

Bloomberg

Best Forecasters See Asia Rebounding to Lead Gains: Currencies

By Lilian Karunungan and Yumi Teso

Jan. 15 (Bloomberg) -- For the first time in three years, Asia will lead a rally in emerging-market currencies as rising global trade lifts the region's exports, according to the most- accurate foreign-exchange forecasters.

India's rupee will climb 4.8 percent in 2013 after losing 17 percent over the past two years, according to Oversea-Chinese Banking Corp Ltd., the best forecaster based on data compiled by Bloomberg. The Philippine peso will gain 4 percent to its highest since 1999, said Standard Chartered Plc and Wells Fargo & Co., which tied for second. That would put them among the top- five developing-nation currencies, Bloomberg data show.

Asia is poised to benefit as the International Monetary Fund estimates global trade will accelerate from the smallest increase in three years. Asia, which contributed to 44 percent of the world's economic growth last year, accounted for half of the top 10 currencies in 2010 as the world emerged from the worst financial crisis since the Great Depression.

"The global economy is a bit brighter compared to six months ago, so that bodes well for the export cycle in Asia,"

Emmanuel Ng, a strategist in Singapore at OCBC, Southeast Asia's second-largest lender, said in a Jan. 7 interview. "We are getting signs of life out of China. It will continue to exert influence on Asian currencies."

Average Yield

The Bloomberg-JPMorgan Asia Dollar Index rose to 118.77 today, the highest since September 2011. Malaysia's Ringgit has gained 1.6 percent against the dollar this month, the fourth- most among emerging-market currencies. China's yuan rallied to a 19-year high of 6.2124 per dollar yesterday, while South Korea's won climbed to its strongest level since August 2011 today.

The rupee will appreciate to 51.9 per dollar by year-end, from 54.415 as of 9:37 a.m. in Mumbai, according to OCBC. The median forecast of 24 strategists was for the rupee to increase 3.6 percent to 52.5. The Philippine peso will strengthen to 39 per dollar, from 40.558, extending its 8 percent rally over the past year, according to Standard Chartered and Wells Fargo.

The three banks ranked the most accurate based on six quarterly predictions through December 2012 and one annual forecast made at the end of 2011. OCBC had an average margin of error of 2.86 percent, while Standard Chartered and Wells Fargo had a margin of 2.93 percent.

Global Trade

International trade will rise 4.5 percent this year, after increasing 3.2 percent in 2012, the slowest since the 10 percent contraction in 2009, the IMF data shows. Exports accounted for about half of South Korea's gross domestic product and 20 percent of the Philippine's economy. Asia's contribution to the global growth increased from 30 percent a decade ago, according to the Washington-based lender.

Rising exports will help Asia's developing economies grow 7.2 percent this year, compared with an average of 5.6 percent for emerging markets and 1.5 percent in advanced nations, according to IMF estimates released on Oct. 9.

Asia's 9.5 percent expansion in 2010 powered the global recovery as China overtook Japan as the world's second-largest economy. The Bloomberg-JPMorgan Asia Dollar Index rallied 5.2 percent that year, the most since 1998, compared with a 4.7 percent gain in a similar gauge for Latin American currencies.

Capital Flows

China's export growth accelerated to 14 percent in December, the most since May, as retail sales increased in the U.S. and economic confidence rose in the euro area, its biggest trading partner. Shipments from Taiwan climbed 9 percent, from a 0.9 percent gain in November, official data showed.

"The gradual Chinese recovery, and lessening U.S. and European risks could promote a more favorable market environment and capital flows into Asian countries," Nick Bennenbroek, head of currency strategy at Wells Fargo in New York, said in a Jan. 10 e-mail.

Foreigners bought a net \$1.6 billion of Indian stocks this year, more than three times the same period of 2012, exchange data show, as Prime Minister Manmohan Singh opened supermarkets and other industries to overseas investment. The net flow to Philippines's stock market more than doubled to \$430 million.

In the bond market, the yield disadvantage of Asian securities is narrowing. The average local bond yield in Asia trailed that for emerging markets by 92 basis points, or 0.92 percentage point, on Jan. 10, the least since November 2009, according to data compiled by JPMorgan Chase & Co.

Moderating Inflation

India's rupee will outperform as inflation slows and its 18 percent depreciation since the end of 2010 helps reduce imports and narrow the country's record \$22.3 billion current-account deficit, OCBC's Ng said.

Indian wholesale prices rose 7.18 percent in December, the smallest increase in three years, the Commerce Ministry said yesterday. The Reserve Bank of India has kept its benchmark interest rate at 8 percent since April, the highest in the region after Pakistan and Vietnam, Bloomberg data show.

Thomas Harr, Standard Chartered's head of Asia local markets strategy in Singapore, said he favors the Philippine peso because the country may win an investment-grade rating and attract foreign investors.

Standard & Poor's signaled on Dec. 20 it may lift the country's BB+ credit rating, which is one step below an investment grade, by raising its outlook to positive, citing improved governance and public finances.

'Most Solid'

"The Philippines in my view is one of the most solid stories in Asia," Harr said in a Jan. 7 interview. "The most important thing is a government in the Philippines who seem to be committed to do the right thing: stimulate investments, maintain a solid fiscal position and try to deal with corruption."

Policy makers in Asia are taking measures to stem the currency rally. Bangko Sentral ng Pilipinas imposed limits on currency forward positions at banks on Dec. 26 to curb peso appreciation that threaten exports and remittances from overseas Filipino workers, the biggest sources of foreign-exchange for the Southeast Asian nation.

South Korea's government may curb exchange-rate volatility further and recent movements in the won may have been too fast, Finance Minister Bahk Jae Wan said at a conference yesterday in Hong Kong.

The intervention won't reverse a currency rally supported by superior growth, according to Wells Fargo's Bennenbroek.

Malaysian Ringgit

"Actions by the central bank and authorities, such as in the Philippines, could smooth currency gains but are unlikely to prevent" the rally, he said.

The Malaysian ringgit, which has lagged behind gains among its Southeast Asian peers in the past four years, will also catch up after general elections are held in the first half, according to Standard Chartered. The bank forecasts a 3.7 percent advance by the end of 2013 to 2.9 per dollar.

Malaysian Prime Minister Najib Razak is aiming to restore the ruling coalition's two-thirds majority in parliament during the election, which must be held within 60 days of an April 28 deadline to dissolve the assembly.

The ringgit is the most undervalued currency in Southeast Asia, trading at a discount of 44 percent versus the greenback, according to the Economist's Big Mac Index.

Westpac Banking Corp., the fourth most-accurate forecaster, also picks the rupee and the peso as the top performers this year among Asian currencies, predicting gains of 2.4 percent and 2.2 percent.

“There is also scope for an improved Indian trade balance, with export growth likely to firm against an improved regional growth backdrop and a cheaper rupee,” Jonathan Cavenagh, a currency strategist at Westpac in Singapore, said in a Jan. 9 interview.

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