Asia FX Update:

Sino-US tensions back to the fore

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Global Treasury

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Asian FX Key Themes

- The fundamental picture on the macro front have improved (p. 3-5, 7-8). In fact, it has arguably turned further south, with a number of Asian central banks suggesting further downside risks to their current, already-downgraded growth forecast. Nevertheless, global risk sentiment remains buoyant in the short term (p. 10), with investors seemingly happy to overlook worrying epidemiological developments in favour of the ongoing re-opening of economies (p. 6). Asian govie yields, especially those of low-yielders, have compressed significantly (p. 9). Further declines from here may be a slow grind. Meanwhile, portfolio outflow momentum has moderated significantly across Asia, with some countries nudging into net inflow momentum. Nevertheless, much of this is due to a pause in outflows, rather than an explicit inflow from foreigners (p. 14-15).

- **Summary of research view**: The environment may be turning harsher for the Asian currencies this week, with the USD downtrend somewhat arrested and Sino-US headlines back in the front pages (p. 12). Thus, we suspect that most USD-Asia pairs have seen its near term bottom, and may gradually ease higher from here. In that context, we are somewhat skeptical of the ongoing outperformance of the TWD (p. 13). Structurally, the view has not shifted. We continue to expect the downward macro spiral to favour the USD against the cyclicals and Asian currencies (p. 11). In Singapore, the downside risks to the current growth forecast is non-negligible. If these risks continue to materialize, the SGD NEER may have to adjust further to accommodate (p. 16).

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Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
China	↔/↑	↓	A war of words over the virus outbreak put Sino-US tensions back on the front page, and that may keep the USD-CNY and USD-CNH buoyant for now. The scheduled resumption in the Chinese political calendar further suggests a return to normalcy. Apr official and Caixin PMIs continued to show normalization, supported by domestic demand. External factors still a negative, as highlighted by the weak export orders component. Going forward, the hit from the lacklustre global demand will only get increasingly visible. Expect further policy support both on the fiscal and monetary fronts. March data in China was mixed, with industrial production above expectations (-1.1% yoy vs mkt: -6.2% yoy) but retail sales was weaker than expected (-15.8% yoy vs. mkt: -10.0% yoy). Exports also saw a less than expected decline of -6.6% yoy. 1Q GDP at -6.8% yoy vs. expected -6.0% yoy. This series of measures reinforce the idea of increased counter-cyclical easing by the PBOC. Year-to-date industrial profits out to Feb at -38.3% yoy. Mar CPI prints softer than expected at 4.3% yoy, while the PPI prints move deeper into deflationary territory.
S. Korea	↔/↓	↔/↓	BOK held rates unchanged in its scheduled April meeting, saving bullets for potentially more stressed needs later. Even as market stress has eased considerably, the Korean economy is definitely not out of the woods. FY2020 growth may miss target, and a growth downgrade by the BOK is expected in May. Man. PMI dipped for the fourth consecutive month in April to 41.6, from 44.2. Apr exports slumped -24.3% yoy, while imports also contracted -15.9% yoy. Apr core and headline CPI came in at 0.1% yoy and 0.3% yoy, both undershooting estimates. Expect the rising 55-day MA to provide support for the USD-KRW.
Taiwan	↔/↓	↔/↓	FY2020 growth forecast cut to 1.3-1.8% yoy this week, a second revision lower after the first revision in February. Preliminary 1Q GDP growth at 1.54% yoy, softer than the estimated 1.70% yoy. Nevertheless, the Taiwanese economy should be relatively less impacted compared to other Asian economies, leaving the TWD to consistently outperform most Asian counterparts. Apr man. PMI slumped to 42.2, but still relatively supported compared to other Asian economies. Mar exports printed -0.60% yoy, less than the expected -2.2% yoy. Mar headline CPI flat, but the core measure grew 0.34% yoy.

Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
Singapore	↔/↑	↓	The extension of the CB restrictions is expected to put further negative pressure on the economy, with MAS and relevant ministries highlighting the possibility of deeper contraction from current forecasts. If the economic outlook proves to be more downbeat compared to the current official forecast, do not rule out the possibility that the SGD NEER will need to see more adjustment lower. Advanced 1Q 2020 growth saw a -2.2% contraction, do not rule out deeper pain in 2Q. Mar NODX surprised heavily on the upside, printing 17.6% yoy vs. mkt. expectation of -8.0% yoy. Mar headline and core CPI printed 0.0% yoy and -0.2% yoy respectively, mixed to firmer than expected. Apr official PMI prints slipped further, but remains more supported than estimates. Overall, it seems clear that the impact of the COVID-19 crisis have yet to be reflected in the March data-prints. We do not expect similar data for April to be as sanguine.
Thailand	↔/↓	↔/↓	BOT expects the tourism slowdown and narrowing CA surplus to weigh on the THB, against the recent trend in the USD-THB. Official growth forecast downgraded heavily to -5.3% yoy for FY2020. Apr man. PMI slumped even further to 36.8 from 46.7 prior. Mar custom exports grew at 4.17% yoy, defying estimates of a -5.80% decline, perhaps attributable to the weak THB. Imports also grew 7.25% yoy. Apr headline CPI fell further into deflationary territory at -2.99% yoy, with core CPI at +0.41% yoy.
Malaysia	↔	↓	BNM cuts its policy rate by 50 bps, in line with expectation but not our house view. It appears that the BNM is putting priority on growth at this stage. Nevertheless, the view seems to be that 1H will take most of the economic damage. Going forward, the threshold for further cuts may be significantly higher. Further softness in the crude oil complex adds pressure on the MYR and the fiscal situation, while extended MCO regulations continue to weigh on the economy. Mar CPI stood at -0.2% yoy, against estimates of -0.1% yoy. Apr man. PMI plunged to 31.3, from 48.4 prior, highlighting the depth of the economic challenge in the near term. Mar exports declined by a less than expected -4.70% yoy.

