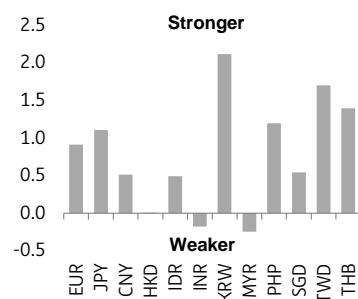


6 July 2020

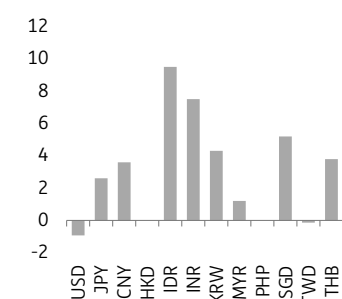
Asia

Exchange rates vs. USD (%MoM)



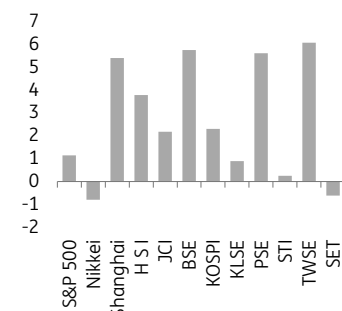
Source: Bloomberg

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



Source: Bloomberg

Stock indices (%MoM)



Source: Bloomberg

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Asian FX Talking

Balance of risks

The near-term direction for Asian currencies will be dominated by whether Covid-19 angst or recovery optimism prevail. These sentiments are currently fairly evenly matched.

The outlook for most Asian currencies in the near-term will be mainly determined by global sentiment swings, rather than by domestic developments.

In particular, the surge in new US Covid-19 cases and economic re-closure has the potential to seriously dent market sentiment, but so far, is being held at bay by a combination of better (though of course lagged) economic data, and continued hopes that progress towards a vaccine is being made.

This is a precarious balance, and given the market strength that has dominated the period since March, our view is that the near-term risks are more skewed towards a correction in local currencies to weaker rates, before returning to a stronger footing.

The commodity currencies of AUD and NZD may be at most risk of such a correction, though joined by the high beta currencies of KRW and IDR. Geopolitical noise can provide a further source of volatility for the CNY, as trade and tech war tensions are ratcheted up further by potential sanctions on Chinese officials over the Hong Kong National Security law.

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

	USD/JPY		AUD/USD		NZD/USD	
Spot	111.43		0.69		0.65	
1M	107.00	=	0.67	<	0.63	<
3M	106.00	<	0.69	>	0.66	>
6M	105.00	<	0.71	>	0.68	>
12M	105.00	<	0.74	>	0.70	>

	USD/CNY		USD/INR		USD/IDR	
Spot	7.064		75.48		14344	
1M	7.065	=	76.10	>	14238	<
3M	7.060	<	77.40	>	14549	<
6M	7.050	<	76.50	<	14407	<
12M	7.000	<	75.80	<	14625	<

	USD/KRW		USD/MYR		USD/PHP	
Spot	1200		4.287		49.75	
1M	1260	>	4.300	=	50.86	>
3M	1240	>	4.400	>	50.77	>
6M	1200	=	4.350	>	51.48	>
12M	1160	<	4.330	=	52.01	>

	USD/SGD		USD/TWD		USD/THB	
Spot	1.393		29.47		31.11	
1M	1.400	>	29.55	>	31.00	=
3M	1.420	>	29.50	>	31.30	>
6M	1.400	>	29.40	>	31.50	>
12M	1.380	<	29.30	>	31.20	>

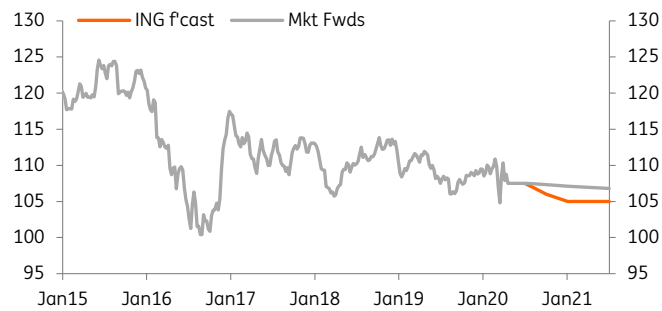
> / = / < indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright. Prices as on 2 July 2020 at 12pm Singapore time.

