

# Asia FX Monthly Outlook

Hinges on US debt ceiling deal and the Fed monetary policy decision

## CNY (7.109) ▲

- The yuan weakened above the 7.00 per USD threshold for the first time since Dec 2022 due to increased demand for the safe-haven greenback amid US debt ceiling crisis and bets of another 25 bps rate hike by the Fed. To add, the yuan was also pressured by dissipating optimism over China's recovery amid disappointing domestic economic data.
- The continued divergence between the PBoC and the Fed, combined with waning confidence in a strong China's reopening rebound may continue to weigh on the yuan. However, a resolution of the US debt ceiling issue could potentially provide some support to the yuan. Also, if US inflation trends lower-than-expected, it could potentially lead to a shift in the Fed's hawkish narrative, which in turn could weaken the USD and benefit the yuan.

## JPY (139.99) ▼

- In the first week of May, the yen strengthened against the USD following the Fed's subtle hint of a possible pause in its May meeting. However, since then, the yen has depreciated, breaching the 140.0 threshold due to rising US treasury yields amid the US debt ceiling impasse, as well as rising bets of another rate hike by the Fed in June. To add, Japan's weak macroeconomic readings and Governor Ueda's dovish remarks have further hampered the yen's performance.
- Despite Japan's higher-than-expected April inflation reading of 3.5% YoY (consensus: 2.5%), the BoJ is expected to keep its short- and long-term policy rates unchanged in June as the current rise in inflation is still seen as a result of cost-push factor rather than demand-pull. This, coupled with the ongoing hawkish market sentiment on the Fed's monetary policy direction could exert additional downward pressure on the yen, potentially leading to calls for intervention.

Table 1: Currencies Outlook

Long Term*							
	Q1-23	Q2-23F	Q3-23F	Q4-23F	Q1-24F	Q2-24F	Trend
USDCNY	6.874	7.054	6.784	6.583	6.387	6.292	▲
USDJPY	132.860	139.977	132.096	122.889	121.054	119.248	▲
Short Term (Technical)							
	RSI (14)	EMA (21)	R1	R2	S1	S2	Trend
USDCNY	78.728	7.014	7.175	7.241	6.976	6.843	▼
USDJPY	69.610	137.740	142.230	144.470	136.120	132.250	▼

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.

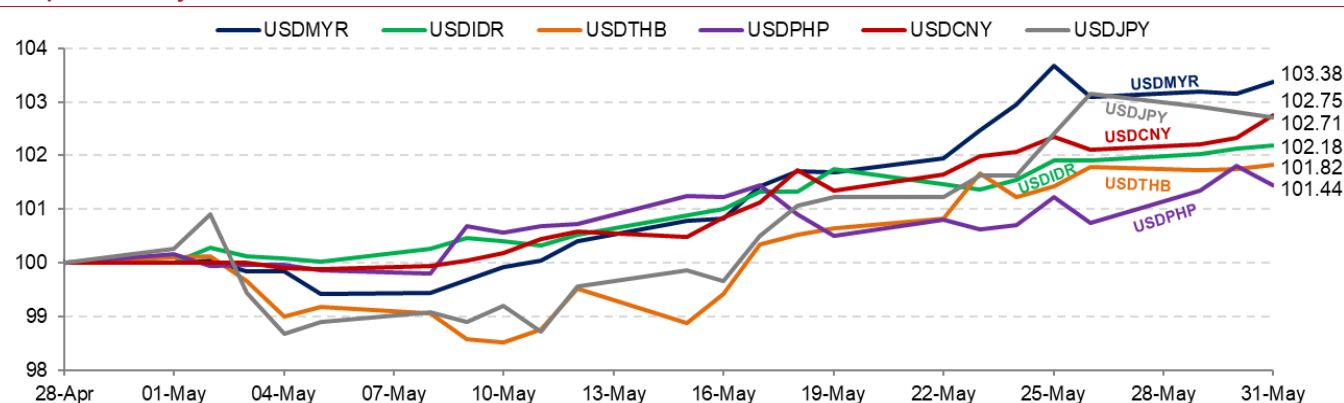
$$EMA = (P \times \alpha) + [Previous\ EMA \times (1 - \alpha)]$$

