



Asia FX Update:

USD-Asia may turn supported ahead of US Elections

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Asian FX Key Themes

- Recovery in Asia (ex. China) continues to underperform the rest of the world (p. 3-7). With the recovery in Europe and the US expected to soften into the year-end, the question is whether the export-driven Asian economies will also see a dip in tandem (p. 6). Inflation dynamics remain soft across most of Asia, leaving the central banks space to ease further. However, the efficacy of monetary easing in Asia should be questioned after consecutive cuts this year (p. 7). On the portfolio flows front, there is still no strong inflow momentum. Heading into a potentially risk-off 4Q 2020, portfolio inflows are not expected to return in a big way until next year (p. 12-13).
- **Summary of research view:** Structural positives for the RMB remain in place, but this does not keep it immune from the recent USD bounce. We turn short term neutral on the USD-CNH as China heads into the long holiday (p. 9). However, note that the CFETS RMB Index has remain supported despite the higher USD-CNH. The broader USD-Asia posture should now turn supported, not just on the back of the USD bounce, but also from the uncertainties stemming from the US elections (p. 10). This posture may persist until the outcome is settled (may not be straightforward). On the home front, the upcoming MAS meeting should not spring surprises. We expect the SGD NEER policy parameters to remain unchanged, effectively leaving the USD-SGD still a function of broad USD prospects (p. 14).

Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
China	↓	↔/↑	Another front in tech war between US and China, this time involving the chipmaker SMIC. FTSE Russell to include CGBs in its global bond index. Limited immediate impact, but the feel-good factor should support in the near term. Expect this to drive bond inflows into China on a structural basis as the deadline for inclusion approaches next year. Aug retail sales prints were firmer than consensus, first time since the crisis. Aug official PMIs mixed, with the manufacturing print marginally weaker than expected, but the services print firmer. Both Caixin gauges are in expansionary territory, and better than expected. Aug exports also outperformed at 9.5% yoy, against expectations of 7.5% yoy. M2 growth marginally softer than expected, but aggregate financing expanded at a pace faster than expected. Overall, RMB positives remain broadly intact. Even with the USD turning firmer, but USD-CNY remains capped under 6.8500, expect some consolidation ahead of the long holiday period.
S. Korea	↔/↓	↔/↓	A fourth extra budget was passed on 22 Sep, providing targeted support for sectors most affected by the renewed lockdown in August. Additional government bonds will be issued to finance the extra spending. In turn, this will be absorbed in part by additional BOK purchases. The BOK held rates unchanged in Aug, but downgraded growth to -1.3% yoy for FY2020, from -0.2% yoy forecasted in May. Final print for 2Q GDP was shaded higher to -2.7% yoy, from -2.9% yoy. Aug man. PMI continued to recover, printing 48.5, compared to 46.9. First 20-days exports for Sep showing a yoy expansion, first time since Mar. With exports soft, expect little appetite for sustained KRW strength. Nevertheless, expect the USD-KRW to be function of broad USD prospects at this juncture.
Taiwan	↔/↓	↔/↓	CBC kept rates unchanged at 1.125% in its Sep meeting, but upgraded its FY2020 group forecast to 1.6% yoy, from 1.5% yoy in June. Aside from China, Taiwan's post-pandemic recovery probably looks the most on-track in Asia. Aug man. PMI continued to show uptick, printing 52.2, from 50.6 in July. Aug export orders jumped 13.6% yoy, compared to an estimated 9.7% yoy. Aug headline CPI entered at -0.33% yoy, marginally better than expected. Structural positives for the TWD not unlike the RMB. However, official tolerance of a firmer TWD seemed to be lacking still.

