

Asia FX Monthly Outlook

To gain momentum on higher possibility of a Fed's dovish shift and the BoJ's hawkish pivot

CNY (7.135) ▲

- The sharp decline in the USD index to as low as 102.7 (Nov 28) from 106.9 (Nov 1) has resulted in a 2.5% appreciation of the yuan against the USD. This is mainly driven by increasing signs of disinflation in the US, coupled with the prospect of a potential turnaround in the Chinese economy. Additionally, the yuan has been bolstered by state-owned banks' yuan-buying activities and the People's Bank of China's (PBoC) strong fixing bias.
- Persistent widening of the US-China interest rates differential and China's uneven economic recovery may continue to put pressure on the yuan towards year-end. The yuan may face more pressure if the PBoC embarks on more policy easing. However, the increasing likelihood that the Fed may turn dovish in December, coupled with continued interventions by the government, may keep the yuan buoyant around the 7.10/USD level.

JPY (147.570) ▲

- Despite the absence of currency intervention, the yen strengthened towards the 147.0/USD level for the first time in over two months. The JPY was primarily supported by a sharp decline in the 10-year US Treasury yield amid growing expectations that the Fed has completed its rate hiking cycle. Hawkish speculation on the Bank of Japan's (BoJ) next move has also helped to boost the local currency.
- Even though the BoJ's Governor continued to express uncertainty about the sustainability of inflation, broadening price pressures stemming from Japan's tight labour market and a surge in inbound tourism may support the yen in December. Increasing signs of demand-driven inflation could prompt the central bank to adopt a more hawkish stance. This, coupled with potential signals from the Fed hinting at a shift towards accommodation, should bolster the JPY.

Table 1: Currencies Outlook

	Long Term*						Trend
	Q3-23	Q4-23F	Q1-24F	Q2-24F	Q3-24F	Q4-24F	
USDCNY	7.298	7.103	6.861	6.759	6.658	6.559	▼
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	25.092	7.201	7.259	7.382	7.069	7.003	▲
USDJPY	37.887	149.271	150.337	153.103	146.187	144.803	—

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.

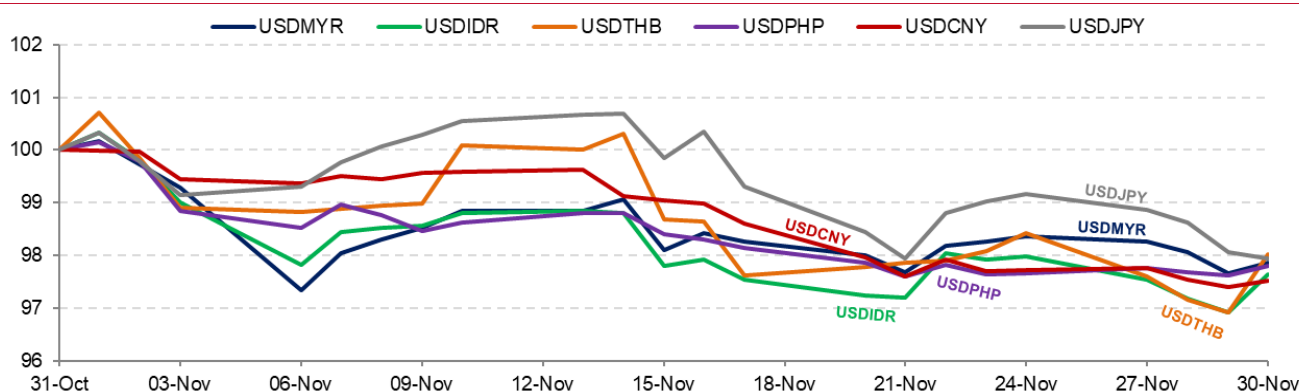
$$EMA = (P \times \alpha) + [Previous\ EMA \times (1 - \alpha)]$$

Table 2: Key Macroeconomic Indicators

Countries	Inflation Rate (% YoY)	Unemployment Rate (%)	GDP (% YoY)	Interest Rate (%)	10-year Government Bond Yield (%)
China	-0.2 (Sep: 0.0)	5.0 (Sep: 5.0)	4.9 (2Q23: 6.3)	3.45 (1Y LPR)	2.69 (end-Oct: 2.69)
Japan	3.3 (Sep: 3.0)	2.5 (Sep: 2.6)	-2.1 (2Q23: 4.5)	-0.10	0.67 (end-Oct: 0.95)

Source: Kenanga Research, Bloomberg

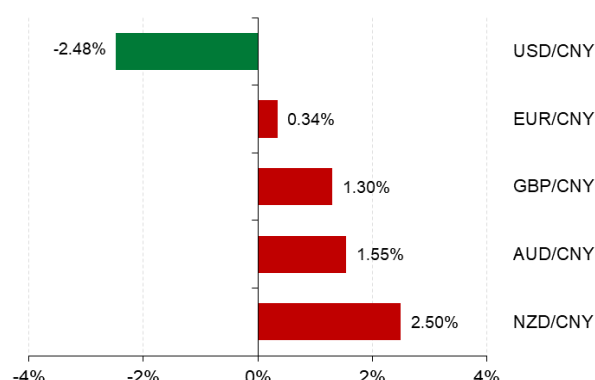
Graph 1: Monthly Asia FX Indices Trend



Source: Kenanga Research, Bloomberg

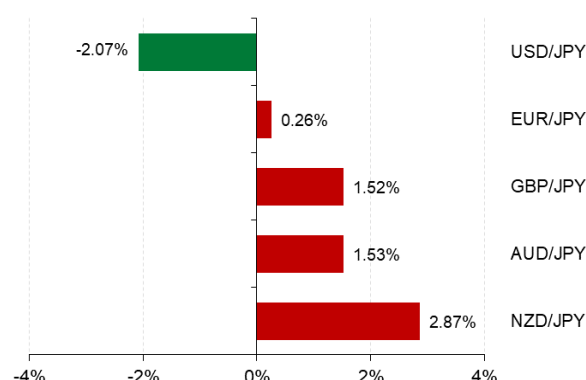
01 December 2023

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
1/12/2023	CN	Caixin Manufacturing PMI (NOV)	49.5	49.6
1/12/2023	US	ISM Manufacturing PMI (NOV)	46.7	47.8
7/12/2023	CN	Exports (NOV)	-6.4% YoY	-2.5% YoY
8/12/2023	CN	Non Farm Payrolls (NOV)	150.0k	175.0k
8/12/2023	US	Michigan Consumer Sentiment Preliminary (DEC)	61.3	61.6
9/12/2023	CN	Inflation Rate (NOV)	-0.2% YoY	-0.2% YoY
12/12/2023	US	Core Inflation Rate (NOV)	0.2% MoM	0.3% MoM
13/12/2023	JP	Tankan Large Manufacturers Index (Q4)	9.0	N/A
13/12/2023	US	PPI (NOV)	-0.5% MoM	0.1% MoM
14/12/2023	US	Fed Interest Rate Decision	5.50%	5.50% (status quo)
14/12/2023	US	Retail Sales (NOV)	-0.1% MoM	-0.1% MoM
15/12/2023	CN	Retail Sales (NOV)	7.6% YoY	N/A
19/12/2023	JP	BoJ Interest Rate Decision	-0.1%	-0.1% (status quo)
20/12/2023	CN	Loan Prime Rate (1Y)	3.45%	3.45% (status quo)
21/12/2023	JP	Inflation Rate (NOV)	3.3% YoY	N/A
22/12/2023	US	Core PCE Price Index (NOV)	0.2% MoM	N/A

Source: Kenanga Research, Trading Economics, Bloomberg

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