

Wednesday, August 15, 2018

FX Themes/Strategy/Trading Ideas

- The USD remained on the upper hand overnight, marking gains against all G7 currencies with the exception of the CAD. The DXY index pushed against the 96.80 level. The EUR saw another step lower, breaking through the 200-week MA level at 1.1360.
- Risk sentiments saw a reprieve on Tuesday, with the TRY and other EM FX finding a firmer footing. A positive US/EU equities and EM FX vols edging lower also helped to support risk appetite. Our **FX Sentiment Index (FXSI)** eased off within the Risk-Neutral zone.
- Despite no new evidence of contagion into the European banking space, and mixed to stronger than expected Eurozone 2Q GDP and CPI data prints, the EUR remained under selling pressure. Some attention may have shifted to the Italian front, with the yield gap between 10y Italian and German government bonds remaining near year-to-date highs.
- At this juncture, our implied valuation model suggests that the EUR is fairly valued. **Therefore, despite the sharp decline in recent sessions, we see no reason to be constructive on the EUR on valuation grounds. We think the EUR may still be vulnerable, thus preferring to stay away from the common currency for the moment.** Expect the 1.1180-1.1200 zone to be possibly tested as the next key technical waypoint.
- With the broad USD still showing upside momentum after breaking through the recent range, we retain a preference to be long USD in the near term. Note also, that major currency pairs have also broken through technical barriers, providing tailwind for the USD.
- On the data front today, watch for UK CPI (0830 GMT), US Empire manufacturing, retail sales (both 1230 GMT), and industrial production (1315 GMT).

Treasury Research &
Strategy

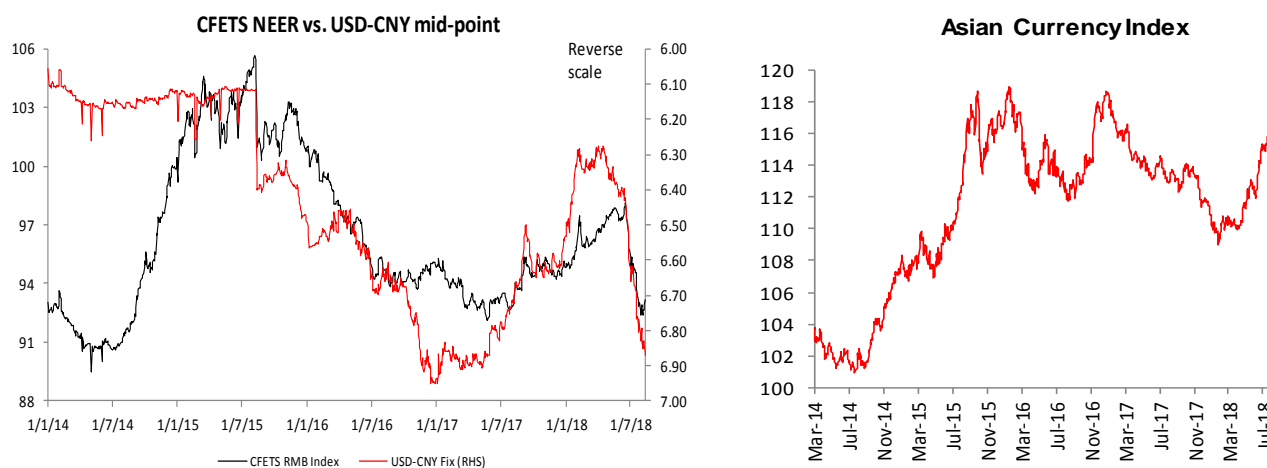
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Asian FX

