11 July 2019
Asia

Asian FX Talking

North-South divide

Asia hopes a Federal Reserve rate cut will provide local currencies some support, and even some room for central banks to ease locally.

There are essentially two types of currency in Asia right now, those that are being beaten up by trade/tech war fears and would like some respite with a lower Fed funds rates and a weaker US dollar, and those that aren't.

Chief among the trade / tech victims is the Korean won. This has lurched between a large upside overshoot of our 1180 end 2Q19 forecast in mid-June, moving below 1150 after the G20 meeting, only to throw in the towel again post-payrolls to surge past 1180. In so doing, the KRW has deftly managed to avoid our end-2Q19 forecast of 1180, though it probably hit it on average – small consolation. The Taiwan dollar has been similarly rocked back and forth. The Chinese yuan has held firm, whilst negotiations with the US re-start.

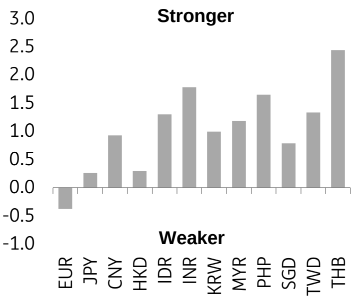
Outside of North Asian FX volatility, the ASEAN currencies have performed better; the Thai baht despite further political stalemate; Malaysian ringgit – an early easer, with a decent macro story underpinning it and the Indonesian rupiah running a clever game of talking about easing policy but then holding back due to concerns about the external balance. It's a similar story for the Philippine peso, but with more actual easing and a little softening as a result. The Singapore dollar has looked more wobbly with chat mounting of an out of meeting policy adjustment from the central bank – we wouldn't be surprised - and some regional underperformance here is not to be dismissed. Elsewhere, India has weathered an election and budget apparently without major incident, which is being reflected currently in a firm rupee. Time will tell if that will last.

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

	USD/JPY		AUD/USD		NZD/USD	
Spot	**108.1**		**0.698**		**0.667**	
1M	108.0	=	0.685	<	0.650	<
3M	105.0	<	0.685	<	0.640	<
6M	103.0	<	0.695	<	0.645	<
12M	100.0	<	0.720	>	0.665	<
	USD/CNY		**USD/INR**		**USD/IDR**	
Spot	**6.866**		**68.40**		**14067**	
1M	6.900	=	68.80	=	14100	=
3M	6.950	>	70.30	>	14330	>
6M	6.900	=	70.00	=	14280	<
12M	6.850	<	69.50	<	14100	<
	USD/KRW		**USD/MYR**		**USD/PHP**	
Spot	**1173**		**4.115**		**51.26**	
1M	1170	=	4.120	=	51.20	=
3M	1150	<	4.120	=	53.10	>
6M	1180	>	4.140	=	53.60	>
12M	1150	<	4.150	=	54.04	>
	USD/SGD		**USD/TWD**		**USD/THB**	
Spot	**1.355**		**31.02**		**30.61**	
1M	1.361	=	31.50	>	30.70	=
3M	1.363	>	31.70	>	30.80	>
6M	1.365	>	31.50	>	31.00	>
12M	1.370	>	31.50	>	30.90	>

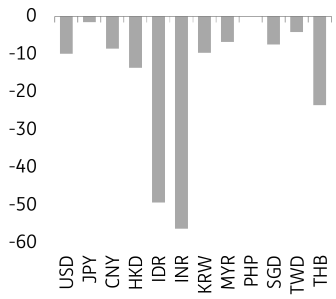
> / = / < indicates our forecast for the currency pair is above/in line with/below the corresponding market forward
Source: Bloomberg, ING estimates

Exchange rates vs USD (%MoM)



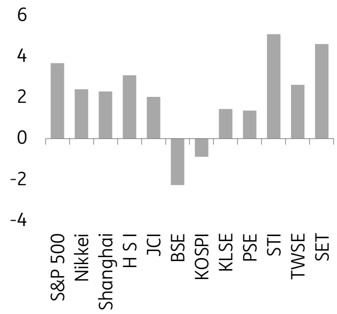
Source: Bloomberg

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



Source: Bloomberg

Stock indices (%MoM)



