

JACKIT WONG

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Vice President
Global Markets Research
Global Markets Division for the East
Asian Region
T: +852 2249 3084
E: jackit_ws_wong@hk.mufg.jp

Bank of Tokyo-Mitsubishi UFJ
A member of MUFG, a global financial group

Highlights

- **Good news: [Fitch upgraded Indonesia to “BBB”, with a stable outlook](#)**
- **No surprises from PBOC, HKMA and Taiwan:**
 - [PBOC to maintain its prudent and neutral monetary policy stance](#)
 - [HKMA to continue to monitor carry trades](#)
 - [Taiwan has no urgency to have its first rate hike](#)
- **Watch out for North Korean nuclear crisis: [Beijing will never accept Pyongyang as a nuclear power, China's former head of Korean peninsula affairs Yang Xiyu says](#)**

INDICATIVE RATES 22 Dec 2017 Data snapped ~11:58 HK TIME

Foreign Exchange			Equity Indices			Interest Rates				
	Asia	% Chng	New York	London	Close	% Chg	3M FIXING	% bp Chng		
USD/JPY	113.34	0.02	113.33	108.79	DJIA	24782.29	0.23	USD LIBOR	1.67464	1.67
EUR/JPY	134.27	-0.20	134.55	127.82	N225	22860.41	-0.02	JPY TIBOR	0.06125	0.00
EUR/USD	1.1847	-0.22	1.1874	1.1749	DAX	13109.74	0.31	EURIBOR	-0.32900	0.00
GBP/USD	1.3378	-0.04	1.3385	1.2857	FTSE	7603.98	1.05	GBP LIBOR	0.51688	0.12
USD/SGD	1.3445	0.10			STI	3382.53	-0.36	SGD SIBOR	1.24825	0.50
USD/THB	32.730	0.06			SET	1738.94	0.12	THB BIBOR	1.57075	-0.01
USD/MYR	4.0880	0.29	Commodities		KLCI	1750.70	-0.03	MYR KLIBOR	3.43000	0.00
USD/IDR	13550	-0.04	CRB	187.74	JCI	6173.50	-0.16	IDR JIBOR	5.59744	-1.03
USD/PHP	50.265	0.21	Brent Crude*	64.80	PSEI	8374.18	-0.05	PHP REF	3.56700	-11.50
USD/INR	64.050	0.06	Gold (USD/oz)	1266.70	SENSEX	33768.47	0.04	INR MIBOR	6.44000	-1.00
USD/KRW	1079.10	-0.04			KOSPI	2437.18	0.30			
USD/TWD	29.915	-0.16	Market Gauges		TAIEX	10495.30	0.06			
AUD/USD	0.7713	0.17	VIX	9.62	ASX	6071.80	0.19			
USD/HKD	7.8201	0.02	Dollar Index	93.401	HANG SENG	29440.19	0.25	If prior trading day is a holiday,		
USD/CNY	6.5720	-0.17	UST 2Y	1.878	SHCOMP	3303.81	0.11	comparison with preceding day.		
USD/VND	22711	0.03	UST 10Y	2.483	VNI	951.87	0.61	* ICE Brent Crude (USD/bbl)		

Source: BTMU & Reuters. FX daily % changes from 2100 GMT prior Reuters closes; London and New York show BTMU closes.

[A roll-up of two days of posting, what's still relevant. Five days hence (instead of two days hence) in this report]

IDR. **Fitch Upgrades Indonesia to 'BBB'; Outlook Stable**

Key takeaways are shown as below:

1. Indonesia's resilience to external shocks has steadily strengthened in the past few years:
 - Foreign reserve buffers swell to USD126 billion as at November 2017, reaching seven months of current account payments, compared with the 'BBB' median of six months.
 - Monetary policy has been sufficiently disciplined to limit bouts of volatile capital outflows during challenging periods.
 - Macro-prudential measures have helped curb a sharp rise in corporate external debt
2. Fitch expects **GDP growth to rise to 5.4% in 2018 and 5.5% in 2019, from 5.1% in 2017.**
3. A low general-government debt burden of 28.5% of GDP in 2017, as expected by Fitch, compares well with the 'BBB' median of 41.1%. The government is adhering to a self-imposed budget-deficit ceiling of 3% of GDP, which Fitch believes the deficit out-turn is more likely to remain broadly stable at 2.7% of GDP in 2018.

