

FX Asia Fortnightly

Upside Risks To USD/Asians

Narrowing Yield Differentials With UST Drive USD/Asians Higher

In the wake of increasing likelihood of US tax reforms and a possible hawkish tilt in the Fed when the new Chair and Vice-Chair are revealed, investors have driven UST yields and USD higher. In addition, the ECB dovish taper should continue to weigh on the EUR and continuing strong earnings reports in the US is expected to be supportive of the USD. Upside surprises from US data (US GDP, core PCE, ADP and NFP etc.) could add further upside pressure on the USD index. We look for a sustained close above the 94.30 levels for further upside momentum in the USD index towards the 97 levels. So far, narrowing yield differentials between 10Y UST and Asian debt are key drivers of Asian currencies lower. IDR and PHP carry trades could continue to unwind as a result, but possible leaning against the wind activity could curb upside. USDJPY and USDSGD have still room to move higher towards the 115 and 1.3740 levels respectively should price action see a weekly close above the 114.49- and 1.3690-levels respectively.

PHP Could Remain The Laggard In ASEAN

Year-to-date, the PHP has been the worst performing currency in ASEAN. The narrowing 10Y yield differentials between UST and Philippine debt cannot explain fully the weakness in the PHP. Even though yield differentials are narrowing, the Philippines bond yields are still much higher than its peers in ASEAN, except for Indonesia. Thus, Philippine debt should still be relatively attractive to foreign investors, which should be at least supportive of the PHP. It is true that the expectations of further US Fed rate hikes and the prospects of tax reforms in the US should be supportive of UST yields and increases the risk that yield differentials between the UST and Philippine debt could narrow even further. However, the decline in the PHP against the USD to date compared to its ASEAN peers suggests that there could be other underlying risks that weighs on the PHP as reflected in the elevated 5Y CDS for the Philippines compared to its ASEAN peers. Aside from the Duterte premium we have discussed previously (i.e. foreign investor concerns over the President's indiscriminate war against drugs), we believe that the twin deficits of current account and fiscal deficit are weighing on the PHP. In addition, the fiscal deficit could accelerate in light of the possibility of a delay in the Senate approving the tax reform bill till 2018 or should the approved bill raise less revenue as projected by the Department of Finance. We do not expect any significant improvement in the USDPHP by the end of the year. The US Fed rate hike expected in Dec should weigh on the PHP as would the twin deficits. We maintain our USDPHP forecast for the pair to end 2017 at 52.00.

BOJ, BoT, BNM & BSP meets; Regional PMIs In Focus

Aside from the FOMC meeting on 2 Nov, focus in Asia will be on the central bank meetings of Japan (31 Oct), Thailand (8 Nov) and Malaysia and Philippines (9 Nov) where we do not expect any surprises from the four central banks. We have PMI prints for JP, KR, SG, MY, ID, PH, TH, IN and VN on the week of 30 Oct. Other key data events include JP retail sales on 30 Oct; JP jobless rate, housing starts, IP, BOJ meeting, BOJ outlook report, BOJ governor Kuroda press conference, KR IP, TH mfg production, trade on 31 Oct; BOJ Nakaso speaks, KR trade, CPI, ID CPI, TH CPI on 1 Nov; KR current account, MY trade on 3 Nov. In the week of 6 Nov, we eye JP BOJ minutes, BOJ Kuroda speaks, CN current account, IDR GDP on 6 Nov; JP labor cash earnings, PH CPI on 7 Nov; JP BOJ Funo speaks, CN trade, BoT meeting on 8 Nov; JP core machine orders, current account, BOJ summary of opinion at 30-31 Oct meeting, CN CPI, PPI, MY IP, BNM meeting, BSP meeting on 9 Nov; JP tertiary industry index, SG retail sales, ID current account, PHP trade on 10 Nov. PH and JP are out for public holidays on 1 and 3 Nov respectively.

