

Wednesday, July 18, 2018

FX Themes/Strategy/Trading Ideas

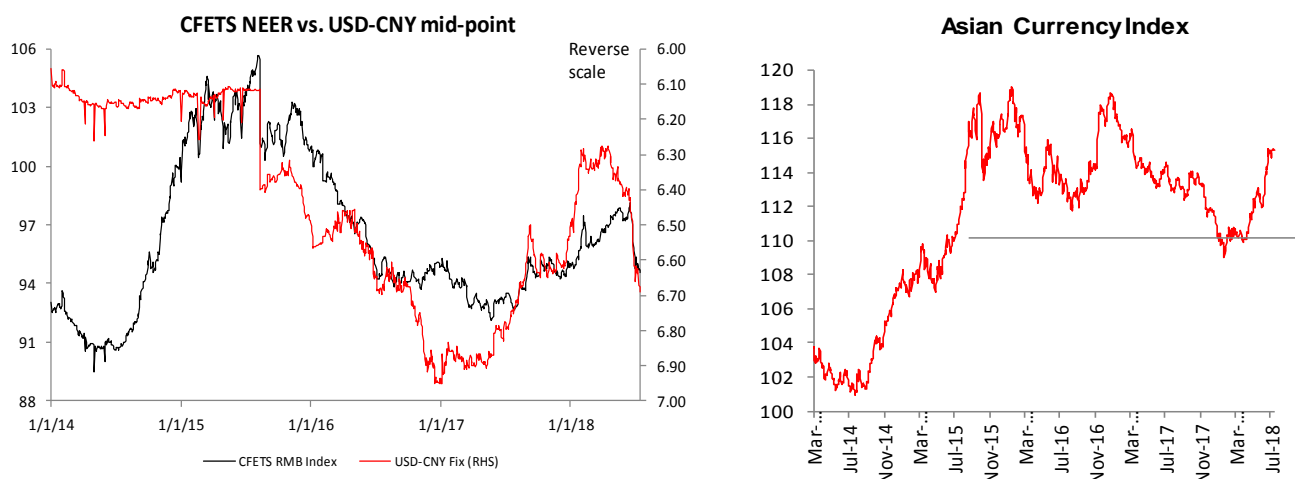
- No surprises from Powell's testimony to the Senate, coupled with firmer than expected US industrial production, provided support for the USD in the NY session. The broad USD traded in a biddish tone post-Powell, with some spillover into the current session.
- Powell's testimony reflected a largely optimistic outlook for the US economy. He also reiterated the call for gradual further increases to the policy rate "for now". We take this to mean two more rate hikes in 2018, and believe that the "for now" comment reflects an ongoing concern over the impact of trade tensions and the flattening yield curve. This leaves room for optionality if the situation turns away from the Fed's baseline.
- Nevertheless, **we note that Powell merely repeated the base case, and presented no new information that may be construed as a broad USD driver going forward.** Gains in the USD post-Powell may be due to the re-establishment of USD longs pared in the run-up to testimony. **Overall, we think that the testimony may be insufficient to drive the DXY index above its established range top.**
- The GBP was the largest decliner against the USD yesterday, taking a hit from further Brexit uncertainties in the UK Parliament. An established pattern may be observed, at least up to the 2 Aug Bank of England (BOE) meeting. Bullish comments by BOE speakers will drive the GBP higher, only to be depressed once Brexit headlines hit. Latest UK data-prints show a strong labour sector, with average weekly earnings gaining 2.5% (in line with expectations). This corroborates with Haldane's mention of anecdotal evidence showing wage pressures across large sectors of the economy. At this stage, we see little in the data prints that may waylay plans for an Aug hike. Watch for UK CPI and PPI data later today (0830 GMT).
- On the central bank calendar, watch for Powell's testimony to the House (1400 GMT) and the Beige Book (1800 GMT). On the data front, watch for US housing starts (1230 GMT) and Eurozone CPI (0900 GMT).

