

Asia ex-Japan FX & Rates Outlook

January 2026: **Non-Linearity & Divergence**

Non-Linear Risks: Across geopolitics and policy, **non-linear risks abound**. While the sense of heightened threats from “Trump 2.0 tariffs” have subsided, at least temporarily with the interim US-China truce, **US geopolitical adventurism** in LatAm (and beyond) warns of **hard-to-predict** and **disproportionate** outcomes (*associated with non-linearity*). Moreover, the **Fed’s** ability/inclination to respond pre-emptively to **non-linear job risks** being hobbled by inflation hangover sets the stage for a **non-linear dovish lurch** into mid-2026. **And** the unprecedented, overt, challenge on the Fed’s independence ahead of the Fed Chair change in May, accentuates the uncertainty quotient. With attendant **non-linearity associated with a breakdown in USD-yield correlations** typically expected.

Long Arcs & Non-Linear Paths: Moreover, the **long arc** of **geo-economics** and **technological shifts**, also **suggest non-linear paths** associated with these. Notably, the bearish USD, “**Sell America**” narrative, while expressed emphatically around “Liberation Day”, is **not** set to result in **unremitting USD weakness**. Equally, the frantic “**AI boom**” may be **non-linear**. Not just subject to **episodic turbulence**, but also responsible for a **non-linear** and **uneven lift in capital costs** as leveraged tech investments gather pace. All of which may be subject to **abrupt risk re-pricing** and **attendant knock-on asset market/spread/FX/ impact**.

FX: Divergence, Volatility & Correlation Flux: **Rolling headline risks** warn of accentuate vulnerabilities and amplify pain if markets are caught wrong-footed – and likely expressed dynamically in FX markets. What’s more, unprecedented shifts in geo-economics and policy may trigger **unusual/unexpected shifts in FX correlations** (*statistical non-linearity*). Hence, **greater divergence**, may result in some cases (between AXJ). And **pronounced volatility** in others – such as **JPY, where stretched departure from yield spread-implied valuation accentuates abrupt snap-back risks**. **Lift in metals (base and precious) from a combination of AI-driven demand and debasement hedge may accentuate the allure of some currencies over others**.

Divergent (Cyclical & Structural) Steepening: A more **dovish Fed** inflection ahead ought **to underpin cyclical (bull) steepening** led by the front-end. But at the same time, **structural steepening triggered by debt and debasement woes** suggest **bearish long-end bond dynamics**, emphatically **widening term premium**. This **divergent steepening** is inevitably a non-linear process as hard-to-time/predict headline geoeconomic risks interact with policy shifts in a “low visibility” environment.

Non-Linearity: Abrupt & Sharp Shifts

- **Asia FX:** The divergence in AXJ performance in 2025 is likely to be extended, if not accentuated in 2026 as rolling, uneven geo-economic risks interact with the “AI boom”. Notably, even with a dovish Fed, AXJ are not unequivocally expected to be on a stronger footing, as stress factors are likely to sharply differentiate outcomes, and underpin divergence. Shifts in, and interaction between monetary and fiscal policy may be one differentiator. Commodity boom accentuated by “AI boom” alongside precious metals demand (as hedge against fiat) likely to flatter the AUD despite expectations of relatively cooling (incremental) CNH boost.
- **CNH:** CNH has strengthened recently on seasonal exporter flows and a U.S.–China trade truce, trading at a premium to onshore CNY amid record trade surpluses and narrowing rate differentials. However, with China’s growth slowing and PBoC leaning against the rally, CNH may face near-term softness before resuming a modest appreciation trend in 2026.
- **HKD:** HKD is expected to stay firm near the strong end of its 7.75–7.85 band into early 2026, supported by resilient capital inflows, narrowing SOFR–HIBOR spreads, and robust economic growth. Any reversal in equity flows could temper this strength, but structural liquidity trends point to continued bias toward the strong side.
- **INR:** A weaker INR will look for traction in 2026 but is expected to fall short of a recovery. An eventual trade deal with the US and softer oil prices could stem the depreciation trend whilst risks of current account slippage coupled with a dovish RBI leaning into growth restrain significant rebound.
- **KRW:** KRW is likely to stay pressured into early 2026 on risk-off sentiments. An extended semiconductor-driven exports into 2026, a softer USD backdrop and cautious BoK could allow for modest recovery.
- **TWD:** TWD is expected to see a modest recovery in 2026 on strong semiconductor cycle, but persistent risk-off sentiment, structural rate differentials, and lack of a US trade deal will keep USDTWD buoyant above 30.
- **SGD:** SGD is expected to continue with an appreciation bias, as disinflation effects from SG60 and softer energy prices fade, leaving scope for USDSGD to drift down if demand also proves resilient. Downside risks protected by solid C/A surplus, wealth inflows and perception of SGD as quasi-haven.
- **IDR:** Recovery in 2026 depends more on a softer USD than domestic catalysts as unresolved fiscal risks and political uncertainties keep depreciation pressures toward 17,000 in play despite BI intervention and rate holds.
- **MYR:** Resilient growth, fiscal consolidation may see another round of relative smaller outperformance in 2026 as sound economic programmes and steady BNM policy provide a backstop against regional volatility.
- **PHP:** Expected to hover near 59 in the near term before a mild recovery in 2026 as BSP slows its rate cuts while the Fed eases and political stability returns. Semiconductor export strength and a narrower current account deficit will provide support although corruption-related confidence shocks and cautious consumption remain headwinds.
- **THB:** Volatility is likely to persist with USDTHB as political uncertainty and fiscal concerns weigh while gold price rallies may drive recovery. A softer USD and current account surplus should help steer THB toward a moderate recovery in 2026 even as risks of weakness remain ahead of elections.
- **VND:** Low FX reserves coverage ratio imply that sharp depreciation risks are retained into 2026. Robust FDI sets tone for resilient 2026 growth but growth push may continue to be aid by mild VND depreciation while IFC developments anchor into the medium term.
- **AUD:** Even as China’s property market cast a long shadow, diversification into AUD denominated assets and plausible commodity supper cycle underpinned by late-stage monetary spillover and AI infrastructure sets tone for extending gains into 2026, potentially emerging as the standout performer.

Currency Forecast

	Q4 25	Q1 26	Q2 26	Q3 26	Q4 26	Q1 27
USD/CNH	6.97-7.16	6.85-7.05	6.85-7.1	6.75-7.05	6.65-7.05	6.68-7.1
	6.97	6.95	6.95	6.90	6.85	6.88
USD/HKD	7.76-7.80	7.76-7.81	7.76-7.81	7.76-7.80	7.76-7.80	7.76-7.81
	7.78	7.78	7.77	7.76	7.76	7.77
USD/INR	87.6-91.1	88.6-92.3	87.5-91.5	88.5-92.6	88-92.8	88.8-93.5
	89.8	90.5	89.5	90.8	89.5	91.0
USD/KRW	1399-1485	1380-1480	1360-1460	1320-1450	1320-1430	1320-1435
	1440	1450	1420	1410	1400	1410
USD/SGD	1.282-1.31	1.269-1.308	1.262-1.316	1.263-1.308	1.255-1.302	1.258-1.304
	1.285	1.298	1.282	1.273	1.268	1.266
USD/TWD	30.3-31.6	29.0-32.1	28.8-31.3	28.8-31.3	28.7-31.1	29.1-31.1
	31.4	30.6	30.2	29.9	30.4	30.6
USD/IDR	16500-16800	16130-17040	16110-17080	16150-16780	16200-16780	16200-16780
	16690	16650	16600	16600	16650	16650
USD/MYR	4.03-4.24	4.01-4.15	3.96-4.13	3.98-4.11	3.96-4.09	3.89-4.09
	4.06	4.05	4.02	4.01	3.98	3.96
USD/PHP	57.8-59.2	57.5-60.5	56.9-60.1	56.4-59.1	56.1-58.9	56.2-58.5
	58.8	58.3	58.0	57.8	57.5	57.7
USD/THB	31-32.9	30.1-33	30.9-33.1	31.1-33.8	31.4-33.5	31.1-33.5
	31.5	32.5	32.4	32.3	32.0	31.7
USD/VND	26244-26429	25600-26900	25300-26600	25300-26600	25500-26700	25500-26700
	26300	26350	26300	26350	26450	26550
AUD/USD	0.642-0.673	0.632-0.678	0.637-0.684	0.637-0.686	0.64-0.702	0.64-0.702
	0.667	0.658	0.668	0.675	0.692	0.690

Note: Values in black are historical whereas those in blue represent forecasts. *Point forecast is for end-period. Ranges are only indicative.

Central Bank Policy Rate Outlook

Country	Q2 25	Q3 25	Q4 25	Q1 26	Q2 26	Q3 26	Q4 26
China	1.40%	1.40%	1.40%	1.30%	1.20%	1.20%	1.20%
India	5.50%	5.50%	5.25%	5.00%	5.00%	4.75%	4.75%
Korea	2.50%	2.50%	2.50%	2.50%	2.50%	2.25%	2.25%
Singapore	M: Hold	M: Hold	M: Hold	M: Hold	M: Hold	M: Hold	M: Hold
	S: 1.0%	S: 1.0%	S: 1.0%	S: 1.0%	S: 1.0%	S: 1.0%	S: 1.0%
	W: Hold	W: Hold	W: Hold	W: Hold	W: Hold	W: Hold	W: Hold
Taiwan	2.000%	2.000%	2.000%	2.000%	2.000%	2.000%	2.000%
Indonesia	5.50%	4.75%	4.75%	4.50%	4.25%	4.25%	4.25%
Malaysia	3.00%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Philippines	5.25%	5.00%	4.50%	4.25%	4.00%	4.00%	4.00%
Thailand	1.75%	1.50%	1.25%	1.25%	1.00%	1.00%	1.00%
Vietnam	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Australia	3.85%	3.60%	3.60%	3.60%	3.35%	3.35%	3.35%

*The MAS conducts monetary policy via FX. Specifically, it adopts a trade-weighted SGD appreciation at "modest and gradual" pace (estimated at 2% per annum as default).

S: Slope (express as per annum % appreciation), M: Mid Point, W: Width of S\$NEER

Asia Ex-Japan (AXJ) FX: Relief, Not Redemption

Fig 1a. Bearish USD Flatters AXJ Resilience

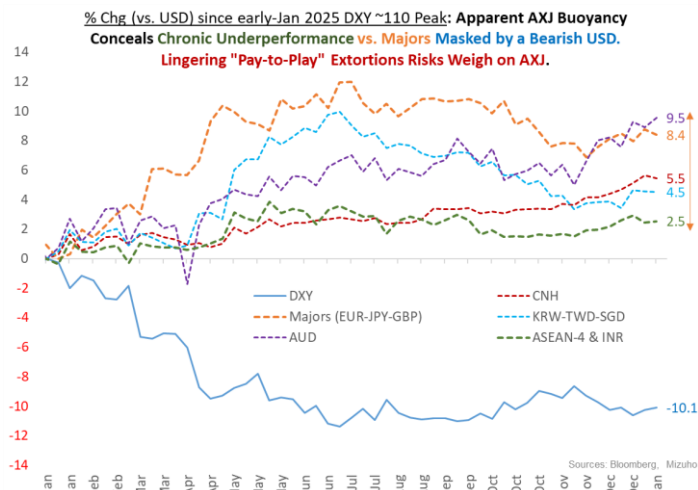


Fig 1b. Starkly Differentiated AXJ Performance

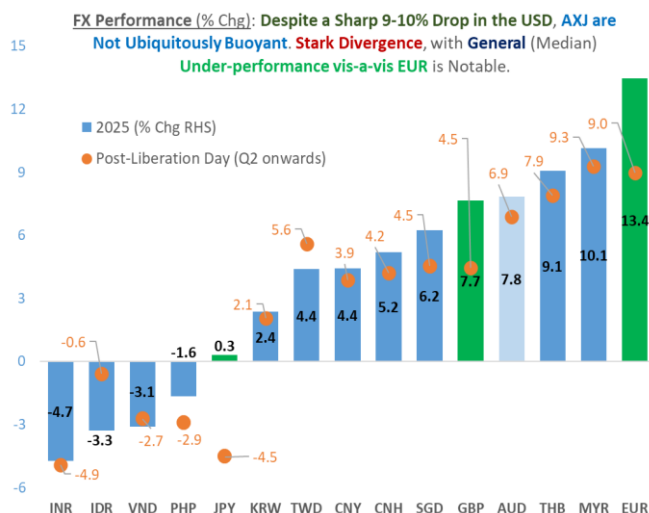


Fig 1c. Fed Cuts Marginally Supportive

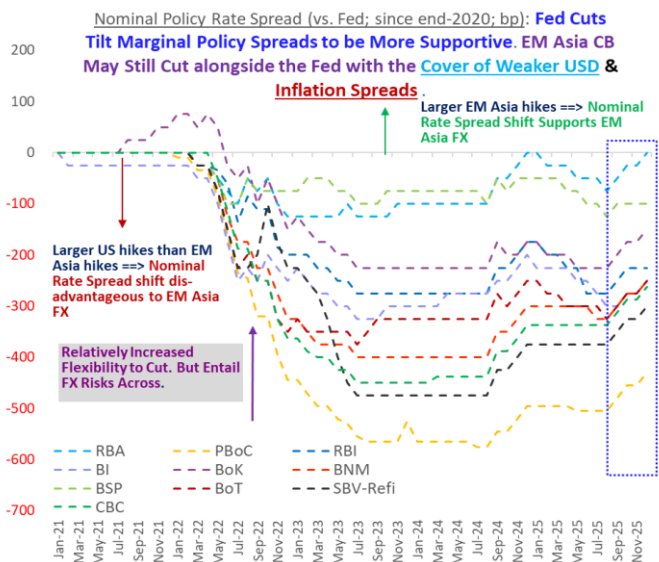
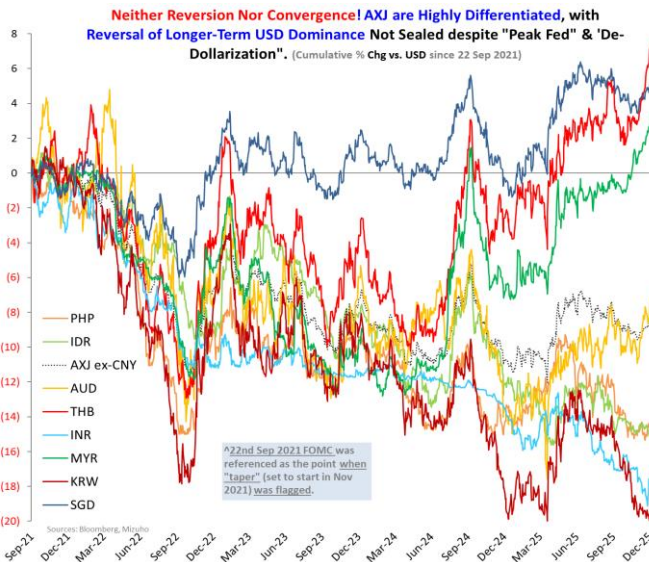


Fig 1d. CNY Correlation Shifts Obfuscate



FX

- **Relief, Not Redemption:** For most Asian economies, US trade “deals” that mitigate the worst of “Liberation Day” tariffs assaults, are **welcome relief, not redemption**. For one, *despite the dial-back, tariff barriers are still considerably higher*. More importantly, the relief may be temporary, ahead of US mid-term elections.
- **Wild (Goeconomic) Ride:** The resultant **undulations in AXJ** have taken place **alongside wild swings in risk assets** – as markets *lurched from acute fears* of economic crash (from global trade shocks) *to exuberant relief* on suspended tariff step-up accompanied by the **prospects for a deal to avert the worst**.
- **Differentiated (Outcomes) ...:** But the bigger picture is that **even with backdrop of risk assets boosted by relief, AxJ have not uniformly gained**. In fact, **AXJ reveal stark differentiation**. 8-10% gains in out-performers such as MYR, THB and AUD stand in sharp contrast to the 3-5% drop in under-performers such as INR and IDR. A *litany of bullish and bearish factors in different combinations account for this dispersion*.
- **... Not Defused (Risks):** Whereas the overarching fact is that **wider AXJ** (averaging across the stark divergence) has **materially under-performed** considering the **inability to exploit a 9-10% slump in the USD**. And that arguably reveals that underlying **risks from goeconomic upheavals** have **not been properly defused** regardless of the US-China truce on tariffs.
- **Neither Reversion Nor Convergence:** Hence, **our outlook for an emphatic dovish Fed inflection is not to be mistakenly conflated with AXJ reversion** pre-Fed hike (Q1 2022) levels (*strength in most cases*). Fact is, there may be **stickier structural elements** involved. **Nor** is the **assumed controlled softening in USD**

a basis for AXJ convergence. Point being, a plethora of **uneven** and **non-linear risks** will, more likely than not, **keep AXJ on a highly differentiated trajectory.**

- **Uneven “Pay America”:** The **“Pay America”** phenomenon (Box 1) – *extractive US demands of Current and Capital Account transfers from trade partners* – warns that **AXJ may be exposed to uneven two-way risks, rather than guaranteed gains, from a softer USD associated with a dovish Fed.** Mainly as **variable “Pay America” cashflow effects override rate differential dynamics from a dovish Fed inflection.** And **sensitivities could fluctuate** with the prevailing headline risks of the day.
- **Cash-flow Gaps:** Furthermore, **financing/cash-flow gaps** for (Current Account, investment and/or fiscal) will also be **a prominent differentiator for AxJ.** Especially *as borrowed resilience from tariff front-running and/or pre-deal suspension of tariffs* fade. Hence, **adverse cash-flow shocks may have been deferred to 2026.**
- **Holistic Policy Impact:** In addition, **AxJ dynamics into 2026** are likely to be differentiated by relative policy moves corresponding to the Fed. But **crucially, on the conflation of monetary-fiscal-political risks.**
- **Fiscal Dominance Risks:** *Notably,* **mounting risks of fiscal dominance** amid **accompanying political/geo-political uncertainty** will **feature prominently** – obfuscating policy spread gauges. Especially *if inflation is concealed within fiscal subsidies* and/or *central bank balance sheets* are used to absorb government *debt.*
- **Volatility & Surprises:** **Rolling geoeconomic risks suggest volatility intact.** Moreover, **entrenched, structural US-China antagonism** warns of China shock conduits. But counterintuitively, **AUD may be set to out-perform** on *commodity boost* (in particular, base and precious metal buoyancy driven by AI demand, monetary largesse and debasement hedge) alongside *RBA restraint.*

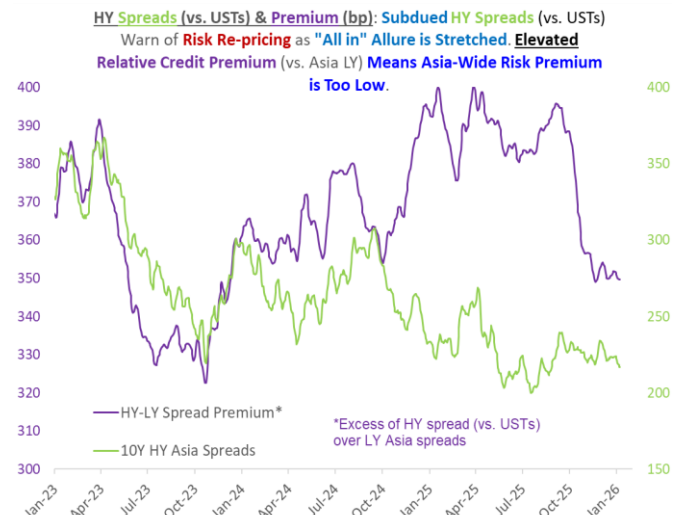
Rates

- **Dovish Bias to Anchor/Soften Front-End:** Admittedly, **pace of rate cuts by Asian central banks have slowed,** and **in some cases appears to be nearly exhausted.** Nevertheless, **Asian central banks have some scope left for rate cuts** this year. And there is a good chance that a *more-dovish-than-expected Fed might provide cover to exploit more easing.* This ought to help **anchor, if not soften, front-end rates in tandem with a fall in front-end UST.**
- **But Long-End Transmission Impaired:** Whereas the front-running in a **disproportionate drop in long-end yields in Asia (vis-à-vis corresponding USTs)** means that **rate cut transmission to the long-end may be more impaired going forward.** In other words, we expect *greater sensitivity to a steeper UST curve* (as well as JGBs and European bonds). And *arguably more pronounced for HY Asia.*
- **Rich HY Long-End Especially Vulnerable:** Specifically, the **relatively sharp drop in HY long-end – plausibly from front-running to lock-in “all in” returns - could entail payback** as steeper global curves entrench. Especially **as risk re-pricing gets underway amid stretched valuations in the HY space.**

Fig 1e. Relatively Sharper Drop in Long-End Stretched

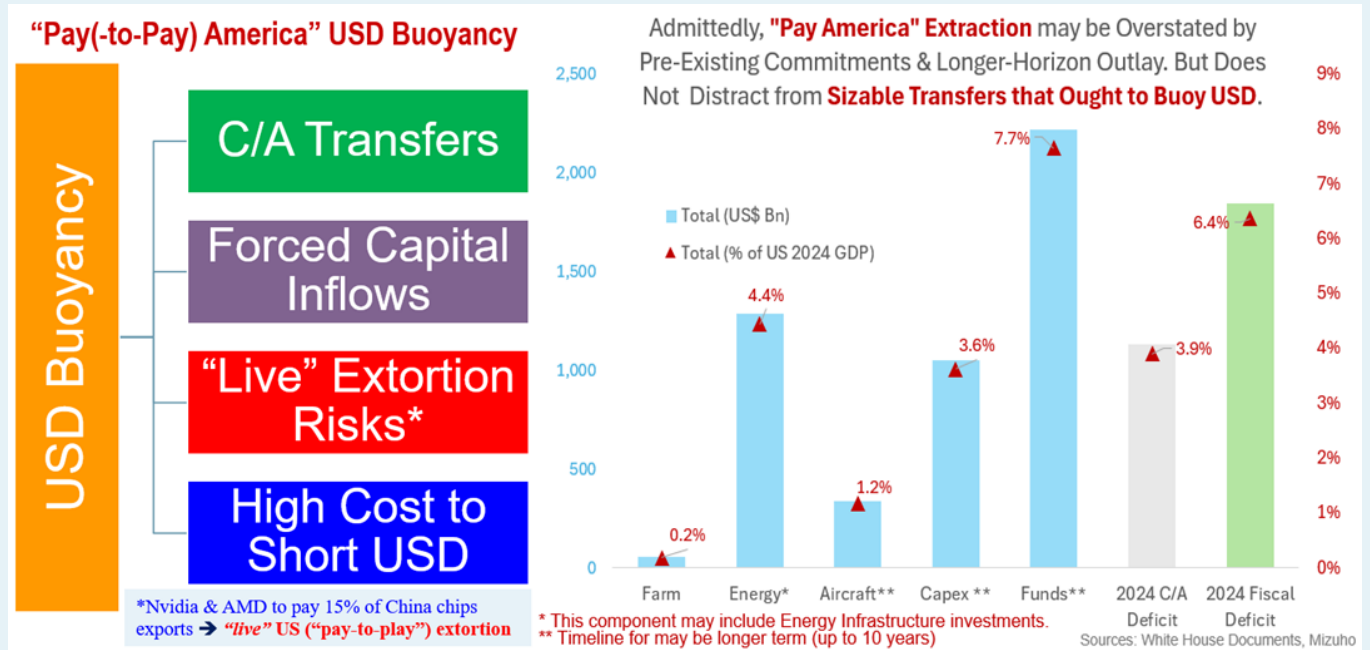


Figure 1f. Some De-Compression in HY Premium?



