6 August 2020
Asia

Asian FX Talking

All aboard the reflation train

We don't feel entirely comfortable with the markets' apparent sense of invincibility, but caution hasn't worked for us in recent months, so we are revising some of our FX forecasts stronger.

Despite indications of being oversold, which usually lead to at least a short-term correction, the USD index remains in a fairly strong downtrend. This is a much bigger story than purely FX markets, and is reflected in prices of currency substitutes, gold, bitcoin, as well as commodities (oil), equities and the Asian FX complex.

At its heart is the continued money printing by central banks, including but not exclusive to the US Federal Reserve. Realization is strengthening that this will continue, and that it will be years before we need to worry about rising Fed funds rates again – supporting risk sentiment.

With the exception of the IDR, and INR, which continue to wrestle with very bad Covid-19 issues, the last month has seen all other Asian currencies perform strongly, with the MYR leading the pack aided by stronger oil prices, supportive fiscal policies and a good pandemic.

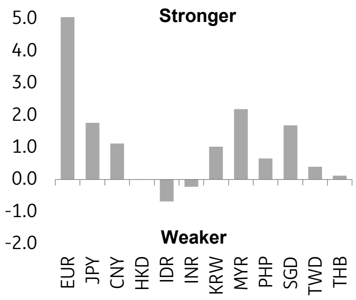
With the weak USD looking likely to remain in place, given how unlikely a change in Fed policy is, this should keep Asian fx bid in coming months. But the scope for temporary corrections to this, or disruptions to this story from the pandemic, geo-politics, and even the macro economy remains high. This will be a nervous appreciation.

ING's 12-month currency view vis-à-vis forward/NDF market forecasts

	USD/JPY		AUD/USD		NZD/USD	
Spot	**105**		**0.72**		**0.66**	
1M	104	<	0.71	<	0.67	>
3M	103	<	0.73	>	0.68	>
6M	102	<	0.75	>	0.70	>
12M	105	=	0.74	>	0.69	>
	USD/CNY		**USD/INR**		**USD/IDR**	
Spot	**6.946**		**74.89**		**14592**	
1M	7.000	>	75.80	>	14589	=
3M	6.980	=	76.90	>	14656	<
6M	6.950	<	76.50	=	14514	<
12M	6.850	<	75.50	<	14758	<
	USD/KRW		**USD/MYR**		**USD/PHP**	
Spot	**1185**		**4.187**		**49.06**	
1M	1180	=	4.190	=	49.45	>
3M	1160	<	4.180	=	49.84	>
6M	1180	=	4.180	<	50.35	>
12M	1140	<	4.200	<	51.89	>
	USD/SGD		**USD/TWD**		**USD/THB**	
Spot	**1.369**		**29.35**		**31.06**	
1M	1.370	=	29.30	=	31.00	=
3M	1.360	<	29.15	>	30.90	<
6M	1.350	<	29.00	>	30.80	<
12M	1.360	<	28.85	>	31.20	=

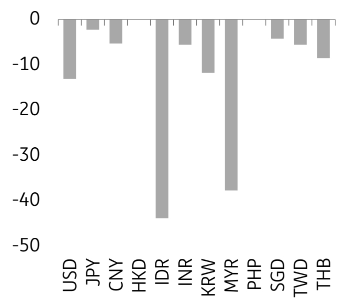
> / = / < indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright. Prices as on 6 August 2020 at 12pm Singapore time.
Source: Bloomberg, ING estimates

Exchange rates vs. USD (%MoM)



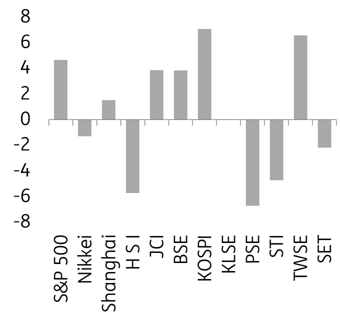
Source: Bloomberg

10Y local currency gov't bond yields (MoM bp)



Source: Bloomberg

Stock indices (%MoM)



Source: Bloomberg

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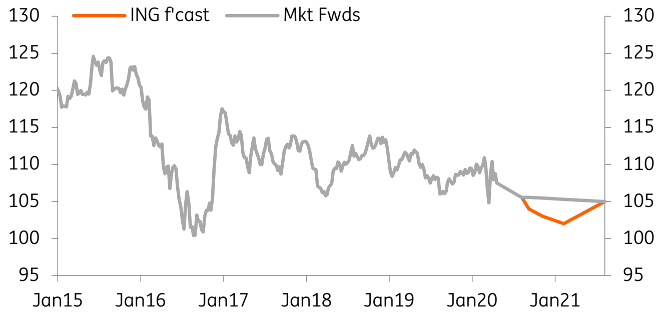
USD/JPY

