3 October 2019

Asia

Asian FX Talking

Crest of a wave

Optimism about trade and the electronics cycle may have helped support Asian currencies in September. But October trade talks still face steep hurdles, and the electronics cycle is still creating issues.

The trade war has underpinned many of the gyrations of Asian currencies in recent months, with the ebbs and flow of optimism driven one way and then the other by comments and gestures from the two warring sides. This is especially true now that the CNY has become one of the levers for Chinese policymakers to offset US tariffs.

Where the CNY goes, most Asian currencies follow, at least directionally. While for some currencies, there is also the added complication of the electronics cycle to overlay. This has been a particular headache for the region's top electronics producers, and thoughts of a recent trough in this sector may be looking somewhat premature following weak exports from Korea and disappointing Singaporean production figures.

There is still a degree of central bank accommodation to factor into our near-term forecasts for some currencies. But the over-riding directional call for most will hinge on further trade war developments. September is regarded by some as a month of relative improvement in trade sentiment, though talks that were scheduled to occur are only now going to happen in October. We regard the US and China as still far apart from any comprehensive deal. And that should drive regional currency weakness in the near term. Closer to the Presidential election, the chances of a deal and FX recovery are higher. But there is still plenty of downside risk to that view. It is not a high conviction call.

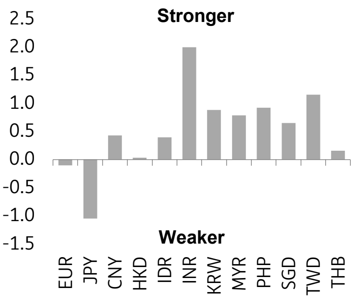
ING's 12-month currency view vis-à-vis forward/NDF market forecasts

	USD/JPY		AUD/USD		NZD/USD	
Spot	**107.1**		**0.672**		**0.629**	
1M	105.0	<	0.675	=	0.635	>
3M	103.0	<	0.670	<	0.630	=
6M	102.0	<	0.680	>	0.640	>
12M	100.0	<	0.720	>	0.670	>
	USD/CNY		**USD/INR**		**USD/IDR**	
Spot	**7.148**		**71.02**		**14172**	
1M	7.180	>	72.50	>	14244	=
3M	7.200	>	73.50	>	14300	=
6M	7.230	>	73.80	>	14250	<
12M	7.300	>	72.50	<	14250	<
	USD/KRW		**USD/MYR**		**USD/PHP**	
Spot	**1205**		**4.187**		**51.80**	
1M	1220	>	4.200	=	52.11	=
3M	1240	>	4.230	>	52.88	>
6M	1210	>	4.200	=	53.22	>
12M	1180	<	4.180	<	53.39	>
	USD/SGD		**USD/TWD**		**USD/THB**	
Spot	**1.382**		**31.05**		**30.57**	
1M	1.390	>	31.20	>	30.65	=
3M	1.400	>	31.50	>	30.75	>
6M	1.395	>	31.65	>	30.90	>
12M	1.385	=	31.60	>	31.25	>

> / = / < indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright. Prices as on 3 October 2019 at 4pm Singapore time.

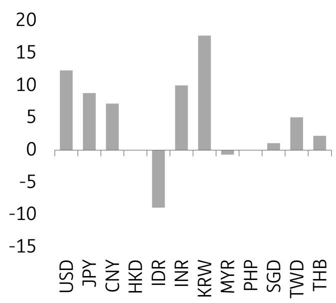
Source: Bloomberg, ING estimates

Exchange rates vs USD (%MoM)



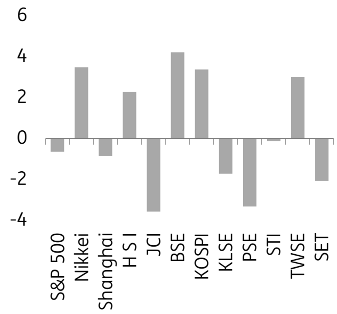
Source: Bloomberg

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



Source: Bloomberg

Stock indices (%MoM)



Source: Bloomberg. Tenor in parentheses

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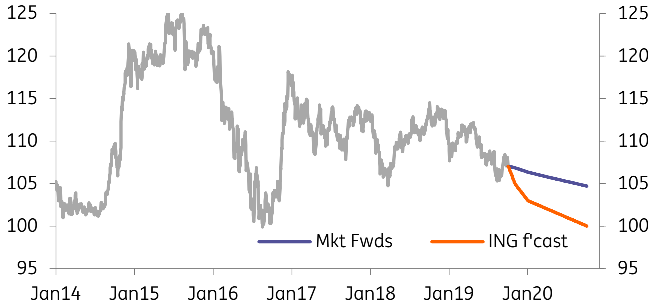
USD/JPY

