

FX Insight

ASEAN FX - Off To A Good Start In 2018

ASEAN FX Make Gains So Far In 2018

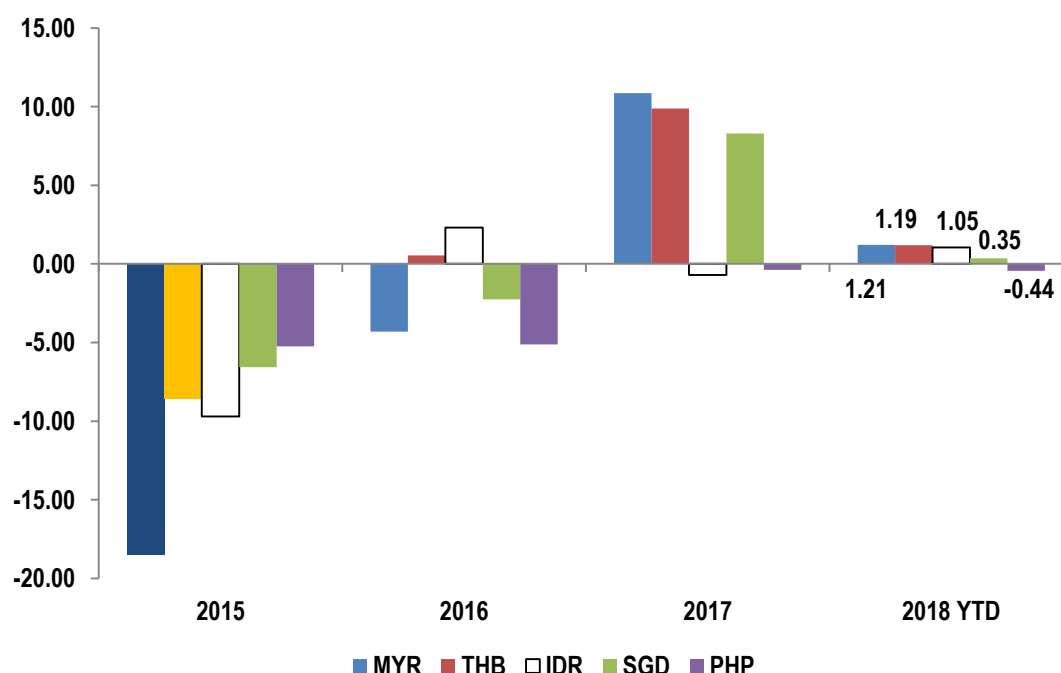
Most of the ASEAN currencies have extended gains into the 2018 as we had expected, underpinned by the synchronous cyclical global economic recovery. Since mid-Dec 2017 to date, all of the ASEAN currencies have gained between 0.7%-2.2% against the USD. These gains come after the MYR, SGD and THB had gained around 8% to 11% for the whole of 2017. Unlike their other ASEAN peers, the IDR and PHP had depreciated by 0.4-0.7% in 2017.

The ASEAN currencies are off to a good start for 2018, led by the MYR, THB and IDR which have risen by over 1.0% against the USD in the first week of the new year (Chart 1). The gains in ASEAN FX have been supported by foreign inflows into ASEAN equity and debt markets. The positive sentiments emanating from synchronous cyclical global recovery have benefitted trade-dependent and commodity-linked currencies. The resulting demand for ASEAN FX has helped to sustain gains in the currencies so far in 2018 (Chart 2).

At the same time, the lack of inflationary pressures despite the healthy gains in the US economy is capping gains in the USD, keeping the USD broadly softer so far in 2018. This in turn has allowed the ASEAN FX to remain supported.

We cautioned though that excessive, one-way bets on ASEAN currencies could risk leaning against the wind activities. We expect ASEAN FX strength to continue but for gains to be more moderate ahead.

