

# FX Asia Fortnightly

## Asian FXs Mixed

### Asian FXs Moving In Different Directions

We saw USD supported last week, lifted by the rise in UST yields (10Y UST yields had risen from 2.08% on 26 Jun to 2.39% at the point of writing). At the same time, the hawkish tilt to the policy tone of the central banks of the EU, UK and Canada also lifted global yields. This has led to support for other G7 currencies at the expense of the USD but USD strength against Asian FXs. The two weeks ahead could be choppy for the USD given a slew of US data and Fed speaks, chief among them is Fed Chair Yellen's semi-annual testimony to Congress (12-13 Jul). Upside surprises from US data and further clarity from Yellen on Fed balance sheet reduction could keep UST yields and USD supported against some Asian FXs. Narrowing yield differentials between UST and Asia government bonds speakers could weigh on risk sentiments and increases the risk of slowing portfolio inflows. These should put downside pressure on selected Asian FXs against the USD, including the PHP and THB, but others like the SGD could remain in consolidation.

### Fed's Balance Sheet Reduction Will Weigh On ASEAN FX

The Fed's balance sheet (currently at USD4.5tn) reduction is expected to start later in 2017. The transmission mechanism by which the unwinding of the Fed's balance sheet will impact ASEAN currencies is via UST yields. Balance sheet reduction should weigh on US asset prices, and this in turn lifts UST yields and USD higher and pressure ASEAN FXs lower. The results of our sensitivity analysis showed that the shrinking of Fed balance sheet via UST yields could lead to higher USD/ASEANs. Among the most sensitive to changes in 10Y UST yields are the USDMYR, USDTHB and USDSGD. The least sensitive to UST yield moves are the USDPHP and USDIDR. However, the climb in USD/ASEANs should not be as aggressive as in 2013 during the Taper Tantrum because of the improved fundamentals in most ASEAN economies with smaller current account deficits, higher foreign reserves and strengthened central bank regulations on hot money flows. Our model suggests the impact of a shrinkage in the Fed's balance sheet over a one-and-half year period on the ASEAN FX is muted given the gradual pace of reduction, an assumption similar to the one used by the Kansas Fed.

### BoK, BNM, BOJ and BI Meet, SG & CN GDP On Tap

BoK, BNM (both on 13 Jul), BOJ and BI (both on 20 Jul) are meeting these two week but none are expected to adjust their monetary policy stance for now. Singapore and China will release for 2Q GDP on 14 and 17 Jul respectively. Week ahead has Japan machine tool orders (Jun P), Philippines trade (May) on 11 Jul; Japan PPI (Jun), tertiary industry index (May), Korea unemployment rate (Jun), Singapore retail sales (May), Malaysia IP (May), India CPI (Jun), IP (May) on 12 Jul; China trade (Jun) on 13 Jul; Japan IP (May F), capacity utilization (Jun), India wholesale price (Jun) on 14 Jul. The week after has China retail sales, urban fixed asset, IP (Jun), Singapore NODX (Jun), Indonesia trade (Jun), Philippine remittances (May) on 17 Jul; China property prices (Jun) on 18 Jul; Japan machine tool orders (Jun F), Korea PPI (Jun), Malaysia CPI (Jun), Philippines BOP (Jun) on 19 Jul; Japan trade (Jun), all industry activity index (May), BOJ outlook report on 20 Jul. Japan and Thailand are out on 17 Jul for public holidays.

