



# Asia FX Update: Moving beyond the deal

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Treasury Research & Strategy  
Global Treasury

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# Asian FX Key Themes

- **Event risks over, focus shifts to fundamentals.** The initial disappointment surrounding the Phase 1 deal was quickly set aside, but the underlying risk-on sentiment may face new challenges this week (p. 10). For now, market attention will shift to macro fundamentals (p. 6-8). On this front, the ongoing stabilization in Asia/China is becoming increasingly broad-based, with the trade sector seeing improvement over the past week. Another round of stronger than expected IP and retail sales data out of China keeps the overall sentiment positive.
- **Research view:** USD-Asia expected to retain a heavy tone, with the main driver shifting from Sino-US optimism to macro stabilization. Improving inflow momentum on both the bond and equity fronts should also support (p. 13). USD-North should follow USD-CNH's lead, but the USD-KRW may have stronger support levels on the downside (p. 11). Meanwhile, THB and IDR are being led by their respective central banks (p. 11, 12). Among the USD-South, we prefer MYR and IDR on improving inflow dynamics. USD-SGD downside limited by elevated SGD NEER (p. 14).

# Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
<b>China</b>	↓	↓	Decline in the USD-CNH from circa 7.0500 to 6.8663 (14 Jan) appears too swift. Do not rule out a near term retracement and consolidation in the 6.8500 – 6.9000 region. Macro stabilization is becoming more broad-based, with the trade sector the latest area to show stabilization. Dec exports mark the first yoy rise since July 2019, surprising on the upside at 7.6% yoy. Nevertheless, expect the PBoC to remain on an easing bias. Dec official man. PMI unchanged at 50.2, although the Caixin gauge slipped slightly to 51.5 from 51.8. 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.
<b>S. Korea</b>	↔/↓	↔	Sentiment-driven gains in the KRW may base off near 1155.00, especially with the Sino-US Phase 1 finalised. Macro outlook still heavy, presenting potential for the KRW to underperform beyond the immediate horizon. The BOK remained unchanged in Jan (although there are two dissenters), with Governor Lee choosing to focus on the positives for now. Dec man. PMI at 50.1, fourth consecutive months of improvement. Nov exports continued to slump, printing a worse than expected -14.3% yoy. Imports also declined by more than expected. Nov core and headline CPI came in at 0.6% yoy and 0.2% yoy, worse than expected. Nov industrial production contracted -0.3% yoy, marginally less than expected.
<b>Taiwan</b>	↓	↓	Tailwind for the TWD may recede slightly, as equity inflow momentum and Sino-US optimism taper off. CBC static at 1.375% in Dec, with slight negative output gap and stable inflation outlook in 2020. 3Q GDP growth exceeded expectations at 2.91% yoy. Dec man. PMI tipped back into expansion zone at 50.8, from 49.8 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. Nov industrial production also firm at 2.15% yoy, stronger than expected.

# Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
<b>Singapore</b>	↔/↓	↔	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. For now, we expect there is less pressure on the MAS to ease further in April. SGD NEER basket remained elevated, staying within an estimated +1.50% to +1.80% above parity range on global drivers. USD-SGD downside limited when the basket is at the top-end of the that range. Dec official man. PMI firmed further into expansionary territory at 50.1, better than expected. Nov headline and core CPI both printed +0.6% yoy, with the headline measure in-line but core gauge below expectations. Dec NODX printed nudged a 1.1% yoy expansion, against the consensus estimate of a decline. Nov IP came in at a shocking -9.3% yoy, with analysts estimating at -0.8% yoy.
<b>Thailand</b>	↑	↔/↓	Latest comments by the BOT on the THB (14 Jan) continues to show concern, but lacks concrete policy actions. Expect 30.00 to be a line in the sand for the BOT for now. 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. BOT still 'actively managing' the THB to limit excessive appreciation. Nevertheless, barring outsized attempts to limit THB strength, expect the USD-THB to still ease south alongside Asian counterparts. 3Q 2019 GDP growth printed 2.4% yoy, below consensus of 2.7%. Dec man. PMI tipped back into expansionary zone at 50.1, from 49.3 prior. Nov custom exports declined at an accelerated pace of -7.39% yoy, worse than expected, with the strong THB pressuring. Dec headline/core CPI at 0.87% yoy and 0.49% yoy respectively, in-line to firmer than expected.
<b>Malaysia</b>	↓	↔/↓	BNM remained static at 3.00% in November, with the accompanying statement showing no signs of urgency in further rate cuts. We push back our expectation of a rate cut to mid-2020 for now. Some background support for the MYR with the moderation of equity outflow momentum. Nov CPI stood at 0.9% yoy, weaker than the expected +1.1% yoy. Dec man. PMI entered at 50.0, improving from 49.5 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.

