

## FX Asia Fortnightly

# Geopolitical Concerns Could Limit Asian Currency Gains

### USDAsians Lower

USDAsians were broadly lower following Trump-driven weakness and weak US data. Asian currencies also saw some support from the Trump's administration first foreign-exchange report by the Treasury Department that found no Asian currency manipulators. The report though kept China, South Korea, Japan and Taiwan on its foreign exchange monitoring list. Further action could come from the Commerce Department's study of trade abuses by nations that run large surpluses with the US expected sometime in Jun. Nevertheless, we do not expect Asian currency strength to continue unabated as ongoing geopolitical concerns over Syria and North Korea and political uncertainty in the EU (French elections on 23 Apr) could reignite global risk aversion. Thus, we expect most Asian currencies to trade within range for the next two weeks. We continue to favor shorting the EUR against the USD and SGD. There is also potential for both the USDMYR and USDIDR to move lower in the next two weeks, testing the 4.38 and 13200 levels.

### USDASEANs Broadly Correlated To USDJPY

The recent drop in the USDJPY towards the 108-figure and possible breaking below that level amid USD weakness suggests potential downside risks to the USD/ASEANs. We revisit the 3-month correlation between the USDJPY and the 5-ASEAN currencies, together with their standard deviation. Our analysis suggests that all of the ASEAN currencies are now positively correlated to the JPY, suggesting that the ASEAN currencies broadly track the JPY. In the near term (at least the next two weeks), we doubt that there would be any let up in geopolitical risks. The escalation in geopolitical risks should spur further safe haven plays and put downside pressure on the USDJPY towards the 106.50 levels. Based on our analysis here, the risks to the USD/ASEANs are broadly to the downside then. We could see the USD/ASEANs pressured lower in the next two weeks, barring idiosyncratic factors such as political uncertainty stemming from the Jakarta gubernatorial election.

### BI, BOJ meetings, Korea GDP...

BI and BOJ meet in the next two weeks. BI, which meets on 13 Apr, should remain on hold, keeping the benchmark interest rate steady at 4.75%. Similarly, BOJ is expected to maintain the status quo on 20 Apr but is expected to revise down its FY2017 inflation outlook (from 1.5%) given the slow pace of consumer price upticks. Eyed is South Korea's 1Q 2017 GDP on 20 Apr. Other key data we are watching this week includes CN property prices (Mar); SK PPI (Mar), MY CPI (Mar), Jakarta gubernatorial run-off elections, PH overall BoP (Mar) on Wed; JN trade (Mar) on Thu; JN Nikkei PMI mfg (Apr P), tertiary industry index (Feb) on Fri. For the week of 24 Apr, we have SG CPI (Mar), TH customs trade (Mar) on Mon; JN all industry activity index (Feb), machine tool orders (Mar F), SG industrial production (Mar) on Wed; CN industrial profits (Mar), TH mfg production index (Mar) on Thu; JN jobless rate, overall household spending, CPI, retail sales, housing starts (Mar), industrial production (Mar P), SK industrial production (Mar), SG unemployment rate (1Q), trade, current account (Mar) on Fri; CN mfg & non-mfg PMI (Apr) on Sun. Malaysia and Indonesia are close on 24 Apr for public holidays.

