

Asia FX Outlook

Virus resurgence and escalating US-CH tensions hampers recovery optimism

MYR (4.286) ▲

- MYR strengthened in June due to the improvement of Malaysia's manufacturing PMI (May: 45.6; Apr: 31.3) and the implementation of the Recovery Movement Control Order. However, the gain was cut short as global financial market turned risk off and investors turned towards safe-haven assets, in particular the US dollar.
- With improving oil prices, MYR is expected to marginally appreciate in July. In addition, MYR will benefit from the recovery of global trade and demand for commodity as the world economies re-open. However, some uncertainties remain on renewed US-China trade tensions and fears of COVID-19 second wave infections across the globe.

IDR (14,265) ▼

- IDR continued to gain in June as the government eased lockdown measures despite a rise in the number of COVID-19 cases. However, the momentum was partially eroded by Bank Indonesia's decision to cut rates by 25 bps and its dovish statement as well as a bleak growth outlook.
- Surging COVID-19 cases domestically and fears of the second wave virus infections among its major trading partners is expected to exert downside pressure on IDR going forward.

THB (30.906) ▲

- THB pierced below 31.0 for the first time since February 5th, as further economic reopening, the BoT's optimism of a recovery in the 2H20 and announcement of a domestic tourism stimulus overshadowed the simmering US-CN tension.
- As Asia's third largest gold trading hub, Thailand's local note is expected to appreciate further, as gold prices remain elevated amid spikes in COVID-19 cases in the US. However, THB upside may be partially capped if the BoT deploy measures to curb the rise of the currency.

CNY (7.065) ▼

- CNY strengthened following PBoC's USD60.0b credit easing measures, modest recovery in May's economic data and White House's assurance that the phase-1 US-CN trade deal remained intact. These offset pressures arising from the Fed's bearish outlook and India-China border clash.
- A bearish trend is expected this month owing to a resurgence of COVID-19 infections, re-implementation of lockdown in Beijing and a whipsawing US-CN relation.

JPY (107.730) ▲

- JPY inched up marginally in June, and relatively stable against USD on the back of risk-off sentiment amid fears of virus resurgence and the escalation of US-CH relation. It was further reinforced by the BOJ decision on boosting financing support for businesses hit by the pandemic.
- While both JPY and USD are considered as a safe-haven currency, JPY seems to be in a better position given the sharp resurgence in the US coronavirus cases.

Table 1: Currencies Outlook

Long Term*						
	Q2-20	Q3-20F	Q4-20F	Q1-21F	Q2-21F	OUTLOOK
USDMYR	4.286	4.325	4.302	4.278	4.253	▲
USDIDR	14265	14343	14432	14519	14609	▲
USDTHB	30.906	30.606	30.443	30.289	30.133	▼
USDPHP	49.820	49.889	49.849	49.799	49.744	▲
USDCNY	7.065	7.063	7.046	7.030	7.013	▼
USDJPY	107.730	107.560	107.400	107.236	107.076	▼

Short Term (Technical)						
	EMA (21)	R1	R2	S1	S2	OUTLOOK
USDMYR	4.286	4.321	4.355	4.249	4.211	—
USDIDR	14237	14624	14983	13892	13519	▼
USDTHB	31.169	31.442	31.979	30.604	30.303	▲
USDPHP	50.099	50.182	50.544	49.634	49.448	▲
USDCNY	7.082	7.109	7.153	7.040	7.014	▲
USDJPY	107.389	109.370	111.010	106.310	104.890	▼

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.

