

FX Asia Fortnightly

Some Relief For Asian FX

Mild Revival In Asian FX Possible

Our call in the last FX Fortnightly for firmer USDPHP, USDMYR, USDSGD and USDJPY amid a resurgence in the USD was met. The two weeks ahead though does not provide much directional clarity for the USD. The lack of market conviction of the ability of the US Fed to hike rates much more continues to put downside pressure on the USD. Fed speakers and US data ahead, particularly PCE (on 30 Jun) and US ADP and NFP in the week after, could also add to downside risks to the USD. Furthermore, continued inflows into Asian government debt in Thailand, Indonesia and Singapore could keep these currencies supported in the near term. In addition, we could see commodity-linked currencies including the MYR and even possibly the IDR getting some lift from a technical rebound in oil prices. Thus, we could see selected Asian FX make some gains against the USD in the two weeks ahead.

Depreciation May Not Help ASEAN Exports

We examine whether there is a disconnect between exchange rate and exports among the ASEAN economies, given the importance of trade in economic development in the region. Our regression analysis suggested that there is an increasing disconnect between ASEAN FX and exports over time - that is, the ASEAN economies appear to no longer enjoy the benefits that changes in the exchange rate bestows on exports. The exception was the Philippines. It would now seem that lowering the exchange rate does little to boost exports in Indonesia, Malaysia, Singapore and even Thailand. One possible explanation for this is the increasing intertwining of the global supply chain, which suggests the increasing use of imported components in the exports of the ASEAN economies. This in turn blunts the effect of currency depreciation. A depreciation in the domestic currency vis-à-vis the USD also raises the price of imported intermediate goods that goes into the domestic exports of the country. Thus, any significant boost from currency depreciation could be mitigated by the higher cost of the imported goods that goes into manufacturing exports.

BoT Meets, ID, SG, IN & MY On Holidays

Relatively quiet data week ahead with a couple of markets out for public holidays to celebrate the Hari Raya Aidilfitri holidays. Indonesia is out for the whole week, while Singapore and Philippines are off on 26 Jun and Malaysia are out 26 and 27 Jun. BoT is the only one central bank meeting these two weeks where the status quo is expected to be maintained for now. Data-wise, we have Japan BOJ summary of opinions (15-16 Jun meeting) on 26 Jun; China industrial profits (May), Korea consumer confidence (Jun) on 27 Jun; Japan retail sales (May), BOJ Harada speaks (Tokyo), China BOP current account (1Q F) on 29 Jun; Japan jobless rate, household spending, CPI (May), industrial production (May P), China Mfg and non-mfg PMI, Korea industrial production (May), Thailand trade, current account (May) on 30 Jun. The week of 3-9 Jul brings Japan Tankan survey (2Q), Jun PMI mfg data for Japan, China, Korea, Singapore, Malaysia, Indonesia, Philippines, Thailand, India and Vietnam on 3 Jul, Korea CPI (Jun) on 4 Jul; China & India Nikkei PMI services & composite (Jun), Philippines CPI (Jun) on 5 Jul; Japan labor cash earning (May), Malaysia Trade (May) on 7 Jul.

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Flavour of the Week: Is There A Disconnect Between ASEAN FX And Exports?

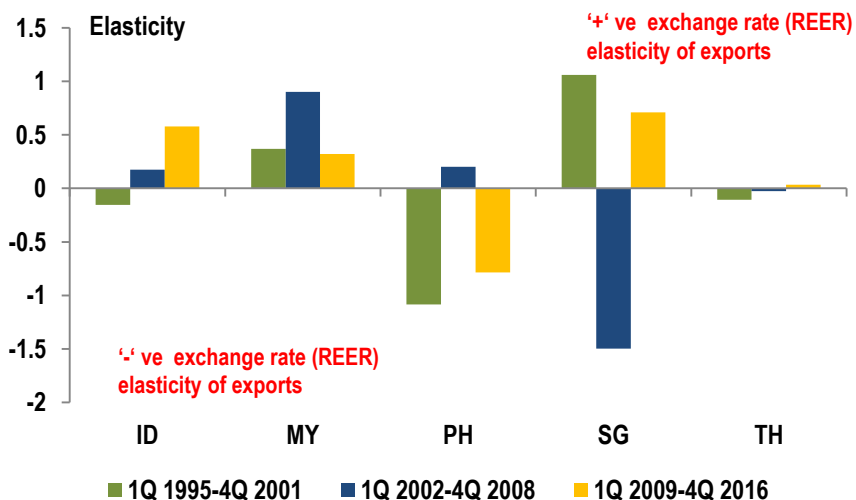
- There have been recent concerns in the market of a disconnect between exchange rates and exports. Example of the UK has been cited by some of this disconnect. The slippage in the GBP (in the aftermath of the Brexit vote) had not translated into significant gains in exports as trade theory would suggest. This has led to suggestions that the impact of adjustments in exchanges rates on exports has diminished.
- To determine if this hypothesis holds for ASEAN economies, where trade plays an important role in economic development, we examine the relationship between the ASEAN exchange rates and their exports.
- We ran a regression on the equation (found in *IMF Working Paper, Exchange Rates and Trade: A Disconnect*, March 2017):

