

Asia FX Monthly Outlook

Pressure mounts as US economy stays strong; PBoC, BoJ dovishness adds weakness

CNY (7.242) ▼

- Despite weak US labour data and ISM services reading, the yuan continued to depreciate, close to the 7.25/USD level, its lowest in over six months. Steady demand recovery, as evidenced by China's solid trade data and rising inflation, has helped cap yuan losses but was offset by China weakening its daily reference rate. Additionally, the yuan was pressured by persistent capital outflow from China amid the PBoC-Fed monetary policy divergence.
- The divergence in economic indicators, particularly the upbeat Caixin PMI, which contrasted with the NBS PMI survey, suggests that China's recovery is struggling to maintain momentum, which may continue to weigh on the local note. Insufficient policy measures to boost domestic consumption, the ongoing property crisis, the wide interest rate gap with the US and a potentially unchanged Fed stance may keep the yuan above 7.20/USD for the time being.

JPY (157.113) ▼

- The yen appreciated sharply to 153.05/USD on May 3 from its 34-year low of 158.33/USD on April 26, due to the MoF FX intervention, deployed right after the less hawkish FOMC meeting. Additionally, a softer-than-expected US job report bolstered expectations of a Fed rate cut, further supporting the yen. However, the yen quickly reversed its gains and closed the month weaker due to a disappointing Japan's 1Q24 GDP reading and a slowdown in core CPI.
- Weak consumer spending figures suggest a cautious approach to further BoJ rate hikes, potentially weakening the yen. We identify 158.0/USD as the next intervention point. With the lack of robust macro data from Japan, especially on inflation, Tokyo may intervene to counter excessive volatility. Upcoming US data will be crucial ahead of the FOMC meeting; a relatively hawkish Fed alongside a dovish BoJ may keep the yen weak in the near term.

Table 1: Currencies Outlook

Long Term*							
	Q1-24	Q2-24F	Q3-24F	Q4-24F	Q1-25F	Q2-25F	Trend
USDCNY	7.222	7.208	7.009	6.904	6.699	6.500	▼
USDJPY	151.350	156.334	138.904	132.023	128.102	124.297	▲

Short Term (Technical)							
	RSI (14)	EMA (21)	R1	R2	S1	S2	Trend
USDCNY	54.596	7.237	7.258	7.274	7.217	7.193	—
USDJPY	60.068	156.140	158.999	160.884	154.139	151.164	—

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.

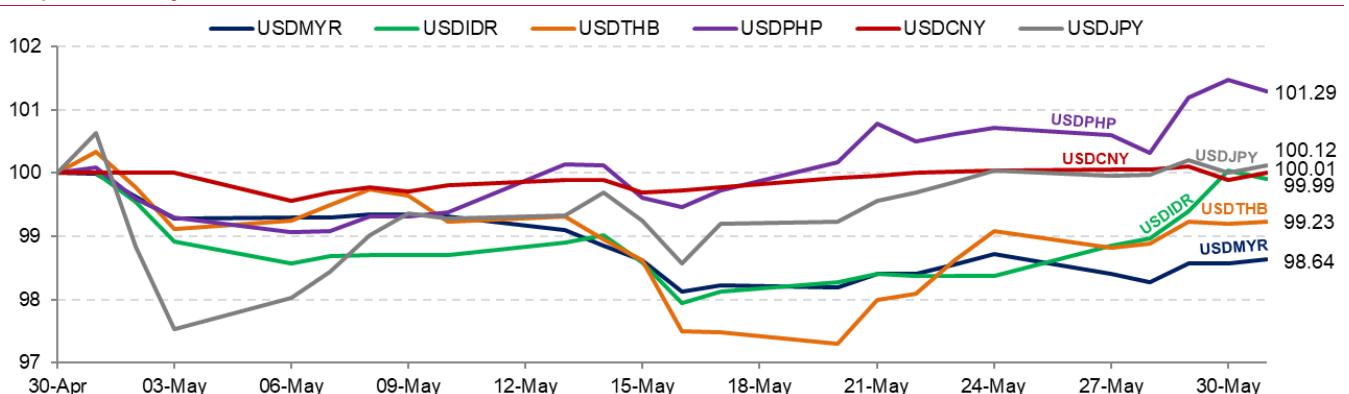
$$EMA = (P \times \alpha) + [Previous\ EMA \times (1 - \alpha)]$$

