

## FX Asia Fortnightly

# Dollar Surge Weighs On Asians

### USD/Asians Primed To Climb Higher

Asians are likely to remain weak against the USD ahead no thanks to the hawkish FOMC on 14 Dec. The supposed hawkish stance of the FOMC - the expectations of 3 hikes in 2017 (house view though is for 2 hikes only) and higher projected median terminal rate - underpinned by expectations of healthy US economic growth ahead as well as Trump's planned expansionary stimulus program, is supportive of a bullish USD and a further steepening of the UST yield curve. Consequently, the Fed has greater room to hike rates further, exacerbating the monetary policy divergence with the BOJ and ECB. USD strength should keep the USD/Asians supported ahead. **Particularly, lower yielders and more open economies in Asia like the SGD and KRW remain most vulnerable to this USD strength.** Also vulnerable are those economies where foreign investors have vested in domestic government debt and which are now vulnerable to any further asset rotation out of bonds and into equities like the IDR and MYR. In addition, we caution that liquidity could thin because of the Christmas and New Year holidays and cause abrupt FX movements.

### BOJ Saved By The Fed

The BOJ meets for the last time in 2016 on 19-20 Dec to decide on monetary policy. Prior to the Fed meeting on 14 Dec, there had been suggestions that the BOJ might have to cut interest rate further to lower borrowing cost to reflate the economy. The hawkish Fed (as described above) has allowed to delay any decision on further easing measures until 2017. Talks of tapering are likely to be dismissed by BOJ governor Kuroda as still too early to be considered. It is worth recalling that the dateline for achieving the 2% inflation target had been pushed back further to FY 2018 beyond BOJ governor Kuroda's term of office. So unless inflation gains traction, further interest rate cut by the BOJ would be necessary next year. This together with further Fed rate hike adjustments in 2017 (resulting in widening yield differentials in favor of US) should provide USDJPY with further upward momentum. We remain bias to long the JPY especially against the AUD and NZD.

### BOJ, BoT, BSP Meets

In final stretch of 2016, there are two other central bank meetings, namely BoT on 21 Dec and BSP on 22 Dec, aside from BOJ. The two central banks are unlikely to rock the boat in light of steepening UST yield curve and domestic currency weakness and risk even greater volatility in their currencies to end the year. Relatively quiet two weeks ahead given the Christmas and New Year holidays. Of note ahead though is Japan's cabinet office monthly economic report (Dec) that would give an indication of how the economy is faring and Vietnam's 4Q GDP due sometime 25-31 Dec. Japan is out for a public holiday on 23 Dec and Indonesia, Malaysia, Singapore and Thailand are out for a public holiday on 26 Dec. There is a special holiday for the Philippines on 30 Dec.

#### Analysts

Saktiandi Supaat  
(65) 6320 1379  
saktiandi@maybank.com.sg

Leslie Tang  
(65) 6320 1378  
leslietang@maybank.com.sg

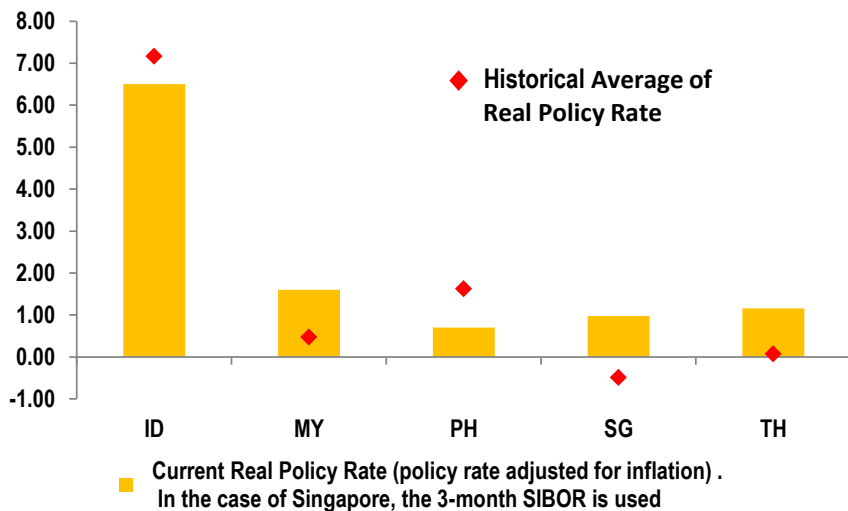
Fiona Lim  
(65) 6320 1374  
fionalim@maybank.com.sg

