

Monday, August 20, 2018

## FX Themes/Strategy/Trading Ideas

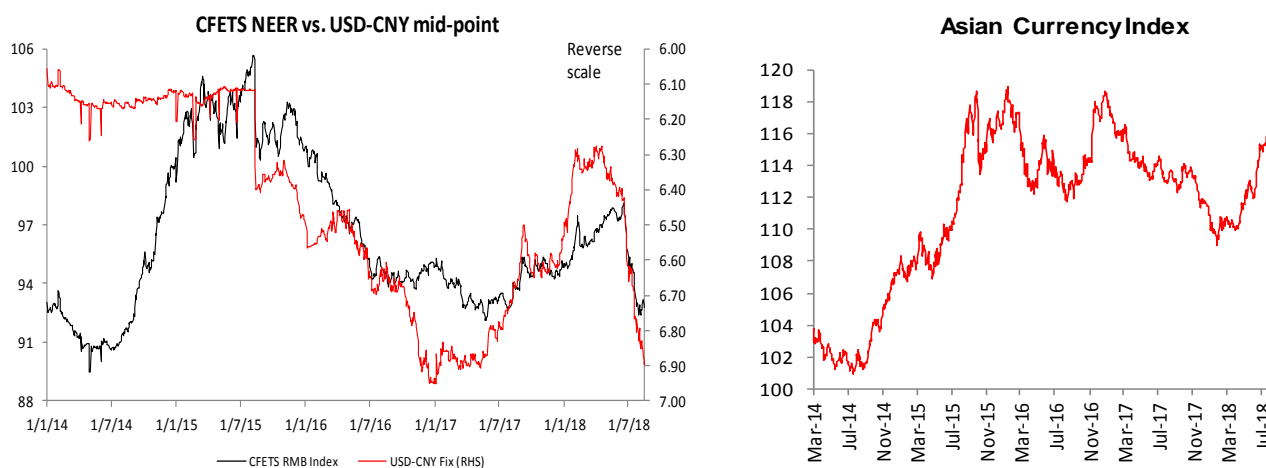
- The USD closed slid against most G7 currencies on Friday. Cyclical were the outperformers, with the AUD, NZD and CAD all marking strong gains against the USD. Meanwhile, the EUR recovered to close above the 1.1400 handle.
- While we are not near the end of the Turkish issue, we have yet to see further evidence of a systemic contagion into Europe and EM Asia. The spreading of concerns, if any, should be contained the usual EM stress points.
- Meanwhile, **CFTC** data continue to show an investment community heavily positioned in favour of the USD. In the latest week, the leveraged accounts added to their implied USD longs marginally, with shorts added to the AUD, NZD and EUR positions. JPY shorts were pared. Asset managers also reduced their implied USD shorts. **Overall, with little to spark an unwinding, the extended implied USD long position within the leveraged accounts may still persist going forward.**
- **At this juncture, USD prospects are down to the Turkish issue in the near term, and Fed expectations beyond that.** If Turkish concerns continue to show no outsized impact on the DM markets, the USD may continue to consolidate, with the DXY index not likely to surface above the 97.00 mark, early this week.
- Further out, this week's busy central bank calendar provides another opportunity to reassess relative central bank dynamics. **Of interest is whether the recent EM jitters would derail policy normalization within the G7 central banks, in particular the ECB.** In Yellen's time, the international financial stability was a concern in Fed discussions, although it does appear to take a secondary position this year. **Specific to the Fed, watch for comments on the flattening yield curve and balance sheet normalization.**
- Nevertheless, we expect Fed expectations to emerge unscathed, while there may be more uncertainty over the ECB. **Prefer to remain nimble and trade tactically around the risk events.**
- This week will see heavy activity across the central banks. Today, BOC's Wilkins (1315 GMT), Fed's Bostic (1500 GMT), ECB's Weidmann (1800 GMT) and RBA's Lowe (2200 GMT) are all on tap. RBA (Tue), Fed (Wed) and ECB (Thu) minutes scheduled before the Jackson Hole Symposium (Fri to Sat).
- On the data front, watch for preliminary US/Eurozone PMIs (Thu) and German GDP (Fri).

