

FX Asia Fortnightly

Upside Risk To USDAsians

Asians Under Pressure

The USD move did not pan out as expected. Fed Chair Yellen's speech on Fri (3 Mar) reinforced an imminent rate hike at its Mar meeting but little else. The less-than-hawkish stance spurred USD bears into action, sending the USD lower and some of the USDAsians lower, like the USDJPY and the USDSGD. We expect some kneejerk reaction to Yellen's speech but downside to the USDAsians should be limited. This is because we expect market to remain cautious ahead of US NFP on Fri (10 Mar). We see risk remaining to the upside for the USDAsians in the two weeks ahead. USDJPY should trade at the upper bound of its 112-115 range and possibly test the 115-handle. Similarly, USDSGD could head towards the 1.4260 levels in the next two weeks, while the USDMYR could hover at the upper bound of its 4.44-4.46 range. SGDMYR continues to be pressured lower towards 3.1270 levels; and we could see further bearish extension for the JPYSGD towards 1.2250 should this cross clear the 1.2330-support level. USDPHP remains supported at current levels and further upside pressure could see the pair head to levels not seen since 2006.

Portfolio Flows Could Return To Philippines In The Longer-Term

We investigate the attractiveness of the ASEAN for foreign portfolio investment by examining the cyclical adjusted P/E ratio (CAPE) or Shiller P/E vs. the real ASEAN 10Y yield differentials with the UST. It would appear that the Philippines have favourable conditions in both equities and government debt to attract foreign investors in the longer term. However, as we had previously written, the Duterte risk premium - the president's intemperate temperament and an overly-aggressive anti-drug policy - could be holding back foreign portfolio investment and thus weigh on the PHP for the next three-to-six months. However, this finding suggests that once the Duterte risk premium fades which could take place towards the end of 2017, we could see flows return to Philippine assets and hence bolster the PHP going into 2018.

China Data Spew, BOJ, BI Meetings...

Aside from US NFP, market is also closely watching the ongoing CPPCC and NPC meetings in China that will run until the end of this week. Market will also be eyeing BOJ and BI meetings on 13 and 16 Mar respectively. The BOJ is expected to stay the course and maintain its current policy of QQE with Yield Curve Control as inflation is still a ways from hitting its 2%-target. Similarly, no change in BI policy is expected amid rising domestic inflation and an imminent US Fed rate hike. Key data releases this week include China trade (Feb), Philippines CPI (Feb) on 7 Mar; Japan final GDP (4Q) on 8 Mar; China CPI, PPI (Feb) on 9 Mar; China money supply (Feb) on 10 Mar. The week after Malaysia IP (Jan) on 13 Mar; China retail sales, urban fixed assets, IP (Feb) on 14 Mar; Japan IP (Jan), Indonesia trade (Feb), Philippines remittances (Jan) on 15 Mar; Singapore NODX (Feb) on 17 Mar. India is closed on 13 Mar for a public holiday.

Analysts

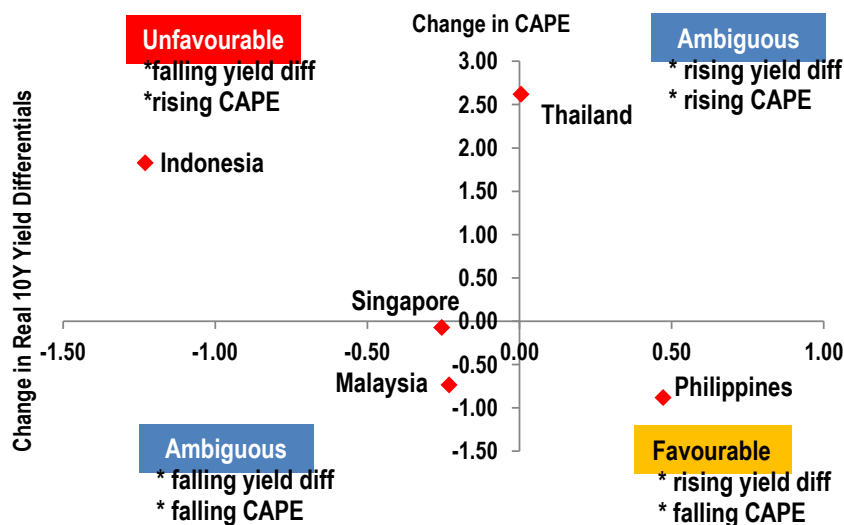
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Flavour of the Week: Another Look At Attractiveness Of ASEAN-5 For The Longer Term



Note: CAPE is defined as price divided by the average of 10 year earnings (both adjusted for inflation).

