

04 May 2020

Asia FX Outlook

Economic reopening and aggressive policy actions to boost risk appetite

MYR (4.302) ▲

- Even with lower average Brent crude oil price of USD26.6/barrel in April (Mar: USD33.7/barrel) and extension of Movement Control Order by another two weeks until 12th May, MYR still gained momentum to strengthened against a weakening US dollar as there is an improvement in risk sentiment.
- The gradual reopening of domestic economy which will begin today, coupled with improving crude oil prices, is expected to boost the Malaysian economy, prompting MYR strength.

IDR (14,882) ▼

- Policy support from the Bank Indonesia and the US Fed's decision to keep rates at a record low pushes IDR higher against the USD, ending the month below 15,000 level for the first time in 1 month, despite weak domestic economic indicators.
- IDR may remain vulnerable this month on risk over the extended partial lockdown and elevated recession fears amid the rise in the number of cases.

THB (32.376) ▲

- Announcement of a third stimulus package worth THB1.9t (11.3% of GDP), rising signs of a flattening in the COVID-19 curve and Trump's unveiling of the US economic reopening plan lifted risk appetite, providing support to THB.
- Uptrend to sustain in May, reflecting the return of market optimism, partly underscored by the government's announcement of a 4-phased relaxation of lockdown measures beginning yesterday.

CNY (7.062) ▲

- Favourable progress in containing COVID-19, marked by the end of lockdown on Wuhan, offset downside bias from the raft of monetary easing measures (reduction in 1-yr LPR, 1-yr MLF and interest rate on excess reserves, targeted RRR cuts) and the plunge in 1Q20 GDP.
- Upward bias to persist on potential announcement of a stimulus package at the National People's Congress on 22 May, but partially capped by weak external demand and rising US-CN tension, signified by Trump's tariff threat.

JPY (106.590) —

- JPY was relatively unchanged amid weaker USD following dismal US 1Q20 GDP and dovish pause by the US Fed, while the news on coronavirus drug hopes boosted risk-on sentiment, dampening the safe-haven currency.
- Easing lockdowns in some economies and the news on development of drug would pressure JPY. However, recent monetary easing and BoJ's unlimited quantitative easing may give some support to the currency.

Table 1: Currencies Outlook

	Long Term*				
	Q1-20	Q2-20F	Q3-20F	Q4-20F	Q1-21F OUTLOOK
USDMYR	4.321	4.334	4.316	4.297	4.276 ▲
USDIDR	16310	14829	14932	15036	15138 ▼
USDTHB	32.793	32.243	32.109	31.973	31.843 ▼
USDPHP	50.694	50.414	50.362	50.325	50.282 ▼
USDCNY	7.082	7.098	7.167	7.241	7.315 ▲
USDJPY	108.620	106.499	106.302	106.083	105.910 ▼

Short Term (Technical)						
	EMA (21)	R1	R2	S1	S2	OUTLOOK
USDMYR	4.346	4.364	4.425	4.272	4.241	▲
USDIDR	15508	15957	17033	14344	13807	▲
USDTHB	32.503	32.810	33.245	32.136	31.897	▲
USDPHP	50.712	50.747	51.073	50.257	50.093	▲
USDCNY	7.070	7.096	7.130	7.032	7.002	▲
USDJPY	107.550	108.323	110.057	105.673	104.757	▲

Signal for USD Trend = ▲ Bullish ▬ Neutral ▼ Bearish

*=Forecasts for end of period

Source: Kenanga Research, Bloomberg

EMA (21): 21-day Exponential Moving Average

EMA gives more weight to the most recent periods, places more emphasis on what has been happening lately. Old data points retain a multiplier even if they are outside of the selected data series length.

