Asia FX Update:

USD-Asia to consolidate higher

18 Jan 2021

Treasury Research & Strategy
Global Treasury

Terence Wu
(+65) 6530-4367
TerenceWU@ocbc.com

OCBC Bank

Asian FX Key Themes

- After the Democrats completed the Blue Sweep at the Georgia run-offs, higher back-end UST yields has been the focus of the market, and it has pulled the USD higher in consequence. We had previously highlighted the risk of firmer yield differentials as a risk to the weak-USD consensus, especially when coupled with a stronger US macro outlook. The higher yield environment has come earlier than expected, but it is not matched by a convicted shift in the macro outlook and other USD-negative drivers. Aside from global cues, Asian countries are grappling again with an uptick in pandemic cases and its attendant impact on the economy. Data-prints has been largely in line with expected but showing no upward momentum, while portfolio inflows are only starting to get going again in the new year after a strong November last year.

- **Summary of research view**: Higher UST yields, but without further shifts in a broadly USD-negative environment, leaves us to question the longevity of the USD bounce. Near-term however, the risk-reward does not favour an overly large USD-negative position. Overlay that with the uptick of pandemic cases across Asia, and the stepping up of movement restrictions, the near term setup for Asian currencies is negative. However, the longer-term trend decline in USD-Asia remains in place. The USD-CNH leads the way higher, and we do not rule out the pair surfacing above 6.5000 in time. Other USD-Asia pairs should also be implicitly buoyant within their recent ranges.

Short term FX/bond market views and commentary

	USD-Asia	Commentary
China	↔/↓	4Q GDP better than expected at 6.5% yoy, arguably back at the pre-pandemic trend growth level. Dec official manufacturing and services PMIs both entered marginally lower than expected, with bigger misses seen in the Caixin versions. Nevertheless, there is little to suggest that the Chinese recovery would falter. Dec industrial production better than expected at 7.3% yoy, although retail sales missed expectations at 4.6% yoy. The export sector continued to power ahead, growing 18.1% yoy in Dec, outperforming expectations handsomely. M1 growth, aggregate financing and other monetary gauges continue to be solid and supportive of growth, but were nevertheless lower than estimated in Dec. Dec headline CPI inflation firmer than expected at 0.2% yoy in Dec. Depressed price pressures still leaves the real yields firm, even though nominal yields have eased south. The run lower in the USD-CNH since the start of the year may have been too swift, attracting regulatory tweaks from the PBOC that may be interpreted as a sign to curb the pace of appreciation. **Expect a consolidation phase north of 6.4600 before the resumption of the downtrend.**
S. Korea	↔	The BOK held rates unchanged at 0.50% in Jan as expected, with the central bank warning against debt-fueled asset price inflation. This leaves us expecting that the BOK will be on hold for this year.. Final 3Q GDP print entered at -1.1% yoy, better than consensus and prior estimates. Dec man. PMI at 52.9, steady compared to Nov. Dec exports powered to a 12.6% yoy growth, underlying the export-led recovery. Dec CPI in-line with expectations, and Nov industrial production outperformed on a yoy basis. **The bounce in USD-KRW off the 1080.00 support is not surprising, given that the pace of gains has been somewhat excessive. Expect 1100/10 levels to cap.**
Taiwan	↔/↓	The CBC kept rates unchanged at 1.125% in its Dec meeting, with no change expected throughout 2021. 3Q advance GDP printed 3.3% yoy, a large surprise on the upside relative to estimates. Man. PMI continued its strong momentum in Dec, printing 59.4 against 56.9 prior. Dec export orders strong at 12.0% yoy growth, with overall shipment value setting another record on the back of tech demand. **Expect ongoing flexing at the 28.00 support, with authorities looking to tamper the gains. However, that may be complicated in the long term by US Treasury's currency manipulation rules.**

