

Friday, June 01, 2018

**FX Themes/Strategy/Trading Ideas**

- The USD weakened against most G10 currencies as concerns over Italy eased. The CAD underperformed as the US imposed steel and aluminium tariffs on the EU, Canada and Mexico, following the expiry of exemptions.
- Spanish PM Rajoy looks set to be toppled later today on a no-confidence vote, although markets appeared unfazed at the moment. Despite some choppy action, the EUR and EUR-crosses have continued its recovery. Implied volatilities have also retreated back to levels before the blow-up.
- Note that our **FXSI (FX Sentiment Index)** moved lower within the Risk-off zone. With US trade provocations stepping up a notch, expect risk sentiments to remain slightly edgy.
- **Moving forward, USD-centric drivers may look to re-assert themselves ahead of the key central bank meetings in June.** In particular, watch for long-end UST yield levels and yield differential arguments to potentially lend some support to the broad USD. While nominal UST yields have faded from highs, note that yield differentials between the US and the other DM economies remained wide, and have again moved in favour of the USD.
- To this end, note that the US data-prints continue to reflect a firm outlook on the economy. PCE inflation is sustained at the Fed's target level of 2.0% yoy, in-line with expectations. Personal spending data also exceeded expectations.
- Meanwhile, comments from Fed speakers reveal that the recent developments in Italy and on the trade front will have little bearing on the policy path. Brainard also explicitly mentioned that the mid-term neutral rate can increase above the long-run neutral rate. This suggests that **the Fed may not be overly uncomfortable with long-end US Treasury yields at recent levels** in the near term.
- Elsewhere, note that the **Bank of Japan** has further reduced its purchases of bonds in the 5- and 10-year tenures by JPY20bn.

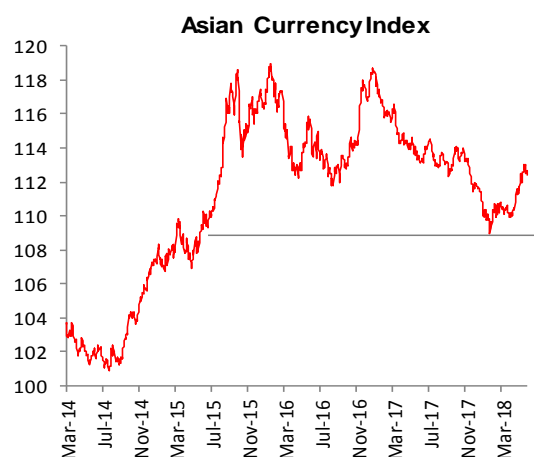
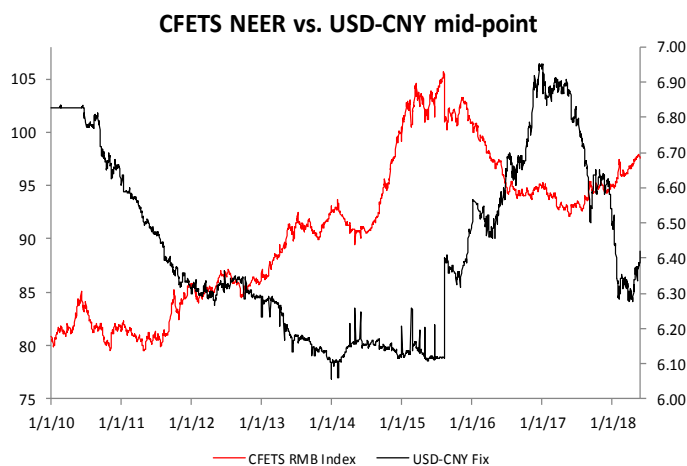
Treasury Research &  
Strategy

