Asia FI & FX Strategy Watch

Charting Asia: Taking the rough with the smooth

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GEM FI & FX Strategy
Asia

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Asia FX in key charts – drivers, thrivers & decliners

We put together 25 key charts that assess our Asia FX and rates views and recommendations. These can be distilled into the following eight themes:

1) China's **weak economic performance** is a rising factor driving Asia FX depreciation – see Exhibit 2.

2) **Factor analysis justifies Asia FX weakness**, but this is overshooting relative to US rates, equity performance and China's slowdown – see Exhibit 3.

3) Medium-to-long term **FX valuations** show PHP and SGD as overvalued, but the majority of Asia FX appear close to or below fair valuations – see Exhibit 6.

4) Our **current account forecasts** show improvement and support for TWD, THB, KRW, and MYR – see Exhibit 1.

5) **Positive seasonality favors THB** in January, but will turn flat to negative for Asia FX in February and March - see Exhibit 1

6) **Reflators** (IDR, INR, PHP) **vs the Deflators** (THB, MYR, CNY). Exhibit 6 shows PHP, INR, and IDR appreciating in real terms due to inflation. Exhibit 4 shows KRW, THB, and TWD highly beta sensitive to China deflation sentiment.

7) **Fed winners** – KRW, MYR, and IDR. Exhibit 9 shows Asia FX sensitivity to US financial conditions. KRW and IDR are the most sensitive due to key role played by portfolio flows driving appreciation and likely to benefit from Fed easing.

8) **Smooth operators** - CNY, SGD & INR. FX reserve accumulation in 2023 appears relatively low and focused on China, Singapore and India – see Exhibit 12, Exhibit 13 and Exhibit 14.

Acronyms

CA – Current account

FCI – Financial Conditions Index

Fed – Federal Reserve

MAS – Monetary Authority of Singapore

NEER – Nominal Effective Exchange Rate

NPS - National Pension Service

REER – Real Effective Exchange Rate

RBI – Reserve Bank of India

SOFR – Secured Overnight Financing Rate

Refer to important disclosures on page 13 to 15. Analyst Certification on page 12. 12648805

Timestamp: 22 January 2024 11:58PM EST

Taking the rough with the smooth

This note distills into 25 charts many of the indicators and trends that the Asia FX and Rates strategy team are watching closely. They help explain the disappointing start to the year in Asia FX performance. This disappointment hinges on expectations for aggressive Fed easing being dialed back, while China's promise of reflation is fading and increasingly weighing on Asia FX – see Exhibit 2 and Exhibit 3.

The promise of a better 2024 for EM Asia FX is premised on an export recovery and China reflation taking hold. This is captured in Exhibit 1, which shows a dashboard summary of balance of payments, seasonality, valuations, positioning and carry dynamics. China reflation and an export recovery cycle is reflected in improving current accounts for KRW, MYR, TWD, and THB.

January is also meant to offer a positive afterglow of seasonal appreciation – see Asia FI & FX Strategy Watch: Tis the season(ality) 11 December 2023. However, this tailwind will abruptly fade in February, especially for KRW. The one consolation is that investor positioning appears mixed, slightly short according to our Liquid Cross Border Flows (MYR excepted for being very short), while 3M 25-delta risk-reversals suggest heavier one-way positioning for long INR and THB – see Exhibit 11.

Sifting through these charts we focus on the following three themes:

#1 Reflators (IDR, INR, PHP) vs the Deflators (THB, MYR, CNY)

It is increasingly apparent that macro-FX divide in Asia can be drawn between the reflators and deflators. The reflators – Indonesia, India and the Philippines are countries where domestic demand is intrinsically robust to drive inflation. By contrast the deflators are China, Taiwan, and Thailand.

This is apparent in Exhibit 6, which shows the relative performance in real effective exchange rates over the past 5-years. PHP, INR, and IDR have managed to hold value and appreciate – in part due to inflation. In contrast, CNY, MYR, and THB have depreciated. This trend is also reflected in their betas to out gauge of China reflation (derived from Principal Component Analysis).

Exhibit 4 shows that KRW, THB, and TWD show especially high beta sensitivity to China deflation sentiment. However, KRW and TWD also show strong linkages to the US financial cycle that is helping to offset the negative spillovers from China deflation.

Exhibit 1: Putting it all together – a broad gauge of current account, seasonality, valuation, positioning and carry metrics.
Balance of payments favor KRW, MYR, THB, and TWD. MYR is especially undervalued and under-owned. February is cruel for KRW. INR carry is favorite.

	Balance of Payments		Seasonality			Compass Valuation		Positioning		Forward Sharpe
	C/A 2024	Delta y/y	Jan	Feb	Mar	USD	REER	LCBF	3M 25 delta Risk Reversal (Z-Score)	FX 3M implied / impl. Vol
CNY	1.2	-0.3	0.48%	-0.12%	0.10%	-3.10	-5.80	-0.61	-0.37	0.23
HKD	4	-1.2	0.09%	0.02%	0.01%	-	-	-	0.38	4.27
IDR	-0.7	-0.4	0.53%	-0.30%	-0.60%	1.00	-0.30	-0.75	-1.16	0.92
INR	-1.6	-0.4	0.39%	-0.47%	0.58%	6.20	5.50	-0.15	-1.63	2.24
KRW	2.1	0.4	-0.28%	-1.11%	0.50%	3.50	3.00	-0.71	-0.17	0.37
MYR	2.1	0.4	0.40%	-0.23%	0.42%	-1.00	-2.20	-2.85	-0.77	0.40
PHP	-3.4	0	0.18%	-0.12%	0.19%	16.10	18.20	-	-0.68	0.90
SGD	17.4	-0.6	0.09%	-0.16%	0.32%	1.30	0.20	-0.01	-0.40	0.91
TWD	13.5	0.9	0.27%	-0.04%	0.29%	-	-	1.33	-1.17	-0.08
THB	2.1	0.6	1.04%	0.01%	0.12%	5.00	4.00	0.26	-1.55	0.32

