

Wednesday, May 09, 2018

**FX Themes/Strategy/Trading Ideas**

- Amid firmer UST yields, the dollar continued to make inroads against the majors on Tuesday although upside progress was tempered after the US decision to pull out from the US-Iran nuclear agreement. The resultant taint on risk aversion capped USD-JPY and USD-CHF and saw the cyclicals (AUD, NZD, CAD) underperforming across the board.
- Elsewhere, the EUR (already the recent favored punching bag for USD resilience) was further undermined by political uncertainty arising from Italy.
- Overall, the **DXY** surfaced above 93.00 on Tuesday and it may receive an additional kicker on the upside if risk aversion continues to deepen in the coming sessions.
- Mildly positive EZ/US equities failed to temper a further dilution of positive sentiment, with the **FXSI (FX Sentiment Index)** inching higher for the 3<sup>rd</sup> consecutive session overnight within Risk-Neutral territory. However, at the current pace of sentiment deterioration, the Index may well seep into Risk-Off territory by late NY today. We also note that short-end EM vols are finally outpacing companion G7 vols significantly, a tell-tale sign of market stress.
- EM FX also trailed the greenback overnight, this time with an added negative from risk aversion, while shaky Asia equities on Wednesday morning also do not bode well for Asian FX.
- For today, the Fed's Bostic (1715 GMT) and the RBNZ at 2100 GMT (OCR expected to be kept unchanged at 1.75%) may provide some distraction. In the interim, the Trump-Iran news flow is expected to keep the USD supported, especially at the expense of risk-related currencies.

Treasury Research &  
Strategy

**Emmanuel Ng**

+65 6530 4073

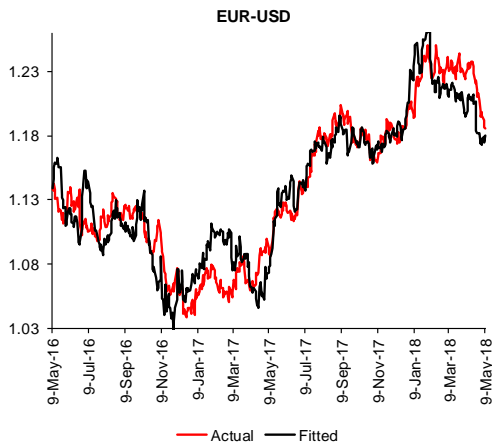
[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

**Terence Wu**

+65 6530 4367

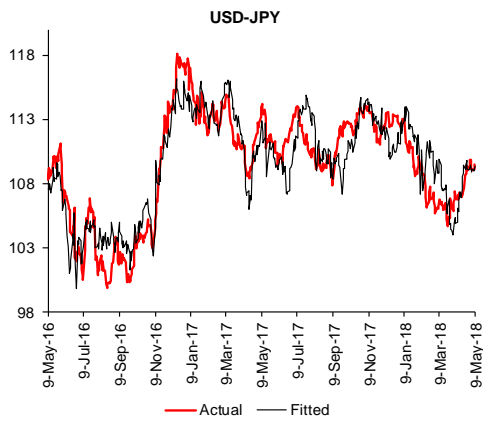
[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)

**G7**



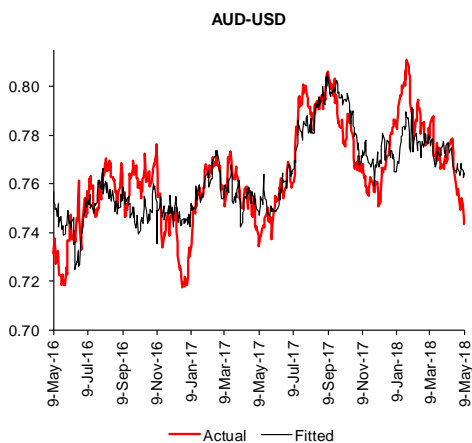
- **EUR-USD** The pair is attempting to converge with still stabilizing (but suppressed) short term implied valuations. Support at 1.1800 is now seen under threat.

