Asia FX Update:
Balancing global cues with domestic concerns

17 Aug 2020

Treasury Research & Strategy
Global Treasury

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

OCBC Bank

Asian FX Key Themes

- Since the last Update, the market concern over the pace of the US macro recovery has picked up (p. 6). This would undoubtedly persist going forward, so long as there is no progress in Congress over the fiscal relief talks. However, the Asian (ex China) macro picture itself is not stellar in any way (p. 3-5, 7-8). Meanwhile, the lack of policy room for the Asian central banks are starting to bite after the latest round of cuts. Aside for the BNM, expect a slight pause in rate cuts for the other Asian central banks (p. 9). The postponement of the Sino-US Phase 1 review probably swept tougher questions on Sino-US relations under the carpet. For now, we expect the these issues to simmer on the background, but not deteriorate into an outright trade burst-up. This keeps overall market sentiment still supported for now (p. 10).

- **Summary of research view**: The lack of a clear burst-up between the US and China negates our previous concern over Sino-US tensions, and is likely to allow market to focus more on the positive drivers for the RMB. Thus, we expect some negative pressure on the USD-CNH in the coming sessions (p. 11). This view on the RMB, coupled with a still flat-to-heavy USD, suggests that the global cues are positive for the Asian currencies. However, it is offset by domestic issues in countries like Thailand and Indonesia, weighing on the THB and IDR respectively. Meanwhile, the anchored stance of the SGD NEER should remain in place despite the lack of improvement in the macro outlook, leaving the USD-SGD tethered to the broad USD (p. 15). On the rates front, favour Malaysian government bonds, with the BNM most likely to cut within the Asian space (p. 9).

Short term FX/bond market views and commentary

	USD-Asia	10y govie (%)	Commentary
China	↓	↔/↑	2Q GDP at 3.2% yoy, better than 1Q's -6.8% and firmer than expected 2.4% yoy. Macro recovery in China remains on track, albeit gradual and biased towards industrial output. The Sino-US consulate issue was forgotten reasonably quickly, but TikTok/WeChat case takes its place. For now, tensions are still largely episodic, and have a rather short shelf-life in the market. Jul official and Caixin manufacturing PMIs both firmer than expected and in expansionary zone. Demand-side indicators were strong, boding well for the trade sector. Correspondingly, July exports printed a surprise 7.2% yoy growth, against expectations of a -0.6% yoy dip. Imports, however, shrank in July. Jul industrial production and retail sales both softer than expected, but retail sales are still contractionary on a yoy basis. June CPI prints in-line at 2.5% yoy. June PPI remains in deflationary territory but easing higher. Liquidity remains flush, with M2 growth in line with expectation and aggregate financing firmer than expected. Overall, episodic jitters lift USD-CNH, but should not detract from its downside bias. See 6.9000 as the multisession target for now.
S. Korea	↔/↓	↔	Macro recovery remains slower than expected, held back by the weak global trade sector. Jul man. PMI ticked higher again to 46.9, compared to 43.4 prior. Export contraction in Jul narrows to -7.0% yoy, after three consecutive months of double digit contraction. Industrial production turned positive on mom basis in Jun, clocking 7.2% mom, but still -0.5% yoy. Jul core and headline CPI in-line at 0.7% yoy and 0.3% yoy., firming up compared to the previous month. Expect the USD-KRW to take cues from the RMB, with a preference for further downward extension.
Taiwan	↔	↔/↓	Not seeing a particularly quick bounce in terms of the macro recovery, but it perhaps comes across as much more positive compared to South Korea. Jul man. PMI picked up further, returning to the expansionary zone at 50.6, compared to 46.2 prior. July exports printed 0.4% yoy, better than expected and the first positive print after four months of contraction. Jul headline CPI at -0.52% yoy, worse than expected. Room for further USD-TWD downside on broad USD and RMB, but expect the CBC to be on hand protect.

Short term FX/bond market views and commentary

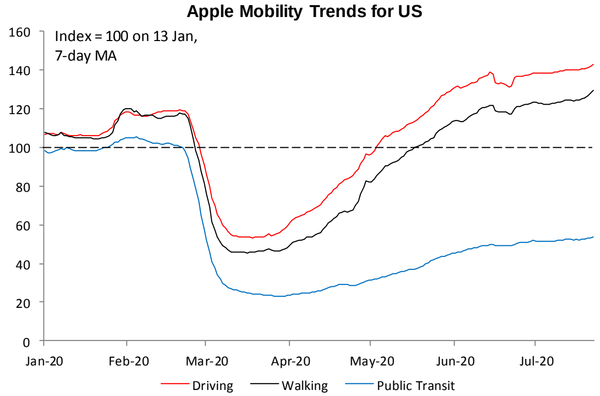
	USD-Asia	10y govie (%)	Commentary
Singapore	↓	↔/↑	Final 2Q GDP printed -42.9% qoq saar and -13.2% yoy respectively, worse than market expectations. Our FY2020 GDP forecast is unchanged at -5.5% yoy for now. NODX growth slowed in July relative to June, but remains stronger than expected. June headline and core CPI printed -0.5% yoy and -0.2% yoy respectively, marginally better than expected. Jul official PMI prints moved back to expansionary territory at 50.2, compared to 48.0 prior. The Markit reading at 45.6, also showing improvement. Chatter for further economic support grows, but the focus will be on the fiscal side. Monetary policy still thought to be “appropriate”. Expect the SGD NEER to stay anchored to parity. The USD-SGD remains a function of broad USD prospects. A breach of 1.3700 floor cannot be ruled out for now.
Thailand	↔	↔/↑	BOT unchanged at the Aug meeting as expected, with major moves likely only after the new governor takes over in Oct. Near term political shake-up may weigh on the macro recovery. 2Q GDP at -12.2% yoy, better than estimates. Thai finance ministry cut FY2020 GDP growth further to -8.5% yoy, with the BOT’s gauge at -8.1% yoy. Jul man. PMI continue to recover, printing 45.9 compared to 43.5 prior, but still in contractionary zone. June custom exports slumped -23.17% yoy, worse than the expected -15.00% yoy. Customs imports also sank -18.05% yoy. June headline CPI printed -1.57% yoy, better than expected. Core CPI at -0.05% yoy. Political issues expected to weigh on the THB, offsetting the firmer gold complex.
Malaysia	↔/↓	↓	BNM cut its policy rate by 25 bps in July as the market expected. Loans moratorium saw a selective extension by 3 months, reducing the cliff effect. 2Q GDP slumped -17.1% yoy (mkt consensus: -10.9% yoy), but the silver lining is that most economic activities have bounced back sharply by June. Jul man. PMI dipped to 50.0, from 51.0 prior, underlining the potential slippage in the recovery path. June exports surprisingly grew 8.8% yoy (mkt consensus: -10.0% yoy), supported by strong exports to China. Imports fell -5.6% yoy, better than expected. The USD-MYR has been reactive to the USD downside. Expect the pair to remain heavy, especially if 4.1800 is breached.

