

### ASIAN FX UPDATE

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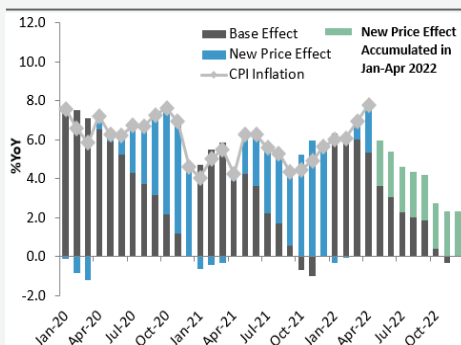
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#### Overview

- The RBI is expected to raise its policy rate further in the months ahead in order to curb inflation after delivering an off-cycle rate hike
- India's external balance will likely remain weak or deteriorate on continued portfolio outflows and widened trade deficit/current account deficit
- Finance Minister Nirmala Sitharaman says that India's economic growth is likely to be robust at 8.9% in FY2022-23
- In the near term, the DXY Index is likely to stretch its losses further towards the 102 level with the UST yields sliding on rising concerns over stagflation/recession risks
- USD/INR will likely trade lower towards 77 amid a broad dollar weakness, while staying in an ascending channel

#### India CPI Inflation



Source: Bloomberg & Scotiabank FICC Strategy

#### Flows, Growth, Dollar & INR

**Asia Overview** — EM Asian currencies were mixed versus the dollar on Thursday. The SGD and JPY gained 0.8% and 0.3% respectively amid a 5bp fall in the 10Y UST yield.

The CNY and CNH rose 0.6% and 0.8% respectively. USD/CNH will likely fall below the 6.70 level before long. The PBoC is likely to lower the 1-year and 5-year LPR by 5bp each to revive economic growth on Friday. Chinese Premier Li Keqiang has told provincial governors to front-load support measures to stabilize growth and employment. The KRW tumbled 0.8%. USD/KRW will likely trade between 1,250 and 1,300 in the weeks ahead. Kim Tae-hyo, first deputy national security adviser of South Korea, said in a briefing on Wednesday that North Korea is seen preparing for another ICBM test while it's unlikely that Pyongyang will conduct a nuclear test during this weekend when US President Joe Biden visits Seoul. The TWD weakened 0.2% amid equity outflows. USD/TWD will likely fluctuate between 29.5 and 30.0 for now.

The INR slid 0.2%. USD/INR will likely trade lower towards the 77 level amid a broad dollar weakness. India plans to switch INR 160bn of shorter-maturity government bonds to longer-tenor debt through a multiple price-based auction on May 23. The IDR weakened 0.3%. USD/IDR is likely to trade between 14,600 and 14,800 at this stage, with upside risks. Indonesia will sell IDR 20tn of T-bills and bonds in auction on May 24. President Joko Widodo said in an online briefing on Thursday that Indonesia, the world's biggest shipper of edible oils, lifted a ban on palm oil exports from May 23. Indonesia sees state spending increasing to IDR 3,106tn this year from IDR 2,714tn as previously planned to cover the higher costs of fuel and power subsidies, according to Finance Minister Sri Mulyani Indrawati on Thursday. She added that Indonesia's budget deficit is seen to be kept at 4.50% of GDP in 2022, narrowing from 4.65% last year. Indonesia's external debt declined to USD 411.5bn in January-March from USD 415.7bn in the previous quarter due to lower government and private debts. Public external debt, which belongs to the government and Bank Indonesia, stood at USD 205.2bn in Q1, while private external debt fell 1.8% yoy to USD 206.4bn in the period. Indonesia's external debt-to-GDP ratio slid to 33.7% in Q1 from 35.0% in the previous quarter, with long-term debt accounting for 87.9% of total external debt.

The MYR declined about 0.2%. USD/MYR is likely to hover around the 4.40 level at present. Malaysia's trade surplus narrowed to MYR 23.50 in April from MYR 26.60bn the previous month, with exports rising 20.7% yoy and imports increasing 22.0% yoy. The PHP closed almost flat on Thursday. USD/PHP is likely to trade between 52.0 and 52.5 in the near term. The BSP raised its policy rate by 25bp to 2.25% on Thursday, increasing its 2022 inflation forecast to 4.6% from the March prediction of 4.3%. BSP Governor Benjamin Diokno said on Thursday that the Philippine central bank is reconfiguring its government securities (GS) purchasing window as credit activity gradually recovers. The THB advanced around 0.2%. USD/THB will likely trade between 34 and 35 at this stage. The BoT will consider domestic price and financial stability and economic recovery in its rate decision and won't necessarily follow the Fed's rate hike, according to Governor Sethaput Suthiwartnarueput. He added that the baht's recent volatility is due to external factors and the Thai central bank is closely monitoring the baht on concerns about its weakness on SMEs with low hedging.

