# Asia FX Update:

## RMB leads, watch portfolio flows next

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Treasury Research & Strategy
Global Treasury

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# Asian FX Key Themes

- The US election episode closed with an outcome that is (arguably) favourable to China and Asia. This has improved the sentiment surrounding Asia, and should allow portfolio inflows to potentially return to Asia in a stronger way in 2021. On the growth front, the 3Q has been rather positive for the Asian economies relative to the estimates, but the recovery is uneven and largely focused on North Asia (p. 3, 6-7). South Asian economies also saw some pick-up in 3Q after the trough in 2Q, but the more internally-orientated economies like Indonesia have underperformed Asian peers (p. 4-7). Market sentiment is leaning positive on vaccine progress, but this is offset by rising cases and lockdowns in the US (p. 8). Nevertheless, the actual availability of vaccines in EM Asia may only come to pass deeper into 2021.

- **Summary of research view**: Despite the run higher in the RMB after the US elections, we think that the RMB appreciation theme will reassert itself after some interim consolidation. The official tolerance of RMB strength and the potential for a further extension higher in real yields provide the medium term positive drivers for the RMB (p. 9). We do not rule out 6.4500 – 6.4600 levels for the USD-CNY in the coming weeks. RMB resilience should continue to be the near-term driver for a softer USD-Asia (p.10). Further out however, expect portfolio flows to potentially return to Asia in a stronger way, and take over the RMB as the driver for Asian FX strength. Preconditions for returning inflows are increasingly mature (p. 11-14), and the favourable outcome for the elections may be a positive trigger. We view MY and ID assets as potentially most attractive, and back the MYR and IDR to outperform within the South Asia space.

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# Short term FX/bond market views and commentary

| | USD-Asia | 10y govie (%) | Commentary |
|---|---|---|---|
| **China** | ↓ | ↑ | The Chinese recovery continue to strengthen. Retail sales built on Sep's strong showing to print 4.3% yoy. Oct IP prints also continue to surprise on the upside. Oct official and Caixin PMIs all showed improvement compared to Sep, in expansion zone, and firmer than expected. The export sector recovery continues apace in Oct, largely exceeding expectations, although imports were soft. M1 growth and aggregate financing both expanded in-line or faster than expected. Headline inflation soft at 0.5% yoy, and may fall into deflationary territory in the coming months – spurring real yields higher. The US election outcome may well be the most RMB-positive outcome that can be expected. **The USD-CNH have reacted to that, and the pair may settle into a sideways-to-lower posture for now. However, remain positive on the RMB in the medium term**. |
| **S. Korea** | ↔/↓ | ↔ | The recovery in Korea is in better footing in 3Q, but heading into 4Q, the virus resurgence may weaken the outlook again. The BOK held rates unchanged at 0.50% in Oct as expected. With the rate cut cycle also likely over, focus is now on fiscal policy. 3Q GDP contracted -1.3% yoy, but the recovery may slow down again after the initial bounce. Oct man. PMI at 51.2, in expansionary zone for the first time since Dec 2019. Oct exports contracted -3.6% yoy, reversing a 7.6% yoy gain in Sep. **With the FM and BOK's jawboning becoming increasingly firm, the pace of USD-KRW downside should slow from here. Nevertheless, downside pressure will continue to be present, so long as the RMB remains in an appreciation bias.** |
| **Taiwan** | ↔/↓ | ↔/↓ | 3Q advance GDP printed 3.3% yoy, a large surprise on the upside relative to estimates. This is on the back of strong domestic consumption and firm export demand. The CBC kept rates unchanged at 1.125% in its Sep meeting, but upgraded its FY2020 forecast to 1.6% yoy, from 1.5% yoy in June. Oct man. PMI retreated slightly compared to Sep, but remains at a healthy 55.1. Oct export orders surged 11.2% yoy to another monthly record, as tech demand remains unabated. **Near-term downside for the USD-TWD may be limited at 28.40/50 levels, meeting technical support levels and buying pressure from the central bank.** |

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# Short term FX/bond market views and commentary