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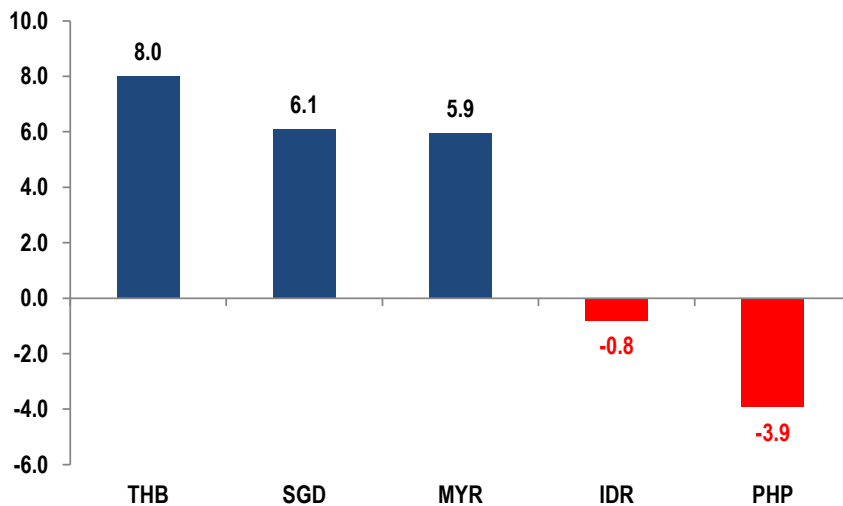
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Flavour of the Week: Will The PHP Remain The Laggard In ASEAN?

- Year-to-date, the PHP has been the worst performing currency in ASEAN. It has declined by 3.9% against the USD since the start of the year. In comparison, the IDR has fallen by just 0.8% against the USD so far this year (Chart 1).

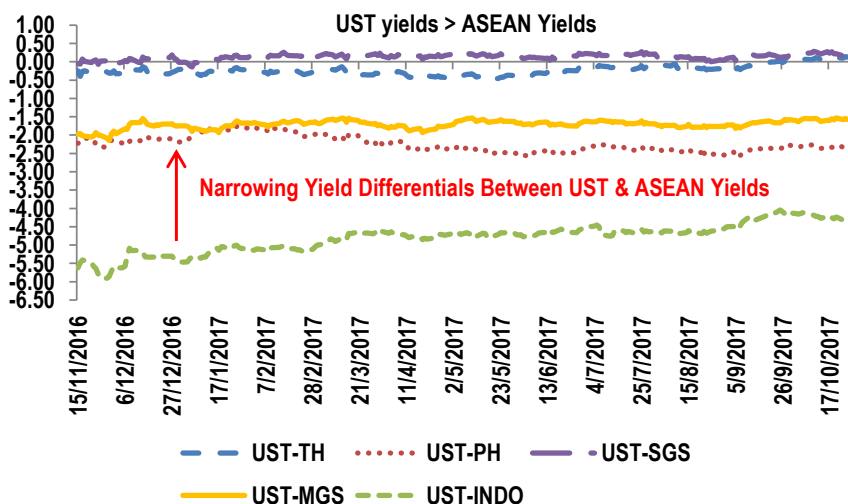
Chart 1: PHP Has Been The Worst Performing ASEAN Currency YTD



Source: Bloomberg, Maybank FX Research & Strategy

- The narrowing 10Y yield differentials between UST and Philippine debt cannot explain fully the weakness in the PHP (Chart 2). Even though yield differentials are narrowing, the Philippines bond yields are still much higher than its peers in ASEAN, except for Indonesia. Thus, Philippine debt should still be relatively attractive to foreign investors, which should be at least supportive of the PHP.

Chart 2: 10Y UST-ASEAN Yield Differentials Narrowing



Source: Bloomberg, Maybank FX Research & Strategy

- It is true that the expectations of further US Fed rate hikes and the prospects of tax reforms in the US should be supportive of UST yields and increases the risk that yield differentials between the UST and Philippine debt could narrow even further. However, the decline in the PHP against the USD to date compared to its ASEAN peers suggests that

there could be other underlying risks that bears on the PHP as reflected in the elevated 5Y CDS for the Philippines compared to its ASEAN peers.

