Mizuho: Forecasts at a Glance

Economics & Strategy | Asia ex-Japan

25 June – 31 July 2024

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GDP

GDP Growth Forecasts (% YoY)

Country	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2022 (FY22/23)	2023 (FY23/24)	2024 (FY24/25)	2025 (FY25/26)
Australia	5.9	2.7	2.3	2.0	2.1	1.6	1.1	1.0	1.1	1.2	1.7	1.8	3.7	2.0	1.1	1.8
China	3.9	2.9	4.5	6.3	4.9	5.2	5.3	4.1	4.9	4.9	4.7	4.8	3.0	5.2	4.8	4.3
India	6.2	4.5	6.2	8.2	8.1	8.6	7.8	7.0	6.2	6.4	5.9	5.6	6.7 (7.2)	7.2 (7.4)	6.9(6.4)	5.8 (5.7)
Indonesia	5.7	5.0	5.0	5.2	4.9	5.0	5.1	4.9	5.1	5.4	5.0	5.1	5.3	5.0	5.1	5.1
Malaysia	14.2	7.0	5.6	2.9	3.3	3.0	4.2	4.0	3.9	4.4	4.5	4.6	8.7	3.7	4.2	4.5
Philippines	7.7	7.1	6.4	4.3	5.9	5.6	5.7	6.0	6.2	5.4	5.4	6.2	7.6	5.6	5.8	6.0
Singapore	4.0	2.1	0.5	0.5	1.0	2.2	2.7	2.3	2.0	2.2	2.3	2.4	3.7	1.1	2.3	2.3
Korea	3.4	1.1	1.1	1.0	1.4	2.1	3.3	3.4	3.2	3.3	2.9	2.8	2.6	1.4	3.2	2.7
Taiwan	3.6	-0.4	-2.9	1.4	2.2	4.9	6.5	4.4	3.4	2.9	3.0	2.8	2.5	1.4	4.3	2.9
Thailand	4.6	1.4	2.7	1.8	1.5	1.7	1.5	2.4	2.6	4.0	3.5	3.6	2.6	1.9	2.6	3.5
Vietnam	14.4	5.9	3.3	4.1	5.3	6.7	5.7	5.9	5.0	5.5	5.2	5.5	8.0	5.1	5.5	5.4

Growth:

Admittedly, **soft-landing hopes** are **surviving** (*although not thriving*) **amid "higher for longer" Fed rates**. But only ***selectively and conditionally*** so. To be sure, **US exceptionalism** has **not** been **dismissed**, but merely **dulled at the margin**. Nonetheless, **US growth has clearly peaked** and is **slowing** – more sharply in some segments. And the ability to achieve a soft-landing **hinges on the US consumer** *defiant of, and unfettered by, elevated rates.*

Outside of the US, **global economic prospects** are **diverging** – across geographies, sectors and income-/wealth-profiles. The global **business cycle remains asynchronous despite nascent convergence**; as post-pandemic services boom starts to normalize while manufacturing begins to bumpily turn a corner from an extended slump earlier.

Specifically, Europe's pick-up is from a soft base and fragile, while Japan's cost shocks could continue to hobble an already patchy recovery in domestic demand – be it due to the enduring burden on households or from policy tightening that inadvertently turns out to be too much too soon.

The upshot is that a seamless, **soft landing coordinated with a "glide path"** down in global policy rates is **a** lofty aspiration, if not **tall order.** Instead, a ***bumpy path lower amid air-pockets appears to be more likely,*** even if an outright recession is averted. Especially as; i) lagged policy tightening; ii) a depletion of pandemic excess savings; iii) lingering geo-political risks and; iv) higher risks of "crowding out" (amid government spending, including military); conspire to accentuate pre-existing vulnerabilities amid fragile recoveries.

What's more, **China's 5% growth ambitions are reliant on deeper and broader stimulus**. without which growth may falter. In particular, as encouraging as property market rejuvenation measures are, the risk is that they fall short of restoring confidence critical to rev up growth multipliers. Partly because, the silver lining of **cash-flows restored** in the wider property sector is **no panacea for significant value destruction**, and ***attendant adverse balance sheet shocks.***

Crucially, **any positive spill-overs from China stimulus for the rest of Asia looks set to be muted**. Not only because China stimulus is mainly targeted at onshore demand. But crucially as China's industrial sector is *subject to widening global trade tensions;* aimed at curtailing tech capabilities as well as penalizing China's excess capacity. And for now, this **threatens industries elsewhere in Asia** – both from **supply-chain linkages and competitive pressures**. As such, a bumpy and uneven growth course appears to be more likely than unfettered recovery.

