

## FX Asia Fortnightly

# Firmer Asian FX Still Likely

### Asian FXs Tracking USD Moves

USD was weighed by the lack of monetary and fiscal impulse as well as political uncertainty (with Mueller's wider investigation into Trump's links with Russia and resignation of his press secretary). This had allowed most of the Asians to gain at the USD expense. The top performing AXJs were the KRW, THB and SGD. The focus ahead will be on US FOMC meeting on 26 Jul as well as PCE core and US ADP and NFP in the first week of Aug. Though FOMC is unlikely to spring any surprises, there could be some trimming of short-USD positions ahead of the meeting, posing upside risks. Better inflation and employment prints could similarly support the UST yields and the USD. Nevertheless, resilience in the USDSGD (possibly on the perception of Singapore as a quasi-safe haven and given its relatively high yields among its S&P-rated triple-A peers) could see sideways trades ahead with 1.3605 supportive. The USDIDR and USDPHP could dip in the week ahead before climbing higher with upside capped around 13380 and 51.30. The USDTHB could trade lower towards 33.325 support should gold prices continue to rise.

### IDR & THB Still Attractive Should FX Vols Increase

In a low volatility environment, it makes sense for an investor to borrow in a currency where interest rates are low to invest in assets yielding higher interest rates in another. Both the IDR and THB provide attractive returns in such an environment, given that real yields in both economies are still relatively high, while the PHP and SGD are less attractive. We are already seeing some increased volatility with FX volatility climbing higher off its recent low as central banks in the major economies signal or are in tightening mode, while ASEAN central banks do not appear to be in a hurry to follow suit. This suggests that the yield advantage the ASEAN economies could taper further. In such an environment, the IDR could still experience inflows into its debt market given its higher real yields (vs. its peers) and its relatively sound macroeconomic fundamentals. Similarly for the THB, though we caution that the return of inflation could weigh on real yields and make Thai assets less attractive vis-à-vis those of the major economies.

### RBI Meets, Korea & Indonesia GDP On Tap

RBI meets on 2 Aug and we see rising risks of a rate cut as lower real funding rates could be needed for RBI to boost growth amid consistently lower inflation prints and softening industrial production. Korea and Indonesia will release 2Q GDP prints on 27 Jul and 4 Aug respectively. Key data to watch for this week includes JP Nikkei PMI mfg (Jul P), SG CPI (Jun), TH Customs Trade (Jun), VN CPI (Jul) on 24 Jul; JP minutes of 15-16 Jun BOJ meeting on 25 Jul; JP PPI (Jun), BOJ Nakaso speaks, SG IP (Jun) on 26 Jul; KR GDP (2Q) on 27 Jul; JP jobless rate, overall household spending, CPI, retail sales (Jun), BOJ summary of opinion at 19-20 Jul meeting; KR IP (Jun) on 28 Jul. The week after has JP IP, housing starts (Jun), CN mfg and non-mfg PMI (Jul), TH trade, current account (Jun) on 31 Aug; CN Caixin PMI mfg (Jul), KR CPI, trade (Jun), ID & TH CPI (Jun), JP, CN, MY, ID, PH, TH, ID & VN Nikkei PMI mfg (Jul) on 1 Aug; JN BOJ Funo speaks, SG PMI (Jul) on 2 Aug; SG Nikkei PMI (Jul) on 3 Aug; labor cash earnings (Jun), ID GDP (2Q, due 4-7 Aug) on 4 Aug. Thailand is out on 28 Jul for a public holiday.