Box 1: USD Buoyancy: The Pay America Proposition [published 19th November 2025]

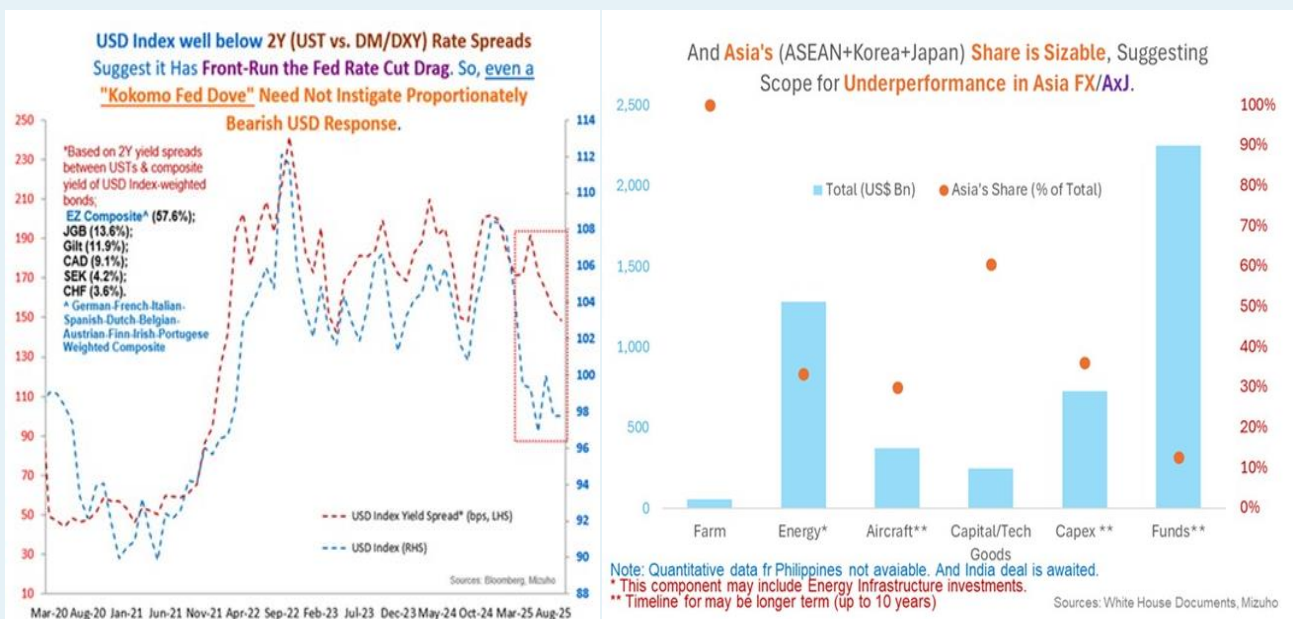
"It's not personal ... it's strictly business." – *The Godfather*

**In a Nutshell:**

- Admittedly, prospects of potentially irredeemable **loss of trust in USD** (*as the global reserve currency*) underpinning **"Sell America"** amplifies longer-run risks to USD.
 - **But forced transfers, bordering on confiscation, of private sector/trade partner resources by the US, entailed in "Pay America", are set to be more imminently, and meaningfully accretive to the USD.**
 - So, **despite criminally structural foot-shooting priming the USD for longer-run erosion "Pay America" logic suggests** that the **Greenback averts an imminent crash**. In fact, **USD is set to benefit from a controlled softening. More so against AxJ.**
- No doubt, **"Sell America"** is a **structural feature** of the prevailing **goeconomic realities** that will *erode the USD over time*.
 - **But** equally, the **USD is not set for an imminent collapse** either. Especially as **countervailing forces** may be **chronically under-estimated**.
 - In fact, **to the contrary**, the **"Pay(-to-Play)" America** proposition we identified earlier[^] (recapped below) **suggests unexpected USD buoyancy instead** – *possibly even through dovish Fed surprises*.
 - To be sure, **"Sell America"** is likely to be a **durable, longer-burn "balance sheet risk"**. But arguably only **expressed intermittently rather than unremittingly** for now.
 - Whereas **"Pay America"** is **the intervening cashflow impact** that **could assert** itself **more emphatically and imminently**.
 - Point being, the **imposed "Pay(-to-Play) America" extraction demanded of trade/security partners**, may **dominate with USD-supportive flow impact** via;

- **Current Account (C/A) transfers**, led by the purchase of US farm goods, aircraft/defense purchases, capital/tech goods and energy (as agreed in negotiations with the US) coupled with;
- **Capital appropriations**, be it in the form of capex commitments and/or investment funding (into the US) demanded.
- Especially as the **deals, agreement frameworks and talks quantified thus far suggest sizable “Pay America” cash flows** set to be **accretive for the USD**, all else being equal.
- Admittedly, the immediate impact of **“Pay America” may be inflated by pre-existing commitments** and longer drawdown/realization horizons as far out as a decade (especially for aircraft, defense, capex and funds).
- But the **indisputable** fact remains that even after discounting for these, **“Pay America” flows are likely to move the needle considerably*** towards **diminishing C/A and fiscal deficits**, thereby **propping up the USD**.
- Upshot being, the **cashflow backstop, if not boost, for the USD could surprise**. In turn, significantly **dulling and deferring the balance sheet case for serious USD erosion**.
- Accordingly, we reiterate our longstanding view of **USD softening in a controlled fashion, not slumping precipitously into 2026, despite our view of a more dovish Fed**.
- Notably, **disproportionately outsized share of “Pay America” commitments for Asia** underpins our view of **relative AxJ under-performance**.
- **Against a backdrop of softer USD into 2026**, this is likely to entail **far more subdued AxJ gains vis-à-vis corresponding DXY pullback**.

* Note that it is not necessary to eliminate US deficits. Merely diminishing deficits 0.5-1.0%pt could have surprisingly large positive effects on the USD.



CNH: Resilience under Near-term Test

	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027
Policy Rate (%)	1.4	1.3	1.2	1.2	1.2	1.2
USD/CNH	6.97-7.16	6.85-7.05	6.85-7.10	6.75-7.05	6.65-7.05	6.68-7.10
	6.97	6.95	6.95	6.90	6.85	6.88
GDP (% YoY)	4.4%	4.4%	4.4%	4.7%	4.9%	4.5%
CPI (% YoY)	0.6%	0.3%	0.1%	0.1%	-0.1%	0.1%

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 2a. CNY drifted stronger along weaker dollar

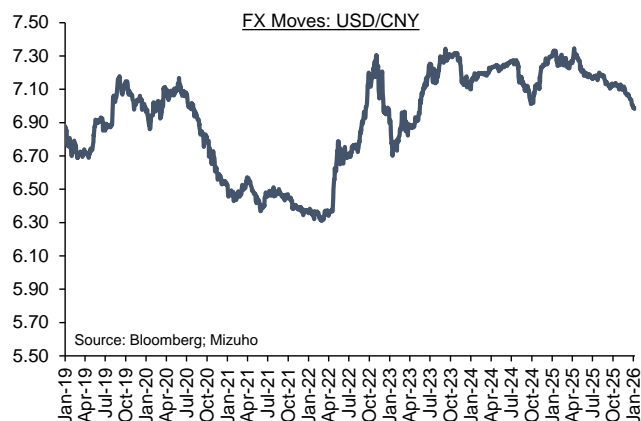


Fig 2b. Continued deflationary pressure onshore

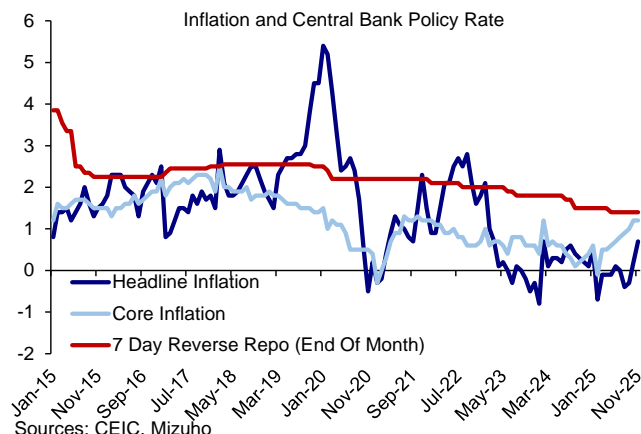


Fig 2c. CNH premium over CNY persisted

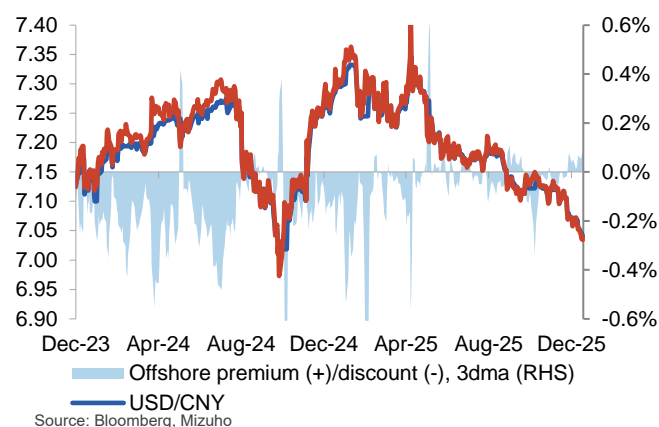
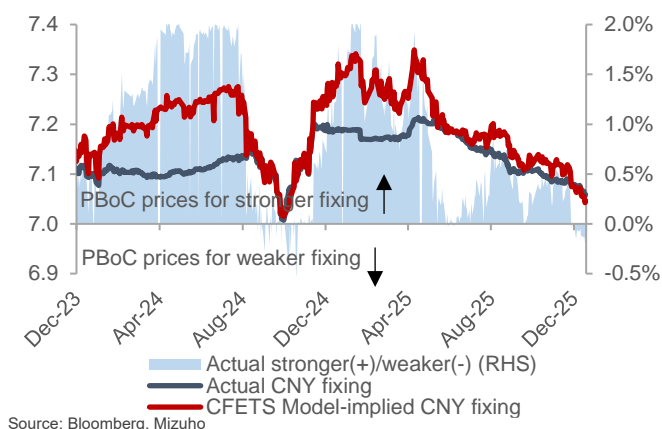


Fig 2d. PBoC is leaning against the yuan rally



FX

- No decoupling for now:** The trade truce between the US and China reveals the reality that neither side is ready for a full-scale decoupling—at least not yet. Following the Trump-Xi meeting, China has ramped up purchases of US agricultural goods ahead of the mid-term elections and granted export licenses to rare-earth magnet producers. At the same time, the US has halved tariffs on Fentanyl and suspended additional port fees on Chinese vessels. Moving next, it would be interesting to watch whether China and the US can build mechanisms to manage their trade frictions and technology rivalry during this year-long trade truce.
- Diversified trade flows:** Despite the tariff relief, Chinese exporters are clearly diversifying away from the US. Exports to the US fell 19% YoY in the first eleven months this year, while shipments to ASEAN and the EU—the top two destinations—rose 14% and 8% YoY, respectively. Africa is emerging as a rising star, with exports surging 26% YoY YTD, cementing its position as one of the key markets for Chinese goods.
- Push for yuan adoption:** This pivot toward non-USD economies like ASEAN and Africa is accelerating RMB adoption in trade settlement, payments, and FX reserves—fuelling renminbi internationalization. Since the onset of China-US trade tensions in 2018, RMB's share in trade settlement has climbed from 15% at end-2017 to 40% today.

- **CNH Premium:** Since late November, yuan has staged a notable rally, led by gains in the offshore renminbi CNH. The latter is currently trading at a growing premium over the CNY, reflecting market forces behind recent appreciation. Besides the trade truce achieved at the end of October, seasonal factors also come into play - Chinese exporters typically convert their US dollar earnings into renminbi in November and December.
- **Record trade surplus:** However, this year's flows are unusually strong, driven by exporters locking in profits amid narrowing rate differentials and a hefty trade surplus. With markets widely expecting further US rate cuts in 2026, front-end UST-CGB spreads should compress further. Meanwhile, China's trade surplus has been resilient, exceeding USD1 trillion in the first eleven months, up 21% YoY.
- **Onshore pushback:** The PBoC has been leaning against the rally since December, setting the CNY reference rate notably weaker than the CFETS model suggests, a rare move after the counter-cyclical factor was introduced in 2017. Reports also suggest state-owned banks are selling CNY in the spot market while using swaps to offset positions, aiming to slow the currency's ascent.
- **Headwinds into 2026:** While we forecast a 2% RMB appreciation in 2026, near-term resistance looms. China's growth momentum is fading amid a deepening property slump, weak local government investment, and high base effects. While Beijing is likely to maintain its growth target at "around 5%" for 2026, we expect the emphasis of more flexibility through the word "around" and forecast full-year growth at 4.6%.
- GDP growth is expected to moderate from the YTD pace of 5.2% YoY, easing to 4.4% in following quarters. This deceleration could temper investor sentiment toward Chinese assets and exert pressure on the yuan, particularly the CNH, injecting more volatility in 1H26. Against this backdrop, CNH may move sideways versus the USD around current levels in the coming months, before pivoting to an appreciation trend later.

Rates

- **Reflation in Sight?** November's CPI spike may look promising, but the evidence for a true reflation driven by improved domestic demand remains thin. Nearly half a percentage point of headline inflation came from fresh vegetable prices, which are highly volatile and weather-sensitive, and core inflation was buoyed by a surge of over 50% in gold jewelry prices. Meanwhile, service inflation stayed subdued below 1%, weighed down by sluggish education services and lower rental costs.
- **Rooted Deflation:** Deflationary forces are likely to persist, anchored by negative wealth effects from falling home prices, a stagnant labour market outlook, and muted public investment as local governments divert resources to tackle implicit debt. Adding to the challenge, the PBoC has refrained from aggressive rate cuts amid squeezed bank interest margins, signaling limited policy levers to stimulate demand.
- **Capped Long-end Yields:** Looking ahead to Q1, the PBoC will likely keep a close eye on rising long-end rates and may step up CGB purchases from the secondary market if needed. However, the next rate and RRR cuts could be delayed until late 1Q26, given Beijing's higher threshold for stimulus. In short, things will get worse before they get better. We expect long-end and ultra-long-end yields to remain capped near current levels, while front-end rates could drift lower after the Chinese New Year holiday as easing expectations gain traction.

Fig 2e. 10Y-2Y term spreads likely to widen

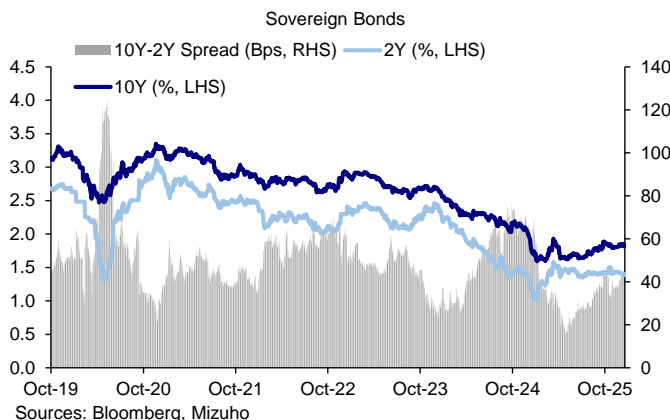
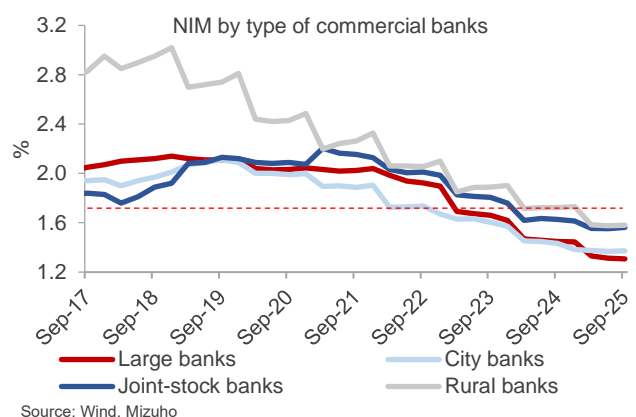
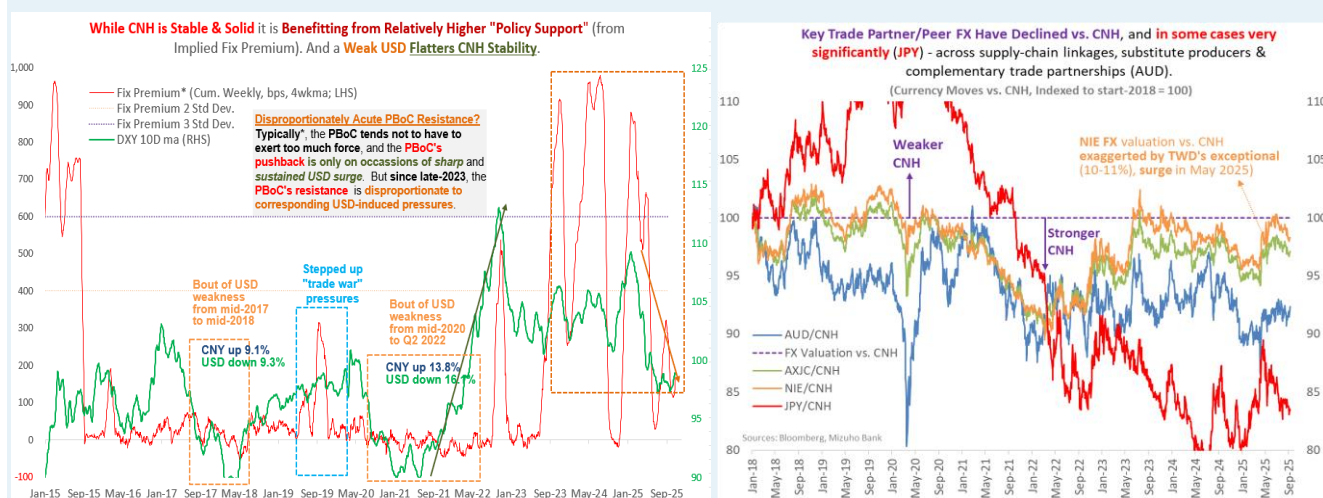


Figure 2f. Squeezed net interest margin for banks



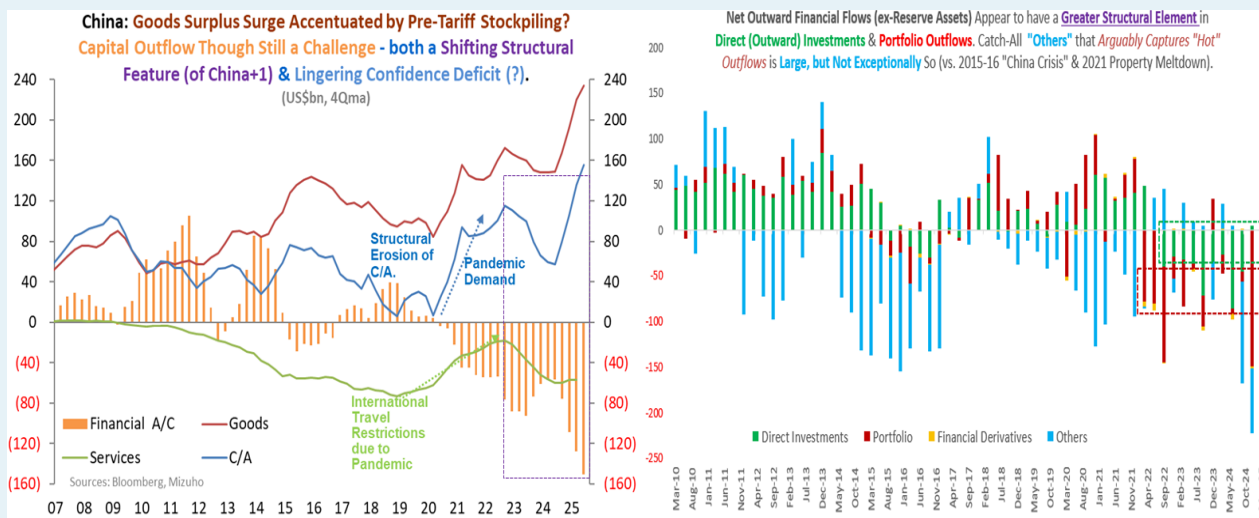
Box 2: Why CNH isn't Cheap [Published 21st November 2025]**In a Nutshell:**

- Despite the smoking gun of record trade surpluses at odds with an exceptionally stable renminbi, the **CNH is not cheap. Nor is it being purposefully cheapened.**
- Fact is, the **PBoC's guidance has been biased to support**, not suppress CNH.
- What's more, the **renminbi is appreciably more expensive relative to its peers/partners in Asia since Trump 1.0 tariffs in 2018.**
- Above all, **structural surge in financial/capital outflows, driven and underpinned by geo-economic/"anti-involution", reveal** that **external dynamics are no longer accretive for CNH valuations.**
- That's to say, **assumptions of appreciation bias based on trade are misguided.**
- In fact, **geo-economic risks accentuate adverse vulnerabilities to the downside for CNH further out** (beyond interim US-China truce).



- **Allegations of a purposefully cheap(ened) CNH** as a controlled currency are **plainly misguided** and ignore key facts.
- Admittedly, the **mechanics of (onshore) CNY price guidance by the PBoC**, with the (offshore) *CNH constrained in terms of deviation from the CNY*, have the hallmarks of being heavily managed.
- **But** closer examination reveals this to be an **inconvenient construct to accommodate partial capital controls, not engineered mercantilism aimed at trade imbalances.**
- First things first, as we have previously pointed out, the **PBoC's price guidance has been predominantly to support** (appreciate), not subdue (depreciate), the CNH.
- What's more, **ostensibly damning circumstances of surging trade surplus** are
 - **neither a by-product of a cheap CNH**
 - **nor the smoking gun that accretive C/A boost for the CNH being actively resisted.**
- Point being, CNH has, in aggregate, strengthened against key trade currencies in Asia since Trump 1.0 tariffs began (in 2018).
- Notably against **JPY, NIE FX** (a composite of KRW, TWD, HKD & SGD), **AUD** (with whom there is a deep complementary trade relationship) and wider **Asia FX**.
- Hence, the **surge in trade surplus is not a by-product of a cheapened CNH, but despite relatively stronger CNH.**
- Crucially, **despite a surge in China's Current Account (C/A) surplus, China's overall balance of payments is acutely less (effectively not!) accretive to CNH.**

- And this is owed to a *staggering surge in corresponding financial outflows*, which effectively *decimate any expected boost to CNH from the C/A surplus*.
- Notably, these **capital/financial outflows are likely to be structural (and hence) enduring feature of geoeconomic realities** (“China+1 for China” to manage US trade antagonism) and “anti-involution” (to shift excess deflationary capacity offshore).
- The upshot is that **CNH is not cheap**. And above all, *will not be actively cheapened!*
- If anything, **any geo-political shocks following the interim US-China truce is more likely reveal CNH vulnerabilities** (requiring support) rather than demand suppression (of appreciation bias).



Box 3: Advancing RMB internationalization

[Published 24th October 2025]

By pledging to pursue high-level and institutional opening-up at the Fourth Plenum of the 20th CPC Central Committee concluded on 23 October, China is expected to remain committed to its long-term ambition of promoting the international use of the Renminbi (RMB). This strategic goal encompasses several key dimensions: 1) expansion of offshore RMB (CNH) deposits across global financial hubs; 2) greater adoption of the RMB in international payments and trade settlements; 3) development of a deeper and more liquid Dim Sum Bond market; 4) a wider use in commodity trading and settlement; and 5) an increasing share of RMB in global central bank reserve portfolios.

Mixed progress. However, advances in RMB internationalization have been stalled over the past couple of years, amid slowing economic growth and significantly higher yields on USD assets.

As of the latest data, CNH deposits across Hong Kong, Singapore, Taiwan, and the UK reached RMB1.48 trillion, marking a 5.9% YoY increase (Fig 2). Although the RMB has slipped to sixth place among global payment currencies, down from fourth in 2024, its share steadily rose from 1.8% in 2020 to above 4% in 2024 (Fig 3).

Fig 1 CNH deposits across global financial hubs

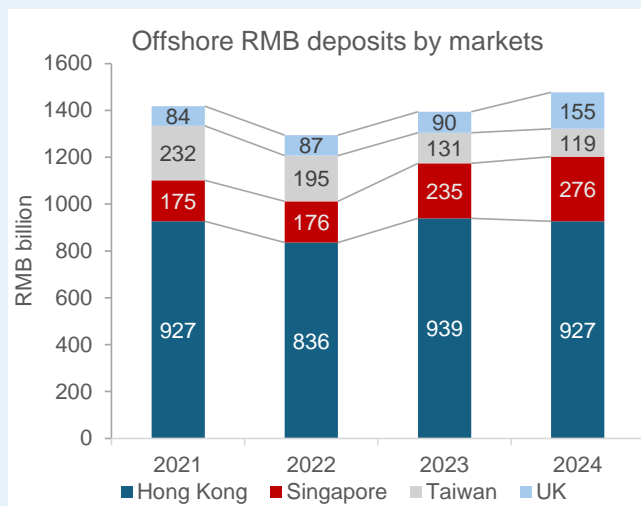
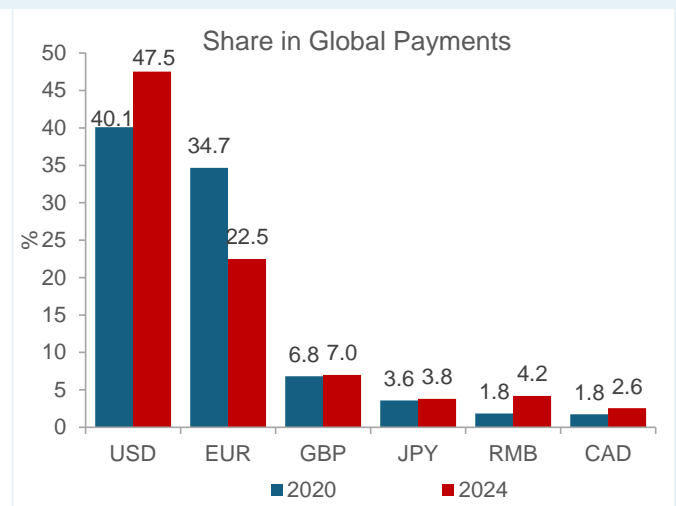


Fig 2 RMB's share in global payment rose steadily

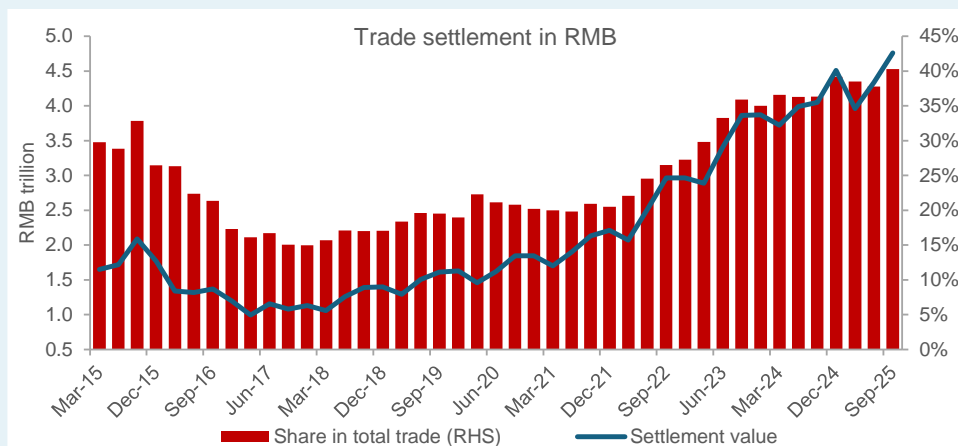


Source: Wind, Mizuho

Following the IMF's quinquennial SDR basket review in 2022, the RMB's weight increased to 12.28%, ranking just behind the US dollar (43.38%) and the euro (29.31%). RMB reserves held by global central banks totaled USD 250 billion by the end of 2024, accounting for 2.18% of total reserves, slightly down from 2.29% in 2020.

However, RMB-based trade settlement has surged at an annualized rate of 22% since 2020, reaching RMB 4.8 trillion in Q3 2025, representing 40% of China's total trade value (Fig 4). In trade finance, the RMB ranked second globally with a 7.6% share in August, while the USD continues to dominate with 81.4%.

Fig 3 RMB-based trade settlement rose notably in recent years



Source: Wind, Mizuho

The use of RMB in commodity trading is also increasing. Notably, crude oil futures traded on the Shanghai International Energy Exchange (INE) are now priced in RMB. By 2025, the INE recorded a trading volume of crude oil futures exceeding 150 million barrels per day, with over 20% of transactions conducted by overseas investors —making it the third-largest market after NYMEX and IPE. Additionally, China's purchases of iron ore and natural gas have seen a growing proportion of RMB-based settlements in recent years.

Deeper CNH Bond Market. To attract more international investors, Chinese authorities are actively working to expand the offshore CNH bond market and improve its liquidity. A notable initiative includes granting foreign investors access to the repo bond market, which aims to enhance liquidity management and increase the appeal of RMB-denominated bonds.

