

FX Asia Fortnightly

Lacking Directional Clarity

USDAsians Range-Bound In Absence Of Fresh Catalyst

So far, most USDAsians have been rudderless. The momentum that was supposed to be generated by a strong USD failed to materialized. Instead, the USD whipsawed between gains and losses over the past two weeks as doubts begin to creep in that a Mar rate hike by the Fed is unlikely and that Trump's tax reform plans might underwhelm. In the absence of directional clarity, most USDAsians are likely to consolidate and trade sideways in the two weeks ahead. Look for the USDAsians to settle into range-bound trades ahead. Still, the potential leg up to the USDAsians could arise from political risks stemming from electoral polls in various European countries, starting with the Netherlands (which goes to the polls on 15 Mar). Should opinion polls show gains by anti-establishment/anti-globalization parties, we could see USDAsians potentially climbing higher on safe-haven plays. USDJPY is likely to trade within 112-115 range still while USDSGD remains in its familiar 1.41-1.43 trading range. The exception could be the USDPHP, which has broken into uncharted territory, where it is expected to stay elevated above the 50-figure.

Duterte Risk Premium Yet To Fade

Since Nov 2016, the CDS in the region has eased off, possibly due to market re-assessing a Trump presidency and starting to come around to his plans for expansionary fiscal stimulus (infrastructure building and tax reforms) that could boost growth and inflation. The Philippines' CDS remains elevated when compared to its regional peers, suggesting market continues to price in a Duterte risk premium. This represented market's concerns of President Duterte's intemperate temperament and his support for extra-judicial killings of drug offenders. However, the easing of CDS for the Philippines has not led to a corresponding drop in the USDPHP but has diverged. This suggests that other factors are in play, including concerns about its deteriorating current account surpluses and slower growth in overseas remittances. We expect the USDPHP to remain elevated around the 50-handle for at least the next three-six months.

BoK, BNM; PMIs Eyed...

We have two central bank meetings in the next two weeks. BoK meets this Thu (23 Feb) and we expect the central bank to keep monetary policy accommodative, with rate on hold at record low of 1.25%. Cutting rate could risk exacerbating the domestic debt situation. BoK may want to retain its monetary policy toolkit for use at a later stage if the need arises. Similarly, the BNM is likely to maintain the OPR at 3.0% at its policy meeting on 2 Mar (Thu) to provide stability to the MYR and to curb inflationary pressures. In the two weeks ahead, markets will be eyeing the slew of industrial production and PMI data that could affirm the lift to regional economies from a synchronized recovery in exports that we are expecting and that could provide regional currencies with more buffer when USD bulls re-emerges. Aside from GDP print for Thailand that was released on Mon morning, we also have India's 4Q16 GDP due on 28 Feb (Tue). Singapore announces its Budget FY2017 on 20 Feb (Mon).

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Flavour of the Month: Duterte Risk Premium Still In Play

Chart 1: 5-Yr Sovereign CDS Have Come-Off

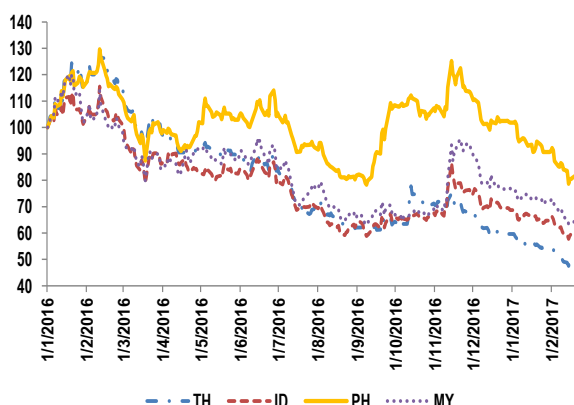
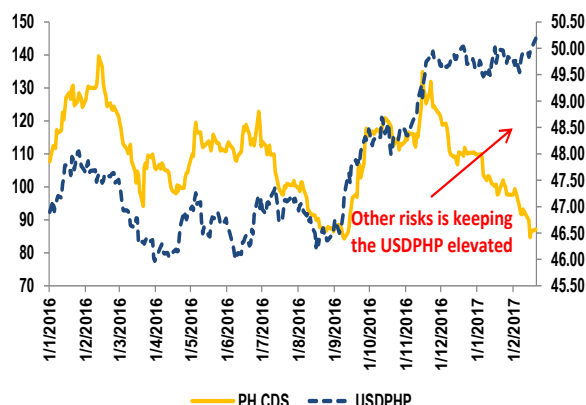


Chart 2: But USDPHP Remains Elevated



Note: The 5-year sovereign CDS for each country has been indexed to the start of the year for comparison purposes
This key risk event on EMs should be reflected in their credit default swaps (CDS).

