

FX Asia Fortnightly

Asian FX On The Defensive

Asian FX Could Be On The Defensive

Quiet week ahead after two weeks of central bank meetings, trade tensions and possible détente between the US and North Korea. Focus this week will remain on the possible meeting between Trump and Kim Jung Un that could result in further paring of long-JPY and short-KRW positions, lifting USDJPY higher and weighing on the USDKRW. Next week though is a different story with US FOMC on tap. Expectations are for the Fed to hike for the first time in 2018 on 22 Mar and these expectations should keep the USD supported ahead and put downside pressure on Asian FXs. The two weeks ahead could also see trade tensions simmering following Trump's slapping of tariffs on steel and aluminium imports to the US. Tit-for-tat retaliatory tariffs from the EU among others could escalate trade tensions and lift risk sentiments. Moreover, extension of protectionist measures to a wide range of products or even specifically targeting Chinese exports could edge the world closer to a trade war. All of these could keep the Asian FX on the defensive in the next two weeks.

US Tariffs On Steel Has Limited Impact On USD/Asians

Trump signed an executive order to impose 25% and 10% tariffs on steel and aluminium imports into the US effective from 23 Mar. The top Asian steel exporters to the US is South Korea (10% of all steel exports), followed by Japan (5.0%), Taiwan (3.2%), China (3.0%) and India (2.4%), which together accounts for less than a quarter of total steel exports to the US. Market appears to take the tariffs in their stride, particularly in Asia, in the absence of any imminent trade wars and the fact that steel exports are a small portion of total exports (only 2.4-6.2%). An examination of the Mar 2002 to Dec 2003 episode where tariffs were slapped on US steel imports showed that the tariffs had limited impact on Asian FXs as steel exports from Asia were just a small proportion of total trade during this period. We cannot say with certainty that the USD index and the USD/Asians will follow the same trajectory this time round. In particular, the USDCNY is no longer pegged to the USD and the move by the PBOC to allow for more two-way trades suggests that we may see greater volatility in USDCNY and USD/Asians movements this time round. Targeted US measures against Chinese exports is likely to face retaliatory measures in kind from China and escalating trade tensions is likely to bolster risk sentiments and disrupt trade. The more trade-oriented economies in Asia are likely to be impacted and weighed on their currencies, particularly the KRW, TWD, MYR, SGD and THB.

BI, BSP Meetings; IN, JN, MY, SG CPI Due

Aside from US FOMC meeting, there are two central bank meetings in Asia, namely BI and BSP on 22 Mar as well. Both central banks are likely to maintain the status quo. Other key risks events/data in the week of 12 Mar includes JN machine tool orders; SG retail sales; IN CPI, IP on 12 Mar; JN PPI, tertiary industry index; MY IP on 13 Mar; JN core machine orders, BOJ minutes of policy meeting; CN retail sales, IP, urban FAI; KR unemployment rate; IN wholesale prices on 14 Mar; ID trade; PH overseas remittances, IN trade on 15 Mar; JN IP, SG NODX on 16 Mar. In the week of 19 Mar, there is JN trade, BOJ summary of opinions; CN property prices on 19 Mar; JN machine tool orders; KR PPI on 20 Mar; MY CPI on 21 Mar; JN Nikkei PMI, all industry activity index on 22 Mar; JP, SG CPI on 23 Mar. Note that JN is out for a public holiday on 21 Mar.

