

## USD/CNY Trading Band; AUD/CAD Update

- PBoC Governor Zhou Xiaochuan says yuan trading band expansion is a signal for further opening-up, but not a key issue at the moment
- However, we expect increasing two-way flexibility in the yuan exchange rate and think a widening of the trading band could be a future focus
- Australia adds more-than-expected jobs with a dip in unemployment rate in September, while Canada's September CPI inflation is due Friday
- We maintain our short AUD/CAD cross position with a target of 0.97

**Asia Overview** - Most EM Asian currencies declined versus the dollar during Thursday's Asian session. The KRW and PHP weakened about 0.2% each yesterday. The BoK maintained its policy rate at 1.25% on Thursday morning, while raising its forecasts of South Korea's 2017 GDP growth and CPI inflation to 3.0% and 2.0% respectively from the July estimate of 2.8% and 1.9%. As the decision was not unanimous, we expect the BoK to deliver a rate hike in the months ahead. The PHP stretched its declines on Thursday. We would like to buy USD/PHP on dips. Philippines Economic Planning Secretary Ernesto Pernia told reporters in Manila on Thursday that the nation's economic growth may have accelerated in Q3 from 6.5% the previous quarter on improved trade and higher government spending. The TWD edged down on Thursday. USD/TWD is likely to range trade between 30.0 and 30.5 for now. The IDR dipped Thursday as well. USD/IDR is likely to consolidate at around 13,500 at current stage. The BI left its policy rate unchanged at 4.25% on Thursday, pausing after two surprise cuts in a row. It sees Indonesia's current account deficit below 2% of GDP in 2017 and pledges to guard the IDR exchange rate in line with fundamentals. However, the MYR edged up yesterday with the 4.25 mark serving as a resistance for USD/MYR. Malaysia's CPI inflation due Friday is likely to rise a bit in September from 3.7% a month ago. The THB gained slightly. USD/THB is likely to head for the 33.0 level in the weeks ahead. BoT Governor Veerathai Santiprabhob said Thursday that the country should maintain the current inflation target of 2.5%±1.5% next year. The HKD rallied about 0.1% yesterday due to the scheduled additional issuance of EF bills amounting to HKD 8bn. The CNY and CNH declined slightly in Asian session but rebounded and pared their losses in evening trading hours. The JPY advanced in line with dropped UST yields.

Most regional equity indices resided in the red on Thursday. China's SHCOMP index declined 0.34%, while Korea's KOSPI index slid 0.40% despite USD 24.5mn of stock inflows. Malaysia's KLCI index and Thailand's SET index closed down 0.29% and 1.41% respectively. Indonesia's JCI index ended 0.31% lower amid USD 34.2mn of equity outflows. However, Taiwan's TWSE index rose 0.37% as global funds added to their holdings in local main board shares by USD 182.1mn on Thursday. India's onshore markets were closed Thursday for a public holiday.

**China** • PBoC Governor Zhou Xiaochuan said Thursday on the sidelines of China's 19th Communist Party Congress that yuan trading band expansion is a signal for further opening-up, but not a key issue at the moment. He added that the yuan's current trading band rarely constrains market moves determined by demand and supply.

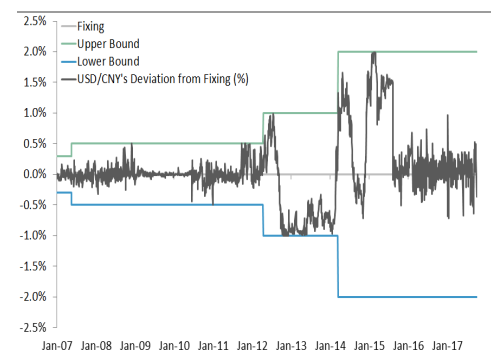
Investors have turned relatively neutral for the yuan with dissipated concern over the yuan's sharp depreciation or appreciation, in our view. Chinese banks sold a net CNY 21.8bn (USD 3.32bn) of foreign currencies in FX spot market on behalf of their clients in September, including spot transactions due to maturing forward contracts. Meanwhile, the banks bought a net CNY 49.5bn (USD 7.54bn) of foreign currencies in FX forwards market for their clients last month.

