

FX Asia Fortnightly

USD/ASEAN Upside Could Persist

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The USD should remain supported in the two weeks ahead should US data (particularly PCE Core, ADP and NFP) surprise to the upside. Japan is in election mode and PM Abe's LDP is primed to win a majority in the Lower House, and JPY weakness should persist. In the rest of Asia, continuing USD strength could see some upside to USDAXJs, albeit at a more gradual pace. We see room for 1-month USDIDR NDF and USDTHB to trade higher towards the 13600 and 33.500 levels respectively. PHP, which has seen some relief as we had expected, could bounce higher ahead with 1-month USDPHP NDF trading back towards the 51-handle. On the other hand, USDSGD consolidate ahead of the MAS meeting in mid-Oct with the pair trading within the 1.3500-1.3530 range.

Pressure On The IDR To The Downside

Yield for the 10Y Indonesia bond fell to a 4-year low of 6.262% on 25 Sep. Expectations of further policy rate cuts, especially if inflation remains muted and economic growth sluggish, as well as optimism over the re-emergence of US reflation trades is beginning to impact the USDIDR to the upside. This is also reflected in the USDIDR forward points, which are now turning higher. The rally in 10Y UST yields and the slippage in 10Y Indonesian sovereign bond yield are narrowing the yield differentials between the two. The recent moves by the BI to lower borrowing cost via policy rate cuts and the rally in the UST yields on tax reform prospects are narrowing the yield differentials. The narrower yield differential is putting upside pressure on the USDIDR as foreign appetite for Indonesia sovereign debt wane on lower returns. We are seeing an outsize move in the USDIDR to the narrowing yield differentials due to the pair playing catch-up after the pair plunged following weakness in the USD (corresponding EUR and CNY strength) at end-Aug. With UST yields poised to climb higher amid US tax reform prospects and Fed hike in Dec, and Indonesia yields pressured lower by the two policy rate cuts so far, appetite for the riskier Indonesia could fade and we can see more moderate inflows into Indonesian bonds ahead. This could suggest further upside pressure on the USDIDR towards the end of the year and into 2018.

RBI, MAS meets, Singapore GDP (3Q A) On Tap

Focus in Asia two weeks ahead includes RBI policy meeting on 4 Oct and MAS bi-annual meeting expected sometime 9-13 Oct. Consensus is expecting the Indian central bank to maintain the status quo with the repurchase rate held steady at 6.0%. As for MAS, we are looking for a policy to a "slight appreciation bias" at the Oct meeting from neutral policy that has been held since Apr 2016. Other key data eyed ahead includes PMI prints for Asia out the week of 2 Oct. Looking ahead we have Japan Tankan Survey (3Q); Indonesia & Thailand CPI (Sep); Japan all industry activity index (Jul) on 21 Sep; Vietnam CPI (Sep) on 2 Oct; Philippines CPI on 5 Oct; Japan labor cash earning, Malaysia trade (Aug) on 6 Oct. The week after has Singapore GDP (3Q A) on 9 Oct; Japan current account (Aug), Philippines trade (Aug) on 10 Oct; Japan core machine orders, machine tool orders (Sep) on 11 Oct; Japan PPI (Aug), tertiary industry index (Aug), Singapore retail sales (Aug), Malaysia industrial production (Aug), India CPI (Sep), industrial production (Aug) on 12 Oct. Both China and South Korea are out for from 2 Oct for public holiday with the former back on 9 Oct and the latter 10 Oct. India is out on 2 Oct, Japan on 9 Oct and Thailand 13 Oct.