US real yields look set to weigh on dollar into 2021

Current spot: 105.52



Source: Bloomberg, ING

- USD/JPY's brief foray below 105 in late July was met with a wall of buying. Even though the political environment does not allow MoF FX intervention, there will no doubt be a queue of Japanese fund managers – led by the GPIF – to buy US securities unhedged when USD/JPY dips below 105.
- Pressure from negative US real yields, however, looks set to weigh on USD/JPY over coming quarters. The Fed looks intent on driving US real yields more negative (by keeping the policy rate and possibly US Treasury yields low with YCC), while driving up inflation expectations. This theme could see $/JPY test 100.
- Stronger Asian FX may see BoJ more relaxed over JPY strength.

ING forecasts (mkt fwd)	**1M 104.00** (105.5)	**3M 103.00** (105.4)	**6M 102.00** (105.2)	**12M 105.00** (105.0)

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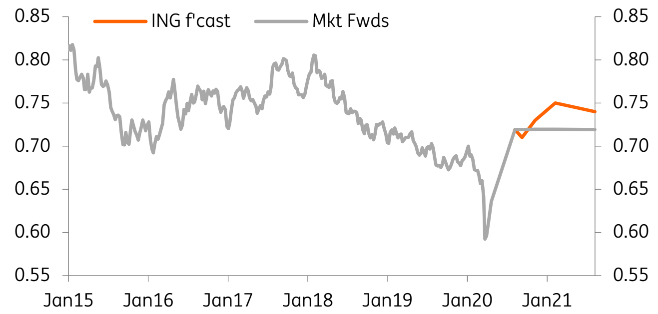
AUD/USD

Strong despite Covid-19 resurgence

Current spot: 0.72



Source: Bloomberg, ING

- The resurgence of Covid-19 in the state of Victoria puts a dampener on what was looking like a "good" Pandemic for Australia, and will weigh on GDP growth in 2H20.
- Despite this, the AUD has performed reasonably this month, helped along by fresh Chinese demand for Australian commodity exports, though it has lost some ground in recent weeks to some of Asia's fiscal big spenders (MYR and SGD).
- While it's difficult to see the market's affinity for the AUD ending, any time soon, at current levels, we are not expecting the recent rate of appreciation to persist, and the RBA has yet to weigh in on the currency's strength – which it could do at any time.

ING forecasts (mkt fwd)	**1M** 0.710 (0.719)	**3M** 0.730 (0.719)	**6M** 0.750 (0.719)	**12M** 0.740 (0.719)

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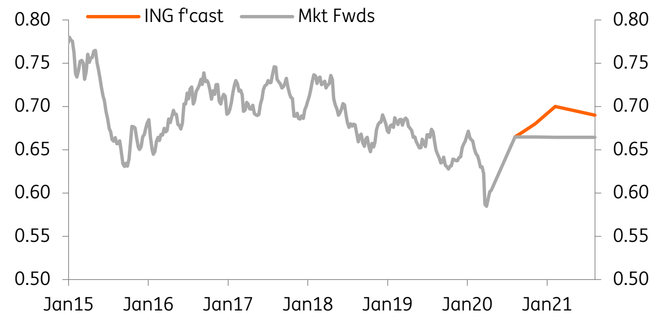
NZD/USD

More easing looming

Current spot: 0.66



Source: Bloomberg, ING

- New Zealand remains a rare Covid-free economy in a disease-ridden world. This may work in favour of AUD/NZD downside in the short term (to the 1.06 area) given the asymmetry in virus situations between Australia and New Zealand.
- Weighing on investors' minds is the upcoming 12 August RBNZ meeting. Inflation expectations remain at the low end of the RBNZ's 1-3% target range, and this could see some additional easing announced taking the NZD lower.
- Any easing will probably take the form of some further expansion of the QE bond-buying programme rather than a foray into negative rates, but that's still an option for the RBNZ.

