

FOMC Minutes, Macro Data & EM Asian Currencies

- The US central bank releases the minutes of the June 9-10 FOMC meeting, with top Fed officials discussing tools for conducting monetary policy when the federal funds rate is at its effective lower bound (ELB)
- The ISM manufacturing index rises sharply to 52.6 in June from 43.1 in May, indicating the US remains on track for a nascent economic recovery
- EM Asian currencies are expected to extend their rally into July, along with a sliding DXY Index and a bear-steepening 2-10Y UST yield curve

Asia Overview - Most EM Asian currencies weakened versus the dollar during Wednesday's Asian session. The SGD edged down, while the JPY rallied 0.4% despite a 2 bp rise in the 10Y UST yield.

The CNY declined 0.1% but the CNH edged up. USD/CNH is expected to resume its downward trend towards 7.00 after recent consolidation. A State Council executive meeting presided over by Premier Li Keqiang on Wednesday said that special local government bonds will be allowed to appropriately support small and medium-sized banks in replenishing capital. China will improve bond default mechanisms by exploring setting up market-based platforms for issuers and investors in the process of defaults, according to a guideline released by the PBoC. The KRW edged down. However, USD/KRW will likely retreat again towards 1,180 after fluctuating around the 1,200 mark. The TWD inched up. USD/TWD will likely reach 29.4 after breaching the 29.6 level. Taiwan aims to attract funds and talent from Hong Kong, especially financial professionals who can develop new products in Taiwan.

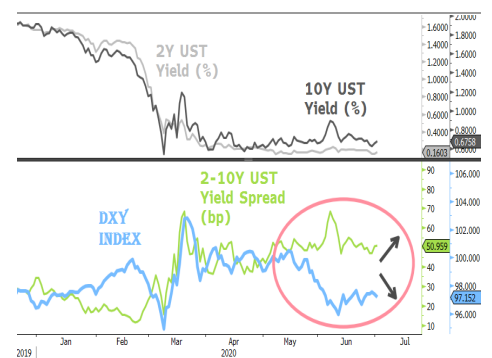
The INR weakened 0.1%. USD/INR will likely stay in a familiar range of 75-76 at the moment. The RBI issued guidelines for a special liquidity facility to support the country's non-bank financial companies (NBFCs) and housing finance companies (HFCs) on Wednesday. India's GST collections in June stood at INR 909.2bn, lower from INR 999.4bn a year ago. The IDR dropped 0.1%. USD/IDR is likely to trade between 14,000 and 14,500 at this stage. Indonesia's CPI inflation eased to 1.96% yoy in June from 2.19% a month earlier, compared to market estimate of 1.84%. The BI on Wednesday resumed intervention in FX spot interbank market in the afternoon session as the rupiah continues its depreciation, according to Executive Director for Monetary Management Nanang Hendarsah. Indonesia is pressing ahead with plans to build a new capital. The MYR closed flat. USD/MYR is expected to trade between 4.25 and 4.30 for now. Markit Malaysia manufacturing PMI increased sharply to 51.0 in June, the highest since September 2018, from 45.6 in May. The PHP was little changed. USD/PHP will likely fall below the 49.8 support level. The BSP is considering small volume and shorter tenor for the initial issuance of its own securities. The BSP awarded all PHP 210bn in short-term deposits offered Wednesday, with all three terms oversubscribed at its weekly auction. The THB declined 0.1%. However, USD/THB will likely trade lower towards 30.5 down the road. Thailand's business sentiment index advanced to 38.5 in June from 34.4 a month ago. Prime Minister Prayut Chan-o-cha told the parliament on Wednesday that the Thai economy is expected to contract as much as 6% this year mainly because of Covid-19 outbreak and trade war, with some recovery in the second half following easing of lockdown and travel restrictions.

Most regional equity indices resided in the green on Wednesday. China's SHCOMP index rose 1.38%, while India's NIFTY50 index rallied 1.24%. South Korea's KOSPI index slipped 0.08% with foreign investors offloading a net USD 158.0mn of Korean shares. In the meantime, Taiwan's TWSE index advanced 0.71% as global funds added to their holdings in local main board shares by USD 123.5mn on Wednesday. Malaysia's KLCI index and Indonesia's JCI index closed up 0.90% and 0.18% respectively. Thailand's SET index ended 0.78% higher despite USD 74.7mn of equity outflows.

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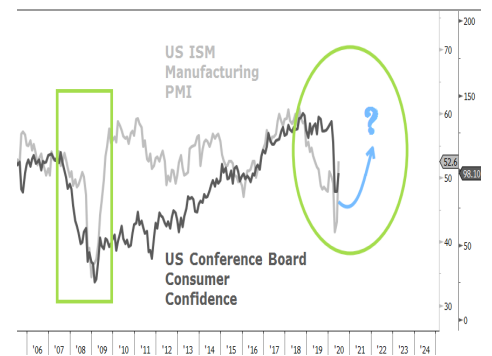
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2-10Y UST Yield vs. DXY Index



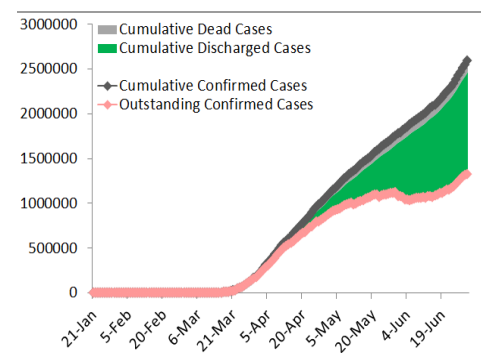
Source: Bloomberg & Scotiabank FICC Strategy

US Conference Board Consumer Confidence and US ISM Manufacturing PMI



Source: Bloomberg & Scotiabank FICC Strategy

US Covid-19 Situation



Source: WHO & Scotiabank FICC Strategy

EM Asia • The US central bank released the minutes of the June 9-10 FOMC meeting, with top Fed officials discussing tools for conducting monetary policy when the federal funds rate is at its effective lower bound (ELB).

