

# Asia FX Monthly Outlook

Remains vulnerable as Fed delays rate cuts and domestic macro weakens

## CNY (7.169) ▲

- The yuan has unsurprisingly reversed its December's gains against the USD. This is partly attributed to the strengthening of the USD index (DXY), driven by resistance from Fed officials against an early easing and ongoing weaknesses in the Chinese economy. Despite this, the yuan's losses have been mitigated by improving NBS PMI readings, widening trade surplus and various stimulus measures.
- The yuan may continue to trade near the 7.20/USD level in February, as the DXY is expected to remain elevated due to Fed's Powell dismissing the possibility of a rate cut in March. Also, the persisting weakness in Chinese asset markets may continue to exert pressure on the yuan. However, measures such as policy easing by the People's Bank of China and government stimulus may help to curb excessive outflows.

## JPY (147.830) ▲

- The rising 10-year US Treasury yield, driven by signs of the Fed's reluctance to reverse its tightening measures amid robust US macro data, has once again propelled the JPY to trade above the 145.0/USD threshold. This, combined with the Bank of Japan (BoJ) maintaining its ultra-loose monetary policy due to disappointing wage figures and weak household spending, has contributed to the JPY weakness.
- Weaker-than-expected Japanese macro readings suggest that 4Q23 GDP may be softer than anticipated, adding pressure to the yen. This, along with uncertainties in the inflation path due to the government's subsidy programs, may continue to delay the timing of the BoJ's pivot from quantitative easing. However, a tightening labour market, sustained inbound tourism surge, and solid corporate profits could support the yen until the long-awaited Shuntō in March. Also, escalating tensions in the Middle East may attract some haven flows, benefiting the yen marginally.

Table 1: Currencies Outlook

	Long Term*						Trend
	Q4-23	Q1-24F	Q2-24F	Q3-24F	Q4-24F	Q1-25F	
USDCNY	7.100	6.861	6.759	6.658	6.559	6.364	▼
USDJPY	141.040	130.884	128.931	127.006	125.111	121.395	▼

	Short Term (Technical)						Trend
	RSI (14)	EMA (21)	R1	R2	S1	S2	
USDCNY	49.765	7.171	7.204	7.240	7.117	7.065	—
USDJPY	60.606	146.590	149.313	150.797	143.693	139.557	▼

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.

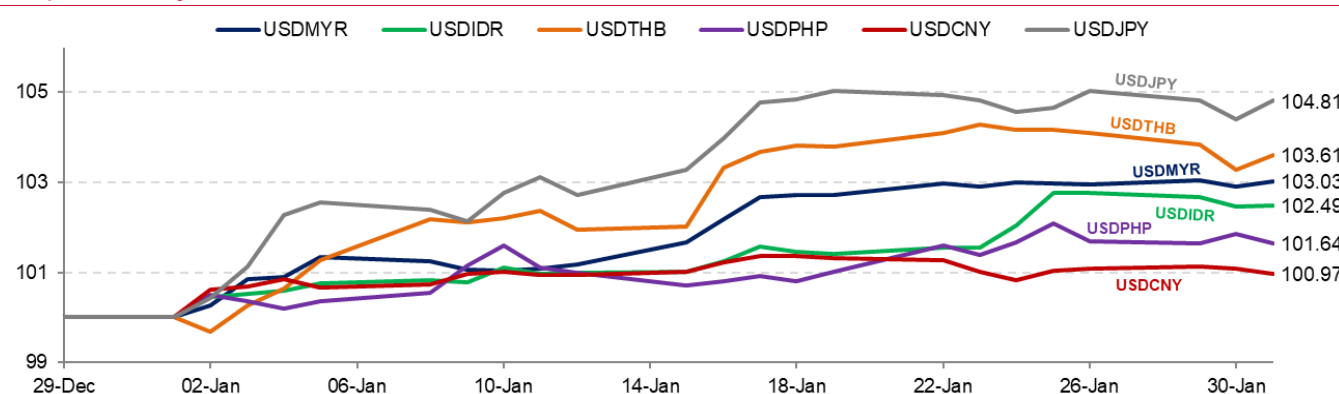
$$EMA = (P \times \alpha) + [Previous\ EMA \times (1 - \alpha)]$$

