

Monday, June 11, 2018

## FX Themes/Strategy/Trading Ideas – The week ahead

- Two key issues to watch for this week. The market in the early week should be beholden to risks from trade issues post-G7 and the Trump-Kim summit, and its consequent impacts on risk appetite. Mid- to late-week, attention should shift to the FOMC and ECB meetings.
- Risk sentiments were shaky on Friday, starting the day on a risk-averse mode before easing into the NY session ahead of the G7 Summit. **The outcome of the summit may cause markets to trade on a risk-off tone early in the week, although the negative sentiments may be hijacked by potentially positive developments on the Trump-Kim front.**
- Note that cyclicals, led by the CAD, opened today's session weaker on a knee-jerk reaction, although a retracement has been underway. At this juncture, the market may be reduced to headline watching on both the trade and Trump-Kim fronts.
- Attention should then shift to the successive FOMC and ECB meetings by mid-week. As mentioned, we expect the market to trade off the relative stances of the Fed and the ECB.
- At this stage, the broad USD will require help from the FOMC to regain its upward trend. **However, with hawkish expectations well-established in the ECB, the bar is set high for the FOMC to overcome. It may require a disappointment on the ECB front, though unlikely, for the broad USD to retest end-May highs.** In this context, we may have seen the top in the latest round of broad USD upswing.
- On the CFTC front, leveraged accounts further extended their net implied USD longs in the latest week. Much of this is attributed to the deepening of EUR shorts, and a flip in positioning in the JPY into a net short position. Broadly speaking, this is reflective of a risk-off trade over the Italian political situation. Note however, that the net implied USD positioning for the asset managers remained essentially unchanged from the previous week. They continue to sit on significant net implied USD shorts.
- The central bank calendar will be headlined by the FOMC (Wed) and ECB (Thu) meetings, and the following press conferences by Powell and Draghi. The Fed's Kaplan (Fri) and the ECB's Nowotny and Coeure (both Fri) will follow up with their comments. Elsewhere, RBA speakers will also be featured, with Lowe (Tue, Wed) and Ellis (Fri) on tap. BOE's Kashyap scheduled for Wed. The BOJ will also announce its policy decision on Fri.

Treasury Research &  
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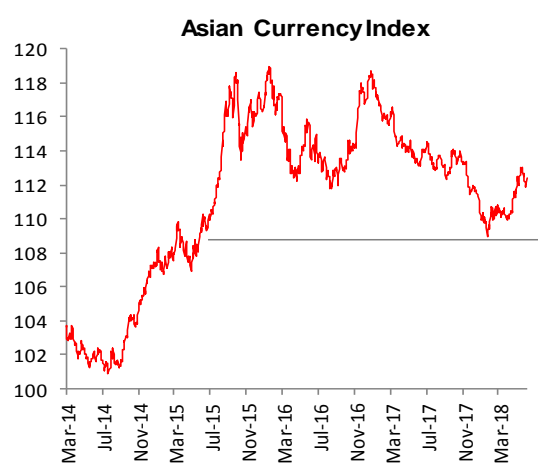
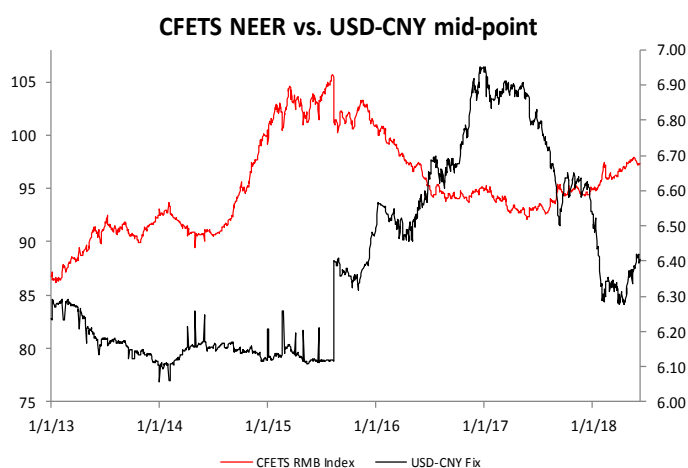
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- On the data front, watch for US CPI and hourly earnings on Tue, then PPI data on Wed. While the data may be too late to affect the FOMC decision, they should set the stage for what is to come. Late week, look for US retail sales (Thu) and UMich consumer sentiments (Fri). In Europe, watch for ZEW survey (Tue) and a slew of CPI data ahead of the ECB meeting and throughout the week.