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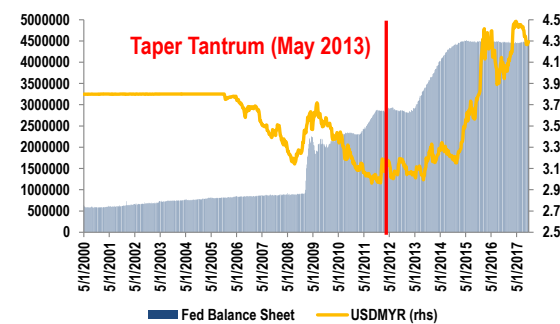
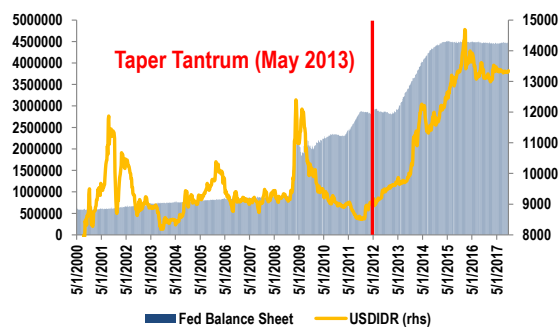
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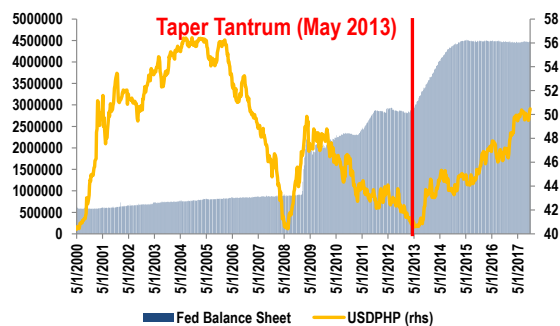
## Flavour of the Week: Which ASEAN FX Will Be Most Affected By Fed's Balance Sheet Reduction?

- The Fed's balance sheet is back in focus with the Fed announcing that a gradual balance sheet reduction would start later in 2017. We expect this reduction to begin in 4Q 2017 after the Fed hikes its short-term rate by 25bp for the third time this year at its 19-20 Sep FOMC. The unwinding could start as soon as Oct. The current balance sheet size is at USD4.5tn.
- The Fed will shrink its securities holdings in its balance sheet that were accumulated from the three previous rounds of assets purchases (QE). Since Fed Chair Yellen announced the end of its asset purchase program on 29 Oct 2014, the Fed fully reinvests the proceeds from matured securities to keep the balance sheet at or around USD4.5tn.

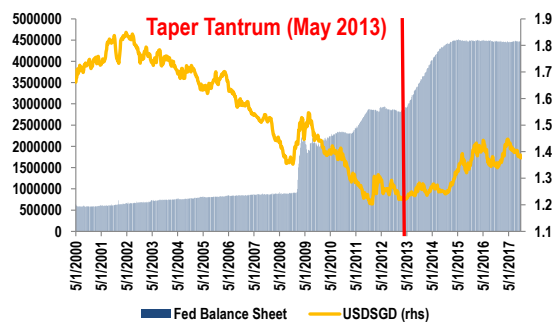
Chart 1: Taper Tantrum Reverses ASEAN FX Gains From US QE  
Indonesia Malaysia



