

03 July 2023

Asia FX Monthly Outlook

To be steered by US macroeconomic readings and central banks' monetary policy decisions

CNY (7.254) —

- Despite the Fed's decision to 'skip' a rate hike in June, the yuan has continued to weaken above the 7.25/USD level, mainly due to the increasing monetary policy divergence between the Fed and the PBoC, as the latter unexpectedly reduced its key policy rates by 10 basis points. The yuan was also pressured by China's disappointing export data, reflecting the ongoing decline in global demand.
- The yuan may continue to trade under pressure due to the ongoing low interest rate environment, especially if the PBoC cuts policy rates further in July. However, any boost in the form of a fiscal stimulus may help to prop up the yuan in the near term. This, coupled with a moderation in US inflation rates and another rate hike 'skip' in July may also benefit the yuan. Additionally, stronger PBoC daily fixing may help to keep the yuan's weakness within a controllable range.

JPY (144.310) ▲

- The yen closed the last trading day of June near the 145.0 level against the USD, an almost eight-month low, as the BoJ kept its ultra-loose monetary policy settings unchanged while the Fed continued to strike a hawkish tone. Also, the deepening of US Treasury yield curve inversions and increasing odds of a recession has helped to keep the USD strong, especially against currency with a dovish central bank like Japan.
- Expectations of a hawkish Fed may lead the yen to weaken above the 145.0 level in the first week of July. However, if US inflation turns out to be lower than expected, the yen could regain some of its losses. The BoJ may intervene if the yen breaches the 145.0/USD threshold. In its July monetary policy meeting, the BoJ may revise its inflation forecasts upward and surprise the market by adjusting its yield curve control, potentially causing a sharp appreciation of the yen.

Table 1: Currencies Outlook

Long Term*							
	Q2-23	Q3-23F	Q4-23F	Q1-24F	Q2-24F	Q3-24F	Trend
USDCNY	7.254	6.988	6.780	6.579	6.481	6.384	▼
USDJPY	144.310	132.096	122.889	121.054	119.248	117.468	▼
Short Term (Technical)							
	RSI (14)	EMA (21)	R1	R2	S1	S2	Trend
USDCNY	76.387	7.170	7.306	7.358	7.150	7.045	▼
USDJPY	75.069	141.774	146.013	147.717	140.903	137.497	▼

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.

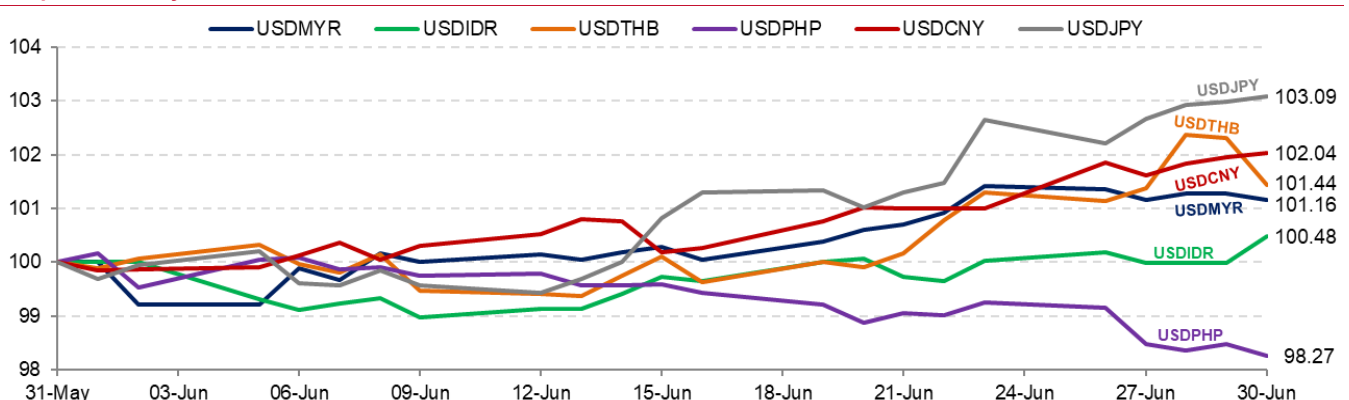
$$EMA = (P \times \alpha) + [Previous\ EMA \times (1 - \alpha)]$$

