

TWD Amid Resumption of US-China Trade Talks

- TWSE share index is likely to rebound amid risk appetite arising from the resumption of US-China trade talks, while equity outflows are slowing down
- Washington reportedly seeks to persuade or pressure Beijing to raise the value of its currency to its pre-dispute level in the upcoming talks
- US President Donald Trump criticizes the Fed's rate hikes and accuses China and Europe of manipulating their respective currencies
- USD/TWD is likely to trade in a range of 30.5-31.0 with a bias towards the lower bound; Meanwhile, we stay cautious as US President Trump says he has "no time frame" for ending China trade dispute

Asia Overview - Most EM Asian currencies extended their gains versus the dollar during Monday's Asian session. The SGD and JPY advanced moderately as the DXY Index pared its earlier gains in response to US President Donald Trump's comments criticizing the Fed's rate hikes.

The CNH closed almost flat while the CNY rose about 0.3%. The dollar/yuan is likely to consolidate with a downward bias in the near term. Meanwhile, we stay cautious on the upcoming US-China trade talks set for 22-23 August. Chinese President Xi Jinping is set to visit Pyongyang next month, according to *The Straits Times*. The KRW increased around 0.2%. USD/KRW is expected to trade between 1,100 and 1,140 with a downward potential in the near term. South Korea government is looking at a 9.7% increase in next year's budget, the biggest increase in 10 years. President Moon Jae-in asked his chief aides to prepare "comprehensive" measures to increase jobs. The TWD advanced slightly amid equity inflows on Monday. USD/TWD is expected to trade in a range of 30.5-31.0 with a downward bias.

The INR and IDR rose 0.5% and 0.2% respectively on Monday when onshore FX trading resumed after the public holiday. Fitch Ratings said yesterday that the impact of the sharp fall in the rupee is likely to be limited on India's sovereign ratings. USD/IDR is likely to fluctuate at around 14,600 for now, remaining susceptible to external uncertainty. Nanang Hendarsah, executive director for monetary management, told journalists on Monday that the BI will maintain its dual-market intervention. He added that the BI will reduce minimum transaction of FX swap hedging to USD 2mn from current USD 10mn to reach out to wider participants. The MYR gained slightly. USD/MYR is likely to slide further if US-China trade tensions deescalate, following a broader market tone. Chinese Premier Li Keqiang told reporters in Beijing on Monday that China is ready to increase imports of Malaysian goods to a "large extent," especially for palm oil products. The PHP inched up. USD/PHP is likely to trade in a range of 52.8-53.5 for now. The Philippines sold Treasury bills at lower yields for all three maturities on Monday. The THB strengthened more than 0.6% on Monday, due to hawkish remarks from BoT Governor. The THB is likely to rebound moderately further on the back of US-China restarting trade talks and US President Trump's comments.

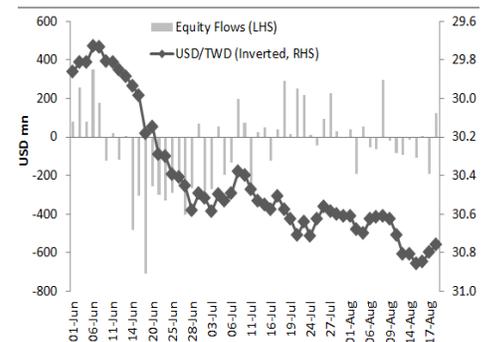
Regional equity indices resided in the green on Monday. China's SHCOMP index rallied 1.11%, while India's NIFTY50 index rose 0.71%. South Korea's KOSPI index edged up 0.04% despite USD 94.6mn of stock outflows. In the meantime, Taiwan's TWSE index advanced 0.08% as global funds added to their holdings in local main board shares by USD 121.7mn on Monday. Malaysia's KLCI index and Thailand's SET index closed up 0.23% and 0.67% respectively. Indonesia's JCI index ended 1.87% higher in spite of USD 22.7mn of equity outflows.