Short term FX/bond market views and commentary

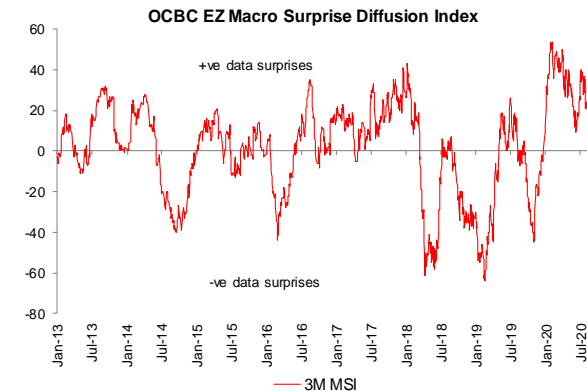
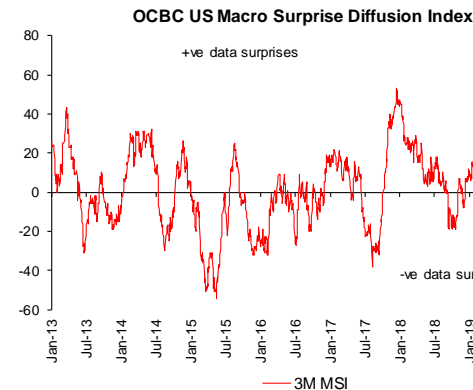
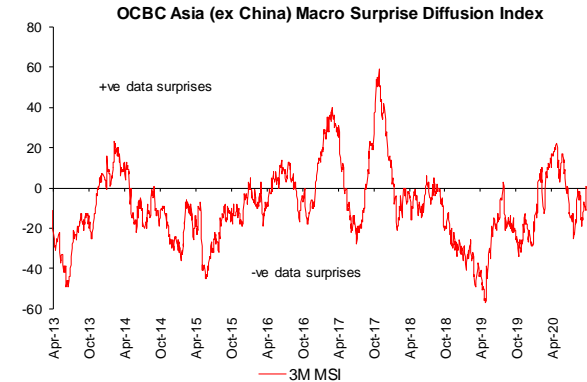
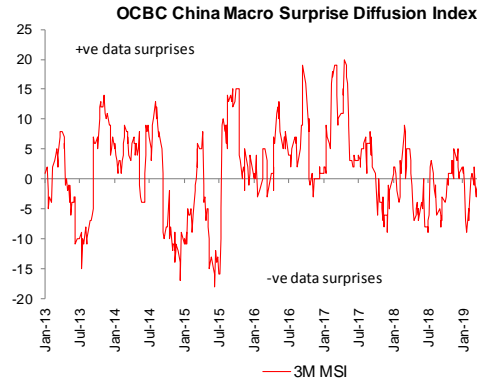
	USD-Asia	10y govie (%)	Commentary
Singapore	↔/↑	↔/↓	Series of data releases coming in more positive than expected provides a positive gleam to the macro outlook, although we will be cautious to exhibit too much optimism at this stage. Export sector recovering smoothly, with Aug NODX growth bouncing back sharply at 7.7% yoy, compared to estimates at 3.3% yoy. Aug headline and core CPI printed -0.4% yoy and -0.3% yoy. Price pressures expected to be benign into end of the year. Aug official PMI eased to 50.1, from 50.2 prior. The Markit reading, however, slipped lower to 43.6, from 45.6. Aug industrial production printed a big positive surprise. The SGD NEER is still in familiar range, but the USD-SGD is tracking the broad USD northwards. With the USD downside paused for now, expect the USD-SGD to see some inherent support.
Thailand	↔/↑	↔/↑	BOT unchanged at the Sep meeting as expected, with fiscal policy still the primary support for the economy. Inflation forecast upgraded to -0.9% yoy from -1.7% yoy in June. Export growth forecasts also upgraded. Growth forecasts upgraded to -7.8% yoy compared to -8.1% yoy in June, but 2021 forecasts cut to 3.6% yoy from 5.0% yoy. Political issues persist, with the finance minister position still vacant. Aug man. PMI continue to recover, printing 49.7, from 45.9 prior, but still in contractionary zone. Pace of decline in custom exports easing off, with the latest Aug prints also better than expectations. Contraction in customs imports also marginally better than expected. Aug headline CPI printed -0.50% yoy, better than expected. Core CPI at 0.30% yoy. Renewed USD strength compounded domestic issues, with the THB underperforming relative to Asian peers as expected. Nevertheless, expect further resistance around 31.90 to 32.00 area.
Malaysia	↔/↓	↑	Political uncertainties rearing its head again, although no action seen since Anwar's initial announcement. BNM held rates unchanged in its Sep meeting, inserting a new line in the statement that suggest that the rate cut cycle may be on hold for now. Aug CPI print at -1.4% yoy, worse than expected -1.3% yoy. Aug man. PMI slid back into contractionary zone at 49.3, from 50.0 prior. Jul exports again printed positive yoy, against market expectations of a contraction. Imports, however, continue to be cut lower fell -5.6% yoy, better than expected. The USD-MYR in retracement mode after a firm run since May. Expect initial resistance at 4.1800, before 4.2000, amid the USD recovery.

Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
India	↔	↑	RBI policy decision scheduled for 1 Oct is postponed, with a lack of quorum a likely reason. Policy rates were expected to be held constant, as inflation persists above the official tolerance range. 2Q 2020 GDP print slumped -23.9% yoy, worse than an already weak -18.0% yoy. Such heavy prints are expected to prompt a rethink of fiscal conservatism in the government. Aug CPI prints at 6.69% yoy, marginally softer than expected but still beyond the RBI's tolerance band. Aug man. PMI rebounded higher to 52.0, from 46.0 prior. Aug exports shrank -12.7% yoy, worse than in July. The USD-INR bounced off the 73.00 mark, making that a potential near term bottom for now. Expect the pair to drift higher amid USD strength, with upside pressure expected to grow if the market perceives the RBI delay negatively.
Indonesia	↔/↑	↔	Renewed semi-lockdown arrangements and concerns over central bank independence dominate. The BI unchanged in its Sep meeting, with the central bank focusing on currency stability. Further cuts into the end of the year will be dependent on the USD-IDR. Aug trade prints continue to show sharp declines for both the export and import sectors. Aug headline and core CPI at 1.32% and 2.03% yoy respectively, largely in line with expectation. Aug man. PMI recovered back into expansionary zone at 50.8, compared to 46.9 prior. This overarching worry about BI independence and debt monetization won't go away easily, giving a background upward lift for the USD-IDR. These issues will be in sharper focus amid USD strength, and put upside pressure on the USD-IDR near the 15,000 level. Cannot rule out a breach of 15,000 at this juncture, especially with the USD still in ascendance.
Philippines	↓	NA	2Q GDP contracted -16.5%, worse than the expected -9.4% yoy. The BSP held policy rates unchanged in its August meeting to allow the impact of previous cuts to flow through the economy. Aug CPI eased lower to 2.4%, below expectations. Aug man. PMI dipped for the second consecutive month at 47.3 versus 48.4 prior. Jul exports contracted -9.6% yoy and imports -24.4% yoy. Jul remittances grew 7.8% yoy, against expectations of a -5.4% yoy contraction. The USD-PHP is relatively immune to the USD strength – expect the pair to continue fluctuate on either side of 48.50.

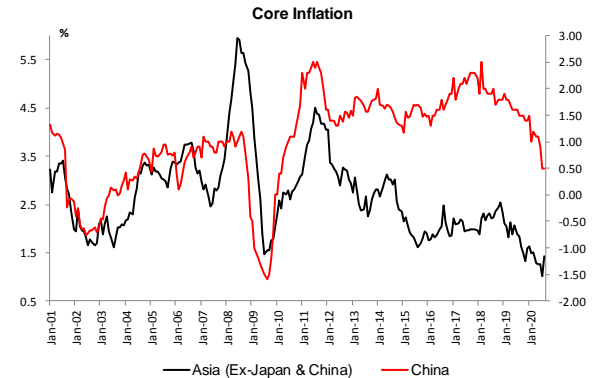
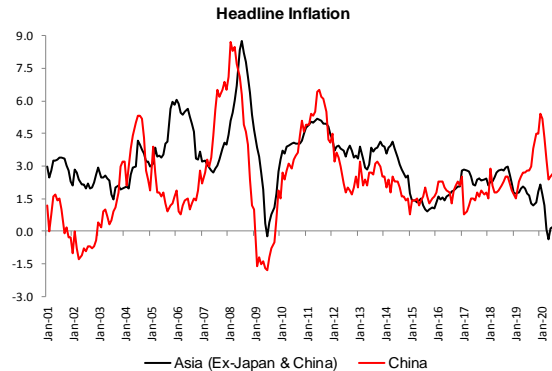
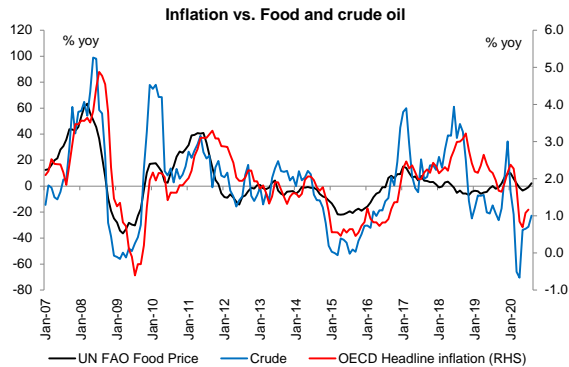
Asia (ex. China) remains the underperformer in recovery

- We split the Macro Surprises Index for Asia into China and Asia (ex China) to see more clearly the relative underperformance of the recovery in the rest of Asia. Although there has been some positive prints in Singapore, **it becomes quickly evident that the recovery is weakest in this part of the world.**
- Market perception is that the recovery in Europe (renewed virus cases) and the US (lack of additional fiscal relief) is expected to stall in 4Q 2020. This may, in turn, hit the export-driven Asian economies. This is notwithstanding the sporadic spikes in virus cases within Asia itself.



