

FX Asia Fortnightly

ASEANs Could Strengthen Post-Chinese New Year

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After the great start in Jan, Asian FX has had a rude shock. Since our last FX Asia Fortnightly, Asian equities and debt have been sold off in the wake of rising global yields on inflation concerns. The sell-off has led to a reduction in short USD/Asian positions so far in Feb. The SGD and KRW have been the worst performing currencies to date, falling by 1.7% and 1.8% respectively against the USD. There are concerns that this correction still has legs to go. Further risk aversion could reinforce the sell-off in global bonds and equities that could once again engulf Asian markets as well. This could lead to further reduction in short USD positions against the Asians FX, including the ASEANs, in the two weeks ahead. The shortened week (due to the Chinese New Year holidays) in Asia could reinforce whippy Asian trades amid thin liquidity and lightened positions. Still, our study (see below) shows that the AXJs, including ASEANs, could strengthen post-Chinese New Year.

USD/Asians Generally Move Lower Post-Chinese New Year

Asian FXs have a tendency to strengthen against the USD in the month of Feb due to seasonal factors. It is interesting to note that Chinese New Year is generally celebrated by Asians in Feb (though at times it could fall in Jan). So it cannot be ruled out that this Asian FX strength can be due to the “feel good” sentiments emanating from the Chinese New Year celebrations. Our examination of the effects of the past 10 Chinese New Years on USD/ASEANs showed that no discernible trend in the 15-days before the Chinese New Year holidays. Generally, the USD/ASEANs tend to be whippy before the Chinese New Year holidays as liquidity thin and positions lightened. A similarly trend can be seen for other North Asian currencies like the USDCNY, USDHKD, USDKRW and USDTWD. Post-Chinese New Year holidays though, there is a more discernible directional bias for the USD/ASEANs. USD/ASEANs have tended to move lower in the 15 days after the Chinese New Year holidays, possibly due to the post-Chinese New Year “feel good” sentiments as markets in Asia re-open. Given the recent broad sell-off in the ASEANs against the USD, there may be doubts that this trend could continue in Feb 2018. This may very well be the case as there has been Febs that have bucked the USD/Asians downtrend. The current rally in the USD/Asians then could be an opportunity to fade into.

BoT, BI Meetings; JN, MY, SG & TH GDP On Tap; Holidays Galore

It is a short two-week for Asian economies ahead with the start of the Lunar New Year holidays. CN is out from 15-21 Feb; VN from 14-20 Feb, KR on 15-16 Feb; SG, MY, ID & PH on 16 Feb. JN is out on 12 Feb for a public holiday. We have BoT and BI meeting on 14 and 15 Feb respectively to decide on policy and both are expected to maintain the status quo for now. 4Q17 GDP for JN (12 Feb), MY & SG (14 Feb) and TH (19 Feb) are due for release. Also eyed will be SG's 2018 budget speech on 19 Feb. Other key data/events eyed in the week of 12 Feb include SG retail sales; IN CPI; IP on 12 Feb; JN PPI, machine tool orders on 13 Feb. For 14 Feb, we have KR unemployment rate, MY current account. For 15 Feb, there is JN core machine orders, IP; SG NODX; ID trade; PH overseas remittances; IN trade. In the week of 19 Feb, there is JN trade; PH BoP on 19 Feb; and JN machine tool orders on 20 Feb. For 21 Feb, there is JP Nikkei PMI mfg; all industry activity index; BOJ Funo to speak; MY CPI. On 23 Feb, we have JN CPI, PPI; SG CPI.

