

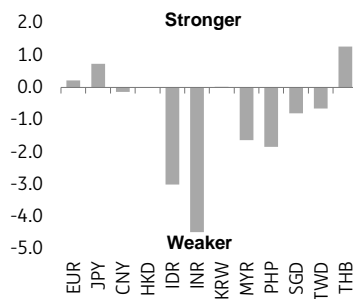
7 September 2018

Asia

# Asian FX Talking

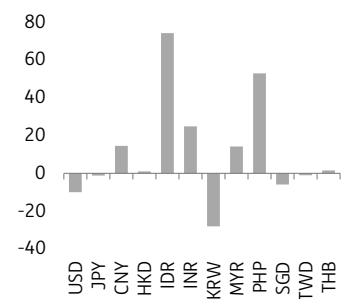
So it begins...

Exchange rates vs USD (%MoM)



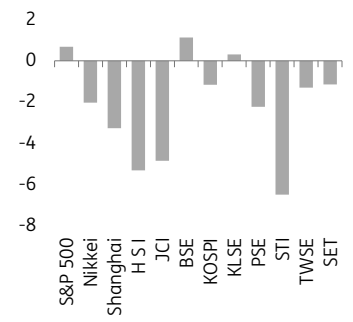
Source: Bloomberg

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



Source: Bloomberg

Stock indices (%MoM)



Source: Bloomberg

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Concern about an emerging market sell off has proved well-founded, though so far, there is a degree of differentiation, and Asia, though not immune, is showing signs of insulation

One thing is clear from the recent FX movements, although there is a degree of contagion from the mess in Argentina and Turkey, markets are not mindlessly selling EM FX. Indonesia is in a considerably better place than either of those economies in terms of almost any fundamental metric you could think of, external debt, inflation, fiscal balance. But within Asia, it does look the most challenged, and is being treated accordingly. That said, the Indonesian rupiah is weak, not collapsing.

A combination of central bank and government policy will determine now whether markets do what they did initially, which is to reward proactive and credible policy action, or whether currencies come under further pressure. In this regard, the Philippine peso has benefited from strong central bank rate action early on, limiting the degree of work needed ahead. The same cannot be said for the Indian rupee, and the Reserve Bank of India has its work cut out now – our INR forecasts reflect the difficulty that lies ahead for them.

At least the US dollar is not unilaterally strengthening, which would have made a bad situation for EM Asia worse. The relatively stable EUR/USD backdrop lessens the pressure, and we are increasingly looking through the current market action to a period later in the year when the USD might actually show some signs of weakness – a combination of political events (US Midterms) and ECB policy movement, that could provide some additional respite.

A bit more stability in the Chinese yuan is also helping to provide some calm across the region, though the overhang of looming US tariff announcements is a constant source of downside risk.

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

	USD/CNY		USD/INR		USD/IDR
Spot	6.8417		71.99		14890
1M	6.8500	=	72.80	>	15050 <
3M	7.0000	>	73.50	>	14980 <
6M	7.0000	>	74.50	>	14900 <
12M	6.8000	<	74.00	<	14780 <

	USD/KRW		USD/MYR		USD/PHP
Spot	1124		4.1475		53.94
1M	1130	>	4.1800	>	53.50 <
3M	1120	=	4.2500	>	53.00 <
6M	1115	=	4.2000	>	53.20 <
12M	1100	<	4.1000	<	53.85 <

	USD/SGD		USD/TWD		USD/THB
Spot	1.3757		30.79		32.81
1M	1.3800	=	30.80	=	33.00 >
3M	1.3700	=	31.00	>	33.00 >
6M	1.3600	<	31.30	>	32.80 >
12M	1.3400	<	31.70	>	32.50 =

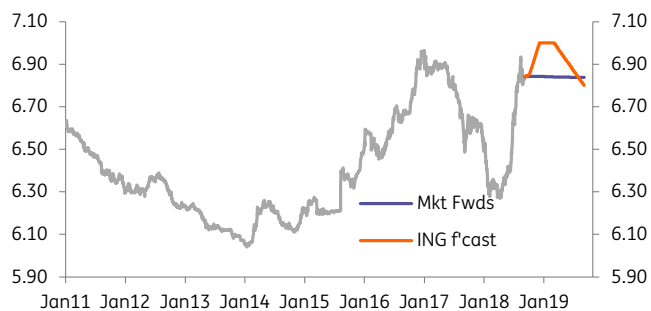
> / = / < indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright. Prices as on September 7, 2018 at 12pm Singapore time

Source: Bloomberg, ING estimates

## USD/CNY

### Counter-cyclical factor slows down yuan depreciation

**Current spot: 6.8417**



Source: Bloomberg, ING

- China restarted its counter-cyclical factor for daily fixing in August. And since it announced this, USD/Chinese yuan has depreciated slower than before the announcement was made.
- What happens next to USDCNY depends on what the US announces on the next round of tariffs. Will the \$200 billion headline be trimmed down? And how much will be 25%, not 10%? Depending on the outcome, this could either be a trend changing moment, alternatively, the market may view it as merely a gradual escalation of the trade war.
- In any case, we do not expect the US to cut the tariff list down to \$60 billion, which is China's retaliation amount if the US imposes 25% tariffs on the whole \$200 list. And we therefore expect the yuan to continue to depreciate against the dollar.