Source: Bloomberg. Tenor in parentheses

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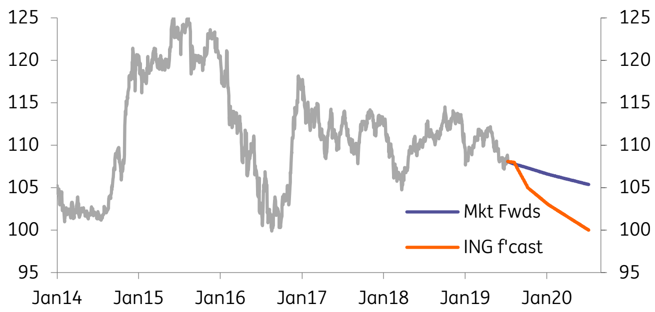
USD/JPY

BoJ's tough juggling act

Current spot: 108.1



Source:

- The Bank of Japan has a difficult job on its hands. On the one hand it is well aware that USD/JPY will lead any dollar decline should US activity slow further and the Fed be forced into a prolonged easing cycle. On the other hand, it is trying to steepen the Japanese government bond curve (by adjusting its buying operations) in order to support Japanese banking profitability. Based on our 10 year US Treasury yield forecasts, we suspect the US Treasury spread to JGBs narrows inside of 200 basis points and USD/JPY falls further.
- Tariffs and sanctions seem to be escalating around the world, questioning how long the risk environment can stay benign.
- The Japan-Korea political rift will bear watching for impact on JPY.

ING forecasts (mkt fwd)	**1M** 108.00 (107.81)	**3M** 105.00 (107.33)	**6M** 103.00 (106.58)	**12M** 100.00 (105.38)

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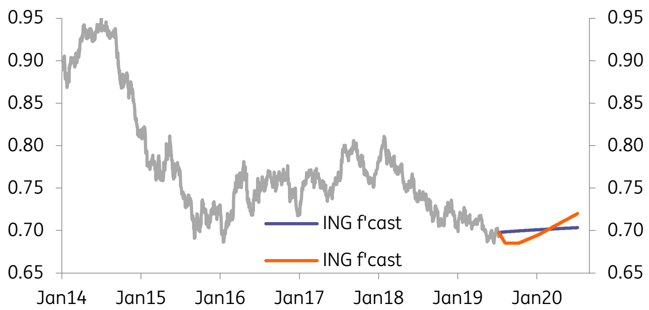
AUD/USD

External drivers look gloomy

Current spot: 0.698



Source: Bloomberg, ING

- The Reserve Bank of Australia has both cut rates, and simultaneously reduced expectations for more easing, enabling the Australian dollar to rally. Any further easing (18bp priced in by end-2019) will be driven by labour data, but we do not see the persistence of any gap between current and full employment as sufficient to take rates to their lower bound.
- The commodity outlook may start to prove less supportive. Recent strong iron ore prices are set to face some headwinds after speculation that China may manipulate the price.
- We expect a re-escalation of US-China trade tensions to weigh on AUD in the coming months, although the downside may be limited (0.685 level) given already short AUD market positioning.

ING forecasts (NDFs)	**1M** 0.685 (0.698)	**3M** 0.685 (0.700)	**6M** 0.695 (0.701)	**12M** 0.720 (0.703)

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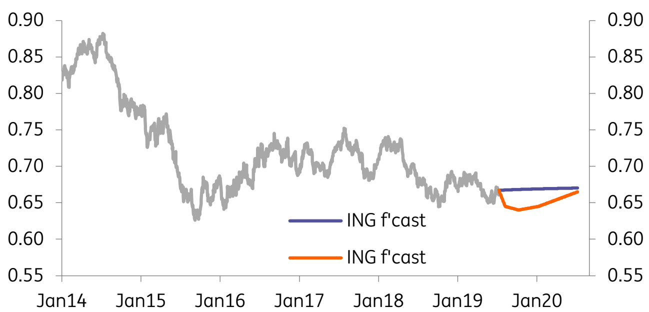
NZD/USD

Signs of slowing Chinese demand

Current spot: 0.667



Source: Bloomberg, ING

- The Reserve Bank of New Zealand has been more cautious with policy rates since they first cut in May. Unlike with AUD rates, NZD implied yields have remained depressed. Markets are pricing one cut in the next three months, with another one to follow in the 1H2020.
- The economic newsflow endorses the notion that the economy is still losing momentum, which hints that AUD should continue to outperform NZD ahead. We see AUD/NZD at 1.070 in three months.
- New Zealand commodity prices fell for the first time in 2019. Chinese demand for NZ forestry suddenly dried up, which may be seen as a red flag of a broader slowdown in NZ exports to China. This may keep NZD/USD around 0.64-0.65 till the end of this year.

