Economic & Financial Analysis

FX

13 November 2018

Asia

Asian FX TalkING

Sitting Pretty

While the major currencies continue to play their version of an "Ugly contest", Asian currencies have been staging a resurgence.

The hand-wringing in emerging markets seems to have vanished, and with it, the currency weakness that was plaguing most of our regional currencies, some more than others. Global equity markets continue to show a lack of clear direction, leaving oil the main consistent and plausible explanation for what is happening.

Oil's decline has not been brought about by any spectacular fall in global demand, though there is a little bit of that beginning to emerge. Rather, the factors driving down the supply of oil and driving its price up, have reversed. Loss of Iranian crude following the US sanctions is now being made up for by rising supply, notably Saudi crude.

Within our region, where once you had rising inflation, and tightening expectations for the local central banks coupled with weaker domestic demand, now rate hike expectations have been pared right back. Real rates, which once looked insufficiently high, now look elevated thanks to ebbing inflation fears.

At the same time, current account balances, previously weighed down by energy imports, are now looking less stressed. It all seems too good to be true. It probably is.

The oil producing cartel, OPEC, is talking about production cuts again, much to President Trump's chagrin. They probably want to see oil back at about $80/bbl. Slowing demand may make that a tough target to reach. And as any global slowdown becomes more evident, this is also another reason not to get too carried away with the recent modest improvements in some Asian currency pairs versus the USD.

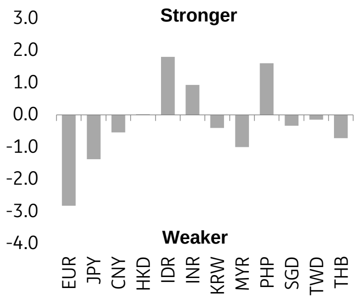
A re-intensification of the trade war with China, and therefore with the rest of Asia by proxy, could further weigh on currencies in the region. Say what you will about the US also being hurt by the trade war. Most investors would still rather hold a dollar in that environment than a local Asian FX currency unit.

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

	USD/CNY		USD/INR		USD/IDR	
Spot	**6.9636**		**72.89**		**14920**	
1M	7.0000	>	73.50	=	15000	=
3M	7.1000	>	74.80	>	15150	=
6M	7.2000	>	76.00	>	15150	<
12M	7.3000	>	73.50	<	15000	<
	USD/KRW		**USD/MYR**		**USD/PHP**	
Spot	**1136**		**4.1960**		**53.23**	
1M	1145	>	4.2000	=	54.00	>
3M	1150	>	4.2300	>	54.24	>
6M	1140	>	4.2200	=	54.47	>
12M	1130	>	4.2100	=	54.95	>
	USD/SGD		**USD/TWD**		**USD/THB**	
Spot	**1.3829**		**30.91**		**32.99**	
1M	1.3800	=	31.00	>	33.30	>
3M	1.3700	<	31.30	>	33.60	>
6M	1.3600	<	31.50	>	33.70	>
12M	1.3400	<	32.00	>	33.80	>

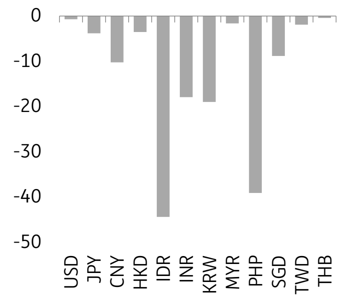
> / = / < indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright. Prices as on November 13, 2018 at 12pm Singapore time. Source: Bloomberg, ING estimates

Exchange rates vs USD (%MoM)



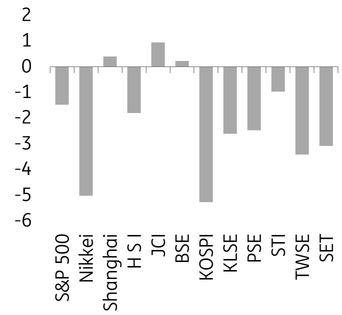
Source: Bloomberg

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



Source: Bloomberg

Stock indices (%MoM)