Looking for a test of 105

Current spot: 107.1



Source:

- The broadening of the US slowdown and probably little progress in the 10/11th October US-China trade talks in Washington warn of a tough risk environment in Oct. We would expect US rates to soften further this month as the market guesses if US data is bad enough to prompt an early Federal Reserve rate cut on 30 Oct.
- USD/JPY's correlation with the S&P 500 has been increasing over recent months and will probably attract further safe-haven flows.
- Recent news that the GPIF will re-classify FX hedged foreign debt as domestic debt opens-up potentially $150bn of unhedged foreign bond buying. Let's see whether those flows help to maintain a possible line in the sand emerging at 105 for USD/JPY.

ING forecasts (mkt fwd)	**1M** 105.0 (106.9)	**3M** 103.0 (106.4)	**6M** 102.0 (105.8)	**12M** 100.00 (104.7)

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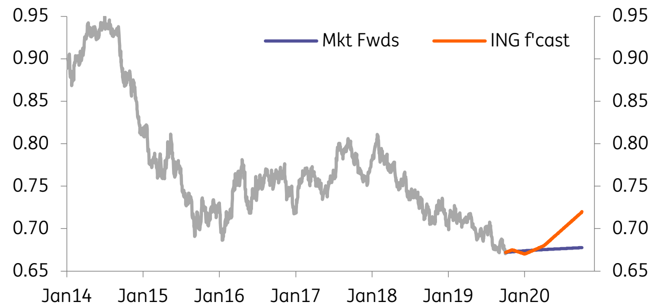
AUD/USD

RBA cuts rates despite upturn in the economy

Current spot: 0.672



Source: Bloomberg, ING

- Despite what we felt were weak reasons for doing so, the RBA cut rates again in September. With the move largely priced in, and evidence of a gentle economic upturn slowly mounting, we think the arguments for any further easing are losing ground.
- Some scaling back of rate cut expectations (markets are pricing in 60% chances of another cut in 2019), aided by extensively short markets positioning may support AUD in the coming months.
- However, another escalation in trade tensions along with its negative implications for commodity prices may well come back to haunt the AUD, more than offsetting the positive impact of a rebound in rates. In turn, we see AUD/USD stick around 0.67 in Q4.

ING forecasts (NDFs)	**1M** 0.675 (0.673)	**3M** 0.670 (0.674)	**6M** 0.680 (0.675)	**12M** 0.720 (0.678)

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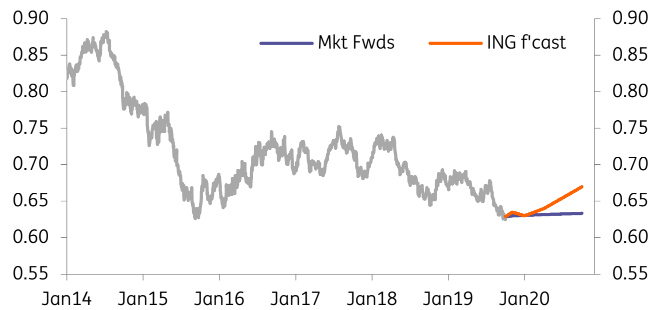
NZD/USD

A lot of easing already priced in

Current spot: 0.629



Source: Bloomberg, ING

- The recent RBA rate hike has led to the AUD/NZD cross returning below 1.0750 after suffering a big swing from a low of 1.0265 in August to a recent high of 1.0841.
- The Reserve bank of New Zealand will be more receptive to movements in this cross than its bigger neighbour and maybe incentivised to match the RBA's recent cut with one of their own.
- Their next rate meeting is not until 13 November, but a cut is already 100% priced in, with a further cut to 0.5% already priced in 50% by March 2020. With so much easing in the price, the NZD may find some support at current levels, although the risk of re-escalating trade tensions will keep gains broadly limited.

