

FX Asia Fortnightly

ASEAN FX Cast Weary Eye On Protectionism

Buy USD On Dips Vs. AXJs

The tumultuous previous two weeks for ASEAN FX could spillover into the new week. Key risk is the 6 Jul deadline for the imposition of tit-for-tat import tariffs by China and US that puts the spotlight on a potential trade war. At the same time, we have FOMC minutes on 6 Jul that refocuses attention back to the two possible rate hikes for the rest of 2018. We could see the USDASEANs oscillate within tight ranges ahead. Technically, the USDASEANs could trade lower in the near term but are poised to climb higher ahead and any dips are thus an opportunity to accumulate. Central bank meetings in focus in the next two weeks are BNM and BoK on 11 and 12 Jul respectively. Both central banks are likely to stay the course and hold their benchmark policy rates steady for now. Our in-house model implies that SGD NEER is trading 0.30% above the implied midpoint of 1.3713, suggesting it is still on the stronger side of the SGD vs. other trading partner currencies.

Highest Correlation Between THB, MYR & SGD With CNY

Recent moves lower by CNH, which dragged the CNY along with it, amid escalating trade tensions have raised concerns in Asia about the potential impact on exports and growth. The 6 Jul deadline for tit-for-tat tariffs to be imposed by China and the US on each other's exports to their respective economies weighs on both the CNH and CNY as well as did the recent RRR cut by the PBoC. These increasing fears that trade tensions between China and US could escalate into a full-blown trade war and weigh on the Chinese economy are being reflected in the AXJs as well. Such concerns are putting downside pressure on AXJ assets, leading to outflows particularly from equities. We are not looking for significant weakness in the CNY as the PBoC is likely to keep the CFETs relatively stable and the impact on Asia may be constrained somewhat. We ran a 120-day moving correlation between selected AXJs and the CNY and the results showed little surprises. The currencies of the more open economies in Asia tended to have a higher correlation with the Chinese yuan. The USDTHB has the highest correlation with the USDCNY, followed by the USDMYR and the USDSGD and then the USDTWD. The correlation of USDIDR, USDPHP and USDKRW with the USDCNY is climbing amid rising trade tensions. Pressured lower amid net foreign outflows, this could be an opportunity to short the SGD and THB against the long PHP and KRW in the near term.

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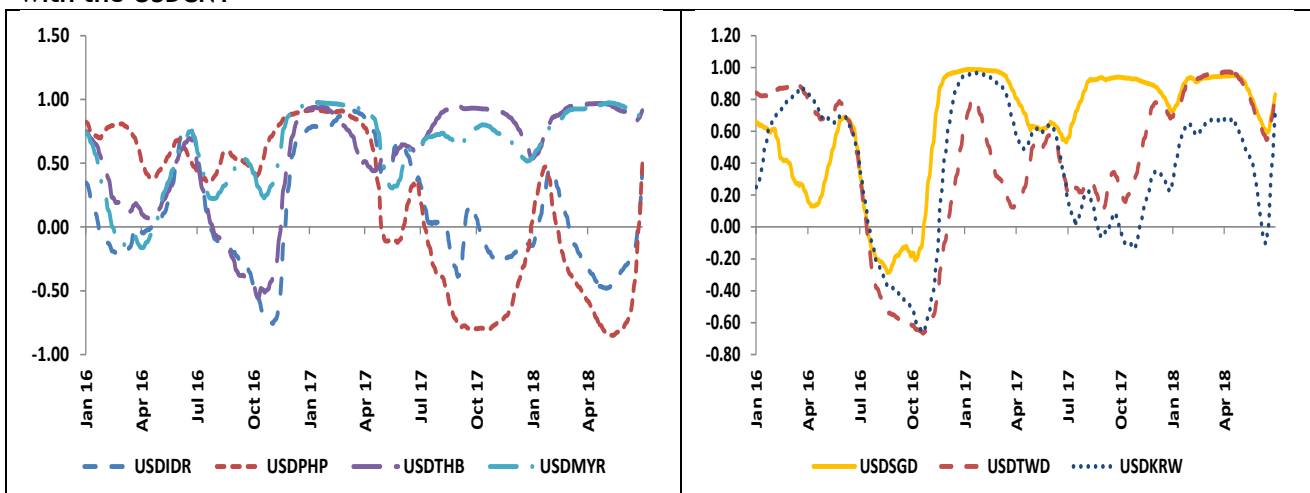
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Flavour of the Week: Further RMB Depreciation Could Hurt ASEAN FX