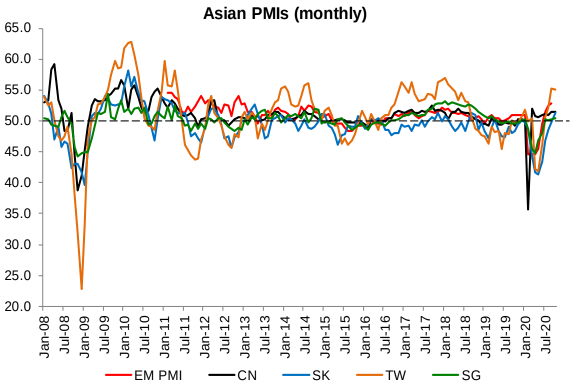
| | USD-Asia | 10y govie (%) | Commentary |
|---|---|---|---|
| **Singapore** | ↔/↓ | ↔/↑ | 3Q GDP print at -7.0% yoy, marginally weaker than consensus estimate at -6.8% yoy. Oct NODX contracted -3.1% yoy, against an expectation of a positive print, highlighting a tough start for 4Q growth. Oct official PMI inched higher to 50.5, in-line with expectations. The Markit gauge also showed improvement to 48.6, but stayed within the contractionary zone. Sep industrial production surprised again on the upside, building on a good print in Aug. Sep headline and core CPI printed 0.0% yoy and -0.1% yoy, with the headline gauge coming in non-negative for the first time in six months. Retail sales underperformed heavily in Oct, printing -10.8% yoy against estimates of -3.9% yoy, underlying the dearth of domestic demand. **The SGD NEER continues to be sideways and contained, leaving the USD-SGD beholden to broad USD prospects.** |
| **Thailand** | ↔ | ↔ | 3Q GDP printed 6.5% growth on a qoq basis, and -6.4% yoy – government stimulus and the lifting of movement restrictions helped the outlook relative to 2Q. Oct man. BOT unchanged in Nov meeting, but showing increasing signs of unease over THB strength. Oct man. PMI printed 50.8, in expansionary zone for the first time since Dec 2019. Pace of decline in custom exports easing off, with the latest Sep prints also better than expectations and Aug numbers. Contraction in customs imports also marginally better than expected. Oct headline and core CPI prints are largely in-line with expectations. **The THB saw some catch-up appreciation after being one of the underperformers in Asia year-to-date. The USD-THB is now at pre-pandemic levels. With the BOT also on guard, downside should be limited for the pair for now.** |
| **Malaysia** | ↔/↓ | ↔ | 3Q GDP was snapped back sharply relative to 2Q, supported by the export sector and domestic consumption. Nevertheless, 4Q's outlook will be more challenging, with Malaysia seeing renewed lockdowns from the pandemic. BNM held rates unchanged in its Nov meeting, but the balance of risks is still tilted in favour of more cuts into 1Q 2020. Sep exports were strong at 13.6% yoy, bouncing back from -2.9% yoy. Sep CPI print at -1.4% yoy, marginally weaker than expected. Oct man. PMI, however, slipped for the third consecutive month to 49.3, from 49.0. **The USD-MYR looks to retest the twice-failed support around 4.1100. Expect the floor to hold, unless the broad USD sees another leg lower.** |

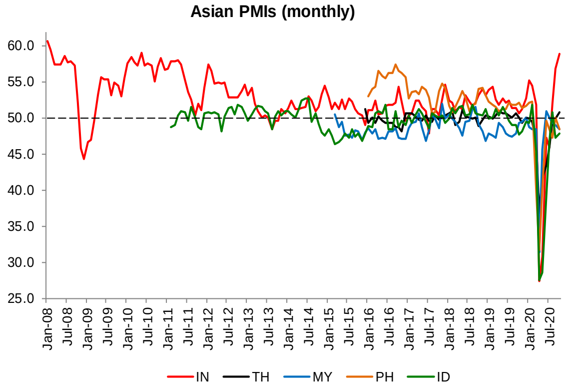
# Short term FX/bond market views and commentary

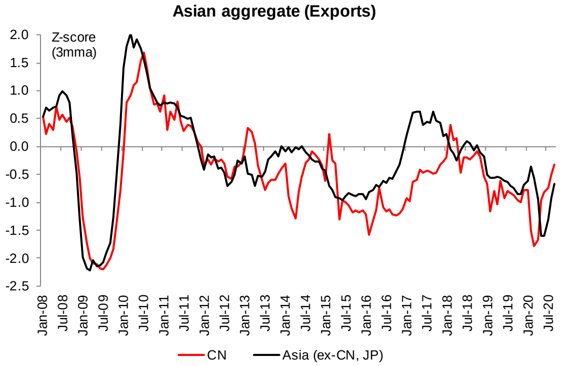
| | USD-Asia | 10y govie (%) | Commentary |
|---|---|---|---|
| **India** | ↔/↑ | ↔/↓ | 2Q 2020 GDP print slumped -23.9% yoy, worse than an already weak consensus estimate at -18.0% yoy. CPI prints remain stubbornly high at 7.61% yoy in Oct, compared to 7.31% previously. Oct man. PMI built on the strong print in Sep at 58.9. Oct exports slipped back to -5.1% yoy, after a positive print in Sep. A dovish RBI may spur inflows into the bond front and indirectly lead to some appreciation pressure in the INR. However, with inflation running hot, the RBI's hands are tied for now. Better odds of a rate cut in Feb 2021. **Expect the USD-INR to run on its own dynamics, and not track the rest of USD-Asia lower. Sideways within 74.00 and 75.00.** |
| **Indonesia** | ↔/↓ | ↔/↓ | 3Q rebound appears to be less sharp in Indonesia than other Asian economies, printing 5.05% qoq and -3.49% yoy, both weaker than expected. The BI cut its policy rate by 25 bps to a record low of 3.75%, despite expounding a sanguine outlook on growth. One more rate cut may be in the offing, perhaps as soon as Dec 2020. Oct man. PMI bounced back marginally to 47.8, from 47.2 prior. Oct exports contracted at a slower than expected -3.29% yoy, but the concern is the ongoing weakness in imports, which printed -26.93% yoy, weaker than expected. This highlights weak demand from the domestic sector into the year-end. Oct headline and core CPI at 1.44% and 1.74% yoy respectively, weaker than expected. **The USD-IDR bounced off the 14,000 support after the US election, after a strong run lower from 14,600. Expect that floor to remain intact for now, unless the broad USD breaks lower.** |
| **Philippines** | ↔ | NA | 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. The BSP cut the policy rate by 25 bps in its Nov meeting against market expectations, perhaps in response to slower than expected 3Q prints. Oct man. PMI fell lower to 48.5, compared to 50.1 prior. Sep exports printed a small positive at 2.2% yoy, after 6 consecutive months of contraction. Imports, however, remain in contraction on a yoy basis. Oct remittances grew 9.3% yoy, beating estimates smartly. **Firm support under the USD-PHP at 48.00.** |

