

Wednesday, September 05, 2018

FX Themes/Strategy/Trading Ideas

- The big dollar continued to hold the upper hand across the board within G10 as well as EM. Regarding the latter, note particular underperformance of the ZAR and the LATAM currencies.
- Going ahead, global markets may continue to operate on a two-track paradigm. First and foremost, negative sentiment (primarily from US-Sino trade tensions) and global contagion may continue to permeate, keeping the antipodeans and the CAD (NAFTA baggage) on a bearish slant within G10 space.
- Secondly, investors may continue to operate on the premise that the US economy is seen outperforming relative to the global economy at large. **This may continue to keep FOMC expectations supported, granting implicit support for the greenback. This dynamic, coupled with prevailing negative global sentiment may continue to keep the USD-JPY trapped in a range.**
- We go tactical short on the **AUD-USD** given the pair's inherent vulnerability to potential negative global contagion and with the RBA expected to remain in a steady state on Tuesday. From a spot ref of 0.7190 on Tuesday, we target 0.7020, placing a stop at 0.7275.
- On the central bank calendar, watch for the **Bank of Canada** (BOC) policy meeting (1400 GMT). With trade talks between Canada and the US not faring well, expect the BOC to hold rates unchanged. This is likely to be a pause, with a rate hike in their October meeting to track the expected September hike by the Fed. Elsewhere, watch for comments by ECB's Praet (0830 GMT) and Fed's Bullard (1320 GMT)
- Upcoming data-prints for today include services and composite PMIs in Asia and Europe, US trade balance (1230 GMT).

Treasury Research &
Strategy

Emmanuel Ng

+65 6530 4037

ngcyemmanuel@ocbc.com

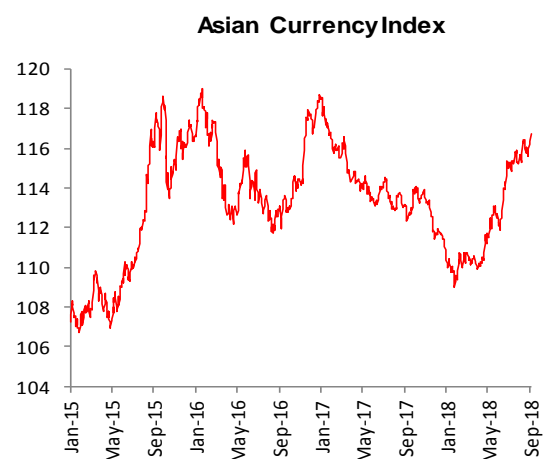
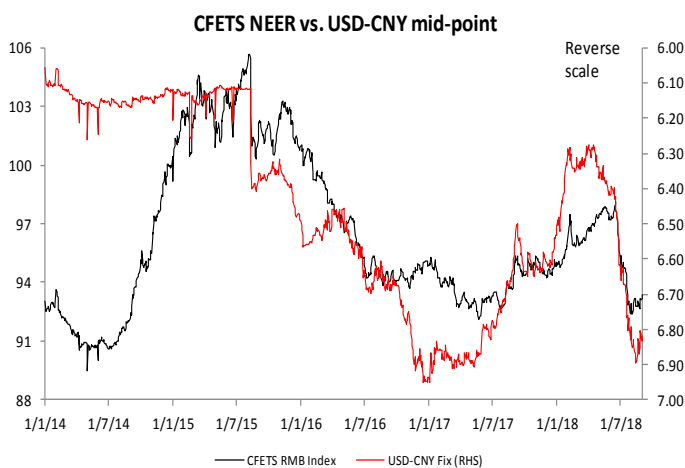
Terence Wu

