Maybank

Macro | FX Research and Strategy

Global

FX Insight

Greenback to Wither as Green Shoots Flourish

Fears of Growth Slowdown Overblown; USD Strength to Fade

Not all slowdowns turn into recessions and signs of stabilization are appearing in China and Europe. Swift policy responses via monetary and fiscal channels so far are timely to cushion against a deeper slowdown and this could support sentiments. We continue to argue that USD strength should fade on a combination of factors including (1) Fed pause amid benign inflation environment; (2) moderation in US activity momentum while global activity is showing signs of stabilisation; (3) more central banks shifting to patience and accommodative stance with their monetary policies and policymakers responding with fiscal support may well prove to be timely to cushion against a deeper global growth slowdown and support sentiment. In addition, (4) growing optimism of a trade deal between US and China possibly coming earlier than later should also further support sentiment and provide the lift for activity and exports. When all these factors are in play, the unwinding of stale and speculative USD long positions could send USD lower.

US-China Trade Deal the Next Catalyst, Eventual Political Clarity a Boost

Investors have likely priced in a conservative bet on a trade deal given Trump's past record of unexpected behavior and the absence of concrete details from the several rounds of trade talks held so far. We anticipate further upside for CNH, AUD, NZD and KRW, given their sensitivity to the trade talk progression as well as the strong trade exposures to the country. A trade deal is likely to boost consumption and investment that can kick-start the next global synchronized recovery, the catalyst for USD to move lower. Within ASEAN, elections have given rise to different nuances across the region. PHP and THB are depressed due to current political uncertainties. However, dips are seen as opportunities to accumulate as we anticipate a rebound against the USD once there is more clarity. IDR is still the outperformer under a Jokowi-win. Amongst Asia FX, we are more positive on CNH, SGD and IDR and less positive on THB and PHP.

Risks to Our View

(1) Further gains in oil prices could translate into inflation ticking higher in US and this could reignite pressure for Fed to tighten and would be supportive of the USD; (2) no US-China trade deal and lack of follow-through in global economic activity could result in a deeper economic slowdown (sell in May adage). In this scenario, volatility will jump from current compressed levels and risk assets including equities will enter into a deeper sell-off and USD could strengthen (flight to safety); (3) if growth and monetary policy divergence resumes in favor of US, then tighter monetary conditions could expose vulnerabilities in EM assets including Turkey, Venezuela and USD could then be poised for further upside (risk-off trade).

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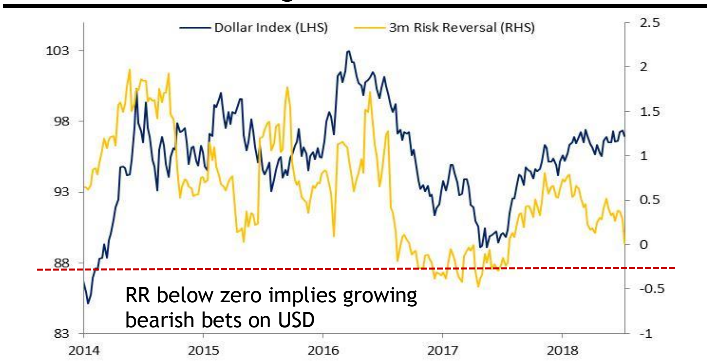
The Case for USD Strength to Fade

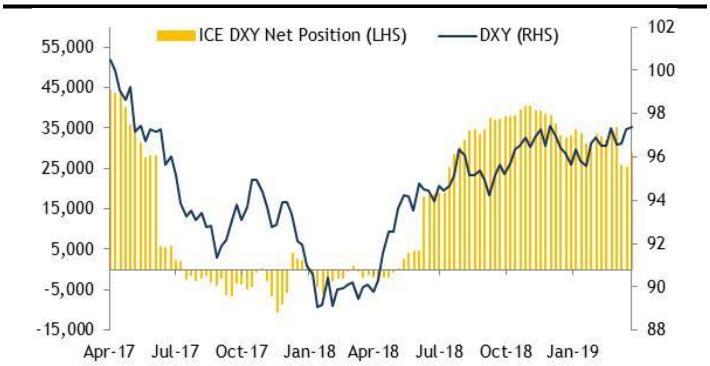
We continue to argue that USD strength seen since Apr-2018 (see here and here) should fade on a combination of factors including (1) Fed pause amid benign inflation environment; (2) moderation in US activity momentum while global activity is showing signs of stabilisation; (3) more central banks shifting to patience and accommodative stance with their monetary policies and policymakers responding with fiscal support may well prove to be timely to cushion against a deeper global growth slowdown and support sentiment. In addition (4) growing optimism of a trade deal between US and China possibly coming earlier than later should also further support sentiment and provide the lift for activity and exports. To add, investors have started to bet more on puts on the USD relative to calls vs. the other non-USD majors. This case of risk reversals turning negative (has not occurred since Apr last year) against an environment of USD strength, suggests that markets' complacency with USD strength could be vulnerable to a sell-off. When all these factors are in play, the unwinding of stale and speculative USD long positions could send USD lower.

Bearish Signal Flashing for USD in Options Market as Risk Reversal Gone Negative for First Time in a Year



Source: CFTC, Bloomberg, Maybank FX Research & Strategy

Unwinding of Stale USD Long Position Can Accelerate USD Sell-Off



Source: CEIC, Maybank FX Research & Strategy

Beyond the near term, US' widening twin deficits of budget and current account as well as ongoing diversification in global central banks' reserves away from USD should continue to weigh on the USD.

Taking stock, our DXY forecast and trajectory continue to do well YTD as we were already pricing in market expectations for dovish Fed amid benign inflation, fading momentum from fiscal support, hopes of US-China trade deal in coming weeks and a global growth neither 'hot nor cold'. As such we keep our forecast and trajectory unchanged for the next 4 quarters.

Our DXY Forecast vs. Bloomberg Consensus

	Market Actual	Our Forecast	Our % Deviation from Actual	Consensus Forecast (Median)	Consensus % Deviation from Actual
1Q 2019	97.28	96.69	-0.61%	95.70	-1.62%
2Q 2019		95.88		95.50	
3Q 2019		94.64		94.60	
4Q 2019		94.86		93.50	
1Q 2020		94.62		93.50	

Source: Bloomberg, Maybank FX Research & Strategy (as of 9th Apr)

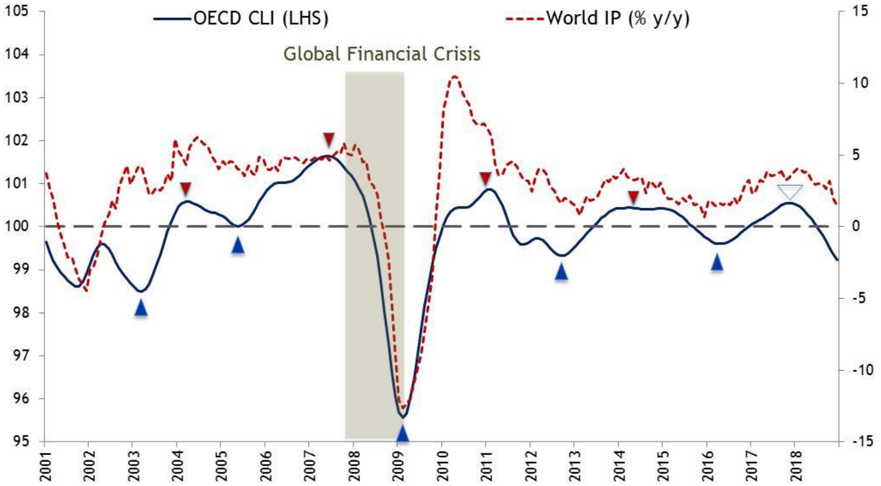
We continue to look for USD softness into 2Q - 3Q 2019 on the above-mentioned factors. Towards the end of 2019, our baseline builds in some expectations of heightened concerns about weaker global and US growth intensifying thus leading to some level of global risk off, supporting the USD somewhat.

Global Growth Momentum Easing while IMF Downgrades Growth

To set things straight, global growth momentum is easing in major economies including US, UK, Japan, Germany, Australia, etc. The IMF lowered its global growth projection to 3.3% for 2019, down from 3.5% previously projected in Jan-2019.

