

FX Asia Fortnightly

AXJ Slips Lower

AXJ Lower In Response To Dollar Bounce

The AXJs reacted negatively to the comments by US Fed Chair Yellen and Vice-Chair Fischer in the past week that reignited expectations of a rate hike in 2016. USD/AXJs bounced higher as market unwound their short positions in anticipation of a near-term US rate adjustment. The worst performers since Jackson Hole were the KRW, MYR, IDR and TWD, which fell 1.0%, 0.7%, 0.42% and 0.2% respectively against the dollar from their Fri close. Meanwhile, the USDSGD was dragged higher by the move back above the 102-levels in the USDJPY. We anticipate further weakness in the AXJs in the lead-up to US NFP on 2 Sep. However, beyond that, moves in the USD/AXJs would depend on whether US NFP comes in within expectations (cons.: 180k).

Expectations of BOJ Moves Lift USDJPY

The USDJPY also rebounded back above the 102-levels over the weekend after hovering around the 100-levels for the past several sessions. The comments by BOJ governor Kuroda at Jackson Hole, where he reiterated that the central bank had ample space for additional easing in the BOJ's toolkit of asset buying, monetary-base expansion and negative interest rates, has raised expectations of further easing moves by the BOJ at its 20-21 policy meeting. This reinforces our view that the BOJ could expand its asset purchase program to JPY10tn, its monetary base to JPY100tn and cut the interest rate to -0.3%. We are bias to long USDJPY.

BNM, BOK On Hold

We have BNM and BOK monetary policy meetings in the week after. BNM meets on 7 Sep and the BOK on 9 Sep. Both are expected to remain on hold. The BOK is looking for a clearer economic trajectory before deciding on its next move, while the BNM is likely to want to assess the impact of its 25bp rate cut in Jul on the economy. Aside from the two central bank meeting, we also have GDP for Korea due on 2 Sep.

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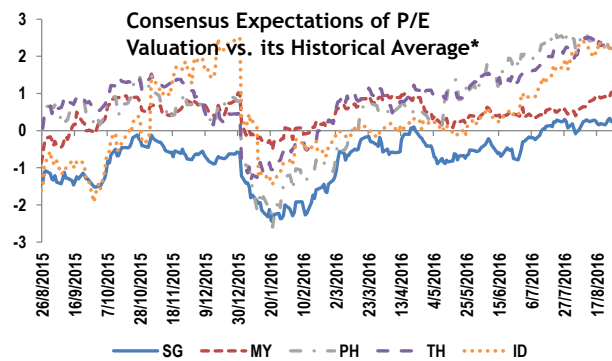
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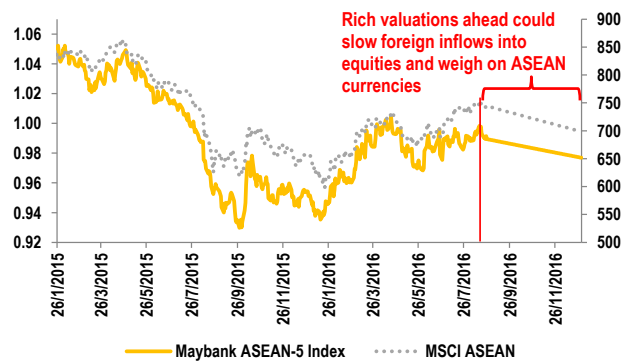
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Flavour of the Month: Rich Valuations Suggest Foreign Inflows Into Equities May Be More Moderate

Valuations Expected To Be Rich Ahead...



...And Could Weigh On ASEAN Currencies



Notes: * Consensus P/E Valuations estimates for 2017; positive number means that the current valuation is greater than its 5-year average and vice-versa

