

FX Asia Fortnightly

USDAXJs Supported

Potential USD Strength To Keep USDAXJs Supported

The pull-back in most of the Asian currencies ex-Japan came as we had expected. However the pull-back proved to be short-lived as the USD rebounded towards the end of last week. USD could be on its next leg higher in the lead up to the US FOMC on 2 Nov, NFP on 4 Nov and then the US presidential election on 8 Nov amid a mostly data-light two weeks in Asia. USDAXJs should take their cues from external events ahead with the potential uptick in the USD weighing on most AXJs. This could result in the USDSGD challenging the 1.40-handle and the USDMYR making another attempt to pass the 4.21-levels. Both the USDPHP and USDTHB are likely to see a technical retracement in the near term. The former could attempt to go below the 48-levels though this is likely to be short-lived, while the latter could move towards the 34.950 levels. The USDIDR though is likely to trade rangy within 12930-13100 for the next fortnight. As for the USDJPY, there could be some near term downside from potential softer risk sentiment arising from potential technical pullback in oil prices but should continue to consolidate within the 103-105 range for now.

BOJ In Focus

In Asia, the key focus in the next two weeks will be the BOJ meeting on 30 Oct-1 Nov. The shift in policy framework to QQE with Yield Curve Control at its Sep policy meeting focuses policy now on achieving a “normal” yield curve by controlling both the short- and longer-terms interest rates. After the shift, we expect the BOJ to remain on hold until Dec 2016. Nevertheless, risk remains that the BOJ could surprise the market with a cut to the rate interest to -0.3% to spur reflation efforts. As well, the deadline for achieving the 2% inflation target could be pushed back further to FY2018.

Data-Light In The Next Two-Weeks

Aside from the BOJ, there are no other central bank meetings in the next two weeks in Asia. Data-wise, we have Korea reporting its GDP estimates for 3Q on 25 Oct and Indonesia sometime on 5-7 Nov. Holiday-wise, Thailand is out on 24 Oct while Philippines is out on 31 Oct-1 Nov.

Analysts

Saktiandi Supaat
(65) 6320 1379
saktiandi@maybank.com.sg

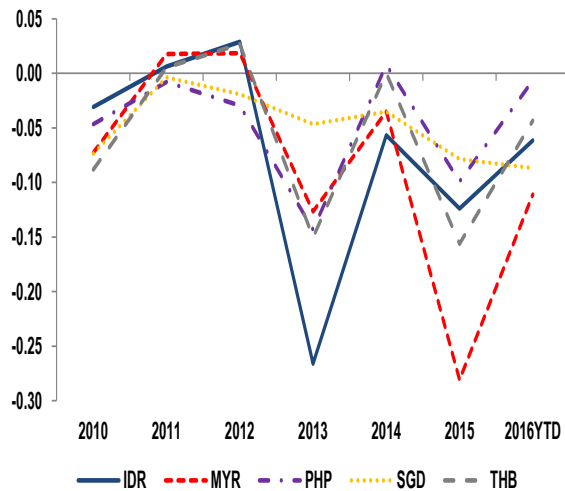
Leslie Tang
(65) 6320 1378
leslietang@maybank.com.sg

Fiona Lim
(65) 6320 1374
fionalim@maybank.com.sg

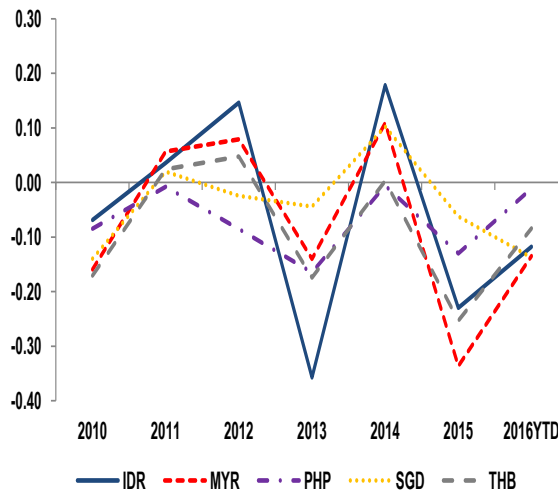
Christopher Wong
(65) 6320 1347
wongkl@maybank.com.sg

Flavour of the Month: No Escape For ASEAN Currencies To A Rise In Short- And Longer-Term UST Yields

Impact of UST 2-year Yield Increase



Impact of UST 10-year Yield Increase



Note: Analysis undertaken using OLS regression on a reduced-form equation: $X = c + bY$ (where $X = \log$ of the ASEAN currency vs. the USD, $Y = \log$ of UST 2-year/10-year yield).