Source: Bloomberg

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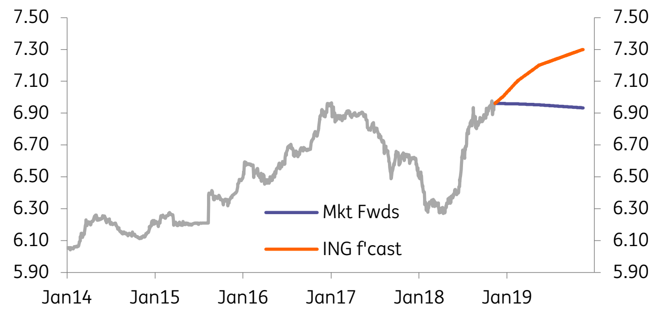
USD/CNY

CNY and CNH could go nearer the 7.0 handle

Current spot: 6.9636



Source: Bloomberg, ING

- On 9 November senior Chinese and US officials found no consensus on important issues, including trade and technology. This has laid down a strong case for "no result" from the meeting between Presidents Xi and Trump at the end of the month.
- We expect USDCNY and USDCNH to wander nearer the 7.0 handle in December, with crossing 7.0 a high-chance event. The yuan could then depreciate very slowly, so precluding any market panic.
- We have revised our USDCNY and USDCNH forecasts from 6.5 by the end of 2019 to 7.3 as we expect the trade war to escalate.

ING forecasts (FWDs)	**1M** 7.0000 (6.9599)	**3M** 7.1000 (6.9581)	**6M** 7.2000 (6.9522)	**12M** 7.3000 (6.9353)

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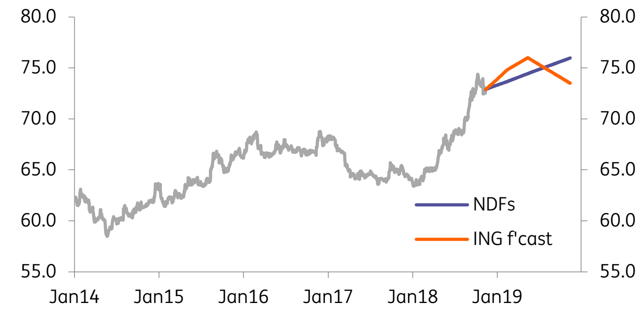
USD/INR

Some relief from INR sell-off, but not lasting relief though

Current spot: 72.89



Source: Bloomberg, ING

- The ongoing consolidation in the INR poses a question: are things really turning around in favour of the INR? Besides a softer USD and lower oil prices, nothing much has changed and we don't think the worst is yet over. Even so, we now anticipate a slower pace of INR depreciation.
- The row between the central bank and the government over tight liquidity is the key overhang on the rupee. Political uncertainty will remain heightened, with looming elections in five states this month followed by national elections in early 2019.
- Stable inflation around the middle of the RBI's 2-6% policy target and tempering growth lead us to revise our RBI policy forecast from 50bp of hikes in December to no change.

ING forecasts (FWDs)	**1M** 73.50 (73.17)	**3M** 74.80 (73.67)	**6M** 76.00 (74.45)	**12M** 73.50 (75.98)

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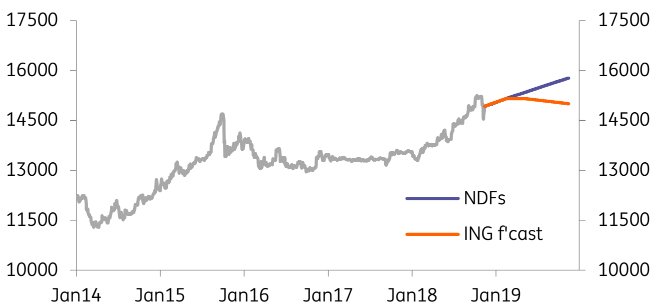
USD/IDR

IDR rebounds but c/a woes pull it back down to earth

Current spot: 14920



Source: Bloomberg, ING

- The IDR outperformed regional currencies recently, with risk sentiment improving in reaction to the US mid-term election results.
- The IDR promptly reversed its trend, with 3Q current account data showing a substantial deficit, although the print was slightly better than market expectations. Initial government efforts to deliver import compression appear to have taken root.
- BI is expected to pause on 15 November, given that the IDR had seen a recent rally before the reversal late last week. BI Governor Warjiyo has preached stability for the currency and will likely need to keep his finger on the trigger at future meetings should the IDR continue to remain pressured, given its still precarious external position.

