

Tuesday, July 10, 2018

FX Themes/Strategy/Trading Ideas

- The USD is mixed against its G7 counterparts on Monday. The AUD led gains against the USD as the relief rally on risk assets after the imposition of tariffs supported the cyclical currencies. The GBP declined following headlines of Boris Johnson's resignation as the Foreign Secretary.
- A risk positive tone continues to pervade markets as the relative calm on the trade front continues. Front end vols are heading lower, suggesting a gradual normalization. Our **FX Sentiment Index (FXSI)** stepped further away from the Risk-Off threshold on the latest reading, and is now comfortably within the Risk-Neutral space. Overall, a marginally risk positive tone should support JPY-crosses.
- The resignation of Johnson hit the GBP overnight as questions are now raised over the viability of May's position as the Prime Minister. Watch for further actions in the form of a no-confidence vote or a leadership challenge. If this does not come to pass, the decline in the GBP may be contained in the immediate horizon, pending further developments. **At this stage, expect headlines from London to drive near-term movements in the GBP.**
- **On a longer-term horizon however, Brexit uncertainties may continue to weigh on the GBP.** Note that a deal (if any is reached) with the EU may not have support domestically.
- Draghi's latest comments continued to urge patience in terms of monetary policy, although he sounded confident on the inflation front. Market expectations for the first ECB hike are now well-established, and Draghi's comments are unlikely to shake consensus. **Remain constructive on the EUR in the coming sessions.**
- **Despite the rebound in the DXY index due to Brexit worries, we continue to expect the broad USD to be biased lower in the coming sessions.**
- The central bank schedule today includes the ECB's Visco (0800 GMT), Angeloni (1630 GMT) and Lautenschlaeger (1700 GMT). On the data front, watch for industrial production in France (0645 GMT) and the UK (0830 GMT), and German ZEW survey (0900 GMT).

Treasury Research &
Strategy

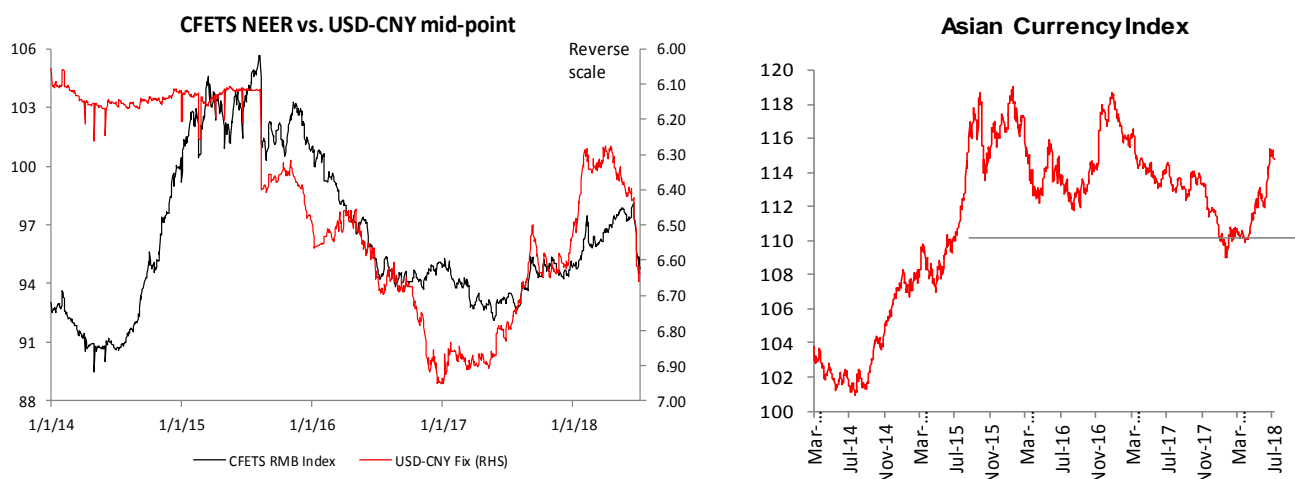
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Asian FX

