

Asia FX Outlook

Recovery in global markets halted by escalating Sino-US strains

MYR (4.347) ▼

- MYR slipped to its lowest level since March 2017 on market jitters over US-CN showdown, COVID-19 pandemic uncertainty, oil price volatility and domestic politics. In addition, ringgit was dragged further by weaker yuan, reflecting Malaysia's reliance on China.
- Increasing confrontation risk between Washington and Beijing coupled with Malaysia's potential political turmoil is expected to worsen the virus-hit economy, potentially pushing MYR nearer to 4.40 level in the 2Q20.

IDR (14,610) ▼

- IDR strengthened in May, supported by Bank Indonesia (BI) intervention in the spot market and bond purchasing in the secondary market as well as BI decision to hold policy rates steady at 4.50% amid weak GDP growth (1Q20: 3.0%; 4Q19: 5.0%).
- Renewed US-CN trade and political tussle as well as looming risks of a potential second wave infections could exert downward pressure on IDR going forward.

THB (31.812) ▲

- THB strengthened to below 32.0 for the first time since March 13th, as the gradual economic reopening and the release of better-than-expected economic data (i.e. 1Q20 GDP, exports) outweighed depreciatory pressure arising from the 25bps policy rate cut.
- THB to remain boosted in June on hopes for economic recovery, backed by expectations of further easing of movement restriction, in spite of the extension of the state of emergency until June 30th.

CNY (7.136) ▼

- CNY plunged to its weakest in over eight months on increasingly soured US-CN relation as the countries clashed over the COVID-19 pandemic, trade and China's national security law for Hong Kong. These offset support from the government and PBoC's pledge for more fiscal and monetary easing.
- Weakness to prevail as the PBoC signalled its tolerance for depreciation, by setting the official yuan midpoint at the weakest level (7.1293) since 2008.

JPY (107.830) ▲

- JPY weakened to above 107 level on risk mode sentiment amid positive development of COVID-19 vaccine and easing lockdown in several countries. Meanwhile, the government announced second stimulus package, bringing the total worth JPY234 trillion or 40% of GDP, largest in the world.
- JPY is expected to strengthen this month, regaining its safe-haven status on the back of rising geopolitical risks premium, in particular, the US-CN crisis, Hong Kong protest and the South China Sea dispute.

Table 1: Currencies Outlook

	Long Term*					OUTLOOK
	Q1-20	Q2-20F	Q3-20F	Q4-20F	Q1-21F	
USDMYR	4.321	4.345	4.325	4.302	4.278	▲
USDIDR	16310	14604	14698	14796	14892	▼
USDTHB	32.793	31.761	31.618	31.476	31.340	▼
USDPHP	50.694	50.591	50.534	50.507	50.467	▼
USDCNY	7.082	7.170	7.253	7.334	7.414	▲
USDJPY	108.620	107.745	107.560	107.400	107.236	▼

	Short Term (Technical)					OUTLOOK
	EMA (21)	R1	R2	S1	S2	
USDMYR	4.347	4.378	4.410	4.308	4.270	—
USDIDR	14878	14937	15263	14447	14283	▲
USDTHB	32.048	32.241	32.671	31.597	31.383	▲
USDPHP	50.637	50.911	51.217	50.283	49.961	▲
USDCNY	7.112	7.181	7.226	7.077	7.018	▼
USDJPY	107.476	108.353	108.877	106.783	105.737	▼

Signal for USD Trend = ▲ Bullish — Neutral ▼ Bearish

*F=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.

