

FX Asia Fortnightly

Risk Sentiment Whets Appetite For USDAsians; But FOMC Beckons

The weeks ahead could be positive for the AxJs against the USD as risk appetite gets whetted by expectations of further easing measures (including the possibility of perpetual bonds, i.e., helicopter money, floated by ex-Fed Chair Bernanke) by the BOJ at the end of the month together with another round of fiscal stimulus of up to JPY20tn by the Abe government. This comes amid improving risk appetite that could keep risk-proxy FX like the KRW and MYR and even the PHP supported against the USD ahead. However, the climb in the Asians against the USD could be tempered by potential dollar strength as market re-price expectations of Fed rate hike leading to USD strength especially in the lead up to the FOMC meeting on 28 Jul.

In this risk-supported environment even amid potential dollar strength, we think that the USDPHP have scope to fall further within the two weeks before FOMC. The USDPHP could fall towards the 46.410 levels. The pair is still falling towards oversold conditions. We need to see the USDPHP break below 100DMA support-level at 46.610 levels for a move towards 46.410. The combination of further easing measures by BOJ together with the re-pricing of Fed fund hike expectations could lift the USDJPY back above the 106-levels. A break of the upper bound of the trend channel at 106-level could see increasing momentum towards first objective at 107.25 levels before 108.50 levels (100DMA). Spot ref at 105.60 and stop-loss at 103.30 (21DMA).

Quiet week ahead for the AxJs with just BI and BOJ meeting to watch out for. BI will meet on 21 Jul (Thu) and even after cutting the policy rate by 100bp so far this year, there is still the possibility of another 25bp rate cut as insurance against Brexit concerns and to also provide a further boost to domestic spending and lending. A week later (28-29 Jul) is the BOJ's turn to decide on policy and we expect the central bank to ease policy further (expansion of the monetary base to JPY100tn from JPY80tn, increase in ETF purchases to JPY10tn from JPY3tn and cutting interest rate further to -0.3%). Helicopter money is not expected for now. Aside from central bank meetings, we also have Korea's 2Q GDP on tap on 26 Jul.

Analysts

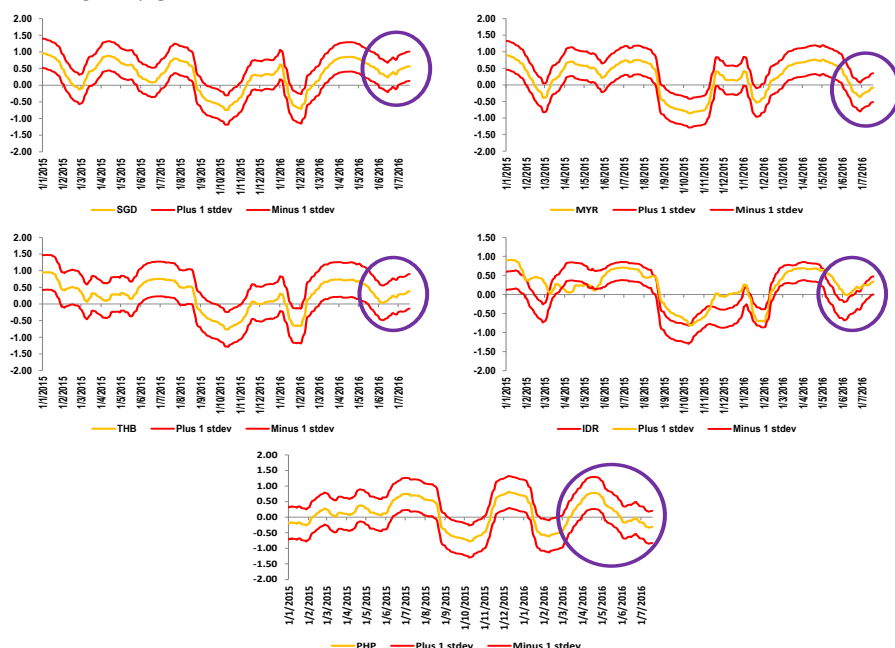
Saktiandi Supaat
saktiandi@maybank.com.sg
(+65) 63201379

Leslie Tang
leslietang@maybank.com.sg
(+65) 63201378

Fiona Lim
fionalim@maybank.com.sg
(+65) 63201374

Christopher Wong
wongkl@maybank.com.sg
(+65) 63201347

Flavour of the Month: Differing Impact Of USDJPY Weakness On USD/ASEANs USDJPY 3-month Rolling Correlation with USD/ASEANs Signals Weakness for some ASEAN Currencies



