

## FX Asia Fortnightly

# Asian FXs Moving To Their Own Beat

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Healthy US economic fundamentals and possibility of US tax reforms spurred a rebound in UST yields and the USD. That said, continued EUR and GBP strength on possible hawkish moves by their central banks could weigh on the USD. At the same time, ongoing geopolitical tensions over North Korea could pose downside risk to the USD. Thus, we could see whippy USD/AxJ in the two weeks ahead. Selected Asian FXs could remain supported ahead on continued strong inflows, including the IDR and THB. 1-month USDIDR NDF and USDTHB could trade near the 13000 and 33.000 levels respectively. PHP, which has been the worst performing ASEAN currency in Sep-to-date, could see some relief ahead with 1-month USDPHP NDF trading lower towards the 51-handle. On the other hand, USDSGD may have room to trade higher towards 1.3540 levels.

### Persistent Slippage in USDJPY Could Drag USD/ASEAN Lower

The 52-weekly moving average (WMA) is a major support level for the USDJPY. Previous episodes where the USDJPY takes out the 52-WMA from the top or the bottom, the pair generally moved lower or higher. This suggests that the current break of the 52-WMA from the top has increased the risk of further downside pressure on the pair towards the 105-levels. We investigate the likely impact of any JPY moves on ASEAN FXs using simple linear regression analysis, controlling for the effects of the EUR and CNY. Our results show that the five ASEAN FXs since the start of 2017 are all positively correlated the JPY with the SGD and THB seeing the largest impact from JPY moves. The impact is relatively milder for the IDR, MYR and PHP. With the USDJPY possibly poised to head lower with the break of the 52-WMA, the risks to the USD/ASEANs could be broadly to the downside. This downside risk to the USDJPY and USD/ASEANs though could prove to be short-lived if geopolitical tensions over North Korea fade, Japan becomes a target of North Korea rhetoric or Trump reflation trades return.

### US FOMC In Focus; BOJ, BI, BSP, BoT meets

US FOMC meets on 21 Sep will be closely watched for possible moves by the Fed to normalize its balance sheet. In Asia, the BOJ and BSP meets on 21 Sep, while BI's meeting is on 22 Sep. BoT meets the week after on 27 Sep. We expect the status quo to be maintained for the Asian central banks, even though some central banks are facing political pressures to cut rates. Key data eyed ahead includes Singapore NODX (Aug) on 18 Sep; Japan trade, Malaysia CPI (Aug) on 20 Sep; Japan all industry activity index (Jul) on 21 Sep; Vietnam CPI (Sep) on 23 Sep. Week after that has Japan Nikkei PMI Mfg (Sep P), Singapore CPI (Aug) on 25 Sep; Singapore industrial production (Aug), Malaysia Nikkei PMI (Jul) on 26 Sep; Japan machine tool orders (Aug F), China industrial profit (2Q F) on 27 Sep; South Korea CPI (Sep) on 28 Sep; Japan CPI, jobless rate, industrial production (Aug), China Caixin PMI Mfg (Sep), South Korea industrial production (Aug), Malaysia trade (Jun), Thailand trade, current account (Aug) on 29 Sep remittances (Jul) on 15 Sep. Japan is out a public holiday on 18 Sep, Indonesian on 21 Sep and Malaysia on 22 Sep.

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## Flavour of the Week: USDJPY Slide - Does It Matter To ASEAN FX

- The 52-weekly moving average (WMA) is a major support level for the USDJPY. Previous episodes where the USDJPY takes out the 52-WMA, either from the top or the bottom, the pair generally moved lower or higher. This suggests that the current break of the 52-WMA from the top has increased the risk of further downside pressure on the pair.

Chart 1: USDJPY Weekly Chart - Poised To Fall Towards 105-Levels?

