

FX Asia Fortnightly

More Asian FX Softness Ahead

Asian FX Softness Likely

The USD should continue to firm in the week ahead in the aftermath of the UK elections (weighing on the GBP), the expected rate hike by the US Fed, and the possible re-emergence of political uncertainty in Europe with French parliamentary elections on 11 and 18 Jun (weighing on the EUR). The firmer USD should continue to put downside pressure on selected Asian FX. Already, we have seen the USDPHP, USDMYR, USDSGD and USDTHB bounce higher from their recent lows at 43.341, 4.2565, 1.3785 and 33.920. Further upticks could see these currency pairs revisit 49.700, 4.29-30 levels, 1.3870 and 34.230. Similarly, the USDJPY had traded to a recent low of 109.12 before a rebound back above the 110-levels. A close above 110.60 (23.6% fibo retracement of the 2016 high to 2017 low) could see a more sustained move higher towards the 111-levels and possibly beyond to the 112-levels. Meanwhile, a double-bottom appears to have formed around the 3.08 levels for the SGDMYR but a break below this level could put next support at 3.05.

Flattening UST Yield Curve A Drag on USD/ASEANs

Market players appear to be positioning for further flattening of the UST yield curve as reflected in the narrowing differentials between the swaps for the 1Y and 5Y (1Y5Y). The flattening of the UST yield curve drags both the Dollar Index and the Dollar/ASEANs lower. The flattening UST yield curve puts downside pressure on the Dollar index as investors exit longer-tenured USTs in search of higher returns elsewhere. While some funds feed into US equities, others are likely vested in riskier assets abroad where yields are higher vis-à-vis UST yields. The flows into ASEAN assets then weigh on the USD/ASEANs. We look at the 30-day rolling correlation between the 1Y5Y UST swaps differentials and the changes to USD/ASEANs and the results suggest changes to the UST yield curve is positively correlated to changes in the USD/ASEANs (Chart 2). This means that the current flattening of the UST yield curve may likely result in negative changes in the USD/ASEANs, implying lower USD/ASEANs.

BI, BOJ, BSP Meetings Coming Up

Aside from the keenly-watched US FOMC meeting on 15 Jun, we also have BI, BOJ and BSP meetings on 15 Jun, 16 Jun and 22 Jun respectively. Unlikely the US Fed, all three central banks are expected to maintain the status quo. In the two weeks ahead, Japan machine orders (Apr), PPI (May), machine tool orders (May P), Singapore retail sales (Apr), India CPI (May), industrial production (Apr) on 12 Jun; Japan industrial production (Apr), China retail sales, urban fixed assets, industrial production (May), Korea unemployment rate (May) on 14 Jun, Indonesia trade (May), Philippines overseas remittances (Apr) on 15 Jun; Singapore NODX (May) on 16 Jun. In the week after, we have Japan trade (May), Philippines BoP (May) on 19 Jun; Japan BOJ minutes, BOJ Kuroda speaks, all industry activity index (Apr), machine tool orders (May F) on 21 Jun; Japan BOJ Iwata speaks on 22 Jun; Japan Nikkei PMI (Jun P), Singapore CPI, industrial production (May) on 23 Jun. Malaysia and Philippines are out for public holidays on 12 Jun.