Source: BofA Global Research

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2 Fed winners – KRW, MYR, and IDR

The evident thematic is that the Fed easing cycle is critical for Asia's reflation cycle, especially given the specter of China deflation looming. In this respect, Exhibit 9 shows Asia FX beta sensitivities to US Financial Conditions. Here we see that KRW and IDR appear the most sensitive over 1y, 3y, and 5y horizons consistent with the important role played by portfolio flows as an FX driver. Exhibit 10 reveals a similar pathway with 2yr Asia yield differentials with the US, with MYR, KRW, and IDR in position to benefit the most from a narrowing front-end yield spread.

One key issue is how the US economy performs under an easing cycle. Exhibit 8 shows Asia FX beta sensitivities to US economic growth surprises. Interestingly, US upside surprises are associated with pronounced CNY and THB weakness. The thesis here is that the structural trends of exceptional US growth against China and Thai deflation bring a greater tension to their respective interest rate and policy divergence that is reflected in relative FX performance.

 # 3 Rough with the Smooth (FX intervention) – China, Singapore & India

Finally, it's worth considering the depressed skews in 3M 25-delta risk reversals and favorable characteristics of carry-to-volatility ratios also being a function of FX intervention and smoothing. At first glance, FX reserve accumulation in 2023 appears relatively low and focused on China, Singapore and India for the most part in the final months of the year – see Exhibit 12, Exhibit 12 and Exhibit 14.

However, this belies the fact that balance of payment positions are relatively favorable. Even in current account deficit countries like India and Indonesia they have been relatively easily financed with portfolio flows. This has allowed central banks to manage FX volatility more proactively, especially at a time when investor sentiment remains fragile and challenged by geopolitical risks, supply chain reconfiguration and high US rates.

Honorable mentions – country charts

China – Given the broad pessimism on China growth we are tacking portfolio flows closely. Specifically, North Bound stock connect outflows (Exhibit 17) and bond flows (Exhibit 15 and Exhibit 16). The latter shows improved inflows, but most likely FX hedged mitigating any positive CNY impact.

Hong Kong – We highlight the "discipline ratio" - a ratio of settlement demand relative to the HKD aggregate balances to assess funding conditions. We expect funding to be tight and pay 10yr rates - Asia FI & FX Strategy Viewpoint: A deep dive into Hong Kong's finances 02 January 2024.

Korea - The key to KRW appreciation momentum will be for foreign portfolio equity inflows to broaden out from the tech sector to the broader KOSPI sectors –Exhibit 22**.** We recently entered long KRW to position for recovery cycle – see EM Alpha: Selling USDKRW on spike 18 January 2024

Taiwan – We are monitoring TWD 3M NDF points and risk reversals to gauge investor sentiment. The recent USD rally has pushed back on TWD bullishness amid disappointing December export orders data – see Exhibit 23.

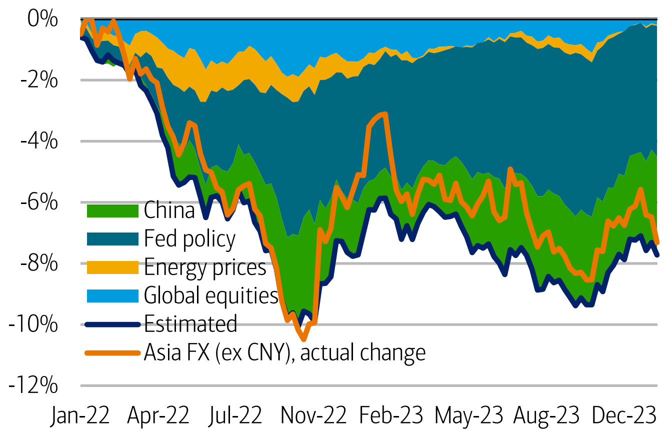
Thailand –THB has transitioned to being the second most volatile currency in Asia with 3M realized volatility averaging 7.5% over the past three years, as a result of a much small current account surplus – see Exhibit 24

India – We are watching weekly RBI reserves data closely to monitor the central bank's reaction function and whether it will pivot to allowing INR appreciation with the real effective exchange rate at elevated levels – see Exhibit 25.