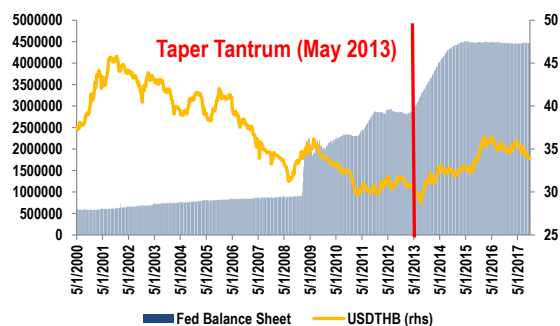
Philippines



Singapore



Thailand



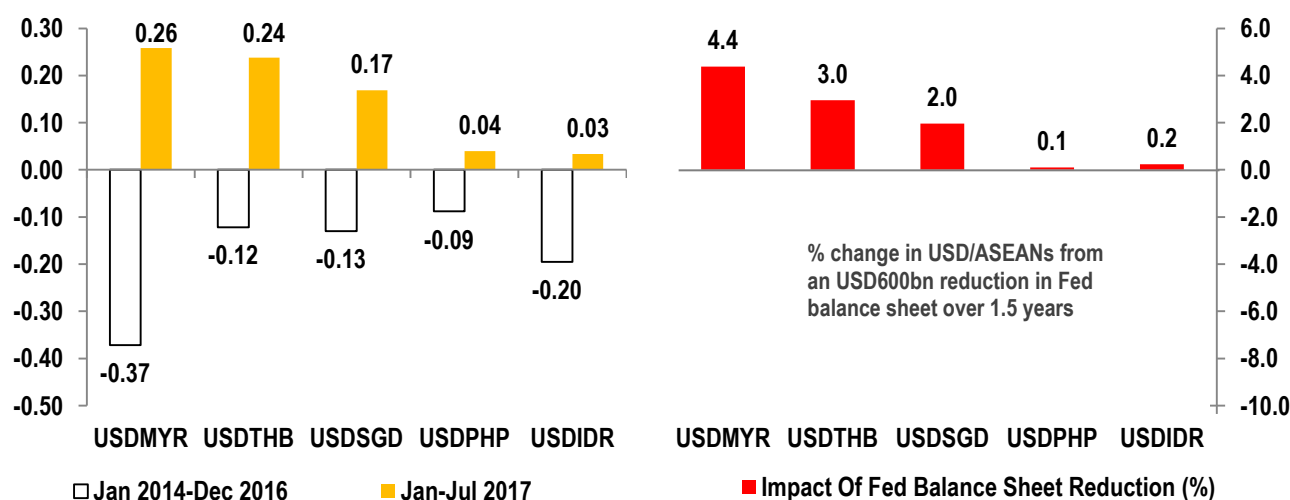
Source: Bloomberg, Maybank FX Research

- There are two ways that the Fed can shrink its balance sheet. It can sell securities on its balance sheet or it can stop reinvesting maturing securities. The preference of the Fed appears to be the latter with the

plan to allow USD10bn of maturing securities (USD6bn in UST and USD4bn in MBS (mortgage-backed securities)) to run off. It will increase the pace of reduction by USD10bn (USD6bn in UST and USD4bn in MBS) every three months over 12 months until they reach USD50bn (USD30bn in UST and USD20bn in MBS). Based on this schedule, the cumulative amount of balance sheet in the first year of operation will be USD350bn. According to the Kansas Fed on 10 May 2017, their analysis showed that a \$675 billion reduction in the Fed's balance sheet over a two-year horizon is about equivalent to a 25 basis point hike in the funds rate.

- Given the size of the balance sheet, the question arises is how the ASEAN FXs will be most impacted from this unwinding. As we had seen from the episode when the Fed announced it was tapering its asset purchased program in May 2013 that resulted in what is now known as the 'Taper Tantrum' (see Chart 1), could a similar situation manifest itself with the Fed's unwinding of the balance sheet.
- The transmission mechanism by which the unwinding of the Fed's balance sheet will impact on the ASEAN currencies is via UST yields. Balance sheet reduction should weigh on US asset prices, and this in turn lifts UST yields and USD higher and pressure ASEAN FXs lower. Examining the sensitivity of ASEAN FXs to changes in 10Y UST yield should provide some insights into who among the ASEAN economies will be most impacted by the Fed's balance sheet reduction.

**Chart 2: USDMYR, USDTHB & USDSGD Most Sensitive To UST Yield Increase But Impact Of Fed Balance Sheet Reduction On ASEAN FX Muted**



$$\text{Equation: } \log(\text{USD}/\text{ASEAN}) = c + b \cdot \log(10Y \text{ UST yield})$$

Note: (1) OLS regression analysis was used to determine the sensitivity of the ASEAN FX to 10Y UST yield for the two time periods using daily data

(2) (RHS) Assumption for the impact of Fed balance sheet reduction from Jul 2017 to Dec 2018 is similar to the one used by the Kansas Fed of an USD675bn reduction over a 2-year period.

