

Asia FX Monthly Outlook

Weakening bias to persist on expectations of Fed's persistent higher-for-longer rhetoric

CNY (7.316) ▼

- Despite China's better-than-expected 3Q23 GDP reading (4.9%; Consensus: 4.5%), the yuan continued to depreciate against the greenback in October due to increased demand for the USD amid the Middle East crisis. Additionally, the yuan faced pressure from slowing economic momentum in October, as evidenced by weak manufacturing PMI data. The ongoing real estate crisis further compounded the challenges, making the yuan unfavourable to investors.
- The unfavourable US-China negative yield differential may continue to prompt capital outflows from China and exert pressure on the yuan in November. This, combined with the escalating property crisis, could keep the yuan above the 7.30/USD threshold. Nevertheless, the government's ongoing efforts to stimulate the economy and the People's Bank of China's continued intervention in the foreign exchange market may curb yuan's further depreciation.

JPY (150.69) ▼

- Soaring US bond yields, driven by the Fed's persistent hawkish expectations, have continued to increase the demand for USD and weaken the JPY. This, coupled with the Bank of Japan's "lukewarm" hawkish move, resulting from its lack of conviction in the sustainability of inflation, has pressured the yen to close above 150.0/USD by October.
- The yen may continue to trade above the 150.0 threshold against the USD in the coming weeks as the Fed is projected to reiterate its 'higher-for-longer' mantra in November, while the BoJ may only turn hawkish and terminate the yield curve control policy next year. Even though the rise in 10-year JGB yields may provide marginal support for the yen, the absence of pro-domestic catalysts and a strong US economic outlook may continue to exert pressure on the yen.

Table 1: Currencies Outlook

	Long Term*						Trend
	Q3-23	Q4-23F	Q1-24F	Q2-24F	Q3-24F	Q4-24F	
USDCNY	7.298	7.211	6.966	6.862	6.760	6.659	▼
USDJPY	149.370	139.511	130.884	128.931	127.006	125.111	▼

	Short Term (Technical)						Trend
	RSI (14)	EMA (21)	R1	R2	S1	S2	
USDCNY	53.180	7.258	7.315	7.371	7.186	7.114	▼
USDJPY	61.151	145.010	147.880	149.840	142.860	139.800	▼

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.

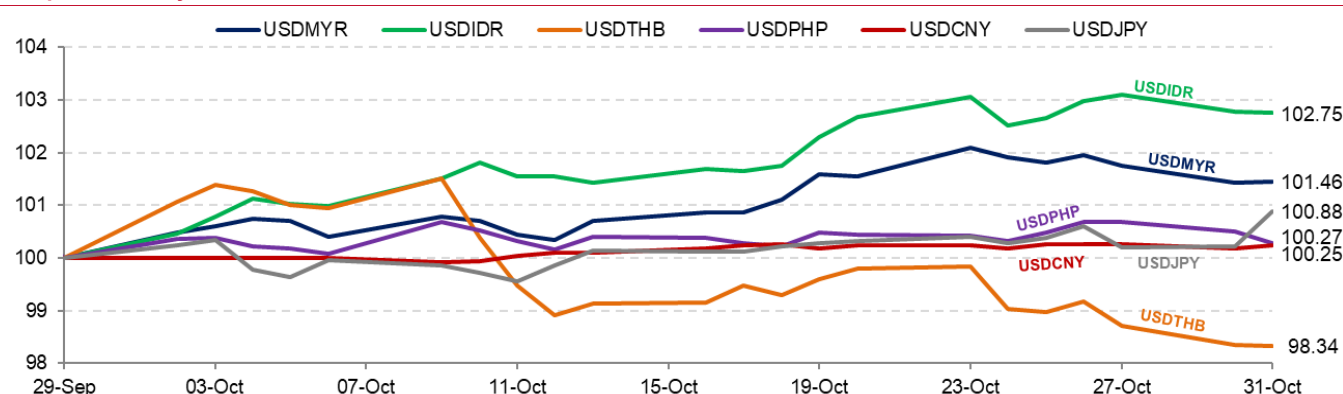
$$EMA = (P \times \alpha) + [Previous\ EMA \times (1 - \alpha)]$$

