Asia FX Talking: Renminbi drags regional FX lower

The backdrop of softer Chinese activity data and the continued concern in the local property sector has seen the renminbi sink to the lows of the year. At the same time, the use of North Asian currencies as the funding leg for the carry trade is creating headwinds for these currencies too. As elsewhere, the lower USD/Asia trend is delayed

Main ING Asia FX forecasts

	USD/CNY		USD/KRW		USD/INR	
1M	7.25	↑	1290	↑	82.00	↑
3M	7.15	↑	1250	↑	80.00	↑
6M	7.00	↑	1280	↑	82.00	↑
12M	6.80	↑	1200	↑	84.00	↑

USD/CNY: Disinflation strikes

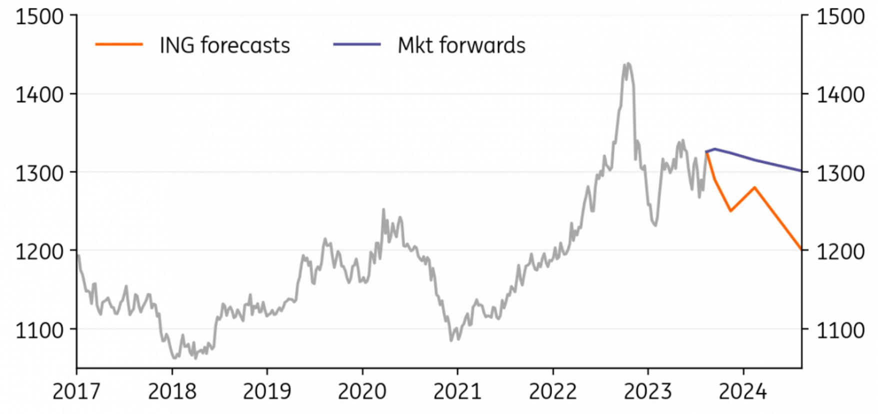
	Spot	One month bias	1M	3M	6M	12M
USD/CNY	7.2324	Neutral	7.25	7.15	7.00	6.80

- Newswires are full of talk of deflation as China's CPI inflation rate turned negative in July. In fact, this is mild (and temporary) disinflation - which is completely different and while it is evidence of economic weakness – is far less malign.
- Still, the news flow remains pretty negative. Weaker-than-expected exports seem to have dominated a slightly brighter service sector Caixin PMI index and sentiment remains bleak.
- Meanwhile, the PBoC has allowed the CNY to soften a little more again. And we think a little more of the same will follow shortly.

USD/KRW: Equity-led appreciation on chip hype

	Spot	One month bias	1M	3M	6M	12M
USD/KRW	1,325.5000	Mildly Bearish	1290.00	1250.00	1280.00	1200.00

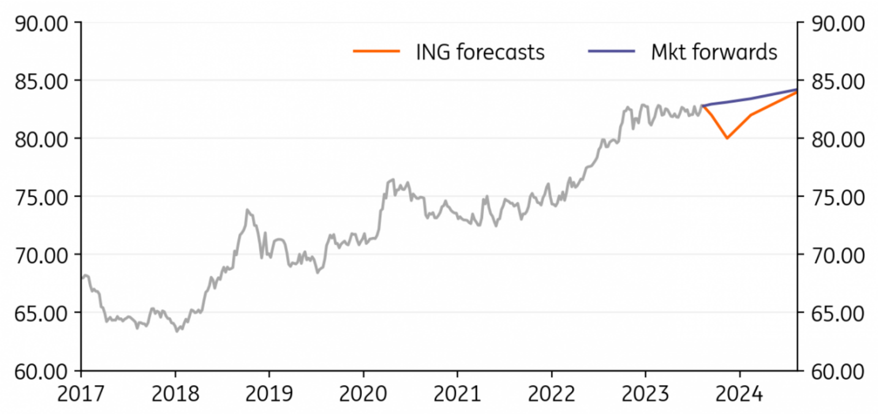
- The KRW reacted substantially to the Fed's rate hike in July and returned the earlier gains brought about by the AI chip hype.
- The trade balance has now recorded a surplus for two consecutive months as imports declined sharply due to falling commodity prices.
- The BoK is likely to maintain its hawkish tone on monetary policy as upside risks for inflation emerge following recent severe weather conditions and the pick-up in global commodity prices. But we expect inflation to remain below 3% for the remainder of the year, thus there is still a chance of a rate cut later this year.



