

Asia FX Monthly Outlook

Less dovish Fed guidance may heighten volatility and pressure risk-on currencies

CNY (7.091) ▼

- The yuan strengthened sharply, falling below 7.10/USD for the first time since June 2023, driven by a marked decline in the USD index following Fed Powell's dovish tone post-FOMC. The CNY has also benefited from the narrowing of the 2-year China-US negative yield differential (August average: -239.0 bps; July: -292.0 bps). Market expectations of up to 100 bps in Fed rate cuts this year have pressured US yields, while the prospect of intervention by the PBoC has supported Chinese yields.
- Several factors could influence the yuan's trajectory in September, with US macro conditions and Fed policy decision being paramount. Our base case of a relatively stable US labour market and a 25 bps rate cut by the Fed may bolster the USD, limiting yuan gains. Additionally, China's weak growth could lead to further PBoC easing, dampening appetite for Chinese assets and triggering outflows, which would pressure the yuan. A less dovish Fed, combined with domestic economic challenges, could worsen the outlook for the yuan.

JPY (146.170) —

- Similarly, after trading between 150.0 and 160.0 for the past eight months, the yen appreciated sharply to 142.42 against the USD, driven by the unwinding of carry trades following the Bank of Japan's (BoJ) unexpected rate hike in late July and the Fed's indication of a potential rate cut in early August. The yen has since stabilised around 144.0 - 146.0, aided by a weak US job report and Powell's continued dovishness.
- Tokyo's CPI reacceleration and stronger-than-expected 2Q24 GDP growth support the BoJ's view of economic recovery, buoyed by a rebound in household consumption. Expectations of solid wage growth and rising price pressures suggest room for a hawkish surprise, though we expect the BoJ to maintain status quo in September. Nevertheless, the yen may trade within the 145.0 - 150.0 range in the coming weeks, as a less dovish guide by the Fed and uncertainty surrounding Japan's macro policies following PM Kishida's resignation could introduce volatility.

Table 1: Currencies Outlook

Long Term*							
	Q2-24	Q3-24F	Q4-24F	Q1-25F	Q2-25F	Q3-25F	Trend
USDCNY	7.267	7.085	7.064	7.043	7.022	7.001	▼
USDJPY	160.880	148.642	145.714	142.800	138.559	134.443	▼
Short Term (Technical)							
	RSI (14)	EMA (21)	R1	R2	S1	S2	Trend
USDCNY	29.572	7.148	7.194	7.296	7.040	6.989	▼
USDJPY	42.756	146.967	150.007	153.843	142.357	138.543	▼

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.

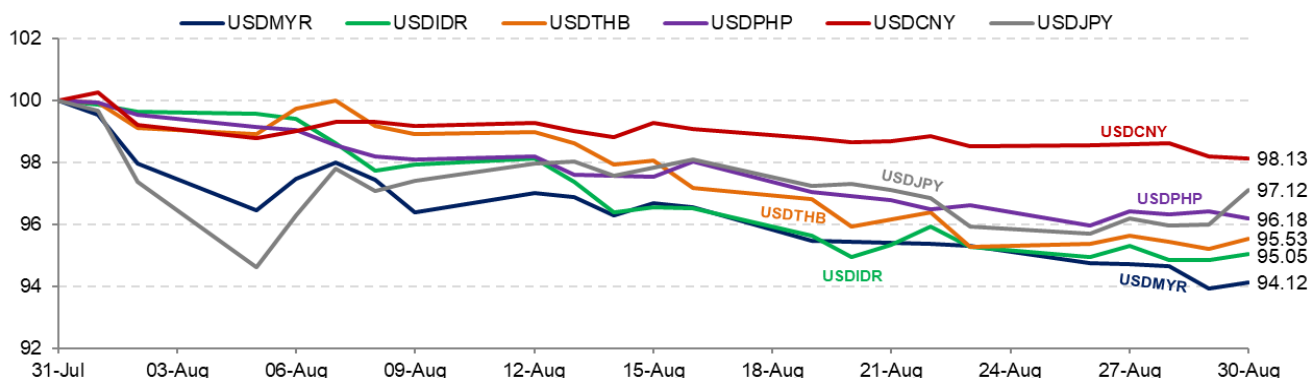
$$EMA = (P \times \alpha) + [Previous\ EMA \times (1 - \alpha)]$$