OCBC Bank

Short term FX/bond market views and commentary

	USD-Asia	Commentary
Singapore	↔/↓	Advance 4Q 2020 GDP entered at -3.8% yoy, better than the consensus estimate of -4.7% yoy. This comes as a pleasant surprise as indications had been for a difficult 4Q. Dec NODX grew -6.8% yoy, against expectations of a contraction. Electronics and petrochemicals led the surge. Aside from monthly fluctuations, the export sector is likely to remain firm this year. Dec official PMI inched higher to 50.5. The Markit gauge also rose into the expansionary zone at 50.5, from 46.7 prior. Nov industrial production outperformed at 17.9% yoy. Nov headline and core CPI printed -0.1% yoy and -0.1% yoy, with the headline print marginally firmer than expected. Retail sales in Nov contracted by a less than expected -1.9% yoy, against expectations of a -8.1% yoy dip. **The USD-SGD should track the broad USD and RMB prospects to turn consolidative, with a slight upward bias.**
Thailand	↔	BOT unchanged in Dec meeting, while pushing back on the strong THB and upgraded growth forecasts to a smaller contraction. BOT has likely reached the end of its rate cut cycle, and will look to fiscal policy as the main policy lever. 3Q GDP printed 6.5% growth on a qoq basis, and -6.4% yoy. Dec man. PMI printed 50.8, lifting higher from prior month at 50.4. Nov custom exports contracted -3.65% yoy, marginally worse than consensus, but better than prior months. Nov customs imports effectively flat, against expectations of a -8.90% yoy decline. Dec headline and core CPI prints largely in-line to firmer than expected. **THB strength will remain a focus for the BOT this year as the structural appreciation bias is unlikely to ease up. Near term expectation for USD-THB to consolidate higher, targeting 30.20.**
Malaysia	↔	3Q GDP was snapped back sharply relative to 2Q, supported by the export sector and domestic consumption. Pandemic situation still rampant, with renewed MCO restrictions threatening the recovery. BNM held rates unchanged in its Nov meeting, but the balance of risks is still tilted in favour of more cuts into 1Q 2020. Nov exports stronger than expected at 4.3% yoy, recovering from the weaker prints in the previous two months. Nov CPI print at -1.7% yoy, weaker than expected. Dec man. PMI at 49.1, improving from prior month but staying within the negative territory. **The USD-MYR lifted higher as the MCO 2.0 weighs and the state of emergency took investors by surprise. Nevertheless, global cues should outweigh domestic drivers to leave the USD-MYR still on a downward trajectory.**

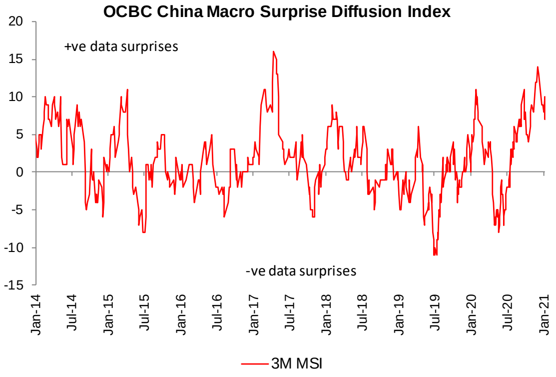
OCBC Bank

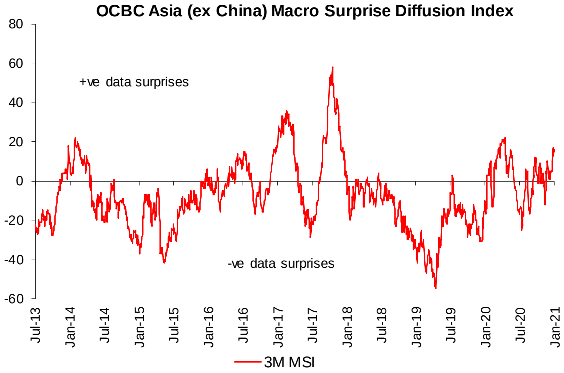
Short term FX/bond market views and commentary