Source: Bloomberg, Maybank FX Research

- In our analysis of CDS of the ASEANs late last year, we discovered that the Philippines' CDS was elevated when compared to its regional peers. This elevated CDS for the Philippines over its regional peers represented market's concerns of President Duterte's intemperate temperament and his support for extra-judicial killings of drug offenders.
- Since the start of his term of office from end-Jun 2016, foreign investors have sold off USD0.94bn in Philippine equities. This reflected their concerns over his outburst against the US as well as the extra-judicial killings. While details of government bond sales by foreigners are not available, rising yields (up 62.7-164.8bp) between Jul-Dec 2016 suggests that there was a sell-off that would have included foreign funds as well.
- Our re-look of the CDS in the region showed that CDS have come-off since peaking around Nov 2016. This could be because market had re-assessed a Trump presidency and had started to come around to his plans for expansionary fiscal stimulus (infrastructure building and tax reforms) that could boost growth and inflation.
- From chart 1, the CDS of the Philippines has come off together with its peers as global uncertainty wane. Still, it remains higher than those of its regional peers, reflecting the Duterte risk premium. This suggests that the Duterte risk premium has yet to fade and continues to weigh on investor confidence. We can see this in the sell-off in equities amounting to USD58.9mn so far this year.
- However, the easing of CDS for the Philippines has not led to a corresponding drop in the USDPHP (chart 2). Instead, the USDPHP have remained elevated, hovering within 49.30-50.50 since end-Nov 2016 and has diverged from the CDS. This suggests that other factors are in play, including concerns about its deteriorating current account surpluses and slower growth in overseas remittances. We expect the USDPHP to remain elevated around the 50-handle for at least the next three-six months.

- It is worth noting that among the ASEAN-5 economies, the Philippines is one of the most exposed to the US economy. Its exports to the US accounts for nearly 16% of its total exports vs. its regional peers of 6.6-11.4%. The US is also the Philippines' largest foreign investor, accounting for 12.6% of the total FDI into the Philippines. Thus, the implementation of any protectionist measures by the Trump administration is likely to disrupt the trade and investment relations between the two countries. The risk to the PHP from this disruption is likely to be more significant than the impact of USD strength from the Trump reflation story.

2017 Asia FX Forecasts

	End 1Q -17	End 2Q -17	End 3Q -17	End 4Q-17
USDJPY	118	120	124	125
USDSGD	1.4000	1.4250	1.4350	1.4200
USDMYR	4.25	4.35	4.20	4.25
USDIDR	13400	13600	13600	13300
USDTHB	35.00	35.50	36.00	36.20
USDPHP	50.00	50.50	50.50	49.80
USDCNY	7.00	7.05	7.10	7.10
USDKRW	1170	1220	1180	1180
USDINR	68.45	69.00	69.30	69.20
USDVND	22500	22850	23000	22900
SGD Crosses	End 1Q -17	End 2Q -17	End 3Q -17	End 4Q-17
SGDMYR	3.036	3.053	2.927	2.993
MYR Crosses	End 1Q -17	End 2Q -17	End 3Q -17	End 4Q-17
MYRCNY	1.65	1.62	1.69	1.67
MYRIDR	3153	3126	3238	3129
MYRINR	16.11	15.86	16.50	16.28

Source: Maybank FX Research as at 17 Feb 2017.

