

## FX Asia Fortnightly

# Some ASEAN FX Softness Could Persist

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ASEAN FX traded mixed in the past two weeks amid a global equity sell-off and a USD pullback. With the EUR still under pressure over the Italian budget concerns, the yuan still vulnerable to Sino-US trade war concerns and the USD possibly finding support from Fed speakers, further upside pressure on the USD/ASEANs cannot be ruled out. The USDIDR appears unable to escape the 15000-levels for now, even after the 150bp hike in policy rates and a slew of measures to control the current account deficit and stabilise the IDR. Moreover, foreign portfolio outflows do not seem to have bottomed and further outflows cannot be ruled out in the two weeks ahead. Similarly, the USDMYR remains on the uptrend towards the 4.17-levels, while the USDPHP could see downside pressure on improved inflation outlook with a move towards 53.50-levels possible. The USDSGD and USDTHB though are likely to trade sideways in the week ahead within the 1.3730-1.3840 and 32.500-32.750 ranges respectively.

BI meets on 23 Oct and we expect the central bank to remain on hold. We believe that the 150bp rate hike since May should provide the BI an opportunity to pause and observe the impact of the previous rate hikes on the economy. Hints of a pause was also provided by the governor at the last post-MPS press conference where he noted that the moves in the IDR was largely in line with regional currencies, spurred by USD appreciation. Instead, we expect the BI to make its next move at its Dec policy meeting with a 25bp rate hike to bring the policy rate to 6.00%. BOJ meets on 29 Oct and no change in policy is expected given that inflation remains a ways from its 2% target rate. We expect a muted response in the IDR and JPY from their respective policy decisions.

Our in-house model implies that SGD NEER is trading 1.2% above the implied midpoint of 1.3952, suggesting it is still slightly on the stronger side of the SGD vs. other trading partner currencies.

### SGD Could Face Downside Pressures

The recent sell-off in global equities had weighed on Asian FX but failed to weigh on the SGD. Instead, the SGD has proven to be resilient, gaining 0.12% against the USD over the same time period. Part of this resiliency in the SGD can be attributed to the MAS move to further tighten policy on 12 Oct by increasing the slope of the SGD NEER policy band "slightly". In the past week, the SGD has appreciated against most of its trading partners, including the EUR, RMB, MYR and GBP, while depreciating against the AUD, THB and PHP. This has slowed any downside pressure on the SGD from portfolio outflows. The SGD appears to track moves in the EUR and CNH. We estimated the sensitivity of the SGD to the EUR and CNH and our model suggests that a 1% rise in the EUR results in a 0.45% increase in the SGD, while a 1% move in the CNH impacts the SGD by about 0.65%. Given the EUR is the largest component in the Dollar Index, a firmer EUR suggest USD weakness and hence putting downside pressure on the USDSGD, while the SGD is a proxy for the CNY, moves in the both currencies should impact the SGD. Downside pressure on the EUR and the CNH in the week ahead could keep the SGD from climbing higher too rapidly in the week ahead. Technical charts suggest sideway trades are possible in the week ahead with support around the 1.3730-levels and resistance at 1.3840-levels.

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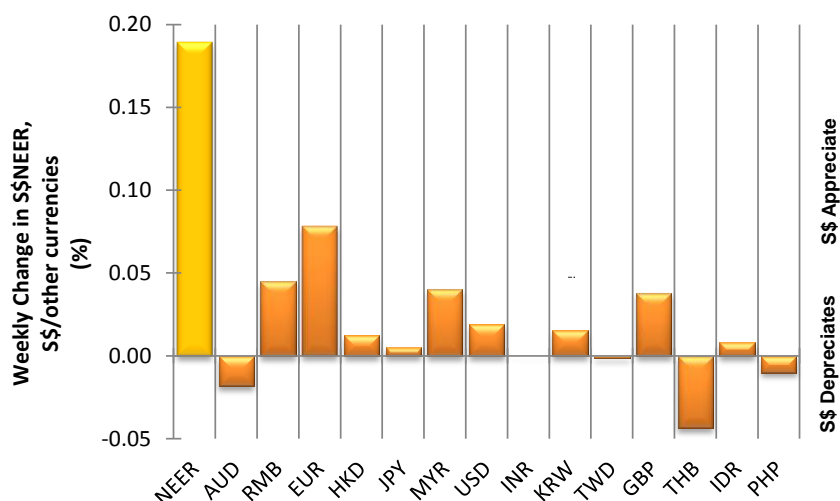
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## Flavour of the Week: SGD Could Face Downside Pressures

