

FX Asia Fortnightly

Easing Trade Tensions Supportive Of ASEAN FX

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Receding trade war concerns should see further unwinding of safe-haven plays, namely JPYKRW trades. This should be supportive of the USDJPY. There are concerns that market is underpricing trade war risks but we are cautiously optimistic that a negotiated compromise will be reached between China and the US. The concluded re-negotiated US-South Korea Free Trade Agreement is a case in point. Unwinding of trade tensions should see USD continue its broad downtrend. This in turn should see a reduction in long-USD/ASEAN positions in the two weeks ahead. In particular, we look for further strengthening of the THB and SGD. THB continues to be lifted by net foreign portfolio inflows into Thai assets, especially its debt on higher real domestic yields. SGD should find support in the lead up to the Apr meeting on expectations of a MAS shift to a 'slight appreciation bias'. We remain bias to long the THB and SGD vs. short-USD.

Do USDCNY Moves Impact USD/ASEANs?

The muted response of China to Trump's announcement on levies of USD50bn worth of Chinese imports has helped to calm fears of a trade war as did the possibility of a negotiated compromise. Nevertheless, the lead-up to those compromises could be fraught with uncertainty and this should weigh on risk sentiments, increasing volatility in the CNH and CNY. Given the increasing role that China plays in the global economy and in Southeast Asia, moves in the CNY could impact ASEAN FX as well. Our empirical analysis showed that during the period where the "counter-cyclical factor" was added to the PBoC's yuan fixing formula, the USDCNY had a positive impact on almost all the USD/ASEANs except for the USDIDR and USDPHP. It would appear that the "counter-cyclical factor" helped to soften the impact of sharp market swings, and weaken possible 'herd effects' in the FX market. This kept the RMB stable and helped anchor the USD/ASEANs. In the period prior to the addition of the "counter-cyclical factor", the USD/ASEANs did not track the USDCNY significantly because of volatility in the CNY in Jan 2017 that triggered heavy intervention from the PBoC that eventually kept the CNY broadly sideways. In the post-"counter-cyclical factor" regime, the USD/ASEANs tended to track the USDCNY positively, except for the USDPHP, but not as significantly as during the "counter-cyclical factor" period as the USD/ASEANs are more exposed to market forces.

BoT, RBI Meetings; SK GDP; Regional PMI Mfg Due

Key events in the next two weeks are BoT and RBI meetings on 28 Mar and 5 Apr. Both are expected to maintain the status quo for now. Other key risks events/data we are watching in the week of 26 Mar includes SG IP on 26 Mar; PBoC Deputy Governor Pan speaks; SK GDP (4Q) on 28 Mar. On 29 Mar, we have JN retail sales, CN current account (4Q), ID CPI, Nikkei PMI Mfg (Jan). JN jobless rate, IP, housing starts (Feb); SK IP (Feb); TH trade, current account (Feb) is due on 30 Mar. SK trade (Mar) is on tap 1 Apr. In the week of 2 Apr, we eye JN Tankan survey (1Q), Nikkei PMI Mfg (Mar); CN Caixin PM Mfg (Mar); SK, SG, MY, ID, PH, TH, ID, VN PMI Mfg (Mar). On 3 Apr, SK CPI (Mar), is on tap. SK current account (Feb); MY trade (Feb); PH CPI (Mar) are due on 5 Apr. 6 Apr has JN household spending, labor cash earnings, leading index (Feb). PH & IN are out for public holidays on 29 & 30 Mar, while SG & ID are out on 30 Mar; CN is out on 5-7 Apr and TH on 6 Apr.

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Flavour of the Week: Do USDCNY Moves Impact USD/ASEANs?

- Trump's announcement on levies of USD50bn worth of Chinese imports on 22 Mar and his pronouncement that this measure was the “first of many” have increased the risk of a trade war. The muted response of China to this threat (reciprocal tariffs of just USD3bn on US imports) has helped to calm such fears. Our economic team believes that the responses so far on both sides suggest that a negotiated compromise will be reached in the coming months that would prevent a full-blown trade war.
- Nevertheless, the lead-up to those compromises will be fraught with uncertainty and this should weigh on risk sentiments. Weak risk sentiments should see increase volatility in the CNH and CNY. Given the increasing role that China plays in the global economy and in Southeast Asia, moves in the CNY could impact ASEAN FX as well. We examine the movements of the USD/ASEAN since 2017 till the present to see if they track the USDCNY. From Chart 1, it would seem that the USDMYR, USDSGD and USDTHB track the USDCNY the closely over the past year or so, while the USDIDR and USDPHP appear to no longer track the USDCNY since the beginning of 2018.

