

FX Asia Fortnightly

Central Bank Meetings In Focus

Central Bank Meetings In Focus

AXJs could remain under pressure the next two weeks. There is a slew of US data releases in the next two weeks that may keep the USD buoyant, including FOMC (2 Aug), NFP (3 Aug), CPI (10 Aug). A hawkish Fed and strong data could keep the USD supported and weigh on the AXJs. Meanwhile, the RMB should remain under pressure given that the Sino-US trade disputes have not been resolved. We however cannot rule out some near term pullback in some of the USD/AXJs, including the USDSGD (to 1.3570-levels) and USDKRW (to 1111-levels) as reflected in the technical charts.

There are four central bank meetings in the next two weeks. BOJ is expected to hold policy steady on 31 Jul even though there are some market expectations of a policy tweak (not our base case) and a rebound in the USDJPY is likely. The RBI could deliver a 25bp hike at its meeting on 1 Aug, and a disappointment here could weigh on the INR. The BoT is expected to remain on hold for now at its meeting on 8 Aug and this inaction could keep the THB under pressure. A 25bp rate hike by BSP (on 9 Aug) appears imminent after the governor signaled for a “strong follow-through monetary adjustment”. This could provide some relief for the PHP.

Our in-house model implies that SGD NEER is trading 1.04% above the implied midpoint of 1.3779, suggesting it is on the stronger side of the SGD vs. other trading partner currencies.

Sell-Off In Thai Assets, THB Weakness Could Continue

The THB has been on the broad downtrend since Mar amid gains in the USD on Fed fund rate hike expectations. The THB has weakened by around 1.5% against the USD - the worst performer among its ASEAN peers. One of the reasons for this sell-off in the THB against the USD is the widening yield differentials between 2Y UST and Thai bond since Mar on expectations of more rapid Fed rate hikes and the BoT to hold rates steady this year. These expectations lifted short-end UST yields while holding Thai bond yields relatively steady and in turn, widened the gap between the 2Y UST and Thai bond, buoying the USDTHB. At the same time, there has been profit-taking in the equity markets since 2017 on domestic structural headwinds and market concerns over escalating trade war between China and US. Not surprisingly, the higher returns on US assets have spurred a re-allocation away from low paying Thai assets. This net sell-off in Thai assets should continue so long as these structural headwinds are not addressed and the gap between UST and Thai bond yield continue to widen on Fed/BoT rate hike expectations. At the same time, foreign investors could remain on the sideline ahead of the Thai general elections, expected in 1Q 2019. We remain bias to buy the USDTHB in the next three- to nine-months.

Analysts

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

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

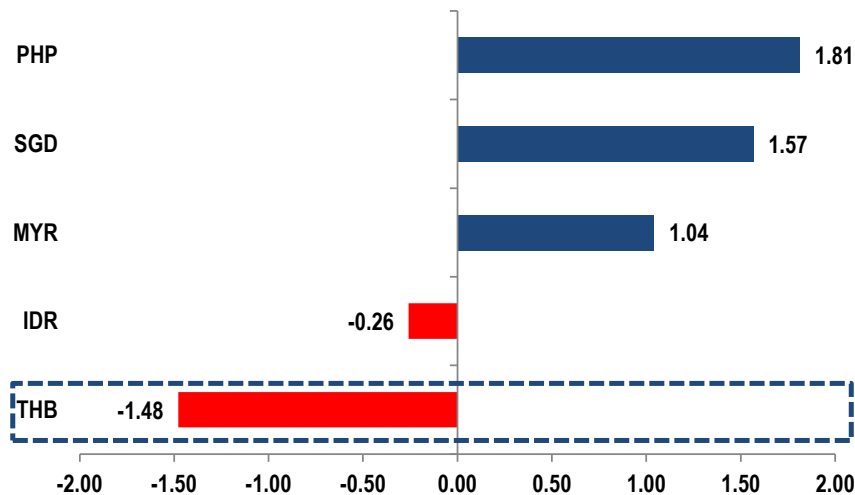
Fiona Lim
(65) 6320 1374
fionalim@maybank.com.sg

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

Flavour of the Week: What Keeps The USDTHB Ticking Higher?

