Quarterly Global Outlook 4Q 2024

Start of the eagerly awaited Fed rate cutting cycle

Right By You

CONTENT

Outlook by Economies
Click on the economy to view insight

Information as of 20 September 2024

Research Insights
Explore more

www.uob.com.sg/research

Bloomberg: NH UOB <GO>

Contact us

GlobalEcoMktResearch@UOBgroup.com

EXECUTIVE SUMMARY

Start of the eagerly awaited Fed rate cutting cycle

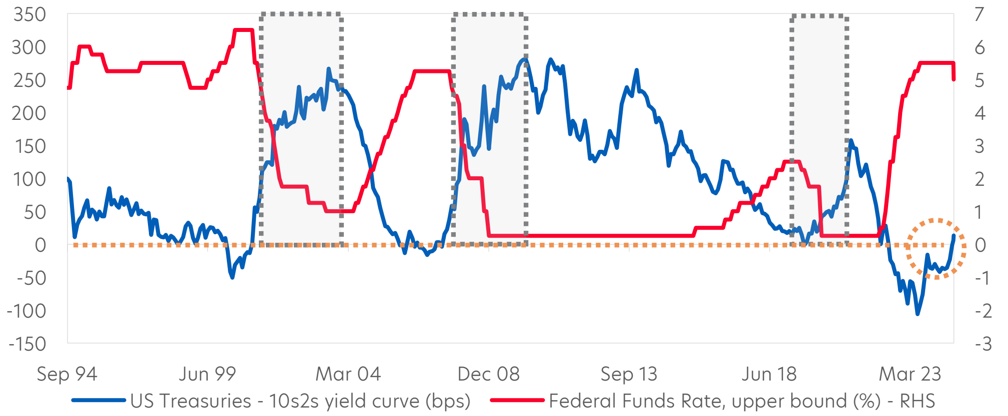
> “ Beware of little expenses, a small leak can sink a great ship ”
>
> —— Benjamin Franklin

The US Federal Reserve (Fed) has now finally started its eagerly awaited rate cutting cycle. This new monetary easing cycle is very hard fought and comes off the back of a sustained pullback in US inflation towards the 2% long term target as well as renewed signs of modest weakness in the US job market. As we had expected, the US Dollar had weakened and rates softened over the past month heading into this rate cutting FOMC. Now that the Fed's rate cutting cycle has started, it is worth assessing the key macro and market trends into the final quarter of 2024 that investors need to be mindful of:

#1: Yield curve can be expected to steepen anew

Chart 1: Get ready for some yield curve steepening as Fed cutting cycle starts

Source: Bloomberg, UOB Global Economics & Markets Research



The US yield curve started to invert from mid-2022 and has largely stayed inverted over the past 2 years. It is only over the past month that the yield curve has started to normalize with the 10s2s yield spread finally flipping back into positive territory from mid-August. This normalization of the yield curve can be simply explained by the quicker and larger drop in front end short-dated rates, which are more sensitive to market expectations of imminent Fed cutting cycle.

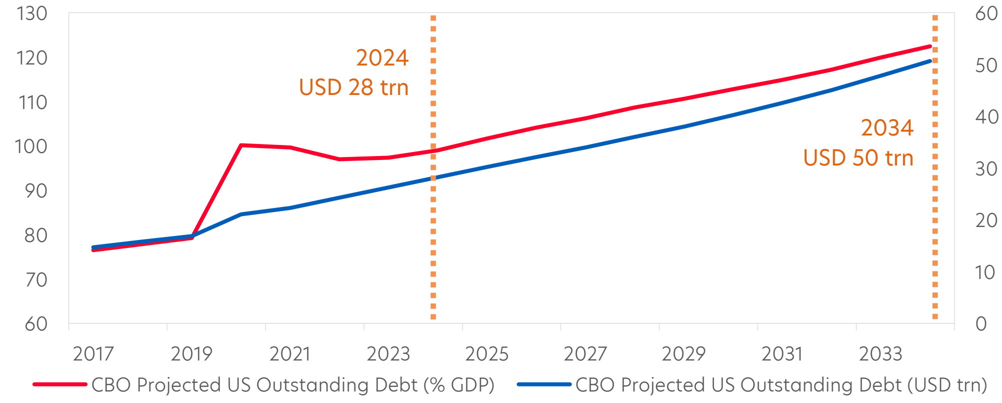
Going forward, as the Fed's rate cutting cycle progresses, the yield curve will start to steepen further.

Going forward, as the Fed's rate cutting cycle progresses, the yield curve will start to steepen further. In fact, yield curve steepening has been the case since previous rate cutting cycles starting from 2001, 2007 and 2019. We can expect more of the same this time round too. However, the upcoming yield curve steepening may be shallower than previous rounds, unless the US job market surprises with pronounced weakness in the months ahead, forcing the Fed to intensify and accelerate its rate cuts. For a start, a return to a positive yield curve should be a welcome relief as we are back to a "normal" yield curve regime whereby longer dated rates pay more due to higher risk.

#2: Righting the runaway US fiscal debt ship

Chart 2: CBO projects further jump in US outstanding debt to USD 50 trn by 2034

Source: Bloomberg, UOB Global Economics & Markets Research



Much have been discussed and postulated by both US Presidential candidates in the intense runup to Nov 5th. What is clear is that many of former President Trump's desired policy settings carry clear inflationary risks. Various settings of more and extended tax cuts, higher tariffs and tighter immigration may drive renewed inflation, making it difficult for the Fed to cut rates meaningfully into 2025 and potentially generating USD strength instead. In other words, former President Trump's desired policy settings are at odds to his desire for a weaker USD to help boost US trade and exports further. On the other hand, Vice President Harris' policies can be said to be an extension of existing Biden administration policies. Specifically on trade measures, how she adjusts the existing "small yard high fence" regime of targeted trade tariffs remains to be seen.

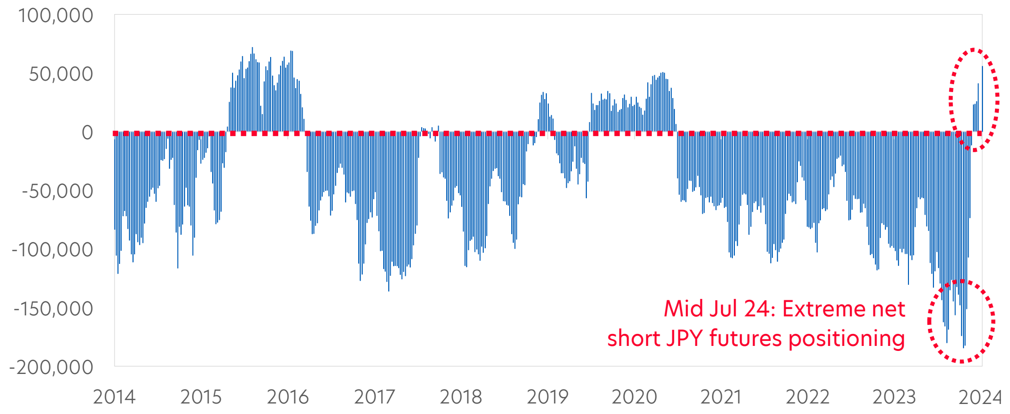
A ballooning US public debt over the long run will be negative for the USD should the investing public lose confidence in the credibility of the US Treasury.

What is clear is that both candidates - Harris and Trump - did not spend much time discussing the growing long term risk of runaway US fiscal debt. The non-partisan Congressional Budget Office (CBO) has warned that US outstanding public debt is projected to jump from about USD 28 tn currently to USD 50 tn in the coming decade. This is an astounding number. A ballooning US public debt over the long run will be negative for the USD should the investing public lose confidence in the credibility of the US Treasury. As Benjamin Franklin wrote many years ago, "Beware of little expenses, a small leak can sink a great ship", it is still not too late for both US Presidential candidates to have the wisdom to focus on the longer term needs to right the US fiscal debt ship and offer much needed solutions to cut back on excessive fiscal spending.

#3: BOJ poised to raise rates further as JPY carry unwind volatility subsides

Chart 3: Net Non-Commercial JPY Futures positioning on the CME has not turned positive

Source: Bloomberg, UOB Global Economics & Markets Research



With the on-going narrowing of yield differential against the USD, the USD/JPY spot rate is expected to ease further and trade below 140 by year end.

Moving onto Asia, the latest comments from Bank of Japan (BOJ) Governor Kazuo Ueda and various BOJ officials reaffirmed that the central bank remains committed to raise interest rates further, as long as financial market conditions stabilize. Indeed, our view is that the BOJ is poised to hike its overnight policy rate by another 25 bps to 0.50% at the Dec meeting. By currently trading at about 43 bps, the short term 3M Tibor rate has effectively priced in to a large extent this anticipated 25 bps hike to 0.50%. Concurrently, with the on-going narrowing of yield differential against the USD, the USD/JPY spot rate is expected to ease further and trade below 141 by year end.

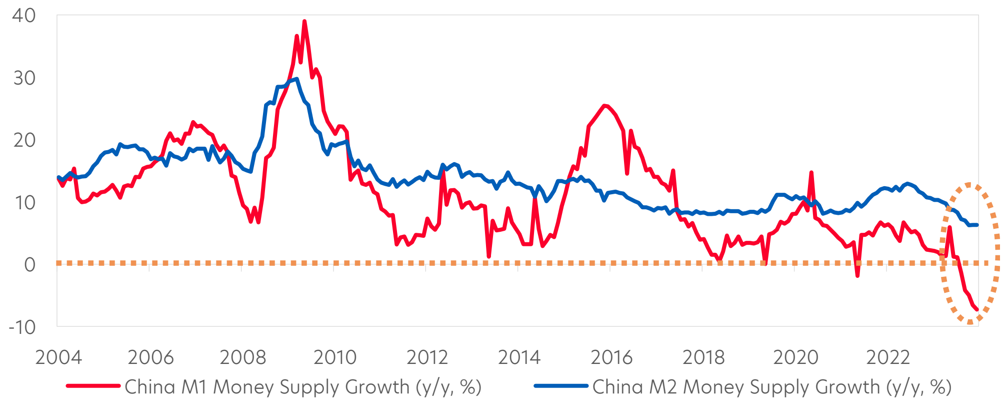
What is still worrying investors in the background is the potential of yet another round of disruptive volatile further unwinding of JPY carry trade.

What is still worrying investors in the background is the potential of yet another round of disruptive volatile further unwinding of JPY carry trade. While it would be difficult to quantify the precise amount of outstanding JPY shorts, we can draw a fairly accurate inference from the net positioning of JPY futures on the CME. To that note, it is worth noting that this net positioning of JPY futures has recently flipped to a net mild positive from the extreme net short position back in mid Jul. As such, it is likely that most of the speculative JPY carry positioning would have been unwound over the past month. Furthermore, most of the major JPY crosses like EUR/JPY, GBP/JPY, AUD/JPY etc have reverted back to their price levels at the beginning of the year. Hence, with the short JPY positioning largely a thing of the past, a further rate hike by the BOJ is unlikely to result in a repeat of the disorderly financial markets of late Jul / early Aug.

#4: How to reinvigorate China's weak economic sentiment?

Chart 4: Unprecedented contraction in China M1 Money Supply

Source: Bloomberg, UOB Global Economics & Markets Research



As 3Q24 progressed, it became increasingly apparent that the earlier rounds of repeated monetary policy easing coupled with various fiscal stimulus across 1H24 failed to trigger a meaningful recovery in China's ailing economy. In particular, residential property prices continue to contract as developer debt restructuring remains challenged. Various high frequency macroeconomic and manufacturing data also turned out to be weaker than expected. It is now unlikely that the 5.0% growth pace for 1H24 will be able to be sustained into 2H24. As such, our view is that the official growth target of "around 5.0%" for 2024 is increasingly unlikely to be achieved.

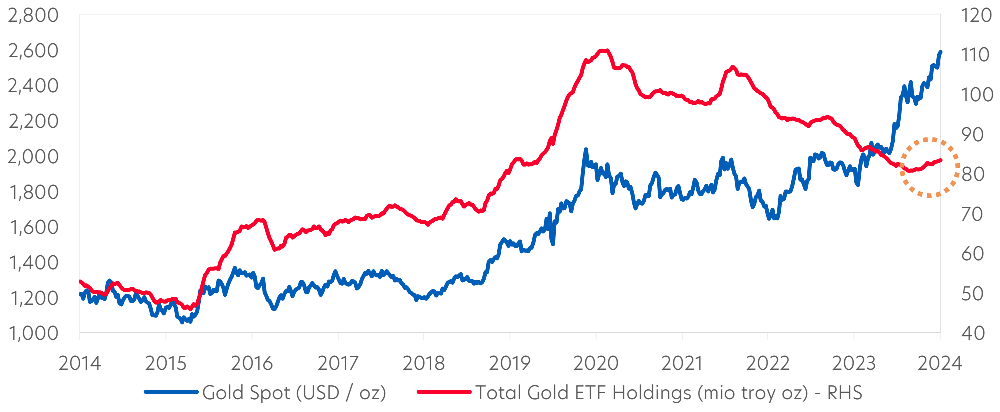
The concern now is that as the post Covid economic recovery for China failed to materialize, M1 money supply growth has slipped into negative territory earlier this year and contracted further to -7.3% y/y in the latest monthly showing.

Symptomatic of this weak economic backdrop for China is the further contraction in China's M1 money supply growth rate. In previous cycles of economic weakness across 2008, 2018 and 2021, China's M1 money supply growth rate tends to weaken. This is to be expected as investors and firms alike revert to "hoarding cash" and hold onto more savings in times of economic uncertainty. This resulted in lesser liquidity for investment or spending, thereby exacerbating the growth slowdown. The concern now is that as the post Covid economic recovery for China failed to materialize, M1 money supply growth has slipped into negative territory earlier this year and contracted further to -7.3% y/y in the latest monthly showing. How will the Chinese authorities be able to reinvigorate weak economic sentiment to encourage consumers and firms to spend again is a key question as we head into the remaining months of 2024.

#5: Go Gold Go!

Chart 5: Resumption of investor flows into Gold ETFs has only just started

Source: Bloomberg, UOB Global Economics & Markets Research



Since trading above USD 2,000 / oz at the beginning of Jan, gold has embarked on a strong sustained rally, jumping by almost 30% to current level of just under USD 2,600 / oz. All the existing positive drivers for gold remain intact. Firstly, Emerging Market (EM) and Asian central banks continue their strong reserve allocation into gold. Secondly, amidst the rising geopolitical risk, the safe haven buying of gold stays strong as well. Thirdly, with its low volatility amidst the wild swings in global equities and debt markets during the recent round of JPY carry trade unwinding episode, gold has reinforced itself as a reliable long term portfolio diversifier of risk.

The Fed rate cuts will lower funding cost for gold and help trigger renewed investments from institutional investors.

Finally, with the Fed now embarking on a new rate cutting cycle, gold now enjoys a new strong and positive tailwind. The Fed rate cuts will lower funding cost for gold and help trigger renewed investments from institutional investors. In fact, we are just witnessing a renewed climb in demand for gold backed ETFs. Overall, we reiterate our long-standing positive view for gold and highlight that the psychological headline level of USD 3,000 / oz now increasingly within reach over the medium to longer term.

Hereafter are our key macroeconomic forecasts including ASEAN Focus, as well as currencies, rates and commodities assessments and views for the immediate quarter of 4Q24 and beyond into 2025.

FX STRATEGY

USD to weaken further after Fed starts rate cut cycle with a bang

While we reiterate the view of further USD weakness from here, it may come with two-way volatility.

Fed's rate expectations will continue to be the predominant driver for the broad USD trend just as Fed takes leadership in this easing cycle. Even after wiping out the very substantial year-to-date gains, the path of least resistance for the DXY from here is likely still skewed to the downside. We expect the DXY to dip below its key support level of 100 by end of the year. Overall, while we reiterate the view of further USD weakness from here, it may come with two-way volatility. As we approach the Nov US elections, concerns about Trump's inflationary policies may spur a recalibration of interest rate and USD expectations again. Our updated 4Q24 and 3Q25 forecasts for EUR/USD, GBP/USD and AUD/USD are 1.13, 1.17 and 1.34, 1.40 and 0.68, 0.71 respectively.

As for USD/JPY, notwithstanding the plunge from 161 to 142 in 3Q24, the pair is still biased to further downside, albeit at a more gradual pace as a large portion of the speculative JPY carry trade may have already been unwound across late Jul to early Aug. Monetary policy divergence between the Fed (easing bias) and the Bank of Japan (tightening bias) anchors our existing view of further weakness in USD/JPY in the coming quarters. Our updated USD/JPY forecasts are now at 141 in 4Q24 and 133 in 3Q25.

Overall, we update our 4Q24 forecasts for most Asia FX to be near to current spot levels before strengthening anew in 2025.

Most Asia FX posted strong gains against the USD in 3Q24, with the Asia Dollar Index jumping the most since 4Q23. As the USD's interest rate advantage dwindle in the face of the Fed's easing cycle, foreign investors poured into regional government bonds (such as Indonesia, Malaysia and Thailand), lifting regional currencies. In the coming quarter (4Q24), Asia FX could consolidate gains against the USD after the strong rally in 3Q24 left some currencies at the most overbought conditions in recent years. Lingering concerns about China's bumpy economic rebound may also temper with investors' enthusiasm on Asia FX. Lastly, investors may also adopt a wait-and-see attitude as the Nov US elections nears with as the tail-risks of Trump's potential tariff policies if he wins the elections cannot be ignored. Overall, we update our 4Q24 forecasts for most Asia FX to be near to current spot levels before strengthening anew in 2025. Our updated 4Q24 and 3Q25 forecasts for USD/CNY and USD/SGD are 7.08, 6.87 and 1.30, 1.27 respectively.

RATES STRATEGY

Adjusting our rates forecasts for a strong start to the Fed easing cycle

Our Fed view is revised to more front-loaded rate cuts where we see another 50 bps of cuts from here till end of 2024 and a shorter easing cycle with terminal rate unchanged at 3.25% at 1Q 2026 compared to 3Q 2026 previously. Now that the 2s10s UST curve has moved back into the positive territory and Fed easing is officially underway, one of the most consensus view is for the curve to steepen further. This is also our bias. As such, we do see further steepening in the 2s10s UST curve over this rate cut cycle, but the magnitude may be smaller than commonly held assumptions.

The overall forecast curves for UST and SGS points lower across time due to our monetary policy easing cycle base case. Eventually, we see 10Y UST and SGD at 3.50% and 2.50% by 3Q25.

In terms of front end rates, for end 4Q24, we forecast the 3M compounded in arrears Sofr and Sora at 4.88% and 3.06% respectively. Thereafter, short term rates are then expected to drift lower across 2025 in tune with our expectations of a further 100 bps rate cuts from the US Federal Reserve. Eventually the 3M compounded in arrears Sofr and Sora could drop to 3.76% and 2.19% respectively by 3Q25. For the longer end of the curve, we forecast the 10Y UST and SGS yields at 3.70% and 2.55% respectively by the end of 4Q24. Our 10Y UST yield projection has been reduced post Sep FOMC in view of the revisions in our Fed Funds rate baseline. 10Y SGS yield forecast has also been reduced in line with the 10Y UST update. The overall forecast curves for UST and SGS points lower across time due to our monetary policy easing cycle base case. Eventually, we see 10Y UST and SGD at 3.50% and 2.50% by 3Q25.

Our monetary policy views on major developed markets (DM) sees central bankers there positioned to cut their own policy rates. The exception being Japan where the BOJ continues to dance to a different tune and interest rate normalization remains the objective. We have penciled in another BOJ rate hike in 4Q 24 to take the policy rate up to 0.50% which will be its highest since 2008. In the Asian region, central banks' reaction functions are more variable although the path of least resistance may be building towards embarking on their own easing cycles too. Case in point, we have Bank Indonesia surprising markets with a rate cut in Sep to reverse its short lived and unexpected hike in Apr.

COMMODITIES STRATEGY

Brent and Copper feel the weight of China's economic slowdown

With the Fed now starting its rate cutting cycle, we can expect further weakness in the US Dollar as well as more softness in USD rates. This retreat in both US Dollar and long-term borrowing rates now provide an important positive tailwind for gold. In line with the start of the Fed cutting cycle, funding costs against maintaining long gold positioning has dropped, as such we also see the return of institutional investors into gold products like ETFs as well. In the background, the overall demand from central bank allocation as well as diversification needs from geopolitical risks continue unabated. Therefore, in view of the lower USD and softer rates from the start of the Fed cutting cycle, we stay positive on gold and raise our fore-casts further to USD 2,700 for 4Q24, USD 2,800 / oz for 1Q25, USD 2,900 / oz for 2Q25 and USD 3,000 / oz for 3Q25.

While growth slowdown risks weigh over the near term, we are weary of extrapolating downside in crude oil price below USD 70 / bbl. This is because there is still on-going geopolitical risk from the conflicts in the Middle East.

Brent crude oil has had a disappointing quarter, falling from USD 85 / bbl in early Jul to just above USD 70 / bbl by late Sep. The main culprit for the sell-off across 3Q24 is the return of China growth slowdown concerns, raising fears of weaker energy demand. While growth slowdown risks weigh over the near term, we are weary of extrapolating downside in crude oil price below USD 70 / bbl. This is because there is still on-going geopolitical risk from the conflicts in the Middle East. The crude oil futures curve is now mostly flat with net positioning now down to post-Covid low. In other words, there is little risk premium priced into current crude oil price around USD 70 / bbl. As such, while we lower our Brent crude oil fore-cast due to global growth slowdown and oversupply concerns, we still maintain a mild upward trajectory in view of geopolitical risk. Overall, our updated Brent crude oil forecast is now USD 70 / bbl for 4Q24, USD 75 / bbl for 1Q25 and USD 80 / bbl for 2Q and 3Q25.

Similar to Brent crude oil, LME Copper had a weak outing across 3Q24, failing to trade back up above the USD 10,000 / MT level as renewed selling pressure triggered price weakness down to just above the USD 9,000 / MT level instead. Going forward, we neutralize our previously positive outlook for LME Copper, given renewed growth slowdown worries for China and that the previously anticipated activity stabilization did materialize. Despite the near term weakness, it is worth highlighting that concerns over the longer term slowdown in copper mining supply as well as tightness in refined copper production remains. Overall, our neutralized forecast for LME Copper is USD 9,000 / MT throughout from 4Q24 to 3Q25.

ASEAN FOCUS

Bright Prospects Into 2027 and Beyond

ASEAN's trade and investment prospects remain bright, with projections indicating sustained growth in the coming years. FDI inflows into ASEAN hit US$226 billion in 2023, and we forecast the inflows to rise by 38% to US$312 billion by 2027 ...

- As ASEAN experienced three consecutive years of record inflows of foreign direct investments (FDI) and total trade, prospects for the bloc remain positive as it heads into its 60th year of establishment in 2027. These data further reaffirm ASEAN as a bright spot in the global economy.

- Other than a large and young population base, three key factors contribute to a favourable outlook for ASEAN in the coming years: 1. Increasing cross-border policy coordination; 2. deepening integration across various economic sectors among its members; 3. a peaceful environment coupled with generally stable domestic political conditions. In addition, supply chain shifts and risk diversification in response to geoeconomic fragmentation will further channel investments and trade flows into ASEAN.

- Outlook – ASEAN's trade and investment prospects remain bright, with projections indicating sustained growth in the coming years. FDI inflows into ASEAN hit US$226 billion in 2023, and we forecast the inflows to rise by 38% to US$312 billion by 2027 and further to US$373 billion by 2030. Moreover, total trade flows in ASEAN are expected to accelerate, reaching US$4.7 trillion by 2027, representing a 34% increase from US$3.5 trillion in 2023.

Global FX

USD/JPY: Monetary policy divergence between the Fed (easing bias) and the BOJ (tightening bias) anchors our existing view of further weakness in USD/JPY in the coming quarters. Overall, our updated USD/JPY forecasts are now at 141 in 4Q24, 138 in 1Q25, 135 in 2Q25 and 133 in 3Q25.

EUR/USD: Going forth, relative monetary policies between the Fed and European Central Bank (ECB) continues to underpin our positive view on EUR/USD. Our updated EUR/USD forecasts are 1.13 in 4Q24, 1.15 in 1Q25, 1.16 in 2Q25 and 1.17 in 3Q25.

GBP/USD: Going forth, as we deem Fed rate expectations to be more vulnerable to further dovish repricing compared to the BOE, we maintain our positive view on GBP/USD. Our updated GBP/USD forecasts are 1.34 in 4Q24, 1.36 in 1Q25, 1.38 in 2Q25 and 1.40 in 3Q25.

AUD/USD: In the near term, lingering China-related and US election uncertainties are likely to cap AUD/USD at its key 0.69 resistance. Overall, our updated AUD/USD forecasts are at 0.68 in 4Q24, 0.69 in 1Q25, 0.70 in 2Q25 and 0.71 in 3Q25.

NZD/USD: Going forth, we still factor in further gains in the NZD/USD as the Fed's easing cycle exerts further pressure on the USD. Our updated NZD/USD forecasts are 0.62 in 4Q24, 0.63 in 1Q25, 0.64 in 2Q25 and 0.65 in 3Q25.

Asian FX

USD/CNY: In 4Q24, US election uncertainties may counterbalance dovish Fed repricings, resulting in a period of consolidation for USD/CNY. Overall, our updated USD/CNY forecasts are 7.08 in 4Q24, 7.01 in 1Q25, 6.94 in 2Q25 and 6.87 in 3Q25.

USD/SGD: Similar to other Asian peers, the SGD appears overbought against the USD, especially in the backdrop where US election and China economic uncertainties may spur some near-term USD demand. This may prompt some consolidation of USD/SGD around 1.30 in 4Q24 before beginning a new trading range below 1.30 in 2025. Overall, our updated USD/SGD forecasts are at 1.30 for 4Q24, 1.29 for 1Q25, 1.28 for 2Q25 and 1.27 in 3Q25.

USD/HKD: In a way, the bigger drop in Hibor rates relative to the US rates made USD carry trades funded out of HKD still attractive, hence cushioning the USD/HKD drop. Overall, we keep to expectations that USD/HKD will trade at around 7.80 in the coming four quarters beginning 4Q24.

USD/TWD: Looking ahead, we see several favourable idiosyncrasies that may facilitate a catch-up play for the TWD. These include strong demand for Taiwan's semiconductors exports, TWD acting as a proxy for global AI play and a hawkish CBC relative to the Fed and other Asian central banks. Overall, our updated USD/TWD forecasts are 31.8 in 4Q24, 31.3 in 1Q25, 30.9 in 2Q25 and 30.5 in 3Q25.

USD/KRW: In the coming 4Q24, the KRW may consolidate recent gains as global investors may adopt a wait-and-see attitude ahead of Nov US elections together with a dovish BOK which is set to begin its rate cut cycle in the quarter. In 2025, the KRW is likely to strengthen anew as the Fed's easing cycle progresses, though the appreciation pace may moderate. Overall, our latest USD/KRW forecasts are 1,320 in 4Q24, 1,300 in 1Q25, 1,280 in 2Q25 and 1,260 in 3Q25.

USD/MYR: We think the underlying drivers for MYR to improve further remain, particularly as the Fed eases rates while BNM is expected to keep rates on hold into 2025. With that, our USD/MYR forecasts are now at 4.22 in 4Q24, 4.18 in 1Q25, 4.14 in 2Q25 and 4.10 in 3Q25.

USD/IDR: We factor in a period of consolidation for USD/IDR in 4Q24 before renewed weakness in 2025. Overall, our updated USD/IDR forecasts are 15,400 in 4Q24, 15,200 in 1Q25, 15,000 in 2Q25 and 14,800 in 3Q25.

USD/THB: While we remain bearish on USD/THB over the longer term as the Fed's rate cycle progresses, the THB – which is in overbought territory - may likely consolidate its recent strong gains in the coming quarter (4Q24). US election uncertainties could also render support to the USD/THB in the interim. Our updated USD/THB forecasts are 33.2 in 4Q24, 32.8 in 1Q25, 32.4 in 2Q25 and 32.1 in 3Q25.

USD/PHP: In the coming 4Q24, we expect the PHP to consolidate its gains from 3Q24 as investors weigh risks such as China's bumpy economic rebound and uncertainties of the Nov US elections. In 2025, USD/PHP is likely to weaken anew again on broad-based USD weakness as the Fed's easing cycle goes into full swing. Overall, our updated USD/PHP is now at 55.8 in 4Q24, 55.3 in 1Q25, 54.8 in 2Q25 and 54.3 in 3Q25.

USD/VND: Further VND gains from here are unlikely to proceed at the same pace as that of 3Q24. Overall, our updated USD/VND forecasts are 24,500 in 4Q24, 24,300 in 1Q25, 24,100 in 2Q25 and 23,900 in 3Q25.

USD/INR: Overall, we expect further INR strength against the USD, with updated forecasts at 83.5 in 4Q24, 83.0 in 1Q25, 82.5 in 2Q25 and 82.0 in 3Q25.