Source: Bloomberg, CEIC, Maybank FX Research

- We investigate the attractiveness of the ASEAN for foreign portfolio investment by examining the cyclical adjusted P/E ratio (CAPE) or Shiller P/E vs. the real ASEAN 10Y yield differentials with the UST. The CAPE is typically used to assess the future returns from equities over a 10 year period in our case. The higher the CAPE values imply lower than average long term annual returns.
- We operationalized this by taking the difference between the current year CAPE and real 10Y yields from the previous year. A positive number for the CAPE suggest that the average long-term annual returns will be lower and vice-versa. Similarly, a positive number for real yield differential imply that returns have risen for the 10Y debt vs. the UST and vice-versa.
- Among the ASEAN-5, the average CAPE for Thailand and Indonesia has risen in 2016 over the previous year. In contrast, those for Malaysia, the Philippines and Singapore have eased off. This suggests that the average long term annual returns are likely to be higher in the future than for Thailand and Indonesia. This is likely to make the two markets less attractive to equity investors than their peers.
- While the real 10Y government bond yield differentials have remained positive, they have slipped for Indonesia, Malaysia and Singapore. The yield differentials with the UST for Thailand and the Philippines though have picked up with the latter seeing the largest increase.
- It would appear that the Philippines have favourable conditions in both equities and government debt to attract foreign investors in the longer term. However, as we had previously written, the Duterte risk premium - the president's intemperate temperament and an overly-aggressive anti-drug policy - could be holding back foreign portfolio investment and thus weigh on the PHP in the next three to six months. However, this finding suggests that once the Duterte risk premium fades which could take place towards the end of 2017, we could see flows return to Philippine assets and hence bolster the PHP going into 2018.

- In contrast, the Indonesia may not attract the same level of investment interest in the longer term given that future returns in equities could ease off and real yield differentials with the UST could be narrowing. For now though, the real 10Y yield of 5.47% (in 2016) - the highest in the region - could still attract some inflows into government debt and be supportive of the IDR. Similarly, the support from rising commodity prices could also give equities the lift in the near term.
- As for Malaysia, Singapore and Thailand, the portfolio flows is not as clear cut. Malaysia and Singapore equities could find favour with foreign investors but government debt may not should UST yields continue to rise. For Thailand, the still positive yield differentials could attract further inflows into government debt but this could be offset by outflows from equities given lower expected returns in the future as reflected in the higher CAPE. The impact of portfolio flows on the MYR, SGD and the THB though are ambiguous.
- In the near-term (three-to-six months), foreign investment flows could still favour Indonesia than the Philippines with the IDR likely to see greater support than the PHP.

2017 Asia FX Forecasts

	End 1Q -17	End 2Q -17	End 3Q -17	End 4Q-17
USDJPY	118	120	124	125
USDSGD	1.4000	1.4250	1.4350	1.4050
USDMYR	4.30	4.35	4.20	4.25
USDIDR	13400	13600	13600	13300
USDTHB	35.00	35.50	36.00	36.20
USDPHP	50.00	50.50	50.50	49.80
USDCNY	6.92	7.03	7.08	7.04
USDKRW	1150	1180	1170	1180
USDINR	67.00	67.50	68.00	67.50
USDVND	23000	23300	23600	23500
SGD Crosses	End 1Q -17	End 2Q -17	End 3Q -17	End 4Q-17
SGDMYR	3.071	3.053	2.927	3.025
MYR Crosses	End 1Q -17	End 2Q -17	End 3Q -17	End 4Q-17
MYRCNY	1.61	1.62	1.69	1.66
MYRIDR	3116	3126	3238	3129
MYRINR	15.58	15.52	16.19	15.88

