INR to Shine Next Year; PBoC Monetary Policy Report

- The high-yielding INR is expected to shine next year amid ample external liquidity and improving sentiment
- The PBoC releases its Q3 monetary policy implementation report, pledging to improve flexibility of the yuan exchange rate
- We maintain our short USD/INR and short USD/CNH positions

Asia Overview - Most EM Asian currencies advanced versus the dollar during Thursday's Asian session. The SGD gained 0.1%, while the JPY rose 0.2%.

The CNY inched up but the CNH declined 0.1%. USD/CNH will likely trade lower towards the 6.50 level after the adjustments. The KRW extended its rally, up 0.4% on Thursday. USD/KRW will likely fall below the 1,100 level in the near term. The BoK left its policy rate unchanged at a record low of 0.50% on Thursday morning, raising its 2020 GDP growth forecast to -1.1% from the August prediction of -1.3% while voicing concerns about the fast growth of household debt. The TWD pared all of its early gains and ended almost flat. USD/TWD is expected to finally close below the "Perng Fai-nan line" of 28.5 in the weeks ahead.

The INR edged up. USD/INR is likely to slide further towards 73 after breaking below the 74 level. The IDR increased 0.3%. USD/IDR will likely head for the psychological 14,000 support level down the road. Indonesia will sell IDR 20tn of T-bills and bonds at the December 1 auction. Indonesia's Financial Services Authority said it is ready to deploy more stimulus. The nation's loans shrank in October for the first time on record, down 0.47% from the year-earlier period. BI Governor Perry Warjiyo said the contraction was due to lenders' risk-averse attitude, but the banks said the real problem is that people don't want to borrow in the first place. The MYR strengthened 0.5%. USD/MYR will likely reach the 4.05 level soon. Malaysia's Prime Minister Muhyiddin Yassin won parliamentary approval for his government's 2021 budget worth MYR 322.54bn on Thursday, avoiding a potential political unrest. The Malaysian government plans to sell MYR 3bn of 2034 bonds on Friday. The PHP gained about 0.1%. USD/PHP will likely slide to the 48.0 mark before long. BSP Deputy Governor Francis Dakila said on Thursday that the central bank has a lot of available policy space to support the economy if needed. The Philippines plans to offer a total of PHP 120bn of treasury bills and bonds in December. The Philippines is returning to pre-quarantine trading hours for currency and fixed income assets effective from December 1. The THB increased 0.2%. USD/THB will likely trade in a range of 30.0-30.5 at the moment. Prime Minister Prayut Chan-o-cha voiced concerns that continued demonstrations could do further damage to the economy.

Regional equity indices resided in the green on Thursday. China's SHCOMP index rallied 0.22% amid USD 480.4mn of equity inflows, while India's NIFTY50 index climbed 1.00%. South Korea's KOSPI index gained 0.94% with foreign investors purchasing a net USD 341.9mn of Korean shares. In the meantime, Taiwan's TWSE index advanced 0.78% as global funds added to their holdings in local main board shares by USD 112.0mn on Thursday. Malaysia's KLCI index and Indonesia's JCI index closed up 0.91% and 1.42% respectively. Thailand's SET index ended 1.26% higher despite USD 18.2mn of equity outflows.

India • The high-yielding INR is expected to shine next year, considering the following factors:

1) *A persistently broad dollar weakness will lead to a further drop in USD/INR, prompting the rupee to catch up with gains in regional peers*
2) *Joe Biden's victory and smooth transition have reduced risk premium, boosting the profitability of carry trade for higher returns*
3) *The Fed will likely buy more bonds with extended duration next year and the ECB is set to inject more monetary stimulus into the eurozone's flagging economy, keeping external liquidity accommodative*

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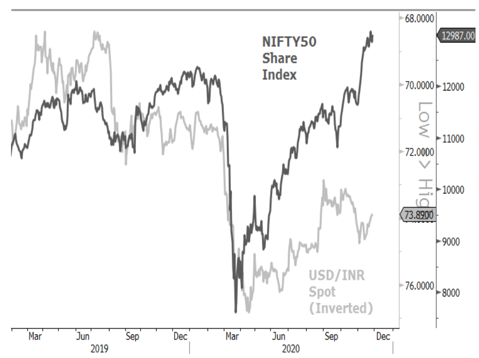
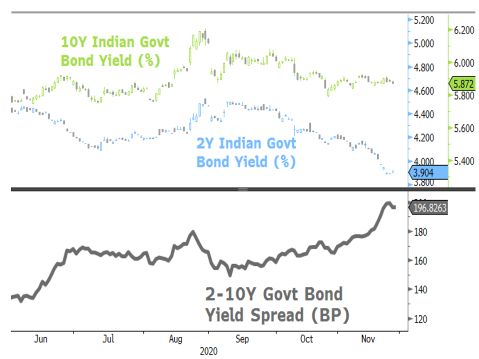
USD/INR vs. NIFTY50 Share Index