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Asian FX

- Overall risk sentiments still appear buoyant, especially when we see no developments on trade. Markets appear to be settled into with a no-news-is-good-news equilibrium on the trade front. Our **FX Sentiment Index (FXSI)** is still in the middle of the Risk-Neutral zone, although it is inching slowly towards the Risk-On zone.
- In terms of **Asian portfolio flows**, note that overall inflow momentum in South Korea continues to look pressured, with the latest print showing an equity outflow. Meanwhile, equity outflow momentum from Taiwan continued to ease from extended levels. In South Asia, the situation continues to improve in India on a rolling 20D basis.
- **With the buoyant sentiment surrounding the broad USD still largely in place, expect the Asian Currency Index (ACI) to push higher intra-day. Nevertheless, the easing of the USD-CNY at the open may relieve some pressure on Asian currencies.**
- **Indonesia:** Latest comments from the Bank Indonesia (BI) suggest that they still view the IDR as undervalued, and that the BI will continue to intervene in the bond and FX markets. Note that the IDR has been range bound between 14,300 and 14,450 since July. We expect the BI to hold rates unchanged in the upcoming meeting, pending a closer assessment of the results from recent quick-fire rate hikes.
- **India:** The Reserve Bank of India (RBI) announced another INR100bn of OMO purchases for bonds. This may pressure government bond yields yet lower, after recent declines brought about by falling oil prices.
- **SGD NEER:** The SGD NEER is softer this morning, standing at around +0.75% above its perceived parity level (1.3727), rather hitting a high of above +0.90% yesterday. The NEER-implied USD-SGD thresholds were firmer. Intra-day, expect the pair to consolidate within the +0.50% (1.3696) and +0.90% (1.3642) thresholds.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within our expectations at 6.6914 compared to 6.6821 on Tuesday. The CFETS RMB Index eased to 94.58, compared to 94.53 previously. Note that some limited intervention may have taken place to manage the USD-CNY at levels above the 6.7000 handle. The intention, we think, is still to control the rate of depreciation, rather than reverse the trend.