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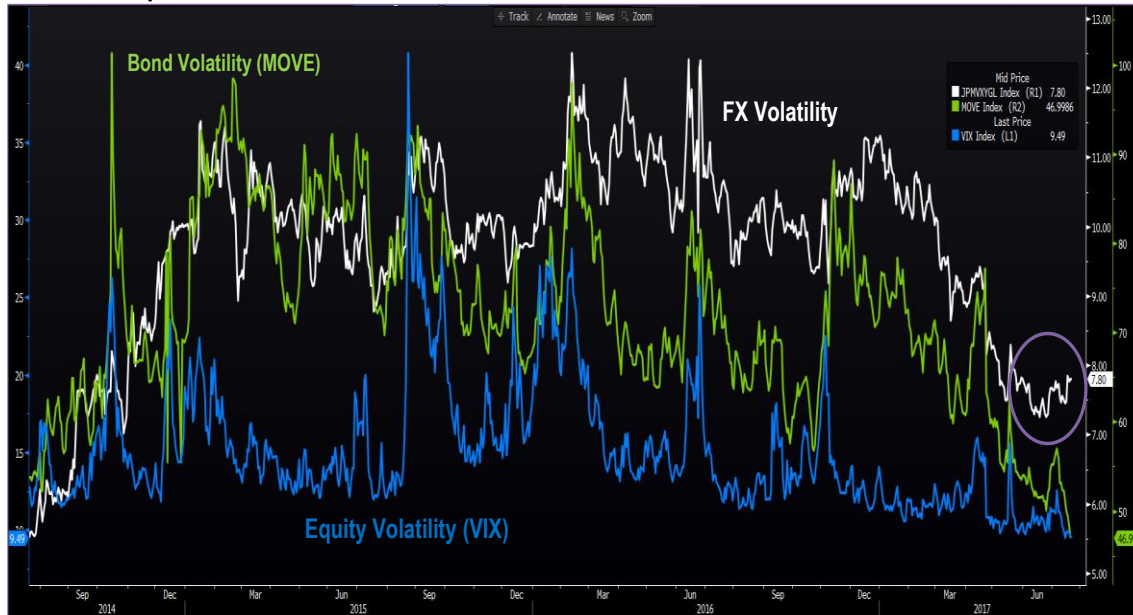
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## Flavour of the Week: What Happens When Volatility Returns?

- Market volatility has been broadly on the down trend since the start of 2017, bolstered by expectations of reflation trades in the US and elsewhere (Chart 1). The low volatility environment as reflected in FX, equity and bond volatility lifted asset prices with the Dow Jones Industrial Index at multi-year highs. In the Asian space, the low volatility environment has allowed for a rally in risk assets and that has led the Asian FX higher.

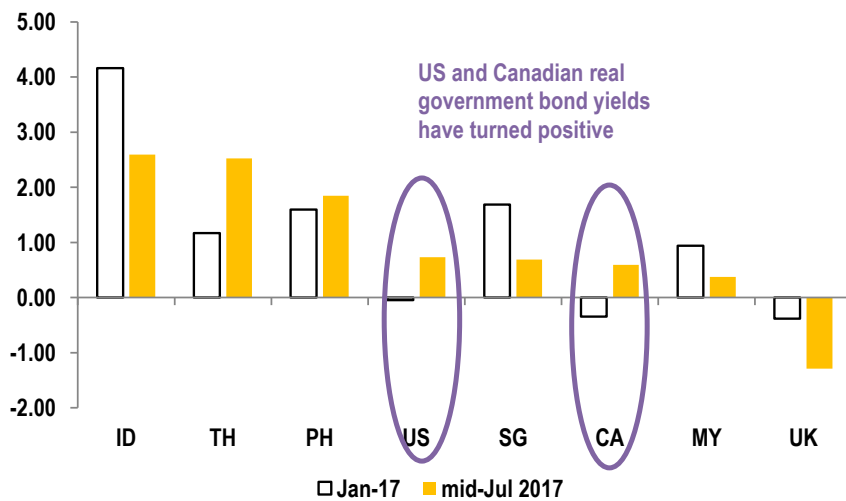
Chart 1: Implied Volatilities Are At Multi-Period Lows



Source: Bloomberg, Maybank FX Research

- In such an environment of low volatility and relatively low yields in the major economies (most still under some form of easing bias), investors have sought out riskier assets from emerging economies, including ASEAN, for higher returns.

