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Slippery slope

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Global macro is still mostly pivoting around policy developments in the US, both around shifting news flow on the selection of the Fed Chair, and the prospects for tax reforms before end of the year. This focus only becomes more acute with ECB this week effectively taking itself out of the picture for the next few months. For the last few days, and with little pushback from data, it's been close to a perfect storm on the narrative for US rates and the dollar. To say that Asia couldn't care less would obviously be a stretch. But it is also hard to ignore how low the beta has been for much of the region thus far to this repricing in USD and core rates. Versus a 42bp move higher in US rates since early September – bulk of which has been in real terms, and not about break evens – and a 4%+ move on the dollar; even the high yielding part of the Asian FX complex has moved by only around half that amount, and significantly outperformed the broader EM complex. Within the region, the growth/equity sensitive part of the complex has outperformed (Korea, Taiwan in particular) versus the more rates sensitive part (India, Indonesia). A combination of factors – notably, strong growth performance (Korea GDP numbers this week the latest example), active management of vol by central banks (and particularly leaning against cheapening), relatively low political risk, and improved sentiment on China – have all played a role.

We suspect the playbook – particularly in terms of intra-regional divergence - doesn't change a huge amount into end of the year, but the slope could get more slippery, with a more challenging seasonality factor to contend with in November, poorer liquidity, and given that a break of 2.5% on 10Y Treasuries could have a more disproportionate fallout on sentiment. Our strategy is to be long growth sensitive FX (we have added a USD/KRW put to our portfolio this week; see the FX strategy section) versus funding in the more high beta part of the complex like SGD; and paying rates – outright and via steepeners – to keep with the global re-pricing narrative.

The two interesting local stories this week in Asia were the conclusion of the China Party Congress, and the announcement of big bang bank recapitalization in India. The consolidation of political power in the former has only further reinforced the positive sentiment on China, putting the focus back on reforms (though with little immediately to suggest a change in pace on policy driven deleveraging). The bank recap announcement in India has similarly been lauded by equity markets, for the fact that the capital injection it proposes is front loaded; the package itself is in the first instance cash neutral for the government and hence arguably non-inflationary; and that the fallout on the Budget (interest payments on the recap bonds) will be staggered. For fixed income though, and away from the debate on how the recap bonds will be treated from an accounting perspective, the issuance of such a large quantum over a period of 12 months will pressurize an already weak technical position by detracting from the public sector bank appetite for general government issuance. Together with a data dependent RBI, this to us argues further for steeper curves there. We see the fallout as more neutral for the rupee, with a more growth/credit/equity positive outlook from the move offset by concerns over valuations, access limits, and beta to global rates outlook.

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DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1. MCI (P) 083/04/2017.

Summary Market Views – Rates

	Cash Bonds (Duration)	Swaps (Level/Slope)	Trade View
CNY	**Marketweight** *Near term domestic and external risk factors pose upside risk on RMB rates and we expect long term yields to drift towards the top end of our forecast ranges. Neutral on curve.*	**Neutral/Neutral** *We see risk of liquidity tightening before the month end on seasonal tax payment impact and maintain paying bias on IRS.*	** Pay 5Y NDIRS, target 4.1%* ** Long NCD at 4.5% or above*
HKD	**Marketweight** *Near term liquidity risk will keep bond demand weak. Neutral on the curve.*	**Bearish/Neutral** *HKMA has decided to increase the additional EFBs by another HKD40bn, which implies 80bn cumulative increase in EFBs since August to mop up liquidity, and which has supported our short duration bias.*	** Pay 5Y HKD - USD IRS spread, target par*
INR	**Modest Underweight** *With RBI on extended hold, the beta from higher US rates, and now more of recap bond issuance to digest (which will detract from nat bank appetite), besides the risk of slippage on the deficit targets, bonds should cheapen further. Curve to steepen.*	**Bearish/Steeper** *The combination of a data dependent RBI, and the poor technicals for rates from recap bond issuance and the likely slippage on deficit targets, argue for steeper curves.*	** Pay 1Y/5Y NDOIS steepener, target +35bp*
IDR	**Marketweight** *To be sure, there is no big catalyst for a sell off in Indonesia except for a repricing in core rates. But with BI also unlikely to get room to ease policy further any time soon, we will wait for a bit more of the beta from global factors to play out before re-entering.*		
KRW	**Modest Underweight** *Higher probabilty of a November hike on the back of strong 3Q GDP will limit any relief rally at the front-end. We also see the risk of liquidation in local 10Y/30Y KTB steepeners given insufficient MOSF measure in KTB issuance plan. Neutral on the curve*	**Neutral/Steeper** *Paying the front-end looks expensive due to carry and rolldown, though if we get a hike in November, the swap fixing will adjust accordingly. We expect front-end receiving flows to decline gradually.*	** Maintain 3M10Y OTM payer (strike 2.15%)*
MYR	**Marketweight** *Offshore positioning is light although not necessarily very underweight given the extent of decline in Malaysia's weight in GBI-EM. The beta from core rates sell off though is overwhelming the technicals. We stay away for now.*	**Neutral/Neutral**	
PHP	**Marketweight** *Inflation remains under check, and shouldn't be a problem at least until Q1-18. TDF cut-off rates have likely peaked already. Issuance run-rate has been good so far. RPGBs should see some breather after lagging the entire EM space so far. Neutral on the curve.*		
SGD	**Marketweight** *Supply technicals for SGS mkt are supportive given very light DVo1 supply into Q4. But, high beta to the USTs; and particularly the uncertainty associated with the USTs, makes us cautious. Prefer to be Long SGS against swaps instead. Neutral on the curve*	**Bearish/Neutral** *With $ Libor expected to grind higher down the road, further downside in SOR is limited, we feel. And with SOR vs. SIBOR spread near multi-year lows, banks could potentially turn payers in IRS market to lock in +ve carry.*	** Pay 5Y swap spread (Long 5Y SGS vs IRS), target +40bp*
TWD	**Marketweight** *The CBC expects a moderate acceleration in growth next year at 2.20% from 2.15% exepctation this year. Inflation will likely be subdued at 0.3% this year too. In this projetion, the CBC may not be in a rush to tighten monteary condition. Neutral on curve.*	**Bearish/Neutral** *Higher global yields environment despite stable CBC stance will likely induce more hedge flows (payer) in the TWD IRS curve.*	
THB	**Marketweight** *While supply technicals are supportive for now, current levels don't offer much juice though. Neutral on curve.*	**Neutral/Neutral**	

Source: Deutsche Bank

Summary Market Views – FX

	Bias	Fundamentals/Drivers	Trade View
CNY	**Bullish**	*USD/CNY has been kept within a range between 6.5-6.7 since mid-August. However, following the conclusion of the 19th National Congress and the successful turn in expectations over summer , we do think RMB appreciation would resume given net inflows are picking up and the underlying economic fundamentals remains strong. In addition, the ongoing talk of more reforms by the authorities including further opening of the capital market is likely to attract further inflows adding to RMB appreciation pressure.*	** Keep USD/CNH put spreads (3M 6.60/6.50)*
HKD	**Neutral**	*HKD weakness over the past few weeks has stalled with the narrowing of the LIBOR-HIBOR spread. In our view, given the likelihood of more EFBN issuances in the coming months and the recent pick up in loan growth which will further narrow the spread, HKD's journey toward the weak side of the convertibility zone (7.85) is likely to take much longer than expected and bumpier. Hence we prefer playing HKD via rates i.e. paying 5Y HKD-USD IRS spread rather than via FX.*	
INR	**Neutral**	*The rupee still has scope to retrace Sept losses which were driven by a sharp positioning squeeze. But given upside risks to US rates, we stay away from carry plays. The recent bank recap plan contains growth and credit positives, but we do not see it driving rupee gains. Aside from public banks, the equity market remains very rich, and bond inflows could slow on fiscal risks, supply pressure, less clarity around the next rate move and limited current space on FPI quotas. Despite the sharper US rhetoric against India's intervention, we think RBI will persist on the bid - the mandate for growth and preventing overvaluation is more dominant.*	
IDR	**Neutral**	*We are staying away from carry plays for now till we get more clarify on US rates drivers (Fed chair, fiscal stimulus). Positioning in Indonesian bonds is still heavy, and further BI easing is more questionable if the global narrative begins to shift towards tightening. After building reserves all year, BI did not appear to draw them down in Sept to limit IDR losses, which could prompt concern about an asymmetric intv'n bias, with BI allowing more participation in USD upside than downside this year.*	
KRW	**Moderately Bullish**	*The KRW has traded well in Oct despite upward pressure on US rates. Data in Korea has been strong and the BoK has turned more hawkish. With the KRW lagging both the strength in exports growth and the repricing in rates markets for hikes, we see scope for a catch-up. Equity inflows are returning after outflows over the summer - this can continue with the stock market still cheap. US pressure to allow KRW to adjust towards fair value remains. Geopolitics remains a risk, but the market appears to be getting fatigued with headlines.*	** Buy a low delta USD/KRW 3M 1080 put*
MYR	**Moderately Bullish**	*MYR has been better insulated from the latest sell-off in US rates. The MYR is cheap on our models, growth has been surprising to the upside, foreign positioning is lighter and the absence of an active NDF market has made it less apt to participate in speculative pressure, with its beta to USD strength falling. There is a clear need to accumulate reserves, but authorities appear comfortable with a stronger MYR, perhaps given the boost to confidence ahead of an election. We think MYR could trade to 4 should a weaker USD backdrop return.*	** Long MYR via MGS front-end bond exposure (Target: 4.00 on spot)*
PHP	**Moderately Bearish**	*USD/PHP continues to trade at the top of the range. We don't think the poor fundamentals have turned for the PHP and idiosyncratic M&A inflows have likely slowed down. The latest trade numbers still show the deficit near the wides, and the infrastructure priorities of the gov't remain unchanged. The PHP is not cheap and authorities have less to lose from a weaker currency. We keep our longs in USD/PHP, but think it could be a slower grind with expensive carry muting the risk-reward.*	** Long 3M USD/PHP NDFs (Target: 55)*
SGD	**Bearish**	*We have added a short term FX hedge to our largely short USD/Asia portfolio via USD/SGD calls. SGD has one of the highest betas to the USD trend, vols are depressed, carry is cheap, spot is testing the top of its downtrend channel, and MAS was not sufficiently hawkish at their last meeting, leaving SGD NEER exposed on the downside. Despite an upside surprise to growth, MAS kept their neutral policy slope and refrained from giving an explicit tightening signal, disappointing a market that was angling for a more hawkish outcome.*	** Buy a 1M USD/SGD 1.3650 call as a tactical hedge*
TWD	**Moderately Bullish**	*USD/TWD has been toying with the 30 level, moving back above it on US tech stock weakness and the hawkish Fed. We still think a stronger TWD should prevail in the medium term. First, the ongoing improvement in the data particularly in the electronic sector should encourage further equity inflows. Second, with lifers' foreign assets now approaching the regulatory limit, ongoing outflows are likely to moderate. Third further improvement in flow dynamics which will result in the BoP surplus to widen.*	** Short USD/TWD 6M NDF (Target: 29)*
THB	**Moderately Bullish**	*We stay with USD/THB shorts - spot bounced with the broad USD in September, but retraced lower equally quickly with the downtrend channel still in place. The current account remains large, domestic outflows are not sufficient to recycle the surplus, foreigners are underweight Thai assets, THB does not look stretched on valuations, and politics appears on track for elections. BoT has not budged despite gov't pressure to cut rates. THB gains have occurred alongside an export recovery, making strength less problematic.*	** Short USD/THB (Target: 32.00)*

