Asia FX Update:
One wave after another

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Treasury Research & Strategy
Global Treasury

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Asian FX Key Themes

- Since the last Update, market panic has eased considerably (p. 10) as the swathe of Fed actions addressed the USD liquidity crunch effectively. However, Asian currencies will not get much of a breather. Expect another wave to hit Asian currencies, this time from the downward macro trajectory (p. 3-5, 7-8). The RMB complex provides some form of stability, perhaps more for North Asia than South (p. 11). The South Asian currencies continue to be undermined by unprecedented outflow momentum on both the bond and equity fronts (p. 12, 14). In terms of Asian government bonds, expect yields to revert lower after the upheaval (p. 9), with Asian central banks still expected to ease further.

- **Summary of research view**: We prefer to take a defensive approach, and favour the USD in general. Specifically, we are underweight the South Asian currencies, which are most at risk of the nasty economic shock. The USD-CNH may float towards the top end of the recent 7.0500 - 7.1500 range, but may not see much traction beyond that. North Asia (especially RMB and TWD) should outperform the South. With the USD-SGD and USD-MYR reversing higher, the respective highs at 1.4650 and 4.4490 may be back in play. With the USD-INR and USD-THB still at/near recent highs, also do not rule out another push higher. The THB may be most at risk, with the extent of Thailand's growth downgrade large in comparison to peers. In Asian government bonds, favour low-yielders for some protection for now.

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Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
China	↔/↑	↓	China has the COVID-19 situation under control, but the concern now is for a second round macro impact on China from global spread of the virus. Mar official and Caixin PMIs recovered from the sticker shock levels in Feb, but the next true test will be in Apr. The government may do away from GDP growth targets for 2020. The PBOC expected to keep the monetary taps loose and lending rates low, with the latest move involving a cut in the 7-day reserve repo rate from 2.40% to 2.20%. More policy actions may be expected. Feb retail sales and industrial production slumped to -20.5% and -13.5% yoy. Year-to-date industrial profits out to Feb at -38.3% yoy. Year-to-date exports slumped -17.2% yoy. Aggregate social financing and new yuan loans firmer than expected, although monetary aggregates grew slower than expected. Feb CPI prints remain firm, but PPI moves into deflationary territory. Expect the RMB complex to be relatively more supported than other Asian currencies amid USD strength.
S. Korea	↔/↑	↔/↓	BOK started providing unlimited KRW liquidity through weekly repo auctions. BOK's USD swap auction results suggest funding shortages are alleviating. BOK expected to hold policy rates unchanged in Apr after a 50bps emergency cut in Mar left it with limited policy room. Man. PMI dipped for the third consecutive month in Mar to 44.2, from 48.7. Mar exports stall at -0.2% yoy. Imports also contracted -0.3% yoy. Mar core and headline CPI came in at -0.2% yoy and 1.0% yoy. Recent pull-back in the USD-KRW does not impinge on the longer term uptrend. While the KRW to draw cues from the stable RMB for now, it should still remain more volatile and weaker than RMB.
Taiwan	↔/↑	↓	The CBC cut policy rates by 25 bps to 1.125% in Mar, with the central bank promising more action if required. Liquidity enhancing measures also expected in April. Despite unprecedented and still ongoing equity outflows, the USD-TWD has remained much more anchored compared to other USD-Asia on better control over the country's virus situation and firmer long term prospects. Mar man. PMI bucked global trend to move back into expansionary zone at 50.4. Feb exports shrank by -7.60% against an expected 1.00% yoy growth. Imports slumped -17.7% yoy, supporting a larger-than-expected trade balance. Feb headline and core CPI contracted 0.21% and 0.38% yoy respectively.

Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
Singapore	↑	↓	Advanced 1Q 2020 growth saw a -2.2% contraction. FY2020 GDP forecast downgraded heavily to -4.0 to -1.0% yoy. Sizable fiscal rescue package in the form of the Unity, Resilience and Solidarity Budgets, with fiscal policy expected to carry the weight of supporting the economy through the COVID-19 crisis. The MAS MPS was held earlier than expected. The SGD NEER policy band moved to neutral slope and saw a slight re-centre lower. Overall, monetary policy is expected to be stable, taking a supporting role in stimulating the economy. SGD NEER to stay supported overall, so excessive upside pressure in the USD-SGD front may be curtailed. Feb NODX grew 3.0% yoy to the surprise of the market, but good times are not expected to last in the current climate. Feb headline and core CPI printed 0.3% yoy and -0.1% yoy respectively, both softer than expected. Feb IP contracted -1.1% yoy, against estimates of -3.2% yoy.
Thailand	↑	↔	Unscheduled 25 bps rate cut announced by the BOT on 20 Mar, no further change in the scheduled meeting on 25 Mar. Additional fiscal support measures also announced. Official growth forecast downgraded heavily to -5.3% yoy for FY2020, with the hardest hit expected in Q2. Mar man. PMI slumped to 46.7 from 49.5 previously, on COVID-19 impact. Feb custom exports worsened by less than expected, printing -4.47% compared to an estimated -9.15%, although import data printed worse. Feb headline/core CPI at 0.74% yoy and 0.58% yoy respectively. Overall, limited signs of optimism for the THB for now, with the USD-THB looking to search higher. Next target at 33.50 for the USD-THB.
Malaysia	↑	↔	Sense of normalcy returns on the political front with the formation of the new cabinet. Headline grabbing MYR250bn worth of fiscal stimulus, with the government's direct contribution at 10% of the total (taking total deficit to 4.0% of GDP). Fiscal situation pressured by depressed oil prices, while extended MCO regulations continue to weigh on the economy. Refreshed in-house growth forecast at -2.5% to 1.5% yoy. BNM cut rates by 25 bps as expected in its Mar meeting. The door remains wide open for further cuts, perhaps as early as the next meeting in May. Feb CPI stood at 1.3% yoy, marginally softer than expectations. Mar man. PMI dipped further to 48.4, compared 48.5.

Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
India	↑	↔/↓	The COVID-19 impact has finally spread to India, with a lockdown currently in place. The RBI cut policy rates in Mar by 75 bps to 4.40% in an emergency meeting on 27 Mar. Various steps taken to release liquidity into the market. Foreigner limits for portfolio investment in corporate bonds were raised. Overall, bond market rallied, but the INR remains under pressure as market questions how much firepower the RBI still has after these moves. The first fiscal relief package already in place, with further steps forthcoming. Slump in crude prices benefit the INR, but doubt that it will shift the overall trend. Expect the USD-INR to search higher in line with USD-Asia. Mar man. PMI dipped lower to 51.8, from 54.5 prior.
Indonesia	↑	↔/↑	Fiscal rule to maintain a 3.00% of GDP budget deficit dropped until 2023, with budget deficit expected to be north of 5.0% of GDP this year after increases in fiscal stimulus. BI cut policy rate by 25 bps to 4.50% in its Mar meeting, and did away with the positive tone it had in its past two meetings. Further rate cuts expected in the Apr and subsequent meetings. BI intervention in the FX, DNDF and secondary bond markets also picked up in terms of intensity, and it is now allowed to participate at the issuance stage. FM Sri Mulyani bandied around numbers like 17500 and 20000 for the USD-IDR, although it was subsequently clarified that they were not forecasts. Official growth forecast downgraded to 2.3%, with -0.4% as the worst case scenario. Mar headline and core CPI at 2.96% and 2.87% yoy respectively, both marginally better than expected. Big slump in Mar man. PMI to 45.3 from 51.9.
Philippines	↓	NA	The island of Luzon under lockdown amid COVID-19 outbreak, with fiscal support package upcoming. BSP reduced its policy rate to 3.25% in its Mar meeting as expected, and also cut the RRR by 200 bps. The BSP continues to signal for more to come. 4Q GDP in-line with expectations at 6.4% yoy. Feb CPI softer than expected at 2.6% yoy. Mar man. PMI saw the largest slump across Asia, sinking to 39.7 from 52.3 prior. Jan remittances grew by a stronger than expected 6.6% yoy.

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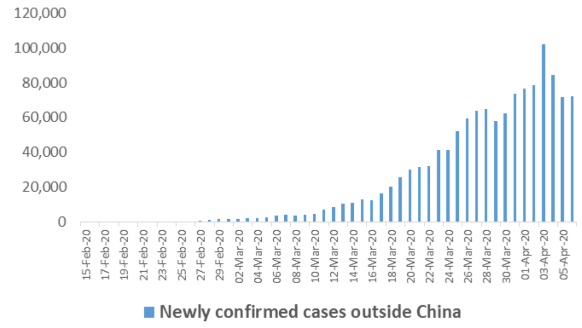
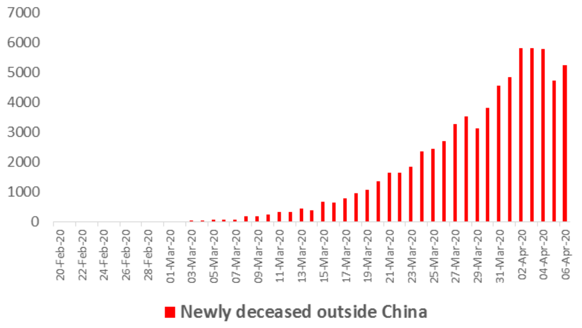
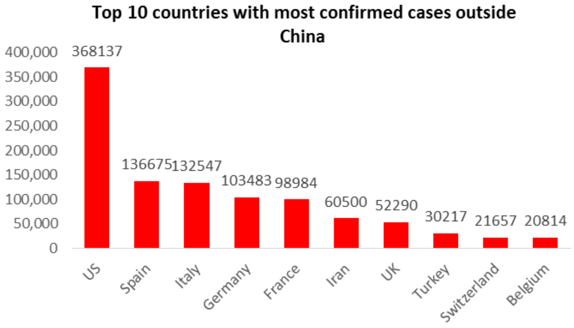
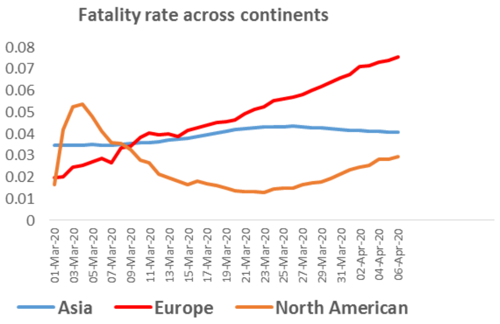
COVID-19 watch: Positives in US and Europe?

- Although the numbers are now huge – more than 1.3m confirmed cases globally and just less tha 75k deaths – the containment measures across the globe now appears to have kept the virus in check.
- We are now seeing positive virus headlines out of Europe and US, with the daily rate of confirmed cases and deaths on the decline in both regions.
- This has added to the market positivity. The question though, is whether we have jumped the gun here.
- For further insights, please refer to the daily COVID-19 Monitor, now covering the global spread.