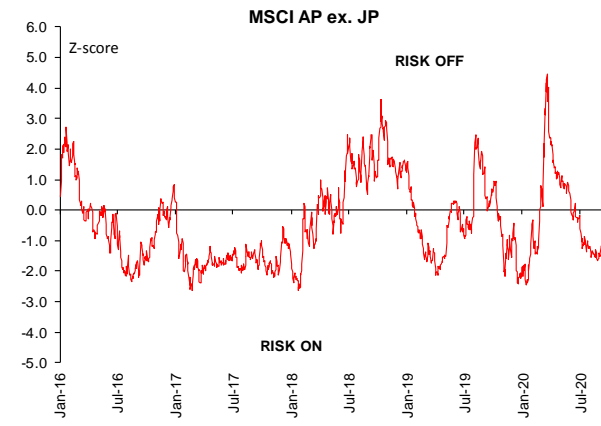
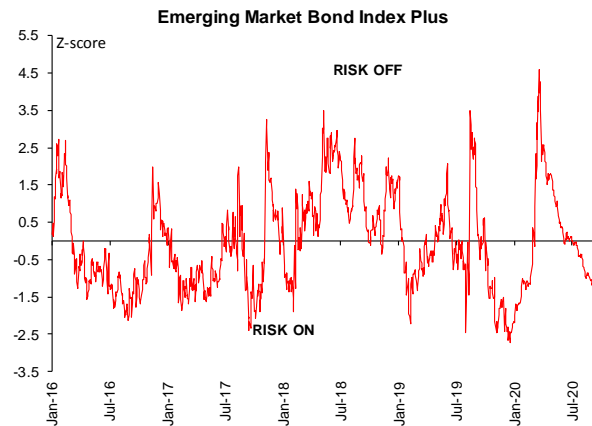
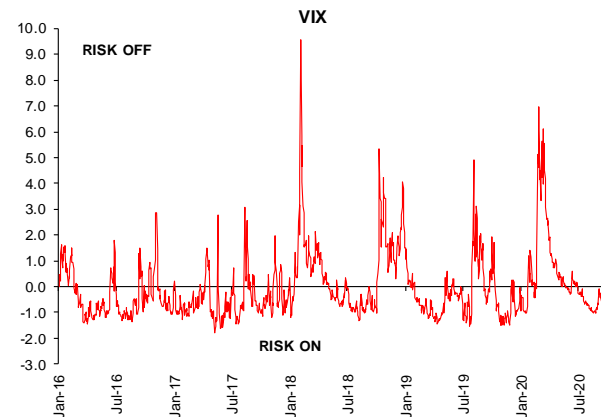
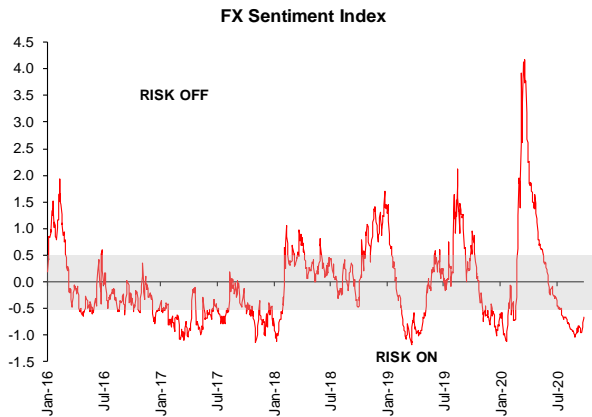
Asia (ex. China) remains the underperformer in recovery

- With price pressures still anaemic (except in India), expect growth to still be the overarching concern for the Asian central banks. Thus, further rate cuts and expansionary policy initiatives may still persist, with an occasional pause in acknowledgement to currency and financial stability. Nevertheless, given that Asian central banks have aggressively put in rate cuts this year, we question the efficacy of similar moves going forward.
- **This reinforces our fundamental suspicion of the low USD-Asia levels, and likely suggests that it is mostly the work of a weak USD. This leaves the Asian currencies susceptible to a rebound in the broad USD (see p. 10).**