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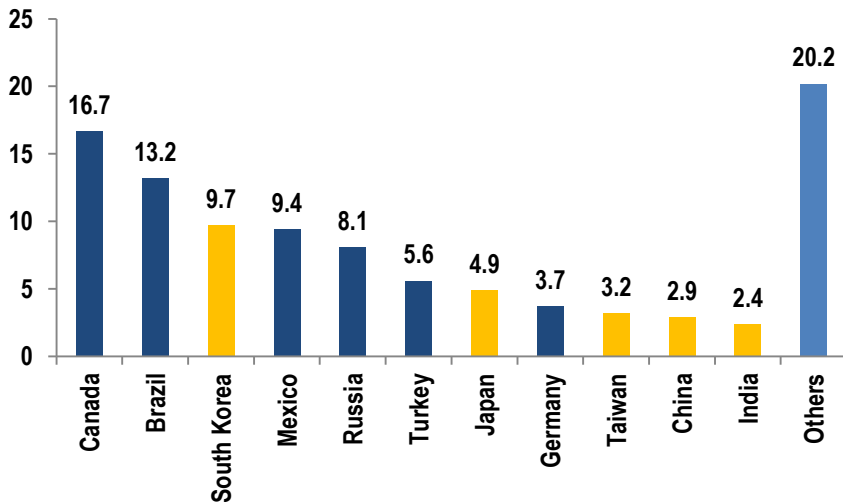
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Flavour of the Week: Who In Asia Is Afraid Of The Big Bad Tariff?

- Trump followed through with his threat to impose tariffs on steel and aluminium imports to the US on 8 Mar, signing an executive order to impose 25% and 10% tariffs respectively with effect from 23 Mar. Canada and Mexico, who are re-negotiating their free-trade agreement with the US, were exempted. Other countries with national security ties with the US could also be exempted from the tariffs as well.
- The top Asian steel exporters to the US is South Korea, who account for nearly 10% of all steel exports, followed by Japan at 5.0%, Taiwan 3.2%, China 3.0% and India 2.4% (Chart 1). Together these exports account for less than a quarter of total steel exports to the US. Note that no ASEAN economies are significant exporters of steel to the US.

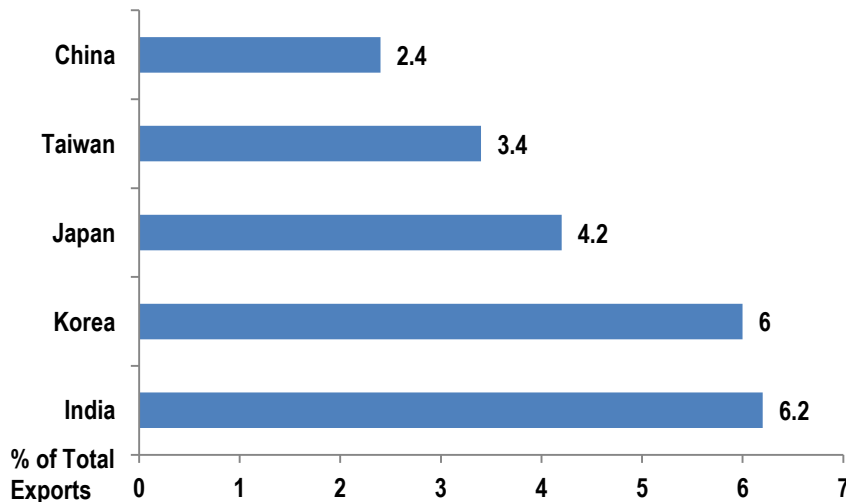
Chart 1: Top Steel Exports To The US



Note: The top Asian steel exporters to the US (in yellow above) account for just 23% of the total steel exports.

