

## Asia FX Talking: Listless Chinese recovery holds regional currencies back

There seems to be little confidence that Chinese policymakers are prepared to jolt the economy into action. The turn in the broad dollar cycle may help cement a top in USD/CNY at 7.25/30, but the case for a markedly lower USD/CNY is hard to make right now. A better equity environment and improved terms of trade story may see the Korean won outperform



### Main ING Asia FX forecasts

	USD/CNY	USD/KRW	USD/INR
1M	7.30 ↑	1270.00 ↑	81.00 ↓
3M	7.25 ↑	1250.00 ↓	80.00 ↓
6M	7.10 ↑	1280.00 ↑	82.00 ↓
12M	6.80 ↓	1200.00 ↓	84.00 ↑

## USD/CNY: Flirting with disinflation

	Spot	One month bias	1M	3M	6M	12M
USD/CNY	7.1676	Mildly Bullish ↗	7.30	7.25	7.10	6.80

China's weak economic re-opening continues to weigh on markets and the CNY, though hopes for stimulus measures have provided sporadic respite, along with People's Bank of China fixing's that indicate that investors should not view the CNY as a one-way bet on weakness.

We are not hopeful of a meaningful package of stimulus measures, and with the economy flirting now with disinflation, there are growing signs that the weakness is spreading.

Despite some recent USD weakness, we favour a move towards the 7.30 level over the coming quarter.



Source: Refinitiv, ING forecasts

## USD/KRW: Equity-led appreciation on chip hype

	Spot	One month bias	1M	3M	6M	12M
USD/KRW	1,268.5000	Neutral	1270.00	1250.00	1280.00	1200.00

The KRW once again sensitively reacted to the Fed's additional hike possibility and fears of a regional bank run and returned all the earlier gains brought about by the AI chip hype.

The trade balance turned positive after fifteen months in the red as imports declined sharply due to falling commodity prices.

We expect terms of trade to improve further thanks to strong demand in transportation equipment and the Middle East's investment boom, while commodity prices remain soft. Thus, we expect the KRW to appreciate for a while until markets begin to re-think Fed direction after the expected rate hike in July.



Source: Refinitiv, ING forecasts

### USD/INR

	Spot	One month bias	1M	3M	6M	12M
USD/INR	82.1100	Neutral	81.00	80.00	82.00	84.00

The INR is currently trading towards the top of the very narrow band in which it has been in since October last year, though we could be approaching a break-out as the range narrows.

Supporting the INR, the real Reserve Bank of India policy rate is high, thanks to some much better inflation outcomes in recent months. While the RBI refrains from easing, that support will endure.

The biggest risk is that with most of the inflation drop coming from supply-side improvements, it would only take unfavourable weather or a similar factor to push those inflation figures wider, resulting in an offsetting nominal depreciation.



Source: Refinitiv, ING forecasts

## USD/IDR: IDR retreated after trade surplus narrows sharply

	Spot	One month bias	1M	3M	6M	12M
USD/IDR	14,968.0000	Mildly Bullish ↗	15200.00	14950.00	14800.00	14600.00

The IDR weakened after the trade surplus narrowed sharply to \$0.4bn on frontloaded imports of energy. This stark shift in the trade balance removed a key support for the IDR.

Bank Indonesia (BI) Governor Warjiyo kept rates unchanged again (at 5.75%) in June with inflation back within target. BI opted however, not to cut rates to keep them at a level that would support the IDR.

We expect the IDR to take its direction from the balance of trade in the coming months and the IDR could come under some additional pressure if policy interest rate differentials with the US narrow further.

### USD/IDR



Source: Refinitiv, ING forecasts

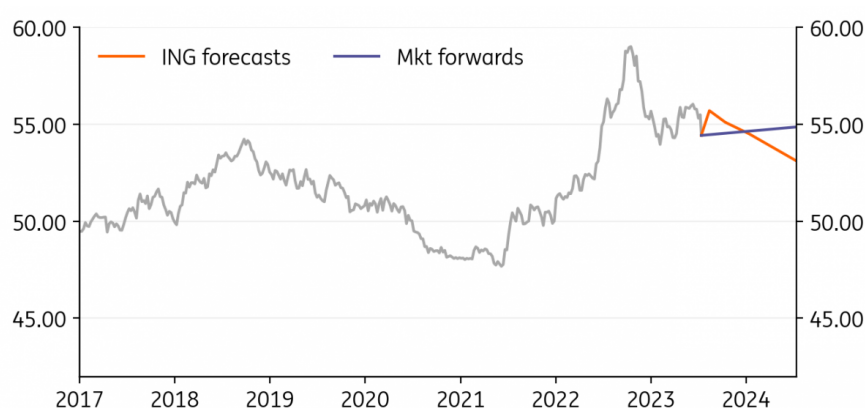
## USD/PHP: PHP steadies on foreign inflows to the equity market

	Spot	One month bias	1M	3M	6M	12M
USD/PHP	54.4200	Mildly Bullish ↗	55.70	55.10	54.50	53.10

The PHP was on the backfoot early in the month against the dollar. But it rallied later on as foreign inflows to the local equity market helped provide support, while a narrowing trade deficit also helped ease selling pressure on the currency.

