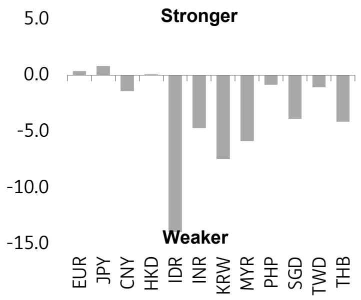
19 March 2020
Asia

Asian FX Talking

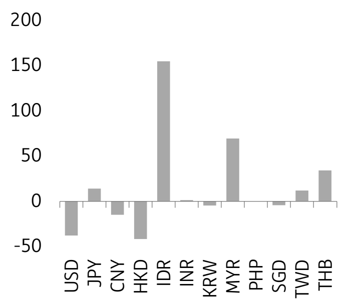
More bad news

Exchange rates vs USD (%MoM)



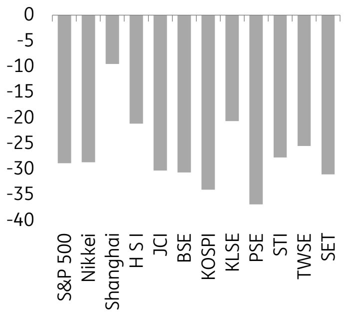
Source: Bloomberg

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



Source: Bloomberg

Stock indices (%MoM)



Source: Bloomberg. Tenor in parentheses

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Despite the much more aggressive responses by monetary and fiscal authorities recently, it seems that the short term has merely dispelled the denial felt by markets over Covid-19.

In putting together these latest forecasts, we are aware of a number of areas where we lack sufficient foresight for educated guesswork – otherwise known as forecasting.

First and foremost, no one, not even the experts, seems comfortable predicting the path of the Covid-19 Pandemic. Here, we think that for much of Europe and the US, the progression of the disease is still in the foothills and will get considerably worse. It isn't easy to generalise for the whole of Asia, but there have been some promising developments in China and South Korea in terms of containment, which might hint at a "first in, first out" view.

Secondly, the market seems to be going through various phases in this crisis. Firstly denial, mixed with misplaced hope despite feeble policy responses. That denial is currently giving way to despair and panic, despite (perhaps because of) the bigger, more coordinated and global fiscal and monetary actions being taken. We are taking a punt that the next phase for the markets is a more stoic one, but equally, it might not.

Good luck and stay safe.

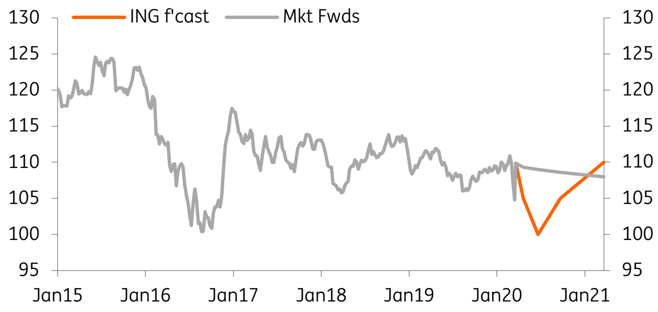
ING's 12-month currency view vis-à-vis forward/NDF market forecasts

	USD/JPY		AUD/USD		NZD/USD	
Spot	**109**		**0.58**		**0.57**	
1M	105	<	0.55	<	0.54	<
3M	100	<	0.58	>	0.57	>
6M	105	<	0.63	>	0.62	>
12M	110	>	0.67	>	0.65	>
	USD/CNY		**USD/INR**		**USD/IDR**	
Spot	**7.099**		**75.07**		**15913**	
1M	7.200	>	76.00	=	15177	<
3M	7.250	>	78.00	>	15347	<
6M	7.000	<	75.00	<	15206	<
12M	6.800	<	73.00	<	14953	<
	USD/KRW		**USD/MYR**		**USD/PHP**	
Spot	**1286**		**4.408**		**51.10**	
1M	1300	>	4.420	=	51.89	<
3M	1250	<	4.550	>	52.67	=
6M	1180	<	4.480	>	53.32	>
12M	1120	<	4.360	<	52.58	<
	USD/SGD		**USD/TWD**		**USD/THB**	
Spot	**1.447**		**30.45**		**32.55**	
1M	1.460	>	30.50	>	32.90	>
3M	1.480	>	31.00	>	33.30	>
6M	1.430	<	30.50	>	32.80	>
12M	1.400	<	29.80	>	32.00	<

> / = / < indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright. Prices as on 19 March 2020 at 5pm Singapore time.
Source: Bloomberg, ING estimates