Sources: Mizuho Estimates, CEIC, Bloomberg, National Sources

Inflation

Inflation Forecast (%YoY)

Country	2022		2023				2024				2025		2022	2023	2024	2025
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	(FY22/23)	(FY23/24)	(FY24/25)	(FY25/26)
Australia	7.3	7.8	7.0	6.0	5.4	4.1	3.6	3.4	3.1	3.2	3.1	3.0	6.6	5.6	3.3	3.1
China	2.7	1.8	1.3	0.1	-0.1	-0.3	0.0	0.5	0.9	2.4	2.5	1.9	2.0	0.2	1.0	1.6
India	7.0	6.1	6.2	4.6	6.4	5.4	5.0	5.5	3.9	6.0	6.3	6.0	6.7 (6.7)	5.6 (5.3)	5.0 (5.4)	5.8 (5.6)
Indonesia	5.2	5.6	5.2	4.0	2.9	2.7	2.8	3.1	3.2	2.9	3.0	3.1	4.2	3.7	3.0	3.0
Malaysia	4.5	3.9	3.6	2.8	2.0	1.6	1.7	2.0	2.0	2.3	2.3	2.1	3.4	2.5	2.0	2.0
Philippines	6.5	7.9	8.3	6.0	5.4	4.3	3.3	3.9	3.5	3.2	2.8	3.0	5.8	6.0	3.5	2.8
Singapore	7.3	6.6	6.1	5.1	4.1	4.0	3.0	3.0	3.2	3.5	3.2	2.9	6.1	4.8	3.2	3.3
Korea	5.9	5.2	4.6	3.3	3.1	3.4	3.0	2.8	2.6	2.6	2.7	2.5	5.1	3.6	2.8	2.6
Taiwan	2.9	2.6	2.6	2.0	2.5	2.9	2.3	2.2	2.5	2.3	2.0	1.9	3.0	2.5	2.3	2.0
Thailand	7.3	5.8	3.9	1.1	0.5	-0.5	-0.8	0.9	0.8	1.4	1.7	1.6	6.1	1.3	0.6	1.6
Vietnam	3.3	4.4	4.2	2.4	2.9	3.5	3.8	4.5	3.9	3.8	3.8	3.6	3.2	3.3	4.0	3.6

Inflation:

The good news is that **global inflation has by and large continued to moderate** in 2024, and is consequently **significantly lower** than it was from 12-18 months ago. In fact, the overall inflation out-run for the, G4 and ex-China EM Asia is well below 1%-pt, compared to over 7%-pt at peak inflation.

Nonetheless, ***inflation concerns have not abated proportionately***.

For one, there is some discomfort **inflation has not quite moderated** adequately. Optically, this pertains to inflation remaining inconveniently elevated above the 2% target. What's more, the ostensibly greater concern is to be that the **dis-inflation process** has **been interrupted and/or dampened**.

That's to say, **dis-inflation has come a long way**. ***But*** the **sticking points** concerning inflation are that; i) dis-inflation has **not** come **far enough**, and ii) at the margin it appears **not** to be **fast enough**. Consequently, there are **notable tensions with regards to appropriately nuanced inflation assessment**, as the sheer *"distance" of dis-inflation is dulled by less assuring velocity of dis-inflation.*

Especially as a confluence of risks of *resurgent oil, stickier service inflation components under the hood* and *higher-than-usual wage inflation* across Major economies underpin worries that **inflation expectations may not be quite as solidly anchored**. In turn, ***feeding into, and off, the notion of more problematic "last mile" dis-inflation***.

What's hard to miss is that whilst most of the world is grappling with insufficient (and insufficiently fast) dis-inflation, **China has the exact opposite problem of exceptionally low inflation**, teetering on deflation risks. ***China's excess capacity*** is one (and ***potentially tradable***) reason for China's out-of-whack dis-inflationary forces.

But perversely, the **tyranny of geo-political risks amplifies, rather than alleviates, inflation risks**. And this is *because of, not despite,* the *China's spare capacity* – as the US and Europe raise tariffs in response to China's spare capacity (and consequent price advantage) threatening domestic industries.

Hence, **mounting geo-political tensions impede scope for China exporting dis-inflation** *to hasten global dis-inflation* **whilst allaying its own deflation-type risks**. Instead, **geo-political risks add a structural element of inflation** from *supply-chain fragmentation* (if not fracture) and associated protectionism/security costs.

