

02 May 2023

# Asia FX Monthly Outlook

Any dovish guidance from the Fed may trigger flight to risk-on assets

### CNY (6.918) ▲

- China's lower-than-expected inflation reading of 0.7% YoY (Feb: 1.0%) has sparked concerns about the country's post-reopening recovery, causing the yuan to weaken to above the 6.90 threshold against the USD. However, yuan's appreciation has been limited due to China's robust 1Q23 GDP reading of 4.5% YoY (4Q22: 2.9%; consensus: 4.0%).
- The direction of the yuan in May is likely to be influenced primarily by the trajectory of the USD index (DXY), which is expected to trend weaker near the 101.0 level. Even though the Fed is expected to raise interest rate by another 25 basis points (bps), any hint of dovish guidance, no matter how subtle, may trigger a sell-off in the USD and benefit the yuan. However, the continued dovishness of the PBoC and US-China friction may limit the yuan's appreciation.

### JPY (136.300) ▲

- The yen initially strengthened against the USD, dropping below the 132.0 level due to a slowdown in the US labour market. However, it later reversed its trend as Treasury yields rose on the back of strong US economic activity. Additionally, the Bank of Japan's (BoJ) decision to maintain its status quo under the new governor added pressure to the local currency, pushing it to trade above the 136.0 level.
- The widening of the Japan-US interest differential due to BoJ's ultra-loose monetary policy and Fed's potential 25 bps hike (>80.0% odds, partly due to hot US PCE reading) may continue to pressure the yen to trade above the 133.0 level in May. However, if there are any signs that Japan's inflationary pressure is worsening and if the Fed hinted at a rate pause (as early as June), the yen may experience a decent appreciation and approach the 130.0 threshold.

**Table 1: Currencies Outlook**

	Long Term*						Trend
	Q1-23	Q2-23F	Q3-23F	Q4-23F	Q1-24F	Q2-24F	
USDCNY	6.874	6.815	6.651	6.454	6.262	6.169	▼
USDJPY	132.860	127.252	120.087	117.037	115.290	113.569	▼

	Short Term (Technical)						Trend
	RSI (14)	EMA (21)	R1	R2	S1	S2	
USDCNY	58.905	6.895	6.945	6.971	6.880	6.841	▼
USDJPY	64.898	133.807	137.917	139.533	133.067	129.833	▼

Signal for USD Trend = ▲ Bullish    — Neutral    ▼ Bearish

\*F=Forecasts for end of period  
Source: Kenanga Research, Bloomberg

RSI (14): 14-day Relative Strength Index  
Measures the speed and magnitude of a security's recent price changes to evaluate overvalued or undervalued conditions. A reading of 75 or above indicates an overbought situation while a reading of 25 or below indicates an oversold condition.

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.

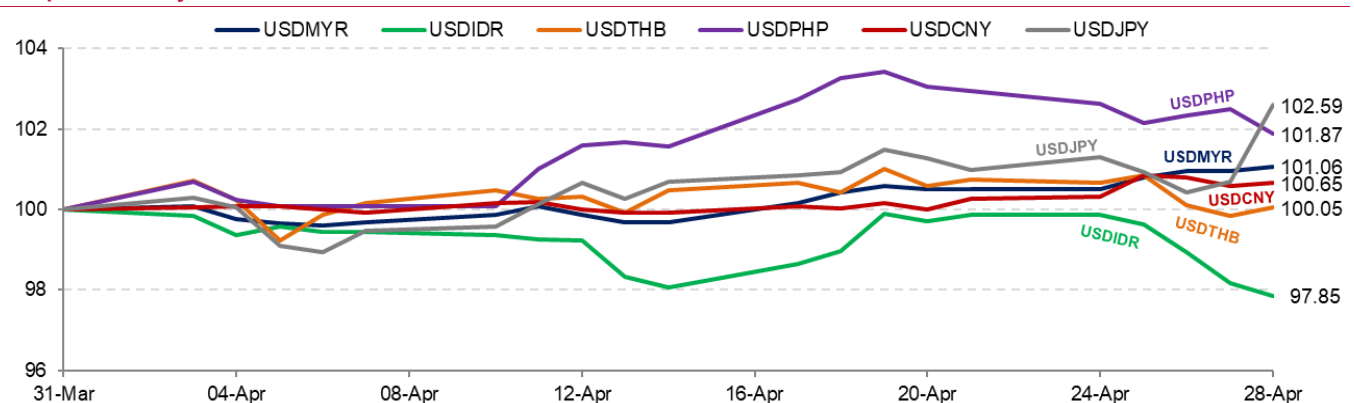
$$EMA = (P \times \alpha) + [Previous\ EMA \times (1 - \alpha)]$$

