

FX Asia Fortnightly

Asian Bears Could Still Be In Charge

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Market focus in the coming week will be on the Jackson Hole policy conference where both Fed Chair Yellen and ECB President Draghi will speak. Recent market whispers suggest that Draghi will unlikely reveal any new insights to ECB policy, while Yellen could reiterate the Fed's current policy stance. This could keep UST yields and USD supported ahead. Further support could come from US ADP and NFP (30 Aug and 1 Sep respectively) should both outperform expectations. We continue to expect Asian bears to remain in charge in the next two weeks. Already, the PHP, KRW and SGD have been the worst performers against the USD in Aug, though the JPY, CNY and THB have made gains against the USD. Further upmoves in the USD/AXJs will thus not be unexpected especially since Aug is a seasonally bearish months for most Asian currencies.

Resilient THB

THB has been the best performing currency in ASEAN since the beginning of the year. Aside from USD weakness, driving the appreciation of the THB are the healthy macroeconomic fundamentals particularly persistent current account (CA) surplus and continued strong foreign inflows into Thai assets. Thailand has the second largest CA surplus in ASEAN after Singapore since 1Q 2014 with double-digit surpluses since 1Q 2016. In addition, still positive real yield differentials between Thai bonds and US UST is helping to keep investor sentiments supported and hence the THB. Interesting, another driver of the USDTHB recently has been gold prices. Our regression analysis using simple OLS showed that gold prices and USDTHB are highly negatively correlated between 2016 and the present with the correlation coefficient at 0.83 (chart 4). This suggests then that as gold prices rise, Thailand exports gold and this pushes the USDTHB lower. We remain positive on the THB, especially given its strong current account surplus. In contrast, the current account balance in the Philippines is deteriorating, putting downside pressure on the PHP. For a tactical trade, we are bias to long THB/PHP for a move towards 1.57-levels. Stop-loss at 1.5350. (spot ref: 1.5510).

Jackson Hole eyed; GDP prints; BI, BoK meet

Key event that will be closely watched for clues on policy direction will be the Kansas Fed's Jackson Hole policy conference on 24-26 Aug where Fed Chair Yellen and ECB President Draghi will both speak. In addition, US ADP and NFP will also be eyed. Aside from these, other key data eyed is 2Q17 GDP releases for Thailand (21 Aug) and Korea (1 Sep). There are two central bank meetings in the two weeks ahead, namely BI and BoK on 22 and 31 Aug respectively. The BI is not expected to adjust its policy rate even though growth has been stuck around the 5.0% level. This is because inflationary pressures are expected to climb higher to average 4.08% by end-2017 on administered price increases. In fact, our economic team does not expect any rate adjustment for the remainder of the year. Similarly, the BoK should maintain the status quo as inflationary pressures remain soft. Moreover, any removal in accommodation is likely to come only after a clearer trend of economic recovery is seen.

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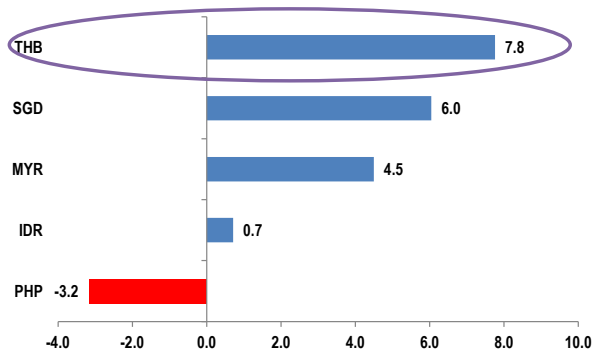
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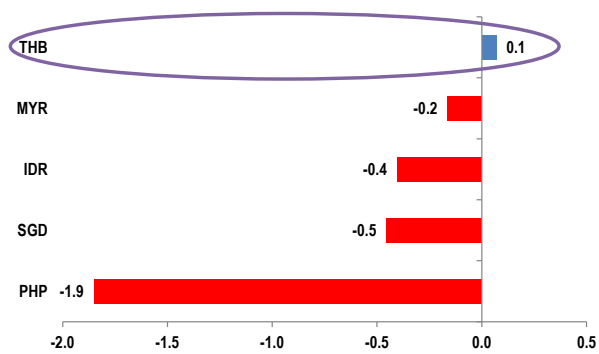
Flavour of the Week: What's Keeping The THB Resilient?

