

FX Asia Fortnightly

AXJs Seeking Cues; Consolidate

USD/AXJs To Take Cue From US Data and USDCNY Fixing

AXJs are likely to take their cues largely from external events in the next two weeks including new Fed Chair Powell's testimony to Congress on 28 Feb & 2 Mar, US PCE core (1 Mar), US ADP (7 Mar) and NFP (9 Mar). A more hawkish Fed stance and data outperformance could keep the USD supported and lift USD/AXJs higher. Aside from the USD, AXJs are also likely to track moves in the USDCNY where lower fixings could help anchor USD/AXJs lower. Given the two forces at work in opposite direction, USD/AXJs could trade sideways in the two weeks ahead. Still, as we had written in our last FX Fortnightly, Asian FXs have a tendency to strengthen post-Chinese New Year and this could still come to fruition before fading. Asian equities have largely been sold off, especially in ASEAN, but investors have been selective in their purchases/sale of bonds. Indonesian debt has been sold off, while investors are buying Thailand debt. Not surprisingly, the THB has fared better than the IDR with the THB up 0.9% against the USD in the last two weeks while the IDR has fallen 0.3%. Should carry trade plays continue to lose luster, further sell-off in IDR assets are likely, keeping the USDIDR supported above the 13600-levels in the near term.

Forward Market Points To Downside Pressure On IDR & PHP

ASEAN currencies have come under pressure so far in Feb amid a rebound in UST yields and USD. The worst performing ASEANs are the PHP and IDR, declining by 1.2% and 2.0% against the USD respectively. There are concerns that these losses could extend for the considerable future, especially given that carry trade plays have fallen out of favour. Still, this does not necessarily mean that we should expect ASEAN FX weakness from here on. The synchronised global recovery, aided by investment-led (including infrastructure) spending, should bolster ASEAN growth in 2018 and make ASEAN FX attractive. This should keep ASEAN FX supported in the longer term. This is reflected in the bets placed in the forward markets. Despite the current price action pointing to some upside to the USDIDR and USDPHP, the forward market appears to be signaling the opposite. The forward market for both the USDIDR and the USDPHP appear to be falling and this suggests that the investors are still pricing in some strengthening in the IDR and PHP in the months ahead. Thus for now, we need not be overly concerned about the IDR and PHP as their outlook may not seem as dim as it appears currently due to their strong economic fundamentals.

BoK, BNM & BOJ Meetings; Asian PMIs Due

Eyed in the two weeks ahead are the central banks meetings of Korea (27 Feb), Malaysia (7 Mar) and Japan (9 Mar) where the status quo are expected. As well, PMI data for IN & CN is due on 28 Feb and for KR, SG & TH on 2 Mar, but on 1 Mar for JN, CN, MY, ID, PH, IN & VN. In the week of 26 Feb, key events eyed are SG IP on 26 Feb; and JN IP, retail sales; MY CPI; TH trade; IN 4Q GDP on 28 Feb. On 1 Mar, there is BOJ Kataoka speaking; KR trade; ID CPI. On 2 Mar, JN jobless rate, household spending; KR IP; TH CPI are due. In the week of 5 Mar, Nikkei or Caixin services & composite is on tap on 5 Mar for JN, CN and IN and CN NPC begins. On 6 Mar, there is KR CPI, current account; PH CPI. For 7 Mar, we have PH unemployment rate and foreign reserves data for CN, SG, MY, ID, PH; and for 8 Mar, JN GDP, current account; CN trade. We eye PH trade on 9 Mar, and CN money supply, aggregate financing, new yuan loans (due 10-15 Mar). Note that KR and TH are out for a public holiday on 1 Mar, and IN on 2 Mar.

Analysts

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

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

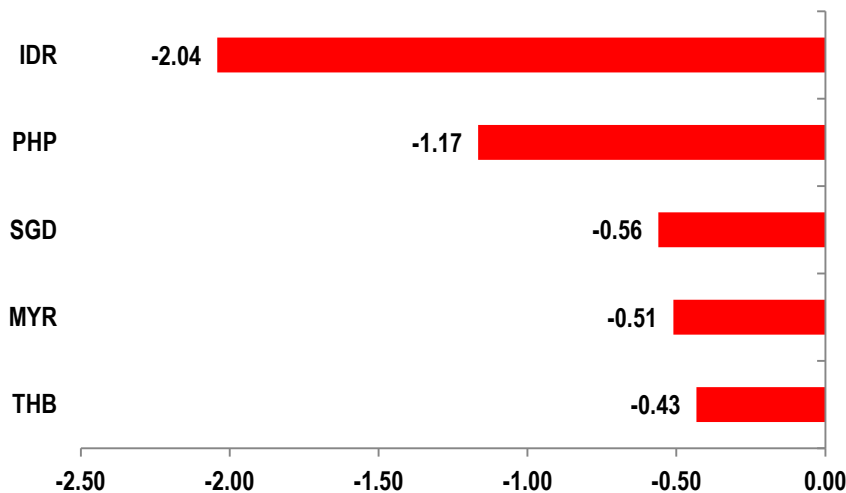
Fiona Lim
(65) 6320 1374
fionalim@maybank.com.sg

