

## FX Asia Fortnightly

# Are Asian FXs Poised For Weakness?

### Downside Risk To Asian FX?

We have seen UST yields and the USD rebound towards the end of Aug. Market though could be underpricing risk of further upside to UST yields and USD with upside surprises from US data, including US NFP on 1 Sep, could see UST yields and USD further supported in the two weeks ahead. With USD bulls potentially on the prowl, further weakness in Asian FX in the next two weeks cannot be ruled out especially ahead of US FOMC on 21 Sep. Eyes will also be on ECB meeting on 7 Sep where a failure by the ECB to elaborate on any QE tapering could drag the EUR lower and support the USD higher. Asian currencies that have gained the most in Aug like the JPY and SGD could see their fortunes turned in the next two weeks. Rebound risks for USDJPY and USDSGD towards 111.20 and 1.3650 levels respectively. PHP, which has been the worst performing currency in Aug, could see its 1-month USDPHP NDF slip lower towards 51.20 levels.

### SGD Now Tracks The CNY Again

The USDSGD now appears to track moves in the USDCNY with a rise in the USDCNY seeming lifting the USDSGD along with it. Our OLS regression result, controlling for the other effects like the JPY and MYR for two time periods (namely Jan-Apr and May-Aug) showed that prior to May, the USDCNY did not impact the USDSGD significantly. However, since May, the impact has become significant with a 1% rise in the USDCNY results in a 0.53% move in the USDSGD. The larger impact from the USDCNY on the USDSGD could have due to the change initiated by the PBoC to its yuan fixing formula - the addition of a counter-cyclical factor. This change was meant to soften the impact of sharp market swings, and weaken possible 'herd effects' in the FX market. This move should keep the yuan stable, though more likely than not, the yuan should strengthen against its basket of currencies. Given the high weightage of the CNY in the SGD NEER basket (because of the strong trade and financial links between China and Singapore), it is unsurprising that the strengthening CNY against the USD should also lift the SGD higher. The SGD NEER was last seen 0.51% above the mid-point implied at 1.3659.

### BNM meets; Japan GDP; China Data-Dump

Only central bank meeting in the two weeks ahead is BNM on 7 Sep but we expect the central bank to hold the overnight policy rate steady at 3.0%. We also have Nikkei PMI prints for Japan, Singapore, Malaysia, Indonesia and Philippines in the week of 4 Sep. Other key data eyed includes China Caixin PMI services & composite (Aug), Philippines CPI (Aug) on 5 Sep; Japan labor cash earnings (Jul), Malaysia trade (Jul) on 6 Sep; Japan 2Q GDP on 8 Sep; Japan machine order, tertiary industry index (Jul), machine tool orders (Aug P), Malaysia industrial production (Jul) on 11 Sep; Philippines trade (Jul), India CPI (Aug), industrial production (Jul) on 12 Sep; Japan industrial production, capacity utilization (Jul), China retail sales, FAI (urban), industrial production (Aug) on 14 Sep; Indonesia trade (Aug), Philippines overseas remittances (Jul) on 15 Sep. Vietnam is out for a public holiday on 4 Sep.

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## Flavour of the Week: What's Holding Back The USDSGD?

- In recent days, we have seen the USDSGD oscillate from a recent high of 1.3690 (16 Aug) to a new 2017 low of 1.3507 (on 29 Aug - a low not seen since 9 Sep 2016). This swing can be attributed to concerns over geopolitical stability following North Korea's missile launches, policy uncertainty in the US, and US data performances.
- Previously, the USDSGD had tracked USDJPY moves but since May this year, the correlation between the two has apparently broken down. Instead, the USDSGD now appears to track moves in the USDCNY (chart 1). A rise in the USDCNY seems to lift the USDSGD along with it.
- To investigate the impact of a move in the USDCNY on the USDSGD, we ran a simple regression using OLS, controlling for the effects of other currencies like the JPY and MYR and for two time periods (namely Jan-Apr and May-Aug). The result (using daily data) showed that prior to May, the USDCNY did not impact the USDSGD significantly. However, since May, the impact has become significant with a 1% rise in the USDCNY resulting in a 0.53% move in the USDSGD.

Chart 1: USDSGD Tracks USDCNY



Source: Bloomberg, Maybank FX Research & Strategy

- The larger impact from the USDCNY on the USDSGD could have been due to the change initiated by the PBoC to its yuan fixing formula - the addition of a “counter-cyclical factor”. This change was meant to soften the impact of sharp market swings, and weaken possible ‘herd effects’ in the FX market. This move should keep the yuan stable, though more likely than not, the yuan should strengthen against its basket of currencies.
- Given the high weightage of the CNY in the SGD NEER basket (because of the strong trade and financial links between China and Singapore), it is not surprising that the strengthening CNY against the USD should also lift the SGD higher. The SGD NEER was last seen 0.51% above the mid-point implied at 1.3659.