Source: Deutsche Bank

Trade Monitor

Country	Trade	Entry Date	Entry Level	Current Level	Target	Stop Loss	MTM	Bias
Rates Trades								
India	Pay 1s5s NDOIS Steepener	27-Sep	18	19	35	8	1	Add
Hong Kong	Pay 2Y IRS	21-Sep	1.29%	1.54%	1.50%	1.15%	25	Take profit
China	Pay 5Y NDIRS	4-Sep	3.88%	3.98%	4.10%	3.70%	10	Hold
Korea	Buy 3M10Y OTM (Strike 2.15%) payer	8-Sep	0.30%	1.40%			3.7 x	Add
Singapore	Pay 5Y swap spread	19-Jun	18	21	40	10	3	Add
RV	Pay 5Y HKD vs USD IRS	8-Jun	-33	-17	0	-50	16	Add
Thailand	Pay 10Y swap spread	12-May	-20	-15	15	-30	5	Closed
Korea	Pay 2Y/10Y steepener	14-Nov	34	27	60	15	-7	Closed
Korea	Receive NDIRS 1Y1Y	11-Oct	1.94%	2.01%	1.80%	2.05%	-7	Closed
Korea	Receive 3X6 FRA for 3M rolldown	22-Sep	1.52%	1.54%	1.38%	1.60%	-2	Closed
FX Trades								
Korea	Buy 3M USD/KRW 1080 put	27-Oct	0.23%	0.23%			0 x	Add
Singapore	Buy a 1M USD/SGD 1.3650 call	20-Oct	0.37%	0.37%			0.01 x	Add
China	Buy 3M 6.60/6.50 USD/CNH Put Spread	9-Oct	0.40%	0.45%			0.12 x	Add
Thailand	Short 3M USD/THB forward	8-Sep	33.02	33.29	32.00	33.70	-0.8%	Hold
			(33.09)	*(33.29)*				
India	Receive INR 6X12 NDF Curve	8-Sep	124	125	100	140	-0.02%	Hold
Philippines	Long 3M USD/PHP NDF	23-Oct	51.91	52.42	55.00	50.00	1.0%	Rolled Over
			(51.52)	*(51.82)*				
		21-Jul	51.00	51.91	55.00	50.00	1.8%	
Taiwan	Short 6M USD/TWD forward	19-May	30.03	30.24	29.00	30.70	-0.7%	Hold
			(30.23)	*(30.27)*				
RV	Short 6M INR/IDR NDF	22-Sep	204.14	206.43	200	208	-1.1%	Closed
			(205.16)	*-207*				

Sources: Deutsche Bank, Bloomberg Finance LP
Notes: (1) For rates trades, MTM is in running basis points; for FX trades, MTM is in % of notional. (2) Trades in the table include 'live' positions, and those 'closed' within the last 1 month
(3) For NDF trades, entry and current levels are in forward terms with the spot references noted below in brackets. Targets and stop-loss are in spot terms.

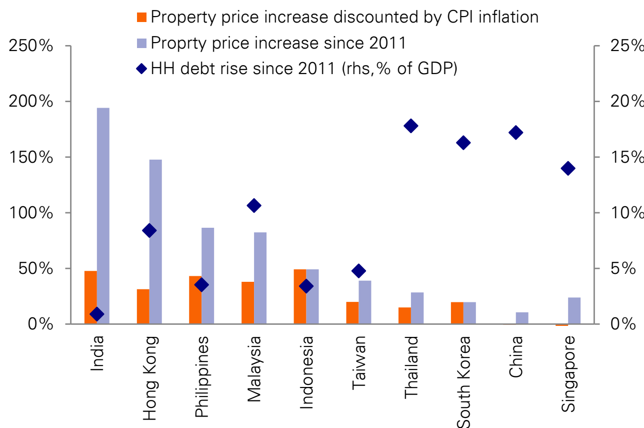
Economics

Watch the overstretched

Q3 GDP reports out of EM Asia thus far have been impressive, with the actual data far exceeding market forecasts. Despite strong growth, inflation has remained benign, giving CBs time to contemplate risks surrounding higher rates. In our latest Asia Vulnerability Monitor, we have adjusted our methodology to better identify the areas of potential correction.

The rapid rise in debt since the GFC remains a source of concern for the region as a whole, especially for China and Hong Kong, where it is rising at double-digit rates. In the context of our US team's forecast of 100bp of rate hikes by the Fed by end-2018, Hong Kong's overstretched property market faces perhaps the greatest downside risk in the region, given the leverage to short-term rates. Hong Kong and India have reported the strongest rises in residential property prices in EM Asia since 2011, in nominal terms. Discounted by inflation and GDP, India, Hong Kong, Malaysia and the Philippines have seen the most rise in housing prices.

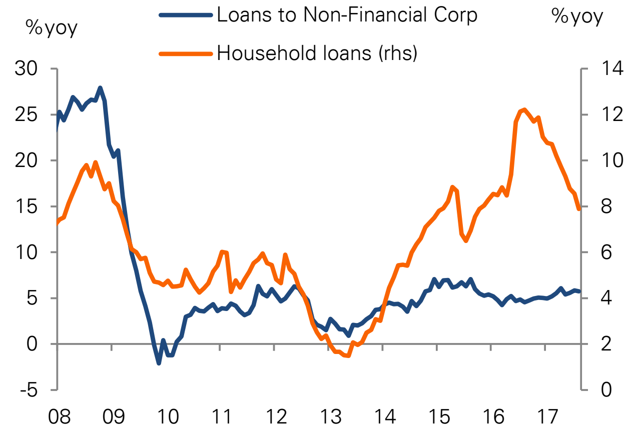
Property prices surged in IN, HK, PH and MA



Note: Malaysia's data as of 2016Q4
Source: BIS, CEIC, Haver Analytics, and Deutsche Bank

For South Korea, the problem is not property prices, but the high indebtedness of households and its impact on medium- to long-term growth. And, the sustained rise in household loans has prompted tighter financial oversight in South Korea.

South Korea's loan growth led by households



Sources: CEIC and Deutsche Bank

In the context of GDP growth above 3% and inflation at around 2%, a modest policy rate hike by the Bank of Korea (BoK) does not look threatening to Korea's recovery. Having said that, however, the BoK may prefer to wait and see the actual impact of tighter prudential regulations on household debt and housing market before beginning its rate hike cycle. Moreover, it may be cautious about raising the debt burden for all, especially in the context of uneven growth.

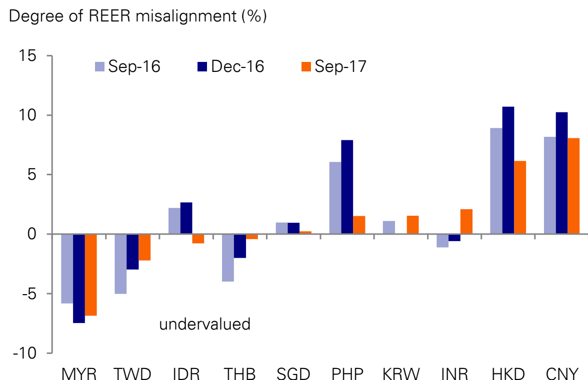
While the headline GDP growth stood strong at 3.6% (1.4%qoq sa) in Q3, vs. our forecast of 3.2%, much of the upside surprise came from reacceleration in construction investment (qoq) growth, thanks to the government's support, while private consumption growth slowed in Q3. We could see a meaningful payback in exports also in Q4. At the same time, the BoK expects both growth and inflation to moderate in 2018. In particular, the BoK expects CPI inflation to fall to below its inflation target of 2% in Q4 from Q3, and average 1.8% in 2018, down from 2% for 2017, reflecting its benign outlook on inflation.

In this context, next week's set of data take on a particular importance. We expect a notable payback in exports in October, with the pace of expansion slowing sharply to 12%, from 35% in September, after exports were frontloaded before the October holidays. More importantly, South Korea is likely to report a weaker CPI inflation of 2% in October, vs. 2.1% in September. Together they may ease some concerns about a more hawkish BoK. Please note that we have thus far maintained our forecast of a 25bps rate hike in Q1 2018.

As in South Korea, Malaysia's heavily indebted households remain a source of risk for its long-term

growth. In contrast, however, risks to our BNM rate hike call are tilted to the downside, given muted inflation and the election next year, although a sharper-than-expected rise in FX volatility may force BNM's hands. Higher rates in turn would pose risks to Malaysia's overstretched property market. Discounted by inflation and GDP, India, Hong Kong, Malaysia and the Philippines have seen the most rise in housing prices.

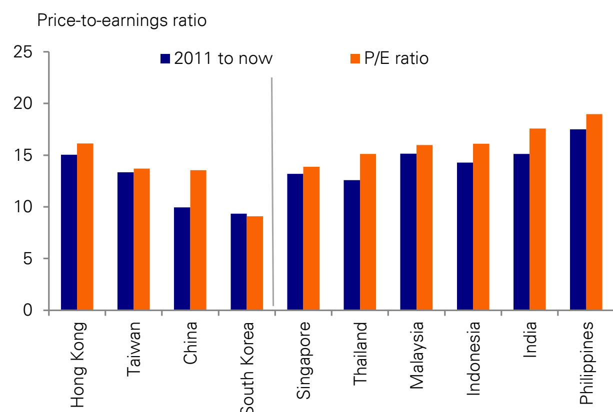
CNY and MYR at opposite ends



Note: Please refer to appendix for technical explanation in our Asia Vulnerability Monitor report
Source: CEIC, Haver Analytics, and Deutsche Bank

In contrast to MYR, which looks significantly undervalued in EM Asia, by our estimate, CNY looks the most overvalued. China has also seen the largest rise in its PE ratio, thanks largely to its tech giants, followed by Thailand, India and Indonesia. Relatively speaking, the ASEAN markets look stretched, compared to their NE Asian counterparts. Note that, in historical and relative terms, with the exception of South Korea, PE ratios of all markets in EM Asia have risen.