**Table 2: Key Macroeconomic Indicators**

Countries	Inflation Rate (% YoY)	Unemployment Rate (%)	GDP (% YoY)	Interest Rate (%)	10-year Government Bond Yield (%)
China	0.7 (Feb: 1.0)	5.3 (Feb: 5.6)	4.5 (4Q22: 2.9)	3.65 (1Y LPR)	2.78 (end-Mar: 2.86)
Japan	3.2 (Feb: 3.3)	2.8 (Feb: 2.6)	0.1 (3Q22: -1.1)	-0.10	0.39 (end-Mar: 0.35)

Source: Kenanga Research, Bloomberg

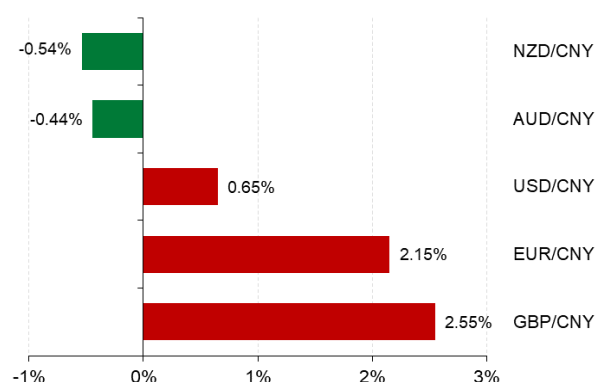
**Graph 1: Monthly Asia FX Indices Trend**



Source: Kenanga Research, Bloomberg

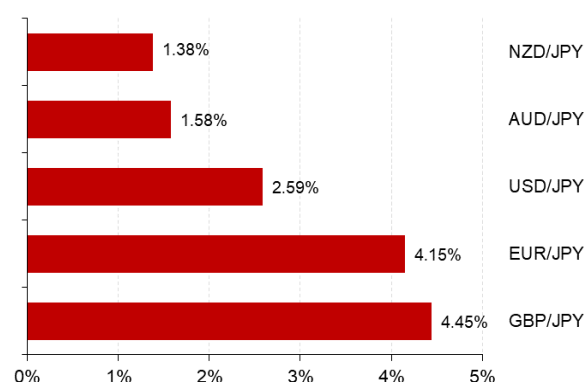
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Graph 2: Monthly Performance of Core Pairs (CNY)



Source: Kenanga Research, Bloomberg

Graph 3: Monthly Performance of Core Pairs (JPY)



Source: Kenanga Research, Bloomberg

Table 3: Key Major Data Release And Policy Announcement for the Month

Date	Country	Indicator	Previous	Consensus/Forecast
2/5/2023	US	JOLTs Job Openings (MAR)	9.931m	9.775m
4/5/2023	US	Fed Interest Rate Decision	5.00%	5.25% (25 bps hike)
4/5/2023	CN	Caixin Manufacturing PMI (APR)	50.0	50.3
4/5/2023	US	Balance of Trade (MAR)	-USD70.5b	-USD63.3b
5/5/2023	US	Non Farm Payrolls (APR)	236.0k	180.0k
9/5/2023	CN	Balance of Trade (APR)	USD88.19b	N/A
10/5/2023	US	Core Inflation Rate (APR)	0.4% MoM	0.3% MoM
11/5/2023	CN	Inflation Rate (APR)	0.7% YoY	N/A
12/5/2023	US	Michigan Consumer Sentiment Preliminary (APR)	63.5	63.0
16/5/2023	CN	Industrial Production (APR)	3.9% YoY	N/A
16/5/2023	US	Retail Sales (APR)	-0.6% MoM	N/A
17/5/2023	JP	GDP Growth Rate Preliminary (Q1)	0.6% YoY	N/A
19/5/2023	JP	Balance of Trade (APR)	-JPY754.5b	N/A
20/5/2023	JP	Inflation Rate (APR)	3.2% YoY	N/A
22/5/2023	CN	Loan Prime Rate 1Y	3.65%	N/A
25/5/2023	US	FOMC Minutes	N/A	N/A
26/5/2023	US	Core PCE Price Index (APR)	0.3% MoM	N/A

Source: Kenanga Research, Trading Economics, Bloomberg

## For further information, please contact:

**Wan Suhaimie Wan Mohd Saidie**  
Head of Economic Research  
[wansuhaimi@kenanga.com.my](mailto:wansuhaimi@kenanga.com.my)

**Muhammad Saifuddin Sapuan**  
Economist  
[saifuddin.sapuan@kenanga.com.my](mailto:saifuddin.sapuan@kenanga.com.my)

**Afiq Asyraf Syazwan Abd. Rahim**  
Economist  
[afiqasyraf@kenanga.com.my](mailto:afiqasyraf@kenanga.com.my)

**Zalman Basree**  
Economist  
[zalman@kenanga.com.my](mailto:zalman@kenanga.com.my)

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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)