Maybank

Macro | FX Research

Global

FX Outlook: 2017

PPP - Of Political Uncertainty; Policy Changes; Rising Price Pressures

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Key *PPP* Themes

Three "P" Themes: Political Uncertainty; Trade, Monetary and Regulatory Policy Changes; Inflationary Price Pressures - will be key in 2017. In an environment of continued global trade downshift, 2017 could be a year where growth and inflation between US and EM will begin to diverge. This will be negative for EM.

Expect USD to be supported at least for the earlier part of 1H 2017 as the US Trump administration is likely to boost risk appetite before some concerns about his policies emerge in 2H. EUR and JPY to stay soft for most of 2017 as domestic risk sentiments remain. USD/AXJs to see further upside for currencies with signs of weak domestic demand, lower fiscal capacity and potential idiosyncratic risks. However, fundamentally we see medium term value for IDR and MYR.

Summary

Macro themes in 2017 will continue to be driven by a number of key factors. **First, expectations of an improved US medium term growth and productivity outlook on the back of expectations of a targeted fiscal infrastructure package**, changes in the regulatory environment and tax reforms (i.e. lower taxes) under the Trump administration. Longer term, concerns about changes in trade and immigration policy could have macroeconomic impacts. Fiscal boosts could lead to concerns of faster inflationary pressures and as such affect the Fed rate hike trajectory. In other words, there will still be some policy uncertainty for the most part of 2017. In 1H 2017, we expect on average a steepening of the UST curve with the back end rising faster than the front end (higher nominal rates). This should lead to widening yield differentials in favour of the US leading to unwinding of popular EM carry trades (in such cases favour long USD, short AXJs in particular IDR, INR and to some extent MYR). The expectations of fiscal expansion as well as China & ASEAN infrastructure plans are supportive of greater demand for hard commodities including copper, iron ore which are expected to manifest in a positive support for AUD.

Second, as the US markets try to normalise next year, **"expenditure reflation" - first phase in the recovery from a slump before the stage of full employment and inflation is reached** - requires an increase in total expenditure on goods and services. This phase of reflation and eventual investment recovery we think will be slower this time round but will likely materialise in the US. If inflation picks up faster than expected, it leaves greater room for Fed to raise rates in 2017. However,

SEE PAGE 23 FOR IMPORTANT DISCLOSURES

despite that, Fed is likely to continue to reiterate data dependency and gradual tightening rhetoric over the course of next year. We expect softer China transitional growth to continue and may amplify EM growth concerns. There could potentially be downside risks for EM if growth fails to pick up and if debt sustainability concerns emerge from US rates increases. The dollar should remain supported in 1H 2017 where the Trump risk upside will remain strong but thereafter in 2H we are concerned about some volatility emanating from the US. 1Q is likely to see some weakness following expectations of ECB easing. Overall the monetary policy divergence (Fed vs ECB & BOJ) should manifest in a long USD, short EUR/JPY.

Third, we re-iterate our view about the extent of **global trade downshift and falling global trade elasticities and its impact on the currency volatility.** We have already seen in 2016 amid weaker trade activity, how the smaller effect of exchange rate changes on relative prices, and hence on relative demands, have led to larger exchange-rate changes required to reach equilibrium. In 2016, some of the EM currencies have seen significant adjustments plus sentiment and portfolio flows leading to currency overshooting. We still expect next year to see further exchange rate overshooting and adjustments if falling trade elasticities continue.

In addition, **fears of US trade protectionism policies such as non-ratification of TPP, re-negotiation of existing trade pacts such as NAFTA, could lead to risk of denting global trade in 2017 and markets could price this in early in 2017**. We would suggest relative trades based on open economies initially reliant on the TPP going through. In current lukewarm growth environment, a removal of that upside in 2017 could see downside pressure on SGD, JPY, KRW & MYR.

Fourth, **political environment has the potential to lead to further EM volatility with key concerns likely to emerge out of Eurozone.** We see pressures like in 2017 from general elections in Europe and post-Brexit, affecting euro clout and euro especially in an environment of growing monetary divergence between Fed and ECB. Our base case is for no Eurozone break up. In addition, worldwide anti-globalisation, protectionism, and rising China potentially filling up the political, trade and military vacuum in the world left by the US, may lay the foundation for China's growth stabilisation. This could provide some buffer from US anti-trade policies and thus allowing some floor to RMB and EM weakness.

We expect the dollar index to trade in higher range of 98 - 108 next year (DXY traded 92 – 102 range for 2016)**.** Generally, affected by (1) the pace of Fed hikes; (2) US growth and inflation trajectory we well as (3) continued central bank monetary policy divergence (between US - rate hike and Japan - potentially more printing and Eurozone - ECB QE extension in 2017).

EUR is expected to face further downside pressure amid an environment of growing divergence in monetary policies (between ECB and Fed) and political contagion risks, mainly in 1Q – 3Q 2017 before regaining strength towards end-2017 as monetary divergence slows (due to the possibility of an end to QE or even tapering amid pick-up in inflation closer towards medium term objective of 2%). While EUR has traded a relatively stable range of 1.05 – 1.16 for 2016 so far (as compared to 2015 trading range of 1.05 – 1.21), we see risks of EUR potentially trading a wider range of 0.95 – 1.12 in 2017

JPY weakness should continue into 2017. We expect the BOJ to continue with its ultra-loose monetary policy amid expectations for the US Fed to raise interest rate in 2017. This divergence in policy between the two central banks should spur outflows from Japan to the US in search of higher returns. These outflows could be compounded by the expansionary fiscal policies of the incoming Trump administration that could result in earlier-than-expected inflation and growth expectations, potentially triggering more aggressive rate hikes by the Fed, thus further steepening the UST yield curve. The widening yield differentials in favour of the US should see further USDJPY upside towards 118 in 3Q 2017.

In 2017, we expect USD to remain supported and as such we are broadly bullish on the USD & GBP (but with some short term weakness for GBP). We remain negative on low yielding currencies such as the JPY and EUR. Both are expected to remain soft as risk sentiment continues in 2017 and Eurozone political risk premium may increase. Commodity currencies such as AUD could be supported on dips, unless commodity prices decline sharply.

We are cautious on Asia EM FX. As long as growth differentials between G7 and EM do not diverge too much and too fast, EM will be in a comfortable position. The downside for EM would be worsening debt sustainability arising from rates increase and US dollar strength. If US or G7 growth picks up too fast and inflation rises, not translating into external demand, there will be risks for EM. Domestic demand support remains strongest for Indonesia and Philippines.

USD/AXJs should still see further upside. We remain bearish on currencies with signs of weak domestic demand, lower fiscal capacity and with uncertain sovereign credit situation as well as those with potential idiosyncratic risks in 2016.

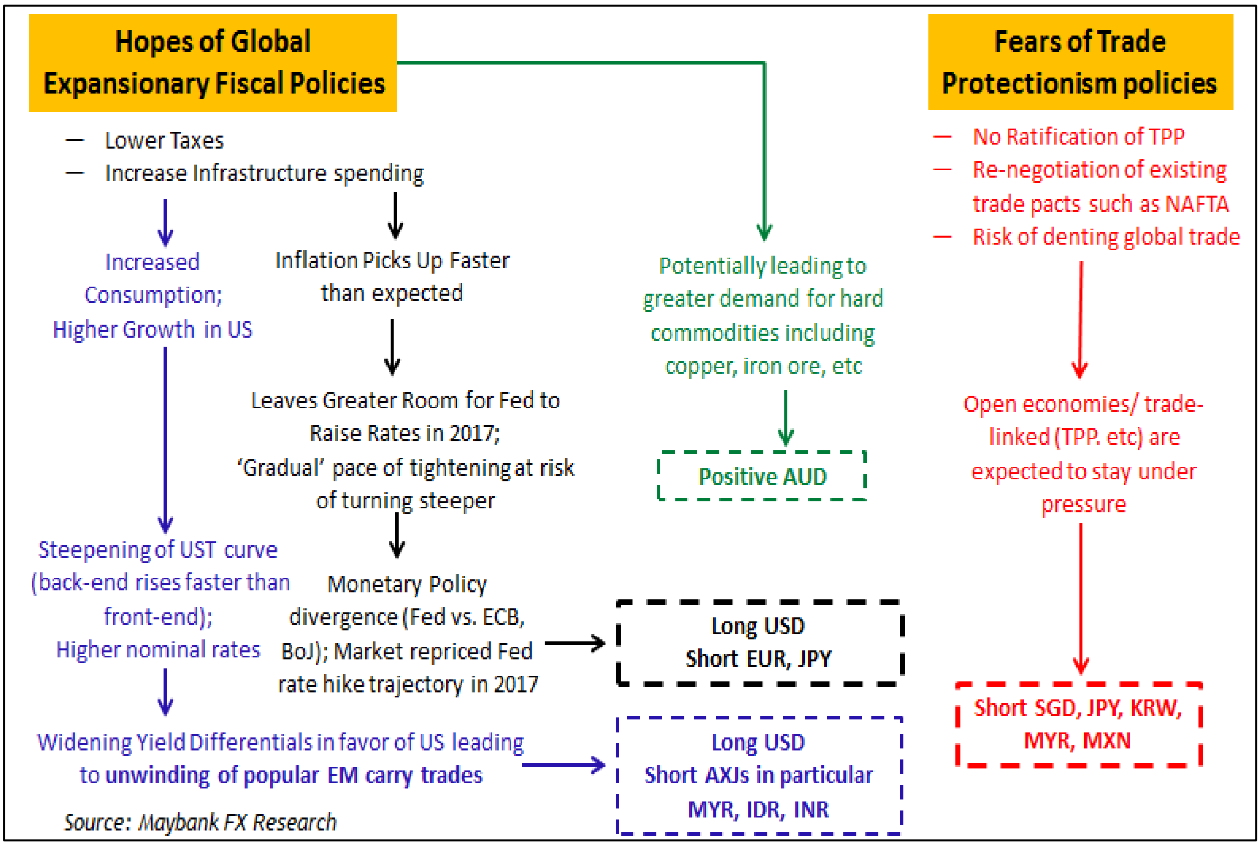
Our FX outlook is based on the assumption that oil prices will remain soft at an average price of US$55-65/bbl for 2017. Overall, moderate rise in oil prices following the recent OPEC agreement in Vienna in late Nov 2016 are likely to remain supportive of oil prices and further support our inflationary theme above.