- The relief rally continues to benefit Asian currencies as the relative calm in the trade war persists. At this stage, markets are already desensitized by verbal barbs on both sides. A new threshold would be crossed if there are concrete actions (for example, a timeline of sorts) taken to expand the scope of tariffs beyond initial US\$50bn, or if a new currency front opens up. We note that this is not the base case at the moment.
- With the tentative revival of risk appetite, we might see an improvement in the **Asian portfolio flow** situation. In the latest reading, we note bond inflows for South Korea and Indonesia. Taiwan also recorded the first significant equity inflows since early June (prior inflows were marginal). It remains to be seen if this can be sustained. We note that equity outflow momentum remains near historical highs on a rolling 20-day and 60-day basis.
- Based on **EPFR** data, implied equity and bond outflows continue to ease in the latest week. Note that the data recorded before the imposition of tariffs.
- With the trade front still relatively quiet, expect the relief rally to continue to buoy Asian currencies intra-day. Expect our Currency Index (ACI) to drift lower.
- **SGD NEER**: The SGD NEER is firmer again this morning, standing at around +0.73% above its perceived parity level (1.3643). The NEER-implied USD-SGD thresholds continued to edge lower, in line with broad USD directionality. Expect the +0.50% (1.3576) and +0.90% (1.3522) thresholds to book-end the pair intra-day.
- **CFETS RMB Index**: The USD-CNY mid-point was set lower, within expectations, at 6.6259 compared to 6.6393 on Monday. The CFETS RMB Index firmed to 94.92, compared to 94.74 previously. At this juncture, expect the 95.00 handle on the CFETS RMB Index to be the main guidance for the RMB complex, with the USD-CNY allowed to fluctuate alongside broad USD movements.



