

Asian FX catches flak

Asian currencies have not escaped the big surge in the US dollar overnight that has resulted in EURUSD falling a full big figure to 1.16. Some pre-weekend, pre-quarter-end profit-taking may be the theme today, but the broader trend of weakness may not be over



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Carnage in currencies

We've had a bond market sell-off, and an equities slump. Yesterday, it was the turn of the FX markets to react. Broad-based USD strength took EURUSD to below 1.16 at one point, a fall of more than a full "big-figure". No amount of "transient inflation" talk from the Fed's Powell and ECB's Lagarde at a virtual conference yesterday provided any help. That genie is well and truly out of the bottle.

The tally of losses in Asian FX overnight does not make for pleasant reading - look away now if you are of a squeamish disposition.

The yen has taken the bulk of the beating, down a massive 2.41% in the last 24 hours, and sitting just under the USDJPY112 level. But the THB and PHP, both of which have been under severe pressure in the last few days, also saw strong selling interest, falling 1.66% and 1.29% respectively. Anecdotally, we hear that BSP, the Philippines' central bank, has been active in the market trying

to prevent a 51.0 breach. That level is holding for now, but experience suggests that central banks aren't all that effective except in the very short term if the market is set on going in a particular direction. We would be surprised if the IDR manages to keep up its relative outperformance if this USD strength keeps up, and India's currency seems now to be re-taking its place amongst the lower half of the Asian FX table, following some IPO-driven strength in the INR in the past month.

We are also seeing some strains in the USD bonds of the Philippines and Indonesia. Yields on sovereign issues are up respectively 35bp and 25bp from the beginning of the month. This is not exactly evidence of an emerging market sell-off, but a strengthening USD and rising bond yields against a faltering global growth backdrop don't exactly scream "buy EM!". So caution on this front is certainly warranted. As we have seen in recent days, it takes less than 24 hours for markets to turn on their head. So these aren't likely to be market moves that you can chase once they've got going.

One constant theme of recent trading action is the resilience of China's currency. At 6.4783, USDCNH is holding steady in a fairly narrow range. From China's perspective, and bearing in mind that this is not exactly a free-float, that may be a help in limiting the passthrough of soaring energy import prices. But it does possibly set up a building pressure to normalise with the rest of the Asia FX pack. And that could give rise to a tectonic move later on. We've seen a few of those in markets in recent days, so it's worth bearing in mind as a risk case, even if the stability is maintained for now.

Asian data softish

It's been a busy day already for Asian macro data. And **Japan's** new LDP leader and prospective PM, Fumio Kishida, will need to ruminate on the dump of bad Japanese activity data this morning as he tries to figure out how much to spend and on what in his first budget action later this year.

A 3.2% MoM decline in Japan's industrial production resulted in a weaker than expected 9.3% YoY increase in industrial production for August. This was topped off by a 4.1% MoM decline in retail sales for the same month, down 3.2% from the previous year. We can probably put this down to a combination of Covid-induced movement restrictions hindering production, coupled with the weak supply of parts due to logistics problems with SE Asia suppliers struggling with Covid, ongoing semiconductor shortages and China's supply shutdown.

The newsflow out of **Korea** was only slightly less bad. Industrial production figures there did manage to beat the consensus view - rising 9.6% YoY, though underlying this was a weaker -0.7% MoM decline. Consequently, much of the upside year-on-year surprise might be driven by downward revisions to history - that's not a great way to grow. And for those looking for some light at the end of the tunnel, there was none to be gleaned from the cyclical leading index, which fell for a second month in August - though we should add that this only reflects data already released elsewhere, and doesn't add to the gloom - merely distils the message out of all the other data floating around.

China's PMI data was also disappointing. The official manufacturing PMI came in at 49.6, firmly in contraction territory and reflective of the impact of the recent energy crunch on production. There may be some easing of the energy supply constraints in the coming months, but it looks as if these will be mainly aimed to keep supplies flowing for the household sector, so the crunch on industry may remain in place for some time. There was a stronger reading for the non-manufacturing sector PMI, which confounded expectations, rising to 53.2 in contrast to

expectations for another contraction reading. That's a lot harder to explain away.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com