

BoK to Stay on Hold Tomorrow

- BoK will maintain its policy rate at 1.25% on Thursday morning
- Korea's growing household debt and geopolitical risks are two major systemic risks facing the country's financial system, according to a BoK survey
- Finance minister nominee Kim Dong-yeon reaffirms fiscal expansion that we believe will be supportive of the KRW in the medium term
- We like to buy JPY/KRW cross on dips ahead of June ECB meeting as the KRW remains susceptible to external uncertainty and geopolitical situation

Asia Overview - Most EM Asian currencies declined versus the dollar during Tuesday's Asian session, led by the INR and KRW. The INR snapped a two-day gain yesterday as Major General Ashok Narula said Indian army has hit locations across the Line of Control (LoC) with Pakistan recently. We expect the INR to recoup its losses in the coming sessions given persistent portfolio inflows. The IMD has forecasted the monsoon onset over Kerala on 30 May this year compared to the normal date of 1 June, but the seasonal rainfall may arrive a day before according to Ministry of Earth Sciences (MoES) Secretary M Rajeevan. In addition, India's Cabinet may consider abolishing the 25-year-old Foreign Investment Promotion Board (FIPB) on Wednesday. The KRW declined 0.5% Tuesday amid equity outflows after rallying 0.75% the previous session. The TWD weakened 0.35% Tuesday on concerns over US political uncertainty. The Taiwanese government sold TWD 25bn of 30-year bonds on average at 1.850% compared to the previous average yield of 1.933%, signaling excess liquidity in the onshore market. The SGD declined in line with a weakening EUR. The city-state's MAS core inflation accelerated to 1.7% yoy in April from 1.2% in March, above consensus forecasts of 1.5%. The CNH dipped, while the CNY edged up. The PBoC set USD/CNY fixing lower than market consensus and our forecast again on Tuesday morning. The THB dipped Tuesday. The BoT is expected to hold policy rate at 1.50% on Wednesday. The PHP was little changed yesterday. USD/PHP is likely to stay below the 50 resistance level for now. The IDR inched up on Tuesday, with USD/IDR expected to trade in a range of 13,250-13,400. The MYR extended its gains yesterday, outperforming regional peers. USD/MYR slid through the 4.30 support level, opening room for further downside. We are awaiting OPEC meeting set for Thursday. The JPY weakened modestly in Tuesday's NY session along with rising UST yields.

Regional equity indices diverged Tuesday. China's SHCOMP index slid 0.45%, while India's NIFTY50 index declined 0.55%. Korea's KOSPI index rose 0.33% despite USD 26.9mn of stock outflows. In the meantime, Taiwan's TWSE index advanced 0.11%, closing above the 10,000 psychological level. Global funds added to their holdings in Taiwan's main board shares by TWD 2.98bn (USD 98.7mn) on Tuesday. Malaysia's KLCI index and Indonesia's JCI index closed down 0.44% and 0.33% respectively. However, Thailand's SET index ended 0.45% higher amid USD 50.1mn of equity inflows.

Korea • The BoK is expected to leave its policy rate unchanged at 1.25% on Thursday morning, seeking a balance between the nation's financial stability and economic growth. Local media Yonhap News reported Wednesday that Korea's growing household debt and geopolitical risks are two major systemic risks facing the country's financial system, citing a semiannual survey conducted by the BoK.

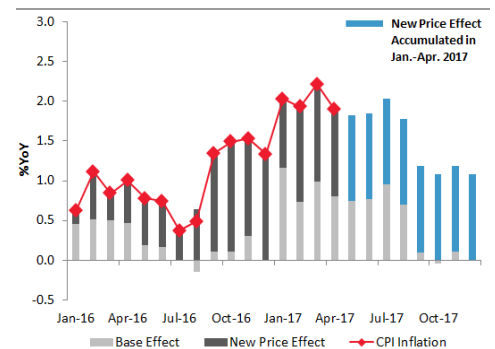
Korean household debt rose 1.28% to a record high of KRW 1,359.7tn as at end-Q1 from KRW 1,342.5tn a quarter earlier, partly due to increasing lending by non-bank financing corporations. The indebtedness has weighed on Korea's private consumption, while posing growing risks to the nation's financial system.

