

Monetary Easing, Vaccines & EM Asian Currencies

- The US central bank will be strongly committed to using all available tools to support the economy, according to the latest remarks from top Fed officials
- The Fed will likely agree to purchase more bonds with extended duration next year, when discussing its bond-buying programme in December; In addition, other major and EM Asian central banks maintain their pro-growth stance
- The DXY Index is expected to breach the 92 support level and slide further; We stay with our existing short dollar positions for the rest of the year

Asia Overview - All EM Asian currencies weakened versus the dollar during Thursday's Asian session. The SGD dropped 0.2%, while the JPY edged up amid a 4 bp fall in the 10Y UST yield.

The CNY and CNH declined 0.4% and 0.2% respectively. However, USD/CNH will likely slide again towards the 6.50 level. Chinese President Xi Jinping pledged that China wouldn't engage in decoupling, in a virtual address to Asia-Pacific leaders in Kuala Lumpur. The KRW tumbled 1.0%, but USD/KRW will resume its downward trend and head for the 1,100 level. Finance Minister Hong Nam-ki said on Thursday morning that concerns are rising after the won kept strengthening, and excessive FX rate volatility "isn't desirable." South Korea's short-term external debt that is due to mature in one year or less fell to USD 144.1bn at end-September from USD 154.3bn at end-June, accounting for 28.2% of total external debt. The TWD pared all of its early gains and closed 0.1% lower. USD/TWD is likely to finally close below the "Perng Fai-nan line" of 28.5 in the weeks ahead. Taipei-based Economic Daily News reported on Thursday that the regulator will ask asset managers that issue inverse ETFs not to sell more than 30% of such products to foreign investors. The CBC met with eight lenders Thursday to discuss housing market and mortgage conditions, seeking to prevent funds from being used for speculation.

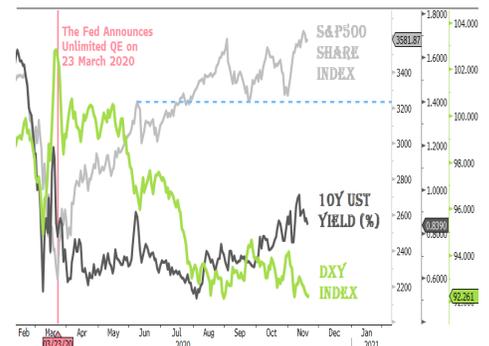
The INR slid 0.1%. USD/INR is likely to break below the 74 level and then slide further towards 73. Moody's on Thursday raised its Indian growth forecast to -10.6% for the current fiscal year from its earlier estimate of -11.5%. The RBI bought INR 100bn of government bonds while selling an equivalent amount of T-bills through Operation Twist as planned on Thursday. The Indian central bank will hold another INR 100bn worth of Operation Twist on 26 November. The IDR dropped 0.6% on a BI rate cut. However, USD/IDR will likely fall again and breach the psychological 14,000 support level down the road. BI Governor Perry Warjiyo said on Thursday that the Indonesian central bank cut its policy rate because inflation remains subdued and financial markets are relatively stable. Governor Warjiyo added that the rupiah remains undervalued and may continue to strengthen. The BI sees higher foreign inflows in 2021. The MYR weakened about 0.3%. USD/MYR will likely head for 4.05 after fluctuating around the 4.10 level. The PHP declined 0.2%. USD/PHP will likely slide to the 48.0 mark before long. BSP Governor Benjamin Diokno said on Thursday that the Philippine central bank expects the economic recovery to "commence sooner" as more industries reopen with easing movement restrictions. The THB fell 0.3%. USD/THB will likely trade in a range of 30.0-30.5 at the moment, with risks of falling below the lower bound. The BoT is concerned that "the baht strengthens too fast" and the baht's rapid appreciation could affect exporters and the tourism industry, according to Governor Sethaput Suthiwart-Narueput.