$$EMA = (P \times \alpha) + [Previous EMA \times (1 - \alpha)]$$

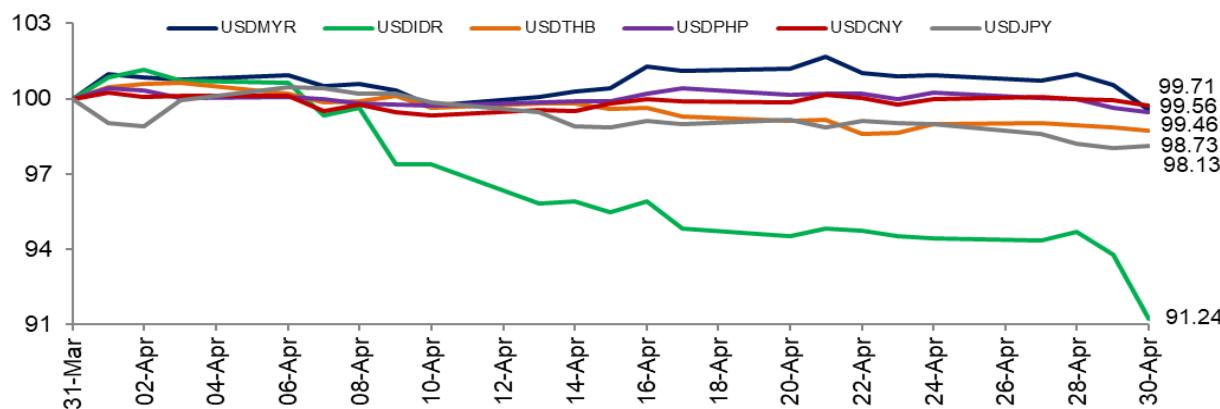
Table 2: Upcoming Major Data Release

Date	Currency	Indicator
04/05/2020	IDR	CPI (Apr)
04/05/2020	THB	CPI (Apr)
05/05/2020	IDR	GDP (Q1)
05/05/2020	MYR	Interest Rate
05/05/2020	USD	Trade (Mar)
06/05/2020	CNY	Caixin Services PMI (Apr)
06/05/2020	USD	Crude Oil Inventories
07/05/2020	CNY	Trade (Apr)
07/05/2020	JPY	Services PMI (Apr)
07/05/2020	USD	Initial Jobless Claims
08/05/2020	USD	Nonfarm Payrolls (Apr)
08/05/2020	USD	Unemployment Rate (Apr)
11/05/2020	CNY	CPI (Apr)
12/05/2020	USD	CPI (Apr)
13/05/2020	MYR	GDP (Q1)
14/05/2020	CNY	Fixed Asset Investment (Apr)
14/05/2020	CNY	Industrial Production (Apr)
15/05/2020	USD	Retail Sales (Apr)
15/05/2020	USD	Industrial Production (Apr)
17/05/2020	JPY	GDP (Q1)
17/05/2020	THB	GDP (Q1)
19/05/2020	JPY	Industrial Production (Mar)
20/05/2020	JPY	Trade (Apr)
20/05/2020	MYR	CPI (Apr)
21/05/2020	USD	Manufacturing PMI (May)
29/05/2020	JPY	Unemployment Rate (Apr)
29/05/2020	JPY	Consumer Confidence (Apr)

Source: Kenanga Research, Trading Economics



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Graph 1: Monthly Asia FX Indices Trend

Source: Kenanga Research, Bloomberg

Table 1: Real Effective Exchange Rate (REER) Indices Changes

	Indonesia (ID)	Thailand (TH)	Malaysia (MY)	Philippines (PH)	Japan (JP)	China (CN)
Dec-19	93.20	114.8	88.27	110.4	76.62	122.24
Mar-20	87.81	108.8	86.99	112.3	78.83	126.07
Changes (%)	-5.78	-5.24	-1.45	1.78	2.88	3.13

Source: Kenanga Research, BIS

REER as a barometer for Asia's export competitiveness

- As the world shows signs of potential economic recovery from the global pandemic, export-driven economies in particular, will face substantial competition to export their products. Countries with lower REER such as JP, MY and ID are expected to see an improvement in their trade balance as their exports become much cheaper.
- Since the emergence of COVID-19 in December, ID has seen its REER adjusted lower by -5.78%, followed by TH (-5.24%) and MY (-1.45%) while in contrary, PH saw an appreciation of 1.78%, followed by JP (2.88%) and CN (3.13%).
- Geopolitical risk aside, with overvalued currencies, CN, PH and TH could be enticed to engage in a currency war, adjusting the CNY, PHP and THB downward, to sharpen their competitive edges in the export market.

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