

Wednesday, May 16, 2018

FX Themes/Strategy/Trading Ideas

- The USD enjoyed a lift from the spike in back-end yields, with the DXY surfacing above the 93.00 handle to the 93.30 region. 10y UST yield moved clear of 3.05% (Jan 2014 high) on the back of largely supportive US retail sales data.
- On the central bank front, Fed-speak overnight came across as somewhat diffused. Kaplan (non-voter) edged towards the dovish side, reiterating his preference for three hikes in 2018. The confirmation hearing of Clarida did not provide fireworks, as he largely stayed close to Powell's line. Markets, however, would probably want to give more weight to Williams, who was "very positive" on economic outlook and expected calls for further tightening if inflationary and wage pressures continue to build. Though perhaps leaning slightly towards the less-dovish side, Williams stopped short of calling for four hikes.
- Meanwhile, risk sentiments soured following a weak showing in US equities and a spike up in EM FX vols. Although the **FXSI (FX Sentiment Index)** remained within the **Risk-Neutral** territory, it made a significant lurch towards the Risk-Off zone. This comes after four consecutive sessions of improving risk sentiments.
- On the central bank front, watch for BOE's John (0810 GMT) and ECB's Draghi (1200 GMT), Coeure (1230 GMT) and Praet (1430 GMT). Fed's Bostic (1230 GMT) and Bullard (2130 GMT) are also on tap. Note that RBA's minutes yesterday leaned dovish, with a slight tweak in rhetoric perhaps suggesting that a rate hike is not in store in the near term.
- The USD bulls may cast a watchful eye over the 9 May high for the DXY at 93.42, but if the 10y UST yield can consolidate above 3.05%, the USD bulls should have the upper hand. Expect investors to bounce central bank rhetoric against the benchmark set by the Fed, with focus on the ECB with its heavy line-up of appearances today.

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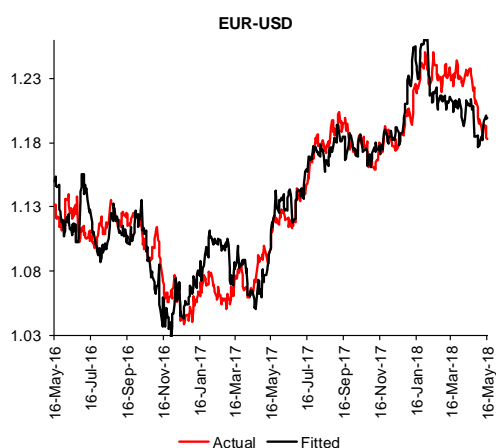
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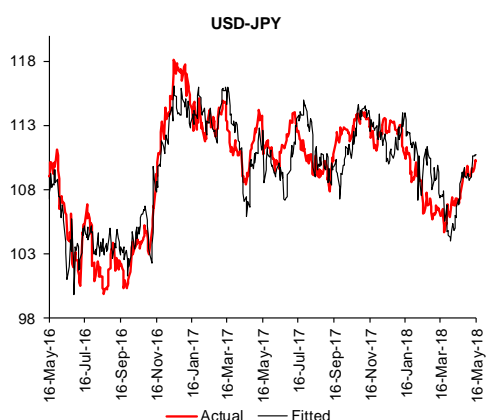
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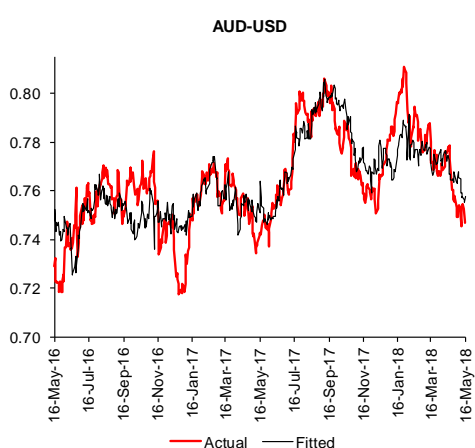
Source: OCBC Bank

- **EUR-USD** German GDP came in softer than expected, and the pair looks negatively pressured ahead of a swathe of EZ CPI releases later today. Nevertheless, short term implied valuations continued to plough higher. A breach of the 1.1800 handle may open the way towards 1.1730.



