

## 2021 Market Themes

- Some market themes identified are presented here, laying the groundwork for our overall bullish views on EM Asian currencies this year particularly in the first half
- The DXY Index will slide further after falling below the psychological 90 level amid a sustained risk-friendly mood and the dollar's fading real yield advantage
- We maintain our short dollar positions into Q1 2021

**Asia Overview** - EM Asian currencies were mixed versus the dollar during Thursday's Asian session.

The CNY dipped somewhat but the CNH inched up. USD/CNH will likely reach and break below the 6.50 level in the weeks ahead. China's official manufacturing PMI fell to 51.9 in December from 52.1 a month ago. China's drug regulator approved the country's first coronavirus vaccine that was developed by state-owned China National Biotec Group Co. for general public use. USD/KRW is expected to trade lower towards the 1,050 level in the coming weeks. South Korea's CPI inflation eased to 0.5% yoy in December from 0.6% the previous month, matching market expectations. BoK Governor Lee Ju-yeol said in his new year speech on Thursday that the central bank will maintain accommodative monetary policy stance until it can expect enduring momentum for an economic recovery, while paying attention more to financial stability in 2021. The TWD pared all of its early gains and closed flat on Thursday. USD/TWD is expected to slide towards the 28.0 level going forward. The CBC sold TWD 100bn of 364-day NCDs at an average yield of 0.199% on Thursday, up from 0.164% at the last auction on 3 December. The CBC on Thursday urged financial institutions to act prudently on industrial land mortgage business.

The INR gained 0.3% on Thursday. USD/INR is likely to slide below the 73.0 mark amid continued capital inflows going forward. The RBI plans to buy INR 100bn of government bonds and sell an equivalent amount of Treasury bills through Operation Twist on 7 January. Market borrowings by India's state governments and union territories are expected at INR 3.16tn in the January-March period. USD/IDR will likely breach the 14,000 support level down the road. The MYR advanced 0.4%. USD/MYR will likely reach the 4.00 support level and then decline further. USD/PHP is likely to fall below the 48.0 support level before long. USD/THB will likely decline further towards the 29.5 mark in the weeks ahead. Income from foreign visitors to Thailand fell 93% yoy to THB 34.8bn in Q3 2020, marking the third consecutive quarter of decrease and the lowest number on record. Thailand's household debt increased to THB 13.77tn (86.6% of GDP) in the third quarter from THB 13.58tn (83.8% of GDP) in the previous three months.

Most regional equity indices resided in the green on Thursday. China's SHCOMP index rose 1.72% amid USD 239.8mn of equity inflows, while India's NIFTY50 index gained 0.26% on Friday. Taiwan's TWSE index advanced 0.31% as global funds added to their holdings in local main board shares by USD 201.3mn on Thursday. However, Malaysia's KLCI index ended 1.05% lower.

**EM Asia** • We would like to present below some identified market themes that may impact and move EM Asian currencies this year. They laid the groundwork for our overall bullish views on EM Asian currencies this year particularly in the first half.

**The efficacy and safety of the approved coronavirus vaccines are crucial to the speed, strength and sustainability of the global economic recovery in the months ahead.** We believe risk appetite will continue into the first half of 2021 in general, as multi-experts are now expecting the advanced economies such as the US, Japan and Europe to achieve the so-called herd immunity in Q2/mid-2021. Herd immunity occurs when a critical mass of people become immune to a pathogen like SARS-CoV-2, the virus that causes Covid-19. With enough people immune to the virus, the chain of transmission will be halted, providing indirect protection to individuals who aren't immune.

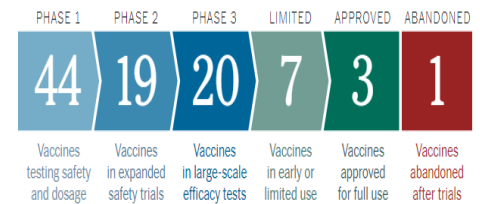
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### Global Coronavirus Vaccine Tracker (As of 3 January 2021)

