

EM Asia FX & Rates: Still in the Shadows of “Higher for Longer”

In a nutshell:

EM Asia FX: Mixed Performance Mask Persistent Pressures

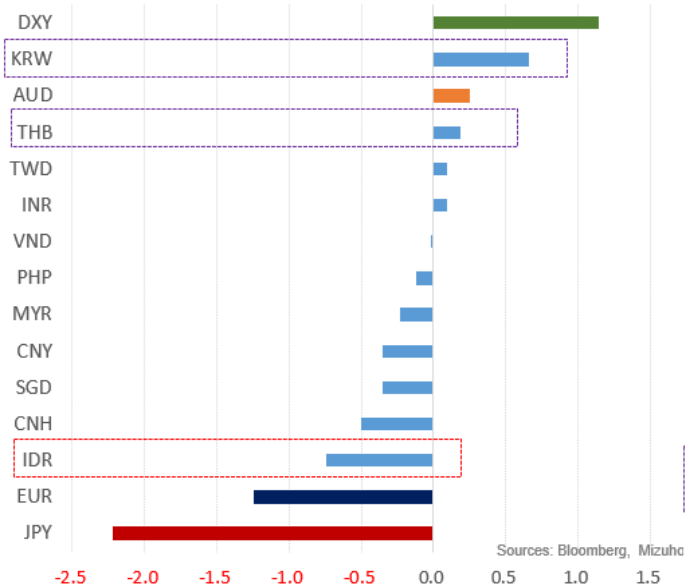
Despite modest gains in some EM Asia currencies, **USD strength** (up +1.1%) **has persisted amid a “higher for longer” Fed**. Alongside CNH and JPY depreciation, **AXJ to remain prone to downside risks, in the absence of policy support**. In this context, *AUD pick-up was on the back of RBA sounding more hawkish than expected (leaving rate hike options on the table) amid sticky inflation*. In sharp contrast, *rupiah remains pressured* on BI’s allusions to scope for rate cut. Meanwhile, *BoK hold despite sharper than expected drop in inflation buoys KRW* alongside AI-related gains.

EM Asia Rates: Cautiously Softer amid “Higher for Longer” Fed

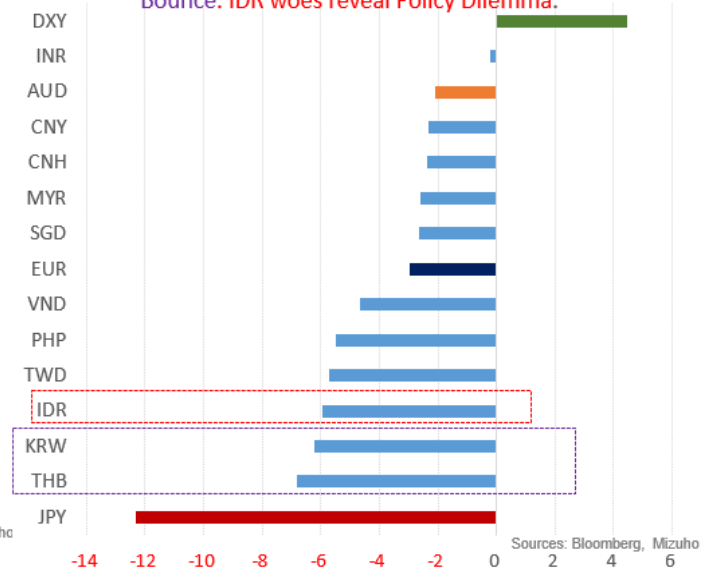
Rates in **EM Asia have mostly softened, taking cues from a decline in UST yields** (down 10-13bp in June). The drop in EM Asia rates have been *most pronounced for Korea* (with KGB yields down 20-30bp) due to the *downside inflation surprise in Korea*. But elsewhere, **downside in EM Asia rates have been more measured in the context of a “higher for longer” Fed** and currency pressures dampen near-term rate cut expectations in EM Asia.