Short Term Dynamics vs. Long Term Thematic

	3-months	6-months	12-months	24 to 36 months
Short Term Dynamics (Key risk event)	- FoMC meeting (14 Dec and 1 Feb) - Trump's State of the Union Address (End Jan-Early Feb) - Trump's cabinet appointments - Italian Referendum on Constitution (4 Dec) - Snap elections for lower house in Japan - Implementation of oil production cuts (Jan 2017) - Jakarta Governor election (15 Feb 2017)	- US debt ceiling - Potential announcement of US fiscal expansion plans - Netherlands Presidential Elections (15 Mar) - French Presidential Elections (Apr-May 2017) - Potential early Malaysian Elections - Potential early Korean Elections - Trigger of Article 50 in UK - Risk of snap elections in UK - OPEC review of oil production cut at May 2017 meeting	- Trump may push for more protectionist trade policies (no ratification of TPP, re-negotiation of NAFTA, etc.) - Speculation for Fed Governor appointments in 2018 - German Federal Elections (Oct 2017) - Thai Elections (Dec 2017) - NZ elections (by end Nov 2017)	Trump may continue to push for more protectionist trade policies (no ratification of TPP, re-negotiation of NAFTA, etc.)
Long-Term Thematic	Anti-globalization Anti-establishment (Protectionist-policies)			

Source: Maybank FX Research

Hopes of Expansionary Fiscal Policies vs, Fears of Trade Protectionism



USD: Dollar View Remains Uncertain in 2H 2017

Forecast	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q2017
USD Index	**103.16** (98.69)	**106.48** (97.89)	**107.66** (99.56)	**106.91** (98.07)	**103.88** (99.33)

Previous Forecast in Parenthesis

Motivation: We **remain mildly bullish on the 2017 dollar outlook**, in particular in the first few months of the year. The DXY is currently at 101.40 (as at 1 Dec 2016). Expectations of fiscal spending under a Trump administration, firmer US data, continued expectations of the Fed rate hike next year is likely to support the USD in 1H 2017. Further developments out of Eurozone with rising market expectations of an ECB easing extension in 2017 has led to likelihood of some sustained weight on EUR and GBP, thus affecting the DXY to some extent via the interest differential perspective. We continue to expect a gradual pace of Fed tightening over 2017 and hence should not see excessive US strength but a rather supported USD. We expect the dollar to strengthen in 1Q and 2Q towards a high of 107.66, before softening and end 2017 at around 103.88, barring no global shocks.

Inflationary pressures from a mild rise in oil prices in 2017, could lead to expectations of rising rates and eventually be dollar positive. Nonetheless, global crude oil prices and commodity prices increase could be mild and remain in tight range.

Likelihood of Fed rate hikes and widening rate differentials and global policy divergence will continue to support USD vis-à-vis G7 currencies. The trade weighted dollar should be stronger if not for continuation of Fed's signaling inconsistencies in between FOMC announcements and lack of 2016 policy forward guidance. In the medium term, there could still be USD trade weighted support as the 2-year and longer term rate differentials will probably rise further in 2017.

The recent US economic outlook supports a slightly bullish short term USD bullish view and we continue to expect the USD to strengthen across the board as the US growth gathers momentum in 1H 2017 with pick up in the housing markets, a modest pick-up in inflation and wages and a further improvement in labor market conditions. We expect stronger private consumption continues to underpin the US recovery, as households benefitted from lower oil prices, steady employment growth and modest wage increases as well as expectations of further boost from fiscal spending. Nonetheless, gross fixed capital formation or investment could potentially disappoint in 2017. Our economics team sees **US GDP growth likely to come in at 1.6% this year and 2.0% in 2017.**

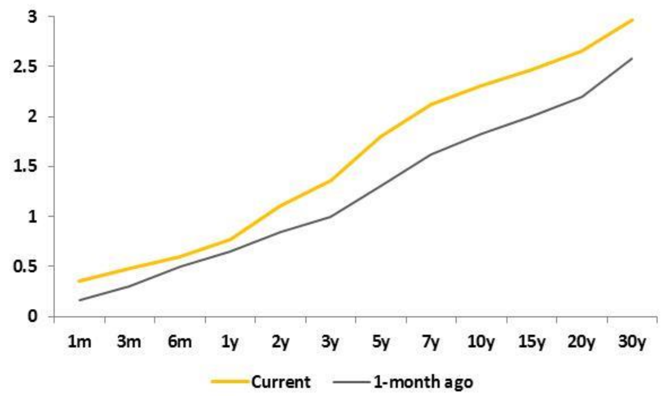
Too strong a dollar trajectory could also lead to the ongoing deceleration in US production and net exports and potentially curtail the rate hike expectations in 2017. These developments suggest that the moderate recovery in the US may not generate large positive spillovers for the rest of the world including the trade oriented Asian economies. Conversely, weakening growth in emerging market economies may still restrain US economic activity somewhat in 2017 even if the US begins its protectionist approach and becomes more closed as an economy.

Core PCE inflation has also not risen significantly even as headline unemployment rate has fallen below 5%. But we expect core CPI to probably rise to around 1.9-2.0% in 2017 from around 1.7% this year. Trump's fiscal stimulus to double economic growth via tax cuts and boosting infrastructure and military spending are seen as inflationary. Both CPI and core CPI will likely remain on an uptrend in 2017 close to the Fed's 2% long-term target but may be weighed by still soft energy prices, stronger dollar and moderate food inflation. Taking that into consideration any policy moves will be gradual and unlikely to derail growth.

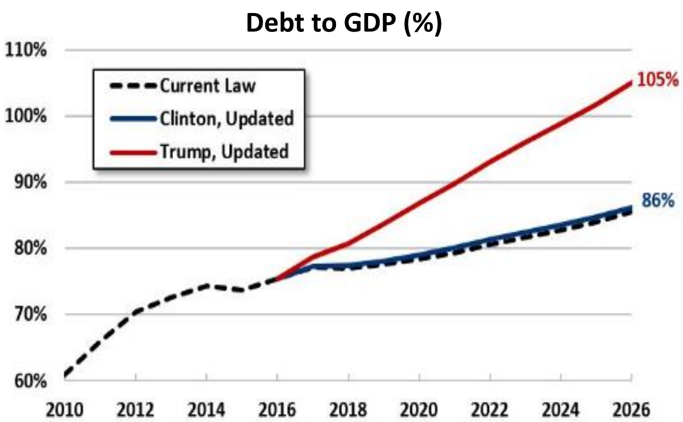
Fiscal sustainability risk can have the potential to weigh on the medium term outlook. In the long term, an improved US economy and manufacturing sector, US shale oil and gas production may improve the US current account leading to dollar support but this is likely to be long drawn and may probably begin only in 2016/2017. President-elect Trump is likely to propose federal budget for the remaining of the fiscal year 2017 and outline the budget for the fiscal year 2018, including providing more details on the broad-based tax cuts and the funding of infrastructure spending (e.g. PPP; infrastructure banks; Build America Bonds) that were promised during the election campaign. US fiscal year covers the period 1 Oct in preceding calendar year until 30 Sep in the calendar year numbered for the fiscal year. For the fiscal year 2017, there is no full-year US federal budget, but a spending bill approved by the Congress for the period Oct 2016 until 9 Dec 2016 to avoid Government shutdown during the pre-and post-election months. Given that the US is going through the transition at the White House, lawmakers will have to pass another spending bill before the expiry of President Obama's terms in office.

The possibility of lifting restrictions on US energy production including oil, shale, natural gas and clean coal to boost US energy reserves and independence could also provide some support for the dollar. But key risks remain on what protectionist and anti-globalization policies President-elect Trump will introduce and may weigh on the dollar in the medium term.

Steepening of UST curve in anticipation of Trump's policies that may lead to higher growth and inflation



Trump's potential expansionary fiscal policies are expected to ramp up higher debt



Source: Committee for a Responsible Federal Budget, Bloomberg, Maybank FX Research

EUR: Of Monetary Policy Divergence and Political Risks

Forecast	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q2017
EUR/USD	**1.0400** (1.1000)	**1.0000** (1.1200)	**0.9800** (1.0900)	**0.9800** (1.1000)	**1.0200** (1.0800)

Previous Forecast in Parenthesis

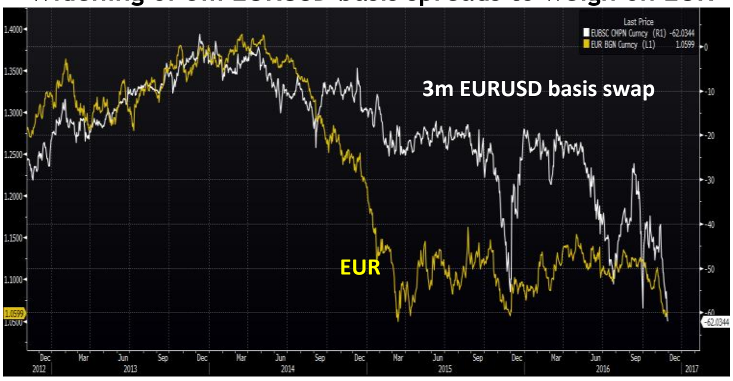
Motivation: We expect EUR to remain under downside pressure amid an environment of growing divergence in monetary policies (between ECB and Fed) and political contagion risks - Italian referendum on Constitution Reforms (Dec 2016); Netherlands Presidential elections (Mar 2017); French Presidential elections (Apr-May 2017) and Germany Federal elections (Aug-Oct 2017). While EUR has traded a relatively stable range of 1.05 – 1.16 for 2016 so far (as compared to 2015 trading range of 1.05 – 1.21), we see risks of EUR potentially trading a wider range of 0.95 – 1.12 in 2017, with downside pressure mainly in 1Q - 3Q 2017 before regaining strength towards end-2017 as monetary divergence slows (due to the possibility of an end to QE or even tapering amid pick-up in inflation closer towards medium term objective).

