BoK to Stay on Hold with Commitment to Future Easing

- The BoK is expected to stay on hold Thursday morning but with a firm commitment to future monetary easing if necessary
- USD/KRW implied vol and risk reversal have retreated markedly, largely due to the Fed’s growing balance sheet and the nation tamping down the coronavirus
- Despite eased dollar liquidity squeeze, we stay cautious on the economic fallout of the coronavirus outbreak going forward, including potential corporate bond defaults and credit-rating downwards around the world
- With accommodative dollar and won liquidity set to boosting KRW-denominated assets, the KRW will remain a high-beta currency particularly when US earnings season kicks off in mid-April

Asia Overview - Most EM Asian currencies weakened versus the dollar during Wednesday’s Asian session. The SGD fell 0.2%, while the JPY slid a bit.

The CNY declined 0.3% but the CNH was little changed. USD/CNH is expected to trade lower towards 7.0 going forward. Reuters reported Wednesday that the PBoC will ramp up its policy easing to support the coronavirus-ravaged economy but debt worries and property risks will prevent it from following the Fed’s steep rate cuts or quantitative easing moves. According to the report, the PBoC is likely to lower the LPR on 20 April following a 20 bp reduction in the 7-day reverse repo rate on 30 March, and trim the benchmark deposit rate in the coming months. The persistent strength of the greenback has pushed foreign investors to cut holdings of Chinese debt by at least CNY 16.8bn or more in March. The KRW closed flat. Bank loans to households increased KRW 9.6tn to KRW 910.9tn at the end of March from a month ago. The TWD edged down. USD/TWD will likely trade in a range of 30.0-30.5, with rising odds of reaching the lower bound before long. Taiwan’s trade surplus narrowed to USD 2.78bn in March from USD 3.30bn a month ago. The island’s CPI inflation rose to -0.01% yoy last month from a revised -0.19% yoy in February.

The INR tumbled 0.9%. USD/INR will likely reach the 80 level in the coming weeks on concerns over worsening coronavirus situation. We still look to buy USD/INR on any dips. According to Reuters, India is poised to announce a second stimulus package worth around INR 1tn in coming days, which will be focused largely for MSMEs weathering the coronavirus outbreak. India is working with the US to secure a dollar swap line. The IDR dropped 0.3%. USD/IDR will likely trade in a range of 16,000 and 16,500 at the moment, with risks of breaching the upper bound. Governor Perry Warjiyo said on Wednesday that the rupiah is still undervalued and should rally to 15,000 to a dollar by the year end. The BI said Tuesday that the New York Fed will provide it with a USD 60bn repo facility to help with liquidity needs. The MYR slid 0.1%. USD/MYR is likely to fall below 4.30 on hopes for an oil output cut agreement to be reached. The PHP advanced about 0.2%. USD/PHP will likely fluctuate between 50.5 and 51.5 for now. Philippine trade deficit narrowed to USD 1.66bn in February from a revised USD 3.50bn a month ago. The THB dipped somewhat. USD/THB is likely to head for the 32.5 support level. The BoT stands ready to use additional policy tools in an appropriate and timely manner, according to the minutes of the March 25 policy meeting. The central bank said that Thailand has ample level of foreign reserves.

Most regional equity indices resided in the red on Wednesday. China’s SHCOMP index slid 0.19% amid USD 488.7mn of equity outflows, while India’s NIFMTY50 index declined 0.49%. South Korea’s KOSPI index slipped 0.90% with foreign investors offloading a net USD 194.8mn of Korean shares. In the meantime, Taiwan’s TWSE index advanced 1.41% as global funds added to their holdings in local main board shares by USD 7.6mn on Wednesday. Malaysia’s KLCI index and Indonesia’s JCI index closed down 0.62% and 3.18% respectively. Thailand’s SET index ended 0.76% lower amid USD 241.6mn of equity outflows.
South Korea • The BoK is expected to stay on hold Thursday morning but with a firm commitment to future monetary easing if necessary. While the KRW ND IRS curve is pricing in one more 25 bp rate cut within three months, it is not reflected in the MSB yields.

