

## FX Asia Fortnightly

# ASEAN FX To Consolidate Towards Year-End

### Consolidation As 2018 Winds Down

ASEAN FX could remain under pressure in the week ahead as market awaits the Fed's decision and the press conference by Jay Powell on 20 Dec. A hike by the Fed accompanied by a still-hawkish tone in the statement and press conference could power the USD and weigh on the AXJs, including the ASEAN. A dovish hike on the other hand could allow ASEAN FX to recover ahead of the Christmas holidays. Muted trades are likely in the week of the 24 Dec as the year winds down. We could see the ASEAN FX in consolidative trades consequently.

Aside from FOMC, markets will also be watching the actions of the BOJ, BoT and BI on 17, 19 and 20 Dec respectively. While the BOJ is likely to reiterate its persistent easy monetary policy, we could see the BI pause after hiking policy by 175bp to 6.00% since May amid stable IDR and manageable inflation. BoT is likely to normalise policy next week given recent comments from the central bank that there may be less need for extra accommodative policy. This should bring the policy rate to 1.75%. A rate hike by the BoT will be supportive of a THB move towards the 32.670-levels.

Our in-house model implies that SGD NEER is trading 1.14% above the implied midpoint of 1.3917, suggesting it is still on the stronger side of the SGD vs. other trading partner currencies.

### THB Could Face Downside Pressures Ahead Of The Election

The military junta in Thailand has finally announced that the general elections will be held on 24 Feb 2019 and partially lifted the ban on political activity. This announcement has been greeted with optimism by both political parties and market participants alike as a timeline has been fixed for the peaceful return to civilian rule. This has helped to provide support to the THB in the past few sessions. Despite the current calm, we believe that political temperature is likely to rise and hit a feverish pitch as the election date nears. Pent-up frustrations after the suppression of political expression over the past four years are likely to burst out into the open and see political tensions boil over in the months ahead. Escalating political tensions should keep investors on the sidelines until political clarity is established. While market angst in the lead-up to the elections could see THB weaken, we expect this softness to be temporary. Once stability and clarity on the political front emerges, the THB is expected to strengthen in 2Q and 3Q.

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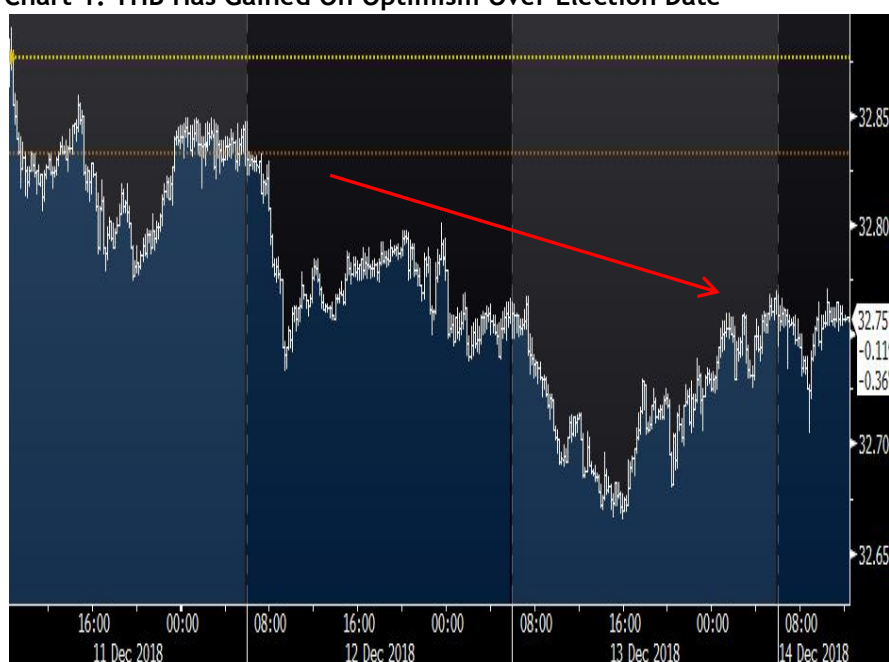
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This is our final edition of the Asia FX Fortnightly for 2018. We wish all our readers Happy Holidays and A Fruitful New Year!

