

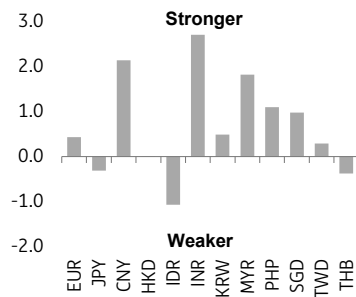
3 September 2020

Asia

Asian FX Talking

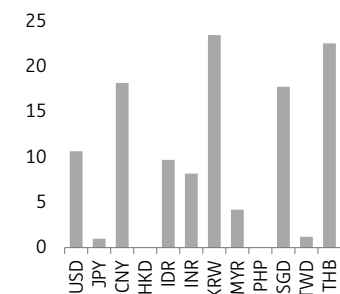
Asian exceptions to the rule

Exchange rates vs. USD (%MoM)



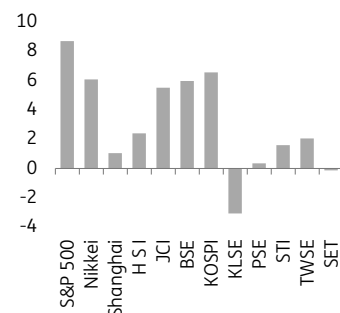
Source: Bloomberg

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



Source: Bloomberg

Stock indices (%MoM)



Source: Bloomberg

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Asian FX has been benefiting from the weaker USD, but there is a growing number of currencies in the APAC space for which appreciation is no longer a given

With our FX colleagues extending their expectation for EUR gains against the USD, there is some pressure for us to follow suit in Asia Pacific. But while the general trend may hold for some, there is a growing list of currencies for which we feel that appreciation is no longer a given, and indeed some depreciation is possible in the coming quarter.

At the top of that list is the INR, which with its terrible GDP for 2Q20, awful Covid-19 backdrop, challenged fiscal and monetary options and perennial external balancing issues, is a good contender for at least some periodic weakness. Then too there is the IDR, which is gaining support from a central bank unwilling to undermine it further with rate cuts but only after it undermined it initially with direct financing of the government's deficit. Thailand is seeing its external surplus shrink, the KRW has had a recent wobble over Covid-19 restrictions (which could happen to any country if it can happen in Korea). There are also some terms of trade tensions in AUD and NZD that might deliver at least a short-term correction, even if not a reversal in recent trends.

So, yes, the USD looks undermined by the Fed, but there are relatively few other currencies out there that look immediately attractive, so the next leg of this journey may be a much bumpier one.

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

	USD/JPY	AUD/USD	NZD/USD
Spot	106	0.73	0.68
1M	105 <	0.71 <	0.67 <
3M	102 <	0.73 =	0.68 >
6M	102 <	0.75 >	0.70 >
12M	102 <	0.74 >	0.69 >

	USD/CNY	USD/INR	USD/IDR
Spot	6.830	73.03	14785
1M	6.780 <	73.50 =	14620 <
3M	6.700 <	75.00 >	14514 <
6M	6.650 <	76.00 >	14822 <
12M	6.700 <	75.30 <	14801 <

	USD/KRW	USD/MYR	USD/PHP
Spot	1187	4.143	48.51
1M	1180 <	4.150 =	48.32 <
3M	1160 <	4.180 >	48.66 =
6M	1180 <	4.200 >	50.11 >
12M	1140 <	4.220 >	50.88 >

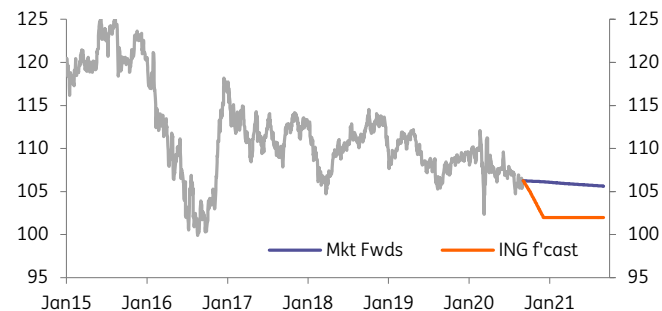
	USD/SGD	USD/TWD	USD/THB
Spot	1.363	29.34	31.32
1M	1.360 =	29.30 =	31.30 =
3M	1.365 =	29.10 =	31.50 =
6M	1.370 >	28.90 =	31.50 =
12M	1.380 >	28.70 >	31.20 <

> / = / < indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright. Prices as on 3 September 2020 at 12pm Singapore time.