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## Asian FX

- Sino-US trade issues should return to the centre-stage, as the Turkish distraction continues to fade away. Low-level trade talks between the US and China are scheduled this week, with a roadmap that may lead to a Xi-Trump meeting in November to be discussed. The November timeline appears curious, given the US midterm elections scheduled on 6 November. The six days of public hearings on proposed tariffs for US\$200bn of Chinese goods are also scheduled to start this week.
- **With the broad USD in a consolidative mode for now and the USD-RMB easing away from the sensitive zone, the pressure on the PBoC may lifted temporarily.** Nevertheless, the market remains edgy on any further measures that the PBoC may introduce to support the RMB complex.
- **In the rest of EM Asia, we do expect the Asian currencies to continue their recovery early this week, in-line with broad USD movements. However, we expect any dips our Asian Currency Index (ACI) to remain relatively shallow, especially with the Turkish issue still simmering in the background, and the recent economic prints being weaker-than-expected across Asia.**
- In terms of **Asian net portfolio flows**, the latest prints continued to look mixed overall. In North Asia, equity outflows in Taiwan were offset by inflows into South Korea on both the equity and bond fronts. In South Asia, we continue to experience equity outflows in the Philippines, Thailand and Malaysia. Nevertheless, bond inflows into Thailand were also recorded.
- This week on the Asian data calendar, watch for Filipino BOP today, Thai trade balance (Tue), and inflation prints for Singapore (Thu) and Malaysia (Fri).
- **SGD NEER:** The SGD NEER fluctuated near +1.10% above its perceived parity level (1.3858) this morning. The NEER-implied USD-SGD thresholds continued to ease in-line with the broad USD. Intra-day movements expected between the +0.90% (1.3735) and +1.20% (1.3694) thresholds. **With macro fundamentals not supportive of excessive SGD strength, we expect the +1.20% threshold on the SGD NEER to be a cap in the near term.** Moreover, the USD-SGD may attempt to hold on to the 1.3700 handle over the coming sessions.
- **CFETS RMB Index:** The USD-CNY mid-point was set lower, within expectations, at 6.8718 compared to 6.8894 on Friday. The CFETS RMB Index edged higher to 92.80, from 92.78 previously.