Source: Bloomberg, Maybank FX Research

- The results of our sensitivity analysis showed that the shrinking of Fed balance sheet via UST yields could lead to higher USD/ASEANs (Chart 2 - lhs). Among the most sensitivity to changes in 10Y UST yields are the USDMYR, USDTHB and USDSGD. The least sensitive to UST yield moves are the USDPHP and USDIDR.

- The increased sensitivity in the USDMYR to moves in 10Y UST yield is probably due to the breakdown in MYR's correlation to global oil prices as the oil share of the Malaysian budget has fallen. Nevertheless, improving domestic growth fundamentals as well as BNM's recent initiatives to boost bond market liquidity and allowance for additional hedging flexibility have boosted investor confidence and hence mitigated the impact from higher UST yields.
- However, we do not expect USD/ASEANs to climb as aggressively as it did in 2013 during the Taper Tantrum. This is because fundamentals in most ASEAN economies have improved since 2013 with smaller current account deficits, higher foreign reserves and strengthened central bank regulations on hot money flows.
- In addition, our analysis shows that the sensitivity of the USD/ASEANs to moves in the UST yields has flipped into positive territory in 2016. Previously, higher UST yields led to dips in USD/ASEANs as higher yields were suggestive of improvement in US growth prospects and hence ASEAN growth. Now, a rise in UST yields lift USD/ASEAN higher as portfolio inflows to ASEAN assets slow in search of higher yielding ones in the US.
- Our model suggests the impact of a shrinkage in the Fed's balance sheet over a one-and-half year period on ASEAN FX is muted given the gradual pace of reduction, an assumption similar to the one used by the Kansas Fed (Chart 2 - rhs). An USD600tn reduction in the Fed's balance sheet by end-2018 results in the USDMYR, USDTHB and USDTHB rising to 4.49, 35.17 and 1.41 respectively by end-2018. For the USDPHP and USDIDR, Fed balance sheet reduction results in the two currency pairs ending 2018 at 50.87 and 13425 respectively.

## 2017/2018 Asia FX Forecasts

|             | End 3Q -17 | End 4Q-17  | End 1Q-18  | End 2Q-18 |
|-------------|------------|------------|------------|-----------|
| USDJPY      | 115        | 117        | 117        | 119       |
| USDSGD      | 1.3900     | 1.3800     | 1.3950     | 1.4050    |
| USDMYR      | 4.25       | 4.30       | 4.30       | 4.25      |
| USDIDR      | 13400      | 13450      | 13500      | 13500     |
| USDTHB      | 34.50      | 35.00      | 35.30      | 35.80     |
| USDPHP      | 50.50      | 50.70      | 50.70      | 50.30     |
| USDCNY      | 6.80       | 6.87       | 6.85       | 6.90      |
| USDKRW      | 1150       | 1160       | 1170       | 1180      |
| USDINR      | 65.70      | 66.20      | 66.50      | 66.70     |
| USDVND      | 22850      | 22950      | 23100      | 23300     |
| SGD Crosses | End 1Q -17 | End 2Q -17 | End 3Q -17 | End 4Q-17 |
| SGDMYR      | 3.058      | 3.116      | 3.082      | 3.025     |
| MYR Crosses | End 1Q -17 | End 2Q -17 | End 3Q -17 | End 4Q-17 |
| MYRCNY      | 1.60       | 1.60       | 1.59       | 1.62      |
| MYRIDR      | 3153       | 3128       | 3140       | 3176      |
| MYRINR      | 15.46      | 15.40      | 15.47      | 15.69     |

