Short SGD vs. INR and MYR

- SGD is likely to weaken given sluggish growth and inflation outlook, risks of S$NEER policy band re-centering and a tight correlation with EUR
- We would sell SGD vs. a basket of INR and MYR to chase a high return and a relative value

Asia Overview - Most EM Asian currencies advanced versus the dollar during Tuesday's Asian session, led by the MYR. USD/THB is likely to rebound ahead of December FOMC meeting after breaking below 35.0 support level on Tuesday. The TWD extended its rally amid equity inflows, outperforming the KRW on divergent growth outlook. The KRW, however, declined slightly Tuesday. BoK official Chung said yesterday Samsung and Hyundai Motor issues hurt manufacturing, while Vice Finance Minister Choi Sang-mok said Korea's recovery is not solid. On Wednesday morning, Bok Governor Lee Ju-yeol said in a meeting with economists that there are concerns about Korea’s economic growth. The CNY declined but the CNH reversed part of its losses on Tuesday, inverting the spread to -39 pips. PBoC Deputy Governor Yi Gang said yesterday that “there is no basis for continued yuan depreciation” and “the exchange rate will remain broadly stable.” Ma Jun, chief economist of the PBoC’s research bureau, said Tuesday that the yuan depreciation in October was mainly due to the dollar’s appreciation. Top officials’ comments on the yuan could temporarily ease market concerns in our view. We see mounting risks of technical corrections as the dollar/yuan is approaching the “overbought” area and would buy the dollar on dips prior to December FOMC meeting.

The performance of regional equity indexes diverged on Tuesday. China’s SHCOMP index rose 0.12%, while India’s SENSEX index slid 0.31%. Korea’s KOSPI index declined 0.52% with foreign investors selling net USD 54.0mn of local stocks yesterday. In the meantime, Taiwan’s TWSE index rose 0.68% as global funds added to their holdings in local main board shares by TWD 2.58bn (USD 81.6mn) Tuesday. Malaysia’s KLCI index and Indonesia’s JCI index slipped 0.02% and 0.43% respectively. Thailand’s SET index advanced 0.41% Tuesday despite USD 16.3mn of equity outflows.

Singapore - The MAS stayed on hold on 14 October to save policy room given global uncertainties ahead. Although the monetary authority said in the bi-annual Macroeconomic Review released on Tuesday that the Singapore economy should see some recovery alongside the mild firming in global growth, it is still likely to ease its S$NEER policy band through re-centering the band downwards in the future given sluggish growth and inflation outlook.

A Singapore-based rigbuilder announced last Thursday that it had cut around 8,000 jobs, while MAS core inflation slid to 0.9% yoy in September from 1.0% a month ago. Singapore is a highly trade-dependent economy. However, Belgium’s government said Monday it could not overcome regional objections to an EU-Canada trade deal (Ceta), casting a shadow over an EU-U.K. trade deal in the year ahead.

In addition, the SGD has been running a tight correlation with the EUR that could decline on external uncertainties arising from Italy’s constitutional referendum set for 4 December and the ECB extending its QE program beyond March 2017 at its next meeting scheduled for 8 December. ECB President Mario Draghi said Tuesday that the central bank remains committed to preserving the very substantial degree of monetary easing which is necessary to secure its goal of keeping inflation just below 2%.

India’s retail inflation slid to a 13-month low of 4.31% yoy in September on a steep drop in food inflation. The nation’s June-September monsoon has delivered near-normal rainfall that is able to lower food prices in the months ahead. India’s benign inflation outlook will help cap the INR REER, providing scope for modest rises in the

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INR over the medium-term. Moreover, the Indian government will keep pushing forward economic and financial reforms in the foreseeable future. It has allowed 100% foreign direct investment (FDI) in "other financial services". The GST Council will decide the revenue neutral rate structure at its next meeting in the first week of November. When market sentiment improves, the INR will continue to benefit from the nation’s solid fundamentals. Meanwhile, the RBI with new Governor continues its two-way operations in FX markets to curb excess vols.

Malaysia’s fiscal deficit is projected to fall to 3.0% of GDP in 2017 from 3.1% in 2016 according to the Budget 2017 unveiled last Friday. The budget sticking to fiscal consolidation path is expected to enhance foreign investor confidence, lower equity risk premium and provide support to the MYR in the medium term. Fitch Ratings sees the Malaysian Federal Government debt under 54% of GDP by the year end as achievable. It said Malaysia is better placed than many net commodity exporters to cope with the lingering effects of the negative shift in its terms of trade.

We would sell the SGD vs. a basket of the MYR and INR with equal weightings for a 3% gain as a carry and relative value trade.
GLOBAL FX STRATEGY  |  ASIAN FX UPDATE
Wednesday, October 26, 2016

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