

## The EM Asia FX Strategist

## Asia FX Monthly – Waiting for the Spring

## Summary of FX views

**CNY/CNH (bearish):** We maintain our end-1Q24 USD/CNY forecast of 7.45. Drivers: Diverging yield, growth differentials, unbalanced policy. Risk: March NPC fiscal stimulus

**HKD (neutral):** Front-end HKD funding recently improved, but it looks increasingly loose, and we think it is attractive to pay HKD forwards.

**INR (neutral):** Fundamental flows are positive, with large portfolio inflows and narrow CAD in 1Q. However, the RBI could continue building reserves as REER remains elevated.

**IDR (neutral):** BI focus on IDR appreciation but uncertain fiscal policy outlook and recent NEER appreciation skew near-term risks towards weaker IDR.

**KRW (bullish):** Strong foreign interest in Korean equities following the start of Corporate Value-Up will be tailwind for KRW throughout 2024.

**MYR (neutral):** Fundamentals are still negative – weak growth, negative carry, CNY proxy. But rising risk of possible BNM measures against further weakness.

**PHP (neutral):** PHP range-bound and driven by capital flows around government issuance. Maturities in March could put PHP under pressure.

**SGD (neutral):** NEER level is elevated within band, creating a risk of correction on risk-off shock. However, policy will likely remain tight and carry still positive.

**TWD (neutral):** Strong equity inflows are currently being offset by the overall stronger US\$ environment. We expect the majority of TWD strength to occur in 2H24.

**THB (bearish):** THB remains high beta to the USD direction due to a low CA buffer, weak growth, and a lack of portfolio flows. NEER corrected from elevated levels.

**VND (bearish):** Monetary policy easing and property/credit issues remain negative for VND. However, macroeconomic and trade stabilization are offsetting this pressure.

## Exhibit 1: Asia FX forecasts for next four quarters#

Bullish on KRW; Bearish on CNY, THB & VND; and Neutral on HKD, INR, IDR, MYR, PHP, SGD & TWD

Currency	View/bias	Spot	1Q '24	2Q '24	3Q '24	4Q '24
USD/CNY	Bearish	7.19	7.45	7.4	7.1	6.9
USD/HKD	Neutral	7.82	7.825	7.8	7.78	7.76
USD/INR	Neutral	82.9	83	82.5	82	82
USD/IDR	Neutral	15625	15600	15500	15300	15200
USD/KRW	Bullish	1331	1325	1300	1265	1230
USD/MYR	Neutral	4.79	4.8	4.7	4.6	4.5
USD/PHP	Neutral	55.93	56.5	56	55.5	55
USD/SGD	Neutral	1.34	1.34	1.33	1.29	1.26
USD/TWD	Neutral	31.56	31.35	31.15	30.75	30.35
USD/THB	Bearish	35.90	36	35.5	35	34
USD/VND	Bearish	24590	25000	25000	24800	24800

Source: BofA Global Research estimates

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28 February 2024

GEM FI & FX Strategy  
EM Asia

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For a complete list of our open trade recommendations, as well as our trade recommendations closed over the last 12 months, see [Global Emerging Markets Weekly: What if the Fed doesn't cut? 23 February 2024](#).

See the end of the report for a list of acronyms and abbreviations.

# China

## View: Remain bearish on CNY

We remain bearish CNY, with a target of 7.45/7.40 against USD for end-Q1/Q2. At first glance, the return of China from the Lunar New Year is signaling some optimism in the equity markets as retail spending was strong during the holiday period. Nonetheless, bond yields continue to trend lower as confidence and inflation remain negative.

The absence of an MLF rate cut and asymmetric 25bps cut of the 5yr LPR, but no cut to 1yr LPR, suggests the PBoC is reluctant to cut front end rates at the risk of adding selling pressure to CNY. This policy focus on CNY stability suggests that we may be too CNY bearish. However, we would counter that overall policy may be too restrictive, resulting in deflationary pressure and a 15% trade-weighted real depreciation since March 2022.

### Macro outlook: Focus on the 5 March National People's Congress (NPC)

China's economic data is showing some stabilization relative to market expectations and an improvement in PMIs. However, the outlook will be complicated and difficult to read in the next two months due to the seasonal distortions of the Lunar New Year holiday period. As such, the real focus will be on the upcoming 5 March National People's Congress and the extent of the fiscal support to boost growth.

### Valuation: FX COMPASS model indicates 6.98

Our COMPASS model (2-3 years) is based on the estimated fair-value exchange rate consistent with an equilibrium current account. This suggests USD/CNY around 6.96, 3.5% below current spot. The current trade-weighted inflation adjusted exchange rate is 7% below its 5yr and 10yr average, suggesting the currency is modestly undervalued against its trading partners.

**Positioning: Real money investors are bearish** onshore CNY positions at -44 (-50 being maximum bearish, underweight), while hedge funds are at -4. Offshore CNH positioning is also bearish, with hedge funds short at -9, while real money is reasonably long at +26 (+50 is maximum bullish) as a means of proxying onshore exposure or possible arbitrage – see the report: [Liquid Cross Border Flows: Dollar dependence 19 February 2024](#)

**Risk events:** The March National People's Congress could announce more fiscal stimulus. US-China trade relations remain fragile in a US presidential campaign year.

**Corporate hedging:** We recommend tactically hedging against 1H CNY weakness, given the cheap hedging cost.

**Rates:** China rates had a strong rally year-to-date, underpinned by weak sentiment, monetary easing, and limited supply of government bonds. If bond issuance starts to accelerate after the NPC, it could impose some headwinds for long duration bonds.

### Exhibit 2: USD/CNY forecasts vs forwards

Expect USD/CNY at 7.45 by end-1Q24

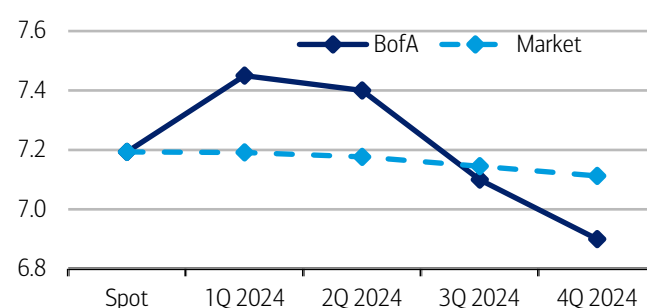
Spot	current	chg (diff)		
	7.19	0.00		
Period	Forecast		Forward	
	current	chg (diff)	current	chg (diff)
1Q 2024	7.45	-	7.19	+0.081
2Q 2024	7.40	-	7.18	+0.027
3Q 2024	7.10	-	7.15	+0.085
4Q 2024	6.90	-	7.11	+0.083

Source: BofA Global Research, Bloomberg

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### Exhibit 3: USD/CNY forecasts

Our forecast path is above the forwards until 3Q24



Source: BofA Global Research, Bloomberg

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## Cross-currency basis USD/CNY

### Exhibit 4: USD/CNY cross-currency basis

1y xccy basis at -0.63%

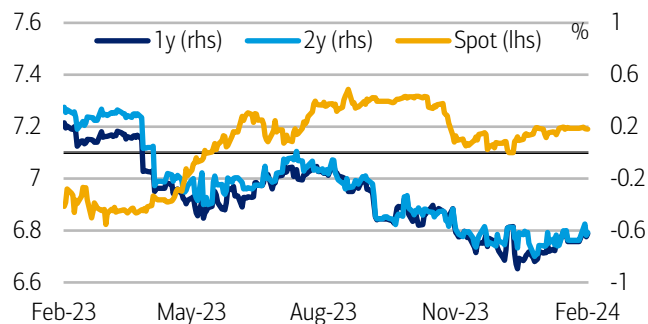
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	-0.63	0.06	0.01	-0.83	-0.90		0.21	-0.42	0.11	0.76	1.13	-0.82
2y	-0.62	0.06	-0.01	-0.95	-0.80		0.33	-0.37	0.12	0.88	0.85	-0.91
5y	-0.40	0.10	-0.11	-0.57	-0.63		0.45	-0.12	0.13	0.94	0.74	-0.85

Note: current value 1y average. The z-score measures the distance between the current value and the mean in standard deviation units Source: BofA Global Research, Bloomberg

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### Exhibit 5: Short-term basis swaps vs USD/CNY spot

CNY basis turns negative as CNY moves above 7.00 against USD

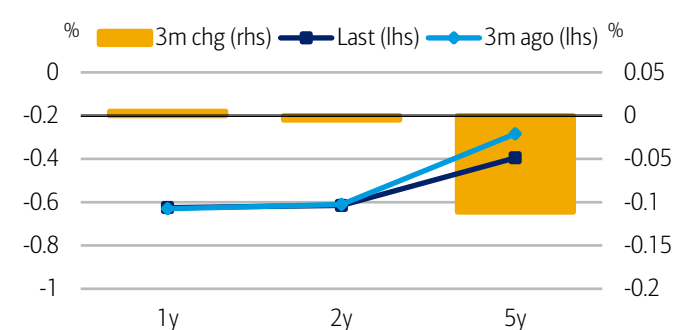


Source: BofA Global Research, Bloomberg

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### Exhibit 6: Term structure of basis swap

Basis curve shifts lower and steepens



Source BofA Global Research, Bloomberg

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## Volatility surface: USD/CNY

### Exhibit 7: Current implied volatilities

Demand for OTM USD calls remains at significant premium to puts

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	5.36	4.91	4.90	5.41	6.38
3m	5.85	5.54	5.69	6.42	7.66
6m	5.98	5.74	5.99	6.89	8.36
1y	6.16	5.88	6.17	7.23	8.99

Source: BofA Global Research

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### Exhibit 8: 3m z-scores of implied volatilities

Largely, implied vols. slightly elevated vs. 3M average

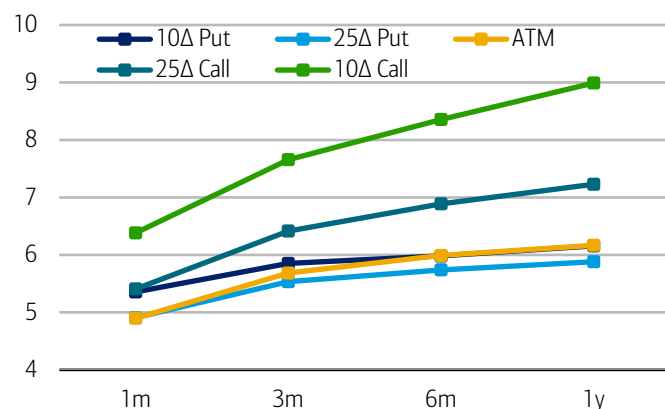
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	0.213	0.210	0.204	0.197	0.191
3m	0.166	0.168	0.170	0.172	0.173
6m	0.189	0.185	0.183	0.181	0.180
1y	0.177	0.175	0.176	0.176	0.177

Source: BofA Global Research

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### Exhibit 9: Term structures of implied volatilities

Market still skewed toward CNY 1-year depreciation tail risks

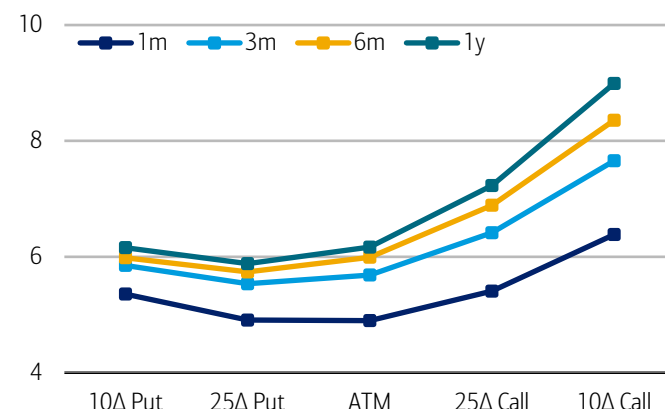


Source: BofA Global Research

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### Exhibit 10: Implied volatility smiles

Implied vol smiles show rising risk premium for 1y and 6m USD calls



Source: BofA Global Research

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## Cross-currency basis USD/CNH

### Exhibit 11: USD/CNH cross-currency basis

1y xccy basis at 0.53%

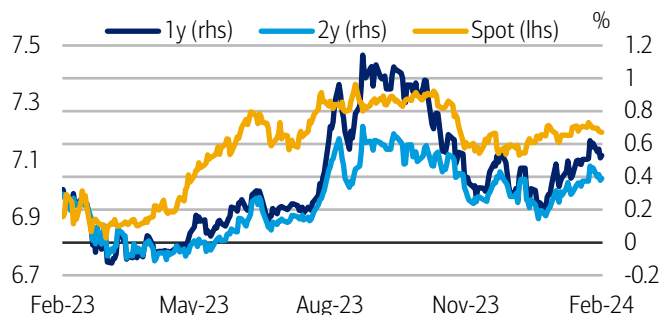
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	0.53	-0.05	0.13	0.25	-0.13		1.14	0.37	0.13	0.95	1.24	0.47
2y	0.39	-0.04	0.11	0.12	-0.11		0.71	0.25	0.10	0.70	1.13	0.66
5y	0.15	0.01	0.18	0.33	-0.46		0.18	-0.10	0.09	0.62	1.55	1.39
10y	-0.11	0.05	0.19	0.55	-0.92		-0.11	-0.39	0.10	0.72	1.78	1.34