$$\text{Change in Real Export Growth} = c + a(\text{Change in REER}) + b(\text{Foreign Trade Partners' GDP Growth Rate}) + g(\text{Log of Domestic Real GDP Growth}) + e$$

where REER is the real effective exchange rate, 'a' is the exchange rate elasticity of exports and 'e' is the error term.

- The regression was done on three different time periods, namely 1Q 1995 to 4Q 2001, 1Q 2002 to 4Q 2008, and 1Q 2009 to 1Q 2017 to capture any changes in elasticity, that is, any possible disconnect between the exchange rate and exports. We chart the exchange rate elasticity of exports ('a' in our equation above) derived from our regression analysis for the three periods below.

Chart 1: Reduced Impact Of Exchange Rate On Exports



Note: A negative exchange rate elasticity of exports suggests that a currency depreciation (i.e. a fall in the REER) bolsters exports, while a positive elasticity suggests that a depreciations has no significant impact on exports.

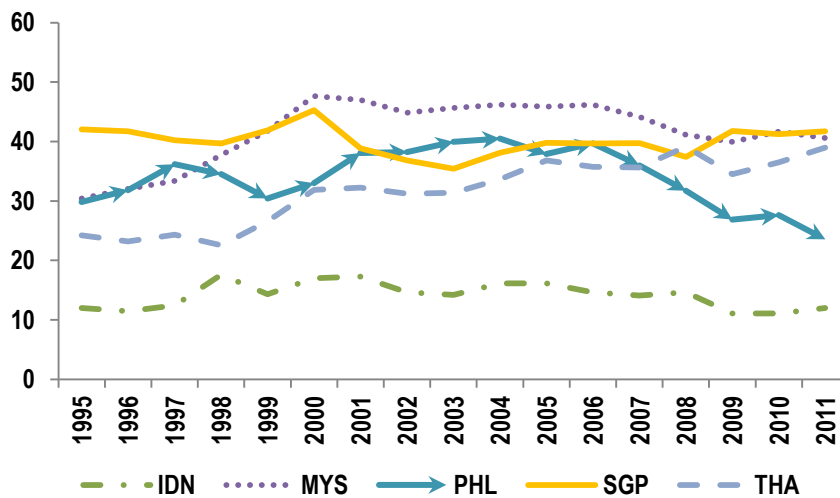
Source: Bloomberg, CEIC, Maybank FX Research

- With the exception of the Philippines, the other ASEAN economies appear to no longer enjoy the benefits that changes in the exchange rate bestows on exports. It would now seem that a depreciation does little to boost exports in Indonesia, Malaysia, Singapore and even Thailand. The results here are in line with the OECD results for USD and

GBP that suggested low responsiveness of trade flows to exchange rate moves (*OECD Economic Outlook, June 2017*).

- One possible explanation for this is the increasing intertwining of the global supply chain, which suggests the increasing use of imported components in the exports of the ASEAN economies. The rising import content of ASEAN exports then blunts the effect of currency depreciation. A depreciation in the domestic currency vis-à-vis the USD also raises the price of imported intermediate goods that goes into the domestic exports of the country. Thus, any significant boost from currency depreciation could be mitigated by the higher cost of the imported goods that goes into manufacturing exports.

Chart 2: Import Content Of ASEAN On The Rise



Source: OECD, Maybank FX Research

- Chart 2 above shows that the import content for Singapore, Thailand and Malaysia are relative high compared to Indonesia and Philippines. Thus, moves to depreciate the domestic currency could push import prices higher and hence the price of exports, potentially limiting any gains to exports that depreciation would bring. In contrast, the Philippines' falling import content since 2006 suggests that the exchange rate and trade remains connected.

