

Analyst Team

Qi Gao

FX Strategist (Asia)

+65 6305 8396

qi.gao@scotiabank.com

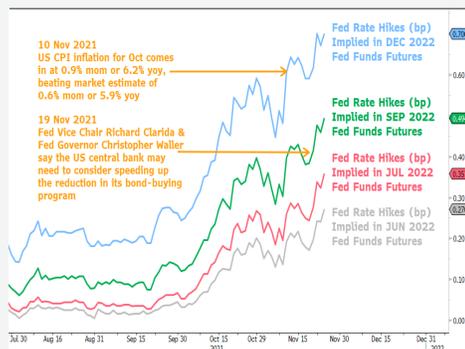
FOLLOW US ON TWITTER

[@Scotiabankfx](https://twitter.com/Scotiabankfx)

Overview

- The Fed releases the minutes of its November 2-3 meeting, saying that "the Committee should be prepared to adjust the pace of asset purchases and raise the target range for the federal funds rate sooner than participants currently anticipated if inflation continued to run higher than levels consistent with the Committee's objectives"
- The BoK is expected to raise its policy rate by 25bp to 1.00% on Thursday morning to curb inflation and control inflation expectations
- We maintain our short USD/KRW spot position on expectations for the won to rally in the upcoming holiday season as in previous years

Fed Rate Hikes Priced in June, July, September and December 2022 Fed Funds Futures



November FOMC Minutes

Asia Overview — EM Asian currencies were mixed versus the dollar during Wednesday's Asian session. The SGD and JPY dropped 0.2% each despite a 3bp fall in the 10Y UST yield.

The CNY was little changed while the CNH declined 0.1%. USD/CNH will likely trade around the 6.40 level at the moment. A State Council executive meeting chaired by Premier Li Keqiang said on Wednesday that China will refine the management of special-purpose local government bonds. China's Vice Premier Liu He called for stabilizing house prices while sticking with curbs on speculation as a property market slowdown continues to take a toll on the economy, reiterating the slogan of "houses are for living in, not for speculation." Moody's said that China's continued economic recovery from the pandemic underpins the stable outlook for Chinese corporates in 2022, despite emerging risks from policy transition, increasing regulatory uncertainties and tightened funding access. The KRW rallied 0.3%. USD/KRW will likely slide towards the 1,160 level when approaching the month end. South Korea's terms of trade fell for the seventh consecutive month in October, down 6.7% yoy to 91.26 last month. South Korea has agreed to join the US and other nations in a coordinated release from state oil reserves to ease a sudden hike in crude prices. The TWD inched up amid equity inflows. USD/TWD will likely hover around the 27.8 level at this stage. Taiwan's broad money supply M2 increased 8.45% yoy in October after growing 8.69% in September. New Taipei, Taoyuan, Taichung, Kaohsiung and Hsinchu cities plan to raise property tax for those who own houses they don't occupy.

The INR edged up. USD/INR will likely consolidate around the 74.5 level for now. India is said to tweak taxes in budget for bond-index inclusion. The Economic Times reported on Wednesday that the RBI is said to have informally aimed a benchmark level of 11.50 for CNY/INR and "any drop from this would trigger intervention in the local market," citing people familiar with the matter. A panel of state finance ministers will consider restructuring India's GST slabs to raise an extra INR 3tn in revenues annually. The IDR closed flat. USD/IDR is likely to trade between 14,200 and 14,300 at present. Indonesian President Joko Widodo reiterated that he plans to stop all raw commodities exports, when speaking at BI annual meeting on Wednesday. BI Governor Perry Warjiyo said at the same meeting that the central bank will start reining in loose banking liquidity gradually and "very carefully" so the move won't disrupt financing for development. He also said that the BI will ensure the yield differential between Indonesia's bonds and US Treasuries remains attractive, while seeking to stabilize the rupiah in line with its fundamentals. Indonesia has administered at least one vaccine dose to half its population. The MYR weakened 0.3%. USD/MYR is likely to consolidate around the 4.20 level at present, with stabilizing oil prices. Reuters cited a WSJ article as saying that top oil producers Saudi Arabia and Russia are considering a move to pause their planned oil production increases. The PHP advanced 0.5%. USD/PHP is likely to fluctuate between 50 and 51 for now. The BSP awarded all of PHP 500bn term deposits offered at its weekly auction on Wednesday. The BSP has included digital banks as eligible participants for its monetary operations such as reverse repo agreements and term deposits, according to a circular signed November 23. The THB fell 0.7%. USD/THB is likely to trade between 32.5 and 33.5 for now. Thailand's monetary and fiscal policy committee approves raising the ratio of government borrowing to fund the federal budget to 35% of the outlay from 30%. BoT Governor Sethaput Suthiwartnarueput said on Wednesday that Thailand's economy and financial markets can withstand risks stemming from higher global interest rates as local companies rely more on bank loans for their funding needs than on bonds.

