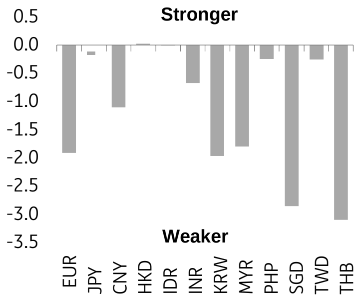
12 February 2020
Asia

Asian FX Talking

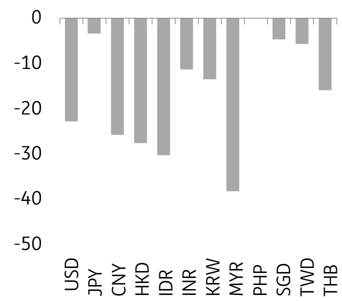
The prognosis is mixed

Exchange rates vs USD (%MoM)



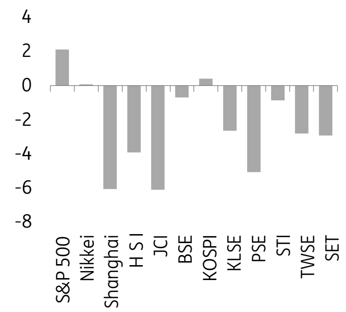
Source: Bloomberg

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



Source: Bloomberg

Stock indices (%MoM)



Source: Bloomberg. Tenor in parentheses

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While the trade war dominated Asian FX in 2019, the coronavirus- and its impact on the global economy- will set the tone for markets in 2020. Recent market sentiment towards the epidemic has improved and FX rates have responded in line with this – but there may be further chapters to this story...

With Asian FX responding in varying fashion to the outbreak of Covid-19 in China, and its subsequent spread, there has been a lot of FX analysis as to which economies are most exposed to falling Chinese tourism, falling Chinese demand for commodities, falling Chinese supply of parts for supply chains and integrated manufacturing processes.

Much of that is already in the price, and is reflected in things like the Korean won's volatility, the Thai baht's fall from grace, and the Australian dollar's drop to levels of weakness last seen during the global financial crisis.

But the assumption that this is essentially a Chinese outbreak, with some relatively minor overseas transmission, is a fragile basis for the markets' recent improvement in sentiment even if it is currently supported by some relatively modest new case figures in recent days.

Were this virus to spread more widely outside China and even outside Asia, then we would of course face a very different and much bleaker global macro view, and also a very different FX perspective. Our 1m forecasts provide a taste of what that future might look like, but little sense of the degree.

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

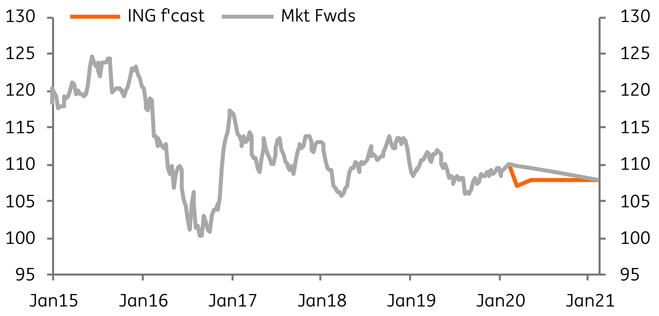
	USD/JPY		AUD/USD		NZD/USD	
Spot	**110**		**0.67**		**0.65**	
1M	107	<	0.66	<	0.64	<
3M	108	<	0.68	>	0.66	>
6M	108	=	0.70	>	0.68	>
12M	108	>	0.72	>	0.69	>
	USD/CNY		**USD/INR**		**USD/IDR**	
Spot	**6.971**		**71.32**		**13674**	
1M	7.200	>	71.75	=	13821	>
3M	7.050	>	72.80	>	13987	>
6M	7.000	=	72.30	=	13993	=
12M	6.850	<	71.80	<	13902	<
	USD/KRW		**USD/MYR**		**USD/PHP**	
Spot	**1179**		**4.137**		**50.54**	
1M	1200	>	4.160	=	51.54	>
3M	1175	=	4.200	>	52.09	>
6M	1140	<	4.180	>	53.34	>
12M	1125	<	4.120	<	53.16	>
	USD/SGD		**USD/TWD**		**USD/THB**	
Spot	**1.386**		**30.01**		**31.17**	
1M	1.390	=	30.75	>	31.70	>
3M	1.400	>	30.25	>	32.80	>
6M	1.380	=	29.70	=	32.50	>
12M	1.360	<	30.00	>	32.50	>

> / = / < indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright. Prices as on 12 February 2020 at 5pm Singapore time.
Source: Bloomberg, ING estimates

USD/JPY

Remarkable resilience of US equities and USD/JPY

Current spot: 109.94



Source: Bloomberg, ING estimates

- Once again US equities have proved resilient to external shocks – this time the coronavirus. US economic data has actually been surprising on the upside over the last month (this may change), but with Treasury yields so low, the bar is high to make a wholesale re-allocation out of equities. This keeps USD/JPY bid.
- Away from US data, one potential threat to the dollar this year comes from US politics. Were Bernie Sanders to take a clear lead for the Democrats (super Tuesday 3 March will be key) and US data were to slow – a risk premium could emerge in the US dollar.
- Until then, a Trump re-election looks favoured (betting odds 57%) and USD/JPY should press the upper end of the 105-110 range.

ING forecasts (mkt fwd)	**1M** 107.00 (109.8)	**3M** 108.00 (109.4)	**6M** 108.00 (108.9)	**12M** 108.00 (107.8)

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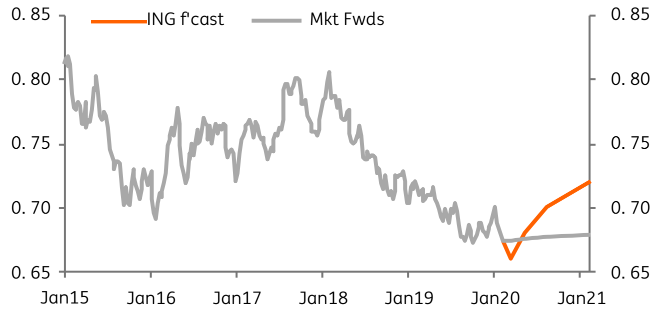
AUD/USD

RBA avoids fanning the flames of weakness

Current spot: 0.67



Source: Bloomberg, ING estimates

- The Australian dollar set new intraday lows this month, touching 0.666. It hasn't been this weak since the depths of the global financial crisis.
- Market perceptions about the risk posed by the Covid-19 epidemic and its impact on Chinese demand for Australia's commodity exports is the primary channel for the latest weakness, but there has been some near-term improvement in this as new case numbers have slowed.
- The RBA has also helped the AUD to find a floor by abstaining from any rate cut this month, though we believe they could still deliver some further easing in the months ahead, and the Covid-

ING forecasts (mkt fwd)	**1M** 0.660 (0.675)	**3M** 0.680 (0.676)	**6M** 0.700 (0.677)	**12M** 0.720 (0.679)

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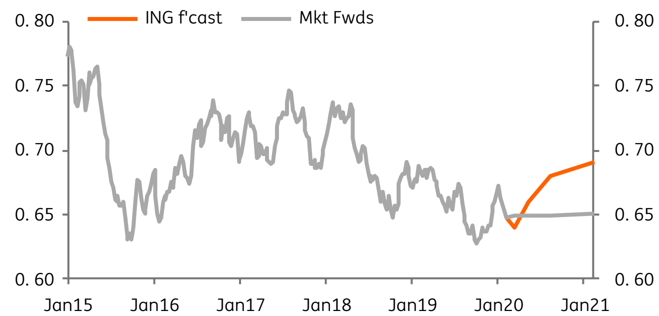
NZD/USD

Solid macro story, solid rates outlook

Current spot: 0.65



Source: Bloomberg, ING estimates

- New Zealand's economic fundamentals are in a better place than Australia's, with inflation close to target, and employment close to potential levels.
- The Reserve Bank of New Zealand meeting, which has just taken place, gives no indication of any imminent change to policy, and while New Zealand remains rocked by the same epidemiological shocks as Australia, it is not so exposed and on a relative basis, should outperform.
- While Australian rate policy looks on hold, with a bias towards further easing, the RBNZ's latest take seems to be on hold with no bias, or even possibly a long-run expectation for eventual tightening.

ING forecasts (mkt fwd)	**1M** 0.64 (0.648)	**3M** 0.66 (0.649)	**6M** 0.68 (0.649)	**12M** 0.69 (0.650)

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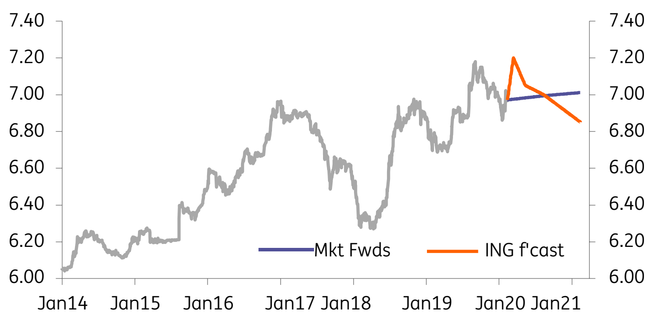
USD/CNY

