22 May 2020
Asia

# Asian FX Talking

## Slow, but not steady

**Market sentiment has improved, but like the pandemic, progress is not steady, and remains slow and vulnerable to shocks**

While there are still a couple of economies in the region where the virus still seems to be rampaging, for the most part, lockdowns have got it under control, and now marks the period of reopening, a process that is maddeningly slow, but aimed at preventing renewed spikes in infection.

For most economies, the nadir of activity will come in April. May is unlikely to be substantially worse, and in some cases, where lockdowns have been eased, could see some growth. This, however, is likely to be very pedestrian.

And all of this comes against the backdrop of some renewed hostility on the trade front. We know how that went last time – USDCNY heading sharply higher, and dragging currencies like the KRW with it, while a stronger USD threatens the stability of EM current account currencies, IDR, INR and PHP.

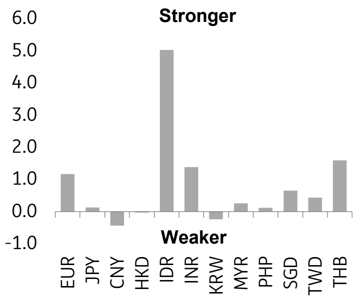
Pit that against a general tendency to look for positive developments – rumours of vaccine progress for example, which will drive flows back to EM currencies, and we have all the makings for some very volatile currency moves ahead. That increased volatility, rather than any strong directional call, seems the most reasonable near-term forecast.

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

| | USD/JPY | | AUD/USD | | NZD/USD | |
|---|---|---|---|---|---|---|
| **Spot** | **107** | | **0.65** | | **0.61** | |
| 1M | 106 | < | 0.63 | < | 0.60 | < |
| 3M | 105 | < | 0.66 | > | 0.62 | > |
| 6M | 100 | < | 0.69 | > | 0.64 | > |
| 12M | 105 | < | 0.71 | > | 0.68 | > |
| | **USD/CNY** | | **USD/INR** | | **USD/IDR** | |
| **Spot** | **7.115** | | **75.62** | | **14710** | |
| 1M | 7.150 | = | 76.80 | > | 14867 | = |
| 3M | 7.100 | = | 78.90 | > | 14799 | < |
| 6M | 7.050 | < | 76.50 | < | 14657 | < |
| 12M | 7.000 | < | 75.50 | < | 14475 | < |
| | **USD/KRW** | | **USD/MYR** | | **USD/PHP** | |
| **Spot** | **1235** | | **4.354** | | **50.72** | |
| 1M | 1260 | > | 4.380 | = | 51.30 | > |
| 3M | 1220 | < | 4.430 | > | 51.68 | > |
| 6M | 1200 | < | 4.350 | < | 52.19 | > |
| 12M | 1160 | < | 4.330 | < | 52.58 | > |
| | **USD/SGD** | | **USD/TWD** | | **USD/THB** | |
| **Spot** | **1.418** | | **29.94** | | **31.86** | |
| 1M | 1.420 | = | 29.85 | = | 32.10 | > |
| 3M | 1.430 | > | 29.80 | = | 32.60 | > |
| 6M | 1.415 | = | 29.70 | > | 32.30 | > |
| 12M | 1.410 | = | 29.30 | > | 31.80 | = |

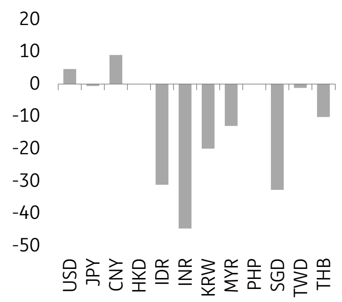
> / = / < indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright. Prices as on 22 May 2020 at 9am Singapore time.
Source: Bloomberg, ING estimates