Regional equity indices diverged on Thursday. China's SHCOMP index rose 0.47% amid USD 202.8mn of equity inflows, but India's NIFTY50 index slid 1.29%. South Korea's KOSPI index inched up with foreign investors purchasing a net USD 106.5mn of Korean shares. In the meantime, Taiwan's TWSE index declined 0.37% as global funds reduced their holdings in local main board shares by USD 164.1mn on Thursday. Thailand's SET index and Indonesia's JCI index closed up 0.35% and 0.66% respectively. However, Malaysia's KLCI index ended 1.31% lower.

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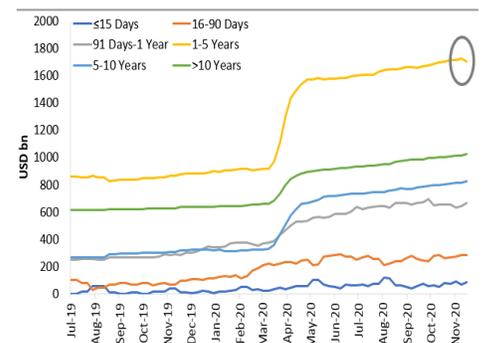
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DXY Index vs. S&P500 Share Index and 10Y UST Yield



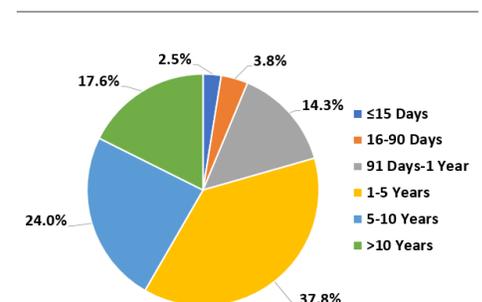
Source: Bloomberg & Scotiabank FICC Strategy

Maturity Distribution of UST Securities Held by The Fed (Till 18 November 2020)



Source: Bloomberg & Scotiabank FICC Strategy

Maturity Distribution of UST Securities Bought by The Fed during 18 Mar 2020 to 18 Nov 2020



Source: Bloomberg & Scotiabank FICC Strategy

EM Asia • The US central bank will be strongly committed to using all available tools to support the economy, according to the latest remarks from top Fed officials.

- New York Fed President John Williams said on Wednesday that "We have the ability especially within monetary policy to make sure interest rates are low and understood to continue to be low throughout the recovery."
- Fed Chairman Jerome Powell said during an online event Tuesday hosted by the Bay Area Council that "the Fed will stay here and be strongly committed to using all our tools" to support the economy. He also leaned toward keeping the Fed's emergency lending facilities in place for now, which needs the Treasury secretary's agreement.
- Fed Vice Chairman Richard Clarida on Monday hinted at possible changes to the US central bank's bond-buying programme, saying "The Federal Reserve is committed to using all of our available tools — not just the federal funds rate and forward guidance, but also largescale asset purchases — to achieve our dual mandate goal." The word "all" was emphasized in his prepared remarks.

The Fed will likely agree to purchase more bonds with extended duration next year, when discussing its bond-buying programme at the December 15-16 FOMC meeting. It would weigh on the dollar further and boost EM Asian currencies while pumping more cheaper longer-term funds to the global financial system. On Monday, Fed Vice Chairman Richard Clarida hinted at possible changes to the US central bank's bond-buying programme, saying "Looking ahead, we will continue to monitor developments and assess how our ongoing asset purchases can best support achieving our maximum employment and price-stability objectives."

In the meantime, some other major central banks stick to their promises to boost the economic recovery through expanding their balance sheets. Unexpectedly, two EM Asian central banks (the BI and the BSP) also delivered a 25 bp rate cut each on Thursday.

- On 5 November, the BoE agreed to another GBP 150bn of UK government bond purchases, taking the overall size of its Asset Purchase Facility (APF) to GBP 895bn.
- On 3 November, the RBA cut its official cash rate to 0.10% and announced a AUD 100bn quantitative-easing program to shore up the economic recovery.
- On 29 October, the ECB kept its deposit rate at -0.50% and held its emergency bond-buying plan (PEPP) at EUR 1.35tn in its latest policy announcement, but said it intends to scale up its support of the eurozone's economy in December. The package could include EUR 500bn of new bond purchases till the end of 2021 and cheaper TLTRO loans for banks.

