DAILY FX OUTLOOK

OCBC Bank

Monday, September 03, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- The USD ended last week on a strong note on the back of renewed trade concerns. Commodity currencies took a hit, while the JPY and CHF outperformed in what is essentially a risk-off dynamic.

- **The fundamental picture has not shifted significantly as we head in into September, and remains supportive of the broad USD.** With recent US economic prints coming in largely mixed, our US Macro Surprises Index (MSI) has trended side-ways. The flipside is that the MSIs for Europe and Asia are similarly anaemic for now, thus putting the US in a relatively positive light. **Nevertheless, without new fundamental drivers, this thesis may be increasingly diffused going forward.** This week, watch global PMIs and non-farm payrolls (Fri) to re-assess the state of the global economy.

- **Near term, with the fundamental picture static, we look to evolving global risk events for directionality this week.** For the broad USD, ongoing Sino-US trade issues and potential EM flare-ups (who is next after Argentina?) may set the tone, while headlines on Brexit and NAFTA may drive the GBP and CAD respectively. In particular, with the public consultation period for the next set tariffs scheduled to end this week, we may see a further deterioration on the Sino-US trade front.

- **With developments in global risk events looking to point further south, we think overall risk sentiments may depressed further. Thus, expect periodic de-risking and deleveraging from EM assets to benefit the USD.**

- On the **CFTC** front, leveraged accounts keep their implied long USD positions effectively static in the latest week. GBP shorts picked up significantly (note that data is prior to Barnier's "unprecedented partnership" comment), but were offset by an easing of AUD and NZD shorts. Asset managers, on the other hand, moved against the USD, adding to their implied USD shorts.

- Watch for RBA (Tue) and BOC (Wed) policy decisions this week. Central bank speakers are heavily scheduled, with BOJ's Kuroda (0540 GMT) and ECB's Mersch (0630, 0920 GMT) today. Eye BOE's Carney (Tue), ECB's Praet (Wed), and Fed's Williams (Thu), among others, for the rest of the week.

- On the data front, watch for global PMIs this week, starting from the Eurozone PMIs today (from 0700 GMT). Eurozone GDP (Fri) and US NFP (Fri) will headline towards the end of the week.

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Asian FX

- Positive vibes from a firming EM FX and Latam equities on Friday were offset by negative EU equities. In a continuation of the developments late last week, risk sentiments opened this week looking edgy on trade and EM headlines. Our **FX Sentiment Index (FXSI)** again moved higher within the Risk-Neutral territory, moving towards to the Risk-Off zone.

- The USD-CNY may be the centre of market attention, in what may turn out to be a hectic next two weeks in the Sino-US trade front. Indications point to Trump announcing the next round of tariffs on US$200bn worth of Chinese goods soon after the public consultation period ends this week. Positive developments in the Sino-US trade front continue to look elusive.

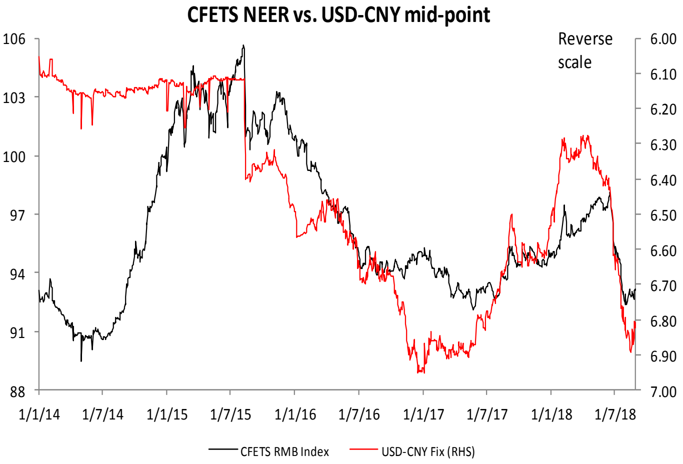
- Firmer than expected Chinese PMIs will likely be overlooked in favour of trade headlines. **We expect the USD-CNY to remain buoyant this week,** although PBoC will continue to contain its ascent through lower than expected midpoint fixes (today's fix: 6.8347, consensus: 6.8392, our estimate: 6.8348). **More drama may be in store if the USD-CNY re-tests the 6.90 level this week.**

