

# Asia FX Talking: Renminbi will struggle to rally

The Chinese renminbi has been a beneficiary of the unwind in the global carry trade, but there are few reasons to expect the rally to continue. While a softer dollar environment may help the CNY, the prospect of rate cuts, capital outflows and weak growth should limit renminbi gains



## Main ING Asia FX Forecasts

	USD/CNY	USD/KRW	USD/INR
1M	7.14 ↓	1350 ↓	84.00 →
3M	7.10 →	1320 ↓	83.50 ↓
6M	7.08 ↑	1300 ↓	84.00 ↓
12M	7.05 ↑	1300 ↓	84.00 ↓

## USD/CNY: Monetary policy moves to weigh

	Spot	One month bias	1M	3M	6M	12M
USD/CNY	7.1719	Mildly Bearish ↘	7.14	7.10	7.08	7.05

- The unwinding of carry trades caused some volatility for the Chinese yuan over the past month. USD/CNY moved sharply lower to as low as 7.12 at one point before rebounding to 7.18.
- China-specific factors are more balanced toward CNY depreciation given weak growth, capital outflows and potential easing by the People’s Bank of China, but appear to be outweighed by external factors.
- Yield spreads and PBoC fixing remain the two major factors for the CNY price. Yield spreads will move more in favour of the CNY once the Fed cuts get underway but will still take some time before the inversion is over. PBoC fixing continues to resist rapid movements in either direction.



Source: Refinitiv, ING forecasts

## USD/KRW: Likely to remain volatile short term

	Spot	One month bias	1M	3M	6M	12M
USD/KRW	1,364.5000	Mildly Bearish ↘	1350.00	1320.00	1300.00	1300.00

- The usual positive correlation between the Korean won and the KOSPI has broken down so far this year. The tech-led export recovery is prominent, but not a dominant factor in KRW movements.
- Volatility will remain for the time being, but the KRW will welcome any rate cuts from the Fed while the Bank of Korea may delay its cuts from October due to a rebound in home prices and in household debt.
- As long as there are no clear signs of a recession in the US, the KRW will show further strength. But uncertainty over US politics and policies will limit further gains in the KRW below 1300 level.

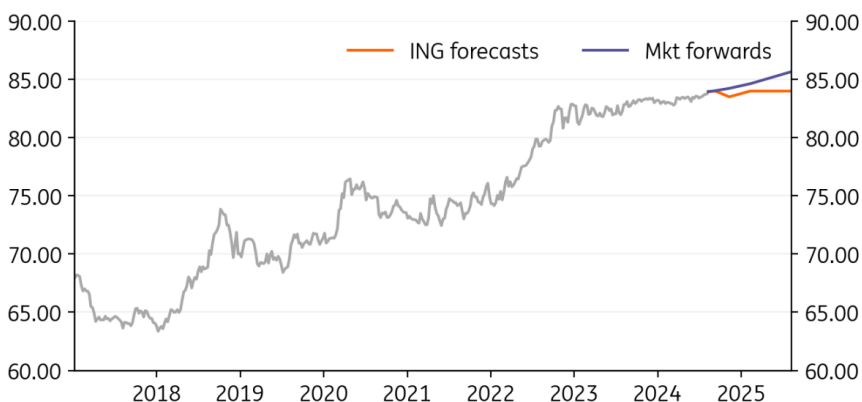


Source: Refinitiv, ING forecasts

### USD/INR: RBI gearing up to cut

	Spot	One month bias	1M	3M	6M	12M
USD/INR	83.9500	Neutral	84.00	83.50	84.00	84.00

- The Indian rupee has been virtually oblivious to recent market turmoil, staying firm when all other Asian currencies were slumping, and weakening as the rest recovered. This could reflect some reserve building by the Reserve Bank of India, but reserves weren't in bad shape before, so it really isn't clear what is going on.
- The RBI left rates on hold at its 8 August meeting. But there are increasing signs that it is gearing up to ease.
- Inflation remains broadly stable aside from seasonal food price fluctuations, so there isn't much to stop them cutting at coming meetings since real policy rates are very high.

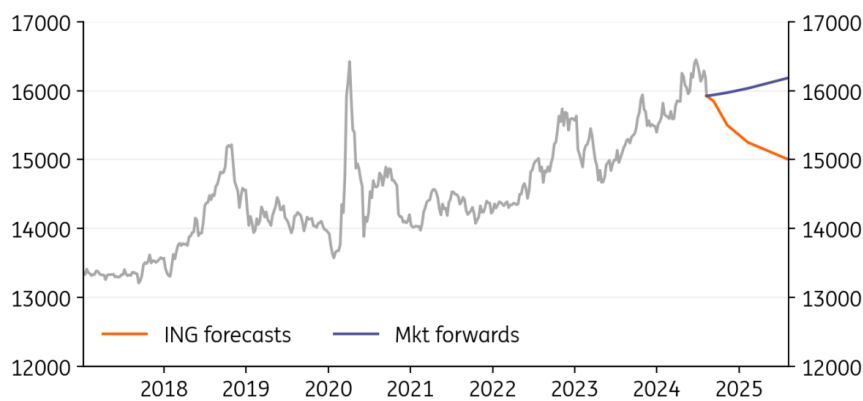


Source: Refinitiv, ING forecasts

## USD/IDR: IDR gains as global rates outlook shifts

	Spot	One month bias	1M	3M	6M	12M
USD/IDR	15,925.000 0	Mildly Bearish ↘	15850.0 0	15500.0 0	15250.0 0	15000.0 0

- The Indonesian rupiah is up about a percent and a half so far this month, which encompasses all the US payrolls-related turmoil. That puts it at the top end of the Asia pack, just behind the Malaysian ringgit which is up 2.4% over the same period.
- The IDR had been one of the weaker currencies in the first half of the year, and so this could simply reflect a bit of catch up.
- With inflation still respectably low, and the external rates outlook getting increasingly dovish, Bank Indonesia may follow its regional peers by trimming its high policy rates, but we expect them to be cautious and lag behind others.

