

Monday, July 02, 2018

## FX Themes/Strategy/Trading Ideas

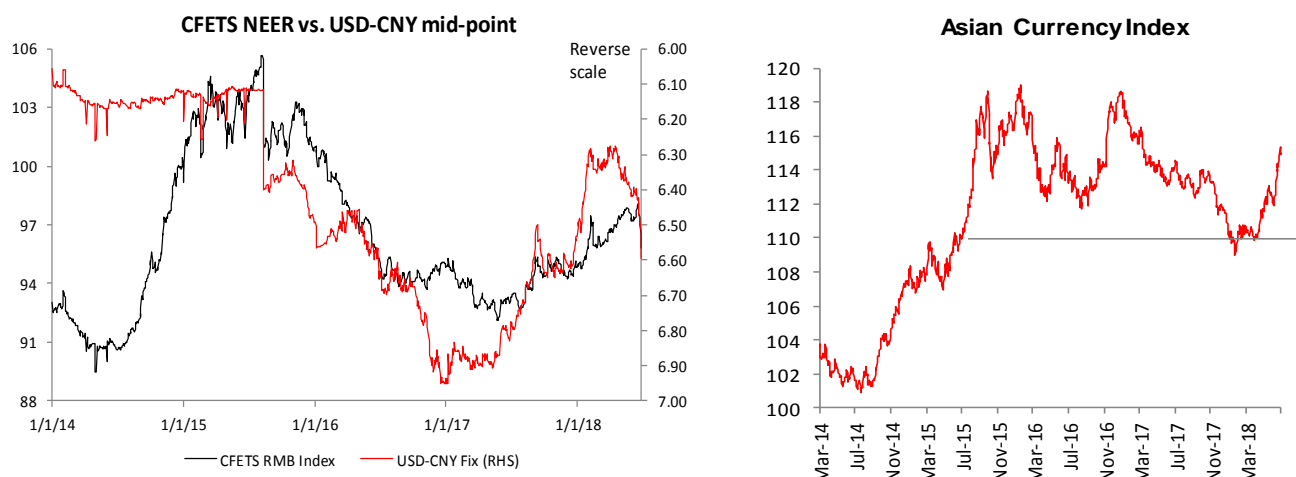
- The DXY index eased towards recent range lows on Friday, closing below the 94.50 level. Merkel was able to hold her coalition together, as expected, providing some tailwind to the EUR. Nevertheless, we expect the EUR to remain in a sell-on-rallies mode.
- **The spectre of trade war should be marginally positive for the USD this week, with further support coming from mixed to firmer economic prints.** Note that headline and core PCE inflation prints were above expectations on Friday, while consumer spending came in weaker. This week, the US data calendar will be headlined by PMI prints (1345 GMT) and ISM manufacturing (1400 GMT) today, and nonfarm payrolls and hourly earnings on Friday.
- Yield differentials, while not extending further in the broad USD's favour, still reflects a wide advantage for the USD. Moreover, the positive correlation between the yield differentials and the DXY index has re-engaged over the past week.
- The FOMC minutes on Thursday may present a risk to this view. Recall that the market interpreted the June FOMC statement and dot plot as a hawkish tilt. The minutes will be scrutinized for further confirmation of this view. If it is not forthcoming, we may see sell-off in the broad USD in the resultant re-adjustment.
- **Overall, we retain a view that the broad USD will maintain within recent ranges, with a slight bias for it grind higher from current levels.**
- In terms of **CFTC** positioning, leveraged accounts extended their implied USD longs in the latest week. Asset managers, however, reduced their implied USD shorts only marginally. Overall, even though the investment community, as a whole, is still moving in favour of the USD, note that it is the short term players powering this move. At this juncture, the longer term players appear to be hesitant to embrace the USD.
- The central bank calendar will be headlined by the RBA policy decision (Tue) and the Fed minutes (Thu). ECB speakers include Praet (Mon), Mersch, Nowotny, Nouy and Weidmann (all Thu), and Coeure (Fri). Watch also for BOE's Carney (Thu). On the BOJ front, watch for comments from Harada (Wed) and Masai (Thu) to decipher if last week's decrease in bond purchases heralds a potential shift in BOJ policy in 2H 2018.