Chart 1: ASEAN FX - Gains Extending Into 2018



Source: Bloomberg, Maybank FX Research & Strategy

Analysts

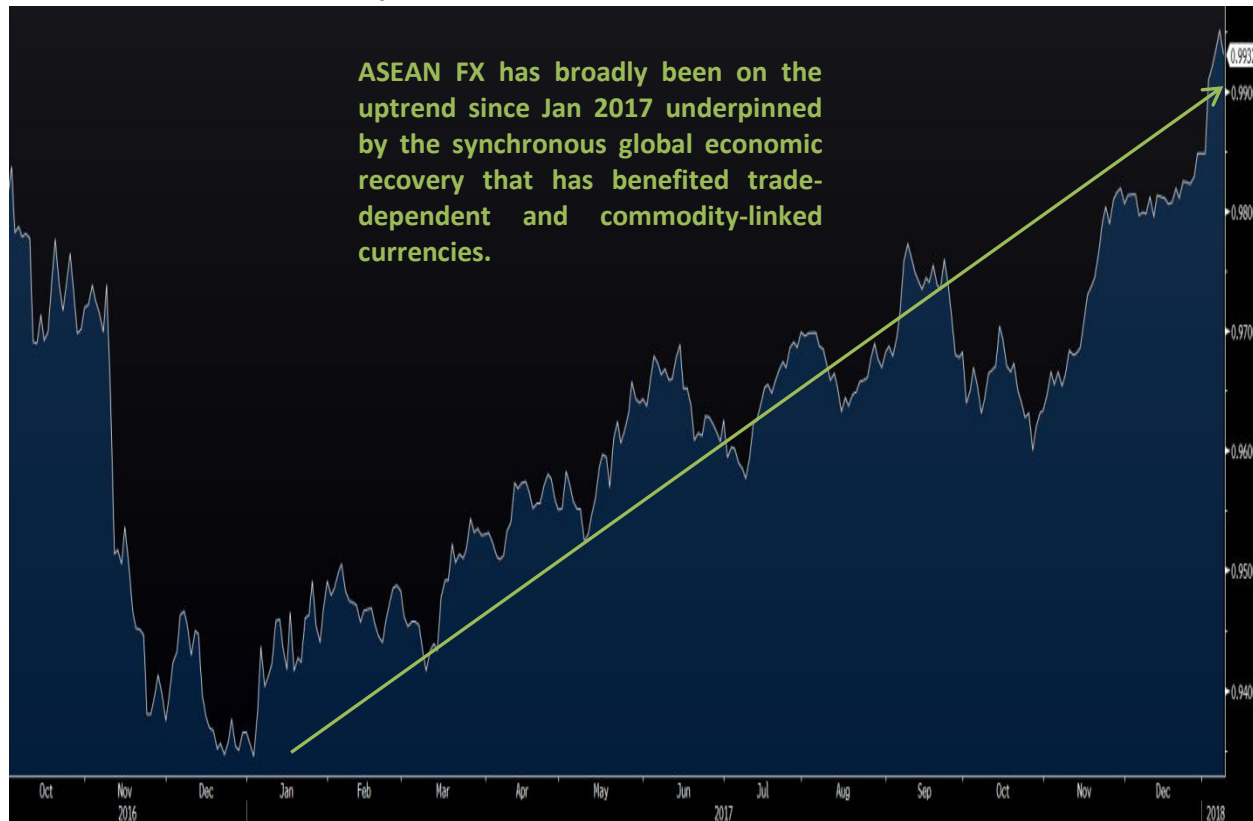
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Chart 2: ASEAN FX - On The Uptrend Since Jan 2017