Source: Bloomberg, ING estimates

USD/JPY

Abenomics continued



Source: Bloomberg, ING forecasts

ING forecasts (mkt fwd)	1M 105 (106)	3M 102 (106)	6M 102 (106)	12M 102 (106)
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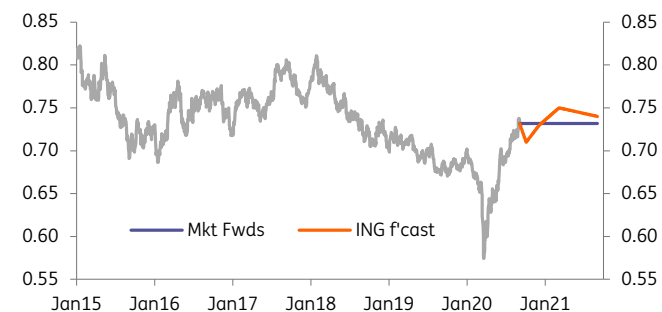
Current spot: 106

- Japanese authorities will be pleased that the JPY nominal trade weighted exchange rate remains soft – while currencies like the EUR and CNY advance against the dollar. JPY strength is never welcome in Tokyo. 105 will remain an important psychological level in USD/JPY and we suspect Japanese pension funds will be lined up to buy below there.
- 14 September sees the LDP leadership election. It now seems that clear Yoshihide Suga, a key Abe ally, will win the vote and deliver an extension of Abenomics – meaning very loose BoJ policy.
- The Fed's policy shift, very negative US real yields and a messy US Presidential election should keep \$/JPY biased to 102, however.

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AUD/USD

Strongest currency in Asia pacific



Source: Bloomberg, ING forecasts

ING forecasts (mkt fwd)	1M 0.71 (0.73)	3M 0.73 (0.73)	6M 0.75 (0.73)	12M 0.74 (0.73)
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Current spot: 0.73

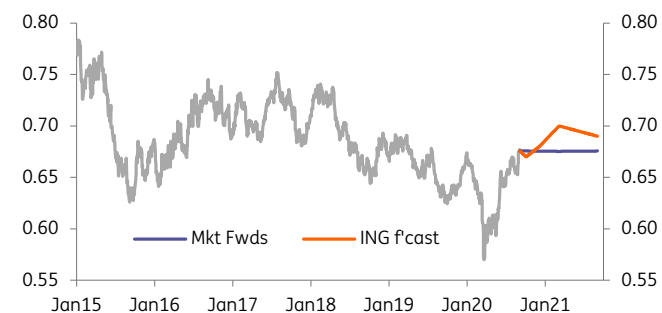
- The RBA has been buying government bonds again after its recent hiatus, but the AUD continues to strengthen, and over the month, has appreciated more against the USD than any other Asia-Pacific currency (2.93% from 31 July).
- 2Q GDP has been hit by the Victoria lockdown, coming in at -7% QoQ. The lockdown is not due to end until later in September and has required us to revise down our GDP forecast for the full year from -0.8% to -4.2%.
- The RBA considers that the lockdown has cost the economy at least 2ppt compared to a counterfactual of no lockdown having happened. But it does not yet seem to have hurt the currency.

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NZD/USD

Terms of trade to weigh on kiwi?



Source: Bloomberg, ING forecasts

ING forecasts (mkt fwd)	1M 0.67 (0.68)	3M 0.68 (0.68)	6M 0.70 (0.68)	12M 0.69 (0.68)
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Current spot: 0.68

- New Zealand has also not escaped a second outbreak of Covid-19, which has also encouraged us to revise down our GDP forecast for 2020 to -4.2% for the full year.
- Auckland has now exited its lockdown, which allows for a bounce in 3Q20, though there will remain much stricter social distancing than prior to the lockdown.
- The NZD has also had a reasonable month, though has not been as strong as the AUD, possibly due to the open prospect for negative rates expressed by Governor Orr, and possibly by some terms of trade shifts, including the important milk powder prices.

