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Quarterly Global Outlook 1Q 2025

Implications of Trump 2.0

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GlobalEcoMktResearch@UOBgroup.com

EXECUTIVE SUMMARY

Implications of Trump 2.0

"Things we lose have a way of coming back to us in the end,
if not always in the way we expect."

- Luna Lovegood

Our economic outlook for 2025 will now need to put a heavy dose of consideration for the myriad of policies that Trump has planned for US and their implications for the rest of the world.

The Tariff Man returns and more...

After 4 years of absence, Donald Trump is back in the hot seat as the president of the most powerful nation in the world. And with the Republican clean sweep of the control of the US Senate and House of Representatives, this means it will be easier to implement policies for Trump. Our economic outlook for 2025 will now need to put a heavy dose of consideration for the myriad of policies that Trump has planned for US and their implications for the rest of the world. We admit a lot of the Trump policy measures (announcements, threats and/or projections) are highly speculative and unpredictable at this juncture and will be subject to significant changes once Trump officially comes into office on his 20 Jan (2025) inauguration.

Bottomline, the impact of Trump's various policies are likely to be inflationary with mixed effect on growth.

We broadly highlight a few categories of policy measures Trump campaigned for during the run-up to the Presidential election which, in our view, will have material macro-economic impact to the US and globally, including tax cuts, deregulation, tariffs, immigration (with mass deportation of undocumented migrants & border security), the independence of the US Federal Reserve (Fed), green policy (rollbacks) and foreign policy. Bottom-line, the impact of Trump's various policies are likely to be inflationary with mixed effect on growth.

Trumps' tough immigration policy proposals are another area of concern and may come sooner than fiscal policy issues with the expected negative implications for US GDP growth.

The extension of current tax cuts and introduction of new cuts, coupled with the deregulation drive will likely reignite animal spirits, boost business confidence and investment sentiment for US economy and therefore positive for US growth and productivity, but is likely to add to inflationary pressures and worsen the federal fiscal deficit. That said, fiscal policy issues are likely to take some time and probably be debated in the US Congress only in 2H 2025. Trump's tough immigration policy proposals are another area of concern and may come sooner than fiscal policy issues with the expected negative implications for US GDP growth. The inflationary impact is less clear, as large-scale deportation may lower the workforce numbers and drive demand for the remaining workers and thus lead to higher wages and inflation. But at the same time, the reduced workforce could also lead to lower domestic consumption in the US and create deflationary effects.

On green policies, it is expected that Trump will follow his past actions, such as withdrawing from the Paris Agreement, repealing Inflation Reduction Act which supports clean energy projects and electric vehicles, relaxing environmental regulations and enacting policies that favour conventional fossil fuel extraction. This will potentially see higher US output for crude oil & gas, while missing its carbon neutral pledges. On foreign policy, if Trump does see through his promise to end all wars, then one of the impacts could well be lower prices of commodities (excluding gold) for 2025.

Potential impact of Trump's policies

Impact on each of the indicators	Taxes	Tariff	Immigration	US Fed	Green policy	Foreign policy
Real GDP	+	--	---	+/-	+	+
Inflation	+	+++	+/-	+	-	-
Fed funds	+	+++	--	--	-	-
Other impacts	Worsen fiscal deficit	Subject to retaliation from China & others	Negative for domestic spending	Upside risks to UST yields, capital outflow	Greater output for US oil and gas	Lower commodity prices

Source: UOB Global Economics & Markets Research

+/- mild impact
++/-- moderate impact
+++/--- major impact

Scenarios for Trump's trade tariff 2.0 - Base case: 25% tariff rate on China, 10% tariff on selected countries that benefited from China's trade diversion, no blanket tariffs.
Here comes the tariff man (again). To be fair, the Biden administration did not shy away from tariffs as they kept the tariffs imposed during the first Trump administration and added a few targeted tariffs of their own.

The stark difference is perhaps Trump's sensational way of delivering news/threats of trade tariffs. Trump brandished his tariff man credentials again on 26 Nov when he pledged to impose 25% tariff on all imports from Canada and Mexico, and 10% tariffs (on top of additional tariffs) on all imports from China in an executive order on his first day in office (20 Jan) for drugs (fentanyl) and border security issues.

Using Section 232 or the International Emergency Powers Act (signed into law in 1977), Trump can exercise executive power to impose these tariffs on the basis of an "unusual and extraordinary threat" to national security, foreign policy or the US economy. And he did use this power and threatened countries (including Mexico) during his first term in office. But equally important, he never invoked that power to enact tariffs once countries acceded to his terms.

So what can we expect on US trade policy in 2025? The short answer is more tariffs and frictions.

So what can we expect on US trade policy in 2025? The short answer is more tariffs and frictions. That said, it is difficult to say at this point what tariffs will be enacted, to whom, and what will the amount be. The reason is that Trump has floated various tariff proposals since he officially started his bid for the White House in Sep 2023, from baseline 10%-20% tariff rates on all imports, and as much as 60% on imports from China, to 25% or even as much as 100% on Mexican-made goods, to 100% tariffs on countries that want to shift away from using US dollar. Trump has named credible nominees for his economic team (US Treasury secretary, NEC director), which now included Jamieson Greer for the US Trade Representative (as of 27 Nov, subject to Senate confirmation). Greer previously served as the chief of staff for Robert Lighthizer, who was Trump's Trade Representative for the full 4-year term and oversaw the imposition of billions in tariffs. Long seen as a protégé of Lighthizer, Greer will be tasked with "reining in the Country's massive Trade Deficit, defending American Manufacturing, Agriculture, and Services, and opening up Export Markets everywhere." We also believe that Trump will use tariff threats as a bargaining chip or negotiation ploy to eventually gain concessions from China and key trade partners, rather than being laid out as an immediate policy action.

Regarding Trump's tariff implementation, we foresee three scenarios based on the tariff proposals touted so far, and our estimated implementation timelines. These will have their respective impact on the macroeconomic outlook for the US, China and the world's economy and translate into different outlook for the FX and Interest Rates spaces.

Trump 2.0

Scenarios for tariff in 2025

Scenarios	Optimistic	Base case	Pessimistic
Probability	5%	55%	40%
Trump 1.0 trade tariff	▪ Imposed additional tariffs of up to 25% on about US$370 bn of Chinese imports in 2018-19		
Trump 2.0 proposed tariff policies	▪ Baseline 10%-20% tariffs on all imports, and as much as 60% on imports from China ▪ 25% or even 100% on Mexican-made goods and 200% or 500% on autos imports from Mexico ▪ 100% tariffs on countries that want to shift away from using US dollar ▪ 25% "anti-drug" tariff on all imports from Mexico & Canada, 10% "anti-drug" tariff (additional) on all imports from China ▪ Trade diversion from China to ASEAN to bypass tariffs could be pursued by Trump, although details are lacking at this stage		
Tariff measures that may be implemented under different scenarios	10% "anti-drug" tariff on all imports from China scrapped if China commits to significantly increase fixed amount of purchases from the US and to clamp down on drugs. Prospect of targeted tariff increases on strategic industries in China which affect a smaller amount of US imports	Additional tariffs imposed on China (25% instead of 60% after investigation) and 10% tariffs on economies that increased in trade surplus with US due to trade diversion from China. Tightened measures related to technology transfer and on high tech industries in China. No blanket tariff (of 10%) imposed on all imports. Assume China retaliates by imposing similar tariffs on US goods but limited retaliatory responses from other economies.	"Anti-drug" tariff - 10% on all imports from China and 25% on all imports from Mexico & Canada. 200% tariff on auto imports from Mexico. Subsequently, 10-20% tariffs on all imports, and 60% on China imports. Higher tariffs (20%) on imports from economies (including ASEAN) deemed to have benefitted via trade diversion from China.Tightened measures related to technology transfer & on high tech industries to China. Assumes tit-for-tat (retaliatory) responses from China and other affected economies.
Tariff implementation timeline	As early as 2Q25	Staggered implementation from 2Q25. Likely to start with List 4b (mostly consumer goods). Investigations could take 6 months to 1 year. Full implementation by 1H26.	To begin "anti-drug" 10% tariff on all imports from China as early as Jan 2025, further tariffs in 2Q25 on half of Chinese goods including List 4b and 4a. Intermediate and capital goods likely to reach additional 60% tariff rate first while taking longer for consumer goods. Full implementation by 1H26. Trump may bring forward the implementation.
Global economy outlook	Reduce trade tensions as US reviews progress of its new trade deals. Growth is more positive than previous projection, with trade seeing a robust rebound.	Growth still positive but moderates slightly on the measures imposed. Uneven recovery, differences in sectoral outcomes caused by different tariff changes and differentiated between economies. Moderate rise in US CPI inflation (2025: +0.3ppt to 2.4%).	Sub-par global growth for full year, re-emergence of some supply chain disruption and demand destruction. One-time US inflation spike in 2H25 – 1H26 (2025: +0.5ppt to 2.6%).
2025 Growth			
Global economy	3.5%	3.1%	2.5%
US	2.2%	1.8%	1.3%
China	4.6%	4.3%	3.5%
Changes in Fed funds rate	▪ Dec 24 -25bps ▪ 2025 -100bps ▪ 1Q26 -25bps (terminal rate of 3.25%)	▪ Dec 24 -25bps ▪ 2025 -75bps (terminal rate of 3.75% by 3Q25)	▪ Dec 24 -25bps ▪ Early 2025 -25bps ▪ rate cuts to resume in 2026 on growth concerns but limited to just two 25bps cuts due to one-time inflation spike & higher inflation expectations (terminal rate of 4% by 1Q26)
Rates view	10Y UST to settle at around 3.80% at the end of Fed easing cycle. Term risk premiums see modest upside.	10Y UST to settle at around 4.10% (potentially 4.50% if term premiums repricing is front loaded) at the end of Fed easing cycle. Term risk premium see moderate upside from higher uncertainty over Fed path and upside inflation risk.	10Y UST to settle at around 4.50% (potentially 4.90% if term premiums repricing is front loaded) at the end of Fed easing cycle. Term risk premium see pronounced upside risk from Fed path uncertainty and bond buyers strike.
Currency view	USD weakens anew as markets unwind tariff-related premium and refocus back to Fed's rate-cut plan.	USD to strengthen against most G-10 peers in 1H25 before moderating in 2H25. DXY to rise to 111.1 by mid-2025 before easing off to 107.6 by end-2025. Asia FX to weaken for the first three quarters of 2025 before rebounding in 4Q25.USD/CNY to test key 7.35 level in 1Q25 and trade to as high as 7.60 in 3Q25. USD/SGD to rise modestly to 1.38 in 3Q25 before pulling back to 1.36 in 4Q25.	USD to appreciate sharply against most G-10 peers.DXY to potentially test 2022's high near 115. Asia FX to depreciate sharply against the USD due to potential portfolio outflows. USD/CNY to potentially test the psychological 8.00 level though countercyclical policies to prevent one-sided speculative moves can be expected. USD/SGD to potentially trade above 1.40.

Source: UOB Global Economics & Markets Research

Ahead of the tariff implementation, there is a consensus view that growth (especially for exporter economies) may be lifted as US importers may frontload purchases in early 2025.

Our **Base Case scenario**, which we ascribe a 55% probability, calls for more measured imposition of tariffs (Additional 25% tariff on China, instead of the claimed 60%, 10% tariffs on economies that recorded increase in trade surplus with US due to trade diversion from China, and no blanket tariff on all US imports), with a staggered implementation pace from as early as 2Q 2025 and fully completed by 1H 2026. Ahead of the tariff implementation, there is a consensus view that growth (especially for exporter economies) may be lifted as US importers may frontload purchases in early 2025. That early lift is expected to be short-lived and the global economy will eventually see a slight growth moderation to 3.1% in 2025 (versus IMF forecast of 3.2%), albeit with an uneven recovery differentiated across sectors and countries that are targeted by the tariffs. The rise in tariffs could weigh on US GDP growth which is expected to be lower at 1.8% for 2025 (versus a projected 2.7% for 2024) while tariffs are also likely to push US inflation higher above the Fed's 2% target in 2025 and 2026.

We are revising our 2025 rate cut trajectory to a total 75 bps of cuts and end the rate cycle to bring the terminal rate to 3.75% (upper bound of FFTR).

A revised Fed policy trajectory: lesser cuts in 2025 with a higher terminal rate

We continue to hold the view the Fed will reduce the Fed Funds Target Rate (FFTR) by another 25-bps to 4.25-4.50% in the Dec 2024 FOMC. However, we are revising our 2025 rate cut trajectory to a total 75 bps of cuts (i.e. three 25-bps cuts, one in each quarter of 1Q, 2Q and 3Q 2025) and end the rate cycle to bring the terminal rate to 3.75% (upper bound of FFTR). Prior to Trump's election victory, we had projected 100bps of cuts in 2025 and one last 25-bps cut in 1Q 2026 to bring the terminal rate to 3.25%. The reduced number of cuts reflect the higher inflation pressures from the projected tariff implementation during the latter part of 2025.

It should be noted that for our **pessimistic scenario** which we ascribe a significant probability of 40%, reflects our view that the risk for US trade policy this time round is tilted towards a more negative outcome of higher tariffs (60% tariff rate for China as claimed), coupled with the imposition of a blanket tariff for all US imports (10-20%) and an earlier and shorter implementation timeline, starting on Trump's Day 1 (20 Jan) and fully implemented by 1H 2026. The impact of this scenario will be weaker growth outlook accompanied by higher inflation outturns, which implies even fewer Fed rate cuts in 2025.Though we include an **optimistic scenario** (with an ascribed 5% probability), we see a very low likelihood of such a benign outcome where Trump will change his mind, and decide to only impose targeted tariffs and result in a significant de-risking of the trade friction between US and China.

How would China respond? Similar to the 2018 episode, China is unlikely to take pre-emptive actions against US before actual tariffs are implemented.

How would China respond? Similar to the 2018 episode, China is unlikely to take pre-emptive actions against US before actual tariffs are implemented. At the same time, China could retaliate with corresponding measures, potentially escalating trade tensions as seen in the earlier trade war (2018). We also note that since the trade war of 2018, US exports to China has risen significantly (23% increase to US$ 148 bn in 2023 from US$ 120.3 bn). This increase in dependence implies that more US industries may be vulnerable to Chinese retaliation in the event of a tit-for-tat trade conflict.

Trump 1.0

A lookback in history - Tariff size and timeline 2018-2020

Effective date	Additional tariff rate	Amount	Goods involved	Additional tariff rate	Amount	Goods involved
	Implemented by US			Implemented by China		
06 Jul 2018	25%	US$34bn (List 1*)	machinery, cars, hard disks and aircraft parts	25%	US$34bn (some were rolled back in Sep 2019-2020)	545 goods including agricultural products, automobiles and aquatic products
23 Aug 2018	25%	US$16bn (List 2*)	semiconductors, iron and steel products, electrical machinery, railway equipment, instruments and apparatus	25%	US$16bn (some were rolled back in Dec 2019-2020)	114 goods including motorcycles, bourbon, orange juice, chemicals, medical equipment and energy products such as coal and crude oil
24 Sep 2018	10% (raised to 25% from 10 May 2019)	US$200bn (List 3*)	telecom equipment, computers & parts, furniture, electric appliances, metals, plastics, travel bags and agricultural & food products	10% (raised to 10-25% from 01 Jun 2019)	US$60bn (some were rolled back in 2020)	5,207 goods including food stuff, industrial minerals and chemicals, textiles and clothing, jewelry, metal products, machinery parts, and a wide range of consumer products
01 Sep 2019	15% (cut to 7.5% from 14 Feb 2020)	US$120bn (List 4a*)	Some consumer goods such as footwear, textiles, clothing, food products, smart watches, dishwashers, and flat-panel televisions	5 -10% (halved from 14 Feb 2020)	US$75bn	5,078 goods ranging from agricultural products to crude oil
		US$160bn (List 4b* initially scheduled from 15 Dec 2020 was scrapped)	toys, cell phones, laptop computers, video game consoles, computer monitors List 4a & 4b excludes some pharmaceuticals and medical goods, rare earth and critical minerals			

* Details can be found at https://ustr.gov/issue-areas/enforcement/section-301-investigations/tariff-actions

Source: USTR, UOB Global Economics & Markets Research

US exports to China rose by 22.8% between 2018 and 2023

Source: Macrobond, UOB Global Economics & Markets Research

US: Top Annual Exports to China, 2-digit HS Code

Data: U.S. Census Bureau — USD, billion

	2023	2022	2021	2019	2018
Total exports to China	147.8	154.1	151.4	106.5	120.3
27-Mineral Fuels, Mineral Oils & Products of Their Distillation; Bituminous Substances; Mineral Waxes	19.9	18.9	19.4	14.3	18.2
12-Oil Seeds & Oleaginous Fruits; Miscellaneous Grains, Seeds & Fruits; Industrial or Medicinal Plants; Straw & Fodder	15.7	16.0	16.7	12.8	14.2
84-Nuclear Reactors, Boilers, Machinery & Mechanical Appliances; Parts Thereof	13.7	14.9	15.8	10.4	13.0
85-Electrical Machinery & Equipment & Parts Thereof; Sound Recorders & Reproducers, Television Recorders & Reproducers, Parts & Accessories	11.6	13.6	15.1	9.7	9.8
90-Optical, Photographic, Cinematographic, Measuring, Checking, Precision, Medical or Surgical Instruments & Apparatus; Parts & Accessories Thereof	11.3	10.9	10.7	9.2	9.4
30-Pharmaceutical Products	9.9	9.3	8.5	8.6	8.5
87-Vehicles, Other than Railway or Tramway Rolling Stock, & Parts & Accessories Thereof	8.1	7.4	7.6	5.0	5.7
39-Plastics & Articles Thereof	7.4	7.3	6.7	4.1	3.7
88-Aircraft, Spacecraft, & Parts Thereof	6.8	7.0	6.3	3.8	2.9
29-Organic Chemicals	4.3	5.5	4.7	2.7	2.9
02-Meat & Edible Meat Offal	3.3	4.3	4.0	2.3	2.8
10-Cereals	3.2	3.9	3.5	2.3	2.8
38-Miscellaneous Chemical Products	3.1	3.7	3.4	1.6	2.7
74-Copper & Articles Thereof	2.2	2.9	3.0	1.2	1.7
98-Special Classification Provisions, Nesoi	2.2	2.6	2.0	1.2	1.6
71-Natural or Cultured Pearls, Precious or Semiprecious Stones, Precious Metals; Precious Metal Clad Metals, Articles Thereof; Imitation Jewelry; Coin	2.2	2.1	1.9	1.2	1.1
47-Pulp of Wood or Other Fibrous Cellulosic Material; Recovered (Waste & Scrap) Paper & Paperboard	1.7	2.0	1.6	0.7	0.9
52-Cotton, Including Yarns & Woven Fabrics Thereof	1.6	1.7	1.3	0.5	0.7
44-Wood & Articles of Wood; Wood Charcoal	1.5	1.7	1.3	0.3	0.4

■ 2023 ● 2019

One key difference for China when comparing the 2018 trade war (Trump 1.0) and upcoming Trump 2.0, was that China was coming into Trump 1.0 from a position of strength. However, China is now facing significant domestic headwinds and weak domestic demand.

China – Stimulus measures insufficient for meaningful turnaround while Trump adds downside challenges to growth

One key difference for China when comparing the 2018 trade war (Trump 1.0) and upcoming Trump 2.0, was that China was coming into Trump 1.0 from a position of strength. However, China is now facing significant domestic headwinds and weak domestic demand.

Looking back at September 2024, the stimulus measures announced by Chinese authorities involved minimal “new and actual spending.”, and mostly through monetary measures such as interest rate reductions, loosening of home purchase restrictions, and swap of local government debt, among others. While the announced quantum appears substantial, it is relatively small, amounting to about 8% of GDP compared to the 2008 stimulus package which, amounted to the 12.5% of GDP at that time. Notably, there has been no fresh direct stimulus spending aimed at boosting consumption, while the amount earmarked to resolve the local government debt looked woefully inadequate.

Housing market in China remains a big challenge and the current stock of housing inventory will likely take some years to clear. The missing growth contribution from real estate activities, will likely cap China’s GDP growth to well below 5% in the next few years. (Moody’s estimated real estate activities contributed about 25% of China’s GDP in 2022, and the direct contribution could languish at around 18% by 2030). While the developed economies have brought inflation back under control, China faces the opposite problem as deflation remains a key threat as consumer and business confidence has remained weak. Based on the above, we are lowering China’s GDP growth forecast to 4.3% for 2025 (previous: 4.6%) on the extra burden imposed by Trump’s tariffs on top of the soft domestic fundamentals.

In our view, further LPR cuts will be less likely if the CNY comes under increasing depreciation pressure.

In terms of monetary policy response, PBOC focus in the coming months is likely to be on RRR (reserve requirement ratio) as the main tool for easing instead of interest rate cuts. There is ample room for PBOC to ease RRR further in 2025 (as the US Fed progressively cuts rates while China’s domestic deflation worsens). PBOC already signalled another 25-50 bps RRR cuts in 4Q 2024, and we expect further RRR cuts in 2025. In our view, further LPR cuts will be less likely if the CNY comes under increasing depreciation pressure.

Hereafter is a brief synopsis of key Focus pieces as well as key FX and Rates views. We wish our readers a peaceful end to the year, a happy new year in 2025!

FX STRATEGY

Will Trump 2.0 make the USD great again?

Our base case for incoming trade tariff outlook under Trump 2.0 - at 55% probability – sees additional 25% tariffs imposed on China and 10% tariffs imposed on economies that increased in trade surplus with US due to trade diversion from China. We also assume China will retaliate by imposing similar tariffs on US goods but limited retaliatory responses from other economies. The clear consequence of trade tariffs is higher US inflation of 0.3ppt in 2025 for this base case. As such, the Fed will be on guard against any sign of building up of price pressures. We think this will translate to lesser Fed rate cuts, at just 75bps of cuts across 2025 and a higher terminal rate of 3.75% by 3Q25 for base case. As compared to our previous outlook before the elections of cumulative 125 bps of cuts to come and a terminal rate of 3.25% by 1Q26.

As a result of this base case for trade tariff outlook, we now expect USD to strengthen further against most Major FX peers in 1H25 as tariff uncertainties dominate. In 2H25, USD strength may start to moderate ...

As a result of this base case for trade tariff outlook, we now expect USD to strengthen further against most Major FX peers in 1H25 as tariff uncertainties dominate. In 2H25, USD strength may start to moderate and as most of the repricing for Trump's tariffs (base case) may have already been done and our downward trajectory in US rates could start to exert downward pressure on the USD. Overall, we expect the DXY to rise to 111.1 by mid-2025 before easing off to 107.6 by end-2025. We also expect FX volatility to stay elevated as investors digest incoming tariff headlines and the ensuing Fed response. Consequently, we turn negative in our outlook for EUR, GBP and AUD as we see more weakness to come in 1H25, before stabilizing somewhat in 2H25. Risk is for EUR/USD, GBP/USD and AUD/USD to drop further to 0.99, 1.21 and 0.61 respectively by 2Q25 before modest recovery thereafter to 1.03, 1.25 and 0.64 by 4Q25. Similarly, we see potentially higher USD/JPY at 157 by 2Q25 before pulling back to 152 by 4Q25.

The key message is that Asia FX are more sensitive to the tariffs and may have to endure a slightly longer period of weakness compared to Major FX.

As a result of the incoming trade tariffs, we expect most Asia FX to weaken alongside the CNY for the first three quarters of 2025 before rebounding in 4Q25. In the event that the pessimistic scenario comes to pass where a maximum of 60% tariffs (instead of 25% tariffs in base case) are imposed on the Chinese goods, the fallout on Asia FX is likely to be considerably stronger and more enduring compared to the base case. The key message is that Asia FX are more sensitive to the tariffs and may have to endure a slightly longer period of weakness compared to Major FX.

It is teeing up to be yet another difficult year for both China's economy and the CNY in 2025. Trump's tariffs are likely to exacerbate the existing concerns about China's economic slowdown. As a result, our macroeconomic team have downgraded 2025 GDP growth forecast to 4.3% from 4.6% as we factor in some tariffs on Chinese goods to become effective in 4Q25. On top of a weaker domestic growth outlook, the CNY is likely to fall further against the USD as a shorter and shallower Fed rate-cut cycle helps support the USD. Overall, we now see upside risk to USD/CNY in the coming few quarters and our updated USD/CNY forecasts are 7.35 in 1Q25, 7.50 in 2Q25, 7.60 in 3Q25 and 7.45 in 4Q25. Asian currencies are expected to weaken in tandem with the CNY across 2025. As such, we see potential highs in 3Q25 for USD/SGD, USD/MYR, USD/THB, USD/IDR, USD/VND at 1.38, 4.65, 35.7, 16,400, 26,200 respectively.

RATES STRATEGY

10Y UST yield to stay above 4% across 2025 amidst a shallower FED easing cycle

As for Sora, in our base case for end 1Q25, we forecast the 3M compounded in arrears Sora at 2.77% and thereafter to 2.23% by 4Q25. Sora can be expected to drop to a lesser extent than declines in US rates.

Compared to our previous update at the end of Oct, our base case for Fed funds has been adjusted higher. We have removed 50bps of cuts from the previous easing cycle estimates and now project only three cuts in 2025 for an easing cycle bottom in Fed funds of 3.75%. Risk is that Trump 2.0 fiscal policy proposals may skew even more inflationary if enacted in full and we expect the Fed to calibrate its approach as actual policies are made known. In our base case for end 1Q25, we forecast the 3M compounded in arrears Sofr at 4.35%. Thereafter, short term rates are then expected to drift lower across 2025 in tune with our expectations of a further 75bps rate cuts from the Fed. Eventually the 3M compounded in arrears Sofr could drop to 3.61% by 4Q25. As for Sora, in our base case for end 1Q25, we forecast the 3M compounded in arrears Sora at 2.77% and thereafter to 2.23% by 4Q25. Sora can be expected to drop to a lesser extent than declines in US rates.

Our base case forecasts for 10Y UST have been marked higher compared to the previous month largely in view of the substantial upward shift in our Fed funds baseline. Contributing to a lesser extent, we have also built in a higher end state term premium estimate as well as incorporated a more front-loaded adjustment path to the end state into our 10Y UST forecast. This is due to the uncertainties surrounding the follow through of fiscal policy proposals, how these ultimately plays out on the inflation front and how deftly the Fed adjusts its policy stance to emerging realities which we expect is likely to play out as higher yields to compensate investors for assuming such risks.

Overall, SG yields may see some stickiness from a gentler MAS policy slope. Yield upside potential may be more limited because US term premium risks do not map 1 to 1.

In our base case for end 1Q25, we now forecast the 10Y UST at 4.20% (vs our pre-US election forecast of 3.80% for 1Q25). Thereafter, 10Y yield is expected to drift slightly lower in tune with our expectations of a further 75bps rate cuts from the Fed. Eventually the 10Y UST could settle at 4.10% by 4Q25. In summary, 10Y UST yield post Trump's re-election is now expected to stay above 4% across 2025, albeit with a mild downward sloping bias mainly due to anticipated Fed rate cuts across 2025. As UST goes so goes the SGS. We have marked our forecast for 10Y SGS higher but with a smaller increase compared to that in UST. In our base case for end 1Q25, we forecast the 10Y SGS at 2.80% and thereafter settle at 2.70% by 4Q25. This updated forecast is modestly higher compared to our previous forecast of 2.70% for 1Q25 followed by a mild drift lower towards 2.60% across 2025. Overall, SG yields may see some stickiness from a gentler MAS policy slope. Yield upside potential may be more limited because US term premium risks do not map 1 to 1.

Specifically, the strong retail sector demand for gold is driven by on-going substantial depreciation of domestic currencies like INR, CNH and VND, which amplify the gains in gold prices in local currency terms.

COMMODITIES STRATEGY

Safe haven demand for gold to stay strong amidst Trump 2.0 economic uncertainties

Gold: Positive safe haven drivers remain intact ahead of Trump 2.0. From a longer-term perspective, the positive drivers from on-going Emerging Market (EM) and Asian central bank allocation into gold, as well as strong physical gold and jewellery demand from the retail sector remain intact. It is important to note the common thread between both positive long-term demand from central banks and retail sector alike. Both are driven by safe haven needs to diversify away from rising geopolitical concerns and uncertainties around the US Dollar ahead of disruptive trade and fiscal policies from Trump 2.0. Specifically, the strong retail sector demand for gold is driven by on-going substantial depreciation of domestic currencies like INR, CNH and VND, which amplify the gains in gold prices in local currency terms. Overall, we keep our positive view for gold as long-term safe haven demand needs will likely stay strong amidst further rise in geopolitical risks and economic risks from Trump 2.0 policies. Our forecasts for 2025 are USD 2,700 / oz for 1Q25, USD 2,800 / oz for 2Q25, USD 2,900 / oz for 3Q25 and USD 3,000 / oz for 4Q25.

In short, while most of the negative factors like global demand downgrade are now apparent, we acknowledge the further downside risk from negative impact from Trump 2.0 tariffs on China and global energy demand. As such, we now adopt a negative outlook for Brent crude oil ...

Brent: Trump 2.0 tariffs to keep oil prices pressured around USD 70 / bbl. One major worry overhanging oil price is the much uncertainty over the global growth outlook as well as China's economic recovery after the possible large tariff hikes from Trump 2.0 across 2025. This risk of further growth slowdown from renewed tariffs in 2025 appears to be nullifying any rise in geopolitical risk from the on-going Russia-Ukraine war. In short, while most of the negative factors like global demand downgrade are now apparent, we acknowledge the further downside risk from negative impact from Trump 2.0 tariffs on China and global energy demand. As such, we now adopt a negative outlook for Brent crude oil forecasting USD 75 / bbl for 1H25 and USD 70 / bbl for 2H25. If global trade conflict worsens, the risk of further sell-off below USD 70 / bbl cannot be ruled out later in 2025.

LME Copper: Downgrading Copper outlook further to negative as Trump 2.0 tariffs loom. Over the longer run, the risk of further supply disruption from aging copper mines remains a key concern. However, this supply risk is now completely overtaken by more immediate concerns of the risk of global trade contraction and manufacturing slowdown due to the incoming Trump 2.0 tariffs later in 2025. As a result of risks from Trump 2.0 tariffs, our macroeconomic team has downgraded the base case estimate of China's economic growth in 2025 to 4.3%. Depending on the intensity and pacing of the incoming Trump 2.0 tariffs, it is likely that China, Asia as well as the rest of the world will suffer yet another round of trade and export contraction across 2025 and further into 2026. This will likely weigh down on LME Copper prices. As a result of immediate risks to global trade and production from incoming Trump 2.0 tariffs, we downgrade LME Copper outlook further from neutral to negative. Updated forecasts are USD 8,000 / MT for 1H25 and USD 7,500 / MT for 2H25.