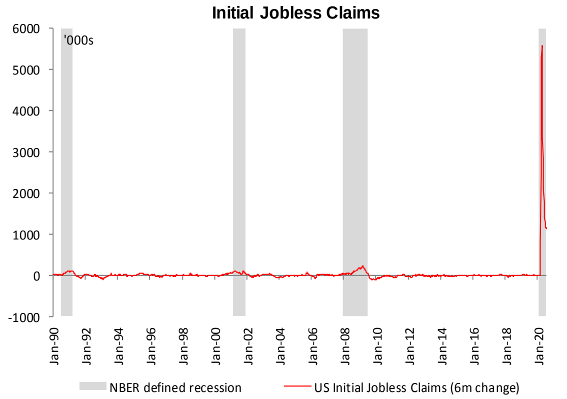
Short term FX/bond market views and commentary

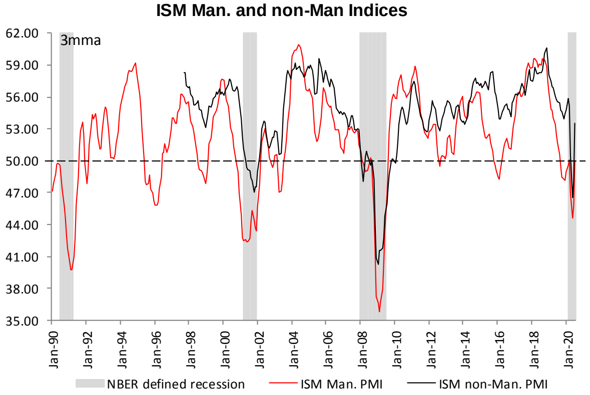
	USD-Asia	10y govie (%)	Commentary
India	↔/↓	↔/↑	Jul CPI prints at 6.93%, above the top end of the RBI's tolerance band. This may tie the central bank's hands in terms of pencilling in further rate cuts. RBI held policy rates unchanged in Aug, although the accommodative stance is retained. Measures also implemented to support the banking sector. 1Q GDP printed 3.1% yoy growth, better than the estimated 1.6% yoy. Jul man. PMI slipped to 46.0, from 47.2 prior. June exports shrank -12.4% yoy, while imports slumped -47.6%. With the broad USD firmer, expect the USD-INR to retain a supported stance.
Indonesia	↔/↑	↓	2Q GDP contracted -5.32% yoy, against expectations of -4.72% yoy, and the worst showing since the AFC. The BI cut another 25 bps to 4.00% in July. A shift in statement rhetoric suggest that rate cuts are likely done for now, with further accommodation likely to come through the quantitative channels. Concerns over the "burden sharing" arrangement between BI and the government may pop up again, especially if there are clearer signs that the arrangement may not be "one-off". June exports firm at 2.28% yoy, as opposed to expectations of -12.63% yoy. Imports also contracted by less than expected. June headline and core CPI at 1.96% and 2.26% yoy respectively, continuing a decline on a monthly basis. Jul man. PMI recovered to 46.9, compared to 39.1 prior. USD-IDR buoyant, in contrast to the heaviness seen in other USD-Asia pairs. Note attempts to jawbone the USD-IDR lower by the BI.
Philippines	↓	NA	2Q GDP contracted -16.5%, worse than the expected -9.4% yoy. Contraction in 3Q is still expected, although the extent may be lower. The BSP cut by a larger-than-expected 50 bps in June. With 175 bps of cuts this year, further cuts may be on hold for now, but do not rule out other forms of monetary support. Jul CPI again firmer than expected at 2.7% yoy. Jul man. PMI dipped lower again, printing 48.4, compared to 49.7. June exports contracted -13.3% yoy and imports -24.5% yoy. Decline in remittances in May accelerated further to -19.2% yoy, against expectations of -15.0% yoy.

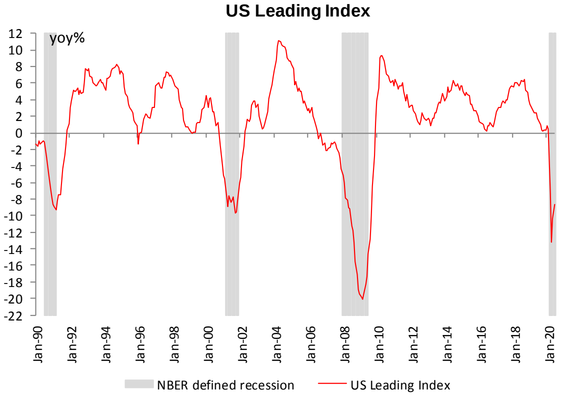
US losing its sense of macro exceptionalism?

