

Asia FX Monthly Outlook

New COVID-19 variant, Fed's hawkish tilt and supply chain woes exerts pressure

CNY (6.365) ▼

- Despite China's worsening property market crisis and the world's rising Omicron variant fears, the yuan appreciated against the USD in November. The CNY was mainly supported by positive sentiment surrounding the US-China virtual meeting and stronger-than-expected China's industrial production and retail sales data.
- CNY may likely trade around the 6.40 level amid China's property turmoil, renewed global COVID-19 concerns and higher possibility of a more hawkish pivot by the Fed in December. However, in the near term, rising corporate demand is expected to continue to buoy the yuan.

JPY (112.840) ▼

- JPY initially depreciated in November against a broadly strong USD. However, the yen strengthened considerably towards the end of the month due to renewed risk-off sentiment arising from the discovery of the Omicron variant, as well as greater-than-expected Tokyo inflation figures.
- Despite the recent upturn, JPY will likely depreciate slightly in December given the continued monetary policy divergence between the Bank of Japan and US Federal Reserve, which began tapering its monthly asset purchases last month. Nonetheless, global fears of the Omicron variant may provide some safe-haven support for the yen.

MYR (4.204) ▲

- MYR reversed all of its November's gains and depreciated against the USD to its weakest level in four months. The weakness in the ringgit was mainly attributable to rising USD index (DXY) amid Fed's taper announcement, US red-hot inflation, Powell's renomination and growing safe-haven demand.
- Even though the DXY is expected to remain elevated above the 96.0 level in December, the local note may outpace the strong USD trend and appreciate slightly against the USD amid expectations of a stronger domestic economic data reading. However, the new Omicron variant may complicate Malaysia's transition to endemicity and put downward pressure on the ringgit.

IDR (14,332) ▼

- IDR depreciated against the USD in November mainly due to risk-off sentiment brought by the renewed COVID-19 fears with the emergence of the Omicron variant and surging cases in Europe. This was further weighed by hawkish sentiment amid US Fed rate hike bets, while the domestic economy grew slower than the market expected in 3Q21 (3.51%; consensus: 3.88%).
- IDR may continue to be pressured in December due to the expectation of a sooner-than-expected monetary policy tightening in the US and the development of the COVID-19 Omicron variant.

THB (33.615) ▼

- THB weakened in November against a strengthening safe-haven USD, on the back of global concerns regarding the new COVID-19 variant from South Africa, and an increasingly hawkish US Fed.
- THB may depreciate slightly in December as the Omicron variant may reinforce global risk-off sentiment and impact the reopening of Thailand's international borders. Nonetheless, the domestic economy is expected to continue improving due to the recent relaxation of COVID-19 restrictions, which may cap the baht's downturn.

Table 1: Currencies Outlook

| | Long Term* | | | | | OUTLOOK |
|--------|------------|---------|---------|---------|---------|---------|
| | Q3-21 | Q4-21F | Q1-22F | Q2-22F | Q3-22F | |
| USDCNY | 6.445 | 6.396 | 6.406 | 6.425 | 6.447 | ▼ |
| USDJPY | 112.040 | 113.833 | 113.795 | 113.741 | 113.658 | ▲ |
| USDMYR | 4.186 | 4.182 | 4.153 | 4.131 | 4.113 | ▲ |
| USDIDR | 14313 | 14226 | 14305 | 14384 | 14466 | ▼ |
| USDTHB | 33.897 | 33.205 | 33.099 | 32.991 | 32.879 | ▼ |
| USDPHP | 51.014 | 50.399 | 50.363 | 50.327 | 50.287 | ▼ |

| | Short Term (Technical) | | | | | OUTLOOK |
|--------|------------------------|---------|---------|---------|---------|---------|
| | EMA (21) | R1 | R2 | S1 | S2 | |
| USDCNY | 6.390 | 6.393 | 6.421 | 6.350 | 6.336 | ▲ |
| USDJPY | 113.874 | 114.513 | 116.187 | 112.003 | 111.167 | ▲ |
| USDMYR | 4.190 | 4.245 | 4.287 | 4.156 | 4.107 | ▼ |
| USDIDR | 14266 | 14398 | 14464 | 14234 | 14136 | ▼ |
| USDTHB | 33.199 | 34.000 | 34.386 | 32.908 | 32.202 | ▼ |
| USDPHP | 50.397 | 50.702 | 51.060 | 49.920 | 49.496 | ▲ |

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.

