

FX Asia Fortnightly

Range-Bound Trades Ahead

USD/Asians To Remain In Range-Bound Trades

Long USD bets continued to be unwound on disappointment over the lack of details on the planned expansionary programme or tax cuts in Trump's inaugural speech. Still, we expect this pullback in the USD to be temporary as US growth, acceleration in inflation, rate hikes by the Fed and thus rate differentials, should support the USD higher. The correction in the USD is not a bad thing and has benefited Asian currencies, especially the JPY and the SGD. For now, USD/Asians should continue to trade range-bound in the two week ahead given the Lunar New Year holidays and in the lead-up to US NFP on 3 Feb. We remain bias for further USD upside and dips in the USD currently could be an opportunity to re-initiate USD longs against selected Asians, especially the JPY, SGD and KRW.

Portfolio Flows Into Equity Markets Could Return

Our re-examination of valuations in the ASEAN equity markets (as reflected by estimated P/E ratios minus their 5-year average P/E ratios) suggests that valuations have fallen in the past 6 months. The pull-out by foreign investors in the past two quarters has resulted in valuations falling, particularly for Indonesia and Philippines where estimated P/E ratios are lower than their historic averages. This should make both these markets relatively more attractive to foreign investors compared to their regional peers. The other three markets' valuations remain relatively rich though they are also falling. This suggests that there could be room for some potential of foreign funds buy-in. Return of portfolio investment into the ASEAN-5 should be supportive of its currencies but are unlikely to strengthen significantly.

BOJ Meets, Holiday Galore Ahead

This week has only one central bank meeting. The BOJ meets on 31 Jan but we expect the status quo to be maintained as the BOJ could save its bullets for a rainy day while allowing potentially higher UST yields to lift the USDJPY higher. Other data we will be eyeing includes 4Q GDP for Korea (25 Jan) and Philippines (26 Jan). The Philippines is likely to continue to outperform its regional peer, while the data for the Korean economy will be scrutinized for hints of recovery. This week and the next will be a shorter for some regional economies. China, HK and Taiwan are out from Fri ahead of the Lunar New Year holidays in Asia. China, HK, Taiwan, Korea, Singapore and Malaysia are out on 30 Jan. Onshore markets in China will reopen on 3 Feb. Data out the next week will center on manufacturing data, particularly PMI mfg.

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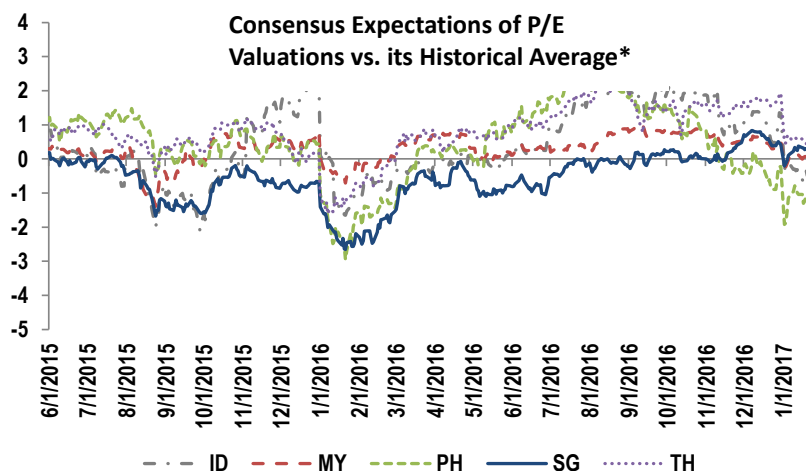
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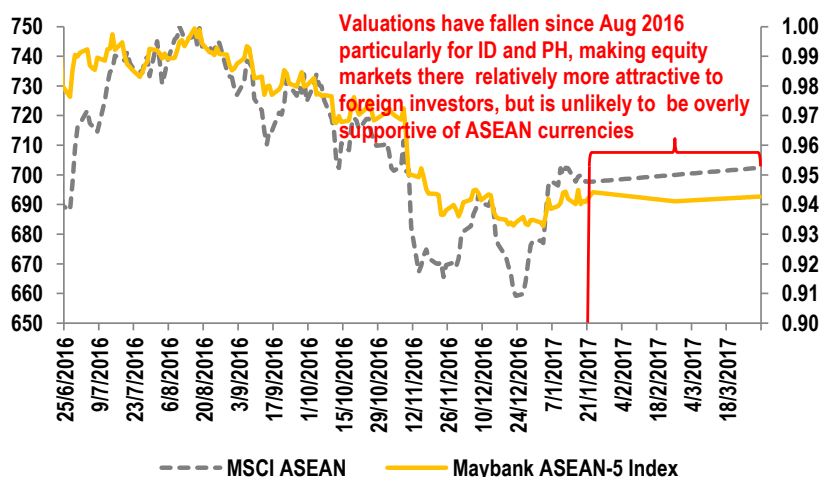
Flavour of the Month: Valuations Have Come Off - Opportunities For Foreign Inflows?