** Maybank ASEAN-5 Index consists of Indonesia, Philippines, Malaysia, Singapore and Thailand and is equally weighted

Source: CEIC, Maybank FX Research

- Foreign inflows have kept the ASEAN currencies supported against the dollar. Year-to-date (to Aug), Indonesia, Malaysia, Philippines and Thailand have received USD3.04bn, USD0.27bn (to Jul), USD1.21bn and USD3.07bn into local equities. Singapore does not provide details of foreign inflows into equities.
- However, such inflows could slow. An examination of price-earnings (PE) ratio estimates for 2017 of each ASEAN country suggest that ratios in each country are higher than their 5-year averages. The rich valuations do not bode well for future equity inflows.
- Instead, inflows into ASEAN could be more selective. Singapore's PE ratio relative to its historical average is lower than its peers but this is unlikely to be attractive enough to spur inflows as there are concerns regarding its domestic and external challenges that put earnings under pressure, while domestic factors are concerns for Malaysian equities.
- Philippines' strong fundamentals could see some foreign inflows into the equity space but the dominance of a handful of large companies is unlikely to encourage significant inflows into the stock market. Thailand's relatively rich valuations following the strong inflows to date could see further foreign investment in the equity market slow ahead.
- Indonesia's valuation is one of the highest in the region but could still attract foreign investor attention given its confluence of positive factors including strong fundamentals and expectations of inflows from the tax amnesty bill. There could still be inflows into the equity market in the medium term.
- The analysis suggests that inflow into equity markets in ASEAN could slow ahead as a result of the rich valuations. This together with expectations of a resumption in US Fed fund rate hike in 2016 and into 2017 is likely to weigh on the ASEAN-5 currencies ahead.

2016/2017 Asia FX Forecasts

	End 3Q-16	End 4Q-16	End 1Q -17	End 2Q -17
USDJPY	110	112	112	114
USDSGD	1.3500	1.3550	1.3700	1.3700
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	1165	1170	1180	1180
USDINR	65.00	66.00	67.00	67.00
USDVND	22400	22600	22700	22800
SGD Crosses	End 3Q-16	End 4Q-16	End 1Q -17	End 2Q -17
SGDMYR	2.963	2.952	2.883	2.883
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	16.25	16.50	16.96	16.96

Source: Maybank FX Research as at 29 Aug 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	After hovering around the 100-levels for the past week or so, the USDJPY has rebounded above the 102-levels following comments made by BOJ governor Kuroda at Jackson Hole that there remains ample space for additional easing in the BOJ's toolkit of asset buying, monetary-base expansion and negative interest rates. This raised expectation of further BOJ easing measures that should follow after the comprehensive review of the easing measures to date is completed at its Sep meeting. We could get further policy clarity from Kuroda when he speaks at a Kyodo News event on 5 Sep. Dollar uptick on expectations of a Fed move this year, possibly in Sep, is also supporting the pair higher. A break of the upper bound of its current downtrend channel at 102.60 levels could expose the next barrier at 105.60 (100DMA). Support at 100 levels before 99 levels.	Monetary Base	Easing
USDCNH	USDCNH broke out of the 6.62-6.67-range to the upside after Fed Yellen and Fischer signaled rate hikes. Ever sensitive to Fed hike expectations, expect this pair to hold a bid tone for much of Sep, last seen around 6.6880. Barrier is seen at 6.7220 before the next at 6.7620. We are back to the start of the month during which most of the monthly data are due. In the past few weeks, we have seen significant price pressures amongst properties in tier one cities and we continue to expect PBoC to supply liquidity via ad-hoc measures and not via broad-based methods like interest rate cut or RRR. Meanwhile, there has been whispers of a debt-to-equity swap plan coming up. The devil is always in the details and that could really mean a difference between more deleveraging or more moral hazard and risk taking. The G20 Summit in Hangzhou will also be watched.	1-Yr Lending Rate	Easing Bias