Christopher Wong  
(65) 6320 1347  
wongkl@maybank.com.sg

Please note that this is the final publication of FX Asia Fortnightly for 2016. We wish all readers a Merry Christmas and Happy 2017 in advance!

FX Asia Fortnightly will resume on 9 Jan 2017.

## Flavour of the Month: Room To Hike Policy Rate Limited In ASEAN



Note: Policy rate is adjusted using CPI 10-year average for the Philippines, Singapore and Thailand while for Indonesia and Malaysia, 5-year and 6-year averages are used due to the data unavailability.

Source: Bloomberg, Maybank FX Research

- The hawkish FOMC, built on expectations of 3 hikes in 2017 and higher projected median terminal rate, underpinned by expectations of healthy US economic growth ahead as well as Trump's planned expansionary stimulus program has steepened the UST yield curve and narrowed the yield differentials in favor of the US. This has spurred outflows from the ASEAN economies back to the US in search of higher yields, especially to the equity market.
- One way to stem the outflow of funds is to hike policy rates to make assets in ASEAN relatively more attractive to foreign investors. The room to do so though appears limited in ASEAN.
- From a rates perspective, not all ASEAN economies have the luxury of hiking rates to stem fund outflows. We compare the historical averages of each individual ASEAN economy's real policy rate to their current real policy rate. Where the historical average is above the current real level, this suggests that the economy has room to adjust policy rate to make it more attractive to foreign investors.
- Our chart shows that only Indonesia and the Philippines have current real policy rates that are lower than their historical averages, suggesting that they can hike policy rate in the light of US Fed rate hikes to prevent capital outflows.
- However, whether these 2 economies will actually hike policy rates will depend on existing domestic conditions. It is more likely that Philippines with its strong economic growth trajectory in 2017 that could possibly be the first to adjust its policy rate.
- Others like Malaysia, Singapore and Thailand do not appear to have the policy room to hike rates.
- On a relative play basis, we favor shorting the SGD and longing the PHP and IDR in the medium term.

## 2016/2017 Asia FX Forecasts

|             | End 4Q-16 | End 1Q -17 | End 2Q -17 | End 3Q -17 |
|-------------|-----------|------------|------------|------------|
| USDJPY      | 120       | 122        | 124        | 125        |
| USDSGD      | 1.4350    | 1.4400     | 1.4450     | 1.4350     |
| USDMYR      | 4.35      | 4.20       | 4.30       | 4.15       |
| USIDR       | 13600     | 13650      | 13800      | 13500      |
| USDTHB      | 35.70     | 36.20      | 36.70      | 36.00      |
| USDPHP      | 50.50     | 51.00      | 51.80      | 51.50      |
| USDCNY      | 6.95      | 7.00       | 7.05       | 7.10       |
| USDKRW      | 1180      | 1170       | 1220       | 1180       |
| USDINR      | 68.50     | 69.00      | 69.50      | 68.50      |
| USDVND      | 22600     | 22700      | 22900      | 23000      |
| SGD Crosses | End 4Q-16 | End 1Q -17 | End 2Q -17 | End 3Q -17 |
| SGDMYR      | 3.031     | 2.917      | 2.976      | 2.892      |
| MYR Crosses | End 4Q-16 | End 1Q -17 | End 2Q -17 | End 3Q -17 |
| MYRCNY      | 1.60      | 1.67       | 1.64       | 1.71       |
| MYRIDR      | 3126      | 3250       | 3209       | 3253       |
| MYRINR      | 15.75     | 16.43      | 16.16      | 16.51      |

