

FX Asia Fortnightly

Handling US Rates Re-Pricing and USD Strength For Now

Post-US Election Angst To Continue

Asian currencies have been broadly in retreat post-US election due to USD strength. It looks like this could continue for a while longer given that USD strength continues almost unabated, bolstered first by Trump Tantrum and then by Fed Chair Yellen's near confirmation that a rate hike was imminent, likely in Dec. Even expectations of a near-term technical pull-back in the USD are unlikely to change the trajectory of the USD ahead. This is because expectations of earlier-than-expected inflation in the US on the back of Trump's planned expansionary fiscal stance and the possibility of a more aggressive US rate hike trajectory should keep UST yields supported and the yield curve steeper ahead.

Trump Tantrum Has Legs To Run Further

Given that the USD strength still has legs as our study of the Taper Tantrum episode in 2013 shows (see below). The steepening of UST yields is likely to raise the volatility of ASEAN currencies ahead. With the resurgence in the USD and UST yields only in their second week, no end is in sight yet. As our analysis below show we could continue to see higher volatility in the ASEAN currencies for at least the next five months. We continue to seek opportunities to buy the USDSGD and USDJPY on dips towards 1.44 and 112 levels.

BNM Meets; SG, IN And KR Await 3Q GDP

Only one central bank meeting in the two weeks ahead with BNM meeting this Wed (23 Nov). We expect the central bank to keep the OPR unchanged at 3%. Also on the radar screen in the next two weeks are the 3Q GDP prints for Singapore (24 Nov), India (30 Nov) and Korea (2 Dec). Consensus and we are expecting an upward revision to the preliminary print of 0.6% for 3Q to 1.0% on the back of stronger-than-expected manufacturing output data for 3Q, assuming no other revisions are made. Industrial production had risen by 1.3% y/y in 3Q vs. preliminary estimates of a 1.1% contraction. As for India, market is expecting the Indian economy to expand by a faster 7.6% y/y in 3Q than 2Q's 7.1%. Preliminary 3Q GDP print had showed that the Korean economy expanded by 0.7% y/y.

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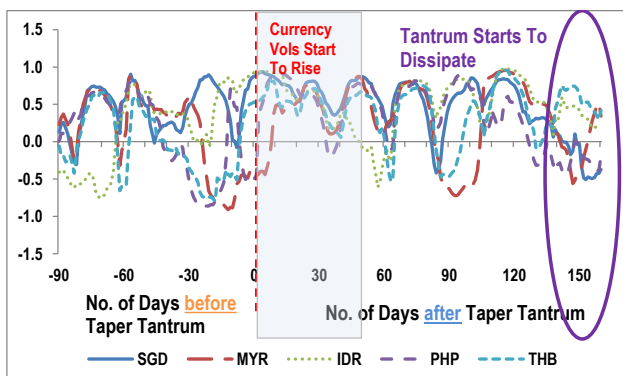
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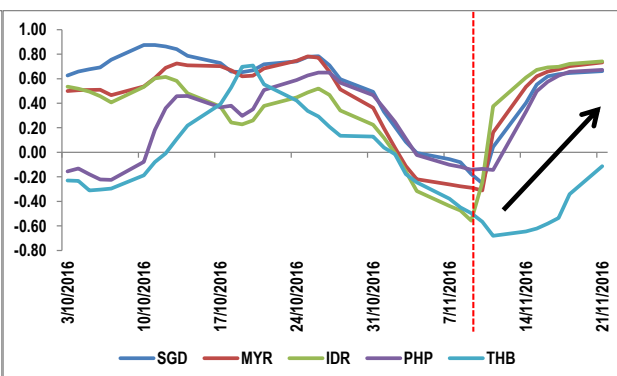
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Flavour of the Month: Trump-Inspired FX Volatility May Have Just Started

Taper Tantrum FX Volatility



Trump Tantrum FX Volatility



Note: The Taper Tantrum was triggered by then-Fed Chair Bernanke's comments that the Fed could reduce its QE purchases, while the Trump Tantrum was inspired by Trump's planned inflationary fiscal policies and his leaning towards protectionism

