Asia FX Update:
Consolidation ahead

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Asian FX Key Themes

- A second wave of COVID-19 cases may be upon us, globally and in the US (p. 6). Focus, however, on the policy response – any signs of a return towards economic restrictions should see the recent risk rally retrace (p. 11). Recovery on the macro front remains slow, and selected sectors may continue to face significant headwinds (p. 7). However, there is a growing sense that the worse is probably over (p. 3-5). Nevertheless, we see firming real back-end yields (p. 9) and resilient Asian currencies on an NEER-basis (p. 10) as a hindrance for the recovery trajectory, and as something that should be addressed going forward.

- **Summary of research view**: A supported broad USD, coupled with global risk cues that are hesitant but not boiling over into outright risk-off, should leave USD-Asia in a consolidative, albeit slightly supported, posture in the coming sessions. A more significant risk-off tilt is probably needed for USD-Asia to see more traction northwards (p. 13). Tail-end risks on the RMB due to Sino-US issues have also faded, although we see limited directional drivers in the near term (p. 12). Overall, we find KRW and INR more susceptible to USD strength, although IDR and THB should be more resilient due to stronger inflow dynamics (p. 14-15). On the SGD front, the SGD NEER should remain anchored at the parity level, leaving USD-SGD directionality a function of broad USD prospects (p. 16). On the rates front, CGB yields should remain supported (but volatile) as the market come to terms with the PBOC’s new measures (p. 8). We continue to favour high-yielders like Indo-GBs for its yield differential advantage instead.

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Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
China	↔/↓	↑	The PBOC has restarted piecemeal rate cuts, this time shaving off 20 bps from the 14-day repo rate. Another cut in the RRR is expected soon. In an environment where liquidity is reducing due to increase in issuance, the PBOC remains committed to managing flush liquidity and borrowing costs low. Overall, the need for further stimulus in the Chinese economy is heavy, with macro indicators showing a less than vigorous rebound. May industrial production weaker than expected, and retail sales also contracted by more than expected. May exports fell -3.3% yoy, against expectations of -6.5% yoy. Imports contracted by more than expected at -16.7% yoy. May CPI prints softer than expected at 2.4% yoy, against expectations of 2.7% yoy and 3.3% prior. Deflationary PPI persists at -3.7% yoy in May. May growth in monetary aggregates were mixed, with M2 money supply coming in soft. Sino-US issues in the background, but expect it to weigh sufficiently to keep the RMB underperforming against the rest of the Asian currencies.
S. Korea	↔/↑	↔/↓	Renewed tail-end risks from inter-Korea tensions, although the recovery narrative is still the most important. For now, further cuts at the BOK may not be forthcoming given that conventional policy room is now limited. If conditions worsen, the BOK may instead have to adopt asset purchases. Bond markets rallied in response. Man. PMI dipped for the fifth consecutive month in May to 41.3, from 41.6. May exports slumped -23.7% yoy, while imports also contracted -21.1% yoy, with no end to pain in sight for the trade sector. Industrial production also declined -6.0% yoy in Apr. May core and headline CPI in line with estimates are 0.5% yoy and -0.3% yoy. Expect the USD-KRW to be responsive to global risk gyrations, and remains biased higher for now.
Taiwan	↔/↓	↔	The CBC held rates unchanged, against expectations of a 25 bps cut. CBC Governor Yang stated that the previous cut has achieved its goal, and thus there is no need to cut further. He also sounded relatively sanguine about the economic outlook. FY2020 growth forecast cut to 1.3-1.8% yoy. 1Q GDP growth at 1.59% yoy, firmer than estimates. May man. PMI slipped further to 41.9, from 42.2 prior. May exports printed -2.0% yoy, but is firmer than expected. May headline CPI at -1.19% yoy, worse than expected. The USD-TWD may be more able to resist the current bout of USD resilience due to strong inflow momentum.

Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
Singapore	↔	↔/↑	Median analysts' forecast for FY2020 GDP growth shift lower to -5.8% yoy, closer to the lower end of the official -7.0% to -4.0% yoy forecast. 1Q GDP printed -4.7% yoy saar and -0.7% yoy respectively, better than estimated. Unemployment rate may rise to 3.6% by year end. Monetary policy still expected to be kept accommodative and stable. Translated, we think the SGD NEER should be anchored to the parity level. Apr retail sales slumped -40.5% yoy, a heavier contraction than the forecasted -34.9% yoy. May NODX contracted -4.5% yoy, against a forecasted +1.0% gain. Pharma exports that supported the previous two months' NODX numbers have eased off. Apr headline and core CPI printed -0.7% yoy and -0.3% yoy respectively, softer than expected. May official PMI prints slumped further from previous month's depressed readings, coming in at 27.1, vs 28.1 prior. The USD-SGD should remain USD-driven. For now, we expect sideways movement between 1.3900 and 1.4000, with a bias for the pair to break higher.
Thailand	↓	↔	BOT cut policy rates further by 25 bps, in a close 4-3 vote in the committee. 1Q GDP fell 1.8% yoy, against expectations of a -3.9% yoy contraction. Official growth forecast downgraded to -6.0% to -5.0% yoy. Even as the economies reopen, the tourism-reliant Thai economy may not see a strong recovery so long as global travel does not pick up. May man. PMI recovered to 41.6 from 36.8, but remained deep in in the contractionary zone. April custom exports grew at 2.12% yoy, defying estimates of a -3.00% decline. Imports however, slumped -17.13% yoy. May headline CPI printed -3.44% yoy, with core CPI also coming in softer than expected at +0.01% yoy. Although the BOT expects May to be a trough for price pressures. Expect the USD-THB to find base off 30.80 – 31.00 levels, with the USD finding better footing.
Malaysia	↔	↔/↑	Additional budget of MYR35bn announced for further support the economy. Total fiscal stimulus amounting to 20% of GDP should put a floor on the growth slowdown. 1Q GDP turned out firmer than expected at 0.7% yoy, although a contraction is expected in 2Q due to consumption being hampered by MCO restrictions. May man. PMI recovered to 45.6, from 31.3 prior. Apr exports slumped -23.8% yoy, hit by soft global demand and MCO restrictions. The USD-MYR probably found a base at 4.2600 for now. Nevertheless, the topside may be capped unless we see some secular USD strength.

Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
India	↔/↑	↔/↑	The RBI cut its policy rate by 40 bps to 3.35% in an emergency meeting on 22 May, and implied that it could ease further. The RBI expects the economy to contract in the fiscal year through Mar 2021. Overall, the downturn looks to be deeper and longer for India, given the limited extent of fiscal support. 1Q GDP printed 3.1% yoy growth, better than the estimated 1.6% yoy. May man. PMI recovered marginally to 30.8, from 27.4 prior. This suggests that India may be lagging in terms of restarting the economy compared to the other Asian economies. May exports shrank -36.5% yoy, suggesting the industrial sector is still not out fo the woods. With the broad USD firmer, expect the USD-INR to retain a supported stance.
Indonesia	↔/↑	↔/↓	FM Sri Mulyani suggests growth may come in flat to +1.0% yoy, while the BI has pencilled in a new +0.9% to +1.9% yoy forecasts, as opposed to +2.3% yoy earlier. The BI cut 25 bps to 4.25% on its June meeting, spurred by a weak 2Q. More room for cuts were signalled amid weak inflationary cues and stable IDR. Overall, we find scope for just one more rate cut for the BI this year. Fiscal deficit currently expected to be at 6.30% of GDP, and increased issuance is expected to finance spending. May exports contracted -28.95% yoy, worse than the already bad estimate of -19.6% yoy. Imports also down -42.2% yoy (estimate: -25.0% yoy). May headline and core CPI at 2.19% and 2.65% yoy respectively, continuing a decline on a monthly basis. May man. PMI edged up slightly to 28.6, from 27.5 prior, one of the weakest in Asia for now. Bond inflow momentum has been persistently firm, backed by an improve risk environment and favourable yield differentials. Latest govie auction sees good demand. USD-IDR should find a base off 13,850, with a ceiling near 14,400.
Philippines	↔	NA	The BSP is signalling a pause after substantial rate cuts this year. The BSP is open to coordinated fiscal action with the government to provide further support for the economy. 1Q 2020 GDP shrank -0.2% yoy, against expectations of 2.9% yoy. 2Q GDP expected to take a bigger hit compared to 1Q. May CPI firmer than expected at 2.1% yoy. May man. PMI recovered to 40.1, from 31.6 prior. Exports contracted -50.8% yoy in Apr, almost double the expected -25.8% yoy. Apr imports contracted -65.3% yoy, against an expected -31.4% yoy. Mar remittances fell by more than expected at -4.7%.

COVID-19: Focus on policy reaction to 2nd wave

- Total confirmed cases has topped 8.5m globally, with the daily growth of new cases on the rise again.
- Virus-related headlines have clearly turned negative over the past week, with outbreaks in Beijing and selected US cities. The Beijing situation seemed to have settled with strict and timely intervention. **Going forward, the rise in headline numbers should add some sense of sobriety after sustained optimism. However, a more significant reversal of market gains may require a return to widespread restrictions, which still seemed unlikely at this juncture.**
- Charts drawn from the daily [COVID-19 Monitor](). Please refer to the publication for further details.

Chart 1: Total confirmed cases globally reached 8.57 million

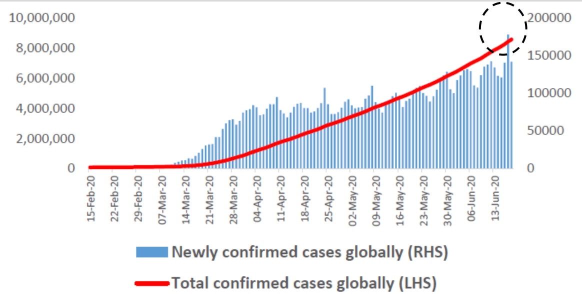


Chart 2: Top 10 countries with no. of confirmed cases (tests per million)

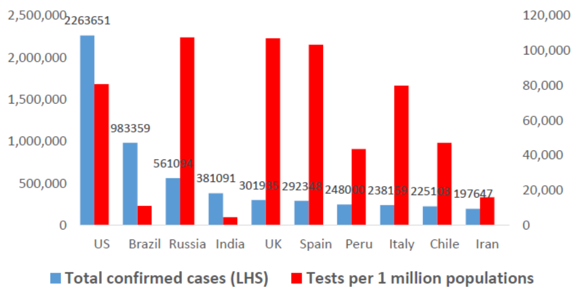


Chart 3: Second wave of imported infections has been contained

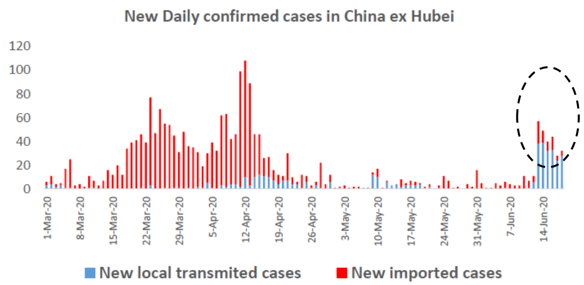
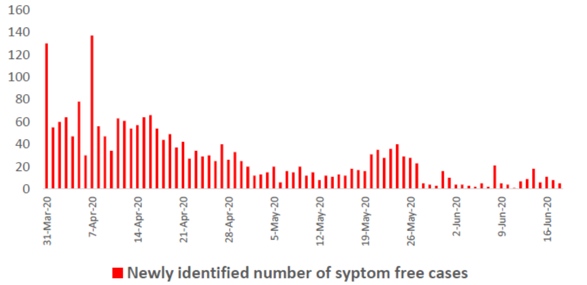