USD/JPY

Unusual service resumed **Current spot: 109.7**



Source: Bloomberg, ING forecasts

- USD/JPY is bucking its usual trend of selling off hard on sharp equity corrections. What turned USD/JPY around from a low of 101.19 on 9 March was probably: i) more Japanese buying of foreign bonds at good FX levels and more importantly ii) the squeeze in USD funding markets starting around 11 March. The 3m JPY cross currency basis swap remains stressed (now -150bp) and suggests Japanese banks are struggling for USD funding.
- Like other central banks, the BoJ has stepped up liquidity adds with JGB purchases and also supporting the corporate sector through loans and CP, ETF and J-REIT buying.
- If, the dust settles through 2Q20, we suspect $/JPY drifts lower.

ING forecasts (mkt fwd)	**1M** 105 (109)	**3M** 100 (109)	**6M** 105 (109)	**12M** 110 (108)

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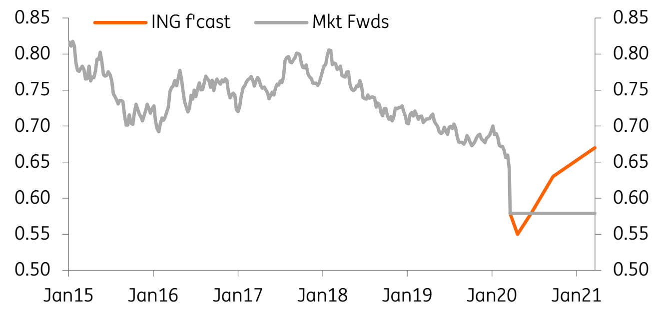
AUD/USD

AUD plummets on RBA's QE **Current spot: 0.58**



Source: Bloomberg, ING forecasts

- The adoption of QE by the RBA and slashing of the cash rate to 0.25%, along with bond yield targeting (3Y at 0.25%) has led to the AUD slumping to 0.5570.
- The comprehensive package of measures adopted by the RBA, which included Term lending facilities, and enhanced repo operations is a good start in tackling the financial market strains that recent global concerns have opened up.
- With QE confirmed as being the RBA's policy for at least 12 months, and only then dependent on the outlook for unemployment and inflation, the AUD weakness will only likely dissipate if similar measures are adopted elsewhere.

ING forecasts (mkt fwd)	**1M** 0.55 (0.58)	**3M** 0.58 (0.58)	**6M** 0.63 (0.58)	**12M** 0.67 (0.58)

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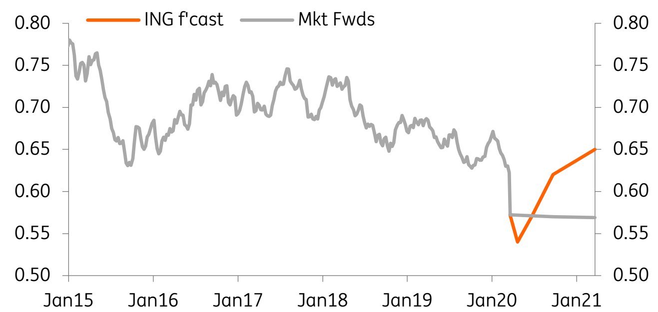
NZD/USD

Kiwi QE only a matter of time **Current spot: 0.57**



Source: Bloomberg, ING forecasts

- The Reserve Bank of New Zealand is probably only a few weeks behind the RBA in adopting an asset purchase programme, so its relative strength versus the AUD may be short-lived.
- Of the two currencies, the AUD may be the more oversold of the two, and the scope for recovery in demand for Australia's industrial commodities is stronger in the even that China shows some more signs of life.
- Thus, the NZD will probably take a further hit as Governor Orr bites the bullet and starts Kiwi QE, which could persist in the short to medium term.