Table 2: Key Macroeconomic Indicators

Countries	Inflation Rate (% YoY)	Unemployment Rate (%)	GDP (% YoY)	Interest Rate (%)	10-year Government Bond Yield (%)
China	0.1 (Mar: 0.7)	5.2 (Mar: 5.3)	4.5 (4Q22: 2.9)	3.65 (1Y LPR)	2.71 (end-Apr: 2.78)
Japan	3.5 (Mar: 3.2)	2.6 (Mar: 2.8)	1.6 (4Q22: -0.1)	-0.10	0.43 (end-Apr: 0.39)

Source: Kenanga Research, Bloomberg

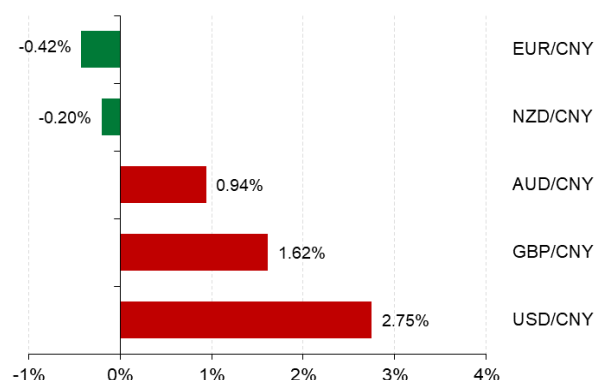
Graph 1: Monthly Asia FX Indices Trend



Source: Kenanga Research, Bloomberg

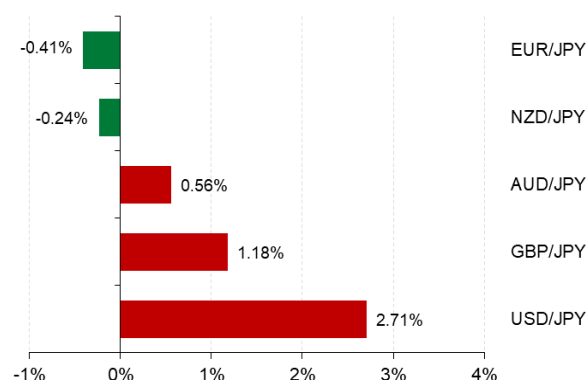
01 June 2023

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
1/6/2023	CN	Caixin Manufacturing PMI (MAY)	49.5	49.5
2/6/2023	US	Non Farm Payrolls (MAY)	253.0k	195.0k
7/6/2023	CN	Balance of Trade (MAY)	USD90.21b	N/A
7/6/2023	US	Balance of Trade (APR)	-USD64.2b	-USD75.0b
9/6/2023	CN	Inflation Rate (MAY)	0.1% YoY	N/A
13/6/2023	US	Inflation Rate (MAY)	4.9% YoY	4.1% YoY
15/6/2023	US	Fed Interest Rate Decision	5.25%	5.25% (status quo)
15/6/2023	JP	Balance of Trade (MAY)	-JPY432.4b	N/A
15/6/2023	CN	Industrial Production (MAY)	5.6% YoY	N/A
15/6/2023	US	Retail Sales (MAY)	0.4% MoM	0.2% MoM
16/6/2023	JP	BoJ Interest Rate Decision	-0.1%	-0.1% (status quo)
16/6/2023	US	Michigan Consumer Sentiment Preliminary	59.2	N/A
20/6/2023	CN	Loan Prime Rate (1Y)	3.65%	3.65% (status quo)
23/6/2023	JP	Inflation Rate (MAY)	3.5% YoY	N/A
27/6/2023	US	Durable Goods Orders (MAY)	1.1% MoM	N/A
29/6/2023	JP	Consumer Confidence (JUN)	36.0	N/A
30/6/2023	US	Core PCE Price Index (MAY)	0.4% MoM	N/A

Source: Kenanga Research, Trading Economics, Bloomberg

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