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## Asian FX

- The spectre of trade war will loom large over the Asian currencies this week, with 6 July being the date when the first round of tariffs on Chinese imports will be implemented, if there is no deal between the US and China.
- Positive newsflow from Europe, firmer US/EU/EM equities, and a stronger EM FX complex against the USD on Friday eased risk appetite at the start of this week. As a result, our **FX Sentiment Index (FXSI)** eased lower, away from the Risk-Off zone.
- Note a relative sense of nonchalance over the past few sessions even as the tariffs look to be hitting. This may be due, in part, to the absence of further trade provocations from either side. Do not rule out the potential of a buy-on-news dynamic when the import tariffs come into force on Friday. **Nevertheless, we continue to view the Asian Currency Index (ACI) drifting higher this week as a base case.**
- In terms of **Asian portfolio flows**, equity inflows were noted across Asia (except India and Malaysia) in the latest reading, although we doubt it may be sustained going forward, at least not yet. This dynamic improved Taiwan's outflow momentum marginally. Inflow momentum in South Korea is sustained at elevated levels on persistent bond inflows. Elsewhere, bond outflows plague South Asia, with outflow momentum increasing in Indonesia. Outflows in Thailand also deepening, driven by equities.
- **Indonesia:** The Bank Indonesia (BI) hiked rates by 50 bps on Friday, more than expected. This underlies the determination to defend the currency, although we have reservations on its effectiveness given the global climate. The IDR opened firmer today, although gains were reversed. At this stage, we are concerned of an overshoot in policy rates that may crimp economic outlook in the medium term. This may result in further IDR depreciation beyond the immediate horizon.
- **SGD NEER:** The SGD NEER is standing around +0.37% above its perceived parity level (1.3694) this morning. The NEER-implied USD-SGD thresholds were weaker following the weaker USD on Friday. Continue to expect the pair to fluctuate within the corridor set by the +0.10% (1.3680) and +0.50% (1.3626) thresholds intra-day. Upside momentum on a multi-session horizon may be stalled as the USD-SGD failed against the 1.3700 handle. Expect some consolidation ahead, pending further directionality from trade developments.
- **CFETS RMB Index:** The USD-CNY mid-point was set marginally lower, within expectations, at 6.6157 compared to 6.6166 on Thursday. The CFETS RMB Index weakened to 95.35, compared to 95.65 previously.
- **China:** Note that today midpoint fix is again lower than market consensus. Discretionary input to slow down the climb in USD-CNY is present, although limited in nature at this juncture. Nevertheless, we may see a stronger footprint once we approach 95.00 on the CFETS RMB Index, or as the USD-CNY approaches 6.6500.