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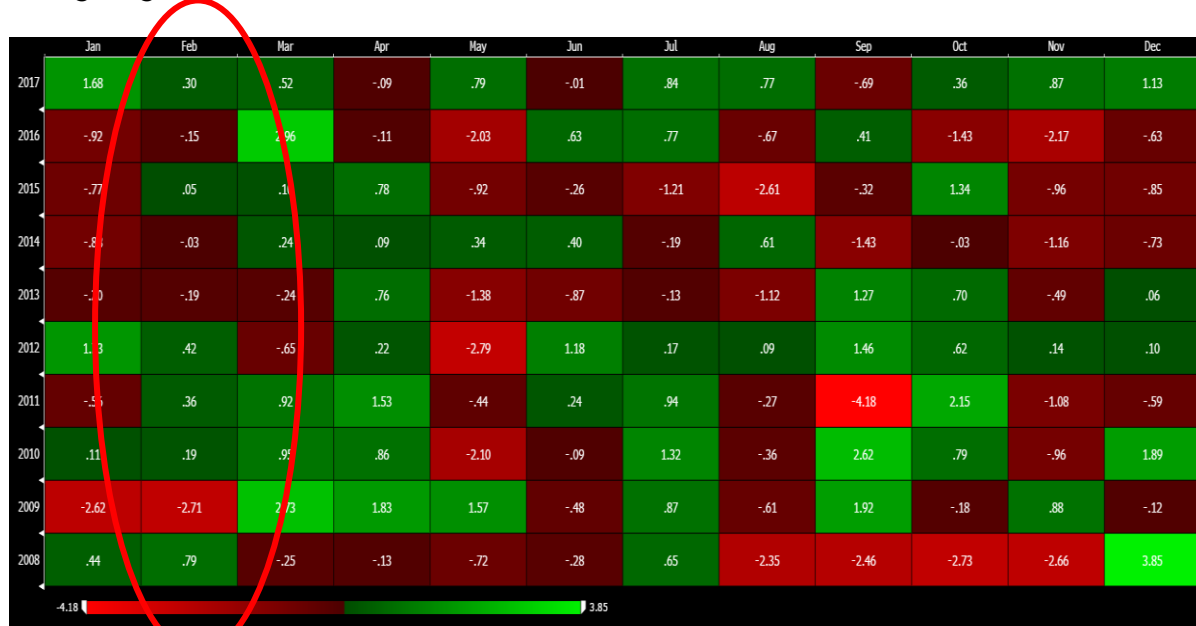
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Flavour of the Week: Post-Chinese New Year Effects Could Weigh On USD/Asians

- Asian FXs have a tendency to strengthen against the USD in the month of Feb. In the past ten years, the Asians (as proxied by the ADXY Index - a trade and liquidity weighted index of 10 Asian currencies including the ASEAN-5) this has generally been the case as shown in Chart 1 below. The chart suggests seasonal factors drive the Asians higher in Feb.

Chart 1: Seasonality Suggests Asian FX (proxied by ADXY Index) Strength Against USD In Feb