Regulators are reportedly considering issuing more CNH government bonds and launching Chinese Government Bond (CGB) futures in Hong Kong. These initiatives aim to expand the pool of high-quality CNH assets and promote the recognition of mainland Chinese bonds as eligible collateral in both Hong Kong and global markets.

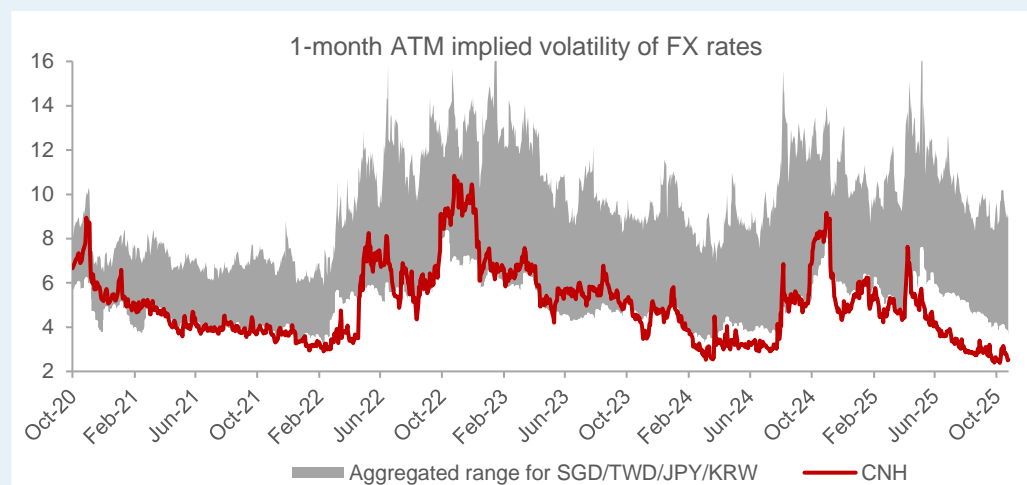
Year-to-date, China has issued RMB 73 billion in central government bonds and RMB 20 billion in local government bonds offshore—already exceeding the full-year 2024 totals by 22% and 14%, respectively.

Challenges ahead. Despite these advances, several hurdles remain in the path to RMB internationalization. These include, but are not limited to, remaining capital account restrictions, limited transparency in regulations governing cross-border cash flows, and a relatively narrow investor base in the Dim Sum bond market.

According to a survey conducted by China Construction Bank, 60% of Chinese enterprises operating overseas identified "low offshore RMB liquidity and high financing costs" as their biggest challenge, while 48% cited the "lack of effective currency hedging tools."

Likely implications. Looking ahead, the spread between onshore and offshore RMB interest rates is expected to remain relatively narrow, supported by improved liquidity and reduced volatility in offshore RMB (Fig 5). As Dim Sum bonds become more liquid and attract a broader investor base, pricing will shift from being technically driven to fundamentally driven. This evolution will encourage more enterprises and institutional investors—including central banks—to hold CNH assets directly, rather than converting these CNH holdings into USD.

Fig 4 Volatility in the CNH has been relatively subdued compared to other major Asian currencies



Source: Bloomberg, Mizuho

HKD: Strength Remained

	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027
USD/HKD	7.76-7.80	7.76-7.81	7.76-7.80	7.76-7.80	7.76-7.80	7.76-7.81
	7.78	7.78	7.77	7.76	7.76	7.77
GDP (% YoY)	3.2	2.0	2.1	2.2	2.4	2.2
CPI (% YoY)	1.4	1.7	1.8	1.9	2.0	2.0

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 3a. HKD fluctuated below 7.8

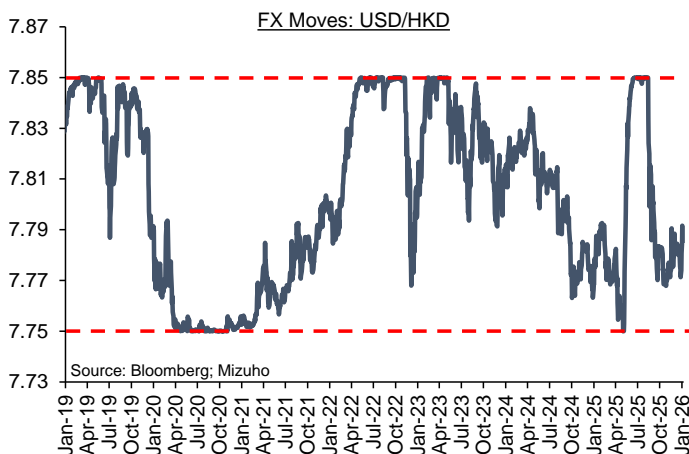


Fig 3b. Subdued underlying inflation

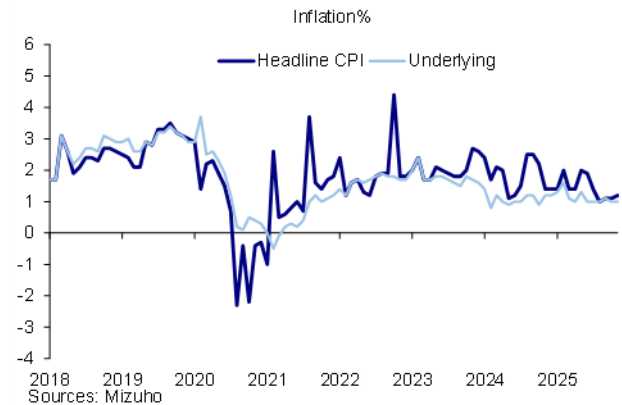


Fig 3c. Set to reclaim global IPO leadership

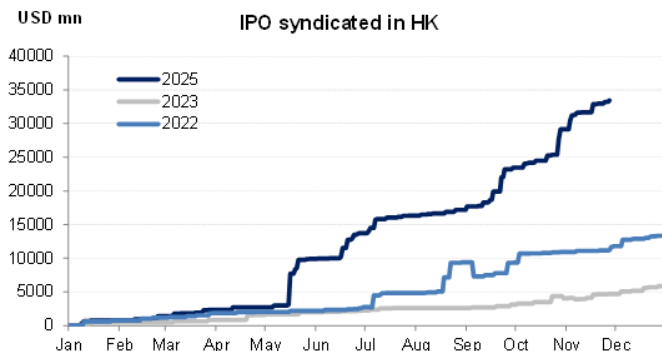
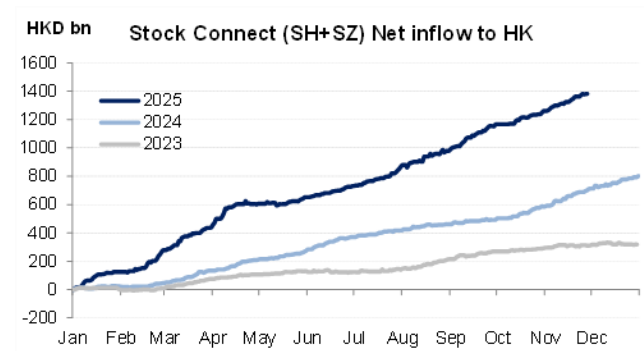


Fig 3d. Stock Connect flow remained buoyant



FX

- HKD firm near the strong end of the band:** Since September, HKD has been traded on the stronger side of the 7.75–7.85 band and is currently around 7.78, supported by structural and cyclical factors. Earlier HKMA interventions during June–August tightened liquidity and lifted HIBOR, while US rate cuts compressed SOFR, narrowing the SOFR–HIBOR differential and reducing the carry appeal of short-HKD positions. This dynamic suggests HKD strength is not merely technical but underpinned by capital flow resilience and relative rate support. Looking ahead, if inflows persist and the Fed maintains an easing bias, HKD is likely to stay firm near the strong end, though any reversal in equity flows could temper this strength.
- Resilience Capital Flow:** Net inflows through Stock Connect surged 73.9% YoY to a record HK\$1,405 billion in 2025, reinforcing Hong Kong’s role as a key gateway for mainland capital. Southbound trading now accounts for about 40% of main board turnover, highlighting a profound structural shift in liquidity dynamics. Beyond strong secondary market demand, partly fuelled by the AI investment boom, last year’s IPO wave has further lifted HKD funding needs. These trends suggest that capital flow resilience, rather than short-term technical factors, is driving HKD strength and shaping funding conditions.
- Solid growth amid structural shifts:** Hong Kong’s economy posted stronger-than-expected growth in 2025, with the government projecting full year real GDP to expand by 3.2%, above earlier forecasts of 2–3%. The upside surprise was driven by robust merchandise exports, supported by global demand for electronics and AI-related components and aided by easing Sino–US trade tensions. Services exports also strengthened,

benefiting from a rebound in inbound tourism and buoyant financial market activity. Meanwhile, lower interest rates and resilient asset markets helped lift sentiment, though structural headwinds, such as a subdued retail sector, kept the recovery uneven.

- [RMB Strength is a tailwind for Hong Kong's Growth](#): A firmer RMB enhances the purchasing power of Mainland visitors and corporates, boosting inbound tourism and cross-border consumption, which are key drivers of Hong Kong's services sector. It also tends to improve liquidity conditions through increased capital inflows. While RMB appreciation could partially harm the price competitiveness for certain re-exports, this impact is limited compared to the broader benefits for services and financial flows. Overall, a stronger RMB offers meaningful support to domestic demand and financial services.
- [Firm Bias Near Strong Side of the Peg](#): HKD is expected to remain biased near the strong-side convertibility level into early 2026. Record Southbound Stock Connect inflows lifted HKD funding demand, while US rate cuts compressed SOFR-HIBOR spread, eroding the carry advantage of short-HKD positions. Combined with Hong Kong's stronger-than-expected GDP growth and buoyant asset markets, these factors point to sustained HKD strength.

Rates

- [HKD Liquidity Drained by HKMA intervention](#): HKD liquidity remains ample but structurally contracted. The sharp liquidity squeeze from June to mid-August as the currency tested the weak-side convertibility undertaking at 7.85. This intervention cycle drained the aggregate balance significantly before stabilizing at around HK\$54 billion, where it has remained relatively flat since mid-August. The subsequent stability signals a tighter but steady liquidity backdrop, which has kept front-end HIBOR rates relatively subdued, even as intermittent volatility emerged due to seasonal funding pressures. While short-tenor funding costs have eased, the structural contraction in system liquidity means the market is more sensitive to changes in SOFR-HIBOR spread and year-end balance sheet effects.
- [USD-HKD rate spread is expected to narrow](#): As the Fed moves deeper into its easing cycle, SOFR is expected to decline in line with the lower target range for Fed funds. This adjustment will compress the USD-HKD rate differential because US funding costs now serve as the upper anchor of the spread. In addition, the halt of quantitative tightening since December 2025 improves liquidity conditions in the US banking system, keeping SOFR at the lower end of the Fed's target range. On the Hong Kong side, HIBOR is influenced not only by US monetary policy but also by local liquidity conditions. With the aggregate balance stable around HK\$54 billion since mid-August 2025, HKD liquidity remains steadily tight. Meanwhile, Hong Kong's loans-to-deposits ratio has recovered to 73.6% in October 2025 as economic growth accelerated, signalling a modest rebound in credit demand. This suggests HKD rates will not fall as quickly as SOFR, leading to a gradual narrowing of the USD-HKD rate premium, which we are expecting the 3-month SOFR-HIBOR spread to narrow to 60bps in 1Q26.
- [HKD IRS softens on US rate cut expectations](#): HKD IRS continued to decline alongside USD IRS as global recession concerns and expectations of U.S. policy easing gained traction. The 3Y HKD IRS now trades at 2.89%, while 3.25% for the 3Y USD IRS, both lower than end-October levels, reflecting market anticipation of further Fed cuts in 2026. As the Fed's easing cycle moves deeper toward its later stages, we expect short-tenor HKD rates to decline further in response to Fed cuts, while longer tenors should gradually adjust higher as markets anticipate policy normalization beyond the trough. This combination points to a bear-steepening bias later in the cycle.

Fig 3e. HKGB term premium remained positive

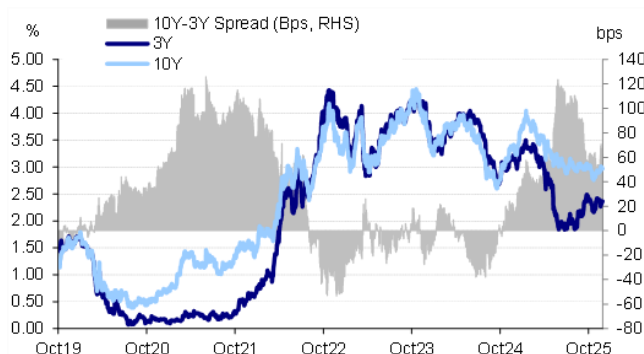
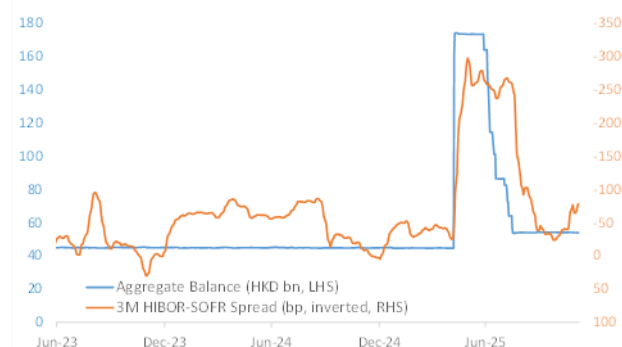


Figure 3f. Aggregate balance fell on FX intervention



INR: Odd (Or)Deal

	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027
Policy Rate (%)	5.25%	5.00%	5.00%	4.75%	4.75%	4.75%
USD/INR	87.6-91.1	88.6-92.3	87.5-91.5	88.5-92.6	88-92.8	88.8-93.5
	89.8	90.5	89.5	90.8	89.5	91.0
GDP (% YoY)	7.6	7.0	6.7	6.5	6.9	7.2
CPI (% YoY)	0.7	2.5	3.7	3.4	4.6	4.5

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 4a. Aggressive Rupee Bears Checked

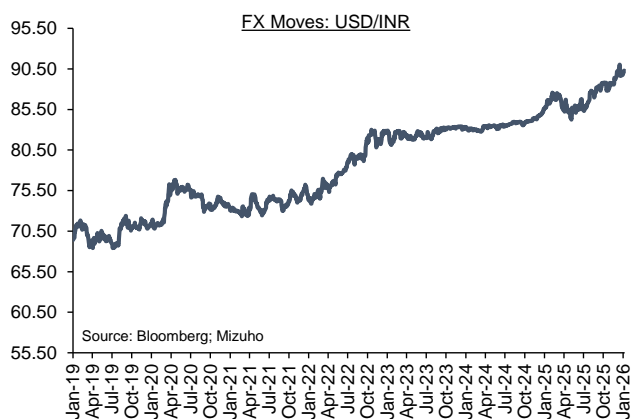


Fig 4b. RBI Kicked off Easing Cycle

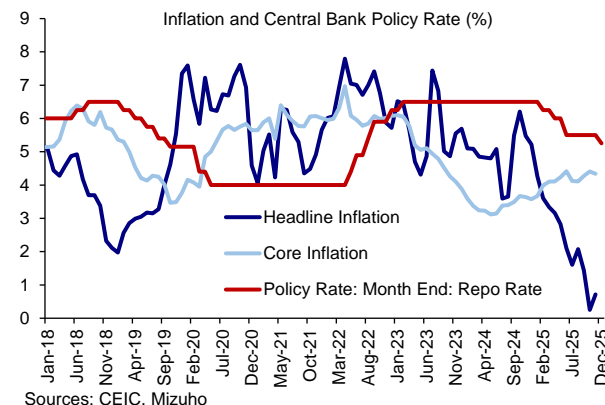


Fig 4c. "Twin Deficit" Consolidation

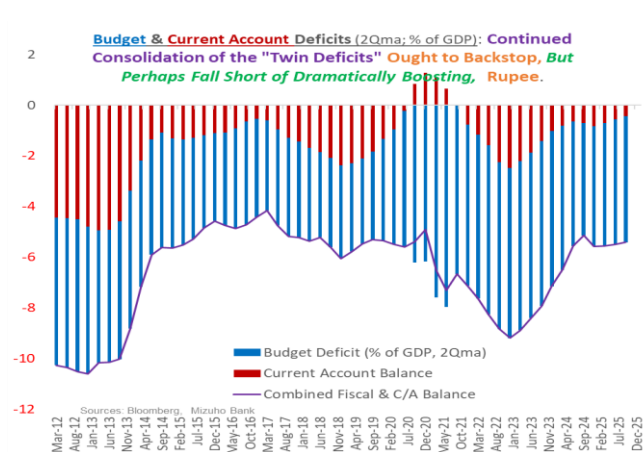
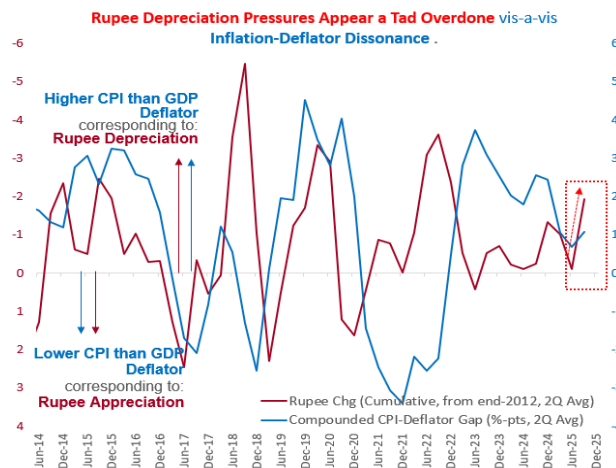


Fig 4d. Overdone Rupee Weakness?



FX

- Oddly Unrelenting Pressures:** In a year that the USD is down over 8%, rupee's performance remains oddly dismal – with the 4-5% year-to-date drop putting it at the bottom of the AxJ pack. What's especially uncharacteristic is that stark under-performance is despite fiscal/twin deficit consolidation, softer oil prices and significantly lower inflation. All of which typically tend to lift INR.
- Odd Mix of Policy & Geo-economic Stress:** The offending rupee assaults are ostensibly driven by unanticipated US trade/geoeconomic assault that has conspired with what appears to be a less interventionist tilt in the RBI that is more inclined to let rupee be the "shock absorber".
- Tariff (Or)Deal:** Much of rupee's adverse shock has arguably derived from the ordeal of unexpected US trade deal hostility, climaxing at secondary tariffs (additional 25% layer) for Russian oil imports. The combined 50% tariff on India is ironically the most adversarial in Asia and globally. Admittedly, effective tariff rates are lowered with exemptions, but ordeal of strained US-India relations weigh on rupee.
- Non-Interventionist:** What's more, a more dovish RBI (in expressed intent of growth bias in policy, not necessarily in terms of fairly restrained cuts thus far) coupled with a perceptibly less interventionist bent. But increased rupee flexibility as an intent alongside strategic FX reserve conservation tends to accentuate depreciation waves. Which then necessarily will require RBI to check "hot momentum".

- **“Sweet Spot”**: But **despite the current RBI-rupee conundrum, policy could turn out to be an evolving “sweet spot”** as a more cautiously dovish RBI backed by subdued (despite bottoming) inflation aligns with judicious interventions (that conserve FX reserves) and a softer USD from a far more aggressive Fed. All of which may converge to start stemming the rupee depreciation tide into 2026.
- **Alongside Diplomatic Relief?**: Crucially, **the catalyst for snapping the negative rupee feedback loop** may be **relief from an (eventual) trade deal with the US** that *at least partly alleviates the fraught tariff situation* with the US. A key benchmark may be to see *if secondary tariffs roll off or are phased out* and the *reciprocal tariff rate is dialled back to the wider 15-20%* range cross Asia.
- **“Twin Deficit” Consolation**: Admittedly, there are risks of Current Account slippage which could re-widen the deficit. Nonetheless, the broader trend of more diminished aggregate “twin deficit” ought to be more supportive of the rupee into 2026.
- **Fuelling, Not Inflating, Rupee Backstop**: Especially if, **softer**, and **mostly subdued oil prices** help to **backstop** (albeit *not immunize*) **the rupee** from excessive depreciation pressures. On the other hand, **bottoming dis-inflation** (as outright food deflation reverses) **against a dovish RBI** could **inadvertently restrain rupee rebound**.
- **INR Outlook**: Consequently, 2026 is likely to be a year in **which a weaker rupee from 2025 looks for traction** (in the wider 88.5-93.5 range) **but falls far short of a recovery**. The **key point on “non-reversion” reflects rupee as a pressure release valve** dovetails with a RBI focused on growth support as well as “Make in India” ambitions. Especially as softer inflation blunts the trade-offs. The *rupee’s odd ordeal* (amid softer oil/inflation and fiscal consolidation) is *likely to be contained not overturned*, and **measured gains** will likely be **against a backdrop of a broadly softer USD**.

Rates

- **Central Bank – Considered Dovish Bias**: The **RBI retains dovish bias, although the execution is expected to be cautious**, perhaps *opportunistic* even. The cover of Fed cuts is critical alongside rupee stability. Despite higher growth numbers in the 8-9% range in 2025, the on-the-ground feel of more lethargic demand conditions validate the RBI’s growth bias. But unprecedented external uncertainties dictate restraint.
- **Policy Rate**: Our base case is for policy rates to go lower by **50-75bp in 2026, taking cues from, but not matching the pace of, Fed cuts**. This is premised on a **gentle rebound in CPI back to ~4% from unsustainably low levels** (thanks to transitory food deflation). *Rupee stability* and *inflation anchor* are *preconditions for further cuts*. And **above all**, the **RBI will ensure bond market conditions are sufficiently favourable to avert counter-productive lift in long-end yields**, in defiance of rate cuts.
- **Lower Yields & Steeper Curve**: **Front-end yields are likely to be far better anchored** and **softened by** (sensitive to) **rate cuts**. But the **flare in long-end yields may be harder to completely overturn** given steeper global yield curves. **Especially if risk re-pricing turns out to be more persistent** in nature. For now, a sharp fall in HY Asia spreads vs. USTs warns of stickier long-end yields.
- **Fiscal Silver Lining**: **India’s fiscal consolidation remaining on track is a silver lining that will counter unmitigated surge in long-end yields** amid RBI cuts. But geo-political risks remain the wild card.

Fig 4e. Yields declined in March and April

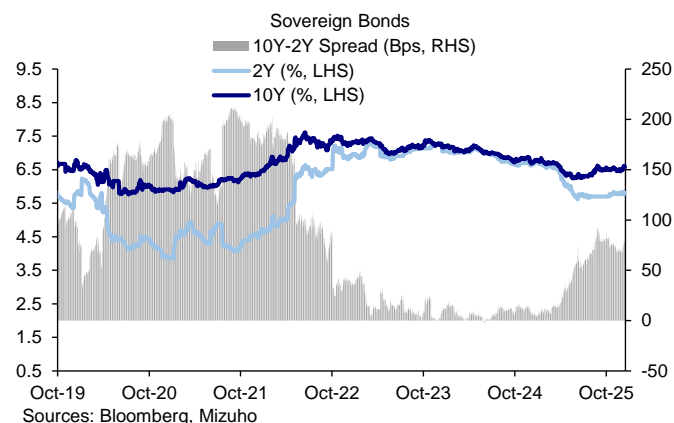
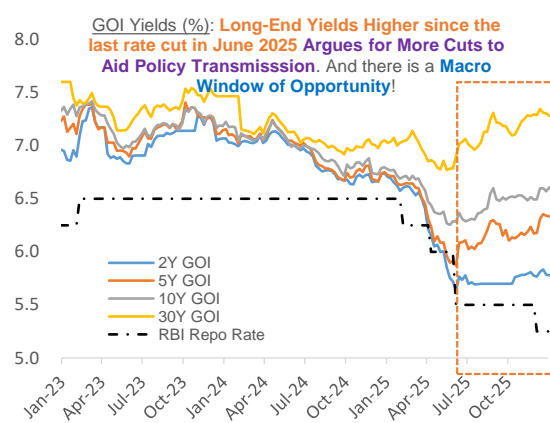


Figure 4f. Prone to risk repricing?