Source: Maybank FX Research as at 3 Mar 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
USDJPY	The USDJPY remains stuck within the 112-115 range that has held since the start of the year. The lack of directional cues from the USD and global risk sentiments have weighed on the pair. US NFP out on 10 Mar could be just what is needed to spur USDJPY bulls and a breakout. A clean break of the 115-handle could see a move towards the 116- and 117-handles. Failure to break out risks the pair hovering within the 112-115 range for the next two weeks.	Yield Curve Control	Easing
USDCNH	USDCNH has broken higher, on the back of higher USD, last seen around 6.8940. Momentum indicators on the daily and weekly chart flags upside risks to the pair after it has broken out of the triangle formation and the 50-DMA resistance. The latter has turned into a support at 6.8640. Resistance now is seen around 6.9075/9200 area. Pressure is still to the upside at this point even as NPC proceeds (ends on the 10th). With less commitment to yuan stability according to the work report, expect USDCNH to continue to take the direction from the USD. Forex reserves, trade, inflation, monetary data, activity data are due within these two weeks.	1-Yr Lending Rate	Neutral

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDKRW	We expect KRW to face renewed depreciation pressures in light of ongoing geopolitical tensions with N.Korea and over US-S.Korea joint military exercise, THAAD installation as well as political risks involving defunct-President Park's impeachment verdict. China's travel and entertainment ban in response to THAAD installation are likely to adversely impact tourism-related sectors such as airline, entertainment, cosmetics in the short term. Focus will also be placed on the impeachment verdict (expected sometime in mid-Mar) - If the Court upholds the verdict, Park will be removed and a Presidential election must be held within 60 days. Under this scenario (our base case), we expect short term uncertainty arising out of who will be the next President but this uncertainty is expected to dissipate (investors' confidence to be gradually restored) over time as new regime comes into power. USDKRW last seen at 1157 levels; bullish signals suggest next resistance at 1165 before 1172. Support at 1145 levels. Bias to buy USDKRW on dips.	Base Rate	Easing Bias
USDSGD	USDSGD bounce higher appeared to have stalled even as momentum indicators and stochastics flag bullish bias. The lack of directional cues and global risk sentiments is weighing on the pair. Still, with risks still to the upside, further downside could be limited. Range trades within 1.4090-1.4300 range should hold until USDSGD bulls re-emerge. This could happen later this week when US NFP is released and could lift the pair towards 1.4190 (100DMA) before the next at 1.4270 (23.6% fibo retracement of the Aug-Jan rally). Support is at 1.4090.	Exchange Rate	Neutral
USDMYR	USDMYR continued to trade in subdued ranges. Last seen at 4.4520 levels. Daily momentum is not showing a clear bias while stochastics is rising. Pair may face mild upside risks heading into US payrolls and FoMC meeting next week. Expect 4.44 - 4.48 range to hold in the interim. Data focus over the next 2 weeks on FX reserves (7 Mar) and IP (13 Mar).	O/N Policy Rate	Easing Bias
USDIDR	1m USDIDR NDF continues to be stuck in its current range of 13310-13510 in the absence of fresh catalyst. US NDF on 10 Mar will be eyed to see if its triggers USD bulls and break the 1m NDF out of its current malaise. BI meeting on 16 Mar is likely to have a limited impact on the 1m NDF unless the central bank surprises with a rate adjustment. We are not expecting the BI to adjust the policy rate for the rest of the year given rising inflationary pressures. Momentum indicators still show mild bullish bias on the daily chart. Mild upside risks to the 1m NDF remains at this point. We do not expect the 1m NDF to break out of its current trading range of 13310-13510 but to hover around the upper bound of the range.	7-Day Reverse Repo Rate	Easing Bias
USDPHP	1m USDPHP NDF remains elevated above the 50.50-levels amid concerns about an imminent US rate hike and global risk sentiments. Another jolt to the 1m NDF could come on 10 Mar when US NFP is released. Consequently, foreign investors have sold off USD49.13mn of equities last week - the 7 th straight week of sell-off - and supportive of USDPHP upswings. Bullish bias on the daily chart remains intact but is waning while stochastics is tentatively turning lower. Risk is turning lower at this point and should keep the 1m NDF hovering within. Resistance remains at the multi-year high of 50.77-levels (21 Feb). A break here will bring the 1m NDF further into uncharted territory. Support at around the 50.30 levels (21DMA).	O/N Borrowing Rate	Neutral

