

FX Asia Fortnightly

Mixed AXJ Picture

Dollar Rebound?

Some AXJs (like the THB, PHP and KRW) have made modest gains against the USD post weaker-than-expected US data. However, these gains could be short-lived as there is the potential for a retracement ahead which could see the dollar possibly firming. The FOMC minutes on 18 Aug and Fed's Jackson Hole symposium (26-27 Aug) will be in focus the week after where Fed Chair Yellen's every word will be scrutinized for any hints of a rate hike. Still, flows into emerging Asia should continue in the search for higher yields. Currencies like the IDR, INR, KRW and TWD could continue to see gains against the USD in the medium term as a result.

Short-Term Lift in Some USD/AXJs Possible

As we had written elsewhere, the USD vs. some AXJs could rebound. Better-than-expected US data this and next week, including 2Q GDP, could reignite Fed rate hike expectations. Conversely, a worse set of data print could spark risk aversion. Both these scenarios could lead to firmer USD and weigh on the AXJs. But we do not expect this strength in the USD to persist. Nevertheless in the interim, the US\$IDR NDF could climb towards 13240; US\$SGD towards 1.3550 and the US\$MYR towards 4.05. The FOMC minutes this week as well as Jackson Hole conference next week could provide the excuse for the unwinding of USD shorts or profit-taking activities. In contrast though, US\$PHP NDF and the US\$THB remain heavy and the former could head towards 46.12, and the latter towards 34.40.

BI To Cut, Philippines GDP Up Next

Relatively quiet two-weeks ahead with only the BI deciding on monetary policy this Fri. We think there is a risk that the policy rate could be cut by 25bp to provide additional support to the economy amid benign inflation and the delay in further US Fed rate hikes. A cut would be supportive of President Jokowi's 7% growth target. With GDP prints for Japan and Thailand out earlier today, we still have 2Q16 GDP for the Philippines due on 18 Aug.

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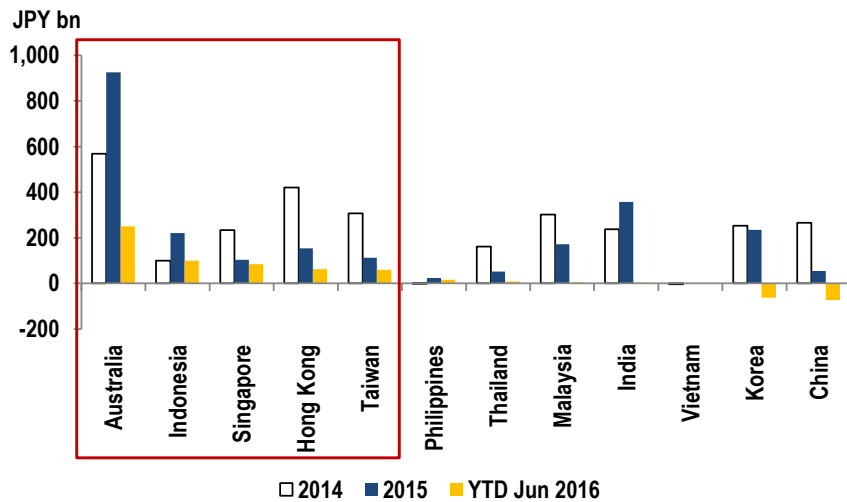
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Flavour of the Month: Japanese Investment Flows Into Asia

Possible Beneficiaries & Losers (Ranked based on Jun 2016 figures)



Source: CEIC, Maybank FX Research

- Recent news from Japan Post suggested that it will invest half of its JGB redemption in foreign bonds overseas in the search for higher yields given the negative yielding ones domestically. Our estimates suggest that this amount could be around USD20bn.
- For the past two year, portfolio flows from Japan have favoured Australia, India and North Asian economies like Hong Kong and Taiwan. However, so far in 2016, this has changed slightly. Australia remains the country of choice for portfolio investment, but Indonesia is now the second choice destination in Australia-Asia, followed by Singapore, Hong Kong and Taiwan.
- Part of Japan Post's USD20bn investment will flow into emerging Asia especially to assets with high yields. In this aspect, Indonesian bonds are likely to find favour with Japanese investors. Domestic conditions and the investment environment have improved significantly and these together with the possibility of a rate cut and potential for IDR appreciation should make Indonesia an attractive destination for portfolio investment. This should provide support for the IDR ahead.
- We also continue to expect Australia to be the main beneficiary of Japanese flows given (1) expectations of further rate cuts and (2) its Triple-A rating. This should be supportive of the AUD ahead.