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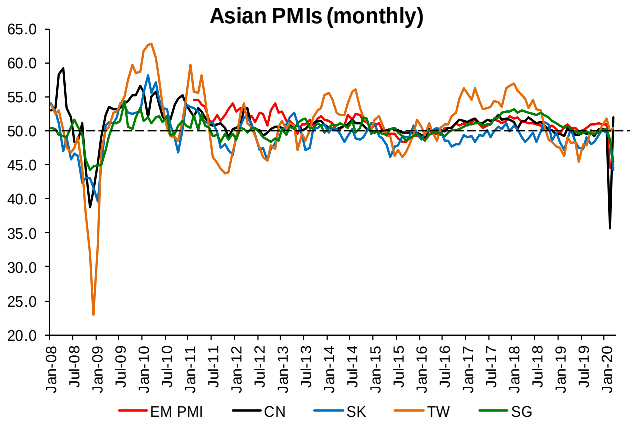
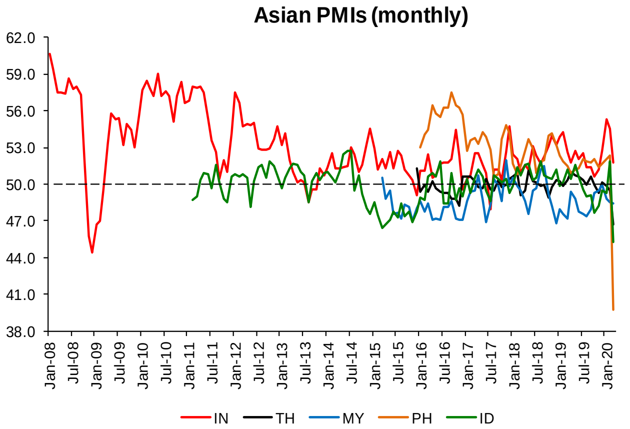
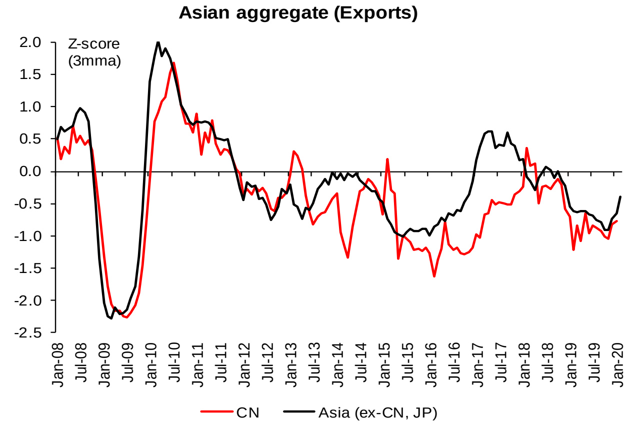
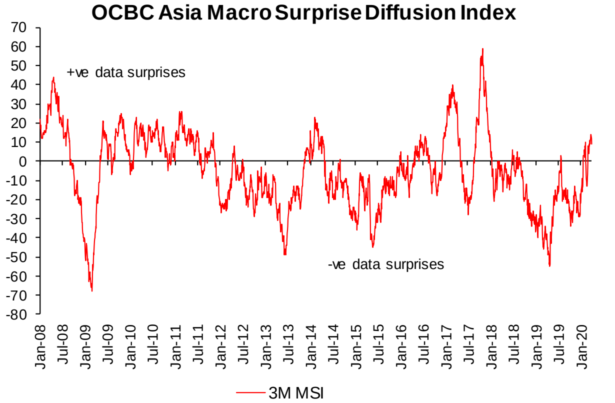
Macro trajectory: how low will it go?

- The virus spread took a turn for the worse in China in late Jan, in Asia in February, and in US/Europe in March. The FY2020 growth downgrades in Asia have been aggressive. However, only a small number of economic indicators in Asia has actually reflected to the macro impact. Note that most indicators have not reached the depths of the 08/09 GFC period.
- **There might still be significant lack of clarity on the economic impact for now.** Further growth downgrades cannot be ruled out just yet.









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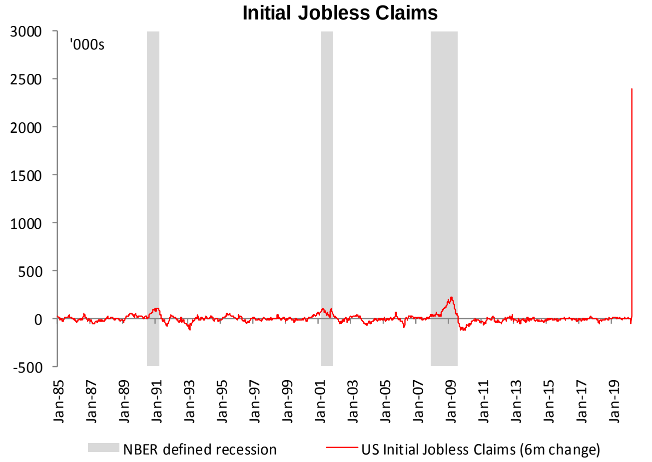
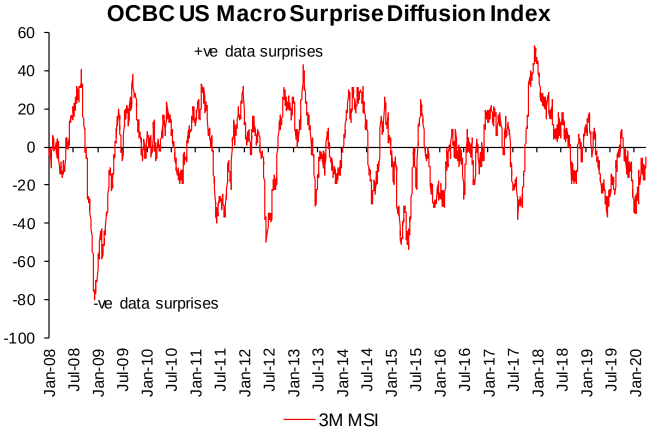
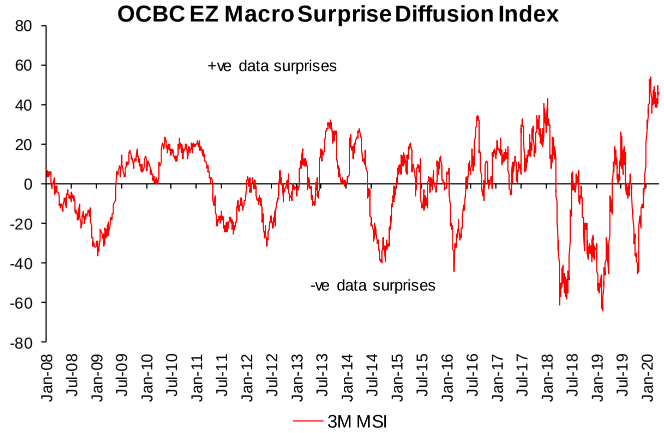
Macro trajectory: nowhere near GFC yet