- The recent sell-off in global equities had weighed on Asian FX. The STI suffered losses of around 3.5% since our last Asia FX Fortnightly. The losses in the STI though failed to weigh on the SGD. Instead, the SGD has proven to be resilient, gaining 0.12% against the USD over the same time period.
- Part of this resiliency in the SGD can be attributed to the MAS move to further tighten policy on 12 Oct by increasing the slope of the SGD NEER policy band “slightly”. This was to anchor inflationary expectations amid steady growth outlook. The move to tighten policy further suggests that the SGD will be allowed to strengthen on a trade weighted basis. In the past week, the SGD has appreciated against most of its trading partners, including the EUR, RMB, MYR and GBP, while depreciating against the AUD, THB and PHP (Chart 1). This has slowed any downside pressure on the SGD from portfolio outflows.

**Chart 1: SGD Has Appreciated On A Trade Weighted Basis The Past Week**

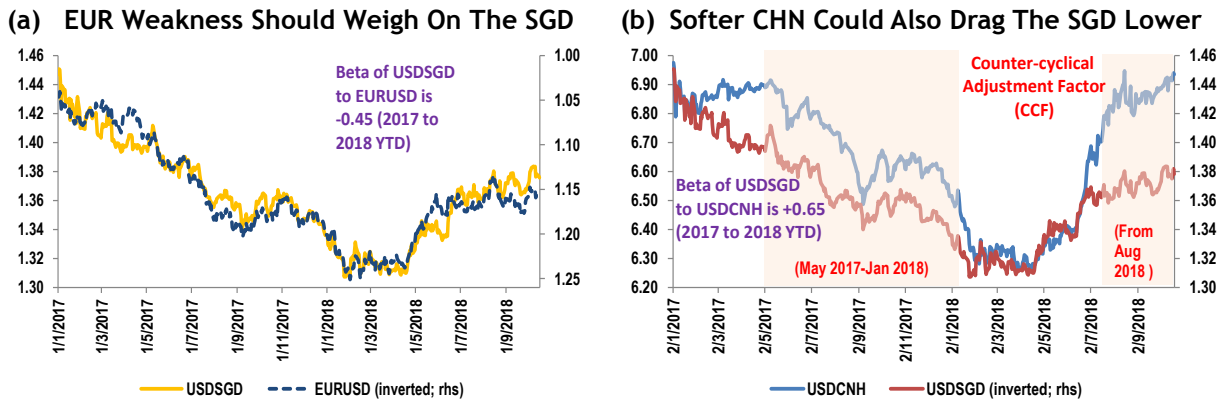


Source: Maybank FX Research & Strategy Estimates

- The SGD appears to track moves in the EUR and CNH as suggested by Chart 2. We estimated the sensitivity of the SGD to the EUR and CNH and our model suggests that a 1% rise in the EUR results in a 0.45% increase in the SGD. A 1% move in the CNH though has a larger impact on the SGD by about 0.65%. This not surprising given that both the EU and China are among the largest trading partners of Singapore. Based on 2017 figures, China (if includes Hong Kong) accounts for 14% (China + HK = 21.5%) of Singapore’s total trade, and EU around 11.2%.
- Recently though, the EUR has been facing downside pressures due to concerns over Italy’s budget plan and its incongruence with the EU rules. Market angst over possible discord in the EU has led bears to take the EURUSD back below the 1.15-levels. We expect this softness in the EUR to persist until there is resolution in the Italian budget situation. This is likely to go on until end of this year - 30 November 2018 when EU Commission publishes its judgement on Italian fiscal plans and end December 2018 when the Italian government finalizes its 2019 Budget plans.

- Similarly, the CNH could come under pressure in the week ahead as Sino-US trade concerns could also persist. In addition, Fed speaks in the week ahead keep the USD supported and weigh on the CNH. A softer CNH could reinforce downside pressure on the SGD from a soggy EUR. This should keep the SGD from climbing higher too rapidly in the week ahead.
- Given the EUR is the largest component in the Dollar Index, a firmer EUR suggest USD weakness and hence putting downside pressure on the USDSGD, while the SGD is a proxy for the CNY, moves in the both currencies should impact the SGD.