Source: Maybank FX Research as at 16 Dec 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 remained supported post-FOMC. The more aggressive Fed rate hike trajectory for 2017 steepened the UST yield curve further and widened the yield differentials between the US and Japan. 2Y and 10Y yield differentials widened by 147bp and 250bp respectively from a low of 82bp (in Aug) and 156bp (in Sep). Last seen around 118.35 levels. Bullish momentum in both the daily and weekly charts remains intact. Resistance is at 119.50 levels before 121 levels. Any pullback could revisit 114.40. We continue to favor buying on dips. We expect the BOJ to stand pat on policy at its last meeting on 20 Dec as additional easing measures appear unnecessary for now. Any further interest rate cut is likely to come in 2017 to spur reflation efforts and achieve its 2% inflation target by FY2018. This divergence in monetary policy between the Fed and BOJ should exert downside pressure on JPY. Risk to our bullish USDJPY bias could come from a change in tone with hints of tapering though we do not expect such hints to come anytime soon. | Monetary Base     | Easing                |
| USDCNH | USDCNH retreated from its recent highs again. That could be a double-top that we are looking at. If so, the pair could head towards the 6.80-level. Watch the 6.9650-level. The Central Economic Work Conference came and went China reiterating its commitment to deepen supply-side structural reforms in 2017. Monetary policy seems to have gone from prudent and supporting supply-side reform to "prudent and neutral" for 2017 - a sign of tightening. It is interesting that just two weeks ago, our monetary column (on the right) was changed to neutral. While rising yields are a global phenomenon, China's lenders and domestic players are also reacting to the rising cases of corporate defaults, resulting in the rising risk premium of securities at home. Capital outflows could also exacerbate liquidity conditions notwithstanding existing capital controls. The move higher seems more likely for USDCNH as Chinese quota but it will be a grind. We see downside risks to first support at 6.89.                                               | 1-Yr Lending Rate | Neutral               |

## Asian FX Directional Bias (Cont'd)

|               | Stories of the Week                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Policy Measure            | Policy Direction/Bias |
|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-----------------------|
| <b>USDKRW</b> | USDKRW traded higher post-FOMC meeting. We had said in our last fortnightly that a more hawkish Fed could see USD strength return and that could see USDKRW supported on dips. Pair was last seen at 1183 levels. Daily momentum and stochastics are bullish bias. We see further upside risks. Key resistance at 1188 (61.8% fibo retracement of 2016 high to low). Break above this level on weekly close could see a move towards 1210. Support at 1169 (50% fibo). While Fed could be on course to raise rates by twice in 2017 (or perhaps more), there is potential risk of BoK cutting rate in 2017 (from its current record low of 1.25%) amid domestic headwinds and benign inflation (YTD average of 0.9%, well below its 2% inflation target). Monetary policy divergence between Fed and BoK could exert downside pressure on KRW.                                                                                                       | <b>Base Rate</b>          | <b>Easing Bias</b>    |
| <b>USDSGD</b> | USDSGD traded to a new 2016 high of 1.4481 (15 Dec) post-FOMC. Pair has seen eased off after passing our objective of 1.4440 and was last seen around 1.4430 levels. Underlying momentum on the weekly chart still suggests a bullish bias. We remain bias to short SGD and look for dips towards 1.42-1.43 to buy into. A re-test of the 1.4481 levels remains likely and a clean break of this level could see a move towards the 1.47-levels in the medium term. Two weeks ahead is relatively quiet as we head towards the Christmas holidays with only Nov industrial production (IPI) and CPI on tap on 23 Dec. The IPI data will be closely watched for any hints of growth underperformance that could trigger a technical recession in 4Q and a possible easing move by the MAS. An underperforming IPI is likely to increase risk of a weaker growth in 4Q and increases the risk of a MAS move in 2017, though this is not our base case. | <b>Exchange Rate</b>      | <b>Easing Bias</b>    |
| <b>USDMYR</b> | USDMYR remained well supported amid a hawkish FoMC. Last seen at 4.4780 levels. We expect the pair to remain supported amid the rise in US nominal rates to lower the lure of funds seeking higher yielding assets in Malaysia in the interim. Given that foreigners hold nearly 50% of Malaysia government bonds, we see MYR as the most vulnerable within the AXJ space to foreign outflows. Bearish momentum on daily chart is waning while stochastics is rising. Technical signals continue to indicate further upside. Next resistance at 4.48 before 4.52. Support at 4.43 (21 DMA).                                                                                                                                                                                                                                                                                                                                                          | <b>O/N Policy Rate</b>    | <b>Easing Bias</b>    |
| <b>USDIDR</b> | 1s USDIDR NDF traded higher post FOMC rate decision. Upside though was relatively muted compared to the reaction post US elections. The 1-month NDF rose 230 pips compared to the 610 pips post-election. Nonetheless, 1-month NDF continues to be guided by external events given the lack of domestic catalyst for now. Last seen around 13480 levels. Bearish bias but are waning, while stochastics is pointing higher. Weekly chart and stochastics though remain bullish bias but are waning. Expect the pair to consolidate around 13220-13580 range in the two weeks ahead. Support nearby at 13420 (38.2% fibo retracement of the 2016 high to low). Resistance remains at 13735 levels (61.8% fibo).                                                                                                                                                                                                                                       | <b>O/N Reference Rate</b> | <b>Easing Bias</b>    |