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Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
India	↔	↔/↓	The underlying threat to the economy may be the vast masses of unemployed in the informal and daily-wage sectors. The RBI cut policy rates in Mar by 75 bps to 4.40% in an emergency meeting on 27 Mar, and will remain on an accommodative stance. Bond market continued to rally on the back of RBI purchases in the secondary market, and also suspected RBI participation in the primary market. Slump in crude prices may benefit the INR, but likely overwhelmed by larger drivers at play. Expect the USD-INR to search higher in line with USD-Asia. Apr man. PMI sunk to 27.4, from 51.8 prior. Mar exports contracted -34.6% yoy, compared to 2.9% yoy.
Indonesia	↔/↓	↔	BI held rates unchanged at 4.50% on 14 April, but cut RRR to release liquidity. Threshold for further cuts may now be higher, with the BI seemingly reluctant to risk USD-IDR upside. BI sees FY2020 growth to be under the official forecast of 2.3% yoy. 1Q GDP at 2.97% yoy, with further softening expected in 2Q and 3Q. Fiscal rule to maintain a budget deficit at 3.0% of GDP dropped until 2023, with the deficit expected to be north of 5.0% of GDP this year after increases in fiscal stimulus. Apr headline and core CPI at 2.67% and 2.85% yoy respectively, both marginally softer than expected. Apr man. PMI sunk to 27.5, from 45.3 prior. Marginal decline in March exports, defying estimates of deeper declines.
Philippines	↔/↓	NA	BSP reduced its policy rate by 50 bps to 2.75% in an unscheduled rate cut on 16 April. Cumulative cuts in policy rate and RRR reach 125 bps and 200 bps respectively. 4Q GDP in-line with expectations at 6.4% yoy. Apr CPI firmer than expected at 2.2% yoy, firmer than expected. Apr man. PMI sunk further to 31.6, from 39.7 prior. Feb exports grew by a softer than expected 2.8% yoy. Jan remittances grew by a stronger than expected 6.6% yoy.

COVID-19 watch: Next wave in ex-Asia EM countries?

- Total confirmed cases are north of 3.7m, with the latest wave of cases coming in countries like Russia, Brazil and Saudi Arabia. The growth rates in Europe and North America are gradually slowing.
- Investors continue to draw positivity from headlines on re-opening and vaccines. Epidemiological findings – such as the mutations of the virus – should attract more concern than they currently have from the investors. **Stay vigilant on further spreads of the virus, especially after the relaxation of restrictions in the coming weeks.**
- Charts drawn from the daily [COVID-19 Monitor](). Please refer to the publication for further details.

Chart 5: Growth rate in Europe moderated

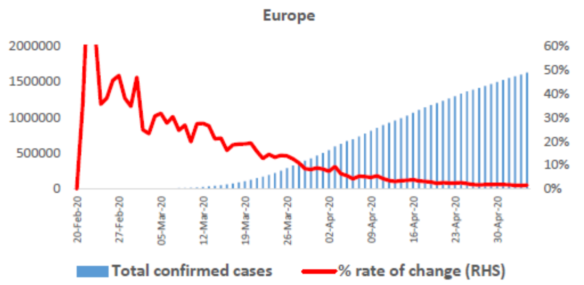


Chart 6: Growth rate in Asia failed to slow down

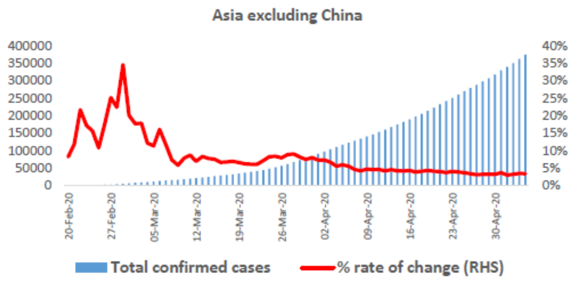


Chart 7: Rate of change in North America slowed further

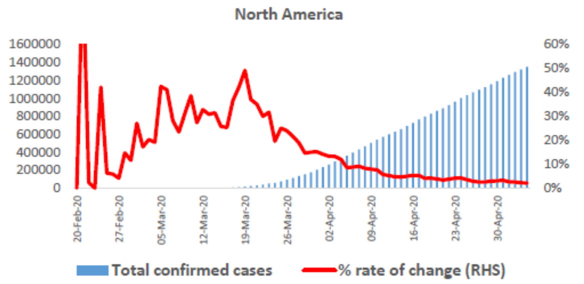
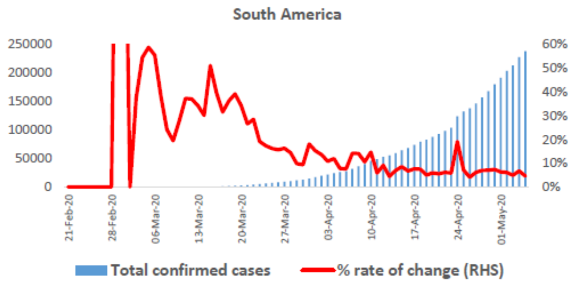