- Aside from the Duterte premium we have discussed previously (i.e. foreign investor concerns over the President's indiscriminate war against drugs), we believe that the twin deficits of current account and fiscal deficit are weighing on the PHP. For the first time since 1997, the Philippines is experiencing current account deficits (CAD). In the first two quarters of 2017, the current account balance recorded deficits of 0.1% and 0.2% of GDP in 1Q and 2Q. Expectations that the CAD could deteriorate further amid the government's infrastructure spending programme are likely to have weighed on the PHP. In addition, the fiscal deficit could accelerate in light of the possibility of a delay in the Senate approving the tax reform bill till 2018 or should the approved bill raise less revenue as projected by the Department of Finance.
- We do not expect any significant improvement in the USDPHP by the end of the year. The US Fed rate hike expected in Dec should weigh on the PHP as would the twin deficits. We maintain our USDPHP forecast for the pair to end 2017 at 52.00.

2017/2018 Asia FX Forecasts

	End 4Q-17	End 1Q-18	End 2Q-18	End 3Q-18
USDJPY	115	115	117	116
USDSGD	1.3700	1.3700	1.3650	1.3600
USDMYR	4.2500	4.2750	4.2000	4.1500
USDIDR	13600	13600	13700	13650
USDTHB	34.00	34.00	34.30	34.80
USDPHP	52.00	52.00	51.80	51.50
USDCNY	6.60	6.60	6.65	6.60
USDKRW	1160	1140	1140	1130
USDINR	65.00	64.50	66.00	65.00
USDVND	22760	22730	22780	22700
SGD Crosses	End 4Q-17	End 1Q-18	End 2Q-18	End 3Q-18
SGDMYR	3.102	3.120	3.077	3.051
MYR Crosses	End 4Q-17	End 1Q-18	End 2Q-18	End 3Q-18
MYRCNY	1.55	1.54	1.58	1.59
MYRIDR	3200	3181	3262	3289
MYRINR	15.29	15.09	15.71	15.66

Source: Maybank FX Research as at 24 October 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 traded softer in the past week, in line with our caution that pair was entering overbought conditions and that the rebound may be losing momentum. Bullish momentum shows signs of waning while stochastics is falling. This suggests downside pressure. Support remains at 4.20, 4.1720 (50% fibo retracement of 2016 low to 2017 high). Resistance at 4.2460 (50 DMA). Key data release for the next two weeks is CPI (Sep) on 20 Sep. More importantly, focus will be on Budget Day on 27 Oct, which is expected to balance between “short-term populism” given the upcoming general elections and “long-term agenda” given the ongoing and upcoming multi-year mega infrastructure projects. A budget that balances these twin goals while continuing with the goal of fiscal consolidation should be supportive of the MYR.	O/N Policy Rate	Neutral
USDSGD	USDSGD has been on the upmove since MAS retained its neutral policy stance. Expectations of higher UST yields underpinned by progress on tax reforms and potential for a hawkish tilt to the Fed are keeping the pair supported. Fed meeting on 2 Nov is unlikely to surprise. Firmer USDJPY and USDCNY should also provide tailwind to the pair's upside. Aside from Fed meeting, US GDP, PCE core, ADP and payrolls prints this week and next will be closely watch for directional cues. Last seen around 1.3690-levels. Weekly and daily momentum and stochastics remain bullish bias. Note that pair has broken out of the bearish trend channel that has formed since the start of 2017 - a bullish signal. Any retracement is likely to be temporary and short-lived as risks are to the upside. With resistance level at 1.3690 taken out on a weekly close, next resistance is at 1.3740 levels (76.4% fibo retracement of the Jul high to Sep low) ahead of 1.3830 (200DMA). Support at 1.3640 (100DMA) before 1.3600-levels (50% fibo, 21DMA).	Exchange Rate	Neutral