## Flavour of the Week: THB Could Face Some Setbacks Before Seeing Better Days In Its Return To Democracy

- After a long wait of about four years, the military junta has finally announced a date for the return of political power to civilian rule. At the same time, the military junta also partially lifted the ban on political activity, allowing for political assembly and financial activities for political purposes. A remainder of the ban on political activities will be lifted later in Dec to allow for political parties to begin campaign in early Jan. The general election has been scheduled for 24 Feb 2019 (a Sun). This announcement has been greeted with optimism by both political parties and market participants alike as a timeline has been fixed for the peaceful return to civilian rule. This has helped to provide support to the THB in the past few sessions (Chart 1).

Chart 1: THB Has Gained On Optimism Over Election Date



Source: Bloomberg, Maybank FX Research & Strategy Estimates

- Despite the current calm, we believe that political temperature is likely to rise and hit a feverish pitch as the election date nears. Pent-up frustrations after the suppression of political expression over the past four years are likely to burst out into the open and see political tensions boil over in the months ahead. Escalating political tensions should keep investors on the sidelines until political clarity is established.

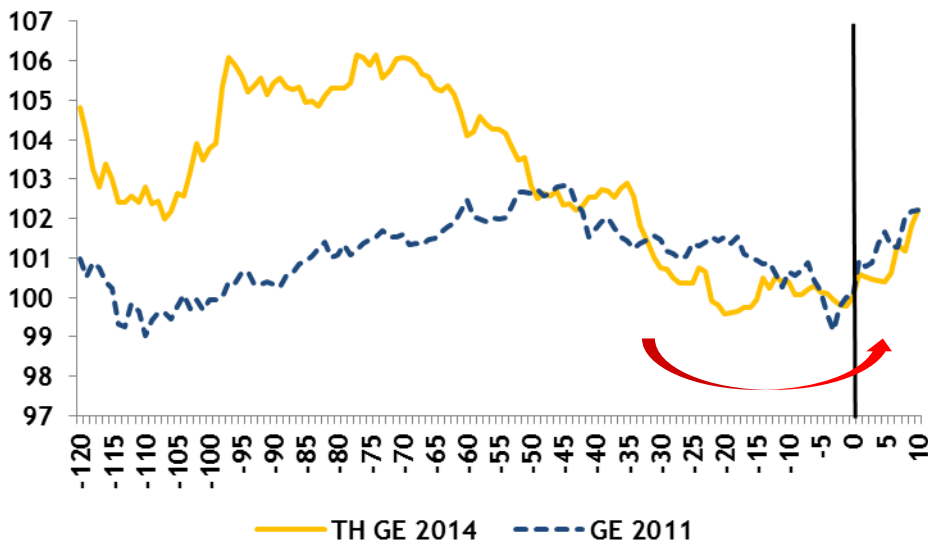
Table 1: Polls Are Beginning To Show Support For Military-Backed Phalang Pracharat Party But It Is Still Early Days

	Pheu Thai	Democrat	Phalang Pracharat	Future Forward	Others	Polling Organisation
24-Nov-18	23.64%	19.01%	26.61%	8.84%	21.90%	Rangsit University
20-22 Nov 2018	31.75%	16.98%	19.92%	15.63%	15.72%	National Institute of Development Administration
17-18 Sep 2018	28.78%	19.58%	20.62%	15.51%	15.51%	National Institute of Development Administration

Source: National Institute of Development Administration, Rangsit University, Maybank FX Research & Strategy Estimates

- As we have discussed elsewhere, we expect the polls to produce a fractious parliament with no single party gaining an outright majority in the new parliament. This should allow the military, who will dominate the Senate for the next five years, to maintain its political influence even after the military junta is dissolved. This increases the prospects that current PM Prayuth Chan-Ocha will remain at helm after the polls in Feb. Early polls are showing a shift in support towards the military-backed Phalang Pracharat Party but opinions could shift as the campaigning begins (Table 1).
- While market angst in the lead-up to the elections could see THB weaken, we expect this softness to be temporary. Once stability and clarity on the political front emerges, the THB is expected to strengthen in 2Q and 3Q (Chart 2).

