Asia FX Update:
Heavy in the mid-term

13 Mar 2020

Treasury Research & Strategy
Global Treasury

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Asian FX Key Themes

- Asian asset markets face near term market panic (p. 11) and longer term growth concerns on one hand, and central bank easing action on the other (p. 6). Central bank action may support the Asian govies (p. 9-10), but may have little impact on FX (p. 12). Expect Asian FX to be more driven by portfolio outflows (p. 14) from the market panic, and growth downgrades. It is not a stretch to expect the ongoing spread of COVID-19 (p. 6) to crimp global trade and raise recession risks. Selected macro-economic indicators are already starting to exhibit weakness (p 3-5, 7). Thus, the growth downgrade cycle is probably not ending yet.

- **Summary of research view**: Expect Asian FX to be under considerable pressure both in the short- and mid-term, especially with the broad USD regaining its anti-cyclical properties. With the epicentre of the crisis no longer in China and ample room for policy support, expect the RMB to outperform the rest of the Asian FX (p. 13). Near term, expect the likes of IDR and INR to underperform on the back of excessive portfolio outflows (p. 14). Further out, currencies with most exposure to the crisis, like the KRW, SGD (due to trade), and THB (due to tourism) may underperform peers. As for the SGD NEER, we expect further downward pressure ahead, but we will not be panicking at current levels (p. 15).

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Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
China	↔/↑	↓	The COVID-19 situation now appears under control within China, with no signs of worsening after the factories reopen. Attention shifting to other countries should support Chinese assets going forward. Expect RMB complex to remain supported. The PBOC will keep the monetary taps loose, with further MLF and LPR cuts still on the table. Negative economic outcomes for 1Q 2020 are already coming through, with Feb official man./non-man. PMI coming in at an unprecedented 35.7 and 29.6 respectively. The Caixin man./svcs PMIs also came in at an equally weak at 40.3 and 26.5 respectively. 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. 4Q real GDP growth at 6.0% yoy, but nominal growth reaccelerated to 9.63% yoy from 7.57% yoy. Feb CPI prints remain firm, but PPI moves into deflationary territory.
S. Korea	↑	↓	The USD-KRW fluctuates on either side of 1200.00, pending COVID-19 headlines. Nevertheless, expect the KRW to underperform the RMB for now. The BOK surprised by remaining unchanged in February, presumably to protect policy room. However, with the Fed rate cut, the BOK may be compelled to follow suit. 4Q 2019 GDP came in at 2.3% yoy. Feb man. PMI dipped again to 48.7, from 49.8. Feb exports grew 4.5% yoy, against Jan's 6.1% yoy decline. Imports also grew 1.4% yoy. Feb core and headline CPI came in at 0.6% yoy and 1.1% yoy, softer than previous months on COVID-19 impact.
Taiwan	↔/↑	↓	TWD outperforming Asian peers amid better control over the country's virus situation and firmer long term prospects. However, ongoing equity outflows may weigh going forward. The CBC is static at 1.375% in Dec, with minutes of the meeting showing optimism over growth. Despite the firmer macro footing in Taiwan, some rumblings for CBC rate cut are also under way. 4Q GDP growth revised lower marginally to 3.31% yoy, from 3.38% yoy. Feb PMI dipped back into contractionary zone at 49.9, from 51.8 prior. 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	↑	↓	4Q GDP revised higher to 1.00% yoy (from 0.80% yoy), and FY2019 growth at 0.7% yoy. Investors will however focus more on the 2020 growth downgrade from 0.50-2.50% to -0.50%-1.5% yoy due to COVID-19. With the attention of COVID-19 shifting out of Asia, expect the SGD NEER to firm from the depths seen in the previous weeks, and probably settle south of the parity level. Not much impetus to push the SGD NEER to the top half of the band when expectations of MAS easing in April swirls. Jan NODX contracted by a less than expected -3.3% yoy (vs -3.7% consensus). Jan headline and core CPI printed +0.8% yoy and +0.3% yoy respectively, both softer than expected. Big miss in the core print may highlight weakness in the underlying economy. Jan IP grew 3.4% yoy, against estimates of -3.4% yoy.
Thailand	↔/↑	↔/↓	The THB is settling down into a range with 31.50 as a locus after underperformance at the start of the year. However, the THB may still be on a negative bias on the tourism hit, which may take longer to recover than the COVID-19 spread itself. 4Q GDP at 1.60% yoy, softer than expected, but FY2019 growth in line with expectations at 2.40% yoy. Growth may be hit hard by COVID-19 this year due to its reliance on the tourism sector, leading to the BOT to cut its policy rate to an unprecedented 1.00%. Developments in the COVID-19 front to dictate near-term BOT decisions. Feb man. PMI dipped further to 49.5, compared to 49.9 prior. Jan custom exports grew 3.35%, against an expectation of -2.90% yoy. Custom imports fell by a less than expected -7.86% yoy, rather than the expected -16.45% yoy. Feb headline/core CPI at 0.74% yoy and 0.58% yoy respectively.
Malaysia	↑	↑	Political intrigue will once again dominate investors' minds, weighing on the MYR and MGS bonds in the near term. 4Q GDP missed heavily at 3.60% yoy, against an expected 4.10% yoy. FY2019 also missed expectations at 4.30% 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. Jan CPI stood at 1.6% yoy, marginally softer than expectations. Jan man. PMI faded back into contraction zone at 48.8, from 50.0 prior. Jan exports contracted at -1.5% yoy (mkt: -1.6% yoy), while imports also shrunk -2.4% yoy.

Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
India	↑	↓	Relatively unscathed by the COVID-19 episode, but equity outflows have caught up with India on global risk-off tone and domestic issues (Yes Bank failure). Nevertheless, excessive upside in the USD-INR is curtailed by the weak USD and the slumping crude complex. The RBI held policy rates unchanged in February, but easing is still achieved by depressing back-end govie yields through OMOs. Expect the INR to be sideways for now. Price pressures continue to increase, with Jan headline CPI coming in at 7.59% yoy, but the latest GDP growth slowed to 4.5% yoy in 3Q2019 – a classic case of stagflation. Dec industrial production contracted a marginal -0.30% yoy. Jan man. PMI continued to push higher to 55.3, from 52.7 prior. Dec trade deficit in line with expectations.
Indonesia	↔/↑	↔/↑	BI cut policy rate by 25 bps to 4.75% in its February meeting, and sounded confident of a weak V-shaped recovery in the Indonesian economy. This confidence is probably all but shattered in the 2 weeks since. Expect the BI to continue being in the easing mode. IDR currently weighed on by bond outflows amid risk off sentiment, and is playing catch up to the declines seen by Asian counterparts. 4Q'19 GDP surprised on the downside at 4.97% yoy, with exports and investment being the main drags. Jan exports contracted by -3.71% yoy, weaker than expected. Jan trade deficit widened again, after an improvement in Dec. Feb headline CPI at 2.98% yoy, marginally better than expected, but the core gauge continues to underperform. Feb man. PMI firmed to 51.9 from 49.3 prior.
Philippines	↔/↑	NA	The BSP reduced its policy rate to 3.75% in its February meeting as expected, with the BSP said to be readying the next round of cuts in relation to the surprise Fed rate cut. 4Q GDP in-line with expectations at 6.4% yoy. Feb CPI softer than expected at 2.6% yoy. Dec exports grew 21.4% yoy, significantly outperforming expectations, while imports contract 7.6% yoy. Feb man. PMI bucked trend in Asia to improve to 52.1, from 51.7 prior. Nov remittances grew 2.0% yoy, weaker than expected.

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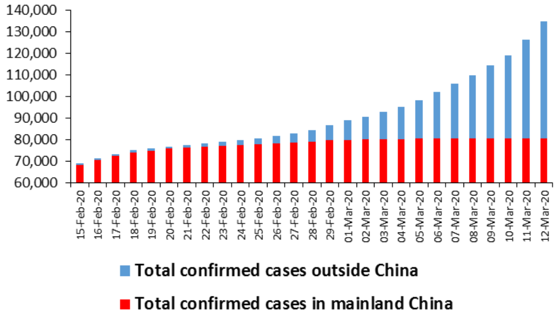
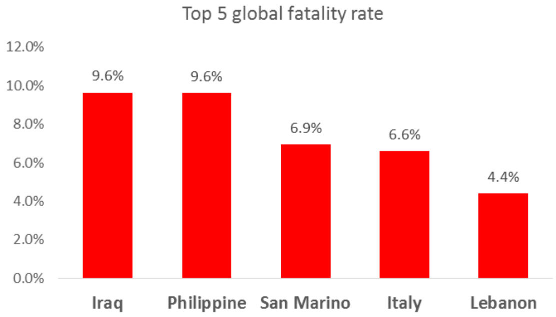
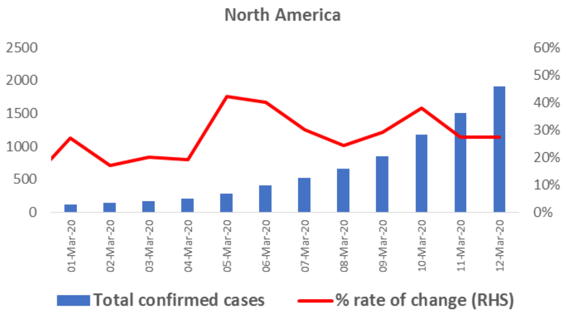
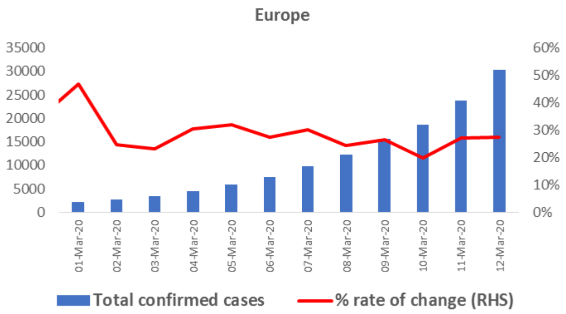
COVID-19 watch: Attention shifts to the global spread

- Within China, the situation is now largely contained, with President Xi feeling comfortable enough to visit Wuhan. Makeshift hospitals are also being progressively closed.
- However, the total confirmed cases outside China has exceeded 45,000, with a 3.2% fatality rate (6.6% in Italy). Italy is basically on lockdown mode.
- **COVID-19 now is no longer an Asian-specific negative, but the subsequent deterioration in global risk sentiment may not do Asian currencies any favours.**
- For further insights, please refer to the daily [COVID-19 Monitor](), now covering the global spread.



