12 October 2018
Asia

Asian FX TalkING

Take your pick

Emerging market currencies are not moving as a bloc any more, and investors are rightly taking a more differentiated view of the regional FX market.

A month ago, contagion from global emerging market turmoil was roiling Asian FX markets. Today, emerging markets are not exactly a sea of calm, given what is happening to US stock markets, but they are more stable than they were. The CNY has held firm below USD/CNY 7.0, though for how long is a huge question. The consensus seems to be shifting to this being broken in time, but exactly when and by how much remain unclear. Not imminently, and not by much are the current received wisdom.

But the backdrop for the region remains a hugely complicated one. The future direction of the USD is far from clear. Strong US economic growth and rate policy on the one hand threaten Asian FX with further weakness. US twin deficits, an uncertain equity market outlook and changing rate cycles in the Eurozone and Japan offer a different path. Oil prices continue to pose problems for Asia's externally challenged economies, and those with inflation problems, though should be helping the MYR. And the trade war is only going to get worse, not better.

Differences in central bank activity are also important. Markets have rewarded some central banks for proactivity and credibility. The BoK may be trying to get a bit of that action with its recent hawkish comments. We think there are more finessed approaches to their problems than rate hikes. But they might still provide some near term KRW support.

Then there is the THB, which has moved from regional outperformer to underperformer – potentially, and only because it does not have to hike rates. And the INR, which looks to be on a path to free-fall after the RBI's surprise inaction at the last meeting.

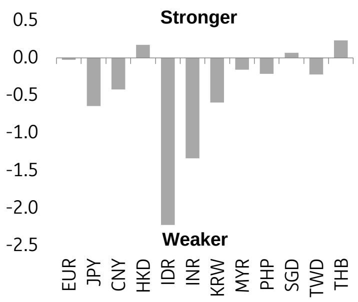
All told, there are too many moving parts to this story to have a clear view of the way forward. Things are better than they were, but this could change, sharply, and in either direction with little notice.

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

	USD/CNY		USD/INR		USD/IDR	
Spot	**6.9014**		**73.75**		**15193**	
1M	6.9000	=	75.00	>	15300	=
3M	7.0000	>	76.50	>	15250	<
6M	7.0000	>	78.30	>	15300	<
12M	7.0000	>	76.80	<	15100	<
	USD/KRW		**USD/MYR**		**USD/PHP**	
Spot	**1132**		**4.1528**		**54.07**	
1M	1130	=	4.1800	>	54.35	=
3M	1120	<	4.2000	>	54.30	=
6M	1115	<	4.2300	>	54.50	<
12M	1100	<	4.2100	>	55.60	=
	USD/SGD		**USD/TWD**		**USD/THB**	
Spot	**1.3740**		**30.86**		**32.71**	
1M	1.3800	>	30.90	=	32.80	=
3M	1.3700	=	31.00	>	33.00	>
6M	1.3600	<	31.30	>	33.20	>
12M	1.3400	<	31.70	>	33.40	>

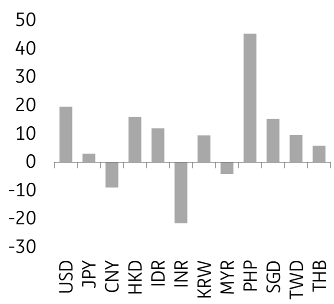
> / = / < indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright. Prices as on October 12, 2018 at 12pm Singapore time. Source: Bloomberg, ING estimates

Exchange rates vs USD (%MoM)



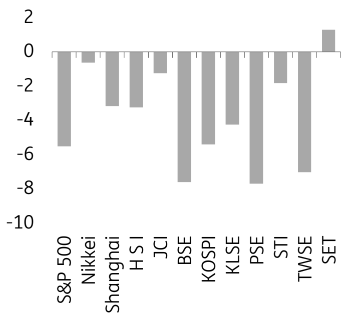
Source: Bloomberg

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



Source: Bloomberg

Stock indices (%MoM)



Source: Bloomberg

Rob Carnell
Head of Research, Asia
Singapore +65 6232 6020
robert.carnell@asia.ing.com

Joey Cuyegkeng
Senior Economist
Manila +63 2 479 8855
joey.cuyegkeng@asia.ing.com