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

Flavour of the Week: Forward Market Points To Downside Pressure On IDR & PHP

- ASEAN currencies have come under pressure so far in Feb amid a rebound in UST yields and USD. All the ASEANs have fallen against the USD month-to-date. The worst performing ASEANs are the PHP and IDR, both declining by more than 1.0% against the USD in Feb. To date, the PH and IDR have dipped by 1.2% and 2.0% against the USD respectively (Chart 1).

Chart 1: ASEAN FXs Under-Pressure In Feb



Source: Bloomberg, Maybank FX Research & Strategy

- There are concerns that these losses, especially those of the IDR and PHP, against the USD could extend for the considerable future, especially given that carry trade plays have fallen out of favour amid the rise in volatility and the JPY losing its allure as the funding currency of choice. Already we are seeing foreign investors selling USD3.9bn and USD1.0bn in Indonesian equities and debt month-to-date. Similarly, Philippine equities were also sold-off to a tune of USD0.2bn so far in Feb.
- Still, this does not necessarily mean that we should expect ASEAN FX weakness from here on. As we have discussed in our various reports, the synchronised global recovery, aided by investment-led (including infrastructure) spending, should bolster ASEAN growth in 2018. Growth in ASEAN is thus likely to outperform the rest of the world and this should continue to make ASEAN FX attractive and keep ASEAN FX supported in the longer term.
- We expect strong economic fundamentals in Indonesia, led by infrastructure building, and BI rate hike in 2Q as well as the possibility of an S&P credit rating upgrade, to be supportive of the IDR especially in the 2H 2018. For the Philippines, positive sentiments from the government's tax reforms as well as cheap valuations for Philippine equities, together with central bank support (two rate hikes of 25bp each expected in 2Q and 3Q) should be supportive of the PHP.
- This is reflected in the bets placed in the forward markets. Despite the current price action pointing to some upside to the USDIDR and USDPHP, the forward market appears to be signaling the opposite. The forward market for both the USDIDR and the USDPHP appear to be falling (Chart 2) and this suggests that the investors are still pricing in some

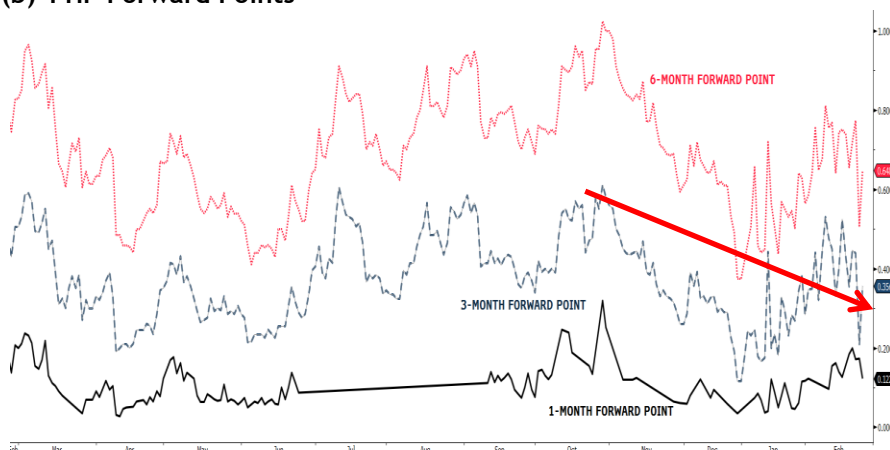
strengthening in the IDR and PHP in the months ahead. Thus for now, we need not be overly concerned about the IDR and PHP as their outlook may not seem as dim as it appears currently given the strong economic fundamentals in both economies as discussed above.