**Emmanuel Ng**  
+65 6530 4073  
[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

**Terence Wu**  
+65 6530 4367  
[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)

## Asian FX

- Trade provocations from the US continued apace overnight with the imposition of steel and aluminium tariffs. Renewed focus on trade issues may ultimately be reflected through greater risk aversion. Overall, this may be a net negative for Asian currencies. Expect the **ACI (Asian Currency Index)** remain buoyant intra-day.
- As mentioned previously, the **net portfolio flow environment** in Asia continues to show initial signs of a shift in the North-South divergence. Note that Thailand has seen its outflow momentum essentially half, after consecutive sessions of equity inflows.
- The portfolio flow environment for South Asia may have gotten some reprieve from the recent retreat in DM yields. However, with the Italian situation easing, attention may shift towards the expected Fed hike in June, and further information on the anticipated tapering of ECB asset purchases. DM yields may, therefore, not remain depressed for long. In turn, **this raises the question of whether the moderation of outflow momentum in South Asia can be sustained over a multi-session horizon.**
- Note that Asian central banks are on a divergent path. The BI, RBI and BSP are clearly on a hawkish tilt, albeit currency stability reasons have a large part to play for their stance. Meanwhile, the BOK and BOT continues to be patient and accommodative.
- **India:** 1Q GDP growth clocked in at 7.7%, significantly hotter than the consensus of 7.4%. With the CPI and WPI prints also exceeding expectations, calls for a hike by the **Reserve Bank of India (RBI)** next week should intensify. Nevertheless, firmer crude prices may complicate matters.
- **SGD NEER:** The SGD NEER is firmer +0.66% above its perceived parity (1.3469), on slightly softer NEER-implied USD-SGD thresholds. The USD-SGD may traverse the +0.40% (1.3415) to +0.80% (1.3362) thresholds. The 200-day MA (1.3365) has continued to provide firm support. Look to collect on dips to 1.3360.
- **CFETS RMB Index:** The USD-CNY mid-point was set lower again, within expectations, at 6.4078 this morning from 6.4144 on Thursday. The CFETS RMB Index was higher at 97.32, compared to 97.23 previously. Expect the CFETS RMB index to fade away from the 98.00 cap, although the pace may be measured.



