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MUFG Bank, Ltd.

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February 2025

KEY EVENTS IN THE MONTH AHEAD

1) TRUMP & TARIFFS

The US dollar advanced modestly further in January following the near 8% gain in Q4 last year. The dollar did weaken during January as President Trump failed to announce any tariffs on inauguration. However, the strengthening of the dollar into month-end reflected the fact that the Trump administration was planning to implement a 25% trade tariff on Canada and Mexico and a 10% tariff on China. The moves in CAD and MXN, given the size of the tariffs, were modest highlighting a high degree of scepticism that these tariffs will be implemented. However, the confirmation of these tariffs being implemented came at the tail-end of trading on the final day of January and we have seen an understandable reaction at the start of trading in February with USD/CAD, USD/MXN up sharply, USD/CNY up more modestly and the dollar more generally stronger. We expect this initial move to extend and our US dollar forecasts suggest scope for gains through Q1 and into Q2 before some modest reversal by mid-year. The financial market reaction will be contained to some degree by expectations that the US, Canada and Mexico will reach a deal on border crossings of illegal immigrants and narcotics that sees this particular episode deescalate. But even if this is what happens, the actions point to tariff policies being heavily used with more announcements possibly focused on Europe set to follow. More China specific action will also likely follow. So the setting of FX forecasts based on US trade policies will likely require additional flexibility until we get greater clarity but further US dollar appreciation is likely.

2) BoE, RBA & RBNZ ALL TO CUT

This month there are three G10 central bank meetings scheduled – the BoE (6th); the RBA (18th); and the RBNZ (19th) and all three are expected to cut their policy rates. For the RBA it will be the first cut (-25bps) with easing inflationary pressures likely to be compelling enough for easing to begin. However, the RBA is unlikely to strongly signal scope for substantial cuts. For the RBNZ, a 50bp cut is priced but the RBNZ may well signal an intention to slow the pace going forward as the neutral rate comes into sight. The BoE's MPC will likely cut by 25bps, which again is fully priced. The decision is unlikely to be unanimous with Catherine Mann set to dissent. We see scope for the MPC to signal increased confidence on receding inflation risks that will signal more cuts to come that may lower yields but with limited FX impact.

3) RISKS OF FURTHER TARIFFS INCREASE ON CHINA AND CHINA'S RETALIATIONS EXIST

The announcement of a 10% additional tariff on China's goods (effective on February 4th) marks the beginning of the US-China trade war 2.0. With tariffs being an important tool of Trump's foreign policy toolkit, further development is likely. The market is keen on outcomes of upcoming NPC in early March. We still expect the government to set a 5% growth target and a larger budget deficit for 2025. The US trade review due on April 1st likely matters.

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Forecast rates against the US dollar - End-Q1 to End-Q4 2025

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
JPY	154.91	154.00	152.00	150.00	148.00
EUR	1.0395	0.9900	1.0200	1.0500	1.0800
GBP	1.2429	1.1960	1.2360	1.2800	1.3010
CNY	7.2424	7.4000	7.5000	7.5000	7.4000
AUD	0.6237	0.5900	0.6000	0.6200	0.6400
NZD	0.5657	0.5350	0.5400	0.5600	0.5800
CAD	1.4472	1.5200	1.4700	1.4500	1.4200
NOK	11.293	12.020	11.863	11.429	11.019
SEK	11.051	11.717	11.569	11.143	10.741
CHF	0.9093	0.9390	0.9020	0.8860	0.8700
CZK	24.217	25.560	24.900	24.290	23.700
HUF	391.94	418.20	409.80	400.00	390.70
PLN	4.0536	4.2930	4.1670	4.0950	4.0280
RON	4.7855	5.0300	4.8920	4.7710	4.6670
RUB	98.496	102.46	104.06	107.58	115.83
ZAR	18.656	19.250	19.500	19.200	19.000
TRY	35.848	37.250	39.250	41.500	43.500
INR	86.613	86.800	87.500	88.000	88.500
IDR	16300	16400	16450	16250	16200
MYR	4.4550	4.5700	4.5500	4.5200	4.4800
PHP	58.346	59.700	59.300	59.000	58.800
SGD	1.3554	1.3800	1.3750	1.3700	1.3650
KRW	1453.4	1475.0	1495.0	1495.0	1475.0
TWD	32.664	33.300	33.600	33.500	33.400
THB	33.567	35.300	36.000	35.700	35.500
VND	25069	25800	25900	25800	25700
ARS	1050.8	1075.0	1105.0	1140.0	1425.0
BRL	5.8403	5.9500	6.1000	6.2000	6.3000
CLP	981.60	1010.0	1030.0	1050.0	1040.0
MXN	20.645	22.000	21.500	21.250	20.750
Brent	76.78	73.00	69.00	74.00	77.00
NYMEX	72.76	68.00	64.00	69.00	72.00
SAR	3.7504	3.7500	3.7500	3.7500	3.7500
EGP	50.202	49.700	49.300	49.100	48.700

Notes: All FX rates are expressed as units of currency per US dollar bar EUR, GBP, AUD and NZD which are expressed as dollars per unit of currency. Data source spot close; Bloomberg closing rate as of 4:30pm London time, except VND which is local onshore closing rate.

US dollar

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/JPY	154.91	154.00	152.00	150.00	148.00
EUR/USD	1.0395	0.9900	1.0200	1.0500	1.0800
		Range	Range	Range	Range
USD/JPY		145.00-160.00	143.00-158.00	141.00-156.00	139.00-154.00
EUR/USD		0.9700-1.0600	0.9900-1.0700	1.0100-1.0900	1.0300-1.1100

MARKET UPDATE

USD strengthens slightly versus EUR but weakens versus JPY

In January the US dollar strengthened very marginally further against the euro in terms of London closing rates, from 1.0400 to 1.0395. However, the dollar weakened against the yen, from 156.78 to 154.91. The FOMC at its meeting in January left the range for the federal funds rate unchanged at 4.25% to 4.50%, following 100bps of cuts last year. The FOMC continued with its policy of reducing its securities holdings with QT ongoing but at a reduced rate of USD 60bn per month through a reduction in UST bond holdings from USD 60bn to USD 25bn. The pace of reduction in the holdings of MBS remains at up to USD 35bn per month.

OUTLOOK

Initial pragmatism might not last

The US dollar was basically around unchanged in January after a substantial gain in Q4 last year. The gain in January was modest and incorporated an initial correction weaker after President Trump's inauguration was not followed immediately by trade tariff announcements. However, the confirmation of tariffs of 25% on Canada and Mexico and a 10% tariff on China will provide strong support for the dollar in general. Scepticism over these tariffs remaining in place for a long period may contain dollar buying to some degree but the actions opens scope for further strength in Q1. Numerous members of Trump's economics team have indicated strong support for tariffs as has Trump himself and hence even if these specific tariffs are reversed at some stage, more actions are likely. Expect the trade tariff driver to be in constant flux with verbal threats, implementations, carve-outs, and reversals as Trump negotiates with key trading partners. Trade tariff uncertainties are likely to be higher and actions taken are likely to be more focused in H1 this year and hence the peak for the US dollar we maintain will be in H1 before the dollar corrects weaker in H2.

Fed caution to persist until uncertainties recede and inflation risks subside

The FOMC policy meeting in January contained few surprises and Chair Powell's communication was consistent with a wait-and-see mode to assess the impact of Trump's trade tariffs. The statement dropped the reference to progress on lowering inflation suggesting some increased concerns over achieving the final leg of getting inflation back to the 2.0% target. Powell in the press conference was more balanced which may reflect genuine uncertainty over the impact of tariffs in the real economy. Transcripts released in January from FOMC meetings in 2019 revealed views within the FOMC of trade tariff policies then creating "headwinds" for the economy due to increased uncertainty. We believe this points to an increased chance of our view of more rate cuts coming in H2 materialising with a risk the Fed cuts more than what's currently priced.

USD stronger initially but then expect a reversal

We continue to expect the dollar to strengthen further over the coming months. An aggressive approach to trade tariff policies seems likely and tariff actions will help strengthen the dollar before we see weaker economic growth allowing more Fed easing that leads to some reversal of US dollar strength in H2 2025.

	Interest Rate Close	Q1 2025	Q2 2025	Q3 2025	Q4 2025
Policy Rate	4.33%	4.38%	4.13%	3.88%	3.88%
3-Month T-Bill	4.28%	4.26%	4.01%	3.80%	3.83%
10-Year Yield	4.54%	4.75%	4.75%	4.63%	4.63%

* Interest rate assumptions incorporated into MUFG foreign exchange forecasts.

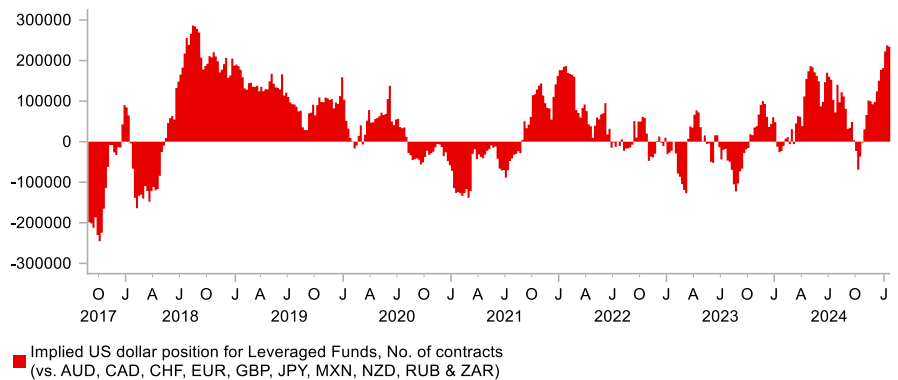
INTEREST RATE OUTLOOK

While the Fed remains in a data dependent “wait and see” position for now, we still expect them to deliver two rate cuts this year.

As we discussed in our Fed recap ([see link](#)) the FOMC left rates unchanged at the 4.25-4.50% range at their January meeting, the first skip after a series of rate cuts in late 2024. The overall sentiment from the press conference indicated the Fed is in no hurry to cut and will continue to be data dependent, signalling rates remain restrictive and well-calibrated. In terms of balance sheet policy, Powell said the most recent data suggests that reserves are still abundant and are roughly as high as when runoff began, providing no specific time period for any changes in QT policy. Since publishing our 2025 outlook ([see link](#)), we have changed our Fed view ([see link](#)) to only expecting two cuts this year, matching the Fed’s projections. In our view, “not in a hurry” means the Fed will skip at least two meetings in a row, including March. May and June are on the table for rate adjustments, as Powell said policy is still in restrictive territory. As for the rates outlook, further out the curve long term rates have settled into range after initial concerns around the new administration’s policies, and we expect this trend to continue in the near term (George Goncalves)

Long USD is a very crowded trade at the start of Trump’s second term

IMM POSITIONING FOR USD HELD BY LEVERAGED FUNDS



Source: Bloomberg, Macrobond & MUFG GMR

US yields & USD put in place near-term peak in January

PERFORMANCE OF USD & LONG-TERM US YIELDS



Source: Bloomberg, Macrobond & MUFG GMR

Japanese yen

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/JPY	154.91	154.00	152.00	150.00	148.00
EUR/JPY	161.03	152.50	155.00	157.50	159.80
		Range	Range	Range	Range
USD/JPY		145.00-160.00	143.00-158.00	141.00-156.00	139.00-154.00
EUR/JPY		151.00-166.00	152.00-167.00	153.00-168.00	154.00-169.00

MARKET UPDATE

JPY outperforms

In January the yen strengthened versus the US dollar in terms of London closing rates from 156.78 to 154.91. In addition, the yen strengthened versus the euro from 163.05 to 161.03. The BoJ at its meeting in January raised the key policy rate by 25bps to 0.50%, the first 25bp rate hike since before the GFC in 2007. The BoJ is also continuing with the policy of cutting JGB purchases that was announced last July that will see purchases cut by JPY 400bn per quarter that will result in the BoJ's balance sheet being reduced by 7-8% by Q1 2026.

OUTLOOK

Yen top performing G10 currency in January

The yen strengthened in January on two clear factors. Firstly, the Trump administration did not confirm tariff action until the final hours of trading in January so the dollar had generally been weaker. But this looks now like a false hope and we maintain the dollar will strengthen more broadly and vs CNY. Upward pressure on USD/CNY could fuel yen selling and we may now see some upside momentum although we suspect JPY will weaken by less than other G10 currencies especially if the Chinese authorities closely manage CNY. The second factor was the decision of the BoJ to hike its key policy rate by 25bps to 0.50% - the biggest rate increase since 2007. We continue to see much bigger downside risks for USD/JPY ahead. The global inflation surge, higher global yields and ultra-low rates in Japan were the primary factors that took USD/JPY from 115.00 in 2022 to the highs around 160.00. Those factors have clearly reversed and will help prompt JPY strength ahead.

BoJ guidance signals more hikes to come

The message from Governor Ueda at the policy meeting was clear – the BoJ's inflation objective is increasingly being met – the updated projections showed forecasts at or over 2.0% in each of the three forecast periods with the core nationwide CPI for FY25 revised higher by 0.5ppt to 2.4%. The information from regional BoJ offices also confirmed another positive year for wage negotiations was likely. Following the BoJ rate hike Deputy Governor Himino gave a speech (30th Jan) and repeated many of the comments he made in a speech before the BoJ meeting. His message was also clear – that outside of times of crisis or period of deflation shocks, there is limited need for the policy rate in real terms to be negative. Himino argued that given Japan is now close to achieving price stability, it is less justified to need negative policy rates. Many assume the R* (based on BoJ references previously) to be in a range of -1.0% to +0.5% but Himino appears to believe the bottom of that range is too low. It suggests the nominal terminal rate could well be higher than 1.0% implying scope for notably more hikes than currently priced.

BoJ provides further reason for JPY recovery

Forward OIS pricing implies a terminal rate of 1.00%. We see risks of the BoJ doing more than this and two further rate hikes this year (while not our formal view) is possible. The yen will continue to come under further upward pressure and we expect to see a steady orderly decline lower.

	Interest Rate Close	Q1 2025	Q2 2025	Q3 2025	Q4 2025
Policy Rate	0.50%	0.50%	0.50%	0.75%	0.75%
3-Month Bill	0.32%	0.60%	0.70%	0.85%	0.90%
10-Year Yield	1.25%	1.20%	1.25%	1.40%	1.45%

* Interest rate assumptions incorporated into MUFG foreign exchange forecasts.

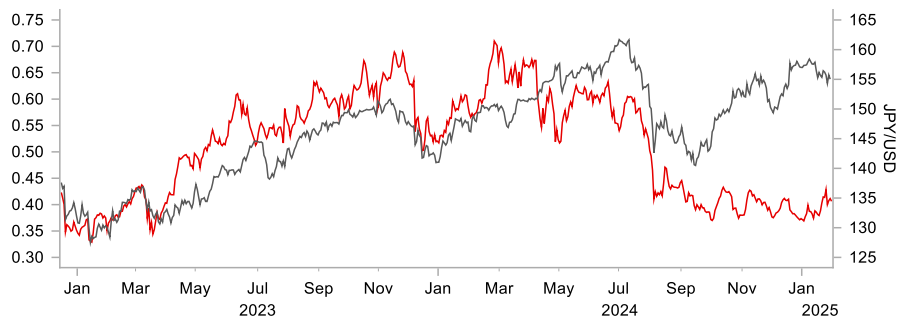
INTEREST RATE OUTLOOK

BoJ more confident on achieving its inflation goal

The 10-year JGB yield increased by 15bps in January to close at 1.25%. The 10-year yield closed at a high of 1.26% during January which was the highest close since April 2011 and underlines the shift in investor expectations over monetary policy and inflation in Japan. The move higher in yields was helped by the decision of the BoJ to hike by 25bps, the biggest hike since 2007. We believe the communications from Governor Ueda at the meeting, the inflation forecasts, and the comments in two speeches by Deputy Governor Himino all point to increased confidence of achieving the BoJ inflation goal. A positive round of 'shunto' wage negotiations and a relatively limited move for the yen could mean we get another hike sooner than anticipated – by July. If that happens, while not our view, we see an increased risk of another hike before year-end. The 10-year JGB yield would therefore also be higher while the trade tariff policies of President Trump could also influence JGB yields. Finally, cheaper hedging costs for Japanese investors could see increased outflows on a hedged basis at the expense of JGBs that would further support JGB yields.