Regional equity indices diverged on Wednesday. China's SHCOMP index increased 0.10% amid USD 8.0mn of equity inflows, while India's NIFTY50 index dropped 0.50%. South Korea's KOSPI index declined 0.10% despite USD 336.7mn of stock inflows. In the meantime, Taiwan's TWSE index fell 0.13% although global funds added to their holdings in local main board shares by USD 16.1mn on Wednesday. Malaysia's KLCI index ended 0.04% lower. However, Thailand's SET index and Indonesia's JCI index closed up 0.21% and 0.08% respectively.

EM Asia • The Fed released the minutes of its November 2-3 meeting, saying that "the Committee should be prepared to adjust the pace of asset purchases and raise the target range for the federal funds rate sooner than participants currently anticipated if inflation continued to run higher than levels consistent with the Committee's objectives."

In addition, four top Fed officials have commented on speeding up the Fed’s tapering of its bond purchases in the months ahead. Kindly note, San Francisco Fed President Mary Daly has been seen as one of the more dovish members of the US central bank’s Federal Open Market Committee.

- San Francisco Fed President Mary Daly said in a Yahoo! Finance interview published Wednesday that she is open to supporting a faster tapering of bond purchases, if economic trends continue, adding that she wants to get a look at two important data points that are the November jobs report and November CPI inflation reading before making a final decision ahead of the Fed’s next policy meeting on December 14-15.
- Atlanta Fed President Raphael Bostic said on Monday that the central bank may need to speed up its removal of monetary stimulus in response to strong employment gains and surging inflation, allowing for an earlier-than-planned increase in interest rates.
- Fed Vice Chairman Richard Clarida and Fed Governor Christopher Waller said last Friday (November 19) that the US central bank may need to consider speeding up the reduction in its bond-buying program amid strong economic growth and rising inflation.

The November FOMC minutes have further fueled market expectations for a faster tapering and an earlier rate hike to be delivered by the US central bank, boosting the DXY Index overnight.

At the November FOMC meeting, the Fed decided to reduce its asset purchases at a pace of USD 15bn per month to bring down the total purchases to USD 105bn from mid-November to mid-December. "Because the Open Market Desk would be releasing two monthly purchase schedules between the November and December FOMC meetings," the Fed also decided at the November gathering to slow the pace by another 15bn per month to the total purchases of USD 90bn from mid-December to mid-January.

Going forward, the US central bank may decide at the December FOMC meeting to speed up the tapering to USD 30bn per month starting mid-January. It means that the Fed will be buying assets until mid-March, paving the way for the US central bank to deliver a 25bp rate hike in the second quarter of 2022.

