Asia FX Update:

Negative pressure for Asian currencies ahead

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Asian FX Key Themes

- This week, renewed turmoil in the oil market seemed to be succeeding where a string of weak data failed – to serve as a catalyst for a turn in global risk sentiment (p. 10). Investors finally appear to be refocusing attention to the downward macro trajectory (p. 3-5). Most economic indicators have not reflected the negative COVID-19 impact, much less sink to 2008/09 GFC levels. Thus, the balance is still tilted towards more downside surprises on the macro front (p. 7-8). Asian central banks remains on track with further monetary easing, keeping govie yields depressed (p. 9). Meanwhile, the heavy bleeding in portfolio flows have moderated, but we do not regard it as a positive for now (p. 15-16).

- **Summary of research view**: The appreciation in Asian currencies amid the risk recovery over the past 3-4 weeks may have overrun its implied valuations (p. 11). This may result in a stronger bounce higher in USD-Asia if we see a bout of sustained risk-off in the coming weeks. Further out, Even though this crisis is said to be worst than the GFC, the impact have yet to be reflected in USD-Asia. The peak-to-trough moves Asian pairs so far are nowhere near the extent seen during the 2008/09 GFC (p. 12). Thus, we remain negative on Asian currencies both in the tactical and structural timeframes (p. 13). The SGD NEER risks falling out its recent range to the downside on the back of extended CB restrictions. This should translate to inherent upside pressure for the USD-SGD (p. 17).

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Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
China	↔/↑	↓	March data in China was mixed, with industrial production above expectations (-1.1% yoy vs mkt consensus: -6.2% yoy) but retail sales was weaker than expected (-15.8% yoy vs. mkt consensus: -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. Overall, the sense is that the worst case is averted, but the recovery has barely started. Note also increased policy impetus in China, with fiscal stimulus hinted, and RRR and interest rate cuts explicitly mentioned. PBOC injected RMB10bn of medium term funding, cut 1-year MLF funding rate from 3.15% to 2.95%, and saw a 50 bps RRR cut take effect last week. 1y and 5y LPR cut by 20 and 10 bps this week. This series of measures reinforce the idea of increased counter-cyclical easing by the PBOC. Mar official and Caixin PMIs recovered from the sticker shock levels in Feb, but the next true test will be in Apr. Year-to-date industrial profits out to Feb at -38.3% yoy. Feb CPI prints remain firm, but PPI moves into deflationary territory. Expect the CFETS RMB Index to continue tracking the broad USD, with the USD-CNH maintaining its 7.0500 to 7.1500 range.
S. Korea	↔	↔	BOK held rates unchanged in its scheduled April meeting, saving bullets for potentially more stressed needs later. BOK purchased KRW1.5tn of KTBs year-to-date, and continues to provide both KRW and USD liquidity to banks. Local corporate bond market stirring back to life, suggesting further easing of market stress. FY2020 growth may miss target, and a growth downgrade by the BOK is expected in May. Man. PMI dipped for the third consecutive month in Mar to 44.2, from 48.7. Mar exports stall at -0.2% yoy. Imports also contracted -0.3% yoy. Mar core and headline CPI came in at -0.2% yoy and 1.0% yoy. USD-KRW may be on a downtrend, but downside may be limited by the rising 55-day MA and the 1200.00 level.
Taiwan	↔	↓	FY2020 growth forecast cut to 1.3-1.8% yoy this week, a second revision lower after the first revision in February. Nevertheless, the extent of the downgrade is still less than other Asian economies, keeping the TWD relatively supported. Mar man. PMI bucked global trend to move back into expansionary zone at 50.4. 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 SGD NEER risks breaking lower from the recent parity to +0.60% above parity range after the extension of the CB restrictions. Nevertheless, SGD NEER downside is protected (to an extent) by the MAS' preference for stable exchange rate. Upside is limited by the still negative macro trajectory and the ongoing virus spread. Advanced 1Q 2020 growth saw a -2.2% contraction. FY2020 GDP forecast downgraded heavily to -4.0 to -1.0% yoy. Sizable fiscal rescue package in the form of the Unity, Resilience and Solidarity Budgets, with fiscal policy expected to carry the weight of supporting the economy through the COVID-19 crisis. Mar NODX surprised heavily on the upside, printing 17.6% yoy vs. mkt. expectation of -8.0% yoy. We attribute this to a low base effect, and also the frontloading of pharmaceutical and electronics exports. Feb headline and core CPI printed 0.3% yoy and -0.1% yoy respectively, both softer than expected. Feb IP contracted -1.1% yoy, against estimates of -3.2% yoy.
Thailand	↔/↓	↔/↓	BOT said to be exploring unconventional policy measures like asset purchases and yield curve control. This may suggest that the BOT may still be on an easing path, and may require more than what the conventional policy room allows to stimulate the economy. Market chatter for additional fiscal stimulus as well. Official growth forecast downgraded heavily to -5.3% yoy for FY2020. Mar man. PMI slumped to 46.7 from 49.5. 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. Mar headline CPI at deflationary territory at -0.54% yoy, core CPI at +0.54% yoy. The USD-THB has searched lower. Going forward, expect further chatter for monetary and fiscal stimulus to build confidence and risk appetite for Thai assets in the near term. That should, in term, bring downside pressure to the USD-THB for now.
Malaysia	↔/↑	↓	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. Refreshed in-house growth forecast at -2.5% to 1.5% yoy. BNM cut rates by 25 bps as expected in its Mar meeting. The door remains wide open for further cuts, perhaps as early as the next meeting in May. Feb CPI stood at 1.3% yoy, marginally softer than expectations. Mar man. PMI dipped further to 48.4, compared 48.5 prior.

Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
India	↑	↔/↓	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. Various steps taken to release liquidity into the market. Local banks are now allowed to participate in offshore NDF market, deepening the market and perhaps giving the RBI more control over that market segment. 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. Mar man. PMI dipped lower to 51.8, from 54.5 prior. Mar exports contracted -34.6% yoy, compared to 2.9% yoy.
Indonesia	↔/↓	↔/↓	Largest EM USD bond auction since the COVID-19 fallout saw good response, especially in the context of outflow momentum. BI held rates unchanged at 4.50% on 14 April, but freed up more liquidity through an RRR cut. Threshold for further cuts may now be higher, with the BI seemingly reluctant to risk USD-IDR upside with a cut, especially after its hard-earned success in pulling back the USD-IDR from its recent highs. 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. Official growth forecast downgraded to 2.3%, with -0.4% as the worst case scenario. Mar headline and core CPI at 2.96% and 2.87% yoy respectively, both marginally better than expected. Big slump in Mar man. PMI to 45.3 from 51.9. 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. Mar CPI firmer than expected at 2.5% yoy. Mar man. PMI saw the largest slump across Asia, sinking to 39.7 from 52.3 prior. Feb exports grew by a softer than expected 2.8% yoy. Jan remittances grew by a stronger than expected 6.6% yoy. USD-PHP largely range-bound between 50.500 and 51.500, but expect the pair to drift higher towards the top-end of this range on further rate cut expectations. Immediate target at the 200-day MA (51.170).

COVID-19 watch: Positives in US and Europe?

- Although the numbers are now huge – more 2.5m confirmed cases globally – the rate of new confirmed cases each day have more or less flat-lined.
- The market is trying to put positivity from successful vaccine tests and the relaxation of restrictions in US/Europe. However, doctors and epidemiologists are often at hand to pour cold water over these suggestions. **Going forward, the risk is a premature reopening of the economy, leading to further virus spread down the road.**
- Charts drawn from the daily [COVID-19 Monitor](). Please refer to the publication for further details.

Chart 1: Total confirmed cases globally reached 2.56 million

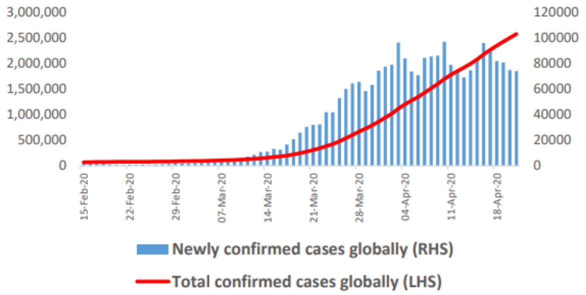


Chart 2: Top 10 countries with no. of confirmed cases (tests per million)

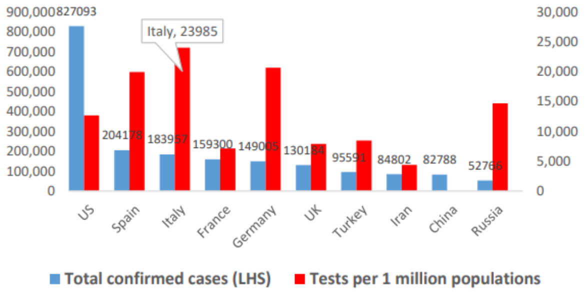


Chart 5: Total confirmed cases in Europe crossed 1 million mark

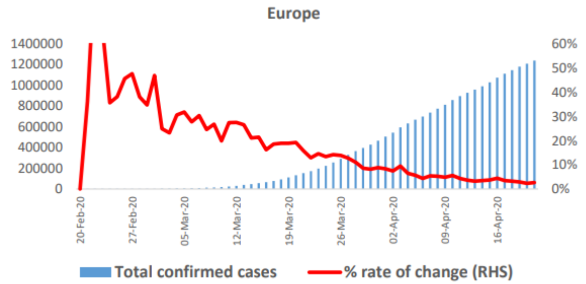
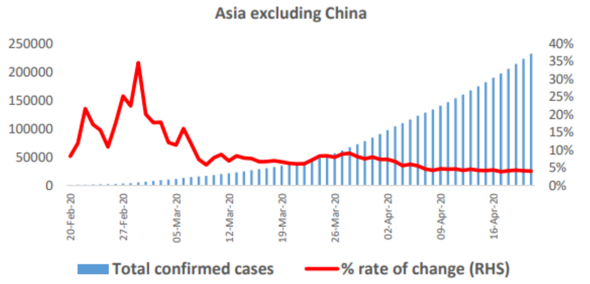


