

FX Asia Fortnightly

Still Room For USD/Asia To Go Lower?

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The past two weeks have seen broad USD weakness that has weighed on USD/Asians. Leading the way was the MYR followed by the THB and JPY. Bringing up the rear once again was the PHP (falling 1.8% YTD) that remained under pressure from its deteriorating current account deficit. Gains in ASEAN FX were by more than 1.5% YTD (with the exception of the PHP). Aside from market positioning for further upside to Asian FX underpinned by the synchronous global recovery, healthy foreign portfolio inflows into Asia was also supportive of Asian FX. The continuing climb in commodity prices has also been supportive of commodity-linked currencies like the MYR. Higher oil prices though have weighed on the currencies of oil-dependent economies like the PHP and INR. The IDR, MYR and SGD could edge lower towards 13280, 3.7660 and 1.30 levels in the two weeks ahead. The JPY could also remain under pressure ahead should USD sell-off continue. Support is at 108.50

Are USD/Asia Still Sensitive To 10Y UST Changes?

USD/Asian moves have been sensitive to 10Y UST yield changes for the most 2017. Expectations of higher UST yields amid Fed rates had widened yield differentials between UST yields and Asian debt, triggering an outflow from Asian debt back into US assets, namely equities, and also did not favour carry play trades. Since Nov 2017, the sensitivity of higher UST yields on USD/Asians has dissipated and is now negative. This means USD/Asians no longer moves in tandem with 10Y UST yield. We caution that any outflows from Asian assets as returns in the US improve are likely to be more gradual than in past episodes. Inflows to selected Asian economies, such as Indonesia and Thailand, are also likely to be rise more moderately. This decreasing sensitivity between the USD/Asians and 10Y UST yield can be attributed in large parts to the increasingly resilient Asian economies amid a synchronous global recovery led by exports. Expectations that this could extend to an even broader-based recovery led by a recovery in investment is also positive for Asian economies and their currencies. In addition, narrowing 2Y10Y UST yield spreads is likely to still put downside pressure on the USD/Asians ahead. Not surprisingly then, market participants have increased their long-Asian FX bets as they unwind their stale long-USD positions. Thus, higher 10Y UST yield may not constrain downmoves in the USD/Asians in 2018.

BSP, RBI Meetings In Focus; India Budget, ID 4Q17 GDP On Tap

BSP and RBI meet for their first policy meeting of 2018 on 8 Feb and both central banks are no expect to adjust their policy rates. Also eyed will be ID's 4Q GDP on 29 Jan. Other key data/events we are eyeing in the week of 22 Jan include JP jobless rate, retail sales on Tue; JP industrial production, housing starts, BOJ summary of opinions, BOJ Iwata to speak. For Thu, we have PMI data for JP, CN, SK, IN, ID, PH, TH & VN; SK, ID, TH CPI, SK trade; and IN 2018 Federal Budget. Fri has PMI for MY and SG. In the week of 5 Feb, we have services & composite PMI for JN, CN & IN, SK current account, foreign reserve; and MY foreign reserves, PH CPI on Tue. For Wed, there is JP labor cash earnings; CN, PH & SG foreign reserves. For Thu, JP current account, BOJ Suzuji to speak; CN trade, FDI, current account. Fri has JP tertiary industry index; CN PPI, CPI; MY industrial production, PH trade, TH foreign reserves. On Sat, CN releases money supply, aggregate financing, new yuan loans. MY is out for a public holidays on 31 Jan and 1 Feb.

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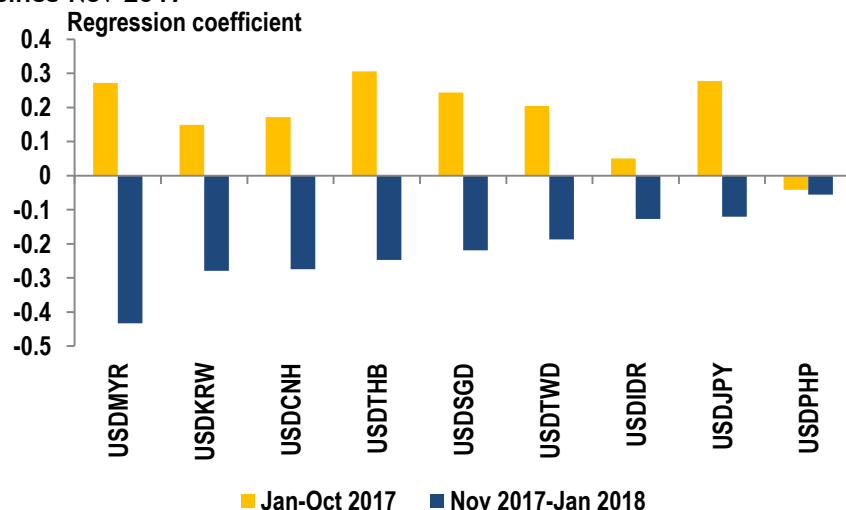
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Flavour of the Week: Are USD/Asia Still Sensitive To 10Y UST Changes?

