Asia FX Talking: Keeping the Trump risk on the side

In a few months' time, Asian EM FX may be hit by the seemingly more likely re-election of Donald Trump. But for now, there is a window of opportunity over the summer for some Asian currencies thanks to Fed cut expectations possibly gaining momentum. The renminbi may not be one of those, though, as soft data raises the chance of more monetary easing in China

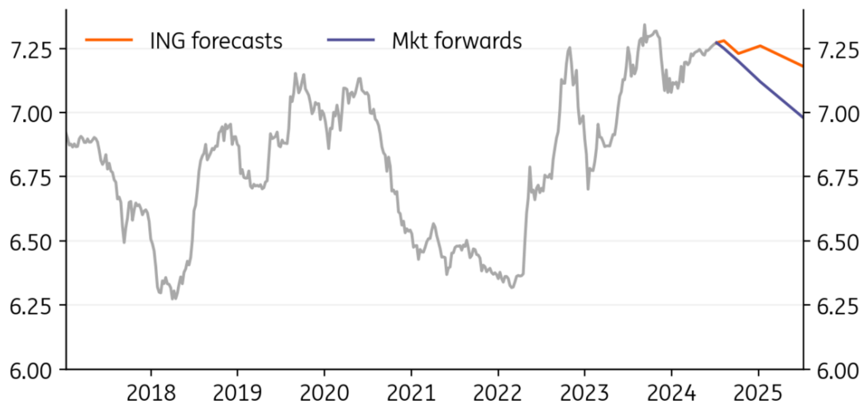
Main ING Asia FX Forecasts (versus forwards)

	USD/CNY		USD/KRW		USD/INR	
1M	7.28	↑	1380	→	83.5	↓
3M	7.23	↑	1340	↓	83.5	↓
6M	7.26	↑	1360	↓	84.0	↓
12M	7.18	↑	1300	↓	82.5	↓

USD/CNY: Near-term weakness remains ahead of monetary policy moves

	Spot	One month bias	1M	3M	6M	12M
USD/CNY	7.2800	Neutral	7.28	7.23	7.26	7.18

- USDCNY weakened over the past month from around 7.25 to 7.27, reflecting capital outflows amid market weakness and broader dollar strength. The People's Bank of China usage of the counter-cyclical factor hit a new high in July.
- Another month of soft data has increased the odds of easing in the next few months. However, the PBOC also announced it would start borrowing bonds to sell and try to cool the government bond rally. The net impact on yields is unclear.
- We are adjusting our CNY forecasts weaker as yield differentials will remain unfavourable until the Fed starts easing.

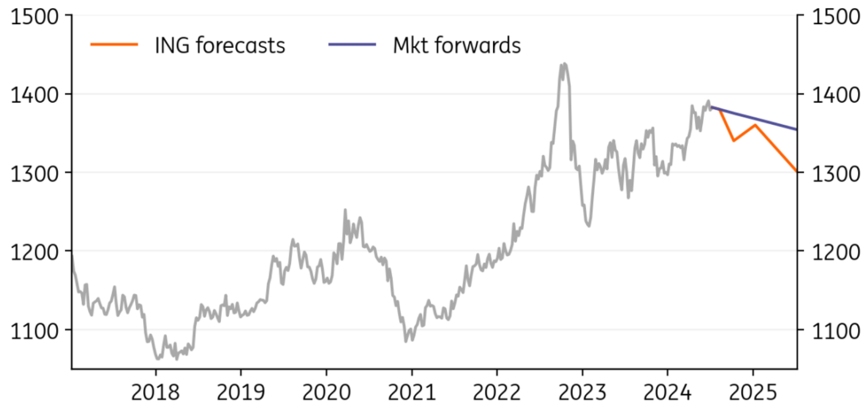


Source: Refinitiv, ING forecasts

USD/KRW: KRW is likely to remain soft in near term

	Spot	One month bias	1M	3M	6M	12M
USD/KRW	1,384.4000	Mildly Bearish	1380.00	1340.00	1360.00	1300.00

- The positive correlation between the KRW and the KOSPI has been broken so far this year. The tech-led export recovery is prominent, but not a dominant factor for the KRW.
- The KRW is likely to stick at the current levels in the near term as market expectations that the Bank of Korea could cut rates ahead of the Fed have risen. Our BoK base scenario is still for an October cut.
- If we are right about the BoK call, we expect a short window of appreciation to open up in 3Q24 as the slowdown in US data becomes clearer. But heightened uncertainty about US politics and policies will limit further appreciation of the KRW.