Source: Bloomberg, Maybank FX Research

- Expectations of an imminent hike in the US Fed fund rate in Dec and signs of further pick-up in price pressures on the back of rising commodity prices (especially oil) should see the 2-year and 10-year US Treasury (UST) yields climb higher, leading to a steepening UST yield curve.
- The steepening UST yield curve is likely to lead to a narrowing of yield differentials between US bonds and ASEAN bonds that could see a moderation in portfolio inflows into the ASEAN economies.
- Our regression showed that the rise in UST yields will impact the ASEAN currencies but by varying degrees. The two currencies that would be most vulnerable to an uptick in UST yields are the MYR and the SGD. We could thus see the two currencies fall more aggressively compared to its regional peers when UST yields start to rise.
- The currencies least vulnerable to UST yield moves are the IDR and THB for moves in the 2-years. For the 10-year, the least impacted are the PHP and THB.
- Our regression results reinforce our bias to long the USD against the SGD. And on a relative value play perspective, we remain bias to short the SGD and long the IDR.

2016/2017 Asia FX Forecasts

	End 4Q-16	End 1Q -17	End 2Q -17	End 3Q -17
USDJPY	105	103	106	105
USDSGD	1.3850	1.3900	1.3950	1.3950
USDMYR	4.10	4.00	4.10	3.95
USDIDR	12950	12500	12800	12600
USDTHB	35.20	35.50	35.80	36.00
USDPHP	49.00	48.50	49.50	49.00
USDCNY	6.80	6.82	6.86	6.84
USDKRW	1130	1100	1100	1130
USDINR	68.00	66.00	66.00	68.00
USDVND	22500	22400	22650	22500
SGD Crosses	End 4Q-16	End 1Q -17	End 2Q -17	End 3Q -17
SGDMYR	2.960	2.878	2.939	2.832
MYR Crosses	End 4Q-16	End 1Q -17	End 2Q -17	End 3Q -17
MYRCNY	1.66	1.71	1.67	1.73
MYRIDR	3159	3125	3122	3190
MYRINR	16.59	16.50	16.10	17.22

Source: Maybank FX Research as at 24 Oct 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	There is a short lull next week before the BOJ meets at the end of the month. After the shift to QQE with Yield Curve Control at its Sep policy meeting, the BOJ could sit tight for now to assess the impact of its new regime. Risks remain that it could cut rate interest further to -0.3% to spur reflation efforts. As well, the deadline for achieving the 2% inflation target could be pushed back further to FY2018. Further easing could lift the pair toward the 105 levels. Since our last report, the USDJPY has been in consolidation in the 103-105 range. Expectations of USD strength in the lead-up to the US elections and expectations of a Fed rate hike in Dec and possible further easing moves by the BOJ could see the pair break-out from those ranges. The risk remains though for a pullback on the back of potential softer risk appetite. Weekly momentum and stochastics are still bullish bias. Stay long in the pair for a move toward 105.60; 108 levels. Dips towards the 103 levels (100DMA), 102 levels (50DMA) should be opportunities to buy into.	Monetary Base	Easing

