Asia FX Monthly Outlook

To be weighed by another substantial Fed rate hike

CNY (7.301) ▼

- CNY extended its weakness for the eighth consecutive month in October as President Xi Jinping doubled down on China's zero-COVID-19 policy during the Chinese Communist Party congress. On top of that, the currency was also pressured by a weaker-than-expected daily yuan midpoint fixing and increasing divergence of monetary policy between the People's Bank of China (PBoC) and the Fed.
- The renminbi may continue to face depreciation pressure and trade around the 7.30 – 7.40 level against the USD in November, as the Fed is widely expected to hike by another 75 basis points (bps) while the PBoC may continue to maintain its accommodative stance. Furthermore, the Chinese currency is expected to be further dragged by China's weak economic outlook due to snap lockdowns and strict quarantine measures.

JPY (148.620) ▼

- JPY continued to weaken against the USD in October, touching the 150.0 level during intraday trading on Oct 20, its lowest level since August 1990. The further decline was prompted by emergency bond-buying by the Bank of Japan (BoJ) to stem rising yields, as well as its sustained dovish stance at the recent monetary policy meeting. This comes despite the government spending over USD30.0b in another round of forex intervention to rein in the falling yen.
- JPY will likely depreciate in November, as the Fed's expected 75 bps rate hike continues to widen the policy gap between the US and Japan. However, the yen's downtrend may be capped by further Japanese currency intervention and a potentially less hawkish Fed stance.

MYR (4.728) ▲

- The increase in political risk after the dissolution of parliament on October 10 has pushed the ringgit to depreciate above the 4.70 level for the first time in more than 24 years. To add, the Fed's persistently hawkish tone, narrowing MY-US yield premiums, and weakening of the yuan have also contributed to the weakening of the local note.
- The ringgit may hover around the 4.72 – 4.77 level against the USD in the first two weeks of the month due to political uncertainty, the Fed's back-to-back 75 bps rate hike, and further depreciation of the yuan. Post-election, the local note is projected to strengthen towards 4.66 by end-November due to our expectation of a status quo government.

IDR (15,598) ▼

- IDR depreciated further in October, reaching its lowest level since April 2020, weighed mainly by weak risk sentiment following subdued exports performance in September and China's reaffirmation of its zero-COVID-19 policy. Nonetheless, the downside bias was partially capped by Bank Indonesia's (BI) decision to lift its policy rate by 50 bps for the second time in a row this year.
- The movement of IDR in November would depend on the US Fed's hawkishness, but the downside bias is expected to be partially mitigated if BI raises interest rates further.

THB (38.129) ▼

- THB closed slightly lower in October against the USD amid the US Fed's aggressive interest rate hikes, Europe's imminent energy crisis, and partly due to China's prolonged zero-COVID-19 policy. The weak performance was also associated with a widening rate differential amid global central banks' policy normalisation.
- THB may find some support from the Bank of Thailand's expected 25 bps rate hike later this month, but this will likely be outweighed by another sizeable hike by the US Fed this week.

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	7.193	7.363	7.424	7.178	7.054	▼
USDJPY	147.043	150.790	152.960	145.400	142.180	▼
USDMYR	4.691	4.768	4.807	4.659	4.590	▼
USDIDR	15441	15757	15917	15313	15029	▼
USDTHB	37.893	38.532	38.935	37.528	36.927	▼
USDPHP	58.515	58.746	59.381	57.728	57.345	▲

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.

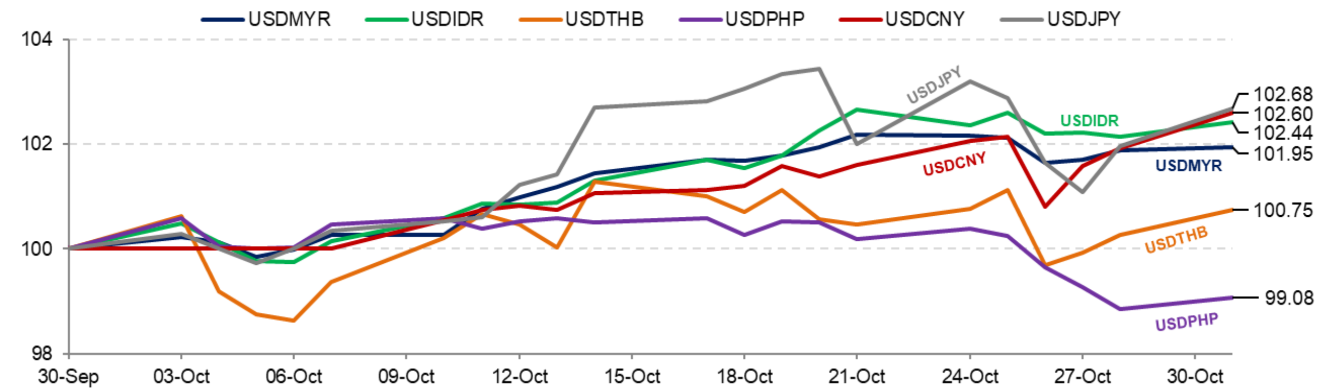
$$EMA = (P \times \alpha) + [Previous\ EMA\ \times (1 - \alpha)]$$