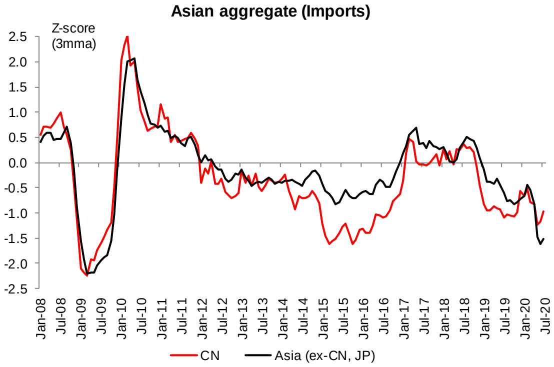
# Exports driving Asian rebound

- **The export sector has shown improvement in 2Q, supported by the electronics and the re-opening of trade after lockdowns in US and Europe.** However, the import sector remains weak, suggesting that domestic consumers and businesses in Asia continue to struggle.
- **This effectively worsened the divide in terms of the pace of recovery in Asia, with the more externally-orientated North Asia being the prime beneficiaries.** With the exception of Singapore, South Asian economies find the going more difficult. Manufacturing PMIs in South Asia have mostly remained anaemic, and struggling to enter expansionary zone.



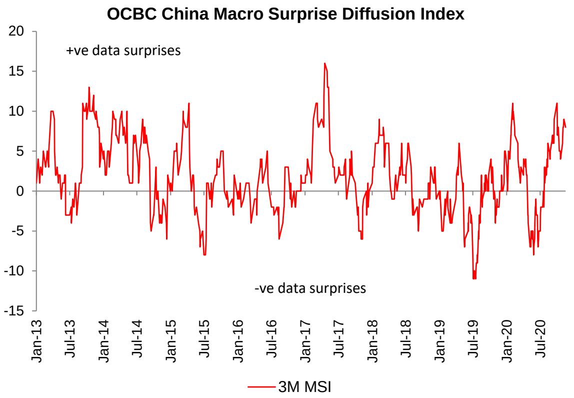



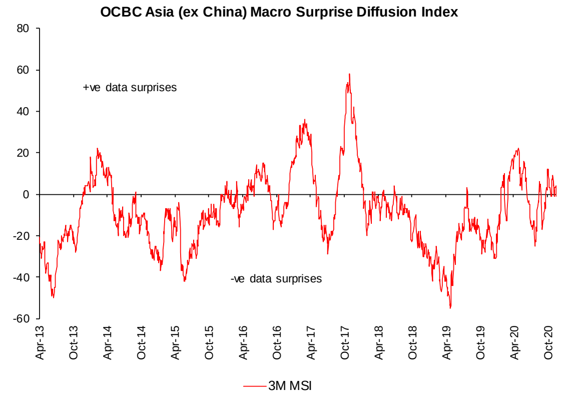



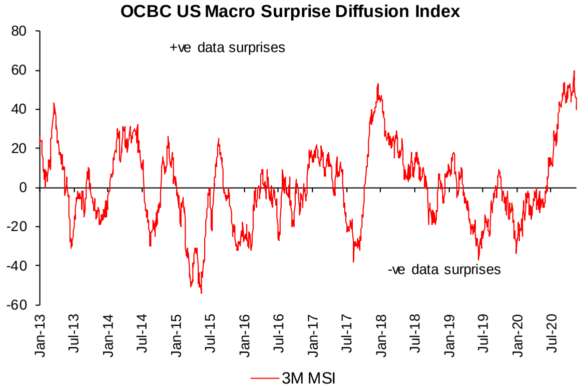

Source: Bloomberg, CEIC, OCBC

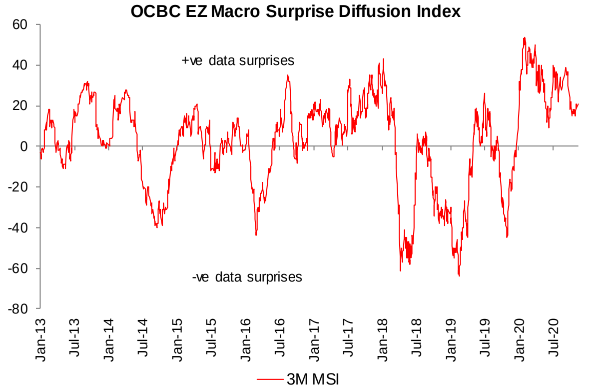
# Asia (ex. China) remains the underperformer in recovery

- Overall, despite the improvement in the Macro Surprises Index, Asia (ex China) remains the main laggard in terms of the global recovery from the pandemic. China and the US look the most on-track in their recoveries, while Europe is continuing to lose steam.
- What is of note is that Fed's Powell described the US recovery as "solid" despite his continued emphasis on downside risks and uncertainties. Continued outperformance in the US may compel the market to look this way, and give more benefit of doubt to the broad USD.

