

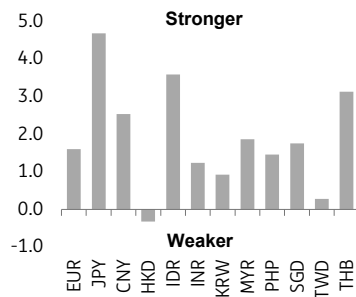
11 January 2019

Asia

# Asian FX Talking

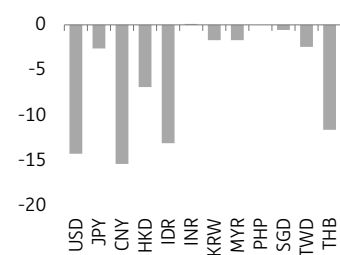
It's complicated!

Exchange rates vs USD (%MoM)



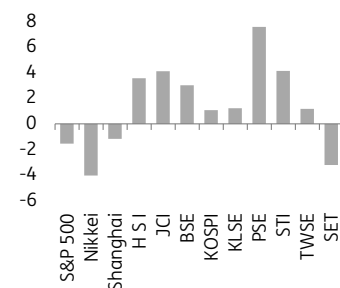
Source: Bloomberg

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



Source: Bloomberg

Stock indices (%MoM)



Source: Bloomberg. Tenor in parentheses

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**Multiple layers of overlapping influences and idiosyncratic factors make 2019 an interesting, but challenging year for forecasting.**

Forecasting is never easy, but 2019 looks like it will challenge the best FX astrologers. The start of the year wasn't much help with the flash crash causing some early headaches. But if we can generalise, we have started off the year with a softer dollar and, in consequence, broadly (though not uniformly) stronger Asian FX.

This has been caused by a change in Fed rhetoric, though we believe, not in their actual reaction function. The market has over-reacted to this, and is pricing in some Fed easing this year which we believe to be totally off the table. Indeed, even if rate hike expectations within the Fed have been pared, and their timing pushed back, the direction for policy rates is still up.

Likewise, the more upbeat tone struck (especially by the US) on trade has also caused the USD to lose some ground to Asian currencies, the CNY in particular. Once again, we are sceptical that much has changed. The US President needed to score some quick wins with equity markets and this was a convenient way to do so. And China was always an open door for more soy and LNG imports. The harder discussions come on intellectual property and government support for State Owned Enterprises. These aren't realistically on the table for China, and we may see the mood on trade sour again within months.

At the country level, we need to overlay what looks like a broad uptrend in crude over the year – bad news for India, good news for Malaysia, and so long as it does not exceed US\$75/bbl, we think better news for the big exporters (Korea, Taiwan). And then there are elections in India, Indonesia, and possibly Thailand. All of which introduce substantial binary risk. So in what follows, we have given it our best shot. But it's not been easy, and don't expect this to be the last word on Asian FX this year!

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

	USD/CNY	USD/INR	USD/IDR
<b>Spot</b>	<b>6.7405</b>	<b>70.54</b>	<b>14048</b>
1M	6.8500 >	71.50 >	14150 =
3M	7.1000 >	73.00 >	14400 >
6M	7.2000 >	74.00 >	14550 >
12M	7.3000 >	69.00 <	14350 <

	USD/KRW	USD/MYR	USD/PHP
<b>Spot</b>	<b>1116</b>	<b>4.0950</b>	<b>52.04</b>
1M	1120 >	4.1300 >	52.25 =
3M	1130 >	4.1600 >	53.64 >
6M	1140 >	4.2000 >	53.89 >
12M	1115 >	4.1200 =	54.24 >

	USD/SGD	USD/TWD	USD/THB
<b>Spot</b>	<b>1.3505</b>	<b>30.78</b>	<b>31.90</b>
1M	1.3600 >	30.70 =	32.30 >
3M	1.3700 >	30.60 =	33.00 >
6M	1.3600 >	30.60 >	33.30 >
12M	1.3400 =	30.40 >	32.80 >