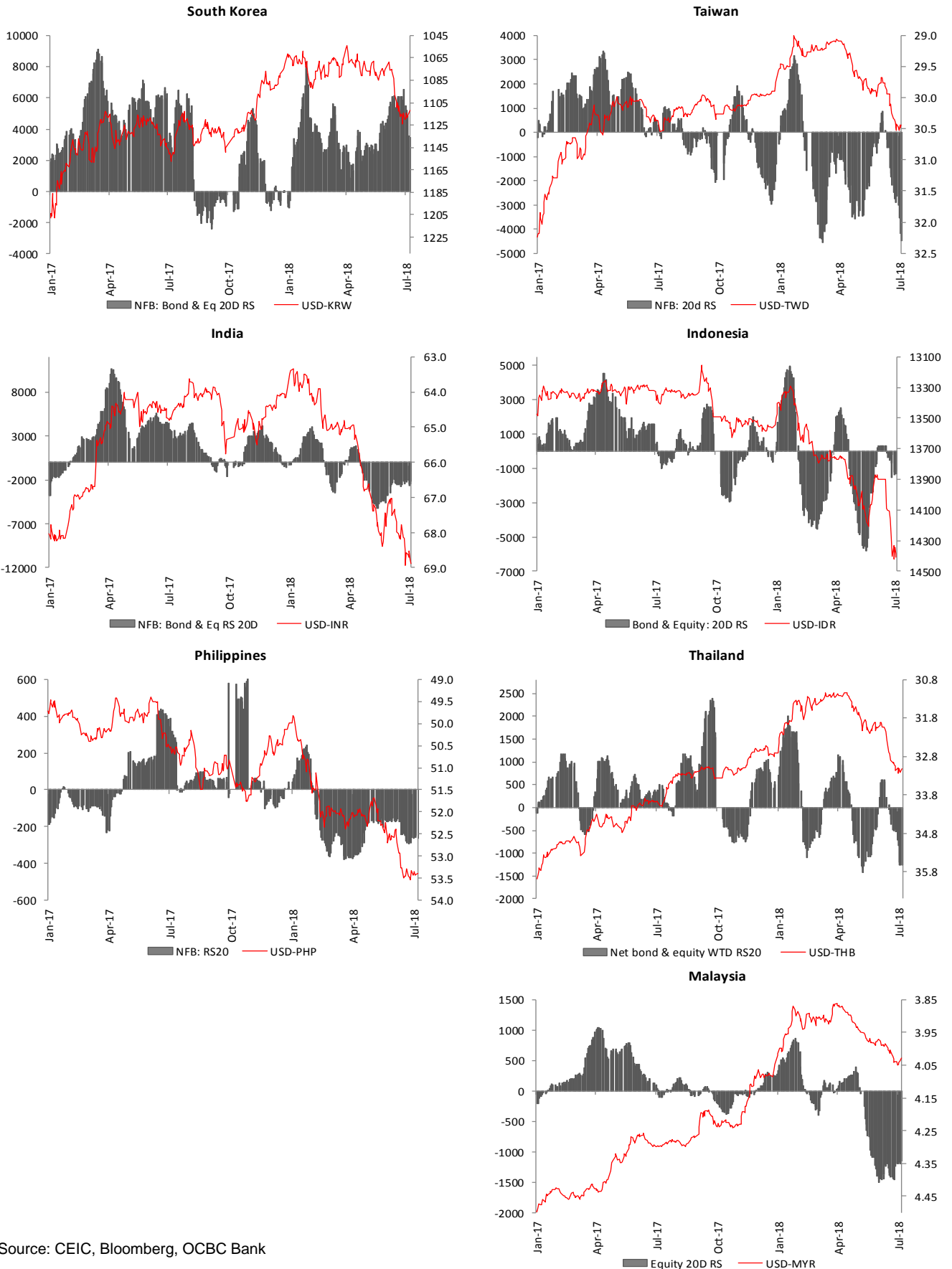
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔	A near term top may have been established in the USD-CNH and USD-CNY; the CFETS RMB Index around the 95.00 handle may be a better guide for the RMB complex in the near term, with the USD-CNH and USD-CNY allowed to fluctuate alongside broad USD directionality.
USD-KRW	↔	Net portfolio inflows remain at healthy levels; may suffer significant collateral damage if Sino-US trade war escalates; headline economic prints, latest being PMI and inflation, still weak for South Korea
USD-TWD	↔	Equity outflows intensifying; inflation print below expectations; pair led by the RMB complex
USD-INR	↑	Heavy data week ahead with inflation, industrial production and trade data on tap to influence demand for govies and INR; RBI ease foreign ownership caps on government bonds while using OMO to support the local bond market
USD-SGD	↔	SGD NEER comfortable again within the +0.20% to +0.60% above parity zone; pair responsive to broad USD movements; expect resistance around the 1.3700 handle
USD-MYR	↔/↑	Pair may grind towards 4.10 after moving clear of 4.00 on the back of USD strength; easing political tensions as new government settles into the role
USD-IDR	↔/↑	Surprise 50 bps hike; coordinated effort by the government and BI may limit USD-IDR gains, but will not fundamentally reverse the trend; latest inflation prints mixed, near bottom end of BI tolerance band
USD-THB	↔/↑	Case for rate hike builds, but the BOT still expected to be a laggard among the Asian central banks; note official tolerance over weakening THB; bond outflows re-asserting; latest inflation prints mixed
USD-PHP	↔/↑	June inflation print exceeded expectations, surprising even the BSP; rate hike pace may accelerate with inflation still not within control; PHP remains pressured due to intensifying outflows