Analysts

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

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

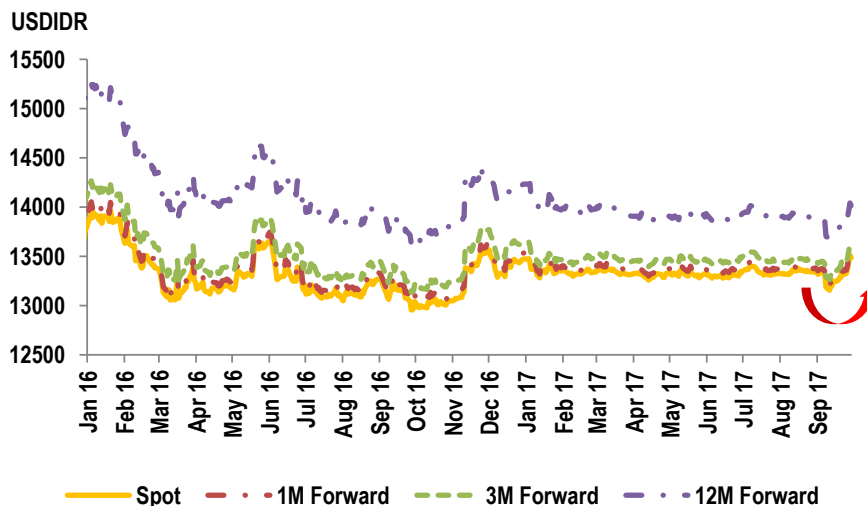
Fiona Lim
(65) 6320 1374
fionalim@maybank.com.sg

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

Flavour of the Week: Pressure On The IDR To The Downside

- The USDIDR spiked to a high to a new 2017 high of 13594 on 29 Sep amid a rally in UST yields and USD on the prospects of US tax reforms and expectations of Fed rate hike in Dec. At the same time, the surprise 25bp cut (second this year) to the benchmark 7-day reverse repo rate to 4.25% sent the 10Y Indonesian sovereign bond yield lower. Yield for the 10Y Indonesia bond fell to a 4-year low of 6.262% on 25 Sep. This was down from the 2017 high of 7.901% on 3 Jan of this year.
- Interestingly, Indonesia bond appears to be favored compared to India. Yield differentials between Indian and Indonesia 10Y debt have flipped since Sep. The positive yield differentials have now shifted in favor of Indonesia compared to India. The yield differential between the two 10Y bond yields is now at 136bp in favor of Indonesia. Supportive of this shift in yield differentials in favor of Indonesia is its improving macroeconomic fundamentals, including narrowing fiscal deficit (Sri Mulyani effect - focused efforts on rising revenue and cutting unnecessary expenditure), and monetary space for policy rate adjustment amid muted inflation.
- Expectations of further policy rate cuts, especially if inflation remains muted and economic growth sluggish, as well as optimism over the re-emergence of US reflation trades is beginning to impact the USDIDR to the upside. This is also reflected in the USDIDR forward points, which are now turning higher (Chart 1).