ING forecasts (NDFs)	**1M** 0.635 (0.630)	**3M** 0.630 (0.631)	**6M** 0.640 (0.632)	**12M** 0.670 (0.633)

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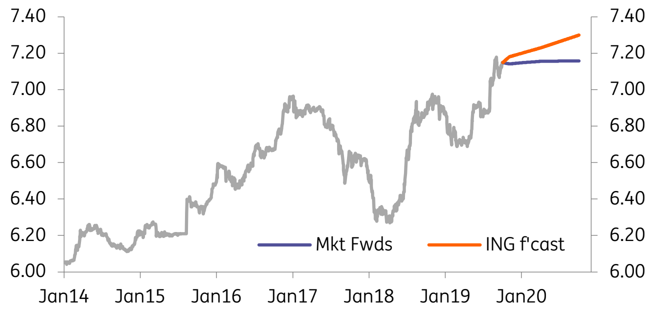
USD/CNY

October trade talks could disappoint

Current spot: 7.148



Source: Bloomberg, ING

- Since the CNY became an active policy lever in the trade war; it has behaved more like a market exchange rate than we have been used to, ebbing with pessimism, and gaining on renewed optimism of a deal.
- Currently, USD/CNY sits just below 7.15 as trade talks resume next week.
- But we remain sceptical that both sides can come together for a win-win deal while they remain so far apart on issues of substance, such as Huawei and the US entity list, intellectual property and state-owned enterprise support. Our near-term forecast is for some further weakness around trade disappointment.

ING forecasts (FWDs)	**1M** 7.180 (7.141)	**3M** 7.200 (7.148)	**6M** 7.230 (7.156)	**12M** 7.300 (7.158)

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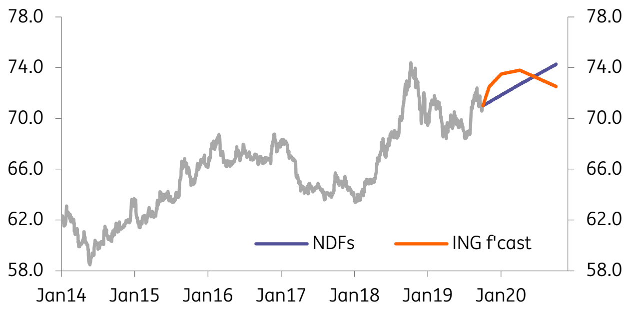
USD/INR

Unusual INR strength in September a transitory blip

Current spot: 71.02



Source: Bloomberg, ING

- After all the volatility caused by global and domestic factors, September turned out to be a better month for the INR as big-bang fiscal stimulus including $20 billion of corporate tax cuts buoyed portfolio inflows into local equities.
- However, two single-day spikes in the USD/INR rate – first, 1.4% following the release of 2Q19 GDP report showing a six-year low 5% growth, and second, 0.9% after the attack on Saudi oil facility causing a steep surge in oil – reinforced INR's vulnerability.
- With the RBI on an easing binge, worries about a blow-out fiscal deficit hurting investor confidence, and the government's plan of borrowing overseas getting shelved, sustained INR weakness ahead remains the safest bet for now.

ING forecasts (NDFs)	**1M** 72.50 (71.22)	**3M** 73.50 (71.79)	**6M** 73.80 (72.64)	**12M** 72.50 (74.23)

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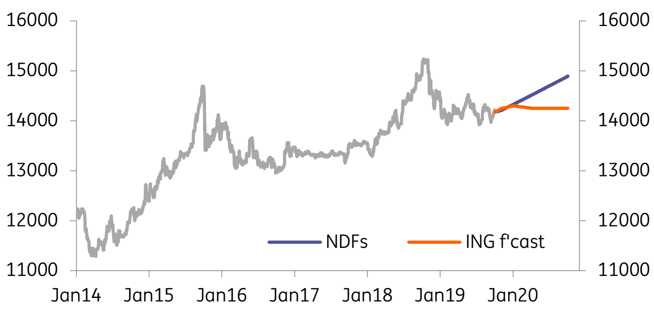
USD/IDR

Growth replaced IDR stability as driver of BI policy

Current spot: 14172



Source: Bloomberg, ING

- IDR clawed back most of the August sell-off by mid-September as investors cheered President Jokowi's reform pledges of bolstering foreign investment. But recovery was short-lived as the attacks on Saudi oil facilities and domestic protests against legislation on the anti-corruption agency pushed back IDR to its current range.
- As expected, Bank Indonesia cut policy rates by another 25bp in September despite elevated market volatility, which reinforced growth overtaking currency stability as the main driver of monetary policy.
- With inflation anchored in the middle of the BI's 2.5-4.5% medium-term policy target, we have added one more 25bp rate cut to our policy forecast for this year.