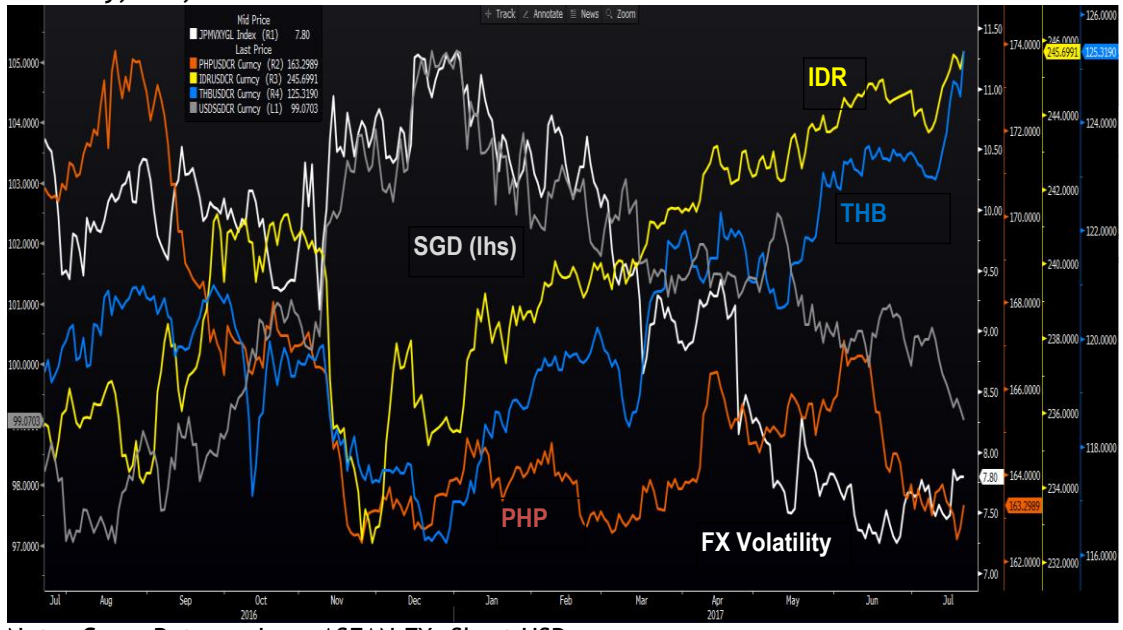
Chart 2: Narrowing Yield Differentials Between ASEAN And Major Economies



Source: Bloomberg, Maybank FX Research

- Real yields (nominal yields less CPI inflation) in ASEAN have generally eased off from the start of the year as nominal yields slipped (Chart 2). Those for Thailand and Philippines though have risen possibly due to disinflationary pressures in the former and lower demand in latter. As for the US and Canada, real yields there have started to pick up as the Fed begins guidance on balance sheet reduction and the BOC became the first G7 central bank to hike rate after the Fed. This has led to a narrowing of yield differentials between the ASEAN and US & Canada, possibly slowing inflows into some of the ASEAN economies, weighing on their currencies.

**Chart 3: IDR, THB Carry Trade Returns Are Negatively Correlated To FX Volatility; PHP, SGD Are Not**



Note: Carry Return - Long ASEAN FX, Short USD  
 The return is calculated by adding spot return to the interest earned from long currency position and subtracting interest owed from the short currency position.

