

FX Asia Fortnightly

Muted ASEAN FX On Lunar New Year Celebrations

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It will be a relatively quiet week next week as most Asian markets will be out for Lunar New Year celebrations with China out the whole week and South Korea for first three days of next week. We could see most ASEAN FX trade in range next week as a result. Still, technical charts suggest that risks to USD/ASEAN FX are still to the downside and we could see the USD/ASEAN continue their slow grind lower, weighed by the dovish pivot of the Fed. Upside risks to USD/ASEAN though could come from concerns over global growth led by a slowing China following disappointing regional PMIs. This could be supportive of selected USD/ASEANs including the SGD in the two weeks ahead. We cannot rule out a bounce by the USDSGD back above the 1.35-levels towards 1.3550.

There are three central bank meetings in ASEAN in the next two weeks. BoT meets on 6 Feb (Wed) and BSP and RBI on 7 Feb (Thu). Though BoT has just started normalising monetary policy, we do not expect the central bank to remove further accommodation at this point. The Fed's dovish tilt is also likely to weigh on its decision to leave its benchmark interest rate unchanged at 1.75%. Similarly, the BSP is also poised to maintain its policy rate at 4.75% next Thu underpinned by the peaking of inflation and the desire to support the economy. We do not any significant moves in the THB and PHP from the central banks' decisions. The standout in this space is RBI where we expect the central bank to cut rates by 25bp to support economic growth amid benign inflation. A cut will be positive for the INR.

Our in-house model implies that SGD NEER is trading 1.02% above the implied midpoint of 1.3630, suggesting it is still on the stronger side of the SGD vs. other trading partner currencies.

Elections An Opportunity To Buy Selected ASEAN FX

The political calendar in Asia is packed at least for 1H 2019 with upcoming elections in Thailand, India, Philippines and Indonesia. Other elections to watch out for in the Asia-Pacific region include Japan and Australia. While political change itself is not bad, it is the uncertainty that could come with political change that market would like to avoid. Our analysis of the movements in ASEAN FX and INR in the lead-up and post-elections suggests that elections could pose headwinds to FX, albeit temporary, and this could provide opportunities to buy selected currencies. In the 100-days prior to the elections, the IDR and INR tend to strengthen with the IDR typically strengthening by an average of 10% in the last two elections and the INR by an average of 5%. In contrast, the THB tends to depreciate in the 100 days preceding the elections. The tendency for political temperature/tensions to rise ahead of elections due to fractious politicking by different interest groups could lift risk premium and weigh on the THB. The PHP though tends to soften ahead of the elections and post-elections. Given our discussion above, we are bias to long the IDR and INR vs. short PHP in lead-up to their respective elections. We favour looking for opportunities to buy the THB on dips in view of the currency's bounce higher post-elections.

