

Asia FX Monthly Outlook

May skid lower amid an extended US bond market sell-off

CNY (6.553) ▼

- CNY eased to its lowest since December following unfavourable headlines surrounding the US-CN dialogue and the Xinjiang sanctions by western governments. The conservative official 2021 GDP growth target of above 6.0% also weighed on the currency.
- CNY is expected to trade lower due to continued narrowing of the CN-US yield gap and renewed US-CN tension. These will be partly outweighed by the release of upbeat domestic economic indicators.

JPY (110.670) ▼

- JPY plunged for the third straight month to a level last seen in March 2020. The poor performance was mainly due to dollar appreciation amid rising US bond yields on stronger US economic data and concern over the third wave of COVID-19 infections in Europe. The yen was also pressured after and the Bank of Japan widened its target band for the benchmark yield and weak Japanese GDP data.
- JPY may continue its downtrend on further dollar appreciation underpinned by upbeat US economic data, and rising COVID-19 cases globally.

MYR (4.145) ▼

- Despite Malaysia's removal from the FTSE Russell Watch List, higher average Brent crude oil price of USD65.8/barrel in March (Feb: USD62.3/barrel) and improving domestic COVID-19 situation, MYR slipped to its lowest level since Nov 2020 against a strengthening US dollar due to a rapid rise in Treasury yields.
- MYR's sell-off is expected to persist as US bond yields may continue to rise on the back of US's high vaccination rate and President Joe Biden's USD2.0t infrastructure plan. To add, US-CN tech war and Europe's third wave of COVID-19 as well as oil market uncertainty could exert additional downward pressure on MYR in April.

IDR (14,525) ▼

- IDR weakened in March on stronger dollar due to rising COVID-19 cases globally and potential US tax hikes that weighed on risk appetite. This was further dragged by Indonesia's Finance Minister statement on fiscal support amid low inflation and weak demand.
- IDR is expected to continue depreciating on an anticipated rise in the US Treasury yields. The rising threat from the third wave of COVID-19 infections globally and renewed US-CN tensions would add further downside to the rupiah.

THB (31.259) ▼

- THB tumbled further to its weakest in five months reflecting the continued rise in UST yields and worries over US-CN tension. The downside was partly capped by the Fed's reaffirmation of its dovish policy stance.
- THB is expected to remain pressured as risk appetite could be sapped by concerns over a third wave of COVID-19 in Europe and a potential US tax hike. These will offset domestic economic recovery optimism following further relaxation of restrictions locally.

Table 1: Currencies Outlook

	Long Term*					OUTLOOK
	Q1-21	Q2-21F	Q3-21F	Q4-21F	Q1-22F	
USDCNY	6.553	6.485	6.508	6.535	6.563	▼
USDJPY	110.670	106.333	106.156	105.957	105.778	▼
USDMYR	4.145	4.088	3.979	3.953	3.931	▼
USDIDR	14525	14399	14486	14574	14659	▼
USDTHB	31.259	30.268	30.118	29.968	29.824	▼
USDPHP	48.535	48.487	48.422	48.347	48.279	▼

	Short Term (Technical)					OUTLOOK
	EMA (21)	R1	R2	S1	S2	
USDCNY	6.520	6.594	6.636	6.489	6.424	▼
USDJPY	108.752	111.993	113.317	108.023	105.377	▼
USDMYR	4.116	4.180	4.215	4.081	4.016	▼
USDIDR	14380	14618	14712	14338	14152	▼
USDTHB	30.844	31.621	31.984	30.542	29.826	▼
USDPHP	48.544	48.698	48.861	48.402	48.269	▲

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.