Most regional equity indices resided in the red on Thursday. China's SHCOMP index rose 0.36% amid USD 408.1mn of equity inflows, while India's NIFTY50 index slid 2.65%. South Korea's KOSPI index declined 1.28% with foreign investors offloading a net USD 63.0mn of Korean shares. In the meantime, Taiwan's TWSE index fell 1.70% as global funds reduced their holdings in local main board shares by USD 457.7mn on Thursday. Malaysia's KLCI index and Thailand's SET index closed down 0.35% and 0.89% respectively. Indonesia's JCI index ended 0.44% higher despite USD 18.1mn of stock outflows.

**India** • The RBI is expected to raise its policy rate further in the months ahead to curb inflation after delivering an off-cycle 40bp rate hike on May 4. India's CPI inflation will start to ease in the second half particularly in the fourth quarter on the base effect.

According to the minutes of the May 2-4 RBI policy meeting, RBI Governor Shaktikanta Das said that "the worsening outlook of inflation warrants timely action to forestall second round effects" and that the Indian central bank "will remain equally resolute and

committed to bringing back inflation closer to the target through all possible instruments at our disposal."

India's external balance will likely remain weak or deteriorate in the near term on continued portfolio outflows and widened trade deficit/current account deficit. Foreign investors have offloaded a net USD 20.97bn and USD 1.85bn of Indian equities and bonds respectively year-to-date. India's trade deficit widened to USD 20.11bn in April from USD 18.51bn a month ago, with exports surging 30.7% yoy and imports soaring 31.0% yoy. Data released earlier showed that the nation's current account deficit widened to USD 23.0bn (2.7% of GDP) in the three months ended December from USD 9.9bn (1.3% of GDP) in the September quarter and USD 2.2bn (0.3% of GDP) in the same period a year ago.

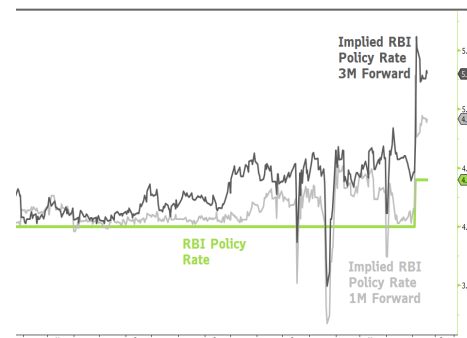
India's foreign reserves dropped for the ninth week to a near 12-month low of USD 595.95bn in the week ended May 6 from USD 597.73bn a week ago, partly due to the Indian central bank's efforts to smooth excessive rupee exchange rate swings in both directions.

We note the Indian government remains confident in the economy. Finance Minister Nirmala Sitharaman said on Thursday that India's economic growth is likely to be robust at 8.9% in the current financial year starting from April 1, reflecting the country's strong resilience and speedy recovery. She also expressed confidence that India will continue to achieve a high growth rate in the next financial year as well, according to a statement published by the finance ministry.

In the near term, the DXY Index is likely to stretch its losses further towards 102 or an even lower level with the UST yields sliding on rising concerns over stagflation/recession risks in the US economy. The Philadelphia Fed Manufacturing Index dropped to a two-year low of 2.6 in May from 17.6 the prior month, below market estimate of 15.0. In addition, the New York Fed's Empire State Manufacturing Survey showed that the headline general business conditions index dropped thirty-six points to -11.6 in May from 24.6 the previous month. Major US retailers also said their profits were hurt by rising costs, sluggish sales and supply-chain disruption, according to [an WSJ article](#).

