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Rupee to Gain Fastest in '12 on Asia Inflow, Top Forecaster Says
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By Lilian Karunungan and Yumi Teso

Jan. 16 (Bloomberg) -- Asian currencies will rebound this year led by India's rupee, the worst performer in 2011, said Oversea-Chinese Banking Corp., the most-accurate forecaster for the region in the past six quarters.

The rupee will advance 5.1 percent to 50.5 per dollar by year-end followed by a 3.9 percent rally to 8,730 by Indonesia's rupiah, according to Singapore's second-largest bank. Barclays Capital, the second-best forecaster as measured by Bloomberg News, expects South Korea's won to outpace the other currencies, climbing 12 percent to 1,025.

"We'll probably see more signs of a nascent recovery perhaps sometime into the second quarter," said Emmanuel Ng, a strategist at OCBC in Singapore. "You should see more structural foundation for capital inflows into Asia."

A recovering U.S. economy and a shift in policy focus in China to bolster growth will support Asian currencies this year even as Europe struggles with its debt crisis, according to Barclays Capital, which predicts Malaysia's ringgit, the Thai baht, the rupee and the Taiwan dollar will rise more than 10 percent in 2012. ING Groep NV, the third-best forecaster, is less optimistic, expecting moves to range from a 4.1 percent gain in the rupee to a 0.4 percent decline in the rupiah.

OCBC ranked as the top forecaster with an average margin of error of 2.81 percent, compared with 3.01 percent for Barclays and 3.34 percent for ING.

U.S. Recovery

The Bloomberg-JPMorgan Asia Dollar Index dropped 1.1 percent in 2011, halting two years of gains. The gauge lost 3.1 percent in the second half as the debt crisis prompted investors to pull funds from emerging-market assets. The rupee slumped 16 percent last year, followed by a 5 percent decline in the baht, and 3.5 percent losses for the won and the ringgit, according to data compiled by Bloomberg. This year, India's currency has already gained 3.3 percent.

Equity funds focused on Asia excluding Japan had redemptions of \$24 billion in 2011 after attracting \$22 billion the previous year, according to fund researcher EPFR Global. So far this year, overseas investors have pumped \$1.5 billion into Taiwanese, South Korean and Indian shares, exchange data show.

Inflows into dedicated Emerging Asia Bond Funds slowed to \$2.8 billion in 2011 from \$6.84 billion in 2010, EPFR said.

U.S. data released this year showed December payroll growth beat forecasts, the unemployment rate dropped to the lowest level in almost three years and manufacturing rebounded. In China, a slowdown in inflation to a 15-month low of 4.1 percent in December has allowed policy makers to ease banks' reserve requirements to spur economic expansion.

'Soft Landing'

Developing economies in Asia will expand 8 percent in 2012, compared with projections for 1.9 percent growth in advanced economies, according to International Monetary Fund estimates released in September.

Asia "is on course for a soft landing," said Nick Verdi, a Singapore-based strategist at Barclays Capital, part of the U.K.'s second-largest bank by assets. "Once some of the risk factors particularly pertaining to Europe begin to abate, central banks in the region will be more comfortable in letting their currencies appreciate."

India's rupee was among the hardest hit last year as its current-account deficit widened due to rising oil prices. The shortfall in the broadest measure of trade was \$16.89 billion third quarter, compared with \$16.90 billion a year earlier. Crude-oil prices climbed 8.2 percent in 2011.

Rupee 'Dark Horse'

The rupee will be a "dark horse" this year as inflows into its equity market may help improve its current account, OCBC's Ng said. Funds dedicated to Indian equities had withdrawals of \$4.1 billion in 2011 after taking in \$1.3 billion the year before, EPFR data show.

The won will appreciate as "export growth is holding up very well," Barclays' Verdi said. OCBC and ING were less optimistic, forecasting gains of 3.4 percent and 0.2 percent. South Korean overseas sales rose 12.5 percent last month from a year earlier, official data show, compared with a median estimate of 6.3 percent in a Bloomberg survey.

The ringgit will be Asia's second-best performer as the government's asset divestment program lures investors, Verdi said. Barclays expects the currency to strengthen 12 percent, compared with ING's 3.6 percent and OCBC's 2.7 percent.

"The privatization story is very much in place," Verdi said. "It's a macro story that we like."

A rising yen will give Taiwan's central bank more room to let its currency rise, according to Tim Condon, head of Asian research at ING in Singapore. A stronger Taiwanese dollar makes the prices of products of the island's electronics companies more expensive than those of Japanese rivals.

ING, the biggest Dutch financial services company, expects the currency to strengthen 3.6 percent in 2012, while Barclays forecasts a gain of 10 percent. OCBC sees a 1.6 percent advance.

Indonesian Bonds

The rupiah, which slipped 0.6 percent last year, will rebound as Indonesia's economy is robust and inflation under control, OCBC's Ng said. Its bonds, which have the highest yields in major Asian markets after India, are attractive to overseas investors, Ng said.

The baht will rise as policy makers won't ease borrowing costs further as spending to repair flood damage and spur growth will leave the central bank focused on inflation, Condon said in an interview on Jan. 11. ING estimates the baht will gain 3.5 percent this year, compared with Barclays' 11 percent forecast and OCBC's 2.1 percent.

Currency forecasters were ranked according to the accuracy of their estimates in each of the last six quarters. To test long-term accuracy, Bloomberg News added one annual projection. Only firms with at least four estimates for a particular currency pair were ranked, and only the 22 companies that qualified in at least six of 10 pairs were included in the ranking of best overall forecasters.

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