Narrowing yield spreads making JPY-funded carry trades less attractive

USD/JPY vs. CARRY ATTRACTIVENESS

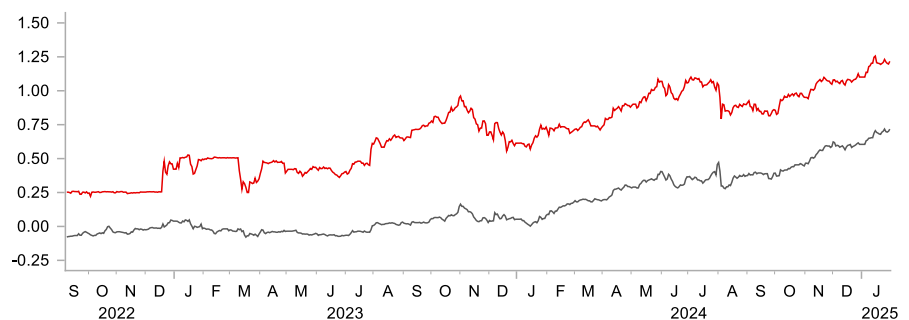


— Japan, FX Spot Rates, Macrobond, JPY per USD
 — Carry Ratio (US-JP 3Mth Govt Yld Spread/ USDJPY 3Mth Implied Vol)(Left)

Source: Bloomberg, Macrobond & MUFG GMR

BoJ signals clearly that rates are likely to rise further

2-YEAR & 10-YEAR JGB YIELDS



— Japan Govt 2Y Simple Yield
 — Japan Govt 10 Yr

Source: Bloomberg, Macrobond & MUFG GMR

Euro

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
EUR/USD	1.0395	0.9900	1.0200	1.0500	1.0800
EUR/JPY	161.03	152.50	155.00	157.50	159.80
		Range	Range	Range	Range
EUR/USD		0.9700-1.0600	0.9900-1.0700	1.0100-1.0900	1.0300-1.1100
EUR/JPY		151.00-166.00	152.00-167.00	153.00-168.00	154.00-169.00

MARKET UPDATE

EUR strengthens further

In January the euro weakened very slightly versus the US dollar in terms of London closing rates, moving from 1.0400 to 1.0395. The ECB at its meeting in January announced a 25bp cut to the key policy rate to 2.75% and followed 100bps of cuts last year. The ECB is running down APP securities and started PEPP run-off in July with about EUR 425bn of securities rolling off the balance sheet in 2025.

OUTLOOK

EUR risks remain skewed to the downside

EUR/USD broke below the 1.0200-level in January for the first time since November 2022 but then rebounded in response to the lack of day one tariffs by President Trump after his inauguration. The confirmation of tariffs on Canada, Mexico and China, effective 4th February means we can now expect EUR/USD to drop further below the recent low (1.0178) quite quickly as investors reassess the US approach to tariff policies. Europe could well be the next target to be hit. The euro-zone economy as a whole exports an equivalent of a little under 20% of GDP although Germany's export size is much larger. Euro-zone exports to the US alone are equivalent to close to 3.5% of GDP. A deterioration in global trade, if tariffs are now to be widely implemented, would certainly impact the euro-zone economy that is already weak. Q/Q real GDP in Q4 flat-lined in Q4, a sharp slowdown from the 0.4% growth rate in Q3. Escalating trade frictions would only reinforce the headwinds for the euro-zone economy. President Trump stated on 1st February when formally announcing his tariffs that something "very substantial" was forthcoming and this threat will likely see the FX markets pricing in imminent tariff action against the euro-zone.

ECB signals more cuts to come

The ECB at its meeting in January emphasised downside risks to growth, citing "headwinds" that reinforced expectations of more cuts to come. President Lagarde described the idea of discussing a pause in the easing cycle as "premature" and cited the disinflation process as "well on track". The ECB message was clear – we have more easing to do which we believe underlined the prospect of the ECB continuing to cut to the 2.00% level – a possible estimate for the neutral rate. The ECB staff are scheduled to release an update analysis of the estimate neutral rate on 7th February. There is certainly a risk that the ECB may need to take the policy rate back into accommodative territory. Action by the Trump administration to implement tariffs on the euro-zone would certainly see the rates market move to price that scenario in. The ECB meeting has already seen a move in that direction with the potential for more aggressive cuts being priced. Tariff risks will ensure the rate spread driver for FX keeps EUR/USD under downward pressure over the coming months.

EUR/USD to parity remains likely despite lack of tariff action to date

The squeeze higher in EUR/USD in January on a lack of tariff action was brief and risks remain high of action to come that will keep EUR/USD under downward pressure. A 5% further drop is likely. Weaker growth in the US later this year and the prospect of renewed Fed easing should then allow for some EUR/USD recovery.

	Interest Rate Close	Q1 2025	Q2 2025	Q3 2025	Q4 2025
Policy Rate	2.75%	2.50%	2.00%	2.00%	2.00%
3-Month Bill	2.55%	2.20%	1.80%	1.90%	1.90%
10-Year Yield	2.46%	2.30%	2.10%	2.20%	2.30%

* Interest rate assumptions incorporated into MUFG foreign exchange forecasts.

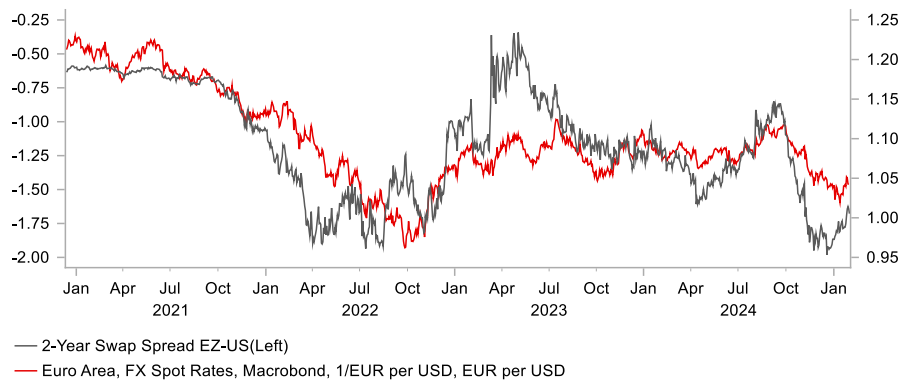
INTEREST RATE OUTLOOK

Weak growth and inflation and ECB easing signal will help contain yields

The 10-year bund yield increased in January, by 9bps to close at 2.46%. The move in German bunds was in contrast to the decline in yields in the US and the UK and may reflect in part the fact that through most of January the markets had pared back the extent of ECB easing. But a bigger factor was likely the easing of political risks in France that saw the OAT/Bund spread narrow. Progress was made on a budget for this year with President Macron also agreeing to a period for renegotiation of his flagship pension reform policies that has diminished the risk of another collapse of government. Still, the ECB meeting toward the end of January saw the pace of yield decline pick up as expectations of more substantial ECB rate cuts intensified. The weak GDP data and the prospect of trade tariffs from the US will keep substantial rate cut expectations intact. The release of an ECB staff analysis on the estimated neutral monetary policy rate will be important in shaping expectations of the potential terminal rate. We assume the updated estimate will be close to the 2.00% level assumed by the market. Bond supply concerns globally will continue to curtail the scope for yields to decline notably from current levels.

ECB-Fed policy divergence to widen further at start of this year

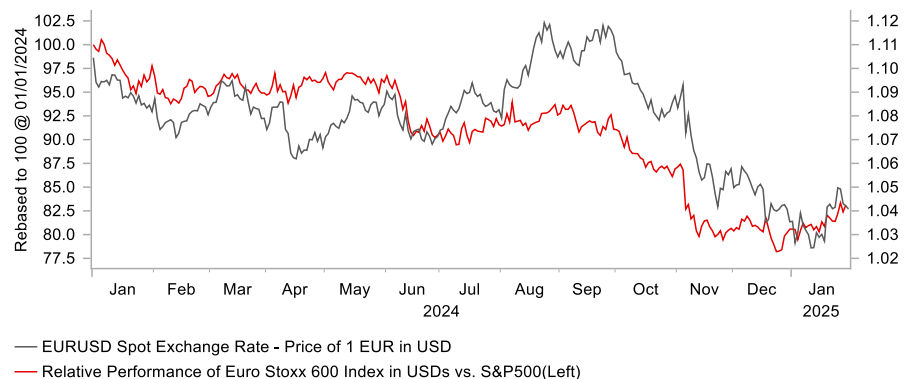
EUR/USD VS. SHORT-TERM YIELD SPREAD



Source: Bloomberg, Macrobond & MUFG GMR

US tech stock wobble has cast some doubts on continued US exceptionalism as an investment theme

EUR/USD VS. RELATIVE PERFORMANCE OF EZ OVER US EQUITIES



Source: Bloomberg, Macrobond & MUFG GMR

Pound sterling

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
EUR/GBP	0.8364	0.8275	0.8250	0.8200	0.8300
GBP/USD	1.2429	1.1960	1.2360	1.2800	1.3010
GBP/JPY	192.54	184.20	187.90	192.10	192.60
		Range	Range	Range	Range
GBP/USD		1.1800-1.2700	1.2000-1.2900	1.2200-1.3200	1.2400-1.3400

MARKET UPDATE

GBP weakens

In January the pound weakened further against the US dollar in terms of London closing rates from 1.2538 to 1.2429. In addition, the pound weakened against the euro from 0.8295 to 0.8364. The MPC did not meet in January and hence the key policy rate was unchanged at 4.75%. The MPC cut the key policy rate twice last year – by 25bps in August and November.

OUTLOOK

Fiscal crisis concerns overblown

The pound was the 2nd worst performing G10 currency in January, weakening marginally versus the US dollar. There was certainly some increased focus on the UK fiscal outlook that prompted some underperformance of Gilts relative to US Treasuries that undermined GBP performance. The 10-year Gilt yield saw a 10bp larger move than Treasuries when yields peaked prior to Trump's inauguration but that gap narrowed by month-end. We understand there are some increased risks for Gilts given the UK must compete with many other developed economies who are also running large deficits. But the UK government has made efforts to tackle this and OBR forecasts show the UK running a balanced primary budget followed by a surplus over the final three years of the forecast profile. The government have also strongly reiterated adherence to the self-imposed fiscal rules and are committed to government spending cuts if required. Increased Gilt supply due to the budget and QT from the BoE mean Gilt market risks are higher but we do not see a crisis-type scenario that would see GBP suffer notably.

Macro backdrop should help drive yields lower

We believe investor concerns over rising Gilt yields should ease given the outlook for wages and inflation. Labour demand is clearly weakening. The PAYE (tax) measure of employment shows a near 80k drop in jobs in the last two months, and four declines in the last five months. The trend over the last 18mths is clearly trending weaker. The 3mth annual average weekly earnings level remains elevated at 5.6% but the jobs data will translate into slower wage growth ahead. The KPMG/REC jobs survey data shows a clear slowdown in full-time and part-time wage growth. Underlying inflation is slowing with service CPI falling sharply from 5.0% to 4.4% - the BoE was expecting 4.8%. We expect the BoE to cut by 25bps on 6th February and to cut by 100bps this year, more than the current market pricing of 70bps.

GBP to strengthen versus USD with limited moves versus EUR

The BoE cutting rates more than expected in theory should mean GBP underperformance. But given the risks associated with the sustainability of fiscal policy, falling yields will ease those concerns and curtail negative implications for GBP. Given our bearish USD view in 2H (and the fiscal outlook is arguably worse in the US) we expect GBP/USD to advance with those gains similar to the gains in EUR/USD which would mean EUR/GBP moves are contained. Lower wages and inflation in the UK would clearly help provide some general positive sentiment. Trump's comments on tariffs suggest the UK is not a target priority.

	Interest Rate Close	Q1 2025	Q2 2025	Q3 2025	Q4 2025
Policy Rate	4.75%	4.50%	4.00%	3.75%	3.75%
3-Month Bill	4.57%	4.40%	3.80%	3.60%	3.60%
10-Year Yield	4.54%	4.40%	4.10%	4.20%	4.30%

* Interest rate assumptions incorporated into MUFG foreign exchange forecasts.

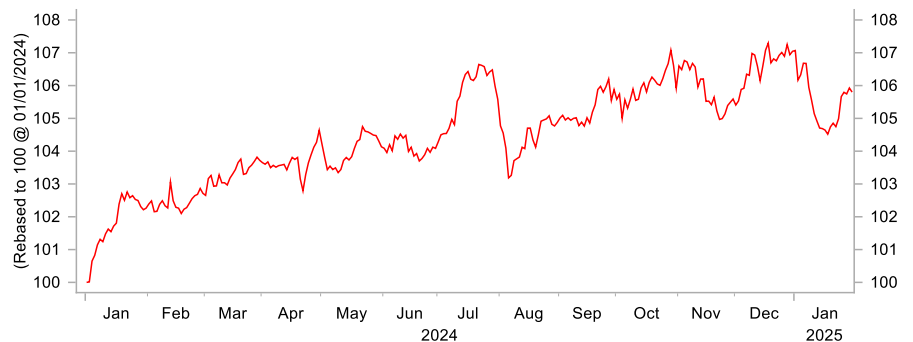
INTEREST RATE OUTLOOK

Gilt yields should be close to peaking

The 10-year Gilt yield ultimately fell in January, but by just 4bps to close at 4.53%. However, the drop by month-end did follow a substantial jump in yields with the 10-year surging to a closing high of 4.89%, reflecting a similar move in the US as the markets positioned for the inflationary risks related to trade tariffs. Those tariffs did not initially come and yields retraced lower. The move in Gilts prompted increased fears over another debt crisis similar to what happened under Liz Truss' leadership in 2022. However, we see the backdrop now as quite different and more led by US developments. The fiscal outlook and the supply of Gilts do increase risks of bond market instability but ultimately we expect inflation risks in the UK to recede as labour demand has eased that will likely translate to weaker wage growth. The government have also stressed its commitment to their self-imposed fiscal rules. We continue to expect this better inflation backdrop this year to result in the BoE cutting rates more than expected – by 100bps, starting with a 25bp cut on 6th February. Another sell-off in the US Treasury bond market is the biggest risk for the Gilt market but assuming that is avoided we see the 10-year Gilt yield drifting lower this year.

A setback for the GBP after last year's gains

PERFORMANCE OF GBP VS. OTHER G10 FX

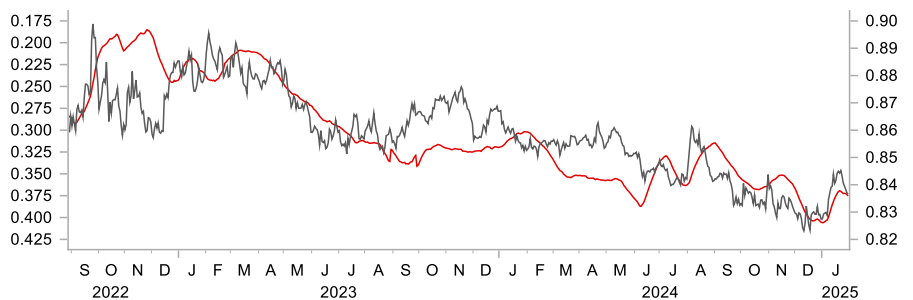


— GBP performance vs. equally-weighted basket of other G10 FX

Source: Bloomberg, Macrobond & MUFG GMR

Higher yields on offer in UK have been encouraging stronger GBP

EUR/GBP VS. CARRY ATTRACTIVENESS OF GBP



— EURGBP Spot Exchange Rate - Price of 1 EUR in GBP

— (Inverted) Carry attractiveness of GBP over EUR - 3Mth UK-EZ Yield spread divided by EUR/GBP 3Mth Implied Vol (Left)

Source: Bloomberg, Macrobond & MUFG GMR

Chinese renminbi

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/CNY	7.2424	7.4000	7.5000	7.5000	7.4000
USD/HKD	7.7917	7.7900	7.7800	7.7700	7.7700
		Range	Range	Range	Range
USD/CNY		7.1000-7.6000	7.2000-7.7000	7.2000-7.7000	7.1000-7.6000
USD/HKD		7.7600-7.8400	7.7500-7.8300	7.7500-7.8300	7.7400-7.8200

MARKET UPDATE

USD/CNY likely rises, when onshore market reopens after the Chinese New Year, on Trump's recent tariffs rhetoric

In January, USD/CNY moved from 7.2993 to 7.2424. On 20th January, the PBoC kept the 1Y and 5Y LPR at 3.10% and 3.60% respectively. The PBoC also kept 1Y MLF rate steady at 2%. On 14th January, PBoC deputy Governor Xuan Changneng said that the PBoC will adopt a mix of monetary policy tools, such as interest rates and RRR, to keep liquidity ample and maintain an accommodative social financing environment.

OUTLOOK

Latest PMI prints bring urgency for further stimulus to sustain the recovery despite a Q4 GDP growth beat

China's 2024 growth target of 5% has been achieved thanks to a strong Q4 GDP print, but there are headwinds in 2025 to achieve a similar growth. It was a positive surprise that China's GDP grew by 5.4%yoy in Q4. As with the previous quarter, net exports played a big role in driving growth with 2.5ppts contribution, accounting for 46% of Q4 growth. Domestic consumption remained weak, contributing merely 1.6ppts. Sequentially, the economy expanded by 1.6%qoq in Q4, compared to an upwardly revised 1.3%qoq growth in Q3. December's economic data was rather mixed, with external demand from front-loading activities supporting better-than-expected IP/ exports growths and a slightly better retail sales growth, but slower than expected FAI and property investment YTD growths. December CPI and PPI inflations still indicated continued insufficient domestic demand. The rapid cooldown of activities in January, with composite PMI declining from 52.2 to 50.1, was more than a seasonal drop (due to Chinese New Year). The decline in PMI was broad-based across manufacturing (from 50.1 to 49.1), service (from 52.0 to 50.3) and construction (from 53.2 to 49.3) sectors.

