

## FX Asia Fortnightly

# Leaning-Against-The-Wind Moves Could Cap AXJ Upside

### Watching Out For *Leaning-Against-The-Wind* Activities

The AXJs have started 2018 on an upbeat note. In the first two weeks of the new year, the AXJs have generally strengthened against the USD. In ASEAN, the THB, MYR and IDR have been all risen by over 1% against the USD since the start of the year. The laggard remains the PHP, which dipped 0.8% against the USD so far this year. Driving the ASEANS higher the foreign inflows into the local debt markets on carry trade plays and the synchronous global recovery. Support for the IDR is seen around 13365, 13280 levels, and for the THB around 31.870, 31.740 levels. Continuing portfolio inflows into ASEAN amid USD weakness should be supportive of ASEAN FX. Recovery of oil prices towards the USD70/bbl levels should benefit commodity-linked currencies like the MYR, but weigh on the currencies of oil-dependent economies like the PHP and INR. There is room for the MYR to move lower to around 3.95, 3.9350 levels. In addition, we caution against excessive one-way bets on the ASEAN currencies that could risk leaning-against-the-wind activities.

### JPY Moving To Its Own Beat For Now

The USDJPY has moved in lockstep with the yield differentials between 10Y UST and JGB for the most part of 2017. Towards the end of 2017, there appears to be a turnaround in the situation where the correlation between the yield differentials averaged only 0.3% for Dec. This weakening relationship between the USDJPY and 10Y UST-JGB yield differentials can be attributed to market speculation that the BOJ could begin to unwind its ultra-loose monetary policy. The more recent BOJ reduction in its purchases of 10-25 year bonds and bonds over 25-year maturity by JPY10bn had sent the market into a tailspin. This was taken as a signal that an imminent policy tightening was underway. This put downside pressure on the USDJPY with the pair touching the 111.00-levels at the point of writing. While we disagree with this interpretation of the BOJ intentions, we think that the USDJPY could remain under pressure in the lead-up to the BOJ meeting on 23 Jan, where no change in policy is expected. We believe that the correlation between the USDJPY and the yield differentials will return to lockstep once the BOJ reiterates its current policy stance. We look for a weekly close below key support at 111-handle for bearish extension towards 110-handle. Failure of the pair to close on a weekly basis below key support at 111-handle, could see a rebound back towards 112.25, 112.80 levels.

### BoK, BI, BOJ & BNM Meetings Eyed; CN, KR & PH GDP On Tap

There are four central bank meetings in the two weeks ahead, including BoK, BI, BOJ and BNM and all four are expected to maintain the status quo at their first policy meeting of 2018. Also CN, KR and PH will release 4Q GDP on 18 Jan, 25 Jan and 24-26 Jan respectively. Key Asian data/events eyed in the week of 15 Jan include JP machine tool orders, ID trade, PH overseas remittances; IN wholesale prices on 15 Jan; and JP PPI, tertiary industry index on 16 Jan. For 17 Jan, JP core machine orders; SG NODX. For 18 Jan, JP IP, capacity utilization; CN data dump including retail sales, urban FAI, IP, retail sales. In the week of 22 Jan, we eye KR PPI on 22 Jan; and JP machine tool orders, all industry activity index; PH BoP on 19 Dec. We have JP all industry activity index; BOJ outlook report; SG CPI on 23 Jan. For 24 Jan, JP trade, Nikkei PMI mfg; MY CPI. For Jan JP CPI, minutes of BOJ policy meeting; CN industrial profits; SG IP; IN IP. IN is out for a public holiday on 26 Jan.

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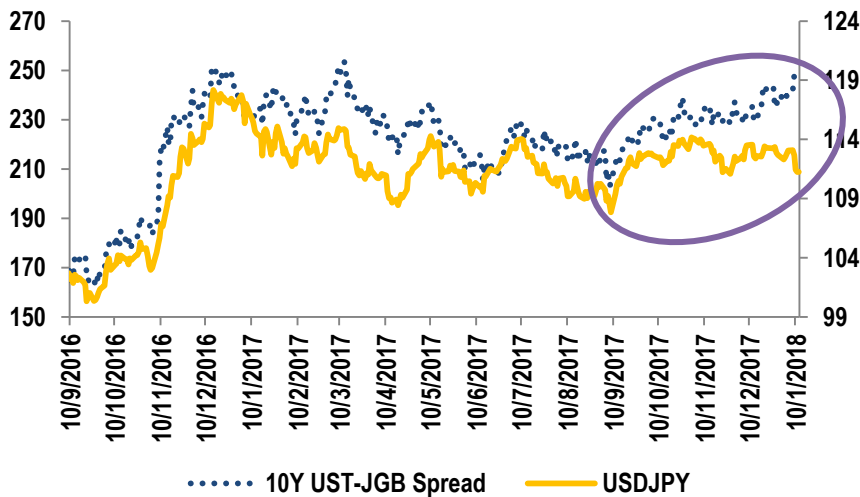
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## Flavour of the Week: JPY Moving To Its Own Beat For Now

- The USDJPY has moved in lockstep with the yield differentials between 10Y UST and JGB for the most part of 2017. The correlation between the USDJPY and the yield differentials was between 0.6-0.9. This means that as the spread between the 10Y UST-JGB yields widened, the USDJPY climbed higher. This can be seen in Chart 1 below.

