

Asia FX Talking: Re-rating of Asia is hard work

After a month in which Asian currencies enjoyed strong gains against the dollar, the move appears to have stalled. Trade balances are generally going well for the region, but the problem is weak domestic demand growth - most notably in China. Lower US rates will help local currencies, but gains look fragile and November US elections will have a big say



Main ING Asia FX Forecasts

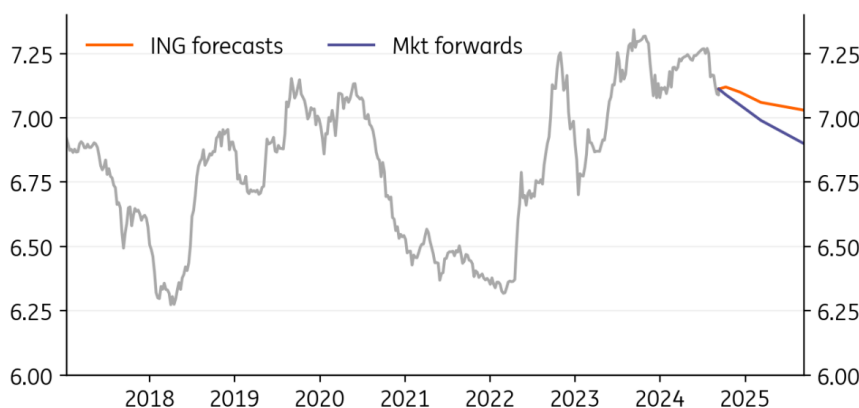
	USD/CNY	USD/KRW	USD/INR
1M	7.12 ↑	1320 ↓	84.00 ↓
3M	7.10 ↑	1300 ↓	83.50 ↓
6M	7.06 ↑	1300 ↓	84.00 ↓

12M	7.03 ↑	1300 ↓	84.00 ↓
-----	--------	--------	---------

USD/CNY: External factors still the main driver

	Spot	One month bias	1M	3M	6M	12M
USD/CNY	7.1121	Neutral	7.12	7.10	7.06	7.03

- The gradual recovery of the CNY continued over the past month, with the USDCNY pair showing strengthening from 7.18 to around 7.09. Short-term movements may continue to be dominated by external factors.
- China-specific factors continue to favour CNY depreciation due to weak growth, capital outflows, and People’s Bank of China (PBoC) easing, but these factors have been priced in for some time. The US election developments are a wildcard for the CNY, with a Trump victory potentially having a depreciation bias for the CNY and vice versa for Harris.
- Yield spreads and PBoC fixing remain the two major factors for the CNY price. Yield spreads will move more in favour of the CNY once the Fed cuts get underway, even if the PBoC continues to cut rates. PBoC fixing continues to resist rapid movements in either direction.

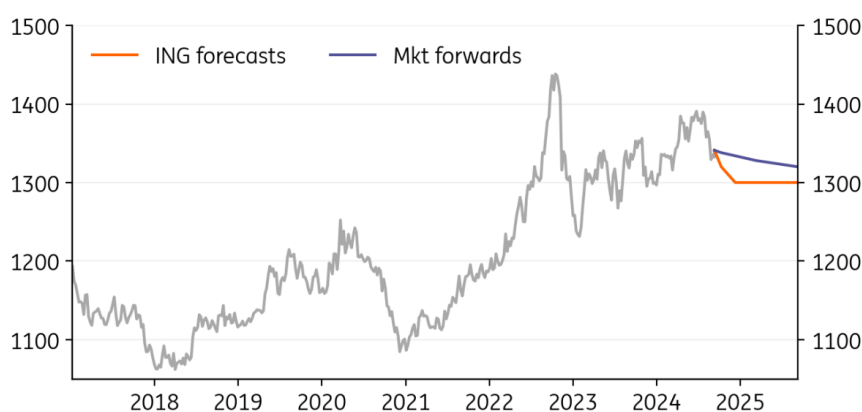


Source: Refinitiv, ING forecasts

USD/KRW: KRW likely firmer, but volatility

	Spot	One month bias	1M	3M	6M	12M
USD/KRW	1,341.0000	Mildly Bearish ↘	1320.00	1300.00	1300.00	1300.00

- The KRW appreciated by 2.5% as the USD weakened in August. However, volatility grew larger than the previous month.
- While volatility will remain for the time being, the KRW will welcome the Fed's rate cut. The Bank of Korea is likely to cut in October as inflation eased to 2%. But a rebound in home prices and household debt will limit the pace of easing by the BoK.
- As long as there are no clear signs of a recession in the US, the KRW is likely to strengthen. But uncertainty over US politics and policies is likely to limit further KRW gains below the 1300 level.

