

FX Asia Fortnightly

AxJ Gains To Slow

Some Asian Currencies Are Near 2016 Highs

The continued delay in resuming rate hikes by the US Fed combined with the BOJ underwhelming expectations with their limited moves gave a leg up to Asian currencies last week. This has resulted in some of these currencies either nearing their 2016 highs (like the KRW, IDR, and TWD) or surpassing them (like the THB). This suggests that the pace of increase of some of these Asian currencies could moderate in the two weeks ahead.

Pace Of Increase in AXJs Could Moderate

With risk-supported sentiments possibly continuing ahead amid mild dollar moves could provide Asia-ex-Japan currencies with further room for upside. However, we do not expect the pace of acceleration in the Asians-ex-Japan to continue but for the pace of increase to moderate. Looking at the KRW, it is at its 2016 high vs the USD and we are cautious of central bank engaging in leaning against the wind activities to smooth the rapid gains. We favour buying on dips towards 1100, for a move back towards 1120. SL at 1192. As well, SGD has made rapid gains against the USD, and we are similarly cautious given the domestic and external challenges faced by the economy. We remain bias to buy on dips as well towards 1.33 for a move back toward 1.3650. SL at 1.3720.

BoT, RBI, BOK & BSP On Hold

Relatively busy two weeks in Asia with the BoT meeting on 3 Aug (Wed). We expect the BoT to remain on hold as the policy is still accommodative and the policy rate near historic lows. Moreover, the central bank prefers to allow fiscal policy to take the lead in boosting growth with monetary policy playing a complementary role. A week later we have the RBI meeting on 9 Aug (Tue) and BoK and BSP on 11 Aug (Thu). All three central banks are not expected to move on their policy rates. RBI may prefer to err on the hawkish caution and leave the policy rate unchanged, while BoK will wait and hold for the stimulus effects to work its way into the real economy, before deciding whether it is necessary to cut rate so aggressively. Though the BSP is likely to keep the overnight borrowing rate steady at 3.0%, market rumors suggest the possibility of a RRR cut, currently at 20%. Using macroprudential measures to spur credit growth and support the economy would allow the central bank to save its ammunition for black swan events like Brexit. Data/events of note these two weeks include Japan's announcement of the details of its JPY28tn fiscal package on 2 Aug (Tue) and cabinet reshuffle on 3 Aug (Wed). We also have 2Q GDP prints for Indonesia due sometime 5-7 Aug, Singapore sometime 10-25 Aug and Malaysia on 12 Aug (Fri).

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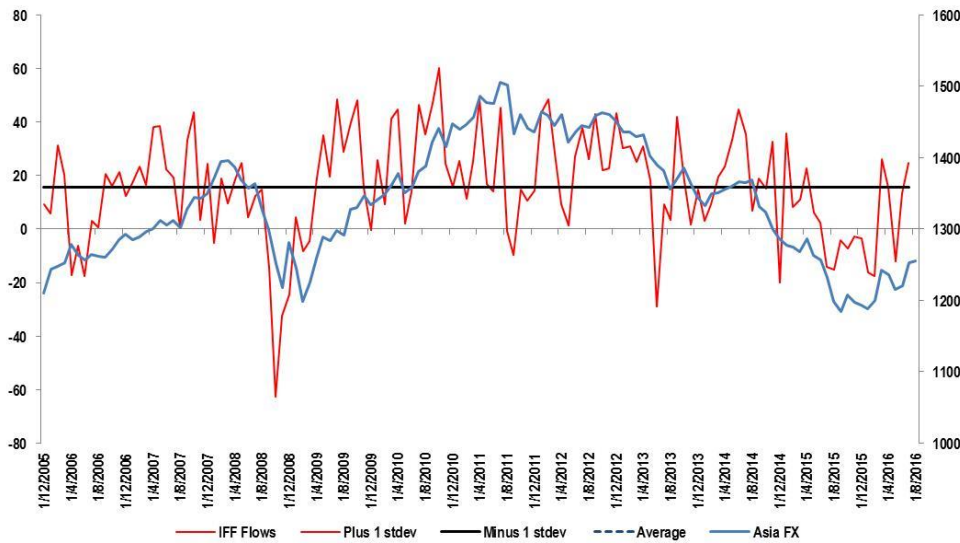
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Flavour of the Month: Funds Inflows Into Emerging Markets And Asian FX

Continued Inflows Into Emerging Markets (inclusive of Asia) Could Lift Asian Currencies Higher