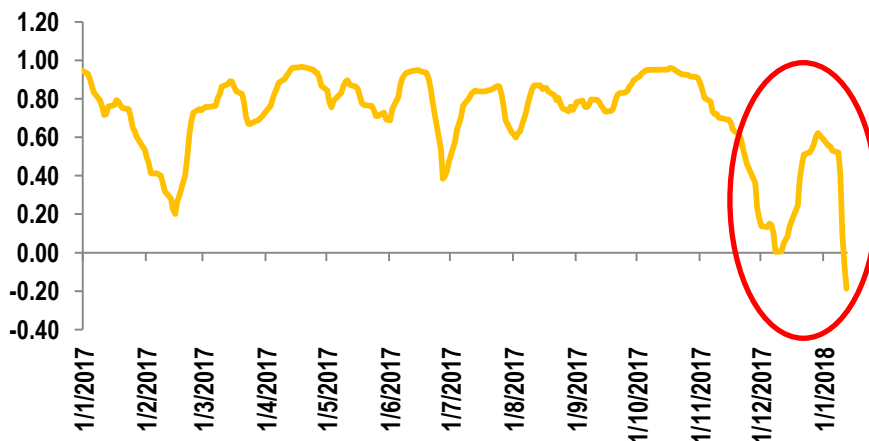
**Chart 1: The USDJPY Has Been Broadly Tracking 10Y UST-JGB Yield Differentials For The Most Part Of 2017**



Source: Bloomberg, Maybank FX Research & Strategy

- Towards the end of 2017, there appears to be a turnaround in the situation. The 10Y UST-JGB yield differentials had widened by 2.443bp on 20 Dec when 10Y UST yield jumped to its 2017 high of 2.4970%, while the USDJPY rose by about 1.0% only. More importantly, the correlation between the yield differentials averaged only 0.3% for Dec (Chart 2).

**Chart 2: Relationship Between USDJPY & 10Y UST-JGB Yield Differentials Weakening**



Source: Bloomberg, Maybank FX Research & Strategy

- This weakening relationship between the USDJPY and 10Y UST-JGB yield differentials can be attributed to market speculation that the BOJ could begin to unwind its ultra-loose monetary policy. As we had written elsewhere, market’s perception of the BOJ’s intentions had been coloured by BOJ governor Kuroda’s comments on “reversal rate”

theory in Nov 2017. He had highlighted the reversal rate theory then on angst by banks that the current BOJ policy of keeping interest rates low was harming the profits of commercial banks that could prevent banks from lending. This would stifle growth and the BOJ's reflation efforts.

- The more recent BOJ reduction in its purchases of 10-25 year bonds and bonds over 25-year maturity by JPY10bn had sent the market into a tailspin. This was taken as a signal that an imminent policy tightening was underway. This put downside pressure on the USDJPY with the pair touching the 111.00-levels at the point of writing.
- While we disagree with this interpretation of the BOJ intentions, we think that the USDJPY could remain under pressure in the lead-up to the BOJ meeting on 23 Jan, even though we expect the BOJ to maintain the status quo in policy. We believe that the correlation between the USDJPY and the yield differentials will return to lockstep once the BOJ reiterates its ultra-loose monetary policy stance at its 23 Jan meeting.
- We look for a weekly close below key support at 111-handle (50% fibo retracement of the Sep-Nov 2017 upswing) for bearish extension towards 110-handle (61.8% fibo). Failure of the pair to close on a weekly basis below key support at 111-handle (50% fibo retracement of the Sep-Nov 2017 upswing), could see a rebound back towards 112.25 (100DMA), 112.80 (21DMA). We are bias to buy on dips.

