

FX Asia Fortnightly

Asian Currencies Remain Under Pressure

USD/Asian FXs To Remain Bid

The US NFP print for Sep disappointed, providing some near term relief for the Asians. This relief rally could be short-lived as the focus in the next two week remains US-centric with the second US Presidential debate on 11 Oct (9am SGT) in sight as well as a total of nine Fed speakers including Fed Chair Yellen on 14 Oct. The uncertainty emanating from the US could dampen risk appetite, lift the dollar and put Asian FXs under pressure as a result. But it may not be all bad news especially for commodity-linked currencies such as the MYR, which could gain from the bounce in oil prices. Oil prices should get a boost if the meeting in Istanbul scheduled for 8-13 Oct between OPEC and non-OPEC oil producers (like Russia) manages to iron out the details to cut output. Look for the USD/Asians to remain bid for the two-weeks ahead. The exception is likely the USDPHP, which could see a technical retracement in the near term towards the 48-levels.

Eyes On MAS

In Asia, the key focus in the next two weeks will be the bi-annual MAS policy meeting on 14 Oct. Our house view is for the MAS to maintain its neutral appreciation stance. The macroeconomic environment and inflation have not deteriorated to the point that it requires a further easing move by the MAS - which would entail a re-centering. The domestic economy remains subdued amid a soft global environment but is not about to enter into a recession any time soon. Similarly, core inflation remains on the uptick back towards its historical average. A re-centering move by the MAS risk a spike in short-term rates that could undermine already skittish household and business confidence further and hence the economy. Thus, the balance of risks appears to remain slightly biased towards growth and the labor market, but fiscal/manpower support could be more apt to lift growth and cap unemployment/lessen the impact of unemployment than further easing the exchange rate policy.

BoK & BI On Tap

Aside from the MAS, we also have the BoK and BI meeting to decide on policy on 13 and 20 Oct respectively. There is rising risk of BoK cutting rate by 25bps, but we believe it may opt to wait for more data before deciding whether to cut rates. Similarly, the risk of another 25bp rate cut by BI remains and a move at this meeting cannot be ruled out as another cut should be supportive of loan growth and hence investment and economic growth. Data-wise, we have Singapore's advance GDP estimates for 3Q on 14 Oct and China's 3Q GDP on 19 Oct. Japan is out on holidays on 10 Oct and India on 11 and 12 Oct.

Analysts

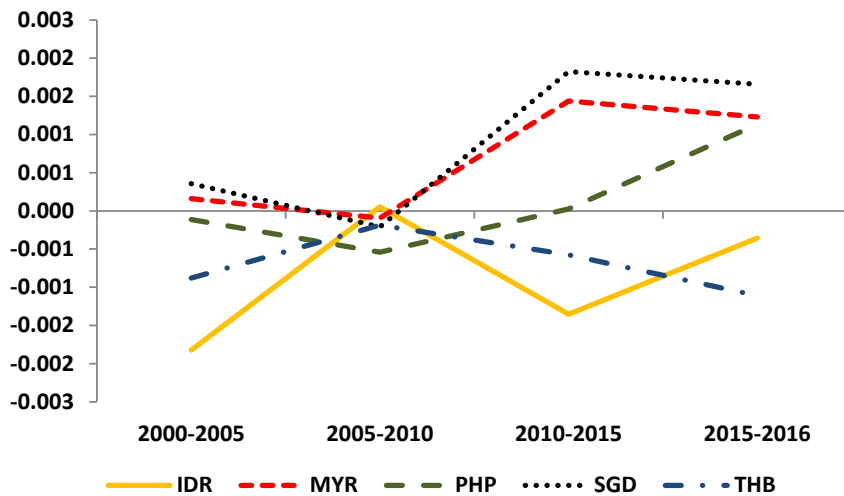
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Flavour of the Month: Oil Impact on ASEANs have Changed



Note: Analysis undertaken using OLS regression on a reduced-form equation: $X = c + aY_1 + bY_2 + dY_3$ (where $x = \log$ of the ASEAN currency vs. the USD, $Y_1 = \log$ of Brent crude oil price, $Y_2 = \log$ of the USD Index and $Y_3 = \log$ of the ASEAN currency lagged one period).

