



# Asia monthly update December

## Approaching 2018

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19 December 2017

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## **Research coverage of Asia**

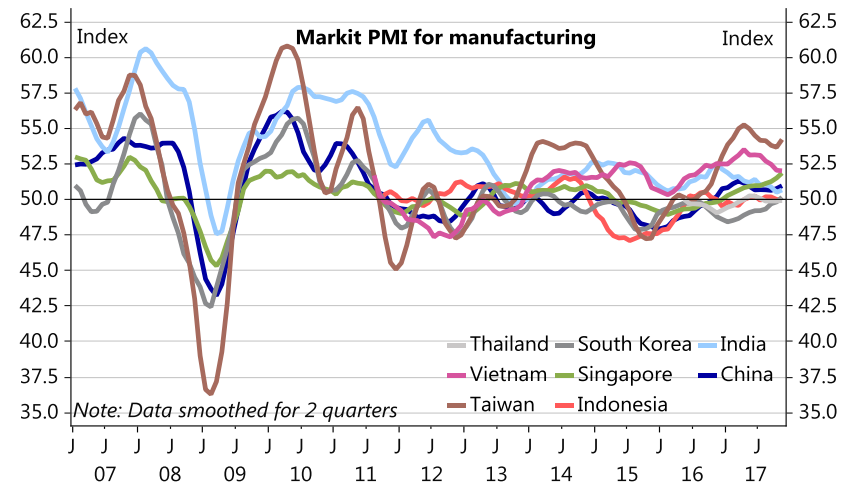
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## Executive summary

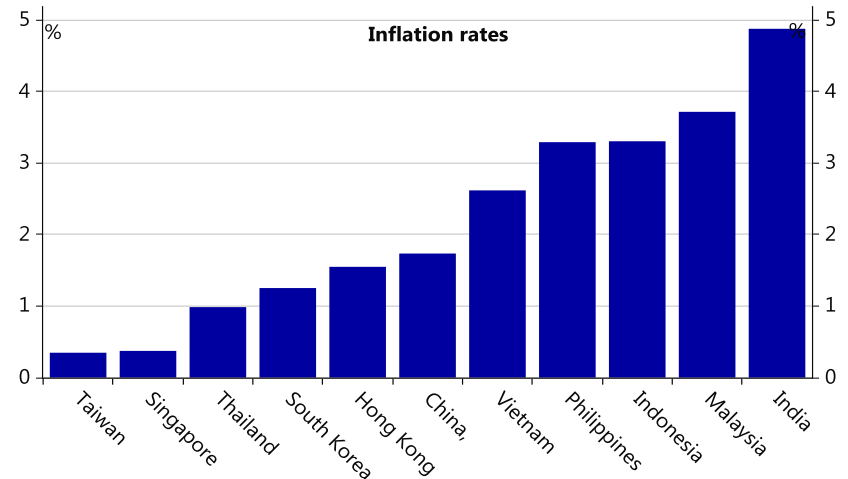
- The majority of Asian currencies have recorded notable gains against the US dollar this year, despite ongoing Fed tightening. Following the steep increase in US rates in early autumn, which reminded investors of the taper tantrum in 2013, the Asian FX returned to appreciation mode. This will likely continue in 2018, albeit at a much slower pace, as the currencies are now closer to their fundamental values. We also expect appreciation of the USD in the first part of the year, also slowing the pace of the gains.
- USD/CNY has stabilised in a range 6.60-6.65, and we expect it to continue range-trading for H1 2018 and then a gradual appreciation of the CNY towards 6.50 USD/CNY at end-2019.
- The biggest events in Asia next year will be centred in China, Thailand and Malaysia. China's Party Congress, which took place in October, did not result in any immediate change to the country's economic policy stance. The more concrete policy measures are rather expected from the National Party Congress in early March and the central economic working conference in December. General elections will be held in the other two countries. You can read more about the 2018 calendar [here](#).
- Our relatively bearish pick: PHP.
- Our relatively bullish picks: INR and MYR.

## Asia: Good economic momentum, acceleration in Indian inflation

- Economic momentum continues at robust levels with the Asian, export-focused economies reaping the benefits of the current, synchronised global expansion.
- Inflation remains under control and at relatively low levels in most countries.
- Inflation accelerated to 4.9% y/y in India, mostly driven by a rise in fuel and food prices. Due to accelerating inflation, we now expect the RBI to stay on hold until end-2018.
- Looking into 2018, markets expect to see further rate hikes in South Korea as well as central banks in Taiwan, Singapore and Malaysia, embarking on a tightening cycle as well.