Chart 3: USDJPY (Daily) Chart - Potential For Downside To 110-Levels



Source: Bloomberg, Maybank FX Research & Strategy

## 2018 Asia FX Forecasts

	End 1Q-18	End 2Q-18	End 3Q-18	End 4Q-18
USDJPY	117	115	116	116
USDSGD	1.3450	1.3300	1.3250	1.3200
USDMYR	3.95	4.02	4.00	3.85
USDIDR	13500	13400	13300	13300
USDTHB	33.00	33.00	33.50	34.00
USDPHP	51.00	50.50	50.50	50.00
USDCNY	6.65	6.60	6.60	6.55
USDKRW	1118	1100	1090	1110
USDINR	66.00	64.50	65.00	65.00
USDVND	22780	22730	22700	22500
<b>SGD Crosses</b>	<b>End 4Q-17</b>	<b>End 1Q-18</b>	<b>End 2Q-18</b>	<b>End 3Q-18</b>
SGDMYR	2.937	3.023	3.019	2.917
<b>MYR Crosses</b>	<b>End 4Q-17</b>	<b>End 1Q-18</b>	<b>End 2Q-18</b>	<b>End 3Q-18</b>
MYRCNY	1.68	1.64	1.65	1.70
MYRIDR	3418	3333	3325	3455
MYRINR	16.71	16.04	16.25	16.88

Source: Maybank FX Research as at 11 Jan 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 has been on the decline since end-Dec amid USD weakness and recovery in oil prices. We still expect MYR strength continue in early part (next few months) of 2018 amid Malaysian GE (likely in the coming months), positive development in domestic fundamentals against supporting external environment - synchronous global economic recovery benefitting Asian exports including Malaysia and possibly see this extending into investment recovery in 2018. 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. BNM meeting on 25 Jan is likely to be a non-event as no policy moves are expected. Momentum indicator on monthly, weekly and daily charts remain bearish but stochastics is at oversold conditions. This suggests the risk of near term rebound. In particular a falling wedge pattern appears to be forming - another sign of mild bullish reversal. We caution that rebound could re-visit 4.03, 4.05 levels. Next support levels at 3.95 before 3.9350.</p>	O/N Policy Rate	Neutral
USDSGD	<p>USDSGD has been on a roller-coaster ride since the start of the year, slipping to a near 3-year low of 1.3256 (5 Jan) amid USD weakness before rebounding to a recent high of 1.3369 (10 Jan). Since then, pair is back on the downmove below the 1.33-levels. Pair shows no strong bias on the daily chart, while stochastics is climbing out from oversold conditions. Weekly momentum also shows not strong bias in either direction, while stochastics remains at oversold conditions. Support is at 1.3356. A clean break of this level on a weekly close could see bearish extension towards the 1.32-handle. Resistance at 1.3310, 1.3370 levels.</p>	Exchange Rate	Neutral

## Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
<b>USDIR</b>	1m USDIDR NDF is broadly on the downtrend since end-Dec 2017 amid a softer USD. In addition, carry trades plays have also weighed on the 1m NDF. Positive sentiments have led foreign investors to purchase USD172.2mn and USD1829.9mn in equities and debt so far in the first two weeks of the year. Continuing carry trade plays and risk-on sentiments could see further net foreign portfolio inflows ahead, which should weigh on the 1m NDF. BI meets for the first time this year on 18 Jan and no fireworks are expected with the central bank likely to hold its policy steady for now to support growth. Daily chart shows bearish bias intact, while stochastics remains in oversold conditions. Weekly momentum indicators and stochastics remain bearish bias. This suggests risks to the 1m NDF remains to the downside for now. Support is at around 13280 (76.4% fibo retracement of the Sep-Oct upswing). Resistance is at 13440 (50% fibo), 13500 (100DMA).	<b>7-Day Reverse Repo Rate</b>	<b>Easing</b>
<b>USDPHP</b>	Unlike its regional peers, 1m USDPHP NDF has remained generally higher since the start of the week. This was a rebound from the slippage in the 1m NDF that began at the start of the year. Expect year-end remittance effect to have wane on the PHP, which should suggest risks to the upside should remain. Foreign portfolio flows data show USD64.6mn on equities inflow in the first two weeks of 2018, while the Philippines stock exchange remained higher for the week (although it dipped slightly on Fri). Aside from overseas remittances, focus will also be on following week's GDP data due sometime 24-26 Jan. Economic outperformance increases risks of policy tightening by BSP to prevent the economy from overheating, and this should weigh on the 1m NDF. Momentum indicators on the daily chart are still mildly bullish bias, while stochastics is climbing higher. Weekly charts though continue to show bearish momentum and stochastics at oversold conditions. On the weekly chart, the 1m NDF entered the ichimoku cloud, a signal for near term consolidation. Support remains at 50.15 (21DMA). Resistance at 50.50 (50DMA), 50.65 (200DMA).	<b>O/N Reverse Repo Rate</b>	<b>Neutral</b>
<b>USDTHB</b>	USDTHB has cleared below the 32-handle this week. Pair continues to test new 2018 lows, briefly hitting a new 4-year and 2018 low of 31.920. We caution that continued downside could trigger against the wind activities. Foreign reserves continue to tick higher this week at USD204bn (prev. USD202.6bn). Recent THB strength can be seen largely unfavorable for businesses, as the JSCCIB suggested to BoT. More importantly, the strong fundamentals continue to attract foreign portfolio investors to its assets. So far in the first two weeks of 2018, foreign investors have purchased USD2258.1mn of debt, helping to mitigate the sell-off of USD299.2mn of equities. Further net portfolio inflows should be supportive of the THB. Risks to the pair remain to the downside. Daily momentum indicators are still bearish bias, and stochastics at oversold conditions. Weekly momentum indicators are mildly bearish bias with stochastics still at oversold conditions. Next support is at 31.870, 31.740 (Jul 2014 low). Resistance is around 32.100 levels.	<b>1-Day Repo Rate</b>	<b>Neutral</b>