**Exchange rates vs. USD (%MoM)**



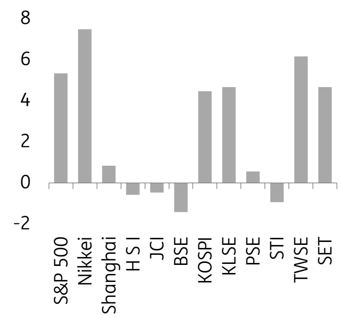

Source: Bloomberg

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




Source: Bloomberg

**Stock indices (%MoM)**




Source: Bloomberg

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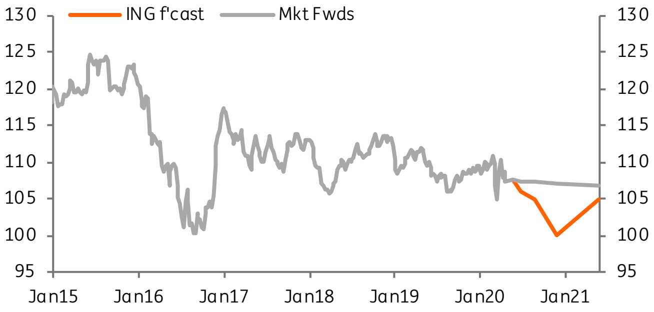
# USD/JPY

### Stubbornly bid

**Current spot: 107.52**




Source: Bloomberg, ING

- USD/JPY is carving itself out a 106-108 trading range. We would have thought USD/JPY would be a little lower right now but issues like: i) Japanese banks still seems to be in need of dollars as judged by the latest US$9bn take-up of the 7-day USD swap auction, ii) equities have generally stayed bid and iii) Japan's April trade deficit grew to nearly JPY1trn as exports fell 22% YoY.
- Over time, however, we still look for $/JPY to turn lower. A continued recovery in risk assets is far from assured and now the dollar has little protection in terms of growth or yield differentials.
- BoJ is prepared to buy unlimited JGBS, but BoJ balance sheet expansion is unlikely to match that of Fed, leaving $ vulnerable.

| **ING forecasts** (mkt fwd) | **1M** **106.00** (107) | **3M** **105.00** (107) | **6M** **100.00** (107) | **12M** **105.00** (107) |
|---|---|---|---|---|

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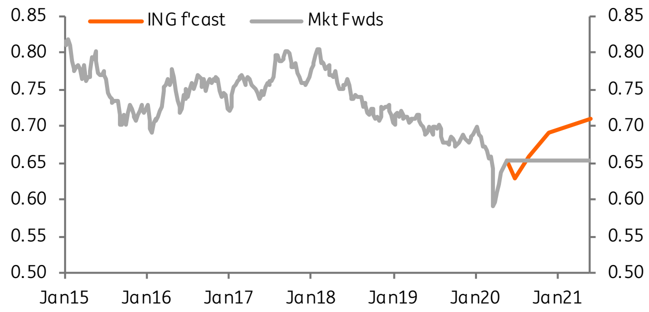
# AUD/USD

### Now, it's all about China

**Current spot: 0.65**




Source: Bloomberg, ING

- We have repeatedly highlighted how AUD presents relatively strong fundamentals to lead the charge in the risk recovery. Among others: good commodity backdrop (thanks to iron ore), low Covid-19 contagion, not too-dovish RBA, large fiscal spending.
- We have not changed our minds on this. But the recent tensions between Australia and China can, if ultimately mutate into a trade war, obliterate any AUD bullish momentum in one go.
- Rumours that the Chinese government may start to target Aussie iron ore (AU's no.1 export, with China the main buyer) are quite concerning. AUD now deals with a very "fat tail" on the downside, and thus offers a worse risk-reward profile than CAD, AUD, NOK.

| **ING forecasts** (mkt fwd) | **1M** 0.630 (0.653) | **3M** 0.660 (0.653) | **6M** 0.690 (0.653) | **12M** 0.710 (0.653) |
|---|---|---|---|---|