KRW: Softening Semiconductor Tailwinds

	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027
Policy Rate (%)	2.50%	2.50%	2.50%	2.25%	2.25%	2.25%
USD/KRW	1399-1485	1380-1480	1360-1460	1320-1450	1320-1430	1320-1435
	1440	1450	1420	1410	1400	1410
GDP (% YoY)	2.2	2.8	2.8	2.0	1.9	2.2
CPI (% YoY)	2.4	1.9	2.2	2.4	2.0	2.1

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 5a. KRW weakened amid risk off woes

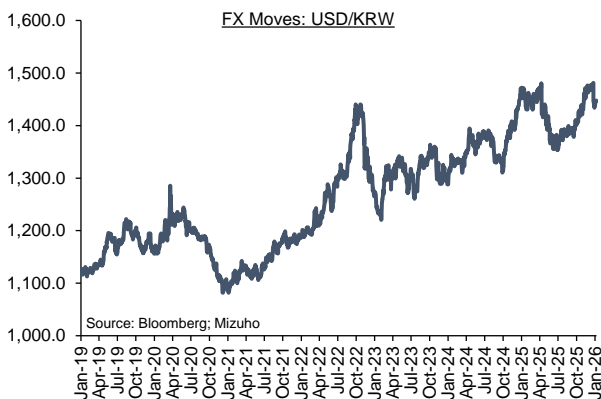


Fig 5b. Inflation appearing to be sticky

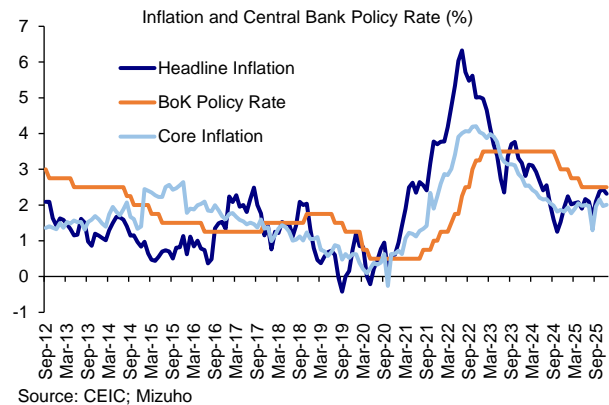


Fig 5c. Equities saw sharp outflows in H2 2025

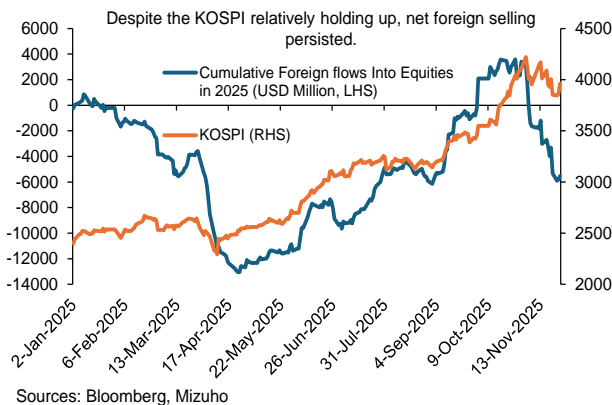
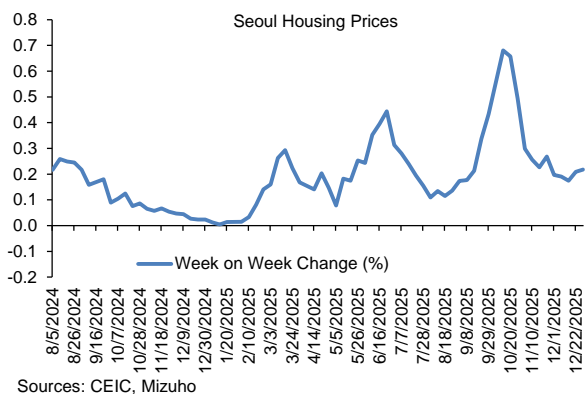


Fig 5d. Housing price growth remains elevated



FX

- Risk off Hammering:** Since late August, **KRW has underperformed** almost all regional peers except the JPY and the reversal only came about on the National Pension Service offsetting with hedging flows in end-2025. KRW weakness stem from sharp risk off sentiments over **AI valuations worries**. These **adverse sentiments** overwhelmed **firmer growth recovery from strong external demand** and overshadowed the **US-Korea trade agreement** achieved during the APEC summit. Meanwhile, domestic macroprudential concerns have surfaced yet again and will be an impediment to the BoK's easing in 2026.
- Equities Outflows:** Despite the KOSPI's stellar performance in 2025, foreign outflows from equities have been evident in recent months (US\$4.7bn since start of October) and points to profit taking amid risk off sentiments.
- Costly Deals:** Outflows from equities was not the only source of worries as the US-Korea trade agreement affirms an investment deal which requires not more than US\$20bn of funding a year. This amounts to around **4% of their FX reserves** which reveals the extent of possible strains on the KRW. Nonetheless, autos look set to benefit from the lower 15% tariff rates. **Worries about investment-related outflows may continue to provide bouts of setback for the KRW in 2026.**
- Caveats, Not Catalyst:** Even though there are caveats ranging from sourcing USD from means other than markets purchases and allowance for adjustment in amount and funding if there are disorderly movements of

the KRW, the **possible retention of exports/investments proceeds in USD inadvertently implies less supportive flows for the KRW** going forward.

- **Intervention, A Firm But Not Immovable Backstop:** While there is some comfort for KRW bulls nursing wounds as the BoK-NPS intervention comes in at around the 1470-1480 region, it is not a promise of a hard stop especially if risk off sentiments and wider yield differentials conspire should Fed easing bets reverse.
- **Semiconductor Upcycle, Lasting Memories: Current semiconductor upcycle is likely to be supportive of the KRW into 2026** as AI-led demand has translated into surging prices of memory chips and this falls into their comparative advantage and boost their terms of trade. Even as prices may plateau after likely ascendancy in H1 2026, expanded production lines by key suppliers implies that exports revenue growth may continue to be at a robust pace to buoy the current account surplus.
- **Contemplating the Easing Cycle:** Meanwhile, macroprudential concerns over property prices in Seoul will continue to be key impediments for the BoK to proceed with more rate cuts. In fact, with policy room at about 50bps, they become **increasingly hard to be realised**. Consequently, KRW may also be allowed some backstop from BoK's reluctance to ease.
- **Outlook:** Looking ahead, even amid the supposed refreshed NPS strategy, KRW may still hover around 1450 in early 2026 unless the risk off mood fades in a significant manner. AI-related valuation concerns to linger. Nonetheless, a firmer semiconductor upcycle in 2026 and clearly cautious BoK rate hold will allow for some KRW recovery on a softer USD backdrop. That said, expanded fiscal borrowing will be a concern for KRW bulls and impede bets for outperformance in 2026.

Rates

- **Central Bank:** For 2026, even as the BoK has removed allusion to "maintaining their rate cut stance", rate cuts may not necessarily be off the table once property price growth has been sufficiently dampened as more property cooling measures are announced especially with GDP growth likely to range in the 2-3% mark. That said, we have trimmed one call for rate cut to one in 2026 as inflation remains buoyed above the 2% target.
- **Risks:** As such, policy risks exist on both ends. A charged-up semiconductor super cycle may call an end to the BoK's easing and in turn a tight labour market may spill into further property prices acceleration inciting rate hike bets which adds volatility, but this may not stand up to actual policy action. On the other end, a slowdown in the semiconductor cycle will pose growth woes and trigger BoK easing.
- **Yields:** Since early September, against the grind of lower UST yields, front end 2Y yields have risen by about 30-35bps as markets lower the odds of BoK rate cuts while 10Y yields rose by about 40 yields.
- **Curve:** The steepening is unsurprising with the managed fiscal balance to reach a **deficit of 4.0% of GDP for Budget 2026**. The narrowing of the deficit from a projected 4.2% in 2025 which includes two supplementary budget is hardly comforting as **government borrowing in 2026 will be marginally higher (0.4%) than in 2025**. Accordingly, yields are likely to be supported in the near term as the government aims to front load issuances in H1 2026. Even though 10-2Y spreads are now rather elevated, **further steepening by around 10-20bps is likely** on a profile of rising government debt to GDP ratio.

Fig 5e. Fiscal woes led to curve steepening

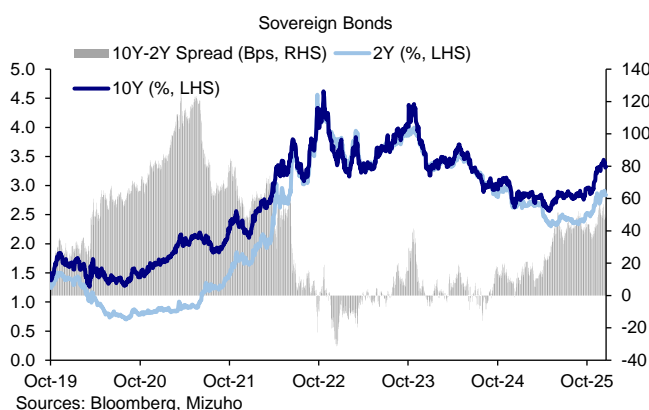
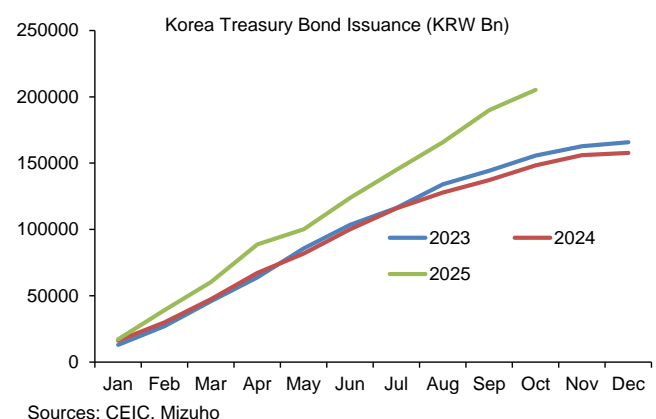


Figure 5f. Treasury Bond Issuances Increase



TWD: Resilient Growth, Not Panacea for TWD

	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027
Policy Rate (%)	2.000	2.000	2.000	2.000	2.000	2.000
USD/TWD	30.3-31.6	29.0-32.1	28.8-31.3	28.8-31.3	28.7-31.1	29.1-31.1
	31.4	30.6	30.2	29.9	30.4	30.6
GDP (% YoY)	7.3	5.9	3.7	2.9	3.0	3.2
CPI (% YoY)	1.4	1.7	1.6	1.5	1.6	1.4

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 6a. TWD slipped amid risk off backdrop

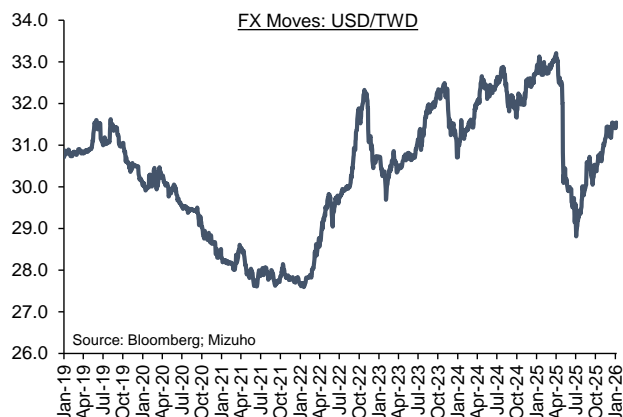


Fig 6b. Dis-inflation remain on track

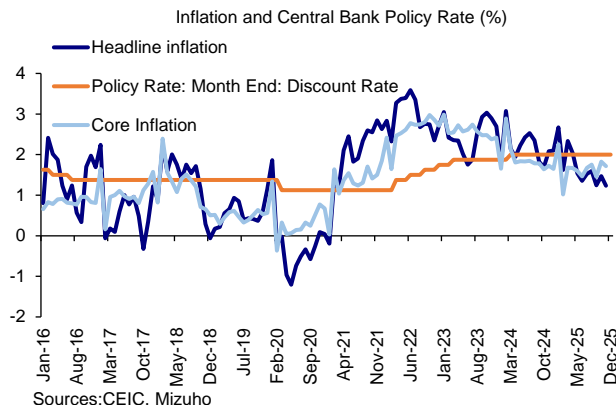


Fig 6c. Foreign outflows from equities

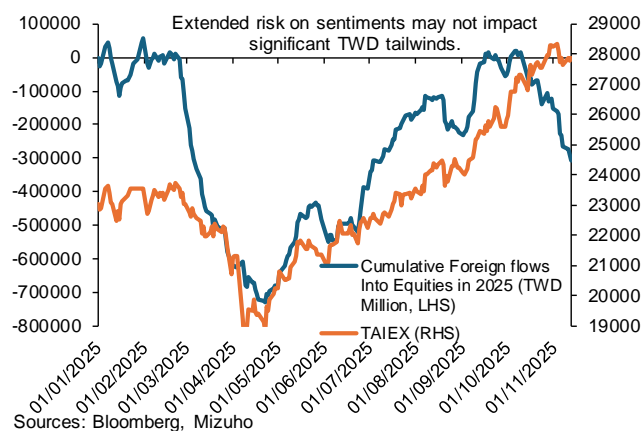
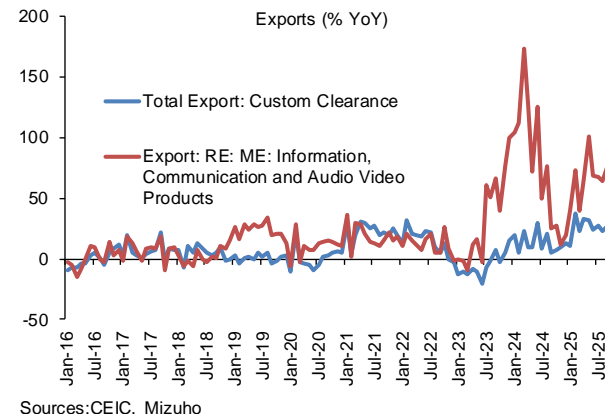


Fig 6d. Semiconductor demand boosted exports



FX

- Wobbly Performance:** The TWD's 2025 middle of the pack gains is a two-part performance. First, sharp gains in Q2 2025 due to fears of a lack of CBC intervention on potential pressures from US Treasury amid trade deal negotiations. Half of these gains were given up on the back of risk off weakness. Into 2026, **risk off sentiments** over AI alongside an **inability to secure any trade deal with the US** imply that TWD recovery may be rather restrained especially amid wider considerations of a structural rate differentials. Nonetheless, strong semiconductor cycle aiding the usual current account surplus will continue to back a moderate TWD recovery in 2026.
- Buoyant Equities belie underlying risks:** With the TAIEX reaching 28000 levels with more than 20% gain YTD, elevated heights in recent months were accompanied by net foreign outflows likely on the back of profit taking. It may not be entirely clear if the selling amounts to valuation concerns over AI but the attractiveness to de-risk should be well noted. Accordingly, subsequent risk-on sentiments in 2026 may not impart the usual significant tailwinds for the TWD.
- Trade Deal Optics and Optimism:** Furthermore, the lack of a trade deal appears particularly troubling as China and Malaysia both managed to reach an agreement with the US with the former narrowing their tariff

differentials with Asian peers. That said, with semiconductors which makes up more than a quarter of exports, its continued exemption imply that the deal may not be as crucial.

- **Semiconductor Supercycle and Cash Handout Boost:** This is especially so in terms of the growth perspective as the current semiconductor cycle appears to be much stronger than the pandemic led electronics boom. Aside from the export tailwinds, growth momentum into 2026 may benefit from the NT\$10k cash handout which will lift private consumption expenditure as with broad eligibility from Taiwanese nationals to foreign permanent residents and children. 2026 GDP growth is projected at around 4% reflecting persistent strength of the semiconductor cycle.
- **Prolonged Rate Hold and Differentials:** Even then, the TWD remains susceptible to outflows as **interest rate differentials will inevitably continue to be a structural factor** for the likes of insurers despite the firm economic growth erasing rate cut prospects and cementing a prolonged rate hold by the CBC in 2026.
- **Watching Fiscal and Military Threats:** For the 2026 budget plan, the envisaged NT\$400bn deficit amounts to a small 1.3% deficit which will not threaten their strong credit rating position even though it is **still a worsening of the fiscal position** from a likely surplus in 2025. That said, their fiscal prudence also implies that the actual fiscal deficit is likely to be much smaller. The enlarged expenditures stemmed from higher spending on military as well as public infrastructure ranging from flood control projects to data centres. Nonetheless, the raised military spending to 3.3% of GDP may remain insufficient for the Trump administration although the strategic importance of semiconductors also implies that excessive pressures on TWD may be averted.
- **TWD Outlook:** Alongside the semiconductor led tailwinds, we expect a modest TWD recovery in 2026 amid a softer USD backdrop. Nonetheless, various threats ranging from risk off sentiment to renewed US-China tensions imply that **USD/TWD is project to retain durable buoyancy above 30 more often than not** with the occasional slippages on US/FOMC wobbles. While US led exports tailwind has indeed engendered firm growth, its consequent optimism would also affirm investment cycle and optimism in the US and ensuing risk-on may also imply that structural rates divergence will be an impediment to TWD rallies.

Rates

- **Central Bank:** Headline inflation in 2025 has remained muted at 1.7% YoY which is below the CBC's 2% target and residential property price momentum also appeared to have cooled. There is room to ease policy rates, but firm domestic growth implies that the CBC is set for an extended hold in 2026 barring unexpected slowdown in semiconductor demand.
- **Risks:** Ironically, rates risks may be marginally tilted to the upside as issuances are likely to rise on the back of the projected deficit. That said, demand is unlikely to be a challenge considering strong bid to cover ratios.
- **Yields:** The demand is also reflected via slippage in yields across the curve since early September. Front end yields are likely to be backstopped by elevated policy rates at 2.00% which is 62.5bps higher than in 2019.
- **Curve:** Meanwhile with 10-2Y spreads being rather tight at 15-20 bps, there is limited room for further narrowing. Potential risk of higher military spending is likely to keep longer end yields buoyed but not accelerating as demand likely remains firm.

Fig 6e. Decline in yields are relatively milder

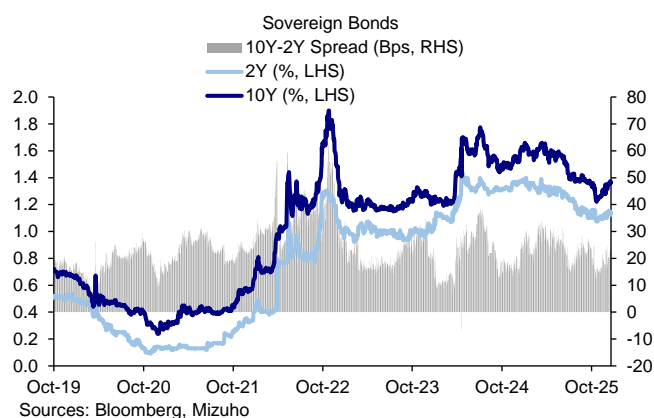
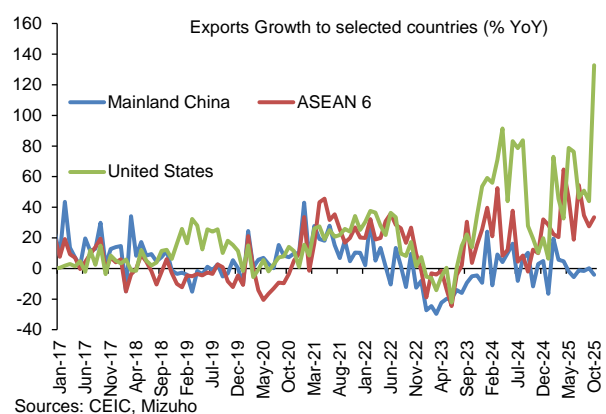


Figure 6f. US led external demand remains strong



SGD: Solid Policy, Flows & Haven Allure

	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027
S\$NEER Slope	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
S\$NEER Mid-pt	Hold	Hold	Hold	Hold	Hold	Hold
USD/SGD	1.282-1.31	1.269-1.308	1.262-1.316	1.263-1.308	1.255-1.302	1.258-1.304
	1.285	1.298	1.282	1.273	1.268	1.266
GDP (% YoY)	5.7	7.1	5.8	3.8	1.8	2.0
CPI (% YoY)	1.4	1.6	1.7	1.6	1.7	1.7

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 7a. SGD is the Clear Outperformer

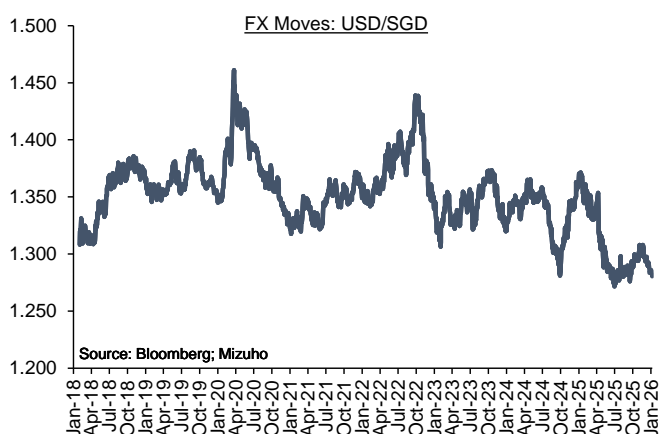


Fig 7b. Inflation to rise in 2026 as base effects fade

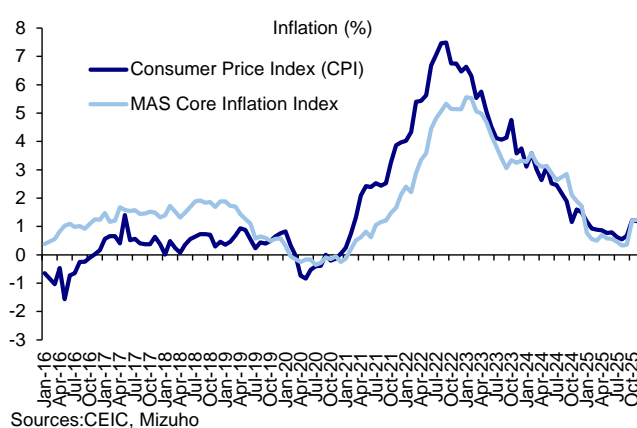


Fig 7c. Strong GDP growth in 2025

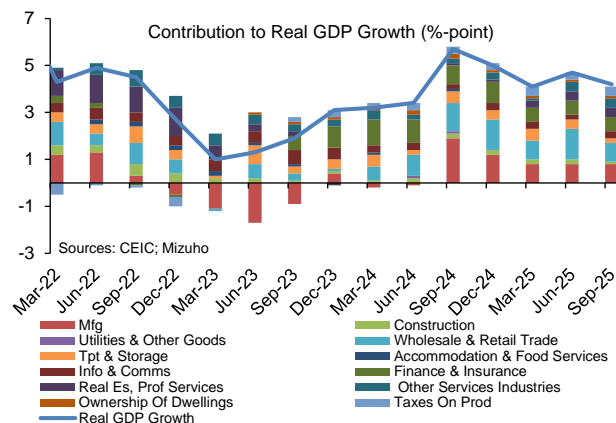
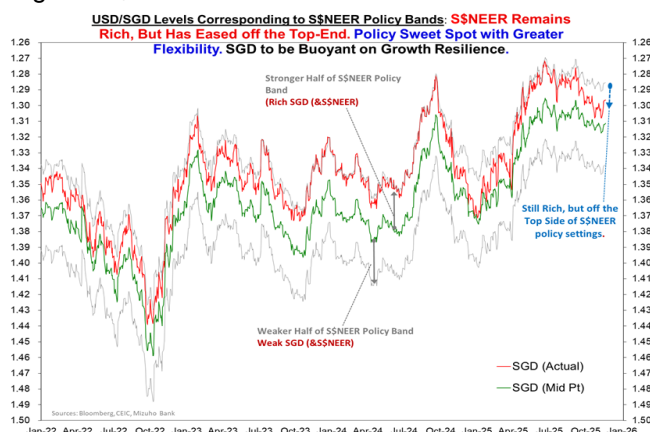


Fig 7d. S\$NEER soften in recent months



FX

- **Solid, Albeit Not Stellar:** 6-7% gain in 2025 despite navigating unprecedented US tariffs threats, places ~SGD performance as properly solid. More so, given MAS' two consecutive easing moves (Jan and Apr). But equally, SGD's rally is not stellar, notably unable to fully exploit a corresponding 9-10% drop in the USD.
- **No Preset (Policy) Course:** To be sure, there is no preset course of the MAS given the obscured and uncertain nature of global geoeconomic risks. And lingering geoeconomic uncertainty, the baseline is for the MAS to be on hold despite growth out-run. Any remnant bias will likely be dovish – partly explaining the S\$NEER easing off from the top-end of the policy bands (despite still being rich at the strong end).
- **But Higher Bar for S\$NEER Slope Suspension:** Nonetheless, uncertainty amid geo-economic suspense and hard-to-predict Trump responses to US mid-term elections are not reasons to pre-emptively suspend the S\$NEER slope. In fact, the solid out-run in 2025 GDP growth – as backward-looking and flattered (by front-running of goods demand may be), coupled with the expectations of a slight positive output gap into 2026, suggest that the MAS has a higher bar for S\$NEER slope suspension (completely relinquishing S\$NEER policy appreciation bias). In fact, it might take an unexpected adverse shock.

- **Fading Dis-inflation Could Buoy Further:** What’s more, as exceptionally sharp disinflation effects from SG60 subsides and softer global energy prices fade, the **anticipated re-acceleration in inflation back towards target means that the prevailing, measured SGD NEER appreciation bias may be the “sweet spot”**.
- **Rich, But Not Upwardly Exhausted, S\$NEER:** Notably, **S\$NEER, drifting down from the top-side of the policy bands**, gently mitigate the downside risks from dis-inflation and exports wobbles. But equally, this **leaves scope for upside within the bands if demand proves resilient**. This ought to lend to **S\$NEER and SGD tone**. So, absent a sweeping bullish USD surprise, **USD/SGD will be anchored, biased to drift lower**.
- **Current Account & Financial Flows Backstop:** Adding to (measured) SGD upside bias, with **downside tail risks protected** is the **solid C/A and wealth inflows of hard currency that backs up the SGD** on a cash-flow basis. The tail risk is, **severe geoeconomic stress may disrupting such flows, invoking abrupt volatility**.
- **Burnished Further by Quasi-Haven:** There is a certain **symbiotic, and self-reinforcing boost to the SGD** from **wealth inflows** and **perceptions of SGD as a quasi-haven**. The unforced errors of **“Sell America”** and **JPY volatilities arguably accentuate the haven allure of the SGD** as a prominent complement to the CHF.
- **& USD Hedge Allure:** **SGD’s attraction as a hedge for USD debasement risks** is underpinned by its **financial centre status, ‘AAA’ ratings** and **growing** (albeit nascent) **universe of SGD-denominated assets**. To be clear, SGD cannot take the USD’s place. But **even as a partial hedge, SGD may be relatively buoyed**.
- **SGD Outlook: A slightly bumpy path – albeit lower-beta and downside-side protected** vis-a-vis most other AxJ – as the SGD navigates a two-way controlled landing in the USD. A steady MAS makes a **case for SGD to opportunistically test higher** (sub-1.26 USD/SGD) through 2026. A decisive break below will depend on distinct and durable CNH gains and overall AxJ risks being mitigated.

Rates

- **Determining SGS Discount (vs. USTs):** The received wisdom is that **SG rates typically track US rates very closely**. **But post-pandemic**, that **narrative of SG rates being effectively US rates with a bit of wiggle** has been **challenged by persistent, deeper discount on SGS rates** (vis-à-vis UST yields). **Determining the depth and durability of this discount** is imperative amid maturing wealth inflows and Fed cuts.
- **Calling a Peak (Discount) & Flagging Convergence:** Our sense is that the **SGS premium** (accentuating the allure of SGS, hence depressing yields below USTs) is **stretched**. Specifically, **SGS yield discount** (vs. USTs) of **~200bps appears excessive** and is likely to have **peaked** and are **set to re-narrow, re-converging** (albeit not fully) **with UST yields**. Especially as the **MAS’ aggressive, front-loaded step appreciation fades** amid a gentler S\$NEER slope. And **as additional wealth inflow/ haven allure peter out at the margin**.
- **Direction of Travel, Fed Catalyst & Curve Steepener:** More so, **as Fed rate cuts allow UST yields to catch down**. To be sure, **SGS yields have some scope to follow the downward direction of travel** (in USTs). **But it is more inclined to be a low-beta move**. Crucially, the **SGS yield curve is expected to faithfully reflect a steeper UST curve**. **Low-/Sub-1% front end SGS yields** are not off the menu, **although 10Y looks rather low with far more controlled dips from ~2% levels**.