Chart 1: Dollar/ASEANs Mostly Track USDCNY Since Jan 2018

USDCNY vs. USDSGD



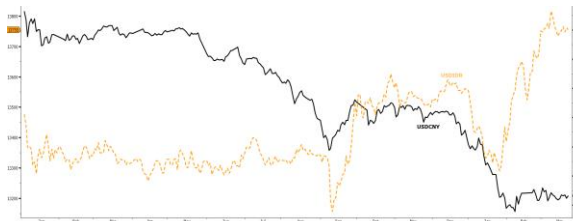
USDCNY vs. USDMYR



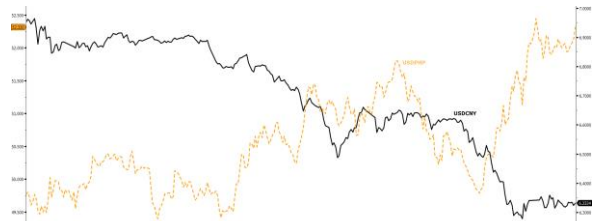
USDCNY vs. USDTHB



USDCNY vs. USDIDR



USDCNY vs. USDPHP

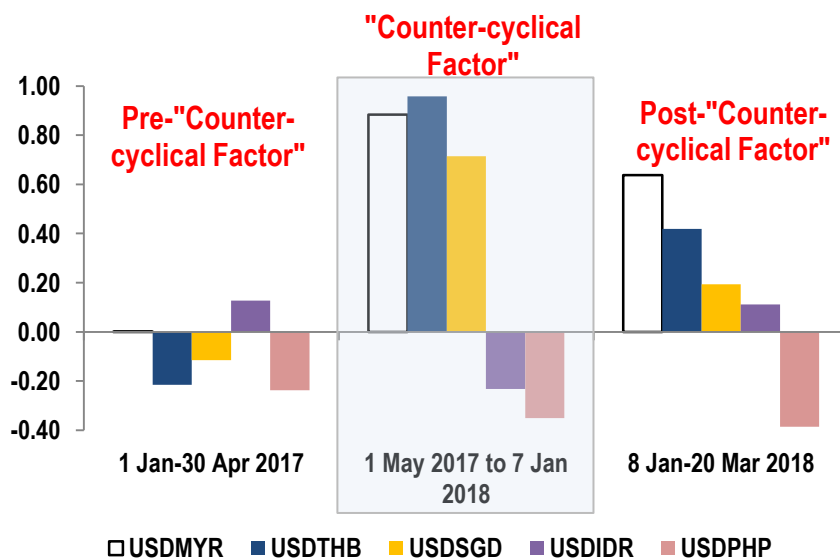


Source: Bloomberg, Maybank FX Research & Strategy

- We investigate the impact of a move in the USDCNY on the USD/ASEANs, controlling for the effects of USDJPY moves. In addition, we used three time periods, namely Jan-Apr 2017, May 2017-7 Jan 2017 and 8 Jan to the present, corresponding to the periods prior to the addition of the “counter-cyclical factor” to the PBoC’s yuan fixing formula, the period of the “counter-cyclical factor” and the post-“counter-cyclical factor” period respectively.

- Our empirical analysis (using daily data) is presented in Chart 2 and it shows that in the period prior to the “counter-cyclical factor”, the USD/ASEANs did not track the USDCNY significantly because of volatility in the CNY in Jan 2017 that triggered heavy intervention from the PBoC that eventually kept the CNY broadly sideways. Instead, the ASEAN FX tracked sentiments as represented by the JPY.
- During the “counter-cyclical factor” period, the USDCNY had a positive impact on almost all the USD/ASEANs except for the USDIDR and USDPHP. It would appear that the “counter-cyclical factor” helped to soften the impact of sharp market swings, and weaken possible ‘herd effects’ in the FX market. This kept the RMB stable and helped anchor the USD/ASEANs, while the IDR and PHP were affected by idiosyncratic factors namely concerns about twin deficits.
- In the post-“counter-cyclical factor” regime, the Dollar/ASEANs tended to track the USDCNY positively, except for the USDPHP, but not as significantly as during the “counter-cyclical factor” period. This is because the USD/ASEANs are more exposed to market forces. The USDPHP remains the outlier as focus remains on its domestic shortcomings, namely twin deficits. In the post-“counter-cyclical factor” period, a 1% rise in the USDCNY results in a 0.64%, 0.42%, 0.19% and 0.11% move in the USDMYR, USDTHB, USDSGD and USDIDR respectively.

