

Monday, July 16, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- Softer-than-expected economic prints and lower UST yields dragged on the USD during the NY session on Friday. Gains in the DXY index up to 95.20 were reversed to close below 94.70.
- The Fed's Monetary Policy Report to the Congress on Friday repeated a (by now) largely familiar tune of "further gradual increases" in the target rate. Powell's testimonies to the Senate (Tue) and the House (Wed) will be watched, although we expect the gist to be similar. As we near the Aug FOMC, we also do not expect the Fed to rock the boat on the rate hike pathway.
- Therefore, Fed expectations have been consistent since the June FOMC. Alongside the BOE (expected to hike in Aug) and the BOC (tracking Fed), the Fed is a front-runner in the normalization path compared to the other G7 central banks. **Nevertheless, the Fed-centric drivers for the USD may be diffused by now. With the broad USD locked in the middle of the recently established range, continue to look for idiosyncratic factors to guide specific pairs, rather than a USD-centric story.**
- Although not the base case, we think the risk is for the Fed to under-deliver on rate hike expectations (ie. a reversion to three hikes in 2018), rather than over-deliver. Two factors may lead to this outcome – trade issues having a material impact on growth, and the flattening yield curve. On the first, we note that the Fed officials are already reflecting a push-back from the ground from business leaders. Watch the Fed's Beige Book (Wed) for further evidence of this. Meanwhile, note that if the pace of narrowing in the 2y-10y UST yield gap seen over the past month persists, we may see an inversion by 4Q. The consistent messaging of "further gradual increases" may continue to push short-end yields higher, quickening the pace towards inversion.
- Based on **CFTC** data, note that asset managers have continued to pare down on their net implied USD shorts. Leveraged accounts, meanwhile, added to their net implied USD longs. At this stage, net implied USD long positions in leveraged accounts are looking stretched at more than 1 S.D. above average. The risk of unwinding on the net implied USD longs should not be discounted. An expectation that the Fed will under-deliver on rate hikes (as discussed above) may trigger this unwinding.
- Apart from the Fed-related events mentioned, watch for RBA minutes (Tue), comments from BOE's Carney (Tue), Fed's Quarles (Thu) and Bullard (Fri). On the data front, watch for US retail sales (1230 GMT) and industrial production (Tue). Risk events on the political front include the Trump-Putin summit and the EU-China summit later today, and EU-Japan summit (Tue).

Treasury Research &
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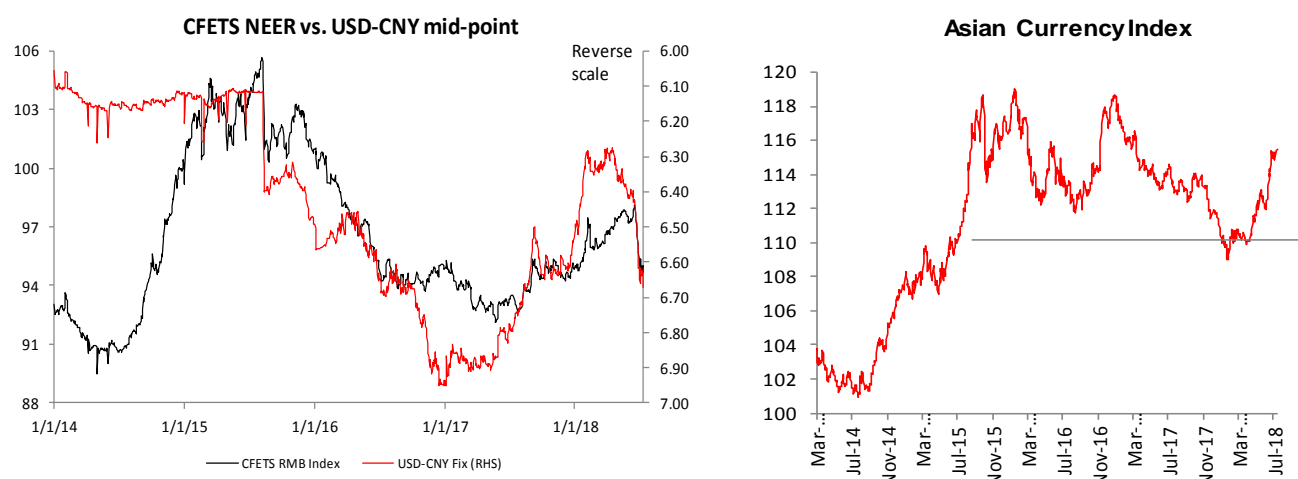
Terence Wu

