Looking for a way out

Not everywhere has seen Covid-19 case numbers peaking, but everyone would like to find a way to ease movement restrictions and move towards a recovery...

The evolving narrative for much of the developed world is of a peak in Covid-19 cases is leading to hopes for an end to lockdowns and the possible re-start of economies. For Asia, things are, inevitably, more complicated, and that it likely to reflect in currency strength in the coming weeks.

China and Korea are well on the road to recovery and both have seen currencies strengthen, though the KRW has recently come under renewed pressure as speculation about the health of North Korea’s leader grows. And China has given the rest of the world a taste of what is in store for GDP with its -6.8%YoY print for 1Q20. Australia and New Zealand too have seen their new-case count drop sharply following lockdowns and both the AUD and NZD have bounced higher.

Thailand and the Philippines have seen lockdowns cap the spread of the virus and may realistically start to consider de-confinement in the coming weeks if cases fall further. Singapore and Japan after good starts, have belatedly joined those in lockdown as the situations worsen. And the less-than-convincing partial lockdowns in Indonesia, and the chaotic lockdown in India has not yet led to any believable improvement, though India is already inexplicitly talking about reopening.

This is a messy backdrop for economies and currencies. That isn’t going to change soon.

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

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<th>USD/JPY</th>
<th>AUD/USD</th>
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> / < / = indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright. Prices as on 23 April 2020 at 5pm Singapore time.
Source: Bloomberg, ING estimates
USD/JPY

Holding pattern to resolve to the downside

- Some calm is returning to FX markets, where USD/JPY one-month volatility prices have dropped to 7.7% from a peak above 20% above mid-March. Like many other countries, Japan has embarked on large fiscal stimulus, (including JPY100,000 hand-outs for citizens) and aggressive liquidity provision. Like us, the IMF looks for a 5% GDP contraction in 2020.
- True to form, the JPY has out-performed since the S&P 500 topped out in late February. Its defensive properties will be favoured during 2Q as the size of the recession becomes clearer.
- Our call is that the Fed’s balance sheet explosion will drag the dollar lower across the board into 2H20, leaving JPY 100 tested.

Source: Bloomberg, ING forecasts

AUD/USD

Strong support underpins AUD

- Despite the adoption of quantitative easing last month, the AUD has staged a strong recovery.
- A very strong response to the Covid-19 pandemic, including a severe and enforced lockdown has led new cases to flatten off impressively.
- The economic response to the pandemic has been very strong, with one of the biggest on-budget responses. Contrary to the outlook downgrade by S&P, Australia’s post-Covid-19 outlook is probably one of the strongest and the AUD is reflecting that.

Source: Bloomberg, ING forecasts

NZD/USD

NZD looking good for recovery

- New Zealand has not been quite so aggressive on the fiscal front, but has still delivered a decent fiscal boost, and its central bank has also implemented quantitative easing.
- Like Australia, the New Zealand lockdown was implemented early and wholeheartedly, and has delivered a clear peak in cases, making the prospect of a return to normality more likely than some Asian peers.
- The prospects for a second half recovery for New Zealand are looking very good and should support a stronger NZD.

Source: Bloomberg, ING forecasts
USD/CNY

Terrible growth in 1Q means more easing and stimulus

- The -6.8% YoY GDP growth in 1Q20 shocked the market. With such a contraction the Chinese central bank is expected to continue to cut interest rates and RRR to stabilise the sentiment in the money and bond market. The easing should also support liquidity needs from corporates with cash flow issues from weak external demand.
- The recovery will depend more on domestic demand, mainly from the “new infra” stimulus plan.
- The yuan has been quite stable against the dollar and has appreciated against a basket of currencies YTD. A stable yuan with a liquid bond market should help avoid massive outflows.

Current spot: 7.081

ING forecasts (mkt fwd) 1M 7.100 (7.081) 3M 7.080 (7.082) 6M 6.980 (7.091) 12M 6.750 (7.110)

Iris Pang, Hong Kong +852 2848 8071

USD/INR

Marching towards 80

- With over 7% year-to-date depreciation the INR remains among the Asian underperformers. We continue to see USD/INR trading towards 80 in the coming months.
- The Covid-19 infections have surged past 20,000, which with a chaotic implementation of containment measures risks a prolonged spell ahead. Indeed, the economic fallout would be dire with as much as 5% YoY GDP fall in the current quarter.
- About 1.3% of GDP fiscal stimulus is far too small by regional comparison. The RBI is left to do all the heavy-lifting. Liquidity boosting efforts worth $63 billion may not serve its purpose until the outbreak ends, whenever that happens.

Current spot: 76.07

ING forecasts (mkt fwd) 1M 77.30 (76.49) 3M 79.80 (77.34) 6M 78.00 (78.17) 12M 73.00 (79.64)

Prokash Sakpal, Singapore +65 6232 6181

USD/IDR

IDR drops on Covid-19 concerns but steadies on Fed deal

- The IDR entered a tailspin in March with heavy foreign selling noted on fears of an economic downturn induced by the virus. It remained on the backfoot with the central bank busy limiting depreciation via participation in the spot, bond and NDF markets, burning through roughly $10 bn for the month of March alone.
- Bank Indonesia (BI) was forced to cut policy rates by 25 bps to join in the fight against the Covid-19 downturn but probably won’t cut rates any further until IDR stabilises.
- BI announced a $60 bn repo line with the Fed, boosting IDR but we expect IDR to remain pressured as Covid-19 infections rise in Indonesia.

