

FX Asia Fortnightly

Asian Bears Are Beckoned?

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US President Trump is expected to give a speech and sign a memorandum (albeit postponed indefinitely) that will focus on China's intellectual property and trade practices. This could be a show of retaliation as the White House has been increasingly frustrated at the "lack of action" from China on North Korea's nuclear and ballistic missile tests. The refreshed threat of US imposing border tariffs on China (which can have rippling effects on many parts of Asia), dampened risk sentiments in Asian bourses regardless of whether that will eventually happen or not. The start of the inquiry on China's intellectual property and trade practices is starting to be a strong excuse for market players to take a short-term bearish position on Asian securities. It was a sea of red for Asian equities (with the exception of KLCI which closed flat) on Thu, right after news of the probe is released. We see rising risk of inflows receding from the Far East and potential for USDAsians upmove as we move into August.

Manufacturing Managers Report Slower Activities

To rub salt into the wound, there are some signs of softening. To be sure, Asian manufacturers had a Solid start to the 2017 and some correction could be inevitable. Markit just released the first prints for 3Q and the sentiments in the regional manufacturing sector seem to be slightly softening. We also noticed that in the absence of USD strength, Asians on average, have been underperforming their Western counterparts in the past one month. As we head into a seasonally bearish month for Asia (in fact it is a bearish month for risk assets amid summer hols in the West), we did a study to sift out the currencies that are most vulnerable to short-term pressures. We find the correlation coefficient of the services sector with the respective manufacturing sector for the past 10 quarters as a proxy of its drag on the services sector. We then, plot the z-score of the respective REER on the horizontal axis of chart 4 (on page 4) as a way to gauge the valuation of the currencies at this point of time and found INR, THB and IDR most expensive on REER basis and also most vulnerable to a slowdown in the manufacturing sector. MYR on the other hand, is the cheapest on REER basis and could provide support the economy.

Eye NFP, China data, GDP numbers, BOT, BSP meet

We are back at the start of the month again and China is due to release its Jul data barrage including foreign reserves, trade numbers, inflation and monetary data next week before releasing its activity numbers on the following Mon (14 Aug). Before that, tonight's NFP print may still swing the USD and we eye the release closely. The next two weeks have GDP out of ID, JP, SG, MY and PH. BSP meeting dominates next week and we do not expect any move from them. That said, our economic team expects a single 25bp rate hike in 2017 towards the end of the year as inflation risks remains to the upside, coupled with pressures on the current account balance and the PHP. Into the second week, BOT meets on 16 Aug. Our economic team no longer expects the central bank to hike its benchmark policy rate in 2017 given benign inflation so far. Instead, the team expects any rate hike to come only in 2018 with growth strengthening even further and as inflation picks up.

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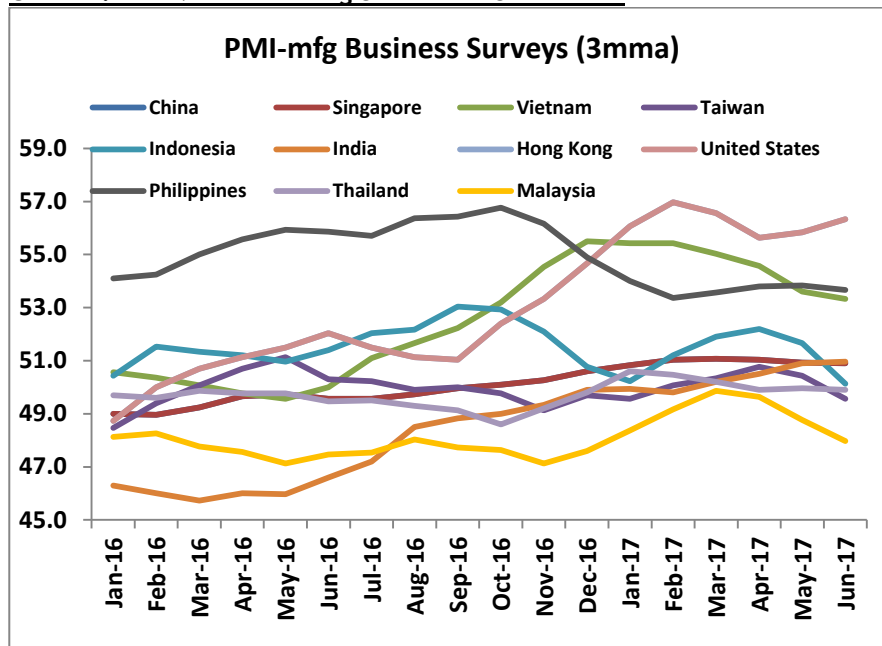
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Flavour of the Week: When Manufacturing Softens...