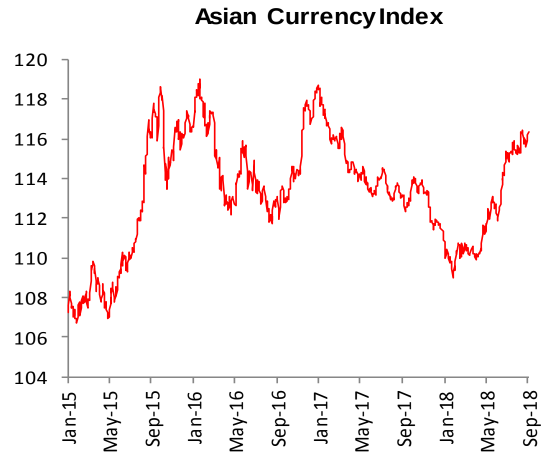
- In terms of **Asian net portfolio flows**, North Asia continues to perform well, while South Asia is looking mixed. Equity inflows into Taiwan and South Korea continue to be strong. Moderate equity outflows are noted in most South Asian economies, although they are offset by bond inflows. Overall, we remain on a lookout for paced equity outflows this week if EM jitters persist. Nevertheless, we are not expecting a disruptive flood of outflows from EM Asian economies.

- **We think global cues will weigh on the EM Asian currencies this week. The INR and IDR may continue to bear the brunt as the "fundamentally weaker" currencies within the EM Asian space. Overall, expect our Asian Currency Index (ACI) to drift higher early week.**

- **SGD NEER**: The SGD NEER firmed to +0.98% above its perceived parity level (1.3850) this morning, after hitting a low of +0.80% on Friday. The NEER-implied USD-SGD thresholds were higher again. Expect the +0.80% (1.3700) and +1.10% (1.3741) thresholds to limit the intra-day moves in the USD-SGD.

- **CFETS RMB Index**: The USD-CNY mid-point was set higher, within of our expectations, at 6.8347 compared to 6.8246 on Friday. The CFETS RMB Index eased to 93.15, from 93.08 previously.





Source: OCBC Bank, Bloomberg

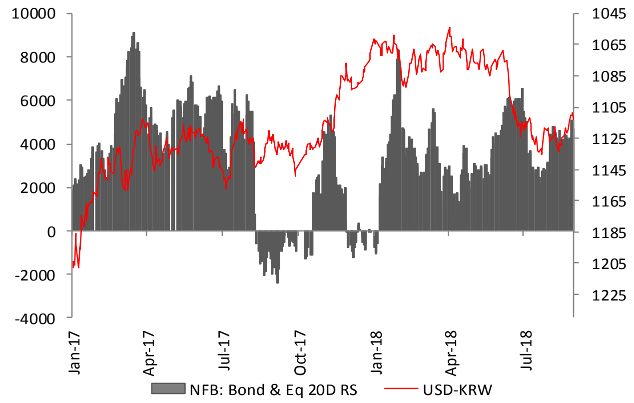
Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔	Inability to break through the 6.8000 level may set the stage for a range-bound trading between 6.80-6.90; no signs of immediate progress in Sino-US trade talks with the public comment period for the proposal to implement tariffs on US$200bn worth of imports to end on 5 Sep, new round of tariffs may hit by end-Sep
USD-KRW	↔	Expect to track RMB movements; weaker than expected unemployment print may douse rate hike expectations; BOK held rates unchanged with subsequent rhetoric sounding dovish again. Expectations for a rate hike by BOK before year-end may have to be trimmed
USD-TWD	↔	Expect to track RMB movements; flow dynamics still fluid with no clear directionality
USD-INR	↔/↑	Net inflow momentum in a rolling 20D basis starting to moderate; hit by renewed EM jitters led by Argentina; limited RBI offers north of 71.00
USD-SGD	↔	Pause in broad USD momentum cap near term advances in the pair; another firm core inflation print to fuel speculation for a tightening move by the MAS in October, do not rule out this possibility yet
USD-MYR	↔	Economic indicators pointing south; BNM expected to be on hold until 2019; with 4.08 and 4.10 resistances quickly broken, there appears to be little catalyst for MYR strengthening; equity outflows eased
USD-IDR	↔	IDR may be more exposed to EM jitters due to widening CA deficit and high percentage of foreign ownership in government bonds; attempts by BI to support IDR slowing down the ascent, but insufficient to turn the tide
USD-THB	↔	2Q GDP firmer than expected; Bank of Thailand striking a new hawkish tone should provide support, top aide to Thai PM also signalled possible rate hike before year-end; inflow momentum still strong
USD-PHP	↔/↑	BSP rate hiked 50 bps, as expected by some quarters; BSP retains a hawkish stance, ready to hike further if inflation remains out of control