Source: Bloomberg, Maybank FX Research

- The victory of Donald Trump in the US presidential election sparked not only a dollar run-up but also the steepening of the UST yield curve underpinned by his planned expansionary fiscal policies that could spur growth and inflation. This in turn could potentially see more aggressive Fed rate hikes ahead. As well, his leaning towards protectionism is also raising concerns about global trade.
- Consequently, we are seeing greater volatility in the ASEAN currencies on the outflow of funds as yield differentials between the US and ASEAN economies narrow, and on concerns that the more open trade-dependent economies in the region could be impacted by US protectionist moves.
- We ran a 30-day rolling correlation between the USD/ASEANs 1-month option volatility and implied US 1-month treasury options to discover possible lessons from the Taper Tantrum episode.
- Our analysis showed that the jump in US yields triggered dollar hedging and rates re-pricing, sparking a sell-off in ASEAN currencies that resulted in increased volatility as seen by the shaded box in the chart on the left. Taper tantrum concerns only began to taper off about five-months after the trigger event.
- The lessons from the Taper Tantrum episode suggest that we are just at the beginning of the Trump Tantrum and that market will continue to dollar hedge their EM position and re-price rates. Any tapering off is unlikely anytime soon and we could see greater volatility in ASEAN currencies for at least the next five months.

2016/2017 Asia FX Forecasts

	End 4Q-16	End 1Q -17	End 2Q -17	End 3Q -17
USDJPY	113	115	117	118
USDSGD	1.4350	1.4400	1.4450	1.4350
USDMYR	4.25	4.15	4.25	4.10
USDIDR	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	1210	1230	1250	1280
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	2.962	2.882	2.941	2.857
MYR Crosses	End 4Q-16	End 1Q -17	End 2Q -17	End 3Q -17
MYRCNY	1.64	1.69	1.66	1.73
MYRIDR	3200	3289	3247	3293
MYRINR	16.12	16.63	16.35	16.71

Source: Maybank FX Research as at 7 Nov 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 bulls continue to push the pair higher amid UST yield curve steepening and broad USD strength in anticipation of Trump's expansionary fiscal policies leading to higher US growth and potentially faster pick up in pace of inflation. This has market re-pricing expectations of potentially more aggressive rate hikes ahead to arrest inflation and re-positioning for higher UST yields and steeper yield curve. Domestically, focus will be on CPI data out this Fri where data is likely to show yet again that inflation has yet to gain traction. Jobless rate and industrial production in the week after will be eyed for further improvement. Pair remains supported above the 110-levels. Weekly chart remains bullish bias. But stochastics in overstretched conditions portends the possibility of a pullback ahead. Nevertheless, we remain bias to long the pair and we seek opportunities to buy on dips towards the next objectives at 112,115 given that our interim objective at 108 has already been met. Pullbacks should find support around 109.30 ; 108.60.	Monetary Base	Easing
USDCNH	USDCNH traded to all time high of 6.9181 at time of writing. Move came amid broad USD strength driven by markets' expectation for Trump's expansionary fiscal policies potentially spurring higher growth and faster pickup in US inflation resulting in widening yield differentials in favor of US. Further upside could see the pair push towards 6.9580 (161.8% fibo projection of 6.76 - 6.44). Support at 6.83 (123.6% fibo) before 6.76. While we expect CNH to depreciate against the USD, we see relative outperformance against other AXJs. There are no tier-1 data for release in the next few days. Key focus on China NBS PMI on 1 Dec (Thu).	1-Yr Lending Rate	Easing Bias