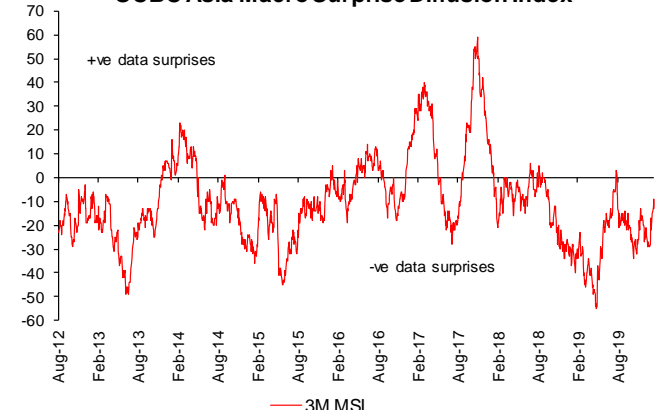
# Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
<b>India</b>	↔/↑	↔/↓	Back-end yields depressed, curve on flattening bias on RBI policy action. Patra appointed new RBI Deputy Governor, but is unlikely to shake up the easing bias at the RBI. What may hold up the RBI is runaway inflation. 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 structural negative for govies and INR if this situation persists. Nov industrial production printed 1.8% yoy, exceeding expectations. Dec man. PMI spiked higher to 52.7, from 51.2 prior. Dec trade deficit in line with expectations.
<b>Indonesia</b>	↓	↓	The IDR turned higher after what was regarded as a tacit approval by the BI for further appreciation. Do not rule out further extension of the USD-IDR towards 13500. Latest comments by the BI seem to be laying the groundwork for a rate cut in the Jan meeting. Firmer IDR and stronger fundamentals provide policy room, but there are concerns over a decreasing rate gap against the US. 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. Dec headline CPI slipped further to 2.72% yoy, at the lower half of the target band. The core gauge also slipping. Dec man. PMI improved to 49.5, from 48.2.
<b>Philippines</b>	↔/↑	NA	The BSP held policy rate unchanged at 4.00% in its December meeting as expected, although Governor Diokno confirms the return of rate cuts in 1Q 20. BSP may also choose to further cut the RRR for banks as a supportive measure. 3Q GDP firmer than expected at 6.2% yoy. Nov CPI firmer than expected at +1.3% yoy, but remains under the 2.0-4.0% target band. Nov exports contracted 0.7% yoy, underperforming expectations. Imports contract at a faster 8.0% yoy. Dec man. PMI firmed to 51.7, from 51.4 prior. Nov remittances grew 2.0% yoy, weaker than expected.

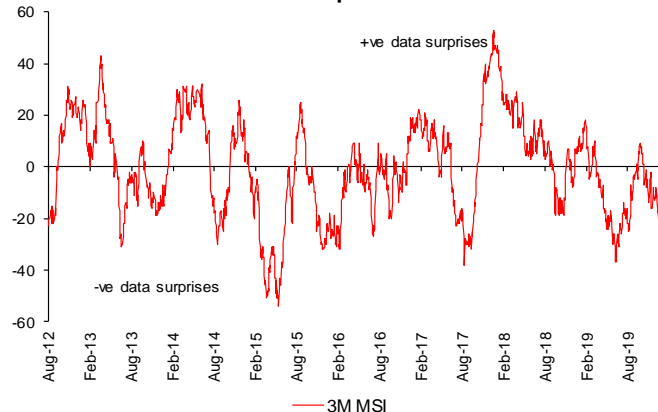
# US growth outlook softening relative to ROW

- Comparing the Macro Surprises Indices (MSI) across regions, what is striking is the rapid deterioration of the US MSI in Q4 2019. The US economy probably capitulated faster than what was expected 1-2 months back – providing a structural negative USD impetus.
- Comparatively, the Asian MSI is attempting to bottom out, with recent macroeconomic indicators showing some stabilization into the year end. The European MSI perhaps overstates the strength of the economic situation somewhat – the case in point is the Dec man. PMIs, which surprised positively, but mostly stayed deep within the contraction zone.

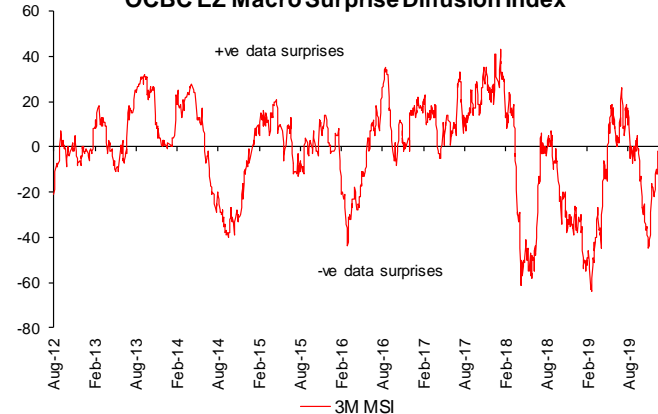
OCBC Asia Macro Surprise Diffusion Index