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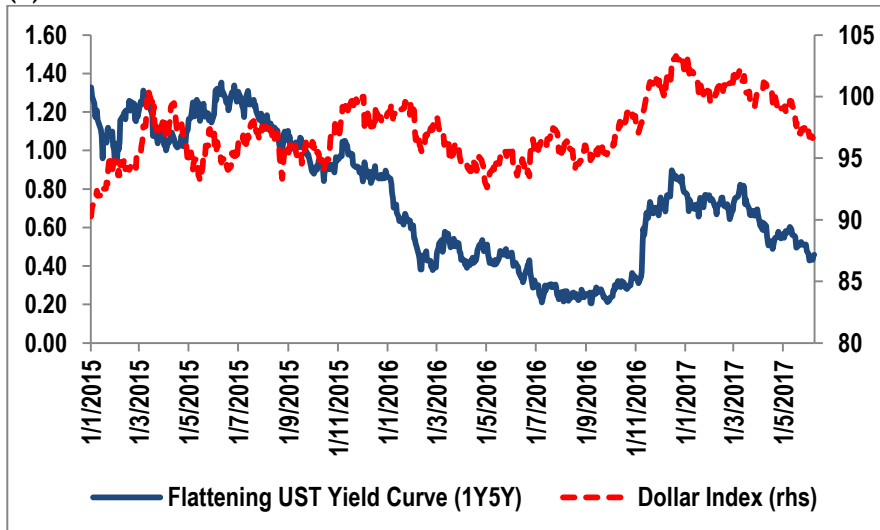
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Flavour of the Week: Flattening UST Yield Curve A Drag on USD/ASEANs

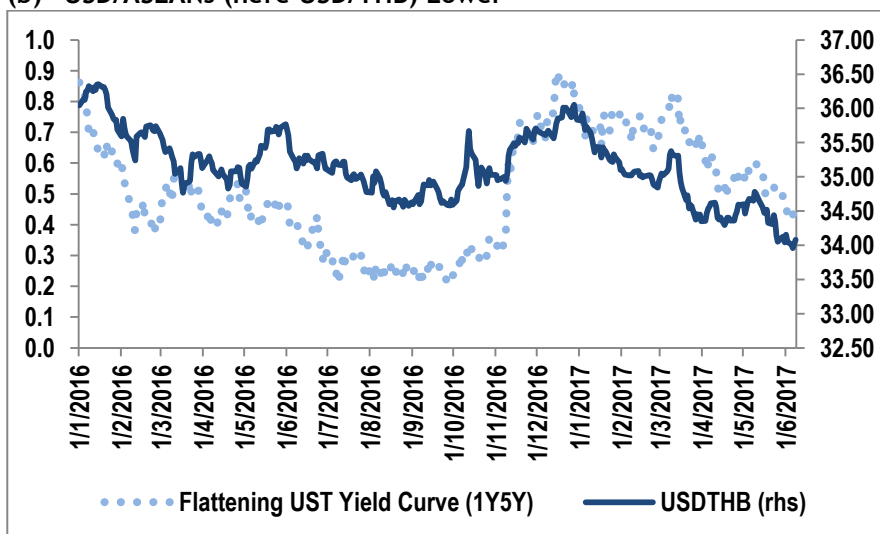
- UST yields have been rising at the short-end in anticipation of the possibility of a US Fed rate hike in Jun and possible again by end-4Q 2017. At the same time, UST yields at the longer-end has declined and this could be attributed to market expectations that further rate hikes by the Fed could be more gradual given the lack of inflationary pressures, and possibly because of more moderate US growth in the longer term. Consequently, the UST yield curve is flattening.
- Market players appear to be positioning for further flattening of the UST yield curve as reflected in the narrowing differentials between the swaps for the 1Y and 5Y (1Y5Y). As can be seen from Chart 1(a) and 1(b), the flattening of the UST yield curve drags both the Dollar Index and the Dollar/ASEANs (here represented by the USD/THB) lower.

Chart 1: Impact Of Flattening UST yield curve (1Y5Y)