Political stability and continuity cannot be assumed, if the loose coalition with DPP breaks down, or the LDP loses ground further in the upper house elections in 2025.

JAPAN FOCUS

Snapshot of Japan's political scene post election

- Prime Minister Ishiba and the Liberal Democrat Party (LDP) survived the Oct election drubbing and is now ruling as a minority government.
- PM Ishiba managed to pass the JPY21.9 trillion stimulus package with the help of opposition DPP in return for including the measure to raise the threshold for tax-free income which may improve labour supply and increase consumption spending but will invariably widen the fiscal burden.
- Political stability and continuity cannot be assumed, if the loose coalition with DPP breaks down, or the LDP loses ground further in the upper house elections in 2025.

Global FX

USD/JPY: Despite tariff uncertainties probably anchoring the USD for a while longer, further gains in USD/JPY may be held back by the persistent monetary policy divergence between the Fed (easing bias) and the Bank of Japan (BOJ) which we still forecast a rate hike in the coming Dec meeting. Also, traders may also turn cautious ahead of previous intervention levels near 160. Overall, our updated USD/JPY forecasts are 155 in 1Q25, 157 in 2Q25, 154 in 3Q25 and 152 in 4Q25.

EUR/USD: While markets scale back expectations for Fed rate cuts due to the inflation spillover of Trump's tariff policy, they intensified pricings for more aggressive easing from the ECB to bolster the region's economy after Euro-area business activity unexpectedly shrank in Nov. Political crises in Germany and France and escalating Russia-Ukraine war which now included long-range missile in the warfare also add to the perfect storm against the EUR. An over 50% chance of a half-point ECB rate cut in Dec weighed further on EUR/USD while futures markets have flipped to a net short EUR/USD position since late Oct. With the multitude of headwinds, it seems inevitable that EUR/USD would test the well-watched parity level in the coming months. Overall, our updated EUR/USD forecasts are 1.02 in 1Q25, 0.99 in 2Q25, 1.01 in 3Q25 and 1.03 in 4Q25.

GBP/USD: GBP is likely to face lesser headwinds compared to other Major FX peers such as the EUR. Most importantly, the monetary policy gap between the Fed and the Bank of England (BOE) remains reasonably small. Both central banks are expected to guide rates lower to a similar 3.75% by end-2025. Futures traders also kept to a modest net long GBP/USD position amidst the pullback in spot. Taken together, while the path of least resistance is likely for a lower GBP/USD, further losses from here may be limited. Overall, our updated GBP/USD forecasts are 1.23 in 1Q25, 1.21 in 2Q25, 1.23 in 3Q25 and 1.25 in 4Q25.

AUD/USD: Going forth, AUD's close correlation to the CNY meant that a potential repeat of the 2018-2020 US-China trade war may see AUD underperform within the G-10 FX space, as it did during the first year of trade war in 2018. At the same time, a hawkish RBA rhetoric relative to the Fed may counteract part of the depreciation pressures on the AUD. Overall, our updated AUD/USD forecasts are 0.63 in 1Q25, 0.61 in 2Q25, 0.62 in 3Q25 and 0.64 in 4Q25.

NZD/USD: While New Zealand is unlikely to be in direct crosshair of Trump's upcoming trade tariffs, RBNZ keeping to a slightly faster rate-cut pace relative to the Fed is likely to keep the pressure on the NZD. Like other G-10 peers, we now expect NZD to weaken further against the USD in 1H25 before rebounding in 2H25. Our updated NZD/USD forecasts are 0.57 in 1Q25, 0.55 in 2Q25, 0.56 in 3Q25 and 0.57 in 4Q25.

Asian FX

USD/CNY: Referencing the 2018-2020 trade war, it is likely that USD/CNY will test recent key highs of 7.35 in the coming months as tariff uncertainties build. A pickup of hedging demand upon the breach of 7.35 may lead to USD/CNY beginning a new trading range above that level. To maintain an orderly devaluation, the PBOC may guide markets expectations via the daily CNY fixing and warns against one-sided speculative bets on its currency. Overall, our updated USD/CNY forecasts are 7.35 in 1Q25, 7.50 in 2Q25, 7.60 in 3Q25 and 7.45 in 4Q25. The risk is skewed to further downside for CNY if larger or sooner tariffs are implemented compared to our base case.

USD/SGD: Notwithstanding a "slight" reduction to the slope in the coming Jan 2025 MPS, a still-positive S$NEER slope may underpin SGD-crosses. To this point, the recent dip of S$NEER below the policy midpoint (according to our model) may offer opportunities for investors to reload on selected SGD-crosses to hedge for Trump tariffs. Volatility of USD/SGD is likely to be checked by the SGD's reputation as a regional safe-haven currency. Currently, we do not see USD/SGD rising beyond 1.40 in our base case scenario. Overall, our updated USD/SGD forecasts are 1.36 in 1Q25, 1.37 in 2Q25, 1.38 in 3Q25 and 1.36 in 4Q25.

USD/HKD: Alongside our expectations that USD is likely to stay bid in the coming quarters as Trump's tariff policy takes shape, we expect USD/HKD to normalise further towards the middle of its 7.75 - 7.85 trading band. As such, we reiterate our USD/HKD forecasts of 7.80 for the next four quarters in 2025.

USD/TWD: With the return of Trump and trade tariffs looming, we argue that the path of least resistance is still for TWD to weaken further against the USD, mirroring similar moves in other Asian peers. That said, favourable factors such as the ongoing AI upcycle underpinning demand for Taiwan's chips and CBC's stable rate outlook may limit TWD's downside. Overall, our latest USD/TWD forecasts are 32.8 in 1Q25, 33.0 in 2Q25, 33.2 in 3Q25 and 32.9 in 4Q25.

USD/KRW: 2025 may continue to be a challenging year for the KRW. Trump's proposed trade tariffs against China is likely to weigh on the CNY and spill over negatively to the KRW. Being a higher beta currency, we accord a higher drawdown of the KRW in 2025 compared to regional peers. The key high of 1,450 in USD/KRW will probably be tested in 2025 as Trump's tariff policy takes shape. Overall, we expect USD/KRW to trade higher across most part of 2025 and our latest forecasts are at 1,420 in 1Q25, 1,440 in 2Q25, 1,460 in 3Q25 and 1,430 in 4Q25.

USD/MYR: Despite sound economic and financial fundamentals, the MYR is vulnerable to external developments, especially the potential upcoming Trump tariffs which is expected to weigh on Asia FX as a whole. The MYR which is closely correlated to the CNY will likely take direction from the latter. We expect the CNY and hence MYR to weaken against the USD for the first three quarters of 2025 as Trump's tariff plan takes shape before rebounding in 4Q25. Overall, our USD/MYR forecasts are now at 4.53 in 1Q25, 4.60 in 2Q25, 4.65 in 3Q25 and 4.55 in 4Q25.

USD/IDR: Going forth, while further USD strength is the likely path of least resistance, BI's emphasis on rupiah stability may slow USD/IDR's ascent. Overall, our updated USD/IDR forecasts are 16,000 in 1Q25, 16,200 in 2Q25, 16,400 in 3Q25 and 16,200 in 4Q25.

USD/THB: It is worth noting that the THB was the most resilient Asia FX in the last trade war (2018-2020) as investors took refuge in the safe-haven currency. This time round, favourable factors similar to 2018 include Thailand's current account surplus, low inflation and a stable benchmark rate outlook. Overall, we expect THB's currency fluctuation to be lesser than regional peers in our base case scenario. Our updated USD/THB forecasts are 35.2 in 1Q25, 35.5 in 2Q25, 35.7 in 3Q25 and 35.2 in 4Q25.

USD/PHP: In 2025, the PHP is likely to be on the defensive, taking direction from Trump's tariff policy as it takes shape as well as the CNY. A faster pace of rate cuts by the BSP relative to the Fed in 2025 is likely to weigh on the PHP as well. It appears that the record low of 59.33 /USD will be tested in the near term as external headwinds build. Overall, we forecast USD/PHP to be at 59.5 in 1Q25, 60.0 in 2Q25, 60.5 in 3Q25 and 60.0 in 4Q25.

USD/VND: Going forth, the VND is likely to take direction from Trump's tariff policy and the CNY. Currently consolidating near the record low of 25,463 /USD, the VND looks set to trade to a new low given the external headwinds. Overall, our updated USD/VND forecasts are 25,800 in 1Q25, 26,000 in 2Q25, 26,200 in 3Q25 and 26,000 in 4Q25.

USD/INR: Going forward, further outflows from the local bond and stock markets may continue to be a drag on the INR. On the other hand, a shallower RBI rate cut cycle this time round may maintain the INR's rate advantage over the Fed, buffering the currency. The RBI may continue to draw upon its big stockpile of forex reserves to limit currency volatility as INR trades to a new record low against the USD. Overall, our updated USD/INR forecasts are at 85.0 in 1Q25, 85.5 in 2Q25, 86.5 in 3Q25, and 85.5 in 4Q25.

FORECAST

Real GDP growth trajectory

y/y% change	2023	2024F	2025F	1Q24	2Q24	3Q24	4Q24F	1Q25F	2Q25F	3Q25F	4Q25F
China	5.2	4.9	4.3	5.3	4.7	4.6	5.0	4.7	4.5	4.1	4.0
Hong Kong	3.3	2.5	2.0	2.8	3.2	1.8	2.0	1.0	1.3	2.8	2.8
India (FY)	7.0	8.2	6.8	8.2	8.1	8.6	7.8	6.7	6.3	7.1	7.0
Indonesia	5.1	5.2	5.3	5.1	5.1	5.0	5.5	5.3	5.2	5.4	5.2
Japan	1.7	-0.3	1.0	-0.8	-1.1	0.2	0.5	1.4	1.3	0.7	0.8
Malaysia	3.6	5.3	4.7	4.2	5.9	5.3	5.8	4.9	4.7	4.6	4.6
Philippines	5.5	5.5	6.0	5.8	6.4	5.2	4.7	5.6	6.1	6.2	6.1
Singapore	1.1	3.5	2.5	3.0	3.0	5.4	2.7	3.5	3.7	0.6	2.2
South Korea	1.4	2.2	2.0	3.3	2.3	1.5	1.8	1.4	2.3	2.2	2.0
Taiwan	1.3	4.3	3.0	6.6	5.1	4.0	2.0	2.5	3.1	2.8	3.3
Thailand	1.9	2.7	2.9	1.6	2.2	3.0	4.1	3.4	3.3	2.6	2.4
Vietnam	5.0	6.4	6.6	5.9	7.1	7.4	5.2	6.5	6.5	6.6	6.8
Australia	2.0	1.1	2.0	1.3	1.0	1.0	1.2	1.6	2.0	2.1	2.2
Eurozone	0.4	0.8	1.2	0.5	0.6	0.9	1.1	1.0	1.2	1.1	1.3
New Zealand	0.7	0.1	1.7	0.5	-0.5	-0.1	0.2	0.6	1.5	2.2	2.5
United Kingdom	0.4	1.0	1.4	0.3	0.7	1.1	1.8	1.5	1.4	1.4	1.4
United States (q/q SAAR)	2.9	2.7	1.8	1.6	3.0	2.8	2.0	1.1	1.2	2.2	1.5

For India, full-year and quarterly growth are based on its fiscal calendar (Apr-Mar)
Source: Macrobond, UOB Global Economics & Markets Research Forecast

FORECAST

FX, interest rate & commodities

FX	27 Nov	1Q25F	2Q25F	3Q25F	4Q25F
USD/JPY	152	155	157	154	152
EUR/USD	1.06	1.02	0.99	1.01	1.03
GBP/USD	1.27	1.23	1.21	1.23	1.25
AUD/USD	0.65	0.63	0.61	0.62	0.64
NZD/USD	0.59	0.57	0.55	0.56	0.57
DXY	106.1	108.9	111.1	109.2	107.6
USD/CNY	7.25	7.35	7.50	7.60	7.45
USD/HKD	7.78	7.80	7.80	7.80	7.80
USD/TWD	32.54	32.80	33.00	33.20	32.90
USD/KRW	1,393	1,420	1,440	1,460	1,430
USD/PHP	58.72	59.50	60.00	60.50	60.00
USD/MYR	4.44	4.53	4.60	4.65	4.55
USD/IDR	15,930	16,000	16,200	16,400	16,200
USD/THB	34.59	35.20	35.50	35.70	35.20
USD/VND	25,394	25,800	26,000	26,200	26,000
USD/INR	84.45	85.00	85.50	86.50	85.50
USD/SGD	1.34	1.36	1.37	1.38	1.36
EUR/SGD	1.42	1.39	1.36	1.39	1.40
GBP/SGD	1.70	1.67	1.66	1.70	1.70
AUD/SGD	0.87	0.86	0.84	0.86	0.87
SGD/MYR	3.31	3.33	3.36	3.37	3.35
SGD/CNY	5.41	5.40	5.47	5.51	5.48
JPY/SGDx100	0.89	0.88	0.87	0.90	0.89

POLICY RATES	27 Nov	1Q25F	2Q25F	3Q25F	4Q25F
US Fed Fund Rate	4.75	4.25	4.00	3.75	3.75
JPY Policy Rate	0.25	0.50	0.50	0.50	0.50
EUR Refinancing Rate	3.40	2.90	2.65	2.40	2.15
GBP Repo Rate	4.75	4.50	4.25	4.00	3.75
AUD Official Cash Rate	4.35	4.00	3.75	3.50	3.25
NZD Official Cash Rate	4.25	4.00	3.50	3.00	3.00
CNY 1Y Loan Prime Rate	3.10	3.10	3.10	3.10	3.10
HKD Base Rate	5.00	4.50	4.25	4.00	4.00
TWD Official Discount Rate	2.00	2.00	2.00	2.00	2.00
KRW Base Rate	3.25	2.75	2.50	2.50	2.50
PHP O/N Reverse Repo	6.00	5.50	5.25	5.00	4.75
MYR O/N Policy Rate	3.00	3.00	3.00	3.00	3.00
IDR 7D Reverse Repo	6.00	5.50	5.00	4.75	4.75
THB 1D Repo	2.25	2.00	2.00	2.00	2.00
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate	6.50	6.00	5.75	5.75	5.75

INTEREST RATES	27 Nov	1Q25F	2Q25F	3Q25F	4Q25F
USD 3M SOFR (compounded)	4.93	4.35	3.99	3.74	3.61
SGD 3M SORA (compounded)	3.24	2.77	2.41	2.29	2.23
US 10Y Treasuries Yield	4.26	4.20	4.10	4.10	4.10
SGD 10Y SGS	2.82	2.80	2.70	2.70	2.70

COMMODITIES	27 Nov	1Q25F	2Q25F	3Q25F	4Q25F
Gold (USD/oz)	2,638	2,700	2,800	2,900	3,000
Brent Crude Oil (USD/bbl)	73	75	75	70	70
LME Copper (USD/mt)	9,020	8,000	8,000	7,500	7,500

Source: UOB Global Economics & Markets Research Estimates

KEY EVENTS
1Q 2025

JANUARY

02
US

US debt ceiling limit - the debt ceiling has been suspended since 3 Jun 2023 and will be reinstated on 2 Jan 2025. This is likely to be a non-event, as the unified government under the Republican party will ensure the suspension will be extended without causing any debt ceiling "tantrum".

20
US

Inauguration of the 47th US President, Donald J. Trump.

20-24
Global

World Economic Forum 2025 -- The meeting will take place in Davos Klosters, Switzerland

FEBRUARY

Likely 01 Feb
India

Union Budget FY2025-2026 -- The focus will remain on fiscal consolidation where the government has pledged to reduce the fiscal deficit to 4.5% of GDP by FY26 with a target of 4.9% for FY25.

Likely mid-Feb
Singapore

Budget 2025 - It will be of paramount importance as Singapore marks its 60th year of independence in 2025 and likely the last Budget in the current term of government.

In our view, Budget 2025 will continue to build on the previous measures to address the heightened cost-of-living, enhance skills training and improve job security. This budget will serve as a prelude to the General Elections which must be held by 23 Nov 2025.

23 Feb
Germany

Germany Federal Election – to elect the members of the 21st Bundestag. It was originally scheduled for 28 September 2025 but was brought forward following the collapse of Chancellor Olaf Scholz's troubled three-party coalition.

Feb
Hong Kong

Hong Kong's FY2025-26 Budget. The government will unveil support measures for its economic and social priorities along with the official GDP forecast for 2025.

MARCH

Mar
China

Premier Li Qiang will deliver the annual Government Work Report at the opening of the National People's Congress (NPC).

The key economic targets for 2025 will be announced with the focus on the growth and fiscal deficits as external headwinds intensify.

2025 is a key year for formulating the 15th Five-Year Plan (2026-2030).

Mar
Malaysia

BNM to release its Bank Negara Malaysia's Economic & Monetary Review 2024 and Financial Stability Review 2H24.

JAPAN FOCUS

Snapshot of Japan's political scene post election

Leadership transition

Shigeru Ishiba was elected as the president of Liberal Democratic Party (LDP) on 27 Sep and took over as the nation's prime minister on 1 Oct.

Ishiba quickly called for a snap election of the lower house to be held on 27 Oct - a year ahead of the expiration of the current term.

The lower house election outcome

Ruling LDP and its coalition partner, Komeito won just 215 seats down from 291 previously - failing to secure a majority for the first time since 2009.

In contrast, main opposition - Constitutional Democratic Party (CDP) saw a jump in the seats won to 148 from 96.

Ishiba re-elected

Japanese lawmakers voted for PM Ishiba to stay on as leader in a special parliamentary voting session on 11 Nov.

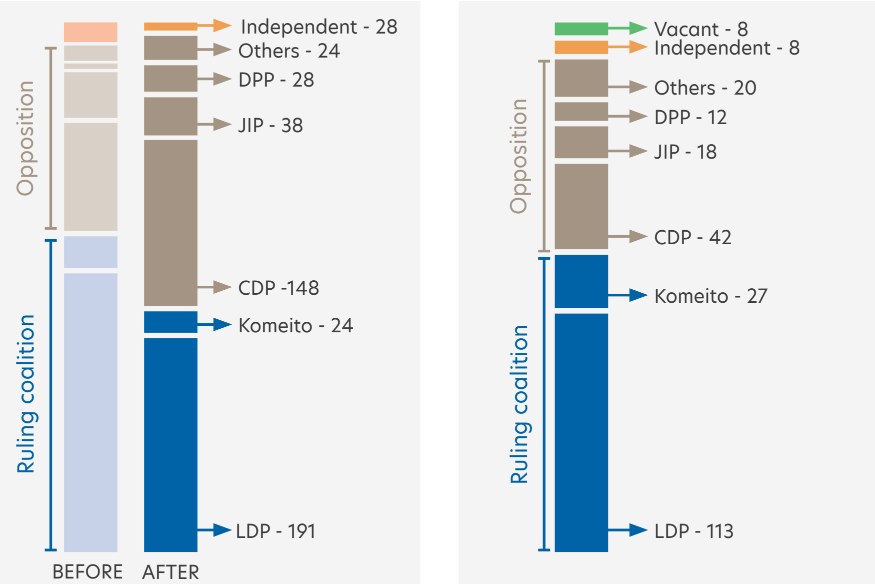
Challenges ahead

- CDP now controls the chairmanship of the chamber's Budget Committee (the first time in 3 decades), known as the main forum for policy debate
- The opposition CDP and DPP have an increased presence in the lower house – raising the bar for Ishiba in seeking parliamentary approval
- Japan will hold elections for the upper house in Jul 2025 – the ruling coalition holds a slim majority. Half of the 248 seats will be up for election, and the potential loss of the Upper House majority will make it even more difficult for Ishiba to govern effectively. A no-confidence motion will be called by then (or even earlier).

Liberal Democratic Party (LDP)
Constitutional Democratic Party (CDP)
Japan Innovation Party (JIP)
Democratic Party For the People (DPP)

Composition of the National Diet

	House of Representatives (lower house - 465 seats)	House of Councilors (upper house - 248 seats)



	House of Representatives	House of Councilors
Length of term	4 years	6 years
Next election	Before 22 Oct 2028	Before 27 Jul 2025
About the chamber	Can be dissolved by the prime minister or the passage of a non-confidence motion. The House of Representatives can override the decision of the House of Councillors by a two-thirds vote in the affirmative.	Cannot be dissolved, and terms are staggered so that only half of its membership is up for election every 3 years. For treaties, budget, and the selection of the prime minister, the House of Councillors can only delay passage, but not block the legislation.

Source: The National Diet of Japan, newswires, Global Economics & Markets Research

Economic implications

- We still expect BOJ to normalize policy further via a 25bps hike in Dec this year which we believe will be the terminal rate. Market probability for a rate hike is at 68% for Dec, a higher 84% for Jan 2025, and fully priced in by Mar 2025 MPM (as of 27 Nov).

- PM Ishiba may propose an extra budget of JPY13 tln (US$85 bn) to fund a JPY21.9 tln economic stimulus package to help households cope with higher costs of living via energy subsidies and one-off financial aid to low income households. However, as a minority government, Ishiba needed the backing of smaller parties to have enough votes to pass legislation. The DPP, voted together with the LDP coalition to pass the stimulus package after one of their key demands - to raise the tax-free income ceiling from JPY1.03 mn to JPY1.78 mn, was included in the package.

- This increase in the ceiling may encourage part-time workers to extend their working hours without the fear of higher tax burden (therefore boosting Japan's labour supply). It may also increase consumption by households as the income rise is seen to be permanent. But the measure is expected to worsen Japan's fiscal outlook, with government estimating the tax revenue losses could amount to JPY7 to 8 tln annually.

- Political stability and continuity cannot be assumed, if the LDP's loose coalition with DPP breaks down, or the LDP loses ground further in the upper house elections in 2025.

- USD/JPY grinded higher to a four-month high of about 155 amidst a broad USD resurgence as markets priced in lesser Fed rate cuts in a Trump 2.0 scenario. The above mentioned uncertain political landscape in Japan also added to the JPY weakness. Going forward, traders may also turn cautious on the USD against the JPY ahead of previous intervention levels near 160. In line with expectations of another BOJ rate hike, we see USD/JPY topping out but still staying above 150. Overall, our updated USD/JPY forecasts are 155 in 1Q25, 157 in 2Q25, 154 in 3Q25 and 152 in 4Q25.

FX STRATEGY

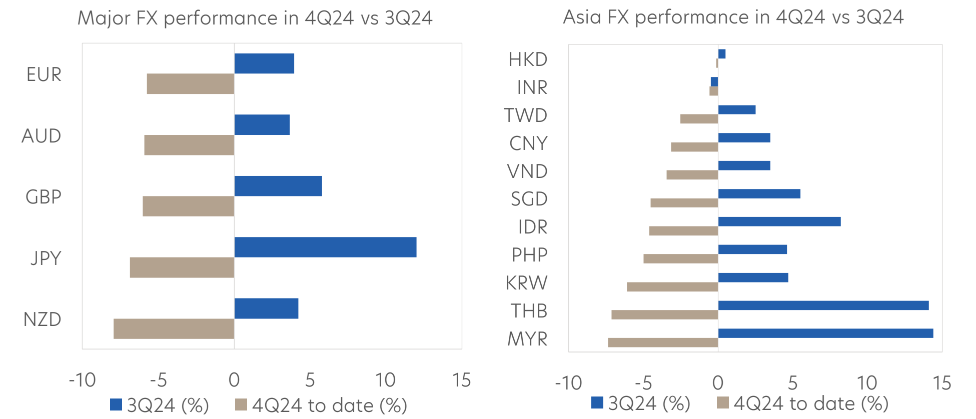
Will Trump 2.0 make the USD great again?

While it appears clear that the USD may stay bid in the near term as Trump's policy uncertainties linger, the bigger question is whether this USD recovery is sustainable?

The USD surged in 4Q24, tracing higher US Treasury yields in the immediate aftermath of the Trump's victory in the US elections. Investors quickly priced in the risk that Trump's potential trade tariffs, expansionary fiscal stance and stricter immigration policy may derail the US disinflation process and the Fed's plan to lower interest rates. While it appears clear that the USD may stay bid in the near term as Trump's policy uncertainties linger, the bigger question is whether this USD recovery is sustainable?

Chart 1: Most Major and Asia FX fell against the USD across Oct – Nov as markets repriced for less Fed rate cuts in Trump 2.0 era

Source: Bloomberg, UOB Global Economics & Markets Research



The Asia Dollar Index reversed strong gains from the prior quarter and now nears the key support level which has held during previous stress periods such as steep Fed rate hikes (2022) and China slowdown concerns (2023-2024). Would the level hold again this time round? Or would trade war 2.0 trigger an extended period of Asia FX weakness?

Asia FX posted steep losses and slipped against the USD in 4Q24 on worries of a repeat of the 2018-2020 US-China trade war. The Asia Dollar Index reversed strong gains from the prior quarter and now nears the key support level which has held during previous stress periods such as steep Fed rate hikes (2022) and China slowdown concerns (2023-2024). Would the level hold again this time round? Or would trade war 2.0 trigger an extended period of Asia FX weakness?

Major FX Strategy

USD to strengthen further in 1H25 before moderating in 2H25

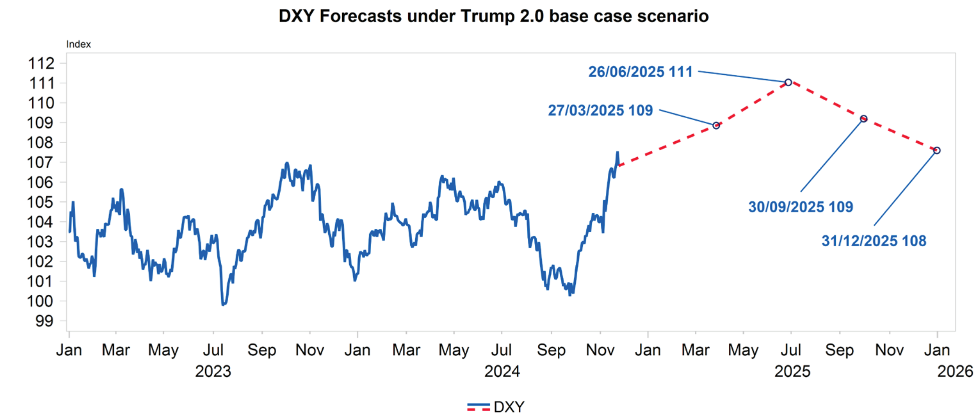
Market expectations of Trump's trade tariffs will be the predominant driver for USD in 2025, at least in the first half of the year. Since Trump's victory in early Nov, the US Dollar Index (DXY) has rallied about 4% to 107.6, the highest level in two years. The move reflected market expectations that some form of trade tariffs will be threatened or imposed on US trade partners in 2025.

Our base case - at 55% probability - sees additional 25% tariffs imposed on China and 10% tariffs imposed on economies that increased in trade surplus with US due to trade diversion from China. We also assume China will retaliate by imposing similar tariffs on US goods but limited retaliatory responses from other economies. In addition, we accord a significant 40% probability for a pessimistic scenario whereby the Trump administration imposes additional 10% "anti-drug" tariff imposed on all imports from China, additional 25% "anti-drug" tariff on all imports from Mexico and Canada with effect from Jan 2025 on executive order. Subsequently, the administration will also make good of its election pledge to impose 10-20% tariffs on all imports, and 60% on China imports.

The clear consequence of trade tariffs is higher US inflation of between 0.3ppt (base case) and 0.5ppt (pessimistic case) in 2025. As such, the Fed will be on guard against any sign price pressures are again building. We think this will translate to lesser Fed rate cuts in 2025 (75bps for base case, 25 bps for pessimistic) and a higher terminal rate (3.75% by 3Q25 for base case, 4% by 1Q26 for pessimistic) as compared to our previous outlook before the elections.

Chart 2: DXY to rise in first half of 2025 before pulling back

Source: Macrobond, UOB Global Economics & Markets Research



Overall, we expect the DXY to rise to 111.1 by mid-2025 before easing off to 107.6 by end-2025. We also expect FX volatility to stay elevated as investors digest incoming tariff headlines and the ensuing Fed response.

In our base case, we now expect USD to strengthen further against most Major FX peers in 1H25 as tariff uncertainties dominate. In 2H25, USD strength may start to moderate as most of the repricing for Trump's tariffs (base case) may have already been done and our downward trajectory in US rates could start to exert downward pressure on the USD. Overall, we expect the DXY to rise to 111.1 by mid-2025 before easing off to 107.6 by end-2025. We also expect FX volatility to stay elevated as investors digest incoming tariff headlines and the ensuing Fed response.

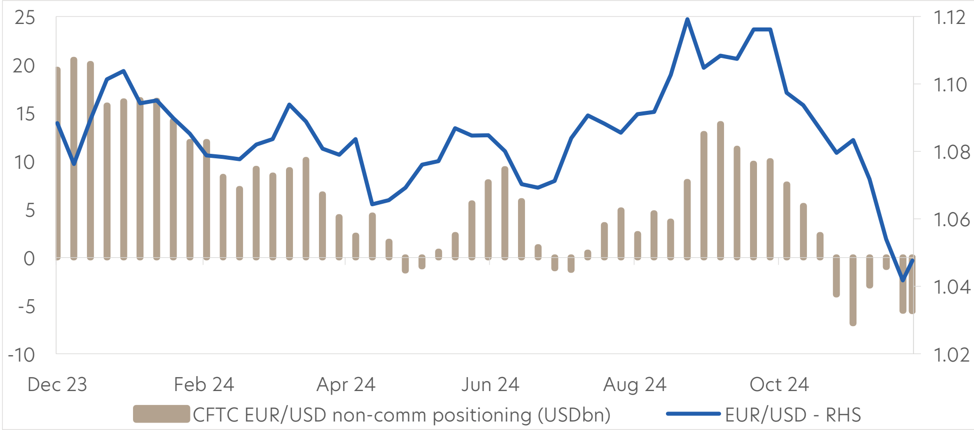
EUR was one of the biggest casualties within G-10 FX due to the US elections, falling about 4% from 1.08 to 1.04 across Nov, the lowest level in two years. Underscoring the sharp move was the stark monetary policy divergence between the Fed and the European Central Bank (ECB). While markets scaled back expectations for Fed rate cuts due to the inflation spillover of Trump's tariff policy, they intensified pricings for more aggressive easing from the ECB to bolster the region's economy after Euro-area business activity unexpectedly shrank in Nov. Political crises in Germany and France and the escalating Russia-Ukraine war which now included long-range missiles in the warfare also add to the perfect storm against the EUR.

With the multitude of headwinds, it seems inevitable that EUR/USD would test the well-watched parity level in the coming months. Overall, we now turn negative in our outlook for the EUR ...