ING forecasts (mkt fwd)	**1M** 0.54 (0.57)	**3M** 0.57 (0.62)	**6M** 0.62 (0.57)	**12M** 0.65 (0.57)

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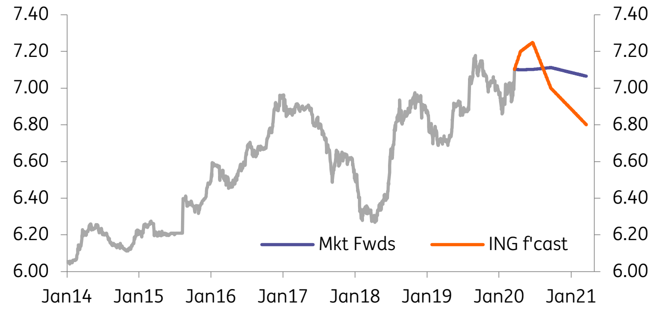
USD/CNY

Double hit from coronavirus, domestically and globally

Current spot: 7.099



Source: Bloomberg, ING forecasts

- Though the impact of coronavirus was very damaging to China in the first two months of 2020, the economy has recovered gradually. Most factories have resumed work. Consumers cannot resume normality as malls regulate people flows.
- But global demand has just started to be hit by the coronavirus. This will put additional pressure on China's manufacturing and export demand.
- The global demand story has hit asset markets worldwide and pushed the dollar stronger as there are flight-to-safety assets, including US Treasuries. We expect the yuan to weaken further against the strong dollar.

ING forecasts (mkt fwd)	**1M** 7.200 (7.100)	**3M** 7.250 (7.102)	6M 7.000 (7.112)	**12M** 6.800 (7.065)

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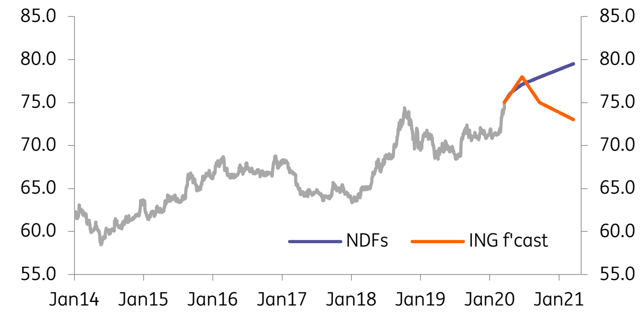
USD/INR

Even oil fails to buoy the rupee

Current spot: 75.07



Source: Bloomberg, ING forecasts

- The outbreak of oil price war in early March failed to support the INR, leaving it 4% weaker against the USD so far this month. The weak sentiment from increased banking stress outweighs lower oil prices in driving the INR weakness as the currency traded through 75, an all-time low against the USD.
- Falling oil prices bode well for inflation though that hasn't been the case lately, while growth continues on a weaker trend with the added whammy from the Covid-19 outbreak.
- The currency depreciation pressure should persist as calls for further RBI rate cuts are rising with the global central bank easing wave. We expect a 25-50 basis point RBI rate cut in April.

ING forecasts (mkt fwd)	**1M** 76.00 (76.11)	**3M** 78.00 (77.12)	**6M** 75.00 (77.96)	**12M** 73.00 (79.53)

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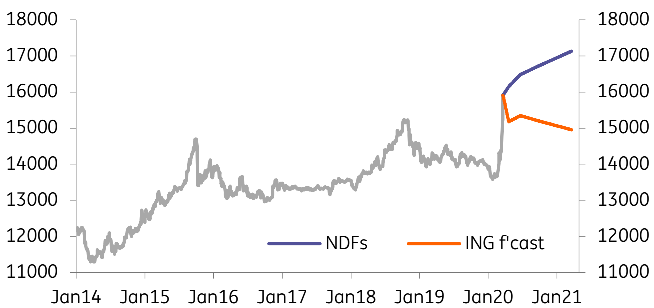
USD/IDR

IDR weakens sharply as cases spike in Indonesia

Current spot: 15913



Source: Bloomberg, ING forecasts

- The IDR was stable in early February with investors still upbeat with President Widodo rushing the passage of the "omnibus bill" designed to help attract foreign investors.
- IDR began to weaken steadily as the Covid-19 virus hit China, heightening concerns about the impact of weaker export demand from Indonesia's main export destination.
- Bank Indonesia (BI) cut policy rates by 25bp to help cushion the economic impact from Covid-19 and reduced reserve requirements but will be hard pressed to cut further.
- We expect the IDR to weaken as cases in Indonesia rise and foreign investors dump risk assets given the stark risk-off tone.