OCBC US Macro Surprise Diffusion Index

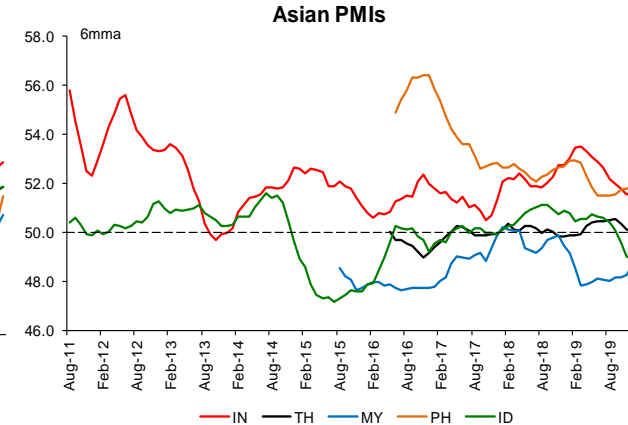
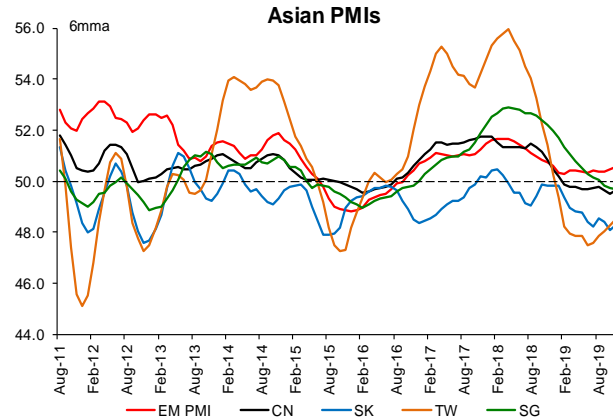


OCBC EZ Macro Surprise Diffusion Index

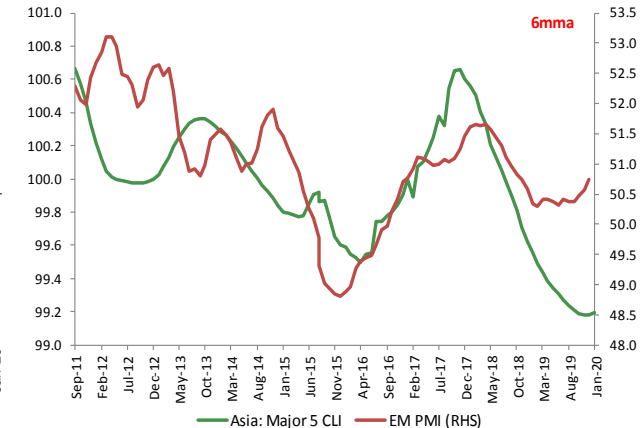
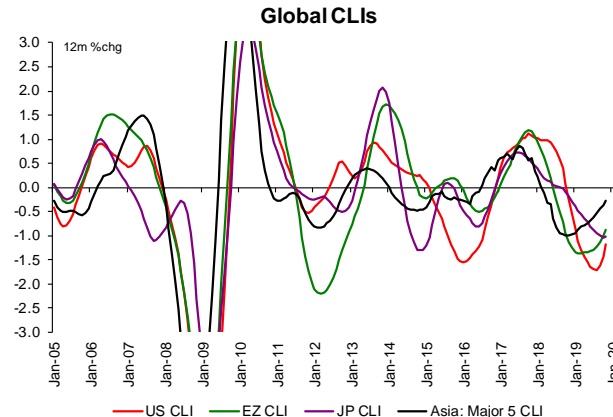


# Asian PMIs stabilizing; Selected CLIs bottom out

- Asian manufacturing PMIs appear to be basing off a trough in Dec 2019, with 5 out of 9 tracked economies tipping back into the expansionary zone from sub-50.0 levels. Apart from data stabilization, positivity can also be drawn from supportive policy actions in China.