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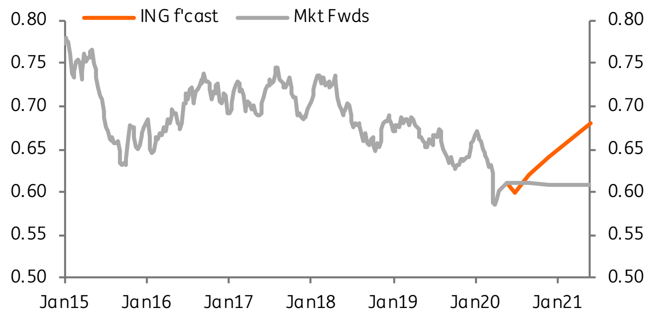
# NZD/USD

### The RBNZ may no longer be a hindrance

**Current spot: 0.61**




Source: Bloomberg, ING

- The possibility of the RBNZ venturing into negative rates – which had kept NZD upside limited – was watered down by recent remarks from Governor Orr. He indicated that more QE would be the first step if more stimulus is need. In the meantime, however, the Bank announced a reduction in the pace of asset purchases.
- The RBNZ should therefore be less of a hindrance to any NZD rally now. The key question, however, is to what extent the bank will tolerate NZD appreciation. We would not be surprised to hear negative rates speculation mounting again in the near future.
- NZD/USD may suffer the spill-over of Aussie-China tensions, but NZD now looks better than AUD. AUD/NZD may retrace to 1.05.

| **ING forecasts** (mkt fwd) | **1M** 0.60 (0.611) | **3M** 0.62 (0.611) | **6M** 0.64 (0.610) | **12M** 0.68 (0.610) |
|---|---|---|---|---|

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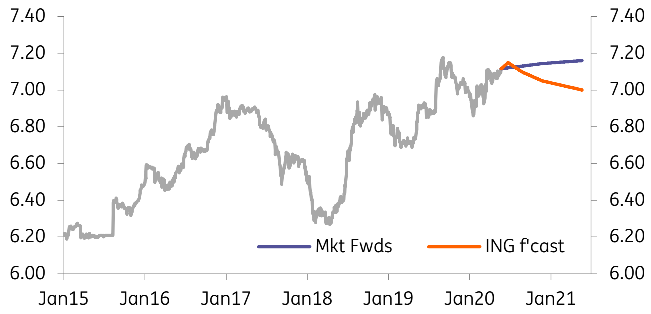
## USD/CNY

**Yuan moving with news on the technology war**

**Current spot: 7.115**




Source: Bloomberg, ING forecasts

- The US has continued the technology war with China by banning US companies from using technological parts and products made in China.
- The action has created volatility in USD/CNY. And we expect this to continue for the rest of 2020.It may even escalate with a retaliation from China.
- Though we still expect a strengthening trend for the yuan, this trend would be slower than our previous forecasts because of the potential second wave of Covid-19 and a chance of another trade war. The technology war is going to intensify, which will continue to create volatility for the yuan from time to time.

| **ING forecasts** (mkt fwd) | **1M** 7.150 (7.124) | **3M** 7.100 (7.132) | 6M 7.050 (7.147) | **12M** 7.000 (7.160) |
|---|---|---|---|---|

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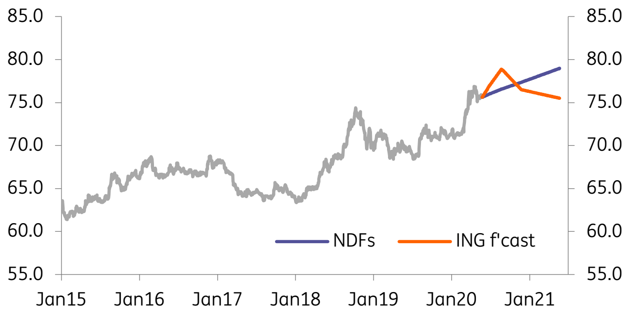
## USD/INR