- The latest retail sales and industrial production data in China printed weaker than expected, perhaps contributing to the RMB complex's return to its depreciation trend. The USD-CNH and USD-CNY re-testing the 6.9000 handle. The CFETS RMB index, however, has remained in the 93.00 vicinity, supported in part by recent EUR weakness.
- Nevertheless, note that CNH vols remain relatively contained despite the upheavals in Turkey. **Market attention has also shifted away from China somewhat, with the short-term correlations between the RMB complex and EM Asian pairs easing in the past week.**
- Even as the Turkish situation eases, near term downside pressure on EM Asian FX may continue on the back of broad USD momentum. Expect our Asian Currency Index (ACI) to remain buoyant intra-day. **We continue to reiterate that the impact on EM Asian FX as a result of the Turkish situation is a function of broader USD strength, rather than a contagion-led sell-off of EM Asian assets.**
- In terms of **Asian net portfolio flows**, we continue to see rather balanced flows across Asia, with outflows mainly affecting the South. In North Asia, equity inflows returned to Taiwan and South Korea, while bond inflows into South Korea remained positive. The situation in South Asia is perhaps worse, with equity and bond outflows from India. Indonesia, Philippines and Thailand all saw equity outflows, although this is balanced by some bond inflows into Thailand.
- **SGD NEER:** The SGD NEER softened to +0.91% above its perceived parity level (1.3929) this morning. The NEER-implied USD-SGD thresholds continued to push higher, in-line with broad USD strength. The intra-day range may shift to between the +0.70% (1.3833) and +1.10% (1.3776) thresholds.
- At this juncture, a consolidation near the 1.3800 handle for the USD-SGD may set the stage for a renewed push higher towards an initial target of 1.3850/60, then the 1.3960/70 zone.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within expectations, at 6.8856 compared to 6.8695 on Tuesday. The CFETS RMB Index edged lower to 92.92, from 93.16 previously.