USD/CNY's implied volatility has been rising along with sliding risk reversal has paved the way for the regulators to

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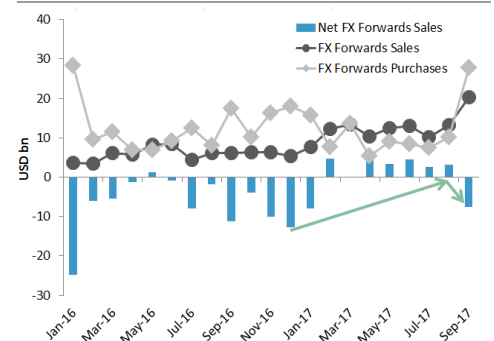
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### USD/CNY Spot's Deviation from Fixing (%)



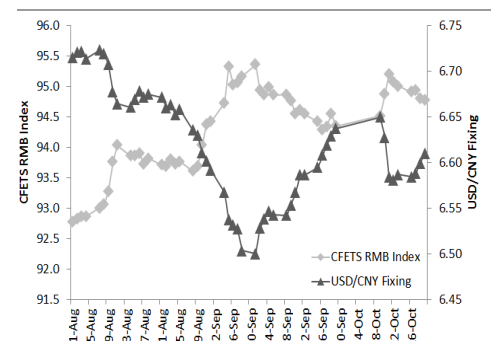
Source: Bloomberg & Scotiabank FICC Strategy

### China: FX Purchases & Sales of Banks On Behalf of Clients in FX Forwards Market



Source: Bloomberg & Scotiabank FICC Strategy

### Scotiabank CFETS RMB Index vs. Fixing



Source: Bloomberg & Scotiabank FICC Strategy

increase two-way flexibility in the yuan exchange rate. A widening of the trading band could be a future focus in our opinion. In the weeks ahead, USD/CNY and USD/CNH are expected to trade in range of 6.50 to 6.70, while following a broader market tone.

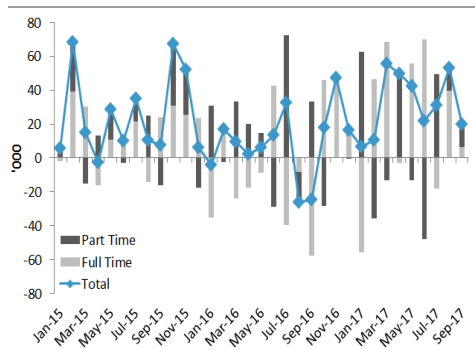
**AUD/CAD** • Australia created 19,800 jobs in September, adding to a strong run of job creation. It may have buoyed confidence about a broadening recovery in the Australian economy. In addition, the country’s unemployment rate dipped to 5.5% in September from 5.6% a month ago.

China remains on track to reach its 2017 growth target of around 6.5%. However, the nation’s fixed-asset investment (ex-rural) rose 7.5% yoy in the January-September period, down further from a 7.8% rise in the first eight months. It could weigh on future iron ore prices and undermine the AUD afterwards, particularly amid China’s continued deleveraging and concern over a “Minsky Moment” due to excessive optimism warned by PBoC Governor Zhou yesterday.

Canada’s September CPI inflation due Friday is expected to accelerate slightly from 1.4% yoy in August according to our estimate. It is the last inflation print ahead of the Bank of Canada’s October 25 meeting. Australia will release its Q3 CPI inflation next Wednesday.

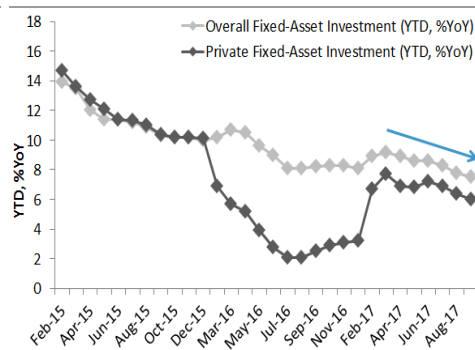
**We maintain our short AUD/CAD cross position with a target of 0.97.**

Australia’s New Jobs



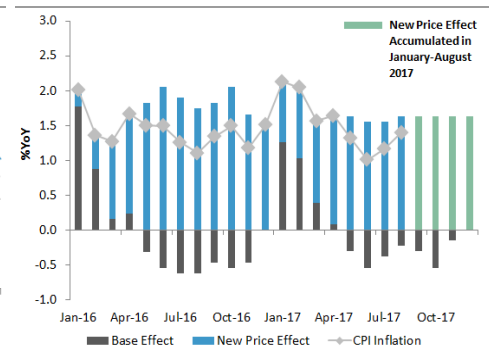
Source: Bloomberg & Scotiabank FICC Strategy

China’s Fixed-Asset Investment (YTD, %YoY)



Source: Bloomberg & Scotiabank FICC Strategy

Canada’s CPI Inflation



Source: Bloomberg & Scotiabank FICC Strategy

**TODAY'S CALENDAR**

Time (HKT)	Economy	Type	Release	Period	Consensus	Last	Significance
12:00	MY	INFL	CPI YoY	Sep	4.3%	3.7%	med-high
15:00	MY	DATA	Foreign Reserves	Oct 13		\$101.2bn	med-high
15:30	TH	DATA	Foreign Reserves	Oct 13		\$198.6bn	med
15:30	TH	DATA	Forward Contracts	Oct 13		\$31.4bn	med
16:00	TW	TRADE	Export Orders YoY	Sep	8.9%	7.5%	med-high

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