Source: Reuters, Wood Mackenzie, Maybank FX Research & Strategy

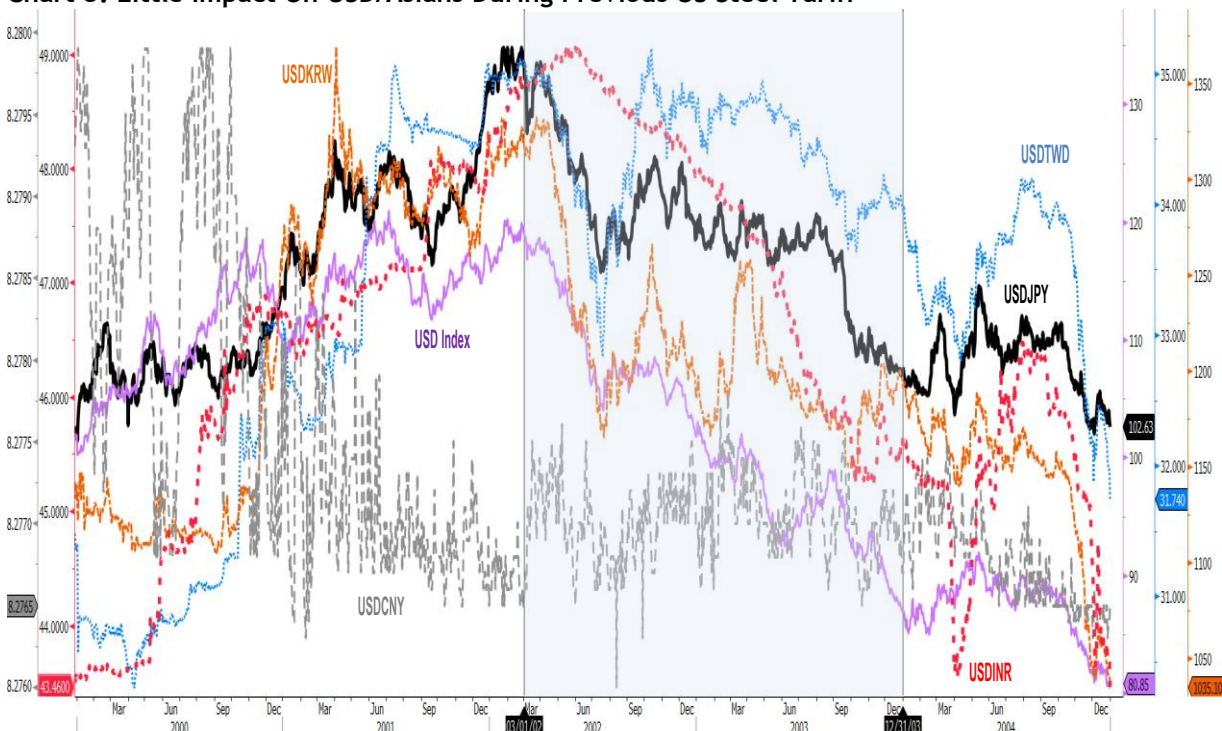
Chart 2: Asian Steel Exports Are A Small Proportion Of Their Total Exports



Source: Bloomberg, CEIC, Maybank FX Research & Strategy

- Market appears to take the tariffs in their stride, particularly in Asia. The Asian equity markets are mostly in the sea of green, while most AXJs are mildly higher. So far, the absence of any imminent trade wars has lifted risks sentiments. Just as important, steel exports do not make up a significant portion of total exports. Steel exports from Asia make up only 2.4-6.2% of their total exports (Chart 2).
- An examination of the previous episode where tariffs were slapped on US steel imports (by President George W Bush) from Mar 2002 to Dec 2003 showed that the tariffs had limited impact on Asian FXs. Asian FXs were on the broad downtrend during the period of the tariff, together with the USD index (shaded area in Chart 3). Note though that the USD weakness during this period could be attributed to the rally in the EURUSD and USDJPY and not necessarily due to escalating trade tensions due to the steel tariffs.
- Available trade data suggests that steel exports from Asia were just a small proportion of total trade during this period. Thus, the steel tariffs had very little impact on these USD/Asians. As can be seen in Chart 3, the USDKRW, USDTWD, USDINR and USDJPY were all falling, weighed by USD weakness, while the USDCNY was stable as it was pegged to the USD at 8.28 levels then.
- We cannot say with certainty that the USD index and the USD/Asians will follow the same trajectory this time round. In particular, the USDCNY is no longer pegged to the USD and the move by the PBOC to allow for more two-way trades suggests that we may see greater volatility in USDCNY and USD/Asians movements this time round. Targeted US measures against Chinese exports is likely to face retaliatory measures in kind from China and escalating trade tensions is likely to bolster risk sentiments and disrupt trade. The more trade-oriented economies in Asia are likely to be impact and weighed on their currencies, particularly the KRW, TWD, MYR, SGD and THB.