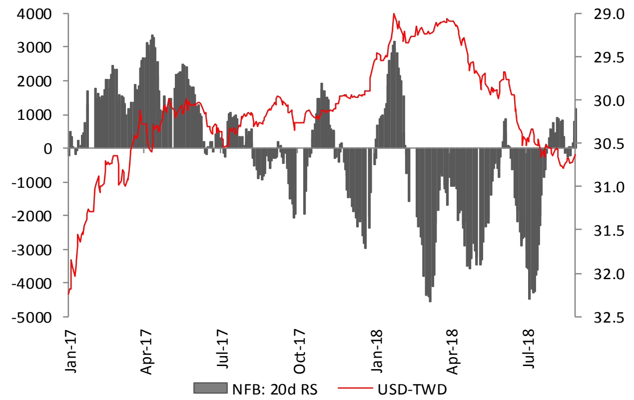
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

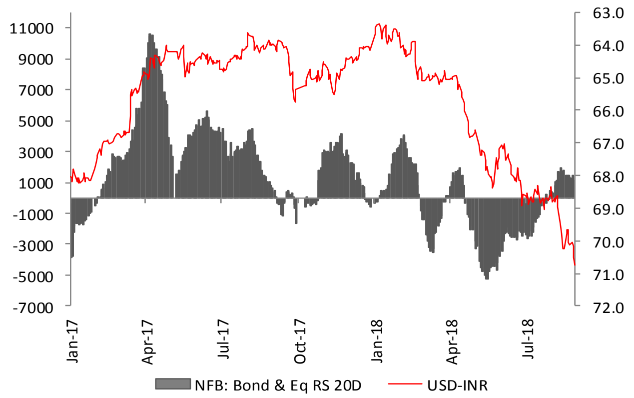
South Korea



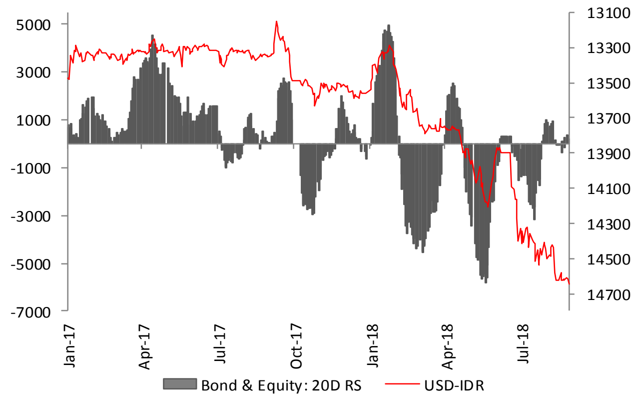
Taiwan



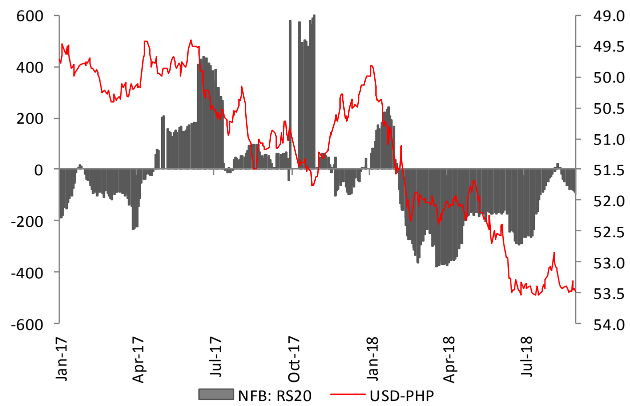
India



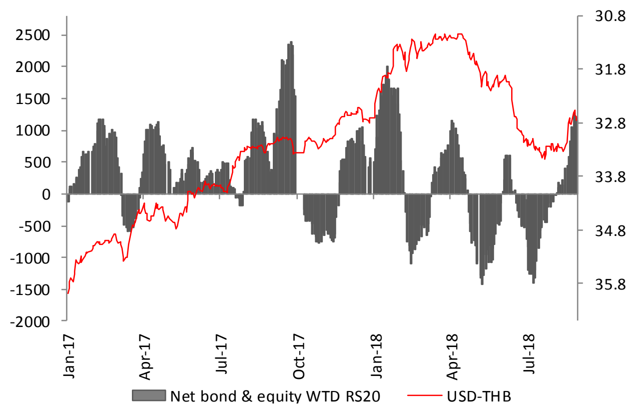
Indonesia



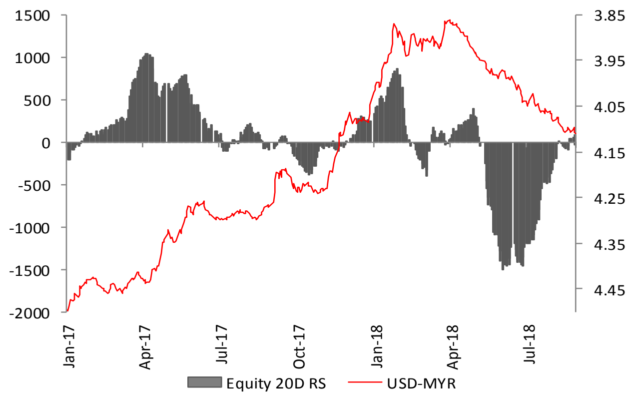
Philippines



Thailand

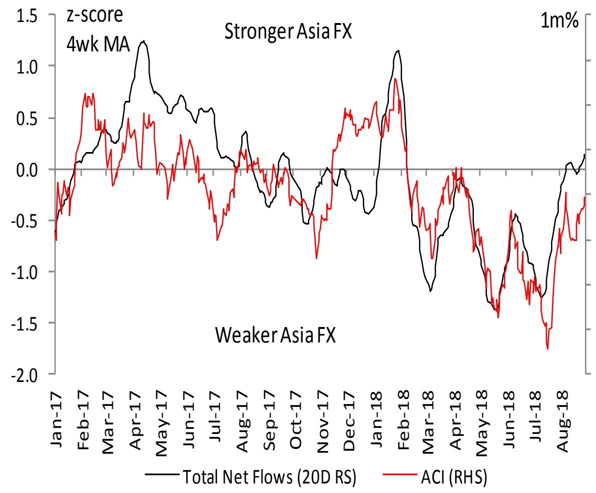


Malaysia



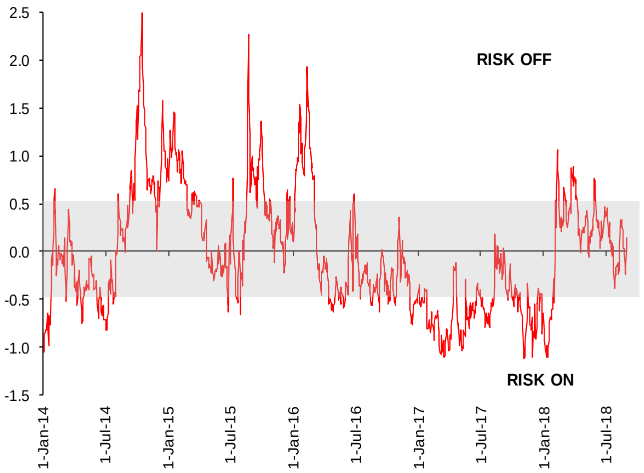
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXEX	CNH	EUR
DXY	1.000	-0.077	0.835	-0.826	-0.730	-0.729	-0.391	-0.772	0.584	0.896	0.720	-0.992
SGD	0.860	-0.187	0.869	-0.619	-0.618	-0.681	-0.215	-0.482	0.750	0.838	0.875	-0.845
CAD	0.860	-0.079	0.735	-0.795	-0.616	-0.595	-0.386	-0.614	0.505	0.789	0.653	-0.848
KRW	0.837	0.203	0.691	-0.946	-0.659	-0.403	-0.249	-0.614	0.244	0.729	0.557	-0.855
CNY	0.835	-0.146	1.000	-0.698	-0.753	-0.769	-0.376	-0.683	0.679	0.840	0.869	-0.834
