

Asia FX Monthly Outlook

Worsening regional COVID-19 condition to weigh on Asian majors

CNY (6.461) ▼

- CNY moved in a tight range of between 6.456 - 6.511 before closing last month's session 0.07% lower against the USD, despite a slightly weaker USD index and higher foreign capital inflows into China. To note, the yuan breached the 6.50 barrier on July 27 for the first time since April due to China's tech rout.
- CNY may likely trade closer to or slightly above the 6.50 level against the greenback in August amid the current COVID-induced risk-off mode. To add, investors will be eyeing the development of US-CN relations, Jackson Hole meeting outcome and key China economic data.

JPY (109.720) ▼

- JPY strengthened in July against a weakened USD, following the US FOMC meeting. Japan registered improved economic data, with June's unemployment rate at 2.9% (May: 3.0%) and industrial production rebounding 6.2% MoM (May: -6.5%). However, this was capped by concerns regarding rising COVID-19 cases as the Olympic games commenced.
- JPY may depreciate this month, as Japan recently expanded its state of emergency amid a spike in COVID-19 infections across the country. Prime Minister Yoshihide Suga warned of the rapid spread of the Delta variant, even as the country's vaccination rate remained low relative to other developed nations.

MYR (4.221) ▼

- MYR depreciated against the USD for the third straight month, falling to its weakest level in one year, primarily due to rising domestic COVID-19 cases, which continued to record five-digit figures since July 13.
- The direction of the local note for this month will be heavily influenced by the domestic political landscape and COVID-19 situation as more people are fully vaccinated. The MYR may continue to weaken if the Fed offers any tapering hints at its Jackson Hole symposium.

IDR (14,463) ▼

- IDR depreciated in July, mainly due to COVID-19 resurgence and its movement restrictions amid fears of the Delta variant. Meanwhile, the government and Bank Indonesia slashed GDP growth to reflect the impact of the extended movement curbs on the domestic economy.
- IDR is expected to further depreciate in August if the COVID-19 situation worsens and partial lockdown continues to be extended again, while the US Fed may signal its QE tapering at the Jackson Hole symposium.

THB (32.900) ▼

- THB depreciated in July, its lowest since April 2020, as new COVID-19 daily cases brought by the Delta-strain posted a record high since the pandemic began. Meanwhile, the government expanded lockdown areas and imposed tighter restrictions to curb the virus infections, which will likely undermine its growth recovery.
- THB may depreciate further in August if the lockdown continues to be extended, in order to flatten the curve, while the country struggles to speed up its inoculation campaign due to vaccine supply shortage.

Table 1: Currencies Outlook

	Long Term*					OUTLOOK
	Q2-21	Q3-21F	Q4-21F	Q1-22F	Q2-22F	
USDCNY	6.457	6.494	6.523	6.552	6.582	▲
USDJPY	110.490	110.439	110.326	110.205	110.095	▼
USDMYR	4.149	4.133	4.028	4.000	3.977	▼
USIDR	14500	14616	14705	14793	14883	▲
USDTHB	32.068	31.911	31.781	31.656	31.530	▼
USDPHP	48.810	48.476	48.400	48.333	48.265	▼

	Short Term (Technical)					OUTLOOK
	EMA (21)	R1	R2	S1	S2	
USDCNY	6.473	6.496	6.531	6.441	6.422	▲
USDJPY	110.129	110.970	112.220	108.950	108.180	▲
USDMYR	4.207	4.255	4.289	4.171	4.121	▼
USIDR	14478	14516	14570	14436	14410	▲
USDTHB	32.635	33.221	33.542	32.320	31.740	▼
USDPHP	49.976	50.809	51.611	49.163	48.319	▼

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.

