



Asia FX Update:

On the coronavirus watch

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Global Treasury

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Asian FX Key Themes

- **Coronavirus taking over as main driver.** Short term risk appetite has quickly turned on the outbreak of the coronavirus headlines, although optimism on some quarters has kept risk from capitulating into outright Risk-Off zone (p. 10). Beyond immediate virus-related developments (p. 6), the longer term concern is that the policy actions taken to contain the virus in China and rest of Asia will have a negative economic impact that compromises the macro stabilization theme (p. 7, 8).
- **Summary of research view:** In the near term, expect USD-Asia to track the RMB complex, given that China is the epicenter of the current negative shock. If the USD-CNH is contained around the 7.0000 mark, then expect USD-Asia to be supported, but with the path higher slowing to a grind (p. 11). On specific currencies, we expect the USD-KRW to have limited traction near 1200.00, preferring USD-TWD upside from current levels instead (p. 11). Meanwhile, expect idiosyncratic drivers stemming from the BOT to exacerbate the risk-off sentiment, and compound THB underperformance (p. 12). Meanwhile, large economic exposure to China and the risk of community transmission in Singapore saw the SGD NEER basket capitulate to parity. With further downside risk to the basket in the immediate horizon, we expect the USD-SGD to stay buoyant for now (p. 14).

Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
China	↔/↑	↓	<p>Wuhan coronavirus episode will be a direct hit on the RMB, beyond the usual risk-off sentiment. With USD-RMB now hovering around the 7.0000 handle, we think the pace of ascent should slow. Further out, policy actions to contain the virus should translate into negative economic readings in 1Q 2020, jeopardising the macro stabilization theme. Jan official man. PMI eased lower to 50.0, although services PMI rose to 54.1, significantly better than expected. Jan Caixin man. PMI outperformed at 51.1. Dec CPI lower than expected at 4.5% yoy on one-off factors, but PPI contracted by more than expected (-0.5% yoy vs mkt: -0.4% yoy). Credit growth in terms of aggregate social financial and money supply stay supportive of overall growth. Dec IP outperformed to a good margin, while retail sales mostly in-line. 4Q real GDP growth at 6.0% yoy, but nominal growth reaccelerated to 9.63% yoy from 7.57% yoy – showing a small V-shape recovery that reinforced the view of stabilization in the Chinese economy.</p>
S. Korea	↔/↑	↔	<p>USD-KRW tracked USD-CNH higher, but there should be limited traction above 1200.00. The BOK remained unchanged in Jan (although there are two dissenters), with Governor Lee choosing to focus on the positives for now. Economic indicators, as a whole, continue to be solid over the past month, assuaging near term growth concerns. Preliminary 4Q 2019 GDP release saw 2.2% yoy growth, above expectations of 1.7%. Jan man. PMI dipped to 49.8, from 50.1 after four consecutive months of improvement. Jan exports continued to contract on a yoy basis, but the decline is smaller than market expectation. Jan core and headline CPI came in at 0.9% yoy and 1.5% yoy, firmer than expected. Dec industrial production grew 4.2% yoy, compared to an expected 1.0% yoy.</p>
Taiwan	↔	↔/↓	<p>CBC static at 1.375% in Dec, with minutes of the meeting showing optimism over growth. 4Q GDP growth exceeded expectations of 2.78%, coming in at 3.38% yoy. Full-year GDP at 2.73%, better than expected. Jan man. PMI bucked trend in rest of Asia, improving to 51.8 from 50.8 prior. Trade sector continues to stand out relative to Asian peers (esp. Korea), with Dec exports growing at 4.0% yoy and imports at 13.9% yoy. Dec headline CPI outperformed expectations at 1.13% yoy, core print at 0.57% yoy. Dec industrial production continued to firm up at 5.99% yoy.</p>