Source: Bloomberg, Maybank FX Research

- The upcoming meeting in Istanbul scheduled for 8-13 Oct between OPEC and non-OPEC oil producers (like Russia) to iron out the details of a reduction in oil output has kept oil prices supported. Should a deal be ratified, there can be no escaping elevated oil prices.
- The results from our ordinary least square (OLS) regression of the impact of oil on ASEAN currencies controlling for currency and other effects show that the impact of higher oil prices have changed over the different time period.
- The oil elasticities for the SGD and MYR have fallen since the 2010-2015 after rising from the 2005-2010 period. That the oil elasticity has become less elastic suggests that a rise in oil prices has led to a less than proportionate fall in the SGD and MYR, probably reflecting the smaller role that oil is playing in the two economies in recent years and the diversification of energy sources.
- The negative oil elasticity for the THB has been coming off since the 2005-2010 period. This means that an oil price increase now leads to a less than proportionate fall in the THB than before.
- Unlike the others, the oil elasticities of the PHP and IDR have been on the rise. The oil elasticity of the PHP has become even more elastic since the 2010-2015 period with the climb in oil prices resulting in a more than proportionate rise in the PHP. This not surprising given the acceleration of Philippines' GDP and its reliance on imported oil.
- Finally, the oil elasticity for the IDR This means that an oil price increase now leads to a more than proportionate fall in the IDR than before, reflective of Indonesia as a net oil importer now.
- In sum, the rise in oil prices will impact the IDR and PHP more than it would the SGD, MYR and THB.

2016/2017 Asia FX Forecasts

	End 4Q-16	End 1Q -17	End 2Q -17	End 3Q -17
USDJPY	105	103	106	105
USDSGD	1.3750	1.3800	1.3850	1.3850
USDMYR	4.10	4.00	4.10	3.95
USDIDR	12950	12500	12800	12600
USDTHB	34.70	35.00	35.20	35.50
USDPHP	49.00	48.50	49.50	49.00
USDCNY	6.67	6.65	6.72	6.70
USDKRW	1130	1100	1100	1130
USDINR	68.00	66.00	66.00	68.00
USDVND	22500	22400	22650	22500
SGD Crosses	End 4Q-16	End 1Q -17	End 2Q -17	End 3Q -17
SGDMYR	2.982	2.899	2.960	2.852
MYR Crosses	End 4Q-16	End 1Q -17	End 2Q -17	End 3Q -17
MYRCNY	1.63	1.66	1.64	1.70
MYRIDR	3159	3125	3122	3190
MYRINR	16.59	16.50	16.10	17.22

Source: Maybank FX Research as at 6 Oct 2016.

*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	Busy two-weeks for the USDJPY post-US NFP. Disappointing domestic data should reinforce the need for further fiscal and monetary support, weighing on the JPY. Moreover, the pair's upward trajectory remains intact but underperformance of the US NFP should weigh on the pair in the near term. Despite some market skepticism about the shift in BOJ policy framework to controlling the yield curve, we believe that this could aid the BOJ in achieving its 2% inflation target, in addition to further easing measures by the BOJ. A rally in UST yields at some later stage could also be supportive of the pair. Daily and weekly momentum and stochastics remain 105.50 levels ahead of 108-levels. Any dips should find support around the 101.70-levels (50DMA) before the 100-figure.	Monetary Base	Easing
USDCNH	USDCNH broke above the 6.70-level yesterday. Looking forward, external factors continue to drive the pair. Fed rate hike expectations and the US elections could continue to keep this pair elevated. Bullish momentum is sufficient to keep the pair supported and a break of the 6.7195-resistance exposes the next at 6.7620. The next week will have monetary numbers due and there is hardly any sweet spot for this release. Too high will mean China is on a credit binge for short-term growth, long term imbalances. Too low will risk short-term growth. Trade for Sep should come in with small growth. Sep inflation prints are due on Thu. Activity numbers are due on 19th and Aug numbers had shown a rebound. We look for some stability in the numbers as fiscal spending starts to take effect. 3Q GDP will be of focus.	1-Yr Lending Rate	Easing Bias