In addition, finance minister nominee Kim Dong-yeon has reaffirmed fiscal expansion to increase jobs, income and growth. He said Sunday that expansionary fiscal policy

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Qi Gao
FX Strategist (Asia)
 +65 6305 8396
qi.gao@scotiabank.com

Korea's CPI Inflation Breakdown



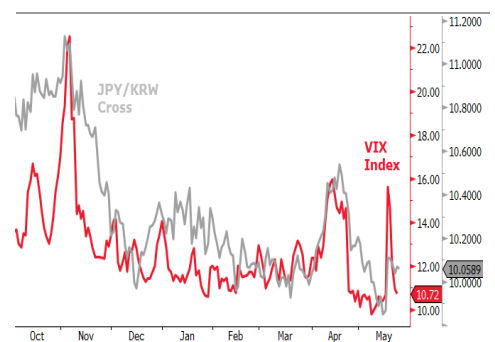
Source: Bloomberg & Scotiabank FX Strategy

KOSPI Share Index vs. USD/KRW (Inverted)



Source: Bloomberg & Scotiabank FX Strategy

VIX Index vs. JPY/KRW Cross



Source: Bloomberg & Scotiabank FX Strategy

seems to be appropriate under the current circumstances to tackle the pressing tasks such as low economic growth and high youth unemployment rate, according to Yonhap News. Kim agreed with President Moon Jae-in's plan to draw up a supplementary budget worth KRW 10tn in the second half.

The BoK's monetary policy stance may turn slightly hawkish in the months ahead on the planned fiscal spending. **We believe it will be supportive of the KRW in the medium term together with expansionary fiscal policy.** The KRW ND IRS curve is now factoring in a 5 bp rate hike within six months.

While equity inflows are expected to resume and continue as risk sentiment will finally improve, the KRW remains susceptible to external uncertainty including US political turmoil and the ECB's monetary policy and geopolitical situation on the Peninsula in the weeks ahead. **We like to buy JPY/KRW cross on dips in the run-up to the ECB's next meeting on 8 June.**

- *The WSJ reported Tuesday that former CIA director John Brennan testified Tuesday that contacts between President Donald Trump's campaign associates and Russian officials raised concerns the Kremlin could try to cultivate people close to Trump, shedding light on why federal agents began a full investigation.*
- *Former FBI Director James Comey has postponed his hearing before the US House Oversight Committee that had been planned for Wednesday morning as he needs to speak with the special counsel Robert Mueller overseeing Russian investigation before testifying publicly. Comey has agreed to appear in front of the Senate Intelligence Committee at some point after Memorial Day 29 May as well.*
- *The Washington Post reported Monday that President Donald Trump "asked two of the nation's top intelligence officials in March to help him push back against an FBI investigation into possible coordination between his campaign and the Russian government, according to current and former officials."*
- *Reuters reported on 25 April that "many rate setters [of the ECB] see scope for sending a small signal in June towards reducing monetary stimulus," citing three sources on and close to the ECB's Governing Council.*

TODAY'S CALENDAR

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
06:45	NZ	TRADE	Trade Balance, NZD	Apr	267mn	578mn	277mn	med-high
11:00	KR	DATA	Short-term External Debt	Q1			\$105.2bn	med
15:00	TH	BOT	BoT Benchmark Interest Rate	May 24	1.50%			high
16:00	SG	DATA	Automobile COE Quota Premium for Category A	May 24			51106	med
16:00	SG	DATA	Automobile COE Quota Premium for Category B	May 24			55414	med
16:00	SG	DATA	Automobile COE Quota Premium for Category E	May 24			55000	med
16:20	TW	MONEY	Money Supply M1B Daily Avg YoY	Apr			4.57%	med
16:20	TW	MONEY	Money Supply M2 Daily Avg YoY	Apr			3.64%	med
	PH	DATA	Budget Balance, PHP	Apr			-61.5bn	med
	JP	REPORT	Cabinet Office Monthly Economic Report	May				med-high

CONTACTS - GLOBAL FX STRATEGY
Shaun Osborne

Chief FX Strategist

T +1 416 945 4538

Shaun.Osborne@scotiabank.com
Qi Gao, FRM

FX Strategist (Asia), Associate Director

T +65 6305 8396

qi.gao@scotiabank.com
Eric Theoret, CFA, CMT

FX Strategist (G10), Director

T +1 416 863 7030

eric.theoret@scotiabank.com
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