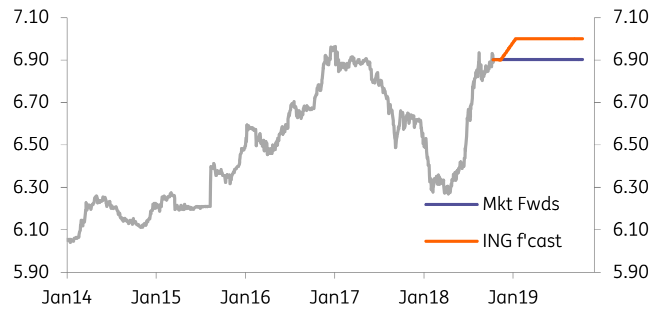
Iris Pang
Economist, Greater China
Hong Kong +852 2848 8071
iris.pang@asia.ing.com

Prakash Sakpal
Economist, Asia
Singapore +65 6232 6181
prakash.sakpal@asia.ing.com

USD/CNY

CNY riding the strengthening dollar trend to depreciate

Current spot: 6.9014



Source: Bloomberg, ING

- The trade war is already putting negative pressure on the Chinese economy. A strong dollar at this moment, and therefore a weaker yuan, is helping exporters, but not much, and raises problems for other Asian currencies dragged down by the gravity exerted by the dominant regional currency unit.
- Neither the US nor China are talking about trade currently, and recent commentary from the US Vice President, the Microchip scandal, and naval brinksmanship suggest that the trade war will worsen as we head into 2019.
- We will review our CNY forecast for downgrade subject to developments in the US mid-terms and further trade policy developments. But it is likely that we will see USD/CNY 7.0 being broken on the upside, though maybe not by too much.

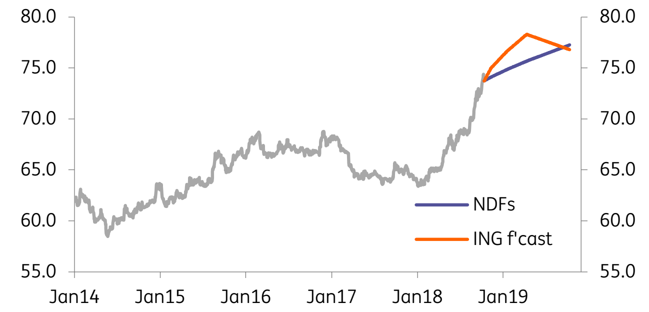
ING forecasts (FWDs)	**1M** 6.9000 (6.9021)	**3M** 7.0000 (6.9022)	**6M** 7.0000 (6.9018)	**12M** 7.0000 (6.9021)

Iris Pang, Hong Kong +852 2848 8071

USD/INR

Central bank leaves rupee on path to free fall

Current spot: 73.75



Source: Bloomberg, ING

- By keeping its policy on hold at the October meeting, it seems the central bank (RBI) has abandoned the INR as a policy concern. The USD/INR sold off to a record 74.2 in a knee-jerk reaction to the RBI decision. We now see the pair trading up to 76.50 over the next three months and to 78.3 in six months.
- The stable policy was despite policymakers opting for a shift in the policy bias from "neutral" to "calibrated tightening". This had more to do with the liquidity squeeze linked to a major non-bank finance company going bust. Although inflation has been well behaved in the 2-6% target range, we believe this is transitory.
- We still expect an RBI rate hike in December. Until then the onus on curbing INR depreciation rests with the government. Alas none of the government measures have been effective thus far.

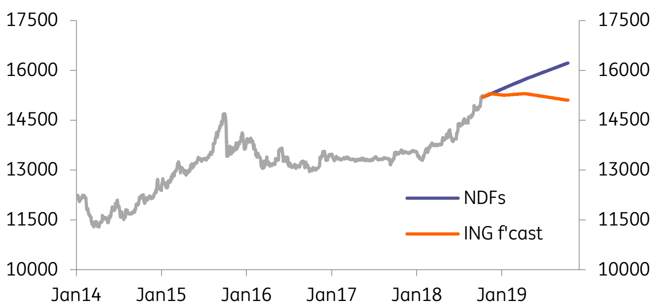
ING forecasts (FWDs)	**1M** 75.00 (74.10)	**3M** 76.50 (74.78)	**6M** 78.30 (75.67)	**12M** 76.80 (77.25)

Prakash Sakpal, Singapore +65 6232 6181

USD/IDR

IDR slides to weakest level since Asian Financial Crisis

Current spot: 15193



Source: Bloomberg, ING

- IDR recently posted its weakest level since Asian Financial Crisis in mid-1998.
- Rising oil prices are seen worsening the current account deficit. Central bank efforts - through twin-market intervention (in spot and bond markets) and policy rate hikes - have moderated the weakness as the market waits for signs that government efforts will improve the trade balance. US monetary tightening and higher US benchmark yields also contributed to the weakness.
- BI is likely to continue tightening monetary policy with further rate hikes while offering hedging tools for corporations. These measures are likely to moderate the weak IDR bias.

