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Econotes is a free research publication available on request. It is not a solicitation for business. It is devised and written by Dr. Andrew F. Freris ,based on 46 years of market experience which included senior positions with GT Capital, Salomon Brothers, Bank of America and BNP Paribas, as well as senior academic posts with universities in London and Hong Kong

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FOREX OUTLOOK: Asian majors and minors

Summary	Investment Conclusions
This Econotes covers the outlook of 9 Asian currencies including majors (CNY and INR) and minors (PHP, THB, etc) The overall outlook of these currencies to 2Q.15 is basically flat, with the forecast depreciation versus the USD being mostly modest, as are the expected appreciations. This should not be a surprise as the Asian economies surveyed here have long decoupled from USD short and longer term rates. Any impact on their forex rates from higher USD rates would be via global portfolio adjustments rather than movements in differentials to the USD. Two exceptions here are the pegged HKD, which will stay pegged, and China's managed CNY.	The expected higher USD rates are unlikely to weaken significantly Asian forex as domestic consideration prevails over differentials. We expect, to 2Q.15, a mild appreciation of the CNY and INR, while the rest of the currencies will be weaker/flat. We expect a weaker IDR and THB, because of external balances and political uncertainty. The KRW may weaken as interest rates are cut, while TWD could stay flat but supported by a stronger C/A-- same for the PHP. The MYR may feel the pressure of economic uncertainties, while the SGD could stay flat as the economy reaccelerates.

The minor Asians

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Chart 1 set all rates to 100 at the start of 2013 in order to highlight the violent reactions of markets, after the May 2013 tapering announcement by the Fed, and the quick adjustments afterwards, mostly a slow appreciation except for the IDR. The **KWR** has been particularly strong, reflecting the rapid raise in the C/A surplus, a development which troubled the authorities as the stronger KWR could eventually damage exports competitiveness. The BoK partially resolved the issue by its recent cut in interest rates and by the authorities introducing an expansive fiscal policy. **Singapor**e's rapid economic reacceleration in 2Q.14 may keep the MAS cautious on inflation and on the SGD. The economy of **Malaysia** reaccelerated in 2Q.15, but the C/A surplus is on a declining trend, while forex reserves have stayed flat since the early part of this year. The aircraft accidents have dented sentiment and the MYR could weaken. **The Philippines,** too, registered a faster GDP growth in 2Q.14 and this may cap the external surplus and thus keep the PHP flat. The **THB** will feel the pressure of a decelerating economy and the continuous political uncertainty.

Indonesia's resolution of fhe political uncetainty after the presidential elections will clear the way for policy-making, but the external balances remain weak and this will keep the IDR weak too. **Taiwan** continous GDP acceleration may partially counterbalance the, so far, strong perfomance of the current account and, hence, could leave the TWD flat rather than appreciating, something which exporters may prefer.

Chart 1:Forex rates, IDR (green),THB (yellow),INR (red),MYR (blue),PHP (dark green),2013=100

Source: Bloomberg

The major Asians

The INR (Red, Chart 1) came under a lot of pressure at the beginning of 2013 and there were fears of a destabilization of the economy. Higher interest rates from the RBI (also concerned about inflation) and controls over the imports of gold, made for a spectacular reversal of the weak C/A and this helped to strengthen the currency. Since then, the INR has been on a flat trajectory rather than appreciating and we expect it to remain so to 2Q.15.One reason for that is that the RBI had been actively intervening to keep the appreciation of the INR under control despite the large flows of capital to the booming Indian equity market. Although a stronger INR would be good for controlling imported inflation, it would also damage exports at the time that the economy is beginning to recover and, possibly, reaccelerate.

FACTBOX: The endless discussion on the CNY

There are 3 factors to keep in mind about the future trend of the RMB. The authorities are in no hurry to make it convertible and hence forex rates will stay managed. While the PRC has an external surplus, there will be a pressure for the CNY to appreciate, but this can take a long time. Japan has had a current account surplus since the 1970s and the JPY movements bore little relationship to that surplus. For the CNY to become a global currency it requires convertibility and that the PRC has an external deficit. You can't "print money" like the US does if you are a global lender, which the PRC is!

The arguments over the medium term trajectory of the CNY have been acrimonious and mostly disappointing for investors who counted on an appreciation. This is unlikely to happen at this stage when the authorities are trying to boost the economy through softer monetary and credit policies. We expect, at best, a 1.0% rise of the CNY to 2Q.15 from current levels. The CNY will remain a managed currency while there are capital controls, and capital controls will stay while domestic interest rates are still controlled, especially on retail deposits. The constraints imposed on the newly announced joint trading between the stock markets of Shanghai and of Hong Kong point to the unwillingness of the authorities to make the CNY freely capital convertible at this stage.

Chart 1:orex rates, CNY (red), SGD (blue),Green (KRW) TWD (yellow), 2013=100

Source: Bloomberg

Investment implications

For purely trading purposes, we would be short on the IDR and THB for the next 6 to 9 months looking for weakening in the former, from current prices, of about 3.5% and about the same amount for the latter.

Our expected CNY strengthening of 1.0% over the same period is hardly a bargain given the carry costs.

For the rest of the currencies, the expected weakening or strengthening at about 1.0% is not worth possibly the trouble to trade it at the time when we expect that the stock markets of Indonesia, Thailand, Philippines and India will continue to outperform.

We had remained cautious on Indian equities just because, until now, this was an expectations-driven market. But the new GDP data, the willingness of the RBI to stick with its inflation policy and the fact that the flat INR has made the market safer, at least from a forex point of view, is now changing our stance on the SENSEX.

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