

Tuesday, August 21, 2018

## FX Themes/Strategy/Trading Ideas

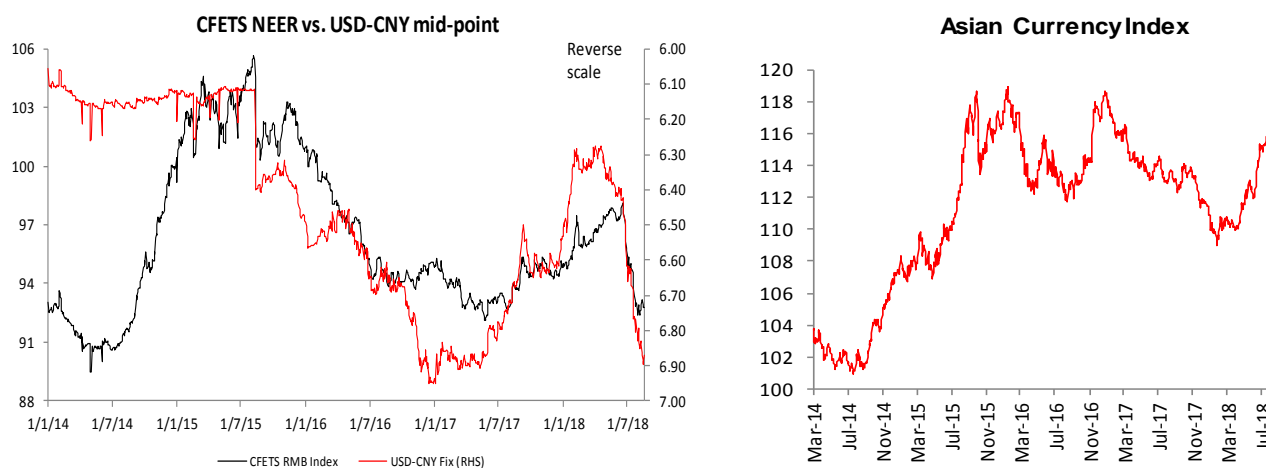
- The USD continued to be on the back-foot on Monday, slipping against all G7 counterparts. The 95.50/60 zone (previous range high) for the DXY index may be a near term support in the immediate horizon. A quick breakdown beyond that level may risk further retracement in the USD.
- The USD decline was ostensibly due to Trump's rant against continued policy normalization at the Fed. Nevertheless, we think Fed independence will not be threatened at this stage. Trump's comments will be a distraction, but still not structurally shift the Fed's policy stance.
- **We continue to view the flattening yield curve as the main risk for Fed expectations.** Bostic (voter) was explicit in stating that he "will not vote for anything that will knowingly invert the curve", although "inversion doesn't guarantee anything". Note that the 2y-10y UST yield gap now stands at 23 bps. **Keep a close watch on the Aug FOMC minutes (Wed) for more views on this front. If greater attention was attributed to the yield curve in the committee discussion, the fourth hike in 2018 may be increasingly at risk.** At present, market implied probabilities for the fourth hike is static at around 60%, any shift lower in this expectation will weigh on the USD.
- The EUR retook the 1.1500 handle this morning. **In the option space, EUR-USD risk reversals are moving in favour of EUR calls, perhaps a signaling a de-pricing of Turkish issues from the EUR.** At this juncture, with no further headlines implicating the European banking sector due to Turkey, we expect continued rehabilitation in the EUR from the damage it suffered last week.
- Elsewhere, the AUD saw little movement in response to Lowe's comments yesterday or RBA minutes this morning. With the RBA's stance static, and the next rate hike still out of sight, we think the AUD will remain unresponsive to the RBA, instead taking cues from the broad USD and Sino-US trade issues.
- After the RBA minutes, central bank activities take a break for today, before seeing more action later this week. The data calendar is similarly light for today.