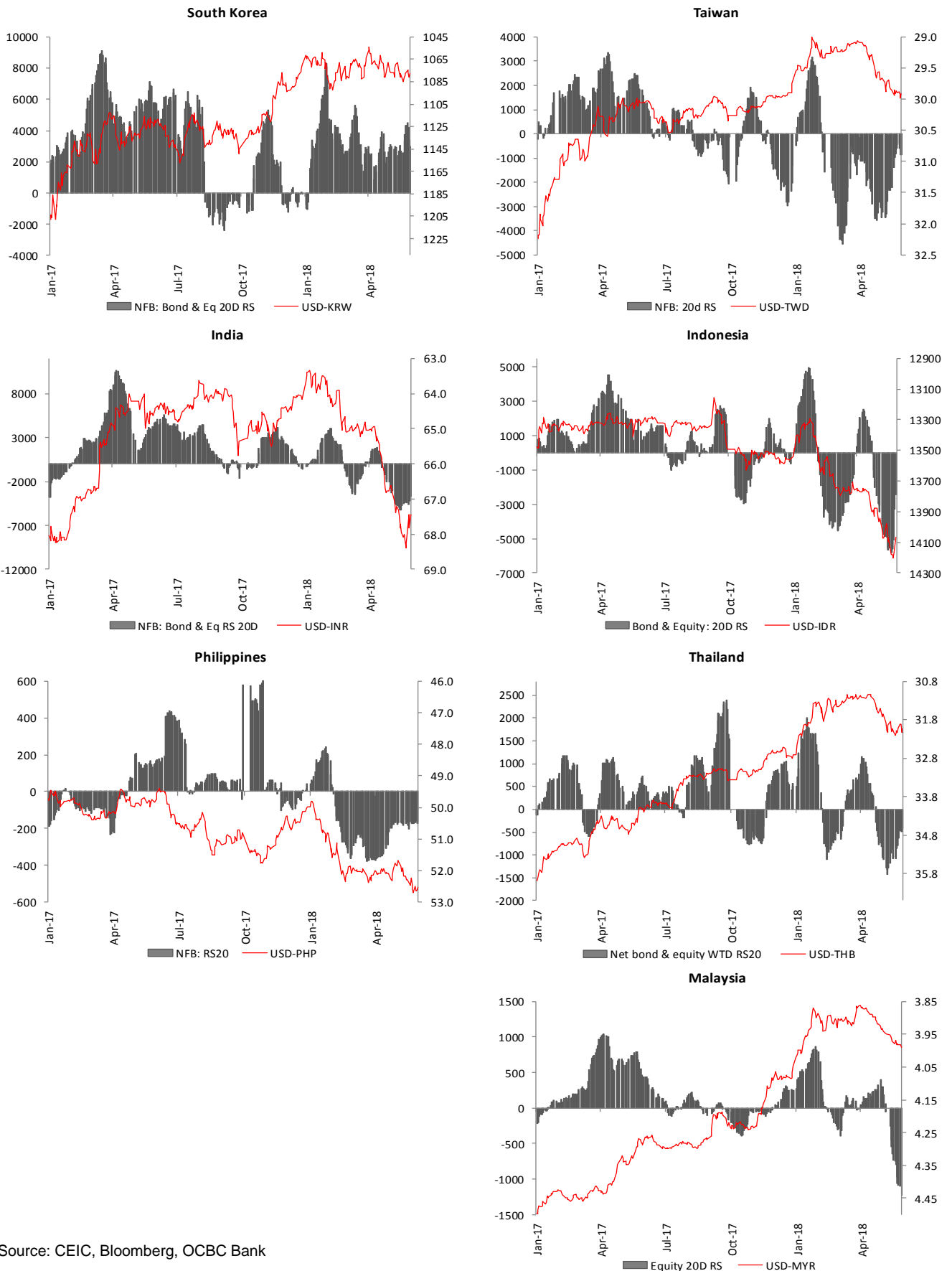
Source: OCBC Bank, Bloomberg

### Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↑	RMB Index should be capped at 98.00, RMB to shoulder potential volatility instead; Sino-US trade tensions reigniting; USD-CNY midpoints still habitually above neutral models
USD-KRW	↔/↑	1Q GDP growth and CPI data prints missed expectations; evolving state of affairs over the Korean peninsula; net portfolio inflows remain at healthy levels; BOK to remain accommodative in the near term.
USD-TWD	↑	Net equity outflows compressing significantly, 1Q current account surplus shrinks
USD-INR	↔/↑	Firmer than expected 1Q GDP, WPI and CPI prints put pressure on RBI to hike in its June meeting; net portfolio outflows attempting to moderate; lower crude price may provide some reprieve; risk premia from negative political developments in Karnataka with possible implications on fiscal stance going forward
USD-SGD	↔/↑	SGD NEER should be capped at +0.80%; 1Q GDP prints in line, but CPI missed expectations; pair responsive to firmer DXY
USD-MYR	↑	Shifts in policy direction under PH government may spur re-assessment of asset markets; sustained net equity outflows following election outcome
USD-IDR	↔	BI hiked rates by another 25 bps on the 30 May unscheduled meeting; IDR stability the main objective for monetary policy for now, with 14000 potentially becoming a level to defend again; growth outcomes to be supported by other policy tools; net portfolio outflow momentum moderating significantly
USD-THB	↔/↑	BOT remains accommodative, keeping rates unchanged in the latest meeting; net portfolio outflows moderating; large miss on the current account balance may negatively pressure the THB in the near term
USD-PHP	↔/↑	BSP hiked policy rates as expected while signalling the possibility of further hikes; BSP governor appear comfortable with recent weakening of the PHP