ING forecasts (mkt fwd)	**1M** 15177 (16150)	**3M** 15347 (16483)	**6M** 15206 (16712)	**12M** 14953 (17134)

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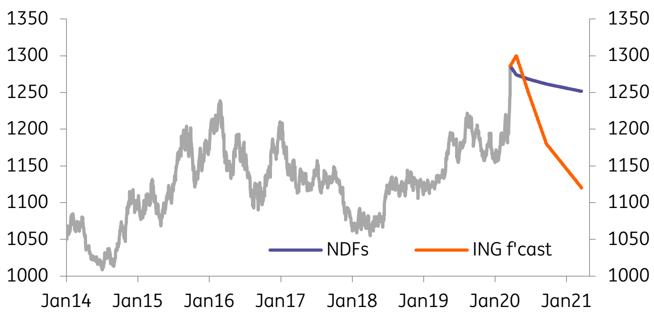
USD/KRW

Canary in the coalmine

Current spot: 1286



Source: Bloomberg, ING forecasts

- The KRW remains the litmus currency for regional risk aversion, and at the moment, it is in a firestorm of financial fear, and being propelled ever higher. 1300 seems a realistic near-term target.
- That said, authorities around the world are finally ramping up both their fiscal and monetary responses. The likely further 50bp easing in 2Q20 by the BoK will be small in comparison to these other policy changes.
- The more moderate progression of the Covid-19 virus in Korea may help with the KRW's appreciation once the current market angst has passed. Though calling the turn in this is subject to substantial risk, 1300 may be too low a peak.

ING forecasts (NDFs)	**1M** 1300 (1274)	**3M** 1250 (1268)	**6M** 1180 (1261)	**12M** 1120 (1252)

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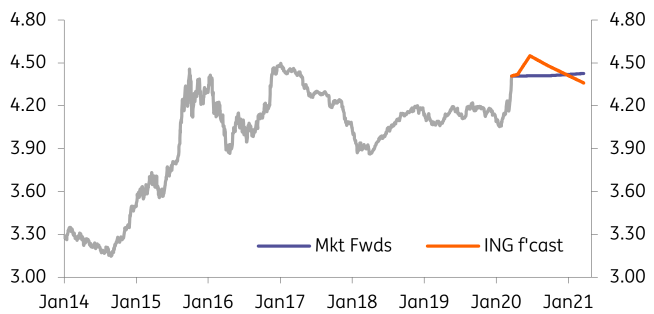
USD/MYR

An Asian underperformer

Current spot: 4.408



Source: Bloomberg, ING forecasts

- The MYR depreciation pressure intensified with a surge in Covid-19 spread that forced the country into a complete lockdown for two weeks starting 18 March. The currency lost 4% against the USD so far in March, an Asian underperformer.
- A recession is lurking with the plunge in oil prices coming as an added whammy for the commodity-dependent economy, besides the hit to trade and tourism. Political risk evident from an unexpected change of government is also hurting growth.
- We see the crisis shaving over 2% off GDP growth this year. While the new government is reading more fiscal stimulus, at least a 50bp BNM rate cut looks imminent well before the May meeting.

ING forecasts (mkt fwd)	**1M** 4.420 (4.408)	**3M** 4.550 (4.410)	**6M** 4.480 (4.410)	**12M** 4.360 (4.426)

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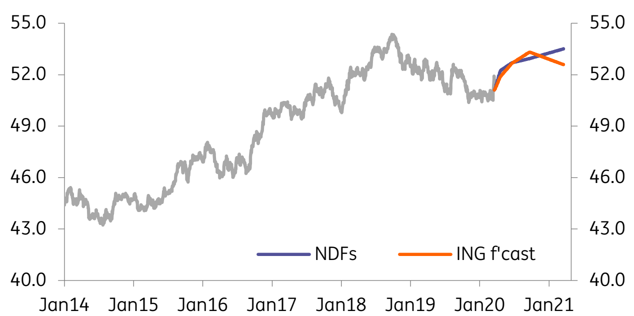
USD/PHP

PHP depreciates in line with region on Covid-19 contagion

Current spot: 51.10



Source: Bloomberg, ING forecasts

- The PHP appreciated in early February as foreign inflows related to a retail treasury bond and the outlook upgrade from Fitch.
- The Peso weakened steadily towards the end of the month as foreign investors sold local stocks on Covid-19. The Philippines was tagged as least affected by the virus relative to the region.
- The Bangko Sentral ng Pilipinas (BSP) Governor pledged additional easing given falling inflation and to support the economy against Covid-19.
- We expect PHP to weaken further as the Philippine President declared a state of emergency and locked down the capital to help arrest the spread of Covid-19.