- In US and Europe, the real impact of the virus spread is probably only 2-3 weeks old. Aside from US initial jobless claims and non-farm payrolls, we still see limited evidence of the economic impact in the data. The Macro Surprises Indices (MSI) have yet to decline, much less move towards the 08/09 GFC levels.
- Even more so than in Asia, the actual economic impact in US and Europe is still unknown. In this context, **we believe the risk-reward balance is tilted towards expecting a deeper contraction in US and Europe.** Overall, we cannot rule out a global recession-type of scenario in the coming months.







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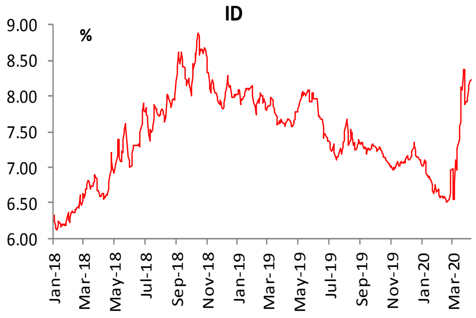
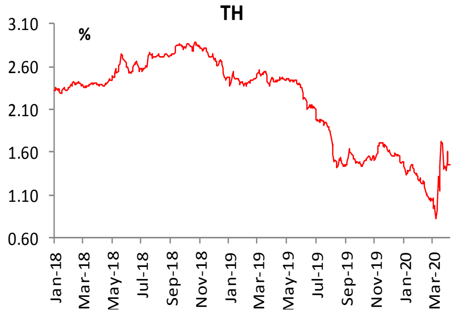
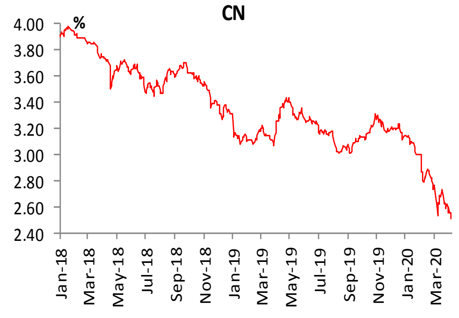
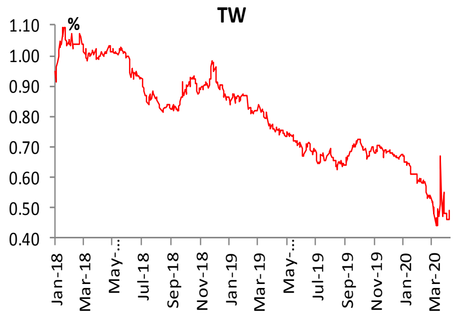
Asian 10y yields: Disorderly sell-off, normalcy ahead

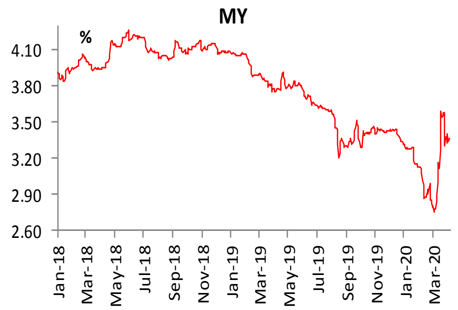
- Asian bonds saw a disorderly sell-off since the previous Update, amid wider market jitters. As normalcy returns, expect the loose monetary stance across Asian centrals banks to keep yields depressed, and for Asian yields to revert to a downtrend. Outperforming CGBs steadies the ship for Asian peers. **Prefer to be long in the low-yielders.**