Nonetheless, from a cyclical stand-point, **inflation ought to continue moderating bumpily** in coming months. The path down though may be somewhat more stretched out and highly uneven across various components of price pressures.

Meanwhile, **inflation poses inconvenient dilemma**. In most **developed economies**, evidence of *lagging demand-pull mostly concentrated in services* will be a bug bear even as demand softens. Whereas, **EM Asia** will increasingly be confronted by, and have to grapple with, *volatility* in food and energy as well *as latent price pressures as fiscal need for subsidy reduction mounts* – both ***ultimately detrimental for demand***.

Central Bank Forecasts

Central Bank Policy Outlook

Country	Central Bank	2022		2023				2024				2025		
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
US	Fed	3.00-3.25%	4.25-4.50%	4.75-5.00%	5.00-5.25%	5.25-5.50%	5.25-5.50%	5.25-5.50%	5.25-5.50%	5.00-5.25%	4.75-5.00%	4.00-4.25%	3.25-3.50%	2.75-3.00%
Australia	RBA	2.35%	3.10%	3.60%	4.10%	4.35%	4.35%	4.35%	4.35%	4.35%	4.15%	3.75%	3.50%	3.50%
China	PBoC	3.65%	3.65%	3.65%	3.55%	3.45%	3.45%	3.45%	3.45%	3.45%	3.20%	3.20%	3.20%	3.20%
India	RBI	5.90%	6.25%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.00%	5.50%	5.25%	5.00%	5.00%
Indonesia	BI^	4.25%	5.50%	5.75%	5.75%	5.75%	6.00%	6.00%	6.25%	6.25%	6.00%	5.75%	5.00%	4.50%
Malaysia	BNM	2.50%	2.75%	2.75%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Philippines	BSP	4.25%	5.50%	6.25%	6.25%	6.25%	6.50%	6.50%	6.50%	6.25%	6.00%	5.75%	5.00%	4.50%
Singapore	MAS*	Off-Cycle Re-centring Higher to Prevailing S$NEER	Re-centring Higher to Prevailing S$NEER (S: 2.0%)	Status Quo		Status Quo		S: 2% M: Hold W: Hold	S: 2% M: Hold W: Hold	S: 2% M: Hold W: Hold	S: 2% M: Hold W: Hold	S: 2.0% M: Hold W: Hold	S: 1.5% M: Hold W: Hold	S: 1% M: Hold W: Hold
Korea	BoK	2.50%	3.25%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.25%	3.00%	3.00%	3.00%
Taiwan	CBC	1.625%	1.750%	1.875%	1.875%	1.875%	1.875%	2.000%	2.000%	2.000%	2.000%	1.875%	1.875%	1.875%
Thailand	BoT	1.00%	1.25%	1.75%	2.00%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.25%	2.00%
Vietnam	SBV	5.00%	6.00%	5.50%	4.50%	4.50%	4.50%	4.50%	4.50%	5.00%	5.00%	4.50%	4.50%	4.50%

,* The MAS conducts monetary policy via FX. Specifically it adopts a trade-weighted SGD appreciation at "modest and gradual" (estimated to be 2% per annum) pace as default.
Starting 2024, the MAS will conduct quaterly meetings (Jan, Apr, Jul, Oct) from bi-annual meetings.
S: Slope (expressed as per annum % appreciation), M: Mid-Point, W: Width of S$NEER
^ BI shifted to the 7 Day repurchase rate as the benchmark rate in August 2016. This by default constituted 125 bps reduction from the last policy rate

- **EM Asia Central Banks**: A higher for longer Fed, with a diminished 'Dot Plot' conspiring with unrelenting USD strength is creating policy pressures for EM Asia central banks as the latter's relative monetary conditions loosen (vs. Fed). Where currency pressures are intense, rate hikes or other stability tools cannot be ruled out. And from-running the Fed on cuts dangles the risk of unwanted macro-/FX instability

- **Australia (RBA)**: More balanced risks suggest a default hold though services stickiness accentuates "for longer".

- **China (PBoC)**: Tensions between addressing deflation risks (amid wider deflationary dynamics from confidence deficit) and ensuring currency stability limit the extent of monetary easing. PBoC reforms are medium-term. For now calibrated and targeted cuts including to RRRon the table. Conditional on CNY stability though..

- **India (RBI)**: Sharper than expected inflation pullback validates sufficiently restrictive settings and pre-conditions to cut soon. But the depth and speed of cuts is exaggerated by dis-inflation given inherent, latent volatility and background rupee risks.