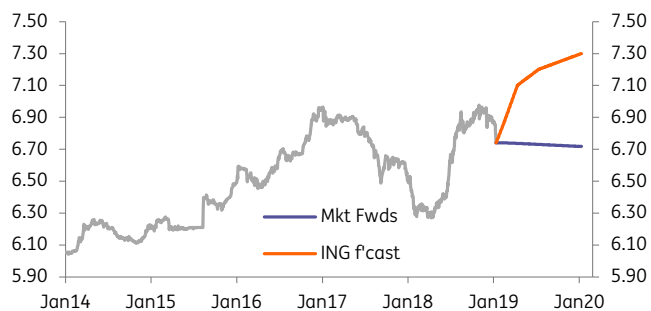
> / = / < indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright. Prices as on 11 January 2019 at 5pm Singapore time

Source: Bloomberg, ING estimates

## USD/CNY

Yuan strengthens with dovish Fed

**Current spot: 6.7405**



Source: Bloomberg, ING

- In its fourth quarter meeting minutes, the central bank (PBoC) changed its exchange rate policy stance to “maintain a stable exchange rate at a reasonable level”.
- The current USD/CNY and USD/CNH forecast is 7.30 by the end of 2019. This forecast is under review because of the change in policy stance and recent strength of the yuan against the dollar caused by the dovish Fed tone.
- But the forecast is still dependent on the progress of the trade talks, which remain uncertain. This is the reason we keep the year end forecast at 7.30. Significant improvement of the trade war in the future could move the forecast to a stronger yuan.

<b>ING forecasts (FWDs)</b>	<b>1M 6.8500 (6.7404)</b>	<b>3M 7.1000 (6.7369)</b>	<b>6M 7.2000 (6.7304)</b>	<b>12M 7.3000 (6.7173)</b>
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## USD/INR

Loosening macro policy ahead of elections

**Current spot: 70.54**



Source: Bloomberg, ING

- The INR remains the worst-performing Asian currency coming into 2019 albeit with reduced volatility since December. We believe the INR will weaken further above 73 against the USD as political risks mount. General elections will be held in May 2019.
- On a spending spree to boost its odds of staying in power, the Modi government is pursuing more growth-friendly policies. Undoubtedly Finance Minister Jaitley is preparing an election budget for FY20 to be unveiled on 1 Feb. And the RBI, under the new governor Shaktikant Das, has opened its liquidity taps.
- With inflation likely remaining under RBI's 4% comfort level, the odds of an imminent policy rate cut are elevated. Although we aren't expecting a cut, we wouldn't be surprised if we get one.

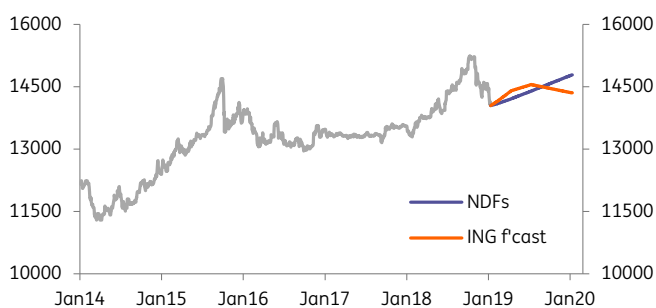
<b>ING forecasts (NDFs)</b>	<b>1M 71.50 (70.78)</b>	<b>3M 73.00 (71.32)</b>	<b>6M 74.00 (72.10)</b>	<b>12M 69.00 (73.62)</b>
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## USD/IDR

IDR outperforms on dovish Fed, BI presence in NDF

**Current spot: 14048**



Source: Bloomberg, ING

- IDR has been outperforming other EM currencies as dovish comments from the Fed push dealers to seek higher yields with investors snatching up Indonesian bonds.
- The currency is also benefiting from comments by Bank Indonesia's Governor expressing confidence in domestic markets and highlighting manageable prices in 2019 while also pledging to maintain its presence in the NDF market.
- Hopes for a positive turnout from trade negotiations between the US and China have helped support the IDR given the “risk-on” tone. But the currency is seen to benefit even if the US-China trade war festers, according to the Indonesian vice president.

