Asia FX Talking: Excessive renminbi strength unwelcome

The Chinese renminbi is recovering on the back of the 90-day pause in tariffs. We doubt policymakers will want it to come too much under 7.10, however. And if the dollar is to fall further, Asian FX does not look best placed to take advantage

USD/CNY may explore the lower end of a 7.10-7.40 range – but the People's Bank of China won't want a stronger renminbi in a period of deflation

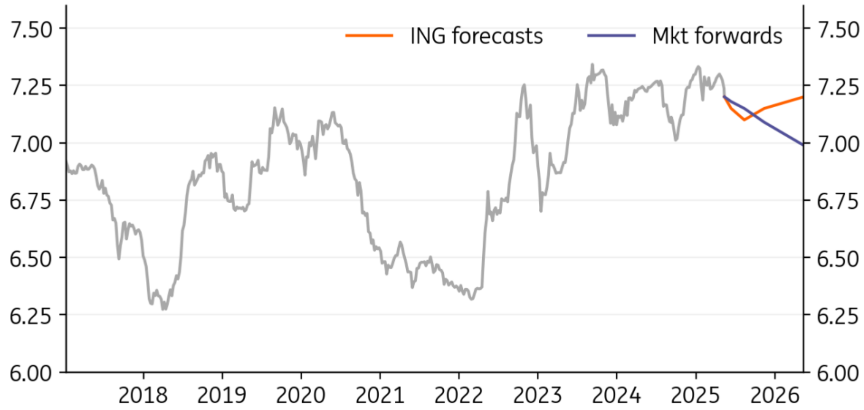
Main ING Asia FX Forecasts

	USD/CNY	USD/KRW	USD/INR
1M	7.15 ↓	1400 ↓	85.50 ↑
3M	7.10 ↓	1425 ↑	86.50 ↑
6M	7.15 ↑	1425 ↑	86.50 ↑
12M	7.20 ↑	1400 ↑	88.00 ↑

USD/CNY: CNY outlook to improve post-tariff de-escalation

	Spot	One month bias	1M	3M	6M	12M
USD/CNY	7.2008	Mildly Bearish	7.15	7.10	7.15	7.20

- USD/CNY fell from the 7.35 high in April to as low as 7.21 over the past month. Tariff developments and PBoC policy were the main catalysts.
- We expect the China-US trade war de-escalation will help the yuan recover, after underperforming for much of the year. The PBoC looks set to remain committed to currency stabilisation in both directions.
- De-escalation represents an upgrade to the medium-term outlook, and may spark capital inflows, while US rate cuts could help further support CNY strengthening. We hold our call for a 7.00-7.40 fluctuation band for the year.

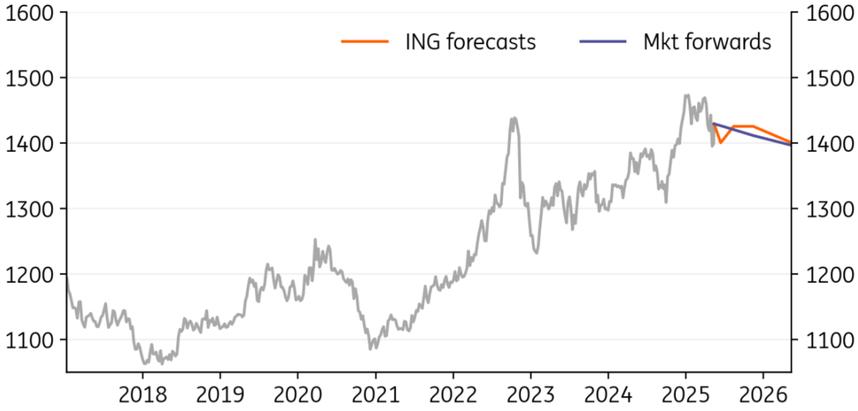


Source: Refinitiv, ING forecasts

USD/KRW: The KRW seemingly peaked out, but still under pressure

	Spot	One month bias	1M	3M	6M	12M
USD/KRW	1,428.7000	Mildly Bearish	1400.00	1425.00	1425.00	1400.00

- USD/KRW's sudden drop to 1,380 in early May was short-lived. Domestic political uncertainty has improved since early April, and the dividend season has passed.
- With the resignations of key government officials, trade talks are likely to stall while the nation enters election campaign mode. The long-awaited supplementary budget was passed and should cushion any further fallout.
- With FX stabilising and headwinds from external demand intensifying, the Bank of Korea is likely to cut its policy rate in May.