- The THB had started the year strong, rising 0.77% against the USD on optimism over its economy. However, the THB has been on the broad downtrend since Mar amid gains in the USD on Fed fund rate hike expectations. The THB has weakened by around 1.5% against the USD - the worst performer among its ASEAN peers (Chart 1).

Chart 1: THB Has Performed Poorly Since Mar

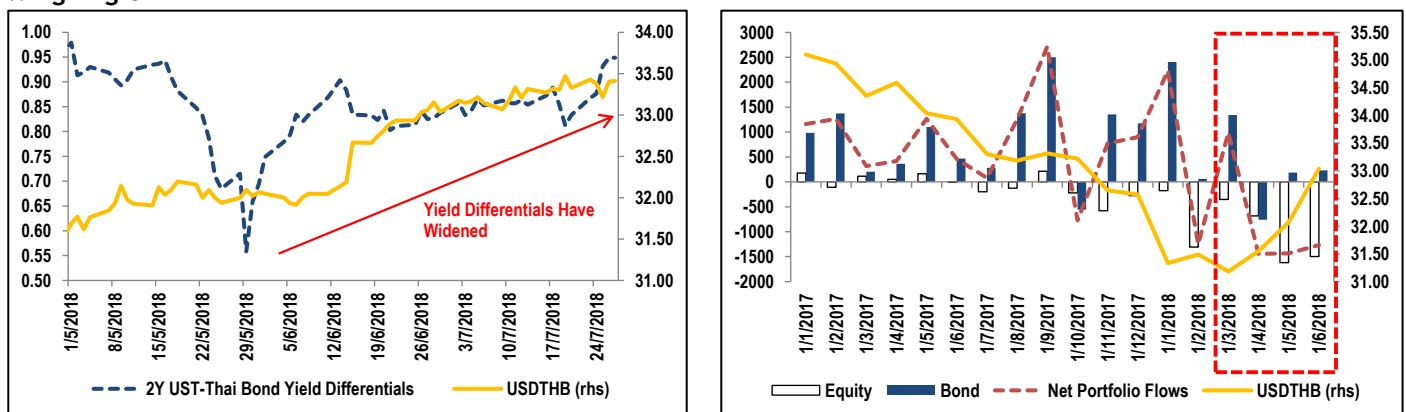


Period: 1 Mar - 26 Jul 2018

Source: Bloomberg, Maybank FX Research & Strategy

- One of the reasons for this sell-off in the THB against the USD is the widening yield differentials between 2Y UST and Thai bond since May as can be seen in Chart 2 on the left. As the Fed lifted its rates higher, market were speculating at that point in time of a more aggressive Fed for the rest of the year underpinned by strong US data. Meanwhile, the BoT is not expected to normalise its policy rate any time soon to support the economy. These expectations lifted short-end UST yields, while holding Thai bond yields steady and in turn, widened the gap between the 2Y UST and Thai bond, buoying the USDTHB. Consequently, the USDTHB climbed from the 31-levels to above 33 currently.

Chart 2: Widening Yield Differentials Between 2Y UST And TH Bonds Weighing On Asset Demand & THB



Source: Bloomberg, Maybank FX Research & Strategy

- At the same time, there has been profit-taking in the equity markets since 2017 after strong foreign inflows of USD2.24bn for the whole of 2016. This profit-taking reflects investor belief that the economy is facing domestic structural headwinds that includes hollowing out of industries, ageing demographics and rising leverage. In addition, market concerns over escalating trade war between China and US given its relatively export-dependent economy, also weigh on Thai assets.
- Not surprisingly, the higher returns from holding US assets have spurred a re-allocation away from low paying Thai assets. This is reflected in the net foreign portfolio outflows from Thai assets. Year-to-date, foreign investors have sold USD6.02bn in equities, which more than offset their purchase of USD3.34bn in debt.
- We expect this net sell-off in Thai assets to continue as long as these structural headwinds are not addressed and the gap between UST and Thai bond yield continue to widen on Fed/BoT rate hike expectations. At the same time, foreign investors could remain on the sideline ahead of the Thai general elections, expected in 1Q 2019. We remain bias to buy the USDTHB in the next three- to nine-months.