What to watch

Trends and Drivers

Exhibit 2: Asia FX (ex CNY): 2022-to-date, actual vs. estimated
Asia FX (ex CNY) remains largely in line with its key drivers



Source: Bloomberg, Note: global equities = MSCI World, energy prices = BCOMEN Index, Fed policy = US 5y real rate, China = first PC across equity, credit, bonds, FX, iron ore
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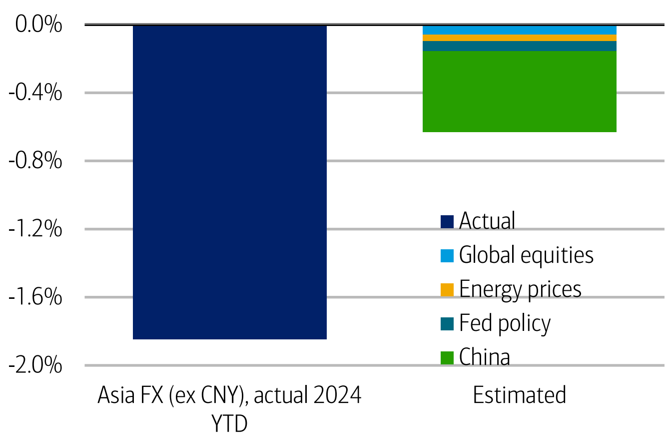
- Four factors – global equities, energy prices, Fed policy and China – explain the bulk of Asia FX dynamics.
- Asia FX (ex CNY) has remained largely in line with its estimated change since the beginning of 2022.
- Divergence between actual vs. estimated not yet as large as observed in January and July 2023.

Exhibit 3: Asia FX (ex CNY): 2024 YTD, actual vs. estimated
Asia FX depreciation in the first three weeks of 2024 has been greater than its key drivers would imply



Source: Bloomberg, Note: global equities = MSCI World, energy prices = BCOMEN Index, Fed policy = US 5y real rate, China = first PC across equity, credit, bonds, FX, iron ore
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- From a shorter-term perspective, Asia FX depreciation in the first two weeks of 2024 has been greater than its key drivers imply.
- The deterioration in China sentiment has been the main contributor to the decline.
- The divergence may be explained by consensus short USD trades being unwound in the New Year, amplifying the move relative to fundamentals.

Exhibit 4: Asian FX beta to China Reflation PCA Factor
KRW, THB, MYR shows greatest sensitivity to China reflation, INR least

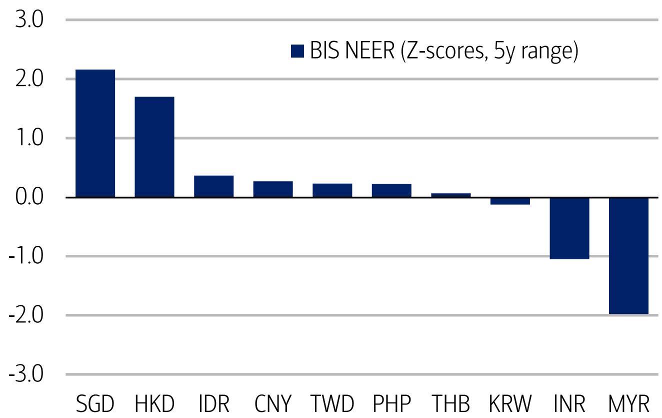
	CNY	INR	KRW	MYR	TWD	SGD	PHP	THB	IDR
1y	-3.63	-0.78	-6.69	-4.22	-2.79	-3.45	-1.90	-4.89	-2.20
3y	-2.83	-0.86	-4.16	-2.60	-1.80	-2.23	-1.48	-4.13	-1.67
5y	-2.72	-1.06	-3.69	-2.45	-1.52	-2.23	-1.44	-2.85	-2.82

Source: BofA Global Research, Bloomberg
BofA GLOBAL RESEARCH

- Asia FX beta coefficients are universally negative on China reflation. That is, weak growth sentiment on China results in marked depreciation for KRW, THB, and MYR. Even greater than the CNY beta.
- INR, PHP, and IDR appear to be the least sensitive and buffered by their internal domestic demand.

Valuations

Exhibit 5: Current NEER levels relative to 5yr history (z-score)
SGD 2-standard deviations above 5yr average, MYR 2-std. dev. Cheap



Source: BofA Global Research, Bloomberg
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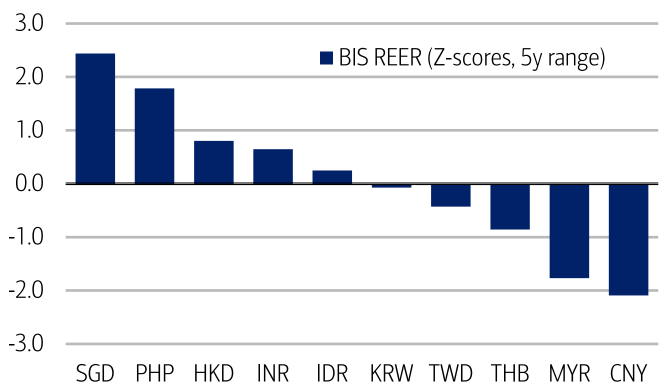
- In nominal trade weighted terms, SGD NEER appears most overvalued among Asia FX, followed by HKD. This reflects the monetary policy pegs of the two countries.
- On the cheap side of valuations, are MYR and INR that have seen the greatest nominal underperformance in trade weighted terms relative to the USD
- Overall, most Asian currencies appear very stable relative to their 5-year history in nominal terms

Exhibit 6: Current REER levels relative to 5yr history (z-score)
SGD 2.4-standard deviations above 5yr average, CNY around 2-std. dev. cheap



Source: BofA Global Research, Bloomberg
BofA GLOBAL RESEARCH

- Adjusting for inflation and showing Asia currency performance in real-trade weighted terms shows a much larger dispersion in valuations.
- SGD remains the most over-valued on this metric, in part by policy design of "modest and gradual" SGD NEER policy appreciation.
- PHP is also evident as the nominal depreciation has failed to offset the higher inflation pressure that has eroded export competitiveness.
- Despite nominal CNY trade-weighted appreciation, China's disinflation relative to peers is making the currency cheaper than MYR.