Chart 4: Finding symptom free cases in China



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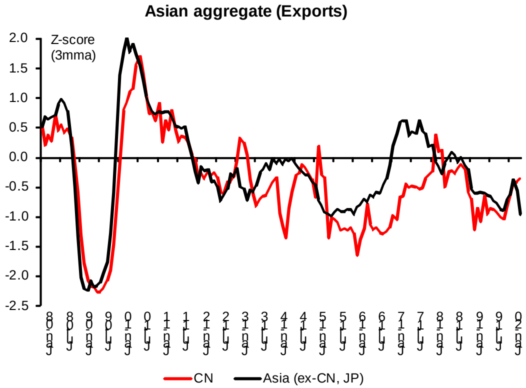
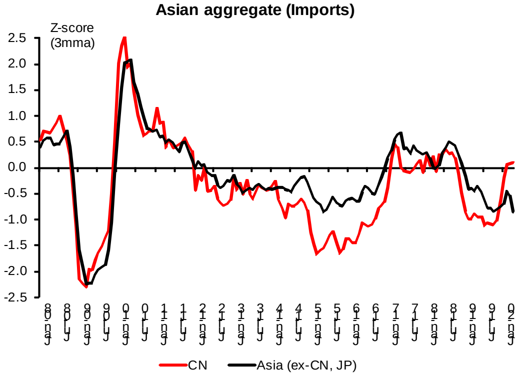
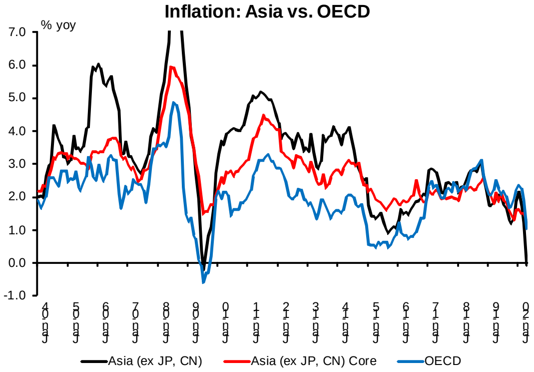
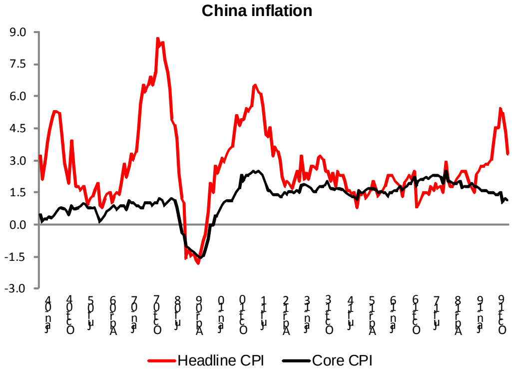
Macro trajectory: Trade sector may not have bottomed

- Export prints in selected Asia economies (such as Singapore) have been supported by stockpiling by China in Mar-Apr. However, this dynamic should fade by May-June, and weigh on Asian exports. Elsewhere, Europe and US have reopened their economies, but whether the demand returns strongly is still a question.
- Elsewhere, unprecedented fiscal and monetary stimulus should (in theory) rouse inflationary pressures. CPI prints show further easing in price pressures, falling into deflationary zone.
- **Overall, we continue to expect the recovery in Asia to be slow and gradual. Asian data-prints have mostly not outperformed like some of the headline prints in the US.**









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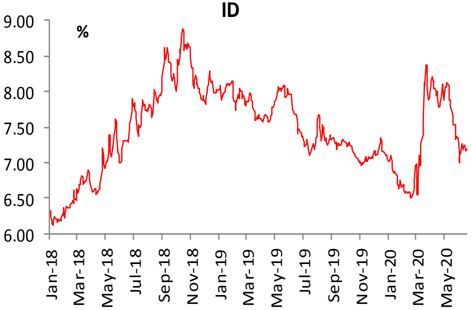
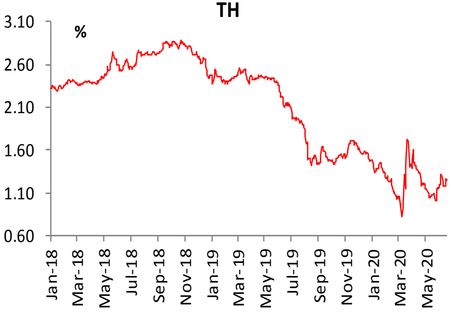
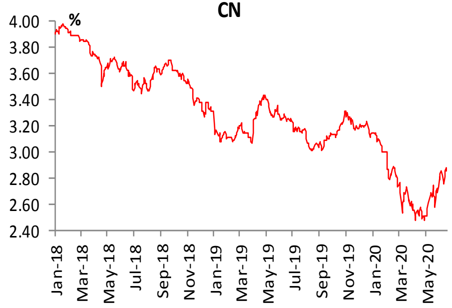
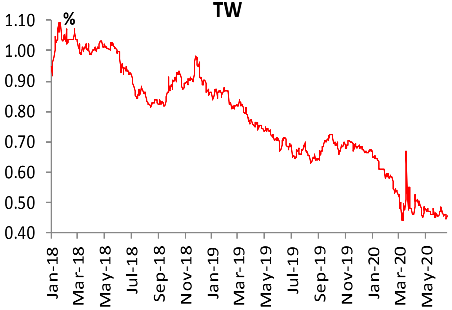
Asian 10y yields: Rise in Chinese govie yields unabated