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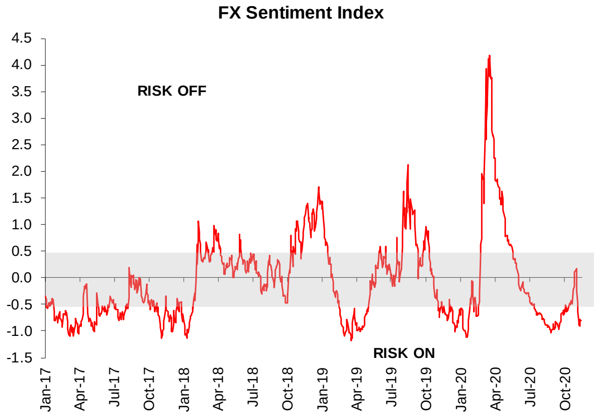
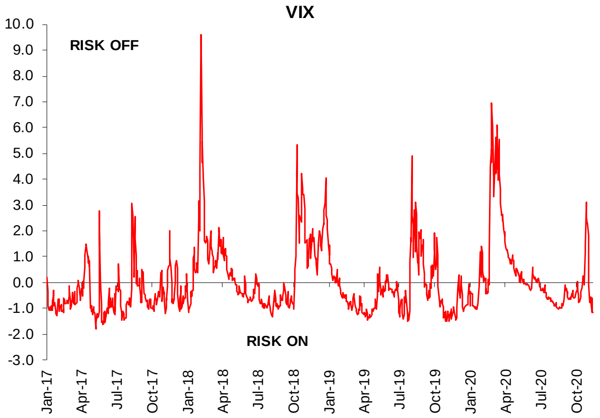
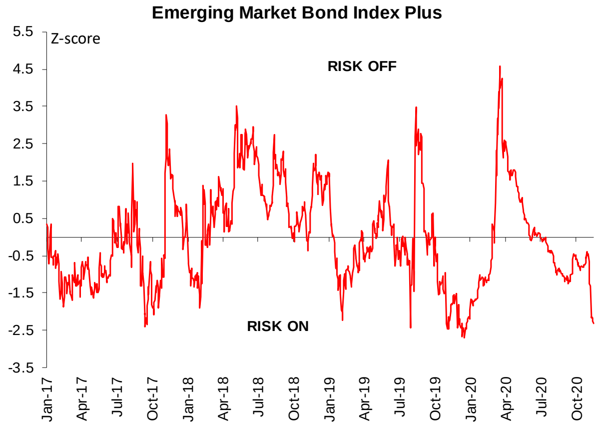
Source: Bloomberg, OCBC

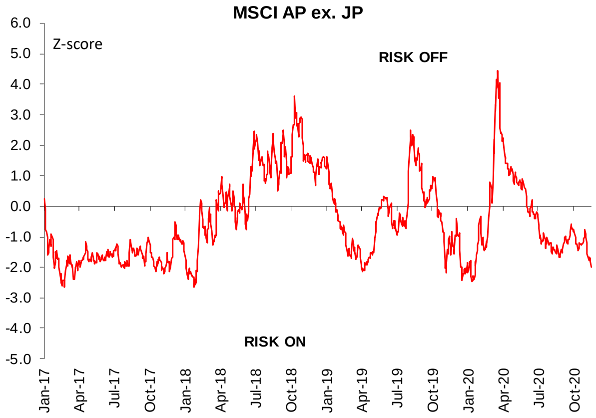
# Vaccine positivity running out of steam

- The **FX Sentiment Index (FXSI)** have moved sharply lower into the Risk-On zone in the immediate aftermath of the US elections and the announcement of the Pfizer vaccine progress.
- However, even though the vaccine progress has been steady since, it is offset by the rising pandemic cases and the localized lockdowns in the US. Overall, we are of the view that the default market sentiment leans risk positive, but there is very little strong drivers for positive risk sentiment at this stage. **Overall, the follow-through to the FX space is likely a soft broad USD, but no impetus for a significant capitulation.**