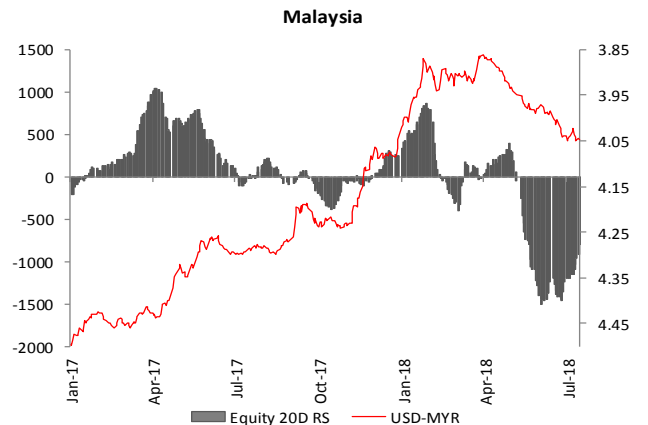
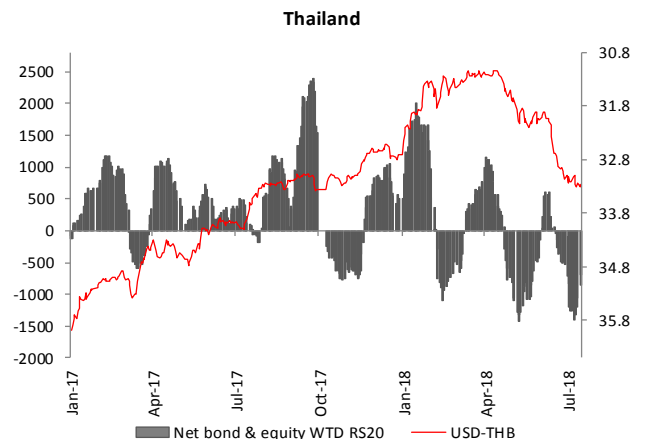
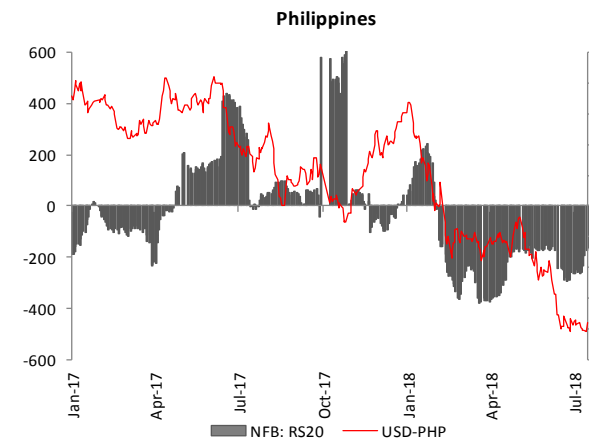
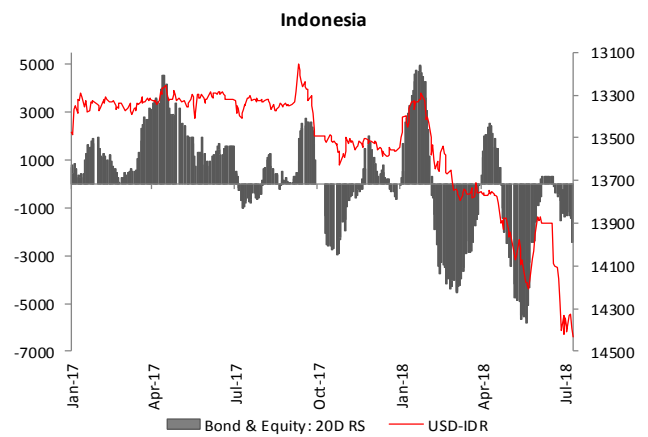
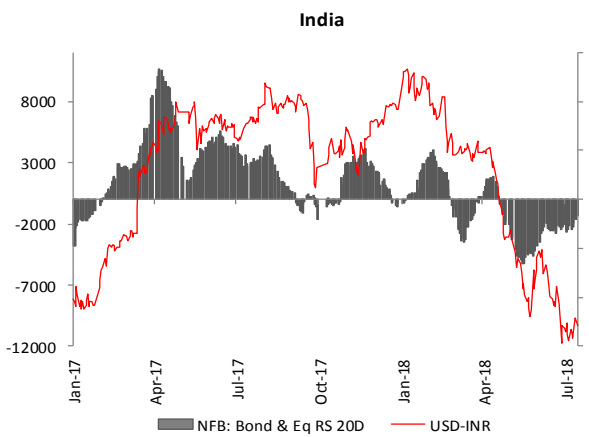
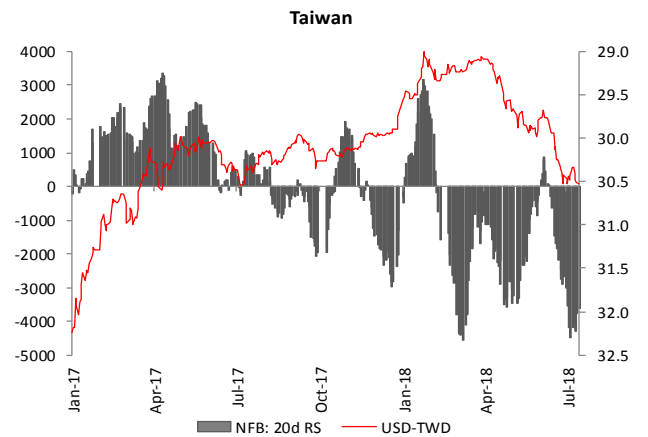
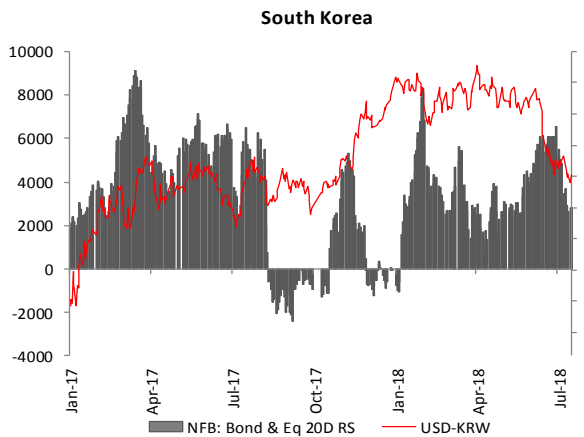
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔/↑	The USD-CNH and USD-CNY testing recent highs again; 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 BOK 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; pair led by the RMB complex; impending TSMC dividend payment may drive the pair higher
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