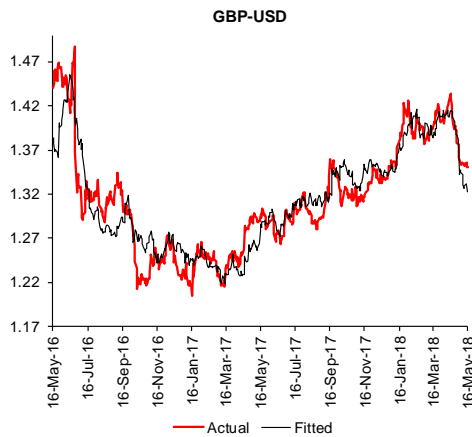
Source: OCBC Bank

- **USD-JPY** Yield differential arguments may push the pair higher in the near term. Short term implied valuations also point higher for the pair. Watch for potential consolidation above the 200-day MA (110.19).

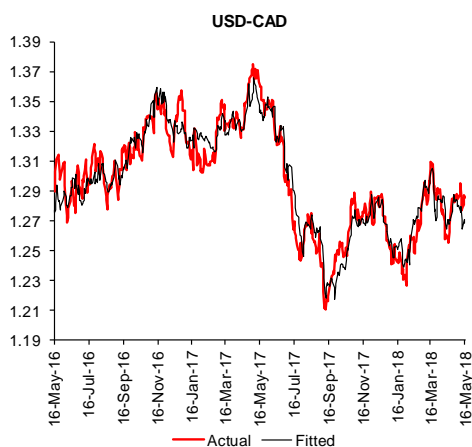


Source: OCBC Bank

- **AUD-USD** The AUD-USD bore the brunt of USD strength overnight as risk appetite also soured. RBA minutes yesterday leaned dovish, and will do the pair no favours. 0.7400 may attract in the near term, if 0.7455 is taken out convincingly. Prefer to fade on rallies.



- **GBP-USD** The cable may trade with a heavy tone as it attempts to break away from the 200-day MA (1.3557) on the downside. Note that the short-term implied valuations continue to plunge on a multi-session horizon.



- **USD-CAD** Short term implied valuations continue to be heavy, although the pair is attempting to consolidate above its 55-day MA (1.2836).

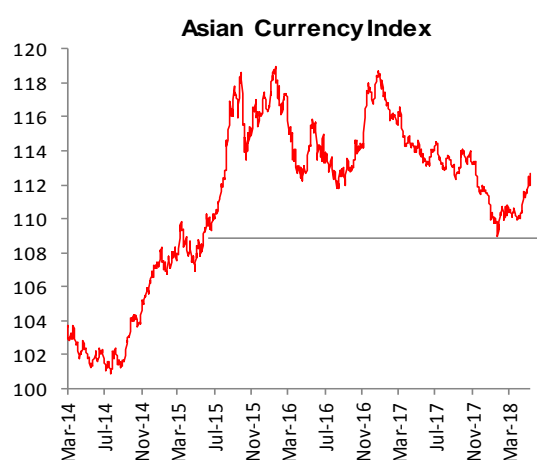
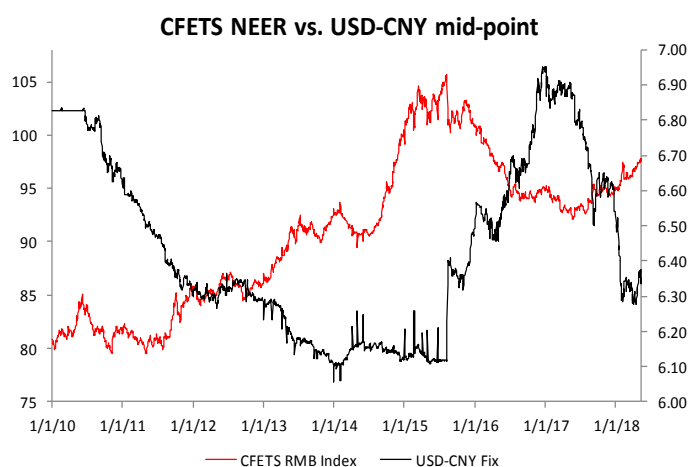
Source: OCBC Bank