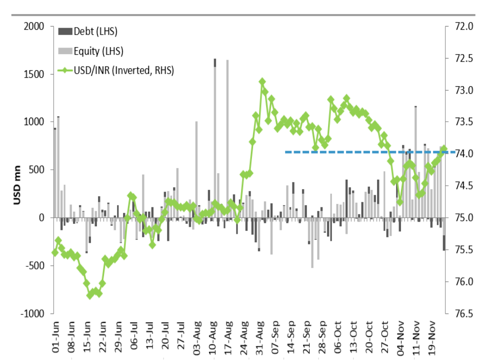
Source: Bloomberg & Scotiabank FICC Strategy

Indian Government Bond Yields: 2-10Y Yield
The RBI's OMOs have tamed govt bond yields



Source: Bloomberg & Scotiabank FICC Strategy

USD/INR vs. India Cross-border Portfolio Flows
Strong portfolio inflows to prop up the rupee



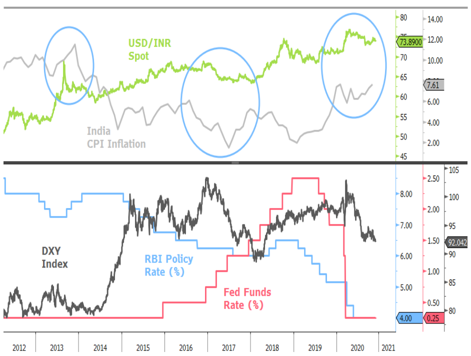
Source: Bloomberg & Scotiabank FICC Strategy

4) *India's economic recovery is gaining momentum and will accelerate next year, fueling more equity inflows*
5) *India's inflation is expected to fall back into the RBI-mandated 2-6% range in the coming months, raising real yields of rupee-denominated bonds*
6) *The RBI may tolerate more rupee appreciation amid a broad dollar weakness after replenishing the nation's foreign reserves that increased to a fresh record high of USD 572.77bn in the week ended 13 November*
7) *The INR has been underperforming regional peers since the beginning of 2018*

In general, the INR tends to appreciate when the Indian economy is expanding at a solid pace along with a benign inflation outlook and the market is not worried about any near-term Fed tapering/tightening. RBI Governor Shaktikanta Das said at FX Dealers Association of India on Thursday that India's economic recovery from a lockdown imposed earlier this year has been stronger than expected, while flagging downside risks to growth if there was a resurgence of virus infections.

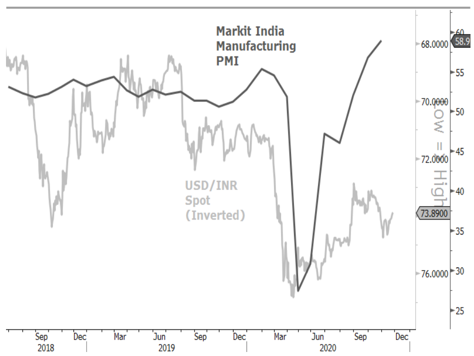
We maintain our short USD/INR position with a target of 73 and a stop of 75.

USD/INR vs. India CPI Inflation
Rupee tends to rise when inflation eases



Source: Bloomberg & Scotiabank FICC Strategy

USD/INR vs. Markit India Manufacturing PMI



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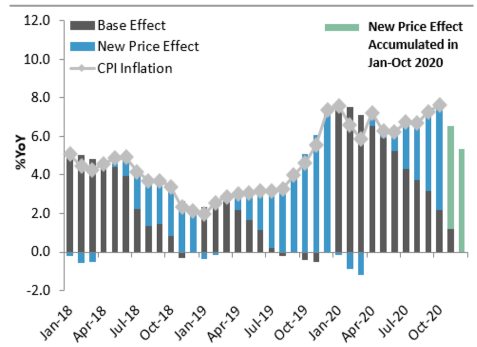
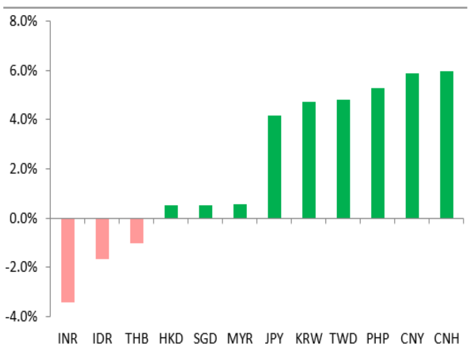
India CPI Inflation



