

Monday, June 04, 2018

FX Themes/Strategy/Trading Ideas – Week ahead and revised forecasts

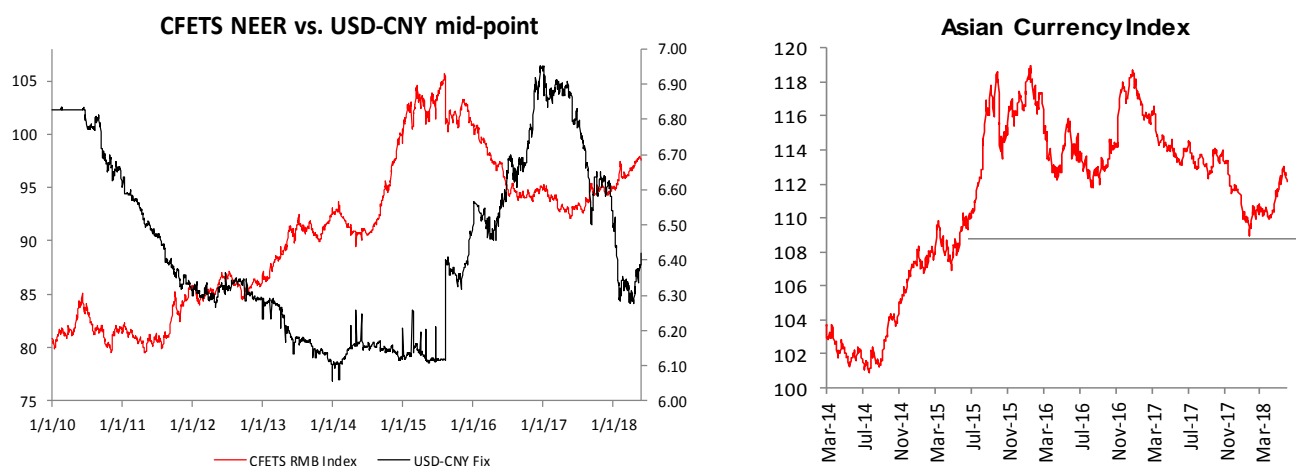
- The DXY closed above the 94.00 handle on Friday, supported in part by a firmer US Treasury curve. The JPY underperformed as risk sentiments recovered following the successful formation of the Italian government.
- **This week, expect a reversion to US-centric cues and central bank watching. The fundamental picture underlying the broad USD – economic outperformance, yield differential arguments, and shifts in USD positioning – remains largely intact. One thing holding the USD back, though, is the still cautious rhetoric from the Fed regarding its rate hike path.**
- On the US data front, non-farm payrolls beat expectations, while average hourly earnings growth further accelerated on a mom basis. ISM manufacturing PMI also exceeded expectations. This should provide some impetus for long-end UST yields to drift higher. In turn, this should keep yield differential arguments largely in favour of the USD. Note that the 10y yield differential between the US and other DM economies is less than 2 bps away from the highs reached in May.
- In terms of **CFTC** positioning, the investment community continues to move in favour of the USD. Leveraged accounts increased their implied USD longs further, while the non-commercial and asset manager accounts reduced their implied USD shorts. Note that the latest reading covers the period when the 10y UST yield slipped from the 3.05% area to the 2.75% zone.
- Note, however, that pace of increase in implied USD longs amongst leveraged accounts have slowed. For a stronger USD-positive argument, we may need greater participation from the asset managers. Although the asset managers have reduced their short positions by around 40% from the highs, they continue to sit on significant implied USD shorts.
- The market will also be bouncing rhetoric from other central banks against the benchmark set by the Fed. Although Fed rhetoric is absent due to the blackout period, ECB speakers will be heavily featured. Amongst others, watch for Draghi and Weidmann (both Tuesday) and Praet (Wednesday). The **Reserve Bank of Australia** (RBA) will announce its policy decision on Tuesday (0430 GMT). We expect no change in the policy rate.

