

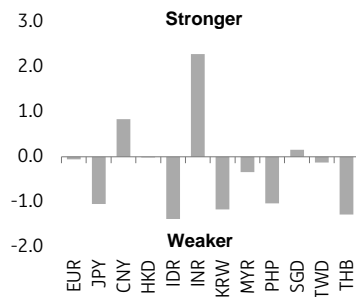
15 March 2019

Asia

# Asian FX Talking

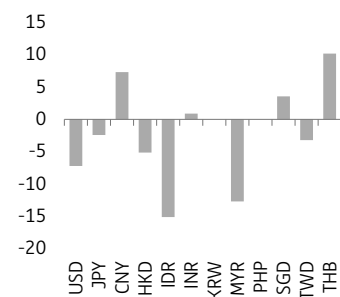
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Exchange rates vs USD (%MoM)



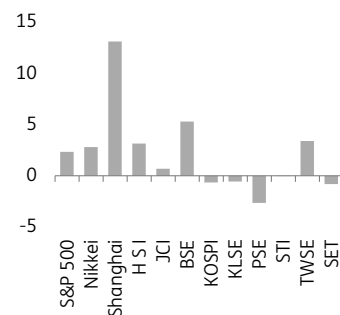
Source: Bloomberg

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



Source: Bloomberg

Stock indices (%MoM)



Source: Bloomberg. Tenor in parentheses

**Rob Carnell**

Head of Research, Asia  
Singapore +65 6232 6020  
robert.carnell@asia.ing.com

**Iris Pang**

Economist, Greater China  
Hong Kong +852 2848 8071  
iris.pang@asia.ing.com

**Prakash Sakpal**

Economist, Asia  
Singapore +65 6232 6181  
prakash.sakpal@asia.ing.com

**Nicholas Mapa**

Senior Economist  
Manila +63 2479 8855  
nicholas.mapa@asia.ing.com

With the near-term outlook for Asian FX heavily dependent on the outcome of US-China trade negotiations, the future is looking brighter, though until President Trump and President Xi sign on the dotted line, nothing can be taken for granted.

For almost a year now, the fate of the major currency pairs, as well as Asian FX units has risen and fallen on the twists and turns of trade negotiations between the US and China.

The early stages of this could be characterised as “bad trade means weak Asian FX”. But recent news has been consistently positive. Not only does a deal of some sort look likely to replace the uneasy truce that exists, but the outcome could be more wide-ranging, than we’d imagined previously.

However, little of this is evident in recent FX price action. Year-to-date, only CNY shows consistent appreciation. More idiosyncratic factors seem to be weighing on other currencies, and it’s probably no longer safe to consider Asian FX as a bloc.

Having said this, even if markets are now fully factoring in a more favourable trade outcome, that leaves open the shrinking, but still present risk that all of this could still fall apart at the last minute. One only needs to cast their mind back to the second Trump-Kim summit.

Nonetheless, it’s clear there are many more games in town than just the US-China trade war. Auto tariffs still loom large, with not only a EURUSD impact, but potentially strong implications for the JPY and KRW. Then there is the global semiconductor slump. This is, if anything, a more pernicious influence on economies in the region than the trade war, particularly semiconductor behemoths like Korea, but also most of Southeast Asia.

While Asian economic policymakers will breathe a sigh of relief once (if) the trade deal is eventually signed, they will be happier, and their exports will look healthier, once 5-G is rolled out.

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

	USD/CNY		USD/INR		USD/IDR
Spot	6.7185		69.18		14268
1M	6.7400	=	71.50	>	14070
3M	6.8500	>	73.00	>	14320
6M	6.8500	>	72.80	>	14450
12M	6.7000	=	71.00	<	14300

	USD/KRW		USD/MYR		USD/PHP
Spot	1137		4.0913		52.63
1M	1140	=	4.0900	=	52.30
3M	1150	>	4.1000	=	53.09
6M	1150	>	4.1100	=	53.64
12M	1135	>	4.0500	<	54.04

	USD/SGD		USD/TWD		USD/THB
Spot	1.3537		30.87		31.70
1M	1.3600	>	30.80	=	32.00
3M	1.3700	>	30.85	=	32.50
6M	1.3500	=	30.90	>	31.90
12M	1.3400	=	31.00	>	31.60

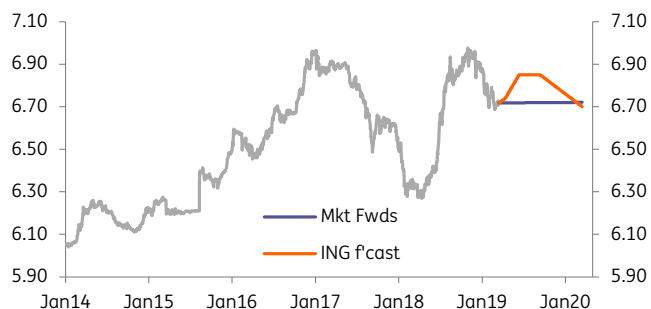
> / = / < indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright. Prices as on March 15 at 3pm Singapore time.