Chart 2: Impact of USDCNY on USD/ASEANs Has Eased with Removal of “Counter-Cyclical Factor”



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	1080	1050	1040	1060
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 22 Mar 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 was last seen at 3.9080 levels. Mild bullish momentum on daily chart seems intact though showing tentative signs of waning while stochastics also shows tentative signs of turning from overbought conditions. Pair may head lower. Support at 3.90 (upward sloping trend-line support, 3.8660 (previous low). Resistance at 3.9180 (50 DMA), 3.9510 levels (38.2% fibo retracement of Jan high to low). We maintain our medium term bias for MYR strength on the back of improving domestic factors amid favourable external environment. Some of these domestic factors include sustained growth pick-up backed by consumption, investment and exports; BNM initiatives (Apr-2017) that helped to restore foreign investors' confidence and its pre-emptive rate hike in Jan; rising confidence from general election; sustained current account surplus and rising FX reserves. Current external environment of monetary policy continuity, relative oil price stability and still subdued inflationary pressures in US amid synchronous global economic recovery should continue to bode well for exports recovery and benefit countries that are trade-dependent including the MYR.	O/N Policy Rate	Tightening
USDSGD	USDSGD's attempt to break higher has been capped by the downward sloping trend-line resistance on 5 occasions. A clean break above the trend-line resistance could see a sharp squeeze towards 1.3280 levels (38.2% fibo retracement of the Oct 2017 high to 2018 low), 1.3660 (50% fibo). A break below though could see support around 1.3010 levels (2018 low). Daily chart show no strong bias in either direction. Weekly chart though suggests some tentative upside risks. Note that a symmetrical triangle has formed - usually signaling a trend reversal, typically associated with a continuation of current trend - here a downtrend. At this stage, it is hard to determine the direction of its next major move until a valid break-out happens. Resistance at 1.3175 (downward sloping trend-line resistance). Support at 1.3100-levels (upward sloping trend-line support). Note that onshore markets are closed on 30 Mar for a public holiday.	Exchange Rate	Neutral

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USIDR	1m USIDR NDF has largely traded within the 13730-13875 range for the past two week, though briefly touched a new 2018 high at 13876 on 23 Mar. Supportive of the IDR has been BI's intervention in the markets since 23 Mar morning (confirmed by BI's executive director for monetary management Doddy Zulverdi) to smooth out IDR volatility and maintain confidence. In addition, net foreign portfolio inflows on improving risk appetite have also weighed on the 1m NDF. Foreign investors had purchased USD915.3mn in debt in the past two week, more than offsetting the sell-off of USD480.3mn in equities over the same period. Continued improvement in risk appetite ahead could see further net foreign portfolio inflows into Indonesian assets, supportive of the IDR. Momentum is still to the downside on the daily chart, while weekly chart continues to show bullish bias. Look for the 1m NDF to trade sideways within its current trading range of 13730-13876 in the absence of fresh catalysts. Note that onshore markets are closed on 30 Mar for a public holiday.	7-Day Reverse Repo Rate	Neutral
USDPHP	1m USDPHP NDF spiked just a tad short of its 2018 high at 52.66 on 22 Mar amid trade war concerns though these fears have since receded. Still, downside price action though appears limited as weak risk appetite for Philippines equities continue to weigh on the PHP, keeping the 1m NDF supported. This was reflected in the sell-off of USD249.3mn in equities by foreign investors in the previous two weeks. Further sell-off in equities in the two week ahead should weigh further on the PHP and limit the 1m NDF's move lower. 1m NDF has lost most of its bearish momentum on the daily chart, while stochastics is fast approaching overbought conditions. Weekly chart remains bullish bias and stochastics in overbought conditions. Support remains at 52.30. Resistance at 52.70 levels (2018 high) ahead of the 53-handle. There are no Tier 1 data on tap this week. Note that onshore markets are closed on 29 and 30 Mar for public holidays.	O/N Reverse Repo Rate	Neutral
USDTHB	USDTHB has almost given up all of its gains from 22 Mar, helped by improving risk sentiments amid receding trade war fears that has inspired strong net foreign portfolio inflows. In the past two weeks, foreign investors had purchased USD1.39bn in debt, while buying USD5.3mn in equities. Improving risk sentiments should spur further net foreign portfolio inflows that should be supportive of the THB and put further downside pressure on the pair. Key risk event ahead is BoT meeting on Wed where the status quo is expected to be maintained given muted inflationary pressures. Pair still shows no clear directional bias on the daily and weekly charts. Stochastics on the daily chart is climbing higher, while that on the weekly chart remains in oversold conditions. Support is at 31.090 (2018 low). Resistance at 31.290 levels (23.6% fibo retracement of the Feb-Mar downswing, 21DMA). Note that onshore markets are closed on 6 Apr for a public holiday.	1-Day Repo Rate	Neutral