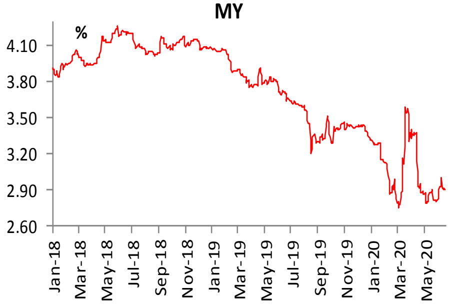
- The issuance of the off-budget special bonds and liquidity withdrawals have led to some unease in the Chinese bond markets. This has kept CGB bond yields supported, but volatile. However, banks are pressured to lower loan rates and the yield on the newly-issued bonds are lower than the secondary market – which should pressure CBG yields lower eventually. Piecemeal rate cuts resumed last week, with an RRR cut expected soon to ease liquidity concerns. **Overall, Chinese govie yields may remain supported until we have further clarity on the PBOC's stance.**

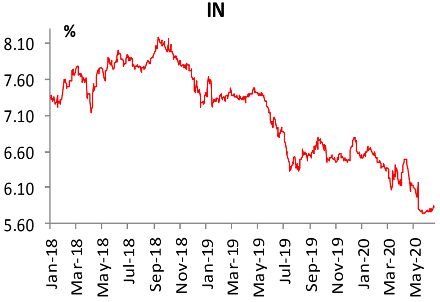


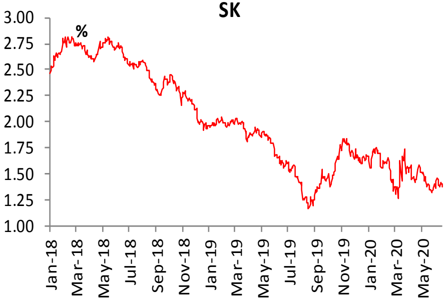


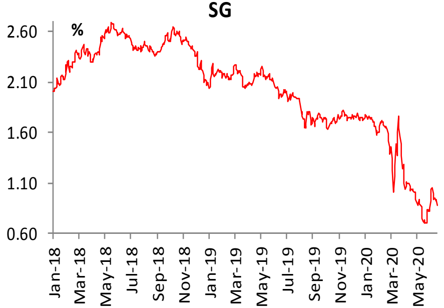






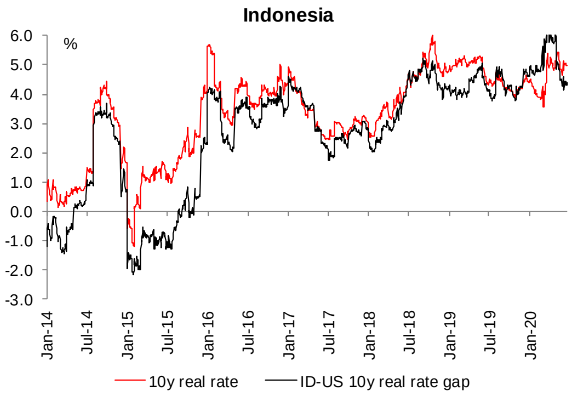


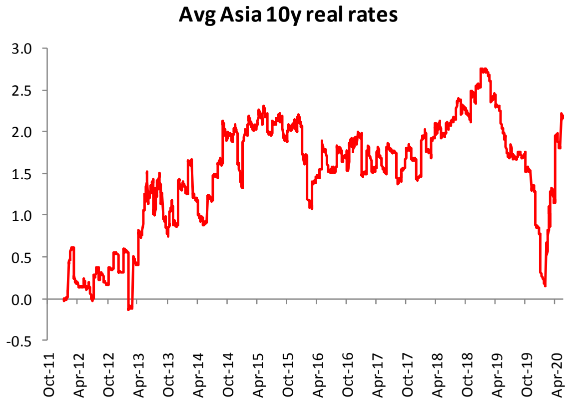


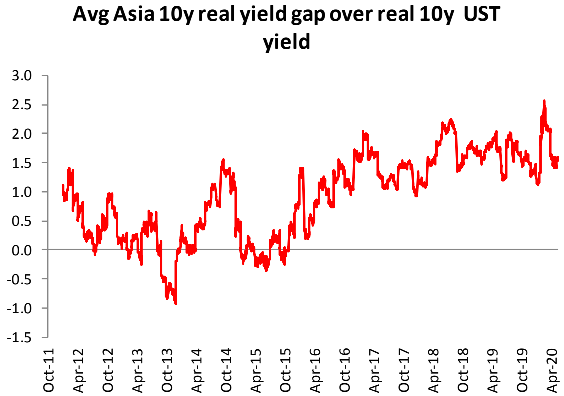


Rising real yield attract investors but weigh on economy

- Dissipating price pressures across Asia has caused back-end real yields to spike, even though nominal yields have largely eased lower on central bank action. Rising real yields tighten the economies, negating the impact of the fiscal and monetary stimulus. Going forward, with the inflation still expected to be muted amid the slow recovery, expect the economies to require lower nominal yields or weaker currencies in order to loosen monetary conditions.
- Overall, this leaves Asian bonds still an attractive proposition for investors. **Focus on the high-yielders, in particular Indonesia, where we continue to see positives outweighing negatives.** The BI is on an easing path (and participating in the primary market), and foreign ownership is relatively low. Back-end real yields are also one of the most supportive in Asia.