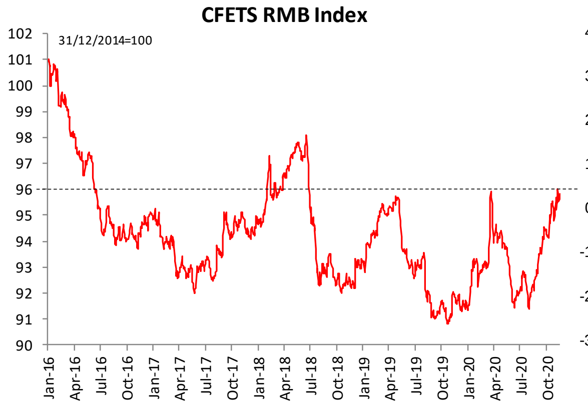



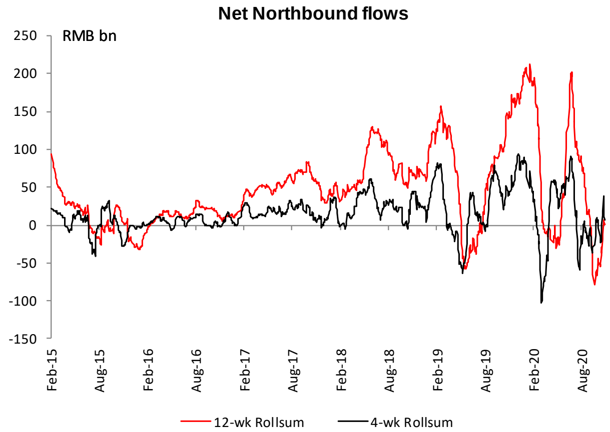

Source: Bloomberg, OCBC

# RMB to consolidate for now; appreciation bias intact

- The USD-CNH has seen a rather quick extension towards 6.5400. Do not rule out a period of consolidation, but note that the USD-CNY morning fix has effectively tracked the spot lower, and came in at levels where the CFETS RMB Index is above 96.00. **This suggests very little official interest in reining in on RMB strength.**
- **Our baseline assumption is that the RMB should continue its appreciation trend after a period of consolidation**. In the medium term, our Chinese macroeconomist is expecting inflation prints in China to be further depressed into 1Q 2021, this would mean that the real yield advantage for the RMB will only be extended into early 2021. Coupled with a better inflow environment into Asia, there may be further upside room for the RMB. **For now, deeper extensions lower for the USD-CNY towards 6.4500 cannot be ruled out on a multi-week horizon.**





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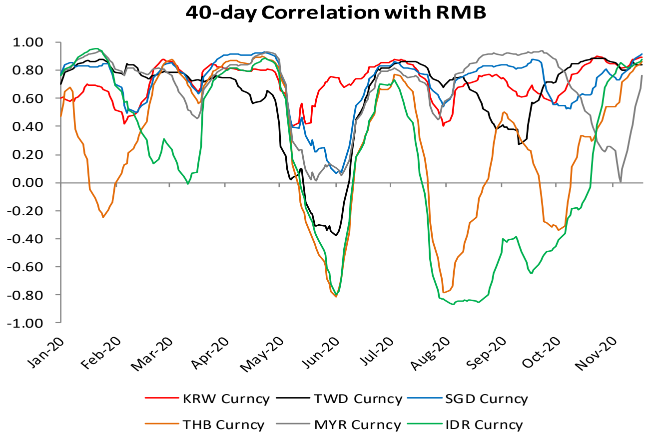
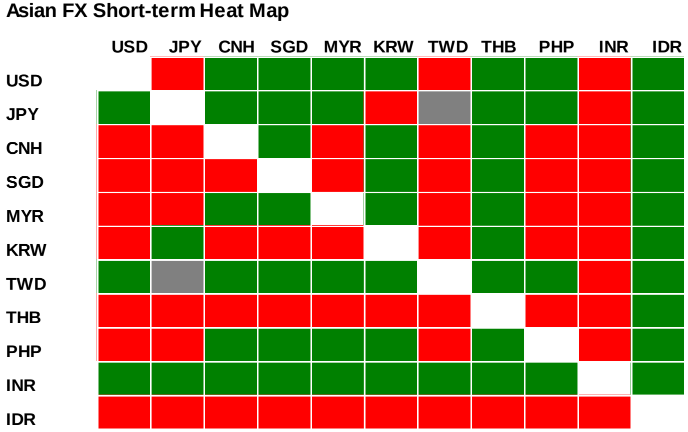
Source: Bloomberg, OCBC

# RMB to leading USD-Asia lower in the near term

- The tight correlation between the RMB and the rest of the Asian currencies extended further, and USD-Asia is essentially led lower by the USD-CNH in the near term.
- In particular, the year-to-date laggards like the THB and IDR have seen some catch up, and led the pack in the strong run post election. The issue now is that the strong run is now running up against multi-year support levels, and garnering some very heavy central bank attention. **In North Asia, we expect the KRW gains to slow down as the pair approaches key support at 1100.00.**
- **Going forward, we expect to see the IDR continue leading the gains, and for the MYR to join the leaders.** Among the central banks, the BI and the BNM are perhaps the two that is most relaxed over the currency appreciation, and for good reason. These are the currencies that are most undervalued in REER terms **(see p. XX)**



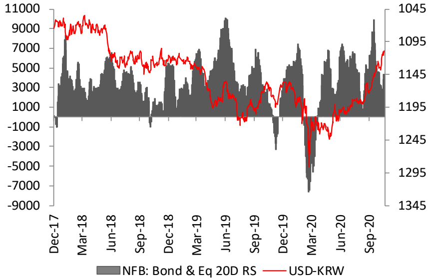




Source: Bloomberg, OCBC

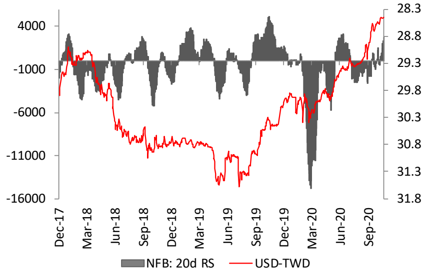
# Portfolio inflows may drive next leg of Asian FX strength

- Aside from RMB strength, the return of portfolio inflows into Asian assets may drive the next leg of Asian FX strength. **The preconditions for a return in inflows are becoming increasingly mature.** Biden's win the US election is a conclusion that may be in China's (and Asia's) favour, and there is now real momentum on the vaccine front. These may be the triggers needed for foreign investors to return.