Source: Bloomberg, IIF, Maybank FX Research

- We map the total inflows into emerging markets by the IFF (as a proxy for flows into Asia) to our Maybank Asia FX Currency Index (equally weighted). The pace of inflows into emerging markets has surged to its highest levels since 2013. Given the current environment of risk-supported sentiments, further inflows into emerging markets including Asia cannot be ruled out.
- We are optimistic that fund flows into emerging markets should continue, helped especially by the still easy monetary policies of the G3. Available data suggests inflows peaked in 2010 at around USD60bn and current flows into emerging markets as at end-Jul was about USD25bn. The average inflow since 2005 is USD16bn. Thus, there is a potential for fund inflows to move higher ahead.
- Our regression analysis shows that for every 10% of fund inflows into emerging markets, Asian FX gains 0.15-0.20%. This suggests that there could be upside to Asian currencies ahead as funds inflow continue. However, we do not expect these flows to return to the 2010 high as expectations of faster Fed fund rate hikes and global growth concerns could temper investor sentiments.
- Thus even if fund inflows do not match the 2010 levels, even a doubling of fund inflows from current levels of USD25bn to around USD50bn could see a 1.7% gain in Asian currencies ahead.

2016/2017 Asia FX Forecasts

	End 3Q-16	End 4Q-16	End 1Q -17	End 2Q -17
USDJPY	110	112	112	114
USDSGD	1.36	1.38	1.39	1.40
USDMYR	4.00	4.00	3.95	3.95
USDIDR	13200	13300	13200	13200
USDTHB	36.50	37.00	37.00	37.20
USDPHP	47.50	47.80	47.50	47.50
USDCNY	6.65	6.67	6.70	6.70
USDKRW	1165	1170	1180	1180
USDINR	65.00	66.00	67.00	67.00
USDVND	22400	22600	22700	22800
SGD Crosses	End 3Q-16	End 4Q-16	End 1Q -17	End 2Q -17
SGDMYR	2.941	2.909	2.842	2.821
MYR Crosses	End 3Q-16	End 4Q-16	End 1Q -17	End 2Q -17
MYRCNY	1.66	1.67	1.70	1.70
MYRIDR	3300	3325	3342	3342
MYRINR	16.25	16.50	16.96	16.96

Source: Maybank FX Research as at 1 Aug 2016.

*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
USDJPY	USDJPY slipped below the 102-handle after the BOJ underwhelm expectations with the lack of bold initiatives at its Jul policy meeting. Still, the latest statement held out hope that could be interpreted as a likelihood of a Sep easing move. This would complement the massive fiscal stimulus of JPY28tn that is expected from PM Abe. Details of the stimulus package are expected on 2 Aug. So unless PM Abe disappoints as well with his fiscal boost, we expect the USDJPY to remain supported. As well, US NFP is on tap on Fri and the pair could take its cue from this outcome. A stronger print could send the dollar higher and lift the pair along as well. We look for upside to be capped at 104 levels (21DMA) ahead of 105.60 (50DMA); 107.70 (100DMA). Otherwise, a move back towards 101-levels and then to 96 levels cannot be discounted.	Monetary Base	Easing Bias
USDCNH	The first two weeks of the month are normally filled with data releases. While we do not expect a lot of fundamental rebound, the non-mfg PMI already signaled a buoyant services sector for the country. That said, unless there is a very big surprise/upset in data, USDCNH is unlikely to be very much dictated by the releases. Instead, events like G20 Summit in Hangzhou, markets' expectations of a rate hike in Sep and the official inclusion of CNY in the SDR on 1 Oct swing the USDCNH more. 6.70 is seen as the line to defend now. We have warned of a pullback and it is happening now with next support seen at 6.60, unlikely to breach in earnest. We continue to think PBoC to rely more on liquidity supports via more targeted tools like MLF, PSL, SLF and OMO rather than broad-based easing like RRR and interest rate cut as they want more liquidity support for targeted sectors and broad based tools have more risk of weighing on CNY.	1-Yr Lending Rate	Easing