+65 6530 4367

TerenceWu@ocbc.com

Asian FX

- Positive US/EU equities on Friday, and the recovery in EM FX, supported risk sentiments at the start of the week. Lack of further developments on the trade front also helped to support risk appetite. Our **FX Sentiment Index (FXSI)** is now right in the middle of the Risk-Neutral zone.
- **This week, we expect Asian FX to remain beholden to trade developments, and the subsequent response of the RMB complex. With China appearing to hold back on the tic-for-tat rhetoric and risk sentiments improving, the rate of ascent in the Asian Currency Index (ACI) may be slower this week.**
- Meanwhile, note that the USD-CNY continues to set the tone for North Asian FX. As it stands, the CFETS index near the 94.50 zone should be comfortable for the PBoC. The 94.00 handle may be the next waypoint for the PBoC to act more firmly, though this level should hold in the absence of further worsening in trade tensions.
- In terms of the **Asian portfolio flow** situation, we note some shifts in the flow patterns within Asia. Inflow momentum in South Korea continued to compress, essentially halving the pace from two weeks ago. Meanwhile, improvements were noted in India, with outflow momentum starting to ease after staying at a high level since April. However, outflow momentum for Thailand, Indonesia and the Philippines continue to persist.
- On the Asian calendar, watch for Singapore NODX (Tue), Malaysia CPI (Wed) and foreign reserves (Fri), Thailand trade balance (Fri) and Indonesia trade balance (0400 GMT) and the **Bank Indonesia (BI)** policy decision (Thu),
- **SGD NEER:** The SGD NEER is firmer this morning, standing at around +0.65% above its perceived parity level (1.3744), on firmer NEER-implied USD-SGD thresholds. Intra-day, the +0.40% (1.3689) and +0.80% (1.3635) thresholds should continue to hold. Expect the 1.3700 handle to hold over coming sessions, with a preference to sell on rallies near that level.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within expectations, at 6.6758 compared to 6.6727 on Friday. The CFETS RMB Index eased to 94.67, compared to 94.78 previously.
- **China:** Mixed set of economic prints this morning, with 2Q GDP in line with expectations, retail sales exceeding expectations and a miss on industrial production. Expect the trade war to hit the industrial complex in China, although strong domestic consumption may ease any adverse impacts. Note that the PBoC has continued to ease monetary conditions. On net, this may have a marginal negative impact on the CNY going forward.