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## Asian FX

- The recent USD weakness should give further reprieve to the RMB complex and EM Asian currencies. Despite the USD-CNY coming off highs, note that the USD-CNY daily fixing continues to be lower than market consensus. This should also lend some support to the other Asian currencies.
- Overall risk sentiments are also marginally supportive of EM Asian currencies. Our **FX Sentiment Index (FXSI)** has continued to ease away from the Risk-Off threshold, after hitting a high late last week. Meanwhile, expect further Sino-US headlines into the rest of this week, with Trump firing the first salvo, calling out China as a currency manipulator. Low level trade talks are scheduled to restart tomorrow. Nevertheless, we think these headlines should not shake up risk sentiments too heavily.
- **With the bruised USD helping to push our Asian Currency Index (ACI) lower, we think this may present a “buy on dips” opportunity for USD-Asia pairs. At this juncture, it remains difficult to build a coherent fundamental story to be short USD-Asia.**
- In terms of **Asian net portfolio flows**, we continue to experience equity outflows from South Asia. Nevertheless, it continues to be more of a slow burn rather than a flood out. The situation in North Asia is more mixed, inflows and outflows alternating in an almost daily basis.
- **Thailand:** Bank of Thailand (BOT) governor Veerathai shifted away from excessive monetary accommodation, saying that there is less need for an “extremely accommodative policy stance” as the economic recovery becomes clearer. At this juncture, we continue to see Asian central banks move further down the line in terms of policy normalization, with the BOT now likely to follow suit with one hike expected before the end of the year.
- **SGD NEER:** The SGD NEER fluctuated around +1.06% above its perceived parity level (1.3812) this morning. The NEER-implied USD-SGD thresholds continued to bleed lower. Intra-day movements expected between the +0.90% (1.3688) and +1.20% (1.3648) thresholds. Expect the USD-SGD to trade in-line with the broad USD at the moment.
- **CFETS RMB Index:** The USD-CNY mid-point was set lower, within expectations, at 6.8360 compared to 6.8718 on Monday. The CFETS RMB Index edged higher to 93.04, from 92.80 previously.



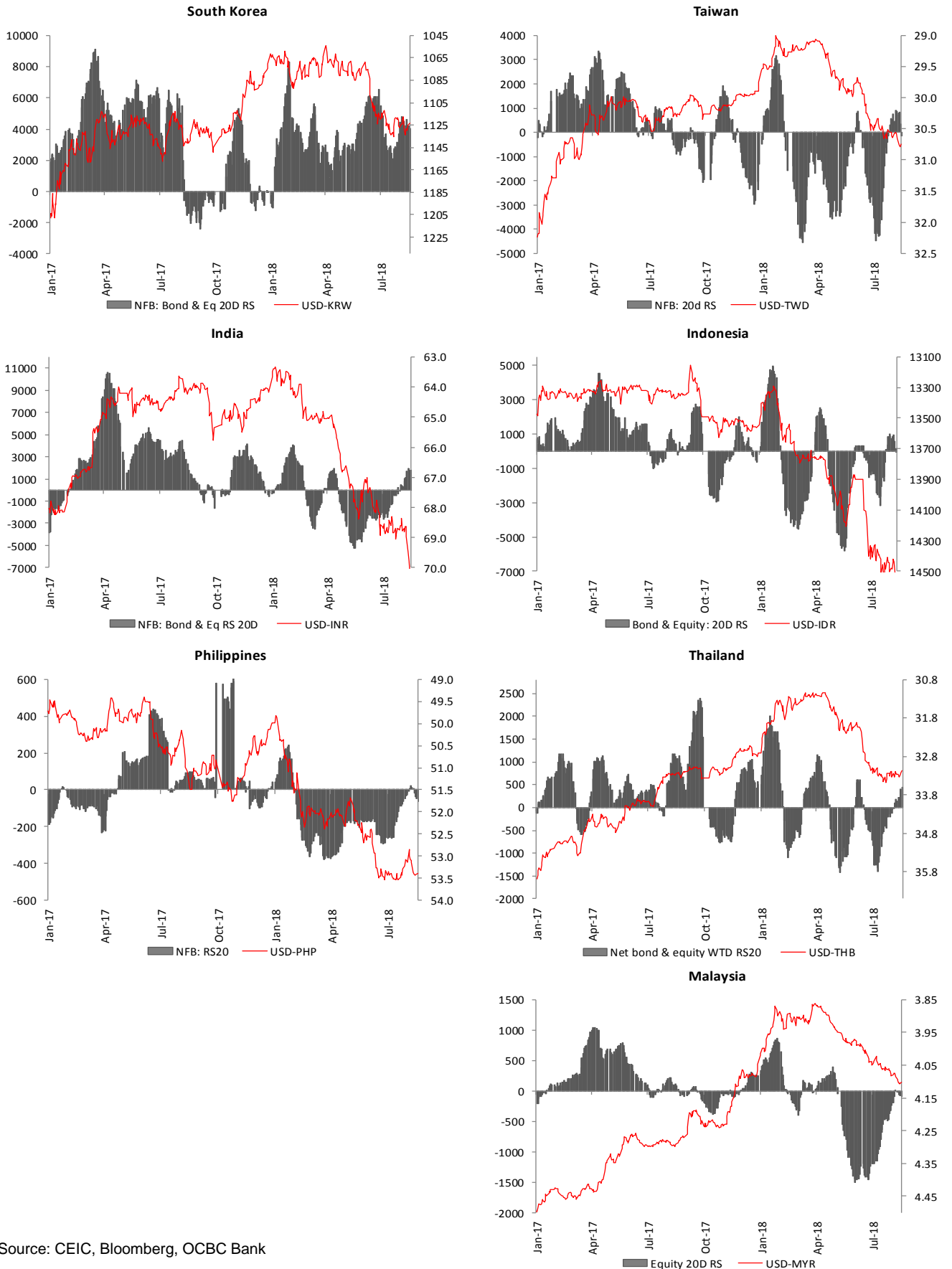
Source: OCBC Bank, Bloomberg

### 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; 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	↔	2Q GDP firmer than expected; Bank of Thailand striking a new hawkish tone should provide support
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

