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MACRO MORNING BRIEFING

August 22, 2024

APAC FX Strength and Policy Implications

The reappraisal of US rate expectations led to a softer USD dollar and a substantial appreciation of Asian currencies. Adding to the downside USD/Asia momentum is the lower USDJPY move. Is the recent currency appreciation welcomed by the regional authorities? Has its move been disorderly? Does the fragile macro environment, with sluggish growth recovery in China, warrant such strong currencies? There is no one answer to fit all regions, but below we discuss the relative dynamic of late of APAC currencies and equities and the potential impact of this on policy decisions.

The market gyrations of equities and currencies at the beginning of the month seem like a distant memory, with a swift recovery of risks and a normalization of asset prices. The outperformance of APAC currencies on the month has been fierce and broad-based. For the month, IDR and MYR were the top performers with a nearly 5% gain, followed by over +3% in THB and PHP, around 2.5% for SGD, KRW and TWD, and just over 1% in CNH. The relative strength in PHP and MYR was impressive but also seems excessive considering the rate cut in the Philippines and the lack of progress in the fiscal space in Malaysia.

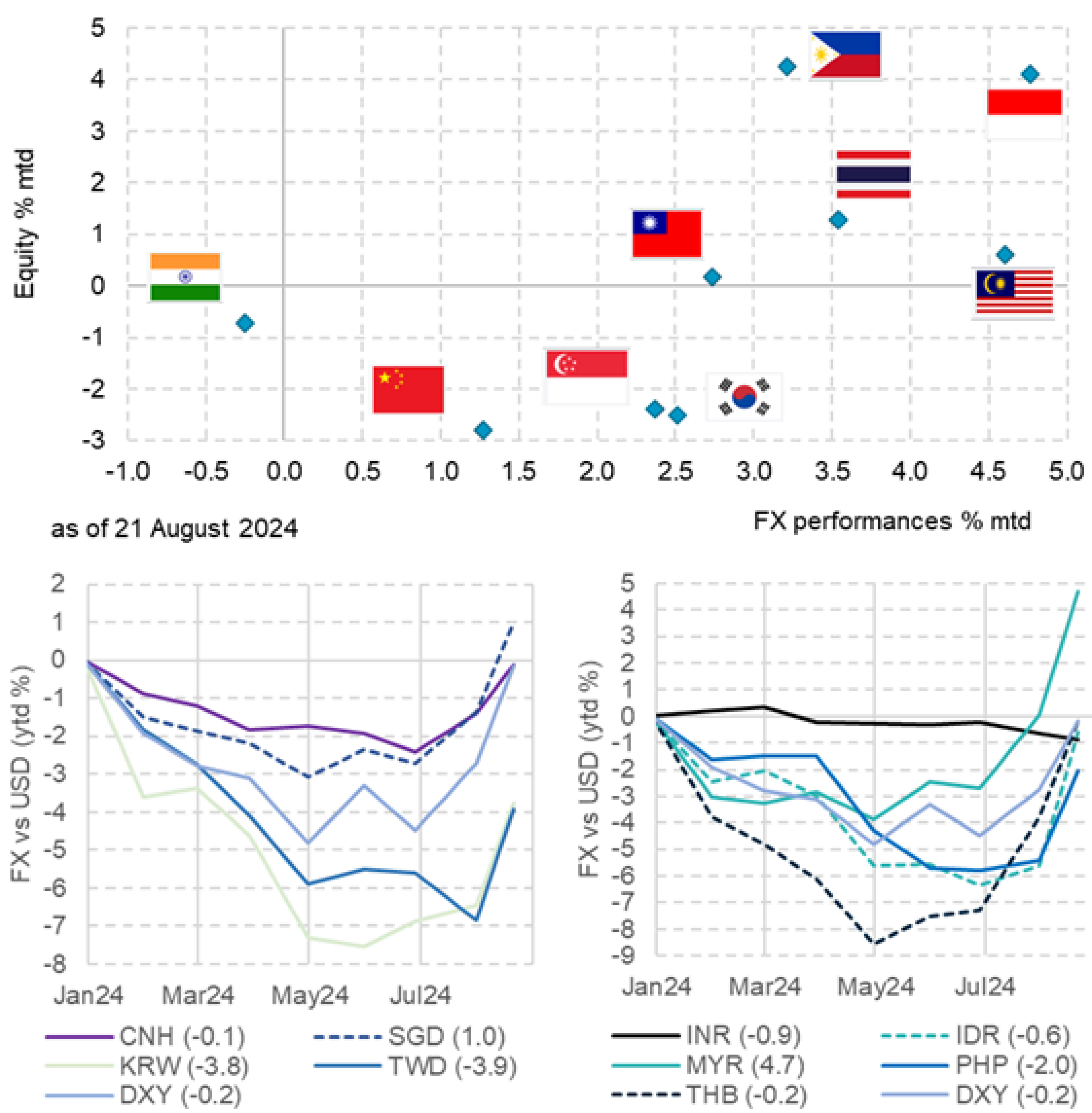
Looking at asset prices in the region, the risk recovery was not uniform and wide variations were seen. Equities in the Philippines and Indonesia are up over 4%, while stock indexes in China, Singapore and Korea posted losses of more than 2% losses mtd. iFlow data (see below) and official data flows provided by local stock exchanges revealed a resurgence of interest among foreign investors in regional equities, but the pace has been slow.