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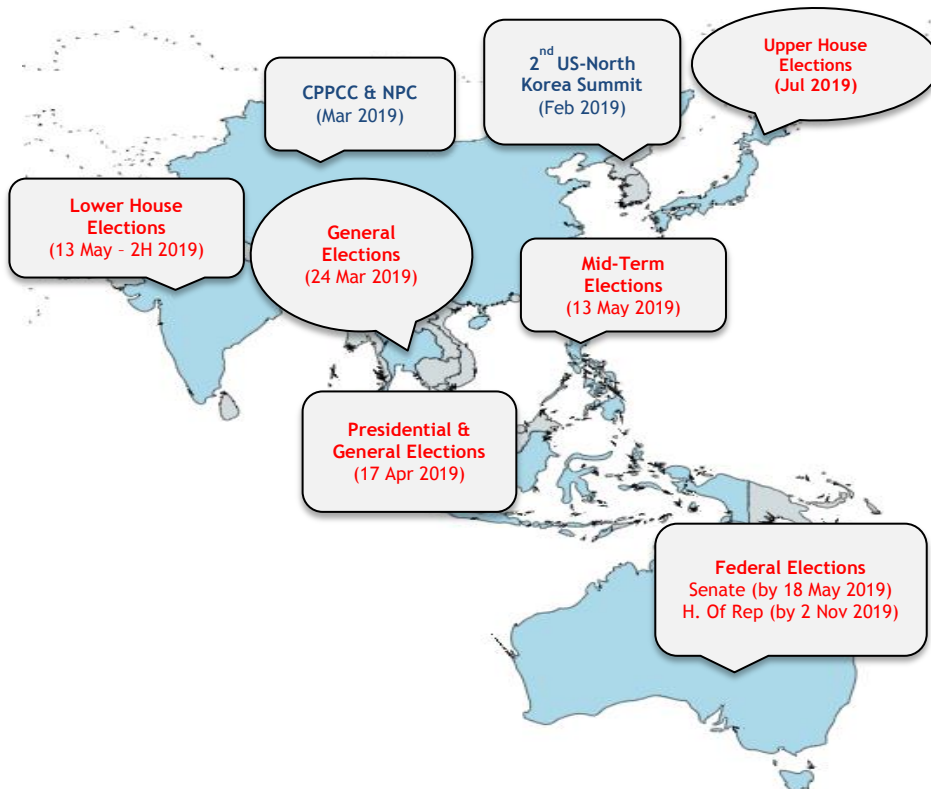
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**FX Research Wishes All
Clients & Friends A Very
Happy & Prosperous
Lunar New Year!**

Flavour of the Week: Elections An Opportunity To Buy Selected ASEAN FX

- The political calendar in Asia is packed at least for 1H 2019 (Chart 1). We have a slew of election coming up that could see the political landscape changed if the electorate itches for change. The election calendar will start with the transition back to democracy in Thailand after more than four years of military rule. This is followed by general elections in India and mid-term elections in the Philippines starting 13 May. Then Indonesia will hold its presidential and general elections on 17 Apr. Other elections to watch out for in the Asia-Pacific region include Japan and Australia. While political change itself is not bad, it is the uncertainty that could come with political change that market would like to avoid.
- At the same time, there are several political events in Asia that will take place in 1Q as well, namely China's Chinese People's Political Consultative Conference (3 Mar) and National People's Congress (5 Mar) and the 2nd US-North Korea Summit (likely to be held sometime in Feb in Vietnam). Negative surprises from these events will bear down on risk sentiments and increase volatility in the FX space, particularly among the AXJs.

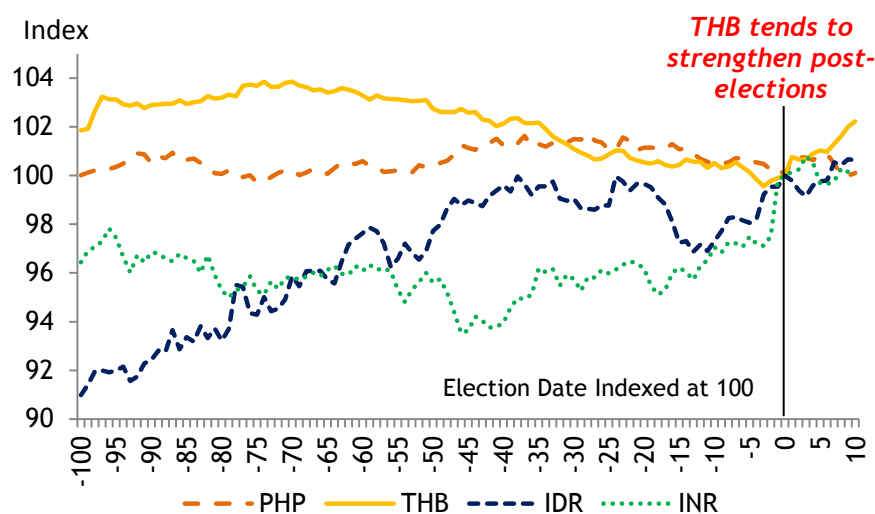
Chart 1: Political / Geopolitical Risks Could Bear Down On Sentiments And ASEAN FX



Source: Bloomberg, Maybank FX Research & Strategy Estimates

- Our analysis of the movements in ASEAN FX and INR in the lead-up and post-elections suggests that elections could pose headwinds to FX, albeit temporary, and this could provide opportunities to buy selected currencies (Chart 2).

