

Friday, August 17, 2018

FX Themes/Strategy/Trading Ideas

- The USD remained in a broadly consolidative mode in yesterday's session, mainly whipsawed by headlines regarding Turkey and China. Haven currencies like the JPY and CHF underperformed as risk aversion subsided.
- Note further stabilization in Turkey and the EM space. EM FX firmed against the USD as a whole, with USD-TRY falling for the third consecutive session. Building on the US\$15bn Qatari investment, Turkish leaders are out to forge alliances and win support from Europe. Nevertheless, we are not completely out of the woods yet. For one, Turkish and Latam equities remain in the red. Mnuchin also continued to threaten new sanctions on Turkey.
- Overall, our **FXSI (FX Sentiment Index)** continue to populate the region just below the outright Risk-Off threshold.
- **At this juncture, near-term USD prospects will still be subjected to developments in Turkey and other EM stress points. If we see further deterioration, the resultant flight to quality should allow the DXY index to surface above 97.00 early next week.** Failing that, expect further consolidation for the USD, pending a shift in market attention towards other drivers.
- Meanwhile, despite oversold conditions and a rebound in EUR-USD riskies from year lows, bounces in the EUR-USD are getting lower in altitude, and are unable to sustain above the 1.1400 handle in a meaningful way. Continue to expect the EUR to trade heavy and remain within a downtrend.
- Elsewhere, RBA's Lowe expects rates to hold steady "for a while yet" in his testimony to the Australian parliament. This message has been broadly consistent for some time, and will provide little impetus for outsized moves in any direction for the AUD. More importantly, **Lowe viewed the recent decline in the AUD as "actually good news". At this juncture, we think the AUD may continue to provide "good news" for Lowe going forward.**
- On the data front, watch for Eurozone aggregate inflation (0900 GMT), Canadian inflation (1230 GMT) and US UMich sentiment index (1400 GMT). Watch also for more RBA-speak, with Ellis (0730 GMT) following up on his governor's comments earlier this morning.

Treasury Research &
Strategy

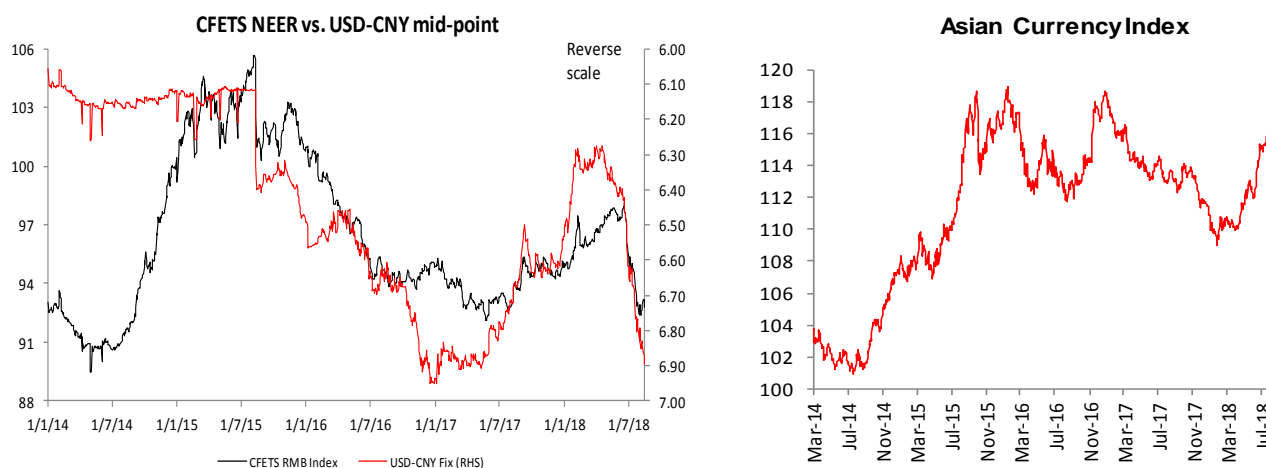
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Asian FX

