

## Macro, Monetary Policy & EM Asian Currencies

- A weaker outlook for the US economic growth and inflation will cap upside potential for the 10Y UST yield in the months ahead
- Fed Chairman Powell affirms a flexible rate outlook; The ECB shifts out the expected timing of "lift-off" in key interest rates to around the end of 2019 from the summer
- US stocks regaining ground is expected to continue for a while on the back of the Fed's softer tone, in line with a gradual rise in the 10Y UST yield
- EM Asian currencies will likely advance further in the coming weeks, till US stock recovery leads to a marked rise in market-implied odds of Fed rate hikes for 2019

**Asia Overview** - EM Asian currencies extended their gains versus the dollar during Thursday's Asian session. The SGD edged up, but the JPY declined around 0.2% amid improve risk sentiment.

The CNH and CNY rallied 0.3% and 0.4% respectively. The dollar/yuan is likely to head for 6.70 on hopes for more progress in US-China trade talks. We expect the PBoC to ease monetary policy further amid rising concern over disinflation and deflation. KCNA reported on Thursday that Chinese President Xi Jinping has accepted North Korean leader Kim Jong Un's invitation to visit the nation. The KRW gained around 0.3%. USD/KRW is expected to trade in a range of 1,100-1,140 in the near term, with a downward bias. The possible second Trump-Kim Summit would be supportive of the KRW in our view. South Korean President Moon Jae-in said on Thursday that Kim's China visit signals the second Trump-Kim Summit is imminent. US and North Korean officials may meet as early as next week to discuss the second summit. The TWD inched up. USD/TWD is likely to slide towards 30.5 amid progress in US-China trade talks, while tracking broad market movements.

The INR edged up on Thursday. We keep a close eye on India's fiscal conditions and expect USD/INR to decline towards 68 when oil prices stabilize. Reuters reported Thursday that eleven Indian state-owned banks will have to wait for about a month before knowing which of them will have lending curbs eased after a RBI panel reviews their December quarter results. The GST Council on Thursday doubled the tax exemption limit to INR 4mn in annual revenue in a major relief to MSMEs. The IDR advanced 0.5%. USD/IDR is likely to fall below 14,000 before long. Technically, the pair is still close to the "oversold" area. The BI will continue with its "mixed intervention" to stabilize the IDR, seeing room for the IDR to strengthen further. Indonesia's trade ministry expects the country's exports to grow 7.5% this year to USD 175.9bn. The MYR rose 0.4%. USD/MYR will likely head for 4.05 amid bouncing oil prices. The PHP increased around 0.2%. USD/PHP is likely to test the 52 level going forward. Philippine policymakers noted lower inflation expectations amid declines in global oil price and a more stable PHP, according to the minutes of the BSP's December policy meeting. The THB advanced 0.3%. USD/THB is likely to head for 31.5 gradually. BoT Governor Veerathai Santiprabhob said yesterday that accommodative policy is still important. He expects about a 4% Thai GDP growth in 2019 even as the global economy slows.

Regional equity indices diverged on Thursday. China's SHCOMP index slid 0.36%, while India's NIFTY50 index declined 0.31%. South Korea's KOSPI index dipped 0.07% despite USD 240.1mn of stock inflows. In the meantime, Taiwan's TWSE index slipped 0.18% as global funds reduced their holdings in local main board shares by USD 24.2mn on Thursday. Thailand's SET index ended 0.18% lower in spite of USD 28.2mn of equity inflows. However, Singapore's STI index, Malaysia's KLCI index and Indonesia's JCI index closed up 0.81%, 0.66% and 0.90% respectively.

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China's PPI Inflation vs. US CPI Inflation



Source: Bloomberg & Scotiabank FICC Strategy

US Consumer Confidence vs. US GDP Growth



Source: Bloomberg & Scotiabank FICC Strategy

10Y UST Yield vs. [US Real GDP Growth + US CPI Inflation]



Source: Bloomberg & Scotiabank FICC Strategy

**EM Asia • A weaker outlook for the US economic growth and inflation will cap upside potential for the 10Y UST yield in the months ahead, prompting the Fed to soften its stance.**

China's CPI and PPI decelerated sharply in December, posing a downside risk to US CPI inflation going forward (Chart 1). The nation's consumer prices rose 1.9% yoy in December, the slowest pace in six months. Meanwhile, China's producer prices increased by a two-year low rate of 0.9% yoy. It has raised market concern over risks of disinflation or deflation.

The Conference Board's US consumer confidence index came in at 128.1 in December, down from 136.4 in November and the October's reading of 137.9. The index falling for a second consecutive month indicates a slowdown in the US economy (Chart 2).

US stocks regaining ground is expected to continue for a while on the back of the Fed's softer tone, in line with a gradual rise in the 10Y UST yield amid improved risk sentiment. **Other major central banks' dovish stance could spark risk appetite as well.**

- Fed Chairman Jerome Powell told the Economic Club of Washington on Thursday that muted inflation will give the US central bank the ability to be patient when to hike its benchmark short-term rate this year.
- In the minutes of the Fed's December policy meeting, the FOMC judged that a relatively limited amount of additional tightening likely would be appropriate and it could afford to be patient about further policy firming.
- The ECB said in the account of its December rate meeting that it has shifted out the expected timing of "lift-off" in key interest rates to around the end of 2019 from the summer.
- The PBoC will inject funds to the banking system and real economy through TMLF loans for the first time in January. More monetary easing measures will be rolled out to boost China's economic growth.

**EM Asian currencies will likely advance further in the coming weeks amid global reflation policies and easing US-China trade tensions, till US stock recovery leads to a marked rise in market-implied odds of Fed rate hikes for 2019.**

10Y UST Yield vs. S&P500 Share Index



Source: Bloomberg & Scotiabank FICC Strategy

**TODAY'S CALENDAR**

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
05:45	NZ	DATA	Building Permits MoM	Nov		-2.0%	1.5%	med
08:30	AU	DATA	Retail Sales MoM	Nov	0.3%		0.3%	med-high
12:00	MY	DATA	Industrial Production YoY	Nov	2.3%		4.2%	med-high
13:00	SG	DATA	Retail Sales SA MoM	Nov	0.6%		-0.4%	med-high
13:00	SG	DATA	Retail Sales YoY	Nov	-2.4%		0.1%	med-high
15:30	TH	DATA	Foreign Reserves	Jan 4			\$205.0bn	med
15:30	TH	DATA	Forward Contracts	Jan 4			\$33.7bn	med
20:00	IN	DATA	Industrial Production YoY	Nov	3.6%		8.1%	med-high

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