Chart 6: Growth rate in Asia failed to slow down



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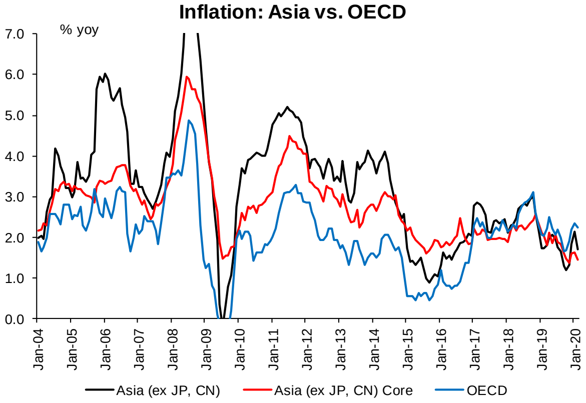
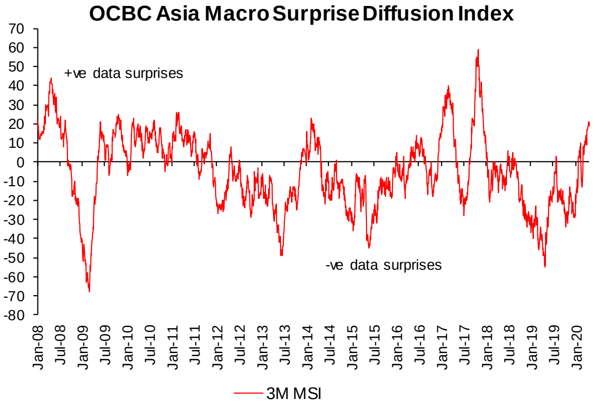
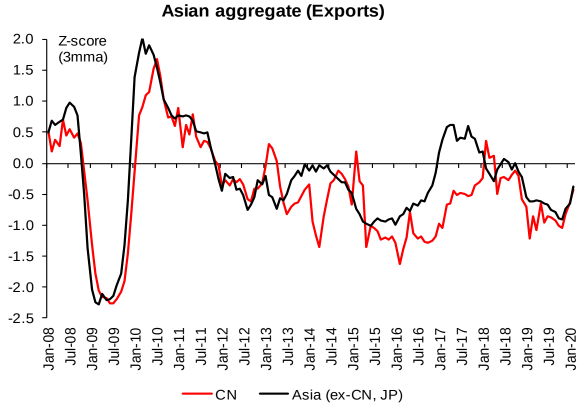
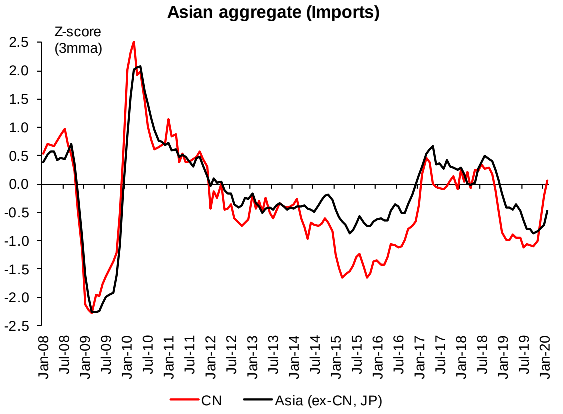
Macro trajectory: how low will it go?

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



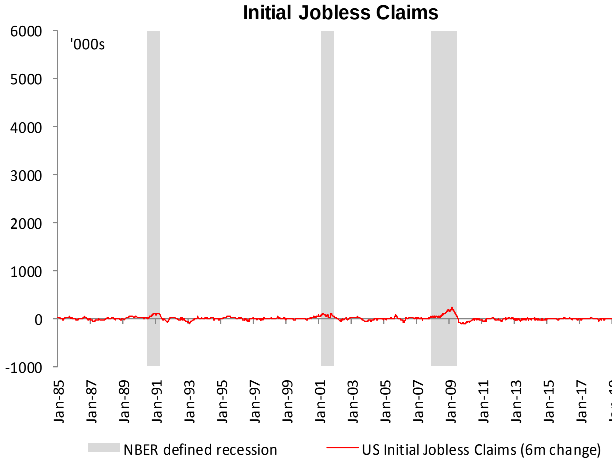


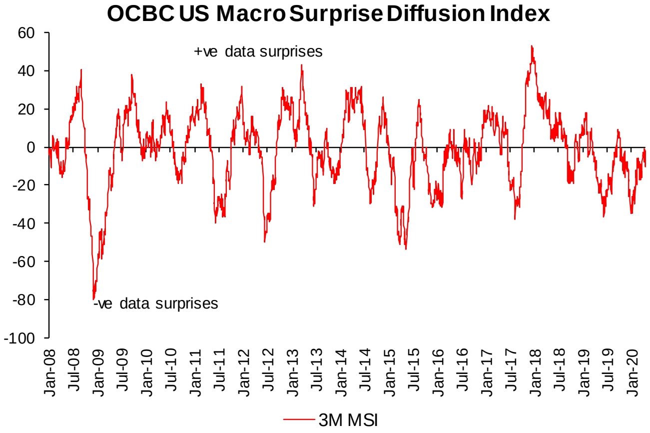


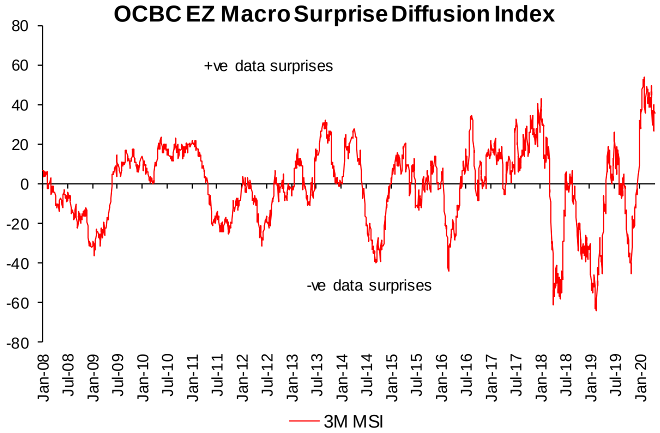


Macro trajectory: nowhere near GFC yet

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







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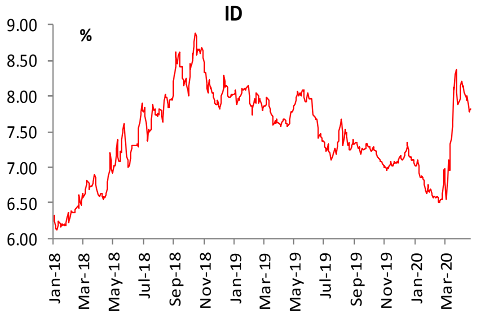
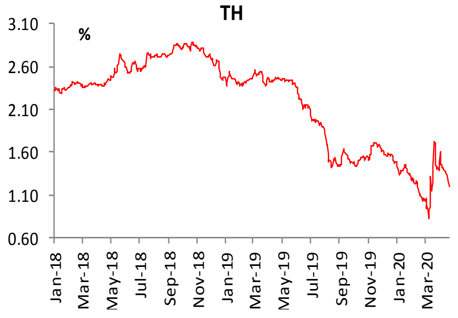
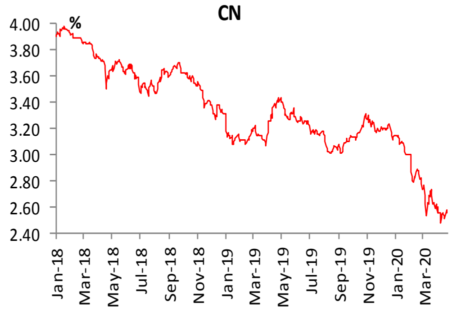
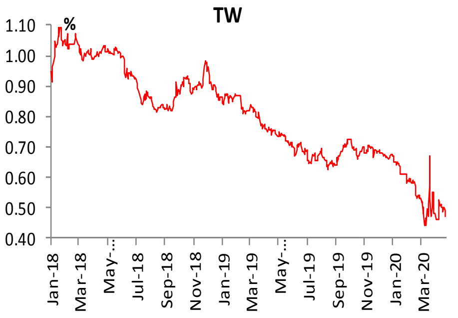
Asian 10y yields: Still biased lower