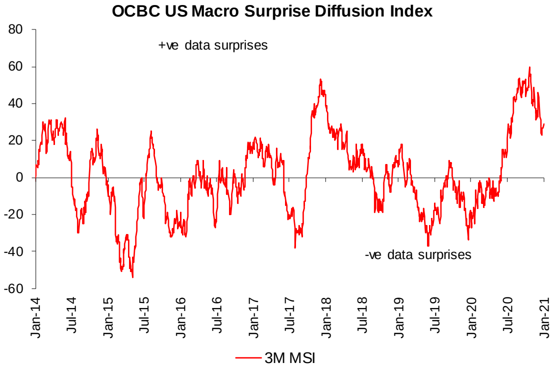
	USD-Asia	Commentary
India	↔/↓	Annual GDP estimate for 2021 entered at -7.7% yoy, worse than the expected -7.5% yoy. Dec man. PMI firmer marginally at 56.4 compared to 56.3 in the prior month. Nov exports slid further back to -8.7% yoy, against -5.1% yoy in Oct, while Nov industrial production also entered at a weaker than expected -1.9% yoy. Dec CPI prints eased further to 4.59% yoy in Dec, again softer than estimated. The decline in CPI to levels below the 6.0% upper tolerance level may path the way for the RBI to reinstate easing measures. Better odds of a rate cut in Feb 2021 is well placed. **We had expected the 73.00 to attract for the USD-INR. The subsequent bounce of the support likely points to range bound movement between 73.00 and 74.00 for now.**
Indonesia	↔/↓	The BI held its policy rates at 3.75% in Dec, although the sanguine outlook on growth was retained from Nov. We remain somewhat more cautious, and do not rule out further dovish action from the BI. 3Q GDP growth at 5.05% qoq and -3.49% yoy, both weaker than expected. Dec man. PMI extended to 51.3, from 50.6 prior. Dec exports saw a 14.63% yoy growth, much better than expected. Imports were flat, against a -12.96% yoy estimate. Overall, trade sector looks to be on the mend for now. Dec headline and core CPI at 1.68% and 1.60% yoy respectively, mixed relative to expectations. **The break below 14,000 proved short-lived for the USD-IDR, with the 14,000 to 14,300 range expected to govern for now. However, implicit heaviness for the USD-IDR should be retained, we look for potential stronger inflows into the bond market.**
Philippines	↔	The BSP held the policy rate unchanged in its Dec meeting, after a surprise cut in Nov. The BSP has been one of the more aggressive rate cutters in 2020, and have probably reached the extent of the cycle for now. 3Q GDP grew at 8.0% qoq, -11.5% yoy, both below expectations. This weakness is broad-based across all the key segments of the economy, underlying further negative outlook ahead. Dec man. PMI fell lower to 49.2, compared to 49.9 prior. Nov exports grew 3.0% yoy, against a -2.2% yoy contraction in Oct. Nov remittances flat yoy, softer than expected. **Firm support under the USD-PHP at 48.00 holds for now, especially with the USD supported for now.**

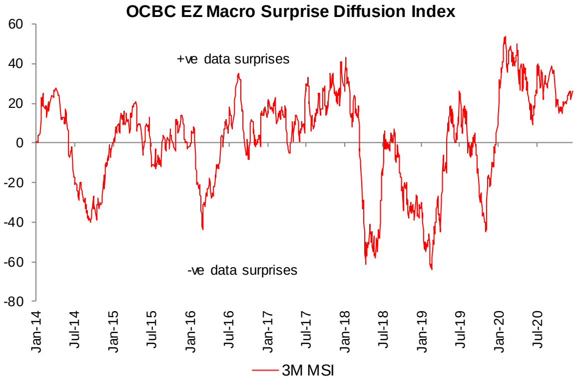
Asia (ex. China) struggles for macro momentum…

- … with better performance still focus around export-driven North Asia. China may be seen as having returned to trend growth at around 6.5% yoy, and remains the cover story for the growth recovery.
- More worryingly, data prints out of the US has started to turn soft, at a time when there is increased market chatter for tapering in the Fed's bond-buying. This put the FOMC's pushback into perspective. The base case should remain that the Fed and other global central banks will need to maintain an accommodative stance through-out 2021.