OUR FORECASTS

Real GDP Growth

y/y% change	2023	2024F	2025F	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24F	4Q24F
China	5.2	4.9	4.6	4.5	6.3	4.9	5.2	5.3	4.7	4.7	4.8
Hong Kong	3.3	3.1	2.0	2.8	1.6	4.2	4.3	2.8	3.3	3.2	3.1
India (FY)	7.0	8.2	6.9	12.8	5.5	4.3	6.2	8.2	8.1	8.6	7.8
Indonesia	5.1	5.2	5.3	5.0	5.2	4.9	5.0	5.1	5.1	5.3	5.2
Japan	1.9	0.2	1.7	2.5	2.0	1.3	0.9	-1.0	-0.9	0.9	1.6
Malaysia	3.6	5.4	4.7	5.5	2.8	3.1	2.9	4.2	5.9	5.7	5.8
Philippines	5.5	6.0	6.5	6.4	4.3	6.0	5.5	5.8	6.3	6.1	5.8
Singapore	1.1	2.9	3.2	0.5	0.5	1.0	2.2	3.0	2.9	2.8	2.9
South Korea	1.4	2.4	2.0	1.1	1.0	1.4	2.1	3.3	2.3	2.1	2.2
Taiwan	1.3	4.0	3.0	-3.0	1.5	2.3	5.1	6.5	5.1	3.2	1.4
Thailand	1.9	2.7	2.9	2.6	1.7	1.5	1.8	1.6	2.3	2.4	4.3
Vietnam	5.0	5.9	6.6	3.3	4.1	5.5	6.7	5.9	6.9	5.7	5.2
Australia	2.1	1.2	2.1	2.5	2.1	2.1	1.6	1.3	1.0	1.2	1.4
Eurozone	0.4	0.8	1.3	1.3	0.1	0.1	0.4	0.5	0.6	0.8	1.1
New Zealand	0.7	0.6	2.1	2.1	1.5	-0.6	-0.3	0.3	0.1	0.8	1.2
United Kingdom	0.1	1.1	1.4	0.3	0.2	-0.2	-0.2	0.3	0.9	1.3	1.9
United States (q/q SAAR)	2.5	2.3	1.8	2.2	2.1	4.9	3.4	1.4	3.0	2.1	-2.9

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

FX, Interest Rates & Commodities

FX	19 Sep	4Q24F	1Q25F	2Q25F	3Q25F
USD/JPY	142	141	138	135	133
EUR/USD	1.12	1.13	1.15	1.16	1.17
GBP/USD	1.33	1.34	1.36	1.38	1.40
AUD/USD	0.68	0.68	0.69	0.70	0.71
NZD/USD	0.62	0.62	0.63	0.64	0.65
DXY	100.6	99.8	98.2	97.2	96.2
USD/CNY	7.06	7.08	7.01	6.94	6.87
USD/HKD	7.79	7.80	7.80	7.80	7.80
USD/TWD	31.90	31.80	31.30	30.90	30.50
USD/KRW	1,331	1,320	1,300	1,280	1,260
USD/PHP	55.63	55.80	55.30	54.80	54.30
USD/MYR	4.19	4.22	4.18	4.14	4.10
USD/IDR	15,238	15,400	15,200	15,000	14,800
USD/THB	33.12	33.20	32.80	32.40	32.10
USD/VND	24,571	24,500	24,300	24,100	23,900
USD/INR	83.69	83.50	83.00	82.50	82.00
USD/SGD	1.29	1.30	1.29	1.28	1.27
EUR/SGD	1.44	1.47	1.48	1.48	1.49
GBP/SGD	1.71	1.74	1.75	1.77	1.78
AUD/SGD	0.88	0.88	0.89	0.90	0.90
SGD/MYR	3.25	3.25	3.24	3.23	3.23
SGD/CNY	5.47	5.45	5.43	5.42	5.41
JPY/SGDx100	0.91	8.72	8.73	8.75	8.75

Source: UOB Global Economics & Markets Research Estimates

POLICY RATES	19 Sep	4Q24F	1Q25F	2Q25F	3Q25F
US Fed Fund Rate	5.00	4.50	4.25	4.00	3.75
JPY Policy Rate	0.25	0.50	0.50	0.50	0.50
EUR Refinancing Rate	3.65	3.40	3.15	2.90	2.65
GBP Repo Rate	5.00	4.75	4.50	4.25	4.00
AUD Official Cash Rate	4.35	4.00	3.75	3.50	3.25
NZD Official Cash Rate	5.25	4.75	4.50	4.25	4.00
CNY 1Y Loan Prime Rate	3.35	3.20	3.20	3.20	3.20
HKD Base Rate	5.25	4.75	4.50	4.25	4.00
TWD Official Discount Rate	2.00	2.00	2.00	2.00	2.00
KRW Base Rate	3.50	3.00	2.75	2.50	2.50
PHP O/N Reverse Repo	6.25	5.75	5.50	5.25	5.00
MYR O/N Policy Rate	3.00	3.00	3.00	3.00	3.00
IDR 7D Reverse Repo	6.00	5.75	5.50	5.25	5.00
THB 1D Repo	2.50	2.50	2.50	2.50	2.50
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate	6.50	6.25	6.00	5.75	5.75

INTEREST RATES	19 Sep	4Q24F	1Q25F	2Q25F	3Q25F
USD 3M SOFR (compounded)	5.37	4.88	4.26	4.01	3.76
SGD 3M SORA (compounded)	3.52	3.06	2.58	2.39	2.19
US 10Y Treasuries Yield	3.71	3.70	3.60	3.60	3.50
SGD 10Y SGS	2.45	2.55	2.50	2.50	2.50

COMMODITIES	19 Sep	4Q24F	1Q25F	2Q25F	3Q25F
Gold (USD/oz)	2,589	2,700	2,800	2,900	3,000
Brent Crude Oil (USD/bbl)	75	70	75	80	80
LME Copper (USD/mt)	9,515	9,000	9,000	9,000	9,000

Key Events 4Q 2024

OCTOBER

01
US

There will likely be a partial government shutdown if the Congress fails to pass all of the necessary bills by 30 Sep.

Likely before 09
India

Appointment of new RBI external MPC members - risks of a more hawkish monetary policy committee loom given that two of the three outgoing members are regarded as dovish.

Likely 14
Singapore

Release of MAS Monetary Policy Statement (MPS) - we expect MAS to reduce the slope of the S$NEER policy band "slightly" to restore monetary policy neutrality, consistent with trend growth and y/y core inflation returning to near desired levels on an ex-GST basis.

16
Hong Kong

Chief Executive John Lee will deliver his third Policy Address where economic growth will be the focus.

18
Malaysia

Budget 2025 – the benchmarks set within the Madani Economic Framework, strategies to stabilize inflation and measures to address the rising cost of living will be tabled in Parliament.

22-24
Global

BRICS Summit in Kazan, Russia – the group has expanded to ten members with the inclusion of Egypt, Ethiopia, Iran, Saudi Arabia and UAE who have joined since Jan 2024. Malaysia and Thailand are the latest applicants.

October
Indonesia

The newly elected members of the People's Consultative Assembly and the elected president & vice president will be sworn in on 1 and 20 Oct respectively.

Japan

The ruling Liberal Democratic Party's winning candidate from the presidential election on 27 Sep will succeed Kishida as Japan's next Prime Minister.

NOVEMBER

05
US

The 60th quadrennial Presidential Election – the result of the contest between VP Kamala Harris and former President Donald Trump, will have great geopolitical and macroeconomic consequences globally.

07
Eurozone

Eurogroup meeting in Luxembourg

10-16
Global

APEC Economic Leaders' Meeting 2024 - APEC accounts for nearly 40% of the global population and almost 50% of global trade. Peru will be hosting the meeting in Lima.

11-22
Global

COP29 – it will be held in Baku, Azerbaijan

November
Malaysia

The 11th Malaysia-Singapore Leaders' Retreat - is expected to be held in Johor, whereby the final agreement on the Johor-Singapore Special Economic Zone (JS-SEZ) is likely to be signed.

DECEMBER

17-19
Malaysia

Malaysia-China Summit 2024 (a trade and investment expo) - is held to commemorate the 50th Anniversary of bilateral ties between Malaysian and The People's Republic of China this year. It is projected to generate MYR2bn in potential trade and investment opportunities.

19-20
European Union

European Council Meeting in Brussels

December
China

The annual Central Economic Work Conference (CEWC) will discuss the economic work for 2025 with the economic targets to be announced at the National People's Congress (NPC) in Mar 2025.

ASEAN FOCUS

Bright prospects into 2027 and beyond

- As ASEAN[1] experienced three consecutive years of record inflows of foreign direct investments (FDI) and total trade, prospects for the bloc remain positive as it heads into its 60th year of establishment in 2027. These data further reaffirm ASEAN as a bright spot in the global economy.

- Other than a large and young population base, three key factors contribute to a favourable outlook for ASEAN in the coming years: 1. Increasing cross-border policy coordination; 2. deepening integration across various economic sectors among its members; 3. a peaceful environment coupled with generally stable domestic political conditions. In addition, supply chain shifts and risk diversification in response to geoeconomic fragmentation will further channel investments and trade flows into ASEAN.

- Outlook – ASEAN's trade and investment prospects remain bright, with projections indicating sustained growth in the coming years. FDI inflows into ASEAN hit US$226 billion in 2023, and we forecast the inflows to rise by 38% to US$312 billion by 2027 and further to US$373 billion by 2030. Moreover, total trade flows in ASEAN are expected to accelerate, reaching US$4.7 trillion by 2027, representing a 34% increase from US$3.5 trillion in 2023.

---

[1] ASEAN (The Association of Southeast Asian Nations) consists of Brunei Darussalam, Myanmar, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, and Vietnam. ASEAN-6 refers to the founding members Indonesia, Malaysia, Philippines, Singapore, and Thailand, plus Vietnam. For more information and background on ASEAN, please visit UOB's ASEAN Connect portal - https://www.uobgroup.com/research/asean-connect.page

Opportunities abound in ASEAN

The world's second largest foreign direct investment (FDI) destination for the three consecutive years (2021-2023).

Data in recent years show that ASEAN remains resilient and attractive to global investors and firms despite a challenging environment of high interest rates, geopolitical tensions and geoeconomic fragmentation:

- ASEAN's economy at USD3.8 trillion is the fifth largest economy in the world in 2023 and is expected to become the fourth largest by 2030 at USD6.1 trillion.

- Average annual real GDP growth rate in 2024-2029 is projected by IMF at 4.6%, ahead of the 4.1% average for emerging markets (EM), China (3.8%), and the world (3.1%), but slower than India's (6.5%). The UOB team is projecting around 5.0% growth for 2024 and 2025.

- The world's second largest foreign direct investment (FDI) destination for the three consecutive years (2021-2023), with inflows of USD226.3 bn in 2023, marking an increase of 1.2% from USD223.5 bn in 2022 even as global FDI inflows fell by 1.8% in 2023.

- ASEAN's total trade value reached its second highest ever in 2023, amounting to USD 3.5 trillion, and this trade value represents over 7% of the global total.

- ASEAN's population is the world's third largest after India and China, at 670mn in 2023, with more than half of its population under the age of 35.

As ASEAN heads into its 60th year of celebration in 2027, we remain constructive on outlook for trade and FDI inflows in ASEAN as the following factors will greatly facilitate business activities and boost confidence:

The Malaysian government is also working with Thailand on further coordination with the special economic zones (SEZ) that are already in operation.

1. **Greater cross-border policy coordination and cooperation** – The Johor-Singapore Special Economic Zone (JS-SEZ) is one example where Malaysia and Singapore governments coordinate policy concerning the special economic zone. According to news reports, the Malaysian government is also working with Thailand on further coordination with the special economic zones (SEZ) that are already in operation. Another example is the construction of the Funan Techo Canal in Cambodia, which was welcomed by the Vietnamese government due to the collective common interests in the Mekong Delta. Increased adoption of cross-border payments and funds flows via QR and digital channels, are other examples of closer policy coordination.

2. **Prevalence of the ASEAN spirit and the deepening integration** of regional economies. In addition to the JS-SEZ, increased integration of the region is reflected in some recent developments, including the entering into force of the Regional Comprehensive Economic Partnership (RCEP) in 2022 (link), the sizeable intra-ASEAN flows of trade and FDI, and the ASEAN DEFA (Digital Economy Framework Agreement) negotiations which were launched in September 2023, and targeted for conclusion by 2025, to improve digital rules in key areas such as digital trade facilitation, payments, standards and data, as well as emerging issues such as artificial intelligence.

3. **Peace and domestic political stability** – Since the establishment of ASEAN, there has not been any armed conflict among its members, unlike other parts of the world. This fosters a calm and peaceful environment for businesses and investors and reduces significantly risk premiums and uncertainty. In addition, power transitions after recent elections in Indonesia (2024), Malaysia (2023) and Thailand (2023/24) have largely been smooth and uneventful, demonstrating the increased maturity of these countries, which ensure policy continuity and stability in these key ASEAN members at least in the next three to five years.

4. **Large market size** – With a population of nearly 700 million in 2023, ASEAN is the third largest grouping after India and China. This large and growing consumer market with rising income per capita is a key factor attracting investments from globally.

That said, there are some key challenges and risks that need to be considered for ASEAN:

Global geopolitical tensions are unlikely to abate in the future as rivalry among the superpowers intensifies on territorial claims, technological advances, access and ...

1. Global geopolitical tensions are unlikely to abate in the future as rivalry among the superpowers intensifies on territorial claims, technological advances, access and use of resources, among other issues. ASEAN must remain united to defend its own interests and to withstand pressures from superpowers. As such, disunity within the grouping could lead to instability and uncertainty that may deter foreign investors.

2. The global demand for actions to meet environment and sustainability targets, as well as the advent of artificial intelligence (AI) and digitalisation could impact the competitiveness of some industries and member states.

3. Political challenges and internal issues such as Myanmar could test ASEAN's resolve and unity, which potentially could lead to discord among members and therefore jeopardise economic cooperation and the business environment.

ASEAN Conference 2024: A clear message of hope and optimism in outlook

At the 8th edition of the ASEAN Conference 2024 (held on 29 Aug 2024), government leaders and industry captains offered an updated assessment of the progress in the region, expressing an upbeat and optimistic outlook for business prospects. These views are further corroborated by data and the ongoing trends (see charts).

Various ASEAN Plus Agreements help to expand the influence and strengthen collaboration outside of the grouping, including the ASEAN-China Free Trade Area and ASEAN-India partnership.

Singapore's Deputy Prime Minister (DPM) Gan Kim Yong expressed great optimism and positive view for ASEAN's outlook, noting the region's growing importance and being a "bright spot in a troubled world". highlighted examples of closer cooperation and collaboration among the ASEAN members as one important factor, with ATIGA[1] being the "foundational" agreement of the grouping. Externally, various ASEAN Plus Agreements help to expand the influence and strengthen collaboration outside of the grouping, including the ASEAN-China Free Trade Area and ASEAN-India partnership. Within ASEAN, bilateral relations are further solidified, exemplified by the JS-SEZ initiative between Singapore and Malaysia, which DPM Gan praised as "greater together" and "one economy, two ecosystems".

Johor Chief Minister (CM) Onn Hafiz Ghazi hailed the JS-SEZ as a "game changer", "catalyst" and "engine of growth" for both Malaysia and the Johor state which aspires to achieve developed status by 2030 (Maju Johor 2030), with annual growth rate of 7%. This project exemplifies the profound level of integration and collaboration within ASEAN that will unlock further investment opportunities, greatly ease cross-border mobility of goods and people and boost competitiveness and productivity.

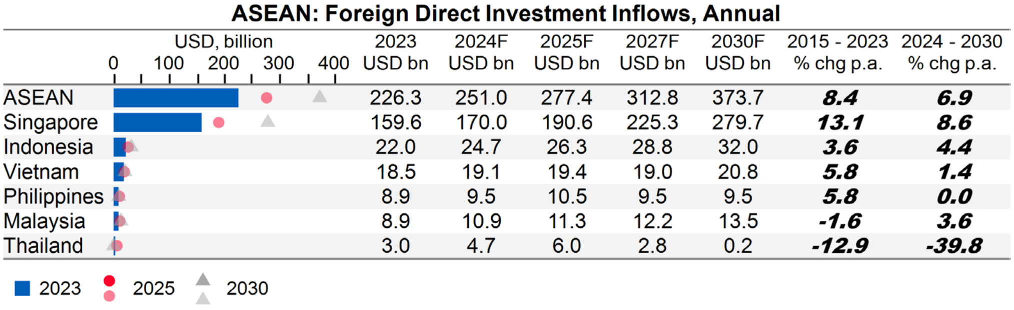
Based on the factors mentioned above and our observations of the data flows and trends, and with a combination of bottom up and top down approaches, the UOB's team of economists across the region assesses that the pace of FDI inflows into ASEAN is set to rise to USD312 billion by 2027, and further to USD373 billion by 2030, from USD226 billion in 2023. Moreover, total trade flows in ASEAN are poised to accelerate further, reaching USD4.7 trillion by 2027, representing a 34% increase from USD3.5 trillion in 2023, with Vietnam playing an increasingly large role compared to other ASEAN members.

---

[1] ASEAN Trade in Goods Agreement (ATIGA) is the key component of the ASEAN Economic Community (AEC), effective from 17 May 2010. The agreement aims to facilitate intra-ASEAN trade by eliminating tariffs on 99.65% of goods among member states, and reduce tariffs to 0-5% for nearly all products from newer members, including Cambodia and Vietnam.

ASEAN: Prospects are bright for FDI inflows

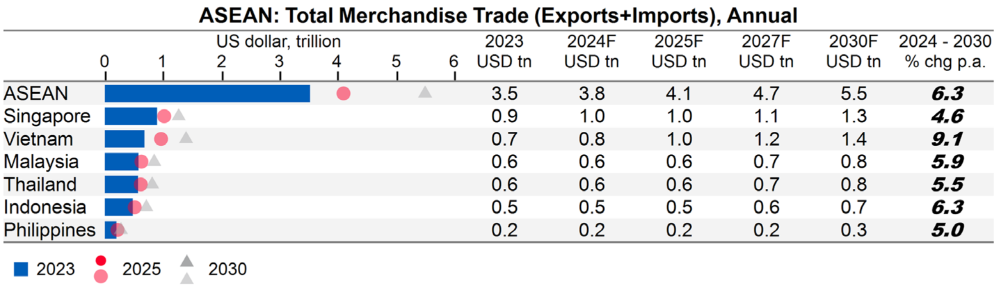
Source: Macrobond, UOB Global Economics & Markets Research



	2023 USD bn	2024F USD bn	2025F USD bn	2027F USD bn	2030F USD bn	2015 - 2023 % chg p.a.	2024 - 2030 % chg p.a.
ASEAN	226.3	251.0	277.4	312.8	373.7	***8.4***	***6.9***
Singapore	159.6	170.0	190.6	225.3	279.7	***13.1***	***8.6***
Indonesia	22.0	24.7	26.3	28.8	32.0	***3.6***	***4.4***
Vietnam	18.5	19.1	19.4	19.0	20.8	***5.8***	***1.4***
Philippines	8.9	9.5	10.5	9.5	9.5	***5.8***	***0.0***
Malaysia	8.9	10.9	11.3	12.2	13.5	***-1.6***	***3.6***
Thailand	3.0	4.7	6.0	2.8	0.2	***-12.9***	***-39.8***

ASEAN: Trade flows to rise further with Vietnam playing an increasingly large role

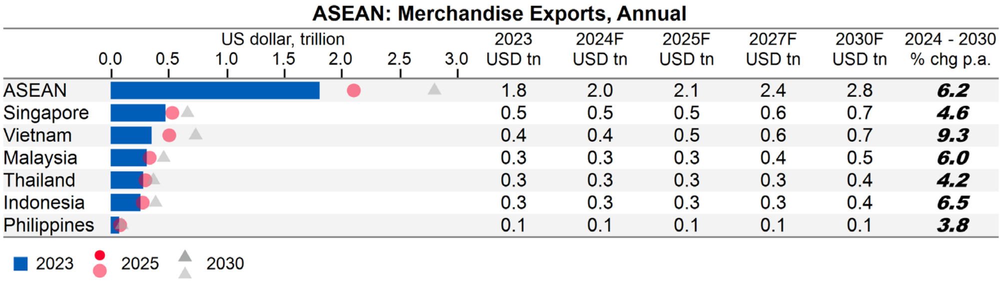
Source: Macrobond, UOB Global Economics & Markets Research



	2023 USD tn	2024F USD tn	2025F USD tn	2027F USD tn	2030F USD tn	2024 - 2030 % chg p.a.
ASEAN	3.5	3.8	4.1	4.7	5.5	***6.3***
Singapore	0.9	1.0	1.0	1.1	1.3	***4.6***
Vietnam	0.7	0.8	1.0	1.2	1.4	***9.1***
Malaysia	0.6	0.6	0.6	0.7	0.8	***5.9***
Thailand	0.6	0.6	0.6	0.7	0.8	***5.5***
Indonesia	0.5	0.5	0.5	0.6	0.7	***6.3***
Philippines	0.2	0.2	0.2	0.2	0.3	***5.0***

ASEAN: Trade flows to rise further with Vietnam playing an increasingly large role

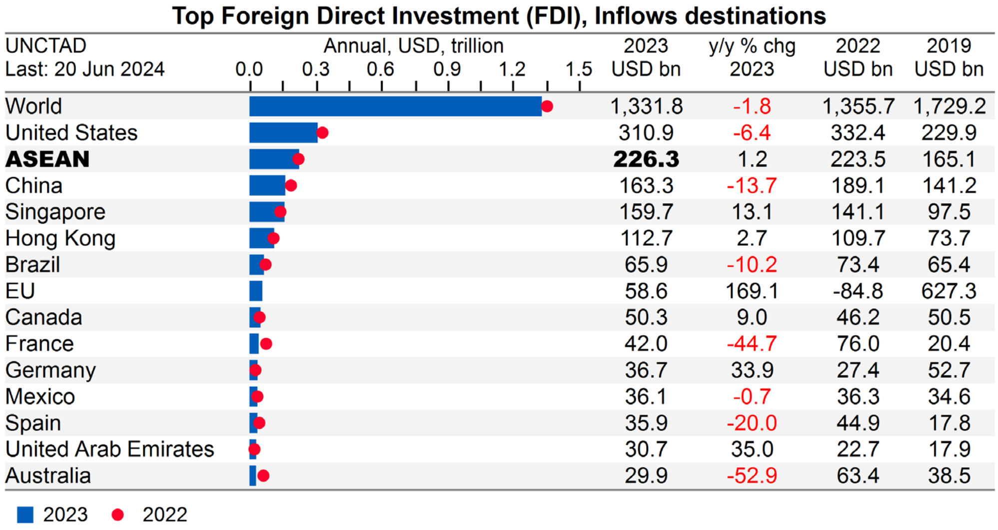
Source: Macrobond, UOB Global Economics & Markets Research



	2023 USD tn	2024F USD tn	2025F USD tn	2027F USD tn	2030F USD tn	2024 - 2030 % chg p.a.
ASEAN	1.8	2.0	2.1	2.4	2.8	***6.2***
Singapore	0.5	0.5	0.5	0.6	0.7	***4.6***
Vietnam	0.4	0.4	0.5	0.6	0.7	***9.3***
Malaysia	0.3	0.3	0.3	0.4	0.5	***6.0***
Thailand	0.3	0.3	0.3	0.3	0.4	***4.2***
Indonesia	0.3	0.3	0.3	0.3	0.4	***6.5***
Philippines	0.1	0.1	0.1	0.1	0.1	***3.8***

FDI: Global declines in 2024 but increased flows to ASEAN

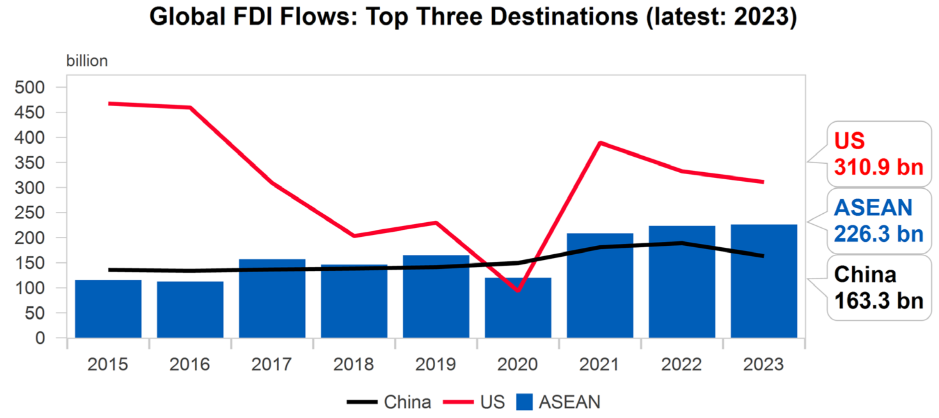
Source: Macrobond, UOB Global Economics & Markets Research



	2023 USD bn	y/y % chg 2023	2022 USD bn	2019 USD bn
World	1,331.8	-1.8	1,355.7	1,729.2
United States	310.9	-6.4	332.4	229.9
ASEAN	**226.3**	1.2	223.5	165.1
China	163.3	-13.7	189.1	141.2
Singapore	159.7	13.1	141.1	97.5
Hong Kong	112.7	2.7	109.7	73.7
Brazil	65.9	-10.2	73.4	65.4
EU	58.6	169.1	-84.8	627.3
Canada	50.3	9.0	46.2	50.5
France	42.0	-44.7	76.0	20.4
Germany	36.7	33.9	27.4	52.7
Mexico	36.1	-0.7	36.3	34.6
Spain	35.9	-20.0	44.9	17.8
United Arab Emirates	30.7	35.0	22.7	17.9
Australia	29.9	-52.9	63.4	38.5

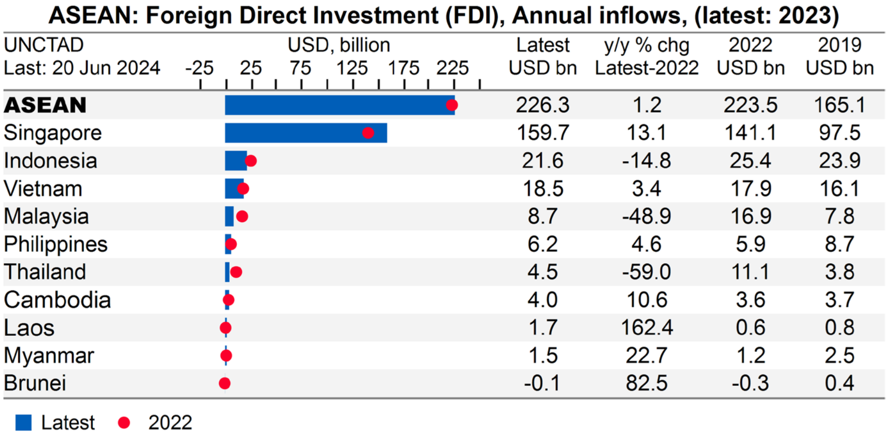
FDI: ASEAN is the world's largest destination after the US

Source: Macrobond, UOB Global Economics & Markets Research



FDI: Singapore remained the top destination in ASEAN

Source: Macrobond, UOB Global Economics & Markets Research

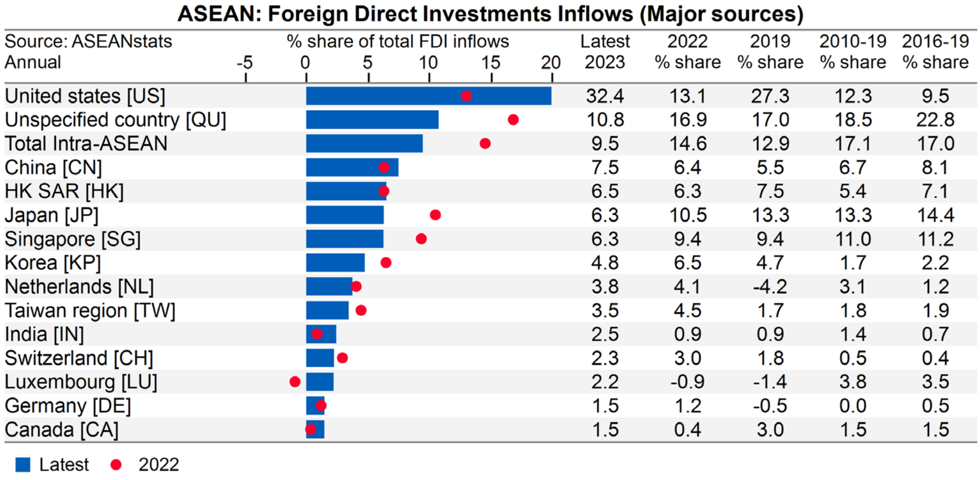


ASEAN: Foreign Direct Investment (FDI), Annual inflows, (latest: 2023)

UNCTAD Last: 20 Jun 2024	Latest USD bn	y/y % chg Latest-2022	2022 USD bn	2019 USD bn
ASEAN	226.3	1.2	223.5	165.1
Singapore	159.7	13.1	141.1	97.5
Indonesia	21.6	-14.8	25.4	23.9
Vietnam	18.5	3.4	17.9	16.1
Malaysia	8.7	-48.9	16.9	7.8
Philippines	6.2	4.6	5.9	8.7
Thailand	4.5	-59.0	11.1	3.8
Cambodia	4.0	10.6	3.6	3.7
Laos	1.7	162.4	0.6	0.8
Myanmar	1.5	22.7	1.2	2.5
Brunei	-0.1	82.5	-0.3	0.4

The US the largest contributor to ASEAN's FDI inflows in 2023

Source: Macrobond, UOB Global Economics & Markets Research

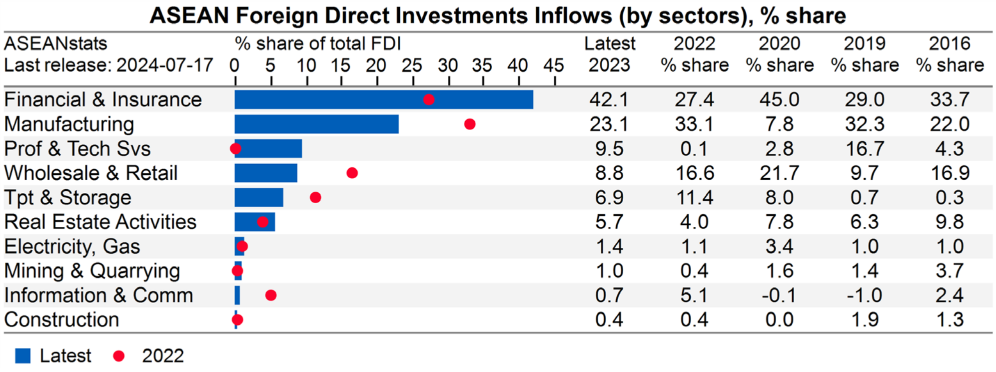


ASEAN: Foreign Direct Investments Inflows (Major sources)

Source: ASEANstats Annual	Latest 2023	2022 % share	2019 % share	2010-19 % share	2016-19 % share
United states [US]	32.4	13.1	27.3	12.3	9.5
Unspecified country [QU]	10.8	16.9	17.0	18.5	22.8
Total Intra-ASEAN	9.5	14.6	12.9	17.1	17.0
China [CN]	7.5	6.4	5.5	6.7	8.1
HK SAR [HK]	6.5	6.3	7.5	5.4	7.1
Japan [JP]	6.3	10.5	13.3	13.3	14.4
Singapore [SG]	6.3	9.4	9.4	11.0	11.2
Korea [KP]	4.8	6.5	4.7	1.7	2.2
Netherlands [NL]	3.8	4.1	-4.2	3.1	1.2
Taiwan region [TW]	3.5	4.5	1.7	1.8	1.9
India [IN]	2.5	0.9	0.9	1.4	0.7
Switzerland [CH]	2.3	3.0	1.8	0.5	0.4
Luxembourg [LU]	2.2	-0.9	-1.4	3.8	3.5
Germany [DE]	1.5	1.2	-0.5	0.0	0.5
Canada [CA]	1.5	0.4	3.0	1.5	1.5

Financial and manufacturing sectors attracted the most FDI inflows in ASEAN

Source: Macrobond, UOB Global Economics & Markets Research

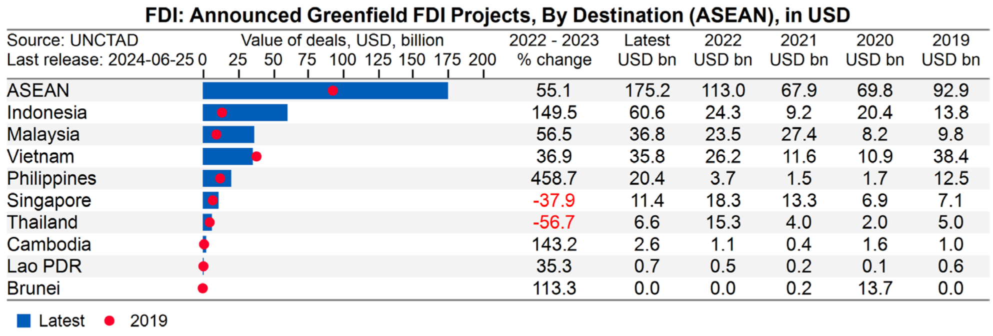


ASEAN Foreign Direct Investments Inflows (by sectors), % share

ASEANstats Last release: 2024-07-17	Latest 2023	2022 % share	2020 % share	2019 % share	2016 % share
Financial & Insurance	42.1	27.4	45.0	29.0	33.7
Manufacturing	23.1	33.1	7.8	32.3	22.0
Prof & Tech Svs	9.5	0.1	2.8	16.7	4.3
Wholesale & Retail	8.8	16.6	21.7	9.7	16.9
Tpt & Storage	6.9	11.4	8.0	0.7	0.3
Real Estate Activities	5.7	4.0	7.8	6.3	9.8
Electricity, Gas	1.4	1.1	3.4	1.0	1.0
Mining & Quarrying	1.0	0.4	1.6	1.4	3.7
Information & Comm	0.7	5.1	-0.1	-1.0	2.4
Construction	0.4	0.4	0.0	1.9	1.3