Source: Maybank FX Research as at 7 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 was last seen at 4.2990 levels. Bullish momentum on daily chart shows signs of waning and stochastics suggests the pair is in overbought conditions. Bias remains to sell on rally for a move back towards 4.25 support. Resistance remains at 4.3050 (50 DMA), 4.3240 (38.2% fibo retracement of Apr-Jun downswing). For upcoming BNM meeting on Thu, we expect BNM to remain on hold at 3% as the latest data on inflation is consistent with BNM's view that the surge in headline inflation is temporary and will moderate while core inflation rate is contained. Other data of interest for the next two weeks include May IP (12 Jul); Jun CPI (19 Jul); FX Reserves (21 Jul).                                                           | Base Rate      | Easing Bias           |
| USDSGD | USDSGD appears to be in consolidation after climbing higher on 3 Jul amid a 4 pip jump in 10Y UST yield that lifted USD higher. Elevated UST yields and higher USDSJPY have kept the pair supported above the 1.38-handle to date. Risk events ahead include advanced estimates for 2Q GDP on 14 Jul and NODX on 17 Jul, and Fed Chair Yellen's semi-annual testimony to Congress (12-13 Jul). Daily chart momentum indicators and stochastics show no strong bias in either direction. Weekly MACD still suggest risk of hidden bullish divergence - a signal of potential rebound. We remain bias to buy on dips for a revisit of 1.3870 (38.2% fibo retracement of the May-Jun downswing), 1.3920 (50% fibo). Support remains at 1.3709 (2017 low). | Exchange Rate  | Neutral               |

## Asian FX Directional Bias (Cont'd)

|               | Stories of the Week                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Policy Measure          | Policy Direction/Bias |
|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-----------------------|
| <b>USDIDR</b> | 1m USDIDR NDF has been trading higher since our last FX Fortnightly amid a climb in UST yields that lifted USD higher. Narrowing yield differentials with the US also led foreign investors seeking higher returns elsewhere, supporting the 1m NDF. Foreign investors had sold USD136.66mn in equities last week. They had also sold IDR8.46tn in government debt on 3-6 Jul (latest data available). On the downside, the 1m NDF continues to find support around the 133000 levels as market whispers suggest official agents in the market around that level. Trades ahead will take its cue from external events including Fed Chair Yellen's semi-annual testimony to Congress (12-13 Jul) and from BI's MPC on 20 Jul. BI is unlikely to move on its benchmark policy rate despite inflationary pressures in order to support growth objectives. Bullish momentum on the daily chart remains intact, while stochastics is back in overbought conditions. On the weekly chart, momentum indicators are bullish bias and stochastics is climbing higher. These suggest the potential for further upside risks ahead. Resistance is around 13490 (76.40% fibo retracement of the 2017 high-to-low), 13526 (18 May high). Support remains at 13400 levels (50% fibo), 13370 (38.2% fibo). | O/N Policy Rate         | Easing Bias           |
| <b>USDPHP</b> | 1m USDPHP NDF climb to a multi-year high of 50.95 (6 Jul) amid higher global yields. Yields for the other G7 (namely EU, Canada and UK) rose as well after their central bank heads' hawkish policy comments. Still, these moves higher look overdone in light of 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). Focus ahead will be on Fed Chair Yellen's semi-annual testimony to Congress (12-13 Jul) and May overseas remittances on 17 Jul. Momentum indicators remain bullish bias but waning, while stochastics is still at overbought conditions. Weekly chart though shows mild bullish momentum and stochastics on the uptick, suggesting that potential upside risk ahead. We look for upside to be capped around 50.95 (yesterday's high) ahead of 51.50 levels. Dips should find support around 50.40 (76.4% fibo retracement of the Feb-Apr 2017 downswing).                                                                                                                                                                                                                                                                                  | O/N Policy Rate         | Neutral               |
| <b>USDTHB</b> | USDTHB traded to a near monthly high of 34.208 (on 7 Jul), breaking out of its trading range of 33.800-34.100 levels that has held for the past several weeks. Pair has since retraced to oscillate near the upper bound of that range. Pair's upside had been tempered by the strong inflows into Thai assets that have partially mitigated the upside pressure from higher global rates. In the past two weeks, foreign funds have purchased THB7.06bn and THB3.49bn of equities and government debt. Focus ahead will be on external events, namely Fed Chair Yellen's semi-annual testimony to Congress (12-13 Jul) in the absence of domestic impetus. Daily momentum indicators continue to show mild bullish bias and stochastics still climbing higher towards overbought conditions. We remain bias to long the pair. Resistance is at 34.200 levels (23.6% fibo retracement of the Mar-Jun downswing, 50DMA). Support at 33.990 (21DMA), 33.810 (2017 low).                                                                                                                                                                                                                                                                                                                        | 7-Day Reverse Repo Rate | Neutral               |