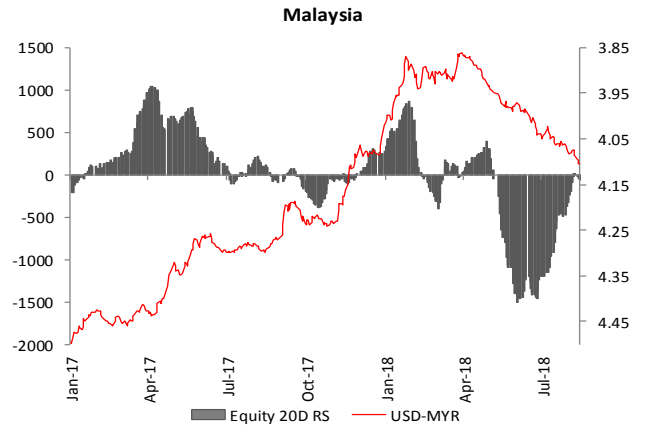
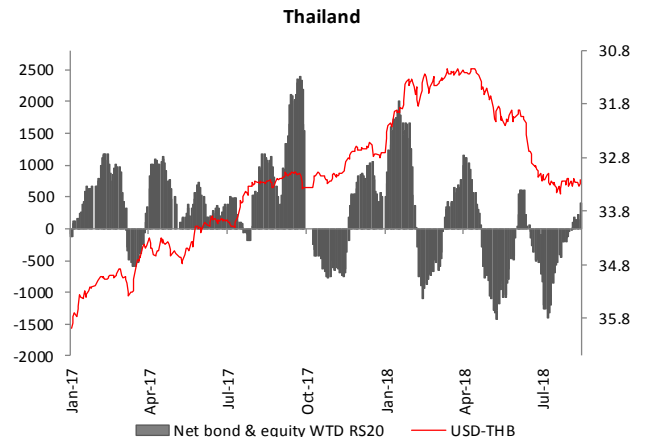
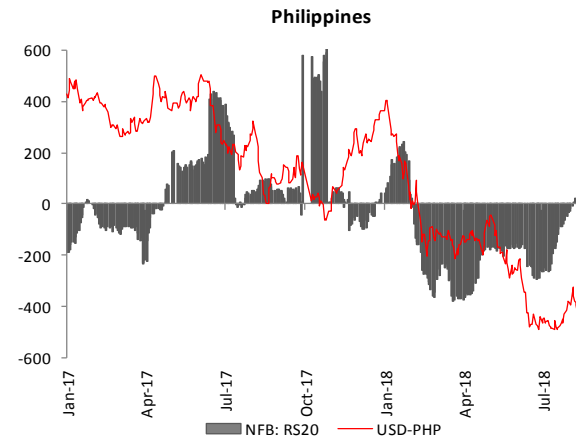
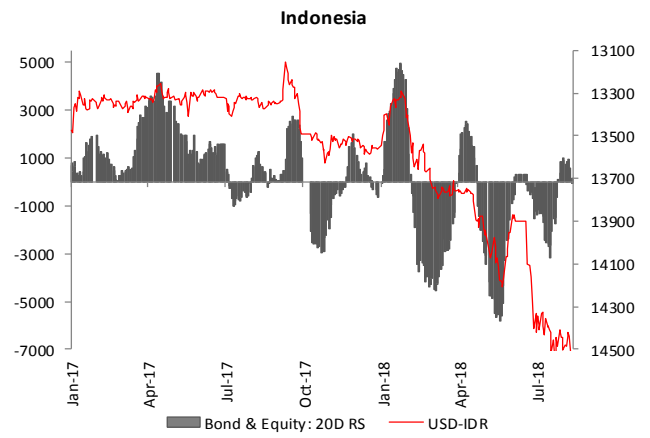
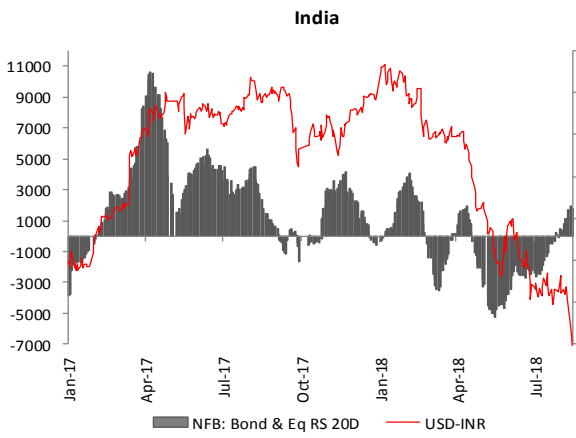
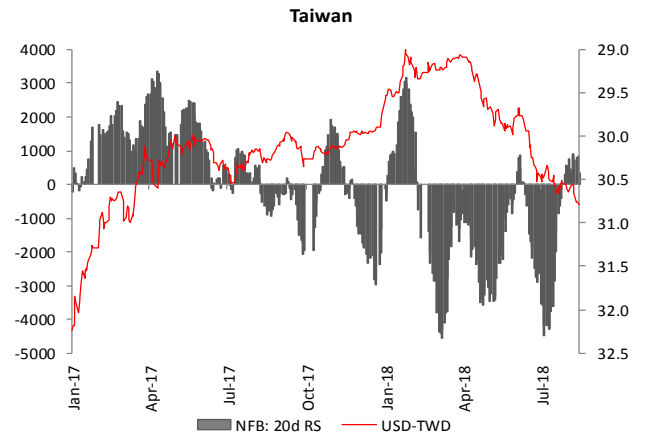
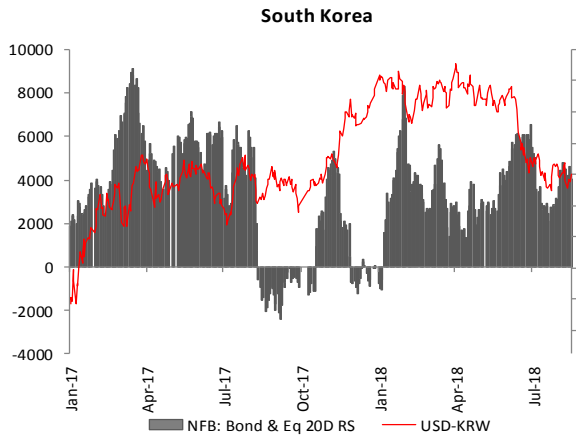
Source: OCBC Bank, Bloomberg