## 2017/2018 Asia FX Forecasts

	End 3Q -17	End 4Q-17	End 1Q-18	End 2Q-18
<b>USDJPY</b>	112	115	115	117
<b>USDSGD</b>	1.3500	1.3500	1.3600	1.3650
<b>USDMYR</b>	4.25	4.28	4.30	4.25
<b>USDIDR</b>	13350	13400	13450	13450
<b>USDTHB</b>	33.50	34.00	34.00	34.30
<b>USDPHP</b>	51.50	52.00	52.00	51.80
<b>USDCNY</b>	6.65	6.60	6.63	6.58
<b>USDKRW</b>	1150	1160	1170	1180
<b>USDINR</b>	64.80	63.00	62.50	64.00
<b>USDVND</b>	22760	22760	22730	22780
<b>SGD Crosses</b>	<b>End 1Q -17</b>	<b>End 2Q -17</b>	<b>End 3Q -17</b>	<b>End 4Q-17</b>
<b>SGDMYR</b>	3.148	3.167	3.162	3.114
<b>MYR Crosses</b>	<b>End 1Q -17</b>	<b>End 2Q -17</b>	<b>End 3Q -17</b>	<b>End 4Q-17</b>
<b>MYRCNY</b>	1.56	1.54	1.54	1.55
<b>MYRIDR</b>	3141	3135	3128	3165
<b>MYRINR</b>	15.25	14.74	14.53	15.06

Source: Maybank FX Research as at 31 August 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
<b>USDMYR</b>	USDMYR traded lower for the month but trading range remains subdued and confined to 4.2640 - 4.2990. Pair was last seen at 4.2710 levels. Daily momentum is mild bearish bias but stochastics shows tentative signs of turning from near-oversold conditions. We do not rule out near term rebound towards 4.28-4.29 levels but bias remains to lean against strength. Next firm support at 4.25 levels.	O/N Policy Rate	Neutral
<b>USDSGD</b>	USDSGD traded to a new 2017 low of 1.3507 (28 Aug) but has since bounced higher back towards the 1.36 levels amid a rebound in UST yields and USD. Last seen around 1.3594 levels, pair shows no strong bias in either direction, while stochastics is tentatively turning higher. Weekly chart continues to suggest further downside ahead, though MACD is waning and stochastics remains overstretched. This suggests that risk is tilting to the upside and the pair could see further upside in the two weeks ahead. Next resistance is around 1.3610 (21DMA), 1.3640 (38.2% fibo retracement of the Jul high to Aug low), 1.3650 (38.2% fibo) and 1.3680 (50DMA, 50% fibo). Support remains at the new 2017 low of 1.3507.	Exchange Rate	Tightening

## Asian FX Directional Bias (Cont'd)

	Stories of the Week	Policy Measure	Policy Direction/Bias
<b>USDIDR</b>	1m USDIDR NDF has been trading within the confines of 13360-13420 for the past two month. The 25bp rate cut to 4.50% by the BI on 22 Aug was largely seen as a one-off move and that further cuts might not be forthcoming, thus providing little impetus of moves by the 1m NDF in either direction. In addition, the 1m NDF was supported by the sell-off of USD220mn and IDR18tn in equities and debt. Further outflows should keep the 1m NDF supported. Price action is bias to the downside. Daily momentum indicators show bearish bias and stochastics falling towards oversold conditions. Resistance is at 13400 (50% fibo retracement of the 2017 high to low), 13445 (61.8% fibo). Support is around 13360 (100DMA), 13340. Focus in the two weeks ahead will be on CPI (Aug) on 4 Sep and trade (Aug) on 15 Sep.	<b>7-Day Reverse Repo Rate</b>	<b>Easing</b>
<b>USDPHP</b>	1m USDPHP NDF has consolidated lower after trading to a new multi-year high of 51.85 (16 Aug). 1m NDF has since eased lower into the end of the month on the back of BSP warnings of intervention to deter speculators. 1m NDF was also supported by outflows from equities with foreign investors selling USD6.3mn in equities the past two weeks. Price action though appears to indicate bearish bias with both MACD and stochastics tilted lower. This suggests risks are pointed to the downside currently. Support is around 51.20 (38.2% fibo retracement of the Aug low to high, 21DMA) before the 51-handle (50% fibo). Immediate resistance is around 51.50 (23.6% fibo), 51.65. Resistance is at 51.80, 51.90 levels. Support is 51.50.	<b>O/N Reverse Repo Rate</b>	<b>Neutral</b>
<b>USDTHB</b>	USDTHB has traded in a tight range within the confines of 33.100-33.380 for the past two weeks. 2017 low was seen at 33.144 (29 Aug) before bouncing mildly higher. For the past two weeks, foreign funds have sold THB2.43bn and THB11.97bn in equities and debt, supportive of the pair. Technical indicators continue to signal some signs of consolidation with the daily momentum indicators showing waning bullish momentum and stochastics falling towards oversold conditions. Weekly momentum indicators though show waning bearish bias and stochastics in oversold conditions. In the absence of fresh directional cues, pair should remain in consolidative trades within 33.100-33.380 range in the two weeks ahead. A break in either direction could see the pair trade in a wider 32.770-34.000 range ahead.	<b>1-Day Repo Rate</b>	<b>Neutral</b>