Source: Bloomberg, ING estimates

## USD/CNY

### Yuan central to trade talks

**Current spot: 6.7185**



Source: Bloomberg, ING

- The People's Bank of China governor, Yi Gang, has said that the yuan is one of the discussion topics of the trade negotiations, noting China would have autonomy over the exchange rate mechanism, and both China and the US would adhere to a market-driven exchange rate system.
- From Yi Gang's statements, the discussion of the yuan topic seems to be positive for a mutually acceptable deal as it doesn't require the yuan to appreciate only.
- We believe that the USD/CNY will largely continue to track the dollar index to reflect its "market-driven" nature.

<b>ING forecasts (FWDs)</b>	<b>1M 6.7400 (6.7182)</b>	<b>3M 6.8500 (6.7186)</b>	<b>6M 6.8500 (6.7191)</b>	<b>12M 6.7000 (6.7208)</b>
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**Iris Pang, Hong Kong +852 2848 8071**

## USD/INR

### Politics overtakes economy

**Current spot: 69.18**



Source: Bloomberg, ING

- In a reversal of fortunes, the INR became Asia's best currency vs the USD since February from the worst-performing one earlier.
- The consolidation comes despite the escalation of border tensions with Pakistan. Although things have calmed down now, things could kick off again amid rising political heat domestically. General elections will be held in seven phases from 11 April to 19 May with results expected to be out from 23 May.
- Lack of policy support and wide trade and fiscal deficits remain key negatives for INR, while President Trump's 60-day notice on 5 March to end India's GSP trade status clouds prospects further.

<b>ING forecasts (NDFs)</b>	<b>1M 71.50 (69.50)</b>	<b>3M 73.00 (70.00)</b>	<b>6M 72.80 (70.65)</b>	<b>12M 71.50 (71.87)</b>
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**Prakash Sakpal, Singapore +65 6232 6181**

## USD/IDR

### Current account miss hits IDR confidence

**Current spot: 14268**



Source: Bloomberg, ING

- The IDR fluctuated over the last month, initially gaining on the Fed's increasingly dovish stance, and some lacklustre US economic data.
- But the IDR's fortunes reversed as Bank Indonesia reported a wider than expected current account deficit. Given well-publicised efforts to narrow the gap via import curbs, the downside surprise on the external front sparked selling interest.
- The central bank kept policy rates unchanged on 21 February 2019, given the relative stability of the IDR but after its more recent swoon, the central bank has looked to restore confidence by establishing its presence in the spot market.

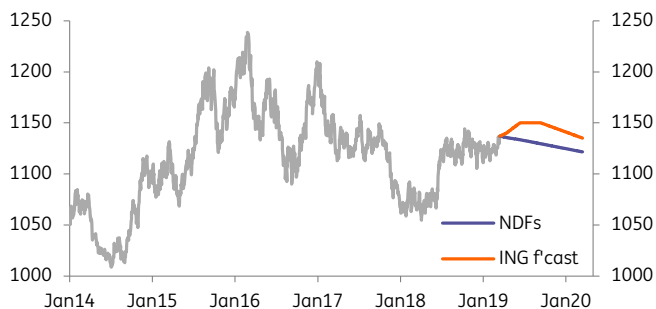
<b>ING forecasts (NDFs)</b>	<b>1M 14070 (14313)</b>	<b>3M 14320 (14431)</b>	<b>6M 14450 (14623)</b>	<b>12M 14300 (14981)</b>
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**Nicholas Mapa, Philippines +63 2479 8855**

## USD/KRW

### Bottom of the pack

**Current spot: 1137**



Source: Bloomberg, ING

- The KRW has been one of the most consistently underperforming currencies in Asia this year, ranking in the bottom three currencies in January, February and month to date March. For the full year, it is ranked worst of the pack.
- Collapsing exports, a weak domestic economy, and a central bank that not so long ago felt the need to hike rates (it seems to regret this now) haven't helped at all. Expectations are now switching to rate cuts.
- There may be some additional impact from the re-animation of N Korea as a potential military aggressor, but we suspect this is overdone as a reason for KRW weakness.

<b>ING forecasts (NDFs)</b>	<b>1M 1140 (1136)</b>	<b>3M 1150 (1134)</b>	<b>6M 1150 (1130)</b>	<b>12M 1135 (1122)</b>
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**Rob Carnell, Singapore +65 6232 6020**

## USD/MYR

### The doors open for central bank policy easing

**Current spot: 4.0913**



Source: Bloomberg, ING

- The MYR remains among the Asian outperformers this year - the state of affairs supported by Malaysia's sound external payment position is likely to prevail in a soft USD environment.
- January exports and manufacturing data support our view of further GDP slowdown to 4.2% in 1Q19 from 4.7% in 4Q18.
- The ongoing currency strength is one of our arguments why the central bank should ease policy now to prevent further downside to growth, rather than waiting to cut later. Besides, persistently low inflation has pushed real interest rates higher when the economy is suffering from weak investment. We expect a 25 basis point BNM rate cut in May.

