

## FX Asia Fortnightly

# Eyeing Central Bank Decisions In ASEAN

### Eyeing Central Bank Decisions In ASEAN

After an eventful last two weeks, we are poised for some more risk events in the two weeks ahead with ECB conference (18-20 Jun), BSP and BoT meetings on 20 Jun, OPEC meeting on 22 Jun and BI meeting on 28 Jun. We could also see some risk spillover into the new week and weigh on the Asian FX, especially trade-dependent currencies like TWD, KRW and SGD, should the US impose tariffs on China goods. The ECB conference will see speeches by central bank heads such as Powell, Draghi and Kuroda among others that could be used to signal monetary policy cues. OPEC led by Saudi Arabia and Russia could turn on the oil spigot, capping oil prices which suggests that the MYR is unlikely to see much upside ahead though oil-importers like the IDR and PHP could benefit. The central bank meetings are unlikely to produce any surprises. The BSP is expected to hold rates steady as it waits and observe Jun inflation data due in Jul. This could provide market with an excuse to continue to short PHP against long USD, putting further downside pressure on the PHP. Benign inflationary pressures though should allow the BoT to hold its policy rate steady for now and we expect a muted response from the market. As for BI, we cannot rule out a move to front-load with another rate hike to ensure macroeconomic and IDR stability in the face of more aggressive Fed rate hikes this year. This could support the IDR and keep the USDIDR below the 14000-levels in the two weeks ahead. We remain bias to long-IDR and short-PHP. Our in-house model implies that SGD NEER is trading 0.93% above the implied midpoint of 1.3470, suggesting it is on the stronger side of the SGD vs. other trading partner currencies.

### Emerging Market Risk Could See More Pain Ahead for PHP, INR

Expectations of a faster pace of Fed rate hikes this year prompted a re-allocation of assets from emerging market in search of higher returns in the US. This sparked a sell-off in vulnerable EM currencies, starting with the Turkish lira and then spreading to other vulnerable EM currencies in Asia. In Asia, the worst hit currencies were the PHP, IDR and INR due to their current account deficits and relatively inadequate foreign exchange reserves. Though emerging market volatility has eased off, the re-emergence of market angst cannot be ruled out especially with the Fed set to tighten its policy more aggressively ahead and the ECB possibly following suit. This suggests then that further weakness in the PHP, INR and IDR is possible. But we expect the impact to be less on the IDR than on the INR or PHP. This is because of the firm commitment that the Indonesian central bank has given to the market that it would tighten monetary policy even further if necessary in order to be “pre-emptive, front-loaded and ahead of the curve”. This has lessened market concerns the central bank is putting growth at the forefront at the expense of anchoring inflationary expectations and macroeconomic stability. In contrast, the Indian and Philippine central banks have failed to commit whole-heartedly to defend their currencies via further rate hikes. Thus, we could see a more muted sell-off in the IDR ahead than the PHP and INR.

### Analysts

Saktiandi Supaat  
(65) 6320 1379  
saktiandi@maybank.com.sg

Leslie Tang  
(65) 6320 1378  
leslietang@maybank.com.sg

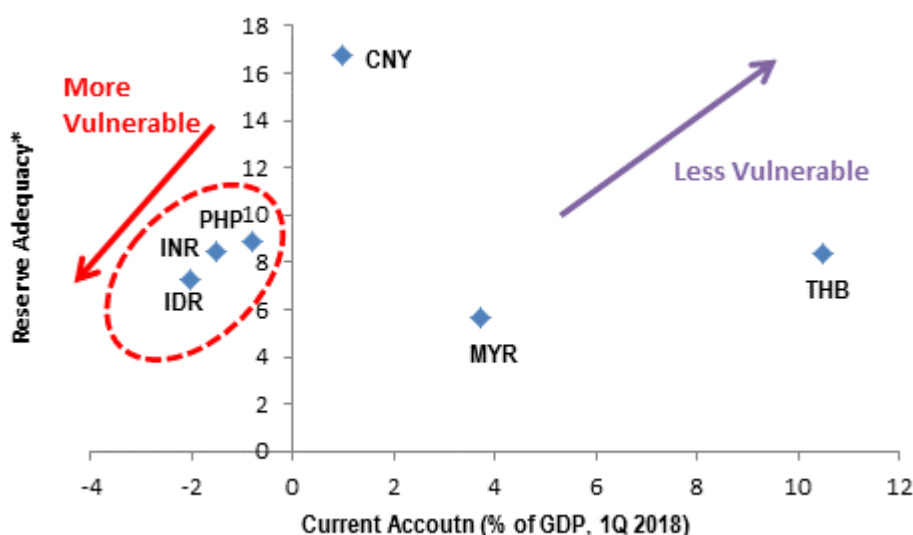
Fiona Lim  
(65) 6320 1374  
fionalim@maybank.com.sg