ASEAN: Indonesia saw the biggest jump in deal values

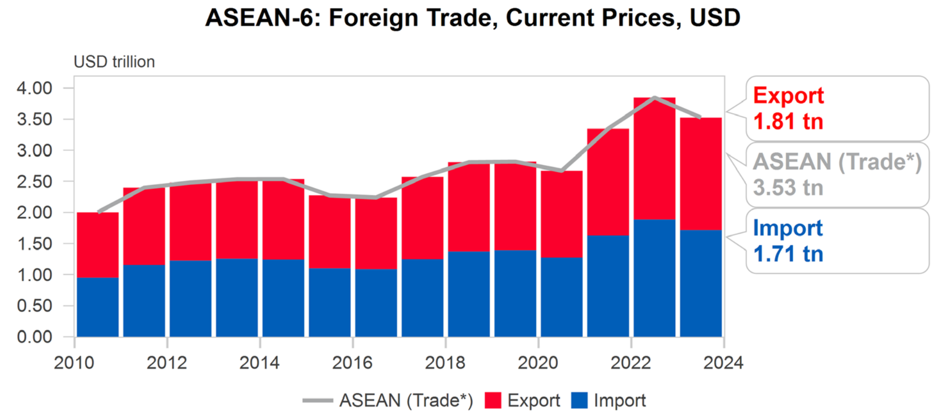
Source: Macrobond, UOB Global Economics & Markets Research


FDI: Announced Greenfield FDI Projects, By Destination (ASEAN), in USD

Source: UNCTAD Last release: 2024-06-25	Value of deals, USD, billion	2022 - 2023 % change	Latest USD bn	2022 USD bn	2021 USD bn	2020 USD bn	2019 USD bn
ASEAN		55.1	175.2	113.0	67.9	69.8	92.9
Indonesia		149.5	60.6	24.3	9.2	20.4	13.8
Malaysia		56.5	36.8	23.5	27.4	8.2	9.8
Vietnam		36.9	35.8	26.2	11.6	10.9	38.4
Philippines		458.7	20.4	3.7	1.5	1.7	12.5
Singapore		-37.9	11.4	18.3	13.3	6.9	7.1
Thailand		-56.7	6.6	15.3	4.0	2.0	5.0
Cambodia		143.2	2.6	1.1	0.4	1.6	1.0
Lao PDR		35.3	0.7	0.5	0.2	0.1	0.6
Brunei		113.3	0.0	0.0	0.2	13.7	0.0

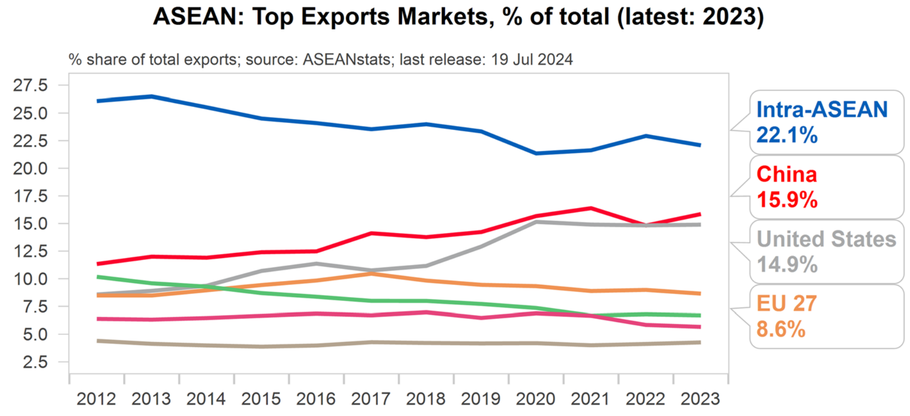
ASEAN: Total trade fell about 6% in 2023 after 2 years of double digit growth

Source: Macrobond, UOB Global Economics & Markets Research



ASEAN: China and the US are top exports destinations

Source: Macrobond, UOB Global Economics & Markets Research



For further information, please refer to our reports:

ASEAN: Positive trade and investment outlook to 2030 and beyond (2 Sep 2024)
ASEAN Conference 2024: A bright spot in a troubled world (2 Sep 2024)

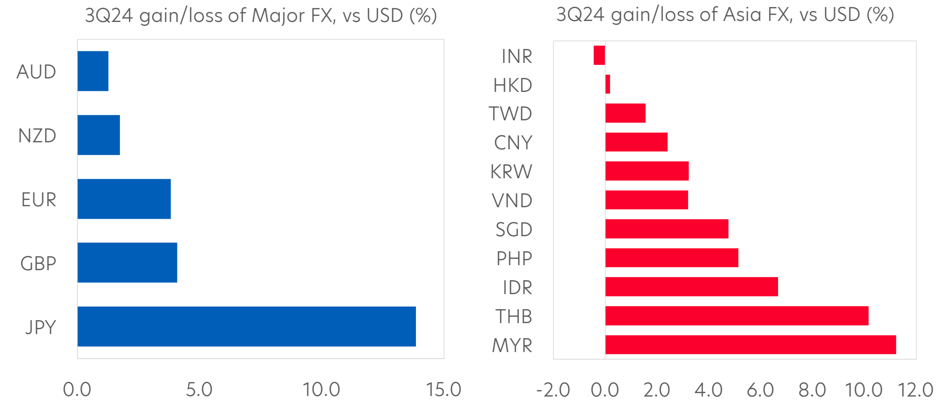
FX STRATEGY

USD to weaken further after Fed starts rate cut cycle with a bang

It was a pivotal quarter for the USD in 3Q24. Market expectations swung from US rates staying "higher for longer" at the start of the quarter to Fed abruptly starting its easing cycle in Sep with an outsized 50 bps cut. Worries of about a softening US labour market came to the forefront and intensified Fed rate cut expectations, sending both US rates and USD lower. The US Dollar Index (DXY) fell close to 5% in 3Q24 to 100.6, wiping out year-to-date gains just as the 2-year US Treasury yield tumbled 113 bps to 3.62%, the biggest quarterly drop since 1Q20 when the Fed slashed rates in response to the Covid pandemic. Slowly but surely, the King Dollar era (which started since 2021) is over and the USD is still on track to normalise lower in the coming quarters as the Fed's rate cut cycle comes into full swing.

Chart 1: Most Major and Asia FX currencies rebounded strongly in 3Q24 due to dovish Fed repricings

Source: Bloomberg, UOB Global Economics & Markets Research



Most Asia FX posted strong gains against the USD in 3Q24, with the Asia Dollar Index jumping the most since 4Q23. As the USD's interest rate advantage dwindle in the face of the Fed's easing cycle, foreign investors poured into regional government bonds (such as Indonesia, Malaysia and Thailand), lifting regional currencies. As portfolio inflows into Asia Emerging Markets (EM) build, we still expect further gains in Asia FX in the coming quarters. That said, we are mindful that lingering concerns about China's bumpy economic rebound and uncertainties of the Nov US elections may inject two-way volatility to the expected Asia FX recovery in the near term.

We are mindful that lingering concerns about China's bumpy economic rebound and uncertainties of the Nov US elections may inject two-way volatility to the expected Asia FX recovery in the near term.

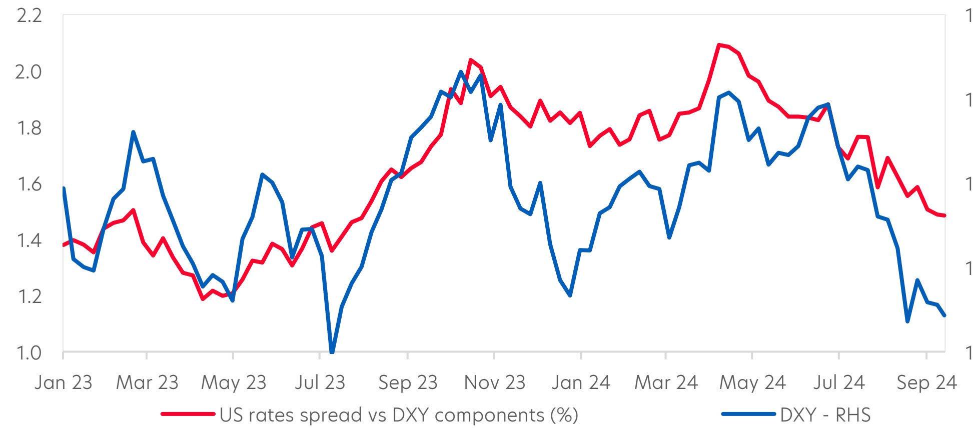
Major FX Strategy

DXY to dip below the key 100 level in 4Q24

Fed's rate expectations will continue to be the predominant driver for the broad USD trend just as Fed takes leadership in this easing cycle. Following the outsized 50 bps cut in Sep, we expect the Fed to cut by 50 bps for the remainder of 2024 and another 100 bps in 2025 to a terminal rate of 3.25% in early 2026. As the US labour market is in the early stages of an "unmistakable" slowdown, it is plausible that more Fed rate cuts may be priced in along the way if the job market slowdown becomes more severe than expected.

Chart 2: DXY guided lower as USD is expected to lose its interest rate advantage relative to its Major FX peers

Source: Bloomberg, UOB Global Economics & Markets Research



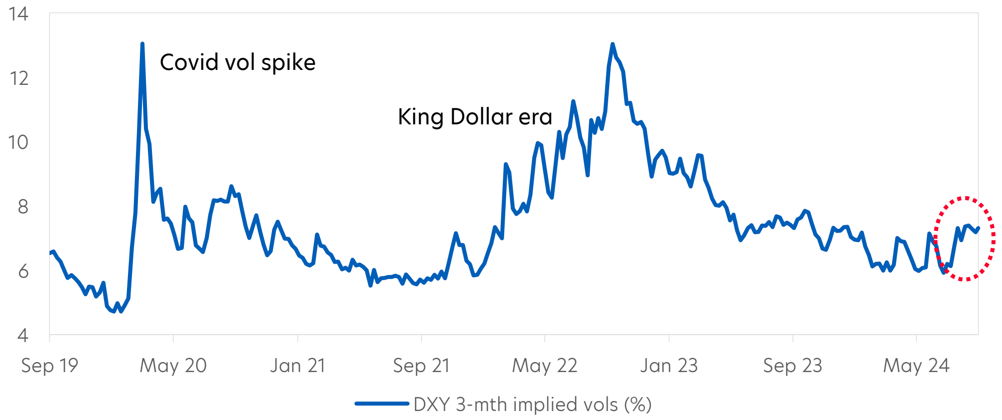
As global investors become increasingly convinced that the best days of the USD are over, hedging the currency exposure of their USD-denominated assets may be a driver for the next leg of USD weakness.

Even after the very substantial year-to-date losses, the path of least resistance for the DXY from here is likely still skewed to the downside. We expect the DXY to dip below its key support level of 100 by end of the year. There are clear signs that the King Dollar era (which started since 2021) has ran its course. Catalyzed by the Fed's dovish pivot, rate spreads and positionings within the Major FX space have started to move against the USD in the past months and are likely to continue the USD normalisation process in the coming quarters as the Fed's easing cycle takes shape. Also, as global investors become increasingly convinced that the best days of the USD are over, hedging the currency exposure of their USD-denominated assets may be a driver for the next leg of USD weakness. Overall, while we reiterate the view of further USD weakness from here, it may come with two-way volatility. As we approach the Nov US elections, concerns about Trump's inflationary policies may spur a recalibration of interest rate and USD expectations again.

Both EUR and GBP have turned positive against the USD year-to-date after a strong rally in the 3Q24, with the latter being the best performing G-10 currency. The turnaround in both currency pairs was underpinned by a strong jump in EU-US and UK-US rate differentials, and respective EUR/USD and GBP/USD positioning. Going forth, relative monetary policies between the Fed and European Central Bank (ECB) / Bank of England (BOE) continues to underpin our positive view on EUR/USD and GBP/USD respectively. There is a risk that more Fed rate cuts may be priced in along the way if the US job market slowdown becomes more severe than expected. In contrast, the BOE said in its last meeting in Sep that it will be careful not to cut rates too fast or by too much. Our updated EUR/USD forecasts are 1.13 in 4Q24, 1.15 in 1Q25, 1.16 in 2Q25 and 1.17 in 3Q25 and that of the GBP/USD are 1.34 in 4Q24, 1.36 in 1Q25, 1.38 in 2Q25 and 1.40 in 3Q25.

Chart 3: FX volatility looks set to rise, albeit from a low base, ahead of the Nov US elections

Source: Bloomberg, UOB Global Economics & Markets Research



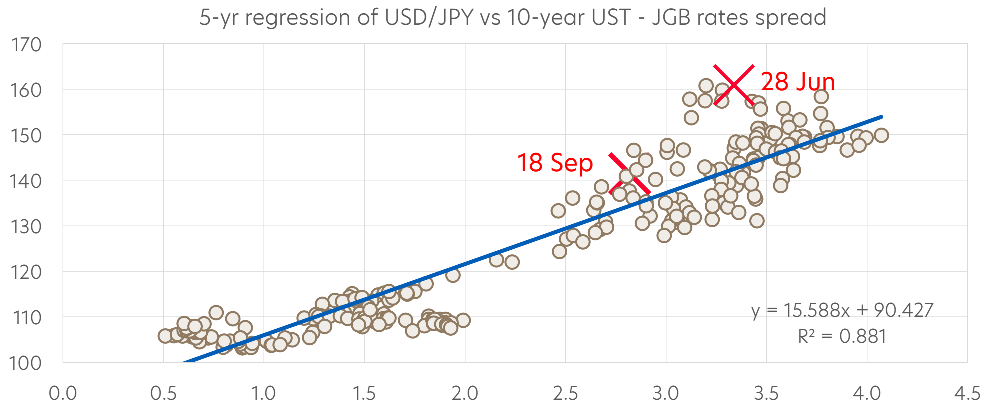
Notwithstanding the plunge from 161 to 143 in 3Q24, USD/JPY is still biased to further downside, albeit at a more gradual pace as a large portion of the speculative JPY carry trade may have already been unwound across late Jul to early Aug. Monetary policy divergence between the Fed (easing bias) and the BOJ (tightening bias) anchors our existing view of further weakness in USD/JPY in the coming quarters. Overall, our updated USD/JPY forecasts are now at 141 in 4Q24, 138 in 1Q25, 135 in 2Q25 and 133 in 3Q25. At this juncture, we highlight two risks that may drive a steeper decline in USD/JPY compared to our current forecasts. The first is the return of the JPY as a safe-haven currency if US conditions worsen to a recession rather than our base case of a soft landing. The second is a material shift in the behavior of Japanese life insurers where they repatriate or increase the hedge ratio of their US assets.

In the near term, lingering China-related and US election uncertainties are likely to cap AUD/USD at its key 0.69 resistance.

Commodity currencies such as the AUD were among the laggards in the G-10 FX space, with the AUD/USD only inching up about 1% on the quarter (3Q24) at 0.6760. Commodity prices (proxied by S&P GSCI index) which have fallen to 3-year lows and a faltering Chinese economic recovery weighed on AUD/USD, overshadowing the positive spillover from a hawkish RBA compared to its G-10 peers. In the near term, lingering China-related and US election uncertainties are likely to cap AUD/USD at its key 0.69 resistance. Overall, our updated AUD/USD forecasts are at 0.68 in 4Q24, 0.69 in 1Q25, 0.70 in 2Q25 and 0.71 in 3Q25.

Chart 4: After the massive unwinding of carry trade in 3Q24, USD/JPY is less "overbought" relative to rates spread

Source: Bloomberg, UOB Global Economics & Markets Research



Asia FX Strategy

Further Asia FX gains could slow on overbought conditions, China slowdown concerns and renewed caution on US elections

Most Asia FX posted strong gains against the USD in 3Q24, with the Asia Dollar Index jumping the most since 4Q23. As the USD's interest rate advantage dwindle in the face of the Fed's easing cycle, foreign investors poured into regional government bonds (such as Indonesia, Malaysia and Thailand), lifting regional currencies.

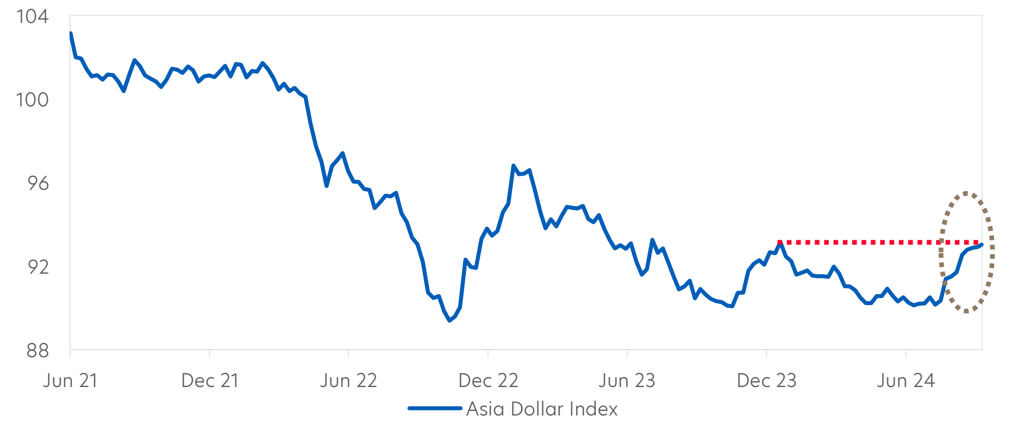
After an outsized 50 bps rate cut in Sep to kick start the Fed's easing cycle, we expect the Fed to cut by 50 bps for the remainder of 2024 and another 100 bps in 2025 to a terminal rate of 3.25% by early 2026. Comparatively lesser rate cuts by most Asian central banks in the next two years meant that regional FX can rebuild their rate buffer against the USD, spurring further portfolio inflows. Overall, we reiterate the view of further gains in Asia FX in the coming quarters consistent with our base case of a US soft-landing scenario. In the case of a US recession, global risk aversion could cause Asia EM portfolio flows to reverse and pose downside risks to our sanguine outlook on Asia FX.

Lingering concerns about China's bumpy economic rebound may also temper with investors' enthusiasm on Asia FX.

In the coming quarter (4Q24), Asia FX could consolidate gains against the USD after the strong rally in 3Q24 left some currencies at the most overbought conditions in recent years. Lingering concerns about China's bumpy economic rebound may also temper with investors' enthusiasm on Asia FX. Lastly, investors may also adopt a wait-and-see attitude as the Nov US elections nears, taking in consideration the tail-risks of Trump's potential tariff policies if he wins the elections. Overall, we update our 4Q24 forecasts for most Asia FX to be near to current spot levels before strengthening anew in 2025.

Chart 5: Asia FX has rebounded strongly from key lows in 3Q24 but is likely to consolidate in the near term amidst US election uncertainties

Source: Bloomberg, UOB Global Economics & Markets Research

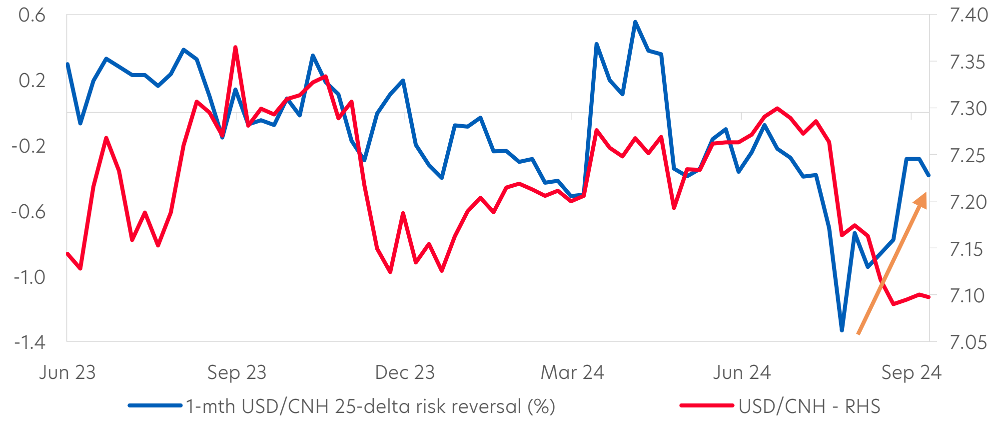


Even as we expect the USD to weaken further, the prospect of further easing by Chinese authorities, both in the key interest rates and reserve requirement ratio (RRR) may put a lid on how much more the CNY can appreciate against the USD.

Aided by broad-based USD ahead of the first Fed rate cut, the CNY rebounded from 7.27 / USD to 7.06 /USD in 3Q24 and reversed year-to-date losses sustained in 1H24. Despite the rebound, the CNY trailed moves in other Asia and Major FX against the USD, resulting in the CFETS RMB index paring most gains on the year. The underperformance of the CNY reflects China's property sector downtrend, weak consumption and deflationary worries. Economic risks remain skewed to the downside and China may struggle to hit its official GDP target of 5% this year (UOB forecast: 4.9%). Even as we expect the USD to weaken further, the prospect of further easing by Chinese authorities, both in the key interest rates and reserve requirement ratio (RRR) may put a lid on how much more the CNY can appreciate against the USD. In the options market, risk reversals on USD/CNH have reversed Aug's sharp drop and returned to average levels this year, signaling some hedging demand for USD topside in a potential US-China trade war 2.0 scenario if Trump wins the coming US elections. In 4Q24, US election uncertainties may counterbalance dovish Fed repricing, resulting in a period of consolidation for USD/CNY. Overall, our updated USD/CNY forecasts are 7.08 in 4Q24, 7.01 in 1Q25, 6.94 in 2Q25 and 6.87 in 3Q25.

Chart 6: Rising USD/CNH risk reversals suggest some hedging demand for USD topside in a potential US-China trade war 2.0 scenario

Source: Bloomberg, UOB Global Economics & Markets Research

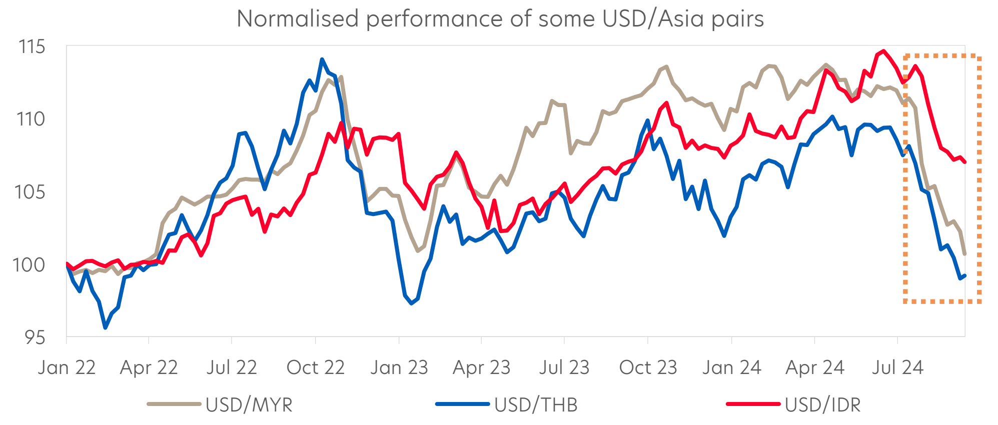


Similar to other Asian peers, the SGD appears overbought against the USD, especially in backdrop where US election and China economic uncertainties may spur some near-term USD demand.

Tracking a broad-based Asia FX rally in 3Q24, the SGD touched 1.2883 /USD after the Fed rate cut, its strongest level in a decade. Similar to other Asian peers, the SGD appears overbought against the USD, especially in backdrop where US election and China economic uncertainties may spur some near-term USD demand. This may prompt some consolidation of USD/SGD around 1.30 in 4Q24 before beginning a new trading range below 1.30 in 2025. Also, we reiterate our view that the MAS may normalise monetary policy in Oct, via a modest reduction in the appreciation pace of the SGD NEER from the current 2.0% p.a to 1.5%. As such, the SGD's outsized strength relative to regional currencies may recede further in the coming quarters. Overall, our updated USD/SGD forecasts are at 1.30 for 4Q24, 1.29 for 1Q25, 1.28 for 2Q25 and 1.27 in 3Q25.

Chart 7: Some USD/Asia pairs appear oversold after 3Q24 slump

Source: Bloomberg, UOB Global Economics & Markets Research



With the outsized 6% gain in Aug – the best month since Nov 2022 - MYR is the best performing Asia FX year-to-date. The strong currency performance is underscored by latest data that showed Malaysia's economy firing on all cylinders in 2Q24. Amidst near term overbought conditions, the pace of MYR gains may slow as short-term flows rotate out to other Asia FX that have lagged the latest run. Furthermore, US elections uncertainties may temper with global risk appetite and USD/MYR may transit into a consolidative pattern in 4Q24. Further out, we think the underlying drivers for MYR to improve further remain, particularly as the Fed eases rates while BNM is expected to keep rates on hold into 2025. With that, our updated USD/MYR forecasts are at 4.22 in 4Q24, 4.18 in 1Q25, 4.14 in 2Q25 and 4.10 in 3Q25.

While we remain bearish on USD/THB over the longer term as the Fed's rate cycle progresses, the THB – which is in overbought territory - may likely consolidate recent its strong gains in the coming quarter (4Q24).

The THB was the best performing Asia EM currency in 3Q24, jumping close to 10% to 33.20 /USD, the biggest rebound since 1998. Strong portfolio inflows drove the currency outperformance, just as foreign investors bought close to USD 2 bn of Thai government bonds in 3Q24, the largest quarterly inflow since 4Q22. While we remain bearish on USD/THB over the longer term as the Fed's rate cycle progresses, the THB – which is in overbought territory - may likely consolidate recent its strong gains in the coming quarter (4Q24). US elections uncertainties may support USD/THB in the interim as well. Our updated USD/THB forecasts are 33.2 in 4Q24, 32.8 in 1Q25, 32.4 in 2Q25 and 32.1 in 3Q25.

The IDR posted its best quarterly gain in over four years, gaining close to 6% to 15,400 /USD in 3Q24 and erased losses sustained in the first half of the year. Being one of the highest yielding Asia EM, the IDR was a standout beneficiary of foreign bond inflows as the tide of US monetary policy has shifted from "higher for longer" to imminent easing. Foreign investors poured close to USD 3 bn of Indonesia government bonds in 3Q24, the largest quarterly inflow since 1Q23 as investors rushed to lock in peak rates. That said, we are mindful of global investors' risk appetite may turn cautious in the near term, especially when geopolitical uncertainties build ahead of Nov US elections. Hence, we factor in a period of consolidation for USD/IDR in 4Q24 before renewed weakness in 2025. Overall, our updated USD/IDR forecasts are 15,400 in 4Q24, 15,200 in 1Q25, 15,000 in 2Q25 and 14,800 in 3Q25.

Tracing the moves in regional peers, VND posted the largest quarterly gain on record dating back 1993, rebounding 3.2% to 24,600 /USD. External headwind of a strong USD is starting to recede as the Fed began its much-awaited easing cycle while internal factors point to a further stabilisation of the VND. Notwithstanding the near term set back from Typhoon Yagi, Vietnam's strong projected growth momentum, driven by both manufacturing and trade, also look set to extend into 2025. Expectations of stable monetary policy from the State Bank of Vietnam (SBV) with focus on boosting credit growth is supportive of the VND as well. That said, further VND gains from here are unlikely to proceed at the same pace as that of 3Q24. Overall, our updated USD/VND forecasts are 24,500 in 4Q24, 24,300 in 1Q25, 24,100 in 2Q25 and 23,900 in 3Q25.

RATES STRATEGY

Adjusting our rates forecasts for a strong start to the Fed easing cycle

- Our Fed view is revised to more front-loaded rate cuts and a shorter easing cycle with terminal rate unchanged at 3.25%.
- We see further steepening in the 2s10s UST curve over this rate cut cycle, but the magnitude may be smaller than commonly held assumptions.

September price action

The market narrative this month has been "25 or 50", which was eventually resolved in favour of 50bps at the Sep FOMC. SGS yield declines outpaced UST and it has largely been a parallel shift lower in the domestic curve as opposed to the steepening seen in UST. Year to date, the 10Y UST lower by 18bps. Two thirds of which stems from lower real yield with declines in breakeven inflation making up the rest.

Chart 1: Monthly change (30 Aug to 18 Sep)

Source: Bloomberg, UOB Global Economics & Markets Research

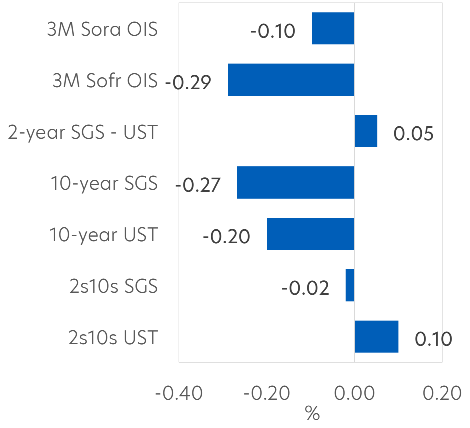
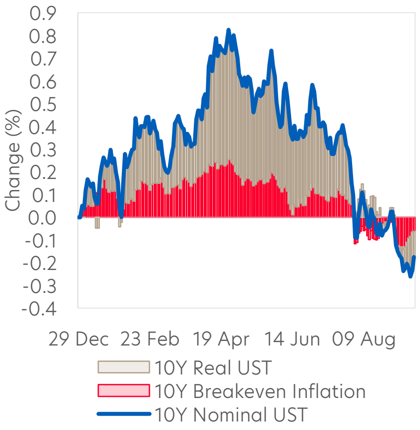


Chart 2: 10Y UST yield change (ytd cumulative)

Source: Bloomberg, UOB Global Economics & Markets Research

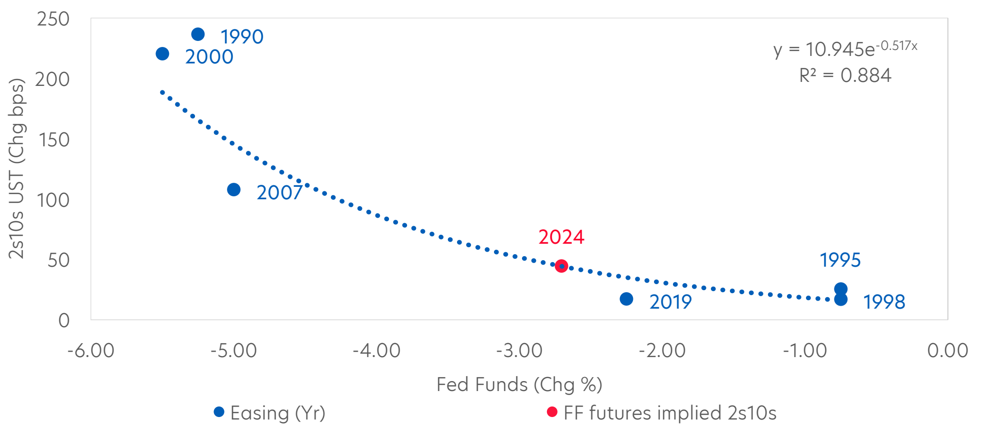


How much yield curve normalization is in store?

Now that the 2s10s UST curve has moved back into the positive territory and Fed easing is officially underway, one of the most consensus view is for the curve to steepen further. This is also our bias. Therefore, we looked at the 2s10s UST curve performance during past easing periods (measured from first rate cut to last rate cut) since 1990 to see what the historical outcomes were.

Now that the 2s10s UST curve has moved back into the positive territory and Fed easing is officially underway, one of the most consensus view is for the curve to steepen further.

Chart 3: Fed easing and yield curve changes (1990 to 2024)



Source: Bloomberg, UOB Global Economics & Markets Research

First observation is that there is direct relationship between the magnitude of Fed rate cuts and the steepening in the 2s10s UST curve. Bigger cuts equal steeper curves.

First observation is that there is direct relationship between the magnitude of Fed rate cuts and the steepening in the 2s10s UST curve. Bigger cuts equal steeper curves. Second, 2007's scale of steepening seemed rather underwhelming despite Fed rate cuts in the vicinity of those in 1990 and 2000. We think that this may be partly due to Quantitative Easing (QE) and the rapid growth in central bank balance sheets. Considering that QE is now part of the orthodox monetary policy toolkit, perhaps the potential for curve steepening may be more limited than otherwise.