Global Growth Momentum Easing in Major Economies

Composite Leading Indicators (CLI) in OECD area vs. World Industrial Production



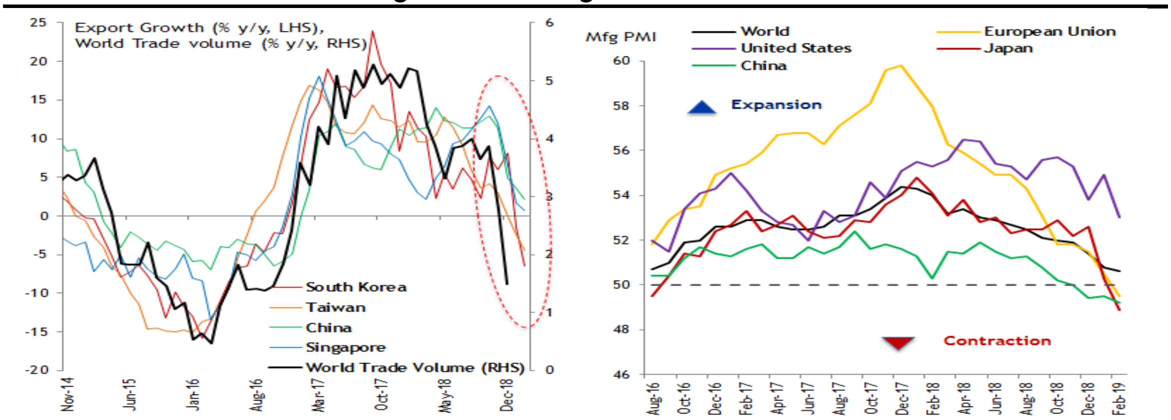
Note: CLIs or Composite Leading Indicators are designed to anticipate turning points in economic activity relative to trend 6 - 9 months ahead. Horizontal line at 100 represents the trend of economic activity. Colored triangles mark confirmed turning points of CLI while unshaded ones mark provisional turning points that may be reversed

Source: OECD, Bloomberg, Maybank FX Research & Strategy

Ongoing Trade Tensions between US and China Weighing on Growth

Many factors contributed to the current episode of growth slowdown including policy uncertainties in Europe, *Brexit;* tighter financial conditions globally amid policy normalisation in US, macroeconomic stresses in Turkey, Argentina, etc. But we believe one of the most persistent drags came from ongoing trade tensions between US and China as export growth decelerated and manufacturing sectors for some major economies have slumped into contractionary territories.

Global Trade Slowdown… Hitting Manufacturing Sectors



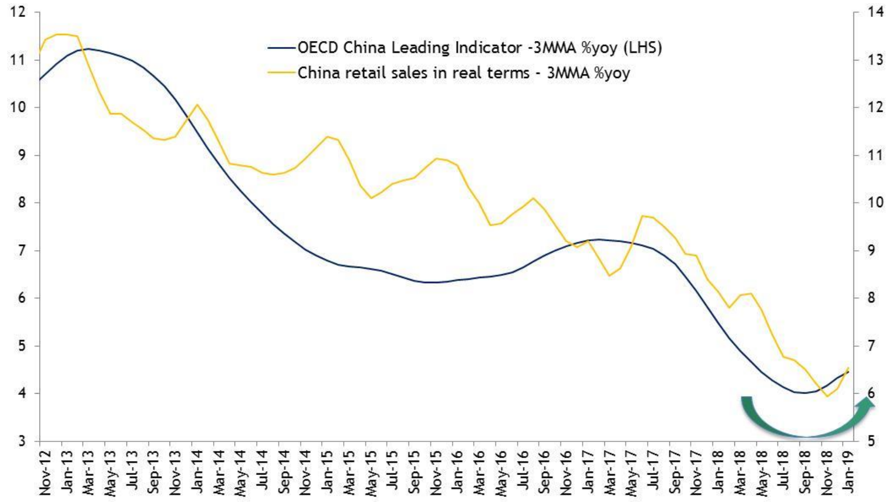
Source: CEIC, Bloomberg, Maybank FX Research & Strategy

But Not All Soft Patches Translate into Deep Economic Slowdown

Though growth momentum is easing in major economies, we argue that growth easing does not equate to an outright recession. There are signs of stabilisation showing up in some parts of the world, including China and Europe.

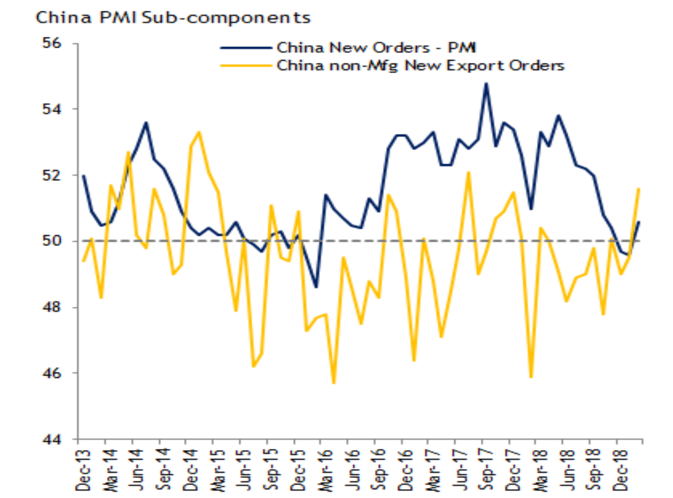
In China, leading indicator points to signs of stabilizing growth momentum in China while retail sales (in real terms) are showing signs of bottoming. Breakdown of China PMI also revealed that new orders and non-manufacturing new export orders picked up while investment growth rebounded in China. These green shoots are even more evident in the Mar activity data which saw industrial production surging to 8.5% from previous 5.9%. Retail sales also firmed to 8.7%y/y while GDP for first quarter exceeded expectations at 6.4%y/y.

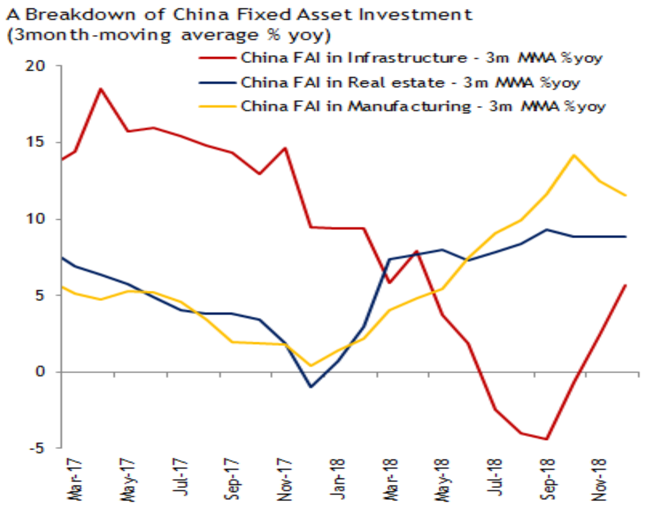
Early Signs of Stabilisation in China



Source: OECD, CEIC, Bloomberg, Maybank FX Research & Strategy

Signs of Improvement in China's Domestic Demand



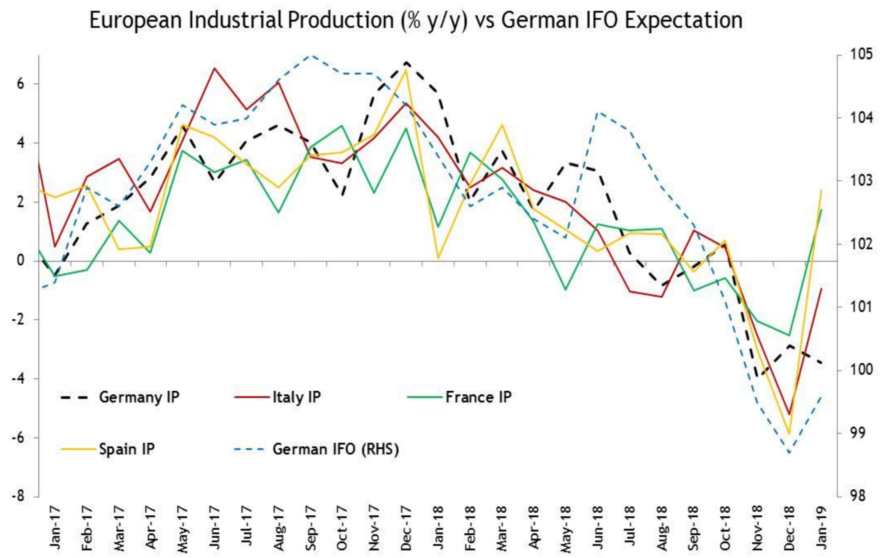


Source: CEIC, Bloomberg, Maybank FX Research & Strategy

Elsewhere in the Euro-area, there are also signs of stabilisation showing up in activity including industrial production in France, Spain, Italy, German survey expectations, etc. No doubt Germany is undergoing a soft patch for now, we think this is one-off and the economy should recover once the one-off event relating to auto emission scandal fades. We believe further stabilisation in EU data, in particular coming from

Germany (soft patch likely due to one-off events) could translate into a real pick-up.