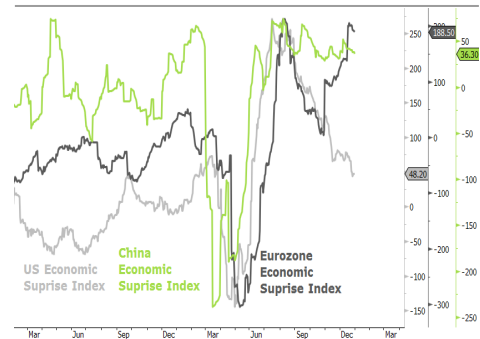
## Coronavirus Vaccine Tracker

By Carl Zimmer, Jonathan Corum and Sul-Lee Wee Updated Jan. 3, 2021



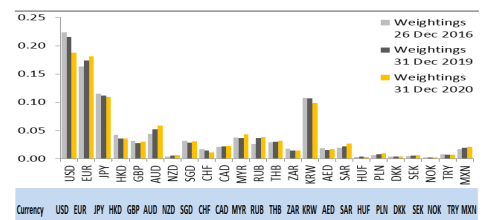
Source: The New York Times

### Economic Surprise Index: US, Eurozone and China



Source: Bloomberg & Scotiabank FICC Strategy

### CFETS RMB Basket Weightings



Currency	26 Dec 2016	31 Dec 2019	31 Dec 2020
USD	0.1291	0.1260	0.1279
EUR	0.1284	0.1228	0.1285
JPY	0.0428	0.0387	0.0385
HKD	0.0316	0.0320	0.0320
GBP	0.0440	0.0390	0.0389
AUD	0.0344	0.0350	0.0359
NZD	0.0344	0.0357	0.0352
SGD	0.0271	0.0271	0.0276
CHF	0.0228	0.0228	0.0228
CAD	0.0271	0.0271	0.0271
MYR	0.0228	0.0228	0.0228
RUB	0.0228	0.0228	0.0228
THB	0.0228	0.0228	0.0228
ZAR	0.0228	0.0228	0.0228
KRW	0.0228	0.0228	0.0228
AED	0.0228	0.0228	0.0228
SAR	0.0228	0.0228	0.0228
HUF	0.0228	0.0228	0.0228
PLN	0.0228	0.0228	0.0228
DKK	0.0228	0.0228	0.0228
SEK	0.0228	0.0228	0.0228
NOK	0.0228	0.0228	0.0228
TRY	0.0228	0.0228	0.0228
MXN	0.0228	0.0228	0.0228

Source: CFETS & Scotiabank FICC Strategy

With Biden's victory reducing risk premium across the markets, the Fed's pro-growth stance and the new USD 900bn coronavirus relief package will bring the economy back on track to its pre-pandemic levels late this year. **If Democrats take back the US Senate, it will raise expectations for more fiscal stimulus and spark risk appetite in the weeks ahead while intensifying concerns over the Biden tax hike proposals in the medium term.** Republicans hold 50 of the 100 seats, and Democrats hold 48. With Georgia set to hold two runoff elections for the US Senate on Tuesday, Democrats need to grab both seats to get to a 50-50 tie in the Senate, and then they would effectively have the majority because Vice President-elect Kamala Harris can cast a tie-breaking vote.

**While the \$600 stimulus checks (possibly more to come in the future) could bolster US personal consumption and retail sales, they will boost US imports and benefit some regional economies and currencies such as the KRW.** The latest data showed on Friday that South Korea's exports grew 12.6% yoy in December, the sharpest growth since October 2018 when it grew 22.5%.

**The global liquidity conditions will remain accommodative this year, adding fuel to EM Asia's currency carry trade seeking higher returns and boosting commodities such as copper and commodity currencies. Particularly, the high-yielding INR will shine this year on India's solid growth prospect and benign inflation outlook, along with further rally in the IDR.** The Fed extended its bond-buying program in December while making no changes to the pace and composition of purchases. Meanwhile, other major central banks including the ECB still hold their accommodative monetary policy stance. On 10 December, the ECB expanded its bond-buying program by EUR 500bn to EUR 1.85tn to limit the economic fallout from the second wave of coronavirus, while extending the end-date for the program by nine months to at least the end of March 2022 from the end of June 2021.

**In the foreseeable future, a broad dollar movement rather than the 10Y UST-JGB yield spread will keep dominating the yen exchange rate.** We reckon a potential intervention will slow the pace of appreciation in the JPY, while expecting USD/JPY to breach the psychological 100 level finally with the DXY Index to slide further going forward. Japanese Prime Minister Yoshihide Suga has ordered Finance Ministry officials to defend the 100 line of USD/JPY with intervention if necessary, saying "make sure the yen-dollar exchange rate does not cross the 100 yen mark" on 20 December 2020. Earlier on 6 November, Suga told parliament that "exchange-rate stability is extremely important" and vowed to work closely with overseas authorities to keep currency moves stable. Nikkei Asia reported that Tokyo-listed exporters need the yen to stay at 100.2 to the dollar or weaker in order to turn a profit, citing a January survey conducted by the Cabinet Office. As we know, Japan's last intervention round was seen in 2011 (31 October, 4 August and 18 March) to stem the yen's strength.

**In the year of 2021, Chinese companies will keep seeking a listing or a secondary listing on Hong Kong Stock Exchange (HKEX) amid ongoing US-China tensions and more stringent oversight on foreign issuers in the US.** Hong Kong is expected to retain its position as one of the world's top three centers for IPOs this year. The IPO-related flows will continue to swing HKD liquidity conditions from time to time in 2021, providing support to the HKD in general along with equity portfolio inflows.