- Notwithstanding the upside surprise in Caixin PMI-mfg out of China for Jul, we observed that the regional PMI-mfg prints have been trending lower from its peak in the earlier part of the year. The Jul PMI-mfg numbers for most Asian economies that were released by Markit on Tue underscored further softening in the manufacturing sector at the start of 3Q, due to reportedly weakening external and domestic demand. This was felt not just by the manufacturers who reported contraction in production out of South Korea, but also by those in ASEAN economies who also reported softer expansions or contractions in the last month (Chart 1).

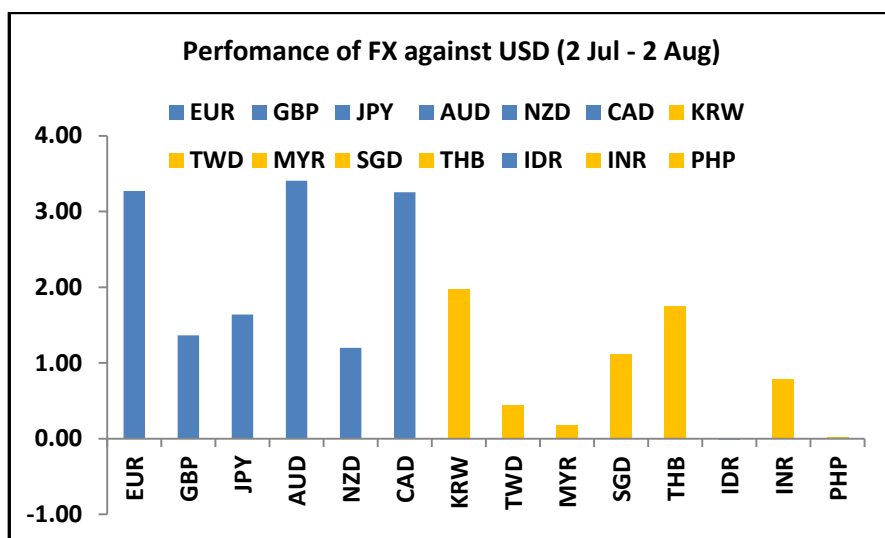
Chart 1: The Manufacturing Scene Has Softened...



Source: Macrobond, CEIC, Maybank FX Research & Strategy

- While we are certainly not of the view that the manufacturing sector is heading for a slump into the rest of the year, especially with China's manufacturing managers reporting faster pace of production and new orders, we do see risk of further correction in the regional manufacturing scene as China ensures its liquidity conditions are not too accommodating, especially after a rather robust 6.9% growth for the first half of the year that could see China comfortably meeting its 6.5-7.0% growth target for 2017 even with a considerable slowdown in 2H.
- In fact, that is starting to show in the regional FX space. While Asian currencies have certainly strengthened against the languishing USD in the past month, Asians are underperforming their western counterparts for the past month (Chart 2).

