

## INR to Advance on Portfolio Inflows and Growth Outlook

- India's CPI inflation rises to an eight-month high of 7.34% yoy in September, leading to negative real policy rate and limited monetary policy space.
- Booming share prices and tamed government bond yields will prompt foreign investors to chase the rupee-denominated assets amid an improving growth outlook, supportive of the high-yielding currency afterwards
- We maintain our short USD/INR position, with the US Treasury Department set to release its semiannual FX policy report in October

**Asia Overview** - Most EM Asian currencies weakened versus the dollar during Thursday's Asian session. The SGD dropped 0.2%, while the JPY fell 0.3%.

The CNY dropped about 0.2% while the CNH edged down. USD/CNH will likely resume its bearish momentum after the PBoC policy-induced correction and consolidation. China drew more than USD 27.2bn in orders for its USD 6bn dollar bond, underscoring strong demand for its sovereign debt. The nation's CPI inflation eased to 1.7% yoy in September from 2.4% a month earlier. Meanwhile, its PPI deflation deepened to 2.1% yoy in September from 2.0% in August. The PBoC added CNY 500bn of one-year funding via the medium-term lending facility (MLF) at an unchanged rate of 2.95% on Thursday, more than offsetting the CNY 200bn in loans coming due Friday. The KRW advanced 0.3%. USD/KRW will likely breach the 1,140 support level before long. S&P Global Ratings said on Thursday that while South Korea will be one of the best performing economies in the world over the next two years, the nation will still be in a deep recession as it will take "many years" for its employment to return to where it had been before the pandemic. The TWD dropped 0.4%. USD/TWD is likely to trade between 28.0 and 28.5 in the near term. CBC Governor Yang Chin-long said before the Legislative Yuan's Finance Committee on Thursday that the TWD might trade above the 29 level against the greenback in the next six to 12 months and the central bank doesn't have a target level for the local currency. Yang added that the CBC maintains the policy of "leaning against the wind" (i.e. working against unfavorable economic trends) in dealing with its assets and policy tools.

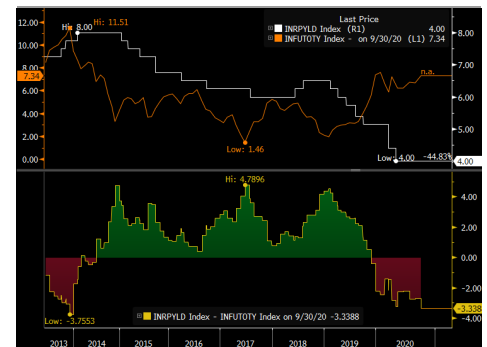
The INR declined 0.1% but the IDR gained 0.2% on Thursday. USD/IDR is likely to trade between 14,500 and 15,000. Indonesia's trade surplus widened to USD 2.44bn in September from a revised USD 2.35bn the prior month, with exports and imports falling 0.51% and 18.88% respectively from a year ago. The nation's external debt rose 5.7% yoy to USD 413.4bn (38.5% of GDP) in August, up from 4.2% in July. The MYR slid 0.1%. USD/MYR will likely hover around 4.15 at this stage, susceptible to domestic political climate. Malaysia police are investigating the circulation of a list containing the names of 121 MPs allegedly supporting the opposition leader Anwar Ibrahim. The PHP weakened 0.1%. USD/PHP will likely trade around the 48.5 level at this stage. Filipinos working outside the country sent USD 2.48bn home in August, down 4.1% from a year earlier and 11% less than in July. The THB declined 0.2%. USD/THB will likely trade between 31.0 and 31.5 at the moment, with an upside potential. Thai finance minister Arkhom Termpitayapaisith said on Thursday that it's necessary for the government to declare a serious emergency situation in Bangkok to prevent hit to business sector from mounting pro-democracy protests.