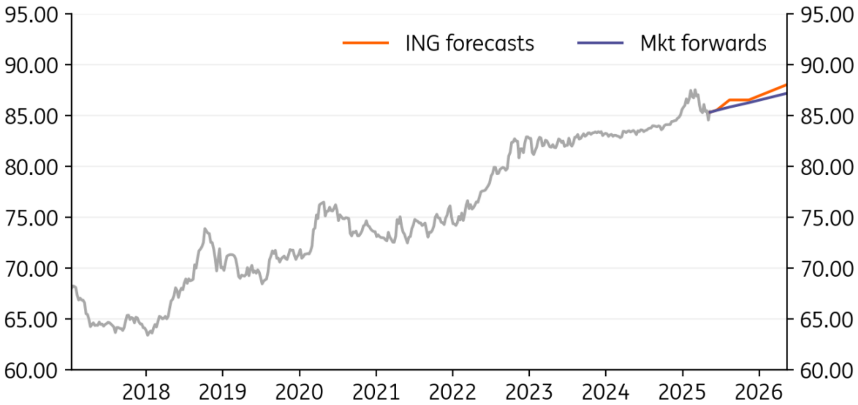


Source: Refinitiv, ING forecasts

USD/INR: More volatility in the near term

	Spot	One month bias	1M	3M	6M	12M
USD/INR	85.3000	Mildly Bullish	85.50	86.50	86.50	88.00

- The Indian rupee underperformed most of the region and appreciated by just 1.1% vs the USD last month. FIIs were net sellers of both equity and debt in April. Escalated geopolitical tensions between India and Pakistan in the last week led to some reversal of almost 2% gains in INR vs USD.
- India secured a bilateral trade deal with the UK, boosting market confidence. The deal focuses on tariff reductions for British and Indian goods across almost all sectors. including whisky, medical devices, advanced machinery and cars.
- Looking ahead, we think two-way volatility is likely, but overall, the Reserve Bank of India's renewed focus on FX reserve accumulation, slower GDP growth this year as the impact of tariffs filters through, and geopolitical uncertainty should all mean the currency pair finds a floor around current levels and moves up from here.

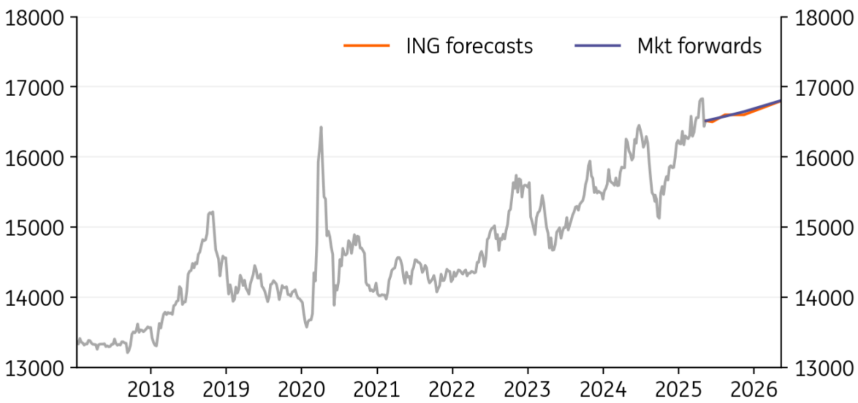


Source: Refinitiv, ING forecasts

USD/IDR: The IDR could face more downward pressure

	Spot	One month bias	1M	3M	6M	12M
USD/ID R	16,515.000 0	Neutral	16500.0 0	16600.0 0	16600.0 0	16800.0 0

- After depreciating sharply in April, driven by persistent portfolio outflows both in equity and bond markets, the Indonesian rupiah did find some support recently from the broad USD selling. However, we think the currency pair is likely to find a floor at current levels, given that risk sentiment remains weak around the domestic story.
- Seasonal dividend repatriation flows in the second quarter could add further pressure on the IDR in the near term. Indonesia's foreign exchange reserves fell by over $4bn in April, indicating large intervention by Bank Indonesia to support the local currency.
- Rising risks to growth from tariffs and an uncertain investment climate, combined with domestic policy uncertainty, increase the risks of higher-than-expected rate cuts, which again is unlikely to support the rate-sensitive IDR.

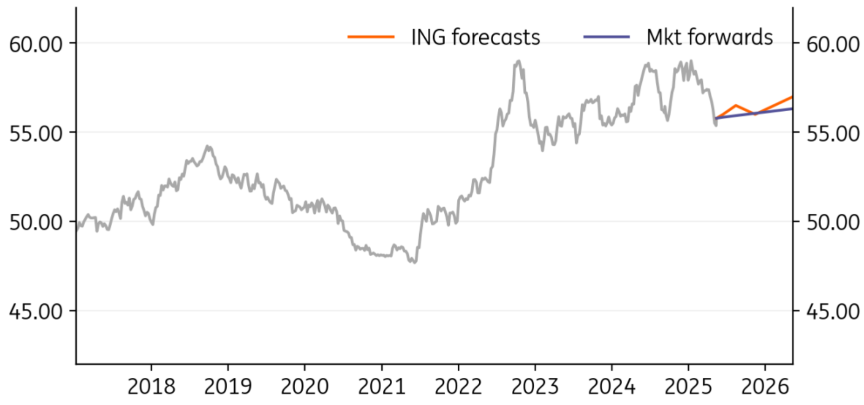


Source: Refinitiv, ING forecasts

USD/PHP: The BSP unlikely to cap peso strength

	Spot	One month bias	1M	3M	6M	12M
USD/PHP	55.7800	Mildly Bullish	56.00	56.50	56.00	57.00