- *The New York Stock Exchange will delist China's three large telecom carriers, after a US government order barring Americans from investing in companies it says help the Chinese military.*
- *According to Deloitte, Hong Kong is to have about 120-130 IPOs raising more than HKD 400bn this year. This includes more than 10 secondary new listings will raise proceeds of over HKD 100bn and another four to five jumbo listings from new economy businesses each raising at least HKD 10bn.*
- *KPMG said in December that nine US-listed Chinese-based companies completed secondary listings in Hong Kong, raising a total of HKD 131.3bn, representing approximately 34% of a total of HKD 389.9bn from the 140 IPOs.*

**China will maintain its pro-growth stance at least until the April Politburo meeting that aims to discuss the current economic situation while deploying near-term economic work,** particularly considering the Fourth Plenary Session of the 13th National People's Congress (NPC) scheduled to kick off in Beijing on 5 March. At the annual session, Chinese Premier Li Keqiang will be delivering the central government's work report including the specific economic targets for 2021.

- *The three-day annual Central Economic Work Conference (CEWC) concluded on 18 December 2020, drafting China's economic priorities for the next year. According to the post-meeting statement, China will maintain the continuity, stability and sustainability of macro policies, and make policies more targeted and effective without any "sudden turns."*
- *China's supreme decision-making body Politburo typically meets in April, July, October and December on the nation's economy. In our view, China is in no rush to exit from its stimulus measures in the first half of 2021, although it is now considering withdrawing policy support at some point next year.*

**We see China's determination and confidence to push high-level opening up, which would prompt more foreign direct and portfolio investment going forward and send the yuan stronger.** Chinese and European Union leaders concluded their marathon negotiations for a landmark investment pact (the Sino-European Comprehensive Agreement on Investment, CAI) on 30 December 2020. Earlier on 15 November 2020, China and 14 other Asia-Pacific countries signed the world's largest trade agreement, the Regional Comprehensive Economic Partnership or RCEP (RCEP).

The China Foreign Exchange Trade System (CFETS) said [in a statement](#) on 31 December 2020 that China will adjust the weighting of a key yuan index basket with effect from 1 January 2021, reducing the USD's weighting in the CFETS currency basket to 18.79% from 21.59% and increasing the EUR's weighting to 18.15% from 17.40%. Mathematically, a lower dollar weighting will see the yuan becoming more susceptible to movements in other CFETS basket currencies (versus the dollar), i.e. **a broad dollar weakness will tend to result in more appreciation in the yuan and vice versa if the PBoC maintains the CFETS RMB index steady.**

The TWD will stay under ongoing appreciation pressure this year amid continued capital inflows that consist of 1) equity investment; 2) investment by local firms returning from mainland China and; 3) remittances due to the passage/implementation of the Act on the Use and Taxation on the Inward Remittance of Overseas Funds. In the years ahead, growing geopolitical uncertainties will play an increasing role in determining the TWD exchange rate. While moderate cross-strait tensions could encourage more capital repatriation and boost the TWD, it will lead to capital outflows and undermine the TWD if the tensions continue escalating beyond a certain level.

The Brent March-April 2021 spread's contango is likely to narrow further and then flip back to backwardation, indicating the prospect of gradually rising or booming oil prices in the new year. It would further enhance the Southeast Asian net oil exporter's (i.e. Malaysia's) external balance and bolster the MYR exchange rate, while swinging India's current account balance back into deficit.

- On 3 December 2020, the OPEC and non-OPEC countries decided to increase oil production by 500,000 barrels per day (bpd) in January 2021 that was watered down from an original plan for a 2 million bpd increase. It means the OPEC+ moves to output curbs by 7.2 million bpd early this year from original cuts of 7.7 million bpd. The compromise agreement is largely seen as a positive outcome that avoids a break-up of the OPEC+ pact or even of the OPEC.
- In addition, the oil group also agreed to hold monthly ministerial meetings, starting January 2021, to decide on further production adjustments for the following month with monthly adjustments being no more than 0.5 million bpd. The next OPEC+ group meeting on production policy is set for the first trading day, 4 January 2021.

We maintain our short USD positions versus the CNH, INR, IDR, MYR and SGD into Q1 2021, and also keep our short JPY/KRW cross position with a target of 10.2.