Table 2: Key Macroeconomic Indicators

Countries	Inflation Rate (% YoY)	Unemployment Rate (%)	GDP (% YoY)	Interest Rate (%)	10-year Government Bond Yield (%)
China	0.2 (Apr: 0.1)	5.2 (Apr: 5.2)	4.5 (4Q22: 2.9)	3.55 (1Y LPR)	2.64 (end-May: 2.71)
Japan	3.2 (Apr: 3.5)	2.6 (Apr: 2.6)	2.7 (4Q22: 0.4)	-0.10	0.40 (end-May: 0.44)

Source: Kenanga Research, Bloomberg

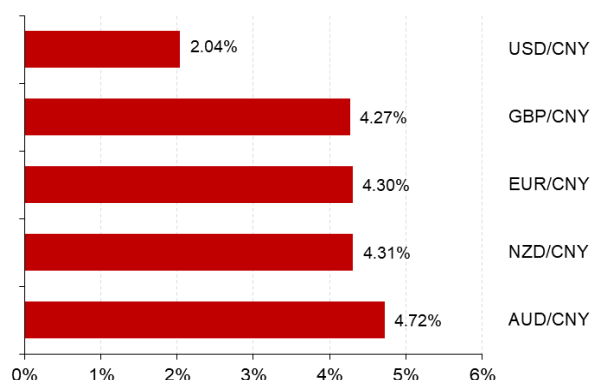
Graph 1: Monthly Asia FX Indices Trend



Source: Kenanga Research, Bloomberg

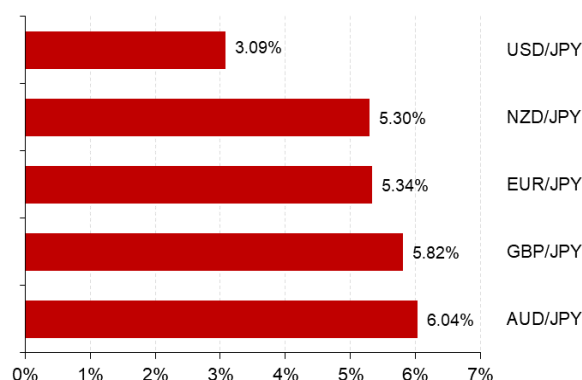
03 July 2023

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
3/7/2023	CN	Caixin Manufacturing PMI (JUN)	50.9	50.0
3/7/2023	US	ISM Manufacturing PMI (JUN)	46.9	47.0
6/7/2023	US	FOMC Minutes	N/A	N/A
7/7/2023	US	Non Farm Payrolls (JUN)	339.0k	225.0k
10/7/2023	CN	Inflation Rate (JUN)	0.2% YoY	N/A
12/7/2023	US	Core Inflation Rate (JUN)	0.4% MoM	0.3% MoM
13/7/2023	CN	Balance of Trade (JUN)	USD65.81b	N/A
14/7/2023	US	Michigan Consumer Sentiment Preliminary (JUL)	64.4	N/A
17/7/2023	CN	GDP Growth Rate (Q2)	4.5% YoY	N/A
18/7/2023	US	Retail Sales (JUN)	0.3% MoM	N/A
20/7/2023	JP	Balance of Trade (JUN)	-JPY1372.5b	N/A
20/7/2023	CN	Loan Prime Rate (1Y)	3.55%	N/A
21/7/2023	JP	Inflation Rate (JUN)	3.2% YoY	N/A
27/7/2023	US	Fed Interest Rate Decision	5.25%	5.50% (25 bps hike)
27/7/2023	US	GDP Growth Rate Advance (Q2)	2.0% QoQ	N/A
28/7/2023	JP	BoJ Interest Rate Decision	-0.1%	-0.1% (status quo)
28/7/2023	US	Core PCE Price Index (JUN)	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

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Zalman Basree
Economist
zalman@kenanga.com.my

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may affect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published by:

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 E-mail: research@kenanga.com.my