Chart 1: USDIDR Forward Points Are Climbing Higher

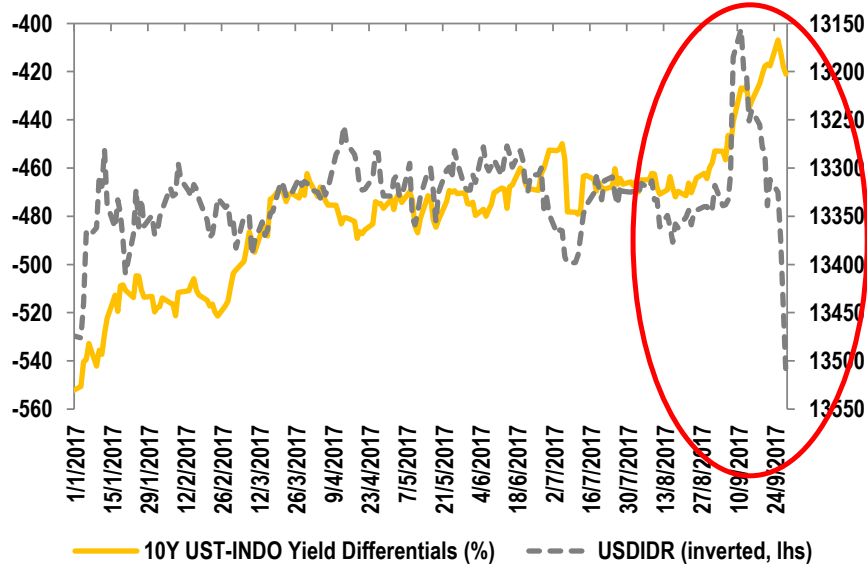


Source: Bloomberg, Maybank FX Research & Strategy

- The rally in 10Y UST yields and the slippage in 10Y Indonesian sovereign bond yield are narrowing the yield differentials between the two. As illustrated in the Chart 2, the USDIDR tends to track movements in the yield differentials between the 10Y UST and Indonesian sovereign bond yield. Thus it should not be surprising that the recent moves by the BI to lower borrowing cost via policy rate cuts and the rally in the UST yields on tax reform prospects are narrowing the yield differentials.
- The narrower yield differential is putting upside pressure on the USDIDR as foreign appetite for Indonesia sovereign debt wane on lower returns

(Chart 2). We are seeing an outside move in the USDIDR to the narrowing yield differentials due to the pair playing catch-up after the pair plunged following weakness in the USD (corresponding EUR and CNY strength) at end-Aug.

Chart 2: Yield Differentials Have Narrowed; USDIDR Pressured Higher



Note that the narrowing yield differentials at the end of Aug failed to lift the USDIDR as the pair was overpowered by the EUR, CNY strength and USD weakness at the time.

Source: Bloomberg, Maybank FX Research & Strategy

- With UST yields poised to climb higher amid US tax reform prospects and Fed hike in Dec, and Indonesia yields pressured lower by the two policy rate cuts so far, appetite for the riskier Indonesia could fade and we can see more moderate inflows into Indonesian bonds ahead. This could suggest further upside pressure on the USDIDR towards the end of the year and into 2018. Note though that interest in Indonesian bonds could re-ignite given Indonesia's strong fundamentals currently as and when carry trades resume. This should be supportive of the IDR.

2017/2018 Asia FX Forecasts

	End 4Q-17	End 1Q-18	End 2Q-18	End 3Q-18
USDJPY	115	115	117	116
USDSGD	1.3500	1.3550	1.3650	1.3700
USDMYR	4.28	4.30	4.25	4.20
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	6.63	6.58	6.55
USDKRW	1160	1140	1150	1130
USDINR	63.00	62.50	64.00	63.50
USDVND	22760	22730	22780	22700
SGD Crosses	End 4Q-17	End 1Q-18	End 2Q-18	End 3Q-18
SGDMYR	3.167	3.173	3.114	3.066
MYR Crosses	End 4Q-17	End 1Q-18	End 2Q-18	End 3Q-18
MYRCNY	1.54	1.54	1.55	1.56
MYRIDR	3181	3163	3224	3250
MYRINR	14.74	14.53	15.06	15.12

Source: Maybank FX Research as at 28 September 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 rebounded back above the 4.20-handle this week, in line with our caution in (FX Weekly) for mild rebound risks towards 4.22. Pair was last seen at 4.2220 levels. Daily momentum is mild bullish while stochastics is rising from oversold conditions. These signals suggest short term rebound risks. Resistance at 4.25. Support remains at 4.20, 4.1720 (50% fibo retracement of 2016 low to 2017 high). Expect 4.17 - 4.25 range over the next 2 weeks. Data release include Aug exports, Sep FX Reserves (6 Oct); Aug IP, Manufacturing sales (12 Oct). We wish to re-highlight that MYR remains significantly correlated with CNY. MYR correlation coefficient with CNY has strengthened to +0.77 from +0.68 in early-Sep. We caution that volatility or abrupt moves in USDCNY may spill-over to USDMYR.	O/N Policy Rate	Neutral
USDSGD	USDSGD bounced to a multi-week high of 1.3647 briefly this week before slipping back below the 1.36-levels on a softer USD. US ADP and NFP (on 4 and 6 Oct) will be eyed and surprise upside could keep the rally in UST yields and USD going, providing support to the USDSGD in the two weeks ahead. Still, MAS meeting (expected 9-13 Oct) could see a shift to a "slightly appreciation bias", which should cap the pair's upside. Momentum on the daily chart remains mildly bullish bias, and stochastics shows tentative signs of turning lower. Bearish momentum on the weekly chart remains bearish bias but waning, while stochastics still show tentative signs of climbing higher from oversold levels. A break of the 1.3630-levels (23.6% fibo retracement of the 2017 high to low) may confirm bullish extension towards 1.3690 (100DMA), 1.38 levels (38.2% fibo). Failure to do so could see the pair trade lower towards 1.3560 levels (50DMA), 1.35-levels (21DMA).	Exchange Rate	Tightening