### 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; weaker than expected unemployment print may douse rate hike expectations
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; 2Q GDP firmer than expected.
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

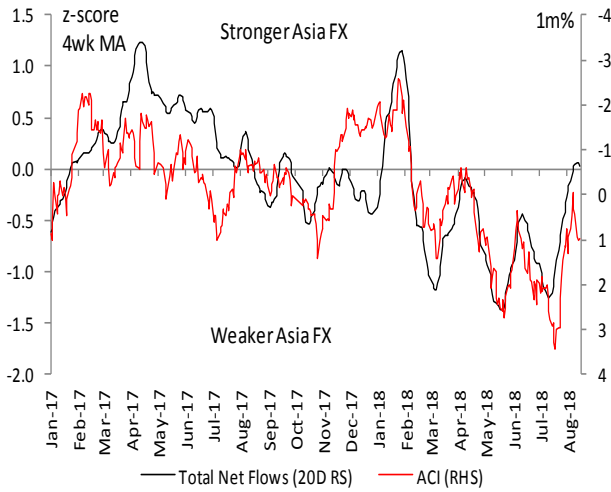
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**



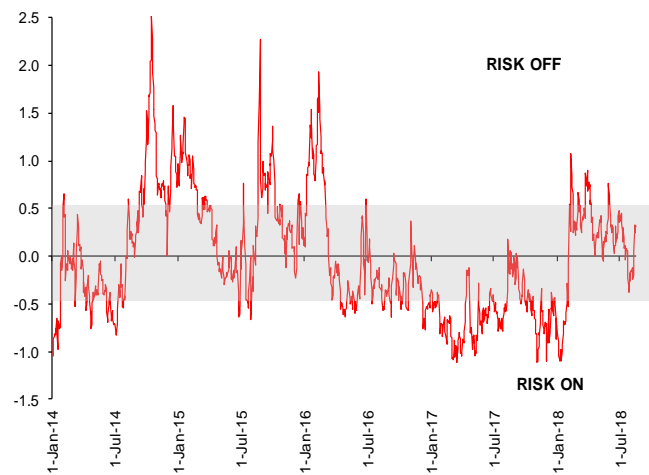
Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**