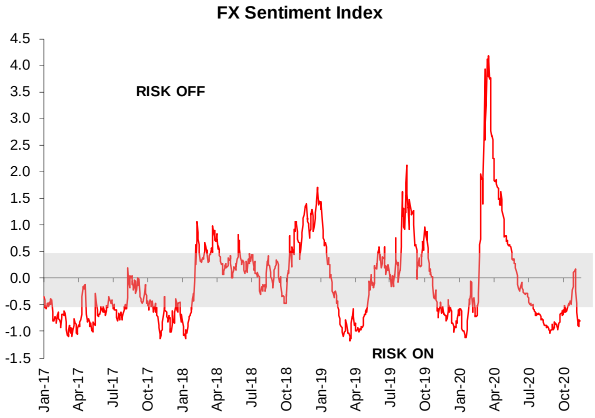


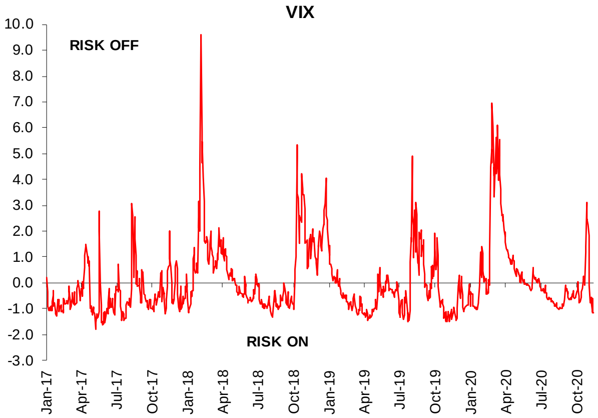


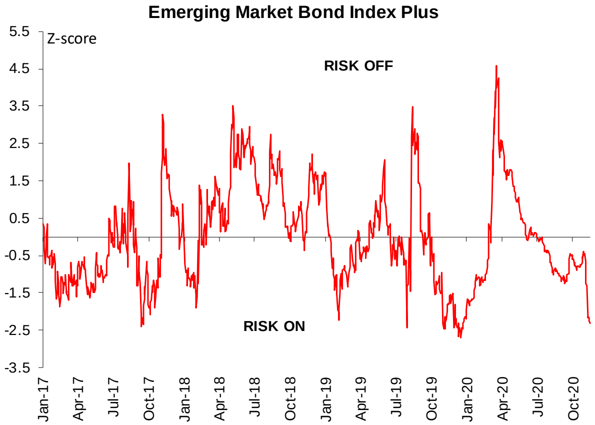
Source: Bloomberg, OCBC

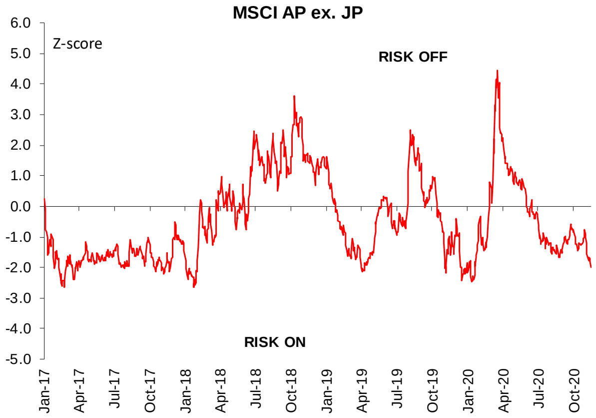
Risk-on environment resilient at the start of the year

- The **FX Sentiment Index (FXSI)** has remained anchored in the outright Risk-On zone even though there has been a number of COVID-19 negatives (new strains, still high confirmed cases). Market appears confident that the vaccination regime will mean that any spikes in confirmed cases will be temporary.
- Democrats taking over the majority in the US Senate also gave market sentiment a fillip – the prospect of larger than expected fiscal stimulus negated any implications on the tax policy. **Overall, the risk-on sentiment continues to hum in the background**.