Source: Bloomberg, Maybank FX Research

- The USDJPY to climb higher as a result of further easing by the BOJ and fiscal stimulus by the government holds potential risk to ASEAN currencies. We look at the 3-month correlation between the USDJPY and the 5 ASEAN currencies, together with their standard deviation (red lines).
- Our analysis shows that the three of the ASEANs are positively correlated with the JPY. Earlier episodes of BOJ easing moves in 2013 were accompanied by USDIDR, USDSGD and USDTHB rallies. This suggests that the JPY weakness as the result of money easing and fiscal stimulus in end-Jul could result in a similar situation which could lift the USDIDR, USDSGD and USDTHB higher.
- In contrast, the MYR and PHP are the only two ASEAN currencies to be negatively correlated to the JPY. Unlike the rest of the other ASEAN currencies, the PHP was weighed by the policy uncertainties after the win by Rodrigo Duterte until his inauguration at end-Jun. In the case of Malaysia, domestic political concerns continue to weigh on the MYR.

2016/2017 Asia FX Forecasts

	End 3Q-16	End 4Q-16	End 1Q -17	End 2Q -17
USDJPY	104	106	107	109
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	1185	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 1Q -17
SGDMYR	2.941	2.909	2.842	2.821
MYR Crosses	End 3Q-16	End 4Q-16	End 1Q -17	End 1Q -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 18 Jul 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 has climbed steadily past the 106-handle on expectations that Japan could embark on helicopter money to reflate the economy, up to JPY20tn in fiscal stimulus and soft risk appetite globally. However, this climb was not sustained and the pair has since slipped back below the 105-handle following denials that helicopter money was being considered by the government. Still, with the BOJ meeting at the end of the month, expectations of further easing measures, together with the government's stimulus package, and a re-pricing of Fed fund hike expectations (FOMC meeting on 28 Jul) should keep the pair supported with the possibility of a move back higher. We need a sustained break of the upper bound of the current downward-sloping trend channel around the 106 levels for a move towards the 108-handle. Support is around the 103-handle.	Monetary Base	Easing Bias
USDCNH	The next two weeks are quieter in terms of data releases. Technically, this pair seems to have lost a lot of its bullish momentum and is vulnerable to the downside. 2Q GDP came in better than expected, underpinned by strong private consumption, as hinted by the retail sales print and firmer industrial output. Urban FAI is still sub-par at 9.0%/y/y vs. previous 9.6% and seems in line (almost too magically in line) with the officials' rhetoric that excess capacity is being reduced and that has affected investment. Whilst there are doubts on the authenticity of the latest set of numbers, we think that it is a signal that PBOC is unwilling to do broadbased easing like RRR and interest rate cut and more liquidity supports via more targeted tools like MLF, PSL, SLF and OMO. This is a view that we have been holding for a while now and the recent provision of MLF for on 13 Jul underscored our call. We also think that China could be prepared to miss the money supply M2 target in the greater scheme of balancing short-term growth stability, achieving supply side reforms and avoiding further fuelling the asset prices. USDCNH is not likely to see a strong extension to the upside but retreats will likely be limited as well given the lack of short CNH positions. Expect support to come in around 6.6820, 6.6680 and then at 6.6120.	1-Yr Lending Rate	Easing
USDKRW	USDKRW traded lower over the past 2 weeks, driven by hopes of easier monetary conditions for longer, elsewhere. While BoK kept policy rate on hold (14 Jul) at record low of 1.25%, CBC, BNM both cut policy rates. Hopes of dual stimulus (monetary and stimulus) from Japan as well as expectation that other major central banks including Fed, BoE and ECB to keep monetary easing for longer also supported risk-on plays. USDKRW fell to near 3-month low of 1130 (15 Jul). Last seen at 1136 levels. Key support at 1126 (50% fibo retracement of 2014 low to 2016 high). Break below could suggest further downside towards 1105 (200 DMA, 50% fibo). But we are cautious at current levels. While momentum appears bearish bias, the pair is near its oversold conditions, as indicated by stochastics. That could suggest some short-term rebound risk possibly towards 1155 levels (38.2% fibo, 21 DMA). This is not impossible especially in the lead up to FOMC meeting 27 Jul - markets and ourselves are not expecting a hike but we are cautious of the wordings of the statement. We believe a change in tone acknowledging the continued improvement in US data may lead to re-pricing of UST yields higher and lead to modest USD strength. For data release, focus will be on 2Q prelim GDP (26 Jul) and Jun IP (29 Jul).	Base Rate	Easing Bias
USDSGD	USDSGD remains supported around the 1.34-handle and there appears to be an invisible hand slowing the decline to that level. Focus ahead will be on CPI, industrial production and unemployment rate print in the next weeks but pair is likely to take its cue from external events, namely the ECB meeting this week and FOMC and BOJ next week. Momentum indicators showing no strong bias in either direction. Range-bound trades within 1.3400-1.3520 are likely to hold in the two weeks ahead.	Exchange Rate	Easing Bias