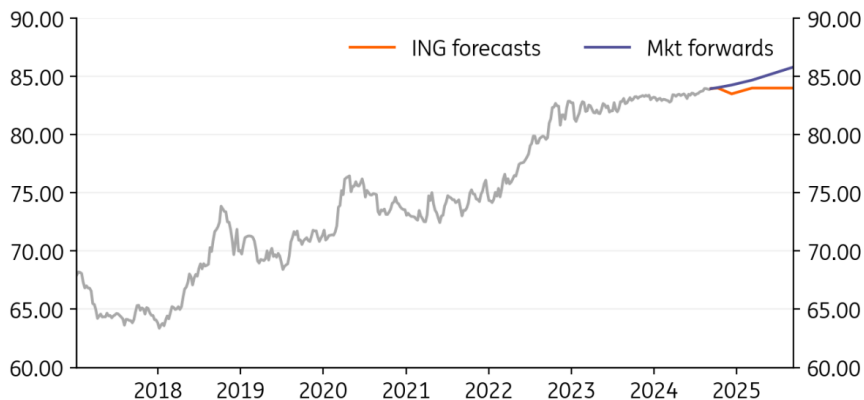


Source: Refinitiv, ING forecasts

USD/INR: Reserve Bank of India gearing up to cut rates

	Spot	One month bias	1M	3M	6M	12M
USD/INR	83.9500	Neutral	84.00	83.50	84.00	84.00

- The INR has been virtually oblivious to recent market turmoil, staying firm when all other Asian FX was slumping, and weakening as the rest all recovered. This could reflect some reserve building by the RBI, but reserves weren't in bad shape before, so it really isn't clear what is going on.
- The RBI left rates on hold at their 8 August meeting. But there are increasing signs that they are gearing up to ease.
- Inflation remains broadly stable aside from seasonal food price fluctuations, so there isn't much to stop them at upcoming meetings as real policy rates are very high.



Source: Refinitiv, ING forecasts

USD/IDR: IDR gains as global rates outlook shifts

	Spot	One month bias	1M	3M	6M	12M
USD/IDR	15,455.0000	Mildly Bullish ↗	15850.00	15500.00	15250.00	15000.00

- The IDR is up about a percent and a half so far this month, which encompasses all the US payrolls-related turmoil. That puts it at the top end of the Asia pack, just behind the MYR which is up 2.4% over the same period.
- The IDR had been one of the weaker currencies in the first half of the year, and so this could simply reflect a bit of catch up.
- With inflation still respectably low, and the external rates outlook getting increasingly dovish, Bank Indonesia may follow its regional peers by trimming its high policy rates, but we expect it to be cautious and lag behind others.

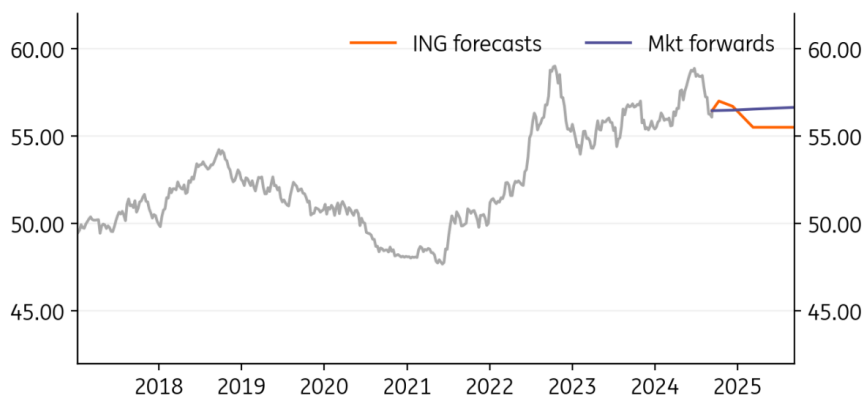


Source: Refinitiv, ING forecasts

USD/PHP: Higher inflation dampens rate cut prospects

	Spot	One month bias	1M	3M	6M	12M
USD/PHP	56.4500	Mildly Bullish ↗	57.00	56.70	55.50	55.50

- The PHP made decent gains in August, just lagging behind the IDR. As well as the general global rates and FX outlook, the PHP has benefited from a dampening of rate cut expectations after higher-than-expected July inflation.
- There could be an additional boost to the PHP from reports that the Philippines is in talks to rejoin the JPMorgan EM bond index.
- So far this year, the PHP has had one of the strongest coefficients with respect to changes in the JPY, so we might anticipate further JPY gains to pull the PHP along faster than some of its regional peers.