Short term FX/bond market views and commentary

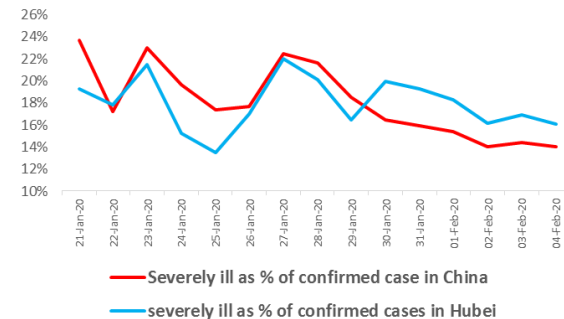
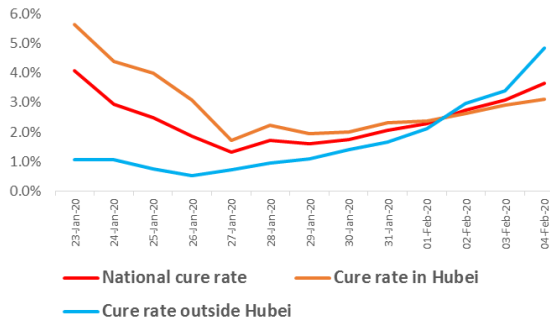
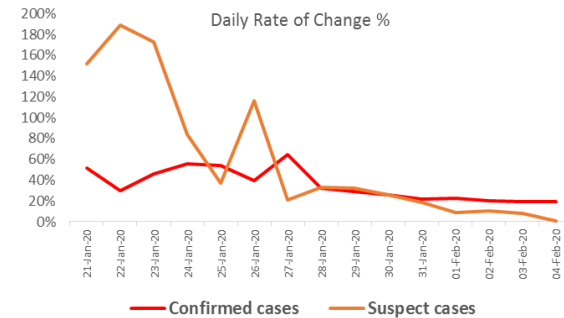
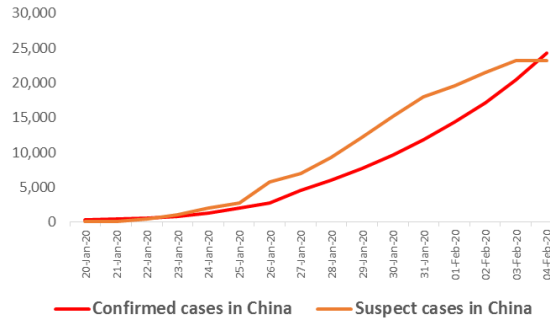
	USD-Asia	10y govie (%)	Commentary
Singapore	↑	↔/↓	The SGD NEER reversed sharply lower to +0.70% above perceived parity, from a +1.50% to +1.80% range prior, as the SGD underperformed both G10 and Asian counterparts after the coronavirus episode broke. In response, the USD-SGD surged higher, and we expect it to remain supported going forward. 4Q GDP advance estimates printed 0.8% yoy and 0.1% qoq saar growth. Full year GDP growth at 0.7% yoy, stronger than expected. Indications suggest that the economy may have bottomed out in 2Q19, with consolidation expected in 2020. Jan official man. PMI continued to improve, printing 50.3 from 50.1 prior and 50.0 expected. Dec headline and core CPI printed +0.8% yoy and +0.7% yoy respectively, both firmer than expected. Dec NODX printed nudged a 1.1% yoy expansion, against the consensus estimate of a decline. Dec IP contracted by a more than expected -0.7% yoy, compared to estimates at -0.6% yoy.
Thailand	↔/↑	↓	Investors finally started to respond to BOT jawboning and measures to curb THB strength. THB move from the best performing Asian currency on NEER terms in 2019 to the worst in 2020 year-to-date. Growth expected at 2.8% yoy in 2020, a level thought to be 'disappointing' by the BOT. BOT still open to using monetary policy even as policy rate is at historic low. Jan man. PMI dipped back into contractionary 49.9, compared 50.1 prior. Dec custom exports contracted again at -1.28% yoy, in-line with expectations. Custom imports grew at the faster than expected 2.54% yoy Dec headline/core CPI at 0.87% yoy and 0.49% yoy respectively, in-line to firmer than expected.
Malaysia	↔/↑	↓	The BNM surprised with a 25 bps rate cut to 2.75% in its Jan meeting despite sounding upbeat in its Nov statement. We continue to see the possibility of one more cut this year. Some background support, although weakening, for the MYR with the moderation of equity outflow momentum. Dec CPI stood at 1.0%, in-line with expectations. Jan man. PMI faded back into contraction zone at 48.8, from 50.0 prior. Nov exports shrank -5.5% yoy (mkt: flat). Imports also slumped -3.6% yoy, less than market expectations. 3Q GDP stayed resilient at +4.4% yoy.

Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
India	↔	↔/↓	Govies rally after the Budget was less expansionary than expected. Back-end yields depressed, curve on flattening bias on RBI policy action. The INR expected to get a fillip on softer crude complex. Dec headline CPI shocked at 7.35% yoy, but the latest GDP growth slowed to 4.5% yoy in 3Q2019 – a classic case of stagflation. Expect this to tie RBI's hands in terms of further rate cuts. Nov industrial production printed 1.8% yoy, exceeding expectations. Jan man. PMI continued to push higher to 55.3, from 52.7 prior. Dec trade deficit in line with expectations.
Indonesia	↔/↓	↓	The IDR may be more resilient to USD strength on the back of strong bond inflow dynamics. Expect some consolidation around the 13500 to 13800 range in the near term, even as the rest of USD-Asia search higher. The BI chose to hold its policy rate unchanged despite some market chatter of a rate cut, choosing instead to focus on improving the transmission of 2019 rate cuts through the market. Dec exports eked out a small gain at 1.28% yoy, with consensus estimates looking for a small contraction. Trade balance printed a smaller than expected deficit. Jan headline CPI remain softer than expected at 2.68% yoy, at the lower half of the target band. The core gauge also slipping. Jan man. PMI eased lower to 49.3, from 49.5 prior.
Philippines	↔	NA	The BSP held policy rate unchanged at 4.00% in its December meeting as expected, but expect a rate cut to be forthcoming in the Feb meeting, with Governor Diokno already confirming the return of rate cuts in 1Q 20. BSP may also choose to further cut the RRR for banks as a supportive measure. 4Q GDP in-line with expectations at 6.4% yoy. Dec CPI firmer than expected at 2.5% yoy. Nov exports contracted 0.7% yoy, underperforming expectations. Imports contract at a faster 8.0% yoy. Jan man. PMI bucked trend in Asia to improve to 52.1, from 51.7 prior. Nov remittances grew 2.0% yoy, weaker than expected.