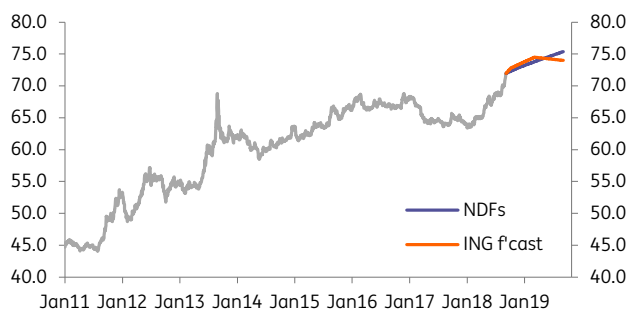
<b>ING forecasts (FWDs)</b>	<b>1M 6.8500 (6.8424)</b>	<b>3M 7.0000 (6.8428)</b>	<b>6M 7.0000 (6.8402)</b>	<b>12M 6.8000 (6.8377)</b>
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## USD/INR

### No light at the end of the tunnel

**Current spot: 71.99**



Source: Bloomberg, ING

- The Indian rupee's 2.5% depreciation since the eruption of the Turkish financial crisis in mid-August is the worst among Asian FX. Unrelenting weakening pressure could move the RBI to undertake aggressive policy tightening at the next meeting in early October.
- But we are sceptical that more rate hikes will help the INR, given its exposure to a continually widening current account deficit due to a surging oil import bill and also rising political uncertainty ahead of elections in early 2019. We now expect USD/INR trading towards the 74-75 area over the next six months.
- In a surprisingly strong showing, GDP grew by 8.2% in 1Q FY19 despite all of India's economic woes. We believe growth is poised to slow as current market uncertainty filters through to economic activity.

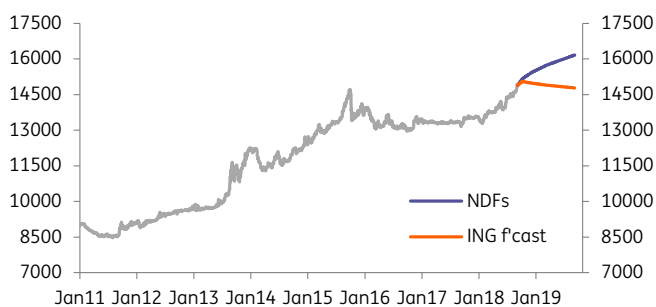
<b>ING forecasts (FWDs)</b>	<b>1M 72.80 (72.33)</b>	<b>3M 73.50 (72.99)</b>	<b>6M 74.50 (73.82)</b>	<b>12M 74.00 (75.39)</b>
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## USD/IDR

### BI's tightening is not enough to arrest IDR's slide

**Current spot: 14890**



Source: Bloomberg, ING

- The Indonesian rupiah has weakened by 1.5% since the last policy rate hike. High exposure to offshore funds as well as concern over a wider current account deficit add to the already weak emerging market sentiment.
- Efforts to stabilise the IDR have been inadequate to prevent the currency weakening to levels last seen during the Asian Financial Crisis. Bank Indonesia (BI) surprised with a 25 basis point rate hike at the last policy rate meeting to bring the total increase this year to 125 basis points. The government has also taken steps to improve the external balance.
- BI's tightening cycle is likely to continue with a further rate hike at the September meeting while BI and the government implement prudential and other measures to moderate speculation and curb imports.

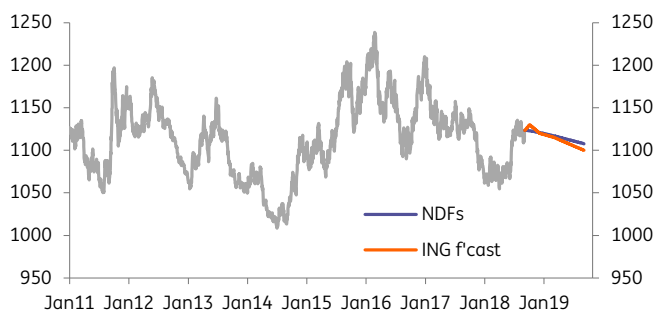
<b>ING forecasts (NDFs)</b>	<b>1M 15050 (15165)</b>	<b>3M 14980 (15435)</b>	<b>6M 14900 (15725)</b>	<b>12M 14780 (16163)</b>
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## USD/KRW