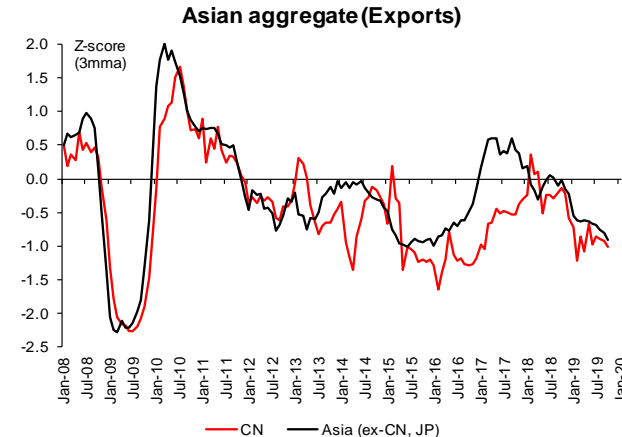
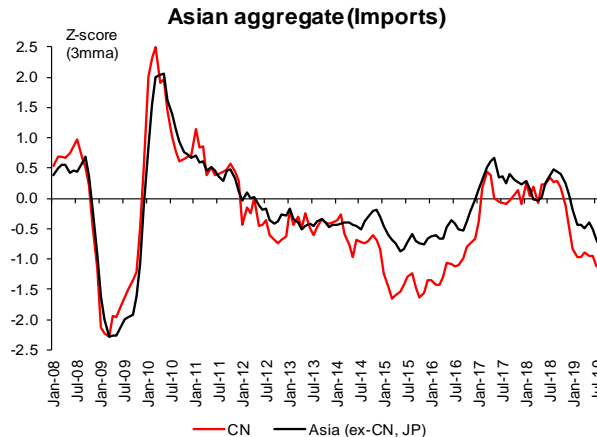
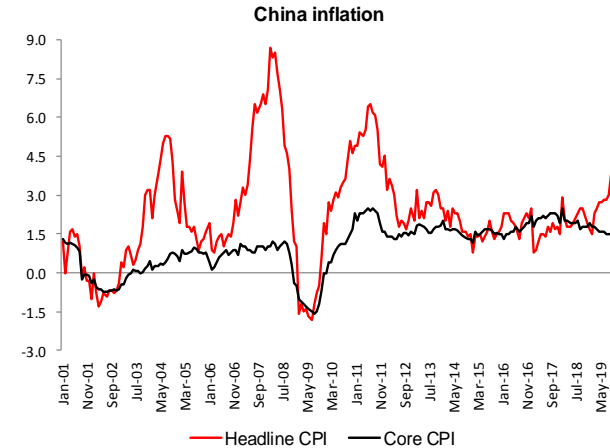
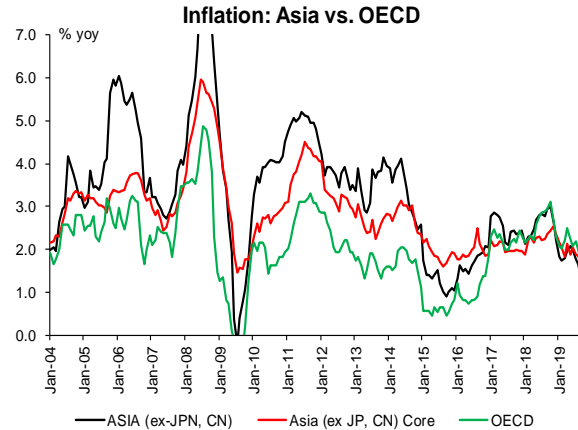


- Selected Asian composite leading indicators (CLIs) – China, South Korea and Indonesia are attempting to base out. However, still early days yet to call a recovery.



# Inflation data distorted; Trade sector joining the recovery?

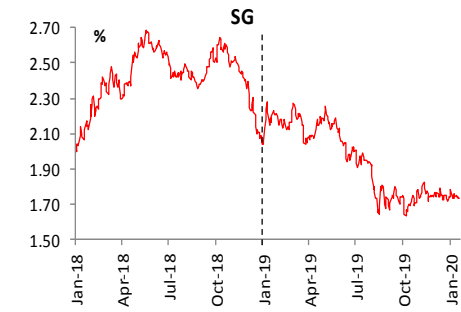
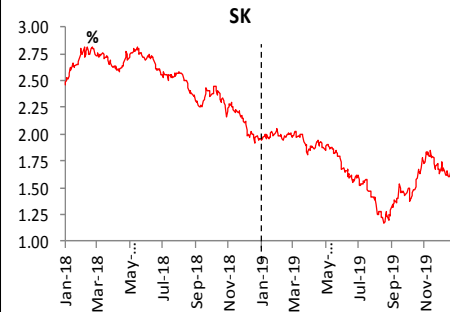
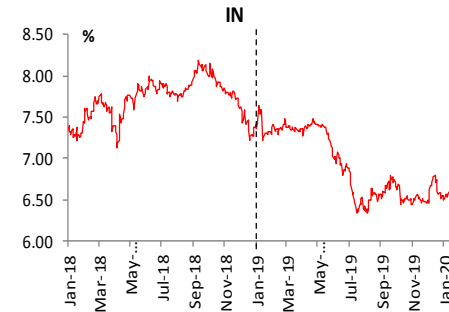
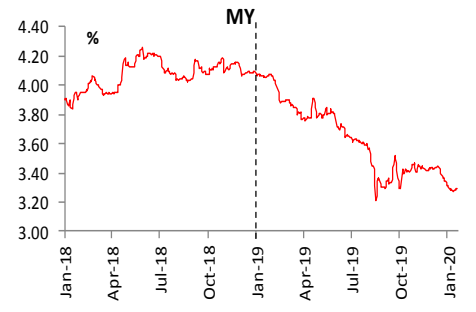
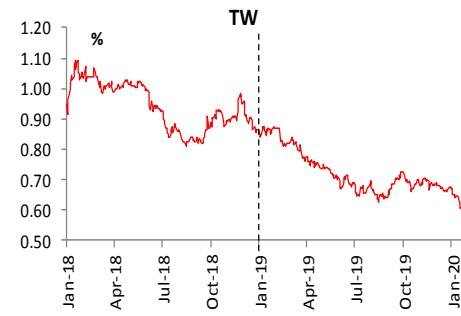
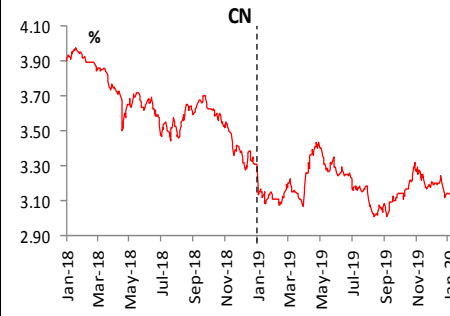
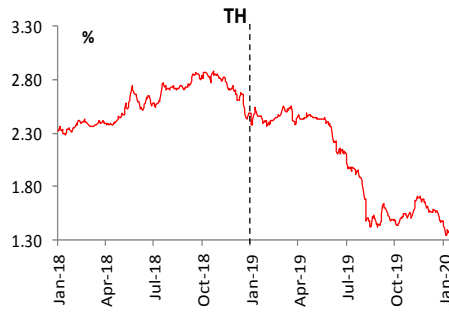
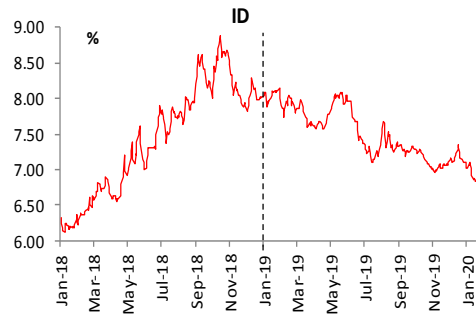
- Headline inflation data in China and India spiking higher on once-off food-related factors – not an indication of uptick in economic activity. Asia-wide core inflation slumped to multi-year lows – telling a more accurate story. Except in India, do not expect this uptick in headline CPI to hold back central banks from easing bias.
- Latest trade sector prints in China and Singapore are showing signs of a turnaround. Suggest that the macro stabilization is increasingly broad-based.
- **Despite some increased macro stabilization, we are still awaiting stronger signals of a more sustained pick-up in activity.**