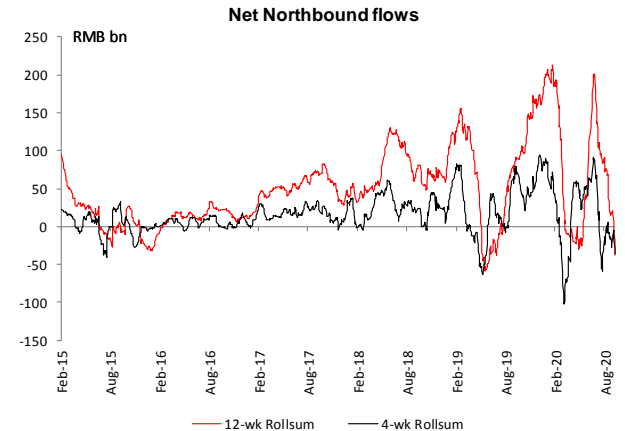
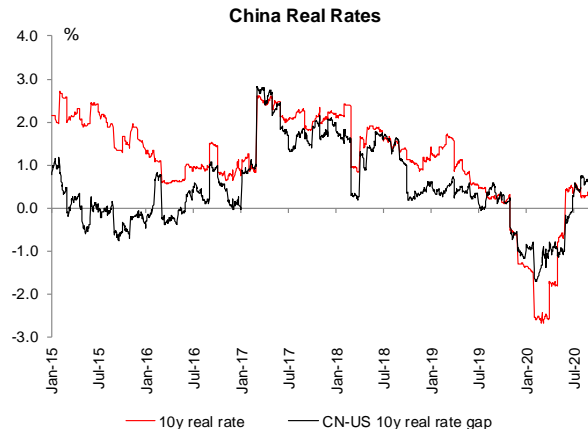
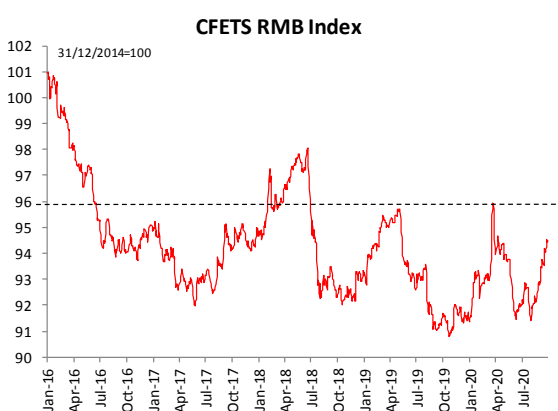
Negative risk sentiment trying to gain traction

- With the reflation trade since the summer months fading somewhat, market appetite for risk seemed to have eased. The **FX Sentiment Index (FXSI)** is still in the Risk-On zone, but has made a clear step towards Risk-Neutral. Risk assets have stabilized somewhat, but it is not completely out of the woods from a technical perspective. Event risks ahead – the US elections and Brexit – may also weigh on sentiment.
- Thus, even though risk assets have stabilized off lows in recent sessions, we are still cautious about backing another risk-on shift going forward.



RMB: Structurally positive, but not immune to the USD

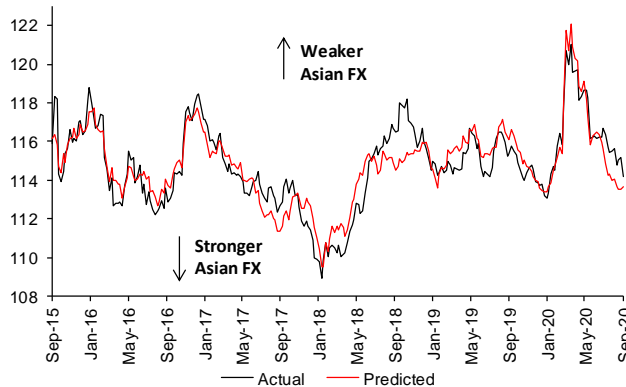
- **Structural positives for the RMB, including the on-track macro recovery (see p. 7), remain in place.** The CFETS RMB Index has continued to rise despite the higher USD-CNY, and is closing in on 95.00 where we may need to reassess RMB strength. We continue to expect the RMB to outperform other Asian currencies in index terms, and for the USD-CNY to search lower, on a structural horizon (see p. 11).
- In the near term, the ongoing slump in inflow momentum may leave the USD-CNY and USD-CNH susceptible to upside as the broad USD recovers, especially amid a risk-off tilt. **Despite our structural positivity, we are markedly more neutral in the near term, preferring to let the USD bounce run its course for now.** The USD-CNY may enter the long holiday near 6.8100 – 6.8300 levels, with the USD-CNH to drift in-line with the broad USD while onshore is out.



