

# FX Asia Fortnightly

## Relief For USD/Asians?

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Risks to the USD remained skewed to the downside with US CPI (14 Oct), Austria general elections (15 Oct), NZ First decision (possibly by 16 Oct) and decision on the Fed Chair (expected by end of Oct) on tap. USD downside in the near term could weigh on the USD/Asians and for this downside pressure possibly to persist in the next two weeks. Aside from USD pressures, USDJPY will also take its cue from the upcoming Lower House election. Creeping political risks (including the possibility of the ruling coalition losing more seats than expected rise etc.) could weigh on the pair with support around 111.80 before 110.70. The IDR and THB could consolidate within 13500-13600 and 33.000-33.230 respectively after rebounding from their respective recent lows. The PHP, which remained supported above the 51-handle, could see some relief with the 1m NDF finding support around the 51.25 levels. USDSGD though could firm following the MAS decision to maintain its neutral policy and the perceived dovish statement. We are bias to buy the pair on dips towards 1.3660 levels.

### Japan Election Risk Scenarios And Their Impact On ASEAN FX

Japan goes to the polls on 22 Oct. We envision four potential election outcomes. Our base case is for a victory by PM Abe's coalition but with a slightly reduced majority, which would be positive for equities with bond yields weighed by ongoing BOJ easing policy, putting further downside pressure on the JPY. It is possible that the LDP and its coalition party win another super majority (i.e. two-third of the Lower House seats), spurring further foreign interest in equities and keeping JGBs yields low, and supporting the pair even higher. Another possible election outcome is for the LDP and its coalition partner win the Lower House election but with a greatly reduced majority, which led to a sell-off in equities, and see JGB yield climb as expectations build that BOJ easing policy could be is not likely is an opposition victory in the Lower House election. This would put an end to Abenomics and BOJ's ultra-accommodative policy. The markets' response to the untested new government would be to sell-off equities and unwind long USDJPY bets, putting downside pressure on the USDJPY. We are mindful of the impact that election outcome will have on ASEAN FX. Our analysis suggested that the SGD and THB will be the most affected by JPY moves, which is not surprising given the strong trading links between Japan and the two ASEAN economies.

### BoK, BI meets; Malaysia Budget; China 19th National Congress

The only central banks to meet in the next two weeks are BoK and BI on 19 Oct. Both BoK and BI are expected to hold their benchmark policy rates steady at 1.25% and 4.25% respectively. Key events for the week of 16 Oct includes Japan IP, capacity utilization, China CPI, PPI, Korea FDI, Indonesia trade, Philippines overseas remittances, India wholesale prices on 16 Oct; Singapore NODX on 17 Oct; BOJ Sakurai speaks, China 19<sup>th</sup> National Congress begins, Korea unemployment rate on 18 Oct; Japan trade, machine tool orders, all industrial index, China GDP, retail sales, urban FAI, IP, BoK meeting, BI meeting on 19 Oct; BOJ Kuroda speaks, Korea PPI, Malaysia CPI on 20 Oct. In the week of 23 Oct, data eyed includes China property prices, Singapore CPI on 23 Oct; Japan Nikkei PMI mfg on 24 Oct; Korea consumer confidence on 25 Oct; Korea GDP, Singapore IP on 26 Oct; Japan CPI, China industrial profits, Singapore unemployment rate, Malaysia Budget Day on 27 Oct. It is a shortened week for Singapore, Malaysia (18 Oct), India (19 Oct), and Thailand (23 and 26 Oct).

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## Flavour of the Week: Election Outcome In Japan Could Impact ASEAN FX