# Asian 10y yields off lows, but downside pressure remains

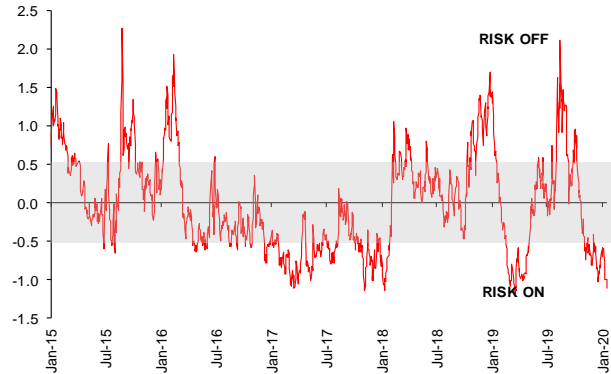
- On the short term, Asian govies remain supported by Asian central banks that may still be on an easing bias in 1H 2020, despite the pause at the Fed. **Overall, prefer IndoGBs in the short term, with the BI expected to restart rate cuts in its January policy meeting. IndianGBs however, may see downside pressure on renewed macro concerns.**



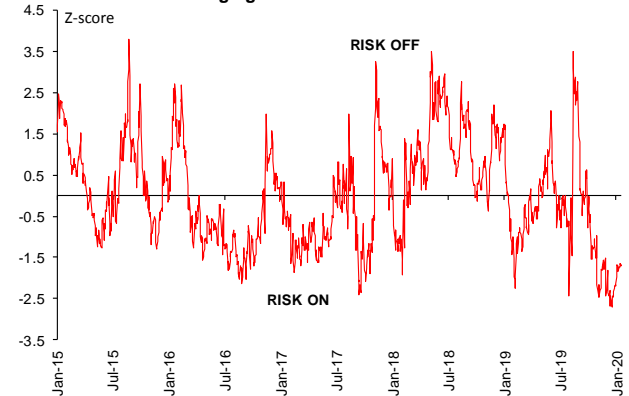
# Underlying risk sentiment in Asia resilient

- Overall sentiment remains well-anchored in the Risk-On zone post the with the Sino-US Phase 1 deal.
- Near term positives may be wearing off, and episodic risks may be re-emerging (renewed violence in HK, worsening Wuhan pneumonia situation, crude oil supply issues in Libya and Iraq). **Question is whether these are sufficient to shake out the prevalent, risk-on tone.** For now, this appears unlikely.