Regional equity indices stretched their losses on Thursday. China's SHCOMP index fell 0.26% despite USD 41.9mn of equity inflows, while India's NIFTY50 index slid 2.43%. South Korea's KOSPI index slipped 0.81% with foreign investors offloading a net USD 26.1mn of Korean shares. In the meantime, Taiwan's TWSE index dropped 0.71% as global funds reduced their holdings in local main board shares by USD 464.3mn on Thursday. Malaysia's KLCI index and Indonesia's JCI index closed down 0.61% and 1.37% respectively. Thailand's SET index ended 1.66% lower amid USD 55.9mn of equity outflows.

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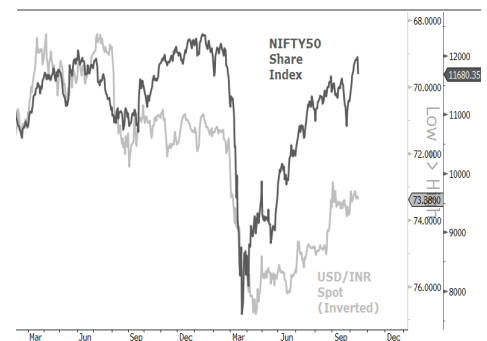
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### RBI Policy Rate: Nominal vs. Real



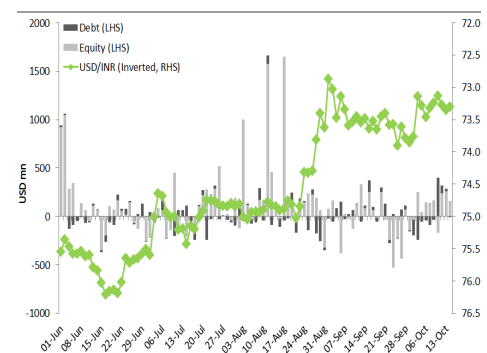
Source: Bloomberg & Scotiabank FICC Strategy

### USD/INR vs. NIFTY Share Index



Source: Bloomberg & Scotiabank FICC Strategy

### USD/INR vs. India Cross-border Portfolio Flows



Source: Bloomberg & Scotiabank FICC Strategy

**India** • India's CPI inflation rose to an eight-month high of 7.34% yoy in September, leading to negative real policy rate and limited monetary policy space.

The RBI left its policy rate unchanged at 4.00% on 9 October, while pledging to continue with accommodative stance. RBI Governor Shaktikanta Das said last Friday the Indian central bank stands ready to take further measures on liquidity and announced a range of steps that include 1) INR 1tn of targeted long-term funds (TLTRO) with tenors of as much as three years for banks investing only in corporate bonds to ease cash crunch at firms; 2) doubling the size of OMO bond purchases to INR 200bn and committing to more bond purchases; 3) allowing banks to hold more government bonds without marking to market until 31 March 2022 with conditions and; 4) buying bonds issued by state governments as a special case.

The RBI said in a statement on Thursday that the government will sell INR 4.88tn of bonds from October 19 to March 31, up from its earlier target of INR 4.34tn for October to March set just two weeks ago. It is due to an INR 1.1tn additional borrowing needed to compensate states for meeting the shortfall in GST collection, expanding the government's market borrowing plan for a second time this year to an unprecedented INR 13tn.

In addition to the central bank's liquidity injection aimed at keeping sovereign borrowing costs in check, the Indian government on Monday announced measures worth INR 730bn (USD 10bn) to stimulate consumer demand and investment in the economy damaged by the coronavirus pandemic. The stimulus package consists of 1) INR 280bn from LTC voucher scheme; 2) INR 80bn from festival advance scheme; 3) INR 120bn in 50-year interest-free loans extended to the state governments for capital expenditure and; 4) INR 250bn set aside by the federal government towards capital expenditure.

Finance Minister Nirmala Sitharaman on Thursday said a V-shaped pattern of recovery is being seen in several high-frequency indicators, driven by various measures taken by the government to revive economic growth.