Asia FX Betas

Exhibit 7: Asian FX beta to US Inflation surprises
Upside inflation surprises correlate most with KRW, MYR and THB weakness

	CNY	INR	KRW	MYR	TWD	SGD	PHP	THB	IDR
1y	1.49	0.17	2.89	2.75	1.55	1.94	0.81	2.67	1.36
3y	0.17	-0.09	1.15	0.84	0.47	0.71	0.04	0.83	0.23
5y	0.13	-0.03	0.79	0.65	0.39	0.41	0.03	0.73	0.45

Source: BofA Global Research, Bloomberg
BofA GLOBAL RESEARCH

- The beta of Asian currencies appears to the greatest and most positive over the past year for KRW, MYR and THB. For 3y and 5y horizons, betas have been diminished and less significant.
- Further downside surprises to US inflation would help KRW, MYR and THB by sustaining expectations of a Fed easing cycle

Exhibit 8: Asian FX beta to US economic surprises
THB, CNY, INR show highest sensitivity to upside US economic surprises

	CNY	INR	KRW	MYR	TWD	SGD	PHP	THB	IDR
1y	1.65	1.29	0.69	1.04	-0.88	1.33	-0.48	2.53	1
3y	1.01	1.03	1.25	0.9	-0.32	0.99	0.75	0.88	1.28
5y	0.3	0.68	0.26	0.08	-0.38	0.51	0.52	0.93	-0.36

Source: BofA Global Research, Bloomberg

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- USD/THB, USD/CNY and USD/INR show the greatest beta sensitivity to upside US economic surprises that result in USD strength.
- This sensitivity is mostly evident in the past year and may not be robust over the long-term.
- TWD appears to be the only currency that benefits from upside US economic surprises and this relationship appears consistent over the past 5years

Exhibit 9: Asian FX beta to US FCI
KRW and IDR appear most sensitive to tighter US financial conditions

	CNY	INR	KRW	MYR	TWD	SGD	PHP	THB	IDR
1y	-0.29	-0.51	-1.5	-0.82	-0.45	-0.41	-0.28	0.2	-1
3y	-0.34	-0.65	-1.4	-0.66	-0.55	-0.78	-0.55	-0.88	-0.88
5y	-0.34	-0.48	-0.95	-0.7	-0.26	-0.73	-0.3	-0.58	-1.78

Source: BofA Global Research, Bloomberg

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- Overall, Asian currencies weaken in the face of tightening financial conditions in the US, consistent with intuition.
- KRW and IDR appear the most sensitive over 1y, 3y, and 5y horizons consistent with the important role played by portfolio flows as an FX driver.
- CNY appears to show the lowest beta, while THB's relationship has been idiosyncratic over the past year

Exhibit 10: Asian FX beta to US 2y interest rate differential (for every 100bps increase in US-local rate spread)
MYR, KRW & TWD shows greatest pro-cyclical sensitivity, INR & SGD counter

	CNY	INR	KRW	MYR	TWD	SGD	PHP	THB	IDR
1y	0.07	-0.43	0.76	1.41	0.59	-0.58	0.00	0.23	0.75
3y	0.26	-0.28	0.20	0.63	0.52	-0.41	-0.09	0.41	0.16

Source: BofA Global Research, Bloomberg
Note: We used 1-year FX implied yield to proxy for 2y Philippines yield for the PHP beta to rate differentials

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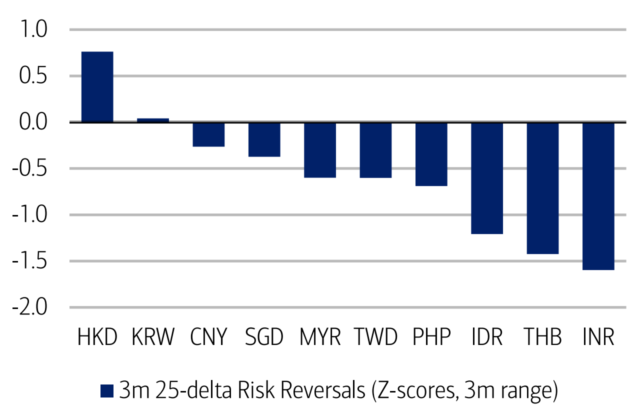
- For every 1% rise in US 2yr spread differentials to Malaysia, MYR depreciates by 1.4%, according to our beta estimates over the past year. This is followed by a 0.7% KRW depreciation. The results generally hold over the past 3-years.
- SGD and INR have negative betas, with Singapore being consistent with MAS policy of gradual and modest appreciation, during Fed tightening cycles.