ASEAN equity markets look stretched



Note: Please refer to appendix for technical explanation in our Asia Vulnerability Monitor report
Sources: Bloomberg and Deutsche Bank

Please refer to Asia Vulnerability Monitor: Identifying the overstretched published on 20 Oct 2017 for details.

A week ahead

Taiwan will report its Q3 GDP (advance estimate) next Tuesday and we expect its growth to head slightly higher to 2.3%yoy in Q3, from 2.1% in Q2, supported by rebound in exports and private consumption.

With the Q3 GDP report already out, much of the market attention will be paid to the October data for South Korea. We expect a notable payback in exports in October, with the pace of expansion slowing sharply to 12%, from 35% in September, after exports were frontloaded before the October holidays. More importantly, South Korea is likely to report a weaker CPI inflation of 2% in October, vs. 2.1% in September. Together they may ease some concerns about a more hawkish BoK ahead. South Korea will also report the rate of expansion in its September industrial and services production, which we expect to accelerate, as suggested by the recent GDP report.

We also expect Thailand to report a stronger value added production growth of 4.5% in September, vs. 3.7% in August, amid continued double digit expansion in exports and recovery in domestic demand. In contrast, Hong Kong retail sales growth is likely to moderate in September vs. August in both volume (1.5% vs. 3.2%) and value (2.0% vs. 2.7%) terms, while Malaysia too report a weaker export growth of 16.0 % in September, vs. 21.5% in August.

Elsewhere in EM Asia, we see Sri Lanka also reporting a weaker CPI inflation of 6.2% in October vs. 7.1% in September. In contrast, we expect a modest pickup in inflation in October vs. September for Indonesia (3.8% vs. 3.7%) and Thailand (1.0% vs. 0.9%).

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Fixed Income Strategy

- China: Near term domestic and external risk factors pose upside risk on RMB rates and we expect long term yields to drift towards the top end of our forecast ranges. We keep our paying bias on 5Y NDIRS and recommend that asset allocation oriented investors add duration on breakouts.
- India: The immediate equity market reaction to the bank recapitalization announcement has lauded the fact that the capital injection is front loaded; the package itself is in the first instance cash neutral for the government and hence arguably non-inflationary; and that the fallout on the Budget (interest payments on the recap bonds) will be staggered. For fixed income though, and away from the debate on how the recap bonds will be treated from an accounting perspective, the issuance of such a large quantum over a period of 12 months will pressurize an already weak technical position by detracting from the public sector bank appetite for general government issuance. Together with a data dependent RBI, this to us argues further for steeper curves in India. The fallout is more neutral for the rupee, with a more growth/credit/equity positive outlook from the move offset by concerns over valuations, access limits, and beta to global rates outlook.
- Korea: The stronger-than-anticipated 3Q GDP justifies a hawkish BOK stance. We would not be surprised to see a 25bp hike at the November MPC. In this light, evaluating the market pricing of BOK tightening is important when taking any front-end positions in either direction. The most popular and practical way to estimate implied BOK policy rate is using the FRA curve. Meanwhile, the assumption on the policy rate and the 91D CD rate tends to affect the interpretation substantially. If we take assumption of a moderately faster rise in the 91D CD rates (+30bp) than the policy rate (+25bp), the current FRA curve indicates the first hike to 1.5% in January 2018, the second to 1.75% in July 2018 and the third to 2.0% in around July 2019. On a separate note, we discussed the ramification of 30Y KTB borrowing positions, which poses the risk of liquidation in local 10Y/30Y KTB steepener positions.

China

Wait for consolidation

The RMB domestic bond market sold off heavily this week with 10Y CGB yield approaching 3.75%, the highest level in the past three years. We think the deterioration in bond market sentiment reflects the risk factors that we envisaged in our Q4 bond market outlook, namely (a) month end liquidity risk due to fiscal factors (tax collection); (b) strong risk appetite in the equity market after the successful conclusion of the 19th Party Congress earlier this week; (c) speculation for further regulatory tightening to de-lever the financial system; (d) externally with UST grinding towards 2.5% and ECB's QE tapering announcement, the global rates market is re-pricing the prospect for further monetary policy renormalization by major global central banks.

In the near term, we expect the PBoC to step up liquidity injection to smooth money market liquidity which will help stabilize bond market sentiment. However, we feel overall risk appetite remains in favor of the A-share market, and uncertainties with regard to the timing of regulatory upgrades as well as external risks still pose upside risks on rates. We hold our view that bonds and IRS/NDIRS may drift towards the top side of our forecast range (10Y at 3.85% and 5Y NDIRS at 4.1%) and consolidate around these levels. We still expect the 10Y CGB and 10Y CDB yields to trade between 3.5% and 3.85% and 4.1% and 4.5%, respectively, before the year end and recommend asset allocation oriented investors to add duration on upside breakouts. We hold our paying 5Y IRS/NDIRS trade with a target exit of 4.1%.

India

A few thoughts on bank recapitalization

In a speech last month in Mumbai, the Reserve Bank Deputy Governor Viral Acharya had echoed the sentiment of many in highlighting the need for a 'Sudarshan chakra' plan – a 'big bang' approach - to restore the health of the public sector banks, and to unclog their balance sheets to make space for fresh credit creation. The government this week announced an INR2.1tn package to that effect, equivalent to 30% of the capital of public sector banks, and within (an admittedly broad) range of estimates of the capitalization needed for the sector to meet with Basel 3 requirements (and including a more conservative asset quality recognition). The immediate equity market reaction has lauded this move in that – and both RBI and rating agency comments have been supportive as well - the capital injection is front loaded; the package itself is in the first instance cash neutral for the government (the INR180bn of direct allocation from the Budget has been in the plan already as part of the 'Indradhanush' scheme) and hence arguably non-inflationary; and that the fallout on the Budget (interest payments on the recap bonds) will be staggered.

Our colleagues have written elsewhere about the macro implications of this proposed recapitalization, and about arguments for and against the likely success of the program (our credit analysts, for example, estimate that around half this amount might be needed just to get the loan loss provisioning by public sector banks to at least 75%). We note here three points on the fallout for debt and currency markets from the same:

- Away from the debate on whether the recapitalization bonds will – and should – be treated as an 'above the line' item in the Budget or not, and hence the optics on the Budget Deficit; the issuance of such a large quantum over a period of 12 months will pressurize an already weak technical position for the bond markets by detracting from the public sector bank appetite for general government issuance (center and state). The specifics of the recap bonds (whether eligible for SLR, whether marketable etc.) will determine the extent of substitutability between recap bonds and other government paper. Note also the backdrop of recent lowering by RBI of both the mandatory SLR for banks, and the limit on SLR securities held under the HTM category, which should reduce the overall appetite from banks for SLR paper – and in particular for duration. There are two mitigating factors to consider though – a) that the banking system remains flush with liquidity (as obvious in the money parked with RBI) created by the demonetization exercise from late last year, and b) possible reduction in RBI OMO sales given that this recap bond issuance will, at least temporarily, take some surplus liquidity out of circulation. The net sum though, we expect, to still be negative for the demand technicals of the markets. Comes as this does together with increasing likelihood of slippage in deficit for the current FY (unless the government manages to get additional dividends from PSUs) – and likely putting at risk the FRBM Committee recommendation for 3% target for next FY – the technical picture overall points to risk of higher rates and steeper curves still in India. We stay underweight in our exposure to duration.
- RBI remains data dependent at this point in the cycle. The recapitalization move – which RBI has welcomed – should make the central bank incrementally more positive on the medium term prospects for the economy, but arguably also more acutely sensitive to the trajectory in the near term. That the government is stepping up to RBI's ask on structural reforms to push growth/investment activity could also accentuate the debate on how these reforms could take time in improving the transmission process, but need cover on short term pain for the economy. The inflation trajectory of course makes the case for RBI to justify further easing a lot trickier (DB Economics is looking for core CPI to average in the 4.5-5% range for the next 12 months). The markets have only very marginally shaved off the pricing on RBI from the curve, with a little less than 10bp of easing priced in over the next year. Again, we suspect the sum total of a data dependent RBI and the growth/inflation/fiscal mix from this move leads to more steepening bias for the curve. We have a target of 35bp on our 1Y/5Y NDOIS steepeners.
- A growth and credit positive recapitalization would appear to be constructive for the currency, but we have always argued that growth and FX are not straightforwardly related in EM. With the bank recap plan boosting equities and hurting bonds, a key question for the rupee is which asset market correlation matters more. Offshore inflows into bonds have been more than four times the flows into equity markets this year, and indeed FX correlations to the SENSEX have been declining. We could see some offshore interest to buy into public bank stocks, which have scope to re-price from very depressed valuation levels (0.3-0.4x P/B), but most of the rest of the Indian equity market remains very richly valued, which will likely remain a deterrent for foreign investors. Bond inflows could slow down for now too given fiscal uncertainties, supply pressure, less clarity around the next rate move, and limited present space on government debt quotas. We are keeping a look out for details on the future principles for FPI participation in the debt market, which could open up further scope for inflows next year, given that the current measured framework only runs till March 2018. For now, and given risks around the US rates outlook, we don't see a sufficiently compelling case to buy the rupee despite a welcome bank recap plan. We still see RBI as apt to accumulate USD on the downside. The US Treasury Report sharpened the rhetoric on India's aggressive intervention, but with a current account deficit, India is not at risk of being labelled a manipulator (unlike Korea which cannot afford to breach the intervention criteria). Moreover with lesser trade and security dependency on the US, we think India is less likely to toe the US line on foreign exchange practices than some of her North Asian peers.