ECB to extend monetary easing beyond Mar 2017 by about 6 – 9 months, in light of core inflation still low (last seen at 0.8% y/y) and yet to pick up (well below its 2% inflation objective), and that ECB officials are growing impatient and determined to get inflation picking up. We expect a series of tweaks to be made to its bond purchase parameters to ease bond scarcity issues including an increase in issuer limits from 33% or eliminate the floor rule (yield > deposit rate) and/or allow for deviations in ECB capital key requirements, collateral rules. We do not expect to see a change in bond purchase amount but expect rates to stay negative. We expect **EUR to face downside pressure against an environment of growing divergence**: Fed on tightening bias and could tighten more (due to potentially faster pick-up of US inflation and higher growth spurred by expectations for Trump's expansionary fiscal policies) while ECB remains on an easing bias (amid low inflation).

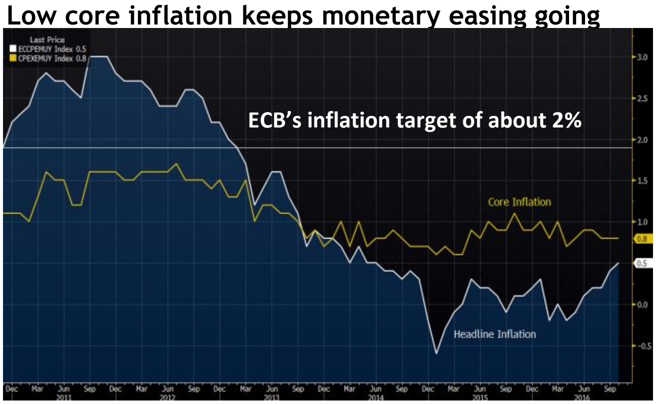
Risk of political contagion arising out of Italian referendum on Constitutional reforms on 4th Dec ('No' vote could mean PM Renzi resigns and potential elections in Italy in 2017) **and French Presidential elections**, with Far-Right leader Marine Le Pen stoking anti-EU sentiment **could add to uncertainty and undermine the future of Euro-club, and weigh on the EUR**. We expect opinion polls to lead to swings in market sentiment and EURUSD basis swaps may widen (weigh on EUR) around those key event dates. Our base case remains for Euro-area group to stay united.

Risks to our outlook are inflation picks up faster than expected; ECB did not extend QE beyond Mar 2017 and **political events get by with no major upset (e.g. Italy votes yes to constitution reforms).** Under the above scenario(s), EUR could turn higher, possibly towards our fair value model implied estimate of 1.20 (medium term). On a separate note, we caution that EUR could go lower beyond 0.95, should the Euro-area group faces rising risks of break-up.

Widening of 3m EURUSD basis spreads to weigh on EUR



Low core inflation keeps monetary easing going



Source: Bloomberg, Maybank FX Research

GBP: *Brexit* After-Taste (Uncertainty; Higher Inflation) Lingers

Forecast	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q2017
GBP/USD	1.2300 (--)	1.1600 (--)	1.1800 (--)	1.2300 (--)	1.2400 (--)

No Change from Previous Forecast

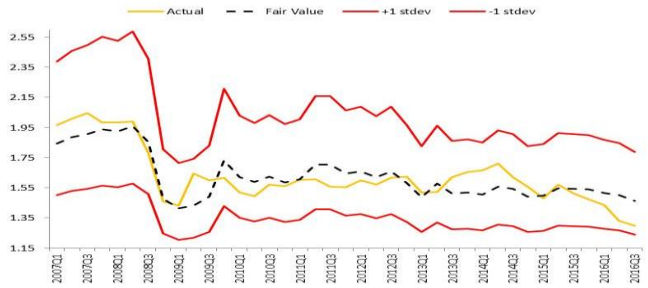
Motivation: We maintain our bearish bias on the outlook of UK economy and the GBP over the medium term horizon (6-9 months), as much uncertainty remains over the timing of trigger of Article-50, exit plan/ strategies the incumbent government has (how the negotiations with EU will pan out) and the medium term repercussion of these on UK's outlook and prospects (in terms of growth, trade relationships, London's status as financial hub, investment/portfolio flows and job creation). We expect GBP to face renewed downside pressure in 1H 2017 on risk of snap elections before gradually rising into end-2017 as clarity over UK's future takes hold.

Busy Political timeline in UK and EU suggests negotiations post-trigger of Article 50 are likely to be challenging. With many major elections lined up in Europe next year, we expect European leaders to stand even firmer in their belief for 4 freedoms (freedom of movement of goods, services, people and capital over borders) to **avoid building a precedent that waiver can be extended for "exiters"** of Euro-area. German Chancellor Merkel had said that free access to EU single market requires acceptance of the 4 freedoms. For now, UK do not seem to show any hint of compromise especially on the freedom of movement of labor but want access to EU single market (i.e. trade freely). Given the above environment, there is already a deadlock at this stage. Formal negotiations are only expected to begin after UK invokes Article 50, and can take up to 2 years to conclude. This period should continue to see heightened levels of FX volatility for GBP, and we do not rule out further swings in both direction.

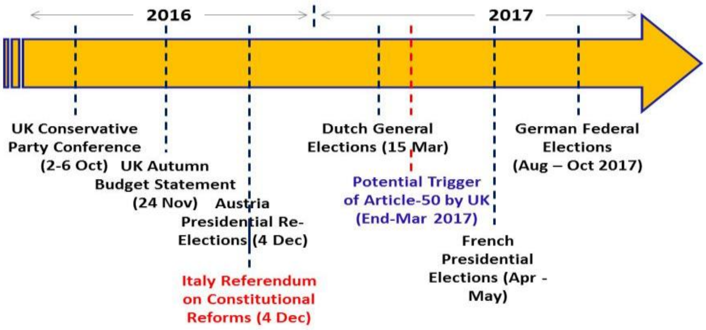
While PM May expects Article-50 to be invoked before end-Mar 2017, we expect the timeline to be delayed, as the High Court ruled that the government cannot trigger Article 50 without parliamentary approval and a vote from MPs. This raises the **risk for potential snap election as early as mid-2017** to ensure PM Theresa has enough supportive MPs to get her Brexit plan through the House of Commons. The delay in trigger of Article 50 delays the start of formal negotiation with the EU which casts further uncertainty over UK economic outlook in terms of investor confidence, FDI inflows, growth etc, and weigh on the GBP.

A weaker GBP is expected to see further pick-up in inflation (last seen at 0.9% in Oct), possibly towards 2.5% over the next 2-3 years (via the import price channel). We expect BoE to tolerate higher inflation than its formal target of 2%. We expect BoE to keep rates at 0.25% for 2017 as further monetary easing could exacerbate the inflationary situation.

GBP within Fair Value range estimates but is 12% undervalued relative to point estimate



Busy Political Calendar in EU/UK makes negotiations post-trigger of Article 50 Challenging



Source: Bloomberg, Maybank FX Research

AUD: Upside Risks

Forecast	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017
AUD/USD	0.7300 (0.7600)	0.7600 (0.7800)	0.7300 (0.7500)	0.7500 (0.7800)	0.7800 (0.7600)

Previous Forecast in Parenthesis

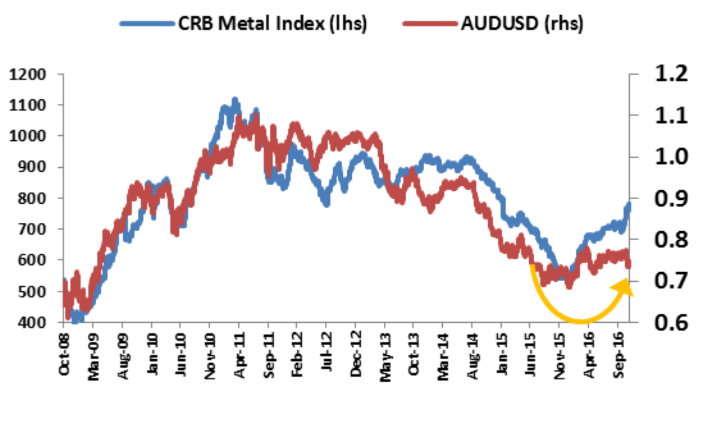
Motivation: We see upside risks to the AUD as the oversupply of commodities including steel and copper are completely priced in and AUD to respond next to potential lift in infrastructure demand for these key metals. Terms of trade seemed to have bottomed correspondingly and that should be expansionary for the economy. Still, rise in the AUD could also have a dampening effect on exports of services (tourism receipt and education). That could impede the economic rebalancing process and keep RBA from shifting to a hawkish bias.

Worst of Mining Decline Behind Us. Australia's economy has been weighed by the fall in mining investment but the worst of the drag should have been seen in 2016. Along with the potential rise in commodity demand in 2017, terms of trade should improve and that could be expansionary for domestic demand in the mining states.

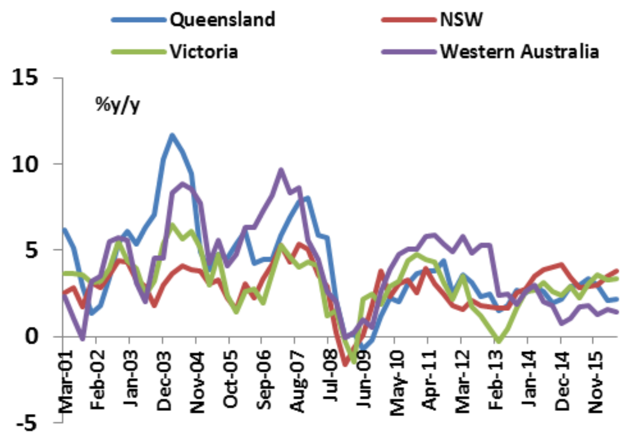
However, external environment matters. Household consumption has so far been showing growth across most states, aided by low borrowing rates so far. The recent unravelling in the global bond markets lifted wholesale funding costs. That has translated to higher mortgage rates which could crimp on household consumption looking forward, already weighed by high debt and low income growth. In fact, the windfall for the resource sector could retard the process of economic restructuring as the corresponding rise in the AUD threatens tourist spending and education. Capacity utilization rate has risen but that has not translated to capital expenditure. Labour market conditions also underscore hiring uncertainty. Still, the lift in the terms of trade and income could be enough to boost confidence amongst business owners to commit to more full time hires and capital expenditure. Hence, risks to the AUD for 2017 are still to the upside.