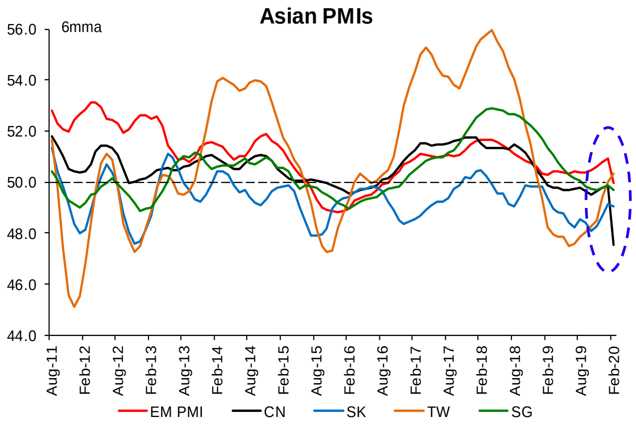


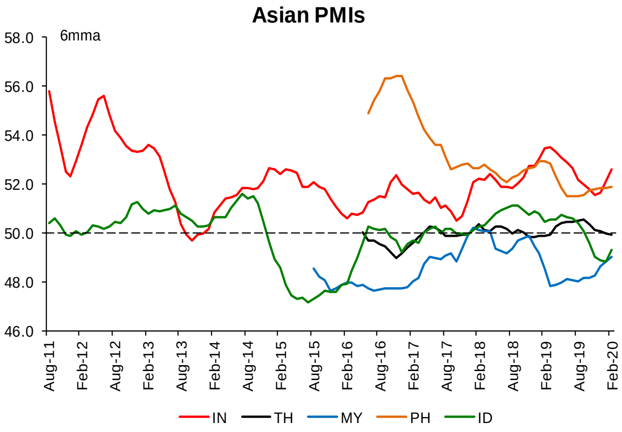


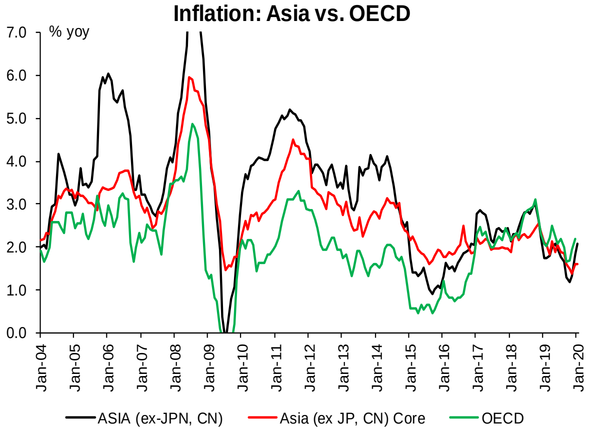


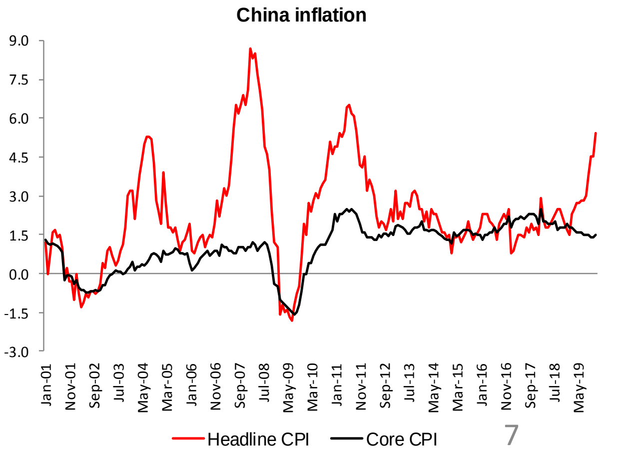
Selected economic indicators starting to show the hit

- The sticker shock is the official and Caixin PMIs in China. On both the manufacturing and services gauges, the outcome has slumped to rarely seen levels. PMIs in the rest of Asia remain largely resilient, but we expect the hit to come in their March numbers.
- Majority of data-prints are still not fully showing the impact of COVID-19. **Over the coming 4-6 weeks, expect indicators to start reflecting the weakness, leading to some structural negatives for the Asian currencies.**









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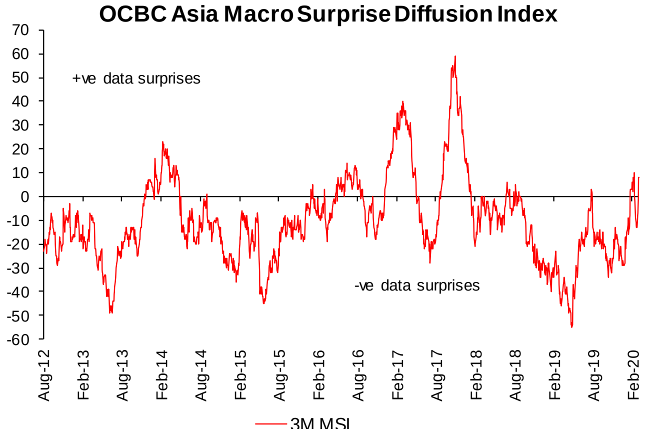
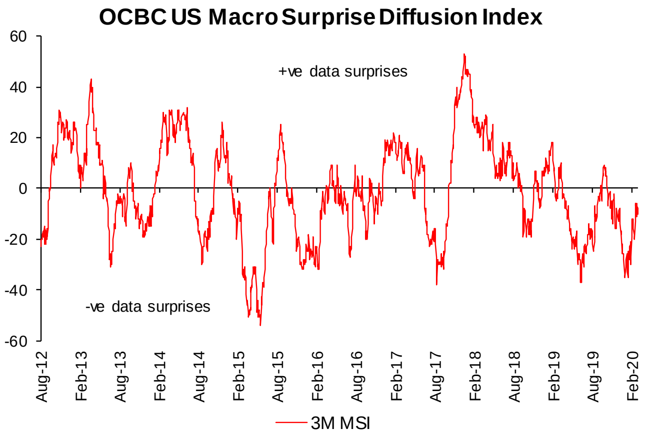
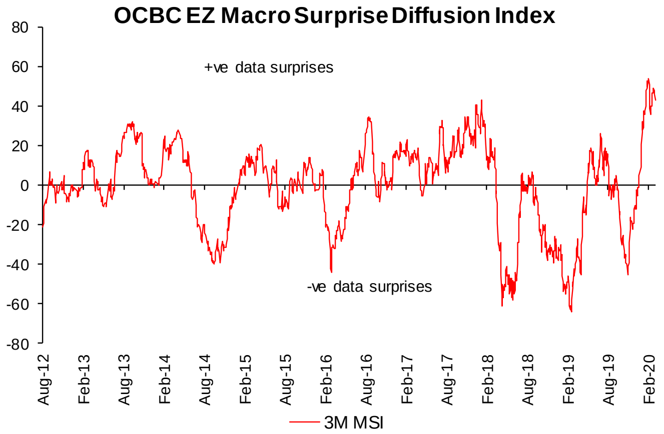
Macro outcomes take a back seat for now…