Christopher Wong  
(65) 6320 1347  
wongkl@maybank.com.sg

## Flavour of the Week: Emerging Market Risk Could See More Pain Ahead for PHP, INR (and to a Lesser Extent for IDR)

- Recent re-emergence of emerging market (EM) risks emanating from Turkey, Argentina and Brazil has not spared Asia. Among those worst hit by EM risks are Indonesia, India and Philippines, who have seen their currencies performing the worst in Asia.
- Expectations of a faster pace of Fed rate hikes this year prompted a re-allocation of assets from emerging market in search of higher returns in the US. This sparked a sell-off in vulnerable EM currencies, starting with the Turkish lira and then spreading to other vulnerable EM currencies in Asia. In Asia, the worst hit currencies were the PHP, IDR and INR. Year-to-date the PHP has been the worst performing currency in Asia ex-Japan, falling by 5.7% against the USD, followed by the INR (down 5.2%) and the IDR (down 2.6%).
- The dominating factors across all three currencies are that they not only suffer from current account deficits but also have relatively inadequate foreign exchange reserves (see Chart 1 below). These factors indicate that these economies do not have sufficient ammunition to protect themselves against short-selling of their currencies or assets. This is unlike their regional peers (China, Malaysia and Thailand) that have persistent current account surpluses and relatively high foreign exchange reserves.

Chart 1: Potential For Further IDR, INR & PHP Weakness Should EM Risks Re-Emerge



Note: International standard for reserve adequacy is 3 months of imports coverage. Data is from IMF, 2016

Source: Bloomberg, IMF, Maybank FX Research & Strategy

- Though emerging market volatility has eased off, the re-emergence of market angst cannot be ruled out especially with the Fed set to tighten its policy more aggressively ahead and the ECB possibly following suit. This suggests then that further weakness in the PHP, INR and IDR is possible.

- But we expect the impact to be less on the IDR than on the INR or PHP. This is because of the firm commitment that the Indonesian central bank has given to the market that it would tighten monetary policy even further if necessary in order to be “pre-emptive, front-loaded and ahead of the curve”. This has lessened market concerns the central bank is putting growth at the forefront at the expense of anchoring inflationary expectations and macroeconomic stability.
- This is in contrast to both India and Philippines where their central banks have failed to commit whole-heartedly to defend their currencies via further rate hikes. In particular, the focus on growth in Philippines and the back-peddling on rate hike commitment by BSP officials have turned the market against the PHP and Philippine assets. This has led to the USDPHP supported above the 53-handle.

**Daily Chart - USDPHP - Hitting Multi-Year Highs, Consolidation Likely**



Source: Bloomberg, Maybank FX Research & Strategy

- USDPHP has been on the uptick since the first week of Jun and has hit multi-year highs at 53.348 (on 14 Jun) amid USD strength, global trade tensions and concerns over back-peddling by the BSP on further rate hikes. Last seen around 53.124. Bullish bias on the daily chart remains intact, though stochastics is at overbought conditions. This suggests that further gains could be a slow grind and see the pair in consolidative trades ahead. A break of the 53.348 levels could expose the next resistance at 53.650 (high on 29 Jun 2006). Support at the 53-handle.
- In sum, market concerns over current account surplus- and foreign exchange reserve-deficient economies amid re-emergence of emerging market risks puts upside pressure on the PHP, INR and IDR. But the BI’s commitment to hike rates further to ensure IDR and macroeconomic stability has lessened the negative impact on the IDR. Thus, we could see a more muted sell-off in the IDR ahead than the PHP and INR.