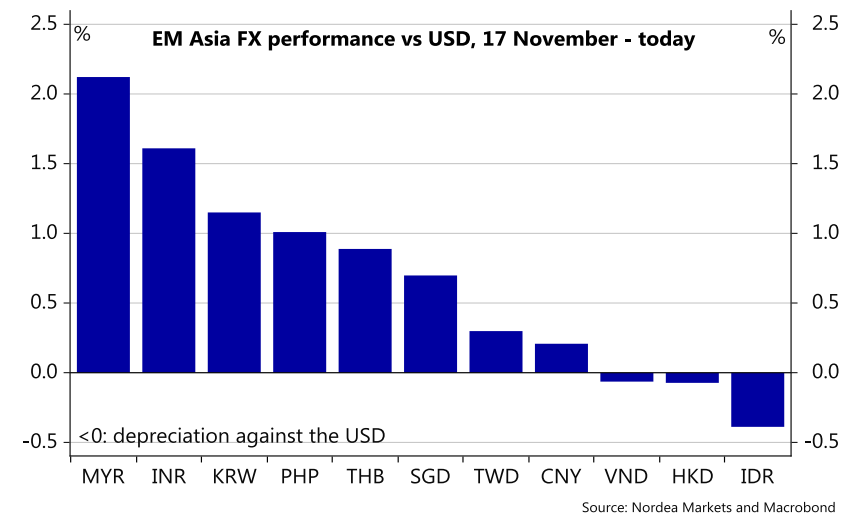
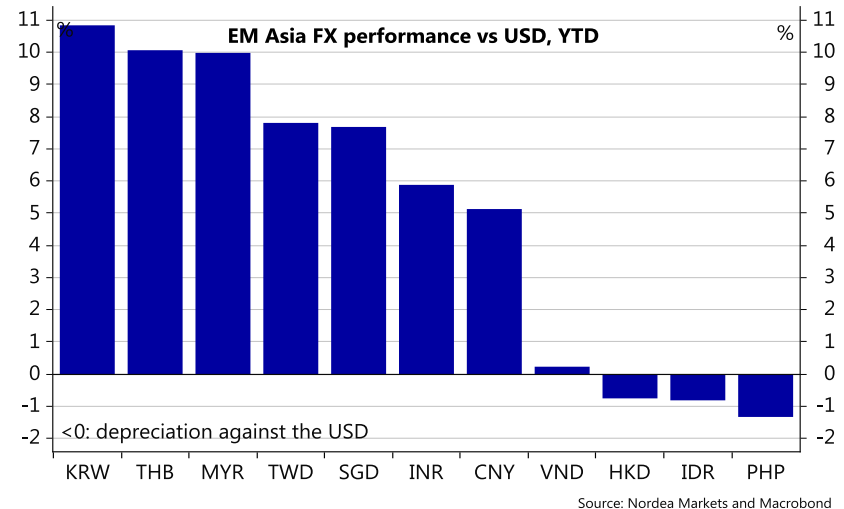
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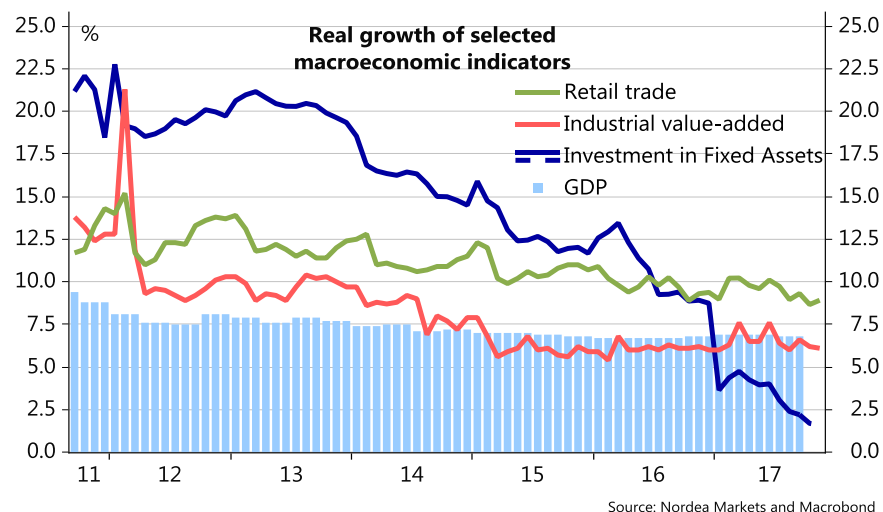
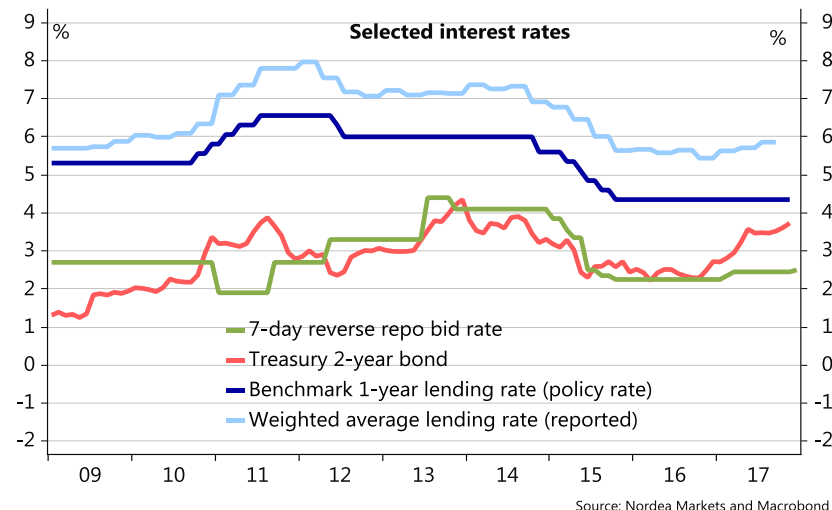
## Asian FX: MYR shining bright

- Asian FX continued to wipe out the losses recorded in early autumn, when the EM currencies experienced a general sell-off.
- The VND and the IDR weakened against the USD, while the MYR has clearly outperformed all other currencies. Despite the 10% strengthening recorded YTD, we expect the MYR to continue appreciating against the USD, as it is still significantly overvalued related to fundamentals.
- We continue to expect stronger USD in the coming months, which is likely to limit the potential appreciation of the Asian currencies, but we still expect them to perform well.
- We expect the MYR and INR to outperform, where INR should gain due to growth acceleration and continued foreign interest in Indian assets.



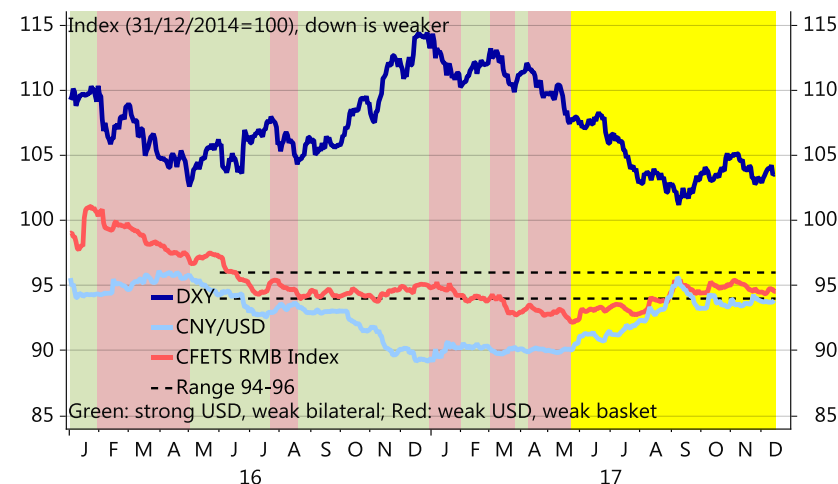
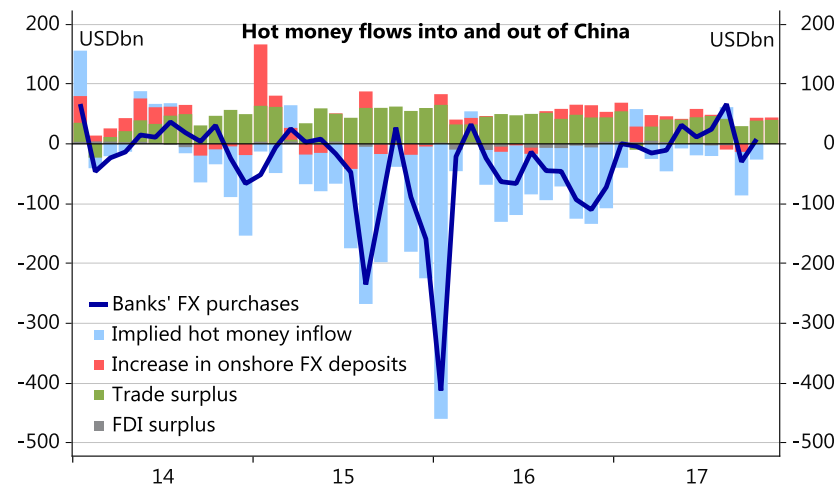
## China: Growth is slowing down, but only gradually

- The Chinese economy is gradually slowing down. The Party Congress did not signal a shift towards a policy tightening or major reform policies. Thus, we expect growth to slow down, but only slightly to around 6% in 2018, as the housing sector cools down and credit growth slows.
- Although the PBoC announced a marginal increase in rates on central bank operations on 14 December, we do not expect any rate hikes in the benchmark lending rates next year. That is mainly due to the government's willingness to keep corporates' interest rate costs under control. In the long run, higher rates in the US and eventually also in the Euro area may increase the downward pressure on the CNY and could imply higher rates (or a return to tighter capital controls), also in China.