We still expect USD/CNY to reach 7.5000 by Q2 2025

We expect the government to deploy more resources to support growth and sentiment going forward. The expansion of large-scale equipment upgrades and consumer goods trade-in program announced on 8th January and the guidance for local mutual funds and insurers to boost A-share investment announced on 23rd January are among the first to come. For USD/CNY, a more benign approach last month by Trump on imposing tariffs on China post his inauguration, especially only mentioning an additional 10% tariff on China's goods, once pushed the pair lower. With Trump signing the executive orders Saturday imposing tariffs on Canada, Mexico and China, likely push USD/CNY higher when China market reopens after Chinese New Year holidays. We think that US-China competition, American first, and reviving US manufacturing could mean further tariff increases on China goods, as the tariffs become a key tool of Trump's foreign policies and a negotiation strategy. We still maintain a view of phased 20% increase of US tariffs on China goods. One key thing to watch is the trade practices review he ordered on his day one, which is set to be concluded by 1st April. China's NPC meeting will commence early March, key economic targets including growth targets for 2025 and budget deficit ratio to GDP and etc., will be announced. Net, positive domestic developments are likely to be overwhelmed by tariffs and long-process of property sector recovery.

	Interest Rate Close	Q1 2025	Q2 2025	Q3 2025	Q4 2025
LPR 1Y	3.10%	2.90%	2.70%	2.70%	2.70%
MLF 1Y	2.00%	1.70%	1.50%	1.50%	1.50%
7-Day Repo Rate	1.50%	1.30%	1.10%	1.10%	1.10%
10-Year Yield	1.63%	1.60%	1.60%	1.70%	1.80%

* Interest rate assumptions incorporated into MUFG foreign exchange forecasts.

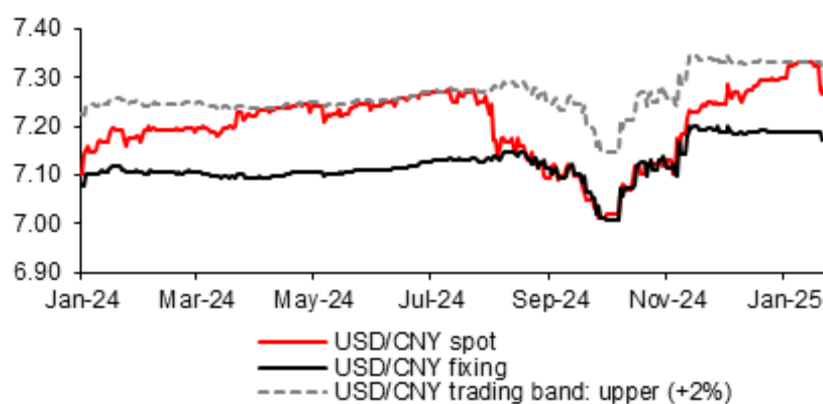
INTEREST RATE OUTLOOK

10y CGB yield has likely found near-term support around 1.60%.

One highlight of the month was the PBOC's announcement of suspending the purchase of government bonds, citing insufficient bond supply to match the demand. While it helped support the 10y CGB yield to end the month roughly flat as prior month (-4bps to 1.63%), short-end CGB yields such as 2-year CGB was up by 18bps to 1.28%. It resulted in a flattening of the curve. The spike in short-end yields could be linked to market dialling back expectations of more aggressive rate cuts given the PBOC's explicit intention to maintain a stable CNY. Looking ahead, we see some moderate upside risk for the 10yr CGB yield as the government would likely resume the operation and steepen the curve given the PBoC's preference to maintain an upward sloping curve. With rate cuts well priced in, any positive surprise from the March NPC would pose upside risks for long-end yields. For the interest rates path, given the PBoC's intention to ease the monetary stance, we think that recent CNY appreciation due to Trump's softer tone on China may have provided a good opportunity for the PBoC to ease in February/Q1. For 2025, we still expect a total of 40bps of rate cuts on the 7-day reverse repo rate – 20bps each in Q1 and Q2.

Temporary relief for CNY towards the end of month after a consistent strong fixing from the PBoC

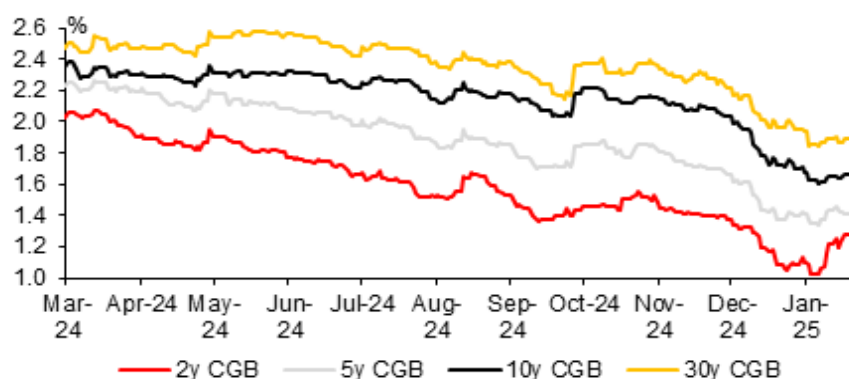
USD/CNY SPOT FINALLY CAME OFF FROM THE UPPER END OF THE BAND



Source: Bloomberg, MUFG GMR

A flattening curve is not PBoC's preference

2Y CGB YIELD SPIKE CAUSING THE CURVE TO FLATTEN



Source: Bloomberg, MUFG GMR

Australian dollar

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
AUD/USD	0.6237	0.5900	0.6000	0.6200	0.6400
AUD/JPY	96.617	90.860	91.200	93.000	94.720
EUR/AUD	1.6667	1.6780	1.7000	1.6940	1.6880
		Range	Range	Range	Range
AUD/USD		0.5800-0.6800	0.5900-0.6900	0.6000-0.7000	0.6200-0.7200

MARKET UPDATE

AUD recovers modestly

In January the Australian dollar strengthened against the US dollar in terms of London closing rates from 0.6205 to 0.6237. The RBA did not meet in January and hence the key policy rate was unchanged at 4.35% and was one of only three G10 central banks not to have cut rates in 2024 (the Norges bank and BoJ the others).

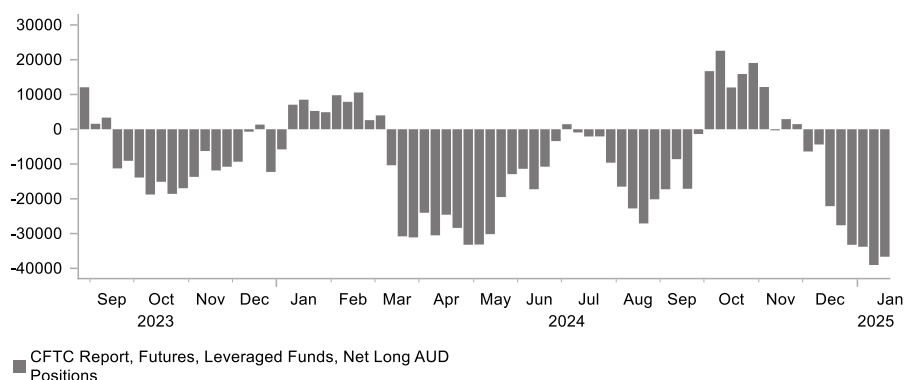
OUTLOOK

AUD downside risks prevail for now with recovery likely in 2H

The performance of the Australian dollar since the start of 2025 was dictated, like other G10 currencies, initially by Trump's more pragmatic approach to tariffs. Of course the tariffs announced on 1st February means AUD/USD is set to drop given the 10% tariff on China. The long USD position was a crowded trade in anticipation of tariffs and the lack of tariff announcements initially led investors to assume a more pragmatic approach, perhaps reflecting concerns over inflation risks in the US. The 25% tariffs on Canada and Mexico, while less impactful on Australia does signal an aggressive approach and hence a hit to global trade which is AUD negative and hence downside risks for AUD will remain in place over the coming months. The Q4 inflation data released toward the end of January were consistent with the prospect of a first cut from the RBA at its meeting in February, which is now nearly fully priced. The trimmed mean annual CPI rate slowed to 3.2%, the lowest in three years. Still, the scope for considerable cuts does not look as compelling given the labour market in Australia remains much more resilient than expected. Once we get through the near-term uncertainty over tariffs, we see the resilience of the economy and the prospect of more stimulus in China to offset US trade tariffs as positives for AUD that will allow for some recovery in 2H of this year. A general election is set to be called, probably in Q2, with a new coalition government possible but we do not see this as having a big impact on AUD performance.

US-China trade war fears have encouraged build-up of short AUD positions

IMM POSITIONING FOR AUD HELD BY LEVERAGED FUNDS



Source: Bloomberg, Macrobond & MUFG GMR

New Zealand dollar

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
NZD/USD	0.5657	0.5350	0.5400	0.5600	0.5800
NZD/JPY	87.633	82.390	82.080	84.000	85.840
AUD/NZD	1.1025	1.1030	1.1110	1.1070	1.1030
		Range	Range	Range	Range
NZD/USD		0.5300-0.6000	0.5300-0.6100	0.5500-0.6200	0.5700-0.6300

MARKET UPDATE

NZD rebounds

In January the New Zealand dollar strengthened against the US dollar in terms of London closing rates from 0.5615 to 0.5657. In addition, the New Zealand dollar gained against the Australian dollar, but very marginally, from 1.1051 to 1.1025. The RBNZ did not meet in January and hence the key policy rate was unchanged at 4.25% following 125bps of cuts last year.

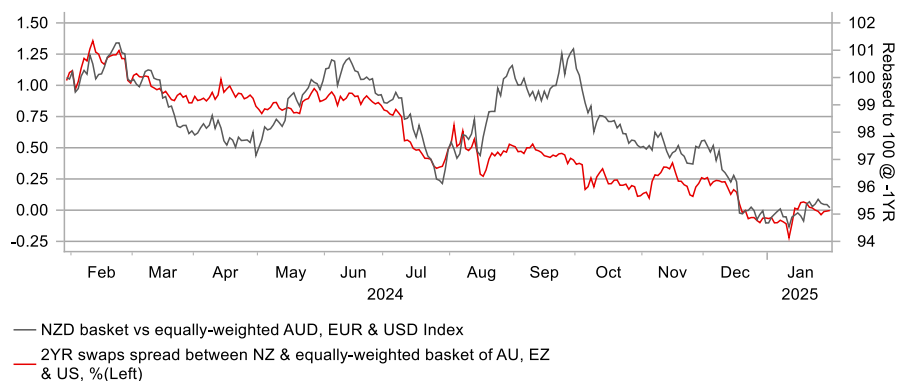
OUTLOOK

NZD downside risks before recovery in 2H

The New Zealand dollar has seen a very modest recovery since the start of 2025 triggered by the initial signs of a more pragmatic approach by President Trump to the implementation of tariffs. However, the 1st February announcement of tariffs on Canada, Mexico and China will see that modest NZD bounce turn to renewed selling as investors reassess global trade disruption risks that will be bad for countries like New Zealand. Given the near-12% drop in NZD/USD in Q4 on Trump trade policy expectations, the rebound in January has been modest. NZD declines will also be fuelled by the fears that the RBNZ over-tightened to the determinant of the economy going forward. The RBNZ has been more aggressive in easing than most other G10 central banks and that should help improve economic conditions. The economy probably contracted by 0.3% in 2024 but is expected to rebound by 1.3% this year. Inflation is now close to target (at 2.2% YoY in Q4) and the RBNZ is set to cut by 50bps in February. Another 50bps of easing is priced by July which by then the RBNZ policy rate will be around the neutral rate. If growth does pick up as expected, NZD could by then begin to rebound after initially declining further due to tariff risks and global growth uncertainties. NZD/USD could still see a 4-5% drop from here initially but at levels below 0.5500, demand is likely to pick up on less trade uncertainty and better growth in New Zealand later this year.

More aggressive RBNZ rate cuts undermine NZD

PERFORMANCE OF NZD VS SHORT-TERM YIELD SPREADS



Source: Bloomberg, Macrobond & MUFG GMR

Canadian dollar

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/CAD	1.4472	1.5200	1.4700	1.4500	1.4200
CAD/JPY	107.04	101.32	103.40	103.45	104.23
EUR/CAD	1.5044	1.5050	1.4990	1.5230	1.5340
		Range	Range	Range	Range
USD/CAD		1.4000-1.6000	1.3700-1.5700	1.3400-1.5400	1.3000-1.5000

MARKET UPDATE

CAD weakens

In January the Canadian dollar weakened against the US dollar in terms of London closing rates with USD/CAD rising from 1.4385 to 1.4472. The Bank of Canada at its meeting in January cut the key policy rate by 25bps to 3.00%, following five cuts in consecutive meetings totalling 175bps.

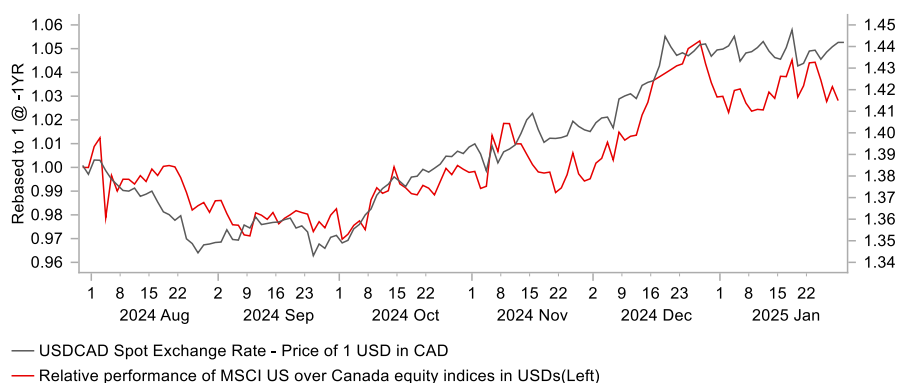
OUTLOOK

CAD downside risks remain on Trump trade tariff disruption

The Canadian dollar was the worst performing G10 currency in January and for good reason – President Trump instead of focusing on China and a broad number of trading partners for trade tariffs has instead honed in on Canada and Mexico specifically. The confirmation of a 25% tariff on all imports (crude oil 10%) highlights an aggressive approach that is likely to mean a hefty further jump in USD/CAD on substantial trade disruptions going forward. There may be some curtailment of CAD selling on expectations amongst investors that Trump will quickly reverse the policy due to actions taken by Canada to strengthen border security. About 15% of total US imports come from Canada with energy, timber and paper, and autos and auto parts the biggest portion of those imports. Canada has also threatened retaliation quickly which raises near-term inflation risks. This risk did not stop the BoC from cutting rates by 25bps on 29th January but the communications did point to increased concerns which could see the BoC pause going forward. The BoC guidance in the statement removed the reference to additional rate cuts although this may in part merely reflect uncertainty over US trade tariffs. The BoC was clear that tariffs on the scale suggested would be a negative for the economy. QT was formally brought to an end and renewed purchases will take place with the balance sheet managed in line with the economy. If tariffs do get implemented we will see a clear break higher to levels beyond 1.5000 as Canada's economy takes a big hit.

Heightened trade policy uncertainty is expected to hurt Canada's economy more than US

USD/CAD VS. RELATIVE EQUITY MARKET PERFORMANCE



Source: Bloomberg, Macrobond & MUFG GMR

Norwegian krone

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
EUR/NOK	11.739	11.900	12.100	12.000	11.900
USD/NOK	11.293	12.020	11.863	11.429	11.019
NOK/JPY	13.718	12.810	12.810	13.130	13.430
		Range	Range	Range	Range
EUR/NOK		11.300-12.400	11.300-12.500	11.200-12.400	11.000-12.300

MARKET UPDATE

Marginally stronger vs. EUR

In January the krone strengthened against the euro in terms of London closing rates from 11.785 to 11.739. The Norges Bank maintained the policy rate at 4.50%.