Chart 8: Rate of change in South America remained volatile



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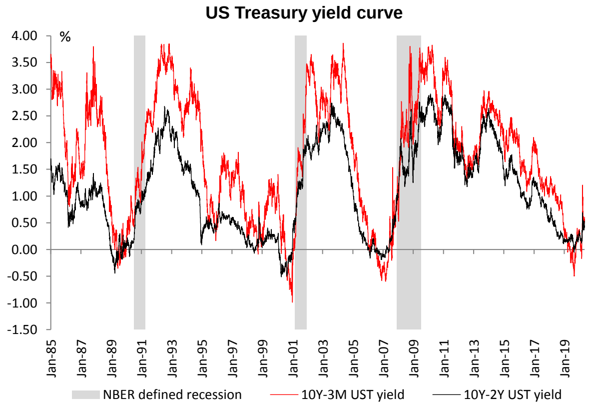
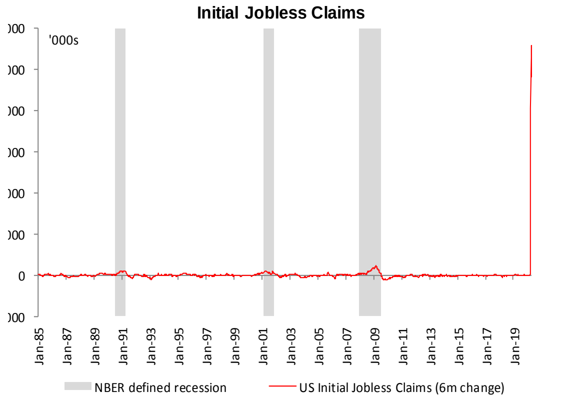
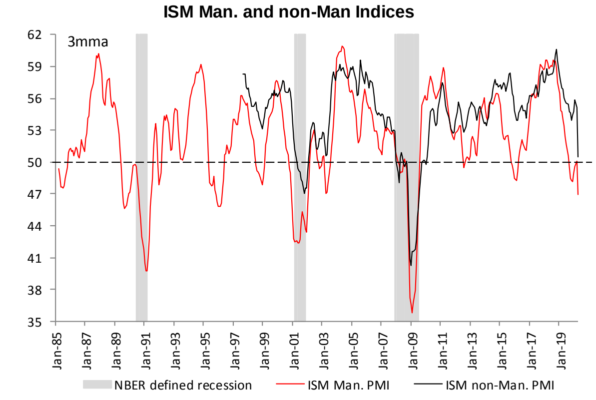
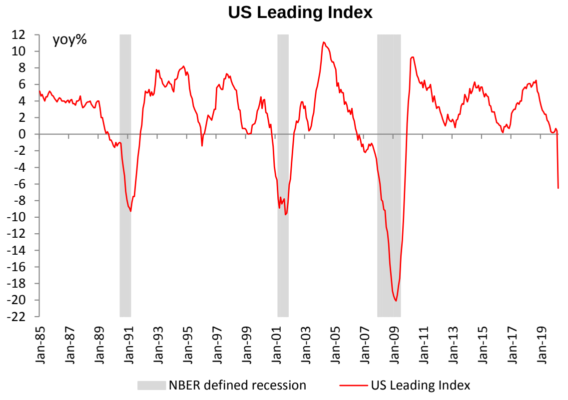
Macro trajectory: Signs of impending US recession

- Macroeconomic indicators are evolving in a fashion that is consistent with an impending US recession.
- The situation is as bad, if not worse in Europe. April man. PMIs are in their 30s, and the composite and services PMIs are in the teens or lower – levels not seen prior. Expect further damage for the already week European South.









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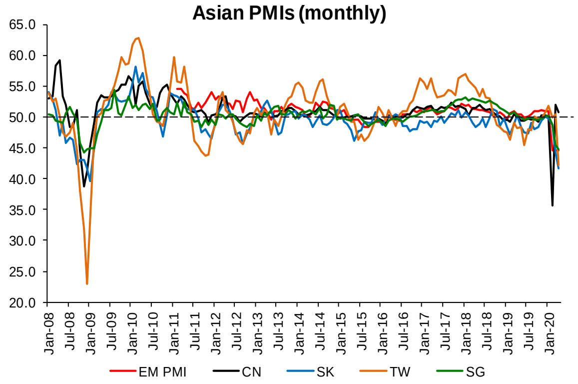
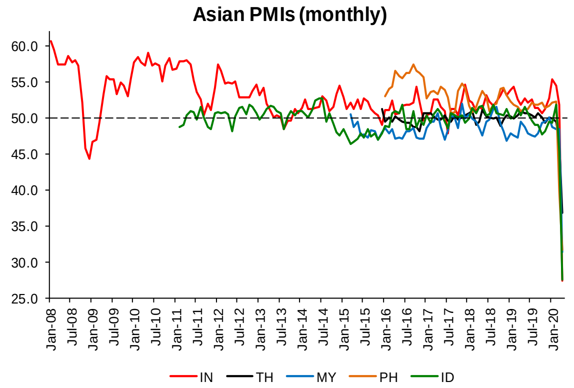
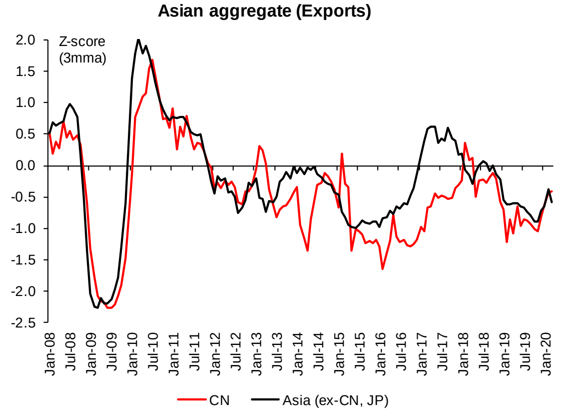
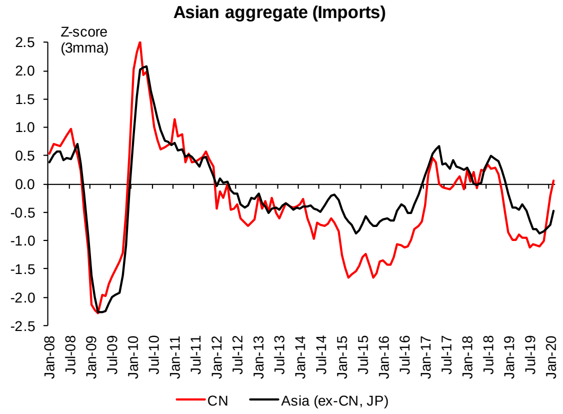
Macro trajectory: Signs of sinking finally showing