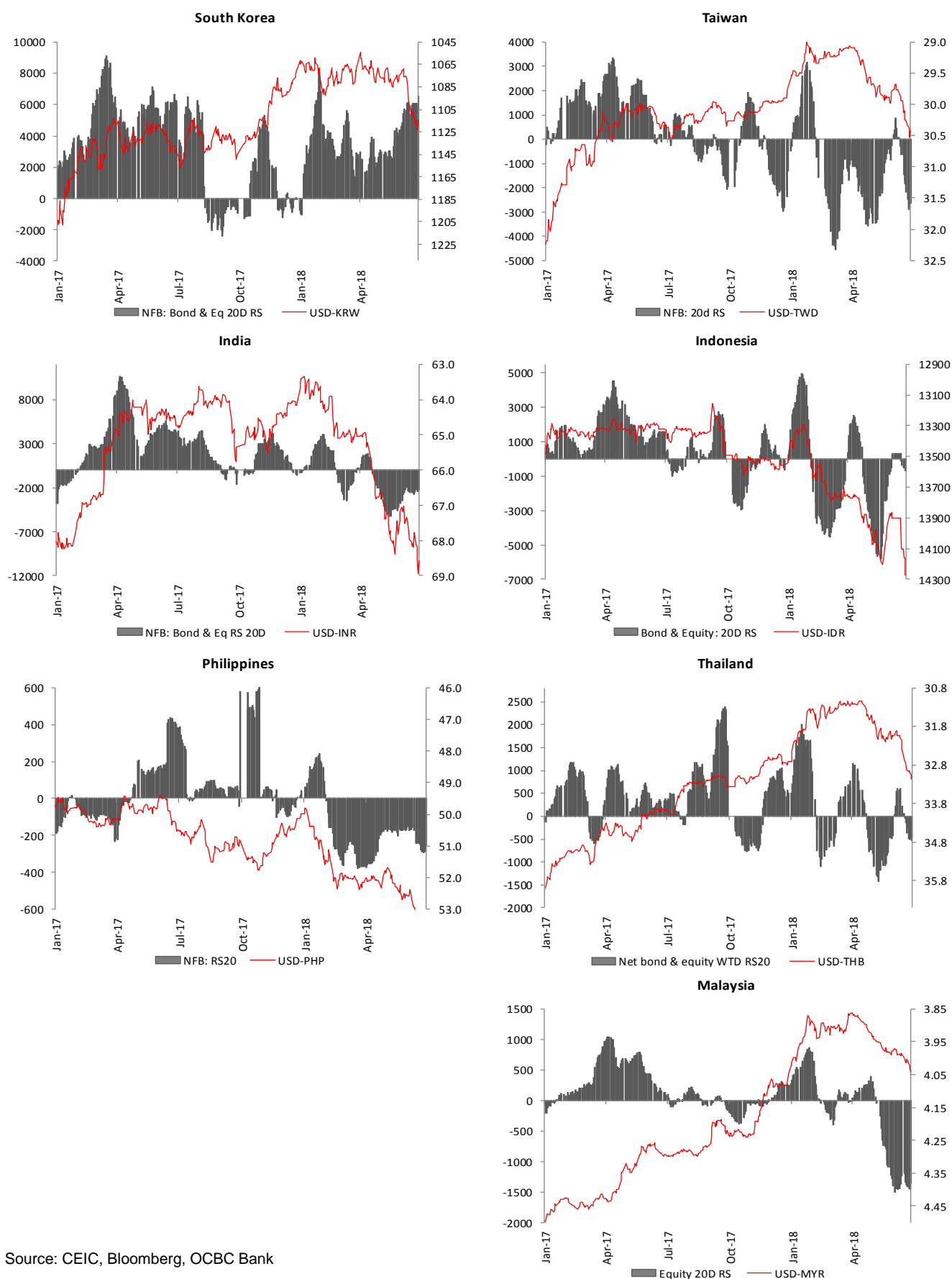
Source: OCBC Bank, Bloomberg

### Short term Asian FX views

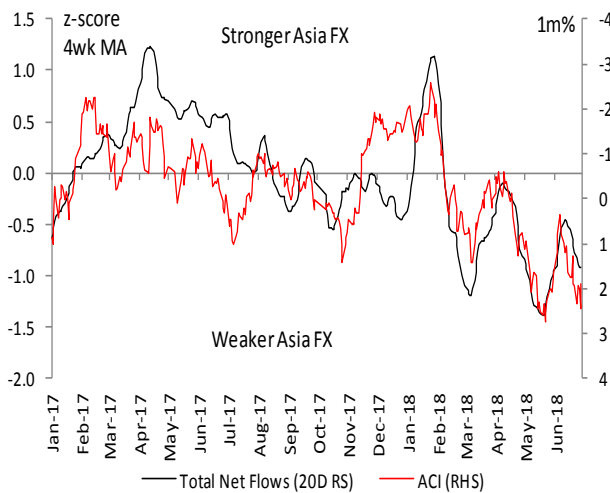
Currency	Bias	Rationale
USD-CNH	↑	Sino-US trade tensions becoming base case, 6 July is the key date; rapid depreciation of the RMB complex putting upward pressure on USD-Asia as a whole; USD-CNY midpoint fix coming in lower than consensus, perhaps reflecting some (not too strong) intention to hold back the pace of RMB depreciation.
USD-KRW	↑	Net portfolio inflows remain at healthy levels; may suffer significant collateral damage if Sino-US trade war escalates; export numbers continue to print weak
USD-TWD	↑	Equity outflows intensifying; pair led higher by the weakening RMB complex
USD-INR	↔/↑	May inflation prints in line, but continue to show accelerating price pressures; current account deficit widened more than expected; RBI ease foreign ownership caps on government bonds while using OMO to support the local bond market
USD-SGD	↑	Latest inflation prints in line with expectations, industrial production prints stronger than expected; SGD NEER supported near parity, unlikely to sustain under parity; pair responsive to broad USD movements
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	↑	Surprise 50 bps hike; coordinated effort by the government and BI may limit USD-IDR gains, but will not fundamentally reverse the trend
USD-THB	↑	BOT remains a laggard among the Asian central banks, keeping rates unchanged in the latest meeting; note official tolerance over weakening THB; bond outflows re-asserting after a short reprieve
USD-PHP	↑	BSP hiked rates in the latest meeting, signaling further rate hikes to come; PHP remains pressured due to intensifying outflows