## Asian FX

- Another mixed session in US/EZ equities did little to support risk sentiments, as our **FX Sentiment Index (FXSI)** nudged higher towards to Risk-off zone, while staying within the **Risk Neutral** territory. Expect overall sentiments to be shifty this week, as headlines from risk events will come fast and furious. Note that the Trump-Kim summit has been increasingly conflated with the Sino-US trade situation. Any signs of a breakdown in the Trump-Kim summit, therefore, may sink risk appetite.
- On the **EPFR** front, note split between the implied equity and bond flows. Implied equity flows flip back into a net inflow situation, while implied bond outflows continued to deepen. In terms of **Asian net portfolio flows**, however, we continue to see a generalized improvement in the environment. Inflow momentum into South Korea, Taiwan and Thailand continues to pick up. Of note is the situation in Indonesia, where we note that over flow momentum has been flipped into a net inflow situation, after a strong run of bond inflows.
- At this juncture, note that the flow environment is consistently moving in favour of strength in the Asian currencies. Pending further directionality in the broad USD post FOMC, we continue to expect the **Asian Currency Index (ACI)** to be driven by risk sentiments on the trade and Trump-Kim fronts in the near term, with the two of issues increasingly inter-linked.
- **Philippines:** Expect the USD-PHP to come under near term upward pressure as it nears the 53.00 mark. Note that the BSP governor appears tolerant towards the recent decline, and there may have been a slight shift in monetary policy positioning towards a more neutral stance. April export numbers underperformed expectations.
- **India:** 10y government bond yields rose above 8.00% before retracing to close just below the level. Demand-supply mismatch continues to plague the government bond market. Without a significant shift in dynamics, bond yields may continue to climb higher.
- **SGD NEER:** The SGD NEER is softer this morning at +0.83% above its perceived parity (1.3446), with the NEER-implied USD-SGD thresholds marginally softer. Expect the pair to ply the range between the +0.70% (1.3367) and the +0.90% (1.3327) thresholds. If the broad USD capitulates post the FOMC and ECB meetings, expect 1.3295, then 1.3230 to come into view.

- CFETS RMB Index:** The USD-CNY mid-point was set at 6.4064 compared to 6.4003 on Friday, within expectations. The CFETS RMB Index was essentially unchanged at 97.30.