- USD/Asian moves have been sensitive to 10Y UST yield changes for the most 2017 (chart 1). Expectations of higher UST yields amid Fed rates had widened yield differentials between UST yields and Asian debt, triggering an outflow from Asian debt back into US assets, namely equities. Moreover, higher UST yields did not favour carry play trades, weighing on carry currencies like the IDR.

Chart 1: Sensitivity between 10Y UST & USD/Asia has Weakened since Nov 2017



Note: Reduced equation:

$$\log(Y) = c + b(\log(X)) \text{ where } Y = 10Y \text{ UST yield}$$

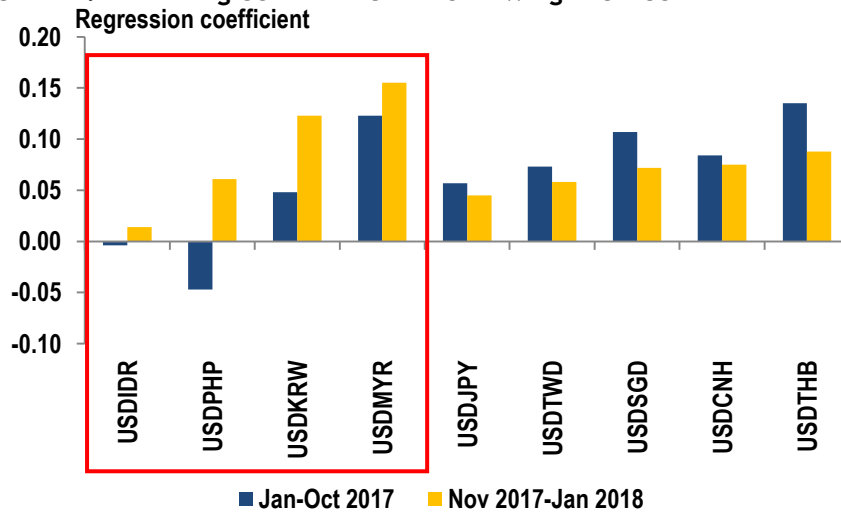
$$X = \text{USD/Asian (e.g. USD/MYR)}$$

Source: Bloomberg, Maybank FX Research & Strategy

- Chart 1 also reveals that since Nov 2017, the sensitivity of higher UST yields on USD/Asians has dissipated. In fact, the relationship between 10Y UST yield and USD/Asians has flipped and is now negative. This means USD/Asians no longer moves in tandem with 10Y UST yield, but in the opposite direction.
- Note that this does not suggest that there will be an influx of foreign investment, both direct and portfolio, into Asian economies. Rather we caution that any outflows from Asian assets as returns in the US improve are likely to be more gradual than in past episodes. Inflows to selected Asian economies, such as Indonesia and Thailand, are also likely to be rise more moderately.
- This decreasing sensitivity between the USD/Asians and 10Y UST yield can be attributed in large parts to the increasingly resilient Asian economies amid a synchronous global recovery led by exports. Expectations that this could extend to an even broader-based recovery led by a recovery in investment is also positive for Asian economies and their currencies. Not surprisingly then, market participants have increased their long-Asian FX bets as they unwind their stale long-USD positions.
- At the same time, our simple regression analysis showed that the narrowing yield differentials between 2Y and 10Y USTs amid a synchronised global recovery weighed on USD/Asians (Chart 2). Thus further flattening of the UST yield curve could continue to see USD/Asian downside persist. Note that the USDIDR, USDPHP, USDKRW

and USDMYR are now even more sensitive with narrowing 2Y10Y UST spreads. This is likely due to idiosyncratic factors, including measures to deepen financial markets for Malaysia, last year.

Chart 2: Flattening UST Yield Curve Still Weighs On USD/Asians



Note: Reduced equation:

$$\log(Y) = c + b(\log(X)) \text{ where } Y = 2Y10Y \text{ UST spread}$$

$$X = \text{USD/Asian (e.g. USD/MYR)}$$

Source: Bloomberg, Maybank FX Research & Strategy

- Thus, higher 10Y UST yield may not constrain downmoves in the USD/Asians in 2018.

