

Report | 11 January 2019

FX

Asian FX Talking: It's complicated!

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



Source: Shutterstock

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!

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.