Coronavirus watch: Some light at the end of the tunnel?

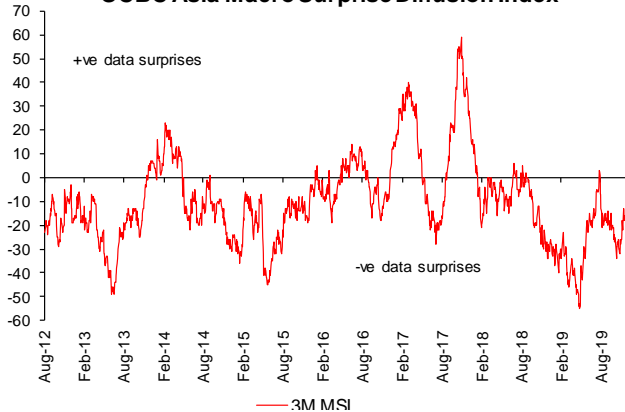
- The headlines continue to sound bleak, but there may be some positives in sight, with total number of suspect cases flat on 4 Feb. Comparing cases within and outside of Hubei also suggest that there may not be a second wave of contagion. For further insights, please refer to the daily [Wuhan Coronavirus Monitor](#).



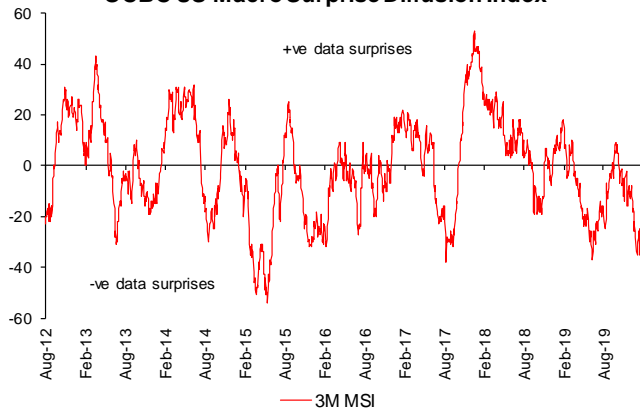
Sustaining the macro stabilization theme may be difficult

- Comparing the Macro Surprises Indices (MSI) across regions, the Asian and European gauges (although we maintain that European gauge overstates the current macro situation) continue to outperform the US. By now, the low hanging fruit for the macro stabilization theme have been plucked. Going forward, the onus will be on the data prints to continue outperforming to maintain market expectations.
- Furthermore, the new uncertainty of the coronavirus adds further negative weight to the macro rebound. We expect the containment measures – city lock-downs, travel bans etc – to have a negative impact on the Chinese economy, the question is the depth and extent of the downgrades.

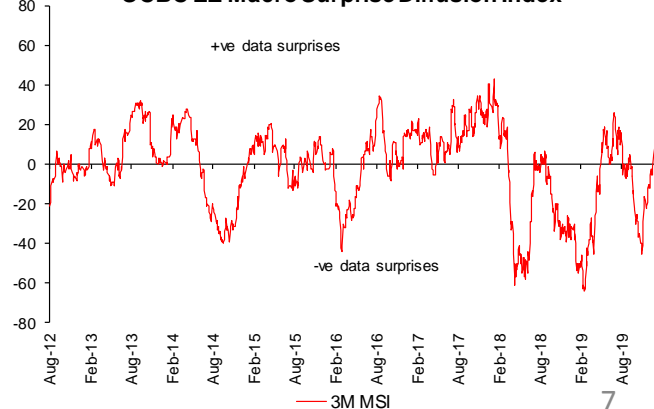
OCBC Asia Macro Surprise Diffusion Index