- April manufacturing PMIs across Asia are starting to show the slumps reminiscent to the start of the GFC crisis. especially in South Asia. South Asia seems to be taking a larger hit, with the PMIs coming in in the 30s range. The North Asian prints have held up better. The new orders sub-gauge is generally softer than the headline number, suggesting further pain in the coming months.
- Trade prints up to March remains supported in most countries, but if the South Korean April 20-days gauge is any guide, the hit will be coming in April and May.
- **Threat of further growth downgrades beyond the original cuts are material at this stage.**









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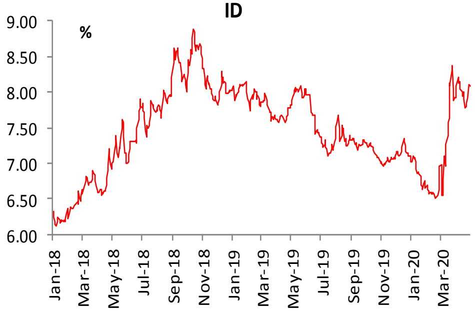
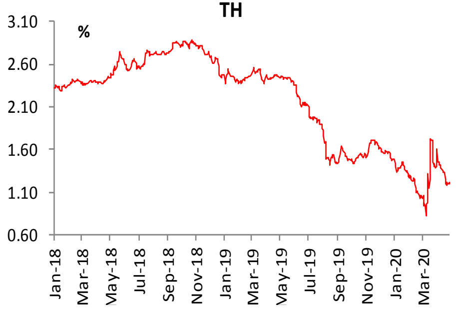
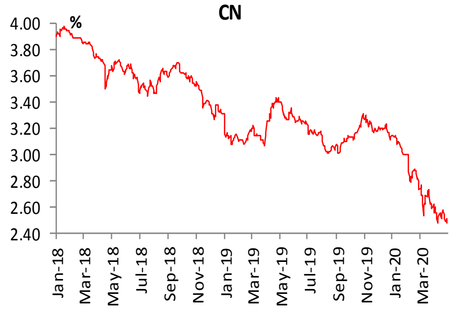
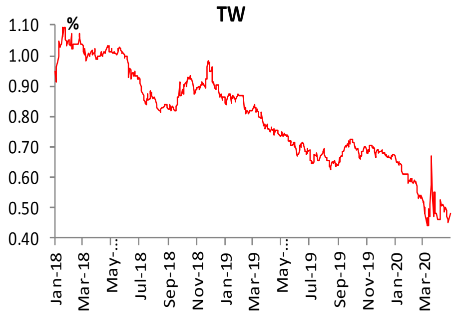
Asian 10y yields: Further moves lower will be a grind

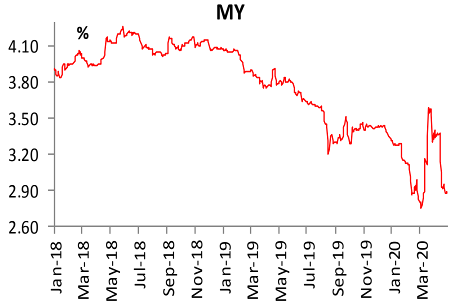
- Aside from Indonesia, where the BI is keeping a lid on rising yields, Asian 10y yields should broadly remain on a downtrend. However, with the low-yielders already depressed levels, the room for further decline may be limited. Expect a slow grind lower from current levels.