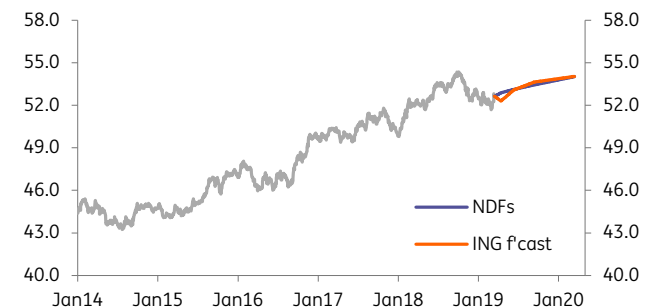
<b>ING forecasts (FWDs)</b>	<b>1M 4.0900 (4.0939)</b>	<b>3M 4.1000 (4.0990)</b>	<b>6M 4.1100 (4.1048)</b>	<b>12M 4.0500 (4.1126)</b>
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**Prakash Sakpal, Singapore +65 6232 6181**

## USD/PHP

### PHP suffers from "Pro-growth" governor

**Current spot: 52.63**



Source: Bloomberg, ING

- PHP outperformed the rest of the region in February on the back of strong portfolio flows given a dovish Fed and expectations that the FOMC would be on hold for the year.
- But in March, the surprise appointment of Budget Secretary Diokno by the President to fill the empty post of the central bank Governor after the death of Governor Espenilla, sent the PHP tumbling.
- Diokno's background spooked traders given his supposed pro-growth bias. Early pronouncements point to his openness to cut reserve requirements every quarter and reduce policy rates, forcing the PHP to have a weakening bias.

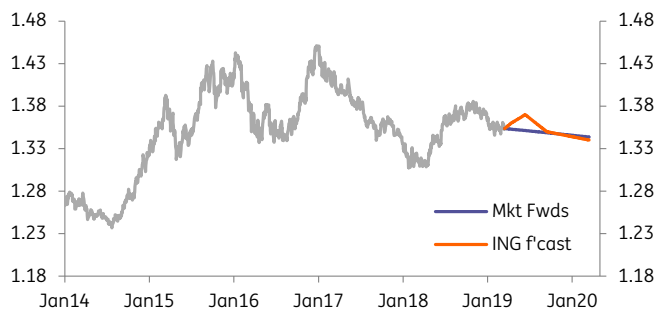
<b>ING forecasts (NDFs)</b>	<b>1M 52.30 (52.87)</b>	<b>3M 53.09 (53.12)</b>	<b>6M 53.64 (53.43)</b>	<b>12M 54.04 (54.02)</b>
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**Nicholas Mapa, Philippines +63 2479 8855**

## USD/SGD

Middle of the pack

Current spot: 1.3537



Source: Bloomberg, ING

- Year-to-date, the SGD is up about 0.35% against the USD, which almost a quarter through the year, suggests we are on track for an annual increase of about 1.2-1.5%. That sounds about right given the MAS' two "tightenings" of policy through their nominal effective exchange rate targeting.
- We don't anticipate the MAS tightening further at the April meeting. The domestic Singaporean economy isn't firing on all cylinders, and the external sector is looking downright soft.
- More of the same – slow appreciation – looks likely for the SGD. Chances of a policy reversal seem distant, absent a turn for the worse.

ING forecasts (FWDs)	1M 1.3600 (1.3528)	3M 1.3700 (1.3513)	6M 1.3500 (1.3488)	12M 1.3400 (1.3437)
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Rob Carnell, Singapore +65 6232 6020

## USD/TWD

TWD Forecasts revised weaker

Current spot: 30.87



Source: Bloomberg, ING

- Taiwan has relied heavily on the production and export of smart-devices. When the product life cycle of these items slows down, the economy suffers.
- Exports fell 8.8%YoY in February even given last year's negative base effects. Together with the PMI falling below 50 for four months in a row, the manufacturing and related export sectors are clearly shrinking.
- This weakness will affect corporate earnings. As such, foreign capital inflows into the Taiwan asset markets could reverse. Consequently, we revise the TWD to be weaker vs the dollar from 30.40 to 30.95 by end 2019.

ING forecasts (NDFs)	1M 30.80 (30.82)	3M 30.85 (30.73)	6M 30.90 (30.58)	12M 31.00 (30.23)
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Iris Pang, Hong Kong +852 2848 8071

## USD/THB

Elevated political risks

Current spot: 31.70



Source: Bloomberg, ING

- The THB remains Asia's best currency based on the year-to-date performance. But its appreciation has almost stalled since February, putting it among underperformers. The shift can be ascribed to rising political risk, though little has changed in terms of underlying economic trends.
- General elections will be held on 24 March and incumbent Prime Minister Prayut Chan-o-cha may remain in power. However, the transition to the new government may not be smooth.
- GDP growth remains on a downtrend and inflation is non-existent. As these trends intensify further, they could force the BoT to reverse its latest rate hike.

ING forecasts (FWDs)	1M 32.00 (31.71)	3M 32.50 (31.66)	6M 31.90 (31.62)	12M 31.60 (31.52)
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Prakash Sakpal, Singapore +65 6232 6181

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