Scotiabank
Global FX Strategy

ASIAN FX UPDATE
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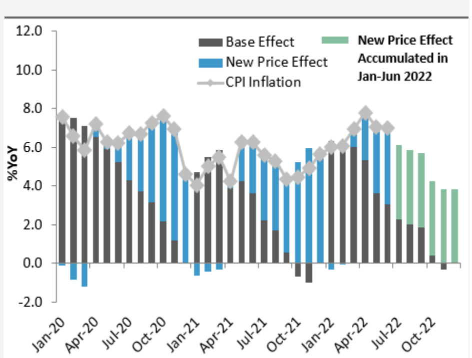
Overview

- The RBI is expected to raise it policy rate further to curb inflation on Friday; The nation's headline CPI inflation will ease further to below 7% in July
- Sliding oil prices could improve the nation's external balance while bringing inflation under control; Meanwhile, foreign investors have turned net buyers of Indian shares recently
- The Indian authorities continue to defend the high-yielding rupee; The RBI on Thursday steps in to curb the rupee's sharp slide towards the psychological 80 mark
- USD/INR will likely trade between 79 and 80 at this stage; The INR will rally when foreign investors shift their focus to India's improving growth prospect from the nation's inflationary pressure

India CPI Inflation



Source: Bloomberg & Scotiabank FICC Strategy

RBI to Raise Policy Rate Further

Asia Overview — Most EM Asian currencies advanced versus the dollar on Thursday. The SGD and JPY gained 0.3% and 0.7% respectively amid a 1.6bp dip in the 10Y UST yield.

The CNY and CNH gained 0.1% and 0.2% respectively. USD/CNH will likely trade between 6.7 and 6.8 at the moment. Chinese authorities are reiterating calls to boost food security amid rampant global inflation. The PBoC is pushing for revising the central bank law to fulfill its responsibilities on a comprehensive oversight of systemically important financial institutions, financial holding companies, major financial infrastructure and financial statistics. China's Ministry of Finance will sell CNY 1bn of 10-year sovereign bonds in Hong Kong on August 10. In addition, a total of CNY 4bn of additional 2024 bonds will be made available. The KRW inched up. USD/KRW will likely trade between 1,300 and 1,340 at the moment. Government officials said on Thursday that South Korea plans to roll out additional measures to tame inflation ahead of the Chuseok fall harvest holiday set for September. The recent sharp job growth in South Korea was mostly driven by increased employment among youngsters and senior citizens, according to a central bank report. The TWD edged down amid equity outflows. USD/TWD will likely consolidate around the 30 level at this stage. State-backed banks actively sold US dollars on Thursday afternoon to help stabilize USD/TWD below the 30, according to Bloomberg. Taiwan sold TWD 140bn of 364-day NCDs at an average rate of 1.15% on Wednesday, down from 1.17% at the last auction.

The INR dropped 0.4%. USD/INR will likely trade between 79 and 80 at this stage. India's vehicle retail sales fell 7.69% yoy to 1.44mn units in July. India plans to overhaul its competition law so that all deals where the transaction value exceeds INR 20bn ($252mn) will have to require permission of India's antitrust regulator if the firms have "substantial business operations in India," according to a draft bill seen by Bloomberg. The Insurance Regulatory and Development Authority of India said on Wednesday that investments made by insurance companies in long-term bonds which are issued by banks and used to finance infrastructure and affordable housing will no longer be considered as exposure to BFSI. The IDR declined 0.1%. USD/IDR is likely to fluctuate in a range of 14,800 and 15,000 at present.

The MYR was little changed. USD/MYR is likely to hover around the 4.45 level, while sliding oil prices are not supportive of the MYR. Malaysia's Minister of Agriculture and Food Industries Ronald Kiandee said on Thursday that the country's export ban on chickens is set to end on August 31. The PHP gained 0.2% with USD/PHP likely to fluctuate between 55 and 56 at present. The THB rallied 0.7%. USD/THB will likely fluctuate around the 36 level for now. Thailand said on Thursday that it will implement more promotions and measures through 2023 to attract more overseas tourists. According to the government, Thailand may see about 30mn overseas travelers in 2023 with a total revenue of about THB 1.5tn, for the best estimate with return of Chinese tourists.

