

FX Asia Fortnightly

ASEAN FX Awaiting Directional Cues

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It is a relatively quiet week ahead in Asia, particularly in ASEAN with ASEAN FX moves likely to come from external factors. All eyes will be on Jackson Hole this weekend, especially Fed Chair Powell's speech later tonight. While Fed rate hikes are largely priced in by the markets, surprises on the balance sheet front (either a slowdown or end to balance sheet reduction) could send the USD lower and provide the ASEANs with some breathing space. Meanwhile, with tariffs on USD200bn worth of Chinese imports possibly coming on stream end-Aug, an escalation in Sino-US trade war cannot be ruled out. This could put downside pressure on the ASEANs. Thus, moves in ASEAN FX could be largely range-bound in the two weeks ahead.

Two central banks meetings in focus in the next two weeks. First we have BoK meeting on 31 Aug and with inflation showing little signs of accelerating towards the central bank's target of 2% amid deceleration in growth momentum, worsening labour market conditions and trade war concerns. We continue to pencil in a 25bps hike in 4Q 2018 should demand-induced price pressures pick up pace. Then on 5 Sep BNM meets to decide on monetary policy and no change in policy is expected. This follows from expectations of a moderation in inflation as well as positive carry between Malaysia and US interest rates. No hike in the OPR is expected for the rest of 2018.

Our in-house model implies that SGD NEER is trading 0.92% above the implied midpoint of 1.3843, suggesting it is on the stronger side of the SGD vs. other trading partner currencies.

Renewed Foreign Interest In Thai Assets Lifts THB

The ASEAN FXs have gone in different direction so far in Aug. The THB has been the best performer against the USD in Aug month-to-date, while the worst has been the IDR. ASEAN FX were pressured lower earlier in the month due to the twin forces of trade tensions between China and US and spill-overs effects from the Turkish crisis. Easing trade tensions and return of calm to Turkey has led to some recovery in the ASEAN FX, but most remained in the backfoot compared to the USD. The gains in the THB can be attributable to the narrowing yield differentials between the 2Y UST and Thai bond. The rise in Thai bond yields was due to the strong recovery in the economy and rising inflationary pressures. In addition, the hawkish tone of the BoT has lifted expectations of policy normalisation. All these have been supportive of Thai bond yields and the THB. We see a chance for relative play in the month ahead; we are bias to long the THB vs. short-IDR given that Indonesia's growth remains lackluster, suffers from twin deficits and has a greater exposure to foreign ownership of its assets. The THBIDR has risen to uncharted highs but we believe that there is room for this cross to rise further given that risks to this cross is to the upside. Resistance is around 449-levels, 450-levels ahead of 455-levels. Support is around 437-levels.

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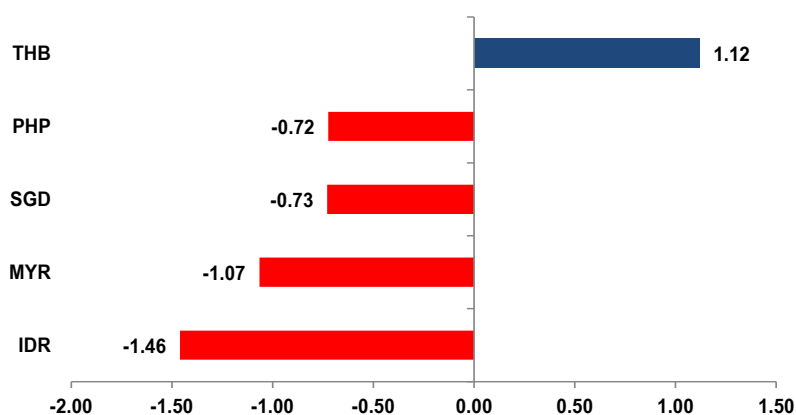
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Flavour of the Week: Renewed Foreign Interest In Thai Assets Lifts THB

- The ASEAN FXs have gone in different direction so far in Aug. The THB has been the best performer against the USD in Aug month-to-date, while the worst has been the IDR. The THB has gained over 1% against the USD compared to its peers who have all depreciated against the USD (see Chart 1). ASEAN FX were pressured lower earlier in the month due to the twin forces of trade tensions between China and US and spill-overs effects from the Turkish crisis. Easing trade tensions and return of calm to Turkey has led to some recovery in the ASEAN FX, but most remained in the backfoot compared to the USD.

