

FX Asia Fortnightly

USD/ASEANs To Remain Elevated Post-US Elections

US Elections In Focus

Key focus on markets ahead will be the US elections tomorrow and its implications for asset markets and emerging markets post-elections. We could see a bit more volatility and abrupt moves amid thin liquidity in the lead-up to US elections (9 Nov - results day). This was reflected in the FBI exoneration of Clinton over her emails, which saw the unwinding of “Trump hedges” in Asia morning with the JPY significantly lower and USD/ASEANs including the USDSGD bouncing higher. Moves post-elections would depend on who wins the election. A Trump win could trigger risk aversion and exacerbating domestic idiosyncratic factors, sending most USDAXJs higher. Among them would be the IDR, MYR, PHP, THB and KRW. A Clinton win though could result in a relief rally for the Asians. Even then, any relief for the ASEANs though could be capped and short-lived because of their idiosyncratic factors (see below). As well, currencies of EM economies with reliance on trade could appreciate but restrained by expectations of a Fed rate hike in Dec. Note though that the USDJPY and even the USDSGD could move in the opposite direction as market seeks ‘Trump hedges’, i.e. safe haven proxy plays.

Idiosyncratic Factors Keeps USD/ASEANs Elevated

Post-election though, the USDAXJs - particularly the USD/ASEANs - should remain elevated as focus returns to their individual idiosyncratic drivers. Political tensions in Indonesia could drive the USDIDR towards the 13150 levels; while continuing extra-judicial killings and the unpredictable temperament of President Duterte could see the USDPHP attempt to test the 49-levels. In Thailand, the year-long mourning for HM King Bhumibol hides concerns about political stability and royal succession and should keep the USDTHB hovering around the 35-handle. Even in Singapore, domestic growth concerns could keep the USDSGD elevated above the 1.38-handle even if there is a flight to safety on a Trump victory.

BoT, BSP, BoK, BI To Keep Policy Steady

BoT, BSP and BoK meets this Wed, Thu and Fri respectively, while BI meets on 17 Nov. For the BoT, policy is still accommodative and the rate at near historic lows, and the central bank prefers that monetary policy plays a supporting role to fiscal policy in boosting growth. BSP will remain on hold to allow the transition to the new interest rate corridor to continue amid benign inflationary pressures. We expect BoK to keep policy rate on hold at record low of 1.25% because of domestic risks and rising household debt. Our economic team expects the BI to stand pat for the rest of the year but another 25bp cut cannot be ruled especially after the lackluster 3Q growth. Data-wise, 3Q GDP for Malaysia (Maybank: 4.2% y/y; cons.: 4.0%; 2Q16: 4.0%) is due on 11 Nov, while Japan (cons.: 0.2%; 2Q16: 0.2%) and Philippines (2Q16: 7.0%) report theirs on 14 and 17 Nov respectively.

Analysts

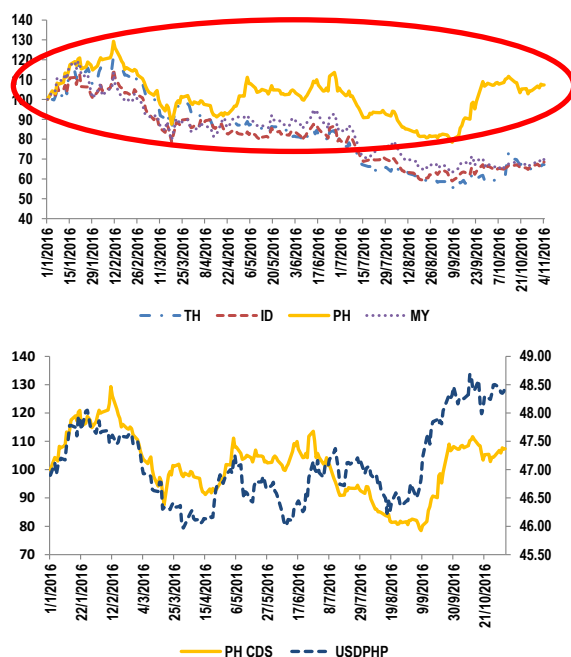
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Flavour of the Month: “Duterte Premium” At Play - Keeps 5-Year Sovereign CDS Elevated And Lifts USDPHP Higher



