

FX Asia Fortnightly

Short-Term Relief For AXJs?

Asians Bounce Higher But For How Long

The lack of any planned aggressive Fed tightening ahead, triggered unwinding of USD longs, benefiting the Asian ex-Japan (AXJ) currencies, led by the KRW, THB and TWD. All eyes will now be on Trump's budget proposal for 2018. Partial details of the budget released so far been focused on cost-cutting measures. We await the second part of his budget proposal for details on his spending programmes and tax cut plans. Disappointment on this front could weigh further on the USD and lift the AXJ higher. The other risk we are watching is clarity on the pace of Fed hikes and FOMC forward guidance from Fed speaks in the next two weeks. Failure to provide a hawkish tilt towards growth and rates outlook could put downside pressure on the USD as well. Nevertheless, we maintain our stance for USD mild strength, particularly on Trump's planned expansionary fiscal programmes. We look for opportunities to long USDSGD and USDJPY on dips towards 1.3900-1.3950 and 110-112 for a move back towards 1.4100 and 120 levels respectively.

ASEAN5 FX Pressured Lower After Each Fed Rate Hike Cycle

We did an event study on past Fed hikes and found that the ASEAN5 (Indonesia, Malaysia, Philippines, Singapore and Thailand) FX typically see a partial return in strength after the start of every hike cycle. However, that does not mean that ASEAN currencies are completely resilient to Fed rate hike. The weakness tends to happen before the event rather than after in what seems to be a classic "sell the rumour, buy on fact" market behaviour. A similar pattern could form during this rate cycle. We should expect some short-term bounce in ASEAN5 FX after each Fed rate hike. Eventually though, the ASEAN5 FX remains prone to move lower as UST yields grind higher amid Fed tightening, boosting the USD. This should pressure the ASEAN5 FX lower. We do not expect the ASEAN5 FX to return to the levels seen in 2016 unless the strong USD reverses significantly.

BSP, BoT Meetings, Korean GDP...

Relatively quiet data week ahead with BSP and BoT meetings on tap in the next two weeks. Both meetings are not likely to see any adjustment to their policy rates in the wake of the FOMC meeting on 16 Mar. We also have Korea releasing final 4Q16 GDP on 28 Mar which should affirm that growth is gaining traction. Other key data releases this week include Japan trade (Feb) on 22 Mar; Japan cabinet office monthly economic report (Mar), Singapore CPI (Feb) on 23 Mar; Japan PMI (Mar P), Singapore industrial production (Feb), Malaysia CPI (Feb), Vietnam CPI (Mar) on 24 Mar. The week after China industrial profits (Feb) on 27 Mar; Japan retail trade (Feb), Korea business mfg, non-mfg survey (Apr) on 29 Mar; China current account (4Q F) on 30 Mar; Japan CPI (Feb), industrial production (Feb P), China PMI Mfg and Non-mfg PMI (Mar), Korea industrial production (Feb), Thailand trade (Feb) on 31 Mar. Indonesia is out on 28 Mar for a public holiday.

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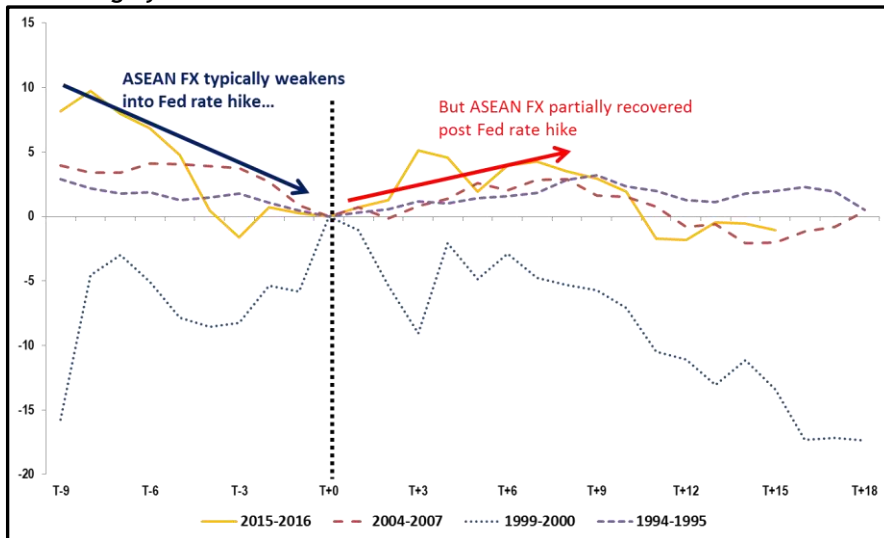
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Flavour of the Week: ASEAN FX Index To See Intermittent Weakness Into Each Hike and Recovery Thereafter...

