

Wednesday, August 08, 2018

FX Themes/Strategy/Trading Ideas

- The USD ended Tuesday's session broadly weaker against the G7 currencies. The DXY index once again turned lower after testing the top end of the established range for the fourth time in six weeks.
- **With little in the way of fresh directional drivers for the broad USD, we see little reason to chase any USD strength near the topside of the recent range. Retain preference to trade the range in the near term.**
- The EUR-GBP at year-to-date highs provided lift for the EUR. This was despite German industrial production coming in weaker than expected, following the poor print on factory orders on Monday.
- The Reserve Bank of Australia (RBA) held rates unchanged as expected. The accompanying statement revealed reduced bullishness over the Chinese economy. Nevertheless, the AUD gained in the aftermath on short-covering action and improved inflation guidance in 2019 and 2020.
- Our view that the RBA is a relative laggard in the rate hike cycle is not shaken by this policy meeting. Any improvements in inflation and other domestic indicators should be offset by the softening of the Chinese domestic economy and the worsening Sino-US trade relations. **Thus, we think it is difficult for the RBA to signal any shift in its stance into the end of the year. Stay not constructive on the AUD on a structural horizon.**
- Elsewhere in the central bank space, the Bank of Japan (BOJ) Summary of Opinions revealed broad-based support for introducing flexibility to the yield target. One comment placed at long term yield target at 0.25%. This corroborates with the Reuters report yesterday that the BOJ board is in favour of higher rates, subjected to better economic prints. **Expect calls for BOJ tightening to intensify once economic indicators show improvement, though that might be a tall order for now.**
- For today, watch for comments by the Fed's Barkin (1245 GMT) and the Reserve Bank of New Zealand's (RBNZ) policy decision (2100 GMT).

Treasury Research &
Strategy

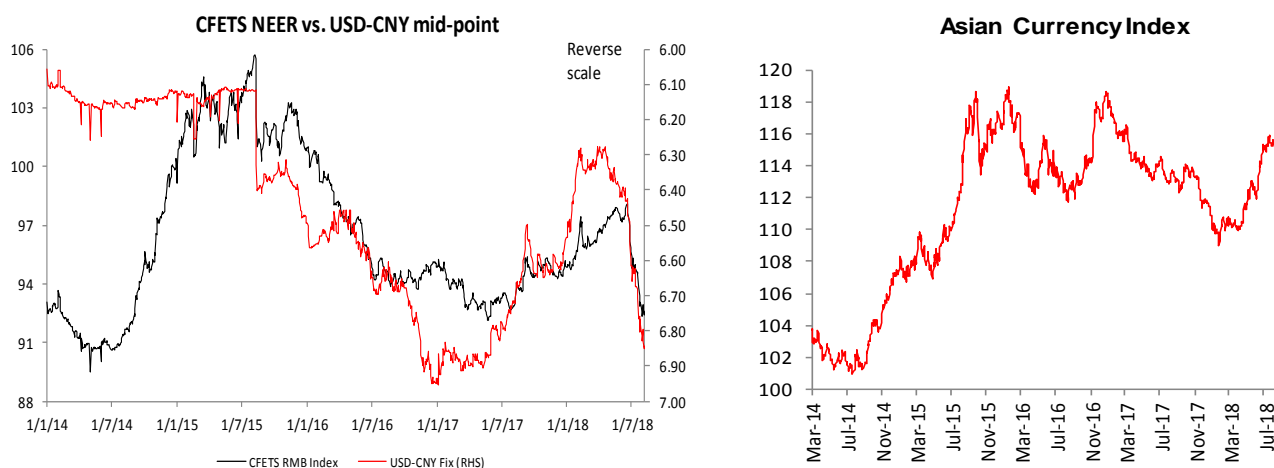
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Asian FX