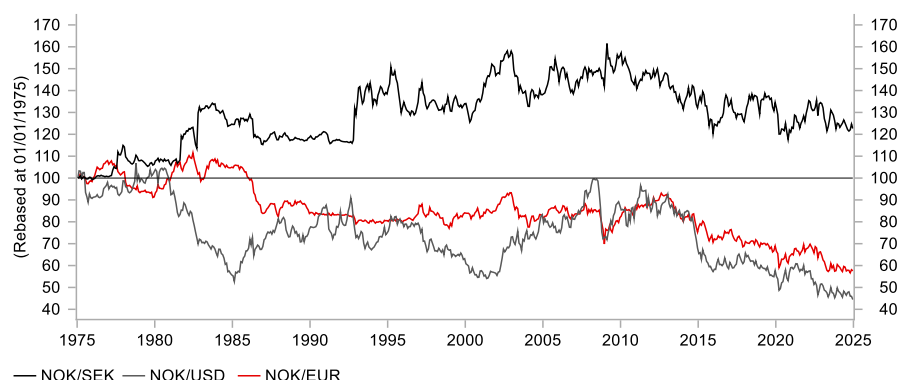
OUTLOOK

Krone to remain weak amidst challenging external backdrop

The krone has traded within a tight range against the euro at the start of this year. The krone initially benefitted from the paring back of fears over trade disruption at the start of Donald Trump's second term as president after he refrained from hiking tariffs. However, it provided only temporary relief as President Trump has since confirmed tariffs on Canada, Mexico, and China from 4th February, and has voiced concern over the size of the EU's trade surplus with the US. We expect global trade disruption and the Fed keeping rates higher for longer to keep the krone at weaker levels in the year ahead. At the same time, President Trump has called on OPEC+ members to bring down the price of oil. Our commodity analyst already expects supply to exceed demand in the oil market this year putting downward pressure on prices which would be a negative development for the krone. The price of oil briefly rose back above USD80/barrel at the start of this year in response to sanctions imposed on Russia at the end of Biden's presidency which helped to lift the geopolitical risk premium. The main event domestically for the krone at the start of this year was the Norges Bank's latest policy meeting. The Norges Bank continues to lag other G10 central banks in cutting rates but provided stronger confirmation that they will begin their easing cycle in March when updated forecasts for the economy will be presented. We expect the Norges Bank to deliver 75bps of cuts by the end of this year. Lower rates will reduce support for the krone although the Norges Bank's reluctance to cut rates last year did not prevent a weaker krone in 2024. Negative external factors are set to remain more important than domestic drivers this year.

Weakening trend for NOK remains in place

LONG-TERM NOK PERFORMANCE VS. EUR, SEK & USD



Source: Bloomberg, Macrobond & MUFG GMR

Swedish krona

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
EUR/SEK	11.488	11.600	11.800	11.700	11.600
USD/SEK	11.051	11.717	11.569	11.143	10.7410
SEK/JPY	14.018	13.140	13.140	13.460	13.780
		Range	Range	Range	Range
EUR/SEK		11.200-12.100	11.200-12.300	11.100-12.200	11.000-12.100

MARKET UPDATE

Marginally weaker vs. EUR

In January the krona weakened marginally against the euro in terms of London closing rates from 11.460 to 11.488. The Riksbank lowered the repo rate by 0.25 point to 2.25%.

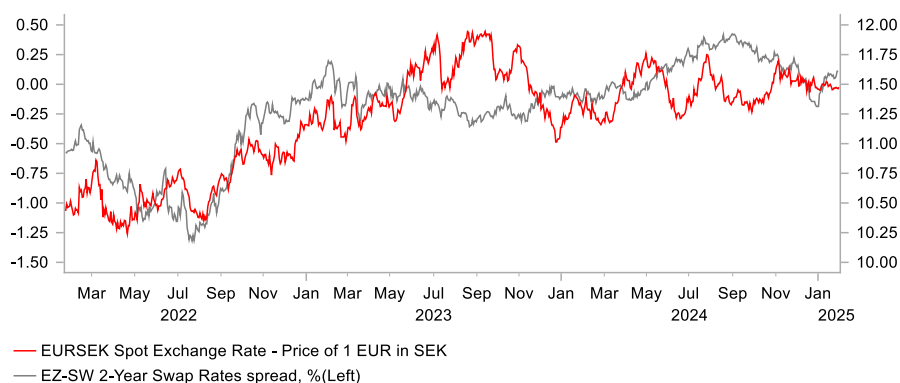
OUTLOOK

Global trade disruption means risks remain tilted to downside for SEK at start of 2025

The krona has traded within tight range against the euro at the start of this year. The krona initially benefitted from the paring back of fears over trade disruption at the start of Donald Trump's second term as president after he refrained from hiking tariffs on Day 1. However, it has proven to be only temporary relief after President Trump confirmed tariffs on Canada, Mexico, and China from 4th February, and has voiced concern over the size of the EU's trade surplus with the US. We expect global trade disruption and the Fed keeping rates higher for longer to keep the krona at weaker levels in the year ahead. Sweden's economy remained weak at the end of last year with GDP expected to be close to flat keeping pressure on the Riksbank to lower rates further. The Riksbank had been expecting the economy to expand by 0.4% in Q4. At the same time inflation in Sweden has fallen below the Riksbank's 2.0% target. Headline inflation slowed to an annual rate of just 0.8% in December, and core inflation (CPIF excluding energy) slowed to 2.1%. The cyclical backdrop in Sweden has increased the likelihood that the policy rate could even be lowered below 2.00% this year that would put a dampener on krona performance although the negative impact will be partially offset by further easing from the ECB and Norges Bank as well. The impact of lower rates should help Sweden's economy to begin to recover later this year. GDP growth is expected to pick-up towards 2.0% this year from around 0.5% last year.

Narrower yield spread between Sweden & euro-zone helping to maintain weaker SEK

EUR/SEK VS. SHORT-TERM YIELD SPREAD



Source: Bloomberg, Macrobond & MUFG GMR

Swiss franc

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
EUR/CHF	0.9452	0.9300	0.9200	0.9300	0.9400
USD/CHF	0.9093	0.9390	0.9020	0.8860	0.8700
CHF/JPY	170.36	163.90	168.50	169.40	170.00
		Range	Range	Range	Range
EUR/CHF		0.9000-0.9600	0.9000-0.9700	0.9000-0.9800	0.8900-0.9900

MARKET UPDATE

CHF weakens marginally

In January the Swiss franc weakened marginally versus the euro in terms of London closing rates moving from 0.9421 to 0.9452. The SNB did not meet in January and hence the key policy rate was unchanged at 0.50%, following 125bps of cuts last year.

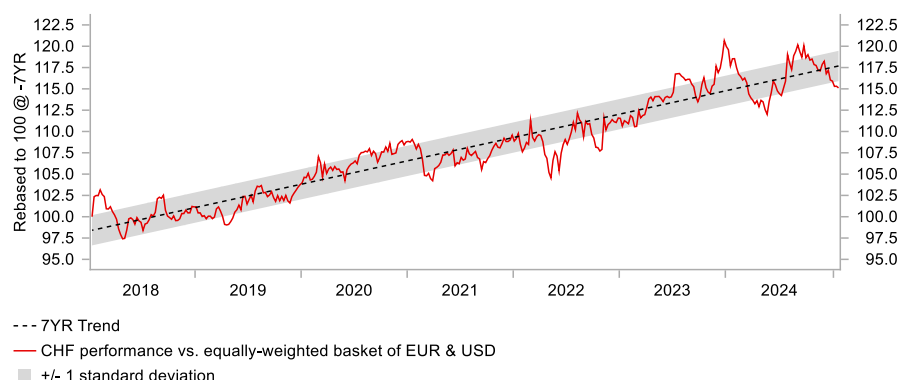
OUTLOOK

Limited scope for CHF to weaken

The Swiss franc weakened marginally versus the euro in January with financial market conditions generally favourable throughout most of the month due to initially a lack of trade tariff action by President Trump following his inauguration. However, the formal announcement of tariffs on Canada, Mexico and China is set to trigger a period of higher US rates and increased asset price volatility. CHF selling initially was also curtailed following the AI-related tech sell-off that increased risk aversion and supported the franc. We suspect increased financial market volatility under President Trump will be one factor that will help keep the franc well supported. In addition to that, the SNB is quickly approaching an additional problem – reaching the lower bound of interest rates. The annual inflation rate continues to plunge and was just 0.4% in December. The SNB now accepts that annual inflation could turn negative occasionally and to us this underlines the risk of monetary policy being excessively tight – in real terms. That could help provide support the franc and pressure could build for rates to turn negative again, or for the SNB to consider FX intervention again. SNB President did state that negative rates were possible but added that the SNB “doesn’t like negative interest rates”. A sense of reluctance to ease beyond the zero bound and the potential for intervention may help limit further notable CHF appreciation but is unlikely to fuel any notable depreciation especially in circumstances of increased risk aversion and financial market volatility.

Strengthening trend for CHF remains in place but it has become more volatile in recent years

PERFORMANCE OF CHF VS. EUR & USD



Source: Bloomberg, Macrobond & MUFG GMR

Czech koruna

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
EUR/CZK	25.174	25.300	25.400	25.500	25.600
USD/CZK	24.217	25.560	24.900	24.290	23.700
CZK/JPY	6.3967	6.0260	6.1040	6.1760	6.2440
		Range	Range	Range	Range
EUR/CZK		24.700-26.000	24.800-26.200	24.900-26.300	25.000-26.400

MARKET UPDATE

Marginally stronger

In January the Czech koruna strengthened marginally against the euro in terms of London closing rates from 25.204 to 25.174. The Czech National Bank (CNB) held the two-week repurchase rate at 4.00%.

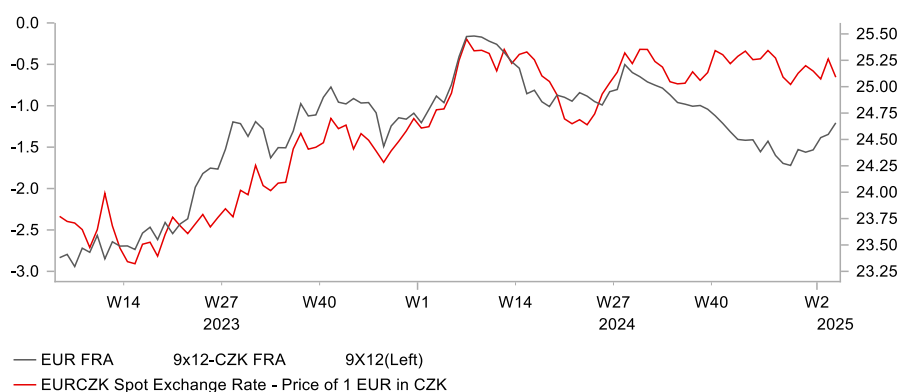
OUTLOOK

Trade disruption poses downside risks for CZK

The koruna has strengthened marginally against the euro at the start of this year resulting EUR/CZK moving towards the bottom of the 25.000 to 25.500 trading range that had been in place for most of last year. EUR/CZK has been consolidating since the ECB started to follow the CNB by cutting rates from the middle of last year. The CNB initially led the way when it began cutting rates at the end of 2023 but has since slowed the pace of rate cuts during the 2H of last year. Rates were left unchanged in December for the first time in the current easing cycle. The CNB is expected to resume rate cuts this year and lower the policy rate closer to the staff estimate of the neutral policy rate at 3.00%. Similarly, the ECB is expected to deliver another 75bps of rate cuts this year. The case of further CNB rate cuts is supported by the slowdown in inflation in the Czech Republic. Headline inflation is expected to remain closer to the CNB's 2.0% target this year while economic growth is expected to gradually strengthen after weak growth last year of around 1.0%. The main downside risk to growth in the Czech Republic and the koruna would be a global trade war during Trump's second term as president. While direct trade links between the US and the Czech Republic are relatively limited, the Czech economy would also be indirectly impacted by any negative hit to demand in European economies such as Germany especially if US tariffs are put in place on imports of autos from the EU. On the plus side, Trump's plans to bring an end to the conflict in Ukraine could provide more support for regional currencies including the koruna.

CNB & ECB rate cut cycles have become more aligned helping to stabilize EUR/CZK

EUR/CZK VS. SHORT-TERM YIELD SPREAD



Source: Bloomberg, Macrobond & MUFG GMR

Hungarian forint

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
EUR/HUF	407.42	414.00	418.00	420.00	422.00
USD/HUF	391.94	418.20	409.80	400.00	390.70
HUF/JPY	0.3952	0.3680	0.3710	0.3750	0.3790
		Range	Range	Range	Range
EUR/HUF		395.00-425.00	400.00-430.00	405.00-435.00	410.00-440.00

MARKET UPDATE

Modestly stronger

In January the Hungarian forint strengthened modestly against the euro in terms of London closing rates moving from 411.73 to 407.42. The National Bank of Hungary (NBH) held the base rate at 6.50%.

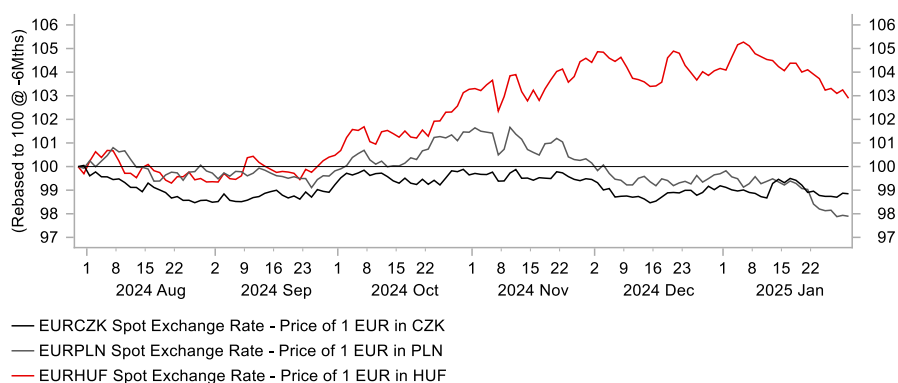
OUTLOOK

Risks remain tilted to downside for HUF

The forint has been recovering some lost ground at the start of this year following the heavy sell-off at the end of last year. It has resulted in EUR/HUF moving back to pre-US election levels between 405.00 and 410.00 after hitting a high of 416.65 on 7th January. The forint has recovered alongside other hard hit emerging market currencies after Donald Trump initially held off from raising tariffs at the start of his second term as president. However that changed on 1st February with tariffs on Canada, China and Mexico introduced, effective from 4th February. Other trade investigations could mean more tariffs after the 1st April deadline. In light of these developments the relief rally for emerging market currencies including the forint is likely to prove short-lived. Despite recent gains, the NBH remains wary that the forint could weaken further posing upside risks to the inflation outlook in Hungary. The NBH reiterated that it needs to maintain a “careful, patient” rate policy after leaving the policy rate unchanged at 6.50% for the fourth consecutive policy meeting. The NBH judged that upside inflation risks increased recently, and then signalled that the policy rate may stay unchanged for a “sustained period”. Headline inflation picked up to 4.6% in December moving it back above the NBH’s target of 3.0% +/- 1%. Market participants will be watching closely to see if the NBH is more open to lowering rates further when Finance Minister Varga takes over as the new Governor from March. The sharp weakening of the forint at the end of last year also reflected fears that the government will prioritize boosting growth this year ahead of key elections in 2026.

HUF has significantly underperformed even after recent gains

PERFORMANCE OF HUF VS. OTHER CENTRAL EUROPE FX



Source: Bloomberg, Macrobond & MUFG GMR

Polish zloty

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
EUR/PLN	4.2137	4.2500	4.2500	4.3000	4.3500
USD/PLN	4.0536	4.2930	4.1670	4.0950	4.0280
PLN/JPY	38.215	35.870	36.480	36.630	36.740
		Range	Range	Range	Range
EUR/PLN		4.1500-4.3500	4.1800-4.4000	4.2100-4.4500	4.2400-4.5000

MARKET UPDATE

Stronger

In January the Polish zloty strengthened against the euro in terms of London closing rates from 4.3510 to 4.2137. The National Bank of Poland (NBP) held the seven-day reference at 5.75%.

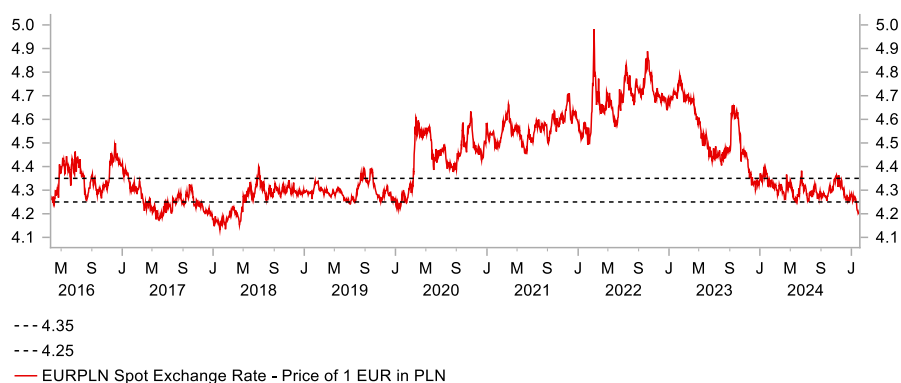
OUTLOOK

NBP's reluctance to lower rates remains supportive for PLN

The zloty has risen to the strongest level against the euro since April 2018 at the start of this year. EUR/PLN finally broke decisively below support at the 4.2500-level that had held throughout last year. The zloty has benefitted from the broad-based rebound for emerging market currencies triggered by Donald's Trump's decision not to hike tariffs at the start of his second term as president. However, that changed on 1st February when President Trump formally announced tariffs on imports from Canada, China and Mexico, effective 4th February. President Trump has expressed concern over the size of the EU's trade surplus with the US and President Trump implied that tariff action would be forthcoming on EU imports as well. Poland's direct exposure through trade to the US is relatively small but downside risks to growth and the zloty would be reinforced indirectly by any hit to growth in Europe especially by tariffs on the EU's auto sector. Trade disruption poses one of the main downside risks to growth in Poland this year. Market participants remain relatively optimistic that economic growth in Poland will rise back above 3% this year after GDP growth of around 2.7% last year when it was already one of the better performing European economies. Growth will be supported by a planned increase in defence spending to almost 5% of GDP and the utilisation of the EU's RRF funds. The stronger zloty has been encouraged by the NBP's reluctance to cut rates. Governor Glapinski has stated that rates may remain on hold for much of this year. The upcoming Polish presidential election may help to dampen zloty gains in Q2.