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDKRW	USDKRW jumped higher following Trump's surprise win 9 Nov. Broad USD strength in anticipation of Trump's expansionary fiscal policies leading to higher US growth and potentially faster pick up in pace of inflation. Continuous repricing of UST yields higher is leading to widening of yield differentials in favor of US while Trump's anti-globalism (trade/protectionism policies) rhetoric is exerting downside pressure on trade-linked/open economy-type of currencies including KRW. On the domestic front, political scandal at home is also weighing on investor sentiment. We expect the above factors to drive USDKRW higher. Pair was last seen at 1186 levels. Beyond this targets 1210 (76.4% fibo retracement of 2016 high to low). Support at 1170 (50% fibo).	Base Rate	Easing Bias
USDSGD	USDSGD continues on its climb higher amid rising expectations of a Fed rate hike in Dec and potentially more aggressive Fed rate hike trajectory in 2017. This was due to expectation that inflation pressures could rise sooner than expected in anticipation of Trump's planned expansionary fiscal policies. External events aside, of note this week will be final GDP print on 24 Nov and industrial production on 25 Nov. We expected an upward revision to the flash estimates due to the better-than-expected manufacturing output in 3Q. But focus will be whether the momentum for manufacturing output is sustained. A disappointment could set the stage for a disappointing end to the year. Pair was last seen around 1.4224 levels. Daily and weekly momentum indicators are still bullish bias. Stochastics on both the daily and weekly chart are in overbought conditions, signaling the potential for a pullback ahead. We remain bias though to long USDSGD and look for opportunities to buy on dips towards the year's high of 1.4444 (11 Jan). Failure to push higher could see a pullback in the interim towards 1.4180 (76.4% fibo retracement of the 2016 high to low), 1.4010-levels (61.8% fibo).	Exchange Rate	Easing Bias
USDMYR	USDMYR continued to trade higher amid rising expectation for Fed to raise rates in Dec FoMC and potentially a shift towards a more than gradual pace of Fed rate hike trajectory in 2017. The latter was driven by expectation that inflation could come earlier than expected in anticipation of Trump's planned expansionary fiscal policies. Pair was last seen at 4.4260 levels. Bullish momentum on daily remains intact but stochastics is entering into overbought conditions. We do not rule out a pullback from current levels. Next support at 4.35 before 4.30 levels. Resistance at 4.44. This week brings BNM meeting (23 Nov) - we expect BNM to keep rates on hold at 3%. Our Economists are pricing in the possibility of another 25bps cut over the next 6 - 12 months, but do not expect rapid-fire OPR cuts over the next few meetings as BNM turns "risk aware", "data-dependent" and "event-driven".	O/N Policy Rate	Easing Bias

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDIDR	After off recent its high of 14113 on 11 Nov, 1s USDID NDF appears to be in consolidative mode within 13420-13750 amid rising expectations of a Fed rate hike in Dec and potentially more aggressive Fed rate hike trajectory in 2017 as Trump's planned expansive fiscal policy could spark inflationary pressures. As well, the continuous repricing of UST yields higher is leading to widening of yield differentials between the US and Indonesia, sparking an outflow of foreign portfolio investment. Domestic risks are also on the rise due to rising domestic political tensions (in the run-up to the Jakarta gubernatorial elections in Feb 2017) and growth concerns, which should keep the 1-month NDF supported. Investor optimism regarding the tax amnesty programme, the ongoing reform process and fiscal spending on infrastructure projects though are IDR-positive and should mitigate some of these upside risks. Daily chart remains bullish bias but is waning, while stochastics is falling. Weekly momentum indicators and stochastics are bullish bias. We look for the pair to consolidate ahead within 13420-13750 before continuing with its slow grind higher	O/N Reference Rate	Easing Bias
USDPHP	1s USDPHP NDF is again back above the 50-figure underpinned by both global and domestic concerns. The steepening of the UST yield curve has narrowed the yield differential between the US and Philippines, encouraging funds outflows. Other concerns, including concerns over the protectionist-bent of the incoming Trump administration, expectations of Fed rate hikes, the government's extra-judicial killings, policy flip-flops and the president's unpredictable temperament, is also keeping the 1-month NDF supported. Possible official agent intervention in the market though could slow the 1-month NDF's grind higher but unlikely to stem the climb higher unless these domestic concerns are addressed. Quiet two weeks suggest that the 1-month NDF's direction will remain guided by external events and supported by domestic concerns. Last seen around the 50-figure. Daily and weekly momentum indicators are showing very mild bullish bias. Stochastics on both the daily and weekly charts remain in overbought conditions, signalling a potential pullback ahead. Resistance is at 50.40 levels (176.4% fibo projection). Support at 49.75.	O/N Reverse Repo	Neutral
USDTHB	USDTHB appears to be in consolidative mode within a wider 35.230-35.685 range amid a steepening of the UST yield curve that has narrowed the yield differential between the US and Thailand. This was due Trump's planned expansive fiscal policy could spark earlier-than-expected inflationary pressures and hence potentially a more aggressive Fed rate hike trajectory. Concerns about possible US protectionist-bend ahead and domestic political risk concerns following the passing of the king and the year-long mourning period as well as residual concerns about the royal succession should also keep the pair supported. Some of these risks though have been mitigated to a certain extent by the relative calm and stability so far, especially should the Crown Prince ascend the throne on 1 Dec as rumoured. Pair was last seen around 35.450 levels. Daily and weekly momentum indicators remain bullish bias. Stochastics on the daily chart remains in overbought conditions, signalling a potential pullback in the near term. We expect the pair to remain trading in a wider 35.230-35.685 range ahead.	1-Day Repo Rate	Easing Bias

