

Asia FX Monthly Outlook

US Fed dovish stance to lift Asian currencies higher

CNY (6.370) ▲

- CNY rallied to its strongest in over three years, buoyed by favourable trade data and amid a softer dollar, due to a lower-than-expected rise in the US non-farm payrolls.
- CNY may sustain an uptrend this month, as the Fed retains a dovish policy rhetoric and views the rise in inflation as transitory. Further recovery in China's economic indicators would also lift the CNY higher.

JPY (109.680) ▼

- JPY depreciated in May despite a generally weak USD. This is predominantly due to Japan's declining economic outlook, as it registered a worse-than-expected 1Q21 GDP growth rate of -5.1% YoY (4Q20: 11.6%). Furthermore, Japan recently extended its COVID-19 state of emergency for the third time, which is now running until 20 June.
- JPY may continue to weaken this month, as the extended state of emergency will likely exacerbate declining private consumption, which would weigh on Japan's recovery outlook.

MYR (4.125) ▲

- MYR erased some of its April's gains, mainly due to the worsening local COVID-19 situation. Despite a stronger-than-expected domestic economic data, higher Brent crude oil price and weakening USD index, the local note faced strong selling pressure due to the implementation of the Movement Control Order (MCO) 3.0 and the announcement of the Full MCO (FMCO).
- Despite the expectation of a continued rise in local COVID-19 cases and the implementation of the FMCO, MYR is poised to end the month higher against the USD at around 4.12, driven by the prospect of a faster vaccine roll-out, stable crude oil market and a weaker greenback. However, an earlier-than-expected tapering during the Fed's June 16 meeting could change the weak USD narrative and put pressure on the local note.

IDR (14,280) ▲

- IDR strengthened in May as domestic economic data hinted at a mild recovery and as foreign investors returned to its high-yielding bond market. This was further bolstered by Bank Indonesia's (BI) decision to hold rates steady for the third straight month.
- IDR may further appreciate in June if the US Fed continue to reiterate its dovish stance. Nonetheless, the upside bias will be limited, given the fears of potential COVID-19 resurgence amid new variants.

THB (31.217) ▲

- THB weakened as sentiment was battered by the third wave of COVID-19 infections and a slash in 2021 official growth forecast (1.5% - 2.5%; previous: 2.5% - 3.5%). It was also weighed by a spike in US inflation.
- THB may trade slightly higher in June on an expected pickup in vaccination drive as registrations have been opened to more residents. It may further gain on additional fiscal injection following the approval of USD16b borrowing bill and reiteration of the Fed's dovish stance.

Table 1: Currencies Outlook

	Long Term*					OUTLOOK
	Q1-21	Q2-21F	Q3-21F	Q4-21F	Q1-22F	
USDCNY	6.553	6.339	6.307	6.310	6.322	▼
USDJPY	110.670	109.644	109.522	109.395	109.256	▼
USDMYR	4.145	4.116	4.066	4.028	4.000	▼
USDIDR	14525	14299	14382	14467	14550	▼
USDTHB	31.259	31.227	31.088	30.949	30.815	▼
USDPHP	48.535	47.694	47.621	47.529	47.449	▼

	Short Term (Technical)					OUTLOOK
	EMA (21)	R1	R2	S1	S2	
USDCNY	6.426	6.441	6.511	6.334	6.298	▲
USDJPY	109.129	110.153	110.627	108.903	108.127	▼
USDMYR	4.130	4.146	4.166	4.105	4.084	▲
USDIDR	14326	14421	14561	14169	14057	▲
USDTHB	31.295	31.429	31.642	31.037	30.858	▲
USDPHP	47.992	48.000	48.306	47.542	47.390	▲

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.