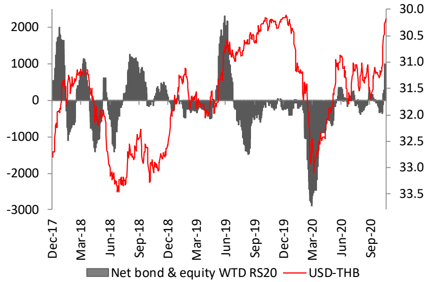
South Korea



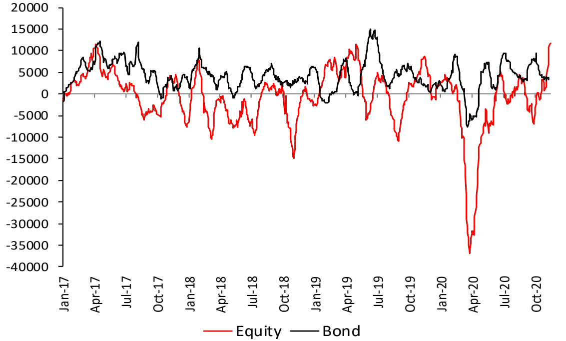

Taiwan



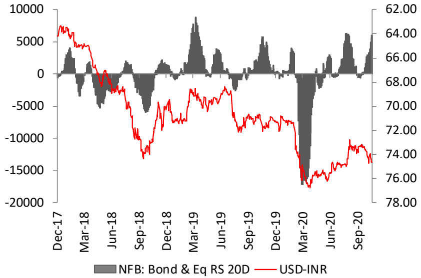

Thailand



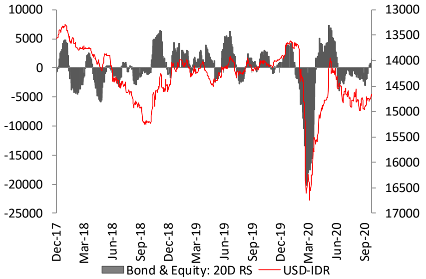

Asian aggregate portfolio flows (20D Rollsum)



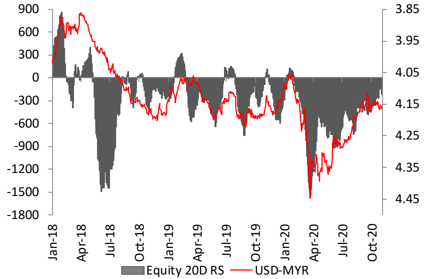

India

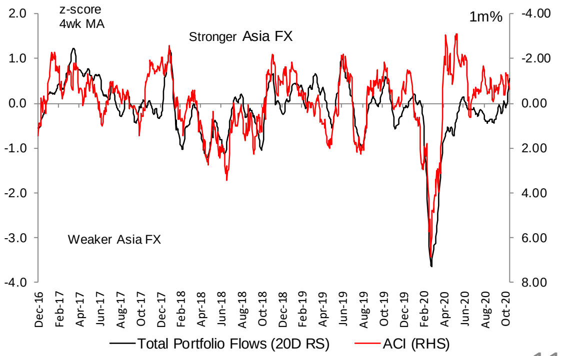



Indonesia




Malaysia

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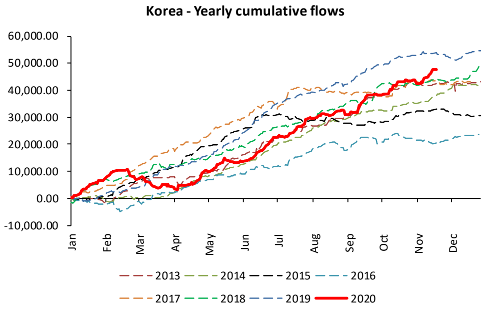
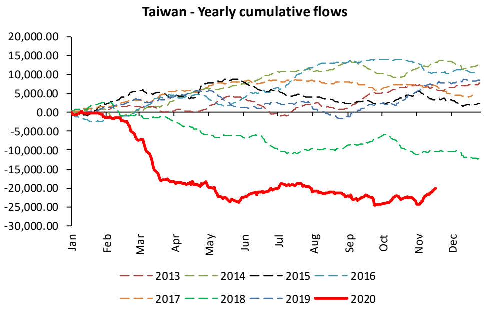
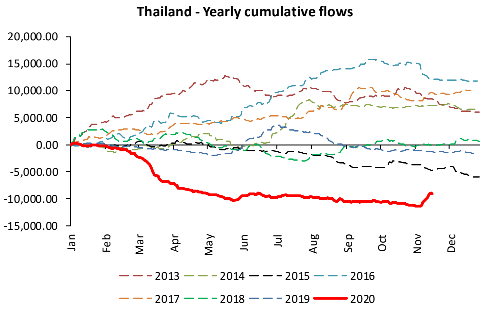
Source: Bloomberg, CEIC, OCBC

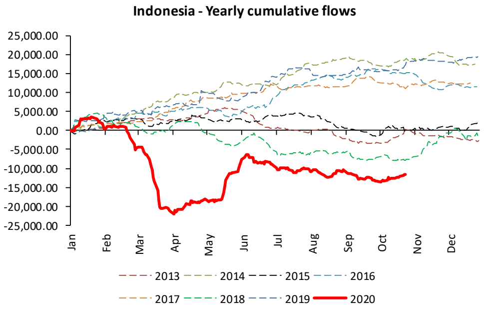
# Foreign investor holdings in Asia are light

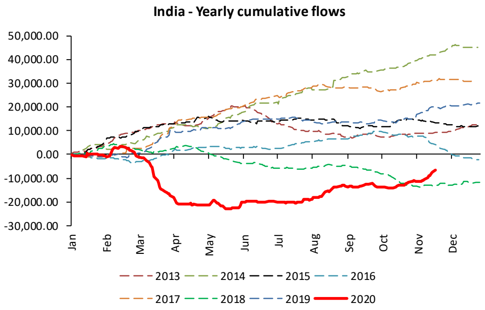
- The first precondition is that foreign investors are likely quite underweight in Asian assets. Foreign investors have not returned in strength to Asia after the pandemic-triggered outflows in Mar-Apr (except South Korea). On a longer-term perspective, we find the flows are heavily constrained relative to historical averages in Indonesia (around -2.5 S.D. lower), Taiwan (-1.9 S.D) and Thailand (-1.6 S.D).