Source: Bloomberg, Maybank FX Research

- In an environment of low volatility, it makes sense for an investor to borrow in a currency where interest rates are low to invest in assets yielding higher interest rates in another. Chart 3 suggests then that both the IDR and THB provide attractive returns in such an environment. This is not surprising given that real yields in Indonesia and Thailand are still relatively high when compared to those from the US or Canada as at mid-Jul. The PHP and SGD though are not similarly correlated and this could be because of the political premium involving the president (particularly his aggressive anti-drug campaign) for the PHP, and because of its quasi-safe haven status as the only triple-A country in Asia.
- We are already seeing some increased volatility with FX volatility climbing higher off its recent low (Chart 1 - circled). This increased FX volatility comes as the ECB signals that it would reassess the central bank's stimulus program in the fall and the BOC already starting its hiking cycle. There is also the possibility of the BOE trimming its stimulus program in due course. On the other hand, ASEAN central banks do not appear to be in a hurry to follow suit. This suggests that the yield advantage the ASEAN economies could taper further.

- In such an environment, the IDR could still experience inflows into its debt market given its higher real yields (vs. its peers) and its relatively sound macroeconomic fundamentals (including narrowing current account deficits, healthy foreign reserves, etc.). Similarly for the THB, though we caution that the return of inflation could weigh on real yields and make Thai assets less attractive vis-à-vis those of the major economies.

## 2017/2018 Asia FX Forecasts

	End 3Q -17	End 4Q-17	End 1Q-18	End 2Q-18
USDJPY	115	117	117	119
USDSGD	1.3900	1.3800	1.3950	1.4050
USDMYR	4.25	4.30	4.30	4.25
USDIDR	13400	13450	13500	13500
USDTHB	34.50	35.00	35.30	35.80
USDPHP	50.50	50.70	50.70	50.30
USDCNY	6.80	6.87	6.85	6.90
USDKRW	1150	1160	1170	1180
USDINR	65.70	66.20	66.50	66.70
USDVND	22850	22950	23100	23300
<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	3.058	3.116	3.082	3.025
<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	1.60	1.60	1.59	1.62
MYRIDR	3153	3128	3140	3176
MYRINR	15.46	15.40	15.47	15.69

Source: Maybank FX Research as at 20 Jul 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 traded a very tight range of 4.2815 - 4.2915 this week despite big moves in other FX pairs. Pair was last seen at 4.2880 levels. Daily momentum is not indicating a clear bias while stochastics is in oversold conditions. Continue to see recent uninspiring range of 4.27 - 4.30 in absence of fresh catalyst. Data eyed in the two weeks ahead are PMI (Jul) on 2 Aug and trade (Jun) on 4 Aug.	Base Rate	Easing Bias
USDSGD	USDSGD proved to be resilient amid moves in the G7 currencies on BOJ and ECB policy decisions and governors speak post-meeting and US politics. Pair remains in a holding pattern, oscillating within 1.3600-1.3710 range for most of the week. Focus ahead will be on CPI (Jun) on 24 Jul and industrial production (Jun) on 26 Jul where further upside surprises, in the absence of further downside surprises from the US, could weigh on the pair. FOMC on 27 Jul is likely to be a non-event. Pair was last seen around 1.3646 levels. Daily chart momentum indicators are still mildly bearish bias and stochastics is in oversold conditions. This suggests risk remains to the downside. In the near term, further downside pressure could see the pair revisit the 1.3630 levels (76.4% fibo retracement of Aug 2016 low to 2017 high). A clean break here on a weekly close could see a move towards 1.3605. Dips should be opportunities to accumulate. Resistance at 1.3710.	Exchange Rate	Neutral

## Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
<b>USDIDR</b>	<p>1m USDIDR NDF continues to trade in familiar ranges within 13300-13380 after slipping from its near two-month high of 13486 (7 Jul). BI left its policy rate unchanged at 4.75% at its policy meeting yesterday as widely anticipated by the market, which is supportive of the 1m NDF. Upside pressure on the 1m NDF comes from the sell-off in equities. Foreign investors have sold USD270.97mn in equities so far in the week. Meanwhile, latest available data showed foreign funds had purchased IDR2.21tn in government debt on 17-19 Jul. 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. Focus ahead will be on CPI (Jul) on 1 Aug and 2Q GDP (due sometime 4-7 Aug), where upside surprises could be supportive of the IDR. FOMC on 27 Jul is likely to be a non-event. Daily momentum remains bearish bias but waning and stochastics remains in oversold conditions. Resistance is around 13370 (38.2% fibo retracement of the 2017 high-to-low), 13380. Support still at 13300 levels, where market whispers suggest official agents have been supportive.</p>	O/N Policy Rate	<b>Easing Bias</b>
<b>USDPHP</b>	<p>1m USDPHP NDF has come off from its multi-year highs of 51.28 (11 Jul) to hover back below the 51-handle amid a pullback in UST yields. We still think that moves above the 51-handle looks overdone in light of the continued foreign inflows into Philippine assets, healthy economic fundamentals, and potential tax reforms (now awaiting the Senate's approval for the bill to become law). Foreign funds inflow has also been supportive of the PHP. Last week, foreign investors have purchased USD9.87mn in equities after two consecutive weeks of sell-off. CPI (Jul) on 4 Aug will be eyed as would US FOMC on 27 Jul where we expect it to be a non-event. Momentum indicators show tentative signs of turning bearish bias, while stochastics is falling. Weekly momentum indicators and stochastics though show mild bullish bias, suggesting the potential for upside risk ahead. Resistance is at 51.30 levels. Support at 50.80 (21DMA), 50.50 (38.2% fibo retracement of the Apr-Jul upswing).</p>	O/N Policy Rate	<b>Neutral</b>
<b>USDTHB</b>	<p>USDTHB has been trading heavy since touching a recent high of 34.208 (on 7 Jul), broadly tracking the moves in global gold prices. There seems to be a negative correlation between the USDTHB and gold. Support for the THB could once again come from foreign inflows that appeared to be stalled by the outflow from government debt. Recent data showed that foreign investors have sold off government debt for the third straight week with THB0.56bn sold last week. Flows into equities have not been able to fully mitigate these outflows. Further outflows could slow the pair's grind lower in the two-weeks ahead. Key data eyed are trade (Jun) on 31 Jul and CPI (Jul) on 1 Aug. Daily momentum indicators and stochastics remain bearish bias. Support is around 33.325 levels (76.4% fibo retracement of the May-Oct upswing). Resistance at 33.700 levels, 33.960 (61.8% fibo).</p>	7-Day Reverse Repo Rate	<b>Neutral</b>