Big pressure on manufacturing from the virus

Current spot: 6.971



Source: Bloomberg, ING estimates

- China faces a real threat that the coronavirus will spread further, but the epidemic has already weighed heavily on retail, catering and tourism activities.
- The government has aggressively mobilised resources to fight the virus but it is uncertain when the spread of the virus will end.
- The Chinese economy and global supply chains are now under huge pressure as some Chinese workers may not be able to resume work in factories due to the lack of protective supplies and the reduction of passenger flows on trains.
- We expect the yuan to weaken further if news about the coronavirus worsens.

ING forecasts (mkt fwd)	**1M** 7.200 (6.974)	**3M** 7.050 (6.982)	**6M** 7.000 (6.993)	**12M** 6.850 (7.012)

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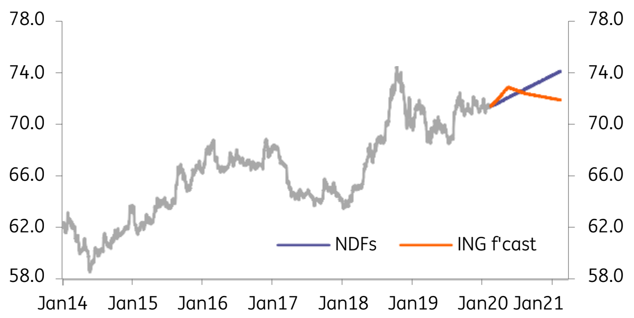
USD/INR

Benefiting from falling oil price, nothing else

Current spot: 71.32



Source: Bloomberg, ING estimates

- A sharp fall in global crude oil prices underpins the year-to-date strength seen in the Indian rupee. The Reserve Bank of India's decision to leave policy on hold this month was somewhat positive too.
- The RBI resorting to unconventional policy tools (operation twist, LTRO, etc.) is a step in the right direction to improve policy transmission as 135 basis points of rate cuts in 2019 failed to drive down lending rates and bond yields. But supply overhang from a sustained high fiscal deficit will continue to push yields higher.
- Continued slow growth and inflation running above or close to the top end of the RBI's 2-6% goal is our baseline for 2020. Lower oil prices may be positive for inflation though.

ING forecasts (mkt fwd)	**1M** 71.75 (71.51)	**3M** 72.80 (71.99)	**6M** 72.30 (72.66)	**12M** 71.80 (74.05)

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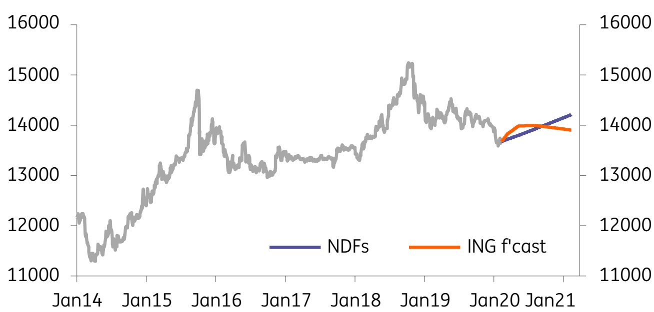
USD/IDR

IDR pressured on virus fears, BI steps in to stabilise IDR

Current spot: 13674



Source: Bloomberg, ING estimates

- The Indonesian rupiah was on the back foot to start the year on heightened concern about the Middle East, although these worries faded quickly.
- The IDR appreciated steadily after the US-China phase one deal was signed, and on hopes that President Jokowi's "omnibus" reform bill would be passed quickly, benefiting foreign investors.
- Bank Indonesia (BI) kept policy rates unchanged but left the door open for further easing. The disappointing GDP print points to a cut in the first quarter.
- We expect the IDR to be pressured until concerns about the 2019-nCov fade, which should allow BI to cut rates in the first quarter.

ING forecasts (mkt fwd)	**1M** 13821 (13713)	**3M** 13987 (13797)	**6M** 13993 (13929)	**12M** 13902 (14206)

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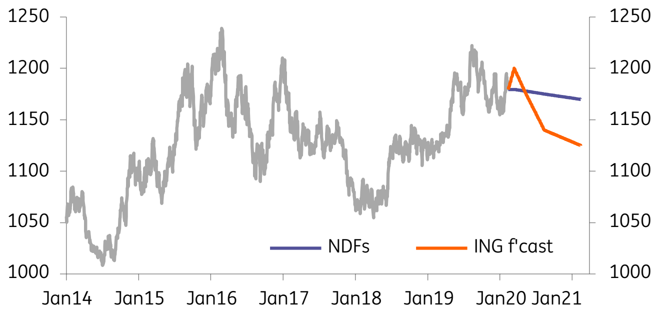
USD/KRW

Stronger, but can this last?