ING forecasts (mkt fwd)	**1M** 0.670 (0.665)	**3M** 0.680 (0.665)	**6M** 0.700 (0.664)	**12M** 0.690 (0.664)

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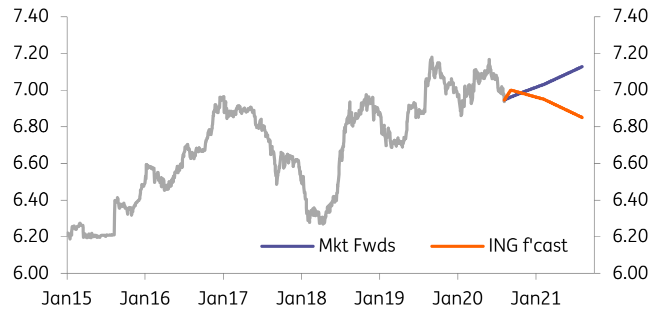
USD/CNY

Yuan strengthens modestly as USD weakens

Current spot: 6.946



Source: Bloomberg, ING forecasts

- The CNY has strengthened this month, but only modestly compared to the dollar's weakening trend.
- It seems that negative political news on Hong Kong and possibly more bans on Chinese-owned software in the US have not had much impact on the CNY. This further confirms our view that CNY strength comes mainly from the weakness of the dollar.
- Hopefully in 2H20, the export recovery will add further momentum to the yuan's rising trend against the dollar when exporters convert their sales receipts in USD to CNY.

  We revise our USD/CNY forecast to 6.97 from 7.05 by end-2020.

ING forecasts (mkt fwd)	**1M** 7.000 (6.962)	**3M** 6.980 (6.991)	6M 6.950 (7.031)	**12M** 6.850 (7.128)

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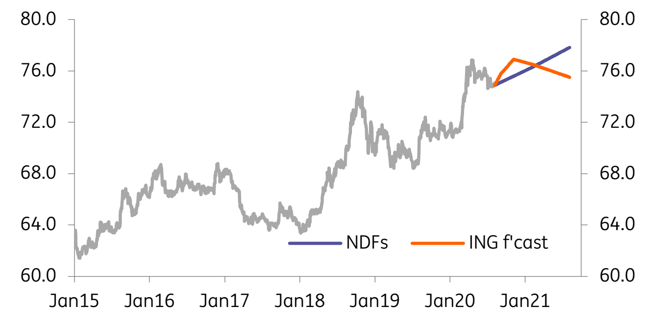
USD/INR

The worst economic fallout of Covid-19 may be behind

Current spot: 74.89



Source: Bloomberg, ING forecasts

- USD/INR has hovered around 75 since July with the broader EM currency rally capping the upside and the economy's worsening Covid-19 plight limiting the downside. We consider the INR prone to more weakness ahead on top of 5% year-to-date depreciation.
- India's Covid-19 cases will have crossed the 2-million mark by the time this report gets out. Hopefully, we have left the worst of the economic fallout from Covid-19 behind in 2Q. We expect close to a 12% YoY GDP fall in 2Q (data due 31 August).
- A sharp deterioration in public finances is keeping the RBI in the picture to deliver further stimulus. But inflation back above the RBI's 6% policy target dampens future rate cut prospects.

ING forecasts (mkt fwd)	**1M** 75.80 (75.13)	**3M** 76.90 (75.59)	**6M** 76.50 (76.30)	**12M** 75.50 (77.84)

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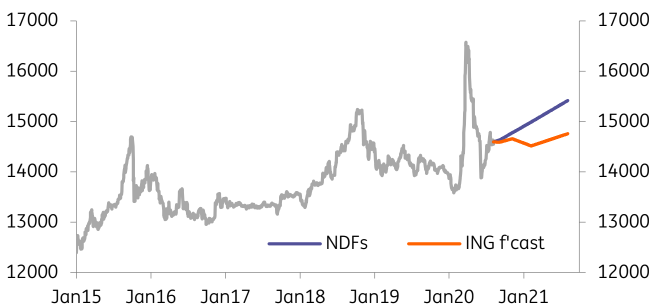
USD/IDR

IDR depreciates on "burden sharing" arrangement

Current spot:14592



Source: Bloomberg, ING forecasts

- The IDR depreciated for most of July with investors anxious over a planned "burden sharing" agreement between the national government and Bank Indonesia (BI). BI agreed to monetize the country's debt, purchasing primary issuances at a discount.
- Bank Indonesia (BI) cut policy rates again as official economic projections were downgraded ahead of the economy's assumed (and then actual) contraction in 2Q. IDR retreated after the rate cut with investors noting a possible shift in central bank focus from currency stability to stimulus efforts to boost the economy.
- IDR moved sideways to close the month with BI stemming depreciation pressure as IDR remains vulnerable to sentiment.

