

## 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.

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