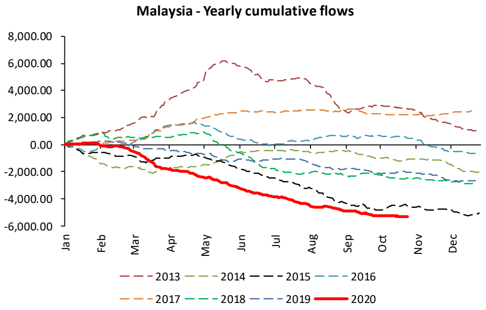
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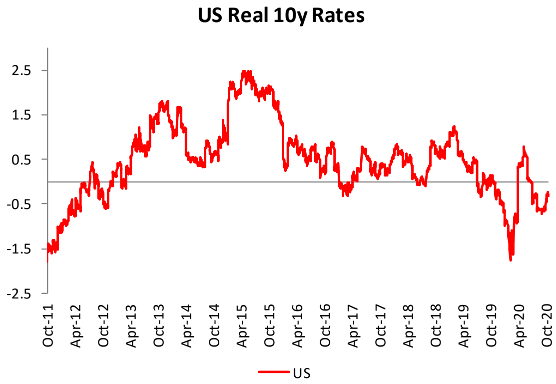
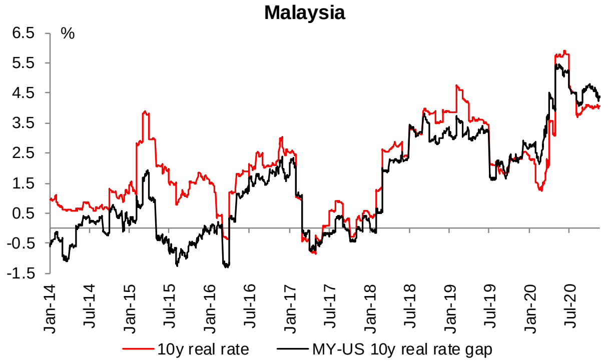
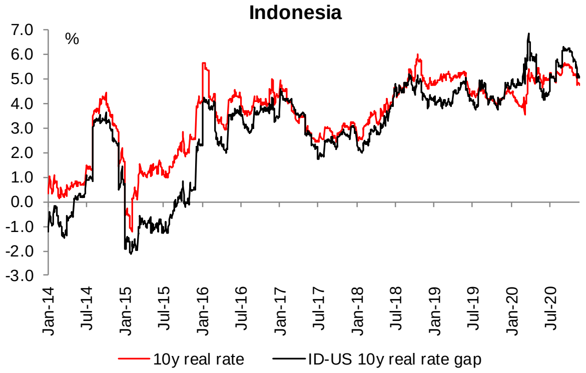
Source: Bloomberg, CEIC, OCBC

# Asian real yields have stayed relatively elevated

- DM real yields remain severely depressed and mostly negative, even after the recent rise in back-end UST yields. With the major central banks still in the business of providing more monetary stimulus, leaving the curves still anchored to an extent. In contrast, real rates in Asia (except India) remains largely elevated this year, with the yield advantage over DM highly favourable. This should underlie the demand for Asian assets.

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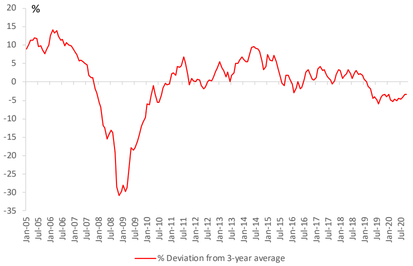
Source: Bloomberg, OCBC

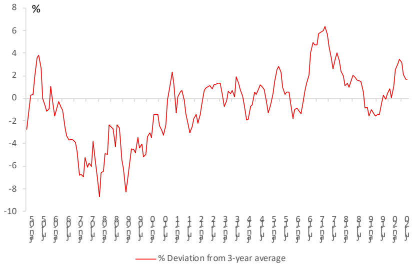
# Asian FX mostly not overvalued in REER terms

- Asian currencies are also mostly appropriately priced or undervalued on REER terms (except TWD). The IDR and MYR are the most undervalued in REER terms relative to their historical average. **Summing across these preconditions, we focus on IDR and MYR assets as potentially most attractive at this point.**