Key Data and Events Ahead

26 Mar-1 Apr		2-8 Apr	
Japan	• Mon: - Nil -	• Mon: Tankan Survey (1Q), Nikkei PMI Mfg (Mar F)	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: Nikkei Services & Composite (Mar)	
	• Thu: Retail Sales (Feb)	• Thu: - Nil -	
	• Fri: Jobless Rate, Industrial Production, Housing Starts (Feb)	• Fri: Household Spending, Labour Cash Earnings, Leading Index (Feb)	
China	• Mon: - Nil -	• Mon: Caixin PMI Mfg (Mar)	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: PBoC Deputy Governor Pan Gongsheng speaks	• Wed: Caixin PMI Services & Composite (Mar)	
	• Thu: Current Account (4Q F)	• Thu: Public Holiday	
	• Fri: - Nil -	• Fri: Public Holiday	
	• Sat: Mfg, Composite, Non-Mfg PMI (Mar)	• Sat: Public Holiday, Foreign Reserves (Mar)	
	• Sun: - Nil -	• Sun: Boao Forum for Asia, Hainan (8-11 Apr)	
South Korea	• Mon: - Nil -	• Mon: Nikkei PMI Mfg (Mar)	
	• Tue: Consumer Confidence (Mar)	• Tue: CPI (Mar)	
	• Wed: GDP (4Q F)	• Wed: Foreign Reserves (Mar)	
	• Thu: Business Survey Mfg and Non-Mfg (Apr)	• Thu: Current Account (Feb)	
	• Fri: Industrial Production (Feb)	• Fri: - Nil -	
	• Sun: Trade (Mar)	• Sun: - Nil -	
Singapore	• Mon: Industrial Production (Feb)	• Mon: PMI (Mar)	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: Nikkei PMI (Mar), Foreign Reserves (Mar - due 4-9 Apr)	
🇵🇭	• Thu: - Nil -	• Thu: - Nil -	
	• Fri: Public Holiday	• Fri: MAS Meeting, GDP (1Q A) (due 6-13 Apr)	
Malaysia	• Mon: - Nil -	• Mon: Nikkei PMI	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: - Nil -	• Thu: Trade (Feb)	
	• Fri: - Nil -	• Fri: Foreign Reserves (30 Mar)	
Indonesia	• Mon: - Nil -	• Mon: CPI, Nikkei PMI Mfg (Mar)	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: Nikkei PMI Mfg, CPI (Jan)	• Thu: - Nil -	
	• Fri: Public Holiday	• Fri: Foreign Reserves (Mar)	
Philippines	• Mon: - Nil -	• Mon: Nikkei PMI Mfg (Mar)	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: Public Holiday	• Thu: CPI (Mar)	
	• Fri: Public Holiday	• Fri: Foreign Reserves (Mar)	
Thailand	• Mon: - Nil -	• Mon: CPI, Nikkei PMI Mfg (Mar)	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: BoT Benchmark Interest Rate	• Wed: - Nil -	
	• Thu: Mfg Production Index, Capacity Utilization (Feb - due 29-30 Mar)	• Thu: - Nil -	
	• Fri: Trade, Current Account (Feb), Foreign Reserves (23 Mar)	• Fri: Public Holiday, Foreign Reserves (30 Mar)	
India	• Mon: - Nil -	• Mon: Nikkei PMI Mfg (Mar)	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: Fiscal Deficit (Feb)	• Wed: Nikkei Services & Composite (Mar)	
	• Thu: Public Holiday	• Thu: RBI Repurchase Rate	
	• Fri: Public Holiday	• Fri: - Nil -	
Vietnam	• Mon: CPI, Trade, Industrial Production, Retail Sales (Feb), GDP (1Q) (due on 25-31 Mar)	• Mon: Nikkei PMI Mfg (Mar)	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: - Nil -	• Thu: - Nil -	
	• Fri: - Nil -	• Fri: - Nil -	

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