Chart 1: % Change in ASEAN5 FX vs. USD before and after the Start Of Each Fed Hiking Cycle

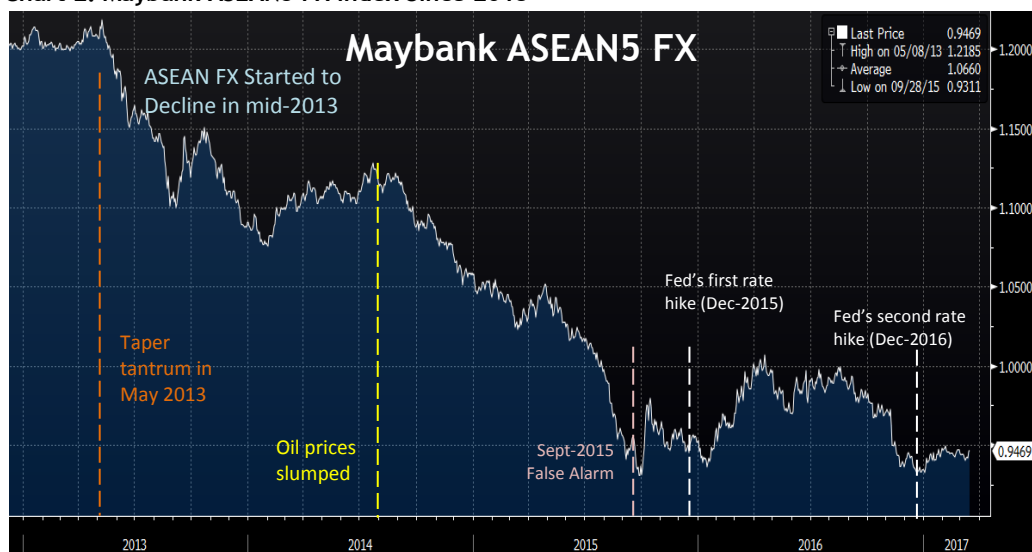


Note: T+0 refers to the start of the Fed rate hike cycle and T+1, T+2 refers to the 1 month, 2 months etc. after the rate hike.; ASEAN FX is an index that comprises of SGD, MYR, IDR, THB, PHP, equally-weighted vs the USD

Source: Bloomberg, CEIC, Maybank FX Research

- ASEAN5 FX strengthened right after the Fed did a dovish hike on 15 Mar. Does that mean that regional currencies have taken the US rate tightening in their stride? Has it always been this way? We did an event study on past Fed hikes and found that yes, ASEAN5 FX typically see a partial return in strength after the start of every hike cycle.
- However, that does not mean that ASEAN currencies are completely resilient to Fed rate hike. The weakness tends to happen before the event rather than after in what seems to be a classic “sell the rumour, buy on fact” market behavior.

Chart 2: Maybank ASEAN5 FX Index Since 2013



Source: Bloomberg, Maybank FX Research

So What About The Current Cycle?

- Chart 2 (in the previous page) shows that the decline in ASEAN5 FX actually started way before in mid-2013 when then-Fed Chair Bernanke signalled that US could start to cut the pace of bond purchases in the following meetings. ASEAN5 FX has actually fallen significantly since then although there have been bounce higher after each hike (in 2015 and then in 2016).
- We can infer that as the Fed tightens policy, albeit gradually, UST yields would begin their slow grind higher, which in turn would boost the USD. This should pressure the ASEAN5 FX lower as we have seen. This suggests that the elevated levels of the ASEAN5 FX seen in the years prior to 2013 could be a thing of the past with the dissipation of easy global money.
- In this current Fed rate hike cycle, we should expect some short-term bounce in ASEAN5 FX after each Fed hikes rate (broadly). Eventually though, the ASEAN5 FX remains prone to move lower. We do not expect the ASEAN5 FX to return to the levels seen in 2016 unless the strong USD reverses significantly.

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	1.4050
USDMYR	4.30	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	6.92	7.03	7.08	7.04
USDKRW	1150	1180	1170	1180
USDINR	67.00	67.50	68.00	67.50
USDVND	23000	23300	23600	23500
SGD Crosses	End 1Q -17	End 2Q -17	End 3Q -17	End 4Q-17
SGDMYR	3.071	3.053	2.927	3.025
MYR Crosses	End 1Q -17	End 2Q -17	End 3Q -17	End 4Q-17
MYRCNY	1.61	1.62	1.69	1.66
MYRIDR	3116	3126	3238	3129
MYRINR	15.58	15.52	16.19	15.88