Table 2: Key Macroeconomic Indicators

Countries	Inflation Rate (% YoY)	Unemployment Rate (%)	GDP (% YoY)	Interest Rate (%)	10-year Government Bond Yield (%)
China	0.0 (Aug: 0.1)	5.0 (Aug: 5.2)	4.9 (2Q23: 6.3)	3.45 (1Y LPR)	2.69 (end-Sep: 2.68)
Japan	3.0 (Aug: 3.2)	2.6 (Aug: 2.7)	4.8 (1Q23: 3.2)	-0.10	0.95 (end-Sep: 0.77)

Source: Kenanga Research, Bloomberg

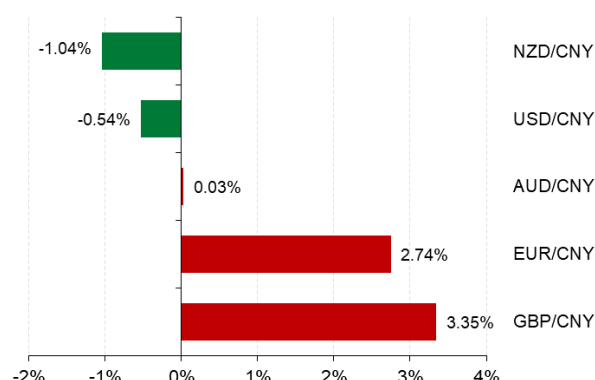
Graph 1: Monthly Asia FX Indices Trend



Source: Kenanga Research, Bloomberg

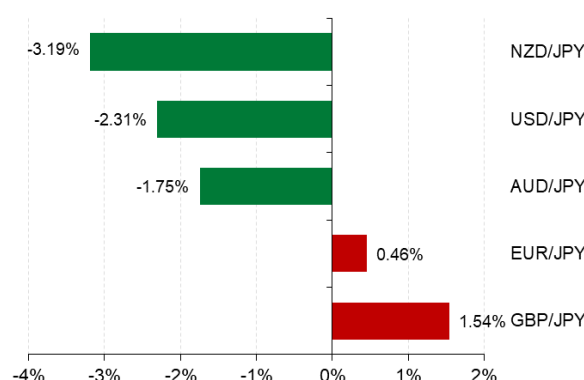
01 November 2023

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
1/11/2023	CN	Caixin Manufacturing PMI (OCT)	50.6	50.8
1/11/2023	US	JOLTs Job Openings	9.61m	9.37m
2/11/2023	US	Fed Interest Rate Decision	5.50%	5.50% (status quo)
3/11/2023	US	Non Farm Payrolls (OCT)	336.0k	180.0k
7/11/2023	CN	Exports (OCT)	-6.2% YoY	N/A
9/11/2023	CN	Inflation rate (OCT)	0.0% YoY	N/A
10/11/2023	US	Michigan Consumer Sentiment Preliminary (NOV)	63.8	N/A
14/11/2023	US	Core Inflation Rate (OCT)	0.3% MoM	N/A
15/11/2023	JP	GDP Growth Preliminary	4.8% YoY	-0.5% YoY
15/11/2023	CN	Retail Sales (OCT)	5.5% YoY	N/A
15/11/2023	US	Retail Sales (OCT)	0.7% MoM	N/A
16/11/2023	JP	Balance of Trade (OCT)	JPY62.4b	N/A
20/11/2023	CN	Loan Prime Rate (1Y)	3.45%	3.45% (status quo)
23/11/2023	US	FOMC Minutes	N/A	N/A
24/11/2023	JP	Inflation Rate (OCT)	3.0% YoY	N/A
30/11/2023	US	Core PCE Price Index (OCT)	0.3% MoM	N/A

Source: Kenanga Research, Trading Economics, Bloomberg

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