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDIDR	1m USDIDR NDF has been trading bid for the past two weeks to a new 2017 high of 13740 amid unwinding of IDR carry trades. The IDR has lost its attractiveness as a carry trade after the BI cut its benchmark interest rate twice in Aug and Sep and as UST yields surge on expectations of progress on US tax reforms and potential hawkish bias in the Fed when the new Chair and Vice-Chair are revealed. Further unwinding could take place should US data (US GDP, PCE core, ADP and payrolls etc.) surprise on the upside, lifting UST yields and USD higher. Already we are seeing net foreign portfolio outflows in the past two weeks that are supportive of the 1m NDF. Foreign investors had sold USD172.16mn in equities but purchased US\$43.62mn in debt. Last seen around 13709 levels. Weekly and daily charts are both bullish bias, while stochastics are now at overbought conditions. Watch for official agents' entry into the market to smooth out volatility given the BI's goal of market and IDR stability that could slow the 1m NDF's grind higher. With the break of the previous 2017 high, new resistance is at 13785, 13836 levels - levels not seen since Nov 2016. Pullbacks should find support around 13670 levels, 13570 levels (21DMA).	7-Day Reverse Repo Rate	Easing
USDPHP	1m USDPHP NDF has been on the grind higher, touching a new multi-year and 2017 high of briefly touched a new high of 52.29 (27 Oct) amid the bounce in UST yields and USD that has led to the unwinding of PHP carry trades. Further upticks in UST yields and USD in the next two weeks could potential see the 1m NDF climb higher as foreign investors sell-off Philippine assets for less risk assets in the US. Equities managed to eke out gains of USD45.71mn in the previous two weeks, but yield data (in the absence of foreign purchases data) should PH sovereign debt yields broadly higher by 1.418-15.606bp in the past two week, suggesting foreign selling of debt that weighed on the PHP. 1m NDF is though could find support from BSP on 9 Nov as it keeps its benchmark policy rate steady unless inflation surges out of the central bank's 2-4% comfort zone. Last seen around 52.06-levels. Bullish bias on the daily chart remains intact, while stochastics is now at overbought conditions. We caution for temporary pullback risk as stochastics is now at overbought conditions though this should prove to be short-lived. Pullback may revisit 51.87 (previous high on 13 Oct), 51.60 (21DMA). We are bias to buy on dips. Resistance is around 52.30, 52.50 levels.	O/N Reverse Repo Rate	Neutral
USDTHB	Like its regional peers, USDTHB has grinded higher from its recent low of 33.042 (16 Oct) amid higher UST yields and USD strength. Prospects of US tax reforms and the possibility of a hawkish tilt in the Fed when appointments to the Fed Chair and Vice-Chair are revealed could keep UST yields and USD supported in the two weeks ahead. In addition, downside moves in gold prices could lift the USDTHB higher given the negative correlation between the two. Also not helping is the continuing sell-off of Thai assets by foreign investors in the past two weeks where USD258.4mn and USD239.7mn in equities and debt were sold off. Pair though could find support from BoT keeping its policy rate unchanged at 1.50% instead of cutting rate as the government would like. Pair was last seen around 33.292 levels. Mild bearish momentum on the daily chart remains intact, while stochastics continues its climb higher. Note that the pair has broken out of its bearish trend channel that has formed since the start of 2017 - a bullish signal. Further upmoves should meet resistance around 33.430 (100DMA). Support nearby at 33.200 (50DMA) before 33.035 (2017 low on 7 Sep).	1-Day Repo Rate	Neutral