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDINR	USDINR broke above 68-handle (rupee at 8-month low vs. USD) amid broad USD strength and INR bond sell-off (amid narrowing yield differentials between INR and US bonds). Between 9 and 17 September, foreign institutional investors (FIIs) sold \$1.39 billion in equity and from 11 to 17 September, FIIs sold \$1.80 billion in debt. FIIs have sold \$2.07 billion in debt and bought \$5.43 billion in equity till date this year. The benchmark 10-year government bond yield also fell to 6.344%—a level last seen on 21 May 2009. India's benchmark Sensex index was trading at 25,765.60 points, down 1.5% or 384.64 points from its previous close. So far this year, it has erased all of its prior gains turned into a loss of 1.5%. USDINR was last seen at 68.10 levels. Key resistance at 68.20 (76.4% fibo retracement of 2016 high to low). Beyond this puts next resistance at 68.80 levels (2016 high). Stochastics shows signs of turning lower from overbought conditions. Expect a pullback towards 67.75 (61.8% fibo) in the coming days. 3Q GDP is scheduled for release on 30 Nov.	Policy Repo Rate	Easing Bias
USDVND	USDVND has been gapping higher amid rising expectations of a Fed rate hike in Dec and potentially more aggressive Fed rate hike trajectory in 2017 underpinned by Trump's planned expansive fiscal policy could spark inflationary pressures. We expect USD strength into the Dec FOMC meeting but ample USD supply at home could temper its upmove. The protectionist-leaning of the new Trump administration and the likely repudiation of the TPP is likely to impact the VND negatively, given the export-dependent nature of the economy. We are also remain concern about FDI inflows that have been supporting the VND and industrial output momentum.	Refinancing Rate	Easing Bias

Key Data and Events Ahead

Currency	21-27 Nov	28 Nov-4 Dec
USDJPY	- Mon: Trade (Oct), All Industry Activity Index (Sep), BOJ Masai speaks in Saitama City - Tue: - Nil - - Wed: Public Holiday - Thu: - Fri: CPI (Oct), Cabinet Office Monthly Economic Report (Nov)	- Mon: - Nil - - Tue: BOJ Meeting, Outlook Report, Governor press conference, Nikkei PMI Mfg (Oct F) - Wed: Public Holiday - Thu: - Nil - - Fri: - Nil -
USDCNY	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: Caixin PMI Services & Composite (Oct) - Fri: - Nil -
USDKRW	- Mon: Trade (Nov) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Consumer Confidence (Nov)	- Mon: - Nil - - Tue: Business Survey Mfg & Non-Mfg (Dec); BoK Policy Meeting Minutes - Wed: Industrial Production (Oct) - Thu: CPI, Trade (Nov), Current Account (Oct), Nikkei PMI Mfg (Nov) - Fri: GDP (3Q)
USDSGD	- Mon: - Nil - - Tue: - Nil - - Wed: CPI (Oct) - Thu: GDP (3Q F) - Fri: Industrial Production (Oct)	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: PMI, electronics PMI (Oct)
USDMYR	- Mon: - Nil - - Tue: Foreign Reserves (15 Nov) - Wed: BNM Meeting - Thu: - Nil - - Fri: CPI (Oct)	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: Nikkei PMI (Nov) - Fri: - Nil -
USDIDR	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: Nikkei PMI Mfg, CPI (Nov), Foreign Reserves (Nov) (due 1-7 Dec) - Fri: - Nil -
USDPHP	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: Public Holiday - Thu: Nikkei PMI Mfg (Nov) - Fri: - Nil -
USDTHB	- Mon: GDP (3Q) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign Reserves (18 Nov)	- Mon: Customs Trade (Oct), Mfg Production Index (Oct) (due 28-30 Nov) - Tue: - Nil - - Wed: Trade, BoP Current Account (Oct) - Thu: Nikkei PMI Mfg, CPI (Nov) - Fri: Foreign Reserves (25 Nov)
USDINR	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: GDP (3Q), Fiscal Deficit (Oct) - Thu: Nikkei PMI Mfg (Nov) - Fri: - Nil -
USDVND	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: CPI (Nov) - Fri: Trade, Retail sales, Industrial production (Oct) (due 25-30 Nov)	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: Nikkei PMI Mfg (Nov) - Fri: - Nil -

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