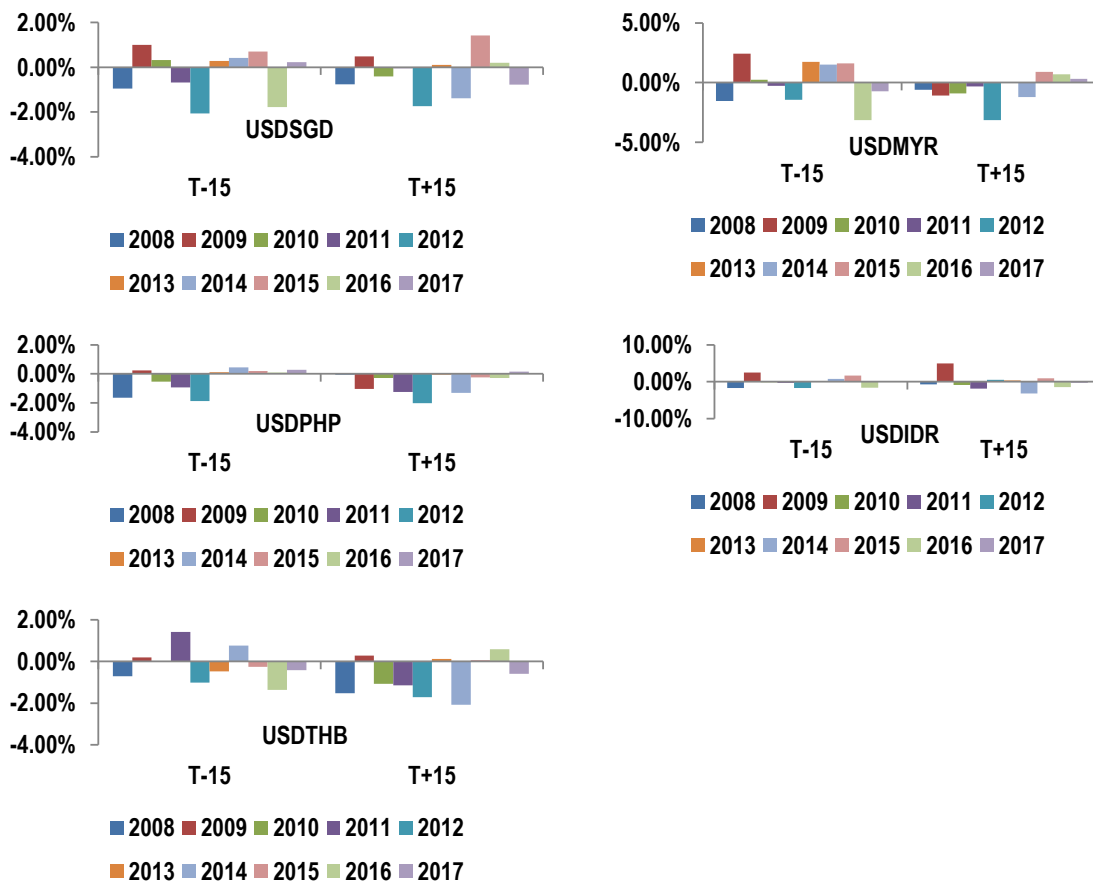


Note: Green signifies currency strength, and red weakness. Numbers in the boxes indicate the percent change over the previous month.

Source: Bloomberg, Maybank FX Research & Strategy

- It is interesting to note that Chinese New Year is generally celebrated by Asians in Feb (though at times it could fall in Jan). So it cannot be ruled out that this Asian FX strength can be due to the “feel good” sentiments emanating from the Chinese New Year celebrations. We examine the effects of the past 10 Chinese New Years on USD/ASEANs in the lead up to the holidays and post-celebration. We examine the 15 days before and after Chinese New Year to see how the USD/ASEANs have moved before and after each Chinese New Year.
- In Chart 2 below, USD/ASEANs shows no discernible trend in the lead-up to the Chinese New Year holidays. In the 15-days prior to the holiday, the USD/ASEANs can either move higher or lower. Generally, the USD/ASEANs tend to be whippy before the Chinese New Year holidays as liquidity thin and positions lightened. A similarly trend can be seen for other North Asian currencies like the USDCNY, USDHKD, USDKRW and USDTWD.
- Post-Chinese New Year holidays though, there is a more discernible directional bias for the USD/ASEANs. As seen in Chart 2, USD/ASEANs have tended to move lower in the 15 days after the Chinese New Year holidays. This could be due to the post-Chinese New Year “feel good” sentiments as markets in Asia re-open.

Chart 2: USD/ASEANs Tend To Be Whippy In Lead-Up To Chinese New Year, But Slip Lower After Post-Chinese New Year



Source: Bloomberg, Maybank FX Research & Strategy

- Given the recent broad sell-off in the ASEANs against the USD, there may be doubts that this seasonality pattern could continue in Feb 2018. This may very well be the case as suggested in Chart 1 where there has been Febs that have bucked the USD/Asians downtrend. The current rally in the USD/Asians then could be an opportunity to fade into.

2018 Asia FX Forecasts

	End 1Q-18	End 2Q-18	End 3Q-18	End 4Q-18
USDJPY	108	107	106	105
USDSGD	1.2800	1.2700	1.2500	1.2400
USDMYR	3.80	3.85	3.70	3.65
USDIDR	13200	13000	12900	12800
USDTHB	31.00	31.00	31.50	32.00
USDPHP	51.00	50.50	50.50	50.00
USDCNY	6.25	6.20	6.20	6.10
USDKRW	1060	1030	1020	1040
USDINR	64.50	63.50	63.00	62.50
USDVND	22700	22600	22550	22500
SGD Crosses	End 4Q-17	End 1Q-18	End 2Q-18	End 3Q-18
SGDMYR	2.969	3.031	2.960	2.944
MYR Crosses	End 4Q-17	End 1Q-18	End 2Q-18	End 3Q-18
MYRCNY	1.64	1.61	1.68	1.67
MYRIDR	3474	3377	3486	3507
MYRINR	16.97	16.49	17.03	17.12

Source: Maybank FX Research as at 6 Feb 2018.

