growth momentum of the US economy and concomitantly bring down UST yields and the USD. In addition, SBV has started bill issuance in Sep via open market operations in order to soak up excessive VND liquidity at home and to help prop up the VND. Further move up in the USDVND could be more gradual.

- Sep activity data turned out better than expected with growth accelerating to 5.33%y/y from previous 4.14%, albeit still undershooting the official 6.5% growth target. Nonetheless, PM Pham Minh Chinh urged more spending to spur domestic activity. A 6% GDP was the "best case scenario" chosen by the cabinet and focus is on industrial development. Ytd, growth average 4.2% and that would require a 10.6% growth for 4Q in order to reach this target. IMF has urged the use of fiscal stimulus to support growth and the government seems to be following its prescription.

- On the other hand, FDI inflows remains healthy with average pace of around $1.77bn realized FDIs seen for the first nine months this year, cushioning the VND. Realized capital inflow in Sep was sizeable at USD2.8bn. Meanwhile, registered FDI remains mostly steady around USD2.2bn on average per month. While USDVND might seem pretty elevated now and there could even be more risks of upside should US economic resilience continue to surprise us, our base case scenario is still for an eventual slowdown for the US and for most central banks (including the Fed) to end their respective tightening cycles. Potential for a gradual China recovery, release of key electronic products may even generate an export recovery for Vietnam into the 4Q of the year and that is positive for VND. Exports just clocked a year-on-year growth of +4.6%y/y, the first in seven months.

- **Growth and Inflation Outlook:** 3Q GDP came in firmer than expected at 5.3%y/y, picking pace from 4.1% in the quarter prior. Sectoral wise, manufacturing growth was strong, underpinned by the improving exports. Based on an expenditure perspective, GFCF was the main underpinning for growth, supported by the strong FDI and public infrastructure investment. Growth seems to be picking up, boosted by quite a few drivers. Even retail sales seem to hold up in the face of higher borrowing costs and inflation. As such, our economist raised 2023 GDP forecast to 4.8% from +4% seen previously. Growth should strengthen further in the 4Q, supported by a moderate recovery in exports, public infrastructure spending, FDI upswing and tourism rebound.

- Inflation picked up pace in Sep to 3.66%y/y from previous 2.96%. Food/foodstuffs accelerated to 2.87%y/y from previous 2.31% with the food subcomponent registering a 10.49%y/y growth vs. previous 7%. Prices of transport rose 3.20%y/y vs. the previous -0.3%. That said, core inflation eased to 3.8%y/y from the previous 4.02%. Looking forward, the inflation environment seems to be less certain now because of the pick-up in food (El-Nino impact) and energy prices. Our economist also raised inflation forecast to 3.4% from 2.8%.

- **Monetary Policy Forecast:** SBV has started bill issuance In Sep via open market operations in order to soak up excessive VND liquidity at home and to help prop up the VND. The last auction was dated 27 Sep and the SBV issued VND20trn worth of 28-day treasury bills. The total value of bill issuance for Sep thus far is around VND70trn. Further move up in the USDVND could be more gradual. Deputy Governor Pham Than Ha had mentioned (27 Sep) that treasury bills are sold to reduce excessive liquidity in the banking system to stop the VND from weakening further. "The central bank sees more pressure in balancing forex rates and interest rates". Right now, the USDVND spot trades around 1.1% above the daily reference rate set by SBV. The spot is allowed to trade 3% above and below the reference rate.

  With VND a priority for SBV, there is little room for the central bank to cut policy rates in order to support credit growth and domestic demand.Base case is for SBV to stand pat on policy rates.

- **Latest Fiscal and External Balance Outlook:** Current account surplus grew to $19.3mn for 2Q 2023 vs. $6.5mn in 1Q 2023. Trade balance of goods had in surplus with the latest recorded USD2.12bn vs. previous USD3.82bn. Exports growth for Sep rebounded 4.6%y/y from previous -7.6%, the first yoy growth since Feb. Imports grew at a more modest 2.6%y/y vs. previous -8.3%.

