

## Asia FX Talking: Underperforming

Asian FX has struggled to build on early-year gains on the back of the China re-opening story. Weak external demand is not helping and suggests we may not see the kind of broad USD/Asia decline one normally expects heading into a Fed easing cycle. However, dividend-related weakness in the Korean won this month should prove temporary



### Main ING Asia FX forecasts

|     | USD/CNY |   | USD/KRW |   | USD/INR |   |
|-----|---------|---|---------|---|---------|---|
| 1M  | 6.85    | ↓ | 1310.00 | ↓ | 82.50   | ↑ |
| 3M  | 6.80    | ↓ | 1280.00 | ↓ | 81.50   | ↑ |
| 6M  | 6.70    | ↓ | 1250.00 | ↓ | 81.00   | → |
| 12M | 6.45    | ↓ | 1180.00 | ↓ | 82.00   | → |

↑ / → / ↓ indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright

Source (all charts and tables): Refinitiv, ING forecast

## USD/CNY: Exports dragging the economy

|         | Spot  | One month bias   | 1M   | 3M   | 6M   | 12M  |
|---------|-------|--|------|------|------|------|
| USD/CNY | 6.886 | Mildly Bearish  | 6.85 | 6.80 | 6.70 | 6.45 |

- Domestically, the Chinese economy has been growing on track. We expect retail sales to grow at 5% year-on-year in March compared to 3.5% YoY for January-February.
- Growth risk comes mainly from exports and related manufacturing. This is a risk that we believe might not improve quickly. As such we revise downward GDP for the first quarter of 2023 to 3.8% from 4.5%.
- The government should hand out stimulus for consumption and infrastructure quickly after the weak GDP in the first quarter. GDP for the second quarter should rise faster to 6.8% YoY from our previous forecast of 5.2% YoY. We keep our GDP forecast for the whole of 2023 at 5%.

## USD/KRW: KRW to strengthen despite chip slump

|         | Spot       | One month bias | 1M      | 3M      | 6M      | 12M     |
|---------|------------|----------------|---------|---------|---------|---------|
| USD/KRW | 1,322.6000 | Neutral        | 1310.00 | 1280.00 | 1250.00 | 1180.00 |

- The Korean won followed global risk sentiment by demonstrating higher volatility than other Asian currencies.
- The Bank of Korea (BoK) is expected to stand pat at the April meeting. As signs of slowing inflation become more pronounced and the dovish Fed is expected, the BoK will take time to monitor how the recent oil price hike evolves.
- We expect the current account to be temporarily in the red in April, with soaring dividend payouts. Thus, the depreciation pressure will let the KRW float over 1300. KRW is likely to remain the worst performer in the Asian market in the near term.

## USD/INR: Holding pattern looking strained

|         | Spot    | One month bias   | 1M    | 3M    | 6M    | 12M   |
|---------|---------|------------------|-------|-------|-------|-------|
| USD/INR | 82.0860 | Mildly Bullish ↗ | 82.50 | 81.50 | 81.00 | 82.00 |

- The INR continues to trade in a narrowing range of about 81.70 and 82.90, managing to hold below 83.00.
- Slightly stronger on the year, the INR has not been affected as much as some other regional peers by CNY movements, nor has it moved as much on G10 swings as some of the higher beta currencies of the region. The failure of Indian government bonds to be included in benchmarks has not hurt INR too much either.
- But while our broader USD view suggests that the current range will break with a movement to the downside, the INR price action looks more like that of a currency trying not to depreciate. So near-term weakness is probably the most likely path.

## USD/IDR: IDR tracks global risk sentiment

|         | Spot        | One month bias   | 1M       | 3M       | 6M       | 12M      |
|---------|-------------|------------------|----------|----------|----------|----------|
| USD/IDR | 14,883.0000 | Mildly Bullish ↗ | 14900.00 | 14600.00 | 14450.00 | 14300.00 |

- The IDR initially retreated on a general risk-off tone sparked by developments in the banking sector over in Europe and the US. The currency stabilised as risk sentiment improved and after President Jokowi passed a crucial labour law that could pave the way for investment flows.
- Bank Indonesia (BI) met at the height of the concerns over the banking sector, but Governor Perry Warjiyo opted to keep rates unchanged, citing relatively subdued core inflation.
- We expect the IDR to enjoy bouts of appreciation as the current account remains in surplus with upside potential driven by renewed investment flows related to Jokowi's new labour law.

## USD/PHP: PHP lags rally as trade deficit remains wide

|         | Spot    | One month bias   | 1M    | 3M    | 6M    | 12M   |
|---------|---------|--|-------|-------|-------|-------|
| USD/PHP | 54.8850 | Mildly Bearish  | 54.20 | 53.25 | 52.80 | 52.50 |

- The Philippine peso was on the back foot early in the month as the currency tracked regional peers. With heightened anxiety driven by global banking developments, foreign investors offloaded local equities.
- Bangko Sentral ng Pilipinas (BSP) hiked policy rates by 25bp at its policy meeting, helping lend some support to the PHP. Gains may have been limited as Governor Felipe Medalla opened the door for an eventual pause in rate hikes.
- The chronic trade deficit is likely to keep the peso on a depreciation bias while dovish hints from BSP officials could also mean the PHP will be lagging any regional rally.

## USD/SGD: SGD remains on appreciating NEER path

|         | Spot   | One month bias | 1M   | 3M   | 6M   | 12M  |
|---------|--------|----------------|------|------|------|------|
| USD/SGD | 1.3311 | Neutral        | 1.33 | 1.31 | 1.30 | 1.29 |

- The SGD initially lost ground in early March, tracking other regional currencies due to the general risk-off tone. The SGD NEER has remained steady over the month. Singapore's exports were down for a fifth month given the challenging external environment.
- Inflation came in below market consensus expectations for yet another month but both headline and core remain much higher than the target. Despite the downside miss, price pressures are still evident and should stay for at least the first half of the year.
- The Monetary Authority of Singapore is likely to maintain its hawkish stance at the April meeting given elevated inflation, although we do not think more aggressive action is warranted given the economy's struggles.

## USD/TWD: Still weak economy from low demand for chips

|         | Spot    | One month bias   | 1M    | 3M    | 6M    | 12M   |
|---------|---------|------------------|-------|-------|-------|-------|
| USD/TWD | 30.4920 | Mildly Bullish ↗ | 30.80 | 31.00 | 30.00 | 28.00 |

- Taiwan continued to suffer from weak global demand for semiconductor chips in the first quarter of 2023. GDP was -0.4% YoY in the fourth quarter of 2022 and we expect -0.5% YoY for the first quarter of 2023. If that is the case, it means that Taiwan has entered a mild recession.
- This should create more cross-border flows in the Taiwan equity market, which is a key driver of TWD volatility.
- We expect that the economic recovery in Mainland China will not fill the gap of weak semiconductor demand from the US.
- Due to the low base effect, GDP growth should turn positive in the second quarter. However, this does not change the macro backdrop of weak external demand.

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