

FX Asia Fortnightly

ASEAN On The Backfoot

ASEAN Could Still Be On The Backfoot

ASEAN watchers will eye global events closely particularly NAFTA negotiations on 7 May and Iran sanctions waivers on 12 May for signals for the return of trade and geopolitical tensions. The lack of progress on both fronts combined with any Trump threats are likely to see trade and geopolitical tensions re-emerge, weighing broadly on ASEAN currencies. At the same time, Malaysia will head to the polls on 9 May and both BNM and BSP meet on 10 May to decide on policy. We expect BNM to stay the course and keep its overnight policy rate on hold, while the BSP could be poised to hike its benchmark policy rate to anchor inflationary pressures. We are bias to sell the 1m USDPHP NDF for a move toward first objective at 51.56 and then the next at 51.20 into the BSP meeting on 10 May. Stop-loss at 52-handle. In the week after, we have BoT and BI meeting on 16 and 17 May respectively and no change in policy stance is expected. IDR and THB could remained under downside pressure for now on continuing unwinding of foreign holding of Indonesian and Thai assets amid rising UST yields. Our in-house model implies that SGD NEER is trading 0.52% above the implied midpoint of 1.3398, suggesting it is slightly on the stronger side of the SGD vs. other trading partner currencies.

Sell-Off In Indonesian Debt Weighs On The IDR

Rising US rates, increasing FX volatility and market uncertainty have triggered unwinding of IDR carry trade plays since Feb. With the potential for UST yields to climb higher amid rising inflation in the US, further foreign portfolio outflows cannot be discounted in the next two months at least because of the sensitivity of IndoGB-UST yield differentials to UST yield changes compared to its peers in the region. This is due to the high foreign ownership of almost 40% of IDR-denominated debt. Spurring this foreign sell-off has been the narrowing spreads between IndoGB and UST yields that have made Indonesian debt less attractive. Historically, spreads between 10Y IndoGB and UST yields have been a more attractive 500-600bp compared to around 400bp currently. Thus Indonesian debt is losing its allure to foreign investors as the yield differentials between 10Y IndoGB and UST narrow. This is likely to lead to further unwinding of foreign holding of Indonesian local current debt as foreign investors seek higher returns elsewhere. The sell-off in Indonesian debt, together with the sell-off in equities, should keep the USDIDR supported in the near term. We expect the USDIDR to hover around the 13800 levels at the end of 2Q.

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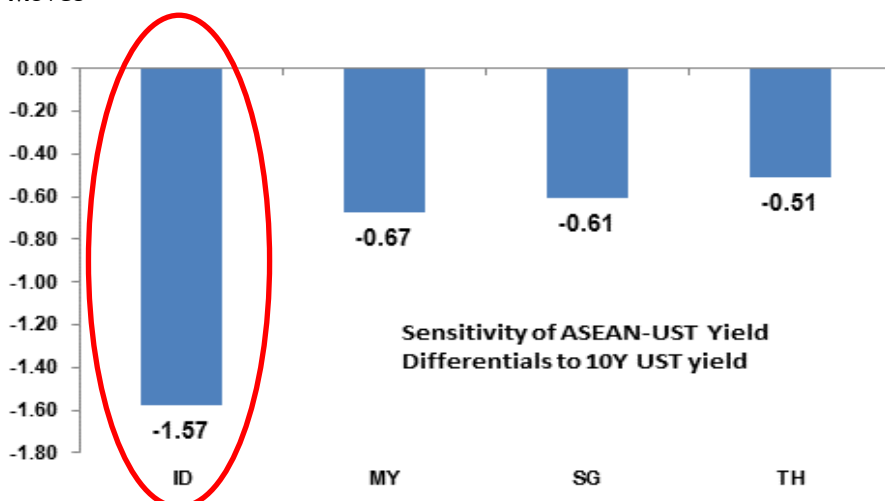
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Flavour of the Week: Sell-Off In Indonesian Debt Weighs On The IDR