Fitting a line through the past data points and using the 275bps (50bps actual plus 225bps pipeline) total cuts priced by the Fed Funds futures market on 19 Sep, we derive 44bps of steepening in the 2s10s UST curve by the completion of this rate cut cycle. Given that 2s10s UST is starting its journey at around 8bps, this implies an end cycle curve of around 50bps. Instinctively, this value may be jarring to some, after all an overlay of Fed Funds rates with the 2s10s UST would suggest that a curve peak being closer to 200bps. We would highlight here that these lofty levels in the curve were achieved with Fed Funds rates bottoming at what was historical low levels for their time. Currently, market-based expectations see terminal Fed Funds at a level that is higher than its pre-Covid 19 peak.

Adding on a 50bps 2s10s UST curve, this implies 10Y UST between 3.45% to 3.70%. This together with our inflation glide path and Treasury supply assumptions, guides us to be more neutral on our duration views.

Assuming current market price of 2.75% to 3.00% for the floor in Fed Funds rate, 2Y UST has historically bottomed at an average of around 20bps above Fed Funds (i.e. 2.95% to 3.20%). Adding on a 50bps 2s10s UST curve, this implies 10Y UST between 3.45% to 3.70%. This together with our inflation glide path and Treasury supply assumptions, guides us to be more neutral on our duration views.

Our macro baselines

We believe that US economic growth is nearing or already at the peak and is likely to turn lower from mid-2024 as the lagged effects of US monetary policy tightening take a more significant grip. We expect the US growth slowdown to be more apparent in 4Q 2024, but a soft landing remains our base case, implying no deep recession or any outright contraction of annual GDP. As 1H GDP growth was much stronger than our earlier projections and with the risk of a technical recession now pushed back further to 4Q 24- 1Q 25, we revise our US growth forecast higher to 2.3% for 2024 before easing further to 1.8% for 2025.

We expect headline inflation to cool further into 2024 (in part due to base effects), but sticky shelter costs and services prices, are inhibiting the pace of US CPI descent. Nonetheless, we still expect headline CPI inflation in 2024 to average around 2.5% which will bring us closer to the Fed's long run average inflation target of 2%.

US deficit outlook will remain a challenge since there is little indication from either political party that fiscal discipline resides high on their campaign agenda. This would put pressure on the central bank to counteract any inflationary consequences of fiscal policies.

FOMC view

Our macroeconomic team has revised their forecasts post FOMC and now expects the Fed Funds rate to be lowered by another 50bps in 2024 (previous view was for 25bps reduction). They have also brought forward the completion date of this Fed easing cycle into the 1Q 2026 compared to 3Q previously. Our framework for monetary policy easing can be best summed up as "measured and gradual". We have adopted this view based on:

- Economic growth softening from historically robust levels without tipping into a vicious cycle of accelerating and broad-based deterioration which would warrant an aggressive monetary intervention.
- Fiscal dominance remains in play with deficits staying historically large for periods outside of recession. Loose fiscal policy will complement loosening monetary policy to further reduce the probability of left tail economic outcomes.
- The inflation path back towards the target zone, based on the above, remains intact but is likely to be slow. The risk of inflation staying sticky above target is greater than the risk of inflation undershooting target.

Chart 4: Fed Funds forecasts

Source: Bloomberg, UOB Global Economics & Markets Research

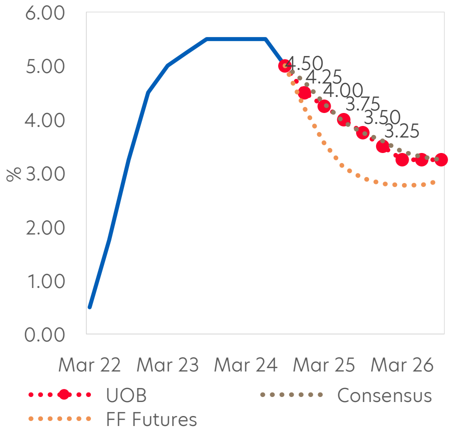
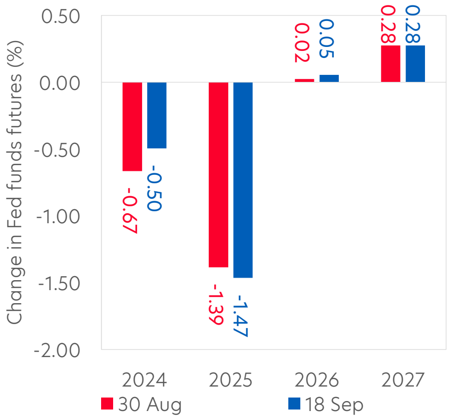


Chart 5: Calendar year pricing of Fed cuts

Source: Bloomberg, UOB Global Economics & Markets Research



The following notables stand out when marking our Fed Funds views against market pricing. As of 19 Sep, Fed Funds futures are priced for a deeper rate cut cycle with an ending Fed Funds rate of around 2.75%. This is more dovish than our forecast for 3.25%. In addition, the futures market is also priced for a more accelerated easing profile with a completion of rate cuts by 4Q 2025. In contrast, we see the easing cycle extending into 1Q 2026.

Eventually the 3M compounded in arrears Sofr and Sora could drop to 3.76% and 2.19% respectively by 3Q25.

For end 4Q24, we forecast the 3M compounded in arrears Sofr and Sora at 4.88% and 3.06% respectively. Thereafter, short term rates are then expected to drift lower across 2025 in tune with our expectations of a further 100 bps rate cuts from the US Federal Reserve. Eventually the 3M compounded in arrears Sofr and Sora could drop to 3.76% and 2.19% respectively by 3Q25.

The overall forecast curves for UST and SGS points lower across time due to our monetary policy easing cycle base case.

10Y UST and SGS view

For the longer end of the curve, we forecast the 10Y UST and SGS yields at 3.70% and 2.55% respectively by the end of 4Q24. Our 10Y UST yield projection has been reduced post Sep FOMC in view of the revisions in our Fed Funds rate baseline. 10Y SGS yield forecast has also been reduced in line with the 10Y UST update. The overall forecast curves for UST and SGS points lower across time due to our monetary policy easing cycle base case.

Chart 6: 10Y UST forecast

Source: Bloomberg, UOB Global Economics & Markets Research

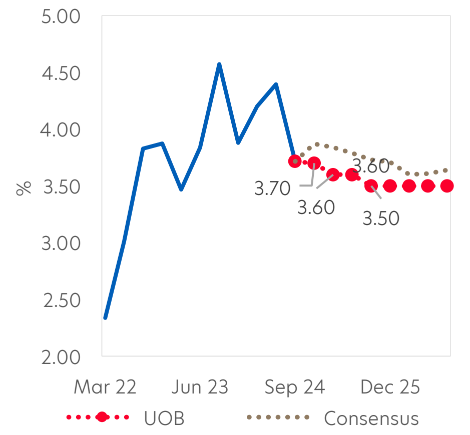
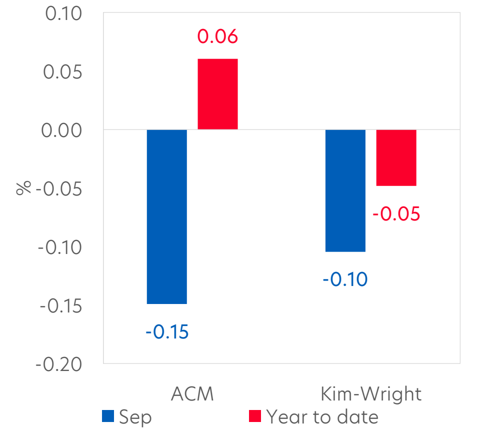


Chart 7: Change in 10Y term premium

Source: Bloomberg, UOB Global Economics & Markets Research



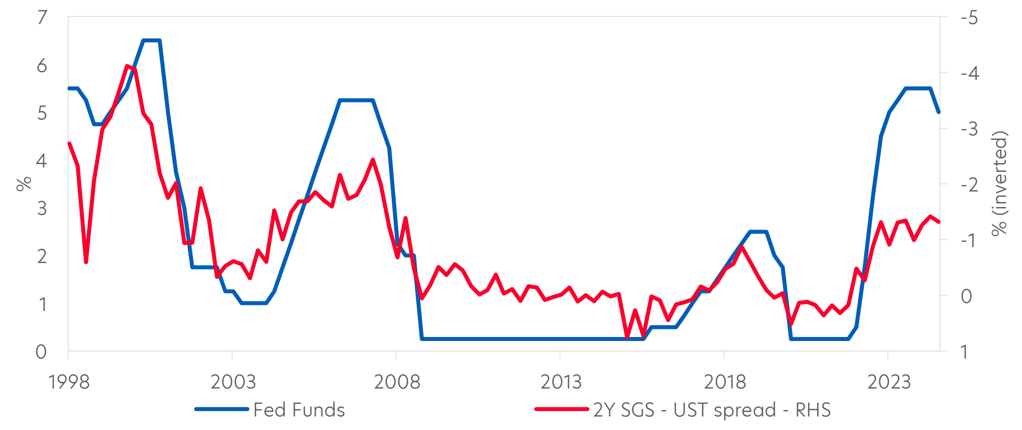
We note that year to date adjustments in the 10Y UST term premium has been modest thus far and has not demonstrated the same repricing intensity as seen in previous episode of "term premium scare" in 2023. This is an uneasy equilibrium and one that in view of known unknowns seems more likely to resolve higher. Therefore, our bias in the short term for 10Y UST price action is that the risks lie in favour of longer maturity yields staying sticky.

For SG rates, our forecast assumes that the long-term relationship which governs the process of SG rates adjusting by a lesser degree to US rate changes will continue to hold into 2024 as well as persist across the whole US rate cut cycle.

For SG rates, our forecast assumes that the long-term relationship which governs the process of SG rates adjusting by a lesser degree to US rate changes will continue to hold into 2024 as well as persist across the whole US rate cut cycle.

Chart 8: SGS yield discount vs UST to narrow as Fed cuts

Source: Bloomberg, UOB Global Economics & Markets Research



This relationship translates to a narrowing dynamic in the SGS yield discount (i.e. SGS – UST spread) over the span of a Fed rate cut cycle. Diminishing SGS yield discount is observable across maturities but is most obvious at the front end of the curve. Including the anticipated MAS policy changes into the mix, an overlapping domestic easing cycle tends to lower the correlation of changes between SGS and UST. This complements the backdrop of diminishing SGS yield discount that is already riding on US monetary policy easing.

Fundamentally, the potential for significant SGS outperformance is limited because the SGD NEER is starting from a position of strength, and we do not expect the MAS to tighten monetary policy further. Our Singapore macro team has penciled in monetary policy easing via a slope reduction by the MAS in Oct 2024 on the possibility that the inflation gap between import-weighted inflation and equilibrium core inflation may turn negative by that stage.

Over the longer forecast horizon, we have the 10Y UST yield declining progressively towards 3.50% by the end of 2025.

Over the longer forecast horizon, we have the 10Y UST yield declining progressively towards 3.50% by the end of 2025. Meanwhile the correlated move in 10Y SGS yield (2.50% at end 2025) is expected to be milder due to more muted domestic currency performance potential across a period where MAS is expected to adjust monetary policy setting back towards neutral levels.

2s10s UST curve view

The 2s10s UST curve has broken out of its range and more notably, is now positively sloped. In our view, the era of curve inversion has passed.

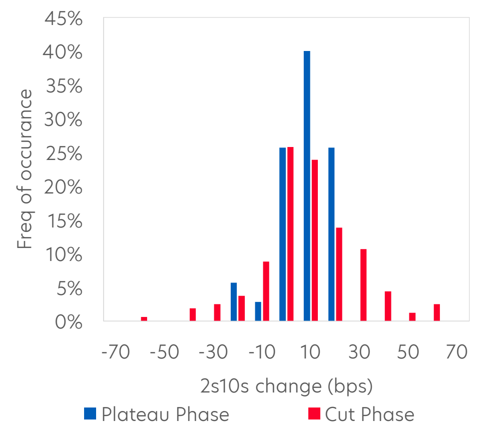
Curvature changes have historically been more volatile during easing cycles. Since 1983, monthly 2s10s UST curve changes have recorded a wider dispersion of outcomes during policy rate cuts periods compared to policy rate plateau periods. In addition, episodes of large positive monthly change in the curve occurs more frequently than negative ones which is a benefit to our curve steepening bias.

Chart 9: 2s10s UST curve

Source: Bloomberg, UOB Global Economics & Markets Research

Chart 10: UST 2s10s monthly change (1983 to 2024)

Source: Bloomberg, UOB Global Economics & Markets Research



Steeper yield curves could come about with longer maturity yields remaining sticky due to US fiscal deficit projections which anticipate large shortfalls persisting over the next couple of years, regardless of Nov's US election outcome.

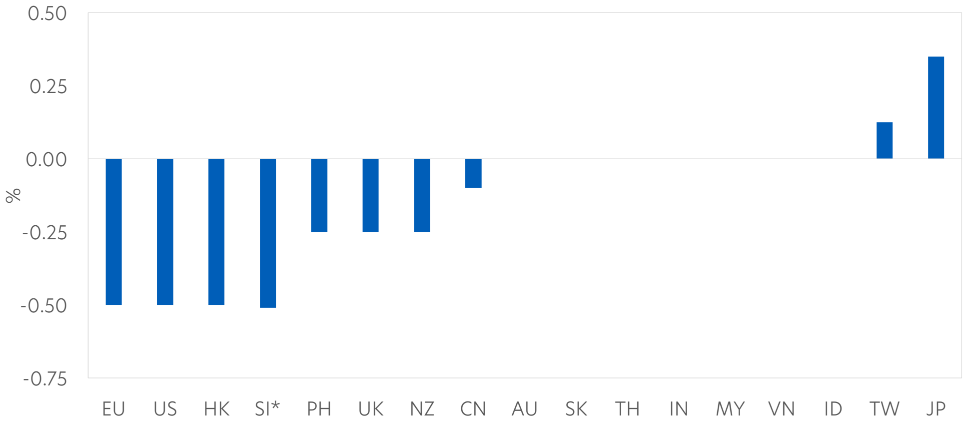
Steeper yield curves could also come about with longer maturity yields remaining sticky due to US fiscal deficit projections which anticipate large shortfalls persisting over the next couple of years, regardless of Nov's US election outcome. This means that stress points will continue to be present during long bond auctions, and it may take just one particularly poor auction outcome to trigger a more aggressive round of term premium repricing.

Wider monetary policy views

Our monetary policy views on major developed markets (DM) sees central bankers there positioned to cut their own policy rates. The exception being Japan where the BOJ continues to dance to a different tune and interest rate normalization remains the objective. We have penciled in another BOJ rate hike in 4Q 24 to take the policy rate up to 0.50% which will be its highest since 2008.

Chart 11: Year to date policy rate changes

Source: Bloomberg, UOB Global Economics & Markets Research



Further changes in policy rates (UOB forecast %)

Developed markets			Asia		
Economy	2024	2025	Economy	2024	2025
United States	-0.50	-1.00	Singapore*	-0.51	-0.40
New Zealand	-0.50	-1.00	Hong Kong	-0.50	-1.00
Australia	-0.35	-0.75	Philippines	-0.50	-1.00
Eurozone	-0.25	-1.00	South Korea	-0.50	-0.50
United Kingdom	-0.25	-1.00	Indonesia	-0.25	-1.00
Japan	0.25	-	India	-0.25	-0.50
			China	-0.15	-
			Thailand	-	-0.50
			Taiwan	-	-
			Malaysia	-	-
			Vietnam	-	-

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

Conditions have thus shifted towards the opportunity for easier monetary policies to come in to ensure that positive momentum is maintained whilst the US Fed continues to lower global capital cost in a non-recessionary backdrop.

In the Asian region, central banks' reaction functions are more variable although the path of least resistance may be building towards embarking on their own easing cycles too. Case in point, we have Bank Indonesia surprising markets with a rate cut in Sep to reverse its short lived and unexpected hike in Apr. Asian currencies have performed well alongside evidence of foreign inflows and improved economic outlook for the region. Conditions have thus shifted towards the opportunity for easier monetary policies to come in to ensure that positive momentum is maintained whilst the US Fed continues to lower global capital cost in a non-recessionary backdrop.

Chart 12: 5Y Asian - UST spread (ytd cumulative change)

Source: Bloomberg, UOB Global Economics & Markets Research

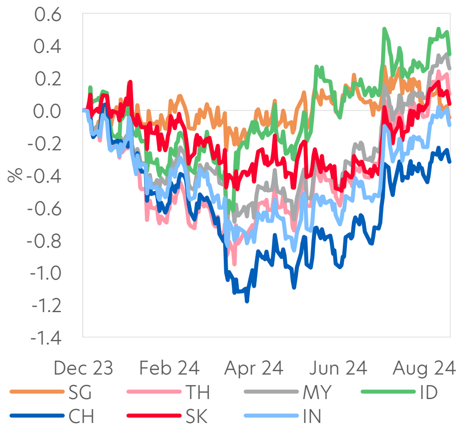
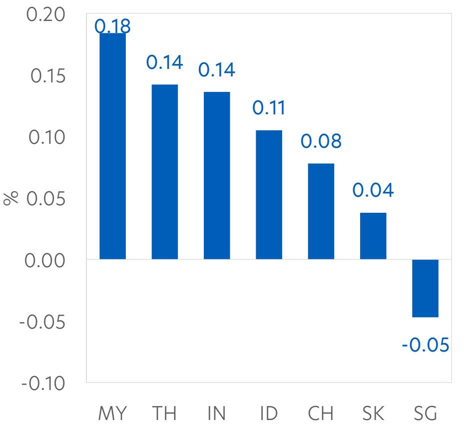


Chart 13: 5Y Asian - UST spread (Aug change)

Source: Bloomberg, UOB Global Economics & Markets Research



Compared to the periods before 2022's Fed tightening cycle, Asian 5Y bond spreads are still relatively tight to USTs, thus we could see them continue to lag rallies in USTs.

Sep's Asian 5Y sovereign bond market performance saw wider Asian – UST spreads generally, except for SG. The rapid decline in the 5Y UST yield has not been matched by the local currency bonds. Compared to the periods before 2022's Fed tightening cycle, Asian 5Y bond spreads are still relatively tight to USTs, thus we could see them continue to lag rallies in USTs. At the same time, fundamentals underpinning Asian sovereign risk appear fairly sound which will provide some insulation/outperformance during periods when USTs are being sold off. Cumulative on a year-to-date basis, only IN and CH 5Y yield spreads hold onto their tightening gains. All other regional spreads have widened above where they began the year.

Summary table of rates forecasts

Rates	19 Sep 24	Forecast	4Q24F	1Q25F	2Q25F	3Q25F
US Fed Funds Target	5.00	Current	4.50	4.25	4.00	3.75
		Previous	5.00	4.75	4.50	4.25
3M Compounded SOFR	5.37	Current	4.88	4.26	4.01	3.76
		Previous	4.97	4.72	4.47	4.22
10Y UST	3.72	Current	3.70	3.60	3.60	3.50
		Previous	3.90	3.80	3.70	3.60
3M Compounded SORA	3.53	Current	3.06	2.58	2.39	2.19
		Previous	3.18	2.98	2.79	2.59
10Y SGS	2.43	Current	2.55	2.50	2.50	2.50
		Previous	2.75	2.70	2.65	2.65

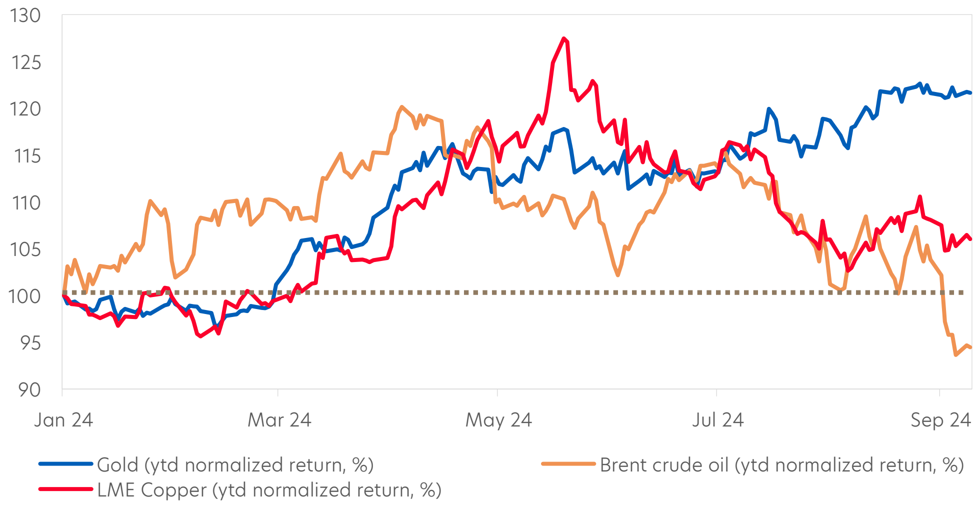
Source: UOB Global Economics & Markets Research forecasts

COMMODITIES STRATEGY

Brent and Copper feel the weight of China's economic slowdown

Brent and Copper feel the weight of China's economic slowdown

Source: Bloomberg, UOB Global Economics & Markets Research



In our previous Quarterly Global Outlook published in early Jun, we were hopeful for the further recovery of China's economy. However, that constructive view proved to be premature. As 3Q24 progressed, the various macroeconomic and activity data emerging from China proved to be increasingly weak. In particular, manufacturing PMI remained in sub-50 contractionary level, various high frequency data like retail sales and industrial production did not make any meaningful recovery and money supply growth weakened further with the contraction in M1 money supply intensifying.

The debt restructuring process in the domestic residential developer market remains challenging and it would appear that the previous round of both supply and demand stimulus for the property market across 1Q24 is inadequate. Consequently, it would be increasingly challenging for China to sustain its 1H24's growth rate of 5.0% across 2H24, implying that China is very likely to miss its official growth target of "around 5.0%" for this year.

The impact from marked deterioration in growth and activity outlook for China across 3Q24 is keenly felt on both Brent crude oil and LME Copper.

The impact from marked deterioration in growth and activity outlook for China across 3Q24 is keenly felt on both Brent crude oil and LME Copper. It does not help as well that across the same period, the job market in the US has started to weaken more noticeably with the downward revision of non-farm payroll gains as well as the trigger of the "Sahm rule" which signals a potential US recession.

As such, Brent crude oil had a disappointing quarter, falling by about 18% across 3Q24, from USD 85 / bbl in early Jul to challenge the USD 70 / bbl support by late Sep. Our forecast which sees rising geopolitical risk premium for Brent crude oil to trade back up towards the USD 85 to 90 / bbl handle did not materialize. Instead, growth slowdown concerns triggered a sharp sell-off.

Similarly, LME Copper also had a difficult quarter, retreating by about 10% across 3Q24, from USD 10,000 / MT in early Jul to just above USD 9,000 / MT by late Sep. Worries of longer term mining supply deficit and slowdown in refined copper production were put on the backburner as China growth slowdown concerns took centerstage as well. At just above USD 70 / bbl and USD 9,000 / MT, have both Brent crude oil and LME Copper fallen too fast too much across just one quarter?

Despite the sharp unwinding of the JPY carry trade across August and the subsequent sharp swings in global equities market, gold held relatively stable around the USD 2,500 / oz level.

In sharp contrast, amidst the rising volatility and uncertainty across 3Q24, gold was a relative oasis of calm. Despite the sharp unwinding of the JPY carry trade across August and the subsequent sharp swings in global equities market, gold held relatively stable around the USD 2,500 / oz level. Needless to say, gold has proven itself once again as a reliable long term portfolio diversifier of risk. Going forward, with the Fed now embarking on its rate cutting cycle, the expectation is that lower funding cost will now fuel the next leg of gold's rally higher. What's next for gold's strong rally?

Gold

Stay positive for USD 3,000 / oz by 3Q25 amidst start of Fed rate cutting cycle

UOB's Forecast	4Q24	1Q25	2Q25	3Q25
Gold (USD/oz)	2,700	2,800	2,900	3,000

Gold continues to perform strongly over the past quarter, rallying further from USD 2,330 / oz in early Jul to above USD 2,500 / oz by late Sep. More importantly, this strong price action in gold occurs with minimal volatility amidst the month of August which saw a spike in volatility in both equities and debt market amidst the sudden unwinding of the JPY carry trade. In other words, gold has across 3Q24 reinforced its track record as a reliable portfolio diversifier of risk.

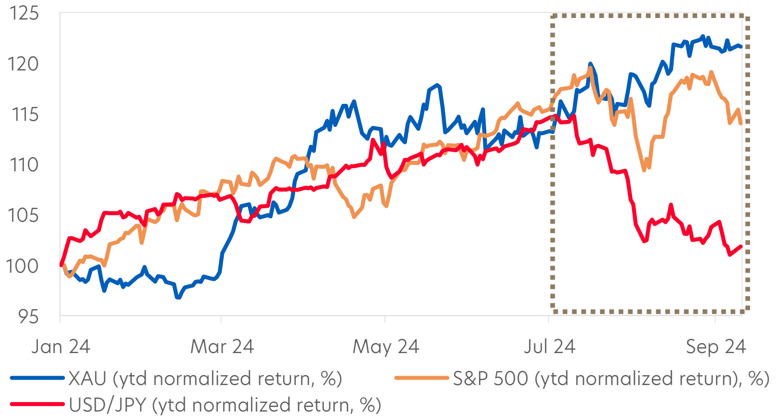
Concurrently, 3Q24 also witnessed a meaningful retreat in both the US Dollar and US Treasuries yield. Specifically, the USD Index (DXY) fell from 106 in early Jul to current level of around 101 in late Sep. Similarly, 2Y US Treasuries yield fell from 4.8% to 3.6% across the same time frame.

Going forward, with the Fed now starting its rate cutting cycle, we can expect further weakness in the US Dollar as well as more softness in USD rates. This retreat in both US Dollar and long-term borrowing rates now provide an important positive tailwind for gold. In line with the start of the Fed cutting cycle, funding costs against maintaining long gold positioning has dropped, as such we also see the return of institutional investors into gold products like ETFs as well.

In the background, the overall demand from central bank allocation as well as diversification needs from geopolitical risks continue unabated. Therefore, in view of the lower USD and softer rates from the start of the Fed cutting cycle, we stay positive on gold and raise our forecasts further to USD 2,700 for 4Q24, USD 2,800 / oz for 1Q25, USD 2,900 / oz for 2Q25 and USD 3,000 / oz for 3Q25. Previous forecast was USD 2,500 / oz for 4Q24, USD 2,600 / oz for 1Q25 and USD 2,700 / oz for 2Q25.

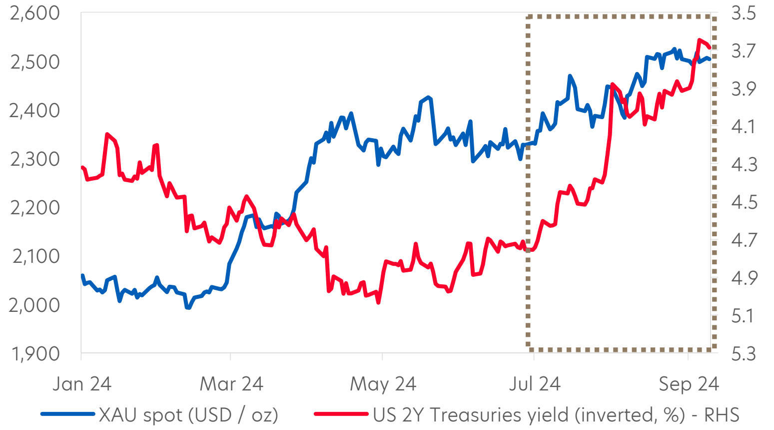
Gold was a relative oasis of calm amidst recent market volatility

Source: Bloomberg, UOB Global Economics & Markets Research



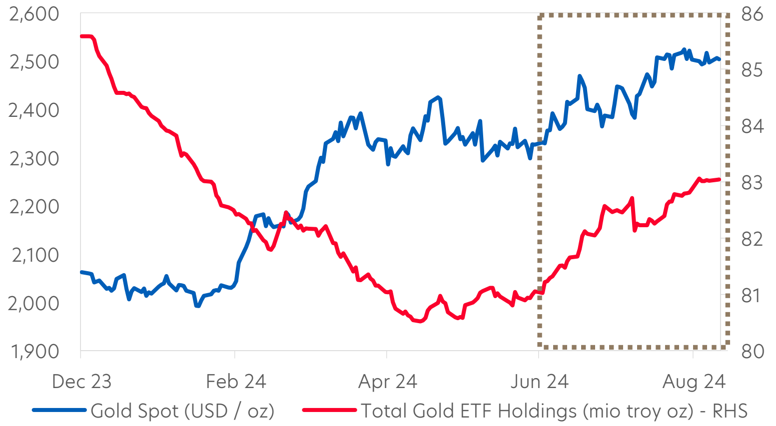
Recent drop in US Treasuries yield adds more support to gold rally

Source: Bloomberg, UOB Global Economics & Markets Research



Renewed buying of Gold ETFs is supportive of further gold price strength

Source: Bloomberg, UOB Global Economics & Markets Research



Brent Crude Oil

Near term worries over global growth slowdown to dominate

UOB's Forecast	4Q24	1Q25	2Q25	3Q25
Brent crude oil (USD/bbl)	70	75	80	80

Brent crude oil has had a disappointing quarter, falling from USD 85 / bbl in early Jul to just above USD 70 / bbl by late Sep. The main culprit for the sell-off across 3Q24 is the return of global growth slowdown concerns, raising fears of weaker energy demand. In the US, the job market has started to witness signs of slowdown, with the downward revision of payroll gains amidst the trigger of the "Sahm Rule" which signals a potential US recession. In China, there is on-going slowdown in the local residential property market, coupled with further weakness in domestic spending and fragile retail sentiment.

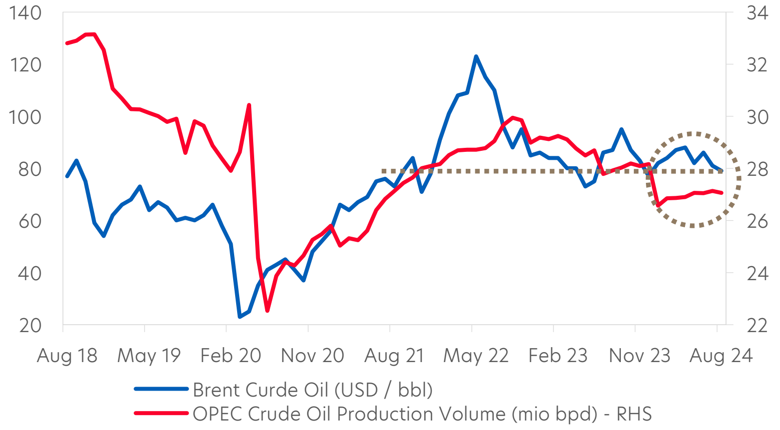
As a result of weakness in Brent crude oil below the key USD 80 / bbl level, OPEC+ members announced in early Sep a delay in previously announced plans to unwind production cuts. Previous plan to unwind more than 2 mio bpd of production cuts are now delayed till at least Dec. OPEC followed up with a downgrade of its world oil demand growth forecast to 2.03 mio bpd, from the previous forecast of 2.11 mio bpd.

While growth slowdown risks weigh over the near term, we are weary of extrapolating downside in crude oil price below USD 70 / bbl. This is because there is still on-going geopolitical risk from the conflicts in the Middle East. The crude oil futures curve is now mostly flat with net positioning now down to post-Covid low. In other words, there is little risk premium priced into current crude oil price around USD 70 / bbl.