Note: The 5-year sovereign CDS for each country has been indexed to the start of the year for comparison purposes

Source: Bloomberg, Maybank FX Research

- US election angst have raised concerns that political uncertainty in the US (especially should there be a Trump victory) could lift market risks especially for the EMs. This key risk event on EMs should be reflected in their credit default swaps (CDS).
- Looking at the CDS, it does show some elevation in CDS for Malaysia, Indonesia and Thailand but not sufficient to be a cause of concern. In fact their CDS' are way below their peaks in Feb.
- However, the CDS for Philippines is markedly more elevated when compared to its regional peers. It is also steadily climbing back towards its peak it Feb after a sharp upturn in Sep which cannot be explained by just US election risks (first chart above).
- This sharp climb in the CDS for the Philippines starting in Sep reflects the impact of President Duterte' s outburst against the US has had on investor confidence. His threat to end the security arrangement with the US and pivot towards China and Russia has added to investor concerns.
- This has been reflected in the outflow of nearly USD370mn in equities by foreign investors in Sep and Oct so far. Even in Nov, foreign investors have sold off over USD90mn in equities. While details on bond sales by foreign funds are not available, rising yields at the longer end of the curve (by 48.14-106.81bp) shows falling demand for government debt and suggests that foreign funds have been part of the sell-off in government debt as well.
- The increase in sovereign risks has led to a corresponding climb in the USDPHP (second chart above). Unless these risks are mitigated, we could see the USDPHP remain elevated and possibly even more towards the 50 levels in the next six-to-12 months.

2016/2017 Asia FX Forecasts

	End 4Q-16	End 1Q -17	End 2Q -17	End 3Q -17
USDJPY	105	103	106	105
USDSGD	1.4050	1.4100	1.4150	1.4000
USDMYR	4.10	4.00	4.10	3.95
USDIDR	12950	12500	12800	12600
USDTHB	35.20	35.50	35.80	36.00
USDPHP	49.00	48.50	49.50	49.00
USDCNY	6.80	6.82	6.86	6.84
USDKRW	1130	1100	1130	1100
USDINR	67.00	66.00	68.00	66.00
USDVND	22500	22400	22650	22500
SGD Crosses	End 4Q-16	End 1Q -17	End 2Q -17	End 3Q -17
SGDMYR	2.918	2.837	2.898	2.821
MYR Crosses	End 4Q-16	End 1Q -17	End 2Q -17	End 3Q -17
MYRCNY	1.66	1.71	1.67	1.73
MYRIDR	3159	3125	3122	3190
MYRINR	16.34	16.50	16.59	16.71

Source: Maybank FX Research as at 7 Nov 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 from above 105-levels to a low of 102.55 (3 Nov) sparked by polls showing the narrowing of the Clinton-Trump spread that stoked fear of a Trump and Republican sweep of the elections on Tue. Since then, these concerns have mostly dissipated following news that the FBI once again cleared Clinton of any criminal activity with regards to her emails, sending the pair back above the 104-handle. A Trump victory (not our base case) could send the USDJPY back towards the 100-handle, while a Clinton victory should be positive for the USDJPY. Focus for now will remain almost entirely on external event but 3Q GDP on 14 Nov will return focus to domestic issues. A disappointing GDP print could add to expectations of further easing moves by the BOJ/supplementary budget by the government. Weekly chart remains bullish bias. We remain bias to long the pair (assuming a Clinton victory) and seek opportunities to buy on dips for a move towards 108 levels. Dips should find support nearby around 102.90 (50 & 100DMA) before 101.50 (50% fibo retracement of the 2014 low to 2015 high).	Monetary Base	Easing