- **Indonesia (BI)**: Despite BI's preference to use other tools to anchor IDR-stability, another hike cannot be dismissed amid fiscal overhang and likely buoyed USD strength; repercussions on growth should be manageable.

- **Malaysia (BNM)**: Prolonged hold amid supportive growth and managed inflation. Lower cumulative hikes (relative to Fed and regional peers) in this cycle should set a higher bar for cuts.

- **Philippines (BSP)**: Despite persistent upside risks to inflation that could continue into Q3, data should print within BSP's expectations, setting stage for a prolonged hold. Front-running the Fed remains a low probability insofar that a soft PHP risks fuelling inflationary cost-push threat via the import channel.

- **Singapore (MAS)**: The prevailing policy remains adequate, if not ample even after considering a slower and bumpier dis-inflation. The next move is more likely calibrated easing, despite "balanced risks". Barring unexpected adverse demand shocks, a gentler slope, not a lowering of S$NEER mid-point, is set to be the next move in 2025.

- **South Korea (BOK)**: Measured cuts in late 2024 and early 2025 likely to be determined by the interaction between semiconductor recovery and dis-inflation progress.

- **Taiwan (CBC)**: Rate hold prolonged amid semiconductor upturn and escalating property prices.

- **Thailand (BOT)**: BoT Monetary policy committee stability aid rate hold in 2024. Degree and pace of cuts though may be calibrated in 2025 depending on underlying dis-inflation and fiscal policy implementation.

- **Vietnam (SBV)**: Rate hike probabilities in H2 have risen on stablising growth and VND pressures.

Sources: Mizuho Estimates, CEIC, Bloomberg, National Sources

FX Forecasts

FX Forecasts	Jun 24	Sep 24	Dec 24	Mar 25	Jun 25	Sep 25
USD/CNY	7.12 - 7.51 (7.32)	7.00 - 7.43 (7.18)	6.98 - 7.58 (7.26)	6.94 - 7.45 (7.16)	6.91 - 7.30 (7.08)	6.86 - 7.25 (7.07)
USD/INR	82.0 - 85.1 (83.6)	80.5 - 85.5 (82.8)	79.7 - 86.9 (84.0)	78.4 - 84.9 (82.2)	78.0 - 83.7 (80.9)	78.1 - 83.3 (80.5)
USD/KRW	1280 - 1430 (1362)	1180 - 1360 (1280)	1230 - 1400 (1330)	1220 - 1350 (1280)	1200 - 1350 (1250)	1190 - 1290 (1240)
USD/SGD	1.338 - 1.382 (1.354)	1.295 - 1.377 (1.346)	1.322 - 1.407 (1.365)	1.299 - 1.373 (1.335)	1.294 - 1.353 (1.330)	1.302 - 1.368 (1.328)
USD/TWD	30.9 - 32.9 (32.2)	30.6 - 33.1 (31.5)	29.9 - 32.8 (31.8)	30.3 - 32.9 (31.3)	29.7 - 31.9 (30.6)	29.3 - 31.5 (30.2)
USD/IDR	15840 - 16500 (16300)	15550 - 16520 (16200)	15780 - 16970 (16300)	15840 - 16960 (16200)	15800 - 16640 (16000)	15290 - 16600 (15800)
USD/MYR	4.68 - 4.80 (4.70)	4.53 - 4.88 (4.65)	4.44 - 4.76 (4.67)	4.39 - 4.81 (4.58)	4.33 - 4.78 (4.52)	4.25 - 4.60 (4.45)
USD/PHP	56.3 - 58.9 (58.5)	55.7 - 60.6 (58.0)	55.8 - 59.3 (58.4)	55.0 - 59.5 (57.8)	55.0 - 59.4 (57.2)	54.1 - 59.0 (56.8)
USD/THB	35.3 - 37.4 (36.3)	34.3 - 37.2 (35.4)	34.2 - 37.6 (36.2)	34.5 - 37.8 (35.5)	34.2 - 36.6 (35.2)	34.0 - 36.4 (35.0)
USD/VND	24600 - 25800 (25400)	24700 - 25600 (25200)	25200 - 25800 (25300)	24800 - 25300 (24900)	24600 - 25200 (24800)	24500 - 25100 (24700)
AUD/USD	0.626 - 0.692 (0.662)	0.634 - 0.701 (0.672)	0.625 - 0.689 (0.652)	0.643 - 0.698 (0.673)	0.639 - 0.720 (0.686)	0.679 - 0.737 (0.705)

Note: For FX forecasts, level in parentheses pertains to period end forecasts; and the period's range precedes this.