Source: OCBC Bank

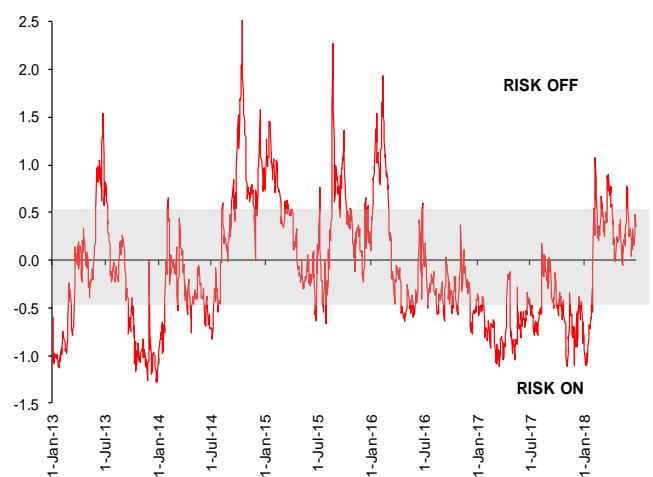
### USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**

Source: OCBC Bank

**FX Sentiment Index**

Source: OCBC Bank

**1M Correlation Matrix**

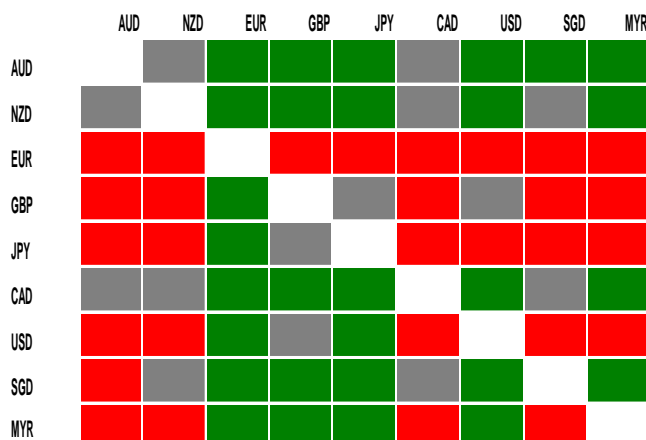
	DXV	USGG10	CNY	SPX	MSELCAPI	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXV	1.000	-0.669	0.694	-0.445	-0.782	-0.559	0.481	0.437	0.519	0.339	0.674	-0.975
CHF	0.927	-0.458	0.526	-0.221	-0.605	-0.471	0.612	0.300	0.319	0.192	0.492	-0.926
CAD	0.854	-0.660	0.756	-0.469	-0.822	-0.735	0.325	0.426	0.641	0.488	0.711	-0.765
IDR	0.853	-0.946	0.986	-0.830	-0.970	-0.187	0.729	0.926	0.911	0.912	0.987	-0.756
SGD	0.849	-0.857	0.924	-0.676	-0.957	-0.526	0.412	0.714	0.804	0.682	0.924	-0.734
INR	0.799	-0.771	0.883	-0.535	-0.889	-0.452	0.512	0.717	0.736	0.719	0.880	-0.676
KRW	0.791	-0.793	0.908	-0.593	-0.925	-0.555	0.482	0.658	0.767	0.684	0.889	-0.639
PHP	0.787	-0.565	0.732	-0.330	-0.774	-0.588	0.589	0.523	0.602	0.537	0.718	-0.682
THB	0.772	-0.803	0.924	-0.637	-0.932	-0.539	0.351	0.690	0.791	0.723	0.918	-0.647
TWD	0.764	-0.873	0.969	-0.759	-0.978	-0.400	0.351	0.807	0.891	0.803	0.972	-0.642
CNY	0.694	-0.915	1.000	-0.838	-0.968	-0.246	0.327	0.888	0.920	0.865	0.997	-0.566
MYR	0.684	-0.817	0.953	-0.687	-0.927	-0.294	0.465	0.854	0.869	0.896	0.956	-0.543