Source: OCBC Bank

**FX Sentiment Index**



Source: OCBC Bank

**1M Correlation Matrix**

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.886	0.897	0.261	-0.818	-0.839	-0.578	-0.783	0.367	0.922	0.803	-0.996
SGD	0.965	-0.839	0.903	0.095	-0.835	-0.847	-0.492	-0.730	0.457	0.918	0.887	-0.961
MYR	0.942	-0.866	0.922	0.294	-0.931	-0.878	-0.543	-0.806	0.308	0.930	0.761	-0.943
CNY	0.897	-0.773	1.000	0.085	-0.863	-0.839	-0.445	-0.749	0.467	0.883	0.890	-0.901
TWD	0.852	-0.847	0.820	0.017	-0.886	-0.894	-0.559	-0.767	0.538	0.905	0.697	-0.845
CNH	0.803	-0.582	0.890	-0.026	-0.702	-0.689	-0.262	-0.519	0.446	0.750	1.000	-0.816
INR	0.789	-0.788	0.738	0.070	-0.784	-0.772	-0.507	-0.612	0.509	0.812	0.590	-0.767
IDR	0.755	-0.744	0.709	-0.058	-0.853	-0.814	-0.458	-0.642	0.514	0.815	0.650	-0.738
CHF	0.560	-0.441	0.400	0.609	-0.520	-0.390	-0.259	-0.373	-0.326	0.427	0.355	-0.555
CAD	0.396	-0.523	0.250	-0.269	-0.303	-0.490	-0.432	-0.401	0.462	0.458	0.247	-0.346
KRW	0.332	-0.343	0.276	-0.138	-0.485	-0.460	-0.179	-0.155	0.326	0.572	0.285	-0.292
PHP	0.232	-0.405	0.137	-0.324	-0.288	-0.436	-0.498	-0.352	0.554	0.266	0.086	-0.217
THB	-0.089	-0.120	-0.085	-0.414	-0.173	0.006	-0.048	0.148	0.181	0.082	0.025	0.111
JPY	-0.578	0.779	-0.445	-0.228	0.411	0.516	1.000	0.590	-0.345	-0.597	-0.262	0.584
USGG10	-0.886	1.000	-0.773	-0.154	0.739	0.804	0.779	0.799	-0.450	-0.877	-0.582	0.880
AUD	-0.935	0.842	-0.863	0.037	0.791	0.845	0.537	0.727	-0.606	-0.852	-0.821	0.933
GBP	-0.964	0.876	-0.870	-0.398	0.774	0.796	0.637	0.818	-0.220	-0.909	-0.727	0.961
NZD	-0.975	0.881	-0.839	-0.274	0.728	0.813	0.610	0.796	-0.341	-0.894	-0.772	0.974
EUR	-0.996	0.880	-0.901	-0.267	0.816	0.834	0.584	0.777	-0.367	-0.912	-0.816	1.000

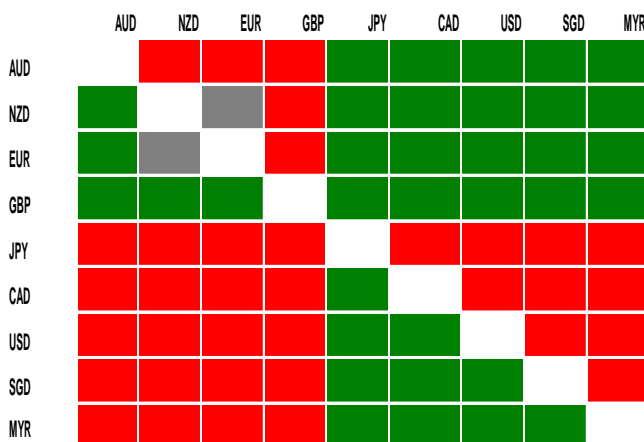
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1301	1.1400	1.1431	1.1500	1.1617
GBP-USD	1.2662	1.2700	1.2748	1.2800	1.3098
AUD-USD	0.7227	0.7300	0.7309	0.7392	0.7400
NZD-USD	0.6545	0.6600	0.6622	0.6700	0.6783
USD-CAD	1.2962	1.3000	1.3057	1.3100	1.3136
USD-JPY	110.11	110.39	110.56	111.00	111.03
USD-SGD	1.3630	1.3700	1.3703	1.3799	1.3800
EUR-SGD	1.5600	1.5609	1.5666	1.5700	1.5834
JPY-SGD	1.2276	1.2300	1.2395	1.2400	1.2471
GBP-SGD	1.7400	1.7455	1.7470	1.7500	1.7851
AUD-SGD	0.9967	1.0000	1.0016	1.0074	1.0100
Gold	1161.40	1172.72	1184.80	1200.00	1237.74
Silver	14.57	14.70	14.76	14.80	15.76
Crude	64.88	65.60	65.65	65.70	68.89

