

FX Asia Fortnightly

Central Bank Meetings In Focus

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AXJs could remain under pressure the next two weeks. There is a slew of US data releases in the next two weeks that may keep the USD buoyant, including FOMC (2 Aug), NFP (3 Aug), CPI (10 Aug). A hawkish Fed and strong data could keep the USD supported and weigh on the AXJs. Meanwhile, the RMB should remain under pressure given that the Sino-US trade disputes have not been resolved. We however cannot rule out some near term pullback in some of the USD/AXJs, including the USDSGD (to 1.3570-levels) and USDKRW (to 1111-levels) as reflected in the technical charts.

There are four central bank meetings in the next two weeks. BOJ is expected to hold policy steady on 31 Jul even though there are some market expectations of a policy tweak (not our base case) and a rebound in the USDJPY is likely. The RBI could deliver a 25bp hike at its meeting on 1 Aug, and a disappointment here could weigh on the INR. The BoT is expected to remain on hold for now at its meeting on 8 Aug and this inaction could keep the THB under pressure. A 25bp rate hike by BSP (on 9 Aug) appears imminent after the governor signaled for a “strong follow-through monetary adjustment”. This could provide some relief for the PHP.

Our in-house model implies that SGD NEER is trading 1.04% above the implied midpoint of 1.3779, suggesting it is on the stronger side of the SGD vs. other trading partner currencies.

Sell-Off In Thai Assets, THB Weakness Could Continue

The THB has been on the broad downtrend since Mar amid gains in the USD on Fed fund rate hike expectations. The THB has weakened by around 1.5% against the USD - the worst performer among its ASEAN peers. One of the reasons for this sell-off in the THB against the USD is the widening yield differentials between 2Y UST and Thai bond since Mar on expectations of more rapid Fed rate hikes and the BoT to hold rates steady this year. These expectations lifted short-end UST yields while holding Thai bond yields relatively steady and in turn, widened the gap between the 2Y UST and Thai bond, buoying the USDTHB. At the same time, there has been profit-taking in the equity markets since 2017 on domestic structural headwinds and market concerns over escalating trade war between China and US. Not surprisingly, the higher returns on US assets have spurred a re-allocation away from low paying Thai assets. This net sell-off in Thai assets should continue so long as these structural headwinds are not addressed and the gap between UST and Thai bond yield continue to widen on Fed/BoT rate hike expectations. At the same time, foreign investors could remain on the sideline ahead of the Thai general elections, expected in 1Q 2019. We remain bias to buy the USDTHB in the next three- to nine-months.

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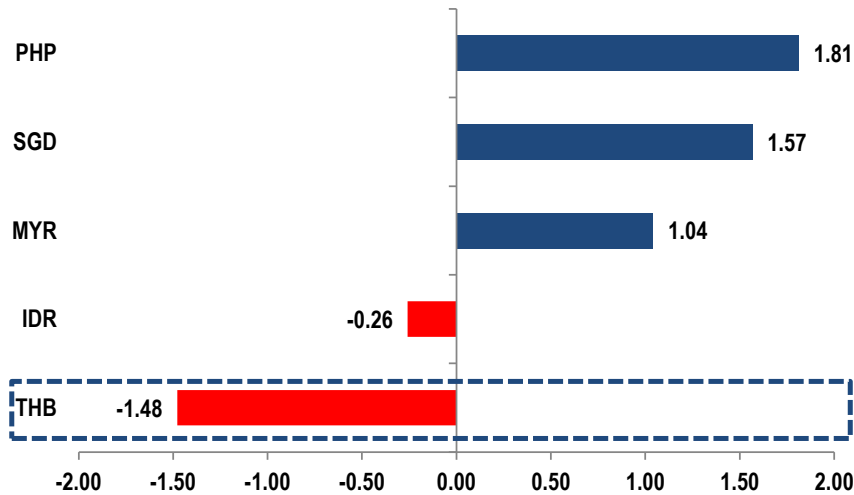
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Flavour of the Week: What Keeps The USDTHB Ticking Higher?

- The THB had started the year strong, rising 0.77% against the USD on optimism over its economy. However, the THB has been on the broad downtrend since Mar amid gains in the USD on Fed fund rate hike expectations. The THB has weakened by around 1.5% against the USD - the worst performer among its ASEAN peers (Chart 1).