2016/2017 Asia FX Forecasts

	End 3Q-16	End 4Q-16	End 1Q -17	End 2Q -17
USDJPY	110	112	112	114
USDSGD	1.3600	1.3750	1.3900	1.4000
USDMYR	4.00	4.00	3.95	3.95
USDIDR	13200	13300	13200	13200
USDTHB	36.50	37.00	37.00	37.20
USDPHP	47.50	47.80	47.50	47.50
USDCNY	6.65	6.67	6.70	6.70
USDKRW	1165	1170	1180	1180
USDINR	65.00	66.00	67.00	67.00
USDVND	22400	22600	22700	22800
SGD Crosses	End 3Q-16	End 4Q-16	End 1Q -17	End 2Q -17
SGDMYR	2.941	2.909	2.842	2.821
MYR Crosses	End 3Q-16	End 4Q-16	End 1Q -17	End 2Q -17
MYRCNY	1.66	1.67	1.70	1.70
MYRIDR	3300	3325	3342	3342
MYRINR	16.25	16.50	16.96	16.96

Source: Maybank FX Research as at 15 Aug 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	USDJPY is trading in the range of 100.50-102.70 for the past few sessions as market awaits the outcome of the BOJ's comprehensive review of the easing measures to date at its Sep meeting. Market and we believe that the BOJ will add to its easing measures then. The economy's underperformance in 2Q should add to expectations of further measures by the BOJ. Until then, market is likely to trade cautiously within range while waiting for directional cues. The daily and weekly charts show no strong bias in either direction, though stochastics is at oversold conditions on the daily chart, signaling rebound risks. Resistance is still at 103.80 levels (50 DMA) still. Support at 100.50.	Monetary Base	Easing Bias
USDCNH	The 6.62-6.67 range looks set to hold after the pair shrugged off weaker data released last Fri. In the 2Q monetary report by PBoC (released before the data), the central bank showed apprehension on aggressive monetary easing that would increase pressure on the yuan. That is exactly in line with what we have put out in this space. Data shows slower economic activity and credit in Jul and growth trajectory still looks vulnerable as we see a potential cyclical downturn for the key property sector. Over the weekend, PBoC Chief Economist Ma Jun said the slower money supply growth has not affected the economy and the fundamentals of the nation should keep the currency stable. Ahead of key events including Jackson Hole and the G20 Summit in Hangzhou, much of the USDCNH action should remain within the 6.62-6.67 range.	1-Yr Lending Rate	Easing

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDKRW	We see further downside pressure on USDKRW but cautioned for rebound risks towards 1116-1120 in the near term. Bearish momentum on daily chart is waning and daily stochastics shows signs of rising from oversold conditions. But medium term, we think the bearish bias is likely to remain intact. We said that USDKRW has formed a “head and shoulders” pattern on the weekly chart with Head (or “H”) at 1244.90, Shoulder 1 (or “S1”) at 1208.70 and Shoulder 2 (or “S2”) at 1199.65 levels. A decisive break below 1126.6 neckline (and also the 50% Fibonacci retracement of 2014 low to 2016 high) has confirmed a bearish signal for USDKRW. We look for a move towards 1064 objective.	Base Rate	Easing Bias
USDSGD	USDSGD continues to trade in the 1.3350-1.3500 range over the past few sessions. NODX this Wed and IP next Fri will be watched for clues on the economy going into 3Q as will the Fed’s Jackson Hole conference. Daily and weekly charts are showing the pair having lost most of its bearish momentum, signaling little directional cues ahead for now. We continue to watch price action if support at 1.3350 levels forms an interim base. A break below this sees next support at 1.3160 (61.2% fibo retracement of 2014-2016 upswing). Note too that the 21DMA and the 50DMA are on the verge of crossing and should the 21DMA cut the 50DMA to the upside, there is potential for upside moves. Resistance is 1.3550 (100DMA) ahead of 1.3650 (38.2% fibo).	Exchange Rate	Easing Bias
USDMYR	USDMYR has traded with a bearish bias over the past 2 weeks or so amid USD weakness and oil price rebound. We cautioned for mild rebound risks over the next few sessions, possibly towards 4.0470 (55 DMA), 4.0720 (38.2% fibo retracement of 2016 high to low). That said USDMYR continues to trade within the bearish trend channel formed since Jun-2016. Bias remains to lean against strength. Key support at 3.9850 needs to be broken on weekly close basis for further downside towards 3.95 to materialise.	O/N Policy Rate	Neutral-to-Easing Bias
USDIDR	1s USDIDR has been trading rangy within 13000-13250 since mid-Jul. BI meets on Fri and our economic team expects the policy rate to be cut by 25bp to provide additional support to the economy amid benign inflation and the delay in further US Fed rate hikes. Plans to cut the corporate tax rate to 17% to match that of Singapore as well as plans to set up tax haven-jurisdictions to lure back funds parked overseas. This should help to keep the IDR supported ahead. 1s NDF shows bullish momentum still intact though waning and stochastics turning slightly lower on the daily charts. Weekly charts continue to show downside risks with stochastics at oversold levels. Topside remains capped at 13220-40 (50DMA; 23.6% fibo retracement of the May-Jul downswing). Interim support still at 13060 (14 Jul low) with a break here could see the pair re-testing the year’s low at 12995.	O/N Reference Rate	Easing Bias
USDPHP	1s USDPHP has been heavy since end-Jul as increasing investor confidence over the economic policies of the Duterte administration buoyed Philippine assets and weighed on the pair. Since end-Jun, foreign funds have bought USD632.26mn in equities in a mark of confidence. 2Q GDP out on Thu will provide a glimpse of whether the Finance Secretary’s optimistic outlook for the economy (6.5-7.5% growth) this year will pan out. Daily momentum indicators show increasing bearish bias and stochastics at oversold conditions. Weekly charts shows the 1s USDPHP having lost most of its bullish momentum with stochastics tentatively falling. With risks bias to the downside, further moves lower should find support around 46.00 levels (50% fibo retracement of the 2015-2016 upswing). Any rebound should meet resistance at 47.10 (21DMA).	O/N Reverse Repo	Neutral