Risks:

1. Indonesia's dependence on commodities remains relatively high and both its net and gross external debt (166% of current account receipts; 'BBB' median: 130%) remain elevated compared with 'BBB' peers.
2. **2018 local elections and 2019 presidential election represents a risk to the strong reform drive and could undermine domestic and foreign market sentiment, although such an outcome is not Fitch's base case.** [\[Back to Highlights\]](#)

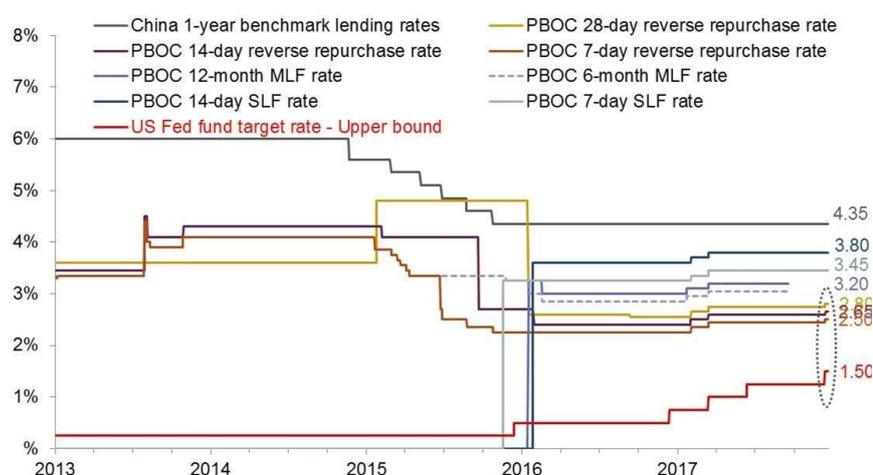
CNY. Prudent and neutral monetary policy can hardly be interpreted as "loose", PBOC might continue to adjust money market rates and would stay cautious about hiking the benchmark lending/deposit rates ("稳健中性货币政策难言“放松”，央行或延续调节货币市场利率思路，加息将谨慎") (Economic Information Daily).

http://www.jickb.cn/2017-12/22/c_136843878.htm (simplified Chinese)

This comes in line with our expectations:

- PBOC is expected to maintain its prudent and neutral monetary policy stance, while market liquidity is expected to remain fairly tight.
- **OMO/MLF/SLF rates are expected to be higher next year, with small adjustment each time (like the hike of 5 bps on 14 December 2017), but the timing would probably depend on Fed and onshore market liquidity.** The benchmark lending/deposit rates are expected to stand pat next year, while bond yield and market loan rates are expected to go higher amid fairly tight market liquidity. [\[Back to Highlights\]](#)

CHINA'S MONEY MARKET RATES PARTIALLY FOLLOWED FED'S HIKE



Source: Bloomberg, MUFG

TWD/CBC(Taiwan). CBC(Taiwan)'s monetary policy decision 1.375% = consensus = last. This was the last scheduled policy meeting before Governor Perng steps down in February after 20 years in the role.

- **CBC is more optimistic about the economic growth for 2017** (2.61% > September's projection of 2.15%) **and 2018** (2.35% > September's projection of 2.20%).
- **CBC reckons that upward inflationary pressure would probably be milder than expected this year** (CPI/Core 0.61%/1.02% < September's projection of 0.80%/1.04%) **and would probably remain mild next year** (CPI/Core 1.12%/1.12% ~ September's projection of 1.12%/1.13%).
- CBC expects M2 growth for 2018 to remain in a range of 2.5% and 6.5%, the same as this year.
- **CBC estimates the Taiwan's real interest rate to be at 0.455% > September's projection of 0.265% > US real interest rate of 0.00%** (> US September's projection of -0.20%). This would probably suggest that **Taiwan has no urgency to have its first rate hike in the first half next year.**

All in all, we maintain our views that **USD/TWD is expected to hover around 30.00, before strengthening to 29.50 by the mid next year.** [\[Back to Highlights\]](#)

HKD/HKMA. Hong Kong Monetary Authority will monitor and decide whether carry trades will lead to weaker Hong Kong dollar (USD/HKD 7.8206 as of 12:18 HKT) and further outflow pressure after year-end effect disappears, Hong Kong Economic Times reports, citing HKMA Chief Executive Norman Chan. (Bloomberg)

