

INR Still Susceptible to Coronavirus Spread

- The INR will remain susceptible to accelerating coronavirus spread in the world's second most populous nation, although the RBI's massive liquidity injection has kept Indian government bond yields in check recently
- It will dent market sentiment and weigh on the INR once India's shrinking foreign reserves raise concerns over the ability to absorb any unexpected capital movements
- We still like buying USD/INR on any dips now and expect the pair to reach 78 before long

Asia Overview - EM Asian currencies were mixed versus the dollar during Wednesday's Asian session. The SGD declined 0.1% while the JPY edged up despite a 2 bp rise in the 10Y UST yield.

The CNY and CNH dived 0.7% and 0.6% respectively on talks about a PBoC rate cut. However, USD/CNH is expected to trade lower towards 7.00 going forward. We expect the PBoC to trim its benchmark deposit rate around the G-20 conference call due Thursday, as the Financial Times reported Wednesday that the Chinese central bank is in discussion with commercial lenders on the possible move. The KRW surged 1.6%. USD/KRW will likely slide further towards 1,200 amid a risk-friendly mood. Finance Minister Hong Nam-ki said in a meeting on Wednesday that South Korea will relax FX prudential rules further on top of recent measures to ease the cap on banks' FX forward positions and will continue dollar liquidity supply. The BoK said Wednesday that it is seeking to begin supplying dollars under its bilateral currency swap arrangement with the Fed next week. The TWD edged down amid equity outflows. USD/TWD will likely trade in a range of 30.0-30.5. Taiwan's Central Epidemic Command Center said in a statement Wednesday that organizers of mass gatherings of over 100 people indoors or 500 people outdoors should cancel events to avoid spreading coronavirus.

Onshore FX trading will resume Thursday in India and Indonesia after a public holiday. Despite a brief drop, USD/INR will likely rally to 78 amid concerns over the coronavirus spreading in the world's second most populous nation. USD/IDR is likely to fluctuate at around 16,500 for now. The MYR gained 1.1%. However, USD/MYR will likely rebound towards 4.50 with the coronavirus spread accelerating in Malaysia. Malaysia will unveil new stimulus package on Friday. The BNM has instructed lenders to provide a six-month moratorium on all loans to consumers and SMEs to provide relief amid the coronavirus's economic fallout. The PHP dropped 0.5%. USD/PHP will likely trade between 50.5 and 51.5 for now. Finance Secretary Carlos Dominguez said Wednesday that the Philippine government is prepared to increase debt levels and is ready to tap all markets to deal with the coronavirus outbreak. The THB inched up, with USD/THB likely to trade between 32.5 and 33.0 for now. The BoT maintained its policy rate Wednesday after unexpectedly lowering it by 25 bp to a record low of 0.75% at an unscheduled meeting last Friday. The Thai central bank cut its 2020 GDP growth forecast to -5.3% from the December prediction of 2.8%.

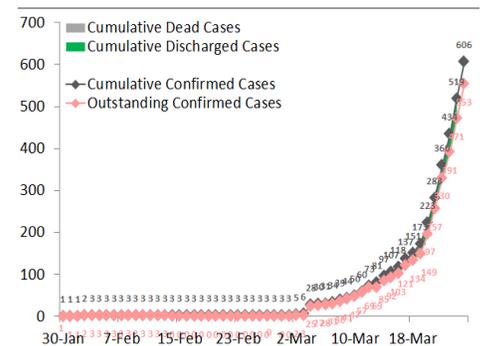
All regional equity indices resided in the green on Wednesday. China's SHCOMP index rose 2.17% amid USD 351.9mn of equity inflows, while India's NIFTY50 index surged 6.62%. South Korea's KOSPI index jumped 5.89% despite USD 328.2mn of stock outflows. In the meantime, Taiwan's TWSE index climbed 3.87% although global funds reduced their holdings in local main board shares by USD 76.3mn on Wednesday. Malaysia's KLCI index and Thailand's SET index closed up 2.58% and 4.47% respectively.

India • The INR will remain susceptible to accelerating coronavirus spread in the world's second most populous nation, although the RBI's massive liquidity injection has kept Indian government bond yields in check amid recent market turmoil.