RBA Could Still Ease. We had looked for RBA to ease only in May, given little impetus for a move in the near future and plenty of uncertainty still on aggregate demand. We continue to hold the view RBA is not anywhere near a hike given the fact the household consumption growth is still uneven. Labour market conditions are still uncertain. Wholesale funding rates are also on the rise, also increasing the risk of rate cut and keep aggressive AUD bulls in check. **Key events ahead include the MYEFO for 2016-2017 in early Dec 16, Federal Budget on 9 May 2017.**

The Commodity Lift



Household Consumption Steady But Uneven



Source: Bloomberg, CEIC, Maybank FX Research

NZD: Broadly Stable

Forecast	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q2017
NZD/USD	**0.7000** (0.6800)	**0.7400** (0.7200)	**0.7100** (0.7000)	**0.7300** (--)	**0.7500** (--)

Previous Forecast in Parenthesis

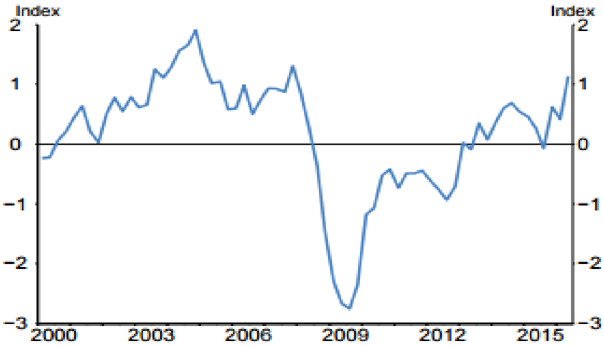
Motivation: We expect NZD to remain broadly stable, supported by strong growth momentum, rising dairy prices, solid labor market (employment growth outpaced population growth), more signs that inflation is gradually picking up, widening government budget surplus (to aid with rebuilding efforts post-Earthquake in Kaikoura), while factors such as greater impetus for Fed to raise rates in 2017, higher US nominal rates (resulting in narrowing yield differentials for NZ-US) may act to counter NZD strength. We expect NZD to trade within 0.68 – 0.76 range for 2017, penciling in more upside pressure towards 2H 2017 as rebuilding efforts post-Earthquake gains momentum. Our model estimates NZD fair value to be at 0.73.

Resilient domestic activity and solid labor market amid accommodative monetary conditions paves the way for inflation pick up. Recent OECD report (29 Nov) forecasts NZ growth to be above 3% for 2016 and 2017 and we expect domestic growth to remain supported by strong net immigration, construction activity and tourist spending. While recent earthquake in Kaikoura could affect activity over 4Q 2016 and 1Q 2017, we expect rebuilding efforts (when started possibly sometime in 2Q 2017) to boost activity. Widening budget surplus (now at $1.8bn) and low debt levels (net debt to GDP at 20%) do provide the buffer for NZ to deal with external or internal economic challenges. Strong labor market (unemployment rate fell to 8-year low of 4.9%; employment growth outpaced population growth; labor force increased; working age population increased; unemployed numbers fell). We expect these factors to contribute to inflationary pressure in the months ahead.

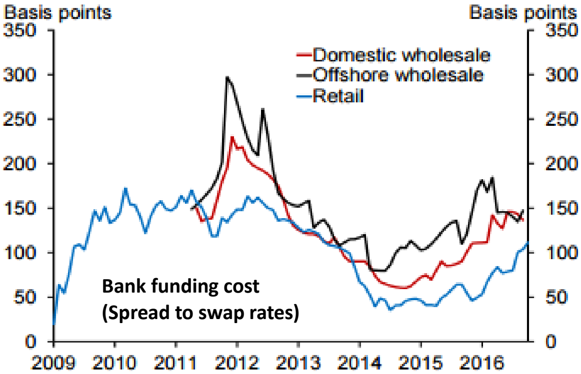
RBNZ to maintain easing bias for 2017. RBNZ last cut rate by 25bps in Nov 2016 to 1.75%. OIS futures are pricing in more than 80% chance of a hike in Nov 2017 possibly in anticipation of inflation pick up. But we believe RBNZ is unlikely to jump the gun as RBNZ had recently expressed significant concern about funding risks for banks, including worry about reduced access to funding. A lower OCR may prevent monetary conditions from tightening.

NZ is expected to hold an election before 18 Nov 2017. With NZ growth outlook expected to stay strong in the foreseeable future, fiscal and debt at healthy levels, we expect NZ elections to be held sometime in 3Q 2017 after rebuilding efforts have started. We do not expect much surprise (relative to surprises at US elections and EU referendum in 2016) and expect limited impact on FX markets.

Labor market conditions are tightening



Banks' funding pressures are mounting



Source: RBNZ, Maybank FX Research

JPY: Widening Yield Differentials, BOJ Policy to Weigh

Forecast	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017
USDJPY	113 (105)	115 (103)	117 (106)	118 (105)	115 (107)

Previous Forecast in Parenthesis

Motivation: We are negative on the JPY outlook in 2017 as we expect domestic policies and external risk events to weigh. We expect the BOJ to continue with its ultraloose monetary policy into 2017 amid expectations of further rate hikes by the US Fed to hike rate in 2017. This divergence in policy between the two central banks should spur outflows from Japan to the US in search of higher returns. These outflows could be compounded by the expansionary fiscal policies of the incoming Trump administration that could result in earlier-than-expected inflation and growth expectations, potentially triggering more aggressive rate hikes by the Fed, thus further steepening the UST yield curve. The widening yield differentials in favour of the US should see further USDJPY upside.

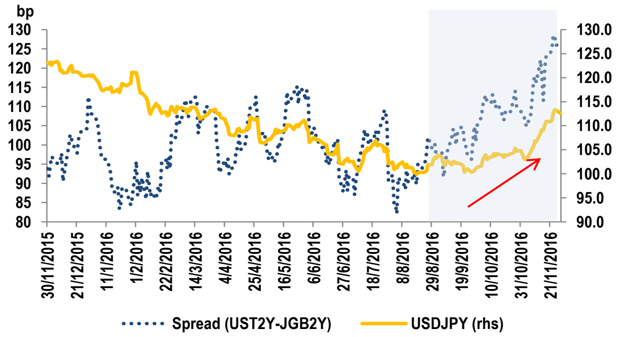
Further BOJ measures are possible in 2017 should the central bank decide to save its ammunition in 2016 for use should JPY weakness peters out in 2017. USD strength underpinned by the steepening of the UST yield curve as well as more stable oil prices should provide the USDJPY and hence inflation with a leg up. Nevertheless should inflation fail to gain traction, the BOJ could still unleash its next wave of easing measures, including cutting interest rate further to -0.3% (from -0.1% currently) and increasing asset purchases of ETFs and J-REITs and other instruments to JPY10tn and JPY6tn. Such a move could come as early as 1H 2017.

JPY weakness could stall ahead as market is not entirely convinced that the depreciation will continue. There is speculation that the BOJ will have to embark on tapering in 2017 as it run up against operational limits where there could be greater JGB demand than available for sale by financial institutions. Such speculations could slow the pace of the USDJPY's climb higher. As well, the country's persistent current account surplus since 1996 could temper the pair's climb. An additional risk is that PM Abe could call a Lower House election in 1H 2017 to seal his legacy as the longest serving PM and to move ahead with his attempt to amend the pacifist constitution.

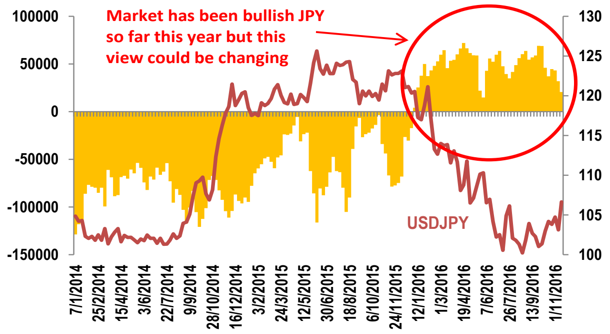
Still bets for JPY strength is waning. Recent data showed that while speculators are still net long-JPY, they have been paring their bets. As of the week up to 15 Nov, speculators have cut their net long-JPY bets to 20676 contracts from 31956 contracts the week before. Given UST yield curve steepening and further BOJ easing moves, these contracts could be pared even further. When such long-JPY bets finally dissipate, the USDJPY could climb even higher from current levels. Our model estimates suggest that the JPY remains within the ±1 standard deviation of the fair value point (101.35).

Political uncertainty stemming from a possible call by PM Abe for a Lower House election in 1H 2017 and the possibility of further BOJ easing measures could spur greater volatility in the USDJPY in 1H of 2017.