Interest rate swaps now indicate 138 bps (as of 22 Nov) of additional ECB rate by Jun 2025 compared to 115 bps at the start of Nov. An over 50% chance of a half-point ECB rate cut in Dec weighed further on EUR/USD while futures markets have flipped to a net short EUR/USD position since late Oct. With the multitude of headwinds, it seems inevitable that EUR/USD would test the well-watched parity level in the coming months. Overall, we now turn negative in our outlook for the EUR and our updated EUR/USD forecasts are 1.02 in 1Q25, 0.99 in 2Q25, 1.01 in 3Q25 and 1.03 in 4Q25.

Chart 3: Futures positioning in EUR/USD flipped to a net short since late Oct

Source: Bloomberg, UOB Global Economics & Markets Research



While the path of least resistance is likely for a lower GBP/USD, further losses from here may be limited.

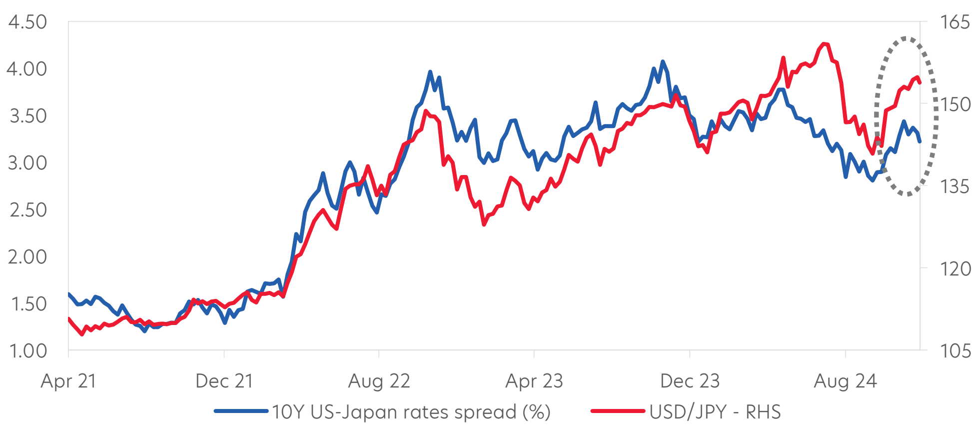
Weighed by broad USD strength, GBP/USD dipped below 1.25 in late Nov, the lowest level in six months. That said, the GBP is likely to face lesser headwinds compared to other Major FX peers such as the EUR. Most importantly, the monetary policy gap between the Fed and the Bank of England (BOE) remains reasonably small. While we have pared expectations of Fed's easing from 100 bps to 75 bps in 2025, we kept to expectations of 100 bps from the BOE as a result of still-sticky wage growth. Both central banks are expected to guide rates lower to a similar 3.75% by end-2025. Futures traders also kept to a modest net long GBP/USD position amidst the pullback in spot. Taken together, while the path of least resistance is likely for a lower GBP/USD, further losses from here may be limited. Overall, we now view GBP negatively as well and our updated GBP/USD forecasts are 1.23 in 1Q25, 1.21 in 2Q25, 1.23 in 3Q25 and 1.25 in 4Q25.

Despite tariff uncertainties probably anchoring the USD for a while longer, further gains in USD/JPY may be held back by the persistent monetary policy divergence between the Fed (easing bias) and the BOJ which we still forecast a rate hike in the coming Dec meeting.

USD/JPY grinded higher to a four-month high of about 155 amidst a broad USD resurgence as markets priced in lesser Fed rate cuts in a Trump 2.0 scenario. Despite tariff uncertainties probably anchoring the USD for a while longer, further gains in USD/JPY may be held back by the persistent monetary policy divergence between the Fed (easing bias) and the Bank of Japan (BOJ) which we still forecast a rate hike in the coming Dec meeting. Already, the 10-year USD-JPY rate spread has narrowed modestly in Nov, owning to a bigger rise in the 10-year JGB yield compared to the US equivalent. Traders may also turn cautious ahead of previous intervention levels near 160. Overall, our updated USD/JPY forecasts are 155 in 1Q25, 157 in 2Q25, 154 in 3Q25 and 152 in 4Q25.

Chart 4: USD/JPY feels the drag of a falling rates spread

Source: Bloomberg, UOB Global Economics & Markets Research



AUD's close correlation to the CNY meant that a potential repeat of the 2018-2020 US-China trade war may see AUD underperform within the G-10 FX space, as it did during the first year of trade war in 2018.

It was a roller-coaster ride for AUD/USD in the past couple of months. Soaring to 0.69 in late Sep after China announced its latest monetary stimulus package, the pair has since reversed all its gains in the 3Q24 as the USD strengthened anew across Oct – Nov. Going forth, AUD's close correlation to the CNY meant that a potential repeat of the 2018-2020 US-China trade war may see AUD underperform within the G-10 FX space, as it did during the first year of trade war in 2018. At the same time, a hawkish Reserve Bank of Australia (RBA) rhetoric relative to the Fed may counteract part of the depreciation pressures on the AUD. Overall, it will be difficult for AUD to counter the USD's renewed strength as well and our updated AUD/USD forecasts are 0.63 in 1Q25, 0.61 in 2Q25, 0.62 in 3Q25 and 0.64 in 4Q25.

Asia FX Strategy

Asia FX to weaken further for the first three quarters of 2025 before rebounding in 4Q25

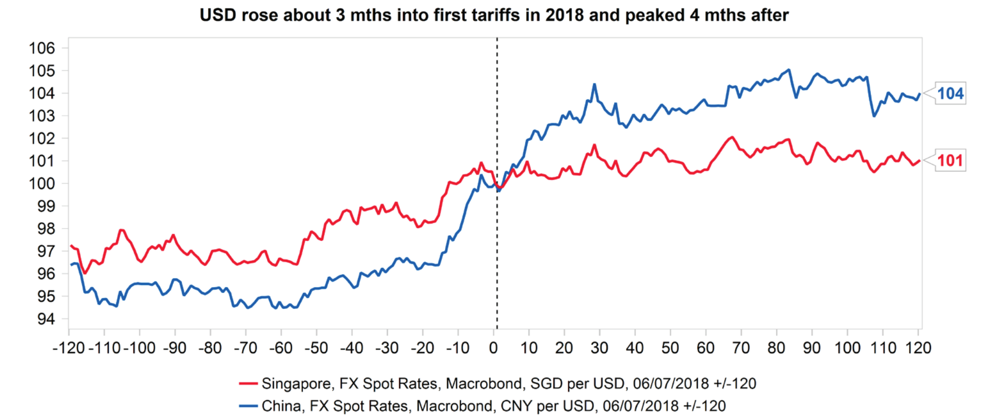
Asia FX posted steep losses and slipped against the USD in 4Q24 as market sentiment soured in the face of looming trade tariffs imposed on Chinese goods next year. Losses in the region were largely led by currencies which rose the most in 3Q24, namely MYR (-7.5% in 4Q24-to-date) and THB (-6.8%).

Having a precedent probably means that much of the expected Asia FX weakness may be front-loaded this time round, as compared to 2018. A nuance this time is that the Fed is in the midst of an easing cycle now as opposed to a tightening cycle previously which may translate to lesser headwinds on Asia FX in the current episode.

A Trump 2.0 scenario is a key risk to our sanguine outlook on Asia FX, as we highlighted in the latest FX & Rates Monthly published 29 Oct (For more details, pls refer to report here). A potential repeat of the 2018-2020 US-China trade war would undermine Asia's exports, growth outlook, sentiment and eventually Asia FX. The 2018 playbook saw Asia FX start to depreciate about three months into the first tariffs imposed on Chinese goods in Jul 2018 and continue to stay weak for couple of months after which. Having a precedent probably means that much of the expected Asia FX weakness may be front-loaded this time round, as compared to 2018. A nuance this time is that the Fed is in the midst of an easing cycle now as opposed to a tightening cycle previously which may translate to lesser headwinds on Asia FX in the current episode.

Chart 5: USD/CNY and USD/SGD both rose before and after the first tariffs were imposed on China in Jul 2018

Source: Macrobond, UOB Global Economics & Markets Research



Overall, we expect most Asia FX to weaken alongside the CNY for the first three quarters of 2025 before rebounding in 4Q25. In the event that the pessimistic scenario comes to pass where 60% (instead of 25% in base case) tariffs are imposed on the Chinese goods, the fallout on Asia FX is likely to be considerably stronger and more enduring compared to the base case.

It is worth noting that the USD/CNY strength back in 2018 was more pronounced as it was the first time a trade conflict was waged between the two countries and that USD was also drawing strength from a Fed rate hike cycle at that time.

It is teeing up to be yet another difficult year for the CNY in 2025. Trump's tariffs are likely to exacerbate the existing concerns about China's economic slowdown. As a result, our macroeconomic team have downgraded 2025 GDP growth forecast to 4.3% from 4.6% as we factor in some tariffs on Chinese goods to become effective in 4Q25. On top of a weaker domestic growth outlook, the CNY is likely to fall further against the USD as a shorter and shallower Fed rate-cut cycle helps support the USD. Referencing the 2018-2020 trade war, it is likely that USD/CNY will test recent key highs of 7.35 in the coming months as tariffs uncertainties build. A pickup of USD hedging demand upon the breach of 7.35 may lead to USD/CNY beginning a new trading range above that level. At the same time, it is worth noting that the USD/CNY strength back in 2018 was more pronounced as it was the first time a trade conflict was waged between the two countries and that USD was also drawing strength from a Fed rate hike cycle at that time.

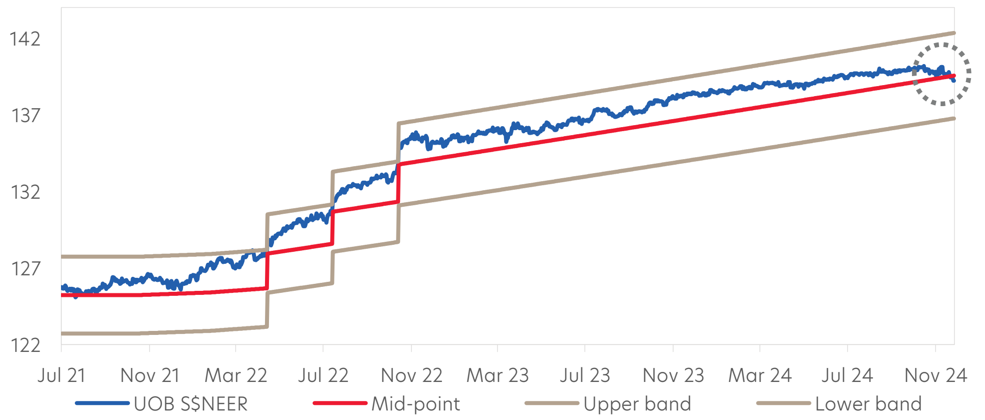
In comparison, this time round the Fed is expected to keep to its rate cuts plan even as tariffs loom. To maintain an orderly devaluation, the People's Bank of China (PBOC) may guide markets expectations via the daily CNY fixing and warns against one-sided speculative bets on its currency. Overall, we now see upside risk to USD/CNY in the coming few quarters and our updated USD/CNY forecasts are 7.35 in 1Q25, 7.50 in 2Q25, 7.60 in 3Q25 and 7.45 in 4Q25. The risk is skewed to further downside of CNY if the larger or sooner tariffs are implemented compared to our base case.

Notwithstanding a "slight" reduction to the slope in the coming Jan 2025 MPS, a still-positive S$NEER slope may underpin SGD-crosses.

In the last trade war, a positive-sloping S$NEER helped buffer the SGD against external headwinds and underscored gains against most of its regional trading peers. In the first year (2018), the SGD fell a modest 2% against the resurgent USD, one of the most resilient Asia FX. This time round, history may repeat again. Notwithstanding a "slight" reduction to the slope in the coming Jan 2025 MPS, a still-positive S$NEER slope may underpin SGD-crosses. To this point, the recent dip of S$NEER below the policy midpoint (according to our model) may offer opportunities for investors to reload on selected SGD-crosses to hedge for Trump tariffs. Volatility of USD/SGD is likely to be checked by the SGD's reputation as a regional safe-haven currency. Currently, while we see more upside risk to USD/SGD, we do not see USD/SGD rising beyond 1.40 in our base case scenario. Overall, our updated USD/SGD forecasts are 1.36 in 1Q25, 1.37 in 2Q25, 1.38 in 3Q25 and 1.36 in 4Q25.

Chart 6: S$NEER rarely trade below the policy midpoint in recent years whilst having a positive slope

Source: Bloomberg, UOB Global Economics & Markets Research



We expect the CNY and hence MYR to weaken against the USD for the first three quarters of 2025 as Trump's tariff plan takes shape before rebounding in 4Q25.

Reversing a large part of its outsized 12.6% gain against the USD in 3Q24, the MYR weakened back to 4.45 (as at late Nov) as a second Trump presidency fueled concerns over protectionist trade measures and fewer Fed rate cuts, as well as escalating military conflict in Russia-Ukraine pushed the USD higher. The broad USD strength has prompted foreign investors to readjust their MYR portfolio funds through hedging activities since early Oct. Despite sound economic and financial fundamentals, the MYR is vulnerable to external developments, especially Trump tariffs which is expected to weigh on Asia FX as a whole. The MYR which is closely correlated to the CNY will likely take direction from the latter. We expect the CNY and hence MYR to weaken against the USD for the first three quarters of 2025 as Trump's tariff plan takes shape before rebounding in 4Q25. Overall, in line with our expectations for higher USD/Asia in first three quarters of next year, our USD/MYR forecasts are now at 4.53 in 1Q25, 4.60 in 2Q25, 4.65 in 3Q25 and 4.55 in 4Q25.

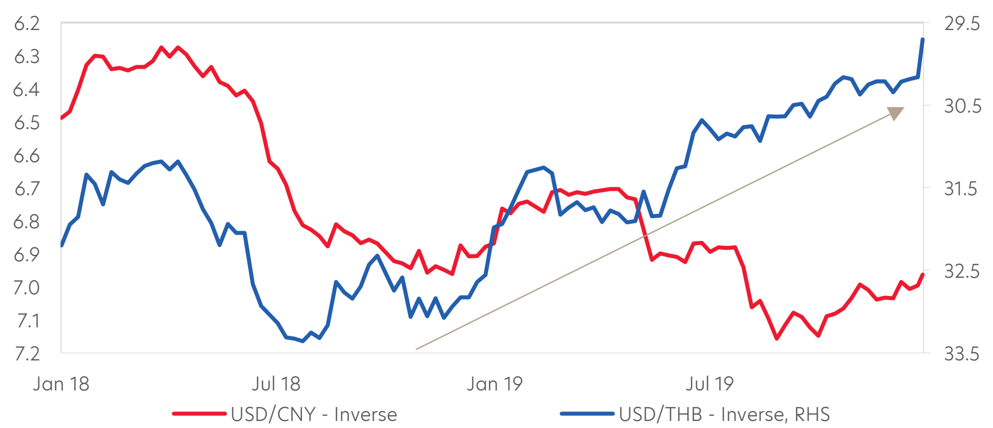
After jumping 12% in 3Q24, the biggest quarterly gain since 1998, the THB has pared about half of the gains across Oct – Nov. A confluence of factors contributed to the THB's slump, including a surprise 25 bps Bank of Thailand (BOT) rate cut by in Oct, broad USD strength and an outsized bond outflow (USD 2bn across Oct – Nov, on track for largest quarterly outflow since 1Q20).

While we see further THB weakness ahead, we expect THB's currency fluctuation to be lesser than regional peers in our base case scenario.

Going forward, the THB is likely to weaken alongside the CNY and regional peers as Trump's tariff policy takes shape in the coming months. It worth noting that the THB was the most resilient Asia FX in the last trade war (2018-2020) as investors took refuge in the safe-haven currency. This time round, favourable factors similar to 2018 include Thailand's current account surplus, low inflation and a stable benchmark rate outlook. Overall, while we see further THB weakness ahead, we expect THB's currency fluctuation to be lesser than regional peers in our base case scenario. Our updated USD/THB forecasts are 35.2 in 1Q25, 35.5 in 2Q25, 35.7 in 3Q25 and 35.2 in 4Q25.

Chart 7: Will investors take refuge in the THB again, like they did in the 2018 trade war?

Source: Bloomberg, UOB Global Economics & Markets Research



Going forth, while further USD strength is the likely path of least resistance, BI's emphasis on rupiah stability may slow USD/IDR's ascent.

USD/IDR rebounded from a low of near to 15,000 in late Sep to 15,800 in late Nov alongside higher US Treasury yields which dent the appeal of local government bonds. Uncertainties are also building up on Trump's tariff policy which had investors turn cautious about Emerging Market (EM) exposure. Inflows to Indonesia's government bonds have grinded to a standstill in 4Q24 after registering the biggest inflow since 2019 in the prior quarter (USD 4bn). To temper with the depreciation pressures, Bank Indonesia (BI) has intervened in the spot and domestic non-deliverable forwards in the last month. Going forth, while further USD strength is the likely path of least resistance, BI's emphasis on rupiah stability may slow USD/IDR's ascent. Overall, our updated USD/IDR forecasts are higher at 16,000 in 1Q25, 16,200 in 2Q25, 16,400 in 3Q25 and 16,200 in 4Q25.

It was a roller coaster ride for the VND in the last couple of months. After registering the largest quarterly gain (3.5%) on record dating back 1993 in 3Q24, the VND has since reversed all its gains across Oct – Nov. Despite resilient fundamentals, the VND is held hostage by external factors such as a resurgent USD as markets repriced for fewer Fed rate cuts in a Trump 2.0 era. Going forth, the VND is likely to take direction from Trump's tariff policy and the CNY. Currently consolidating near the record low of 25,463 /USD, the VND looks set to trade to a new low given the external headwinds. Overall, our updated USD/VND forecasts point to a stronger USD over the coming quarters and are 25,800 in 1Q25, 26,000 in 2Q25, 26,200 in 3Q25 and 26,000 in 4Q25.

RATES STRATEGY

10Y UST yield to stay above 4% across 2025 amidst a shallower Fed easing cycle

Yields further out on the curve will have to contend with uncertainties over the impact on US bond demand either from the fraying of international relationships quickening diversification out of US Treasuries, or from indigestion in response to expected higher coupon supply.

Tis the season for casting our sights into the new year, and it appears to us that the conduct of monetary policy will be driven by answers to a couple of big questions. Will US economic exceptionalism continue in 2025? To what degree will actual fiscal policies resemble proposed policies? In addition, yields further out on the curve will also have to contend with uncertainties over the impact on US bond demand either from the fraying of international relationships quickening diversification out of US Treasuries, or from indigestion in response to expected higher coupon supply. At the same time, we inherit financial asset valuations which are on the rich end of history. A confidence shock will elicit a significant price response, which is something that we have already experienced on multiple occasions in 2024.

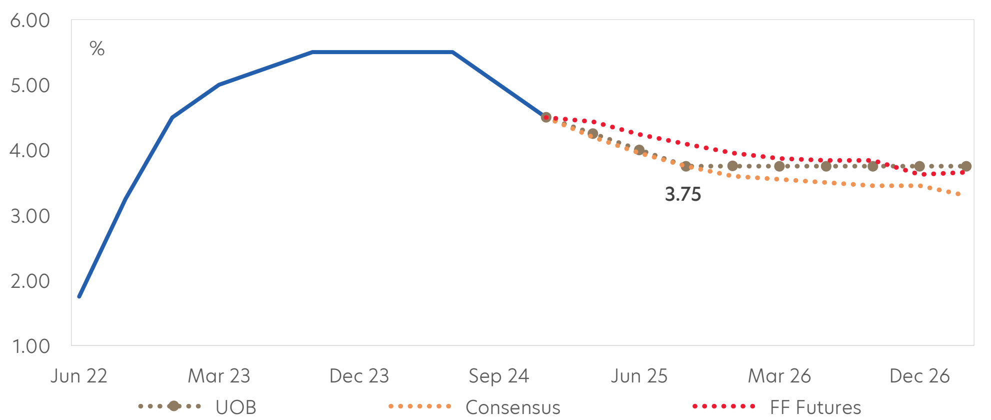
Accounting for the above and marrying our macro-economic team's forecasts, our base case outlook can be described as cautiously optimistic on the extension of goldilocks conditions into 2025. Specifically, our base case assumes that the "worst of" scenarios will be managed such that a soft landing to growth remains a plausible outcome.

Our FOMC view

Compared to our previous update at the end of Oct, our base case for Fed funds has been adjusted higher. We have removed 50bps of cuts from the previous easing cycle estimates and now project only three cuts in 2025 for an easing cycle bottom in Fed funds of 3.75%.

Chart 1: Fed funds forecasts

Source: Bloomberg, UOB Global Economics & Markets Research



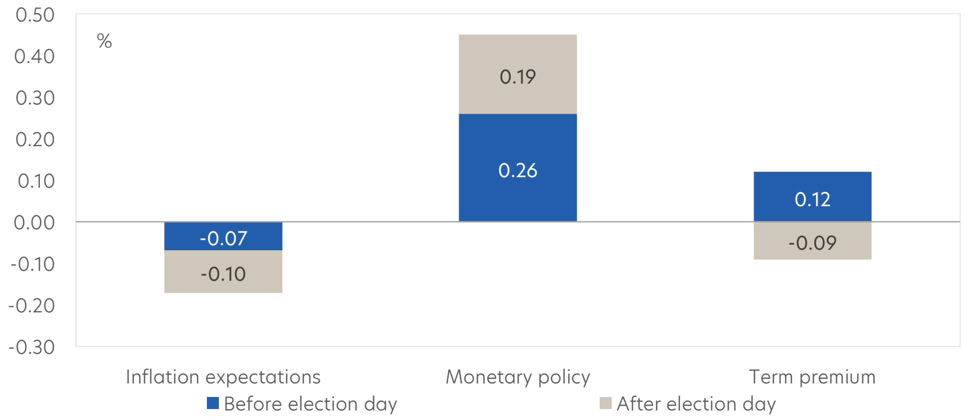
Underlying our Fed funds base case is an assumption that the policy rate still has some room to adjust lower towards more neutral settings.

Underlying our Fed funds base case is an assumption that the policy rate still has some room to adjust lower towards more neutral settings. This move towards neutral is warranted on the basis on our expectation that US economic growth may continue to soften in the near term. We also acknowledge that upside risk to inflation has firmed on the back of fiscal and trade policy proposals by the incoming US administration. The Fed will not be able to ignore this which accounts for our truncated easing cycle and higher cycle bottom in the Fed funds rate.

Our current Fed funds forecasts tracks in line with Bloomberg's analyst consensus for rate cuts over the first 3 quarters of 2025. Thereafter, we hold a more hawkish end cycle Fed funds projection of 3.75% compared to the consensus take of between 3.25% to 3.50%. That said, the Fed funds futures market (as of 26 Nov close) is even more hawkishly placed, pricing in a monetary policy easing profile that is around 25bps shallower.

Chart 2: Repricing measured from 9 Oct Trump flip in prediction markets

Source: Bloomberg, UOB Global Economics & Markets Research



We are not alone in adjusting our Fed funds expectations higher. Measured from 9 Oct when prediction markets flipped in favour of Trump, US yields have moved higher largely due to investors repricing for a less aggressive easing stance from the Fed going forward.

We are not alone in adjusting our Fed funds expectations higher. Measured from 9 Oct when prediction markets flipped in favour of Trump, US yields have moved higher largely due to investors repricing for a less aggressive easing stance from the Fed going forward. At this point, we think that it is premature to advocate for leaning against the crowd despite prices being more hawkish than our projection. Our foremost concern lies with fiscal policy uncertainty which renders risk reward assessments particularly amorphous.

In our base case for end 1Q25, we forecast the 3M compounded in arrears Sofr at 4.35%. Thereafter, short term rates are then expected to drift lower across 2025 in tune with our expectations of a further 75bps rate cuts from the US Federal Reserve. Eventually the 3M compounded in arrears Sofr could drop to 3.61% by 4Q25.

Our MAS view

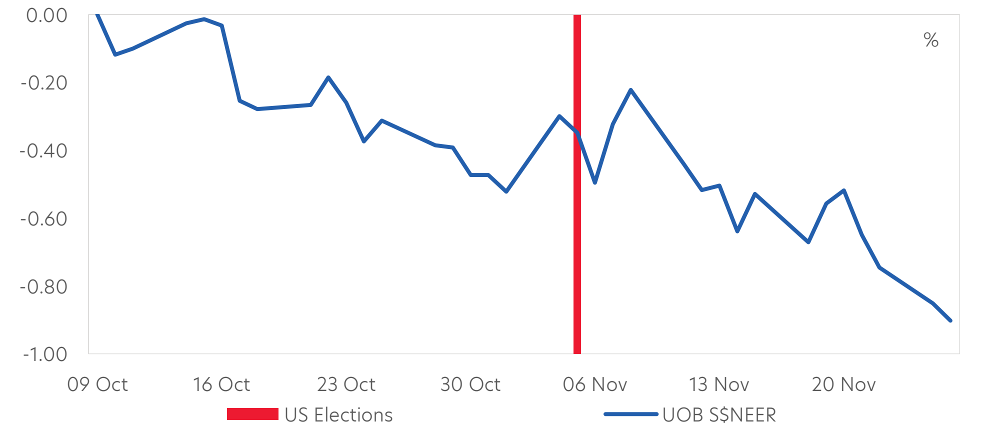
We have the MAS easing monetary policy via a slope reduction in early 2025. Our base case sees Singapore's economic growth, measured via the output gap, hugging to its potential next year thus offering room for a gentler currency appreciation path.

To be clear, even after easing, we have the SG$NEER policy slope still staying positive in 2025. This means that divergence scenarios (i.e. US rates down but SG rates up) are primarily consigned to tail events and are not our base case.

In our base case, short term SG yields will track lower alongside an expected decline in the US Fed funds rate. However, the pass through into SG yields may be smaller when we account for a more modest appreciation path in the SG$NEEER. To be clear, even after easing, we have the SG$NEER policy slope still staying positive in 2025. This means that divergence scenarios (i.e. US rates down but SG rates up) are primarily consigned to tail events and are not our base case.

Chart 3: SGD weakened against NEER basket

Source: Bloomberg, UOB Global Economics & Markets Research



Amongst the policy proposals by the new US administration, those pertaining to trade and tariffs are of the most relevance here. Aside from the impact on the volume of trade activity, which is widely regarded as being negative in aggregate, there is also the question of how currency markets will adjust to the new realities. The market's assessment thus far has been to mark down the SG$NEER (measured from 9 Oct when prediction markets flipped in favour of Trump). It follows that the risk scenario for SG yields is that they could experience more pronounced underperformance versus US yields if the SG$NEER decline was to accelerate and extend towards the weak side of the policy band.

In our base case for end 1Q25, we forecast the 3M compounded in arrears Sora at 2.77%. Thereafter, short term rates are then expected to drift lower across 2025 but to a lesser extent than declines in US yields.

In our base case for end 1Q25, we forecast the 3M compounded in arrears Sora at 2.77%. Thereafter, short term rates are then expected to drift lower across 2025 but to a lesser extent than declines in US yields. Eventually the 3M compounded in arrears Sora could drop to 2.23% by 4Q25.

Our wider monetary policy views

Our monetary policy views on major developed markets (DM) sees central bankers there positioned to continue cutting their own policy rates led by the RBNZ.

In 2025, both the ECB and the BOE are expected to cut interest rates, albeit for slightly different reasons and at potentially different paces. The ECB is likely to continue its rate-cutting cycle due to a favorable inflation outlook, with projections showing inflation moving closer to its 2% target, modest economic growth forecasts, and a well-progressing disinflationary process. Global economic uncertainties, including potential protectionist policies from a new U.S. administration and weak eurozone growth, may further prompt the ECB to maintain an accommodative stance.

The BOE, while also expected to cut rates, may adopt a more cautious approach due to persistent inflation concerns, with expectations of inflation rising to 2.8% by the third quarter of 2025 before easing. However, factors such as moderating wage growth, and global economic considerations could still support rate cuts.

On the other end, BOJ was the exception to the easing trend in 2024 but we have penciled in a pause next year alongside a downgrade to our Japan 2025 GDP forecast.

Chart 4: Year to date policy rate changes

Source: Bloomberg, UOB Global Economics & Markets Research

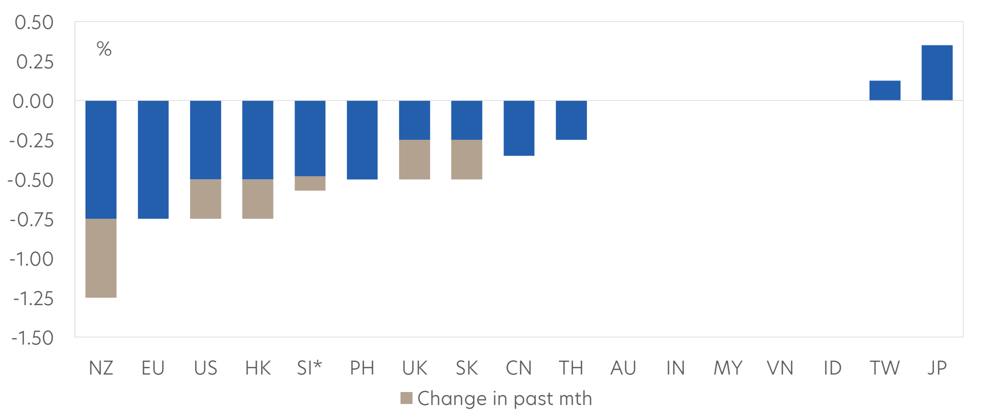


Table 1: Further changes in policy rates (UOB forecast %)

Developed markets			Asia		
Economy	30 Nov 2024 - 31 Dec 2025	2026	Economy	30 Nov 2024 - 31 Dec 2025	2026
New Zealand	-1.25	-	Philippines	-1.25	-0.25
Eurozone	-1.25	-	Indonesia	-1.25	-
Australia	-1.10	-	Hong Kong	-1.00	-
United Kingdom	-1.00	-0.75	India	-0.75	-
United States	-1.00	-	Singapore*	-0.67	0.02
Japan	0.25	-	South Korea	-0.50	-
			Thailand	-0.25	-
			China	-	-
			Taiwan	-	-
			Malaysia	-	-
			Vietnam	-	-

* Represented by the change in 3M OIS rate
Source: UOB Global Economics & Markets Research

In the Asian region, the brief virtuous cycle of currency appreciation and foreign inflows in 3Q24 came to a halt as we approached the US elections. We've seen a few central banks utilizing this window to lower their policy rate. Although further easing from selected Asian central banks in 2025 remains our base case. We are cognizant that faced with the prospect of less cuts in Fed funds rates as well as the uncertainties around trade and tariff policies, Asian currencies have an increased potential to become more volatile. As such, Asian central banks may decide to tread more cautiously when it comes to future monetary policy easing.