- Firmer US/EU/EM equities overnight supported overall risk sentiments for today. Our **FX Sentiment Index (FXSI)** edged closer to the Risk-On threshold, while remaining within the Risk-Neutral area.
- China's foreign reserves held steady in the latest print. This at least reflects that the PBoC is not actively holding back CNY depreciation through the reserves. Nevertheless, note increasing activism from the PBoC's part, with the latest action being a meeting with major lenders. The central message was to discourage "herd behavior" in chasing the USD-CNY higher. Note that the possibility of a re-introduction of the counter-cyclical factor was also broached in the meeting.
- On the trade front, the next set of tariffs on US\$16bn worth of Chinese goods will be imposed on 23 August. Meanwhile, the latest print of Chinese trade data were firmer than expected. This print covers the period when the first round of import tariffs was imposed, and should be the first indication of its direct impact on the Chinese economy. **The stronger than expected print on export data should allay any immediate fears of the tariffs' impact on the Chinese economy.**
- In terms of **Asian net portfolio flows**, the latest print reflects strong bond inflows into South Korea. Meanwhile, bond inflow into India and Indonesia continued its recent strong run.
- Overall, **with the latest trade data release, any immediate concerns over the trade war's impact on China should be allayed. Expect positive risk sentiments and RMB stability to carry Asian currencies higher intra-day and perhaps into the end of the week.**
- Watch for Bank of Thailand (BOT) policy decision (0705 GMT) today. We expect them to be on hold.
- **SGD NEER:** The SGD NEER firmed again to +1.16% above its perceived parity level (1.3793) this morning, with the NEER-implied USD-SGD thresholds marginally weaker. Expect the +0.90% (1.3670) and +1.30% (1.3617) thresholds to mark extremes in the intra-day range.
- **CFETS RMB Index:** The USD-CNY mid-point was set lower, by less than expected, at 6.8313 compared to 6.8431 on Tuesday. The CFETS RMB Index firmed marginally to 92.62, compared to 92.60 previously.