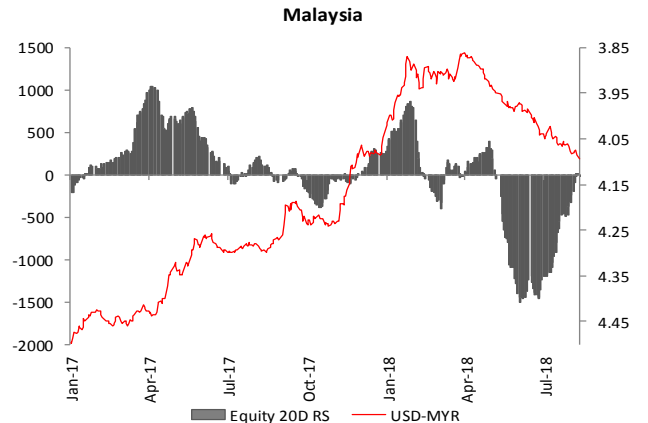
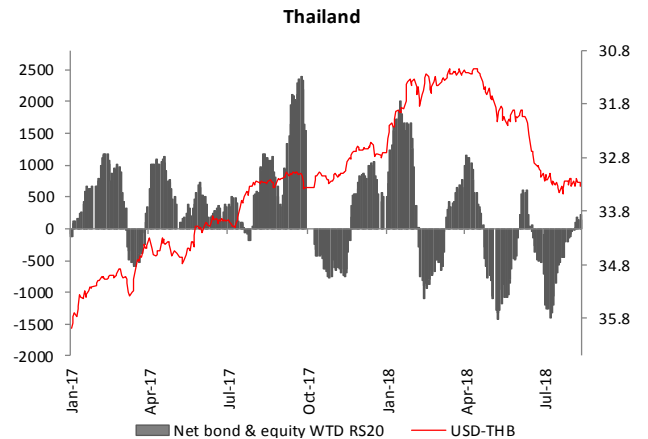
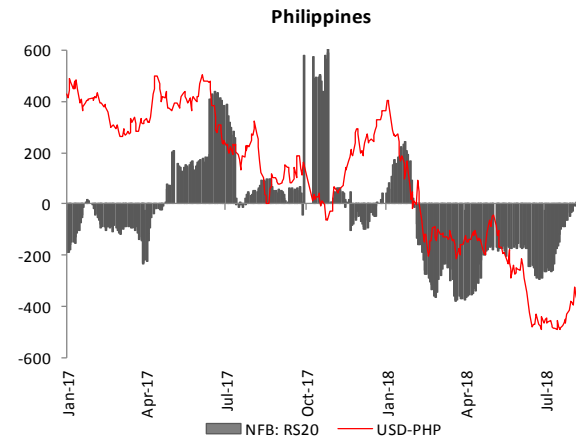
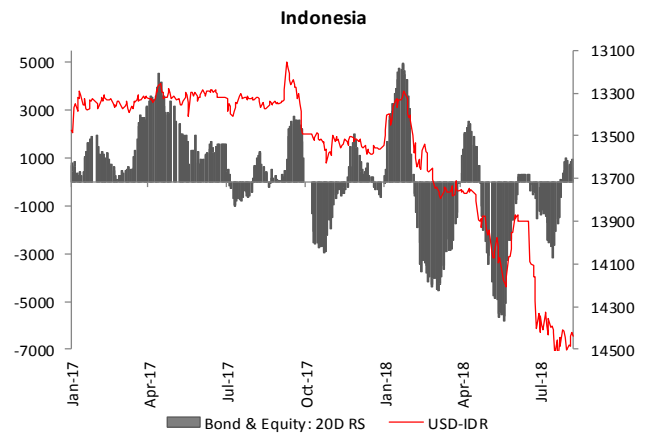
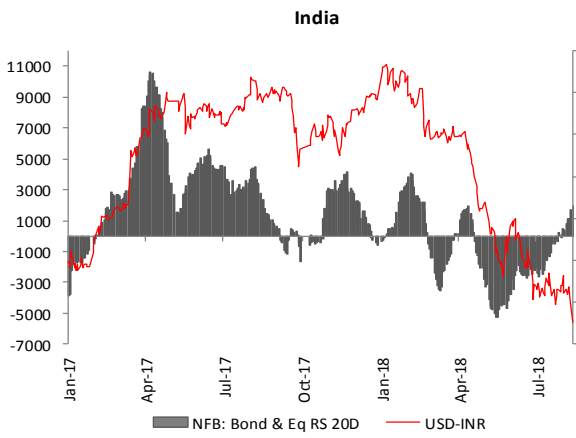
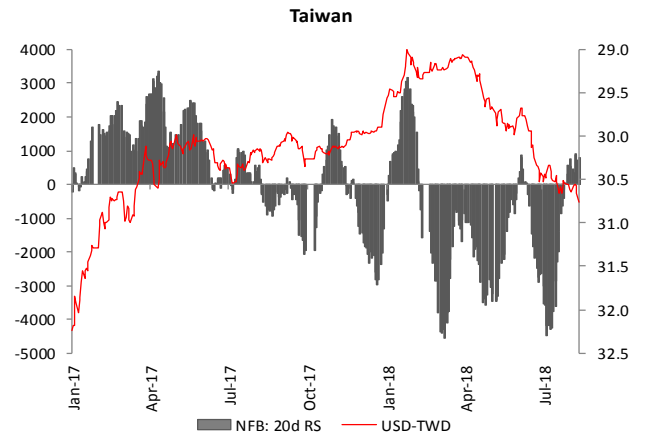
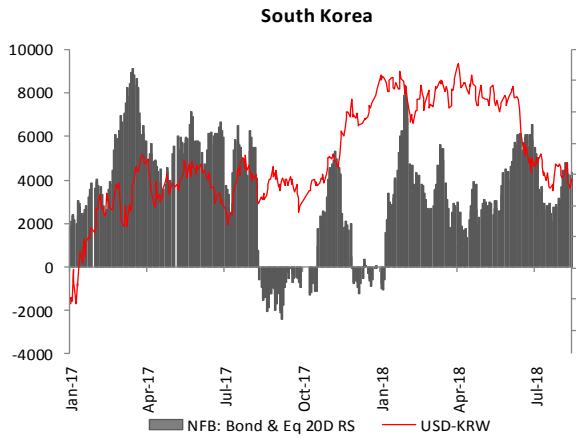
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔/↑	Re-testing the 6.9000 handle; PBoC senior advisor labelled the 7 handle as a hard to break “psychological barrier” for the RMB; weaker than expected industrial production may weigh on the RMB complex
USD-KRW	↔/↑	Finance Minister signals possible intervention if volatility in the KRW spikes; portfolio inflows turning higher again; BOK governor signalling the need to review the accommodative policy
USD-TWD	↔/↑	Equity outflow situation flipped into net inflow territory; stronger than expected inflation print offset by weaker export growth
USD-INR	↔	Net inflow momentum in a rolling 20D basis building quickly; worst of government bond selloff may be over; Fin Min possibly in favour of more OMO purchases to provide liquidity
USD-SGD	↔/↑	Consolidation of the SGD NEER above the +1.00% above parity level and firm prints on core inflation may further fuel suspicions of a tightening move by the MAS in October; 2Q GDP print below expectations
USD-MYR	↔/↑	BNM expected to be on hold until 2019; equity outflows easing; expect some consolidation around key waypoints at 4.08 and 4.10.
USD-IDR	↔/↑	IDR may be more exposed to Turkish issue due to widening CA deficit and high percentage of foreign ownership in government bonds; BI policy meeting again in focus, with BI under pressure to hike in defence of IDR if depreciation pressures continue to build.
USD-THB	↔/↑	Case for rate hike continues to build in the latest policy meeting, but the BOT still expected to be a laggard among the Asian central banks; inflation back within BOT’s target range
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; expect some near term consolidation in the PHP