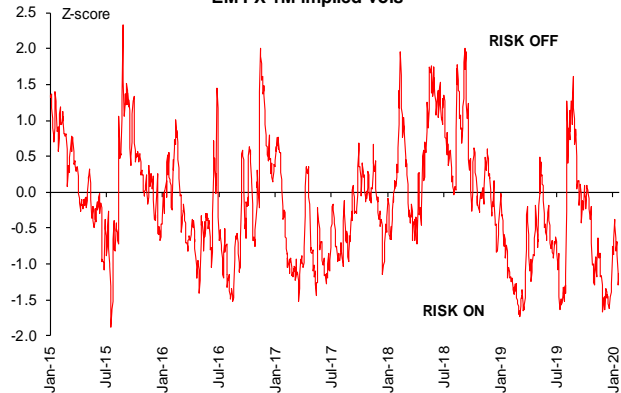
FX Sentiment Index



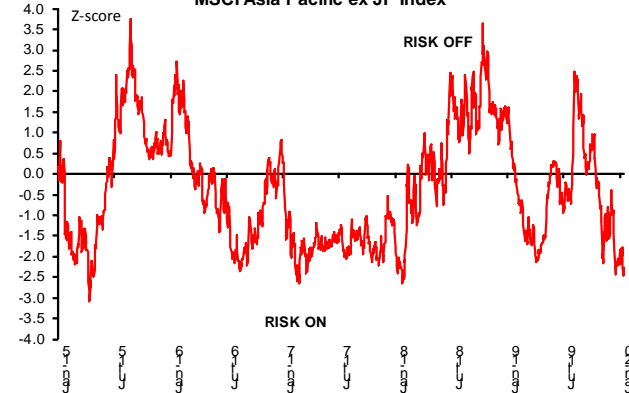
Emerging Market Bond Index Plus



EM FX 1M implied vols

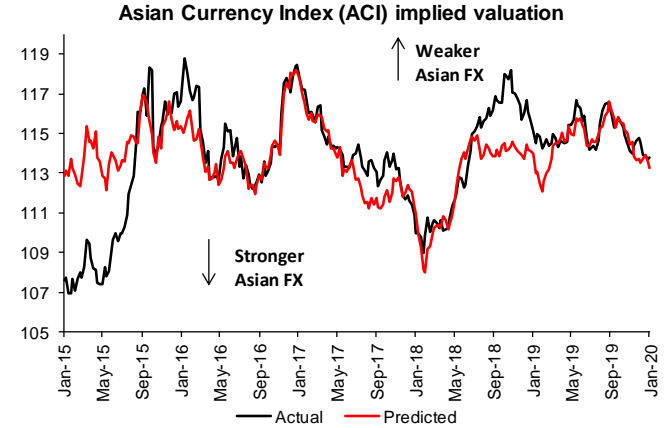


MSCI Asia Pacific ex JP Index

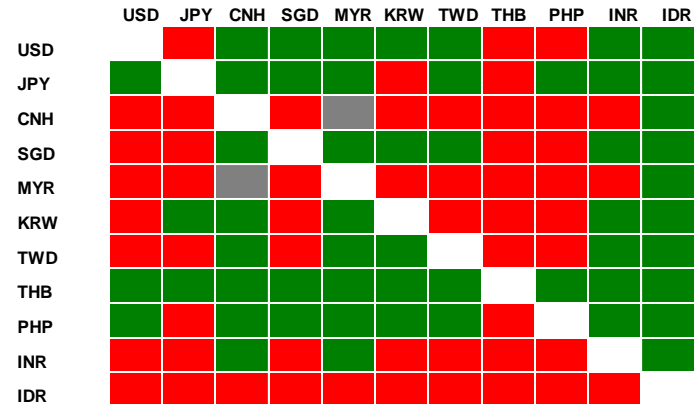


# USD-Asia may grind lower on the lead from USD-CNH

- The RMB continues to be on an appreciation path, with the **driver shifting from the trade deal to improving macro outlook** after a round of positive exports and industrial production data. This should lead the USD-Asia lower, but note that USD-Asia, as a whole, may have priced in the positives to a large extent. Thus, **expect only a slow grind lower for USD-Asia if macro stabilization persists.**
- With the Korean economy still lagging, USD-KRW may face more downside resistance near 1150/55. Thus, KRW may underperform RMB and TWD in the near term. In the South, expect the THB and IDR to take cues from their respective central banks (although in opposite directions). We prefer the IDR and MYR in the short term on renewed bond/equity inflow momentum.