Chart 1: Changes In ASEAN FX Against USD In Aug - Most Still Underwater

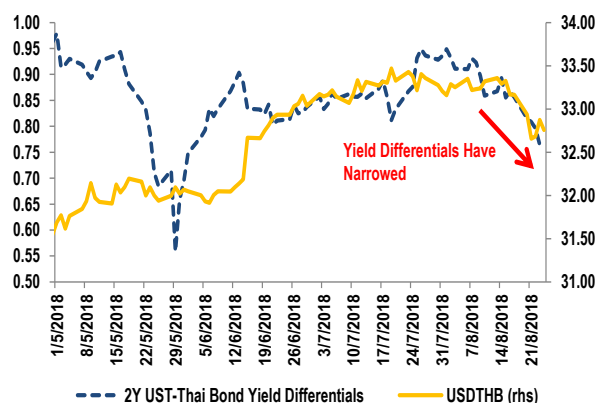


Source: Bloomberg, Maybank FX Research & Strategy

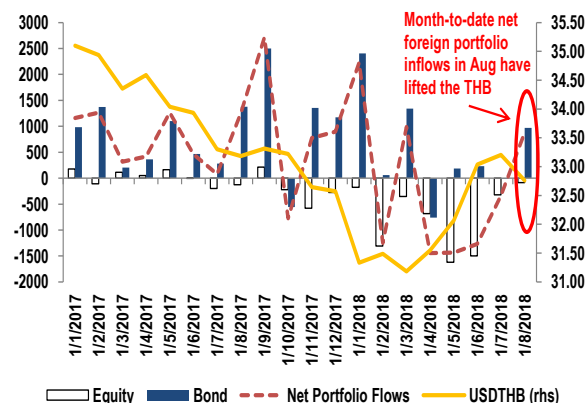
- The gains in the THB can be attributable to the narrowing yield differentials between the 2Y UST and Thai bond (Chart 2). The rise in Thai bond yields was due to the strong recovery in the economy with 2Q GDP growth coming in at 4.6% y/y and rising inflationary pressures (Jul: +1.46% y/y). In addition, the hawkish tone of the BoT, as gleaned from its most recent minutes of its 8 Aug policy meeting and comments by the governor, has lifted expectations of policy normalisation. All these have been supportive of Thai bond yields and the THB.

Chart 2: Narrowing Yield Differentials Between 2Y UST And Thai Bonds Have Reignited Inflows Into Thai Debt

Yield Differentials Have Narrowed In Aug...



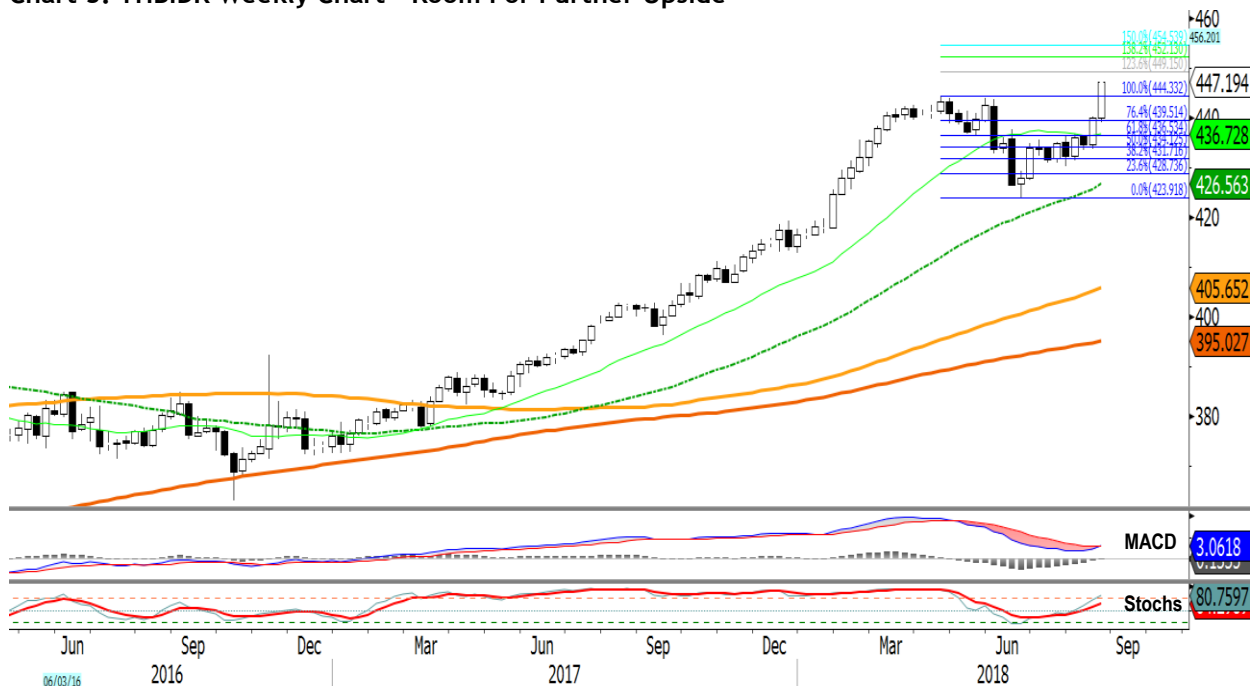
... Resulting In Net Foreign Portfolio Inflows