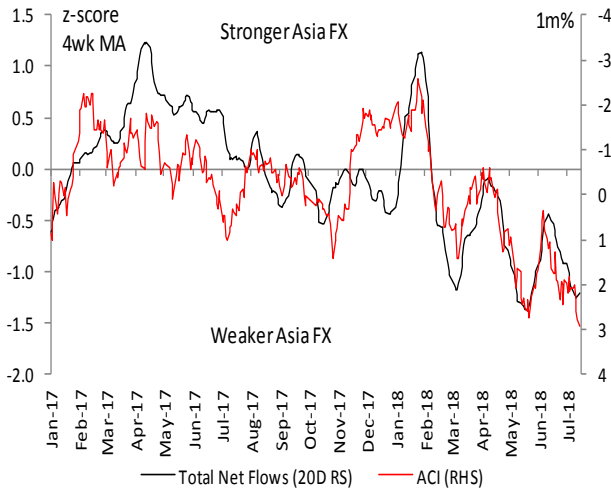
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



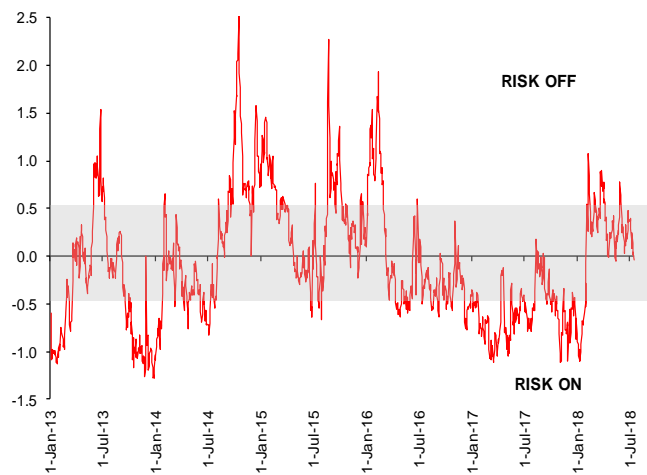
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXXK	CNH	EUR
DXY	1.000	0.241	-0.162	-0.190	0.149	-0.195	0.140	-0.367	0.213	0.095	-0.105	-0.901
CAD	0.636	0.544	-0.681	-0.407	0.430	-0.073	-0.420	-0.552	0.412	0.098	-0.597	-0.766
CHF	0.629	-0.162	0.449	0.469	-0.075	-0.518	0.763	-0.191	-0.362	-0.399	0.432	-0.302
SGD	0.386	-0.570	0.559	-0.373	-0.731	0.004	0.317	0.415	-0.525	0.499	0.662	-0.189
PHP	0.356	-0.025	0.189	0.231	0.043	-0.385	0.298	-0.200	-0.106	-0.295	0.102	-0.194
USGG10	0.241	1.000	-0.765	0.086	0.889	-0.189	-0.297	-0.747	-0.221	-0.290	-0.769	-0.375
JPY	0.140	-0.297	0.768	0.712	-0.248	-0.604	1.000	-0.028	-0.558	-0.549	0.749	0.279
KRW	0.131	-0.626	0.836	0.164	-0.670	-0.330	0.743	0.270	0.075	-0.027	0.862	0.236
IDR	0.065	-0.827	0.923	0.294	-0.797	-0.088	0.620	0.601	-0.283	-0.022	0.927	0.220
MYR	-0.103	-0.842	0.903	0.027	-0.853	-0.073	0.574	0.636	0.118	0.221	0.918	0.328
CNH	-0.105	-0.769	0.996	0.224	-0.803	-0.150	0.749	0.546	-0.057	0.038	1.000	0.444
TWD	-0.126	-0.832	0.884	-0.046	-0.823	0.040	0.511	0.633	0.178	0.241	0.876	0.325
NZD	-0.141	0.716	-0.840	0.057	0.797	0.000	-0.542	-0.602	-0.178	-0.338	-0.874	-0.111
CNY	-0.162	-0.765	1.000	0.305	-0.756	-0.157	0.768	0.567	-0.173	-0.070	0.996	0.452
INR	-0.210	-0.806	0.730	0.016	-0.853	0.170	0.339	0.758	0.063	0.270	0.769	0.362
THB	-0.267	-0.801	0.946	0.265	-0.780	-0.192	0.691	0.578	-0.087	-0.010	0.956	0.535
AUD	-0.782	0.004	0.045	0.520	0.255	0.052	0.043	0.069	-0.529	-0.484	-0.071	0.756
GBP	-0.856	0.086	-0.154	0.258	0.256	0.026	-0.306	-0.006	-0.307	-0.285	-0.265	0.660
EUR	-0.901	-0.375	0.452	0.401	-0.278	-0.012	0.279	0.387	-0.343	-0.250	0.444	1.000