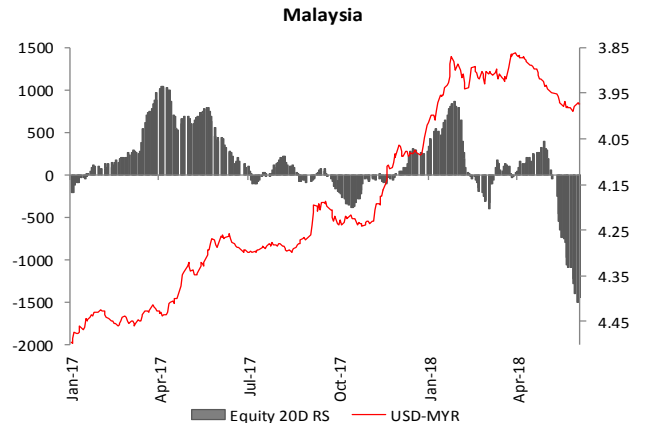
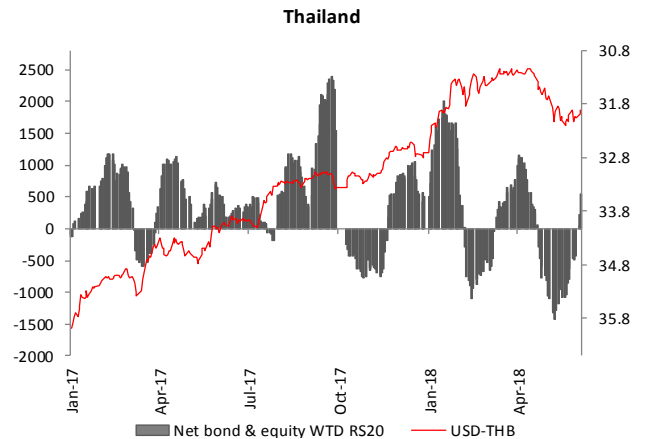
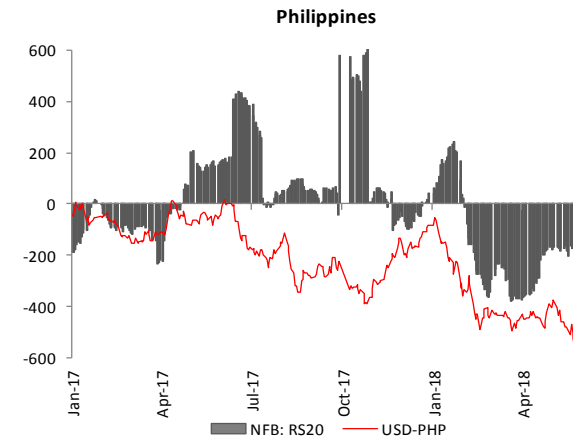
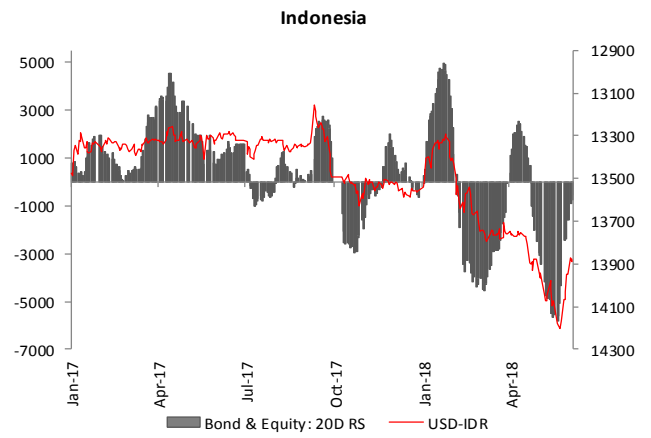
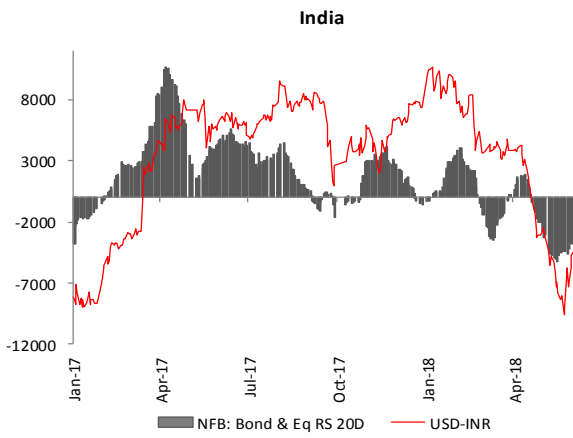
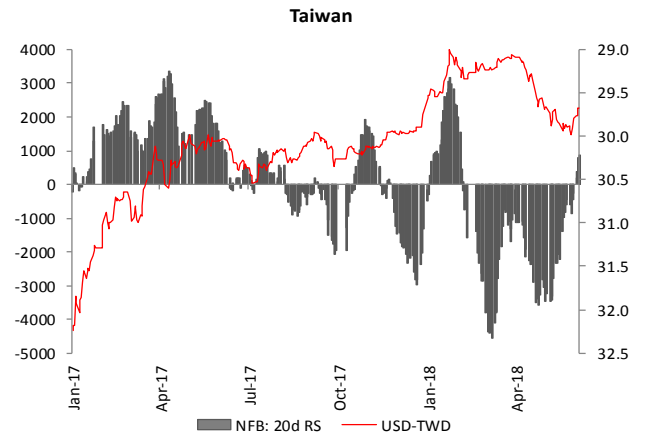
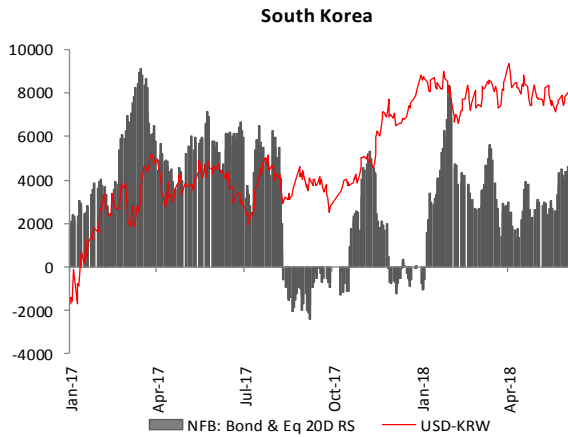
Source: OCBC Bank, Bloomberg

### Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔	Pace of depreciation of the RMB basket may be more controlled; Sino-US trade tensions reigniting; USD-CNY midpoints reverted to being consistent with unbiased models.
USD-KRW	↔	1Q GDP growth and CPI data prints missed expectations; outcome of Trump-Kim talks may determine sentiments for the pair;; net portfolio inflows remain at healthy levels; BOK to remain accommodative in the near term.
USD-TWD	↔/↓	Equity flows flipped into a net inflow situation; 1Q current account surplus shrinks
USD-INR	↔	RBI hiked rates by 25 bps in its June meeting as expected, regulatory changes by the RBI may exacerbate the demand-supply mismatch in government bonds; net portfolio outflows moderating; lower crude price may provide some reprieve
USD-SGD	↔/↓	SGD NEER should be capped below +1.00% above parity; 1Q GDP prints in line, but CPI missed expectations; pair responsive to broad USD movements
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	↔	IDR stability the main objective for monetary policy for now amidst two quick-fire rate hikes, with 14000 potentially becoming a level to defend again; inflation came in softer than expected again, though it may not have significant impact on monetary policy; net portfolio flows flipped into a net inflow situation.
USD-THB	↔	BOT remains accommodative, keeping rates unchanged in the latest meeting; net portfolio flows flipped into a net inflow situation;
USD-PHP	↔/↑	April trade data is worse than expected, with exports growth continuing to underperform; BSP governor appear comfortable with recent weakening of the PHP