For example, foreigners remain net sold in Korean and Taiwanese equities by $446mn and

$766mn, respectively, on the month against -2.5% and 0.2% mtd in KOSPI and TWSE, respectively. Specifically, with respect to Taiwanese equities, a look at margin loans outstanding suggests that the equities rebound is not on a strong footing yet. Total net margin loans for Taiwan's stock exchange plunged by TWD 37bn from TWD 329bn at the end of July to TWD 291bn in early August during the -11% mtd correction of TWSE. TWSE has recovered all its losses to stand near flat on the month, but the net margin loan amount remains at lows of around TWD 297bn.

We welcome the recovery of risks but are cautious about chasing equities on the upside without strong macro fundamentals and flow support. As for FX, while the medium-term outlook for EM APAC FX should be positive on the back of potential Federal Reserve easing, our concern is that the market might have run ahead of itself.

Exhibit #1: APAC Currency and Equity Performance



Source: BNY, Bloomberg L.P.

How has the recent currency dynamic impacted regional monetary policymaking? Overall, dissipating currency depreciation pressure has lifted a huge weight off regional financial regulators and central banks. Capital outflows are no longer the top concern, nor is potentially higher inflation pressure on weak currencies.

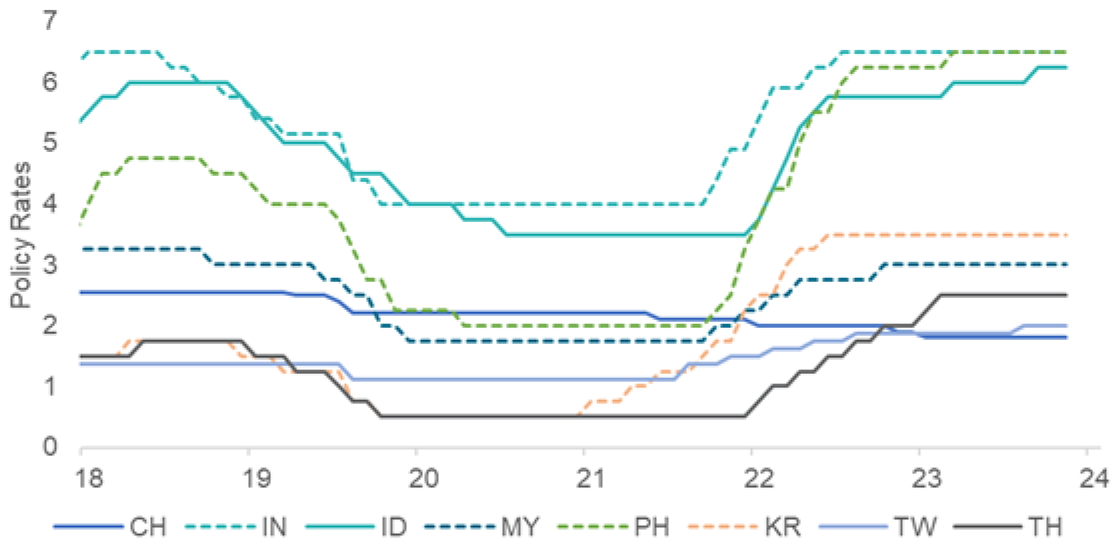
The trend toward appreciating currencies has allowed regional central banks to be bold in their policies, enabling them to maneuver with less concern about the impact on currencies. This is most notable in the Philippines, where the central bank (BSP) openly said that they "don't worry too much about PHP depreciation" and plan to make another rate cut later this year following a 25bp rate cut in August.