**Chart 2: THB Typically Depreciates In The Lead-Up To Elections But Picks-Up Thereafter**



Source: Bloomberg, Maybank FX Research & Strategy Estimates

## Key Data and Events Ahead

Currency	17-23 Dec	24-30 Dec
Japan	· Mon: - Nil -	· Mon: Public Holiday
	· Tue: - Nil -	· Tue: - Nil -
	· Wed: Trade (Nov)	· Wed: - Nil -
	· Thu: All Industry Activity Index (Oct), machine tool orders (Nov F), <b>BOJ Meeting</b>	· Thu: Housing Starts (Nov)
	· Fri: CPI (Nov)	· Fri: Jobless Rate (Nov), Industrial Production (Nov P)
China	· Mon: - Nil -	· Mon: - Nil -
	· Tue: - Nil -	· Tue: - Nil -
	· Wed: - Nil -	· Wed: - Nil -
	· Thu: - Nil -	· Thu: - Nil -
	· Fri: - Nil -	· Fri: Current Account (3Q F)
South Korea	· Mon: - Nil -	· Mon: - Nil -
	· Tue: - Nil -	· Tue: Public Holiday
	· Wed: - Nil -	· Wed: - Nil -
	· Thu: - Nil -	· Thu: - Nil -
	· Fri: PPI (Nov)	· Fri: Business Survey Mfg (Jan), Industrial Production (Nov)
Singapore	· Mon: NODX (Nov)	· Mon: CPI (Nov)
	· Tue: - Nil -	· Tue: Public Holiday
	· Wed: - Nil -	· Wed: Industrial Production (Nov)
	· Thu: - Nil -	· Thu: - Nil -
	· Fri: - Nil -	· Fri: - Nil -
Malaysia	· Mon: - Nil -	· Mon: - Nil -
	· Tue: - Nil -	· Tue: Public Holiday
	· Wed: CPI (Nov)	· Wed: - Nil -
	· Thu: - Nil -	· Thu: - Nil -
	· Fri: Foreign Reserves (14 Dec)	· Fri: - Nil -
Indonesia	· Mon: Trade (Nov)	· Mon: Public Holiday
	· Tue: - Nil -	· Tue: Public Holiday
	· Wed: - Nil -	· Wed: - Nil -
	· Thu: BI 7-Day Reverse Repo Rate	· Thu: - Nil -
	· Fri: - Nil -	· Fri: - Nil -
Philippines	· Mon: Overseas Remittances (Oct)	· Mon: Public Holiday
	· Tue: - Nil -	· Tue: Public Holiday
	· Wed: BoP Overall (Nov)	· Wed: Budget Balance (Nov)
	· Thu: - Nil -	· Thu: - Nil -
	· Fri: - Nil -	· Fri: - Nil -
Thailand	· Mon: - Nil -	· Mon: - Nil -
	· Tue: - Nil -	· Tue: - Nil -
	· Wed: <b>BoT 1-Day Repo Rate</b> , Customs Trade (Nov - due sometime 19-24 Dec)	· Wed: - Nil -
	· Thu: - Nil -	· Thu: - Nil -
	· Fri: Foreign reserves (14 Dec)	· Fri: Foreign Reserves (21 Dec)
India	· Mon: - Nil -	· Mon: - Nil -
	· Tue: - Nil -	· Tue: Public Holiday
	· Wed: - Nil -	· Wed: - Nil -
	· Thu: - Nil -	· Thu: - Nil -
	· Fri: - Nil -	· Fri: - Nil -
Vietnam	· Mon: - Nil -	· Mon: - Nil -
	· Tue: - Nil -	· Tue: GDP (4Q), trade, CPI, Industrial Production, Retail Sales (Dec - due sometime 25-31 Dec)
	· Wed: - Nil -	· Wed: - Nil -
	· Thu: - Nil -	· Thu: - Nil -
	· Fri: - Nil -	· Fri: - Nil -

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