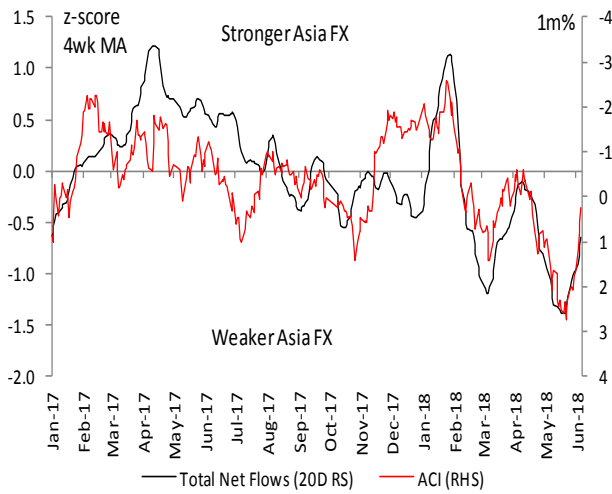
Source: OCBC Bank

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



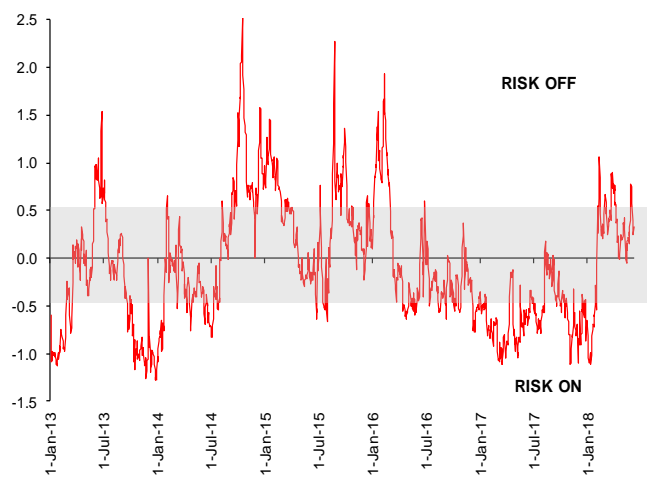
Source: CEIC, Bloomberg, OCBC Bank

### ACI VS. Net Capital Flows



Source: OCBC Bank

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	-0.653	0.782	-0.289	-0.627	-0.117	-0.464	-0.363	0.461	0.658	0.752	-0.988
CNY	0.782	-0.779	1.000	0.074	-0.553	-0.485	-0.591	-0.712	0.328	0.841	0.949	-0.794
CNH	0.752	-0.873	0.949	0.042	-0.468	-0.545	-0.744	-0.790	0.360	0.875	1.000	-0.787
MYR	0.715	-0.575	0.743	0.278	-0.554	-0.091	-0.442	-0.395	-0.047	0.767	0.683	-0.720
PHP	0.624	-0.767	0.737	0.122	-0.354	-0.281	-0.768	-0.563	0.162	0.752	0.767	-0.660
CAD	0.585	-0.781	0.701	0.138	-0.092	-0.692	-0.674	-0.854	0.195	0.778	0.841	-0.614
TWD	0.583	-0.172	0.301	-0.680	-0.847	0.610	-0.160	0.384	0.618	0.133	0.194	-0.567
SGD	0.398	0.128	-0.007	-0.791	-0.465	0.589	0.112	0.580	0.612	-0.227	-0.048	-0.382
KRW	0.295	0.212	0.079	-0.359	-0.600	0.670	0.258	0.508	0.213	-0.056	-0.118	-0.244
THB	0.208	0.359	0.086	-0.235	-0.399	0.479	0.444	0.478	0.139	-0.149	-0.148	-0.128
NZD	0.087	-0.481	0.554	0.733	0.100	-0.720	-0.341	-0.822	-0.379	0.642	0.536	-0.090
AUD	0.067	-0.288	0.343	0.783	0.212	-0.561	-0.120	-0.657	-0.588	0.447	0.320	-0.042
IDR	0.053	0.568	-0.412	-0.547	-0.305	0.894	0.468	0.861	0.121	-0.569	-0.535	-0.001
INR	-0.051	0.428	-0.410	-0.521	-0.209	0.860	0.315	0.830	0.191	-0.488	-0.437	0.074
CHF	-0.336	0.696	-0.683	-0.538	0.051	0.663	0.542	0.857	0.173	-0.819	-0.722	0.357
JPY	-0.464	0.891	-0.591	0.099	0.420	0.305	1.000	0.585	-0.414	-0.739	-0.744	0.571
USGG10	-0.653	1.000	-0.779	0.020	0.420	0.439	0.891	0.710	-0.422	-0.893	-0.873	0.719
GBP	-0.911	0.825	-0.840	0.140	0.643	0.191	0.683	0.511	-0.403	-0.793	-0.841	0.927
EUR	-0.988	0.719	-0.794	0.300	0.660	0.132	0.571	0.393	-0.492	-0.696	-0.787	1.000

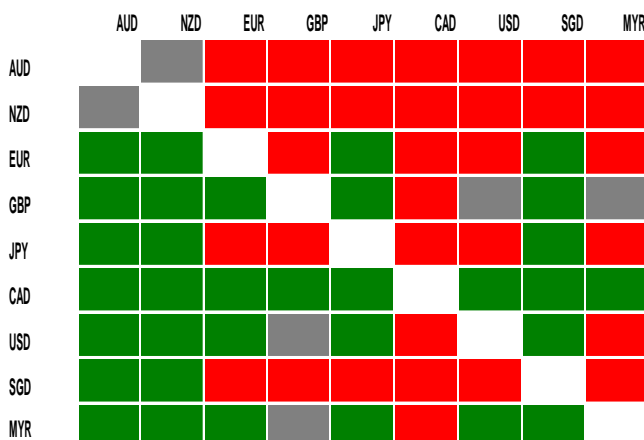
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1582	1.1700	1.1793	1.1800	1.1877
GBP-USD	1.3237	1.3400	1.3409	1.3500	1.3534
AUD-USD	0.7600	0.7603	0.7606	0.7667	0.7677
NZD-USD	0.6851	0.7000	0.7037	0.7060	0.7074
USD-CAD	1.2822	1.2900	1.2967	1.3000	1.3047
USD-JPY	108.92	109.00	109.74	110.00	110.20
USD-SGD	1.3300	1.3319	1.3344	1.3359	1.3400
EUR-SGD	1.5521	1.5700	1.5737	1.5800	1.5896
JPY-SGD	1.2100	1.2125	1.2160	1.2200	1.2207
GBP-SGD	1.7750	1.7800	1.7893	1.7900	1.8145
AUD-SGD	1.0100	1.0107	1.0150	1.0200	1.0222
Gold	1281.20	1283.65	1299.30	1300.00	1307.09
Silver	16.86	16.90	16.93	16.95	17.00
Crude	64.22	65.60	65.68	65.70	67.81