ING forecasts (mkt fwd)	**1M** 51.89 (52.24)	**3M** 52.67 (52.70)	**6M** 53.32 (52.94)	**12M** 52.58 (53.51)

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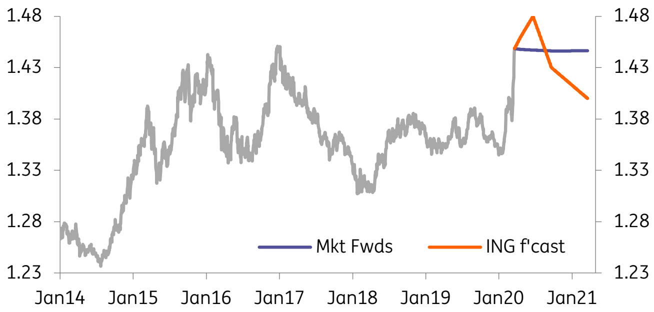
USD/SGD

Recession is inevitable

Current spot: 1.447



Source: Bloomberg, ING forecasts

- The Monetary Authority of Singapore may be behind the curve in the global central bank easing binge. But accelerated SGD-NEER reflects an easing bias by the MAS, which is further evident from by a near halving of interbank rates this month.
- We think the MAS will pronounce the easing stance by re-centring the SGD-NEER policy band at a lower level (currently about 1.5% below the mid-point of the band) with a zero rate of appreciation in the April policy review, or even before that.
- A recession is inevitable in the first half of 2020. A bold fiscal thrust should help some recovery in the second half but that's unlikely to be enough to keep the full-year growth in positive territory.

ING forecasts (mkt fwd)	**1M** 1.460 (1.448)	**3M** 1.480 (1.447)	**6M** 1.430 (1.446)	**12M** 1.400 (1.446)

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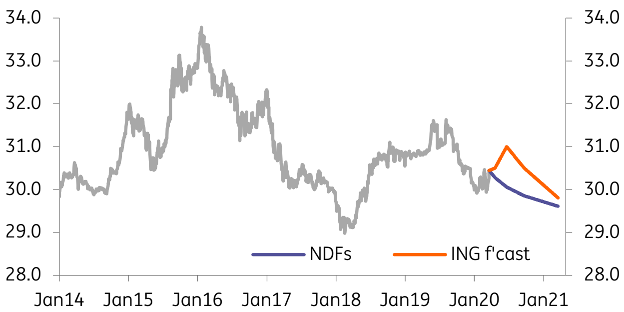
USD/TWD

Can't defy the gravity of capital outflows

Current spot: 30.45



Source: Bloomberg, ING forecasts

- Shocks from the speedy spread of the coronavirus have hit stock markets globally, including Taiwan, which houses some electronic companies.
- The coronavirus has induced questions on the upcoming sales of smartphones as businesses in US and Europe face shorter operating hours or even cannot operate. The unemployment rate could rise, and therefore global consumers may have less appetite for smartphones and other electronic products.
- The TWD should weaken against the dollar. Not only does flight to safety support the dollar, but also Taiwan's manufacturers face the headwind of low demand for their electronics.

ING forecasts (mkt fwd)	**1M** 30.50 (30.28)	**3M** 31.00 (30.06)	**6M** 30.5 (29.85)	**12M** 29.80 (29.61)

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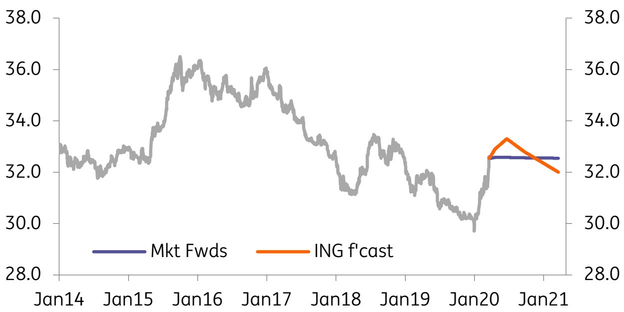
USD/THB

2020 is shaping to be a year of negative growth

Current spot: 32.55



Source: Bloomberg, ING forecasts

- An 8.3% year-to-date depreciation wipes out almost all the gain the THB had against the USD in 2019. A breach of the top end of what we thought as new, a higher trading range of 31-33 this year, doesn't seem to be far off.
- As for some of its ASEAN peers, the Thai economy is bracing for recession as the increased global spread of Covid-19 dents tourism. In yet another downgrade, we have cut our forecast of GDP growth in 2020 to -0.5% from +1%.
- The government has announced THB 400 billion (2.4% of GDP) worth of stimulus. The Bank of Thailand is likely to complement this with an additional 50bp rate cut at its next meeting on 25 March.

ING forecasts (mkt fwd)	**1M** 32.90 (32.58)	**3M** 33.30 (32.58)	**6M** 32.80 (32.56)	**12M** 32.00 (32.55)

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