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

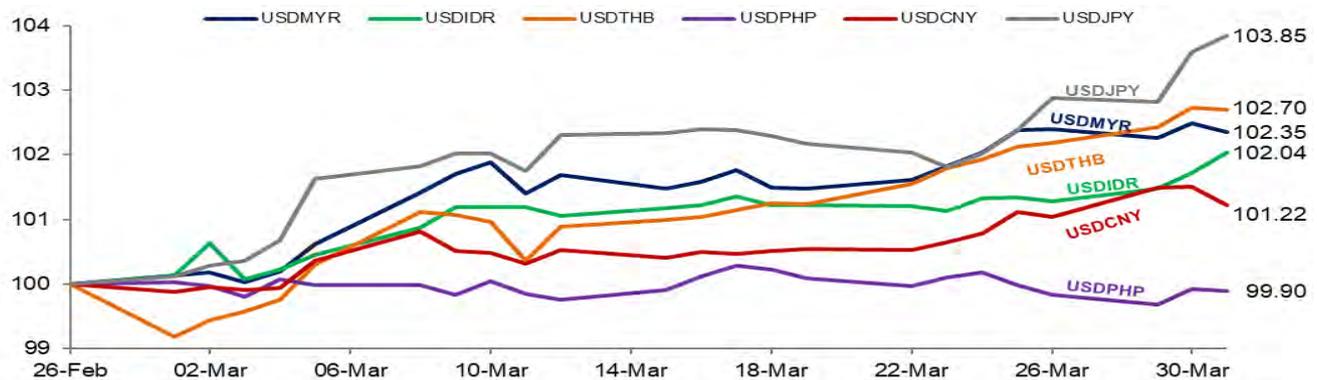
Table 2: Upcoming Major Data Release

Date	Currency	Indicator
01/04/2021	CNY	Manufacturing PMI (MAR)
01/04/2021	IDR	Inflation (MAR)
01/04/2021	MYR	PMI (MAR)
05/04/2021	THB	Inflation (MAR)
08/04/2021	JPY	Current Account (FEB)
08/04/2021	MYR	Unemployment Rate (FEB)
08/04/2021	THB	Consumer Confidence (MAR)
09/04/2021	CNY	Inflation (MAR)
09/04/2021	MYR	Industrial Production (FEB)
09/04/2021	MYR	Retail Sales (FEB)
09/04/2021	THB	Foreign Exchange Reserves (MAR)
12/04/2021	JPY	PPI (MAR)
13/04/2021	CNY	Trade (MAR)
15/04/2021	IDR	Trade (MAR)
15/04/2021	CNY	FDI (MAR)
16/04/2021	CNY	GDP (Q1)
16/04/2021	CNY	Retail Sales (MAR)
19/04/2021	JPY	Trade (MAR)
19/04/2021	IDR	Retail Sales (FEB)
20/04/2021	IDR	Interest Rate Decision
21/04/2021	THB	Trade (MAR)
23/04/2021	MYR	Inflation (MAR)
24/04/2021	JPY	Inflation (MAR)
27/04/2021	JPY	Interest Rate Decision
28/04/2021	MYR	Trade (MAR)
28/04/2021	MYR	PPI (MAR)
30/04/2021	THB	Unemployment Rate (MAR)
30/04/2021	IDR	FDI (Q1)

Source: Kenanga Research, Trading Economics

01 April 2021

Graph 1: Monthly Asia FX Indices Trend



Source: Kenanga Research, Bloomberg

US Treasuries sell-off to continue; keeping pressure on Asian FX in the face of a bolstered USD

- The bond sell-off has caused middle to longer tenure UST yields to rise considerably; between 1 Feb and 30 Mar, the 10Y UST rose 67bps to 1.753% and the 30Y UST increased by 59bps to 2.445%. This UST sell-off will likely continue in the months ahead, as the number of US vaccinations increase and as US economic recovery is boosted by fiscal stimulus.
- President Biden recently announced that 90.0% of adults in the US will be eligible to receive a vaccine by 19 Apr, and that he plans for an additional USD2.0t in infrastructure spending on top of USD1.9t American Rescue Plan passed earlier this month.
- The US Fed's repeated assertions that interest rates will not be raised in the near future is unlikely to curb the rise in yields among medium to long tenure UST. It appears the market has already priced in the Fed's intent, but only for shorter tenure bonds. The 2Y UST, which typically moves with market views on interest rates, remains anchored and only marginally increased by 4bps to 0.15% between 1 Feb and 30 Mar.
- With that said, the rise in UST yields over the last two months has markedly bolstered the strength of the USD. The US Dollar Index (DXY), which tracks the dollar's performance against a weighted basket of major currencies, has increased by 2.42% since 1 Feb to reach 93.18 on 30 Mar, its highest level in four months. As such we expect Asian currencies to remain pressured in the coming months, as the 10Y UST continues to rise and possibly march towards the 2.0% level, further strengthening the USD.

Graph 2: 10Y UST Yield and US Dollar Index (DXY)



Source: Kenanga Research, Bloomberg

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