USDJPY Tracking Widening 2Y Yield Spreads



Net Long-JPY Positioning Is Dissipating



Source: Bloomberg, CEIC, Maybank FX Research

CNY: Uneven Weakness

Forecast	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017
USD/CNY	7.00 (6.80)	7.00 (6.82)	7.05 (6.86)	7.10 (6.84)	7.10 (6.83)

Previous Forecast in Parenthesis

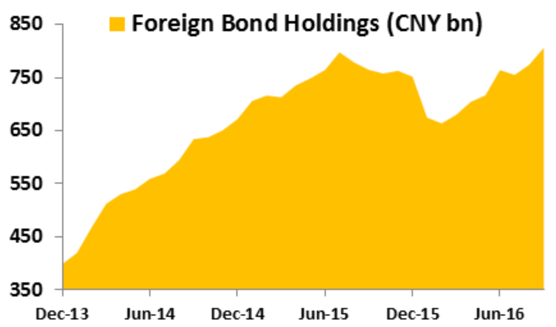
Motivation: We look for CNY to weaken more into 2017, but only against the USD. With the 6.9-figure behind us and the key 7.00 likely breached with the USD dominance, USDCNY has literally no arbitrary "key levels" that PBoC has to defend. Less intervention also means less pent-up depreciation pressure. We look for CNY to weaken towards 7.10 before stabilizing beyond 3Q. In an environment of strong USD, we see room for CNY to strengthen against other higher beta currencies. Our fair value estimated via the BEER approach is 4.48. With China keen to attract foreign institutional investors into its financial markets via Shenzhen HK Stock Exchange and interbank bond market, yuan depreciation should be kept at a measured pace. Stronger trade relations with Asia Pacific via the RCEP (Regional Comprehensive Economic Partnership) in the absence of TPP could also provide a buffer to anti-trade moves by the US.

Higher Yields, Supply Side Reforms, Slow Growth. Onshore yields have risen along with the rest of the world as global bond markets unravelled. Property market measures introduced at the start of 4Q. The reduction of capacity has started. All these suggest that growth momentum should slow further in 2017. We anticipate greater fiscal expenditures in the forms of infrastructure PPPs that could encourage private investment as supply-side reforms continue.

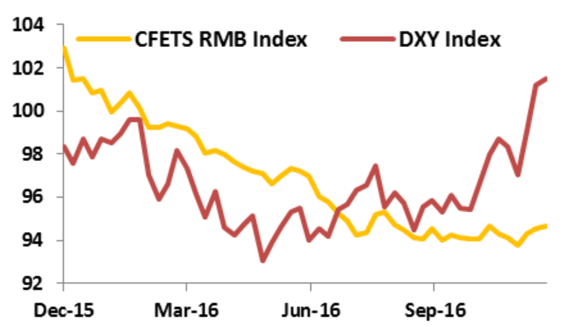
Financial Markets. Insorfar, most available economic indicators have measured the old economy. NBS has announced that statistics to measure the new economy are in the making. These statistics that could highlight the burgeoning sectors that could turn more investors into China bulls. Expect equity-related flows from foreign institutional investors that are attracted towards flourishing sectors. At the same time, China interbank bond market has been garnering interest with take-ups of domestic bonds by foreigners seen rising this year. With more corporate default and better regulation on debt issuance, the appetite for the securities could also grow. Capital controls are likely to remain but that does not mean no capital outflow as domestic investors continue to seek better returns overseas. On the other hand, we could see capital inflows as foreign investors seek exposure.

Change in Leadership. The 19th National Congress of the Communist Party of China will be held in the second half of 2017, could be in Nov, similar to the last one. Majority of the Politburo Standing Committee is expected to retire. President Xi has been given the "core" title. Party delegates will elect the Central Committee and alternate members of the Central Commission for Discipline Inspection. President Xi will continue as General Secretary. Other personnel changes will be key as he has not been garnering enough support that could ensure a proper succession come 2022. "两会" will happen in Mar.

Foreigners Have Rising Appetite For Bonds



Relative RMB Strength In Times of Strong USD



Source: Bloomberg, CEIC, Maybank FX Research

KRW: Dimming Prospect on Inflation, Trade, Growth & Politics

Forecast	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017
USD/KRW	1180 (1130)	1170 (1100)	1220 (1130)	1180 (1100)	1180 (1120)

Previous Forecast in Parenthesis

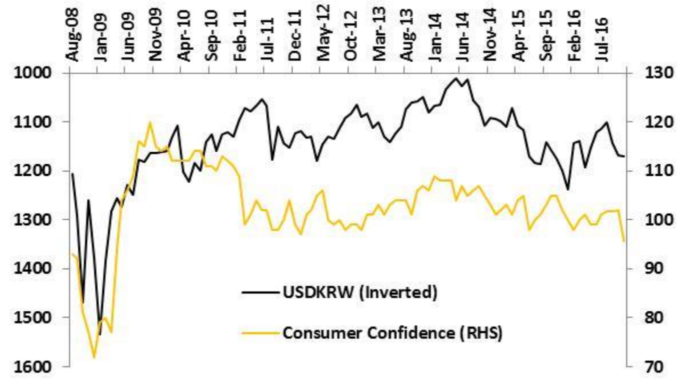
Motivation: We expect KRW to remain vulnerable to wild swings (of 100 won between 1120 – 1220) in 2017, given its high sensitivity to external market events including Trump's protectionist policies (weighing on exports/open economy) and Fed rate hike (monetary policy divergence). Ongoing issues at home including political scandal surrounding President Park, corporate restructuring in shipping and ship building industries may weigh on investor sentiment (as political scandal reignited concerns over transparency, government mismanagement and problems with graft), and affect portfolio inflows and weigh on the KRW but we believe these negativity is already in the price and could even turn around as positive drivers when domestic conditions improve. We expect external events to exert depreciation pressures on the KRW in 2Q 2017 (potential Fed rate hike in Jun), possibly towards 1220 before easing lower as domestic conditions gain traction.

Some signs of political risk gradually dissipating as President Park announced (29 Nov) conditional resignation. Although the timing of her exit is uncertain, we do expect the impeachment process to proceed as planned by the Opposition. When this happens, Park will be immediately suspended from office for up to 180 days (PM Hwang takes over interim) while Constitutional Court reviews the motion. If it is uphold, a new Presidential election must then be scheduled within 60 days of the ruling. We expect some investor confidence to be restored partially and lead to some retracement of KRW weakness in 1Q. Our model estimates USDKRW fair value at 1120 levels.

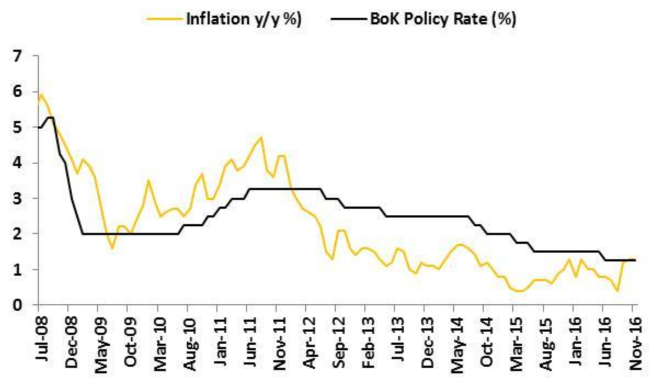
Trump's trade protectionist policies could hurt Korea's export-dependent economy (exports of goods and services make up about 50% of Korea's GDP). Exports have already seen one of its longest stretch of consecutive declines (21 months in a row since Jan 2015 except for Aug 2016 1-month rebound). In particular President-elect Trump singled out the Korea-US free trade agreement as a 'catastrophe' that needs to be renegotiated. US accounts for 14%% of Korea's exports and Korea's trade surplus with the US swelled to 25.8bn in 2015 (from 11.6bn in 2011 before the FTA went into effect).

Potential monetary policy divergence between Fed and BoK could weigh on KRW. While Fed could be on course to raise rates by twice in 2017, there is potential risk of BoK cutting rate in 2017 (from its current record low of 1.25%) amid domestic headwinds and benign inflation (YTD average of 0.9%, well below its 2% inflation target).

Consumer sentiment slumped to 7-year low amid political scandal, Corp restructuring weighing on KRW



BoK could cut rates even lower amid benign inflation and corporate restructuring at home



Source: Bloomberg, Maybank FX Research

SGD: Vulnerable To Domestic and External Headwinds

Forecast	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017
USDSGD	1.4350 (1.4050)	**1.4400** (1.4100)	**1.4450** (1.4150)	**1.4350** (1.4000)	**1.4350** (1.4100)

Previous Forecast in Parenthesis

Motivation: There does not appear to be a light at the end of the proverbial tunnel for the SGD in 2017 as both domestic and external headwinds weighs. Still this downside pressures on the USDSGD could be tempered by the persistent balance of payments surpluses. Our uncovered interest parity (UIP) model suggests that the SGD is undervalued and that further upside moves to the USDSGD could be limited. Our current fair value (using the BEER approached taking into account a reflation proxy, interest rate differentials and current account differentials) estimates of 1.3631 also suggest an undervalued SGD.

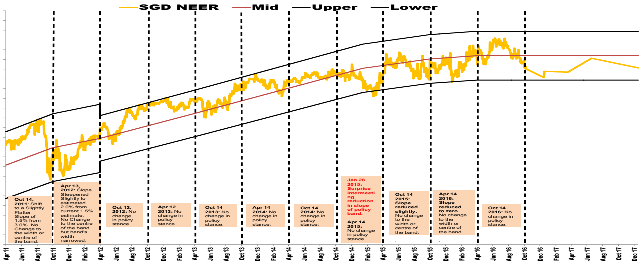
While further moves by MAS is possible, it would seem that the current neutral policy is likely to be in place beyond the next policy meeting in Apr 2017. MAS' forward guidance in its Oct 2016 policy statement that suggested that the neutral policy will be maintained for an "extended period" suggested that the hurdle for further easing remains high and any policy adjustments will be data-dependent. An intermeeting move remains available to the MAS but will be undertaken only if the macroeconomic environment deteriorates materially. The Oct Macroeconomic Review suggested that the neutral policy stance could continue into 2017 with the SGD NEER likely to hover at the lower half of the policy band ahead.

Modest climb in domestic interest rates so far suggests modest USDSGD upside. Our UIP model, which suggests that the SGD remains undervalued, could see limited upside adjustments from the current spot level. The expectations of further Fed fund rate hikes in 2017 are likely to drive the pair higher. The adjustment is already underway with both the 3M SOR and SIBOR on the grind higher to around 0.72% and 0.93% respectively though both are off their year's high of 1.25% and 1.76% in Jan. The more moderate pace of adjustment suggests that further upside to the USDSGD from here on could be modest.