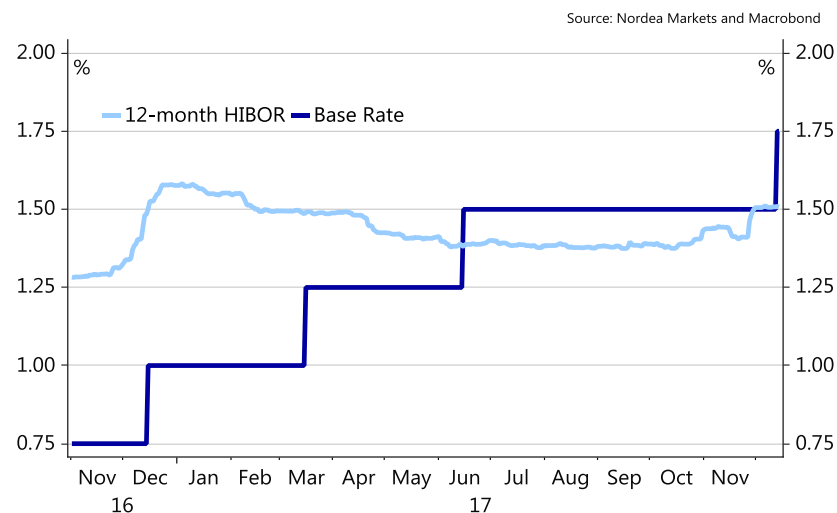
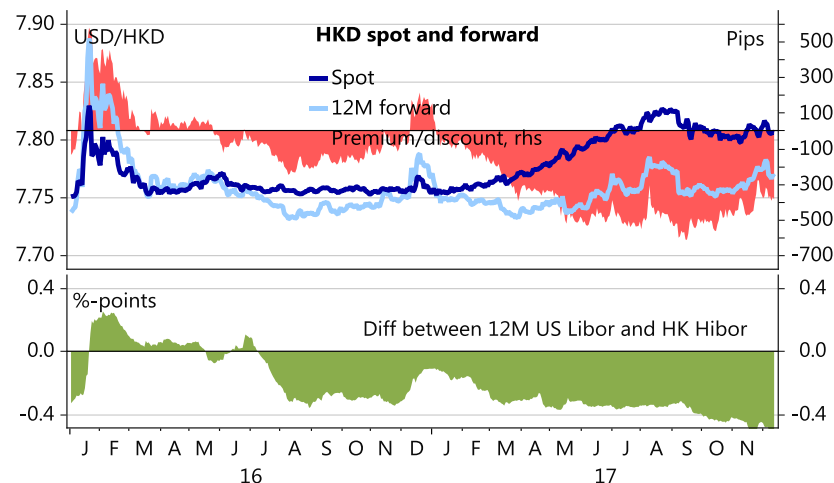
## CNY: Renminbi continues to follow the basket

- CNY has continued to follow the CFETS basket with a small margin in recent weeks.
- The spread between the CNY and the CNH has remained very narrow in recent months, and net capital flows have remained limited. In net terms, China's FX interventions have been at low levels for most of 2017.
- The calm situation has allowed the authorities to continue loosening the implementation of capital restrictions. This is confirmed by the grass-root level evidence.
- We expect the CNY/USD to be stabilised around 6.65 to at least mid-2018.



## HKD: Trading at parity

- The HKD hovers around the parity value of USD/HKD 7.80 while the 12-month forward points remain within the lower area of the band.
- Following the December Fed hike, the HKMA also delivered a 25bp hike, thereby mirroring the Fed's move. Even though the move did increase the 12-month HIBOR rate, the difference between US Libor and HK HIBOR remains at the previous, high level.
- We see the HKD to continue hovering around the middle of the peg band in the coming months.
- Moreover, we believe that the USD/HKD peg will be kept for now, but it might be restructured to include CNY in the basket later on.

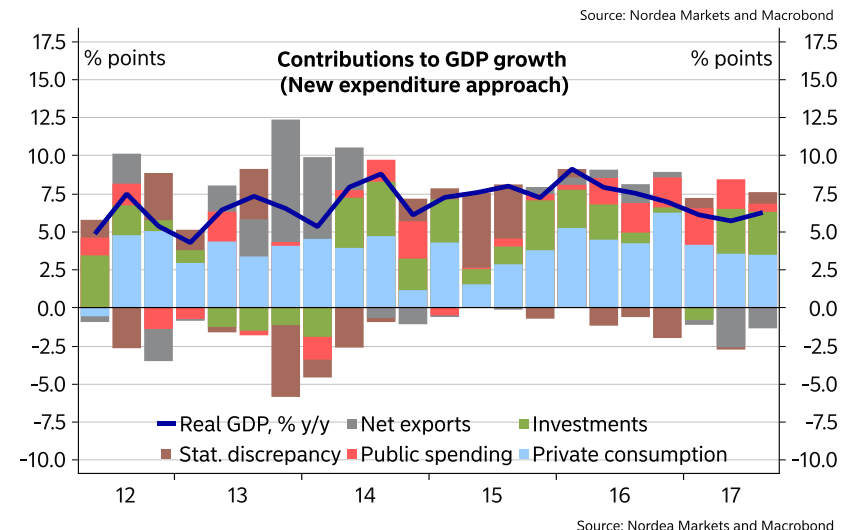
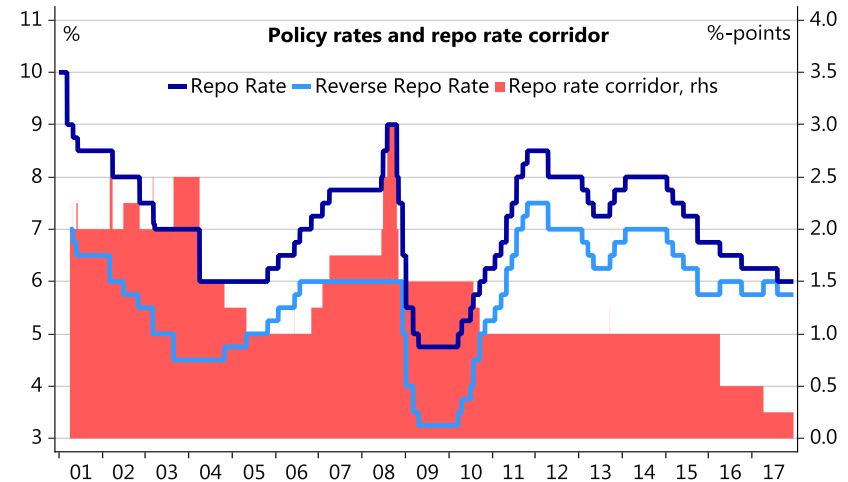