Asian FX

- With global risk appetite souring overnight, and the broad USD momentum looking positive again, the **ACI (Asian Currency Index)** should remain buoyant intra-day. Watch for Bank of Thailand's decision later today (0705 GMT), though our expectations is for them to hold rates unchanged.
- In terms of actual net portfolio flows into Asia, the situation remains more positive in the North than the South. Although there are some indications of a moderation in net inflows for South Korea, the absolute levels remain healthy. Meanwhile, the compression in net outflows for Taiwan remains under way. In the South, note some initial signs of moderation of outflows from Thailand. However, the latest data prints from Indonesia and India continue to show a worsening of outflows.
- **South Korea:** Geopolitical tensions heightened over the Korean peninsula, with North Korea abruptly cancelling talks with the South over military drills. The Trump-Kim talks also appear to be at risk. This is perhaps a stark reminder of the volatile nature of the North Korean regime, and we caution against imputing excessive inter-Korea optimism into the KRW despite the gradual improvement

in ties (prior to the latest episode).

- SGD NEER:** The SGD NEER is again softer at +0.24% above its perceived parity (1.3466) this morning. The NEER-implied USD-SGD thresholds were also firmer alongside the broad USD movement. Intra-day range for the USD-SGD should be bounded by the perceived parity (1.3466) and +0.40% (1.3413). Having struggled on either side of the 200-day MA (1.3378) in the past few sessions, watch for the USD-SGD's ability to consolidate above this level on a sustained basis.
- CFETS RMB Index:** The USD-CNY mid-point rose, slightly above expectations, to 6.3745 from 6.3486 on Monday. Note that this is still within historically accepted norms. The CFETS RMB Index edged higher to 97.81, from 97.71.