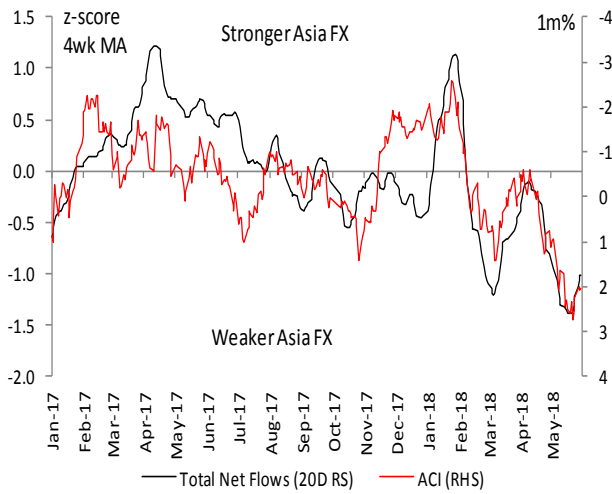
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows



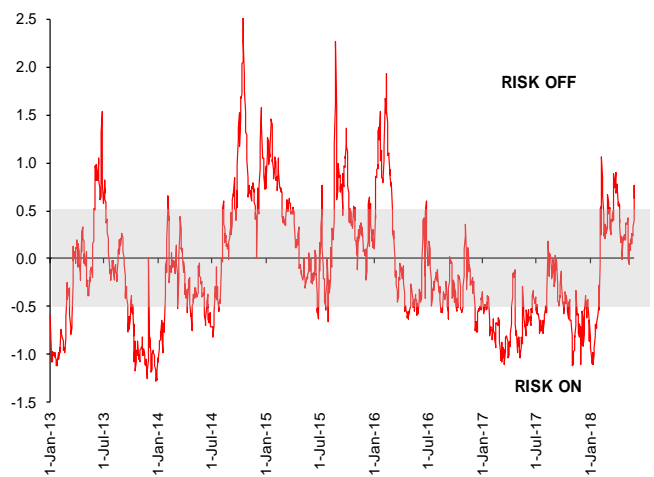
Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**



Source: OCBC Bank

**FX Sentiment Index**



Source: OCBC Bank

**1M Correlation Matrix**

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.302	0.884	0.498	-0.148	0.269	-0.019	-0.137	-0.016	0.842	0.823	-0.993
MYR	0.957	-0.063	0.784	0.845	0.055	0.572	0.170	0.157	-0.582	0.724	0.601	-0.955
PHP	0.898	-0.185	0.745	0.714	0.157	0.304	0.094	-0.107	-0.214	0.720	0.645	-0.903
CNY	0.884	-0.504	1.000	0.144	-0.489	-0.065	-0.204	-0.485	0.387	0.907	0.926	-0.878
TWD	0.861	-0.173	0.784	0.586	-0.136	0.352	0.151	-0.043	-0.123	0.715	0.624	-0.863
CNH	0.823	-0.615	0.926	0.041	-0.477	-0.152	-0.431	-0.585	0.430	0.901	1.000	-0.838
SGD	0.694	0.117	0.485	0.513	0.194	0.267	0.288	0.256	-0.223	0.342	0.452	-0.672
THB	0.629	0.371	0.442	0.728	0.162	0.621	0.533	0.525	-0.569	0.267	0.191	-0.615
INR	0.615	0.313	0.350	0.789	0.360	0.703	0.499	0.458	-0.525	0.214	0.187	-0.599
CAD	0.590	-0.637	0.667	-0.278	-0.354	-0.472	-0.542	-0.737	0.566	0.693	0.828	-0.609
IDR	0.482	0.551	0.174	0.556	0.279	0.741	0.644	0.633	-0.694	-0.053	-0.030	-0.436
KRW	0.427	0.116	0.503	0.076	-0.475	0.318	0.313	0.072	-0.016	0.284	0.348	-0.376
AUD	0.370	-0.160	0.267	0.473	-0.165	0.604	-0.059	0.042	-0.340	0.413	0.218	-0.390
JPY	-0.019	0.865	-0.204	0.347	0.529	0.456	1.000	0.700	-0.470	-0.439	-0.431	0.124
USGG10	-0.302	1.000	-0.504	0.285	0.568	0.432	0.865	0.796	-0.603	-0.722	-0.615	0.345
NZD	-0.487	-0.440	-0.155	-0.665	-0.610	-0.366	-0.552	-0.466	0.421	-0.066	-0.045	0.424
CHF	-0.683	0.566	-0.747	-0.166	0.371	-0.040	0.367	0.593	-0.222	-0.845	-0.738	0.680
GBP	-0.940	0.495	-0.887	-0.481	0.271	-0.268	0.284	0.330	-0.024	-0.920	-0.850	0.947
EUR	-0.993	0.345	-0.878	-0.518	0.146	-0.259	0.124	0.208	0.023	-0.857	-0.838	1.000