Rebound in Industrial Production and German IFO



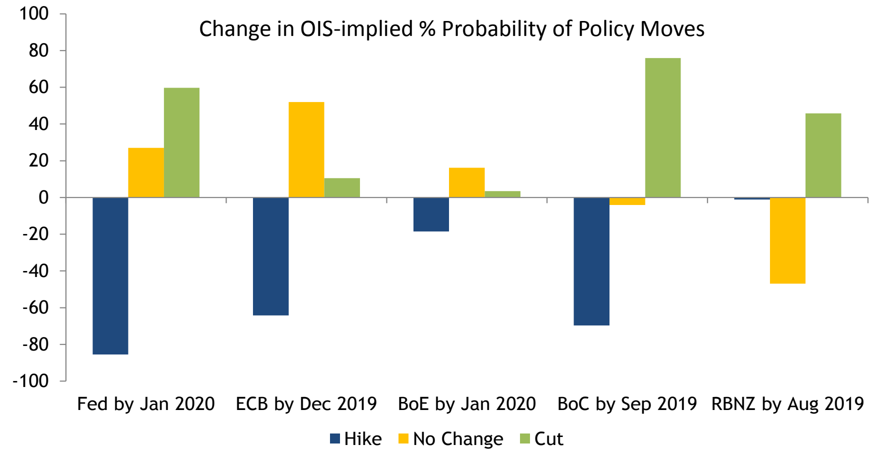
Source: CEIC, Maybank FX Research & Strategy

Policy Responses Timely to Cushion against Deeper Slowdown

Policymakers including central banks were swift this time to respond with stimulus measures and easy policies. In terms of fiscal support, China has ramped up infrastructure investment, cut VAT (wef. 1 Apr) for manufacturing and other industries and lowered the share of enterprise contribution to urban workers' basic old-age insurance to lower corporate tax burden while South Korea is planning a supplementary budget (worth up to US$6.1 bn) to support growth.

In the Developed Markets (DM) world's monetary space, the Fed has signaled a pause in policy normalisation, with no rate hike expected for 2019 and an end to balance sheet normalisation in Sep-2019; the ECB has announced plans to re-introduce TLTRO (as a cheap source of funds for banks) in Sep-2019 and to keep rates at present levels through end-2019 from end Summer-2019 while RBNZ has joined other DM central banks in turning dovish with the recent statement indicating that the *more likely direction of the next OCR rate move is down.*

Markets Expectations for Rate Hikes Have Fallen in Response to Central Banks' Guidance



Note: The above probabilities are sourced from Bloomberg (World Interest Rate Probability) that are OIS implied. The bars show the change in the probabilities of a rate

hike, no change, rate cut at a future dated policy meeting based from 31 Oct 2018 to 5 Apr 2019 (for Fed & RBA), 18 Dec 2018 to 5 Apr 2019 (ECB), 14 Feb 2019 to 5 Apr 2019 (BoE), and 13 Feb 2018 to 5 Apr 2019 (RBNZ). For example: implied probability of a rate hike by the Fed by Jan 2020 meeting has fallen by 86% between 31 Oct 2018 and 5 Apr 2019.
Source: Bloomberg, Maybank FX Research & Strategy

In the Emerging Market (EM) Asia world, RBI has cut policy rate twice in a row by a cumulative 50bps this year and we do not rule out PBoC making targeted RRR cuts to support financing needs of private enterprises. Our Economists expect BNM to cut OPR rate by 25bps as early as in May-2019 MPC meeting to support domestic demand growth and shore up consumer and business sentiment and the BSP to cut benchmark rate by 50bps in 2H 2019 in light of receding domestic price pressures, and the recent downgrade to official growth forecast to 6% - 7% for 2019, from 7% - 8% previously. For BI and BoT, our Economists were previously looking for 50bps and 25bps hikes previously but are now looking for policy rates to hold steady this year.

EM Asia central banks shifting to neutral-dovish stance

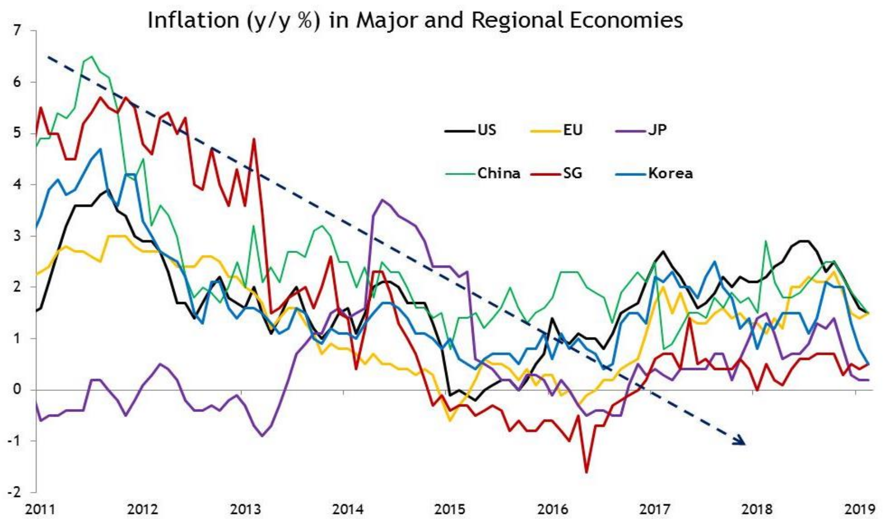
	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	Market Expectation
US	▲	▲	–	▲	▲	▲	▲	▲	–	Fed Pause
CH	–	–	–	–	–	▼	▼	▼	▼	Risk of RRR cut
IN	–	–	▼	–	–	▲	–	–	▼	Risk of policy rate cut
SK	–	–	–	▲	–	–	–	▲	–	Neutral
SG	–	–	–	–	–	▲	–	▲	–	MAS to pause
MY	–	–	–	–	▲	–	–	–	–	Likely BNM will cut 25bps in May
ID	–	–	▼	–	–	▲	▲	▲	–	Neutral
PH	–	–	–	–	–	▲	▲	▲	–	Easing Bias
TH	–	–	–	–	–	–	–	▲	–	Neutral

▲ Tightening
– No Change / Pause from the last move
▼ Easing

Source: Bloomberg, Maybank FX Research & Strategy

The return of central bank accommodation (as most DM central banks turn dovish and EM Asia central bank keeping policies easy) amid benign inflation environment could be timely to ease financial conditions and provide support for growth to pick up.

Benign Inflation (<2%) Leaves Room for Central Banks to Adopt Easy Monetary Policy Stance

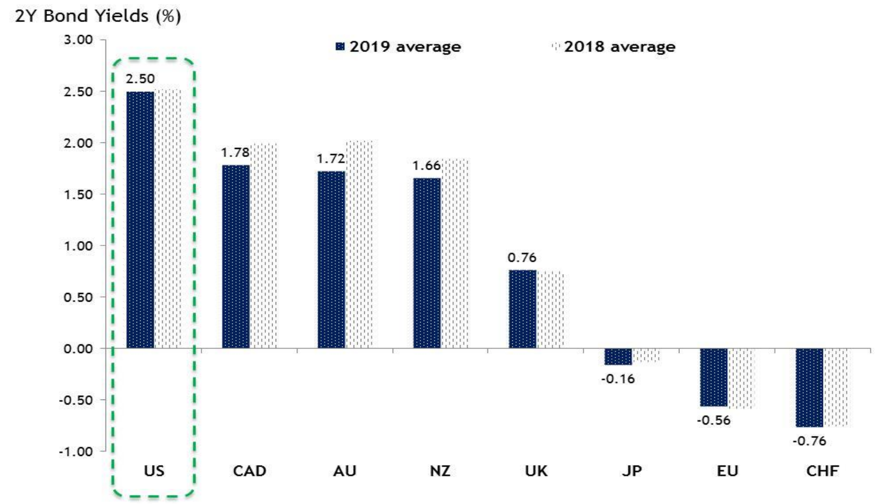


Source: Bloomberg, Maybank FX Research & Strategy

Narrowing Divergence between Growth Differentials Could Drag USD Lower

Taking stock, the broad run-up in USD strength since Apr-2018 can be attributed to a few factors including US growth outperformance, monetary policy divergence, some risk-off events including re-escalation of US-China trade tensions and EM stresses in Argentina and Turkey as well as USD retaining the carry advantage in the DM world and safe haven quality appeal.