Valuations Are Falling...



Note: Consensus PE valuations estimates for 2017; positive number means that the current valuations are greater than its 5 year average and vice-versa.

...But Unlikely To Be Overly Supportive Of ASEAN



Note: Maybank ASEAN-5 index consists of Indonesia, Philippines, Malaysia, Singapore and Thailand and is equally weighted.

Source: Bloomberg, Maybank FX Research

- We have relooked at the valuations (as reflected by estimated P/E ratios minus their 5-year average P/E ratios) of the ASEAN-5's equity markets and they have changed in the past 6 months.
- The pull-out by foreign investors in the past two quarters has resulted in valuations falling, particularly for Indonesia and Philippines where estimated P/E ratios are lower than their historic averages. This should make both these markets relatively more attractive to foreign investors compared to their regional peers.
- The other three markets' valuations remain relatively rich though they are also falling. This suggests that there could be room for some foreign funds buy-in as well ahead.
- Return of portfolio investment into the ASEAN-5 should be supportive of currencies but are unlikely to strengthen significantly.

2017 Asia FX Forecasts

	End 1Q -17	End 2Q -17	End 3Q -17	End 4Q-17
USDJPY	122	124	125	122
USDSGD	1.4400	1.4450	1.4350	1.4350
USDMYR	4.20	4.30	4.15	4.20
USDIDR	13650	13800	13500	13300
USDTHB	36.20	36.70	36.00	36.50
USDPHP	51.00	51.80	51.50	51.50
USDCNY	7.00	7.05	7.10	7.10
USDKRW	1170	1220	1180	1180
USDINR	69.00	69.50	68.50	68.00
USDVND	22700	22900	23000	23000
SGD Crosses	End 1Q -17	End 2Q -17	End 3Q -17	End 4Q-17
SGDMYR	2.917	2.976	2.892	2.927
MYR Crosses	End 1Q -17	End 2Q -17	End 3Q -17	End 4Q-17
MYRCNY	1.67	1.64	1.71	1.69
MYRIDR	3250	3209	3253	3167
MYRINR	16.43	16.16	16.51	16.19

Source: Maybank FX Research as at 20 Jan 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	USDJPY bounce higher last week proved to be short-lived amid USD pullback on disappointment in Trump's inaugural speech that resulted in unwinding of USD-longs. UST 10Y yield, which had jumped above the 2.50% levels, slipped lower to the 2.43% levels as a result. This has resulted in UST and JGB yield differentials to narrow, weighing on the USDJPY. USDJPY is tracking yield differentials and growing monetary policy divergence between the US and Japan. For further upside, we need to see the yield differentials to widen. We are unlikely to see any further easing moves by the BOJ at this juncture (next BOJ meeting on 31 Jan) as UST yields could potentially move higher, widening the yield differentials and reigniting USDJPY upward momentum. Daily momentum indicators remain bearish bias but are waning while stochastics continues to climb higher from oversold levels. We see opportunity to buy into dips towards 112 levels (38.2% fibo retracement of Nov low to Jan high), targeting first objective at 115.80 (21DMA) before 118.70 (recent highs).	Monetary Base	Easing
USDCNH	USDCNH broke the 100-DMA around 6.8185 as the USD continues to flounder. The pair will meet next support level at 6.7750. Barrier at 6.8570 (38.2% Fibonacci retracement of the Sep-Dec rise) before the next at 6.9041 (50-dma, 23.6% fibo). The temporary RRR cut last Fri, meant to boost liquidity for seasonal needs (CNY) has not been done before and should not be seen as an easing measure. The continuous rise in the SHIBOR rates signaled that liquidity conditions have been tightening. It is also well-timed because of USD weakness when the yuan is not under pressure. Week ahead has industrial profits due on the 26th Jan. PMI prints due on 1 Feb and the Caixin version on the 3rd. Foreign reserves are due on the 7th before its 4Q BOP numbers on 8th. EURCNH is on the upmove in the near-term. Weekly chart also indicates oversold conditions. Bullish divergence indicates that the cross may hurl pass the 7.39-barrier (50% fibo) towards the next barrier around 7.45. We prefer to sell on rally towards 7.39. Stop-loss 7.50 for a target of 6.8. (6-9 months).	1-Yr Lending Rate	Neutral