Chart 3: Little Impact On USD/Asians During Previous US Steel Tariff



Source: Bloomberg, Maybank FX Research & Strategy

2018 Asia FX Forecasts

	End 1Q-18	End 2Q-18	End 3Q-18	End 4Q-18
USDJPY	108	107	106	105
USDSGD	1.2800	1.2700	1.2500	1.2400
USDMYR	3.80	3.85	3.70	3.65
USDIDR	13200	13000	12900	12800
USDTHB	31.00	31.00	31.50	32.00
USDPHP	51.00	50.50	50.50	50.00
USDCNY	6.25	6.20	6.20	6.10
USDKRW	1080	1050	1040	1060
USDINR	64.50	63.50	63.00	62.50
USDVND	22700	22600	22550	22500
SGD Crosses	End 4Q-17	End 1Q-18	End 2Q-18	End 3Q-18
SGDMYR	2.969	3.031	2.960	2.944
MYR Crosses	End 4Q-17	End 1Q-18	End 2Q-18	End 3Q-18
MYRCNY	1.64	1.61	1.68	1.67
MYRIDR	3474	3377	3486	3507
MYRINR	16.97	16.49	17.03	17.12

Source: Maybank FX Research as at 9 Mar 2018.

*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
USDMYR	<p>USDMYR moves have been uninspiring, largely within established ranges. That said, range trades have been narrowing which could point to a breakout. Even so, forces are evenly matched on both sides at this point. We prefer to trade within the 3.89-3.92 range for now as momentum is petering out. Upside risks to the pair though could rise ahead of US FOMC meeting on 22 Mar where the first Fed rate hike could take place. These expectations could keep long-USD bets intact and weigh on the MYR. A move towards the year's low at 3.87 levels cannot be ruled out. We reiterate our bias for MYR strength to continue in early part (next few months) of 2018 amid expectations for announcement for Malaysian GE (likely to be held in coming months), positive development in domestic fundamentals including shifts in investor sentiment, strong GDP outlook, widening current account surplus against supporting external environment. Furthermore there are also signs of stabilising commodity prices amid OPEC production cut extension and steady demand for oil prices. And we expect these drivers - both external and domestic to provide the near term support for MYR.</p>	O/N Policy Rate	Tightening
USDSGD	<p>USDSGD moved higher from its mid-week low after Asian session on 8 Mar, buoyed by the EUR drop. Risks to the pair remains to the upside with US FOMC on tap on 22 Mar where the first Fed rate hike of the year may take place that could keep the USD supported. In addition, concerns of further US protectionist measures targeting China trade practices could weigh on the CNY and lift the USDSGD higher. Still, stronger NODX and CPI prints on 16 and 23 Mar respectively could put MAS on track to shifting to a gradual appreciation bias at its Apr meeting. A symmetrical triangle has been formed with key resistance seen at 1.3256 (on the blue dotted downward sloping trend line). This pair might move past the interim resistance at 1.3206 (50-DMA) towards that key resistance (1.3256) before moving lower. Support at 1.3155.</p>	Exchange Rate	Neutral