- …with the focus now on market panic and the slew of central bank and government support actions. The Fed, BOE, BOC and RBA have all cut policy rates, and injected liquidity into the stressed system. The BOJ and ECB are the hold-outs in terms of rate cuts. Fiscal stimulus packages have also be announced across the way. A question worth keeping in mind for now, is whether these actions will be sufficient to arrest the risk-off sentiment, and if not, what else will.







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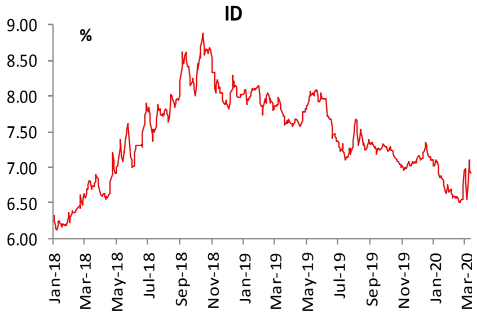
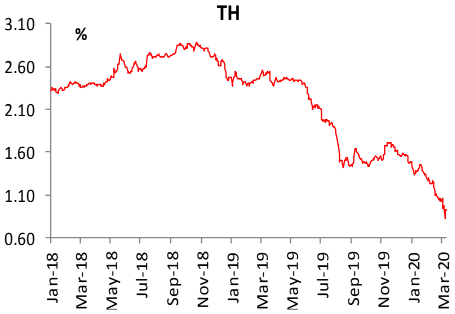
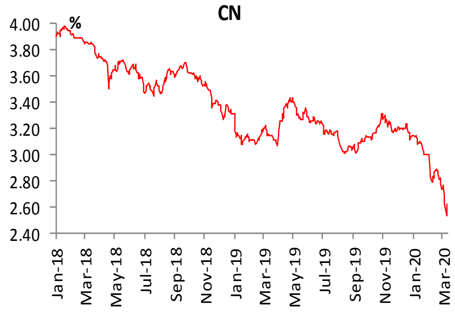
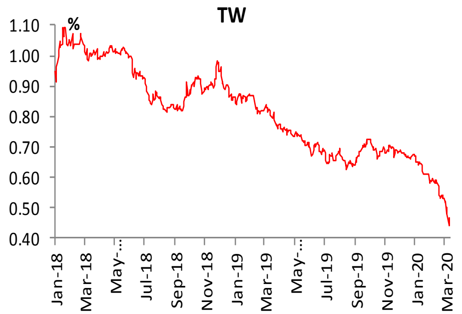
Asian 10y yields: Focus on central bank action

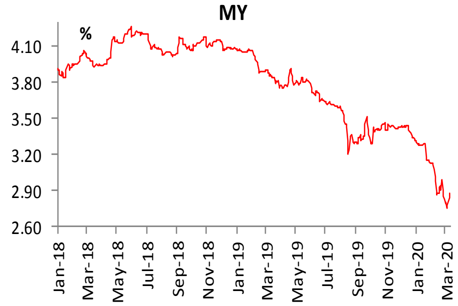
- Near-term panic aside, Asian yields should focus on central bank action. The Fed is likely on the path to zero lower bound again. Even for Asian central banks with less policy room (BOK, BOT), expect them to at least track the Fed to the zero bound. Meanwhile, the central banks with more policy room may be expected to outdo the Fed.