- As the immediate concerns in Turkey appear to ease, the attention should shift back to China. **A purported game-changer is the restart of Sino-US trade talks**, with the Chinese Vice Commerce Minister scheduled to visit the US later this month. **We do not buy this argument. The relatively low ranking of the officials on both sides suggests any deal is unlikely.** This is more likely a meeting to test waters on both sides.
- **More critically, we think, are the renewed efforts by the PBoC to contain RMB depreciation.** Note measures by the PBoC to curtail CNH liquidity, thereby making it more costly to short the CNH. The USD-CNY morning fix also came in lower than expected at 6.8894 (consensus estimate: 6.8959; our estimate: 6.8908) for the second consecutive day.
- The intentions of the PBoC are clear. However, the current situation may be tricky as the recent ascent in USD-China is more a function of USD strength than other Chinese-centric issues. **The topside for USD-CNH and USD-CNY may continue to be challenged, especially if the broad USD remains on the ascendant on global cues.** If that comes to pass, **the issue is whether the PBoC will continue to focus on the levels of USD-CNH and USD-CNY, or shift its attention to the RMB index instead.** Note that the RMB index did not hit the lows seen on 3 Aug this week, even though spot USD-CNH and USD-CNY were higher.
- **With EM FX firmer against the USD overnight, and the PBoC's intention to contain RMB weakness crystal clear, we expect our Asian Currency Index (ACI) to continue its break from the recent ascent. Nevertheless, we do not expect longevity in any dips for the ACI.**