Taiwan • The TWSE share index is likely to rebound amid risk appetite arising from the resumption of US-China trade talks, while equity outflows are slowing down. Taiwan's export orders rose 8.0% yoy in July after sliding 0.1% the month before, above market estimate of a 2.9% increase. The island's current account surplus

FOLLOW US ON TWITTER @SCOTIABANKFX

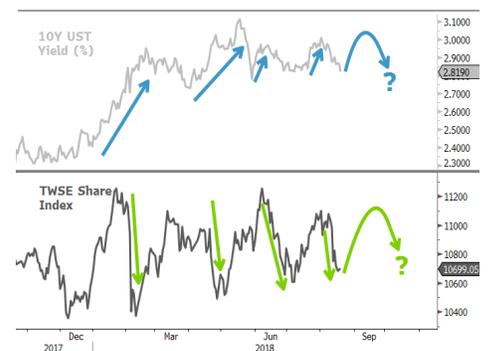
Qi Gao
FX Strategist (Asia)
 +65 6305 8396
qi.gao@scotiabank.com

USD/TWD vs. Taiwan's Equity Portfolio Flows



Source: Bloomberg & Scotiabank FICC Strategy

TWSE Share Index Likely to Rebound



Source: Bloomberg & Scotiabank FICC Strategy

USD/TWD vs. USD/CNH: An Increasingly Tight Correlation



Source: Bloomberg & Scotiabank FICC Strategy

remaining large in the second quarter.

It is reported that the US Treasury Department has worked on a more refined list of demands of China, including reduction of subsidies, elimination of overcapacity in steel, aluminum and other industries, cessation of pressure on US companies to transfer technology, additional purchases of US goods and services and strengthening of the yuan.

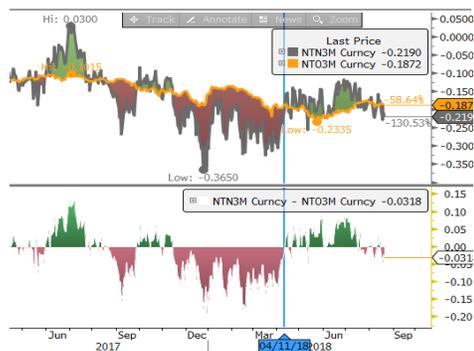
- *The New York Times* reported on Friday that "In its coming talks, the Treasury Department will seek to pressure the Chinese to lift the value of their currency, a person briefed on the plans said."
- Earlier on Thursday, *The WSJ* reported that "Another item on the US agenda, the people say, is persuading Beijing to raise the value of its currency to its pre-dispute level."

Moreover, US President Donald Trump told *Reuters* in an interview on Monday that "I'm not thrilled with his (Jerome Powell) raising of interest rates, no. I'm not thrilled." He said he would criticize the Fed if it continues to raise rates. Earlier on Friday, President Trump said at a Hamptons fundraiser that he expected Jerome Powell to be a cheap-money Fed chairman but his nominee instead raised interest rates, according to *Bloomberg*. In the interview with *Reuters*, Trump also accused China and Europe of manipulating their respective currencies, saying China artificially lowers price of the yuan when the US puts tariffs on the nation.

The yuan will likely rally moderately at the request from or under the pressure of the US as US-China trade tensions are likely to deescalate. USD/TWD is likely to trade in a range of 30.5-31.0 with a bias towards the lower bound, given its increasingly tight correlation with USD/CNH. Taipei-based *Commercial Times* reported that Taiwan's finance ministry is working out a new repatriation tax plan based on principles of tax fairness, effective management of funds, stable economic development and simplified tax regime. Moreover, Apple Inc. is likely to introduce a trio of new iPhones in September, which could prop up the TWD as well at that time.

Meanwhile, we keep a close eye on developments in US-China trade talks as the headlines could swing risk sentiment abruptly. *The WSJ* reported on Monday that negotiators in the US Treasury Department offer a carrot, while the office of the USTR threatens with a stick, both with the approval of President Trump, citing people familiar with the administration's internal deliberations. Trump told *Reuters* on Monday that he doesn't expect much coming from China trade talks in Washington this week and has "no time frame" for ending China trade dispute.