**More weakness ahead**

**Current spot: 75.62**




Source: Bloomberg, ING forecasts

- The intensified INR weakness in March and April paused in May, stabilising the USD/INR rate in a 75-76 range as subsiding Covid-19 spread elsewhere (not in India) lifted global risk-on and portfolio inflows returned. We see another off-cycle, 40bp RBI rate cut on 22 May reigniting the depreciation pressure and drive the USD/INR toward 79 over the next three months.
- The economy continues to grapple with the pandemic that has sent exports tumbling 60% YoY and manufacturing 17% in recent months, signalling a big GDP fall in 2Q20 (ING forecast -5% YoY).
- The latest 10% of GDP stimulus bazooka is more about long-term reforms rather than immediate real boost to the economy.

| **ING forecasts** (mkt fwd) | **1M** 76.80 (75.94) | **3M** 78.90 (76.55) | **6M** 76.50 (77.32) | **12M** 75.50 (78.98) |
|---|---|---|---|---|

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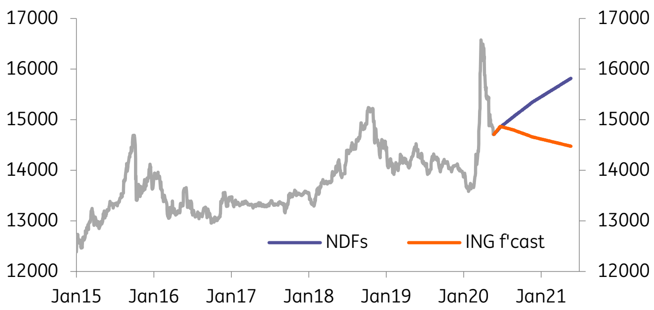
## USD/IDR

**IDR stabilizes but BI holds off on rate cuts for now**

**Current spot: 14710**




Source: Bloomberg, ING forecasts

- Indonesia welcomed renewed foreign investor inflows over the past few weeks, given attractive yields and after the central bank secured the repo line with the Fed. Even as the currency appreciated, central bank officials described IDR as "undervalued".
- Despite the sharp rebound in IDR, Bank Indonesia (BI) refrained from cutting policy rates at two separate meetings despite market consensus expecting the central bank to ease.
- BI Governor Warjiyo maintained an accommodative stance by indicating he remained open to cutting rates in the near term with the decision tied largely to IDR stability.

| **ING forecasts** (mkt fwd) | **1M** 14867 (14889) | **3M** 14799 (15093) | **6M** 14657 (15384) | **12M** 14475 (15864) |
|---|---|---|---|---|

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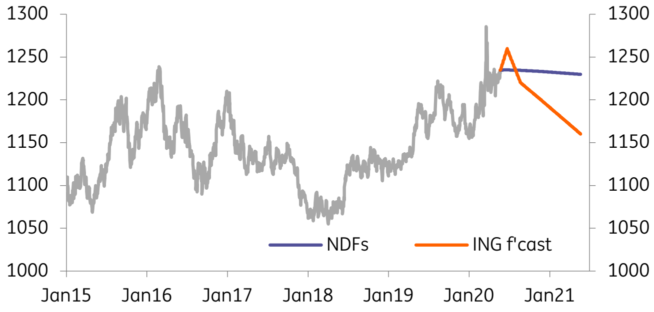
# USD/KRW

**Most volatile**

**Current spot: 1235**




Source: Bloomberg, ING forecasts

- Despite a new outbreak associated with a nightclub district in Seoul, Korea remains a model of how to tackle a coronavirus outbreak.
- That has not stopped the KRW from underperforming the average for the Asian FX bloc this month so far, though this has basically reflected a broad range trade in USDKRW since the end-March stabilisation.
- USDKRW remains the regional currency we would expect to perform the best in the event that Covid-19 news is good – a vaccine for example, or to sell the hardest in the event of a negative shock – second wave or renewed trade tensions.

| **ING forecasts** (NDFs) | **1M** 1260 (1236) | **3M** 1220 (1235) | **6M** 1200 (1234) | **12M** 1160 (1231) |
|---|---|---|---|---|