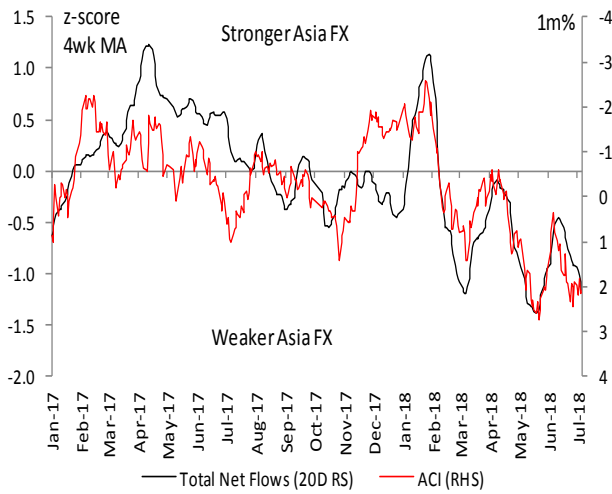
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



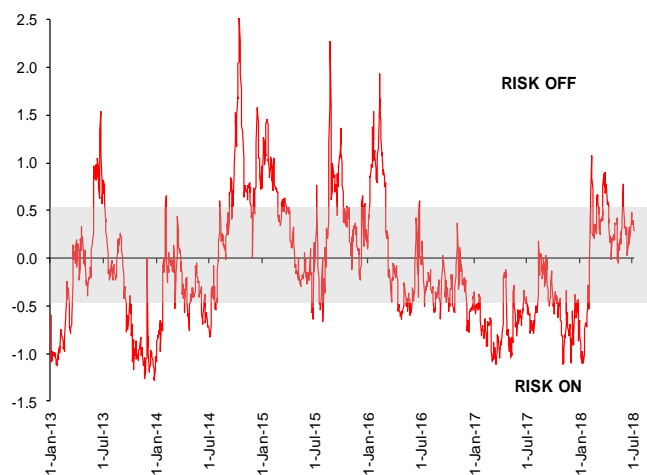
Source: CEIC, Bloomberg, OCBC Bank

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	-0.386	0.367	-0.488	-0.447	-0.501	0.258	0.152	0.436	0.250	0.345	-0.975
CHF	0.896	-0.350	0.317	-0.245	-0.365	-0.401	0.450	0.132	0.182	0.068	0.281	-0.866
CAD	0.834	-0.381	0.356	-0.558	-0.466	-0.681	-0.100	0.051	0.550	0.213	0.305	-0.776
PHP	0.722	-0.548	0.606	-0.484	-0.644	-0.541	0.448	0.359	0.487	0.269	0.548	-0.608
SGD	0.699	-0.853	0.876	-0.812	-0.919	-0.422	0.294	0.651	0.768	0.697	0.859	-0.541
KRW	0.556	-0.856	0.884	-0.762	-0.916	-0.394	0.321	0.670	0.737	0.648	0.860	-0.376
TWD	0.495	-0.937	0.963	-0.813	-0.979	-0.263	0.372	0.835	0.783	0.789	0.961	-0.332
THB	0.483	-0.901	0.932	-0.720	-0.950	-0.382	0.328	0.751	0.686	0.675	0.921	-0.316
INR	0.429	-0.922	0.943	-0.623	-0.945	-0.225	0.519	0.826	0.586	0.658	0.937	-0.263
IDR	0.402	-0.925	0.980	-0.422	-0.943	0.080	0.904	0.938	0.380	0.604	0.982	-0.216
CNY	0.367	-0.943	1.000	-0.744	-0.968	-0.115	0.470	0.925	0.708	0.810	0.998	-0.191
MYR	0.347	-0.929	0.972	-0.762	-0.953	-0.111	0.492	0.903	0.725	0.831	0.974	-0.185
CNH	0.345	-0.942	0.998	-0.742	-0.966	-0.075	0.484	0.931	0.704	0.810	1.000	-0.128
JPY	0.258	-0.338	0.470	-0.041	-0.343	0.135	1.000	0.571	-0.009	0.178	0.484	-0.068
USGG10	-0.386	1.000	-0.943	0.741	0.968	0.135	-0.338	-0.853	-0.711	-0.715	-0.942	0.245
NZD	-0.547	0.890	-0.952	0.777	0.941	0.183	-0.495	-0.833	-0.726	-0.807	-0.953	0.360
AUD	-0.856	0.716	-0.734	0.708	0.795	0.565	-0.273	-0.434	-0.652	-0.527	-0.692	0.745
GBP	-0.897	0.656	-0.677	0.689	0.728	0.358	-0.356	-0.496	-0.641	-0.565	-0.655	0.771
EUR	-0.975	0.245	-0.191	0.367	0.292	0.480	-0.068	0.077	-0.310	-0.107	-0.128	1.000