ING forecasts (NDFs)	**1M** 15000 (14991)	**3M** 15150 (15150)	**6M** 15150 (15355)	**12M** 15000 (15771)

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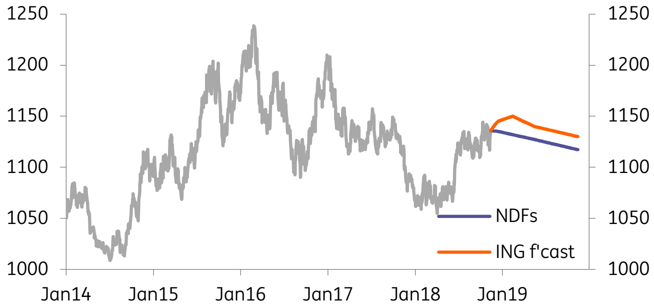
USD/KRW

Slowdown or recession? **Current spot: 1136**



Source: Bloomberg, ING

- The story on the KRW has flipped right around. A few short weeks ago, markets were concerned that the Bank of Korea (BoK) would hike rates in December – following government pressure to lean against Seoul-centric house price inflation and household debt. That looks totally far-fetched today.
- Instead, the new debate is whether Korea is headed towards recession, or just a slowdown in output. Our expectation is slowdown, but it still makes the KRW look vulnerable, and pushes any thoughts of a BoK hike way back.
- We don't have any BoK tightening forecast until 3Q19, and even this is subject to push-back. Some short-term KRW weakness looks likely before any recovery later on.

ING forecasts (NDFs)	**1M** 1145 (1135)	**3M** 1150 (1132)	**6M** 1140 (1128)	**12M** 1130 (1117)

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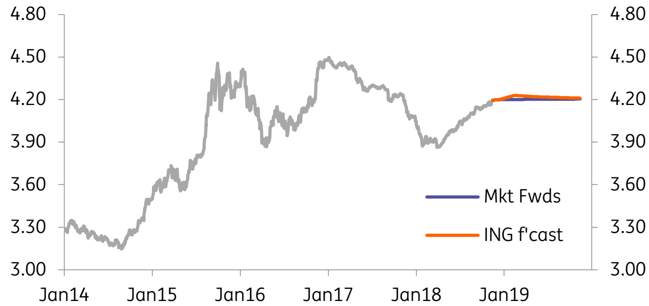
USD/MYR

Derailed fiscal consolidation is the main negative for MYR **Current spot: 4.1960**



Source: Bloomberg, ING

- The combination of weak public finances and lower crude oil prices explains the MYR's underperformance in the latest EM FX rally.
- A surprisingly big 3.7% of GDP expected deficit in 2018 will wipe out all the fiscal consolidation over the last four years. The wide budget gap will eventually be inflationary, though we aren't expecting inflation to become a worry until after mid-2019 when the impact of GST elimination in June this year falls out of the base. The launch of the SST in September has had no impact on consumer prices.
- Low inflation allows for stable BNM policy, while GDP growth also has started to slow. But external payments remain healthy with a decade-high trade surplus in September. This should offset negatives on the domestic front to keep the USD/MYR around 4.2.

ING forecasts (FWDs)	**1M** 4.2000 (4.1993)	**3M** 4.2300 (4.2006)	**6M** 4.2200 (4.2023)	**12M** 4.2100 (4.2038)

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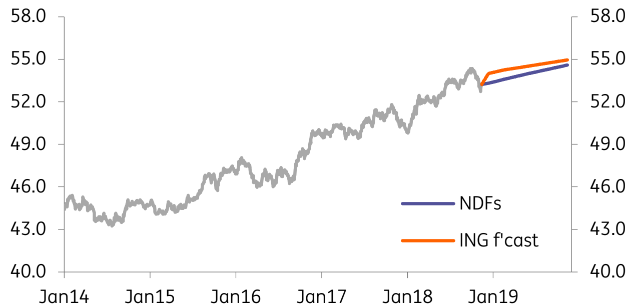
USD/PHP

Tracks regional rally before reversing, BSP likely to pause **Current spot: 53.23**



Source: Bloomberg, ING

- The PHP recently posted a 13-year low. High import demand as well as demand from hedgers continues to bid for USD.
- The central bank's (BSP's) back-to-back 50bp of rate hikes has pushed policy rates to 4.5%, a 150bp rate increase YTD. The aggressive rate hikes have tried to anchor inflation expectations while addressing PHP's volatility and weakness.
- Temporary shallow relief is still expected in 4Q as a result of foreign participation in a massive equity offering in 4Q. This net inflow together with seasonally higher overseas worker remittances and further BSP rate hikes could allow for some rare strengthening. A worsening current account deficit would likely keep the weak PHP trend intact and the relief shallow. But a further positive oil price shock could see significant weakness.

