Asia FX Talking: USD/CNY remains the major battleground

China's currency devaluation in 1992 was blamed by some for the late '90s Asian FX crisis. Today, the investment world still closely watches the USD/CNY exchange rate to set the tone for USD/Asia. Is China going to hold the line around here (7.32/34) in onshore USD/CNY? Or will it cave in to immense pressure from higher US yields and a mighty dollar to spark a round of competitive devaluations across the region? We favour China holding the line - but it's a close call

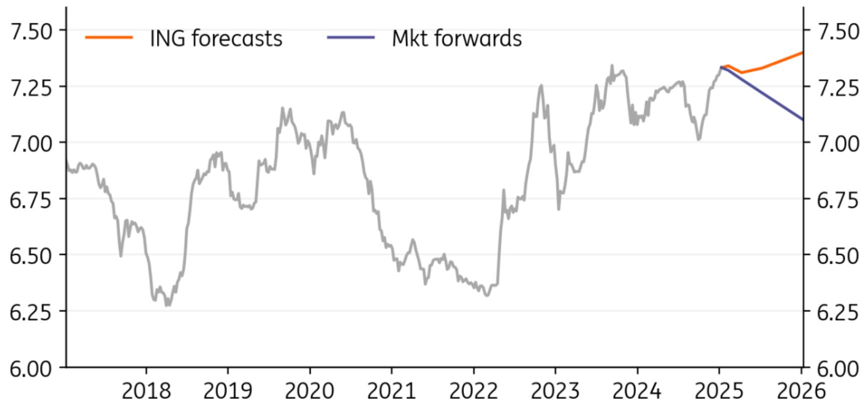
Main ING Asia FX Forecasts

	USD/CNY	USD/KRW	USD/INR
1M	7.34 ↑	1475 ↑	86.00 ↓
3M	7.31 ↑	1500 ↑	86.25 ↓
6M	7.33 ↑	1450 ↓	86.00 ↓
12M	7.40 ↑	1425 ↓	85.00 ↓

USD/CNY: PBoC continues to hold the line as pressure mounts

	Spot	One month bias	1M	3M	6M	12M
USD/CNY	7.3327	Neutral	7.34	7.31	7.33	7.40

- After holding the line at 7.30 in December, China's yuan continued to weaken at the start of the new year, with the USD/CNY drifting higher to around 7.33 at the time of writing. The People's Bank of China continued to promote currency stabilisation.
- Domestically, the key development last month was policymakers abandoning the intervention in the CGB market, allowing yields to fall. This widened the US-China yields to historical highs and is adding to short-term CNY depreciation pressure. Additionally, policymakers continued to signal upcoming monetary easing.
- Trump's upcoming inauguration and potential tariff developments are a risk for the CNY in the near term. Our baseline case has 7.40 as the upper bound of this year's fluctuation band, with an upside risk to 7.50. We don't expect intentional large-scale devaluation as a response to tariffs.

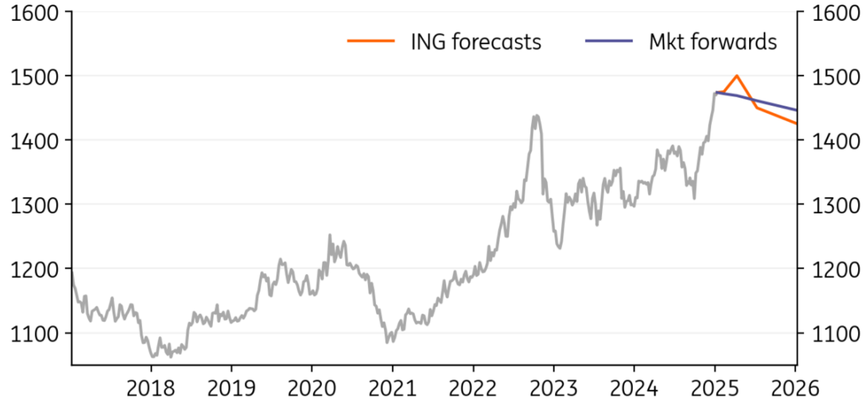


Source: Refinitiv, ING forecasts

USD/KRW: Uncertainty over politics continues to pressure the won

	Spot	One month bias	1M	3M	6M	12M
USD/KRW	1,473.9000	Neutral	1475.00	1500.00	1450.00	1425.00

- USD/KRW surged to almost 1,470 on the back of the political turmoil and the plane crash. Meanwhile, FX reserves rose slightly in December, suggesting no significant smoothing operations taken by the Bank of Korea so far. This indicates that the BoK's near-term priority is to support growth with rate cuts.
- The National Pension Service appears to be involved in FX hedging recently, but it is unlikely to change the won's depreciation trend.
- The KRW will remain weak even as the domestic political situation stabilises as macroeconomic conditions should bring further weakness in 1H25 – plus BoK rate cuts.