Most regional equity indices resided in the green on Thursday. China's SHCOMP index rose 0.80% despite USD 155.0mn of equity outflows, while India's NIFTY50 index slid 0.04%. South Korea's KOSPI index increased 0.47% with foreign investors purchasing a net USD 251.2mn of Korean shares. In the meantime, Taiwan's TWSE index dropped 0.51% as global funds reduced their holdings in local main board shares by USD 138.8mn on Thursday. Malaysia's KLCI index and Thailand's SET index closed up 1.15% and 0.25% respectively. Indonesia's JCI index ended 0.15% higher amid USD 75.2mn of stock inflows.

India • The RBI is expected to raise it policy rate by 35bp to 5.25% to curb inflation on Friday, while keeping the cash reserve ratio (CRR) unchanged at 4.50%. India's Finance Minister Nirmala Sitharaman told lawmakers in New Delhi on Monday that "we are keeping an eye on inflation and will certainly bring it down below 7%."

RBI Shaktikanta Das said on July 22 that **India's inflation appears to have peaked** while the outlook on price stability is clouded by external conditions. India's monsoon, which irrigates more than half of the country's farmland and is critical for economic growth, will likely be normal in the second half of the four-month season to help farmers boost crop output and ease food inflationary pressure.

The nation's headline CPI inflation will ease further to below 7% in July amid falling commodity prices, after cooling to 7.01% yoy in June from 7.04% yoy in the previous month. The monetary policy committee's (MPC) target is 4% with a tolerance band extending two percentage points on either side, i.e. 4%±2%.

In our view, sliding oil prices could improve the nation's external balance while bringing inflation under control in the months ahead. India's trade deficit widened to USD 31.02bn in July from USD 26.18bn in June, with exports dipping 0.76% yoy and imports surging 43.58% yoy.

Meanwhile, foreign investors have turned net buyers of Indian shares recently. They purchased a net USD 2.23bn of Indian equities but offloaded a net USD 254mn of local bonds in the period from July 1 to August 3, after reducing holdings in local shares and bonds by USD 28.6bn and USD 2.0bn respectively in the first half of 2022.

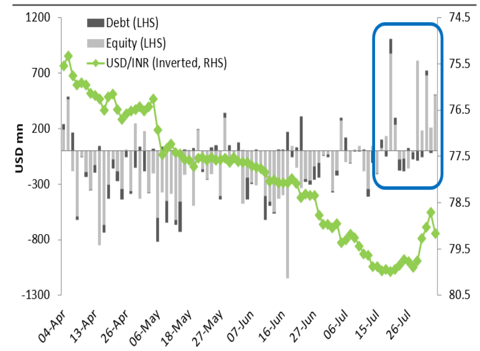
The Indian authorities continue to defend the high-yielding rupee. The Economic Times newspaper reported that the RBI on Thursday stepped in to curb the rupee's sharp slide towards the psychological 80 mark, adding that the Indian central bank is said to have sold as much as USD 2bn paring the rupee's losses against the dollar.

- Finance Minister Nirmala Sitharaman on Tuesday asserted there is no collapse of the rupee and it is actually finding its natural course, aiming at easing worries over the rupee depreciation.
- Earlier on July 22, RBI Shaktikanta Das dismissed concerns that a historically weak rupee will hammer companies with unhedged borrowings, saying that nearly half of the USD 79bn of unhedged offshore debt is owned by state-run firms having a natural hedge and the government's backing. He pledged that the RBI will deploy its reserves to contain rupee volatility and "will ensure the rupee finds its level in line with its fundamentals."

On July 6, India's central bank eased forex rules to prompt capital inflows, including doubling the borrowing limits for companies from overseas to USD 1.5bn during a financial year. Earlier, the Indian government on July 1 raised the import duty on gold to 12.5% from 7.5%, reversing a cut last year. In addition, India has raised taxes on exports of petroleum fuels such as gasoline, diesel and jet fuel.

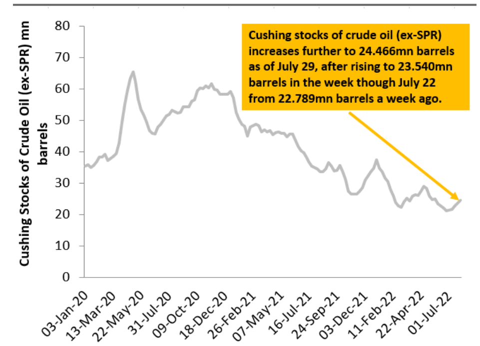
USD/INR will likely trade between 79 and 80 at this stage. We will sell the currency pair once the RSI Index indicates it is technically overbought. In our view, the INR will rally fundamentally when foreign investors shift their focus to India's improving growth prospect from the nation's inflationary pressure.