As of writing, Fed Funds Futures are pricing in a 7bp, 17bp, 27bp, 36bp, 50bp, 56bp and 70bp of rate rise respectively by March, May, June, July, September, November and December 2022. **It suggests the Fed’s faster tapering and sooner rate hikes have been priced in the rates market to a large extent, which has sent the 10Y US Treasury breakeven interest rate lower and tends to flatten the 2-10Y US Treasury yield curve — lifting the 2Y US Treasury yield while dragging down the 10Y part of the curve.**

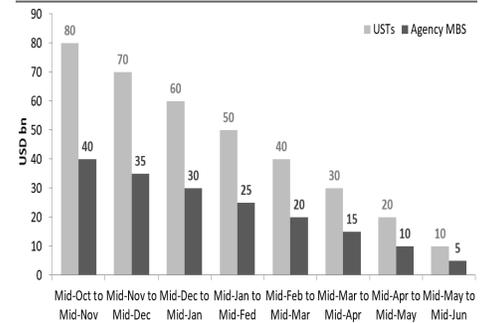
The DXY Index is likely to trade between 96 and 98 in the foreseeable future, with the Fed ready to implement appropriate policy adjustments. Technically, the DXY Index has been overbought according to the RSI Index, raising odds of corrections in the near future. Meanwhile, we reckon a steady Chinese yuan could provide a buffer to EM Asian currencies at this stage.

Separately, the BoK is expected to raise its policy rate by 25bp to 1.00% on Thursday morning to curb inflation and control inflation expectations. South Korea’s CPI inflation is expected to remain elevated for the rest of the year considering the base effect.

South Korean exporters’ dollar-selling will likely impose downward pressure on USD/KRW spot when approaching the month end. According to the nation’s early trade data, its exports (the global economic canary in the coalmine) and imports during the first 20 days of November surged 27.6% yoy and 41.9% yoy respectively, with daily average exports growing 23.7% yoy.

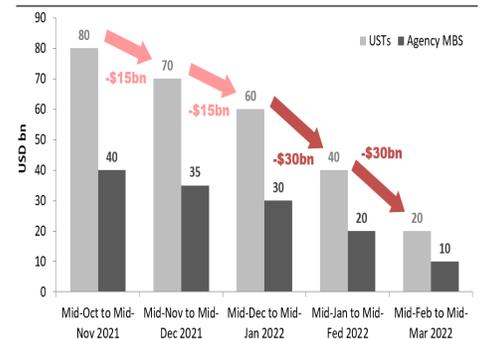
We maintain our short USD/KRW spot position on expectations for the won to rally in the upcoming holiday season as in previous years.