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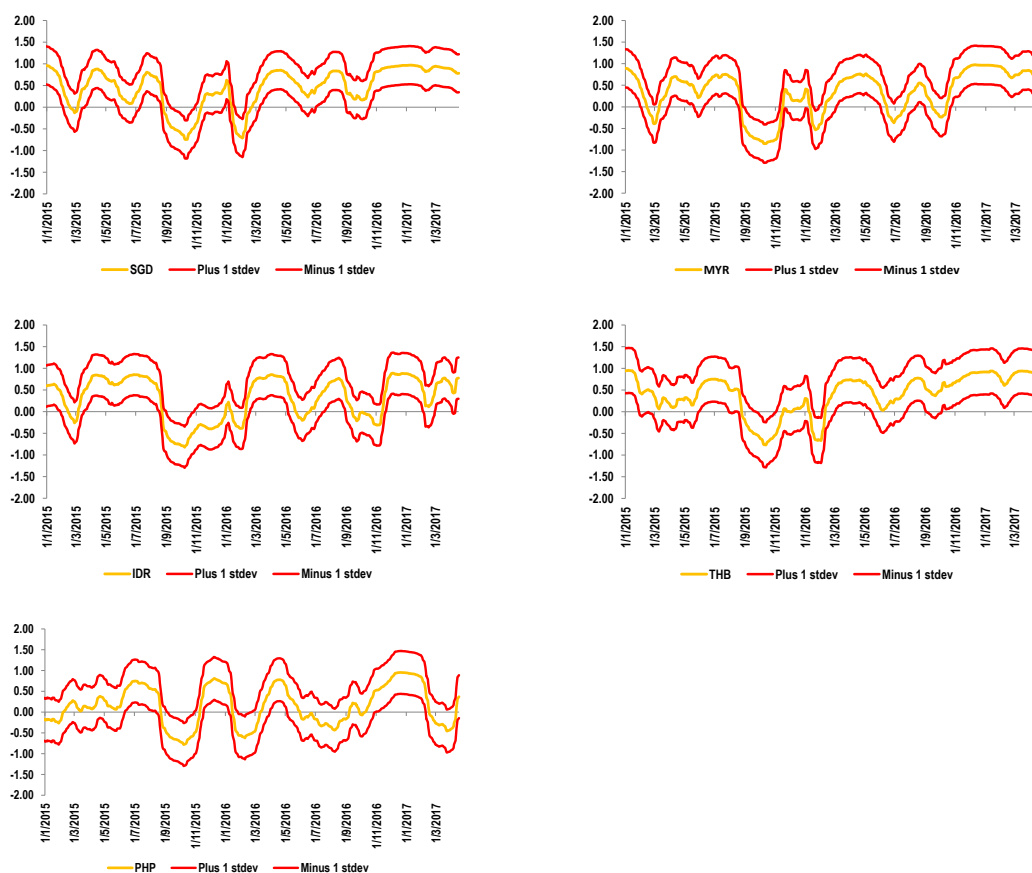
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## Flavour of the Week: Revisiting USD/ASEANs Relationship With USDJPY

### 3-month Rolling Correlation Between USDJPY & USD/ASEANs



Source: Bloomberg, Maybank FX Research

- The recent drop in the USDJPY towards the 108-figure and possible breaking below that level amid USD weakness following Trump-driven weakness, US data weakness, geopolitical tensions over Syria and North Korea and political uncertainty in the EU (ahead of the French elections) suggests potential downside risks to the USD/ASEANs. We revisit the 3-month correlation between the USDJPY and the 5-ASEAN currencies, together with their standard deviation (red lines).
- Our re-examination of the 3-month correlations suggests that all of the ASEAN currencies are now positively correlated to the JPY. Previously, the MYR and the PHP were negatively correlated to the JPY due to domestic idiosyncratic factors. However, with those factors fading, the MYR and PHP are again tracking the JPY moves.
- This analysis suggests that the ASEAN currencies broadly track the JPY. This however does not necessary suggest a move in the JPY could result in the USD/ASEANs moving by the same magnitude. Individual idiosyncratic factors and vulnerabilities to geopolitical risks would still play a crucial role.
- In the near term (at least the next two weeks), we doubt that there would be any let up in geopolitical risks, but there could instead be an escalation instead. The escalation in geopolitical risks should spur further safe haven plays and continue to put downside pressure on the USDJPY towards the 106.50 levels.

- Based on our analysis here, the risks to the USD/ASEANs are broadly to the downside then. We could see the USD/ASEANs pressured lower in the next two weeks, barring idiosyncratic factors such as political uncertainty stemming from the Jakarta gubernatorial election.