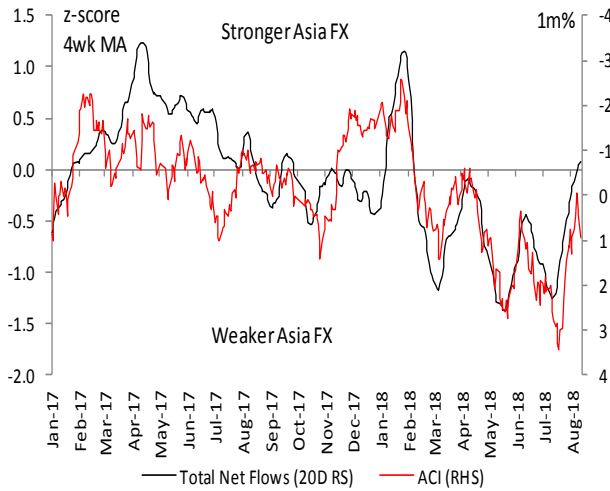
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



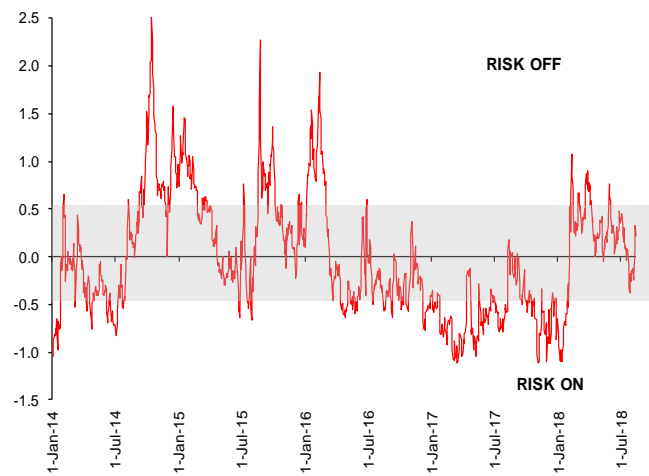
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.400	0.598	0.374	-0.654	-0.577	-0.260	-0.641	0.145	0.822	0.703	-0.987
SGD	0.955	-0.487	0.536	0.164	-0.758	-0.639	-0.167	-0.531	0.256	0.844	0.680	-0.924
MYR	0.827	0.057	0.905	0.545	-0.517	-0.220	-0.579	-0.422	0.067	0.690	0.915	-0.878
CNH	0.703	0.298	0.964	0.469	-0.325	-0.001	-0.670	-0.366	0.153	0.449	1.000	-0.775
INR	0.703	-0.332	0.540	0.077	-0.573	-0.448	-0.367	-0.284	0.488	0.744	0.550	-0.681
TWD	0.630	-0.115	0.662	0.134	-0.520	-0.363	-0.544	-0.261	0.395	0.732	0.680	-0.652
CNY	0.598	0.373	1.000	0.511	-0.252	0.071	-0.736	-0.308	0.144	0.424	0.964	-0.688
IDR	0.568	-0.023	0.661	0.172	-0.511	-0.277	-0.516	-0.185	0.335	0.623	0.680	-0.584
CHF	0.238	-0.621	-0.407	0.010	-0.453	-0.496	0.650	-0.087	-0.351	0.204	-0.292	-0.139
KRW	0.196	-0.558	-0.167	-0.372	-0.518	-0.526	0.170	0.089	0.289	0.550	-0.107	-0.094
CAD	0.014	-0.760	-0.505	-0.546	-0.195	-0.514	0.470	0.095	0.245	0.247	-0.436	0.126
PHP	-0.156	-0.526	-0.564	-0.615	-0.046	-0.359	0.326	0.166	0.406	0.017	-0.496	0.254
THB	-0.249	-0.183	-0.212	-0.402	-0.199	0.094	0.026	0.495	0.175	0.095	-0.138	0.287
JPY	-0.260	-0.457	-0.736	-0.486	-0.208	-0.339	1.000	0.185	-0.143	-0.177	-0.670	0.364
USGG10	-0.400	1.000	0.373	0.361	0.464	0.697	-0.457	0.149	-0.227	-0.539	0.298	0.263
AUD	-0.918	0.408	-0.537	-0.045	0.625	0.600	0.227	0.537	-0.466	-0.731	-0.680	0.905
GBP	-0.945	0.224	-0.719	-0.560	0.508	0.389	0.419	0.644	0.018	-0.768	-0.773	0.949
NZD	-0.960	0.372	-0.597	-0.388	0.524	0.551	0.369	0.699	-0.153	-0.793	-0.696	0.959
EUR	-0.987	0.263	-0.688	-0.453	0.595	0.478	0.364	0.648	-0.136	-0.768	-0.775	1.000