Source: Nordea Markets and Macrobond



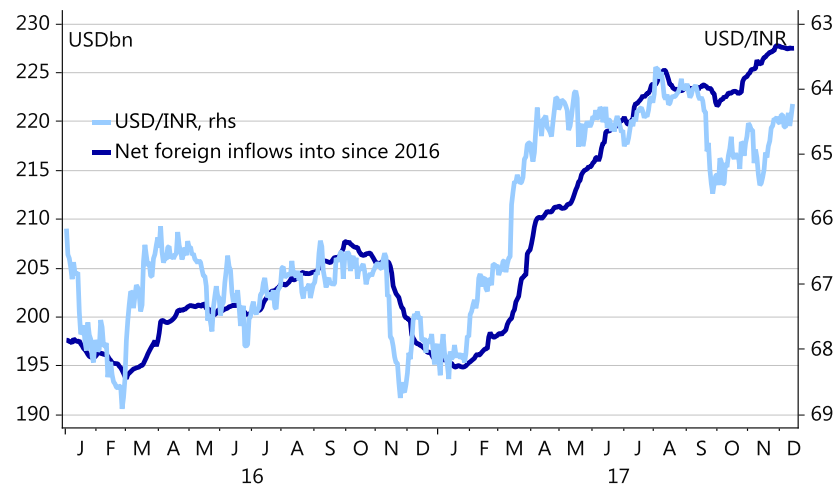
## India: Accelerating growth in 2018

- India's Q3 GDP growth came in at 6.3% y/y, up from 5.7% y/y in Q2. The higher growth rate was primarily driven by higher fixed investments and less drag from net exports due to lower gold imports. A fall in government spending counteracted the increases to a lesser extent.
- The accelerating growth is in line with our view that the Indian economy will perform better in 2018 than this year, as the cooling of the economy is only temporary due to shocks from e.g. the demonetization.
- Inflation has clearly picked up from the low levels during the summer and came in at 4.9% y/y, which is in the upper area of the tolerance band. We expect the RBI to stay on hold in 2018.

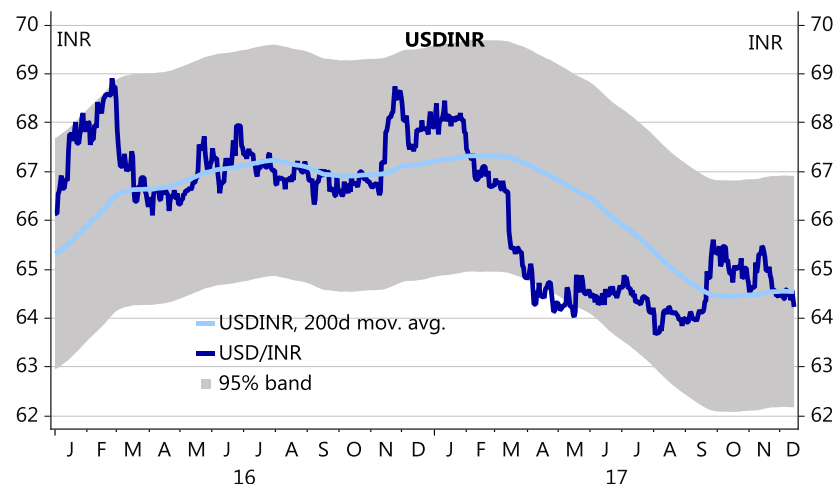


## INR: Strength due to robust growth and capital inflows

- While the INR weakened during the autumn, it seems to have stabilised around 64-64.50 USD/INR at the beginning of December, which is in line with the stabilisation of net foreign inflows.
- We continue to expect that the INR will strengthen as the growth momentum of the economy improves and reforms continue. Our short-term target is USD/INR 63 by mid-2018 and 62 by end-2019.
- In the medium to long term, growth will likely benefit from the bank recapitalisation programme, which will help increase credit growth, and from reforms to improve conditions for businesses.



Source: Nordea Markets and Macrobond



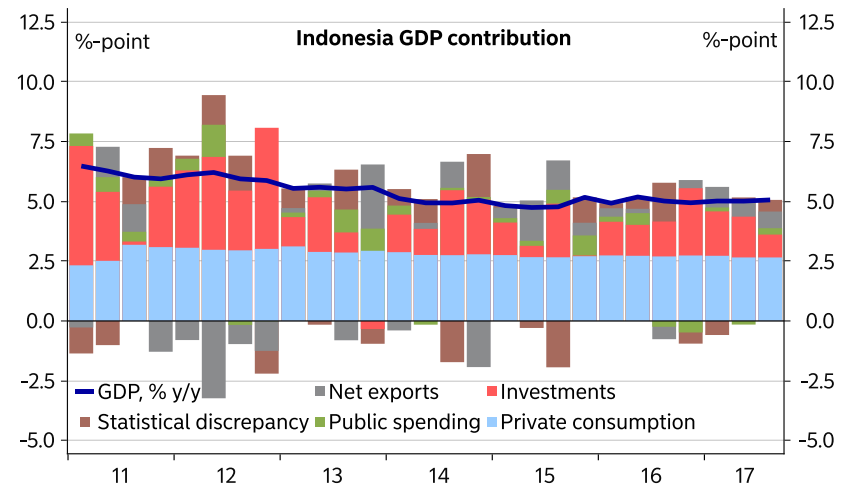
Source: Nordea Markets and Macrobond

## IDR: Stable outlook

- The IDR has been rather stable recently and traded between 13.500-13.600 since the beginning of October.
- As central banks in advanced economies tighten their monetary policies, the IDR may come under pressure, which may in turn lead the BI to raise interest rates.
- However, if growth continues to be around or above 5%, then the current high inflow of FDI should be sustained, which will take off some of the pressure. As such, we expect the IDR to be rather stable over the coming months, unless the domestic macroeconomic environment worsens notably.