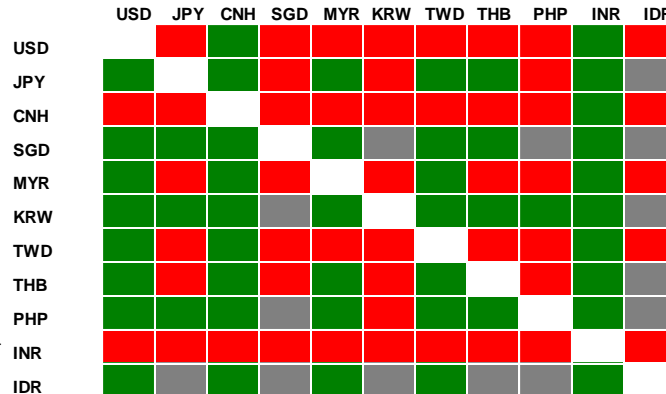
Firm RMB shelter, but Asian FX likely supported for now

- Although a resilient RMB may keep a lid of excessive USD-Asia upside, expect USD-Asia to see some inherent buoyancy for now amid risk-off sentiment. Expect this stance to persist as we head closer to the US elections. Although most will attribute that to the non-negligible chance of the another Trump victory, **we think the inherent risks associated with the closely run election is more pertinent in weighing down the cyclicals. Even if the USD is subsequently undermined by a contested outcome (not our base case), we think the Asian currencies may not significantly benefit. On the flipside, if the transition to the next administration is smooth, the lifting of the political risk premium should be an idiosyncratic positive for the USD.**
- In terms of idiosyncratic drivers, with Malaysia not downgraded by FTSE Russell in its bond indices, the MYR likely dodged an immediate bullet. Nevertheless, with Malaysia still on the watchlist, the specter of a downgrade and the associated outflows is not completely lifted. The can is just being kicked down the road.

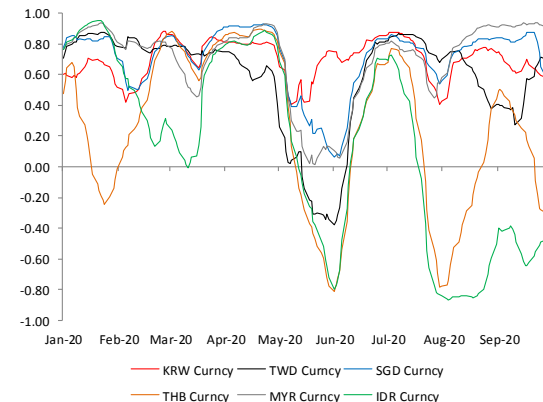
Asian Currency Index (ACI) implied valuation



Asian FX Short-term Heat Map

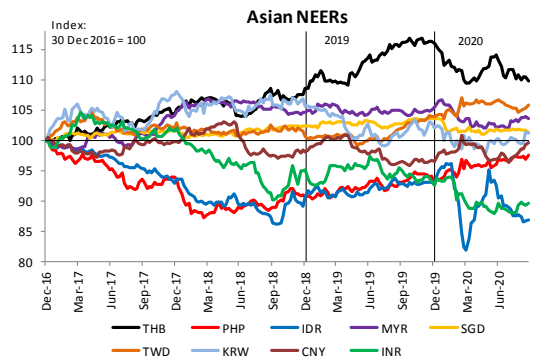
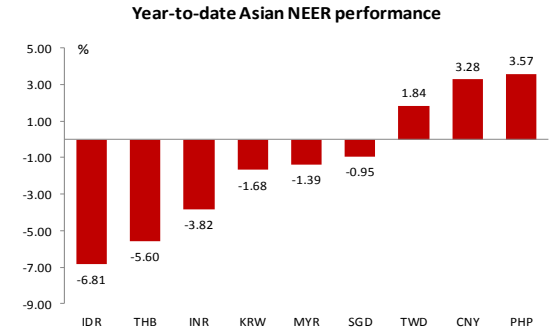
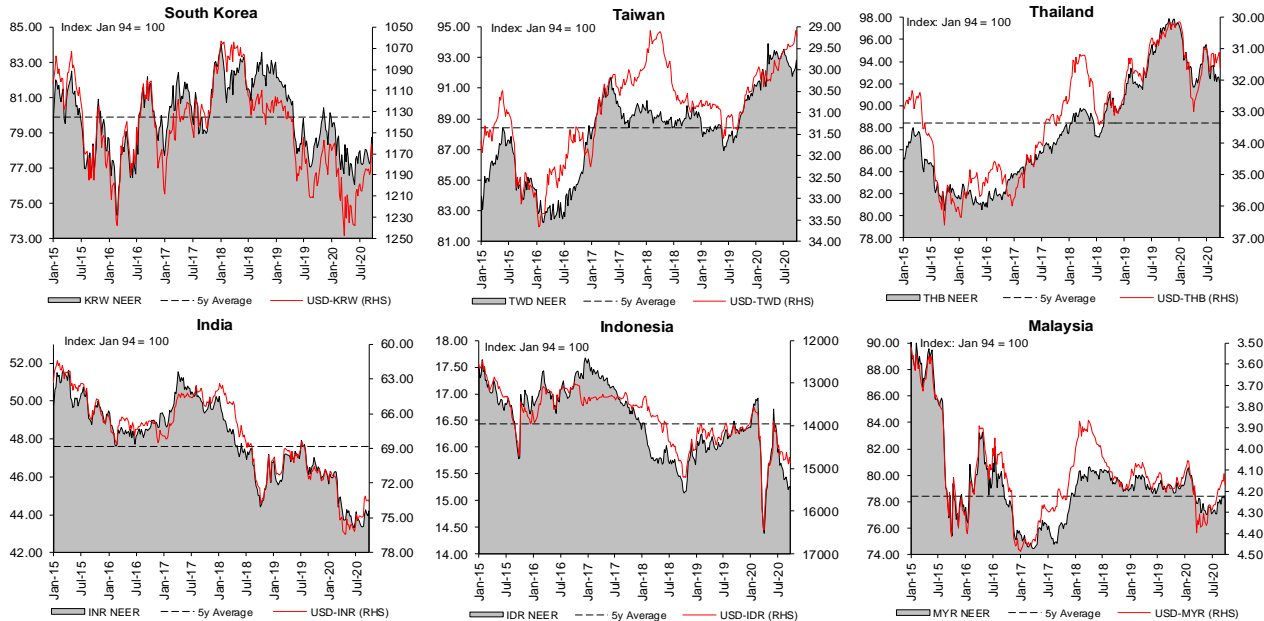