Key Data and Events Ahead

Currency	30 Oct-5 Nov	6-12 Nov
USDJPY	- Mon: Retail Sales (Sep) - Tue: Jobless Rate, Overall Household Spending, Housing Starts, Construction Orders (Sep), Industrial Production (Sep P), BOJ Policy Balance Rate, Outlook Report, BOJ Kuroda Press Conference - Wed: Nikkei PMI Mfg (Oct F), BOJ Nakaso Speaks - Thu: - Nil - - Fri: Public Holiday	- Mon: Nikkei PMI Services & Composite (Oct), BOJ Minutes of 20-21 Meeting, BOJ Kuroda Speaks (Nagoya) - Tue: Labor Cash Earnings (Sep) - Wed: BOJ Funo Speaks (Miyazaki) - Thu: Core Machine Orders, Current Account (Sep), BOJ Summary of Opinions at 30-31 Oct Meeting - Fri: Tertiary Industry Index (Sep)
	- Mon: - Nil - - Tue: Manufacturing & Non-Manufacturing PMI (Oct) - Wed: Caixin PMI Mfg - Thu: - Nil - - Fri: Caixin PMI Services & Composite (Oct)	- Mon: Current Account (3Q P) - Tue: Foreign Reserves (Oct) - Wed: Trade (Oct), FDI (Oct) (due 8-18 Nov) - Thu: CPI, PPI (Oct) - Fri: Money Supply, New Yuan Loans, Aggregate Financing (Oct) (due 10-15 Nov)
USDKRW	- Mon: - Nil - - Tue: Business Survey Mfg & Non-Mfg (Nov), Industrial Production (Sep) - Wed: CPI, Trade, Nikkei PMI Mfg (Oct) - Thu: - Nil - - Fri: Foreign Reserves (Oct), Current Account (Sep)	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -
	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: PMI (Oct) - Fri: Nikkei PMI (Oct)	- Mon: - Nil - - Tue: Foreign Reserves (Oct) - Wed: - Nil - - Thu: - Nil - - Fri: Retail Sales (Sep)
	- Mon: - Nil - - Tue: - Nil - - Wed: Nikkei PMI (Oct) - Thu: - Nil - - Fri: Trade (Sep)	- Mon: - Nil - - Tue: Foreign Reserves (31 Oct) - Wed: - Nil - - Thu: Industrial Production (Sep), BNM Overnight Policy Rate - Fri: - Nil -
	- Mon: - Nil - - Tue: - Nil - - Wed: CPI, Nikkei Mfg PMI (Oct) - Thu: - Nil - - Fri: - Nil -	- Mon: GDP (3Q) - Tue: Foreign Reserves (Oct) - Wed: - Nil - - Thu: - Nil - - Fri: Current Account (3Q)
USDPHP	- Mon: - Nil - - Tue: - Nil - - Wed: Public Holiday - Thu: Nikkei PMI Mfg (Oct) - Fri: - Nil -	- Mon: - Nil - - Tue: CPI, Foreign Reserves (Oct) - Wed: - Nil - - Thu: BSP Overnight Borrowing Rate - Fri: Trade (Sep)
	- Mon: - Nil - - Tue: Mfg Production Index, Capacity Utilization, Trade, Current Account (Sep) - Wed: CPI, Nikkei PMI Mfg (Oct) - Thu: - Nil - - Fri: Foreign Reserves (27 Oct)	- Mon: - Nil - - Tue: - Nil - - Wed: BoT Benchmark Interest Rate - Thu: - Nil - - Fri: Foreign Reserves (3 Nov)
	- Mon: - Nil - - Tue: - Nil - - Wed: Nikkei PMI Mfg (Oct) - Thu: - Nil - - Fri: Nikkei PMI Services & Composite (Oct)	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: Industrial Production (Sep), Trade (Oct) (due 10-15 Oct)
USDVND	- Mon: CPI, Trade, Retail Sales, Industrial Production (Oct) (due sometime 30-31 Oct) - Tue: - Nil - - Wed: Nikkei PMI Mfg (Oct) - Thu: - Nil - - Fri: - Nil -	- Mon: - Nil - - Tue: - Nil - - Wed: - Nil - - Thu: - Nil - - Fri: - Nil -

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