FX positioning and skew

Exhibit 11: 3M Z-scores on 3M 25-delta risk reversals
Positioning represented by option skew relative to its 3M average



Source: BofA Global Research, Bloomberg

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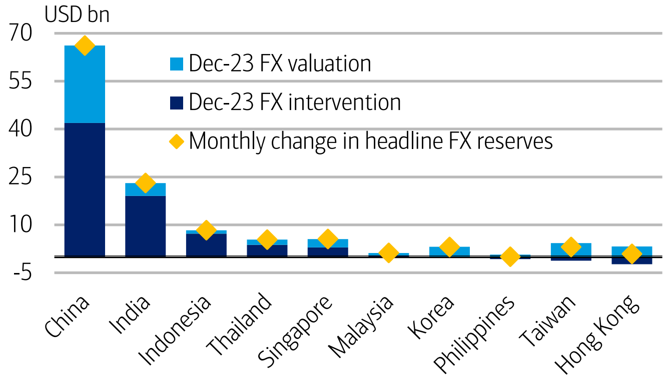
- The z-score is constructed as the latest reading of the 3M 25-delta risk-reversal subtracted from its 3M average and divided by the 3M standard-deviation.
- The z-scores suggest 3M risk-reversals are significantly below their 3-month averages for INR, THB and IDR.
- In terms of upside, only HKD displays some bias or risk premium to top-side.
- Despite the entrenched policy appreciation trend of SGD, positioning does not look too long

FX Reserve Management

Exhibit 12: Latest monthly reserve accumulation in December
December FX reserve rises were focused in China, India and Indonesia



Source: BofA Global Research, Bloomberg

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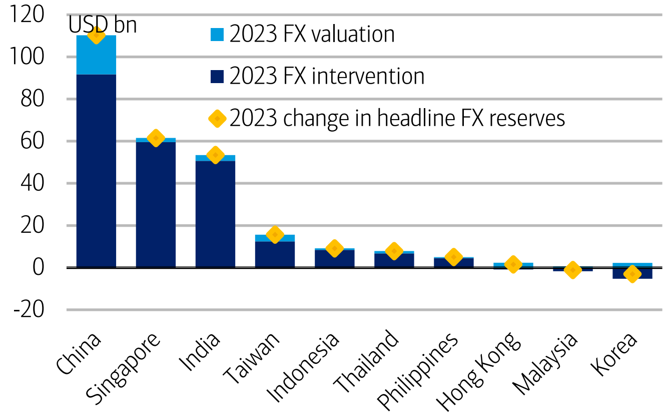
- Asia FX reserves showed a significant rise in December as the USD weakened.
- December FX reserve rises were focused in China, India and Indonesia
- After adjusting for FX valuation effects from a weaker USD, China's FX reserves rose by USD42bn, India USD19bn and Indonesia USD7.2bn.
- HK, Taiwan and Philippines witnessed very slight declines

Exhibit 13: FX reserve accumulation in 2023
Asia FX reserve accumulation were quite low in 2023; mostly focused in 4Q



Source: BofA Global Research, Bloomberg

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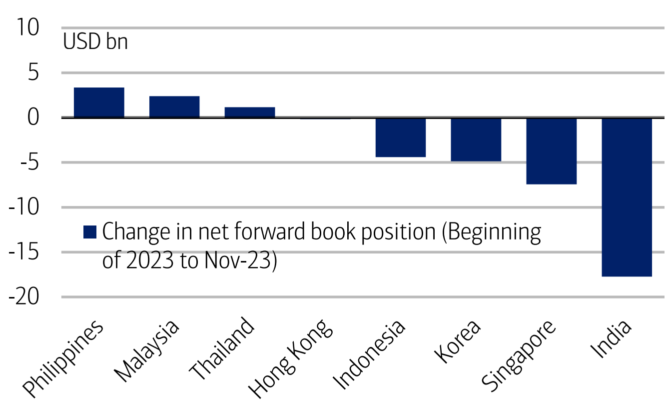
- Overall, levels of Asia FX reserve accumulation were quite low in 2023 and mostly concentrated in 4Q. This points to two-sided FX reserve management engaged in smoothing FX volatility.
- China FX reserves rose by an estimated USD91bn in 2023, followed by Singapore at USD59bn and India at USD50bn
- The biggest decline in FX reserves seen in 2023 was in Korea, where the FX valuation adjusted is estimated to have fallen by a modest USD5.2bn.

Exhibit 14: Philippines forward position rises; India sees fall
India's long forward book position starts to roll off



Source: BofA Global Research, CEIC, IMF

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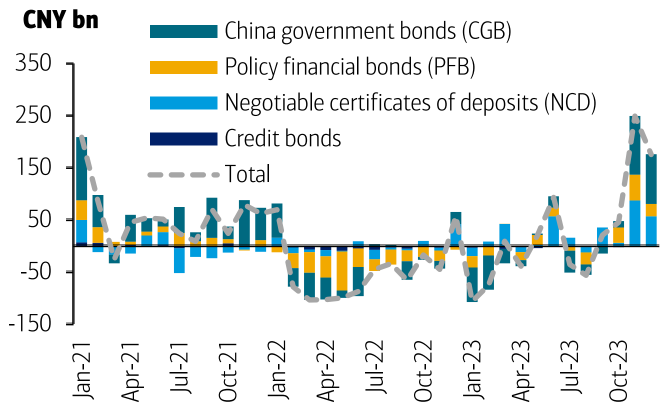
- The Reserve Bank of India's forward book position dropped USD17bn over the past year, resulting in net outstanding forward position turning negative for the first time in 3 years.
- Singapore's forward book registered a decline of USD7.4bn, which would help stabilize domestic liquidity conditions.
- By contrast, the Philippines, Malaysia and Thailand saw modest increases in FX forward positions during the course of 2023

Country Charts
China

Exhibit 15: Monthly changes in offshore investors' bond holdings
Bond inflows picked up notably in 4Q23