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

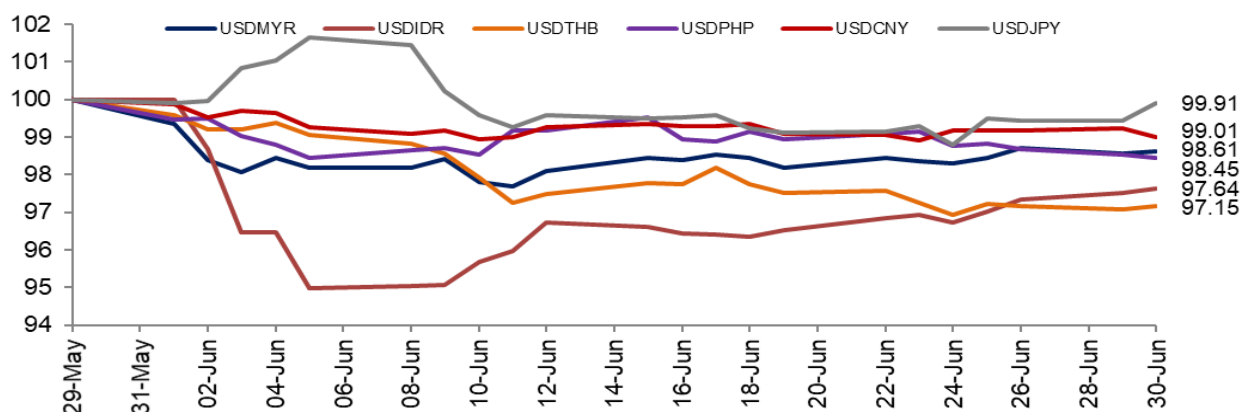
Table 2: Upcoming Major Data Release

Date	Currency	Indicator
1/7/2020	IDR	Inflation (JUN)
1/7/2020	CNY	Caixin Manufacturing PMI (JUN)
1/7/2020	MYR	Markit Manufacturing PMI (JUN)
2/7/2020	THB	Consumer Confidence (JUN)
3/7/2020	THB	Inflation (JUN)
6/7/2020	IDR	Consumer Confidence
7/7/2020	MYR	Interest Rate Decision
8/7/2020	JPY	Current Account (MAY)
8/7/2020	THB	Unemployment Rate (APR/MAY/JUN)
9/7/2020	CNY	Inflation (JUN)
9/7/2020	CNY	PPI (JUN)
10/7/2020	JPY	PPI (JUN)
10/7/2020	MYR	Industrial Production (JUN)
10/7/2020	MYR	Retail Sales (JUN)
10/7/2020	IDR	Retail Sales (JUN)
14/7/2020	CNY	Trade (JUN)
14/7/2020	MYR	Unemployment Rate (MAY)
15/7/2020	JPY	BoJ Interest Rate Decision
15/7/2020	IDR	Trade (JUN)
16/7/2020	CNY	GDP Growth Rate (Q2)
16/7/2020	CNY	Industrial Production (JUN)
16/7/2020	CNY	Unemployment Rate (JUN)
16/7/2020	IDR	Interest Rate Decision
20/7/2020	JPY	Trade (JUN)
21/7/2020	JPY	Inflation Rate (JUN)
22/7/2020	MYR	Inflation Rate (JUN)
22/7/2020	THB	Trade (JUN)
28/7/2020	MYR	Trade (JUN)

Source: Kenanga Research, Trading Economics

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Graph 1: Monthly Asia FX Indices Trend



Source: Kenanga Research, Bloomberg

Table 1: COVID-19 Statistics (as of 30th June 2020)

Countries	Number of Cases	Average New Cases (May)	Average New Cases (June)	Prevalence (Per 1m)	Mortality Rate	Recovery Rate
US	2,683,000	23,243	29,760	8,153	4.8%	41.8%
CN	84,780	5	17	60	5.5%	93.7%
ID	56,385	528	997	209	5.1%	44.0%
SG	43,907	604	301	7,442	0.1%	86.5%
PH	37,514	528	648	347	3.4%	27.3%
JP	18,615	86	62	147	5.2%	89.3%
MY	8,639	59	27	266	1.4%	96.7%
TH	3,171	4	3	46	1.8%	96.4%

Source: Kenanga Research, Bloomberg

Growing COVID-19 cases in US and China could prompt rush to safety

- On 28th June, CN re-imposed a full lockdown in Hebei province in an effort to contain the spread of a new COVID-19 cluster. On the contrary, all US states have eased restrictions and reopened their economy despite a sharp rise in new COVID-19 cases.
- The continued spread of the COVID-19 pandemic coupled with rising market uncertainty will give rise to global risk-off sentiment, prompting rush to safety and weaken most of major and emerging market currencies.
- Regionally, rising COVID-19 cases in ID and PH are expected to further debilitate IDR and PHP respectively. Bucking the trend, THB, MYR and SGD are expected to gather some strength due to their relative success in containing and managing the pandemic.

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