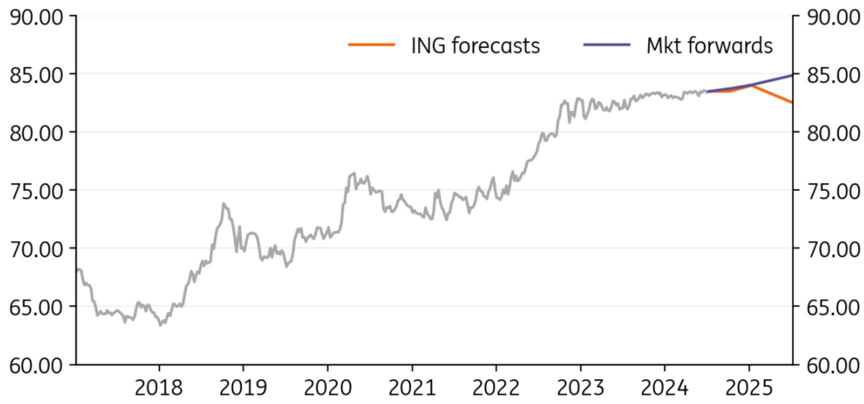


Source: Refinitiv, ING forecasts

USD/INR: Back to the range play

	Spot	One month bias	1M	3M	6M	12M
USD/INR	83.4800	Neutral	83.50	83.50	84.00	82.50

- The Reserve Bank of India has continued to keep the INR pegged in a tight range over the last month. At its strongest, the INR has been about 83.3, at its weakest, about 83.7 and for the most part, close to 83.5.
- While capital inflows into India's bond market continue over the rest of the year, we can see little reason for the RBI to change this approach.
- FX reserves remain ample, and the currency does not look particularly misaligned relative to fundamentals. We see this range trading persisting.

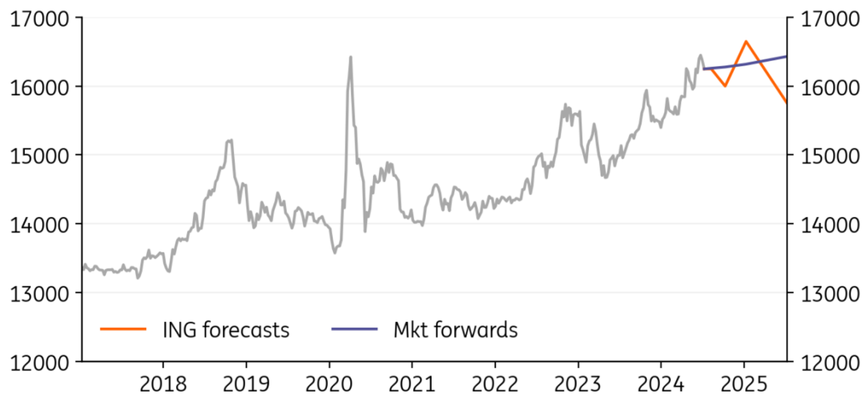


Source: Refinitiv, ING forecasts

USD/IDR: Concern about fiscal policy weighs on the IDR

	Spot	One month bias	1M	3M	6M	12M
USD/IDR	16,248.0000	Mildly Bearish	16250.00	16000.00	16650.00	15750.00

- The IDR has had a rough month, though is not the weakest Asian currency. That honour goes to the JPY. But it is still about half a per cent down against the dollar over the last month.
- Incoming President Prabowo's signature free school meals and milk programme has raised concern about the continuation of fiscal consolidation, and this has been cited as one of the reasons for the IDR's slippage.
- That said, we think this mostly relates to the USD's ongoing strength, and on weaker days for the USD, the IDR has been one of the region's better performers and could outperform the region average should Fed rate cut hopes grow.