Source: OCBC Bank



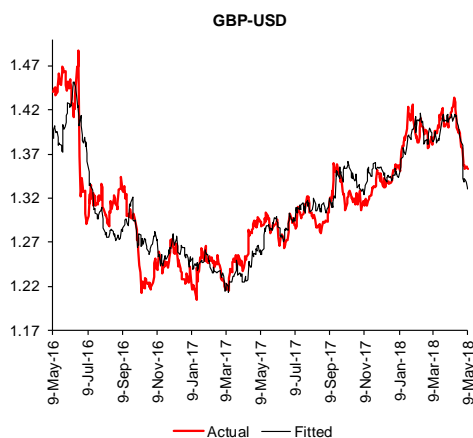
- **USD-JPY** USD-JPY may continue to be caught between the cross-winds of a firmer dollar dynamic and potential for deeper risk aversion. With short term implied valuations for the pair trapped, expect the 100-day MA (108.61) and 110.00 to book-end for now.

Source: OCBC Bank

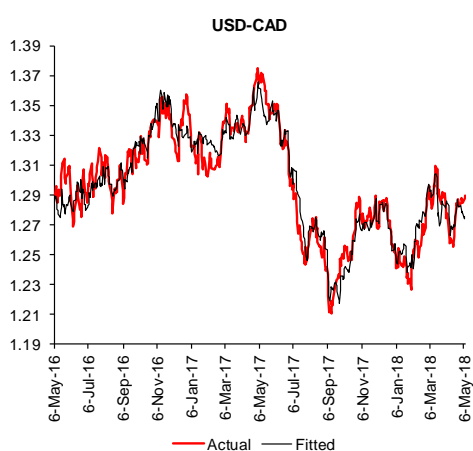


- **AUD-USD** With 0.7500 taken out amid nervous global markets, short term implied valuations are also attempting to shade lower at this juncture. Overshooting concerns may thus be disregarded in the near term, with 0.7380 the next probable support.

Source: OCBC Bank



- **GBP-USD** Ahead of the BOE MPC tomorrow, the GBP-USD may attempt to continue to clutch onto its 200-day MA (1.3545), with this handhold looking increasingly tenuous in the current environment. Note that short term implied valuations are beginning to slip once again with the 1.3500 floor increasingly under scrutiny.



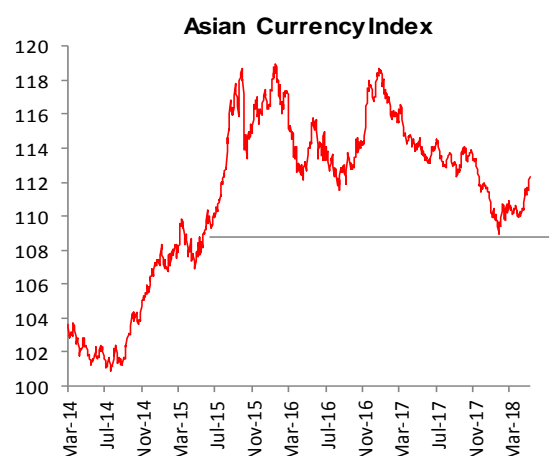
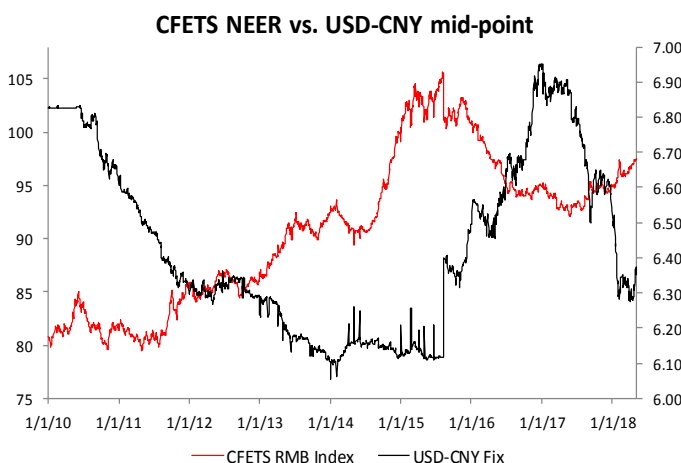
- **USD-CAD** Our near term view remains largely unchanged, with a preference to collect into any dips despite firmer crude. Short term implied valuations are also looking somewhat supported at this juncture with 1.3035 increasingly on the cards.

