

Asia FX Monthly Outlook

Likely to trend lower amid China's slowdown and stronger USD

CNY (6.445) ▼

- CNY closed September almost unchanged against the USD, having traded most of the month in a tight range. This comes amid signs of a slowdown in China's economy, concerns over Evergrande's debt crisis, and a stronger dollar post-FOMC meeting.
- CNY to depreciate slightly against the USD in October, as China's recovery may continue to waver. Recent energy shortages and factory closures are expected to weigh on China's industrial output.

JPY (112.040) ▲

- JPY depreciated considerably against the USD in September, reaching its weakest level since February 2020. The yen was pressured by a strengthening dollar on the back of soaring US Treasury (UST) yields after the latest FOMC meeting. Furthermore, much of Japan remained under a COVID-19 state of emergency in September, weighing on its recovery outlook.
- JPY may strengthen slightly in October as Japan lifts its nationwide state of emergency, amid falling COVID-19 cases, and as Fumio Kishida looks set to become the new Prime Minister. However, this upside will likely be capped by potentially higher UST yields.

MYR (4.186) ▲

- Despite a 6.2% MoM rise in average Brent crude oil price in September, the tabling of the long-awaited 12th Malaysia plan and improving domestic COVID-19 situation, MYR weakened against a strengthening greenback due to a rapid rise in both USD index (DXY) and 10-year UST yield amid Fed's hawkish shift.
- Even though the DXY is expected to remain elevated due to the global risk-off mode on the back of the rising inflation outlook, Fed's hawkish tone and US fiscal uncertainty, the local note may gather some strength and appreciate slightly against the USD amid positive sentiment surrounding the reopening of the economy.

IDR (14,313) ▲

- IDR depreciated slightly against the USD in September as UST yields surged. In addition, rising concern over weaker China growth outlook amid power supply crunch and Evergrande crisis weighed on the rupiah. Nonetheless, the downside bias was capped due to surging exports while Bank Indonesia signalled signs of economic recovery in its last MPC meeting.
- IDR is expected to strengthen in October as the domestic COVID-19 situation improves and the economy gradually reopens. However, concern over China growth recovery and the US Fed tapering plan may limit the upside.

THB (33.897) ▼

- THB weakened against the USD in September, and it is Asia's worst-performing currency. The weak performance was mainly associated with electricity shortages in China and surging UST yields. In addition, Thailand's Finance Minister said the monetary policy must be accommodative in line with the fiscal policy as the economy is still struggling from the prolonged pandemic.
- The short-term outlook remains weak for THB and is expected to depreciate further in October due to the uncertainties of the COVID-19 pandemic and the US Fed tapering plan.

Table 1: Currencies Outlook

| | Long Term* | | | | | OUTLOOK |
|--------|------------|---------|---------|---------|---------|---------|
| | Q3-21 | Q4-21F | Q1-22F | Q2-22F | Q3-22F | |
| USDCNY | 6.445 | 6.523 | 6.552 | 6.582 | 6.614 | ▲ |
| USDJPY | 112.040 | 109.768 | 109.636 | 109.517 | 109.399 | ▼ |
| USDMYR | 4.186 | 4.182 | 4.153 | 4.131 | 4.113 | ▼ |
| USDIDR | 14313 | 14338 | 14418 | 14500 | 14584 | ▲ |
| USDTHB | 33.897 | 32.020 | 31.897 | 31.773 | 31.647 | ▼ |
| USDPHP | 51.014 | 49.675 | 49.624 | 49.577 | 49.527 | ▼ |

| | Short Term (Technical) | | | | | OUTLOOK |
|--------|------------------------|---------|---------|---------|---------|---------|
| | EMA (21) | R1 | R2 | S1 | S2 | |
| USDCNY | 6.460 | 6.466 | 6.488 | 6.428 | 6.411 | ▲ |
| USDJPY | 110.375 | 112.967 | 113.893 | 110.187 | 108.333 | ▼ |
| USDMYR | 4.180 | 4.208 | 4.229 | 4.150 | 4.114 | ▼ |
| USDIDR | 14275 | 14350 | 14386 | 14240 | 14166 | ▼ |
| USDTHB | 33.282 | 34.411 | 34.925 | 32.869 | 31.841 | ▼ |
| USDPHP | 50.390 | 51.420 | 51.827 | 50.201 | 49.389 | ▼ |

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.