ING forecasts (NDFs)	**1M** 0.650 (0.668)	**3M** 0.640 (0.668)	**6M** 0.645 (0.669)	**12M** 0.665 (0.670)

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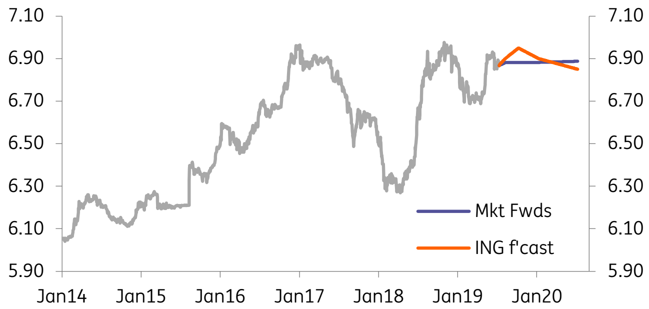
USD/CNY

Post-G20 yuan should be fairly stable

Current spot: 6.866



Source: Bloomberg, ING

- The G20 meeting did not materially change the trade and tech environment. Chinese technology companies continue to suffer from the US's "Entity List", which means they cannot trade with any US companies.
- Consequently, we believe that the People's Bank of China, China's central bank, will refrain from depreciating the yuan to cross USD/CNY 7.0 because doing so could create unwanted volatility in Mainland asset markets and possibly some global spillover, too.
- USD/CNY's trend should be fairly stable. If there is a formal negotiation between China and the US, the yuan could appreciate to show that China is not giving in easily to US demands.

ING forecasts (FWDs)	**1M** 6.900 (6.881)	**3M** 6.950 (6.881)	**6M** 6.900 (6.882)	**12M** 6.850 (6.887)

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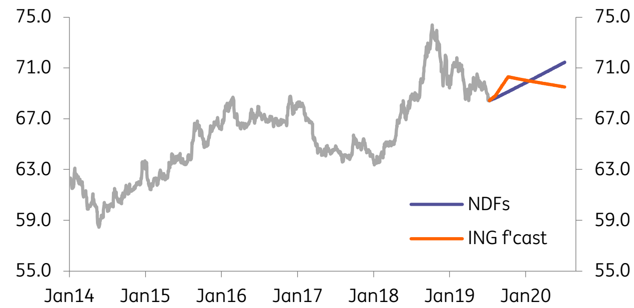
USD/INR

Planned foreign borrowing may be positive for INR

Current spot: 68.40



Source: Bloomberg, ING

- Despite ongoing economic woes and aggressive central bank rate cuts, the Indian rupee remains quite firm. Its 2% gain against the USD since mid-June is the most among Asian FX pairs, though this is more due to broad emerging market strength led by a dovish shift in Fed policy.
- Finance Minister Nirmala Sitharaman may have scored some points for fiscal prudence by cutting the fiscal deficit target to 3.3% of GDP in the final FY2020 Budget from 3.4% in the interim one. But she will likely be challenged as weak growth depresses revenue and her infrastructure investment drive boosts spending.
- The planned foreign borrowing to plug the wide fiscal gap may be mildly positive for the INR by bringing in more USD. But the risk of the USD/INR breaching 70 level remains on the horizon.

ING forecasts (NDFs)	**1M** 68.80 (68.63)	**3M** 70.30 (69.13)	**6M** 70.00 (69.90)	**12M** 69.50 (71.47)

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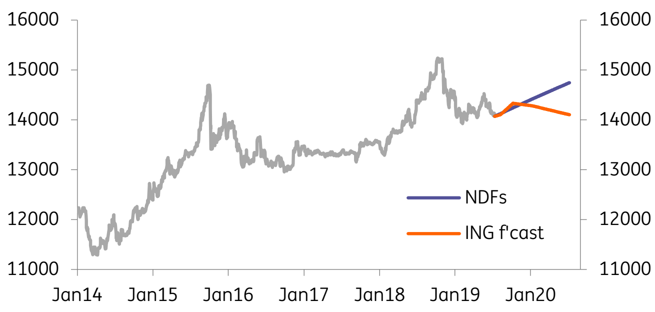
USD/IDR

Fed cut hopes benefit IDR **Current spot: 14067**



Source: Bloomberg, ING

- The Indonesian rupiah appreciated initially on hopes for Fed rate cuts with US economic data supporting previous dovish comments from the FOMC. The currency retreated mid-month on the general risk off tone, with Trump threatening more tariffs on China.
- With Fed members indicating they are moving in favour of a rate cut this year, foreign portfolio flows resumed, helping to boost the IDR. Bank Indonesia opted to keep rates steady but trimmed reserves instead to boost liquidity.
- With Trump and Xi declaring a truce, portfolio flows returned to close the month but IDR gains were capped on dovish comments from BI Governor Perry Warjiyo.