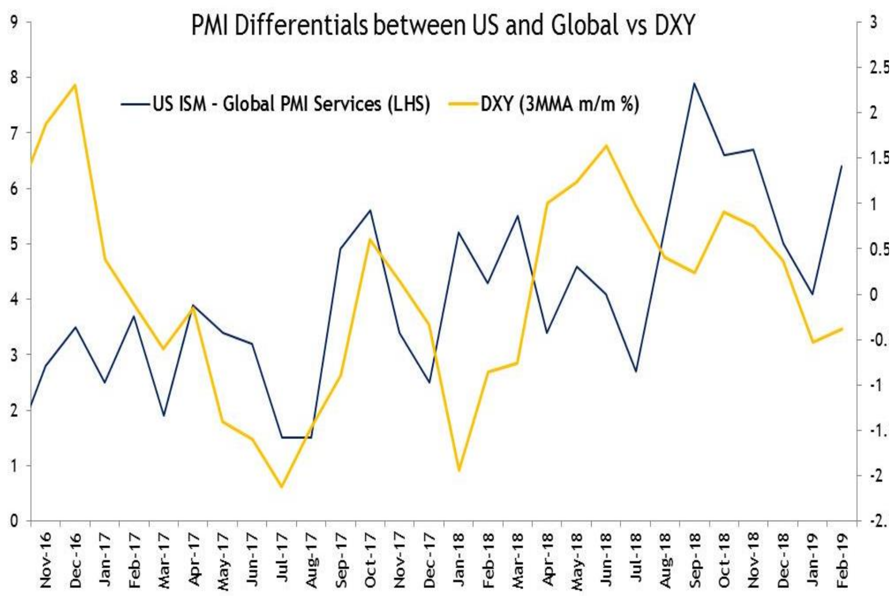
USD Retains the Carry Advantage in the DM World



Source: Bloomberg, Maybank FX Research & Strategy

But we think some of these factors are gradually dropping off the list and this suggests that USD strength could ease. In particular we argue that USD could be dragged lower as growth and activity momentum in US peak and turn lower while signs of stabilisation in Europe and China translate into further pick-up in growth.

USD Eases When US Growth Momentum Decelerates

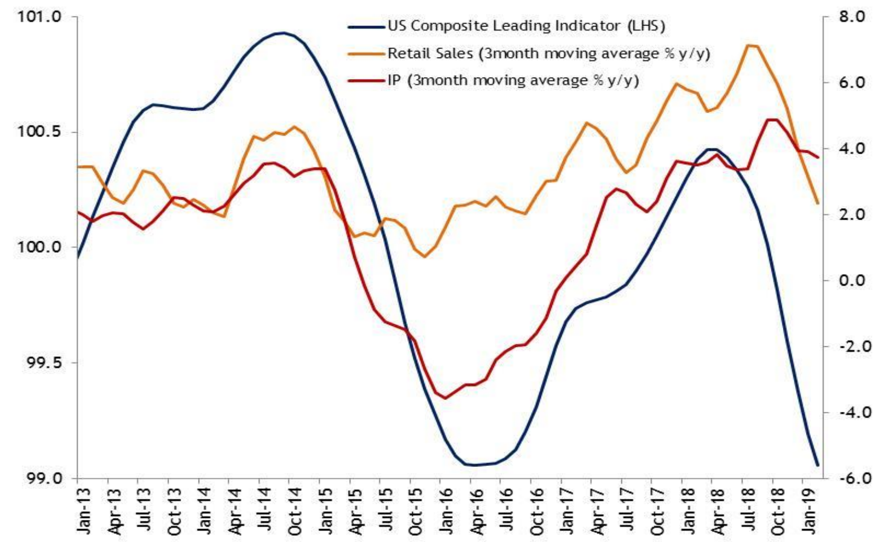


Source: Bloomberg, Maybank FX Research & Strategy

Fed Pause Justified and May Well be Prolonged

Recent weaker-than-expected US data including softer retail sales, industrial production, core PCE, Chicago PMI, factory orders, 4Q GDP warrant Fed's patience on policy normalisation.

Growth Momentum Peaked while Activity in US Has Decelerated



Source: OCED, CEIC, Bloomberg, Maybank FX Research & Strategy

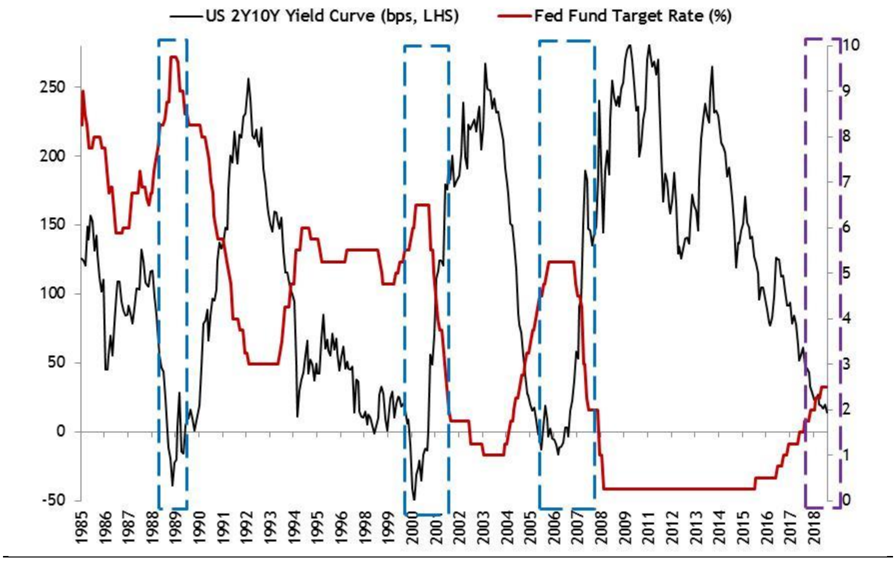
As of FoMC meeting on 21st Mar, the Fed has indicated a shift to no rate hike in 2019 (down from 2 hikes previously) while Fed Chair Powell added that **rates could be on hold for "some time"** as global risks weigh on the economic outlook and inflation remains muted. On balance sheet normalisation, Fed plans to slow the pace of normalisation in May and end normalisation in Sep.

Fed Nearing End of Rate Hike Cycle

Putting the current rate hike cycle in perspective, the Fed started normalising monetary policy since Dec-2015 and since then, the Fed has raised Fed funds target rate on 9 occasions by 25bps each over 40 months. Going by Fed's forward guidance, only 1 more rate hike is expected in 2020 while markets are even pricing in a 52% chance of a 25bps rate cut (via fed fund futures as of 11th Apr) as early as at the Dec-2019 FoMC meeting. We believe the Fed is nearing its end of policy normalisation (previously highlighted in our earlier report).

Going back to 1980s, previous episodes of yield curve inversions tend to coincide with the peak of each Fed rate hike cycle. In the current episode, 2Y10Y UST yield spread is about +10bps away from being flat and inverted. Historically low 2y10y yield spread was about -40bps in 1989 and 2000. While there may still be room for Fed to tighten, historical observation suggests that the room may well be limited.