40-day Correlation with RMB



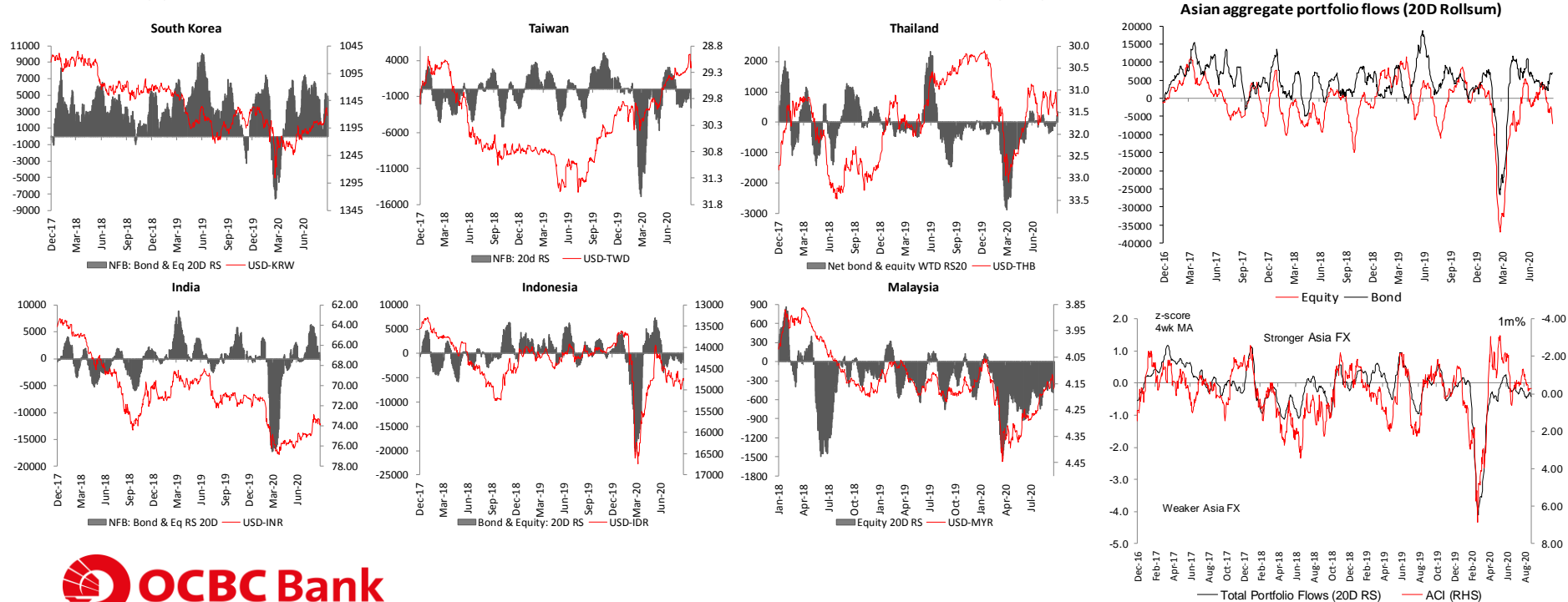
NEERs: Mostly softer on rebound in the USD

- Asian NEERs has mostly eased lower after the rebound in the broad USD. However, the IDR and THB remain the weakest on a year-to-date basis, perhaps a tacit acknowledgement of domestic negative drivers. Meanwhile, Taiwan and China, where the macro recovery is arguably most on-track is on the other end of the spectrum.