Chart 1: THB Has Performed Poorly Since Mar

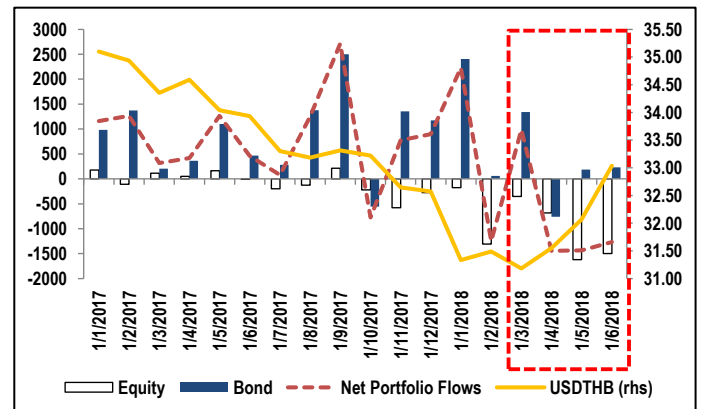
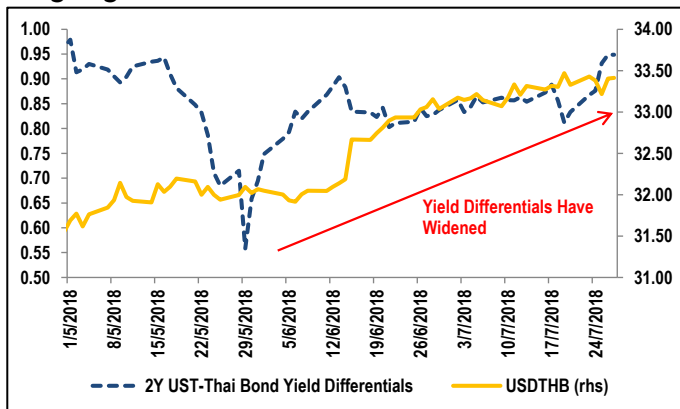


Period: 1 Mar - 26 Jul 2018

Source: Bloomberg, Maybank FX Research & Strategy

- One of the reasons for this sell-off in the THB against the USD is the widening yield differentials between 2Y UST and Thai bond since May as can be seen in Chart 2 on the left. As the Fed lifted its rates higher, market were speculating at that point in time of a more aggressive Fed for the rest of the year underpinned by strong US data. Meanwhile, the BoT is not expected to normalise its policy rate any time soon to support the economy. These expectations lifted short-end UST yields, while holding Thai bond yields steady and in turn, widened the gap between the 2Y UST and Thai bond, buoying the USDTHB. Consequently, the USDTHB climbed from the 31-levels to above 33 currently.

Chart 2: Widening Yield Differentials Between 2Y UST And TH Bonds Weighing On Asset Demand & THB



Source: Bloomberg, Maybank FX Research & Strategy

- At the same time, there has been profit-taking in the equity markets since 2017 after strong foreign inflows of USD2.24bn for the whole of 2016. This profit-taking reflects investor belief that the economy is facing domestic structural headwinds that includes hollowing out of industries, ageing demographics and rising leverage. In addition, market concerns over escalating trade war between China and US given its relatively export-dependent economy, also weigh on Thai assets.
- Not surprisingly, the higher returns from holding US assets have spurred a re-allocation away from low paying Thai assets. This is reflected in the net foreign portfolio outflows from Thai assets. Year-to-date, foreign investors have sold USD6.02bn in equities, which more than offset their purchase of USD3.34bn in debt.
- We expect this net sell-off in Thai assets to continue as long as these structural headwinds are not addressed and the gap between UST and Thai bond yield continue to widen on Fed/BoT rate hike expectations. At the same time, foreign investors could remain on the sideline ahead of the Thai general elections, expected in 1Q 2019. We remain bias to buy the USDTHB in the next three- to nine-months.