CNH	0.674	-0.917	0.997	-0.817	-0.967	-0.228	0.421	0.910	0.906	0.855	1.000	-0.532
JPY	0.481	-0.212	0.327	0.081	-0.265	-0.118	1.000	0.465	0.077	0.184	0.421	-0.395
USGG10	-0.669	1.000	-0.915	0.867	0.913	0.171	-0.212	-0.817	-0.883	-0.751	-0.917	0.573
NZD	-0.777	0.891	-0.960	0.731	0.957	0.320	-0.503	-0.847	-0.826	-0.784	-0.972	0.649
AUD	-0.906	0.761	-0.826	0.505	0.879	0.604	-0.480	-0.588	-0.672	-0.567	-0.819	0.813
GBP	-0.942	0.779	-0.835	0.583	0.888	0.461	-0.502	-0.643	-0.677	-0.553	-0.831	0.863
EUR	-0.975	0.573	-0.566	0.375	0.683	0.507	-0.395	-0.299	-0.408	-0.192	-0.532	1.000

Source: Bloomberg

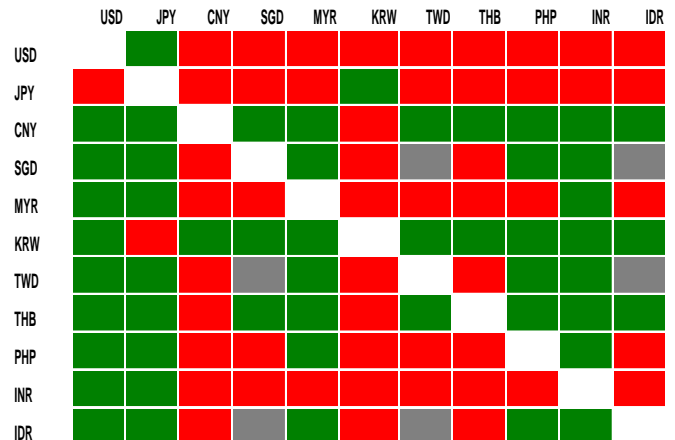
**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1509	1.1600	1.1659	1.1700	1.1783
GBP-USD	1.3071	1.3100	1.3181	1.3200	1.3422
AUD-USD	0.7300	0.7324	0.7383	0.7400	0.7513
NZD-USD	0.6734	0.6736	0.6774	0.6800	0.6955
USD-CAD	1.2981	1.3100	1.3164	1.3200	1.3386
USD-JPY	110.00	110.19	110.94	110.96	111.00
USD-SGD	1.3424	1.3600	1.3644	1.3700	1.3705
EUR-SGD	1.5817	1.5900	1.5907	1.5953	1.5957
JPY-SGD	1.2200	1.2219	1.2298	1.2300	1.2468
GBP-SGD	1.7792	1.7900	1.7984	1.8000	1.8015
AUD-SGD	0.9981	1.0000	1.0073	1.0085	1.0100
Gold	1240.69	1246.90	1252.60	1295.18	1300.00
Silver	15.88	16.00	16.01	16.10	16.46
Crude	68.72	73.20	73.21	73.30	73.99