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDKRW	USDKRW continues to trade with a heavy bias over the past 2 weeks amid weaker greenback post-FOMC and weaker than expected 2Q GDP. Expectations of Fed rate hike continues to fade as well as global monetary conditions to remain loose for longer created the environment for KRW to rally. USDKRW was last seen at 1108 levels. Weekly/daily technical continues to point to further downside. Next support at 1100 (200 WMA, 61.8% fibo of 2014 low to 2016 high), before 1064 (76.4% fibo). Resistance at 1126 (50% fibo). With KRW at 2016 high vs the USD, we are cautious of central bank engaging in leaning against the wind activities to smooth the rapid gains. Bias to buy on dips towards 1100, for a move back towards 1120. SL at 1192.	Base Rate	Easing Bias
USDSGD	The slide in the JPY amid a softer dollar following weak US GDP print sent the USDSGD below key support at 1.34-levels. Positive risk appetite continues to weigh on the pair as weak US GDP suggests that US rate hike is not imminent. It's a relatively quiet week domestically with final 2Q GDP print in focus (headline is likely to be released on 9 Aug - National Day itself). Our economic team expects an upward revision to 2Q GDP after industrial production outperformed expectations so far. Externally, US NFP could provide further directional cues. Risks for now are to the downside and support is at the year's low of 1.3313. Rebound should meet resistance at 1.35-handle (21DMA); 1.3570 (100DMA).	Exchange Rate	Easing Bias
USDMYR	USDMYR continues to trade within its bearish trend channel formed since Jun 2016. Last seen at 4.02 levels. Weekly momentum provides little cues but daily momentum is showing signs of turning mild bearish bias while stochastics is also showing signs of falling from overbought conditions. Key support at 3.9850 (23.6% fibo retracement of 2016 high to low). A break below that on weekly basis can see the pair push lower towards 3.85 levels (2016 lows). Resistance at 4.0720 (38.2% fibo), 4.1420 (50% fibo, 200 DMA). These 2 weeks - we are watching Jun trade, Jul FX reserves (5 Aug); Jun IP (11 Aug); 2Q GDP (12 Aug).	O/N Policy Rate	Neutral-to-Easing Bias
USDIDR	USDIDR continues to trade in a wide range of 13000-13250 even as it edges lower towards the lower bound. Positive domestic sentiments continue to drive portfolio inflows, helped by the passage of the tax amnesty law and the cabinet reshuffle that saw a Dream Economic Team installed that included the well-regarded Sri Mulyani, back for a second stint as FinMin. Focus will be on 2Q GDP due 5-7 Aug. However there appear to be an invisible hand slowing the pair's move towards the 13000-levels. For 1m USDIDR NDF, a break here could see the pair headed towards the year's low of 12995. Resistance at 13240 levels.	O/N Reference Rate	Easing Bias
USDPHP	USDPHP continues to slid lower with the spot breaking below the 47-figure, helped by a softer USD and increasing investor confidence in the new administration. We are watchful of any blow-up from the arbitration ruling regarding the South China Sea between the Philippines and China, which could undermine the domestic economy and increase political instability if not handled carefully by both sides, as this could weigh on the PHP. We have BSP meeting on 11 Aug but no rate adjustment is expected. Market whispers suggests the RRR could be cut instead following comments by the central bank governor which suggested that he might reduce the amount of cash banks must set aside and this could weigh on the PHP. For the 1m USDPHP NDF, 46.80 (50DMA) should be supportive. Resistance is at 47.50.	O/N Reverse Repo	Neutral

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDTHB	USDTHB hit a new low of 34.683 before rebounding back towards the 34.800-levels. Focus this week will be on BoT policy decision on 3 Aug (Wed), which we expect the central bank to stand pat. The next two weeks could see cautious trade in the lead-up to the referendum on the draft constitution on 7 Aug (Sun) and thereafter. The latter could reignite political tension especially if the draft constitution is passed as the constitution would limit the power of elected officials and allow for the appointment of PM who is not elected. We could see the pair rebound back towards the 35-figure at 35.040 (21DMA); 35.200 (100DMA). New low for the year at 34.680 should be supportive.	1-Day Repo Rate	Easing Bias
USDINR	1M NDF slipped under the 200-DMA today, weighed by optimism over the GST bill which could be tabled either tomorrow on Wed. Success could see further downside pressure on this pair. Last seen around 67-figure, this pair seems to be gaining increasing downside pressure but requires a clearance of the 67-figure before the next at 66.25 (year low). Monthly chart still shows strong bearish tendency in this pair and we prefer to sell on rallies. Barrier is seen at 67.68 (38.2% Fibonacci retracement of the Jan-Mar sell off). A double top is seen at 68.67 with a potential target of 58 in the medium term. RBI is set to decide on its policy rate (repo rate) on 9 Aug (next Tue) and we do not expect the central bank to act even as current monsoon conditions are favourable for the kharif crops. Inflation numbers have been surprising on the upside and recent kerosene price hike, pay hike for central government employees, Rajan may prefer to err on the hawkish caution and leave the policy rate unchanged.	Policy Repo Rate	Easing Bias
USDVND	USDVND has not moved much, last seen around 22300. Jul indicators show some slowdown in the external demand, retail sales, factory output and even PMI-mfg came off from 52.6 to 51.9 for the month. Whilst resilient, Vietnam is starting to feel the pressure of the fragile external environment, not helped the fact that there has been drought and disasters in its fishery sector. The silver lining for Vietnam has always been the strong inflows in FDI but even that has slowed in the past two months. Still, a lack of USD strength suggests that USDVND can remain around 22300 for the next two weeks. However, USDVND is vulnerable to the upside in the coming months.	Refinancing Rate	Easing Bias