Key Data and Events Ahead

	30 Jul-5 Aug	6-12 Aug
Japan	- Mon: Retail Sales (Jun P) - Tue: Jobless Rate, Industrial Production, Housing Starts (Jun), BOJ Policy Balance Rate, BOJ Outlook Report - Wed: Nikkei PMI Mfg (Jul F) - Thu: BOJ Amamiya Speaks (Kyoto) - Fri: Nikkei PMI Services & Composite (Jul), BOJ Minutes of 14-15 Jun Policy Meeting	- Mon: - Nil - - Tue: Household Spending, Labour Cash Earnings (Jun) - Wed: Current Account (Jun) - Thu: Core Machine Orders (Jun), Machine Tool Orders (Jul) - Fri: PPI (Jul), GDP (2Q P), Tertiary Industry Index (Jun)
	- Mon: - Nil - - Tue: Mfg & Non-Mfg, Composite PMI (Jul) - Wed: Caixin PMI Mfg (Jul) - Thu: - Nil - - Fri: Caixin PMI Composite & Services (Jul)	- Mon: Current Account (2Q P) - Tue: Foreign Reserves (Jul) - Wed: Trade, FDI (Jul) - Thu: CPI, PPI (Jul) - Fri: Money Supply, Aggregate Financing, New Yuan Loan (Jul)
South Korea	- Mon: - Nil - - Tue: Business Survey Mfg & Non-Mfg (Aug), Industrial Production (Jun) - Wed: CPI, Trade, Nikkei PMI Mfg (Jul) - Thu: - Nil - - Fri: Foreign Reserves (Jul), Current Account (Jun)	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: PMI (Jul) - Fri: Nikkei PMI (Jul)	- Mon: - Nil - - Tue: Foreign Reserves (Jul) - Wed: GDP (2Q F), Retail Sales (Jun) (due 8-14 Aug) - Thu: Public Holiday - Fri: - Nil -
	- Mon: - Nil - - Tue: - Nil - - Wed: Nikkei PMI (Jul) - Thu: - Nil - - Fri: Trade (Jun)	- Mon: - Nil - - Tue: Foreign Reserves (31 Jul) - Wed: - Nil - - Thu: - Nil - - Fri: Industrial Production (Jun)
	- Mon: - Nil - - Tue: - Nil - - Wed: CPI, Nikkei PMI (Jul) - Thu: - Nil - - Fri: - Nil -	- Mon: GDP (2Q) - Tue: Foreign Reserves (Jul) - Wed: Public Holiday - Thu: Public Holiday - Fri: Current Account (2Q)
Philippines	- Mon: - Nil - - Tue: - Nil - - Wed: Nikkei PMI Mfg (Jul) - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: CPI, Foreign Reserves (Jul) - Wed: Trade (Jun) - Thu: GDP (2Q), BSP Overnight Borrowing Rate - Fri: - Nil -
	- Mon: Public Holiday - Tue: Trade, Current Account (Jun) - Wed: CPI, Nikkei PMI Mfg (Jul) - Thu: - Nil - - Fri: Foreign Reserves (27 Jul)	- Mon: - Nil - - Tue: - Nil - - Wed: BoT Benchmark Interest Rate - Thu: - Nil - - Fri: Foreign Reserves (3 Aug)
	- Mon: - Nil - - Tue: Fiscal Deficit (Jun) - Wed: RBI Repurchase Rate - Thu: - Nil - - Fri: Nikkei PMI Services & Composite (Jul)	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Industrial Production (Jul)
	- Mon: Trade, CPI, Industrial Production, Retail Sales (Jul - due 30-31 Jul) - Tue: - Nil - - Wed: Nikkei PMI Mfg (Jul) - Thu: - Nil - - Fri: - Nil -	- Mon: Domestic Vehicle Sales (Jul - due 6-13 Aug) - 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