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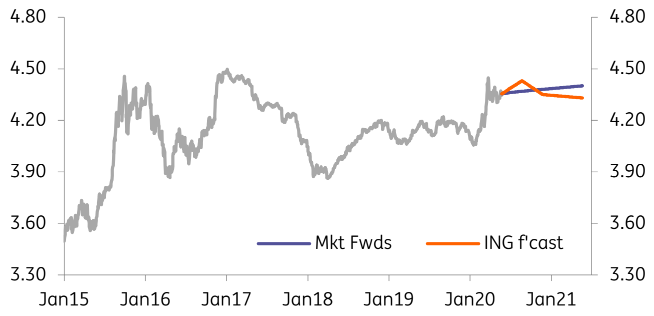
# USD/MYR

**Firmly on path of recession**

**Current spot: 4.354**




Source: Bloomberg, ING forecasts

- A 1.2% month-to-date depreciation in May puts the MYR at the weak end of the Asian pack even as oil recovered some ground after losses in the last two months. The outlook remains clouded by economic fallout of Covid-19 and lingering political risks.
- GDP eked out 0.7% YoY growth in 1Q20, better than the -1.0% consensus. Still, it's the worst performance in over a decade. A 2% QoQ SA GDP fall and significant inactivity in 2Q make economic recession a grim certainty.
- 18% of GDP stimulus (although with only 4% of GDP in real thrust), should help the recovery once the pandemic ends. We expect an additional 100bp of BNM rate cuts in this easing cycle.

| **ING forecasts** (mkt fwd) | **1M** 4.380 (4.365) | **3M** 4.430 (4.372) | **6M** 4.350 (4.385) | **12M** 4.330 (4.403) |
|---|---|---|---|---|

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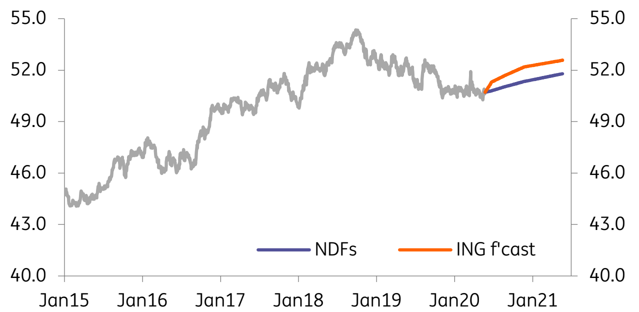
# USD/PHP

**PHP appreciates as import demand fades**

**Current spot: 50.72**




Source: Bloomberg, ING forecasts

- The PHP appreciated during the lockdown with corporate dollar demand disappearing with economic activity grinding to a halt. With economic activity at a standstill, import demand has waned, helping support the PHP.
- The Bangko Sentral ng Pilipinas (BSP) Governor cut policy rates by 50bp at an emergency policy meeting although Governor Diokno indicated he would pause from here.
- We expect PHP to move sideways with a depreciation bias once the lockdown is lifted on 1 June as corporate demand returns. Overseas remittances are also likely to dry up with 92,000 Filipinos based abroad returning to the country.

| **ING forecasts** (mkt fwd) | **1M** 51.30 (50.84) | **3M** 51.68 (51.06) | **6M** 52.19 (51.41) | **12M** 52.58 (51.83) |
|---|---|---|---|---|

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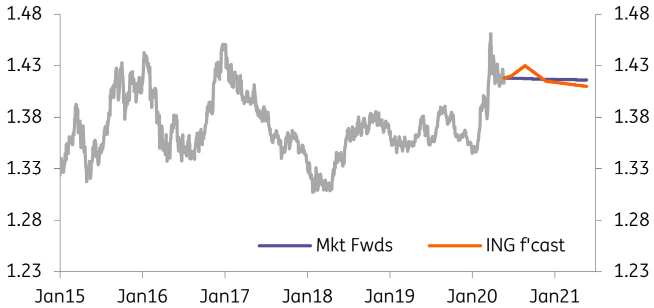
# USD/SGD