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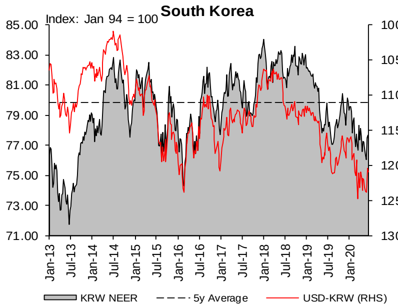
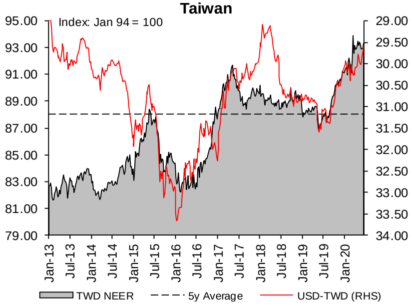
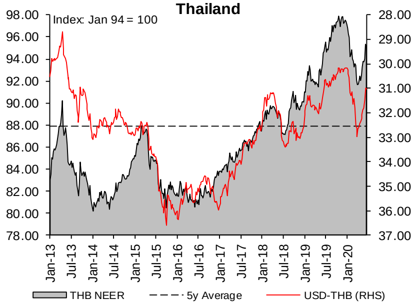
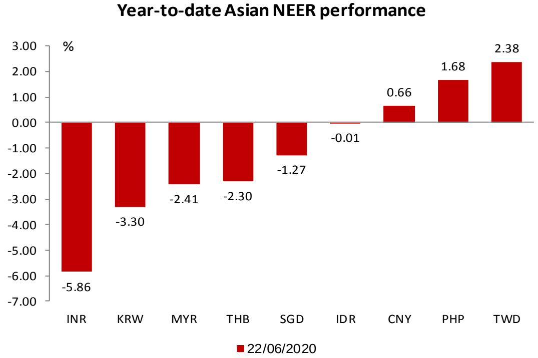
NEERs: Firm NEERs also negate stimulus efforts

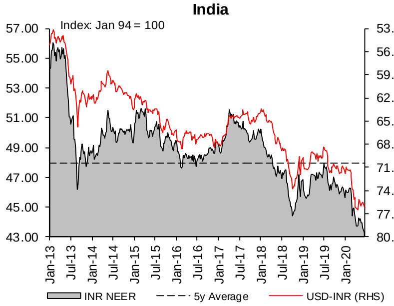
- Asian NEERs, save Malaysia and India, were firmer in the latest reading. Since COVID-19, only the INR (-6.5%), IDR (-3.2%) and MYR (-2.7%) have seen declines, on an NEER basis, by more than 2%. Coupled with the rising real yields, we think the resilient Asian FX exert a tightening effect on the Asian economies, hampering recovery plans.

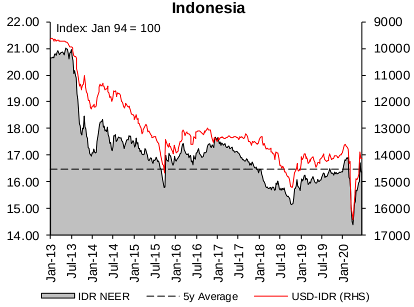


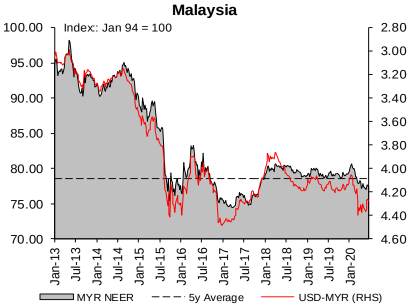


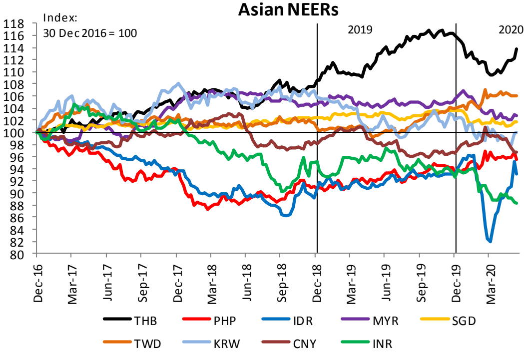












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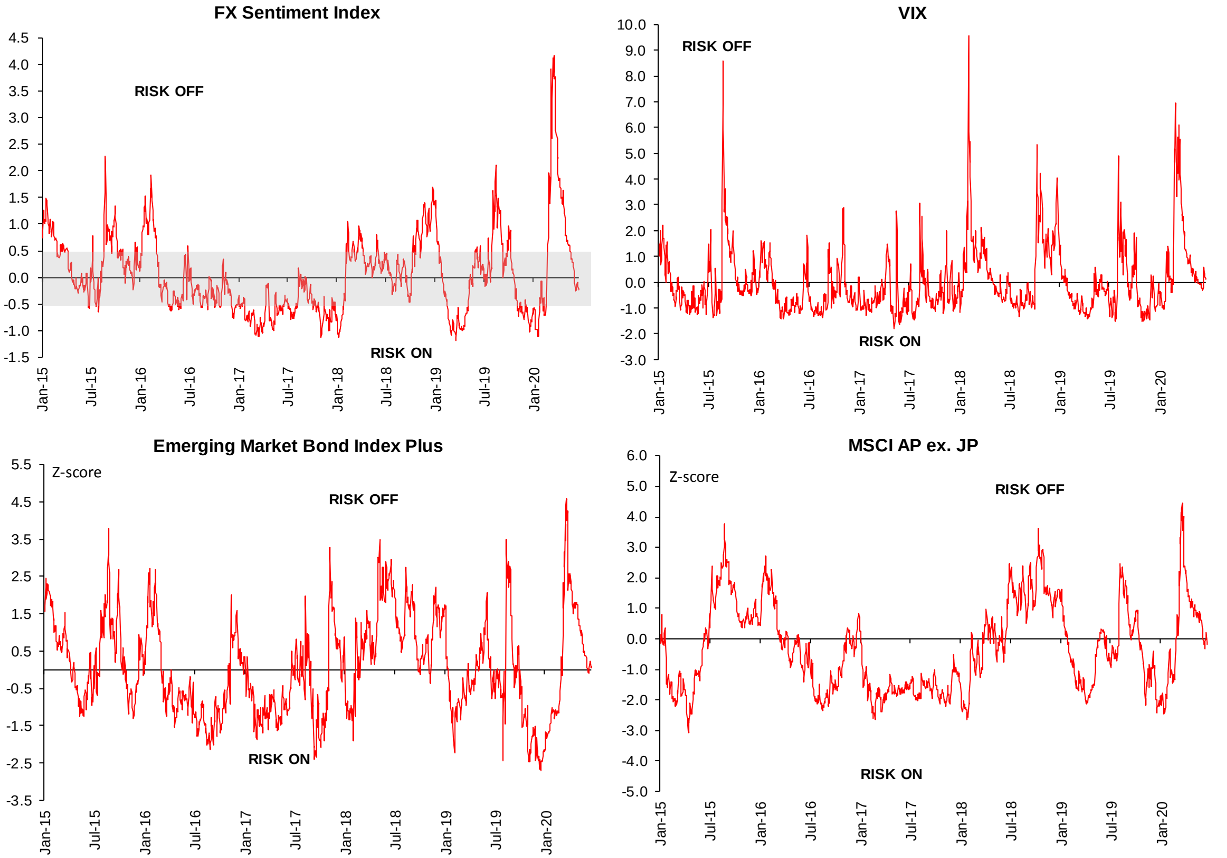
Slightly jittery on the risk front

