

# Asia FX Monthly Outlook

Asian currencies to be steered by a strong USD and China's zero-COVID policy

## CNY (7.116) ▲

- CNY weakened for the seventh straight month against the USD, breaching the 7.2 level for the first time in over 14 years and hitting a record low in offshore trading. This comes amid broad USD strength as the Fed continues to raise interest rates, whilst the People's Bank of China (PBoC) loosens its monetary policy in order to prop up a slowing economy.
- CNY may break its losing streak in October as the Chinese Communist Party meets for its 20<sup>th</sup> National Congress, where President Xi Jinping is widely expected to secure a third term as China's leader and may provide hints on the potential easing of its zero-COVID policy. Furthermore, China's financial regulators are expected to continue stabilising equity markets in a bid to boost the yuan.

## JPY (144.740) ▼

- JPY continued to depreciate against a broadly strong USD in September, despite the government's attempt to support the currency. Japan spent nearly USD20.0b to intervene in the foreign exchange market to prop up the yen, but the local currency remains weighed by the stark monetary policy divergence between the Bank of Japan (BoJ) and the US Fed.
- JPY may weaken slightly in October, as the BoJ maintains its ultra-low interest rates even as the Fed is expected to remain hawkish. Further currency intervention may provide some reprieve to the yen's slide, but any relief will likely be temporary.

## MYR (4.638) ▲

- MYR breached the 4.60 threshold and depreciated to its weakest level since January 1998 against the USD as the Fed raised its policy rate by 75 basis points (bps) for the third time in a row. The ringgit was also dragged by the persistent weakness in the yuan due to a weaker Chinese economy.
- The depreciation in EUR, GBP, and JPY due to domestic factors such as worsening Europe energy crisis, UK sovereign debt crisis, and the BoJ's loose monetary policy may continue to support the USD index around the 112.0-115.0 level, pressuring the ringgit to continue to trade above the 4.60 level. However, the tabling of Budget 2023 on October 7 may help to partially curb the ringgit's losses.

## IDR (15,227) ▲

- IDR depreciated to the lowest level since April, mainly due to the hawkish US Fed, which hiked its policy rate by 75 bps and signalled further rate hikes. The downside bias for the rupiah was also partly due to rising fears of a global recession brought by the energy crisis in Europe, China's economic slowdown, and the Fed's accelerated monetary policy tightening cycle. Nevertheless, the rupiah was partially supported by Bank Indonesia's (BI) bigger-than-expected rate hikes.
- IDR may appreciate slightly in October if BI raises the interest rate by another 50 bps to control inflation. The risk currency also would depend on policy direction from China over its zero-COVID policy.

## THB (37.847) ▼

- THB plunged to the lowest level since July 2006 against the USD, following the third successive 75 bps rate hike by the US Fed and increasing fears of a global economic slowdown. Nevertheless, the downside bias for THB was partially capped as the Bank of Thailand raised its key rate for a second straight meeting to tame inflation. At the same time, the Thai court decided that PM Prayut could resume his prime ministerial duties, which helped ease political uncertainty.
- THB may continue to weaken slightly in October amid a broadly strong USD as the US Fed is expected to raise interest rates further in November and widen Thai-US rate differentials.

Table 1: Currencies Outlook

Long Term*						
	Q3-22	Q4-22F	Q1-23F	Q2-23F	Q3-23F	OUTLOOK
USDCNY	7.116	6.678	6.638	6.552	6.598	▼
USDJPY	144.740	138.743	138.897	136.334	136.502	▼
USDMYR	4.638	4.435	4.465	4.425	4.338	▼
USDIDR	15227	15131	14993	14784	14870	▼
USDTHB	37.847	36.098	34.278	33.514	33.421	▼
USDPHP	58.650	56.596	52.879	51.837	51.832	▼

Short Term (Technical)						
	EMA (21)	R1	R2	S1	S2	OUTLOOK
USDCNY	7.037	7.244	7.373	6.944	6.772	▼
USDJPY	142.734	146.553	148.367	141.113	137.487	▼
USDMYR	4.562	4.691	4.744	4.534	4.430	▼
USDIDR	15034	15386	15545	14949	14671	▼
USDTHB	37.205	38.663	39.478	36.642	35.436	▼
USDPHP	57.837	59.619	60.588	57.058	55.466	▼

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.

