

FX Asia Fortnightly

USD/ASEANs To Remain Supported

Watching UST Yields Moves For USD/ASEAN Directional Cues

ASEAN FX had traded weaker in the past two weeks, as we had flagged in our last fortnightly, amid rising UST yields and USD strength. Concerns over escalating trade war between China and US also weighed on ASEAN FX. We do not expect much relief for ASEAN FX in the two weeks ahead. Market focus will remain on Fed Chair Powell's comments that the US remained a long way from neutral rate and that Fed could hike beyond the neutral rate. Higher US rates could lift UST yields further and given the negative relationship between 10Y UST yield and ASEAN FX, could keep the USD/ASEANs supported ahead. In particular, as our analysis below shows, higher 10Y UST yield (combined with firmer oil prices) could be supportive of the USDIDR and USDPHP with a move towards 15280 and 54.350 cannot be ruled out. Markets appears to be positioning for a move by the MAS this Fri and could be caught long in SGD should the MAS maintain the status quo. We could see some unwinding of long SGD bets, lifting the USDSGD higher towards the 1.39-levels. China's 100bp RRR cut on Sun should provide give the Chinese economy with the credit boost it needed, and concerns about RMB weakness could be misplaced as the PBoC appears to flag a stable RMB with its well-below market consensus fixing of the USDCNY today at 6.8957 and its intervention in the offshore rate market.

MAS delivers its monetary policy statement on 12 Oct, while the BoK meets 18 Oct. While most analysts are looking for a MAS tightening this Fri, but a further tightening is not our base case. We expect the MAS to maintain its current "slight appreciation bias" for the SGD NEER, premised on more moderate growth in 2019, and the downside risks from escalating Sino-US trade tensions that could prove to be deflationary. As for the BoK, a rate hike cannot be ruled out due to underlying inflationary pressures. BOK governor (on 27 Sep) had also remarked that monetary easing needed to be reduced.

Our in-house model implies that SGD NEER is trading 0.86% above the implied midpoint of 1.3970, suggesting it is still slightly on the stronger side of the SGD vs. other trading partner currencies.

IDR & PHP Worst Hit By 10Y UST Yield & Oil Prices Moves

Two recent market developments, namely higher 10Y UST yield and rising crude oil prices, have sent currencies into a frenzy, including ASEAN FX. There are concerns that there is room for UST yields to rise further especially given the growth divergence between the US and the rest of the world, expectations of further Fed rate hikes in 2019, and ongoing sale of US Treasuries to finance the US deficit. Meanwhile, oil prices could push higher as the US tightens the noose around Iran's oil exports and diminishing output from Venezuela constrains oil supply. We estimate the sensitivity of ASEAN FX to 10Y UST yields and oil prices (represented by Brent crude oil prices) since 2017 till today using daily data. Our regression results showed that IDR and PHP are the most negatively sensitive to moves in 10Y UST, likely due to sensitivity of their assets to the search for higher yields. At the same time, higher oil prices are also likely to impact the IDR and PHP the worst given their twin deficits and dependence on oil imports. Indonesia is now a net oil importer and higher oil prices weigh on the IDR. Our study shows that shifts in 10Y UST yield and oil prices do not impact ASEAN FX similarly. IDR and PHP are the most sensitive currencies in the region and should come under downside pressure as 10Y UST yield and oil prices continue to climb higher. We are bias to short the IDR and PHP.

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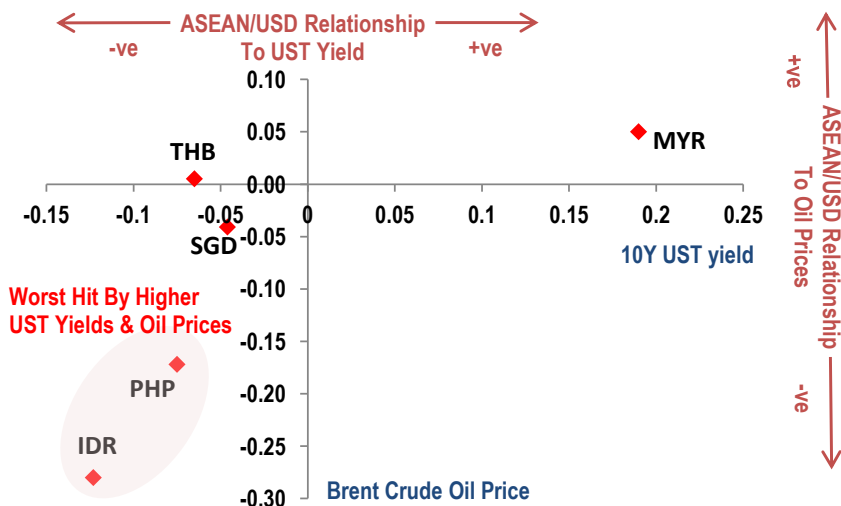
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Flavour of the Week: Higher UST Yields And Oil Prices Weigh On IDR & PHP