*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 drifted higher last week amid a rebound in UST yields and USD after having traded lower the week prior. In a shorten-week, market focus will be on GDP (14 Feb) and CPI (21 Feb) domestically and US CPI (14 Feb). Stronger GDP and higher CPI prints could increase risk of further BNM adjustment, supportive of the MYR, while a stronger US CPI print could see further USD strength, and weigh on the MYR. Last seen at 3.9390 levels. Daily momentum is mild bullish bias while stochastics is rising. Resistance at 3.9510 levels (38.2% fibo retracement of Jan high to low), 3.9770 (50% fibo). Support seen at 3.92 (23.6% fibo), 3.8660 (previous low), 3.88 levels.	O/N Policy Rate	Tightening
USDSGD	USDSGD ended its 7 week run lower, rebounding last week and breaking out of its downward trend channel that has been in place since Jan 2017. Pair has since touched a near three week high of 1.3340 on 9 Feb. It is a heavy-duty data two weeks ahead with final 4Q17 GDP (14 Feb), NODX (15 Feb), 2018 Budget Speech (19 Feb) and CPI (23 Feb) where disappointments could weigh on the SGD. Last seen around 1.3313 levels. Daily momentum indicators show bullish bias, while stochastics is now at overbought conditions. Bearish momentum on the weekly chart remains intact but waning, while stochastics shows signs of climbing higher from oversold conditions. But post-Chinese New Year sentiments could see USDSGD lower. Resistance is around 1.3370 (23.6% fibo retracement of the 2017 high to 2018 low) ahead of 1.3450 (100DMA). Bias to lean against strength. Support around 1.3250 levels before 1.3180 (21DMA).	Exchange Rate	Neutral

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDIDR	1m USDIDR NDF has been on the uptrend for the past week or so amid a broad sell-off in Asian FX against the USD and rising UST yields. The rise in vols and UST yields has made IDR carry trade plays less attractive and this has affect foreign portfolio flows into Indonesian assets. Foreign investors have sold USD186.24mn and USD811.05mn in equities and debt in the previous two weeks. Waning risk appetite and rising vols could continue to see a sell-off in Indonesian assets and keep the 1m NDF supported in the two weeks ahead. Look for BI intervention to smooth IDR volatility to continue and keep the IDR weighed in the two weeks ahead. BI meets on 15 Feb but is likely to remain on hold for now to support growth even as inflationary pressures mount. Any hike is expected to come only in 2Q. Last seen around 13690 levels. Momentum indicators on the daily chart remain bullish bias, while stochastics is at overbought conditions. Weekly chart shows bearish bias intact but waning and stochastics still climbing higher. We could see some relief for the 1m NDF post-Chinese New Year though. Support is around 13660 levels before 13600 levels (23.6% fibo retracement of the 2017 low to high). Resistance is around 13740 levels.	7-Day Reverse Repo Rate	Neutral
USDPHP	1m USDPHP NDF has been largely on the uptrend for much of 2018 on concerns over deteriorating current account deficits with recent data showing a record trade deficit of USD4bn in Dec. In addition there are concerns that the BSP could be behind the curve in raising its policy rate to anchor inflationary pressures after inflation came in at 4% in Jan at the upper bound of its 2-4% inflation target. In addition, it did not help that waning risk appetite led foreign investors to sell off USD222.69mn in equities in the past two weeks. Further foreign portfolio outflows should be supportive of the 1m NDF. Focus in the next two weeks will be on overseas remittances on 15 Feb. Last seen around 51.77 levels. Daily momentum indicators show bullish bias intact but waning and stochastics still at overbought conditions. Weekly chart remains bullish bias. Still near term post-Chinese New Year effect could weigh on the 1m NDF ahead. Support is at 51.60 (23.6% fibo retracement of the 2017 low to high), 51.20 (21DMA). Any rebounds should meet resistance around the 52-handle, 52.30 levels (2017 high).	O/N Reverse Repo Rate	Neutral
USDTHB	USDTHB has been on the climb higher in the past week amid a rebound in UST yields and the USD with the pair climbing to a three-week high of 31.957 on 9 Feb. In addition, pair faces upside pressure from the sell-off in Thai assets by foreign investors. Foreign investors had sold USD106.9mn and USD1.22bn in equities and debt in the previous two weeks. Continued global risk aversion resulting in the further sell-off of Thai assets could keep the pair supported in the next two weeks. Risk events ahead include BoT policy meeting on 14 Feb (where policy status quo is expected for now) and 4Q17 GDP on 19 Feb. USDTHB was last seen at 31.801 levels. Momentum indicators and stochastics are bullish bias. Weekly momentum indicators though remain bearish bias and stochastics at oversold conditions. This suggests risks are still to the downside though in the near term risks remains to the upside, though this could be mitigated in part by the positive sentiments post-Chinese New Year in the region. Resistance is around 31.170 (50DMA), 32.420 (23.6% fibo retracement of the 2016 high to 2018 low). Support at 31.660 (21DMA), 31.277 (2018 low).	1-Day Repo Rate	Neutral