## Key Data and Events Ahead

Currency	4-10 Sep	11-17 Sep
	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: Machine Order, Tertiary Industry Index (Jul), Machine Tool Orders (Aug P)</li> </ul>
USDJPY	<ul style="list-style-type: none"> <li>Tue: Nikkei PMI Services &amp; Composite (Aug)</li> <li>Wed: Labor Cash Earnings (Jul)</li> <li>Thu: - Nil -</li> <li>Fri: Current Account (Jul), GDP (2Q F)</li> </ul>	<ul style="list-style-type: none"> <li>Tue: - Nil -</li> <li>Wed: PPI (Aug)</li> <li>Thu: Industrial Production, Capacity Utilization (Jul)</li> <li>Fri: - Nil -</li> </ul>
USDCNY	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: Caixin PMI Services &amp; Composite (Aug)</li> <li>Wed: - Nil -</li> <li>Thu: Foreign Reserves (Aug)</li> <li>Fri: Trade (Aug), FDI (Aug; due 8-18 Sep)</li> <li>Sat: CPI (Aug)</li> <li>Sun: Money Supply, New Yuan Loans, Aggregate Financing (Aug; due 10-15 Sep)</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: Retail Sales, FAI (Urban), Industrial Production (Aug)</li> <li>Fri: - Nil -</li> <li>Sat: - Nil -</li> <li>Sun: - Nil -</li> </ul>
USDKRW	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: Foreign Reserves (Aug), Current Account (Jul)</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: Unemployment Rate (Aug)</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>
USDSGD	<ul style="list-style-type: none"> <li>Mon: PMI (Aug)</li> <li>Tue: Nikkei PMI (Aug)</li> <li>Wed: - Nil -</li> <li>Thu: Foreign Reserves (Aug)</li> <li>Fri: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: Retail Sales (Jul)</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>
USDMYR	<ul style="list-style-type: none"> <li>Mon: Nikkei PMI (Aug)</li> <li>Tue: - Nil -</li> <li>Wed: Trade (Jul), Foreign Reserves (30 Aug)</li> <li>Thu: BNM Overnight Policy Rate</li> <li>Fri: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: Industrial Production (Jul)</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>
USDIDR	<ul style="list-style-type: none"> <li>Mon: CPI, Nikkei PMI Mfg (Aug)</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: Foreign Reserves (Aug)</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: Trade (Aug)</li> </ul>
USDPHP	<ul style="list-style-type: none"> <li>Mon: Nikkei PMI Mfg (Aug)</li> <li>Tue: CPI (Aug)</li> <li>Wed: - Nil -</li> <li>Thu: Foreign Reserves (Aug)</li> <li>Fri: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: Unemployment Rate, Trade (Jul)</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: Overseas Remittances (Jul)</li> </ul>
USDTHB	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: Foreign Reserves (1 Sep)</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: Foreign Reserves (8 Sep)</li> </ul>
USDINR	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: Nikkei PMI Services &amp; Composite (Aug)</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: Trade (Aug) (due 8-15 Sep)</li> </ul>	<ul style="list-style-type: none"> <li>Mon: Current Account (2Q, due 11-29 Sep)</li> <li>Tue: CPI (Aug), Industrial Production (Jul)</li> <li>Wed: - Nil -</li> <li>Thu: Wholesale Prices (Aug)</li> <li>Fri: - Nil -</li> </ul>
USDVND	<ul style="list-style-type: none"> <li>Mon: Public Holiday</li> <li>Tue: - Nil -</li> <li>Wed: Domestic Vehicle Sales (Aug, due 6-13 Sep)</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>

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