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India Confirmed Cases of COVID-19 Infection



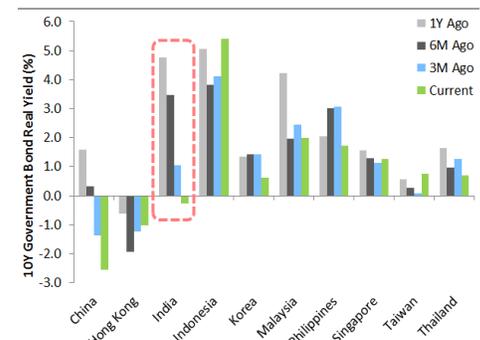
Source: India's MOHFW & Scotiabank FICC Strategy

USD/INR vs. 10Y Indian Government Bond Yield



Source: Bloomberg & Scotiabank FICC Strategy

EM Asian 10Y Real Government Bond Yields



Source: Bloomberg & Scotiabank FICC Strategy

According to the health ministry, the total number of confirmed COVID-19 infection cases in India reached 606 on Wednesday, including 43 foreign nationals. We are concerned about a three-week lockdown starting 25 March as it will bring activity to a standstill and drag down the nation's slowing economic growth further. In addition, a contango oil market also indicates gloomy global growth outlook in the foreseeable future.

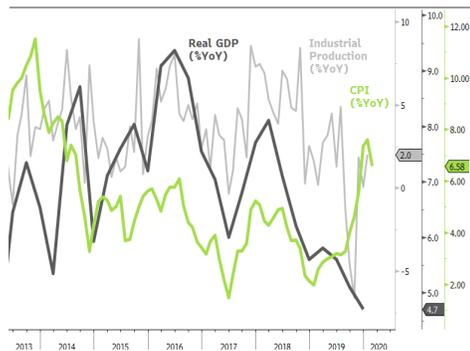
Reuters reported Wednesday that India is likely to agree an economic stimulus package of more than INR 1.5tn (USD 19.6bn) to fight a downturn in the country. According to the report, the Indian government will give cash handouts and increase its borrowing plan for FY2020/21 from INR 7.8tn. In addition, it has asked the central bank to buy some of the government securities being issued, like other central banks in the world.

The Indian central bank infused INR 315.85bn and INR 461.60bn of funds through 16-day variable rate repos respectively on Monday and Tuesday. In addition, Reuters cited two sources as saying Monday that the Indian authorities are considering allowing corporate bonds as collateral for repo operations in an attempt to cool the recent spike in corporate borrowing costs amid the coronavirus outbreak. Moreover, the RBI purchased INR 150bn of government bonds under open market operations on Tuesday after buying INR 100bn of sovereign debt last Friday. It is scheduled to inject another INR 150bn through government bond purchases on Thursday (26 March).

Although the regulators have stepped up efforts to smooth excess movements in the INR exchange rate, it will dent market sentiment and weigh on the INR once India's shrinking foreign reserves raise concerns over the ability to absorb any unexpected capital movements.

We still like buying USD/INR on any dips now and expect the pair to reach 78 before long.

India Industrial Production, GDP and CPI Inflation



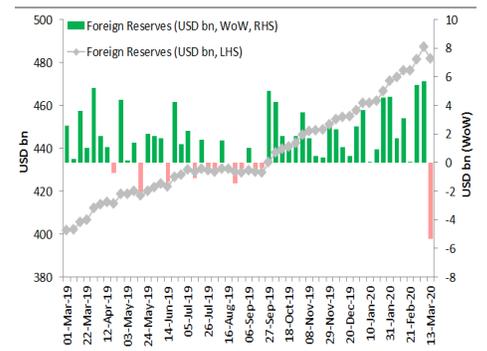
Source: Bloomberg & Scotiabank FICC Strategy

A Contango Oil Market Indicates Gloomy Global Growth Outlook



Source: Bloomberg & Scotiabank FICC Strategy

India Foreign Reserves



Source: Bloomberg & Scotiabank FICC Strategy

TODAY'S CALENDAR

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
08:00	SG	GDP	GDP YoY	Q1 A	-1.4%		1.0%	med-high
08:00	SG	GDP	GDP SAAR QoQ	Q1 A	-8.2%		0.6%	med-high
13:00	SG	DATA	Industrial Production SA MoM	Feb	-15.8%		18.2%	med-high
13:00	SG	DATA	Industrial Production YoY	Feb	-3.2%		3.4%	med-high
16:30	HK	TRADE	Exports YoY	Feb	-20.0%		-22.7%	med
16:30	HK	TRADE	Imports YoY	Feb	-15.0%		-16.4%	med
16:30	HK	TRADE	Trade Balance, HKD	Feb	-50.0bn		-30.6bn	med

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