Note: current value 1y average. The z-score measures the distance between the current value and the mean in standard deviation units Source: BofA Global Research, Bloomberg

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### Exhibit 12: Short-term basis swaps vs USD/CNH spot

1y and 2y basis easing

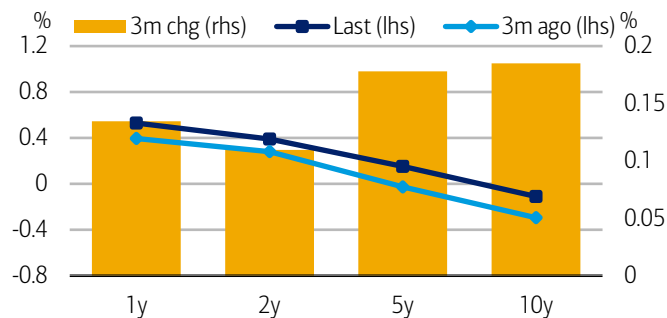


Source: BofA Global Research, Bloomberg

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### Exhibit 13: Term structure of basis swaps

Basis swaps curve is inverted, but flatter than 3 months ago



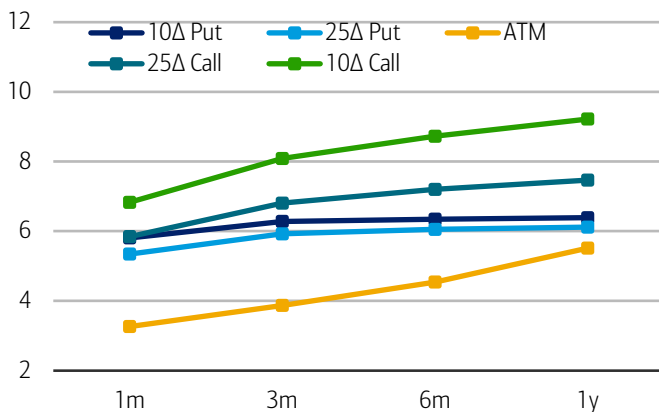
Source: BofA Global Research, Bloomberg

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## Volatility surface: USD/CNH

### Exhibit 14: Term structures of implied volatilities

ATM curve and call curve steep, relative to puts implied vol curve

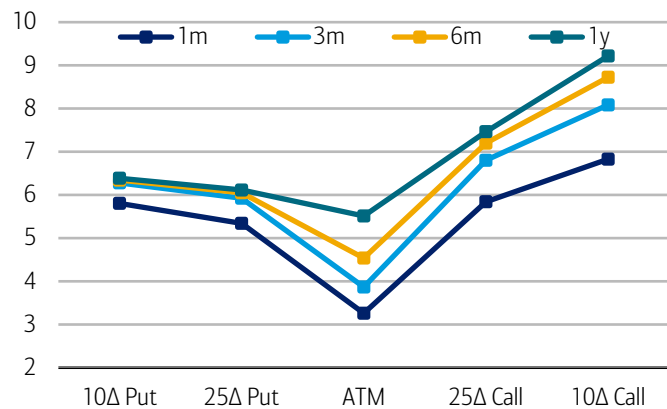


Source: BofA Global Research

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### Exhibit 15: Implied volatility smiles

Implied vol smiles are skewed to CNH depreciation



Source: BofA Global Research

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# Hong Kong

## Macro outlook: Waiting for the Fed to cut

The mechanism of the LERS dictates that HKMA only replenishes Hong Kong's interbank liquidity (known as the aggregate balance) when USDHKD hits the lower end of its band at 7.75. Within the 7.75-7.85 band, interest rates and the FX rate in Hong Kong are freely determined by the market. Typically, when the cutting cycle in the US begins, there is a period in which front-end HK rates lag US rates as the spot USDHKD needs to reach the bottom end of the band before the aggregate balance can be replenished.

However, the continuation of strong data relating to the CPI and labor market in the US has delayed the timing of the Fed cut, resulting in front-end US rates rising more than HK rates. We recently closed out on receive 2y US vs HK IRS position and will seek to re-engage once we move closer to the Fed cut.

**Positioning:** Forward points in USDHKD remain slightly negative, giving the market a net incentive to buy US\$. However, given the realized volatility of front-end HIBOR, there is no strong incentive to hold on to long US\$ positions, making it hard to hit the 7.85 ceiling again.

**Valuation:** It is explicitly pegged to USD, making relative valuations vs USD irrelevant.

**Risk events:** The upcoming budget for fiscal year 2024-25 could see increased debt issuance by the Hong Kong government or state-owned enterprises. The budget will be presented on 28 February 2024.

**Corporate hedging:** We believe that offshore investors (i.e. not Hong Kong-based corporates) should hedge against short-term FX volatility for USDHKD due to risks from equity portfolio outflows and increased USD buying as front-end differentials widen. The widening of the FX forward points increases the positive carry return for those seeking to hedge HKD risk.

**Rates:** 10-year Hong Kong IRS is almost at par with 10-year US SOFR swap. Given the difference in floating lag (HIBOR vs. SOFR) and floating leg tenors (3 months vs. overnight), we believe that long-dated Hong Kong IRS should be at a discount to its US equivalent.

### Exhibit 16: USD/HKD forecasts vs forwards

Expect USD/HKD at 7.825 by end-1Q24

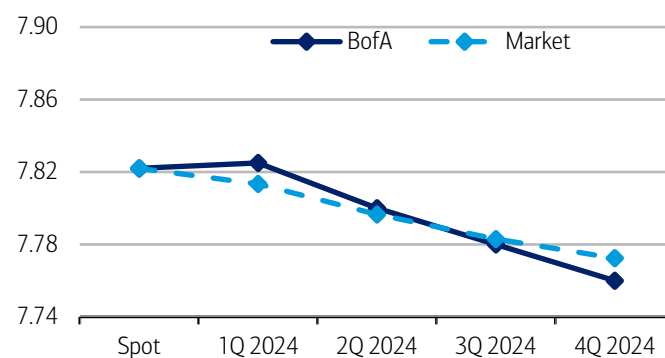
Spot	current	chg (diff)		
	7.82	+0.00		
Period	Forecast		Forward	
	current	chg (diff)	current	chg (diff)
1Q 2024	7.825	0.00	7.813	+0.0064
2Q 2024	7.800	-0.03	7.797	+0.0036
3Q 2024	7.780	-0.02	7.783	+0.0009
4Q 2024	7.760	-0.02	7.772	-0.0006

Source: BofA Global Research, Bloomberg

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### Exhibit 17: USD/HKD forecasts

Our forecast path is almost in line with the forwards



Source: BofA Global Research, Bloomberg

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## Cross-currency basis USD/HKD

### Exhibit 18: USD/HKD cross-currency basis

1y xccy basis at -25bp

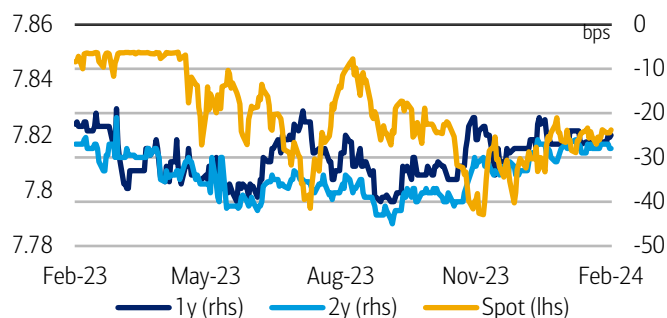
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	-25.00	1.50	1.00	-3.00	-40.00		-19.00	-30.00	4.80	34.59	0.67	1.01
2y	-28.00	-1.00	3.00	-1.00	-45.00		-21.00	-34.25	4.35	31.35	0.67	1.29
5y	-42.00	-2.00	11.00	-8.00	-62.00		-25.00	-46.28	3.36	24.26	0.65	0.44
10y	-58.00	1.00	11.00	-10.50	-72.00		-45.00	-60.62	3.60	25.99	0.67	0.34

Note: current value 1y average. The z-score measures the distance between the current value and the mean in standard deviation units. Source: BofA Global Research, Bloomberg

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### Exhibit 19: Short-term basis swaps vs. USD/HKD spot

1y basis swaps currently stable

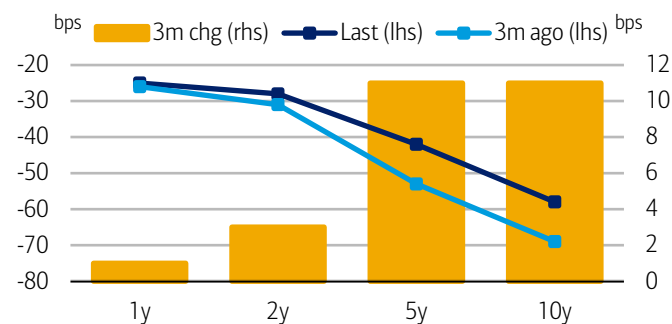


Source: BofA Global Research, Bloomberg

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### Exhibit 20: Term structure of basis swaps

5-year basis swap curve recently tighter vs. 3 months ago



Source BofA Global Research, Bloomberg

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## Volatility surface: USD/HKD

### Exhibit 21: Current implied volatilities

Skew is towards puts in USDKD

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	1.56	1.12	0.88	0.87	0.93
3m	1.47	1.10	0.89	0.85	0.97
6m	1.84	1.14	0.88	0.84	1.17
1y	2.67	1.34	0.94	0.89	1.51

Source: BofA Global Research

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### Exhibit 22: 3m z-scores of implied volatilities

Changes across time

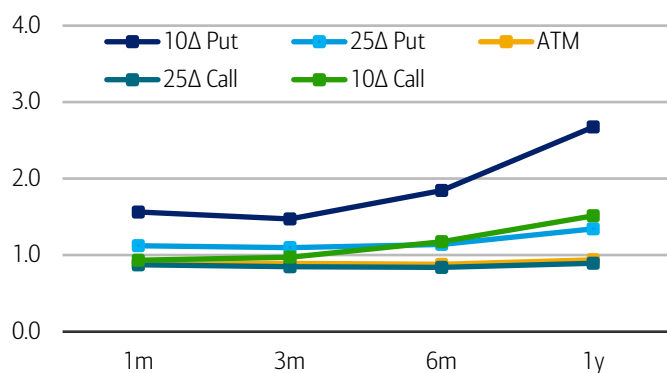
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	-1.47	-1.52	-1.53	-1.52	-1.45
3m	-1.45	-1.47	-1.49	-1.50	-1.49
6m	-1.41	-1.42	-1.43	-1.43	-1.43
1y	-0.04	-1.07	-1.15	-1.17	-1.16

Source: BofA Global Research

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### Exhibit 23: Term structures of implied volatilities

Skews for 10-delta puts remain high

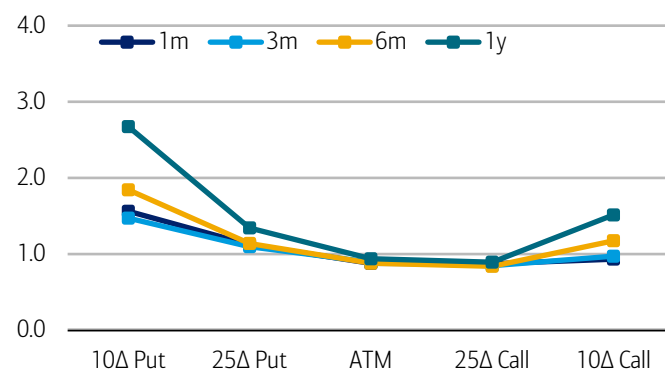


Source: BofA Global Research

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### Exhibit 24: Implied volatility smiles

USDHKD risk reversals remain negative



Source: BofA Global Research

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# India

## View: Looking for RBI pivot on rates and FX

The medium-term outlook for INR is constructive on manageable CAD and prospects for portfolio inflows. However, RBI's persistent reserves accumulation has limited the impact of these flows. INR remains low beta and should fare better than peers during periods of USD strength.

**Macro outlook:** INR's trading range remained narrow, with realized volatility near multi-decade lows at 1.4% for 3m tenor vs the historical range of 3-5%. Risk reversals continue to drop as fundamental and portfolio flows remain strong, further supported by expectations of policy continuity in the general elections and debt flows. Recent equity outflows have been offset by stronger inflows into bonds after the government surprised positively on the fiscal deficit target. However, INR appreciation has been muted as the RBI continues to build the FX reserves. A manageable CAD backed by a high level of FX reserves is favorable for an RBI pivot toward slower reserve accumulation and higher tolerance for INR volatility. However, the RBI governor's comments and slightly elevated REER level signal that INR appreciation would be limited. Risk-reward on INR would still remain asymmetric with limited depreciation and relative outperformance vs the region during periods of USD strength, in our view.

