

PBoC OMOs, ECB Account & Yuan

- PBoC resumes its daily open market operations (OMOs) Thursday when onshore markets reopen after the weeklong holiday
- ECB releases the account of its January 24-25 monetary policy meeting
- We maintain our short USD/CNY position but expect the pair to range trade in the run-up to Fed Chairman Jerome Powell's testimony due next Wednesday

Asia Overview - EM Asian currencies weakened versus the USD during Thursday's Asian session, led by the KRW that dropped 0.8% amid risk aversion. USD/KRW is likely to range trade between 1,060 and 1,100 for now. We stay cautious on geopolitical situation after the PyeongChang Winter Olympics ends with the closing ceremony on 25 February. South Korea's finance minister Kim Dong-yeon told reporters on Thursday that the government is preparing "special measures" to support youth employment. The nation's household debt including credit purchases rose 8.1% yoy to KRW 1,450.9tn (USD 1.3tn) at the end of Q4 2017. The IDR dropped 0.5%. USD/IDR would rise further should it break above the 13,700 mark, as the local currency remains susceptible to external uncertainty. BI executive director for monetary management Doddy Zulverdi said Thursday that the central bank has taken measures to stabilize the IDR and will continue to be present in the market to prevent a steep IDR depreciation. The INR fell 0.4% amid a broadly strengthening USD, hitting a fresh three-month low. USD/INR rallied through the 65 level, opening room for further upside by taking into account India's widening trade deficit and the INR 114bn PNB fraud. The MYR and TWD weakened 0.3% each. Malaysia's foreign reserves amounted to USD 103.6bn as at 15 February, which is sufficient to finance 7.1 months of retained imports and is 1.1 times the short-term external debt. USD/TWD is likely to fluctuate in a range of 29.0-29.5 at present. Taiwan has appointed Chen Nan-kuang as deputy central bank governor from 5 March 2018 to 4 March 2023. The THB weakened 0.2% along with regional peers yesterday. We look to sell USD/THB on rallies given the nation's sound fundamentals. BoT Governor Veerathai Santiprabhob said Thursday that the THB strengthened in line with a weak USD and the movements were mainly driven by external factors. The CNY declined slightly while the CNH edged up on Thursday. Dollar/Yuan is likely to trade in a range of 6.20-6.40 at current stage. The PHP dipped with USD/PHP likely to consolidate at around the 52 level. Meanwhile, we stay vigilant on the nation's deteriorating balance of payments. Philippines has revised the base year for CPI to 2012 from 2006. The Department of Finance said the newly enacted tax reform law may raise Philippines inflation by 0.7 percentage points in the first year of its implementation. The SGD rallied 0.3% along with a strengthening EUR, while the JPY jumped 1.0% due to declined 10Y UST yield.

Most regional equity indices resided in the red on Thursday. India's NIFTY50 index slid 0.14%, while Korea's KOSPI index declined 0.63% with foreign investors offloading a net USD 170.0mn of Korean shares. In the meantime, Taiwan's TWSE index fell 0.49% as global funds reduced their holdings in local main board shares by USD 235.0mn on Thursday. Malaysia's KLCI index and Thailand's SET index closed down 0.17% and 0.70% respectively. Indonesia's JCI index ended 0.76% lower amid USD 42.6mn of equity outflows. However, China's SHCOMP index surged 2.16% yesterday when onshore markets reopened after the weeklong holiday.

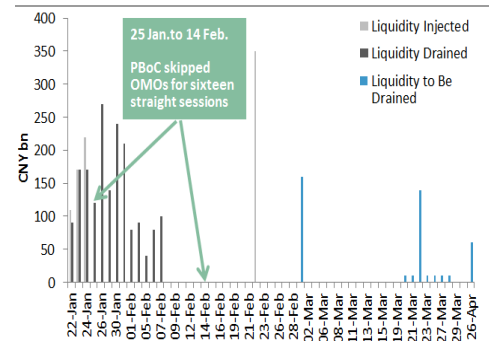
China • The PBoC conducted CNY 160bn, CNY 130bn and CNY 60bn of 7-day, 28-day and 63-day reverse repos respectively on Thursday when onshore markets reopened after the Chinese New Year break, resuming its daily open market operations after sixteen straight sessions of suspension.