ING forecasts (mkt fwd)	**1M** 14589 (14634)	**3M** 14656 (14774)	**6M** 14514 (14989)	**12M** 14758 (15419)

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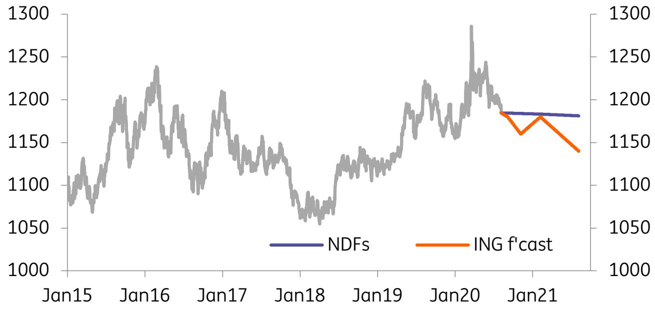
USD/KRW

Correction postponed

Current spot: 1185



Source: Bloomberg, ING forecasts

- We've been concerned that numerous markets look overbought, including US equities, and by extension, the high beta Asian currencies, like the KRW. But we've given up looking for a correction – there just seems too much liquidity, even when the underlying data isn't all that good.
- This will end one day, but for now, the KRW is likely to continue to appreciate, benefiting from its good Covid-19 performance, reasonable domestic demand, supportive fiscal policies and pick-up in demand for semiconductors and other tech exports.
- A pause / correction later in the year remains possible, reflecting the house view of a turn in the USD at year-end.

ING forecasts (NDFs)	**1M** 1180 (1184)	**3M** 1160 (1184)	**6M** 1180 (1183)	**12M** 1140 (1181)

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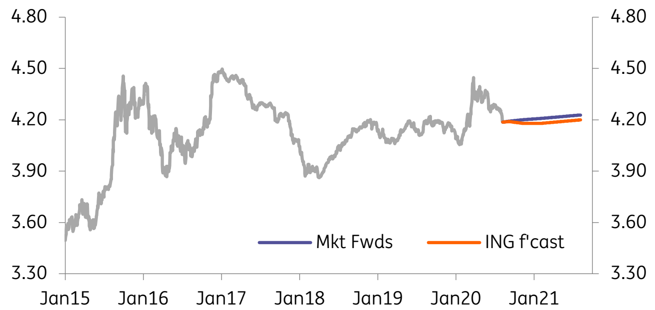
USD/MYR

Central bank easing cycle has further to run

Current spot: 4.187



Source: Bloomberg, ING forecasts

- Broad EM strength since June has helped the MYR erase almost half its depreciation from earlier in the year, and it is the best performing Asian currency this month. Still, a 2.4% year-to-date loss puts it among Asian underperformers this year.
- The 2Q GDP release on 14 August will reveal the economic damage from the Covid-19 lockdown. The economy re-opened in June, and the trade surplus jumped to a record MYR 20.9bn. Yet, it would be the steepest GDP fall in 2Q since the 1998 Asian crisis.
- Persistent negative inflation leaves the door open to a further BNM policy rate cut after a total of 125bp easing so far this year to an all-time low of 1.75%. We expect rates to bottom at 1.50%.

ING forecasts (mkt fwd)	**1M** 4.190 (4.192)	**3M** 4.180 (4.200)	**6M** 4.180 (4.209)	**12M** 4.200 (4.229)

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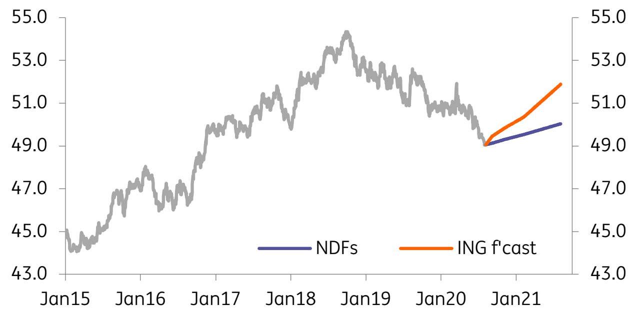
USD/PHP

PHP appreciates as imports drop

Current spot: 49.06



Source: Bloomberg, ING forecasts

- The PHP appreciated throughout July supported by smaller but steady remittances and foreign borrowing. Demand for the dollar also dissipated with economic activity slowing, evidenced by a substantial pullback in imports.
- Bangko Sentral ng Pilipinas (BSP) Governor Diokno, reiterated that he would refrain from cutting policy rates over the next few quarters, which has helped to keep the peso stable in July.
- PHP will continue to enjoy short-term strength as demand for imports remains weak, reflecting fading domestic economic activity.