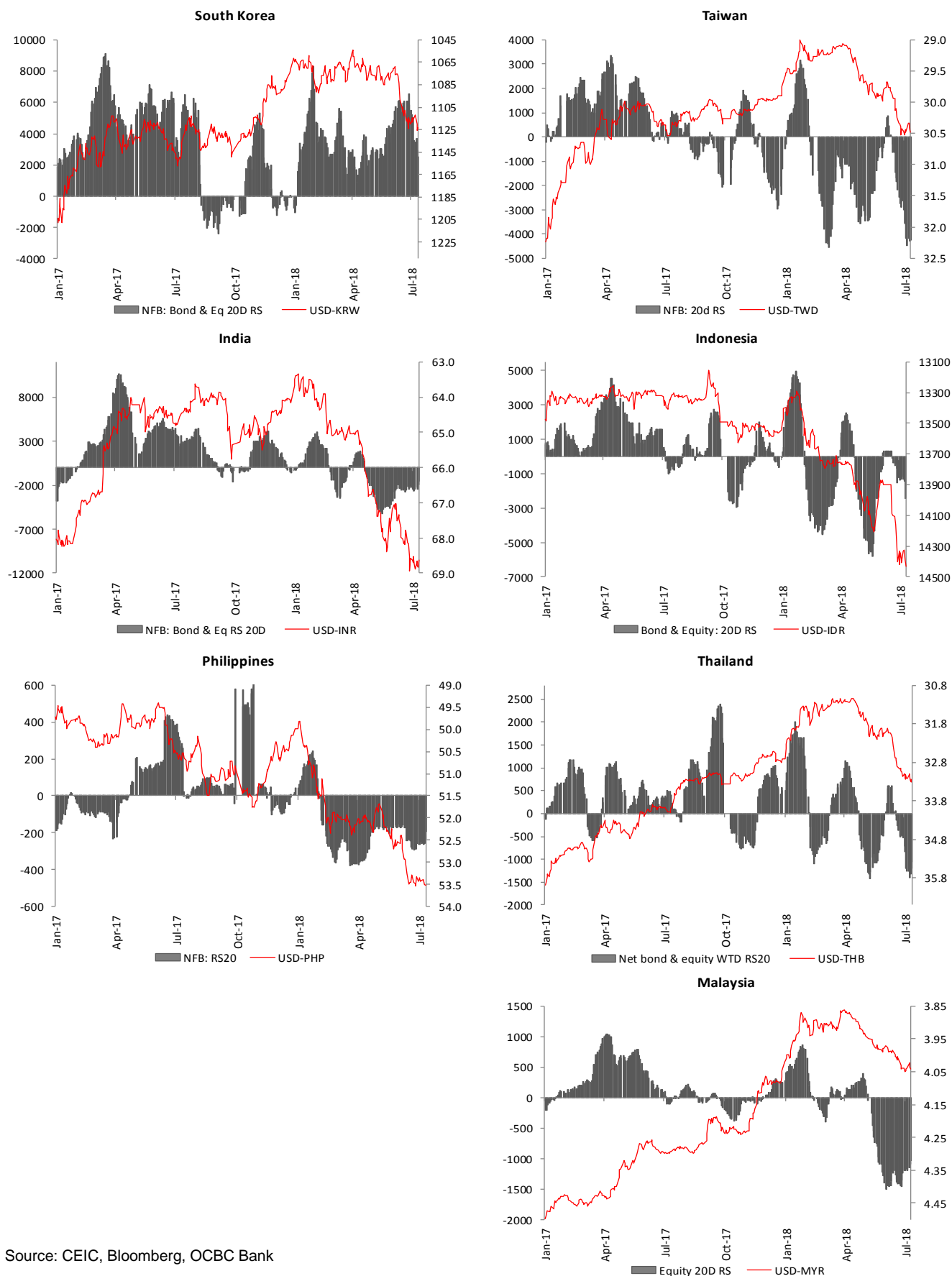
Source: OCBC Bank, Bloomberg

Short term Asian FX views

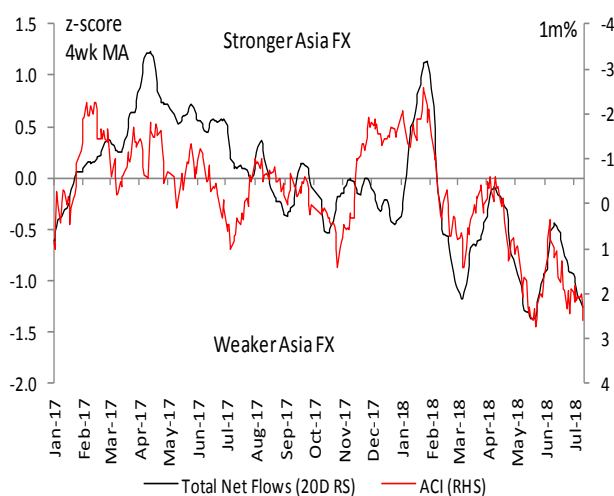
Currency	Bias	Rationale
USD-CNH	↔/↑	A near term top may have been established in the USD-CNH and USD-CNY; the CFETS RMB Index at 94.00 may limit declines in the RMB complex in the near term
USD-KRW	↔/↑	Portfolio inflows compressing; may suffer significant collateral damage if Sino-US trade war escalates; growth outlook downgraded in the latest policy meeting, although the presence of one dissenter in favour of rate hikes may signal a shift in that direction.
USD-TWD	↔/↑	Equity outflows intensifying; June export print weaker than expected; pair led by the RMB complex
USD-INR	↑	Slower-than-expected inflation may relieve pressure on the RBI to hike; RBI ease foreign ownership caps on government bonds while using OMO to support the local bond market
USD-SGD	↔	Pair responsive to broad USD movements; expect resistance around 1.3700 and support near 1.3500
USD-MYR	↔/↑	Easing political tensions as new government settles into the role; structurally overvalued compared to Asian peers based on foreign reserves and current account metrics
USD-IDR	↔/↑	BI policy decision in focus this week, recent rhetoric suggest a continuation of hawkish trajectory; efforts by the government and BI will limit USD-IDR gains, but will not reverse the trend; USD-IDR settling within 14,300-14,450 range.
USD-THB	↔/↑	Case for rate hike builds, but the BOT still expected to be a laggard among the Asian central banks; bond outflows re-asserting; intervention by the BOT to limit declines in the THB
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