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDKRW	USDKRW traded higher over the past week amid USD strength (UST yields firmer amid rising expectation of Fed rate hike). Pair was last seen at 1115 levels. Weekly/daily momentum and stochastics indicators are suggesting a bullish bias. Key resistance at 1116/7 levels (23.6% fibo retracement of Jun high to Aug low). Break above that puts 1131 (38.2% fibo) in focus. Support at 1090 (triple bottom). Next week brings BoK meeting (Thu). We see rising risk of BoK cutting rate by 25bps, in light of renewed concerns of disinflation and potential slowdown in growth momentum due to corporate restructuring plans and Hanjin Shipping incident (may lead to more layoffs and weigh on investments). But we believe BoK may opt to wait for more data (such as 3Q GDP on 25 Oct) before deciding whether to cut rates. See 1090 - 1125 range.	Base Rate	Easing Bias
USDSGD	USDSGD releases its advanced estimates for 3Q GDP and exchange rate policy decision on 14 Oct (Fri). Ahead of these releases, the USDSGD has been on the uptick amid concerns about higher global oil prices, expectations of US rate hikes this year and the possibility that MAS could surprise with a re-centering move on Fri. A re-centering is not our base as we expect the MAS to stand pat on policy given that the economy is not about to enter a recession despite weaker growth and that core inflation is on the uptick. Moreover any concerns about the labor market could be better address via fiscal/manpower policies. Daily and weekly momentum indicators are bullish bias and stochastics are at overbought conditions. This suggests the potential for retracement ahead. Resistance is at 1.3880 (50% fibo retracement of the 2014 low to 2016 high). Support is at 1.3650 (38.2% fibo). We remain bias to stay long and look for opportunities to buy the pair.	Exchange Rate	Easing Bias
USDMYR	USDMYR traded higher despite oil price gains as USD strength (due to rising UST yields) overwhelms. OPEC and non-OPEC members meet in Istanbul (8 - 13 Oct) to discuss how to implement the oil production cut deal agreed in Algiers last month. Any disagreement could subject oil prices to the downside and weigh on the Ringgit. USDMYR was last at 4.16 level. Weekly momentum and stochastics are indicating mild bullish bias. Break above 4.15 puts next resistance at 4.17 before 4.21. Support at 4.09 (200 DMA). Next two weeks bring IP (12 Oct) , CPI (19 Oct) and FX reserves (21 Oct) data.	O/N Policy Rate	Easing Bias
USDIDR	1s USDIDR NDF remains in familiar range of 12930-13150. In the two weeks ahead, focus will be on the BI policy meeting on 20 Oct. The risk of another rate cut remains, and we do not rule out the possibility of a move to come as soon as this upcoming policy meeting. Our economic team though expects another 25bp cut only next year. Another cut should be supportive of loan growth and hence investment and economic growth. A cut would weigh on the 1-month NDF though a kneejerk move higher is possible initially. Moreover, growing optimism over the success of the tax amnesty program and the release of new policy package on e-commerce in the third week of Oct could fuel investor sentiments and spur further inflows into the country. This should weigh on the 1-month NDF. In the nearer term, daily momentum has lost most of its bearish bias and stochastics is climbing higher. Weekly chart though is indicating some downside pressure. Support is at 12914 (year's low on 27 Sep). Resistance is at 13170 (50% fibo of the 2014 low to 2015 high); 13270 (100DMA).	O/N Reference Rate	Easing Bias