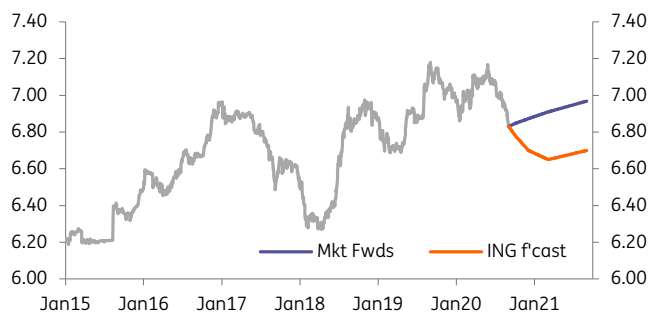
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USD/CNY

Revising yuan forecast stronger

Current spot: 6.830



Source: Bloomberg, ING forecasts

- The yuan has strengthened faster over the last month, despite escalating tensions of the technology war.
- The economy has begun to recover from Covid-19 damage. Some indicators even show that some parts of the economy have grown faster than at the same point last year.
- As the weak dollar trend continues, we see the yuan keeping its strength towards the end of the year. The main risk remains that the US continues to increase pressure on Chinese technology companies.
- We revise our forecast for end-2Q20 USD/CNY, to 6.7 from 6.97.

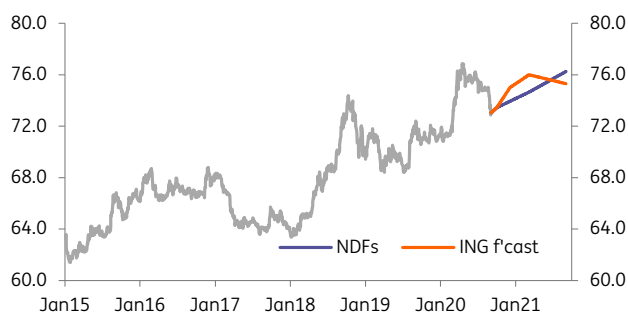
ING forecasts (mkt fwd)	1M 6.780 (6.847)	3M 6.700 (6.873)	6M 6.650 (6.910)	12M 6.700 (6.969)
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USD/INR

Asia's key exception to the sell-USD theme

Current spot: 73.03



Source: Bloomberg, ING forecasts

- Against all the odds, the INR eked out a 1.6% MoM appreciation in August vs USD, its best month since March 2019. We don't think this is a sustainable path for the currency as the economy's exposure to Covid-19 effects continues to worsen.
- Total Covid-19 cases are poised to hit the 4 million mark in a matter of days. This dampens hopes of recovery from a dreadful 23.9% YoY 2Q GDP fall, the worst in Asia. A further double-digit GDP fall in FY20-21 looks more likely than not.
- There is nothing more that can be expected on the policy front to ease the pain - a record budget deficit constrains fiscal policy and high inflation puts the floor under the RBI policy rates.

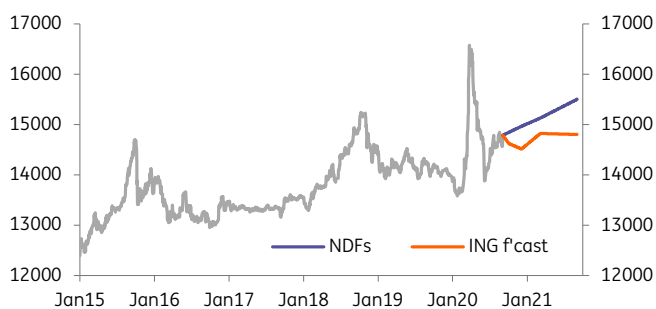
ING forecasts (mkt fwd)	1M 73.50 (73.49)	3M 75.00 (73.96)	6M 76.00 (74.68)	12M 75.30 (76.28)
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USD/IDR

IDR pressured on concerns over BI's independence

Current spot: 14785



Source: Bloomberg, ING forecasts

- The IDR faced renewed depreciation pressure as investors turned anxious over potential additional rounds of debt monetization in 2021 after the authorities had pledged that the 2020 "burden sharing arrangement" was a one-off.
- Bank Indonesia (BI) was forced to keep policy rates unchanged at the 19 August meeting despite a contraction in 2Q GDP and below-target inflation with IDR under depreciation pressure on debt monetisation concerns.
- The IDR has steadied somewhat recently on bond inflows but remains susceptible to renewed bouts of weakness on reports of possible changes to the structure of the BI leadership.

