

# Asia FX Monthly Outlook

To remain pressured amid hawkish US Fed and faltering global economic outlook

## CNY (6.609) ▼

- CNY weakened above the 6.60 threshold against the USD for the first time since November 2020, mainly due to strong USD momentum. The yuan was also pressured by China's worsening economic outlook due to the prolonged lockdown measures across the country. Despite the RRR cut by the People's Bank of China (PBoC), the CNY still depreciated by more than 4.0% on a MoM basis.
- The weakness in the CNY is expected to persist in May as China is highly anticipated to stick to its zero-COVID-19 policy, clouding the economic outlook and exerting immense pressure on the financial market. On top of that, the increasing divergence in monetary policy between the PBoC and the Fed may also drag the yuan lower.

## JPY (121.670) ▼

- JPY plummeted by 6.6% against the USD in April, reaching its weakest level since 2002. The yen suffered from a sustained widening yield gap between US Treasuries (UST) and Japanese Government Bonds (JGB), as hawkish Fed rhetoric contrasted with the Bank of Japan's strong dovish stance
- JPY will likely continue to depreciate in May as fundamental dollar strength sustains and the UST-JGB yield spread continues to widen. Ultimately, the yen's weakness will stem from further monetary policy divergence, especially after the Fed's recent 50bps rate hike.

## MYR (4.355) ▼

- MYR closed last month 3.58% weaker against the USD, breaching the 4.35 level as the USD index jumped by more than 4.7% MoM due to rising US inflationary pressure. The ringgit's weakness was also attributable to the CNY depreciation, shrinking MY-US 10-year yield premium (137 bps; Mar: 161 bps) and volatile Brent crude oil price.
- The ringgit is expected to remain under pressure in May as the DXY and US 10-year Treasury yield may continue to trend higher due to the Fed's aggressive tightening cycle. On top of that, the direction of the local note will also be influenced by the BNM's policy decision, China's COVID-19 policy and global economic outlook.

## IDR (14,482) ▼

- IDR depreciated slightly against the USD, due to the risk-off sentiment led by the worsening global economic outlook and the US Fed's hawkish tightening cycle. In addition, Indonesia's palm oil export ban and Bank Indonesia's lower economic growth projection also weighed on the Rupiah.
- The recent palm oil export ban is expected to pressure IDR in the near term, given its key export earnings for the country. Nonetheless, the downside bias may be capped as Indonesia continues to ease pandemic restrictions, subsequently supporting its domestic economy.

## THB (34.280) ▼

- THB plunged to the weakest level last seen in 2017, due to flight to safe-haven amid a softer global economic outlook. The weak performance is also associated with the hawkish US Fed, while the Bank of Thailand reaffirmed that its monetary policy effort will focus on growth.
- THB may continue to be pressured by the monetary policy divergence and the prospect of a weaker global growth outlook. Nevertheless, the downside bias could be limited due to the further easing of pandemic restrictions.

Table 1: Currencies Outlook

	Long Term*					OUTLOOK
	Q1-22	Q2-22F	Q3-22F	Q4-22F	Q1-23F	
USDCNY	6.340	6.554	6.573	6.594	6.616	▲
USDJPY	121.670	125.696	125.768	125.824	125.882	▲
USDMYR	4.204	4.337	4.310	4.283	4.256	▲
USDIDR	14363	14859	14944	15028	15113	▲
USDTHB	33.270	34.180	34.058	33.953	33.841	▲
USDPHP	51.755	53.592	53.569	53.564	53.546	▲

	Short Term (Technical)					OUTLOOK
	EMA (21)	R1	R2	S1	S2	
USDCNY	6.528	6.703	6.798	6.437	6.265	▼
USDJPY	127.794	132.560	135.420	124.680	119.660	▼
USDMYR	4.312	4.409	4.463	4.255	4.156	▼
USDIDR	14420	14537	14593	14383	14285	▼
USDTHB	34.039	34.672	35.062	33.678	33.074	▼
USDPHP	52.260	52.718	53.236	51.446	50.692	▲

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.