- *Interest rate differential is one of the factors leading to gradual outflow; falling Hong Kong dollar and rising funding costs are normal developments under the currency peg system: report citing Chan*
- **Not concerned about weaker Hong Kong dollar: report citing Chan**

This comes broadly in line with our expectations. With gradual outflow, Hong Kong dollar is expected to stay closer to the weak-side convertibility, but **the uncertainty that HKMA might issue additional exchange fund bills to shrink the interbank liquidity resulting in higher HIBOR rates might discourage carry trades.**

All in all, we expect **USD/HKD to be trading in the range of 7.78 and 7.83 next year.** [\[Back to Highlights\]](#)

NRKW/CNY. Kim Jong-un's rejection of father's pledge led to North Korean nuclear crisis, Chinese ex-diplomat says (SCMP)

Beijing will never accept Pyongyang as a nuclear power, China's former head of Korean peninsula affairs Yang Xiyu says. [\[Back to Highlights\]](#)

http://www.scmp.com/news/china/diplomacy-defence/article/2125127/kim-jong-uns-rejection-fathers-pledge-led-north-korean?utm_source=emarsys&utm_medium=email&utm_content=20171221&utm_campaign=scmp_china&emarsys=1&sc_src=email_2109103&sc_lid=11221&sc_lid=147999477&sc_uid=hH4L2gMqqX

FIVE DAYS HENCE (25 – 29 December)

Next week will be quite quiet, with no major releases or events, particularly on Monday (25 December) that will be a bank holiday in G7 (excluding Japan), in addition to Australia, New Zealand, Korea, Philippines, India, Indonesia, Malaysia, and Hong Kong. Markets will remain closed in the UK, Canada, Australia, New Zealand, Philippines, Indonesia and Hong Kong on Tuesday (26 December).

There is still some data worth keeping an eye on:

26 December (Tuesday): US December Richmond Fed manufacturing index: consensus 21 < last 30, but **December Dallas Fed manufacturing index:** consensus 20.0 > last 19.4. **BOJ minutes of October 30-31 meeting and BOJspeak:** Governor Kuroda. **Japan November Jobless rate:** consensus 2.8% = last, with an expected modest improvement in job-to-applicant ratio: consensus 1.56 > last 1.55. **November Overall household spending:** consensus 0.5%YoY > last 0.0%, amid strong labor market. **November CPI/ex food and energy:** consensus 0.5%YoY/0.3%YoY > last 0.2%/0.2%, while core CPI is expected to stay steady: consensus 0.8%YoY = last, but it would probably remain far below BOJ's target of 2%. **Singapore November CPI:** consensus 0.5%YoY > last 0.4%, but core CPI would probably stay steady: consensus 1.5%YoY = last. **Singapore November Industrial production:** consensus -0.5%SAMM/8.0%YoY < last 0.7%/14.6% - the moderating growth would probably remain strong, signaling that industry would probably continue to help bolster Singapore's economy in 4Q.

Bonds: **China Yunnan** to sell CNY1bn 3-year bonds and **Hunan** to sell CNY1bn 7-year bonds.

27 December (Wednesday): China November Industrial profits: consensus N/A < last 25.1%YoY. China's industrial profit growth would probably moderate in November, as moderating producer-price inflation and rising financing expenses would probably weigh somewhat on manufacturers' profit margin, especially for smaller manufacturers.

28 December (Thursday): BOJ Summary of opinions at December 20-21 meeting. Korea November Industrial production: consensus 1.5%YoY > last -5.9%. The decline in October is expected to be temporary, as external demand remain strong, with 20-day exports surging 16.4% in December, after rising 9.7%YoY in November. **Hong Kong November Exports/Imports:** consensus N/A ~ last 6.7%YoY/7.9%YoY. The regional trade activity appears to be rather buoyant, bolstering Hong Kong's trade activity.

29 December (Friday): Germany December CPI: consensus 1.5%YoY < last 1.8%, but on a NSAMM basis, consensus 0.5% > last 0.3%. **Korea December CPI:** consensus 1.4%YoY/0.2%MoM > last 1.3%/-0.7%. Inflation wise, BOK should probably have no rush to hike its rate early next year. [\[Back to Highlights\]](#)

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