- IDR slipped to a new 2018 and near two-and-a-half year low of 13982 on 23 Apr amid the rise in UST yields on increasing speculation that the Fed could move more aggressively on its fund rates on rising inflationary pressures. This speculation prompted UST yields to climb above the 3.0% psychological threshold on 25 Apr to 3.026% though it has since eased off.
- Rising UST yields returned focused on Indonesian assets that had previously found favour with foreign investors at the beginning of the year. Then, IDR carry trade plays had lifted the IDR higher. But rising US rates, increasing FX volatility and market uncertainty have triggered unwinding of these carry trade plays.
- Unsurprisingly, this has led to the sell-off in Indonesian asset by foreign investors in search of higher returns elsewhere, particularly the developed world, since Feb. From Feb to Apr, foreign investors have sold USD2.60bn and USD1.91bn in equities and debt. In May so far, they have sold USD91.9mn in equities (note that up-to-date data for debt is unavailable).
- With the potential for UST yields to climb higher amid rising inflation in the US, further foreign portfolio outflows cannot be discounted in the next two months at least. This is because of the sensitivity of IndoGB-UST yield differentials to UST yield changes (Chart 1) compared to its peers in the region. This is due to the high foreign ownership of IDR-denominated debt of almost 40%.
- A consequence of the sell-off in IndoGB is that 10Y yield has spiked to a new 2018 high of 7.15% on 25 Apr, though this was off its 8-year high of 9.74%. Intervention by the BI has kept IndoGB yields from spiking even higher. Still, this has not prevented the sell-off in IndoGB from continuing.
- This can be attributed to the narrowing spreads between IndoGB and UST yields that have made Indonesian debt less attractive to foreign investors. This is even though there is still a healthy 400bp spread between 10Y IndoGB and UST yield (Chart 2).

Chart 1: 10Y IndoGB-UST Yield Differentials Most Sensitive To UST Moves



Source: Bloomberg, Maybank FX Research & Strategy
May 4, 2018

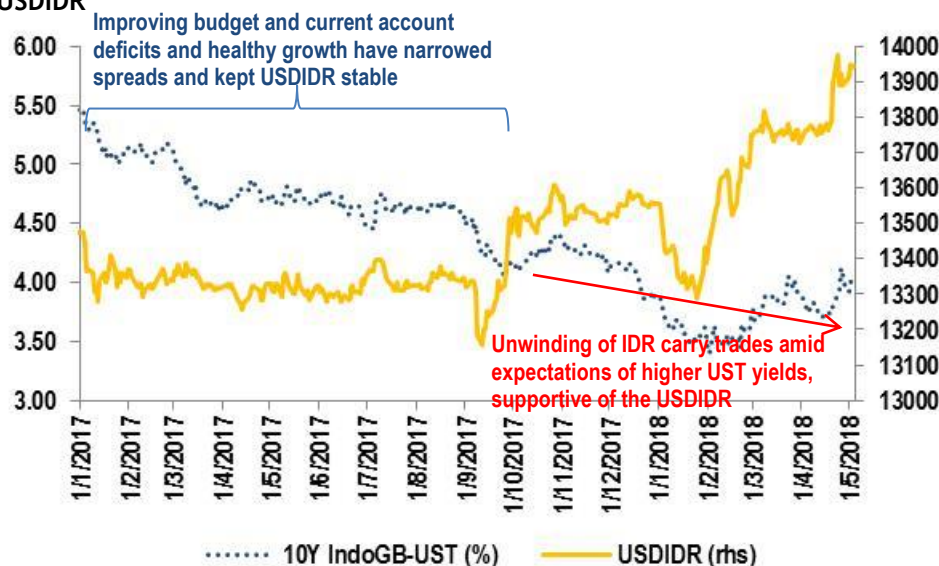
Chart 2: Spreads Between 10Y IndoGB and UST yields Have Narrowed