The South Korean government has stepped up efforts to support the economy with expansionary fiscal policy. Finance minister Hong Nam-ki said on Wednesday that the government plans to submit a proposal for a second extra budget worth KRW 7.1tn to the parliament next week to cushion the country from the fallout of the novel coronavirus pandemic and beef up domestic consumption.

Finance minister Hong added that the government has no plan to issue more government bonds to finance the extra budget, which could prompt foreign investors to pour more funds into the nation’s bond markets in our view. Year-to-date, they have purchased a net USD 15.9bn of South Korean-listed bonds, offsetting a total net of USD 15.6bn equity outflows.

On the FX side, USD/KRW implied vol and risk reversal have retreated markedly, largely due to the Fed’s growing balance sheet and the nation tamping down the coronavirus. Falling won volatility and sliding premium for protection against the dollar strength indicate easing downward pressure on the KRW. As we know, South Korea has contained the Covid-19 outbreak, with new Covid-19 infection cases hovering around 50 for the third straight day on Wednesday.

In the weeks ahead, the DXY Index will decline if US share prices rise further with sliding VIX Index, but could rebound sharply on renewed flight-to-quality demand.

On the equity side, US major banks will be kicking off earnings season in mid-April, followed by big tech and energy firms. It would raise worries in US stock markets should those banks release severe measures to protect themselves from non-performing corporate loans. Then a renewed panic selloff in US stock markets would spur and intensify risk aversion again, prompting investors to dump risky assets including the KRW.

On the bond side, we stay cautious on the economic fallout of the coronavirus outbreak despite eased dollar liquidity squeeze, including potential corporate bond defaults and credit-rating downward. Moody’s Investors Service said Wednesday that it is reviewing six South Korean securities firms for a credit downgrade, citing the coronavirus-incurred volatility in the financial markets.

- S&P Global Ratings on 8 April revised Australia’s AAA credit rating outlook to “negative” because of an expected sharp rise in public debt and the first recession in almost 30 years caused by the coronavirus pandemic. Earlier on Tuesday, Fitch Ratings already downgraded the credit ratings of the country’s big banks, to A- from AA+, on an expected significant rise in bad debts as businesses fail and people lose their jobs.
- Fitch Ratings on 27 March downgraded the UK’s credit rating to AA- from AA with a Negative outlook, citing the budget impact of the coronavirus pandemic and continued uncertainty over Brexit.
- Moody’s announced on 27 March that it had cut South Africa’s last investment-grade rating to junk. Standard & Poors and Fitch both downgraded Africa’s most industrialized economy to sub-investment grade in 2017.
- S&P on 20 March cut two of Europe’s biggest flag carriers British Airways’ owner IAG and Germany’s Lufthansa to the last notch of investment grade and warned they could be downgraded again.

With accommodative dollar and won liquidity set to boosting KRW-denominated assets including the local currency, the KRW will remain a high-beta currency particularly when US earnings season kicks off in mid-April. In addition, while dividend-related outflows tend to impose upward pressure on USD/KRW when approaching the due date this month, a broader market tone plays a more decisive role in determining the KRW exchanged rate. In our opinion, dividend outflows would have a limited and brief impact on the KRW amid a risk-friendly mood, but could intensify and add to the depreciation pressure on the KRW should risk-reversion resume and escalate across the markets.

USD/KRW will likely trade between 1,180 and 1,250 in the near term. The pair is likely to fall below 1,200 and head for 1,180 on hopes for major oil producers to reach an output cut deal at the OPEC+ meeting set for 10pm SGT Thursday and/or a possible Covid-19 turning point in the global coronavirus fight. But if US companies issue worse-than-expected earnings reports starting next week, USD/KRW will rally through the 1,250 mark without a hitch.

Source: Bloomberg & Scotiabank FICC Strategy

South Korea: Dividend Payouts to Foreign Investors Due in April 2020 (>KRW 100bn only)

Source: S.Korea’s MOHW & Scotiabank FICC Strategy

Source: Reuters & Scotiabank FICC Strategy
GLOBAL FX STRATEGY | ASIAN FX UPDATE

Thursday, April 9, 2020

TODAY’S CALENDAR

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<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>BOX</td>
<td>BOK 7-Day Repo Rate</td>
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