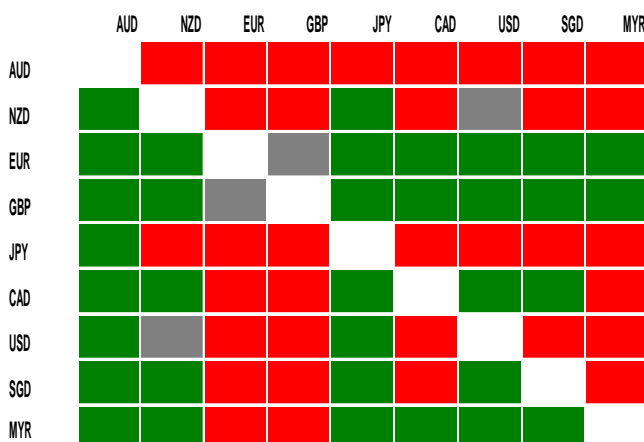
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1554	1.1600	1.1680	1.1700	1.1994
GBP-USD	1.3205	1.3210	1.3260	1.3300	1.3585
AUD-USD	0.7457	0.7500	0.7548	0.7600	0.7606
NZD-USD	0.6857	0.6900	0.6997	0.7000	0.7027
USD-CAD	1.2814	1.2900	1.2958	1.3000	1.3024
USD-JPY	108.46	109.00	109.22	110.00	110.20
USD-SGD	1.3345	1.3365	1.3397	1.3400	1.3466
EUR-SGD	1.5515	1.5600	1.5647	1.5700	1.5994
JPY-SGD	1.2200	1.2233	1.2266	1.2300	1.2373
GBP-SGD	1.7719	1.7758	1.7764	1.7800	1.8150
AUD-SGD	1.0094	1.0100	1.0112	1.0184	1.0186
Gold	1280.53	1281.20	1298.00	1300.00	1306.75
Silver	16.21	16.40	16.44	16.50	16.51
Crude	66.58	66.80	66.89	66.90	67.79