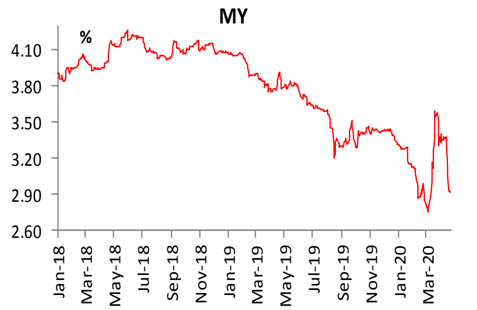
- Asian central banks remain on an easing bias, led by the PBOC, where interest rate and RRR cuts are now explicitly signaled. The BOT has also started experimenting with non-conventional policy like yield curve control, while other central banks have provided direct support to keep the yields low. **Prefer to be long in the low-yielders.**

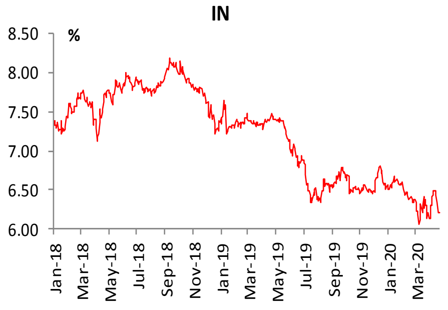


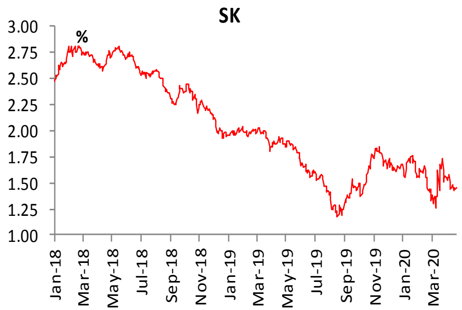


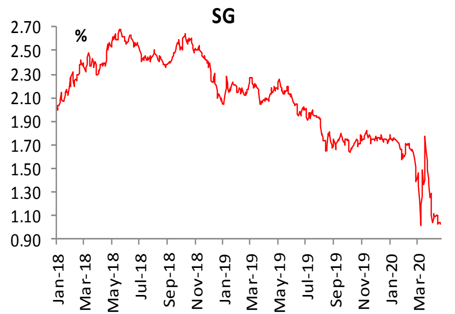












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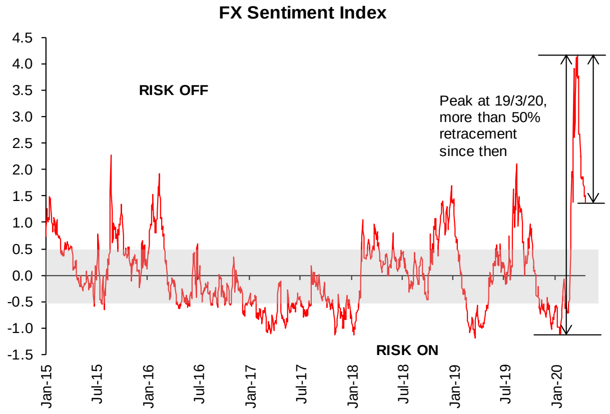
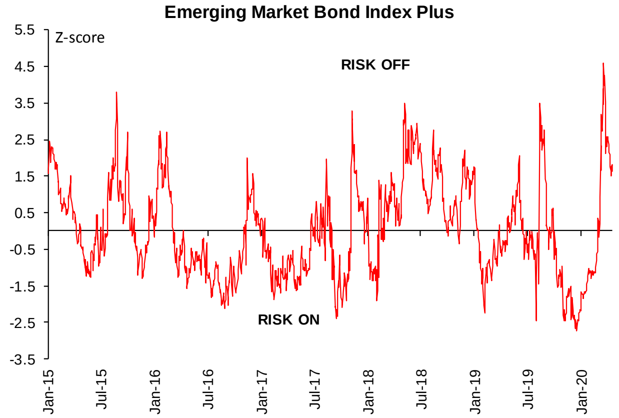
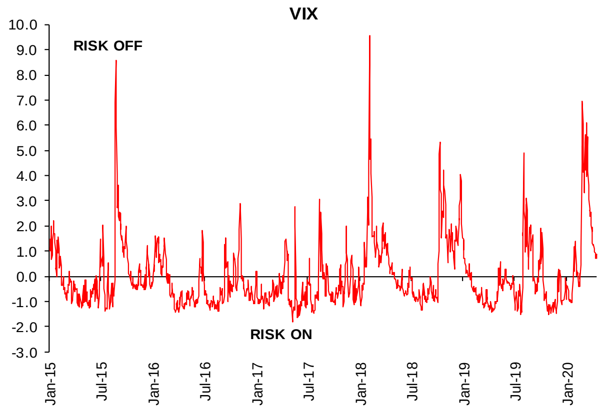
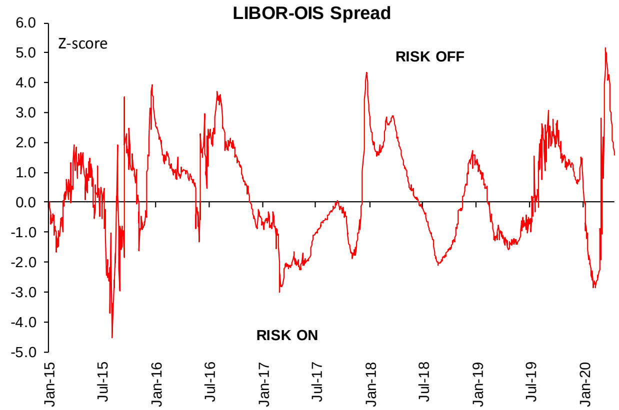
Improvement in risk sentiment – now for the turn?