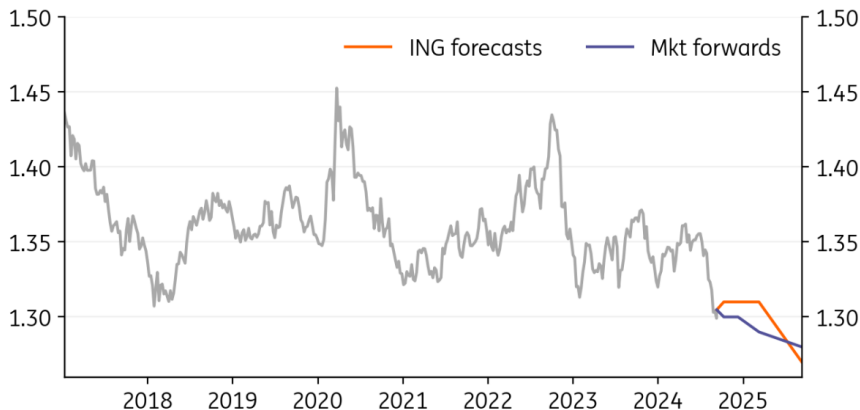


Source: Refinitiv, ING forecasts

USD/SGD: MAS could follow regional peers

	Spot	One month bias	1M	3M	6M	12M
USD/SGD	1.3048	Neutral	1.31	1.31	1.31	1.27

- As you might expect, the SGD has been an upper mid-table performer in the Asian FX league in the month-to-date.
- Not a great deal has changed for the Singapore macroeconomy in recent weeks. The activity data remains a bit soft, and inflation has inched slightly lower, but remains around 3% YoY on a core basis, even if the headline has dropped to 2.4%.
- The latest Monetary Authority of Singapore meeting left all parameters of the SGD NEER target unchanged, but there is a chance that we could see some shift in October, especially if other regional central banks are beginning to trim.

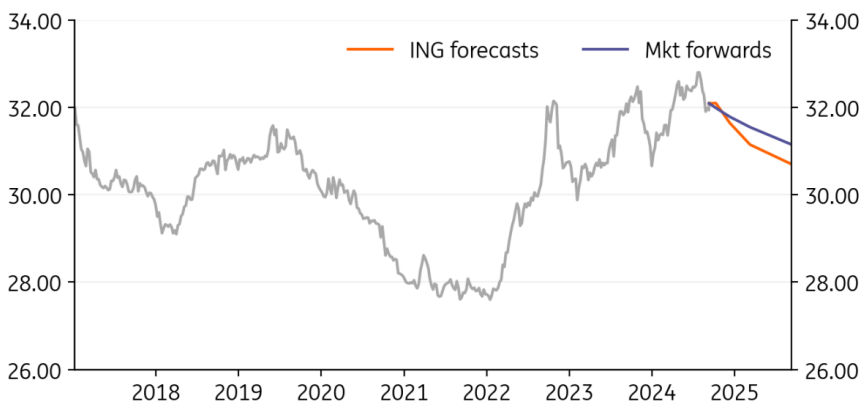


Source: Refinitiv, ING forecasts

USD/TWD: TWD faces some short-term overhangs

	Spot	One month bias	1M	3M	6M	12M
USD/TWD	32.1000	Neutral	32.10	31.65	31.15	30.70

- The TWD saw some appreciation over the past month, with the USDTWD pair moving down to a low of 31.8 before rebounding to around 32.0.
- Markets pricing in US rate cuts have moved the yield spread to be more favourable for the TWD. However, at the same time foreign funds saw notable outflows from the Taiwan market, which led to relative underperformance versus other Asian FX.
- In the near term, the US elections and the risk of a tech sector pullback are also factors which could drag the TWD relative to other Asian currencies. If these uncertainties are resolved, the TWD has room to see a bounce back later on.



Source: Refinitiv, ING forecasts

Authors

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.