Source: Bloomberg, Maybank FX Research & Strategy

- The narrowing yield differential has reignited interest in Thai debt. Month-to-date in Aug, foreign investors have purchased USD967.50mn in debt, more than offsetting their sell-off of USD86.3mn in equities (Chart 2). This is a vast improvement from Jul where foreign investors had sold USD12.7mn and USD321.2mn in equities and debt. With Thai yields on the rise, further net foreign portfolio inflows cannot be ruled out ahead. This renewed interest in Thai debt should be supportive of the THB.

Chart 3: THBIDR Weekly Chart - Room For Further Upside



Source: Bloomberg, Maybank FX Research & Strategy

- We see a chance for relative play in the month ahead; we are bias to long the THB vs. short-IDR given that Indonesia's growth remains lackluster, suffers from twin deficits and has a greater exposure to foreign ownership of its assets. As seen in Chart 3, the THBIDR has risen to uncharted highs but we believe that there is room for this cross to rise further. Last seen around the 447-levels, momentum indicators and stochastics on the weekly chart show bullish bias. With risks to the upside, further upticks should meet resistance around 449-levels, 450-levels ahead of 455-levels. Support is around 437-levels (61.8% fibo retracement of the Apr-Jun downswing, 21DMA).

Key Data and Events Ahead

Currency	27 Aug-2 Sep	3-9 Sep
USDJPY	- Mon: - Nil - - Tue: - Nil - - Wed: BOJ Suzuki Speaks (Naha) - Thu: Retail Sales (Jul) - Fri: Jobless Rate, Industrial Production, Housing Starts (Jul)	- Mon: Capital Spending (2Q), Nikkei PMI Mfg (Aug) - Tue: - Nil - - Wed: Nikkei PMI Services & Composite (Aug) - Thu: BOJ Kataoka speaks (Yokohama) - Fri: Household Spending, Labor Cash Earnings (Jul)
USDCNY	- Mon: Industrial Profits (Jul) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Mfg, Non-Mfg & Composite PMI (Aug) - Sat: - Nil -	- Mon: Caixin PMI Mfg (Aug) - Tue: - Nil - - Wed: Caixin PMI Composite & Services (Aug) - Thu: - Nil - - Fri: Foreign Reserves (Aug) - Sat: Trade (Aug)
USDKRW	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: BoK 7-Day Repo Rate, Industrial Production (Jul) - Sat: Trade (Aug)	- Mon: Nikkei PMI Mfg (Aug) - Tue: GDP (2Q F), CPI (Aug) - Wed: Foreign Reserves (Aug) - Thu: Current Account (Jul) - Fri: - Nil - - Sat: - Nil -
USDSGD	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: PMI & PMI Electronics (Aug) - Tue: - Nil - - Wed: Nikkei PMI (Aug) - Thu: - Nil - - Fri: Foreign Reserves (Aug)
USDMYR	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Public Holiday	- Mon: Nikkei PMI (Aug) - Tue: - Nil - - Wed: BNM Overnight Policy Rate, Trade (Jul) - Thu: Foreign Reserves (30 Aug) - Fri: Industrial Production (Jul)
USDIDR	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: CPI, Nikkei PMI Mfg (Aug) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign Reserves (Aug)
USDPHP	- Mon: Public Holiday - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: Nikkei PMI Mfg (Aug) - Tue: - Nil - - Wed: CPI (Aug), Unemployment Rate (Jul) - Thu: - Nil - - Fri: Foreign Reserves (Aug)
USDTHB	- Mon: - Nil - - Tue: Capacity Utilization, Mfg Production Index (Jul) - Wed: - Nil - - Thu: - Nil - - Fri: Foreign Reserves (24 Aug), Trade, BoP Current Account (Jul)	- Mon: CPI, Nikkei PMI Mfg (Aug) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign Reserves (31 Aug)
USDINR	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: GDP (2Q)	- Mon: Public Holiday, Nikkei PMI Mfg (Aug) - Tue: - Nil - - Wed: Nikkei PMI Services & Composite (Aug) - Thu: - Nil - - Fri: - Nil -
USDVND	- Mon: Trade, CPI, Industrial Production, Retail Sales (Aug) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: Public Holiday, Nikkei PMI Mfg (Aug) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -

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