- **A number of factors have emerged in a way that allowed the market to impute pessimism in the pace of recovery in the US.**
- These factors include – the slowdown in the reduction of new jobless claims, stalling recovery of the mobility data and the impending expiries of different parts of the fiscal stimulus. The lack of progress in talks to extend the fiscal relief package also weighs.
- Do not rule out the eventual possibility of further disappointment in the pace of recovery, but we are not turning outright negative just yet. Aside from the labour market data, most US prints are still firmer than expected.
-





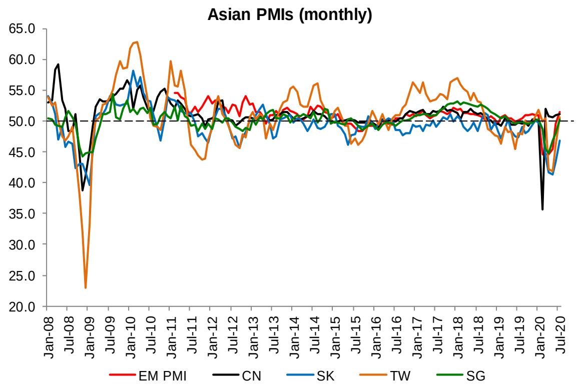


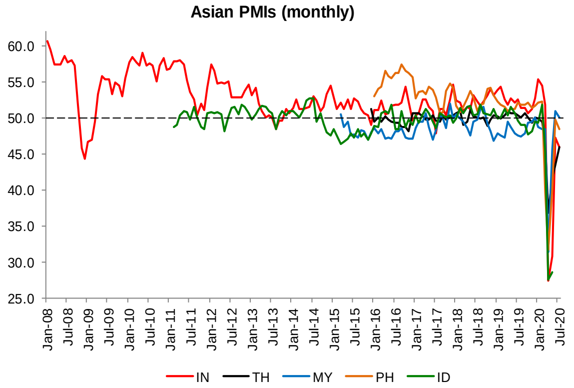


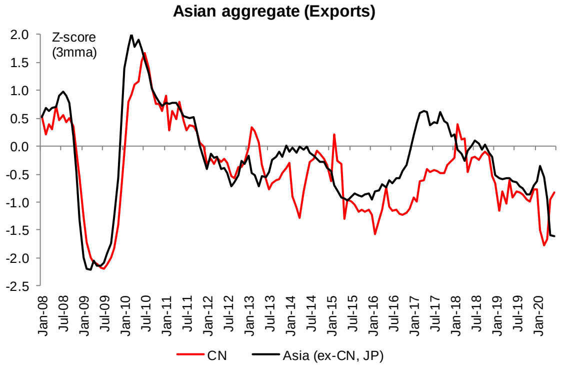
Source: Bloomberg, OCBC

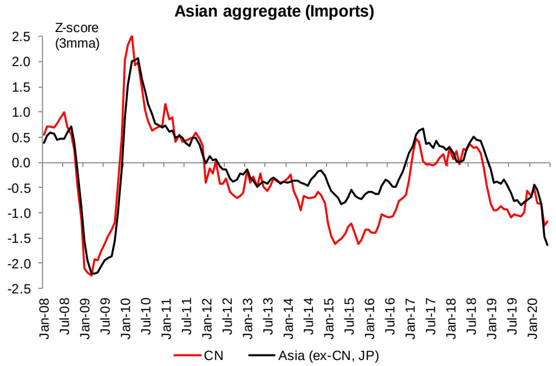
China leads in recovery, but mixed signs in rest of Asia

- After recovering from the Apr/May worse case situation, **July man. PMIs across Asia are starting to come in mixed.** Chinese prints led the way in terms of improvement, with Taiwan also recovering back into expansionary zone. However, most manufacturing sectors in Asia remain in contraction. South Asia economies like Malaysia and Vietnam turned in softer numbers compared to June.
- Some improvement in the Asian trade sector, there is still double-digit/high single-digit yoy declines for June in South Korea, Taiwan, Thailand and India. The August first 10-days export data for South Korea also suggest a roll-back of the export recovery if the trend continues for the rest of the month.



