

Opinion | 1 September 2020

AUSTRALIA CHINA

## Some Asian exceptions to the sell-USD theme

The general theme of sell-USD may still hold, but here in the Asia-Pacific region, there are quite a few exceptions to this, which is becoming interesting



### Reports of the death of macro have been greatly exaggerated

Its good to see that macro does still have a role to play. There have been long periods in recent years when I have wondered why I bother, as markets have just gone and done their thing anyway - equities are still behaving a bit like that, though its interesting to note the late sell-off in US markets last night and a negative outlook from equity futures this morning, which may colour the usual, "buy stocks, sell USD, buy gold" mantra.

Yesterday saw some simply abysmal GDP data from India ([check out this note from Prakash Sakpal, plus his commentary below](#)). 2Q20 GDP fell 23.9% compared to a year ago, and yes,

this did weigh on the INR, which finished weaker at 73.6 vs the USD. Add to these terrible GDP results, which appear to be the worst in the region with only a few results to come in (Australia and New Zealand are not going to be worse than this), the likelihood of a -10% GDP result for the full year, plus some bad news on its deficit, which has exceeded its full-year target in just 4 months, and some further clashes with China in the Himalayas, and you might well question if this is one currency that may buck the general trend to strengthen against the USD over coming months.

Then there was the KRW, which stood out yesterday in terms of generalised weakness as the government announced an extension to the phase 2 social distancing measures in place to squeeze out the recent Covid-19 spike.

And let's not forget the IDR, which despite recent gains, is still on "double-secret probation" from the investment community, which stands by the rule that "EM countries shall not do direct deficit financing". There will need to be some trust won back here, but like India, the experiment with unorthodox policy highlights the limits these countries are reaching with fiscal policy, given that the central banks are all but exhausted.

And while we are at it, let's not let the NZD off the hook. It tends to follow the AUD more or less, but every now and then, will show some life of its own. Despite my recent cheese-buying frenzy, New Zealand milk prices, which will comprise a big chunk of the NZD terms of trade, have been dropping. After a good run, there is growing interest in a short-term pull-back for the Kiwi.

And if we're on the NZD's back, let's not let the AUD off the hook, with the RBA today (always a good opportunity to talk the AUD down) and GDP data out tomorrow (we reckon -5.5% for 2Q20 - a lot worse than our original thoughts thanks to the Victoria lockdown), perhaps there is some scope for a pullback here too.

So, yes, by all means, take a dim view on the USD on the back of the Fed's confirmed long-term dovishness, but don't lose sight of what's going on on the other side of the FX pair, because there is a lot of negativity there too.

### Asia today

Its already been a busy day today, and it will remain so for much of the morning. Japanese employment data weren't very encouraging. The jobless rate for July crept up to only 2.9%, not as bad as feared, but the jobs-to-applicants ratio fell more sharply from 1.11 to 1.08 which is a more dismal forward-looking indicator for Japan's labour market.

South Korean 2Q20 GDP was revised to be slightly less negative than originally, at -2.7%YoY (from -2.9%), which still leaves South Korea in the top half of the APAC league table along with Taiwan, China, and likely when they are released, Australia and New Zealand. ASEAN fills all

the bottom of the table, along with India.

Korean trade data for August have also been released. The 16.3%YoY fall in imports reflects the impact of the most recent social distancing restrictions on domestic activity, while the continued weakness in exports (-9.9% was marginally better than expected but worse than the -7.1% figure for July) indicates that global weakness is still preventing a stronger upturn here, even with strong demand for semiconductors.

PMI data is due out across the region this morning, along with China's Caixin mfg PMI index, which could shed some interesting light on the plight of China's export-facing smaller manufacturing firms.

And as mentioned earlier, the RBA is also meeting today. There's no expectation of anything from them today from any of the sampled consensus of forecasters, but such occasions are still available for policymakers to wade into market pricing by suggesting future policy options are more live than markets had perhaps anticipated. As today marks the beginning of a new quarter, this would be the time to belt out such a message if the Reserve Bank of Australia felt it was needed. Potential downside risk for the AUD today then...?

Indonesian CPI today should be a bit of a non-event, given that Bank Indonesia's hands are tied in terms of further policy action by the IDR's weakness (which it generated). But some room for easing in the future might be created by continued price softness today.

### Asia yesterday

And to finish off with today, here's a short summary of yesterday's execrable data releases from India (along with another link to Prakash's more detailed account). "

**India:** [The Indian economy crashed 24% YoY in the April-June quarter](#). The decline was broad-based, with a plunge in both domestic demand and exports, while the 10%+ (in terms of GDP) fiscal stimulus package again wasn't apparent in government consumption.

This data has pushed our forecast for FY2020-21 growth further down to -10.3% from -8.6%. Without any more policy support, it could be even worse. The INR 8.21 trillion budget deficit in the first four months of the fiscal year has already exceeded the INR 7.96 trillion official projection for the whole year. The RBI announced measures to ease stress in the bond market. But we would expect any relief for the market to be short-lived given the persistent inflation threat and supply overhang. Yields came off only a bit yesterday, and the INR weakened. We expect the INR will remain an Asian underperformer over the rest of the year.

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