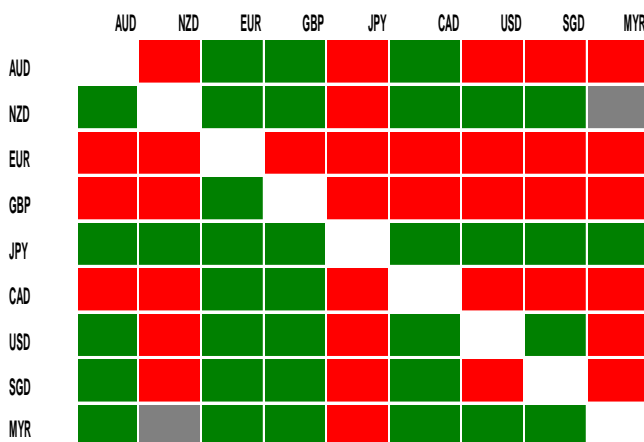
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1566	1.1600	1.1653	1.1700	1.1704
GBP-USD	1.3085	1.3100	1.3111	1.3200	1.3306
AUD-USD	0.7311	0.7330	0.7385	0.7400	0.7467
NZD-USD	0.6697	0.6700	0.6779	0.6800	0.6894
USD-CAD	1.3050	1.3200	1.3204	1.3300	1.3345
USD-JPY	110.40	112.00	112.94	113.00	113.08
USD-SGD	1.3559	1.3600	1.3661	1.3700	1.3703
EUR-SGD	1.5799	1.5900	1.5918	1.5983	1.6000
JPY-SGD	1.2058	1.2069	1.2094	1.2100	1.2140
GBP-SGD	1.7893	1.7900	1.7909	1.7960	1.8000
AUD-SGD	1.0000	1.0026	1.0088	1.0100	1.0101
Gold	1200.00	1225.90	1227.90	1228.10	1275.72
Silver	15.51	15.54	15.55	15.60	16.35
Crude	65.18	67.70	67.74	67.80	69.35