Chart 2: Forwards Suggest Downside Pressure On IDR and PHP

(a) IDR Forward Points



(b) PHP Forward Points



Source: Bloomberg, Maybank FX Research & Strategy

2018 Asia FX Forecasts

	End 1Q-18	End 2Q-18	End 3Q-18	End 4Q-18
USDJPY	108	107	106	105
USDSGD	1.2800	1.2700	1.2500	1.2400
USDMYR	3.80	3.85	3.70	3.65
USDIDR	13200	13000	12900	12800
USDTHB	31.00	31.00	31.50	32.00
USDPHP	51.00	50.50	50.50	50.00
USDCNY	6.25	6.20	6.20	6.10
USDKRW	1060	1030	1020	1040
USDINR	64.50	63.50	63.00	62.50
USDVND	22700	22600	22550	22500
SGD Crosses	End 4Q-17	End 1Q-18	End 2Q-18	End 3Q-18
SGDMYR	2.969	3.031	2.960	2.944
MYR Crosses	End 4Q-17	End 1Q-18	End 2Q-18	End 3Q-18
MYRCNY	1.64	1.61	1.68	1.67
MYRIDR	3474	3377	3486	3507
MYRINR	16.97	16.49	17.03	17.12

Source: Maybank FX Research as at 23 Feb 2018.

*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
USDMYR	USDMYR has been on the upswing last week amid broad USD rebound. BNM is expected to keep policy unchanged at its 7 Mar meeting with little impact on the MYR. Last seen around 3.9185 levels. Mild bullish momentum on daily chart remains intact but stochastics is falling - this suggests moderating bulls. Support seen at 3.88, 3.8660 (previous low). Resistance at 3.92, 3.9510 levels (38.2% fibo retracement of Jan high to low). Bias to fade. We reiterate our bias for MYR strength to continue in early part (next few months) of 2018 amid expectations for announcement for Malaysian GE (likely to be held in coming months), positive development in domestic fundamentals including shifts in investor sentiment, strong GDP outlook, widening current account surplus against supporting external environment - synchronous global economic recovery benefitting Asian exports including Malaysia and possibly see this extending into investment recovery in 2018. Furthermore there are also signs of stabilising commodity prices amid OPEC production cut extension and steady demand for oil prices. And we expect these drivers - both external and domestic to provide the near term support for MYR.	O/N Policy Rate	Tightening
USDSGD	USDSGD's slippage in the week before last ended with the pair bouncing higher the past week amid broad USD strength. Much of the same can be expected in the next two weeks. Key risks ahead are IP data release (26 Feb), new Fed Chair Powell's testimony to Congress on 28 Feb & 2 Mar, US PCE core (1 Mar), ADP (7 Mar) and NFP (9 Mar) that could weigh on the SGD and support the USD. Daily momentum and stochastics remain very mildly bullish bias. Weekly chart shows no strong bias in either direction, and stochastics is tentatively climbing higher from oversold conditions. We watch for a clean break of the resistance level at the 1.3260 levels (50DMA) for bullish extension towards 1.3275 (76.4% fibo) and then 1.3340 (2018 high). Support is around 1.3170 (38.2% fibo retracement of the Feb high to low), 1.3125 (23.6% fibo).	Exchange Rate	Neutral

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDIDR	1m USDIDR NDF has been making new 2018 high the past week amid higher UST yields and USD. This together with rising vols have made IDR carry trade plays less attractive, resulting in paring of foreign holdings of Indonesian assets. Already, they have sold off USD150.9mn and USD817.1mn in equities and debt the past two weeks. Continuing sell-off in Indonesian assets should see further paring of short-USDIDR positions ahead, weighing on the IDR and keep the 1m NDF supported. Key risks events in the next two weeks will be largely external including Fed Chair Powell's testimony to Congress (28 Feb & 2 Mar), US PCE core (1 Mar), ADP (7 Mar) and NFP (9 Mar). Both daily and weekly chart and stochastics are mildly bullish bias. This suggests further upside could be a slow grind. Any dips could be an opportunity to buy towards 13760 levels (2018 high), 13850 levels. Support is around 13640 (23.6% fibo retracement of the Jan low to Feb high).	7-Day Reverse Repo Rate	Neutral
USDPHP	1m USDIDR NDF has been on the downtick since touching a new 2018 and multi-year high of 52.18 (on 19 Feb) even as UST yields and USD climb higher. Also supporting the 1m NDF and limiting downside was the sell-off of USD106.4mn in equities in the past two weeks. Further sell-off ahead should limit downside. While concerns over the deteriorating current account deficit remain, market's focus is on BSP rate adjustment. Recent comments by the BSP governor Espenilla have held out hope that the central bank could be seriously contemplating rising its policy rate to anchor inflationary expectations. Should BSP disappoint with dovish signals market is likely to resume their PHP sell-off, lifting the 1m NDF back above the 52-handle. Key risks ahead are CPI on 6 Mar, Fed Chair Powell's testimony to Congress (28 Feb & 2 Mar), US PCE core (1 Mar), ADP (7 Mar) and NFP (9 Mar). 1m NDF has lost most of its bullish momentum on the daily chart and stochastics is turning lower from overbought conditions. Look for downside moves to continue ahead. Support is around 51.60 (38.2% fibo retracement of the Jan low to Feb high), 51.20 (50% fibo). Rebound should meet resistance around 52.40 levels ahead of 52.70.	O/N Reverse Repo Rate	Neutral
USDTHB	USDTHB has been on a roller coaster ride since the start of the year. Upside to the pair has been largely capped, supported by expectations of further foreign portfolio inflows. Already, foreign investors had purchased USD905.4mn in debt the past two weeks, which offset their sell-off of USD459.3mn of equities. Key risks ahead are CPI on 6 Mar, Fed Chair Powell's testimony to Congress (28 Feb & 2 Mar), US PCE core (1 Mar), ADP (7 Mar) and NFP (9 Mar) where a hawkish stance taken by Powell and data outperformance could be supportive of the USD and lift the USDTHB higher. Daily chart shows very mild bullish bias and stochastics climbing higher. Momentum indicators and stochastics on the weekly chart though show no clear bias. Support is around 31.370 (23.6% fibo retracement of the Feb high to low), 31.250 levels. Pair could be on a slow grind higher ahead though range trades within 31.370-31.660 is likely in the two weeks ahead. Resistance is around 31.570 (50% fibo), 31.660 (61.8% fibo).	1-Day Repo Rate	Neutral