EUR/PLN breaks below support at 4.2500-level from last year

EUR/PLN VS. TRADING RANGE



Source: Bloomberg, Macrobond & MUFG GMR

Romanian leu

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
EUR/RON	4.9745	4.9800	4.9900	5.0100	5.0400
USD/RON	4.7855	5.0300	4.8920	4.7710	4.6670
RON/JPY	32.371	30.610	31.070	31.440	31.710
		Range	Range	Range	Range
EUR/RON		4.9500-5.0000	4.9500-5.0200	4.9600-5.0400	4.9800-5.0800

MARKET UPDATE

Marginally weaker

In January, the Romanian leu weakened marginally against the euro in terms of London closing rates moving from 4.9737 to 4.9745. The NBR maintained the policy rate at 6.50%.

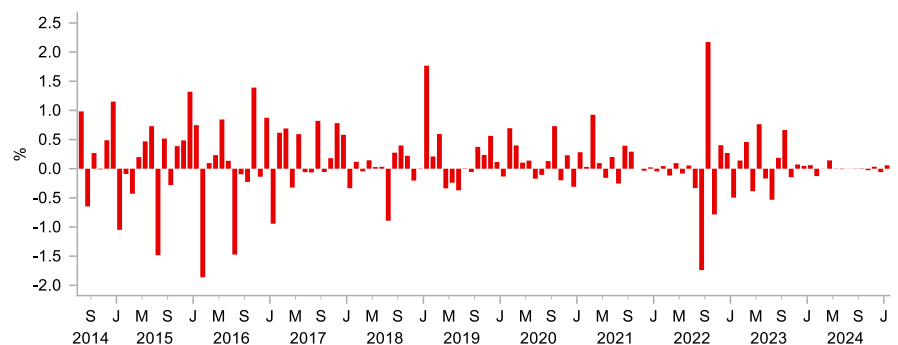
OUTLOOK

Leu to weaken as inflation slows further & domestic policymakers allow more flexibility in 2025

The leu continues to trade within a narrow range against the euro. EUR/RON has only briefly traded below 4.9700 or above 4.9800 since late in 2023. Last year was the most stable on record for the leu. The price action suggests that the leu has been even more tightly controlled. The leu has remained stable against the euro even as Romania has not yet entered ERM II in preparation for joining the euro area given it does not satisfy the membership criteria. The tighter control of the leu suggests that domestic policymakers are keen to prevent the leu from weakening more and undermining their efforts to bring inflation back under control. Headline inflation has stabilized at around 5.0% during the 2H of last year, and remains well above the NBR's target range of between 1.5% to 3.5%. The NBR does not expect inflation to re-enter the target range until the first part of 2026 which is later than they had previously anticipated driven primarily by unfavourable food price developments. The NBR expects Romania's output gap to remain in positive territory in the coming years. Economic growth in Romania slowed to only around 1% in 2024 but is expected to pick back up above 2% this year. One headwind for growth will be the need for the government to tighten fiscal policy. In the absence of further fiscal tightening steps to be outlined in the budget, S&P currently expect the budget deficit to remain elevated at 7.5% of GDP this year. It justified their decision to place Romania's credit rating on negative watch alongside domestic political uncertainty. Failure to lower the deficit to 7.0% of GDP would hinder access to EUR60 billion of EU funds.

RON fluctuations against EUR have become more limited

MONTHLY % CHANGES FOR EUR/RON



■ (% M/M) EURRON Spot Exchange Rate - Price of 1 EUR in RON

Source: Bloomberg, Macrobond & MUFG GMR

Russian rouble

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/RUB	98.496	102.46	104.06	107.58	115.83
EUR/RUB	102.39	101.44	106.14	112.96	125.10
RUB/JPY	1.5728	1.5030	1.4610	1.3940	1.2780
		Range	Range	Range	Range
USD/RUB		95.000-115.00	97.500-117.50	100.00-120.00	105.00-130.00

MARKET UPDATE

Sharply stronger

In January the Russian rouble strengthened sharply against the US dollar in terms of London closing rates from 113.52 to 98.496. The Central Bank of the Russian Federation (CBR) maintained the key policy rate at 21.00%.

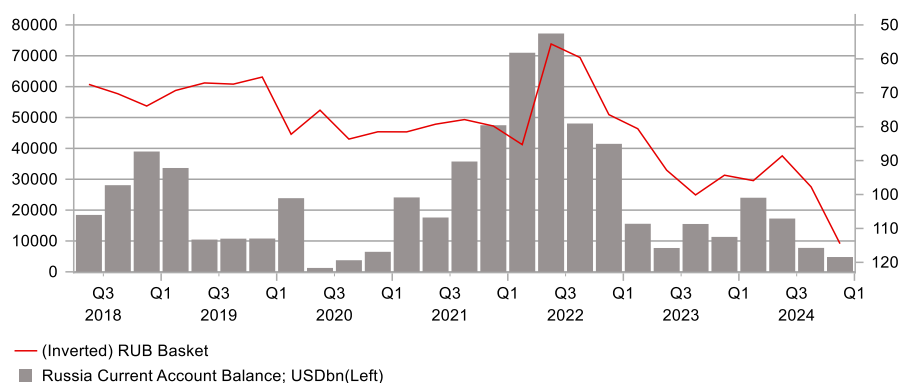
OUTLOOK

Rouble to weaken further

The rouble strengthened sharply against the US dollar in January reversing all of the heavy losses sustained at the end of last year. It has resulted in USD/RUB falling back to levels from early in November between 95.000 and 100.00 prior to Trump's US election victory. The rouble sell-off at the end of last year was mainly triggered by the ratcheting up of sanctions by the outgoing Biden administration including hitting Gazprombank which was the last major unsanctioned bank. It had been carved out of previous sanction rounds to allow allies in Europe to pay Russia for critical supplies of energy. It was a vital conduit for inflows of hard currency in exchange for Russia's exports disrupting Russia's foreign trade and access to foreign currency. Furthermore, the US toughened sanctions on Russia's exports of oil at the start of this year which should further restrict access to foreign currency going forward, although Russia's shipments of seaborne crude have held up so far at the start of this year. President Trump has already threatened to further tighten sanctions on Russia if President Putin does not agree to bring an end to the conflict in Ukraine that could potentially trigger another sell-off for the rouble. Domestic policymakers in Russia have taken action to support the rouble as further weakness would exacerbate upside inflation risks. Steps have included the CBR suspending all foreign currency purchases in the domestic market at the end of last year and the CBR raising rates. Recent rouble gains are built on shaky foundations with Russia's war economy proving to be inflationary as demand exceeds supply.

Smaller current account surplus reduces support for RUB

RUB BASKET VS. RUSSIA'S CURRENT ACCOUNT BALANCE



Source: Bloomberg, Macrobond & MUFG GMR

South African rand

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/ZAR	18.656	19.250	19.500	19.200	19.000
ZAR/JPY	8.3034	8.0000	7.7950	7.8130	7.7890
EUR/ZAR	19.393	19.060	19.890	20.160	20.520
		Range	Range	Range	Range
USD/ZAR		18.250-20.000	18.750-20.500	18.500-20.250	18.250-20.000

MARKET UPDATE

Modestly stronger

In January the South African rand strengthened modestly against the US dollar in terms of London closing rates from 18.843 to 18.656. The SARB lowered the key policy rate by 0.25 point to 7.50%.

OUTLOOK

Trade risks to trump optimism over domestic policy settings encouraging weaker ZAR

The rand has rebounded alongside other emerging market currencies at the start of this year although the upside has been dampened by unfavourable domestic political developments. The high point for USD/ZAR was set at 19.230 on 13th January ahead of start of Donald Trump's second term as president. President Trump's initial decision to hold off from hiking tariffs immediately triggered a relief rally for emerging market currencies including the rand although it will prove short-lived. President Trump on 1st February formally announced higher tariffs on Canada, China and Mexico, effective 4th February, and has set a deadline to complete trade reviews by 1st April which are expected to provide further justification for tariff hikes and other trade restrictions. President Trump also suspended US aid to South Africa due to land expropriation policies that will further contribute to selling pressure for the rand. Investor optimism over economic reforms in South Africa has been dampened by a dispute within the Government of National Unity between the ANC and Democratic Alliance parties. DA leader John Steenhuisen told reporters that they remain committed to the GNU, but the DA has been irked by the ANC's laws on land appropriation and education policy, along with plans to introduce state-funded universal healthcare. Economic reforms and improved energy supply are expected to help lift growth closer to 2.0% this year. Growth should be supported as well by slowing inflation in South Africa. Inflation fell to the bottom of the SARB's target range between 3.0% and 6.0% at the end of last year supporting further gradual rate cuts.

Weaker ZAR driven by fears over hit to global growth & commodity prices from Trump trade war

USD/ZAR VS. SOUTH AFRICA'S TERMS OF TRADE



Source: Bloomberg, Macrobond & MUFG GMR

Turkish lira

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/TRY	35.848	37.250	39.250	41.500	43.500
EUR/TRY	37.264	36.878	40.035	43.575	46.980
TRY/JPY	4.3213	4.1300	3.8700	3.6100	3.4000
		Range	Range	Range	Range
USD/TRY		34.000-39.000	34.250-41.000	34.500-43.000	34.750-45.000

MARKET UPDATE

Modestly weaker

In January the Turkish lira weakened modestly against the US dollar in terms of London closing rates from 35.355 to 35.848. The Central Bank of Turkey (CBRT) lowered the one-week repo rate by 2.50 percentage points to 45.00%.

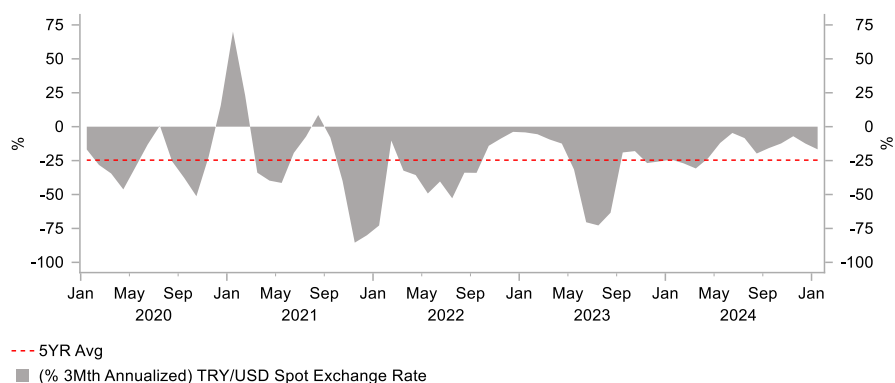
OUTLOOK

Slower pace of TRY depreciation set to continue

The lira has continued to decline against the US dollar at the start of this year at a similar pace to during the final months of 2024. Over the last three months the lira has declined against the US dollar by an annualized rate of around -16% which is similar in scale to the adjustment in 2024. It represents a significant slowdown in the pace of lira depreciation compared to in 2023 when the lira declined more sharply by around 36%. The slower pace of lira depreciation has been supported by the shift to more orthodox policy settings in Turkey that have helped to restore confidence that elevated inflation can be tamed. Headline inflation slowed to 44.5% at the end of last year moving further below the peak of 85.5% from October 2022. With the lira now weakening much more slowly than inflation in Turkey, it is contributing to the lira strengthening in real terms which alongside moderating domestic demand growth and improving inflation expectations is giving the CBRT more confidence that inflation will continue to slow. Furthermore, the CBRT has emphasized that increased coordination of fiscal policy will also contribute significantly to the disinflationary process. The government is targeting a significant narrowing of the budget deficit to closer to 3% of GDP this year from around 5% last year. The developments support the CBRT's forecast for inflation to fall closer towards 20% by the end of this year. It would create more room for further rate cuts although the CBRT are emphasizing that tight monetary policy will remain in place until there is a sustained decline in inflation.

Slower pace of TRY depreciation

PACE OF LIRA DEPRECIATION AGAINST USD



Source: Bloomberg, Macrobond & MUFG GMR

Indian rupee

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/INR	86.613	86.800	87.500	88.000	88.500
INR/JPY	1.7885	1.7740	1.7370	1.7050	1.6720
EUR/INR	90.034	85.930	89.250	92.400	95.580
		Range	Range	Range	Range
USD/INR		85.500-87.500	86.500-88.500	87.000-89.000	87.500-89.500

MARKET UPDATE

INR was weaker against the US dollar in January

In January, the Indian rupee weakened against the US dollar to 86.613 from 85.605. The Reserve Bank of India kept its key repo rate unchanged at 6.50% at its December meeting but shifted to a neutral policy stance. RBI likely shifted to a less aggressive FX intervention strategy, and has also moved to inject more INR liquidity.

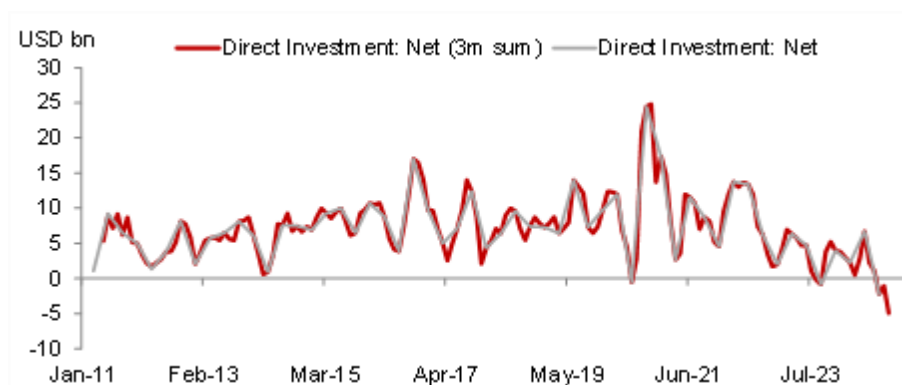
OUTLOOK

We remain cautious on INR with balance of payments deficits likely to continue at least in 1H 2025

We remain cautious on INR and forecast USD/INR rising to 86.800 by Q1 2025 and 88.500 by Q4 2025. While we are of the view that INR is less susceptible compared with other Asian FX from swift tariff increases by Trump 2.0, local factors make us more circumspect. We expect INR to be weighed down by a combination of elevated gold imports, soft goods exports, higher FDI repatriation, weaker portfolio inflows and increased RHS hedging. We are forecasting India's current account deficit at 1.4% of GDP (from 1.2%). More importantly, direct investment inflows continue to disappoint with rising FDI repatriation and outward direct investment more than offsetting improvement in gross FDI inflows. The outlook for portfolio inflows also look more challenging, although a possible inclusion of India into the BBG Global Agg Index may help later in 2H2025. We note that RBI has likely turned less interventionist in the FX market, and allowing INR to find a weaker level thus far. RBI has also pushed through several INR liquidity measures totalling INR1.6trn to address the liquidity deficit in the banking system, and with these measures onshore forward premia for USD/INR has fallen. We think the focus for RBI is likely to pivot towards supporting growth, and as such we continue to forecast RBI to cut rates by 25bps at its upcoming meeting on 7th Feb. We expect India's Budget to maintain a commitment to fiscal consolidation, and also focus on boosting consumption, with the trade-off being slower growth rates in capital expenditure.

Widening current account deficit coupled with weaker capital inflows imply a more challenging environment for INR

INDIA'S FDI WEIGHED DOWN BY RISING REPATRIATION OUTFLOWS



Source: Bloomberg, CEIC, MUFG

Indonesian rupiah

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/IDR	16300	16400	16450	16250	16200
IDR/JPY(100)	0.9504	0.9390	0.9240	0.9230	0.9140
EUR/IDR	16944	16240	16780	17060	17500
		Range	Range	Range	Range
USD/IDR		15700-16700	15700-16700	15600-16600	15500-16500

MARKET UPDATE

IDR weakened against the USD in January, amid weak market sentiment towards Indonesian bonds and equities.

In January the Indonesian rupiah weakened to 16,300 against the US dollar from 16,127 in December, amid weak market sentiment towards Indonesian equities and bonds. BI surprised markets by cutting the policy rate by 25bps to 5.75% in January.

OUTLOOK

Rupiah remains vulnerable in a sustained period of US dollar strength and global trade uncertainties. However, with the authorities showing resolve to support rupiah, this could help slow the pace of rupiah depreciation.

We have raised our USD/IDR forecast to 16,400 in Q1 and 16450 in Q2 on the back of US tariff hikes on China, while we look for some modest rupiah reprieve in 2H on the potential for a lower fed funds rate. The rupiah will remain vulnerable in the short term, amid high US yields, a strong US dollar, and global trade uncertainty. Trump has followed through with his tariff threats, hitting Canada and Mexico with tariffs up to 25%, while imports from China will face a 10% tariff above existing US tariffs. These tariffs were announced on 1st February. Negative spillovers from US tariffs on China, coupled with Indonesia's slowing domestic demand, will likely drag down Indonesia's GDP growth to 4.9% in 2025. Indeed, Indonesia has deepening trade linkages with China following the nickel export ban in January 2020. While the central bank is grappling with rupiah pressures, it will likely still look for opportunities to lower the policy rate to support growth. We expect another 50bps rate cut this year, bringing the policy rate to 5.25% by end-year. That said, efforts by authorities to defend the rupiah could slow the pace of currency depreciation. In addition to BI's FX intervention, the government requires commodity exporters to retain all their foreign currency proceeds onshore for at least one year. This will support the rupiah via shoring up USD liquidity onshore and boosting foreign reserves. Authorities estimate this measure will boost FX reserves by US\$90bn. The new rule tightens an existing requirement for resource firms to keep 30% of FX proceeds onshore for 3 months.