FX: Shallow, Selective & Opportunistic Relief, Not a Turnaround

Monthly (June 2024): EM Asia FX moves were mixed. On one hand, weaker JPY and CNH dragged. But softer UST yields on the month lifted selectively.



YTD (End-2023 to June 2024): But for the year, EM Asia FX are Down Across the Board. Depth of THB & KRW Drop Provides Context for Shallow June Bounce. IDR woes reveal Policy Dilemma.



- For the month of June, EM Asia FX was ostensibly a mixed bag, with some notable gainers despite a distinctly stronger USD.
- But gains in the KRW, AUD, THB, TWD and INR were fairly shallow (once volatility is accounted for), selective and opportunistic.

Shallow Gains as USD Dominance Not Surmounted

- Whereas **broader USD dominance was not seriously and systematically challenged**.
- **Especially as sustained pressures on the JPY and CNH impose sympathetic drag** across AXJ.
- which in turn translate into shallow gains as buying was measured on caution.

Softer Yields Provide Measured Relief

- Admittedly, **softer UST yields for June** (down 10-13bp across the curve), amid bull steepening, meant low-yielders (such as the KRW) were generally better placed.
- This **partly explains buoyancy in the KRW and THB**. But only unevenly so.

But Selectively So

- Specifically, **more pronounced KRW boost** could arguably reflect **markets welcoming better liquidity** with extended trading hours* starting July with further “AI-related” buoyancy.
- **Although two-way volatility** thereafter, which comes with the territory (of prolonged trading hours), probably limits the scope for extending these gains.
- In contrast, **THB remains relatively hampered by tensions between the BoT and the government**, hampering prospects for unimpeded gains.

* onshore KRW/FX swap trading to be extended 2am local time as opposed to the 4pm close previously.

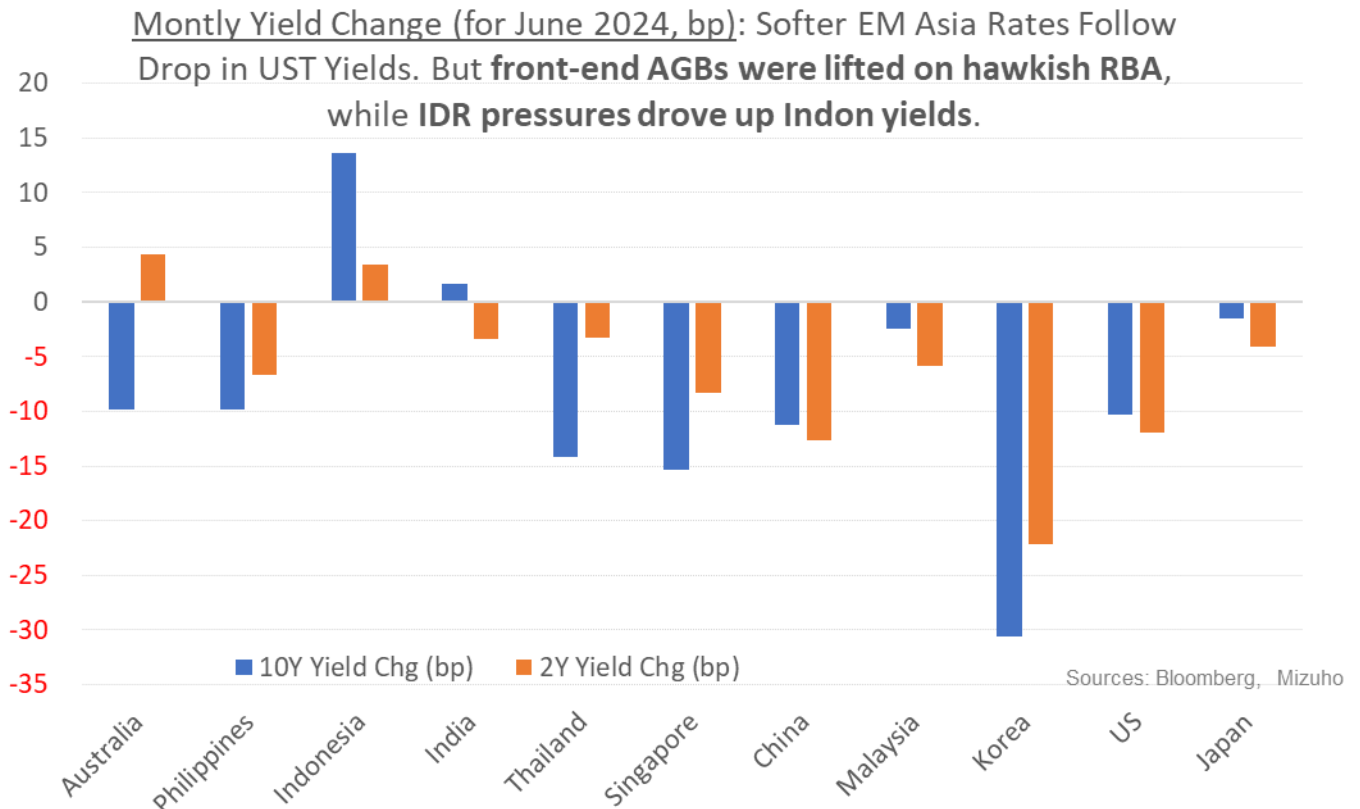
Opportunistic Buyback, Not Unimpeded Turnaround