- PM Shinzo Abe has dissolved the Lower House of the Diet and scheduled the election on 22 Oct. PM Abe is seeking a fresh mandate ahead of an LDP leadership vote expected in Sep 2018 that could put him in line to become Japan's longest-serving prime minister. He is however being challenged by the upstart opposition Party of Hope (PoH) led by Tokyo Governor Yuriko Koike. While a victory for PM Abe is assured, given the disarray in the opposition parties, it is the number of seats won that will determine his political future.
- Initial opinion polls had shown the possibility that majority that PM Abe's ruling coalition (LDP + Komeito) enjoyed in the previous parliament might be greatly reduced. A recent opinion poll by Kyodo news suggests that the ruling coalition could win more than two-thirds of the 465 parliamentary seats up for grabs. Still, this are early days in the election campaign and the polls could easily turn around with about eight days more to go.
- We envision four potential election outcomes as set out in Chart 1 below. We believe that PM Abe's coalition is set for a victory in the Lower House contest but with a slightly reduced majority. We believe that the public's disapproval of PM Abe's call for an early election, Abe personal scandals, and potential increase voter turnout could work against the ruling coalition and translate into minor seat losses. Nevertheless, this victory would ensure that Abenomics, including the BOJ's powerful easing, remains in the forefront of economic policy. This could lead to continued foreign investment inflows into equities with bond yields weighed by ongoing BOJ easing policy, putting further downside pressure on the JPY. This is our base case.

Chart 1: Our Base Case Is For A Abe Victory With Some Minor Losses

		Market Impact		
Scenarios		USDJPY	Equity	Bond Yield
1.	PM Abe's ruling coalition retains two-third majority in parliament (best-case scenario)	Positive 114-117	Positive	Negative
2.	Victory for PM Abe's ruling coalition with minor losses in parliamentary seats (base case)	Positive 113-115	Positive	Negative
3.	PM Abe's ruling coalition wins but with a very much reduced majority	Negative 110-113	Mildly Negative	Mildly Positive
4.	Tokyo governor Yuriko Koike's Party of Hope wins a majority of seats (worst-case scenario)	Negative 95-100	Negative	Positive

Source: Maybank FX Research & Strategy

- It is possible that the LDP and its coalition party win another super majority (i.e. two-third of the Lower House seats) as the popularity of the PoH fade and three-corner fights allow the LDP and/or its coalition to win a plurality of the votes amid low voter turnout. In this scenario, the continuation of Abenomics and the BOJ's ultra-easy monetary policy is assured, spurring further foreign interest in equities and keeping JGBs yields low, and supporting the pair even higher.
- Another possible election outcome is for the LDP and its coalition partner win the Lower House election but with a greatly reduced majority. This sets the stage for a challenge to PM Abe as president of the ruling party in Sep 2018. With Abenomics on shaky grounds, market reaction could be to sell-off equities, and see JGB yield climb as expectations build that BOJ easing policy could be at an end. This should weigh on the USDJPY.
- An outcome that is not likely but cannot be ruled out completely is an opposition victory in the Lower House election. In this worst-case scenario, the ruling coalition losses its majority to the PoH or to an opposition coalition led by the PoH. This would put an end to Abenomics and BOJ's ultra-accommodative policy. The markets' response to the untested new government would be to sell-off equities and unwind long USDJPY bets, putting downside pressure on the USDJPY.
- We are mindful of the impact that election outcome will have on ASEAN FX. Our previous study (FX Asia Fortnightly dated 15 Sep 2017) on the impact of the USDJPY on ASEAN FX showed that the five ASEAN FXs are all positively correlated to the JPY but by varying degrees. The analysis suggested that the SGD and THB will be the most affected by JPY moves, which is not surprising given the strong trading links between Japan and the two ASEAN economies.
- We look for the JPYMYR, JPYSGD and JPYTHB to trade sideways ahead of the elections. The JPYMYR, JPYSGD and JPYTHB is should trade within 3.7200-3.7800, 1.1970-1.2160 and 29.40-29.80 range ahead respectively. In contrast, the JPYPHP and JPYIDR should continue to trade higher within 0.45-0.47 and 117.80-123.00 ranges, weighed by relative weakness in both the IDR and PHP.