2018 Asia FX Forecasts

	End 1Q-18	End 2Q-18	End 3Q-18	End 4Q-18
USDJPY	117	115	116	116
USDSGD	1.3450	1.3300	1.3250	1.3200
USDMYR	3.95	4.02	4.00	3.85
USDIDR	13500	13400	13300	13300
USDTHB	33.00	33.00	33.50	34.00
USDPHP	51.00	50.50	50.50	50.00
USDCNY	6.65	6.60	6.60	6.55
USDKRW	1118	1100	1090	1110
USDINR	66.00	64.50	65.00	65.00
USDVND	22780	22730	22700	22500
SGD Crosses	End 4Q-17	End 1Q-18	End 2Q-18	End 3Q-18
SGDMYR	2.937	3.023	3.019	2.917
MYR Crosses	End 4Q-17	End 1Q-18	End 2Q-18	End 3Q-18
MYRCNY	1.68	1.64	1.65	1.70
MYRIDR	3418	3333	3325	3455
MYRINR	16.71	16.04	16.25	16.88

Source: Maybank FX Research as at 26 Jan 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 continues to trade lower post-BNM rate hike amid broad USD weakness. Pair was last seen at 3.8760 levels. Momentum indicator on monthly, weekly and daily charts remains bearish while stochastics is in oversold conditions. Next key support at 3.85 levels. Decisive break below that could open way for further downside towards 3.7660 (76.4% fibo retracement of 2015 low to 2017 high). Resistance at 3.9060 (61.8% fibo). We still expect MYR strength continue in early part (next few months) of 2018 amid 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. Our fair value estimate for USDMYR is around 3.70 levels.	O/N Policy Rate	Tightening
USDSGD	USDSGD traded lower for the 7 th consecutive weekly session amid broad USD weakness and lower USDCNY fixing by PBOC. Pair has touched a new 2018 and multi-year low of 1.3009 on 25 Jan. Amid a relatively quiet data two-weeks, we expect the pair to be driven by external data/events namely Trump's first State of the Union address, US PCE Core, ADP and NFP. Last seen around 1.3067 levels. Bearish bias on the daily and weekly chart remains intact, and stochastics at oversold conditions. This suggests risks to the pair remain on the downside. Support around 1.3009 before 1.2880 (76.4% fibo retracement of the 2014-2017 upswing). Resistance is around 1.3180 levels.	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 downtrend since end-Dec 2017 amid broad softer USD. In addition, carry trades plays remain in play, weighing on the 1m NDF. Positive sentiments continue to support foreign purchases of USD127.45mn and USD989.7mn in equities and debt in the past two weeks. Continuing carry trade plays and risk-on sentiments could see further net foreign portfolio inflows ahead, which keep the 1m NDF on the downtrend for now. 4Q17 GDP is on tap on 5 Feb and will be closely watch to see if the BI rate cuts have had a significant impact on the economy. Outperformance here could spur long IDR positions and weigh on the 1m NDF. Last seen around 13318 levels. Daily chart shows bearish bias waning, while stochastics shows signs of turning higher from oversold conditions. Weekly momentum indicators and stochastics remain bearish bias. This suggests risks to the 1m NDF remains to the downside but in the near term risks could be tilting higher. Resistance is around 13440 (50% fibo retracement of the Sep-Oct upswing), 13500 (100DMA). Support remains around 13280 (76.4% fibo).	7-Day Reverse Repo Rate	Neutral
USDPHP	1m USDPHP NDF has been broadly on the uptrend for much of 2018 despite USD weakness as concerns over deteriorating current account deficits outweighs. Still, foreign portfolio inflows for the past two weeks have been supportive of the PHP. In the past two weeks, foreign investors had purchased USD66.94mn in equities. Further foreign portfolio inflows should weigh on the 1m NDF. Note that Philippine officials have mentioned preference for a weaker PHP that could benefit trade, similar to the USD amid still healthy economic growth. We believe this should provide the underpinning for the BSP to remain on hold when it meets for its first policy meeting of 2018 on 1 Feb. PHP should thus continue to be a laggard compared to other ASEAN peers. Other data of interest in the next two weeks include CPI on 6 Feb and trade data on 9 Feb. Last seen around 51.06 levels. Daily momentum indicators remain bullish bias but are waning, while stochastics shows tentative signs of turning lower from overbought conditions. Weekly chart shows bearish momentum dissipating and stochastics now out of oversold conditions. We do not rule out risks of retracement ahead. Resistance at 51.30, 51.70 levels. Support is at 50.60 (50DMA), 49.85 levels (38.2% fibo retracement of the Apr-Oct 2017 upswing).	O/N Reverse Repo Rate	Neutral
USDTHB	USDTHB continues on its broad downtrend that began in end-2017, and making new 2018 and multi-year low at 31.277 (on 26 Jan). This was despite the BoT Governor's strong rhetoric to jawbone against further upticks in the currency. Driving the USDTHB lower has been the continued foreign inflows into Thai assets the past two weeks of USD206.6mn and USD445.6mn in equities and debt. Gold prices have also been climbing over the recent weeks, and given the negative correlation between gold prices and USDTHB. Further foreign portfolio inflows and gold price strength should continue to put downside pressure on the pair. USDTHB was last seen at 31.368 levels. As we mentioned in the previous fortnightly, our downside play has come to fruition. Focus in the next two weeks will be on CPI with a stronger print bringing the BoT closer to adjusting its policy rate higher this year. Last seen around 31.382 levels. Daily and weekly momentum indicators remain bearish bias, while stochastics are at oversold conditions. Support remains at 31.256 levels. A clean break here could see bearish extension below 31-handle at 30.617. Rebound could meet resistance around 31.580, 31.860 levels.	1-Day Repo Rate	Neutral