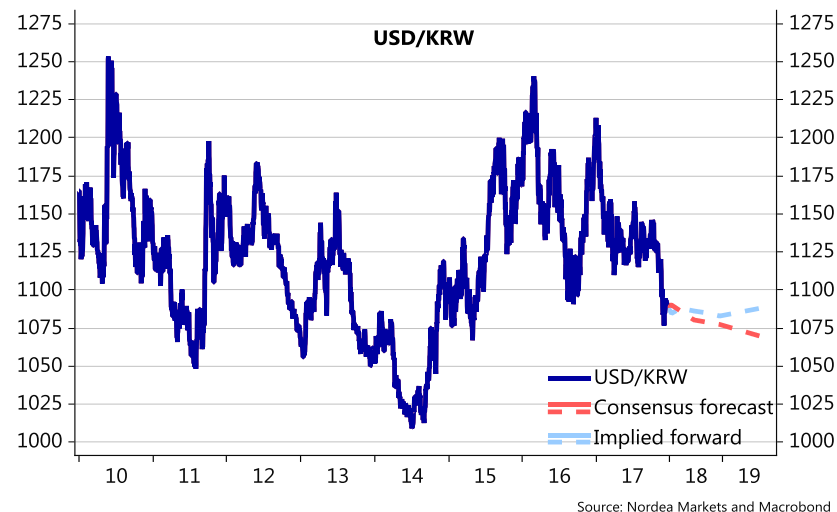
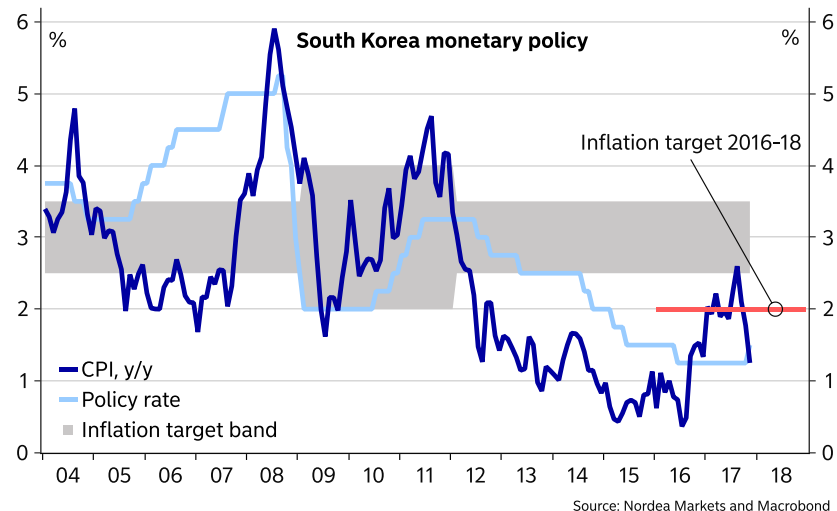
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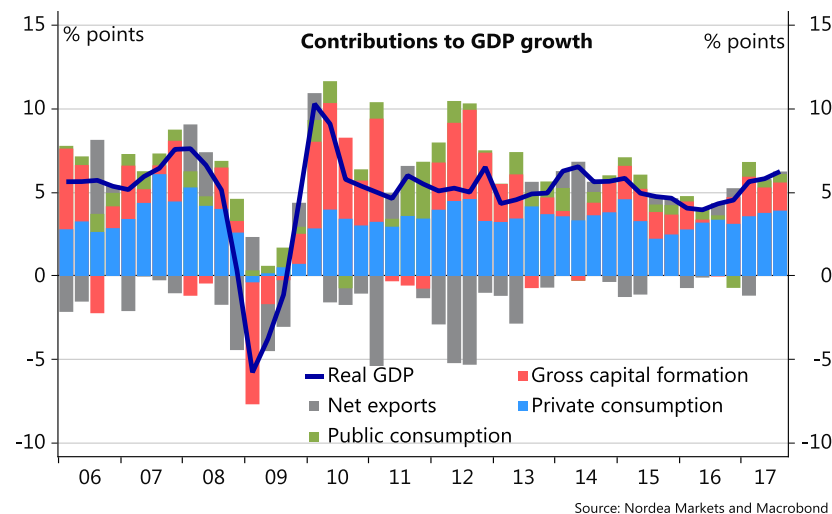
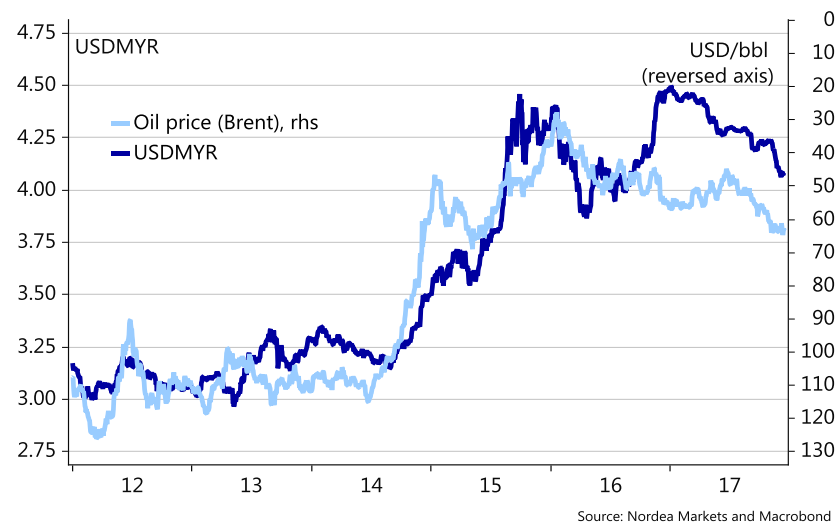
## KRW: Further rate hikes may strengthen the KRW

- The BoK raised its policy rate by 25bp to 1.50% at the November meeting, and further rate hikes are expected in 2018 as the economy continues to grow at a robust pace.
- The KRW has recently strengthened against the US dollar, and we expect the won to continue to do so as the policy rate is hiked further and as the current account balance is expected to improve again in 2018.
- The BoK does not expect the strength of the KRW to affect exports negatively to a great extent, even though further strengthening may have an adverse negative effect on low-value added products.
- North Korea continues to constitute the main risk for the KRW.