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDTHB	USDTHB has rebounded back above the 35-handle from its recent low of 34.936 (28 Feb) amid expectations of an imminent US Fed rate hike. This expectation of higher returns in the US vis-à-vis Thailand sent “hot money” flowing out of Thai assets last week, weighing on the THB. Foreign funds were seen selling THB5.33bn and THB11.57bn of equities and government debt last week consequently. Further outflows could be likely ahead of US NFP on Fri, which is likely to keep the pair supported. Risks are to the upside at this point as reflected in the daily momentum and stochastics. Resistance is at 35.140 (61.8% fibo retracement of the Sep-Dec rally), 35.280 (50DMA). Support remains at 34.910 (76.4% fibo).	1-Day Repo Rate	Neutral
USDINR	This 1M NDF drifted sideways and was last seen around the 67-figure. We still watch the Uttar Pradesh elections at this point. Date of counting is on 11 Mar and completion on 15 Mar. Technical chart suggests there is more room for 1M NDF to head higher. Support remains at the 67-figure. Upticks to meet resistance at 67.40 (Feb-16 high) before 200-DMA at 67.50. IP is due this Fri, along with trade (10-15th), CPI and BoP next Mon, WPI on 14th.	Policy Repo Rate	Neutral
USDVND	USDVND made a double-top formation around 22850 and we see risks to the downside. However, retracements are again, likely to be shallow with first support seen around 22750, before 22690 (50-DMA). Feb data came in better than expected but USD rate trajectory could dominate sentiments and keep USDVND supported on dips.	Refinancing Rate	Easing Bias

Key Data and Events Ahead

Currency	6-12 Mar	13-19 Mar
USDJPY	- Mon: - Nil - - Tue: - Nil - - Wed: Current Account (Jan), GDP (4Q F) - Thu: Labour Cash Earnings (Jan), Machine Tool Orders (Feb P) - Fri: PPI (Feb)	- Mon: Machine Orders, Tertiary Industry Index (Jan) - Tue: - Nil - - Wed: Industrial Production, Capacity Utilization (Jan) - Thu: BOJ Meeting, Machine Tool Orders (Feb F) - Fri: - Nil -
USDCNY	- Mon: CPPCC, NPC - Tue: CPPCC, NPC; Foreign Reserves (Feb) - Wed: CPPCC, NPC; Trade (Feb) - Thu: CPPCC, NPC; CPI, PPI (Feb) - Fri: CPPCC, NPC; Money Supply, New Yuan Loans, Aggregate Financing (Feb) (due 10-15 Mar)	- Mon: - Nil - - Tue: Retail Sales, Fixed Assets (Urban), Industrial Production (Feb) - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
USDKRW	- Mon: Foreign Reserves (Feb) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: Unemployment Rate (Feb) - Thu: - Nil - - Fri: - Nil -
USDSGD	- Mon: - Nil - - Tue: Foreign Reserves (Feb) - Wed: - Nil - - Thu: - Nil - - Fri: Retail Sales (Jan)	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Non-oil Domestic Exports (Feb)
USDMYR	- Mon: - Nil - - Tue: - Nil - - Wed: Foreign Reserves (28 Feb) - Thu: - Nil - - Fri: - Nil -	- Mon: Industrial Production (Jan) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
USDIDR	- Mon: - Nil - - Tue: Foreign Reserves (Feb) - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: Trade (Feb) - Thu: BI Meeting - Fri: - Nil -
USDPHP	- Mon: - Nil - - Tue: CPI, Foreign Reserves (Feb) - Wed: - Nil - - Thu: - Nil - - Fri: Trade (Jan)	- Mon: - Nil - - Tue: - Nil - - Wed: Overseas Remittances (Jan) - Thu: - Nil - - Fri: - Nil -
USDTHB	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign Reserves (3 Mar)	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign Reserves (10 Mar)
USDINR	- Mon: Current Account (4Q) (due 6-31 Mar) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Industrial Production (Jan), Trade (Feb) (due 10-15 Mar)	- Mon: Public Holiday; CPI (Feb) - Tue: Wholesale Prices (Feb) - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
USDVND	- Mon: Domestic Vehicle Sales (Feb) (due 6-13 Mar) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -

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