CNH	0.720	-0.023	0.869	-0.651	-0.462	-0.514	-0.129	-0.412	0.645	0.685	1.000	-0.732
THB	0.683	0.574	0.526	-0.843	-0.430	-0.199	-0.052	-0.554	-0.051	0.663	0.492	-0.735
CHF	0.664	0.399	0.469	-0.892	-0.530	-0.300	-0.231	-0.713	-0.082	0.538	0.311	-0.696
TWD	0.611	-0.631	0.635	-0.293	-0.746	-0.817	-0.346	-0.514	0.769	0.545	0.431	-0.559
PHP	0.172	-0.811	0.312	0.227	-0.372	-0.596	-0.280	-0.151	0.633	0.186	0.216	-0.114
MYR	0.098	-0.842	0.282	0.311	-0.397	-0.555	-0.201	-0.067	0.591	0.120	0.105	-0.032
USGG10	-0.077	1.000	-0.146	-0.200	0.336	0.531	0.488	0.106	-0.483	-0.044	-0.023	0.024
IDR	-0.118	-0.740	0.093	0.511	-0.156	-0.287	-0.064	0.261	0.556	0.001	0.040	0.179
INR	-0.139	-0.700	0.100	0.614	-0.069	-0.318	-0.054	0.294	0.602	-0.007	0.021	0.211
AUD	-0.361	0.513	-0.516	-0.015	0.302	0.482	0.040	-0.035	-0.776	-0.460	-0.527	0.314
JPY	-0.391	0.488	-0.376	0.342	0.505	0.649	1.000	0.564	-0.392	-0.525	-0.129	0.413