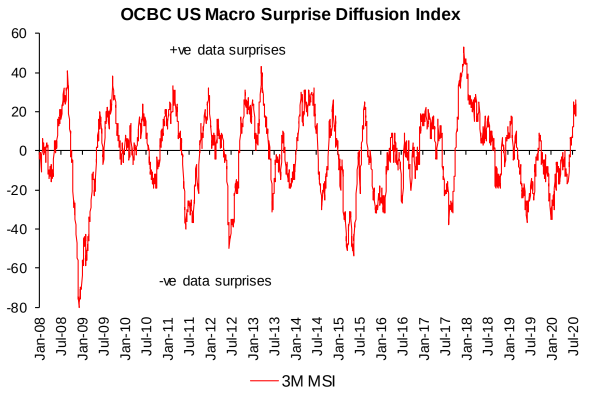


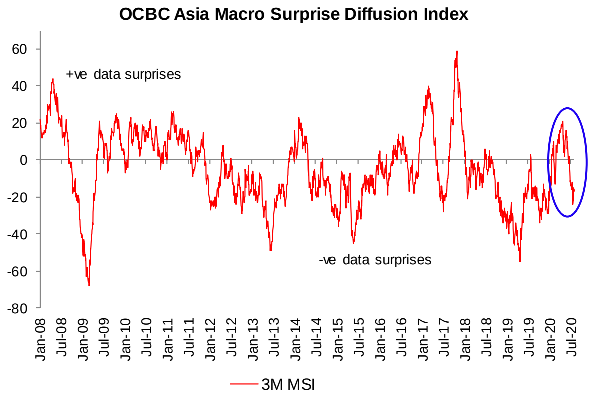


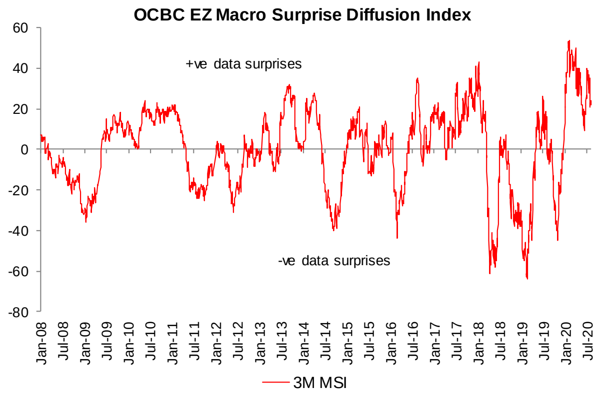


Asia (ex. China) still the laggard in terms of recovery

- **The Macro Surprises Index for Asia showed no improvement since the previous Update, and continues to underperform the US and Europe gauges.** The slower than expected recovery in the rest of Asia does not get significant market attention, perhaps overshadowed by the on-track recovery in China. Market focus also on the recent run of firm prints in Europe, and the purported slowdown in the US recovery.
- We find the underperformance of the Asian currencies relative to their G-10 counterparts in the recent run of USD weakness fundamentally driven by this slower than expected macro recovery in Asia.





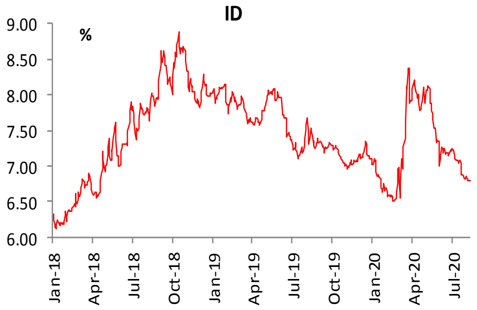


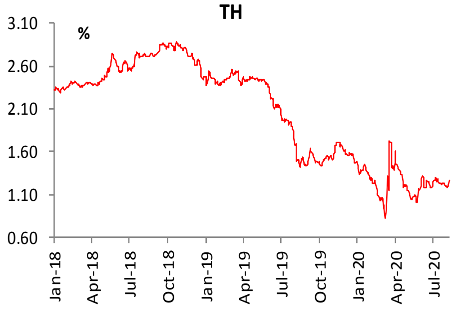
OCBC Bank

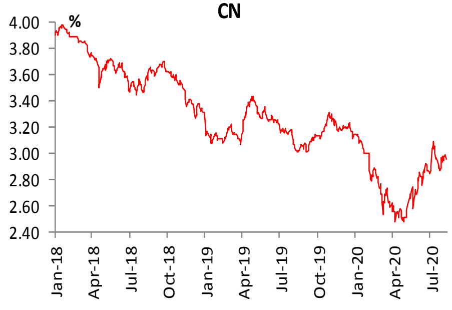
Source: Bloomberg, OCBC

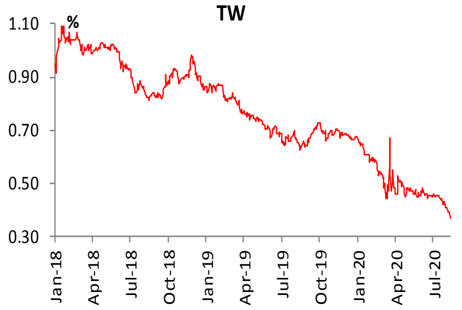
Asian 10y yields: Biased towards long duration

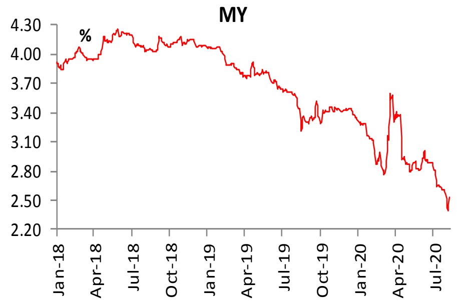
- Since the last Update, we saw five Asian central banks meet, and the three with policy room (BSP, BNM, BI) put in rate cuts. One consistent theme across all central banks is that the concern over downside risks ahead. However, the pace of rate cuts slow in 2H 2020. BI and BSP have already signaled pause, while the RBI may be restricted by high inflation.
- **We see the BNM as most likely to cut again in its Sept meeting. Couple this with high real rates in Malaysia, expect MY bonds to be attractive to foreigners. Expect further bond inflows and stay positive on MY bonds.**