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDPHP	1s USDPHP has been trading whippy within its current 48.00-48.70 range for the past week or so. 1-month NDF and spot was last seen around 48.380 and 48.253 respectively. While some technical retracement towards the 48-levels is expected in the near term, upside pressure on the pair remains. Foreign investor confidence have yet to be fully restored given market concerns about higher global oil prices, expectations of Fed rate hikes, US election concerns and concerns about the government's extra-judicial killings, policy flip-flops and the president's unpredictable temperament. The weak sentiments are likely to weigh on equity flows and hence on the 1-month NDF. Daily momentum is showing tentative signs of bearish bias and stochastics is falling from overbought conditions. Still any potential retracement ahead could be shallow. Interim resistance remains around 48.72 (year's high on 26 Sep) levels before 49.21 levels. Range trades with 48.00-48.70 should hold for the next two weeks. Beyond the near-term, a move towards the 50-figure cannot be ruled out should outflows continue that begin to affect other investments. Support remains around the 48-figure.	O/N Reverse Repo	Neutral
USDTHB	USDTHB continues its climb higher toward the 35-figure amid a firmer dollar tone on rising expectations of a Fed rate hike this year and higher global oil prices. In the absence of fresh domestic catalyst for now, the pair will be guided ahead by external events. Lurking in the background remains the concerns over the health of the King and the royal succession, which should keep the pair supported. Still, mild inflows into equities and government debt could cap upside. Daily chart shows mild bearish bias though weekly chart remains mildly bearish bias. Look for upside to be capped around the 35-figure. Support is at 34.730 (50DMA).	1-Day Repo Rate	Easing Bias
USDINR	The rate cut by the new MPC was greeted with calm although the MPC neutral statement triggered some selling in the debt market. We anticipate some upside pressure for this pair given external events. The GST Council is due to meet on the 18-20th October and we expect the actual GST rate to be set. From the charts, we see rangy moves in the week ahead within 66.80-67.30. Industrial production for Aug is due and consensus expects a smaller contraction of -0.3%/y. CPI is due on 14th, estimated to soften. Good Kharif harvest should see the price pressure soften on weaker food inflation. Trade numbers are due on 13th-17th. WPI is due 14th, likely to remain on the uptick.	Policy Repo Rate	Easing Bias
USDVND	USDVND is still stuck around 22300 but we still see mild upside risks for this pair. Outlook broadly unchanged. We expect USD strength into the Dec FOMC meeting but ample USD supply at home could temper its upmove. We are still concerned about FDI inflows that have been supporting the VND and industrial output momentum. The amount of FDI that is coming in has slowed to a trickle since Jul and remains so for Sep. At home, SBV has been accumulating FX reserves and the SBV reported USD40bn, positive for the dong but with import cover ratio at around 2.5, it is still considered inadequate relative to regional peers.	Refinancing Rate	Easing Bias

Key Data and Events Ahead

Currency	10-16 Oct	17-23 Oct
USDJPY	• Mon: Public Holiday	• Mon: Industrial production (Aug F), Capacity utilization (Aug), Nationwide Dept Sales (Sep)
	• Tue: Current account balance, Trade balance (Aug)	• Tue: - Nil -
	• Wed: Machine orders (Aug)	• Wed: All industry activity index (Aug)
	• Thu: Tertiary industry index (Aug)	• Thu: Machine tool orders (Sep F)
	• Fri: Money stock, PPI (Sep)	• Fri: - Nil -
USDCNY	• Mon: Money supply, Aggregate financing, New yuan loans (Sep) (due 10-15 Oct)	• Mon: Aug property prices
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: Industrial production, Retail sales, Fixed Asset (Urban) (Sep), GDP (3Q)
	• Thu: Trade (Sep)	• Thu: - Nil -
	• Fri: CPI, PPI (Sep)	• Fri: - Nil -
USDKRW	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: Unemployment rate sa (Sep)	• Wed: PPI (Sep)
	• Thu: BoK 7-day repo rate	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -
USDSGD	• Mon: - Nil -	• Mon: NODX (Sep)
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: Industrial production (Sep) (due 20-27 Oct)
	• Fri: GDP (3Q A), MAS policy meeting, Retail sales (Aug)	• Fri: - Nil -
USDMYR	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: Industrial production (Aug)	• Wed: CPI (Sep)
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: - Nil -	• Fri: Foreign reserves (14 Oct)
USDIDR	• Mon: - Nil -	• Mon: Trade (Sep)
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: BI 7-day reverse repo rate
	• Fri: - Nil -	• Fri: - Nil -
USDPHP	• Mon: Budget balance (Aug) (due 10-15 Oct)	• Mon: Overseas remittances (Aug)
	• Tue: Trade (Aug)	• Tue: - Nil -
	• Wed: - Nil -	• Wed: BoP overall (Sep)
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -
USDTHB	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: Foreign reserves (7 Oct)	• Fri: Foreign reserves (14 Oct)
USDINR	• Mon: Industrial production (Aug)	• Mon: - Nil -
	• Tue: Public holiday	• Tue: - Nil -
	• Wed: Public holiday	• Wed: - Nil -
	• Thu: CPI (Sep), Trade (Sep) (due 13-17 Sep)	• Thu: - Nil -
	• Fri: Wholesale prices (Sep)	• Fri: - Nil -
USDVND	• Mon: Domestic vehicle sales (Sep) (due 10-13 Oct)	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -

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