- In terms of **Asian net portfolio flows**, we continue to observe equity outflows centred in South Asia. In the context of the improvements seen in the previous couple of weeks, we think this week's equity outflows are not out-sized and are still manageable. Moreover, they are offset by sporadic inflows in the bond front. The latest reading in Indonesia showed bond inflows early this week, before flipping into an outflow situation on Wednesday. Nevertheless, we will be more uncomfortable if the equity outflows persist or accelerate into the next two weeks.
- **SGD NEER:** The SGD NEER fluctuated near +1.06% above its perceived parity level (1.3894) this morning. The NEER-implied USD-SGD thresholds continued to ease. Intra-day bounds expected between the +0.80% (1.3784) and +1.20% (1.3729) thresholds.
- **CFETS RMB Index:** The USD-CNY mid-point was set lower, within expectations, at 6.8894 compared to 6.8946 on Thursday. The CFETS RMB Index inched lower to 92.78, from 92.80 previously.



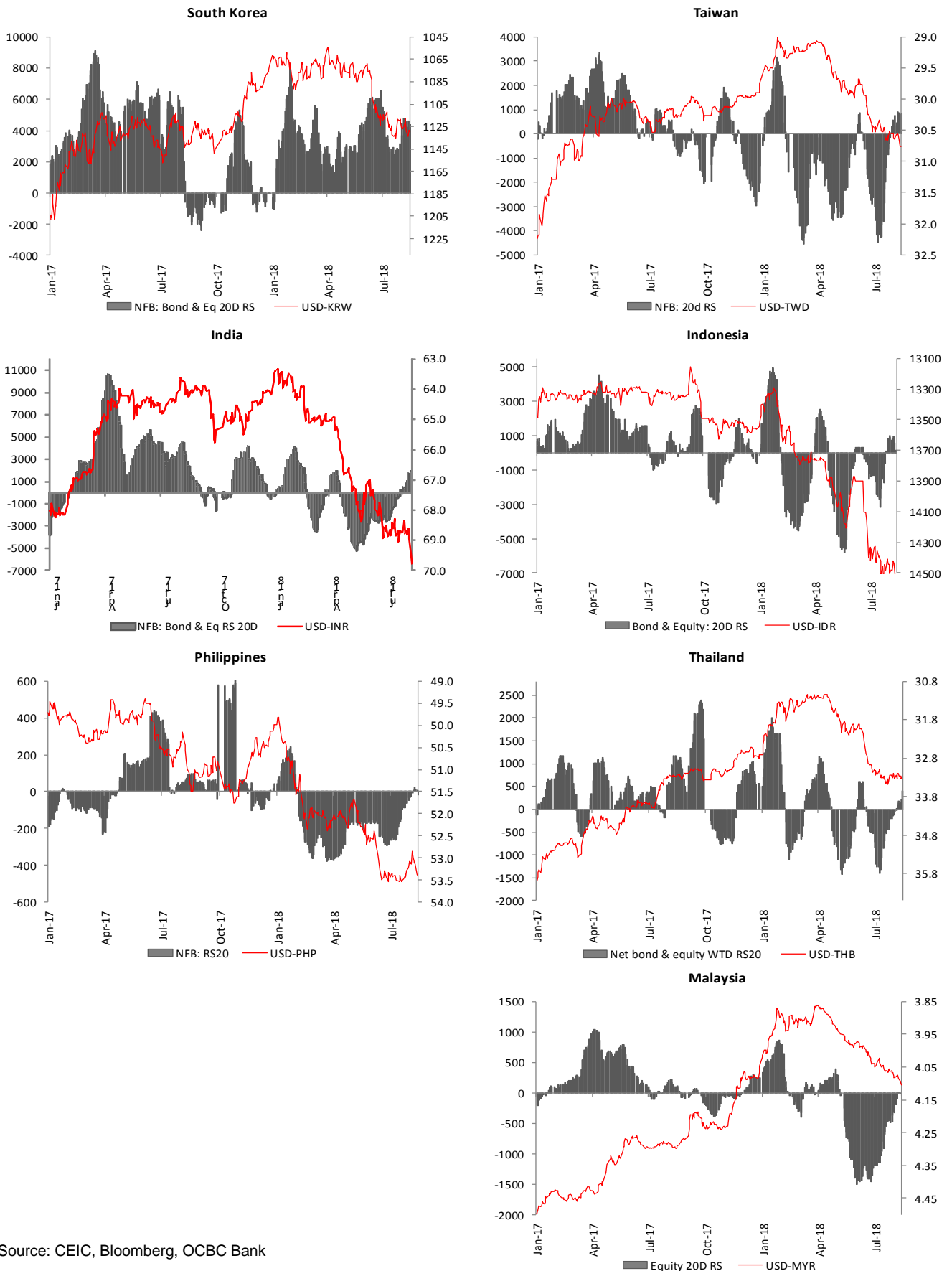
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔	New signals by the PBoC reflects discomfort with USD-CNH level near 6.9500. Look for a consolidation around the 6.9000 handle; may continue to test higher, especially if the broad USD continues to push higher; near term cap may be at 6.96-7.00.
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; USD-INR above 70 is essentially in uncharted territory
USD-SGD	↔/↑	Pause in broad USD momentum cap near term advances in the pair; 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
USD-MYR	↔/↑	BNM expected to be on hold until 2019; equity outflows easing; with 4.08 and 4.10 resistances quickly broken, there appears to be little catalyst for MYR strengthening
USD-IDR	↔/↑	BI surprise hike, but the move did little to support spot IDR; President Jokowi called for further building of foreign reserves; IDR may be more exposed to Turkish issue due to widening CA deficit and high percentage of foreign ownership in government bonds; asymmetric reaction to broad USD movements
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