Our base case forecasts for 10Y UST have been marked higher compared to the previous month largely in view of the substantial upward shift in our Fed funds baseline.

Our 10Y UST view

Our base case forecasts for 10Y UST have been marked higher compared to the previous month largely in view of the substantial upward shift in our Fed funds baseline. Contributing to a lesser extent, we have also built in a higher end state term premium estimate as well as incorporated a more front-loaded adjustment path to the end state into our 10Y UST forecast. This is due to the uncertainties surrounding the follow through of fiscal policy proposals, how these ultimately plays out on the inflation front and how deftly the Fed adjusts its policy stance to emerging realities which we expect is likely to play out as higher yields to compensate investors for assuming such risks.

Chart 5: UOB vs concensus forecast (10Y UST)

Source: Bloomberg, UOB Global Economics & Markets Research

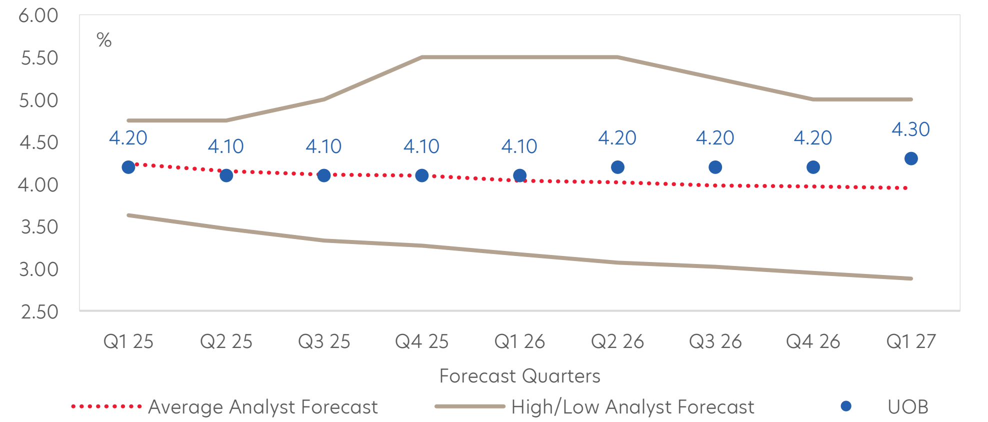
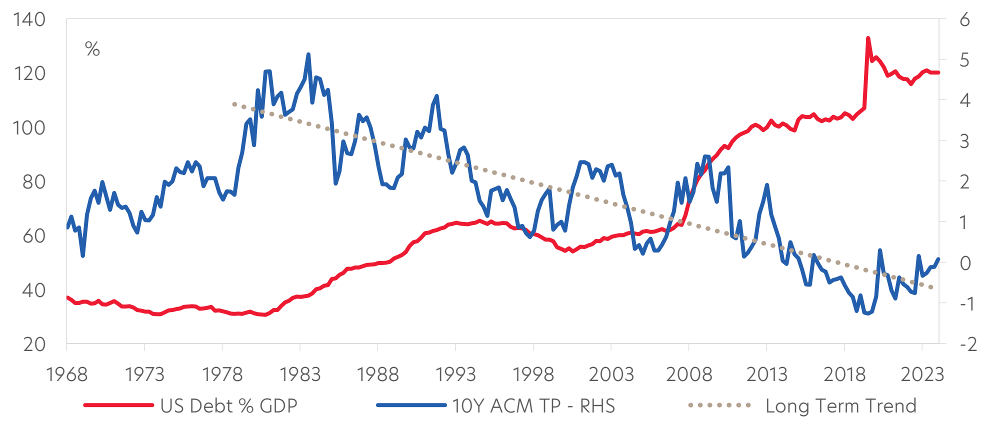


Chart 6: US term premium

Source: Bloomberg, UOB Global Economics & Markets Research



Another commonly cited reason for higher term premiums is rising deficit concerns. On this point we lean towards its impact being cyclical in nature rather than structural. From a big picture perspective the increases in the term premium has been on a declining trend since the 1970s, albeit with large historical oscillations around this long term trend line. In the background, US debt has continued to grow ever larger as a percentage of GDP. If we assume markets to be efficient, then the ebb and flow of deficit concerns over time maps better to the oscillations in term premium rather than having a permanent impact on the long term trend. As such, we do not think that the current Trump fiscal deficit concerns are any different.

In our base case for end 1Q25, we now forecast the 10Y UST at 4.20% (vs our pre-US election forecast of 3.80% for 1Q25). Thereafter, 10Y yield is expected to drift slightly lower ...

In our base case for end 1Q25, we now forecast the 10Y UST at 4.20% (vs our pre-US election forecast of 3.80% for 1Q25). Thereafter, 10Y yield is expected to drift slightly lower in tune with our expectations of a further 75bps rate cuts from the US Federal Reserve. Eventually the 10Y UST could settle at 4.10% by 4Q25. In summary, 10Y UST yield post Trump's re-election is now expected to stay above 4% across 2025, albeit with a mild downward sloping bias mainly due to anticipated Fed rate cuts across 2025.

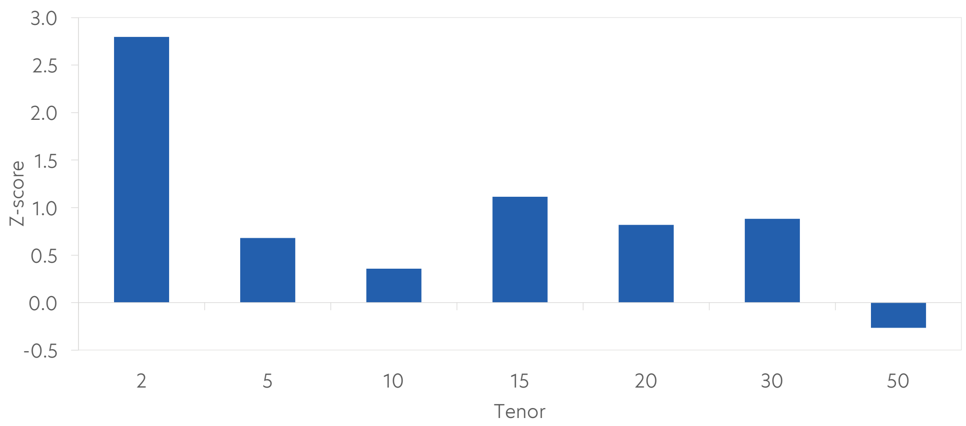
We've marked our forecast for 10Y SGS higher but with a smaller increase compared to that in UST.

Our 10Y SGS view

As UST goes so goes the SGS. We've marked our forecast for 10Y SGS higher but with a smaller increase compared to that in UST. The smaller yield upside for 10Y SGS stems from two reasons. Firstly, part of the uplift in 10Y UST is due to cyclical fiscal deficit fears. This feature does not apply to the SGS market. Secondly, demand for SGS overall in 2024 has been healthy. SGS auction bid-to-cover ratios this year has been above their five-year average (except for the 50Y tenor). Given that we still expect a Fed easing cycle in 2025, demand for SGS should remain supportive which will help keep a lid on domestic yields.

Chart 7: 2024 SGS auction bid-to-cover vs past 5Y

Source: Bloomberg, UOB Global Economics & Markets Research



In our base case for end 1Q25, we forecast the 10Y SGS at 2.80%. Thereafter, 10Y yield is expected to drift slightly lower to settle at 2.70% by 4Q25. This updated forecast is modestly higher compared to our previous forecast of 2.70% for 1Q25 followed by a mild drift lower towards 2.60% across 2025.

Table 2: Summary table of rates forecasts

Rates	27 Nov 24	Forecast	1Q25F	2Q25F	3Q25F	4Q25F
US Fed Funds Target	4.75	Current	4.25	4.00	3.75	3.75
		Previous	4.25	4.00	3.75	3.50
3M Compounded SOFR	4.93	Current	4.35	3.99	3.74	3.61
		Previous	4.23	3.98	3.73	3.48
10Y UST	4.26	Current	4.20	4.10	4.10	4.10
		Previous	3.80	3.70	3.60	3.60
3M Compounded SORA	3.24	Current	2.77	2.41	2.29	2.23
		Previous	2.62	2.44	2.28	2.20
10Y SGS	2.82	Current	2.80	2.70	2.70	2.70
		Previous	2.70	2.60	2.60	2.60

Source: UOB Global Economics & Markets Research forecasts

COMMODITIES STRATEGY

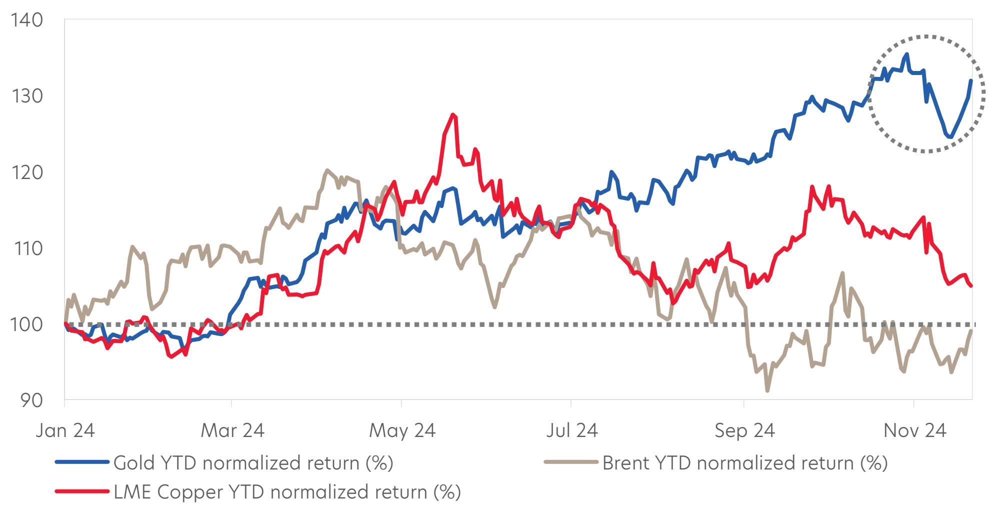
Safe haven demand for gold to stay strong amidst Trump 2.0 economic uncertainties

Following Trump's successful re-election, gold saw elevated volatility. Brent crude oil strengthened instead while LME Copper weakened further.

The commodities complex encountered very interesting divergent price action over the past month around the US Presidential election. Following Trump's successful re-election, gold saw elevated volatility. Brent crude oil strengthened instead while LME Copper weakened further.

Gold outshines Brent and Copper with its strong 32% rally for the year

Source: Bloomberg, UOB Global Economics & Markets Research



After this latest round of volatility across November, are the long-term prospects of gold still positive?

Gold endured a heavy sell-off in early November, tumbling from USD 2,750 / oz to USD 2,550 / oz in the immediate aftermath of the US Presidential election. That sell-off made sense as both the USD and long-term Treasuries yield surged after Trump won his re-election and investors start to price in renewed inflation risk from higher trade tariffs and stickier Treasuries yield from higher deficits. After this latest round of volatility across November, are the long-term prospects of gold still positive?

There are initial signs of stabilizing of China's economy after the massive round of stimulus across Sep and Oct. Is this counter trend rebound in Brent crude oil price sustainable?

As for Brent crude oil, after repeatedly testing the key USD 70 / bbl support across Sep, Oct and early Nov, prices rebounded by late Nov as futures climbed back up towards the USD 75 / bbl level. Some argued that most of the weak demand news has been digested while rising conflict between Russia and Ukraine, with both parties now expanding warfare to include long range cruise missiles have pushed oil prices back up. In addition, there are initial signs of stabilizing of China's economy after the massive round of stimulus across Sep and Oct. Is this counter trend rebound in Brent crude oil price sustainable?

Finally, LME Copper prices continued to head south. From its pre-election level of USD 9,500 / MT in early Nov, LME Copper price fell further to just under USD 9,000 / MT by end Nov. What is interesting is that the downshift in LME Copper price is contrary to the relatively better performance in Brent crude oil and this was despite various news of renewed supply disruption from key copper mines. Will LME Copper price suffer further sell-off once the Trump 2.0 tariffs materialize?

Gold

Positive safe haven drivers remain intact ahead of Trump 2.0

UOB's Forecast	1Q25	2Q25	3Q25	4Q25
Gold (USD/oz)	2,700	2,800	2,900	3,000

Gold endured renewed selling across Nov. Following the surge in the USD after Trump's renewed election win, gold was sold off from USD 2,750 / oz in early Nov, to a low of about USD 2,550 / oz by mid Nov. Thereafter, gold rebounded equally swiftly to trade back near USD 2,700 / oz by end Nov.

This month end rebound in gold was remarkable given that the USD continued its strong rally with the USD Index (DXY) breaking higher to a new high for the year of 107.50. It would appear that despite the near-term volatility, gold had shaken off the negative spillover from a stronger USD and rising US Treasuries yield as well.

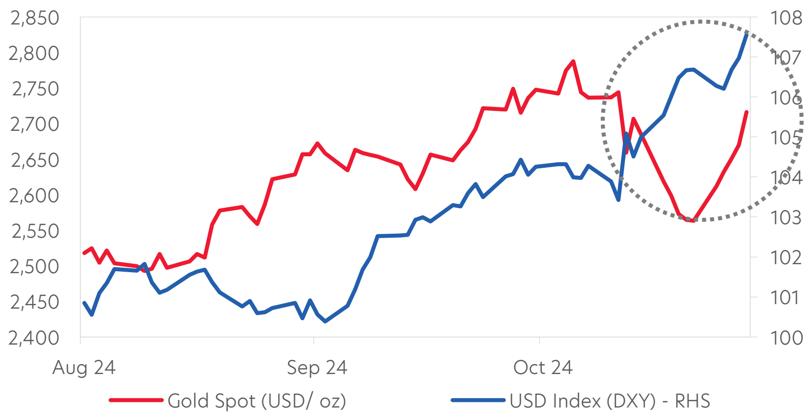
From a longer-term perspective, the positive drivers from on-going Emerging Market (EM) and Asian central bank allocation into gold, as well as strong physical gold and jewellery demand from the retail sector remain intact.

It is important to note the common thread between both positive long-term demand from central banks and retail sector alike. Both are driven by safe haven needs to diversify away from rising geopolitical concerns and uncertainties around the US Dollar ahead of disruptive trade and fiscal policies from Trump 2.0. Specifically, the strong retail sector demand for gold is driven by on-going substantial depreciation of domestic currencies like INR, CNY and VND, which amplify the gains in gold prices in local currency terms.

Overall, we keep our positive view for gold as long term safe haven demand needs will likely stay strong amidst further rise in geopolitical risks and economic risks from Trump 2.0 policies. Our forecasts for 2025 are USD 2,700 / oz for 1Q25, USD 2,800 / oz for 2Q25, USD 2,900 / oz for 3Q25 and USD 3,000 / oz for 4Q25. Worth noting that gold futures trading on Comex are pricing in further gold strength to about USD 2,800 / oz by mid-2025.

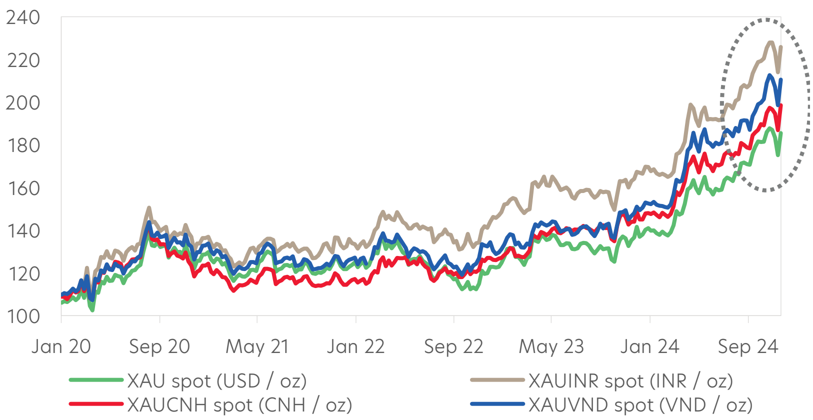
Gold manage to recover from post US election sell-off

Source: Bloomberg, UOB Global Economics & Markets Research



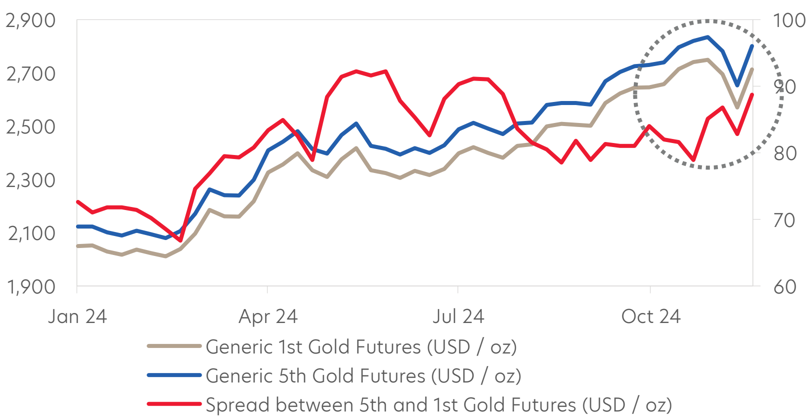
Normalized gain in gold price magnified by domestic currency depreciation

Source: Bloomberg, UOB Global Economics & Markets Research



Gold futures are pricing in USD 2,800 / oz by mid 2025

Source: Bloomberg, UOB Global Economics & Markets Research



Brent Crude Oil

Trump 2.0 tariffs to keep oil prices pressured around USD 70 / bbl

UOB's Forecast	1Q25	2Q25	3Q25	4Q25
Brent crude oil (USD/bbl)	75	75	70	70

Crude oil bulls would argue that all the bad news against oil price are now apparent. Over the past few months, OPEC has repeatedly cut its global oil demand outlook. At its latest Nov update, OPEC has further cut its global oil demand growth outlook for 2025 to 1.54 mio bpd from 1.64 mio bpd at the previous monthly estimate.

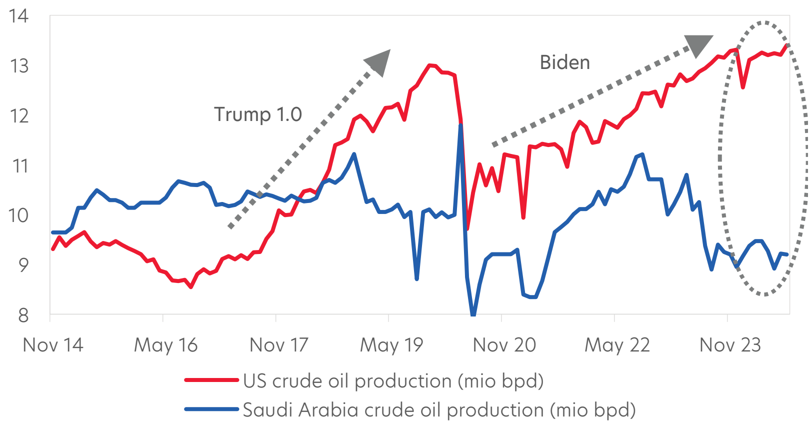
In addition, there remains skepticism as to how much further can the returning Trump administration expand on US oil production and fracking. This is because under Trump 1.0 and the Biden administration as well, the US has vastly expanded its oil production. US is now the world's largest producer of crude oil, pumping about 13.5 mio bpd, almost 50% higher than the 9.0 mio bpd from Saudi Arabia. And with the weak oil price, it is likely that Saudi Arabia will continue to exercise restrain and further extend its production cuts deeper into early 2025. Another positive sign of note is that amidst the on-going strength in the US economy, both US and OECD oil inventory have been drawn down further. And there are initial hopeful signs that China's implied oil demand may be stabilizing after the massive round of stimulus from Sep.

However, one major worry overhanging oil price is the much uncertainty over the global growth outlook as well as China's economic recovery after the potential large tariff hikes from Trump 2.0 across 2025. This risk of further growth slowdown from renewed tariffs in 2025 appears to be nullifying any rise in geopolitical risk from the on-going Russia-Ukraine war.

Overall, while most of the negative factors are now apparent, we acknowledge the further downside risk from negative impact from Trump 2.0 tariffs on China and global energy demand. As such, we now adopt a negative outlook for Brent crude oil forecasting USD 75 / bbl for 1H25 and USD 70 / bbl for 2H25. If global trade conflict worsens, the risk of further sell-off below USD 70 / bbl cannot be ruled out later in 2025.

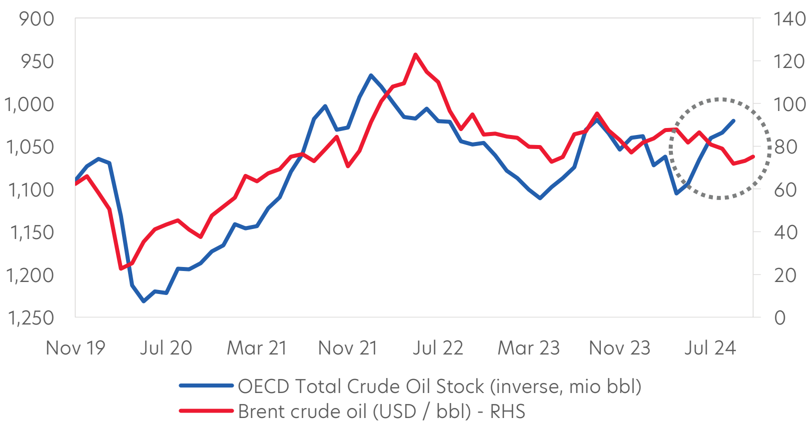
US now produces almost 50% more crude oil than Saudi Arabia

Source: Bloomberg, UOB Global Economics & Markets Research



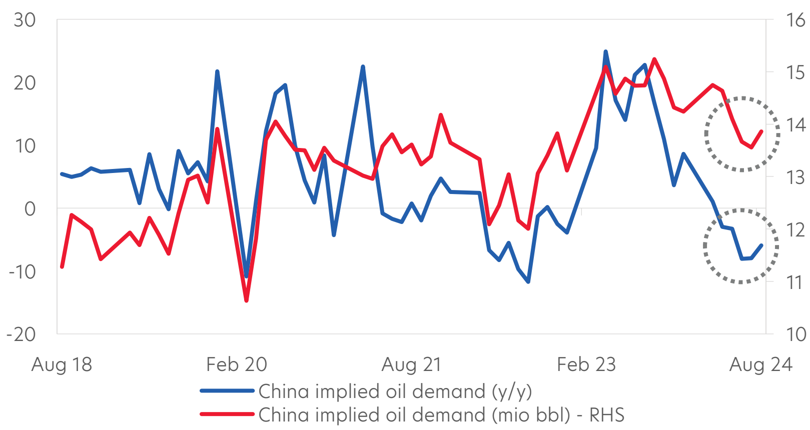
Oil prices yet to response positively to draw down in global inventory

Source: Bloomberg, UOB Global Economics & Markets Research



Has China's oil demand stabilized after the latest round of stimulus?

Source: Bloomberg, UOB Global Economics & Markets Research



Copper

Downgrading Copper outlook further to negative as Trump 2.0 tariffs loom

UOB's Forecast	1Q25	2Q25	3Q25	4Q25
LME Copper (USD/mt)	8,000	8,000	7,500	7,500

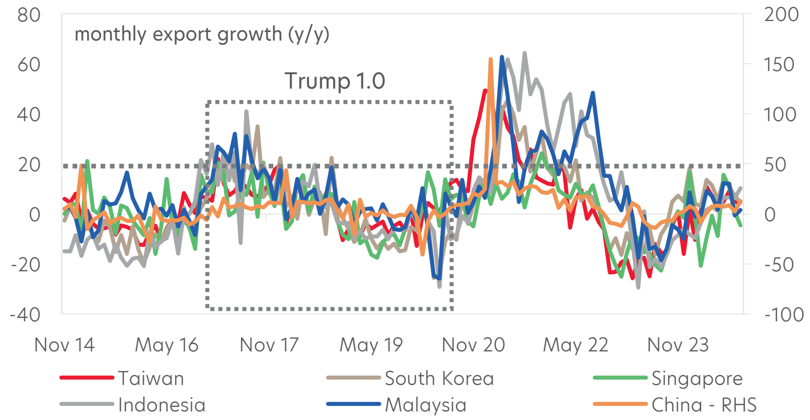
In the previous quarterly report, we downgraded our LME Copper outlook from positive to neutral and lowered the forecasts from USD 10,000 / MT to USD 9,000 / MT by 4Q24. That proved to be the prudent approach given that LME Copper price did weaken further in the final few months of 2024. After a brief China stimulus inspired surge to USD 10,000 / MT in late Sep, prices fell back to USD 9,500 / MT by late Oct. Thereafter, prices fell further after the US election and has now dipped below USD 9,000 / MT by end Nov.

Over the longer run, the risk of further supply disruption from aging copper mines remains a key concern. However, this supply risk is now completely overtaken by more immediate concerns of the risk of global trade contraction and manufacturing slowdown due to the incoming Trump 2.0 tariffs later in 2025. As a result of risks from Trump 2.0 tariffs, our macroeconomic team has downgraded the base case estimate of China's economic growth in 2025 to 4.3%. Depending on the intensity and pacing of the incoming Trump 2.0 tariffs, it is likely that China, Asia as well as the rest of the world will suffer yet another round of trade and export contraction across 2025 and further into 2026. This will likely weigh down on LME Copper prices.

Amidst worries from incoming Trump 2.0 tariffs, inventory level of LME Copper, as well as other industrial metals like Nickel and Lead have risen over the past few months. The LME Copper cash vs 3 month spread, a key proxy of near-term demand has yet to recover and remains at a significant discount of USD 120 / MT. As a result of immediate risks to global trade and production from incoming Trump 2.0 tariffs, we downgrade LME Copper outlook further from neutral to negative. Updated forecasts are USD 8,000 / MT for 1H25 and USD 7,500 / MT for 2H25.

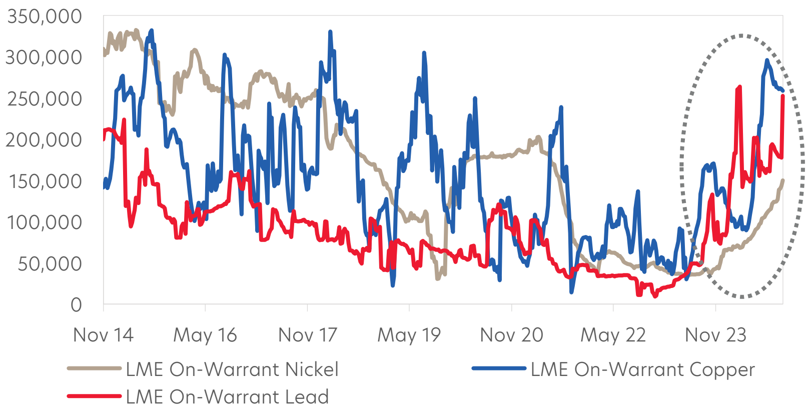
Asian and Global trade risk another round of contraction under Trump 2.0 tariffs

Source: Bloomberg, UOB Global Economics & Markets Research



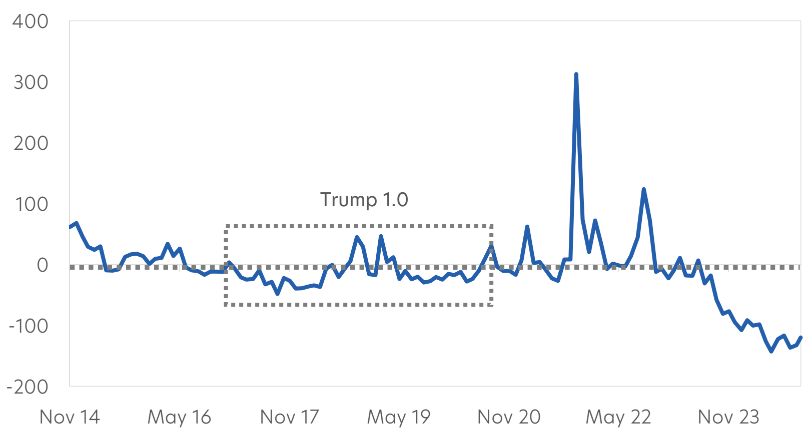
Copper and other industrial metals inventory on the LME continue to rise across 2024

Source: Bloomberg, UOB Global Economics & Markets Research



Discount in spot vs 3M Copper price now signfiicantly worse than during Trump 1.0

Source: Bloomberg, UOB Global Economics & Markets Research



FX & Rates	1Q25F	2Q25F	3Q25F	4Q25F
USD/CNY	7.35	7.50	7.60	7.45
CNY 1Y Loan Prime Rate	3.10	3.10	3.10	3.10
Economic Indicator	2022	2023	2024F	2025F
GDP (%)	3.0	5.2	4.9	4.3
CPI (avg y/y %)	2.0	0.2	0.4	0.9
Unemployment Rate (%)	5.5	5.1	5.2	5.3
Current Account (% of GDP)	2.5	1.4	1.8	1.5
Fiscal Balance (% of GDP)	-4.7	-4.6	-4.9	-5.2

ECONOMY

Stimulus stabilized near-term outlook but looming trade war poses significant downside risks

China's economy stabilized in Oct following the strong dose of policy support. This was the first full-month of data after the government's stimulus package announced in late-Sep. The rebound in retail sales and drop in the unemployment rate signalled an improvement in private consumption while industrial production growth held up. The real estate outlook remained weak as prices continued to fall albeit at a smaller pace and recovery continued to be led by tier-1 cities. New medium/ long-term household loans, which indicate mortgage demand, have eased from Sep.

The prospects of yet another trade war with the US are dampening China's outlook in 2025 and beyond. However, frontloading of exports to the US will be positive in the near-term, offset somewhat by cuts in China's export levy rebates for some commodities to ease the industrial overcapacity. The acceleration in investments diversification offshore will remain negative for China's economy. Trump has already threatened additional 10% "anti-drug" tariff on China and previously called for 60% tariff on all Chinese goods. It is too early to assess the impact with the specifics still unknown and the timing of implementation depends on the course of legal actions needed. To maximise the leverage for negotiations, Trump is unlikely to implement the maximum tariffs at the onset of his presidency even if he could. As such, the uncertainties will keep markets on edge, at least in 1Q25.

