

FX Asia Fortnightly

Market Jitters Remain

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Our call to buy the USD on dips vs. the AXJs in our last Fortnightly proved to be timely given the broad USD strength the past two weeks. Looking ahead, we think that market will err on the side of caution in the next two week as trade war concerns could heighten should trade talks between China and US fail to get anywhere. Jittery markets could keep the AXJs under pressure. In addition, Fed speakers in the next two weeks, including Fed Chair Powell's semi-annual testimony to both houses of Congress, could be supportive of the USD. This in turn could weigh on the AXJs. Still, central banks in ASEAN have been in the market to limit volatility of their currencies, and should slow their currencies grind lower. Technical charts suggest that the risks to the USDASEANs are to the upside but in the near-term, they could trade range-bound. Of note in the next two weeks is BI meeting on 18-19 Jul where consensus is expecting the central bank to remain on hold. Still, we cannot rule out another move by the central bank should the IDR remain under further depreciation pressure. Our in-house model implies that SGD NEER is trading 0.55% above the implied midpoint of 1.3759, suggesting it is still on the stronger side of the SGD vs. other trading partner currencies. As for the RMB, we do not expect the Chinese currency to depreciate too significantly in the near term.

AUD, NZD, IDR & INR Are Most Sensitivity to Global Sentiments, Fed Rate Hike & RMB Moves

Trade war concerns have created uncertainty in the markets and this is affecting global sentiments. Fears of trade disruption from protectionism measures on both sides has spurred demand for safe-haven assets (like the JPY) and selling of risk assets, especially from emerging markets. At the same time, regional currencies are also under stress from the possibility of the Fed moving more rapidly on rate hikes in 2018. Quicker Fed moves should spur fund flows back to the US from the region in search of higher yields, possibly weighing on regional currencies. We ran two multi-regression studies; one to gauge which regional currencies would be most impacted by shifts in global sentiments and moves in the RMBs. Our study showed that the shifts in global sentiments, Fed rate hike moves and changes in CNH are felt unevenly among currencies in the region. But the most sensitive currencies (AUD, NZD, IDR and INR) should remain under downside pressure as trade war concerns heighten and Fed continues on a more rapid pace of rate hike. We are bias to long JPY and short AUD, NZD, IDR and INR.

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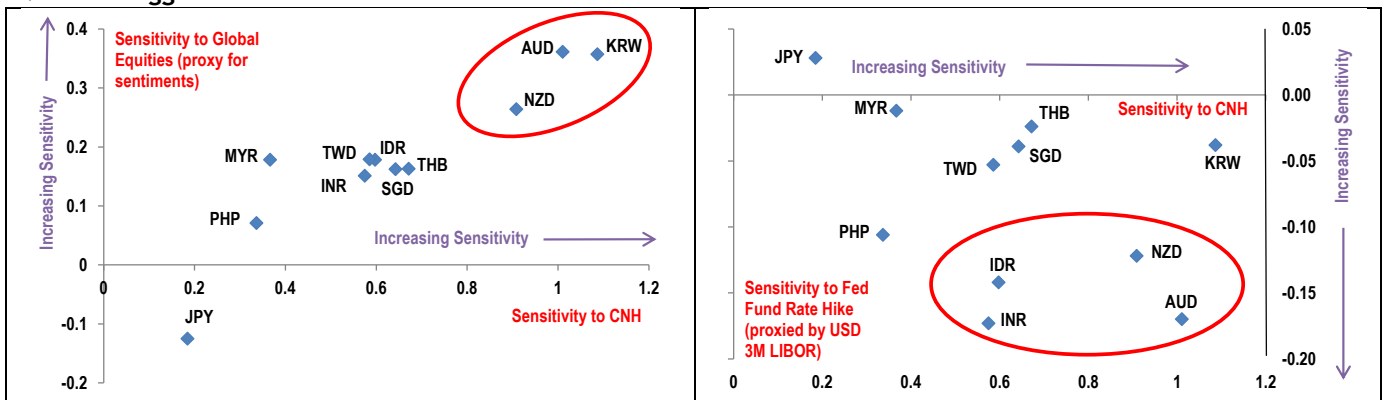
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Flavour of the Week: Sensitivity of Regional FX to Global Sentiments, Fed Rate Hike & RMB Moves