+65 6530 4367

TerenceWu@ocbc.com

Asian FX

- As alluded above, expect implicit negative pressure on EM/Asia to persist, from the stronger dollar dynamic and negative risk sentiments. At this juncture, contagion concerns appear to be picking up, leading to further volatility in EM Asian currencies.
- While the Asian complex on aggregate is not experiencing a massive exodus of **net portfolio flows** in the near term, the slow bleed from South Asia continues apace. Overall flow positioning is largely neutral save for a supportive net inflow environment for the KRW and the THB.
- Weaker US/EU/LATAM equities, and a negative open for Asian markets further weighed on risk sentiment. Overall, with our **FX Sentiment Index (FXSI)** continuing to creep higher (demonstrating increasing nervousness) within Risk-Neutral territory, expect the IDR, INR and the PHP to underperform their peers in the region.
- **SGD NEER:** The SGD NEER firmed to +0.89% above its perceived parity level (1.3871) this morning. The NEER-implied USD-SGD thresholds were higher. Expect the +0.70% (1.3775) and +1.00% (1.3733) 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 6.8266 compared to 6.8183 on Tuesday. The CFETS RMB Index gained further to 93.54, from 93.40 previously. Note that post-CCF, even though the descent of USD-CNY effectively stalled at 6.8000, the CFETS RMB Index has been on a consistent climb.