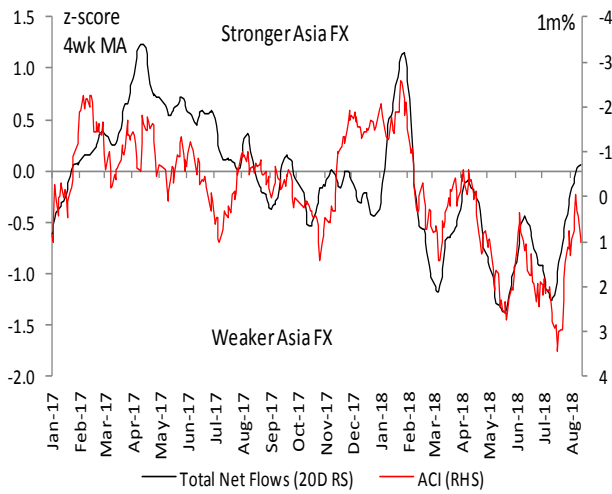
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



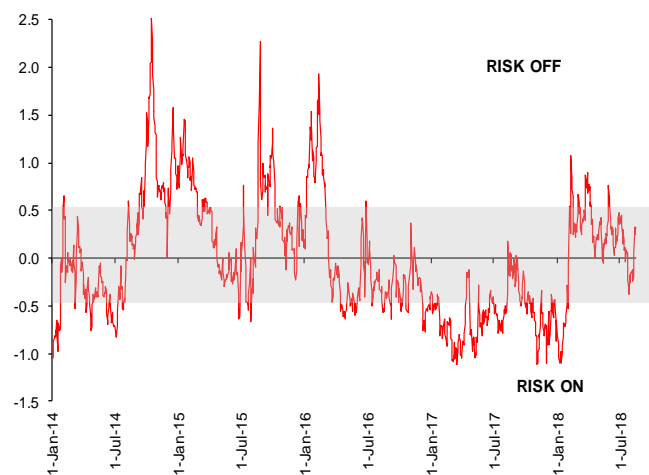
Source: CEIC, Bloomberg, OCBC Bank

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	-0.683	0.771	0.280	-0.800	-0.798	-0.368	-0.793	0.358	0.884	0.780	-0.991
SGD	0.957	-0.740	0.732	0.074	-0.849	-0.840	-0.273	-0.716	0.456	0.899	0.789	-0.936
MYR	0.944	-0.530	0.895	0.336	-0.848	-0.754	-0.489	-0.818	0.325	0.866	0.842	-0.956
TWD	0.787	-0.564	0.727	-0.004	-0.822	-0.801	-0.475	-0.656	0.561	0.871	0.696	-0.780
CNH	0.780	-0.245	0.947	0.219	-0.637	-0.555	-0.581	-0.645	0.394	0.659	1.000	-0.830
INR	0.771	-0.592	0.602	0.075	-0.770	-0.727	-0.336	-0.548	0.514	0.799	0.527	-0.738
CNY	0.771	-0.185	1.000	0.277	-0.654	-0.562	-0.645	-0.717	0.403	0.680	0.947	-0.821
IDR	0.726	-0.502	0.678	0.011	-0.811	-0.743	-0.438	-0.596	0.518	0.791	0.647	-0.713
CHF	0.452	-0.562	-0.067	0.241	-0.422	-0.358	0.375	-0.225	-0.294	0.288	0.050	-0.389
CAD	0.294	-0.767	-0.176	-0.464	-0.299	-0.490	0.205	-0.177	0.350	0.377	-0.100	-0.188
KRW	0.257	-0.608	-0.121	-0.351	-0.509	-0.539	0.170	-0.019	0.299	0.565	-0.063	-0.169
PHP	0.086	-0.525	-0.219	-0.530	-0.219	-0.403	0.114	-0.054	0.487	0.205	-0.184	-0.015
THB	-0.162	-0.293	-0.248	-0.520	-0.193	-0.039	0.101	0.275	0.200	0.119	-0.167	0.206
JPY	-0.368	-0.059	-0.645	-0.356	0.112	0.111	1.000	0.433	-0.260	-0.317	-0.581	0.439
USGG10	-0.683	1.000	-0.185	0.197	0.604	0.713	-0.059	0.433	-0.398	-0.726	-0.245	0.604
AUD	-0.938	0.677	-0.746	0.007	0.787	0.819	0.355	0.733	-0.605	-0.827	-0.784	0.928
GBP	-0.967	0.620	-0.789	-0.414	0.726	0.722	0.443	0.814	-0.221	-0.859	-0.775	0.964
NZD	-0.971	0.641	-0.776	-0.313	0.698	0.754	0.466	0.804	-0.339	-0.853	-0.793	0.971
EUR	-0.991	0.604	-0.821	-0.329	0.772	0.758	0.439	0.804	-0.351	-0.851	-0.830	1.000

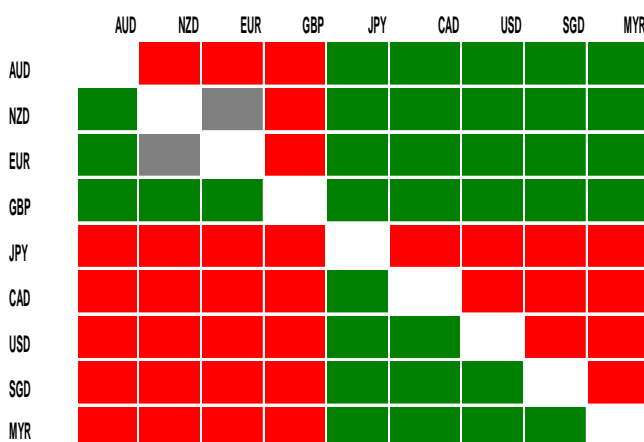
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1301	1.1378	1.1400	1.1623
GBP-USD	1.2662	1.2700	1.2715	1.2800	1.3110
AUD-USD	0.7203	0.7225	0.7268	0.7300	0.7397
NZD-USD	0.6518	0.6545	0.6595	0.6600	0.6791
USD-CAD	1.3100	1.3136	1.3151	1.3193	1.3200
USD-JPY	110.11	110.54	110.86	111.00	111.03
USD-SGD	1.3623	1.3700	1.3752	1.3800	1.3802
EUR-SGD	1.5600	1.5609	1.5647	1.5700	1.5834
JPY-SGD	1.2271	1.2400	1.2405	1.2461	1.2500
GBP-SGD	1.7400	1.7459	1.7486	1.7500	1.7859
AUD-SGD	0.9945	0.9967	0.9995	1.0000	1.0076
Gold	1100.00	1161.40	1176.20	1180.56	1200.00
Silver	14.60	14.64	14.64	14.70	15.80
Crude	65.06	65.40	65.42	65.50	68.88