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

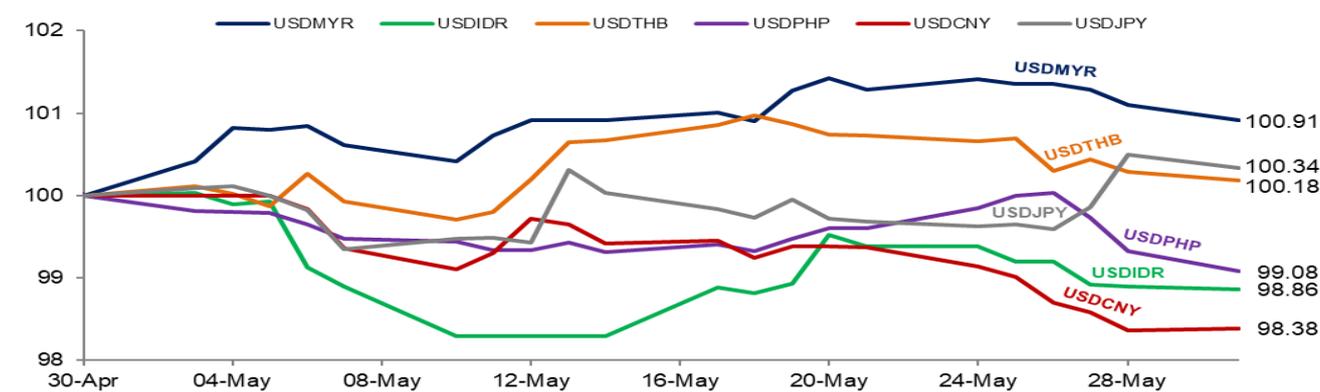
Table 2: Upcoming Major Data Release

Date	Currency	Indicator
01/06/2021	MYR	PMI (MAY)
01/06/2021	THB	PMI (MAY)
01/06/2021	CNY	PMI (MAY)
02/06/2021	IDR	Inflation (MAY)
02/06/2021	IDR	PMI (MAY)
04/06/2021	THB	Inflation (MAY)
07/06/2021	CNY	Trade (MAY)
08/06/2021	JPY	Current Account (APR)
08/06/2021	JPY	GDP (Q1)
09/06/2021	CNY	Inflation (MAY)
09/06/2021	CNY	PPI (MAY)
09/06/2021	MYR	Unemployment (APR)
11/06/2021	MYR	Retail Sales (APR)
15/06/2021	IDR	Trade (MAY)
16/06/2021	CNY	Retail Sales (MAY)
16/06/2021	CNY	Unemployment Rate (MAY)
17/06/2021	JPY	Trade (MAY)
17/06/2021	IDR	Interest Rate Decision
18/06/2021	JPY	Inflation (MAY)
18/06/2021	JPY	Interest Rate Decision
21/06/2021	CNY	Loan Prime Rate
21/06/2021	THB	Trade (MAY)
23/06/2021	THB	Interest Rate Decision
25/06/2021	MYR	Inflation (MAY)
28/06/2021	MYR	Trade (MAY)
29/06/2021	JPY	Unemployment Rate (MAY)
30/06/2021	MYR	Money Supply (MAY)
30/06/2021	THB	Unemployment (APR)

Source: Kenanga Research, Trading Economics

01 June 2021

Graph 1: Monthly Asia FX Indices Trend



Source: Kenanga Research, Bloomberg

A growing number of new COVID-19 variants cases may exert pressure on Asian currencies

- Viruses constantly evolve over time via mutation. A virus with one or more new mutations is referred to as a variant. Since the COVID-19 outbreak in early 2020, the world has documented multiple variants reported by several countries. A US government interagency group developed a Variant Classification scheme of three classes of SARS-CoV-2 variants, namely Variant of Interest, Variant of Concern and Variant of High Consequence. Some variants allow the virus to spread quickly or resistant to treatments or certain vaccines.
- Asian country such as Malaysia has reported several cases of new variants of concerns namely the South African, UK and most recently Indian variants. Meanwhile, Thailand reported a local case of the South African variant associated with illegal border crossing. Indonesia has detected the Indian variant as a result of local transmission and imported cases. Recently, Vietnam reported a new hybrid variant that is a combination of the Indian and UK variants.
- The new variants that constantly emerged in Asian countries may prompt the local government to tighten or prolong movement restrictions should there be a surge of new cases. This may weigh investors' sentiment and also slows down the growth recovery, exerting pressure on their currency. Nonetheless, we expect the reiteration of the US Fed's dovish stance in the next FOMC meeting in June to support the riskier currencies.

Table 3: List of Selected Variants

Variants	Lineage	Status
Variants of concern	B.1.1.7	Emerged in UK in Dec and roughly 50% more infectious.
	B.1.351	Emerged in South Africa in Dec.
	P.1	Emerged in Brazil in late 2020.
Variants of interest	B.1.427, B.1.429	Common in California and about 20% more infectious.
	B.1.525	Emerged in UK and Nigeria in Dec 2020.
	B.1.526	Spreading in New York in Nov 2020.
Variants of High Consequence	B.1.617	Emerged in India in Feb 2021.
	B.1	Emerged in early 2020 and spread around the world.
	Several	A defining mutation in several lineages.

Source: The New York Times, US CDC, Kenanga Research

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