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Asian FX

- Trade tensions continue to escalate globally, as countries potentially affected by US steel and aluminium tariffs threaten to import reciprocal tariffs on their US imports. A Chinese statement following the Wilbur Ross-Liu He meeting was also explicit in mentioning that the Chinese side will back away from any deals if the US imposes tariffs.
- Despite the escalation of trade tensions, note that the markets have been relatively calm towards the new developments. On the other hand, the potential revival of the Trump-Kim talks boosted risk appetite. Note that our **FX Sentiment Index (FXSI)** has retreated towards the Risk Neutral zone for the third consecutive session, although it remains in the Risk-off territory. In this respect, expect the **Asian Currency Index (ACI)** to edge lower to start the week.
- In terms of **EPFR** numbers, note that implied equity outflows have deepened in the latest week, while implied bond outflows show a slight moderation. Momentum for implied flows continue to point south, and may still have some way to go before it hits satiation levels.
- The **net portfolio flow environment** in continues to brighten slightly for South Asian economies. The outflow momentum in Thailand is moderating rapidly, supported by persistent inflows on the bond front. Some improvements are also noted in terms of equity inflows. Note also, the improvements in bond inflows for Indonesia as well.
- **South Korea:** The Bank of Korea (BOK) governor voiced the limitations of monetary policy in providing the required boost to the economy. He called for a greater participation of fiscal and macro-prudential policies to support the economy and maintain financial stability.
- **Thailand:** Headline inflation prints exceeded expectations, coming at 1.49% yoy. Core inflation also ticked higher to 0.80% yoy. Inflation prints have re-entered the Bank of Thailand's target zone, having being weaker than the lower threshold for a good part of 2017 and early 2018.
- **SGD NEER:** The SGD NEER is firmer once again, at +0.71% above its perceived parity (1.3464), on slightly softer NEER-implied USD-SGD thresholds. On an intra-day basis, expect the USD-SGD to be book-ended by the +0.50% (1.3397) and the +0.80% (1.3357) thresholds. The 200-day MA (1.3364) has continued to provide support over the near term.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher this morning, as expected, at 6.4208 compared to 6.4078 on Friday. The CFETS RMB Index was weaker marginally at 97.21, compared to 97.32 previously.