Source: CEIC, BofA Global Research

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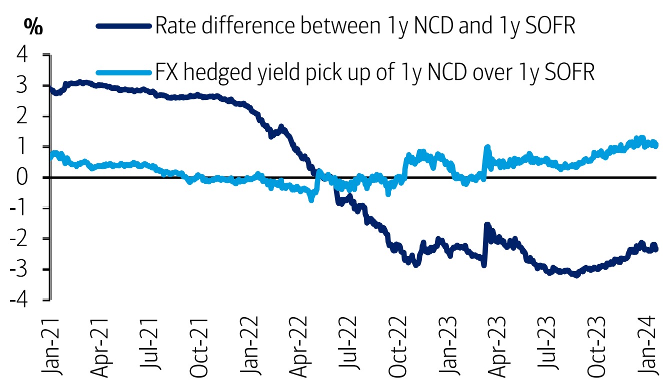
- Offshore investors expanded their China bond holdings significantly during the last two months of 2023.
- In December 2023, foreign holdings of CGBs and PFBs were boosted by CNY96bn and CNY24bn, respectively.
- In addition, their holdings of NCDs – short-term funding instruments issued by banks with maturity no greater than one year – also witnessed a notable increase.

Exhibit 16: Yield differential between China and US
FX-hedged yield pick up has been rising



Source: Bloomberg, BofA Global Research

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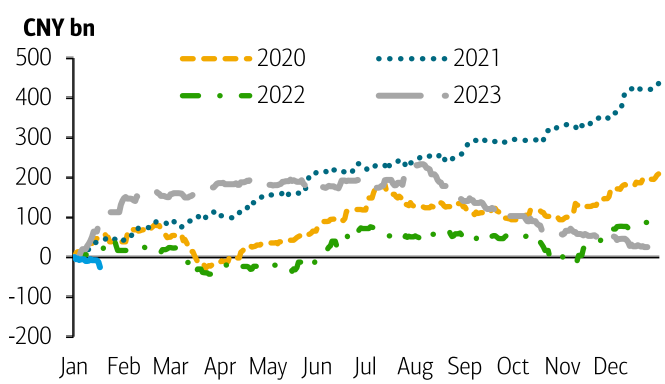
- The return of foreign investors is good news for the bond market on the margin, but we see very little impact on FX as most of the inflows are likely FX-hedged.
- Yield differential between China and US remains very negative, but the downward sloping forward curve suggests that USD investors are compensated for hedging CNY exposure.
- For instance, suppose foreign investors buy 1y AAA NCD and hold it to maturity, while fully hedging FX exposure through sell/buy 12m USDCNY swaps, the total return would be around 5.7%. It offers more than 100bp yield pick-up over 1y SOFR.

Exhibit 17: Cumulative Northbound Stock Connect inflows
Outflows continued in Jan 2024



Source: Wind, BofA Global Research

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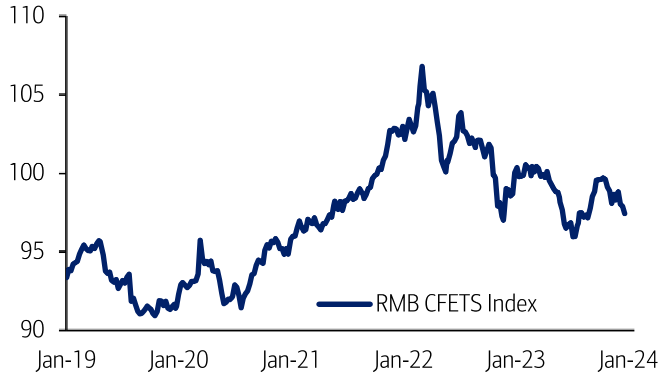
- Annual net inflows through Northbound Stock Connect amounted to CNY44bn in 2023, the lowest level in recent years.
- China's equities market continued to face selloff pressure and equities outflows continued in early Jan 2024. Until we see a meaningful turnaround in market sentiment, equities outflows will likely remain a headwind for the CNY.

Exhibit 18: China CFETS trade-weighted basket
CFETS basket resumes 2yr depreciation trend in January



Source: People's Bank of China, China Foreign Exchange Trading System
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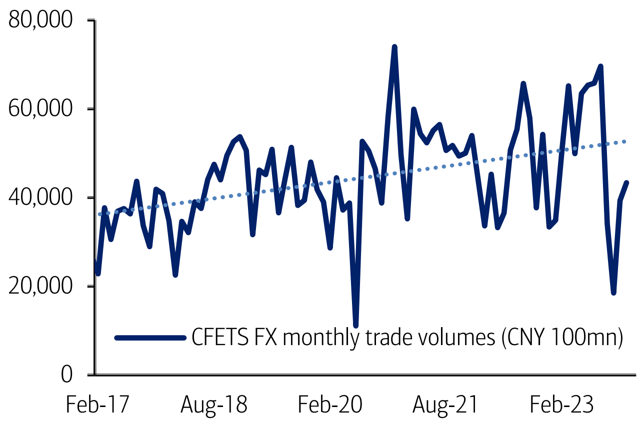
- China's CFETS trade-weighted index lost 2.6% over 2023. We expect CNY to underperform relative to peers as PBoC policy remains dovish.
- New basket weights for 2024 show USD slightly lower at 19.5%, however, adding other USD pegs boosts weight to 27.6% vs. 27.3% previously.
- Breakdown of new weights shown in Exhibit 11 below. Biggest incremental increases in weights were seen with RUB and MYR weights.
- Biggest decline in weights were for JPY to 8.96% weighting (fall of 79bps) and HKD, fall of 62bps to 2.98%.