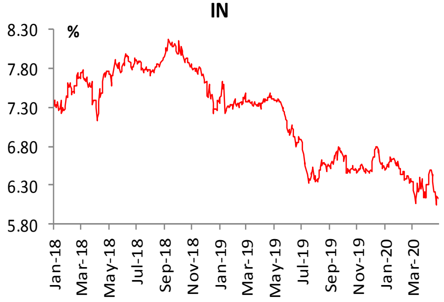


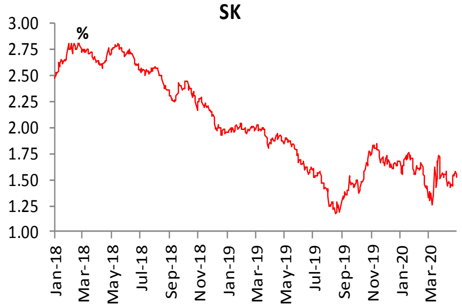


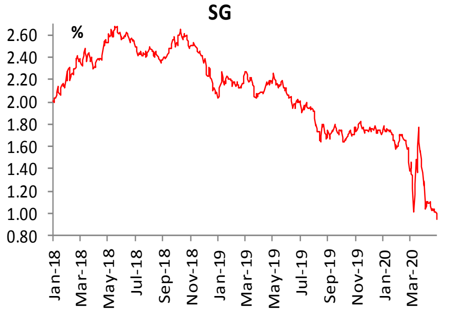












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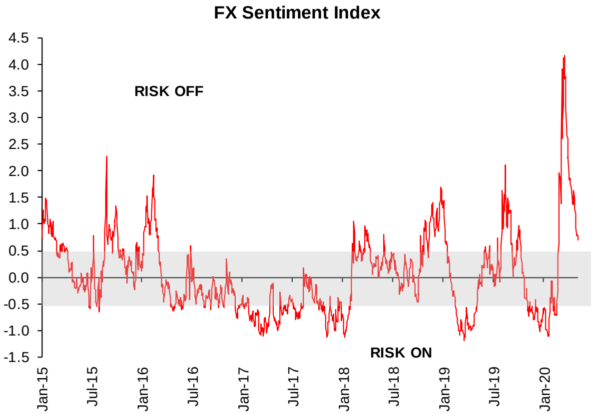
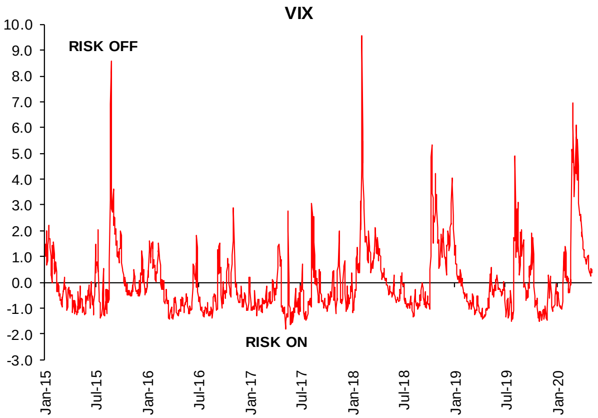
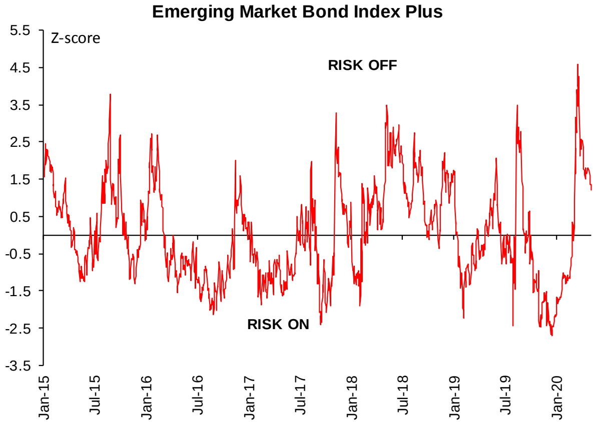
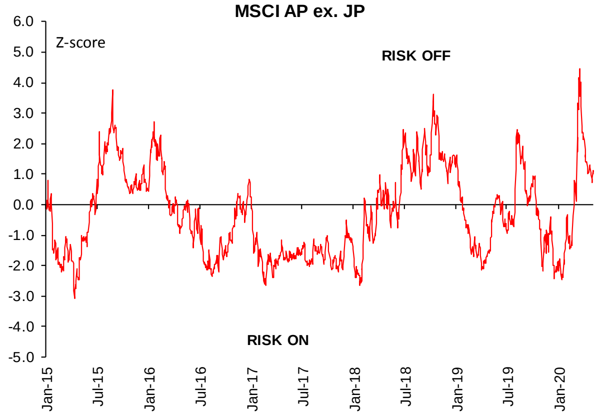
Investor risk appetite improvement stopping at nothing

- The **FX Sentiment Index** (FXSI) has continued to march lower, denoting an improvement in overall risk sentiment. The index is now almost at the threshold of the Risk-Neutral zone.
- **A number of stress points are plain to see** – weak macro data, warnings from central bankers, Sino-US tensions – **but investors appear more than willing to overlook them** in favour of positivity on virus-related headlines.
- We had long been skeptical of this improvement in risk appetite. The fundamentals have yet to change, and we continue to expect a second round worsening in risk sentiment ahead.









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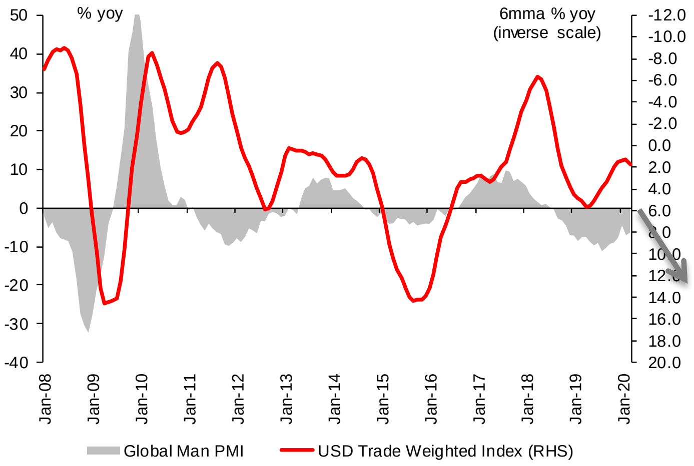
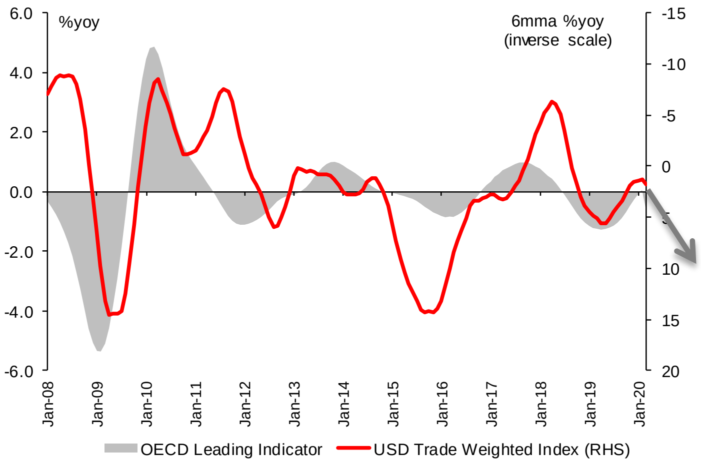
Defensive in the structural horizon – USD safest haven

- The broad USD is typically countercyclical – it tends to strengthen when the global economy is weak. Our macro view is still for further downside in the global economy. High level indicators, such as CLIs and PMIs, should continue to turn depressed in the coming months.
- **This impending global recession remains the main reason why we prefer to back in the USD in a multi-week time horizon**. This also suggests a negative outlook in the Asian and cyclical currencies.