*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	The USDJPY has been lacking firm directional clarity, hovering within the 112-115 range for around the past month. We await the USD for directional cues that could help the pair breakout of this range. Data out these two weeks domestically and in the G7 space is unlikely to shake the pair out of its complacency. Momentum is lacking in both the daily and week charts and we could see the pair stuck in this familiar range.	Yield Curve Control	Easing
USDCNH	USDCNH could remain capped by the 50-DMA at 6.8800. Support is seen around 6.8330 before 6.8159 (50% Fibonacci retracement of the Sep-Dec), 6.7750 (61.8%). At this point, bullish momentum has faded, along with the USD. Possibility of further tightening measures could bolster the yuan. Much is still dependent on the USD and rebounds may test resistance at 6.90 (23.6%). Few data on the tap - only property prices and PMI-mfg.	1-Yr Lending Rate	Neutral
USDKRW	A double-bottom appears to have formed around 1133 levels and could prove to be an interim support for USDKRW. Pair was last seen at 1147 levels. Daily momentum and stochastic indicators are also exhibiting tentative bullish signals. Key resistance at 1152 (200 DMA, 23.6% fibo retracement of Jan high to Feb low). Break above could see some upside risks towards 1163 levels (100 DMA, 38.2% fibo). Support at 1140 before 1130-1133 levels. This week on Thu brings BoK meeting. We expect MPC to keep monetary policy status quo with policy rate unchanged at 1.25%. Against a backdrop of rising household debt (90% of GDP), potentially more Fed rate hikes and rising price pressures (in KR), we think the window for further rate cut is getting smaller. Cutting rate could risk exacerbating the debt situation at home while raising rate at this stage is too premature for an economy that still needs accommodative monetary policy.	Base Rate	Easing Bias

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDSGD	USDSGD attempts to move higher failed to gain much traction in the wake of the USD retreat. Budget FY2017 will be announced on 20 Feb but is unlikely to shake price action. In fact, we see the pair continuing to hover within its current trading range of 1.4080 (38.2% fibo retracement of the Jun 2016-Jan 2017 rally) and 1.43 (50DMA) at least until we see the USD providing directional clarity. Bullish momentum remains intact but is waning, suggesting range-bound trades are likely in the next two weeks.	Exchange Rate	Easing Bias
USDMYR	USDMYR continued to drift higher over the past few sessions after failing to break below 4.42 levels. This level has now formed an interim support. Daily chart shows mild upside momentum with daily stochastics now into overbought conditions. Near term risks remains to the upside at this point. Interim resistance at 4.48 levels (double top between high of 2015 and 2017). Key support at 4.4240 (23.6% fibo retracement of Nov low to Jan high). On BNM meeting (2 Mar) next week, we maintain the view that OPR to stay at 3.00% in 2017. Monetary policy stance is biased towards growth as per last year's 25bps cut in July 2016. However further cut(s) unlikely amid volatile MYR and pick-up in inflation rate to 2.5% this year from 2.1% last year.	O/N Policy Rate	Easing Bias
USDIDR	1m NDF is trading bid for the past several sessions. The lack of directional impetus is keeping the 1m NDF stuck in its current trading range of 13310-13510. Domestically, it is a quiet on the data front for the next two weeks and any lift to the 1m NDF is likely to come from external events, possibly from political uncertainty in EU stemming from various elections over there. Last seen around 13400 levels, daily momentum indicators and stochastics are turning bullish bias. This suggests that risks are to the upside for the 1m NDF. We expect the 1m NDF to hover at the upper bound of its current trading range of 13310-13510, especially when USD bulls re-emerge.	7-Day Reverse Repo Rate	
USDPHP	1m USDPHP NDF, which has been hovering around the 50-figure for the past week or so, surged passed the 50.50 levels on 20 Feb morning amid a sell-off in 10Y government debt and market whispers that the central bank remained on the sidelines this morning. Risks remains to the upside with momentum indicators on the daily chart showing bullish bias and stochastics is still at overbought levels, suggesting the potential for a retracement. Keeping the 1m NDF supported around the 50-figures is the potential for even tighter US monetary policy this year on expectations of Trump's planned fiscal stimulus, which could lift UST yields higher, narrowing the yield differentials between US and Philippines and sparking further fund outflows. With several of our resistance levels having been taken out, USDPHP is not in uncharted territory. Next resistance is at the 51-handle. Support remains at 49.95 (21 & 50 DMAs), 49.75.	O/N Borrowing Rate	Neutral
USDTHB	USDTHB has been trading around the 35-figure for the past week or so, helped by portfolio inflows into Thai assets, particularly government debt. Foreign investors had purchased THB4.97bn in government debt last week that more than offset the sell-off of THB1.01bn in equities. Pair remains stuck in its current trading range of 34.910-35.140. Momentum indicators and stochastics remain mildly bullish bias. This suggests that the pair is unlikely to break out of its current trading range anytime soon. 35.140 (61.8% fibo retracement of the Sep-Dec rally) caps topside. Support is around 34.910 (76.4% fibo).	1-Day Repo Rate	Easing Bias