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDMYR	USDMYR has been trading softer amid risk-supported tone on hopes of monetary easing, low rate for longer elsewhere. USDMYR traded a low 3.9327 (14 Jul) before rebounding. The attempted military coup in Turkey last Fri appears to have negatively impacted the Ringgit the most amongst AXJs. Last seen at 3.9740 levels. Bearish momentum on daily chart remains intact but stochastics cautions for oversold conditions. Risk of short-term rebound could be on the cards. Resistance at 3.9850 (23.6% fibo retracement of the decline from 2016 high to low) before 4.0260 (21, 100 DMAs). Support at 3.9250. Weekly/daily close below the key support puts 3.8440 (2016 low) in focus. Data/ event for the following fortnight is relatively quiet with Jun CPI (20 Jul); Jul FX Reserves (22 Jul) on tap.	O/N Policy Rate	Neutral-to-Easing Bias
USDIDR	USDIDR has been on the slide for most of last week on foreign inflows searching for yields amid positive sentiments from the tax amnesty law. The pair's move lower though is likely to be a slow grind given the jawboning by the BI governor against IDR's rapid strength. The possibility of BI cutting its policy rate again on 21 Jul (Thu) as insurance against Brexit concerns and to lower borrowing cost to spur domestic economic activities could weigh on the IDR. For 1m USDIDR NDF, another rate cut by the BI could see the pair head towards the 13245 levels (21DMA) is at 13060-levels with a clean break here exposing further downside towards the year's low at 12954 levels.	O/N Reference Rate	Easing Bias
USDPHP	USDPHP slide lower the past week was underpinned by risk-supported sentiments that saw foreign investors purchasing USD157.48mn of equities. Momentum indicators and stochastics are showing bearish bias. Quiet data next two weeks and pair is likely to take its cue from external events, namely the ECB and FOMC and BOJ meetings. Further easing by both ECB and BOJ could spur further foreign inflows into equities, lifting the PHP higher. For the 1m USDPHP NDF, 46.70 (100DMA) could expose further downside towards the 46.40 levels. Resistance is at 47.20.	O/N Reverse Repo	Neutral
USDTHB	USDTHB took out the 35 support level on Fri has been on the slide lower below the 35-figure as foreign funds continue to pile into Thai equities and government debt. They have bought THB16.29bn and THB5.97bn of equities and debt last week. Pair should continue to be guided by external events, particularly the ECB, FOMC and BOJ meetings over the next two weeks. Domestically, markets will eye customs trade and current account data that could provide further for the THB should they come in better than expected. Momentum indicators and stochastics are beginning to show signs of turning bearish bias. Support at 34.810 before the year's low at 34.720. Resistance is at 35.122; 35.235 (100DMA).	1-Day Repo Rate	Easing Bias
USDINR	1M NDF tested the 200-DMA last Fri before rebounding to levels around 67.10 as we write. This retracement from its current downtrend may not sustain into a bullish reversal though. Monthly chart shows strong bearish tendency in this pair and we prefer to sell on rallies. Barrier is seen at 67.68 (38.2% Fibonacci retracement of the Jan-Mar sell off). A double top is seen at 68.67 with a potential target of 58 in the medium term. Despite Rajan's imminent departure from RBI and much uncertainty on his successor, sentiments have been recently boosted by announcements of foreign ownership in the civil and defence aviation, kerosene subsidy as well as the passage of the bill to hike the wages of central government employees. India's high yielding debt is starting to find favour amid a low rate global environment. In addition, its growth is poised to outperform in the region, increasing the allure of the rupee.	Policy Repo Rate	Easing Bias

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDVND	USDVND has not moved much, last seen around 22300. The last week of Jul has its regular release of the month's data including trade, CPI, industrial production and retail sales. We anticipate another subdued inflation print and industrial output to be remain somewhat stable. The medium term prospect for the dong is positive as Chinese manufacturing firms on the lower value chain continues hollowing out to Vietnam, an EU-Vietnam FTA on the way, FDI and positive prospect of export earnings could keep USDVND around 22300 in the next two weeks. Upper bound and lower bound pencilled in at 22400 and 22260 respectively.	Refinancing Rate	Easing Bias