- The THB has been the best performing currency in ASEAN since the beginning of the year. Year-to-date, the THB has gained 7.8% against the USD (chart 1A). This compares with the SGD and MYR which has gained 6.0% and 4.5% against the USD. The difference with the rest of ASEAN is even starker if we just look at Aug. So far in Aug, the THB is the only currency in ASEAN to gain against the USD - up 0.1% - compared to its regional peers who have declined (Chart 1B).

Chart 1: THB Performance Against The USD
THB Is The Best Performing ASEAN FX So Far In 2017 ...



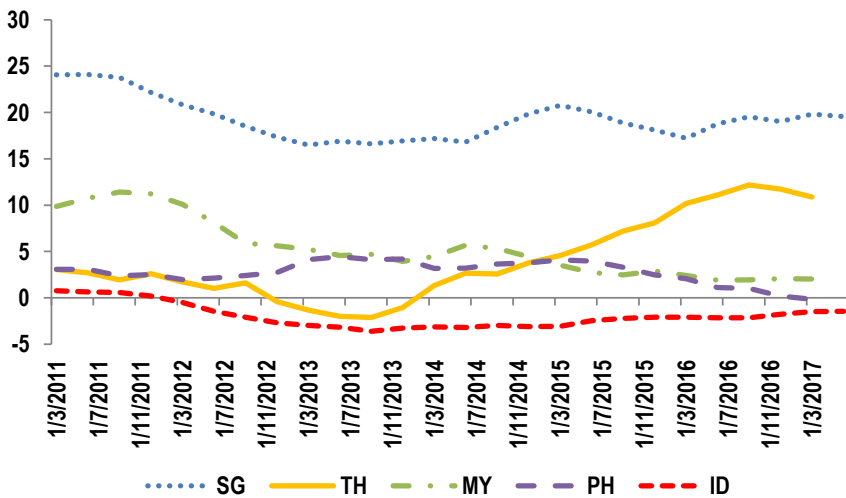
... Also The Best Performing ASEAN FX In Aug (1-17 Aug)



Source: Bloomberg, Maybank FX Research & Strategy

- Aside from USD weakness, driving the appreciation of the THB are the usual suspects, including healthy macroeconomic fundamentals particularly persistent current account (CA) surplus and continued strong foreign inflows into Thai assets. As seen in Chart 2, Thailand has the second largest CA surplus in ASEAN after Singapore since 1Q 2014. More importantly, the CA has been registering double-digit surpluses since 1Q 2016 compared to its regional peers like the Philippines, where it has deteriorated. This is weighing on the USDTHB.

Chart 2: TH Has Largest Current Account Surplus In ASEAN After SG



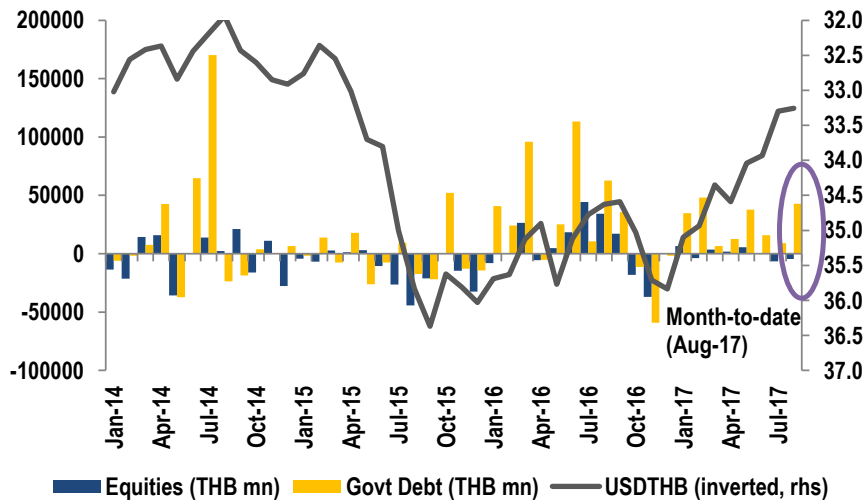
Note: Data for Malaysia, Philippines and Thailand are up to 1Q 2017 only, while that for Indonesia and Singapore are up to 2Q 2017.