Korea

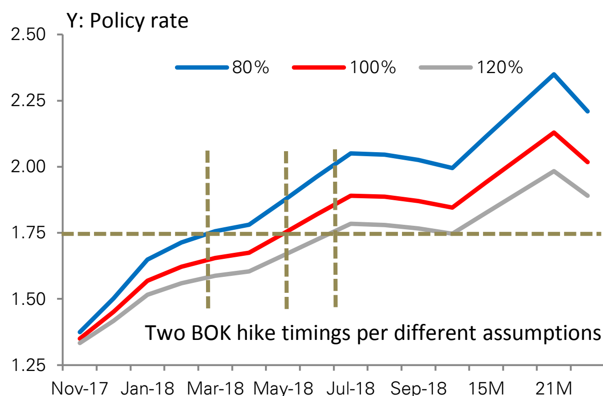
New assumption for pricing in policy rate change

The stronger-than-anticipated 3Q GDP justifies a hawkish BOK stance at least for the time being, although there is a question mark on the sustainability of growth in 2018. We would not be surprised to see a 25bp hike at the November MPC, unless significant provocation by North Korea derails the economic recovery trend. In this light, how to evaluate the market

pricing of BOK tightening is important when taking any front-end positions on either side. The most popular way to estimate implied BOK policy rate is using the FRA curve (i.e., forward contracts on the 91D CD rate). Meanwhile, the assumption on the policy rate and the 91D CD rate tends to affect the interpretation substantially.

We illustrate three different assumptions for the policy rate/91CD rates spread on a 25bp policy rate hike: 1) 20bp (80%); 2) 25bp (100%); and 3) 30bp (120%) rise in the 91D CD rates. The current spread between the policy rate and 91D CD rates has stayed at +13-14bp since May. If we assume that the 91D CD rates rise slower than the policy rate, it tends to overestimate the scale of implied policy rate hike and vice versa. For example, 80% of 91D CD reflection to a 25bp BOK hike suggests three hikes in June 2018, which is only possible with a 1.2bp lower 91CD rate vs. the policy rate. At the same point, 120% of CD reflection indicates slightly less than two hikes (1.72% of policy rate) with policy rate/91D CD rates spread at +22.5bp from +13bp.

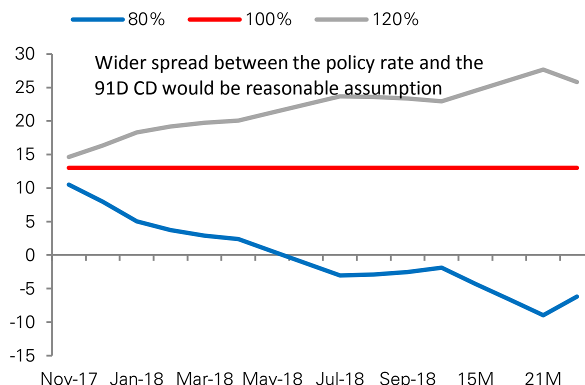
Implied policy rate in the FRA with different assumption on the policy rate/swap fixing spread



Source: Deutsche Bank, Bloomberg Finance LP

The above chart demonstrates different time points for two BOK hikes from March to June, depending on the assumptions over the spread between the policy rates and the 91D CD rates. As discussed earlier, too complacent a view on the speed of a rise in the 91D CD leads to unrealistic BOK pricing. While we believe the scope of a spread widening would be moderate, it is reasonable to assume that the 91D CD will rise a bit faster than the policy rate, in our view. With this assumption (the grey line of the below chart), we estimate the market to price in the first hike to 1.5% in January 2018, the second to 1.75% in July 2018 and the third hike to 2.0% in around July 2019. This BOK pricing does not look very attractive for us to take front-end receivers.

Different policy rate/91D CD spread in implied hike pricing



Source: Deutsche Bank, Bloomberg Finance LP

Different local technicals dominate at the long end.
We like to be sellers of 10Y KTB/futures and payers of 10Y IRS at any relief rally. The 10Y point of Korea curves will likely be caught in the crossfire of hawkish BOK and local technicals. Local bond market dynamics surrounding bond borrowing outstanding suggest a risk of liquidation in KTB10Y/30Y steepeners. At the moment, 30Y KTB (NDFB2.125 March 2047) borrowing outstanding is at KRW2.12tn, comparable with KRW5.3tn of 10Y KTB in terms of DV01. We suspect that local securities have accumulated 10Y/30Y KTB in steepener trade with a bond borrowing platform, which looks at risk now. The curve inversion in the super long end of the KTB curve intensified the market stress. In particular, local trade positions associated with 30Y KTB bond borrowing appear to be at risk of liquidation. In this light, we have already put out a note: Asia Strategy Notes Korea Rates: 10Y point under crossfire on 25 October.

In our view, the MOSF's measure of increasing 30Y KTB supply by KRW200bn would not be sufficient to clear the pending risk surrounding 30Y KTB borrowing. In particular, there was no mention about a resumption of 50Y KTB supply. We suggested probable candidates for MOSF measures could be: 1) an increase in >20Y KTB issuance in November and December; 2) pre-emptive confirmation of 50Y KTB issuance in 2018; and 3) exchange of short dated KTBs into longer than 20Y KTBs. Given a limited time period of just two months until the year end, the above measures are unlikely to be sufficient to completely remove the accumulated risk too.

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Foreign Exchange Strategy

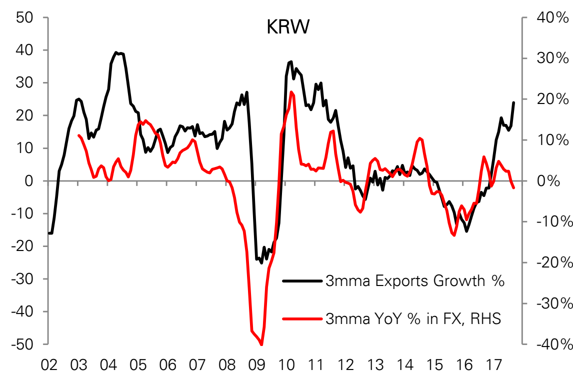
KRW: Stepping into hiking shoes should help FX climb

The best performing global currency in October has been the KRW. Despite the move up in US yields, signs of support for the USD, and topside interest in USD/JPY, USD/KRW has traded lower and front-end KRW vols have broken to fresh lows for the year this week. We have been neutral on the KRW in recent months with geopolitical risks offsetting fundamental strengths. Event risks could still puddle the path ahead from the Fed chair announcement, North Korean threats of an atmospheric nuclear test (Reuters), and historically weak November seasonality. But we think there are good reasons why the KRW has been trading well, and which support building exposure to KRW strength. We prefer keeping exposure through downside USD/KRW options given the cheapening in vol, and with geopolitical tail risks making cash exposure difficult.

First, strong data and a hawkish BoK should be supportive. The BoK meeting last week surprised markets with a hawkish dissent and upgrade to growth forecasts. This was validated this week with the large upside surprise to Q3 GDP, led by exports. We find that the KRW has lagged the strength in exports to which gains have historically been correlated (Figure 1). The KRW has also lagged the re-pricing in the rates market (Figure 2), which is now pointing to close to two hikes over the next six months. Joining the "hiking camp" has been a supportive theme for currencies this year, particularly for the lower-yielders that are just joining the global tightening narrative. We recall that the surprise Bank of Canada hawkishness and double hikes occurred alongside a more than 10% gain in the CAD. This all suggests there is catch-up potential in the KRW.

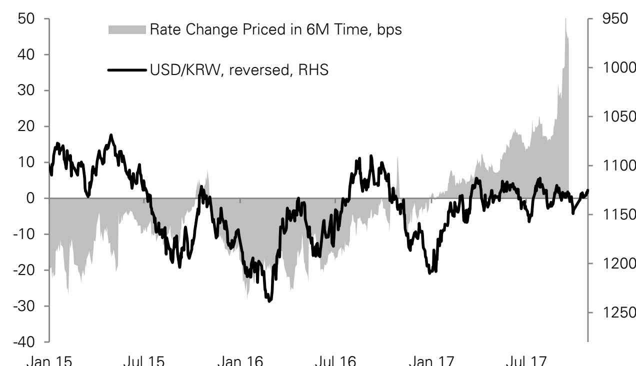
Second, equity flows are returning to a cheap, growth-sensitive market. After three months of outflows from stocks over the summer, foreign investors have bought close to USD2bn of Korean stocks this month. Outflow periods are typically followed by multi-month inflows suggesting this could continue. The KOSPI has in fact gotten cheaper in valuation multiple (P/E) terms this year, as the price change has not kept up with very rapid earnings growth (+27% YTD in 12M forward earnings forecasts). Admittedly, Korea could face some foreign outflows from bond markets, but these are more likely to have been asset swapped (FX hedged), with the KRW having been less sensitive to bond flows, than equity flows.

1. The KRW has lagged strength in exports growth…



Source: Deutsche Bank, Bloomberg Finance LP, CEIC

2. …and the repricing in rates markets for hikes



Source: Deutsche Bank, Bloomberg Finance LP

3. Equity flows are returning after outflows over summer

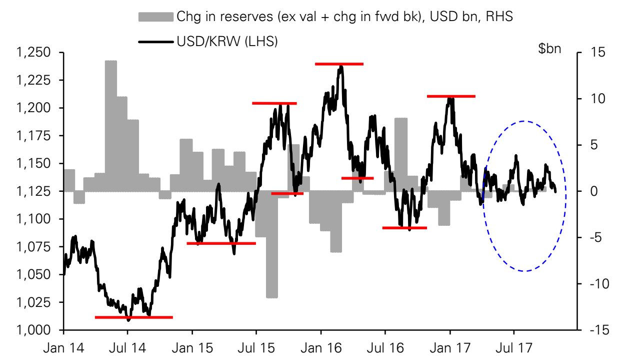
Source: Deutsche Bank, Bloomberg Finance LP

Third, the US pressure to allow KRW to strengthen towards fair value remains. As we noted last week[1], although the heat on Korea reduced in the latest US Treasury Report, Korea remains on the monitoring list. In particular, the US continues to cite IMF's assessment that the won remains "5-15 percent undervalued." Until the valuation gap closes, we suspect the threat of scrutiny will dissuade BoK from active intervention (Figure 4).

Finally, markets could be getting fatigued by geopolitical risk, although this remains difficult to read. After a strong start to the year, the KRW underperformed over summer on North Korea risks as investors stayed away and headlines made spot volatile. Trump is making his first trip to Asia next month, visiting Seoul on the 7th. With North Korea on the discussion agenda, this leaves open the risk of some disturbance. However, the responsiveness of markets to this theme appears to be diminishing, with vols trading to the lows. News reports (Washington Post) recently suggest Trump will not be visiting the demilitarized zone as earlier planned.