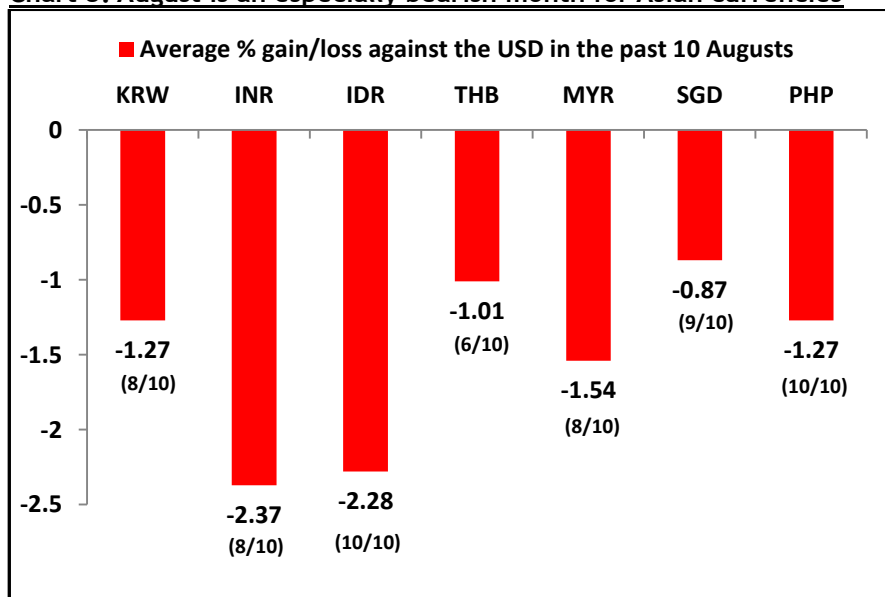
Chart 2: Asian currencies underperform the Majors, Vs. The USD



Source: Bloomberg, Maybank FX Research & Strategy

- With USD positioning seemingly stretched, we see rising retracement risks as we head further into Aug, bearing in mind that it is an especially bearish month for most Asian currencies against the USD (Chart 3).

Chart 3: August is an especially bearish month for Asian currencies

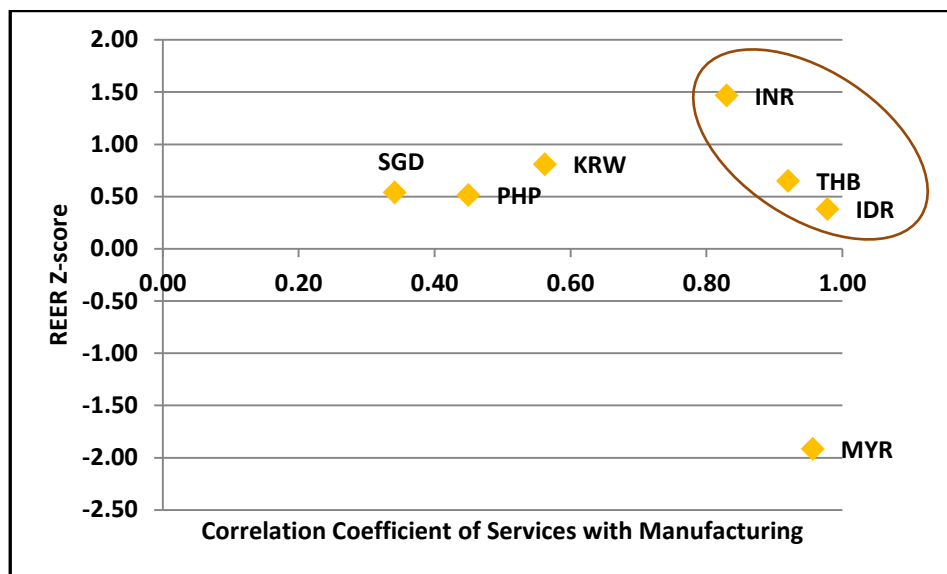


Source: Bloomberg, Maybank FX Research & Strategy

Note: The numbers in parenthesis denote the number of times that the respective currencies have recorded declines in the past 10 Augusts. E.g. KRW registered a net decline against the USD in 8 out of the past 10 Augusts.

- While we see USDAsians likely higher in Aug on seasonal patterns, the current manufacturing trend all the more compels us to view Asian currencies as vulnerable in the near-term. In this study, we find the correlation coefficient of the services sector with the respective manufacturing sector for the past 10 quarters as a proxy of its drag on the services sector. In other words, we want to assess how affected the rest of the economy would be as the manufacturing sector in the region continues to soften. We plot the z-score of the respective REER on the horizontal axis of chart 4 as a way of gauging the valuation of the currencies at this point of time.

Chart 4: INR, THB, IDR More Vulnerable To Short-Term Corrections



Source: Bloomberg, BIS, Maybank FX Research & Strategy

Note: The z-score of the REER is the number of standard deviation from the mean that the latest REER is. In this case, it is the REER taken on 2 Aug 2017. The z-score is calculated by taking a ten year moving average from 2 Aug 2017. For example, the SGD REER has a z-score of 0.54 which translates to 0.54 standard deviations above its 10yr mean.