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDKRW	Expect unwinding of USDKRW short as markets re-positioned post-Jackson Hole for Fed rate hike, possibly as early as in Sep. US NFP data will be key to watch this Fri to see if upside momentum is sustained further. Pair was last seen at 1124 levels. Daily momentum is indicating a mild bullish bias. Mild bullish momentum on daily chart remains intact while stochastics is entering near overbought conditions. Upside risks towards 1130, 1140 levels cannot be ruled out in the meantime. Support at 1110 (21 DMA).	Base Rate	Easing Bias
USDSGD	USDSGD is trading bid, tracking the USDJPY higher following comments by BOJ governor Kuroda at Jackson Hole. Further support from signals by both Fed Chair Yellen and Vice-Chair Fischer that reignited Fed rate hike expectations. Continue weakness domestically, as reflected in the contraction in Jul's IPI, suggests that the SGD is unlikely to get any lift from domestic factors as well. Pair has rebounded above the 1.36-levels to 1.3615 currently and momentum indicators are signaling further upside bias ahead. With our barrier at 1.3350-1.3600 levels taken out, new resistance level is at 1.3770 (200DMA). Support at 1.1.3485 (50DMA).	Exchange Rate	Easing Bias
USDMYR	Likely to trade with a bid tone after Yellen, Fischer's comments last Fri, which somewhat re-ignited Fed rate hike expectation. Pair last seen at 4.0420 levels. Daily momentum is mild bullish bias. Resistance at 4.0500 (upper bound of the downward sloping trend channel formed since Jun 2016), 4.0720 (38.2% fibo), before 4.1080 (200 DMA). We look for opportunity on the move up to fade into. Support at 3.9850 (23.6% fibo retracement of 2016 high to low), before 3.95 levels.	O/N Policy Rate	Easing Bias
USDIDR	1s USDIDR has been on the uptick for the past couple of sessions in anticipation of a Fed rate hike this year. Rate hike signals from both Fed Chair Yellen and Vice-Chair Fischer continues to keep the 1s NDF elevated. Consequently, foreign funds have removed IDR6.63tn from their outstanding holding of government debt on 23-25 Aug. This has kept 10-year yield elevated above 7.0% at 7.131% at the point of writing - a level not seen since Jul. This should help to keep the IDR supported ahead. Daily and weekly charts continue to show bullish momentum. Resistance level at 13340 has been taken out and new barrier is at 13430 (50% fibo retracement of the May-Aug downswing). Support is at 13200 levels (21 & 50DMAs).	O/N Reference Rate	Easing Bias
USDPHP	1s USDPHP has been trading in a wide range within 46.15-46.70 for the past couple of sessions as market awaits the Fed's next move. This has led foreign investors to sell-off nearly USD150mn in equities over the past two weeks that has put upward pressure on the 1s NDF. Still, the return of investor confidence following the smooth transition to the Duterte administration and its continuation of pro-business, pro-foreign investment policies should mitigate some of these upside pressures. Daily momentum indicator is exhibiting waning bearish momentum, while weekly chart is showing downside risks. This suggests that the grind higher for the 1s NDF could gradual. We look for topside to meet resistance at 46.70 (38.2% fibo retracement of the 2015-2016 upswing, 21DMA). Support is at 46.20 levels (50% fibo).	O/N Reverse Repo	Neutral

Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
USDTHB	USDTHB has been trading within its familiar range of 34.500-34.800 in the absence of fresh catalyst after coming off from above the 35-levels following the passage of the draft constitution at the beginning of the month. Domestic macroeconomic indicators out this week, including trade and current account balance, are unlikely to provide any new impetus to the pair. Daily chart is showing very mild bullish momentum, though weekly chart remains very mildly bearish bias. In the absence of clear directional cues, look for the pair to remain in two-way trades within current range of 34.500-34.800 in the next two weeks.	1-Day Repo Rate	Easing Bias
USDINR	1M USDINR NDF is set to be less vulnerable to the upside compared to the rest of the USDAXJs. RBI had revealed a number of currency and debt market to enhance market participation and liquidity. The key few include allowing brokers authorized market makers to participate in the corporate bond repo market, FPI to trade in corporate bonds directly. In addition, entities exposed to exchange rate can undertake hedge transactions up to a limit of USD30mn. The above measures may increase the demand and depth of the corporate bond market. 1M NDF is seen at 67.14. Urjit Patel was named as the new RBI Governor. He is seen as an inflation hawk and is expected to continue the good works of Rajan. Key concern in the market is the deposits of non-residence (that was raised to combat the outflow in 2013) that could be taken out in the next four months. RBI has estimated the amount of outflow to be around USD20mn. That should keep the USDINR supported on dips. However, we suspect RBI has been readying itself and the fact that it has not broken 67-figure suggests that the central bank has bought USD to keep the rupee steady in the next four months. Technically, we still see a double top at 68.67 with a potential target of 58 in the medium term. That is flagged by the monthly chart with momentum indicators turning lower.	Policy Repo Rate	Easing Bias
USDVND	USDVND is still stuck around 22300. We expect the USD to see some strength in the next month 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. FDI inflows have been slowing which suggests fewer buffers for VND. At the same time, inflation has been creeping higher and the window for further monetary easing seems to be narrowing. Aug CPI came in higher at 2.57%/y vs. previous 2.39%. At home, SBV has been accumulating FX reserves, positive for the dong but with import ratio still slightly above 2, it is inadequate. Nonetheless, a lack of USD strength suggests that USDVND can remain around 22300 for the next two weeks.	Refinancing Rate	Easing Bias