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



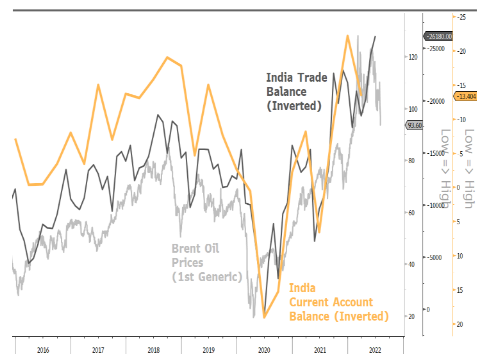
Source: Bloomberg & Scotiabank FICC Strategy

Cushing Oklahoma Stocks of Crude Oil (ex-SPR)



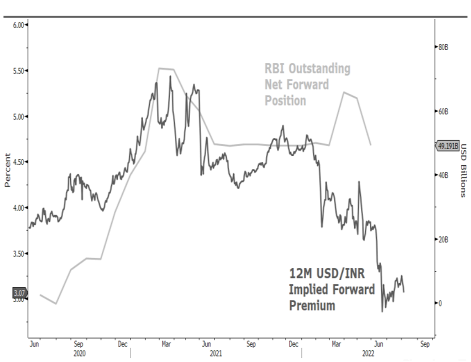
Source: Bloomberg & Scotiabank FICC Strategy

India Trade Balance (Inverted), Current Account Balance (Inverted) vs. Brent Oil Prices



Source: Bloomberg & Scotiabank FICC Strategy

RBI Outstanding Net Forward Position vs. 12M USD/INR Implied Forward Premium

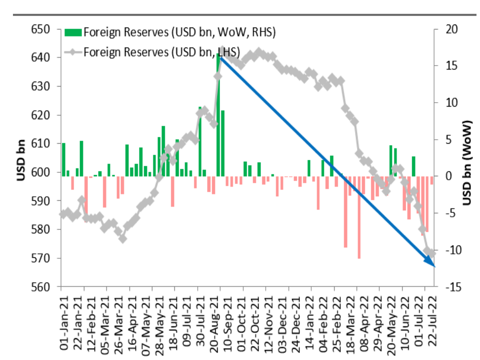


Source: Bloomberg & Scotiabank FICC Strategy

USD/INR Spot and 14-Day RSI Index

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
07:00	KR	BOP	Current Account Balance	Jun			$3,859.9mn	med
09:00	PH	INFL.	CPI YoY 2018=100	Jul	6.1%		6.1%	med-high
09:30	AU	RBA	RBA Statement on Monetary Policy	Aug				high
10:00	ID	GDP	GDP YoY	Q2	5.17%		5.01%	high
10:00	ID	GDP	GDP QoQ	Q2	3.47%		-0.96%	high
11:00	ID	DATA	Foreign Reserves	Jul			$136.40bn	med-high
11:30	TH	INFL.	CPI YoY	Jul	8.00%		7.66%	high
11:30	TH	INFL.	CPI NSA MoM	Jul	0.00%		0.90%	med-high
11:30	TH	INFL.	CPI Core YoY	Jul	2.63%		2.51%	med-high
12:30	IN	RBI	RBI Repo Rate	Aug 5	5.25%		4.90%	high
12:30	IN	RBI	RBI Cash Reserve Ratio	Aug 5	4.50%		4.50%	high
13:00	SG	DATA	Retail Sales SA MoM	Jun			1.8%	med-high
13:00	SG	DATA	Retail Sales YoY	Jun	18.3%		17.8%	med-high
15:00	MY	DATA	Foreign Reserves	Jul 29			$107.0bn	med-high
15:30	TH	DATA	Foreign Reserves	Jul 29			$218.0bn	med
15:30	TH	DATA	Forward Contracts	Jul 29			$28.6bn	med
16:00	TW	INFL.	CPI YoY	Jul	3.60%		3.59%	med-high
16:00	TW	INFL.	CPI Core YoY	Jul	2.80%		2.77%	med-high
16:00	TW	INFL.	WPI YoY	Jul	15.16%		16.45%	med-high
16:20	TW	DATA	Foreign Reserves	Jul			$548.96bn	med
	HK	DATA	Foreign Reserves	Jul			$447.3bn	med
	CN	BOP	Current Account Balance	Q2 P			$88.9bn	med-high

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