Source: Bloomberg, Maybank FX Research & Strategy

- As we had discussed in our previous reports, still positive real yield differentials between Thai bonds and US UST is helping to keep investor

sentiments supported and hence the THB. The strong foreign inflows into Thai bonds of THB42.72bn since the beginning of Aug have kept the USDTHB on a downward trend so far. This was even as foreign funds sold off THB4.43bn in equities (Chart 3) so far in Aug. For the full-year, foreign funds have purchased THB207.27bn and THB2.44bn of debt and equities since the beginning of the year. Healthy inflows so far has weighed on the USDTHB.

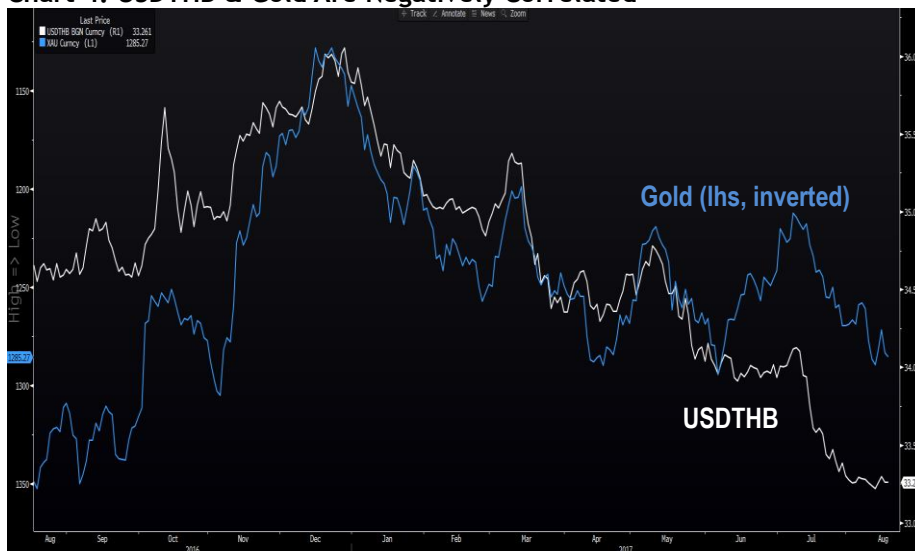
Chart 3: Foreign Inflows Have Been Supportive Of The THB In 2017



Source: Bloomberg, Maybank FX Research & Strategy

- Interestingly, another driver of the USDTHB recently has been gold prices. Our regression analysis using simple OLS showed that gold prices and USDTHB are highly negatively correlated between 2016 and the present with the correlation coefficient at 0.83 (chart 4). This suggests then that as gold prices rise, Thailand exports gold and this pushes the USDTHB lower.

Chart 4: USDTHB & Gold Are Negatively Correlated



Source: Bloomberg, BIS, Maybank FX Research & Strategy

- Thus gold prices, together with the current account surplus and inflows into Thai equities, should be supportive of the THB going forward. Further increases in gold prices should be positive for the THB and puts downside pressure on the USDTHB.

- Note though that political tensions could rise once the general election time line is released after the funeral ceremony for the late HM King Bhumibol and the coronation of HM King Maha Vajiralongkorn. Political uncertainty ahead of the general elections in mid-2018 could keep foreign investors on the sidelines until there is clarity and certainty on the political front. This could weigh on investor sentiments and lift the USDTHB towards the 34-handle by end-2017.

Chart 5: USDTHB (Weekly) - More Downside To Go



Source: Bloomberg, BIS, Maybank FX Research & Strategy

- USDTHB has been broadly on the downswing since the end of 2016 amid USD weakness on the lack of fiscal spending and tax reforms in the US. Momentum indicators on the weekly chat remain bearish bias, while stochastics continues to fall deeper into oversold conditions. With risks still pointing to the downside, we could see further downsides to play out towards the 33-handle, 32.620 (50% fibo retracement of the 2013 low to 2015 high). Resistance at around 33.570 levels (38.2% fibo).
- We remain positive on the THB, especially given its strong current account surplus. In contrast, the current account balance in the Philippines is deteriorating, putting downside pressure on the PHP. For a tactical trade, we are bias to long THB/PHP for a move towards 1.57-levels. Stop-loss at 1.5350. (spot ref: 1.5510).