Source: Bloomberg, Maybank FX Research & Strategy

Gains In Equities And Debt Drive ASEAN FX Higher

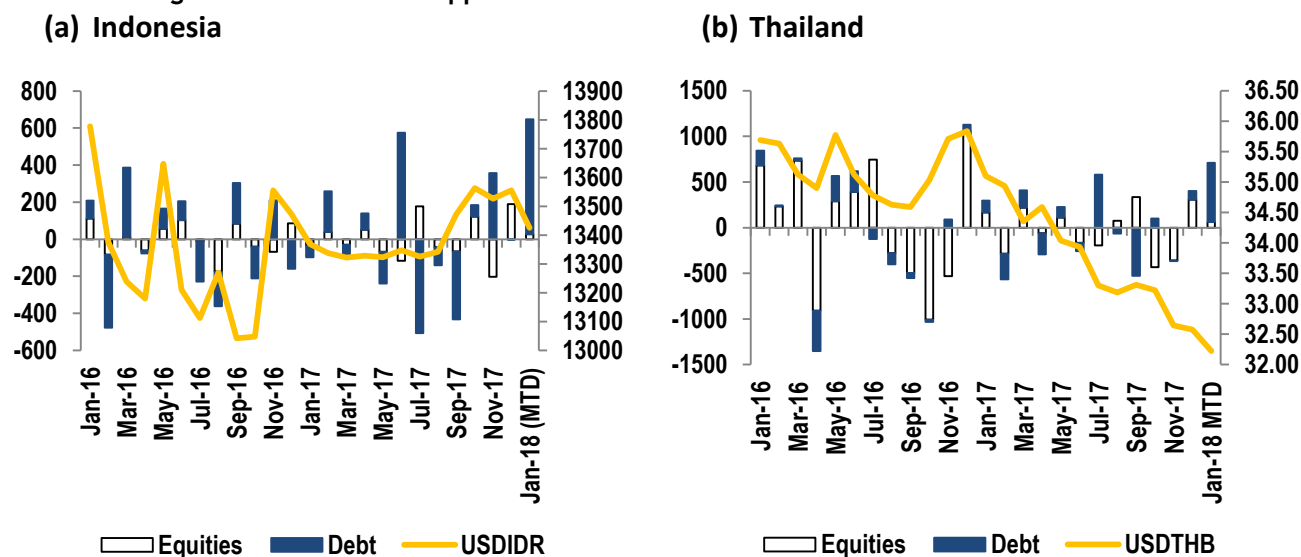
The strong gains in the IDR and THB as well as the MYR to date can undoubtedly be attributed to the strong inflows into their debt markets in the first week of 2018.

Improving risk appetite as well as renewed interest in carry trades lifted both foreign demand for Indonesian assets (Chart 3a). Foreign investors purchased USD26.95mn and USD621.25mn of equities and debt in the first week of Jan compared to USD190.20mn and -USD3.09mn respectively for the whole month of Dec 2017. Similarly, the THB has been supported by the strong inflows in Dec 2017 and Jan 2018 (Chart 3b). Foreign funds have purchased USD63.05mn and USD648.79mn in equities and debt in the first week of Jan, building on the USD306.86mn and USD93.35mn they purchased for the whole of Dec.

While flows data is largely unavailable for Singapore, we can infer from the strong STI performance to date that foreign portfolio investment has been flowing into Singapore equities. Already in the first week of the new year, the STI has hit a two-and-half year high of 3501.16 (on 4 Jan). As well, sovereign debt yields are mostly lower by 0.78-27.75bp last week at the lower end of the curve (below 5Y). From these, we can infer that some of the healthy demand for Singapore assets is coming from foreign investors, helping to provide support for the SGD.

As for the Philippines, the modest inflows into the equity market have so far not provided the PHP with a significant lift. So far in the first week of 2018, foreign investors have bought USD29.96mn in equities.

Chart 3: Foreign Portfolio Inflows Supportive Of ASEAN FX



Source: Bloomberg, Maybank FX Research & Strategy

IDR - Outlook Still Positive

The IDR gains since the first week of Dec was largely supported by carry trade plays. These carry trade plays have extended into 2018 as investors continue their search for higher returns in EM assets given that the US Fed is unlikely to aggressively hike rates in 2018. This has encouraged greater inflows into Indonesia assets as discussed above, lifting the IDR higher more than we have anticipated.

The IDR is also benefiting from the cyclical global recovery that has lifted demand for commodities such as oil, CPO and coal. The improvement in the terms of trade should lift exports, mitigating any drag from domestic consumption. This in turn should benefit the IDR. In addition, the healthy economic fundamentals, including improving current account deficit and fiscal discipline, should provide the impetus to accelerate President Jokowi's USD400bn infrastructure building programme.

On the monetary policy front, our house views remain for the BI to remain on hold for now to allow growth to gain traction. Still with inflationary pressures building up as a result of the improvement in economic growth, we expect the central bank to normalise policy and raise rate sometime in 2Q 2018. This should be supportive of the IDR. We therefore remain positive on the IDR outlook in 2018.

Compared to our fair value estimates for the IDR at 10850, the current level of the IDR is about 25% undervalued. This suggests that there is more room for further IDR gains amid improving domestic and global economic fundamentals.