Source: OCBC Bank

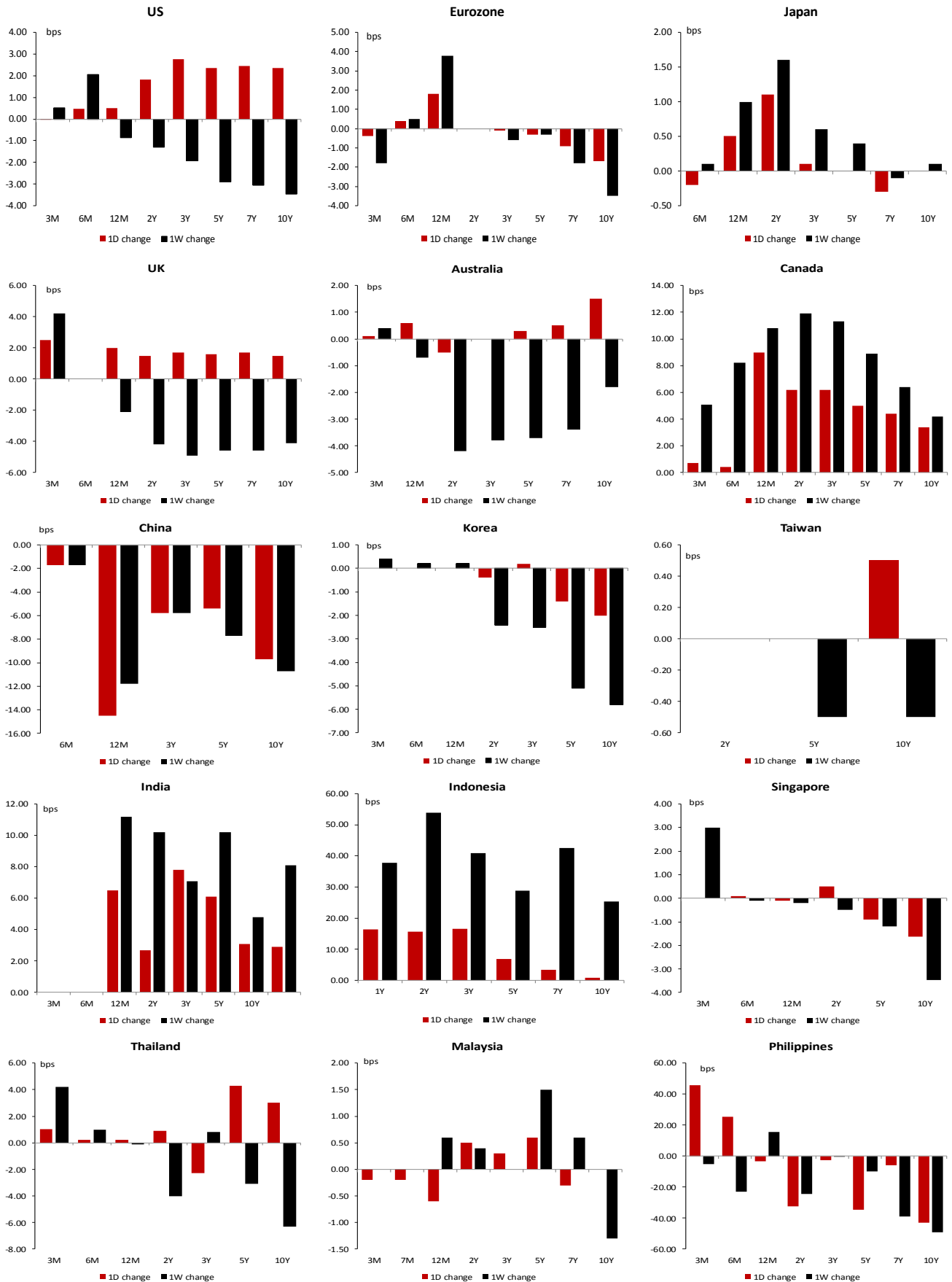
**G10 FX Heat Map**

Source: OCBC Bank

**Asia FX Heat Map**

Source: OCBC Bank

### Government bond yield changes



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