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDIDR	1m USDIDR NDF spiked to a new 2017 high of 13650 on 28 Sep amid a rally in UST yields and the USD on US tax reforms prospects and expectations of Fed rate hike in Dec, though it has since eased off. Linger in the background is BI's two 25bp cuts that are weighing on domestic yields and the 1m NDF. Still speculation of BI intervention in the FX markets following comments by BI senior deputy governor Mirza Adityaswara and executive director Budi Waluyo that the central bank will continue to intervene in the FX market should be supportive of the IDR. 1m NDF was also weighed by slowing net foreign inflows into Indonesian assets with flows into debt amounting to USD0.27bn the past two weeks compared to USD2.44bn the previous two weeks. Equities were also sold off the past two weeks with USD143.07mn sold vs. USD602.29mn sold the two weeks previous. Further slowdown in net foreign inflows should be supportive of the 1m NDF. Momentum on the daily remains bullish bias and stochastics at overbought conditions. Weekly chart now shows very mild bullish momentum, and stochastics is climbing higher. Next resistance is at 13568 (previous 2017 high on 3 Jan), 13650. Support nearby at 13455 (38.2% fibo retracement of the 2017 low to high).	7-Day Reverse Repo Rate	Easing
USDPHP	1m USDPHP NDF traded back below the 51-handle amid softer USD as we had cautioned in our last Fortnightly. Risks though remain to the upside should US data (including ADP and NFP) surprise to the upside. In addition, recent comments by Finance Secretary Dominguez are also supportive of the 1m NDF. He had said on 26 Sep that he 'favors a slightly weaker peso' and this comment continues to reverberate in the FX market. Foreign outflows from equities are also likely to lift the 1m NDF higher in the two weeks ahead. Foreign funds had sold USD99.13mn sold of equities the last two weeks vs. purchases of USD46.46mn in the previous two weeks. Bearish momentum on daily charts remains intact but waning, while stochastics shows tentative sighs of turning higher. Weekly charts show there is no strong bias in either direction, while stochastics is falling. This suggests that risks remain to the downside but in the near term there is room for the 1m NDF to move higher towards 51.50 (23.6% fibo retracement of Aug low to high). In the interim, resistance is around 51-handle (50% fibo), 51.25 (38.2% fibo). Support is at 50.60 (76.4% fibo, 100DMA).	O/N Reverse Repo Rate	Neutral
USDTHB	USDTHB has come-off from its near two-month high of 33.495 on 28 Sep amid a softer USD. Still, prospects of US tax reforms and impending Fed rate hike in Dec should keep the pair pressured higher ahead. Pair is also not finding support from foreign inflow into Thai assets. In the recent two weeks, foreign investors have sold off USD130.63mn and USD583.91mn in equities and bonds. In contrast, they had purchased USD346.22mn and USD3.11bn in equities and debt in the two weeks prior. Further sell-off in the two weeks ahead should be supportive of the pair. Daily momentum and stochastics remain bullish bias. Weekly chart is now showing very mild bullish bias and stochastics remains in oversold conditions. Near term upside pressure should persist. Further upside should meet resistance at 33.485 levels (38.2% fibo retracement of the Jul high to Sep low), 33.620 (50% fibo). Support is at 33.310 levels (23.6% fibo), 33.230 (50DMA).	1-Day Repo Rate	Neutral