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDIDR	<p>1m USDIDR NDF hit a new 2018 high on 8 Mar amid USD strength and rising UST yields. Carry trade plays continue to unwind as UST yields rise and vols remain elevated with foreign holding of Indonesian assets pared. Foreign investors have sold USD514mn and USD1.81bn in equities and debt in the past two weeks. Further paring of foreign holdings look likely and this should see further reduction in short-USDIDR positions ahead, keeping the 1m NDF supported. Key risks events in the next two weeks will be US FOMC and BI meetings on 22 Mar. Divergence in monetary policy could see further upside to the pair ahead. Bullish bias on the daily and weekly charts remains intact. A clean break of the 2018 high at 13875 could see further upmoves towards 13920 levels. Support is around 13750 levels.</p>	7-Day Reverse Repo Rate	Neutral
USDPHP	<p>1m USDPHP NDF has been on the uptick since the beginning of the week as BSP and government officials jawbone the need for any policy rate adjustment at the upcoming BSP meeting on 22 Mar. The transitory nature of the current spell of inflation was cited for the central bank's likely unchanged stance. That said, foreign sell-off of equities continues to weigh on the 1m NDF. In the past two week, foreign investors had sold USD125.8mn in equities. Further deterioration in risk sentiments could equities sell-off again in the next two weeks, lifting the 1m NDF higher. Aside from BSP meeting, the other key risk eyed is US FOMC meeting on 22 Mar. Should the Fed follow through with its first rate hike of 2018, USD should continue to be supported ahead and this should keep the 1m NDF elevated above the 52-levels. MACD shows bearish bias intact but waning while stochastics is inching higher. Weekly chart remains bullish bias. 50DMA cuts the 200DMA and 100DMA to the upside, a bullish signal. Further upside should meet resistance around 52.50 ahead of 52.70 (2018 high). Support is around the 52-handle (23.6% fibo retracement of the Jan low to Feb high).</p>	O/N Reverse Repo Rate	Neutral
USDTHB	<p>USDTHB appears in consolidation after slipping lower towards the 31.270 levels mid-week. Paring of Thai assets appear to have moderated during the week and foreign portfolio inflows could return should risk appetite remain. In the past two weeks, foreign investors have sold USD344.4mn and USD69.4mn in equities and debt. Focus ahead will be US FOMC meeting on 22 Mar where the first Fed rate hike is expected that could keep the USD supported. This in turn could weigh on the THB and keep the pair in consolidative mode ahead. Bullish bias on the daily chart remains intact but is dissipating, while stochastics continues to fall. Weekly chart shows bearish bias waning while stochastics remains in oversold conditions. Look for the pair to remain in consolidation ahead of US FOMC meeting. Resistance is around 31.430 levels (21DMA) ahead of 31.480 levels (38.2% fibo retracement of the Feb high to low). Support remains around 31.240 levels (27 Feb low) before 31.190 (2018 low).</p>	1-Day Repo Rate	Neutral

Key Data and Events Ahead

Currency	12-18 Mar	19-25 Mar
USDJPY	• Mon: Machine Tool Orders (Feb P)	• Mon: Trade (Feb), BOJ Summary of Opinions
	• Tue: PPI (Feb), Tertiary Industry Index (Jan)	• Tue: Machine Tool Orders (Feb F)
	• Wed: Core Machine Orders (Jan), BOJ Minutes of Policy Meeting	• Wed: Public Holiday
	• Thu: - Nil -	• Thu: Nikkei PMI Mfg (Mar P), All Industry Activity Index (Jan)
	• Fri: Industrial Production, Capacity Utilization (Jan)	• Fri: CPI (Feb)
USDCNY	• Mon: - Nil -	• Mon: Property Prices (Feb)
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: Retail Sales, Industrial Production, Urban FAI (Feb)	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -
USDKRW	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: PPI (Feb)
	• Wed: Unemployment Rate (Feb)	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -
USDSGD	• Mon: Retail Sales (Jan)	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: NODX (Feb)	• Fri: CPI (Feb)
USDMYR	• Mon: - Nil -	• Mon: - Nil -
	• Tue: Industrial Production (Jan)	• Tue: - Nil -
	• Wed: - Nil -	• Wed: CPI (Feb)
	• Thu: - Nil -	• Thu: Foreign Reserves (15 Mar)
	• Fri: - Nil -	• Fri: - Nil -
USDIDR	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: Trade (Feb)	• Thu: BI 7-Day Reserve Repo
	• Fri: - Nil -	• Fri: - Nil -
USDPHP	• Mon: - Nil -	• Mon: BoP Overall (Feb)
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: Overseas Remittances (Jan)	• Thu: BSP Overnight Borrowing Rate
	• Fri: - Nil -	• Fri: - Nil -
USDTHB	• Mon: - Nil -	• Mon: Customs Trade (Feb - due 19-24 Mar)
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: Foreign Reserves (9 Mar)	• Fri: Foreign Reserves (16 Mar)
USDINR	• Mon: Current Account (4Q - due 10-28 Mar), CPI (Feb), Industrial Production (Jan)	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: Wholesale Prices (Feb)	• Wed: - Nil -
	• Thu: Trade (Feb)	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -
USDVND	• Mon: - Nil -	• Mon: CPI, Trade, Industrial Production, Retail Sales (Mar), GDP (1Q) (due 25-31 Mar)
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -

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