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	6.77	6.80	6.81	6.83
USDKRW	1150	1160	1170	1180
USDINR	65.20	65.40	64.90	65.30
USDVND	22760	22800	22730	22780
SGD Crosses	End 1Q -17	End 2Q -17	End 3Q -17	End 4Q-17
SGDMYR	3.148	3.167	3.162	3.114
MYR Crosses	End 1Q -17	End 2Q -17	End 3Q -17	End 4Q-17
MYRCNY	1.59	1.59	1.58	1.61
MYRIDR	3141	3135	3128	3165
MYRINR	15.34	15.30	15.09	15.36

Source: Maybank FX Research as at 17 August 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 was last seen at 4.2920 levels within subdued range of 4.2870 - 4.2990 this week. Bullish momentum on daily chart remains intact but stochastics indicated overbought conditions. Resistance at 4.30 likely to cap the pair. Decisive move beyond this resistance targets next level at 4.3190 (100 DMA). Support seen at 4.2870 levels. Look to play 4.28 - 4.31 range, with bias to the downside. 2Q GDP (just released) surprised to the upside. Key data to focus on next week - Jul CPI. Onshore markets are closed for public holidays on 31 Aug and 1 Sep.	O/N Policy Rate	Neutral
USDSGD	USDSGD has been on the uptick since the beginning of Aug amid rising geopolitical tensions over North Korea and recovery in the USD. This weakness in the SGD appears in line with Aug being a seasonally bearish month for the SGD. Daily momentum indicators on the daily chart remains mildly bullish bias and stochastics remains at overbought conditions. With pressure still to the upside for the pair, we could see further upmoves capped around 1.37-handle (50% fibo retracement of the Jul high to low), 1.3730 (50DMA). Retracement risks could see the pair dip towards 1.3620-support level (23.6% fibo). Markets will be eyeing Jackson Hole event for clues on policy direction in the two advanced economies as well as US ADP and NFP.	Exchange Rate	Neutral

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDIDR	<p>1m USDIDR NDF broke out of the upper bound of its 13300-13400 trading range that had held for the two weeks prior to trade in a new trading range of 13400-13500 this past week. The 1m NDF did not find much support from foreign inflows. For the past two weeks, foreign investors had sold USD152.63mn in equities, though they did purchase USD2.6tn in debt. Further sell-off in equities and slowing inflows into government debt is likely to weigh on the IDR and be supportive of the 1m NDF ahead, especially in a seasonally bearish month of Aug for the IDR. Price action continues to be bias to the upside. Resistance is at 13445 (61.8% fibo retracement of the 2017 high to low). Any slippages should find support around 13370 (38.2% fibo). Focus ahead will be on BI meeting on 22 Aug where no adjustment to policy is expected. Rate hikes are unlikely for now given that growth has been stuck around the 5.0% level. Rate cuts, while hinted by BI governor recently, are also not expected as inflation is poised to climb higher (averaging 4.08%) by end-2017 on administered price increases. In fact, our economic team does not expect any rate adjustment for the remainder of the year. Hence, surprises in either direction from the BI could impact the IDR. Onshore markets are closed on 1 Sep for a public holiday.</p>	7-Day Reverse Repo Rate	Neutral
USDPHP	<p>1m USDPHP NDF has been on the upmove since our last Fortnightly. Our analysis (see our report <i>PHP: Possible BSP Inaction On Benign Inflation Weighs dated 15 Aug 2017</i>) suggests that market positioning for further weakness in the PHP (as BSP is no longer expected to hike policy rate in 2017) could have led corporates and importers to bring forward their purchases of USD, while foreign investors sold government debt. This was even as foreign funds continued to purchase USD27.87mn in equities the past two weeks. Further expectations of PHP weakness could supportive of the 1m NDF ahead. Even warnings from the BSP of possible intervention to smooth PHP volatilities failed to stem further weakness. Momentum indicators are bullish bias, while stochastics remains in oversold conditions. Though risks to the 1m NDF remain on the upside, we expect further upside to be a slow grind given that the 1m NDF is hovering around 10-year highs. Resistance is at 51.80, 51.90 levels. Support is 51.50. Quiet data week ahead and onshore markets are closed for a public holiday on 21 Aug.</p>	O/N Reverse Repo Rate	Neutral
USDTHB	<p>USDTHB has been trading softer in the past few sessions, but continues to be stuck within the confines of its recent trading range of 33.150-33.450. Pair continues to be weighed by its double-digit current account surplus, healthy inflows into Thai assets and gold prices (which it is negatively correlated with gold). In the past two weeks, foreign investors have purchased THB51.73bn in debt, which more than offset the THB11.01bn sell-off in equities, providing support for the THB. Gold prices have also been broadly on the uptick for the past two weeks, weighing on the pair. 2Q17 GDP on 21 Aug will be eyed and an outperformance could add to downside pressure on the pair. Still, risks are to the upside with daily momentum indicators bullish bias and stochastics climbing higher. Look for the pair to remain stuck-in-range within 33.150-33.450 ahead. A break in either direction could see the pair trade in a wider 33.000-33.600 range in the two weeks ahead.</p>	1-Day Repo Rate	Neutral