NZD	-0.771	0.384	-0.671	0.455	0.476	0.689	0.346	0.456	-0.774	-0.740	-0.663	0.741
GBP	-0.888	0.242	-0.682	0.685	0.666	0.787	0.438	0.844	-0.500	-0.702	-0.495	0.852
EUR	-0.992	0.024	-0.834	0.859	0.732	0.707	0.413	0.777	-0.549	-0.912	-0.732	1.000

Source: Bloomberg

Technical support and resistance levels

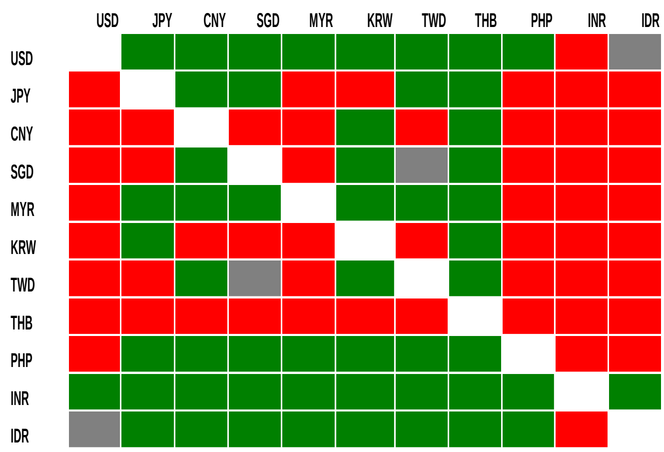
	S2	S1	Current	R1	R2
EUR-USD	1.1311	1.1500	1.1597	1.1600	1.1615
GBP-USD	1.2662	1.2900	1.2925	1.3000	1.3029
AUD-USD	0.7166	0.7173	0.7187	0.7200	0.7361
NZD-USD	0.6545	0.6600	0.6602	0.6700	0.6730
USD-CAD	1.2914	1.3000	1.3061	1.3097	1.3100
USD-JPY	110.00	110.19	110.91	111.00	111.17
USD-SGD	1.3661	1.3700	1.3711	1.3797	1.3800
EUR-SGD	1.5867	1.5900	1.5901	1.5995	1.5997
JPY-SGD	1.2288	1.2300	1.2362	1.2400	1.2479
GBP-SGD	1.7455	1.7700	1.7721	1.7791	1.7799
AUD-SGD	0.9800	0.9839	0.9854	0.9868	0.9900
Gold	1161.40	1174.06	1199.20	1200.00	1220.99
Silver	14.30	14.32	14.37	14.40	15.36
Crude	69.43	69.60	69.62	69.70	70.50