- After weeks of feeding on the reopening narrative, risk sentiment finally seemed to be consolidating. The catalyst was the resurgence of COVID-19 cases in Beijing and selected parts of the US. However, even though the **FX Sentiment Index** (FXSI) has halted its advance to the Risk-On zone, it is not seeing a reversal higher. **Overall, the market may still coming to grips with emerging risks.**
- It remains to be seen if sufficient negativity can accumulate to generate a more sustained risk-off tilt. **The risk-off camp is still swimming against the current for now, as the central bank balance sheet expansion provides structural support for risk.**



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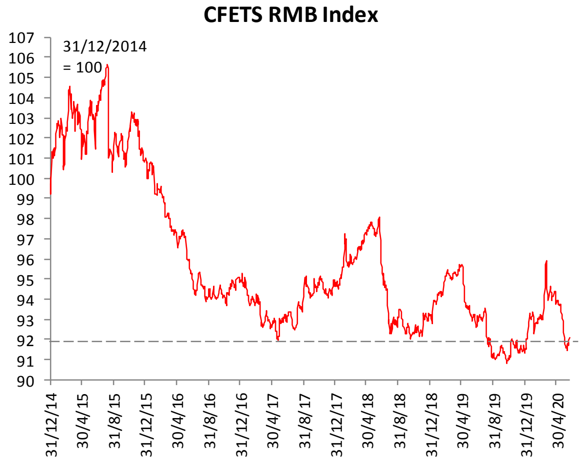
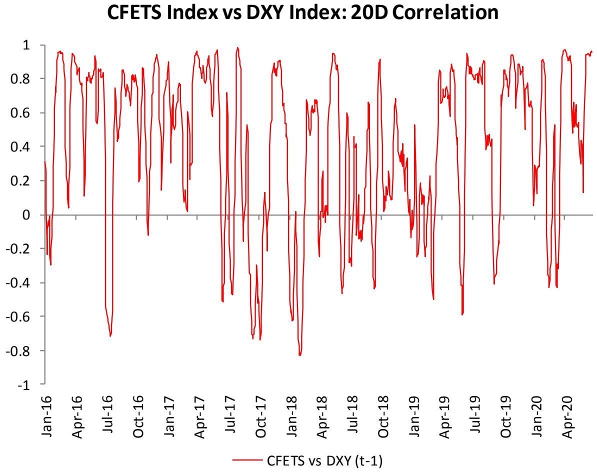
RMB: Still tracking the broad USD

- The CFETS RMB Index kept a tight correlation with the DXY Index, ticking higher in tandem. Overall, the outright depreciation pressure for the RMB due to Sino-US issues have faded significantly. The tail-end risk for the USD-CNH to ease beyond 7.2000 has also reduced. Nevertheless, we do not see any appreciation bias for the RMB from current levels. Expect the USD-CNH and USD-CNY to remain locked within the 7.0500 to 7.1000 range.





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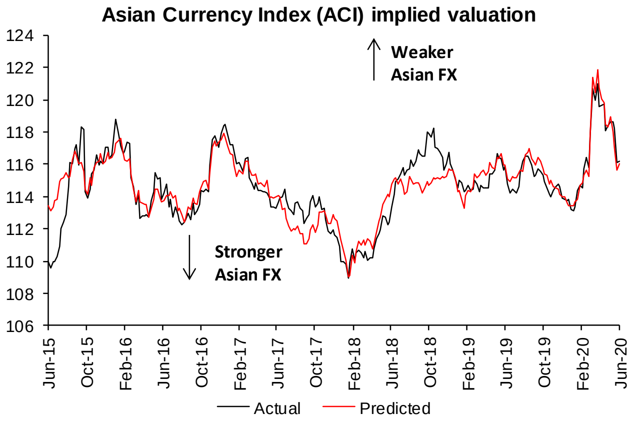
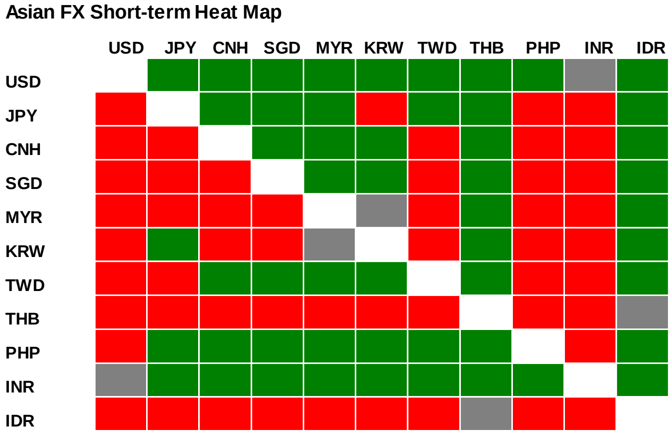
USD-Asia still implicitly heavy for now