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDKRW	USDKRW continues to trade lower amid Trump trade unwinding. Pair was last seen at 1162 levels. Daily momentum and stochastics are bearish bias. There could be scope for further pullback towards 1151 (200 DMA) levels given that the unwinding of Trump trade (off the back of lack of clarity on infrastructure spending, tax cuts but more focused on trade protectionism). We remained bias to buy on dips as external environment remains uncertain (and KRW is highly sensitive to market events) and Fed could still be on track to hike rates (3 times FoMC dots plot though our base case is for 2 hikes) - monetary policy divergence (BoK may need to cut rate). Resistance at 1182 (50 DMA).	Base Rate	Easing Bias
USDSGD	USDSGD is trading softer amid a pullback in the USD as long USD bets are unwound following Trump's less-than-inspiring inaugural speech on 20 Jan. UST yields also reversed course, weighing on domestic rates, particularly the 3-month SOR (currently around 0.81%) and putting further downside pressure on the USDSGD. USDJPY slippages are also putting downside pressure on the pair. Daily momentum remains bearish bias though showing some signs of waning while stochastics is showing tentative signs of falling back into oversold conditions. This suggests some rebound risks ahead. We continue to favor buying on dips towards 1.4150, targeting a move higher towards 1.44 levels before 1.4537 (previous high on Dec 2016) and then 1.47. Data out in the next two weeks, IP on 26 Jan and PMI on 2 Feb, will be closely watched for hints of further recovery in the manufacturing sector.	Exchange Rate	Easing Bias
USDMYR	USDMYR continued to drift lower, very gradually tracking the decline in other USD.AXJs. We had shared about MYR stability of late being supported by oil price gains amid USD weakening environment as well as MYR being sold beyond technical and fundamentals. Indeed PM Najib's comments 2 weeks ago that he is confident that BNM's measures will see MYR stabilise in next few days materialise. Pair was last seen at 4.4330 levels. Daily momentum and stochastics are bearish bias. Next support at 4.4240 (23.6% fibo retracement of Nov low to Jan high) before 4.3770 levels. Resistance at 4.47 (21 DMA) before 4.50 (previous high).	O/N Policy Rate	Easing Bias
USDIDR	Like its regional peers, the 1m USDIDR NDF traded softer amid a pullback in the USD after UST yield curve slipped lower as long USD bets were unwound. Daily momentum and stochastics indicators are bullish bias. This suggests further downside for the 1m NDF could be limited. In a data-light two weeks, 1m NDF is likely to continue to take its cues from external events, including US NFP the following week. We continue to see upside risks in the next 3-6 months given the potential for even tighter US monetary policy on expectations of Trump's planned expansionary fiscal stimulus. This could steepen the UST yield curve further and narrowing the yield differentials between the US and Indonesia, sparking further fund outflows that could coincide with the end of the tax amnesty program. Also, risks arising from domestic political tensions in the run-up to the Jakarta gubernatorial elections on 15 Feb as well as growth concerns that should be supportive of the 1-month NDF. Some mitigating factors that could weigh on the 1m NDF included positive sentiments over the ongoing reform process and fiscal spending on infrastructure projects. We continue to expect to find support around 13370 (61.8% fibo retracement of the Oct-Nov rally). Barrier is seen around 13515 (50% fibo) ahead of 13250.	O/N Reference Rate	

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDPHP	1s USDPHP NDF is trading softer like its regional peers after markets were disappointed by the lack of details/emphasis on economic policies in Trump's inaugural speech. The resulting unwinding of long USD bets resulted in a slide in UST yields, widening the yield differentials between the US and Philippines, weighing on the 1m NDF. 4Q GDP out on 26 Jan (Thu) should also weigh on the 1m NDF as growth should continue to outperform its regional peers. Risks remain to the upside as expectations of further steepening of the UST yield curve would narrow the yield differentials between the US and Philippines, encouraging funds outflows and weigh on the PHP. Other concerns, including the protectionist-tendencies of the incoming Trump administration, expectations of an even more aggressive Fed rate hikes, the Philippine government's extra-judicial killings, policy flip-flops and the president's unpredictable temperament, should keep the 1-month NDF supported. Daily momentum indicators have turned bullish bias, while stochastics is still in oversold conditions. Technically, we should see further upside to the 1m NDF in the weeks ahead. Resistance is at 50.29 before 50.4 levels. Support at 49.75.	O/N Reverse Repo	Neutral
USDTHB	USDTHB continues to trade lower amid a pullback in the USD as long USD bets were unwound following Trump's disappointing inaugural speech. Also helping has been the inflows into the government debt market as reflected in the purchase of THB23.99bn government debt by foreign investors. Further purchases ahead should continue to be supportive of the THB. Daily momentum indicators remain bearish bias but are waning and stochastics remains in oversold conditions. This suggests the potential for the pair to rebound ahead. After a quiet data week this week, the following week will be a busy data week with a slew of month-end data on tap, including manufacturing production index; current account, trade, manufacturing PMI and CPI that could be supportive of the THB. We expect the pair to remain in consolidation mode within a wider 35.200-35.500 range.	1-Day Repo Rate	Easing Bias
USDINR	This pair has not seen much direction since mid-Dec and we continue to expect some sideways trades ahead of the budget that is to be presented on 1 Feb. Resistance is seen around 68.52 before 68.78. Support at 68.40 before 68.12. With data indicating some deceleration in the economy (with the exception of IP), there are some speculation of tax cuts to boost consumption and growth which should also cost the government some revenue. In addition, India faces a widening deficit as oil prices remain on a gradual rise. There is increasing concerns of a lack of data to make proper macroeconomic assumptions in the data. 2016 GDP annual estimate is due on 31 Jan. PMI-mfg due on 1 Feb, RBI (MPC) meets on 8th Feb.	Policy Repo Rate	Easing Bias
USDVND	USDVND has been volatile but pressured to the downside, in tandem with the USDCNY. As long as USD flounders, so will the USDVND. This pair could remain within the 22500-22700 range. Support is seen around 22520. Vietnam breaks for Tet between 26 Jan - 1 Feb. While TPP is in jeopardy, there is much optimism around the Vietnam-EU free trade agreement that is expected to boost exports when it takes effect in 2018. Separately, local banks have raised deposit rates to boost liquidity ahead of Tet. Week ahead has Jan CPI on 24th, trade balance, retail sales, trade and industrial production on 24-25th. Jan PMI-mfg is due on 3 Feb.	Refinancing Rate	Easing Bias