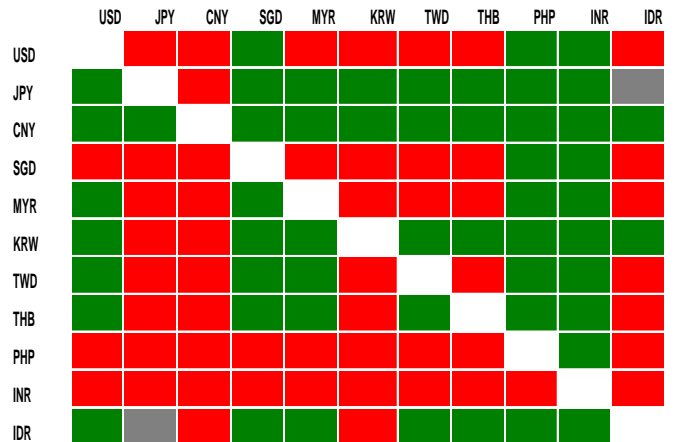
Source: OCBC Bank

G10 FX Heat Map



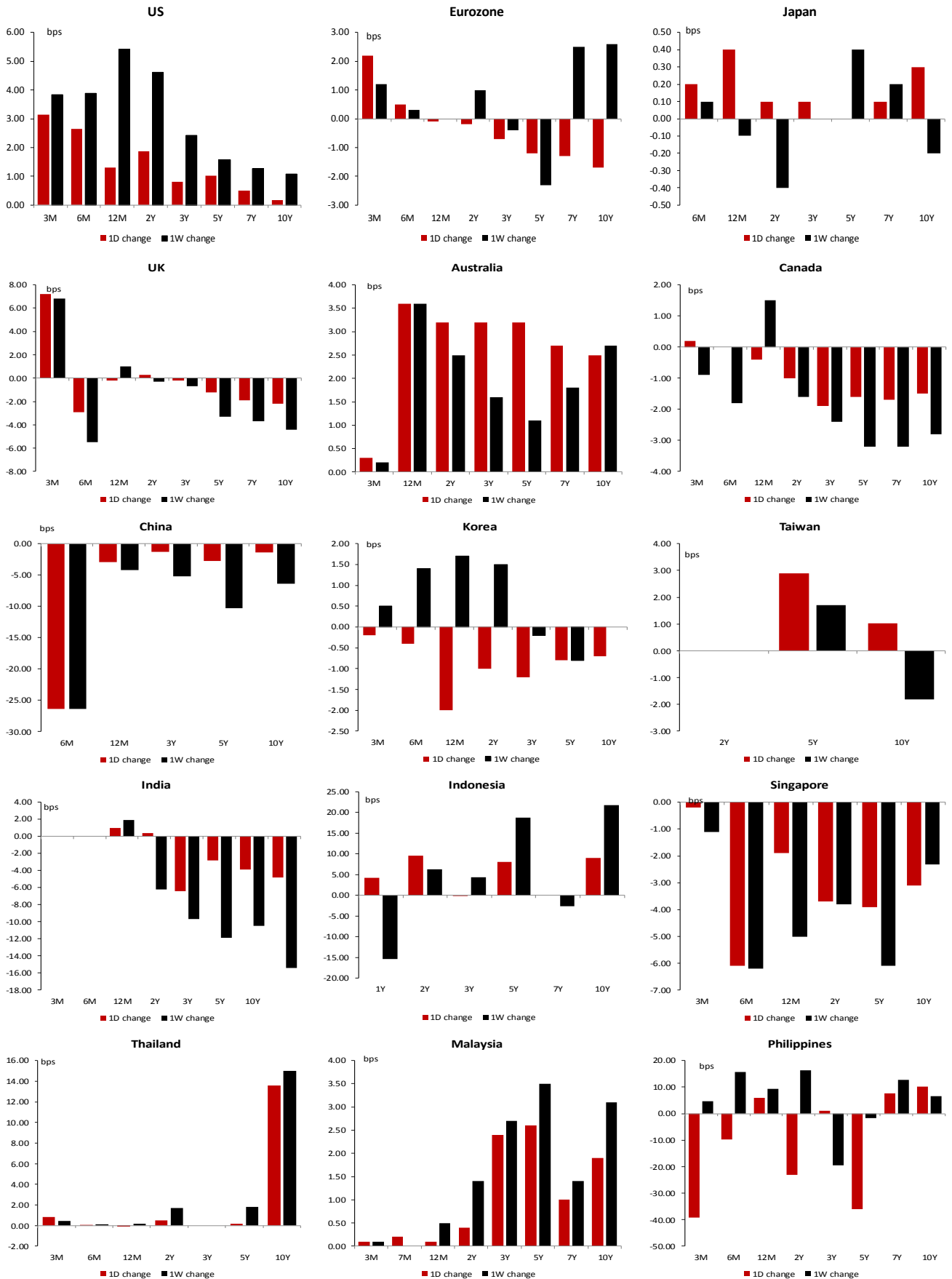
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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