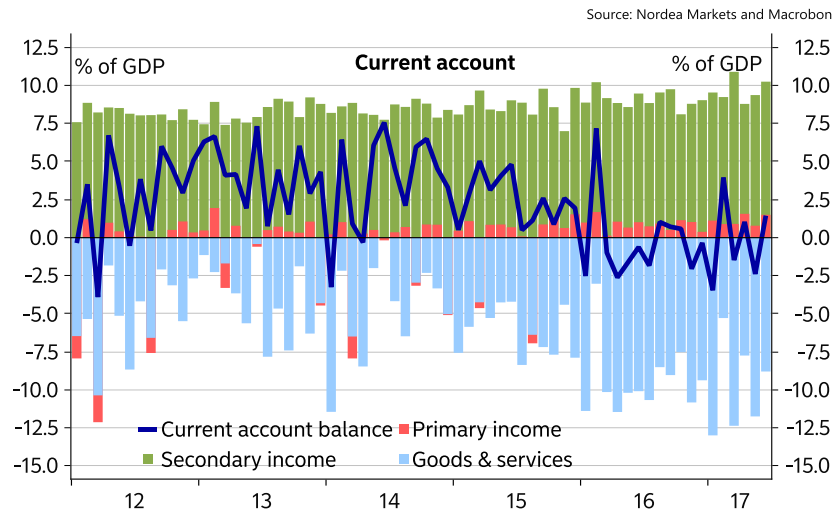
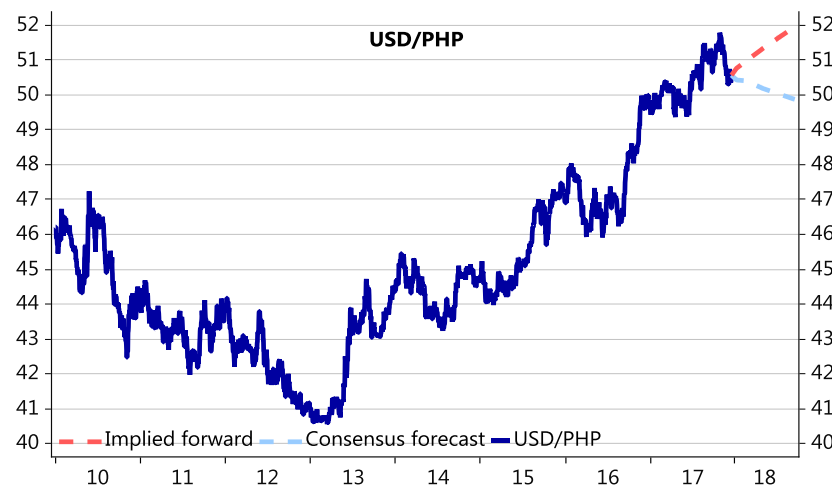
## MYR: Rate hike in January and further strengthening in sight

- The Malaysian economy continues its high growth momentum in Q3 with growth of 6.2% y/y. The robust growth is expected to continue in 2018. The growth momentum has recently made the BNM turn more hawkish as growth is more broad-based, and the BNM is expected to hike its policy rate in January with 25bp and likely to stay on hold for the rest of 2018.
- However, uncertainty about next year's election may affect the rate decision in January. The current prime minister Najib Razak has gained popularity recently after a rough couple of years and is expected to stay in power after the election that must be held before August.
- The MYR still has potential to appreciate on the back of the good growth momentum, current account surplus and overall good fiscal balance.



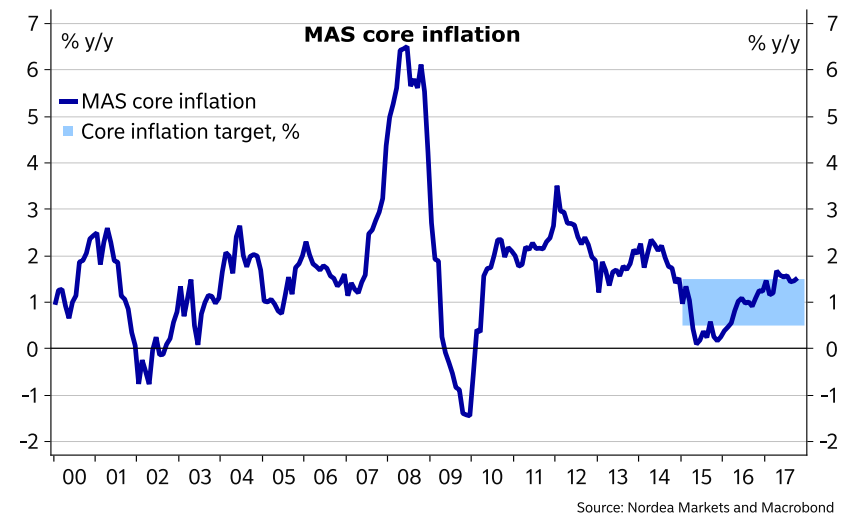
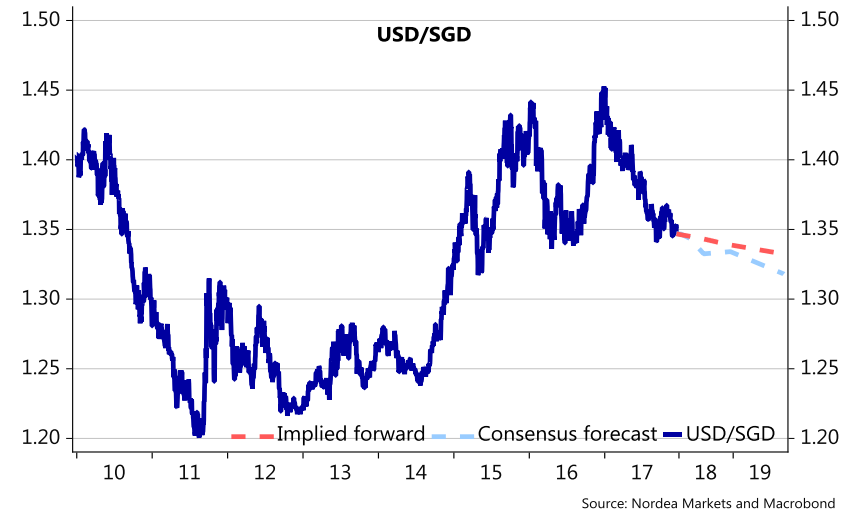
## PHP: Higher imports likely to weaken the PHP further

- The Philippine economy grew 6.9% y/y in Q3, beating consensus expectations of 6.5% y/y. The current growth momentum is likely to be supported by a new tax reform whose increase in tax revenue will be used to finance new infrastructure. Generally, the Philippine economy is performing well and Fitch recently raised their sovereign rating to BBB.
- In November inflation dropped to 3.3%, which was the first drop in five months. However, with the expansionary effect of the tax reform and the current momentum of the economy, price pressures are expected to increase, which may lead to a rate hike in H2 2018.
- The PHP is expected to depreciate as infrastructure investments increase the need for imports, further increasing the current account deficit.



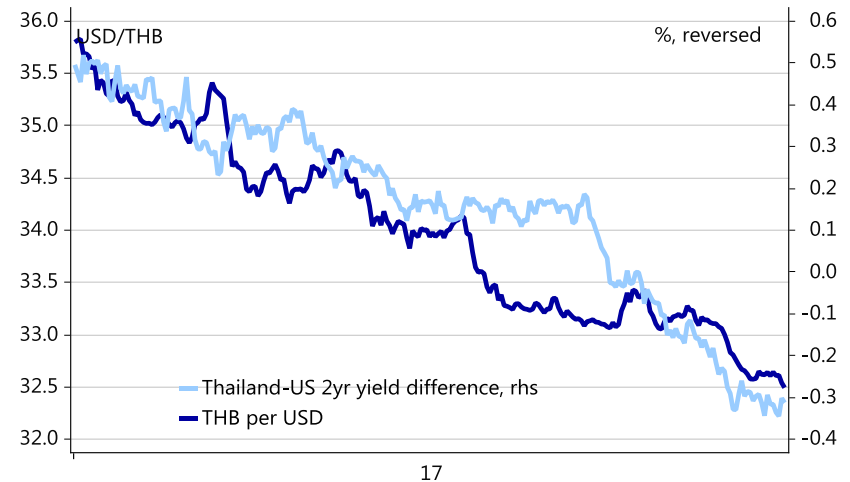
## SGD: The MAS might hike in April

- The Singaporean economy is expected to continue its growth of around 3% y/y in 2018, where especially exports of tech products will benefit the country in the coming year, as global trade is set to continue to improve.
- Domestic demand is expected to be strong, but may also become quite subdued due to high debt levels of households, limiting the potential for higher private consumption.
- Due to robust growth, continued US rate hikes and to a lesser extent rising core inflation, the MAS is expected to tighten the monetary policy in H2 2018.
- The SGD will appreciate slightly against the USD in the coming months.