## 2017/2018 Asia FX Forecasts

	End 2Q -17	End 3Q -17	End 4Q-17	End 1Q-18
<b>USDJPY</b>	108	110	113	113
<b>USDSGD</b>	1.4100	1.4200	1.3950	1.3950
<b>USDMYR</b>	4.40	4.35	4.40	4.40
<b>USDIDR</b>	13300	13400	13450	13500
<b>USDTHB</b>	34.80	35.30	36.00	36.20
<b>USDPHP</b>	50.30	50.50	50.70	50.70
<b>USDCNY</b>	6.96	7.02	7.05	7.05
<b>USDKRW</b>	1140	1150	1160	1170
<b>USDINR</b>	65.50	66.50	67.00	66.00
<b>USDVND</b>	23100	23400	23500	23600
<b>SGD Crosses</b>	<b>End 1Q -17</b>	<b>End 2Q -17</b>	<b>End 3Q -17</b>	<b>End 4Q-17</b>
<b>SGDMYR</b>	3.121	3.063	3.154	3.154
<b>MYR Crosses</b>	<b>End 1Q -17</b>	<b>End 2Q -17</b>	<b>End 3Q -17</b>	<b>End 4Q-17</b>
<b>MYRCNY</b>	1.58	1.61	1.60	1.60
<b>MYRIDR</b>	3023	3080	3057	3068
<b>MYRINR</b>	14.89	15.29	15.23	15.00

Source: Maybank FX Research as at 17 Apr 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
<b>USDJPY</b>	Geopolitical tensions in Syria & on the Korean peninsula and Trump-inflicted USD weakness fueled weakness in the USDJPY last week. In addition, weak US data on Fri that weighed on the DXY is also weighing on the pair. Next week we have BOJ meeting but we expect the status quo to be maintained but is expected to revise down its FY2017 inflation outlook (from 1.5%) given the slow pace of consumer price upticks. This though is unlikely to impact the USDJPY significantly. Bearish momentum on daily chart remains intact but stochastics has entered oversold conditions. Pair's break below the 200DMA should see the pair slip further. A weekly close below 200 DMA (now at 108.75) should continue to reinforce downside pressure. Next support at 107.90 (61.8% fibo retracement of Nov low to 2017 high), 106.50. Resistance at 109.90 (50% fibo), 111 (21 DMA). Dissipating geopolitical tension may limit downside but rising uncertainty with regards to French elections may continue to keep the pair heavy.	<b>Yield Curve Control</b>	<b>Easing</b>
<b>USDCNH</b>	The week ahead is set to be a quiet week for the renminbi as geopolitical concerns remain at the fore of everyone's mind. 1Q GDP surpassed expectations with a print of 6.9%/y on the back of strong investment growth. Fixed asset investments for the first quarter have been underpinned by strong infrastructure demands and stable real estate investments. Retail sales remained firm around 10.9%/y while industrial production surprised to the upside. Despite the strong prints, we continue to hold on to our view that tightening property measures will crimp on investment and consumption into the rest of the year. USDCNH is likely to remain swayed by the USD and JPY for the rest of the week as geopolitical concerns dominate headlines. We look for industrial profits release on 27th, PMI numbers on the 30th. 6.85-6.92 range to hold.	<b>1-Yr Lending Rate</b>	<b>Neutral</b>

## Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDKRW	1m USDKRW NDF climb higher towards the end of last week on tensions on the Korean peninsula was disrupted this morning by weak US data and Trump-driven USD weakness. Pair eased from recent highs of 1149 to current levels of 1136. Bullish momentum on daily chart is waning while stochastics is falling from overbought conditions. Next support at 1132 (23.6% fibo retracement of the 2016 high to 2017 low) before 1127 levels (21DMA). Resistance at 1143 levels (200DMA). Caution remains over whether the North will continue to be belligerent - which could see the pair spike higher if it happens. Otherwise the bias is to the downside for USDKRW.	Base Rate	Easing Bias
USDSGD	USDSGD selling pressure from last week after Trump's comments against a strong USD and weak US data was extended into this week. The better-than-expected NODX print for Mar signaled that industrial production for Mar, due next Wed, could also be healthy and this could keep the SGD supported. Technical is suggesting further downside pressure but we caution against over-interpreting charts (at time of writing). We eye the previous low of 1.3910 (27 Mar) where a weekly close below that level will be bearish with next support at 1.3820 (2 Nov 2016 low). Otherwise look for the pair to consolidate in 1.3910 - 1.4050 range. A close above 1.4070 (50 DMA) is required for upside to regain momentum.	Exchange Rate	Neutral
USDMYR	USDMYR traded a subdued range for most of last week until BNM announced a number of initiatives towards broadening and deepening the onshore financial markets, allowing investors to better manage rates and FX exposures that weighed on the pair. Daily momentum is now indicating mild bearish bias while stochastics is showing signs of turning lower from near overbought conditions. We noted that 21, 50DMAs cut 100DMA to the downside - these signals suggest some downside risks in the interim. With the break below 4.42, further downside towards 4.38 levels is possible. Resistance at 4.4240 (23.6% fibo retracement of the Nov 2016 low to 2017 high; 212DMA). Onshore markets are closed on 24 Apr for a public holiday.	O/N Policy Rate	Easing Bias
USDIDR	1m USDIDR NDF has been consolidating within the lower end of the 13250-13350 range after slipping lower on 10 Apr. Foreign funds' purchases of USD267.38mn of equities last week provided support for the IDR. As did their addition of IDR2.47tn to their outstanding of government debt. Further inflows to Indonesian assets should lift the IDR and weigh on the 1m NDF higher. Risks are still to the downside as bore out by bearish momentum indicators on the daily chart and falling. However, further downside to the 1m NDF could be limited by concerns over the Jakarta gubernatorial run-off elections on 19 Apr. Most polls to date are showing the incumbent Ahok and his opponent Anies Baswedan - a former education minister - running neck-to-neck. A win by Ahok - who is also currently under trial for blasphemy - would see a continuation of investor-friendly policies, while a win by the opposition could see some policy uncertainty and possibly even slow the pace of reforms at the national level. This could keep the 1m NDF in a tight range within 13250-13350 for the next two weeks. BI meeting on Thu is likely to be a non-event with the benchmark policy rate to stay unchanged at 4.75%. Onshore markets are out on 24 Apr for a public holiday.	7-Day Reverse Repo Rate	Easing Bias

## Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
<b>USDPHP</b>	1m USDPHP NDF slipped to the recent 2017 low of 49.30 - a new low for 2017 on 13 Apr - before rebounding towards the end of the week in quiet trades as onshore markets were out last Thu and Fri. Foreign demand for Philippine assets remained healthy with foreign funds purchasing USD13.23mn in equities last week. Continue purchases of Philippines assets would be supportive of the PHP and cap upside to the 1m USDPHP. Daily momentum indicators remain bearish bias while stochastics is now at oversold conditions, suggesting potential rebound risks ahead. This suggests that the 1m NDF could remain in consolidative trades within 49.00-50.00 for two weeks ahead.	<b>O/N Borrowing Rate</b>	<b>Neutral</b>
<b>USDTHB</b>	USDTHB has been trading heavy for the past week, helped by the Trump's comments on his preference for a weaker USD and weak US data as well as inflows into Thai assets. Ahead of the super long weekend, risk appetite for Thai assets were mixed with foreign funds buying THB0.23bn of equities but selling THB1.97bn of government debt on 10-12 Apr. Further inflows into Thai assets should be supportive of the THB and continue to weigh on the pair. The week of 24 Apr is a data-busy week with customs trade, manufacturing production, trade and current account data on tap. Healthy data could weigh on the USDTHB with support around 2017 low of 32.248 (3 Apr) before 34-figure. Disappointing data could see the pair bounce back towards the 34.500 levels (21DMA) ahead of 34.700.	<b>1-Day Repo Rate</b>	<b>Neutral</b>
<b>USDINR</b>	1m NDF is on a firm downtrend. Weighing on the pair is strong demand for rupee debt and equities. The combination of a surprise hike in the reverse repo rate at the last meeting that narrowed the rates corridor and a slump in UST yields lifted the demand for domestic bonds. Foreign funds sold a net US\$77.8mn of equities and bought US\$1.98bn of debt from 1-12 Apr (latest data available). 1M NDF is in a downward sloping trend channel and pair remains in downside pressure. 200-WMA is seen close-by at 64.36. That could be a strong support before the next at 63.80/64-figure. Resistance is seen around 65.20 (upper bound of the trend channel). Trade deficit for Mar widens more than expected. However, expect strong capital flows to underpin the rupee's strength. Even with subdued price pressures, RBI has revealed its preference to err on caution, ahead of potential El Nino event in Jul-Aug as well as the acute albeit transitory effects of the upcoming GST implementation.	<b>Policy Repo Rate</b>	<b>Neutral</b>
<b>USDVND</b>	USDVND has been on the uptick recently, recovering from the decline that we have seen in Mar. VND remains one of the most vulnerable currencies amid deteriorating trade balance and tepid FDI inflows. Last seen around 22710, this pair could meet some resistance around 22760 and a break there would open the way towards 22850.	<b>Refinancing Rate</b>	<b>Neutral</b>