As such, while we lower our Brent crude oil forecast due to global growth slowdown and oversupply concerns, we still maintain a mild upward trajectory in view of geopolitical risk. Overall, our updated Brent crude oil forecast is now USD 70 / bbl for 4Q24, USD 75 / bbl for 1Q25 and USD 80 / bbl for 2Q and 3Q25.

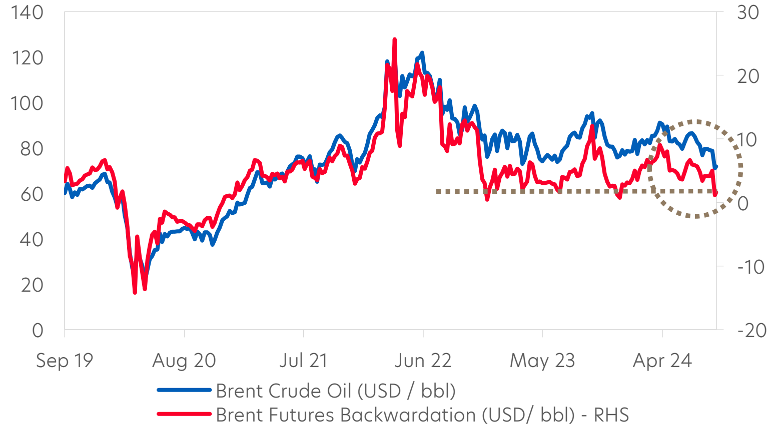
Drop in Brent below USD 80 / bbl forces OPEC to delay planned production hike

Source: Bloomberg, UOB Global Economics & Markets Research



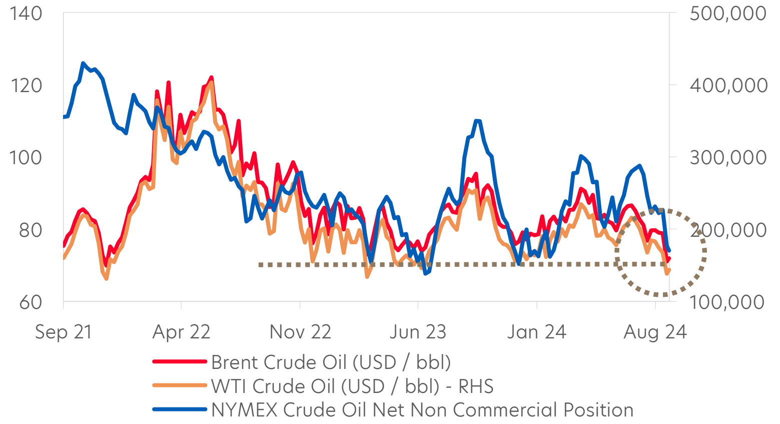
Brent futures curve now almost flat as crude oil price weakness intensifies

Source: Bloomberg, UOB Global Economics & Markets Research



Crude Oil Futures long positioning is back down to post-Covid low

Source: Bloomberg, UOB Global Economics & Markets Research



Copper

Neutralizing our positive view due to rising China economic slowdown risks

UOB's Forecast	4Q24	1Q25	2Q25	3Q25
LME Copper (USD/mt)	9,000	9,000	9,000	9,000

Similar to Brent crude oil, LME Copper had a weak outing across 3Q24, failing to trade back up above the USD 10,000 / MT level as renewed selling pressure triggered price weakness down to just above the USD 9,000 / MT level instead.

There was a renewed round of weakness in China's economy, ranging from weak high frequency activity figures, to further retreat in inflation indicators as well as on-going contraction in local residential property market. As a result, there are worries that more monetary policy easing and fiscal stimulus may be necessary for China, given that the previous round of stimulus in 1Q24 now appears inadequate.

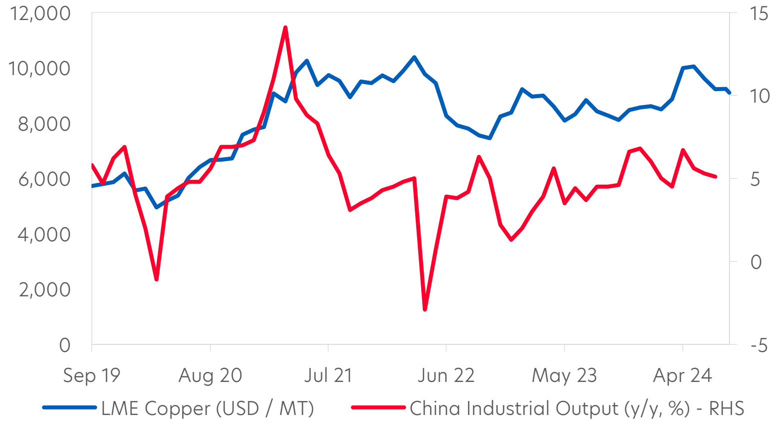
Hence, Brent crude oil, iron ore and LME Copper prices pulled back concurrently across 3Q24, given that the trio of commodities are particularly allergic to worries over China's economic health. Over the near term, rising copper inventory levels across major exchanges like LME, COMEX and SHFE may weigh down on copper price. Furthermore, LME Copper's cash vs 3M spread remains distinctively in the red at negative USD 120 / MT, implying weak near-term demand.

As such, we neutralize our previously positive outlook for LME Copper, given renewed growth slowdown worries for China and that the previously anticipated activity stabilization did materialize. Despite the near term weakness, it is worth highlighting that concerns over the longer term slowdown in copper mining supply as well as tightness in refined copper production remains.

Overall, we neutralize our positive LME Copper outlook and lower our forecast to USD 9,000 / MT throughout from 4Q24 to 3Q25. The previous forecast was USD 9,000 / MT in 4Q24 and USD 10,000 / MT in 1Q and 2Q25.

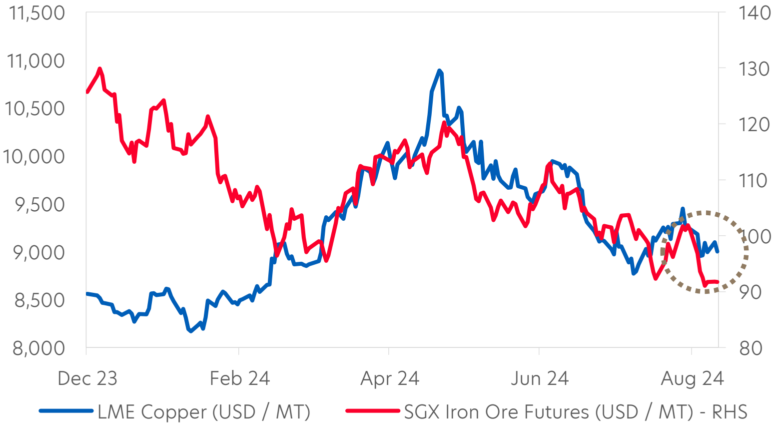
Copper pulls back below USD 10,000 / MT as recovery in China industrial output stalls

Source: Bloomberg, UOB Global Economics & Markets Research



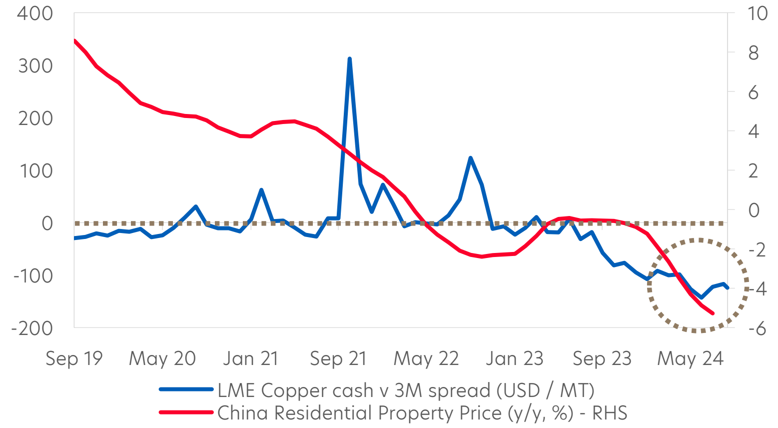
Both Copper and Iron Ore prices fall in tandem across 3Q as China slow-down intensifies

Source: Bloomberg, UOB Global Economics & Markets Research



Cash spread stays negative in line with weak property market in China

Source: Bloomberg, UOB Global Economics & Markets Research



FX & Rates	4Q24F	1Q25F	2Q25F	3Q25F
USD/CNY	7.08	7.01	6.94	6.87
CNY 1Y Loan Prime Rate	3.20	3.20	3.20	3.20
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	3.0	5.2	4.9	4.6
CPI (avg y/y %)	2.0	0.2	0.5	1.2
Unemployment Rate (%)	5.5	5.1	5.2	5.2
Current Account (% of GDP)	2.5	1.4	1.1	1.0
Fiscal Balance (% of GDP)	-4.7	-4.6	-4.9	-4.8

ECONOMY

Broad-based slowdown in Aug

China's key macroeconomic data including the industrial production, retail sales and urban fixed assets investment missed expectations and slowed further in Aug. The home prices decline accelerated, and the surveyed jobless rates rose for the second successive month. The industrial production and service production suggests that China's economy likely grew by 4.7% y/y in Jul-Aug, similar to the pace in 2Q24. If the economy continues to lose momentum in the coming months, it will most certainly underperform the official growth target of around 5.0% for 2024. Our GDP growth forecast stands at 4.8% for 2H24 with full-year GDP at 4.9%, after accounting for 1H24 growth of 5.0%. Thereafter, we expect growth to moderate further to 4.6% in 2025.

The result of the property market support measures has been disappointing due to poor potential returns and weak buying sentiment while developers continue to face funding risks. PBOC's CNY300bn relending program for social housing announced in May to reduce the housing glut has met with slow take-up, with only 4% of the program utilized as of end-Jun. There are also plans to let local governments use special loans to fund residential units purchase for social housing. To spur household spending, the government has proposed to cut mortgage rates by a total of 80 bps on the CNY38 tn of outstanding mortgages, potentially unleashing CNY300 bn in annual interest expenses for consumption. However, the weak consumer confidence implies that the impact of such measures to boost spending may be dulled.

Trade and investments could also come under greater pressure after the US presidential election. Outflows of direct investment by foreign investors exceeded inflows in 2Q24 by a record USD 14.80 bn, the second time of such net outflows since balance of payments (BOP) data started in 1998. This meant foreign firms had repatriated profits and cut investments faster than making new investments in China in 2Q24. However, it should be noted that BOP data tend to overestimate both the upside and downside of the funds flows which may not have anything to do with "direct investment". As the economy has stabilized somewhat compared to the past two years, policymakers will likely be hesitant to substantially expand their stimulus. This is expected to contribute to a prolonged period of weak economic performance. Structural issues such as the downsizing of the property sector, high local government debt, supply chain reconfiguration and ageing population will inevitably constrain China's growth potential.

CENTRAL BANK

Stronger stimulus needed as data continues to weaken

Deflationary pressure increased over the past two months as core inflation eased noticeably and the contraction in producer prices re-widened in Aug due to the economic slack. PBOC has signalled that it will step up its fight against deflation. Looking ahead, headline inflation will be lifted somewhat by the rebound in food inflation due to the year-ago low base of comparison. However, despite two years of deflation, PPI is likely to stay in contraction for some months ahead as the demand recovery has remained elusive and overcapacity in some industries continued to weigh on the prices of manufactured goods. Our forecast for the full-year headline inflation is at 0.5% for 2024 and 1.2% for 2025. We expect the PPI to fall by -2.0% in 2024 and -0.5% in 2025.

The near-term focus will be on a possible cut to banks' reserve requirement ratio (RRR), targeting the release of long-term liquidity to boost credit expansion which had slowed sharply this year. The PBOC last cut the RRR by 50 bps in Feb which was estimated to release CNY1 tn of funds into the banking system. Furthermore, we still see room for an additional 15 bps interest rate cut for the rest of this year to bring the 1Y LPR lower to 3.20% by end-4Q24. However, the bond rally may hinder rate cuts ahead.

CURRENCY

CNY to continue underperforming

Aided by broad-based USD weakness ahead of the first Fed rate cut, the CNY has rebounded from 7.27 / USD to 7.06 /USD in 3Q24 and reversed losses sustained in 1H24. Despite the rebound, the CNY trailed moves in other Asia and Major FX against the USD, resulting in the CFETS RMB index paring most of the gains on the year. The underperformance of the CNY reflects China's weak fundamentals, including the property sector downtrend, weak consumption and deflationary worries.

Even as we expect the USD to weaken further, the prospect of further easing by Chinese authorities, both in the key interest rates and reserve requirement ratio (RRR) may put a lid on how much more the CNY can appreciate against the USD. In the options market, risk reversals on USD/CNH have reversed Aug's sharp drop and returned to average levels this year, signalling some hedging demand for USD topside in a potential US-China trade war 2.0 scenario if Trump wins the coming US elections.

In 4Q24, US election uncertainties may counterbalance dovish Fed repricings, resulting in a period of consolidation for USD/CNY. Overall, our updated USD/CNY forecasts are 7.08 in 4Q24, 7.01 in 1Q25, 6.94 in 2Q25 and 6.87 in 3Q25.

HONG KONG

FX & Rates	4Q24F	1Q25F	2Q25F	3Q25F
USD/HKD	7.80	7.80	7.80	7.80
HKD Base Rate	4.75	4.50	4.25	4.00
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	-3.7	3.3	3.1	2.0
CPI (avg y/y %)	1.9	2.1	2.0	2.4
Unemployment Rate (%)	3.5	2.9	2.9	3.0
Current Account (% of GDP)	10.2	9.2	10.0	8.0
Fiscal Balance (% of GDP)	-4.4	-3.4	-1.5	0.2

ECONOMY

Private consumption recovery continues to face challenges

Hong Kong's GDP growth accelerated to 3.3% y/y in 2Q24 from 2.8% y/y in 1Q24. Gross domestic fixed capital formation and goods export were lifted by the low base of comparison, while services export growth eased. Imports of goods and services were fairly robust, particularly for services which sustained a double-digit growth pace. Government consumption expenditure turned around to register a modest growth after contracting in the four preceding quarters.

The main weakness was private consumption which contracted in 2Q24. Domestic sentiment has weakened as a result of the high interest rates, negative wealth effect from declines in asset prices and a slow recovery in inbound tourism as the mainland's economy struggles on. Retail sales have reverted to contraction since Mar due to factors including the shift to cross-border consumption. The lower arrivals and weaker spending from mainland tourists have further weighed on the consumption recovery in Hong Kong. Tourist arrivals in the first 7 months of the year reached just 69% of the level in the same period of 2018. Retail sales of luxury goods including jewellery, watches and valuable gifts totalled HKD30.3bn in Jan-Jul, down 40% from the same period in 2018. These formed 14% of total retail sales.

There may be some support for inbound tourism and consumption as HKD strength is expected to ease further in line with interest rate cuts in the US. Lower borrowing costs ahead may also boost household spending but could be limited in stemming further drop in property demand. The government scrapped property demand-side management measures in Feb but prices have resumed falling due to a weaker outlook for the rental market, backlog of unsold homes and slowdown in the mainland economy while property developers under debt pressure are slashing prices to move sales. Hong Kong's private residential price index has fallen nearly 5% year-to-date as of Jul, to an 8-year low.

Meanwhile, the labour market has remained tight. The seasonally adjusted unemployment rate has stayed low at 3.0% while employment rose to 3.703 million in 2Q24 from 3.688 million in 1Q24. However, the median monthly income of economically active households fell to HKD39,200 from HKD39,700 in 1Q24 but was still higher compared to HKD37,400 in the corresponding period last year.

Economic risks are skewed to the downside as external demand softens and an acceleration in supply chain reconfiguration could reduce Hong Kong's trade flows while the new security law passed in Mar creates more uncertainties for the business environment. At the same time, domestic demand continues to suffer from weak consumer confidence even as lower interest rates may provide some reprieve. The composite PMI has stayed in contraction since May. Despite outlook remaining challenging in 2H24, we have upped our forecast for Hong Kong's 2024 GDP growth to 3.1% from 2.9%. We expect the GDP to rise 3.2% y/y in 2H24, factoring in modest sequential growth in the next two quarters. However, we now expect a sharper slowdown in growth to 2.0% in 2025 from our previous estimate of 2.5%. Growth stabilisation in the mainland and soft-landing in the US would provide much needed support.

The headline and underlying CPI inflation (excluding the government's one-off measures) averaged 1.7% y/y and 1.0% y/y in Jan-Jul respectively. Increase in prices of meals out, takeaway food and transport were more notable while energy-related items and durable goods continued to face downward pressure. Inflation is expected to be mild in the near term. External price pressure is likely to ease as inflation in the developed markets trends lower, but a weaker HKD will result in higher imported cost passthrough. Domestically, increase in business costs would be capped by a weak rental outlook. We maintain our forecast for the headline inflation at 2.0% for 2024 (official forecast lowered to 1.9% in Aug from 2.4% previously).

CENTRAL BANK

Hibor retreated sharply since mid-Jul

Hong Kong's aggregate balance has held steady at around HKD45bn for more than a year, its lowest since 2008. HKMA's interventions to defend the HKD peg has resulted in tightened interbank liquidity and higher rates. However, the pullback in Hibor rates have accelerated since mid-Jul as it became clear that the US Fed will soon start to cut interest rates. The 3-month Hibor has since fallen 180 bps (as of 19 Sep), steeper than the decline in corresponding USD rates. There will be room for Hibor to fall further as Fed continues to ease but the pace could moderate.

CURRENCY

HKD steady at 7.80

Alongside broad USD weakness as the Fed pivoted to rate cuts, USD/HKD traded to a lower 7.79 – 7.81 range in 3Q24, compared to 7.80 – 7.84 in 2Q24. In a way, the bigger drop in Hibor rates relative to the US rates made USD carry trades funded out of HKD still attractive, hence cushioning the USD/HKD drop. Overall, we keep to expectations that USD/HKD will trade at around 7.80 in the coming four quarters beginning 4Q24.

FX & Rates	4Q24F	1Q25F	2Q25F	3Q25F
USD/INR	83.5	83.0	82.5	82.0
INR Repo Rate	6.25	6.00	5.75	5.75
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP, FY (%)	9.7	7.0	8.2	6.9
CPI, FY (avg y/y %)	5.5	6.7	5.4	4.8
Current Account, FY (% of GDP)	-1.2	-2.0	-0.6	-1.1
Fiscal Balance, FY (% of GDP)	-6.7	-6.4	-5.6	-4.9

ECONOMY

Softer 1QFY25 growth on smaller boost from net taxes

India's real GDP growth moderated in 1QFY25 (Apr-Jun 2024) to 6.7% y/y (4QFY24: 7.8%), which is a tad weaker than RBI's Aug MPC forecast of 7.1%, broadly owing to a smaller boost from taxes net subsidies which has lifted GDP readings in recent quarters. The modest growth outturn was driven by an acceleration in private consumption (1Q: 7.4% y/y, 4Q: 4.0%) and an uptick in gross fixed capital formation (1Q: 7.5% y/y, 4Q: 6.5%) although offset by lower government expenditure (1Q: -0.2% y/y, 4Q: 0.9%) amidst the Lok Sabha elections.

The Gross Value Added (GVA), which excludes taxes and subsidy transfer payments, strengthened to 6.8% y/y in 1Q from 6.3% in 4Q. The robust GVA print was propelled by strength in key services sub-industries, including the financial, real estate & professional group (1Q: 7.1% y/y, 4Q: 7.6%), trade, hotels, transport & communication group (1Q: 5.7% y/y, 4Q: 5.1%) as well as public administration, defence & other services (1Q: 9.5% y/y, 4Q: 7.8%), cushioning the moderation in the manufacturing sector (1Q: 7.0% y/y, 4Q: 8.9%). Notably, the agriculture sector improved (1Q: 2.0% y/y, 4Q: 0.6%), as the weak reading in 4Q was partly due to high base effects. Going forward, the stronger southwest monsoon rainfall in Jul-Sep should support a healthy kharif sowing and subsequent harvest, which could enhance rural demand. We project real GDP to expand by 6.9% in FY25 (FY24: 8.2%).

Headline inflation eased significantly in the months of Jul-Aug (Aug: 3.65% y/y, Jul: 3.60%, Jun: 5.08%) driven by favourable base effects within the food & non-alcoholic beverage group (Aug: 5.3%, Jul: 5.1%, Jun: 8.4%) which has a sizeable 45.9% weight in the CPI basket. The electricity, gas & other fuels group (Aug: -5.3%, Jul: -5.5%) remained in deflation owing to the impact of the LPG price cuts. Notably, price inflation of the transport & communication group (Aug: 2.7% y/y, Jul: 2.6%, Jun: 1.0%) accelerated, reflecting the impact of the mobile tariff hikes by major telco operators in early Jul. With that, core inflation also edged higher to 3.40% y/y in Aug (Jul: 3.35%) and likely bottomed out in May/Jun. Going forward, headline inflation is likely to rebound back above RBI's 4% target from Sep 2024 onwards as base effects supporting the disinflation taper off although food inflationary pressures could soften on better crop yields from the favourable monsoon rainfall. Overall, we maintain our FY25 headline inflation forecast of 4.8%, a tad higher than RBI's Aug MPC forecast of 4.5%.

CENTRAL BANK

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

In the minutes of the Aug MPC released on 22 Aug, some members of the MPC emphasized that persistent food inflation pressures "cannot be ignored" given its significance in the CPI basket and its influence on the formation of household's inflation expectations. Notably, the current terms for three of the external MPC members are due to expire on 4 Oct, with the appointment of new MPC members likely to be announced before the upcoming 9 Oct MPC meeting, according to news sources. In our view, risks of a more hawkish monetary policy committee loom given that two of the outgoing members (Prof. Jayanth R. Varma and Dr. Ashima Goyal) are considered dovish as they both voted for a 25bps rate cut alongside a change in monetary policy stance to "neutral" in the latest Aug MPC meeting.

We factor in a 25bps rate cut in the Dec MPC with risks that the start of the easing cycle could be delayed to 1Q25 (Jan-Mar quarter). Furthermore, 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). In addition, ahead of any impending rate cuts, RBI may alter its stance from "withdrawal of accommodation" to "neutral".

CURRENCY

INR lagged in regional rally

INR was the standout laggard within Asia FX in 3Q24, trading flat on the quarter at 83.8 /USD while most of its Asian peers rebounded on Fed's dovish tilt. Investors cited RBI intervention as the likely driver for INR's low volatility, with USD/INR trading within a narrow 83.7 – 84.0 range across Aug to Sep.

Going forward, we keep to the view that USD/INR is likely biased toward the downside. Externally, USD is weighed by pricings of more Fed rate cuts as the US labour market began to slow alongside US inflation. Internally, foreign fund flows are expected to stay positive for the INR. India's foreign reserves rose to a record USD689.2 bn in Sep, boosted by large inflows into rupee bonds following the inclusion of Indian government bonds into the emerging-market index. A recent rejig in MSCI stock indexes is also expected to drive net passive inflows into India's stock markets. Overall, we expect further INR strength against the USD, with updated forecasts at 83.5 in 4Q24, 83.0 in 1Q25, 82.5 in 2Q25 and 82.0 in 3Q25.

INDONESIA

FX & Rates	4Q24F	1Q25F	2Q25F	3Q25F
USD/IDR	15,400	15,200	15,000	14,800
IDR 7D Reverse Repo	5.75	5.50	5.25	5.00
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

Fiscal stimulus to drive growth

Indonesia's economy grew steady at 5.05% y/y in 2Q24, supported by private consumption and investment spending. Going forward, higher fiscal expenditure is expected to propel growth higher as the new government is set to take office from 20 Oct. Many of the pump-priming policies along with the continuation of the current capital-intensive projects related to the down-streaming initiatives will likely keep the growth trajectory tilted slightly higher.

With economic growth remaining stable and above 5.0% in the first half of 2024, we expect growth momentum to continue into the remaining quarters of the year to thread along well into meeting our forecast of 5.2% this year, underpinned by steadily improving domestic consumption, expectation of more expansionary fiscal policies and sustained investment spending. Nevertheless, external risks such as geopolitical uncertainties and financial markets' volatility could pose some headwinds for growth.

Indonesia's external balance remained adequately strong amid ongoing uncertainty. Indonesia registered a slightly wider current account (CA) deficit of USD3bn (-0.9% of GDP) in 2Q24, compared to the previous quarter's deficit of USD2.4bn (-0.7% of GDP) due to larger deficits in the services account as well as in the primary income. Higher overseas travel expenditure and bigger dividend and interest payments accounted for these wider deficits, despite a larger trade surplus recorded in 2Q24. Capital and financial account turned into a surplus of USD2.7bn from a deficit of USD1.6bn in 1Q24 on the back of portfolio capital inflows amid moderating risk aversion while deficits in other investment declined due to lower portfolio investments abroad. Foreign direct investment continued its surplus trend. We revise our forecast for the CA position to hover between -1.0% to -0.5% of GDP in 2024. Higher investments notably in the capital-intensive sectors in light of the ongoing new smelters developments and the expansion of capacity of existing smelters in 2H24 will likely yield higher imports while lower commodity prices may bring about lower export proceeds. Altogether, these will weigh on the trade surplus going forward while deficits in the primary and services accounts are also likely to get wider.

Indonesia's inflation continued to ease in Aug 2024 to 2.1% y/y from 2024's high of 3.1% back in Mar (halved from 4.3% in Apr 2023). Sustained decline in food items (rice, chili, and eggs) accounted for the steady deflationary pressures in recent months. Core inflation remained low and stable at 1.7% y/y though there were slight increases in the personal care and education costs. All these trends continue to imply a subdued recovery in household consumption and with steadily appreciating IDR against the USD, risks of imported inflation bringing about upside inflationary pressures are even lower now. Therefore, we revised our 2024 average inflation forecast lower to 2.5% this year from 3.0% previously (markedly lower compared to 3.7% in 2023), 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

BI started its rate-cutting cycle

BI cut its benchmark rate (BI rate) to 6% in its latest MPC meeting on 18 Sep. Consequently, BI also cut its deposit facility rate to 5.25% as well as the lending facility rate to 6.75%. With low and stable inflation, appreciating IDR in recent weeks, and expectations of slowing growth momentum ahead, the start of BI's rate-cutting cycle was indeed just a matter of time. Our view has now slightly shifted that BI will continue its rate cutting cycle next month in 4Q24 to 5.75%. In 2025, we expect a cumulative 100bps cuts 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 consolidate recent gains

The IDR posted its best quarterly gain in over four years, gaining close to 6% to 15,400 /USD in 3Q24 and erased losses sustained in the first half of the year. Being one of the highest yielding Asia EM, the IDR was a standout beneficiary of foreign bond inflows as the tide of US monetary policy has shifted from "higher for longer" to imminent easing. Foreign investors poured close to USD3 bn into Indonesia government bonds in 3Q24, the largest quarterly inflow since 1Q23 as investors rushed to lock in peak rates. That said, we are mindful of global investors' risk appetite may turn cautious in the near term, especially when geopolitical uncertainties build ahead of the Nov US elections. Hence, we factor in a period of consolidation for USD/IDR in 4Q24 before renewed weakness in 2025. Overall, our updated USD/IDR forecasts are 15,400 in 4Q24, 15,200 in 1Q25, 15,000 in 2Q25 and 14,800 in 3Q25.

JAPAN

FX & Rates	4Q24F	1Q25F	2Q25F	3Q25F
USD/JPY	141	138	135	133
JPY Policy Rate	0.50	0.50	0.50	0.50
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	1.2	1.7	0.2	1.7
CPI (avg y/y %)	2.5	3.2	2.6	1.8
Unemployment Rate (%)	2.7	2.4	2.8	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

Growth rebound to extend into 2H with downside risks

2Q24 GDP growth rebounded but the extent of the recovery was revised lower to 2.9% q/q SAAR (from prelim 3.1%) as the rebound in private consumption (0.9% q/q from prelim 1.0%) and business spending (0.8% q/q from prelim 0.9%) were revised. Rises in residential investment (1.7%) and public investments (4.1%) supported 2Q growth, offsetting the drags from net exports (-0.1ppt) and net private inventories (-0.1ppt). 1Q's contraction was revised to -2.4% (previous: -2.3%). When compared to one year ago, Japan's GDP contracted by -1.0% y/y in 2Q after declining by -0.9% y/y in 1Q, the first back-to-back outright y/y contraction since the Covid-19 pandemic. Prior to the contraction, Japan's GDP recorded 11 straight quarters of y/y expansion between 2Q21 and 4Q23. In real terms, the economy expanded to JPY 558.1 tn in 2Q (from JPY 554.1 tn in 1Q), highest since post-pandemic peak of JPY 563.3 tn (in 3Q23).

We expect Japan's growth trajectory to extend into 2H, supported by the wage-induced consumption recovery. Continued influx of tourists 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, and Japanese manufacturers reaping the benefits from the electronics upcycle. Recent 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. That said, the downside factors still loomed large including resumption of weak domestic demand, the extent of global and China growth slowdown, the tighter monetary stance from Bank of Japan (BOJ) and the sharp strengthening of the yen.

Despite 2Q's rebound, it should be noted 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 a reasonably strong sequential growth trajectory in 2H. As a result, we downgrade our 2024 GDP growth forecast to 0.2% (2023: 1.9%), before picking up pace to 1.7% for 2025.

CPI inflation rose 3.0% y/y in Aug (My-Jul: 2.8%) fastest pace so far in 2024 while core CPI (excluding fresh food) steadily edged higher to 2.8% y/y in Aug (from Apr's low of 2.2%). Core-core CPI (excluding fresh food, energy) returned to 2.0% y/y (after briefly easing to 1.9% y/y in Jul). Services prices rose by 1.4% y/y in Aug (same pace as Jul). The BOJ projected (in Jul Bank View) that risks to prices are skewed to the upside for FY2024 and FY2025. We have upgraded our headline and core CPI to average 2.6% for 2024 (from 2.4% and 2.3).

Politics: A new Prime Minister in Oct. In mid-Aug, PM Kishida announced he will not be running for the presidency for the Liberal Democrat Party (LDP) – the ruling party that controls the Japanese parliament – effectively stepping down as PM at end-Sep. Campaign for the LDP presidency started on 12 Sep with 9 lawmakers contesting the 27 Sep election. The winner is voted by LDP's rank-and-file, and the public does not vote on this. We think 43-year-old Shinjiro Koizumi, the son of a former PM, may emerge victorious. Political stability and continuity is assumed, with a supplementary budget being eyed by end-2024, providing some uplift to growth.

CENTRAL BANK

Normalisation path more measured & cautiously

The BOJ kept its policy rate unchanged at 0.25% in its Sep meeting as widely expected. The first increase in consumption spending in 2Q after 1 year of y/y declines is seen as a strong signal that wage growth is translating to increase in spending while the higher Aug CPI inflation prints further affirmed the underlying price trends. Both factors should boost the BOJ's confidence to stay on its path for monetary policy normalisation. But the volatile market response to its Jul rate hike imply that the central bank will tread carefully before raising rates again so soon. We continue to expect the BOJ to stay on the rate tightening trajectory although it may not be a continuous cycle and likely to be a limited normalisation path. We expect BOJ to resume normalisation in 4Q 24 (likely the Oct MPM), via a 25-bps hike to 0.50% which we believe will be the terminal rate. This path will also be subject to further CPI forecasts changes in the subsequent MPMs.

CURRENCY

JPY to gain further

Notwithstanding the 12% plunge in 3Q24, USD/JPY is still biased to further downside, albeit at a more gradual pace as a large portion of the speculative JPY carry trade may have already been unwound across late Jul to early Aug. Monetary policy divergence between the Fed (easing bias) and the BOJ (tightening bias) anchors our existing view of further weakness in USD/JPY in the coming quarters. Overall, our updated USD/JPY forecasts are now at 141 in 4Q24, 138 in 1Q25, 135 in 2Q25 and 133 in 3Q25.