## Key Data and Events Ahead

	24-30 Jul	31 Jul-6 Aug
<b>Japan</b>	<ul style="list-style-type: none"> <li>· <b>Mon:</b> Nikkei PMI Mfg (Jul P)</li> <li>· <b>Tue:</b> Minutes of 15-16 Jun Meeting</li> <li>· <b>Wed:</b> PPI Services (Jun), BOJ Nakaso speaks (Hiroshima)</li> <li>· <b>Thu:</b> - Nil -</li> <li>· <b>Fri:</b> Jobless Rate, Overall Household Spending, CPI, Retail Sales (Jun), BOJ Summary of Opinion at 19-20 Jul meeting</li> </ul>	<ul style="list-style-type: none"> <li>· <b>Mon:</b> Industrial Production (Jun P), Housing Starts (Jun)</li> <li>· <b>Tue:</b> Nikkei PMI Mfg (Jul F)</li> <li>· <b>Wed:</b> BOJ Funo speaks (Sapporo)</li> <li>· <b>Thu:</b> Nikkei PMI Services &amp; Composite (Jul)</li> <li>· <b>Fri:</b> Labor Cash Earnings (Jun)</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> Industrial Profits (Jun)</li> <li>· <b>Fri:</b> - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>· <b>Mon:</b> Mfg &amp; Non-Mfg PMI (Jul)</li> <li>· <b>Tue:</b> Caixin PMI Mfg (Jul)</li> <li>· <b>Wed:</b> - Nil -</li> <li>· <b>Thu:</b> Caixin PMI Services &amp; Composite</li> <li>· <b>Fri:</b> - Nil -</li> </ul>
<b>South Korea</b>	<ul style="list-style-type: none"> <li>· <b>Mon:</b> - Nil -</li> <li>· <b>Tue:</b> Consumer Confidence (Jul)</li> <li>· <b>Wed:</b> - Nil -</li> <li>· <b>Thu:</b> GDP (2Q P)</li> <li>· <b>Fri:</b> Business Survey Mfg &amp; Non-Mfg (Aug), Industrial Production (Jun)</li> </ul>	<ul style="list-style-type: none"> <li>· <b>Mon:</b> - Nil -</li> <li>· <b>Tue:</b> CPI, Trade, Nikkei PMI Mfg (Jun)</li> <li>· <b>Wed:</b> - Nil -</li> <li>· <b>Thu:</b> Foreign Reserves (Jul), Current Account (Jun)</li> <li>· <b>Fri:</b> - Nil -</li> </ul>
<b>Singapore</b>	<ul style="list-style-type: none"> <li>· <b>Mon:</b> CPI (Jun)</li> <li>· <b>Tue:</b> - Nil -</li> <li>· <b>Wed:</b> Industrial Production (Jun)</li> <li>· <b>Thu:</b> - Nil -</li> <li>· <b>Fri:</b> Unemployment Rate (2Q)</li> </ul>	<ul style="list-style-type: none"> <li>· <b>Mon:</b> - Nil -</li> <li>· <b>Tue:</b> - Nil -</li> <li>· <b>Wed:</b> PMI (Jul)</li> <li>· <b>Thu:</b> Nikkei PMI (Jul)</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> - 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> Nikkei PMI (Jul)</li> <li>· <b>Wed:</b> - Nil -</li> <li>· <b>Thu:</b> - Nil -</li> <li>· <b>Fri:</b> Trade (Jun)</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> - 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> CPI, Nikkei PMI Mfg (Jul)</li> <li>· <b>Wed:</b> - Nil -</li> <li>· <b>Thu:</b> - Nil -</li> <li>· <b>Fri:</b> GDP (2Q) (due 4-7 Aug)</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> - 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> Nikkei PMI Mfg (Jul)</li> <li>· <b>Wed:</b> - Nil -</li> <li>· <b>Thu:</b> - Nil -</li> <li>· <b>Fri:</b> CPI (Jul)</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> Public Holiday, Foreign Reserves (21 Jul)</li> </ul>	<ul style="list-style-type: none"> <li>· <b>Mon:</b> Trade (Jun), Current Account (Jun)</li> <li>· <b>Tue:</b> CPI, Nikkei PMI Mfg (Jul)</li> <li>· <b>Wed:</b> - Nil -</li> <li>· <b>Thu:</b> - Nil -</li> <li>· <b>Fri:</b> Foreign Reserves (28 Jul)</li> </ul>
<b>India</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> Fiscal Deficit (Jun)</li> <li>· <b>Tue:</b> Nikkei PMI Mfg (Jul)</li> <li>· <b>Wed:</b> RBI Meeting</li> <li>· <b>Thu:</b> Nikkei PMI Services &amp; Composite</li> <li>· <b>Fri:</b> - Nil -</li> </ul>
<b>Vietnam</b>	<ul style="list-style-type: none"> <li>· <b>Mon:</b> CPI (Jul)</li> <li>· <b>Tue:</b> Retail Sales, Trade, Industrial Production (Jul) (due 25-31 Jul)</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> Nikkei PMI Mfg (Jul)</li> <li>· <b>Wed:</b> - Nil -</li> <li>· <b>Thu:</b> - Nil -</li> <li>· <b>Fri:</b> - Nil -</li> </ul>

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