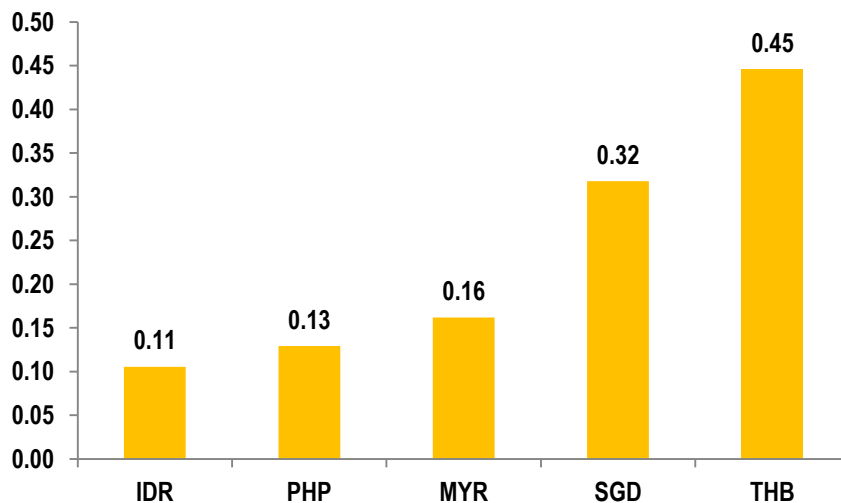


Note: Red Circles indicate episodes since 2008 where the break of the 52-WMA saw the USDJPY either climb higher or fall thereafter.

Source: Bloomberg, Maybank FX Research & Strategy

- Should the USDJPY continue its fall as in previous episodes (Chart 1), there is a distinct possibility that the pair could slip towards the 105-levels (23.6% fibo retracement of the 2015 high to 2016 low). This could happen should inflation fail to gain traction and lingers around the 0.5% region or US data fails to suggest any inflationary pressures. Alternatively, safe-haven plays on geopolitical tensions (possibly from a North Korea threat to Guam - a US territory) could also weigh on the pair and push towards the 105-levels.
- We investigate the likely impact of any JPY moves on ASEAN FXs using simple linear regression analysis since the start of the year. We also control for the effects of other major currencies, namely the EUR and CNY, which are large trading partners of ASEAN. Our results show that the five ASEAN FXs are all positively correlated the JPY. This implies that the ASEAN FXs will be impacted by any JPY moves, though by varying degrees (Chart 2).
- Our analysis suggests that the SGD and THB will see the largest impact from JPY moves. This should not be surprising, given the strong trading links between Singapore and Thailand with Japan. A 1% appreciation of the JPY against the USD results in the THB appreciating by 0.45%. Similarly, the SGD would appreciate by 0.32%. The other three ASEAN FX though, the impact is relatively milder with a 1% appreciation in the JPY against the USD leading to a 0.11-0.16% rise in the IDR, PHP and MYR.

Chart 2: Impact Of JPY On SGD And THB Most Significant



The equation:  $\log(\text{ASEAN FX}) = \log(\text{JPYUSD}) + \log(\text{EURUSD}) + \log(\text{CNYUSD})$  was estimated using OLS regression with daily data from Jan to 14 Sep 2017.

Source: Bloomberg, Maybank FX Research & Strategy

- Risks to the USDJPY remains to the downside with momentum on the weekly chart still bearish bias and stochastics a tad off oversold conditions. With the USDJPY possibly poised to head lower with the break of the 52-WMA, the risks to the USD/ASEANs could be broadly to the downside. The persistent slippage in the USDJPY could pressure the USD/ASEANs lower ahead. Idiosyncratic factors such as central bank intervention through regulatory changes to stem currency strength could slow the pace of appreciation of the ASEAN FXs against the USD.
- This downside risk to the USDJPY and USD/ASEANs though could prove to be short-lived if geopolitical tensions over North Korea fade, Japan becomes a target of North Korea rhetoric or Trump reflation trades return.

## 2017/2018 Asia FX Forecasts

	End 3Q -17	End 4Q-17	End 1Q-18	End 2Q-18
USDJPY	112	115	115	117
USDSGD	1.3500	1.3500	1.3600	1.3650
USDMYR	4.25	4.28	4.30	4.25
USDIDR	13350	13400	13450	13450
USDTHB	33.50	34.00	34.00	34.30
USDPHP	51.50	52.00	52.00	51.80
USDCNY	6.65	6.60	6.63	6.58
USDKRW	1150	1160	1170	1180
USDINR	64.80	63.00	62.50	64.00
USDVND	22760	22760	22730	22780
<b>SGD Crosses</b>	<b>End 1Q -17</b>	<b>End 2Q -17</b>	<b>End 3Q -17</b>	<b>End 4Q-17</b>
SGDMYR	3.148	3.167	3.162	3.114
<b>MYR Crosses</b>	<b>End 1Q -17</b>	<b>End 2Q -17</b>	<b>End 3Q -17</b>	<b>End 4Q-17</b>
MYRCNY	1.56	1.54	1.54	1.55
MYRIDR	3141	3135	3128	3165
MYRINR	15.25	14.74	14.53	15.06