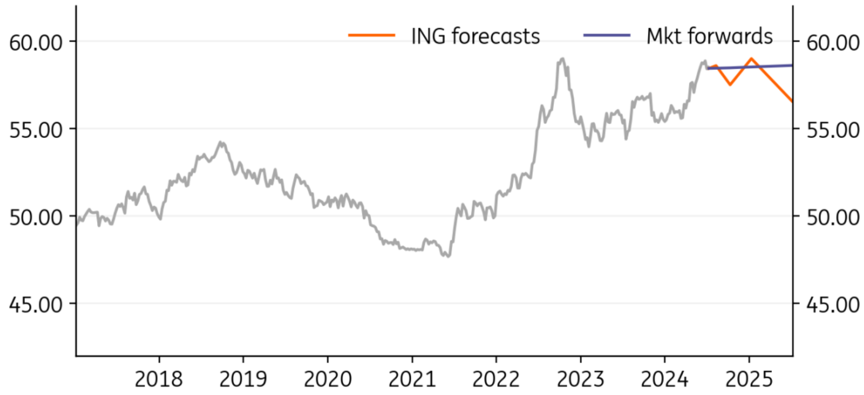


Source: Refinitiv, ING forecasts

USD/PHP: Better inflation prospects buoy the PHP

	Spot	One month bias	1M	3M	6M	12M
USD/PHP	58.3400	Neutral	58.60	57.50	59.00	56.50

- The PHP has had a good month and is virtually unscathed against the USD over the last month, which is a good result relative to its peers.
- The announcement of a cut in rice tariffs from 35% to 15% means that the current rate of inflation, which is about 50% driven by high rice prices, could fall very sharply in the months ahead. Even the recent June inflation data that predates the tariff cuts was better.
- That has meant that BSP Governor Eli Remolona's preference to start cutting rates in August no longer looks as likely to result in a weaker PHP. He will be easing for the "right" reasons if so.

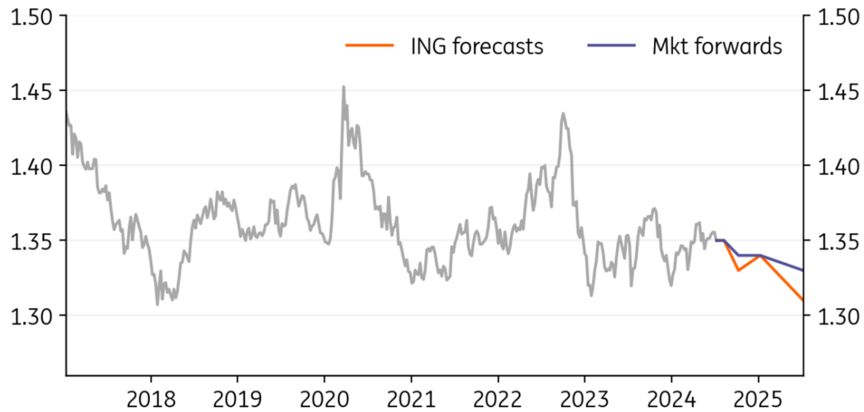


Source: Refinitiv, ING forecasts

USD/SGD: No change in sight for MAS policy

	Spot	One month bias	1M	3M	6M	12M
USD/SGD	1.3503	Mildly Bearish	1.35	1.33	1.34	1.31

- It has been a mixed month for Singapore. Inflation data edged higher in May from April, ruling out any near-term adjustment to the Monetary Authority of Singapore's policy stance. But the activity data has looked a little more promising.
- Non-oil domestic exports were not as bad as feared, and the electronics sector has shown some recent signs of life. Retail sales also strengthened in May.
- The SGD NEER has been appreciating by about half a percent per quarter. We think the MAS will keep that pace up until 4Q24, when it could be reduced to half that pace.

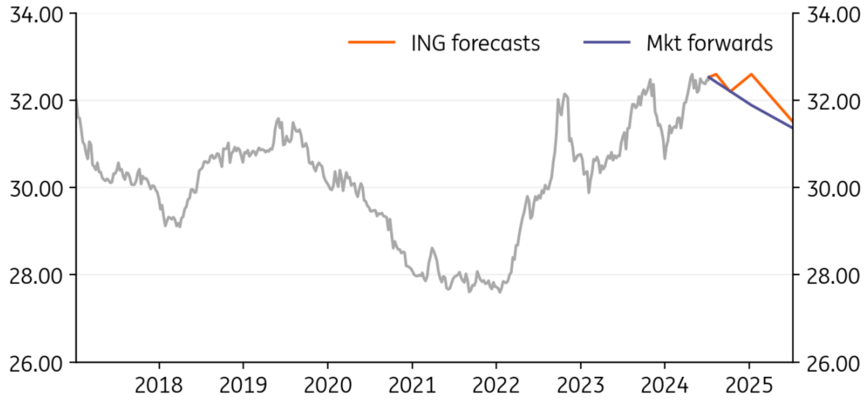


Source: Refinitiv, ING forecasts

USD/TWD: Net inflows drove appreciation

	Spot	One month bias	1M	3M	6M	12M
USD/TWD	32.5800	Neutral	32.60	32.20	32.60	31.50

- The USDTWD generally trended a little weaker over the past month, moving up to around 32.68 before pulling back to around 32.5. In the near term, the dividend season in July and August is expected to add to depreciation pressure.
- Capital flows have driven the TWD trajectory in recent months, and this has largely been correlated with the performance of the Taiex, which hit a new record high in early July. Foreign fund net inflows slowed slightly in June compared to May.
- Yield spreads continue to add downward pressure on the TWD and have to an extent balanced out the upward pressure from equity market inflows.



Source: Refinitiv, ING forecasts

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