- AUD: The RBA's is further away from live hikes than rate cuts alongside consumption cracks amid wobbly China recovery via commodity headwinds suggest downside risks amid volatility; until enduring early 2025 rebound.
- CNY: Persistent CNY pressures despite property backstop and PBoC anchor via currency fixing reveals deep confidence deficit. Given the high cost of, and monetary stimulus compromise involved in, CNY support, a soft and gradual devaluation is a non-negligible risk. In turn limiting the extent of CNY rebound later.
- INR: Despite elevated oil, rupee has relatively outperformed AXJ as positives from fiscal consolidation and credit positives have coincided with a narrower C/A and trade deficits. Modi 3.0 supported despite elections shortfall.
- IDR: Limited spillovers from this round of semiconductor-cycle upturn and fiscal risks on incoming government initiatives, underlines IDR under-performance risks (vs. AXJ). Diminished real yield advantage also means less durable IDR rallies.
- MYR: Well-positioned to benefit from semiconductor-cycle upturn and concrete actions taken towards fiscal consolidation could see MYR outperformance (vs. AXJ), but still-soft CNH could restrain outsized gains.
- PHP: Improving external sector partially offset by huge imports expenditures; while slow to consolidate fiscal deficit sees persistence of "twin deficit" vulnerabilities. BSP rate cut inclinations risk exacerbating sell-offs.
- SGD: Remnant SGD out-performance from MAS' exceptional tightening remains intact. S$NEER at the rich side of bands suggests limited scope for further SGD out-performance whereas high-beta CNY correlations may soften SGD if China risks flare.
- KRW: Rate differentials continue to offset trade led recovery advantages. Recovery prospects and outperformance may only reveal after Fed cuts.
- TWD: Even as elections risks pass, chips turnaround with solid C/A surplus and net creditor position will merely backstop, not induce bullish rallies until late 2024/early 2025. Cautious upside later if geo-politics remain calm.
- THB: Tourism tailwinds are being dented by upsized fiscal worries. Political instability risks continue to dent investor sentiment and push back THB recovery.
- VND: Financial stability risks and inflation-fiscal trade-off imply continued VND vulnerability.

Sources: Mizuho Estimates, CEIC, Bloomberg, National Sources

FX Forecasts Addendum: Broad-based FX Dynamics

Q3 2024: **Goldilocks Dial-Back of Hawks/Exceptionalism**

Where earlier we had anticipated recession risks precipitating from lagged policy tightening to hit early-/mid-2024, we have now **pushed out risks of far more pronounced US slowdown to late-2024/early-2025**.

Nonetheless, despite the *softening in US data remaining measured and patchy,* it is expected get more emphatic. In turn, setting the stage for more *discernible dial-back in strong form of US exceptionalism; although comparative advantages over Europe remain distinct. Correspondingly, hawkish references are set to waver, possibly be walked back, prompting resultant* **softening in the Greenback;** albeit from lofty policy backstop.

However, this iteration **of USD pullback may be accompanied by nuanced and measured "risk on. Risk on persisting as "pivot" bets** are re-ignited under a controlled landing assumption.

But with "pivot rallies" that are distinctly narrower, shallower and more selective as exhausted "Goldilocks soft landing" optimism gets a reality check from patchy global recovery and dimming US exceptionalism. In which case, optimism about rate cuts boost is tempered to needed rate cut relief. - from asset market acceleration to mere relief. So the impulse for a weaker USD (and correspondingly stronger EM Asia currencies) will be tempered.

What's more, while Fed cuts may prompt USD recalibration lower, European central banks still leading the way down in rates means that the pace and depth of broad-based USD declines may be checked.

Finally, US elections ahead may be the bug bear for USD shorts as "our elections, your problem" type of risks may be imposed on Majors and EM FX alike. And this dynamics may amplify into Q4.

Q4 2024: **Elections Risks**

As the US elections comes into view, the possibility of a second Trump Presidency (Trump 2.0) is an undeniable force. In fact, the ground swell warns that only the legal system, not political opposition (be it Republican nominations or Democrat challenge), that stands in the way of Trump 2.0; and all the heightened uncertainty that comes with a Trump Presidency.