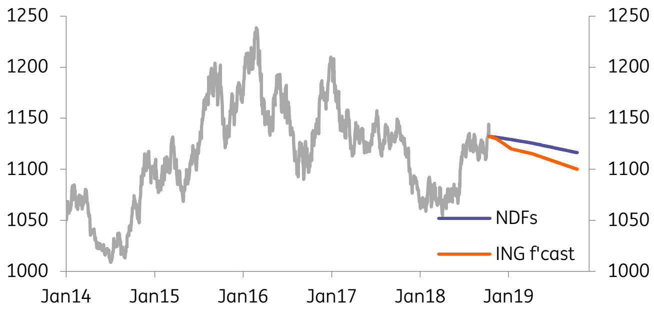
ING forecasts (NDFs)	**1M** 15300 (15271)	**3M** 15250 (15465)	**6M** 15300 (15725)	**12M** 15100 (16210)

Joey Cuyegkeng, Philippines +63 2479 8855

USD/KRW

BoK hawks may support the KRW

Current spot: 1132



Source: Bloomberg, ING

- For some months now, the USD/KRW has traded within a fairly narrow range of 1110-1140. Generalised EM weakness, and some disappointing local economic dataflow have helped keep the KRW towards the higher end of that range and we are not changing our 1130 1M view.
- Further out, hawkish central bank noises mean that the BoK will most likely hike rates once before the New Year. Whilst we find the justification for this in terms of high household debt ratios a questionable one (there are other more focussed policies that could achieve the same desired effect), this also hints at a stronger KRW by year end.
- Our 3M forecast of 1120 stands, with an outside chance of 1110.

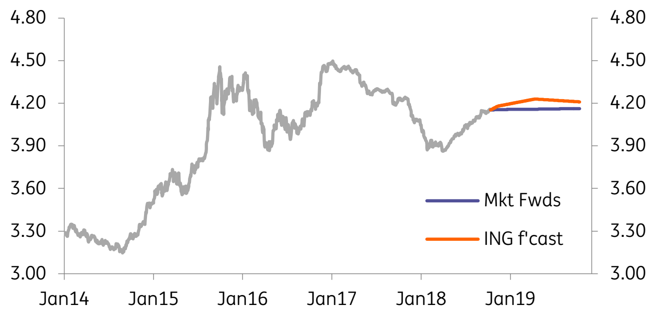
ING forecasts (NDFs)	**1M** 1130 (1131)	**3M** 1120 (1129)	**6M** 1115 (1125)	**12M** 1100 (1116)

Rob Carnell, Singapore +65 6232 6020

USD/MYR

Some de-coupling from oil

Current spot: 4.1528



Source: Bloomberg, ING

- The MYR's performance is positively correlated with the global oil price. However, the currency's shift from being a top-performing Asian currency in the first half of the year to the middle of the pack is at odds with the higher oil price and better terms of trade.
- The clawback of the MYR underperformance relative to the oil price will hinge on the trajectory that exports and GDP growth now take. Recent export data showing the first negative growth in two years doesn't bode well here. We believe GDP growth is poised to slow further from the 4.5% printed in 2Q18.
- The economy is enjoying the lowest inflation rate in Asia. With sufficiently positive real interest rates as a key support for the MYR, an on-hold BNM policy is our baseline view through 2019.

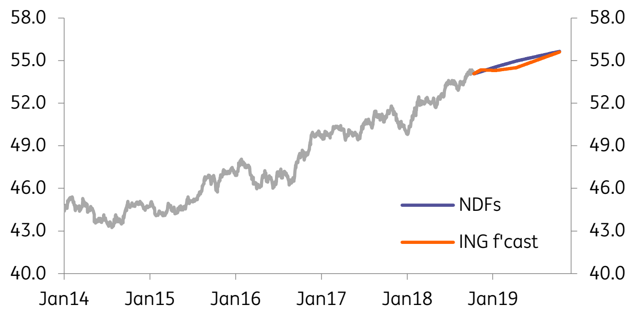
ING forecasts (FWDs)	**1M** 4.1800 (4.1555)	**3M** 4.2000 (4.1568)	**6M** 4.2300 (4.1582)	**12M** 4.2100 (4.1628)

Prakash Sakpal, Singapore +65 6232 6181

USD/PHP

Weak trend remains

Current spot: 54.07



Source: Bloomberg, ING

- PHP recently posted a 13-year low. There is high import demand as well, as demand from hedgers continues to bid for USD.
- The central bank's (BSP) back-to-back 50bp of rate hikes has pushed policy rates to 4.5%, a 150bp rate increase YTD. The aggressive rate hikes are intended to anchor inflation expectations while addressing PHP 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 would 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 lead to significant weakness.