Key Data and Events Ahead

Currency	21-27 Aug	28 Aug-3 Sep
Japan	<ul style="list-style-type: none"> Mon: All Industry Activity Index (Jun) Tue: - Nil - Wed: Machine Tool Orders (Jul F) Thu: Nikkei PMI Mfg (Aug P) Fri: CPI (Jul) 	<ul style="list-style-type: none"> Mon: - Nil - Tue: Jobless Rate, Overall Household Spending (Jul) Wed: Retail Sales (Jul) Thu: Industrial Production, Housing Starts (Jul) Fri: Capital Spending (2Q), Nikkei PMI Mfg (Aug F)
China	<ul style="list-style-type: none"> Mon: - Nil - Tue: Industrial Profits (May) Wed: - Nil - Thu: BOP Current Account (1Q F) Fri: Mfg & Non-Mfg PMI (Jun) Sun: Industrial Profits (Jul) 	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: Mfg & Non-Mfg PMI (Aug) Fri: Caixin PMI Mfg (Aug) Sun: - Nil -
South Korea	<ul style="list-style-type: none"> Mon: PPI (Jul) Tue: - Nil - Wed: Household Credit (2Q) Thu: Short-term External Debt (2Q) Fri: - Nil - 	<ul style="list-style-type: none"> Mon: - Nil - Tue: Business Survey Mfg & Non-Mfg (Sep) Wed: - Nil - Thu: BoK 7-Day Repo Rate, Industrial Production (Jul) Fri: GDP (2Q F), CPI, Trade, Nikkei PMI Mfg (Aug)
Singapore	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: CPI (Jul) Thu: - Nil - Fri: Industrial Production (Jul) 	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: Public Holiday
Malaysia	<ul style="list-style-type: none"> Mon: - Nil - Tue: Foreign Reserves (15 Aug) Wed: CPI (Jul) Thu: - Nil - Fri: - Nil - 	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: Public Holiday Fri: Public Holiday, Nikkei PMI Mfg (Aug)
Indonesia	<ul style="list-style-type: none"> Mon: - Nil - Tue: BI 7D Reverse Repo Wed: - Nil - Thu: - Nil - Fri: - Nil - 	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: Public Holiday, Nikkei PMI Mfg (Aug)
Philippines	<ul style="list-style-type: none"> Mon: Public Holiday Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: - Nil - 	<ul style="list-style-type: none"> Mon: Public Holiday Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: Nikkei PMI Mfg (Aug)
Thailand	<ul style="list-style-type: none"> Mon: GDP (2Q) Tue: Customs Trade (Jul) (due 22-28 Aug) Wed: - Nil - Thu: - Nil - Fri: Foreign Reserves (18 Aug) 	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: Mfg Production Index, Capacity Utilization (Jul) (due 30-31 Aug) Thu: Trade (Jul), Current Account (Jul) Fri: CPI (Aug), Foreign reserves (25 Aug)
India	<ul style="list-style-type: none"> Mon: Tue: Nikkei PMI Mfg, Services & Composite (Apr) Wed: - Nil - Thu: - Nil - Fri: Fiscal Deficit (May) 	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: Fiscal Deficit (Jul), GDP (2Q) Fri: Nikkei PMI Mfg (Aug)
Vietnam	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: CPI (Aug) Fri: Retail Trade, Trade, Industrial Production (Aug) (due 25-31 Aug) 	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: Nikkei PMI Mfg (Aug)

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