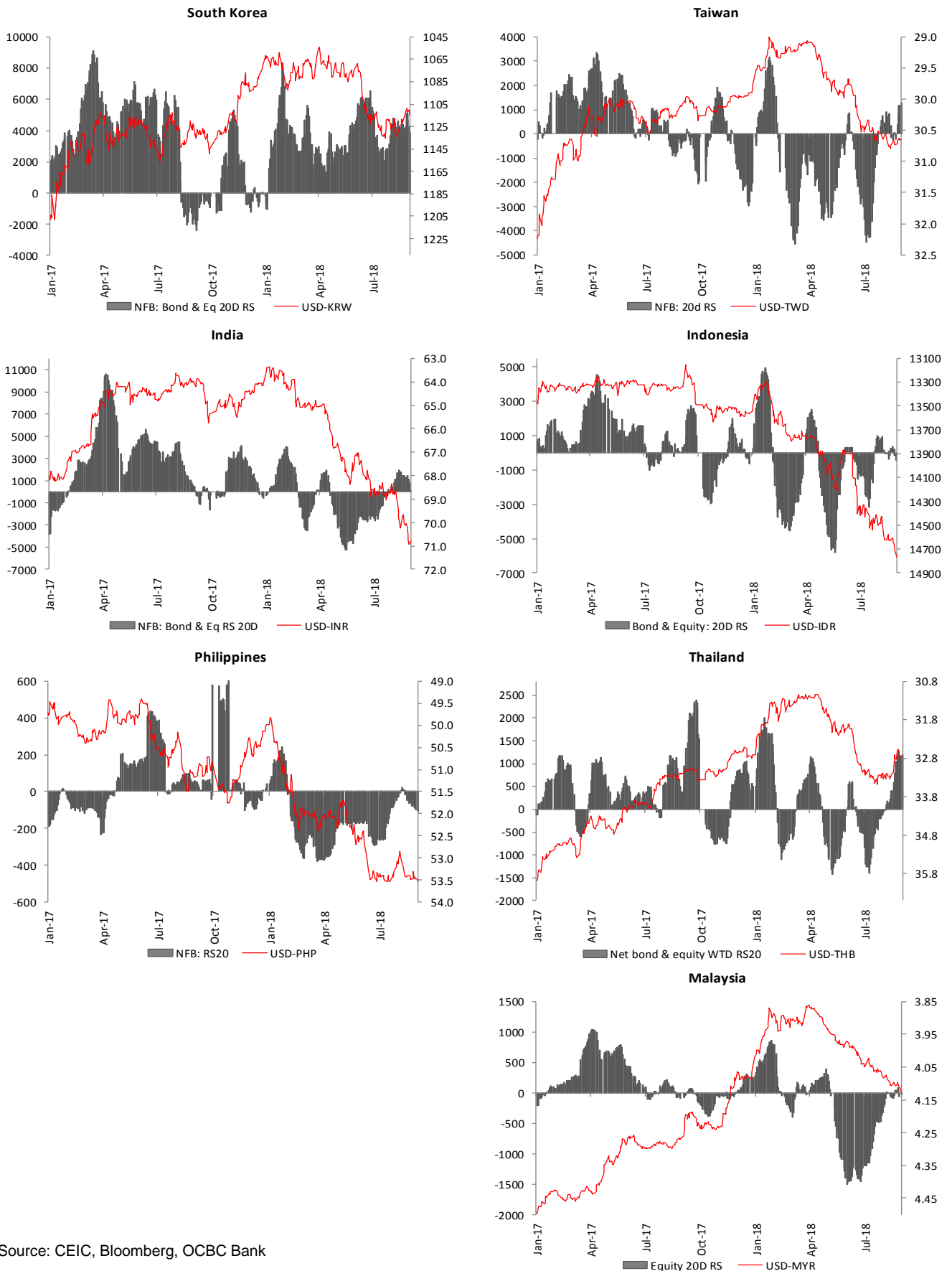
Source: OCBC Bank, Bloomberg

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. Near term, the SGD is not out of the woods yet, still demonstrating a responsiveness to the firmer dollar dynamic
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. On a related note, expect SGD-MYR to continue to attempt to lift, especially with 3.00 now having been violated.
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

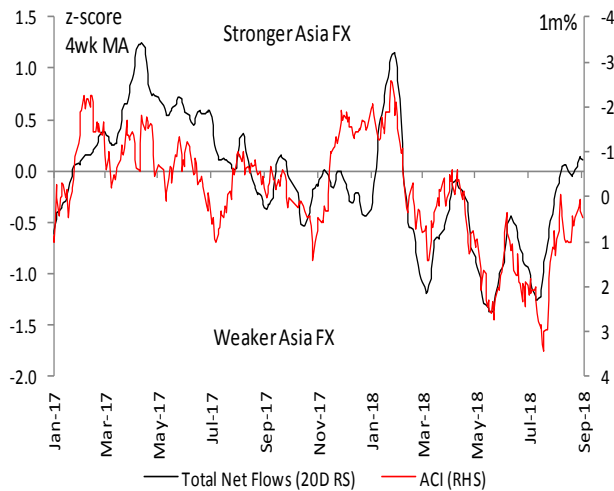
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



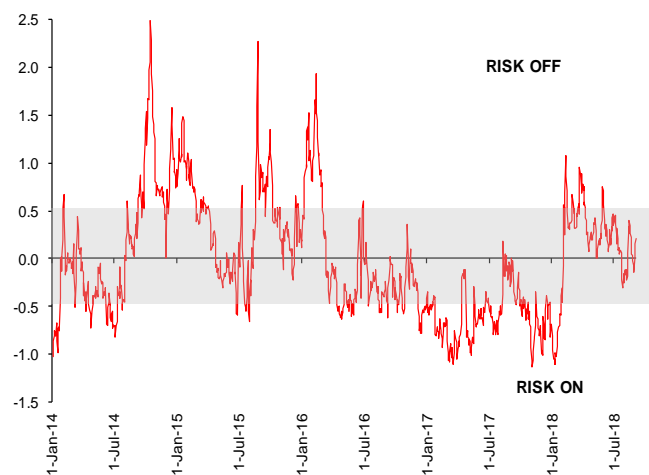
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXX	CNH	EUR
DXY	1.000	-0.036	0.835	-0.846	-0.737	-0.724	-0.372	-0.743	0.566	0.880	0.728	-0.993
KRW	0.872	0.125	0.759	-0.941	-0.630	-0.480	-0.326	-0.665	0.265	0.690	0.551	-0.878
CNY	0.835	-0.089	1.000	-0.731	-0.760	-0.762	-0.361	-0.658	0.659	0.815	0.874	-0.840
SGD	0.788	-0.084	0.787	-0.538	-0.590	-0.618	-0.059	-0.344	0.742	0.808	0.818	-0.752
THB	0.748	0.507	0.609	-0.834	-0.432	-0.280	-0.138	-0.618	-0.020	0.675	0.514	-0.783
CNH	0.728	-0.009	0.874	-0.644	-0.463	-0.519	-0.124	-0.404	0.647	0.677	1.000	-0.734
CAD	0.679	0.055	0.593	-0.617	-0.541	-0.481	-0.110	-0.324	0.489	0.713	0.538	-0.636
CHF	0.677	0.287	0.523	-0.897	-0.493	-0.355	-0.341	-0.747	-0.084	0.481	0.331	-0.715
TWD	0.605	-0.615	0.627	-0.285	-0.747	-0.806	-0.309	-0.461	0.769	0.534	0.434	-0.552
PHP	0.099	-0.750	0.220	0.260	-0.352	-0.532	-0.166	-0.039	0.623	0.166	0.169	-0.041
USGG10	-0.036	1.000	-0.089	-0.111	0.369	0.505	0.480	0.124	-0.431	-0.017	-0.009	0.013
MYR	-0.067	-0.440	0.056	0.398	-0.254	-0.335	0.153	0.286	0.510	0.091	0.025	0.142
IDR	-0.172	-0.455	-0.050	0.529	-0.105	-0.136	0.141	0.410	0.471	0.021	-0.021	0.235
INR	-0.202	-0.512	-0.029	0.623	-0.099	-0.203	0.115	0.445	0.576	0.029	0.002	0.267
AUD	-0.280	0.305	-0.351	-0.083	0.259	0.365	-0.165	-0.145	-0.739	-0.413	-0.453	0.216
JPY	-0.372	0.480	-0.361	0.425	0.511	0.637	1.000	0.615	-0.327	-0.496	-0.124	0.420
NZD	-0.664	0.206	-0.556	0.403	0.458	0.595	0.115	0.277	-0.755	-0.710	-0.599	0.619
GBP	-0.898	0.145	-0.670	0.770	0.715	0.774	0.387	0.809	-0.467	-0.712	-0.521	0.873
EUR	-0.993	0.013	-0.840	0.870	0.731	0.715	0.420	0.768	-0.534	-0.890	-0.734	1.000