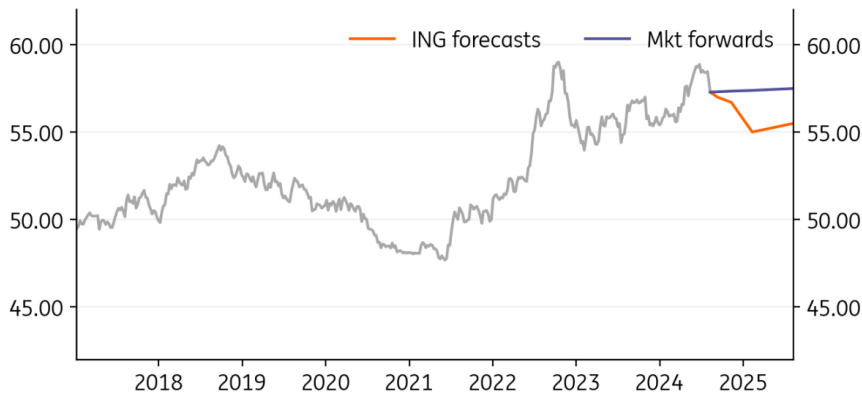


Source: Refinitiv, ING forecasts

## USD/PHP: Higher inflation dampens rate cut prospects

	Spot	One month bias	1M	3M	6M	12M
USD/PHP	57.2800	Mildly Bearish ↘	57.00	56.70	55.00	55.50

- The Philippine peso has made decent gains in August so far, just lagging behind the IDR. As well as the general global rates and FX outlook, the PHP has benefited from a dampening of local rate cut expectations after higher-than-expected July inflation.
- There could be an additional boost to the PHP from reports that the Philippines is in talks to rejoin the JPMorgan EM bond index.
- So far this year, the PHP has had one of the strongest coefficients with respect to changes in the Japanese yen, so we might anticipate further JPY gains to pull the PHP along faster than some of its regional peers.

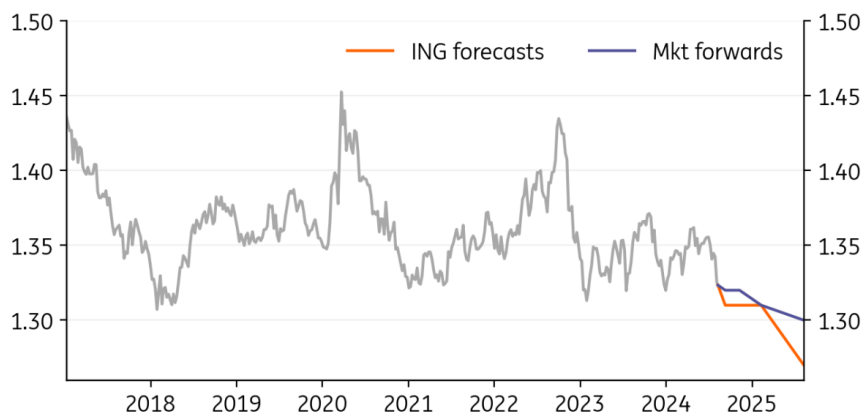


Source: Refinitiv, ING forecasts

### USD/SGD: MAS could follow regional peers later

	Spot	One month bias	1M	3M	6M	12M
USD/SGD	1.3234	Bearish ▼	1.31	1.31	1.31	1.27

- As you might expect, the Singapore dollar has been an upper mid-table performer in the Asian FX league in the month-to-date.
- Not a great deal has changed for the Singapore macroeconomy in recent weeks. The activity data remains a bit soft, and inflation has inched slightly lower, but remains around 3% year-on-year on a core basis, even if the headline rate has dropped to 2.4%.
- The latest meeting of the Monetary Authority of Singapore left all parameters of the SGD Nominal Effective Exchange Rate target unchanged, but there is a chance that we could see some shift in October, especially if other regional central banks are beginning to trim.



Source: Refinitiv, ING forecasts

## USD/TWD: Net inflows have driven the appreciation

	Spot	One month bias	1M	3M	6M	12M
USD/TWD	32.3300	Neutral	32.50	32.30	31.90	31.50

- The Taiwan dollar moved a little weaker over the past month, with USD/TWD inching up to around 32.9 before pulling back to around 32.7. As expected, the dividend payment season in July and August contributed to depreciation pressure.
- The pullback of the Taiex led to foreign fund flows shifting to net outflows over the past month, contributing to depreciation pressure on the Taiwan dollar.
- US rate cuts should move the yield spread to provide some reprieve for the TWD, and the TWD should move generally stronger over the medium term. The US elections represent a window of risk worth monitoring in November.



Source: Refinitiv, ING forecasts

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