Source: Bloomberg, CEIC, Maybank FX Research & Strategy

- Historically, spreads between 10Y IndoGB and UST yields have been a more attractive 500-600bp, a healthy return for foreign investors. But the rise in UST yields and BI intervention in the bond markets to temper the rise in IndoGB yields have seen spreads eased off, making IndoGB less attractive than before. Not surprisingly, this has led to foreign portfolio outflows from Indonesian debt.
- Thus Indonesian debt is losing its allure to foreign investors as the yield differentials between 10Y IndoGB and UST narrow. This is likely to lead to further unwinding of foreign holding of Indonesian local current debt as foreign investors seek higher returns elsewhere. The sell-off in Indonesian debt, together with the sell-off in equities, should keep the USDIDR supported in the near term. We expect the USDIDR to hover around the 13800 levels once the proverbial dust has settled at the end of 2Q.

Chart 3: Narrowing 10Y IndoGB-UST Yield Spread Supportive Of USDIDR



Source: Bloomberg, Maybank FX Research & Strategy

Key Data and Events Ahead

Currency	7-13 May	14-20 May
USDJPY	- Mon: BOJ Minutes of 8-9 Mar Policy Meeting - Tue: Household Spending (Mar) - Wed: Labor Cash Earnings, Leading Index (Mar) - Thu: Current Account (Mar), BOJ Summary of Opinions of 26-27 Apr Policy Meeting - Fri: - Nil -	- Mon: PPI, Machine Tool Orders (Apr) - Tue: Tertiary Industry Index (Mar) - Wed: GDP (1Q P), Capacity Utilisation, Industrial Production (Mar) - Thu: Core Machine Orders (Mar) - Fri: CPI (Apr)
USDCNY	- Mon: Foreign Reserves (Apr) - Tue: Trade (Apr), FDI (Apr - due 8-18 May) - Wed: - Nil - - Thu: CPI, PPI (Apr), Money Supply, Aggregate Financing, New Yuan Loans (Apr - due 10-15 May) - Fri: - Nil -	- Mon: - Nil - - Tue: Retail Sales, Industrial Production, FAI Urban (Apr) - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
USDKRW	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: Unemployment Rate (Apr) - Thu: - Nil - - Fri: - Nil -
USDSGD	- Mon: Foreign Reserves (Apr) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Retail Sales (Mar)	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: NODX (Apr) - Fri: GDP (1Q F - due 18-25 May)
USDMYR	- Mon: Foreign Reserves (30 Apr) - Tue: Industrial Production (Jan) - Wed: Polling Day - Thu: Industrial Production (Mar), BNM Overnight Policy Rate - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: GDP, Current Account (1q) - Fri: - Nil -
USDIDR	- Mon: GDP (1Q 2018) - Tue: Foreign Reserves (Apr) - Wed: - Nil - - Thu: Public Holiday - Fri: Current Account (1Q)	- Mon: - Nil - - Tue: Trade (Apr) - Wed: - Nil - - Thu: BI 7-Day Reverse Repo Rate - Fri: - Nil -
USDPHP	- Mon: Foreign Reserves (Apr) - Tue: - Nil - - Wed: Trade (Mar) - Thu: GDP (1Q), BSP Overnight Borrowing Rate - Fri: - Nil -	- Mon: Public Holiday - Tue: Overseas Remittances (Mar) - Wed: - Nil - - Thu: - Nil - - Fri: BoP Overall (Apr)
USDTHB	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign Reserves (4 May)	- Mon: - Nil - - Tue: - Nil - - Wed: BoT Benchmark Interest Rate - Thu: - Nil - - Fri: Foreign Reserves (11 May) - Sat: Customs Trade (Apr - due 19-24 May)
USDINR	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Industrial Production (Mar)	- Mon: Wholesale Prices, CPI (Apr) - Tue: Trade (Apr) - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
USDVND	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -

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