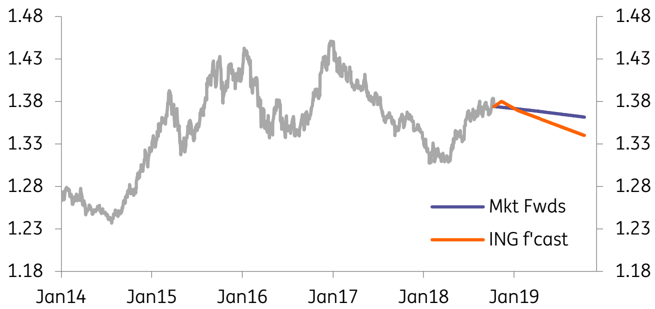
ING forecasts (NDFs)	**1M** 54.35 (54.23)	**3M** 54.30 (54.56)	**6M** 54.50 (54.97)	**12M** 55.60 (55.65)

Joey Cuyegkeng, Philippines +63 2479 8855

USD/SGD

Stronger by default

Current spot: 1.3740



Source: Bloomberg, ING

- The SGD is currently sitting close to our 1M 1.38 USD/SGD forecast, and we think it will remain roughly there in the near term.
- But it was threatening to break higher – mainly because weakness in regional trading partners' currencies had left the SGD NEER looking "stronger" on a relative basis.
- 3M interest rates have been remarkably steady as the currency has chopped around, suggesting that the MAS sees no strong reason to lean against market moves.
- Nonetheless, the MAS still chose to marginally steepen the SGD NEER path at its October meeting. This will not have a substantial impact on our forecasts, which already envisaged appreciation.

ING forecasts (FWDs)	**1M** 1.3800 (1.3730)	**3M** 1.3700 (1.3712)	**6M** 1.3600 (1.3682)	**12M** 1.3400 (1.3615)

Rob Carnell, Singapore +65 6232 6020

USD/TWD

Trade war leads to slow TWD depreciation

Current spot: 30.86

Source: Bloomberg, ING

- The market believes that the bilateral trade war between Mainland China and the US is negative for the Taiwan economy, reflected in a depreciation of the TWD, which has recently skirted USD/TWD 31.0.
- Policy interest rates in Taiwan are low (1.375%). The central bank has limited room to cut interest rates to support growth. Indeed, the trade war impact through the supply chain means that Taiwan's economy will likely see a further slowdown with limited scope for offsetting policies by the Central Bank.
- As we expect the trade war to continue into 2019, TWD is likely to maintain its slow depreciation.

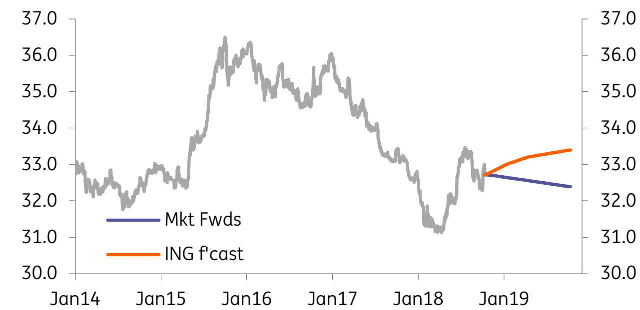
ING forecasts (NDFs)	**1M** 30.90 (30.80)	**3M** 31.00 (30.79)	**6M** 31.30 (30.44)	**12M** 31.70 (30.16)

Iris Pang, Hong Kong +852 2848 8071

USD/THB

Weakening support from the current account

Current spot: 32.70



Source: Bloomberg, ING

- The THB seems to be coming under the shadow of the INR and the IDR, Asian underperformers this year. In a sudden reversal of fortune, the THB's 1.1% month-to-date depreciation in October may be excessive given the still large current account surplus.
- The narrowing trade surplus is weighing on the current account surplus while slowing tourism has also started to depress the services balance. While our forecast 7% of GDP current surplus this year is a sharp contraction from 11% in the last two years, it's still large for the region and a key positive for the THB.
- Recent manufacturing data signals continued GDP slowdown ahead, while inflation also has started to slow. These forthcoming trends will drag on the BoT's path to rate policy normalisation.

ING forecasts (FWDs)	**1M** 32.80 (32.70)	**3M** 33.00 (32.64)	**6M** 33.20 (32.55)	**12M** 33.40 (32.38)

Prakash Sakpal, Singapore +65 6232 6181

Disclaimer