- The FX Sentiment Index (FXSI) has retraced more than 50% from its Risk-Off extreme touched on 19 March.
- Quick check on the sub-indices of the FXSI reveals that **most of the easing of market stress is in DM equities and FX markets.** EM bond and interbank credit markets, and Asian-related sub-indices have retraced to a lesser extent.
- We had been suspicious of this improvement in risk appetite. At present, the renewed turmoil in the oil market seemed to be succeeding where a string of weak data failed – to be a catalyst for renewed risk-off.









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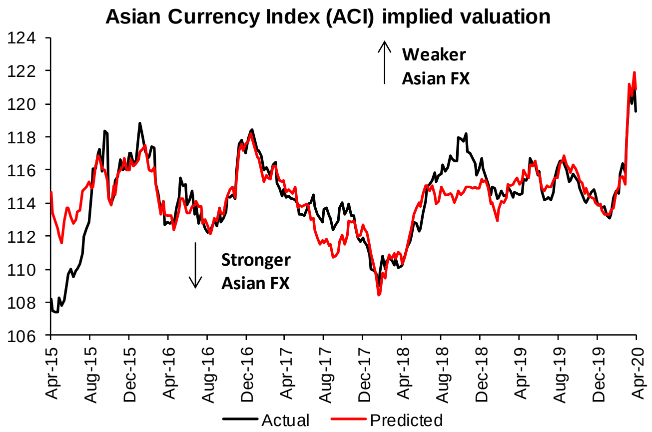
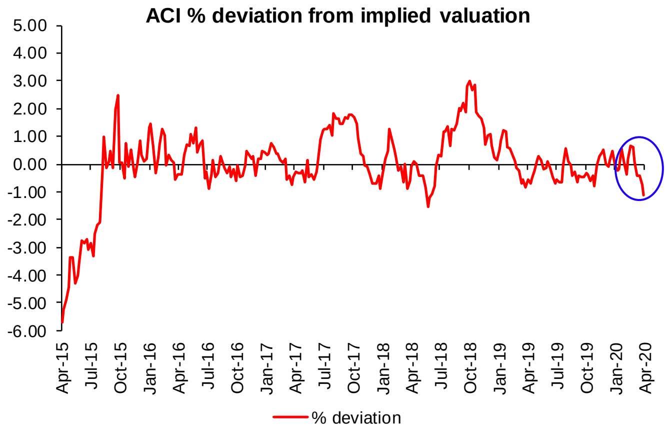
Asian FX may have strengthened beyond valuations

- A range of developments have been supportive of the Asian currencies over the past two weeks – the sideways-to-soggy USD, recovery of risk sentiment and moderation of portfolio outflows. **Compared with our in-house short term implied valuation model, the deviation of the Asian Currency Index (ACI) and its implied value has widened over the past 4 weeks, suggesting that the recent downside move in USD-Asia may have overextended.**
- Going forward, aside from the portfolio outflows (details in p.15-16), the two other developments may be short-lived in the face of the impending downward spiral in the macro trajectory. Thus, we prefer not to be chasing USD-Asia pairs lower at this time, preferring to stay defensive. Any turn in USD-Asia may be aggressive given its current overvaluation.





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Price movements not yet reflecting GFC-like recession

- Even though USD-Asia has corrected lower, we find little justification to reverse our structural long USD-Asia view. The macro trajectory continues to be decidedly southbound. On numerous occasions, politicians and central bankers have referred to this crisis as worse than 08/09 GFC. **Yet, in terms of price movements in USD-Asia, the extent is still around half (or less) compared to 08/09 GFC. Overall, we get a sense that the market have yet to fully impute the macro downside into USD-Asia.** Do not rule out further upside once market focus shifts to the macro trajectory.

	08/09 GFC*	COVID-19**
USD-KRW	+73.88%	+12.16%
USD-TWD	+17.69%	+2.02%
USD-SGD	+15.84%	+8.86%
USD-IDR	+43.55%	+22.40%
USD-MYR	+19.37%	+9.61%
USD-THB	+19.16%	+9.27%
USD-INR	+32.69%	+8.00%

*peak-to-trough change in 2008 and 2009
** peak-to-trough change between 22 Jan 2020 and 17 Apr 2020