Source: Maybank FX Research as at 14 September 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
USDMYR	USDMYR continue to hold near recent lows, attributable to improving investor sentiment with Malaysia assets, improving macro-fundamentals and supportive oil prices as well as positive sentiment ahead of Budget 2018 (to be tabled 27 Oct). Our fair value model which takes into account the relative differentials in interest rates, inflation, current account and a reflation proxy variable suggests the current level of MYR is about 10% undervalued. We had previously said that MYR weakness was temporary and not a reflection of underlying fundamentals. We believe stability is gradually returning to the MYR as political/contingent liability risk subsides, fiscal consolidation gains traction, oil prices continue to stabilize and uncertainty subsides. Bearish momentum on daily chart remains intact while stochastics is near oversold conditions. This may pose mild rebound risks in the near term but range trades of 4.18 - 4.21 should continue to hold.	O/N Policy Rate	Neutral
USDSGD	USDSGD had rebounded off its multi-month lows of 1.3346 (8 Sep), tracking UST yields and USD rise, to above the 1.35-handle (14 Sep). Pair has since eased back below the 1.35-levels on re-emerging geopolitical tensions over North Korea. Market focus will be on FOMC on 21 Sep for directional cues. Pair has lost most of its bearish momentum on the daily chart, though bearish momentum on weekly charts remains intact. Stochastics (on both weekly and daily charts) shows signs of rising from oversold levels. For upside to regain momentum, we need to see the 1.3630 (23.6% fibo retracement of the 2017 high to low) cleared for upside to regain momentum towards 1.3750 levels (100DMA). In the interim, resistance is at 1.3540 levels (21DMA). Support for now at 1.3410, 1.3350 levels.	Exchange Rate	Tightening

## Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
<b>USDIDR</b>	<p>1m USDIDR NDF has bounced off its multi-month lows of 13135 (11 Sep) back towards the 13300 levels amid a rebound in UST yields and USD. Continued healthy inflows into Indonesian debt continue to weigh on the 1m NDF. Foreign investors have so far purchased USD1.74bn in Indonesian debt on 11-14 Sep (latest data available). In contrast, foreign investors sold off USD125.5mn in equities 11-14 Sep. Nevertheless, the still healthy real yield differentials (vs. the UST) points to continue carry trades and further inflows into debt should be supportive of the IDR. Still some cautiousness may creep in ahead of the US FOMC meeting on 21 Sep. Momentum on the daily and weekly charts remains bearish bias, though on the daily chart it is waning. Stochastics on the daily chart is climbing higher from oversold conditions, while on the weekly chart is continues to fall towards oversold conditions. This suggests potential for near term rebound towards 13330 levels (21DMA), 13360 levels (100DMA). Support is around 13200 (76.4% fibo retracement of the 2016 low to high) before strong support at 13135.</p>	<b>7-Day Reverse Repo Rate</b>	<b>Easing</b>
<b>USDPHP</b>	<p>1m USDPHP NDF has rebounded back above the 51-handle the past week amid a rebound in UST yields and USD. Foreign inflows into equities in the past two weeks have not been supportive of the 1m NDF. Foreign funds have sold USD37.2mn in equities the past two weeks. Further sell-off in equities should be supportive of the 1m NDF ahead. Market positioning ahead of US FOMC meeting on 21 Sep could also weigh on the PHP and keep the 1m NDF supported. 1m NDF has lost most of its bearish momentum on the daily chart, while stochastics is climbing higher. Weekly chart though shows bullish momentum intact but waning, while stochastics is turning lower from overbought conditions. This suggests downside pressure in the making for the 1m NDF but in the near term we could see the 1m NDF climb towards the next resistance around 51.50 levels (23.6% fibo retracement of the Aug low to high) ahead of 51.65 Reversals should find support around 51.25 (38.2% fibo), 51-handle (50% fibo).</p>	<b>O/N Reverse Repo Rate</b>	<b>Neutral</b>
<b>USDTHB</b>	<p>USDTHB continues to trade in a tight range within the confines of 33.000-33.260 since the start of Sep. A new multi-year and 2017 low at 33.035 was touched on 7 Sep. Strong inflows into Thai assets have been supportive of the THB with foreign investors purchasing THB8.82bn and THB122.65bn in equities and debt in the past two weeks. Still, pair remains sticky above the 33-handle on BoT intervention to limit THB strength. In addition, market concerns of possible further regulatory changes to curb speculators (BoT had revealed on 11 Sep that the central bank had prepared measures to curb further inflows but would only implement them when the time is right). Also supportive of the pair is falling gold falling gold prices (given the negative correlation between the two). In addition, market positioning ahead of the US FOMC meeting on 21 Sep could also be supportive of the USDTHB. Daily momentum shows waning bullish bias and stochastics is turning lower. Weekly chart still show waning bearish momentum and stochastics still in oversold conditions. This may pose mild upside risk in the near term but range of 33.000-33.260 should hold in the two weeks ahead.</p>	<b>1-Day Repo Rate</b>	<b>Neutral</b>