Exhibit 19: Onshore monthly USD/CNY FX Volumes
October saw sharp fall in volumes to 18.48bn RMB



Source: People's Bank of China, China Foreign Exchange Trading System
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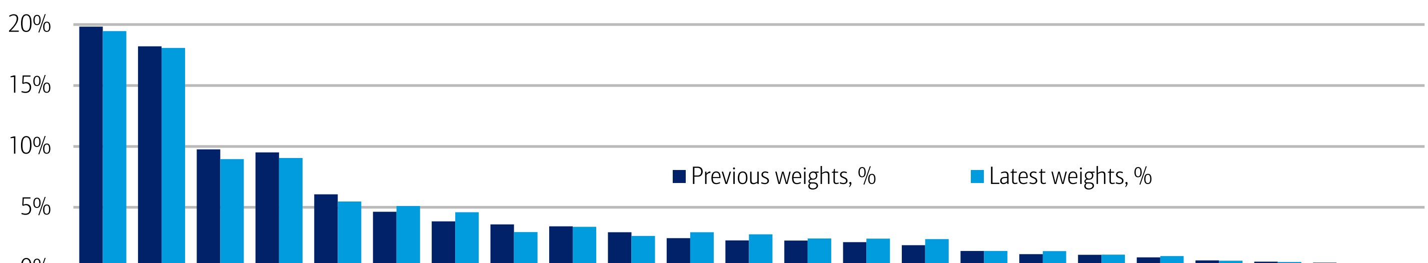
- Onshore FX trading USD/CNY volumes fell to almost March 2020 COVID levels in October 2022 at an average daily estimated volume of 18.48bn RMB.
- This could possibly be the result of window guidance and less capital inflows into China. November has seen a rebound in volumes, but still below the trend growth seen over the past 6 years.

Exhibit 20: The latest CFETS weights for 2024 shows USD weights marginally lower to 19.46%
Basket weights for RUB and MYR see largest marginal increases to 4.6% and 5.11% respectively



	USD	EUR	JPY	KRW	AUD	MYR	RUB	HKD	THB	GBP	SGD	SAR	MXN	CAD	AED	ZAR	CHF	PLN	TRY	NZD	SEK	DKK	HUF
Previous weights, %	19.8	18.2	9.8%	9.5%	6.1%	4.6%	3.9%	3.6%	3.4%	3.0%	2.5%	2.3%	2.3%	2.1%	1.9%	1.4%	1.2%	1.1%	0.9%	0.6%	0.5%	0.5%	0.4%
Latest weights, %	19.4	18.0	8.96	9.05	5.48	5.11	4.60	2.98	3.41	2.66	2.96	2.79	2.45	2.43	2.39	1.42	1.40	1.12	1.00	0.62	0.52	0.40	0.40

Source: People's Bank of China, China Foreign Exchange Trading System
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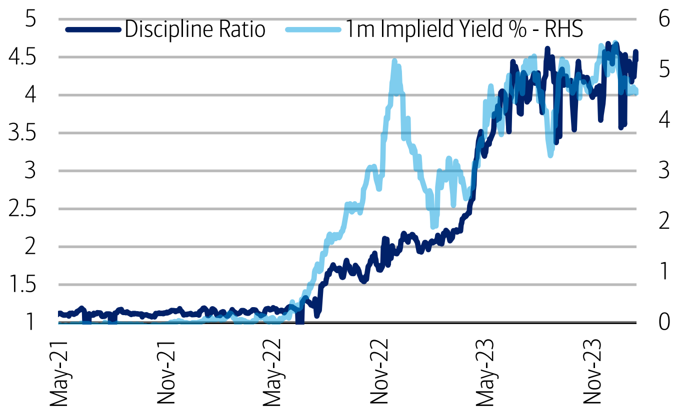
Hong Kong

Exhibit 21: Hong Kong - The Discipline Ratio and 1M FX implied yield
The Discipline Ratio remains high signifying limited room for HIBOR to ease.



Source: BofA Global Research, Bloomberg

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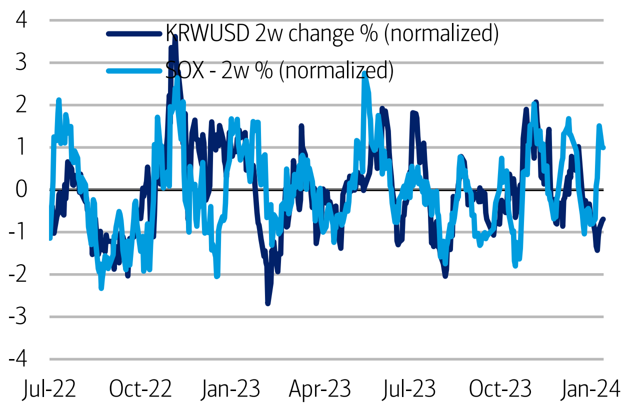
- We expect HKD funding to remain tight as settlement demand relative to the size of the aggregate balance (as proxy by our Discipline Ratio) stays high and above 4.
- With funding tight, we expect spot USDHKD to remain in a range of 7.80 – 7.83 until the Fed begins to cut.
- Currently, we find the most attractive expression of HKD rates to be pay 10y HK IRS vs US on the back of deteriorating fiscal dynamics for the Hong Kong government (see: Asia FI & FX Strategy Viewpoint A deep dive into Hong Kong's finances).