The IGB curve flattened over the last month after the better-than-expected fiscal deficit and low issuance target for FY25. While RBI disappointed market expectations for a stance change, RBI has been more actively injecting liquidity to bring money market rates closer to the policy rate. That would open up the room for compression of the fixing spread over the policy rate, keep front-end rates lower and support demand for 5-year bonds (see report [EM Alpha: India Rates – Receive NDOIS 2y 14 February 2024](#)).

**Valuation:** INR is undervalued on a NEER basis vs its historical range but neutral on REER, likely a result of higher inflation vs peers. The long-term FX Compass shows the fair value at 88.48/USD.

**Positioning:** Crowded long among hedge funds and real money but reduced slightly over the last month. Our positioning indicator shows INR as the largest long among EM FX.

**Risk events:** Risks from upcoming general elections in mid-May.

**Corporate Hedging:** We recommend keeping long INR exposure as carry remains attractive vs volatility on the spot.

**Rates: Lower/steeper** – Market pricing risk of rate cuts and easing of tight liquidity conditions would keep front-end rates lower. The curve is too flat, and the 5-year bond offers better value than the longer end, which could result in bull steepening.

### Exhibit 25: USD/INR forecasts vs. forwards

We expect USD/INR at 83 by end-1Q24

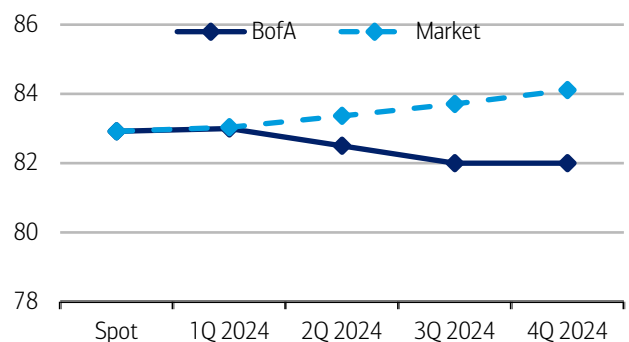
Spot	current	chg (diff)		
	82.92	-0.23		
	Forecast		Forward	
Period	current	chg (diff)	current	chg (diff)
1Q 2024	83.0	-	83.04	-0.36
2Q 2024	82.5	-	83.37	-0.41
3Q 2024	82.0	-	83.71	-0.48
4Q 2024	82.0	-	84.11	-0.53

Source: BofA Global Research, Bloomberg

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### Exhibit 26: USD/INR forecasts

Our forecast path is below the forwards after 1Q



Source: BofA Global Research, Bloomberg

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## USD/INR forwards – implied yields

### Exhibit 27: USD/INR NDF implied yields

1m NDF at 6.57%

Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1m	6.57	0.04	0.02	0.15	5.39		10.62	6.75	1.36	9.79	-0.11	-0.27
3m	6.95	-0.03	0.22	-0.35	6.07		8.43	6.99	0.61	4.43	0.15	-0.11
6m	6.91	0.00	-0.28	-0.58	6.62		7.85	7.11	0.33	2.36	-0.20	-0.74
12m	6.94	-0.03	-0.14	-0.74	6.66		8.05	7.17	0.26	1.88	0.71	-0.91

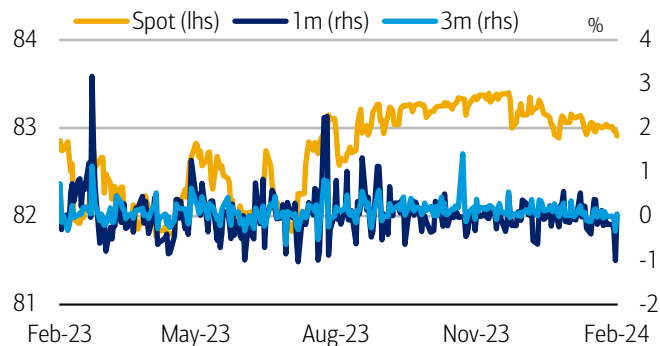
Note: current value 1y average. The z-score measures the distance between the current value and the mean in standard deviation units

Source: BofA Global Research, Bloomberg

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### Exhibit 28: NDF – Onshore forward yields vs USD/INR spot

Offshore-onshore yield differential

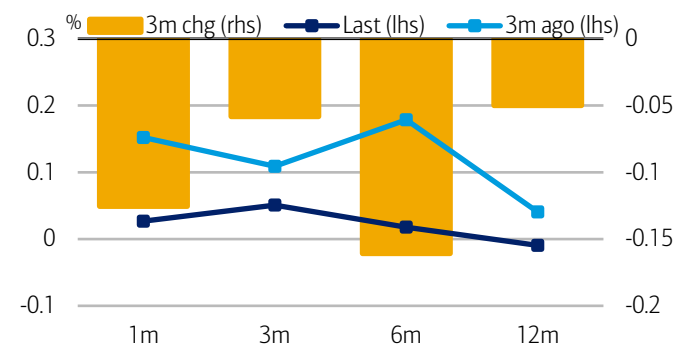


Source: BofA Global Research, Bloomberg

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### Exhibit 29: Term structure of NDF – Onshore forward yields

Offshore yields lower over 3m



Source: BofA Global Research, Bloomberg

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## Volatility surface: USD/INR

### Exhibit 30: Current implied volatilities

Implied vols skewed towards call options

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	2.75	2.24	1.97	2.16	2.63
3m	3.15	2.71	2.55	2.91	3.57
6m	3.55	3.17	3.10	3.55	4.30
1y	4.05	3.68	3.68	4.23	5.17

Source: BofA Global Research

BofA GLOBAL RESEARCH

### Exhibit 31: 3m z-scores of implied volatilities

Implied volatilities moved lower across tenors

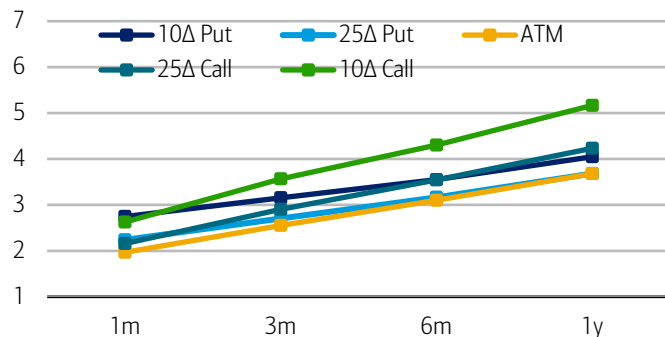
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	-1.26	-1.37	-1.61	-1.91	-2.07
3m	-1.74	-1.81	-1.89	-1.89	-1.81
6m	-2.17	-2.05	-1.95	-1.93	-1.95
1y	-1.98	-1.90	-1.81	-1.78	-1.79

Source: BofA Global Research

BofA GLOBAL RESEARCH

### Exhibit 32: Term structures of implied volatilities

Vol profile skewed towards calls

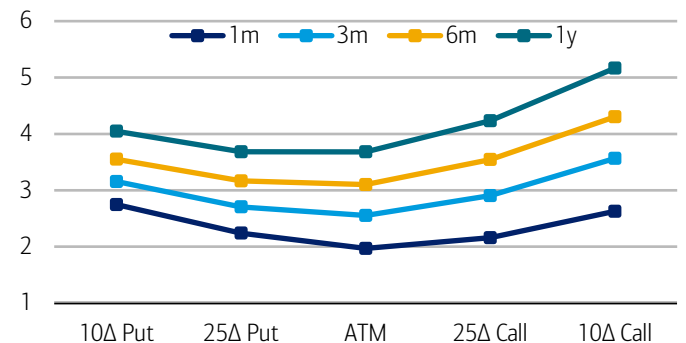


Source: BofA Global Research

BofA GLOBAL RESEARCH

### Exhibit 33: Implied volatility smiles

Implied vol smiles are skewed for upside protection in USD/INR



Source: BofA Global Research

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# Indonesia

## View: Near-term risks skewed toward weaker IDR

With the political trigger behind us, IDR's near-term outlook is skewed toward weakness on higher seasonal imports ahead of the Ramadan festival and low export conversion caused by stronger USD. Around mid-year, clarity on the Fed policy outlook and key policies of the incoming administration could help provide a positive trigger. Until then, IDR would likely need more active management by BI. We revise our Mar'24 forecast to 15,600/USD but keep the end-2024 forecast unchanged at 15,200/USD.

**Macro outlook:** IDR's initial positive reaction to a clear first-round election result fizzled out quickly as the market focused on the incoming administration's policy agenda. Stronger USD and higher US rates have also pushed back expectations for BI's rate cut cycle and have weighed on debt flows over the last month. Overall portfolio flows, however, have been flat over the last month as equity inflows have picked up on growth optimism, driven by expectations of a more expansionary fiscal policy. However, we see markets going into a wait-and-watch mode until there is more clarity on the key appointments in the new government.

Lastly, a weaker Jan trade balance on lower exports added to the concerns about the terms-of-trade deterioration over the last few months. Seasonality of higher imports ahead of the Ramadan festival may lead to more persistent importer demand for USDs. That may remain the ongoing theme for IDR in the near term, keeping it under pressure over the next month.

**Valuation:** IDR appears slightly overvalued compared to its historical NEER/REER range. The long-term FX Compass model gives a fair value at 15,691/USD, close to the spot.

**Positioning:** Hedge funds are long and increased it slightly, while RMs covered short positioning but are still moderately short.

**Risk events:** Risks from deterioration of terms-of-trade could adversely impact IDR.

**Corporate hedging:** We recommend hedging long IDR in the near term on low hedging cost.

**Rates: neutral/steeper** – We expect bonds to stay range-bound in a wait-and-watch mode until 2Q. The market should await clarity on BI's rate-cutting cycle and further details on the fiscal deficit trajectory under the new government. With the curve being flat, we see more value in 5y IndoGBs as front-end yields have room to move lower on easing expectations and premium reduction in bill yields over the policy rate.

### Exhibit 34: USD/IDR forecasts vs. forwards

We expect USD/IDR at 15,600 by end-1Q24

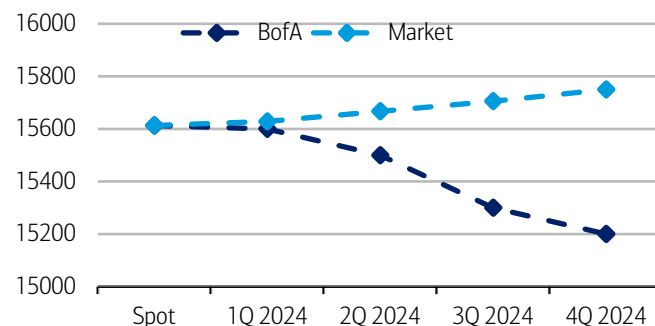
Spot	current	chg (diff)		
	15613	-19.00		
Period	Forecast		Forward	
	current	chg (diff)	current	chg (diff)
1Q 2024	15600	+200.00	15628	-26.74
2Q 2024	15500	+100.00	15667	-23.15
3Q 2024	15300	-	15705	-28.70
4Q 2024	15200	-	15750	-42.02

Source: BofA Global Research, Bloomberg

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### Exhibit 35: USD/IDR forecasts

Our forecast path is below the forwards after 1Q



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

## USD/IDR forwards – implied yields

### Exhibit 36: USD/IDR NDF implied yields

1m NDF at 6.68%

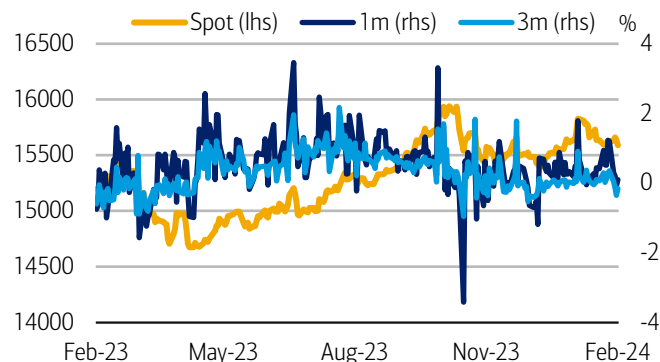
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1m	6.68	-1.04	1.47	1.53	2.02		9.03	6.25	1.70	12.26	0.76	0.59
3m	6.46	-0.21	1.17	1.02	4.56		7.75	6.08	1.09	7.85	1.12	0.83
6m	6.35	0.02	0.88	0.68	5.15		6.91	6.03	0.57	4.08	1.59	1.04
12m	6.26	0.09	0.53	0.32	5.08		6.58	5.99	0.37	2.67	1.90	1.12