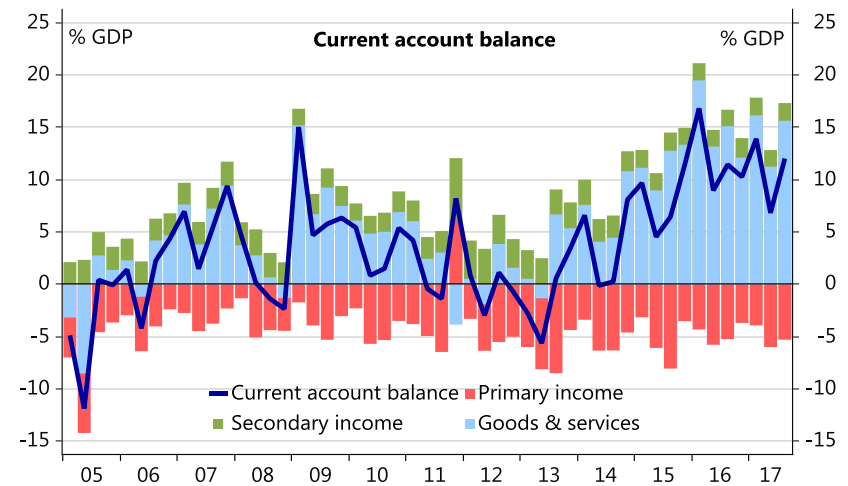


## THB: Moderating current account limits scope for further strengthening

- The Q3 GDP numbers of 4.3% y/y beat the consensus expectation of 3.8% y/y. The growth rate for the full year is expected at 3.9% y/y, which is a large improvement relative to last year.
- The BoT kept rates unchanged at its latest meeting and is expected to keep them unchanged during next year, as they find it sufficient to support economic growth and bring back inflation.
- The general election is expected to be held in November 2018, but there is uncertainty about whether the military rule will stick to this plan. Currently, no political activity is allowed.
- While the THB has performed well in 2017, the potential for further strengthening is limited as the current account is expected to moderate in 2018.



Source: Nordea Markets and Macrobond

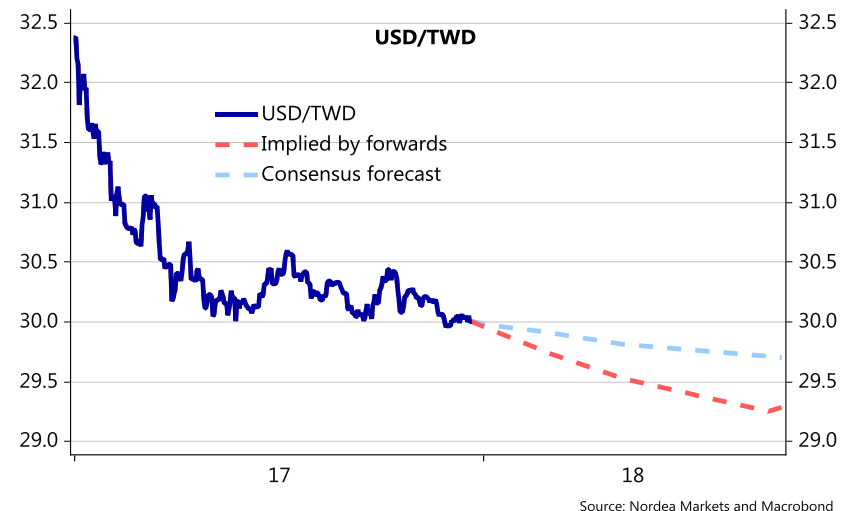
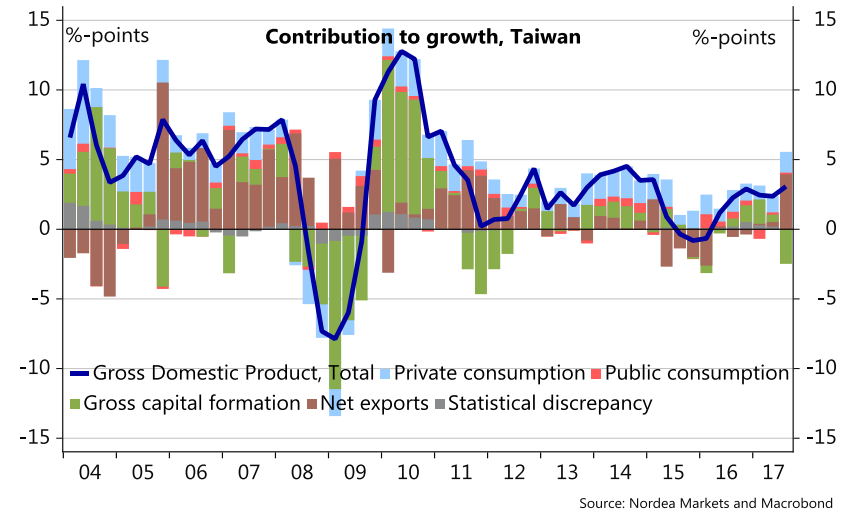


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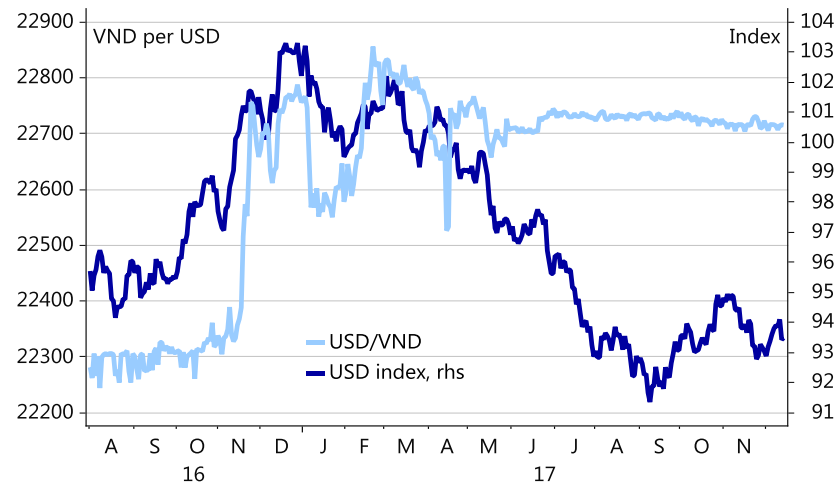
## TWD: New central bank governor in 2018

- Q3 GDP growth came in at 3.1% y/y, which was primarily driven by exports and private consumption. The positive and robust growth is expected to continue in Q4 and well into 2018.
- The central bank is expected to keep rates steady until a new Governor has settled, but then the markets expect two rates hike in H2 2018. A rate hike will be needed due to robust growth and the expected tightening in the advanced economies.
- Markets expect a small appreciation of the TWD against the USD, but many question whether the central bank will allow it as it hurts exporters. Some drops in TWD in the past weeks raise the question about whether the central bank has intervened.