We have written in the past about Korea's strong balance of payments profile, with the current account still healthy and the financial account deficit having narrowed when we strip out mostly FX-hedged debt outflows. A combination of fundamental strengths combined and the factors discussed above leave us inclined to keep downside exposure to USD/KRW through options. We buy a low delta 3M 1080 put for 23bp (indicative).

4. BoK has stepped away from intervening, likely deferring to pressure of scrutiny



Source: Deutsche Bank, Bloomberg Finance LP

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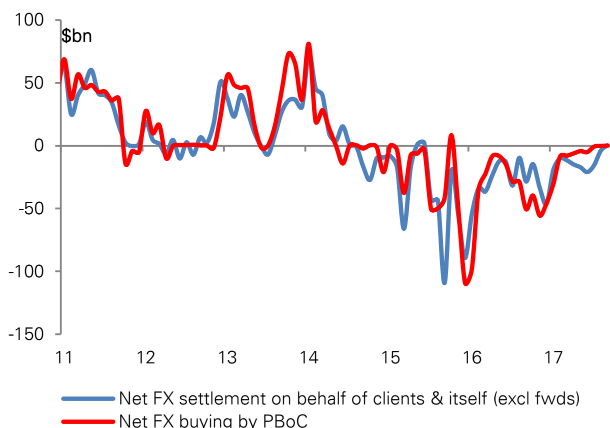
[1] *Asia FX Strategy Notes: US Treasury Report – Toning down the rhetoric (19 Oct 2017)*

Foreign Exchange Special

Further recovery in CNY sentiment

As we head into the 4Q of the year, the flow dynamics in China continue to improve. Although YTD China has seen about -$112bn of outflows in 2017, that is only a fraction of what China experienced in 2016 (-$592bn). This clearly shows that the string of regulatory controls and ongoing improvement in China's underlying fundamentals are shifting the flow dynamics from outflows to inflows, and in our view, likely to persist. In fact, the latest string of flows data released last week reflects that. First, the net FX purchasing by banks on behalf of clients shows banks net sold $3.3bn on behalf of their clients, the first positive print since June 2015, two months before the one-off CNY devaluation in August 2015.

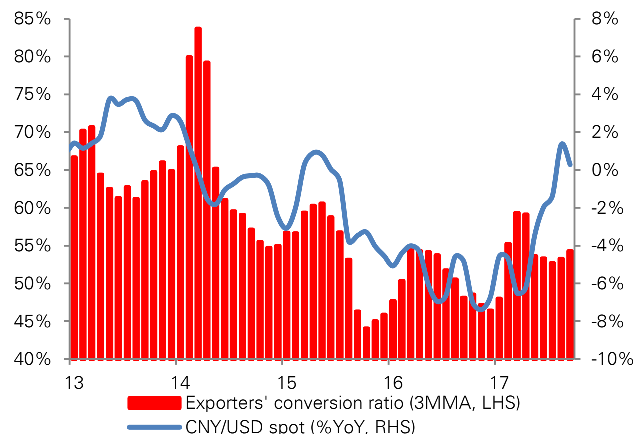
Net FX purchasing by banks on behalf of clients shows banks net sold US$3.3bn on behalf of their clients, the first positive print since June 2015



Source: Deutsche Bank, CEIC, Bloomberg LLP, Haver

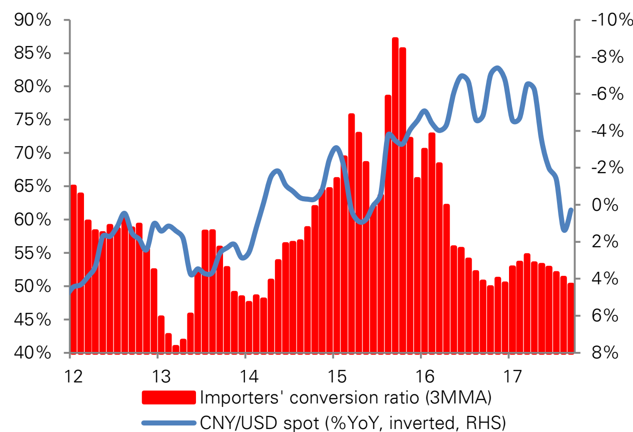
Second, in September, our exporters' conversion ratio (i.e. amount of FX proceeds converted by exporters into CNY) jumped from 53% to 60%, which is the highest since February this year. Given the conversion ratio is a volatile series, we tend to look at the ratio on a three-month moving average, and on this basis, the ratio is up marginally, printing at 54%. Although the recovery is still at its infancy, we believe it should persist and that this is a sign that exporters are becoming more comfortable in repatriating their earnings back into RMB. Importers' FX conversion ratio is also declining, which means importers are buying less USDs. This is also a sign that importers are increasingly more comfortable with RMB. Before August 2015, importers' conversion ratio has been within the range of 50-55% since they tended to borrow FX to pay for their goods while put their RMB cash in high interest rate yielding products such as WMPs to earn carry and return over RMB appreciation. That, however, abruptly shifted after August 2015 when the RMB devalued. However, with the RMB becoming more stable and expectation of ongoing RMB depreciation now dissipated, importers are again returning to their old practice. Although this could be a risk in the medium term if the RMB becomes more volatile once again, in the meantime, this is not only a sign of confidence in the currency but also suggests that USD buying activities should slow.

Exporters' conversion ratio is gradually rising…



Source: Deutsche Bank, CEIC, Bloomberg LLP, Haver

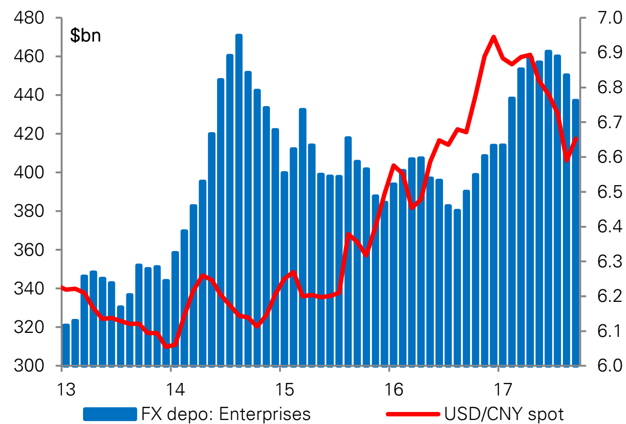
…while importers' conversion ratio is declining, both signs of corporates becoming comfortable with RMB



Source: Deutsche Bank, CEIC, Bloomberg LLP, Haver

Third, following the change in fixing mechanism in May and the strong RMB appreciation in 3Q, we are starting to see corporates reduce their FX deposits holding. In September, FX deposits held by corporates fell by $13bn to $437bn, the largest decline this year. This is yet another sign of returning confidence from domestic audiences.

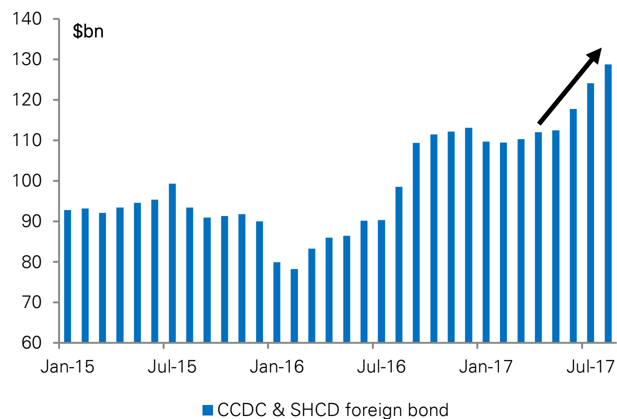
FX deposits drop notably in September by $13bn



Source: Deutsche Bank, CEIC, Bloomberg LLP, Haver

Fourth, in addition to domestic investors, foreign investors are also becoming more comfortable with holding RMB. According to the latest data from China Central Depository & Clearing (CCDC) and Shanghai Clearing House (SHCD), over the past three months, foreigners have bought about $16.3bn of Chinese bonds mainly in Chinese government and policy bank bonds. Although from our understanding these are purchases mainly by global central banks and sovereign funds, it is still an indication that RMB assets are attractive assets to invest in. With China gradually opening up its capital account, particularly its bond market to global investors, we do believe China is on the cusp of being added into the global bond indices, possibly into the EM bond indices first. This should incentivize global real money funds and hedge funds to gradually increase their holdings in China, adding another layer of inflows.

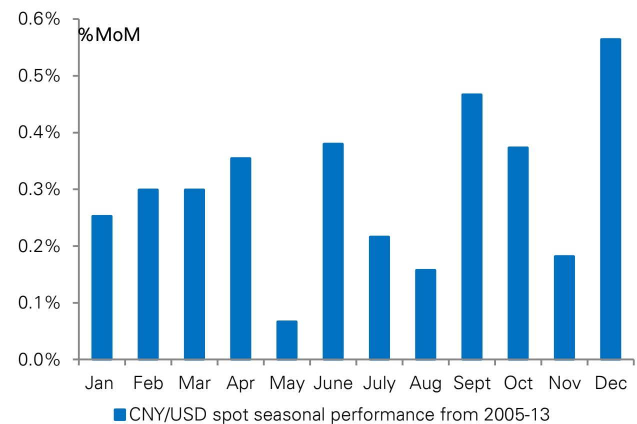
Following the resumption of RMB appreciation, bond inflows are starting to pick up again



Source: Deutsche Bank, CEIC, Bloomberg LLP, Haver

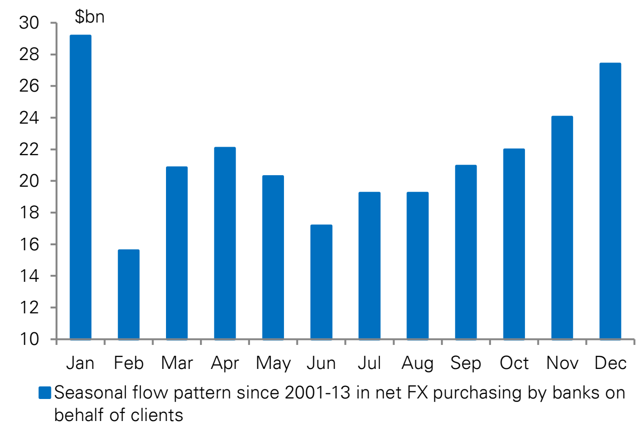
As mentioned in our earlier report (*FX daily: Three points on Asia vol, 9 October 2017*), we like to position for some USD/CNH downside into year-end via put spreads, particularly given the ongoing improvement in the flow dynamic. The trade is also a reflection of our expectation that RMB should seasonally perform well into November/December particularly during a period of improvement in inflows. Looking at the charts below, during periods of inflows (2006 to 2013), RMB tends to perform well into December because that is when the Chinese business cycle ends and domestic corporates tend to repatriate their earnings.