On 14 February, the central bank said in its Q4 monetary policy implementation report that it will keep liquidity conditions basically stable, deepen market-oriented reforms of interest rates and exchange rates and allow the market to play a greater

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PBoC's Open Market Operations



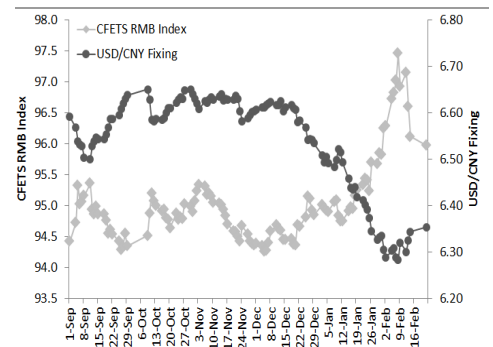
Source: Bloomberg & Scotiabank FICC Strategy

USD/CNY Fixing vs. EUR/USD



Source: Bloomberg & Scotiabank FICC Strategy

Scotiabank CFETS RMB Index vs. USD/CNY Fixing



Source: Bloomberg & Scotiabank FICC Strategy

role in setting the yuan exchange rate while improving the two-way flexibility.

The ECB released the account of its January 24-25 monetary policy meeting on Thursday. The EUR's potential strength due to converging growth momentum will prop up the yuan that runs a tight correlations with the single currency.

- *The central bank agreed that "changes in communication were generally seen **to be premature** at this juncture, as inflation developments remained subdued despite the robust pace of economic expansion."*
- *Meanwhile, the ECB also reiterated that "the language pertaining to the monetary policy stance **could be revisited early this year** as part of the regular reassessment at the forthcoming monetary policy meetings."*
- *Some members expressed a preference for **dropping the easing bias regarding the QE programme**, according to the account.*

Hovering concern over the ECB tapering will continue to bolster the EUR in the months ahead. It could benefit EM Asian currencies at the early stage and then weigh on them as market fears over global liquidity withdrawal could intensify when approaching the third quarter of 2018.

In addition, the Fed sees further gradual policy firming ahead as US inflation is expected to rise to the 2% goal. A number of FOMC members indicated that they had marked up their forecasts for economic growth in the near term relative to those made for the December meeting. Rising 10Y UST yield is likely to spark and intensify market concern that whether Fed top officials will forecast more than three rate hikes this year in the so-called "dot plot" due to be updated at the March FOMC meeting.

We maintain our short USD/CNY position but expect the pair to range trade in the run-up to Fed Chairman Jerome Powell's testimony due at 11:00pm HKT next Wednesday.

TODAY'S CALENDAR

Time (HKT)	Economy	Type	Release	Period	Consensus	Last	Significance
07:30	JP	INFL	Nationwide CPI YoY	Jan	1.3%	1.0%	med-high
11:00	KR	DATA	Short-Term External Debt	Q4		\$118.9bn	med
13:00	SG	INFL	CPI NSA MoM	Jan	0.2%	-0.1%	med
13:00	SG	INFL	CPI YoY	Jan	0.4%	0.4%	med
13:00	SG	INFL	MAS Core CPI YoY	Jan	1.5%	1.3%	high
15:30	TH	DATA	Foreign Reserves	Feb 16		\$212.7bn	med
15:30	TH	DATA	Forward Contracts	Feb 16		\$35.7bn	med
16:20	TW	BOP	Current Account Balance	Q4		\$20.514bn	med
09:30 24 Feb	CN	DATA	China's Property Prices	Jan			med

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