Asian Currency Review

7th February 2020

Overview

SGD: Ahead of a statement from the Monetary Authority of Singapore (MAS), the Singapore dollar fell to a four-month low. This came after a period of strength when it has been trading at the upper end of its boundary since October last year, when MAS eased policy for the first time since 2016. The impact of the coronavirus on the economy and the currency appeared to be on investors' minds, although MAS took no steps to adjust policy and will be perhaps waiting for the next policy meeting in April to decide whether any action is required. Singapore's reliance on trade means that it is particularly vulnerable to the impact of any further spread of the virus due to the impact on the supply chain, commodities, investment and travel. Prior to the virus outbreak, MAS had been considering measures to support the economy due to the impact of the US-China trade war; while these fears have faded they haven't gone away and compound the pressure on the currency. The upcoming budget on 18th February will be watched closely for signs of how the economy may be supported in challenging times and this may have a knock-on effect on the Singapore dollar. Movements in the yuan are also in the spotlight due to the impact on the Singapore dollar as investors have become bearish about all Asian currencies in light of the coronavirus outbreak.

AUD: As a commodity-based currency, there Australian dollar has also felt the impact of the coronavirus. As well as the impact on trade and travel, falling demand for oil in China pushed the Australian dollar 0.7% lower against sterling. The main event for the Australian dollar was announced from the Reserve Bank of Australia (RBA) on interest rates. As expected, the RBA kept the rate unchanged at 0.75% for the fifth month and the Australian dollar made gains and became the top performer on the day of the announcement. The accompanying statement acknowledged the considerable impact of the coronavirus but stated that it was "too early to determine how long-lasting the impact will be," indicating that there may be an easing of monetary policy if required further down the line. Trade and retail sales data were disappointing and industrial production was down by 3.2% on the previous year, offering no assistance to the currency although a recovery in the services industry did offer a silver lining. It may be that the Australian dollar will continue a period of volatility with so many changes to the global economic picture and international trade putting pressure on the currency and little on the domestic front to counter the growing concerns.

JPY: While concern over the economic impact of the coronavirus appears to be centred on China, Japan is not immune to the ramifications of the disease. The overall disruption in global trade and markets is causing some volatility and the yen is not always seen as a safe haven in the circumstances. In general, however, Japan appears to be focussed on the future. The services PMI showed a recovery and positive indications for further growth. In addition, lawmakers are pushing forward with plans for digital currencies and propose the topic for discussion at this year's G7 meeting. In part, the plans are part of a strategy to counter China's moves towards the issuing of digital yuan and advances in the US and beyond on digital currency. It's likely that Japan is feeling the pressure to keep pace with the market advances in order to maintain its position. The proposed plans highlight the importance of coordinating with US authorities and asked for the subject to be added to the G7 agenda. The yen relies on dollar-based settlement and proposals highlight that a widespread digital currency from China could prove to threaten the US dollar as much as the yen. The call from Japan also reflects how plans for digital currencies, or CBDCs, are gaining momentum from central banks across the world. As well as working with the US to get the subject on the G7 agenda, the Bank of Japan is working on a joint research project with the European Central Bank, and appears to be keen to take the initiative on the global stage.

HKD: In Hong Kong, the coronavirus has compounded the pressure caused by the ongoing anti-government protests, now in their eighth month. The protestors are having an impact on retail sales, which fell 19.4% in December compared to the previous year and overall fell 11.1% in 2019 compared with 2018. There's no doubt that the combined impact of the ongoing protests and the coronavirus impeding trade and travel are significant, but investors appear to be determined to find positive indications where they can. The Hong Kong dollar came close to a three-year high after attractive interest rates in the city were shown to be attracting deposits into Hong Kong.

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