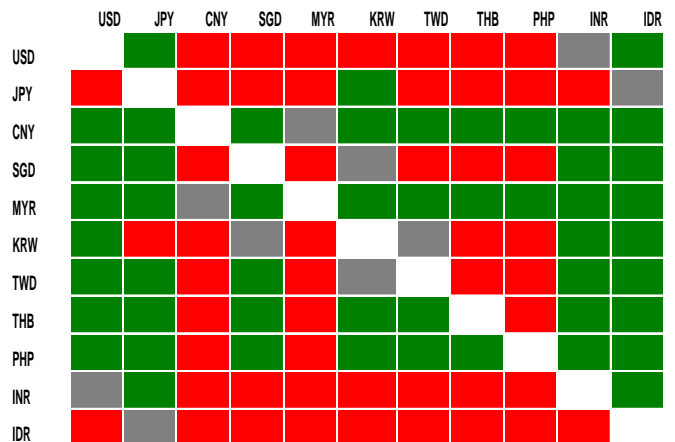
Source: OCBC Bank

**G10 FX Heat Map**



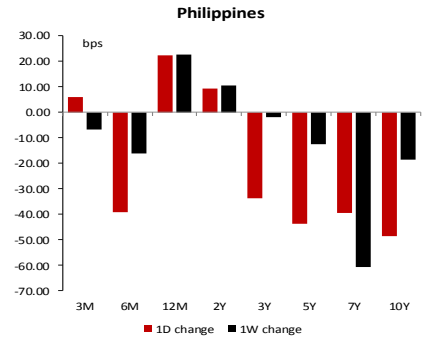
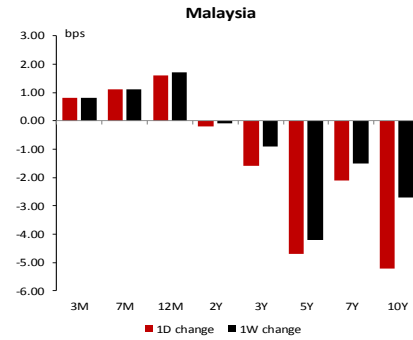
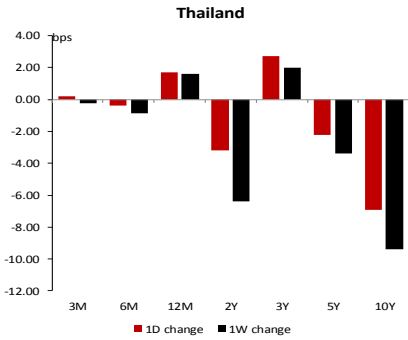
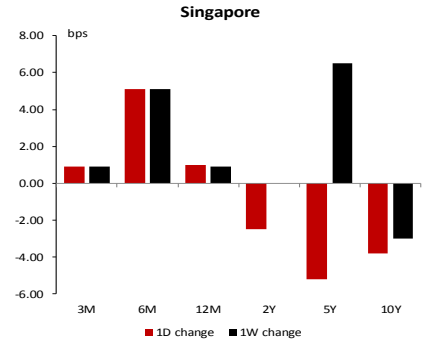
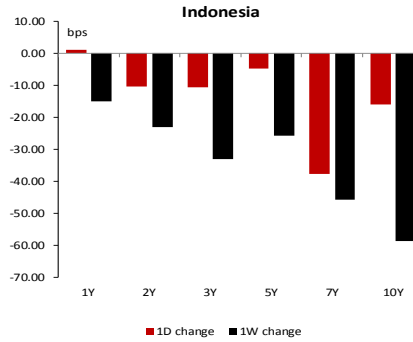
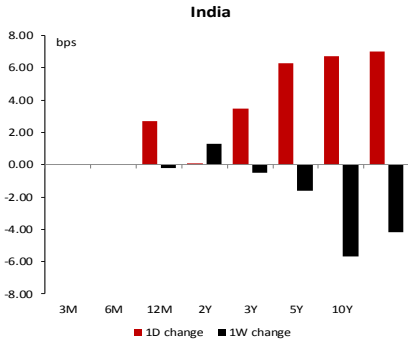
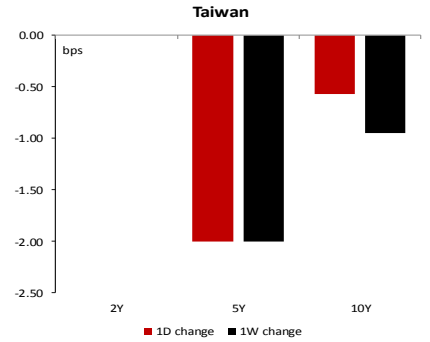
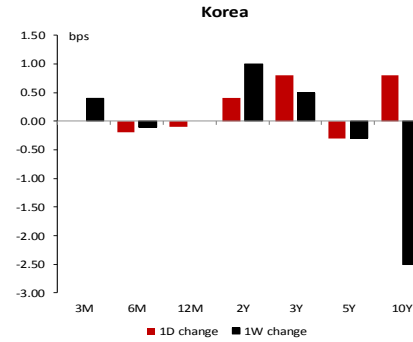