OCBC US Macro Surprise Diffusion Index

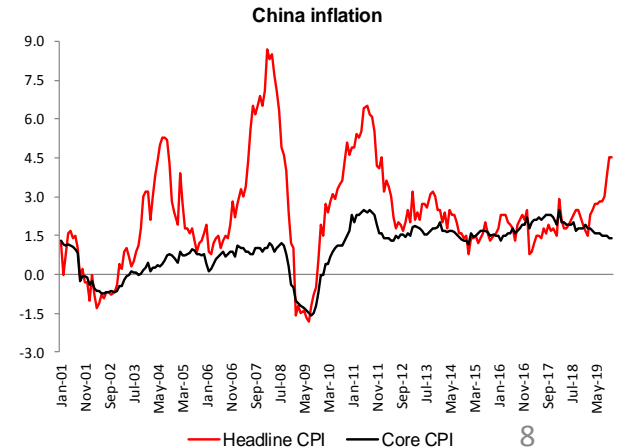
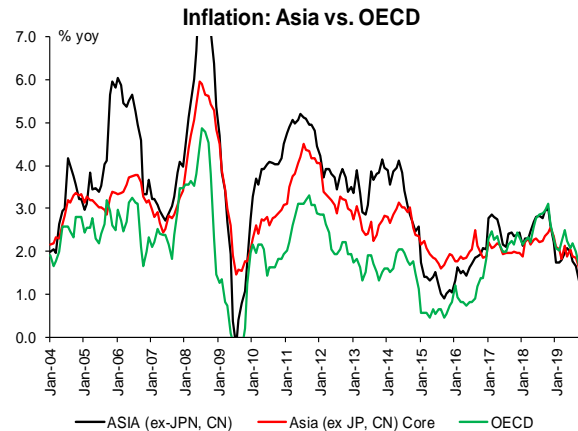
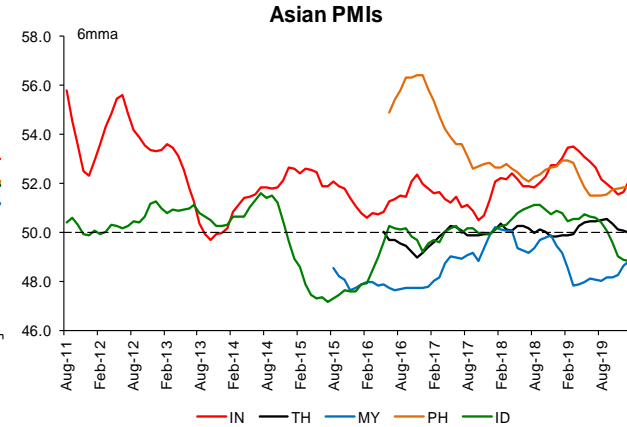
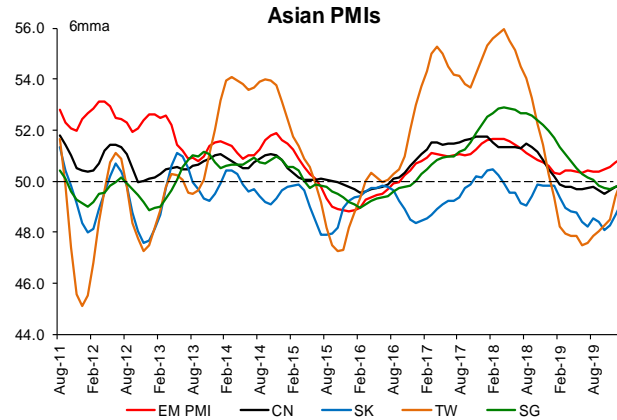


OCBC EZ Macro Surprise Diffusion Index



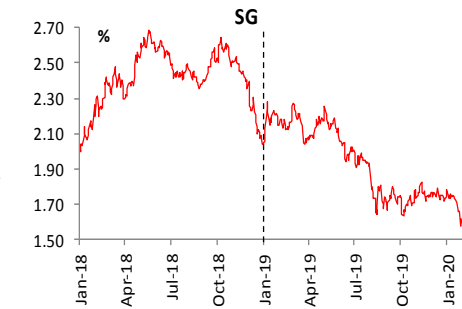
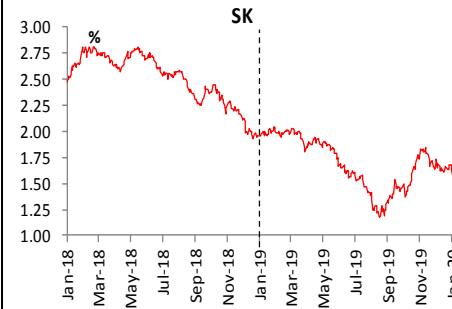
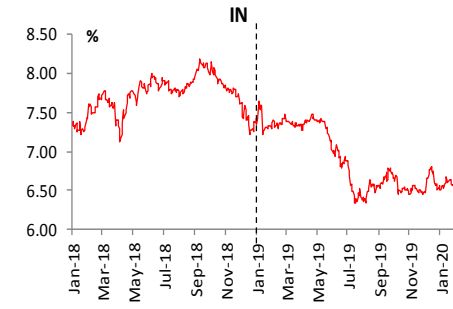
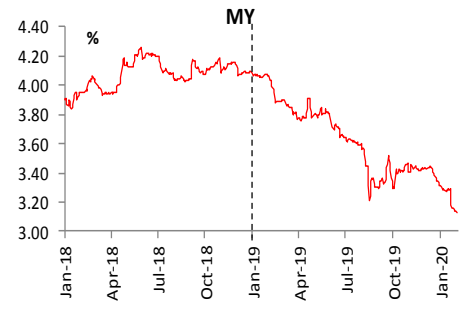
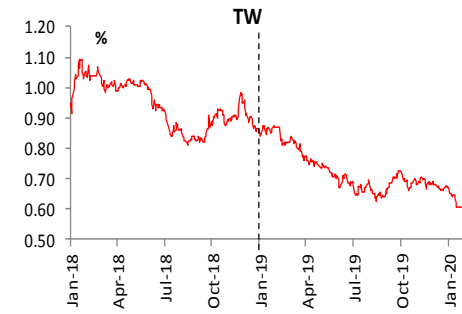
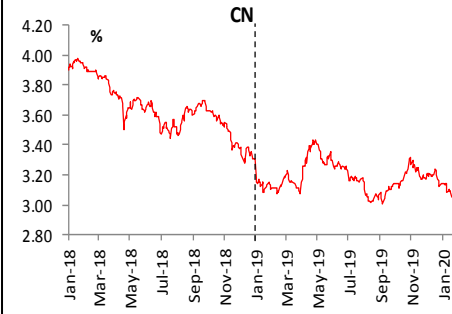
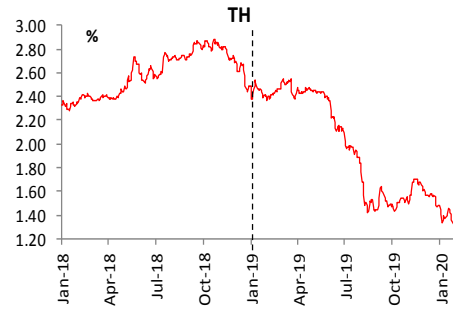
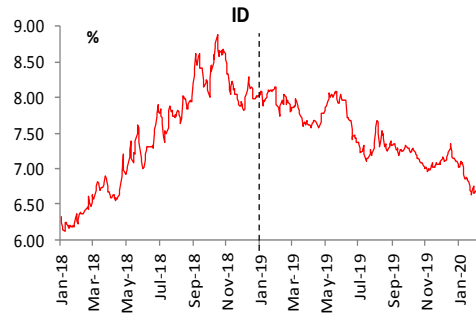
Most Asian PMIs dip; pockets of strength in inflation