Table 2: Key Macroeconomic Indicators

Countries	Inflation Rate (% YoY)	Unemployment Rate (%)	GDP (% YoY)	Interest Rate (%)	10-year Government Bond Yield (%)
China	-0.3 (Nov: -0.5)	5.1 (Nov: 5.0)	5.2 (3Q23: 4.9)	3.45 (1Y LPR)	2.43 (end-Dec: 2.56)
Japan	2.6 (Nov: 2.8)	2.4 (Nov: 2.5)	-2.9 (2Q23: 3.6)	-0.10	0.73 (end-Dec: 0.61)

Source: Kenanga Research, Bloomberg

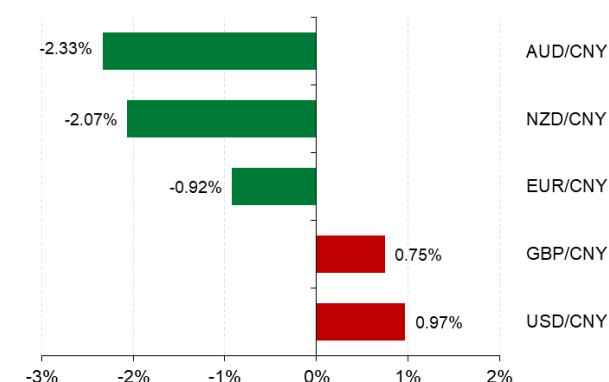
Graph 1: Monthly Asia FX Indices Trend



Source: Kenanga Research, Bloomberg

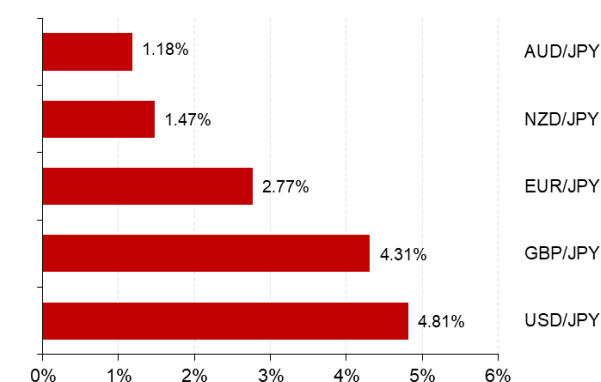
02 February 2024

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
2/2/2024	US	Non Farm Payrolls (JAN)	216.0k	180.0k
5/2/2024	US	ISM Services PMI (JAN)	50.6	52.0
8/2/2024	CN	Inflation Rate (JAN)	-0.3% YoY	N/A
13/2/2024	US	Core Inflation Rate (JAN)	0.3% MoM	N/A
15/2/2024	JP	GDP Growth Rate Preliminary (Q4)	-0.7% QoQ	N/A
15/2/2024	US	Retail Sales (JAN)	0.6% MoM	N/A
15/2/2024	US	Industrial Production (JAN)	0.1% MoM	N/A
16/2/2024	US	PPI (JAN)	-0.1% MoM	N/A
16/2/2024	US	Michigan Consumer Sentiment Preliminary (FEB)	N/A	N/A
20/2/2024	CN	Loan Prime Rate (1Y)	3.45%	3.45% (status quo)
21/2/2024	JP	Balance of Trade (JAN)	JPY62.1b	N/A
22/2/2024	US	FOMC Minutes	N/A	N/A
27/2/2024	JP	Inflation Rate (JAN)	2.6% YoY	N/A
27/2/2024	US	Durable Goods Orders (JAN)	0.0% MoM	N/A
29/2/2024	JP	Retail Sales (JAN)	2.1% YoY	N/A
29/2/2024	US	Core PCE Price Index (JAN)	0.2% MoM	N/A

Source: Kenanga Research, Trading Economics, Bloomberg

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