- We circled out INR, THB and IDR as the most vulnerable currencies in the short term as they seem expensive on the REER basis, or rather least competitive compared to regional peers. At the same time, their manufacturing sectors are the most correlated to their services sector, rendering them more vulnerable to a slowdown in the manufacturing industry compared to other Asian currencies. The Malaysian economy seems somewhat susceptible to a manufacturing slowdown but this currency is the cheapest on REER basis and that could provide a substantial support. That could also mean some upside to the MYR.

2017/2018 Asia FX Forecasts

	End 3Q -17	End 4Q-17	End 1Q-18	End 2Q-18
USDJPY	112	115	115	117
USDSGD	1.3500	1.3500	1.3600	1.3650
USDMYR	4.25	4.28	4.30	4.25
USDIDR	13350	13400	13450	13450
USDTHB	33.50	34.00	34.00	34.30
USDPHP	50.80	50.90	50.90	50.70
USDCNY	6.77	6.80	6.81	6.83
USDKRW	1150	1160	1170	1180
USDINR	65.20	65.40	64.90	65.30
USDVND	22760	22800	22730	22780
SGD Crosses	End 1Q -17	End 2Q -17	End 3Q -17	End 4Q-17
SGDMYR	3.148	3.167	3.162	3.114
MYR Crosses	End 1Q -17	End 2Q -17	End 3Q -17	End 4Q-17
MYRCNY	1.59	1.59	1.58	1.61
MYRIDR	3141	3135	3128	3165
MYRINR	15.34	15.30	15.09	15.36

Source: Maybank FX Research as at 31 Jul 2017.

*These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.

Asian FX Directional Bias

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDMYR	USDMYR traded in a tight 4.2730 - 4.2900 for the second half of Jul, capped by the languishing USD. Pair was last seen at 4.2780 levels. Daily momentum is not indicating a clear bias. Continue to see recent uninspiring range of 4.27 - 4.30 in absence of fresh catalyst. Data eyed in the two weeks ahead industrial production for Jun (10 Aug) and GDP, current account (18 Aug).	O/N Policy Rate	Neutral
USDSGD	USDSGD has been on a precipitous slide in the past two weeks, weighed by the USD retreat. We see some signs of bottoming in this pair, last seen around 1.3580 after touching a low of 1.3545. The trend from the start of the year has been southbound and hopes of reversal could be naïve. Still, it is Aug, a seasonally bearish month for the SGD and there could be some retracement towards the 1.3684-resistance, before the next at 1.3770 (38.2% Fibonacci retracement of the May-Jul downmove, 50-DMA). Next support at 1.3470. Eyes on NFP release tonight which could still swing the USD, SG retail sales on 11 Aug along with GDP for 2Q on 18 Aug. Onshore markets break for National Day on 9 Aug.	Exchange Rate	Neutral

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDIDR	1m USDIDR NDF remained in tight range trades within 13300-13400 for the past two weeks with price action biased to the upside. First resistance is eyed at 13386 (200-DMA) before 13402. Support still at 13300 levels, where market whispers suggest official agents were seen. Upside pressure on the 1m NDF comes from the sell-off in equities. Foreign investors have sold USD180mn in equities so far in the past two weeks as of 3 Aug. Meanwhile, latest available data showed foreign funds had purchased USD210.99 in government debt between 24 Jul - 1 Aug. Further sell-off in equities and slowing inflows into government debt is likely to weigh on the IDR and be supportive of the 1m NDF ahead, especially in a bearish month of Aug for the rupiah. Focus ahead will be on NFP tonight that could still dictate the USD, ID CPI (Jul) on 1 Aug and 2Q GDP (7 Aug), where upside surprises could be supportive of the IDR.	7-Day Reverse Repo Rate	Easing Bias
USDPHP	1m USDPHP NDF remained on the slide, weighed by USD decline. Last seen around 50.28, momentum indicators are increasingly bearish. While stoics are in oversold conditions, we are wary of getting into a long USDPHP position as bearish momentum is rather strong. Support at 50.20 before the 200-DMA at 50.04. The continued foreign inflows into Philippine assets, healthy economic fundamentals, and potential tax reforms (now awaiting the Senate's approval for the bill to become law). Foreign funds inflow has also been supportive of the PHP. Foreign investors have purchased USD55.72mn in equities in the past two weeks as of 3 Aug. BSP meeting dominates next week (10 Aug) and we do not expect any move from them. That said, our economic team expects a single 25bp rate hike in 2017 towards the end of the year as inflation risks remains to the upside, coupled with pressures on the current account balance and the PHP. Trade due the same day. Overseas remittances is due on 15 Aug before 2Q GDP on 17 Aug.	O/N Reverse Repo Rate	Neutral
USDTHB	USDTHB has been heavy. Last seen around 33.25, this pair seems to be finding support around the recent lows and bearish momentum is waning. Stoics are also oversold. Rebounds to meet resistance at 33.46 (23.6% Fibonacci retracement of the Jul drop) before the 21-DMA at 33.60. Support for the THB could once again come from foreign interest in the domestic debt. Foreign investors have purchased USD1330.30mn since the start of the week, as of 3 Aug. However, that has been negated by the outflows of equities, USD372.30mn as of 3 Aug since the start of this week. Thailand breaks for a holiday on 14 Aug.	1-Day Repo Rate	Neutral