Key Data and Events Ahead

Currency	18-24 Jul	25-31 Jul
USDJPY	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: All industry activity index (May); Machine tool (Jun F) - Fri: Nikkei PMI mfg (Jul P)	- Mon: Trade (Jun); Leading, Coincident index (Jun) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Jobless rate (Jun); CPI (Jun); Industrial production (Jun); retail sales (Jun); Housing starts (Jun); BOJ meeting
USDCNY	- Mon: Property prices (Jun) - Tue: - Nil - - Wed: Leading economic index (Jun) - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: Industrial profits (Jun) - Thu: - Nil - - Fri: - Nil -
USDKRW	- Mon: PPI (Jun) - Tue: BoK Governor speaks - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: GDP (2Q) - Wed: Consumer confidence (Jul) - Thu: - Nil - - Fri: Business survey mfg (Aug); Industrial production (Jun)
USDSGD	- Mon: NODX (Jun) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: CPI (Jun) - Tue: Industrial production (Jun) - Wed: - Nil - - Thu: Unemployment rate (2Q P) - Fri: - Nil -
USDMYR	- Mon: - Nil - - Tue: - Nil - - Wed: CPI (Jun) - Thu: - Nil - - Fri: Foreign reserves (15 Jul)	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
USDIDR	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: BI Meeting - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
USDPHP	- Mon: - Nil - - Tue: BoP overall (Jun) - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: Imports, trade balance (May) - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
USDTHB	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: 15 Jul Foreign reserves	- Mon: Customs trade (Jun) (due 25-27 Jul) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign reserves (22 Jul); trade (Jun); BoP current account, BoP overall balance (Jun)
USDINR	- Mon: - Nil - - Tue: - Nil - - 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 - - Sun: CPI (Jul)	- Mon: Trade, industrial production, retail sales YTD (Jul) (due 25-31 Jul) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Nikkei PMI Mfg (Jun)

DISCLAIMER

This report is for information purposes only and under no circumstances is it to be considered or intended as an offer to sell or a solicitation of an offer to buy the securities or financial instruments referred to herein, or an offer or solicitation to any person to enter into any transaction or adopt any investment strategy. Investors should note that income from such securities or financial instruments, if any, may fluctuate and that each security's or financial instrument's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. This report is not intended to provide personal investment advice and does not take into account the specific investment objectives, the financial situation and the particular needs of persons who may receive or read this report. Investors should therefore seek financial, legal and other advice regarding the appropriateness of investing in any securities and/or financial instruments or the investment strategies discussed or recommended in this report.

The information contained herein has been obtained from sources believed to be reliable but such sources have not been independently verified by Malayan Banking Berhad and/or its affiliates and related corporations (collectively, "Maybank") and consequently no representation is made as to the accuracy or completeness of this report by Maybank and it should not be relied upon as such. Accordingly, no liability can be accepted for any direct, indirect or consequential losses or damages that may arise from the use or reliance of this report. Maybank and its officers, directors, associates, connected parties and/or employees may from time to time have positions or be materially interested in the securities and/or financial instruments referred to herein and may further act as market maker or have assumed an underwriting commitment or deal with such securities and/or financial instruments and may also perform or seek to perform investment banking, advisory and other services for or relating to those companies whose securities are mentioned in this report. Any information or opinions or recommendations contained herein are subject to change at any time, without prior notice.

This report may contain forward looking statements which are often but not always identified by the use of words such as "anticipate", "believe", "estimate", "intend", "plan", "expect", "forecast", "predict" and "project" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. Such forward looking statements are based on assumptions made and information currently available to us and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward looking statements. Readers are cautioned not to place undue relevance on these forward looking statements. Maybank expressly disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

This report is prepared for the use of Maybank's clients and may not be reproduced, altered in any way, transmitted to, copied or distributed to any other party in whole or in part in any form or manner without the prior express written consent of Maybank. Maybank accepts no liability whatsoever for the actions of third parties in this respect. This report is not directed to or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

Published by:



Malayan Banking Berhad
(Incorporated in Malaysia)

Saktiandi Supaat
Head, FX Research
saktiandi@maybank.com.sg
(+65) 63201379

Fiona Lim
Senior FX Analyst
Fionalim@maybank.com.sg
(+65) 63201374

Leslie Tang
Senior FX Analyst
leslietang@maybank.com.sg
(+65) 63201378

Christopher Wong
Senior FX Analyst
wongkl@maybank.com.sg
(+65) 63201347