More DM than EM

Current spot: 1124



Source: Bloomberg, ING

- Although the Korean won has weakened a bit since April when the CNY began to give back its gains, it strikes us as behaving more like a developed market currency than an emerging market one since the EM rout began.
- Since early July, the KRW has traded in a fairly narrow range, and though we could see 1130 tested again near term, we aren't inclined to stick to our previous bearish forecasts of last month, and have flattened the KRW forecast profile considerably.
- Our year-end expectations sees roughly today's FX rate, though having been a little weaker first, so the momentum is strengthening into the year end. We don't see the Bank of Korea needing to provide any support, either through rates, or directly in markets.

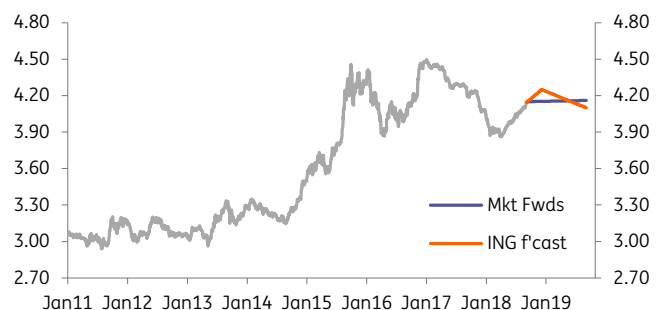
ING forecasts (NDFs)	1M 1130 (1123)	3M 1120 (1121)	6M 1115 (1117)	12M 1100 (1108)
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## USD/MYR

From Asian outperformer to underperformer

Current spot: 4.1475



Source: Bloomberg, ING

- The commodity currencies have started to feel the heat and the Malaysian ringgit isn't spared with a 1.3% depreciation since mid-August shifting it from being an Asian outperformer to one of the underperformers. Besides emerging market contagion, PM Mahathir Mohamad's rhetoric against foreign investors has added to the currency weakness.
- Bank Negara Malaysia seems to be accommodating the MYR weakening pressure as long as it's from external factors. The currency enjoys decent external payments support, obviating any need for a policy response.
- GDP growth slowed sharply to 4.5% in 2Q18 from 5.4% in 1Q and inflation has continued to be subdued. We expect no BNM policy change over the rest of the year, and expect the MYR to reacquire its status as an Asian outperformer once the external uncertainty lifts.

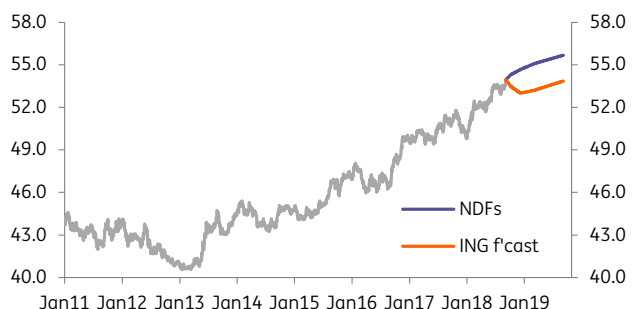
ING forecasts (FWDs)	1M 4.1800 (4.1505)	3M 4.2500 (4.1530)	6M 4.2000 (4.1545)	12M 4.1000 (4.1603)
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## USD/PHP

Hawkish BSP and capital inflows would help PHP

Current spot: 53.94



Source: Bloomberg, ING

- The Philippine peso has traded within the range of PHP52.85 to PHP53.55 since mid-June. One reason is the central bank's hawkish actions.
- The central bank (BSP) took an aggressive step in August with a 50 basis point hike in policy rates. Hawkish rhetoric continues as BSP re-anchors inflation expectations to within its target range.
- The surge of inflation in August to 6.4%, the highest since March 2009, would likely argue for another aggressive BSP response at the policy rate meeting later this month. The chances of another 50 basis point rate hike have increased as real policy rates sink deeper into the red and as BSP tries to re-anchor inflation expectations. Hawkish BSP and capital inflows as large as those seen in 4Q 2017 could come from a re-IPO of a food and beverage conglomerate next month, which could support the PHP.