(a) Dollar Index Lower



(b) USD/ASEANs (here USD/THB) Lower



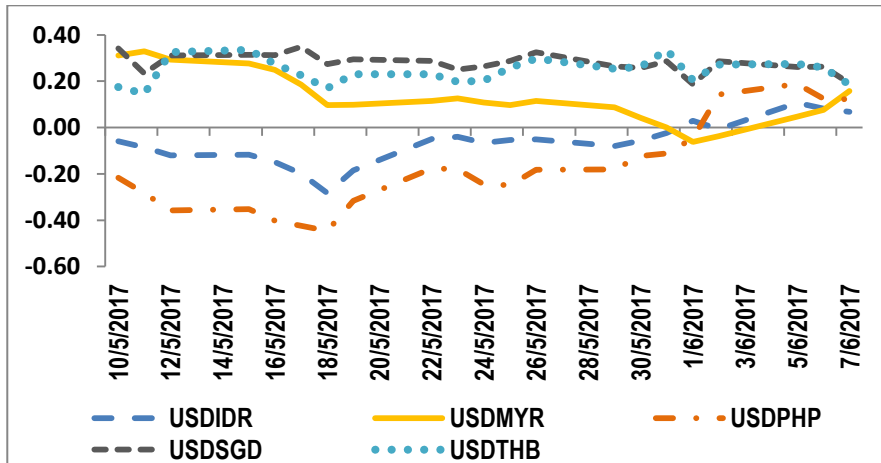
Source: Bloomberg, Maybank FX Research

- The flattening UST yield curve puts downside pressure on the Dollar index as investors exit longer-tenured USTs in search of higher returns elsewhere. While some feed into US equities, others are likely vested in

riskier assets abroad where yields are higher vis-à-vis UST yields. The flows into ASEAN assets then weigh on the USD/ASEANs.

- We look at the 30-day rolling correlation between the 1Y5Y UST swaps differentials and the changes to USD/ASEANs and the results suggest changes to the UST yield curve is positively correlated to changes in the USD/ASEANs (Chart 2). This means that the current flattening of the UST yield curve is likely to result in negative changes in the USD/ASEANs, implying lower USD/ASEANs.

Chart 2: 30-Day Rolling Correlation Between 1Y5Y UST Swaps Differentials And USD/ASEANs



Source: Bloomberg, Maybank FX Research

- Even the USDIDR and USDPHP, which were negatively correlated earlier in the year due to idiosyncratic factors, are now positively correlated to the 1Y5Y swap differentials. USDMYR correlations with the differentials have also picked up suggesting further MYR strengthening if longer end yields fall.
- Just as important, the bets that market is making on movements in UST yields suggest that the UST yield curve is likely to flatten ahead and this suggests that we could see further near term Dollar index weakness and ASEAN FX strength ahead.

2017/2018 Asia FX Forecasts

	End 2Q -17	End 3Q -17	End 4Q-17	End 1Q-18
USDJPY	116	118	120	120
USDSGD	1.4100	1.4200	1.3950	1.3950
USDMYR	4.30	4.25	4.30	4.35
USDIDR	13300	13400	13450	13500
USDTHB	34.80	35.30	36.00	36.20
USDPHP	50.30	50.50	50.70	50.70
USDCNY	6.80	6.83	6.90	6.85
USDKRW	1140	1150	1160	1170
USDINR	65.00	65.70	66.20	66.00
USDVND	22900	23100	23300	23400
SGD Crosses	End 1Q -17	End 2Q -17	End 3Q -17	End 4Q-17
SGDMYR	3.050	2.993	3.082	3.118
MYR Crosses	End 1Q -17	End 2Q -17	End 3Q -17	End 4Q-17
MYRCNY	1.58	1.61	1.60	1.57
MYRIDR	3093	3153	3128	3103
MYRINR	15.12	15.46	15.40	15.17

Source: Maybank FX Research as at 9 Jun 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
USDMYR	USDMYR consolidated near recent lows for the week. Last seen at 4.2620 levels. Mild bullish momentum and stochastics at oversold levels on the daily chart may suggest some risks of rebound. But underlying bearish momentum (indicated on weekly chart) remain intact. Break below support at 4.2550 (38.2% fibo retracement of Apr-2016 low to 2014-high) puts next support at 4.22 before 4.18 (50% fibo). Resistance at 4.29 (21 DMA). Bias to lean against strength.	Base Rate	Easing Bias
USDSGD	USDSGD traded to a new low for 2017 at 1.3785 on 6 Jun but has since rebounded back above the 1.38-handle, tracking the rise and fall of UST yields. Since slipping to a recent low of 1.1591% in early Jun, 10Y UST yield has rebounded back towards the 1.20% level at 1.19% at the point of writing. Further upticks in UST yields in the lead up to US FOMC meeting on 15 Jun should lift 3-month SOR higher and be supportive of the pair. Pair appears to be now in consolidative mode within 1.3785-1.3850 range. Bearish bias on the daily chart has dissipated and stochastics is turning higher from oversold conditions, signalling further upside risks ahead. Resistance around 1.3870 (21DMA), 1.3950 (50% fibo retracement of the 2016-2017 rally, 50DMA). Support nearby at 1.3806 (61.8% fibo) before 1.3785 (year's low on 6 Jun). Focus in the next two weeks will be NODX (May) on 16 Jun and industrial production (May) on 23 Jun.	Exchange Rate	Neutral