ING forecasts (NDFs)	**1M** 14244 (14191)	**3M** 14300 (14311)	**6M** 14250 (14496)	**12M** 14250 (14872)

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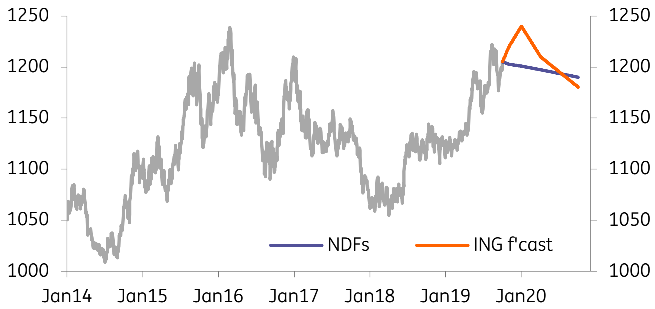
USD/KRW

BoK getting ready to ease again

Current spot: 1205



Source: Bloomberg, ING

- Early September swa the KRW clawed back all the losses of August and USD/KRW touched a low of 1176. Catalysts for the improvement included greater trade talks optimism and some evidence of stabilisation in the electronics sphere.
- This strength has given way to weakness as hard data has thrown doubt on the electronics story, and limited grounds for additional trade optimism.
- The BoK is also striking a more dovish tone, noting that it will be difficult for it to hit its growth targets, raising the prospects of further easing at the 16 October meeting. We anticipate some further KRW weakness near-term.

ING forecasts (NDFs)	**1M** 1220 (1202)	**3M** 1240 (1200)	**6M** 1210 (1197)	**12M** 1180 (1189)

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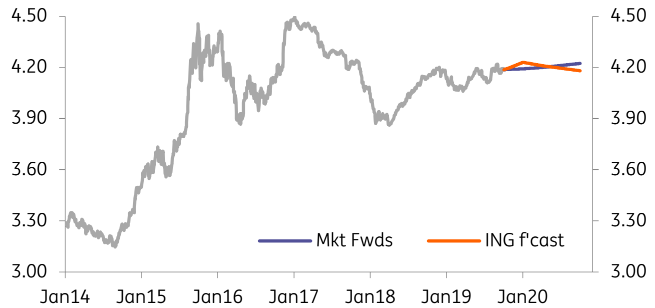
USD/MYR

Gulf tensions pressuring oil works to MYR's advantage

Current spot: 4.187



Source: Bloomberg, ING

- The MYR remains a fairly resilient Asian currency. A 0.4% gain against the USD in September puts it among Asia's outperformers. Ongoing tensions in the Gulf region keeping oil prices supported work to the advantage of Asia's net oil exporter.
- Exports continue to perform relatively well, supporting our view of GDP growth staying near the top end of BNM's 4.3-4.8% forecast for 2019. However, it will be increasingly difficult for the economy to buck the global slowdown ahead.
- We retain our call for one more 25bp BNM rate cut before year-end. And, despite currently tight public finances, the 2020 Budget due on 11 October should be growth-friendly.

ING forecasts (FWDs)	**1M** 4.200 (4.189)	**3M** 4.230 (4.192)	**6M** 4.210 (4.200)	**12M** 4.180 (4.224)

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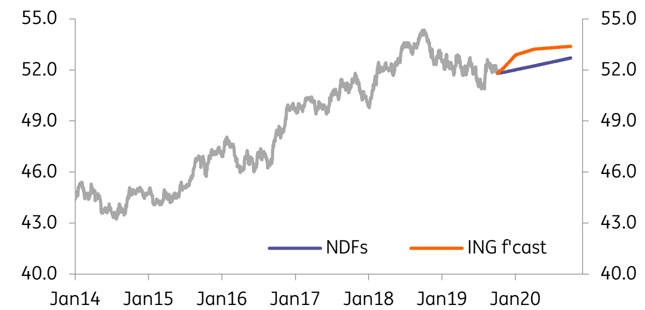
USD/PHP

Heavy import season is likely to cap PHP gains here on

Current spot: 51.80



Source: Bloomberg, ING

- Like the IDR, the PHP wasn't spared from intensified market volatility due to trade war and geopolitics before the Fed rate cut brought back some risk appetite.
- Data shows a wider trade deficit also added to weakening pressure. On the positive side, there was a surprise 7.5% jump in remittances from overseas Filipino in July, though it's still back-dated data to influence prevailing market sentiment.
- The BSP cut policy rates again in September in a bid to revive sagging growth momentum. Yet, the currency markets viewed the move as positive. With inflation remaining benign, the door remains open for further rate cuts. That said, ensuing heavy import season is likely to cap gains in the peso.