Source: OCBC Bank

## Asian FX

- Structurally, while EM/Asia had lagged their G10 counterparts in terms of responsiveness to broad USD resilience since late April, the deterioration of risk appetite levels (and sustained net portfolio outflows in aggregate) we think has now provided the catalyst for the current bearish prognosis for Asian FX/bonds.
- On the net Asian net portfolio flow front, note that even South Korea is now exhibiting a moderation of net inflows, with the outflow situation in the rest of the region deepening. Note that our structural (medium term) model for the **ACI (Asian Currency Index)** had turned higher from mid-late April, with the Index expected to continue to chop higher intra-day.
- Across the region, relative vulnerability remains heterogeneous, especially with negative carry considerations also coming to the fore. To boot, crude subsisting above 70.00 is also expected to weigh on the INR further, with implied pricing still not significantly portending an abrupt upside for the USD-INR.

- Meanwhile, already, significant negative short term carry is seen tempering undue IDR vulnerability at this juncture (with short term vol premiums also having gapped wider, albeit still not at extreme historical values). In the interim, we'd look towards the likes of the USD-THB and USD-SGD (both unencumbered by negative carry and crowded positioning) instead for further and sympathetic manifestations of USD resilience.
- **India:** Sell-off in govies is taking a breather as market digests the announcement of RBI's open-market operations (OMO) purchases last week. Yields may see some resistance on the upside, as the market expects an expanded use of OMO purchases by the RBI to support the bond market.
- **Indonesia:** Yesterday's government bond auction targeting IDR17tn received only IDR7.19tn of bids. All offers were rejected. Despite the recent sell-off from foreign funds, foreign ownership of Indonesian bonds (approx. 38.5%) remains elevated by historical standards. Going forward, we expect that foreign selling may still persist, and bond yields to push higher.
- **SGD NEER:** The SGD NEER is softer this morning at +0.21% above its perceived parity (1.3447) with NEER-implied USD-SGD thresholds higher on the day. Expect potential for the basket to veer into negative territory (i.e., sub-parity) if investor appetite continues to unwind. At current levels, look for the basket to bounce within parity and +0.30% (1.3407). Technically, note that the USD-SGD is now sitting atop its 200-day MA (1.3384), a first since May 2017.
- **CFETS RMB Index:** This morning, the USD-CNY mid-point came in below our expectations at 6.3733. Note that our forecast had incorporated an expectation that the mid-point would continue to outperform an unbiased model on the upside. This did not materialize today, with the resultant mid-point coming squarely at the projection of our unbiased model (6.3733). This took the CFETS RMB Index higher to 97.63 from 97.48 yesterday.