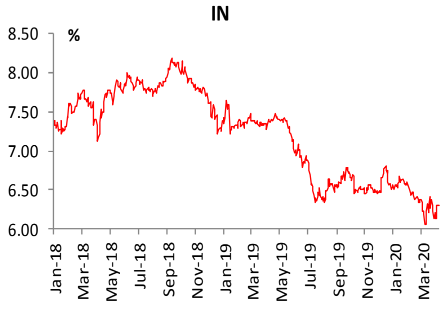


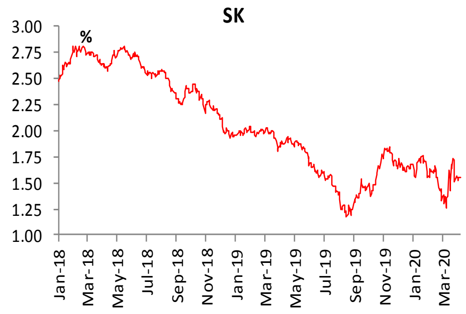


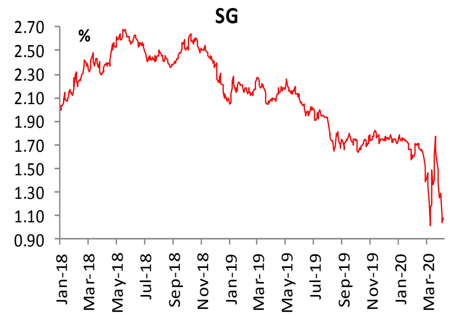












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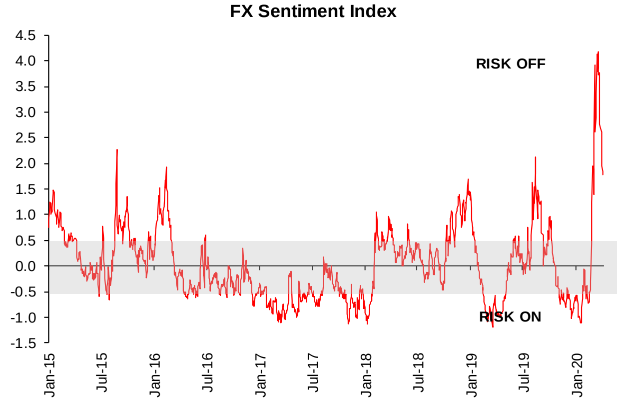
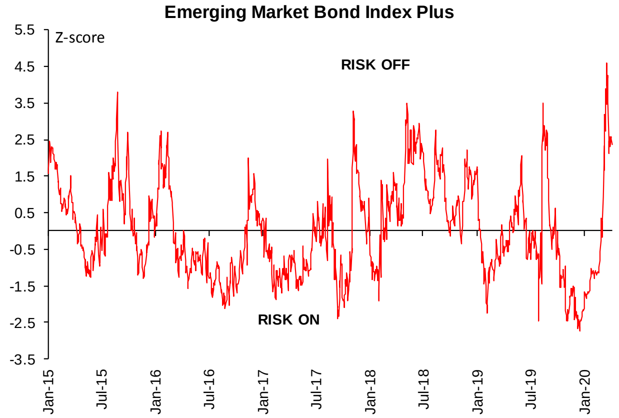
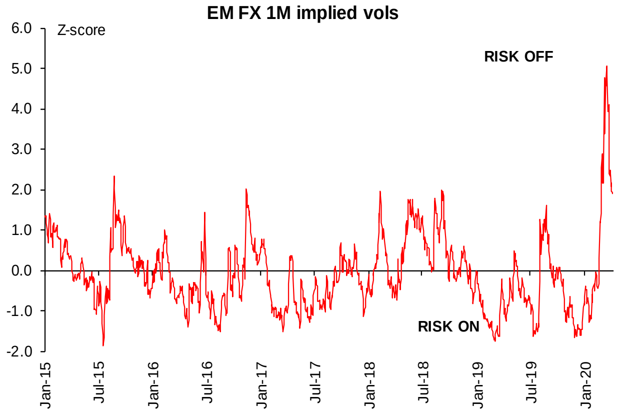
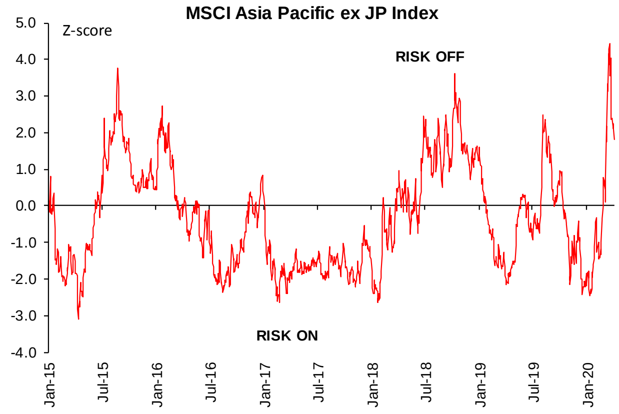
Sentiment is calming down

- Central bank data suggest good take up of Fed swap facilities, and USD funding issues easing as a result. Immediate financial stress and negative risk sentiment have been alleviated, and sentiment gauges across different asset classes have eased away from the risk-off extremes back towards more normal levels.
- Nevertheless, do not rule out another bout of risk-off once the positives are exhausted. The pipeline for negative news remains heavy on the macroeconomic front.