The National People's Congress (NPC) Standing Committee in Nov approved a CNY10 tn package to refinance local governments' off-balance-sheet debt over 2024-2028. This came short of expectation as there was no new direct stimulus spending to raise consumption demand and the long period of debt resolution suggest that the fiscal boost will be very limited in the near-term. Looking ahead, the Politburo meeting and Central Economic Work Conference in Dec will map out the economic work and set key targets which will then be announced at the annual NPC in Mar where the focus is also on additional stimulus measures, particularly for consumption and the housing market to cushion the negative impact of a trade war and promote household consumption as an engine of growth. Next year will be important as China formulates the 15th Five-Year Plan (2026-2030) and it will also be the last year of the 14th Five-Year Plan (2021-2025). The focus will stay on mitigating risks, stabilising growth and the promotion of new growth engines.

We maintain our GDP growth forecast for China at 4.9% this year, factoring in an uptick in the growth rate to 5.0% y/y in 4Q24 from 4.6% in 3Q24 as the recent stimulus stabilizes outlook in the near-term. Our concerns for the looming trade conflict ahead has led us to downgrade our 2025 GDP growth forecast to 4.3% (from 4.6%) as we factor in staggered increase in additional tariff to 25% on Chinese goods starting from 2Q25. Risk is to the downside if tariffs are more punitive than our base case.

CENTRAL BANK

Monetary policy to focus on RRR cuts

Weak demand and trade tensions will be deflationary for China. In Jan-Oct, the headline and core inflation averaged only 0.3% y/y and 0.5% y/y respectively. China's Producer Price Index (PPI) deflation entered into its 25th consecutive month, worsening to -2.9% y/y in Oct. We expect the headline CPI to average 0.4% and 0.9% in 2024 and 2025 respectively. Our forecast for PPI is at -2.2% for 2024 and -1.2% for 2025.

This will keep the PBOC on its easing bias although anticipated depreciation pressure on the CNY due to the trade war may limit room for rate cuts. Chinese banks have lowered their LPR by a larger-than-expected 25 bps in Oct and PBOC indicated another 25-50 bps reduction to banks' reserve requirement ratio (RRR) by year-end. The lower interest rates will also support higher government debt issuances ahead. Keeping in mind the limits of progressively lower interest rates, the PBOC is likely to stay focused on reducing the RRR instead which releases long term liquidity and may also replace the large amount of maturing 1Y medium-term lending facility (MLF) in the next few months. As such we see another 50-100 bps cut to the RRR in 2025.

CURRENCY

USD/CNY to trade above 7.35

Trump's tariffs are likely to exacerbate the existing concerns about China's economic slowdown. On top of a weaker domestic growth outlook, the CNY is likely to fall further against the USD as a slower and shallower Fed rate-cut cycle helps support the USD.

Referencing the 2018-2020 trade war, it is likely that USD/CNY will test recent key highs of 7.35 in the coming months as tariff uncertainties build. A pickup of hedging demand upon the breach of 7.35 may lead to USD/CNY beginning a new trading range above that level. At the same time, it is worth noting that the USD/CNY strength back in 2018 was more pronounced as it was the first time a trade conflict was waged between the two countries and that USD was also drawing strength from a Fed rate hike cycle at that time. In comparison, this time round the Fed is expected to keep to its rate cuts plan even as tariffs loom.

To maintain an orderly devaluation, the PBOC may guide markets expectations via the daily CNY fixing and warns against one-sided speculative bets on its currency. Overall, our updated USD/CNY forecasts are 7.35 in 1Q25, 7.50 in 2Q25, 7.60 in 3Q25 and 7.45 in 4Q25. The risk is skewed to further downside for CNY if larger or sooner tariffs are implemented compared to our base case.

FX & Rates	1Q25F	2Q25F	3Q25F	4Q25F
USD/HKD	7.80	7.80	7.80	7.80
HKD Base Rate	4.50	4.25	4.00	4.00
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	-3.7	3.3	2.5	2.0
CPI (avg y/y %)	1.9	2.1	1.7	1.9
Unemployment Rate (%)	3.5	2.9	3.0	3.0
Current Account (% of GDP)	10.2	9.2	10.5	8.2
Fiscal Balance (% of GDP)	-4.4	-3.4	-2.0	-0.5

ECONOMY

Private consumption stayed in contraction

Hong Kong's GDP growth slowed sharply to 1.8% y/y in 3Q24 from 3.2% y/y in 2Q24. Sequentially, GDP contracted by -1.1% q/q in 3Q24, the first quarterly decline in two years. The weakness in private consumption demand was particularly pronounced as it contracted for the second straight quarter by -1.3% y/y following -1.6% y/y in 2Q24. Hong Kong's retail sales have been declining since Mar, largely attributed to the change in residents' consumption patterns favouring cross-border spending while inbound tourism recovery has been slow. In the labour market, unemployment rate has stayed low at 3.0% through 3Q24 while the median monthly employment earnings of full-time employees rose by 6.7% in nominal terms.

Government spending held up with a growth of 2.1% y/y but was not sufficient to mitigate the significant drag from the lack of private consumption demand. Gross domestic fixed capital formation and goods export grew by a more moderate pace of 3.7% y/y and 4.0% y/y respectively. Services export picked up to 2.4% y/y from 1.1% y/y in 2Q24 on the back of an increase in cross-border activities, but this continued to lag services import growth.

Hong Kong's economy continues to face challenges going into 2025. The risk for exports is biased to the downside due to the geopolitical tensions and trade conflicts. Lower domestic interest rates in tandem with US Fed rate cuts as well as the stabilisation in the mainland's economy following a slew of stimulus measures will be positive for private consumption and investments. However, changes in US' policies under the new Trump administration will bring significant uncertainties which will weaken the recovery outlook next year. These include a second trade war targeting China and inflationary policies leading to smaller US rate cuts. Furthermore, the weak retail outlook may continue to be a significant drag while mainland's tightening control over Hong Kong could also continue to undermine investor confidence.

Hong Kong's private residential price index fell 7.5% year-to-date as of Sep, on track to record the third consecutive year of decline. Prices are now more than 25% below their peak in 2021. The scrapping of property demand-side management measures in Feb has failed to lift the market where backlog of unsold homes, slowdown in the mainland economy and price cuts by property developers under debt pressure are continuing to dampen the outlook. However, Hong Kong banks have lowered their prime lending rates twice since Sep which contributed to an improvement in the rental yield spread. Further interest rate cuts and easing of lending for home purchase such as the increase in the loan-to-value (LTV) ratio in Oct, could finally stabilise the property market. A sustained rebound in the property and stock markets will help domestic sentiment recover meaningfully.

For the first three quarters of 2024, Hong Kong's GDP expanded by 2.6% y/y. With the negative surprise in 3Q24, we now expect full-year growth of only 2.5% and risk of a technical recession in 4Q24, defined as two consecutive q/q contraction. We keep our growth forecast at 2.0% for 2025 as we monitor the developments in global trade and the mainland's economic outlook. The official forecast for 2025 GDP growth will only be out during Budget 2025-26 in Feb next year.

Hong Kong's inflation in 3Q24 was boosted mainly by the low base effect of the one-off relief measures i.e. the waiver of the extra public housing rent last year. Overall, demand pressure has been contained as lower rentals kept a lid on business costs. The headline and underlying CPI inflation (excluding the government's one-off measures) averaged 1.8% y/y and 1.0% y/y in Jan-Oct respectively. Headline inflation is expected to remain mild, averaging 1.7% in 2024 and 1.9% in 2025 as external price pressure ease.

CENTRAL BANK

Hibor to resume trajectory lower

Hong Kong's aggregate balance has held steady at around HKD45bn since May 2023, its lowest since 2008. HKMA's interventions to defend the HKD peg has resulted in tightened interbank liquidity and higher rates. As US Fed eases its monetary policy, this will reverse. The 3-month Hibor fell as much as 230 bps from its peak in Nov 2023 but pared the decline to around 140 bps (as of 22 Nov). While markets have toned down expectation of US rate cuts since Trump's re-election, lower interest rate trajectory still holds and Hibor is expected to fall, but at a more gradual pace in 2025.

CURRENCY

Holding steady at 7.80

USD/HKD grinded higher from 7.77 in early Oct to the current level of about 7.78 (as of 26 Nov), tracing broad USD strength in the quarter as traders recalibrated towards a slower and shallower Fed rate-cut cycle under Trump 2.0. This comes despite a narrowing of SOFR – Hibor spread which typically argues for a lower USD/HKD.

Alongside our expectations that USD is likely to stay bid in the coming quarters as Trump's tariff policy takes shape, we expect USD/HKD to normalise further towards the middle of its 7.75 – 7.85 trading band. As such, we reiterate our USD/HKD forecasts of 7.80 for the next four quarters in 2025.

FX & Rates	1Q25F	2Q25F	3Q25F	4Q25F
USD/INR	85.0	85.5	86.5	85.5
INR Repo Rate	6.00	5.75	5.75	5.75
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP, FY (%)	9.7	7.0	8.2	6.8
CPI, FY (avg y/y %)	5.5	6.7	5.4	5.2
Current Account, FY (% of GDP)	-1.2	-2.0	-0.7	-1.1
Fiscal Balance, FY (% of GDP)	-6.7	-6.4	-5.6	-4.9

ECONOMY

Growth likely moderated in 2QFY25 (3Q24)

India's 2QFY25 GDP will be released on 29 Nov, 6.30 pm SGT, where we project growth to moderate to 6.3% y/y (from 6.7% in 1Q), and our forecast is a tad lower than the Bloomberg consensus estimate of 6.5% and RBI's Oct MPC forecast of 7.0%. High-frequency indicators point to a slowdown in economic activity in 2Q. The manufacturing (2Q average: 57.4, 1Q: 58.2) and services (2Q: 59.6, 1Q: 60.5) PMI softened, albeit still expansionary. Two- and three-wheeler sales continued to expand, although at a slower clip in 2Q. Nonetheless, India's economy is likely to remain resilient as private consumption could pick up in 3Q on festival-related spending while the recovering agriculture sector bodes well for farm income and rural demand. Overall, we project FY25 real GDP growth at 6.8% (RBI Oct est: 7.2%).

India's headline inflation accelerated to 6.21% y/y in Oct (Sep: 5.49%) and breached RBI's upper tolerance limit of 6%, owing to the surge in prices within the food & non-alcoholic beverage component (Oct: 9.7% y/y, Sep: 8.4%), which has a sizeable weight of 45.9% in the CPI basket. Price pressures remain acute in the vegetables category, particularly amongst the TOP (tomato, onion, potatoes) crops and garlic, reflecting lingering supply shortages.

Core inflation recorded a 17bps pick up to 3.67% y/y in Oct (Sep: 3.50%), while the proportion of items in the CPI basket with y/y inflation exceeding 6% rose to 44% in Oct (Aug-Sep: 43%), which may fuel concerns over the adverse impact of persistently high food inflation on household's inflation expectations and its spillover effects into core inflation which was emphatically expressed during the Aug MPC meeting (note). In the latest Nov bulletin, RBI noted that "*there are early signs of second order effects or spillovers of high primary food prices*" and "*higher cost of living pressures due to elevated food prices beginning to transmit to specific wages*". Overall, we project FY25 headline CPI inflation to average 5.2%, which is significantly above RBI's Oct forecast of 4.5%.

CENTRAL BANK

Expect a relatively shallow easing cycle (total 75bps of cuts)

While average daily retail prices suggest that food inflation momentum could slow in Nov, headline inflation is likely to still hover within the 5%-6% range in the months ahead.

Hence, we expect RBI to commence monetary policy easing only in the Feb 2025 MPC meeting, with risks that the easing cycle could be further delayed should food inflation remain sticky. In addition, we project a relatively shallow easing cycle this round (total of 75bps cut), taking the terminal rate to 5.75% by 2Q25 (Apr-Jun quarter), incorporating an assessment in RBI's Jul 2024 bulletin that the (real) neutral rate has increased to 1.4%-1.9% in 4QFY24 (compared to 0.8%-1.0% in 3QFY22). At a recent fireside chat (Bloomberg, 6 Nov 2024), RBI governor Shaktikanta Das noted significant upside risks to inflation and that the stance change from the withdrawal of accommodation to neutral in the Oct MPC meeting does not mean that the next step is a rate cut in the next meeting (i.e. the upcoming Dec MPC meeting on 6 Dec).

On a separate note, the RBI governor's term is due to end on 10 Dec 2024 (after the Dec MPC meeting) although Reuters noted that the government is likely to extend his term for a second time, citing three sources with direct knowledge of the matter, which would make him the longest serving chief since the 1960s if so. In addition, RBI's deputy governor Michael Debabrata Patra is set to step down once his tenure ends on 15 Jan 2025 (Indian Express, 4 Nov). Any reshuffling in the MPC could impart greater uncertainty over the policy rate path.

CURRENCY

INR to weaken to new lows

INR weakened alongside regional peers against the USD in 4Q24 as investors repriced for lesser Fed rate cuts in 2025 in the Trump 2.0 era. That said, the INR devaluation appears orderly as the RBI intervention smooths out the currency volatility. In comparison, USD/INR rose a modest 0.8% across Oct and Nov, one of the least within the Asia FX space.

Going forward, further outflows from the local bond and stock markets may continue to be a drag on the INR. On the other hand, a shallower RBI rate cut cycle this time round may maintain the INR's rate advantage over the Fed, buffering the currency. The RBI may continue to draw upon its big stockpile of forex reserves to limit currency volatility as INR trades to a new record low against the USD.

Overall, our updated USD/INR forecasts are at 85.0 in 1Q25, 85.5 in 2Q25, 86.5 in 3Q25, and 85.5 in 4Q25.

FX & Rates	1Q25F	2Q25F	3Q25F	4Q25F
USD/IDR	16,000	16,200	16,400	16,200
IDR 7D Reverse Repo	5.50	5.00	4.75	4.75
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	5.3	5.1	5.2	5.3
CPI (avg y/y %)	4.2	3.7	2.5	2.8
Unemployment Rate (%)	6.0	5.3	5.2	5.1
Current Account (% of GDP)	1.0	-0.1	-0.8	-1.5
Fiscal Balance (% of GDP)	-2.6	-1.7	-2.5	-2.7

ECONOMY

Slowing growth needs stimulus

Economic growth slowed to 4.95% y/y in 3Q24 vs. 5.05% in 2Q24 as household consumption eased slightly in the absence of any festive event during the quarter (in comparison to general elections and Eid-al-Fitr in 2Q24) and as weakening global demand affected commodity prices and yielded lower exports revenue. Investment spending held up relatively well amid strong FDI flows into the shore notably in the transportation and logistics sectors. We expect Indonesia's economic growth to rebound strongly in 4Q24 on the back of faster and larger government spending that may likely boost domestic demand. We are forecasting faster growth to continue as we enter year 2025, driven by the sustained re-acceleration of fiscal spending and stimulus, on top of higher investment spending (driven by FDI), and higher consumption. We keep our growth forecast for 2024 at 5.2% and we expect it to improve to 5.3% next year.

Indonesia saw a narrower current account deficit (CAD) of USD2.2bn (0.6% of GDP) in 3Q24 compared to the preceding quarter's deficit of USD3.24bn (0.9% of GDP), driven by the sustained trade surplus in the non-oil & gas account amid still relatively elevated commodity prices. Imports growth accelerated, reflecting an increase in domestic economic activities, while a narrower service deficit was driven by an increase in the number of inbound travelers. Capital and financial account was stronger, garnering a much larger surplus of USD6.6bn (1.8% of GDP) in 3Q24 compared to USD3bn (0.9% of GDP) in 2Q24. Direct Investment flow surplus widens to USD5.2bn from USD2.1bn in 2Q24 on the back of higher investment flows into manufacturing, mining & quarrying, and retail & wholesale trade sectors. We therefore keep our CAD forecast for Indonesia to hover between -1 and -0.5% of GDP (with point forecast of -0.8%) in 2024. Higher investments in the capital-intensive sectors such as new smelters developments and further rebound in consumption will likely fuel higher imports while lower commodity prices may yield lower export proceeds. Altogether, these will weigh on trade surplus going forward while deficits in the primary and services accounts are likely to also get wider.

Headline inflation eased to 1.7% y/y in Oct vs. Sep's 1.8%. The driver of CPI deceleration was a further sequential decline in transportation prices and generally stable food prices considering steady supply. CPI rose by 0.1% m/m compared to Sep's deflation of 0.1%. The core CPI rose 2.2% y/y in Oct as compared to Sep's 2.1%. Other inflation-related indicators suggest that demand-pull pressures are relatively muted as economic activity cooled in 3Q24 as reflected by the softening of the consumer confidence index in Oct to 121.1 vs. 123.5 in Sep. Additionally, consumer's savings-to-income ratio declined in Oct to 15% from 15.3% in the preceding month, implying to a certain extent that despite easing inflationary pressures, households need to dig more into their savings to maintain their consumption. We keep our 2024 average inflation forecast of 2.5%, which remains well within BI's target range of 1.5% to 3.5% on the back of a more subdued than originally expected energy and food price pressures.

CENTRAL BANK

Paused rather than done with

BI cut its benchmark rate (BI rate) to 6% in Sep MPC but kept rates unchanged in the subsequent meetings in Oct and Nov. We do not think that was the end of its rate-cutting cycle but rather a pause. Sustained easing in both headline and core inflation data reaffirm our view that BI is likely to continue its rate cutting cycle but we are cognizant of the stance that BI will likely wait for a more stable and appreciating exchange rate before resuming its rate cuts. Our view has therefore slightly shifted that BI will continue its rate cutting cycle next month to 5.75% and a cumulative 100bps cuts in 2025 for the BI rate to reach 4.75% by the end of next year. The 4.75% level by next year remains consistent with BI's inflation target of 1.5-3.5%, implying the long-run equilibrium rate of around 4-4.25% (50-75bps above top-end of the inflation range).

CURRENCY

IDR to weaken beyond 16,000/USD

USD/IDR rebounded from a low of near to 15,000 in late Sep to 15,800 in late Nov alongside higher US Treasury yields which dented the appeal of local government bonds. Uncertainties are also building up on Trump's tariff policy which had investors turn cautious about Emerging Market (EM) exposure. Inflows to Indonesia's government bonds have grinded to a standstill in 4Q24 after registering the biggest inflow since 2019 in the prior quarter (USD 4bn). To temper with the depreciation pressures, BI has intervened in the spot and domestic non-deliverable forwards in the last month.

Going forth, while further USD strength is the likely path of least resistance, BI's emphasis on rupiah stability may slow USD/IDR's ascent. Overall, our updated USD/IDR forecasts are 16,000 in 1Q25, 16,200 in 2Q25, 16,400 in 3Q25 and 16,200 in 4Q25.

FX & Rates	1Q25F	2Q25F	3Q25F	4Q25F
USD/JPY	155	157	154	152
JPY Policy Rate	0.50	0.50	0.50	0.50
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	1.2	1.7	-0.3	1.0
CPI (avg y/y %)	2.5	3.2	2.7	2.0
Unemployment Rate (%)	2.7	2.4	2.6	2.8
Current Account (% of GDP)	1.9	1.5	2.5	2.3
Fiscal Balance, FY (% of GDP)	-13.2	-6.0	-5.0	-4.5

ECONOMY

Private consumption supported 2H24 growth rebound but outlook ahead paved with Trump uncertainties

3Q24 GDP continued to expand at 0.9% q/q SAAR (beating Bloomberg est 0.7%) albeit slower than the revised 2.2% pace in 2Q (previous: 2.9%). The upside to 3Q GDP growth was attributed to a solid rise in private consumption (0.9% q/q from 0.7% in 2Q, Bloomberg est 0.2%) and a 0.1ppt gain in net private inventories, offsetting a fall in business spending (-0.2% q/q from +0.9% in 2Q) and a continued and more pronounced drag from net exports (-0.4ppt in 3Q from -0.1ppt in 2Q). The back-to-back rise in consumption spending (2Q-3Q) after 1 year of y/y declines is seen as a strong trend of wage growth translating to higher spending. Residential investment fell slightly (-0.1% in 3Q from 1.4% in 2Q) and so did public investments (-0.9% from 4.1%) although they did not materially impact overall 3Q growth.

Industrial production (IP) has been on a weakening path and is likely to be made worse by the peaking of the electronics cycle (likely to have taken place in 3Q24). In the first 9 months of 2024, IP contracted by -2.8% y/y (comparably worse than -1.3% in 2023, -0.1% in 2022). Reflecting the challenging outlook, the manufacturing PMI continued to struggle (Nov: 49.0, Jul-Oct: between 49.1 and 49.8). In comparison, services PMI fared better, returning to expansion with 50.2 print in Nov (Sep: 49.7) while 3Q averaged 53.5, likely supported by post-summer influx of tourists and a cheaper yen.

We expect Japan's growth trajectory to extend into 4Q, supported by the wage-induced consumption recovery. Continued tourist arrivals and the positive impact on the tourism-related in-person services will also anchor the domestic growth outlook together with the loosening of monetary conditions in the international markets. Accelerated investments into semiconductor technology and production will bode well for its long-term potential and may lead to a bump up in investments spending in the upcoming quarters though not likely to add much to near-term production. The recently approved JPY21.9 trillion stimulus package will be another positive to support wage gains and cope with higher prices for households and business (but likely at the expense of funding part of the new spending with new debt). That said, the downside factors still loom large and will the in-coming Trump administration will add further uncertainty to the growth outlook especially the extent of global and China growth slowdown under Trump's new set of potential tariffs. Other downside risks include the resumption of weak domestic demand if wage growth stalls in 2025, Japanese manufacturers being impacted from the potential electronics downcycle and tariffs imposition from US (due to Japan's significant trade surplus with US), and the tighter monetary stance from Bank of Japan (BOJ). Despite 3Q's improvement, the back-to-back y/y decline in 1H is material (-0.9% y/y) and will negatively affect the full year growth outturn even though we priced in another sequential growth uptick in 4Q (1.6% q/q SAAR, 0.5% y/y). As a result, we have downgraded our 2024 GDP forecast to -0.3% contraction (previous: +0.2% growth). We also revised our 2025 growth forecast to +1.0% (previous: +1.7%), on Trump policy uncertainties and its negative impact on China & Asia.

After a recent peak at 3% in Aug, headline CPI inflation eased to a 9-month low of 2.3% y/y in Oct (Sep: 2.5%) while core CPI (excluding fresh food) also trended lower to 2.3% y/y in Aug (from Apr's low of 2.2%). In comparison, core-core CPI (excluding fresh food, energy) started to edge higher from the low of 1.9% in Jul, to 2.3% in Oct, likely a reflection of wage-related price pressures. Services producer prices continued to rise at a pace well above 2% (Sep: 2.6%, Oct: 2.9%) as companies passed on labour costs to customers at fastest pace in nearly 3 decades. The BOJ projected (in Oct Bank View) that risks to prices are skewed to the upside for FY2025. We lifted our headline and core CPI to average 2.7% and 2.5% for 2024 (from 2.6% previously) and both expected to ease to 2.0% for 2025.

CENTRAL BANK

Expect one more 25-bps hike & done

The BOJ kept its policy rate unchanged at 0.25% in its Sep and Oct meetings. For now, we expect BOJ to hike its policy rate by 25-bps to 0.5% at the Dec 2024 MPM, which we believe will be the terminal rate. The increase in consumption spending in 2Q and 3Q while inflation continue to affirm the underlying price trends that sustains BOJ's 2% objective, both factors should boost the BOJ's confidence to hike once more in Dec, if not Jan 2025. But into 2025, the easing of growth and the uncertain path of inflation due to Trump policies may be enough to put BOJ Governor Ueda into a prolonged pause.

CURRENCY

Limited upside in USD/JPY

USD/JPY grinded higher to a four-month high of about 155 amidst a broad USD resurgence as markets priced in lesser Fed rate cuts in a Trump 2.0 scenario. Despite tariff uncertainties probably anchoring the USD for a while longer, further gains in USD/JPY may be held back by the persistent monetary policy divergence between the Fed (easing bias) and the BOJ which we still forecast a rate hike in the coming Dec meeting. Already, the 10-year USD-JPY rate spread has narrowed modestly in Nov, owning to a bigger rise in the 10-year JGB yield compared to the US equivalent. Also, traders may also turn cautious ahead of previous intervention levels near 160. Overall, our updated USD/JPY forecasts are 155 in 1Q25, 157 in 2Q25, 154 in 3Q25 and 152 in 4Q25.

FX & Rates	1Q25F	2Q25F	3Q25F	4Q25F
USD/MYR	4.53	4.60	4.65	4.55
MYR O/N Policy Rate	3.00	3.00	3.00	3.00
Economic Indicator	2022	2023	2024F	2025F
GDP (%)	8.9	3.6	5.3	4.7
CPI (avg y/y %)	3.3	2.5	1.9	2.3
Unemployment Rate (%)	3.6	3.3	3.2	3.0
Current Account (% of GDP)	3.1	1.2	2.0	2.3
Fiscal Balance (% of GDP)	-5.5	-5.0	-4.3	-3.8

ECONOMY

Building on strong growth momentum

Malaysia's final 3Q24 GDP growth came in at 5.3% y/y, a moderation from 5.9% in 2Q24 to bring the year-to-date (ytd) average to 5.2% (Jan-Sep 2023: 3.8%). The overall growth performance this year has surprised on the upside, thanks to the broad-based drivers: resilience in domestic demand, strong labour market, recovering tourism sector, positive investment catalysts, rebound in construction and real estate activity, ongoing recovery in export sector, supportive fiscal policies, and stable interest rates.

With a low base effect in 4Q23 and year-end seasonal demand, we expect real GDP growth momentum to hold up well at 5.8% in 4Q24 amid positive catalysts including final cash aid payment worth MYR3.4bn in Nov, civil servant wage increases in Dec, and EPF withdrawals. This will translate into a full-year growth projection of 5.3% in 2024 (MOF est: 4.8%-5.3%). For 2025, our growth forecast is 4.7% (MOF est: 4.5%-5.5%), in light of uncertainty on US trade policies and tariffs.

Despite higher external risks, Malaysia continues to have strong domestic levers supported by its stable labour market conditions, ongoing investments, energy transition efforts, implementation of national masterplans and regional development. With a total expenditure budget of MYR421bn or 20.2% of GDP for next year, the fiscal engine remains expansionary despite a narrower fiscal deficit target of 3.8% of GDP (details in report). Potential investments in the pipeline include MYR25bn by government linked-investment companies (GLICs) alongside several public-private partnership projects, and more than MYR40bn worth of government construction projects to be commenced in 2025.

In addition to the Forest City Special Financial Zone (SFZ) incentives for specific financial and services sectors (details in report), further special incentives are expected to be announced in Dec 2024 for the Johor-Singapore Special Economic Zone (JS-SEZ) to attract high quality investments in non-financial sectors. Malaysia will also assume ASEAN chairmanship starting in Jan 2025 and host the ASEAN and ASEAN-GCC Plus China summits, which are expected to augur well for the tourism industries and help boost regional growth.

CENTRAL BANK

OPR to stay at 3.00%

BNM kept the Overnight Policy Rate (OPR) unchanged through its ninth straight meeting since Jul 2023. The central bank continued to keep a neutral tone though mindful of the downside risks from external developments and potential impact of domestic policy changes planned for next year. Despite the government's plans to rationalize fuel subsidies by mid-2025, BNM is comfortable with the projected range of 2.0%-3.5% for headline inflation in 2025 (UOB est: 2.3%) even after considering different permutations for fuel prices and the absence of excessive domestic demand price pressures. With that and a cautiously optimistic economic growth outlook, we expect BNM to stay put with an unchanged OPR of 3.00% throughout 2025. The Monetary Policy Committee meeting will resume on 22 Jan next year.

CURRENCY

MYR risk amid USD strength

Reversing a large part of its outsized 12.6% gain against the USD in 3Q24, the MYR weakened back to 4.45 as at late Nov as a second Trump presidency fueled concerns over protectionist trade measures and fewer Fed rate cuts, as well as escalating military conflict in Russia-Ukraine pushed the USD higher. The broad USD strength has prompted foreign investors to readjust their MYR portfolio funds through hedging activities since early Oct.

BNM indicated in its Nov monetary policy statement that the outcome of the US elections could heighten financial market volatility in the near term. Thus far the average 1-month implied volatility for the MYR has been manageable at 4.5% (2023: 5.3%) compared to the regional average of 6.0%. The MYR still held its gains against USD and other regional currencies on a ytd basis, which was supported by USD1bn in non-resident inflows into the Malaysian bond market and USD200mn into equities amid continued conversions of export proceeds, income and excess foreign currencies into MYR by domestic investors and corporates.

Moreover, other supportive MYR measures remain in place including: 1) efforts to encourage more consistent inflows by government linked companies (GLCs) and Malaysian corporates, 2) the Qualified Resident Investor (QRI) program to offer flexibility for resident corporates to reinvest abroad after repatriation of foreign funds, and 3) liberalisation of foreign exchange policies for Multilateral Development Banks (MDBs) and non-resident development financial institutions (DFIs) to issue MYR-denominated debt securities for use in Malaysia and provide MYR financing to resident entities (details in link). Despite sound economic and financial fundamentals, the MYR is vulnerable to external developments, especially the potential upcoming Trump tariffs which is expected to weigh on Asia FX as a whole. The MYR which is closely correlated to the CNY will likely take direction from the latter. We expect the CNY and hence MYR to weaken against the USD for the first three quarters of 2025 as Trump's tariff plan takes shape before rebounding in 4Q25. Overall, our USD/MYR forecasts are now at 4.53 in 1Q25, 4.60 in 2Q25, 4.65 in 3Q25 and 4.55 in 4Q25.

FX & Rates	1Q25F	2Q25F	3Q25F	4Q25F
USD/PHP	59.5	60.0	60.5	60.0
PHP O/N Reverse Repo	5.50	5.25	5.00	4.75
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	7.6	5.5	5.5	6.0
CPI (avg y/y %)	5.8	6.0	3.0	2.8
Unemployment Rate (%)	5.5	4.6	4.5	4.5
Current Account (% of GDP)	-4.5	-2.6	-2.3	-1.8
Fiscal Balance (% of GDP)	-7.3	-6.2	-5.6	-5.3

ECONOMY

Downside risks loom

The Philippine economy lost steam in 3Q24 with real GDP growth hitting the lowest level since 2Q23 at 5.2% y/y (from 6.4% in 2Q24), following the El Nino phenomenon, the effects of typhoons (i.e. Yagi and Gaemi) and Southwest Monsoon during the quarter. All major economic sectors recorded weaker performance, particularly agriculture (-2.8%) while services sector posted the smallest gain in five quarters at 6.3%. A steep moderation in government spending (3Q24: +5.0%, 2Q24: +11.9%) and investment (3Q24: +7.5%, 2Q24: +9.7%) as well as a bigger negative net trade contribution (-2.9ppts) were also key culprits to the weak growth momentum in 3Q24, which fully offset the increase in stock replenishment (+1.1ppts) and household consumption (+5.1%).