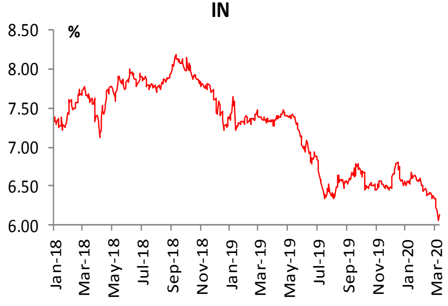


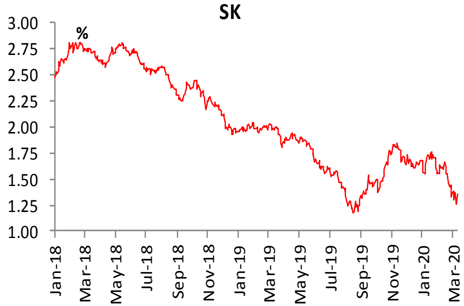


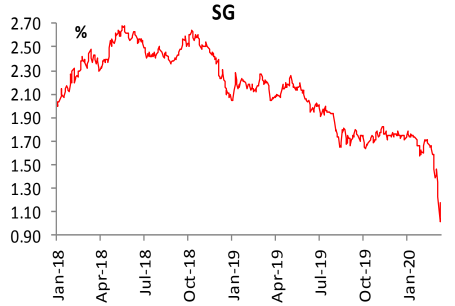












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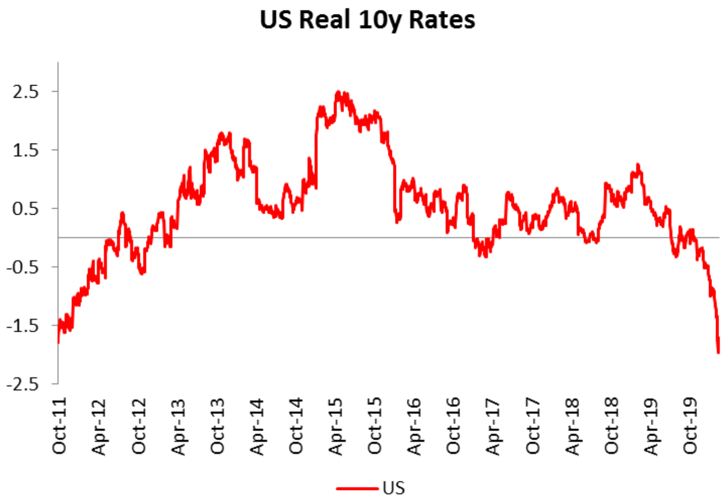
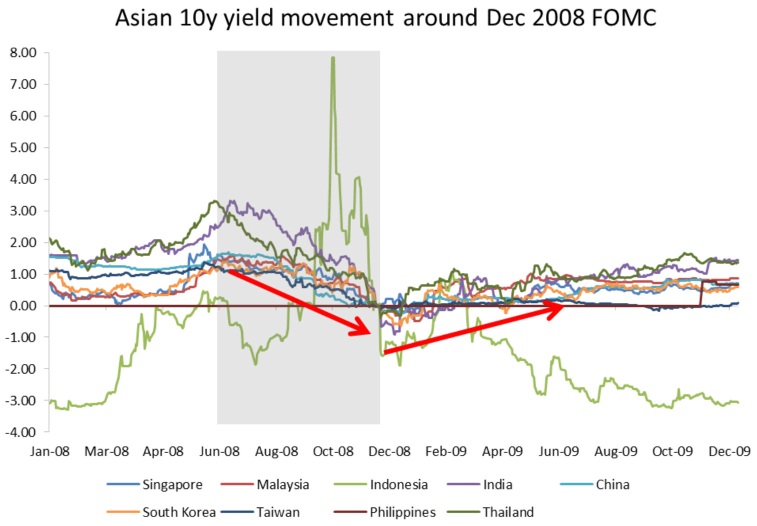
Asian 10y yields: Still more downside room

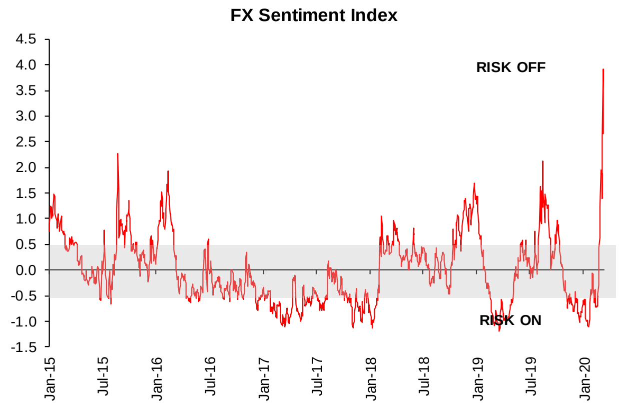
- Despite Asian govie yields being already low, the coordinated monetary easing across global central banks should continue to pressure Asian 10y yields southwards. If history is any guide, the period prior to the Fed going to the zero bound is characterized by the decline in back-end Asian yields. It will not come as a surprise if the low-yielders see the most decline, on the back of the rush-to-quality dynamic. Furthermore, the capitulating real UST yields also points to further downside for Asian yields.