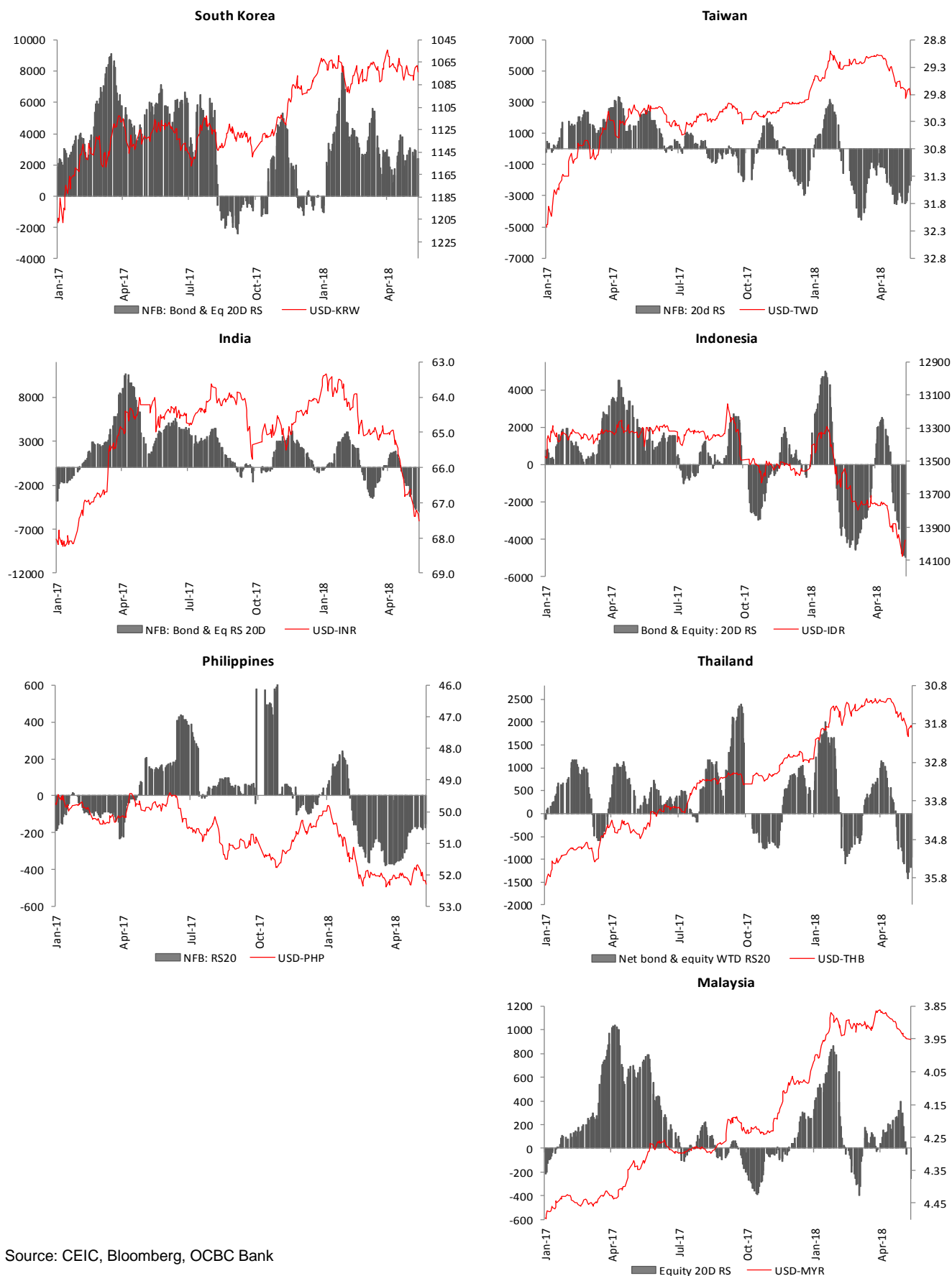
Source: OCBC Bank, Bloomberg

Short term Asian FX views

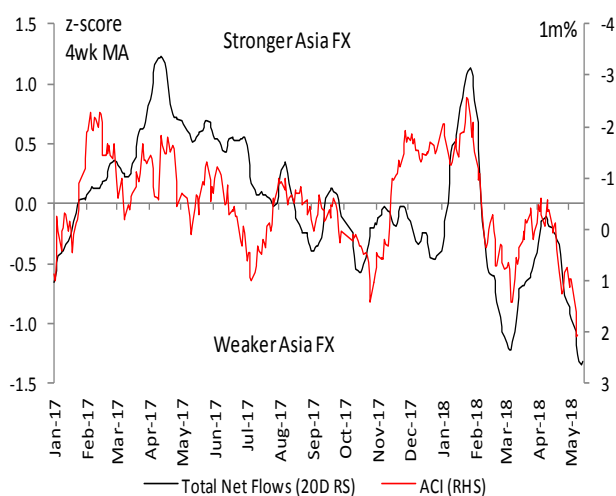
Currency	Bias	Rationale
USD-CNH	↔/↑	RRR cut, relative stability of RMB Index, RMB to shoulder potential volatility instead, watch US-Sino tensions
USD-KRW	↔/↓	Tensions with the North may reassert; net portfolio inflows remain at healthy levels; inflation/current account surplus projection downgraded; BOK expected to remain neutral
USD-TWD	↔/↓	Net equity outflows attempting to compress; new CBC governor non-hawkish
USD-INR	↑	Firmer than expected WPI and CPI data puts pressure on RBI to hike early; net portfolio outflows worsening; higher crude imposing drag on INR and govies
USD-SGD	↔/↑	NEER hovering around parity; MAS steepens NEER slope in April; pair responsive to firmer DXY
USD-MYR	↑	Surprise defeat for the ruling BN coalition; neutral to rich valuation compared to peers on foreign reserves and current account measures, note calm response from financial markets after re-opening
USD-IDR	↔/↑	Unexpectedly wide trade deficit piles further pressure; short term vol premium widening; net portfolio outflows deepening, carry strategy under reassessment; BI appears to be positioning for rate hike next week
USD-THB	↔/↑	BOT remains accommodative; net portfolio outflow balance; inflation inching higher back into BOT's target range.
USD-PHP	↔/↑	Net equity outflows moderating; BSP hiked policy rates as expected while signalling the possibility of further hikes.