Note: current value 1y average. The z-score measures the distance between the current value and the mean in standard deviation units Source: BofA Global Research, Bloomberg

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### Exhibit 37: Onshore forward yields vs USD/IDR spot

NDF yields vs spot

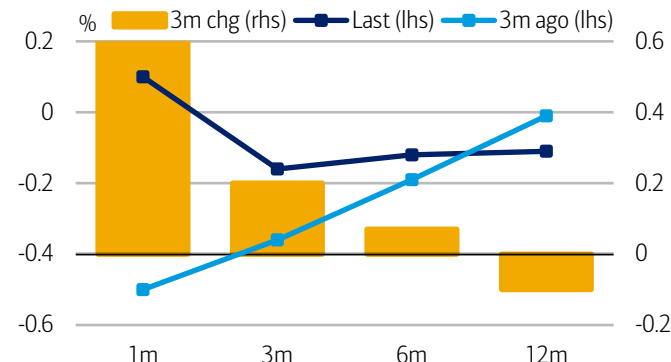


Source: BofA Global Research, Bloomberg

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### Exhibit 38: Term structure of NDF – Onshore forward yields

Offshore yields vs onshore



Source: BofA Global Research, Bloomberg

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### Exhibit 39: Current implied volatilities

Vol surface highly skewed towards call options

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	5.84	5.37	5.26	5.67	6.39
3m	6.42	5.94	5.93	6.59	7.63
6m	7.09	6.64	6.75	7.69	9.10
1y	8.15	7.61	7.76	8.98	10.93

Source: BofA Global Research

BofA GLOBAL RESEARCH

### Exhibit 40: 3m Z-scores of implied volatilities

Vols across tenors and strikes

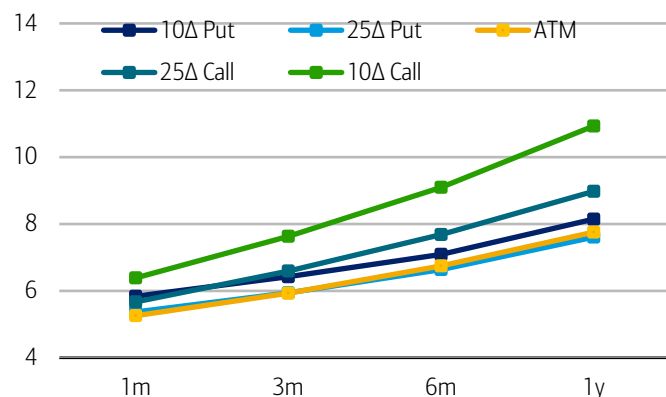
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	-1.80	-1.85	-1.89	-1.89	-1.89
3m	-2.01	-2.01	-1.99	-1.96	-1.95
6m	-1.82	-1.79	-1.71	-1.65	-1.63
1y	-1.23	-1.24	-1.14	-1.02	-0.95

Source: BofA Global Research

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### Exhibit 41: Term structures of implied volatilities

Steeper vol term structure for upside USD/IDR

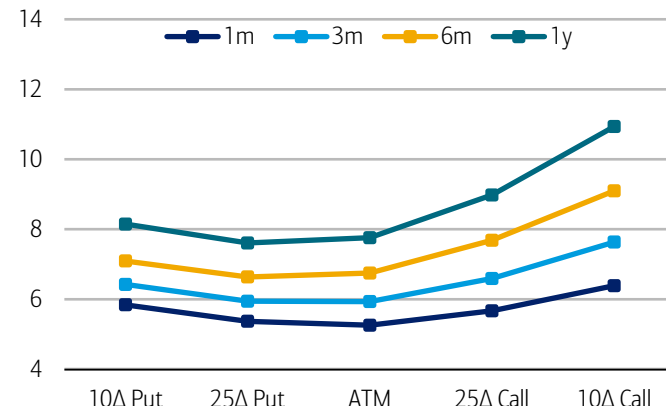


Source: BofA Global Research

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### Exhibit 42: Implied volatility smiles

Higher skew in longer tenor vols



Source: BofA Global Research

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# Korea

## Macro: Conductive macro back-drop for Korean won appreciation

The announcement of the Corporate Value-Up program in late-January 2024 has encouraged strong foreign net inflow into Korean equities. We expect the initial phase of enthusiasm towards this program to be over. However, we expect the Corporate Value-Up program to be a tailwind for the Korean Won throughout 2024 as the reforms would be ongoing and can attract further inflows if proven to show initial success.

Secondly, Korea's current account position is turning more favorable on the back of strong demand for Korea's semiconductors. With the global manufacturing cycle recovering and the demand for components for artificial intelligence high, we see structural tailwinds for Korea's trade balance.

However, lastly, offsetting some of the inflows into Korea are the outflows conducted by the National Pension Service (NPS). The NPS is increasing its allocation into overseas securities over time and is seeing rising contributions each year. As the NPS's outflows are mostly not FX-hedged, rising NPS outflows are a headwind for the Korean Won, especially during periods of weaker current and portfolio inflows.

**Positioning:** Bullish, given the solid foreign equity inflow on Corporate Value-Up and the strong current account position.

**Valuation:** Our FX Compass model suggests a fair value of 1,337, roughly in line with the spot level.

**Risk events:** Details to the Corporate Value-Up program and the April Legislative Election.

**Corporate hedging:** With the spot USDKRW rising, Korea corporates should take advantage of the high US dollar vs the Korean won and sell US\$ forward to hedge their foreign earnings.

**Rates:** Korea rates continued to trade range-bound, given the crosscurrents from rising US rates and a more dovish BoK. In the Feb meeting, the central bank slightly lowered its core inflation forecast, and one MPC member became open to near-term rate cuts. Our economists expect a further dovish tilt by the BoK during 2Q before finally delivering a rate cut in 3Q. We are constructive on Korea rates, given the market's conservative expectation on BoK easing and less government bonds supply pressure than in 2023.

### Exhibit 43: USD/KRW forecasts vs. forwards

We expect USD/KRW at 1,325 by end-1Q24

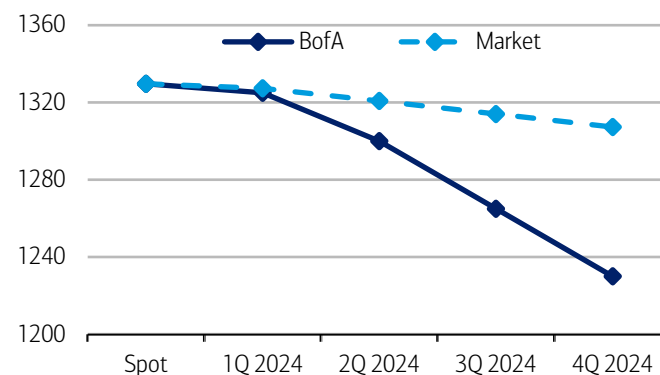
Spot	current	chg (diff)		
	1329.67	-12.90		
	Forecast		Forward	
Period	current	chg (diff)	current	chg (diff)
1Q 2024	1325	+25	1327.31	-10.07
2Q 2024	1300	+40	1320.78	-9.98
3Q 2024	1265	+15	1314.04	-10.95
4Q 2024	1230	-	1307.28	-11.97

Source: BofA Global Research, Bloomberg

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### Exhibit 44: USD/KRW forecasts

Our forecast path is below the forwards from 1Q



Source: BofA Global Research, Bloomberg

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## Cross-currency basis USD/KRW

### Exhibit 45: USD/KRW cross-currency basis

1y xccy basis at -65.5bp

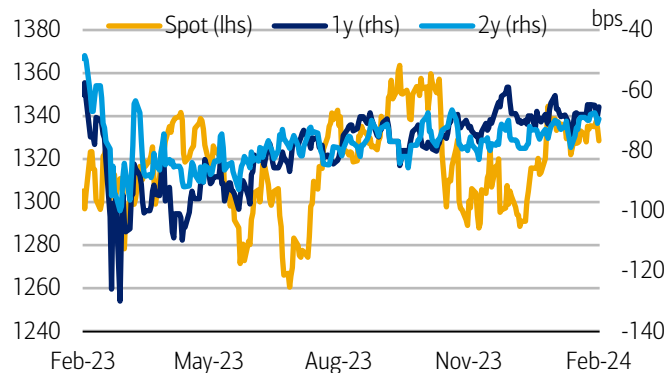
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	-65.50	2.50	6.50	-8.00	-130.00		-59.00	-79.85	11.63	83.84	0.78	1.18
2y	-69.50	0.50	6.00	-21.00	-100.00		-50.00	-78.17	7.61	54.85	1.30	1.21
5y	-61.25	-1.00	5.75	-29.25	-78.00		-30.00	-61.28	9.06	65.37	0.55	0.00
10y	-66.50	-3.25	6.75	-33.00	-86.50		-28.50	-65.08	9.94	71.65	0.61	-0.11

Note: current value 1y average. The z-score measures the distance between the current value and the mean in standard deviation units Source: BofA Global Research, Bloomberg

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### Exhibit 46: Short-term basis swaps vs USD/KRW spot

KRW 1-year xccy basis swaps recently stabilized

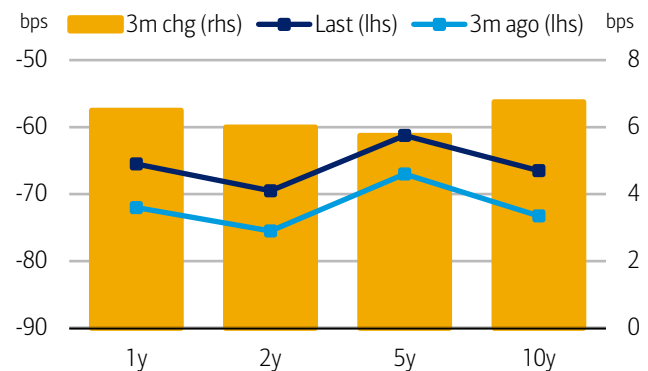


Source: BofA Global Research, Bloomberg.

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### Exhibit 47: Term structure of basis swaps

10-year xccy basis swap widened in the past 3 months



Source: BofA Global Research, Bloomberg

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## Volatility surface: USD/KRW

### Exhibit 48: Current implied volatilities

Implied vol remains skewed towards calls

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	8.26	7.85	7.66	7.80	8.18
3m	8.15	7.90	7.93	8.38	9.02
6m	8.31	8.08	8.24	8.95	9.89
1y	8.51	8.33	8.67	9.78	11.21

Source: BofA Global Research

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### Exhibit 49: 3m Z-scores of implied volatilities

Changes across time

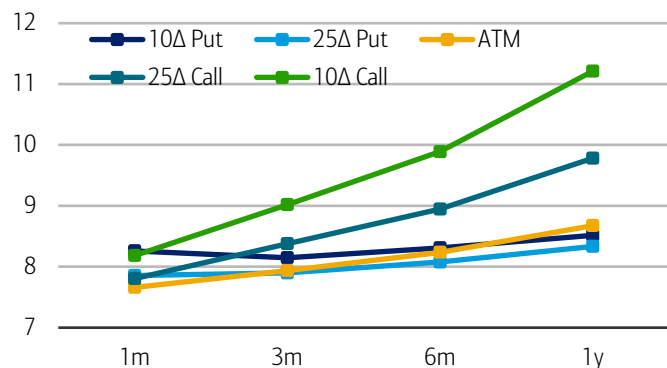
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	-2.31	-2.32	-2.30	-2.26	-2.22
3m	-2.96	-3.06	-3.09	-3.05	-3.01
6m	-2.82	-2.97	-3.03	-2.99	-2.99
1y	-2.53	-2.60	-2.56	-2.27	-2.14

Source: BofA Global Research

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### Exhibit 50: Term structures of implied volatilities

Flatter profile for puts vs. calls

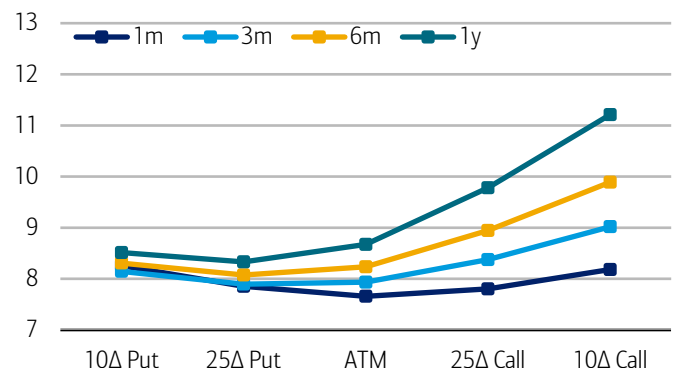


Source: BofA Global Research

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### Exhibit 51: Implied volatility smiles

Implied vol smiles are skewed toward calls



Source: BofA Global Research

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# Malaysia

## View: Rising pressure on BNM to defend MYR

We see rising risks of verbal intervention as BNM's tolerance for MYR volatility could be tested closer to the level of 4.80/USD. Political pressure to stop further depreciation is rising, which could result in intervention if MYR volatility rises, but it may not be enough to sustainably support MYR due to stronger USD and negative carry. We raise our end-1Q24 MYR forecast to 4.80/USD while keeping end-2024 unchanged at 4.50/USD.