USD/INR: Pushing against the top of the range

	Spot	One month bias	1M	3M	6M	12M
USD/INR	82.7800	Mildly Bearish	82.00	80.00	82.00	84.00

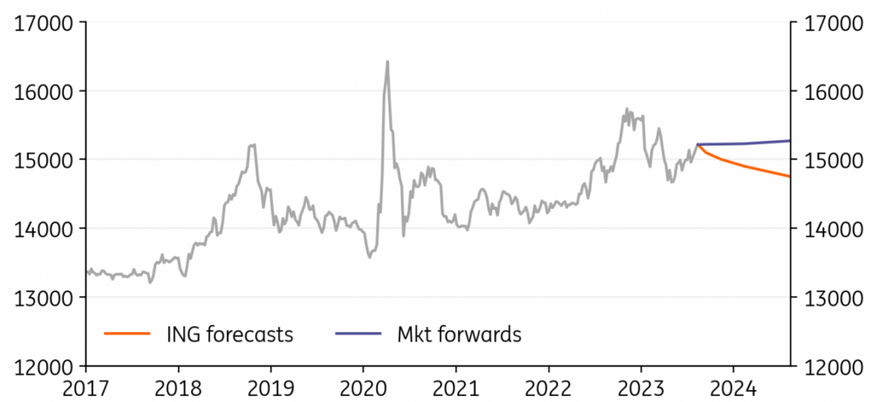
- The INR is still being managed within a very tight range, though recently has been pushed up against the top of its trading band, and it looks clear that absent intervention, it would weaken, perhaps substantially.
- Currently, the Reserve Bank of India doesn't seem to want to let that happen. Headline inflation will surge again this month and will remain high for a few months before it retreats back within its target range. That usually puts pressure on the INR to weaken.
- But rising global food prices are another reason for wanting to keep the currency strong in the near term. A softer INR can wait



USD/IDR: IDR remains pressured as differentials narrow

	Spot	One month bias	1M	3M	6M	12M
USD/IDR	15,215.0000	Mildly Bearish	15100.00	15000.00	14900.00	14750.00

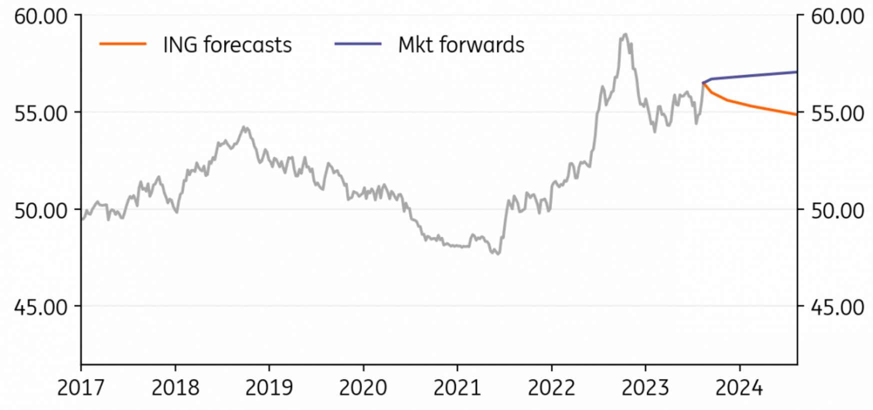
- The IDR faced pressure in July on the back of a narrower trade surplus, which was met by a requirement for exporters to retain a portion of earnings onshore to help shore up dollar liquidity.
- Meanwhile, interest rate differentials with the US narrowed after the July FOMC rate hike while Bank Indonesia Governor Warjiyo opted to keep policy rates unchanged again (at 5.75%).
- We expect the IDR to take its direction from the balance of trade and interest rate differentials in the coming months. BI has managed to hold off on adjusting rates so far but another rate hike from the Fed will likely prompt a response from BI.