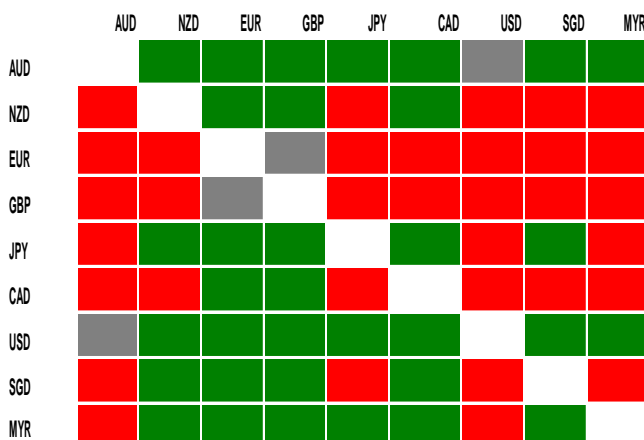
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1311	1.1600	1.1606	1.1615	1.1700
GBP-USD	1.2662	1.2800	1.2868	1.2900	1.3015
AUD-USD	0.7166	0.7200	0.7213	0.7300	0.7355
NZD-USD	0.6527	0.6530	0.6562	0.6600	0.6720
USD-CAD	1.3092	1.3100	1.3166	1.3200	1.3208
USD-JPY	111.00	111.23	111.58	111.76	112.00
USD-SGD	1.3666	1.3700	1.3753	1.3800	1.3807
EUR-SGD	1.5872	1.5900	1.5961	1.5995	1.5998
JPY-SGD	1.2286	1.2300	1.2326	1.2400	1.2475
GBP-SGD	1.7455	1.7600	1.7697	1.7700	1.7786
AUD-SGD	0.9867	0.9900	0.9920	1.0000	1.0051
Gold	1161.40	1173.70	1194.80	1200.00	1219.34
Silver	14.00	14.02	14.09	14.10	15.31
Crude	69.00	69.30	69.50	70.80	71.40