Source: Bloomberg, ING estimates

USD/JPY

Trapped between a reflation and deflation story

Current spot: 111.43



Source: Bloomberg, ING

- USD/JPY is becoming even more a sideshow as investors struggle to define the forthcoming macro-investment environment. As discussed here last month, periods of reflationary (JPY negative) trading have been brief and the US yield curve is more minded towards stagnation – with Fed Funds still priced in negative territory in late 21/22.
- Higher inflation expectations look a challenge, but if seen would bring forward the story of deeper negative US real rates – good for gold, bad for the dollar.
- The BoJ is left to manage the JGB curve (rise in 30yr JGB yields bears watching) and hope that \$/JPY doesn't break below 105.

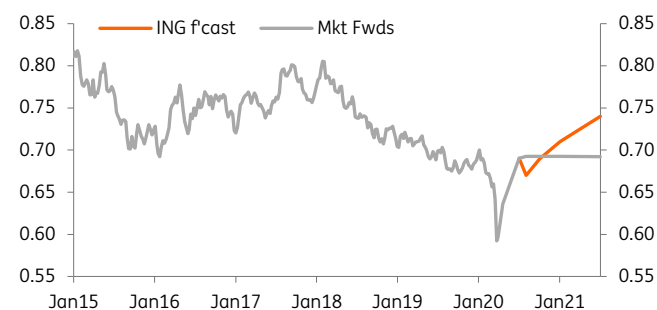
ING forecasts (mkt fwd)	1M 107.00 (107.37)	3M 106.00 (107.28)	6M 105.00 (107.05)	12M 105.00 (106.70)
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Chris Turner, London +44 20 7767 1610

AUD/USD

Not out of the woods

Current spot: 0.69



Source: Bloomberg, ING forecasts

- The reinstatement of lockdowns in Victoria are a timely reminder that all countries remain vulnerable to flare ups of the Covid-19 virus, and that the bounce back of the economy is likely to be slower, and take longer than some think.
- The RBA indicated that both fiscal and monetary policy will have to remain supportive for years, and certainly, there seems little prospect of a normalisation of rates any time soon.
- China's slow recovery, coupled with Covid-related global supply disruptions is keeping Australia's commodity prices supported. We see the risk of a correction in the short term but still expect the undervalued AUD to outperform later in H2.

ING forecasts (mkt fwd)	1M 0.67 (0.69)	3M 0.69(0.69)	6M 0.71 (0.69)	12M 0.74 (0.69)
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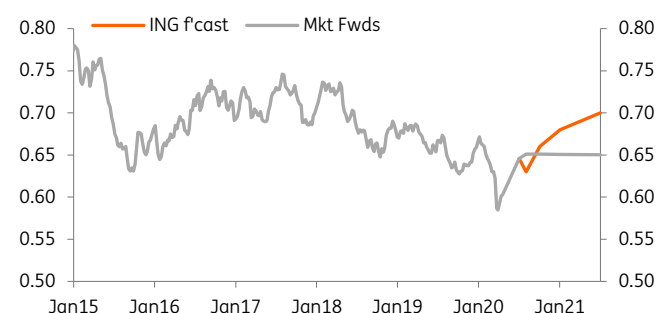
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NZD/USD

Negative rate threat lingers

Current spot: 0.65



Source: Bloomberg, ING forecasts

- RBNZ Governor, Adrian Orr is keeping alive the possibility of a negative official cash rate (OCR) but doesn't seem to be pushing it hard, preferring that banks focus on lending to spur the recovery.
- The NZD's recovery from the March lows has so far not had a substantial impact on export strength, with year on year exports down a little more than 6%YoY, a small decline compared to other nations. Though this will need watching
- 1Q20 GDP came in worse than expected at -1.5%YoY, but this is largely of historical interest only now, and of little consequence for FX rates though it will keep the RBNZ dovish. We expect NZD to follow AUD but likely facing more limited downside risks.

ING forecasts (mkt fwd)	1M 0.63 (0.65)	3M 0.66(0.65)	6M 0.68(0.65)	12M 0.70(0.65)
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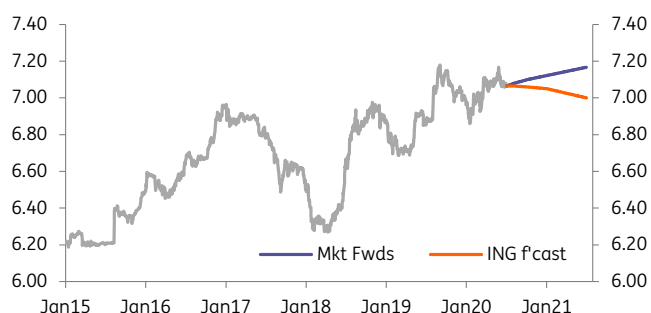
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USD/CNY