Seasonally RMB tends to perform well into December during period inflows…



Source: Deutsche Bank, CEIC, Bloomberg LLP, Haver

…because domestic corporates tend to repatriate their earnings then



Source: Deutsche Bank, CEIC, Bloomberg LLP, Haver

We can also see this if we were to look at RMB performance on an annual basis from 2006-2016. As shown in the table below, out of the past 11 years, five of those years saw the RMB perform well in December

(2006, 2007, 2010, 2011, and 2013). The years in which RMB has performed poorly were either during a global crisis (2009 GFC) or because of weak underlying fundamentals (2014 and 2015). Given China's growth is holding up well and flow dynamics are improving, we believe there is a good probability that the RMB resumes its appreciation path into 4Q.

Reforms back on the agenda

The ongoing improvement in the flow dynamics would also create the appropriate environment for the resumption of FX reforms and the re-acceleration of financial liberalisation and Renminbi internationalisation. This was clearly signaled by Governor Zhou Xiaochuan's interview with Caijing (published 8 October 2017) where he stated that "no country can achieve an open economy with strict foreign exchange controls". He also urged boldness when it comes to timing reforms –"policymakers should not wait for every stakeholder to agree that conditions are ripe but should actively seize a window of opportunity". We believe that the PBoC is now only awaiting endorsement from the top political leadership, which could happen in the next politburo meeting before December's annual economic working conference. On the FX reform side, we believe two things could happen: (1) the widening of the trading band from +/-2% to +/-3% and (2) gradual increase in RMB flexibility. On the former, although the change in trading band would be symbolic, it is still an official nod to greater liberalization going ahead. We would also likely see further relaxation of cross-border cash pooling and offshore use of RMB funds from China.

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CNY performance against the USD (%MoM) from 2006 to 2017. As shown below, December tends to be a period when the RMB can perform well

CNY/USD	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Jan	10	9	1	12	10	10	11	5	7	9	9	3
Feb	8	7	4	2	7	7	4	11	12	8	2	6
Mar	7	12	2	3	9	6	9	6	11	1	1	8
Apr	11	11	6	1	8	3	3	1	9	6	5	7
May	12	3	5	11	11	9	12	3	5	4	11	2
Jun	6	8	3	9	3	8	5	12	1	5	8	5
Jul	4	5	7	10	5	4	10	8	3	7	3	4
Aug	9	10	12	5	12	2	6	7	2	12	6	1
Sep	1	6	11	4	1	11	1	10	6	3	4	9
Oct	5	4	8	8	4	5	2	4	4	2	10	
Nov	2	2	10	7	6	12	7	9	8	10	12	
Dec	3	1	9	6	2	1	8	2	10	11	7	

Source: Deutsche Bank

Asia Local Market Indicators

Momentum is mixed across the region, but largely still biased bearishly for Asian FX with the late week budget resolution news and the likelihood of John Taylor being the next Fed Chairperson in the US providing another catalysts for USD support. Risk sentiment has arguably held up well in the region, with our risk indicator continuing to oscillate around neutral territory, and vols mostly easing on the week. We have had some equity money return to most Asian countries apart from Thailand, but flows remain substandard. Correlations are showing greater sensitivity to the USD or other FX drivers, with the USD TWI or EUR showing up within the top drivers for most currencies, with the exception of INR and KRW which remain much more equity market driven.

Amid the ongoing Fed Governor appointment process, UST yields have continued to rise. In particular, articles reporting candidates are narrowed to Jerome Powell and John Taylor added to bearish bias in the UST. The ECB meeting was in line with expectations: QE extended to September 2018; no change in the policy rate. Most macro figures across the world have also raised similar concern: favourable PMI in France and Germany as well as in the Eurozone, moderate upside surprise in the UK's 3Q GDP, followed by strong durable goods orders in the US. In the region, China's communist party national congress has attracted a lot of attention, although there have been few ramifications for the market yet. Xi Jinping cemented his power at this event without any clue as to a successor. China's new leadership will likely reveal its economic policy at the National People's Congress (NPC) starting March 4 2018. The highlight among regional macro numbers will likely be Korea 3Q GDP, which surprised the market to the upside a lot; 3Q YOY +3.6% and QoQ +1.4%. This positive surprise easily justifies a very hawkish tone at the 19 October BOK MPC and increases the likelihood of a hike at the 30 November MPC too.

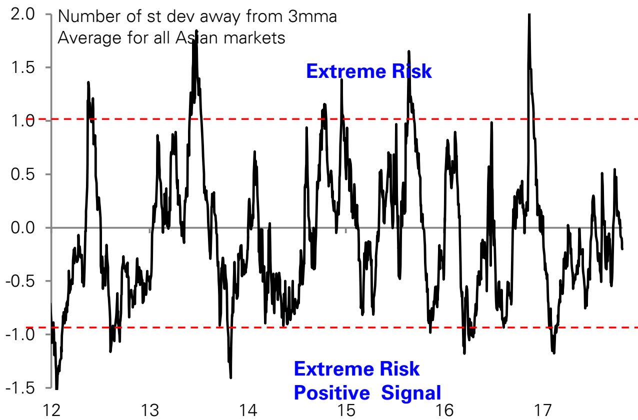
Asia FX Dashboard

vs USD	Momentum-Risk model		Carry and Vol			Portfolio Flows (Latest 5 day sum, $mn)		Top 3 drivers[5]		
	Momentum indicators[1]	Risk-Monitor[2]	3m carry[3]	3m implied vol[3]	Implied sharpe ratio[4]	Equities	Fixed-Income			
CNH	▼	▲	3.9%	5.1%	0.76			CNH Funding (-)	VIX (+)	US Rates Vol (+)
IDR	▼	▼	5.8%	6.2%	0.95	57	-4	USD TWI (-)	Local 5Y Rate (-)	AUD (+)
INR	▲	▼	5.4%	5.5%	0.98	703	373	Asia Credit (-)	EM Stocks (+)	3M FX Vol (-)
KRW	▲	▲	1.2%	8.1%	0.14	293	928	Local Stocks (+)	EM Stocks (+)	Local CDS (-)
MYR	▼	▲	2.2%	6.4%	0.34			USD TWI (-)	AUD (+)	EUR (+)
PHP	▼	▼	5.8%	5.7%	1.02	58		Oil (+)	USD TWI (-)	AUD (+)
SGD	▼	▲	1.0%	4.4%	0.24			USD TWI (-)	EUR (+)	AUD (+)
THB	▼	▲	1.3%	4.2%	0.30	-273	121	Gold (+)	EUR (+)	CNH (+)
TWD	▲	▲	-0.4%	4.4%	-0.08	205		CNH (+)	USD TWI (-)	Gold (+)

1. 5/30 day moving average cross-over rule
2. Composite indicator of investor risk-appetite for each Asian country, comprising credit, equities, FX and fixed income indicators.
3. Shading for carry & vol columns, blue (red) = increasing (decreasing) versus prior w eek
4. Implied sharpe ratio is 3m carry divided by 3m implied vol
5. Top 3 most correlated drivers to spot performance based on 3 month correlations of 3 day changes

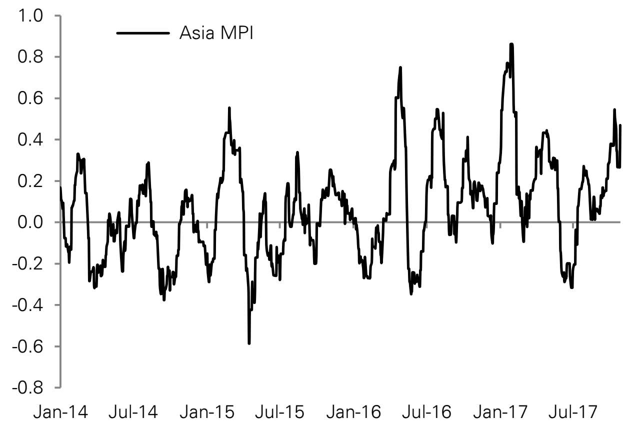
Source: Deutsche Bank

Asia Risk Monitor



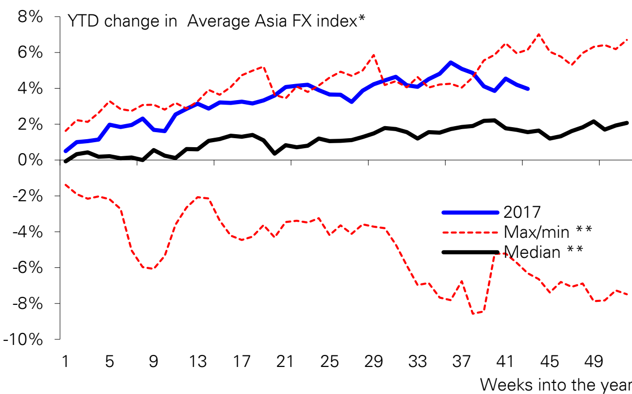
Source: Deutsche Bank, Bloomberg Finance LP
Note: Composite signal of risk appetite in Asia comprising of sub-indicators from FX, equities, credit and fixed-income; if the indicator is 1 standard deviation above (below) the 3mma, then the market is extreme risk negative (positive)

Asia data surprises index



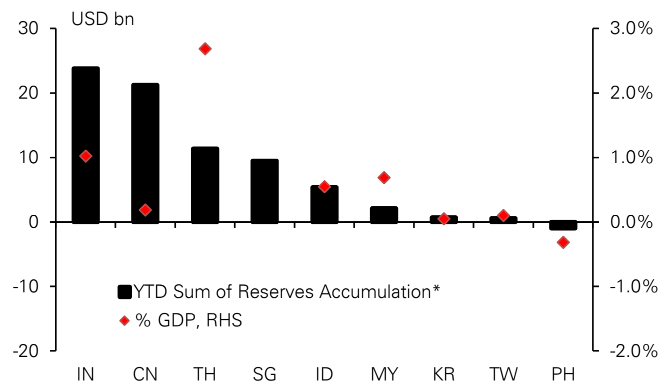
Source: Deutsche Bank, Bloomberg Finance LP
Note: The data surprise index is calculated by taking the average of the last 30 z-scores of data surprises in Asia. Data includes exports, IP, quarterly GDP and where available retail sales, PMIs, money supply. The z-scores are rolling, taken on a 3 year historical basis. A value below (above) zero implies that data in Asia has been worse (better) than expected.