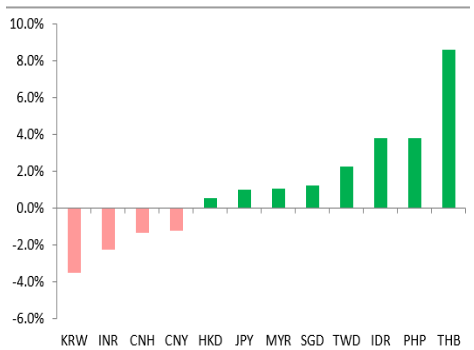
Source: Bloomberg & Scotiabank FICC Strategy

EM Asian Currency Performance vs. USD
(1 Jan-26 Nov 2020) — *Rupee worst-performing*



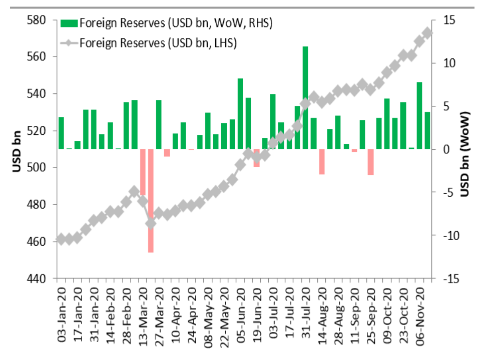
Source: Bloomberg & Scotiabank FICC Strategy

EM Asian Currency Performance vs. USD
(2019) — *Rupee 2nd worst-performing*



Source: Bloomberg & Scotiabank FICC Strategy

India Foreign Reserves
Rising reserves amid continued portfolio inflows



Source: Bloomberg & Scotiabank FICC Strategy

China • The PBoC released its Q3 monetary policy implementation report (货币政策执行报告) on Thursday.

According to the quarterly report, the Chinese central bank will 1) maintain normal monetary policy for as long as possible and keep macro leverage ratio basically stable; 2) ensure prudent monetary policy to be more flexible, appropriate and targeted; 3) maintain reasonable and sufficient liquidity but keep good control of the money supply "floodgate" to avoid a "flood-like" stimulus and the liquidity spillover; 4) improve the mechanism for preventing and dealing with bond default risks, while actively and steadily promoting the opening-up of the bond markets and; 5) steadily deepen the market-oriented reform of the yuan exchange rate, improve flexibility of the yuan exchange rate, and let exchange rates play a better role as an automatic stabilizer in the macro economy and international balance of payments.

In our view, the Chinese central bank will provide continued support to the nation's economic recovery, maintaining liquidity at a proper level that will not trigger liquidity crunch or "flood" the economy. In addition, the yuan is expected to extend its gains into Q1 2021 as an automatic stabilizer with China remaining on track to lead the global economic recovery. We stay with our short USD/CNH position entered on 15 October, with a new target of 6.40 and a trailing stop of 6.65.

TODAY'S CALENDAR

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
09:30	CN	DATA	Industrial Profits YoY	Oct			10.1%	med-high
11:30	TH	DATA	Manufacturing Production Index YoY	Oct	-1.90%		-2.75%	med-high
15:30	TH	DATA	Foreign Reserves	Nov 20			$252.5bn	med
15:30	TH	DATA	Forward Contracts	Nov 20			$25.9bn	med
16:00	TW	GDP	GDP YoY	Q3 F	3.30%		3.33%	med-high
19:30	IN	DATA	Eight Infrastructure Industry Growth YoY	Oct			-0.8%	med-high
20:00	IN	GDP	GDP YoY	Q3	-8.2%		-23.9%	high
20:00	IN	GDP	GVA YoY	Q3	-7.7%		-22.8%	high
	IN	DATA	Fiscal Deficit, INR	Oct			436.46bn	med-high

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