Top-performing Global Stock Exchanges

2020 Full Year			2019 Full Year		
Rank	Stock Exchange	IPO Proceeds (USD bn)	Rank	Stock Exchange	IPO Proceeds (USD bn)
1	NASDAQ	53.5	1	HKEX	40.4
2	HKEX	50.3	2	Saudi Stock Exchange	30.7
3	Shanghai Stock Exchange	49.9	3	NASDAQ	27.9
4	NYSE	32.2	4	Shanghai Stock Exchange	27.2
5	Shenzhen Stock Exchange	18.5	5	NYSE	25.7

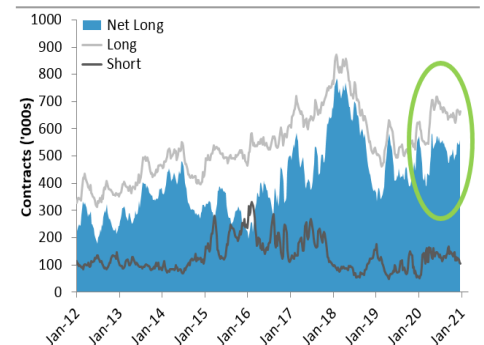
Source: KPMG & Scotiabank FICC Strategy

Brent Mar-Apr 2021 Spread's Contango — To narrow further and flip back to backwardation



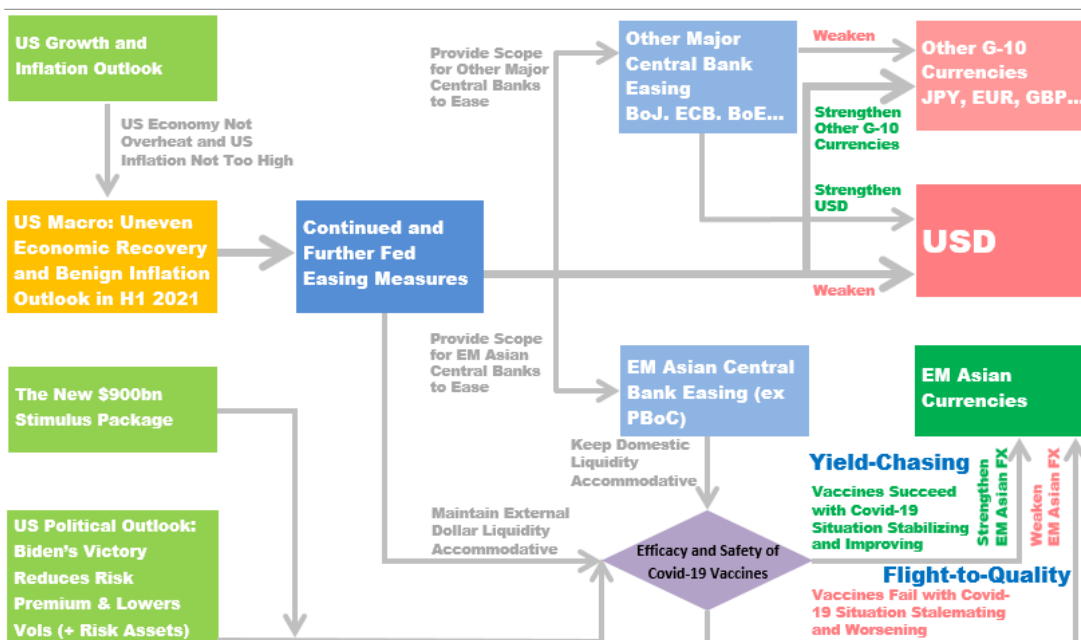
Source: Bloomberg & Scotiabank FICC Strategy

CFTC NYME Crude Oil Net Non-Commercial Futures Positions — Falling short positions



Source: Bloomberg & Scotiabank FICC Strategy

Market Mechanism: US Fiscal/Monetary Policies, Covid-19 Vaccines and EM Asian Currencies



Source: Scotiabank FICC Strategy

**TODAY'S CALENDAR**

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
08:00	SG	GDP	GDP YoY	Q4 A	-4.7%		-5.8%	med-high
08:00	SG	GDP	GDP SA QoQ	Q4 A	1.3%		9.2%	med-high
08:00	SG	GDP	GDP Annual YoY	2020	-6.0%		0.7%	med-high
08:30	SG	DATA	URA Private Home Prices QoQ	Q4 P			0.8%	med
09:45	CN	PMI	Caixin China Manufacturing PMI	Dec	54.7		54.9	high
12:00	ID	INFL	CPI YoY	Dec	1.61%		1.59%	high
12:00	ID	INFL	CPI NSA MoM	Dec	0.37%		0.28%	med-high
12:00	ID	INFL	CPI Core YoY	Dec	1.67%		1.67%	med-high
15:30	TH	DATA	Business Sentiment Index	Dec			47.7	med
16:30	HK	DATA	Retail Sales Value YoY	Nov	-7.5%		-8.8%	med
16:30	HK	DATA	Retail Sales Volume YoY	Nov	-8.1%		-9.3%	med
21:00	SG	PMI	PMI	Dec			50.4	med-high
21:00	SG	PMI	Electronics Sector PMI	Dec			51.1	med

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