Source: OCBC Bank

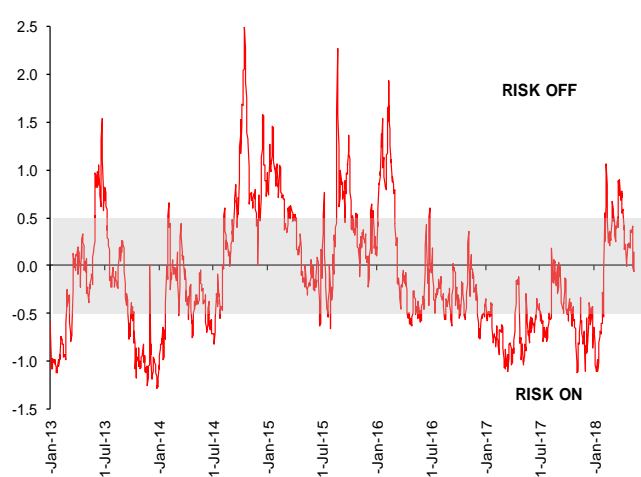
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

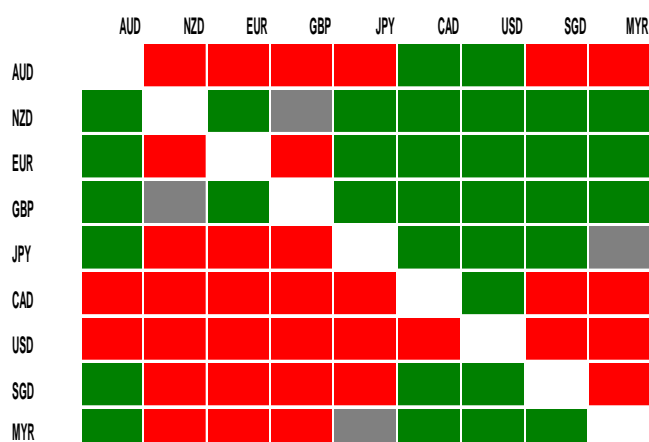
	DX	USGG10	CNY	SPX	MSELCAPI	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DX	1.000	0.723	0.971	0.023	0.512	0.662	0.912	0.733	-0.580	-0.213	0.954	-0.995
CHF	0.985	0.676	0.947	0.054	0.515	0.716	0.884	0.750	-0.616	-0.240	0.931	-0.980
MYR	0.977	0.696	0.945	-0.011	0.525	0.687	0.865	0.812	-0.616	-0.270	0.934	-0.987
SGD	0.973	0.778	0.947	0.075	0.487	0.626	0.919	0.755	-0.565	-0.161	0.945	-0.980
CNY	0.971	0.682	1.000	-0.101	0.321	0.572	0.897	0.665	-0.449	-0.097	0.980	-0.961
CNH	0.954	0.674	0.980	-0.102	0.346	0.528	0.875	0.617	-0.461	-0.118	1.000	-0.952
TWD	0.949	0.709	0.927	0.043	0.409	0.610	0.917	0.732	-0.533	-0.159	0.904	-0.954
THB	0.948	0.595	0.891	0.235	0.513	0.700	0.822	0.824	-0.675	-0.272	0.865	-0.962
IDR	0.943	0.769	0.917	-0.005	0.427	0.629	0.856	0.777	-0.491	-0.030	0.900	-0.946
INR	0.917	0.832	0.867	0.229	0.552	0.681	0.922	0.846	-0.573	-0.232	0.828	-0.918
JPY	0.912	0.854	0.897	-0.130	0.416	0.466	1.000	0.599	-0.342	-0.086	0.875	-0.894
CAD	0.816	0.810	0.848	-0.383	0.151	0.346	0.848	0.458	-0.094	0.261	0.812	-0.771
USGG10	0.723	1.000	0.682	-0.100	0.303	0.403	0.854	0.621	-0.116	0.207	0.674	-0.701
KRW	0.496	0.476	0.583	-0.440	-0.352	-0.034	0.580	0.139	0.124	0.355	0.593	-0.490
PHP	-0.359	0.258	-0.390	0.238	-0.110	-0.316	-0.097	-0.088	0.301	0.250	-0.358	0.348
AUD	-0.962	-0.795	-0.961	0.167	-0.392	-0.495	-0.951	-0.605	0.383	0.033	-0.930	0.942
NZD	-0.963	-0.843	-0.919	-0.037	-0.546	-0.629	-0.960	-0.740	0.507	0.195	-0.894	0.954
GBP	-0.981	-0.689	-0.934	-0.039	-0.562	-0.720	-0.876	-0.749	0.601	0.237	-0.916	0.970
EUR	-0.995	-0.701	-0.961	-0.089	-0.541	-0.683	-0.894	-0.758	0.627	0.260	-0.952	1.000