USD/PHP: PHP slips as moderating inflation points to BSP pause

	Spot	One month bias	1M	3M	6M	12M
USD/PHP	56.4900	Mildly Bearish	56.00	55.60	55.30	54.85

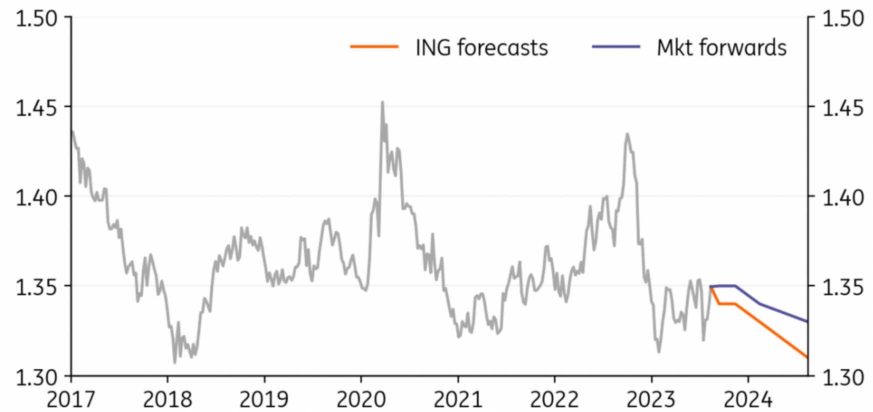
- The PHP was on the back foot after the trade deficit remained sizable despite improving from last year. Despite the surprise expansion in exports, the trade deficit stayed at $3.9bn.
- Meanwhile, the latest inflation and GDP numbers point to a probable pause from Bangko Sentral ng Pilipinas at its meeting in August.
- The PHP will probably remain pressured in the near term. And with policy interest rate differentials with the US now only 75bp, any further narrowing or slippage in the trade deficit could prove costly for the PHP.



USD/SGD: SGD dragged down by regional peers

	Spot	One month bias	1M	3M	6M	12M
USD/SGD	1.3496	Mildly Bearish	1.34	1.34	1.33	1.31

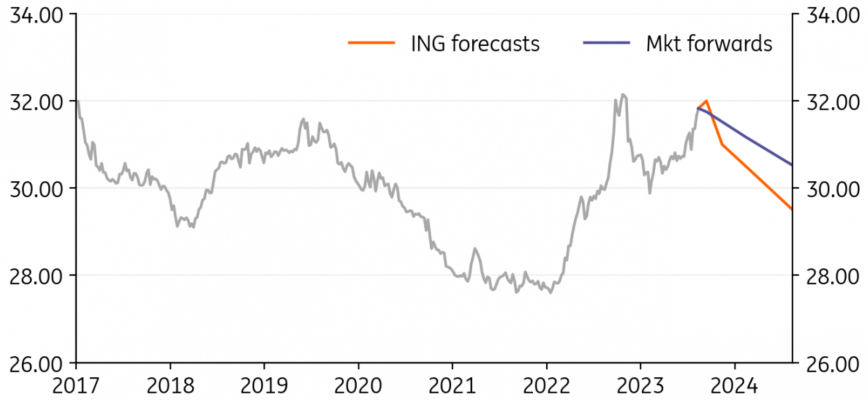
- The SGD stabilised in early July, tracking regional peers, though the second half of July and early August have seen the SGD weaken steadily thanks to diminished US rate cut expectations.
- Better-than-expected second-quarter GDP data and slowing inflation pointed to an increased likelihood that the Monetary Authority of Singapore (MAS) leaves policy settings untouched in October.
- The SGD NEER should continue its modest appreciation path in the months ahead with core inflation still elevated (4.2%). Sustained weakness for the CNY and MYR are likely to weigh on the USDDGD rate in the absence of any broader USD turn.



USD/TWD: Signs of stabilisation

	Spot	One month bias	1M	3M	6M	12M
USD/TWD	31.8300	Mildly Bullish	32.00	31.00	30.50	29.50

- The TWD remains in weakening mode, though the macro backdrop is slowly improving and so there is some chance of a turn in the coming months.
- Exports for July fell by only 10.4% YoY, much less than the 23.4% decline the previous month, and seem to have been helped by a smaller decline in the dominant semiconductor and electronics sector, where a tentative trough is forming.
- However, the TWD has tended to be dragged along by the CNY, where the outlook remains tough, so the weakening TWD trend may prevail for a little longer yet...



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