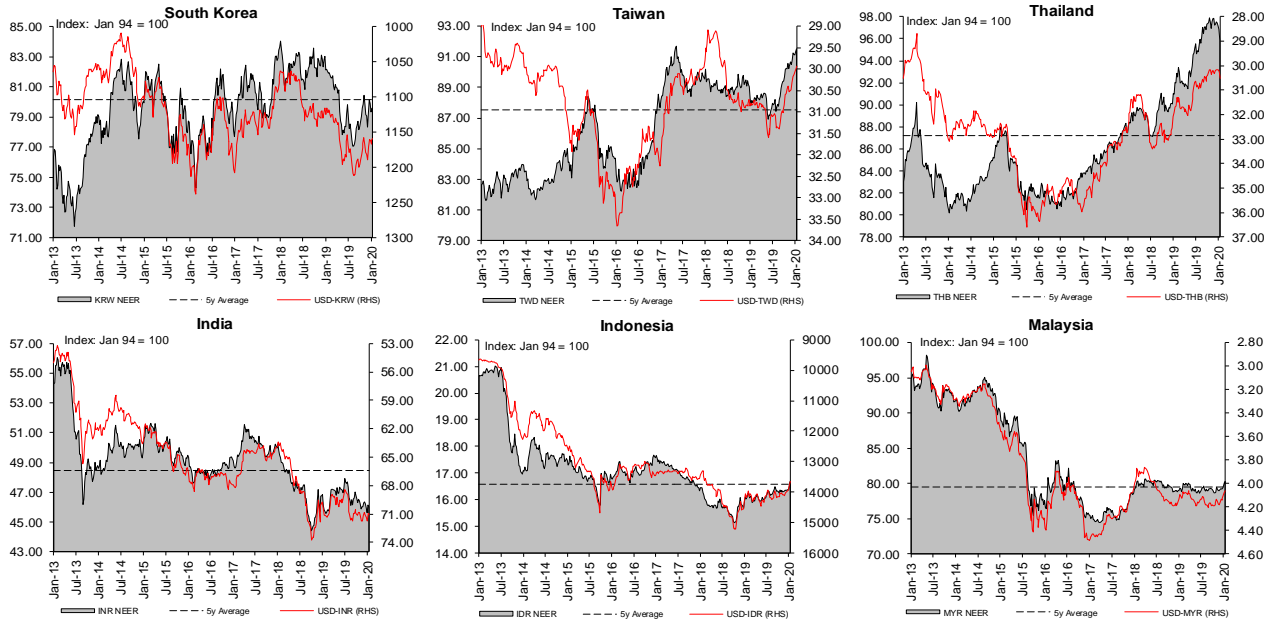


Asian FX Short-term Heat Map

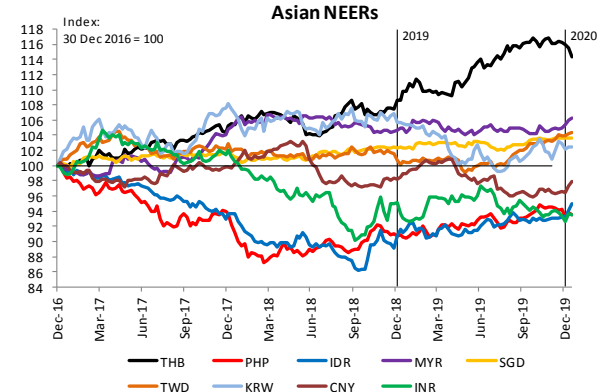
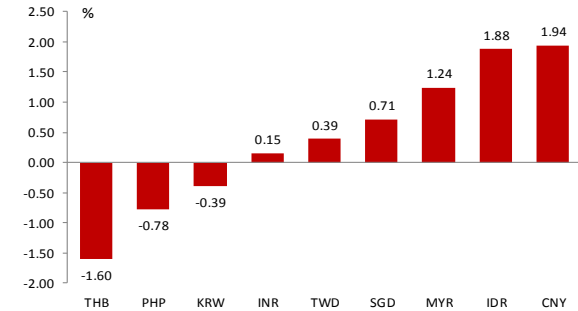


# NEERs: THB (finally) responding to BOT

- The THB underperforming its Asian peers this year on BOT's jawboning. For now, 30.00 may be the line in the sand for the USD-THB. Meanwhile, tacit approval from the BI for IDR appreciation brought the USD-IDR down to 13,650. We think this move is justified by stable CA deficit and improving trade deficit.