Chart 1: SGD Tracks EUR & CNH Moves



Note: Regression on daily changes in % between USDSGD (dependent variable) over XXXUSD (independent variable) over the past two-years (2017 to 2018 YTD)

Source: Bloomberg, Maybank FX Research & Strategy Estimates

USDSGD Daily Chart: Sideways



Source: Bloomberg, Maybank FX Research & Strategy

- USDSGD failed to sustain price action above the 1.38-levels mid-week, allowing SGD bulls to take control. Last seen around 1.3790, USDSGD has lost most of its bullish momentum on the daily chart, and stochastics continues to fall. This suggests the lack of directional cues in the week ahead and we could see the pair trade sideways in the week ahead. Support is around 1.3730-levels (50DMA). A clean break below this level could see a move towards key support at 1.3650-levels (100DMA). Rebounds should meet resistance around 1.3840-levels, 1.3873-levels (2018 high).

## Key Data and Events Ahead

Currency	22-28 Oct	29 Oct - 4 Nov
USDJPY	Mon: All Industry Activity Index (Aug)	Mon: Retail Sales (Sep)
	Tue: Machine Tool Orders (Sep F)	Tue: Jobless Rate (Sep)
	Wed: Nikkei PMI Mfg (Oct P)	Wed: Industrial Production (Sep P), Housing Starts (Sep), BOJ 10Y Yield Target
	Thu: - Nil -	Thu: Nikkei PMI Mfg (Oct)
	Fri: - Nil -	Fri: - Nil -
USDCNY	Mon: - Nil -	Mon: - Nil -
	Tue: - Nil -	Tue: - Nil -
	Wed: - Nil -	Wed: Composite, Mfg & Non-Mfg PMI (Oct)
	Thu: - Nil -	Thu: Caixin PMI Mfg (Oct)
	Fri: - Nil -	Fri: - Nil -
	Sat: Industrial Profits (Sep)	Sat: - Nil -
USDKRW	Mon: - Nil -	Mon: - Nil -
	Tue: PPI (Sep)	Tue: Business Survey Mfg & Non-Mfg (Nov)
	Wed: - Nil -	Wed: Industrial Production (Sep)
	Thu: GDP (3Q P)	Thu: CPI, Trade, Nikkei PMI Mfg (Oct)
	Fri: - Nil -	Fri: - Nil -
USDSGD	Mon: - Nil -	Mon: - Nil -
	Tue: CPI (Sep)	Tue: - Nil -
	Wed: Unemployment Rate (3Q - due 24-30 Oct)	Wed: - Nil -
	Thu: - Nil -	Thu: - Nil -
	Fri: Industrial Production (Sep)	Fri: PMI & PMI Electronics (Oct)
USDMYR	Mon: Foreign Reserves (15 Oct)	Mon: - Nil -
	Tue: - Nil -	Tue: - Nil -
	Wed: CPI (Sep)	Wed: - Nil -
	Thu: - Nil -	Thu: Nikkei PMI (Oct)
	Fri: - Nil -	Fri: - Nil -
USDIDR	Mon: - Nil -	Mon: - Nil -
	Tue: BI 7-Day Reverse Repo Rate	Tue: - Nil -
	Wed: - Nil -	Wed: - Nil -
	Thu: - Nil -	Thu: CPI (Oct), Nikkei PMI Mfg (Oct)
	Fri: - Nil -	Fri: - Nil -
USDPHP	Mon: Budget Balance (Sep)	Mon: - Nil -
	Tue: - Nil -	Tue: - Nil -
	Wed: - Nil -	Wed: - Nil -
	Thu: - Nil -	Thu: Public Holiday
	Fri: - Nil -	Fri: Public Holiday
USDTHB	Mon: Customs Trade (Sep)	Mon: - Nil -
	Tue: Public Holiday	Tue: - Nil -
	Wed: - Nil -	Wed: Trade, Current Account (Sep)
	Thu: - Nil -	Thu: CPI (Oct), Nikkei PMI Mfg (Oct)
	Fri: Foreign Reserves (19 Oct)	Fri: Foreign Reserves (26 Oct)
USDINR	Mon: - Nil -	Mon: - Nil -
	Tue: - Nil -	Tue: - Nil -
	Wed: - Nil -	Wed: - Nil -
	Thu: - Nil -	Thu: Nikkei PMI Mfg (Oct)
	Fri: - Nil -	Fri: - Nil -
USDVND	Mon: - Nil -	Mon: - Nil -
	Tue: - Nil -	Tue: - Nil -
	Wed: - Nil -	Wed: - Nil -
	Thu: Industrial Production, Trade, CPI, Retail Sales (Oct - 25-31 Oct)	Thu: Nikkei PMI Mfg (Oct)
	Fri: - Nil -	Fri: - Nil -

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