## 2017/2018 Asia FX Forecasts

	End 4Q-17	End 1Q-18	End 2Q-18	End 3Q-18
<b>USDJPY</b>	115	115	117	116
<b>USDSGD</b>	1.3500	1.3550	1.3650	1.3700
<b>USDMYR</b>	4.25	4.28	4.20	4.15
<b>USDIDR</b>	13600	13600	13700	13650
<b>USDTHB</b>	34.00	34.00	34.30	34.80
<b>USDPHP</b>	52.00	52.00	51.80	51.50
<b>USDCNY</b>	6.60	6.60	6.65	6.60
<b>USDKRW</b>	1160	1140	1140	1130
<b>USDINR</b>	65.00	64.50	66.00	65.00
<b>USDVND</b>	22760	22730	22780	22700
<b>SGD Crosses</b>	<b>End 4Q-17</b>	<b>End 1Q-18</b>	<b>End 2Q-18</b>	<b>End 3Q-18</b>
<b>SGDMYR</b>	3.148	3.155	3.077	3.029
<b>MYR Crosses</b>	<b>End 4Q-17</b>	<b>End 1Q-18</b>	<b>End 2Q-18</b>	<b>End 3Q-18</b>
<b>MYRCNY</b>	1.55	1.54	1.58	1.59
<b>MYRIDR</b>	3200	3181	3262	3289
<b>MYRINR</b>	15.29	15.09	15.71	15.66

Source: Maybank FX Research as at 11 October 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
<b>USDMYR</b>	USDMYR traded softer in the past week, in line with our caution that pair was entering overbought conditions and that the rebound may be losing momentum. Bullish momentum shows signs of waning while stochastics is falling. This suggests downside pressure. Support remains at 4.20, 4.1720 (50% fibo retracement of 2016 low to 2017 high). Resistance at 4.2460 (50 DMA). Key data release for the next two weeks is CPI (Sep) on 20 Sep. More importantly, focus will be on Budget Day on 27 Oct, which is expected to balance between “short-term populism” given the upcoming general elections and “long-term agenda” given the ongoing and upcoming multi-year mega infrastructure projects. A budget that balances these twin goals while continuing with the goal of fiscal consolidation should be supportive of the MYR.	O/N Policy Rate	Neutral
<b>USDSGD</b>	USDSGD move lower stalled when the MAS maintained its neutral policy, i.e. the zero appreciation path of the SGD NEER, with the width and center of the policy band unchanged as well. We had expected the MAS to shift to a ‘slight appreciation bias’. There had been some market positioning ahead of the meeting for some hawkish bias by the central bank and the relatively dovish statement suggests that unwinding of these bets could continue. Pair could receive further directional cues from risk events ahead including US CPI tonight. Last seen around 1.3550-levels, pair has lost most of its bullish momentum on the daily chart, while stochastics continues to fall. Weekly momentum and stochastics remains bullish bias. Pair continues to trade within its bearish trend channel (formed since the beginning of 2017), a bearish signal. Further moves higher are likely to be a slow grind. We are bias to buy the pair on dips towards 1.3660 (50DMA). Support is at 1.3480, 1.34-handle.	Exchange Rate	Neutral

## Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDIDR	<p>1m USDIDR NDF spiked to a new 2017 high of 13655 on 3 Oct amid higher UST yield and USD. Since then, the pullback in the USD has allowed the 1m NDF to consolidate within the confines of 13500-13600. 1m NDF remained supported above the 13500-levels on foreign portfolio outflows in the past two weeks. Foreign investors had sold USD363.06mn and USD828.50mn in equities and debt in the past two weeks. Last seen around 13530 levels. Momentum on the daily chart remains bullish bias but shows signs of waning and stochastics continues to fall from overbought conditions. Weekly momentum and stochastics remain bullish bias. We continue to expect the 1m NDF to remain in consolidation within the confines of 13500-13600 in the next two weeks. Note though that we expect the BI to remain on hold at its 19 Oct meeting and maintain the benchmark policy rate at 4.25%. This comes in the wake of comments by BI assistant governor Budi Waluyo that the central bank sees little room for further interest rate cuts until the end of the year or into next year. Any further moves by the central bank on interest rate will be data-dependent. Instead, he suggested that other measures could be used to support the economy, possibly including reducing the reserve requirement. This dependency on data was reiterated by BI governor Martowardojo recently, which suggests that the BI could hit the pause button at this policy meeting. This should weigh on the 1m NDF.</p>	7-Day Reverse Repo Rate	Easing
USDPHP	<p>1m USDPHP NDF briefly touched a new 10-year high at 51.87 levels on 13 Oct morning before settling slightly lower. Over the coming weeks, we expect the Peso to be slightly supported on positive capital inflows data in the Philippines, which would weigh in on the 1m NDF. Upside surprises from overseas remittance data (Aug) on the 16 Oct could be supportive of the PHP. The outflow from equities in the past two weeks, amounting to USD30.71mn, had weighed on the PHP. Further portfolio outflows or slower inflows should continue to be supportive of the pair ahead. Last seen around 61.63 levels. Momentum indicators on the daily chart remain bullish bias but are showing signs of waning, while stochastics is overstretched. This suggests retracement risk ahead. Weekly chart remains bullish bias. Watch out for a possible pullback towards 51.25 (38.2% fibo retracement of Aug low to Oct high, 21&amp;50DMAs). Rebounds could revisit 51.87 (2017 high).</p>	O/N Reverse Repo Rate	Neutral
USDTHB	<p>USDTHB has eased off from its two-week high of 33.545 (3 Oct) and is trading back towards its September lows of 33.035 amid USD weakness. The sell-off in debt by foreign investors in the past two weeks (amounting to USD81.72mn) was more than offset by the inflows into equities, amounting to USD211.81mn. Further net inflows should weigh on the pair. Pair was last seen around 33.080 levels. Daily momentum indicators and stochastics are bearish bias, while weekly momentum and stochastics remain bullish bias. Pair is now trading back within its downward trend channel that had formed since the beginning of the year - a bearish signal. In the near term, we could see further downside in the pair for a revisit of 33.035. Resistance at the 33.220-230 region (21 &amp; 50DMAs). Watch for possible official agent action to curb THB strength around the 33.035 levels.</p>	1-Day Repo Rate	Neutral