## Key Data and Events Ahead

| Currency | 10-16 Jul                                                                                                                                                                                                                                                                                                             | 17-23 Jul                                                                                                                                                                                                                                             |
|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| USDJPY   | <ul style="list-style-type: none"> <li>Mon: Machine Orders, Current Account Balance (May), BOJ Kuroda Speaks</li> <li>Tue: Machine Tool Orders (Jun P)</li> <li>Wed: PPI (Jun) Tertiary Industry Index (May)</li> <li>Thu: - Nil -</li> <li>Fri: Industrial Production (May F), Capacity Utilization (Jun)</li> </ul> | <ul style="list-style-type: none"> <li>Mon: Public Holiday</li> <li>Tue: - Nil -</li> <li>Wed: Machine Tool Orders (Jun F)</li> <li>Thu: Trade (Jun), All Industry Activity Index (May), BOJ Meeting, Outlook Report</li> <li>Fri: - Nil -</li> </ul> |
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| USDCNY   | <ul style="list-style-type: none"> <li>Mon: FDI (Jun) (due on 8-18 Jul), CPI, PPI (Jun), Money Supply, New Yuan Loan, Aggregate Financing (Jun) (due 10-15 May)</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: Trade (Jun)</li> <li>Fri: - Nil -</li> </ul>                                                | <ul style="list-style-type: none"> <li>Mon: Retail Sales, Urban Fixed Asset, Industrial Production (Jun), GDP (2Q)</li> <li>Tue: Property Prices (Jun)</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>                   |
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| USDKRW   | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: Unemployment Rate (Jun)</li> <li>Thu: BoK 7-Day Repo Rate</li> <li>Fri: - Nil -</li> </ul>                                                                                                                                    | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: PPI (Jun)</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>                                                                                              |
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| USDSGD   | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: Retail Sales (May)</li> <li>Thu: - Nil -</li> <li>Fri: GDP (2Q A)</li> </ul>                                                                                                                                                  | <ul style="list-style-type: none"> <li>Mon: NODX (Jun)</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>                                                                                             |
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| USDMYR   | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: Industrial Production (May)</li> <li>Thu: BNM Overnight Policy Rate</li> <li>Fri: - Nil -</li> </ul>                                                                                                                          | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: CPI (Jun)</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>                                                                                              |
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| USDIDR   | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>                                                                                                                                                                | <ul style="list-style-type: none"> <li>Mon: Trade (Jun)</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: BI 7D Reverse Repo</li> <li>Fri: - Nil -</li> </ul>                                                                                 |
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| USDPHP   | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: Trade (May)</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>                                                                                                                                                            | <ul style="list-style-type: none"> <li>Mon: Overseas Remittances (May)</li> <li>Tue: - Nil -</li> <li>Wed: BoP Overall (Jun)</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>                                                                   |
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| USDTHB   | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: Foreign Reserves (7 Jul)</li> </ul>                                                                                                                                               | <ul style="list-style-type: none"> <li>Mon: Public Holiday</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: Foreign Reserves (14 Jul)</li> </ul>                                                                       |
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| USDINR   | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: CPI (Jun), Industrial Production (May)</li> <li>Thu: - Nil -</li> <li>Fri: Wholesale Price (Jun), Trade (Jun) (due 14-17 Jun)</li> </ul>                                                                                      | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>                                                                                                |
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| USDVND   | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>                                                                                                                                                                | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>                                                                                                |
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