In the first three quarters of this year, real GDP growth averaged 5.8%, slightly higher than the 5.6% recorded in the corresponding period of last year. Nevertheless, domestic economic activities may continue to face challenges from external uncertainties and adverse weather conditions going forward. Policy uncertainties from the US President-elect Donald Trump and heightened geopolitical conflicts are key downside risks at play for now, which will impact the global economy and financial markets. On that note, domestic fiscal and monetary policy support are essential to sustain the overall local growth momentum, which we project at 5.5% for the entire of 2024 (official est: 6.0%-7.0%, 2023: 5.5%) and 6.0% for 2025 (official est: 6.5%-7.5%).

The Philippine government has proposed a sizable increase of 10.1% in budget for 2025 to PHP6.352tn (or 21.9% of GDP, from an estimated PHP5.768tn or 21.8% of GDP in 2024), with a lower fiscal deficit-to-GDP ratio of 5.3% (2024f: -5.6%). Bulk of the proposed budget will be allocated to the social services sector (PHP2.1tn or 33.4%), economic services (PHP1.9tn or 29.2%) and general public services (PHP1.1tn or 17.1%). Some PHP1.5tn or 5.2% of GDP is also budgeted for infrastructure projects that will drive construction activities and investments.

Relatedly, the national government is expected to boost public spending and speed up completion of some infrastructure projects in the near term as it gears up for the mid-term elections on 12 May 2025. Campaign spending will be a source of additional growth for the local economy in 1H25 while the year-ago low base effects and broader transmission of monetary policy easing since Aug 2024 will provide a fillip to the growth outlook in 2H25.

CENTRAL BANK

Signaling a measured easing pace

BSP has cut the overnight reverse repurchase (RRP) rate twice since Aug 2024 by a total of 50bps, slowly unwinding its tightening of 450bps in 2022-2023. In the Oct monetary policy statement (MPS), the Monetary Board (MB) said that the within-target inflation outlook and well-anchored inflation expectations continue to support BSP's shift toward less restrictive monetary policy. The central bank's baseline inflation forecasts are 3.1% for 2024 (UOB est: 3.0%), 3.2% for 2025 (UOB est: 2.8%) and 3.4% for 2026 with risks tilting to the upside across 2025 and 2026 policy horizon. The upside risks to inflation include potential hikes in electricity rates, higher minimum wages in regions outside Metro Manila, the imposition of digital tax and volatile global commodity prices.

Furthermore, the MB also indicated in the MPS that it will maintain a measured approach in its easing cycle to ensure price stability conducive to sustainable economic growth and employment. Recognising this forward guidance, the economic growth momentum and disinflation process, we anticipate BSP to carry on its easing path with a 25bps cut on 19 Dec 2024 and in each quarter of 2025. It will take the RRP rate to 4.75% by end-2025.

To strengthen the transmission of monetary policy and deepen the local capital markets, the BSP launched a new interest rate swap market (enhanced PESO interest rate swap or PESO IRS market) on 18 Nov 2024. A total of 16 banks have committed for the first time to be market makers for the Overnight Reference Rate (ORR)-based IRS that is based on the variable overnight RRP rate.

CURRENCY

PHP may weaken to new low

Worries about Trump's tariff policy has triggered a flight to the USD in 4Q24 and in turn putting pressure on the regional currencies including the Philippine peso (PHP). The local currency has weakened by 5.3% in quarter-to-date to 59.0 /USD as of 26 Nov.

In 2025, the PHP is likely to be on the defensive, taking direction from Trump's tariff policy as it takes shape as well as the CNY. A faster pace of rate cuts by the BSP relative to the Fed in 2025 is likely to weigh on the PHP as well. It appears that the record low of 59.33 /USD will be tested in the near term as external headwinds build.

Overall, we forecast USD/PHP to be at 59.5 in 1Q25, 60.0 in 2Q25, 60.5 in 3Q25 and 60.0 in 4Q25.

FX & Rates	1Q25F	2Q25F	3Q25F	4Q25F
USD/SGD	1.36	1.37	1.38	1.36
SGD 3M SORA (compounded)	2.77	2.41	2.29	2.23
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	3.8	1.1	3.5	2.5
Core CPI (avg y/y %)	4.1	4.2	2.8	1.7
Unemployment Rate, eop (%)	2.0	2.0	1.9	2.1
Current Account (% of GDP)	18.0	19.8	19.5	19.9
Fiscal Balance, FY (% of GDP)	0.3	-0.5	0.1	0.3

ECONOMY

Downside risks to growth in 2H25 on looming tariffs

Singapore's 3Q24 GDP growth strengthened significantly to 5.4% y/y, 3.2% q/q sa from 3.0% y/y, 0.5% q/q sa in 2Q24, led by manufacturing (3Q24: 11.0% y/y, 2Q24: -1.1%) and trade-related services such as wholesale trade and transportation & storage, on the back of the ongoing upturn in the electronics and broader goods trade cycle. For the rest of 2024 and into early 2025, the growth momentum in trade-related sectors should be sustained, with tailwinds from some front-loading of exports ahead of potential tariffs on US imports.

However, for the rest of 2025, the outlook is somewhat cloudy given uncertainty surrounding the scope, magnitude and timing of Trump's touted tariffs, heightened geopolitical tensions, possible peak in the electronics cycle and pace of monetary easing by major central banks. Nonetheless, the expected cuts in global policy rates serve as a countercyclical cushion to any slowdown in investment and consumption activity. The financial services sector could benefit in a lower interest rate environment as demand for loans could improve, in addition to greater trading volumes amidst financial market volatility. Recently, we raised our 2024 GDP growth forecast for Singapore to 3.5% (from 3.3% previously) and downgraded our 2025 GDP growth forecast to 2.5% (from 2.9% previously) which falls within MTI's 2025 projection of "1.0 to 3.0 per cent".

The upcoming Budget will be of paramount importance as Singapore marks its 60th year of independence and is likely the last Budget in the current term of government. In our view, Budget 2025 will continue to build on the previous measures to address the heightened cost-of-living, enhance skills training and improve job security. Budget 2025 is likely to be all-encompassing and support could be rolled out to cater for Singaporeans' needs across different life stages (e.g. entering the workforce, starting families, middle-aged adults looking after both their elderly parents and children). Budget 2025 will also be opportune to lay out Singapore's economic strategies for the next decade and create good jobs for Singaporeans, with incentives to capture and catalyze investments in areas such as AI, fintech and sustainability, in light of the implementation of Pillar Two of BEPS 2.0. All-in-all, Budget 2025 will continue to advance the Forward Singapore agenda and serves as a prelude to the General Elections which must be held by 23 Nov 2025.

CENTRAL BANK

Slight slope reduction in Jan 2025 MPS

Singapore's core inflation slowed sharply to 2.1% y/y in Oct (Sep: 2.8%) driven by a material easing in the recreation & culture component and softer healthcare inflation likely reflecting the impact of the public healthcare subsidies effective 1 Oct (MOH). The Oct inflation data imparts greater confidence over the durability of the disinflation process as evidenced by the slowing of its sequential momentum although the recent uptick in food inflation momentum warrants close monitoring. The softening of external inflation conditions since the peak in 3Q22 should continue to filter through to domestic prices via the import channel. Furthermore, we assess that the scope of a diminishing passthrough of wage pressures into services inflation could materialize, on the basis that any rise in nominal wages could be offset by the ongoing cyclical pickup in labour productivity.

With the output gap slightly positive in 2024 based on our estimates, and in tandem with robust economic activity as well as persistent demand-side inflationary risks, MAS may adopt a more cautious approach and commence policy normalization only when y/y core inflation is very close to desired levels (est 1.8%) and possibly when GST-effects have completely washed-out starting Jan 2025. Hence, our base case calls for a "slight" reduction (by 50bps) to the S$NEER slope in the Jan 2025 MPS.

CURRENCY

SGD To Weaken Modestly

In the last US-China trade war, a positive-sloping S$NEER helped buffer the SGD against external headwinds and underscored gains against most of its regional trading peers. In the first year (2018), the SGD fell a modest 2% against the resurgent USD, one of the most resilient Asia FX then. This time round, history may repeat itself. Notwithstanding a "slight" reduction to the slope in the coming Jan 2025 MPS, a still-positive S$NEER slope may underpin SGD-crosses. To this point, the recent dip of S$NEER below the policy midpoint (according to our model) may offer opportunities for investors to reload on selected SGD-crosses to hedge for Trump tariffs.

Volatility of USD/SGD is likely to be checked by the SGD's reputation as a regional safe-haven currency. Currently, we do not see USD/SGD rising beyond 1.40 in our base case scenario. Overall, our updated USD/SGD forecasts are 1.36 in 1Q25, 1.37 in 2Q25, 1.38 in 3Q25 and 1.36 in 4Q25.

FX & Rates	1Q25F	2Q25F	3Q25F	4Q25F
USD/KRW	1,420	1,440	1,460	1,430
KRW Base Rate	2.75	2.50	2.50	2.50
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	2.7	1.4	2.2	2.0
CPI (avg y/y %)	5.1	3.6	2.3	1.9
Unemployment Rate (%)	3.0	3.2	2.8	3.0
Current Account (% of GDP)	1.4	1.9	4.3	3.5
Fiscal Balance (% of GDP)	-3.3	-0.6	-1.8	-1.0

ECONOMY

Lacklustre in 3Q24

South Korea's advance 3Q24 GDP turned out weaker than expected at 1.5% y/y or 0.1% q/q. The modest sequential rebound from a 0.2% q/q contraction in 2Q24 was due to a further decline in construction gross fixed capital formation (-2.8% q/q) and a slowdown in exports of goods and services (-0.4% q/q). This offset gains in private consumption (+0.5% q/q), government consumption (+0.6% q/q) and facilities investment (+6.9% q/q).

Goods exports were weighed by a drop in shipments of motor vehicles and chemical products while services exports growth moderated after recovering strongly over more than a year. Conversely, imports remained firm as South Korea increased imports of machinery & equipment. The recovery in private consumption from a contraction in the preceding quarter was supported by higher expenditures on goods (e.g., motor vehicles, communication equipment) and services (e.g., health services, transport services). Gross fixed capital formation (GFCF) rebounded despite a deeper contraction in construction investment, as facilities investment increased sharply due to an increase in both machinery and transportation equipment.

Looking ahead, export momentum is expected to slow further in 2025 with China's growth slowdown and Trump's trade policy adding to the risks. South Korea's manufacturing PMI has slipped into contraction in Sep and Oct while export growth moderated. Electronics, which account for 16% of exports, expanded strongly by 47.2% y/y in Jan-Oct but is expected to peak sometime in 2025 with added risks that the sector could be targeted in Trump's tariff actions. Another trade war that further disrupts global supply chains will have a negative impact on South Korea's outlook. Meanwhile, private consumption growth will likely be sustained given the backdrop of easing inflation, interest rate cuts and a resilient labour market where the unemployment rate remains low at 2.7% in Oct despite rebounding from its record low of 2.4% in Aug. Furthermore, investments in chips manufacturing equipment are expected to stay positive, bolstered by the government's incentives to support the industry.

Based on the advance GDP, South Korea's economy grew by 2.3% y/y in 1Q-3Q 2024. Accounting for the 3Q24 GDP miss, we downgrade our forecast for the full-year growth to 2.2% from 2.4% previously, factoring in a small rebound in growth to around 1.8% y/y in the final quarter of the year. We maintain our GDP growth outlook for 2025 at 2.0%.

The hike in electricity prices for large industrial users in late-Oct had so far little noticeable impact on the month's CPI. South Korea's inflation continued to track lower due to a drop in gasoline prices and high base effects. Headline CPI growth stayed below BOK's 2.0% target for the second straight month at 1.3% y/y in Oct (Sep: 1.6%) and is the lowest since Feb 2021. The core inflation (ex-food & energy) also fell to 1.8% y/y in Oct (Sep: 2.0%). Taking into consideration the softer inflation readings in recent months, we tweak our headline CPI growth forecast to 2.3% (from 2.5%) for 2024. Our inflation forecast for 2025 is also lower at 1.9% (from 2.0%).

CENTRAL BANK

BOK delivers back-to-back 25 bps cut in Nov

The BOK unexpectedly cut its benchmark 7-day repo rate for a second consecutive meeting in Nov to 3.00%. The surprise cut suggests increasing concerns over trade and economic slowdown as Trump starts a fresh round of trade war in his second presidential term. Inflation has now fallen below BOK's 2% target but there remain concerns over the high household leverage as sooner rate cuts could spur further increase in household debt especially those related to mortgages. Household debt saw its largest increase in three years by KRW18 tn in 3Q24 from the previous quarter.

The BOK is likely to further moderate its restrictive monetary policy in 2025 while keeping a close eye on the impact of Trump's trade policy on the FX, monetary policy of the major central banks and the global demand outlook including the pace of slowdown in China's economy. With US' rate cuts anticipated to be shallower due to Trump's inflationary policies, a faster and larger rate cuts by the BOK to bolster its economy could increase the depreciation pressure on the KRW. Domestically, the BOK will need to watch the impact of its two rate cuts on the property market. We now expect additional 25 bps rate cut per quarter in 1Q25 and 2Q25 to bring the benchmark rate to its terminal level at 2.50%.

CURRENCY

USD/KRW to stay above 1,400

The KRW is one of the laggards within the Asia FX space this year. Relative stability of the KRW in the first nine months of 2024 was upended across Oct-Nov, spurred by a repricing toward lesser Fed rate cuts in 2025 that boosted the USD. The KRW fell 5.7% in 4Q24 and 7.6% year-to-date to 1,393 / USD, on track for a fourth straight year of decline.

2025 may continue to be a challenging year for the KRW. Trump's proposed trade tariffs against China is likely to weigh on the CNY and spill over negatively to the KRW. Being a higher beta currency, we accord a higher drawdown of the KRW in 2025 compared to regional peers. The key high of 1,450 in USD/KRW will probably be tested in 2025 as Trump's tariff policy takes shape.

Overall, we expect USD/KRW to trade higher across most part of 2025 and our latest forecasts are at 1,420 in 1Q25, 1,440 in 2Q25, 1,460 in 3Q25 and 1,430 in 4Q25.

FX & Rates	1Q25F	2Q25F	3Q25F	4Q25F
USD/TWD	32.8	33.0	33.2	32.9
TWD Official Discount Rate	2.00	2.00	2.00	2.00
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	2.6	1.3	4.3	3.0
CPI (avg y/y %)	2.9	2.5	2.2	1.9
Unemployment Rate (%)	3.6	3.4	3.3	3.3
Current Account (% of GDP)	13.3	14.0	14.1	13.3
Fiscal Balance (% of GDP)	0.2	-0.6	-1.7	-1.0

ECONOMY

Net exports negative for the second straight quarter

Taiwan's advance GDP growth was above expectation at 3.97% y/y in 3Q24 and the sequential growth improved to 1.08% q/q from 0.29% q/q in 2Q24. The main driver was gross capital formation which grew at a double-digit pace for the second straight quarter, boosted by continued strong investments in AI-related industries, a low base of comparison and likely inventory rebuilding. However, net export was negative for the second straight quarter due to a larger expansion in Taiwan's imports even as exports continued to benefit from the AI boom that resulted in strong sustained demand for Information, Communication and Audio-Video Products. The slowdown in private consumption growth to its weakest since 1Q22, also indicated that the economic drivers have narrowed. The private consumption growth was led by domestic spending, outbound tourism demand as well as a buoyant stock market. The labour market has tightened with unemployment rate near to record low levels at 3.38% in Oct.

While the trend for exports remains positive, downside risks could emerge for Taiwan as the electronics cycle peaks and trade tensions escalate in the coveted chips sector. Trump's proposed tariff will cloud the outlook for export-reliant Taiwan which accounts for the production of 60% of world's semiconductors and over 90% of the most advanced ones. US' share of Taiwan's exports rose to 17.6% in 2023 from 11.7% in 2017 and is set to surpass China as Taiwan's largest market this year. As a result, US' trade deficit with Taiwan has also increased steadily to reach US$48 bn last year. Under the new US administration, the relations could shift and tensions are set to rise with Trump accusing Taiwan of "stealing US' chip business". Taiwan's largest chip maker announced plans to build factories in the US with grants under Biden's Chips Act, where ongoing developments will indicate the trade agenda of the new US administration. Taiwan will also be pressured to boost military spending and on its part is trying to get its arms purchase included in the trade balance.

Overall, Taiwan's economy grew by 5.18% y/y in the first three quarters of the year. Looking ahead, there will be headwinds from the moderation in private consumption growth and negative net exports while the higher base of comparison will also contribute to the slowdown in headline growth rate. However, investments and inventory replenishment will likely stay positive while domestic demand remains supported by a robust manufacturing sector and a scheduled increase in minimum wage next year. We forecast Taiwan's 2024 GDP growth at 4.3%, after factoring in an easing of pace in 4Q24 to around 2.0% y/y. Meanwhile, we maintain the outlook for 2025 at 3.0%. Risks for Taiwan include further slowdown in China's economy, full-blown trade war and direct trade conflicts with the US as well as an escalation in geopolitical tensions including in the South China Sea and Middle East.

Inflation has continued to ease with headline CPI and core CPI falling to 1.69% y/y and 1.64% y/y respectively in Oct, with an average of 2.20% and 1.92% YTD. The headline CPI is at its lowest since Mar 2021 while the core CPI has been under 2% since Apr this year, suggesting that underlying price pressure has eased sustainably lower. We maintain our headline CPI forecast at 2.2% for 2024 and 1.9% for 2025 which would be the first time annual inflation falls below 2% since 2021.

CENTRAL BANK

CBC inclined to hold rates in 2025

The domestic property market rally continues to be the focus of CBC's monetary policy even as inflation moderates. The national house price index rose 2.4% q/q in 3Q24, on top of gains of around 3.6% per quarter in the two preceding quarters. This was despite back-to-back hikes in banks' reserve requirement ratios (+0.25 ppt in Jun and Sep), mortgage tightening measures and a 12.5 bps interest rate hike in Mar this year. Furthermore, with a resilient domestic growth and stock market outperformance, the CBC will find it difficult to begin cutting interest rate in 2025 unless the global chips industry turns lower, due in part to a sharp increase in trade tensions. Thus, we expect CBC to keep the benchmark discount rate at 2.0% through 2025. The window for any rate cuts will likely open up in late 2025 while any move is likely to be very gradual.

CURRENCY

TWD to test key 33.0 level

Compared to other Asian peers, the TWD posted a smaller drawdown in the aftermath of the US elections. TWD fell 2.6% to 32.5 /USD in 4Q24 to date, tracking a 3.3% drop in the CNY.

With the return of Trump and trade tariffs looming, we argue that the path of least resistance is still for TWD to weaken further against the USD, mirroring similar moves in other Asian peers. That said, favourable factors such as the ongoing AI upcycle underpinning demand for Taiwan's chips and CBC's stable rate outlook may limit TWD's downside.

Overall, our latest USD/TWD forecasts are 32.8 in 1Q25, 33.0 in 2Q25, 33.2 in 3Q25 and 32.9 in 4Q25.

FX & Rates	1Q25F	2Q25F	3Q25F	4Q25F
USD/THB	35.2	35.5	35.7	35.2
THB 1D Repo	2.00	2.00	2.00	2.00
Economic Indicator	2022	2023	2024F	2025F
GDP (%)	2.5	1.9	2.7	2.9
CPI (avg y/y %)	6.1	1.2	0.4	1.2
Unemployment Rate (%)	1.3	1.0	1.0	1.0
Current Account (% of GDP)	-3.2	1.4	2.5	3.0
Fiscal Balance (% of GDP)	-4.5	-3.2	-4.3	-4.5

ECONOMY

Economic upturn to continue amid external headwinds

The economic upturn is expected to continue in 4Q24 and into 2025, building on the stronger-than-expected growth of 3.0% y/y in 3Q24, up from 2.2% y/y in 2Q24. The increased government spending, external demand, and steady private consumption are expected to remain the primary growth drivers. For the first 9 months of 2024, the Thai economy grew by 2.3% y/y. However, growth momentum is anticipated to slightly moderate, with cyclical challenges and downside risks looming. As a result, we maintain our growth forecast at 2.7% for 2024 and 2.9% for 2025.

A sizeable fiscal spending is anticipated to boost the economy in 2025, as the FY2025 budget deficit increased to 4.5% of GDP, up from 4.3% in FY2024. Alongside short-term stimulus measures, such as cash handout schemes, the expanded budget for public investment is expected to stimulate private investment on the back of rising FDI inflows. Despite rising risks and headwinds, the global electronic cycle upturn is expected to support merchandise exports while inbound tourism continues to recover, edging closer to pre-pandemic levels. However, net exports' contribution to growth may diminish, primarily due to an acceleration in imports, particularly of capital goods and raw materials, despite a potential uptick in exports driven by expectations of the US's restrictive trade measures. While private consumption is expected to soften, weighed by challenges such as declining loan growth and household debt overhang, the economic upturn should provide a cushion to households' spending.

Despite some upside potential, the near-term outlook remains overshadowed by significant downside risks, especially weaker-than-expected domestic and external demand.

The near-term inflation outlook remains subdued, primarily reflecting softening private consumption. Consequently, we maintain our inflation projections at an average of 0.4% for 2024 and 1.2% for 2025. However, risks to the outlook are tilted to the upside due to fiscal stimulus measures and rising global commodity prices triggered by escalating geopolitical conflicts.

Thailand's external sector remains fundamentally sound, bolstered by an anticipated current account surplus driven by an upturn in merchandise exports and tourism. However, growing headwinds pose challenges, including escalating global trade tensions threatening exports, a slower-than-expected pace of monetary easing by the Federal Reserve, and higher-than-anticipated terminal Fed Funds Rates. These factors are likely to trigger disruptive portfolio investment outflows, together exerting depreciation pressures on THB.

CENTRAL BANK

Pressures to ease persist

We expect the BOT to maintain the policy rate at 2.25% during its 18 Dec 2024 meeting, as recent growth and inflation data align with projections. However, pressures for easing remain, driven by declining commercial bank lending. This strains the cyclical recovery and highlights a negative feedback loop between weak credit growth and the real economy, posing risks to financial stability. With rising downside risks and softening domestic demand, further policy easing may become necessary.

We, therefore, anticipate a 25-bps rate cut in 1Q25 to ease financial conditions and support the economy amid expected softening in domestic demand, particularly in private consumption. Thereafter, the policy rate is projected to remain steady at 2.0% throughout 2025. However, additional rate cuts by the BOT cannot be ruled out if external headwinds intensify or downside risks to growth become more pronounced.

CURRENCY

THB to weaken modestly

After jumping 12% in 3Q24, the biggest quarterly gain since 1998, the THB has pared about half of the gains across Oct – Nov. A confluence of factors contributed to THB's slump, including a surprise 25bps rate cut by in Oct, broad USD strength and an outsized bond outflow (USD 2bn across Oct – Nov, on track for largest quarterly outflow since 1Q20). Going forward, the THB is likely to weaken alongside the CNY and regional peers as Trump's tariff policy takes shape in the coming months.

It is worth noting that the THB was the most resilient Asia FX in the last trade war (2018-2020) as investors took refuge in the safe-haven currency. This time round, favorable factors similar to 2018 include Thailand's current account surplus, low inflation and a stable benchmark rate outlook.

Overall, we expect THB's currency fluctuation to be lesser than regional peers in our base case scenario. Our updated USD/THB forecasts are 35.2 in 1Q25, 35.5 in 2Q25, 35.7 in 3Q25 and 35.2 in 4Q25.

FX & Rates	1Q25F	2Q25F	3Q25F	4Q25F
USD/VND	25,800	26,000	26,200	26,000
VND Refinancing Rate	4.50	4.50	4.50	4.50
Economic Indicator	2022	2023	2024F	2025F
GDP (%)	8.0	5.0	6.4	6.6
CPI (avg y/y %)	3.2	3.3	4.0	4.2
Current Account (% of GDP)	0.3	1.0	1.0	1.2
Fiscal Balance (% of GDP)	-4.5	-3.0	-3.4	-3.8

ECONOMY

On track to end the year on upbeat note

Vietnam's real GDP growth was stronger than expected in 3Q24, surging 7.4% y/y compared to median consensus view of 6.1% and our forecast of 5.7%. This is the fastest pace since 3Q22 when activities had then rebounded sharply from the trough of the pandemic. The latest figure extended the revised 7.09% gain in 2Q24, resulting in a cumulative 6.82% y/y expansion in first nine months of 2024. The surprise 3Q24 outcome reflected the resilience of the economy, despite the devastations from the deadly Typhoon Yagi.

While the primary sector was most affected by the typhoon, overall agricultural, forestry and fishery output managed to gain 2.6% y/y in 3Q24 (slower compared to 3.6% in 2Q24). Manufacturing output accelerated further to 11.4% y/y from the 10.4% gain in 2Q24. Services sector rose 7.5% y/y after the 7.1% rise in 2Q24. Overall in 3Q24, services sector was the main contributor to GDP growth with 3.24pp, followed by industrial and construction output with 3.37pp, accounting for 89% of the 7.4% headline figure.

Latest data releases suggest that Vietnam's growth trajectory remains on track. YTD Oct, Vietnam's exports rose 14.9% y/y, maintaining its double-digit momentum so far. For the full year 2024, we project Vietnam's exports to rise by 18%, which would be the strongest year since 2021. Imports gained 16.8% y/y in Jan-Oct period, resulting in a trade surplus of USD22.3 bn in the first 10 months to seal its position to be the second largest trade surplus on record after the USD28 bn in 2023. Related to this, foreign direct investment (FDI) momentum extended further, with registered FDI inflows at USD27.3 bn in first ten months of 2024, 2% y/y higher than the same period in 2023. Actual FDI inflows amounted to USD19.6 bn YTD Oct, and is on track for the third straight year of record FDI inflows.

On the domestic front, the momentum of retail sales has largely held steady so far in 2024, with a gain of 7.1% in Oct and an average of 8.5% YTD y/y rise in 2024, comparable to the 10.4% increase in all of 2023. This is partly supported by a 41% surge in tourist inflows to 14.1 mn visitors YTD Oct. This is due to increases across top tourist sources including South Korea, China, Taiwan region, the US and Japan. However, relative to the pre-COVID boom in 2019, arrivals data continue to pale in comparison and may need one to two more years to return to pre-pandemic levels.

Taking into account the above factors, we maintain Vietnam's full year growth forecast at 6.4%, which implies an outturn of 5.2% y/y in 4Q24. For 2025, we anticipate an expansion pace of 6.6%. Vietnam parliament has pegged GDP growth at 6.5-7.0% for 2024 and 6.5-7.0% as well for 2025, while "striving" to hit the 7.0-7.5% range.

However, with the US poised for Trump 2.0, potential of global trade tensions and downside risks may soon emerge. One key risk to watch will be potential trade restrictions against Vietnam, as the US annual trade deficit with the country ballooned by more than 2.5x from USD39.5 bn in 2018 to USD nearly USD105 bn in 2023. Overall, US trade deficit with ASEAN has nearly doubled to USD200 bn in 2023 from less than USD100 bn in 2018 as global trade flows and supply chains shifted in response to restrictions implemented in Trump 1.0 era.

CENTRAL BANK

SBV to stay steady for now

With economic growth staying robust in 2024 and into 2025, there is less urgency for the central bank to hurry into any easing. Inflation readings have stayed below the 4.5% target since Jun 2023, thus relieving much of the pressures from the central bank. However, with the prospects of further trade tensions globally under Trump 2.0 and the accompanying US dollar strength an emerging concern, SBV is expected to stay alert to downside pressures on the VND. As such, we look for the key refinancing rate to stay at the current level of 4.50%.

CURRENCY

VND to weaken to new low

It was a roller coaster ride for the VND in the last couple of months. After registering the largest quarterly gain (3.5%) on record dating back to 1993 in 3Q24, the VND has since reversed all its gains across Oct – Nov. Despite resilient fundamentals, the VND is held hostage by external factors such as a resurgent USD as markets repriced for fewer Fed rate cuts in a Trump 2.0 era.

Going forth, the VND is likely to take direction from Trump's tariff policy and the CNY. Currently consolidating near the record low of 25,463 /USD, the VND looks set to trade to a new low given the external headwinds. Overall, our updated USD/VND forecasts are 25,800 in 1Q25, 26,000 in 2Q25, 26,200 in 3Q25 and 26,000 in 4Q25.

FX & Rates	1Q25F	2Q25F	3Q25F	4Q25F
AUD/USD	0.63	0.61	0.62	0.64
AUD Official Cash Rate	4.00	3.75	3.50	3.25
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	3.9	2.1	1.1	2.0
CPI (avg y/y %)	6.6	5.6	3.3	2.8
Unemployment Rate (%)	3.7	3.7	4.1	4.5
Current Account (% of GDP)	0.9	0.3	-1.0	-0.7
Fiscal Balance, FY (% of GDP)	-1.8	-0.8	-0.5	-1.0

ECONOMY

Higher interest rates continue to weigh

3Q24 GDP figures will be due on 4 Dec. While the overall economic recovery is expected to come a little later than expected, domestic spending is still expected to increase as real household incomes rise in response to tax cuts and easing inflation. Growth in Australia's major trading partners is expected to be moderate. We have slightly revised lower our 2025 GDP forecast to 2.0% from 2.1% previously.

Australia's monthly CPI rose 2.1% y/y in Oct, marking the lowest annual inflation rate since Jul 2021. However, part of the recent decline in headline inflation will be short-lived due to the temporary nature of the subsidies, which include a one-year federal government-funded electricity bill discount of AUD300. Underlying inflation, which is a better guide to inflation momentum, is easing more slowly, and remains stuck above the RBA's 2%-3% target. The annual trimmed mean inflation measure rose to 3.5% y/y in Oct from 3.2% y/y in Sep. Furthermore, the labour market remains strong, with the unemployment rate holding steady at 4.1% for a third straight month in Oct.

The labour market remains tight. The seasonally-adjusted unemployment rate came in unchanged at 4.1% in Oct, in line with the consensus estimate. This is the third month in a row that the unemployment rate had been at 4.1%. This is around 0.6ppts above its recent low of 3.5% in Jun 2023, but is 1.1ppts below Mar 2020, when it was 5.2%. The economy added 15,900 jobs, compared to a downwardly revised 61,300 jobs gain in Sep. The outcome was significantly lower than consensus estimate for a 25,000 rise, but the first time in six months that job gains have not beaten expectations. Employment growth is running at an annual rate of 2.7%, outpacing growth in the working-age population (2.5%) but below the rapid growth in the labor force (3.1%).