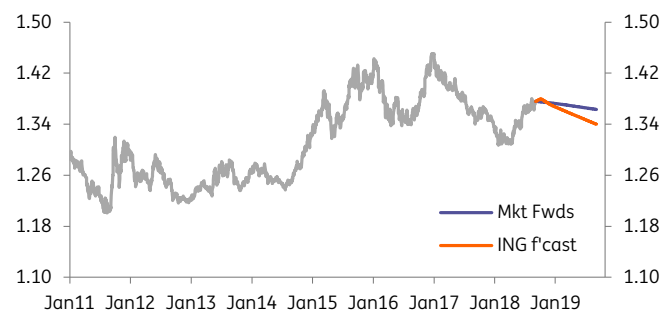
<b>ING forecasts (NDFs)</b>	<b>1M</b> 53.50 (53.30)	<b>3M</b> 53.00 (54.66)	<b>6M</b> 53.20 (55.08)	<b>12M</b> 53.85 (55.67)
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## USD/SGD

Good but not great

Current spot: 1.3757



Source: Bloomberg, ING

- For a currency that is supposed to be seeing slight nominal effective exchange rate appreciation, the Singapore dollar has not performed much better than many other Asian currencies, and has been weaker than others (MYR, THB).
- The economic news flow has not been exactly bad, but it is difficult to look at the run of GDP, production, inflation and export figures and confidently assert that all is well. Weak spots remain, and headline figures are often flattered by what look like one off bounces.
- With the regional concern over trade tariffs, we struggle to see how the Monetary Authority of Singapore can tighten further in October, though things may have calmed sufficiently for them to leave policy unchanged.

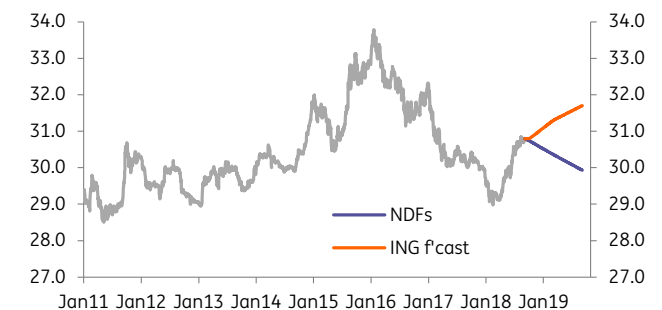
<b>ING forecasts (FWDs)</b>	<b>1M</b> 1.3800 (1.3750)	<b>3M</b> 1.3700 (1.3733)	<b>6M</b> 1.3600 (1.3702)	<b>12M</b> 1.3400 (1.3631)
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## USD/TWD

Central bank to stay put but doesn't mean no depreciation

Current spot: 30.79



Source: Bloomberg, ING

- The USD/TWD exchange rate reflects the market belief that the bilateral trade war between Mainland China and the US is negative for the Taiwan economy.
- However, as interest rates in Taiwan are already low, the central bank has no room to cut interest rates to support growth...
- ...and concern over trade war spillovers from China means that the central bank cannot raise rates either.
- With no room for support, we anticipate that in the short run, the Taiwan dollar will depreciate against the dollar along with other Asian export oriented currencies.

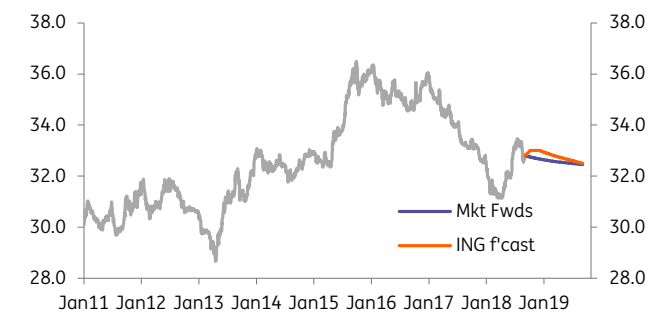
<b>ING forecasts (NDFs)</b>	<b>1M</b> 30.80 (30.74)	<b>3M</b> 31.00 (30.58)	<b>6M</b> 31.30 (30.36)	<b>12M</b> 31.70 (29.93)
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## USD/THB

Bucking the emerging market currency sell-off

Current spot: 32.81



Source: Bloomberg, ING

- Bucking the emerging currency sell-off, the Thai baht has been the best performing Asian currency with a 1.3% gain since mid-August. We credit persistently high current account surplus, steady GDP growth, low inflation and policy certainty to this outcome.
- The oil-price-led surge in imports and slower exports due to trade wars will cut the current surplus to below 10% of GDP this year from over 11% in the last two years. But it's still large enough to shield the THB during this external turmoil.
- GDP growth surprised on the upside at 4.6% in 2Q18, although it was a slowdown from 4.9% in 1Q. Inflation has peaked at 1.6% in July and will retrace back to the low end of the Bank of Thailand's target of 1-4%. We maintain our view of the BoT staying on hold this year.

<b>ING forecasts (FWDs)</b>	<b>1M</b> 33.00 (32.76)	<b>3M</b> 33.00 (32.68)	<b>6M</b> 32.80 (32.58)	<b>12M</b> 32.50 (32.46)
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