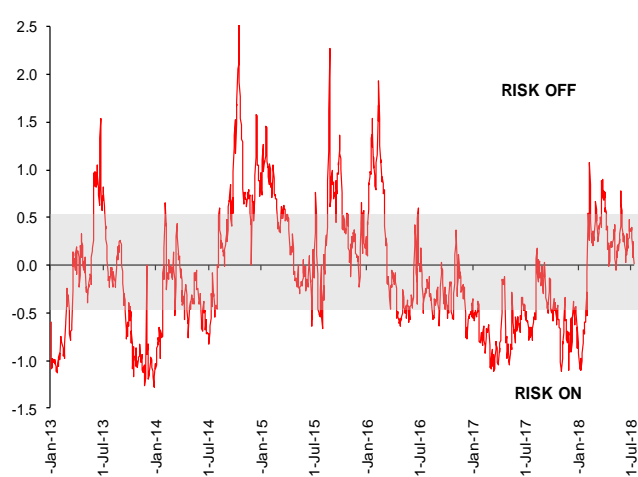
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

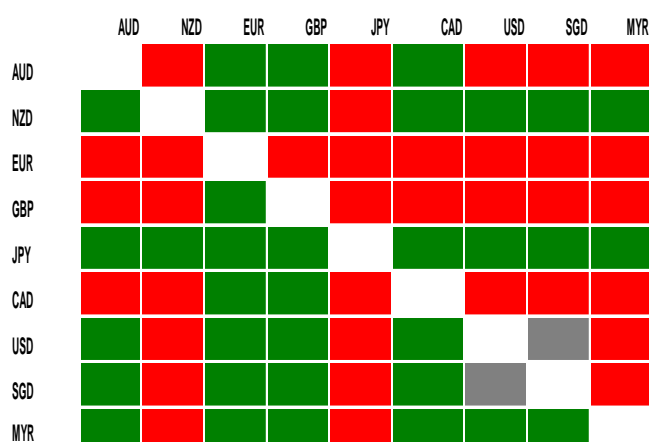
	DX	USGG10	CNY	SPX	MSELCAFF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DX	1.000	0.290	-0.269	-0.215	0.223	-0.158	-0.001	-0.362	0.194	0.079	-0.249	-0.920
CAD	0.590	0.326	-0.355	-0.422	0.182	-0.289	-0.464	-0.467	0.438	0.112	-0.381	-0.596
CHF	0.580	-0.010	0.095	0.418	0.135	-0.357	0.730	-0.145	-0.347	-0.357	0.182	-0.352
PHP	0.323	-0.236	0.412	0.102	-0.224	-0.523	0.336	-0.028	0.049	-0.088	0.298	-0.066
USGG10	0.290	1.000	-0.893	0.245	0.918	-0.132	-0.356	-0.826	-0.392	-0.503	-0.891	-0.482
SGD	0.150	-0.718	0.772	-0.539	-0.832	-0.065	0.257	0.599	0.665	0.729	0.781	0.120
IDR	0.034	-0.860	0.949	0.230	-0.811	0.062	0.646	0.773	-0.228	0.119	0.942	0.210
JPY	-0.001	-0.356	0.569	0.576	-0.201	-0.364	1.000	0.240	-0.428	-0.296	0.621	0.304
NZD	-0.012	0.810	-0.913	0.298	0.866	-0.033	-0.497	-0.769	-0.415	-0.639	-0.922	-0.272
KRW	-0.091	-0.799	0.869	-0.268	-0.823	-0.190	0.374	0.614	0.446	0.514	0.847	0.390
MYR	-0.184	-0.898	0.930	-0.230	-0.901	0.007	0.466	0.780	0.345	0.545	0.930	0.410
TWD	-0.203	-0.893	0.930	-0.355	-0.928	0.049	0.327	0.791	0.491	0.641	0.913	0.441