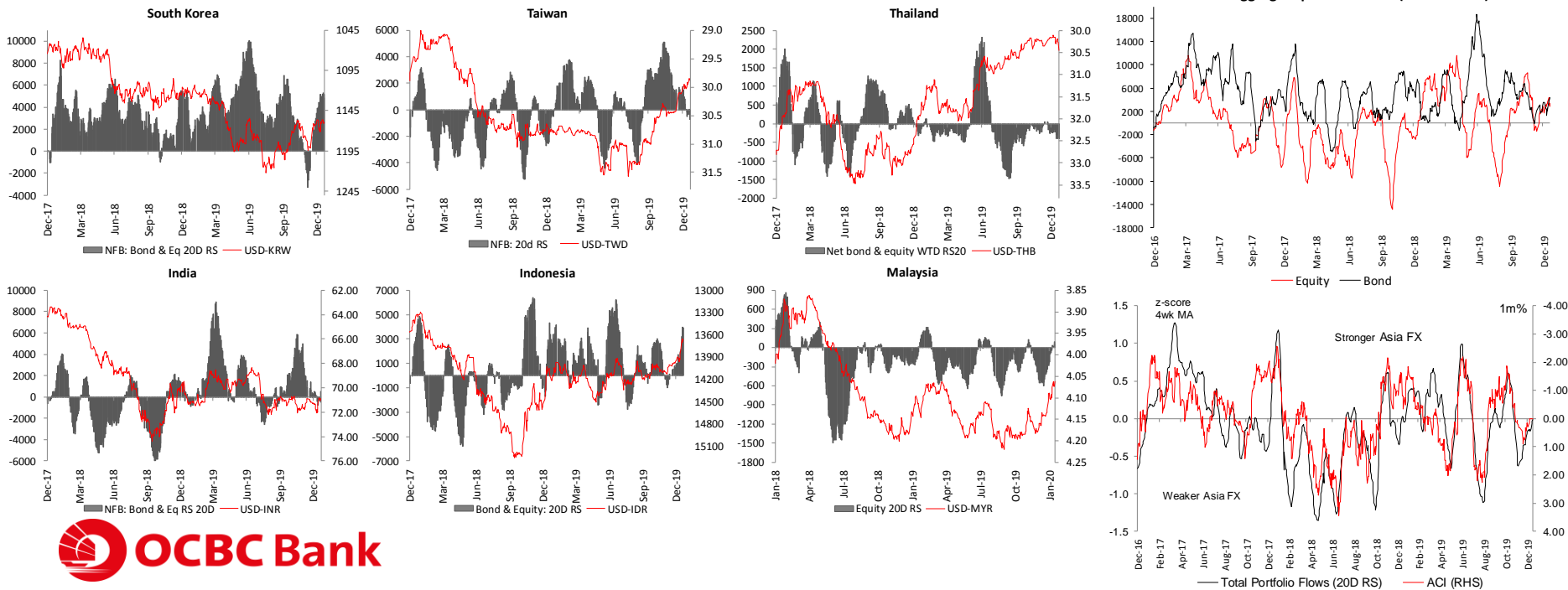


Asian year-to-date NEER performance



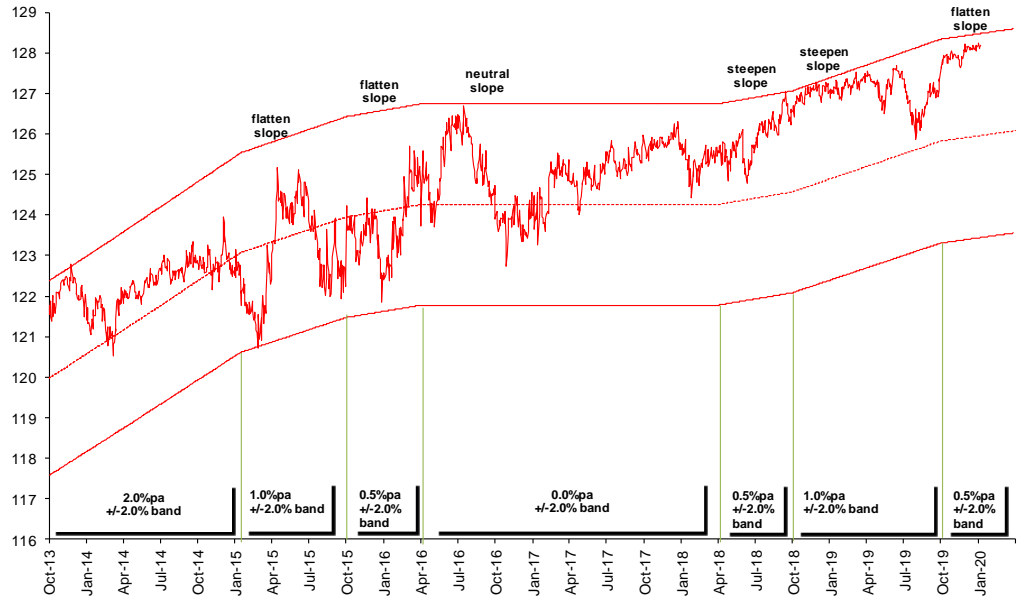
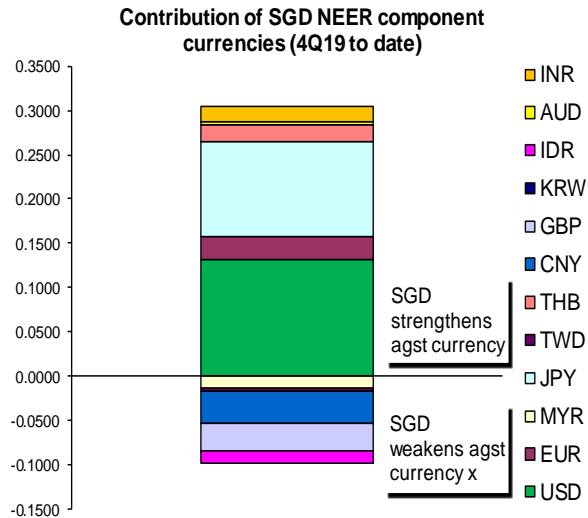
# Actual portfolio inflows rebounding

- Asia (ex JP, CN) has been seeing an uptick in portfolio inflows both in the bond and equity space. This is focused on selected pockets of strength in South Korea, India and Malaysia. Expect these currencies to see better background support in the near term.



# SGD: Elevated NEER puts floor on USD-SGD downside

- Recent local data-prints have been improving, with the sense that the economy may have bottomed in Q2 2019. This partially removes the implicit weight on the SGD coming from soft domestic outlook. Externally, the SGD also remains supported on an improving global/Asia macro outlook and positive risk appetite. **USD-SGD downside may still be on the cards, although the elevated SGD NEER prevents excessive downside. We look for 1.3450 to be a near term floor.**



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