Source: Maybank FX Research as at 3 Mar 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 pressured lower towards the 112-handle in the wake of the recent Fed's dovish rate hike that triggered broad USD weakness. The failure of yield differentials between the UST and JGB to widen is also weighing on the pair. It also did not help that political uncertainty in Europe ahead of the France presidential elections is weighing on global risk sentiments and spurring safe-haven plays for the JPY. Technically, risks are to the downside with both the daily, weekly momentum indicators bearish bias. Further slippages in the next two weeks could see the pair test the year's low of 112.60 with a break here exposing the next support at 111.60 levels. Rebounds could meet resistance at 113.60 (50DMA); 114.30 (38.2% fibo retracement of the 2015 high to 2016 low).	Yield Curve Control	Easing
USDCNH	After the breakout that we witnessed a few weeks ago, the sell-on-Fed in the USD seems to have effect a throwback for the recent break out of the triangle in the USDCNH. Last seen at 6.8920. We continue to watch the support level at 6.8410. Breaking that opens the way towards the next support at 6.8330. We think it's more likely it will continue higher. We continue to expect more rates increase in the MLF and reverse repo should Fed follow through with the three projected hikes or more. USDCNH is the most sensitive to changes in the 10y UST yields in the past six months. We continue to look for USDCNH to head higher. There is no tier one data due this week. PBOC Governor Zhou speaks this weekend on free trade and monetary policy. Next week, there is current account balance for 4Q, industrial profits and PMI data.	1-Yr Lending Rate	Neutral

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDKRW	1s USDKRW NDF traded to 5-month low of 1112.70 levels on broad USD weakness. Lack of aggressive Fed tightening and falling FX vols amid a growth environment that shows tentative signs of gaining traction (synchronised exports recovery in the region including SG, Korea, TW) favour the hunt for rich yielders and risky plays. Though the current environment post-Fed hike may still favour such plays, we caution that recent moves may seem overstretched. And there are a handful of Fed speaks coming up this week. Political events in Europe (France) and at home may also impact risk sentiment. On technical analysis, though momentum remains bearish, daily stochastics suggest the pair is entering into oversold conditions. On a risk-reward perspective, we see tactical opportunities to buy 1s USDKRW on dips towards 1112, targeting a move back towards 1126 (SL below 1105).	Base Rate	Easing Bias
USDSGD	USDSGD slipped below the 1.40-handle for the first time since Nov 2016 amid a pullback in the USD following the lack of hawkishness from the Fed. Pair could remain capped below the 1.40-handle should industrial production (Feb) on 24 Mar continue to signal synchronized recovery with the region. Daily momentum is mildly bearish bias but stochastics is fast approaching oversold conditions. Risks remains to the downside at this point and further slippages could find support at 1.3950 (50% fibo retracement of the Aug low to Jan high) before 1.3900 (200DMA). Retracements could meet resistance at 1.4080 (38.2% fibo).	Exchange Rate	Neutral
USDMYR	USDMYR inched lower, tracking the rest of USD/AXJs lower but remains a laggard in terms of magnitude of the move. Last seen at 4.4260 levels. Daily momentum and stochastics are showing tentative signs of bearish bias. Next support at 4.4120 (100 DMA). Below that sees next support at 4.35 levels. Resistance at 4.4480 (21, 50 DMAs) before 4.48 levels.	O/N Policy Rate	Easing Bias
USDIDR	1m USDIDR NDF has been trading soft on broad USD weakness. The lack of an aggressive Fed rate hike trajectory amid a synchronized regional export recovery has put high yielding plays back in focus. This has resulted in improved domestic risk sentiments with foreign funds buying USD32.62mn in equities last week. They had also added IDR4.33tn to their outstanding holding of government debt. But we caution that such moves could be overstretched. Technically, momentum remains bearish, though daily stochastics is showing the pair on the verge of entering into oversold conditions. For now, range trade within 13310 - 13510 remains likely. A break out in either direction could see the 1m NDF trade in a wider 13200-13650 range.	7-Day Reverse Repo Rate	Easing Bias
USDPHP	1m USDPHP NDF has been trading above the 50-figure since 8 Feb and a break below that level could be at hand. The lack of aggressive Fed tightening and the synchronized export recovery in the region could provide the PHP with the catalyst to push lower in the two weeks ahead. In addition, BSP meeting on 23 Mar is likely to be a non-events and could be supportive of the 1m NDF. Bearish bias on the daily chart remains intact and stochastics is fast approaching oversold conditions. Pressure remains to the downside, albeit we see support on dips with the 50DMA at 50.13/17 levels. A clean break of the 50DMA should find support around the 50-figure; 49.80. Resistance seen at its multi-year high of 50.77-levels (21 Feb) remains intact for now.	O/N Borrowing Rate	Neutral