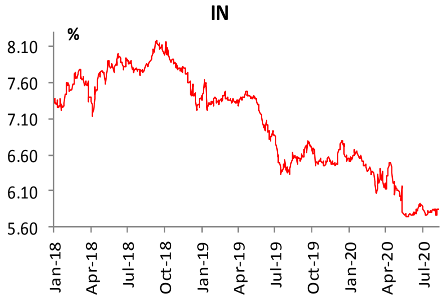


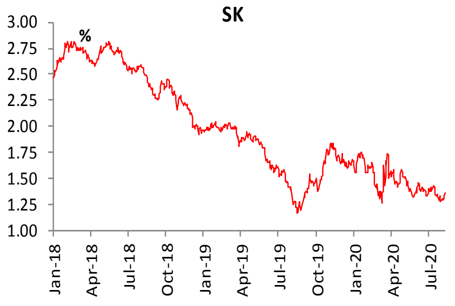


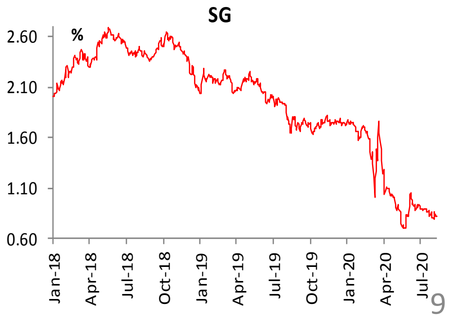






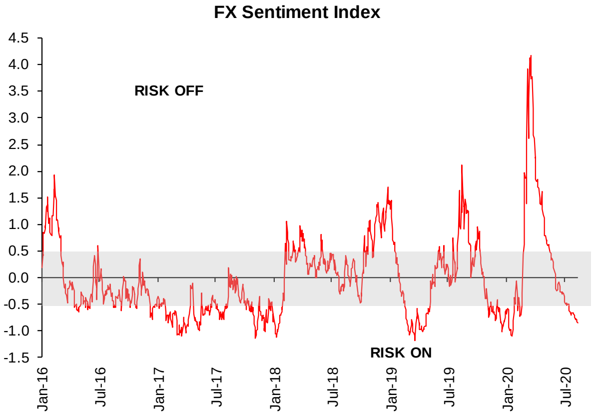


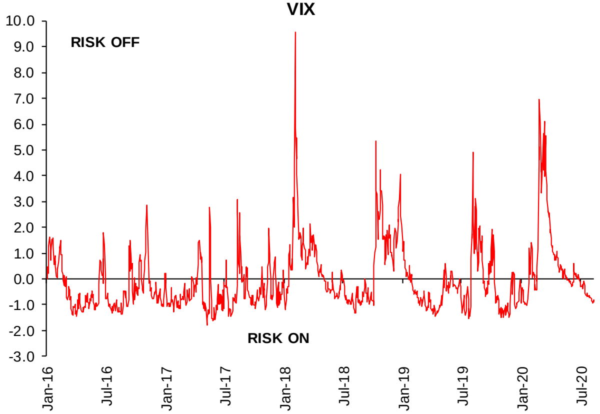


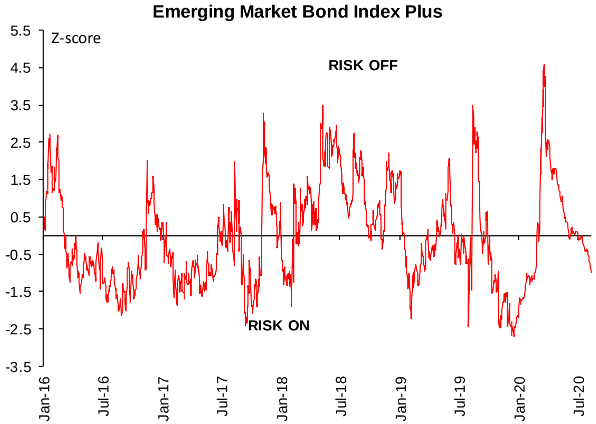


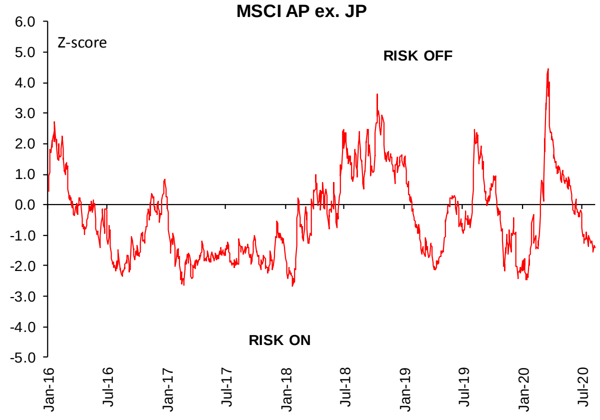
Risk-on sentiment powers on; Gold in question?

- Market sentiment has continued to wave off episodic jitters (most recently, the US fiscal relief talks and the TikTok/WeChat issues) to stay broadly risk-on. The **FX Sentiment Index** (FXSI) moved deeper into the Risk-On zone.
- **Fundamentally the long equities / risk-on / weak USD dynamic still in place for now, though it is starting to look tentative as S&P 500 closes in on record highs.** This technical challenge may pose a greater risk than the events ahead – headed by the still-stalling fiscal relief talks and the Phase 1 trade deal review coming up.
- Sustained reversal in gold after breaching record highs?