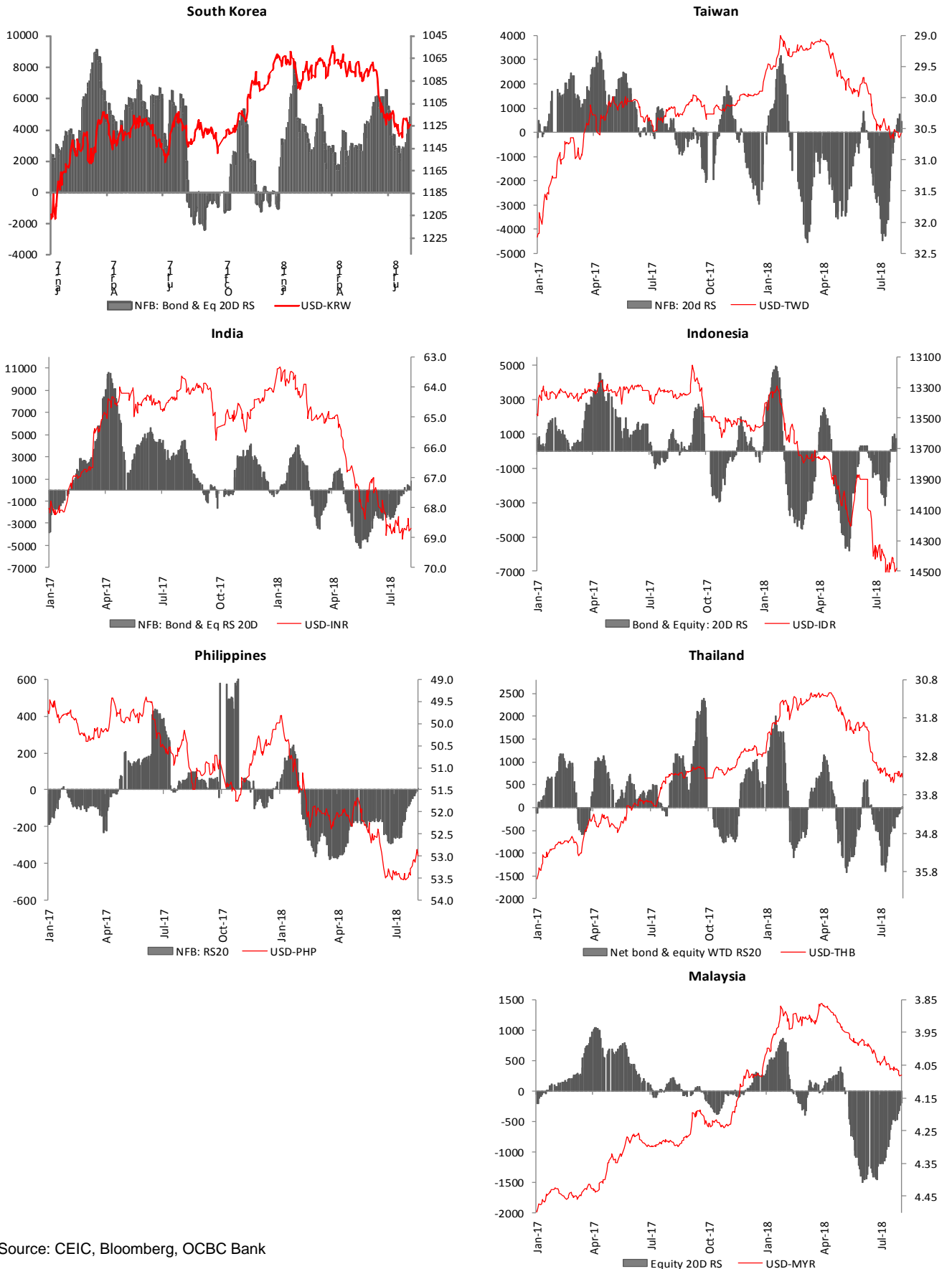
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔	PBoC continues to take steps to contain near term depreciation of the RMB complex; PBoC senior advisor labelled the 7 handle as a hard to break "psychological barrier" for the RMB; latest trade data shows allays any immediate concern of the trade war on the Chinese economy
USD-KRW	↔	Latest economic prints show lost of positive momentum; portfolio inflows turning higher again; BOK governor signalling the need to review the accommodative policy; whipsawed by Sino-US trade developments
USD-TWD	↔	Equity outflow situation flipped into net inflow territory; stronger than expected inflation print offset by weaker export growth
USD-INR	↔	RBI hiked 25 bps as expected, making it two hikes in consecutive meetings; persistent outflow momentum flipped into a net inflow situation in a rolling 20D basis; recent decline in oil prices may provide some relief
USD-SGD	↔	Expect resistance around 1.3700 and support near 1.3600; headline and core inflation prints in-line to stronger than expected, core inflation may hit 2.0% yoy before the MAS Oct MPS. Consolidation of the SGD NEER above the +1.00% above parity level may further fuel suspicions of a tightening move
USD-MYR	↔/↑	BNM expected to be on hold until 2019; structurally overvalued compared to Asian peers based on foreign reserves and current account matrices; equity outflows easing
USD-IDR	↔/↑	BI kept the policy rate unchanged in the latest meeting, although the rhetoric remains hawkish; strong inflow momentum into bonds
USD-THB	↔/↑	Case for rate hike builds, but the BOT still expected to be a laggard among the Asian central banks; current account for June stronger than expected
USD-PHP	↔	Inflation accelerated further; BSP rate hike this week expected, with some expectation for a 50 bps move; Moody's maintain IG rating