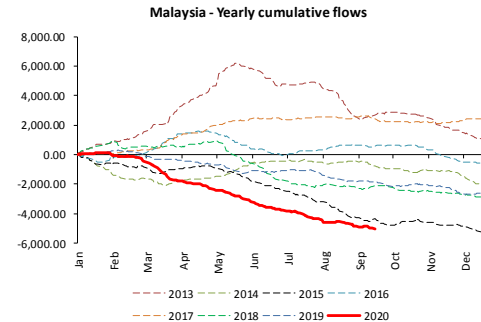
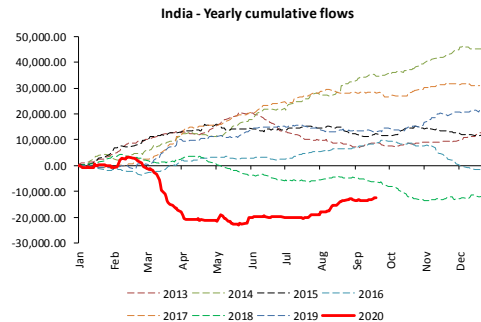
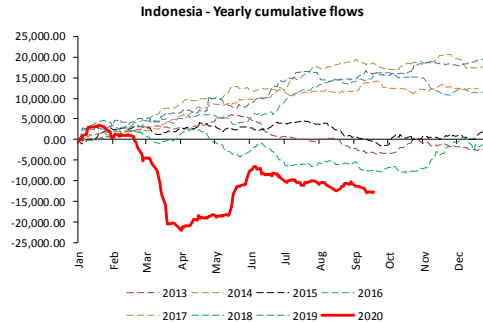
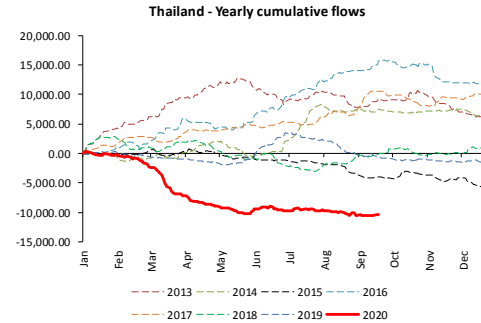
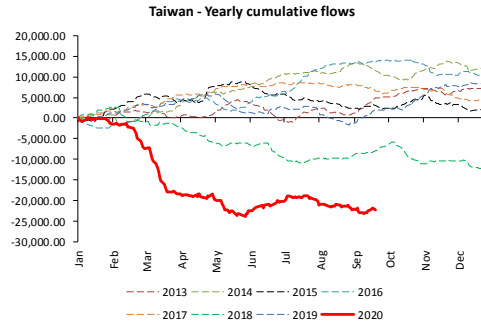
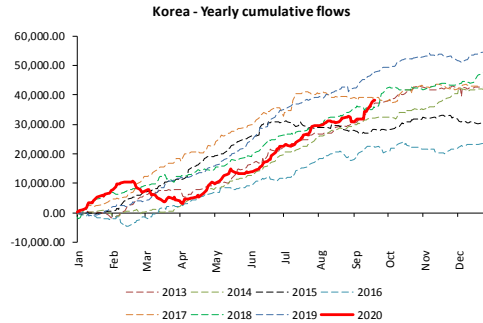
Lack of inflow momentum still weigh on Asian FX (1)

- Equity flow momentum have dipped sharply into the net outflow territory on aggregate terms. Strong inflows into India previously have completely retraced to neutral levels. Previous poster boys for bond flows, like Indonesia, continue to struggle. Only bond inflows into Thailand and South Korea have been picking higher.



Lack of inflow momentum still weigh on Asian FX (1)

- The lack of inflow momentum has been our main hold-back against further strengthening in the Asian currencies. Even with the risk-on tilt since April, inflow momentum showed no signs of improvement. Heading into 4Q, we are expecting the risk-on sentiment to fizzle out (see p. 8). Thus, **it may be unlikely for inflows to return in a big way this year.**



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