- Latest round of Asian man. PMI prints saw most countries turned lower after two months of improvement. In particular, South Korea, Thailand and Malaysia dipped back into contractionary zone. Philippines and Taiwan proved to be resilient.
- Apart from ongoing one-off issues in India and China, pockets of strength in terms of inflation are noted in Philippines and Taiwan.
- **Recent mixed data-prints out of Asia would do little to forward the macro stabilization theme as a whole. Ongoing macro resilience in Taiwan may, however, be a structural positive for TWD.**



Asian 10y yields pressured lower by risk-off, USTs

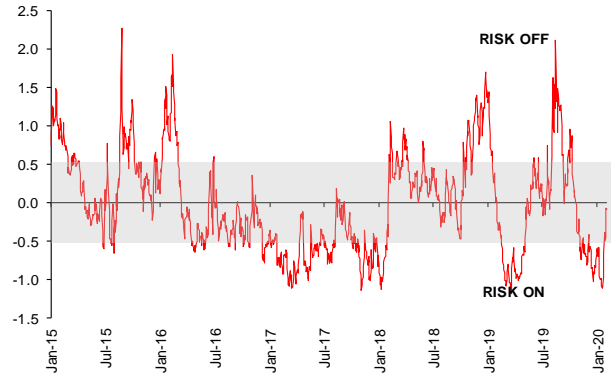
- Real 10y UST yields sinking deeper into negative provides the push factor for fund inflows into Asia, with South Asia still having an appreciable real rate gap over USTs. Domestically, rate cuts by Asian central banks provide the pull factor. **Favour IndoGBs on better inflow dynamics (6.50% to attract for 10y), and CGBs on risk-off and flush liquidity.**



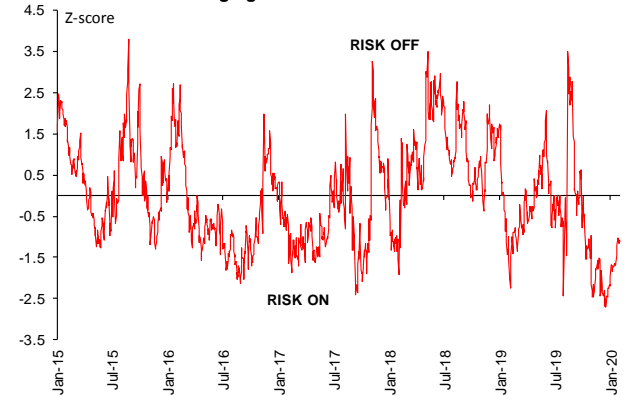
Sharp turn in risk sentiment on coronavirus

- The rapid escalation of the coronavirus situation over the past two weeks sparked a rapid worsening of overall risk appetite.
- However, selected pockets of the market are holding out, choosing to show confidence in the containment efforts and stabilizing influence of the PBOC. This has precluded a deeper capitulation in overall risk environment. **We may need to see another serious deterioration of coronavirus headlines for the risk-off plays to spike further. Otherwise, it may be a slow grind going forward.**