## Key Data and Events Ahead

	18-24 Sep	25 Sep-1 Oct
<b>Japan</b>	<ul style="list-style-type: none"> <li>• <b>Mon:</b> Public Holiday</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> Trade (Aug)</li> <li>• <b>Thu:</b> BOJ Policy Balance Rate, Governor Kuroda Press Conference, All Industry Activity Index (Jul)</li> <li>• <b>Fri:</b> - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Mon:</b> Nikkei PMI Mfg (Sep P)</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> Machine Tool Orders (Aug F)</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> CPI, Jobless Rate, Overall Household Spending, Retail Sales, Industrial Production, Housing Starts (Aug)</li> </ul>
<b>China</b>	<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> Industrial Profit (Aug)</li> <li>• <b>Thu:</b> Current Account (2Q F)</li> <li>• <b>Fri:</b> Caixin PMI Mfg (Sep)</li> <li>• <b>Sat:</b> Mfg and Non-Mfg PMI (Sep)</li> </ul>
<b>South Korea</b>	<ul style="list-style-type: none"> <li>• <b>Mon:</b> - Nil -</li> <li>• <b>Tue:</b> PPI (Aug)</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> CPI (Sep)</li> <li>• <b>Fri:</b> Current Account, Industrial Production (Aug)</li> <li>• <b>Sun:</b> Trade (Sep)</li> </ul>
<b>Singapore</b>	<ul style="list-style-type: none"> <li>• <b>Mon:</b> NODX (Aug)</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 (Aug)</li> <li>• <b>Tue:</b> Industrial Production (Aug)</li> <li>• <b>Wed:</b> - Nil -</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> - Nil -</li> </ul>
<b>Malaysia</b>	<ul style="list-style-type: none"> <li>• <b>Mon:</b> - Nil -</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> CPI (Aug)</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> Public Holiday, Foreign Reserves (15 Sep)</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>
<b>Indonesia</b>	<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> Public Holiday</li> <li>• <b>Fri:</b> BI 7D Reverse Repo</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>
<b>Philippines</b>	<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> BSP Overnight Borrowing Rate</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>
<b>Thailand</b>	<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> Foreign Reserves (15 Sep), Customs Trade (Aug) (due 22-25 Sep)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Mon:</b> - Nil -</li> <li>• <b>Tue:</b> - Nil -</li> <li>• <b>Wed:</b> BoT Benchmark Interest Rate</li> <li>• <b>Thu:</b> Manufacturing Production, Capacity Utilization (Aug) (due 28-29 Sep)</li> <li>• <b>Fri:</b> Foreign Reserves (22 Sep), Trade, Current Account (Aug)</li> </ul>
<b>India</b>	<ul style="list-style-type: none"> <li>• <b>Mon:</b> Trade (Aug) (due 15-18 Sep)</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> - Nil -</li> <li>• <b>Fri:</b> Fiscal Deficit (Aug)</li> </ul>
<b>Vietnam</b>	<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> <li>• <b>Sat:</b> CPI (Sep)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Mon:</b> GDP (3Q), Retail Sales, Trade (Sep) (due 25-30 Sep)</li> <li>• <b>Tue:</b> Industrial Production (Sep) (due 26-30 Sep)</li> <li>• <b>Wed:</b> - Nil -</li> <li>• <b>Thu:</b> - Nil -</li> <li>• <b>Fri:</b> - Nil -</li> <li>• <b>Sat:</b> - Nil -</li> </ul>

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