Key Data and Events Ahead

Currency	29 Aug-4 Sep	5-11 Aug
USDJPY	• Mon: - Nil -	• Mon: BOJ Kuroda speaks
	• Tue: Overall Household Spending (Jul); Retail Sales (Jul)	• Tue: Machine Tool Orders (Jul P)
	• Wed: Industrial Production (Jul P); Housing Starts (Jul); BOJ Funo speaks	• Wed: Machine Orders (Jun); PPI (Jul); Tertiary Industry Index (Jun)
	• Thu: Capital Spending (2Q); Nikkei PMI Mfg (Aug F)	• Thu: BOJ Nakaso speaks
	• Fri: - Nil -	• Fri: - Nil -
USDCNY	• Mon: - Nil -	• Mon: Caixin PMI Services & Composite (Aug)
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: Foreign Reserves (Aug)
	• Thu: Mfg and Non-mfg PMI (Aug)	• Thu: Trade (Aug)
	• Fri: Caixin PMI Mfg (Aug)	• Fri: CPI (Aug)
	• Sat:	• Sat: Aggregate Financing, New Yuan Loans, Money Supply (Aug) (due 10-15 Sep)
USDKRW	• Mon: - Nil -	• Mon: Foreign Reserves (Aug)
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: Industrial Production (Jul)	• Wed: - Nil -
	• Thu: CPI (Aug); Current Account (Jul); Trade (Aug); PMI Mfg (Aug)	• Thu: Bank Lending To Households (Jul)
	• Fri: GDP (2Q)	• Fri: BoK 7-Day Repo Rate
USDSGD	• Mon: - Nil -	• Mon: Nikkei PMI (Aug)
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: Foreign Reserves (Aug)
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: PMI (Aug)	• Fri: - Nil -
USDMYR	• Mon: Nikkei PMI Mfg (Jul)	• Mon: - Nil -
	• Tue: - Nil -	• Tue: Foreign Reserves (30 Aug)
	• Wed: Public Holiday	• Wed: Trade (Jul); BNM Overnight Policy Rate
	• Thu: Nikkei PMI (Aug)	• Thu: - Nil -
	• Fri: - Nil -	• Fri: Industrial Production (Jul)
USDIDR	• Mon: - Nil -	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: Nikkei PMI (Aug); CPI (Aug); Foreign Reserves (Aug) (due 1-7 Sep)	• Thu: - Nil -
	• Fri: - Nil -	• Fri: - Nil -
USDPHP	• Mon: Public Holiday	• Mon: - Nil -
	• Tue: - Nil -	• Tue: CPI (Aug)
	• Wed: - Nil -	• Wed: Foreign Reserves (Aug)
	• Thu: Nikkei PMI Mfg (Aug)	• Thu: - Nil -
	• Fri: - Nil -	• Fri: Unemployment rate, Exports (Jul)
USDTHB	• Mon: Mfg Production Index (Jul) (due 29-31 Aug)	• Mon: - Nil -
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: Trade (Jul); Current Account Balance (Jul)	• Wed: - Nil -
	• Thu: Nikkei PMI Mfg (Aug); CPI (Aug)	• Thu: - Nil -
	• Fri: Foreign Reserves (26 Aug)	• Fri: Foreign Reserves (2 Sep)
USDINR	• Mon: - Nil -	• Mon: Public Holiday; Nikkei PMI Services & Composite (Aug); Current Account Balance (2Q) (due 5-30 Sep)
	• Tue: - Nil -	• Tue: - Nil -
	• Wed: Fiscal Deficit (Jul); GDP (2Q)	• Wed: - Nil -
	• Thu: Nikkei PMI Mfg (Aug)	• Thu: - Nil -
	• Fri: - Nil -	• Fri: Trade (Aug) (due 9-15 Sep)
USDVND	• Mon: Retail Sales (Aug) (due 26-31 Aug)	• Mon: - Nil -
	• Tue: - Nil -	• Tue: Domestic Vehicle Sales (Aug) (due 6-13 Sep)
	• Wed: - Nil -	• Wed: - Nil -
	• Thu: - Nil -	• Thu: - Nil -
	• Fri: Public Holiday	• Fri: - Nil -

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