USDIDR	<p>1m USDIDR NDF remains in range trades within 13300-13380 for the past two weeks and this pattern is not about to change. Market whispers suggested that official agents had been entering the market to support the IDR around the 13300. Keeping the 1m NDF rangy as well is the mixed investment sentiments. Foreign investors have been selling around USD617mn in equities the past two weeks, but have been buying IDR7.95tn of government debt. Focus in the next two weeks will be on BI meeting on 15 Jun - the same day as the US FOMC meeting. We do not expect any significant impact on the IDR as BI is likely to keep its benchmark policy rate on hold at 4.75% to keep monetary policy accommodative to support economic growth amid rising inflation. But a rate hike by the US Fed could be supportive of the 1m NDF. Bearish momentum on the daily chart now shows bullish bias, while weekly chart shows bearish bias intact but waning. Stochastics on the daily chart continues to climb higher from oversold conditions, signalling further upside ahead. Still, look for the 1m NDF to remain in range trade. Immediate resistance is at 13370 (38.2% fibo retracement of the 2017 high to low), 13410 (50% fibo). Support at 13320 (23.6% fibo). A weekly close below this level exposes next support at 13260, 13200. Aside from BI meeting, there is also trade (May) data on tap on 15 Jun.</p>	O/N Policy Rate	Easing Bias
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Key Data and Events Ahead

	12-18 Jun	19-25 Jun
Japan	• Mon: Machine Orders (Apr), PPI (May), Machine Tool Orders (May P)	• Mon: Trade (May)
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: Industrial Production, Capacity Utilization (Apr)	• Wed: BOJ Minutes (26-27 Apr Meeting), BOJ Kuroda speaks (Tokyo), All Industry Activity Index (Apr), Machine Tool Orders (May F)
	• Thu: - Nil -	• Thu: BOJ Iwata speaks (Aomori)
	• Fri: BOJ Meeting	• Fri: Nikkei PMI Mfg (Jun P)
China	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: Retail Sales, Urban Fixed Assets, Industrial Production (May)	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -
South Korea	• Mon: - Nil -	• Mon: PPI (May)
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: Unemployment Rate (May)	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -
Singapore	• Mon: Retail Sales (Apr)	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: NODX (May)	• Fri: CPI, Industrial Production (May)
Malaysia	• Mon: Public Holiday	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: CPI (May)
	• Thu: - Nil -	• Thu: Foreign Reserves (15 Jun)
	• Fri: - Nil -	• Fri: - Nil -
Indonesia	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: BI Meeting, Trade (May)	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -
Philippines	• Mon: Public Holiday	• Mon: BoP Overall (May), Budget Balance (May) (due 19-30 Jun)
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: Overseas Remittances (Apr)	• Thu: BSP Meeting
	• Fri: - Nil -	• Fri: - Nil -
Thailand	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: Foreign reserves (9 Jun)	• Fri: Foreign reserves (16 Jun)
India	• Mon: CPI (May), Industrial Production (Apr)	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: Wholesale Prices (May), Trade (May) (due 14-16 Jun)	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -
Vietnam	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -
		• Sat: CPI (Jun)
		• Sun: GDP (2Q), Trade, Retail Sales (Jun) (due 25-30 Jun)

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