Bangko Sentral ng Pilipinas (BSP) Governor Medalla extended his pause in June, keeping rates at 6.25%. He was replaced by Dr. Remolona, a current Monetary Board member, who assumed the role of Governor in July.

The PHP could eventually face pressure should the interest rate differential narrow further with the Fed poised to hike in July.



Source: Refinitiv, ING forecasts

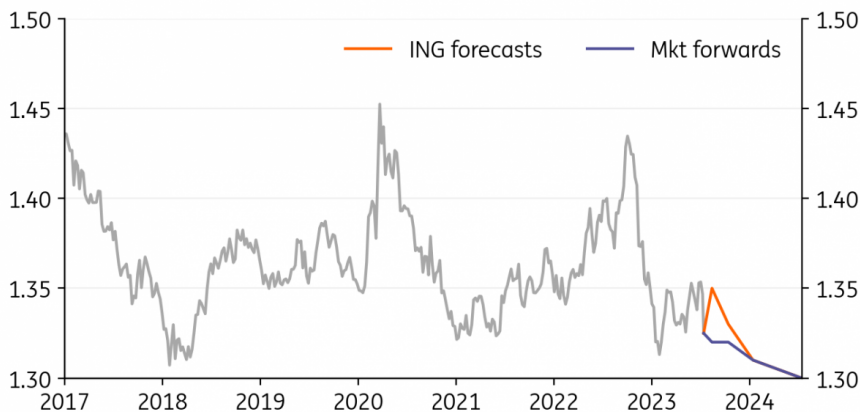
## USD/SGD: SGD slips as Fed signals more rate hikes

	Spot	One month bias	1M	3M	6M	12M
USD/SGD	1.3250	Mildly Bullish ↗	1.35	1.33	1.31	1.30

The SGD started June on a strengthening bias before tracking regional currencies weaker after hawkish signals from the Fed.

A string of disappointing data reports (NODX and industrial production) pointed to softer growth, hints that the MAS may not want to keep policy as tight at the October meeting.

Elevated core inflation (4.7% year-on-year) means that the room for easier policy is limited. The SGD NEER should continue its modest appreciation path in the months ahead, which given the possible weakness from the CNY and MYR, could still see the SGD slip against the USD in the short term.



Source: Refinitiv, ING forecasts

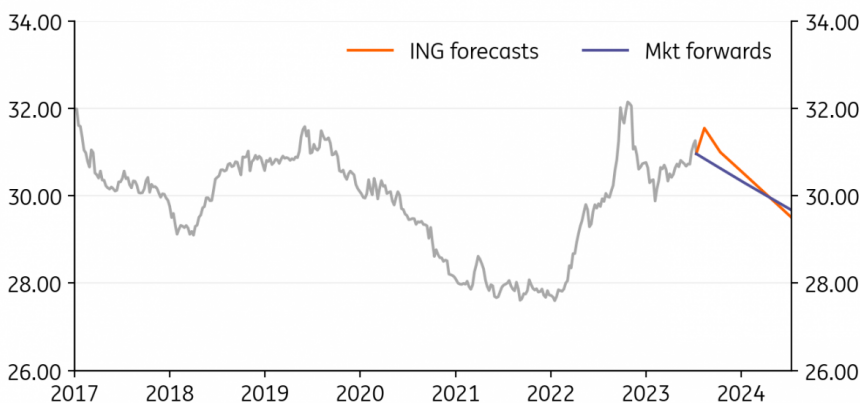
### USD/TWD: Tracking the CNY weaker

	Spot	One month bias	1M	3M	6M	12M
USD/TWD	30.9600	Mildly Bullish ↗	31.55	31.00	30.50	29.50

The TWD has tracked the CNY weaker over the last month, and even slightly underperformed it over that period, losing more than 2% from a month ago.

As we are expecting further CNY weakness in the coming month, we'd look for the TWD to track weaker too to maintain relative exchange rates.

One positive development is that there are tentative signs that the semiconductor cycle may be troughing. It is early days yet, but that might provide some more support for the TWD in the coming months as that develops.



Source: Refinitiv, ING forecasts

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