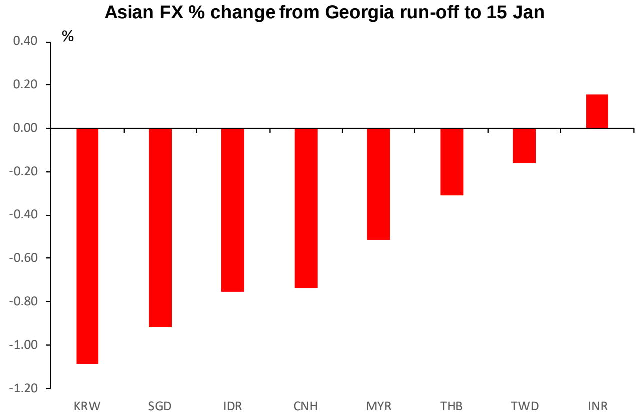


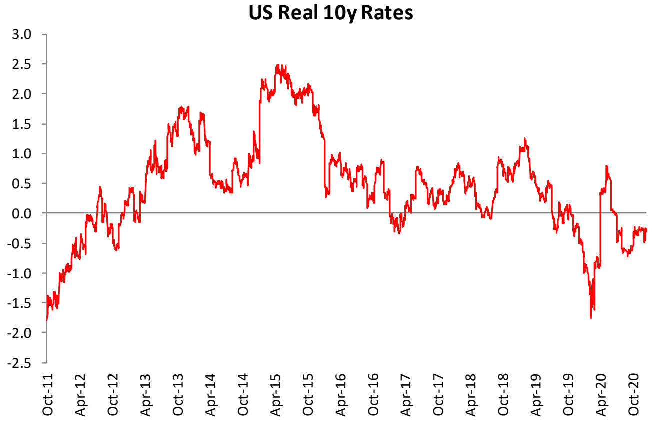
OCBC Bank

Source: Bloomberg, OCBC

Shifting into a firmer UST yield environment?

- After the Democratic sweep of the Georgia run-offs, Treasuries were sold off and the other asset classes are left to digest a higher back-end UST yield environment. The UST market is potentially at the brink of a regime change that leads to sustainably higher nominal and real rates in the US, with a corresponding re-engagement of the yield differential argument in support of a strong USD.
- Asian currencies have not been spared, with USD-IDR and USD-MYR among the worst hit.