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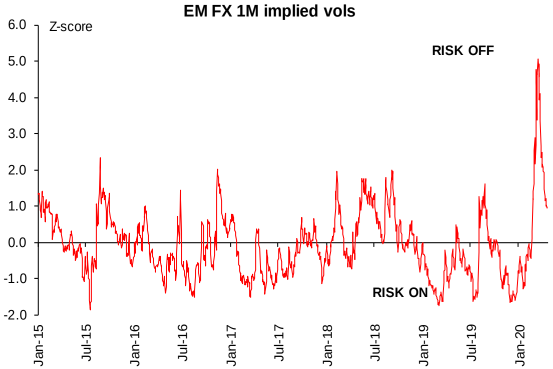
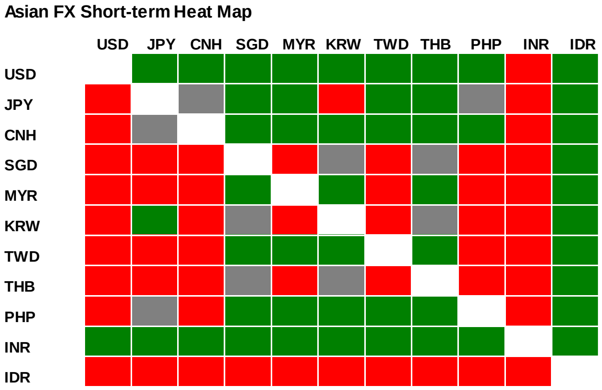
Risk-reward favours higher USD-Asia ahead

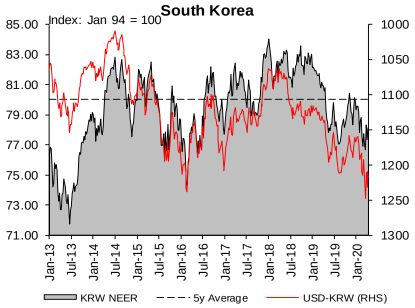
- Both in the short term (USD turning, USD-Asia overshoot on the downside) and long term (macro trajectory), we think that the environment is turning negative for Asian currencies. In particular, the close tracking of the CFETS RMB Index with the DXY index may be fading. Thus, the shelter from the RMB complex for the other Asian currencies may wane in the coming weeks. Overall, we expect further downside in USD-Asia to be limited, with the risk-reward favouring it to extend higher in the coming sessions.
- Going forward, the USD-MYR may be most exposed to upside pressure, especially with the crude oil complex seeing further weakness. Do not rule out another test of the recent high at 4.4500. USD-IDR stability is hard-won, but valuations are also no longer cheap. However, the USD-IDR may underperform if the BI remains on a close watch. We are perhaps most bullish on the USD-KRW, which should be most responsive to macro headwinds and also suspected negative political headlines from North Korea.

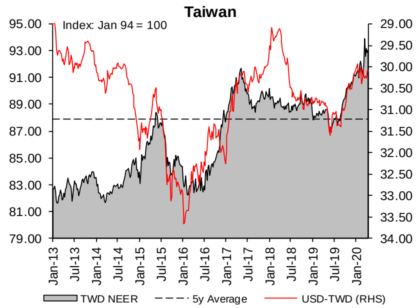


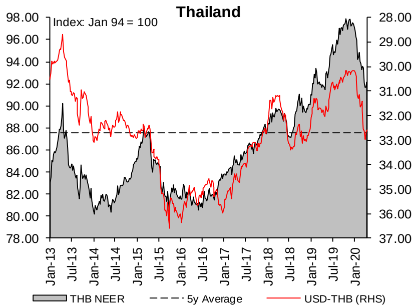


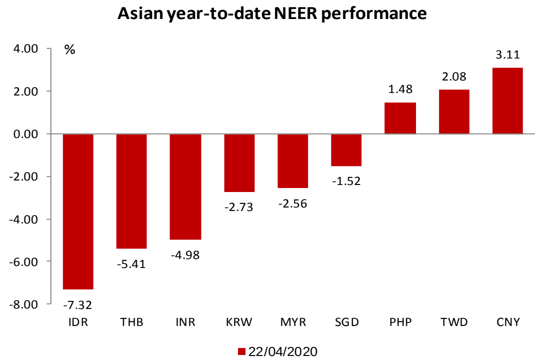
NEERs: RMB still best of the lot

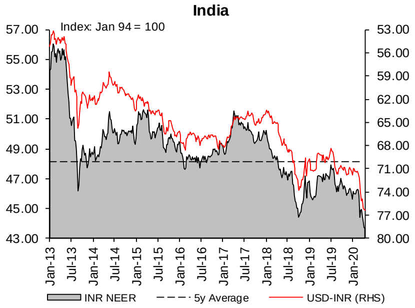
- The TWD and RMB remains the most resilient on an NEER basis. Going forward, TWD may stay ahead, with the economic fallout from the virus likely least severe in Asia. RMB may falter in the coming weeks if its correlation with the broad USD breaks down. The IDR recovered somewhat, but THB and INR NEER still looking very depressed.