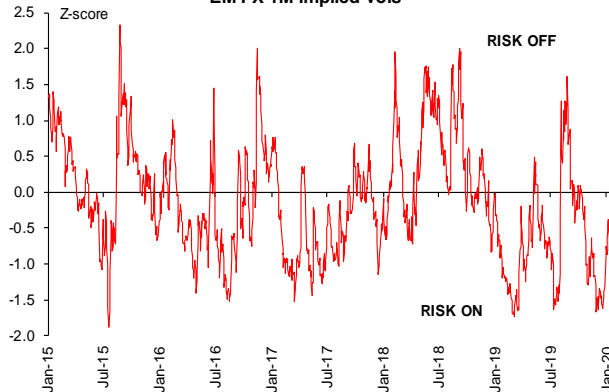
FX Sentiment Index



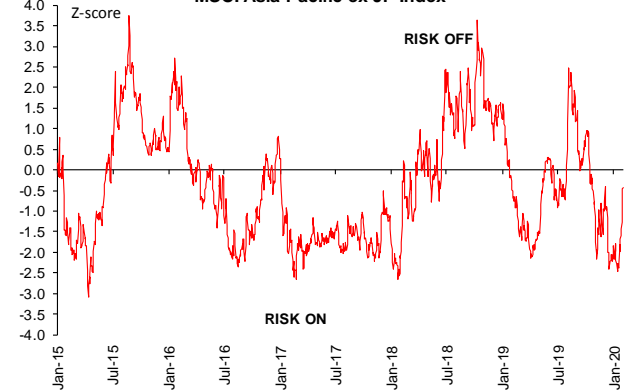
Emerging Market Bond Index Plus



EM FX 1M implied vols

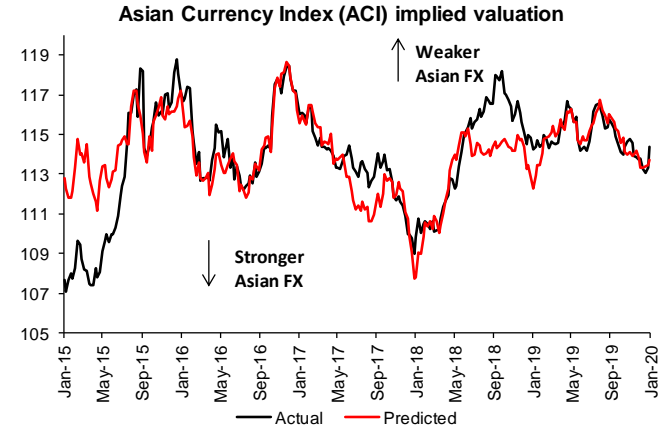


MSCI Asia Pacific ex JP Index

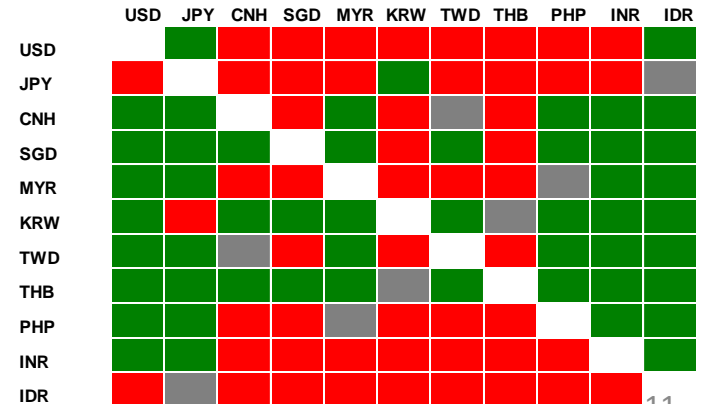


USD-Asia broadly supported; USD-South more anchored

- Short term implied valuations portend further downside for Asian currencies as a whole, but much will be subjected to USD-CNH moves. If USD-CNH can be contained around the 6.9800 to 7.0200 range, expect USD-Asia to stay supported but with topside limited.
- The USD-KRW may find little traction near 1200.00, especially if the USD-CNH remains contained. At current levels, prefer to be long USD-TWD instead, targeting 30.450. If the current situation persists, we look to re-enter USD-KRW longs at levels closer to 1175.00.
- **Overall, the USD-North (plus USD-SGD and USD-THB) should outperform USD-South, given its high beta relationship with the RMB and deeper economic exposure.**