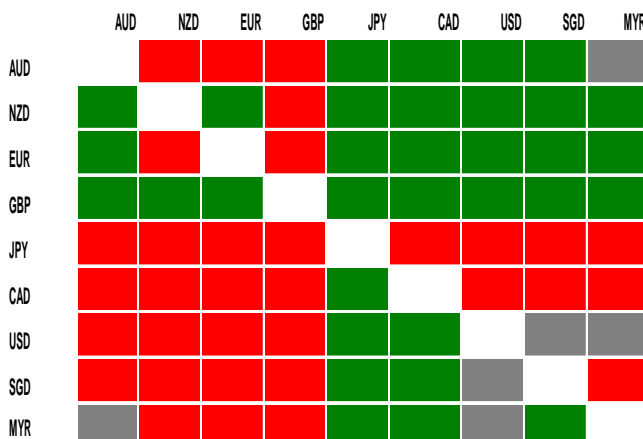
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1320	1.1322	1.1344	1.1400
GBP-USD	1.2675	1.2694	1.2695	1.2700	1.3138
AUD-USD	0.7200	0.7203	0.7208	0.7243	0.7300
NZD-USD	0.6548	0.6550	0.6554	0.6600	0.6808
USD-CAD	1.2962	1.3000	1.3074	1.3100	1.3126
USD-JPY	110.99	111.00	111.28	112.00	112.08
USD-SGD	1.3785	1.3800	1.3802	1.3809	1.3900
EUR-SGD	1.5611	1.5624	1.5627	1.5700	1.5837
JPY-SGD	1.2260	1.2400	1.2403	1.2420	1.2500
GBP-SGD	1.7459	1.7500	1.7522	1.7600	1.7875
AUD-SGD	0.9900	0.9945	0.9949	0.9978	1.0000
Gold	1050.00	1100.00	1187.80	1187.80	1190.30
Silver	14.90	14.94	14.95	15.00	15.02
Crude	66.23	66.70	66.79	66.80	68.91