Source: Bloomberg

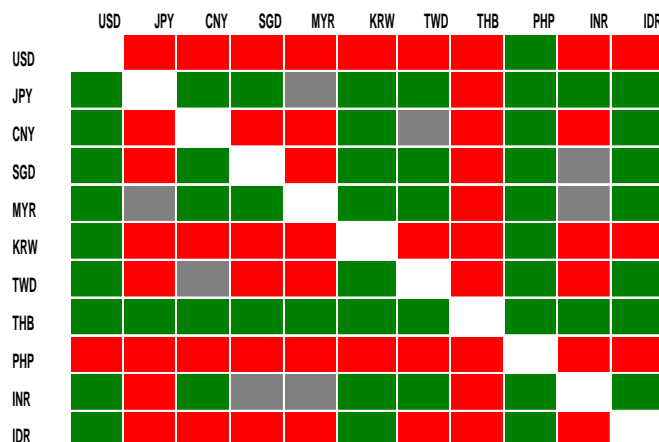
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1800	1.1816	1.1829	1.1900	1.2021
GBP-USD	1.3400	1.3451	1.3499	1.3500	1.3557
AUD-USD	0.7408	0.7412	0.7470	0.7500	0.7663
NZD-USD	0.6831	0.6851	0.6875	0.6900	0.7148
USD-CAD	1.2800	1.2830	1.2860	1.2900	1.2947
USD-JPY	110.00	110.19	110.26	110.45	110.66
USD-SGD	1.3378	1.3400	1.3430	1.3490	1.3496
EUR-SGD	1.5809	1.5876	1.5887	1.5900	1.6076
JPY-SGD	1.2106	1.2144	1.2180	1.2200	1.2250
GBP-SGD	1.8100	1.8128	1.8130	1.8200	1.8385
AUD-SGD	0.9973	1.0000	1.0032	1.0100	1.0117
Gold	1288.20	1291.85	1293.10	1300.00	1305.40
Silver	16.00	16.10	16.19	16.20	16.50
Crude	66.51	71.00	71.07	71.10	71.92