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

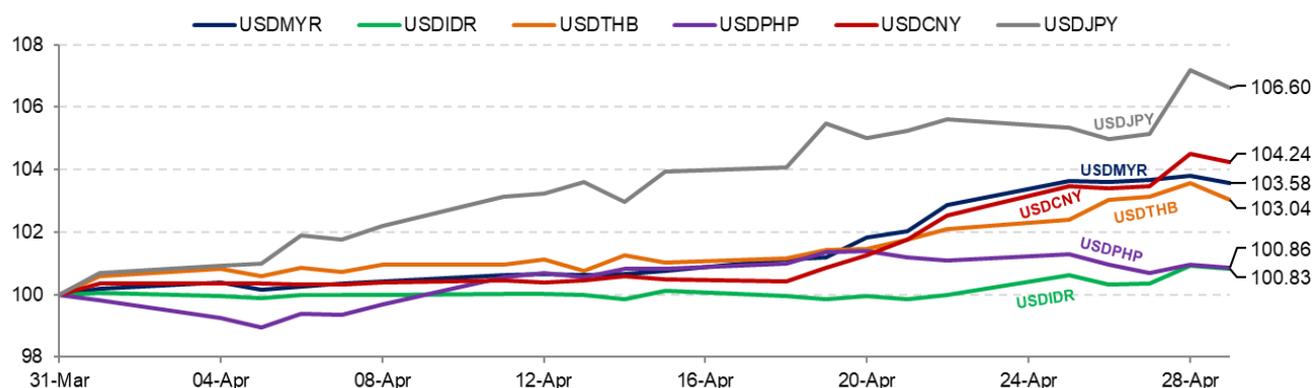
Table 2: Upcoming Major Data Release

Date	Currency	Indicator
02/05/2022	JPY	Consumer Confidence (APR)
03/05/2022	THB	PMI (APR)
04/05/2022	IDR	PMI (APR)
05/05/2022	MYR	PMI (APR)
05/05/2022	THB	Inflation (APR)
06/05/2022	THB	Business Confidence (APR)
09/05/2022	CNY	Trade (APR)
09/05/2022	IDR	GDP (Q1)
09/05/2022	IDR	Inflation (APR)
10/05/2022	MYR	Unemployment (MAR)
10/05/2022	MYR	Industrial Production (MAR)
11/05/2022	CNY	Inflation (APR)
11/05/2022	MYR	Interest Rate Decision
12/05/2022	JPY	Current Account (MAR)
12/05/2022	MYR	Retail Sales (MAR)
13/05/2022	MYR	GDP (Q1)
13/05/2022	MYR	Current Account (Q1)
16/05/2022	CNY	Industrial Production (APR)
17/05/2022	THB	GDP (Q1)
17/05/2022	IDR	Trade (APR)
18/05/2022	JPY	Industrial Production (MAR)
19/05/2022	JPY	Trade (APR)
19/05/2022	MYR	Trade (APR)
20/05/2022	JPY	Inflation (APR)
24/05/2022	IDR	Interest Rate Decision
25/05/2022	THB	Trade (APR)
25/05/2022	MYR	Inflation (APR)
31/05/2022	MYR	Money Supply (APR)

Source: Kenanga Research, Trading Economics

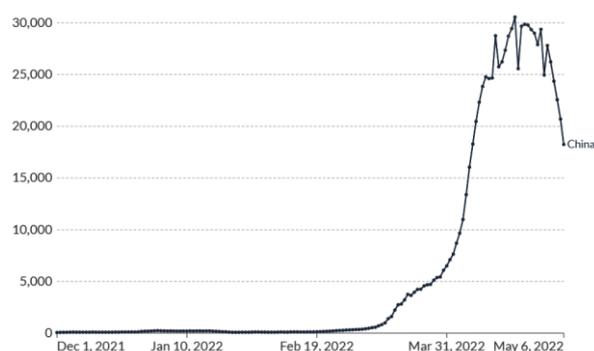
09 May 2022

Graph 1: Monthly Asia FX Indices Trend



Source: Kenanga Research, Bloomberg

Graph 2: China Daily COVID-19 Cases (7-day rolling average)



Source: Kenanga Research, Our World in Data, Johns Hopkins University

Graph 3: Emerging Markets Currency Index and USDCNY



Source: Kenanga Research, Bloomberg

### Yuan weakness may continue to weigh on emerging market currencies in Asia

- China is currently contending with its worst COVID-19 outbreak since the beginning of the pandemic, leading to renewed restrictions throughout the country, and lockdowns in Shenzhen and Shanghai, as part of its strict "zero-COVID" strategy. This has led to the widespread sell-off of China's bonds, stocks, and currency, which has been further exacerbated by the growing monetary policy divergence between the PBOC and other major central banks.
- Given China's high trade linkages with its regional neighbours, the sell-off from China appears to have spread to many emerging economies in Asia. The MSCI Emerging Markets Currency Index has tumbled to its lowest level since November 2020, in tandem with the intense CNY weakness beginning in April. Highlighting the yuan's influence in the Asian currency sell-off, the CNY's 30-day correlation to the MSCI index has recently risen to its strongest level since July 2021.
- With that said, the COVID-19 condition in China is gradually improving, with daily new cases declining steadily since the beginning of May. However, the government will likely persist with its zero-COVID policy and restrictions are expected to largely remain in place, at least until cases fall to levels last seen in February. As such, the CNY is expected to remain under pressure, which will continue to weigh on emerging market currencies in Asia.

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