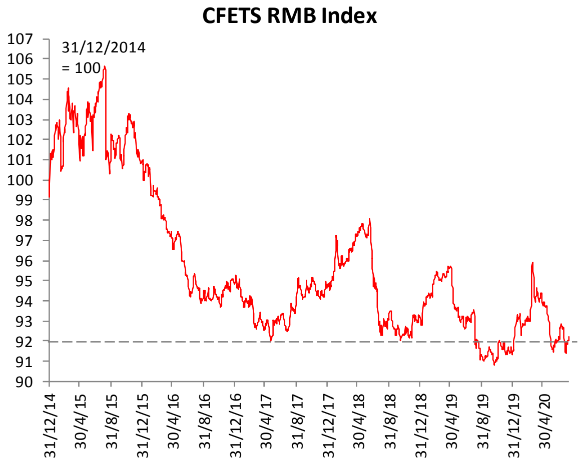


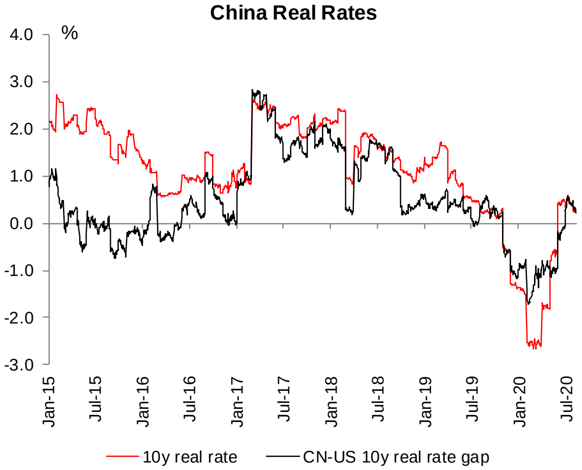


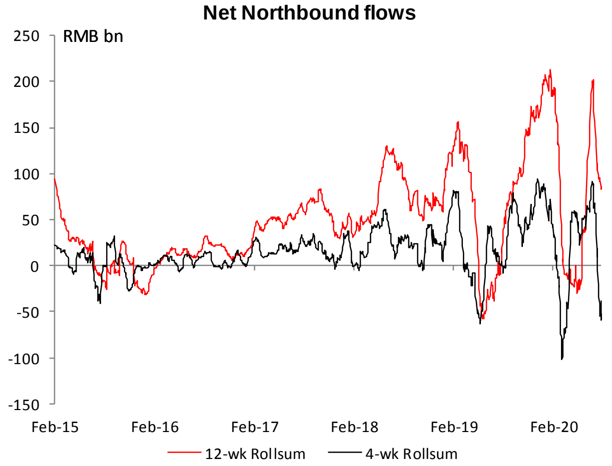
OCBC Bank

RMB: BAU on the Sino-US front; Focus on positives

- The review of the Sino-US Phase 1 trade deal was postponed without a target date. Our base case scenario remains for both parties to want to keep the deal intact, and prevent an outright dispute over trade. Thus, Sino-US issues are back to business-as-usual, where the market takes flare-ups on an issue-by-issue perspective, rather than seeing it as a downward spiral in relations. **This interpretation also suggests that the shelf-life of the episodic tensions may be short-lived, and expressed as brief spikes in the USD-CNH within a broader flat-to-heavy posture**.
- Focus on the positives instead – the on-track macro recovery in China and the supportive rate differentials. Expect the USD-CNH to retain a heavy stance going forward. 6.9000 remains the target if the pair stays below the 7.0000 mark.





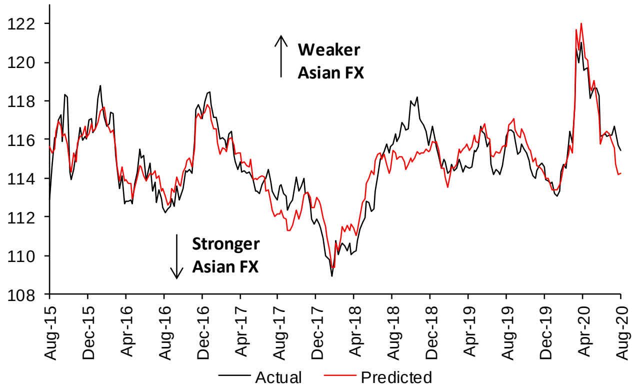


OCBC Bank

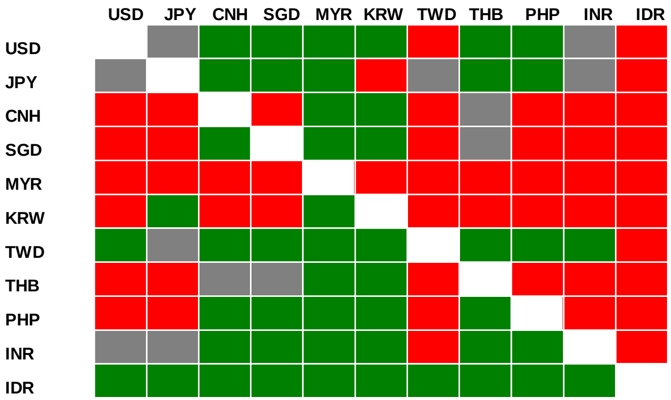
USD-Asia: Balancing global cues with domestic concerns

- The supported **RMB** complex should keep USD-Asia implicitly heavy. On an implied valuation perspective, further downside for USD-Asia cannot be ruled out, especially with the USD still weak and risk sentiment supported. Expect the **USD-SGD** and **USD-MYR** to be most reactive on this front. We would have expected the **USD-KRW** to be softer than current levels, but the ongoing malaise in the export sector has kept the pair supported. A more sustained return of equity inflows, however, may see the pair revert lower again going forward.
- Idiosyncratic domestic drivers mostly negative for the likes of **IDR** and **THB**. Market concerns over the "burden sharing" between the BI and the government may rear its head again, with the BI remaining the "standby buyer" of bonds next year. Meanwhile, the political unrests and protests mire the confidence in the THB. Elsewhere, note a lack of official appetite for a stronger **TWD**.

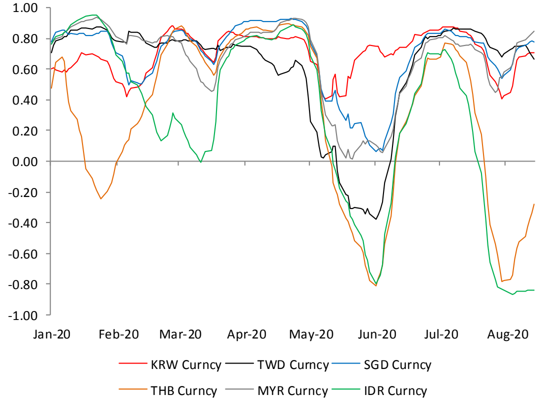
Asian Currency Index (ACI) implied valuation



