

## FX Asia Fortnightly

# Risks To USD/ASEANs Mostly To The Upside

### USD/ASEANs May Face Upside Pressure

The lull during the Chinese New Year break is unlikely to extend further. The USD/ASEANs appear to be pressured higher amid upside risks from Sino-US trade war tensions and USD strength on stronger domestic data. Any material progress towards a Sino-US trade agreement will be met with relief by the market and see gains in trade-sensitive ASEANs including the SGD and the MYR. Meanwhile, firmer oil prices amid lower OPEC supply to mitigate a global glut should benefit oil-related FX such as the MYR, but weigh on twin deficit and oil-importing FX like IDR and PHP. The IDR and PHP may trade with an upside bias toward 14170- and 52.560-levels respectively in the two weeks ahead, while the MYR may have legs to slide further toward 4.0690-levels and possibly even to 4.05-levels. Political tensions are likely to remain elevated in Thailand with the prospects of the opposition Thai Raksa Chart Party - linked to exiled former PM Thaksin Shinawatra - being disbanded. This could raise the ire of the Red Shirts, heighten political tensions and keep the USDTHB supported. A revisit of the 31.800-levels cannot be ruled out.

There are only two central bank meetings in the two weeks ahead with BI meeting on 21 Feb (Thu) and BoK on 28 Feb (Thu). BI has hit the pause button on policy after the Fed's dovish pivot and this is likely to continue for the rest of the quarter. This though does not signal the end of the current tightening cycle, and we still expect the BI to hike rates twice more by 25bp each time to match the Fed's move expected in 2Q and 3Q. Similarly, the BoK is likely to change policy rate unchanged at 1.75% on the back of benign inflation and downside risks to growth amid a semiconductor downcycle and Sino-US trade war tensions. The potential pause in the Fed rate hike cycle is also likely to take the pressure off the BOK to tighten to prevent yield differentials between the two from widening.

Our in-house model implies that SGD NEER is trading 0.90% above the implied midpoint of 1.3708, suggesting it is still on the stronger side of the SGD vs. other trading partner currencies.

### Record Current Account Deficit - Not A Death Knell For The IDR

Alarm bells rang when the current account deficit (CAD) widened to USD9.1bn (or equivalent to 3.56% of GDP) - the widest deficit on record since 2014. However, market reaction was less dramatic than expected and did not elicit the type of price action saw during the emerging market (EM) risk aversion in Oct 2018. Markets appeared less concern about the CAD possibly because the deficit was due to strong imports of capital goods and raw materials underpinned by the government's push for infrastructure building. More importantly, market could be looking beyond the 4Q 2018 figures and to the policy response of both BI and the government to the persistent CAD. BI is projecting the CAD to come in around 2.5% of GDP in 2019 as a result of the efforts of both BI and the government to curb the CAD. We are already seeing signs of foreign investors returning to Indonesian assets not only on expectations of improving economic fundamentals but also on measures by both the government and the central bank to curb the current account deficit. Recent data on foreign ownership of government bonds showed that foreign investors are once again stocking up on Indonesian government debt. As of end-Jan 2019, foreigners own about 39.4% of total government debt in Indonesian, though this is off the high of 41.3% registered in end-Jan 2018. Firm commitment by both the government and central bank to reduce the CAD should add to market confidence.

### 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: Record Current Account Deficit - Not A Death Knell For The IDR

- Alarm bells rang when the current account deficit (CAD) for 4Q 2018 widened to USD9.1bn (or equivalent to 3.56% of GDP) as compared to USD8.6bn (or 3.28% of GDP) in 3Q. This was the widest deficit on record since 2014. For the full-year, CAD came in at USD31.1bn or 2.98% of GDP.
- However, market reaction was less dramatic than expected and did not elicit the type of price action saw during the emerging market (EM) risk aversion in Oct 2018. The spot USDIDR did climb higher in the two sessions after the release of the CAD data on 8 Feb, but the price action could not be attributed to worst-than-expected CAD (chart 1). The USD index had strengthened in the two-session post-CAD release due to concerns over another US government shut-down and pessimism that a trade deal could be concluded by the 1 Mar deadline.