**Macro outlook:** Corporate hedging behaviour remains prohibitive for MYR appreciation due to stronger USD and a negative carry on MYR vs USD. Weaker terms-of-trade and growth have added to these concerns and made MYR an easier proxy in the region for weak China growth. Hidden capital outflows have likely risen again, resulting in an overall shortage of USDs despite a positive basic balance.

While policymakers see MYR moves as in line with the broader region, bi-lateral weakness against the USD could still increase political pressure to defend the currency. However, a low level of inflation and limited inflation pass-through of FX moves reduce the chances of any major policy reaction. This view is consistent with the recent data on BNM's FX reserves, which have been stable lately, indicating less concern from policymakers. If the volatility picks up further or there are signs of large-scale speculation or market-dysfunction, BNM could stabilize the market by intervening, tapping USD deposits and tightening liquidity to make it costlier to hedge MYR. BNM's monetary operations via bills issuance or repo would gain more importance to watch for signs of stealth-tightening which could result in higher front-end rates. With negative carry, and low chances of a meaningful rate cutting cycle, MGS remain less attractive for global investors, which could result in outflows from Malaysia's bonds.

**Valuation:** MYR trades well-below the historical NEER or REER ranges, indicating under-valuation. The long-term FX Compass model suggests a fair value of 4.77/USD.

**Positioning:** HFs are moderately long MYR and added further long over the last month. RMs turned to small short from overweight earlier.

**Risk events:** Political risks remain, and developments need to be closely watched for risk of coalition breakdown.

**Corporate hedging:** We recommend hedging MYR exposure as we see risk of further depreciation, and implied yields are lower than US rates.

**Rates: Higher/flatter** – We expect front end to price some risk-premium for chances of tighter liquidity and lower chances of rate cuts. That may also put flattening pressure on the curve even if belly of the curve moves lower due to weak growth.

### Exhibit 52: USD/MYR forecasts vs forwards

We expect USD/MYR at 4.8 by end-1Q24

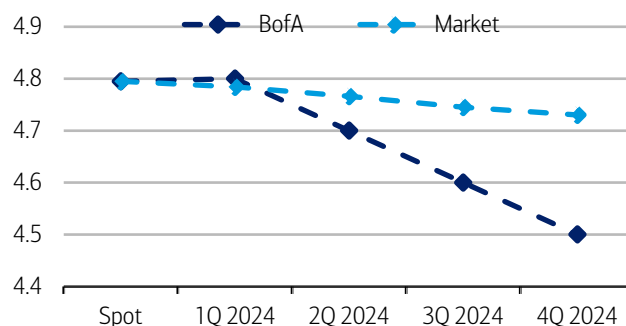
Spot	current 4.80	chg (diff) +0.08	Forward	
	Forecast		current	chg (diff)
Period	current	chg (diff)	current	chg (diff)
1Q 2024	4.80	+0.10	4.78	+0.084
2Q 2024	4.70	+0.10	4.77	+0.086
3Q 2024	4.60	-	4.75	+0.085
4Q 2024	4.50	-	4.73	+0.090

Source: BofA Global Research, Bloomberg

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### Exhibit 53: USD/MYR forecasts

Our forecast path is below the forwards after 1Q



Source: BofA Global Research, Bloomberg

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## Cross-currency basis USD/MYR

### Exhibit 54: USD/MYR cross-currency basis

1y xccy basis at -4bp

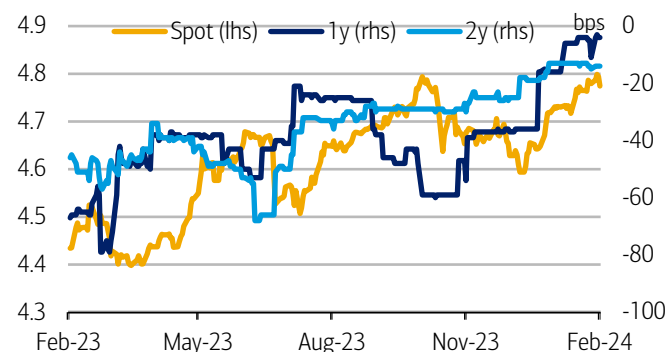
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	-4.00	1.00	50.00	42.00	-79.00		-3.00	-39.38	8.71	62.84	1.45	2.20
2y	-14.00	0.00	16.00	33.00	-68.00		-13.00	-35.43	4.63	33.40	1.00	1.60
5y	-21.00	0.00	14.00	17.00	-70.00		-21.00	-42.48	4.32	31.17	1.69	1.97
10y	-48.00	0.00	5.00	10.00	-77.00		-48.00	-56.91	3.05	22.01	1.20	1.46

Note: ● current value ◆ 1y average. The z-score measures the distance between the current value and the mean in standard deviation units Source: BofA Global Research

BofA GLOBAL RESEARCH

### Exhibit 55: Short-term basis swaps vs. USD/MYR spot

Basis across tenors

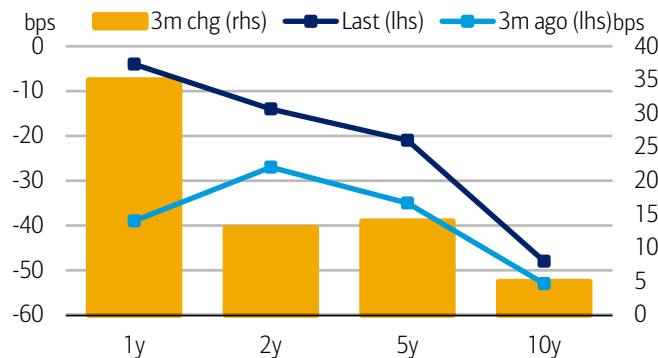


Source: BofA Global Research, Bloomberg

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### Exhibit 56: Term structure of basis swaps

Basis change across tenors over 3m period



Source: BofA Global Research, Bloomberg

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## Volatility surface: USD/MYR

### Exhibit 57: Current implied volatilities

High skew for upside USD/MYR

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	5.51	5.54	6.12	7.60	9.58
3m	5.64	5.60	6.46	8.27	10.66
6m	6.44	6.22	7.08	9.13	11.96
1y	7.48	7.07	8.01	10.42	13.79

Source: BofA Global Research

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### Exhibit 58: 3m z-scores of implied volatilities

Vols structure across most tenors

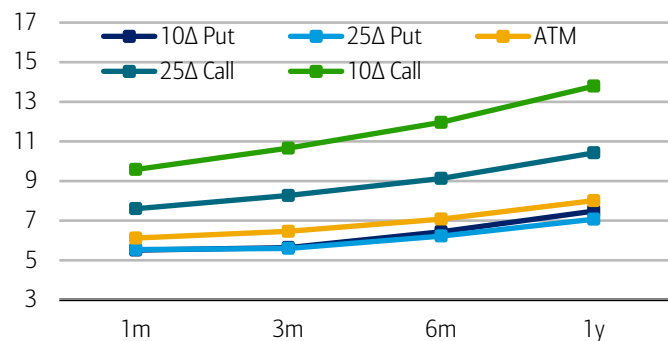
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	2.43	2.26	1.75	2.14	2.04
3m	1.84	1.95	1.47	1.87	1.86
6m	1.05	1.37	1.08	1.29	1.19
1y	0.65	0.94	1.20	0.79	0.36

Source: BofA Global Research

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### Exhibit 59: Term structures of implied volatilities

Skewed term structure for topside USD/MYR

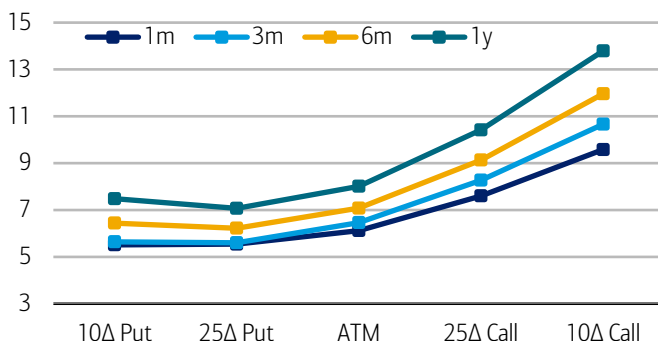


Source: BofA Global Research

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### Exhibit 60: Implied volatility smiles

Higher skew in longer tenor



Source: BofA Global Research

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# The Philippines

## View: Range-bound on supportive capital flows

PHP's fundamental outlook remains a concern but is improving from that in 2023. However, PHP remains dependent on capital flows and the BSP's reaction function to determine the price action. Recent retail treasury debt issuance flows have likely supported PHP but upcoming maturities in March remain a risk. We expect PHP to remain range-bound and be driven by these flows and broader USD in the near-term.

**Macro outlook:** The fundamental outlook is weak, given twin deficits but less so compared with the last few years. While capital flows could be adequate to cover the overall BoP for the year, PHP remains more exposed to the broader USD strength and risk sentiment. Recent announcement of retail bond issuance led to a positive reaction in PHP due to offshore participation. The bond has been well-subscribed with overall issuance amount expected at over PHP400bn. However, the upcoming maturities in 1H of March at around PHP700Bn could limit the overall impact of this issuance and may create some pressure on PHP. The other concern remains on valuation due to elevated level of REER which may impact BSP's reaction if PHP appreciates.

The last monetary policy meeting has taken some comfort from easing inflation pressure and stable FX. Potential rate cuts later this year and strong retail demand for bonds is likely to bode well for bonds outlook. While front-end bonds are trading well below policy rate, the longer-end could benefit from continued fiscal consolidation.

**Valuation:** PHP valuation appears as in line with the historical NEER range but REER is at higher levels as a result of higher inflation vs peers. The long-term FX Compass model shows 16% overvaluation with the fair value at 66.96/USD, likely due to the wide CAD compared with the equilibrium sustainable levels.

**Positioning:** Low front-end points imply that bearish PHP positioning could have been squared and positions are cleaner.

**Risk events:** Food price shock and higher commodity prices in general remain the key risk for the Philippines, leading to widening of twin deficits. Geopolitical risks due to border clashes with China could impact investment flows.

**Corporate hedging:** We recommend hedging PHP, as hedging costs remain low.

**Rates: Lower/flatter** – Over the long term, the appointment of new finance secretary is seen as positive for fiscal reforms to raise tax revenues. This would likely result in more positive outlook for bonds, which could gain further support when BSP is closer to delivering rate cuts. In the near term, BSP has kept the front end elevated with bills issuance, thus limiting the room for front-end bonds to rally further.

### Exhibit 61: USD/PHP forecasts vs forwards

We expect USD/PHP at 56.5 by end-1Q24

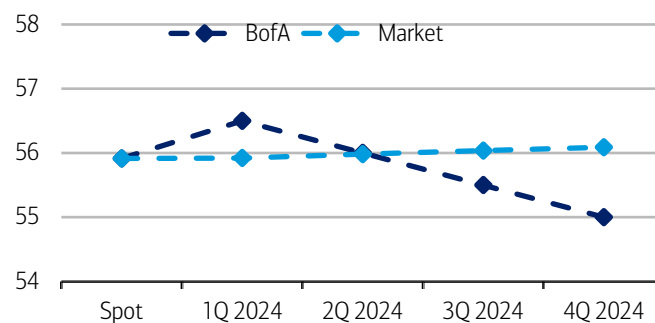
Spot	current	chg (diff)		
	55.92	+0.10		
	Forecast		Forward	
Period	current	chg (diff)	current	chg (diff)
1Q 2024	56.50	-	55.92	+0.09
2Q 2024	56.00	-	55.98	+0.13
3Q 2024	55.50	-	56.04	+0.13
4Q 2024	55.00	-	56.09	+0.11

Source: BofA Global Research, Bloomberg

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### Exhibit 62: USD/PHP forecasts

Our forecast path is below the forwards from 3Q24



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

## USD/PHP forwards – implied yields

### Exhibit 63: USD/PHP NDF implied yields

1m NDF at 4.96%

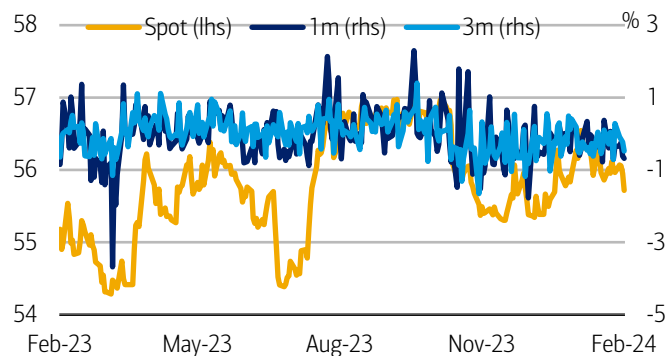
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1m	4.96	-0.54	1.22	-0.79	1.49		8.01	5.63	1.63	11.75	-0.56	-0.77
3m	5.26	-0.25	0.21	-0.65	3.73		7.30	5.82	1.17	8.42	-0.28	-0.87
6m	5.50	-0.04	0.22	-0.65	4.73		6.79	5.85	0.64	4.61	0.35	-0.74
12m	5.38	-0.15	0.15	-0.87	4.70		6.80	5.69	0.38	2.73	1.04	-0.69