Table 2: Upcoming Major Data Release

Date	Currency	Indicator
01/11/2022	MYR	PMI (OCT)
01/11/2022	THB	PMI (OCT)
01/11/2022	IDR	PMI (OCT)
01/11/2022	IDR	Inflation (OCT)
03/11/2022	MYR	Interest Rate Decision
04/11/2022	THB	Inflation (OCT)
07/11/2022	IDR	GDP (Q3)
07/11/2022	CNY	Trade (OCT)
08/11/2022	MYR	Unemployment (SEP)
08/11/2022	MYR	Industrial Production (SEP)
09/11/2022	CNY	Inflation (OCT)
09/11/2022	IDR	Retail Sales (SEP)
10/11/2022	MYR	Retail Sales (SEP)
11/11/2022	MYR	GDP (Q3)
11/11/2022	MYR	Current Account (Q3)
15/11/2022	JPY	GDP Estimate (Q3)
15/11/2022	CNY	Industrial Production (OCT)
15/11/2022	THB	GDP (Q3)
15/11/2022	THB	Trade (OCT)
15/11/2022	JPY	Industrial Production (SEP)
17/11/2022	JPY	Trade (OCT)
17/11/2022	MYR	Trade (OCT)
17/11/2022	IDR	Interest Rate Decision
18/11/2022	JPY	Inflation (OCT)
18/11/2022	THB	Trade (OCT)
25/11/2022	MYR	Inflation (OCT)
30/11/2022	MYR	Money Supply (OCT)

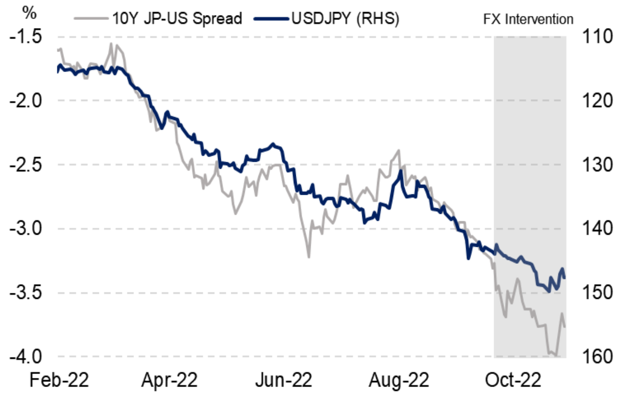
Source: Kenanga Research, Trading Economics

Graph 1: Monthly Asia FX Indices Trend



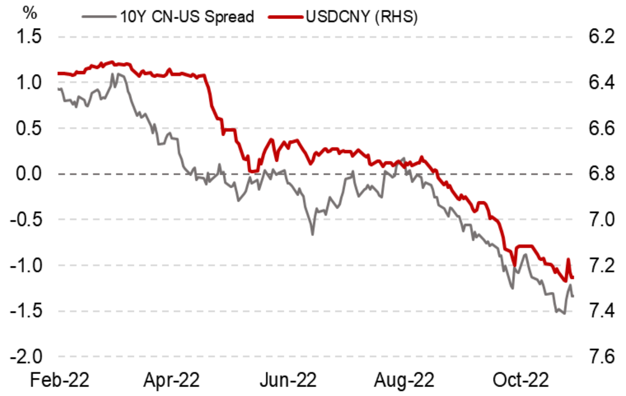
Source: Kenanga Research, Bloomberg

Graph 2: 10Y JP-US Government Bond Yield Spread and USDJPY



Source: Kenanga Research, Bloomberg

Graph 3: 10Y CN-US Government Bond Yield Spread and USDCNY



Source: Kenanga Research, Bloomberg

Monetary policy divergence and relentless dollar strength have led Japan and China towards currency intervention

- This year's strong USD performance, driven by aggressive Fed tightening, has been particularly challenging to countries with divergent monetary stances against the US. The Japanese yen has been especially pressured by this widening policy gap, as the BoJ stringently commits to its ultra-loose policy rate of -0.1% in a bid to raise long-term inflation to its elusive 2.0% target. As a result, Japan's government has spent over USD50.0b in multiple forex interventions since mid-September to stem the yen's rapid decline. This may continue over the next few months as Japan has significant space for several more rounds of intervention, considering its massive USD1.2t in foreign reserves. However, its effectiveness will likely remain limited until the Fed completes it tightening cycle, and may only serve to slow the yen's steady descent.
- The Chinese yuan faces similar challenges, with pressures from a stronger dollar, PBoC's accommodative monetary policy stance, and China's weakening economy amid the sustained zero-COVID-19 policy. The PBoC has already initiated some measures to defend the currency, such as changing the reserve requirements for foreign currencies in order to raise the cost of shorting the yuan. There are also signs that China has intervened in forex markets, with reports indicating that state-owned banks likely sold dollars towards the end of October, which led to a marked bounce for the yuan. However, China is unlikely to intensify intervention measures going forward, as it would drain the country's foreign reserves and potentially lead to further outflows as markets may fear stronger capital controls, even as policymakers recently reiterated commitments toward market reforms.

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