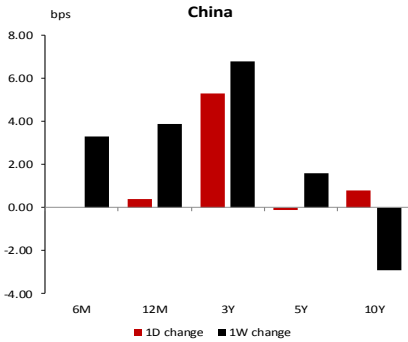
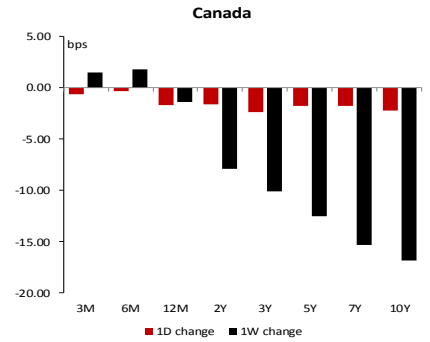
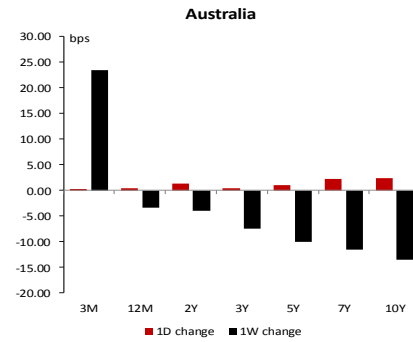
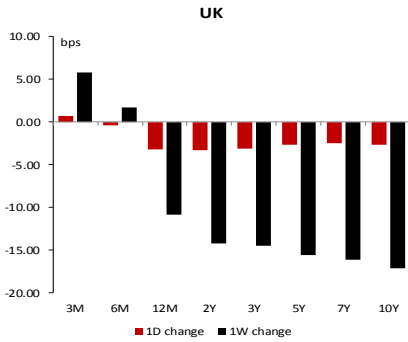
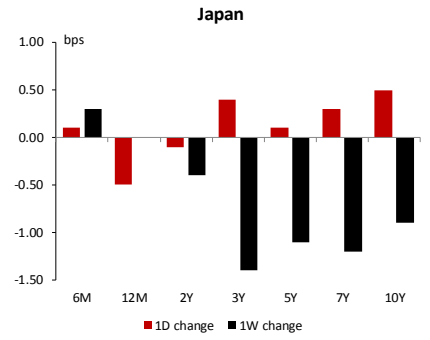
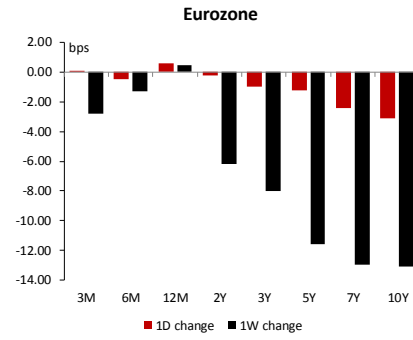
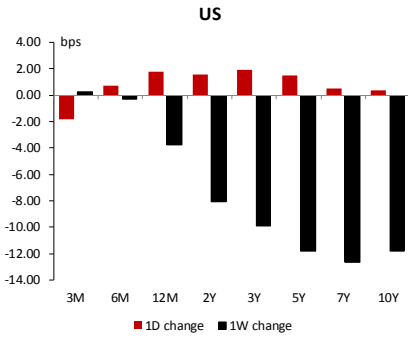
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

**Government bond yield changes**



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