Yield Curve Nearing Inversion Suggests that Fed's Window to Tighten is about to be Closed



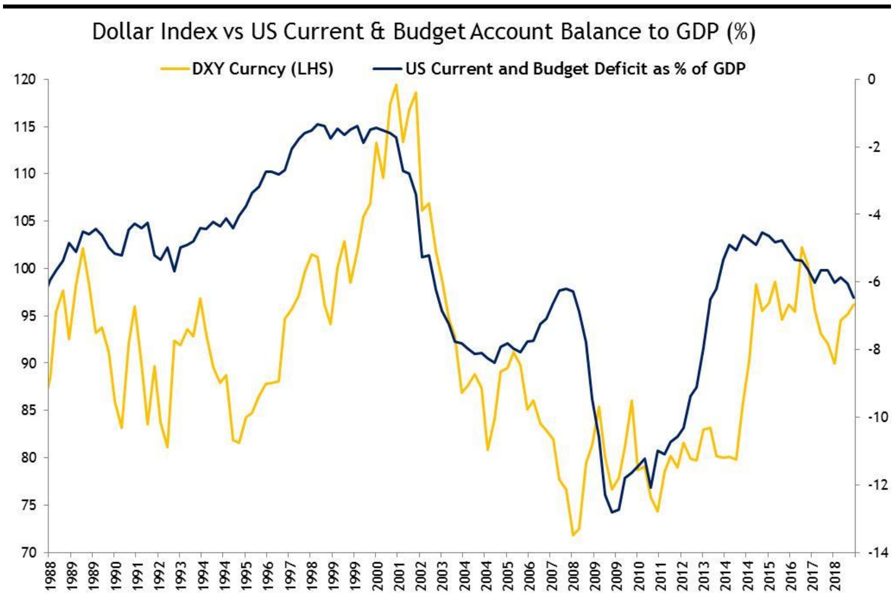
Source: Bloomberg, Maybank FX Research & Strategy

USD Suffers from Deterioration of Twin Deficits

Report from US Treasury department showed that 1H fiscal year (Oct 2018 to Mar 2019) deficit rose to $691bn, 15% higher than the same period in FY 2018 and the Treasury department expects the deficit to exceed $1tn for FY 2019 (till end-Sep 2019). Meanwhile US current account deficit as % of GDP continued to widen to 10y high of -2.6% of GDP amid declining exports.

Historically, a deterioration of the twin deficits of budget and current account tended to see USD softness.

USD Suffers from a deterioration of Twin Deficits



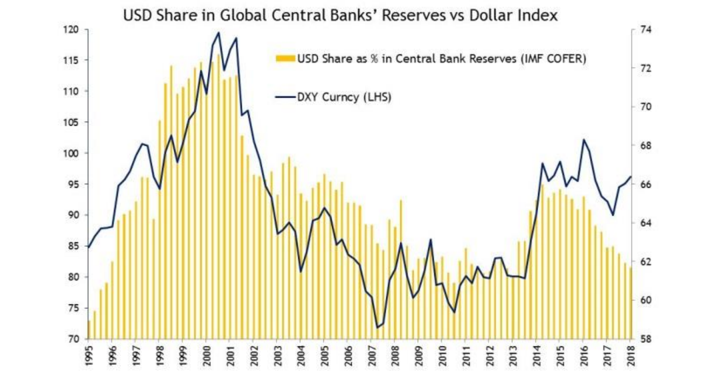
Source: Bloomberg, Maybank FX Research & Strategy

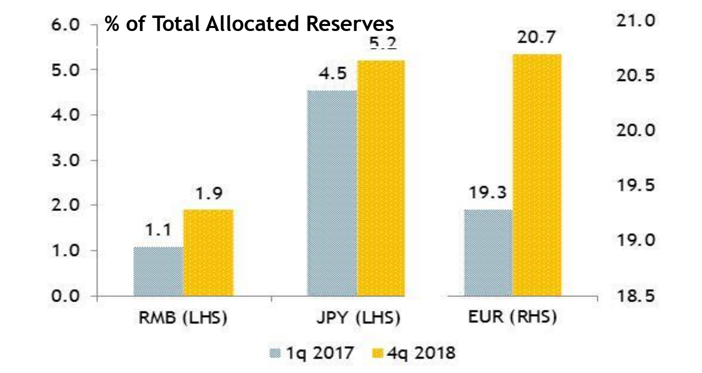
US' widening twin deficits of budget and current account as well as ongoing diversification in global central banks' reserves away from USD should continue to weigh on the USD.

USD Still a Global Reserve Currency but Gradually Losing its Shine

Recent release of IMF's quarterly Composition of Official Foreign Reserves (COFER) report confirms the ongoing trend of reserve diversification away from the USD. Dollar as a share of global central banks' reserves fell to 61.7% in 4Q 2019, marking the 10th decline in the past 3 years. A post-2000 high was seen at 72% while low was seen at 60.78% in 2011. Reserve managers continued to add EUR, JPY and RMB.

Ongoing FX Reserves Diversification Should Limit USD Strength





Source: IMF COFER, Bloomberg, Maybank FX Research & Strategy

A Catalyst for Asian FX to Outperform Could be a Trade Deal

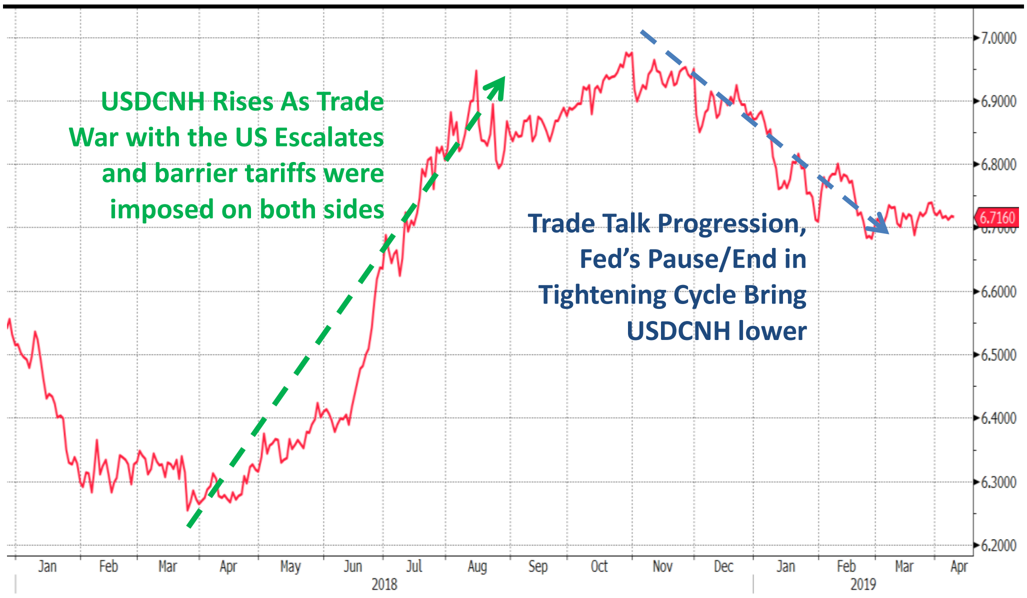
Global growth stabilization and central bank puts should be able to provide a constructive environment for Asian currencies. However, Asian FX has not been performing as well as they should be. We see a trade deal between the US and China to be the next catalyst for trading sentiments to turn more positive in the region. Since the US slapped the first tranche of tariffs on China last year, there were three impacts seen so far -1) sentiments were affected; 2) trade volume has shrunk (not least between the two nations); 3) investment and consumption were hurt, leading to the global growth slowdown that we are witnessing today. We are of the view that the US and China should iron out a deal by Apr-May, taking the cue from Trump who said (on 4 Apr) that it may take up to 4 weeks to put together a framework for the deal and another 2 weeks to put the details on paper. The deep contraction in export earnings for the US over the past few months (averaging -30%y/y) also underscores the urgency of a deal.

In our base case, this deal should see an agreement to remove the 10% tariffs imposed by the US on U$200bn of Chinese goods (or at least partially) and China to also remove the tariffs imposed on U$60bn of US goods that were imposed on 24 Sep as well. Treasury Secretary Steven Mnuchin also mentioned about a currency pact and an agreement not to use competitive devaluation is also likely.

Removal of Tariffs Likely Not Priced, Upside for CNH

The impact of this trade deal could strengthen the CNY which weakened almost 12% against the USD and 5.8% against a basket of trade-weighted currencies during the height of the trade war in 2018. Since the turn of the year, CNY has seen partial retracement, boosted more recently by better data of late. Taking into account the Fed's shift to a dovish stance at the turn of the year, price moves so far suggest that investors have likely only priced in a conservative bet on a trade deal because of Trump's past record of unexpected behavior and the absence of concrete details from the several rounds of trade talks held so far. As such, the removal of tariffs could mean more upside for CNY and CNH. A currency pact could also be interpreted as a preference for a stronger CNY by the US negotiators as part of the enforcement mechanism, reinforcing further CNH and CNY recovery.