Asian FX Short-term Heat Map



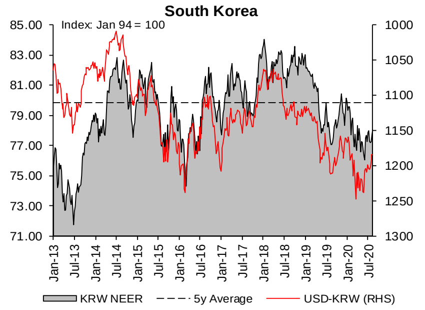
40-day Correlation with RMB

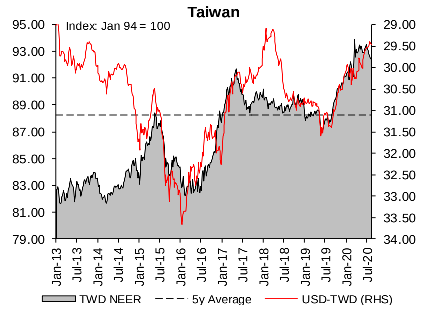


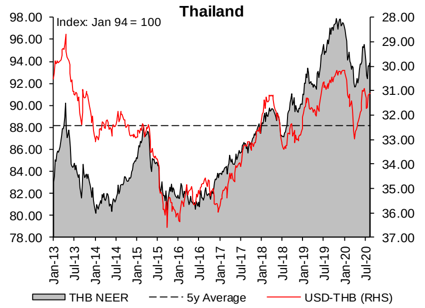
OCBC Bank

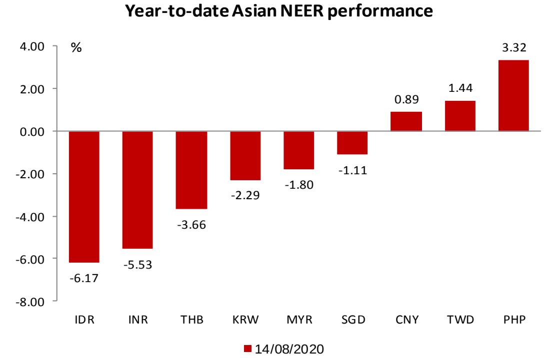
NEERs: IDR and THB slipping on NEER terms

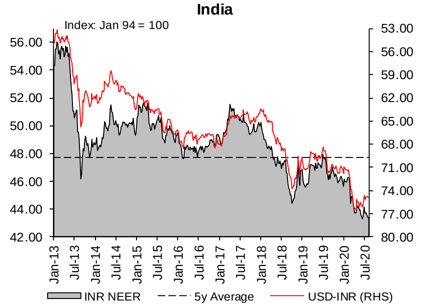
- The relative underperformance of the IDR and THB against other Asian counterparts during this bout of USD weakening are showing up in the respective NEERs.

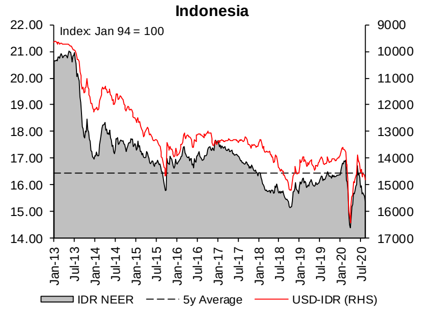


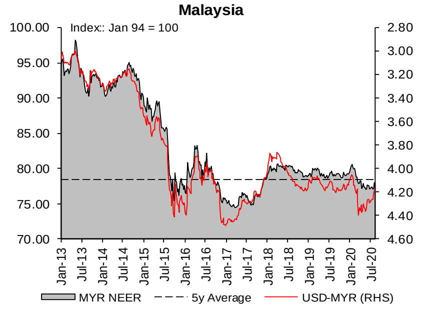


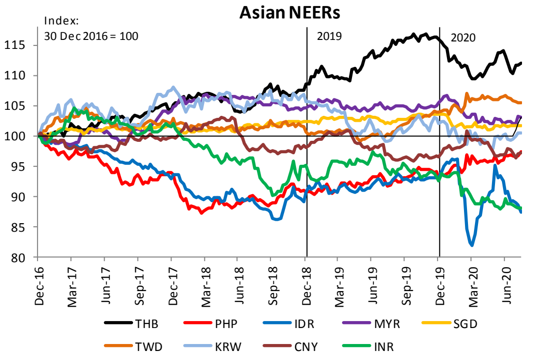








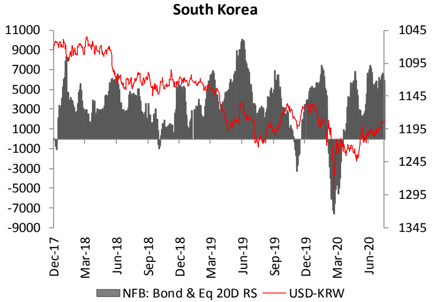


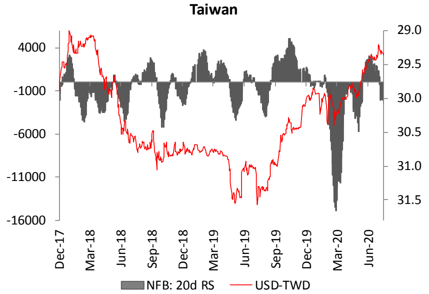


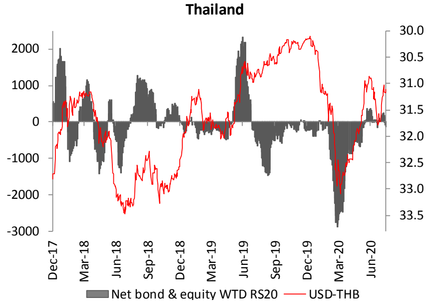
OCBC Bank

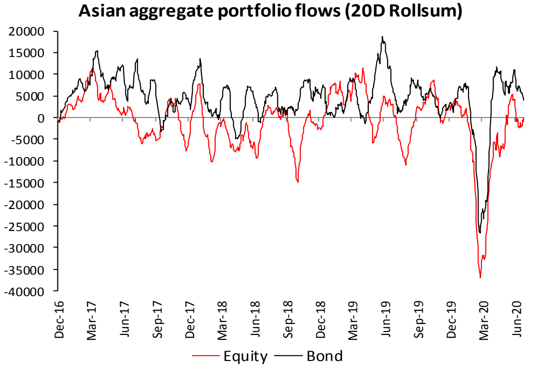
No strong support for Asian currencies from flows

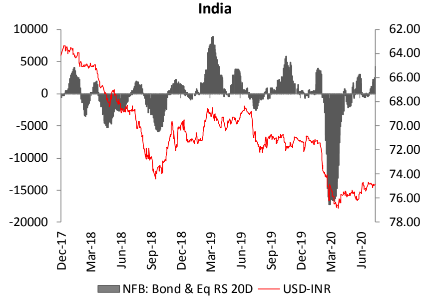
- Inflow momentum into India firmed further on strong equity inflows. In South Korea, bond inflows are at a consistently high level, while equity flows are recovering strongly from negative. Elsewhere, the picture is less positive, with equity outflows from Taiwan and Malaysia deepening. Indonesia and Thailand are at neutral levels on a rolling 20-day basis.