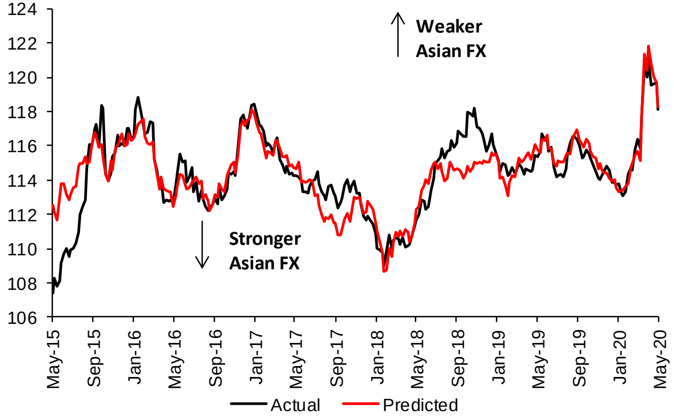


Source: Bloomberg, OECD, OCBC

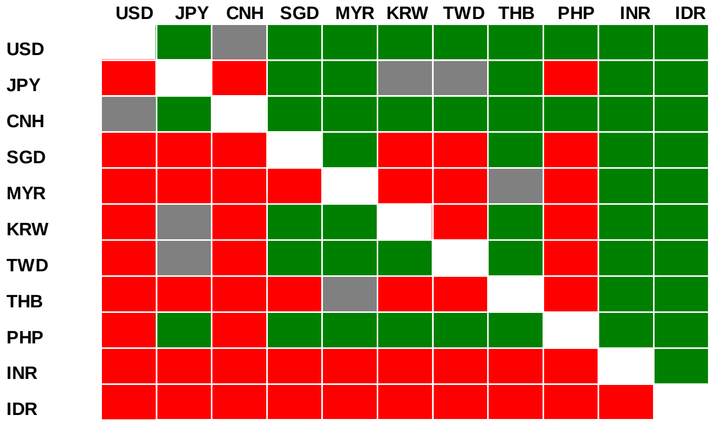
Asia currencies still remarkably resilient…

- … but the longer term fundamentals have not changed. We continue to see the macro trajectory to be heavy. Central banks like the BI and MAS have highlighted further downside risks from the original round of growth downgrades. Thus, the structural outlook for a higher USD-Asia is effectively unchanged.
- The Asian currencies have reacted well to near term improvement in risk sentiment in the near term, and have stayed supported against the USD. **Nevertheless, the environment may be shifting against the Asian currencies** – with Sino-US tensions back on the forefront, and the USD recovering against the G-10 currencies – **most USD-Asia pairs should have limited downside from current levels. We expect USD-Asia to ease higher from here.**

Asian Currency Index (ACI) implied valuation



Asian FX Short-term Heat Map



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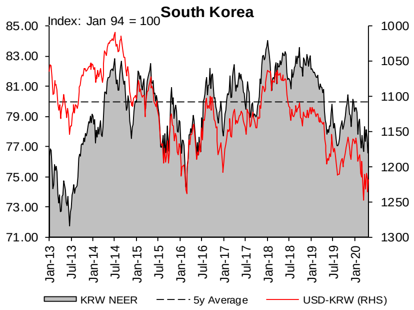
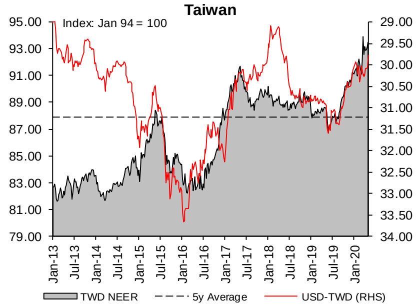
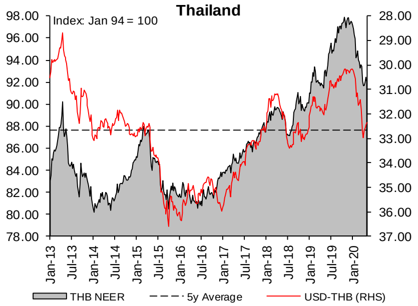
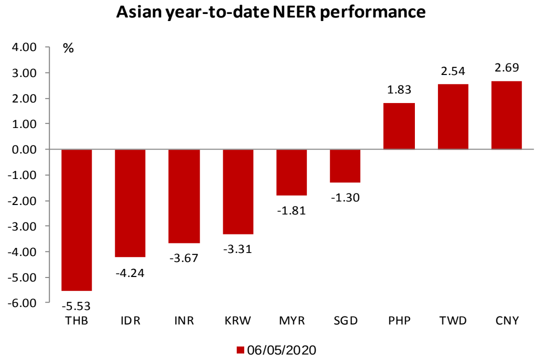
NEERs: Concern over TWD on NEER basis?

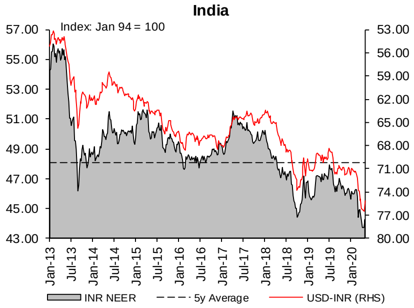
- Although Taiwan's management of the virus situation is first in class and its economic hit may be the lightest, the ongoing outperformance in the TWD should warrant some concern. On the NEER basis, the TWD also looks elevated against historical norms. We should not rule out some retracement in the TWD in the near term.