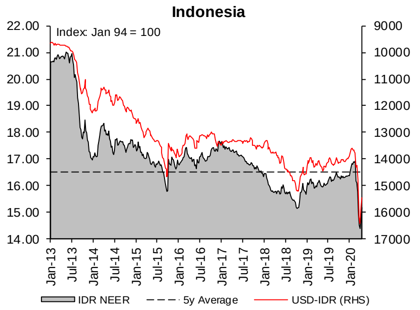


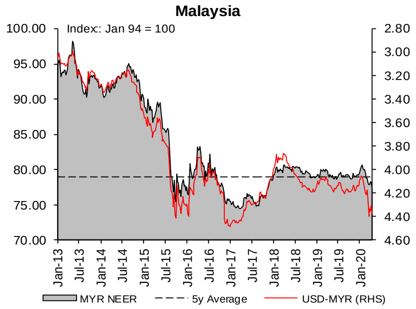


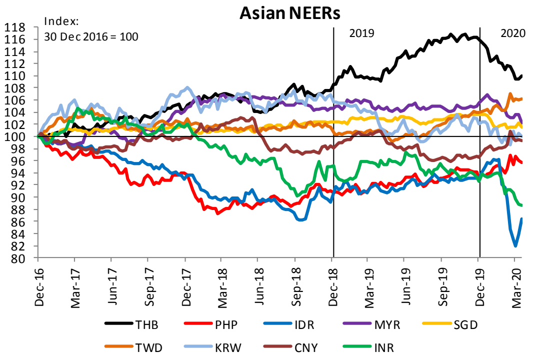






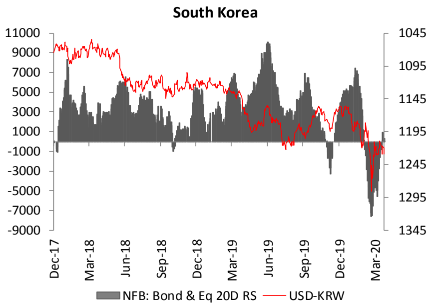


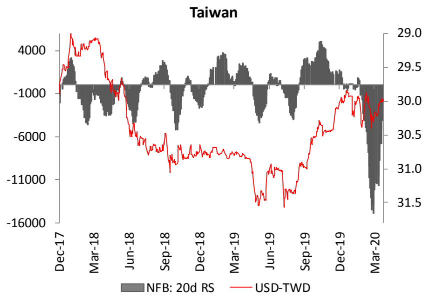


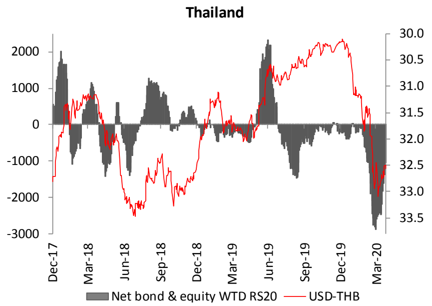


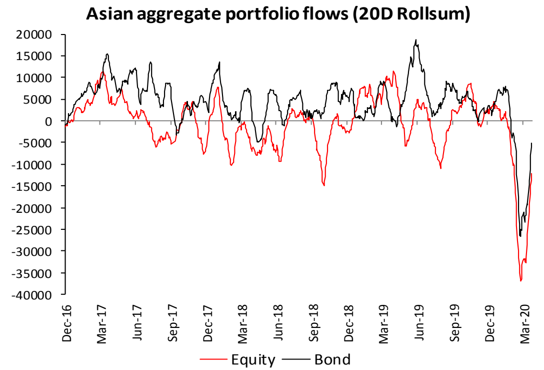
Moderating outflows, but not really a positive sign

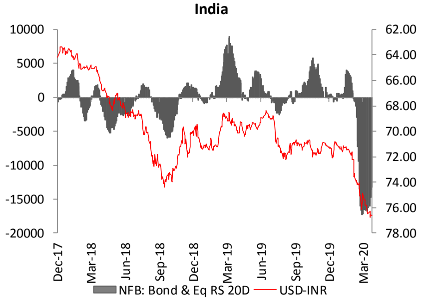
- Portfolio outflows had previously deepened to an extent worse than the 2008/09 GFC, but over the past 2 weeks, we have since a rapid moderation of outflow momentum. However, we see this as a technical response to foreigner holdings that have compressed significantly since the start of the year (details next slide). Not a significant net positive for Asian currencies at this stage.

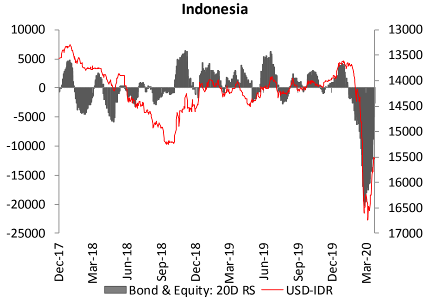


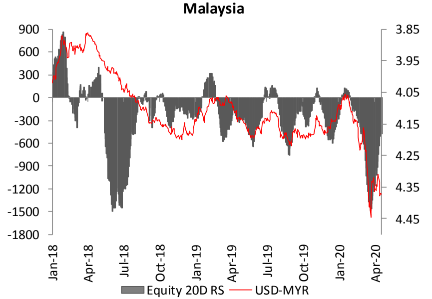


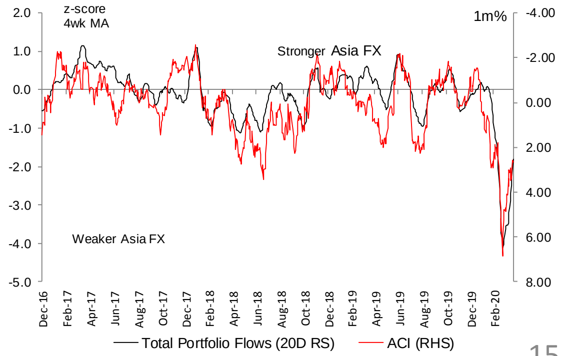












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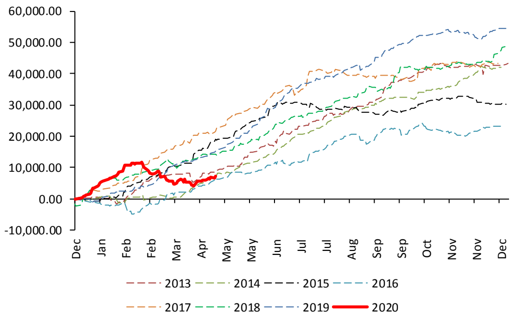
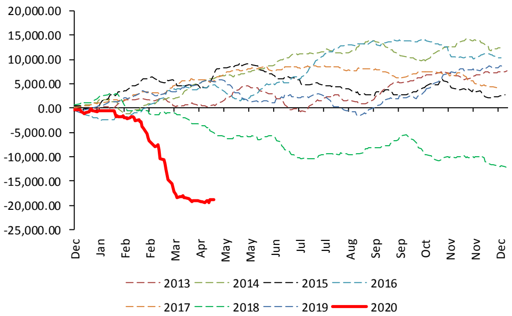
Foreigner holding of local assets reduced considerably

- Foreign holdings of local assets have been drawn down significantly this year. As a portion of GDP, foreign ownership of equities have moved to 08/09 GFC levels. This should limit further outflow momentum on technical grounds.