At this juncture, we highlight two risks that may drive a steeper decline in USD/JPY compared to our current forecasts. The first is the return of the JPY as a safe-haven currency if US conditions worsen to a recession rather than our base case of a soft landing. The second is a material shift in the behavior of Japanese life insurers where they repatriate or increase the hedge ratio of their US assets.

FX & Rates	4Q24F	1Q25F	2Q25F	3Q25F
USD/MYR	4.22	4.18	4.14	4.10
MYR O/N Policy Rate	3.00	3.00	3.00	3.00
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	8.9	3.6	5.4	4.7
CPI (avg y/y %)	3.3	2.5	2.0	2.8
Unemployment Rate (%)	3.6	3.3	3.2	3.2
Current Account (% of GDP)	3.1	1.2	2.0	2.2
Fiscal Balance (% of GDP)	-5.5	-5.0	-4.3	-3.6

ECONOMY

Economy shines

Malaysia's final 1Q24 GDP growth came in at 4.2% y/y, Malaysia's final 2Q24 GDP growth surpassed our preliminary estimate of 4.6% to gain 5.9% y/y, well above 1Q24's 4.2% growth and BNM's estimated potential growth of 3.5%-4.5% for 2024. The monthly GDP showed a strong growth of 6.2% in Apr, 5.9% in May, and 5.6% in Jun. In addition, the seasonally adjusted growth accelerated to a two-year high of 2.9% q/q (1Q24: +1.5%), sustaining its improvement for the second consecutive quarter and affirming the recovery momentum.

All but the mining & quarrying sector (2.7% y/y) penciled in a larger expansion in 2Q24 than that of in 1Q24, particularly construction (17.3%), services (5.9%) and agriculture (7.2%) industries while manufacturing recovered further by 4.7%. Noticeable improvements were seen in both the private consumption and investments despite concerns over the impact from diesel subsidy rationalization which started in Jun. The contribution from net exports turned around to record a small positive gain as exports recovery gained momentum. Given that the year-to-date (ytd) average merchandise export growth was 6.0% y/y in the first eight months of 2024, our full-year export growth forecast of 7.6% for 2024 is achievable.

The upbeat GDP readings in 2Q24 brought GDP growth to 5.1% in 1H24 which was above our estimates. Recognising this and the horizon of positive growth catalysts that remain for the rest of the year, we raised our full-year GDP outlook to 5.4% (vs. 4.6% previously) for 2024 (link). We think it is possible for the official GDP growth target of 4.0%-5.0% for 2024 to be revised higher to 4.5-5.5% during Budget 2025 announcement on 18 Oct

Key growth catalysts include the upturn in global tech cycle, increasing tourism activities, continued government cash aid for targeted groups as well as ongoing implementation of budget measures and catalytic initiatives outlined under the national master plans. The Ministry of Finance on 8 Aug unveiled its GEAR-uP programme, which aims to synergise efforts across Government-Linked Investment Companies (GLICs) to catalyse domestic growth in key economic sectors. The first phase of this program will see six GLICs collectively pledge to invest MYR120bn in domestic direct investments (DDI) over the next five years, on top of MYR440bn in public market investments under their steady state investment programmes. Meanwhile the launch of Public-Private Partnership Masterplan 2030 (PIKAS 2030, on 9 Sep) is expected to increase private investment to MYR78bn by 2030 (link) while the National Semiconductor Strategy plan targets to attract at least MYR500bn in investments in the first phase of the plan. The government will allocate MYR25bn to implement high-end semiconductor strategies.

The robust growth momentum continued to buoy the labor market with unemployment rate steady at 3.3% and record labor force participation rate at over 70%. Other factors driving private consumption include projected Employees Provident Fund (EPF) withdrawals of MYR15bn this year and about MYR5bn-6bn per annum from 2025 onwards under the restructuring of EPF account. This together with the pre-announced salary increment for civil servants effective Dec 2024 and review of private sector minimum wages are further tailwinds for consumption next year.

CENTRAL BANK

OPR on extended pause at 3.00%

BNM held the Overnight Policy Rate (OPR) unchanged through its eighth straight meeting since Jul 2023. As BNM continues to signal a balanced outlook and neutral bias, we maintain our view for stable OPR at 3.00% in 4Q24 and into 2025. We believe that BNM will continue to guard against the second-round effects of robust domestic demand and favorable labor market conditions on inflation in the coming quarters as overall inflation risks are still tilted to the upside from both supply and demand driven factors that include further subsidy rationalization. The next and final Monetary Policy Committee meeting this year is on 5-6 Nov.

CURRENCY

MYR outperforms

Following the outsized 6% gain in Aug – the best month since Nov 2022, MYR is the best performing Asia FX ytd. The strong currency performance is underscored by solid economic indicators that showed Malaysia's economy firing on all cylinders in 2Q24. In 8M24, foreign investors bought MYR17.7bn worth of Malaysian debt securities and MYR3.0bn of Malaysian stocks.

With CNY depreciation pressures abating, a strong anchor for MYR, this has also helped to sustain the gains. The next leg of momentum would come from exporters gradually repatriating and unwinding USD proceeds and potential inflows from corporates, MNCs and GLCs/GLICs. Amidst near term overbought conditions, the pace of MYR gains may slow as short-term flows rotate out to other Asia FX that have lagged the latest run. Furthermore, US elections uncertainties may temper with global risk appetite and USD/MYR may transit into a consolidative pattern in 4Q24.

Further out, we think the underlying drivers for MYR to improve further remain, particularly as the Fed eases rates while BNM is expected to keep rates on hold into 2025. With that, our USD/MYR forecasts are now at 4.22 in 4Q24, 4.18 in 1Q25, 4.14 in 2Q25 and 4.10 in 3Q25.

PHILIPPINES

FX & Rates	4Q24F	1Q25F	2Q25F	3Q25F
USD/PHP	55.8	55.3	54.8	54.3
PHP O/N Reverse Repo	5.75	5.50	5.25	5.00
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	7.6	5.5	6.0	6.5
CPI (avg y/y %)	5.8	6.0	3.5	3.5
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	-5.1	-4.1

ECONOMY

Growth prospects remain intact

The Philippines' real GDP growth accelerated for the second straight quarter to 6.3% y/y in 2Q24 (1Q24: +5.8%), marking the strongest growth in five quarters, partly aided by year-ago low base effects. All but the agriculture sector (-2.3%) recorded positive growth, led by construction (+16.0%), utilities (+9.1%) and services (+6.8%) sectors. This coupled with a decent rise in the mining & quarrying sector (+4.8%) helped to cushion somewhat the easing in manufacturing sector growth (2Q24: +3.6%, 1Q24: +4.4%) that was largely weighed down by sluggish output of electronic products.

Robust domestic demand was seen in 2Q24, contributing 7.5ppts to overall GDP growth (vs 1Q24: +4.2ppts). This was mainly propelled by stronger government spending (+10.7%) and investments (+9.5%) amid still-soft household spending (+4.6%). Inventory replenishment activities (+0.5ppt to GDP growth) also helped to partially offset the drag from net trade (-0.9ppt from GDP growth) during the quarter.

In 1H24, the Philippine economy grew by 6.0% y/y (2H23: +5.8%) across all but agriculture sector, which was in line with our assessment. We expect this momentum to hold up in 2H24 (UOB est: +6.0%) and into 2025 on the back of an expected monetary policy easing by BSP, moderating inflationary pressure, continuation of targeted fiscal policy support from the national government and persistent trade recovery in tandem with the ongoing global tech upcycle. This will further affirm our full-year GDP growth projections of 6.0% for 2024 (official est: 6.0%-7.0%, 2023: 5.5%) and 6.5% for 2025 (official est: 6.5%-7.5%) but with risks still leaning to the downside. Key downside risks could emanate from adverse weather conditions, rising geopolitical tensions in the Middle East and softer-than-expected global economic growth.

CENTRAL BANK

BSP to track Fed move in 4Q24 and into 2025

BSP kicked off its monetary easing cycle in Aug, ahead of the US Fed. It cut the target reverse repurchase (RRP) rate by 25bps to 6.25% on 15 Aug, marking the first rate cut since 19 Nov 2020. The central bank cited inflation on a target-consistent path and soft household consumption growth in 2Q24 as main reasons justifying a calibrated shift to a less restrictive monetary policy stance.

In Aug, headline inflation decelerated to a seven-month low of 3.3% y/y after hitting the highest since Oct 2023 at 4.4% in Jul. This was credited to a broad-based slowdown in price inflation of all but the housing, utilities & other fuels component. We concur with BSP's view that inflation will continue its downtrend and return to the mid-point of BSP's 2.0%-4.0% target range in the remaining months of the year. Favourable base effects, persistent non-monetary intervention measures by the government and softening global commodity prices particularly crude oil are key factors sustaining the disinflation trend. Our full-year inflation forecast is at 3.5% for both 2024 (BSP est: 3.4%, 2023: 6.0%) and 2025 (BSP est: 3.1%).

Both the disinflation trend back to the mid-point target and the commencing of global monetary policy easing cycle will allow the BSP to further lower its interest rates in 4Q24 and beyond. In sync with our latest Fed outlook, we now anticipate BSP to deliver back-to-back rate cuts in 4Q24 with 25bps each in the two remaining MB meetings for the year on 17 Oct and 19 Dec (vs previous estimate of just one 25bps cut in 4Q24). After that, we continue to look for a total of 100bps cuts from the BSP in 2025 or a quarter-point cut in each quarter of 2025. This will bring the RRP rate to 5.75% by end-2024 and 4.75% by end-2025.

Regarding the reserve requirement ratio (RRR), BSP Governor Eli Remolona said on 18 Sep that the central bank is looking to cut banks' RRR substantially before year end and may reduce it further in 2025. The governor has previously signaled that he wants to reduce the RRR to 5.0% by the end of his term in 2029. Following this, BSP cut the RRR by 250bps to 7% today (20 Sep) and will take effect on 25 Oct.

CURRENCY

PHP's gains to slow

While the PHP has rebounded in the current quarter-to-date by 4.9% to 55.9 against the USD on 16 Sep, it still posted a modest 0.9% depreciation year-to-date. This was partly due to narrowing interest rate differentials after BSP cut its policy rates ahead of the US Fed in Aug.

In the coming 4Q24, we expect the PHP to consolidate its gains from 3Q24 as investors weigh risks such as China's bumpy economic rebound and uncertainties of the Nov US elections. In 2025, USD/PHP is likely to weaken anew again on broad-based USD weakness as the Fed's easing cycle goes into full swing. However, we note that the dovish slant from BSP and the country's twin deficits are expected to cap the appreciation pace of the PHP.

Overall, our updated USD/PHP is now at 55.8 in 4Q24, 55.3 in 1Q25, 54.8 in 2Q25 and 54.3 in 3Q25.

FX & Rates	4Q24F	1Q25F	2Q25F	3Q25F
USD/SGD	1.30	1.29	1.28	1.27
SGD 3M SORA (compounded)	3.06	2.58	2.39	2.19
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	3.8	1.1	2.9	3.2
Headline CPI (avg y/y %)	6.1	4.8	2.5	1.7
Unemployment Rate, eop (%)	2.0	2.0	2.0	2.2
Current Account (% of GDP)	18.0	19.8	19.9	19.9
Fiscal Balance, FY (% of GDP)	0.3	-0.5	0.1	0.3

ECONOMY

Externally-oriented sectors to lift sequential growth momentum in 4Q24

Singapore's 2Q24 GDP growth (2.9% y/y, 1Q24: 3.0%) continues to be underpinned by services (3.7% y/y, 1Q24: 4.3%) while the recovery in manufacturing (-1.0% y/y, 1Q24: -1.7%) remains challenging, likely owing to some degree of inventory digestion within electronics. Activity in the wholesale trade (3.9% y/y, 1Q24: 2.5%) and transportation & storage (5.4% y/y, 1Q24: 6.7%) sectors were supported by the ongoing upturn in the trade cycle while activity in the finance & insurance (6.7% y/y, 1Q24: 7.1%) sector was "underpinned by the banking and fund management segments which saw net commissions surge by double digits during the quarter". However, tourism-related services (accommodation, retail trade, F&B) experienced a noticeable slowdown as tailwinds from the post-pandemic pent-up demand for these services dissipate. On a seasonally-adjusted sequential basis, real GDP expanded by 0.4% q/q sa in both 1Q24 and 2Q24 and remains a tad below estimated trend growth of ~0.7% q/q sa.

Still elevated interest rates in the US/EU may temper the extent of improvement in externally-oriented sectors in the near-term although these sectors could stage a more meaningful recovery in 4Q24-1Q25 as major central banks such as the Fed and/or ECB continue to lower their respective benchmark interest rates, stimulating investment and consumption activity abroad. However, in the absence of further fiscal or monetary stimulus, external demand from China could weaken, weighed by sluggish home prices which continue to depress consumer sentiment in China. We maintain our 2024 GDP growth forecast of 2.9% and expect growth to be a tad stronger in 2025 at 3.2%.

Singapore's labour market remains fairly tight as evidenced by the uptick in the job vacancies to unemployed persons ratio to 1.67 in 2Q24 (1Q24: 1.56) while the overall unemployment rate eased further to 1.9% in Jul (Jun: 2.0%). Notably, total employment grew by 11.3k in 2Q24 (1Q24: 4.7k) driven entirely by the increase in non-resident employment (2Q24: 12.0k) in the construction and manufacturing sectors. The labour market report also noted that foreign-owned firms employ a disproportionately higher share of the resident workforce as well as residents in higher-paying jobs, even though they make up a much smaller proportion of firms in Singapore.

CENTRAL BANK

Expect MAS to reduce slope of S$NEER policy band "slightly" in the upcoming Oct 24 MPS

Singapore's core inflation momentum, on a 3M/3M SAAR basis, has softened to around 2011-2019 averages in Jul, with the y/y reading of 2.5% near desired levels on an ex-GST basis. The share of items in the CPI basket with >2.0% y/y increases has fallen (Jul: 49.1%, Jun: 50.9%, May: 52.8%), implying some easing in broad-based price pressures but remains sizeable due to the effects of GST. The still-tight labour market may imply some price stickiness in labour-intensive services components of the CPI basket such as healthcare, recreation & culture and food services. Overall, we project core inflation to average 3.0% in 2024, and to normalize further to 1.6% in 2025.

Domestic inflation amongst our key import partners (China, US, EU27, Malaysia and Taiwan) has softened since the peak in 3Q22 notwithstanding a slight recent uptick. With the bottoming out of imported inflation, it may still be necessary to maintain a gradual appreciation of the S$NEER to curb any potential flare up in externally induced price pressures. Our base case calls for a "slight" reduction (by 50bps) to the S$NEER slope in the upcoming Oct MPS as a first step to restore monetary policy neutrality, to be consistent with trend growth and y/y core inflation returning to near desired levels on an ex-GST basis where the cyclically-neutral path of the S$NEER is associated with a positive rate of appreciation.

CURRENCY

SGD to strengthen modestly

Tracking a broad-based Asia FX rally in 3Q24, the SGD touched 1.2883 /USD after the Fed rate cut, its strongest level in a decade. Similar to other Asian peers, the SGD appears overbought against the USD, especially in the backdrop where US election and China economic uncertainties may spur some near-term USD demand. This may prompt some consolidation of USD/SGD around 1.30 in 4Q24 before beginning a new trading range below 1.30 in 2025. Also, we reiterate our view that the MAS may normalise monetary policy in Oct, via a modest reduction in the appreciation pace of the SGD NEER from the current 2.0% p.a to 1.5%. As such, the SGD's outsized strength relative to other regional currencies may recede further in the coming quarters. Overall, our updated USD/SGD forecasts are at 1.30 for 4Q24, 1.29 for 1Q25, 1.28 for 2Q25 and 1.27 in 3Q25.

SOUTH KOREA

FX & Rates	4Q24F	1Q25F	2Q25F	3Q25F
USD/KRW	1,320	1,300	1,280	1,260
KRW Base Rate	3.00	2.75	2.50	2.50
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	2.7	1.4	2.4	2.0
CPI (avg y/y %)	5.1	3.6	2.5	2.0
Unemployment Rate (%)	3.0	3.2	2.8	3.0
Current Account (% of GDP)	1.4	1.9	4.0	3.5
Fiscal Balance (% of GDP)	-3.3	-0.6	-1.8	-1.0

ECONOMY

Growth slowed in 2Q24

South Korea's 2Q24 GDP came in at 2.3% y/y or -0.2% q/q SA, posting its first sequential contraction in 1 ½ years while growth slowed compared to year-ago period. The momentum remained strong in exports of goods and services (+1.2% q/q) but weakened for private consumption (-0.2% q/q) and gross fixed capital formation (-1.4% q/q). The decline in gross fixed capital formation was broad-based due to a slowdown in investment into construction, machineries, and IP products. Meanwhile, imports (+1.6% q/q) jumped due to higher imports of energy and petroleum products.

The year-on-year growth of 2.3% in 2Q24 was predominantly driven by net exports (+2.4 ppt), due in part to the low base of comparison. Private consumption (+0.4 ppt) and government spending (+0.4 ppt) were also positive, but gains were offset by the drags from inventories drawdown (-0.7 ppt) and a decline in gross fixed capital formation (-0.4 ppt).

Economic fundamentals have stayed strong but are expected to moderate ahead as the momentum in private consumption and investments softened. Growth will remain underpinned by exports which sustained its double-digit expansion in Aug, driven by strong demand for AI chips. In Jan-Aug, exports were up 10.0% y/y, led by 50.0% y/y surge in semiconductor shipments which accounted for a fifth of total exports. South Korea's manufacturing PMI was in its fourth straight month of expansion at 51.9 in Aug.

The labour market tightened and consumer sentiment remained positive in Aug. The unemployment rate fell to a record low of 2.4% in Aug with 1mn jobs added since Jan 2020 to bring total employment to 28.6mn. The recovery in the tourism sector has further strengthened with tourist arrivals in Jan-Jul at 92% of the level in the same period of 2019 but tourist receipts were only 75% of the level in the pre-pandemic period. The slowdown in China's economy remains a big drag on its services demand recovery. Meanwhile, the rebound in property prices and transactions were largely confined to the Seoul Metropolitan area where property prices rose 2.8% in 1H24 while it fell 0.9% in other areas. The renewed concerns over household debt growth led to the tightening of mortgage lending limits in the Seoul Metropolitan area starting from Sep.

Considering the lower-than-expected GDP growth of 2.8% y/y in 1H24, we revise down our forecast for 2024 growth to 2.4% from the previous estimate of 2.8%. This assumes growth further moderating to 2.1% in 3Q24 and 2.2% in 4Q24. We also lower the outlook for 2025 to 2.0% from 2.4% previously.

The headline inflation converged to the BOK's 2.0% target in Aug (Jul: 2.6%) as food and transport prices eased. Core inflation also edged down to 2.1% y/y (Jul: 2.2%). We expect headline inflation to average 2.1% for the rest of the year. For the full-year, our CPI growth forecast remains at 2.5% for 2024 and 2.0% for 2025.

CENTRAL BANK

BOK signals readiness for rate cut

The BOK kept its benchmark 7-day repo rate unchanged at 3.50% for the 13th straight meeting in Aug, the longest stretch on record that it had stayed on hold. However, Governor Rhee is explicit that the timing of the start of BOK's rate cut is likely in Oct or Nov when it holds its last two meetings for this year.

Despite the macroeconomic conditions for a rate cut becoming more evident, the BOK is proceeding cautiously in consideration of the financial stability. Governor Rhee continued to cite concerns that a rate cut could boost the property market and raise FX volatility. As global central banks begin to ease their monetary policy, the BOK should have less concerns even though a clear moderation in Seoul property prices may not yet come into sight. We maintain our forecast for two 25bps cuts in Oct and Nov respectively, bringing the benchmark interest rate to 3.00% by year end.

CURRENCY

KRW to consolidate in 4Q24

Alongside a broad-based rebound in Asia FX, the KRW rose over 4% to 1,316 /USD in 3Q24, paring year-to-date losses. Foreigners bought USD13 bn of Korean bonds, the largest quarterly inflows in over a year and have helped to underpin the KRW. The AI exuberance appeared to have simmered as an index of the Magnificent Seven technology megacaps failed to break new highs in 3Q24, keeping KRW gains in check.

In the coming 4Q24, the KRW may consolidate recent gains as global investors may adopt a wait-and-see attitude ahead of Nov US elections together with a dovish BOK which is set to begin its rate cut cycle in the quarter. In 2025, the KRW is likely to strengthen anew as the Fed's easing cycle progresses, though the appreciation pace may moderate. Overall, our latest USD/KRW forecasts are 1,320 in 4Q24, 1,300 in 1Q25, 1,280 in 2Q25 and 1,260 in 3Q25.

TAIWAN

FX & Rates	4Q24F	1Q25F	2Q25F	3Q25F
USD/TWD	31.8	31.3	30.9	30.5
TWD Official Discount Rate	2.00	2.00	2.00	2.00
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	2.6	1.3	4.0	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	13.9	13.8	13.6
Fiscal Balance (% of GDP)	0.3	-2.6	-2.0	-1.5

ECONOMY

Broad-based growth in 2Q24

Taiwan's GDP expanded by 5.06% y/y in 2Q24 and clocked its fifth straight quarter of sequential growth, by 0.29% q/q sa. While all components of the GDP registered robust growth compared to the same period last year, a stronger rebound in imports turned net exports negative for the first time in more than a year. On the other hand, inventory restocking and capital investment were the largest growth drivers in 2Q24. Private consumption was boosted by expenditures on services such as air passenger transport and outbound tourism as well as investments in the financial markets, as it rose for the 11th straight quarter. As such, the key contributions to the headline 2Q24 GDP growth rate came from inventories (+2.02 ppt), gross fixed capital formation (+1.71 ppt), private consumption (+1.36 ppt) and government consumption (0.26 ppt) while net exports (-0.29 ppt) were slightly negative.

Export and investment will continue to underpin Taiwan's economic expansion in coming quarters, driven by strong demand for artificial intelligence (AI) and other emerging technology applications. The manufacturing PMI has stayed in expansion for five straight months since Apr while export and export orders continue to be on a positive 3mma trend growth since bottoming in mid-2023. Shipments of information, communication and audio-video products jumped by 90% y/y in Jan-Aug period on the back of strong demand for AI. Meanwhile, Taiwan's exports to the US have surged since the pandemic, overtaking China to become its largest export market since the start of this year. Exports to the US rose 64.6% y/y in Jan-Aug compared to just 1.9% y/y to China as its economy slows.

Domestic demand is well supported by a robust manufacturing sector even though international arrivals slowed over the past few months. In Jan-Jul, total tourist arrivals only returned to 62% of the pre-pandemic level. Nonetheless, the economy continued to add jobs, driven by the services sector with the total unemployment rate falling to a record low of 3.34% in Jul. Private consumption is expected to receive some boost from the scheduled increase in minimum wage and public sector pay next year.

Taiwan's property market has continued to rally despite undergoing several rounds of selective credit control measures and reserve requirement ratios (RRR) hikes since the pandemic. Gains in the residential property price accelerated to 7.3% in 1H24 from 4.3% in 2H23, raising concerns about an overheated property market and the banking sector risks due to an overly high concentration of mortgage and construction loans. The CBC targets to get banks to reduce property lending to 35-36% of total loans from 37.5% at end-Aug.

Overall, the economy expanded by a robust 5.8% in 1H24 but growth will moderate sharply in 2H24 due to the higher base of comparison. We estimate 3Q24 and 4Q24 growth at 3.2% y/y and 1.4% y/y respectively while our growth forecast for the full-year stands at 4.0%. Given prospects remaining bright for AI chips demand into 2025 and strong investments to meet the demand, we have upgraded our projection for Taiwan's GDP growth to 3.0% in 2025 from 2.5% previously. The key risks for the economy continue to come from geopolitical developments including in the South China Sea and Middle East, intensifying trade tensions and weaker global demand.

The headline inflation has remained elevated at 2.36% y/y in Aug, but core inflation stayed muted at 1.80%, its lowest in seven months. Food, healthcare and electricity prices were the prime drivers of the headline inflation so far this year with Typhoon Gaemi having a significant impact on the prices of fruits. Nonetheless, the higher base of comparison will likely help headline CPI ease below 2% in 4Q24. We raise our CPI forecast slightly to 2.2% for 2024 (from 2.1%) and maintain our forecast for 2025 at 1.9% which would be the first time annual inflation is below 2% since 2021.

CENTRAL BANK

CBC on hold through at least 1H25

The domestic property market rally has been a major focus of the central bank's monetary policy. The CBC is not expected to raise its interest rate further as core inflation has eased and headline inflation is settling to its 2% threshold. The back-to-back hikes in banks' reserve requirement ratios (+25 ppt in Jun and Sep) signal CBC's concerns over the property market and a further increase cannot be ruled out. Considering the upbeat domestic growth and risks of overheating in the property market, we expect the CBC to be on an extended hold at 2.0% until at least 1H25. Thereafter, any subsequent rate cuts will likely be very gradual.

CURRENCY

TWD to catch up with rest of Asia FX

The TWD rose 1.7% in 3Q24 to 31.9 /USD as pricing of a start to the Fed's much anticipated easing cycle spurred broad-based USD weakness. The rebound saw the TWD reverse its prior quarter drop and narrowed year-to-date losses to 3.7%, though still the worst performing Asia currency this year.

Looking ahead, we see several favourable idiosyncrasies that may facilitate a catch-up play for the TWD. These include strong demand for Taiwan's exports, TWD acting as a proxy for global AI play and a hawkish CBC relative to the Fed and other Asian central banks. Overall, our updated USD/TWD forecasts are 31.8 in 4Q24, 31.3 in 1Q25, 30.9 in 2Q25 and 30.5 in 3Q25.

THAILAND

FX & Rates	4Q24F	1Q25F	2Q25F	3Q25F
USD/THB	33.2	32.8	32.4	32.1
THB 1D Repo	2.50	2.50	2.50	2.50
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	2.5	1.9	2.7	2.9
CPI (avg y/y %)	6.1	1.2	0.6	1.5
Unemployment Rate (%)	0.9	1.0	1.0	1.0
Current Account (% of GDP)	1.0	-0.1	2.5	3.0
Fiscal Balance (% of GDP)	-4.9	-3.7	-4.3	-4.5

ECONOMY

External demand to support a cyclical rebound

The Thai economy recorded a relatively strong pace of expansion in 2Q24, growing by 2.3% y/y from 1.6% y/y in the previous quarter. Key growth drivers were external demand, private consumption, and government spending. In 1H24, the Thai economy grew by 1.9% y/y. Nevertheless, based on the latest data in 2Q24, it portends a slower momentum ahead. As such, we slightly revised down our growth forecasts for 2024 to 2.7%, from 2.8%, and for 2025 to 2.9%, down from 3.1%.

The Thai economy is expected to continue to be driven by tourism and merchandise exports on the back of rising FDI inflows and consolidation in fiscal spending following a relatively smooth political transition in Aug 24. However, we anticipate a softening in private consumption and investment to extend in 2H2024. In 2Q24, private consumption decelerated sharply, growing by 3.9% y/y, down from 6.9% y/y in the previous quarter, while private investment contracted by -6.8% y/y, compared to a 4.6% y/y expansion in 1Q24. This slowdown reflects both cyclical and structural challenges, including a decline in credit growth, tightened lending standards, household debt overhang in the context of fragile confidence among consumers and businesses, and an uneven economic recovery.

Despite the anticipated cyclical recovery, there are downside risks on the horizon. Primary concerns include (1) private consumption and household wealth may fall short due to high levels of debt, slow income recovery, and a rapid decline in asset prices; (2) exports and private investment may not rebound as strongly as anticipated; (3) unforeseen political disruptions that could disrupt macroeconomic management; and (4) softer-than-expected global demand exacerbated by geopolitical uncertainties.

Inflationary pressure is on track to stay muted amid a gradual economic rebound and an expected favorable supply of raw food and agricultural products. As a result, we have revised our inflation projection to an average of 0.6% in 2024, down from 1.3%, before rising at an average pace of 1.5% in 2025 from the previously projected 1.9%. While last year's low base effect may technically lift the headline inflation rate into the BOT's target range of 1.0%-3.0% by 4Q24, downside risks to the inflation outlook are rising, mainly due to the new government's announced energy and electricity subsidies, along with other measures aimed to reduce living costs.

The external sector is fundamentally sound. A gradual recovery in the trade surplus, coupled with a robust rebound in services exports (tourism sector), is expected to drive the current account to an average surplus of 2% to 2.5% in the medium term. Additionally, the anticipated policy pivot by the Federal Reserve could help slow or potentially reverse portfolio investment outflows.

CENTRAL BANK

Remain restrictive for as long as needed

Since the beginning of the year, the BOT has held the policy rate steady at 2.50%, aiming to contain household debts and support the ongoing debt deleveraging. According to recent policy communications, the BOT continued to signal that the current policy rate of 2.50% remained in line with its growth and inflation forecasts and was appropriate for maintaining financial stability. Consequently, based on its projected economic outlook, we expect the BOT to keep the policy rate unchanged for the remainder of 2024 and into 2025.

However, pressure on the BOT to ease policy in support of near-term growth is mounting. During its Aug meeting, the MPC already expressed concerns about the negative feedback loop between restrictive financial conditions and real economic activity. As a result, despite the BOT's hawkish tone, we believe that the likelihood of a policy rate cut has increased, with a potential adjustment at the 18 Dec meeting as the external environment becomes more favorable for easing policy.

CURRENCY

THB to consolidate recent gains in 4Q24

The THB was the best-performing Asia EM currency in 3Q24, gaining close to 10% to 33.20 /USD, the biggest rebound since 1998. Strong portfolio inflows drove the currency outperformance, just as foreign investors bought close to USD 2 bn of Thai government bonds in 3Q24, the largest quarterly inflow since 4Q22. While we remain bearish on USD/THB over the longer term as the Fed's rate cycle progresses, the THB – which is in overbought territory - may likely consolidate its recent strong gains in the coming quarter (4Q24). US election uncertainties could also render support to the USD/THB in the interim. Our updated USD/THB forecasts are 33.2 in 4Q24, 32.8 in 1Q25, 32.4 in 2Q25 and 32.1 in 3Q25.

VIETNAM

FX & Rates	4Q24F	1Q25F	2Q25F	3Q25F
USD/VND	24,500	24,300	24,100	23,900
VND Refinancing Rate	4.50	4.50	4.50	4.50
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	8.0	5.0	5.9	6.6
CPI (avg y/y %)	3.2	3.3	4.0	4.4
Current Account (% of GDP)	0.3	1.0	1.0	1.2
Fiscal Balance (% of GDP)	-4.5	-3.0	-2.6	-2.5

ECONOMY

Growth momentum impacted by severe weather conditions

Typhoon Yagi, a Cat 5-equivalent super typhoon, struck Asia from 31 Aug to 8 Sep. In Vietnam, it has caused damages worth VND40 tn (USD1.63 bn) in northern localities and is estimated to reduce Vietnam's 2024 GDP by 0.15% points, according to officials. Minister of Planning and Investment, Nguyen Chi Dung, said that the typhoon had affected 26 localities, which accounted for 41% of the country's GDP and 40% of its population.

Typhoon Yagi has resulted in more than 8 deaths and 2,100 injuries across Asia with total damages estimated to exceed USD14 bn, making it one of the costliest typhoons in history.

Prior to the typhoon, Vietnam's data up to Aug indicated strong growth momentum. Vietnam's purchasing managers' index (PMI) has outperformed its ASEAN neighbours since Jun 2024. Manufacturing output registered four consecutive months of double-digit y/y growth between May to Aug. Exports posted double-digit y/y gains in 7 out of 8 months this year, with trade surplus at USD18.5 bn YTD that was looking to exceed or at least match the record trade surplus of USD28.4 bn in 2023. Retail sales have maintained an average monthly growth pace of 8.8% y/y YTD, despite a high base in 2023.