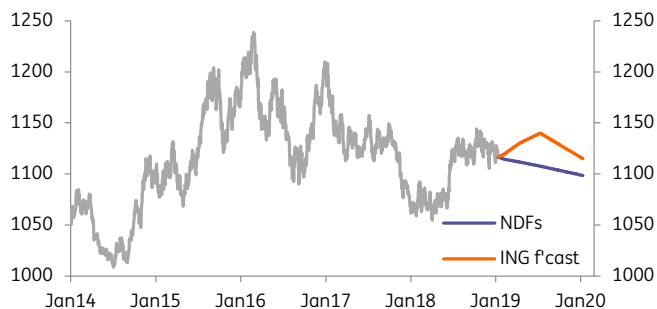
<b>ING forecasts (NDFs)</b>	<b>1M 14150 (14094)</b>	<b>3M 14400 (14210)</b>	<b>6M 14550 (14397)</b>	<b>12M 14350 (14787)</b>
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## USD/KRW

No more rate hikes

Current spot: 1116



Source: Bloomberg, ING

- No real change to the policy mix in Korea, with the government continuing with President Moon's leftish leaning re-distributive policies.
- But we don't expect any follow up to last year's BoK hike, which we see as a "one and done" and frankly unnecessary response to a regional, sectoral issue (Seoul house prices and household debt) with national monetary policy. It certainly won't help the economy to thrive in 2019.
- The KRW is likely to come under renewed pressure mid-year as the USD resumes its appreciation and potentially spurs a re-run of the EM angst that gripped markets mid-2018. But it should recover lost ground later in the year as USD fortunes reverse.

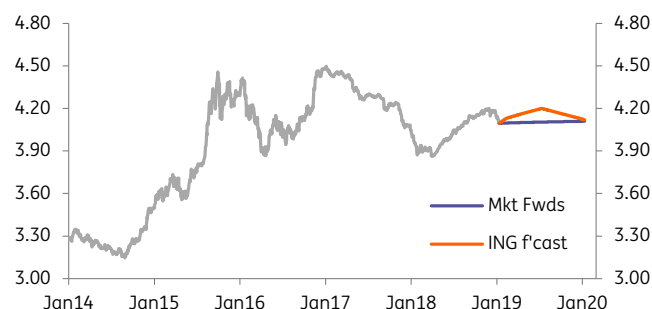
ING forecasts (NDFs)	1M 1120 (1114)	3M 1130 (1111)	6M 1140 (1107)	12M 1115 (1098)
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## USD/MYR

No sovereign downgrade risk in sight

Current spot: 4.0950



Source: Bloomberg, ING

- The renewed uptrend in crude prices comes as a boon to Malaysia's economy and the currency coming into 2019. This drove the USD/MYR below 4.10, a level not seen since August.
- Moody's sees Malaysia's GDP growth slowing to 4.7% in 2019 and further to 4.5% in 2020, below the 2015-18 average rate of 5%, but no threat to the country's A3/Stable sovereign rating. The agency noted the 'large and diversified economy with healthy medium-term growth prospects, and relatively high government debt partially offset by a favourable debt structure and large domestic savings' as supportive of the sovereign credit profile.
- As for most other Asian central banks, on-hold BNM policy remains our view for 2019, and probably beyond.

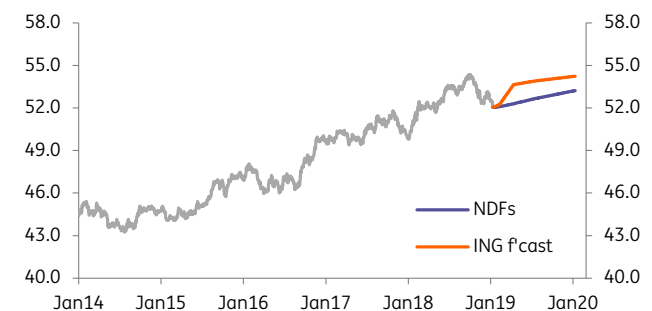
ING forecasts (FWDs)	1M 4.1300 (4.0974)	3M 4.1600 (4.1001)	6M 4.2000 (4.1036)	12M 4.1200 (4.1095)
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## USD/PHP