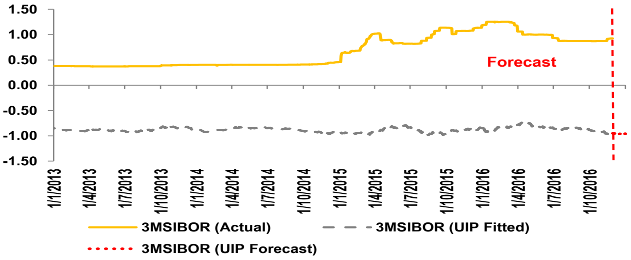
Domestic and external challenges continue to put downside pressure on the SGD. Domestic growth concerns amid ongoing economic restructuring and the policy bias of the MAS together with the lacklustre global environment amid the likely protectionist-bent of the incoming Trump administration should add upside pressure on the USDSGD. As a small-open economy, Singapore remains vulnerable to any moves by the US to restrict trade and investment flows that could crimp growth. Still the strong fiscal position of country should allow the economy to ride out these challenges.

The uncertainty surrounding the next move by MAS could result in greater volatility in the USDSGD in the lead-up to the meeting. As well, domestic growth concerns could also weigh on the USDSGD in 2017.

MAS Neutral Policy Stance - SGD NEER Could Stay Below The Mid-Point For An Extended Period



UIP Model Suggests Subdued Domestic Rates Ahead



Source: Bloomberg, CEIC, Maybank FX Research

MYR: Fundamentally Undervalued

Forecast	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q2017
USD/MYR	4.2500 (4.1000)	4.1500 (4.0000)	4.2500 (4.1000)	4.1000 (3.9500)	4.1500 (4.1000)

Previous Forecast in Parenthesis

Motivation: We expect USD strength to persist in the short term (up to 3-6 months) driven by a combination of factors including markets' anticipation of expansionary US fiscal policy that could lead to higher growth and faster pick-up of inflation. This leads to expectation that Fed could be under greater impetus to raise rates to arrest inflation. In an environment of rising nominal yields in US, some of the popular EM carry trades including MYR longs, MGS bonds could be unwound. US trade policies (which are protectionist) could continue to exert downside pressure on countries linked to TPP (and the bigger losers are MYR, VND, NZD). We also expect illiquid market conditions to potentially exaggerate abrupt FX movement for the MYR, especially into year-end. We revised MYR forecast slightly lower over the forecast horizon to take these into consideration albeit still remaining positive on the factors supporting the MYR. However, we still expect domestic demand to remain resilient (despite some softness) and this is expected to help offset some of the sluggish external demand concerns.

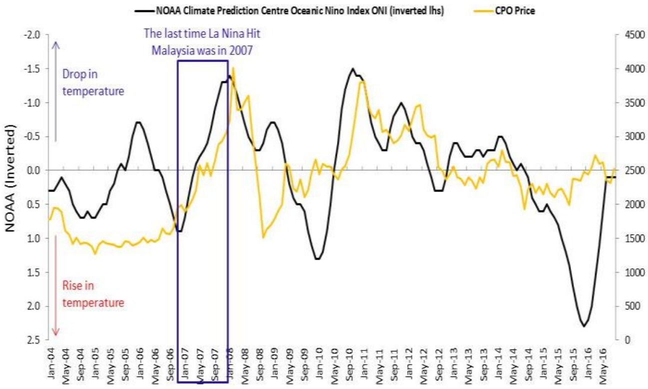
With US nominal yields rising, the lure for funds seeking higher yielding assets in Malaysia falls. Unwinding of popular carry trade (MYR longs) and portfolio outflows could weigh on MYR in the short term. This is especially so when foreigners hold nearly 50% of Malaysia government bonds, and the MYR is the most vulnerable (amongst AXJs) to foreign outflows, in the event of unwinding.

However, we continue to reiterate that Ringgit weakness is temporary and is not a reflection of underlying fundamentals (which remain intact). We expect to see some stability returning to Ringgit over the next year or so as oil prices stabilize, domestic demand continues to remain resilient and commodity prices see a turnaround.

We do note there are some positive factors that could partially cushion against the MYR depreciation, in particular potential early call for elections in Malaysia (possibly in 2H 2017) or an OPEC deal to cut oil production. Typically Malaysian equities, MYR tend to strengthen in the lead-up to elections due to confidence while a real deal to cut global oil production could lend support for oil prices and the MYR. Hence we see MYR supported in 3Q 2017. Our USDMYR forecast trajectory sees a higher USDMYR in 2Q and 4Q of 2017 due to expectation of Fed rate hike.

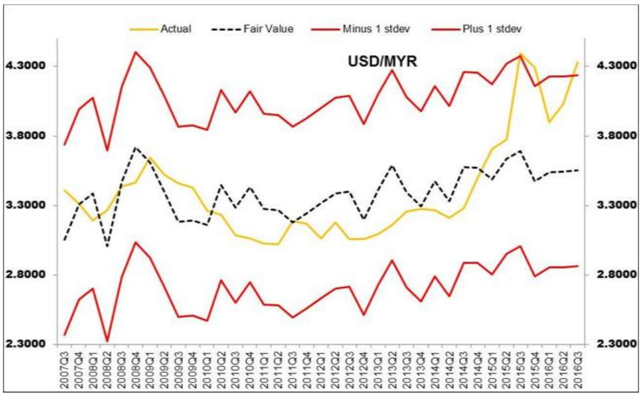
Our estimate of the medium term fair value range of USDMYR based on 4 factors – the differential between US and Malaysia current account to GDP ratios; 10Y bond yield differentials between US and Malaysia adjusted for inflation; a reflation proxy defined as the ratio of World Equities (proxied by MSCI World Index) to World Government bonds (proxied by JP Morgan Global Aggregate Bond Index); and bond volatility estimate (to capture short term dynamics such as Trump risk premium), show that **USDMYR fair value is at 3.65 with a range of 2.86 for the lower bound and 4.23 for upper bound (based on 1 standard deviation). Based on our FX Tracking model, current level of MYR is outside our fair value range estimates and is about 20% undervalued relative to the fair value point estimate.**

La Nina could reduce CPO stockpile -> Keep CPO prices supported: MYR Positive



Source: Bloomberg, Maybank FX Research

MYR is fundamentally undervalued



IDR: At the Mercy of Funds Flows

Forecast	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017
USDIDR	**13600** (12950)	**13650** (12500)	**13800** (12800)	**13500** (12600)	**13300** (12850)

Previous Forecast in Parenthesis

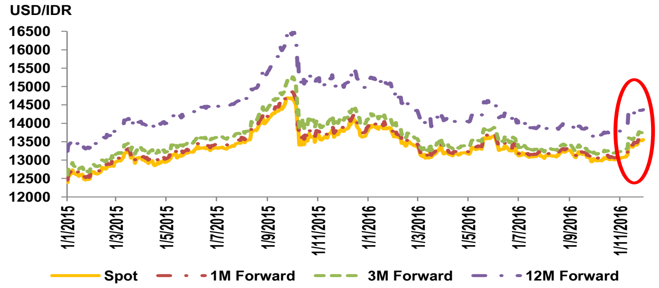
Motivation: We have turned slightly bearish on the IDR. The resilience in the IDR has given way to bearishness amid UST yield curve steepening that narrowed the yield differentials between Indonesia and the US. This spurred portfolio outflows in search of better returns in the US. The outflows could continue for a while longer as domestic and external challenges continue to persist. Monetary policy is unlikely to provide significant support in 2017 as opportunities for further rate cut has narrowed. Some support to the IDR from President Jokowi's planned USD400bn infrastructure spending over the remainder of his term but the overall risks remain to the upside for the USDIDR in 2017. Our model (based on reflation proxy, current account and interest rate differentials) estimates the fair value of the USDIDR at 13042.

Positive factors could mitigate some of these downside risks, particularly the tax amnesty programme, the ongoing reform process and fiscal spending on infrastructure projects. These positive factors should put Indonesia on track to receive an upgrade in its sovereign credit in the next 6-12 months from S&P. This potential improvement in its credit rating outlook or an upgrade to its credit rating could weigh on the USDIDR going into 2017 and help mitigate some of the downside risks to the IDR.

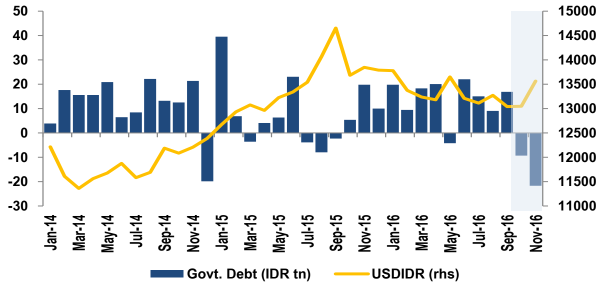
Downside risks to the IDR should still dominate for at least the next 3-6 months and keep the USDIDR elevated in 2017. The jump in US yields should trigger dollar hedging and rate re-pricing, sparking further funds outflows from Indonesia. Indonesia remains one of the most susceptible to the search for better returns given the high foreign ownership of government debt at nearly 40%. Foreign investors have added IDR95.11tn to their outstanding holding of government debt so far in 2016 because of positive carry from government debt. However, since Trump's victory in the US presidential elections, market re-positioning has taken place and IDR22.58tn of government debt has been removed by foreign funds from their outstanding holding. We could see more of such outflows in 2017 in the near-term that could weigh on the IDR.

Near term domestic and external pressures should keep the USDIDR elevated. Rising political tensions in the run-up to the Jakarta gubernatorial election on 15 Feb 2017 and very near-term growth concerns are IDR-negative. Externally, there is potential for a more aggressive Fed rate hikes in 2017 and steepening of the UST yield curve should Trump follow through with his planned infrastructure spending that could spur earlier-than-expected inflation and growth. Consequently, this combination could drive the USDIDR higher than previously forecast. Possible sovereign credit rating upgrade is possible in the next 12-24 months that could mitigate some of these downside risks to the IDR.