It appears that Trump 2.0 will likely;

i) be USD positive, albeit mainly from the deleterious impact on EUR, CNH (and along with that wider AXJ) alongside the likes of MXN amid an escalation in trade conflict with China (weakening CNH and other trade-driven currencies, including most AXJ) and pullout from Ukraine funding that accentuates European vulnerabilities, thereby weakening EUR;

ii) pose impediments to bond market rallies despite the case for falling yields amid Fed rate cuts coming into view, as the drop in yields may be impeded/checked by tax cut extension and/or MAGA-driven infrastructure boost, and;

iii) catalyze more emphatic term premium sooner as issuances a conspiracy of widening deficit/debt funded by longer-term issuances, desire for policy easing (once he is President), and longer-term structural inflation impact from global trade assaults inflict higher term premium.

H1 2025: **Anti-Goldilocks**

Admittedly, the turn of 2024 into 2025 may bring some relief from elevated political risk hangover from US elections. Nevertheless, a confluence of lagged policy drag and mounting geopolitical risks may instead catalyze an unravelling of "Goldilocks". Arguably, this could be emphatic enough to come across as "Anti-Goldilocks" scenario of sharp demand pullback (even if an outright global recession is averted), and Geo-political uncertainty. And in such a scenario, a strong USD could persist on the back of acute have demand, regardless of Fed rate cuts.

Our forecasts suggest that Q1 2025 could continue to be impacted by headwinds, resulting in persistent haven demand for USD, while Q2 sees some reprieve with the USD mellowing - presumably fear subsides and the risk environment turns more supportive.

But any clear distinction of the timeline and inflection may be challenged. Whereas the case for rate cuts to provide sufficient reprieve may be on either side of mid-2025, depending on the prevailing mix of economic, geopolitical and policy conditions.

Instead, the initial drag from US elections and related geopolitical risks are likely to be compounded by signs of harsher than expected demand slowdown. All of these will conspire to prop up the USD, initially on haven reflex then on relative CNY and EUR soft spots given more acute economic vulnerabilities as well as geopolitical liabilities confronting China and Europe (compared to the US).

These pressures should however begin to abate as the Fed catches down with rate cuts into mid-2025 and the worst of global demand shocks are assuaged by a combination of policy (easing) response coupled with low manufacturing/exports/inventory base helping to find a bottom sooner.

From here, the conditions may be more suited for the USD to mellow more distinctly and durably. But the caveat is that China averts worse case economic and geopolitical outcomes and pressures on the CNY are stemmed sufficiently- in particular enlarged capital outflows are staunched. If so, EM Asia FX may be better placed to recover into H2. But if a softer CNY is sustained, this may dampen the extent of AXJ rebound.

The reflex here will be for the refuge of the Greenback regardless of expectations for the Fed to cut rates aggressively. Simply because safety takes precedence over meagre returns. Especially as recession risks cast a long shadow on exports-dependent, economies hobbled further by stagflation-type headwinds crimping domestic buffer. This could further dim economic outlook, hence support for FX via growth-based returns allure. Depending on the degree of financial shocks involved, the flight to safety can vary across EM Asia FX. Higher inflation, debt exposures and "twin deficit risks may be amplified.

What's more, a sharp appreciation in the JPY, in accordance with "risk off" triggers also means that the funding currency squeeze accentuates downside pressures in EM Asia FX. Interrupted FDI inflows, exacerbated by capital flight underscore the risks of disorderly correction in AXJ, which may not be adequately offset by higher FX reserves.

And so, we expect AXJ on the whole to slip back further amid recession risks; albeit prone to two-way volatility and differentiated outcomes. Modest recovery off extreme sell-off levels in EM Asia FX as aggressive Fed rates cuts starts to coincide with worst-case recession/markets outcome later into Q3 is reasonable; with Fed pulling stops on QE-type stimulus being a decisive turnaround factor for AXJ (mainly on USD slide).

H2 2025: Chasing Rainbows

Getting over election volatility, and looking past the initial global downturn risks in early 2025, which is placated by deeper than expected rate cuts and wider policy stimulus, is when the narrative of sustained EM Asia FX gains currency (no pun intended). This will be mostly premised on dovish Fed and bottoming global economy conspiring to lift optimism and a flood back into "growth" bets that favour EM assets. And to be sure, the rain need not be decisively over for forward-looking markets to chase rainbows. Just signs of bottoming may be seized upon.

What's worth mentioning though is that CNH remains a key factor in determining relative levels. Crucially, given lingering economic and geo-political drag, the ability of CNH to regain ground could set the relative marker for various EM Asia FX. This could be an evolving equilibrium with regards to CNH.

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