Fig 7e. Price-Taker of UST Shifts

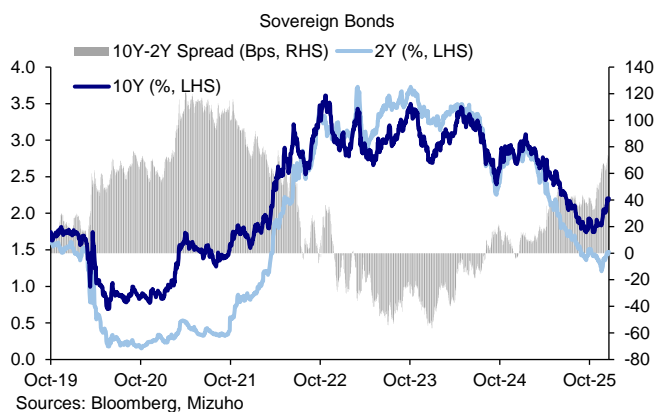
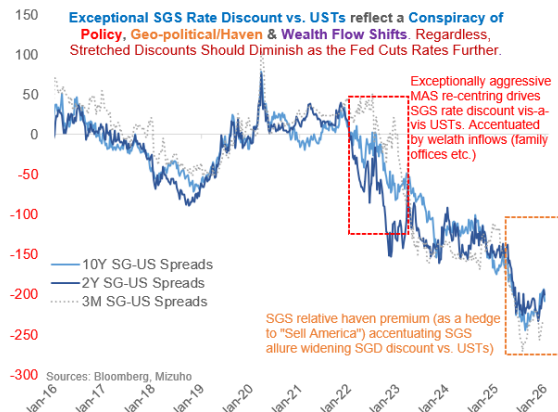


Figure 7f. SGS Rate Discount



IDR: Painful Push and Lingering Lessons

	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027
Policy Rate (%)	4.75%	4.50%	4.25%	4.25%	4.25%	4.25%
USD/IDR	16500-16800	16130-17040	16110-17080	16150-16780	16200-16780	16200-16780
	16690	16650	16600	16600	16650	16650
GDP (% YoY)	5.0	4.9	4.9	5.0	5.1	4.9
CPI (% YoY)	2.8	3.5	2.1	2.9	2.6	3.3

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 8a. IDR shy of 17,000 amid BI intervention

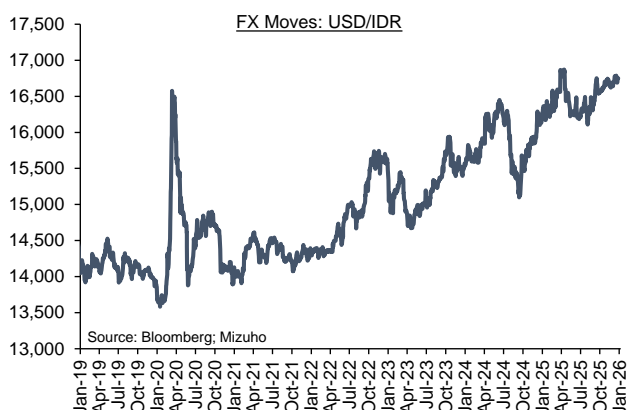


Fig 8b. Inflation remains managed

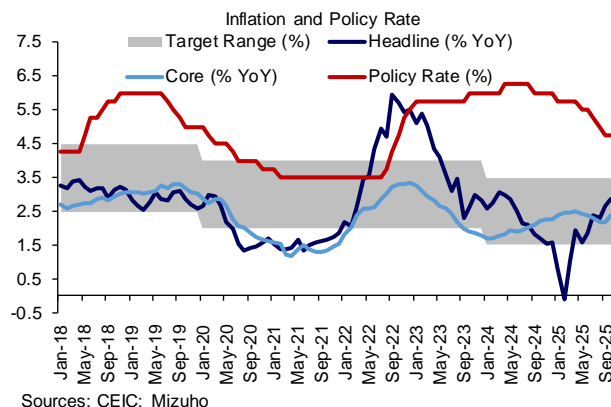


Figure 8c. September political turmoil led to sell-off

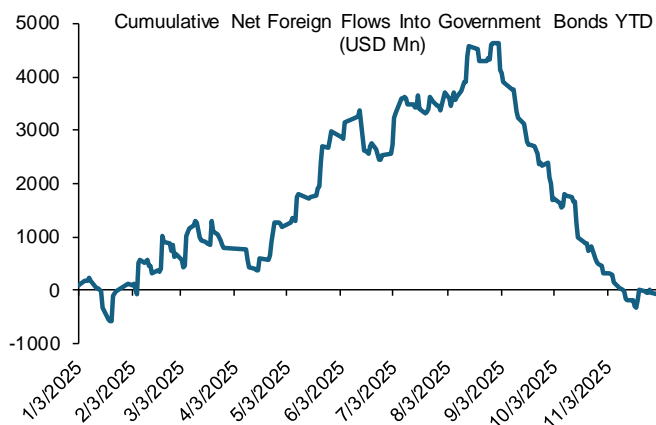
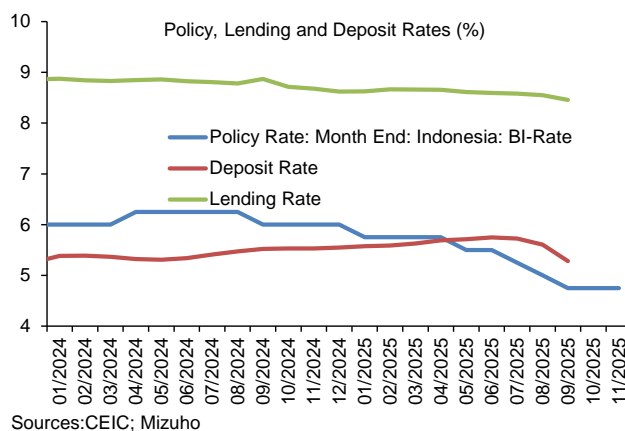


Fig 8d. Despite BI cuts, lending rates remain sticky



FX

- IDR Lessons:** The IDR underperformed in 2025 despite persistent Bank Indonesia (BI) intervention, rate holds and newly appointed Finance Minister Purbaya assisting at the margin by stating that they will avoid burden sharing **as much as possible**. These developments reflect **utmost concern of IDR stability** even amid President Prabowo’s all-out growth push. Into 2026, domestic **memories of macroeconomic financial stability anchoring political stability** are not easily forgotten especially as **IDR has underperformed in 2025** and the all-out growth push engenders opportunities for fiscal doubts and slippage.
- Unresolved Fiscal Risks:** An acknowledgement of the importance of IDR stability is no resolution to the threat of higher fiscal deficit which is set to expand to 2.68% of GDP in 2026. For one, markets remain cautious about the **potential revision of their fiscal ceiling rule** which is at 3% of GDP. To be clear, the fiscal rule is more likely to be maintained than not, given that any possible initial floating of such suggestions may be met with sharp market reactions.
- Pockets of Fiscal Doubts:** Aside from these potential broad changes, there are emerging pockets of doubt on their fiscal consolidation ability. These range from tweaking rules to allow local governments to borrow from

the central government to revelation of potential corruption in their high-speed rail project leading to amplified liabilities and servicing difficulties which resulted in the government taking over the debt restructuring.

- **Bank Indonesia's Restrained All Out:** Amid the firm GDP growth hovering around 5% despite political uncertainty, Bank Indonesia has taken a pause to their easing cycle in consideration of IDR woes and in recognition of impaired transmission mechanism as lending rates have declined far less than policy rate cut.
- **Growth Push Risks:** Even amid the growth push, we expect **growth to remain at 5.0% in 2026** especially as front-loading effects of tariffs may fade. The launch of various projects also creates more pockets of vulnerabilities in terms of **implementation** which may pose drags on the IDR. Upside risks may stem from the recent issuances of Patriot bonds which may aid investment spending and bolster growth in 2026. While the 2% below market rates of Patriot bonds implies lower fiscal/repayment risks, the lower hurdle rate may also potentially compromise capital allocation.
- **Building Buffers and Risks:** On that note, sight of Danantara, which now controls all Indonesia SOEs, engaging credit ratings agencies for **potential launch of global bonds** in foreign currency in 2026 may allow more funds for investments and also provide USD funding for imported investments in these projects. Nonetheless, this also implies longer term FX mismatch risks considering the domestic nature of most projects.
- **IDR Outlook:** Into 2026, our expectation for IDR recovery hinges on the backdrop of a softer USD rather domestic catalyst enabling IDR outperformance. In fact, the upper range of our forecast reflect depreciation risks to test 17,000 on the above domestic risks which will reveal in sporadic bouts. The three consecutive rate holds by BI also reflects utmost caution for IDR stability and that intervention will remain a staple for 2026.

Rates

- **Policy Rate:** On that note, given their easing bias, we expect Bank Indonesia to **cut policy two more times in 2026** with the exact timing dependent on relative IDR stability.
- **Unresolved Mandate Issues:** While the revision to BI's mandate to include job creation under amendments to the P2SK Law is still in progress, it remains notable that the end-November 2025 Bank Indonesia annual meeting had the theme: Strong and Self-Reliant: Synergy to Foster Higer and Resilient Economic growth. Specifically, while legislative changes may invite bouts of sell-off, the underlying dynamics are undeniably more intertwined.
- **Cautious Support:** As such, support via burden sharing ranging from interest payment sharing to bond buying remains par for the course in 2026 at a moderate pace to prevent excessive scrutiny.
- **Yields:** Amid the persistent rate hold, front end 2Y yields have risen marginally to head back around 5% mark while 10Y yields have also been buoyed above the 6% mark. That said, there is room for yields to rise further in 2026 on fiscal risks and policy missteps, but BI may keep a lid on front end yields via purchases.
- **Curve:** Nonetheless, following the 10-2Y spread widening in late 2025, there is still room for substantial steepening given Bank Indonesia easing bias. Looking ahead, as BI persist with calibrated easing and fiscal pressure reveal themselves, further steepening remains on the cards in 2026.

Fig 8e. Term spread widened as fiscal risk rise

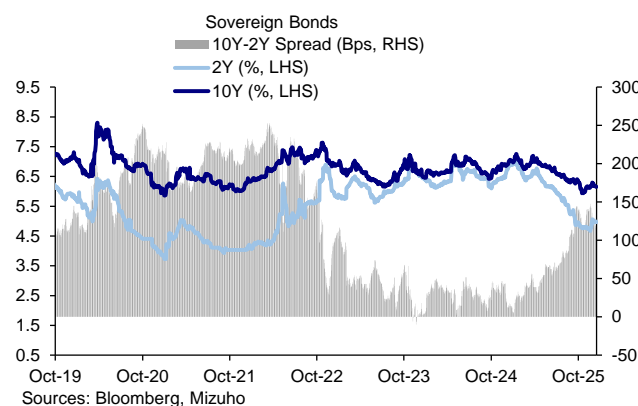
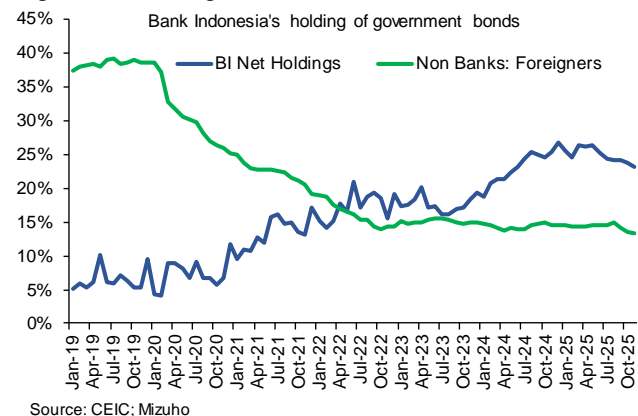


Fig 8f. BI Holdings of Government Bonds elevated



MYR: The Outperformer

	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027
Policy Rate (%)	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
USD/MYR	4.03-4.24	4.01-4.15	3.96-4.13	3.98-4.11	3.96-4.09	3.89-4.09
	4.06	4.05	4.02	4.01	3.98	3.96
GDP (% YoY)	4.6%	4.8%	4.3%	4.0%	4.1%	4.3%
CPI (% YoY)	1.4%	1.5%	1.3%	1.4%	1.9%	2.0%

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 9a. MYR stronger after securing trade deal

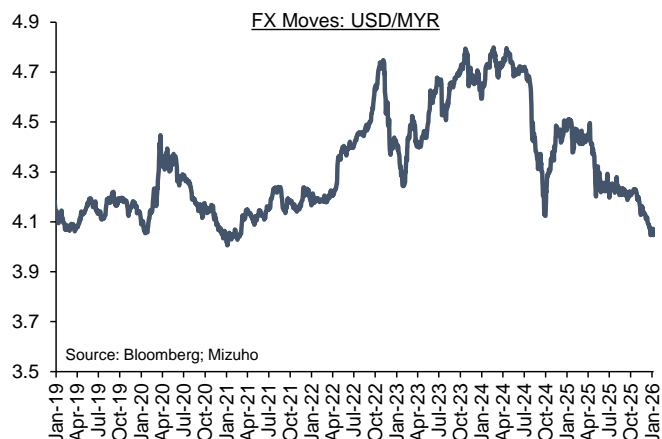


Fig 9b. Inflation remains largely stable

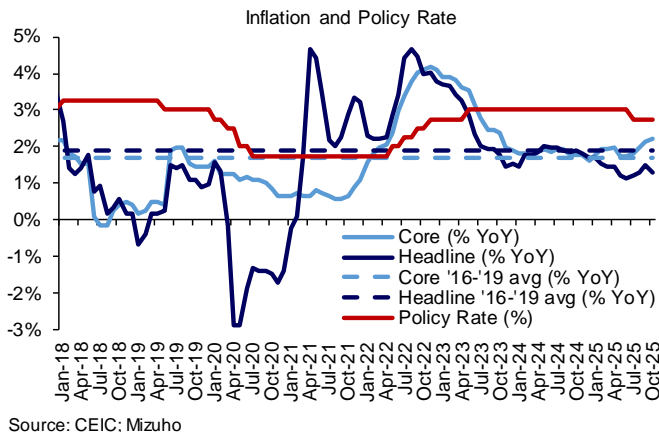


Fig 9c. Softer oil prices may dent fiscal consolidation

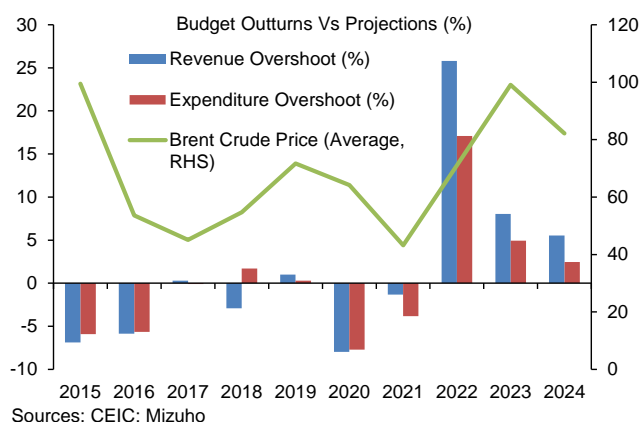
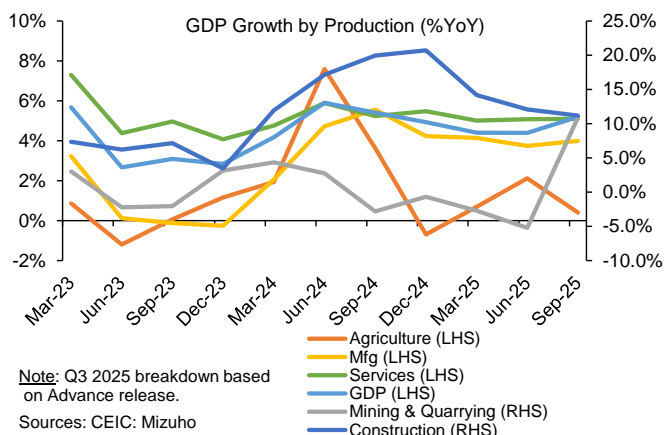


Fig 9d. Growth remains broad based and resilient



FX

- Mild Outperformance:** For 2025, MYR is the outperformer among EM-Asia peers appreciating 10%. This comes on the back of buoyant growth prospects alongside a successful ASEAN summit in KL which led to a trade deal with the US that allows duty free access for 12% of exports to the US even as headline tariff rates remain at 19%. Relative political stability and fiscal consolidation had also enhanced MYR allure. Should these factors hold in 2026, another bout of outperformance in 2026 should not be discounted.
- Fiscal Consolidation:** With Budget 2026 affirming lower fiscal deficit of 3.5% of GDP target in 2026, consolidation prospects remain on track and will act as a modest backstop for the MYR in 2026.
- Slippage Risks Persist:** That said, projected increase in operating and development expenditure at 1.8% and 1.0% respectively appears to be rather low and expenditures in recent years have tended to overshoot initial projections. Nonetheless, revenues have also performed better than expected in recent years which aided the fiscal consolidation. A majority of these outperformances though stemmed from a higher oil price backdrop.
- Lower Oil Prices a Potential Setback:** While the authorities have factored in conservative crude oil estimates of US\$60-65/barrel which implies a 9.9% decrease in non-tax revenue from lower Petronas dividend, the

need to raise tax revenues by 6.7% which is at a faster pace than the two previous years by relying on improving collection rather than actual revenue raising measures may be a slightly tall order. Considering full year implementation of the services tax rate at 8% in 2026, our call is for a marginally higher deficit of 3.6%.

- **Broad-Based Growth:** Even though fiscal impulse was mildly contractionary, growth has remained rather resilient and broad-based in 2025. Aside from manufacturing sector growth bolstered by the semiconductor cycle, services and construction sector grew at 5.1% and 11.2% YoY respectively in Q3. The latter's blistering pace was aided by data centre investments and the tech investment momentum could persist in 2026.
- **Budget 2026 backstops consumption:** Continued public service adjustments entered its second phase effective 1 Jan 2026 while handouts via their STR programme alleviate cost of living concerns for the lower income will continue. As such, while a buoyant consumption recovery is not the base case, household spending is likely to remain firm with unemployment rate remaining low. Relatively fewer economic soft spots also bolster the MYR's outperformance among regional peers.
- **Managed Inflation Risks:** Inflation remains well contained. RON 95 subsidy rationalisation is likely to aid the containment of inflation prices from the energy cost front. Thus far, the SST related inflation risks remain subdued and will likely remain so into 2026.
- **Trade Deal a Relative MYR Catalyst:** Admittedly, the US-Malaysia trade deal engenders some MYR optimism considering that US\$22bn worth of exports (12% of exports to the US) would be granted **duty free access**. Notably, the US-Malaysia deal is a formal agreement which is marginally ahead of regional peers which secure 'frameworks' that require further negotiations. Nonetheless, the initial boost to the MYR may fade at the margin in 2026 should other countries catch up.
- **MYR Outlook:** Into 2026, prospects of on track fiscal consolidation may continue to bolster the MYR as it is clearly a firmer backstop relative to regional peers which has wobbled in the face of weakening growth and fiscal/political instability. Furthermore, sound economic programmes and FDI boost alongside lack of dovishness from the BNM would also provide some marginal MYR catalyst. In short, even if a repeat double digit appreciation is a tall order in 2026, relative regional outperformance remains the base case. That said, **political risks may rise in 2026** especially as the ruling coalition suffered losses at the Sabah state elections.

Rates

- **Policy Rate:** Economic resiliency backs the case for a prolonged hold by the BNM especially at 2.75%, the policy rate is in fact lower than end-2019 levels which implies a slightly accommodative posture.
- **Risks:** Nonetheless, risks remain skewed to the downside on remote risks of a semiconductor-led downturn.
- **Yields:** Both front and long end yields have crept up in recent weeks alongside the economic optimism maintain the 10-3Y spreads though there was some decline towards end-November. Front end yields may face limited downside room in 2026 as BNM remains on track for a prolonged hold.
- **Curve:** Some curve steepening may have occurred in Q4 on the back of fuel subsidy rationalisation failing short of lofty expectations. Long end yields may remain buoyant should revenue fail to meet expectations. All in, there is limited room for further steepening as the spreads are already hovering close to pre-covid levels.

Fig 9e. Spreads stable with BNM anchoring rates

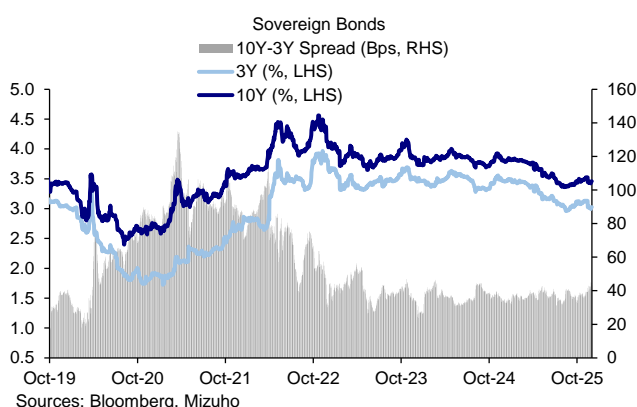
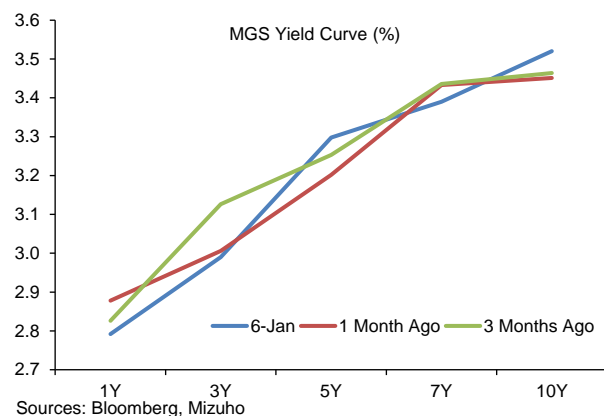


Figure 9f. Steepening MGS Curve



PHP: Damage Control

	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027
Policy Rate (%)	4.50%	4.25%	4.00%	4.00%	4.00%	4.00%
USD/PHP	57.8-59.2	57.5-60.5	56.9-60.1	56.4-59.1	56.1-58.9	56.2-58.5
	58.8	58.3	58.0	57.8	57.5	57.7
GDP (% YoY)	4.6%	4.7%	4.5%	5.1%	5.3%	5.2%
CPI (% YoY)	1.7%	2.2%	2.9%	2.4%	2.1%	2.5%

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 10a. PHP depreciated to above 59 levels

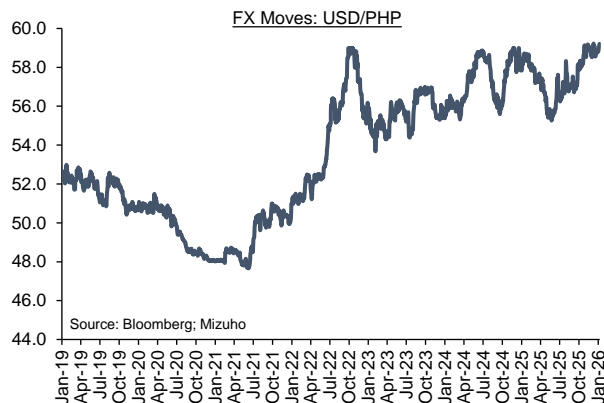


Fig 10b. Upside inflation risks contained

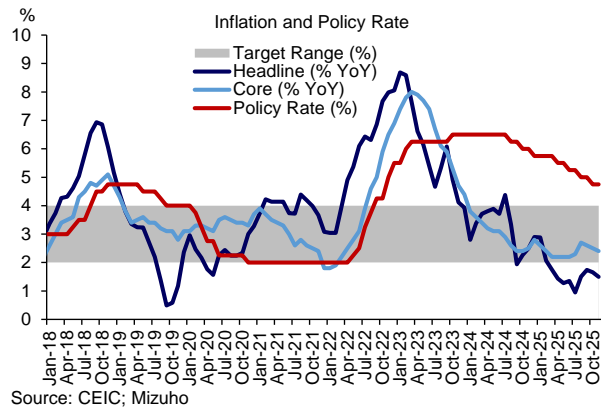


Fig 10c. Weaker growth momentum...

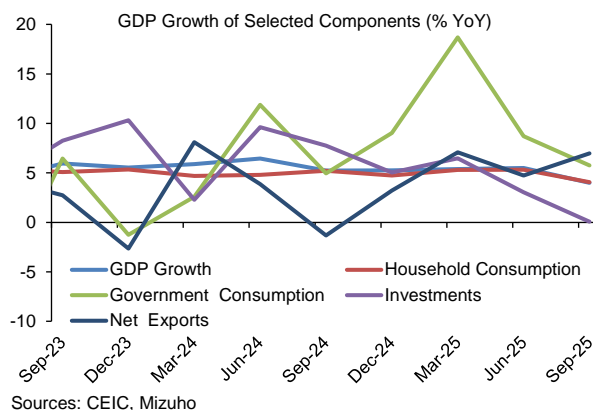
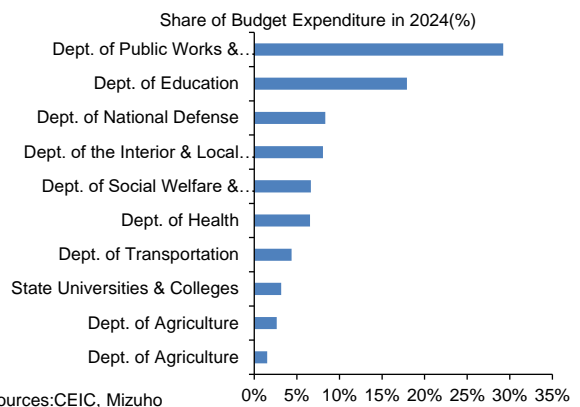


Fig 10d. ... hit by slowdown in public spending



FX

- Corruption Level Shifts:** Relatively stability of the PHP gave way in mid-September amid revelations of the details of the flood control projects contracts scandal which led to the late September protests of the “Trillion Peso March”. USD/PHP has risen to above 59 levels and PHP bears were likely served a reminder via sharp intervention by the BSP even though Governor Remolona said that they do not defend specific levels.
- Policy Easing Bias to Shift the Bar?:** Aside from FX intervention, the BSP retains an easing bias to support growth even though only about 25-50bp of room remains. For the PHP, in 2026, there ought to be a **structural reconsideration of the 60 level being a line in the sand** considering interest rate differentials. In short, conviction around intervention relies on BSP cuts relative to the Fed going forward.
- Lost of Tariff Edge?:** On the external front, while a loss of relative tariff edge had also led to a weaker PHP, actual export revenue was firm in 2025 amid front loading effects and a supportive semiconductor cycle. Admittedly, given that semiconductor holds a very significant 40% share of total exports which is comparatively higher than peers in the region, this semiconductor upturn has been a key tailwind. The cycle will have legs to run in 2026 and could assist as a modest backstop for the PHP going forward.
- Corruption scandal a domestic headwind:** Meanwhile, the exposure of substantial corruption in flood control projects has led to a **decline in budget allocation of PHP255bn** to the Department of Public Works and

Highway amid on-going investigations. This represents **almost a 1% of GDP drop in spending**. Perversely, given the substantial amount of unfortunate loss in previous years due to corruption, the decline in economic growth via multipliers may not be as substantial as expected. Nonetheless, the adverse impact on business and investor confidence is still significant as reflected by foreign outflows in equities.