ING forecasts (NDFs)	**1M** 54.00 (53.32)	**3M** 54.24 (53.58)	**6M** 54.47 (53.92)	**12M** 54.95 (54.59)

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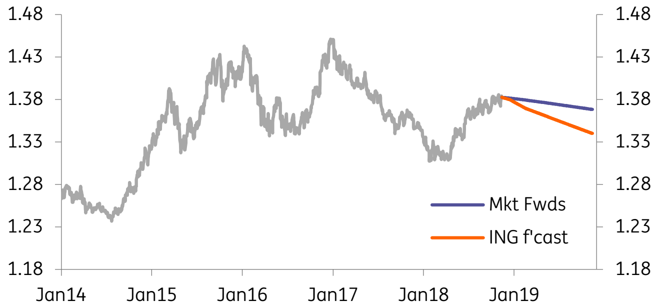
USD/SGD

Stability for the time being

Current spot: 1.3829



Source: Bloomberg, ING

- The SGD is still sitting close to our 1M 1.38 USD/SGD forecast, and we think it will remain roughly there in the near term.
- The SGD, as a basket crawling currency, is heavily influenced in the short-term by the direction of the CNY. With the Chinese currency unit looking a bit more resilient recently, this provides some stability for the SGD also.
- In anticipation that the CNY takes its time breaking through USD/CNY 7.0, we don't anticipate the SGD moving too far from its current rate over coming months and quarters, subject to the mild nominal appreciation that was enhanced at the October MAS meeting.

ING forecasts (FWDs)	**1M** 1.3800 (1.3820)	**3M** 1.3700 (1.3798)	**6M** 1.3600 (1.3763)	**12M** 1.3400 (1.3687)

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USD/TWD

Slower growth will push the currency weaker

Current spot: 30.91

Source: Bloomberg, ING

- Although there were voices in the central bank to raise policy rates to provide a cushion in the event that rate cuts become necessary if the economy slows, we do not think rate hikes are likely given the economy's current weak situation.
- The trade war between Mainland China and the US has already been a negative impact on Taiwan manufacturing, as reflected in Taiwan manufacturing PMI's 48.7 reading for October.
- As we expect the trade war will continue into 2019, the TWD is likely to maintain its slow depreciation.

ING forecasts (NDFs)	**1M** 31.00 (30.82)	**3M** 31.30 (30.65)	**6M** 31.50 (30.39)	**12M** 32.00 (29.96)

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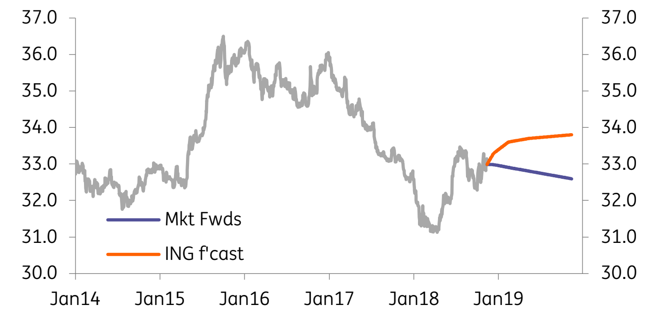
USD/THB

Asia's underperformer lately

Current spot: 32.99



Source: Bloomberg, ING

- Despite a persistently large current account surplus, the THB seems to have lost its lustre. The currency was Asia's worst performer in October, with 2.5% depreciation vs the USD. Its performance in the November rally has been no more pleasing.
- The cumulative current account surplus of $26bn in the first nine months of 2018 was $12bn below the year-ago level. Our forecast of the annual surplus narrowing to 7% of GDP this year from over 11% in the last two years remains on track.
- Recent economic data led us to cut our 3Q18 growth forecast to 3.7% from 4.1%, and our full-year growth forecast to 4.2% from 4.3%. Absent inflation pressures, the BoT has more reason to stay on-hold over the rest of the year, and well into 2019.

ING forecasts (FWDs)	**1M** 33.30 (32.98)	**3M** 33.60 (32.91)	**6M** 33.70 (32.81)	**12M** 33.80 (32.60)

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