Note: current value 1y average. The z-score measures the distance between the current value and the mean in standard deviation units Source: BofA Global Research

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### Exhibit 64: NDF - Onshore forward yields vs USD/PHP spot

Offshore implied yields over the month

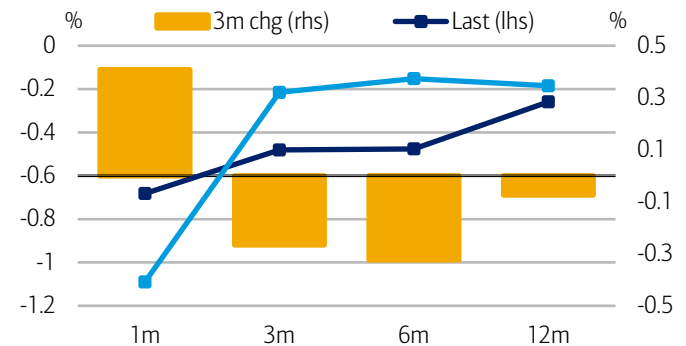


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

### Exhibit 65: Term structure of NDF – Onshore forward yields

Offshore yields spread from three months ago



Source: BofA Global Research, Bloomberg

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## Volatility surface: USD/PHP

### Exhibit 66: Current implied volatilities

Higher vol to hedge PHP depreciation risk

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	5.51	5.20	5.14	5.47	6.03
3m	5.72	5.44	5.47	5.99	6.78
6m	6.03	5.73	5.80	6.45	7.42
1y	6.42	6.06	6.18	7.01	8.27

Source: BofA Global Research

BofA GLOBAL RESEARCH

### Exhibit 67: 3m Z-scores of implied volatilities

Vols across tenors

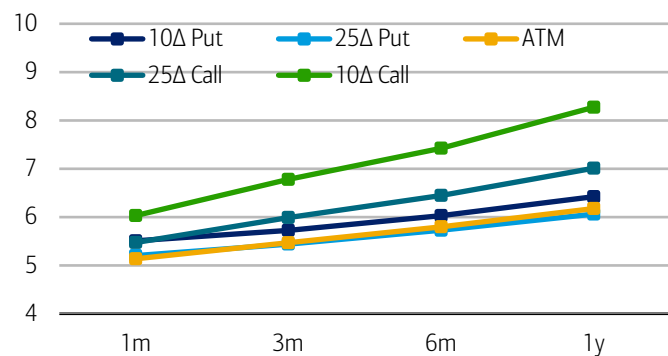
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	-2.60	-2.60	-2.60	-2.60	-2.60
3m	-3.05	-3.05	-3.05	-3.05	-3.05
6m	-2.85	-2.85	-2.85	-2.85	-2.85
1y	-2.40	-2.40	-2.40	-2.40	-2.40

Source: BofA Global Research

BofA GLOBAL RESEARCH

### Exhibit 68: Term structures of implied volatilities

Flat term structure across strikes, except OTM call USD/PHP

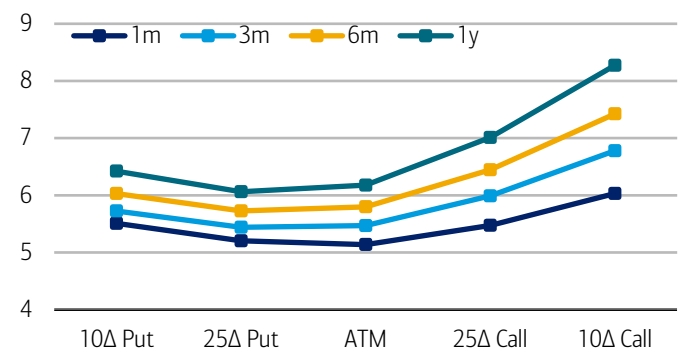


Source: BofA Global Research

BofA GLOBAL RESEARCH

### Exhibit 69: Implied volatility smiles

Upside USD/PHP vols much higher, indicating hedging demand



Source: BofA Global Research

BofA GLOBAL RESEARCH



# Singapore

## View: SGD NEER buy on dips for carry; pay front end

We expect SGD NEER to trade in the upper half of the band and any dips toward 1% above mid to be short-lived. At current levels, risk-reward is neutral due to the risk of correction if global risk sentiment sours. SGD remains attractive for positioning for weaker USD due to persistent NEER appreciation. We expect SORA front-end rates spread vs US rates to compress as SGD fixing would remain sticky.

**Macro outlook:** The SGD NEER remained steady around 1.4-1.7% above mid, based on our estimate, providing a steady carry from the slope with low volatility. Basket yields on SGD NEER are in line with Singapore overnight rate average (SORA) 1-year, indicating that front-end rates remain well above those implied by uncovered interest rate parity. Higher implied yields on SGD forwards make long SGD NEER an attractive carry position compared with its volatility.

However, current levels also leave room for correction within the band in the hard-landing scenario, leading to risk-off moves. On the other hand, the oil price spike due to geopolitical events could keep SGD NEER elevated. We expect SGD NEER to continue trading above 1% above the mid and any dips towards 1% to be short-lived.

Despite lower US rates, SORA fixings have been steady, reflecting the MAS's comfort with the current policy settings as being sufficiently tight. SORA compounded average has drifted back up again, and the rates curve spread vs. US rates has widened last month as US rates moved higher. We believe that the MAS's preference to keep policy tight makes it attractive to pay front-end rates for positive carry.

**Valuation:** SGD is slightly overvalued on our medium-term FX compass model, with fair value of 1.38. SGD NEER and REER have appreciated considerably due to the policy framework and shows up as having the highest deviation among peers.

**Positioning:** Both HFs and RMs remain underweight. HFs added to shorts, while RMs covered slightly. Our data shows SGD as the most underweight currency across EMs.

**Risk events:** A hard-landing scenario remains a key risk for SGD, as it could lead to stronger USD and SGD NEER correction within the band.

**Corporate hedging:** Low hedging costs and a negative basis vs USD indicate a small yield pick-up for bond investors. We recommend hedging long SGD exposure near-term.

**Rates: Higher/Flatter** – Front-end rates could remain sticky with low beta to US rates. Longer tenor SGS demand is likely to improve, which could lead to 10s30s part-flattening.

### Exhibit 70: USD/SGD forecasts vs. forwards

We expect USD/SGD at 1.34 by end-1Q24

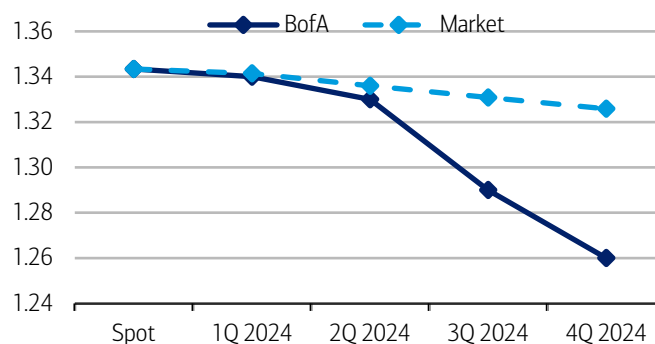
Spot	current	chg (diff)	Forward	chg (diff)
	1.34	0.00		
Period	Forecast		Forward	
	current	chg (diff)	current	chg (diff)
1Q 2024	1.34	-	1.341	+0.0014
2Q 2024	1.33	-	1.336	+0.0010
3Q 2024	1.29	-	1.331	+0.0008
4Q 2024	1.26	-	1.326	-0.0002

Source: BofA Global Research, Bloomberg

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### Exhibit 71: USD/SGD forecasts

Our forecast path is below the forwards from 2Q24



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH



## Cross-currency basis USD/SGD

### Exhibit 72: USD/SGD cross-currency basis

1y xccy basis at 6.25bp

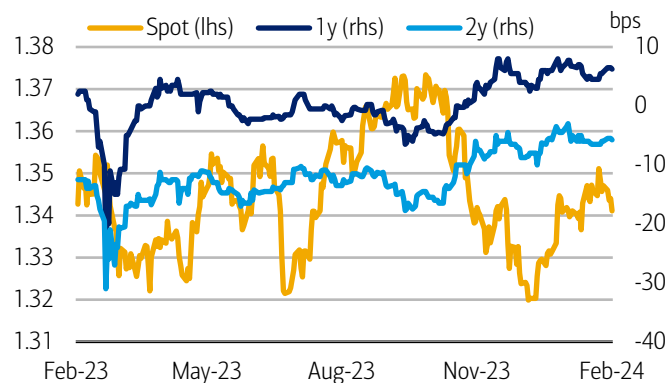
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	6.25	0.75	3.25	4.25	-23.00		8.00	0.23	3.18	22.90	0.49	1.28
2y	-5.75	0.25	1.75	6.75	-31.00		-3.00	-12.12	3.11	22.46	0.37	1.44
5y	-33.75	0.75	2.25	15.25	-64.00		-25.50	-43.25	3.62	26.09	-0.33	1.31
10y	-63.75	-0.75	0.75	10.50	-88.50		-52.75	-72.70	4.08	29.44	-0.21	1.27

Note: current value 1y average. The z-score measures the distance between the current value and the mean in standard deviation units Source: BofA Global Research

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### Exhibit 73: Short-term basis swaps vs USD/SGD spot

Basis swaps in 1y and 2y tenors over time

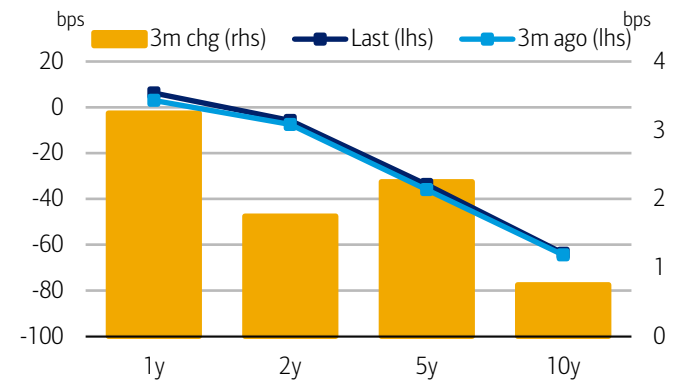


Source: BofA Global Research, Bloomberg

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### Exhibit 74: Term structure of basis swaps

Basis swaps vs 3 months ago



Source: BofA Global Research, Bloomberg

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## Volatility surface: USD/SGD

### Exhibit 75: Current implied volatilities

Higher skew for upside protection

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	3.89	3.73	3.68	3.78	3.99
3m	4.01	3.85	3.85	4.07	4.41
6m	4.20	4.03	4.06	4.41	4.89
1y	4.63	4.39	4.44	4.93	5.62

Source: BofA Global Research

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### Exhibit 76: 3m Z-scores of implied volatilities

Vols structure across tenors and strikes

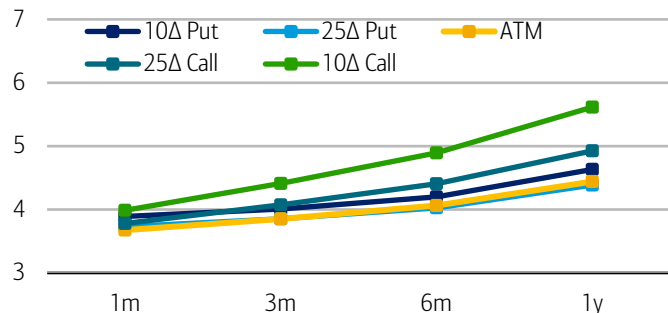
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	-1.27	-1.26	-1.26	-1.27	-1.30
3m	-1.84	-1.82	-1.84	-1.91	-1.98
6m	-2.02	-2.01	-2.04	-2.11	-2.18
1y	-1.86	-1.83	-1.84	-1.94	-2.07

Source: BofA Global Research

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### Exhibit 77: Term structures of implied volatilities

10d call vols show higher skew

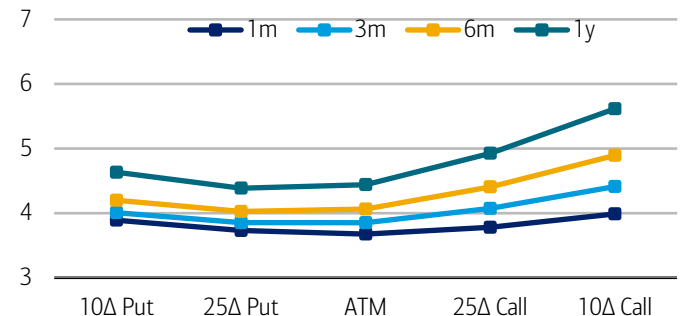


Source: BofA Global Research

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### Exhibit 78: Implied volatility smiles

Higher skew in OTM call vols



Source: BofA Global Research

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# Taiwan

## Macro outlook: Lifers seeking to unwind FX-hedging

In December 2023, we expected the lifer's FX-hedging ratio to have increased in response to US\$ weakness following the dovish December FOMC. However, by January and February 2024, we think this increase in FX-hedging has likely been reduced as the US\$ stabilizes and even appreciates. The unwind of the additional FX-hedges resulted in the one-month NDF points to have significantly increased from -150pips at the beginning of 2024 to -25pips by late-February.