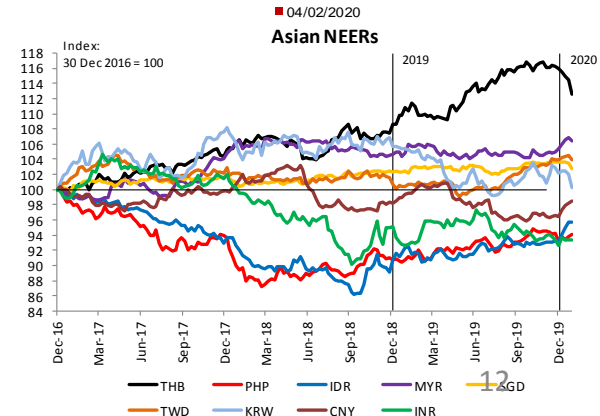
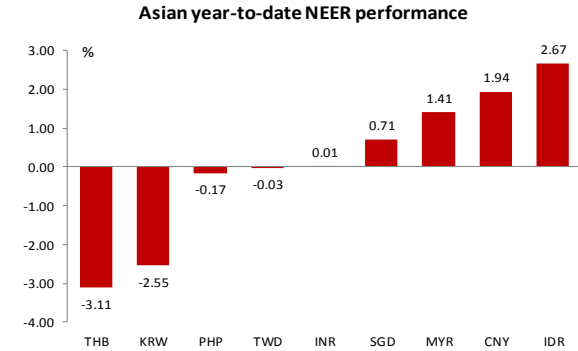
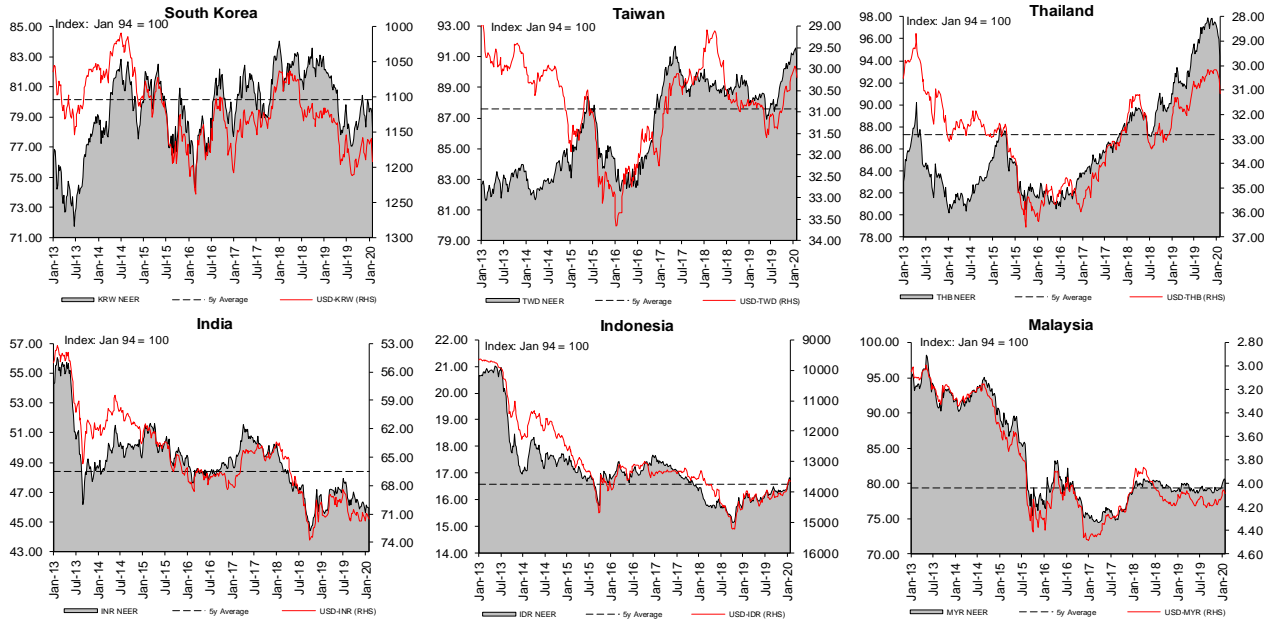