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDINR	This 1M NDF drifted higher and was last seen around 67.26. INR was buoyed by the prudent Union Budget and also celebrated the removal of cash withdrawal limits coming into effect mid-Mar. We watch the Uttar Pradesh elections at this point with Phase 1 and Phase 2 over. There are 5 more phases of polling. Date of counting is on 11 Mar and completion on 15 Mar. Some uncertainties in the polls with Muslim votes going to SP lifting the USDINR. Support remains at the 67-figure. Upticks to meet resistance at 67.40 before 200-DMA at 67.60. 4Q GDP is due on 28 Feb, followed by India's PMI on 1 Mar.	Policy Repo Rate	Easing Bias
USDVND	USDVND has been pressed higher recently, spurred by the inflation print which surprised expectations at 5.22%/y, weaker trade data and retail sales. Inflationary pressures are lifting this pair to levels around 22620 as we write. Vietnam will release its Feb data in the final week of the month. Watch out also for the PMI-mfg print that comes on the 1 Mar. USDVND is last seen around 22800 and could test higher in weeks to come.	Refinancing Rate	Easing Bias

Key Data and Events Ahead

Currency	20-26 Feb	27 Feb-5 Mar
Japan	- Mon: Trade (Jan) - Tue: Nikkei PMI Mfg (Feb P), All Industry Activity Index (Dec) - Wed: - Nil - - Thu: Leading Index (Dec F), Cabinet Office Monthly Economic Report (Feb), BOJ Kiuchi speaks - Fri: - Nil -	- Mon: - Nil - - Tue: Industrial Production (Jan P), Retail Sales, Housing Starts (Jan) - Wed: Capital Spending (4Q), Nikkei PMI Mfg (Feb F) - Thu: - Nil - - Fri: Jobless Rate, CPI (Jan), Nikkei PMI Composite & Services (Feb)
China	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: Non-Mfg & Mfg PMI (Feb) - Thu: - Nil - - Fri: Caixin PMI Composite & Services (Feb)
South Korea	- Mon: PPI (Jan) - Tue: - Nil - - Wed: - Nil - - Thu: BoK 7-Day Repo Rate - Fri: - Nil -	- Mon: - Nil - - Tue: Business Survey Mfg and Non-Mfg (Mar) - Wed: Public Holiday, Trade (Feb) - Thu: Industrial Production, Nikkei PMI Mfg (Feb) - Fri: BoP Current Account (Jan), CPI (Feb)
Singapore	- Mon: Budget FY2017 - Tue: - Nil - - Wed: - Nil - - Thu: CPI (Jan) - Fri: Industrial Production (Jan)	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: PMI (Feb) - Fri: Nikkei PMI (Feb)
Malaysia	- Mon: - Nil - - Tue: - Nil - - Wed: CPI (Jan), Foreign Reserves (15 Feb) - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: Nikkei (Feb) - Thu: BNM Overnight Policy Rate - Fri: Trade (Jan)
Indonesia	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: Nikkei PMI Mfg, CPI (Feb) - Thu: - Nil - - Fri: - Nil -
Philippines	- Mon: BoP Overall (Jan), Budget Balance (Jan) (due 20-28 Jan) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: Nikkei PMI Mfg (Feb) - Thu: - Nil - - Fri: - Nil -
Thailand	- Mon: GDP (4Q) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign reserves (17 Feb)	- Mon: Customs Trade (Jan) - Tue: Trade, BoP Current Account (Jan) - Wed: Nikkei PMI Mfg (Feb), CPI (Feb) - Thu: - Nil - - Fri: Foreign reserves (24 Feb)
India	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: GDP (4Q) - Wed: Nikkei PMI Mfg (Feb) - Thu: - Nil - - Fri: Nikkei PMI Services & Composite
Vietnam	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: CPI (Feb) - Sat: Trade, Retail Sales, Industrial Production (Feb) (due 25-28 Feb)	- Mon: - Nil - - Tue: - Nil - - Wed: Nikkei PMI Mfg (Feb) - Thu: - Nil - - Fri: - Nil -

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