Yuan strengthen as the economy recovers

Current spot: 7.064



Source: Bloomberg, ING forecasts

- Though media reports suggest that China has resumed purchases of US agricultural products, China has drawn up a list of import restrictions on various food companies from the US, South America, UK and Europe.
- The market is also waiting for more on the Hong Kong National Security law, and on what further US actions might ensue.
- Even with this potentially negative news, the yuan has strengthened against the dollar from 7.14 at the end of May to around 7.07 on 30 June. As the economy shows only a slow recovery, the yuan should stabilise at current levels for some time.

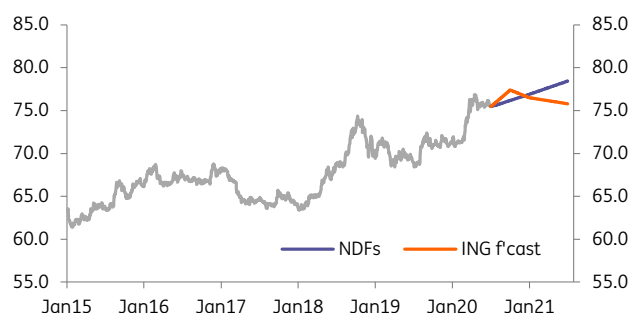
ING forecasts (mkt fwd)	1M 7.065 (7.078)	3M 7.060 (7.099)	6M 7.050 (7.122)	12M 7.000 (7.167)
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USD/INR

Covid-19 outbreak has worsened

Current spot: 75.48



Source: Bloomberg, ING forecasts

- A spike in India-China border tensions in mid-June briefly nudged the USD/INR above the 75-76 trading range it has been in since May. But broader USD weakness capped the weakness, leaving the INR near the low end of the Asian spectrum in June.
- The economy looks headed into a deeper slump as the Covid-19 crisis has worsened. With over half a million cases, it's now the fourth worst-affected country in the world. We have cut our GDP growth forecast for the current fiscal year to -5.2% from -2.1%.
- Tight public finances limit the availability of fiscal support. The RBI continuing on a rate cut path, despite high inflation, remains the best hope for the economy, though not for the INR.

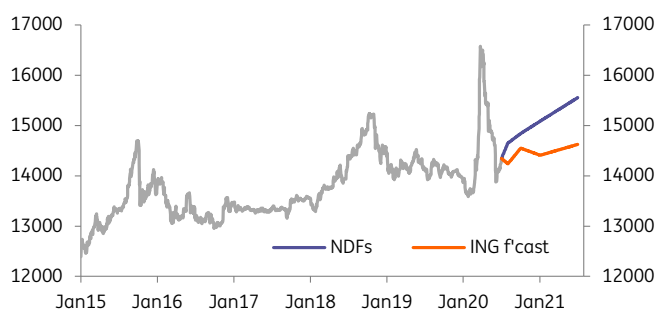
ING forecasts (mkt fwd)	1M 76.10 (75.69)	3M 77.40 (76.19)	6M 76.50 (76.92)	12M 75.80 (78.46)
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Prakash Sakpal, Singapore +65 6232 6181

USD/IDR

IDR appreciation momentum fades as virus spreads

Current spot: 14344



Source: Bloomberg, ING forecasts

- The IDR appreciated for most of June, with global sentiment improving on hopes for an economic turnaround. Indonesia relaxed partial lockdown measures in most regions to jumpstart economic activity.
- Bank Indonesia (BI) finally cut policy rates by 25bp with inflation benign and the IDR steadying as foreign investors returned to the bond and equity markets. BI Governor Perry Warjiyo signalled further rate cuts were possible and that the IDR remained "undervalued".
- IDR's recent strength has faded as the risk tone has soured, with new daily Covid-19 infections on the rise.