Foreign direct investments (FDI) data continued to reflect foreign investors' optimism. YTD realized FDI inflows rose 8% to USD14.2 bn, and if the momentum persists, full year inflows are likely to hit above USD20 bn for the third straight year (2023: USD23.2 bn). FDI pipeline is robust as well, with registered FDI inflows at USD20.5 bn YTD to Aug (7% higher than the USD19.2 bn recorded in the same period in 2023), with nearly 70% earmarked for the manufacturing sector. YTD, about 33% of the registered FDI came from Singapore, followed by Japan (12%).

As for the growth outlook for 2024, the setback and disruptions from Typhoon Yagi will be felt more acutely in late 3Q24 and early 4Q24 in northern regions of the country. The impact will manifest in lost output and damaged facilities from manufacturing, agricultural and various services segments. Nevertheless, aside from these temporary interruptions, long-term fundamentals remain sound.

Although Vietnam experienced a growth surge of 6.93% in 2Q24, the fastest pace in nearly 2 years, this momentum is unlikely to continue into the second half of 2024. After taking into account the disruptions from Typhoon Yagi, reconstruction efforts, and higher base in 2H23, we are lowering our growth forecasts for Vietnam. For 3Q24, we project a slower growth rate of 5.7% (down from 6.0% previously), and for 4Q24 at 5.2% (down from 5.4%). Consequently, our full year growth forecast for 2024 is lowered to 5.9% (about 0.1% pt down from previous forecast of 6%). This is still a meaningful rebound from the 5% growth in 2023. GDP growth forecast for 2025 is adjusted up by ~0.2% pt to 6.6%, to reflect an expected ramp up in output to compensate for the earlier losses.

CENTRAL BANK

SBV to keep policy rates steady through 2024

Despite the impact from typhoon and a notable rebound in VND exchange rate since Jul, we continue to expect SBV to maintain its key policy rates for the rest of 2024, with an eye on upside risks on price pressures. Overall CPI rose by 4% y/y in Aug YTD, just slightly below the 4.5% target. Upward pressures on prices may be more intense following the disruptions to agricultural output, as food accounts for 34% of CPI weight. The SBV is likely to adopt a more targeted approach to support impacted individuals and businesses in their regions, rather than implementing a broad, nationwide tool such as interest rate cuts. Consequently, we anticipate SBV maintaining its refinancing rate at the current 4.50% while focusing on facilitating loans growth and other support measures. However, the bumper 50bps interest rate cut announced by the US Federal Reserve at its Sep meeting may increase the likelihood (and pressures) on SBV to consider similar policy easing.

CURRENCY

VND rebounded from record low in 3Q24

Tracing the moves in regional peers, VND posted the largest quarterly gain on record dating back to 1993, rebounding 3.2% to 24,630 /USD. External headwind of a strong USD is starting to recede as the Fed began its much-awaited easing cycle while internal factors point to a further stabilisation of the VND. Notwithstanding the typhoon set back, Vietnam's strong projected growth momentum, driven by both manufacturing and trade, also look set to extend into 2025. Expectations of stable monetary policy from the SBV with focus on boosting credit growth is supportive of the VND as well. That said, further VND gains from here are unlikely to proceed at the same pace as that of 3Q24. Overall, our updated USD/VND forecasts are 24,500 in 4Q24, 24,300 in 1Q25, 24,100 in 2Q25 and 23,900 in 3Q25.

AUSTRALIA

FX & Rates	4Q24F	1Q25F	2Q25F	3Q25F
AUD/USD	0.68	0.69	0.70	0.71
AUD Official Cash Rate	4.00	3.75	3.50	3.25
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	3.9	2.1	1.2	2.1
CPI (avg y/y %)	6.6	5.6	3.4	2.8
Unemployment Rate (%)	3.7	3.7	4.2	4.5
Current Account (% of GDP)	0.9	0.3	0.2	0.1
Fiscal Balance, FY (% of GDP)	-1.8	-0.8	-0.4	-1.0

ECONOMY

Growth to remain sluggish

GDP only rose 0.2% q/q in 2Q24. The growth pace in 1Q24 was revised higher to 0.2% q/q from 0.1% q/q previously. This was in line with the RBA's forecast of 0.2% in its Statement on Monetary Policy in Aug. Notably, the Australian economy grew for the eleventh consecutive quarter, although growth slowed over the 2023-24 financial year. From a year earlier, 2Q24 GDP rose 1.0%, the weakest pace of growth since 1991, outside of the early pandemic period.

The unemployment rate remained steady in Aug at 4.2%. The number of employed people grew by 47,500 and the number of unemployed people declined by 10,500. The participation rate remained at a record-high of 67.1%. The employment-to-population ratio went up slightly to 64.3%. Overall, both the labour force data and the wage price index show that the jobs market continues to gradually cool but remains healthy. We see the unemployment rate gradually drifting higher to around 4.5% and stay there through 2025.

2Q24 CPI figures confirmed that the moderation in inflation slowed over 1H24 with the easy gains from recovering supply chains fading and services inflation remaining higher. Headline CPI growth came in at 1.0% q/q in 2Q24, in line with expectations, and similar to the reading in 1Q24. The most significant contributors to the quarterly reading were housing (+1.1% q/q) and food & non-alcoholic beverages (+1.2% q/q). The annual pace of inflation rose to 3.9% in 2Q24 (from 3.6% in 1Q24), in line with consensus.

Core inflation eased in 2Q24, with the trimmed mean CPI growth decelerating to 0.8% q/q from 1.0% in 1Q24. The closely watched annual pace fell back to 3.9% (from 4.0% in 1Q24), below expectations. This is the sixth quarter in a row of lower annual trimmed mean inflation, down from the peak of 6.8% back in 4Q22. Still, underlying inflation has now been above the midpoint of the 2%-3% target for 11 consecutive quarters and has fallen very little over the past year.

A key uncertainty will be how households in Australia will respond to income tax cuts and energy rebates on power bills that kicked in on 1 Jul. RBA Governor Michele Bullock recently said that she did not anticipate that they will have a material impact on the RBA's inflation forecasts. Overall, our outlook for economic growth is broadly unchanged. GDP is expected to remain well below trend this year at 1.2% but to improve to around 2.1% over 2025. Inflation should continue to moderate towards the mid-point of the RBA's target range through 2025 and 2026, though the path will likely be uneven.

CENTRAL BANK

RBA trailing global peers in cutting interest rates

The RBA decided to leave its cash rate target unchanged at 4.35% in Aug, for a sixth straight meeting. It also kept the interest rate paid on Exchange Settlement balances unchanged at 4.25%. In the accompanying press release, the RBA emphasized "the need to remain vigilant to upside risks to inflation and the Board is not ruling anything in or out", adding that "inflation has fallen substantially since its peak in 2022, as higher interest rates have been working to bring aggregate demand and supply closer towards balance. But inflation is still some way above the midpoint of the 2–3 per cent target range…the latest numbers also demonstrate that inflation is proving persistent".

The RBA also released its quarterly update of economic forecasts via the Aug Statement on Monetary Policy (SMP). The RBA expects underlying inflation to be higher than previously estimated at 3.5% by the end of this year, and then hitting 3.1% in mid-2025. It is forecast to reach the RBA's 2%-3% target band at the end of 2025. The RBA upgraded its economic growth forecasts to 1.7% by year-end, from 1.6% previously, and expect it to peak at 2.6% in Jun 2025, up from 2.1% seen previously.

While it is not our base case for the RBA to hike rates; a combination of sluggish growth and slow progress on inflation will likely mean the RBA will have to stay on a "higher for longer" gear. We are penciling the first rate cut in Nov, though this remains highly data dependent and there is increasing risk of a push back in timing.

CURRENCY

AUD underperformed within G-10

Commodity currencies such as the AUD were amongst laggards in the G-10 FX space, with the AUD/USD only inching up about 1% during 3Q24 to 0.6760. Commodity prices (proxied by S&P GSCI index) which have fallen to 3-year lows and a faltering Chinese economic recovery weighed on AUD/USD, overshadowing the positive spillover from a hawkish RBA compared to its G-10 peers. In the near term, lingering China-related and US election uncertainties are likely to cap AUD/USD at its key 0.69 resistance. Overall, our updated AUD/USD forecasts are at 0.68 in 4Q24, 0.69 in 1Q25, 0.70 in 2Q25 and 0.71 in 3Q25.

EUROZONE

FX & Rates	4Q24F	1Q25F	2Q25F	3Q25F
EUR/USD	1.13	1.15	1.16	1.17
EUR Refinancing Rate	3.40	3.15	2.90	2.65
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	3.3	0.4	0.8	1.3
CPI (avg y/y %)	8.4	5.5	2.4	2.1
Unemployment Rate (%)	6.7	6.6	6.5	6.5
Current Account (% of GDP)	-0.3	1.6	2.5	2.5
Fiscal Balance, FY (% of GDP)	-3.7	-3.6	-3.0	-2.7

ECONOMY

Stumbling momentum as Germany

Growth momentum for the Eurozone economy slowed in 2Q24. GDP rose by 0.2% q/q, down from the 0.3% gain in 1Q24. Compared with the same quarter of the previous year, GDP increased by 0.6%. While trade and government spending supported the economy, investment continued to weigh. Private consumption also failed to take off in the period despite lower inflation, rising incomes and a resilient labour market. Employment grew again in 2Q24, though the pace slowed to 0.2% from 0.3%.

The region's private sector economy expanded at its strongest pace since May during Aug, driven by a quicker upturn in services activity. Although this marked a sixth successive month of growth – the longest sequence in over two years – underlying survey data nevertheless highlighted economic fragility across the Eurozone as new orders, employment and business confidence deteriorated. Going forward, we anticipate slower growth as Europe's largest economy – Germany – struggles with both cyclical and structural headwinds. Overall, we expect the Eurozone economy to grow by 0.8% this year.

Meanwhile, inflation has fallen further, dropping to 2.2% in Aug, its lowest level in three years and close to the European Central Bank (ECB)'s 2% target. Wage growth, keenly watched by ECB officials, also eased in the second quarter. Rises in compensation per employee, a comprehensive measure of workers' pay, eased to 4.3% in 2Q24 from 4.8% in 1Q24.

Just like growth, inflation dynamics are quite different across Eurozone countries, making the ECB's task quite challenging. Even though differences in inflation rates are already much lower than during the peak of inflation at the end of 2022, considerable differences still exist. In Belgium, prices are still increasing by 5.5%, whereas in Finland, inflation has receded to 0.6% already. These differences are not only due to differences in energy component, as core inflation rates vary between 4.9% (Estonia) and 1.7% (Finland). Overall, we see headline inflation continuing to ease towards the ECB's target of 2%. Core and services inflation should also decline, but more slowly, remaining above 2%.

CENTRAL BANK

ECB cuts again

As widely expected, the ECB slashed interest rates in Sep, lowering borrowing rates for the second time in recent months. The key deposit rate was cut by 25bps to 3.50%. As announced on 13 Mar 2024, some changes to the operational framework for implementing monetary policy will take effect from 18 Sep. In particular, the spread between the interest rate on the main refinancing operations and the deposit facility rate will be set at 15bps. The spread between the rate on the marginal lending facility and the rate on the main refinancing operations will remain unchanged at 25bps.

In supporting its latest decision, the ECB stated that "based on the Governing Council's updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission, it is now appropriate to take another step in moderating the degree of monetary policy restriction". At the press conference, ECB President Christine Lagarde emphasised the need for data dependence. However, she laid the groundwork for further easing in the year by highlighting that the future direction on rates is "pretty obvious".

The inflation outlook painted by the Sep forecasts of the ECB's staff economists was largely unchanged from the Jun projections, despite some tweaks. The headline figures for 2024 of 2.5%, 2025 of 2.2% and 2026 of 1.9% were the same as three months ago. The core figures for 2024 and 2025 were both revised up 0.1ppt to 2.9% and 2.3%, respectively, reflecting the higher-than-expected rates of services inflation that have recently been registered. However, the figure for 2026 was unchanged at 2.0%. The forecasts for GDP growth were lowered by 0.1 ppt for every year of the forecast horizon. They stand at 0.8% for 2024, 1.3% for 2025 and 1.5% for 2026. The unchanged core inflation at the end of the horizon suggests that the downward revisions to growth reflect a modestly more pessimistic view of potential output growth rather than cyclical weakness.

Our view is that the ECB will cut by another 25 bps in Dec. By then, it will likely be in a stronger position to move again after another quarter of data on negotiated wages and actual pay increases, as well as more inflation readings. In addition, it will also have fresh forecasts from the ECB's staff economists then. The next monetary policy meeting will be held on 17 Oct.

CURRENCY

EUR/USD trades in new range above 1.10

EUR has turned positive against the USD year-to-date after a strong rally in the 3Q24. The strong rebound in EUR/USD was underpinned by a strong jump in EU-US rate differentials and investors' positioning. Going forth, relative monetary policies between the Fed and ECB continues to underpin our positive view on EUR/USD. There is a risk that more Fed rate cuts may be priced in along the way if the US job market slowdown becomes more severe than expected. Our updated EUR/USD forecasts are 1.13 in 4Q24, 1.15 in 1Q25, 1.16 in 2Q25 and 1.17 in 3Q25.

NEW ZEALAND

FX & Rates	4Q24F	1Q25F	2Q25F	3Q25F
NZD/USD	0.62	0.63	0.64	0.65
NZD Official Cash Rate	4.75	4.50	4.25	4.00
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	2.4	0.7	0.6	2.1
CPI (avg y/y %)	7.2	5.8	3.1	2.2
Unemployment Rate (%)	3.3	3.7	4.7	5.3
Current Account (% of GDP)	-8.3	-7.9	-6.3	-5.2
Fiscal Balance, FY (% of GDP)	-2.8	-2.9	-2.5	-2.4

ECONOMY

In fragile state as GDP shrinks again

GDP contracted by 0.2% q/q in 2Q24, though slightly lesser than the consensus forecast for a 0.4% contraction. The RBNZ had forecast a larger decline of 0.5% from 1Q24. This marks the third retreat in the past four quarters and the fifth in seven quarters. From a year ago, GDP contracted 0.5% in 2Q24. Revisions to previous quarters have removed the "double dip" recession in 2H23, but the overall fragile picture remains unchanged, with the economy gradually shrinking over the past seven quarters.

CPI rose 0.4% q/q in 2Q24, a tad lower than the 0.6% q/q reading in 1Q24, and below expectations for a reading of 0.5% q/q. Compared to the same period a year ago, CPI growth eased to 3.3% y/y, from the 4.0% y/y in 1Q24, and just slightly below expectations for a reading of 0.5% y/y. 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 0.9% q/q from 1.6% q/q in 1Q24. Compared to the same period a year ago, non-tradable inflation came in at 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. We do bear in mind, though, that Stats NZ has reassessed how it calculates road-user charges, and a correction has been made in this quarter following previous under-reporting. Hence, this could have resulted in a one-off lower print.

Tradeable CPI fell 0.5% q/q (1Q24: -0.7% q/q). Compared to the same period a year ago, tradable inflation came in at 0.3% y/y, compared with 1.6% y/y previously, driven by higher prices for petrol, accommodation services, and grocery food. The reading was, however, partly offset by lower prices for fruits and vegetables, and passenger transport services. While these volatile components contributed to the weakness, the impact of weak consumer demand is becoming increasingly evident.

Despite interest rates heading lower, there are still risks to the disinflation trajectory and there is still plenty of uncertainty about the timing and pace of economic recovery. At this juncture, we are inclined to revise lower our 2024 GDP growth forecast to 0.6% (from 0.9% previously).

CENTRAL BANK

RBNZ brings forward its easing cycle

The RBNZ decided to reduce the official cash rate (OCR) by 25 bps to 5.25% in Aug, embarking on an easing cycle much sooner than expected, almost a year ahead of the RBNZ's own projections. The OCR had been sitting at a 14-year-high of 5.50% since May 2023, after rising steadily from a record low of 0.25% in Oct 2021.

In the release of the Aug Monetary Policy Statement, the RBNZ's updated forecasts reveal a big drop in the forward track for the OCR compared with its May projections. They show the average OCR at 4.62% early next year and at 3.85% by the end of 2025. The RBNZ's growth forecasts have been revised down significantly, incorporating negative growth in both 2Q24 and 3Q24. It now sees inflation dropping to 2.3% in the current quarter but will not return to the 2% midpoint until mid-2026.

The RBNZ has been 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. Perhaps it is also because the RBNZ has fewer policy meetings in a year than other global central banks and is the only G10 country that publishes quarterly inflation and jobs market figures, instead of monthly. Hence, it should not be surprising to see the RBNZ frontloading its monetary policy easing when domestic and external growth outlook deteriorate.

Note that the CPI and employment figures for 3Q24 will not be available before the next RBNZ monetary policy meeting on 9 Oct. Still, other second tier data will provide some clues about inflationary developments going forward. Given how a faster-than-expected contraction in the economy has shifted the balance of risks, we now expect the RBNZ to continue cutting the OCR steadily by 25 bps in every meeting for the rest of this year to bring the OCR to 4.75% by year-end. Nevertheless, we do caution that the monetary policy path is unlikely to be smooth, and incoming economic data will ultimately be the driving factor.

CURRENCY

Scope for further gains

NZD rebounded by 2% in the third quarter to date to 0.6210 against the USD, though the gain was modest compared to other G-10 peers. Soft commodity prices, together with an unexpected RBNZ rate cut in Aug, probably capped gains in NZD.

Going forth, we still factor in further gains in the NZD/USD as the Fed's easing cycle exerts further pressure on the USD. Our updated NZD/USD forecasts are 0.62 in 4Q24, 0.63 in 1Q25, 0.64 in 2Q25 and 0.65 in 3Q25.

UNITED KINGDOM

FX & Rates	4Q24F	1Q25F	2Q25F	3Q25F
GBP/USD	1.34	1.36	1.38	1.40
GBP Repo Rate	4.75	4.50	4.25	4.00
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	4.5	0.1	1.1	1.4
CPI (avg y/y %)	9.1	7.4	2.6	2.3
Unemployment Rate (%)	3.9	4.0	4.3	4.4
Current Account (% of GDP)	-3.1	-3.3	-3.0	-2.8
Fiscal Balance, FY (% of GDP)	-4.4	-5.0	-3.6	-3.2

ECONOMY

All eyes on Autumn Statement on 30 Oct

The UK economy continued to rebound tentatively from a recession. GDP grew by 0.6% q/q in 2Q24, after rising by 0.7% q/q in 1Q24. This was in line with consensus expectations, but a tad lower than the BOE's forecast for a 0.7% gain. On an annual basis, GDP grew by 0.9%, up from a previous reading of 0.3% y/y in 1Q24. That said, the anticipated post-election bounce back in the UK economy failed to materialise as activity flatlined in Jul for a second month. GDP showed zero growth in the reported month compared to Jun, when output also flattened. Of the three main sectors of the economy, only one – services – recorded any growth in July, expanding by 0.1%. Production, which includes manufacturing, contracted by 0.8%, while there was a 0.4% drop in construction output. Going forward, the pace of growth is unlikely to sustain into the second half of this year, amid weaker wage growth, high interest rates and supply challenges. Our full-year GDP forecast for 2024 is at 1.1%, up from 0.1% in 2023.

As for inflation, headline CPI held steady at 2.2% y/y in Aug, in line with consensus expectation. The BOE had expected a 2.4% print in its Aug forecast. Gasoline prices fell but this was offset by an increase in air fares. On a m/m basis, headline inflation rose by 0.3%, up from -0.2% in Jul and in line with the market estimate. Core CPI, however, showed a significant increase. Core inflation rose to 3.6% y/y, up from 3.3% and above the market estimate of 3.5%. On a m/m basis, the core rate climbed 0.4%, up from an upwardly revised 0.1% in Jul and matching the market estimate.

Services sector inflation, an indicator of domestic price pressures and to which the BOE closely watches, jumped to 5.6% in Aug from 5.2% in Jul. One factor behind the rise was a 22.2% jump in airfares between Jul and Aug. Fares usually rise between the two months, but the statistics office said the jump was the second largest since records began in 2001. Going forward, inflation is expected to tick higher again in the second half of this year, with household energy bills rising again in Oct; though prices are not forecast to rise as steeply as they did in 2022 and 2023, which prompted the BOE to raise interest rates to 5.25%. Our 2024 inflation forecast is at 2.6%.

CENTRAL BANK

BOE to cut again later this year

The BOE decided to maintain its Bank Rate at 5.00% in Sep, as widely expected. The BOE also voted unanimously to reduce the stock of UK government bond purchases held for monetary policy purposes, and financed by the issuance of central bank reserves, by GBP100bn over the next 12 months, to a total of GBP558bn.

The 8-1 vote split (Swati Dhingra continuing to call for a 25bps rate cut) was marginally more hawkish than expected, but yet, not surprising. Following the very narrow 4-5 vote in Aug (when the Bank lowered its Bank Rate for the first time since 2020; with BOE Chief Economist Huw Pill preferring no change), the bar for a back-to-back cut was high.

There were no significant changes to the accompanying Monetary Policy Summary and Minutes, although the following line was added to the guidance from Aug: "*In the absence of material developments, a gradual approach to removing policy restraint remains appropriate*". By promising a "gradual approach", the BOE made it abundantly clear that it is not in any hurry to lower rates. This was reiterated by BOE Governor Andrew Bailey's opening remarks to the subsequent press conference. He used almost identical language saying that "*we need to be careful not to cut too fast or by too much*".

Note that there is no rate decision in Oct, but all eyes will be on the first Labour Budget on 30 Oct. The new Labour government has said that it needs to plug a GBP22bn hole in the public finances and has indicated that it may have to raise taxes and lower spending, which would likely weigh on the near-term outlook for the economy and put downward pressure on inflation.

Since the 25bps rate cut in Aug, the two CPI inflation as well as two jobs/wage reports have evolved relatively in line with the BOE's projections published in Aug. In fact, by the next monetary policy meeting on 7 Nov, we think there should be stronger evidence that upside inflation pressures have not materialised and policy needs to become less restrictive. As such, our base case continues to be that the BOE will cut interest rates again by 25bps at the next monetary policy meeting on 7 Nov and maintain a quarterly pace through 2025.

CURRENCY

GBP finding comfort above 1.30

GBP was the best performing G-10 currency year-to-date (+4% vs USD) after jumping close to 5% in 3Q24. The strong turnabout in GBP/USD was underpinned by a jump in UK-US rate differentials and GBP/USD positioning which rose to the biggest net long position since 2007.

Going forth, as we deem Fed rate expectations to be more vulnerable to further dovish repricing compared to the BOE, we maintain our positive view on GBP/USD. Our updated GBP/USD forecasts are 1.34 in 4Q24, 1.36 in 1Q25, 1.38 in 2Q25 and 1.40 in 3Q25.

UNITED STATES

FX & Rates	4Q24F	1Q25F	2Q25F	3Q25F
DXY	99.8	98.2	97.2	96.2
US Fed Funds Rate	4.50	4.25	4.00	3.75
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	1.9	2.5	2.3	1.8
CPI (avg y/y %)	8.0	4.1	2.9	2.0
Unemployment Rate (%)	3.5	3.7	4.3	4..3
Current Account (% of GDP)	-3.8	-3.3	-3.5	-2.3
Fiscal Balance, FY (% of GDP)	-5.3	-6.2	-6.0	-5.5

ECONOMY

Slowing but not crashing

The US economy re-accelerated in 2Q with a revised pace of 3.0% q/q SAAR (versus prelim est 2.8%), from 1.4% in 1Q, on stronger private consumption (2.9%, 2.0ppts of 3.0%). Business spending (4.5%, 0.6ppt), government expenditure (2.7%, 0.5ppt) and private inventories (0.8ppt) also supported growth, offsetting back-to-back declines in net exports of goods & services (-0.8 ppt in 2Q, -0.7ppt in 1Q), and residential investments (-2.0%, -0.1ppt). Compared to one year ago, GDP grew by 3.1% y/y in 2Q, from 2.9% in 1Q.

Going forward, we still believe US economic growth is likely to turn lower in 2H-2024 as the lagged effects of US monetary policy tightening and tighter financial/credit conditions take a more significant grip. For US households, the shrinking excess savings, tighter lending standards and elevated services cost (including housing) imply US consumers spending will come under pressure. The manufacturing sector recovery continued to waver as the ISM manufacturing index contracted in Aug (47.2) after touching 2024's low of 46.8 in Jul, as weak demand conditions kept the sector in contraction territory. Meanwhile, services – which makes up 78% of US GDP and a pillar of strength for the economy - saw the services ISM staying in expansion (Aug:51.5, Jul: 51.4) after a brief dip to 48.8 in Jun, countering concerns about a more dire US economic slowdown given the sector's importance. Growth in 3Q is tracking at 2.0-2.5% (GDPNow is projecting 3Q GDP at 2.9% as of 19 Sep) and we expect the US growth slowdown to be more apparent in 4Q 2024 with a soft landing remaining our base case, implying no deep recession or any outright contraction of annual GDP. As 1H 2024 GDP growth was much stronger than our earlier projections and with the risk of a technical recession now pushed back further to 4Q 24-1Q 25, we revise our US growth forecast higher to 2.3% for 2024 (previous: 1.2%; 2023: 2.5%) before moderating to 1.8% for 2025.

Headline CPI was in line with expectations in Aug, rising by a slower 0.2% m/m, 2.5% y/y (Jul: 0.2% m/m, 2.9% y/y). However, core CPI re-accelerated as it rose by 0.3% m/m (from 0.2% m/m in Jul) due to higher housing and several services items while on y/y basis, it stayed elevated at 3.2%. Shelter costs was the key factor driving inflation as it rose in Aug at the fastest m/m pace since start of 2024, while core services (ex-shelter) inflation also accelerated to 0.3% m/m in Aug (Jul:0.2%), for the second month in a row. We still expect headline CPI inflation to ease and average lower in 2024 (compared to the 4.1% recorded in 2023), but it is now likely to be higher at 2.9% (previous forecast: 2.5%). And while core inflation may also ease, it is now likely to average 3.3% in 2024. It is a significant moderation from the 4.8% average in 2023 but remains well above the Fed's 2% objective. We still anticipate headline and core inflation to cool further (partly due to base effects), and resumption of easing accommodation costs, although we remain wary about upside price risks, especially reaccelerating wage growth pressures adding to services inflation and renewed external supply chain/commodity/energy risk factors may inhibit the pace of US CPI descent.

The Aug employment report was slightly disappointing but did not point to a dire outlook to the US labor market. Job creation was below expectations at 142,000, clearly on a moderating trend and a narrowing base of job creation but more damaging was the sharp downward revision to Jun/Jul numbers. Unemployment rate eased to 4.2% (Jul:4.3%) while wage growth reaccelerated above forecast to 0.4% m/m, 3.8% y/y in Aug, so wage-price inflation worries may not be over yet. We still expect jobless rate to head to 4.3% by end-2024, and peak to 4.8% by mid-2025 before easing off back to 4.3% by end-2025.

Domestic politics will be in focus in 4Q as we approach the US presidential election in Nov. The probability of Donald Trump returning as President remains material even as it is still seen as a tight race against VP Harris. Several policies that Trump is campaigning on (including extended tax cuts, higher tariffs, and tighter immigration) are seen as inflationary while his rhetoric of the president having a say in monetary policy threatens Fed's independence if he becomes president. In comparison, Harris' policies are seen as an extension of Biden's and is like to continue targeted tariffs and other measures towards China. Both candidates have not discussed much about the worsening of US fiscal outlook, which will be a threat to US Treasury and USD when Federal debt balloons from the current US$28 trillion.

CENTRAL BANK

Following the dots in the latest Dotplot

The Fed in its 17/18 Sep 2024 Federal Open Market Committee (FOMC) meeting, decided to reduce the target range of its Fed Funds Target Rate (FFTR) by 50-bps to a range of 4.75%-5.00%. This was a deeper cut than our expectations (of -25bps) and marked the "good strong start" to the rate cut cycle, according to FOMC Chair Powell. He added that the 50-bps cut was a sign of Fed's "commitment not to get behind the curve" in normalizing rates but warned it should not be viewed as a new pace, and that there is no preset path the Fed is following. Powell also guided that the Fed forecasts while not a plan, nonetheless provide "a good starting point for where policymakers see things are going right now." Taking guidance from the Sep Dotplot, we now expect the Fed to continue the rate cut cycle in the remaining meetings of 2024, with 50-bps cuts for the remainder of 2024 (i.e. two 25-bps cuts, one each in Nov 24 and Dec 24 FOMC). We maintain the expectations of 100 bps of cuts in 2025 (one 25-bps cuts per quarter).

FX TECHNICALS

USD/SGD: 1.2950

USD/SGD weakness appears to be continuing; slowing momentum and oversold conditions suggest any further weakness is likely to be at a gradual pace and could be relatively limited.

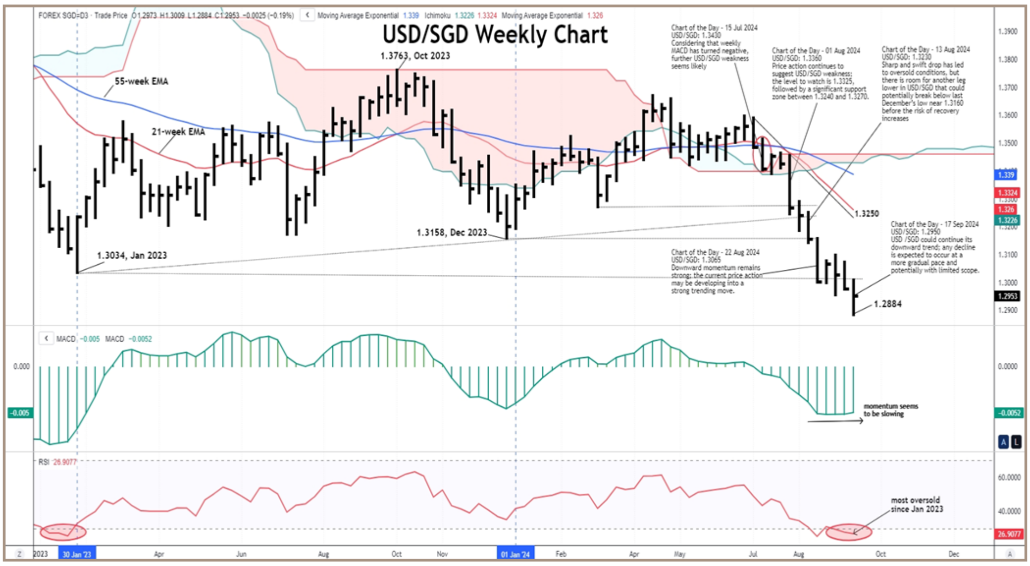


Chart of the Day - 15 Jul 2024
USD/SGD: 1.3430
Considering that weekly MACD has turned negative, further USD/SGD weakness seems likely

Chart of the Day - 01 Aug 2024
USD/SGD: 1.3360
Price action continues to suggest USD/SGD weakness; the level to watch is 1.3325, followed by a significant support zone between 1.3240 and 1.3270.

Chart of the Day - 13 Aug 2024
USD/SGD: 1.3230
Sharp and swift drop has led to oversold conditions, but there is room for another leg lower in USD/SGD that could potentially break below last December's low near 1.3160 before the risk of recovery increases

Chart of the Day - 22 Aug 2024
USD/SGD: 1.3065
Downward momentum remains strong; the current price action may be developing into a strong trending move.

Chart of the Day - 17 Sep 2024
USD/SGD: 1.2950
USD /SGD could continue its downward trend; any decline is expected to occur at a more gradual pace and potentially with limited scope.

The USD/SGD weakness that began in mid-July appears to be continuing, but downward momentum seems to be slowing. In other words, while USD/SGD could continue to weaken, any further decline is likely to be at a more gradual pace. Additionally, the weekly RSI is at its most oversold level since January 2023, suggesting that the extent of any further weakness could be relatively limited. The support levels to watch are 1.2860 and 1.2800, while resistance levels are at 1.3100 and 1.3250.