Key Data and Events Ahead

Currency	1-7 Aug	8-14 Aug
USDJPY	<ul style="list-style-type: none"> Mon: Nikkei PMI Mfg (Jul) Tue: Announcement of Fiscal Stimulus Details Wed: Nikkei PMI Services & Composite (Jul) 	<ul style="list-style-type: none"> Mon: Current Account (Jun) Tue: Machine Tool Orders (Jul P) Wed: Machine Orders (Jun); PPI (Jul); Tertiary Industry Index (Jun)
	<ul style="list-style-type: none"> Thu: BOJ Dy Governor Iwata speaks in Yokohama Fri: Labor Cash Earnings (Jun) 	<ul style="list-style-type: none"> Thu: Public Holiday Fri: - Nil -
USDCNY	<ul style="list-style-type: none"> Mon: Mfg PMI (Jul) Tue: - Nil - Wed: Caixin PMI Services & Composite (Jul) 	<ul style="list-style-type: none"> Mon: Trade (Jul) Tue: CPI, PPI (Jul) Wed: New Yuan Loans (Jul); Money Supply M2 (Jul) (due 10-15 Aug)
	<ul style="list-style-type: none"> Thu: Current Account (2Q P) Fri: - Nil - Sun: 	<ul style="list-style-type: none"> Thu: - Nil - Fri: Industrial Production (Jul); Retail Sales (Jul); Urban Fixed Assets (Jul)
USDKRW	<ul style="list-style-type: none"> Mon: Current Account (Jun); Trade (Jul); PMI Mfg (Jul) Tue: CPI (Jul); Bok Policy Meeting Wed: Foreign Reserves (Jul) Thu: - Nil - Fri: - Nil - 	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: Unemployment Rate (Jul) Thu: BoK 7-Day Repo Rate Fri: - Nil -
	<ul style="list-style-type: none"> Mon: - Nil - Tue: PMI (Jul) Wed: - Nil - Thu: - Nil - Fri: - Nil - 	<ul style="list-style-type: none"> Mon: - Nil - Tue: Public Holiday Wed: GDP (2Q) (due 10-25 Aug) Thu: - Nil - Fri: Retail Sales (May)
USDMYR	<ul style="list-style-type: none"> Mon: Nikkei PMI Mfg (Jul) Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: Trade (Jun); Foreign Reserves (29 Jul) 	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: Industrial Production (Jun) Fri: GDP (2Q)
	<ul style="list-style-type: none"> Mon: CPI (Jul); Nikkei PMI Mfg (Jul) Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: GDP (2Q) (due 5-7 Aug) 	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: - Nil -
USDPHP	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: CPI (Jul); Foreign Reserves (Jul) 	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: Exports (Jun) Thu: BSP Overnight Borrowing Rate Fri: - Nil -
	<ul style="list-style-type: none"> Mon: CPI (Jul) Tue: - Nil - Wed: BoT Benchmark Interest Rate Thu: - Nil - Fri: Foreign Reserves (29 Jul) Sun: Referendum on the Draft Constitution 	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: Public Holiday Fri: Foreign Reserves (5 Aug)
USDINR	<ul style="list-style-type: none"> Mon: Nikkei PMI Mfg (Jul) Tue: - Nil - Wed: Nikkei PMI Services, Composite (Jun) Thu: - Nil - Fri: - Nil - 	<ul style="list-style-type: none"> Mon: - Nil - Tue: RBI Cash Reserve Ratio Wed: Trade (Jul) (due 10-16 Aug) Thu: - Nil - Fri: CPI (Jul); Industrial Production (Jun)
	<ul style="list-style-type: none"> Mon: Nikkei PMI Mfg (Jul) Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: - Nil - 	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: - Nil -
USDVND	<ul style="list-style-type: none"> Mon: Nikkei PMI Mfg (Jul) Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: - Nil - 	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: - Nil -

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