

FX Asia Fortnightly

USD/AXJs Consolidation

Choppy Asian FXs

Asian FXs are likely to be choppy ahead especially with Fed speakers a plenty and given oil concerns this week. Fed speakers ahead including Fed Chair Yellen (28 Sep) and two dissenters at the recent Fed meeting could revive the debate regarding the speed of Fed rate hikes, while the OPEC meeting at the sideline of the International Energy Forum (IEF) on 26-28 Sep could raise the specter of an oil output freeze. Rising risk appetite could suggest support for USD/AXJs ahead, though rising oil prices could be supportive of the MYR. The lack of catalyst in the next two weeks could suggest range-bound trade for the USD/AXJs.

Eyes On USDPHP

1-month USDPHP NDF has hit a new high of 48.64 amid a pull-back in the AXJs today against the USD. The spot USDPHP was the worst performer on 26 Sep. Driving the 1s NDF higher was market concerns about the government's extra-judicial killings, policy flip-flops and the president's unpredictable temperament. In Aug and Sep so far, foreign funds have sold USD384mn in equities a result. Continued sell-off in the equity market on the back of the president's erratic behavior, reinforced by the deterioration in overseas remittances (as Middle East economies slow) could weigh on the 1s NDF and the USDPHP. A move towards the 50-figure cannot be ruled out should outflows continue that begin to affect other investments. In the near term, there could be some technical retracement given overbought conditions and that could be an opportunity to buy for a move back up toward the 50-levels

Quiet Two Weeks In Asia

There is only one central bank meeting in the next two weeks. RBI meets on 4 Oct for the first time under the new MPC headed by Urjit Patel as Governor. There is still pressure to cut from the government and the call is likely to be a close one still. We do not expect any move though. Data-wise, it is a quiet week two-weeks ahead. Market's focus instead will be on the US presidential debate between Trump and Clinton tomorrow at 9am (SGT), Fed Chair Yellen's testimony before the House Panel on Bank Supervision, various Fed speaks and the OPEC meeting at the sidelines of the IEF. The week after, China is out for its Golden Week.

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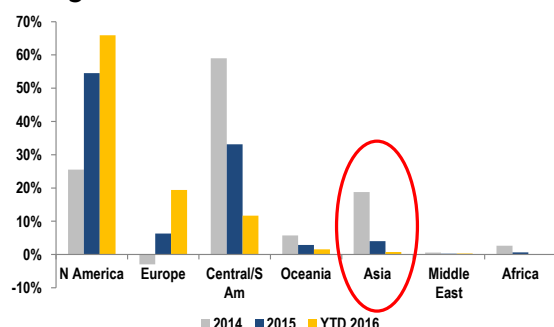
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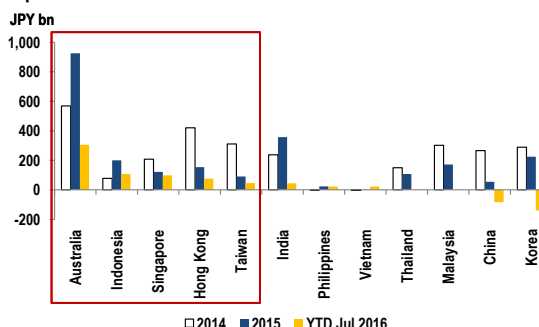
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Flavour of the Month: Japanese Portfolio Inflows Into Asia Falling; Weighs On AXJs But There's Some Bright Spots

Japanese Portfolio Flows Into Asia Has Been Falling...



... But Selected Economies Still Favoured By Japanese Funds



Source: CEIC, Maybank FX Research

- Recent news suggest that Japanese Post intends to invest nearly USD20bn (our estimates) in foreign bonds overseas. Portfolio flow data from Japan is illuminating as to these flows could go to.
- Japanese funds continue to tilt toward North America, receiving the bulk of the outward bound Japanese portfolio flows, most likely to the US. This was followed by Europe. Central and South America which used to be the second most popular destination for Japanese funds is now a distant third.
- Asia has not been a popular destination for Japanese portfolio investment, possibly because of its less developed bond markets, which also lacks depth in general. Also, equity markets are similarly not as developed in Asia.
- Thus in its search for yields, Japanese funds have sought familiarity and Asia has been receiving the short-end of stick. Asia has seen a decrease in Japanese portfolio flows even as recent as this year, receiving only 1% of the total outward bound Japanese funds in the first eight months of the year.
- However, there are some bright spots in Asia. In the Asia-Pacific region, Australia remained the top choice for Japanese portfolio investment. This was followed by Indonesia, Singapore, Hong Kong and Taiwan.
- The attraction of Indonesian bonds and equities should not be surprising. Improved domestic conditions and investment environment has been luring foreign investment. As well, easy monetary conditions and potential for IDR appreciation makes Indonesia an attractive destination for Japanese funds.
- Singapore, despite its low yield environment and weak domestic economic conditions, remains attractive to Japanese investors most probably because of its close economic and trading links and more importantly, its triple-A credit rating.
- These inflows should be supportive of the IDR and SGD and should cap upside to the USDIDR and USDSGD