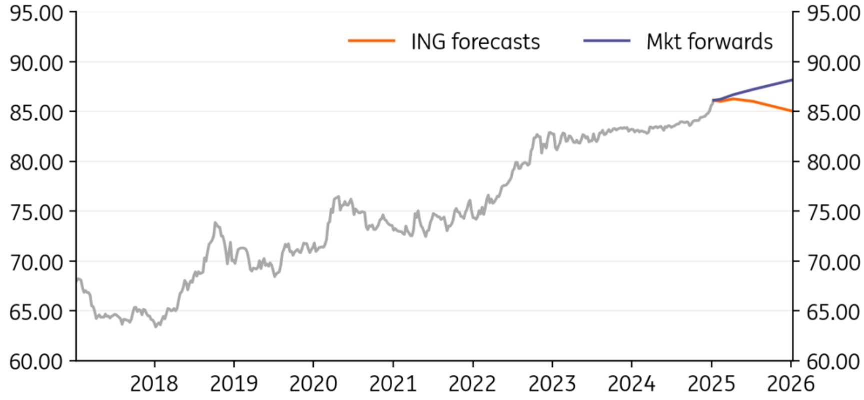


Source: Refinitiv, ING forecasts

USD/INR: More downside pressure on the rupee in the near term

	Spot	One month bias	1M	3M	6M	12M
USD/INR	86.1100	Neutral	86.00	86.25	86.00	85.00

- After trading in a very narrow range for most of 2023 and 2024, USD/INR finally trended higher and rose by about 1.3% last month as most Asian currencies faced depreciation pressure.
- The Reserve Bank of India intervened extensively in the FX market last year but the appointment of a new central bank governor last month has raised market expectations of a less active intervention approach to smooth the rupee's volatility, especially as the recent GDP growth numbers for 3Q24 came in much lower than expected.
- While the views of the central bank governor are not known yet, the recent equity market correction, FII outflows and overvaluation of the INR suggest that the rupee will continue to face downward pressure in the near term.

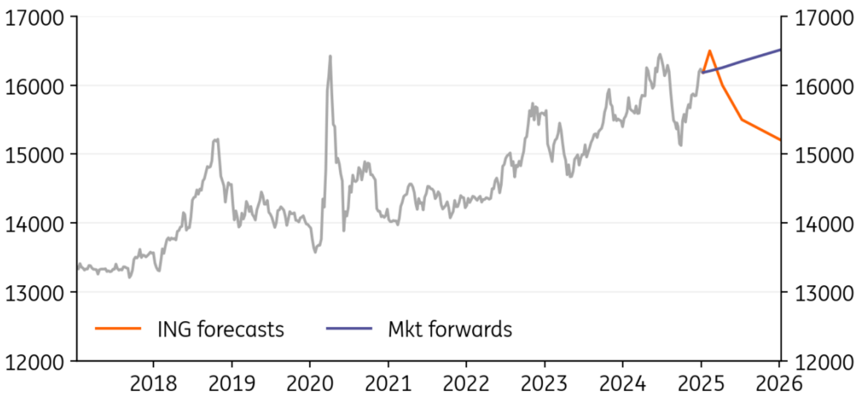


Source: Refinitiv, ING forecasts

USD/IDR: Weaker rupiah given higher sensitivity to rate differential

	Spot	One month bias	1M	3M	6M	12M
USD/IDR	16,185.0000	Mildly Bullish	16500.00	16000.00	15500.00	15200.00

- Indonesia's rupiah was one of the weakest Asian currencies last month as higher US treasury yields and the resultant lower rate differential vs. IDR rates exerted downward pressure on the rate sensitive IDR.
- Bank Indonesia continued to tread cautiously in its rate-cutting cycle by extending the pause in the December policy meeting and focusing on IDR stability as risks to inflation remain muted.
- Lower-than-expected budget deficit targets for 2025 allayed fears of a large expansion in government spending. Lower dependence on foreign investors for fiscal deficit funding should overall be a positive for IDR. However, USD strength is likely to be the dominant factor impacting IDR in the near term.

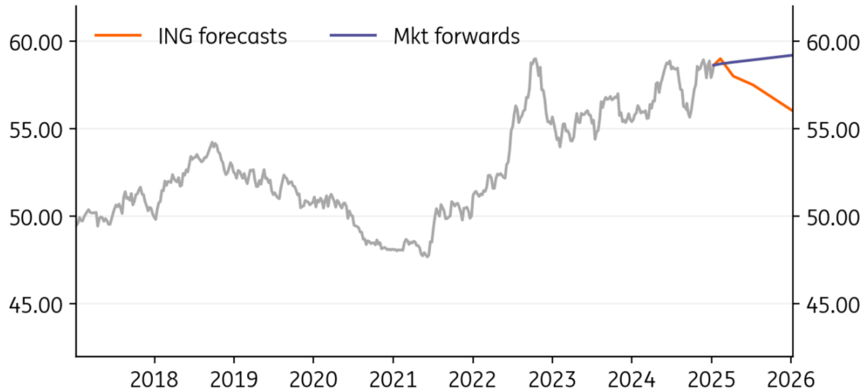


Source: Refinitiv, ING forecasts

USD/PHP: Likely to trade in a range

	Spot	One month bias	1M	3M	6M	12M
USD/PHP	58.6300	Mildly Bullish	59.00	58.00	57.50	56.00