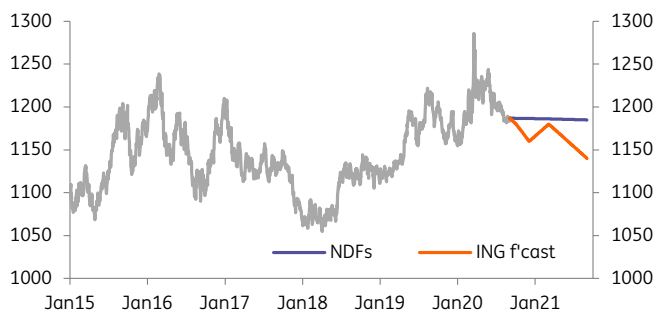
ING forecasts (mkt fwd)	1M 14620 (14838)	3M 14514 (14959)	6M 14822 (15127)	12M 14801 (15495)
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USD/KRW

Summer lull

Current spot: 1187



Source: Bloomberg, ING forecasts

- The Korean Won has not done very much in the last month. Compared to other Asian currencies, the KRW has appreciated just over 0.5% against the USD. It is a mid-table performance at best.
- 2Q20 GDP came in at -2.9%, revised later to -2.7%. This was a considerably better GDP figure than most of the ASEAN countries, and leaves GDP less than 5ppt lower, when compared to 4Q19.
- The latest Bank of Korea meeting downgraded its outlook for the year to a decline of 1.3% this year (INGf 1.6%) with Governor Lee noting that it had both rate and non-rate tools left at its disposal but has given no indication of imminent action. We expect none.

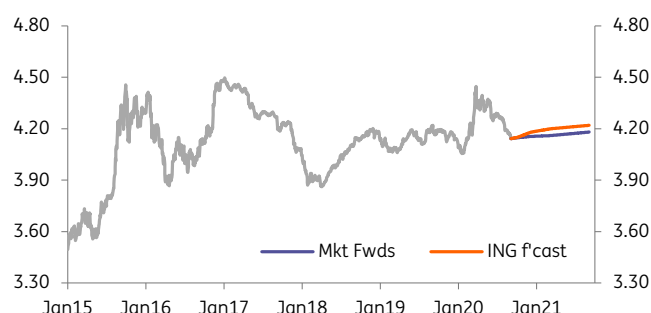
ING forecasts (NDFs)	1M 1180 (1188)	3M 1160 (1187)	6M 1180 (1187)	12M 1140 (1185)
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USD/MYR

Benefiting from firmer oil and record trade surplus

Current spot: 4.143



Source: Bloomberg, ING forecasts

- Going with the EM flow, the MYR also had a good run in August with a 1.9% MoM appreciation against the USD, the second-best in Asia after the CNY. The firming of oil prices and record trade surplus underpin some of the outperformance.
- Even as Covid-19 was well-contained, GDP was hit hard with a 17% YoY plunge in 2Q. Things are looking better coming into 3Q. A second straight monthly export bounce in July sent the trade surplus soaring to MYR25 billion, an all-time high.
- That said, a couple more quarters of negative GDP growth look inevitable. We see the central bank (BNM) cutting the policy rate by another 25bp at the next meeting on 10 September.

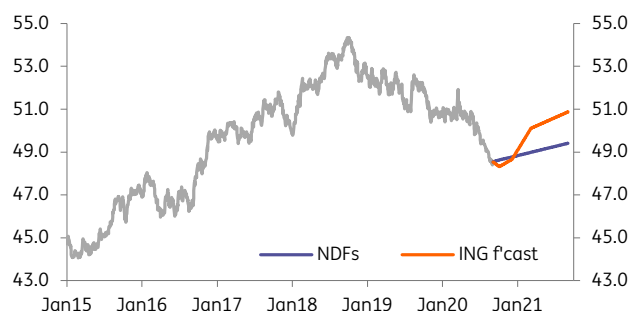
ING forecasts (mkt fwd)	1M 4.150 (4.149)	3M 4.180 (4.157)	6M 4.200 (4.162)	12M 4.220 (4.183)
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USD/PHP

PHP strengthens as corporate demand evaporates

Current spot: 48.51



Source: Bloomberg, ING forecasts

- The PHP sustained the appreciation trend in August as corporate demand remained lacklustre with economic momentum slowing considerably due to partial lockdowns still in effect in the capital region.
- Bangko Sentral ng Pilipinas (BSP) Governor Diokno kept rates unchanged despite benign inflation and the need to support the economy as real policy rates edged deeper into negative territory.
- The PHP may appreciate further as the authorities announce an additional US\$2.5 bn worth of borrowing are slated for 4Q20.