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDCNH	<p>USDCNH made a gentle landing at around 6.76 last week, in tandem with the DXY decline before a rebound. The two weeks ahead is highly uncertain given the very tight race between the two Presidential candidates who seem to be almost equally unpopular. Risks are still to the upside for the USDCNH with unwinding Trump hedges likely to lift the USDCNH in the case of a Clinton win and Senate under the control of the Republicans. Even if Trump were to win, the dips in USDCNH that stem from flights to havens are likely to be shallow and replaced with concerns on Trump's protectionist (and sometimes even anti-China) leanings. Apart from the widely watched US election, China also has October data due. Trade is on the tap on the 8th, inflation on the 9th, money supply, aggregate financing, new yuan loans on 10-15th, activity numbers on the 14th before property prices on the 18th. Finance Minister Lou Jiwei has just been replaced by Xiao Jie, among other appointments. Xiao Jie used to be the director of the State Administration of Taxation. We expect him to continue the fiscal reforms that the State Council endeavours.</p>	1-Yr Lending Rate	Easing Bias
USDKRW	<p>Driven by risk sentiment and political scandal at home. USDKRW traded higher towards 1140 levels, in line with our call in the last issue. Last seen at 1142 levels. Mild bullish momentum on daily chart is waning while weekly/daily stochastics suggests the pair is at overbought conditions. We could see a bit more volatility and abrupt moves amid thin liquidity in the lead-up to US elections (9 Nov - results day). Technicals do suggest some signs of fatigue in the recent rally. A pullback (assuming Clinton wins Presidency) possibly towards 1110 levels should not be ruled out. Resistance at 1155 levels (200 DMA). On BoK meeting this Fri, we expect BoK to keep policy rate on hold at record low of 1.25%, at its upcoming meeting on 11 Nov for the fifth consecutive time. While growth may seem a touch softer, it was largely due to issues at Samsung, strikes at local carmakers (which lasted for months and is now settled) and corporate restructuring (shipping and ship-builders), rate cut will do little to help. Moreover household debt has been rising, doubling the amount since end-2006. As of Jun 2016, S. Korea's household debt stood at US\$1.1tn or 90% of GDP. Cutting rate could risk exacerbating the debt situation at home.</p>	Base Rate	Easing Bias
USDSGD	<p>USDSGD climb higher was disrupted temporarily by concerns about a possible Trump victory in the US elections, sparking safe-haven plays. Since then, these concerns have faded after the FBI said once again cleared Clinton over her emails, sending the USDSGD back higher above the 1.39-handle. In the near term, external risk events especially the US elections drive the USDSGD movement given the relative data-light two weeks ahead. Of note, Oct NODX is on tap on 17 Nov and will be eyed for any further signs of deterioration in external demand. Further weakness in NODX would keep the pair elevated above the 1.39-levels. Daily momentum indicators and stochastics are still bearish bias. Weekly chart though remains mildly bullish bias. As we have written elsewhere, we need to see the pair clear the key 1.3950 (23.6% fibo retracement of the 2014 low to 2016 high) before confirming further upticks toward 1.41, 1.45. The failure to clear this key threshold could see a pullback towards 1.3750-1.3800 levels. Any relief rally on a Clinton victory is likely to be short-lived and pair should continue on its grind higher, while a Trump victory could weigh on the SGD on safe-haven plays.</p>	Exchange Rate	Easing Bias