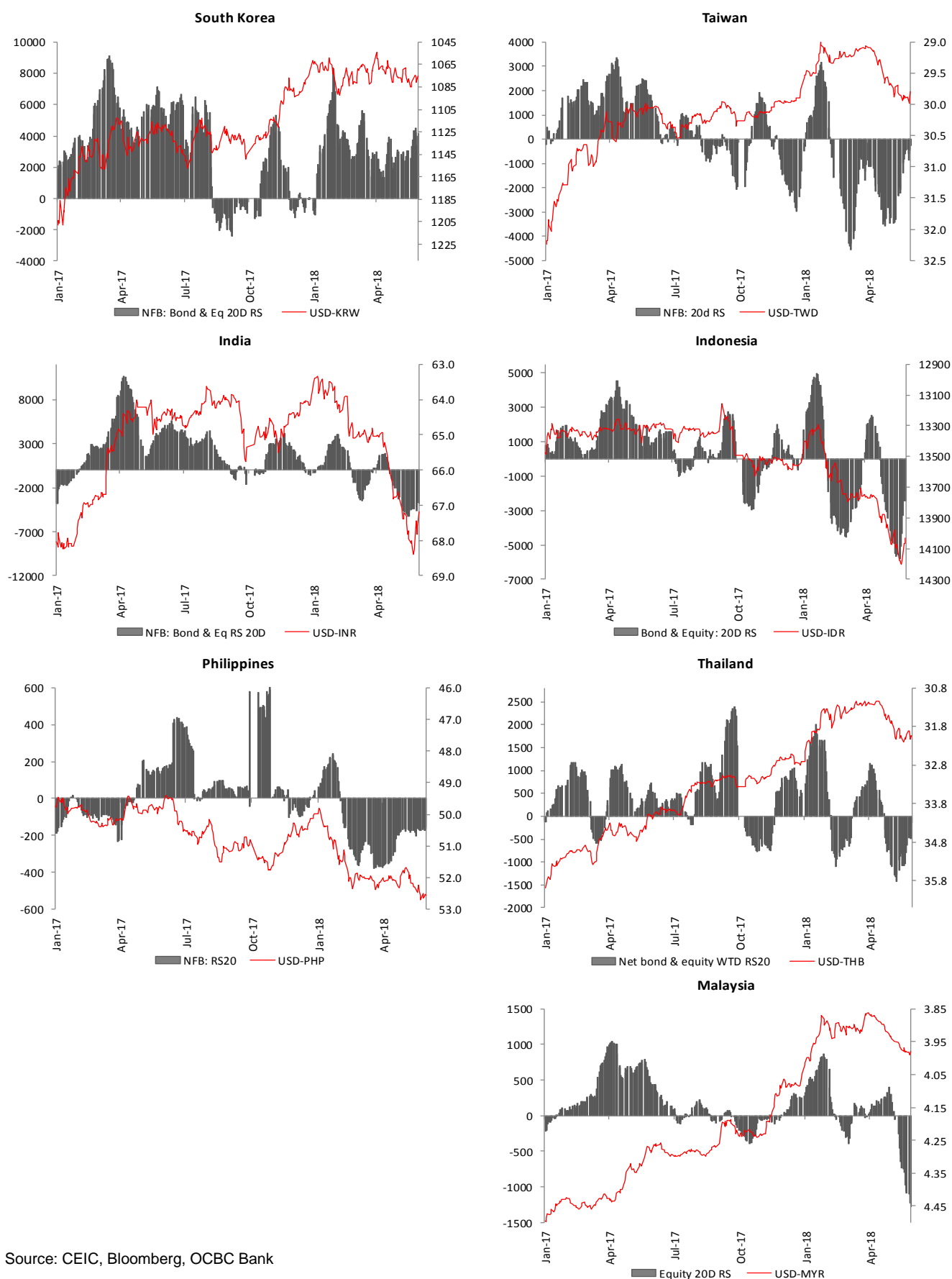
Source: OCBC Bank, Bloomberg

Short term Asian FX views

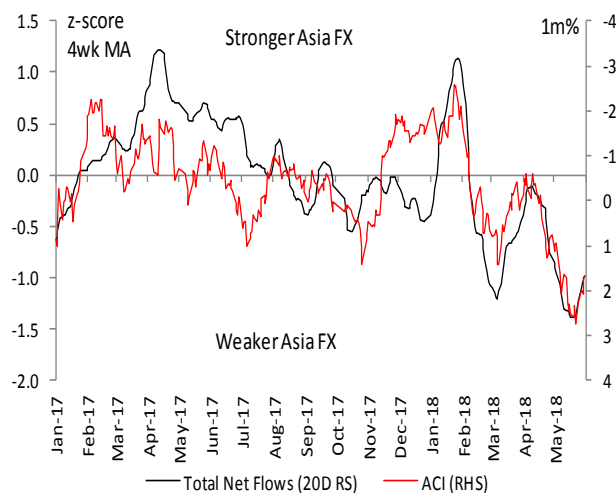
Currency	Bias	Rationale
USD-CNH	↑	RMB Index should be capped at 98.00, RMB to shoulder potential volatility instead; Sino-US trade tensions reigniting; USD-CNY midpoints still habitually above neutral models
USD-KRW	↔/↑	1Q GDP growth and CPI data prints missed expectations; evolving state of affairs 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

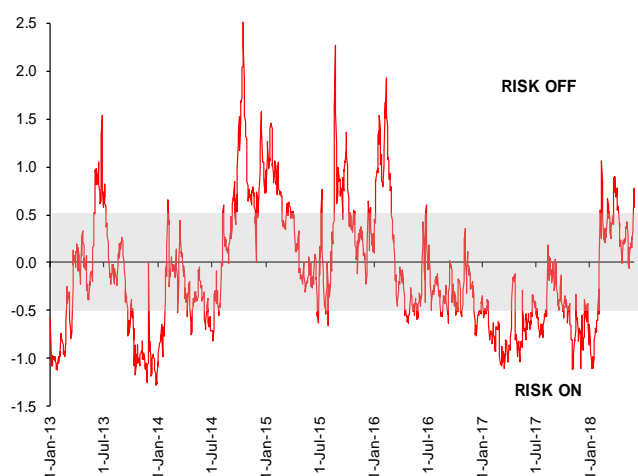
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