ING forecasts (NDFs)	**1M** 14100 (14119)	**3M** 14330 (14242)	**6M** 14280 (14417)	**12M** 14100 (14749)

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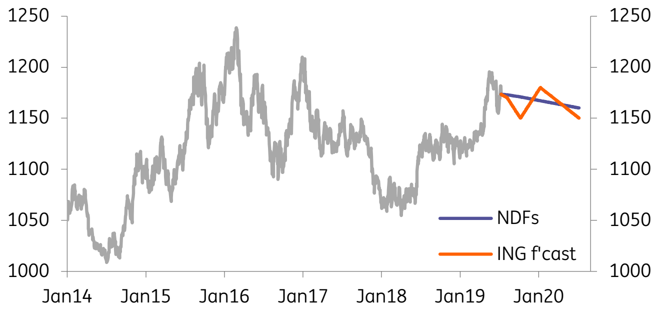
USD/KRW

BoK – on the edge of easing **Current spot: 1173**



Source: Bloomberg, ING

- The Korean won reeled on fears that the Fed wouldn't deliver a supportive rate cut, but has failed to rally on Fed Chair Jay Powell's testimony that it most likely will.
- A new trade attack from Japan and renewed hopes for some policy easing may be keeping the currency under weakening pressure. We look for the Bank of Korea to remove the November rate hike, perhaps as early as this month, and probably ease again before the year-end.
- While these may not amount to "hawkish cuts", we don't see them being particularly detrimental to the KRW. Real rates are high and there is ample room for some easing, while the economy undoubtedly will benefit from some easier policy.

ING forecasts (NDFs)	**1M** 1170 (1173)	**3M** 1150 (1171)	**6M** 1180 (1167)	**12M** 1150 (1160)

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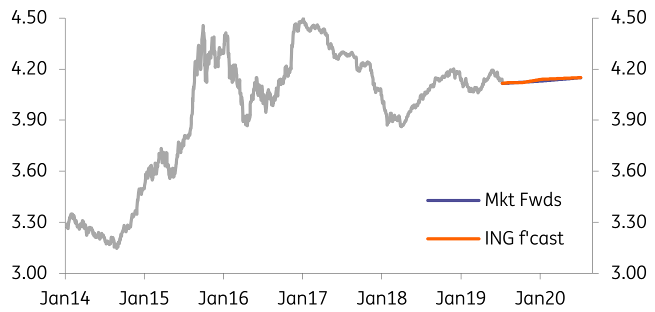
USD/MYR

Benefiting from better economy **Current spot: 4.115**



Source: Bloomberg, ING

- The Malaysian ringgit is sitting in the middle of the Asian pack in terms of performance since June, with a little under 1% appreciation. As the economy is doing well relative to its Asian peers, we see greater room for outperformance than underperformance.
- Firmer activity data reinforces our view that GDP growth accelerated in 2Q from 4.5% in 1Q, while the low inflation streak, which started with the removal of the GST tax in June 2019, has also ended. We think the central bank assessment of economic risks is fairly balanced between growth and inflation and it is likely to stay on hold during the rest of 2019.
- Recent affirmation by the S&P of Malaysia's A-sovereign rating with a stable outlook also bodes well for investor confidence.

ING forecasts (FWDs)	**1M** 4.120 (4.117)	**3M** 4.120 (4.122)	**6M** 4.140 (4.130)	**12M** 4.150 (4.149)

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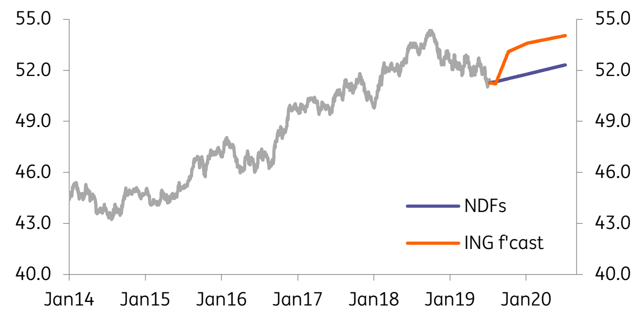
USD/PHP

Peso strengthens on flows **Current spot: 51.26**



Source: Bloomberg, ING

- The peso appreciated early in the month as May inflation surprised on the upside, which traders thought could delay the BSP's next rate cut. PHP strength faded quickly as the economy posted a substantial current account deficit in 1Q.
- The adjustment to the Fed dot plots, however, which showed a greater chance of a rate cut next year, sparked a fresh risk-on tone to help bolster the PHP while Trump's truce with Xi also helped the PHP appreciate towards the close of the month.
- The Bankgo Sentral ng Pilipinas (BSP) opted to keep policy rates untouched but Governor Benjamin Diokno has pledged to slash policy rates further and reduce reserves in the coming months if inflation remains well-behaved and growth slows.