- As for fiscal, based on the MOF report, 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. State budget deficit to come in around VND455.5trn which would be 4.42% of GDP. Central budget deficit will amount to VND430.5trn (4.18% of GDP), local budget deficit at VND25trn (0.24% of GDP). That said, the expenditure may still be relatively unchanged as PM Pham has been urging for speedier disbursements of public investment in order to spur growth.

- **Key domestic events and issues to watch:** Oct CPI, Industrial production and Trade are due 25-31 Oct.

FX Forecasts

	End Q4-23	End Q1-24	End Q2-24	End Q3-24	End Q4-24
USD/JPY	150.00	150.00	145.00	140.00	136.00
EUR/USD	1.0550	1.0600	1.0700	1.0800	1.1000
GBP/USD	1.2000	1.2000	1.2100	1.2200	1.2300
AUD/USD	0.6600	0.6600	0.6800	0.6800	0.7000
NZD/USD	0.6000	0.6100	0.6200	0.6300	0.6300
USD/CAD	1.3400	1.3400	1.3200	1.3200	1.3000
USD/SGD	1.3650	1.3650	1.3550	1.3450	1.3400
USD/MYR	4.6500	4.6500	4.5500	4.4500	4.3500
USD/IDR	15500	15500	15200	14800	14600
USD/THB	36.50	36.50	35.00	34.00	33.50
USD/PHP	57.00	57.00	56.50	55.50	54.50
USD/CNY	7.25	7.25	7.20	7.20	7.20
USD/CNH	7.25	7.25	7.20	7.20	7.20
USD/HKD	7.80	7.79	7.78	7.76	7.76
USD/TWD	30.50	30.25	30.00	30.00	29.00
USD/KRW	1350	1350	1330	1300	1280
USD/INR	83.50	83.50	83.00	82.50	82.00
USD/VND	24500	24500	24200	24000	24000
DXY Index	106.29	106.00	104.61	103.33	101.56
	End Q4-23	End Q1-24	End Q2-24	End Q3-24	End Q4-24
SGD/MYR	3.41	3.41	3.36	3.31	3.25
JPY/SGD	0.91	0.91	0.93	0.96	0.99
EUR/SGD	1.44	1.45	1.45	1.45	1.47
GBP/SGD	1.64	1.64	1.64	1.64	1.65
AUD/SGD	0.90	0.90	0.92	0.91	0.94
NZD/SGD	0.82	0.83	0.84	0.85	0.84
CAD/SGD	1.02	1.02	1.03	1.02	1.03
SGD/IDR	11355	11355	11218	11004	10896
SGD/THB	26.74	26.74	25.83	25.28	25.00
SGD/PHP	41.76	41.76	41.70	41.26	40.67
SGD/CNY	5.31	5.31	5.31	5.35	5.37
SGD/HKD	5.71	5.71	5.74	5.77	5.79
SGD/TWD	22.34	22.16	22.14	22.30	21.64
SGD/KRW	989	989	982	967	955
SGD/INR	61.17	61.17	61.25	61.34	61.19
SGD/VND	17949	17949	17860	17844	17910
	End Q4-23	End Q1-24	End Q2-24	End Q3-24	End Q4-24
JPY/MYR	3.10	3.10	3.14	3.18	3.20
EUR/MYR	4.91	4.93	4.87	4.81	4.79
GBP/MYR	5.58	5.58	5.51	5.43	5.35
AUD/MYR	3.07	3.07	3.09	3.03	3.05
NZD/MYR	2.79	2.84	2.82	2.80	2.74
CAD/MYR	3.47	3.47	3.45	3.37	3.35
MYR/IDR	3333	3333	3341	3326	3356
MYR/THB	7.85	7.85	7.69	7.64	7.70
MYR/PHP	12.26	12.26	12.42	12.47	12.53
MYR/CNY	1.56	1.56	1.58	1.62	1.66
MYR/HKD	1.68	1.68	1.71	1.74	1.78
MYR/TWD	6.56	6.51	6.59	6.74	6.67
MYR/KRW	290	290	292	292	294
MYR/INR	17.96	17.96	18.24	18.54	18.85
MYR/VND	5269	5269	5319	5393	5517

Source: Maybank FX Research and Strategy as of 2 Oct 2023.
*These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.

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