USDCNH Still Has Room to Fall as US and China Inchs Towards a Trade Deal

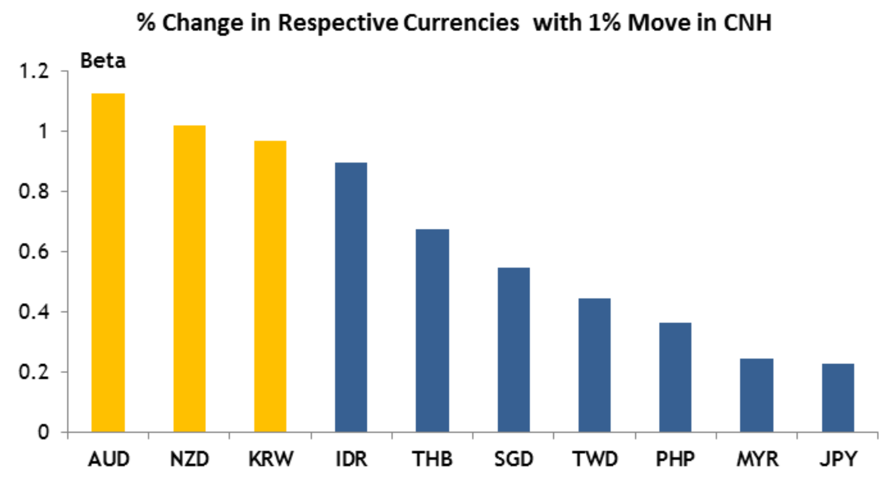


Source: Bloomberg, Maybank FX Research & Strategy

First Reaction from FX Via the Sentiment Channel

Taking the CNH as a proxy of trade war progression/deterioration, AUD, NZD and KRW have demonstrated strongest sensitivity to the currency in the past five months (since CNH turned higher against the USD in Nov). Note that the rest of Asian FX in the chart below should also strengthen on better risk appetite but to smaller extent.

AUD, NZD and KRW Are Most sensitive to CNH

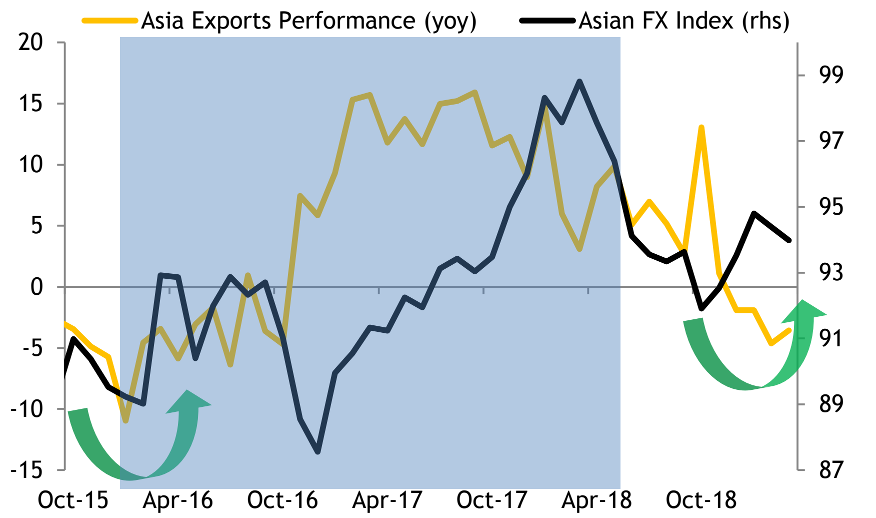


Note: OLS regression on daily values for sample period of 1 Nov 2018-11 Apr 2019. For example, a 1% appreciation in CNH vs. the USD could see a 1.1% appreciation in AUD vs. the USD.
Source: Bloomberg, Maybank FX Research & Strategy

The Export Recovery Can Lift The Asian FX

The trade war has affected not just trade volumes. The uncertainty of the event also crimped consumption and investment behaviour of corporates around the world. That has led to the global growth slowdown that we are witnessing now.

Export Recovery Took Asian Currencies Higher in 2016-2017



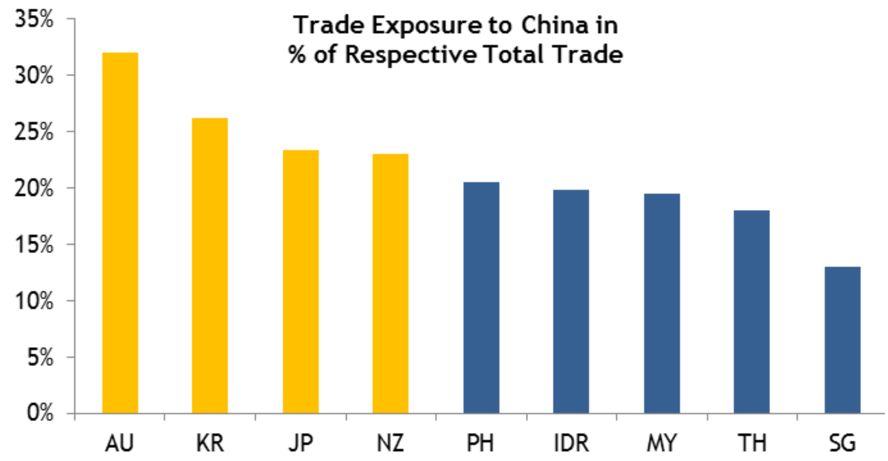
Source: Bloomberg, Maybank FX Research & Strategy
Note: Asian FX index is an index that consists of the average performance of CNY, KRW, TWD, MYR, SGD and THB agaisnt the USD. Export performance here is the year on year export growth of China, South Korea, Taiwan, Singapore, Malaysia, Thailand and Japan.

Focus is on the removal of trade tariffs. Production that was affected by the tariffs imposed, investment decisions hampered by the uncertainty could then be resumed. Consumption will also be boosted. That could bring us back to the export recovery that we witnessed in 2016-2017 which brought the Asian currencies higher against the USD as a synchronized recovery took hold. This is made even more probable by stronger demand out of China underpinned by a further boost from the upcoming trade pact along with the fiscal (tax and fees cut mentioned earlier) and monetary stimulus (RRR cuts, TMLF) that has started to boost activity at home. This could coincide with the end of the technology downcycle and revive pro-cyclical, technology-linked currencies including KRW and TWD bulls.

Which Country Has The Highest Trade Exposure to China?

For 2018, the percentage of total trade with China to total trade with the world is the highest for Australia and South Korea. It is therefore likely for Australia and South Korea to get the greatest boost to their economy from stronger external demand that could translate to gains in the respective currencies as well. Japan, New Zealand, Philippines, Indonesia, Malaysia, Thailand and Singapore have significant trade exposures to China (>10% of their total trade).

AU, KR, JP and NZ have the highest trade exposure to China



Note: Trade exposure to China in % of Their Respective Trade in 2018
Source: Bloomberg, Maybank FX Research & Strategy

A Reversion to Low Volatility and Carry Environment

FX volatility, save for peculiar ones like the GBP, has been low but we anticipate that a US-China trade deal could depress volatility even more and we may revert to an environment where growth outlook is sanguine, rates are non-threatening, global inflation is benign and equities to outperform.

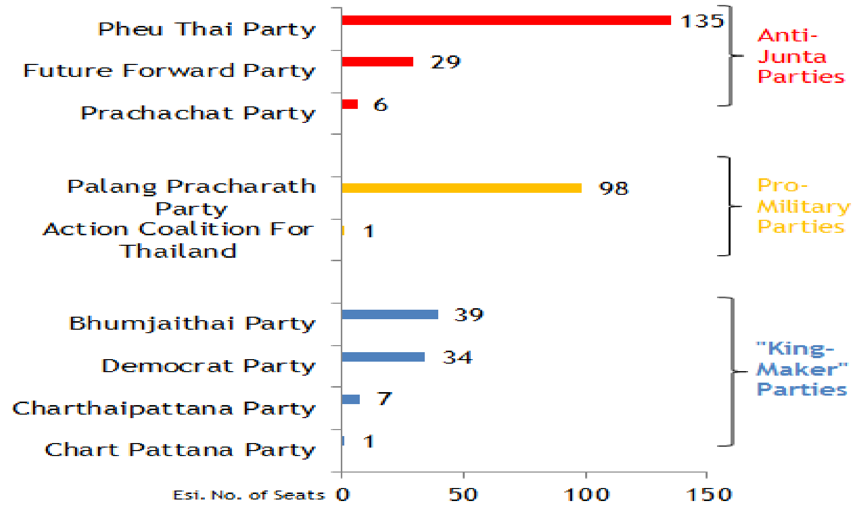
CNH, KRW, AUD to play catch up

On 18 Sep 2018, we had favoured long INR, IDR vs. Short CNH, KRW and AUD within the Asian space. The call turned out favourably with INR, IDR outperforming CNH, AUD and KRW in the past six months. At this point however, we expect these three currencies (CNH, AUD and KRW) and NZD to play catch-up as we progress further into this quarter and the main catalyst is a trade deal between the US and China. These currencies have exhibited the greatest sensitivity to trade talk progression and based on their high trade exposures to China for 2018, an export recovery led by stronger activity momentum in China, concomitant demand out of the country should also benefit these countries the most. A trade deal could then trigger a risk-on environment that is especially positive for pro-cyclical currencies such as the AUD, NZD KRW. The reversion to a low-volatility environment (that has brighter growth prospects now) could keep high yielders like INR and IDR supported. Eventually, along with a pick-up in investment and consumption, we expect a potential export-led recovery to take Asian FX higher, as it did in 2016-2017.