**No return to positive GDP growth this year**




Source: Bloomberg, ING forecasts

**Current spot: 1.418**

- The USD/SGD has hovered around 1.42 since the MAS policy easing in end-March. This stability squares with the stable DXY, while the MAS policy drives the trade-weighted exchange rate (S$-NEER) on a zero appreciation path.
- Surprising export and manufacturing strength in recent months is rather lopsided, lifted mainly by pharmaceuticals benefiting from the global pandemic. Everything else is weak.
- The Covid-19 circuit breaker is set to ease on 1 June but it will be a long wait for the economy to be fully back on its feet. We see GDP growth bottoming at -6.8% YoY in 2Q but no return to positive territory during the rest of the year.

| **ING forecasts** (mkt fwd) | **1M** 1.420 (1.419) | **3M** 1.430 (1.418) | **6M** 1.415 (1.417) | **12M** 1.410 (1.417) |
|---|---|---|---|---|

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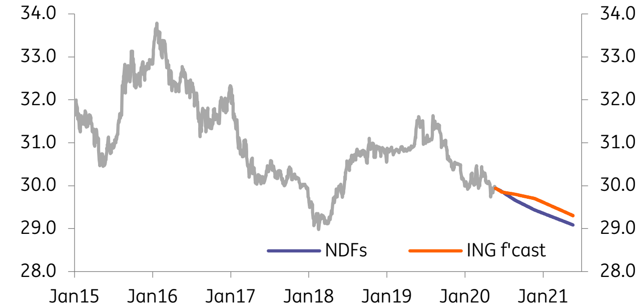
# USD/TWD

**Taiwan needs 5G for capital inflows into the stock market**




Source: Bloomberg, ING forecasts

**Current spot: 29.94**

- Taiwan experienced negative year on year exports in April and a sub-50 manufacturing PMI.
- But such weak data are not weak enough to move the TWD weaker. It has to be reflected in the corporate earnings of Taiwan companies to result in possible capital outflows from the Taiwan stock market for us to see a weaker TWD.
- This could happen if the US continues to pick battles with Chinese technology companies, which are Taiwan companies' buyers.
- Mainland China will also put political and military pressure on Taiwan after Tsai has been re-elected as the president. As such, we revise our forecasts to a slower strengthening trend of TWD.

| **ING forecasts** (mkt fwd) | **1M** 29.85 (29.87) | **3M** 29.80 (29.68) | **6M** 29.70 (29.45) | **12M** 29.30 (29.10) |
|---|---|---|---|---|

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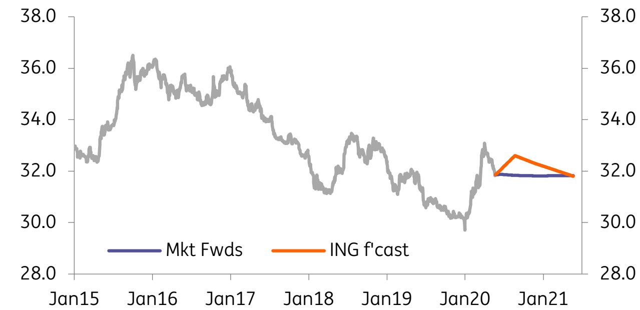
# USD/THB

**Already in recession**




Source: Bloomberg, ING forecasts

**Current spot: 31.86**

- Moving against all odds, the THB is now back to be Asia's top currency in May. A steady appreciation since April recovered almost half of the 10% loss incurred in the first quarter.
- Covid-19 is well under control with only 90 active cases currently (in about 3000 total infections). But the economy is already in a recession that's going to be deeper and more prolonged than any in recent history. We expect a -5.4% GDP decline in 2020.
- Inflation of -3% in April, the most negative since the GFC, moved the Bank of Thailand to cut rates a further 25bp in May. As this easing option via conventional routes is about to be exhausted, talk of unconventional easing may gain momentum.

| **ING forecasts** (mkt fwd) | **1M** 32.10 (31.87) | **3M** 32.60 (31.86) | **6M** 32.30 (31.86) | **12M** 31.80 (31.86) |
|---|---|---|---|---|

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## Disclaimer