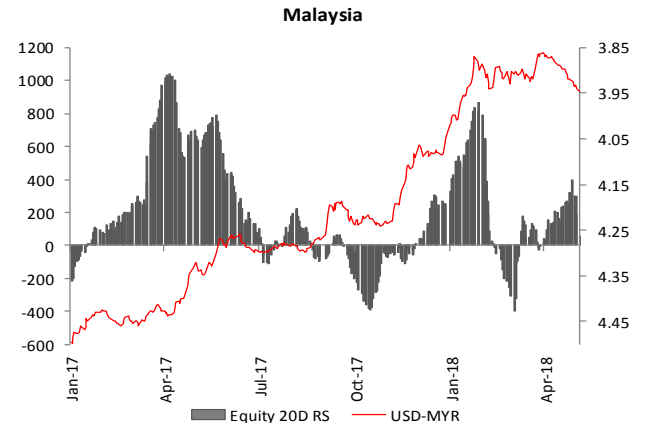
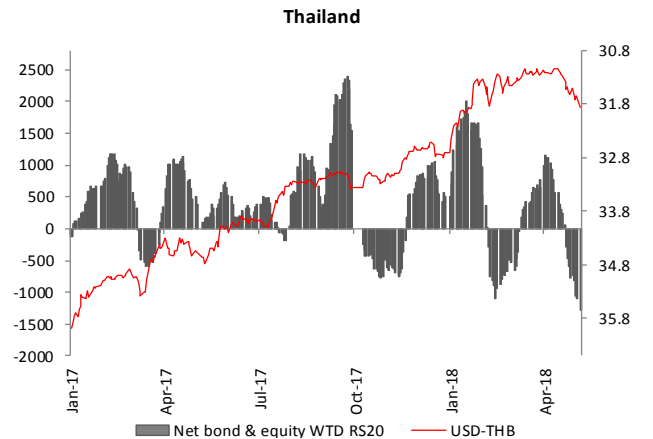
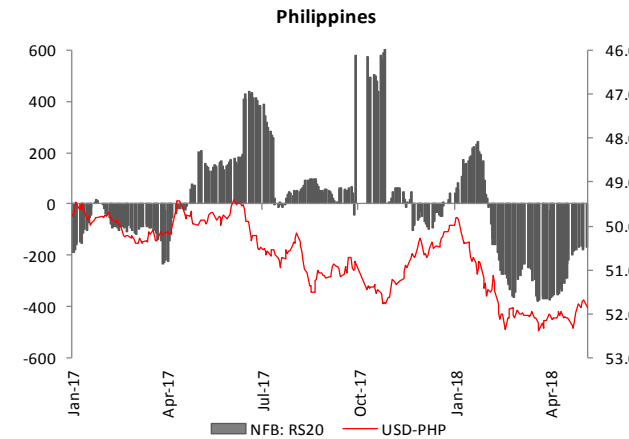
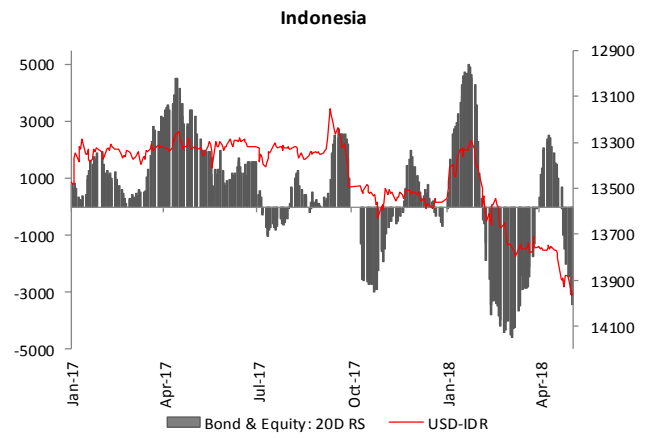
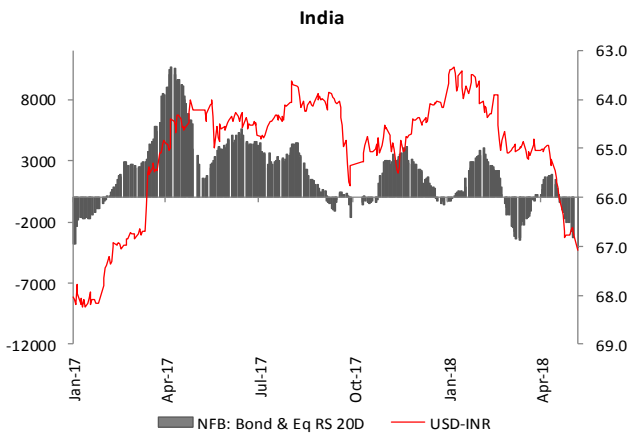
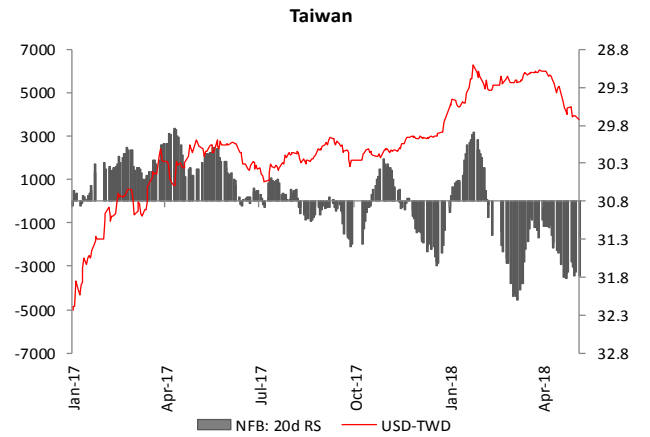
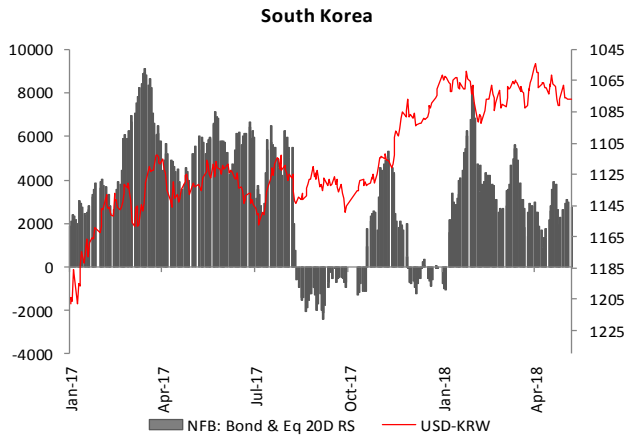
Source: OCBC Bank, Bloomberg

### Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↑	RRR cut, relative stability of RMB Index, RMB to shoulder potential volatility instead, watch US-Sino tensions
USD-KRW	↑	Easing tensions with the North, net portfolio inflow momentum recovering, inflation/current account surplus projection downgraded, BOK expected to remain neutral
USD-TWD	↑	Net equity outflows attempting to compress, new CBC governor non-hawkish
USD-INR	↑	RBI minutes more hawkish than expected, India placed on US Treasury's watchlist, net portfolio outflows stabilizing, less aggressive fiscal borrowing plans, wider than expected March trade deficit, warmer than expected March CPI, higher crude imposing drag on INR and govies
USD-SGD	↑	NEER hovering around parity; MAS steepens NEER slope in April, pair buffeted by global trade tension headlines, responding to firmer DXY
USD-MYR	↑	BNM expected to remain static this week; country on election watch (09 May 18)
USD-IDR	↑	Disappointing GDP numbers, Rating upgrade from Moodys to Baa2, short term vol premium widening, fundamentals intact, net portfolio outflows deepening, carry strategy under reassessment
USD-THB	↑	BOT remains accommodative, net portfolio outflow balance, inflation inching higher back into BOT's target range.
USD-PHP	↔	Net equity outflows, BSP expected to hike policy rates this week

