

## FX Asia Fortnightly

# Bias To Buy USD On Dips Vs. Selected Asians

### Temporary Respite For Asians

The USD has been whippy so far in the first week of 2017 with the USD/Asians broadly moving in line with these USD moves. A surprise in the Asian FX space was the Chinese moves to punish RMB bears by tightening capital controls, though the respite for both the USDCNY and USDCNH has proven to be temporary. We continue to expect both pairs to head higher for the rest of the year, though further intervention cannot be completely ruled out. So far, the USD has fallen by around 1.6% since the start of the year but we do not think that run-up in the USD has ended. This is more likely than not, a temporary short-term correction in the USD following the large run-up in the USD in the wake of Trump's surprising victory in the US elections. Consequently, further USD/Asian upside is likely. **For now, USD/Asians are likely to trade range-bound in the two week ahead in the lead-up to the inauguration of Trump on 20 Jan.** We remain bias for further USD upside and look for opportunities to buy USD against selected Asians on dips, especially the JPY, SGD and KRW.

### USD-denominated Debt Eyed

Rising interest rates together could place a disproportionate burden on Asian economies with high levels of USD-denominated debt (bonds and loans). Exposure to USD debt and loans by Asian economies has increased in the years prior to 2016 as US rates were low vis-à-vis domestic rates. Our analysis suggests that ASEAN economies are relatively more exposed to rising US interest rates compared to their East Asian counterparts. In ASEAN, the economies that have the highest USD-denominated are Vietnam, Indonesia, Singapore, Philippines and Malaysia. Rising interest rates could be worrisome for these economies with downside pressure on their currencies a consequence.

### BoK, BNM, BI meets; China GDP in focus

This week has BoK meeting on 13 Jan (Fri) and we expect the central bank to keep the record low policy rate at 1.25% as recent indicators including inflation and exports are showing signs of rebound and do not represent a dire situation that requires a rate cut as yet. In the week after, BNM and BI meets for the first time in 2017 on 19 Jan (Thu). We doubt BI will cut its policy rate given rising inflationary pressures and IDR weakness, even as growth moderates. Similarly, BNM is likely to keep its overnight policy rate steady at 3.0%. Aside from central bank meetings, China's 4Q16 GDP will be in focus. Market is expecting the Chinese economy to grow at the same pace as in 3Q at 6.7% y/y.

### Analysts

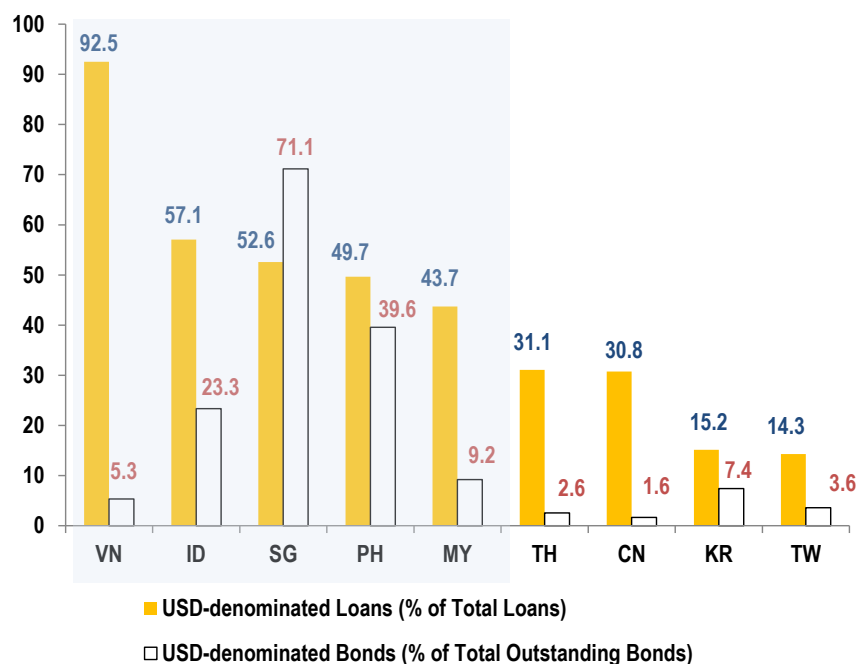
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## Flavour of the Month: USD-Denominated Debt - Should Asia Be Worried? (@ 5 Jan 2017)