- Two recent market developments, namely higher 10Y UST yield and rising crude oil prices, have sent currencies into a frenzy. 10Y UST yield had rose pass 3.20% towards the 3.25% on 5 Oct for the first time since Oct 2011 on expectations of stronger US data. Higher US yields could lead to a rebalancing of portfolio away from ASEAN back towards the US. Meanwhile, crude oil prices have been on the uptick due to supply constraints from US sanctions on Iran, including its oil exports.
- ASEAN FX has not been spared from the spillovers of higher UST yields and oil prices. There are concerns that there is room for UST yields to rise further especially given the growth divergence between the US and the rest of the world, expectations of further Fed rate hikes in 2019, and ongoing sale of US Treasuries to finance the US deficit. Meanwhile, oil prices could push higher as the US tightens the noose around Iran's oil exports and diminishing output from Venezuela constrains oil supply. There are some expectations in the market for oil prices to climb to USD100/bbl from the USD82/bbl currently.
- We estimate the sensitivity of ASEAN FX to 10Y UST yields and oil prices (represented by Brent crude oil prices) since 2017 till today using daily data. We map the results in Chart 1. For example, a 1% change in 10Y UST yield leads to a -0.12% daily change in the IDR. Our regression results showed that IDR and PHP are the most negatively sensitive to moves in 10Y UST, likely due to sensitivity of their assets to the search for higher yields. Further Fed rate hikes should spur fund flows back to the US from ASEAN in search of higher yields, weighing on ASEAN FXs. SGD is also sensitive to UST yields given its status as a financial hub.
- At the same time, higher oil prices are also likely to impact the IDR and PHP the worst given their twin deficits and dependence on oil imports. Indonesia is now a net oil importer and higher oil prices weigh on the IDR. MYR is also positively related to oil prices. This is not surprising given its status as an oil exporter. Higher oil prices should be beneficial to the MYR.

Chart 1: ASEAN FX Relationship To UST Yields & Oil Prices - IDR & PHP To Underperform Should UST Yields & Oil Prices Rise



Note: Beta of XXX/USD to 10Y UST yield/Brent crude oil price as independent variable using daily data (2017 to present).
 Source: Bloomberg, Maybank FX Research & Strategy Estimates

- Our study shows that shifts in 10Y UST yield and oil prices do not impact ASEAN FX similarly. IDR and PHP are the most sensitive currencies in the region and should come under downside pressure as 10Y UST yield and oil prices continue to climb higher. We are bias to short the IDR and PHP.

Key Data and Events Ahead

Currency	8-14 Oct	15-21 Oct
Japan	• Mon: Public Holiday	• Mon: Capacity Utilisation, Industrial Production (Aug)
	• Tue: Current Account (Aug)	• Tue: - Nil -
	• Wed: Core Machine Orders (Aug), Machine Tool Orders (Sep P)	• Wed: - Nil -
	• Thu: PPI (Sep)	• Thu: Trader (Sep)
	• Fri: Tertiary Industry Index (Aug)	• Fri: CPI (Sep)
China	• Mon: Caixin PMI Composite & Services (Sep), FDI (Sep - due 8-18 Oct)	• Mon: - Nil -
	• Tue: - Nil -	• Tue: PPI, CPI (Sep)
	• Wed: Money Supply, Aggregate Financing, New Yuan Loans (Sep - due 10-15 Oct)	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: Trade (Sep)	• Fri: GDP (3Q), Surveyed Jobless Rate, Retail Sales, Industrial Production, Urban FAI (Sep)
South Korea	• Mon: - Nil -	• Mon: - Nil -
	• Tue: Public Holiday	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: Current Account (Aug)	• Thu: BoK 7-Day Repo Rate
	• Fri: Unemployment Rate (Sep)	• Fri: - Nil -
Singapore	• Mon: Foreign Reserves (Sep)	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: Non-Oil Domestic Exports (Sep)
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: MAS Monetary Policy Statement, GDP (3Q A), Retail Sales (Aug)	• Fri: - Nil -
Malaysia	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: Industrial Production (Aug)	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -
Indonesia	• Mon: - Nil -	• Mon: Trade (Sep)
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -
Philippines	• Mon: - Nil -	• Mon: Overseas Remittances (Aug)
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: Trade (Aug)	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: - Nil -	• Fri: BoP Overall (Sep)
Thailand	• Mon: - Nil -	• Mon: Public Holiday
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: Foreign reserves (5 Oct)	• Fri: Foreign Reserves (12 Oct), Customs Trade (Sep)
India	• Mon: - Nil -	• Mon: Wholesale Prices, Trade (Sep)
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: CPI (Sep), Industrial Production (Aug)	• Fri: Public Holiday
Vietnam	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -

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