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

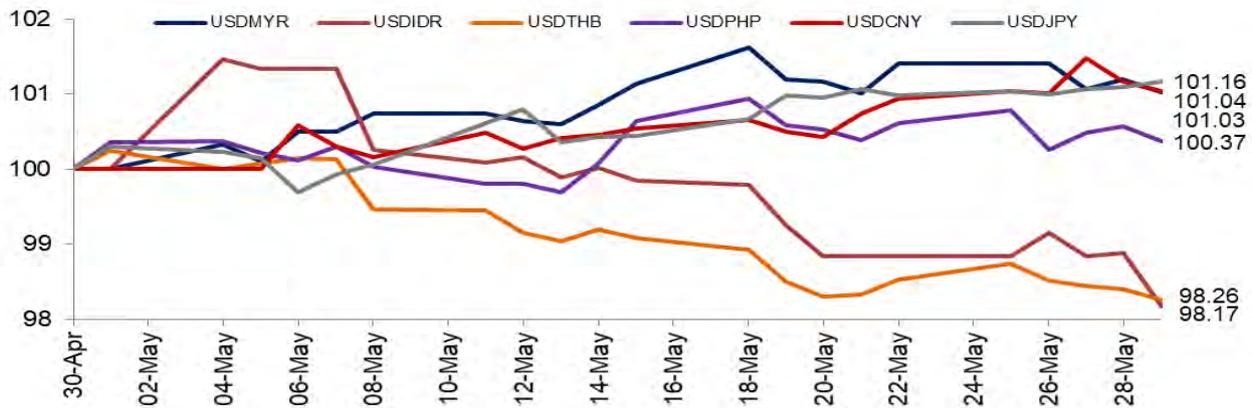
Table 2: Upcoming Major Data Release

Date	Currency	Indicator
1/6/2020	CN	Caixin Manufacturing PMI (MAY)
2/6/2020	ID	Inflation (MAY)
2/6/2020	TH	Inflation (MAY)
3/6/2020	CN	Caixin Services PMI (MAY)
7/6/2020	CN	Trade (MAY)
8/6/2020	JP	GDP Growth Final 1Q20
8/6/2020	JP	Current Account (APR)
10/6/2020	CN	Inflation (MAY)
10/6/2020	CN	PPI (MAY)
12/6/2020	JP	Industrial Production (APR)
12/6/2020	CN	FDI (YTD) (MAY)
15/6/2020	CN	Industrial Production (MAY)
15/6/2020	CN	Retail Sales (MAY)
15/6/2020	CN	Unemployment Rate (MAY)
15/6/2020	ID	Trade (MAY)
15/6/2020	MY	Unemployment Rate (APR)
16/6/2020	JP	BoJ Interest Rate Decision
17/6/2020	JP	Trade (MAY)
18/6/2020	ID	Interest Rate Decision
19/6/2020	JP	Inflation (MAY)
22/6/2020	CN	Loan Prime Rate
22/6/2020	TH	Trade (MAY)
24/6/2020	MY	Inflation Rate (MAY)
24/6/2020	TH	Interest Rate Decision
27/6/2020	JP	Retail Sales (MAY)
30/6/2020	JP	Unemployment Rate (MAY)
30/6/2020	JP	Industrial Production (MAY)
30/6/2020	TH	Private Consumption (MAY)

Source: Kenanga Research, Trading Economics

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Graph 1: Monthly Asia FX Indices Trend



Source: Kenanga Research, Bloomberg

Table 1: 10-Year Government Bond Spreads between Asia Countries and US

	Indonesia (ID)	Malaysia (MY)	China (CN)	Thailand (TH)	Japan (JP)	United States (US)
31-Dec-19	7.06	3.30	3.14	1.49	-0.01	1.92
Bond Spread (%)	-5.15	-1.38	-1.23	0.43	1.93	-
29-May-20	7.35	2.80	2.69	1.24	0.01	0.65
Bond Spread (%)	-6.69	-2.14	-2.04	-0.59	0.65	-

Source: Kenanga Research, Bloomberg

Asia FX carry trade could be making a slow comeback amid virus recovery optimism

- Bond yields are significantly affected as central banks around the world cut their policy rates on the back of coronavirus-induced economic downturn. High-yielding currencies with substantial bond spreads such as IDR, MYR and CNY should benefit from the vaccine and economic reopening hopes as global funds are wooed back into higher-yielding bonds.
- On the other hand, as the spread between JP and US government bond yields began to tighten due to Fed's aggressive rate cut, the carry trade is almost non-existent.
- In any case, carry trade is not expected to come back in full-force as uncertainties loom over the global economy due to rising US-CN tensions, oil price volatility and possibility of a second wave of infections. This would continue to fuel demand for safe haven currencies mainly USD, JPY and CHF.

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