2017/2018 Asia FX Forecasts

	End 2Q -17	End 3Q -17	End 4Q-17	End 1Q-18
USDJPY	116	118	120	120
USDSGD	1.4100	1.4200	1.3950	1.3950
USDMYR	4.30	4.25	4.30	4.35
USDIDR	13300	13400	13450	13500
USDTHB	34.80	35.30	36.00	36.20
USDPHP	50.30	50.50	50.70	50.70
USDCNY	6.80	6.83	6.90	6.85
USDKRW	1140	1150	1160	1170
USDINR	65.00	65.70	66.20	66.00
USDVND	22900	23100	23300	23400
SGD Crosses	End 1Q -17	End 2Q -17	End 3Q -17	End 4Q-17
SGDMYR	3.050	2.993	3.082	3.118
MYR Crosses	End 1Q -17	End 2Q -17	End 3Q -17	End 4Q-17
MYRCNY	1.58	1.61	1.60	1.57
MYRIDR	3093	3153	3128	3103
MYRINR	15.12	15.46	15.40	15.17

Source: Maybank FX Research as at 23 Jun 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
USDMYR	USDMYR drifted a touch higher this week amid persistent decline in oil prices and softer risk sentiment this week. Pair was last seen at 4.2890 levels. Mild bullish momentum on daily remains intact but stochastics is heading into overbought conditions. We also noted a death cross pattern last week - 50DMA cutting 200 DMA to the downside. Our bias remains to lean against strength. Resistance at 4.30. Support at 4.25 levels. Malaysia onshore markets are closed on Mon and Tue. Two weeks ahead bring M3 data (30 Jun); Jun PMI (3 Jul); May trade; end-Jun FX Reserves (7 Jul).	Base Rate	Easing Bias
USDSGD	USDSGD bounced higher this week in line with our Fortnightly bias for rebound towards 1.3930, tracking UST yields and USDJPY moves. The high thus far was 1.3915 (Wed). Daily chart shows bullish momentum and stochastics at overbought conditions. This suggests risks of a pullback in the near term. Beyond next week though, risk appears tilted to the upside as bearish momentum on the weekly chart is waning and stochastics poised to climb higher out of oversold conditions. Immediate resistance is at 1.3920 (50DMA). We need to see a decisive move above 1.3920 (50 DMA) for upside to gather momentum. A break here exposes next resistance at 1.3950 (50% retracement of the Aug 2016 to Jan 2017 rally) ahead of 1.40 (100 DMA). Support at 1.3840 (21 DMA), 1.38 levels (61.8% 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 on the gradual grind higher following the rate hike by the US Fed. It also did not help that foreign funds sold off equities in the week to the tune of USD177.12mn, and only added just IDR0.37tn to their outstanding holding of government debt on 19-21 Jun (latest data available). This though could be due to the week-long holiday for Hari Raya Aidilfitri. Pair though continues to trade at the upper bound of its 13300-13380 trading range that has held for the past few weeks. The 1m NDF continues to find support at the 133000 levels as market whispers suggest official agents in the market around that level. Trades in the week ahead are likely to be muted given the week-long Hari Raya Aidilfitri holiday starting Mon and is likely to be guided by external events. Momentum indicators on the daily chart continue to show bullish bias, while stochastics is fast approaching overbought conditions. Weekly chart still shows waning bearish momentum and stochastics falling. This suggests that risks remain to the upside with upside capped by the 13380 level. We need to see a clean break of the 13380 levels on a weekly close to confirm bullish extension towards the 13400 levels. Key support remains at the 13300-levels. Any further downside is likely to be a slow grind given the several support levels ahead, namely at 13260 and 13200.	O/N Policy Rate	Easing Bias
USDPHP	1m USDPHP NDF's climb higher back above the 50-figure looks overdone in light of the continued foreign inflows into Philippine assets and healthy economic fundamentals, and the passage of the first phase of the tax reform package through the House of Representatives. With the 1m NDF now in overbought conditions on the daily chart, risks of a further pullback appears on the card in the near term. Weekly chart though shows waning bearish momentum and stochastics climbing higher, suggesting that further downside could be limited. Further retracement in the two weeks ahead should find support at 50.20 (50% fibo retracement of the Feb-Apr downswing) ahead of the 50-figure (100DMA, 50% fibo). Any rebound should meet resistance around 50.60 (22 Jun high) ahead of 50.77 (year's high).	O/N Policy Rate	Neutral
USDTHB	USDTHB is trading softer after climbing higher for most of the week amid mild USD strength. Pair was probably helped by the return of foreign funds into government debt. In the week of 19 Jun, foreign investors have bought THB8.99bn in government debt, adding to the THB111.85bn purchased the week before. Focus ahead will be on BoT meeting on 5 Jul, but it is unlikely that the central bank will pull the trigger to adjust its benchmark interest rate at this point. We expect the central bank to hold its policy rate steady at 1.50%. Still risks appear to be tilted to the upside. Momentum indicators on the daily chart are bullish bias, while stochastics is fast approaching overbought conditions. Further moves lower is likely to be a slow grind with support at 33.810 (2017 low). We continue to be bias to stay long. Rebounds should meet resistance at 34.200 (23.6% fibo retracement of the Mar-Jun downswing).	7-Day Reverse Repo Rate	Neutral