An interesting trend to observe is the future FX-hedging behavior of lifers in subsequent periods of US\$ weakness. In November and December 2023, the lifers used up more than half of their FX valuation reserves to shelter their net income against realized FX-loss. Future periods of US\$ weakness will result in the lifers to have less of a buffer to shelter against future FX loss, and hence, may result in additional FX-hedging for a smaller decline in USDTWD.

We expect the spot USDTWD to decline throughout 2024 but the decline should be slow and more concentrated in the 2H after the Fed starts cutting rates.

**Positioning – Neutral:** Strong equity inflows, tied to the AI theme but the stronger broad US\$ environment is preventing USDTWD from falling.

**Valuation:** According to the CBC's fair value measures based on a 36-month moving average of TWD NEER, TWD NEER is currently in the middle of its valuation band.

**Risks:** Political gridlock in the legislature following the Taiwanese general election.

**Corporate hedging:** Taiwan forward points are deeply negative due to the significant imbalance between Taiwan's ownership of foreign assets and foreign ownership of Taiwan assets. Non-local corporates should seek to hedge TWD risk due to the deep FX carry offered on the Taiwan NDF curve.

**Rates:** Taiwan NDIRS continues to bear-steepen due to the spillover from higher US rates. Taiwan's 5y NDIRS is impacted by general sentiment towards Asia rates, while the front end will remain tethered by the CBC's policy stance.

### Exhibit 79: USD/TWD forecasts vs forwards

Expect USD/TWD at 31.35 by end-1Q24

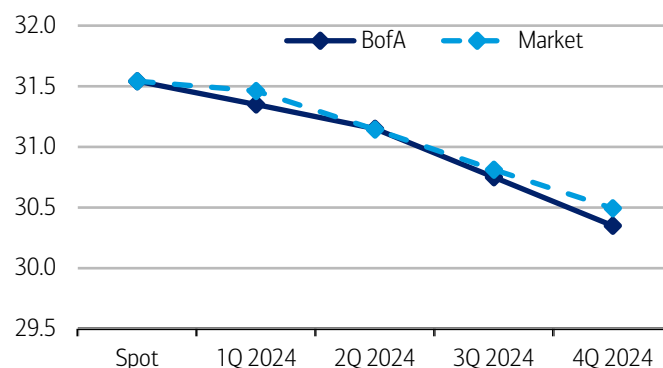
Spot	current 31.54		chg (diff) +0.19	
	Forecast		Forward	
Period	current	chg (diff)	current	chg (diff)
1Q 2024	31.35	+0.15	31.46	+0.40
2Q 2024	31.15	+0.15	31.14	+0.46
3Q 2024	30.75	+0.05	30.81	+0.47
4Q 2024	30.35	-0.10	30.49	+0.48

Source: BofA Global Research, Bloomberg

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### Exhibit 80: USD/TWD forecasts

Our forecast path is in line with the forwards



Source: BofA Global Research, Bloomberg

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## Cross-currency swap USD/TWD

### Exhibit 81: USD/TWD short-term non-deliverable swap

1y NDS at -0.30%

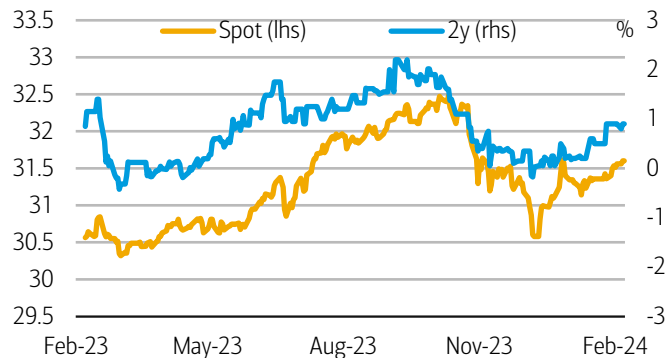
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	-0.30	0.00	0.00	0.00	-1.70		-0.30	-0.39	1.09	7.88	0.25	0.26
2y	0.90	0.40	0.50	0.05	-0.43		2.20	0.79	0.35	2.52	2.28	0.17
5y	0.70	0.00	-0.30	-0.50	0.03		2.30	1.00	0.22	1.59	0.58	-0.52

Note: current value 1y average. The z-score measures the distance between the current value and the mean in standard deviation units Source: BofA Global Research, Bloomberg

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### Exhibit 82: Short-term NDS vs USD/TWD spot

2y TWD basis fluctuates within a narrow band

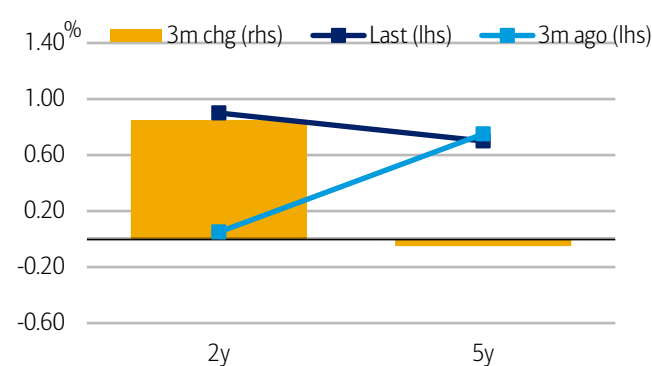


Source: BofA Global Research, Bloomberg.

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### Exhibit 83: Term structure of NDS

2y NDS increased the past 3 months



Source: BofA Global Research, Bloomberg

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## Volatility surface: USD/TWD

### Exhibit 84: Current implied volatilities

Skew toward call and higher US\$ in the 3m-1y tenors

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	5.90	5.14	4.72	4.79	5.24
3m	6.35	5.69	5.38	5.59	6.19
6m	6.66	6.08	5.90	6.28	7.05
1y	7.19	6.63	6.56	7.21	8.34

Source: BofA Global Research

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### Exhibit 85: 3m Z-scores of implied volatilities

Changes across time

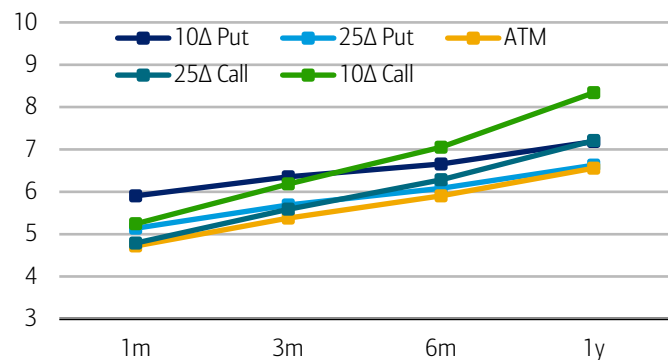
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	-1.89	-2.00	-2.08	-2.09	-2.04
3m	-2.30	-2.39	-2.46	-2.47	-2.41
6m	-2.38	-2.51	-2.59	-2.59	-2.46
1y	-2.50	-2.74	-2.87	-2.87	-2.66

Source: BofA Global Research

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### Exhibit 86: Term structures of implied volatilities

Term structure is in favor of OTM calls

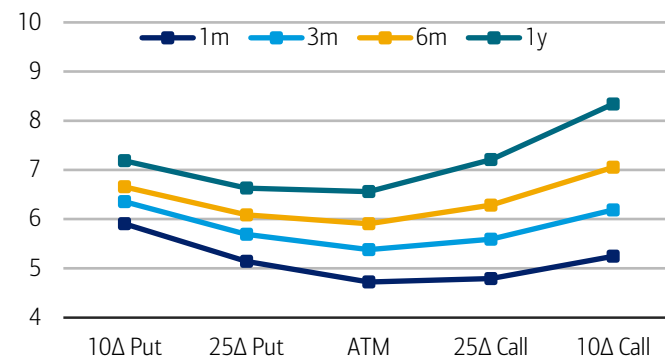


Source: BofA Global Research

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### Exhibit 87: Implied volatility smiles

Implied vol smiles are skewed towards calls



Source: BofA Global Research

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# Thailand

## View: High beta to USD moves amid low CA buffer

THB is likely to trade with a high beta to USD moves due to a limited buffer from the current account along with negative carry. Equity outflows stabilized last month, while fiscal stimulus looks less likely now. THB remains the most vulnerable in the region to higher freight costs. We slightly raise our end-1Q24 forecast to 36/USD while keeping the end-2024 at 34.0/USD.

**Macro outlook:** THB has consolidated over the last month as equity outflows stabilized before turning to small net inflows this month. Market positioning still looks bearish, based on the elevated FX implied yields and recent short-term debt outflows. But THB continues to react negatively to any prospect of rate cuts or dovish tilt by BoT. The rift between the government and BoT also impacts market confidence, besides the already weak exports and growth data. In the near term, THB also remains exposed to rising freight costs, as it could add to the import bills. Over the year, we expect fundamental factors for the THB to turn more supportive as the CA surplus widens and rate differentials narrow, providing more cushion against capital flows. That would likely result in lower THB volatility in 2H of the year and appreciation from current levels.

On the rates front, the market has turned more bullish due to the pricing of rate cuts and expectations of the digital wallet scheme falling through. Bonds have rallied in a bull-flattening manner recently as the market continues to extend duration. Despite the BoT's pushback to the government's pressure for rate cuts, we expect the market to receive any upticks in the front end.

**Valuation:** THB appears undervalued on a NEER basis relative to its history and more so on REER due to low inflation compared to peers. Our long-term FX Compass model indicates overvaluation of around 10%, with an estimated fair value of 39.96/USD, likely reflecting Thailand's potential for higher CA surplus as tourism recovers.

**Positioning:** HFs added to short THB from near-neutral levels of the previous month. RMs trimmed their long position but remain moderately long.

**Risk events:** The market awaits clarity on digital wallets to assess the impact on growth and policy. The oil price spike due to geopolitical events or disruptions to tourism recovery could have a negative impact on the THB.

**Corporate hedging:** Hedging costs in THB remain low, and a negative basis vs USD adds to the yield pick-up. We recommend hedging long-THB exposure near-term.

**Rates: Lower** – Front-end has priced over two cuts and the market would continue to price in cuts as growth remains weak. Longer tenor spreads look rich vs US rates.

### Exhibit 88: USD/THB forecasts vs forwards

Expect USD/THB at 36 by end-1Q24

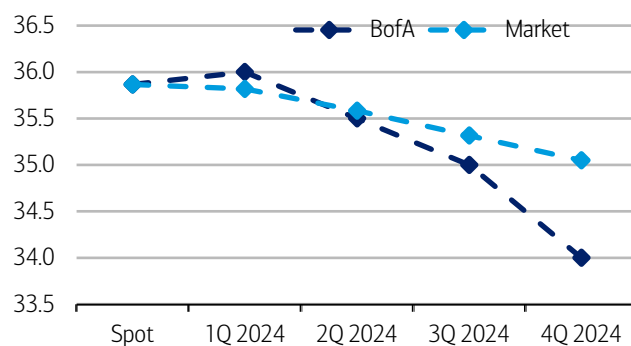
Spot	current	chg (diff)		
	35.87	+0.28		
	Forecast		Forward	
Period	current	chg (diff)	current	chg (diff)
1Q 2024	36.00	+0.50	35.82	+0.358
2Q 2024	35.50	-	35.58	+0.374
3Q 2024	35.00	-	35.32	+0.326
4Q 2024	34.00	-	35.05	+0.259

Source: BofA Global Research, Bloomberg

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### Exhibit 89: USD/THB forecasts

Our forecast path is below the forwards from 3Q24



Source: BofA Global Research, Bloomberg

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## Cross-currency basis USD/THB