Going forward, ample external liquidity will prompt foreign investors to chase EM Asian assets for higher real returns. In the US, the increased demand for high-yielding assets has brought down speculative-grade US corporate bond OAS that fell to 4.17 percentage points as of writing, along with the 3M FRA-OIS spread retreating from the March's peak.

In addition, former Vice President Joe Biden's victory in the US presidential election and signs of progress towards Covid-19 vaccines have reduced risk premium across the markets, supportive of risky assets including EM Asian currencies.

- The HK-based SCMP reported on 13 November that the US and China have revived backchannel talks, with the message from Democrats visiting China that the two countries should avoid entering into a cold war or direct conflict.
- The University of Oxford is expected to release data on the efficacy of its coronavirus vaccine candidate in the coming weeks. The latest trial results (phase-2 trial) released on Thursday suggested it produces a strong immune response in older adults.
- Pfizer Inc. said on Wednesday (18 November) that it will ask health regulators to authorize its experimental Covid-19 vaccine within days, after reporting the shot was 95% effective in its pivotal study and showed signs of being safe.
- The drugmaker Moderna announced on Monday (16 November) that its coronavirus vaccine was 94.5% effective, joining Pfizer as a front-runner in the global vaccine race to contain the pandemic.

Last but not least, the RCEP trade pact signed by 15 nations Sunday marks a major step forward for economic integration in the region after almost a decade of negotiations, which will at least prop up export-driven currencies in the region.

The DXY Index is expected to breach the 92 support level and slide further going forward, as the Fed will step up efforts to keep longer-term US sovereign borrowing costs in check when the Biden administration works to get the world's largest economy back on track next year. We maintain our short dollar positions versus the [CNH](#), [INR](#), [IDR](#), [KRW](#) and [SGD](#),

Speculative-Grade US Corp Bond OAS Over USTs (ppts) vs 3M FRA-OIS Spread (bp)



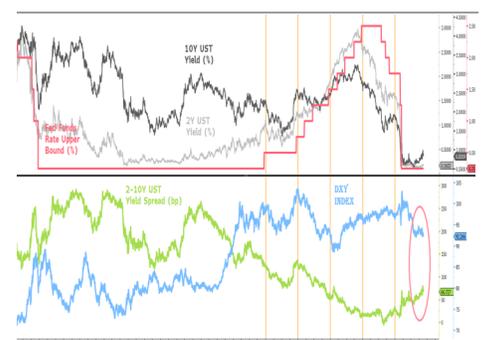
Source: Bloomberg & Scotiabank FICC Strategy

Global Negative-Yielding Bonds Amount to \$17.0tn As of 18 November 2020



Source: Bloomberg & Scotiabank FICC Strategy

DXY Index & 2-10Y UST Yields: A steadily low 2Y yield and rising 10Y yield to see \$ weakening



Source: Bloomberg & Scotiabank FICC Strategy

TODAY'S CALENDAR

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
05:00	KR	INFL	PPI YoY	Oct		-0.6%	-0.4%	med
08:30	AU	DATA	ABS Australia Preliminary October Retail Sales	Oct				med-high
09:30	CN	PBOC	1-Year Loan Prime Rate (LPR)	Nov 20	3.85%		3.85%	high
09:30	CN	PBOC	5-Year Loan Prime Rate (LPR)	Nov 20	4.65%		4.65%	high
11:00	ID	BOP	Current Account Balance	Q3	\$1,550mn		-\$2,896mn	med-high
15:00	MY	DATA	Foreign Reserves	Nov 13			\$104.6bn	med-high
15:30	TH	DATA	Foreign Reserves	Nov 13			\$251.8bn	med
15:30	TH	DATA	Forward Contracts	Nov 13			\$25.9bn	med
16:00	TW	TRADE	Export Orders YoY	Oct	9.0%		9.9%	med-high
16:20	TW	BOP	Current Account Balance	Q3			\$21.769bn	med-high
16:30	HK	INFL	CPI Composite YoY	Oct	-1.6%		-2.2%	med
	CN	DATA	FX Net Settlement on Behalf of Clients, CNY	Oct			67.5bn	med-high

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