Key Data and Events Ahead

Currency	26 Jun-2 Jul	3-9 Jul
Japan	- Mon: BOJ Summary Of Opinions (15-16 Jun Meeting) - Tue: - Nil - - Wed: - Nil - - Thu: Retail Sales (May), BOJ Harada speaks (Tokyo) - Fri: Jobless Rate, Household Spending, CPI (May), Industrial Production (May P)	- Mon: Tankan Survey (2Q), Nikkei PMI Mfg (Jun F) - Tue: - Nil - - Wed: Nikkei PMI Composite & Services (Jun) - Thu: - Nil - - Fri: Labor Cash Earnings (May)
China	- Mon: - Nil - - Tue: Industrial Profits (May) - Wed: - Nil - - Thu: BOP Current Account (1Q F) - Fri: Mfg & Non-Mfg PMI (Jun) - Sun: - Nil -	- Mon: Caixin PMI Mfg (Jun) - Tue: - Nil - - Wed: Caixin PMI Composite & Services (Jun) - Thu: - Nil - - Fri: Foreign Reserves (Jun) - Sun: FDI (Jun) (due 8-18 Jul)
South Korea	- Mon: - Nil - - Tue: Consumer Confidence (Jun) - Wed: - Nil - - Thu: Business Survey Mfg & Non-Mfg (Jul) - Fri: Industrial Production (May) - Sat: Trade (Jun)	- Mon: Nikkei PMI Mfg (Jun) - Tue: CPI (Jun) - Wed: Foreign Reserves (Jun), BOP Current Account (May) - Thu: - Nil - - Fri: - Nil - - Sat: - Nil -
Singapore	- Mon: Public Holiday - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: PMI (Jun) - Tue: - Nil - - Wed: Nikkei PMI (Jun) - Thu: - Nil - - Fri: Foreign Reserves (Jun)
Malaysia	- Mon: Public Holiday - Tue: Public Holiday - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: Nikkei PMI (Jun) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Trade (May), Foreign Reserves (30 Jun)
Indonesia	- Mon: Public Holiday - Tue: Public Holiday - Wed: Public Holiday - Thu: Public Holiday - Fri: Public Holiday	- Mon: Nikkei PMI Mfg, CPI (Jun) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign Reserves (Jun)
Philippines	- Mon: Public Holiday - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: Nikkei PMI Mfg (Jun) - Tue: - Nil - - Wed: CPI (Jun) - Thu: - Nil - - Fri: Foreign Reserves (Jun)
Thailand	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Foreign Reserves (23 Jun), Trade, Current Account BOP Overall Balance (May)	- Mon: Nikkei PMI Mfg, CPI (Jun) - Tue: - Nil - - Wed: BoT Benchmark Interest Rate - Thu: - Nil - - Fri: Foreign reserves (30 Jun)
India	- Mon: Public Holiday - Tue: Nikkei PMI Mfg, Services & Composite (Apr) - Wed: - Nil - - Thu: - Nil - - Fri: Fiscal Deficit (May)	- Mon: Nikkei PMI Mfg (Jun) - Tue: - Nil - - Wed: Nikkei PMI Composite & Services (Jun) - Thu: - Nil - - Fri: - Nil -
Vietnam	- Mon: Industrial Production, Trade, Retail Sales YTD (Jun), GDP (2Q) (due 25-30 Jun) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -	- Mon: Nikkei PMI Mfg (Jun) - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -

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