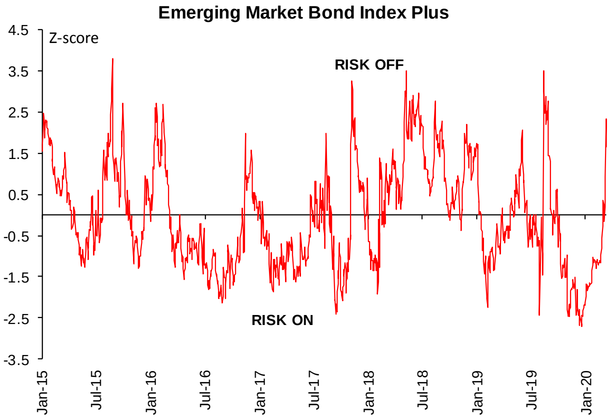


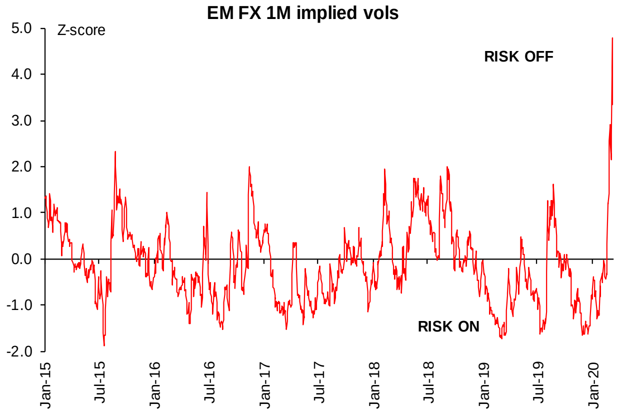


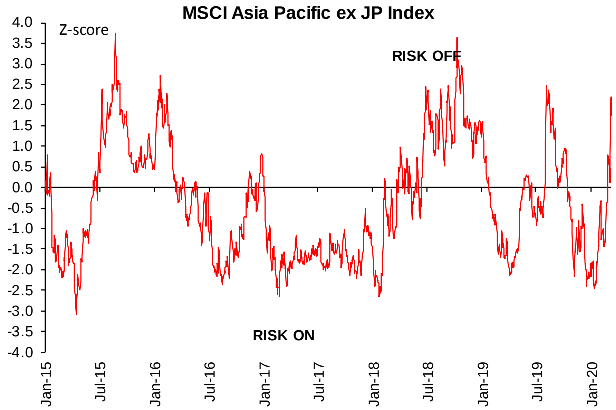
Risk-Off sentiment off the charts

- Despite the containment of the COVID-19 within China, **the global spread of the COVID-19, coupled with an earlier than expected Fed rate cut set off the fear in global asset markets**, with UST yields and equity markets leading the rout.
- The FX Sentiment Index (FXSI) is now effectively off the charts. However, **this bout of risk-off has translated to USD weakness amid de-risking and capitulating rate differential advantage**, instead of the more typical USD strength. **This has given the Asian currencies a get-out-of-jail free card.**









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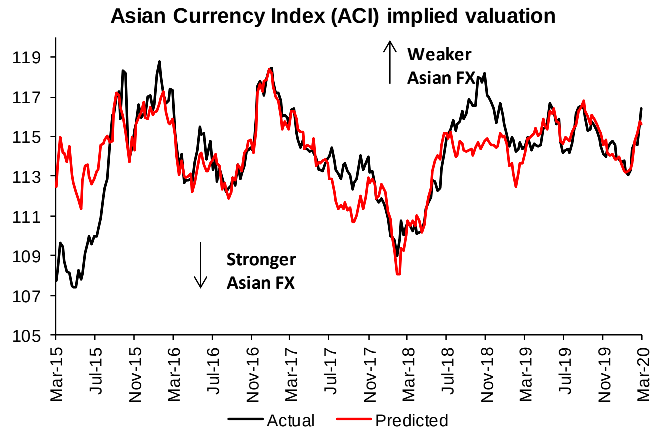
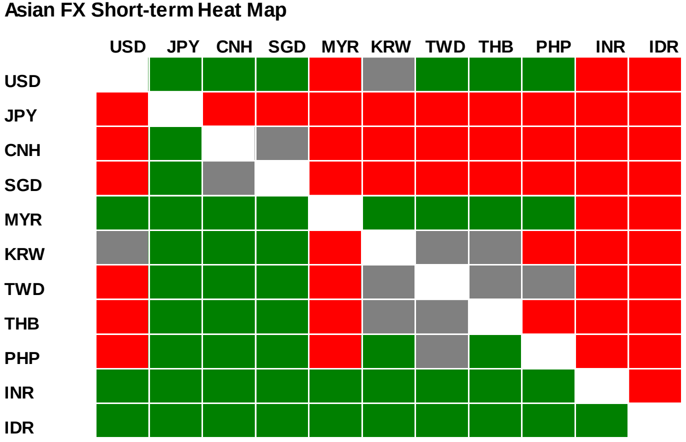
No more "get out of jail free" free card

- Asian FX enjoyed a breather when the broad USD was held back within the G-10 space by the EUR and JPY. However, the dynamic has been flipped over the past 72 hours, when the broad USD has re-engaged its anti-cyclical properties. USD-Asia has promptly reacted higher. Market panic should keep USD-Asia buoyant for now. Meanwhile, further cyclical growth downgrades caused by the COVID-19 episode will keep Asian currencies on the tenterhooks in the medium term.
- In terms of the North-South divide, South Asian currencies are most exposed due to portfolio outflows. In these economies, the portfolio outflow momentum are at historically stretched levels, or fast approaching that level (see p. 14 for details). The USD-North, however, should be relatively anchored by the RMB complex. With the COVID-19 situation under control in China, and the PBOC/government having ample firepower to stimulate, we expect the RMB complex to outperform the likes of KRW and SGD going forward.