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

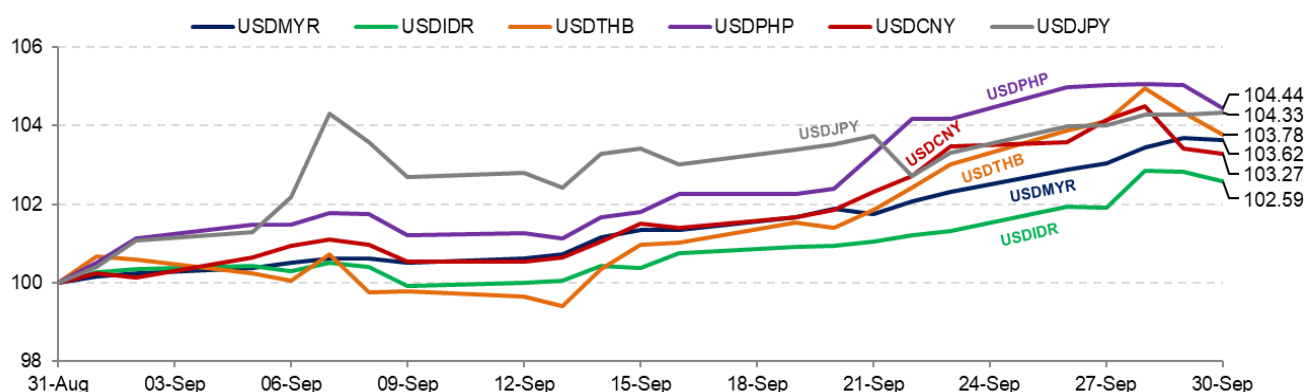
Table 2: Upcoming Major Data Release

Date	Currency	Indicator
03/10/2022	MYR	PMI (SEP)
03/10/2022	THB	PMI (SEP)
03/10/2022	IDR	PMI (SEP)
03/10/2022	IDR	Inflation (SEP)
05/10/2022	THB	Inflation (SEP)
08/10/2022	CNY	PMI (SEP)
11/10/2022	JPY	Current Account (AUG)
11/10/2022	MYR	Unemployment (AUG)
11/10/2022	IDR	Retail Sales (AUG)
11/10/2022	MYR	Retail Sales (AUG)
11/10/2022	MYR	Industrial Production (AUG)
14/10/2022	CNY	Inflation (SEP)
14/10/2022	CNY	Trade (SEP)
17/10/2022	IDR	Trade (SEP)
18/10/2022	CNY	GDP (Q3)
19/10/2022	MYR	Trade (SEP)
20/10/2022	JPY	Trade (SEP)
20/10/2022	IDR	Interest Rate Decision
21/10/2022	JPY	Inflation (SEP)
21/10/2022	MYR	Inflation (SEP)
21/10/2022	THB	Trade (SEP)
27/10/2022	THB	Industrial Production (SEP)
28/10/2022	JPY	Unemployment (SEP)
28/10/2022	JPY	Interest Rate Decision
28/10/2022	THB	Current Account (SEP)
31/10/2022	JPY	Retail Sales (SEP)
31/10/2022	MYR	Money Supply (SEP)

Source: Kenanga Research, Trading Economics

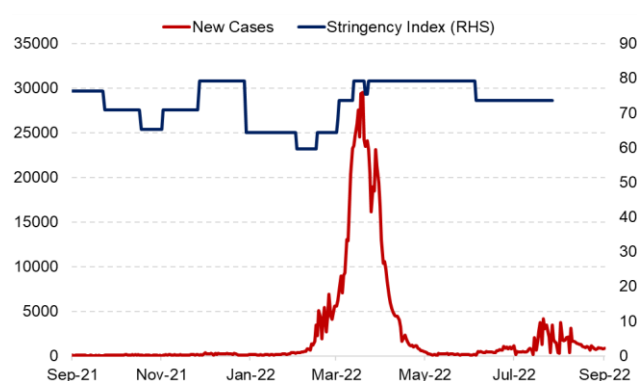
03 October 2022

Graph 1: Monthly Asia FX Indices Trend



Source: Kenanga Research, Bloomberg

Graph 2: China Daily COVID-19 cases and Stringency Index



Source: Kenanga Research, Our World in Data

Graph 3: China-US Yield Gap and Shanghai Composite Index (% YTD)



Source: Kenanga Research, Bloomberg

### All eyes on the outcome of the 20<sup>th</sup> National Congress of the Chinese Communist Party (CCP)

- The recent rapid depreciation of the yuan, due to rising safe-haven demand amid the Fed's persistently hawkish language, has prompted the PBoC to act to stabilise the FX market by setting a stronger-than-expected yuan mid-point fixings, cutting the amount of FX reserves that financial institutions must hold, and asking local banks to revive a yuan fixing tool it abandoned two years ago.
- The PBoC also issued a verbal warning against currency speculation, holding-off immediate monetary easing efforts to curb further capital outflows and currency depreciation ahead of the CCP's congress on October 16, to restore a semblance of financial market stability.
- As President Xi Jinping is widely expected to be given a renewed mandate, the focus will definitely be on the China's zero-COVID-19 and "One China" policies. Any hint on the full reopening of the world's second-largest economy could help to prop up the yuan and other emerging currencies may also benefit. On the other hand, risk may be tilted to the downside if President Xi proposes a new and firmer policy on Taiwan, emphasising on Chinese unification.

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