ASEAN FX Could Strengthen when Political Uncertainties Fade

The political season in ASEAN has not ended or even reached its end point. Though Thailand's general election has taken place, there are after-shocks that have yet to be resolved and which have underpinned political uncertainty, stalling attempts by the THB to move higher. Similar situations could evolve in countries that also have elections in the next three to six months, including Indonesia (took place on 17 Apr) and Philippines (13 May). A lack of political clarity in the aftermath of the elections could heighten political risk premium and pose temporary headwinds to ASEAN FX.

Fractious Parliament-Unstable Government Appears Inevitable In Thailand

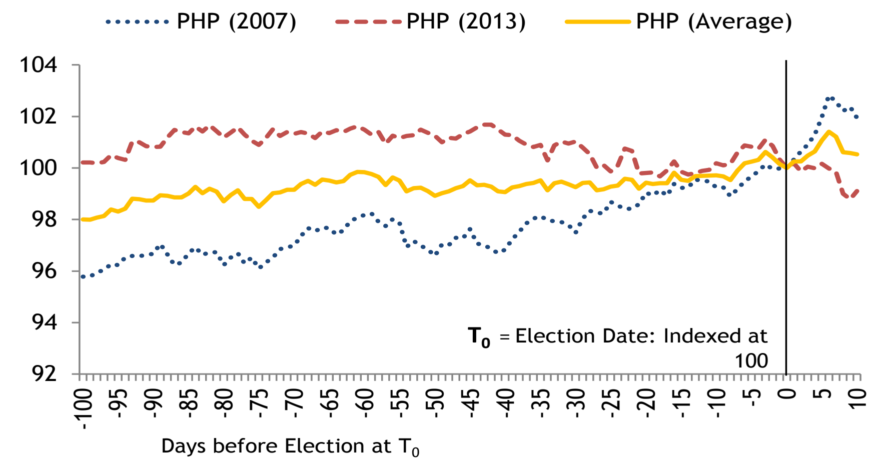


Note that the figures here do not include Party-List seats which have yet to be announced by the Election Commission
Source: Various media, Bloomberg, Maybank FX Research & Strategy

- The **Thai general election on 24 Mar is an example of how a disruption in the political environment can impact markets and FX**. The lack of clarity on who won the parliamentary contest as well as the increasing likelihood that there will be a government supported by a variety of small political parties has been a negative for the THB. Aside from concerns that such a government will be unstable and short-lived, the apparent attempt to stifle the opposition via the courts (e.g. the dissolution of Thai Raksa Chart Party - linked to exiled former PM Thaksin - and sedition charges against anti-junta Future Forward Party leader Thanathorn Juangroongruangkit) could further heighten political tensions after the Royal Coronation on 4-6 May. Thus, we could see some weakness ahead as the reality of new political situation sets in, keeping the THB soft until there is clarity on the political front.

- The **mid-term elections in the Philippines are unlikely to throw up the same situation as in Thailand**. President Duterte continues to ride high on the opinion polls and anecdotal evidence suggests that approval ratings of the President will typically affect the ruling party. Former President Benigno Aquino's strong approval rating resulted in his ruling coalition coming out victorious with 9 out of 12 seats up for grabs in 2013, while former President Arroyo's weak ratings dragged her party down, resulting in the opposition gaining the most seats (8 out of 12 up for elections) in the Senate during the mid-term elections in 2007. Latest ratings show Duterte's approval, trust and satisfaction ratings still high at 76%, 81% and 74% respectively in 4Q 2018 and could translate into his ruling coalition retaining its majority in the Senate. On average over the two mid-term elections (in 2007 and 2013), the PHP outlook had been mixed. Thus, a win by pro-Duterte parties in the mid-term elections might not translate into a stronger PHP, possibly on concerns over a lack of new policy initiatives to drive the economy further, given the President's term limits. Thus, the outlook for the PHP should remain cautious.

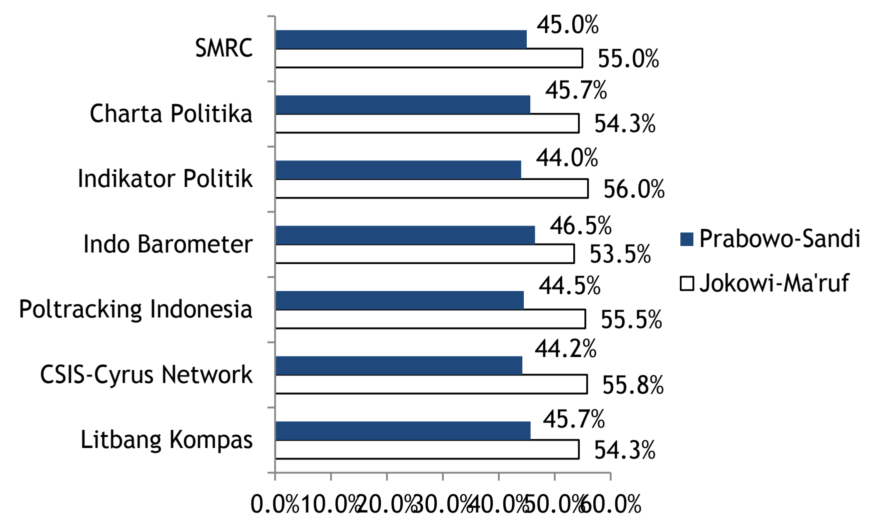
Historical Observation Suggests Mixed Impact on PHP from Past Mid-Term Elections



Source: Bloomberg, Maybank FX Research & Strategy

- Indonesia went to the polls to elect a President and members of the People's Consultative Assembly (MPR) on 17 Apr - the first time that both elections are held on the same day. **Official results will be completed on 22 May** but unofficial counts by private pollsters in the hours after polls - that provide the first indications of who has won the elections - showed the **incumbent President Joko Widodo poised to win his second (and last) term of office**. The unofficial quick-counts also showed the ruling coalition led by the PDI-P is on course to retain control of the parliament. Market has reacted positively to the "win" with the 1-month USDIDR NDF falling by 1% to an intra-day low of 14,042 (17 Apr). Should official results confirm a Jokowi's win, the IDR should remain buoyed by expectations of policy continuity and acceleration in infrastructure spending together with further fiscal policies to tame the twin deficits. Market optimism over a Jokowi victory should be market positive and encourage further inflows into both equities and Indonesian government bonds (IndoGB).