Elevated US yields have put pressure on the Indonesian rupiah

RUPIAH IS NOT OUT OF THE WOODS WITH US YIELDS STAYING HIGH



Source: CEIC, MUFG GMR

Malaysian ringgit

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/MYR	4.4550	4.5700	4.5500	4.5200	4.4800
MYR/JPY	34.772	33.700	33.410	33.190	33.040
EUR/MYR	4.6310	4.5240	4.6410	4.7460	4.8380
		Range	Range	Range	Range
USD/MYR		4.2000-4.8000	4.2000-4.8000	4.1500-4.7500	4.1000-4.7000

MARKET UPDATE

MYR gained slightly against the USD in January, as some “Trump trades” have unwound and BNM has signalled a positive outlook for growth this year .

In January the ringgit strengthened slightly to 4.4550 against the US dollar from 4.4690 in December, as some “Trump trades” were unwound, while the central bank signalled a positive outlook for growth this year. BNM held its overnight policy rate at 3.00% in January.

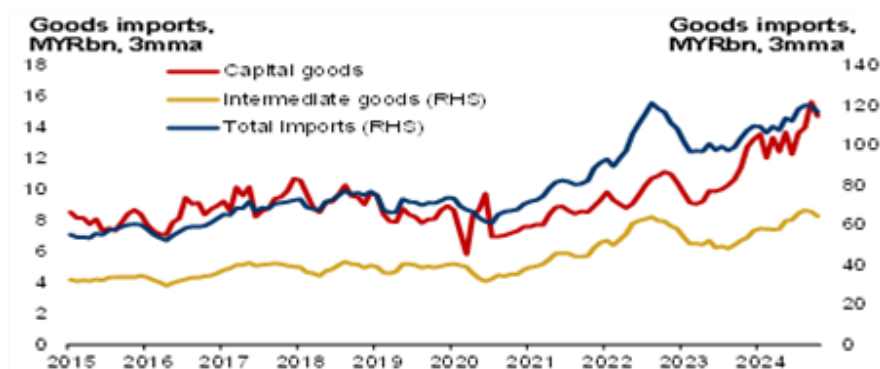
OUTLOOK

We expect ringgit depreciation in 1H on the back of US tariff hikes and global trade uncertainties. However, Malaysia’s positive domestic outlook could provide a partial offset.

We still forecast USD/MYR to rise to 4.5700 in Q1 and to stay around that level in Q2. Trump has imposed 10% tariffs on China, which is on top of existing US tariffs. He has also pledged tariffs on specific sectors, including semiconductors. With global trade uncertainty likely to persist under a second Trump presidency, markets could also start to price in more tariff hikes ahead. The US is currently reviewing trade practices and existing trade relationships with China, Canada, and Mexico. The review is set to be reported by 1st April. Malaysia’s economy is highly vulnerable to US tariffs on China and a potential universal tariff especially on strategic imports such as semiconductors. The risk to our USD/MYR forecast is skewed to the upside. That said, Malaysia’s positive domestic economic outlook could provide a partial offset. BNM still expects a sustained pace of growth this year, following 5% growth in 2024, underpinned by domestic demand. Employment and wage growth will support private consumption, while multi-year projects will help sustain domestic investment. This will sustain growth in capital imports and expand the economy’s productive capacity. Capital goods imports have surged and remained at elevated levels. Meanwhile, Malaysia’s inflation will likely remain below 3% this year, despite potential RON95 fuel subsidy rationalisation around mid-2025. Other factors supporting the ringgit include a narrowing policy rate differential with the US and the government’s initiatives to encourage state-linked companies to repatriate their overseas earnings.

Malaysia’s surging capital imports point to a strong domestic demand outlook

MALAYSIA’S CAPITAL GOODS IMPORTS HAVE STAYED ELEVATED



Source: CEIC, MoF, MUFG GMR

Philippine peso

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/PHP	58.346	59.700	59.300	59.000	58.800
PHP/JPY	2.6550	2.5800	2.5630	2.5420	2.5170
EUR/PHP	60.651	59.100	60.490	61.950	63.500
		Range	Range	Range	Range
USD/PHP		57.000-61.000	56.700-60.700	56.400-60.400	56.100-60.100

MARKET UPDATE

The PHP was weaker against the US Dollar in January

In January, the Philippine peso weakened against the US dollar moving to 58.346 from 57.945. The Philippines central bank cut its policy rate by 25bps at its December meeting bringing it to 5.75% and struck a cautious tone on easing in 2025.

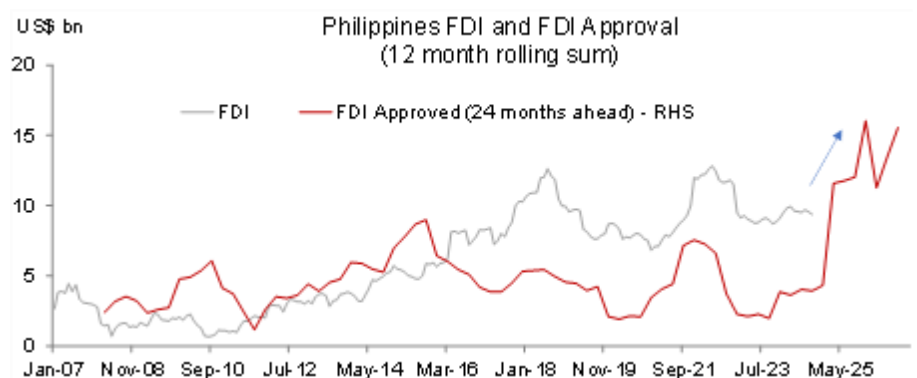
OUTLOOK

We expect some weakness in PHP in Q1 2025 before seeing relief in 2H. We think the Philippines Peso should be more insulated from tariffs from Trump 2.0 and can as such outperform the likes of CNY and KRW

We expect USD/PHP to trade closer to the 60.000 level and reach 59.700 in Q1 2025 as the dollar strengthens and as Trump pushes through tariffs, notwithstanding uncertainty over how long the announced tariffs last. Moving forward, PHP should see some relief in 2H 2025 as dollar strength reverses and also as the growth vs inflation mix improves in the Philippines in 2025. We think the peso can over time outperform the likes of CNY and KRW in the broader context of proposals under a Trump 2.0 administration, and also compared with INR which is likely to see a weaker FX outlook in 2025 due to domestic factors. This is because the Philippines should be more insulated from tariffs as it is a more domestic-oriented economy, and also because it is less leveraged to a global and China growth slowdown. In addition, the Philippines is highly unlikely to be singled out by Trump for its trade practices relative to the likes of Vietnam. In terms of local factors, we expect the Philippines' growth to improve to 6.3% in 2025 from 5.6% in 2024, with the lagged impact of lower inflation from lower rice prices, rate cuts, a resilient labour market, together with a boost from mid-term election spending and the new Create MORE law all help. Some of the weakness in the 4Q GDP of 5.2%yoy was likely due to the impact of typhoons and as such we expect some improvement into 1Q2025. The surge in the Philippines' FDI approvals up to US\$16bn from just US\$4.4bn in 2022 should help fund the current account deficit of around 2% of GDP in 2025. We forecast BSP to cut rates by another 75bps in 2025.

The surge in FDI approvals in the Philippines should imply a more meaningful pickup in actual FDI in 2025

WE THINK FDI SHOULD START TO PICK UP MORE MEANINGFULLY IN 2025



Source : Bloomberg, CEIC, MUFG GMR

Singapore dollar

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/SGD	1.3554	1.3800	1.3750	1.3700	1.3650
SGD/JPY	114.29	111.59	110.55	109.49	108.42
SGD/MYR	3.2869	3.3120	3.3090	3.2990	3.2820
		Range	Range	Range	Range
USD/SGD		1.3300-1.4300	1.3200-1.4200	1.3100-1.4100	1.3000-1.4000

MARKET UPDATE

SGD gained against the US dollar in January due to some unwinding of “Trump trades”.

In January the Singapore dollar strengthened to 1.3554 against the US dollar from 1.3628 in December, as some “Trump trades” were unwound. Our S\$NEER estimate has picked up to 0.6% above the midpoint of the policy band in January, from 0.2% above the midpoint in December. The MAS eased its tight policy setting at its 24th January quarterly meeting by reducing the slope of the S\$NEER slightly (i.e. slightly reducing the pace of S\$NEER appreciation).

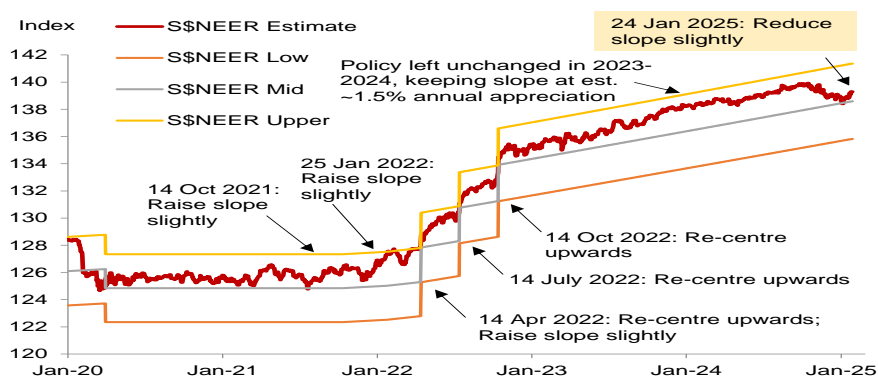
OUTLOOK

We forecast USD/SGD to rise to 1.3800 in Q1 2025 on the back of US tariff hikes on China. The risk to our USD/SGD forecast is skewed to the upside. A significant rise in tariffs could lead to more MAS policy easing, allowing for a weaker SGD.

We maintain our forecast for USD/SGD to rise to 1.3800 in Q1 2025. Trump has followed through his tariff threats, hitting Canada and Mexico with tariffs up to 25%, while imports from China will face a 10% tariff above existing US tariffs. These tariffs were confirmed on 1st February. The response from China was so far more measured, with authorities vowing corresponding countermeasures without elaboration, while pledging to file a complaint to the World Trade Organisation. Singapore’s small and open economy means that it is highly vulnerable to US tariff hikes on China and a slowdown in global growth. For every 10% tariff increase on China, we estimate the negative spill-over impact on Singapore’s GDP would be a 0.2ppt decline. With global trade uncertainty likely to persist, markets could start to price in more tariff hikes ahead. MAS expects Singapore’s economic growth to slow to the 1.0%-3.0% range this year, from 4.0% in 2024. In January, MAS loosened its tight S\$NEER policy setting, which not only reflects the step-down in Singapore’s core inflation (at 1.8%yoy in December) to the MAS soft inflation target of “under 2%”, but it has also likely provided some buffer against the 10% tariff on China. The risk to our USDSGD forecast is skewed to the upside, as sharp tariff hikes could lead to further MAS policy easing. We see scope for Singapore’s 3-month compounded SORA to fall gradually to 2.6% by end-year, versus the current rate at 2.9%.

MAS loosened its tight policy setting in January

MAS REDUCED SLIGHTLY THE SLOPE OF S\$NEER IN JANUARY



Source: Bloomberg, CEIC, MUFG GMR

South Korean won

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/KRW	1453.4	1475.0	1495.0	1495.0	1475.0
JPY/KRW	9.3822	9.5800	9.8400	9.9700	9.9700
EUR/KRW	1510.8	1460.3	1524.9	1569.8	1593.0
		Range	Range	Range	Range
USD/KRW		1420.0-1520.0	1450.0-1550.0	1450.0-1550.0	1430.0-1530.0

MARKET UPDATE

KRW pared some of the losses due to the BoK's hold and NPS currency hedging activities

In January, USD/KRW moved from 1473.7 to 1453.4. On January 16th, the BoK unexpectedly held its base rate at 3.00%. All six MPC members (Governor Rhee did not reveal) are open to rate cuts within next three months.

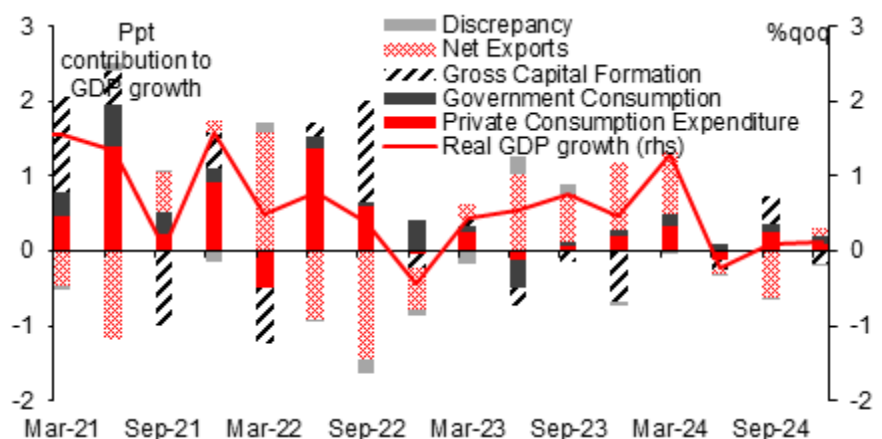
OUTLOOK

We maintain a weaker KRW view for Q1 due to weak domestic condition and tariffs, and the impact of China's DeepSeek on the AI market and South Korean chipmakers would add another layer of stress for the currency

The Bank of Korea held the policy rate unchanged in January primarily due to a weak Korean won as domestic political turmoil weighed on the currency, which Governor Rhee estimated around 30 won per USD. Governor Rhee believes that the domestic political situation and whether the economy would perform in short-term would have a bigger impact than the US monetary and trade policies on the economy. Indeed, the economic growth slowed from 1.5%yoy in Q3 to 1.2%yoy in Q4, with the sequential expansion merely 0.1%qoq, same as prior quarter. Both prints came in below market consensus. Though there was a reacceleration of exports in December (from 1.3%yoy to 6.6%yoy), it was likely linked to front-loading activities due to potential tariff ahead and US high-bandwidth memory (HBM) chips sales restriction to China (effective 31st December). On the domestic front, the labour market sent out an alarming sign with the number of employed dropping by 156k in December (highest decline since Jan 2021), coupled with a sudden surge in unemployment rate from 2.7% to 3.7%. Other signs of stress come from the worsening business sentiment in January (from 87.3 to 85.9), and yet-to-recover consumer sentiment (91.2 vs 100.7 prior to martial law). The BoK will have another policy meeting on 25th February. The KRW's recent recovery from political turmoil and the risk of the economy contracting in Q1 make us to think BoK will likely deliver a cut in February, so to cast weakening pressure on KRW, amid tariff risks.

Korea's economy barely expanded in Q4

MUTED GROWTH ACROSS GDP COMPONENTS IN Q4



Source: CEIC, MUFG GMR

Taiwan dollar

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/TWD	32.664	33.300	33.600	33.500	33.400
TWD/JPY	4.7425	4.6250	4.5240	4.4780	4.4310
EUR/TWD	33.954	32.970	34.270	35.180	36.070
		Range	Range	Range	Range
USD/TWD		32.200-34.200	32.500-34.500	32.400-34.400	32.300-34.300

MARKET UPDATE

The Lunar New Year holidays likely delayed the response of TWD to recent Trump's tariff threat on Chips

In January, USD/TWD started the month with 32.785 and ended it at 32.664. On 19th December, the board of directors decided unanimously to keep the discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations unchanged at 2%, 2.375%, and 4.25%, respectively.