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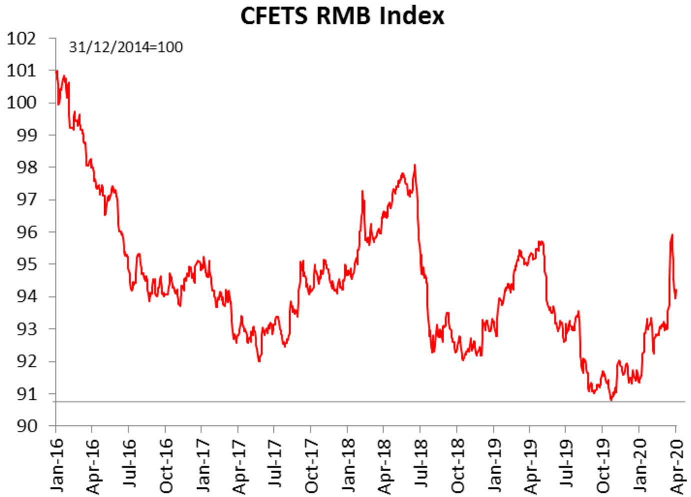
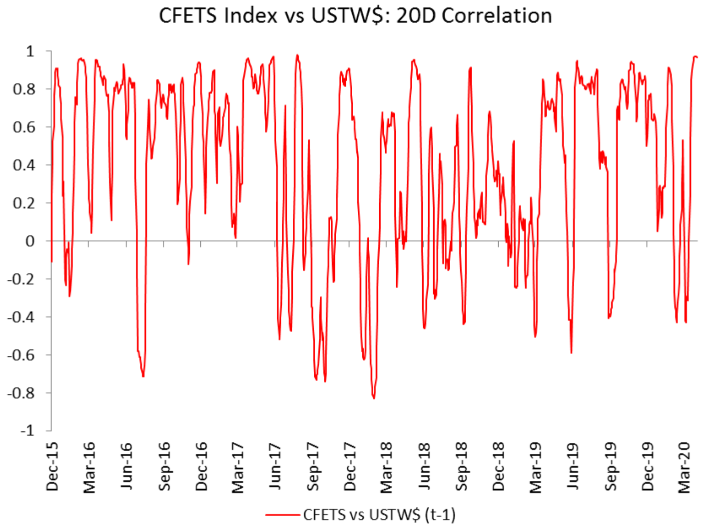
RMB: Anchor of stability for North Asia

- At this juncture, the RMB may be soft under the recessionary global macro environment, with the USD-CNH likely to drift higher towards 7.1500. **However, there are no explicit drivers for excessive RMB weakness**. The virus situation in China is under control and portfolio inflows are returning to China. Moreover, the RMB complex has maintained a tight correlation with the broad USD in recent weeks. Thus, the stable RMB may keep Asian FX, especially those of North Asia, anchored. Elsewhere, **the relative resilience of the Taiwanese economy and their successful efforts in curtailing the virus spread supports the TWD amid a strong-USD environment.**





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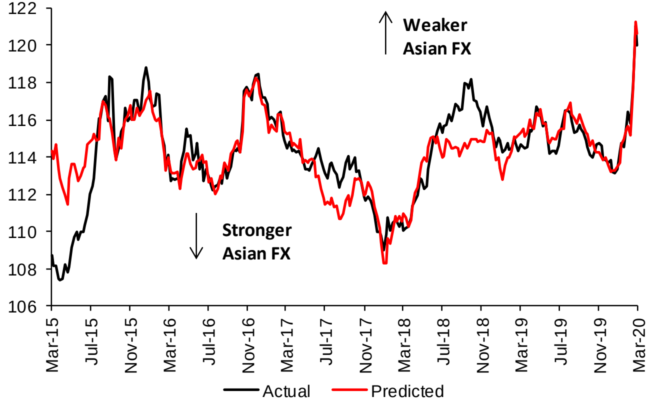
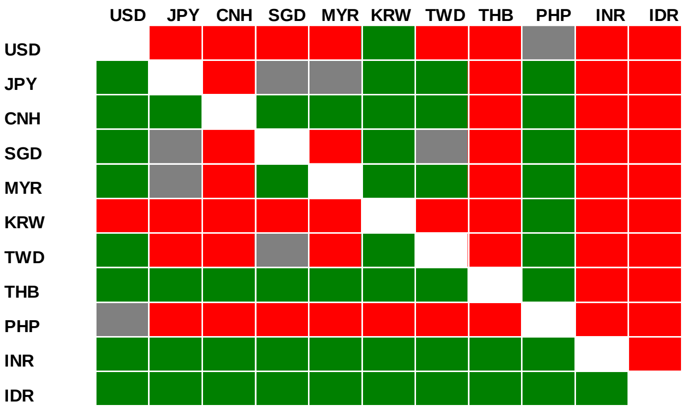
USD-Asia likely higher; South Asia to underperform

- While the North Asian currencies enjoy some semblance of a shelter from the stability of the RMB complex, the South Asian currencies are less fortunate. At this juncture, the South Asian economies have seen significant downgrades in terms of their official FY2020 growth forecasts. Thailand's growth downgrade probably the most aggressive, and we expect significant hit in Q2 2020 on the back of the global halt in tourism.
- The South Asian economies are also worst hit from portfolio outflows out of Asia. The scale of the outflows is unprecedented, even after accounting for the 08/09 GFC (see p. 14 for details).
- Overall, **expect USD-South to see more upside compared to USD-North going forward. In particular, we are most negative in the THB, where the economic hit is expected to be worst. Elsewhere, we will not rule a re-test of year-to-date highs in the USD-INR and USD-MYR. Expect the market to flex against the 1997 AFC high for USD-IDR.**