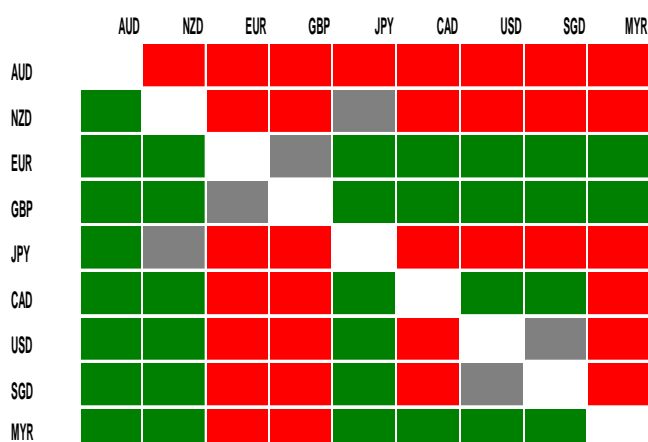
	DXY	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.428	0.886	0.262	-0.282	-0.102	-0.062	-0.535	0.300	0.864	0.862	-0.993
MYR	0.938	-0.240	0.748	0.754	-0.090	0.259	0.095	-0.230	-0.339	0.753	0.650	-0.937
CNY	0.886	-0.572	1.000	0.052	-0.585	-0.316	-0.245	-0.702	0.507	0.903	0.949	-0.883
PHP	0.877	-0.290	0.728	0.638	0.040	0.031	0.036	-0.388	-0.003	0.734	0.678	-0.882
CNH	0.862	-0.695	0.949	-0.071	-0.571	-0.444	-0.421	-0.813	0.576	0.924	1.000	-0.877
TWD	0.793	-0.216	0.688	0.420	-0.234	0.207	0.127	-0.169	0.109	0.674	0.577	-0.791
CAD	0.669	-0.667	0.702	-0.369	-0.401	-0.628	-0.531	-0.829	0.629	0.723	0.844	-0.679
SGD	0.567	0.079	0.383	0.129	0.121	-0.042	0.287	0.002	0.112	0.253	0.401	-0.558
THB	0.486	0.342	0.346	0.497	0.046	0.422	0.584	0.292	-0.307	0.186	0.143	-0.456
KRW	0.404	0.131	0.419	-0.018	-0.474	0.338	0.317	0.103	0.040	0.240	0.283	-0.348
INR	0.402	0.362	0.123	0.537	0.347	0.647	0.549	0.416	-0.300	0.046	0.031	-0.374
IDR	0.370	0.539	0.083	0.431	0.229	0.687	0.656	0.559	-0.625	-0.146	-0.091	-0.313
AUD	0.340	-0.220	0.314	0.544	-0.204	0.442	0.007	-0.122	-0.284	0.412	0.201	-0.337
CCNY12M	0.152	-0.172	0.244	-0.067	-0.046	-0.337	-0.260	-0.294	0.324	0.199	0.342	-0.201
JPY	-0.062	0.863	-0.245	0.444	0.516	0.526	1.000	0.686	-0.517	-0.466	-0.421	0.135
NZD	-0.266	-0.478	0.034	-0.443	-0.634	-0.200	-0.565	-0.324	0.199	0.115	0.074	0.252
USGG10	-0.428	1.000	-0.572	0.259	0.580	0.497	0.863	0.831	-0.618	-0.780	-0.695	0.486
CHF	-0.782	0.596	-0.793	-0.298	0.415	0.098	0.291	0.674	-0.231	-0.871	-0.786	0.797
GBP	-0.929	0.623	-0.877	-0.287	0.394	0.070	0.277	0.623	-0.319	-0.942	-0.858	0.942
EUR	-0.993	0.486	-0.883	-0.282	0.286	0.134	0.135	0.576	-0.304	-0.889	-0.877	1