Key Data and Events Ahead

2-8 Oct		9-15 Oct	
Japan	• Mon: Tankan Survey (3Q), Nikkei PMI Mfg (Sep F)	• Mon: Public Holiday	
	• Tue: - Nil -	• Tue: Current Account (Aug)	
	• Wed: Nikkei PMI Services & Composite (Sep)	• Wed: Core Machine Orders (Aug), Machine Tool Orders (Sep)	
	• Thu: - Nil -	• Thu: PPI (Aug), Tertiary Industry Index (Aug)	
	• Fri: Labor Cash Earning, Leading & Coincident Index (Aug)	• Fri: - Nil -	
China	• Mon: Foreign Reserves (Jul), Public Holiday	• Mon: Caixin PMI Services & Composite (Sep)	
	• Tue: Public Holiday	• Tue: Money Supply, New Yuan Loans, Aggregate Financing (Sep) (due 10-18 Sep)	
	• Wed: Public Holiday	• Wed: - Nil -	
	• Thu: Public Holiday	• Thu: - Nil -	
	• Fri: Public Holiday	• Fri: Trade (Sep)	
South Korea	• Sun: Foreign Reserves (Sep), FDI (Sep) (due 8-18 Sep)		
	• Mon: Nikkei PMI Mfg (Sep), Public Holiday	• Mon: Public Holiday, FDI (3Q) (due 9-13 Sep)	
	• Tue: Public Holiday	• Tue: - Nil -	
	• Wed: Public Holiday	• Wed: Foreign Reserves (Sep)	
	• Thu: Public Holiday	• Thu: - Nil -	
Singapore	• Fri: Public Holiday	• Fri: - Nil -	
	• Mon: PMI (Sep), Foreign Reserves (Sep) (due 2-9 Sep)	• Mon: GDP (3Q A), MAS Bi-Annual Meeting (due 9-13 Sep)	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: Nikkei PMI (Sep)	• Wed: - Nil -	
	• Thu: - Nil -	• Thu: Retail Sales (Aug)	
Malaysia	• Fri: - Nil -	• Fri: - Nil -	
	• Mon: Nikkei PMI (Sep)	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: - Nil -	• Thu: Industrial Production (Aug)	
Indonesia	• Fri: Trade (Aug), Foreign Reserves (29 Sep)	• Fri: - Nil -	
	• Mon: CPI, Nikkei PMI (Sep)	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: - Nil -	• Thu: - Nil -	
Philippines	• Fri: Foreign Reserves (Sep)	• Fri: - Nil -	
	• Mon: Nikkei PMI Mfg (Sep)	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: Trade (Aug)	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: CPI (Sep)	• Thu: - Nil -	
Thailand	• Fri: Foreign Reserves (Sep)	• Fri: - Nil -	
	• Mon: - CPI, Nikkei PMI Mfg (Sep)	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: - Nil -	• Thu: Foreign Reserves (6 Oct)	
India	• Fri: Foreign reserves (29 Sep)	• Fri: Public Holiday	
	• Mon: Public Holiday	• Mon: - Nil -	
	• Tue: Nikkei PMI Mfg (Sep)	• Tue: Trade (Sep) (due 10-16 Oct)	
	• Wed: RBI Repurchase Rate	• Wed: - Nil -	
	• Thu: Nikkei PMI Services & Composite (Sep)	• Thu: CPI (Sep), Industrial Production (Aug)	
Vietnam	• Fri: - Nil -	• Fri: - Nil -	
	• Mon: Nikkei PMI Mfg (Sep)	• Mon: - Nil -	
	• Tue: - Nil -	• Tue: - Nil -	
	• Wed: - Nil -	• Wed: - Nil -	
	• Thu: - Nil -	• Thu: - Nil -	
	• Fri: - Nil -	• Fri: - Nil -	

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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