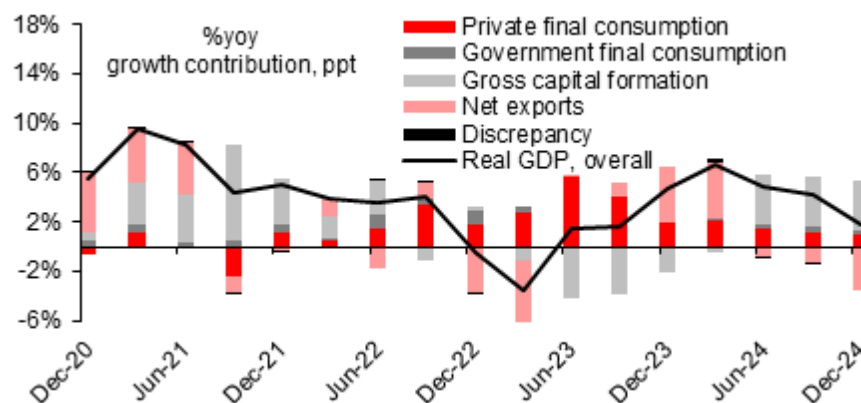
OUTLOOK

Strong demand for emerging tech applications would continue to provide support for the currency, however, risks of US's tariffs on semiconductors and geopolitical uncertainties would weight on the TWD

The data of Q4 GDP (advance estimate) and December's monthly macro indicators showed strong external demand for Taiwan's AI-related products and sustained domestic growth. Though the 1.84%yoy in Q4 was lower from the prior quarter (4.17%yoy), it was partly due to stronger import growth driven by capital goods imports. Q4 real exports posted a decent 8.19%yoy growth. The breakdown showed gross capital formation remained as the biggest growth contributor (+4.1ppts) and net exports the drag (-3.5ppts). Domestic consumption contributed 0.9ppts. Sequentially, Taiwan's economy expanded by 0.51%qoq in Q4, higher than Q3 0.23%qoq. December data showed that Taiwan's exports grew strongly by 9.2%yoy, IP growth accelerated sharply to 19.97%yoy from 10.20%yoy previously. Looking ahead, Trump's announcement of Stargate Project, a new private joint venture with a size of USD500bn in a drive for US's AI dominance, could have a significant impact on AI innovation in the U.S. and around the world. This bodes well for Taiwan due to its leading position in semiconductors. TSMC's capex plan for this year (USD 38bn-42bn) exceeded market expectations by a big margin (up to 19%). Having said that, the risks exist. "In the very near future we're going to be placing tariffs on foreign production of computer chips, semiconductors and pharmaceuticals to return production of these essential goods to the United States of America," Trump said recently. More tariffs beyond what was confirmed on 1st February seem likely.

Taiwan's economy is in healthy shape, while leading indicators are showing some decline

GROSS CAPITAL FORMATION WAS KEY TO SUPPORT GDP GROWTH IN 2024



Source: CEIC, MUFG GMR

Thai baht

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/THB	33.567	35.300	36.000	35.700	35.500
THB/JPY	4.6149	4.3630	4.2220	4.2020	4.1690
EUR/THB	34.893	34.950	36.720	37.490	38.340
		Range	Range	Range	Range
USD/THB		32.500-37.000	33.000-38.000	32.500-37.000	32.500-37.000

MARKET UPDATE

THB gained against the US dollar in January due to some unwinding of “Trump trades”.

In January the Thai baht strengthened to 33.567 against the US dollar from 34.315 in December due to some unwinding of “Trump trades”. The BoT held its policy rate unchanged at 2.25% in December, following a 25bps rate cut in October.

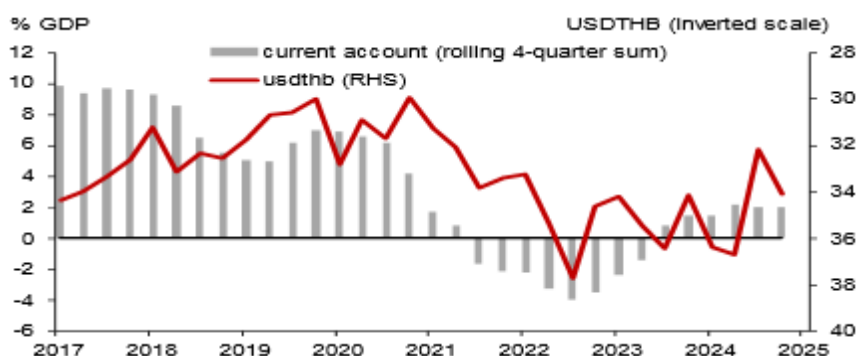
OUTLOOK

Thai baht’s resilience could be transient. We forecast USD/THB to rise to 35.300 in Q1 and 36.000 in Q2 on the back of US tariff hikes on China. THB also appears to be stronger than what macro fundamentals would suggest, while markets could start to price in more tariff hikes ahead.

We retain a bias for a weaker Thai baht, given it is highly vulnerable to US tariffs and sensitive to CNY weakness. We forecast USD/THB will rise to 35.300 in Q1 and 36.000 in Q2. Trump has followed through with his tariff threats, hitting Canada and Mexico with tariffs up to 25%, while imports from China will face a 10% tariff above existing US tariffs. These tariffs were confirmed on 1st February. The response from China was so far more measured, with the authorities vowing corresponding countermeasures without elaboration, while pledging to file a complaint to the World Trade Organisation. Global funds sold a net \$236mn of Thai equities in January, marking the fourth straight month of net outflows, while Thai sovereign bond market saw net foreign outflows of \$84mn. In addition, the elevated US 10-year yield and its widening spread versus Thailand’s could limit Thai baht’s strength. It appears that the Thai baht is also trading stronger than what macro fundamentals would suggest. That said, an ongoing recovery of Thailand’s economy should help provide a partial offset to negative tariff impact. The government’s digital wallet programme will continue to be implemented in phases this year, providing some support for private consumption. Investment projects approved by Bank of Thailand will also support the country’s fixed investment growth. Meanwhile, despite government pressures for a lower policy rate, we expect the central bank will still keep the policy rate unchanged at 2.25% in February. A current account surplus (est. at 2% of GDP in 2024) that’s underpinned by recovering tourism inflows should provide a buffer for the Thai baht.

Tourism recovery has helped supported the current account balance

TOURISM HAS BEEN A KEY DRIVER OF CURRENT ACCOUNT SURPLUS



Source: CEIC, MUFG GMR

Vietnamese dong

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/VND	25069	25800	25900	25800	25700
JPY/VND	161.83	167.50	170.40	172.00	173.60
EUR/VND	26059	25540	26420	27090	27760
		Range	Range	Range	Range
USD/VND		24900-25900	25000-26000	24900-25900	24900-25900

MARKET UPDATE

VND strengthened against the US Dollar in January

In January, the Vietnamese dong strengthened against the dollar to 25,069 from 25,485. The State Bank of Vietnam kept its key refinancing rate unchanged in 2024 at 4.50%, but interbank rates remained above 4.5% to maintain a reasonably stable USD/VND currency while supporting growth through easier credit policies.

OUTLOOK

We see USD/VND trading closer to 26,000 in 2025 with the Trump 2.0 administration likely to increase scrutiny on Vietnam exports and the Chinese-linked supply chains

Part of the strength in the Vietnam dong in January could have been due to one-off inflows ahead of the Tết holidays and as such we don't expect the strength to be sustained. More broadly, while we continue to expect Vietnam to be in the crosshairs of the Trump 2.0 administration due to its large and rising trade surplus with the US, we highlight several reasons to remain optimistic (see [Vietnam: Reasons to remain optimistic while factoring in Trump 2.0 tariff risks](#)). For one, Vietnam has been gaining global export market share not just in the US, but also the rest of the world since the trade war started. Our analysis shows Vietnam was not just able to increase its market share of tariffed products to countries outside the US, but also gained export market share in the US even in products which were not tariffed. Second, Vietnam has been moving up the value chain and raising its domestic value added and complexity of its export basket. Lastly, we expect US tariffs on China to remain higher and rise at a faster pace than US tariffs on Vietnam in Trump 2.0. All these in no way negate the left tail risks from Trump 2.0 on Vietnam, and our forecasts for USD/VND to rise close to 26,000 in 2025 chart a modest path while acknowledging other offsetting structural factors. The important local development we are watching for is the government's recent move to restructure and streamline its bureaucracy, which may affect anywhere from 4-20% of public sector employees.

We think Vietnam's rising exports in both tariffed and non-tariffed products and also to the rest of the world outside the US point to some inherent comparative advantages in its manufacturing sector

VIETNAM HAS INCREASED EXPORT MARKET SHARE OF BOTH TARIFFED AND NON-TARIFFED PRODUCTS INTO THE UNITED STATES



Source: ADB Multi-Regional Input Output Tables, MUFG GMR

Argentine peso

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/ARS	1050.76	1075.0	1105.0	1140.0	1425.0
ARS/JPY	0.1474	0.1430	0.1380	0.1320	0.1040
EUR/ARS	1092.27	1064.25	1127.1	1197.0	1539.0
		Range	Range	Range	Range
USD/ARS		1000.0-1200.0	1050.0-1300.0	1100.0-1400.0	1150.0-1600.0

MARKET UPDATE

Modestly weaker

In January the Argentine peso weakened against the US dollar in terms of London from 1,031.0 to 1,050.8. The Argentine central bank (BCRA) lowered the Leliq policy rate by 3.00 percentage points to 29.00%.

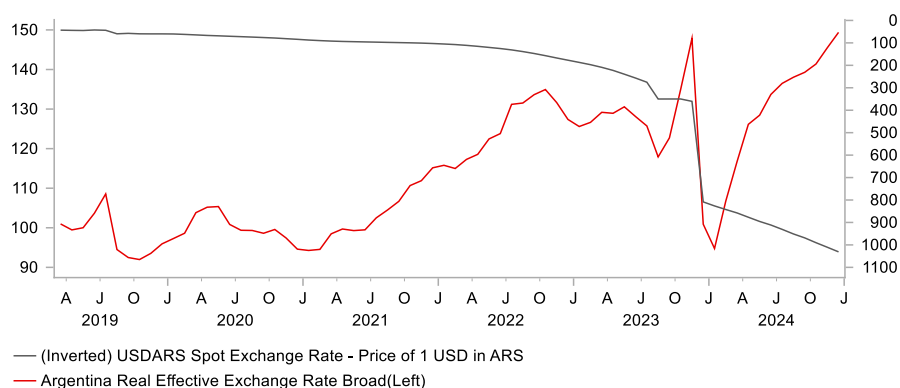
OUTLOOK

Peso to weaken more when crawling peg removed

The main development at the start of the new calendar year was the announcement by the government that it will slow the pace of peso depreciation. The crawling peg will now allow the peso to weaken by around 1%/month from February down from 2%/month during last year. The government's decision to slow the pace of peso depreciation has been encouraged by the slowdown in inflation. The monthly rate of inflation slowed to 2.7%M/M in December 2024 compared to 25.5%M/M in December 2023. With inflation still running above the pace of depreciation, the peso will continue to strengthen in real effective terms casting doubt on how long the government can maintain the crawling peg. President Milei indicated that he is watching for inflation to slow further, peso supply to shrink and additional IMF financing to arrive before he ends the crawling peg and lifts other capital controls. He stated that "the more financing we get, the faster we are going to get out". We continue to expect the peso to weaken more sharply when it is allowed to trade more freely. Argentina faces more than USD4 billion in bond payments in July. President Milei's significant free market reforms prompted Moody's to upgrade Argentina's credit rating in January. The government's budget balance returned to surplus in Q1 2024 where it remained for the rest of last year. The initial negative impact on economic growth has also started to reverse at the end of last year. Another positive story has been the improvement in Argentina's trade balance after posting a record surplus of USD18.9 in 2024 boosted by demand for agricultural and energy exports.

Real effective exchange rate has fully reversed impact from one-off ARS devaluation in late 2023

USD/ARS VS. REAL EFFECTIVE EXCHANGE RATE



Source: Bloomberg, Macrobond & MUFG GMR

Brazilian real

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/BRL	5.8403	5.9500	6.1000	6.2000	6.3000
BRL/JPY	26.524	25.880	24.920	24.190	23.490
EUR/BRL	6.0710	5.8910	6.2220	6.5100	6.8040
		Range	Range	Range	Range
USD/BRL		5.4000-6.4000	5.6000-6.6000	5.7000-6.7000	5.8000-6.8000

MARKET UPDATE

Sharply stronger

In January the Brazilian real strengthened sharply against the US dollar in terms of London closing rates from 6.1736 to 5.8403. The Brazilian Central Bank (BCB) raised the Selic policy rate by 100bps to 13.25%.

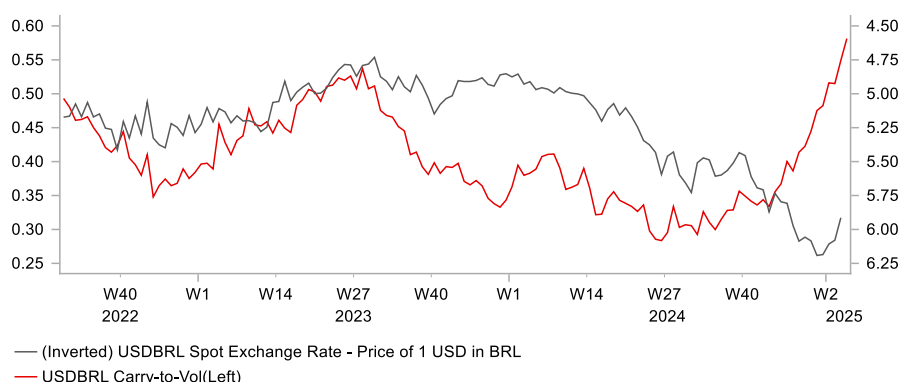
OUTLOOK

Real remains vulnerable to global trade disruption and domestic fiscal risks

The real has outperformed at the start of this year reversing most of the heavy losses recorded in the final months of last year. The real benefitted alongside other emerging market currencies from Donald Trump's initial decision not to implement higher tariffs at the start of his second term. However, these gains will likely reverse to some degree following confirmation of tariffs on imports from Canada, Mexico and China. The BCB under the leadership of new Governor Galipolo followed through on plans to hike rates by a further 100bps in January. At the same time, the BCB reiterated that it plans to raise rates by a further 100bps at the next policy meeting in March that would lift the policy rate to the highest level since October 2016. After adjusting for the latest inflation print at 4.8% in December, the real policy rate is currently at around 8.5% which is well above the 5% level the BCB judges as neutral for the economy. The BCB remains concerned that inflation expectations are unanchored and that Brazil's economy is proving more resilient than expected which is making it more challenging to bring inflation back down towards their target range of between 1.5% and 4.5%. While higher yields are attractive for the real, it remains vulnerable to further weakness on the back of domestic fiscal concerns and the ongoing risk of an escalating trade war that would be negative for global growth and commodity prices. Treasury Secretary Ceron stated that the government will do whatever is necessary to meet the fiscal target for this year, but doubts remain over President Lula's willingness to accept spending cuts ahead of next year's elections.

Higher yields on offer in Brazil help BRL to rebound

USD/BRL VS. CARRY ATTRACTIVENESS



Source: Bloomberg, Macrobond & MUFG GMR

Chilean peso

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/CLP	981.60	1010.0	1030.0	1050.0	1040.0
CLP/JPY	0.1578	0.1520	0.1480	0.1430	0.1420
EUR/CLP	1020.4	999.9	1050.6	1102.5	1123.2
		Range	Range	Range	Range
USD/CLP		900.00-1060.0	900.00-1100.0	880.00-1120.0	880.00-1140.0

MARKET UPDATE

CLP appreciates modestly

In January the Chilean peso strengthened modestly against the US dollar from 993.50 to 981.60. The BCCh at its meeting in January left the key policy rate unchanged at 5.00%, following seven rate cuts in 2024 totalling 325bps.

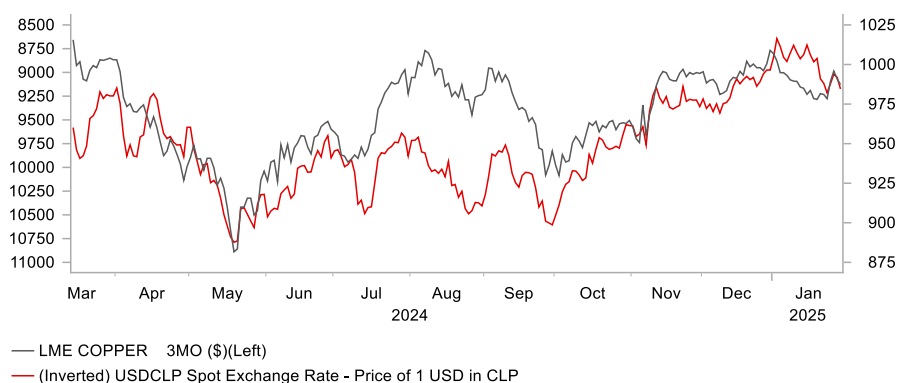
OUTLOOK

CLP to weaken further but by less than in 2024

The Chilean peso was weaker in the first half of January but then staged a recovery as fears over President Trump's trade tariffs impact eased following inauguration on 20th January. However, that optimism will now fade quickly following confirmation on 1st February of tariffs being implemented on Canada, Mexico and China. President Trump held a phonecall with President Xi before inauguration and expectations had grown since that Trump may allow for a period of negotiation that could mean trade tariff policies are less aggressive. However, Trump's action now underlines an aggressive approach and hence CLP downside risks remain in place. Those risks also likely encouraged the BCCh to announce an unchanged monetary policy for the first time since July last year. The policy guidance provided in the statement in January certainly pointed to a central bank more concerned over inflation risks. Those risks were communicated in December too but back then the BCCh left open the prospect of rate cuts. Now the BCCh refers to "future movements" of the key policy rate and clearly states that while the overall economic assessment is unchanged, inflation risks have increased. So we could quickly get to a scenario when the BCCh needs to consider renewed rate hikes. The annual inflation rate is at 4.5% but could tick higher due to CLP weakness, wage growth and electricity prices. If USD/CLP was to spike higher on more aggressive trade tariff action it may require renewed rate hikes. Given the low policy rate in real terms and the international risks, we see USD/CLP moving higher but by less than the move in 2024.