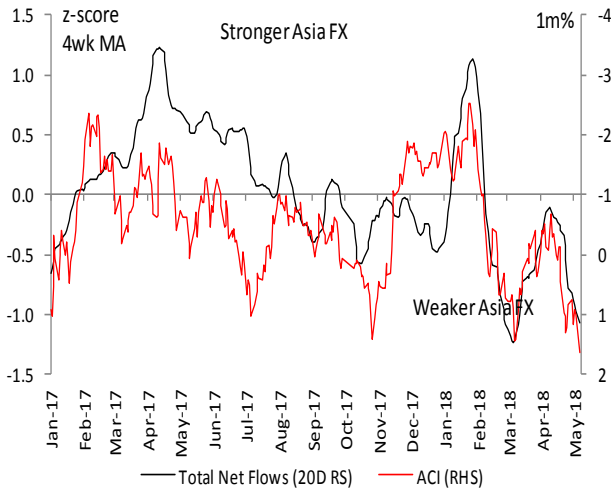
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**



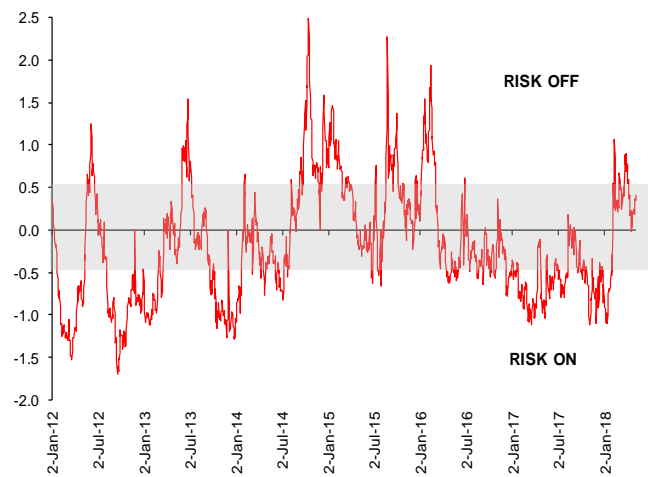
Source: CEIC, Bloomberg, OCBC Bank

### 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	ITRKEK	CNH	EUR
DXY	1.000	0.746	0.979	-0.242	0.166	0.626	0.896	0.678	-0.594	-0.416	0.962	-0.996
THB	0.983	0.704	0.975	-0.168	-0.007	0.595	0.871	0.657	-0.613	-0.444	0.956	-0.981
SGD	0.982	0.793	0.969	-0.242	0.072	0.601	0.911	0.674	-0.582	-0.396	0.962	-0.980
CNY	0.979	0.683	1.000	-0.280	-0.075	0.510	0.880	0.564	-0.492	-0.303	0.983	-0.982
CHF	0.977	0.818	0.936	-0.097	0.132	0.755	0.914	0.764	-0.720	-0.558	0.920	-0.961
MYR	0.966	0.766	0.926	-0.054	0.060	0.754	0.879	0.760	-0.734	-0.574	0.905	-0.958
CNH	0.962	0.651	0.983	-0.309	0.073	0.485	0.836	0.559	-0.483	-0.318	1.000	-0.973
IDR	0.955	0.829	0.925	-0.169	0.023	0.656	0.888	0.720	-0.591	-0.395	0.891	-0.943
TWD	0.926	0.858	0.896	-0.110	-0.110	0.705	0.943	0.718	-0.694	-0.566	0.868	-0.908
CAD	0.924	0.877	0.901	-0.309	-0.011	0.554	0.905	0.638	-0.473	-0.317	0.880	-0.900
INR	0.903	0.909	0.864	-0.023	-0.184	0.745	0.927	0.789	-0.690	-0.510	0.828	-0.872
JPY	0.896	0.880	0.880	-0.274	0.064	0.596	1.000	0.605	-0.554	-0.443	0.836	-0.867
USGG10	0.746	1.000	0.683	-0.070	-0.087	0.688	0.880	0.707	-0.593	-0.461	0.651	-0.698
KRW	0.700	0.646	0.728	-0.287	-0.436	0.335	0.758	0.439	-0.331	-0.239	0.700	-0.704
PHP	-0.482	0.141	-0.433	0.170	-0.494	-0.342	-0.193	-0.285	0.319	0.229	-0.455	0.513
NZD	-0.966	-0.865	-0.942	0.256	-0.063	-0.628	-0.949	-0.663	0.577	0.443	-0.917	0.944
AUD	-0.974	-0.808	-0.954	0.344	-0.098	-0.531	-0.929	-0.602	0.496	0.349	-0.939	0.962
GBP	-0.982	-0.722	-0.957	0.277	-0.220	-0.620	-0.869	-0.660	0.546	0.371	-0.946	0.972
EUR	-0.996	-0.698	-0.982	0.251	-0.172	-0.596	-0.867	-0.659	0.573	0.389	-0.973	1.000