Source: OCBC Bank

**G10 FX Heat Map**



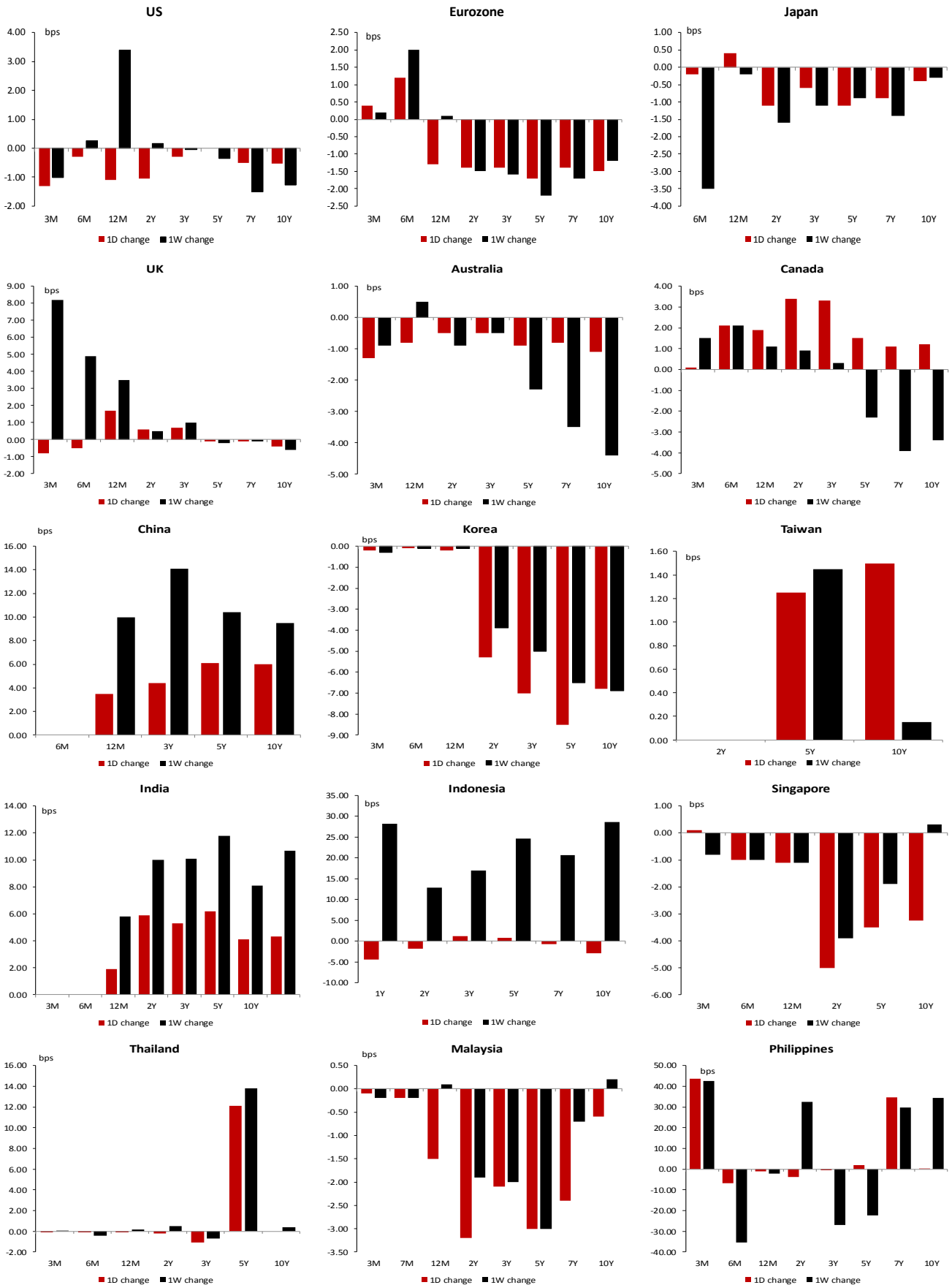
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

### Government bond yield changes



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