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FX

Asian FX Talking: It's complicated!

Multiple layers of overlapping influences and idiosyncratic factors make 2019 an interesting, but challenging year for forecasting

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Executive summary

Forecasting is never easy, but 2019 looks like it will challenge the best FX astrologers. The start of the year wasn't much help with the flash crash causing some early headaches. But if we can generalise, we have started off the year with a softer dollar and, in consequence, broadly (though not uniformly) stronger Asian FX.

This has been caused by a change in Fed rhetoric, though we believe, not in their actual reaction function. The market has over-reacted to this and is pricing in some Fed easing this year which we believe to be totally off the table. Indeed, even if rate hike expectations within the Fed have been pared, and their timing pushed back, the direction for policy rates is still up.

Likewise, the more upbeat tone struck (especially by the US) on trade has also caused the USD to lose some ground to Asian currencies, the CNY in particular. Once again, we are sceptical that much has changed. The US President needed to score some quick wins with equity markets and this was a convenient way to do so. And China was always an open door for more soy and LNG imports. The harder discussions come on intellectual property and government support for State Owned Enterprises. These aren't realistically on the table for China, and we may see the mood on trade sour again within months.

At the country level, we need to overlay what looks like a broad uptrend in crude over the year – bad news for India, good news for Malaysia, and so long as it does not exceed US$75/bbl, we think better news for the big exporters (Korea, Taiwan). And then there are elections in India, Indonesia, and possibly Thailand. All of which introduce substantial binary risk. So in what follows, we have given it our best shot. But it's not been easy, and don't expect this to be the last word on Asian FX this year!

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