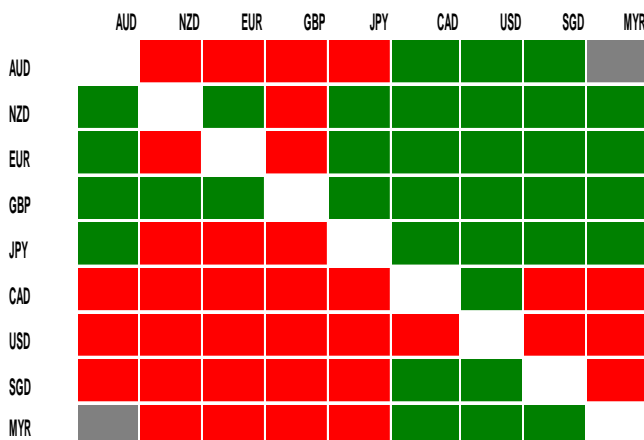
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1800	1.1838	1.1856	1.1900	1.2019
GBP-USD	1.3485	1.3500	1.3532	1.3545	1.3600
AUD-USD	0.7400	0.7425	0.7436	0.7500	0.7690
NZD-USD	0.6900	0.6953	0.6967	0.7000	0.7159
USD-CAD	1.2839	1.2900	1.2951	1.2998	1.3000
USD-JPY	107.20	109.00	109.50	110.00	110.04
USD-SGD	1.3384	1.3400	1.3417	1.3437	1.3453
EUR-SGD	1.5876	1.5900	1.5915	1.6000	1.6079
JPY-SGD	1.2148	1.2200	1.2257	1.2289	1.2299
GBP-SGD	1.8100	1.8119	1.8181	1.8200	1.8397
AUD-SGD	0.9924	0.9968	0.9982	1.0000	1.0137
Gold	1302.30	1304.15	1311.80	1327.57	1355.95
Silver	16.00	16.30	16.39	16.40	16.48
Crude	70.55	70.60	70.69	70.70	70.84