RBA Governor Michele Bullock had cited the strength of the jobs market as one of the reasons she cannot rule out delivering a 14th interest rate hike, despite almost every other central bank in advanced economies moving to cut rates. While the latest jobs numbers show the labour market cooling slightly, it remains tight relative to history, and has been surprisingly strong for most of 2024, leaving services inflation higher than the RBA would like to see before it can start cutting its cash rate.

The Wage Price Index (WPI) growth held steady at 0.8% q/q in 3Q24, below market forecasts for a 0.9% q/q rise. Annual pay growth slowed to 3.5% for 3Q24, from 4.1% in 2Q24, easing back towards the 3%-4% per-annum pace required to achieve the RBA's 2%-3% inflation goal. The 3Q24 outcome was slightly weaker than the RBA's Nov projection of 3.6%, which certainly adds to the RBA's comfort around wage-driven inflation pressures.

CENTRAL BANK

RBA a laggard in interest rate cuts

The RBA decided to leave its cash rate target unchanged at a 13-year high of 4.35%. It has now been a year since the RBA's last rate move, the 13th increase in a series that began in May 2022. In its accompanying press release, the RBA continued to emphasize "the need to remain vigilant to upside risks to inflation and the Board is not ruling anything in or out. Policy will need to be sufficiently restrictive until the Board is confident that inflation is moving sustainably towards the target range".

The outlook is highly uncertain. On the one hand, if conditions in the labour market are stronger than expected and productivity growth remains weak, this could slow progress in bringing inflation to target. On the other hand, household spending might not increase as quickly as expected, which could mean that inflation returns to target faster. Heightened geopolitical risks and potential changes to trade and fiscal policies abroad add to this uncertainty.

The RBA board signaled earlier this month that it was highly unlikely to cut the cash rate in either Feb or Apr, stating it would want to see a sharp decline in inflation sustained over more than one quarter of data. Note that after the release of 4Q24 inflation data next year on 20 Jan, there will not be another quarterly inflation release available until the RBA's 20 May meeting. For now, we do not expect the RBA to cut rates until 1Q25 at the earliest.

CURRENCY

AUD may underperform due to Trump tariffs

It was a roller-coaster ride for AUD/USD in the past couple of months. Following an increase to 0.69 in late Sep after China announced its latest monetary stimulus package, the pair has since reversed all its gains in the 3Q24 as the USD strengthened anew across Oct - Nov.

Going forth, AUD's close correlation to the CNY meant that a potential repeat of the 2018-2020 US-China trade war may see AUD underperform within the G-10 FX space, as it did during the first year of trade war in 2018. At the same time, a hawkish RBA rhetoric relative to the Fed may counteract part of the depreciation pressures on the AUD.

Overall, our updated AUD/USD forecasts are 0.63 in 1Q25, 0.61 in 2Q25, 0.62 in 3Q25 and 0.64 in 4Q25.

FX & Rates	1Q25F	2Q25F	3Q25F	4Q25F
EUR/USD	1.02	0.99	1.01	1.03
EUR Refinancing Rate	2.90	2.65	2.40	2.15
Economic Indicator	2022	2023	2024F	2025F
GDP (%)	3.5	0.4	0.8	1.2
CPI (avg y/y %)	8.4	5.5	2.4	2.0
Unemployment Rate (%)	6.8	6.6	6.5	6.4
Current Account (% of GDP)	0.0	1.7	2.8	2.5
Fiscal Balance, FY (% of GDP)	-3.5	-3.6	-3.1	-2.8

ECONOMY

Weak outlook as Germany struggles

The Eurozone economy expanded more strongly than expected in 3Q24, with Germany (+0.2% q/q growth) managing to avoid a recession. GDP in the 20-nation currency bloc quickened to 0.4% q/q, as growth momentum in France accelerated and remained strong in Spain. Italy's output was unexpectedly flat, driven by a negative contribution from net trade.

Going forward, economic risks for the Eurozone are tilted to the downside. In addition to France's slowdown, Germany's economic contraction, alongside political issues following the collapse of the governing coalition; will mean that both France and Germany may not be able to support Eurozone growth as much as they would like or need to. On that note, a key factor to watch in 2025 will be the outcome of the German federal election (set for 23 Feb). Uncertainties stemming from Trump's presidency regarding upcoming tariffs, as well as the conflicts in Ukraine and the Middle East remain pressing issues that could disrupt the outlook for the bloc.

As for inflation, headline CPI for the Eurozone accelerated to 2.0% y/y in Oct from 1.7% y/y in Sep. In large part, the latest reading reflected a move up in energy prices and food costs. Headline inflation is likely to tick up further in the coming months on base effects, but the broader outlook remains one of moderating cost pressures. Core CPI was unchanged from the previous month at 2.7%. Services inflation was unchanged in Oct relative to Sep's reading of 3.9%. Overall, we think that ECB officials probably expect to sustainably meet the inflation target only next year.

Part of the reason for that is the resilience of the region's jobs market, with the latest data showing that the unemployment rate in the Eurozone was at a record-low of 6.3% in Sep. Meanwhile, negotiated wages surged to a 31-year high of 5.4% y/y in 3Q24, from the 3.5% y/y growth recorded in 2Q24. This marked the sharpest increase since early 1993. The increase was driven by Germany, where salaries surged by 8.8%. With recent indications that wage growth in the region's largest member is set to slow sharply next year in response to economic weakness, the period may have marked the peak for wage increases.

CENTRAL BANK

Prudent approach by ECB

As widely expected, the ECB slashed interest rates in Oct, lowering policy rates by 25bps. Accordingly, the interest rates on the deposit facility, the main refinancing operations and the marginal lending facility have been lowered to 3.25%, 3.40% and 3.65%, respectively.

The forward guidance was largely unchanged, with the ECB stating that "the Governing Council is determined to ensure that inflation returns to its 2% medium-term target in a timely manner. It will keep policy rates sufficiently restrictive for as long as necessary to achieve this aim. The Governing Council will continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate level and duration of restriction. In particular, its interest rate decisions will be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission. The Governing Council is not pre-committing to a particular rate path."

The minutes from the ECB's Oct meeting published on 14 Nov indicated that, despite some skepticism within the ECB about the persistence of the disinflationary trend, concerns about growth and the use of a rate cut as a risk management strategy ultimately influenced the decision to implement the Oct rate cut. ECB officials have indeed been hinting at further easing to address weak economic activity.

We now look for the ECB to cut rates by 25bps again when policymakers convene on 12 Dec for the final time this year. Thereafter, we look for the ECB to go on a quarterly cadence towards neutral. We estimate that to be just slightly above 2.0%. If the data evolves in line with expectations, we think the policy rate will reach around 2.00% by Dec 2025.

CURRENCY

EUR/USD to test parity

EUR was one of the biggest casualties within G-10 FX due to the US elections, falling about 4% from 1.08 to 1.04 across Nov, the lowest level in two years. Underscoring the sharp move was the stark monetary policy divergence between the Fed and the ECB. While markets scale back expectations for Fed rate cuts due to the inflation spillover of Trump's tariff policy, they intensified pricings for more aggressive easing from the ECB to bolster the region's economy after Euro-area business activity unexpectedly shrank in Nov. Political crises in Germany and France and escalating Russia-Ukraine war which now included long-range missile in the warfare also add to the perfect storm against the EUR. Interest rate swaps now indicate 138 bps (as at 22 Nov) of additional ECB rate by Jun 2025 compared to 115 bps at start of Nov. An over 50% chance of a half-point ECB rate cut in Dec weighed further on EUR/USD while futures markets have flipped to a net short EUR/USD position since late Oct. With the multitude of headwinds, it seems inevitable that EUR/USD would test the well-watched parity level in the coming months. Overall, our updated EUR/USD forecasts are 1.02 in 1Q25, 0.99 in 2Q25, 1.01 in 3Q25 and 1.03 in 4Q25.

FX & Rates	1Q25F	2Q25F	3Q25F	4Q25F
NZD/USD	0.57	0.55	0.56	0.57
NZD Official Cash Rate	4.00	3.50	3.00	3.00
Economic Indicator	2022	2023	2024F	2025F
GDP (%)	2.4	0.7	0.1	1.7
CPI (avg y/y %)	7.2	5.8	3.0	2.1
Unemployment Rate (%)	3.3	3.7	4.8	5.4
Current Account (% of GDP)	-8.3	-7.9	-6.3	-5.2
Fiscal Balance, FY (% of GDP)	-2.8	-2.9	-2.5	-1.6

ECONOMY

Deeper economic downturn

3Q24 GDP figures will only be due on 19 Dec. However, high interest rates, slowing net immigration, reduced government spending, and subdued global growth are weighing on the New Zealand's economy. Key downside risks include weak global growth and rising domestic unemployment.

Despite slowing net immigration, labour supply continues to grow while labour demand continues to weaken. This has resulted in worsening labour market conditions. Employment fell 0.5% from 2Q24. That was more than the consensus forecast for a 0.4% decline. The level of employment is below the RBNZ's Aug projections but an unexpectedly large decline in participation caused the unemployment rate to undershoot the RBNZ's forecast of 5.0%. The unemployment rate rose to 4.8% in 3Q24, the highest since 4Q20. Meanwhile, private-sector wage growth eased to 0.6% q/q in 3Q24 from 0.9% in 2Q24, slightly weaker than the consensus forecast of 0.7%. On a year-on-year basis, wage growth moderated to 3.3%, 0.2 ppt below the RBNZ's Aug forecast of 3.5%. Aggregate wage growth rose 0.6% q/q in 3Q24. Public-sector wage growth was stronger, rising 0.9% q/q to be 5.6% higher than a year earlier.

The second-quarter economic contraction was unexpected, and the manufacturing and services industries have been subdued. Furthermore, consumer spending remains weaker than a year ago and companies are still pessimistic. With the economic downturn deeper than expected, we have thus downgraded our 2024 GDP forecast to 0.1% from 0.6%.

With activity slowing, headline CPI has fallen from the peak of 7.3% to 3.3% y/y in 2Q24. The latest reading is also below the RBNZ's Nov forecast of 3.6%. Non-tradeable inflation, a closely watched indicator of domestic price pressures, also eased to 5.4% y/y in 2Q24, compared to the previous reading of 5.8% y/y, driven by rent, insurance, as well as cigarettes and tobacco prices. Overall, the inflation outlook has been revised lower for the coming two years, and our forecasts point to annual CPI inflation of 2.3% in 2025 and staying around the 2% inflation target mid-point in the subsequent years. This reflects expectations that annual CPI inflation will become anchored over the coming years. These are align with the 1- and 2-year-ahead inflation expectations shown in the latest RBNZ Survey of Expectations.

CENTRAL BANK

The aggressive rate cutter

The RBNZ decided to reduce the official cash rate (OCR) by 50 bps to 4.25%. In the accompanying media release, the RBNZ flagged that "annual consumer price inflation has declined and is now close to the midpoint of the Monetary Policy Committee's 1 to 3 percent target band. Inflation expectations are also close to target and core inflation is converging to the midpoint. If economic conditions continue to evolve as projected, the Committee expects to be able to lower the OCR further early next year".

The RBNZ's new forecasts in the Nov Monetary Policy Statement show the average OCR falling to 3.83% by mid-2025, suggesting it may move to more gradual rate cuts. The central bank also reiterated its expectation that the economy would contract in 3Q24, putting the nation back into recession for the second time in less than two years. It sees a pickup ahead as lower borrowing costs revive demand. Annual GDP growth is expected to recover to 2.3% in the year through Mar 2026 from just 0.5% in the year ending Mar 2025. As for inflation, the RBNZ's updated forecasts show inflation slowing from 2.2% currently to 2.0% early next year, but then picking up again and remaining above 2.0% through to early 2027.

The latest move was the third straight reduction after the RBNZ began its easing cycle in Aug. The RBNZ has now lowered rates by a total of 125 bps in little more than three months, making it one of the most aggressive central bank as far as this current monetary policy easing cycle is concerned. It was also a global front-runner in withdrawing pandemic-era stimulus, when it lifted rates by 525 bps since Oct 2021 to curb inflation in the most aggressive tightening since the OCR was introduced in 1999.

Our baseline expectation is that the RBNZ will reduce the pace of easing to standard 25bps cuts in the first half of next year, for the OCR to reach 3.50% by 1H25, and 3.00% by 2H25. However, as we previously cautioned, the monetary policy path is unlikely to be smooth, and incoming economic data will ultimately be the driving factor.

CURRENCY

NZD to fall further in 1H25

Weighed by successive 50 bps RBNZ rate cuts in Oct and Nov, NZD tumbled over 8% against the USD to 0.5830 (as of 27 Nov), the worst performing G-10 currency in 4Q24 to date. While New Zealand is unlikely to be in direct crosshair of Trump's upcoming trade tariffs, RBNZ keeping to a slightly faster rate-cut pace relative to the Fed is likely to keep the pressure on the NZD.

Like other G-10 peers, we now expect NZD to weaken further against the USD in 1H25 before rebounding in 2H25. Our updated NZD/USD forecasts are 0.57 in 1Q25, 0.55 in 2Q25, 0.56 in 3Q25 and 0.57 in 4Q25.

FX & Rates	1Q25F	2Q25F	3Q25F	4Q25F
GBP/USD	1.23	1.21	1.23	1.25
GBP Repo Rate	4.50	4.25	4.00	3.75
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	5.0	0.4	1.0	1.4
CPI (avg y/y %)	9.1	7.4	2.5	2.3
Unemployment Rate (%)	3.9	4.0	4.3	4.4
Current Account (% of GDP)	-2.1	-2.0	-3.0	-2.8
Fiscal Balance, FY (% of GDP)	-4.2	-5.0	-3.6	-3.0

ECONOMY

Set to improve albeit slowly

The UK economy cooled by more than expected in 3Q24, as GDP rose 0.1% q/q, below the 0.2% q/q gain forecast, and after growing 0.5% q/q in 2Q24. The economy shrank 0.1% m/m in Sep alone, much worse than the 0.2% growth expected. A look at the expenditure breakdown shows household consumption as the primary driver of growth in 3Q24, as it was up 0.5%. Government consumption and investment also helped, up by 0.6% and 1.1% respectively. Inventories (including net acquisition of valuables) dragged on output the most, chopping off 0.9 ppt from the GDP gain. On an annual basis, GDP grew by 1.0%, up from a previous reading of 0.7% y/y in 2Q24. Going forward, we expect UK's economic growth to remain weak. While looser fiscal policy is set to lift activity, how businesses will respond to the increase in National Insurance Contributions and in the National Living Wage remains a question.

As for inflation, CPI unexpectedly surged to a six-month high of 2.3% y/y in Oct, a significant leap from Sep's 1.7% y/y print. The figure also surpassed the forecast of 2.2% y/y by the BOE and consensus, taking inflation above the central bank's target rate of 2.0%. On a monthly basis, CPI rose 0.6% in Oct, largely from the rise in energy costs, as household electricity bills increased 9.0% m/m, having fallen by 7.0% a the same point in 2023. Services price inflation – a key measure for the BOE – remain elevated at 5.0%, in line with BOE forecasts, but up from 4.9% y/y in Sep, which was the lowest rate in over two years. The core reading also disappointed, especially when core CPI in the previous month was among the weakest months of Sep on record. Core CPI rose 3.3% y/y in Oct, from 3.2% y/y in Sep. The silver lining is that the headline inflation plummeted from more than 10% in 2023 to below 2% in the twelve months to Sep 2024. While a short-term blip will likely be seen into the year-end, inflation is expected to stabilise, averaging 2.3% in 2025.

CENTRAL BANK

BOE to tread carefully

The BOE decided to reduce its Bank Rate by 25 bps from 5.00% to 4.75% at its 7 Nov meeting, as expected. This marked the second reduction this year - the BOE had held rates unchanged in Sep after a 25 bps cut in Aug.

The decision within the Monetary Policy Committee (MPC) was not unanimous, ending in an 8-1 vote split, with Catherine Mann (the noted hawk) preferring to hold the base rate at 5.00%. Ahead of this meeting, markets' expectations were for a 7-2 split, so this suggests that the hawks have a weaker hold on the BOE than expected. In Mann's view, a cut was not warranted due to elevated wage growth and CPI likely to remain above the 2.0% target.

There were no significant changes to the accompanying Monetary Policy Summary and Minutes, with the BOE leaving its guidance unchanged from the Sep meeting, stating that "a gradual approach to removing policy restraint remains appropriate. Monetary policy will need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further. The Committee continues to monitor closely the risks of inflation persistence and will decide the appropriate degree of monetary policy restrictiveness at each meeting".

Commenting on the decision, BOE Governor Andrew Bailey said: "We need to make sure inflation stays close to target, so we cannot cut interest rates too quickly or by too much. But if the economy evolves as we expect, it is likely that interest rates will continue to fall gradually from here". This indicates that the appetite for more aggressive rate cuts remains low, despite his recent remarks that the BOE could be a "bit more aggressive" when it comes to cutting interest rates.

Overall, the BOE has been keeping a close eye on wage figures but are also tracking the ability of the broader jobs market to drive up wages and prices. Still-sticky wage growth reinforces our view of the BOE's cautious approach to easing. While price pressures may have eased substantially, we believe the BOE is not convinced the 2.0% target is sustainably in sight. With the recent budget also lifting the risks to price- and wage-setting behavior further ahead, our view remains for the BOE to pause at its next and final meeting of the year on 19 Dec, before easing at a quarterly pace in 2025.

CURRENCY

GBP to remain weak

Weighed by broad USD strength, GBP/USD dipped below 1.25 in late Nov, the lowest level in six months. That said, the GBP is likely to face lesser headwinds compared to other Major FX peers such as the EUR. Most importantly, the monetary policy gap between the Fed and the Bank of England (BOE) remains reasonably small. While we have pared expectations of Fed's easing from 100 bps to 75 bps in 2025, we kept to expectations of 100 bps from the BOE as a result of still-sticky wage growth. Both central banks are expected to guide rates lower to a similar 3.75% by end-2025. Futures traders also kept to a modest net long GBP/USD position amidst the pullback in spot.

Taken together, while the path of least resistance is likely for a lower GBP/USD, further losses from here may be limited. Overall, our updated GBP/USD forecasts are 1.23 in 1Q25, 1.21 in 2Q25, 1.23 in 3Q25 and 1.25 in 4Q25.

FX & Rates	1Q25F	2Q25F	3Q25F	4Q25F
DXY	108.9	111.1	109.2	107.6
US Fed Funds Rate	4.25	4.00	3.75	3.75
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	1.9	2.5	2.7	1.8
CPI (avg y/y %)	8.0	4.1	3.0	2.4
Unemployment Rate (%)	3.5	3.7	4.3	4.5
Current Account (% of GDP)	-3.8	-3.3	-3.5	-2.3
Fiscal Balance, FY (% of GDP)	-5.3	-6.2	-6.1	-6.5

ECONOMY

US exceptionalism meets Trump policies

The US economy expanded at a robust pace of 2.8% q/q SAAR in 3Q (from 3.0% in 2Q), on stronger private consumption (3.5%, 2.4ppts of the 2.8%). Business spending (3.8%, 0.3ppt), government expenditure (5.0%, 0.8ppt) also supported growth. These offset the 3rd straight quarterly decline in net exports of goods & services (-0.6 ppt in 3Q, -0.9ppt in 2Q, -0.6ppt in 1Q), back-to-back fall in residential investments (-5.0%, -0.2ppt) and a small decline in private inventories (-0.1ppt). Compared to one year ago, GDP grew by 2.7% y/y in 3Q, from 3.0% in 2Q, and 2.9% in 1Q.

Activities in 4Q are tracking a tad lower from 3Q with GDPNow projecting 4Q GDP at 2.7% y/y (as of 27 Nov) while we have a more conservative projection of 2.0% for the 4Q which still puts US economy in an exceptional growth position versus other developed economies. As GDP growth in the first 9 months of 2024 was much stronger than our earlier projections, we revise our US growth forecast higher to 2.7% for 2024 (previous: 2.3%).

2025 will be an interesting year as the exceptionalism of US economic growth will meet with President Trump and his myriad of policies which will have material macro-economic and financial market impact to the US and globally, including tax cuts, deregulation, trade tariffs, immigration (with mass deportation of undocumented migrants & border security), the independence of the US Federal Reserve (Fed), green policy (rollbacks) and foreign policy. While Trump policy measures are highly speculative and unpredictable at this juncture and will be subject to significant changes until after his inauguration on 20 Jan, the overall impact of Trump's various policies are likely to be inflationary with mixed effect on growth. However, these are not expected to send US into a recession.

Trump's tax cuts and deregulation drive will likely reignite animal spirits, boost business confidence and investment sentiment for US economy and therefore positive for US growth and productivity, but is likely to add to inflationary pressures and worsen the federal fiscal deficit. But fiscal policy may take time and may happen only in 2H 2025. Trump's tough immigration policy proposals are likely to come sooner than fiscal policy issues with negative implications for US GDP growth if large-scale deportations significantly lower labour supply. The rollback of green policies will be to the detriment of the environment but will result in higher US output for crude oil & gas.

On his trade policy, the rise in tariffs could weigh on US GDP growth through the domestic consumption channel while, retaliatory tariff responses from affected countries will hurt US-based manufacturers and push up domestic prices. That said, we believe that Trump will use tariff threats as a bargaining chip or negotiation ploy to eventually gain concessions from China and key trade partners, rather than being laid out as an immediate policy action. That is our main consideration in laying out a baseline scenario of more measured and paced imposition of tariffs (of which an additional 25% tariff on China, instead of the claimed 60%, 10% tariffs on economies that recorded increase in trade surplus with US due to trade diversion from China, and no blanket tariff on all US imports). US importers may frontload purchases in early 2025 ahead of tariff imposition, and that will mean weaker US 1Q growth on a sharper decline in net exports of goods & services.

Overall, we expect US growth to ease to 1.8% in 2025 (from the projected 2.7% in 2024) and the risk to our forecast is dependent on extent of the Trump policies, and the sequencing of the policies will matter too. Unemployment rate remained benign at 4.1% in Oct while wage growth reaccelerated above forecast to 0.4% m/m, 4.0% y/y, so wage-price inflation worries may not be over yet. We still expect jobless rate to edge higher to 4.3% by end-2024, and further to 4.5% by end-2025.

The descent of CPI inflation will face the challenge of Trump's tariffs, which we expect could push price increases higher above the Fed's 2% target in 2025 and 2026. We expect headline CPI inflation to ease and average lower to 3.0% in 2024 (from 4.1% in 2023) but revise 2025 forecast higher by 0.3ppt to 2.4% (previous: 2.1%). And while core inflation may also ease, it is now likely to average 0.4ppt higher to 2.5% in 2025 (from a projected 3.4% in 2024.

CENTRAL BANK

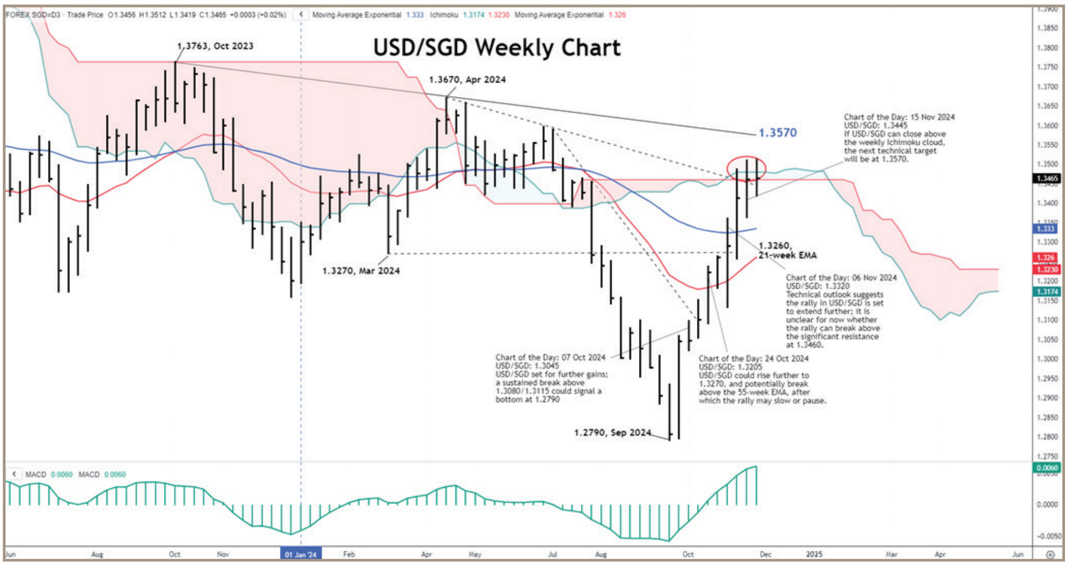
Lesser cuts in 2025 with a higher terminal rate

We continue to hold the view the Fed will reduce the Fed Funds Target Rate (FFTR) by another 25-bps to 4.25-4.50% in the Dec 2024 FOMC. However, in anticipation of potential upside price pressures towards late 2025, we are moderating our 2025 rate cut trajectory to a total 75 bps of cuts (i.e. three 25-bps cuts, one in each quarter of 1Q, 2Q and 3Q 2025) and end the rate cycle to bring the terminal rate to 3.75% (upper bound of FFTR). Prior to Trump's election victory, we had projected 100bps of cuts in 2025 and one last 25-bps cut in 1Q 2026 to bring the terminal rate to 3.25%. As such, the reduced number of cuts reflects the higher inflation pressures from the projected tariff implementation during 2H 2025.

FX TECHNICALS

USD/SGD: 1.3465

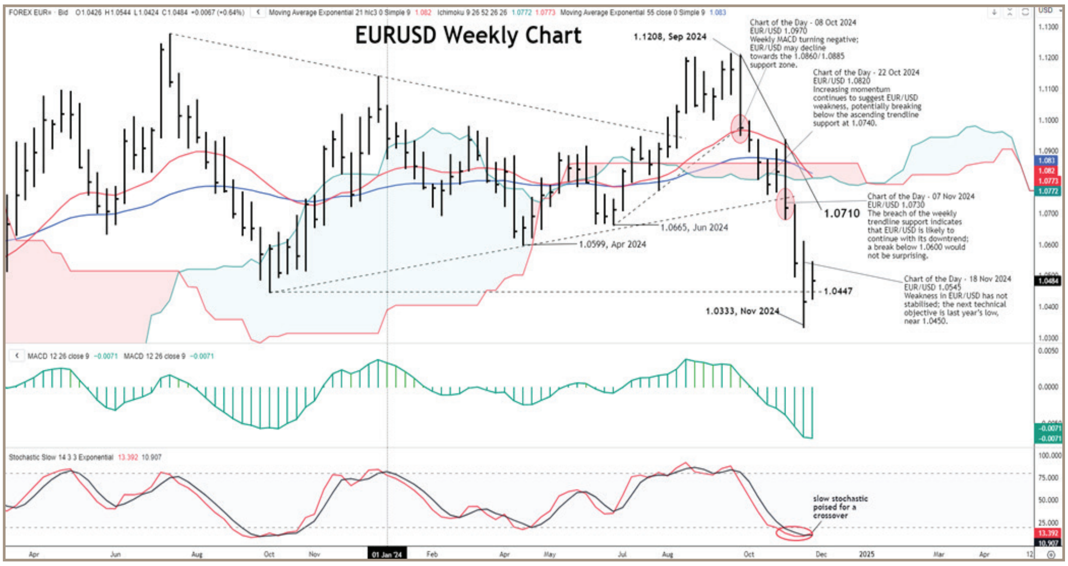
USD/SGD needs to close decisively above 1.3510-20 to increase the potential for a break above the next key resistance at 1.3570.



After plummeting to a low of 1.2790 in late September, USD/SGD reversed sharply and abruptly, rallying to close higher for eight consecutive weeks. By the end of November, it had broken above both the declining trendline resistance and the top of the weekly Ichimoku cloud. However, it has not closed decisively above these key resistance levels, which are around 1.3510-20. If USD/SGD closes above 1.3510-20, it is likely to continue rising and could potentially break above the next key resistance at 1.3570. Overall, only a break below the 21-week EMA, currently at 1.3260, would signal that USD is unable to extend its gains or close above the key resistance levels.

EUR/USD: 1.0485

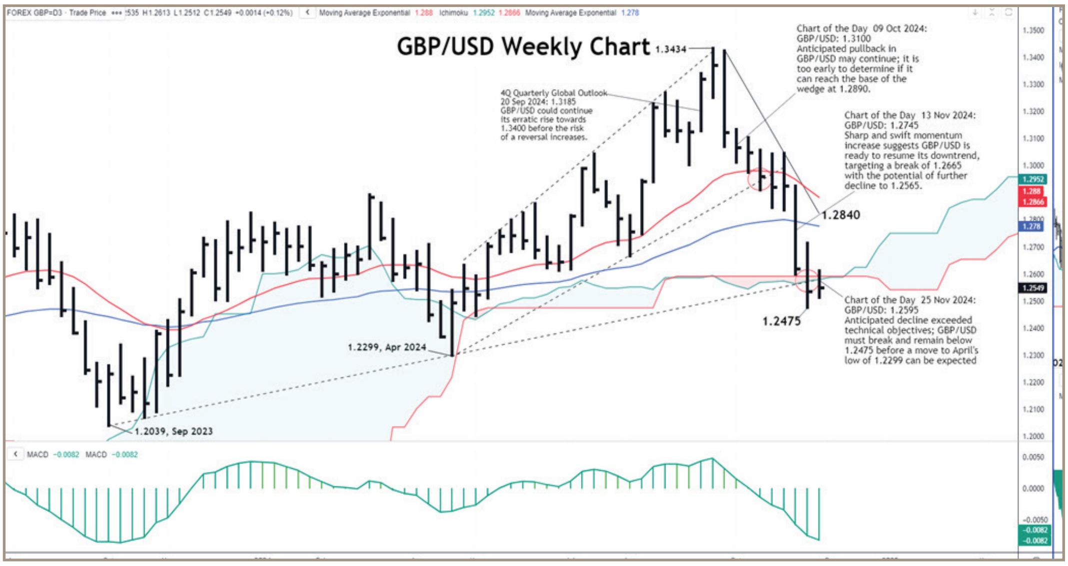
Weekly Stochastics suggest potential pause in EUR/USD decline, but a break below 1.0333 remains possible if momentum regains traction; above 1.0710 could indicate 1.0333 holding as support for a longer time.



EUR/USD failed to break decisively above 1.1200 in September. It subsequently reversed and, within a relatively short period, plunged through several significant support levels on the weekly chart. By the end of November, it had dropped to 1.0333, marking its lowest level since October 2022. Although downward momentum has not slowed significantly, the weekly stochastics are in oversold territory and appear set for a crossover. Given the sharp drop over the past few months, any crossover is more likely to signal a pause or consolidation rather than the start of a bullish reversal. That said, there remains a chance for EUR/USD to break below 1.0333 if downward momentum regains traction. On the upside, a break above the declining trendline resistance (now at 1.0710) would reduce the likelihood of EUR/USD breaking below 1.0333, suggesting that this level could hold as a support for a longer time.