- **Consumption remains cautious:** Even amid a slight improvement from retail and wholesale PMI, it remains in contractionary territory while PMI services slipped back into contraction. Separately, growth in net sales index has also slowed in recent months. After seasonal uplift from the end of 2025 festivities to be reported in January, it remains hard to shake off a backdrop of soft household consumption in 2026.
- **Narrower current account deficit:** Abstracting from the bumpy current account in 2025, there is undeniably an improvement in the goods balance which has aided a narrower deficit position. The services receipts remain weighed down by tourism sector woes with visitor arrivals contracting on a year ago basis. That said, business services saw strong growth to provide receipts. Into 2026, we expect a modest improvement in services receipts amid the **relaxation of visa rules for Chinese tourists and a softer oil price backdrop aiding a moderate goods deficit to combine for a narrower current account deficit** of 2.5-3% of GDP.
- **Potentially Lower Fiscal Deficit Not a Given:** Even though the fiscal deficit could potentially be lower due to the decline in allocation to the DPWH, we remain more circumspect in the extent of improvement from this year's 5.5% of GDP to the extent that revenues have historically tend to fall short of forecast. That said, more controlled spending in 2026 may affirm higher feasibility of reaching their narrower deficit of 5.3%.
- **PHP Outlook:** Amid the near-term headwinds, we expect near term buoyancy of the PHP around 59 levels before embarking on a modest recovery in mid-2026 as the BSP slows down on rate cuts on approaching a moderately accommodative stance while the Fed embarks on more easing. The modest PHP recovery in 2026 to below 58 levels is also premised on **resumption of political stability and government spending** on infrastructure projects in H2 as well as a fortuitous backdrop of lower oil prices.

Rates

- **Central Bank:** Into 2026, we expect the BSP to utilise Governor Remolona's room for one more rate cut in Q1 unless private consumption shows a discernible pick-up in late Q4. In our view, we expect one more measured cut in Q2 to provide further support to domestic demand. Admittedly, room for further cuts is now very limited to around 50bps and as such front-end yields may have limited downside beyond that.
- **Risks:** Assuming our base case of two cuts in 2026, the risks for policy remain well-balanced. It would take a severe downturn to necessitate taking the policy rate to below the 4.00% mark given PHP risks. Meanwhile, any hike is an extremely high bar given weak consumption trajectory.
- **Yields:** Front end yields have declined alongside BSP's rate cuts but long end 10Y yields remain sticky which may be on account of fiscal risks amid the political turmoil.
- **Curve:** There is potential for further steepening amid the unresolved political risks denting growth, weighing on front-end yields while long end remains sticky amid the lack of evident measures for fiscal consolidation.

Fig 10e. Steeper curve amid political turmoil

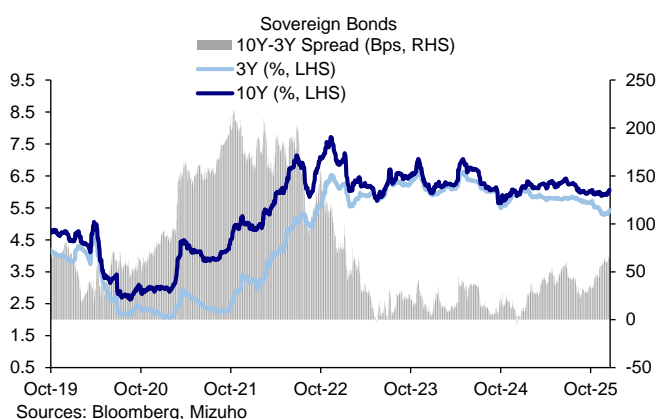
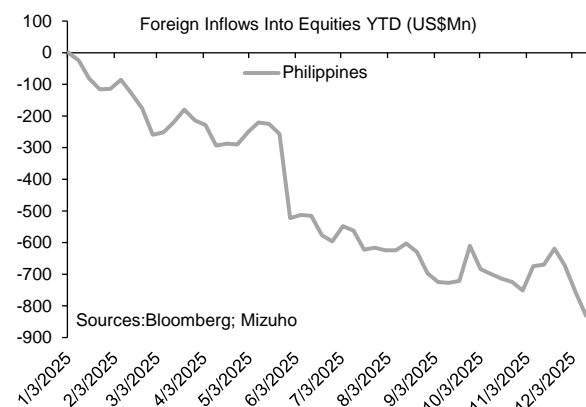


Figure 10f. Investor confidence slips



THB: Dovish End & Uncertain Beginnings

	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027
Policy Rate (%)	1.25%	1.25%	1.00%	1.00%	1.00%	1.00%
USD/THB	31.0-32.9	30.1-33.0	30.9-33.1	31.1-33.8	31.4-33.5	31.1-33.5
	31.5	32.5	32.4	32.3	32.0	31.7
GDP (% YoY)	1.1%	0.9%	1.2%	2.2%	2.3%	2.5%
CPI (% YoY)	0.2%	0.6%	1.1%	1.1%	1.2%	1.3%

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 11a. THB heading for bumpy recovery

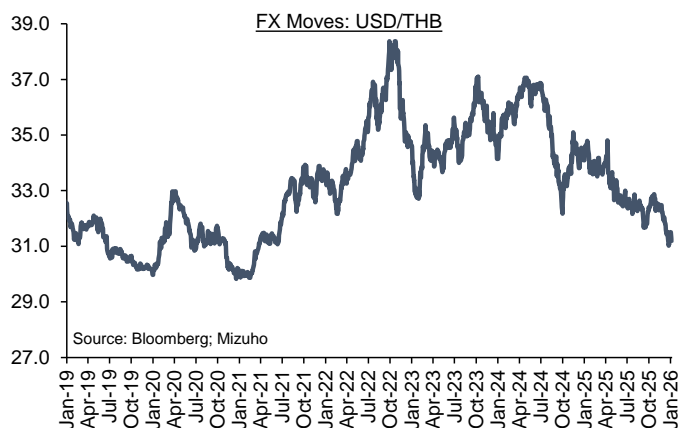


Fig 11b. BoT keeps the door open for further cuts

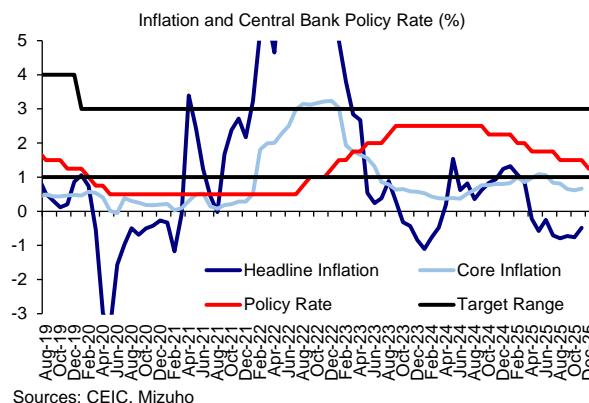


Fig 11c. Visitor declines from key markets a worry...

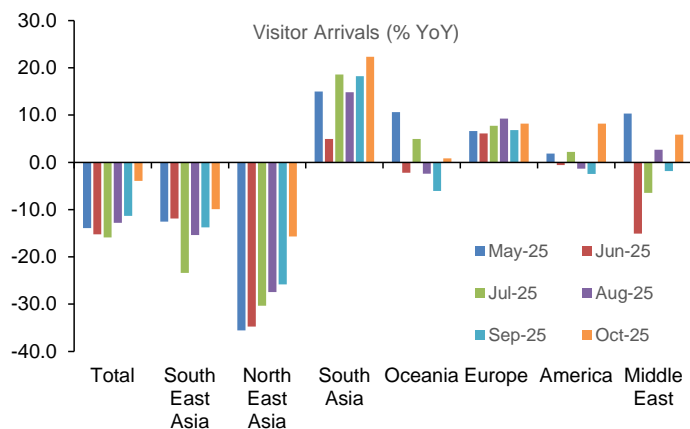
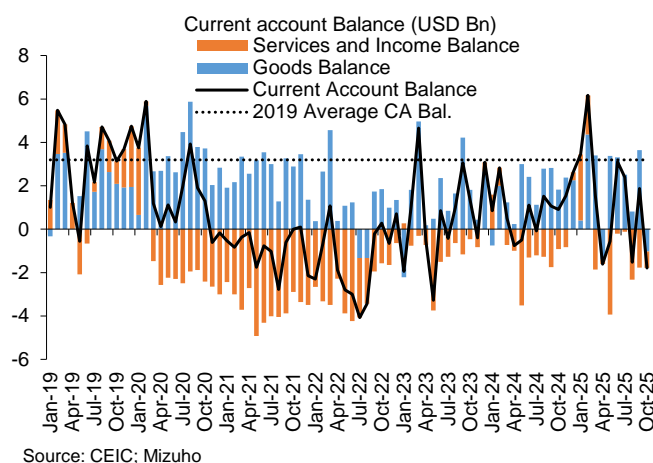


Fig 11d.... revealing a lack of services surplus



FX

- Faded Gold Tailwinds?:** Despite dismal macroeconomic performance, THB has had a stellar year for 2025 which came on the back of soaring gold prices and a return to a current account surplus on account of a supportive global trade cycle. That said, the gold price driven THB rally has shown bouts of vulnerability as authorities step up scrutiny of gold related trades. The end 2025 rate cut by the BoT affirms dovish bias of BoT Governor Vitai Ratanakorn though actual room for easing in 2026 is now very limited.
- A Dovish Lean:** Specifically, the unanimous decision provides a signal of the extent of underlying growth worries from the MPC and dire growth estimates of 2026 at 1.5% also reflects a weak outlook ahead implying that the accommodative posture of the BoT will be retained in 2026. Furthermore, they highlighted **continued deterioration of credit quality of vulnerable groups** amid continued contraction in overall credit. The only restraint was their allusion to limited monetary policy space and on-going transmission from earlier cuts.
- Fiscal Concerns:** Monetary policy space is certainly not the only policy instrument feeling its limits as fiscal policy constraints are apparent with **Fitch joining in Moody's in downgrading the country's crediting rating outlook from stable to negative**. Their move is certainly not surprising given a continuous creep up

in public debt levels and political instability creating tendencies to address cost of living concerns via fiscal handouts rather than establish fiscal consolidation reforms.

- **A Fourth Month Term Government:** The more amicable Medium Term Fiscal Framework by PM Anuntin's government may be subject to changes with parliament already dissolved and General Elections on 8 February. Consequently, more fiscal handouts may be promised during the elections. To be clear, alleviating cost of living concerns is undoubtedly a key priority to improve welfare but amid an absence of revenue raising measures, the fiscal stability trade-off will be a stark one.
- **Downgrade on the cards:** Should there be no discernible fiscal consolidation measures to raise revenues or alter the trajectory of expenditure growth, a downgrade of credit ratings in H2 2026 should not be dismissed.
- **Current Account Surplus:** Meanwhile, the continued current account surplus may be a positive to backstop the THB. Under the hood, the **lack of a discernible services receipts surplus** is reflective of the incomplete tourism sector recovery stemming from the subdued Chinese tourist arrivals which in turn puts the front loading induced and tech cycled induced trade led surplus at risk.
- **Outlook:** We envisage **USDTHB to return to around 32 levels** in a broad manner though gold price rallies may potential to aid trading below 32 as observed in Q4 2025. Volatility remains accentuated and potential for weakness may seep into the THB to test 33 levels should political uncertainty spillover into wider fiscal concerns. Nonetheless, amid a backdrop of softer UST, current account surplus should put the THB in their 31-33 range in 2026 which outperforms levels suggested solely on structural macroeconomic indicators.

Rates

- **Central Bank:** Even though the BoT Governor Vitai has kicked off his term with a surprise rate hold to affirm central bank independence, realities of a weaker economy and potential of faded trade tailwinds imply that that rate cuts remain on the table in 2026. We expect one more cut in H1 2026 amid potential budget delay and soft private consumption. For now, we lean towards the BoT holding firm amid political uncertainty and a supportive cut may only take place after the formation of a government provides more fiscal clarity. The caveat being any upside in growth would have a strong impetus to derail rate cuts to preserve dry powder.
- **Risks:** Political instability risks alongside risks of a credit rating downgrade will continue to buoy yields. While central bank independence concerns may have taken a back seat at this juncture, it may re-ignite depending on election outcomes. Potential shifts in policy direction post elections may also send long-end yields higher.
- **Yields:** Reflecting fiscal concerns amid expanded fiscal borrowing, yields have already risen led by the long end and resulted in a steeper yield curve. As such this has offset the potential flattening which would be the result of decline in expectations of BoT rate cuts.
- **Curve:** Even after the recent steepening taking the 10-2Y spreads to around 45-50bps, there is **certainly more room for the curve to steepen to further to 80-100bps in 2026** given the incessant concerns around fiscal sustainability. Furthermore, the lingering structural headwind of an aging demographic sending government expenditure higher is also set to compound at the long end.

Fig 11e. Curve steepened in recent months

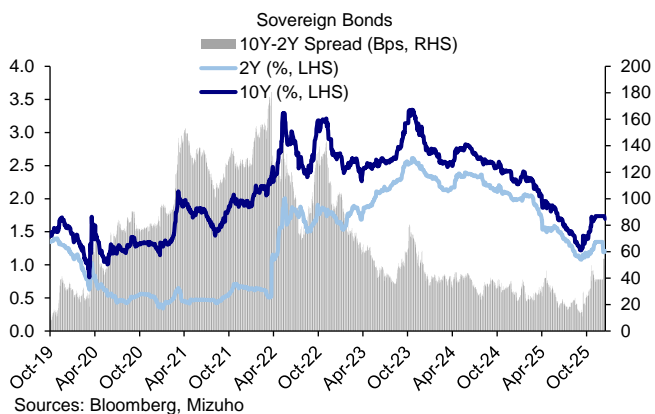
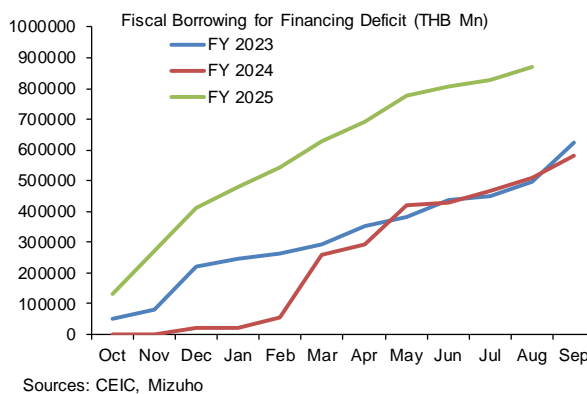


Figure 11f. Expanded fiscal borrowing a key risk



VND: An Ambitious Journey

	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027
Policy Rate (%)	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
USD/VND	26244-26429	25600-26900	25300-26600	25300-26600	25500-26700	25500-26700
	26300	26350	26300	26350	26450	26550
GDP (% YoY)	8.5%	7.2%	7.4%	7.6%	7.7%	7.3%
CPI (% YoY)	3.4%	3.3%	3.2%	3.4%	3.5%	3.5%

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 12a. VND weakness persist

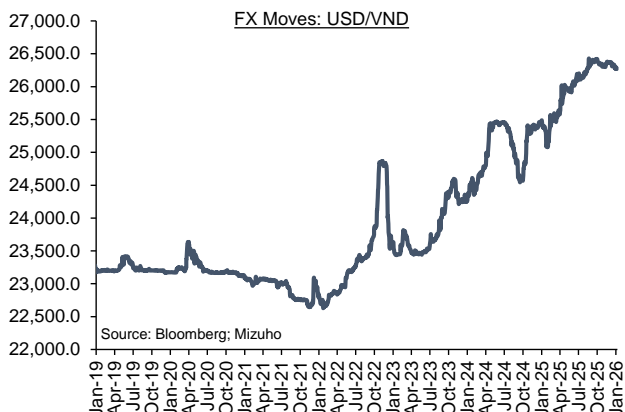


Fig 12b. SBV remain on prolonged hold

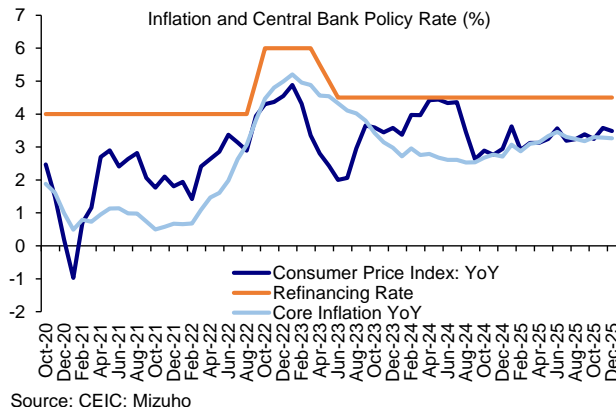


Fig 12c. 2025 GDP growth outperformed

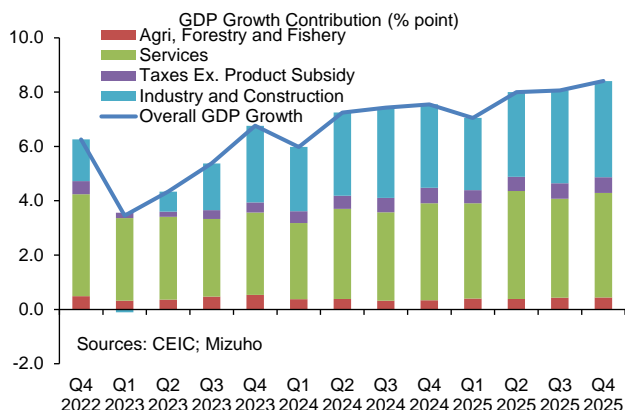
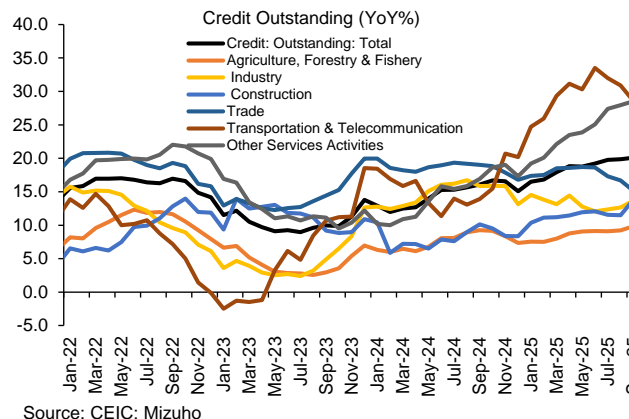


Fig 12d. Credit growth soared in 2025



FX

- Tailwinds Faded:** The VND has turned in a middle of the pack performance with its mild depreciation since end-August which was enabled by robust domestic growth with 2025 GDP growing at 8% and relative political stability compared to some ASEAN peers. While tariff differentials have narrowed in the region which helps Vietnam retain their China plus one advantage, there is a lack of meaningful appreciation bias for the VND especially with China's tariff differential being narrowed after the latest US-China truce.
- Tariff Deal, No Breakthrough, Doesn't Matter?:** While the Vietnamese authorities have stated that they continue to engage in talks with the US to turn their trade framework to a deal, the costs of a deal may be prohibitive relative to the gains. In any case, external demand, with exports revenues up 16.7% YoY in 2025, remains buoyant despite tariff threats.
- Resilient Growth:** GDP growth remains very resilient highlighting strong economic activity. Manufacturing sector grew at 10% YoY despite supposed tariff headwinds. Services also expanded at a very pace of above 8% YoY with tourism related (accommodation and food services) amid strong tourist arrivals and financial services were also robust. That said, this did not translate into durable VND appreciation as deeper capital markets with stronger governance standards is required for capital retention.
- Ambitious Goals:** For 2026, the authorities are targeting 10% GDP growth. To be clear, the goal is ambitious but not impossible as **FDI disbursements were strong** and reached around 8% of GDP in 2025. Furthermore,

with disbursements at a robust pace of 8.8% YoY creating an expanded manufacturing base, 10% growth in value add in 2026 is not out of reach alongside the infrastructure push. **Realistically, 10% is a high bar** as it will require complementary tailwinds in global demand at to hit this target. Our take is that supply chains shifts may imply Vietnam’s growth may stem from global shifts rather than organic global growth.

- **Credit Boost Now, Risks Later:** After almost 20% growth in credit on the back of strong demand from trade and telecommunications sector in 2025, credit supply in 2026 is likely to remain strong to facilitate domestic economic activity to play a supportive role. On balance, we have lifted our 2026 growth forecast to 7.5% but not to the extent of meeting the 10% target. Even as credit will be channelled to essential infrastructure projects, one should not overlook medium term debt risks of these projects.
- **Requires Supportive Policy Pillars:** Consequently, some policy support could also come from the weaker VND. Even as this period of potentially higher growth could facilitate a rebuilding of reserves, there may be some FX support to improve price competitiveness. This backs our case for a marginally soft VND in 2026 despite backdrop of weaker USD.
- **Outflows Persisted:** Despite soaring equities, foreign outflows persisted in 2025 as domestic retail investors was supportive amid speculation of the FTSE upgrade from frontier to secondary emerging market (confirmed in October). Given substantial equities run-up, risk off sentiments is a key depreciation risk for VND in 2026.
- **Outlook:** In 2026, we expect the SBV to allow for **some depreciation in H1 to lean against potential for a trade slowdown** considering lags from initial tariff shocks as well as allow for some reserve accumulation. Broadly speaking, we continue to see **potential for sharp depreciation risks** considering that FX import coverage ratios remain inadequate at 2 months. This is especially so as the room to the upper limit of the trading band has narrowed significantly. Nonetheless, we note **the intervention episodes in late August implies constant vigilance** on the authorities end. In the medium term, IFC developments which creates deeper financial markets will be crucial to anchor a stable VND.

Rates

- **Central Bank:** Given these VND depreciation pressures and robust economic growth, our base case for a **prolonged rate hold** by the SBV remains unchanged. As we expect softer growth in H1 2026 due to fading front loading effects, the risks of VND depreciation pressures rise.
- **Risks:** In fact, there is a tail risk of a rate increase in 2026 should VND depreciation pressures prove untenable for the SBV and growth remains resilient.
- **Yields:** Amid **upside issuances in September and tepid demand reflected by bid cover ratios below 1, auctions winning bids continue to creep up** with investor sentiments remain cautious due to macroeconomic headwinds. Accordingly, front-end 2Y yield have also crept up by about 23bps in Q4. Long-end 10Y yields have risen even at a faster pace of around 40bps which widen the spread to above a 100bps. As issuances continue to fall short of target, there will be upward pressure to align with market pricing.
- **Curve:** Continued climb in rates is expected amid greater compensation demanded for risks across the curve. We expect further restoration of the term premium in Vietnam as US term premium also exerts a significant upward pressure. On the other end, downside room remains limited especially amid need to anchor the VND.