Source: Bloomberg, Maybank FX Research

- The expectations of accelerated US Fed rate hikes underpinned by Trump's planned expansionary fiscal stimulus (that could spur faster-than-expected inflation and higher economic growth) open the prospects of higher domestic interest rates in Asia as well.
- Rising interest rates could place a disproportionate burden on Asian economies with high levels of USD-denominated debt (bonds and loans). Exposure to USD debt and loans by Asian economies has increased in the years prior to 2016 as US rates were low vis-à-vis domestic rates.
- Among the Asians, Vietnam has the largest loan portfolio that is denominated in US at over 90% even as it issues relatively little USD-denominated bonds.
- Next up are Indonesia and Singapore where both US-denominated bonds and loans are relatively high as compared to its Asian peers. In Singapore's case, the large exposure to the USD is not surprising given its status as a financial hub.
- Also having a relatively high exposure to the USD are Philippines and Malaysia, likely from opportunistic borrowing to take advantage of the relatively low US interest rate environment.
- The East Asian economies though are relatively less-exposed to the USD and possible rises in US interest rates with most loans and debt denominated in local currencies.
- There are risks for these economies most exposed to the USD, namely VN, ID, SG, PH and MY. Rising interest rates could be worrisome for these economies with downside pressure on their currencies a consequence.

## 2017 Asia FX Forecasts

	End 1Q -17	End 2Q -17	End 3Q -17	End 4Q-17
USDJPY	122	124	125	122
USDSGD	1.4400	1.4450	1.4350	1.4350
USDMYR	4.20	4.30	4.15	4.20
USDIDR	13650	13800	13500	13300
USDTHB	36.20	36.70	36.00	36.50
USDPHP	51.00	51.80	51.50	51.50
USDCNY	7.00	7.05	7.10	7.10
USDKRW	1170	1220	1180	1180
USDINR	69.00	69.50	68.50	68.00
USDVND	22700	22900	23000	23000
<b>SGD Crosses</b>	<b>End 1Q -17</b>	<b>End 2Q -17</b>	<b>End 3Q -17</b>	<b>End 4Q-17</b>
SGDMYR	2.917	2.976	2.892	2.927
<b>MYR Crosses</b>	<b>End 1Q -17</b>	<b>End 2Q -17</b>	<b>End 3Q -17</b>	<b>End 4Q-17</b>
MYRCNY	1.67	1.64	1.71	1.69
MYRIDR	3250	3209	3253	3167
MYRINR	16.43	16.16	16.51	16.19

Source: Maybank FX Research as at 9 Jan 2017.

\*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 is trading higher amid a rebound in UST yields that widened once again the yield differentials between the 10Y UST and JGB. Yield differentials could widen even further should UST yield curve steepen even more in anticipation of Trump's expansionary fiscal policies leading to higher US growth and potentially faster pick-up in inflation. Only then could we see USDJPY upside gain momentum ahead. For now, market's focus will be on domestic data releases in the week after for signs of improvement in the domestic economy. Mediocre data prints could signal the possibility of further easing moves by the BOJ. Daily momentum and stochastics indicators remain bearish bias. Weekly chart remains bullish bias but is waning while stochastics still in overstretched conditions. Resistance is at 118.60 (year's high so far on 6 Jun). Any pullbacks should find support around 114.60 levels (23.6% fibo retracement of the run-up from Nov to Dec-Jan double top at 118.66) before 112.70 (50DMA). Bias remains to buy on dips.	Monetary Base	Easing
USDCNH	USDCNH yo-yoed in the first week of 2017 with the pair breaching the 6.80-figure by 5 Jan. The rebound was rather strong after and the pair remains on the rise, on the back of stronger wage growth. The US\$41.1bn drop in FX reserves, released last Sat, serves as a reminder that the authorities are defending the yuan still. In the meantime, overnight CNH Hibor has dropped to around 14% from 60% last Fri while the overnight deposit rate also drifted to around 9.5% from >100% seen last Fri. Even as the yuan liquidity situation normalizes in Hong Kong, we do not rule out more episodes of these to temper yuan speculators in the future. We are into a week of data barrage out of China for Dec. Inflation prints are due tomorrow. Monetary data is due between 10-15th. Trade numbers are on the tap on Fri. Expect credit growth to slow as China tightens monetary policy.	1-Yr Lending Rate	Neutral

## Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
<b>USDKRW</b>	<p>USDKRW saw a technical pullback (amid broad USD sell-off in relation to weaker than expected ADP and FoMC minutes) in the first few days of 2017 but the pullback was limited to 1180 levels before the rebound. Pair was last seen at 1208 levels. We remain bias for further upside but believe the pair is likely to consolidate in 1180 - 1210 ahead of Trump's inauguration. Looking beyond, we expect external factors to exert downside pressure on the KRW, given its high sensitivity to external market events including Trump's protectionist policies (weighing on exports/open economy) and Fed rate hike (monetary policy divergence). On upcoming BoK meeting on 13th Jan, we expect the MPC to keep rates on hold at 1.25%. Recent indicators including inflation and exports are showing signs of rebound and do not represent a dire situation that requires the MPC to cut rate yet.</p>	<b>Base Rate</b>	<b>Easing Bias</b>
<b>USDSGD</b>	<p>USDSGD is bouncing higher amid a firmer USD underpinned by a rebound in UST yields. This in turn is likely to lift domestic rates, particularly the 3-month SOR (at 0.932% currently), higher and put further downside pressure on the USDSGD. In addition, NODX for Dec (out on 17 Jan) will be closely watched for clues about the strength of external demand. Daily momentum and stochastics indicators are still showing bearish bias. Weekly charts show waning bullish momentum and stochastics still in overstretched conditions. This suggests that the pair could trade range-bound in the two weeks ahead. We nevertheless remain to long USDSGD and look for opportunities to buy on dips towards the year's high of 1.4547 (6 Jan). Any extension of the technical correction that we had written about on 3 Jan could see a pullback towards 1.4260 (23.6% fibo retracement of the Jun low to Dec high; 50DMA).</p>	<b>Exchange Rate</b>	<b>Easing Bias</b>
<b>USDMYR</b>	<p>USDMYR was last seen at 4.4780 levels and has been largely stable relative to other USD/AXJs since the start of 2017. A few factors may have contributed to MYR relative stability and that includes oil price gains, MYR being sold beyond technical and fundamentals, PM Najib's comments (that he is confident that BNM's measures will see MYR stabilise in next few days and MYR's decline caused by factors beyond Malaysia's control (referring to excessive speculation, offshore market and US fed rate hike). We stress that MYR weakness is temporary and not a reflection of underlying fundamentals. We expect to see some stability returning as oil prices stabilise, commodity prices turnaround and domestic demand continue to remain resilient. In external reserves data released last Fri, import and short-term external covers improved to 8.8 months and 1.3 times (end-Nov 2016: 8.2 months and 1.2 times). On technical, bearish momentum on daily chart remains intact. Key support at 4.4690 levels (21 DMA). Break below this on weekly close may see further pullback towards 4.3940 levels (50 DMA). Resistance remains at 4.50, 4.52 levels.</p>	<b>O/N Policy Rate</b>	<b>Easing Bias</b>

## Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
<b>USDIDR</b>	<p>After slipping to a recent low of 13326 on 5 Jan, 1s USDIDR NDF has been on the rebound back above the 13400-levels, tracking the USD higher. Spot was last seen around 13370 levels. Upside risks have yet to dissipate given the potential for even more aggressive US rate hikes in 2017 on expectations of Trump's planned expansionary fiscal stimulus. This could steepen the UST yield curve further and narrowing the yield differentials between the US and Indonesia, sparking further fund outflows that could coincide with the end of the tax amnesty program. Also, risks arising from domestic political tensions in the run-up to the Jakarta gubernatorial elections on 15 Feb as well as growth concerns that should be supportive of the 1-month NDF. Investor optimism regarding the ongoing reform process and fiscal spending on infrastructure projects though are IDR-positive and should mitigate some of these upside risks. BI meets for the first time in 2017 on 19 Jan but we doubt the central bank will cut its policy rate given rising inflationary pressures and IDR weakness. Daily momentum indicators and stochastics remain bullish bias but are waning. Weekly momentum indicators are showing waning bullish bias. These suggest that risks are to the downside for the pair in the two weeks ahead. Support is at 13300 (100 &amp; 200DMAs). Further upside should meet resistance around 13470 (21 &amp; 50DMAs) ahead of 13580 (50% fibo retracement of the 2016 high to low).</p>	O/N Reference Rate	Easing Bias
<b>USDPHP</b>	<p>1s USDPHP NDF is trading higher again after slipping to a recent low of 49.36 pm 5 Jan. A firmer USD underpinned by an uptick in UST yields is weighing on the 1-month NDF. Risks remain to the upside as expectations of further steepening of the UST yield curve would narrow the yield differentials between the US and Philippines, encouraging funds outflows and weigh on the PHP. Other concerns, including the protectionist-tendencies of the incoming Trump administration, expectations of an even more aggressive Fed rate hikes, the Philippine government's extrajudicial killings, policy flip-flops and the president's unpredictable temperament, should keep the 1-month NDF supported. Continuing weakness in domestic data prints including exports, overseas remittances and BoP could weigh on the PHP. Daily momentum indicators remain bearish bias, while stochastics is tentatively turning higher from oversold conditions. Weekly charts though are showing waning bullish momentum and stochastics showing tentative signs of turning lower from overbought conditions. These suggest that trades within recent ranges of 49.45-50.05 to hold in the two weeks ahead.</p>	O/N Reverse Repo	Neutral
<b>USDTHB</b>	<p>USDTHB has rebounded from its recent low of 36.626 (6 Jan) to hover above the 36.700-levels at the point of writing amid a firmer USD. In the absence of domestic catalyst, the pair is likely to take its cue from the USD. Further upticks in UST yields that would narrow the yield differentials between the US and Thailand underpinned by Trump's planned expansive fiscal policy could spark earlier-than-expected inflationary pressures and hence potentially a more aggressive Fed rate hike trajectory. In addition, concerns about possible US protectionist-tendencies and possible rise in domestic political tensions in the run-up to the general elections expected sometime at the end of the year or in early 2018. Daily chart continues to show bearish momentum and falling stochastics. Weekly momentum indicators though are showing waning bullish bias and stochastics showing tentative signs of turning lower from overstretched conditions. This suggests rangy trades are likely ahead. Resistance is at 35.845 (21DMA) ahead of 35.970 (76.4% fibo retracement of the 2016 high to low). Support at 36.605 (50DMA) before 35.460 (50% fibo)</p>	1-Day Repo Rate	Easing Bias

## Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
<b>USDINR</b>	Upside risks beckon as USDINR swings are likely to be dictated by the USD. Two months after PM Modi announced the note ban, the administration is due to present its Federal Budget on 1 Feb, a month earlier than its usual schedule. There is increasing concerns of a lack of data to make proper macroeconomic assumptions in the data. As well, RBI governor Urjit Patel and PM Modi could be grilled on the cash ban. Dec CPI is due on Thu along with Nov industrial production. Trade data is due 13-16th.	<b>Policy Repo Rate</b>	<b>Easing Bias</b>
<b>USDVND</b>	USDVND tracked the USDCNH lower with prices around 22580. Anticipate this year to be a more volatile one than the last as USD is set to soar. This pair is testing barrier around 22580(61.8% Fibonacci projection of the Oct-Nov rally). Support is seen around 22520. Markets continue to view VND negatively given the protectionist-leaning of the new Trump administration. 4Q GDP accelerated to 6.20%/y from previous 5.93%, albeit missing the consensus of 6.30%. Dec PMI-mfg came in at 52.4, softer than Nov 54.0. Strong growth seen in new orders although production expanded at a slower pace. Rate of input cost inflation remains sharp and that could translate to higher CPI. Still, the survey bodes well for the manufacturing sector for Vietnam. Credit growth target is set at 18% for 2017 and SBV Deputy Governor said that the central bank will ensure credit go to the business and production sectors prioritized by the Government.	<b>Refinancing Rate</b>	<b>Easing Bias</b>

## Key Data and Events Ahead

Currency	9-15 Jan	16-22 Jan
	<ul style="list-style-type: none"> <li>Mon: Public Holiday</li> <li>Tue: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: Machine Orders, Tertiary Industry Index (Nov), PPI (Dec), Machine Tool Orders (Dec P)</li> <li>Tue: Industrial production (Nov F), Capacity utilization (Nov)</li> <li>Wed: - Nil -</li> <li>Thu: Machine Tool Orders (Dec F)</li> <li>Fri: - Nil -</li> </ul>
USDJPY	<ul style="list-style-type: none"> <li>Wed: - Nil -</li> <li>Thu: Current account (Nov)</li> <li>Fri: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: Industrial production, Retail sales, Fixed Asset (Urban) (Nov)</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: GDP (4Q); Industrial production, Retail sales, Fixed assets (Urban) (Dec)</li> </ul>
USDCNY	<ul style="list-style-type: none"> <li>Mon: FDI (Dec) (due 8-18 Jan)</li> <li>Tue: CPI, PPI (Dec); Money Supply, Aggregate Financing, New Yuan Loans (Dec) (due 10-15 Jan)</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: Trade (Dec)</li> <li>Sat: Money Supply; Aggregate Financing, New Yuan Loans (Nov) (due 10-15 Dec)</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>
USDKRW	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: Unemployment rate (Dec)</li> <li>Thu: - Nil -</li> <li>Fri: BoK 7-Day Repo Rate</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>
USDSGD	<ul style="list-style-type: none"> <li>Mon: Foreign Reserves (Dec)</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: Retail sales (Nov)</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: NODX (Dec)</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>
USDMYR	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: Industrial Production (Nov)</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: CPI (Dec)</li> <li>Thu: BNM Overnight Policy Rate</li> <li>Fri: Foreign reserves (13 Jan)</li> </ul>
USDIDR	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: BI 7-Day Reverse Repo Rate</li> <li>Fri: - Nil -</li> </ul>
USDPHP	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: Trade (Nov)</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: Overseas remittances (Dec)</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: BoP overall (Dec); Budget balance (Dec) (due 19-31 Jan)</li> <li>Fri: - Nil -</li> </ul>
USDTHB	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: Foreign reserves (6 Jan)</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: Foreign reserves (13 Jan)</li> </ul>
USDINR	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: CPI (Dec), Industrial production (Nov)</li> <li>Fri: Trade (Dec) (due 13-16 Dec)</li> </ul>	<ul style="list-style-type: none"> <li>Mon: Wholesale prices (Dec)</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>
USDVND	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>



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