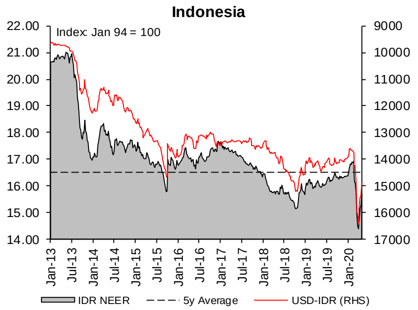


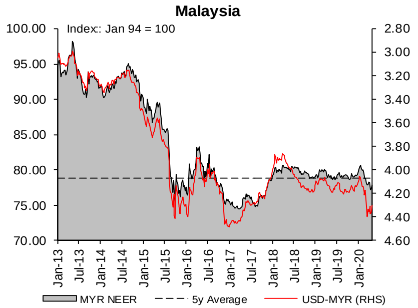


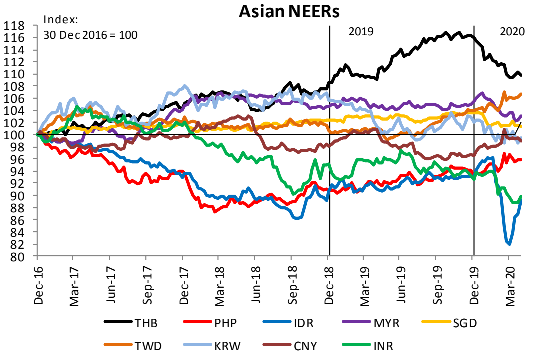






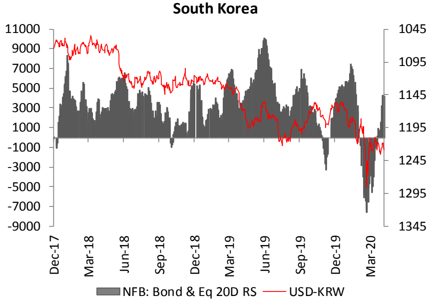


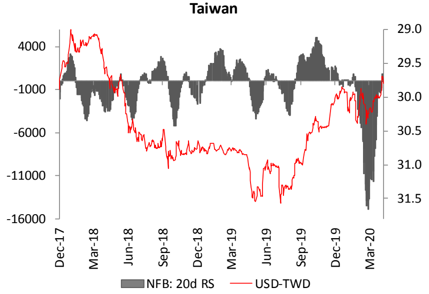


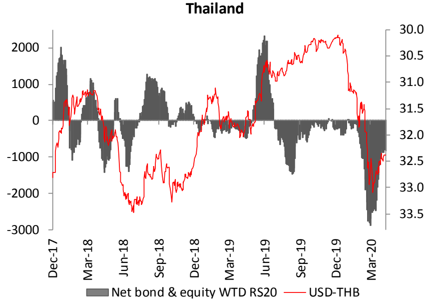


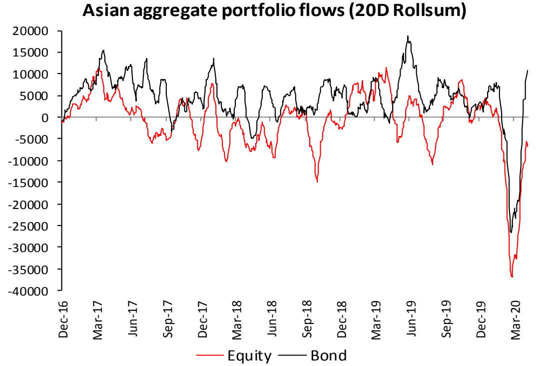
Improving flow environment, but not outright positive (1)

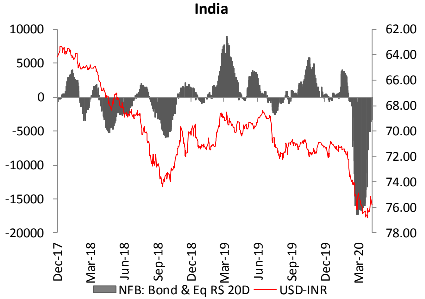
- The Asian portfolio flows environment continue to see improvement, with the likes of South Korea, Taiwan and Indonesia now nudging into a net inflow situation on a rolling 20-day basis. Moderation in outflows from India is still also ongoing. However, the moderation in outflows from Thailand and Malaysia has effectively stalled over the past week. Nevertheless, this tells only half the picture…