Fig 12e. Curve mildly flattened

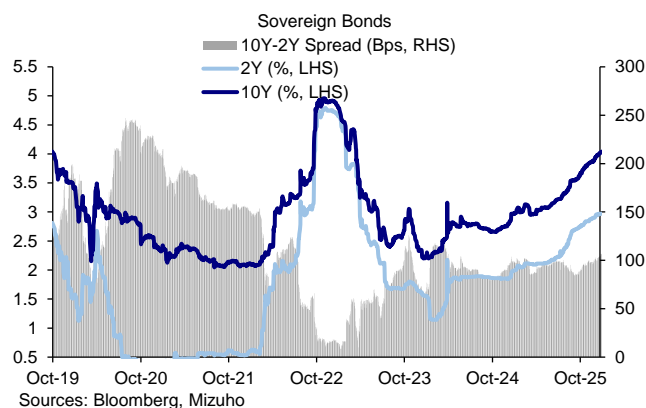
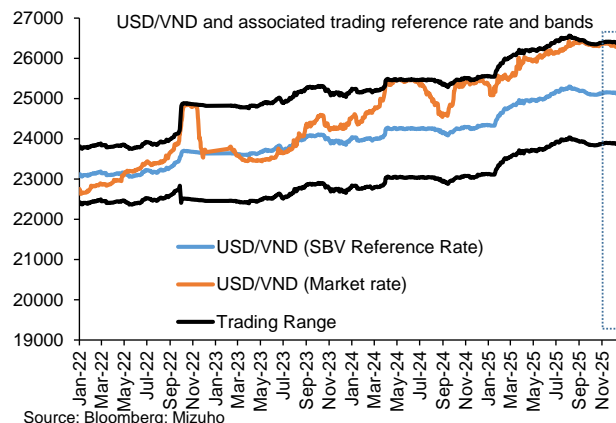


Figure 12f. VND depreciation risks remain



AUD: Cyclical Tailwinds Amid Policy Tweaks

	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027
Policy Rate (%)	3.60%	3.60%	3.35%	3.35%	3.35%	3.35%
USD/AUD	0.642-0.673	0.632-0.678	0.637-0.684	0.637-0.686	0.640-0.702	0.640-0.702
	0.667	0.658	0.668	0.675	0.692	0.690
GDP (% YoY)	1.8	2.1	2.0	1.7	1.6	1.6
CPI (% YoY)	3.7	3.6	3.4	2.9	2.8	2.8

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Fig 13a. AUD gains as RBA holds back easing

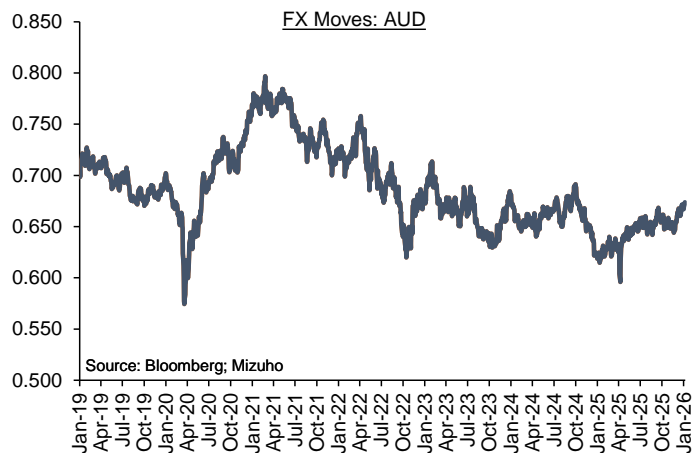


Fig 13b. Inflation above RBA's upper limit

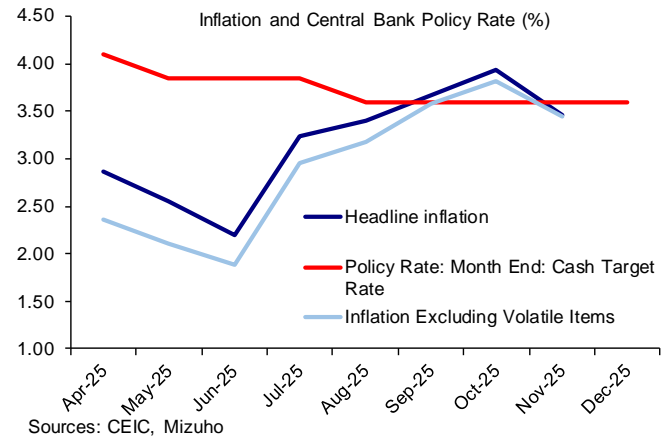
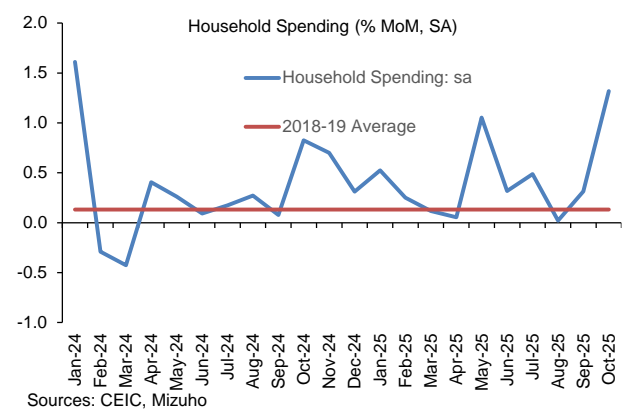


Fig 13c. Navigating around US tariffs



Fig 13d. Bumpy domestic demand



FX

- Faded Buoyancy:** The AUD has taken a wild ride to outperform in 2025, sinking to below 66 cents as concerns over domestic labour market weakness and renewed US-China tensions weighed in mid-October before the truce. This volatile dynamic may stick around in 2026, in short, an equilibrating labour market not appearing entirely in sync with still resilient household spending on aggregate and any potential rapture in US-China tensions are key risks to AUD's rallies on the back of cyclical tailwinds (See below).
- Navigating Tariffs Threats:** Australia has retained their 10% tariff baseline even after the reciprocal tariff announcements in late July. For one, **frontloading of exports is very apparent** with sharp spikes in exports to the US before each major reciprocal tariff announcement (April and August). Specifically, exports to the US grew more than 200% in Q1 ahead of Liberation Day while July's exports grew more than 100% before the end-July announcement. **Some relief also flowed** through with the exemption on agricultural products.
- Uncertain US-China Situation:** Nonetheless, compared to direct AU-US trade relations, the **indirect impact of US-China relations is much harder to navigate in 2026** and potential for further economic stimulus in China is also difficult to grasp. Admittedly, US-China truce has provided a near term window of relative stability.

- **Slower Employment Pace:** Domestically, employment gains have clearly slowed even after including bouts of outperformance and this may restrain bullish AUD rallies. While the unemployment rate increase in 2025 was partly triggered by higher participation rates, it remains difficult to disentangle underlying motivations straddling between squeezed budgets necessitating a return to the workforce or the sight of a tight labour market being the encouragement. This is especially so if we read the November report that may be signalling discouraged worker effects. In short, a creep up in unemployment rate is par for the course in 2026.
- **Spending backstopped by fiscal transfer:** Amid an increase in deficit of the underlying cash balance projected at 1.5% of GDP for Budget 2025-26, there will be an expansionary impulse in 2026 as tax cuts are delivered in 2026 and 2027. Even though the tax cuts may be modest, it will assist to prevent a sharp deterioration of consumption amid the equilibrating labour market and backstop AUD slippages alongside letting measures such as electricity rebates expiry to enable better fiscal consolidation.
- **Bumpy Inflationary Path:** That said, expiry of electricity bill rebate will imply a bumpy headline inflation in 2026 which hovers above the upper limit of the RBA's range causing much discomfort on their ability to keep inflation in check even though it is a mechanical bounce. This statistical effect may be hard to dismiss given that the current return to target has also been in part due to these administrative measures.
- **Easing not a Given:** Consequently, there is no clear proposition for the RBA to embark on a pre-determined easing cycle as both ends of their mandate will continue to tussle.
- **Outlook:** For near term dynamics, we expect AUD to hover around mid-66 cents on domestic labour market scrutiny, reassessing US-China relations and challenges of reviving the property market in China. Further into 2026, softer USD backdrop amid dovish Fed compositional shifts may set a backdrop for AUD recovery to buoy above 67 cents. Relative to EM-Asia peers, long AUDSGD is relatively less attractive proposition with relative resiliency in Singapore. Comparatively, IDR and PHP are likely to underperform AUD given divergence in political stability and **diversification tailwinds** into AUD-denominated reserve assets.

Rates

- **Central Bank:** We retain one 25bp RBA rate cut in mid-2026 to 3.35% on account of taking an insurance approach towards an equilibrating labour market. This cut should be viewed as a **fine-tuning tweak** in monetary policy normalization rather than a resumption of the easing cycle. Aside from the bumpy inflation, we expect the surge in housing prices to land on the RBAs radar creating macroprudential concerns.
- **Risks:** Policy risks are in fact accentuated at both ends. In the near term (3-6 months), rate hike bets may be emboldened by the aggregate demand recovery in Q1. On the other end, given the slower pace of hiring, a spike in unemployment rate is not a very remote risk should growth take a considerate step down which would trigger deeper policy rate cuts into H2 2026.
- **Yields:** Front end 2Y Australian government bond yields have risen amid the erosion in rate cut expectations since late August which turned into rate hike bets while rise in 10Y yields suffered a dampener led by USTs.
- **Curve:** 10-2Y spreads are hovering at around 70-75bps but may continue to narrow marginally in the near term as the Treasury revealed savings in the MYEFR. Into mid-2026, there is potential for steepening on both re-asserting of term premiums in the US as well as domestic re-pricing on labour market equilibrating.

Fig 13e. Steepening bias retained

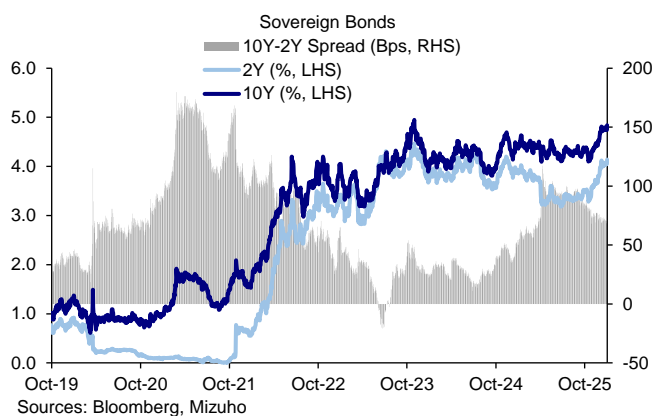
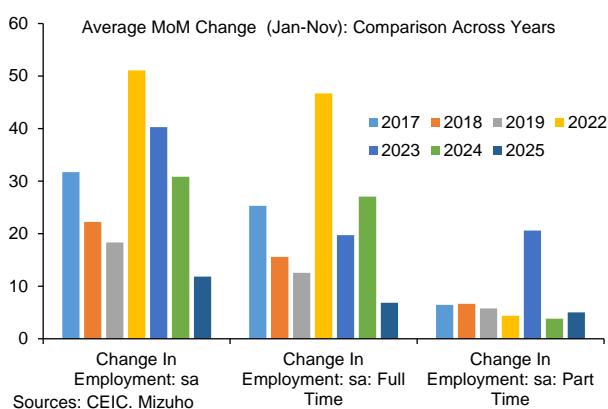


Figure 13f. Tepid jobs gains to pressure front end

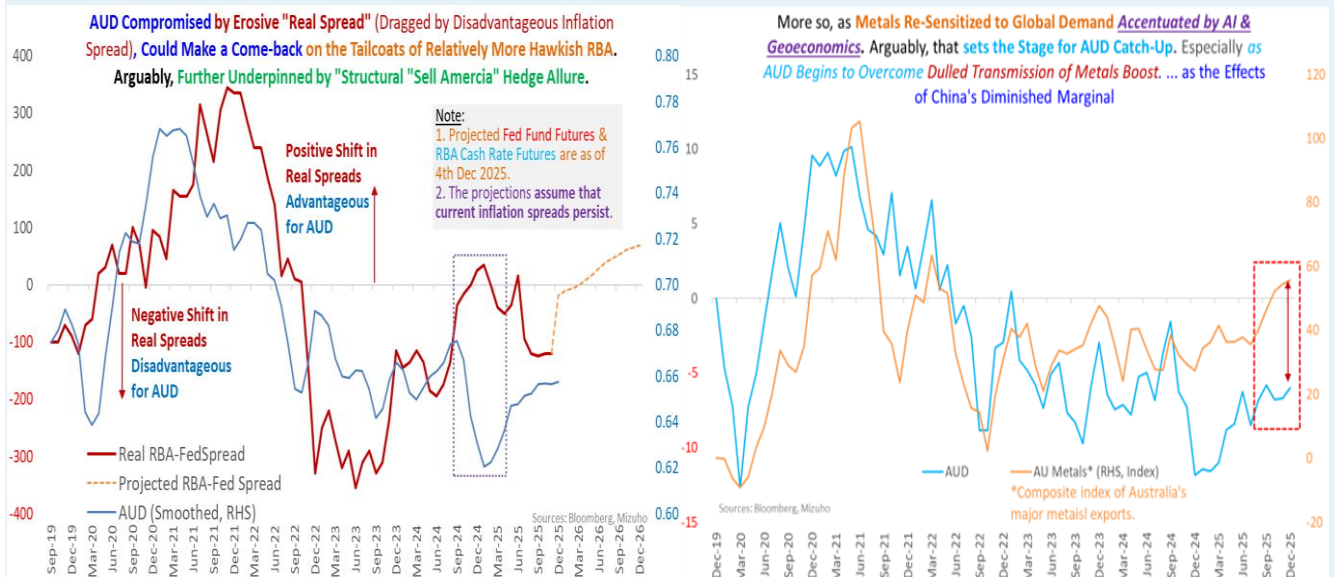


Box 4: AUD: Cyclical & Structural Stars Aligning?

[Published 5th December 2025]

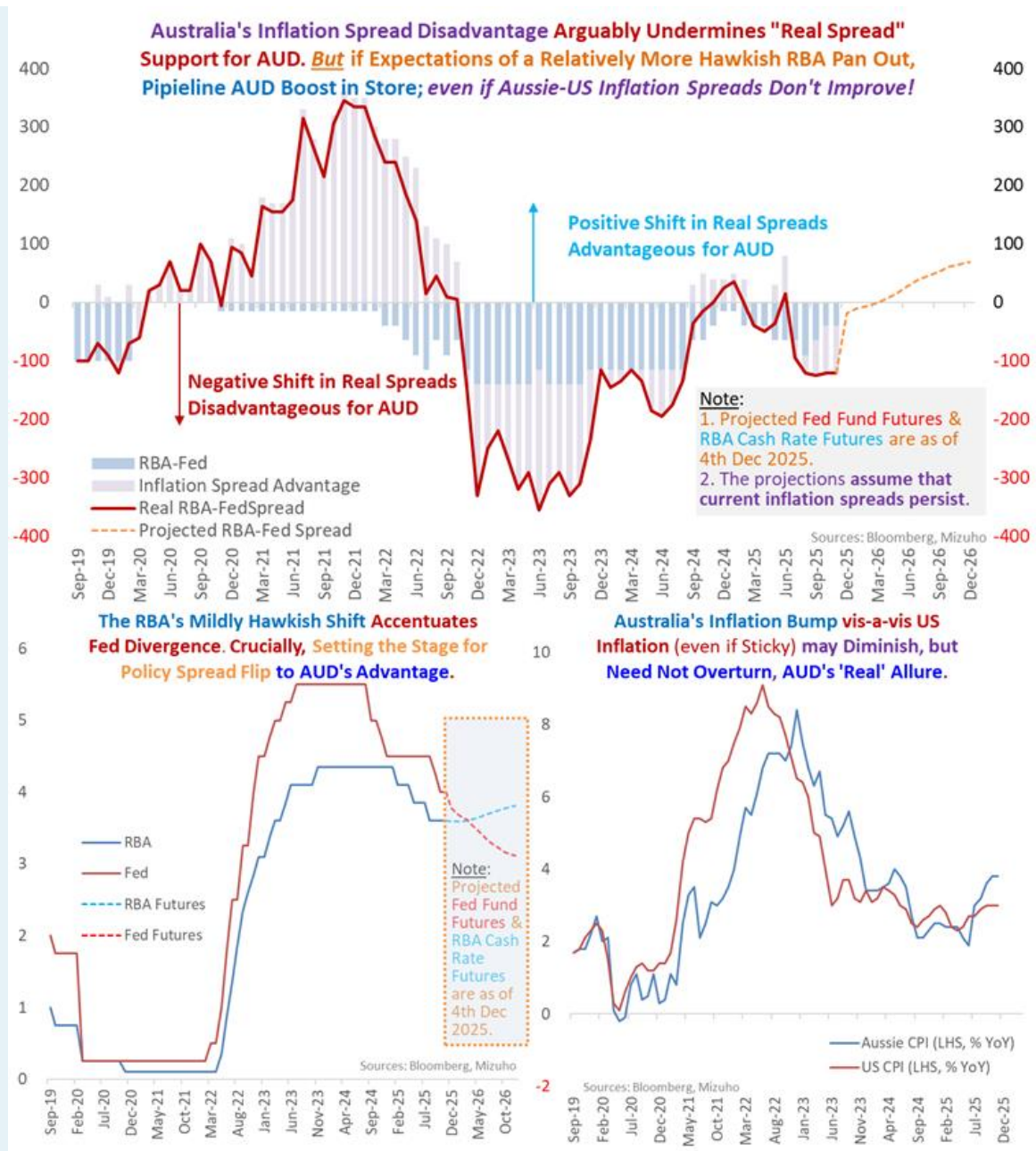
In a Nutshell:

- Seemingly Counter-intuitive AUD Out-performance: **Despite the OECD flagging a moderation in global growth** into 2026 (from 3.2% to 2.9%), **AUD may counter-intuitively be positioned for out-performance ahead.**
- Not Passively Premised on Softer USD: This is **not exclusively premised** on our view of a modestly **softer USD**. Point being, **AUD is arguably primed to out-pace**, not passively piggy-back, **tailwinds from USD pullback.**
- As Cyclical & Structural Stars Align: Notably, our constructive AUD view is built **on a confluence of cyclical and structural shine aligning the stars for durable AUD boost.**
 - Hawkish Divergence: AUD's **leg-up** may initially be led by **(relatively) hawkish RBA divergence, offsetting disadvantages inflation spread dynamics.** More so if the Fed turns more aggressively dovish.
 - Structural "Sell America" Hedge: Beyond cyclical policy fillip, **AUD is set to be more durably underpinned by structural demand for AUD-denominated reserve assets**, as a key hedge to "Sell America". Arguably, this will be *accentuated as relative AUD carry turns favourable.*
 - Commodity Super-cycle: Moreover, AUD is also likely to be underpinned by a **constructive commodity super-cycle** that is **underpinned by late-stage monetary largesse spill-over** and **further amplified by a conspiracy of AI infrastructure build-out and race for geoeconomic resource security.**
- China May Dampen, Not Decimate: Admittedly, **China's property market crash casts a long shadow on AUD.** **But** China's marginal commodity demand hit is **already priced into AUD level shifts.** Hence, **China risks merely dampen upside beta on bullish AUD cues, not decimate pick-up prospects.**
- Risks & Attendant Volatility a Feature, Not Bug: To be sure, **despite the bullish out-performance case, innate AUD vulnerabilities to "risk off" and adverse demand shocks remain prominent.** So, **inherent cyclical/headline risk volatility through structural support, is a feature, not bug.**
- What Could Go Wrong: There are obvious, non-negligible **risks to the AUD out-performance view.** A prominent source of AUD pain **wider "risk off" spill-over from AI correction**, entailing a *double whammy* of *"risk off" and knee-jerk commodity slump.* **Unforeseen geoeconomic threats and/or monetary policy flip-flops also feature** in the litany of risks.



1. The Cyclical (Real Rates) Case

- a. A **relatively hawkish RBA** is the **most prominent** (cyclical) **policy trigger for AUD out-performance.**
- b. To be sure, the catalyst for more emphatic AUD pick-up may be from a more aggressively dovish Fed rather than RBA hawks doubling down.
- c. Notably, a **distinctly more disadvantageous inflation spread for AUD** in recent months is likely to **plateau**, hence, *priming the AUD for accentuated upside from more emphatic RBA-Fed divergence* ahead.
- d. Crucially, **AUD is not over-reliant on cyclically more constructive real rates.** So, **even if RBA hawks are be tempered further out, AUD need not be devastated.**

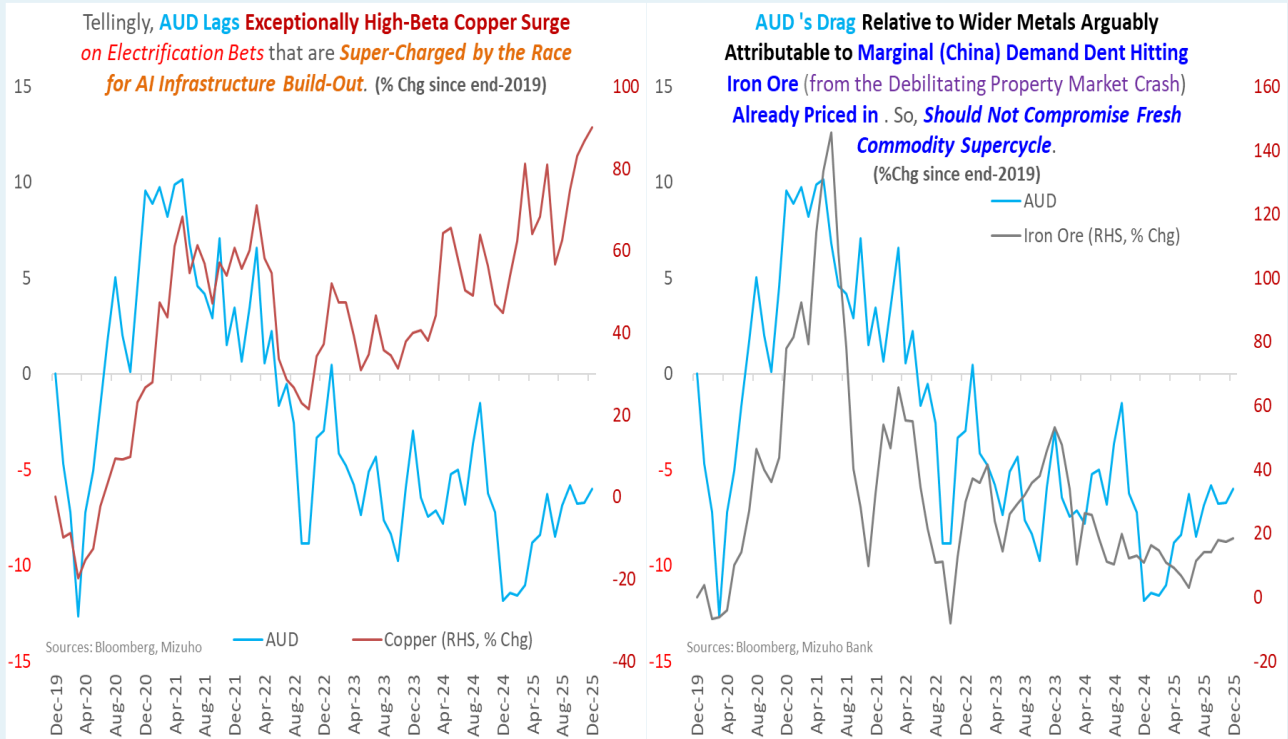


2. The Structural "Sell America" Hedge – accentuated by in-coming "Carry" Boost
 - a. A **key AUD backstop**, if not **incrementally binding support**, is its **obvious allure as a hedge against structural "Sell America", USD debasement fears**.
 - b. Point being, **AUD's USD hedge proposition is outstanding given the fast shrinking universe of 'AAA' assets**. And its *allure enhanced by its existing SDR inclusion and Gold proxy properties*.
 - c. To be sure, this is **not expected to be a tectonic bullish shift for AUD valuations** in the short-term (as AUD remains a *hedge not wholesale substitute* for USD) and the "Sell America" theme will only play out over a much longer horizon between ebbs and flows.
 - d. **Nonetheless, as the Fed cuts aggressively**, the "carry" tide turns more constructive for AUD will arguably *amplify marginal re-allocation to AUD's noticeable benefit*. ¥
 - e. As a corollary, this means that **AUD out-performance is necessarily not solely reliant on a softer USD outlook**.

3. The Commodity Boost – Both Catch-Up & Super-cycle
 - a. Crucially, the **making of a commodity Supercycle** getting underway also promises to be **naturally constructive for AUD**.
 - b. Not only do **commodities typically tend to do well after monetary largesse**, but this "monetary effect" may be **more pronounced as real asset gain even more allure** amid broader concerns "Sell America" and attendant debasement risks.

- c. What's more, the **AI infrastructure build-out race amplified by geopolitical rivalries** is **likely to bolster the commodity (and consequent AUD) boost** – led by, **but not limited to, copper**.
- d. Taking place against a wider backdrop of *geoeconomic clamour for resource* and *energy security*, the *commodity up-cycle may be amplified*.
- e. **Ahead of structural commodity build-up for AUD**, there is still *room for two cyclical legs to boost AUD*. First, **Copper's catch-up on drawdown inventories** and alongside that, **AUD's catch-up to Copper's loftier valuation cues**.

4. China is a Bullish Beta-Dampener, Not Party-Pooper



- a. **China's dimming domestic demand outlook with risks of gathering headwinds raise a fair doubt, curbing overly-bullish AUD views.**
- b. Fact is, following China's property market crash, **AUD's upside beta to Chinese demand has been dampened.**
- c. Even so, the pertinent point is that the **AUD re-pricing (lower) on China's property market travails is mostly behind us.**
- d. Crucially, the China property market overhang **merely checks upside AUD sensitivity**. And in turn, **dampening amplitude of AUD upside, not decimate bullish fresh triggers.**

5. Volatility & Cyclical Undulations Embedded into (Not Eliminated From) Structural Upside

- a. Notably, this phase of **conspiring cyclical and structural boost for AUD while somewhat more broad-based**, is **no less susceptible to inherent volatility**.
- b. Point being, scope for inherent volatility in the AUD is in no way diminished, possibly even potentially exacerbated as;
 - i. the cyclical elements such as **monetary divergence remain fluid**;
 - ii. the **commodity Supercycle far more uncertain as colliding geoeconomic threats and AI unknowns may amplify swings**, and;
 - iii. the "Sell America" hedge allure remains non-linear, and possibly pro-cyclical, retrenching AUD on accentuated commodity-/risk-induced downside.
- c. The upshot is that **volatility is embedded, sometimes enhanced, within this peculiar cyclical-structural AUD boost.**

6. What Could Go Wrong?

- a. By definition, the number of moving parts involving hard-to-predict geoeconomic variables and AI transformation are **replete with risks to the bullish AUD view**.
- b. A more **accentuated AI correction** is top of the list, as the **generalized "risk off" is amplified by potential knock-on bearish commodity shocks** to acute AUD pain.
- c. Wider **geoeconomic threats** and **monetary policy flip-flips** also **feature in the litany of interruptions to AUD's cyclical and structural stars aligning.**

Global FX Assumptions: USD – Controlled Landing

	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027
DXY	98.32	97.6	94.2	96.8	94.8	95.8
	96.2-100.4	94.0-99.6	93.0-98.2	92.8-98.8	92.5-98.6	93.6-99.5
Brent Crude (US\$/barrel)	60.85	62.3	58.5	63.5	63.8	62.5
	58.7-66.8	57.8-68.5	55.5-67.6	57.0-72.5	58.5-70.5	58.0-68.8
Fed	3.50-3.75%	3.25-3.50%	2.75-3.00%	2.25-2.50%	2.25-2.50%	2.25-2.50%
ECB	2.00%	2.00%	1.75%	1.50%	1.50%	1.50%
BoJ	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%

The USD Backdrop

Gentle Correction, Not Dramatic Collapse: Our baseline is for the **USD to gently correct (2-5%), not dramatically collapse**. This ought to be consistent with a bumpy glide path to controlled descent to ~95 DXY, with some give either way.

Apparently at Odds with Dovish Fed: Admittedly, at first glance, this sanguine view of downside USD risks may *ostensibly be at odds with* coincident expectations for *considerably more dovish outcomes* than is priced in.

But Reconciled on a Suite of Positive USD Offset: **But that dissonance is superficial** as the **Greenback has a suite of multi-dimensional backstops** that *inherently limit downside* and **intervening boost factors**, which ought to *provide episodic bullish wave*. The conspiracy of which make for a bouncy and measured pullback.