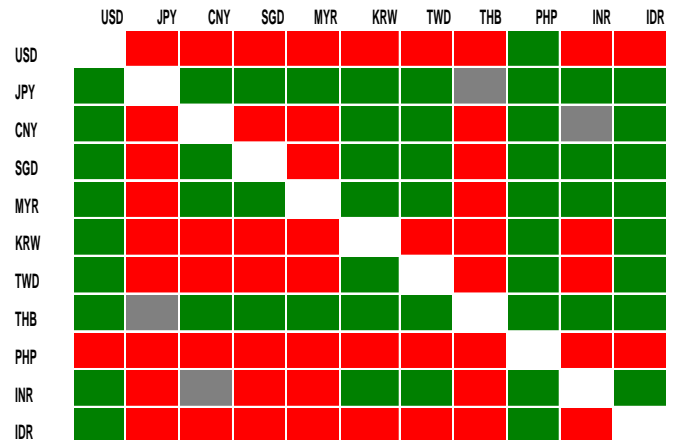
Source: OCBC Bank

### G10 FX Heat Map



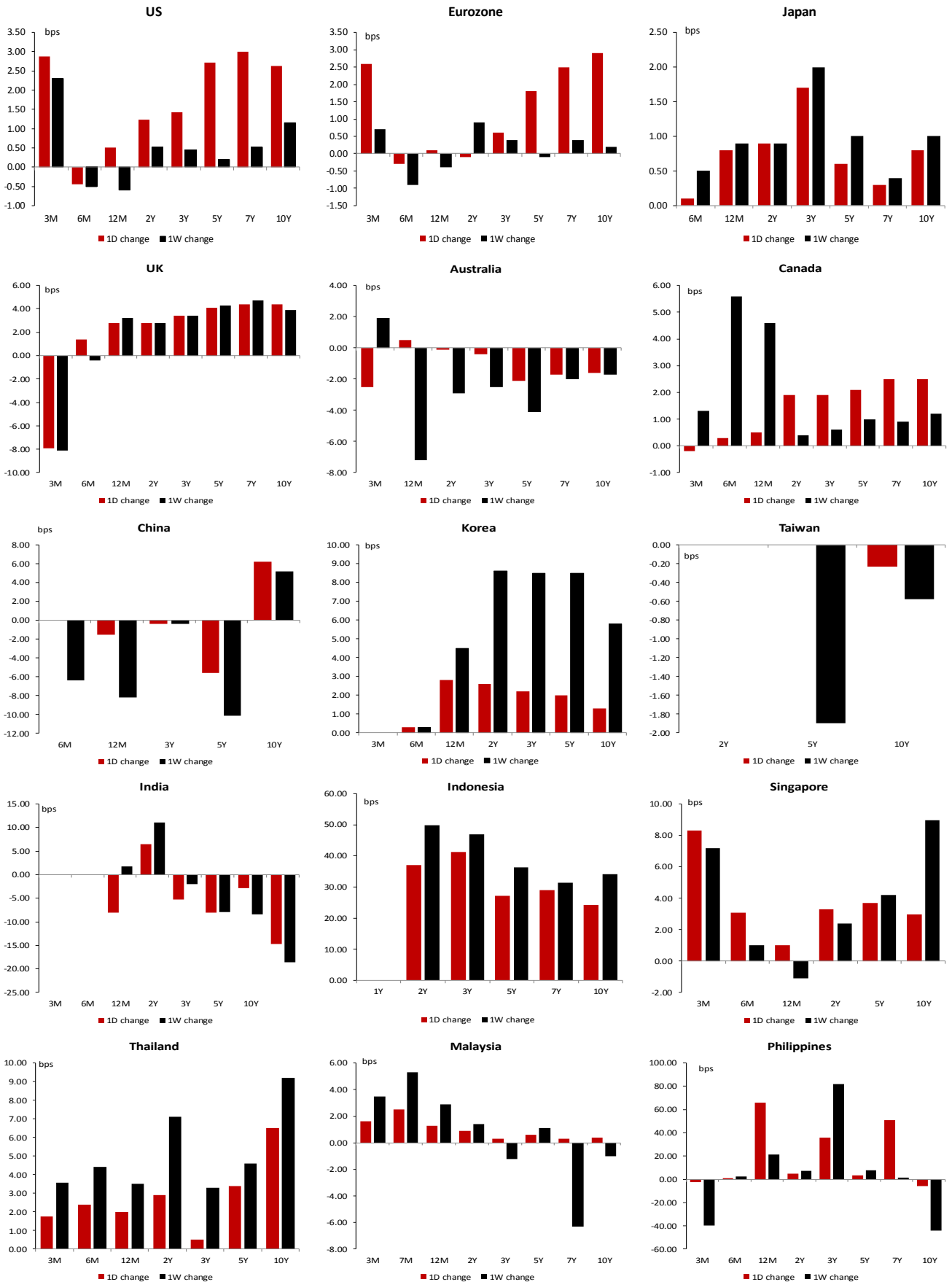
Source: OCBC Bank

### Asia FX Heat Map



Source: OCBC Bank

### Government bond yield changes





---

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

---