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDTHB	USDTHB has been heavy for the past several sessions. The passage of the draft constitution on 7 Aug boosted expectations of a return to a civilian government next year. This was reflected in the purchase of THB20.23bn in equities since the referendum. However, government debt did not fare as well with foreign funds buying just THB0.74bn over the same time period. As well, the bounce in 2Q GDP growth to 3.5% suggests the economy on the mend. Daily and weekly charts are showing very mild bearish bias. With the year's low of 34.68 taken out, new support is now seen at 34.400-levels. Resistance is at 34.910 (21DMA).	1-Day Repo Rate	Easing Bias
USDINR	1M USDINR NDF has not moved much since the start of the Aug, even after the GST bill was passed. Although the passage of the bill was significant, there remains much to do to get GST implemented next Apr including getting at least 15 states (50%) to legislate it and agreeing on a revenue-neutral rate. More interesting was RBI Rajan's promise to be productive before his departure on 4 Sep. We wait 25 Aug for important announcement by Rajan of measures to kick-start the corporate bond market and tweaks to the marginal cost-based lending rate. 1M NDF is seen at 67.14. There is little directional bias in this pair but we await the appointment of the monetary policy committee (Including the appointment of the new RBI Governor), Rajan's upcoming announcements. Fresh commitment to the clean-up of the banks' balance sheets as well as to the inflation target that Rajan has held dear would restore investors' faith in Modi's administration. Technically, we see a double top at 68.67 with a potential target of 58 in the medium term. That is flagged by the monthly chart with momentum indicators also turning lower.	Policy Repo Rate	Easing Bias
USDVND	USDVND is still stuck around 22300 and we eye the Aug indicators in the last week of the month for further signs of activity slowdown. We are especially concerned about FDI inflows that have been supporting the VND and industrial output momentum. Inflation has been creeping higher and the window for further monetary easing seems to be narrowing. At home, SBV has been accumulating FX reserves, positive for the dong but with import ratio still slightly above 2, it is inadequate. Nonetheless, a lack of USD strength suggests that USDVND can remain around 22300 for the next two weeks. Watch Aug trade, retail sales, industrial production that are typically released between 25 th and 31 st of every month. CPI is due on the 24 th .	Refinancing Rate	Easing Bias

Key Data and Events Ahead

Currency	15-21 Aug	22-28 Aug
USDJPY	- Mon: GDP (2Q); IP (Jun F); Capacity Utilization (Jun) - Tue: - Nil - - Wed: - Nil - - Thu: Trade (Jul); Machine Tool Order (Jul F); - Fri: All Industry Activity Index (Jun)	- Mon: - Nil - - Tue: Nikkei PMI Mfg (Aug P); BOJ Kuroda speaks - Wed: Leading Index (Jun F) - Thu: - Nil - - Fri: CPI (Jul)
USDCNY	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: Property prices (Jul) - Fri: - Nil - - Sat: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil - - Sat: Industrial profit (Jul)
USDKRW	- Mon: Public Holiday - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: PPI (Jul)	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Consumer Confidence (Aug)
USDSGD	- Mon: Retail sales (Jun) - Tue: - Nil - - Wed: NODX (Jul) - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: CPI (Jun) - Wed: - Nil - - Thu: - Nil - - Fri: Industrial production (Jul)
USDMYR	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: Foreign reserves (15 Aug) - Tue: - Nil - - Wed: CPI (Jul) - Thu: - Nil - - Fri: - Nil -
USDIDR	- Mon: Trade (Jul) - Tue: - Nil - - Wed: Public Holiday - Thu: - Nil - - Fri: BI Meeting	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
USDPHP	- Mon: Overseas remittances (Jun) - Tue: - Nil - - Wed: - Nil - - Thu: GDP (2Q) - Fri: BoP (Jul)	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: Imports, trade balance (Jun) - Fri: - Nil -
USDTHB	- Mon: GDP (2Q) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign reserves (11 Aug)	- Mon: Customs trade (Jul) (due 24-27 Aug) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign reserves (19 Aug)
USDINR	- Mon: Public Holiday - Tue: Wholesale prices (Jul) - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
USDVND	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: CPI (Aug) - Thu: Trade, Retail Sales YTD, Industrial production (Aug) (due 25-31 Aug) - Fri: - Nil -

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