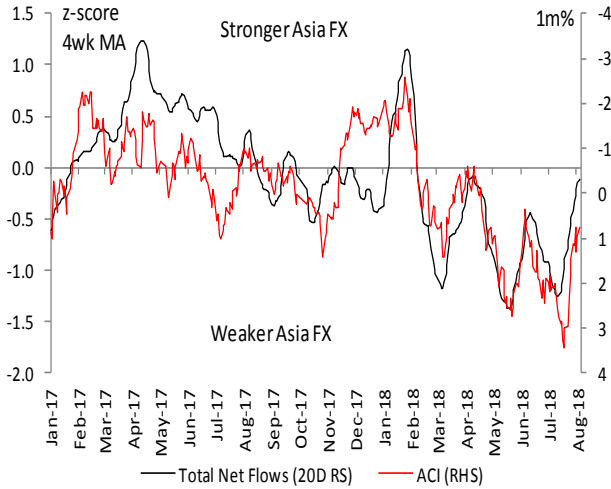
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



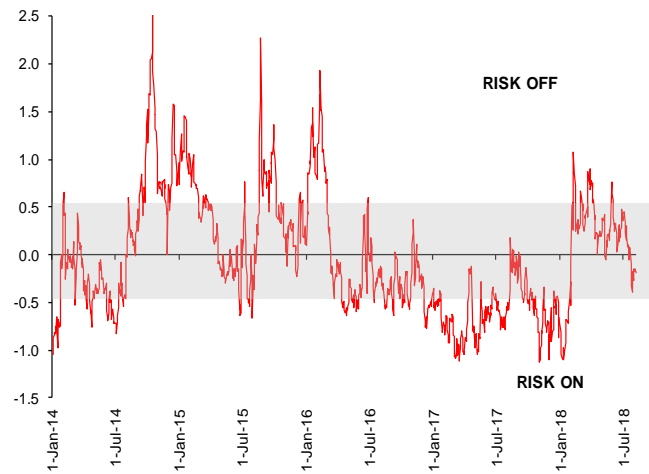
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	0.098	0.482	0.503	-0.575	-0.560	0.397	-0.528	-0.579	-0.034	0.565	-0.940
SGD	0.855	-0.024	0.443	0.264	-0.580	-0.666	0.481	-0.504	-0.339	0.004	0.538	-0.733
MYR	0.659	0.688	0.940	0.761	-0.051	-0.403	-0.113	-0.687	-0.408	-0.496	0.936	-0.749
CNH	0.565	0.793	0.980	0.678	0.039	-0.327	-0.243	-0.661	-0.197	-0.581	1.000	-0.690
CHF	0.557	-0.589	-0.305	-0.043	-0.442	-0.461	0.778	-0.130	-0.393	0.285	-0.225	-0.352
CNY	0.482	0.837	1.000	0.721	0.134	-0.278	-0.288	-0.665	-0.209	-0.623	0.980	-0.618
TWD	0.419	0.566	0.807	0.554	0.028	-0.522	-0.080	-0.694	-0.197	-0.467	0.806	-0.442
IDR	0.406	0.586	0.778	0.586	-0.010	-0.344	-0.272	-0.542	-0.272	-0.357	0.798	-0.457
JPY	0.397	-0.557	-0.288	-0.270	-0.415	-0.672	1.000	-0.290	-0.051	0.153	-0.243	-0.131
KRW	0.381	-0.056	0.245	0.168	-0.268	-0.693	0.348	-0.511	-0.194	-0.031	0.280	-0.192
THB	0.273	0.060	0.336	0.140	-0.123	-0.448	0.074	-0.401	-0.117	-0.123	0.395	-0.172
USGG10	0.098	1.000	0.837	0.670	0.402	0.029	-0.557	-0.489	-0.103	-0.681	0.793	-0.328
INR	0.010	-0.056	0.119	0.032	-0.149	0.128	-0.354	0.205	0.000	0.251	0.139	0.033
CAD	-0.042	-0.760	-0.571	-0.592	-0.280	-0.327	0.559	0.154	0.199	0.427	-0.521	0.338
PHP	-0.399	-0.672	-0.694	-0.650	0.051	-0.101	0.318	0.288	0.368	0.258	-0.642	0.614
AUD	-0.652	-0.110	-0.427	-0.066	0.432	0.638	-0.404	0.527	-0.035	0.143	-0.533	0.570
GBP	-0.849	-0.475	-0.790	-0.724	0.323	0.357	0.026	0.526	0.540	0.252	-0.782	0.874
NZD	-0.882	0.033	-0.358	-0.335	0.592	0.514	-0.326	0.411	0.482	-0.122	-0.446	0.838
EUR	-0.940	-0.328	-0.618	-0.639	0.473	0.373	-0.131	0.495	0.591	0.128	-0.690	1.000