## Asian FX Directional Bias (Cont'd)

|               | Stories of the Week                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Policy Measure          | Policy Direction/Bias |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-----------------------|
| <b>USDPHP</b> | 1s USDPHP NDF remains supported above the 50-levels amid a hawkish FOMC. We expect the steepening of the UST yield curve to extend the sell-off in Philippine assets and lure funds seeking higher yielding assets towards the US. In addition, the ongoing concerns over the government's extra-judicial killings, policy flip-flops and the president's unpredictable temperament continue to exacerbate the sell-off in Philippine assets. Thus, the PHP remains vulnerable as well to foreign outflows. The BSP meeting on 22 Dec is likely to be uneventful as the central bank should keep policy on hold for now given benign inflation and volatile domestic currency. Risk is that the BSP could hike policy rate in 2017 amid continued economic outperformance and faster-than-expected climb in inflation. Such a move is likely to be supportive of the PHP. Last seen around 50.30, 1-month NDF has lost most of its bearish bias, while stochastics remains on the uptick. Weekly chart remains bullish bias. Immediate resistance is at 50.45 ahead of the 51-handle. Support is at the 50-figure. | <b>O/N Reverse Repo</b> | <b>Neutral</b>        |
| <b>USDTHB</b> | USDTHB traded higher towards the 35.900-levels briefly post-FOMC. Pair has since eased off and was last seen around 35.770 levels. Underlying momentum on the weekly chart still suggests a bullish bias. In the nearer term, momentum remains bearish bias though waning. We remain bullish bias and favor buying on dips. Further pullback should find support around 35.685 levels before 35.640. Resistance is at 35.970 levels. BoT meets on 21 Dec and we expect the central bank to stand pat on policy for now. BoT is the other central bank in the ASEAN region that could possibly hike its policy rate in 2017 due to its stronger growth momentum and rising inflationary pressures. A rate hike should be supportive of the THB and slow the pace of the USDTHB climb in 2017.                                                                                                                                                                                                                                                                                                                       | <b>1-Day Repo Rate</b>  | <b>Easing Bias</b>    |
| <b>USDINR</b> | We are expecting the 1M NDF to remain stable within 67.40-68.50 in the absence of strong data cues. The data calendar is light for the next two weeks. Eyes are whether the government is able to replace the cash in the economy after its note ban in time by the end of the year, failing which could give the USDINR another lift.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <b>Policy Repo Rate</b> | <b>Easing Bias</b>    |
| <b>USDVND</b> | USDVND has been rising, bucking the trend in Asia and was last seen around 22760. This pair seems to be challenging key-resistance 22770. A break there could expose the next at 22880 (123.6% Fibonacci projection of the Oct-Nov rally). Support is seen around 22700 before 22650. Markets continue to view VND negatively given the protectionist-leaning of the new Trump administration and the likely repudiation of the TPP, given the export-dependent nature of the economy. We are also remaining concern about FDI inflows that have been supporting the VND and industrial output momentum. Resistance is seen at 22770 while support is at 22656 (23.6% Fibonacci retracement of the Nov rally). No key data in the next two weeks.                                                                                                                                                                                                                                                                                                                                                                  | <b>Refinancing Rate</b> | <b>Easing Bias</b>    |