2016/2017 Asia FX Forecasts

	End 3Q-16	End 4Q-16	End 1Q -17	End 2Q -17
USDJPY	103	105	105	106
USDSGD	1.3650	1.3750	1.3800	1.3850
USDMYR	4.00	4.00	3.95	3.95
USDIDR	13200	13300	13200	13200
USDTHB	34.50	34.70	35.00	35.20
USDPHP	46.00	46.50	46.70	46.90
USDCNY	6.65	6.67	6.70	6.70
USDKRW	1125	1140	1150	1150
USDINR	67.00	68.00	69.00	69.00
USDVND	22400	22600	22700	22800
SGD Crosses	End 3Q-16	End 4Q-16	End 1Q -17	End 2Q -17
SGDMYR	2.930	2.909	2.862	2.852
MYR Crosses	End 3Q-16	End 4Q-16	End 1Q -17	End 2Q -17
MYRCNY	1.66	1.67	1.70	1.70
MYRIDR	3300	3325	3342	3342
MYRINR	16.75	17.00	17.47	17.47

Source: Maybank FX Research as at 23 Sep 2016.

*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
USDJPY	USDJPY rebound back above the 101-levels was short-lived with the pair lower amid a softer dollar tone. The shift in BOJ policy framework to “Quantitative & Qualitative Easing with Yield Curve Control”, i.e. BOJ controlling both the short and longer-terms interest rates in an unprecedented experiment that underwhelmed market. This is because the policy was seen as an attempt to prevent NIMs compression to help banks and hence the stock markets and at the same time moving stealthily away from further easing. As we had written in our flash report, without further catalysts that would lift the Nikkei higher ahead, the move up in the Nikkei and concomitantly, the USDJPY, could be short-lived. Still, a rally in UST yields at some later stage could be supportive of the pair. Tankan survey for 3Q is due 3 Oct and disappointment here could rise expectations of further easing BOJ measures. Daily momentum remains mildly bearish bias and stochastics is fast approaching oversold conditions. Further dips could find support around the 100-figure before the 99-figure (year’s low on 24 Jun). Rebounds should meet resistance at the 102.90 levels (upper bound of the current downtrend channel that has formed since the beginning of 2016); 104.50 (100DMA).	Monetary Base	Easing

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDCNH	The upside bias of this pair should hold as we move into Oct. With a hike probability of 55% as priced by Fed Funds future, this pair is likely to remain bid. In addition, the US elections and the prospect of Donald Trump as the US President should keep this pair supported on dips. Currency volatility should rise in 4Q from its lull in 3Q and that should keep the greenback supported. Risks are thus to the upside for the USDCNH. Barrier is seen at 6.7220 before the next at 6.7620. Overnight CNY Hibor has come back down to 2.5% from a high of 23% last week but 3M CNY Hibor remains somewhat elevated around 4.4% compared to the sub-3% levels seen for most of May-Aug this year. We see a need for PBoC to defend the renminbi more frequently compared to the earlier part of this year. Expect 3M CNY Hibor to remain elevated and USDCNH to remain supported in the next two weeks and even beyond unless upcoming Fed speaks sound dovish enough to pare rate hike expectations for the year.	1-Yr Lending Rate	Easing Bias
USDKRW	USDKRW may see some downside following inaction from BOJ (no further easing) and Fed (no rate hike) last week. But we think the downside could be limited, possibly towards 1190 levels. We are biased to buy on dips especially in the lead up to US Presidential Elections and the next 2 FoMC meetings for the year. We also see rising risk of BoK cutting rates as soon as at its next meeting (13 Oct) given renewed concerns over disinflation and potential slowdown in growth momentum. Expect 1190 - 1120 range.	Base Rate	Easing Bias
USDSGD	USDSGD has been on the uptick for the past several sessions amid weakness in the global equity markets and concerns about oil prices. With both the BOJ and FOMC meetings out of the way, market focus has returned to the MAS meeting expected sometime in mid-Oct. Data out so far has failed to impress and suggests that there could be increasing risk of an easing move by the MAS, entailing a re-centering below the mid-point. IP data on Mon and PMI on 3 Oct will be closely watched as such. Daily momentum and stochastics are showing some short-term downside risks. Resistance is at 1.3650 (38.2% fibo retracement of the 2014 low to 2016 high); 1.3730 (200DMA). Support is at 1.35 (trend-line support) before 1.3350. We remain bias to buy on dips for a move above the 1.37 levels.	Exchange Rate	Easing Bias
USDMYR	USDMYR traded higher, reversing its move post-FoMC. Pair was last seen at 4.1350 levels. Focus on the OPEC meeting on the sidelines of the International Energy Forum (IEF) in Algeria (26 - 28 Sep), where the OPEC members are looking to revive oil production freeze. While there are hopes, expectation of a deal is not high as Iran remains keen to restore production to pre-sanction levels of 4mil. bpd. In the event of a rare deal being reached to cap production, we think commodity-linked currencies such as MYR could stand to benefit. Resistance remains at 4.1440 (50% fibo retracement of 2016 high to low) before 4.2170 (61.8% fibo). Support at 4.0980 (200 DMA), 4.0700 (38.2% fibo). Expect range of 4.07 - 4.17 for the 2 weeks ahead.	O/N Policy Rate	Easing Bias