EUR/USD: 1.1090

Scope for EUR/USD to rise to last year's high of 1.1275 with key support at 1.0930.

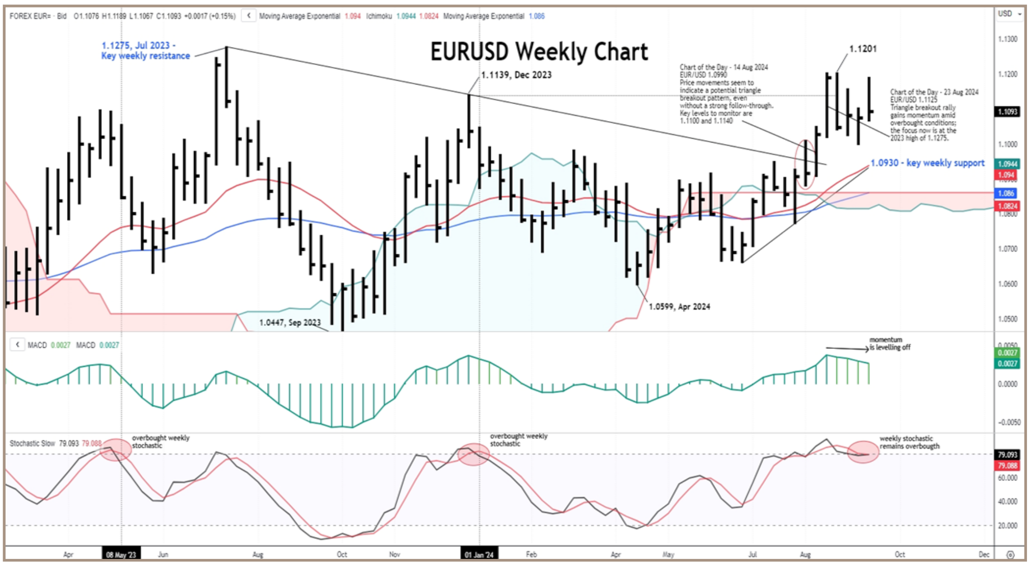


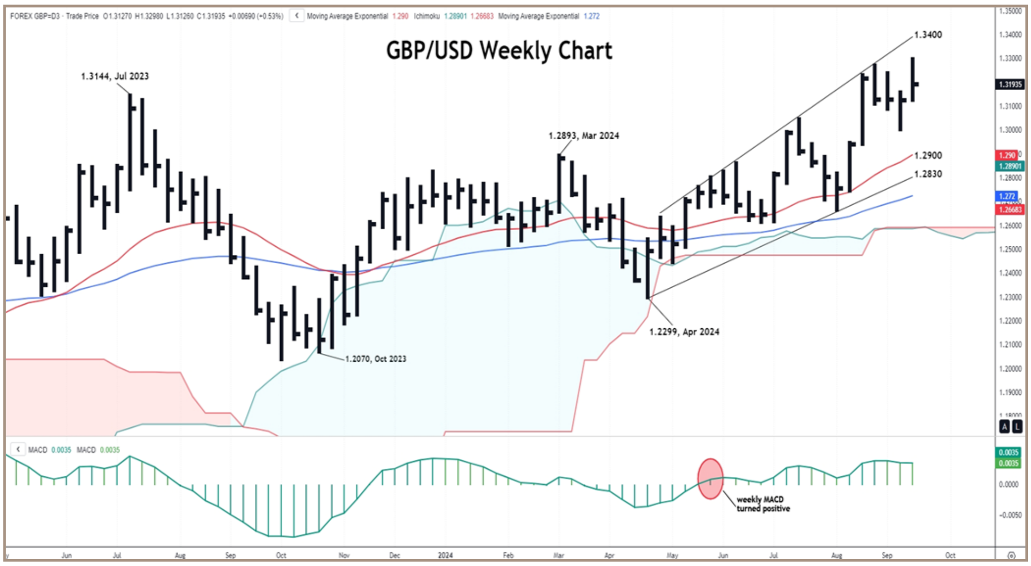
Chart of the Day - 14 Aug 2024
EUR/USD 1.0990
Price movements seem to indicate a potential triangle breakout pattern, even without a strong follow-through. Key levels to monitor are 1.1100 and 1.1140

Chart of the Day - 23 Aug 2024
EUR/USD 1.1125
Triangle breakout rally gains momentum amid overbought conditions; the focus now is at the 2023 high of 1.1275.

EUR/USD broke above the top of the triangle formation in early August and subsequently soared but failed to break clearly above 1.1200. While the weekly MACD remains firmly positive, it appears to be levelling off, indicating that upward momentum may be slowing. Considering the above, if the key weekly support at 1.0930—coinciding with both the 21-week EMA and the ascending trendline—remains intact, there is scope for EUR/USD to rise to last July's high of 1.1275. However, due to the overbought conditions, the probability of a sustained break above 1.1275 is low.

GBP/USD: 1.3185

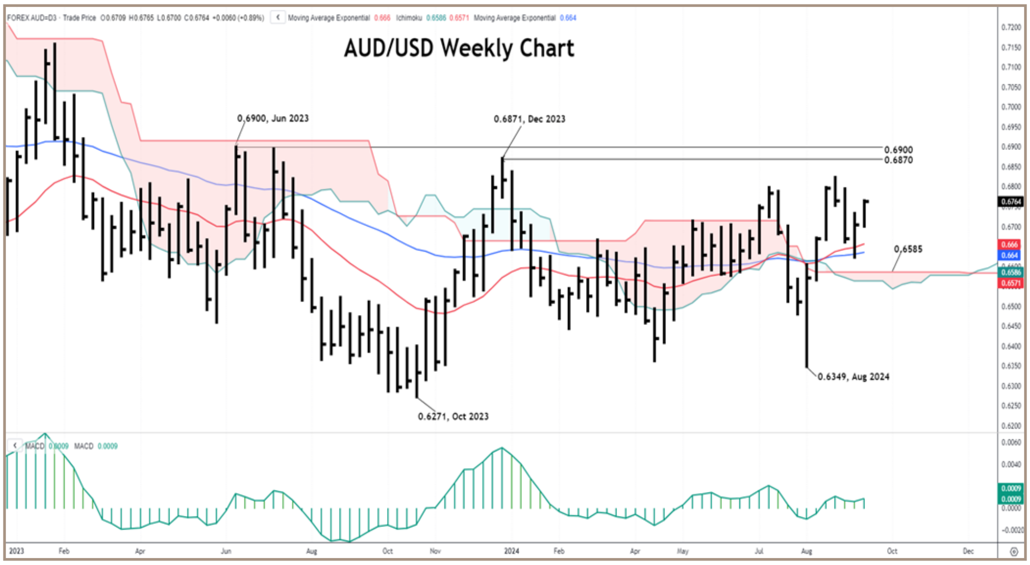
GBP/USD could continue its erratic rise towards 1.3400 before the risk of a reversal increases.



Since the weekly MACD crossed into positive territory in late May, GBP/USD has been rising irregularly, with its advance interrupted by sharp pullbacks. The price action appears to be forming a potential ascending broadening wedge formation. As we enter the last quarter of this year, GBP/USD could continue its erratic rise towards the top of the wedge, currently near 1.3400, before the risk of a reversal increases. On the downside, the first key support is at the 21-week EMA around 1.2900, followed by the crucial support at the bottom of the wedge near 1.2830.

AUD/USD: 0.6775

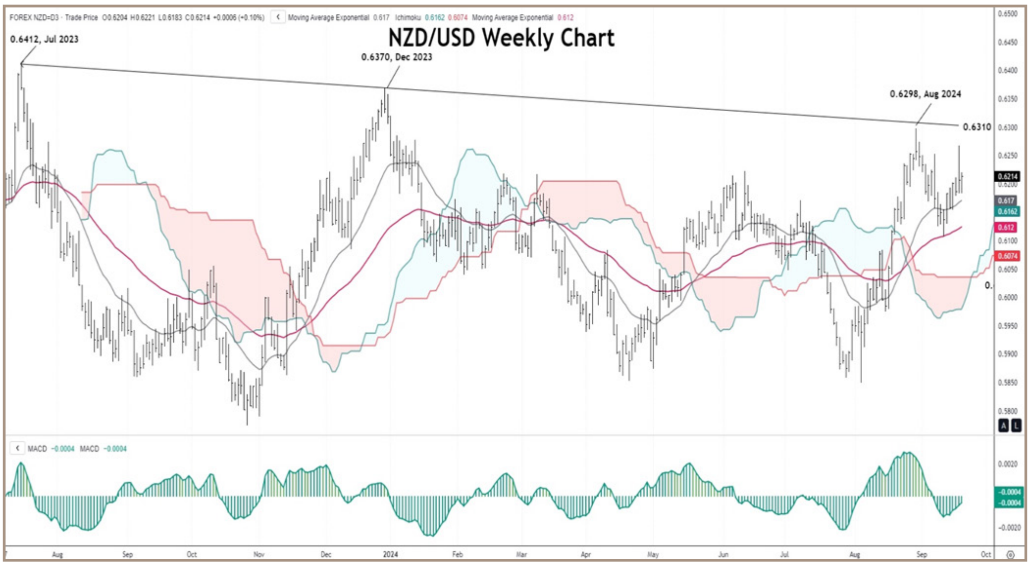
Provided that the key support at 0.6585 holds, AUD/USD could test the significant resistance zone between 0.6870 and 0.6900.



In early August of this year, AUD/USD fell sharply, but briefly to 0.6349. While it subsequently rebounded strongly, it did not approach the key resistance zone between 0.6870 and 0.6900. Note that AUD/USD tested the significant resistance at 0.6900 in both June and July last year. After reaching a high of 0.6870 in December and subsequently pulling back, the pair has remained below this crucial resistance zone between 0.6870 and 0.6900 ever since. As we enter the last quarter of this year, provided the key support at 0.6585 remains intact, AUD/USD could have room to test the significant resistance zone between 0.6870 and 0.6900.

NZD/USD: 0.6190

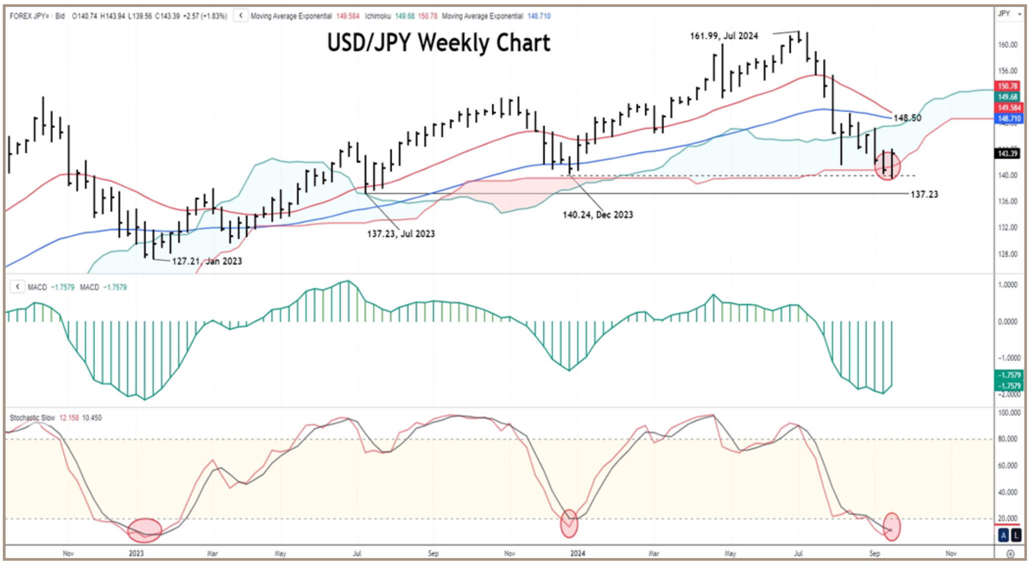
NZD/USD is likely to trade in a range between 0.6075 and 0.6310.



In early August of this year, NZD/USD rose to a high of 0.6298, which was just below the descending trendline connecting the highs of July and December of last year. Although NZD/USD subsequently pulled back from its early August high, there has been no significant increase in momentum. Projecting ahead, the bottom of the weekly Ichimoku cloud sits at 0.6075, while the descending trendline connecting last year's highs is at 0.6310. These levels are likely to define NZD/USD's trading range as we enter the last quarter of the year.

USD/JPY: 143.40

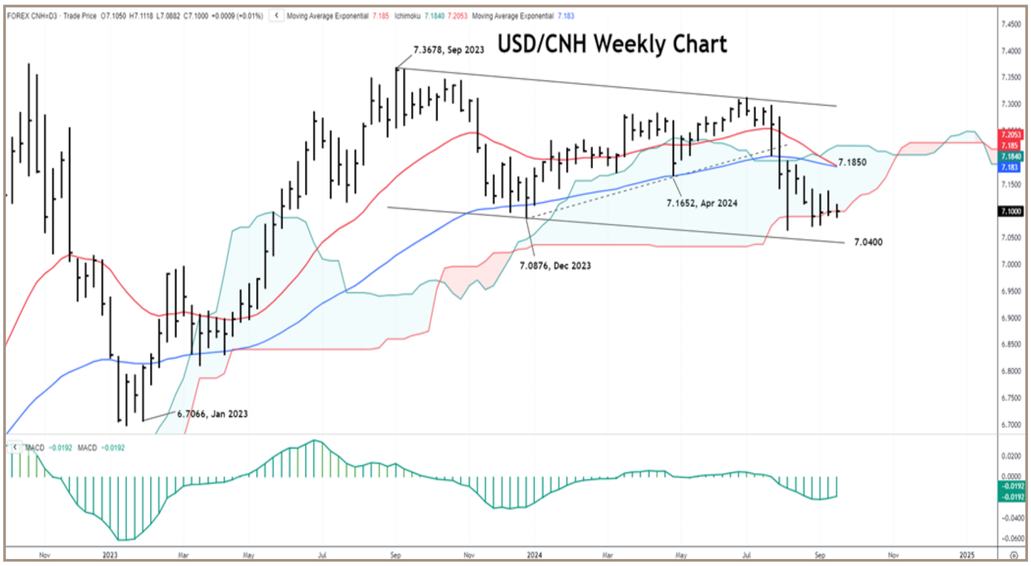
USD/JPY remains weak, but severely oversold conditions may limit declines and increase the likelihood of a recovery.



After peaking at 161.99 in July, USD/JPY plummeted. By late August, it slightly broke below the bottom of the weekly Ichimoku cloud—a key support level—and dipped below last December's low. Although the price action suggests USD/JPY remains weak, severely oversold conditions could not only limit further declines, but also increase the likelihood of a recovery. Note that while the last two stochastic crossovers in oversold conditions led to a resumption of the uptrend, given USD/JPY's is currently trending lower, a similar crossover is likely to result in sideways or range-bound trading rather than a reversal. Looking ahead, any recovery is unlikely to break above 148.50, where both the 21-week and 55-week EMAs are located. On the downside, the next significant support is at 137.23, the low recorded last year.

USD/CNH: 7.1000

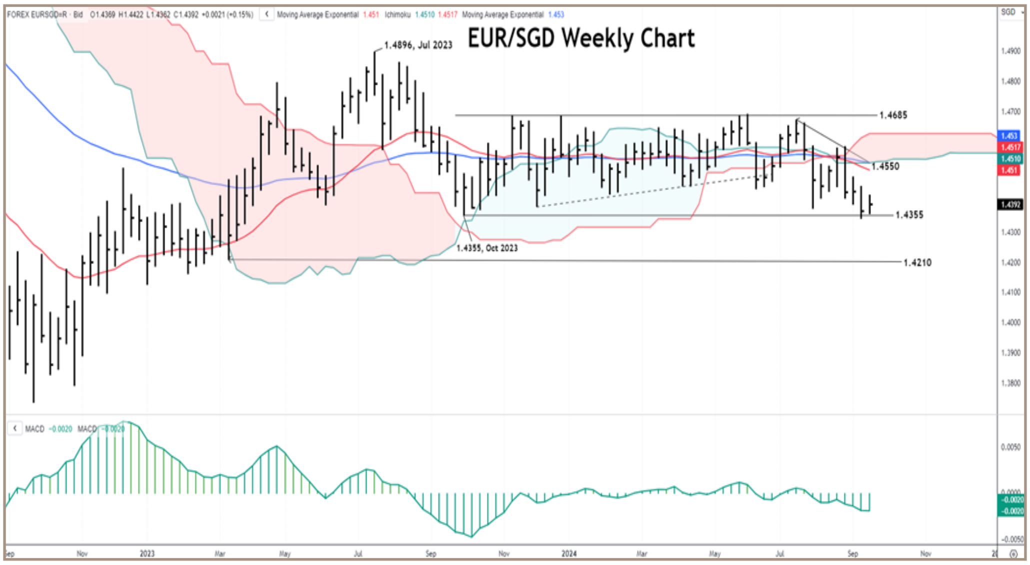
USD/CNH downward momentum may strengthen as 21-week EMA crosses below the 55-week EMA; support is at 7.0400.



Despite breaching the support at the bottom of the weekly Ichimoku cloud, USD/CNH has not made significant progress to the downside. However, as the 21-week EMA is poised to cross below the 55-week EMA, the currently mild downward momentum may strengthen in the coming months. Both the 21-week and 55-week EMAs are currently near 7.1850. Support, on the other hand, is located near 7.0400, the lower boundary of what appears to be a channel formation.

EUR/SGD: 1.4400

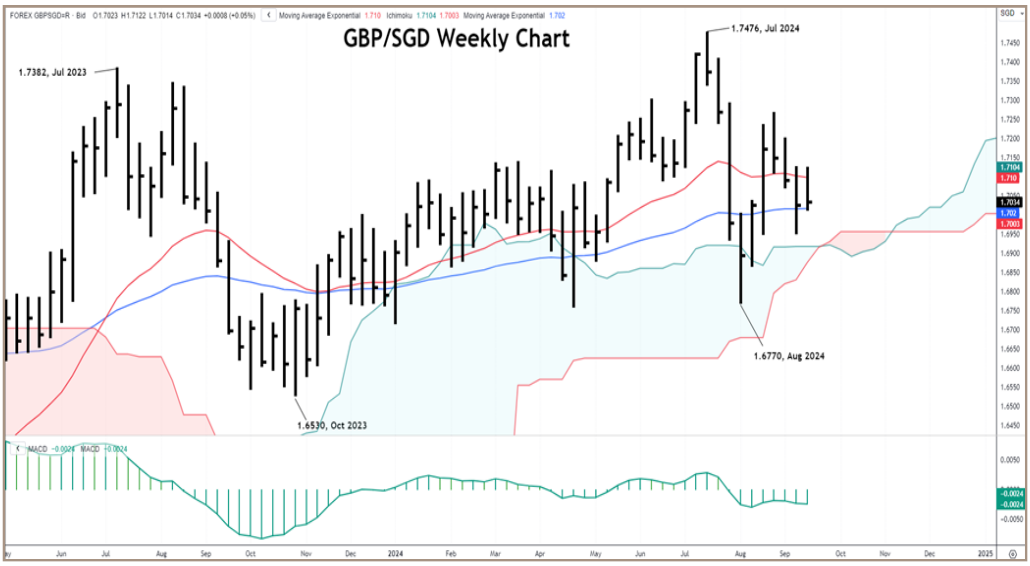
Downward momentum may increase if EUR/SGD remains below 1.4550.



As of mid-September, EUR/SGD is trading just above its 12-month low of 1.4355. While there has been a slight increase in downward momentum, it is not sufficient to suggest the start of a sustained decline. As we enter the last few months of the year, if EUR/SGD remains below 1.4550, the current mild downward momentum may increase. This is especially likely if it can break and stay below 1.4355. Looking ahead, a decisive move below 1.4355 could open the way towards 1.4210.

GBP/SGD: 1.7050

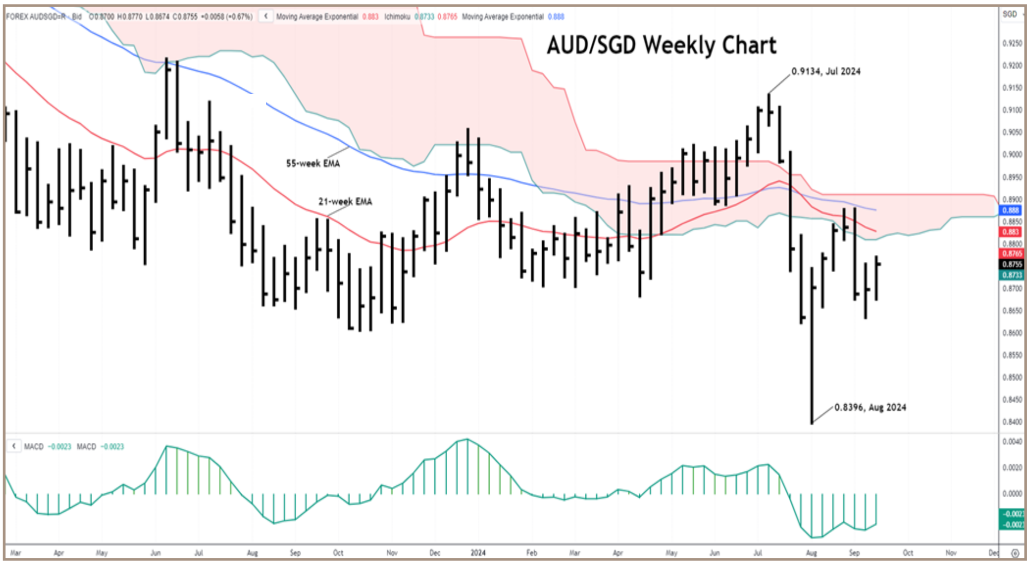
Outlook for GBP/SGD is mixed; it could trade in a volatile manner between 1.6770 and 1.7476.



GBP/SGD fluctuated widely between 1.6770 and 1.7476 in the third quarter, resulting in a choppy trading environment and a mixed outlook. Looking ahead to the fourth quarter of the year, GBP/SGD could continue trading in a volatile manner, though price swings are likely to be contained between 1.6770 and 1.7476.

AUD/SGD: 0.8765

Outlook for AUD/SGD is unclear; volatility may persist but likely confined to the third's quarter range of 0.8396/0.9135.



AUD/SGD traded within a broad and volatile range between 0.8396 and 0.9135 during the third quarter, leading to an unclear outlook. Looking ahead to the fourth quarter, this volatility may persist, though price action is likely to remain confined to the third's quarter range.

JPY/SGD: 0.9130

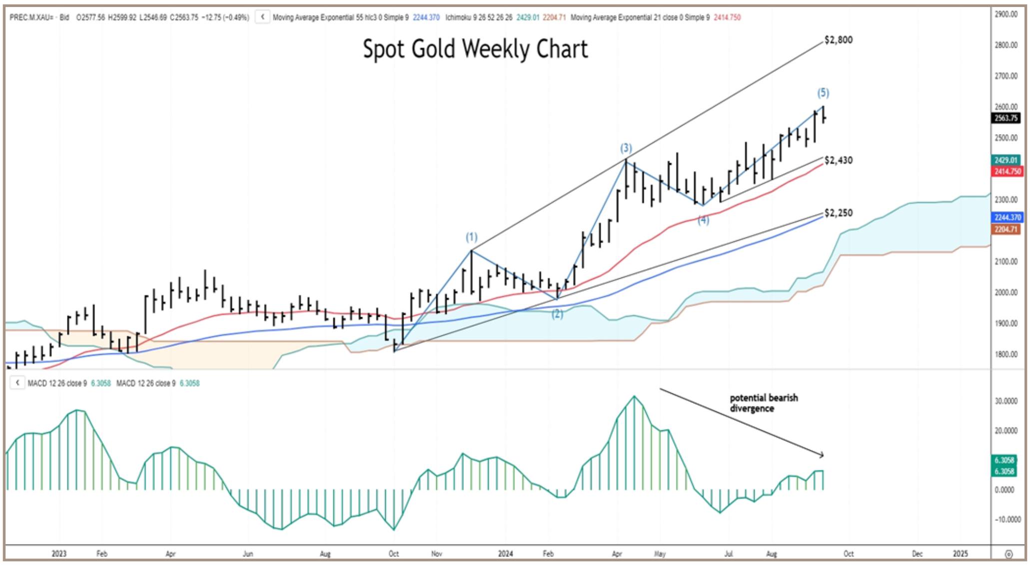
JPY/SGD has likely bottomed; could trade sideways before potentially heading higher towards the key weekly resistance at 0.9430.

JPY/SGD likely bottomed at 0.8320 in July, as it rebounded strongly to a high of 0.9340. While further recovery is possible in the coming months, overbought conditions suggest it may trade sideways for a period before potentially heading higher towards the key weekly resistance level at 0.9430. However, a break below 0.8560 could indicate that JPY/SGD may trade sideways for a longer period.

COMMODITIES TECHNICALS

Spot Gold
$2,564/oz

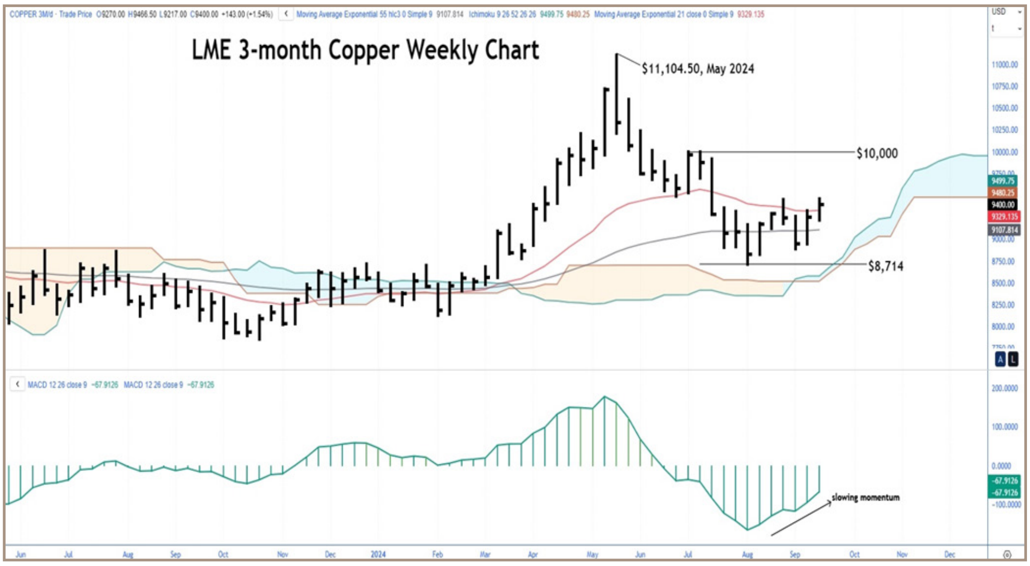
Spot Gold: $2,564/oz
Spot gold poised for further record highs as long as the support at $2,430 holds.



As of mid-September this year, spot gold continues to hit record highs. While gold may sustain its record-breaking run in the coming months, a potential bearish divergence could be forming on the weekly MACD. Moreover, it is unsurprising that conditions are overbought following such a significant rise. Overall, as long as the key support at $2,430 remains intact, we anticipate further record highs. However, the major resistance at $2,800 is likely unattainable, at least in the final quarter of the year. Additionally, the $2,700 level could offer significant resistance, potentially limiting gold's upward momentum.

LME 3-mth Copper
$9,400/mt

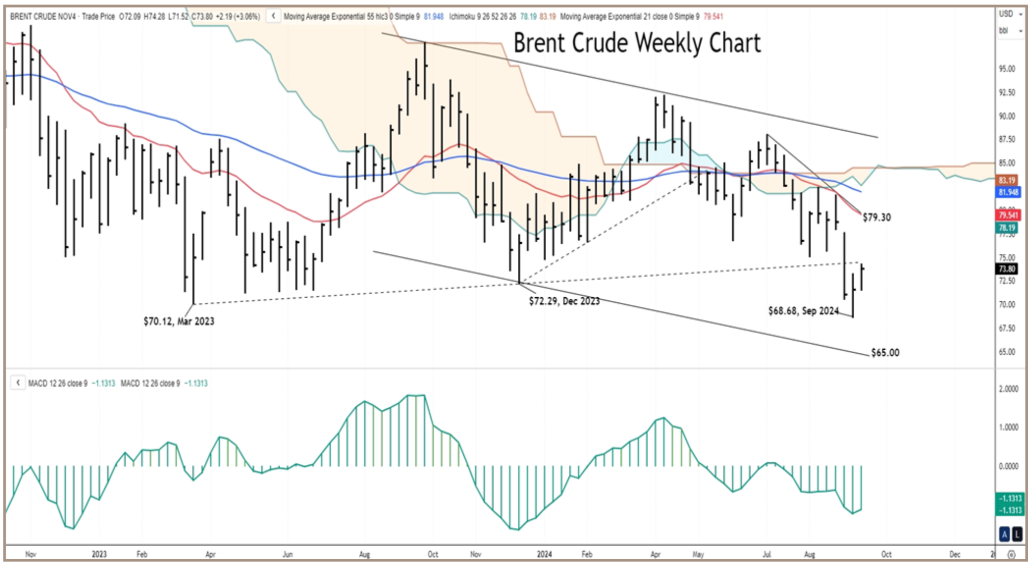
Copper is likely to trade in a range between $8,714 and $10,000.



After plummeting to a low of $8,714 in early August this year, the 3-month LME copper future has been trading in a sideways range. Downward momentum appears to be slowing, suggesting copper is unlikely to weaken much further in the last quarter of the year. Conversely, there are no signs of a sustained recovery at this time. Overall, copper is expected to trade in a range, likely between $8,714 and $10,000.

Brent Crude
$73.80/bbl

Bearish bias may persists, but Brent crude does not appear to have enough momentum to reach $65.00.



Brent crude fell to a low of $68.68 in early September this year, its lowest level since late 2021. While the bearish bias is likely to persist into the last quarter of the year, Brent does not appear to have enough momentum to reach the strong support near $65.00. On the upside, a breach of $79.30 would suggest that the weakness in Brent has stabilised.

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

MEET THE 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

Disclaimer

This publication is strictly for informational purposes only and shall not be transmitted, disclosed, copied or relied upon by any person for whatever purpose, and is also not intended for distribution to, or use by, any person in any country where such distribution or use would be contrary to its laws or regulations. This publication is not an offer, recommendation, solicitation or advice to buy or sell any investment product/securities/instruments. Nothing in this publication constitutes accounting, legal, regulatory, tax, financial or other advice. Please consult your own professional advisors about the suitability of any investment product/securities/ instruments for your investment objectives, financial situation and particular needs.

The information contained in this publication is based on certain assumptions and analysis of publicly available information and reflects prevailing conditions as of the date of the publication. Any opinions, projections and other forward-looking statements regarding future events or performance of, including but not limited to, countries, markets or companies are not necessarily indicative of, and may differ from actual events or results. The views expressed within this publication are solely those of the author's and are independent of the actual trading positions of United Overseas Bank Limited, its subsidiaries, affiliates, directors, officers and employees ("UOB Group"). Views expressed reflect the author's judgment as at the date of this publication and are subject to change.

UOB Group may have positions or other interests in, and may effect transactions in the securities/instruments mentioned in the publication. UOB Group may have also issued other reports, publications or documents expressing views which are different from those stated in this publication. Although every reasonable care has been taken to ensure the accuracy, completeness and objectivity of the information contained in this publication, UOB Group makes no representation or warranty, whether express or implied, as to its accuracy, completeness and objectivity and accept no responsibility or liability relating to any losses or damages howsoever suffered by any person arising from any reliance on the views expressed or information in this publication.

Right By You

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