US policymakers overall supported communicating a more explicit form of forward guidance for the path of the federal funds rate and providing more clarity regarding bond purchases as more information about the trajectory of the economy becomes available. According to [the minutes](#), policymakers generally indicated support for outcome-based forward guidance. A number of participants spoke favorably of forward guidance tied to inflation outcomes, with a promise to leave rates low until inflation meets or even modestly exceeds the Fed's 2% goal. Meanwhile, a couple of participants signaled a preference for forward guidance tied to the unemployment rate. A few others suggested that calendar-based guidance, which specifies a date beyond which accommodation could start to be reduced, might be at least as effective as outcome-based guidance.

However, nearly all participants indicated that they had many questions regarding the costs and benefits of the yield caps or targets (YCT) policies, and all participants agreed that it would be useful for the staff to conduct further analysis of the design and implementation of the YCT policies as well as of their likely economic and financial effects.

The UST yield curve moved higher in response to the June FOMC minutes skeptical of the YCT policies. In addition, US factory activity expanded in June with the ISM's manufacturing PMI surging to 52.6 from 43.1 in May. This reading came in better than the market expectation of 49.8, indicating the US remains on track for a nascent economic recovery.

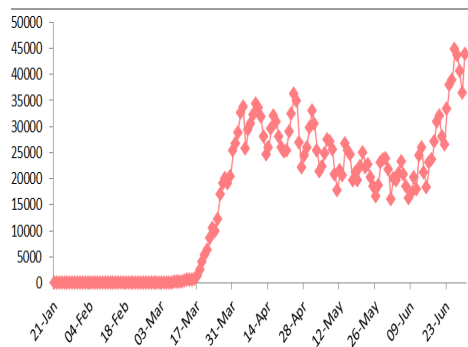
It has been widely reported that an experimental coronavirus vaccine from Pfizer Inc. and partner BioNTech SE showed promising signs of working in an early-stage study. The progress in vaccine development could ease market concerns over a resurgence of Covid-19 infections and bolster risk appetite across the markets. Earlier on Tuesday, Dr. Anthony S. Fauci, US top infectious disease expert, warned lawmakers in a hearing that the number of new infections in the US could more than double to 100,000 a day if the country failed to contain the surge now underway in many states.

South Korean trade data is one of the most important economic indicators in the world. The nation's trade surplus widened to USD 3,666mn in June from a revised USD 446mn a month ago, with exports and imports falling 10.9% yoy and 11.4% yoy respectively. More importantly, its shipments to China increased 9.5% yoy to USD 11.42bn amid improving global trade outlook, after falling 2.4% yoy the previous month.

We maintain our short dollar positions versus the [CNH](#), [KRW](#), [MYR](#), [SGD](#) and [THB](#) at this stage, as EM Asian currencies are expected to extend their rally into July along with a sliding DXY Index and a bear-steepening 2-10Y UST yield curve.

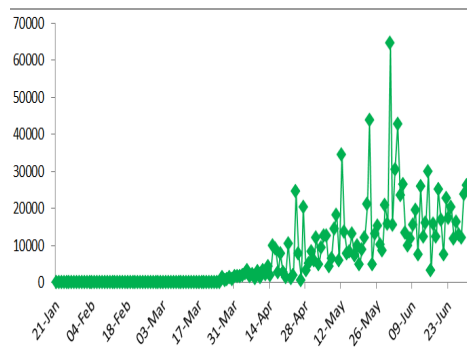
In late Q3/early Q4, however, EM Asian currencies will likely pare their early gains and retreat to some extent on concerns over an escalation of US-China tensions in the run-up to the November President Election and/or a second wave of Covid-19 infections amid falling air temperature in the northern hemisphere if effective vaccines are still not ready yet at that time.

US Covid-19 Situation — Cases Per Day



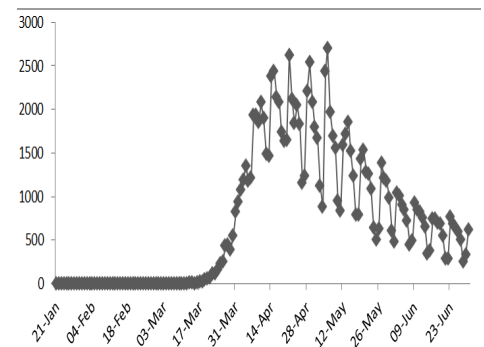
Source: WHO & Scotiabank FICC Strategy

US Covid-19 Situation — Recoveries Per Day



Source: WHO & Scotiabank FICC Strategy

US Covid-19 Situation — Deaths Per Day



Source: WHO & Scotiabank FICC Strategy

TODAY'S CALENDAR

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
07:00	KR	INFL	CPI MoM	Jun	0.0%		-0.2%	med-high
07:00	KR	INFL	CPI YoY	Jun	-0.2%		-0.3%	med-high
07:00	KR	INFL	CPI Core YoY	Jun	0.4%		0.5%	med-high
09:30	AU	TRADE	Trade Balance, AUD	May	9,000mn		8,800mn	med-high
09:30	AU	TRADE	Exports MoM	May	-7%		-11%	med-high
09:30	AU	TRADE	Imports MoM	May	-9%		-10%	med-high
11:30	TH	DATA	Consumer Confidence	Jun			48.2	med

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