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDIDR	1s USDIDR is currently hovering around the 13100-handle, helped by the BI's fifth 25bp cut to the policy rate (now at 5.0%) this year. Spot though continues to edge lower towards the 13000-figure. With credit growth lackluster, there is potential for the BI to move on its policy rate again this year, though our economic team expects another 25bp cut only next year. Disappointment with the tax amnesty-related inflows could put some near-term upside pressure on the 1s NDF as would against-the-wind activities on concerns of the impact of an overly strong currency on trade. Daily momentum and stochastics are indicating some downside pressure in the near term. Support is at 13035 (8 Sep low) before 12995 (year's low). Resistance is at 13190 (50DMA) ahead of 13290 (100DMA).	O/N Reference Rate	Easing Bias
USDPHP	1s USDPHP has traded mostly bid since end Aug, touching a new high for the year at 48.63 on 26 Sep, amid a deterioration in foreign investor confidence. Spot USDPHP also hit a new high of 48.435. This could be attributed to market concerns about the government's extra-judicial killings, policy flip-flops and the president's unpredictable temperament. The resultant sell-off in the equity market is putting upside pressure on the 1s NDF. So far in Sep, USD350.41mn in equities has been sold off by foreign funds. Anecdotal evidence suggests that foreign demand for debt has not matched equities and is unlikely to offset the downside pressure from the equity sell-off. The BSP did not provide much help as it kept its policy on hold at its 22 Sep meeting. With resistance level at the year's high has been taken out, new barrier is now around 49.20 levels. A break here could see the pair headed towards the 50-figure (a level not seen since Mar 2009). Any dips should find support around 47.50 (23.6% fibo of the 2015 low to 2016 high).	O/N Reverse Repo	Neutral
USDTHB	USDTHB is on the uptick after sliding lower for the past several sessions. Market will be eyeing the month-end data dump for further signs of economic recovery, starting with customs trade on 26 Sep. Lurking in the background though are concerns over the health of the aged King and the royal succession, which should keep the pair supported. Continued portfolio inflows on the back of improved investor sentiments have led foreign investors to purchase THB16.27mn and THB8.60bn in equities and government debt in the past two weeks. Daily chart shows mild bearish bias and stochastic continues to fall from overbought conditions. Resistance at 34.780 (50DMA); 34.950 (23.6% fibo retracement of the Jan-Aug downswing). The year's low at 34.490 should be supportive.	1-Day Repo Rate	Easing Bias
USDINR	1M USDINR NDF has come off considerably after the new MPC was formed and FinMin's projection that GST rates will be decided at the 17-19 Oct meeting. The GST Council fixes exemption threshold at INR2M and at INR1M for hilly states. The GST Council will decide on some draft rules on 30 Sep. While the GST system takes shape, Finance Minister Jaitley has also hinted for the new MPC to take the recent inflation print in consideration for its decision next Tue. In addition, import duty on wheat, CPO and refiner palm oils were also lowered last Fri (23 Sep) to keep prices in check ahead of Festive demand. With Urjit Patel assuring that growth is also part of the MPC mandate, it is clear that RBI is on an easing bias. While the recent inflation print has snapped the uptrend of inflation numbers seen since Apr, we think one print is not enough to convince us of a reversal. Hence, we do not think the RBI should cut at this point. From the charts, we see rangy moves in the week ahead within 66.80-67.30.	Policy Repo Rate	Easing Bias