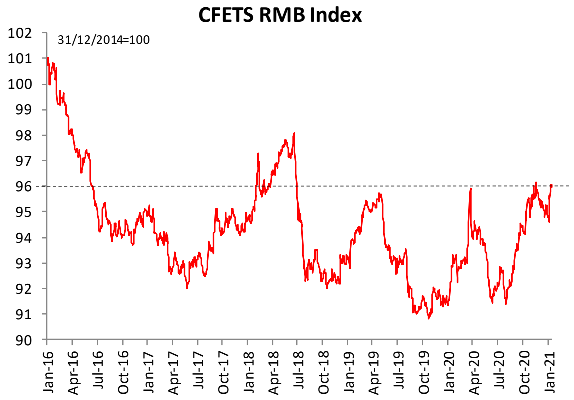


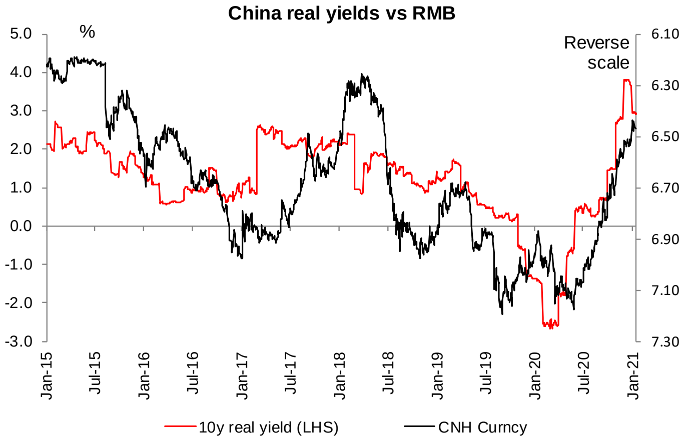


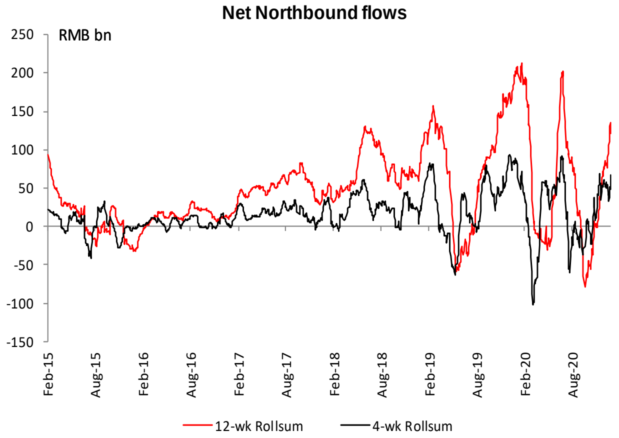
Source: Bloomberg, OCBC

RMB to consolidate after sharp move, bias unchanged

- The turn in the broad USD sentiment, coupled with the regulatory tweaks by the PBOC that (indirectly) signaled concern over the pace of RMB appreciation, led to a consolidation higher in the USD-CNH.
- Reduction of the USD weight in the CFETS RMB Index basket has limited immediate impact. However, it reduces the drag higher on the index by the weakening USD complex. This effectively implies that the rise in the Index can slow down. Notwithstanding the bounce in the USD-CNH, the CFETS RMB Index has continued to climb towards the 96.00 handle. Further appreciation beyond that ceiling, in turn, implies that the USD-CNH downside movement (our base case) will likely be retained. Look for opportunities to enter shorts in the USD-CNH above 6.5000 levels.





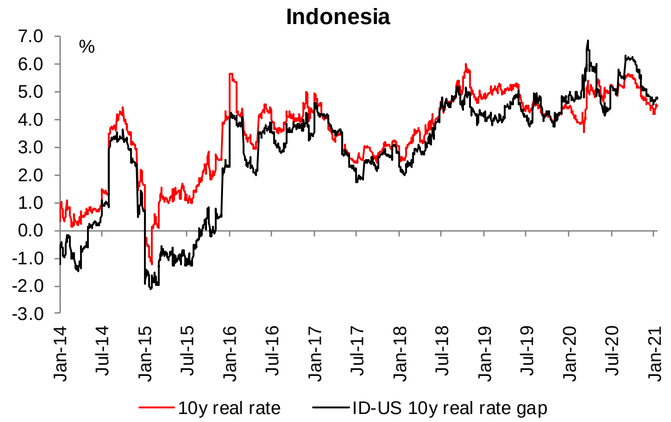


OCBC Bank

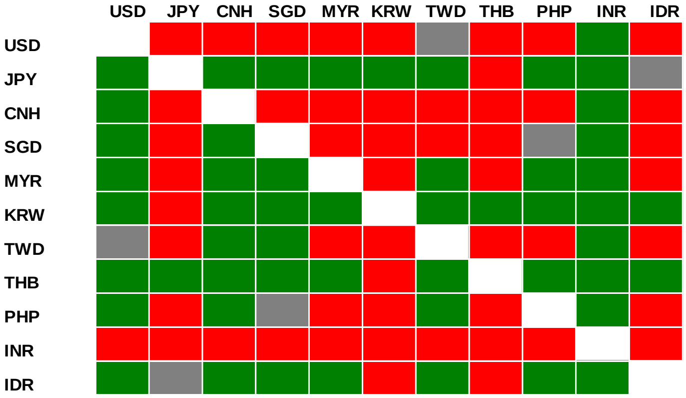
Source: Bloomberg, OCBC

Rest of USD-Asia likely sideways…

- … due to the lack of a clear directional lead from the RMB and USD. The tight correlation between the USD-CNY and the rest of USD-Asia has eased off somewhat – unsurprising given that the CFETS RMB Index is flexing against its own range top. This leaves the rest of USD-Asia largely on their own devices for now, within a larger context of consolidation.
- High-yielders like the IDR are perhaps most undermined by the higher UST yields as an initial knee-jerk response. Nevertheless, **we continue to like the IDR on a relative basis and beyond the immediate horizon, given its political stability and high yield**.
- Elsewhere, the MYR came under some pressure on domestic concerns. We do not expect domestic issues to be the main driver for the MYR for long. Global USD cues should eventually re-assert.