Key Data and Events Ahead

29 Jan-4 Feb		5-11 Feb	
Japan	• Mon: - Nil -	• Mon: Nikkei PMI Services & Composite (Jan)	
	• Tue: Jobless Rate, Retail Sales (Dec)	• Tue: - Nil -	
	• Wed: Industrial Production, Housing Starts (Dec), BOJ Summary of Opinions, BOJ Iwata Speaks (Oita)	• Wed: Labor Cash Earnings (Dec)	
	• Thu: Nikkei PMI Mfg (Jan F)	• Thu: Current Account (Dec), BOJ Suzuki Speaks (Wakayama)	
	• Fri: - Nil -	• Fri: Tertiary Industry Index (Dec)	
China	• Mon: - Nil -	• Mon: Caixin PMI Services & Composite (Jan)	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: Non-mfg PMI, Mfg PMI (Jan)	• Wed: Foreign Reserves (Jan)	
	• Thu: Caixin PMI Mfg (Jan)	• Thu: Trade, FDI YTD (Jan), Current Account (4Q P)	
	• Fri: - Nil -	• Fri: PPI, CPI (Jan)	
	• Sat: -Nil -	• Sat: Money Supply, Aggregate Financing, New Yuan Loans (Jan)	
South Korea	• Mon: - Nil -	• Mon: Foreign Reserves (Jan), Current Account (Dec)	
	• Tue: Business Survey Mfg & Non-Mfg (Feb)	• Tue: - Nil -	
	• Wed: Industrial Production (Dec)	• Wed: - Nil -	
	• Thu: CPI, Trade, Nikkei PMI Mfg (Jan)	• Thu: - Nil -	
	• Fri: - Nil -	• Fri: - Nil -	
Singapore	• Mon: - Nil -	• Mon: Nikkei PMI (Jan)	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: Foreign Reserves (Jan)	
	• Thu: - Nil -	• Thu: - Nil -	
	• Fri: PMI (Jan)	• Fri: - Nil -	
Malaysia	• Mon: - Nil -	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: Foreign Reserves (30 Jan)	
	• Wed: Public Holiday	• Wed: Trade (Dec)	
	• Thu: Public Holiday	• Thu: - Nil -	
	• Fri: Nikkei PMI (Jan)	• Fri: Industrial Production (Dec)	
Indonesia	• Mon: - Nil -	• Mon: GDP (4Q)	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: Foreign Reserves (Jan)	
	• Thu: Nikkei PMI Mfg, CPI (Jan)	• Thu: - Nil -	
	• Fri: - Nil -	• Fri: - Nil -	
Philippines	• Mon: - Nil -	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: CPI (Jan)	
	• Wed: - Nil -	• Wed: Foreign Reserves (Jan)	
	• Thu: Nikkei PMI Mfg(Jan)	• Thu: BSP Overnight Borrowing Rate	
	• Fri: - Nil -	• Fri: Trade (Dec)	
Thailand	• Mon: - Nil -	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: Current Account, Trade (Dec)	• Wed: - Nil -	
	• Thu: Nikkei PMI Mfg (Jan), CPI (Jan)	• Thu: - Nil -	
	• Fri: Foreign Reserves (26 Jan)	• Fri: Foreign Reserves (2 Feb)	
India	• Mon: - Nil -	• Mon: Nikkei PMI Services & Composite (Jan)	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: Fiscal Deficit (Dec), GDP Annual Estimates (2017)	• Wed: - Nil -	
	• Thu: Nikkei PMI Mfg (Jan), 2018 Federal Budget	• Thu: RBI Repurchase Rate	
	• Fri: - Nil -	• Fri: - Nil -	
Vietnam	• Mon: - Nil -	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: Nikkei PMI Mfg (Jan)	• Thu: - Nil -	
	• Fri: - Nil -	• Fri: - Nil -	

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