Korea

Exhibit 22: The Korean Won and the SOX Index
Currently, there is a larges divergence between the KRW and the SOX Index



Source: BofA Global Research, Bloomberg

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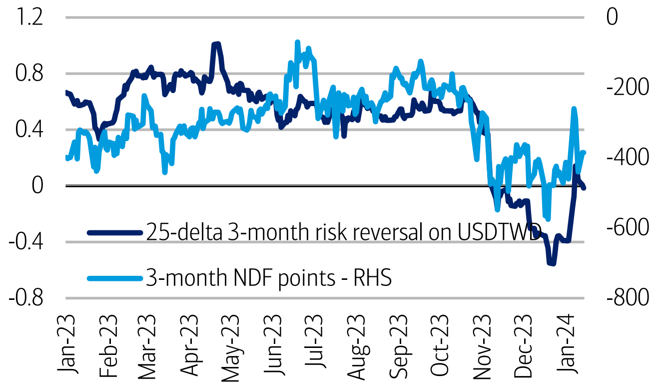
- Korea saw strong equity inflows in the second half of December 2023 with foreign interest broad based and across multiple sectors.
- We think the macro backdrop of the recovery of the global export cycle, rising DRAM prices and a dovish Fed pivot is conducive to the Korean Won outperforming in 2024.
- Moreover, the BoK is expressing support for the spot FX market by extending its swap line with the NPS by another year.
- Currently, the performance of the Korean won is lagging that of the global SOX index, which is a good barometer for sentiment for KRW.
- For more, see: Asia FI & FX Strategy Watch Korea Financial Flows – January 2024 and EM Alpha: Selling USDKRW on spike 18 January 2024.

Taiwan

Exhibit 23: Taiwan – 3-month TWD NDF points and risk reversals
3-month risk reversals in USDTWD reversed due to the sharp increase in NDF points following the election.



Source: BofA Global Research, Bloomberg

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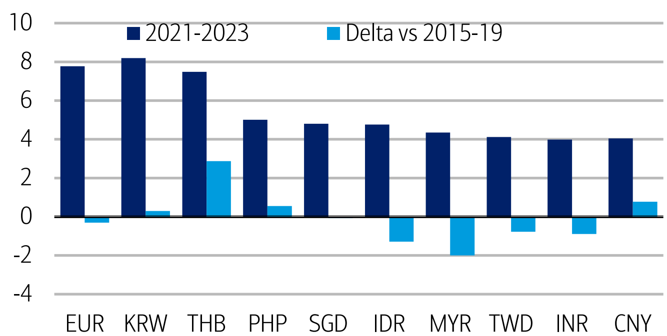
- In Emerging Insight A heavy downside skew to USDTWD ahead of the election, we outlined the historical performance of Taiwanese equities, spot FX and FX vol around the previous six general elections in Taiwan.
- The week following the Taiwanese election coincided with a global rally of the USD, resulting in strong demand to buy USDTWD and aggressive portfolio outflows (see: Taiwan Watch: Post-election quick takes 16 January 2024).
- The USD rally push TWD NDF points higher, along with reversing the negative pricing for 3-month risk reversals.

Thailand

Exhibit 24: THB remains highly volatile due to low CA buffer
Realized volatility 3m average over 2021-23 and difference vs 2015-19 (%)



Source: BofA Global Research, Bloomberg

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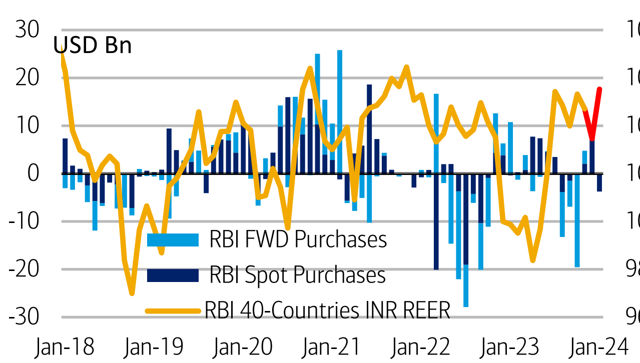
- THB remains one of the more volatile currencies in the region and also more volatile compared to its own historical volatility during pre-pandemic period.
- We believe that's driven by much higher volatility in current account due to Thailand's dependence on tourism and large oil imports. That has made THB more vulnerable to widening interest-rate differentials against the US and also to change in the government policies.
- Further improvement in current account surplus in 2024 would likely result in normalization of volatility in THB towards historical levels. On politics, noise around expiry of the current Senate term during 2Q may still impact THB.

India

Exhibit 25: INR supported on flows but valuation nearing recent highs
RBI's reserves changes in spot and forward (USD Bn, lhs) and RBI's INR REER index (rhs)



Source: BofA Global Research, Bloomberg

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- We believe INR would remain well supported by portfolio flows this year. Bond index flows from 2Q and continued equity flows on reduced election premium would keep BoP in surplus territory.
- RBI's accumulation of reserves has limited INR's appreciation and reduced volatility to historically low levels. FX reserves have already recovered substantially, and a slower pace of accumulation would be backed by more contained current account deficit.
- The market is keenly watching for any signs of pivot on RBI's reaction function which may open-up room for further rally. We expect INR could appreciate gradually this year towards 82/USD but RBI's preference for keeping INR REER within historical ranges may limit scope for further rally.

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