- Recent moves lower by CNH, which dragged the CNY along with it, amid escalating trade tensions between China and US, have raised concerns in Asia about the potential impact on exports and growth. The recent RRR cut by the PBoC exacerbated these concerns as it was perceived as an easing move to prop up a slowing economy.
- The 6 Jul deadline for tit-for-tat tariffs to be imposed by China and the US on each other's exports to their respective economies has also thrown the spotlight on the recent moves in the CNH and CNY. Heightened concerns of a trade war have kept both the USDCNH and USDCNY on the uptick.
- These increasing fears that trade tensions between China and US could escalate into a full-blown trade war and weigh on the Chinese economy are being reflected in the AXJs as well. Such concerns are weighing on assets of the AXJs, leading to outflows particularly from equities. Since Apr, the CNH has weakened by 5.6% against the USD, while the ASEANs have slipped between 2.6-6.0%. The KRW and TWD have also fallen by 5.7% and 4.5%.
- We are not looking for significant weakness in the CNY as the PBoC is likely to keep the CFETs relatively stable. Note that the current situation is unlike that in 2015. We believe that the Chinese authorities may not want to risk capital outflows seen in 2015. Thus, the impact on Asia may be constrained somewhat.
- We ran a 120-day moving correlation between selected AXJs and the CNY and the results showed little surprises (Chart 1). The currencies of the more open economies in Asia tended to have a higher correlation with the Chinese yuan. The USDTHB has the highest correlation with the USDCNY, followed by the USDMYR and the USDSGD and then the USDTWD. All the correlations are currently above the 0.80% levels.
- As for the rest of ASEAN, the USDIDR and USDPHP correlation with the USDCNY are on the uptick amid rising trade tensions. Similarly for the USDKRW, its correlation with the USDCNY is climbing.

Chart 1: USDTHB, USDMYR & USDSGD have the Highest Correlation with the USDCNY



Note: 120D Rolling Correlation

Source: Bloomberg, IMF, Maybank FX Research & Strategy

- Pressured lower amid net foreign outflows, this could be an opportunity to short both the SGD and THB against the long PHP and KRW in the near term.

Key Data and Events Ahead

Currency	2-8 Jul	9-15 Jul
USDJPY	- Mon: Tankan Survey Result (2Q), Nikkei PMI Mfg (Jun F) - Tue: - Nil - - Wed: Nikkei PMI Services & Composite (Jun), BOJ Harada Speaks in Kanazawa - Thu: BOJ Masai Speaks in Matsumoro - Fri: Household Spending, Labor Cash Earnings (May)	- Mon: Current Account (May), BOJ Kuroda Speaks - Tue: Machine Tool Orders (Jun P) - Wed: PPI (Jun), Core Machine Orders, Tertiary Industry Index (May) - Thu: - Nil - - Fri: Industrial Production, Capacity Utilization (May)
USDCNY	- Mon: Caixin PMI Mfg (Jun) - Tue: - Nil - - Wed: Caixin PMI Services & Composite (Jun) - Thu: - Nil - - Fri: - Nil -	- Mon: FDI (Jun - due 8-18 Jul), Foreign Reserves (Jun) - Tue: CPI, PPI, Aggregate Financing, New Yuan Loans, Money Supply (Jun - due 10-15 Jul) - Wed: - Nil - - Thu: - Nil - - Fri: Trade (Jun)
USDKRW	- Mon: Nikkei PMI Mfg (Jun) - Tue: CPI (Jun) - Wed: Foreign Reserves (Jun) - Thu: Current Account (May) - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: Unemployment Rate (Jun) - Thu: BoK 7-Day Repo Rate - Fri: - Nil -
USDSGD	- Mon: PMI (Jun) - Tue: - Nil - - Wed: Nikkei PMI (Jun), Foreign Reserves (Jun - due 4-9 Jun) - Thu: - Nil - - Fri: - Nil -	- Mon: GDP (2Q A - due 9-13 Jul) - Tue: - Nil - - Wed: - Nil - - Thu: Retail Sales (May) - Fri: - Nil -
USDMYR	- Mon: Nikkei PMI (Jun) - Tue: - Nil - - Wed: - Nil - - Thu: Trade (May) - Fri: Foreign Reserves (29 Jun)	- Mon: - Nil - - Tue: - Nil - - Wed: BNM Overnight Policy Rate - Thu: Industrial Production (May) - Fri: - Nil -
USDIDR	- Mon: CPI, Nikkei PMI Mfg (Jun) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign Reserves (Jun)	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
USDPHP	- Mon: Nikkei PMI Mfg (Jun) - Tue: - Nil - - Wed: - Nil - - Thu: CPI (Jun) - Fri: Foreign Reserves (Jun)	- Mon: - Nil - - Tue: Trade (May) - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
USDTHB	- Mon: CPI, Nikkei PMI Mfg (Jun) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign Reserves (29 Jun)	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign Reserves (6 Jul)
USDINR	- Mon: Nikkei PMI Mfg (Jun) - Tue: - Nil - - Wed: Nikkei PMI Services & Composition (Jun) - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: CPI (Jun), Industrial Production (May), Trade (Jun due 12-15 Jul) - Fri: - Nil -
USDVND	- Mon: Nikkei PMI Mfg (Jun) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -

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