Current spot: 1179



Source: Bloomberg, ING estimates

- The Korean won is the litmus currency for Asia, and has traded to within a whisker of 1200 and almost down to 1150 already this year on shifting sentiment.
- Markets are taking an optimistic view on the Covid-19 epidemic for now, but that assumes that it does not begin to spread more rapidly outside China, and we think that risk remains in the short term, potentially pushing the KRW back towards 1200 or above.
- But the underlying story for Korea remains a more positive one in 2020 than 2019, with the trade war on the back burner and tech demand likely to improve. As the Northern hemisphere warms, and Covid-19 fades, the KRW should appreciate once more.

ING forecasts (NDFs)	**1M** 1200 (1179)	**3M** 1175 (1177)	**6M** 1140 (1175)	**12M** 1125 (1169)

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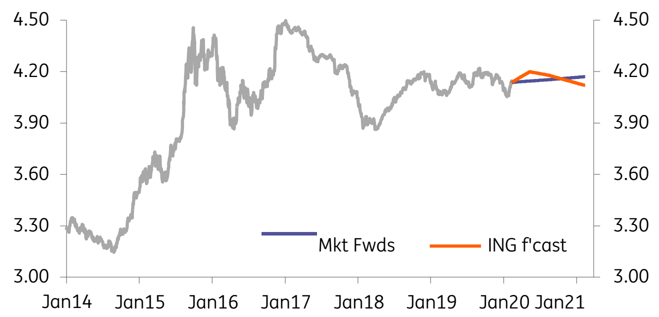
USD/MYR

Proactive macro policy to support growth

Current spot: 4.137



Source: Bloomberg, ING estimates

- The Malaysian ringgit is among Asia's weaker currencies since the outbreak of the coronavirus a month ago, a possible re-pricing for the significant impact on the economy via trade and tourism.
- The outbreak will take a toll on tourism, while a sharp fall in oil prices bodes ill for commodity-driven trade. We would expect a couple more quarters of GDP slowdown ahead, dragging the full-year growth rate below 4% in 2020.
- A surprising 25 basis point rate cut in January puts the central bank ahead of the curve in supporting growth, and, with subdued inflation, it could do more. We expect an additional 50bp rate cut by mid-2020, while the government is also mulling a fiscal stimulus package.

ING forecasts (mkt fwd)	**1M** 4.160 (4.141)	**3M** 4.200 (4.146)	**6M** 4.180 (4.153)	**12M** 4.120 (4.171)

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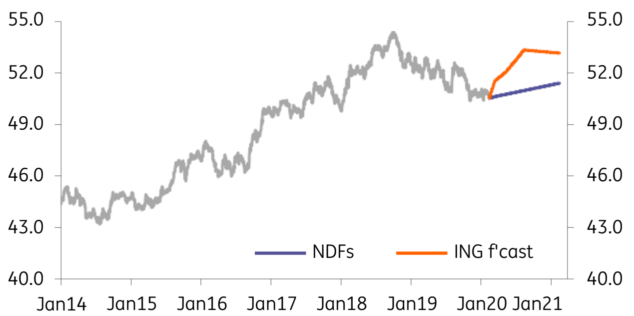
USD/PHP

PHP expected to weaken given economic ties with China

Current spot: 50.54



Source: Bloomberg, ING estimates

- The Philippine peso was weak at the start of the year on heightened US-Iran tensions before recovering as concerns faded, and the US-China phase one deal was signed.
- The peso weakened further towards the end of January on expectations for a rate cut after GDP growth disappointed at 5.9%.
- The Bangko Sentral ng Pilipinas (BSP) cut policy rates in February by 25bp in a "pre-emptive" move, with global growth expected to take a hit from the 2019-nCoV episode.
- We expect PHP to weaken after more rate cuts and on the broad risk-off tone given PHL's economic ties with China.