Current spot: 15415

ING forecasts (mkt fwd) 1M 15574 (15720) 3M 15509 (15975) 6M 15267 (16315) 12M 15085 (16770)

Nicholas Mapa, Philippines +63 2479 8855
USD/KRW

Poised to perform

- Korea never implemented a mandatory lockdown, even in the Southern City of Daegu, the stay home recommendation was voluntary – but it was still largely obeyed.
- Instead, massive testing, contact tracing and isolation of potentially infected persons has delivered a clear fall in infections without the damaging effects of a lockdown.
- Korea’s economy will still be very sluggish this year, but it is in a better position to recover than some of its neighbouring countries where lockdown is leading to bankruptcy and job losses. The main risk to KRW recovery is if North Korea’s leadership stability is undermined, which is a source of recent speculation.

Current spot: 1230

ING forecasts (NDFs)

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Rob Carnell, Singapore +65 6232 6020

USD/MYR

Plunge in oil not good for Asia’s net oil exporter

- After over 5% depreciation in 1Q20, the MYR appears to be stable in the 4.30-4.40 range so far in April. Yet, it continues to be an Asian underperformer with now an added hit from falling global oil prices as it is Asia’s net oil exporter economy.
- Despite surprisingly strong trade and manufacturing growth, although flatter by the low base year effect, the Covid-19 lockdown which started in mid-March probably pushed GDP towards contraction in 1Q. We expect negative growth in the next two quarters too.
- Of the 17% of GDP headline stimulus, real spending is only 4% of GDP. Still, it’s better given the backdrop of weak public finances.

Current spot: 4.359

ING forecasts (mkt fwd)

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Prakash Sakpal, Singapore +65 6232 6181

USD/PHP

PHP depreciates as government implements a lockdown

- The PHP depreciated as the government implemented a form of lockdown on the northern island of Luzon on 14 March, which accounts for 73% of GDP. Trading hours were shortened but all non-essential services were forced to close.
- The Bangko Sentral ng Pilipinas Governor cut policy rates by 75 bps, reduced reserve requirements by 200 bps and set up a PhP300 bn short term repo arrangement with the national government.
- We expect PHP to move sideways during the lockdown phase. Dollar demand remains light as economic activity is on hold but expect depreciation to return once the lockdown is lifted.

Current spot: 50.68

ING forecasts (mkt fwd)

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USD/SGD

Strong Covid-19 stimulus

- Consistent with their previous response to crisis, the Monetary Authority of Singapore moved to a neutral stance implied by zero appreciation of the S$-NEER policy band, albeit shifting the midpoint to the prevailing lower level.
- GDP fell by more than 10% QoQ annually, in 1Q20. With two-thirds of the current quarter gone in the circuit-breaker to curb the Covid-19 spread, there will be a deeper GDP contraction in 2Q. We have cut our 2020 GDP forecast to -3.7% from -2.6%.
- Three stimulus packages with a total fiscal and monetary thrust equivalent to over 12% of GDP should position the economy for a quick bounce back once the pandemic ends.

Source: Bloomberg, ING forecasts

ING forecasts (mkt fwd) 1M 1.435 (1.425) 3M 1.460 (1.424) 6M 1.440 (1.424) 12M 1.380 (1.423)

USD/TWD

Hope on telecommunication production boost inflows

- A few indicators have been very positive on Taiwan. The first one is export orders, which rose 4.3% YoY in March compared to a slight contraction in February. Another is industrial production which grew by 20.34% YoY in February.
- Though exports did not perform as well, the reason behind the strong growth in production and export orders could be the rise of 5G products.
- There were obvious inflows into Taiwan’s stock market technology sector. But we are cautious that global demand could be too weak for telecommunication products to set a high price for the products.

Source: Bloomberg, ING forecasts

ING forecasts (mkt fwd) 1M 30.30 (29.87) 3M 30.00 (29.57) 6M 29.50 (29.28) 12M 29.00 (28.87)

USD/THB

It’s going to be worse since the Asian crisis

- A virtually stalled tourism sector explains the THB’s plight with over 7% year-to-date depreciation. We don’t think we have reached the bottom yet.
- Trade dodged the Covid-19 pain in 1Q20, and large trade surplus contributed positively to GDP growth, but probably only to be outweighed by the increasing drag from domestic demand and weak tourism. Our view of a -4.3% GDP fall in 2020 makes it the worst performance since the Asian crisis in 1998.
- As everywhere, the policy response is unprecedented, amounting to over 14% of GDP fiscal stimulus. But it may not to bear fruit until confidence returns and tourists start to flock back.

Source: Bloomberg, ING forecasts

ING forecasts (mkt fwd) 1M 32.80 (32.32) 3M 33.70 (32.34) 6M 33.00 (32.33) 12M 32.00 (32.32)
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