General Election Outcome vs. INR

- The BJP-led NDA repeats a landslide victory in the 2019 Lok Sabha Election to form the new government; The RBI is expected to maintain its pro-growth stance
- It will boost Indian equities and bonds on hopes for more market-oriented reforms and further monetary easing, supportive of the INR in general
- We remain bearish on USD/INR, while keeping a close eye on oil prices and US-China trade tensions

Asia Overview - EM Asian currencies were mixed versus the dollar during Thursday’s Asian session. The SGD recouped some of its early losses and slid 0.1% only. Singapore’s MAS core inflation eased to 1.3% yoy in April from 1.4% a month ago. The JPY surged 0.7% amid a 6.4 bp drop in the 10Y UST yield.

The CNH gained slightly while the CNY edged down. The yuan could face increasing depreciation pressure if China fails to deescalate trade tensions with the US at the G-20 Osaka Summit set for 28-29 June. Dallas Fed President Robert Kaplan said on Thursday that China could depreciate its currency to support economic growth and weather the impact of higher US trade tariffs. However, we note the PBoC has stepped up efforts to stabilize market expectations and believe the yuan will remain stable ahead of the G-20 Summit. The KRW advanced 0.3%. We reckon the 1,200 level will serve as a resistance for USD/KRW in the near future. The TWD closed almost flat amid large equity outflows. USD/TWD will likely head for 32.0 after rallying through 31.5. We stay cautious on Taiwan’s upcoming dividend season and cross-strait relations that could weigh on the TWD in the second half.

The INR pared its early gains, falling 0.5% on Thursday. However, PM Modi winning a second term will boost local equities, bonds and the INR. The IDR rallied 0.4%. USD/IDR is now consolidating around 14,500, with risks of heading for 15,000 amid hovering external uncertainty and dividend-related repatriation outflows. The Indonesian government will not tolerate anyone disrupting the country’s stability, security and democracy after riots rocked capital Jakarta on Wednesday, according to President Joko Widodo. The MYR weakened 0.2%. USD/MYR will likely break above 4.20 amid external uncertainty. Malaysia sold MYR 4bn worth of 2029 bonds at an average yield of 3.836%. The PHP inched up, with USD/PHP likely to trade between 51.5 and 53.0 going forward. The THB declined around 0.2%. USD/THB is likely to trade around 32.0 for now, with an upside bias. Fitch Solutions lowered its 2019 real GDP forecast for Thailand to 3.0% from 3.5% due to re-escalating US-China trade tensions and high inventory stock.

Most regional equity indices resided in the red on Thursday. China’s SHCOMP index dropped 1.36% amid USD 595.3mm of stock outflows, while India’s NIFTY50 index dropped 0.69% on profit-taking. South Korea’s KOSPI index slipped 0.26% with foreign investors offloading a net USD 0.3mn of Korean shares. In the meantime, Taiwan’s TWSE index fell 1.42% as global funds reduced their holdings in local main board shares by USD 349.5mn on Thursday. Malaysia’s KLCI index and Thailand’s SET index closed down 0.12% and 1.05% respectively. Indonesia’s JCI index ended 1.57% higher despite USD 37.7mn of equity outflows.

India - The BJP-led National Democratic Alliance (NDA) party will retain power for a second consecutive term with a historic landslide re-election victory in the 2019 Lok Sabha Election. PM Narendra Modi’s BJP party extended its lead in 301 seats, ahead of the 272 seats needed to form the new government and more than the 282 seats the party won in the 2014 election. The RBI is expected to maintain its pro-growth stance. The INR FRA curve is now pricing in a 18 bp rate cut within one month, supporting our call for a June rate cut. In addition, Cogencis reported on 13 May that the RBI has been asked by the
government to shift to a surplus-liquidity stance, which has dragged down the Indian government bond yields. At present, however, there is still a slight liquidity deficit in the local banking system.

It will boost Indian equities and bonds on hopes for more market-oriented reforms and further monetary easing, supportive of the INR in general. We remain bearish on USD/INR that is likely to head for the 68 support or even lower levels, while keeping a close eye on oil prices and US-China trade tensions. US President Donald Trump said at the White House that there's still a "good possibility" of the US and China reaching a trade deal.

Moreover, several regional central banks have pledged to curb herd behavior in their local FX markets, which could help stabilize market sentiment to some extent. A drop in the DXY Index in Thursday's NY session due to weak US manufacturing PMI could come as a temporary relief to EM Asian currencies.

- PBoC Deputy Governor Liu Guoqiang said in an interview with the central bank-backed Financial News on Thursday that China is qualified and able to and confident of largely stabilizing the yuan exchange rate at a reasonable and balanced level. He added that China-US trade frictions have caused the yuan to depreciate, but the market is stable and unexpected occurrences have not eventuated and will not.
- South Korea’s Finance Minister Hong Nam-ki told reporters on Thursday that the government will take steps to stabilize the FX market in case of increased volatility. The Bok warned on Wednesday that the KRW has fallen too rapidly in a short period of time and its weakness is excessive compared to fundamentals.
- BI Governor Perry Warjiyo told reporters on Thursday that the central bank is committed to keep being in the market to stabilize the rupiah in line with its fundamentals.

Bloomberg just reported that the Trump administration is proposing tariffs on goods from countries found to have undervalued currencies. The proposal was laid out in a Federal Register notice released by the US Commerce Department on Thursday. The proposal will be able to prop up EM Asian currencies if risk sentiment improves.
GLOBAL FX STRATEGY | ASIAN FX UPDATE
Friday, May 24, 2019

TODAY'S CALENDAR

<table>
<thead>
<tr>
<th>Time (HKT)</th>
<th>Economy</th>
<th>Type</th>
<th>Release</th>
<th>Period</th>
<th>Consensus</th>
<th>Actual</th>
<th>Last</th>
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<td>TRADE</td>
<td>Trade Balance, NZD</td>
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<td>450mn</td>
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<td>NFL</td>
<td>CPI YoY</td>
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<td>Foreign Reserves</td>
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<td>Foreign Reserves</td>
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<td>Budget Balance, PHP</td>
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<td>-9.4%</td>
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