Unofficial Private Pollsters' Quick Count Results Indicated A Jokowi Win



Note: These are preliminary results and are subject to change
Source: Various sources, Bloomberg, Maybank FX Research & Strategy

A Summary of our House Views on Asian FX

Currency	House View (3 - 6 months horizon)
RMB	Positive development on the US-China trade talk front and a deal could see CNH rally against the USD, unwinding the USDCNH upmove when the trade war escalated. In addition, there are signs of green shoots, further reinforced by the release of stronger activity data for Mar as well as 1Q GDP. Further targeted RRR cut, if any, is perceived to be growth positive and latest data suggests that fiscal policies could be taking effect and more targeted RRR cut should be yuan-positive. While China's trade surplus could still be vulnerable to specific terms in the upcoming trade deal, portfolio inflows, especially amid the inclusion of China's bonds into global bond indices, can plug the gap for China's balance of payments. Full recovery to 6.3 seen last year is not expected as a V-shape recovery is not expected and excessive RMB strength could hurt its exports. Hence, a move towards 6.6 is expected and forays below the level cannot be ruled out.
SGD	SGD should regain its upward momentum when USD strength fades amid a prolonged pause in Fed rate hikes, and on easing trade Sino-US tensions and trade deal. Green shoots in the global environment and bottoming of the electronics cycle could lift exports, and this together with healthy domestic fundamentals especially persistent high current account surpluses should backstop the SGD. MAS' move to maintain its "modest & gradual appreciation" stance should also be supportive of the SGD. We continue to look for 1.3440 – 1.3620 range in USDSGD with bias to fade rallies.
MYR	Likely to underperform in the interim as MYR loses carry appeal (as markets look for 25bps BNM rate cut in the upcoming meeting in May) in the ASEAN space and in reaction to recent news (16 Apr) that FTSE Russell may consider dropping Malaysian debt from FTSE World Government Bond Index as part of a review (in Sep-2019) into the accessibility of global bond markets. This came after Norway MoF's proposal to omit EM government and corporate bonds including Malaysia from the government's fixed income benchmark for the Government Pension Fund Global (GPFG) earlier in Apr. Such development does not bode well for MYR-denominated assets and MYR amid portfolio outflows. Preliminary estimates suggest the risk of US$ 6 – 8 bn worth of outflows. External environment of green shoots and supported brent, palm oil prices may mitigate the temporary negativity surrounding the MYR. Key resistance around 4.15 levels. Breach above 4.15 puts next resistance at 4.17. Nonetheless we expect the recent up-move in USDMYR to retrace below 4.12 as the FTSE review is still ongoing and the external environment of green shoots and moderate USD softness could help MYR recover.
KRW	Decline in KRW YTD could stabilize and strengthen from current levels (spot ref 1136) as signs of growth and activity stabilisation are starting to show up in China and Europe while policy support from monetary (Fed pause, DM central banks turning dovish, etc.) and fiscal fronts (South Korea preparing supplementary budget worth US$6tn to support growth, China stimulus measures, etc.) could be timely to cushion against any economic hard landing. While the global semiconductor down-cycle has yet to reach a cyclical bottom, we opine that fears of the down-cycle may have been overly-stretched in terms of valuations. A US-China trade deal coming earlier than expected would translate into a pick-up in exports and investment activity. From valuation perspective, a re-rating of Korean assets could take place and this is supportive of the KRW. We do not expect the down-cycle to last beyond 1H 2019. An eventual recovery as supply-demand dynamics corrects, is likely to be supportive of KRW.
IDR	Unofficial results showing the re-election of President Jokowi to a second term in office and the ruling coalition led by the PDI-P on course to retain control of Parliament have buoyed market sentiments and the IDR. Expectations of policy continuity and acceleration in infrastructure spending together with further fiscal policies to tame the twin deficits underpin this optimism and should be positive for the IDR. Plugging the current account gap in particular should lift sentiments and keep the IDR supported higher. In addition, the prolonged pause in Fed rate hikes while the BI maintains its tightening bias to remain "pre-emptive and ahead of the curve" should be favourable for IndoGBs, spurring inflows and lifting the IDR higher.

Source: Maybank FX Research & Strategy

Currency	House View (3 - 6 months horizon)
PHP	The outlook for the PHP is mixed in the near term ahead of mid-term elections on 13 May. The PHP typically remains muted in the lead-up to the mid-term elections even if expectations are for the ruling coalition to retain their hold of both houses of Congress, possibly on the President's term limit and concerns over the lack of new policy initiatives. Firmer oil prices could refocus attention on its twin deficits and put downward pressure on the PHP. Receding concerns over inflation have eased the need for the BSP to maintain the 175bp hike in the benchmark policy rate, and a rate cut could bolster domestic economic conditions amid green shoots and mitigate some of the downward moves in the PHP.
THB	Political uncertainty continues to weigh on the THB as the general elections have thrown up a fractious parliament with no single party likely to be able to form a government on its own. The lack of clarity on who will form the next government and rising political tensions should keep foreign investors on the sidelines and provide little impetus for the foreign investment and the THB to climb higher in the near term. Fed's prolonged pause in rate hike and easing Sino-US trade tensions together with healthy domestic macroeconomic underpinnings like persistent current account surpluses should be positive for the THB and mitigate some of the downward pressure on the THB.
INR	INR is poised to strengthen further as polling progresses. A Modi victory could be positive for the currency though the rise in crude could dampen the rupee's gains amid concerns that India's current account could deteriorate and threaten its fiscal goals. However, OPEC+ producers are likely to react to higher crude prices by ramping up production which should leave crude benign enough for INR to strengthen in a risk-on environment.

Source: Maybank FX Research & Strategy

USDMYR Technical Outlook: Pace of Recent Rally Should Moderate

USDMYR was last seen at 4.1345 levels (end 17 Apr 2019). Bullish momentum on daily chart remains intact but stochastics has risen into overbought conditions. Exhaustion from the recent rally could step in. A gravestone doji candlestick formed on 17 Apr could be viewed as a bearish reversal pattern. A death cross – 100 DMA cutting 200 DMA to the downside was also formed – a bearish signal. Resistance at 4.1460 (61.8% fibo retracement of 2018 high to 2019 low) should cap the recent rally. If that does not, the next resistance could be seen at 4.1670 (76.4% fibo). Support at 4.1280 (50% fibo), 4.11 (38.2% fibo) before 4.0890 (23.6% fibo).

USDMYR (Daily Chart): Death Cross; Gravestone Doji – Bearish Signals?

Source: Bloomberg, Maybank FX Research & Strategy

In Conclusion…

Although growth momentum is easing in major economies, we argue that growth easing does not equate to an outright recession. There are signs of stabilisation showing up in some parts of the world, including China and Europe as concerns of global growth slowdown saw policymakers and central banks responding swiftly with stimulus measures/easy policies. As a result, the accommodative global monetary setting in a benign inflation environment, along with US activity moderating and optimism over the trade deal soon should see USD strength easing.

One of the biggest drags on growth thus far is the ongoing trade tension between US and China that has shrunk trade volumes and affected manufacturing sector. We see a potential for a trade deal within the current quarter and that could see opportunistic plays favoring selected Asian FX including trade-sensitive proxy FX such as AUD, NZD and KRW as well as higher-yielding proxy FX such as INR and IDR. The trade deal could also increase investment and consumption that may lead to the next synchronized recovery, and provide further support for pro-cyclical currencies such as the AUD, NZD & KRW at the expense of the USD.

ASEAN FX has been weighed by political uncertainties. The lack of clarity on who had won the parliamentary contest as well as the increasing likelihood that there will be a government supported by a variety of small political parties has been negative for THB. IDR has been supported by rumors of a Jokowi-win. Should the official results confirm, this expectations of policy continuity and acceleration in infrastructure spending together with further fiscal policies to limit the twin deficits should encourage inflows into local equities and bonds and this is supportive of the IDR. The outlook for PHP remains cautious amid concerns over a lack of new policy initiatives, given Duterte's political term limit. So in an environment of USD weakness, we are least positive on the PHP within the ASEAN space.

Amongst Asia FX, we are more positive on CNH, SGD and IDR and less positive on THB and PHP. Our Bias for Asia FX are:

- USD strength to fade and trade within 95 – 98 range
- USDSGD to trade within 1.3440 – 1.3620 range, with bias to lean against strength
- USDIDR to break below 13,895 (2019 low) and trade towards 13,500
- MYR could underperform in the interim but we expect some of this negativity to dissipate. USDMYR range of 4.12 – 4.17 in the next 3 – 6 months
- USDCNH should trade within 6.60 – 6.80 with bias to the downside

Risks to Our View

We highlight 3 upside risks to our USD view: (1) **the risk of further gains in oil prices** (possibly due to supply-disruption or material progress on US-China trade deal) could translate into **inflation ticking higher in US** and this could reignite pressure for Fed to tighten and would be **supportive of the USD** (recall that oil prices and USD rose in tandem in 2018); (2) **no US-China trade deal** and **lack of follow-through (pick-up) in global economic activity** could result in a deeper economic slowdown (sell in May adage). In this scenario, volatility will jump from current compressed levels and risk assets including equities will enter into a deeper sell-off and USD could strengthen (flight to safety); (3) if **growth and monetary policy divergence resumes in favor of US, then tighter monetary conditions could expose vulnerabilities in EM assets including Turkey, Venezuela (spillover contagion)** and USD could then be poised for further upside (risk-off trade).

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