"Sell America" is Structural, but Slow Burn: For one, the **"Sell America"** forces set in motion may be (and we do believe) **structural** but the **"half-life" of the attendant USD decay is long** (in decades), albeit *non-linear*.

"Pay America" Cashflow to Prop USD: **Whereas**, and crucially, the **USD-accretive cash-flow effects of "Pay America"** (See Box 1) tend to be far **more fast-acting**, and arguably more **effective in arresting** (possibly more than reversing) **USD declines** from dovish Fed surprises.

Dovish Fed Drag Moderated: In any case, **some degree of dovish Fed outcomes is already baked in**, dampening the 1-for-1 mapping of Fed cuts with USD pullback. Especially as **global/EM central banks** are **unlikely to relinquish dovish options/inclinations** – to turn properly neutral (much less, hawkish) after front-running Fed cuts – **limit how compelling rate differentials may be to aggressively short the USD**.

USD Hedges, Not Substitutes: Above all, the **USD global reserve currency status** has **no true (viable) substitute**, merely convenient but highly-constrained hedges, thereby limiting the scope for, and extent of, the Greenback's sell-off. Especially insofar that much of the hedging have been front-loaded.

(Relative) Case for Profound USD Slump Overblown: Point being, the **case for profound**, fundamental **decline in USD value in the near- to medium-term horizon** is **overstated**, *possibly even misguided*. Notably, the **relative fiat valuation mechanics don't add up** as the justification for richer EUR (or any other Major currency) - **to sink the USD durably**- remains **flimsy**. *Especially amid geo-economic upheavals in which US retains asymmetric leverage, and outright advantage*.

The Stablecoin Prop: Pivotaly, **financial innovations involving "Stablecoins" suggest** (at least) **interim support for the Greenback - beyond conventional metrics**. Particularly in the context of US **first-mover advantage in regulations/bills** (spearheaded by the "Genius Act"), **accentuated by, and arguably enhancing, its pre-existing network effects**.

Structural "Sell America" is Not Imminent: The upshot is, **even if one is convinced** (as we are) **about the structural decay of the USD over a longer horizon**, **expectations of the USD's imminent collapse are overblown**. In fact, perversely, the *very same US geo-economic agitations that have put balance sheet "Sell America" in place have also invoked "Pay America" USD backstop* (if not buoyancy) **in the interim**.

G3 Central Banks: The Long Reach of a Dovish Fed Inflection

Fed: The Fed's 'Dot Plot' median, with just **one cut priced in for 2026**, is **patently vulnerable to a dovish inflection**. Market are pricing in **2-3 cuts** for the year, **but even this is under-accounting for potential dovish inflection** for **two monumental shifts** taking hold.

First is the **'Taylor shift' amid non-linear jobs risks**. Point being, **the post-pandemic era was singularly focused on inflation**, which unexpectedly got away (on peculiar supply-demand interactions), wrong-footing the Fed. **But** fast-forward to the prevailing **K-shaped economy**, with a **deteriorating job market** and **constrained household cash-flows** will demand a **rebalancing of 'Taylor rule' to prioritize downside risks to jobs – as required by the Fed's "dual mandate"**. Especially given **non-linear jobs risks**, whereby **deterioration can quickly compound with after-shocks cascading quickly**. Consequently, the **Fed will arguably have to catch down amid "behind the curve" risks**.

Second, the **Fed's compositional shifts**, led by the **change of Fed Chair in May** and the **voting regional Feds**, on balance, **tip in favour of accentuated dovish bias**. And this is **even without an overtly politicized Fed**.

We expect 4-5 cuts clustered around mid-2026, as a divided Fed works through the apparent bifurcation between inflation and jobs risks. This outlook involves **FFR decline to ~2.50%**, which, in the grander scheme of things, is **relinquishing constriction rather than aggressive accommodation**.

ECB: Unlike the Fed's "dual mandate" the **ECB is governed/guided by its single mandate**. And **with inflation – both on headline and core measures – at/above 2%**, there is little surprise as to **why consensus is for no further cuts in 2026**, taking the ECB at its word on "being done".

But this **static shot of inflation in isolation is flawed**. Specifically, it **under-accounts for underlying stress on the economy** – which will be **ultimately** (even if not obviously) **deflationary**. Notably, **deflationary pressures can quickly ripple out from European industries (profits) squeezed** by a double-whammy of Trump's tariff offensive and China's aggressive exports of over-capacity. Especially **as geopolitical risks linger**.

Hence the argument is that **scope for 25-50bp of cut will reveal itself as the Fed starts cutting more aggressively** than expected. To be fair, **the counterargument is that the ECB has front-loaded easing with a cumulative 200bp since mid-2024**. **But** given that **long-end yields have risen substantially since early-2025, effectively negating the transmission of cuts**, the **case for compensatory cuts** (for impaired transmission) **mount**. And **Fed doves could provide requisite cover on account of EUR stability**.

BoJ: The **BoJ's hawkish talk will not be matched by hawkish walk in 2026 – at least not to the same extent**. Point being, the **BoJ has arguably pushed the envelope of the pace of rate hikes** to lift the policy rate to **0.75% in the final meeting of 2025**. Whereas **if not for exceptional JPY weakness** amid political risks, the **BoJ might have preferred a less hasty path** to "normalization".

Fact is, after decades of zero rates, the **Japanese economy needs more acclimatization to durably higher rates, rather than impulsive hikes** in response to inflation prints. And in any case, **fragile household confidence suggest that wage-price risks are overblown**. **Inflation continues to be a supply-side phenomenon exacerbated by a bearish JPY** while **strong wage hikes** are **facilitated by a weaker JPY** boosting exports earning/profits available for wage distribution.

Arguably, the **common denominator catalyzing faster BoJ hikes here is a weak JPY**. In which case, a **dovish Fed inflection that suddenly squeezes the JPY higher could wrong-foot BoJ hawks**. And in any case, **swimming against Fed rate cuts may be disruptive** to say that least. Hence, despite markets inclined to price in closer to 2 hikes for 2026, **our view is hitting the brakes after one more hike to 1.00%**.

Rates: Cyclical & Structural Steepening

Lower, Shorter Rates Amid Dovish Fed: If we are right about an **abruptly more dovish Fed inflection** into mid-2026, **lower rates ought to be par for the course**. More so, if other central banks lean into a dovish Fed to cut in its cover. The **caveat** though is that this may be **far more pronounced for short rates**. Whereas **"stickier" long-end rates could accentuate a steeper curve**.

Cyclical Steepening has Room to Run: For one, our baseline scenario of far **more aggressive Fed rate cuts** (4-5 cuts) **squares with** the view that the **cyclical steepening** (*bullish front-end led steepening*) from rate cuts has room to run. Especially as **policy transmission** (from rate cuts) **out the curve looks increasingly hobbled**. This is not peculiar to the US, but a more global phenomenon (across Europe and Japan) – resulting not only in **muted softening at the long-end yields**, but **in some cases, sharply higher long-end yields**.

Structural Steepening Intact: What's more, *worries of fiscal dominance* amid *debt burden* exacerbated by growing concerns of *fiat debasement* to devalue debt suggests that **"Structural Steepening"** (bearish, long-end led steepening) **will** not only **entrench**, but *possibly feature*. This drives our view of **10Y-2Y (UST) spreads working its way to 100-150bp** in coming quarters.

Beware JGB (Long-End) Bears: Notably, a rather **pronounced steepening in ultra-long end JGBs**, insofar that it is **entrenching stridently**, is **concerning** - as understatements go - as *what happens in JGBs don't just stay in JGBs*. For one, given Japan's sizable net global asset positions, the **rise in ultra long-end JGBs could hit a "tipping point"** at which it *triggers a massive flight of Japan-funded global investments back "home"*. Consequently, **driving down global asset prices** (and driving up yields) elsewhere. Especially, when led by real money asset managers, which in turn prompts opportunistic speculators to pile in (a case of reflexivity). Second, any **attendant** (sharp) **rise in the JPY** may potentially **trigger "carry unwind"**, exacerbating *"risk off"*.

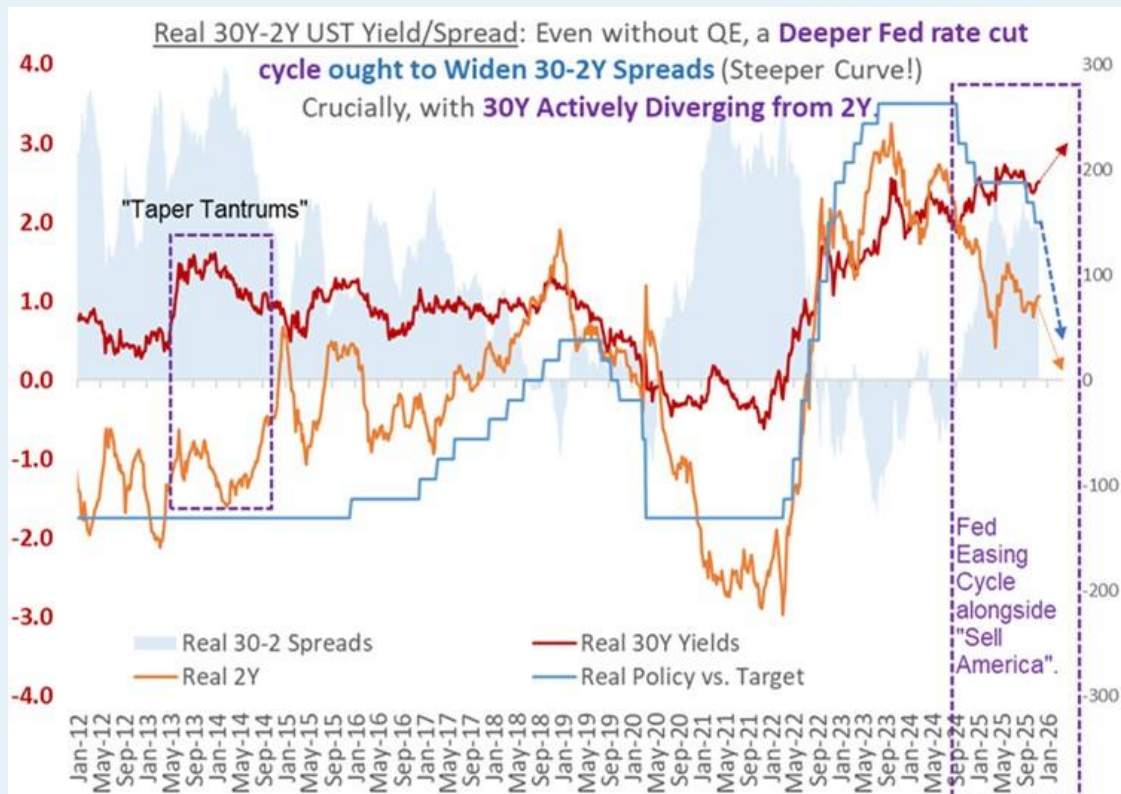
Risk Re-Pricing: Hence the **case for risk re-pricing** grows, especially given **compressed spreads suggest rich valuations are stretched**. Notably, *despite Fed cuts* (and arguably, due to the soft spots that warrant these cuts), **risk re-pricing could shift back into focus as the high tide of "all in" returns begin to recede**. *But* to be clear, we expect this to be a rather **nuanced in execution**.

Bifurcation: Specifically, a **stark quality differentiation** in a more unforgiving geoeconomic environment. So much so that it **could present as a bifurcation**. What this means is that *high-quality assets could have spreads compressed further* (and in some cases, have negative spreads deepen). Whereas **risk premium begins to feature** once again, *in tandem with*, and perhaps *accentuated by*, the **rise in term premium**.

Box 5: A Divergent Steepening [Published 27th November 2025]

In a Nutshell:

- **"Real" steepening**, with *real 2Y yields falling while 30Y yields rise*, reveals **key divergence** in *drivers, risk profile and horizon/durability*.
- **Drivers:** Distinction between **Fed cut driven bull steepening** and **"Sell America" driven long end sell-off (lift in yields)**.
- **Risk Profile:** The "risk on" profile of Fed cuts and risk re-pricing associated with "Sell America".
- **Horizon/Durability:** Crucially, the *Fed cut bull steepening is cyclical* while *upside risks in long-end yields* is a *structural* feature fraught geoeconomics.
- These factors could conspire to **accentuate the inherent UST curve volatility**.
- Nonetheless, this **real steepening is likely to persist**, predominantly driven by *front-end Fed cut dynamics initially* and *"Sell America" long-end pain thereafter*.
- *In turn this could be a more enduring driver of risk re-pricing with starker quality differentiation*.

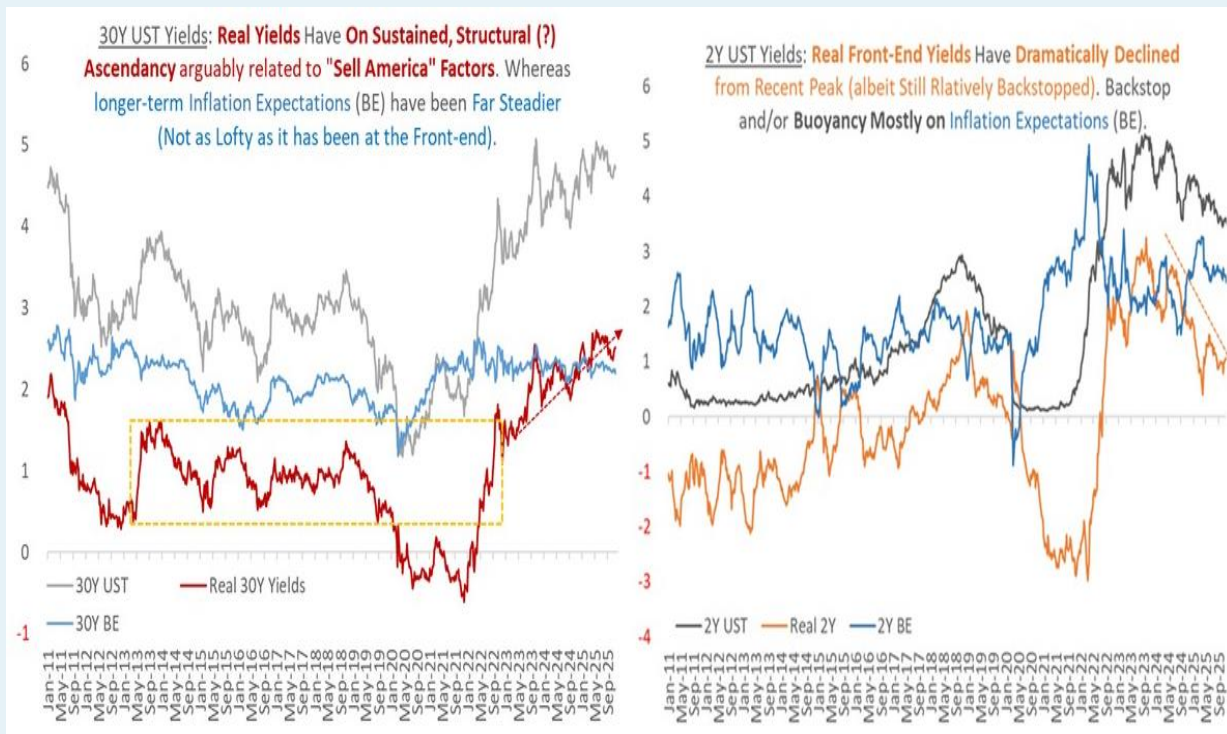


“Alice: Would you tell me, please, which way I ought to go from here?”

Cheshire Cat: That depends a good deal on where you want to get to.” – Alice in Wonderland

- The **active divergence in real yields**, between *falling front-end* and the *long-end buoyancy*, is **worth noting**.
- For one, because this dynamic involves **steepening from distinctly opposing forces**.
 - A *Fed cut cycle bull steepening** on the one hand, and;
 - “*Sell America*”^{***} on the other, which entails *bear steepening led by long-end sell off* (sharply higher long-end yields).
- Notably, these two opposing forces are **profoundly different in their risk profile** as well.
 - The *bull steepening Fed cut cycle* is typically **risk-positive**, inducing wider asset market rallies.
 - Whereas “*Sell America*” *long-end surge in yields*, while not necessarily ubiquitously “*risk off*”, is **likely to entail risk re-pricing** involving sharper differentiation.
- Moreover, the applicable **horizon for these two factors** is also **varies distinctly**, with one being *cyclical* and the other, *structural*.
 - *Bull steepening driven by Fed cuts* is *cyclical*.
 - Whereas the *long-end yield ascendancy on “Sell America”* is *structural*.
- If nothing else, the **divergent real steepening warns of inherent volatility embedded in the yield curve**.
- What’s more, the **triggers for volatility**, and **sensitivities to these triggers**, could **vary appreciably across the curve**.

- Notably *nominal front-end 2Y yields may be far more sensitive to inflation surprise* while the *long-end may suffer more from Fed politicization risks* (See Charts below).



Oil: Containment (at Softer Levels)?

Subdued: Oil prices could consolidate at the softer side of \$55-65 in 2026 as mild restraint from easing global demand (from the counter-intuitive resilience in 2025) kicks in. Especially as China's growth also appears set for some deceleration. What's more, the lagged effects of OPEC+ curbs unwound will also likely add to supply buffer to dampen oil prices. To be sure, **two-way risks to oil prices will persist**. But on the whole,

The "Venezuela Situation": As alluded to in our "Quick Take" (Box 6), the Venezuela situation, likely 10th has resulted in spelt significant geo-political impact and relative energy dominance/security shifts (to the benefit of the US at the detriment of China). **But** likely with negligible immediate impact on global crude prices. Mostly because of Venezuela's currently depressed output diminishes the sensitivity of global crude to Venezuela's headline shocks. In addition, Venezuela's capacity restoration will take time.

OPEC Calibrations: What's more, OPEC+ (led by Saudi Arabia) pause in supply restoration leaves it in a comfortable position to buffer oil prices from shocks on either side as they look for "Goldilocks" levels – that satisfy President Trump's desire for lower oil prices, but at the same time is not too deleterious for their revenue/fiscal positions. This ought to lend itself to a tighter consolidation range at currently softer levels.

"Mid-Term" Pressures: Notably, ahead of US Mid-Term elections in November, one expects Trump to be even more sensitive to a rise in oil prices – given that flak over affordability amongst the US electorate. With gas prices arguably the most politically-sensitive inflation gauge, the baseline is for Trump to persist with efforts to sway OPEC+ to "play ball". That's to say, keeping supply comfortable to dampen upside risks to oil.

Two-Way China Dampening: In addition, despite underlying oil demand from China expected to ease at the margin on slowing growth, China will nevertheless effectively act as a dampener on two-way price volatility. The upside dampener obviously derives from softer growth. Whereas Beijing's compromised energy security position post-Venezuela (after being deprived of key Venezuelan crude supply) suggests that China will opportunistically buying on price dips to build up strategic reserves further.

Conflict –Latent, Not Unleashed, Volatility: Admittedly, tail risks of oil prices surging on conflict risks spinning out of control cannot be dismissed. In which case, the potential for prices to surge dramatically cannot be

dismissed. **But desensitization to war** means that *unless there is imminent and inevitable disruption to production and/or passage of crude*, prices and volatility are more likely to be contained.

Box 6: Quick Thoughts on Venezuela's Regime Change [Published 5th January 2026]

In a Nutshell:

- **Regime change in Venezuela** is set to deliver **sizable energy** and **flow-through AI advantages for the US**, and notably **at the expense of China, Russia, Iran** and the **wider "Global South"**.
- **Geopolitical tensions in LatAm, possibly even for Greenland**, will likely be elevated. But arguably, **China bears the brunt from the Venezuelan incursion** resulting in regime change.
- For one, **China's energy security is compromised** at the margin whilst the **US gains significant energy dominance advantage** from Venezuela's heavy crude that its refining infrastructure is wired for (and in dire need of).
- And this **spills over as critical advantages in AI/tech/industry**, all deemed *critical for geo-political dominance*.
- Moreover, denying China access to Venezuelan oil has **accentuates China's energy-shipping risks** as all its *other crude imports are exposed to key "chokepoint" risks* (e.g. Straits of Malacca).
- Notably, the **notion that Venezuela offers China a "blueprint" on Taiwan is false equivalence**. Beijing will not hastily act as it remains **committed to the longer game**.
- **Subdued Oil Price Impact: Despite the potential to exploit Venezuela's massive oil reserves** by the US Oil Majors, **oil price impact will be muted** on account of;
 - i. Requisite infrastructure ramp-up takes time;
 - ii. AI devours pipeline supply expansion;
 - iii. OPEC/Saudi likely calibrate to steady prices, and;
 - iv. China (opportunistically build oil reserves on price dips)
- **USD Underpinned:** A perverse confluence of **marginal petro-dollar boost** (from Venezuelan Oil to China denied), **haven allure** (amid elevated LatAm geopolitical tensions) and **antagonistic boost from China's disadvantage** is likely to **provide the USD a marginal boost**, to effectively *temper interim slippage from Fed cuts and dampen structural debasement drag*.

US-run Venezuela

- Never mind, New Year resolutions. 2026 has effectively opened with regime change in Venezuela.
- A **US-run Venezuela** (whose ex-President Maduro now faces indictment in the US), with **US Big Oil now poised to reclaim** (oil assets) and **reinstate capacity** in the Venezuelan oil sector, is a reality that the world is now confronted with.
- It is by now **beside the point whether this this regime change** - with the US military-driven overthrow of an arguably illegitimate, Maduro Administration - is merely an audacious coup or imperialist asset grab.
- What's pertinent is that;
 1. It *cannot be undone*;
 2. *Uncertainty over the transition to self-governance may linger*;
 3. Tactically, the *US has enhanced its energy security at the China's expense*, and;
 4. *Geopolitically, China, Russia, Iran* (and more broadly, the "Global South") are *disadvantaged* while *LatAm* and *Greenland* are arguably *even more compromised*, albeit at a high cost of lost moral high ground to the US.

Oil - A Big Deal ...

- Make no mistake, the **ability to secure Venezuelans oil assets** is a very **big deal for the US** on three counts.
- **First, Venezuelan heavy crude is precisely what the US oil refining infrastructure is set up for, and in dire need of** given the current constraints with regards to Canadian and Mexican oil supplies (whereas US light crude, while being pumped at record rates does not satiate US industrial needs).
- **Second, US' privileged access is a key advantage** to Venezuela's oil assets – which boasts the **largest oil reserves in the world** – **as the immensely energy-intensive and geo-politically critical AI race** (especially against China) **gets underway**.
- **Finally**, with Venezuela's oil comes the **projected shipping advantage** – both **absolute and relative** (in terms of China's energy shipping risks).
- The former is the obvious **proximity advantage for the US**, to exploit Venezuelan oil.
- Crucially, the relative advantage in the form of **China's energy/shipping security compromised** may be **more significant**.
- Notably, without Venezuelan oil (of which China consumes more than two-thirds of) the **rest of China's oil imports effectively all subject to the shipping choke point risks of the Straits of Malaysia**.

Oil - ... but No Big (Price) Swing

- **But as a big deal as US' appropriation of Venezuela's oil assets** (to be more intensively exploited by US Oil Majors/investments) **are**, the **price impact may be limited**.
- And this is certainly not just because of *Venezuela's relatively meagre production is at a mere 0.8% of global production* (~1MBpD) compromised by decrepit infrastructure alongside sanctions.
- Or that even with US Big Oil investments, the **infrastructure renewal of required to exploit the reserves will take time to get production capacity up to speed** (from ~1MBpD to its pre-Socialist height of >3MBpD).
- More importantly, because even if **pipeline supply ramp up** is realized, it **may be predominantly mopped up by burgeoning AI demand**, is **unlikely to meaningfully add to available global supply**.
- Hence, **US appropriation of Venezuelan oil assets is likely to have little downward sway prices**.
- In any case, **near-term price downside** may be **offset by OPEC/Saudi calibrations** and/or **China's inclinations to ramp up oil reserves on price dips**.

China, Not Taiwan, Compromised

- Arguments that **Venezuela is a blueprint for Beijing to act on the "One China" policy with regards to Taiwan**, is not just a **misguided equivalence**, but *in fact insulting Beijing*.
- Point being, **Beijing sees Taiwan as a rightful part of itself unlike US incursion on Venezuela's sovereignty**. So, the **"legitimization" of a forceful take-over** is **neither valid, nor** will it be a **knee-jerk trigger**.
- What's more, the **ability of US Oil Majors to earn returns from** (eventually self-funding) **investments in Venezuela's oil assets** suggests **further USD boost**.
- More consequentially, **China is now arguably dealt blows** in terms of; i) its *secured oil supply from Venezuela forgone*; ii) *shipping risks mitigations compromised and crucially*; iii) *AI/industrial advantages setback* by **US' reinforced energy dominance**.

(Petro-)USD Boost?

- To be sure, the **FX impact from Venezuela's regime change is not expected to be substantial**. But *at the margin*, this ought to be **USD positive**.
- For one, **cutting off China's purchases** will **likely add** (albeit modestly) to the **Petro-Dollar support for the Greenback**.
- What's more, the **ability of US Oil Majors to earn returns from** (eventually self-funding) **investments in Venezuela's oil assets** suggests **further USD boost**.
- There is arguably also **a broader haven premium, perverse or otherwise**, now arguably **associated with US "big stick" policy in LatAm**.
- Finally, **compromised Chinese advantage on the energy/AI/industrial stage** also **ought to underpin the USD**, *given the antagonistic relationship between China-CNY and US-USD*.

Albeit Subject to Fed & Fiat Debasement Risks

- To be clear, that **does not mean USD will be bullet-proof if the Fed turns out to be more dovish** than markets expect (which is our base case).
- Crucially, **underlying USD soft spots on concerns of USD debasement** will also remain intact to *underpin a structural downtrend further out*.
- But this **reinforces our view of controlled** (and subdued) **softening** (to ~95 DXY), **rather than a crash** (to ~90/sub-90 DXY), in the USD ahead – **even with fairly significant Fed cuts**.

A Limited Geopolitical "Gift" (for the US)

- All said, **US strike on Venezuela to overthrow the regime** (and appropriate of the oil assets) **benefit from the shadow of an oppressive and economically dysfunctional regime**.
- What's more, the *fortuitous geo-political advantage* (ability to compromise China. Russia and Iran in one fell swoop) combined with *geological endowments* (the world's largest reserves of "heavy" crude") accentuate **US gains**.
- But this **geopolitical gift for the US** will be **harder to replicate elsewhere**, which means that blowback risks from further, unilateral US aggression could begin to mount from here.

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