KRW REER: Deviation from average

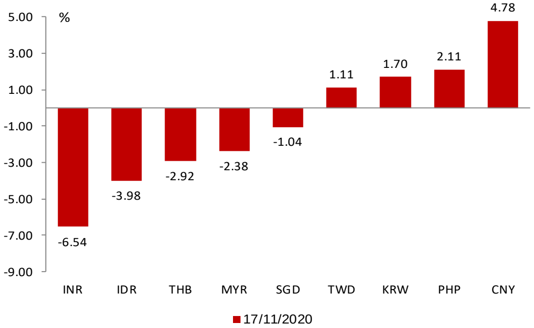



TWD REER: Deviation from average

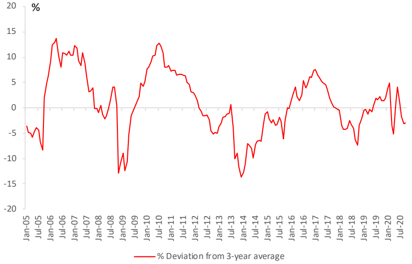



THB REER: Deviation from average

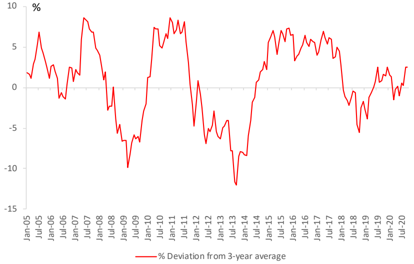

Year-to-date Asian NEER performance



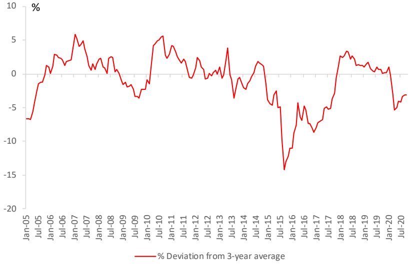

IDR REER: Deviation from average



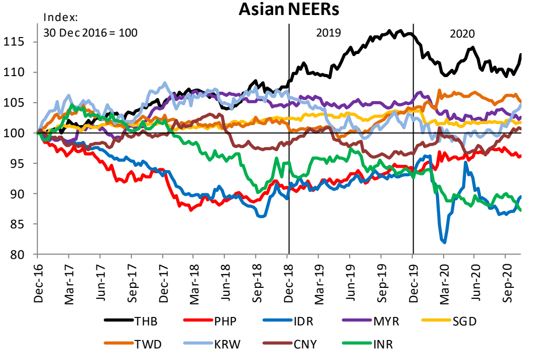

INR REER: Deviation from average




MYR REER: Deviation from average



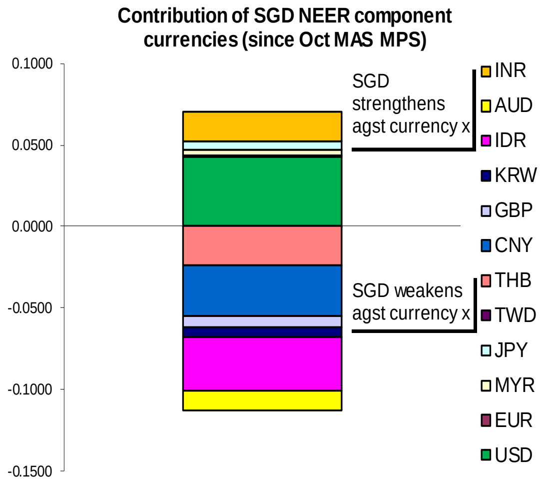

Asian NEERs

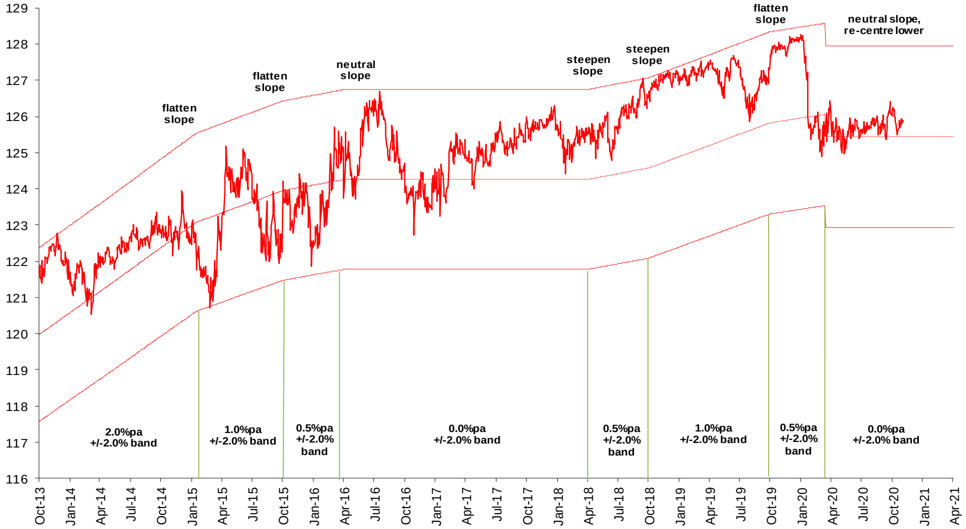



Source: Bloomberg, BIS, OCBC

# SG: 4Q macro outlook in question

- After a run of strong releases in 3Q, NODX data has started to come in below market expectations again. This perhaps highlights a more challenging macro outlook in 4Q as opposed to the rebound in 3Q.
- We doubt this will imply a material difference in the monetary policy stance, with fiscal policy still expected to pick up on any slack in the economy. The SGD NEER is expected to remain stable within a narrow range just above the parity level. This leaves the **USD-SGD beholden to broad USD prospects**, which for now, remains heavy but lacking new drivers to spark a renewed capitulation. **1.3400 may remain a firm support for now. A further breach lower may however imply an extension towards 1.3100**.




Source: Bloomberg, OCBC

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