### Exhibit 90: USD/THB cross-currency basis

1y xccy basis at -17.5bp

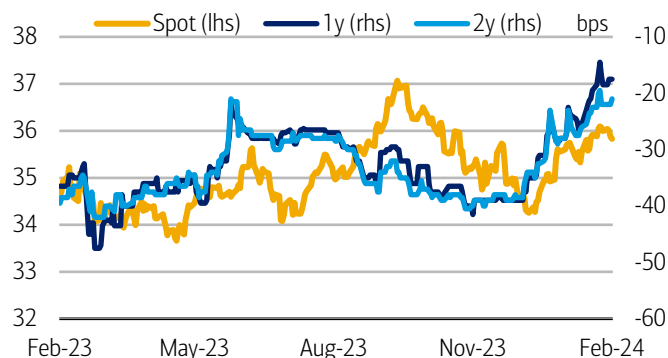
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	-17.50	-0.50	21.50	19.00	-47.50		-14.50	-32.39	3.84	27.67	1.48	2.30
2y	-21.00	1.00	18.00	17.50	-42.00		-19.50	-32.99	3.05	21.99	1.42	2.11
5y	-27.50	-1.00	15.50	26.50	-54.00		-25.50	-42.04	2.80	20.21	1.32	2.32
10y	-50.00	0.00	29.50	48.50	-105.00		-50.00	-80.74	3.92	28.29	1.69	2.18

Note: ● current value ● 1y average. The z-score measures the distance between the current value and the mean in standard deviation units Source: BofA Global Research, Bloomberg

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### Exhibit 91: Short-term basis swaps vs USD/THB spot

Basis swaps history over time

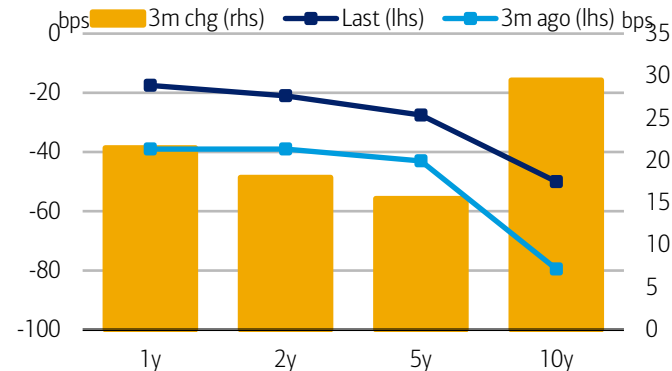


Source: BofA Global Research, Bloomberg

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### Exhibit 92: Term structure of basis swaps

Basis swaps term structure vs three months ago



Source: BofA Global Research, Bloomberg

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## Volatility surface: USD/THB

### Exhibit 93: Current implied volatilities

Upside vols higher than the rest of the curve

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	8.33	7.94	7.80	8.06	8.61
3m	8.55	8.19	8.12	8.51	9.24
6m	8.71	8.32	8.29	8.82	9.72
1y	8.96	8.52	8.54	9.22	10.31

Source: BofA Global Research

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### Exhibit 94: 3m Z-scores of implied volatilities

Vols across tenors and strikes

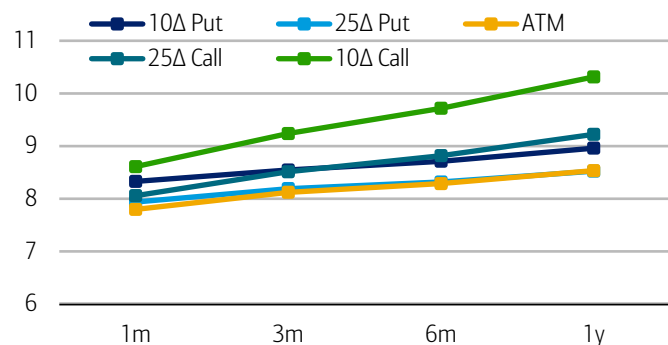
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	-2.06	-2.10	-2.14	-2.17	-2.18
3m	-2.07	-2.13	-2.20	-2.25	-2.25
6m	-1.87	-1.95	-2.04	-2.15	-2.20
1y	-1.62	-1.68	-1.74	-1.81	-1.84

Source: BofA Global Research

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### Exhibit 95: Term structures of implied volatilities

Term structures of vols across strikes and tenors

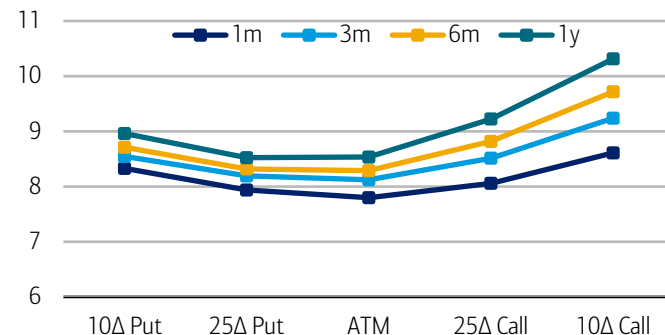


Source: BofA Global Research

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### Exhibit 96: Implied volatility smiles

Higher skew toward calls



Source: BofA Global Research

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# Vietnam

## View: Navigating headwinds

We continue to look for modest VND depreciation in 1H to 25,000 against USD, followed by stabilization at 24,800 in 2H. This means modest depreciation risks relative to the outright NDF forwards in 1H, partly reflecting USD strength and CNY weakness, as well as the ongoing anti-corruption campaign and difficult property market weighing on investment sentiment. There is also increased urgency for market reforms, where foreign portfolio investments remain limited due to issues over market accessibility.

### Macro outlook: Maintain USD/VND at 2500 end-1Q and end-2Q

We forecast GDP growth to rise modestly from 5.0% in 2023 to 6.2% in 2024 and returning to a near trend-like 6.8% in 2025. Domestic demand should hold up, supported by public sector investments and tailwinds from the latter stages of the tourism recovery. However, near-term growth prospects should continue to be weighed down by soft global growth (in turn capping recovery in goods demand) and continued downward pressure in the property sector. For signals on activity outlook, we monitor under- and unemployment rates, credit growth, and PMI on future manufacturing output – see the report: [Vietnam Watch: Year Ahead 2024: Linger headwinds 08 December 2023](#).

**Positioning:** It is difficult to gauge with limited data. 3M NDF points are 104 points above the spot, which is still below the 2-year average of +190 points, suggesting that the risk premium is in line with the medium-term average. Overall sentiment is constructive, with inflation stabilizing.

**Valuation:** It is difficult to gauge with limited data and no liquid financial instruments to price expectations reliably. Relative to the official trading band, VND is trading rich. Examining the REER, this is trading modestly 3% below the 20-year trend appreciation.

**Event risk:** Vietnam's high leverage ratio, at 146% of GDP, remains a key source of medium-term risk to financial and economic stability. More recently, political risks have risen amid an anti-corruption campaign.

**Corporate hedging:** It is limited, due to liquidity constraints, and focused on a 1M NDF tenor or shorter.

**Curve outlook:** The curve outlook is steeper on lower inflation but improving growth.

### Exhibit 97: USD/VND forecasts vs. forwards

Expect USD/VND at 25,000 by end-1Q24

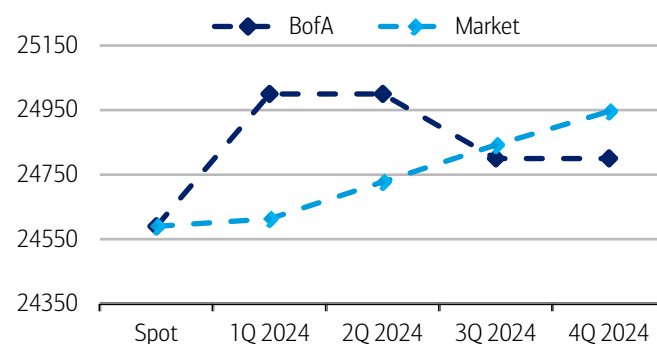
Spot	current	chg (diff)		
	24590	+29.00		
	Forecast		Forward	
Period	current	chg (diff)	current	chg (diff)
1Q 2024	25000	-	24613	-31.50
2Q 2024	25000	-	24728	-70.00
3Q 2024	24800	-	24842	+355.50
4Q 2024	24800	-	24946	+83.00

Source: BofA Global Research, Bloomberg

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### Exhibit 98: USD/VND forecasts

Our forecast path is above the forwards until 2Q24



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

## FX Models

### Exhibit 99: FX Compass

Long-term currency valuation

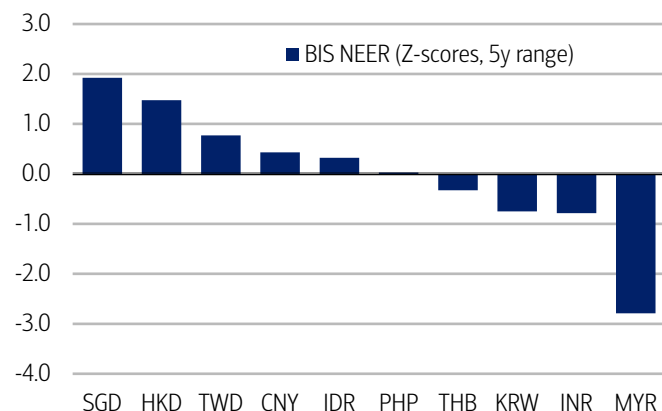
Country	Fair Value vs USD	Spot vs USD	Bilateral Misalignment vs USD (%)	Trade-weighted Misalignment (%) 1/
<b>Asia</b>			<b>4.1</b>	<b>3.3</b>
China	6.96	7.20	(3.5)	(6.3)
India	88.48	82.88	6.3	5.5
Indonesia	15691.25	15640.00	0.3	(1.3)
Korea	1336.93	1331.15	0.4	(0.4)
Malaysia	4.77	4.77	0.0	(1.4)
Philippines	66.96	56.10	16.2	18.2
Singapore	1.38	1.34	2.5	1.5
Thailand	39.96	35.84	10.3	10.4

Source: BofA Global Research, Bloomberg. Note: Fair values are updated using forecasts. Spot is for February 27, 2024. 1/ Trade-weighted misalignment is the deviation of current REER from Compass fair values.

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### Exhibit 100: Current NEER levels relative to 5yr history (z-score)

SGD almost 2SD above five-year average; MYR 2.8SD cheap



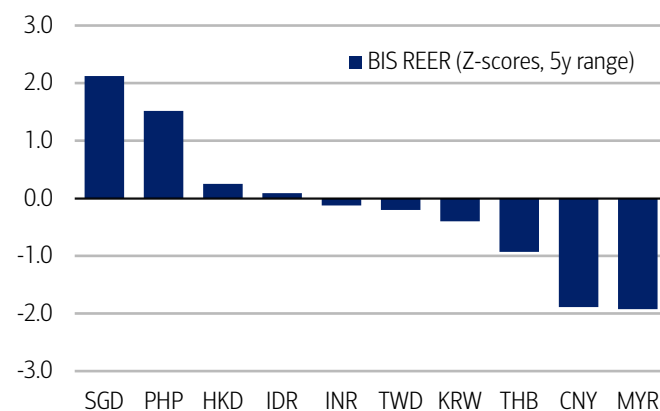
Source: BofA Global Research, Bloomberg.

Note: Current NEER levels refer to levels as of Feb-24 as per data availability

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### Exhibit 101: Current REER levels relative to 5yr history (z-score)

SGD 2.1SD above five-year average; MYR around 2SD below



Source: BofA Global Research, Bloomberg.

Note: Current REER levels refer to levels as of Dec-23 as per data availability

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## Forecasts

### Exhibit 102: Asia FX forecasts

Forecast CNY at 7.45 by end-1Q24 against the USD

Currency	1Q '24	2Q '24	3Q '24	4Q '24
USD/CNY	7.45	7.4	7.1	6.9
USD/HKD	7.825	7.8	7.78	7.76
USD/INR	83	82.5	82	82
USD/IDR	15600	15500	15300	15200
USD/KRW	1325	1300	1265	1230
USD/MYR	4.8	4.7	4.6	4.5
USD/PHP	56.5	56	55.5	55
USD/SGD	1.34	1.33	1.29	1.26
USD/TWD	31.35	31.15	30.75	30.35
USD/THB	36	35.5	35	34
USD/VND	25000	25000	24800	24800

Source: BofA Global Research estimates

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# Acronyms and Abbreviations

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AB – Aggregate balance

Avg – Average

BEER - Behavioural Equilibrium Exchange Rate

BNM – Bank Negara Malaysia

BoK - Bank of Korea

BoP – Bank of Philippines

BoT – Bank of Thailand

CA – Current account

CAD – Current account deficit

CBC – Central Bank of China (Taiwan)

CGB – China government bond

Chg – Change

CPC – Communist Party Congress

CPI - Consumer price index

FDI - Foreign Direct Investment

HF – Hedge fund

HIBOR – Hong Kong Interbank Offer Rate

HKMA – Hong Kong Monetary Authority

IGB – Indian government bond

LERS – Linked Exchange Rate System

LIBOR – London Interbank Offer Rate

m – month

MPC – Monetary policy committee

NEER – Nominal effective exchange rate

NDF - Non-deliverable forward

NPS - National Pension Service

PBoC – People’s Bank of China

REER – Real effective exchange rate

RM – Real money

SBV - State Bank of Vietnam

vs. – versus

w – Week

xccy – Cross currency

y – Year

## Options Risk Statement

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