CNH	-0.249	-0.891	0.996	-0.107	-0.884	-0.005	0.621	0.810	0.267	0.462	1.000	0.545
INR	-0.253	-0.856	0.868	-0.144	-0.888	0.085	0.367	0.807	0.252	0.478	0.866	0.473
CNY	-0.269	-0.893	1.000	-0.094	-0.885	-0.008	0.569	0.822	0.241	0.444	0.996	0.543
THB	-0.299	-0.839	0.918	-0.153	-0.864	-0.148	0.410	0.701	0.315	0.458	0.909	0.566
AUD	-0.597	0.256	-0.299	0.617	0.468	0.193	0.112	-0.129	-0.628	-0.631	-0.276	0.452
GBP	-0.757	0.238	-0.262	0.491	0.373	-0.077	-0.026	-0.252	-0.513	-0.557	-0.253	0.577
EUR	-0.920	-0.482	0.543	0.251	-0.412	0.027	0.304	0.516	-0.156	-0.020	0.545	1.000

Source: Bloomberg

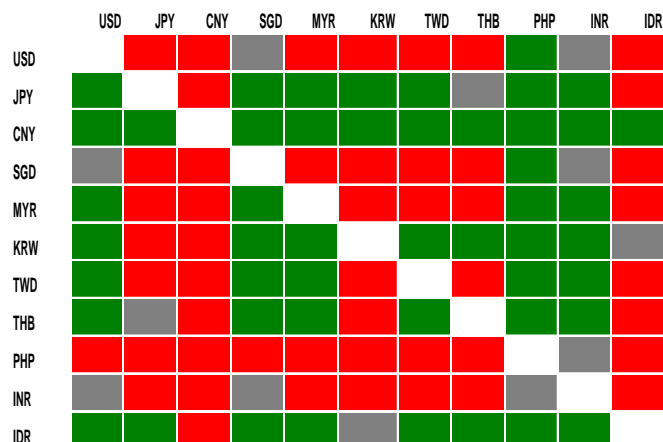
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1546	1.1600	1.1677	1.1700	1.1712
GBP-USD	1.3105	1.3200	1.3226	1.3300	1.3317
AUD-USD	0.7327	0.7400	0.7419	0.7467	0.7487
NZD-USD	0.6695	0.6700	0.6765	0.6800	0.6902
USD-CAD	1.3042	1.3100	1.3157	1.3200	1.3367
USD-JPY	110.27	112.00	112.43	112.48	112.80
USD-SGD	1.3548	1.3600	1.3657	1.3700	1.3703
EUR-SGD	1.5799	1.5900	1.5948	1.5983	1.6000
JPY-SGD	1.2121	1.2139	1.2147	1.2200	1.2235
GBP-SGD	1.7972	1.8000	1.8062	1.8100	1.8107
AUD-SGD	1.0099	1.0100	1.0132	1.0155	1.0200
Gold	1235.50	1236.20	1241.60	1278.17	1282.92
Silver	15.70	15.71	15.74	15.80	16.38
Crude	69.50	70.70	70.72	70.80	75.27