## Key Data and Events Ahead

Currency	18-24 Jun	25 Jun-1 Jul
Japan	<ul style="list-style-type: none"> <li>• <b>Mon:</b> Trade (May)</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> BOJ Minutes of Policy Meeting; BOJ Governor Kuroda Speaks at ECB Conference</li> <li>• <b>Thu:</b> Machine Tool Orders (May F); BOJ Funo Speaks In Sendai</li> <li>• <b>Fri:</b> CPI (May), Nikkei PMI Mfg (Jun P), All Industry Activity Index (Apr)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Mon:</b> - Nil -</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> - Nil -</li> <li>• <b>Thu:</b> Retail Sales, Retail Trade (May)</li> <li>• <b>Fri:</b> Jobless Rate, Industrial Production, Housing Starts (May)</li> </ul>
China	<ul style="list-style-type: none"> <li>• <b>Mon:</b> Public Holiday</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> - Nil -</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Mon:</b> - Nil -</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> Industrial Profit (May)</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> Current Account Balance (1Q F), Mfg, Non-Mfg &amp; Composite PMI (Jun)</li> </ul>
South Korea	<ul style="list-style-type: none"> <li>• <b>Mon:</b> - Nil -</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> - Nil -</li> <li>• <b>Thu:</b> PPI (May)</li> <li>• <b>Fri:</b> - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Mon:</b> - Nil -</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> - Nil -</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> Business Survey Mfg &amp; Non-Mfg (Jul)</li> <li>• <b>Sat:</b> Trade (Jun)</li> </ul>
Singapore	<ul style="list-style-type: none"> <li>• <b>Mon:</b> NODX (May)</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> - Nil -</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Mon:</b> CPI (May)</li> <li>• <b>Tue:</b> Industrial Production (May)</li> <li>• <b>Wed:</b> - Nil -</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> - Nil -</li> </ul>
Malaysia	<ul style="list-style-type: none"> <li>• <b>Mon:</b> - Nil -</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> CPI (May)</li> <li>• <b>Thu:</b> Foreign Reserves (14 Jun)</li> <li>• <b>Fri:</b> - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Mon:</b> - Nil -</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> - Nil -</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> - Nil -</li> </ul>
Indonesia	<ul style="list-style-type: none"> <li>• <b>Mon:</b> Public Holiday</li> <li>• <b>Tue:</b> Public Holiday</li> <li>• <b>Wed:</b> - Nil -</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Mon:</b> Trade (May)</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> - Nil -</li> <li>• <b>Thu:</b> BI 7-Day Reverse Repo Rate</li> <li>• <b>Fri:</b> - Nil -</li> </ul>
Philippines	<ul style="list-style-type: none"> <li>• <b>Mon:</b> Overseas Remittances (Apr)</li> <li>• <b>Tue:</b> BoP Overall (May)</li> <li>• <b>Wed:</b> - Nil - BSP Overnight Borrowing Rate</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Mon:</b> Budget Balance (May)</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> - Nil -</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> - Nil -</li> </ul>
Thailand	<ul style="list-style-type: none"> <li>• <b>Mon:</b> - Nil -</li> <li>• <b>Tue:</b> Customs Trade (May - due 19-24 Jun)</li> <li>• <b>Wed:</b> BoT Benchmark Interest Rate</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> Foreign reserves (15 Jun)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Mon:</b> - Nil -</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> - Nil -</li> <li>• <b>Thu:</b> Mfg Production Index, Capacity Utilisation (May - due 28-29 Jun)</li> <li>• <b>Fri:</b> Foreign reserves (22 Jun), Trade, BoP Current Account (May)</li> </ul>
India	<ul style="list-style-type: none"> <li>• <b>Mon:</b> - Nil -</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> - Nil -</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Mon:</b> - Nil -</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> Fiscal Deficit (May)</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> - Nil -</li> </ul>
Vietnam	<ul style="list-style-type: none"> <li>• <b>Mon:</b> - Nil -</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> - Nil -</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Mon:</b> GDP (2Q), CPI, Trade, Industrial Production, Retail Sales YTD (Jun) (due 25-30 Jun)</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> - Nil -</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> - Nil -</li> </ul>

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Published by:



Malayan Banking Berhad  
(Incorporated in Malaysia)

Saktiandi Supaat  
Head, FX Research  
saktiandi@maybank.com.sg  
(+65) 63201379

Christopher Wong  
Senior FX Strategist  
wongkl@maybank.com.sg  
(+65) 63201347

Fiona Lim  
Senior FX Strategist  
Fionalim@maybank.com.sg  
(+65) 63201374

Leslie Tang  
Senior FX Strategist  
leslietang@maybank.com.sg  
(+65) 63201378