Forward Points Suggest USDIDR Remains Supported



Further Fund Outflows Could Lift USDIDR Higher



Source: Bloomberg, CEIC, Maybank FX Research

PHP: No End in Sight Yet For Duterte Risk Premium

Forecast	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017
USDPHP	50.50 (49.00)	**51.00** (48.50)	**51.80** (49.50)	**51.50** (49.00)	**51.50** (50.00)

Previous Forecast in Parenthesis

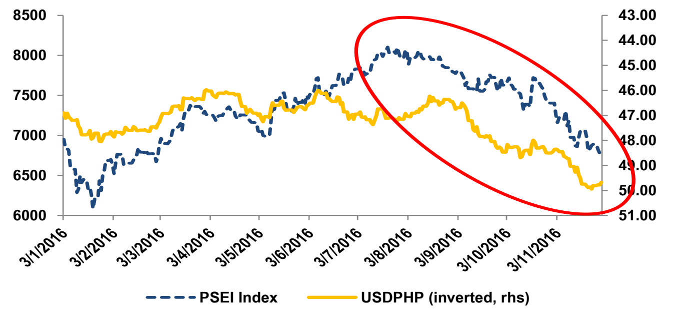
Motivation: We remain bearish on the PHP even though growth in the Philippines will continue to outperform its regional peers in terms of economic growth in 2017. Bearish sentiments emanating from investor concerns over domestic policies, particularly the extra-judicial killings relating to drugs, President Durterte's unpredictable temperament and lack of statesmanship (or 'Duterte premium' in general). External risk factors as well are reinforcing these domestic risk concerns to send the USDPHP higher in 2017. The incoming US administration's plans for infrastructure spending are spurring market re-pricing of US Fed rate hikes in 2017. This should see a further steepening of the UST yield curve and narrowing of the yield differentials in favour of the US, spurring funds outflow towards US assets. Even the possibility of a rate hike by the BSP is unlikely to fully mitigate these downside risks to the PHP. Our model (based on a reflation proxy, interest rate and current account differentials) pins the current fair value estimates for the USDPHP at 48.47.

Weakening macroeconomic fundamentals are additional concerns for the PHP. Previously, the strong balance of payments (BoP) surpluses, outperforming economic growth and healthy overseas remittances had provided the backstop for the PHP. However, narrowing BoP surpluses (given the portfolio outflows to date) and more moderate growth in remittances (as a result of slower growth in the Middle East etc.) should increase pressure on the PHP. In fact, latest data showed the BoP slipping into a deficit of USD183mn in Oct, while remittance is up 4.8% y/y in the first nine months of the year. Taking these together with the Duterte premium suggest further downside pressure on the PHP could continue into the medium term.

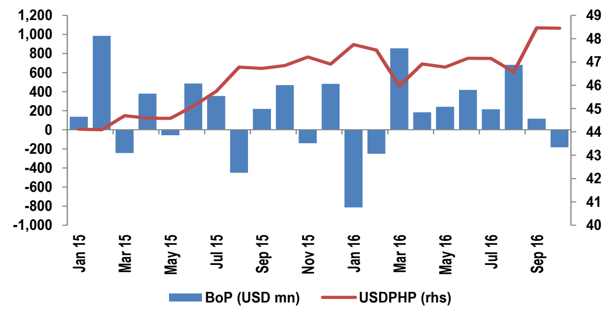
Unlike its regional peers, the Philippines is one of the few economies that may need to hike domestic rates in 2017. Inflation could be set to accelerate in 2017 due to risks from El Nino/La Nina weather phenomenon as well as PHP weakness. Higher global oil prices could also stoke inflationary pressures. Domestic growth is expected to accelerate by at least 6% in 2017, underpinned by infrastructure spending (of 5-7% of GDP) and this should add upside pressures on inflation. The BSP expects inflation to average 2.9% in 2017, up from the 1.7% expected in 2016. With upside risk to inflation, and also possibility of even greater policy divergence with the US should the Fed hike rates further, there is a potential for the BSP to hike its policy rate at least once by 25bp in 2017. Such a move should be supportive of the PHP.

Further risks to our PHP outlook could come should FDI, especially into the key BPO (business processing outsourcing) segment, take a hit should investor concerns over domestic policy concerns worsen. Still, this risk could be mitigated by the ongoing pivot towards China and be supportive of the PHP.

Sell-off In Equities Weighing On USDPHP



USDPHP Finding Little Support From BoP Surplus



Source: Bloomberg, CEIC, Maybank FX Research

THB: Lingering Political Risks

Forecast	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017
USDTHB	**35.70** (35.20)	**36.20** (35.50)	**36.70** (35.80)	**36.00** (36.00)	**36.50** (36.30)

Previous Forecast in Parenthesis

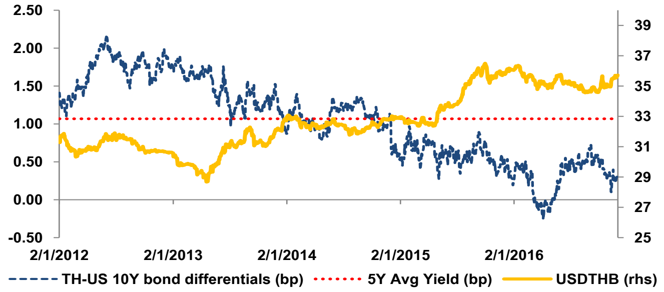
Motivation: Further upside to the USDTHB can be expected in 2017 despite fading concerns over political stability following the passing of HM King Bhumibol's. The drag on the THB is likely to come first from the steepening UST yield curve that should narrow the yield differentials in favour of the US and then on likely rising political tension in the lead-up to the general elections due at the end of 2017 to return power to civilian rule. Demand for Thai assets, already down from the King's passing, is unlikely to see a significant recovery in 2017 as a result. The THB though should find support from accommodative monetary policy and expansionary fiscal policy. We expect these eternal events to weigh on the THB in 2Q (potential Fed rate hike in Jun) towards 36.70 before easing in 3Q (possibility of BoT rate hike). USDTHB should climb higher again in 4Q (potential for another Fed rate hike in Dec and in the run-up to the general election at the end of the year). Our model (based on a reflation proxy, interest rate and current account differentials) pins the current fair value estimates for USDTHB at 34.59.

Funds have already been flowing out of Thailand even before the Trump-inspired tantrum took place. Concerns about the royal succession and possibility of political instability following the passing of the king sent foreign investors selling off Thai assets. Foreign funds had sold THB6.27bn and THB11.33bn of equities and government debt In Oct. This sell-off was compounded by the Trump tantrum that has led to the continued outflow from Thai assets with THB3.69bn and THB59.06bn sold off for the whole of Nov. Further outflows in 2017 cannot be ruled out given possible further UST yield curve steepening that could weigh on the THB.

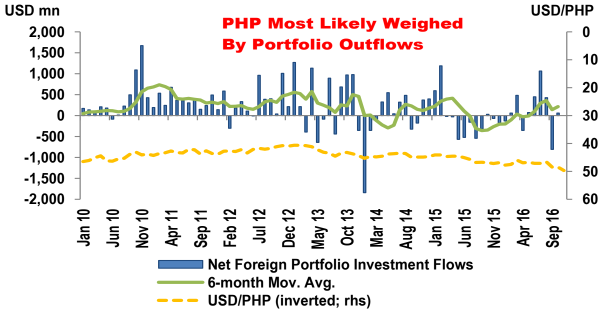
After holding steady in 2016, the BoT could lift the policy rate by at least 25bp in 2017. This move is likely as a response to the stronger growth recovery expected in 2017 on the back of the government's THB1.8tn infrastructure spending programme that could see growth accelerate to 5.0% for the year. Rate hikes could prevent the economy from overheating and, at the same time, could lift Thai yields higher, possibly keeping the spread between the US and Thailand wider. This should help reduce the outflow out of Thai assets in search of higher returns and be supportive of the THB. The rate hike is likely to come in 3Q after the Fed's expected move in Jun.

Domestic politics remain a key risk to our THB outlook despite the current calm. The invitation to Crown Prince Maha Vajiralongkorn to ascend the throne should remove concerns about the succession process. This should help calm some of the uncertainty in the political arena. This calm could be temporary given that a general election to return the government to civilian rule could be slated for the end of the year. The controversy surrounding the new constitution, which is viewed as anti-politician and allows for a non-elected PM that would allow the current PM to remain in office, could raise political temperatures in the run-up to the elections. This could impact investor sentiments and send the USDTHB higher.

Narrowing Yield Differentials Supportive Of USDTHB



Portfolio Outflows To Weigh On THB



Source: Bloomberg, CEIC, Maybank FX Research

INR: The Political Gamble of Demonetization

Forecast	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017
USD/INR	68.50 (67.00)	69.00 (66.00)	69.50 (68.00)	68.50 (66.00)	68.00 (67.00)

Previous Forecast in Parenthesis

Motivation: We are negative on the INR, but only in the short term. Its decline will continue until the government and the RBI assuage the cash crunch brought about by demonetization. While the sudden cash ban on INR500 and INR1000 note (which makes up 86% of the cash in the country) is supposed to chase out “black money”, the poor, the agricultural and other labour intensive sectors and SMEs (who are most cash-reliant) seem to be paying the price at this point. Domestic demand will experience a negative shock and the pressure is on PM Modi, his administration and RBI to help the economy adjust to its currency reform, failing which could see a loss of reputation, trust and votes. Despite the severity of the situation, we anticipate the pressure on the economy to be temporary and there are longer term gains to be reaped including more government revenue and efficiency gains from greater financial inclusion.