We revise downwards our USDIDR forecasts for 2018 to reflect the continuing inflow of foreign investment into Indonesian assets, particularly debt (underpinned by carry trade plays). These inflows have come amid a synchronous global export recovery that has been a boon to commodities and which has led to the appreciation of the IDR since early Dec. We expect the IDR to strengthen as we move deeper into 2018.

USDIDR Forecasts

Forecast	1Q 2018	2Q 2018	3Q 2018	4Q 2018
USDIDR	13500 (13700)	13400 (13600)	13300 (13600)	13300 (13500)

Previous Forecast in Parenthesis

Chart 4: 1m USDIDR NDF (Weekly) - Near-Term Pullback



Source: Bloomberg, Maybank FX Research & Strategy

1m USDIDR NDF rebounded mildly this week after slipping lower in the previous three weeks amid a USD recovery. The uptick in the 1m NDF could prove to be temporary. 1m NDF currently shows no strong bias in either direction on the weekly charts, while stochastics is falling. Monthly chart though shows bearish momentum waning, with stochastics climbing higher. This suggests that risks to the 1m NDF are to the upside, though in the nearer term there is potential for a pullback in the 1m NDF. Support is at 13365 levels (23.6% fibo retracement of the 2016 high to 2017 low). Immediate resistance is at 13490 (21WMA) ahead of 13510 (38.2% fibo).

PHP - Outperformance Still Cannot Be Ruled Out

The PHP continues to be a laggard among its ASEAN peers. Though the synchronous cyclical economic recovery remains a driver of PHP strength in 2018, the deterioration in the current account is an albatross to the PHP and is mitigating gains. The aggressive push in the government's ambitious PHP8tn infrastructure programme that includes roads, railways, bridges and airports should result in greater capital imports and push the current account into deficit in 2018 consequently. This should weigh on the PHP.

The tax reforms starting 2018 should kick-start the next phase of investment-led growth. Even though there is doubt over the amount that would be generated by the tax reform, the push ahead with the infrastructure projects is not in doubt. This should lift investor

confidence and spur both portfolio and FDI inflows that should be supportive of the PHP.

In addition, inflows into the stock market could pick-up in 2018 according to our analysis using the Cyclical Adjusted P/E (CAPE) ratio model. Our estimates suggest that domestic equities are relatively cheap (as reflected by the estimated P/E ratios minus their 10-year average P/E ratios) compared to its regional peers. Greater inflows should lift the PHP higher.

We also expect the BSP to hike rates twice by 25bp each in 2018 as inflation is likely to edge higher. Recent comments by BSP governor Espenilla that the central bank stood ready to act preemptively to lift rates if prices climb beyond the BSP's comfort zone. Rate hikes, possibly in 2Q and 3Q, should be positive for the PHP.

We are maintaining our current forecast ranges for the USDPHP for now.

USDPHP Forecasts

Forecast	1Q 2018	2Q 2018	3Q 2018	4Q 2018
USDPHP	51.00 (--)	50.50 (--)	50.50 (--)	50.00 (--)

No Change to Previous Forecast

Chart 5: 1m USDPHP NDF (Weekly) - Potential Rebound Risks



Source: Bloomberg, Maybank FX Research & Strategy

1m USDPHP NDF has rebounded amid a firmer USD tone. Technical indicators are cautioning that 1m NDF is still at oversold conditions. Bearish momentum on daily chart is now waning. Rebound could hit 51-handle (21WMA), 51.50 levels. Support is at 49.85 levels.

SGD - Upside Risk Intact

We reiterate our view that the resiliency of the SGD will extend into 2018, as the currency should benefit from the synchronous global growth recovery that has lifted the trade-dependent economy. Already, the advanced estimates for 4Q 2017 GDP showed the economy expanding by 3.1% y/y, bringing full-year growth to 3.5% in 2017 (vs. 2.0% in 2016). We expect gains in the SGD to continue with the cyclical export recovery serving as a catalyst for a private investment recovery in the economy (as firms expand capacity to meet rising domestic and global demand). This should keep the economic growth supported at 2.8% in 2018, close to the upper band of the government's 1.5-3.5% forecast range.

We also maintain our expectations for the MAS to normalise policy at its Apr meeting. With growth now back towards potential and core inflation on the uptick, we believe that the zero appreciation path of the MAS policy has outlived its usefulness. Our estimates for the SGD NEER using the Taylor Rule show that the SGD NEER is expected to strengthen ahead. Thus, normalising policy by shifting to a 'slight appreciation bias' would be more appropriate. This policy normalisation is expected to provide the SGD with another leg up in 2Q.