- The Philippine peso appreciated 3% last month vs the USD, largely driven by USD weakness. While the Philippines is largely a domestic demand-driven economy, tariffs and the global trade slowdown are likely to impact export growth and BPO business negatively in 2025.
- A lower-than-expected inflation trajectory, stronger-than-expected local currency, and high real rates – combined with uncertainty on global growth – all suggest a deeper rate cut cycle. We now expect the policy rate to reach 4.75% by the end of the year, which should contain PHP appreciation.
- Balance of Payments (BoP) weakness persisted into the first quarter of 2025. Consequently, we anticipate the PHP to exhibit a mild depreciation bias. However, this view could be challenged by potential further USD weakness and comments from the Bangko Sentral ng Pilipinas indicating limited intervention to curb peso strength in such a scenario.

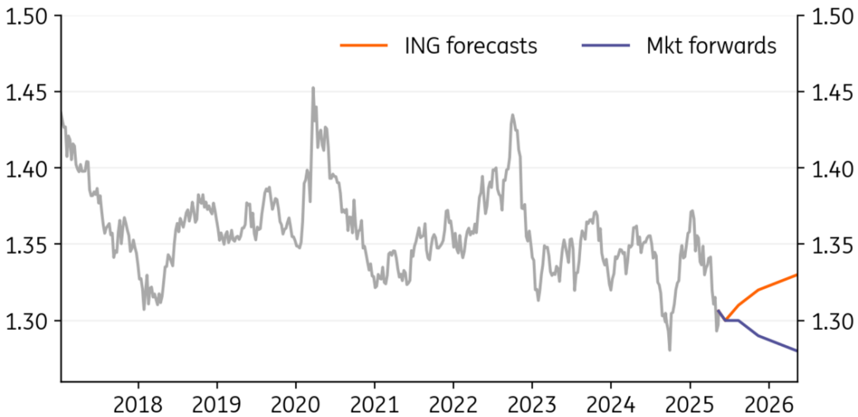


Source: Refinitiv, ING forecasts

USD/SGD: Weaker growth opens room for more monetary easing

	Spot	One month bias	1M	3M	6M	12M
USD/SGD	1.3061	Mildly Bearish ↘	1.30	1.31	1.32	1.33

- Singapore indeed managed to avoid the worst of the US tariffs, receiving the lowest retaliatory tariff rate of 10%. However, its heavy reliance on global trade suggests both GDP growth and inflation should weaken meaningfully in 2025.
- More fiscal and monetary support is likely on its way. The Monetary Authority of Singapore has eased monetary policy twice in a row via a reduction in the S$NEER slope, and we expect another move in the third quarter.
- We continue to expect the trading range of SGD NEER to drift lower in 2025, driven by slower growth and inflation, and USD/SGD to trade in the 1.30-1.34 range in the next 12 months.

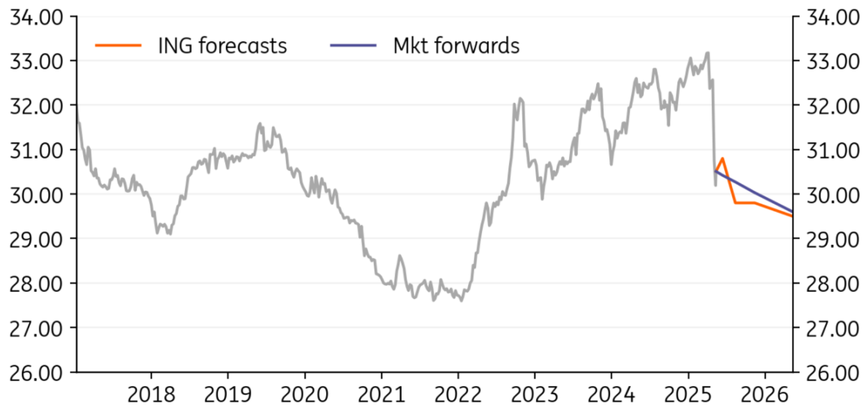


Source: Refinitiv, ING forecasts

USD/TWD: Rush to hedge drove the biggest surge in TWD in decades

	Spot	One month bias	1M	3M	6M	12M
USD/TWD	30.5100	Mildly Bullish	30.80	29.80	29.80	29.50

- The USD/TWD pair finally broke out of its holding pattern, falling to as low as 29.6 before rebounding to above 30 again amid a broader USD recovery.
- The sudden Taiwan dollar appreciation was primarily tied to hedging activity. Taiwan investors were under-hedging currency risks compared to historical averages, reportedly with 62-64% hedging ratios on average versus a 60-80% historical range. Many investors had been positioned long USD as well, given the yield spreads, and this led to high hedging costs. Upon USD weakness, a rush to hedge drove the TWD much stronger.
- Domestic drivers of the TWD favour appreciation. Equity market net inflows returned, while yield spreads mostly narrowed over the past month. Dividend payments could add to near-term outflow pressures, but the Central Bank of the Republic of China will likely try to stabilise the currency and avoid further violent moves.



Source: Refinitiv, ING forecasts

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