Asian FX Short-term Heat Map

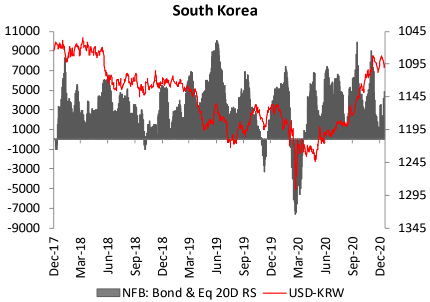


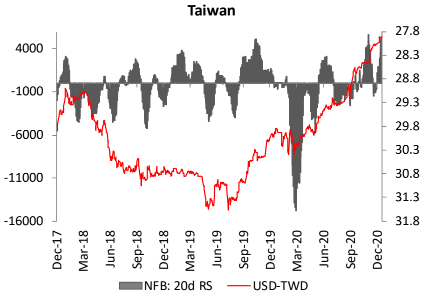
OCBC Bank

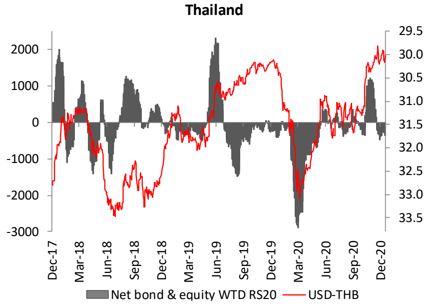
Source: Bloomberg, OCBC

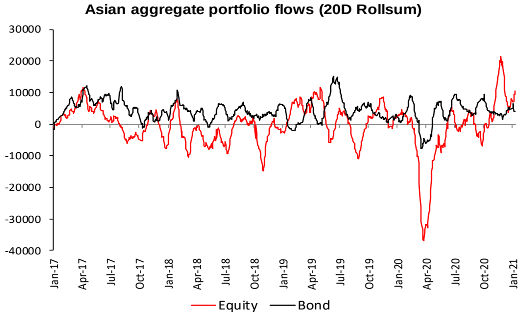
Inflow momentum still expected to support Asian FX

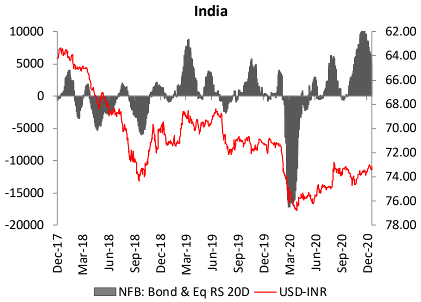
- Inflow momentum started the year slow – perhaps unsurprising given the hot inflow momentum (especially on the equity front) in Nov – but is starting to stir into life. The macro and market environment that favour inflows into EM Asia has not fundamentally changed, but risks will come from rising UST yields and higher domestic inflation. Nevertheless, these threats remained contained for now.