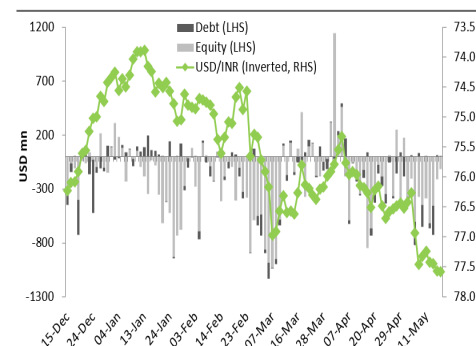
**USD/INR will likely trade lower towards the 77 level in the coming sessions amid a broad dollar weakness, while staying in an ascending channel until foreign investors shift their focus to India's solid growth prospect.**

## Implied RBI Policy Rate



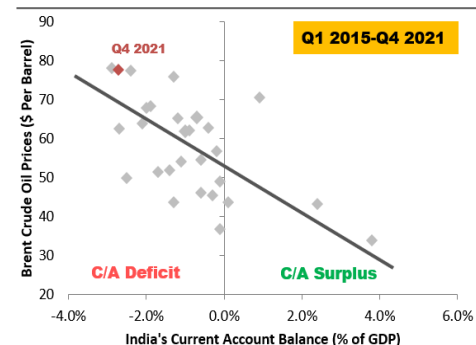
Source: Bloomberg & Scotiabank FICC Strategy

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



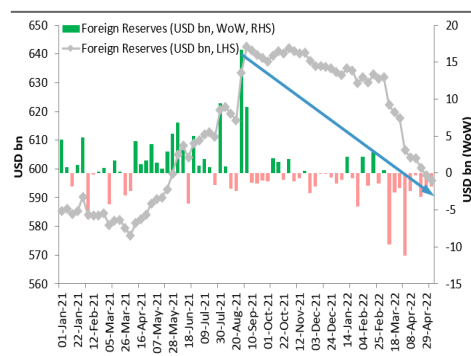
Source: Bloomberg & Scotiabank FICC Strategy

## India Current Account Balance (% of GDP) vs. Brent Oil Prices



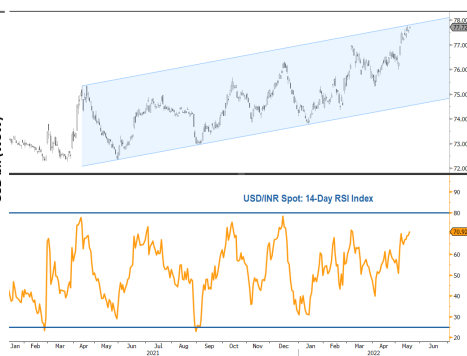
Source: Bloomberg & Scotiabank FICC Strategy

## India Foreign Reserves



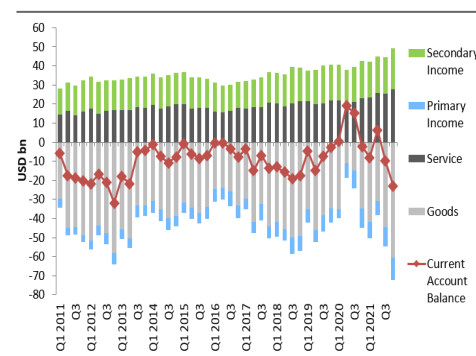
Source: Bloomberg & Scotiabank FICC Strategy

## USD/INR Spot and 14-Day RSI Index



Source: Bloomberg & Scotiabank FICC Strategy

## India Current Account Balance Breakdown



Source: Bloomberg & Scotiabank FICC Strategy

**TODAY'S CALENDAR**

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
05:00	KR	INFL	PPI YoY	Apr		9.2%	9.0%	med
06:45	NZ	TRADE	Trade Balance, NZD	Apr			-392mn	med-high
09:15	CN	PBOC	1-Year Loan Prime Rate (LPR)	May 20	3.65%		3.70%	high
09:15	CN	PBOC	5-Year Loan Prime Rate (LPR)	May 20	4.55%		4.60%	high
11:00	ID	BOP	Current Account Balance	Q1	\$918mn		\$1,400mn	med-high
15:30	TH	DATA	Foreign Reserves	May 13			\$227.1bn	med
15:30	TH	DATA	Forward Contracts	May 13			\$31.3bn	med
16:00	TW	TRADE	Export Orders YoY	Apr	11.5%		16.8%	med-high
16:20	TW	BOP	Current Account Balance	Q1			\$32.193bn	med-high

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