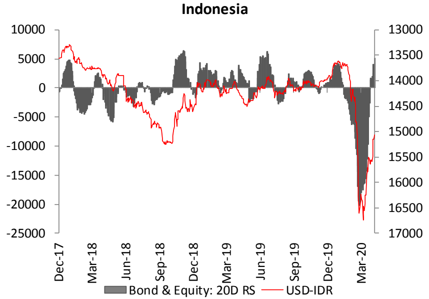


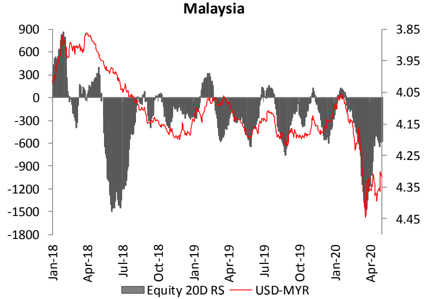


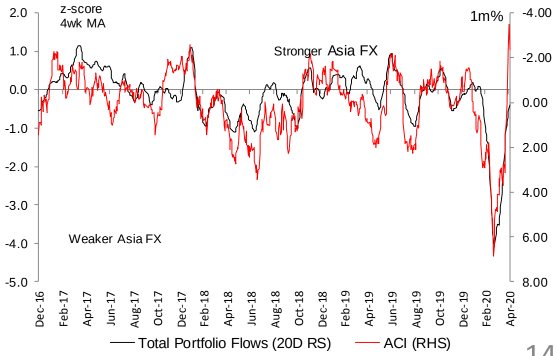












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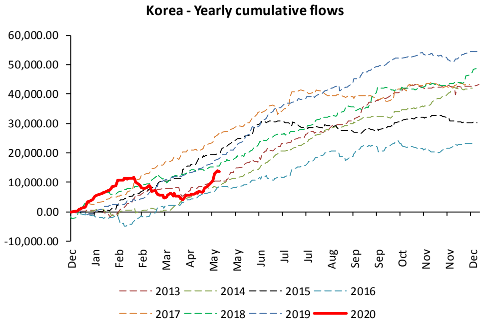
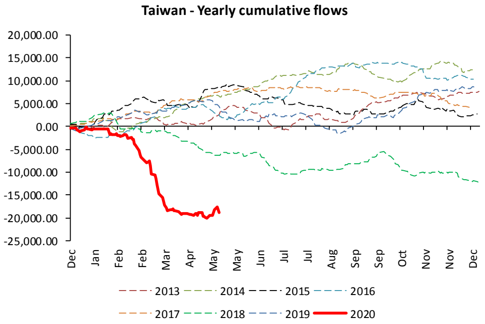
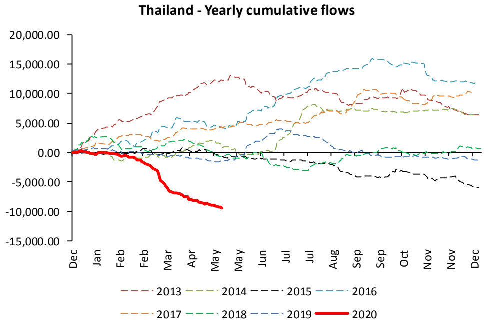
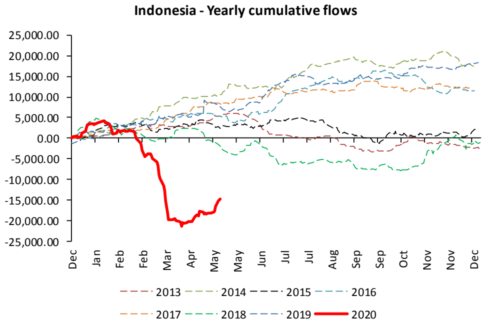
Improving flow environment, but not outright positive (2)

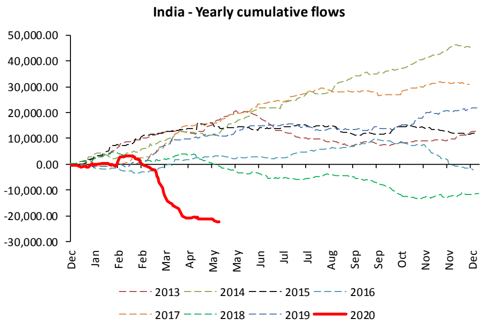
- … because much of this improvement is due to a slowing down of outflows, rather an actual inflows (save for Korea and Indonesia). Anecdotally, government bond auctions in Indonesia have also not seen very good response – requiring the BI to take up green shoe option to absorb government bonds.

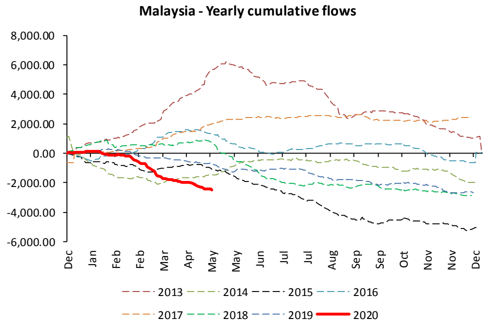












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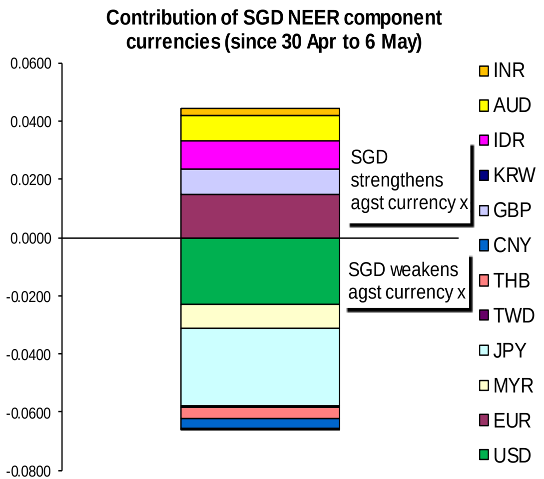
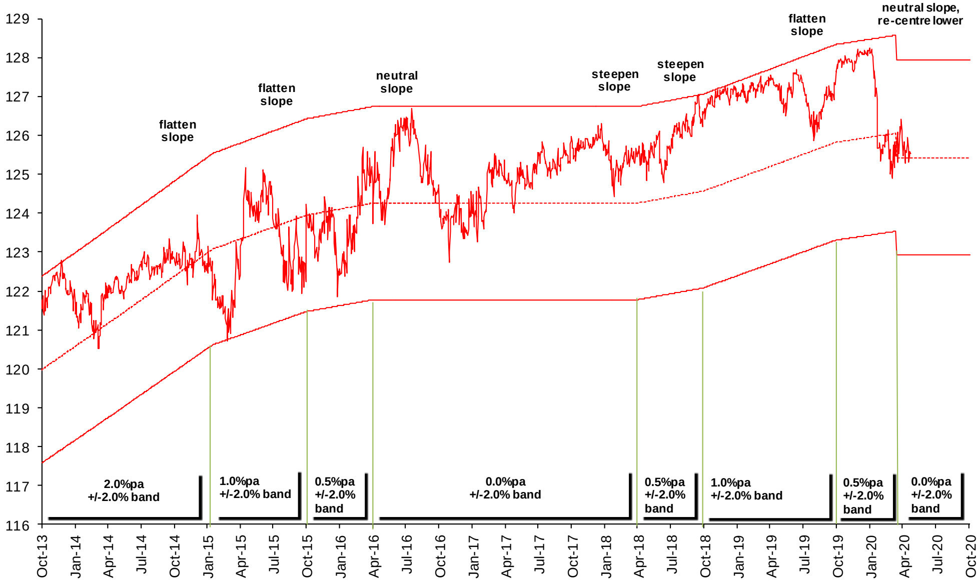
SGD NEER: Southbound to a new lower range?

- Recent rhetoric from the MAS and other official sources seem to suggest that there is non-negligible downside risks to the current -4.0% to -1.0% GDP growth forecast. Indeed, the extension of the CB measures may have resulted in a greater than expected economic hit. If that is the case, the Jan to late-March decline in the SGD NEER – which was thought to be congruent to the growth outlook in late March – may no longer be sufficient amid a worsened outlook.
- At this juncture, **while we still do not see a dip towards the bottom end of the policy range as the base case, the SGD NEER may need to spend more time around the parity to -0.50% below parity area to account for increased uncertainty**. This should imply some implicit buoyancy for the USD-SGD in the coming weeks.





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