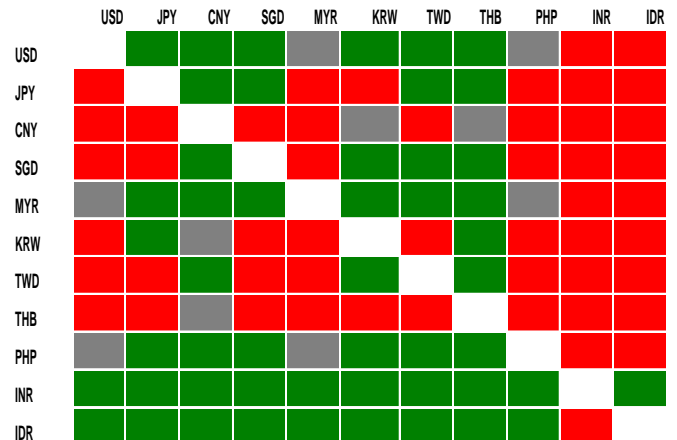
Source: OCBC Bank

G10 FX Heat Map



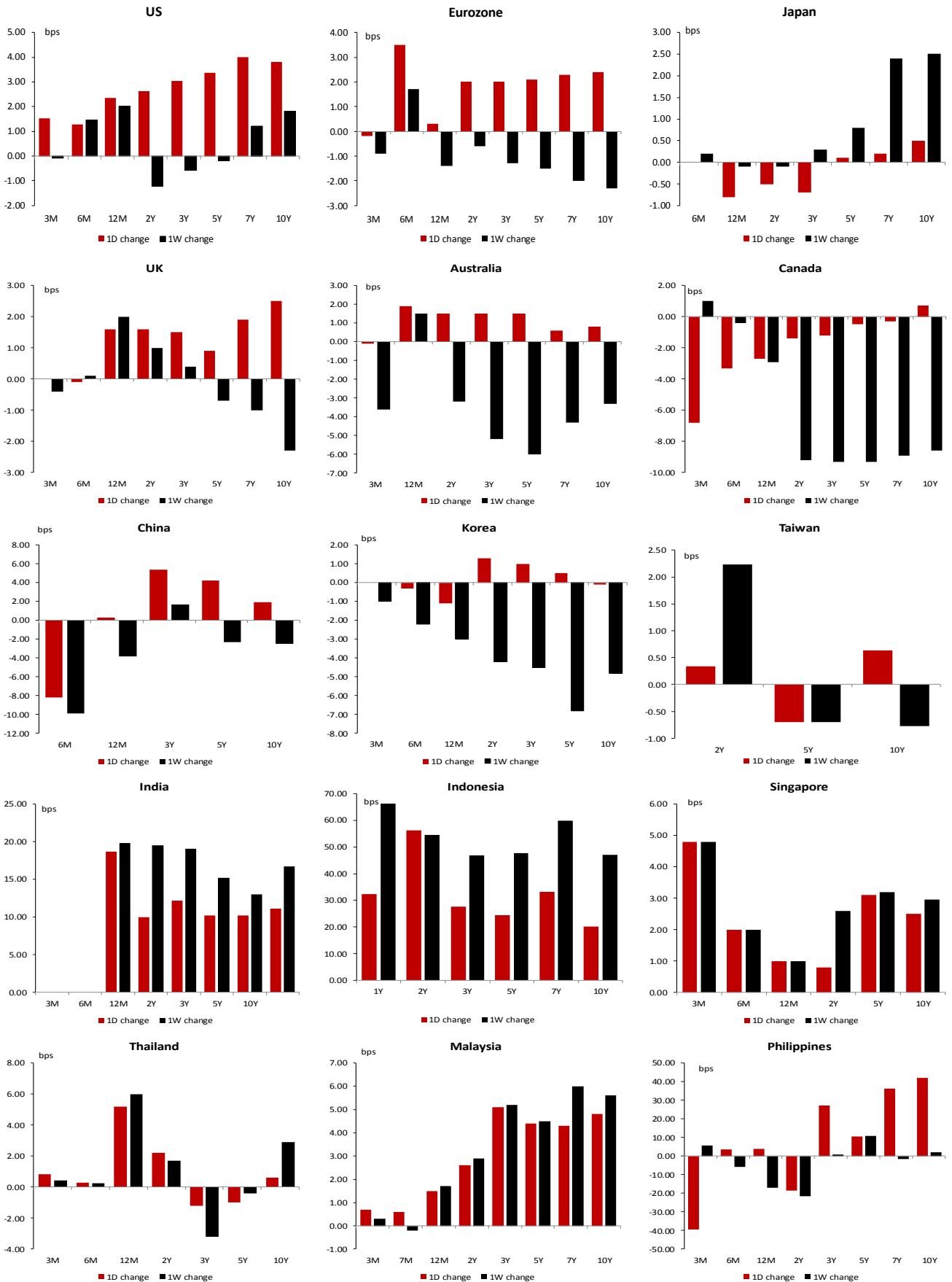
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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