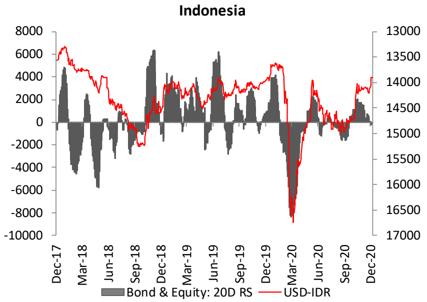


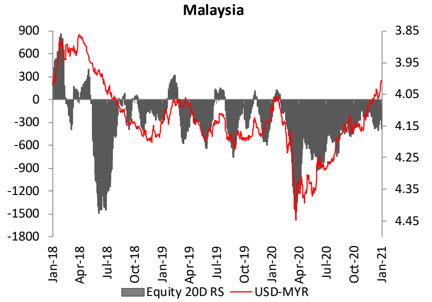


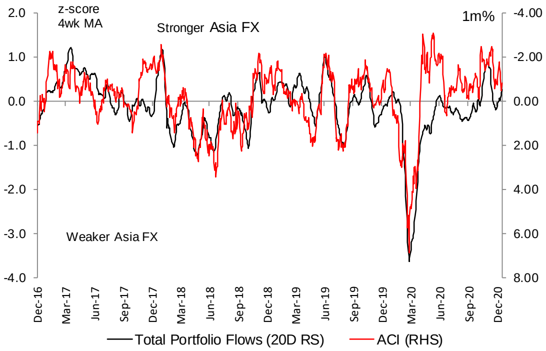








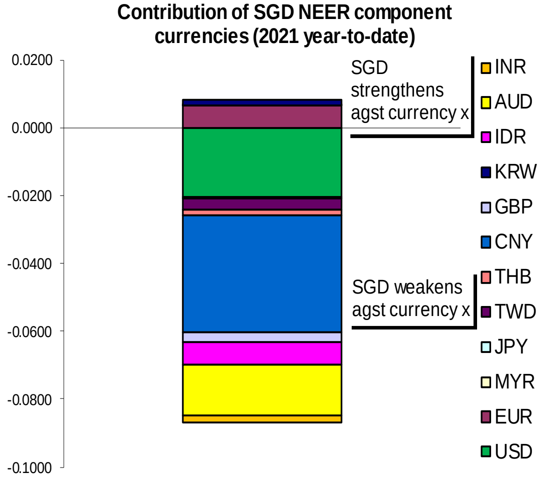


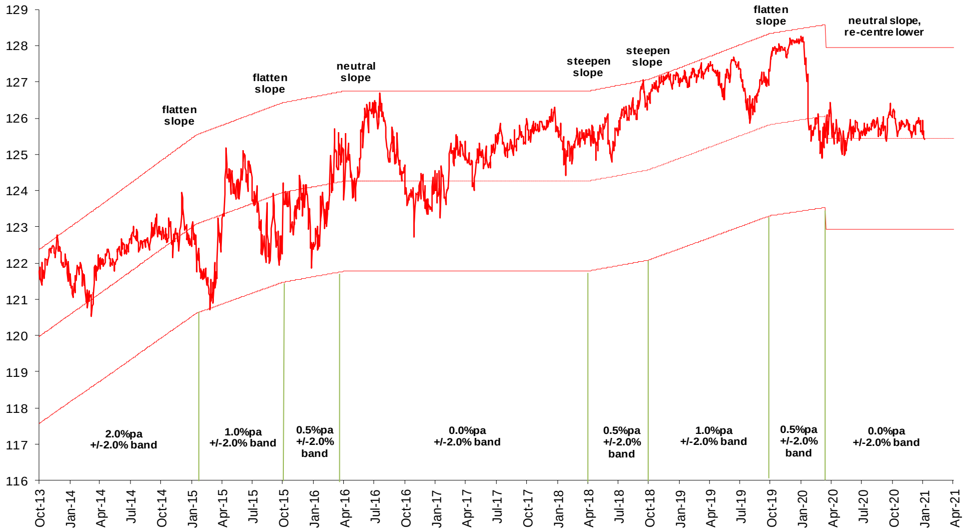


Source: Bloomberg, CEIC, OCBC

SG: SGD NEER still contained, USD-SGD to range

- The SGD NEER is still respecting the parity to +0.50% above parity range. Despite the heavy action along the parity level, we do not expect the SGD NEER to move into the negative territory on a sustained basis. This stability is probably regarded as a positive, and the bar may be high for the NEER to breach the extremes in a sustained fashion.
- This leaves little room for SGD-centric drivers to impact the USD-SGD, except in rare occasions when the SGD NEER is near the boundaries of the recent range. Overall, near-term directionality may be sideways on global cues, but the structural downward trend for the USD-SGD has yet to be shaken off.





Source: Bloomberg, OCBC

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

Co.Reg.no.:193200032W

OCBC Bank