Key Data and Events Ahead

Currency	23-29 Jan	30 Jan - 5 Feb
USDJPY	- Mon: All Industry Activity Index (Nov), Cabinet Office Monthly Economic Report for Jan - Tue: Nikkei PMI Mfg (Jan P) - Wed: Trade (Dec) - Thu: - Nil - - Fri: CPI (Dec)	- Mon: Retail Sales (Dec) - Tue: Jobless Rate (Dec), Industrial Production (Dec P), Housing Starts (Dec); BOJ Policy Rate - Wed: Nikkei PMI Mfg (Jan F) - Thu: - Nil - - Fri: Nikkei PMI Services & Composite (Jan)
USDCNY	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: Industrial Profits (Dec) - Fri: Public Holiday	- Mon: Public Holiday - Tue: Public Holiday - Wed: Public Holiday; Mfg & Non-Mfg PMI (Jan) - Thu: Public Holiday - Fri: Caixin PMI Mfg (Jan)
USDKRW	- Mon: - Nil - - Tue: PPI (Nov) - Wed: GDP (4Q) - Thu: Business Survey Mfg & Non-Mfg (Feb) - Fri: Public Holiday	- Mon: - Nil - - Tue: - Nil - - Wed: Industrial Production (Dec), Trade, Nikkei PMI Mfg (Jan) - Thu: CPI (Jan) - Fri: Foreign Reserves (Jan); Current Account (Dec)
USDSGD	- Mon: CPI (Dec) - Tue: - Nil - - Wed: - Nil - - Thu: Unemployment Rate (4Q); Industrial Production - Fri: - Nil -	- Mon: Public Holiday - Tue: - Nil - - Wed: - Nil - - Thu: PMI, PMI (Electronics) (Jan) - Fri: Nikkei PMI Mfg (Jan)
USDMYR	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: Public Holiday - Tue: Nikkei PMI Mfg (Jan) - Wed: Public Holiday - Thu: - Nil - - Fri: - Nil -
USDIDR	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: Nikkei PMI Mfg (Jan) - Thu: - Nil - - Fri: - Nil -
USDPHP	- Mon: Budget Balance (Dec) (due 19-31 Jan) - Tue: - Nil - - Wed: - Nil - - Thu: GDP (4Q) - Fri: - Nil -	- Mon: - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri:
USDTHB	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign Reserves (20 Jan)	- Mon: Mfg Production Index (Dec) (due 30-31 Jan) - Tue: Current Account, Trade (Dec) - Wed: Nikkei PMI Mfg, CPI (Jan) - Thu: - Nil - - Fri: Foreign Reserves (27 Jan)
USDINR	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: Fiscal Deficit (Dec) - Wed: Nikkei PMI Mfg (Jan) - Thu: - Nil - - Fri: Nikkei PMI Services & Composite (Jan)
USDVND	- Mon: - Nil - - Tue: CPI (Jan) - Wed: Trade, Retail Sales, Industrial Production (Jan) (due 25-31 Jan) - Thu: Public Holiday - Fri: Public Holiday	- Mon: Public Holiday - Tue: Public Holiday - Wed: Public Holiday - Thu: - Nil - - Fri: - Nil -

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