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

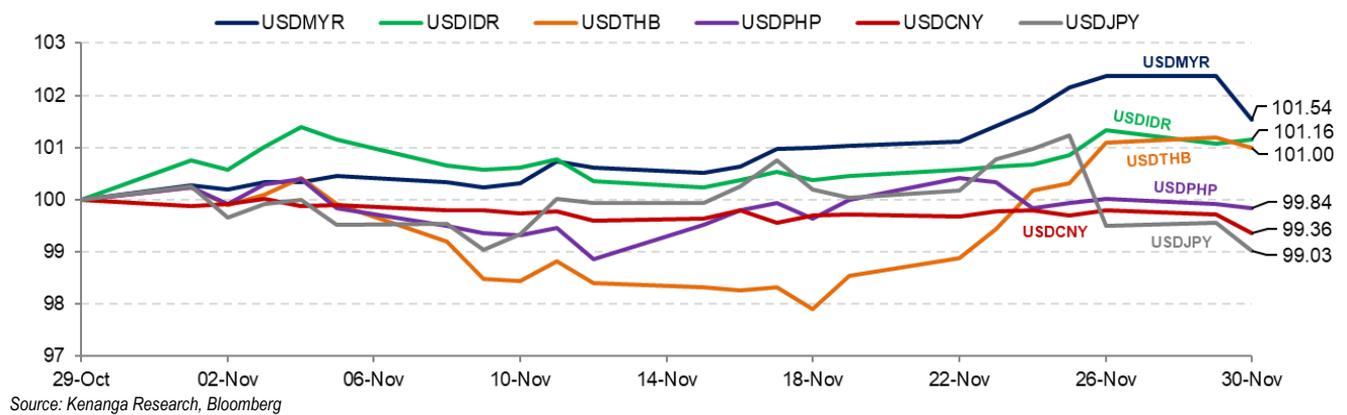
Table 2: Upcoming Major Data Release

| Date | Currency | Indicator |
|------------|----------|-----------------------------|
| 01/12/2021 | MYR | PMI (NOV) |
| 01/12/2021 | CNY | PMI (NOV) |
| 01/12/2021 | THB | PMI (NOV) |
| 01/12/2021 | IDR | Inflation (NOV) |
| 03/12/2021 | THB | Inflation (NOV) |
| 07/12/2021 | CNY | Trade (NOV) |
| 08/12/2021 | JPY | Current Account (OCT) |
| 08/12/2021 | JPY | GDP (Q3) |
| 09/12/2021 | CNY | Inflation (NOV) |
| 10/12/2021 | JPY | PPI (NOV) |
| 10/12/2021 | IDR | Retail Sales (OCT) |
| 10/12/2021 | MYR | Industrial Production (OCT) |
| 10/12/2021 | MYR | Retail Sales (OCT) |
| 11/12/2021 | MYR | Unemployment (OCT) |
| 15/12/2021 | CNY | Industrial Production (NOV) |
| 15/12/2021 | CNY | Unemployment (NOV) |
| 15/12/2021 | IDR | Trade (NOV) |
| 16/12/2021 | JPY | Trade (NOV) |
| 16/12/2021 | IDR | Interest Rate Decision |
| 17/12/2021 | JPY | Interest Rate Decision |
| 22/12/2021 | THB | Trade (NOV) |
| 22/12/2021 | THB | Interest Rate Decision |
| 23/12/2021 | MYR | Inflation (NOV) |
| 24/12/2021 | JPY | Inflation (NOV) |
| 27/12/2021 | JPY | Retail Sales (NOV) |
| 28/12/2021 | JPY | Unemployment (NOV) |
| 28/12/2021 | MYR | Trade (NOV) |
| 31/12/2021 | MYR | Money Supply (NOV) |

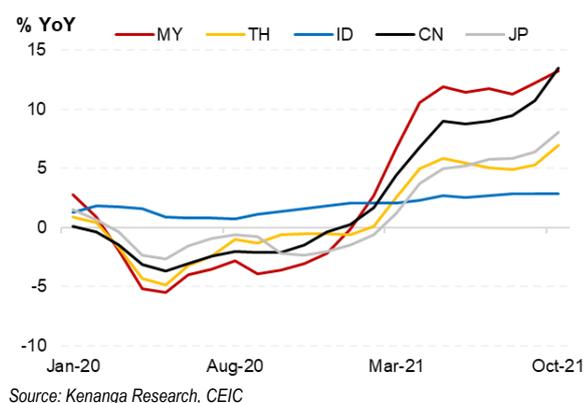
Source: Kenanga Research, Trading Economics

01 December 2021

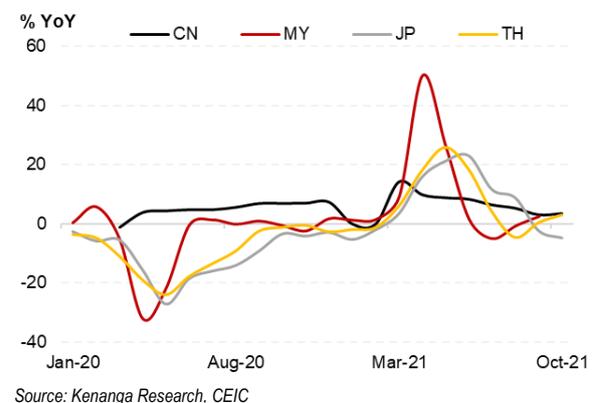
Graph 1: Monthly Asia FX Indices Trend



Graph 2: Selected Asia's Producer Price Index (PPI)



Graph 3: Selected Asia's Industrial Production Index (IPI)



Pandemic-induced shortages create persistent global supply chain woes and may exert pressure on Asian currencies

- Shortages of almost everything, from raw materials to labour, sparked tension on global supply chains, which are centered mainly in Asia, particularly China. The unabated surge of COVID-19 cases, lockdown measures in the region and China's zero-COVID strategy are fuelling the pressures across global trade activity, logistic network and production hubs.
- Consequently, China's factory-gate prices rose by 13.5% YoY in October (Sep: 10.7%), the fastest pace in 26 years. Similarly, Malaysia's Producer Price Index (PPI) recorded the seventh straight month of double-digit increase in October (13.2%; Sep: 12.3%), far exceeding the Consumer Price Index (CPI). While PPI accelerated in most countries, the Industrial Production Index (IPI) seems to struggle, increasing at a slower pace, raising concern about stagflation.
- Risk to the growth outlook is likely heightened given the emergence of the Omicron variant and a potential surge in new cases if the new variant spreads in the region, which could risk another series of movement restrictions that would weigh on global economic recovery. Additionally, persisting supply chain disruption, rising global bond yields amid rising inflation expectations, and hawkish tilt by the US Fed policymakers may add more pressure to the Asian currencies going forward.

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