Source: OCBC Bank

G10 FX Heat Map

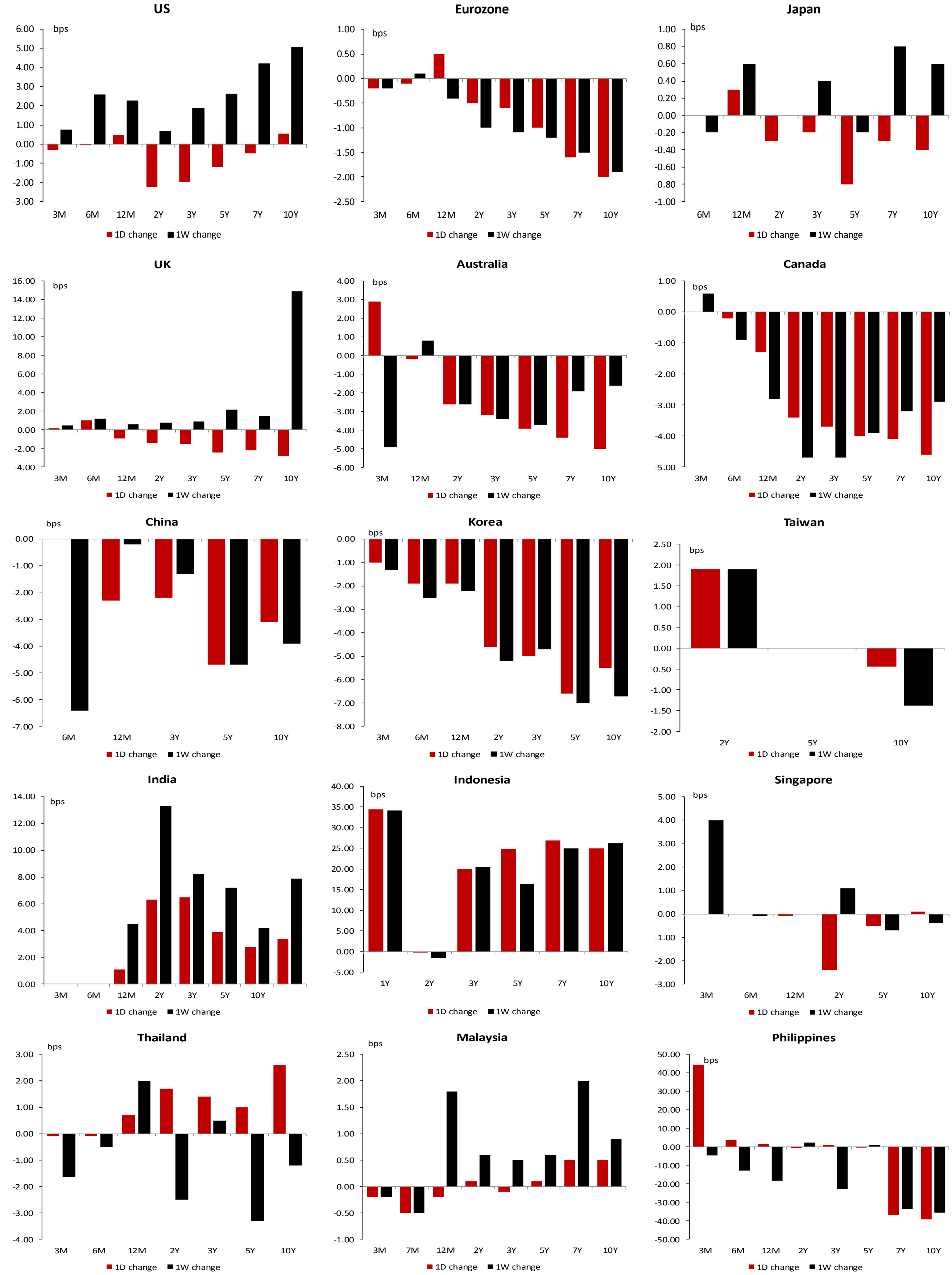
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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