CLP is anticipating slowdown in global growth

USD/CLP VS. PRICE OF COPPER



Source: Bloomberg, Macrobond & MUFG GMR

Mexican peso

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/MXN	20.645	22.000	21.500	21.250	20.750
MXN/JPY	7.5036	7.0000	7.0700	7.0590	7.1330
EUR/MXN	21.460	21.780	21.930	22.310	22.410
		Range	Range	Range	Range
USD/MXN		19.250-24.250	19.000-24.000	18.750-23.750	18.500-23.500

MARKET UPDATE

MXN appreciation

In January the Mexican peso appreciated modestly from 20.767 to 20.645. Banxico did not meet in January and hence the key policy rate was unchanged at 10.00%, following five 25bp cuts in December, September, August and March last year.

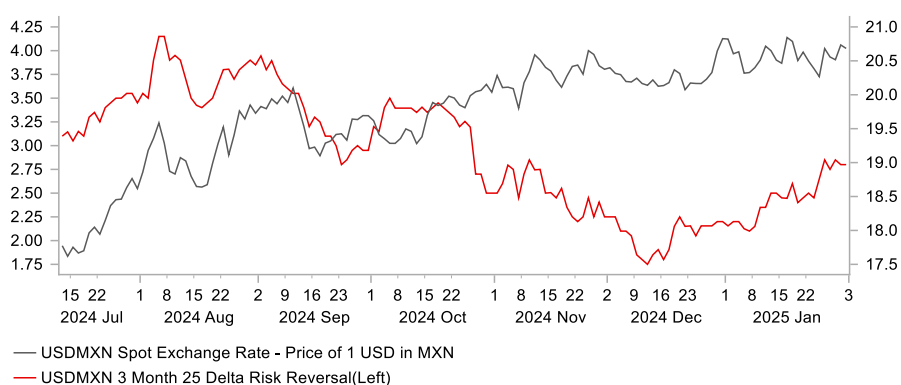
OUTLOOK

Uncertainty high which will weigh on MXN in Q1

The Mexican peso strengthened in January as did most currencies in LatAm as fears over President Trump's trade tariff policy actions receded with no tariffs announced since inauguration day on 20th January. But the tariff announcements on Mexico along with Canada and China will likely see sharp MXN depreciation as investors respond to an aggressive 25% tariffs across US imports from Mexico. The scale of selling may be curtailed somewhat by expectations that Trump will reverse the decision on agreed action on border policy taken by Mexico and Canada. Furthermore, the peso risks also need to be taken in the context of the already sharp depreciation – USD/MXN jumped 23% in 2024, albeit more for domestic political reasons. How Banxico responds to these tariffs will be important and the scale of peso depreciation will determine the scale Banxico can ease. Governor Victoria Rodriguez has suggested a trade shock would be deflationary but that a sharp move higher in USD/MXN could offset that impact. The bias appears to be skewed toward additional rate cuts assuming no very big disruptive depreciation of the peso. In December when Banxico cut, the guidance was for more rate cuts in part given the still restrictive stance in place. The lack of move higher in USD/MXN clearly suggests investor did not believe Trump would carry through on his threat and hence we can expect to see quite a sudden spike higher. Nonetheless, we maintain our previous view that some moderate USD/MXN recovery later in the year is plausible on the assumption that negotiations would see such a high tariff watered down.

Demand for MXN downside protection has been picking up but still suggests scepticism over tariff hike implementation

USD/MXN: SPOT VS. RISK REVERSAL



Source: Bloomberg, Macrobond & MUFG GMR

Crude Oil

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
Brent	76.78	73.00	69.00	74.00	77.00
NYMEX	72.76	68.00	64.00	69.00	72.00
		Range	Range	Range	Range
Brent		63.00-83.00	59.00-79.00	64.00-84.00	67.00-87.00
NYMEX		58.00-78.00	54.00-74.00	59.00-79.00	62.00-82.00

MARKET UPDATE

Oil prices hovered in a wide range in January

In January, oil prices has bumpy start to the year (Brent +2.6% m/m; WTI +1.1% m/m) as US sanctions against Russia and colder-than-normal weather initially ratcheted prices higher, while the reverberations on energy demand from a Trump-induced trade war alongside tepid Chinese economic data, has pulled back prices

OUTLOOK

The US government announced significant additional sanctions on Russia's oil industry

On 10 January, the US government announced significant additional sanctions on Russia's oil industry. What distinguishes these sanctions compared with previous iterations are three-fold. First, they are the most wide-reaching in scope and scale, targeting two Russian oil majors, 183 Russian vessels, oilfield service providers, insurance companies, energy officials and dozens of traders. Second, they are aimed at reducing Russia's oil production, unlike prior measures, which sought to curtail Russian oil revenue whilst preserving supplies. Third, the Trump administration is unlikely to reverse the measures in the absence of the implementation of a peace agreement with Ukraine (see [here](#)).

We estimate that the vessels targeted by the new sanctions transported ~1.5m b/d of crude and ~0.2m b/d of refined products in 2024 (~25-30% of Russia's export volumes), with the overwhelming transported to China and India

We estimate that the vessels targeted by the new sanctions transported ~1.5m b/d of crude and ~0.2m b/d of refined products in 2024 (~25-30% of Russia's export volumes), with the overwhelming transported to China and India. When sanctions were first introduced on Russia's oil industry in 2022, Russian entities managed to redirect oil from their traditional customers (mostly in Europe) to new ones (mostly China and India). In the end, Russia's oil production proved to be resilient during most of that year, in sharp contrast to widespread forecast for declines. This signals a degree of caution is warranted when gauging declines once again. What is clear is that sanctions have historically had mixed impacts on global oil markets, and the full effect of these measures is once again hard to estimate.

Today's oil price strength is not sustainable in our view for three reasons

On net, today's oil price strength is not sustainable in our view for three reasons. First, Russia has a track record in aggressively discounting its oil to incentivise shipping by a shadow fleet and continued purchases by price-sensitive customer. Second, OPEC+ has ample (~6m b/d) spare capacity that can be bought online to withstand such tightening shocks. Third, and more broadly, global markets are still expected to swing into a protracted surplus and remain oversupplied for much of this year. While the uncertainty is elevated, we have not changed our base case for oil prices with Brent in the USD65-80/b range, averaging USD73/b in 2025 (see [here](#)). Although, these new sanctions skews price risks to the upside in the near-term.

The real challenge for global oil markets in 2025 is excess supply

From a fundamental perspective, our outlook for Brent oil prices anticipates a shift in the global oil market from a -0.4m b/d deficit in 2024 to a sizable 0.9m b/d surplus in 2025, followed by another 0.5m b/d surplus in 2026. Demand is not the primary concern, as global oil demand growth is expected to rise from 0.7m b/d in 2024 to

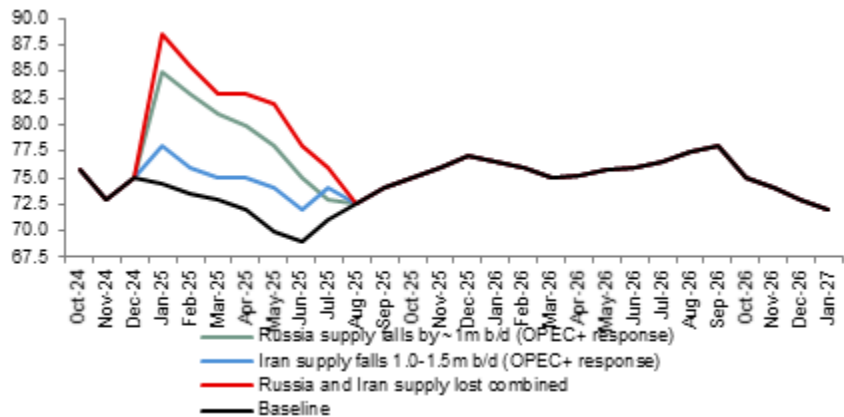
1.2m b/d in 2025 and remain at a benign 0.9m b/d level in 2026, broadly aligning with long-term historical averages. Instead, the real challenge lies in the excess supply. After stumbling the last few quarters, non-OPEC+ production has returned to growth in Q4 2024 and is projected to surge by 1.6m b/d in 2025, driven by large-scale, price-inelastic offshore developments in Brazil, Guyana and Norway, alongside healthy supply growth from US oil liquids production and a gradual phase-in of production cuts from OPEC+. In total, five floating production, storage and offloading (FPSO) vessels, with a combined capacity of 1m b/d, are committed for delivery in 2025. Against this backdrop, we estimate Brent prices to average USD73/b in 2025 from UD80/b in 2024 (see [here](#) and [here](#)).

An unresolved surplus (0.9m b/d on higher supply) and high spare capacity (~6m b/d) is bearish for global oil markets

To summarise our 2025 views, an unresolved surplus (0.9m b/d on higher supply) and high spare capacity (~6m b/d) is bearish for global oil markets. Yet, we would highlight that two-tail risks of breakouts in our USD65-80/b corridor (USD73/b average Brent call in 2025) on Trump-induced tariffs and/or geopolitical uncertainty, remain tangible. In the short term, the new US administration raises the risks to Iranian supply and we estimate the impact of two hypothetical types of disruption scenarios. First, Iranian supply falls by ~1m b/d with an OPEC+ response, which we estimate the impact of Brent prices to peak at USD87/b. Second, Iranian supply falls by the same ~1m b/d quantum though OPEC+ signals a lack of willingness to offset this lost Iranian supply, which we estimate the impact of Brent prices to peak at USD95/b. This upside tail risk resolutely adds to the value of crude oil longs in a portfolio context. In the medium-term, we believe that risks are skewed to the downside given loose fundamentals with ample supply still being kept off the market, which could begin to find its way back into the system in 2025.

Brent crude may overshoot our USD80/b ceiling if Russian supply falls persistently by ~1m b/d

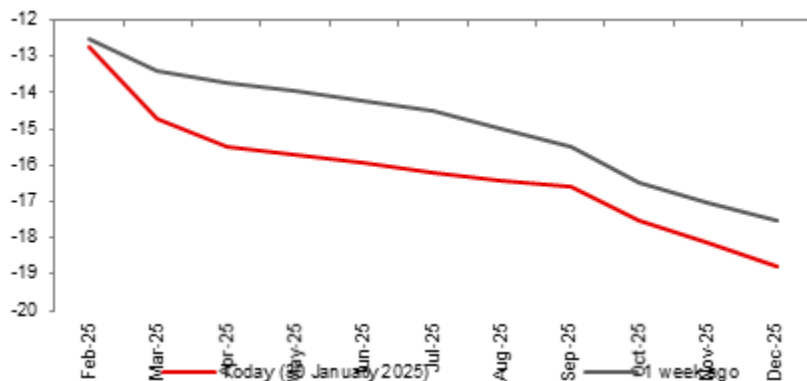
ESTIMATED BRENT OIL PRICE IMPACT FROM VARIOUS SHOCKS (USD/B)



Source: Bloomberg, MUFG Research

Tariff risks is widening the Candian oil vs US oil discount

DISCOUNT OF WESTERN CANADIAN SELECT (WCS) TO US WTI (USD/B)



Source: Bloomberg, MUFG Research

Saudi Riyal

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/SAR	3.7504	3.7500	3.7500	3.7500	3.7500
SAR/JPY	41.305	41.070	40.530	40.000	39.470
EUR/SAR	3.8985	3.7130	3.8250	3.9380	4.0500
		Range	Range	Range	Range
USD/SAR		3.7450-3.7750	3.7450-3.7750	3.7450-3.7750	3.7450-3.7750

MARKET UPDATE

The USD/SAR forward was broadly flat in January 2025

In January, the 12 month Saudi riyal (SAR) forward contract remained broadly flat against the USD in terms of London closing rates from 3.7556 to 3.7509. Given the USD currency peg, Saudi policy continues to closely follow the Fed, in order to maintain the relative attractiveness of the peg and stem any capital arbitrage.

OUTLOOK

Saudi Arabia publishes its annual sovereign borrowing plan

The Saudi National Debt Management Centre (NDMC) published the annual sovereign borrowing plan for 2025. The NDMC reported USD37bn of financing requirements of which USD10bn are amortisations (USD6.6bn eurobond outstanding). The NDMC also reported how they aim to reduce the net supply of USD public market compared to the previous year. This leaves space to still a larger gross issuance as amortisations are larger by comparison. From a comparison perspective, in 2024, the sovereign gross issuance was USD17bn with USD1bn repaid. According to the NDMC strategy, international debt markets should make up 45% of total funding plan (USD16.7bn), 25% (USD9.3bn is left to domestic market and 30% (USD11.1bn) to the private funding channel which could be also international. Meanwhile, preliminary data shows that the Kingdom's GDP growth accelerated to 4.4% y/y in Q4 2024, up from 2.8% y/y in Q3 2024, bringing the overall growth rate for 2024 to 1.3%. Looking ahead, the planned phase-out of oil production cuts is now scheduled to start in April, in line with the current OPEC+ agreement, is set to increase the oil-related part of economic growth. We also see non-oil growth supported by infrastructure investment related to the Vision 2030 strategy as the focus on Vision 2030 remains. Last quarter of 2024 fiscal data set to be release this month will offer more guidance on government capex spending.

The 12 month USD/SAR forward continues to trade close to spot levels

USD/SAR SPOT AND 12-MONTH USD/SAR FORWARD CONTRACT



Source: Bloomberg, MUFG Research

Egyptian Pound

	Spot close 31.01.25	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/EGP	50.202	49.700	49.300	49.100	48.700
EGP/JPY	3.0857	3.0990	3.0830	3.0550	3.0390
EUR/EGP	52.185	49.200	50.290	51.560	52.600
		Range	Range	Range	Range
USD/EGP		47.300-52.300	47.100-52.100	47.700-52.700	47.700-52.700

MARKET UPDATE

The EGP strengthened slightly against the US dollar in January

In January, the Egyptian Pound (EGP) strengthened against the US dollar in terms of London closing rates moving from 50.761 to 50.251.

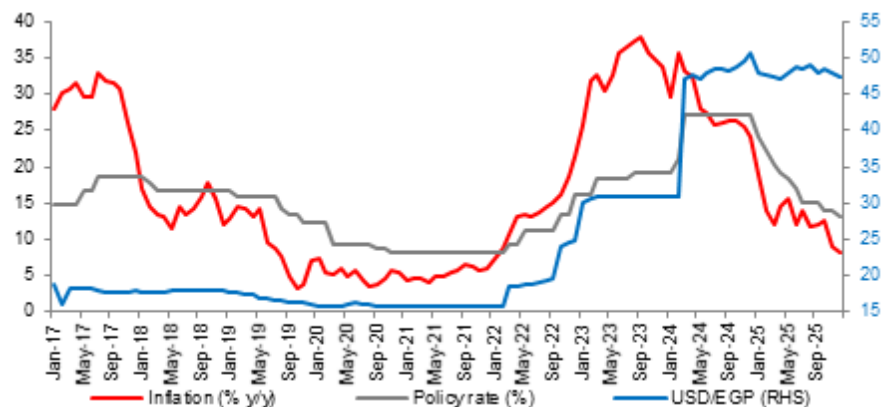
OUTLOOK

Egypt keeps rates on hold with new inflation forecasts announced

The Central Bank of Egypt (CBE) maintained interest rates at 27.25% during its December meeting but signalled potential rate cuts, citing subdued inflationary pressures and an expectations for headline inflation to drop sharply starting Q1 2025. With new inflation targets of 7.0% y/y ($\pm 2\%$) for Q4 2026 and 5.0% y/y ($\pm 2\%$) in 2028, the CBE aims to avoid further monetary tightening and mitigate economic slowdown. Despite a 35% monthly drop in net foreign assets in November, foreign reserves remained stable at USD47.1bn by December. The current account recorded a deficit of USD5.9bn in Q3 2024, up from USD3.1bn y/y. Notwithstanding the sizable shortfall, remittance inflows, which are a key source of foreign exchange, increased for a fourth consecutive quarter in Q3 2024 as offshore sentiment continued to stabilise, registering above the pre-crisis peak at USD8.3bn (6.7% of GDP). Switching gears, hopes of increased traffic through the Suez Canal rose over ceasefire in Gaza. Following the announced ceasefire, the Houthis communicated that they will stop attacking US and UK vessels as they will only target ships heading to Israel or connected to Israeli entities and/or individuals. This follows what was reported late last week when they already signalled a pause. Traffic through the Red Sea and specifically through the Suez Canal has been depressed for over a year as the major shipping companies started to avoid the Suez route over security concerns amid Houthi attacks. The decline started in December 2023 and since then traffic stabilised around 70% below pre-disruption levels. This is estimated to have had a cost of over USD7bn in FX revenues for Egypt ($\sim 2\%$ of GDP).

Given our benign view of the inflation trajectory and the disinflation path, we hold conviction that there is scope for interest rate cuts in the near term, and sustained easing cycle over the next 18 months

EGYPT INFLATION (% Y/Y), POLICY RATE (%) AND USD/EGP



Source: Bloomberg, CBE, MUFG Research

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