Source: Bloomberg

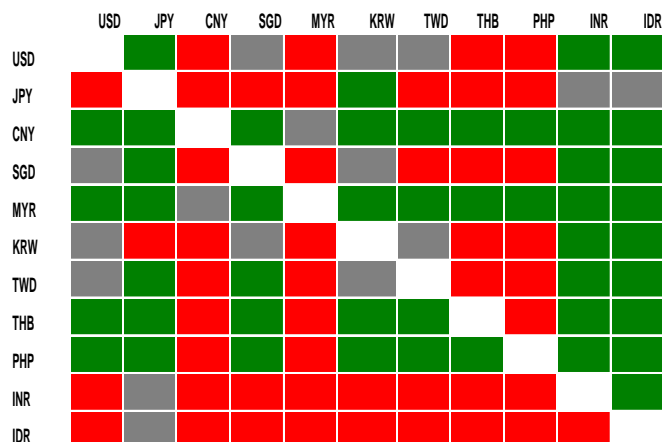
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1548	1.1600	1.1695	1.1700	1.1975
GBP-USD	1.3223	1.3300	1.3377	1.3400	1.3588
AUD-USD	0.7600	0.7607	0.7614	0.7621	0.7700
NZD-USD	0.6859	0.7000	0.7005	0.7021	0.7099
USD-CAD	1.2816	1.2900	1.2934	1.3000	1.3028
USD-JPY	108.55	109.00	109.64	110.00	110.21
USD-SGD	1.3346	1.3364	1.3365	1.3400	1.3465
EUR-SGD	1.5502	1.5600	1.5631	1.5700	1.5980
JPY-SGD	1.2100	1.2129	1.2191	1.2200	1.2228
GBP-SGD	1.7750	1.7800	1.7879	1.7900	1.8152
AUD-SGD	1.0095	1.0100	1.0176	1.0184	1.0197
Gold	1279.37	1281.20	1292.70	1300.00	1306.82
Silver	16.21	16.40	16.42	16.50	16.51
Crude	65.66	65.70	65.77	65.80	67.80

