

Asian currencies battered

The Asia dollar index is down almost 2.8% from its March peak - it isn't just the CNY that has slid.



Source: shutterstock

-2.8% Asia dollar index

Decline since March peak

Yen bucks the trend

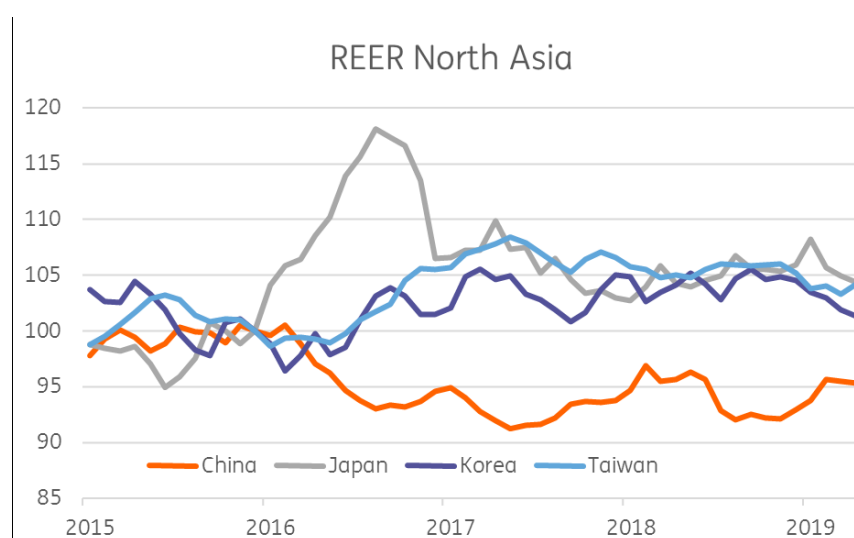
A quick look at the performance of Asian FX in the last month tells an interesting story. Safe haven currency, the JPY, is the only currency to register any gains over the last month, and is up 1.39 vs the USD. The THB, Emerging Market Asia's perennial outperformer, is about flat on the month, though in our view, for not very good reasons (weak domestic demand delivers a very large current account surplus). A surprising outperformer is the Indian rupee (INR), though may have been helped by recent political developments that offer some stability - which markets usually prefer to change.

Thereafter, the news turns ugly quite quickly. The PHP is down 0.95%, not bad though, at least compared to some of its regional peers. But the story is not replicated in all current account deficit

countries. The IDR is down more than 3% and bucks what is generally a North-South Asian split, with the tech-exposed KRW bottom of the pack, where it has been for some time, and joining the ranks of the TWD and CNY which are obviously more exposed to the US trade war as well as the global tech slump.

IDR local government bond yields also buck the regional trend, with yields rising rather than falling. It's true that Indonesia was one of the region's more vulnerable economies to contagion last year, and the re-run of EM issues globally might be expected to deliver some near-term pain. But its overall performance falls well short of other current account deficit peers like India and the Philippines. If this is a political story, then we imagine it could settle down in the coming weeks once the ructions over recent elections die down. Indonesia's USD bond markets do not exhibit the same strains, which suggests that currency concerns (maybe central bank intervention) may lie at the heart of this. Whatever the cause, this looks worth watching - there could be more to this than meets the eye.

Asian Real Effective Exchange rates (REER)



CNY holds below 7.0%

The recent deterioration of the trade talks between the US and China have provided China a window in which to let the CNY depreciate. But recent actions suggest that they still see the USDCNY 7.0 level as a ceiling to avoid.

Yesterday's fixing was set at 6.8992, stronger than the average of forecasters, and suggesting that the PBOC may now be leaning on the currency to limit further weakness.

On our comparisons of real effective exchange rates, the CNY is by no means uncompetitive at stronger levels from earlier in the year (within North Asia), and the additional depreciation can be seen as part of the considered and wide-ranging measures that the authorities have undertaken to offset the damaging impact of the trade war. These now include tax cuts for chip designers and producers.

But whilst the trade talks seem damaged, especially by the continued squabbling over 5G and tech security, a move closer to USDCNY 7.0 might be seen as threatening to completely derail the

prospects of any deal. We believe that despite the recent escalation of bad feeling, both sides are still hoping to strike a deal on trade, though neither is desperate to do so at all costs. Unless all prospect of a trade deal seems off the table, that 7.0 ceiling may well hold.

Asia Day ahead

Australian PMI data already released are surprisingly good given the recent doom and gloom from the Reserve Bank (RBA), but markets don't seem to be paying much attention, and probably neither will the RBA who we expect to cut rates by 25bp in June and then again in August (much like everyone else).

Singapore inflation is due out today. Consensus suggests a further small decline in the MAS (Monetary Authority of Singapore) core rate, which will support thoughts of an October reduction in the SGD nominal effective exchange rate appreciation path currently pursued.

(And from Prakash Sakpal): It's results day for the Indian elections. The strong INR and stock market rally at the start of this week after the exit poll showed Modi retaining power has petered out subsequently, though it left market performance up on the week. The market performance looks similar to the 2014 election results where there was a landslide victory for Modi. While the credibility of exit polls remains questionable, voter discontent in the BJP stronghold states makes this election highly unpredictable. Our base case remains one of the Modi faction staying in power for a second term.

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