Currency valuation has played a significant role in Bank Indonesia (BI) policy-setting over the past year. BI was forced to halt its policy easing bias and abruptly hike rates in October 2023 and April 2024 to curb further IDR depreciation pressure. The decline of USD/IDR from its highs of 16450 in June 2024 to below 15935 (levels that triggered a rate hike in October 2023) is psychologically important and a relief for BI. IDR strength has set the stage for a rate cut as soon as the next policy meeting in September.

Singapore dollar appreciation momentum from an already expensive valuation is impressive. Indeed, USD/SGD, at around 1.306, is at its strongest levels since late 2014. Despite the recent upward revision of 2024 GDP growth from 2% to 2.5%, we see a good chance for MAS to shift to an easing bias in the quarter ahead on slowing global growth. A stronger SGD and the lower trajectory of commodity prices should also help contain near-term inflation pressure.

Overall, the growth and inflation trajectory remain the key policy considerations in, for example, Korea, Taiwan, Malaysia and Thailand. The Chinese yuan is not normally a policy tool for China, and FX stability is greatly valued and safeguarded.

Exhibit #2: APAC Central Bank Policy Rates

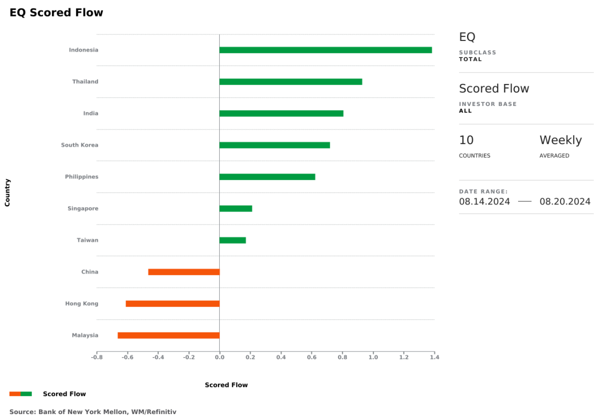


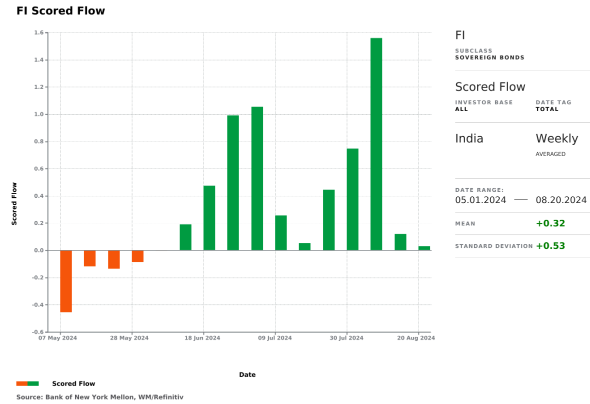
Source: BNY, Bloomberg L.P.

Despite the strong APAC currency performance, capital flows, as measured by iFlow, have been mixed. TWD saw a strong reversal of inflows, with weekly average scored flows of 1.36, the most within the iFlow universe, against HKD, which had the most outflows. Elsewhere, currency flows have been volatile, shifting between inflows and outflows without a clear trend. In terms of positioning, we have noticed that flows have gone into overheld currencies, such as IDR, INR, KRW and SGD, but further out of underheld currencies, such as HKD, MYR, PHP and THB.

Equity flows were more interesting last week. Aside from Chinese equities, which remain sold, with weekly average scored flows of -0.5, most regional equities saw accelerated demand, led by Indonesia (1.4 weekly average scored flows), Thailand (0.9), India (0.8) and South Korea (0.7). As for bonds, flows were mixed with further selling in Chinese government bonds (-0.4) for the third straight week. It's worth highlighting that flows into Indian sovereign bonds were nearly flat over the past week.

Exhibit #3: Strong APAC ex-China Equities Buying / IGB Demand Ease





Source: BNY, Bloomberg L.P.

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Please direct questions or comments to: iFlow@BNY.com

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