Asian Currency Index (ACI) implied valuation



Asian FX Short-term Heat Map



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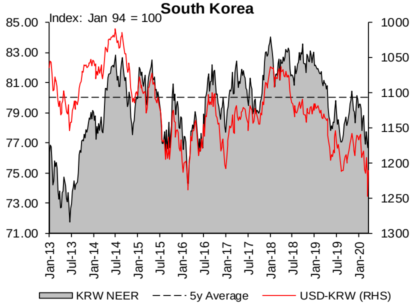
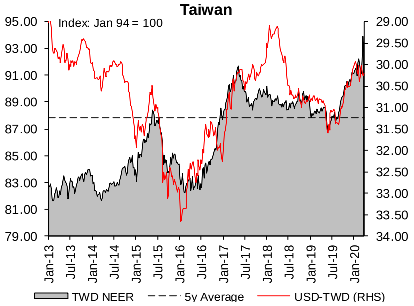
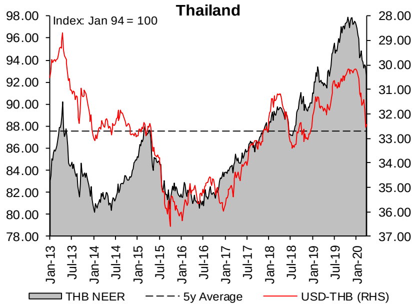
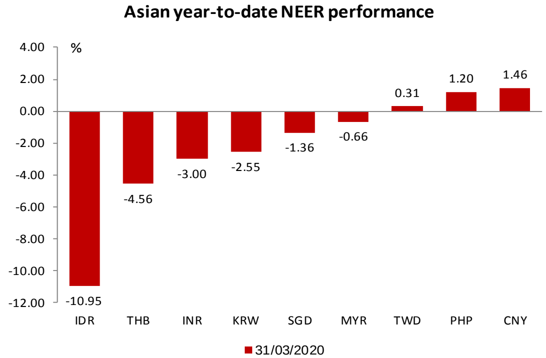
NEERs: RMB outperform, IDR worst of the lot

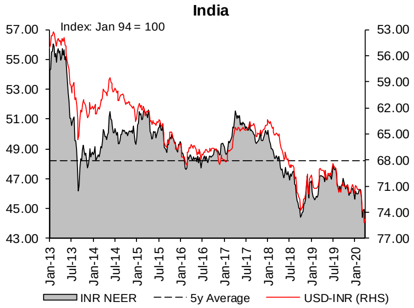
- With the exception of the TWD and RMB, most Asian NEERs are all sliding, underlying their underperformance against DM currencies. The IDR and THB took a beating amid heavy portfolio outflows and economic impact. The RMB complex remains resilient, perhaps sheltering other Asian currencies from steeper declines.

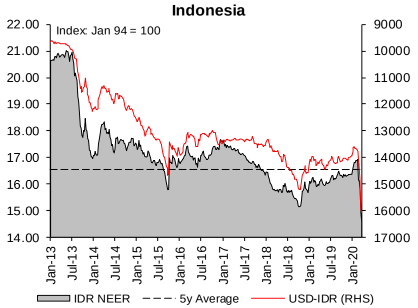


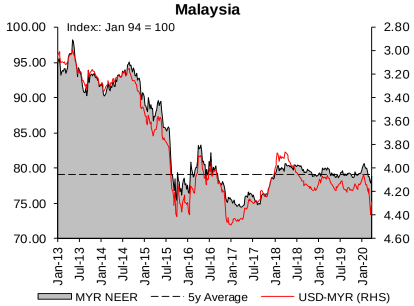


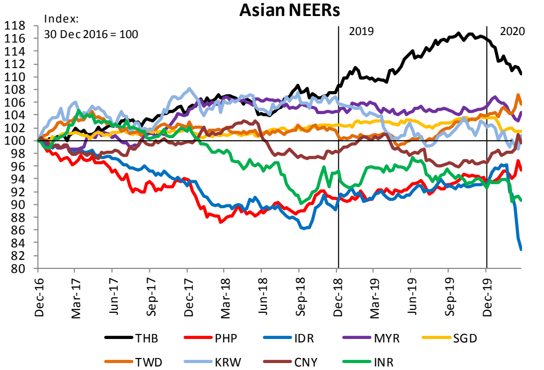












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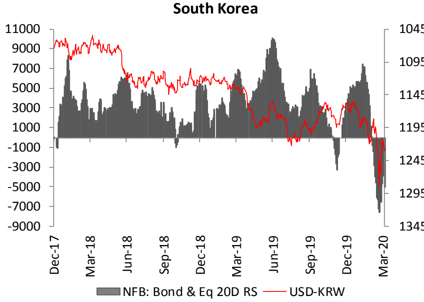
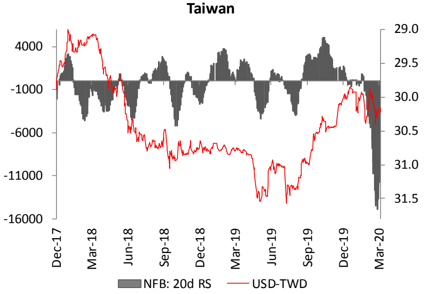
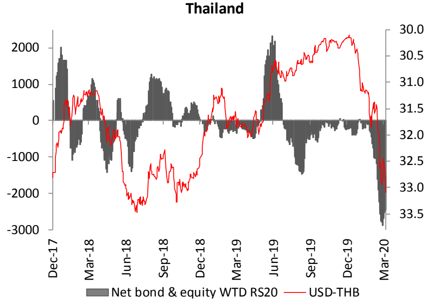
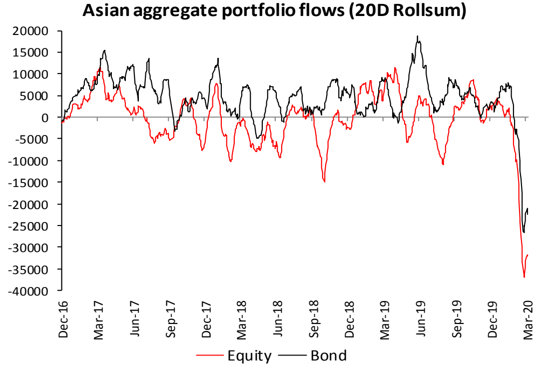
Unprecedented portfolio outflows from Asia

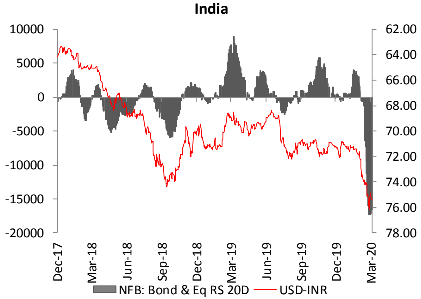
- Portfolio outflows deepened to an extent worse than the 2008/09 GFC, with the South Asian economies being particularly impacted by on both the bond and equity fronts. Heavy equity outflows noted in Taiwan, although South Korea is comparatively unscathed for now. Nevertheless, the outflow momentum may have reached a natural limit. Still a negative weight on the Asian currencies.