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDTHB	USDTHB has been on the slide since the second week of Mar amid a rebound in foreign inflows into government debt market. Foreign investors purchased THB3.71bn in government bonds last week after selling off for the previous two weeks. Weekly, daily momentum indicators are bearish bias. Stochastics on the weekly chart is now at oversold conditions. Nevertheless, in the absence of global and domestic catalysts, pair could take its cue from technicals. Even the BoT meeting on 29 Mar is unlikely to see any moves and provide the pair with much directional cues. With pressure to the downside, support is seen at last Sep low around the 34.500-levels, 33.960 (61.8% fibo of the 2015 low to high). 50DMA has cut both the 100 and 200DMAs to the downside, signalling bearishness. Resistance at 35-figure.	1-Day Repo Rate	Neutral
USDINR	The landslide victory of Modi at the Uttar Pradesh elections spurred a rally in the rupee. The victory allows Modi better control of the Rajya Sabha and a higher possibility of a BJP candidate for the Presidential election in July. That should pave the way for smoother implementation of reforms. In addition, the victory in India's most populous state also allows Modi a better chance at securing a second term. The 1M NDF was last seen around 65.55. Technical chart suggests that bias is to the downside. Stochastics in oversold conditions but MACD is still flagging bearish bias. Perhaps further recovery could meet resistance around the 66-figure (76.4% Fibonacci retracement of the Sep - Dec 2015 rally). Strong support at 65.00. Week ahead may see BOP current account balance due for 4Q.	Policy Repo Rate	Neutral
USDVND	USDVND hovered within 22760-22850. Little directional bias is seen at this point. We see risks to the upside should USD bulls gain traction. First support seen around 22750, before 22700 (50-DMA). Interim resistance at around 22800. Mar data is due in the next two weeks including Mar CPI, expected to ease to 4.80%/y. May bring some relief to the VND. Trade numbers, 1Q GDP, retail sales and industrial production are due sometime next week.	Refinancing Rate	Neutral

Key Data and Events Ahead

20 - 24 Mar		27-31 Mar	
Japan	• Mon: - Nil -	• Mon: PPI Services (Feb)	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: Trade (Feb);	• Wed: Retail trade	
	• Thu: Cabinet Office Monthly Economic Report (Mar)	• Thu: - Nil -	
	• Fri: Nikkei Japan PMI-Mfg (Mar P)	• Fri: National CPI (Feb), Tokyo CPI (Mar), IP (Feb P)	
China	• Mon: - Nil -	• Mon: Industrial Profits (Feb)	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: - Nil -	• Thu: Current Account balance (4Q F)	
	• Fri: - Nil -	• Fri: Mfg PMI, Non-mfg PMI (Mar)	
South Korea	• Mon: PPI (Feb);	• Mon: - Nil -	
	• Tue: Exports, Imports 20 days (Mar)	• Tue: GDP (4Q F);	
	• Wed: - Nil -	• Wed: Business survey mfg, non-mfg (Apr);	
	• Thu: - Nil -	• Thu: - Nil -	
	• Fri: - Nil -	• Fri: Industrial Production (Feb);	
Singapore	• Mon: - Nil -	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: CPI (Feb)	• Thu: - Nil -	
	• Fri: Industrial Production (Feb)	• Fri: - Nil -	
Malaysia	• Mon: - Nil -	• Mon: - Nil -	
	• Tue: Foreign Reserves (Mar-15)	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: - Nil -	• Thu: - Nil -	
	• Fri: CPI (Feb);	• Fri: Money Supply M3 (Feb)	
Indonesia	• Mon: - Nil -	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: Public Holiday	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: - Nil -	• Thu: - Nil -	
	• Fri: - Nil -	• Fri: Money Supply M2 (Feb)	
Philippines	• Mon: BoP Overall (Feb)	• Mon: - Nil -	
	• Tue: CPI (Jan)	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: BSP Meeting (Mar 23)	• Thu: - Nil -	
	• Fri: - Nil -	• Fri: Money Supply M3 (Feb)	
Thailand	• Mon: - Nil -	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: BOT Meeting	
	• Thu: - Nil -	• Thu: - Nil -	
	• Fri: Foreign reserves (17 Mar)	• Fri: Foreign reserves (24 Mar), Trade (Feb)	
India	• Mon: BOP Current Account Balance (4Q) (due In Mar)	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: - Nil -	• Thu: - Nil -	
	• Fri: - Nil -	• Fri: - Nil -	
Vietnam	• Mon: - Nil -	• Mon: Trade, retail sales, IP(Mar), GDP(1Q)(due by 31 Mar)	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: - Nil -	• Thu: - Nil -	
	• Fri: CPI (Mar)	• Fri: - Nil -	

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