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDCNH	USDCNH made fresh six-year high today (21 Oct) and was last seen around 6.7720. Looking forward, external factors continue to drive the pair. Fed rate hike expectations and other EUR-negative events like the potential for ECB to ease and other political risk in the euro area could continue to keep this pair elevated. Bullish momentum is sufficient to keep the pair supported and a break of the 6.78 could mean that the 6.87 is within reach. 3Q GDP was 6.7%y/y, in line with consensus. The miss in industrial production was the concern and recent property cooling measures could ease growth momentum into the rest of the year. We eye industrial profits on 27 Oct that could give us a sense of how the non-overcapacity sectors are doing Oct PMI-mfg is due on the 1st Nov, along with the Caixin version.	1-Yr Lending Rate	Easing Bias
USDKRW	USDKRW traded higher over the past 2 weeks, in line with our caution for upside risks 2 weeks ago. Pair was last seen at 1131 levels. While weekly momentum continues to indicate a bullish bias, bullish momentum on daily chart is showing signs of waning. Daily stochastics has also fallen from overbought conditions. We see some signs of shallow pullback towards 1116 - 1120 levels (921, 50 DMAs) over coming days, before turning higher towards 1140 (50% fibo retracement of Jun high to triple bottom in Aug-Sep) next week as we inch closer towards US Presidential Elections (outcome uncertainty).	Base Rate	Easing Bias
USDSGD	USDSGD had bounced above the 1.39-handle post-MAS meeting to a recent high of 1.3960 but has since eased off. Domestic growth concerns, together with expectations of a Fed rate hike and bounce higher in the USDJPY, are keeping the pair elevated. The gradual grind higher in 3M SOR to 0.6739% has also kept the pair supported. CPI and industrial production for Sep and 3Q unemployment prints this week and US NFP the week after will be eyed for hints of any deterioration in the price/economic environment. A weak print would keep the pair elevated above the 1.39-levels. Daily and weekly momentum indicators are still bullish bias, though stochastics remains at overbought conditions. We caution of some risk of a pullback but are still bullish bias in the pair. We remain bias to accumulate on dips for a move toward 1.40-figure (61.8% fibo retracement of the 2016 high to low). Support is at 1.3880 (50% fibo), 1.3750 (38.2% fibo, 21DMA) before 1.3680 (200DMA).	Exchange Rate	Easing Bias
USDMYR	While USDMYR did trade higher over the past 2 weeks, selling pressures appear to re-emerge around 4.20 levels. And this coincided with the release of Budget 2017 last Fri (21 Oct), which somewhat was more optimistic than expected. Budget 2017 maintains commitment to fiscal discipline and consolidation; supports domestic demand via corporate income tax rate cut, incentives for tourism, SMEs, exports and digital economy, and infrastructure investment. Budget deficit target for 2017 is set at -3% of GDP. This year's aim of -3.1% of GDP is maintained and achievable. The economy is expected to grow by 4-5% in 2017, underpinned by firmer domestic demand growth that outpaces the rebound in net external demand. USDMYR was last seen at 4.1750 levels. Daily momentum and stochastics indicators are showings signs of turning bearish. Key support at 4.1630 (21 DMA). Break below that could see the pair go lower towards 4.1430 levels (50% fibo retracement of 2016 high to low), 4.0720 (100, 200 DMAs, 38.2% fibo). Resistance remains at 4.21 levels (61.8% fibo).	O/N Policy Rate	Easing Bias

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDIDR	Post-BI meeting, 1s USDIDR NDF has been on the uptick amid rising expectations of a Fed rate hike in Dec, BI warning of intervention to curb IDR strength on repatriation and possibility of further rate cuts by the central bank. After cutting its policy rate by 25bp on 20 Oct, the BI signaled that it could cut rates further, though such moves are likely to be data-dependent. Our economic team though expects another 25bp cut only in 1Q of next year. The success of the tax amnesty program is a double-edged sword, fueling investor optimism and portfolio inflows while igniting BI concerns about IDR strength. On balance, all of these should keep the pair range-bound in the two weeks ahead amid a relatively quiet data week. 3Q16 GDP could be released anytime from 5-7 Nov, providing an insight on how the economy has fared amid a cut back in government spending and still weak external demand. Daily momentum is bearish bias, though stochastics is mildly falling. Weekly chart though is indicating no strong bias in either direction. Resistance is at 13160 (50DMA); 13225 (23.6% fibo of the 2016 high to low). Support at 12995, 12914 (year's low on 27 Sep).	O/N Reference Rate	Easing Bias
USDPHP	1s USDPHP drifted back below the 48-figure was short-lived amid rising expectations of Fed fund rate hike in Dec and uncertainty created by President Duterte's comments about US-Philippines ties in Beijing. Technically, the daily chart is showing bearish bias, suggesting the potential for a pull-back. However, investor concerns about higher global oil prices, expectations of Fed rate hikes, US election concerns and more importantly, the government's extra-judicial killings, policy flip-flops and the president's unpredictable temperament are supportive of the 1-month NDF. Any dips are likely to be shallow as negative sentiments should weigh on equity and bond flows and hence on the 1-month NDF. This is despite the strong domestic macroeconomic fundamentals such as balance of payment surplus and still healthy overseas remittances. Quiet two-weeks ahead with onshore markets closed on 31 Oct and 1 Nov for public holidays. CPI for Oct is due on 4 Nov. Interim resistance remains around 48.45 (21DMA) ahead of 48.70. Support remains around the 48-figure. Range trades with 48.00-48.70 should continue to hold for the next two weeks.	O/N Reverse Repo	Neutral
USDTHB	USDTHB slide back the 35-figure was short-lived with the pair bouncing back above that level amid rising expectations of a Fed fund rate hike in Dec and some concerns about the royal succession. The death of HM King Bhumibol and the year-long mourning period is likely to weigh on consumer spending and tourism receipts, and hence on growth in 4Q. Nevertheless, the calm and stability that followed the king's passing has lifted investor sentiments and helped to stem the outflow that had taken place amid uncertainty over the late king's health and the royal succession. The two-weeks ahead have the familiar month-end data dump that should provide a hint of the macroeconomic environment before the king's passing. Onshore markets are closed on 24 Oct for a public holiday. Daily momentum indicators are showing no strong bias in either direction, though stochastics continues to fall. Look for range-trades ahead with topside capped around 35.230 (38.2% fibo retracement of the 2016 high to low); 35.460 (50% fibo). Key support at 34.950 (23.6% fibo, 21 & 100DMAs) with a clean break here exposing the next at 34.810 (50DMA).	1-Day Repo Rate	Easing Bias