- *The International Monetary Fund on Tuesday projected the Indian economy to contract 10.3% in the current fiscal year (FY2020-21) amidst the ongoing coronavirus pandemic, down from a 4.5% drop estimated in June. However, India may grow at an impressive rate of 8.8% in 2021 according to the IMF, regaining its position as the fastest-growing emerging economy next year.*
- *The IHS Markit India manufacturing PMI jumped to 56.8 in September from 52.0 in August, above the 50-threshold separating expansion from contraction for a second straight month. It was the highest reading since January 2012, largely due to accelerated increases in new orders and production.*

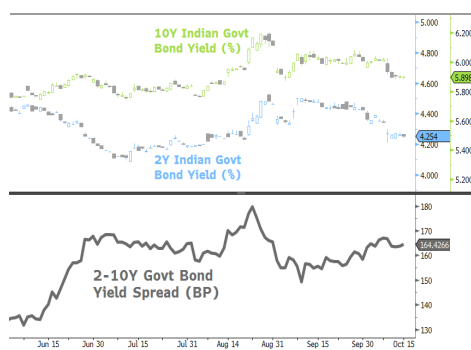
**With accommodative liquidity, booming share prices and tamed government bond yields will prompt foreign investors to chase the rupee-denominated assets amid an improving growth outlook. It is supportive of the high-yielding INR.**

In addition, the Office of the US Trade Representative said on 2 October evening that it would pursue an investigation into Vietnam's "acts, policies, and practices that may contribute to the undervaluation of its currency and the resultant harm to US Commerce." **We reckon the Vietnam currency probe could raise other regional regulators' concerns and pave the way for more appreciation in some regional currencies such as the INR and TWD.**

As we know, the US Treasury Department assesses that economies with a bilateral goods surplus of at least USD 20bn (roughly 0.1% of US GDP) have a "significant" surplus. According to the US Census Bureau data, India run a trade surplus of USD 21.45bn in the period of September 2019 to August 2020.

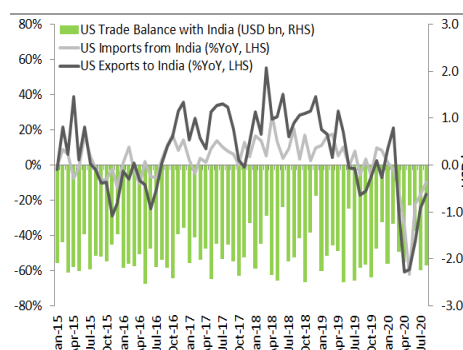
**USD/INR is likely to trade in a range of 73-74 for now and then fall below the 73 level finally. We maintain our short USD/INR position, with the US Treasury Department set to release its semiannual FX policy report in October.**

Indian Government Bond Yields: 2-10Y Yield



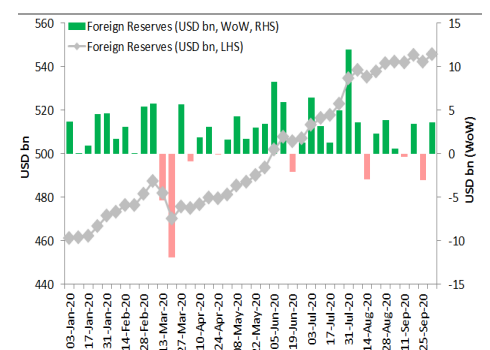
Source: Bloomberg & Scotiabank FICC Strategy

US Trade Balance with India



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
05:00	KR	INFL	Export Price Index YoY	Sep		-6.2%	-6.7%	med
05:00	KR	INFL	Import Price Index YoY	Sep		-11.5%	-10.5%	med
07:00	KR	JOB	Unemployment Rate SA	Sep	3.7%		3.2%	med
08:30	SG	TRADE	Non-oil Domestic Exports SA MoM	Sep	-4.4%		10.5%	med-high
08:30	SG	TRADE	Non-oil Domestic Exports YoY	Sep	11.5%		7.7%	med-high
10:00	NZ	DATA	Non-Resident Bond Holdings	Sep			49.5%	med-high
15:30	TH	DATA	Foreign Reserves	Oct 9			\$250.6bn	med
15:30	TH	DATA	Forward Contracts	Oct 9			\$24.5bn	med

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