Key Data and Events Ahead

	12-18 Feb	19-25 Feb
Japan	- Mon: Public Holiday - Tue: PPI, Machine Tool Orders (Jan) - Wed: GDP (4Q P) - Thu: Core Machine Orders, Industrial Production, Capacity Utilization (Dec) - Fri: - Nil -	- Mon: Trade (Jan) - Tue: Machine Tool Orders (Jan F) - Wed: Nikkei PMI Mfg (Feb P), All Industry Activity Index (Dec), BOJ Funo Speaks - Thu: - Nil - - Fri: CPI, PPI (Jan)
	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: Public Holiday - Fri: Public Holiday	- Mon: Public Holiday - Tue: Public Holiday - Wed: Public Holiday - Thu: - Nil - - Fri: - Nil -
South Korea	- Mon: - Nil - - Tue: - Nil - - Wed: Unemployment Rate (Jan) - Thu: Public Holiday - Fri: Public Holiday	- Mon: - Nil - - Tue: - Nil - - Wed: PPI (Jan) - Thu: - Nil - - Fri: - Nil -
	- Mon: Retail Sales (Dec) - Tue: - Nil - - Wed: GDP (4Q F) - Thu: NODX (Jan) - Fri: Public Holiday	- Mon: 2018 Budget Speech - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: CPI (Jan)
Malaysia	- Mon: - Nil - - Tue: - Nil - - Wed: GDP, Current Account (4Q) - Thu: - Nil - - Fri: Public Holiday	- Mon: - Nil - - Tue: - Nil - - Wed: CPI (Jan) - Thu: Foreign Reserves (15 Feb) - Fri: - Nil -
	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: Trade (Jan), BI 7-Day Reverse Repo - Fri: Public Holiday	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign Reserves (Nov)
Philippines	- Mon: Budget Balance (Dec) (due 12-16 Feb) - Tue: - Nil - - Wed: - Nil - - Thu: Overseas Remittances (Dec) - Fri: Public Holiday	- Mon: BoP Overall (Jan) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
Thailand	- Mon: - Nil - - Tue: - Nil - - Wed: BoT Benchmark Interest Rate - Thu: - Nil - - Fri: Foreign Reserves (9 Feb)	- Mon: GDP (4Q), Customs Trade (Jan)(due 19-24 Feb) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign Reserves (16 Feb)
India	- Mon: CPI (Jan), Industrial Production (Dec) - Tue: - Nil - - Wed: Wholesale Prices (Jan), Public Holiday - Thu: Trade (Jan) - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
Vietnam	- Mon: - Nil - - Tue: - Nil - - Wed: Public Holiday - Thu: Public Holiday - Fri: Public Holiday - Sun: - Nil -	- Mon: Public Holiday - Tue: Public Holiday - Wed: - Nil - - Thu: - Nil - - Fri: - Nil - - Sun: Trade, CPI, Industrial Production, Retail Sales (Feb) (due 25-28 Feb)

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