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDINR	This pair is resilient to pressure on both sides. Priced at 67.13. We look for two weeks of rangy trade for this pair within 66.80-67.60 with some risk to the upside given the broad USD strength. We anticipate some upside pressure for this pair given external events. The GST Council is due to meet on 3-4 Nov to finalize GST rate structure. PMI-mfg for Oct is due on 1 Nov.	Policy Repo Rate	Easing Bias
USDVND	USDVND nudged higher to 22313 on 21 Oct, in tandem with the rest of Asia. We still see mild upside risks for this pair. Outlook broadly unchanged. We expect USD strength into the Dec FOMC meeting but ample USD supply at home could temper its upmove. We are still concerned about FDI inflows that have been supporting the VND and industrial output momentum. The amount of FDI that is coming in has slowed to a trickle since Jul and remains so for Sep. At home, SBV has been accumulating FX reserves and the SBV reported USD40bn, positive for the dong but with import cover ratio at around 2.5, it is still considered inadequate relative to regional peers. Oct CPI is due on 24th, trade on 25-31st, PMI-mfg on 1st Nov.	Refinancing Rate	Easing Bias

Key Data and Events Ahead

Currency	24-30 Oct	31 Oct-6 Nov
USDJPY	• Mon: Trade (Sep), Nikkei PMI Mfg (Oct P)	• Mon: Industrial Production (Sep P), Retail Trade, Housing Starts (Sep)
	• Tue: Cabinet Office Monthly Economic Report for Oct	• Tue: BOJ Meeting, Outlook Report, Governor press conference, Nikkei PMI Mfg (Oct F)
	• Wed: - Nil -	• Wed: Public Holiday
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: Jobless Rate, Overall Household Spending, CPI (Sep)	• Fri: Nikkei PMI Services & Composite (Oct)
USDCNY	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: PMI Mfg, Non-Mfg, Caixin PMI Mfg (Oct)
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: Industrial Profits (Sep)	• Thu: Caixin PMI Services & Composite (Oct)
	• Fri: - Nil -	• Fri: - Nil -
USDKRW	• Mon: - Nil -	• Mon: Industrial Production (Sep)
	• Tue: GDP (3Q P)	• Tue: BoK Policy Meeting Minutes, CPI, Trade, Nikkei PMI Mfg (Oct), BoP Current Account (Sep)
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: Foreign Reserves (Sep)
	• Fri: Business Survey Mfg, Non-Mfg (Nov)	• Fri: - Nil -
USDSGD	• Mon: CPI (Sep)	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: Industrial Production (Sep)	• Wed: PMI, electronics PMI (Oct)
	• Thu: Unemployment Rate (3Q)	• Thu: Nikkei PMI (Oct)
	• Fri: - Nil -	• Fri: - Nil -
USDMYR	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: Nikkei PMI (Oct)
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: - Nil -	• Fri: Trade (Sep), Foreign Reserves (28 Oct)
USDIDR	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: Nikkei PMI Mfg, CPI (Oct), Foreign Reserves (Oct) (due 1-7 Nov)
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -
USDPHP	• Sat: - Nil -	• Sat: GDP (3Q) (due 5-7 Nov)
	• Mon: - Nil -	• Mon: Public Holiday
	• Tue: - Nil -	• Tue: Public Holiday, Nikkei PMI Mfg (Oct)
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
USDTHB	• Fri: - Nil -	• Fri: CPI (Oct)
	• Mon: Public Holiday	• Mon: Trade, BoP Current Account (Sep)
	• Tue: - Nil -	• Tue: Nikkei PMI Mfg, CPI (Oct)
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: Customs Trade, Mfg Production Index (Sep) (due 27-30 Sep)	• Thu: - Nil -
USDINR	• Fri: Foreign Reserves (21 Oct)	• Fri: Foreign Reserves (28 Oct)
	• Mon: - Nil -	• Mon: Public Holiday
	• Tue: - Nil -	• Tue: Nikkei PMI Mfg (Oct)
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: Nikkei PMI Services & Composite (Oct)
USDVND	• Fri: - Nil -	• Fri: - Nil -
	• Mon: CPI (Oct)	• Mon: - Nil -
	• Tue: Trade, Retail sales, Industrial production (Oct) (due 25-31 Oct)	• Tue: Nikkei PMI Mfg (Oct)