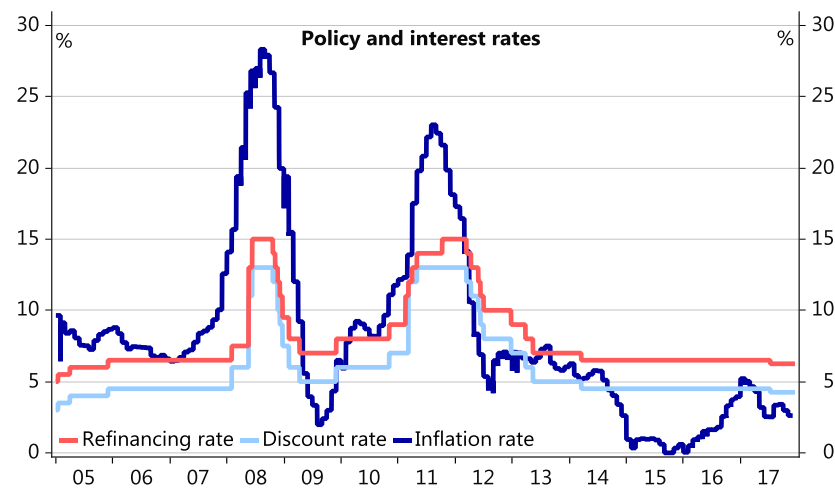


## VND: Stable rates and stable currency

- The Vietnamese economy is one of the fastest growing in Asia, which is expected to continue in 2018. Growth is likely to be mostly driven by investment due to large FDI inflows.
- The main risk is centred around the financial sector, where there is an increasing number of non-performing loans in the banking sector and high public and private debt levels.
- The VND has been stable during 2017, and the central bank intends to keep it so for the rest of the year, arguing that foreign reserves of USD 45bn is a buffer large enough to stabilise the money market.
- Interest rates are likely to be kept on hold for the time being, while the long-term potential of the VND remains intact.



Source: Nordea Markets and Macrobond



Source: Nordea Markets and Macrobond

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# Financial forecasts – FX rates

## Exchange rates vs EUR

	15.12.17	3M	30.06.18	31.12.18	31.12.19
EUR/USD	118	113	117	120	126
EUR/JPY	132.40	126.56	134.55	140.40	151.20
EUR/DKK	7.44	7.44	7.45	7.45	7.45
EUR/SEK	9.98	9.50	9.25	9.15	9.00
EUR/NOK	9.81	9.10	8.90	8.50	8.50
EUR/GBP	0.88	0.91	0.90	0.88	0.85
EUR/CHF	1.17	1.16	1.17	1.18	1.20
EUR/PLN	4.22	4.30	4.15	4.10	4.00
EUR/RUB	69.36	67.24	70.20	70.80	75.60
EUR/CNY	7.79	7.51	7.78	7.92	8.19
EUR/INR	75.82	72.32	73.71	75.60	78.12
EUR/BRL	3.91	3.73	3.86	3.84	3.91

## Exchange rates vs USD

	15.12.17	3M	30.06.18	31.12.18	31.12.19
-	0.00	0.00	0.00	0.00	0.00
USD/JPY	112.26	112.00	115.00	117.00	120.00
USD/DKK	6.31	6.58	6.36	6.21	5.91
USD/SEK	8.46	8.41	7.91	7.63	7.14
USD/NOK	8.32	8.05	7.61	7.08	6.75
GBP/USD	1.33	1.24	1.30	1.36	1.48
USD/CHF	0.99	1.03	1.00	0.98	0.95
USD/PLN	3.57	3.81	3.55	3.42	3.17
USD/RUB	58.81	59.50	60.00	59.00	60.00
USD/CNY	6.61	6.65	6.65	6.60	6.50
USD/INR	64.29	64.00	63.00	63.00	62.00
USD/BRL	3.32	3.30	3.30	3.20	3.10

# Financial forecasts – rates

## Monetary policy rates, %

	15.12.17	3M	30.6.18	31.12.18	31.12.19
US	1.25	1.50	1.75	2.25	3.00
Japan	-0.10	-0.10	-0.10	-0.10	-0.10
Euro area	-0.40	-0.40	-0.40	-0.40	-0.15
Denmark	-0.65	-0.65	-0.65	-0.65	-0.40
Sweden	-0.50	-0.50	-0.50	-0.25	0.25
Norway	0.50	0.50	0.50	0.50	0.75
UK	0.50	0.50	0.50	0.50	0.50
Switzerland	-0.75	-0.75	-0.75	-0.75	-0.50
Poland	1.50	1.50	1.50	2.00	2.50
Russia	8.25	8.00	7.50	7.00	6.50
China	4.35	4.35	4.35	4.35	4.85
India	6.00	5.75	5.50	5.50	5.75
Brazil	7.50	7.00	7.00	7.00	7.50

## 3-month rates, %

	15.12.17	3M	30.6.18	31.12.18	31.12.19
US	1.39	1.60	1.85	2.35	3.10
Euro area	-0.33	-0.35	-0.35	-0.35	-0.05
Denmark	-0.31	-0.30	-0.30	-0.30	0.05
Sweden	-0.58	-0.50	-0.40	-0.15	0.35
Norway	0.75	0.85	0.85	0.85	1.10
UK	0.52	0.55	0.55	0.55	0.55
Poland	1.73	1.70	1.70	2.00	2.25
Russia	8.38	8.15	7.70	7.20	6.70

## 10-year government benchmark yields, %

	15.12.17	3M	30.6.18	31.12.18	31.12.19
US	2.33	2.60	2.90	3.25	3.55
Euro area	0.34	0.45	0.60	0.80	1.15
Denmark	0.43	0.55	0.70	0.90	1.30
Sweden	0.78	0.80	1.25	1.40	2.00
Norway	1.61	1.65	1.80	2.05	2.50
UK	1.25	1.35	1.50	1.65	1.90
Poland	3.45	3.25	3.50	3.60	3.50

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