ING forecasts (mkt fwd)	**1M** 51.54 (51.61)	**3M** 52.09 (50.74)	**6M** 53.34 (50.96)	**12M** 53.16 (51.39)

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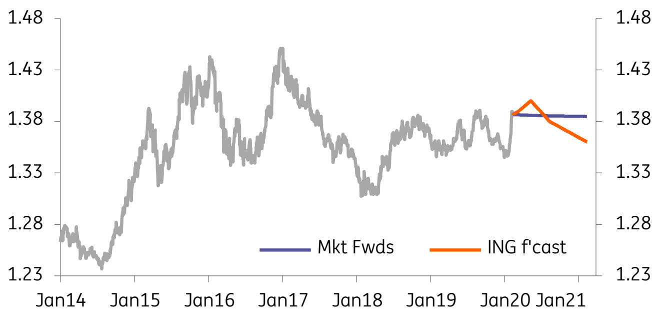
USD/SGD

Exposed to tourism-led weakness **Current spot: 1.386**



Source: Bloomberg, ING estimates

- The Singapore dollar was an Asian outperformer in 2019 but is a laggard so far this year. The weakening pressure increased since the outbreak of the coronavirus last month, taking the currency down by 2.9% against the US dollar so far this year.
- As with its neighbours, the impact of the virus will flow through the tourism sector. This has prompted the government to forecast a 25-30% plunge in annual visitor arrivals this year. We have cut our 2020 growth forecast to 1.0% from 1.6%.
- The central bank has downplayed any easing in April, noting the room for accommodation within the existing S$-NEER policy band. This means that fiscal policy will need to do all the heavy-lifting.

ING forecasts (mkt fwd)	**1M** 1.390 (1.386)	**3M** 1.400 (1.385)	**6M** 1.380 (1.385)	**12M** 1.360 (1.384)

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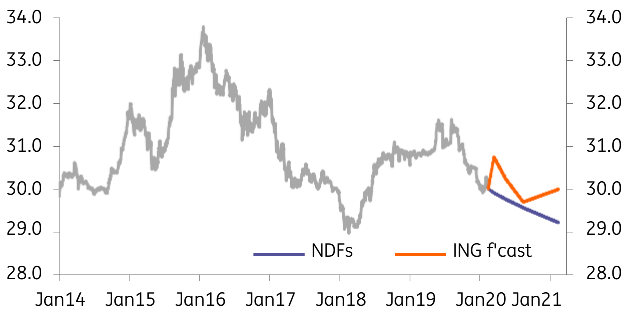
USD/TWD

Moderating capital inflows **Current spot: 30.00**



Source: Bloomberg, ING estimates

- Capital inflows into Taiwan's asset markets continue to be strong at the beginning of 2020. But this looks difficult to sustain.
- With China's factories uncertain as to when they'll be able to run at normal capacity, the supply chain with Taiwan, especially in the electronic sector, is likely to be affected.
- This could affect sector performance. Capital inflows may turn to outflows, and would therefore weaken the Taiwan dollar directly.
- This will be increasingly obvious after February when the market expects most Chinese factories to be up and running at their normal capacity.

ING forecasts (mkt fwd)	**1M** 30.75 (29.91)	**3M** 30.25 (29.71)	**6M** 29.70 (29.57)	**12M** 30.00 (29.22)

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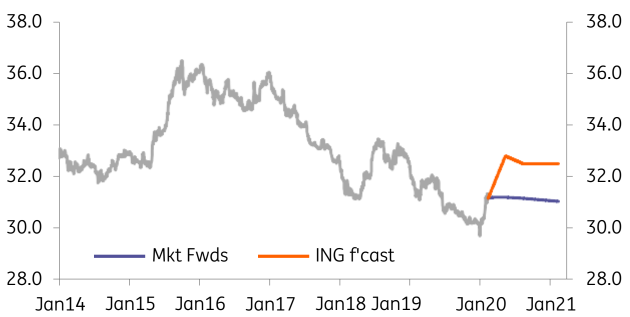
USD/THB

Reversal of fortune **Current spot: 31.17**



Source: Bloomberg, ING estimates

- A 4.3% year-to-date depreciation is a reversal of fortune for the Thai baht, which has been an investor darling in recent years. We view 31-33 as a new higher USD/THB trading range for 2020 and see it rising toward the top end of this range over the next three months.
- This comes as Thailand's already sluggish economy is poised for a further slowdown this year, with the coronavirus keeping tourists away. The impact will be a sharp dent to the current surplus (around 7% of GDP in 2019), the key force behind the THB's strength recently.
- Admitting the risk, the Bank of Thailand resumed its easing cycle this month and cut rates by 25bp. We don't think it's done yet, and have pencilled in one more 25bp rate cut in March.

ING forecasts (mkt fwd)	**1M** 31.70 (31.20)	**3M** 32.80 (31.20)	**6M** 32.50 (31.16)	**12M** 32.50 (31.04)

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