

Asia FX Monthly Outlook

Potential recovery if US data weakens; domestic drivers hinge on central banks action

CNY (7.267) ▼

- Despite an improvement in the manufacturing PMI and stronger-than-expected trade and retail sales figures, the yuan has weakened to its lowest level in over seven months against the USD. This decline is primarily attributed to persistent capital outflows driven by significant China-US yield differentials. Additionally, the PBoC's status quo and weak daily fixings have contributed to this depreciation.
- While there is potential for the yuan to appreciate by the end of the year, bolstered by a possible Fed rate cut and an improving Chinese economic outlook, substantial headwinds from the US election and policy uncertainty may keep the yuan around its current level for now. Furthermore, persistent weak fixings aimed at stimulating exports and generating inflationary pressure may continue to exert downward pressure on the yuan.

JPY (160.880) ▲

- The yen depreciated to its weakest level in nearly 38 years against the USD, primarily due to the Bank of Japan's (BoJ) inaction, which was influenced by pockets of economic weakness and the absence of demand-driven inflation. Mixed US economic data and uncertainty surrounding Fed monetary policy have also exerted pressure on the yen. The lack of intervention from authorities has led to the yen breaching the psychological threshold of 160.0/USD.
- The MoF may continue to monitor USD trends and economic data before deciding on further intervention. We anticipate the next potential intervention point to be around 163.0-164.0/USD. The sharp decline in the yen could prompt the BoJ to raise rates as early as July 31st, predicated on Japanese firms would pass on wage costs to service prices, thereby increasing inflation. Coupled with our expectation of a weakening US economy, this may help the yen recover some losses and appreciate against the USD in July.

Table 1: Currencies Outlook

Long Term*							
	Q2-24	Q3-24F	Q4-24F	Q1-25F	Q2-25F	Q3-25F	Trend
USDCNY	7.267	7.193	7.172	7.150	7.129	7.107	▼
USDJPY	160.880	151.676	145.714	142.800	138.559	134.443	▼
Short Term (Technical)							
	RSI (14)	EMA (21)	R1	R2	S1	S2	Trend
USDCNY	64.689	7.255	7.277	7.287	7.249	7.230	▼
USDJPY	73.549	158.372	162.863	164.847	156.913	152.947	▼

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.

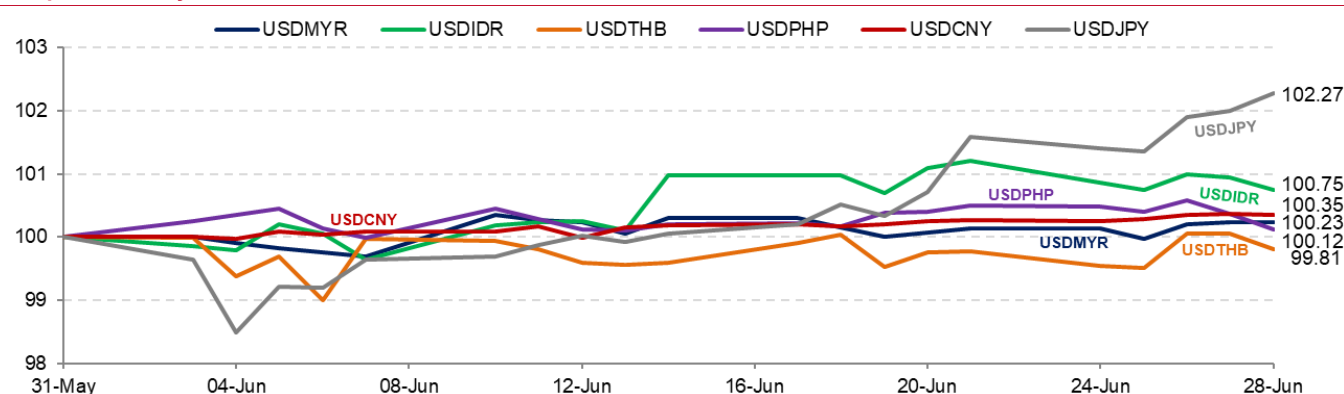
$$EMA = (P \times \alpha) + [Previous\ EMA \times (1 - \alpha)]$$