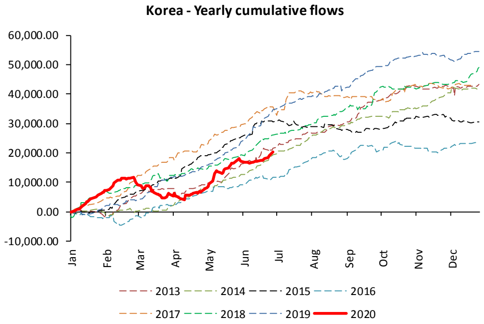
- Since the last Update, market sentiment has turned more sober, but have yet to tilt into an outright risk-off mode. The broad USD has turned more supported. These developments have allowed USD-Asia pairs to form a base off key support levels, and enter into a somewhat consolidative, albeit slightly supported posture. In the near term, we continue to expect USD-Asia directionality to have determined by global risk cues. **A material risk-off tilt – perhaps catalyzed by a capitulation in the equity space – should see the USD-Asia garner more upside traction. If that is not forthcoming, we may see USD-Asia settle into a gradual grind higher.** In the interim, expect the KRW (reactive to risk cues) and INR (domestic jitters) to be most susceptible to USD resilience. On the flipside, the likes of IDR and THB may be more resilient on better inflow dynamics.
- Nevertheless, we continue to urge caution in looking for excessive Asian FX strength. Fundamentally, that is not consistent with the slow recovery evidenced so far.

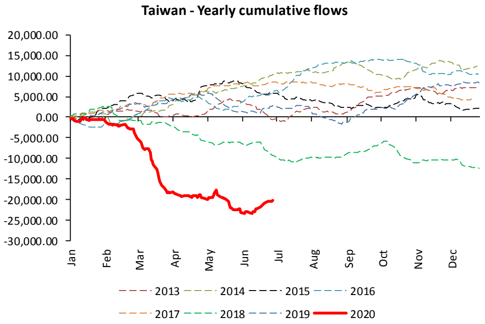


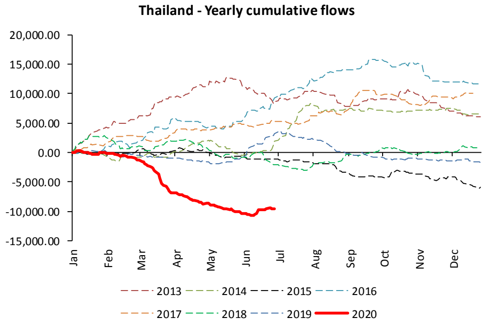


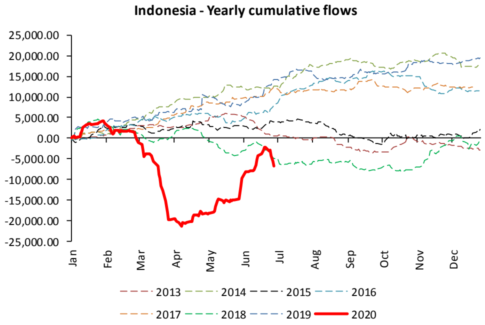
Malaysia the laggard on the portfolio flows front

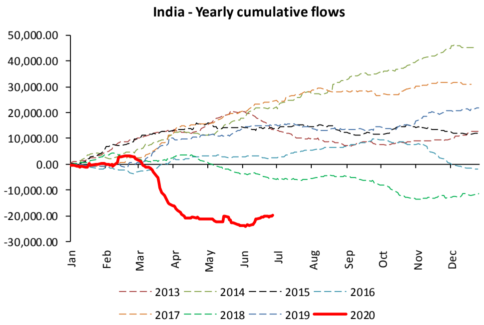
- Most economies has seen an improvement in their flow environment on a year-to-date basis due to the improvement in risk sentiment. Malaysia is the exception, where equity outflow momentum has seen no sign of improvement.

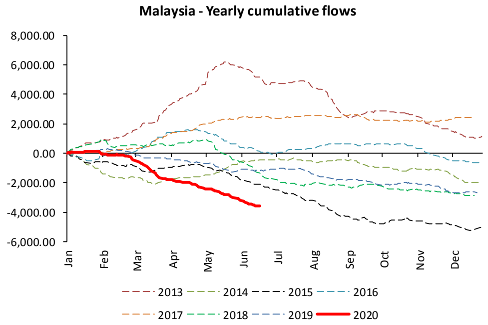












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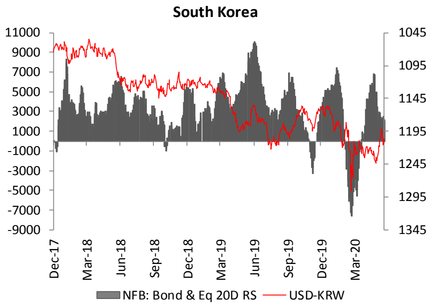
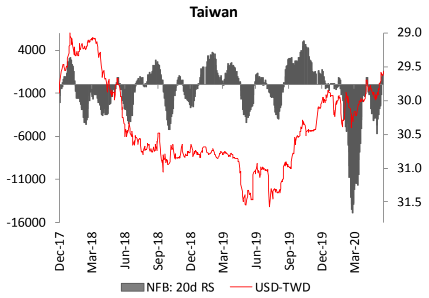
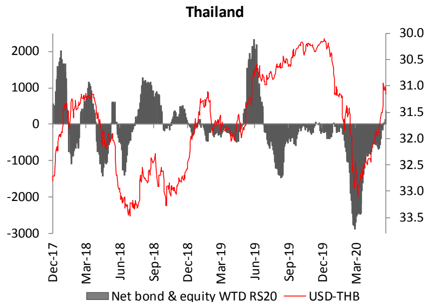
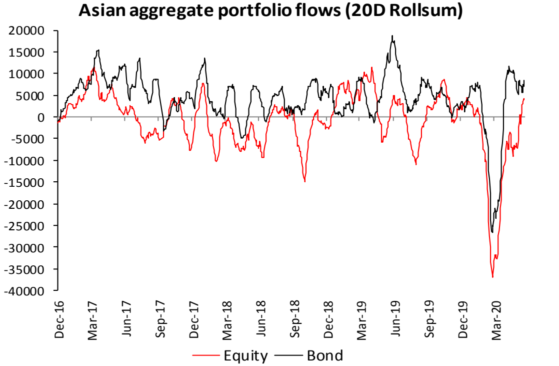
Background support for selected Asian currencies