Chart 2: Asian FX Reacts Differently To Election Risks - IDR, INR Tends To Strengthen Into Elections, THB To Soften



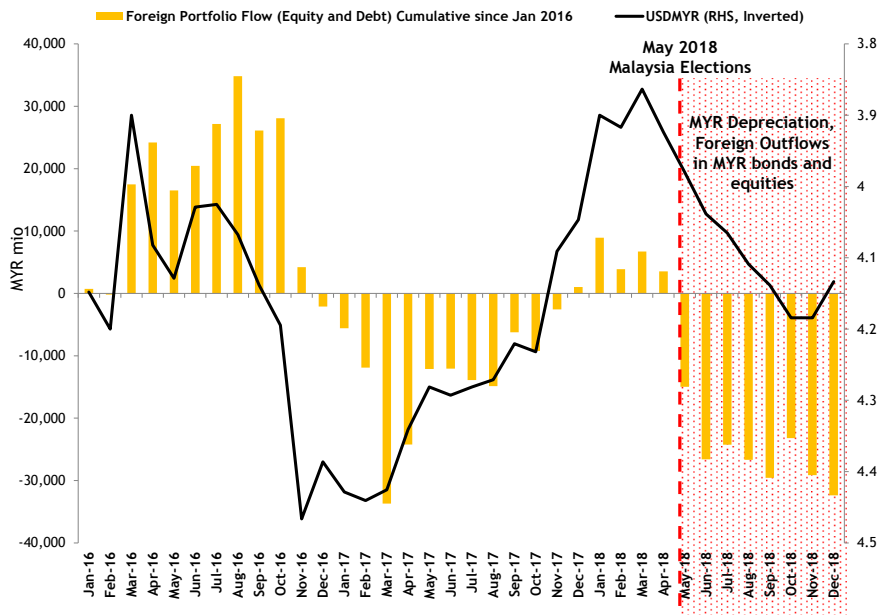
Note:

- (1) Line chart shows average FX performance vs. USD for the past two elections of each country (indexed to 100 at election year)
- (2) Negative numbers denotes the number of days before the elections, positive numbers denotes the days after the elections

Source: Bloomberg, Maybank FX Research & Strategy Estimates

- In the 100-days prior to the elections, the IDR and INR tend to appreciate with the IDR typically strengthening by an average of 10% in the last two elections and the INR by an average of 5%. Campaign spending and pre-elections promises could buoy sentiments and put upside risks to their FXs in the lead-up to the elections. In Indonesia, our base case is for a Jokowi victory given that his approval ratings remain high vis-à-vis his opponent Prabowo and this should be positive for the IDR, but the fate of PM Modi is less certain after his party's losses in several state elections. A Modi defeat could be negative for the INR.
- In contrast, the THB tends to depreciate in the 100 days preceding the elections. The tendency for political temperature/tensions to rise ahead of elections due to fractious politicking by different interest groups could lift risk premium and weigh on the THB. We expect the elections to lead to a fractious parliament with no single party able to form a government by itself. At the same time, the military involvement in politics will continue for the next five years at least in their control of 50% of the seats in the Senate. Still, once political clarity re-emerges, we expect the THB to recover.
- The PHP though tends to softens ahead of the elections and post-elections. We do not rule out a possible win by the opposite in the mid-term elections. A win by the opposition could lead to a gridlock on policy and slow President Duterte's economic and political agenda for the last half of his presidency. The increase in political uncertainty in this situation should weigh on the PHP.
- Given our discussion above, we are bias to long the IDR and INR vs. short PHP in lead-up to their respective elections. We favour looking for opportunities to buy the THB on dips in view of the currency's bounce higher post-elections.