Asia FX Seasonality



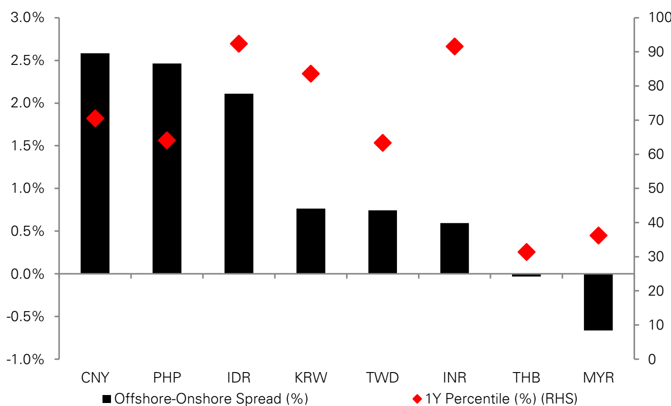
Source: Deutsche Bank, Bloomberg Finance LP
** An equally weighted index of 9 major Asian currencies*
*** We exclude 2008 from the 2002-15 median, max and min calculations*

Asian central bank reserves accumulation



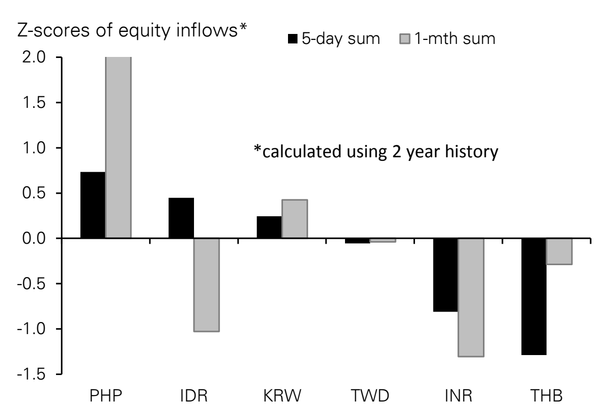
Source: Deutsche Bank, Bloomberg Finance LP
** Refers to the last 3m months of available reserves data, adjusted for valuation changes and changes in forward books (where available)*

Positioning Gauge: Offshore-onshore yield spreads



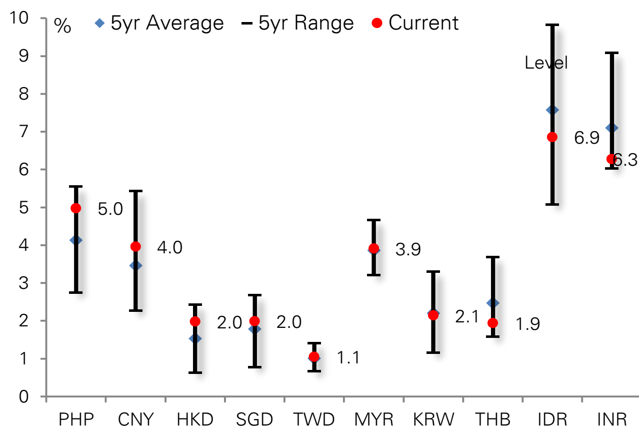
Source: Deutsche Bank, Bloomberg Finance LP, Reuters
Note :Implied yields are derived from 3M NDFs and onshore forwards

Asia equity flows: Current z-scores (1m and 5 day)



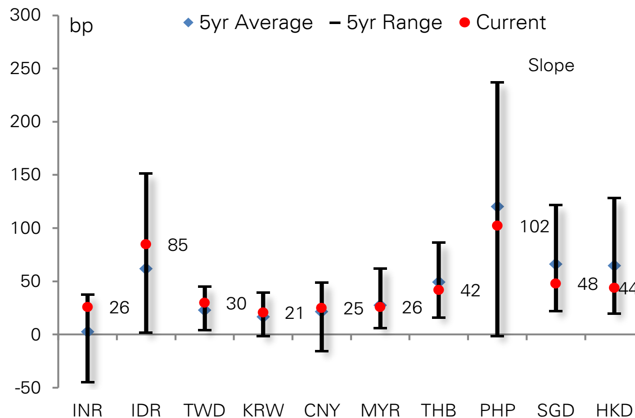
Source: Deutsche Bank, Bloomberg Finance LP
** Z-scores of 5 day sum and 1m sum are calculated using a 2 year history*

Asia Rates: Levels versus history



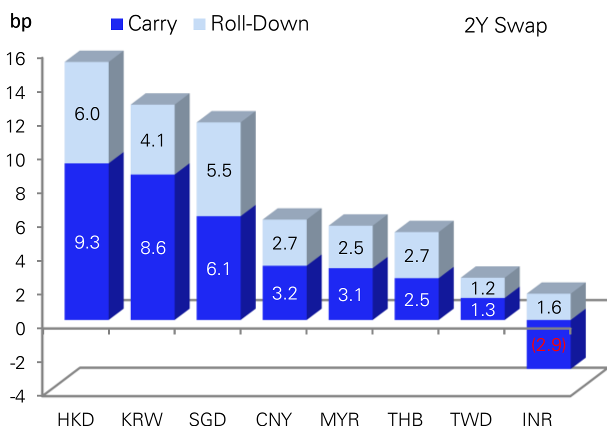
Source: Deutsche Bank, Bloomberg Finance LP
Note: 10Y bond yields for Philippines and Indonesia, 5Y swap rates for the remaining

Asia Rates: Slope versus history



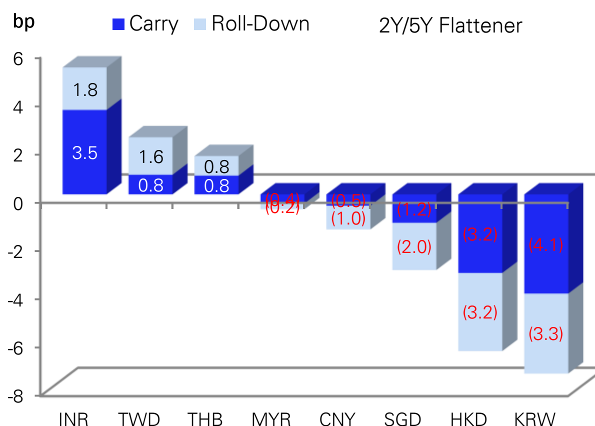
Source: Deutsche Bank, Bloomberg Finance LP
Note: 2Y/10Y bond slope for Philippines and Indonesia, 2Y/5Y swap slope for the remaining

Asia Rates: 3m carry and roll-down



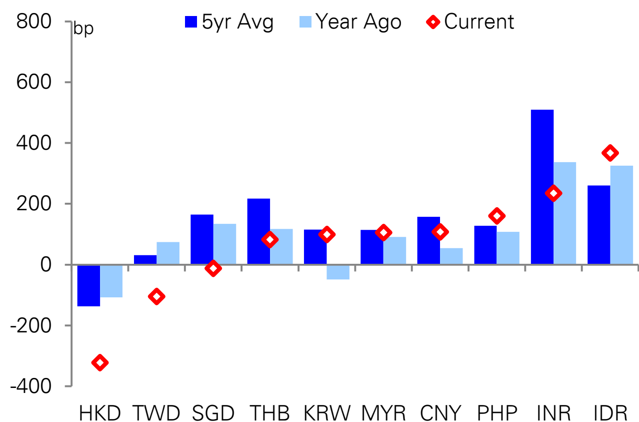
Source: Deutsche Bank, Bloomberg Finance LP

Asia Rates: 3m carry and roll-down for flatteners



Source: Deutsche Bank, Bloomberg Finance LP

Asia real forward yields



Source: Deutsche Bank, Bloomberg Finance LP
Note: Real forward yields are calculated as difference between 10Y nominals and realized inflation over the subsequent year. We use DB forecasts for inflation to calculate current forward yields.

Asia fixed income flows

USD mn	**Last 1 week**	**Last 4 weeks**	**2017 YTD**	**2016**
India	373	1,789	22,294	-6,459
Indonesia	-4	-1,230	10,671	7,949
Korea	928	-1,073	10,467	-10,304
Thailand	121	-942	5,184	1,783

Source: Deutsche Bank, Bloomberg Finance LP, Thailand BMA, Korea FSS
*Note: Foreign bond flows include: in Indonesia, government bonds and bills; in India, sovereign and corporate bonds; in Thailand, government bond and bills, and BoT bills; and in Korea, MSBs and KTBs **

Economic Diary

Country	Release	Period	DB Expected	Consensus	Actual	Previous
Monday, Oct 23						
Hong Kong	CPI	Sep-YoY	1.9%	2.0%	1.4%	1.9%
Singapore	CPI	Sep-YoY	0.4%	0.4%	0.4%	0.4%
	Core CPI	Sep-YoY	1.4%	1.4%	1.5%	1.4%
Taiwan	Unemployment Rate (sa)	Sep	3.7%	3.8%	3.7%	3.8%
	Industrial Production	Sep-YoY	4.5%	5.4%	5.2%	3.3%
Tuesday, Oct 24						
Taiwan	M2	Sep-YoY	4.0%	NA	3.8%	3.8%
Thursday, Oct 26						
Hong Kong	Exports	Sep-YoY	5.0%	5.9%	9.4%	7.4%
	Imports	Sep-YoY	5.5%	5.0%	9.7%	7.7%
	Trade Balance	Sep	-HKD43.0bn	-HKD38.5bn	-HKD44.7bn	-HKD35.5bn
Singapore	Industrial Production	Sep-YoY	11.5%	10.0%	14.6%	19.5%
South Korea	GDP (Advance estimate)	Q3-YoY	3.0%	3.0%	3.6%	2.7%
Friday, Oct 27						
Singapore	Unemployment Rate	Q3	2.2%	2.2%		2.2%
Vietnam	CPI	Oct-YoY	3.8%	3.1%		3.4%
	Retail Sales (ytd)	Oct-YoY	12.3%	NA		10.5%
	Industrial Output	Oct-YoY	13.5%	NA		13.2%
	Exports (ytd)	Oct-YoY	20.6%	20.6%		19.8%
	Imports (ytd)	Oct-YoY	21.7%	22.9%		23.1%
	Trade Balance (ytd)	Oct	USD1.0bn	NA		-USD0.4bn
Tuesday, Oct 31						
Singapore	Bank Credit	Sep-YoY	6.0%	NA		5.3%
South Korea	Industrial Production	Sep-YoY	5.0%	NA		2.7%
	Service Industry Output	Sep-YoY	2.4%	NA		2.1%
Sri Lanka	CPI	Oct-YoY	6.2%	NA		7.1%
Taiwan	GDP (Advance estimate)	Q3-YoY	2.3%	2.0%		2.1%
Thailand	Current Account Balance	Sep	USD5.8bn	USD4.2bn		USD4.7bn
	Value Added Production Index	Sep-YoY	4.5%	3.5%		3.7%
Events and Meeting:Japan:BoJ Meeting						
Wednesday, Nov 01						
Indonesia	CPI	Oct-YoY	3.8%	NA		3.7%
South Korea	CPI	Oct-YoY	2.0%	NA		2.1%
	Core CPI	Oct-YoY	1.6%	NA		1.6%
	Exports	Oct-YoY	12.0%	NA		35.0%
	Imports	Oct-YoY	11.3%	NA		21.7%
	Trade Balance	Oct	USD8.0bn	NA		USD13.8bn
Thailand	CPI	Oct-YoY	1.0%	0.8%		0.9%
	Core CPI	Oct-YoY	0.6%	0.6%		0.5%
Events and Meeting:US: Fed meeting						
Friday, Nov 03						
Hong Kong	Retail Sales (value)	Sep-YoY	2.0%	NA		2.7%
	Retail Sales (volume)	Sep-YoY	1.5%	NA		3.2%
Malaysia	Exports	Sep-YoY	16.0%	NA		21.5%
	Imports	Sep-YoY	12.0%	NA		22.6%
	Trade Balance	Sep	MYR11.0bn	NA		MYR9.9bn
South Korea	FX Reserves	Oct	NA	NA		USD384.7bn
	Current Account Balance	Sep	USD13bn	NA		USD6.1bn
Thailand	FX Reserves	Oct	NA	NA		USD199.3bn