Key Data and Events Ahead

7-13 Aug		14-20 Aug	
Japan	• Mon: - Nil -	• Mon: GDP (2Q P)	
	• Tue: Current Account (Jun)	• Tue: Industrial Production, Capacity Utilization (Jun)	
	• Wed: Machine Tool Orders (Jul P)	• Wed: - Nil -	
	• Thu: Machine Orders, Tertiary Industry Index (Jun), PPI (Jul)	• Thu: Trade (Jul)	
	• Fri: Public Holiday	• Fri: - Nil -	
China	• Mon: Foreign Reserves (Jul)	• Mon: Retail Sales, Urban FAI, Industrial Production (Jul)	
	• Tue: Trade (Jul), FDI (Jul, due 8-18 Aug)	• Tue: - Nil -	
	• Wed: CPI, PPI (Jul)	• Wed: - Nil -	
	• Thu: Money Supply, New Yuan Loans, Aggregate Financing (Jul, due 10-15 Aug)	• Thu: - Nil -	
	• Fri: - Nil -	• Fri: - Nil -	
South Korea	• Mon: - Nil -	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: Public Holiday	
	• Wed: Unemployment Rate (Jul)	• Wed: - Nil -	
	• Thu: - Nil -	• Thu: - Nil -	
	• Fri: - Nil -	• Fri: - Nil -	
Singapore	• Mon: Foreign Reserves (Jul)	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: Public Holiday	• Wed: - Nil -	
	• Thu: - Nil -	• Thu: NODX (Jul)	
	• Fri: Retail Sales (Jun)	• Fri: GDP (2Q F, due 18-25 Aug)	
Malaysia	• Mon: Foreign Reserves (31 Jul)	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: Industrial Production (Jun)	• Thu: - Nil -	
	• Fri: - Nil -	• Fri: GDP, Current Account (2Q)	
Indonesia	• Mon: GDP (2Q), Foreign Reserves (Jul)	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: Trade (Jul)	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: - Nil -	• Thu: Public Holiday	
	• Fri: Current Account (2Q)	• Fri: - Nil -	
Philippines	• Mon: Foreign Reserves (Jul)	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: Overseas Remittances (Jun)	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: Trade (Jun), BSP Meeting	• Thu: GDP (2Q)	
	• Fri: - Nil -	• Fri: BoP (Jul)	
Thailand	• Mon: - Nil -	• Mon: Public Holiday	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: BoT Meeting	
	• Thu: - Nil -	• Thu: - Nil -	
	• Fri: Foreign reserves (4 Aug)	• Fri: Foreign reserves (11 Aug)	
India	• Mon: - Nil -	• Mon: CPI, Wholesale Price (Jul)	
	• Tue: - Nil -	• Tue: Public Holiday	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: Trade (Jul, due 10-16 Aug)	• Thu: - Nil -	
	• Fri: Industrial Production (Jun)	• Fri: - Nil -	
Vietnam	• Mon: - Nil -	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: - Nil -	• Thu: - Nil -	
	• Fri: - Nil -	• Fri: - Nil -	

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