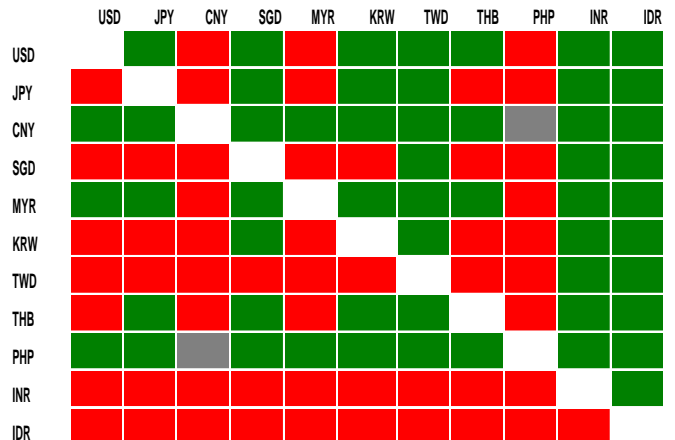
Source: OCBC Bank

### G10 FX Heat Map



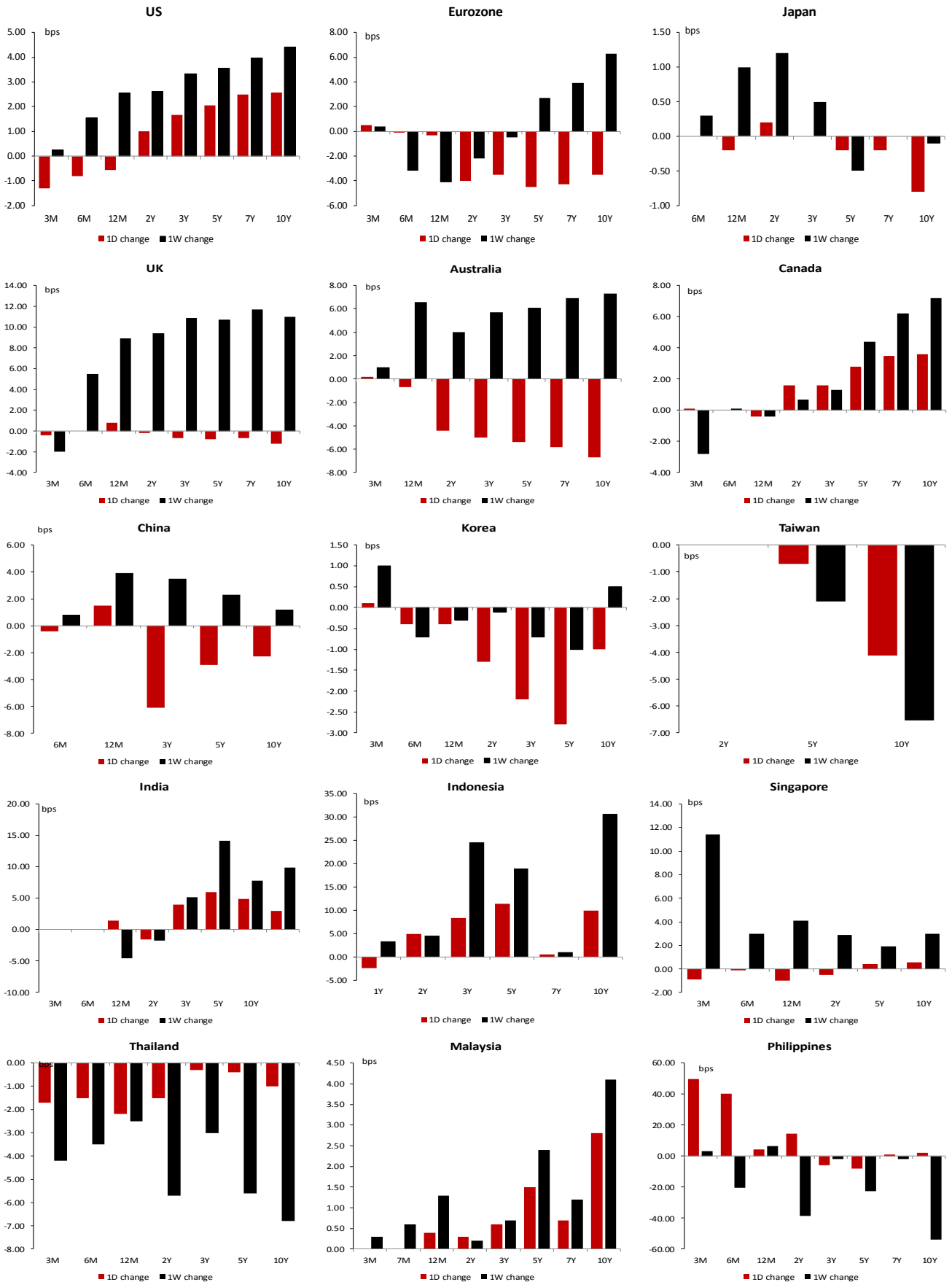
Source: OCBC Bank

### Asia FX Heat Map



Source: OCBC Bank

**Government bond yield changes**



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