Table 2: Key Macroeconomic Indicators

Countries	Inflation Rate (% YoY)	Unemployment Rate (%)	GDP (% YoY)	Interest Rate (%)	10-year Government Bond Yield (%)
China	0.3 (Mar: 0.1)	5.0 (Mar: 5.2)	5.3 (4Q23: 5.2)	3.45 (1Y LPR)	2.32 (end-Apr: 2.31)
Japan	2.2 (Mar: 2.6)	2.6 (Mar: 2.6)	-0.2 (4Q23: 1.2)	0.00-0.10	1.07 (end-Apr: 0.88)

Source: Kenanga Research, Bloomberg

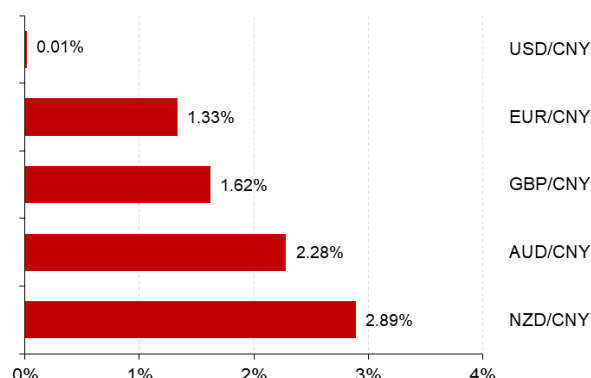
Graph 1: Monthly Asia FX Indices Trend



Source: Kenanga Research, Bloomberg

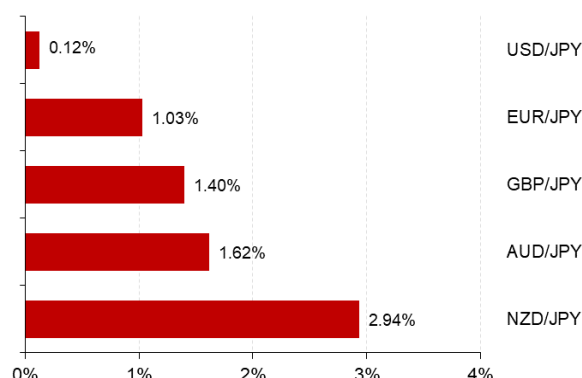
04 June 2024

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
4/6/2024	US	JOLTs Job Openings (APR)	8.488m	8.340m
5/6/2024	US	ISM Services PMI (MAY)	49.4	50.5
7/6/2024	CN	Balance of Trade (MAY)	USD72.35b	USD71.50b
7/6/2024	US	Non Farm Payrolls (MAY)	175.0k	190.0k
12/6/2024	CN	Inflation Rate (MAY)	0.3% YoY	N/A
12/6/2024	US	Core Inflation Rate (MAY)	0.3% MoM	N/A
13/6/2024	US	Fed Interest Rate Decision	5.50%	5.50% (status quo)
13/6/2024	US	PPI (MAY)	0.5% MoM	N/A
14/6/2024	JP	BoJ Interest Rate Decision	0.00-0.10%	0.00-0.10% (status quo)
14/6/2024	US	Michigan Consumer Sentiment Preliminary (JUN)	69.1	N/A
17/6/2024	CN	Retail Sales (MAY)	2.3% YoY	N/A
18/6/2024	US	Retail Sales (MAY)	0.0% MoM	N/A
19/6/2024	JP	Balance of Trade (MAY)	-JPY462.5b	N/A
20/6/2024	CN	Loan Prime Rate (1Y)	3.45%	N/A
21/6/2024	JP	Inflation Rate (MAY)	2.5% YoY	N/A
28/6/2024	US	Core PCE Price Index (MAY)	N/A	N/A

Source: Kenanga Research, Trading Economics, Bloomberg

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