Key Data and Events Ahead

	30 Jul-5 Aug	6-12 Aug
	<ul style="list-style-type: none"> Mon: Retail Sales (Jun P) Tue: Jobless Rate, Industrial Production, Housing Starts (Jun), BOJ Policy Balance Rate, BOJ Outlook Report 	<ul style="list-style-type: none"> Mon: - Nil - Tue: Household Spending, Labour Cash Earnings (Jun)
Japan	<ul style="list-style-type: none"> Wed: Nikkei PMI Mfg (Jul F) Thu: BOJ Amamiya Speaks (Kyoto) Fri: Nikkei PMI Services & Composite (Jul), BOJ Minutes of 14-15 Jun Policy Meeting 	<ul style="list-style-type: none"> Wed: Current Account (Jun) Thu: Core Machine Orders (Jun), Machine Tool Orders (Jul) Fri: PPI (Jul), GDP (2Q P), Tertiary Industry Index (Jun)
China	<ul style="list-style-type: none"> Mon: - Nil - Tue: Mfg & Non-Mfg, Composite PMI (Jul) Wed: Caixin PMI Mfg (Jul) Thu: - Nil - Fri: Caixin PMI Composite & Services (Jul) 	<ul style="list-style-type: none"> Mon: Current Account (2Q P) Tue: Foreign Reserves (Jul) Wed: Trade, FDI (Jul) Thu: CPI, PPI (Jul) Fri: Money Supply, Aggregate Financing, New Yuan Loan (Jul)
	<ul style="list-style-type: none"> Mon: - Nil - Tue: Business Survey Mfg & Non-Mfg (Aug), Industrial Production (Jun) 	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil -
South Korea	<ul style="list-style-type: none"> Wed: CPI, Trade, Nikkei PMI Mfg (Jul) Thu: - Nil - Fri: Foreign Reserves (Jul), Current Account (Jun) 	<ul style="list-style-type: none"> Wed: - Nil - Thu: - Nil - Fri: - Nil -
Singapore	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: PMI (Jul) Fri: Nikkei PMI (Jul) 	<ul style="list-style-type: none"> Mon: - Nil - Tue: Foreign Reserves (Jul) Wed: GDP (2Q F), Retail Sales (Jun) (due 8-14 Aug) Thu: Public Holiday Fri: - Nil -
	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - 	<ul style="list-style-type: none"> Mon: - Nil - Tue: Foreign Reserves (31 Jul)
Malaysia	<ul style="list-style-type: none"> Wed: Nikkei PMI (Jul) Thu: - Nil - Fri: Trade (Jun) 	<ul style="list-style-type: none"> Wed: - Nil - Thu: - Nil - Fri: Industrial Production (Jun)
Indonesia	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - Wed: CPI, Nikkei PMI (Jul) Thu: - Nil - Fri: - Nil - 	<ul style="list-style-type: none"> Mon: GDP (2Q) Tue: Foreign Reserves (Jul) Wed: Public Holiday Thu: Public Holiday Fri: Current Account (2Q)
	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil - 	<ul style="list-style-type: none"> Mon: - Nil - Tue: CPI, Foreign Reserves (Jul)
Philippines	<ul style="list-style-type: none"> Wed: Nikkei PMI Mfg (Jul) Thu: - Nil - Fri: - Nil - 	<ul style="list-style-type: none"> Wed: Trade (Jun) Thu: GDP (2Q), BSP Overnight Borrowing Rate Fri: - Nil -
	<ul style="list-style-type: none"> Mon: Public Holiday Tue: Trade, Current Account (Jun) 	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil -
Thailand	<ul style="list-style-type: none"> Wed: CPI, Nikkei PMI Mfg (Jul) Thu: - Nil - Fri: Foreign Reserves (27 Jul) 	<ul style="list-style-type: none"> Wed: BoT Benchmark Interest Rate Thu: - Nil - Fri: Foreign Reserves (3 Aug)
	<ul style="list-style-type: none"> Mon: - Nil - Tue: Fiscal Deficit (Jun) 	<ul style="list-style-type: none"> Mon: - Nil - Tue: - Nil -
India	<ul style="list-style-type: none"> Wed: RBI Repurchase Rate Thu: - Nil - Fri: Nikkei PMI Services & Composite (Jul) 	<ul style="list-style-type: none"> Wed: - Nil - Thu: - Nil - Fri: Industrial Production (Jul)
	<ul style="list-style-type: none"> Mon: Trade, CPI, Industrial Production, Retail Sales (Jul - due 30-31 Jul) 	<ul style="list-style-type: none"> Mon: Domestic Vehicle Sales (Jul - due 6-13 Aug)
Vietnam	<ul style="list-style-type: none"> Tue: - Nil - Wed: Nikkei PMI Mfg (Jul) Thu: - Nil - Fri: - Nil - 	<ul style="list-style-type: none"> Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: - Nil -

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