Asian FX Short-term Heat Map



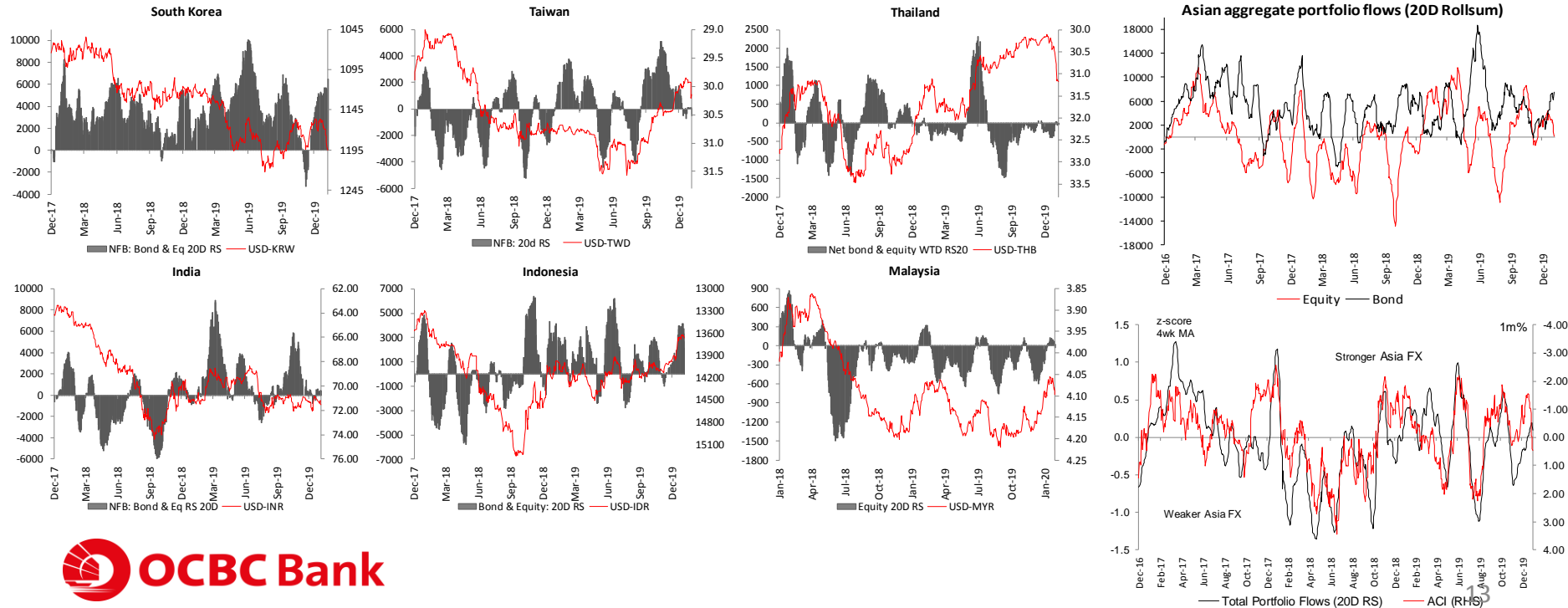
NEERs: THB depreciation accelerated

- The THB underperformance accelerated, with the risk-off tone giving another excuse to sell-off, in addition to BOT jawboning. BOT's latest decision (5 Feb) to cut rates may give the THB another leg lower.



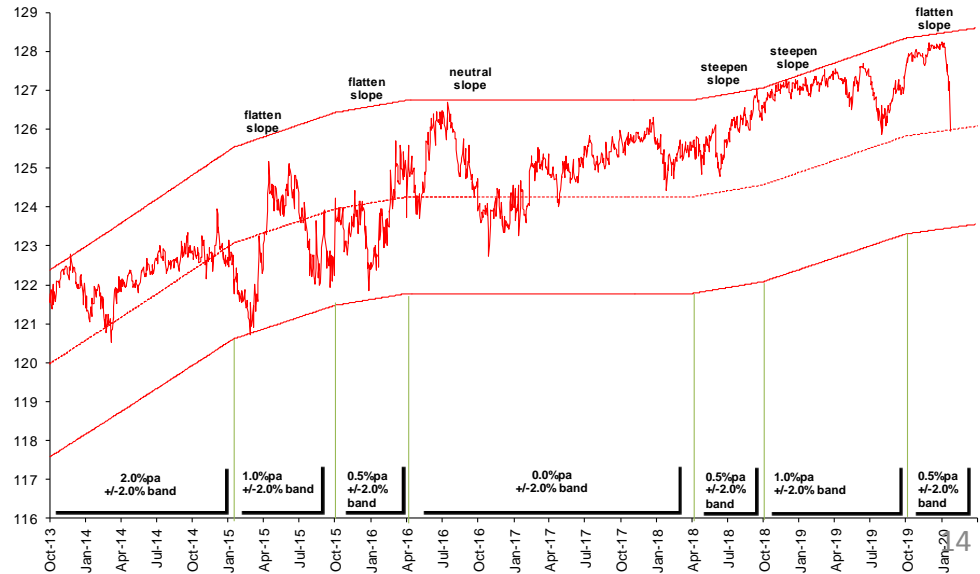
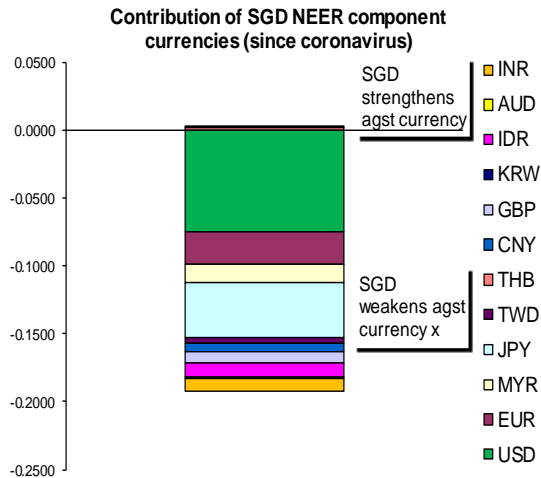
Equity inflows curtailed, selective bond inflows

- The latest read of Asian portfolio inflows shows equity inflow momentum (rolling 20D basis) across Asia evaporating. Bond inflows, however, are relatively more supported by good inflow momentum in South Korea and Indonesia (also moderating since last week). Implied equity inflows (EPFR data) into China also showed initial signs of capitulation.



SGD NEER basket sank to parity level

- Market response to an MAS media release (5 Feb) took the SGD NEER basket from around +0.70% above parity to parity levels, extending a decline from around 1.80% above parity pre-coronavirus.
- We think it is premature to interpret the MAS's statement this morning as an early warning signal that they may undertake more accommodative policy moves in the April MPS. We prefer to take the first level interpretation of this morning's statement, which is that the MAS may now be comfortable for the SGD NEER to drift towards parity (where it is now), or maybe even -0.5% to -1.0% below parity.



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