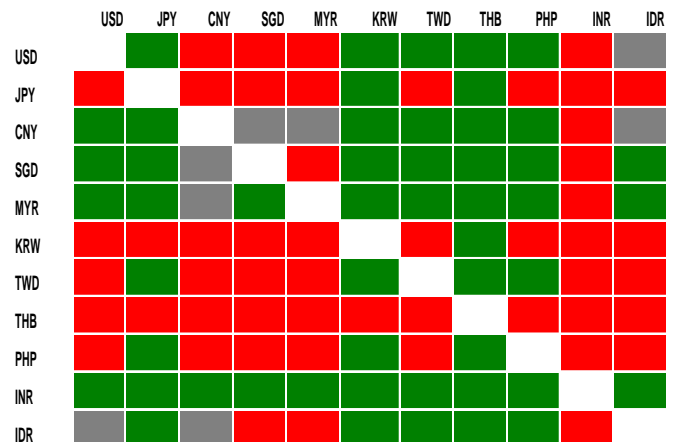
Source: OCBC Bank

G10 FX Heat Map



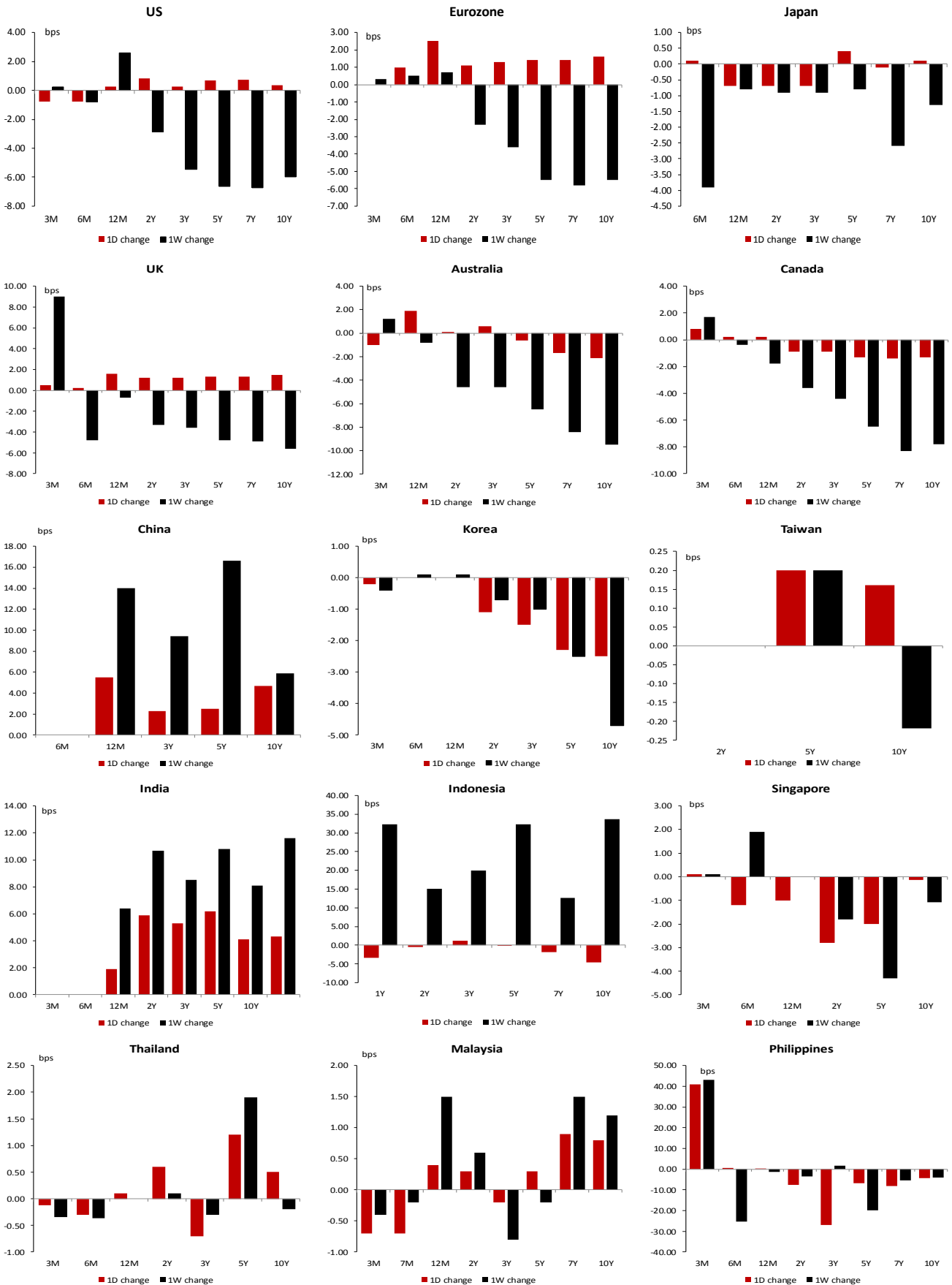
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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