- The Philippine peso continued to be one of the best performers in Asia last month, falling by just 0.7% in the month after hitting a lows of 59.0. The central bank has historically defended the 59.00 level and the recent price action confirmed that.
- Domestically, President Marcos' 2025 budgeted spending exceeded expectations and sparked debates around misallocation, misaligned government spending priorities and a lack of transparency.
- BSP cut policy rates by another 25bp in December, in line with our expectations and we continue to expect further easing. Fiscal debate, policy rate cuts and USD strength suggest near-term pressure on PHP should return.

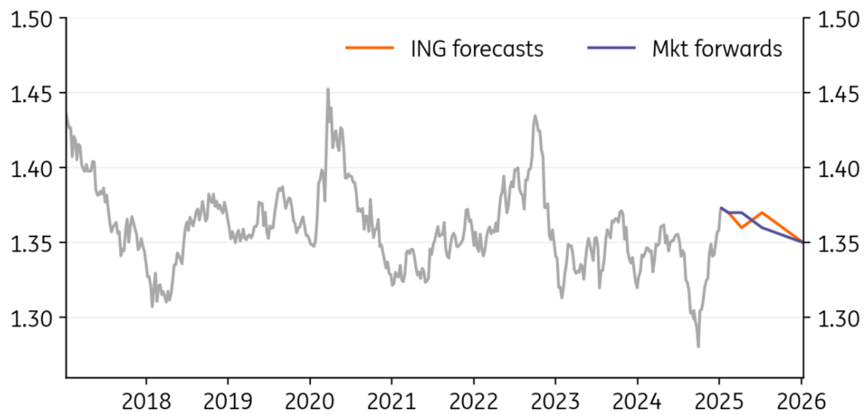


Source: Refinitiv, ING forecasts

USD/SGD: Singapore dollar should underperform as policy easing comes closer

	Spot	One month bias	1M	3M	6M	12M
USD/SGD	1.3729	Neutral	1.37	1.36	1.37	1.35

- The Singapore dollar has faced higher depreciation pressures amid USD strength. It continues to be one of the most vulnerable currencies to US tariff implementation, given the economy is highly export driven.
- Moreover, the strong growth-strong inflation picture that the economy witnessed in 2024 is turning. We expect GDP growth to slow down in 2025 driven by slower export growth. Core CPI inflation moderated to a three-year low of 1.9% year-on-year in November from 2.1% in October.
- Given this backdrop, monetary policy easing by the central bank cannot be ruled out in January. The recent drop in SGD NEER has already loosened policy but an explicit slope reduction might take longer and materialise only by April 2025 when core inflation sustainably falls below 2%.

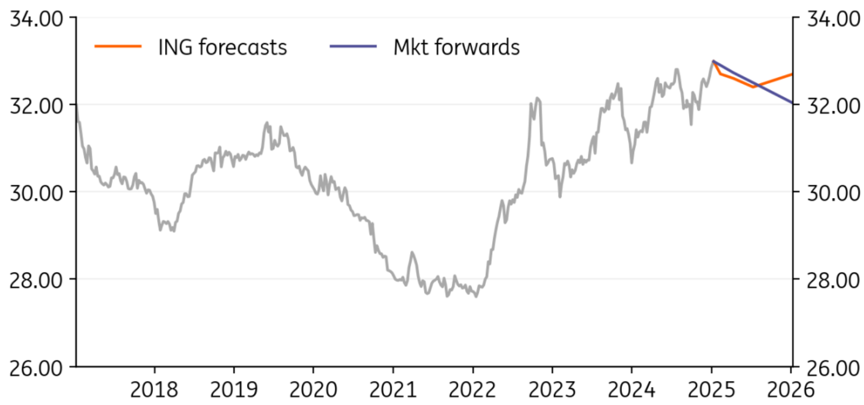


Source: Refinitiv, ING forecasts

USD/TWD: Equity inflows helped soften depreciation pressure

	Spot	One month bias	1M	3M	6M	12M
USD/TWD	32.9900	Mildly Bearish ↘	32.70	32.60	32.40	32.70

- The USD/TWD pair mostly followed the USD trend over the past month, with the Taiwan dollar weakening to as much as 32.9. The fluctuation range was relatively minor at 32.4-32.9.
- Domestic drivers of the TWD were generally slightly TWD-positive over the last month. US-Taiwan yield spreads peaked in December and narrowed to start 2025, while equity market flows swung from net outflows to minor net inflows over the past month.
- The TWD has fared better than many Asian currencies in the last several months after underperforming for much of 2024, as equity market inflows have helped offset some of the outflows caused by wide yield spreads.



Source: Refinitiv, ING forecasts

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