

Asia FX Monthly Outlook

Upside bias for Asian currencies against a weakening USD

CNY (6.745) ▲

- CNY depreciated for the fifth straight month against the USD in July as China's 2Q22 GDP turned out to be weaker-than-expected (actual: 0.4% YoY; consensus: 1.0%). Additionally, the yuan was also weighed by China's economic uncertainty due to renewed local COVID-19 lockdowns and property market crisis.
- The yuan is expected to trade range-bound between 6.70 – 6.75 with an upside bias against the greenback as the USD index may continue to hover below the 106.0 mark due to US slowing economic growth. However, the upside may be limited as China continues to stick to its dynamic zero-COVID policy.

JPY (133.270) ▲

- After spending most of July pressured against the USD, the JPY soared towards the end of the month, ending a long-period of sustained weakness. The yen bounced following market concerns of a US recession, leading to lower US Treasury (UST) yields and narrowing yield differentials against Japanese Government Bonds. This comes despite mixed Japanese economic data and weaker market sentiment following the assassination of former Prime Minister Shinzo Abe.
- JPY may sustain this renewed strength in August, especially following the recent US GDP report that indicated the it had entered a technical recession and may slow the pace of the Fed's policy tightening. Nonetheless, this upside bias will likely be capped by the Bank of Japan's dovish stance, with the Fed still expected to raise rates going forward.

MYR (4.451) ▲

- MYR fell to its weakest level in 67 months against a strengthening USD due to the Fed's back-to-back 75 basis points (bps) rate hikes amid a hotter-than-expected June US CPI reading. On top of that, the ringgit was also dragged by China's economic uncertainty.
- The local note may continue to be under pressure as investors are seen to continue to seek shelter in havens (i.e. USD) due to growing recessionary fears. However, due to USD's overvaluation, the ringgit is expected to trade with an upside bias in August, especially if there is any hint that the Fed might start to slow down its aggressive pace of tightening.

IDR (14,834) ▲

- IDR ended the month of July with a slight appreciation against the USD as the economic slowdown in the US, as reflected by its poor 2Q22 GDP growth reading, may trigger the Fed to slow down its rate hikes. The rupiah's performance was also supported by a robust trade surplus and foreign capital inflows. Nevertheless, dovish Bank Indonesia (BI) partially capped the upside bias as the central bank remained status quo on policy rate.
- The rupiah may continue to find its support from relatively higher commodity prices and robust external demand. In addition, BI may eventually shift to a more hawkish tone as the domestic outlook improves and inflationary pressure build-up.

THB (36.323) ▲

- THB continued its downtrend against the USD in July, deteriorating to its weakest level in seven years, as the US Fed raised rates by another 75 bps whilst the Bank of Thailand (BoT) kept the policy rate at a record low of 0.50%.
- THB may appreciate in August as the BoT will likely commence its rate hike cycle amid rising inflationary pressures and improving economic outlook, with the consumer confidence index for June improving to 41.6 (May: 40.2) and exports growth beating expectations (11.9% YoY; May: 10.5%). However, growing global recession fears may partially limit the upside bias.

Table 1: Currencies Outlook

	Long Term*					OUTLOOK
	Q2-22	Q3-22F	Q4-22F	Q1-23F	Q2-23F	
USDCNY	6.698	6.692	6.547	6.508	6.552	▼
USDJPY	136.360	135.869	136.023	136.174	136.334	▼
USDMYR	4.408	4.374	4.347	4.320	4.293	▼
USDIDR	14903	14528	14615	14699	14784	▼
USDTHB	35.362	33.789	33.705	33.606	33.514	▼
USDPHP	54.978	51.853	51.856	51.842	51.837	▼

	Short Term (Technical)					OUTLOOK
	EMA (21)	R1	R2	S1	S2	
USDCNY	6.738	6.776	6.808	6.704	6.663	▼
USDJPY	136.210	137.137	141.003	131.337	129.403	▲
USDMYR	4.441	4.470	4.490	4.419	4.388	▼
USDIDR	14943	14969	15105	14766	14699	▲
USDTHB	36.311	36.956	37.589	35.636	34.949	▼
USDPHP	55.641	56.006	56.860	54.686	54.220	▲

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.