Chart 1: Spot USDIDR Tracked The USD Index Higher Post-CAD Release

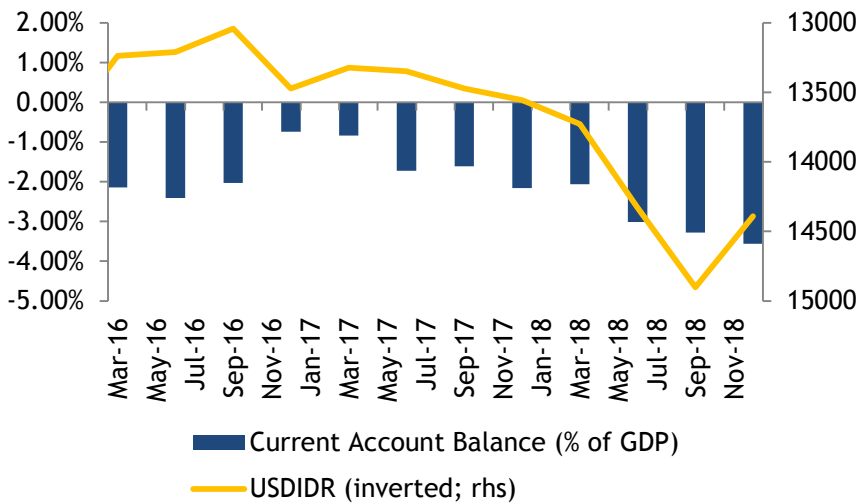


Source: Bloomberg, Maybank FX Research & Strategy Estimates

- Markets appeared less concerned about the CAD possibly because the deficit was due to strong imports of capital goods and raw materials underpinned by the government's push for infrastructure building. In addition, the deficit was more than offset by the capital and financial account surplus of USD15.7bn due to strong portfolio investment inflows and increase in the "other investment" surplus (as firms repatriate funds for their business needs amid improving economic prospects). Overall, the BoP recorded a surplus of USD5.4bn in 4Q 2018.
- More importantly, market could be looking beyond the 4Q 2018 figures and to the policy response of both BI and the government to the persistent CAD. BI is projecting the CAD to come in around 2.5% of GDP in 2019 as a result of the efforts of both BI and the government to curb the CAD. This suggests that the CAD could have peaked in 4Q and could provide the impetus for the USDIDR to extend its move lower in 2019 (Chart 2).
- As we had written previously, some of the measures that are likely to be implemented include tax reforms (of tax rule revision to support the property sector, removing value-added tax on some service exports, revising corporate taxes for coal miners, etc.) and changes to the "Negative Investment List" to open up previously partly closed sectors to foreign ownership. There could also be an extension and expansion

of import tightening measures (including tariffs) and measures to encourage exports to curb the current account deficit (CAD). Other measures already announced included intensifying the use of biodiesel to reduce import of oil given its status as a net oil importer and to encourage tourism. All of these are positive for the IDR, potentially leading to a repricing of Indonesian assets and spur greater inflows.

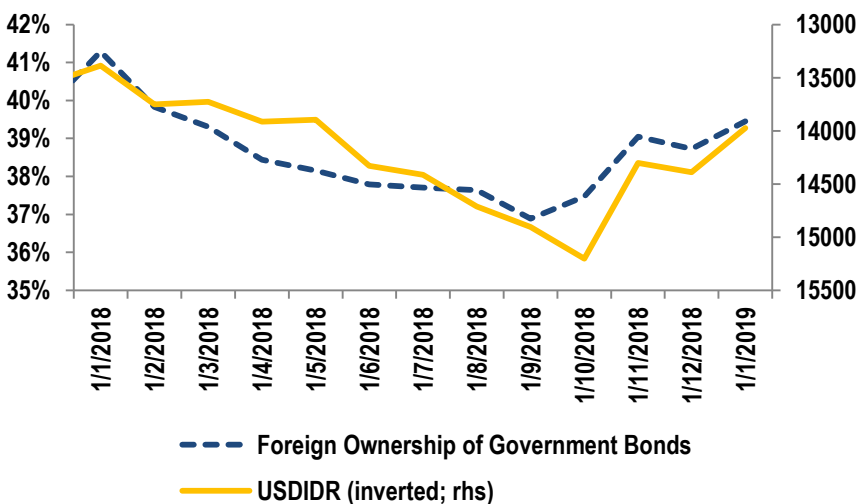
**Chart 2: The CAD Is Likely To Have Peaked In 4Q Given Efforts To Curb The CAD And This Could Allow The USDIDR To Move Lower**