ING forecasts (NDFs)	**1M** 51.20 (51.33)	**3M** 53.10 (51.51)	**6M** 53.60 (51.78)	**12M** 54.04 (52.32)

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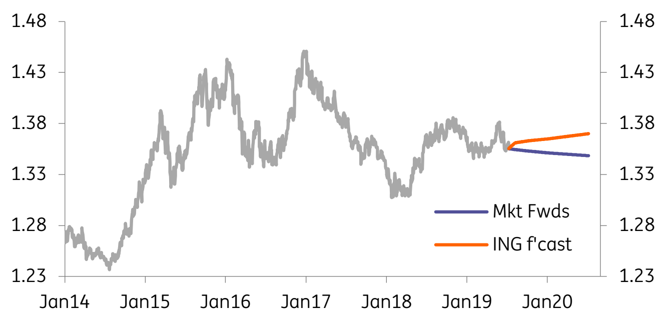
USD/SGD

SGD – losing its lustre? **Current spot: 1.355**



Source: Bloomberg, ING

- Singapore's electronics exports have been hit as hard as any other economy in the region by the trade and tech war slump and given their prominence in this small open economy, it is taking its toll on official forecasts.
- The Singapore dollar has slipped recently, and though it is still up versus the US dollar year to date, this is now only marginal.
- With government growth forecasts being scaled back and talk rising of a possible inter-meeting change of the policy path for the nominal SGD effective exchange rate, we have adopted a flat NEER as our base forecast. We expect this to be adopted imminently and maintained for the foreseeable future. Near-term slippage against the USD looks entirely possible.

ING forecasts (FWDs)	**1M** 1.361 (1.354)	**3M** 1.363 (1.353)	**6M** 1.365 (1.351)	**12M** 1.370 (1.349)

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USD/TWD

Nothing for the central bank to ease **Current spot: 31.02**

Source: Bloomberg, ING

- Exports and imports have returned to positive growth in June, but we believe that this is not a permanent turnaround. We still have to monitor smart phone sales in August and September to confirm that Taiwan's export sector has returned to positive growth.
- Given the already low policy interest rates at 1.375%, and the fact that the economy is not actually in recession, it is hard to see the central bank easing monetary policy by cutting rates.
- As such, we expect the USD/TWD to be largely driven by dollar index trends and other Asian FX trends.

ING forecasts (NDFs)	**1M** 31.50 (30.97)	**3M** 31.70 (30.88)	**6M** 31.50 (30.75)	**12M** 31.50 (30.49)

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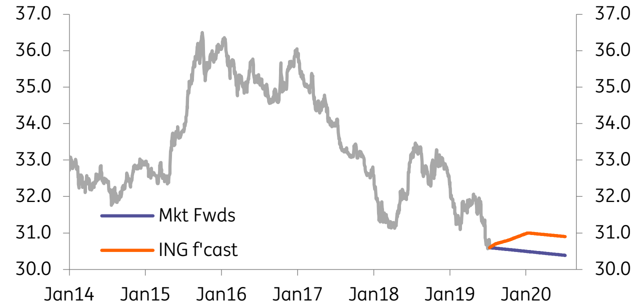
USD/THB

Bad politics, weak economy, and yet strong currency

Current spot: 30.61



Source: Bloomberg, ING

- The Thai baht remains at the top of the Asian pack with a 5.6% year-to-date appreciation against the US dollar. Although supported by a still large current surplus, the outperformance is surprising given the persistent political risks and weak economic fundamentals.
- Three months after the general elections, politics remains a key overhang on the economy. A formal government has now been announced, though with a 19-party coalition having just a four-seat majority, governance will be far from easy or smooth.
- The economy continues on a steady weakening path. As the political stalemate slows the emergence of any fiscal stimulus, monetary policy will have to do all it can to prop up growth. For now, we have pencilled in two policy rate cuts by year-end.

ING forecasts (FWDs)	**1M** 30.70 (30.60)	**3M** 30.80 (30.55)	**6M** 31.00 (30.49)	**12M** 30.90 (30.39)

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