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

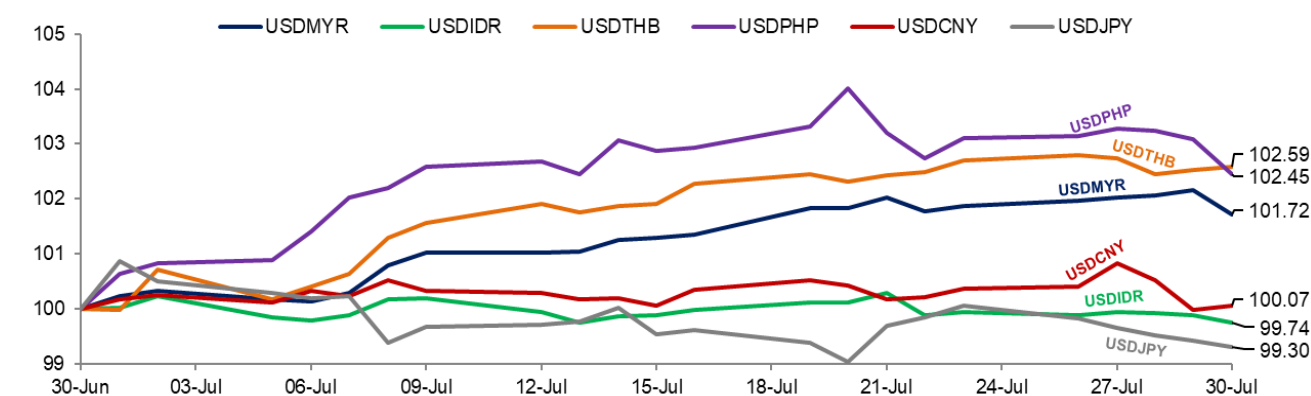
Table 2: Upcoming Major Data Release

Date	Currency	Indicator
02/08/2021	MYR	PMI (JUL)
02/08/2021	CNY	PMI (JUL)
02/08/2021	IDR	Inflation (JUL)
04/08/2021	THB	Interest Rate Decision
05/08/2021	THB	Inflation (JUL)
05/08/2021	IDR	GDP (Q2)
07/08/2021	CNY	Trade (JUL)
09/08/2021	CNY	Inflation (JUL)
09/08/2021	MYR	Unemployment (JUN)
09/08/2021	MYR	Industrial Production (JUN)
10/08/2021	JPY	Current Account (JUN)
11/08/2021	MYR	Retail Sales (JUN)
12/08/2021	JPY	PPI (JUL)
13/08/2021	MYR	GDP (Q2)
13/08/2021	MYR	Current Account (Q2)
13/08/2021	CNY	FDI (JUL)
16/08/2021	CNY	Industrial Production (JUL)
16/08/2021	IDR	Trade (JUL)
17/08/2021	THB	GDP (Q2)
19/08/2021	JPY	Trade (JUL)
19/08/2021	IDR	Interest Rate Decision
19/08/2021	IDR	Retail Sales (JUN)
20/08/2021	JPY	Inflation (JUL)
23/08/2021	THB	Trade (JUL)
25/08/2021	MYR	Inflation (JUL)
26/08/2021	THB	Industrial Production (JUL)
27/08/2021	MYR	Trade (JUL)
30/08/2021	MYR	Money Supply (JUL)

Source: Kenanga Research, Trading Economics

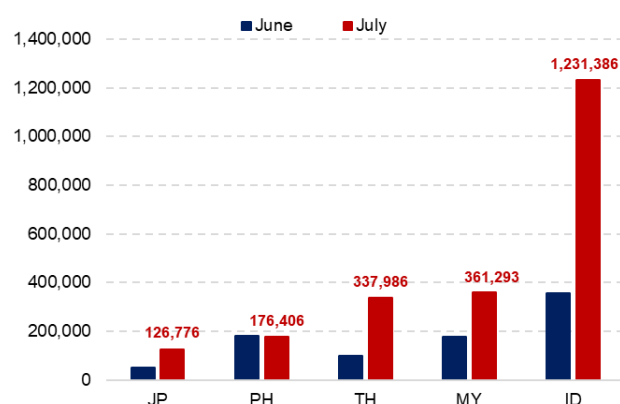
02 August 2021

Graph 1: Monthly Asia FX Indices Trend



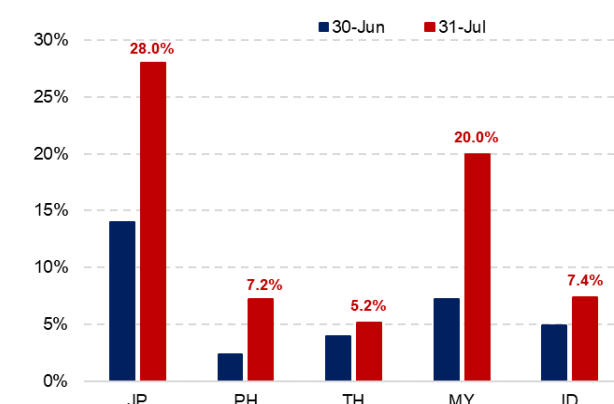
Source: Kenanga Research, Bloomberg

Graph 2: Monthly New COVID-19 Cases



Source: Kenanga Research, Bloomberg

Graph 3: Population Fully Vaccinated



Source: Kenanga Research, Our World in Data

ASEAN currencies to remain under pressure due to rising COVID-19 infections and low vaccination rates

- ASEAN's COVID-19 condition worsened over July, leaving Southeast Asia as one of the global epicentres for the virus. Of late, Malaysia and Thailand have consistently registered record high levels of new infections, whilst Indonesia has struggled with the largest caseload in the region. This spike in cases appears to be driven by the highly infectious Delta variant, with the Thai government reporting that it accounted for more than 60.0% of the cases in the country.
- The impact of this resurgence will likely be exacerbated by the region's relatively low vaccination rates. Only 17.6% of the Thai population have received at least one dose of the vaccine, with Indonesia at 17.1%, and Philippines lagging behind at 10.5%. However, Malaysia has shown significant progress with 41.7% of its population receiving at least one vaccine shot.
- With that said, this burgeoning health crisis will weigh on ASEAN's economic revival, especially if lockdown restrictions are extended, which may risk most of Southeast Asia falling behind its Asian neighbours and would keep ASEAN currencies under pressure in the near-term.

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