Source: Deutsche Bank, Bloomberg Finance LP

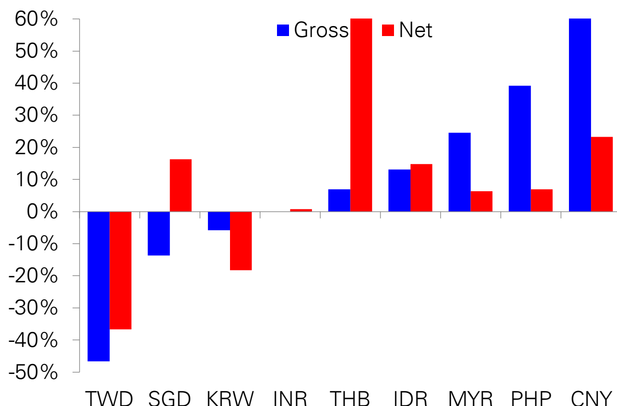
Bond Auction Calendar

Country	Code	Detail	Coupon	Maturity	Amount	Nominal Outs'g	Last auction detail Date	Size sold	Bid-cover	Commentary
	Monday, Oct 30									
Korea	NDFB	3Y Pre-sale	n/a	10-Dec-20	KRW0.4tn					
	NDFB	3Y re-issue	1.750%	10-Jun-20	KRW0.3tn	KRW8.9tn	25-Sep-17	KRW0.75tn	3.46x	Despite relatively cheap valuations and smaller issuance size, fear of BOK November hike will likely discourage demand for this aucton.
China	CGB	5Y re-issue	3.590%	19-Sep-22	CNY34bn					
	Tuesday, Oct 31									
Korea	NDFB	30Y re-issue	2.125%	10-Mar-47	KRW1.75tn	KRW14.06tn	43004	KRW1.55tn	3.19x	We expect robust demand at this auction. The MOSF increases 30Y KTB supply by KRW0.2tn to relieve supply squeeze. Nonetheless, they decrease 20Y KTB issuance by KRW0.1tn. Without more decisive increase in long dated KTB supply, 30Y squeeze would not be easily resolved.
Indonesia	SPN12180201	6M re-issue	n/a	1-Feb-18	IDR15tr	IDR1.60tn				
	SPN12180809	12M re-issue	n/a	9-Aug-18		IDR0.5tr				
	FR0061	5Y re-issue	7.000%	15-May-22		IDR9.38tn	43025	IDR6.55tn	1.59x	
	FR0059	10Y re-issue	7.000%	15-May-27		IDR10.1tr	43025	IDR5.2tn	1.10x	
	FR0074	15Y re-issue	7.500%	15-Aug-32		IDR3.97tr	43011	IDR3.65tn	1.47x	
	Wednesday, Nov 1									
China	CGB	1Y new issue	n/a	2-Nov-18	CNY32bn		2-Aug-17	CNY36.4bn	2.24x	
	CGB	10Y new issue	n/a	2-Nov-27	CNY32bn		3-May-17	CNY36bn	2.20x	

Sources: Deutsche Bank, Bloomberg Finance LP *Note: Information as of 27 Oct*

2017 Gross and Net Issuance Projections – y/y change

Local currency only



Gross Issuance Monitor

Local currency only

	2017 Plan	YTD	As of	% YTD	% YTD 2016*
CNY (bn)	5595.0	5349.8	27-Oct	96%	90%
HKD (bn)	43.4	13.5	27-Oct	31%	71%
INR (tn)	5.8	4.2	27-Oct	71%	66%
IDR (tn)	575.9	503.6	27-Oct	87%	88%
KRW (tn)	103.7	87.1	27-Oct	84%	82%
MYR (bn)	107.1	91.5	27-Oct	85%	90%
PHP (bn)	465.0	425.8	27-Oct	92%	89%
SGD (bn)	24.0	24.0	27-Oct	100%	100%
TWD (bn)	400.0	320.0	27-Oct	80%	81%
THB (bn)	670.0	40.6	27-Oct	6%	8%

Source: Deutsche Bank, CEIC **Corresponding period in 2016*

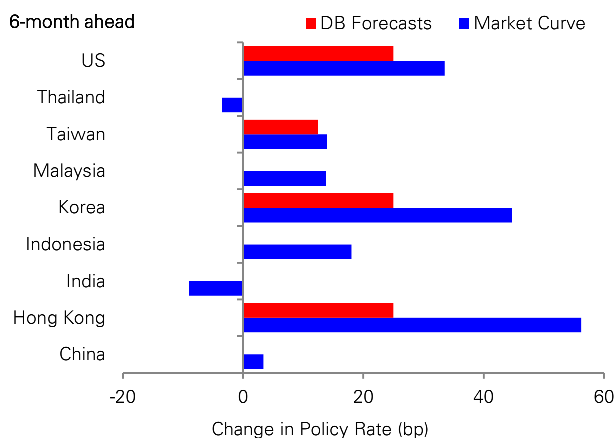
Notes: (1) Calendar year 2017 for all markets except HK (Apr 2017 to Mar 2018), India (Apr 2017 to Mar 2018) and Thailand (Oct 2017 to Sep 2018)
(2) China includes CGBs, local government bonds and savings bonds.
(3) HK includes Exchange Fund Notes and government bonds, excludes EF bills
(4) India includes central government bonds only. Maturities include buybacks
(5) Indonesia includes FR, VR, T-bills, zero coupon, retail bond, sukuks and private placements. Maturities include buybacks.
(6) Korea includes KTB and KTBi, excludes MSBs.
(7) Malaysia includes MGS and MGII.
(8) Philippines includes T-bonds and retail bonds only. Excludes OFW bonds.
(9) Singapore includes SGS and 1Y T-bills.
(10) Taiwan includes TGBs, excludes T-bills.
(11) Thailand includes loan bonds and linkers only. Excludes bills.

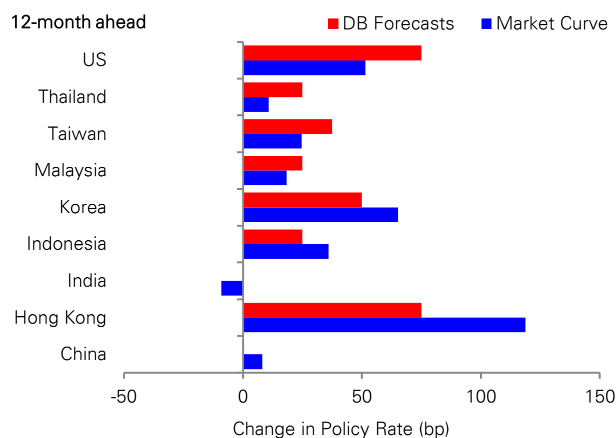
Monetary Policy Monitor

	Policy Rate		Short Rate		Implied change in short rate (bp)*		Implied change in policy rate (bp)**		DB Economics policy rate forecasts	
			Instrument	Spot	6m	12m	6m	12m	6m	12m
China***	1Y deposit	1.50%	1Y T-bill	3.46%	3	8	3	8	0	0
Hong Kong	Base rate	1.50%	3M Hibor	0.91%	38	76	56	119	25	75
India	Repo rate	6.00%	Overnight	6.00%	-9	-10	-9	-9	0	0
Indonesia	7D Rev Repo	4.25%	1Y CMT	6.00%	18	36	18	36	0	25
Korea	7D Repo	1.25%	3M CD	1.38%	46	68	45	65	25	50
Malaysia	Overnight	3.00%	3M Klibor	3.43%	10	18	14	18	0	25
Taiwan	Discount rate	1.38%	3M Taibor	0.66%	6	11	14	25	13	38
Thailand	Repo rate	1.50%	6M THB FX	1.34%	14	26	-3	11	0	25
US	Fed Fund Target	1.25%	Fed Fund Eff.	1.37%	33	52	33	52	25	75

**Calculated from 6X9 and 12X15 FRAs for HK, Korea, Malaysia and Taiwan. 6X12 and 12X18 FRAs for Thailand. 6M and 12M forward overnight rates for India. Forward yield of 1Y CMT for Indonesia. Fed funds futures contracts for the US.*
***Adjusted to imply linear convergence of spread between short rate and policy rate to long term (rolling) regression value over the next 12 months, except for China, Indonesia and India.*
**** We estimate the implied auction yield of the 1Y PBOC bill by the maximum potential for auction yield to fall before PBoC triggers a deposit rate cut. We then compare the implied auction yield with the 1Y bill yield in the secondary market to estimate the extent of rate cut priced in.*
Source: Deutsche Bank, Bloomberg Finance LP

DB policy rate forecasts versus implied by the market





Source: Deutsche Bank, Bloomberg Finance LP *Notes as in the table above.*

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Appendix 1

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