GBP/USD: 1.2545

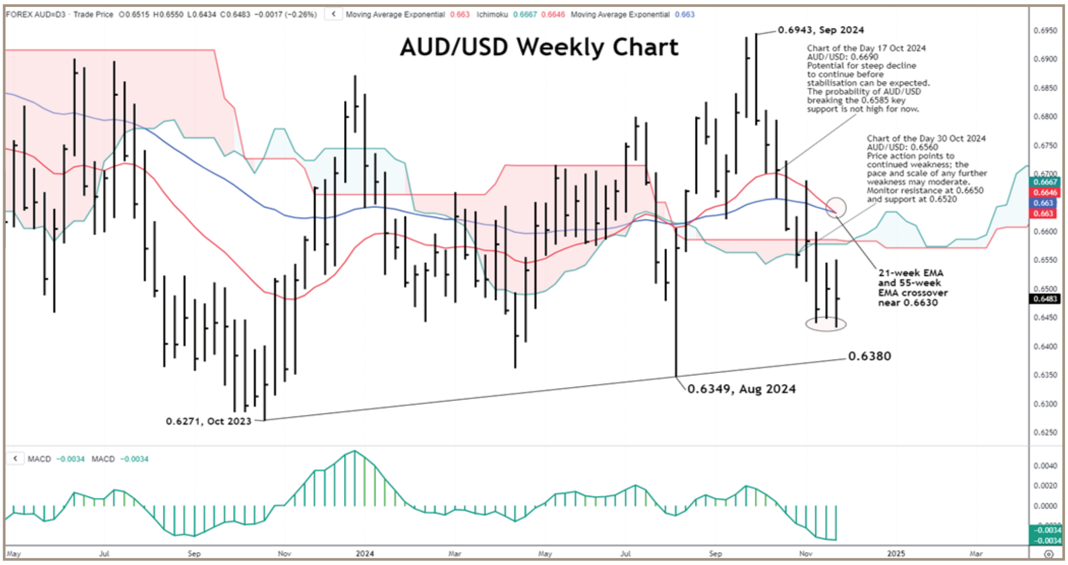
Breach of key support and strong momentum indicate GBP/USD could decline further to April's low of 1.2299.



GBP/USD broke below the rising wedge formation in late October this year. In mid-November, it plunged further, breaching the key support around 1.2565. Both the bottom of the weekly Ichimoku cloud and the rising trendline connecting the lows of September last year and April this year are near 1.2565. The breach of the key support sent GBP/USD plummeting to a low of 1.2475. The breach of the key support, combined with strong downward momentum, suggests GBP/USD could weaken further to April's low of 1.2299. To keep the momentum going, GBP/USD must not break above 1.2840.

AUD/USD: 0.6480

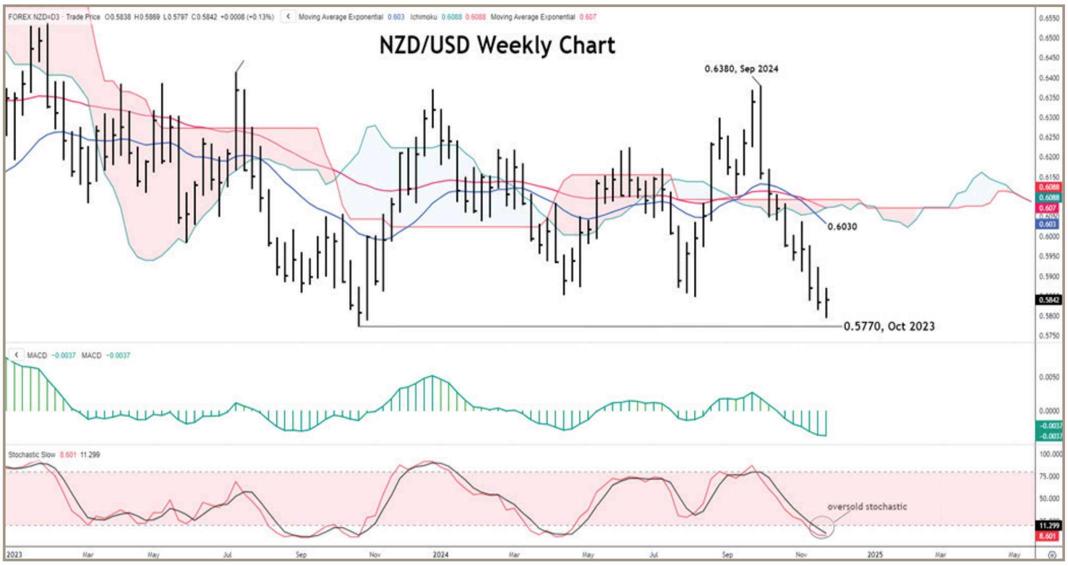
Momentum has eased somewhat, but AUD/USD could still break the 0.6380 trendline, with next support at August's low of 0.6349.



The sharp and swift drop in AUD/USD since late September has yet to stabilise. After testing the mid-0.64 level but failing to break through, downward momentum has eased somewhat. However, provided that AUD/USD remains below 0.6630, there is a chance for it to break the rising trendline connecting the lows of October last year and August this year. The trendline is currently located at 0.6380, with the next level to watch below it being August's low of 0.6349.

NZD/USD: 0.5840

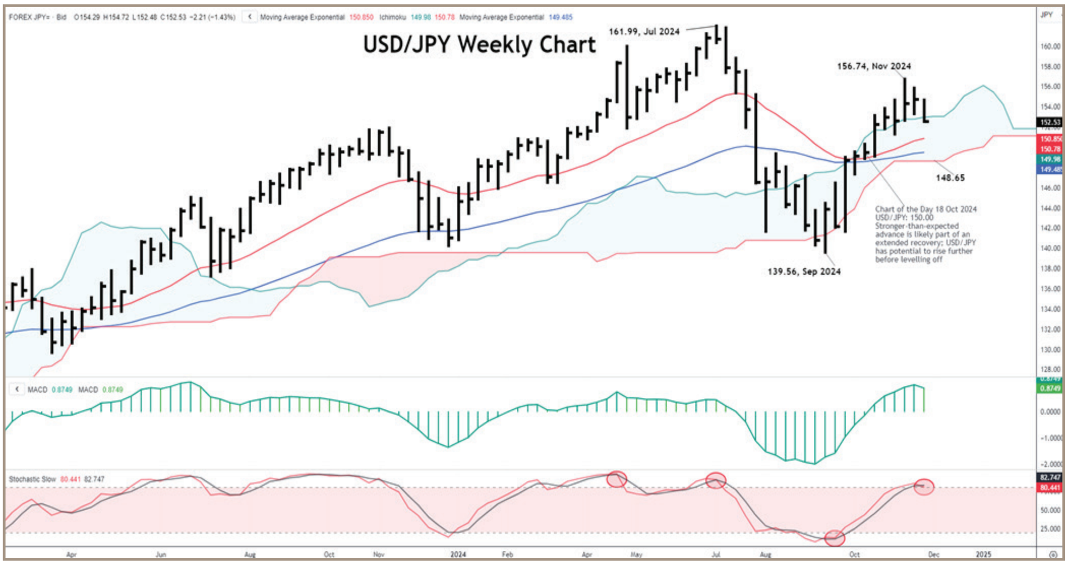
NZD/USD could break below last year's low of 0.5770, but it is unclear how long strong momentum can outweigh oversold conditions.



NZD/USD rose to a high of 0.6380 in September this year before plunging sharply, breaking through several strong support levels with ease. By the end of November, it is nearing last year's low of 0.5770. Although the weekly slow stochastics are entering oversold territory, the strong downward momentum indicates that a break below 0.5770 would not be unexpected. That said, it is uncertain how long the strong downward momentum can continue to outweigh the oversold conditions. Nevertheless, given the oversold conditions, the pace of any decline below 0.5770 is likely to be more gradual, and it remains to be seen if 0.5700 will come into view. On the upside, the 21-week EMA, currently at 0.6030, acts as a key resistance level.

USD/JPY: 152.50

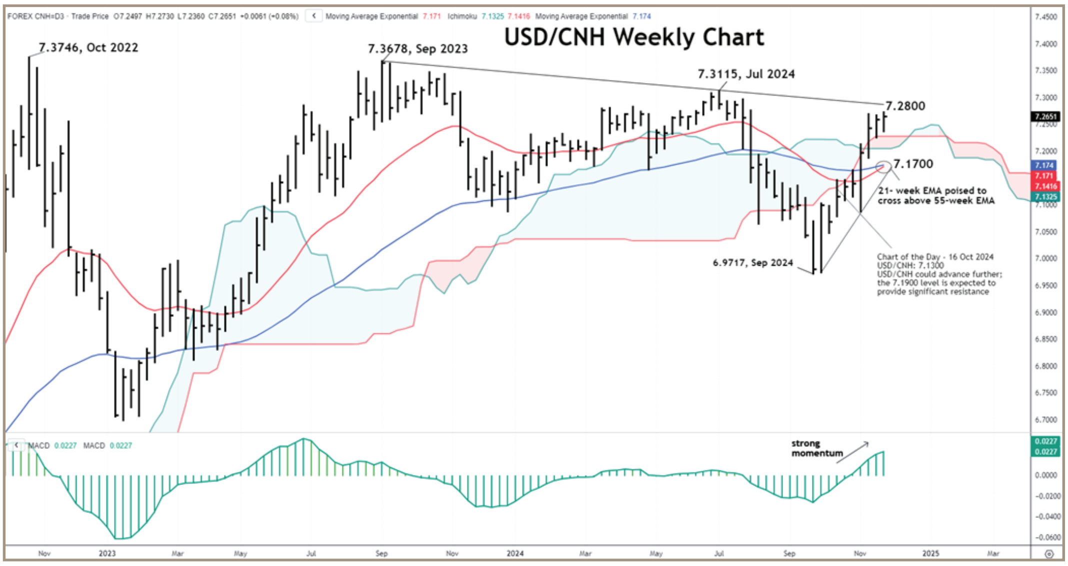
Slow Stochastic Crossover in Overbought Territory Signals Potential Pause or Pullback; Any Pullback Could Be Uneven and Protracted, with Significant Support at 148.65.



USD/JPY dropped below the bottom of the weekly Ichimoku support in September this year. However, there was no follow-through on the downside, as USD/JPY reversed sharply and surged above the EMAs resistance and the top of the weekly Ichimoku cloud. The weekly slow stochastics have swung from oversold levels in July to their current overbought position. As of late November, the weekly slow stochastic appears poised to cross below the fast stochastic, suggesting the sharp rise over the past couple of months may pause or pullback. That said, following such a sharp rise in a short period, any pullback is likely to be uneven and protracted. The bottom of the weekly Ichimoku cloud, now at 148.65, is expected to provide significant support. On the upside, should USD/JPY break and hold above 156.74, it could continue to rise. However, given the overbought conditions, any advance is unlikely to the July's high, near 162.00.

USD/CNH: 7.2650

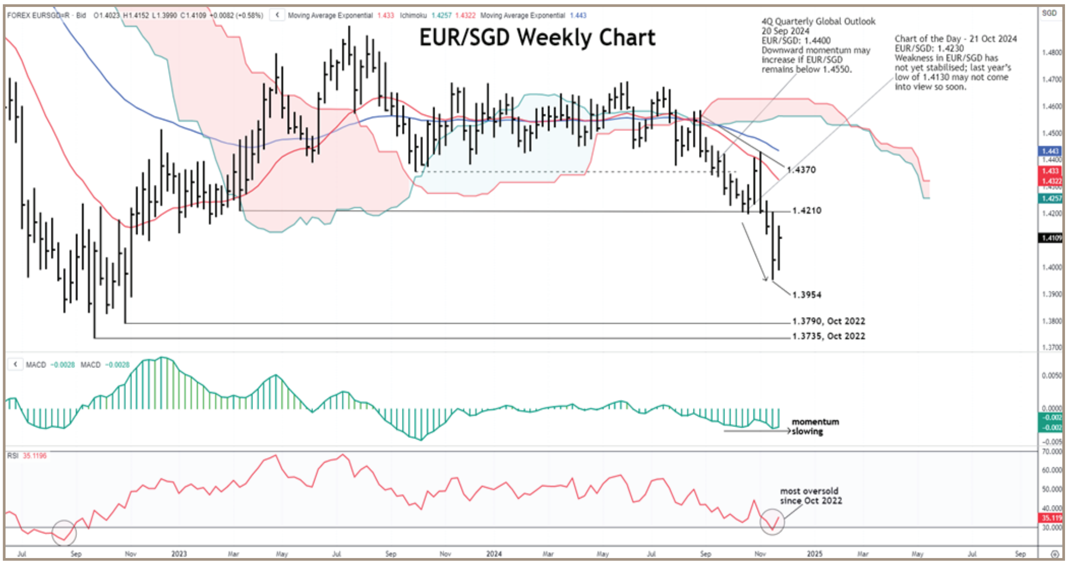
USD/CNH Likely to Break Above 7.2800, Targeting July's High of 7.3115 and Last September's High of 7.3678



After dropping to 6.9717 in September, USD/CNH staged a sharp reversal, surging to break above the top of the weekly Ichimoku cloud in November. The weekly MACD is heading steadily higher, indicating strong momentum. Furthermore, the 21-week EMA appears set to cross above the 55-week EMA, reinforcing the potential for further USD/CNH strength. A break of the trendline resistance connecting the highs of September last year and July this year, currently at 7.2800, could lead to a rapid rise above July's high of 7.3115, potentially reaching the last September high of 7.3678. Note that the record high of 7.3746 was set in October 2022. To sustain the current strong momentum, USD/CNH must hold above 7.1700, the level where the 21- and 55-week EMAs and the rising trendline support converge.

EUR/SGD: 1.4110

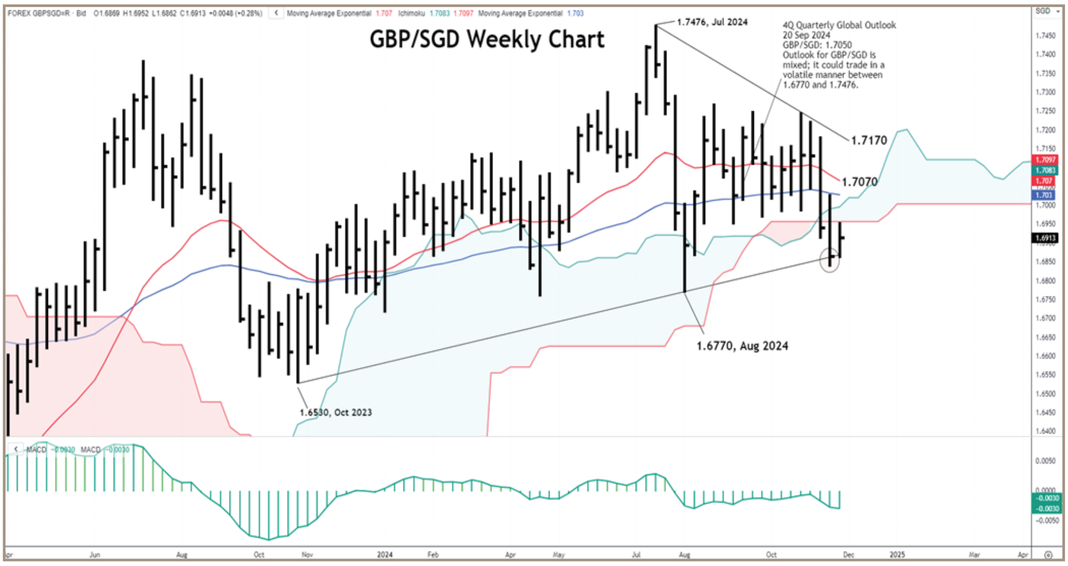
Oversold Conditions and Slowing Momentum Indicate Any Further Declines in EUR/SGD Will Be More Gradual; Key Support at 1.3735-1.3790 Unlikely to Be Tested Soon.



EUR/SGD saw significant fluctuations in late October and November this year, with wide weekly ranges, but the downtrend that began in the middle of the year remains intact. However, after plunging to 1.3954, the weekly RSI has reached its most oversold level since August 2022. Furthermore, the weekly MACD is showing sign of flattening, indicating that downward momentum may be easing. That is to say, the technical indicators suggest that any further decline is likely to occur at a more gradual pace. Additionally, the significant support zone between 1.3735 and 1.3790 is unlikely to be tested in the near term. On the upside, a break above 1.4210 would reduce the likelihood of further decline. The trendline resistance, currently at 1.4370, is unlikely to come under threat, at least over the next couple of months.

GBP/SGD: 1.6915

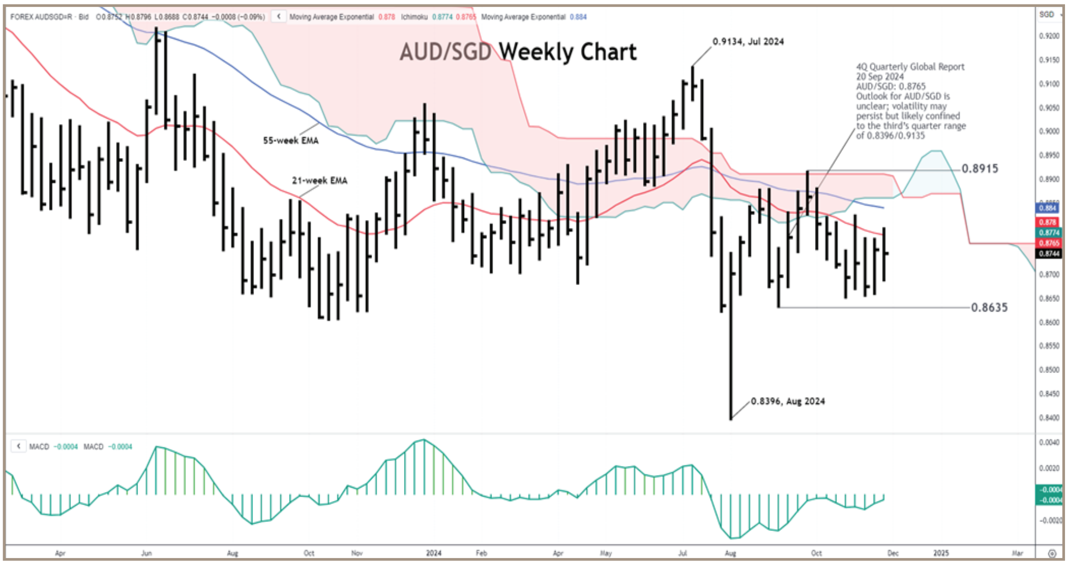
Downward Momentum Building in GBP/SGD; As Long as Below 1.7070, Room to Test Key Support at 1.6770.



After trading in a choppy, sideways manner for a couple of months, GBP/SGD dropped sharply in mid-November, breaking below the support at the bottom of the weekly Ichimoku cloud. While downward momentum is building, it is not yet enough to signal the start of a sustained downtrend. However, as long as GBP/SGD remains below the 21-week EMA, currently at 1.7070, there is room to test the August low of 1.6770. A clear break below 1.6770 would significantly increase the likelihood of further declines toward last October's low of 1.6530.

AUD/SGD: 0.8745

AUD/SGD May Continue to Trade Sideways Within a 0.8635/0.8915 Range.



AUD/SGD remained relatively stable over the past couple of months, trading sideways between 0.8635 and 0.8925. As of late November, there are no indications of a potential break from this range. In other words, AUD/SGD may continue to trade sideways within the 0.8635/0.8915 range for now.

JPY/SGD: 0.8830

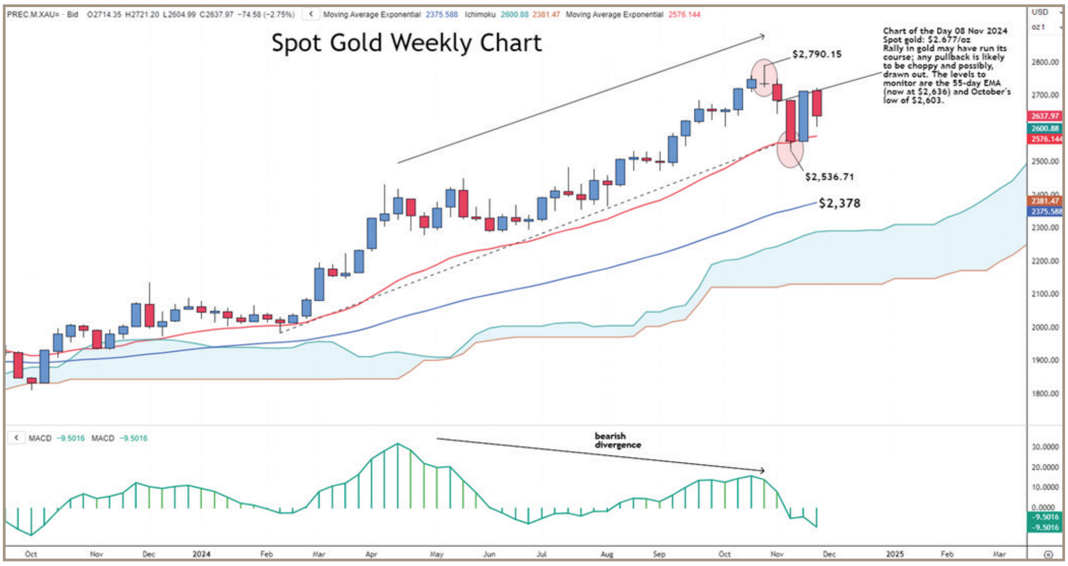
JPY/SGD Outlook Unclear; Break of Ichimoku Cloud Resistance Could Retest August High at 0.9340

After dropping to a low of 0.8320 in July this year, JPY/SGD surged to a high of 0.9340 in August. However, the advance was not sustained, and JPY/SGD has since pulled back to trade between the two levels. The outlook is unclear for now. However, if JPY/SGD breaks above the top of the Ichimoku cloud, currently at 0.9080, it could pave the way for a retest of the 0.9340 level. Note that the top of the cloud resistance is set to move lower over the coming few months.

COMMODITIES TECHNICALS

Spot Gold
$2,712/oz

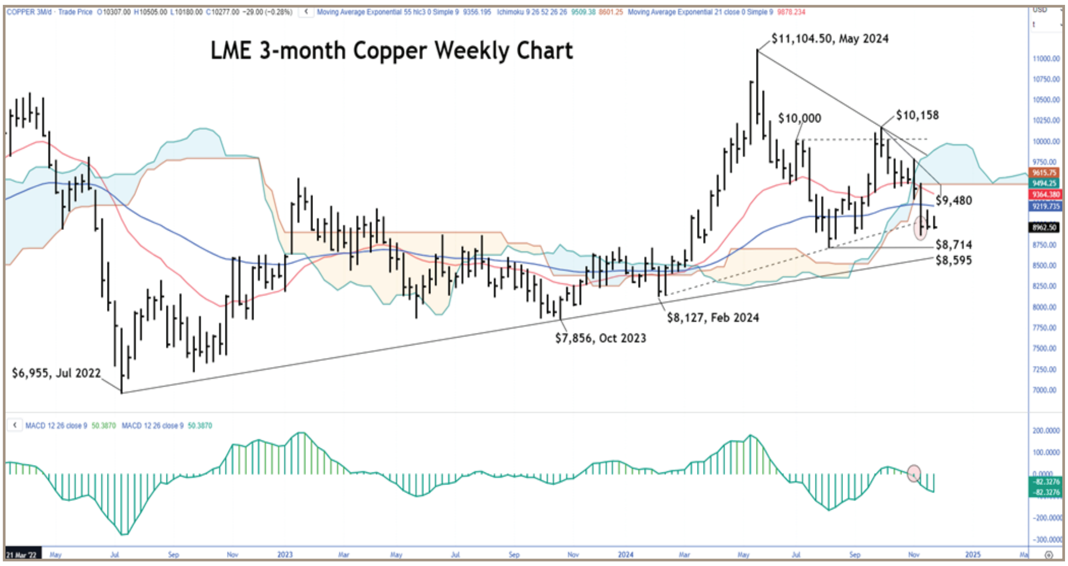
Spot Gold could pull back further, but momentum appears insufficient to break below 55-week EMA at $2,378.



After reaching a record high of $2,790.15 in late October this year, spot gold pulled back and formed a Doji formation on the weekly chart. Here, a Doji is typically seen as a bearish signal. Amid bearish divergence on the weekly MACD, gold pulled back further to a low of $2,536.71 before rebounding. With the weekly MACD holding in negative territory, the $2,790.15 could remain as a top, at least for another one to two months. However, given the sharp and significant rally over the past several months, any further pullback is likely to be choppy and possibly drawn out rather than straight forward. That said, gold does not appear to have enough momentum to break below the 55-week EMA, currently at $2,378.

LME 3-mth Copper
$8,962/mt

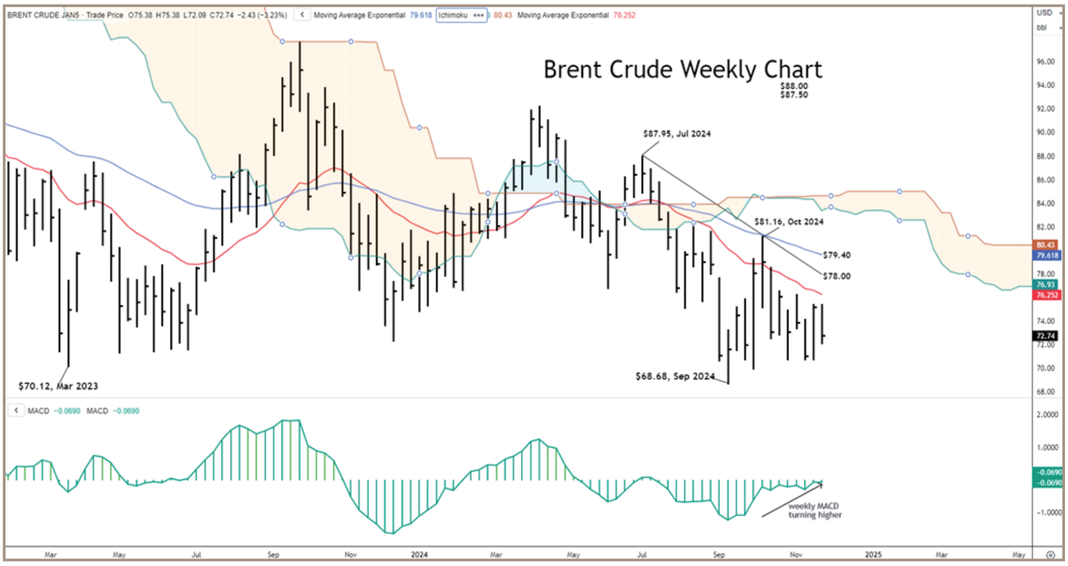
LME Copper futures see rising downward momentum; increasing risk of breaking $8,595–$8,714 support zone.



LME copper futures rose above $10,000 in late September, reaching a high of $10,158. It subsequently pulled back from the high, breaking below the weekly Ichimoku cloud. Weekly MACD has turned negative, suggesting that downward momentum is increasing. The probability of copper breaking below the significant support zone between $8,595 and $8,714 is also increasing. The low of August this year is at $8,714. The rising weekly trendline connecting the lows of July 2022 and October 2023 is at $8,595. To keep the momentum going, copper must remain below the key resistance at $9,480. Looking ahead, if copper breaks below the support zone, the next level to monitor is February's low of $8,127.

Brent Crude
$72.70/bbl

Brent Crude likely to trade with upward bias but unlikely to break above $68.68-$81.16 range seen over the past few months.



Brent crude futures traded in a $68.68/$81.16 range since early September this year. With the weekly MACD is turning higher, Brent could trade with an upward bias heading into the first quarter of 2025. However, as momentum is not strong for now, any advance is expected to face significant resistance at $78.00 (trendline) and $79.40 (55-week EMA). At this time, Brent does not appear to have enough momentum to reach the top of the $68.68/$81.16 range.

GLOSSARY

BI	Bank Indonesia
BNM	Bank Negara Malaysia
BOE	Bank of England
BOJ	Bank of Japan
BOK	Bank of Korea
BOT	Bank of Thailand
BSP	Bangko Sentral ng Pilipinas
CBC	The Central Bank of the Republic of China (Taiwan)
ECB	European Central Bank
FOMC	Federal Open Market Committee
HKMA	Hong Kong Monetary Authority
MAS	Monetary Authority of Singapore
PBOC	The People's Bank of China
RBA	Reserve Bank of Australia
RBI	Reserve Bank of India
RBNZ	Reserve Bank of New Zealand
SBV	State Bank of Vietnam

Our team

Suan Teck Kin, CFA
Head of Research
(65) 6598 1796
Suan.TeckKin@UOBgroup.com

Alvin Liew
Senior Economist
(65) 6598 1797
Alvin.LiewTS@UOBgroup.com

Heng Koon How, CAIA
Head of Markets Strategy
(65) 6598 1798
Heng.KoonHow@UOBgroup.com

Julia Goh
Senior Economist (Malaysia)
(60)3 2776 9233
Julia.GohML@UOB.com.my

Enrico Tanuwidjaja
Economist (Indonesia)
Enrico.Tanuwidjaja@UOBgroup.com

Ho Woei Chen, CFA
Economist
(65) 6598 1793
Ho.WoeiChen@UOBgroup.com

Peter Chia, CMT
Senior FX Strategist
(65) 6598 1754
Peter.ChiaCS@UOBgroup.com

Loke Siew Ting
Economist (Malaysia)
(60)3 2772 6221
Jasrine.LokeST@UOB.com.my

Sathit Talaengsatya
Economist (Thailand)
Sathit.tal@UOB.co.th

Lee Sue Ann
Economist
(65) 6598 1792
Lee.SueAnn@UOBgroup.com

Quek Ser Leang
Market Strategist
(65) 6598 1795
Quek.SerLeang@UOBgroup.com

Jester Koh
Associate Economist
(65) 6598 1791
Jester.Koh@UOBgroup.com

Victor Yong
Interest Rate Strategist
(65) 6598 1799
Victor.YongTC@UOBgroup.com

Tan Lena
Business Data Designer
(65) 6598 1794
Lena.Tan@UOBgroup.com

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United Overseas Bank Limited
Company Registration No.: 193500026Z

Head Office
80 Raffles Place
UOB Plaza
Singapore 048624
Telephone: (65) 6533 9898
Facsimile: (65) 6534 2334

www.uobgroup.com