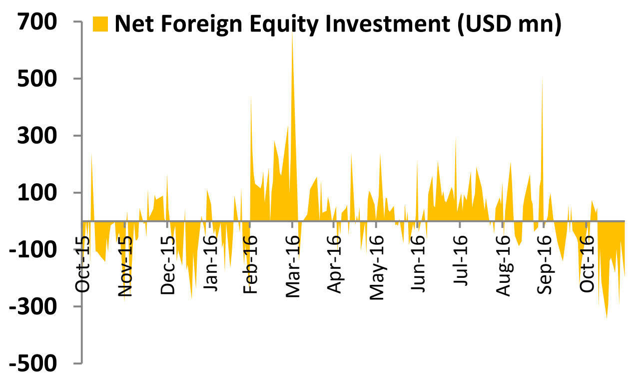
Hardship May Not Be Forgotten. There are a few elections in 2017 including the legislative assembly elections for Punjab, Uttarakhand in Jan, Uttar Pradesh, Manipur in Feb, Goa in Mar, Gujarat in Nov and Himachal Pradesh in Dec. The most populous Utta Pradesh has the most seats at stake. The strongest contenders are the ruling party BJP, BSP and Congress. The result can have implications on the pick of candidate for the Presidential Election that must happen before 25 Jul. The first half of the year is, thus, key to political clarity to assess the impact of its currency reform on its mandate.

Inflation is Closing The Window. Inflation is never far from RBI’s mind as indicated by Patel’s decision to impose the 100% incremental CRR to soak up the excess liquidity in the banking system. These failed to calm the equity and the bond markets that have been seeing an exodus of funds. Price pressures stemming from GST implementation, oil rise and stronger global growth could close the window for RBI to ease further even as the government wishes for lower lending rates and higher growth.

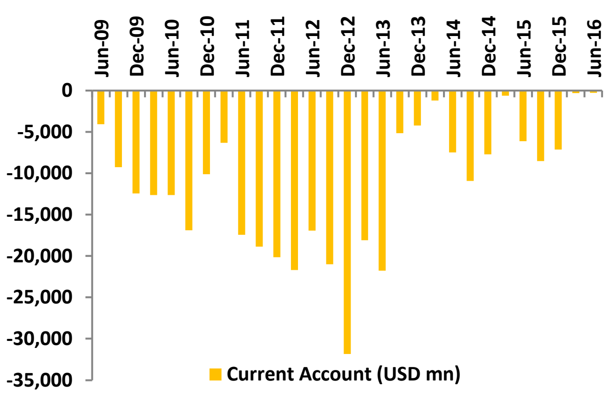
Anti-Trade US Policies Could See Outperformance. Assuming RBI and the government is able to replenish the liquidity back into the economy before there is significant political backlash, expect mild anti-trade policies from the US to generate volatility that could see rupee’s outperformance against other more vulnerable, open economies. Our fast tracking model prices the equilibrium USDINR at 66.61.

Key Event Risks. Expect INR into the Uttar Pradesh elections (between Feb to Mar 2017) and the Presidential election that has to be held before 25 Jul. Fed rate hike in 2Q and 3Q should also underpin the USDINR.

Exodus of Funds Since Nov 8 (Demonetization)



INR To Weather Fed Tightening Better Than 2013 tapering tantrums



Source: Bloomberg, CEIC, Maybank FX Research

VND: Succumbing to the USD

Forecast	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017
USD/VND	22600 (22500)	22700 (22400)	22900 (22650)	23000 (22500)	23000 (22650)

Previous Forecast in Parenthesis

Motivation: We are negative on the VND not because of the doomed prospect of TPP but because 2017 is a year of the USD dominance. We expect the USD rally to persist well into the first half of 2017 which could lead this pair towards the 23000. Vietnam's low level of FX reserves leaves the dong vulnerable to USD and CNY weakness.

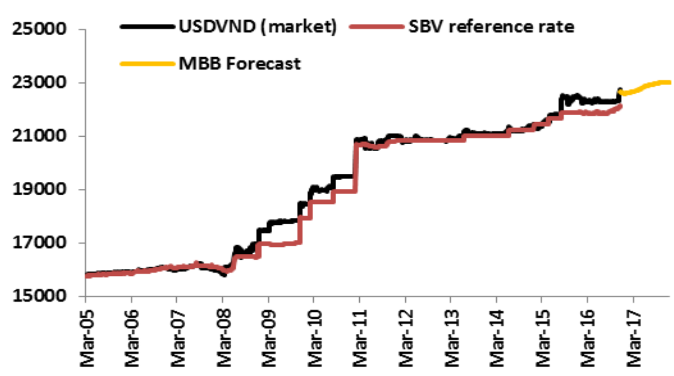
Commitment To High Growth. Despite the deterioration in exports and industrial production in recent months, the General Assembly still looks for high growth in the next few years. Even without the TPP, Vietnam has been ironing out the details of the EU-Vietnam FTA and external demand for Vietnamese goods is unlikely to tank. In fact, Vietnam could reap the rewards from the FTA in 2017. That said, FDI has been petering out. Even the key beneficiary - the manufacturing sector, has seen its inflows fall drastically in the last two months (Oct, Nov 2016). The World Bank has projected 2017 GDP to be around 6.3% on TPP uncertainty.

Fiscal Constraints Suggest Need for Monetary Easing. With government debt at over 50% of GDP, the government faces great fiscal constraints. Focus is likely to remain on infrastructure spending and deregulation to lure foreign investment but pace is unlikely to gain momentum in 2017 given the government's commitment to be more fiscally prudent. In order to keep GDP above 6% for the rest of the decade, the pressure is on the SBV to do the heavy lifting. However, we expect at most a 50bps cut to the refinancing-rate to 6.00% which could increase the pressure on the dong.

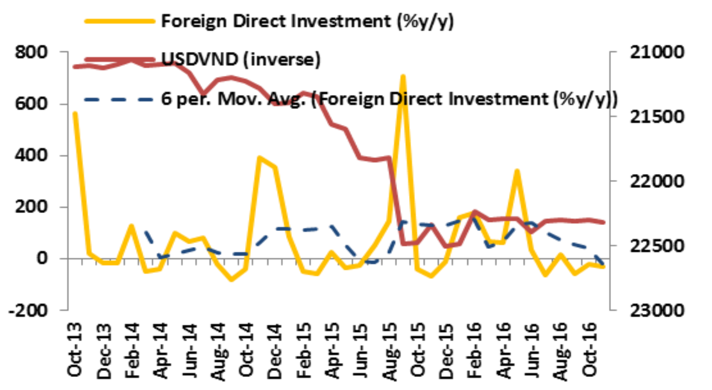
Rising Price Pressures. We see upside risks to inflation that could exacerbate the weakness in the dong. Inflation risks could also crimp on consumption. Higher inflation also limits the room for SBV to ease. Much of the USD strength is likely to be frontloaded but we see potential for respite in 4Q.

Key Risks. With Fed expected to hike in later part of 1H and earlier part of 2H, the VND should weaken towards 23000 by 3Q, in tandem with CNY. Expect some stability towards the end as we look for the lift in global demand to improve Vietnam's external balance. Our fast tracking model prices the USDVND fair value at 21086 base on growth, yield differential and reflation proxy.

USDVND - Risks to the Upside



FDI Peters Out



Source: Bloomberg, CEIC, Maybank FX Research

2017 FX Forecasts

	End Q4-16	End Q1-17	End Q2-17	End Q3-17	End Q4-17
USD/JPY	113	115	117	118	115
EUR/USD	1.0400	1.0000	0.9800	0.9800	1.0200
GBP/USD	1.2300	1.1600	1.1800	1.2300	1.2400
AUD/USD	0.7300	0.7600	0.7300	0.7500	0.7800
NZD/USD	0.7000	0.7400	0.7100	0.7300	0.7500
USD/SGD	1.4350	1.4400	1.4450	1.4350	1.4350
USD/MYR	4.2500	4.1500	4.2500	4.1000	4.1500
USD/IDR	13600	13650	13800	13500	13300
USD/THB	35.70	36.20	36.70	36.00	36.50
USD/PHP	50.50	51.00	51.80	51.50	51.50
USD/CNY	6.95	7.00	7.05	7.10	7.10
USD/HKD	7.80	7.80	7.80	7.80	7.80
USD/TWD	32.40	32.80	32.80	32.80	32.80
USD/KRW	1180	1170	1220	1180	1180
USD/INR	68.50	69.00	69.50	68.50	68.00
USD/VND	22600	22700	22900	23000	23000
DXY Index	103.16	106.48	107.66	106.91	103.88
SGD Crosses	**End Q4-16**	**End Q1-17**	**End Q2-17**	**End Q3-17**	**End Q4-17**
100 JPY/SGD	1.2699	1.2522	1.2350	1.2161	1.2478
EUR/SGD	1.4924	1.4400	1.4161	1.4063	1.4637
GBP/SGD	1.7651	1.6704	1.7051	1.7651	1.7794
AUD/SGD	1.0476	1.0944	1.0549	1.0763	1.1193
NZD/SGD	1.0045	1.0656	1.0260	1.0476	1.0763
SGD/MYR	2.9617	2.8819	2.9412	2.8571	2.8920
SGD/IDR	9477	9479	9550	9408	9268
SGD/THB	24.88	25.14	25.40	25.09	25.44
SGD/PHP	35.19	35.42	35.85	35.89	35.89
SGD/CNY	4.84	4.86	4.88	4.95	4.95
SGD/HKD	5.44	5.42	5.40	5.44	5.44
SGD/TWD	22.58	22.78	22.70	22.86	22.86
SGD/KRW	822	813	844	822	822
SGD/INR	47.74	47.92	48.10	47.74	47.39
MYR Crosses	**End Q4-16**	**End Q1-17**	**End Q2-17**	**End Q3-17**	**End Q4-17**
EUR/MYR	4.42	4.15	4.17	4.02	4.23
JPY/MYR	3.76	3.61	3.63	3.47	3.61
MYR/HKD	1.84	1.88	1.84	1.90	1.88
MYR/CNY	1.64	1.69	1.66	1.73	1.71
GBP/MYR	5.23	4.81	5.02	5.04	5.15
AUD/MYR	3.10	3.15	3.10	3.08	3.24
NZD/MYR	2.98	3.07	3.02	2.99	3.11
MYR/IDR	3200.00	3289.16	3247.06	3292.68	3204.82
MYR/INR	16.12	16.63	16.35	16.71	16.39
MYR/KRW	277.65	281.93	287.06	287.80	284.34
MYR/PHP	11.88	12.29	12.19	12.56	12.41

Source: Maybank FX Research; * 1 Dec 2016.
*These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.

Disclaimers

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