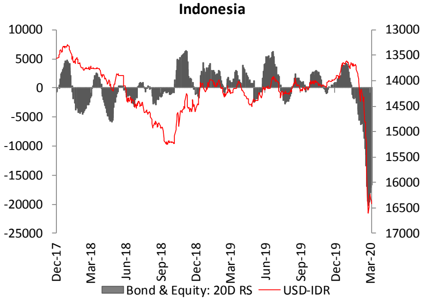


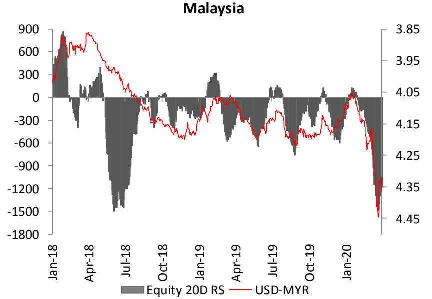


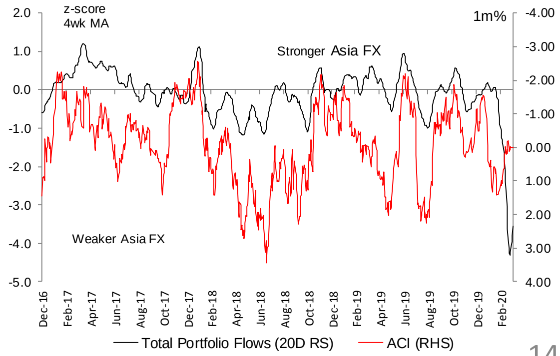












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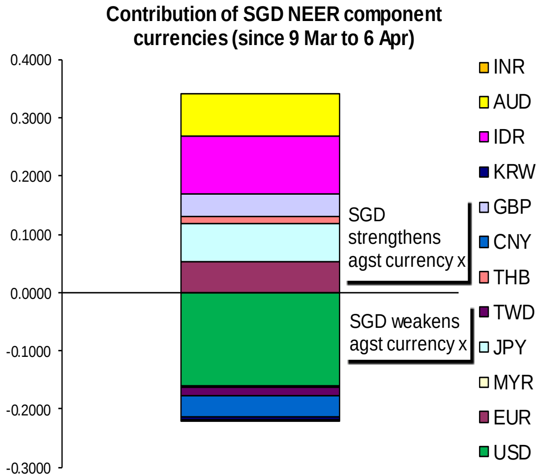
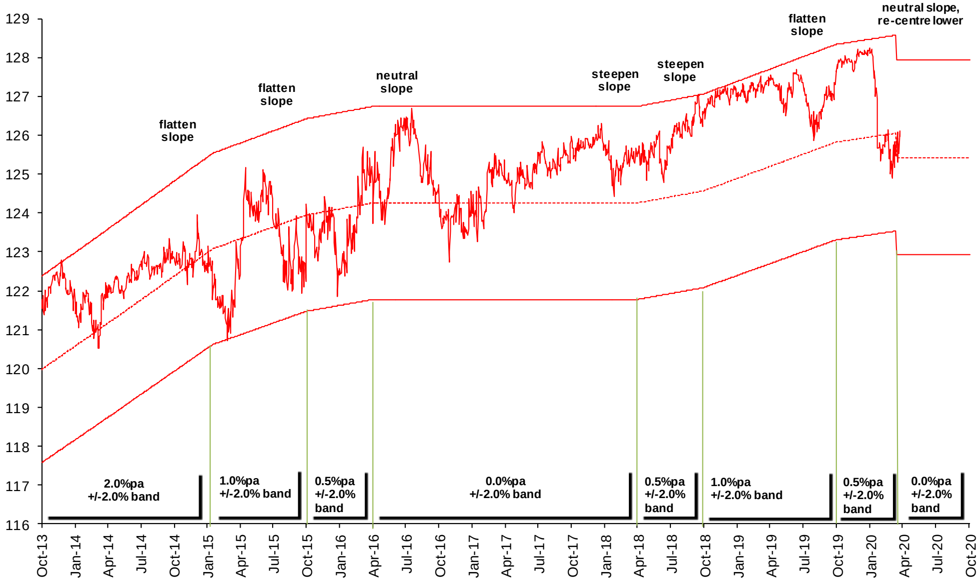
SGD NEER: Supported north of the new parity level

- The MAS reduced the slope of the policy band to neutral, and re-centred the policy band at the prevailing SGD NEER level, which is slightly lower than old parity level. The messaging surrounding the re-centre is less explicit than expected, providing some support for the SGD NEER overall. This suggest that MAS prizes a stable monetary policy, and is not inclined to see the SGD NEER sink to the bottom of the revised band. Details in [FX Viewpoint](), 30 March.
- The SGD NEER ranged between +0.20% to +0.60% above the revised parity level, with recent levels near the top end of the range. This suggest limited room for SGD appreciation. This translates to a supported USD-SGD amid the firmer USD environment.





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