ING forecasts (mkt fwd)	**1M** 49.45 (49.13)	**3M** 49.84 (49.31)	**6M** 50.35 (49.54)	**12M** 51.89 (50.04)

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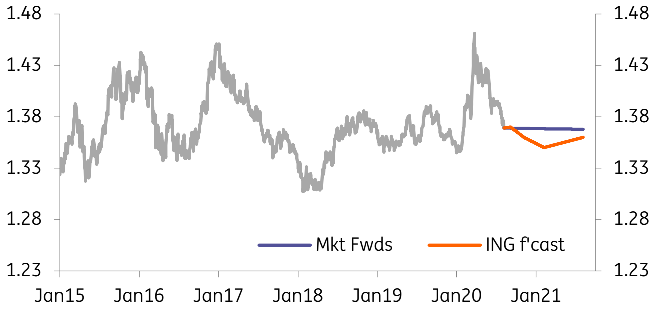
USD/SGD

An Asian outperformer in July

Current spot: 1.369



Source: Bloomberg, ING forecasts

- Like most Asian peers the SGD has had a good run since June. In fact, it was an outperformer Asian currency in July with a 1.4% appreciation against the USD. We expect the currency to hold on to these gains in the rest of the year.
- GDP suffered its worst-ever fall in 2Q by 12.6% YoY (-41% QoQ SAAR), as per the advance estimate that is at risk of a downside revision on the back of weak June manufacturing. A 2.9% jobless rate in 2Q wasn't as bad as in the recent crisis.
- A large stimulus package worth 19% of GDP seems to be working its way into saving jobs. Whether it holds the line under GDP is to be seen as this mainly depends on export demand.

ING forecasts (mkt fwd)	**1M** 1.370 (1.369)	**3M** 1.360 (1.369)	**6M** 1.350 (1.368)	**12M** 1.360 (1.368)

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USD/TWD

Speedy strengthening slowed down slightly

Current spot: 29.35

Source: Bloomberg, ING forecasts

- The flow of capital into the Taiwan stock market seems non-stop, though has slowed down a bit. This small open economy's GDP contraction in 2Q20 didn't stop the inflows. It seems that the financial market has set aside macro indicators for now.
- The economy has only shown strength in cone sector – namely integrated circuits. This alone has been enough for Taiwan to attract more foreign capital. But we are sceptical how long this can last.
- We revise our USD/TWD forecast to 29.10 by the end of 2020 from 29.40.

ING forecasts (mkt fwd)	**1M** 29.30 (29.22)	**3M** 29.15 (28.98)	**6M** 29.00 (28.68)	**12M** 28.85 (28.29)

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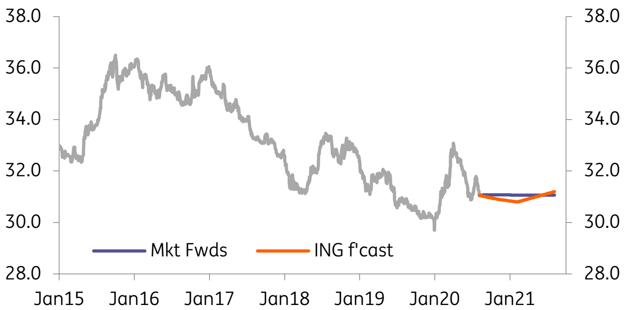
USD/THB

End of central bank easing cycle

Current spot: 31.06



Source: Bloomberg, ING forecasts

- Renewed THB weakness in the first half of July was a relief for the Bank of Thailand given its worry that the strong currency would hurt the export and tourism recovery. The relief was short-lived. Appreciation pressure returned in the second half of July.
- Look out for the 2Q20 GDP release on 17 August. We now expect a 12.8% YoY GDP fall, revised down from -8.3%. We have also cut our full-year 2020 growth view to -6.6% from -5.4%. It's not as bad as the BoT's view of an 8.1% GDP fall this year.
- A second straight unanimous vote by BoT policymakers to keep the policy rate at 0.5% reinforces that the easing cycle has ended. We don't see any policy reversal for a long time.

ING forecasts (mkt fwd)	**1M** 31.00 (31.08)	**3M** 30.90 (31.08)	**6M** 30.80 (31.07)	**12M** 31.20 (31.06)

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