PHP strengthens on Dollar bond issuance and equity flows

Current spot: 52.04



Source: Bloomberg, ING

- PHP has moved sideways with an appreciation bias as foreign flows return to the local equity market for a sixth straight day given the dovish outlook on the Fed.
- The Philippines successfully launched a new dollar-denominated bond worth US\$1.5bn of 10-year bonds in the second week of trading with a spread of 110bp over Treasuries.
- Limiting the Peso's gains was onshore demand from corporates as well as lingering concerns about the country's current account deficit with the country still seen to experience stark demand for imports in the coming year.

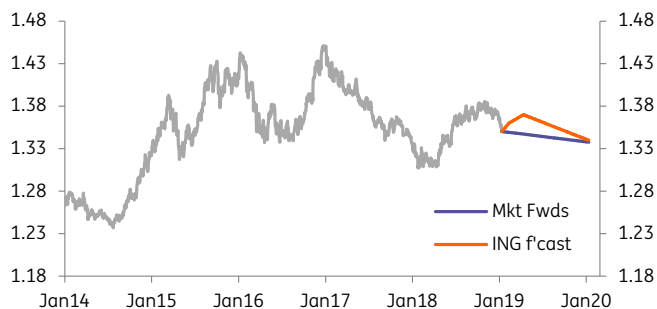
ING forecasts (NDFs)	1M 52.25 (52.09)	3M 53.64 (52.29)	6M 53.89 (52.64)	12M 54.24 (53.23)
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## USD/SGD

No change to outlook

Current spot: 1.3505



Source: Bloomberg, ING

- Recent Singaporean dataflow has been softening, and the outlook for 2019 is for moribund growth which will do well to exceed 2.5%.
- As such, further tightening of the NEER path by the MAS seems unlikely, though by the same token, growth and inflation will probably not deteriorate sufficiently to require a reversal of tightening already implemented.
- With the SGD locked into a narrow nominal appreciation range against the traded basket for the rest of the year, we should see some modest nominal USD/SGD appreciation coming through in the second half of the year.

ING forecasts (FWDs)	1M 1.3600 (1.3495)	3M 1.3700 (1.3475)	6M 1.3600 (1.3442)	12M 1.3400 (1.3380)
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## USD/TWD

Fewer smartphone orders hurt exports

Current spot: 30.78



Source: Bloomberg, ING

- Taiwan manufacturers face a downward cycle of orders placed by smartphone sellers. This is a key factor that has weakened Taiwan's export and import activities.
- Progress in the China-US trade talks is still uncertain, which adds another unfavourable factor to the growth of the economy. Taiwan faced deflation in December, driven by lower energy prices and vegetable prices, which should be seasonal. So we do not expect the central bank to take any action.
- Overall, we believe that the USD/TWD has switched to a falling trend as foreign capital has continued to flow into the Taiwan market, which offsets rising pressure from weakening exports.

ING forecasts (NDFs)	1M 30.70 (30.67)	3M 30.60 (30.54)	6M 30.60 (30.31)	12M 30.40 (29.90)
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## USD/THB

Rising political risk

Current spot: 31.90



Source: Bloomberg, ING

- After a dismal 2018 second half performance, the THB is back to being among Asia's top performers thus far in 2019. If there is anything that could displace it from this position, it is politics, as uncertainty regarding the election timing is growing.
- Just as the policy rate was hiked in December, the BoT governor Veerathai said the bank is ready to act if the economy slows. As such, the argument of having some policy space with a 25bp rate hike last month looks unfounded.
- Growth is indeed slowing and inflation is grinding close to zero. The BoT is finally coming to admit that its 1-4% inflation target is overambitious. It discussed cutting the target in the 4Q18 Monetary Policy Report but stopped short of doing it for 2019.

ING forecasts (FWDs)	1M 32.30 (31.86)	3M 33.00 (31.80)	6M 33.30 (31.73)	12M 32.80 (31.52)
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