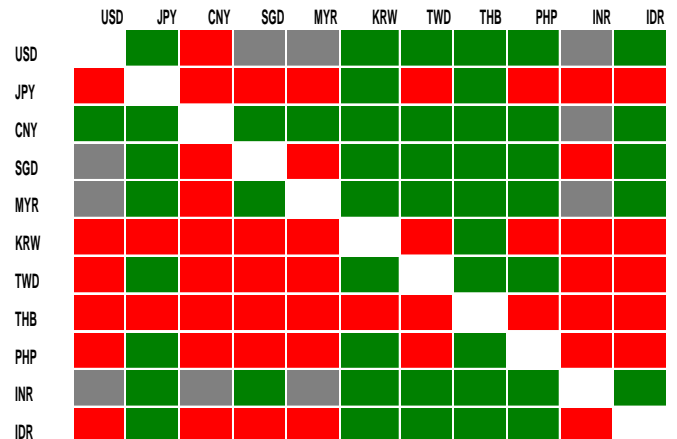
Source: OCBC Bank

G10 FX Heat Map



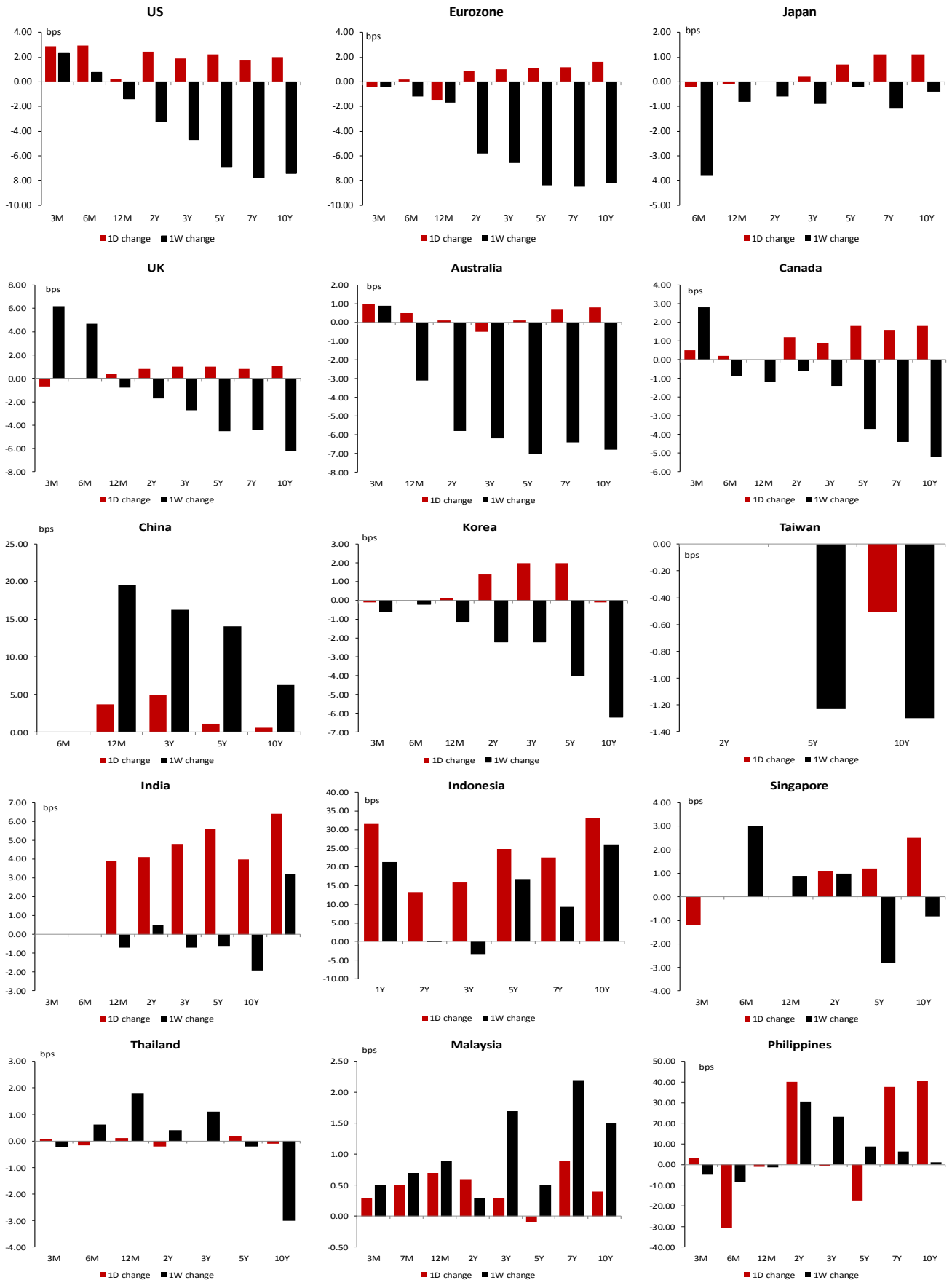
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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