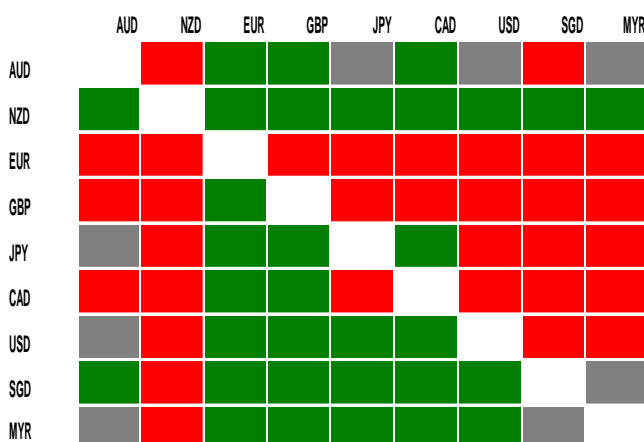
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1700	1.1734	1.1748	1.1788	1.1800
GBP-USD	1.3094	1.3200	1.3239	1.3300	1.3350
AUD-USD	0.7311	0.7400	0.7474	0.7496	0.7500
NZD-USD	0.6690	0.6800	0.6848	0.6900	0.6922
USD-CAD	1.3014	1.3100	1.3120	1.3200	1.3385
USD-JPY	110.14	111.00	111.08	111.12	111.14
USD-SGD	1.3466	1.3500	1.3547	1.3600	1.3746
EUR-SGD	1.5800	1.5900	1.5914	1.5981	1.6000
JPY-SGD	1.2134	1.2138	1.2195	1.2200	1.2239
GBP-SGD	1.7824	1.7900	1.7934	1.7975	1.8000
AUD-SGD	1.0093	1.0100	1.0125	1.0142	1.0200
Gold	1234.88	1238.80	1260.00	1288.42	1298.93
Silver	15.73	16.00	16.05	16.10	16.41
Crude	69.29	74.00	74.03	74.10	75.27