## Key Data and Events Ahead

Currency	15-21 Jan	22-28Jan
USDJPY	· Mon: Machine Tool Orders (Dec P)	· Mon: - Nil -
	· Tue: PPI (Dec), Tertiary Industry Index (Nov)	· Tue: All Industry Activity Index (Nov), Machine Tool Orders (Dec F), BOJ 10-Yr Yield Target/Policy Balance Rate, BOJ Outlook Report
	· Wed: Core Machine Orders (Nov)	· Wed: Trade (Dec), Nikkei PMI Mfg (Jan P)
	· Thu: Industrial Production, Capacity Utilization (Nov)	· Thu: - Nil -
	· Fri: - Nil -	· Fri: CPI (Dec), BOJ Minutes of Policy Meeting
USDCNY	· Mon: - Nil -	· Mon: - Nil -
	· Tue: - Nil -	· Tue: Foreign Reserves (Oct)
	· Wed: - Nil -	· Wed: - Nil -
	· Thu: China Property Prices, GDP (4Q), retail sales, Urban FAI, Industrial Production, Retail Sales (Dec)	· Thu: - Nil -
	· Fri: - Nil -	· Fri: Industrial Profits (Dec)
USDKRW	· Mon: - Nil -	· Mon: PPI (Dec)
	· Tue: - Nil -	· Tue: - Nil -
	· Wed: - Nil -	· Wed: - Nil -
	· Thu: BoK 7-Day Repo Rate	· Thu: GDP (4Q P)
	· Fri: - Nil -	· Fri: Consumer Confidence (Jan)
USDSGD	· Mon: - Nil -	· Mon: - Nil -
	· Tue: - Nil -	· Tue: CPI (Dec)
	· Wed: NODX (Dec)	· Wed: - Nil -
	· Thu: - Nil -	· Thu: - Nil -
	· Fri: - Nil -	· Fri: Unemployment Rate (4Q), Industrial Production
USDMYR	· Mon: - Nil -	· Mon: Foreign Reserves (15 Jan)
	· Tue: - Nil -	· Tue: - Nil -
	· Wed: - Nil -	· Wed: CPI (Dec)
	· Thu: - Nil -	· Thu: BNM Overnight Policy Rate
	· Fri: - Nil -	· Fri: - Nil -
USDIDR	· Mon: Trade (Dec)	· Mon: - Nil -
	· Tue: - Nil -	· Tue: - Nil -
	· Wed: - Nil -	· Wed: - Nil -
	· Thu: BI 7D Reverse Repo	· Thu: - Nil -
	· Fri: - Nil -	· Fri: - Nil -
USDPHP	· Mon: Overseas Remittances (Nov)	· Mon: - Nil -
	· Tue: - Nil -	· Tue: - Nil -
	· Wed: - Nil -	· Wed: GDP (4Q - due on 24-26 Jan)
	· Thu: - Nil -	· Thu: - Nil -
	· Fri: BoP Overall (Dec)	· Fri: - Nil -
USDTHB	· Mon: - Nil -	· Mon: - Nil -
	· Tue: - Nil -	· Tue: - Nil -
	· Wed: - Nil -	· Wed: - Nil -
	· Thu: - Nil -	· Thu: - Nil -
	· Fri: Foreign Reserves (12 Jan), Customs Trade (Dec - due 19-24 Jan)	· Fri: Foreign Reserves (19 Jan)
USDINR	· Mon: Wholesale Prices (Dec), Trade (Dec - due 15-16 Jan)	· Mon: - Nil -
	· Tue: - Nil -	· Tue: - Nil -
	· Wed: - Nil -	· Wed: - Nil -
	· Thu: - Nil -	· Thu: - Nil -
	· Fri: - Nil -	· Fri: Industrial Production (Sep), Trade (Oct) (due 10-15 Oct), Public Holiday
USDVND	· Mon: - Nil -	· Mon: - Nil -
	· Tue: - Nil -	· Tue: - Nil -
	· Wed: - Nil -	· Wed: - Nil -
	· Thu: - Nil -	· Thu: CPI (Jan - due on 25-28 Jan), Retail Sales, Industrial Production, Trade (Jan - due 25-31 Jan)
	· Fri: - Nil -	· Fri: - Nil -

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