- In any case, the **bigger picture for KRW, THB** and even **TWD** suggest **opportunistic** (albeit measured) **buying at depressed rates** (given the sheer extent of YTD drop in these currencies), rather than turning outright bullish.
- **INR gains on election relief was also fractional**.
- Especially given Modi 3.0 with the constraints of coalition politics diminishes prospects for sweeping reforms.
- What's more, **exaggerated disinflation for India may also be largely exhausted, limiting the allure of real returns**.
- Elsewhere, **AUD gains partly reflect hawkish surprises in RBA stance**.
- **But this policy-driven boost** propelling out-performance **may be hampered as greater rate sensitivity** for Australia will **inherently limit hawkish options** sooner rather than later.

Caution & Tensions Persist

- In contrast to the RBA's hawkish hold, **Bank Indonesia's dovish hold** in June, which flagged pipeline rate cut prospects, **probably accentuated rupiah pressures**.
- To some extent this squandered support from the "forced" hike in rupiah pressures in April).
- Rupiah could thus remain under pressure as Bank Indonesia's policy dilemma persists.
- More so, if unremitting China risks translate into EM Asia FX pressures via CNH proxy effects and supply-chain channels.
- This **explains SGD and MYR on the back foot**, taking cues from CNH. And to be sure, VND stability conceals mounting pressures, requiring the SBV to be vigilant.
- All said, **persistent policy tensions amid a "higher for longer" Fed and underlying caution will continue to keep cautionary restraint for AXJ intact**.

Rates: Sympathetically Softer, But Policy Tensions Remain



- **Softer UST yields in June inspired some sympathetic easing in EM Asia yields.**
- But this was *by and large more measured as policy tensions amid a "higher for longer" Fed checked decline in EM Asia rates.*
- **The fall Korean yields though was noticeably more pronounced** (down 20-30bp vs 10-13bp UST yield decline) as inflation fell more sharply than expected.
- At the other end, **Indonesian yields rise across the curve, highlighting tensions from "higher for longer" Fed conspiring with rupiah pressures.**
- Bank Indonesia's pushback on the need for further hikes in June (after April hike to stabilize the IDR) falls short of convincing markets; accordingly keeping yields underpinned.
- **AGB yields notably bucked the trend** of parallel drop in yields, with *front-end AGB yields lifted even as long-end eased.*
- The front-end lift **mainly attributable to an unexpectedly pronounced hawkish RBA** hold following upside surprise in inflation.
- Whereas, **long-end slip falling in line with expectations of softer global yields.**
- Especially as Australia's far more pronounced rate sensitivity limits scope for aggressive and sustained policy tightening.
- All said, measured relief allowing for softer yields in EM Asia are highly constrained amid "higher for longer" Fed, especially given highly compressed risk/term premium.

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