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDVND	<p>USDVND is still stuck around 22300 but we still see mild upside risks for this pair. We expect USD strength and USDVND to be vulnerable to the upside. We are still concerned about FDI inflows that have been supporting the VND and industrial output momentum. The amount of FDI that is coming in has slowed to a trickle since Jul and remains so for Sep. At the same time, inflation continues to creep higher with Sep CPI higher at 3.34%/y vs. previous 2.57%, underpinned by a massive jump in education costs. At home, SBV has been accumulating FX reserves and the SBV reported USD40bn, positive for the dong but with import cover ratio at around 2.5, it is still considered inadequate relative to regional peers.</p>	Refinancing Rate	Easing Bias

Key Data and Events Ahead

Currency	26 Sep-2 Oct	3-9 Oct				
USDJPY	<ul style="list-style-type: none"> Mon: Leading Index (Jul F); BOJ Kuroda speaks (Osaka) Tue: BOJ Minutes (28-29 Jul meeting) Wed: - Nil - Thu: Retail Trade, Dept. Store Sales (Aug); BOJ Kuroda speaks (Security Association Conference) Fri: Jobless Rate, Overall Household Spending, CPI (Aug) Industrial Production (Aug P); BOJ Summary Of Opinion (20-21 Sep meeting) 	<ul style="list-style-type: none"> Mon: Tankan (3Q), Nikkei PMI (Sep F) Tue: - Nil - Wed: Nikkei PMI Services & Composite (Sep) Thu: BOJ Nakaso speaks Fri: Labor Cash Earning (Aug) 				
	USDCNY	<ul style="list-style-type: none"> Mon: - Nil - Tue: Industrial Profits (Aug) Wed: - Nil - Thu: Mfg and Non-mfg PMI (Aug) Fri: Caixin PMI Mfg (Sep); Current Account (2Q F) Sat: Mfg, Non-Mfg PMI (Sep) 	<ul style="list-style-type: none"> Mon: Public Holiday Tue: Public Holiday Wed: Public Holiday Thu: Public Holiday Fri: Public Holiday; Foreign Reserves (Sep) Sat: Caixin PMI Services & Composite, FDI (Sep) (due 8-18 Oct) 			
		USDKRW	<ul style="list-style-type: none"> Mon: Dept. Store Sales (Aug) (due 26-30 Sep) Tue: BOK Policy Meeting Minutes Wed: - Nil - Thu: - Nil - Fri: Business Survey Mfg, Non-Mfg (Oct), Industrial Production (Aug), Nikkei PMI Mfg (Sep) Sat: Trade (Sep) 	<ul style="list-style-type: none"> Mon: Public Holiday Tue: Current Account (Aug) Wed: CPI (Sep) Thu: Foreign Reserves (Sep) Fri: - Nil - Sat: - Nil - 		
			USDSGD	<ul style="list-style-type: none"> Mon: Industrial Production (Aug) Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: - Nil - 	<ul style="list-style-type: none"> Mon: PMI (Sep) Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: Foreign Reserves (Sep) 	
				USDMYR	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: - Nil - 	<ul style="list-style-type: none"> Mon: Public Holiday Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: Trade (Aug), Foreign Reserves (30 Sep)
USDIDR					<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: - Nil - 	<ul style="list-style-type: none"> Mon: Nikkei PMI Mfg, CPI (Sep); Foreign Reserves (Sep) (due 3-7 Oct) Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: - Nil -
					USDPHP	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: - Nil -
	USDTHB					<ul style="list-style-type: none"> Mon: Customs Trade (Aug) Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: Foreign Reserves (23 Sep), Trade (Aug), Current Account, Mfg Production Index (Aug)
		USDINR	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: Fiscal Deficit (Aug) 			<ul style="list-style-type: none"> Mon: Nikkei PMI Mfg (Sep) Tue: RBI Policy Meeting Wed: Nikkei PMI Services & Composite (Sep) Thu: - Nil - Fri: - Nil -
			USDVND	<ul style="list-style-type: none"> Mon: Trade (Sep), GDP (3Q), Retail Sales, Industrial Production (Sep) (due 25-30 Sep) Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: - Nil - 		<ul style="list-style-type: none"> Mon: Nikkei PMI Mfg (Sep) Tue: Domestic Vehicle Sales (Aug) (due 6-13 Sep) Wed: - Nil - Thu: Domestic Vehicle Sales (Sep) (due 6-13 Oct) Fri: - Nil -

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