Table 2: Key Macroeconomic Indicators

Countries	Inflation Rate (% YoY)	Unemployment Rate (%)	GDP (% YoY)	Interest Rate (%)	10-year Government Bond Yield (%)
China	0.5 (Jun: 0.2)	5.2 (Jun: 5.0)	4.7 (1Q24: 5.3)	3.35 (1Y LPR)	2.18 (end-Jul: 2.15)
Japan	2.8 (Jun: 2.8)	2.7 (Jun: 2.5)	-0.8 (1Q24: -0.9)	0.25	0.90 (end-Jul: 1.06)

Source: Kenanga Research, Bloomberg

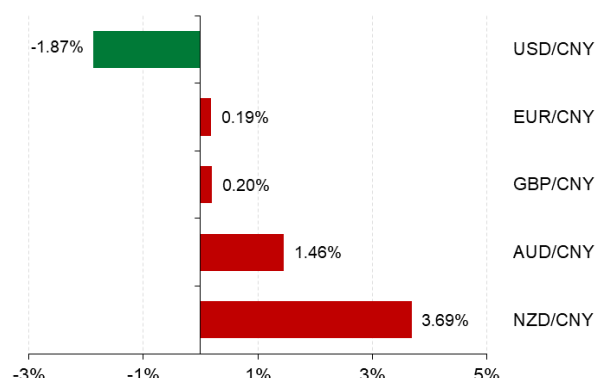
Graph 1: Monthly Asia FX Indices Trend



Source: Kenanga Research, Bloomberg

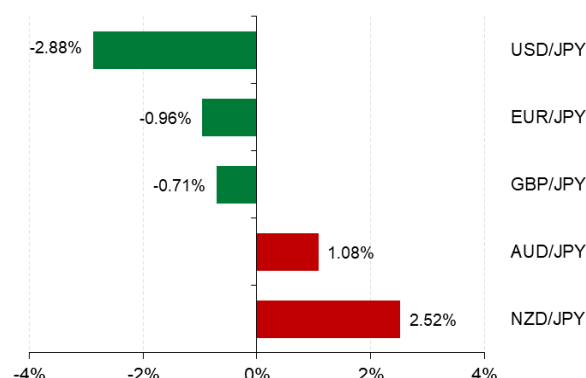
02 September 2024

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
3/9/2024	US	ISM Manufacturing PMI (AUG)	46.8	47.5
4/9/2024	US	JOLTs Job Openings (JUL)	8.184m	8.100m
5/9/2024	US	ISM Services PMI (AUG)	51.4	51.1
6/9/2024	US	Non Farm Payrolls (AUG)	114.0k	165.0k
6/9/2024	US	Unemployment Rate (AUG)	4.3%	4.2%
7/9/2024	CN	Balance of Trade (AUG)	USD84.65b	N/A
9/9/2024	CN	Inflation Rate (AUG)	0.5% YoY	0.7% YoY
11/9/2024	US	Core Inflation Rate (AUG)	0.2% MoM	0.2% MoM
14/9/2024	CN	Retail Sales (AUG)	2.7% YoY	2.5% YoY
17/9/2024	US	Retail Sales (AUG)	1.0% MoM	N/A
18/9/2024	JP	Balance of Trade (JUL)	-JPY621.8b	N/A
19/9/2024	US	Fed Interest Rate Decision	5.50%	5.25% (25 bps cut)
20/9/2024	JP	Inflation Rate (AUG)	2.8% YoY	N/A
20/9/2024	CN	Loan Prime Rate 1Y	3.35%	3.35% (status quo)
20/9/2024	JP	BoJ Interest Rate Decision	0.25%	0.25% (status quo)
27/9/2024	US	Core PCE Price Index (AUG)	0.2% MoM	N/A

Source: Kenanga Research, Trading Economics, Bloomberg

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