ING forecasts (NDFs)	**1M** 52.11 (51.84)	**3M** 52.88 (51.99)	**6M** 53.22 (52.21)	**12M** 53.39 (52.68)

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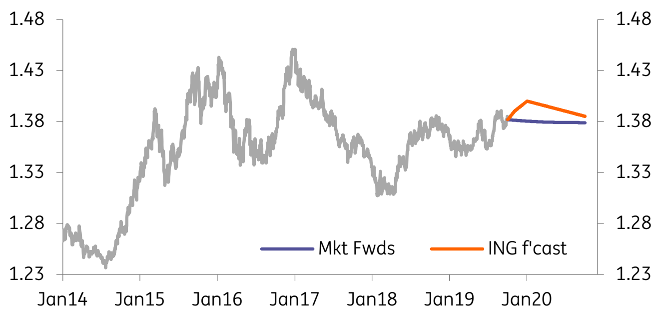
USD/SGD

MAS – finger on the trigger

Current spot: 1.382



Source: Bloomberg, ING

- This month, the MAS will meet and reduce the pace of appreciation of the nominal effective exchange rate – their main policy instrument.
- Weaker than expected production figures for August suggest that Singapore is effectively in recession right now, which is why we have revised down our full year growth figures to 0.3%, while core and headline inflation hovers well below 1.0%.
- Consensus is centred on a modest reduction in the NEER path. We believe that as this change has been so late in coming, and as the evidence of an upturn is so limited with a long time until the next meeting, that a more aggressive flattening is warranted.

ING forecasts (FWDs)	**1M** 1.390 (1.381)	**3M** 1.400 (1.381)	**6M** 1.395 (1.380)	**12M** 1.385 (1.379)

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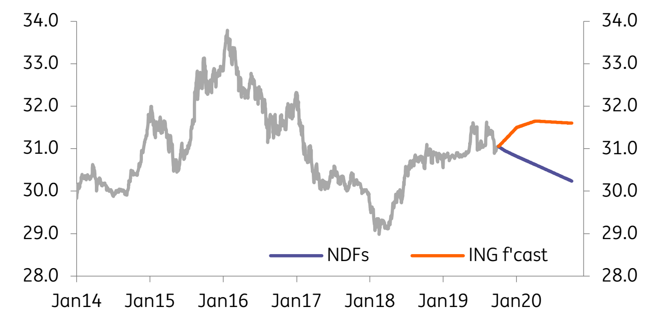
USD/TWD

Current "strength" may prove short-lived

Current spot: 31.05



Source: Bloomberg, ING

- Like most Asian currencies, the TWD has been whipped around by the tide of sentiment on trade and the electronics cycle. Right now, it sits at an optimistic juncture. But recent swings show us the possible amplitude for this currency, and with some disappointment likely from looming trade talks, we should brace for further weakness.
- A return to the August peak of USD/TWD 31.70 could reflect a negative turn in trade and electronics sentiment, though further out, we would anticipate some sort of deal being struck.
- That should see the TWD move first back to 31.50 though further progress from there may rest on a global 5G rollout.

ING forecasts (NDFs)	**1M** 31.20 (30.92)	**3M** 31.50 (30.77)	**6M** 31.65 (30.57)	**12M** 31.60 (30.19)

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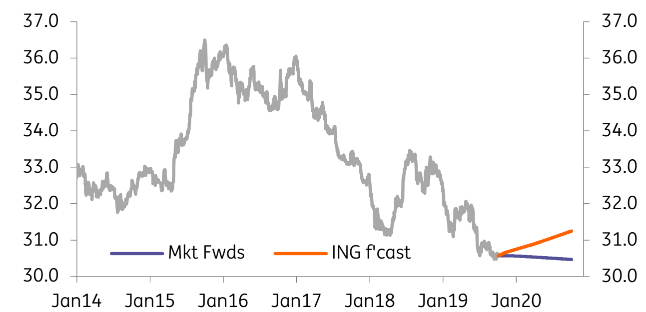
USD/THB

Why BoT is resisting rate cuts?

Current spot: 30.57



Source: Bloomberg, ING

- For a change, the THB was an underperformer in September, which was a relief for the authorities, worried about excessive currency appreciation further hurting export and tourism.
- This relief could be transitory with the BoT resisting rate cut pressure, while the current account surplus is on course to widen again this year. Weak activity forced another cut to our 2019 GDP growth forecast to 2.5% from 2.8%. And at only 0.3% in September inflation has been drifting away from the BoT's 1-4% target.
- We see no merit in the BoT delaying what looks to us to be an inevitable and much-needed rate cut. We maintain our forecast of a 25bp policy rate cut before the year-end.

ING forecasts (FWDs)	**1M** 30.65 (30.57)	**3M** 30.75 (30.55)	**6M** 30.90 (30.52)	**12M** 31.25 (30.47)

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