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

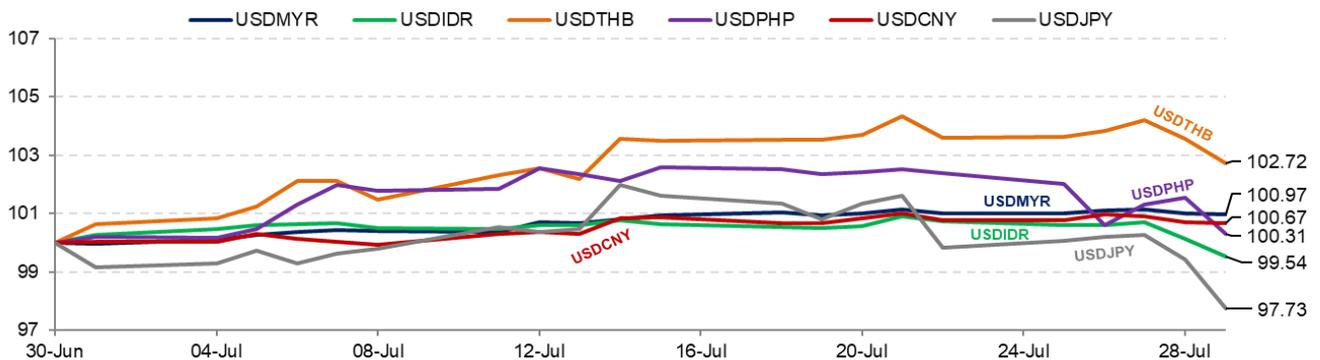
Table 2: Upcoming Major Data Release

Date	Currency	Indicator
01/08/2022	MYR	PMI (JUL)
01/08/2022	IDR	PMI (JUL)
01/08/2022	THB	PMI (JUL)
01/08/2022	IDR	Inflation (JUL)
03/08/2022	CNY	PMI (JUL)
05/08/2022	IDR	GDP (Q2)
05/08/2022	THB	Inflation (JUL)
07/08/2022	CNY	Trade (JUL)
08/08/2022	JPY	Current Account (JUN)
09/08/2022	MYR	Industrial Production (JUN)
09/08/2022	MYR	Unemployment (JUN)
10/08/2022	CNY	Inflation (JUL)
10/08/2022	THB	Interest Rate Decision
11/08/2022	MYR	Retail Sales (JUN)
12/08/2022	MYR	GDP (Q2)
12/08/2022	MYR	Current Account (Q2)
15/08/2022	JPY	GDP (Q2)
15/08/2022	CNY	Industrial Production (JUL)
15/08/2022	IDR	Trade (JUL)
16/08/2022	THB	GDP (Q2)
19/08/2022	JPY	Inflation (JUL)
19/08/2022	IDR	Current Account (Q2)
19/08/2022	MYR	Trade (JUL)
23/08/2022	THB	Trade (JUL)
23/08/2022	IDR	Interest Rate Decision
26/08/2022	IDR	Inflation (JUL)
30/08/2022	MYR	Money Supply (JUL)
30/08/2022	THB	Industrial Production (JUL)

Source: Kenanga Research, Trading Economics

01 August 2022

Graph 1: Monthly Asia FX Indices Trend



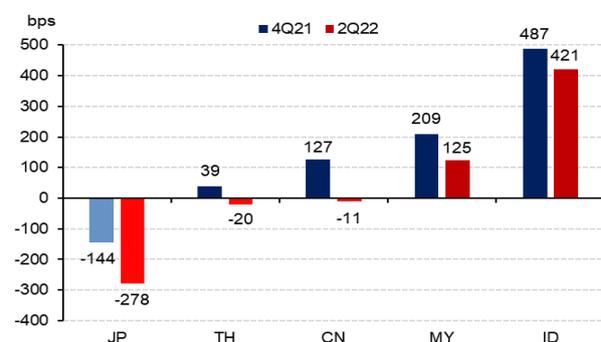
Source: Kenanga Research, Bloomberg

Graph 2: FTSE Asian Government Bond Index



Source: Kenanga Research, Bloomberg

Graph 3: Asian 10-Year Bond Yield Spreads*



Source: Kenanga Research, Bloomberg

*Spread: Benchmark 10Y government bond yield relative to the 10Y US Treasury

Asian currencies may strengthen from a return of foreign portfolio inflows in the medium-term

- Several Asian currencies have faced heavy pressure of late, particularly in 2Q22, due to net outflows of foreign portfolio investment. Malaysia recorded a net capital outflow of RM6.2b in 2Q22 compared to an inflow of RM9.0b in 1Q22, primarily driven by outflows from the bond market. Likewise, China has experienced a net capital outflow year-to-date, mainly due to a massive USD17.5b net capital outflow it recorded in March.
- For bond markets in particular, these outflows are partly triggered by narrowing yield differentials against developed market bonds, especially after UST yields soared early in the year amid expectations of US Fed rate hikes. Looking at the FTSE Asian Government Bond Index, it is apparent that Asian bonds weakened significantly following the start of the Fed's rate hike cycle in March.
- With that said, we expect Asian markets to see a return of foreign portfolio inflows towards the end of 3Q22, as the US Fed potentially signals a slowdown in its tightening and as Asian central banks begin to or continue to raise policy rates. Indeed, we have already begun to see a widening of some yield spreads as UST yields declined following the Fed's recent FOMC meeting. As such, Asian currencies may experience a bounce in the near-term and more sustained strength going into 4Q22.

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