Table 2: Key Macroeconomic Indicators

Countries	Inflation Rate (% YoY)	Unemployment Rate (%)	GDP (% YoY)	Interest Rate (%)	10-year Government Bond Yield (%)
China	0.3 (Apr: 0.3)	5.0 (Apr: 5.0)	5.3 (4Q23: 5.2)	3.45 (1Y LPR)	2.21 (end-May: 2.32)
Japan	2.8 (Apr: 2.5)	2.6 (Apr: 2.6)	-0.2 (4Q23: 1.2)	0.00-0.10	1.06 (end-May: 1.07)

Source: Kenanga Research, Bloomberg

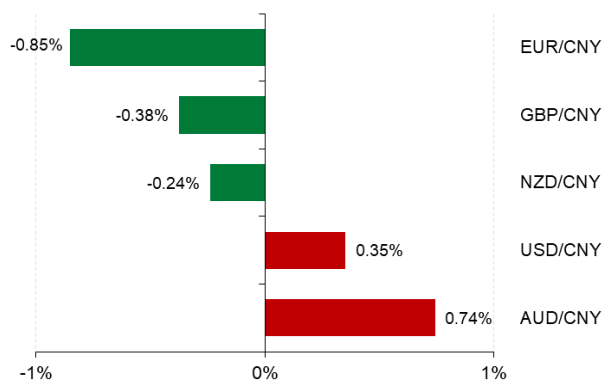
Graph 1: Monthly Asia FX Indices Trend



Source: Kenanga Research, Bloomberg

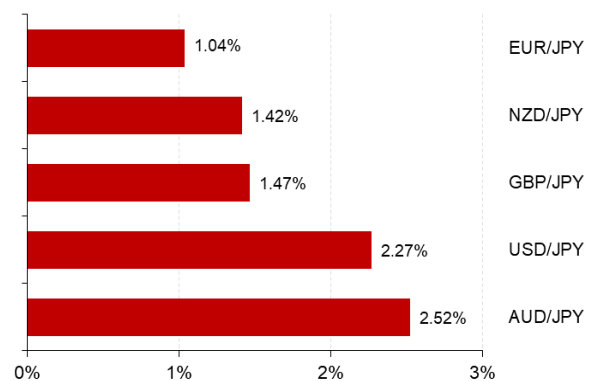
02 July 2024

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
2/7/2024	US	JOLTs Job Openings (MAY)	8.059m	7.864m
4/7/2024	US	FOMC Minutes	N/A	N/A
5/7/2024	US	Non Farm Payrolls (JUN)	272.0k	190.0k
10/7/2024	CN	Inflation Rate (JUN)	0.3% YoY	N/A
11/7/2024	US	Core Inflation Rate (JUN)	0.2% MoM	0.2% MoM
12/7/2024	US	PPI (JUN)	-0.2% MoM	N/A
13/7/2024	CN	Balance of Trade (JUN)	USD82.62b	N/A
15/7/2024	CN	GDP Growth Rate (Q2)	5.3% YoY	N/A
15/7/2024	CN	Unemployment Rate (JUN)	5.0% YoY	N/A
16/7/2024	US	Retail Sales (JUN)	0.1% MoM	N/A
18/7/2024	JP	Balance of Trade (JUN)	-JPY1221.3b	N/A
19/7/2024	JP	Inflation Rate (JUN)	2.8% YoY	N/A
20/7/2024	CN	Loan Prime Rate (1Y)	3.45%	3.45% (status quo)
25/7/2024	US	GDP Growth Rate Advance (Q2)	1.4% QoQ	N/A
26/7/2024	US	Core PCE Price Index (JUN)	0.1% MoM	N/A
31/7/2024	JP	BoJ Interest Rate Decision	0.00-0.10%	0.00-0.10% (status quo)

Source: Kenanga Research, Trading Economics, Bloomberg

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