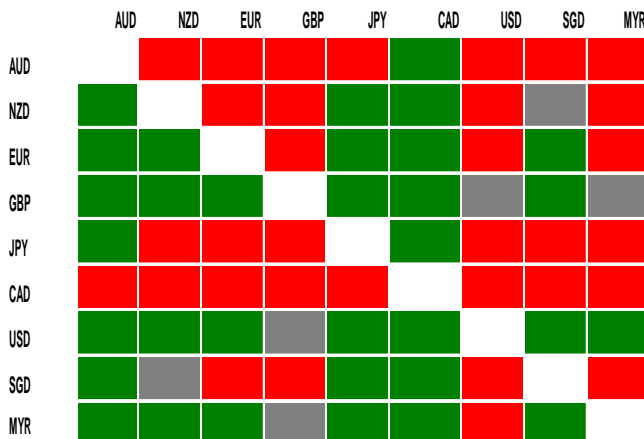
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1558	1.1600	1.1619	1.1670	1.1700
GBP-USD	1.2918	1.2920	1.2951	1.3000	1.3199
AUD-USD	0.7358	0.7400	0.7430	0.7444	0.7451
NZD-USD	0.6700	0.6721	0.6754	0.6800	0.6838
USD-CAD	1.2962	1.3000	1.3053	1.3100	1.3113
USD-JPY	110.86	111.00	111.36	112.00	112.94
USD-SGD	1.3585	1.3600	1.3634	1.3697	1.3700
EUR-SGD	1.5800	1.5834	1.5845	1.5900	1.6002
JPY-SGD	1.2200	1.2240	1.2244	1.2300	1.2338
GBP-SGD	1.7641	1.7652	1.7658	1.7700	1.7907
AUD-SGD	1.0098	1.0100	1.0129	1.0142	1.0156
Gold	1203.85	1205.10	1212.00	1244.88	1254.90
Silver	15.22	15.40	15.43	15.50	15.78
Crude	68.88	69.20	69.28	69.30	70.83