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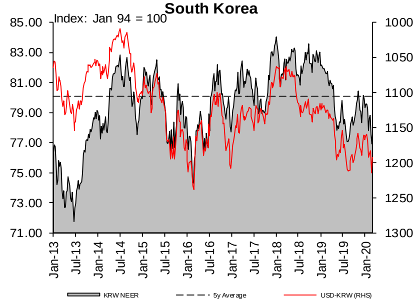
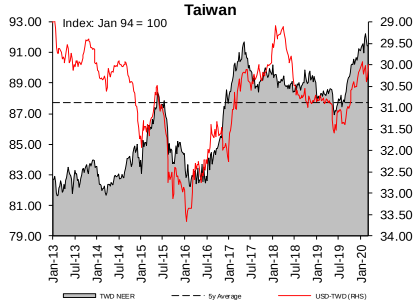
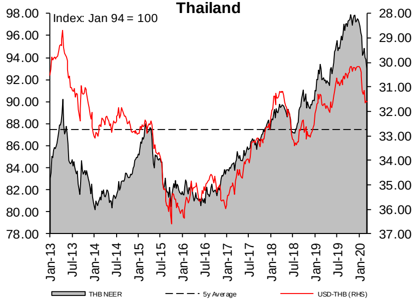
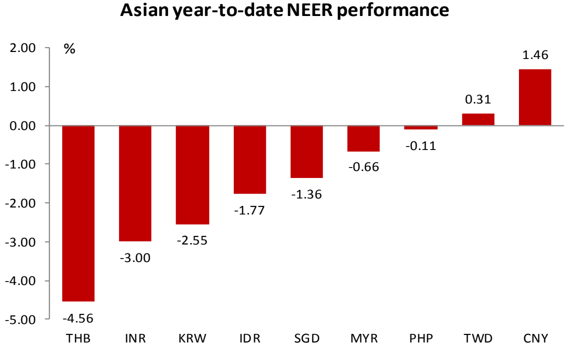
NEERs: Despite all that has happened, RMB still leads

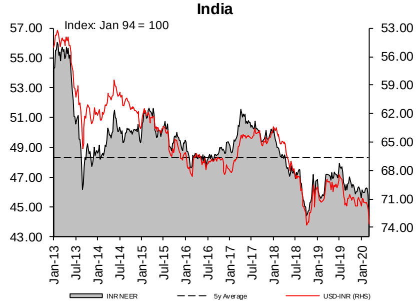
- The relative stability in the RMB complex against the USD has allowed the RMB to outperform the rest of the Asian currencies year-to-date. The THB has continued to normalize on NEER terms, but the KRW is starting to look undervalued. TWD extending higher on NEER terms, looking overvalued.

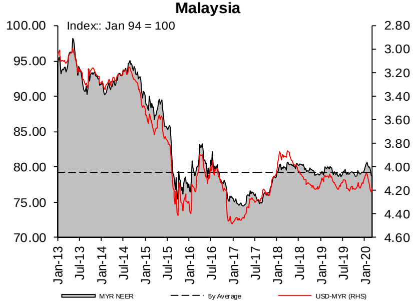


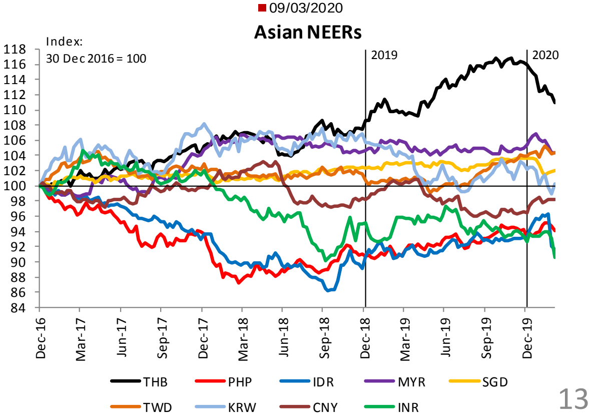












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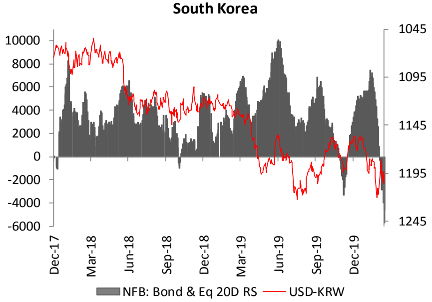
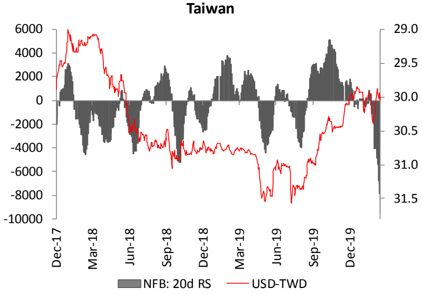
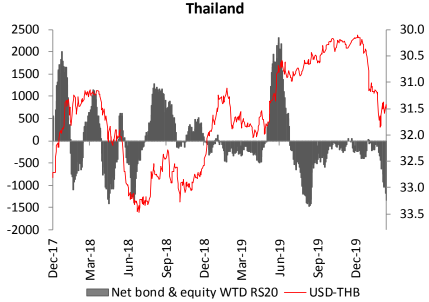
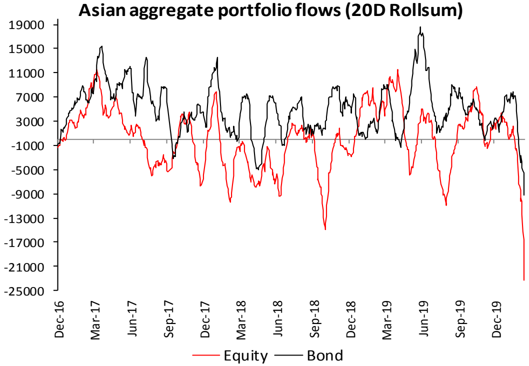
Deluge of portfolio outflows from Asia now actualizing

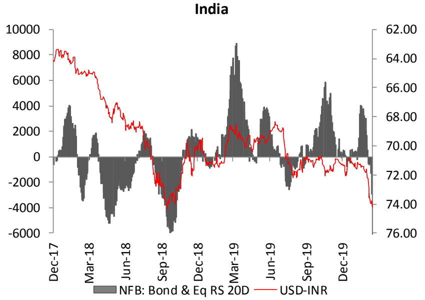
- In the 19 Feb edition of this report, we thought it baffling that the portfolio flows environment in Asia was as benign as it was. The expected deluge of the outflows has been actualizing in the weeks since. Both bond and equity flows are capitulating, and no economies are being spared. Watch this space, with the risk-off tone deepening, expect the flow environment to worsen further – a negative weight on the Asian currencies.