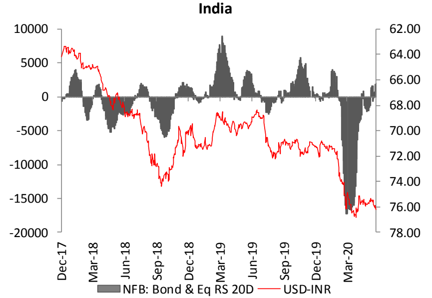
- Movement in TWD, IDR and THB showing good correlation with their respective flow pictures – with consistent improvements providing background support the currencies. In contrast, the likes of the MYR and KRW may have a tough time resisting any form of USD resilience.

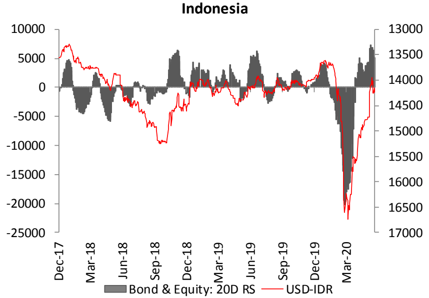


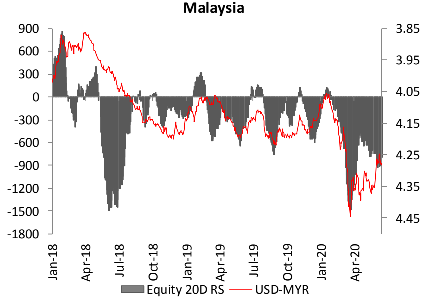


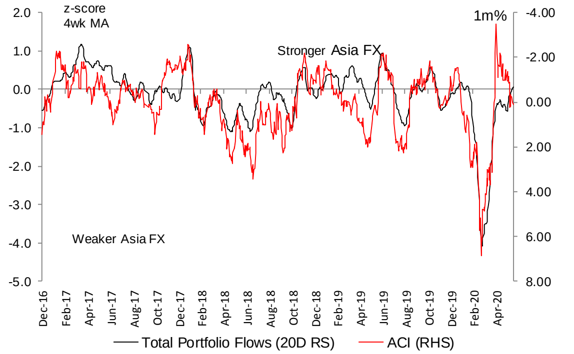












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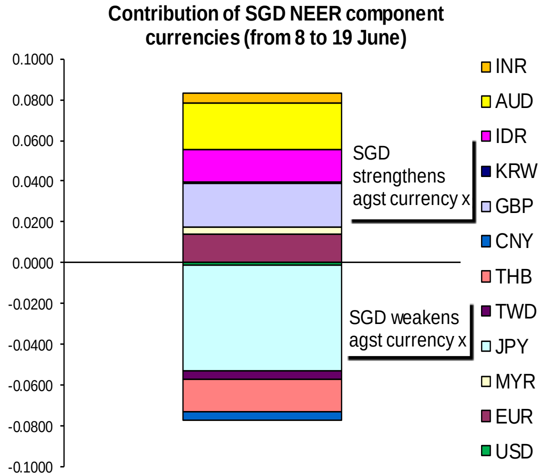
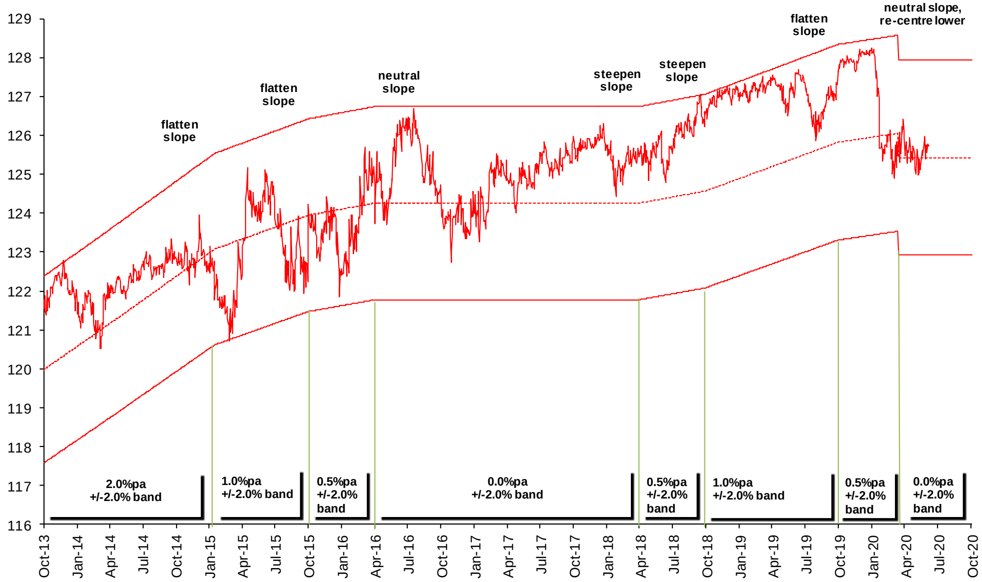
SGD NEER: Anchored around parity

- Latest MAS rhetoric suggest that they still expect a stable, but accommodative monetary policy. We interpret that as anchoring the SGD NEER around the parity level, with a narrow +/- 0.50% fluctuation on either side. Domestically, economic prints remain heavy, as denoted by the weaker than expected May NODX prints. The move to Phase 2 of post-CB should do little to instill optimism.
- The limits on the SGD NEER range should filter through to the USD-SGD, leaving any major moves in the pair a function of broad USD prospects. With the USD on a better footing, we expect the pair to be supported within the 1.3900 – 1.4050 range on a multi-session horizon.





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