## Key Data and Events Ahead

| Currency | 19-25 Dec                                                                                                                                                                                                                                                                    | 26 Dec - 1 Jan                                                                                                                                                                                                                                         |
|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| USDJPY   | <ul style="list-style-type: none"> <li>Mon: Trade (Nov)</li> <li>Tue: BOJ Meeting; BOJ Governor Press Conference</li> <li>Wed: All Industry Activity Index (Oct), Cabinet Office Monthly Economic Report (Dec)</li> <li>Thu: - Nil -</li> <li>Fri: Public Holiday</li> </ul> | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: Jobless Rate, Household Spending, CPI, Housing Starts (Nov)</li> <li>Wed: Industrial Production (Nov P), Retail Sales (Nov)</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>   |
| USDCNY   | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>                                                                                                                       | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: Industrial Profits (Nov)</li> <li>Wed: - Nil -</li> <li>Thu: Current Account (3Q F)</li> <li>Fri: - Nil -</li> <li>Sun: Mfg and Non-mfg PMI (Dec)</li> </ul>                         |
| USDKRW   | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: PPI (Nov)</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>                                                                                                                     | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: Business Survey Mfg &amp; Non-Mfg (Jan), Industrial Production (Nov)</li> <li>Fri: CPI (Dec)</li> <li>Sun: Trade (Dec)</li> </ul>        |
| USDSGD   | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: Industrial Production, CPI (Nov)</li> </ul>                                                                                              | <ul style="list-style-type: none"> <li>Mon: Public Holiday</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>                                                                                          |
| USDMYR   | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: CPI (Nov)</li> <li>Thu: Foreign Reserves (15 Dec)</li> <li>Fri: - Nil -</li> </ul>                                                                                                   | <ul style="list-style-type: none"> <li>Mon: Public Holiday</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>                                                                                          |
| USDIDR   | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>                                                                                                                       | <ul style="list-style-type: none"> <li>Mon: Public Holiday</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>                                                                                          |
| USDPHP   | <ul style="list-style-type: none"> <li>Mon: BoP (Nov)</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: BSP Meeting</li> <li>Fri: - Nil -</li> </ul>                                                                                                                 | <ul style="list-style-type: none"> <li>Mon: Public Holiday</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: Public Holiday</li> </ul>                                                                                   |
| USDTHB   | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: BoT Meeting</li> <li>Thu: - Nil -</li> <li>Fri: Foreign Reserves (16 Dec)</li> </ul>                                                                                                 | <ul style="list-style-type: none"> <li>Mon: Customs Trade (Nov),</li> <li>Tue: Mfg Production Index (Nov) (due 27-29 Dec)</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: Foreign Reserves (23 Dec), Trade, Current Account (Nov)</li> </ul> |
| USDINR   | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>                                                                                                                       | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: Fiscal Deficit (Nov)</li> </ul>                                                                                    |
| USDVND   | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> <li>Sat: CPI (Dec)</li> <li>Sun: GDP (4Q), Trade, Retail Sales, Industrial Production (Dec) (due 25-31 Dec)</li> </ul>      | <ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: Nikkei PMI Mfg (Nov)</li> <li>Fri: - Nil -</li> </ul>                                                                                    |

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Published by:



Malayan Banking Berhad  
(Incorporated in Malaysia)

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

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

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

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