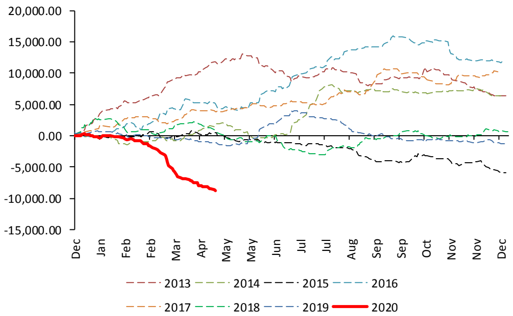
Korea - Yearly cumulative flows



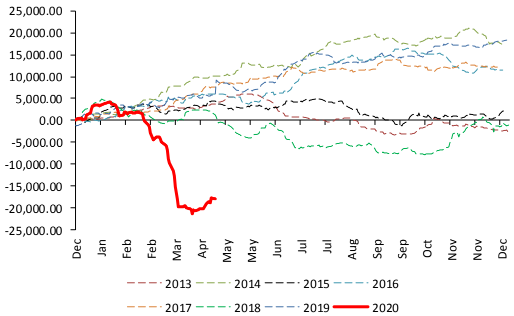
Taiwan - Yearly cumulative flows



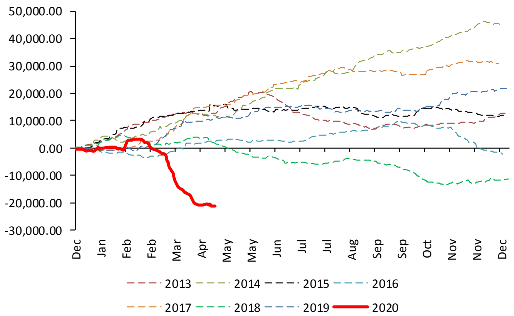
Thailand - Yearly cumulative flows



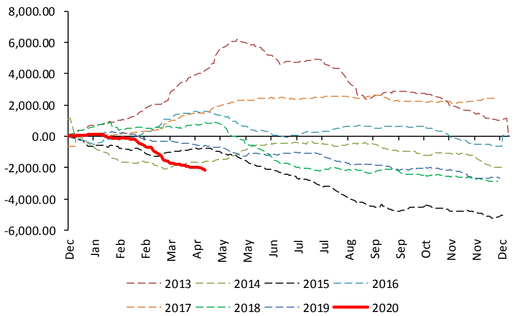
Indonesia - Yearly cumulative flows



India - Yearly cumulative flows



Malaysia - Yearly cumulative flows



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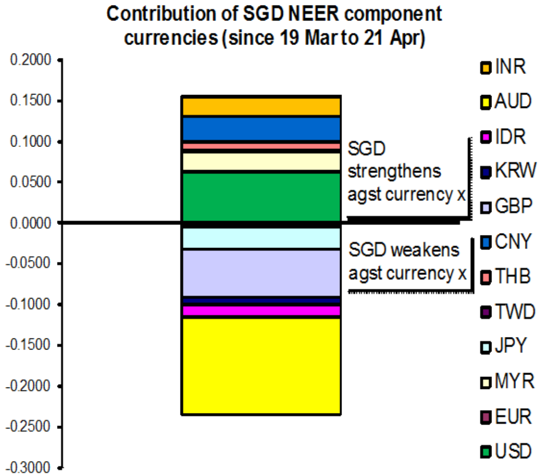
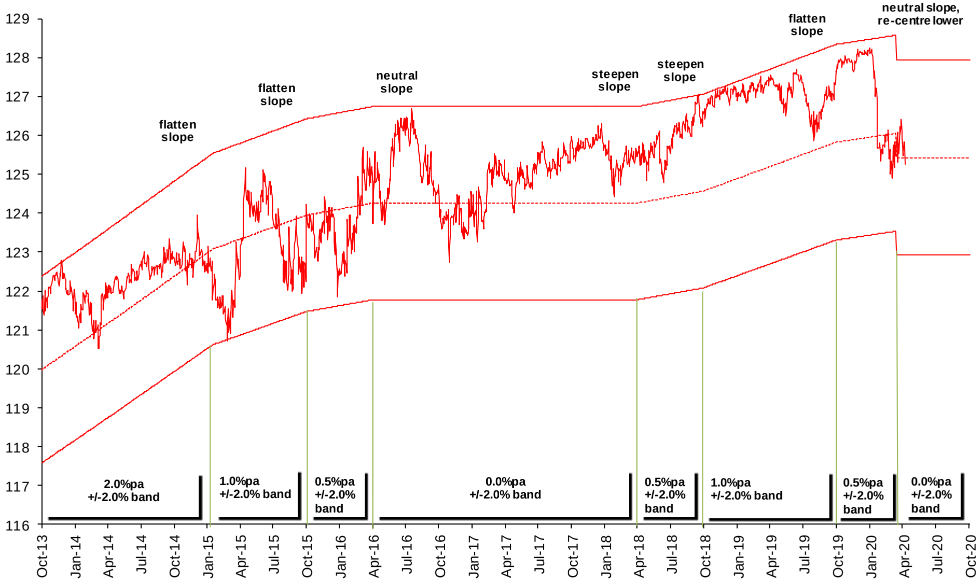
SGD NEER: Southbound to a new lower range?

- The SGD NEER has largely populated the parity to +0.60% above parity range since the April MPS. However, the extension of the CB restrictions seemed to have surprised some quarters of the market, and the SGD NEER was taken to sub-parity levels. It remains to be seen if the bottom end of the recent range in the SGD NEER would be breached.
- Longer term, expect the economy to take a larger hit. We do not rule out further growth downgrades. **Domestic imperatives, coupled with renewed demand for the USD, should keep the USD-SGD buoyant. Expect USD-SGD upside to be more forthcoming, especially if the SGD NEER moves sustainably south of parity.**





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