## Key Data and Events Ahead

	17-23 Apr	24-30 Apr
Japan	<ul style="list-style-type: none"> <li>Mon: BOJ Governor Kuroda speaks (Trust Companies Ass.)</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: Trade (Mar)</li> <li>Fri: Nikkei PMI Mfg (Apr P); Tertiary Industry Index (Feb)</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: PPI Services (Mar)</li> <li>Wed: All Industry Activity Index (Feb), machine tool orders (Mar F)</li> <li>Thu: BOJ Meeting, Outlook Report</li> <li>Fri: Jobless Rate, Overall Household Spending, CPI, Retail Sales, Housing Starts (Mar), Industrial Production (Mar P)</li> </ul>
China	<ul style="list-style-type: none"> <li>Mon: Retail Sales, Urban FAI, Industrial Production (Mar), GDP (1Q)</li> <li>Tue: Property Prices (Mar)</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: Industrial Profit (Mar)</li> <li>Fri: - Nil -</li> <li>Sun: Mfg and Non-mfg PMI (Apr)</li> </ul>
South Korea	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: PPI (Mar);</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: GDP (1Q)</li> <li>Fri: Business Survey Mfg &amp; Non-Mfg (May); Industrial Production (Mar)</li> </ul>
Singapore	<ul style="list-style-type: none"> <li>Mon: NODX (Mar)</li> <li>Tue: Foreign Reserves (Jan)</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: CPI (Mar)</li> <li>Tue: - Nil -</li> <li>Wed: Industrial Production (Mar)</li> <li>Thu: - Nil -</li> <li>Fri: Unemployment Rate (1Q)</li> </ul>
Malaysia	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: CPI (Mar)</li> <li>Thu: - Nil -</li> <li>Fri: Foreign Reserves (14 Apr)</li> </ul>	<ul style="list-style-type: none"> <li>Mon: Public Holiday</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>
Indonesia	<ul style="list-style-type: none"> <li>Mon: Trade (Mar)</li> <li>Tue: - Nil -</li> <li>Wed: Jakarta gubernatorial Run-off Election</li> <li>Thu: BI Meeting</li> <li>Fri: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: Public Holiday</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>
Philippines	<ul style="list-style-type: none"> <li>Mon: Overseas Remittances (Feb)</li> <li>Tue: - Nil -</li> <li>Wed: BoP Overall (Mar)</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>
Thailand	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: Foreign reserves (14 Apr)</li> </ul>	<ul style="list-style-type: none"> <li>Mon: Customs Trade (Mar)</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: Mfg Production Index, Capacity Utilization (Mar) (due 27-28 Apr)</li> <li>Fri: Foreign reserves (21 Apr), Trade, Current Account (Mar)</li> </ul>
India	<ul style="list-style-type: none"> <li>Mon: Wholesale Prices (Mar)</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>
Vietnam	<ul style="list-style-type: none"> <li>Mon: CPI (Apr)</li> <li>Tue: Trade, Industrial Production, Retail Sales (Apr) (due 25-30 Apr)</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>



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