Source: OCBC Bank

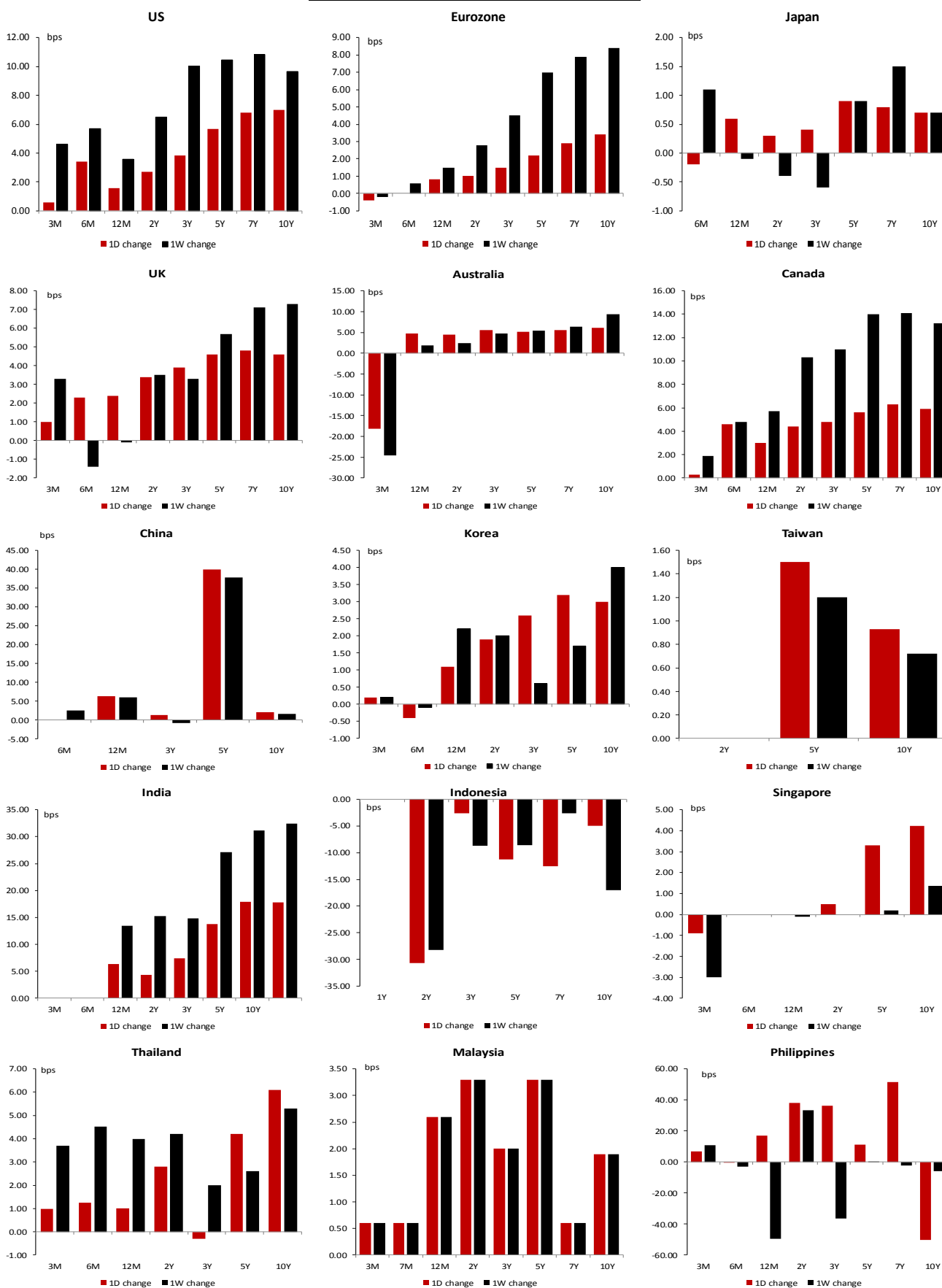
G10 FX Heat Map

Source: OCBC Bank

Asia FX Heat Map

Source: OCBC Bank

Government bond yield changes



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