

Daiwa's View

Things to watch for in 2020: Part 7

- US-China issue might have been excluded from major themes

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Daiwa Securities Co. Ltd.

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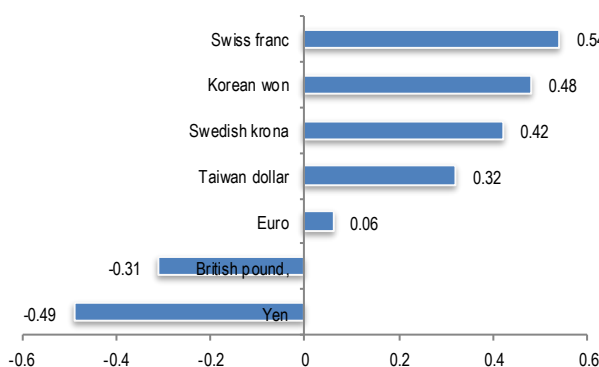
Things to watch for in 2020: Part 7

In December 2019, our senior adviser Tadao Sakashima said that “The Taiwan presidential election set for January 2020 will be important to decide on the geopolitical picture of the Asia-Pacific region. I do not understand why I get little news on the election.”

Yesterday, the Nikkei Stock Average recovered to the Y24,000 level amid yen depreciation to Y110/\$. The 10-year JGB yield also rose to 0.01% (up 0.015%). Although this is risk-on, there is a point to make further reference to. Our conclusion is that what happened since the end of last week was not “dollar appreciation” but “yen depreciation.” The US-China issue might have temporarily dropped from the themes in 2020.

Looking at currency performance vs. the US dollar since the end of last week, we found that the correlation has substantially changed. While the yen weakened vs. the dollar by as much as 0.49%, the euro strengthened slightly (+0.06%). The Swiss franc, a representative safe asset similar to the yen, appreciated substantially (+0.54%). Even the British pound, for which rate-cut concerns have mounted, the decline was limited to –0.31%. In such a situation, we saw clear depreciation of only the yen, which weakened beyond the pound. Those who are involved in the trading of risk assets must have noted the strangeness of the change in the correlation.

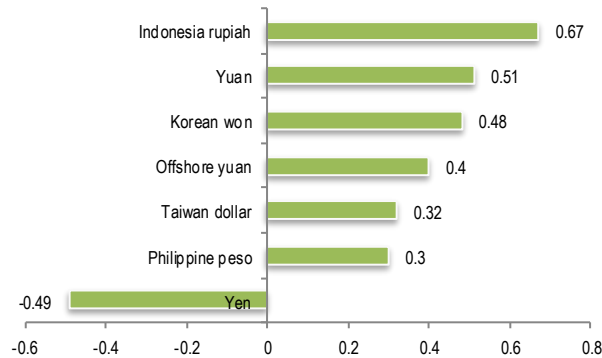
Chart: Performance of Major Currencies vs. US Dollar (10-14 Jan, %)



Source: Bloomberg "WCRS"; compiled by Daiwa Securities.

Given the performance of Asian currencies and events since last weekend, including the landslide re-election of pro-American Tsai Ing-Wen in the Taiwan presidential election, removal of China's designation as a currency manipulator in the US currency report, and signing of the US-China Phase 1 trade deal, we think that the aforementioned strange feeling can be largely eliminated. In fact, Asian currencies (excl. yen) gained substantially across the board—Indonesia rupiah +0.67%, Chinese yuan +0.51%, Korean won +0.48%, and Taiwan dollar +0.32%. Here, we can guess that these movements of Asian currencies might have been intraregional ones due to the de-escalation of tension in Asia, a very large economic zone.

Chart: Performance of Asian Currencies vs. US Dollar (10-14 Jan, %)



Source: Bloomberg "WCRS"; compiled by Daiwa Securities.

Looking back, China announced the white paper on national defense for the first time in four years on 24 July 2019, while presidential candidates' stance toward China became an issue in Taiwan's election. China warned the pro-American Taiwan Tsai administration by showing its hardline stance on the possibility of using military force toward the unification of Taiwan and China. The next month, the US designated China as a currency manipulator amid further depreciation of the yuan.

In Hong Kong's district council election on 24 November 2019, the pro-democracy camp achieved a landslide victory, winning 17 of the 18 districts, while the voting rate exceeded 71% and reached a record high, amid intensifying pro-democracy/anti-government protests. As the pro-China camp lost a substantial number of seats, Chief Executive Carrie Lam delivered her concession speech, saying that the government would seriously reflect the voice of the public.

This time around, the news of the landslide victory of pro-American Tsai Ing-Wen in the Taiwan presidential election was added. Immediately after the end of this series of events, we saw the removal of China's designation as a currency manipulator, appreciation of Asian currencies, and depreciation of the yen alone. These are not superficial phenomena, such as risk-on mode. Probably, they will mean de-escalation of tension in light of the geopolitical picture in the Asian-Pacific region, as shown by Senior Adviser Sakashima's remark at the outset of this report.

Of course, US-China skirmishes are likely to persist. However, the possibility is strong that each Asian nation for a while will not be forced to choose between China or the US. At least by the US presidential election in 2020, it appears safe to say that US-China tension will be excluded from major themes. This will definitely lead to risk-on mode in Asian nations, including Japan, and therefore solid performance of Asian currencies deserves a nod. The movements since the end of last week should be understood in such a context.

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■ Credit Rating Agencies

[Standard & Poor's]

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[Moody's]

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[Fitch]

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- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

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Corporate Name: Daiwa Securities Co. Ltd.

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