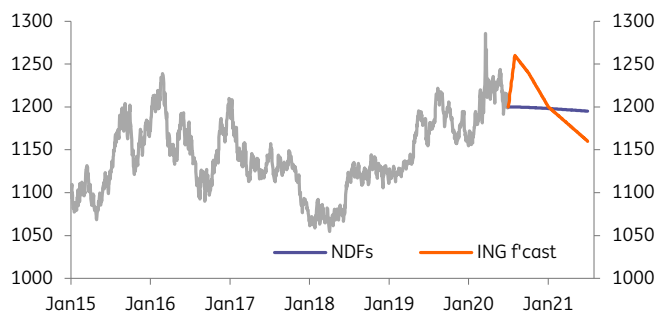
ING forecasts (mkt fwd)	1M 14238 (14648)	3M 14549 (14840)	6M 14407 (15085)	12M 14625 (15555)
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USD/KRW

The easy appreciation is done

Current spot: 1200



Source: Bloomberg, ING forecasts

- The KRW has been Asia's third best performing currency against the USD over the last month, lagging slightly behind the THB and IDR.
- The early June appreciation from 1245 to 1189 has not been maintained. This is largely a function of global market sentiment which has stayed positive, but with a decreasing sense of conviction as Covid-19 case numbers have crept higher again in many countries and re-opening has been reversed or postponed in others.
- The BoK seems to prefer the government to do the heavy lifting for the economy now and their easing is probably over.

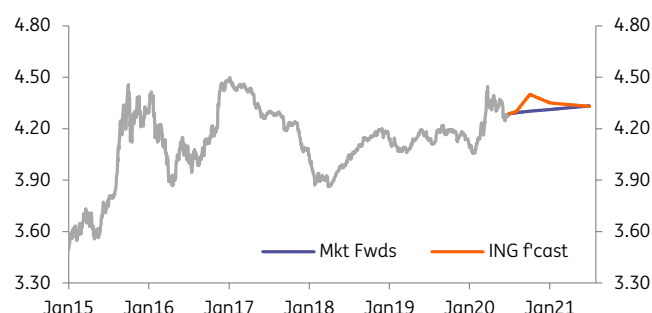
ING forecasts (NDFs)	1M 1260 (1200)	3M 1240 (1199)	6M 1200 (1198)	12M 1160 (1195)
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Rob Carnell, Singapore +65 6232 6020

USD/MYR

Holding up well in broader EM strength

Current spot: 4.287



Source: Bloomberg, ING forecasts

- The USD/MYR has traded in a narrow range of 4.25-4.30 for most of the past month. Some broader EM strength at the very beginning of June leaves it 1.4% stronger on the month.
- Exports continued to decline at more than 20% YoY for a second straight month in May. In combination with an over 30% fall in manufacturing, this is consistent with our forecast of an 8.3% YoY GDP fall in 2Q20. Adding to the MYR's woes was some negative rating action reflecting weakening public finances as well as persistent political risk.
- Weak GDP growth and negative CPI inflation (-2.9% in May) make a strong case for a further imminent BNM policy rate cuts.

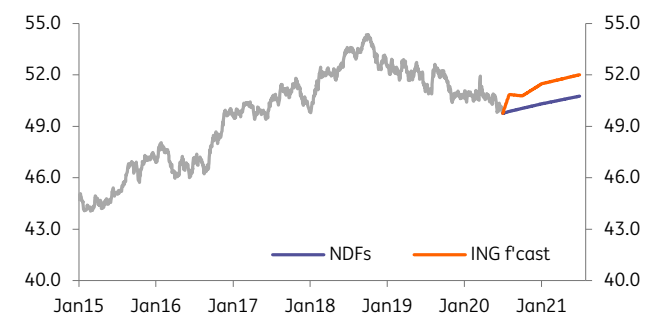
ING forecasts (mkt fwd)	1M 4.300 (4.293)	3M 4.400 (4.302)	6M 4.350 (4.312)	12M 4.330 (4.333)
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USD/PHP

PHP resilient, supported by foreign borrowings

Current spot: 49.75



Source: Bloomberg, ING forecasts

- The PHP weakened slightly in mid-June on renewed corporate demand with the economy emerging from lockdown. It strengthened sharply by end-June however, boosted by substantial inflows linked to the government's aggressive borrowings from multilateral institutions.
- The Bangko Sentral ng Pilipinas (BSP) surprised with a 50bp rate cut to aid the economy. Despite the surprise move, PHP strengthened as governor Diokno indicated he would likely pause on rate cuts for "a couple of quarters".
- PHP will likely enjoy short-term strength fuelled by government foreign loans but the continued fade in remittances could offset.