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -
	• Sun: - Nil -	• Sun: Domestic Vehicle Sales (Oct) (due 6-13 Nov)

DISCLAIMER

This report is for information purposes only and under no circumstances is it to be considered or intended as an offer to sell or a solicitation of an offer to buy the securities or financial instruments referred to herein, or an offer or solicitation to any person to enter into any transaction or adopt any investment strategy. Investors should note that income from such securities or financial instruments, if any, may fluctuate and that each security's or financial instrument's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. This report is not intended to provide personal investment advice and does not take into account the specific investment objectives, the financial situation and the particular needs of persons who may receive or read this report. Investors should therefore seek financial, legal and other advice regarding the appropriateness of investing in any securities and/or financial instruments or the investment strategies discussed or recommended in this report.

The information contained herein has been obtained from sources believed to be reliable but such sources have not been independently verified by Malayan Banking Berhad and/or its affiliates and related corporations (collectively, "Maybank") and consequently no representation is made as to the accuracy or completeness of this report by Maybank and it should not be relied upon as such. Accordingly, no liability can be accepted for any direct, indirect or consequential losses or damages that may arise from the use or reliance of this report. Maybank and its officers, directors, associates, connected parties and/or employees may from time to time have positions or be materially interested in the securities and/or financial instruments referred to herein and may further act as market maker or have assumed an underwriting commitment or deal with such securities and/or financial instruments and may also perform or seek to perform investment banking, advisory and other services for or relating to those companies whose securities are mentioned in this report. Any information or opinions or recommendations contained herein are subject to change at any time, without prior notice.

This report may contain forward looking statements which are often but not always identified by the use of words such as "anticipate", "believe", "estimate", "intend", "plan", "expect", "forecast", "predict" and "project" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. Such forward looking statements are based on assumptions made and information currently available to us and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward looking statements. Readers are cautioned not to place undue relevance on these forward looking statements. Maybank expressly disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

This report is prepared for the use of Maybank's clients and may not be reproduced, altered in any way, transmitted to, copied or distributed to any other party in whole or in part in any form or manner without the prior express written consent of Maybank. Maybank accepts no liability whatsoever for the actions of third parties in this respect.

This report is not directed to or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

Published by:



Malayan Banking Berhad
(Incorporated in Malaysia)

Saktiandi Supaat
Head, FX Research
saktiandi@maybank.com.sg
(+65) 63201379

Christopher Wong
Senior FX Analyst
wongkl@maybank.com.sg
(+65) 63201347

Fiona Lim
Senior FX Analyst
Fionalim@maybank.com.sg
(+65) 63201374

Leslie Tang
Senior FX Analyst
leslietang@maybank.com.sg
(+65) 63201378