Key Data and Events Ahead

Currency	26 Feb-4 Mar	5-11 Mar
Japan	- Mon: Leading Index (Dec F) - Tue: - Nil - - Wed: Industrial Production (Jan P) ,Retail Sales, Housing Starts (Jan) - Thu: Capital Spending (4Q), Nikkei PMI Mfg (Feb F) BOJ Kataoka Speaks - Fri: Jobless Rate, Household Spending (Jan)	- Mon: Nikkei Services & Composite (Feb) - Tue: - Nil - - Wed: - Nil - - Thu: BoP Current Account (Jan), GDP (4Q F) - Fri: BOJ Policy Balance Rate
	- Mon: - Nil - - Tue: - Nil - - Wed: Non-Mfg & Mfg PMI (Feb) - Thu: Caixin PMI Mfg (Feb) - Fri: - Nil - - Sat: - Nil -	- Mon: Caixin PMI Services & Composite (Feb), National People's Congress Begins - Tue: - Nil - - Wed: Foreign Reserves (Feb) - Thu: Trade (Feb), FDI (Feb) (due 8-18 Mar) - Fri: CPI, PPI (Feb) - Sat: Money Supply, Aggregate Financing, New Yuan Loans (Feb) (due 10-15 Mar)
South Korea	- Mon: - Nil - - Tue: BOK 7-Day Repo Rate - Wed: Business Survey Mfg & Non-Mfg (Mar) - Thu: Trade (Feb), Public Holiday - Fri: Industrial Production (Jan), Nikkei PMI Mfg (Feb)	- Mon: - Nil - - Tue: CPI, Foreign Reserves (Feb), BOP Current Account (Jan) - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
	- Mon: Industrial Production (Jan) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: PMI (Feb)	- Mon: Nikkei PMI (Feb) - Tue: - Nil - - Wed: Foreign Reserves (Feb) - Thu: - Nil - - Fri: - Nil -
	- Mon: - Nil - - Tue: - Nil - - Wed: CPI (Jan) - Thu: Nikkei PMI (Feb) - Fri: - Nil -	- Mon: Trade (Jan) - Tue: - Nil - - Wed: BNM Overnight Policy Rate, Foreign Reserves (28 Feb) - Thu: - Nil - - Fri: - Nil -
	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: Nikkei PMI Mfg (Jan), CPI (Feb) - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: Foreign Reserves (Feb) - Thu: - Nil - - Fri: - Nil -
Philippines	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: Nikkei PMI Mfg (Feb) - Fri: - Nil -	- Mon: - Nil - - Tue: CPI (Feb) - Wed: Unemployment Rate (Jan), Foreign Reserves (Feb) - Thu: - Nil - - Fri: Trade (Jan)
	- Mon: - Nil - - Tue: - Nil - - Wed: BoP Overall Balance, Trade (Jan) - Thu: Public Holiday - Fri: CPI, Nikkei PMI Mfg (Feb), Foreign Reserves (23 Feb)	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign reserves (2 Mar)
	- Mon: - Nil - - Tue: - Nil - - Wed: Nikkei PMI Mfg (Feb), Fiscal Deficit (Jan), GDP (4Q) - Thu: - Nil - - Fri: Public Holiday	- Mon: Nikkei PMI Services & Composite (Feb) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
	- Mon: Trade, CPI, Industrial Production, Retail Sales YTD (Feb) (due 26-28 Feb) - Tue: - Nil - - Wed: - Nil - - Thu: Nikkei PMI Mfg (Feb) - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
Vietnam		

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 Strategist
wongkl@maybank.com.sg
(+65) 63201347

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

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