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDMYR	USDMYR turned higher amid renewed oil price weakness and softer risk appetite (due to narrowing of Clinton lead over Trump in opinion polls). Pair was last seen at 4.21 levels. Daily momentum shows mild signs of bullish bias. Key resistance at 4.2130 levels (61.8% fibo retracement of 2016 high to low); break above this could expose the pair to further upside. Next resistance at 4.25 before 4.30 (76.4% fibo). Support at 4.18 (21 DMA) before 4.14 (50DMA, 50% fibo). We believe a Trump win could result in further MYR weakness; and a Clinton win can lead to relief rally for the MYR. On data release this week, focus on 3Q GDP, Sep Industrial Production on Fri.	O/N Policy Rate	Easing Bias
USDIDR	1s USDIDR NDF has been on the slow grind higher for the past two weeks amid concerns about imminent US Fed rate hike and US election concerns. It also did not help that political tensions have risen a notch ahead of the election for Jakarta governor. The mass protest against Jakarta governor Basuki Purnama (aka Ahok) for blasphemy that shut down the capital had turned violent later. Nevertheless, the quick actions by the police and President Jokowi to quell tensions have helped to return calm to the capital. As well, the FBI's clearance of Clinton of any crime in the latest email saga, which bodes well for Clinton's chances in the election, is also weighing on the 1-month NDF. Even the lackluster 3Q GDP print (5.02% y/y) has not dampened the 1-month NDF move lower. Focus ahead will be on BI's policy decision on 17 Nov. Our economic team expects the central bank to stand pat for the rest of the year. However, another 25bp cut cannot be ruled out to support loan growth and hence investment and economic growth. More importantly, the fragile and weekly momentum indicators are bearish bias. Further dips should find support nearby at 13130 (50DMA) before 13100 (21DMA), 12995. Rebounds should meet resistance at 13225 (23.6% fibo of the 2016 high to low), 13275 (200DMA).	O/N Reference Rate	Easing Bias
USDPHP	Since its move lower below the 48-levels, the 1s USDPHP drifted back higher amid a re-pricing of an imminent Fed fund rate hike in Dec, ongoing uncertainty created by President Duterte's regarding the Philippines' ties with the US and US election uncertainty. These concerns should continue to be supportive of the of the 1-month NDF. Even the still healthy domestic macroeconomic fundamentals such as balance of payment surplus and healthy overseas remittances have not been able to offset these risks completely. The failure to address these domestic concerns should continue to see a sell-off in equities. A Trump victory would exacerbate this sell-off. Already, foreign funds have sold USD137mn in equities for the past two weeks. Busy two-weeks ahead with trade (Sep), overseas remittances (Sep) and 3Q GDP on tap, aside from BSP meeting on 10 Nov. We expect the BSP to maintain the status quo to allow the transition to the new interest rate corridor to continue amid benign inflationary pressures. Daily momentum indicators are showing no strong bias in either direction while stochastic continues to climb higher. Weekly chart remains bullish bias and stochastics at overbought conditions. With risks still tilted to the upside, further upticks towards 49.15 (year's high so far on 12 Oct) is likely. Any slippages should find support around the 48-figure (50DMA).	O/N Reverse Repo	Neutral

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDTHB	<p>USDTHB has been trading choppy for the past two week but continues to move in a tight range capped by the 200 DMA on the upside and 50 DMA on the downside. Concerns about the impact the year-long mourning period on consumer spending and tourism receipts, and hence on growth in 4Q is keeping the pair supported. These risks have so far been mitigated to a certain extent by the relative calm and stability so far. Rumours continue to whirl that the Crown Prince will ascend the throne on 1 Dec though the formal coronation will take place only about a year later after the year-long mourning period for HM King Bhumibol is over. Should this prove to be correct, it would help to provide greater stability in the kingdom. Focus this week is on BoT meeting on 9 Nov. The BoT is unlikely to adjust policy at this meeting as policy is still accommodative and the rate at near historic lows. Moreover, the central bank prefers that monetary policy plays a supporting role to fiscal policy in boosting growth, rather than being the main driver. Domestic concerns should continue to drive USDTHB movements more than external events like the US elections. Daily momentum indicators are mildly bearish bias. Weekly chart though is mildly bullish bias. Expect range bound trades to continue within the 50 and 200 DMAs to hold ahead. Topside should be capped by 35.120 (200DMA). Support at 34.890 (50DMA).</p>	1-Day Repo Rate	Easing Bias
USDINR	<p>Two-weeks on and the range-trading in the USDINR has drifted lower to 66.50-67.00. We still anticipate more USD strength, post US Presidential elections. The GST council had decided on the standard rate to be 12% and 18%. 5% tax rate and even complete exemptions are likely for many essentials that make up 50% of the CPI basket. There could be another 28% for “white goods” including washing machines, air conditioners. etc. Luxury goods would be taxed much higher between 40% and 65%. The multi-tiered tax rates seem to be highly complex and investors are lukewarm to the outcome. Whilst the rupee seems to be highly resilient, Oct saw an outflow of U\$746mn equities and U\$1072mn of bonds, also weighed by the prospect that RBI is done easing for the year. We continue to expect USDINR to remain range-bound within 66.50-67.30 for the rest of the year. The next two weeks have trade numbers due between 10-15th, IP on the 11th, CPI and WPI on 14th.</p>	Policy Repo Rate	Easing Bias
USDVND	<p>USDVND rose above the 22300 in the last week of Oct and hovered around 22328 as we write. We continue to see mild upside risks for this pair. Outlook is still broadly unchanged. We expect USD strength into the Dec FOMC meeting but ample USD supply at home could temper its upmove. We are still concerned about FDI inflows that have been supporting the VND and industrial output momentum. The amount of FDI inflow has contracted in Sep and Oct. Head of the Party Central Committee’s Economic Commission Nguyen Van Binh said that the focus of the government is to renew growth model, spur labour output and economic competitiveness. Separately, the EU has pledged to work closely with Ho Chi Minh to ensure food safety and origin of agricultural products ahead of the EU-Vietnam Free Trade Agreement (EVFTA).</p>	Refinancing Rate	Easing Bias