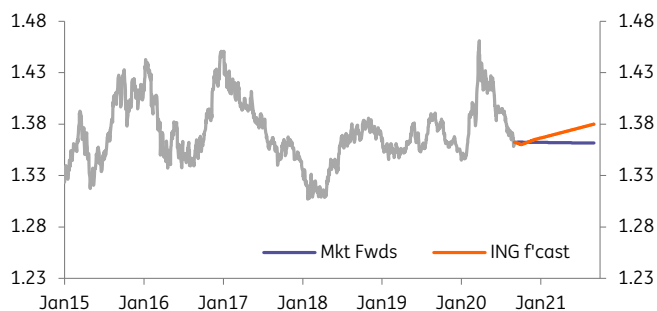
ING forecasts (mkt fwd)	1M 48.32 (48.63)	3M 48.66 (48.78)	6M 50.11 (48.99)	12M 50.88 (49.42)
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USD/SGD

The MAS to keep the policy on hold in October

Current spot: 1.363



Source: Bloomberg, ING forecasts

- A 1% appreciation in August kept the SGD firmly on course to recover the remaining losses incurred at the height of the Covid-19 outbreak earlier in the year.
- The economy might have seen its Covid-19 low in 2Q with a 13% YoY GDP fall. But we see nothing on the horizon to turn the negative GDP trend around just yet. The mildly positive exports and manufacturing trends are likely to be countered by weak domestic demand and a contracting services sector.
- The economy is awash with liquidity with a >12% YoY M2 surge in July, but there are no takers as lending continues to fall. We see the MAS keeping its current policy stance in October.

ING forecasts (mkt fwd)	1M 1.360 (1.363)	3M 1.365 (1.363)	6M 1.370 (1.362)	12M 1.380 (1.362)
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USD/TWD

Some stabilisation

Current spot: 29.34



Source: Bloomberg, ING forecasts

- Mixed data for the Taiwan economy - exports seemed to have recovered but there is risk in the coming data.
- The US restrictions on Chinese technology companies have hurt those Taiwan semiconductor chip manufacturers that had supplied advanced semiconductor chips to Mainland China over the past year.
- Inflows into the Taiwan equity market slowed, and the TWD stopped strengthening and stabilised in August.
- The increasing political tensions with the Mainland China government is another risk for Taiwan and could make the TWD more volatile in 4Q20.

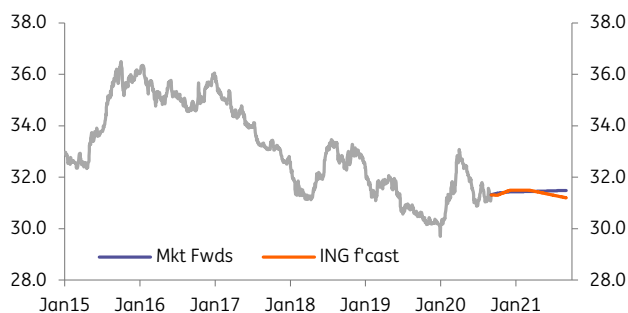
ING forecasts (mkt fwd)	1M 29.30 (29.28)	3M 29.10 (29.10)	6M 28.90 (28.82)	12M 28.70 (28.40)
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USD/THB

Political risk is starting to take toll on the THB

Current spot: 31.32



Source: Bloomberg, ING forecasts

- The THB's 0.2% MoM gain in August was the least among Asian currencies. And, it continued to be an Asian underperformer with a 3.7% fall in the first eight months, the position it's likely to retain over the rest of the year due to rising political risk.
- Recent anti-government protests by students demanding political reforms have lifted political risk. And, the resignation of new Finance Minister, Predee Daochai, less than a month after taking office, has just thrown the economy into further disarray.
- A 12% YoY GDP fall in 2Q wasn't as bad as some other Asian economies. But recovery will be difficult without exports and tourists, while the policy easing has also run its course.

ING forecasts (mkt fwd)	1M 31.30 (31.39)	3M 31.50 (31.45)	6M 31.50 (31.47)	12M 31.20 (31.50)
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