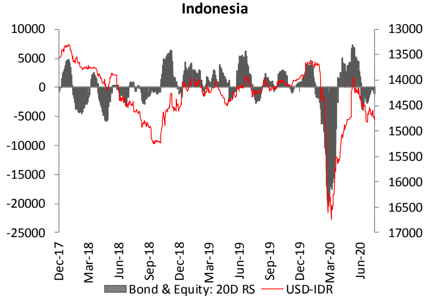


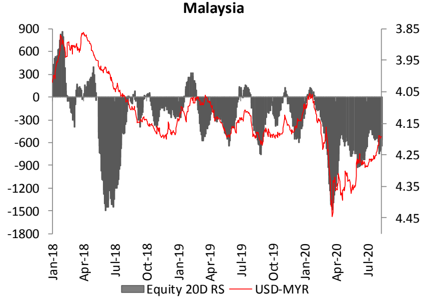


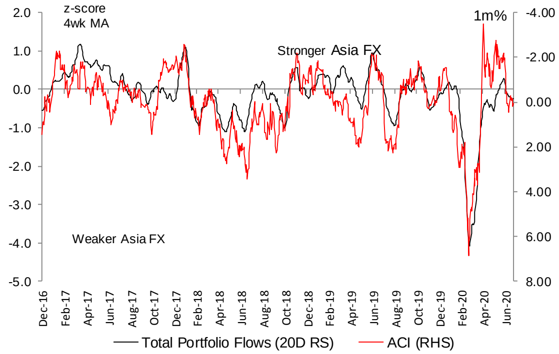








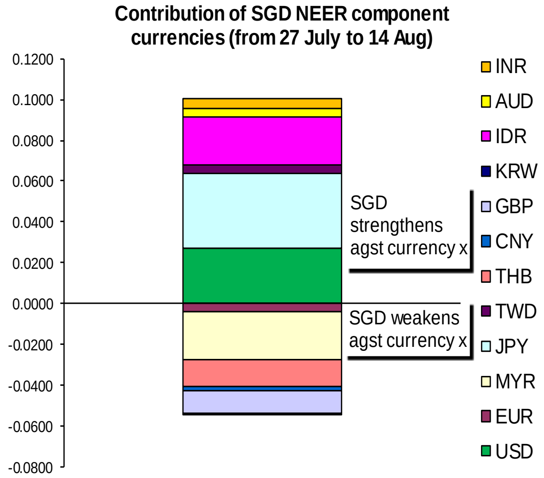


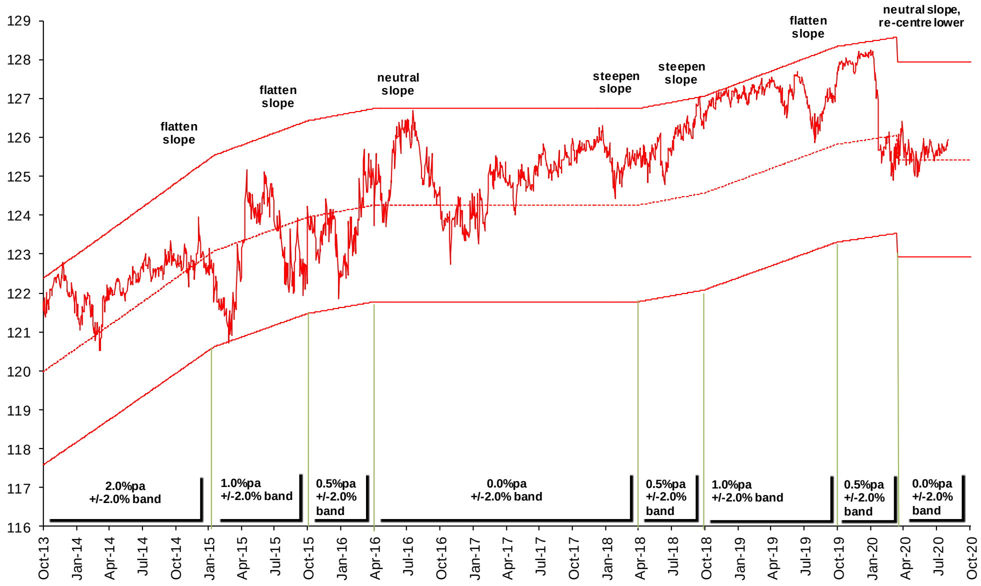


OCBC Bank

SGD NEER unfazed by data; stay on course for now

- Chatter for further fiscal support gained traction after the worse than expected 2Q GDP print. However, we continue to expect fiscal policy to bear the brunt of supporting the economy, with the MAS still regarding monetary policy as “appropriate”. Thus, while the SGD NEER may slip slightly going forward, **we are not expecting a deviation from the anchored-to-parity stance in the SGD NEER at this juncture**.
- The USD-SGD is therefore still a function of the broad USD prospects. With the broad USD decline in somewhat of a pause for now, expect the USD-SGD to be hemmed in within a 1.3600 to 1.3800 range, with a slight heavy bias.





OCBC Bank

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

Dick Yu
Hong Kong & Macau
dicksnyu@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