USD/TWD Points: 3M DF vs. 3M NDF: Eased
Expectations of A Depreciation in TWD



Source: Bloomberg & Scotiabank FICC Strategy

TODAY'S CALENDAR

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
05:00	KR	INFL	PPI YoY	Jul		2.9%	2.6%	med
09:30	AU	RBA	RBA August Meeting Minutes	Aug				high
11:30	TH	TRADE	Customs Exports YoY	Jul	10.00%		8.19%	med-high
11:30	TH	TRADE	Customs Imports YoY	Jul	10.00%		10.83%	med-high
11:30	TH	TRADE	Customs Trade Balance	Jul	-\$30mn		\$1579mn	med-high
15:00	MY	DATA	Foreign Reserves	Aug 15			\$104.5bn	med-high
16:30	HK	INFL	CPI Composite YoY	Jul	2.4%		2.4%	med
	KR	TRADE	Exports 20 Days YoY	Aug			9.3%	med
	KR	TRADE	Imports 20 Days YoY	Aug			21.6%	med

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
IMPORTANT NOTICE and DISCLAIMER:

This report is prepared by Scotiabank as a resource for clients of Scotiabank for information and discussion purposes only. This report should be considered a marketing communication and has not been prepared by a member of the research department of Scotiabank, it is solely for the use of sophisticated institutional investors, and this report does not constitute investment advice or any personal recommendation to invest in a financial instrument or "investment research" as defined by the UK Prudential Regulation Authority or UK Financial Conduct Authority. This document has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and the information contained in this publication is not subject to any prohibition in the EU on dealing ahead of the dissemination of investment research. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from publically available sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness and neither the information nor the forecast shall be taken as a representation for which Scotiabank or any of its employees incur any responsibility. Neither Scotiabank nor its representatives accept any liability whatsoever for any loss arising from any use of this report or its contents. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instruments and has no regard to the specific investment objectives, financial situation or particular needs of any recipient. It is not intended to provide legal, tax, accounting or other advice. Scotiabank and/or its respective officers, directors or employees may from time to time take positions in the products mentioned herein as principal or agent. Directors, officers or employees of Scotiabank may serve as directors of corporations referred to herein. Scotiabank may have acted as financial advisor and/or underwriter for certain of the corporations mentioned herein and may have received and may receive remuneration for same. This report may include forward-looking statements about the objectives and strategies of Scotiabank. Such forward-looking statements are inherently subject to uncertainties beyond the control of Scotiabank including but not limited to economic and financial conditions globally, regulatory development in Canada and elsewhere, technological developments and competition. The reader is cautioned that the member's actual performance could differ materially from such forward-looking statements. Past performance or simulated past performance is not a reliable indicator of future results. Forecasts are not a reliable indicator of future performance. You should note that the manner in which you implement any of strategies set out in this report may expose you to significant risk and you should carefully consider your ability to bear such risks through consultation with your legal, accounting and other advisors. Information in this report regarding services and products of Scotiabank is applicable only in jurisdictions where such services and products may lawfully be offered for sale and is void where prohibited by law. If you access this report from outside of Canada, you are responsible for compliance with local, national and international laws. Not all products and services are available across Canada or in all countries. All Scotiabank products and services are subject to the terms of applicable agreements. This report and all information, opinions and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever nor may the information, opinions and conclusions contained in it be referred to without in each case the prior express consent of Scotiabank. Scotiabank is a Canadian chartered bank.

If you are affected by MIFID II, you must advise us in writing at trade.supervision@scotiabank.com.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotia Capital Inc. and Scotia Capital (USA) Inc., Scotiabank Europe plc, Scotiabank (Ireland) Limited - all members of the Scotia-bank Group and authorized users of the mark. The Bank of Nova Scotia is incorporated in Canada with limited liability. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund. Scotia Capital (USA) Inc. is a broker-dealer registered with the SEC and is a member of FINRA, NYSE, NFA and SIPC. The Bank of Nova Scotia is authorized and regulated by the Office of the Superintendent of Financial Institutions in Canada. The Bank of Nova Scotia is authorized by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

To unsubscribe from receiving further Commercial Electronic Messages click this link: www.unsubscribe.gbm.scotiabank.com.