## Key Data and Events Ahead

Currency	16-22 Oct	23-29 Oct
Japan	<ul style="list-style-type: none"> <li>Mon: Industrial Production, Capacity Utilization (Aug)</li> <li>Tue: - Nil -</li> <li>Wed: BOJ Makoto Sakurai Speaks</li> <li>Thu: Trade, Machine Tool Orders (Sep), All Industry Index (Aug)</li> <li>Fri: BOJ Kuroda Speaks (Tokyo)</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: Nikkei PMI Mfg (Oct P)</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: CPI (Sep)</li> </ul>
China	<ul style="list-style-type: none"> <li>Mon: CPI, PPI (Sep)</li> <li>Tue: - Nil -</li> <li>Wed: 19th National Congress Begins</li> <li>Thu: GDP (3Q), Retail Sales, Urban FAI, Industrial Production (Sep)</li> <li>Fri: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: Property Prices (Sep)</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: Industrial Profit (Sep)</li> </ul>
South Korea	<ul style="list-style-type: none"> <li>Mon: FDI (3Q; due 16-20 Oct)</li> <li>Tue: - Nil -</li> <li>Wed: Unemployment Rate (Sep)</li> <li>Thu: BoK 7-Day Repo Rate</li> <li>Fri: PPI (Sep)</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: Consumer Confidence (Oct)</li> <li>Thu: GDP (3Q P)</li> <li>Fri: - Nil -</li> </ul>
Singapore	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: NODX (Sep)</li> <li>Wed: Public Holiday</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: CPI (Sep)</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: Industrial Production (Sep)</li> <li>Fri: Unemployment Rate (3Q)</li> </ul>
Malaysia	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: Public Holiday</li> <li>Thu: - Nil -</li> <li>Fri: CPI (Sep), Foreign Reserves (13 Oct)</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: Budget Day</li> </ul>
Indonesia	<ul style="list-style-type: none"> <li>Mon: Trade (Sep)</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: BI 7D Reverse Repo</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>
Philippines	<ul style="list-style-type: none"> <li>Mon: Overseas Remittances (Aug)</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: BoP (Sep)</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>
Thailand	<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 Oct)</li> </ul>	<ul style="list-style-type: none"> <li>Mon: Public Holiday</li> <li>Tue: Customs Trade (Sep; due 22-30 Oct)</li> <li>Wed: - Nil -</li> <li>Thu: Public Holiday</li> <li>Fri: Foreign reserves (20 Oct)</li> </ul>
India	<ul style="list-style-type: none"> <li>Mon: Wholesale Prices (Sep)</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: Public Holiday</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>
Vietnam	<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: CPI, Trade, Retail Sales, Industrial Production due 25-31 Oct)</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>

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