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

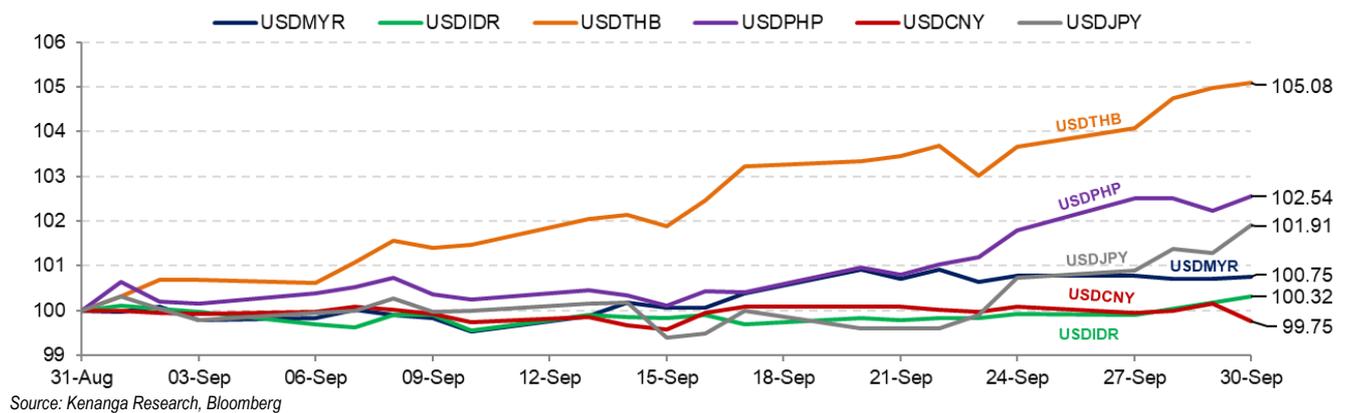
Table 2: Upcoming Major Data Release

| Date | Currency | Indicator |
|------------|----------|-----------------------------|
| 01/10/2021 | MYR | PMI (SEP) |
| 01/10/2021 | JPY | Unemployment (AUG) |
| 01/10/2021 | IDR | Inflation (SEP) |
| 05/10/2021 | THB | Inflation (SEP) |
| 08/10/2021 | MYR | Unemployment (SEP) |
| 08/10/2021 | JPY | Current Account (AUG) |
| 12/10/2021 | MYR | Industrial Production (AUG) |
| 12/10/2021 | MYR | Retail Sales (AUG) |
| 13/10/2021 | CNY | Trade (SEP) |
| 14/10/2021 | CNY | Inflation (SEP) |
| 15/10/2021 | IDR | Trade (SEP) |
| 18/10/2021 | CNY | GDP (Q3) |
| 18/10/2021 | CNY | Unemployment (SEP) |
| 18/10/2021 | CNY | Industrial Production (SEP) |
| 18/10/2021 | IDR | Retail Sales (AUG) |
| 19/10/2021 | JPY | Trade (SEP) |
| 20/10/2021 | CNY | Loan Prime Rate |
| 21/10/2021 | THB | Trade (SEP) |
| 21/10/2021 | IDR | Interest Rate Decision |
| 22/10/2021 | JPY | Inflation (SEP) |
| 22/10/2021 | MYR | Inflation (SEP) |
| 28/10/2021 | JPY | Interest Rate Decision |
| 28/10/2021 | MYR | Trade (SEP) |
| 28/10/2021 | THB | Industrial Production (SEP) |
| 29/10/2021 | JPY | Unemployment (SEP) |
| 29/10/2021 | MYR | Money Supply (SEP) |
| 29/10/2021 | THB | Current Account (SEP) |
| 29/10/2021 | THB | Retail Sales (AUG) |

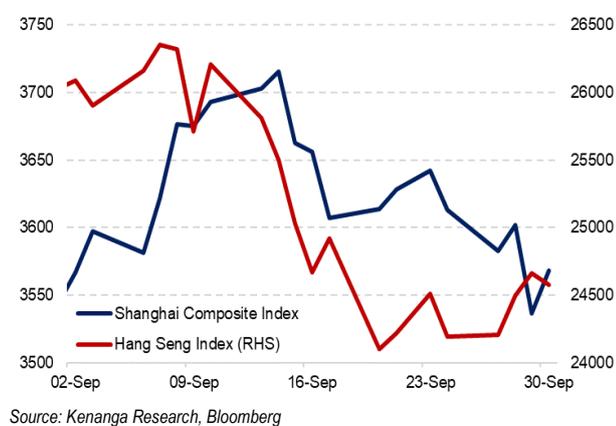
Source: Kenanga Research, Trading Economics

01 October 2021

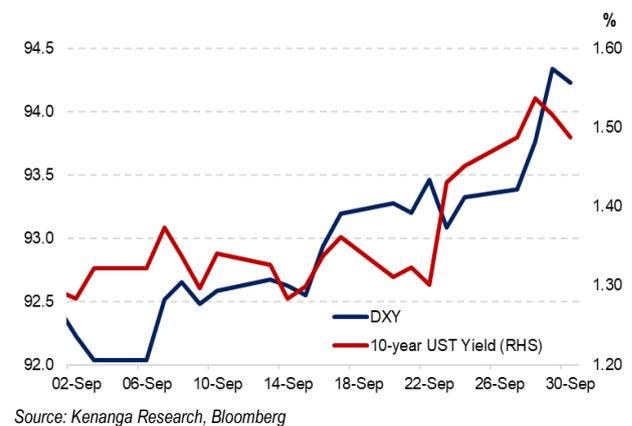
Graph 1: Monthly Asia FX Indices Trend



Graph 2: China and Hong Kong Stock Market Index



Graph 3: DXY and 10-year UST Yield



China's power supply crunch, Evergrande's debt crisis and a hawkish Fed tilt put pressure on Asian markets

- Most Asian markets, especially China and Hong Kong, were dragged down by the ongoing China's power shortage and Evergrande's unsolved debt crisis. However, the damage was partially alleviated as China's central bank vowed to protect consumers exposed to the housing market.
- On top of the knock-on effect caused by China, Asian currencies were pressured by rising DXY and 10-year UST yield as the Fed has hinted that it may start tapering as soon as November. To note, the DXY rose to above the 94.0 level on September 29, its highest level in a year.
- The ripple effect of the China's debt and power crisis are expected to hit most Asian FX market (especially those with high exposure to China) and may cause some volatility going ahead. Hence, as long as the crisis in China remain unresolved and if the DXY continues to trade around the 93.5-94.0 level, most Asian currencies are likely to trend lower in the near term.

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