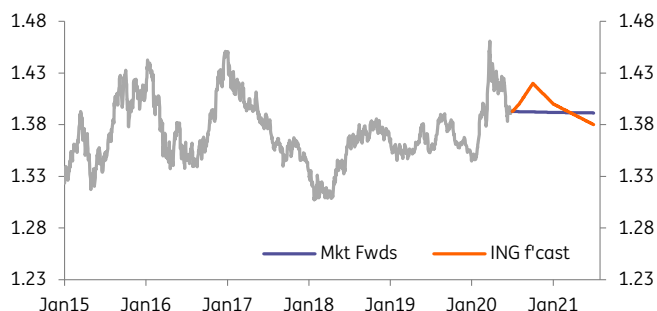
ING forecasts (mkt fwd)	1M 50.86 (49.87)	3M 50.77 (50.05)	6M 51.48 (50.31)	12M 52.01 (50.76)
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USD/SGD

Singapore goes to poll on 10 July

Current spot: 1.393



Source: Bloomberg, ING forecasts

- The USD/SGD moved to a new lower trading range of 1.38-1.40 in June. Barring any negative spurt on the Covid-19 front, we would look for this range to prevail in the short-term.
- The second phase of reopening after the Covid-19 hit may have got the economy somewhat back on its feet. But its struggle to grow still has a long way to go. Meanwhile, advance 2Q20 GDP data due in early July will shed light on the extent of the damage; we forecast a 9.2% YoY GDP contraction.
- Politics becomes a feature in the near-term as general elections will be held on 10 July. Unlike most Asian countries, elections in Singapore are typically not disruptive for the markets.

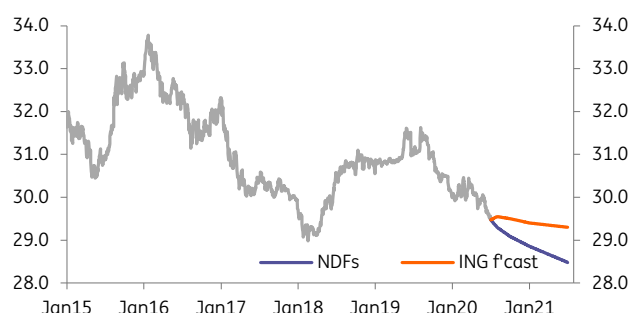
ING forecasts (mkt fwd)	1M 1.400 (1.393)	3M 1.420 (1.392)	6M 1.400 (1.392)	12M 1.380 (1.391)
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USD/TWD

Speedy strengthening

Current spot: 29.47



Source: Bloomberg, ING forecasts

- Capital continued to flow into the Taiwan stock market (TWSE), which rose around 5% in June. Taiwan semiconductor companies have benefitted from the US-China technology war and can tap both markets.
- However, the rest of the economy is failing to show any signs of recovery. The unemployment rate continued to edge up, industrial production grew more slowly, and retail sales kept shrinking YoY. Exports did not recover - due to weak global demand - and were still in contraction year-on-year.
- TWD strength built solely on semiconductor strength could be a volatile base for the currency.

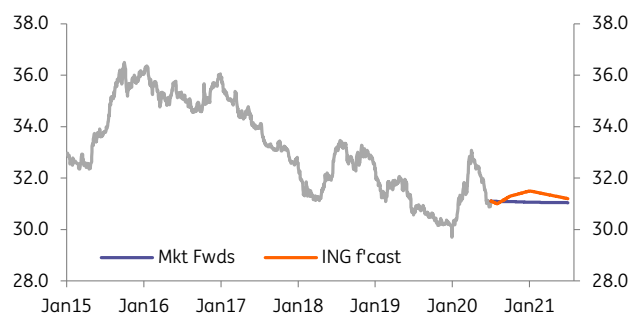
ING forecasts (mkt fwd)	1M 29.55 (29.30)	3M 29.50 (29.08)	6M 29.40 (28.85)	12M 29.30 (28.48)
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USD/THB

End of central bank easing cycle

Current spot: 31.11



Source: Bloomberg, ING forecasts

- The THB ended June with 3% appreciation against the USD, topping the EM universe. Nothing much has changed in terms of underlying economic fundamentals though.
- The current account returned to a small surplus of \$64m in May from a \$654m deficit in April, even as net outflows on services trade continued to swell for the third straight month. Exports and tourism will remain key headwinds for the THB.
- The more-than-20% YoY fall in manufacturing in Apr-May supports our forecast of an 8.3% YoY GDP fall in 2Q. Inflation continues to grind lower, too, though this doesn't much help the central bank which has no more space for rate cuts.

ING forecasts (mkt fwd)	1M 31.00 (30.09)	3M 31.30 (30.09)	6M 31.50 (30.06)	12M 31.20 (30.04)
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