Source: OCBC Bank

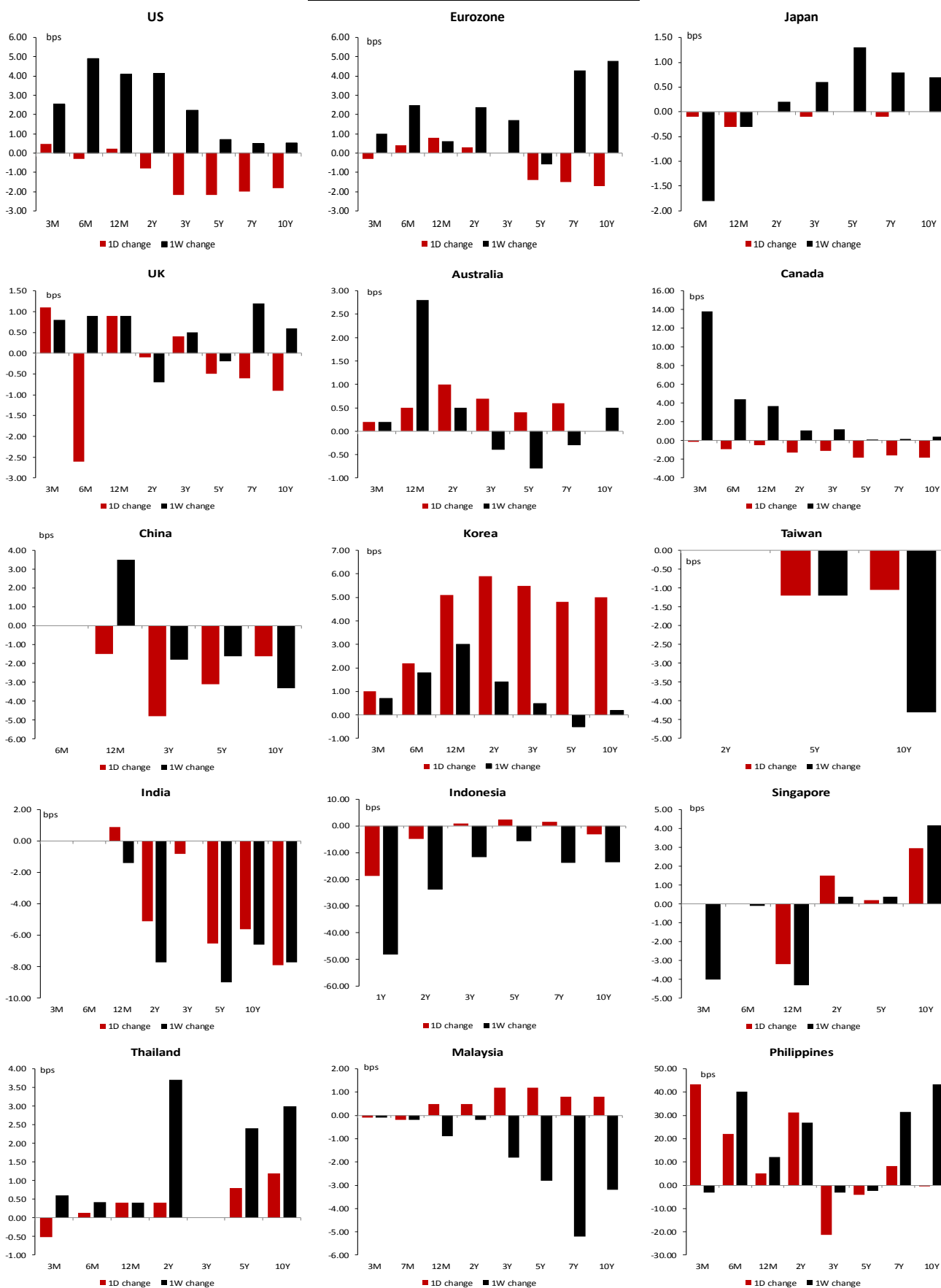
G10 FX Heat Map

Source: OCBC Bank

Asia FX Heat Map

Source: OCBC Bank

Government bond yield changes



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