**Fed Tapering Path — Original
\$15bn Per Month, Starting Mid-November 2021**



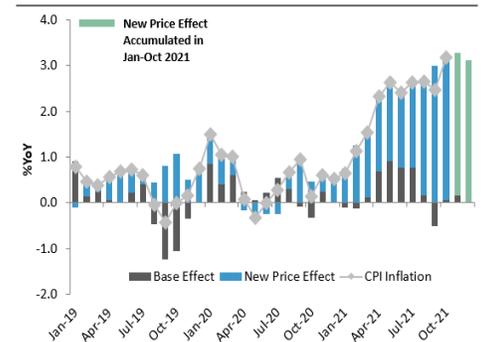
Source: Scotiabank FICC Strategy

**Fed Tapering Path — Expedited (Possibly)
\$30bn Per Month, Starting Mid-January 2022**



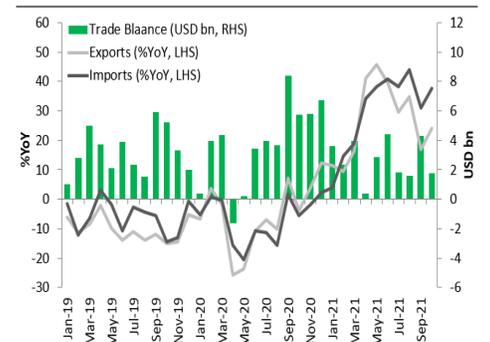
Source: Scotiabank FICC Strategy

South Korea CPI Inflation



Source: Bloomberg & Scotiabank FICC Strategy

South Korea Exports, Imports and Trade Balance



Source: Bloomberg & Scotiabank FICC Strategy

TODAY'S CALENDAR

| Time (HKT) | Economy | Type | Release | Period | Consensus | Actual | Last | Significance |
|------------|---------|-------|---------------------------------|--------|-----------|----------|----------|--------------|
| 05:45 | NZ | TRADE | Trade Balance, NZD | Oct | | -1,286mn | -2,206mn | med-high |
| 08:30 | AU | DATA | Private Capital Expenditure QoQ | Q3 | -2.0% | | 4.4% | high |
| ~09:00 | KR | BOK | BoK 7-Day Repo Rate | Nov 25 | 1.00% | | 0.75% | high |
| 16:30 | HK | TRADE | Exports YoY | Oct | 20.7% | | 16.5% | med |
| 16:30 | HK | TRADE | Imports YoY | Oct | 19.5% | | 23.5% | med |
| 16:30 | HK | TRADE | Trade Balance, HKD | Oct | -46.1bn | | -42.4bn | med |

IMPORTANT NOTICE and DISCLAIMER:

This report is prepared by Scotiabank as a resource for clients of Scotiabank for information and discussion purposes only. This report should be considered a marketing communication and has not been prepared by a member of the research department of Scotiabank, it is solely for the use of sophisticated institutional investors, and this report does not constitute investment advice or any personal recommendation to invest in a financial instrument or "investment research" as defined by the UK Prudential Regulation Authority or UK Financial Conduct Authority. This document has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and the information contained in this publication is not subject to any prohibition in the EU on dealing ahead of the dissemination of investment research. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from publicly available sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness and neither the information nor the forecast shall be taken as a representation for which Scotiabank or any of its employees incur any responsibility. Neither Scotiabank nor its representatives accept any liability whatsoever for any loss arising from any use of this report or its contents. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instruments and has no regard to the specific investment objectives, financial situation or particular needs of any recipient. It is not intended to provide legal, tax, accounting or other advice. Scotiabank and/or its respective officers, directors or employees may from time to time take positions in the products mentioned herein as principal or agent. Directors, officers or employees of Scotiabank may serve as directors of corporations referred to herein. Scotiabank may have acted as financial advisor and/or underwriter for certain of the corporations mentioned herein and may have received and may receive remuneration for same. This report may include forward-looking statements about the objectives and strategies of Scotiabank. Such forward-looking statements are inherently subject to uncertainties beyond the control of Scotiabank including but not limited to economic and financial conditions globally, regulatory development in Canada and elsewhere, technological developments and competition. The reader is cautioned that the member's actual performance could differ materially from such forward-looking statements. Past performance or simulated past performance is not a reliable indicator of future results. Forecasts are not a reliable indicator of future performance. You should note that the manner in which you implement any of strategies set out in this report may expose you to significant risk and you should carefully consider your ability to bear such risks through consultation with your legal, accounting and other advisors. Information in this report regarding services and products of Scotiabank is applicable only in jurisdictions where such services and products may lawfully be offered for sale and is void where prohibited by law. If you access this report from outside of Canada, you are responsible for compliance with local, national and international laws. Not all products and services are available across Canada or in all countries. All Scotiabank products and services are subject to the terms of applicable agreements. This report and all information, opinions and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever nor may the information, opinions and conclusions contained in it be referred to without in each case the prior express consent of Scotiabank. Scotiabank is a Canadian chartered bank.

If you are affected by MIFID II, you must advise us in writing at trade.supervision@scotiabank.com.

™Trademark of The Bank of Nova Scotia. Used under license, where applicable. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotia Capital Inc. and Scotia Capital (USA) Inc., Scotiabank Europe plc, Scotiabank (Ireland) Limited - all members of the Scotia-bank Group and authorized users of the mark. The Bank of Nova Scotia is incorporated in Canada with limited liability. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund. Scotia Capital (USA) Inc. is a broker-dealer registered with the SEC and is a member of FINRA, NYSE, NFA and SIPC. The Bank of Nova Scotia is authorized and regulated by the Office of the Superintendent of Financial Institutions in Canada. The Bank of Nova Scotia is authorized by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

To unsubscribe from receiving further Commercial Electronic Messages click this link: <https://www.unsubscribe.gbm.scotiabank.com/>.