Source: OCBC Bank

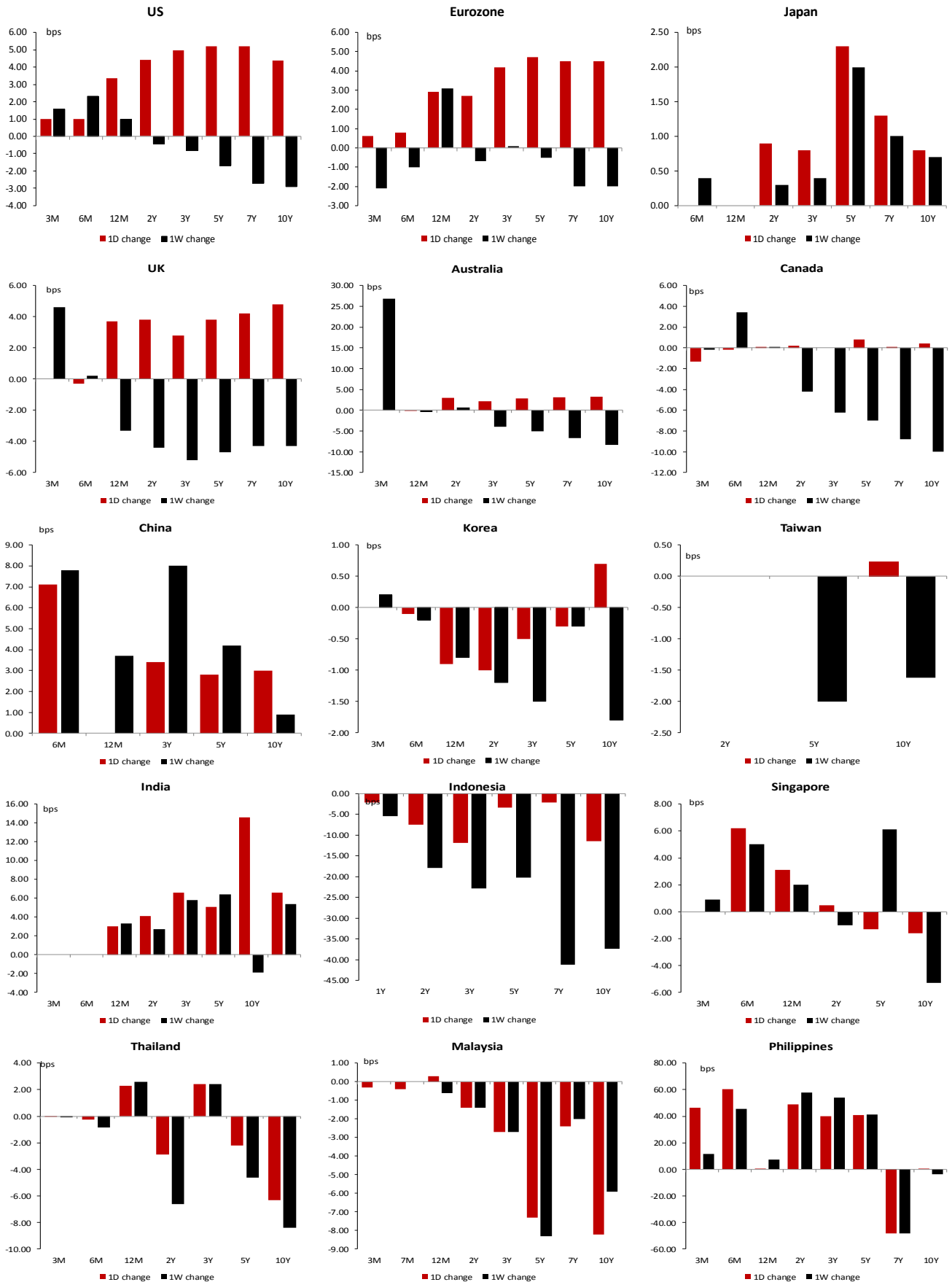
G10 FX Heat Map

Source: OCBC Bank

Asia FX Heat Map

Source: OCBC Bank

Government bond yield changes



Revised FX Forecasts

	Spot	Jun-18	Sep-18	Dec-18	Mar-19
USD-JPY	109.19	110.12	110.90	111.42	111.95
EUR-USD	1.1678	1.1610	1.1578	1.1770	1.1961
GBP-USD	1.3275	1.3165	1.3142	1.3340	1.3538
AUD-USD	0.7547	0.7489	0.7468	0.7615	0.7762
NZD-USD	0.6996	0.6935	0.6933	0.7078	0.7223
USD-CAD	1.2942	1.3050	1.3056	1.2847	1.2639
USD-CHF	0.9888	0.9960	0.9902	0.9789	0.9676
USD-SGD	1.3378	1.3406	1.3433	1.3308	1.3183
USD-CNY	6.4143	6.4500	6.4587	6.4184	6.3781
USD-THB	32.03	32.18	32.20	31.79	31.38
USD-IDR	13894	13840	13931	13844	13758
USD-MYR	3.9840	4.0070	4.0104	3.9484	3.8864
USD-KRW	1075	1081.80	1081.24	1065.78	1050.31
USD-TWD	29.858	29.960	29.961	29.694	29.428
USD-HKD	7.8458	7.8440	7.8430	7.8421	7.8411
USD-PHP	52.592	52.85	52.86	52.44	52.03
USD-INR	67.19	66.90	67.52	66.99	66.46
EUR-JPY	127.51	127.85	128.39	131.14	133.90
EUR-GBP	0.8797	0.8819	0.8810	0.8823	0.8835
EUR-CHF	1.1547	1.1564	1.1465	1.1521	1.1573
EUR-SGD	1.5623	1.5564	1.5553	1.5663	1.5769
GBP-SGD	1.7759	1.7649	1.7654	1.7753	1.7848
AUD-SGD	1.0096	1.0040	1.0032	1.0134	1.0233
NZD-SGD	0.9359	0.9297	0.9314	0.9420	0.9523
CHF-SGD	1.3530	1.3460	1.3566	1.3595	1.3625
JPY-SGD	1.2252	1.2174	1.2114	1.1944	1.1776
SGD-MYR	2.9780	2.9890	2.9854	2.9669	2.9479
SGD-CNY	4.7947	4.8113	4.8080	4.8228	4.8380

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