It is interesting to note that the 3-month SIBOR had climbed to a near 10-year high of 1.5093% on 3 Jan 2018. The spike in the 3-month SIBOR had started in end-Dec 2017 and could be attributed to the large issuance of MAS bills (3-month and 1-month tenors), in addition to tight liquidity at the year-end. Since then, tight liquidity situation has eased and MAS bill issuance has normalized, resulting in the 3-month coming off to hover around the 1.379% levels at the point of writing.

Given the recent market development, we have tweaked our USDSGD forecasts. This change reflects the gains to the SGD from synchronised export recovery and the potential gains from any subsequent investment-led recovery. The risk-on sentiments from the synchronous global recovery has also spurred inflows into Singapore assets that have lifted the SGD higher. Consequently, we have revised our USDSGD forecast lower.

USDSGD & SGDMYR Forecasts

Forecast	1Q 2018	2Q 2018	3Q 2018	4Q 2018
USDSGD	1.3450 (1.3600)	1.3300 (1.3400)	1.3250 (1.3350)	1.3200 (1.3250)
SGDMYR	2.9368 (2.9779)	3.0226 (3.0746)	3.0189 (3.0337)	2.9167 (2.9811)

Previous Forecast in Parenthesis

Chart 6: USDSGD (Weekly) - Potential Rebound Risks



Source: Bloomberg, Maybank FX Research & Strategy

USDSGD has rebounded from its near 3-year low of 1.3256 (5 Jan). Bearish momentum on the weekly chart remains intact with stochastics at oversold conditions. This suggests further upside could be limited for now. Resistance is at 1.3450 levels. Support at 1.32 (61.8% fibo retracement of 2014-2017 high).

THB - Recent Gains Remain Under Threat From Political Headwinds

The THB continues to be among the best performing currency in ASEAN after the MYR. Supporting the THB higher have been its strong economic fundamentals as well as the synchronous global recovery. Key among its healthy fundamentals is its persistent current account surpluses that continue to backstop the THB. Thailand is one of only two ASEAN economies (the other being Singapore) with a persistent and double-digit surplus in its current account (10.9% as of Sep 2017). This makes its assets more attractive to foreign investors, encouraging greater portfolio inflows and provides support to the THB against possible headwinds.

Like the rest of its ASEAN peers, the THB has also been supported by the synchronous global cyclical recovery that has boosted its exports. More importantly, there is a high correlation between private investment and trade, and this current economic cycle should provide the economy and hence the THB with another leg up. At the same time, the government's push to implement its infrastructure projects including the Eastern Economic Corridor could deliver upside surprises to domestic demand and growth. The investment-led recovery should be a boon for the THB.

We do not expect this THB strength to continue unabated in 2H 2018. This is because we expect political headwinds to weigh on the THB. The current calm in the political arena could give way to political upheaval as simmering tensions could resurface in the lead-up to the election, tentatively scheduled for Nov. The actual date for the election will be announced in Jun when the organic laws governing the election process is passed. Raising political temperatures in 2H is likely to keep investors on the sidelines until political uncertainty dissipates. Such political concerns are likely to put downside pressure on the THB in 2H 2018.

We are positive on the THB in the first half of 2018 but are bearish on the THB in 2H 2018. We maintain our USDTHB forecast for now.

USDTHB Forecasts

Forecast	1Q 2018	2Q 2018	3Q 2018	4Q 2018
USDTHB	33.00 (--)	33.00 (--)	33.50 (--)	34.00 (--)

No Change to Previous Forecast

MACD

Stochs

Chart 7: USDTHB (Weekly) - Downside Risks; But Watch For Leaning Against The Wind Activities



Source: Bloomberg, Maybank FX Research & Strategy

USDTHB has traded heavy since Dec 2017 to touch a new low of 32.084 on 8 Jan - low not seen since Sep 2014 - amid continuing foreign inflows into the country's debt. We caution that further downmoves could lead to leaning against the wind activities. Bearish momentum remains intact, while stochastics remains in oversold condition. Support at the 32-handle. Rebound should meet resistance around 32.390 levels, 32.615 (50% fibo retracement of the 2013 low to 2015 high).

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