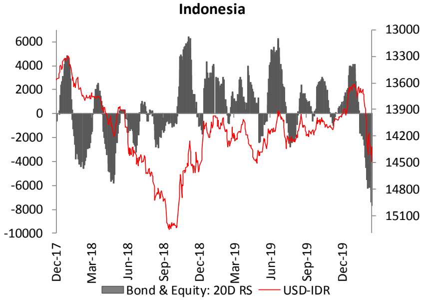


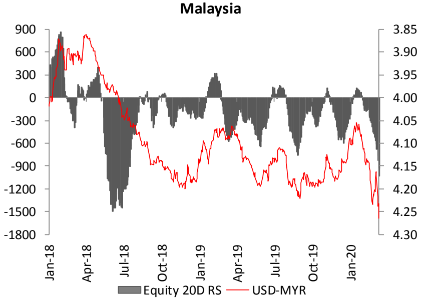


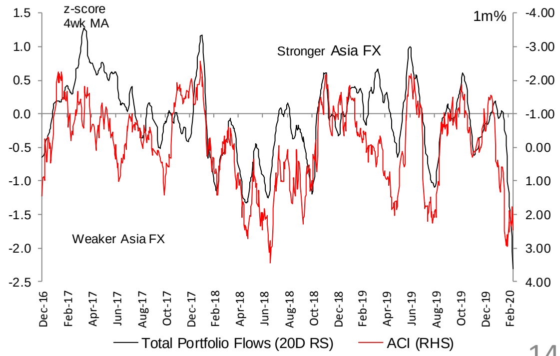












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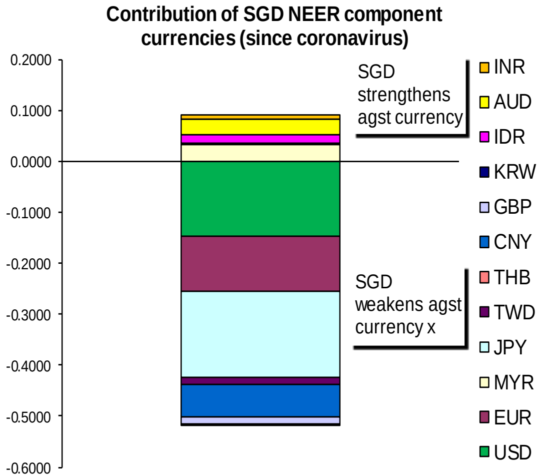
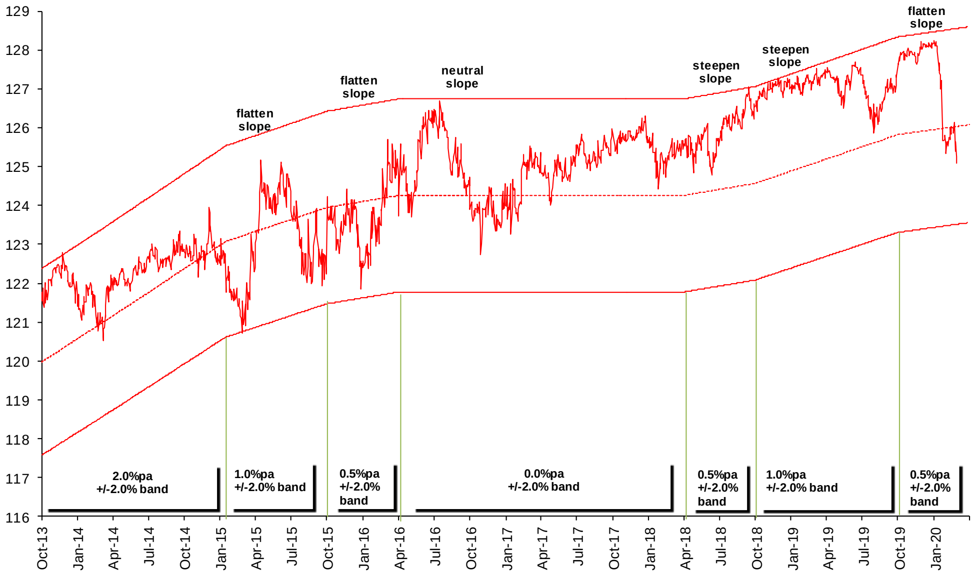
SGD NEER: Stay calm for now

- The SGD NEER has reacted lower again. This is perhaps not surprising as MAS policy easing in April may increasingly be priced as the base case scenario. Our scenario analysis on the SGD NEER done early in the COVID-19 episode (see FX Viewpoint – SGD NEER: Virus-stricken, 6 Feb) suggests that the SGD NEER may fall to -0.80% to -1.30% below parity at the height of the COVID-19 situation, and put an initial floor at -1.00% below parity. Thus, we think the current weakening of the SGD NEER (to approximately -0.80% below parity) is within expectations.
- Looking forwards, forward points and risk reversals are signaling for a weaker SGD. Expect the USD-SGD to track the broad USD higher at this juncture.





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