Source: Bloomberg, Maybank FX Research & Strategy Estimates

- We are already seeing signs of foreign investors returning to Indonesian assets not only on expectations of improving economic fundamentals but also on measures by both the government and the central bank to curb the current account deficit. Recent data on foreign ownership of government bonds showed that foreign investors are once again stocking up on Indonesian government debt. As of end-Jan 2019, foreigners own about 39.4% of total government debt in Indonesian, though this is off the high of 41.3% registered in end-Jan 2018 (Chart 3). Firm commitment by both the government and central bank to reduce the CAD should add to market confidence, bolster demand for Indonesian assets and keep the IDR supported ahead.

**Chart 3: Yield Seeking Activities Have Benefited Indonesian Bonds And The IDR**



Source: Bloomberg, Maybank FX Research & Strategy Estimates

## Key Data and Events Ahead

Currency	18-24 Feb	25 Feb-3 Mar
USDJPY	<ul style="list-style-type: none"> <li>• <b>Mon:</b> Core Machine Orders (Dec)</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> Trade (Jan)</li> <li>• <b>Thu:</b> Nikkei PMI Mfg (Feb P), All Industry Activity Index (Dec), Machine Tool Orders (Jan F)</li> <li>• <b>Fri:</b> CPI (Jan)</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> Industrial Production, Retail Sales (Jan P), Retail Trade, Housing Starts (Jan)</li> <li>• <b>Fri:</b> Jobless Rate (Jan), Capital Spending (4Q), Nikkei PMI Mfg (Feb F)</li> </ul>
USDCNY	<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> - Nil -</li> <li>• <b>Thu:</b> PMI Composite, Mfg &amp; Non-Mfg (Feb)</li> <li>• <b>Fri:</b> Caixin PMI Mfg (Feb)</li> </ul>
USDKRW	<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> PPI (Jan)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Mon:</b> - Nil -</li> <li>• <b>Tue:</b> Consumer Confidence (Feb)</li> <li>• <b>Wed:</b> Business Survey Mfg &amp; Non-Mfg (Mar)</li> <li>• <b>Thu:</b> Industrial Production (Jan), BoK 7-Day Repo Rate</li> <li>• <b>Fri:</b> Trade (Feb), <b>Public Holiday</b></li> </ul>
USDSGD	<ul style="list-style-type: none"> <li>• <b>Mon:</b> NODX (Jan), 2019 Budget Speech</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 (Jan)</li> <li>• <b>Tue:</b> Industrial Production (Jan)</li> <li>• <b>Wed:</b> - Nil -</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> - Nil -</li> </ul>
USDMYR	<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> CPI (Jan), Foreign Reserves (15 Feb)</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> Nikkei PMI Mfg (Feb)</li> </ul>
USDIDR	<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> BI 7-Day Reverse Repo</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> CPI, Nikkei PMI Mfg (Feb)</li> </ul>
USDPHP	<ul style="list-style-type: none"> <li>• <b>Mon:</b> - Nil -</li> <li>• <b>Tue:</b> BoP Overall (Jan)</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> Budget Balance (Dec), <b>Public Holiday</b></li> <li>• <b>Tue:</b> Overseas Remittances (Nov)</li> <li>• <b>Wed:</b> - Nil -</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> Nikkei PMI Mfg (Feb)</li> </ul>
USDTHB	<ul style="list-style-type: none"> <li>• <b>Mon:</b> GDP (4Q)</li> <li>• <b>Tue:</b> <b>Public Holiday</b></li> <li>• <b>Wed:</b> BoT MPC Minutes</li> <li>• <b>Thu:</b> Customs Trade (Jan)</li> <li>• <b>Fri:</b> Foreign Reserves (15 Feb)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Mon:</b> - Nil -</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> Capacity Utilisation (Jan - due sometime 27-28 Jan)</li> <li>• <b>Thu:</b> Current Account, Trade (Jan)</li> <li>• <b>Fri:</b> CPI, Nikkei PMI Mfg (Feb), Foreign Reserves (22 Feb)</li> </ul>
USDINR	<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> GDP (4Q), Fiscal Deficit (Jan)</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> Nikkei PMI Mfg</li> </ul>
USDVND	<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> Trade, CPI, Industrial Production, Retail Sales (Feb - due sometime 25-28 Feb)</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