Chart 3: MYR, MYR Assets Under-Invested In Post-GE World



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

- Malaysia could be one of the beneficiaries of the political headwinds that could bear down on its regional peers. MYR and MYR assets are under-invested after its own general elections in May 2018 (Chart 3). The rise in political risk among its regional peers could trigger a potential re-balancing of portfolio that could benefit MYR assets and in turn support the MYR.

Key Data and Events Ahead

	4-10 Feb	11-17 Feb			
Japan	<ul style="list-style-type: none"> Mon: - Nil - Tue: Nikkei PMI Composite & Services (Jan) Wed: - Nil - Thu: - Nil - Fri: Household Spending, Current Account, Labour Cash Earnings (Dec) 	<ul style="list-style-type: none"> Mon: Public Holiday Tue: Tertiary Industry Index (Jan), Machine Tool Orders (Jan P) Wed: PPI (Jan) Thu: GDP (4Q P) Fri: Industrial Production (Dec F) 			
	China	<ul style="list-style-type: none"> Mon: Public Holiday Tue: Public Holiday Wed: Public Holiday Thu: Public Holiday, Foreign Reserves (Jan) Fri: Public Holiday Sat: Public Holiday 	<ul style="list-style-type: none"> Mon: Aggregate Financing, Money Supply, New Yuan Loans (Jan - due sometime 11-15 Jan), Foreign Reserves (Jan), FDI (Jan - due sometime 11-18 Jan) Tue: - Nil - Wed: - Nil - Thu: Trade (Jan) Fri: CPI, PPI (Jan), Current Account (4Q P) Sat: - Nil - 		
		South Korea	<ul style="list-style-type: none"> Mon: Public Holiday Tue: Public Holiday Wed: Public Holiday Thu: - Nil - Fri: Foreign Reserves (Jan) 	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: Unemployment Rate (Jan) Thu: - Nil - Fri: Current Account (Dec) 	
			Singapore	<ul style="list-style-type: none"> Mon: PMI (Jan) Tue: Public Holiday Wed: Public Holiday Thu: Nikkei PMI, Foreign Reserves (Jan) Fri: - Nil - 	<ul style="list-style-type: none"> Mon: - Nil - Tue: Retail Sales (Dec) Wed: - Nil - Thu: - Nil - Fri: - Nil -
Malaysia				<ul style="list-style-type: none"> Mon: Nikkei PMI Mfg (Jan) Tue: Public Holiday Wed: Public Holiday Thu: - Nil - Fri: - Nil - 	<ul style="list-style-type: none"> Mon: Industrial Production (Dec) Tue: Foreign Reserves (31 Jan) Wed: - Nil - Thu: GDP (4Q) Fri: - Nil -
				Indonesia	<ul style="list-style-type: none"> Mon: - Nil - Tue: Public Holiday Wed: GDP (4Q) Thu: - Nil - Fri: Current Account Balance (4Q)
	Philippines	<ul style="list-style-type: none"> Mon: - Nil - Tue: Public Holiday, CPI (Jan) Wed: - Nil - Thu: BSP Overnight Borrowing Rate, Foreign Reserves (Jan) Fri: - Nil - 			<ul style="list-style-type: none"> Mon: - Nil - Tue: Trade (Dec) Wed: - Nil - Thu: - Nil - Fri: Overseas Remittances (Dec)
		Thailand			<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: BoT Benchmark Interest Rate Thu: - Nil - Fri: Foreign Reserves (1 Feb)
India			<ul style="list-style-type: none"> Mon: - Nil - Tue: Nikkei PMI Services & Composite (Jan) Wed: - Nil - Thu: RBI Reverse Repo Rate Fri: - Nil - 		<ul style="list-style-type: none"> Mon: - Nil - Tue: CPI (Jan), Industrial Production (Dec) Wed: - Nil - Thu: Wholesale Prices (Jan) Fri: Trade (Jan)
			Vietnam		<ul style="list-style-type: none"> Mon: Public Holiday Tue: Public Holiday Wed: Public Holiday Thu: Public Holiday Fri: Public Holiday

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