- The ball has started to roll on two key risk events. First, we have the increased probability of Fed raising its policy rate more aggressively in 2H 2018. This comes amid strong US data that suggests inflationary pressures are building up in the economy. Then there is the Sino-US trade war concerns that have kicked-off with the tit-for-tat imposition of tariffs on 6 Jul. US has threatened additional tariffs on USD200bn of Chinese exports to the US, while the respond of China to this latest salvo has been mild and measured. It is possible though that the possible negative effects from the trade war could lead to some restraint from the Fed in terms of rate hikes and thus negate the risk of aggressive rate hikes. This scenario could mitigate some of impact on the regional currencies somewhat but nonetheless we could still see volatility extended.
- Trade war concerns have created uncertainty in the markets and this is affecting global sentiments. Fears of trade disruption from protectionism measures on both sides has spurred demand for safe-haven assets (like the JPY) and selling of risk assets, especially from emerging markets. We ran a multi-regression to gauge which regional currencies would be most impacted by shifts in global sentiments (proxied by global equities, i.e. MSCI World Index) and moves in the RMBs. Our regression analysis showed that AUD, NZD and KRW are the most sensitive, attributable to their high sensitivity to CNH moves (Chart 1 - left).
- At the same time, regional currencies are also under stress from the possibility of the Fed moving more rapidly on rate hikes in 2018. Quicker Fed moves should spur fund flows back to the US from the region in search of higher yields, possibly weighing on regional currencies. We similarly ran a regression study on the regional currencies sensitivity to changes in CNH and Fed rate hike moves (proxied here by USD 3-month LIBOR) and the results showed that AUD, NZD, IDR and INR have the highest sensitivity to changes in the CNH and Fed fund rate, possibly due to the high foreign ownership of debt (Chart 1 - right).
- Our study showed that the shifts in global sentiments, Fed rate hike moves and changes in CNH are felt unevenly among currencies in the region. But the most sensitive currencies (AUD, NZD, IDR and INR) should remain under downside pressure as trade war concerns heighten and Fed continues on a more rapid pace of rate hike. We are bias to long the JPY and short AUD, NZD, IDR and INR.

Chart 1: AUD, NZD & KRW Most Sensitive to RMB Moves & Global Sentiment Shifts, while AUD, NZD, IDR & INR Most Sensitive to RMB Moves & Aggressive Fed Rate Hikes &



Note: Beta of XXX/USD to CNH as independent variable for both charts; Chart on left: Y axis – Beta of XXX/USD to MSCI World Index as independent variable based on daily change data (YTD: 12 Jul 2018), Chart on right: Beta of XXX/USD to USD 3-month LIBOR as independent variable based on daily change data (YTD: 12 Jul 2018)

• Source: Bloomberg, Maybank FX Research & Strategy

Key Data and Events Ahead

16-22 Jul		23 - 29 Jul	
Japan	• Mon: Public Holiday	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: Nikkei PMI Mfg (Jul P)	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: Trade, Machine Tool Orders (Jun)	• Thu: - Nil -	
	• Fri: CPI (Jun), All Industry Activity Index (May)	• Fri: - Nil -	
China	• Mon: GDP (2Q), Retail Sales, Industrial Production, FAI Urban (Jun)	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: - Nil -	• Thu: - Nil -	
	• Fri: - Nil -	• Fri: Industrial Profits (Jun)	
South Korea	• Mon: PPI (Apr)	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: Consumer Confidence (Jul)	
	• Thu: - Nil -	• Thu: GDP (2Q P)	
	• Fri: - Nil -	• Fri: - Nil -	
Singapore	• Mon: - Nil -	• Mon: CPI (Jun)	
	• Tue: NODX (Jun)	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: - Nil -	• Thu: Industrial Production (Jun)	
	• Fri: - Nil -	• Fri: Unemployment Rate (2Q)	
Malaysia	• Mon: - Nil -	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: CPI (Jun)	• Wed: - Nil -	
	• Thu: - Nil -	• Thu: - Nil -	
	• Fri: Foreign Reserves (13 Jul)	• Fri: - Nil -	
Indonesia	• Mon: Trade (Jun)	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: BI 7-Day Reverse Repo Rate	• Thu: - Nil -	
	• Fri: - Nil -	• Fri: - Nil -	
Philippines	• Mon: Overseas Remittances (May)	• Mon: Budget Balance (Jun)	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: BoP Overall (Jun)	• Thu: - Nil -	
	• Fri: - Nil -	• Fri: - Nil -	
Thailand	• Mon: - Nil -	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: Customs Trade (Jun - due 19-24 Jul)	• Thu: Foreign Reserves (20 Jul)	
	• Fri: Foreign Reserves (13 Jul)	• Fri: Public Holiday	
India	• Mon: Wholesale Prices (Jun)	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: - Nil -	• Thu: - Nil -	
	• Fri: - Nil -	• Fri: - Nil -	
Vietnam	• Mon: - Nil -	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: Trade, CPI, Industrial Production, Retail Sales (Jul due 25-31 Jul)	
	• Thu: - Nil -	• Thu: - Nil -	
	• Fri: - Nil -	• Fri: - Nil -	

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