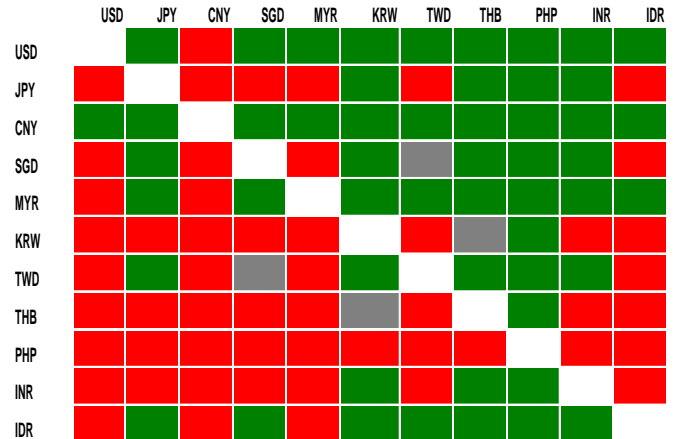
Source: OCBC Bank

G10 FX Heat Map



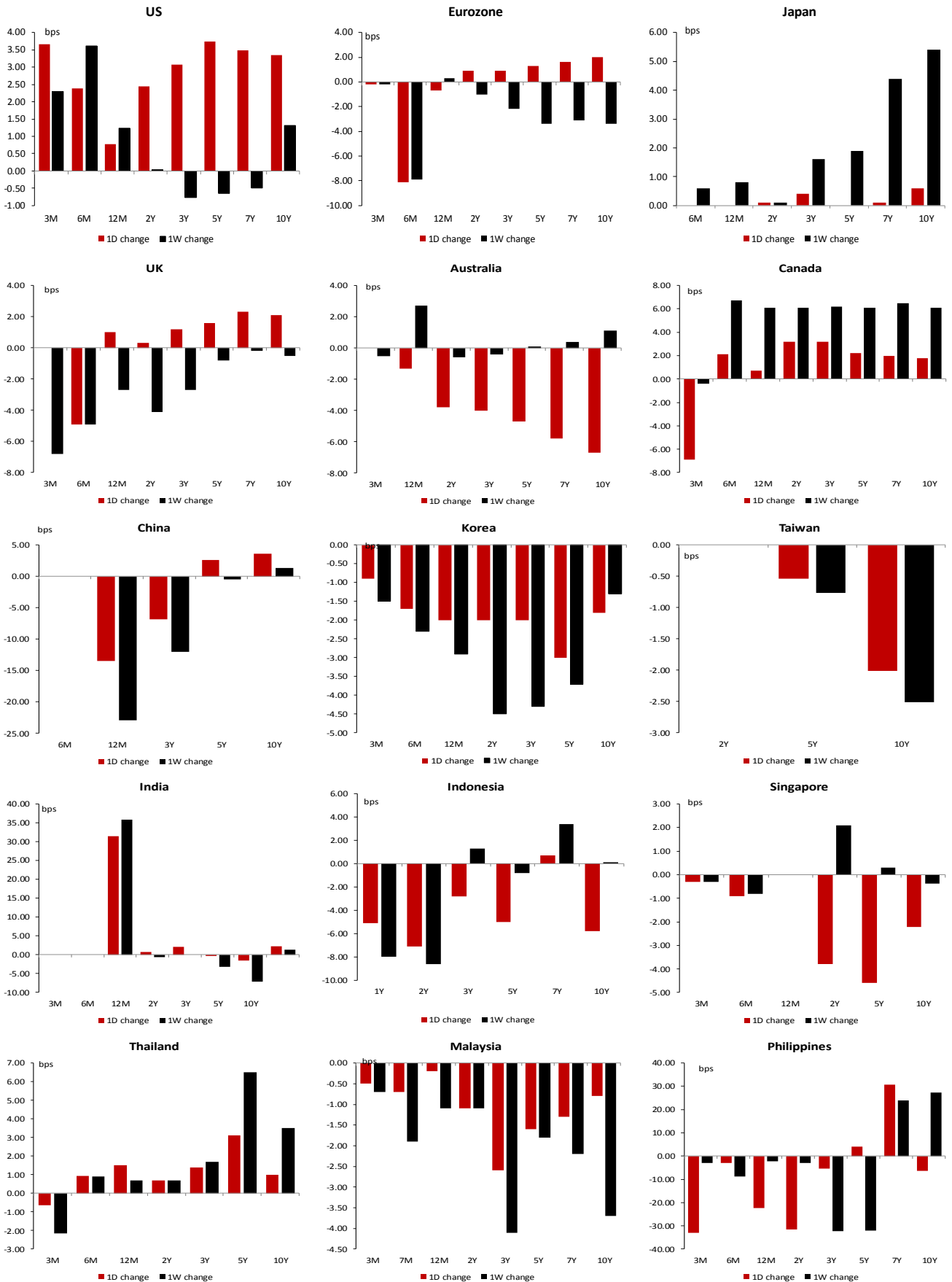
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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