Key Data and Events Ahead

Currency	7-13 Nov	14-20 Nov
USDJPY	• Mon: Labor cash earnings (Sep), BOJ minutes (20-21 Sep meeting)	• Mon: GDP (3QP), Industrial production (Sep F), Utilization (Sep), BOJ Kuroda speaks in Nagoya
	• Tue: Leading index (Sep P)	• Tue: - Nil -
	• Wed: Current account (Sep), machine tool orders (Oct P)	• Wed: - Nil -
	• Thu: Machine orders (Sep), Money stock (Oct), BOJ Summary of Opinions (31 Oct-1 Nov meeting)	• Thu: - Nil -
	• Fri: PPI (Oct), Tertiary Industry Index (Sep)	• Fri: - Nil -
USDCNY	• Mon: Foreign reserves (Oct)	• Mon: Industrial production, Retail sales, Fixed Asset (Urban) (Oct)
	• Tue: Trade (Oct), FDI (Oct) (due 8-18 Nov)	• Tue: - Nil -
	• Wed: CPI, PPI (Oct)	• Wed: - Nil -
	• Thu: Money supply, Aggregate financing, new loans (Oct) (due 10-15 Nov)	• Thu: - Nil -
	• Fri: - Nil -	• Fri: Property prices (Oct)
USDKRW	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: Unemployment rate sa (Oct)	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: BoK 7-day repo rate	• Fri: PPI (Oct)
USDSGD	• Mon: Foreign reserves (Oct)	• Mon: - Nil -
	• Tue: - Nil -	• Tue: Retail sales (Sep)
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: NODX (Oct)
	• Fri: - Nil -	• Fri: - Nil -
USDMYR	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: GDP, current account (3Q), industrial production Manufacturing sales value (Sep)	• Fri: - Nil -
USDIDR	• Mon: Foreign reserves (Oct); GDP (3Q)	• Mon: - Nil -
	• Tue: - Nil -	• Tue: Trade (Oct)
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: BI 7-day reverse repo rate
	• Fri: Current account (3Q)	• Fri: - Nil -
USDPHP	• Mon: Foreign reserves (Oct), budget balance (Sep) (due 7-15 Nov)	• Mon: - Nil -
	• Tue: - Nil -	• Tue: Overseas remittances (Sep)
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: Trade (Sep), BSP overnight borrowing rate	• Thu: GDP (3Q)
	• Fri: - Nil -	• Fri: BoP overall (Oct)
USDTHB	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: BoT benchmark interest rate	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: Foreign reserves (4 Nov)	• Fri: Foreign reserves (11 Nov)
USDINR	• Mon: - Nil -	• Mon: Wholesale prices, CPI (Oct)
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: Trade (Oct) (due 10-15 Nov)	• Thu: - Nil -
	• Fri: Industrial production (Sep)	• Fri: - Nil -
USDVND	• Mon: Domestic vehicle sales (Oct) (due 6-13 Nov)	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -

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