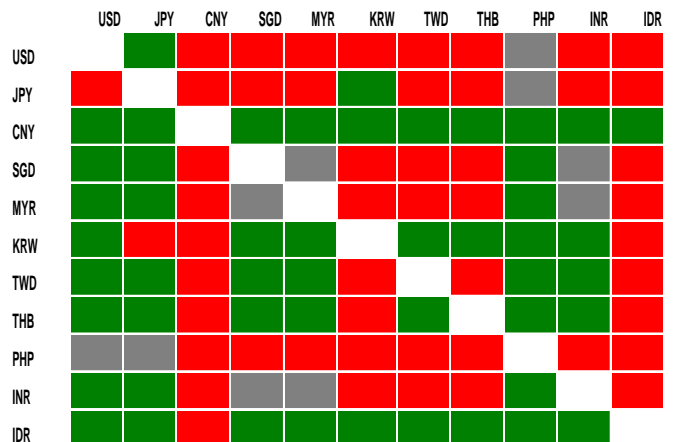
Source: OCBC Bank

G10 FX Heat Map



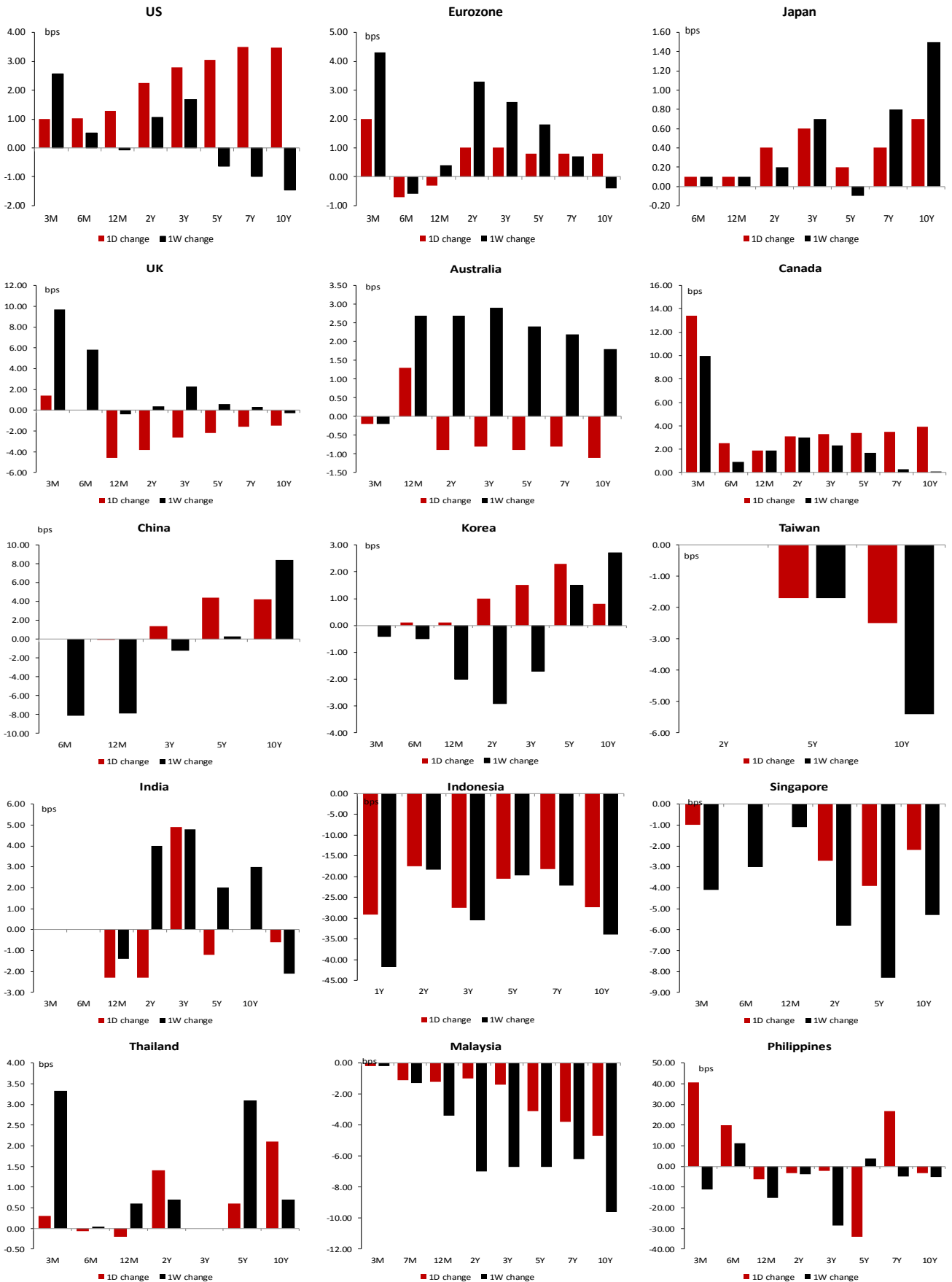
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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