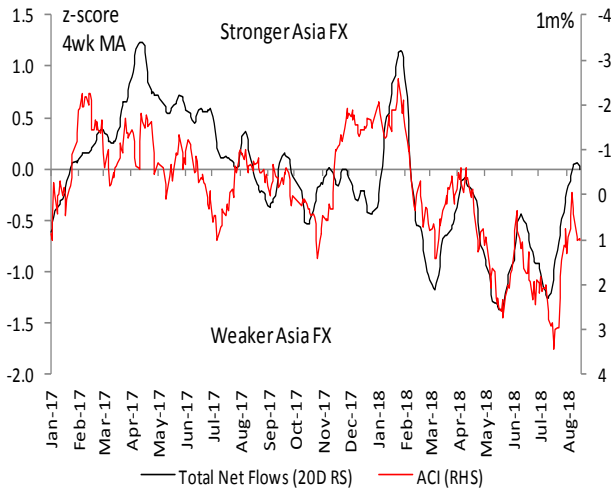
Source: OCBC Bank

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



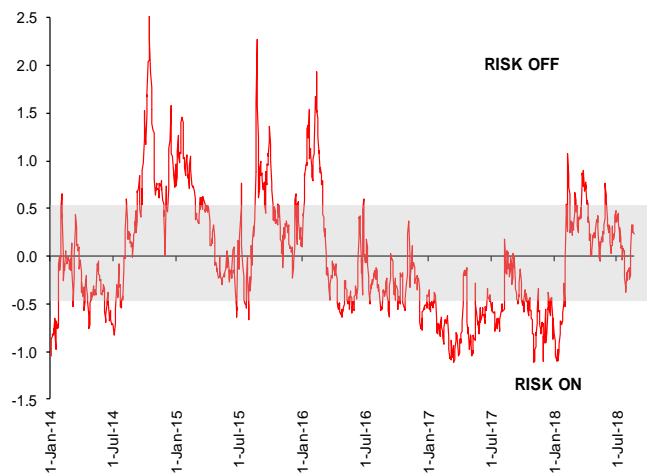
Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**



Source: OCBC Bank

**FX Sentiment Index**



Source: OCBC Bank

**1M Correlation Matrix**

	DXY	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	-0.834	0.898	0.290	-0.821	-0.837	-0.504	-0.780	0.359	0.921	0.803	-0.996
SGD	0.963	-0.771	0.903	0.109	-0.825	-0.827	-0.400	-0.724	0.454	0.907	0.889	-0.960
MYR	0.931	-0.869	0.905	0.360	-0.933	-0.889	-0.601	-0.817	0.283	0.932	0.709	-0.930
CNY	0.898	-0.722	1.000	0.114	-0.860	-0.829	-0.427	-0.750	0.461	0.880	0.879	-0.903
TWD	0.856	-0.812	0.822	0.070	-0.889	-0.893	-0.553	-0.775	0.524	0.908	0.677	-0.848
CNH	0.803	-0.524	0.879	-0.039	-0.670	-0.645	-0.165	-0.516	0.446	0.719	1.000	-0.817
INR	0.789	-0.814	0.742	0.183	-0.810	-0.809	-0.605	-0.660	0.467	0.831	0.537	-0.768
IDR	0.756	-0.771	0.705	0.055	-0.865	-0.835	-0.546	-0.671	0.474	0.828	0.596	-0.738
CHF	0.436	-0.244	0.364	0.499	-0.441	-0.299	0.126	-0.200	-0.312	0.355	0.362	-0.428
CAD	0.379	-0.446	0.238	-0.281	-0.273	-0.442	-0.245	-0.373	0.463	0.425	0.252	-0.328
KRW	0.368	-0.334	0.259	-0.154	-0.444	-0.399	-0.182	-0.210	0.326	0.528	0.289	-0.331
PHP	0.251	-0.430	0.153	-0.254	-0.315	-0.460	-0.500	-0.377	0.541	0.294	0.077	-0.235
THB	-0.160	0.223	-0.139	-0.497	0.004	0.184	0.325	0.250	0.134	-0.083	0.047	0.171
JPY	-0.504	0.816	-0.427	-0.351	0.463	0.573	1.000	0.562	-0.266	-0.608	-0.165	0.510
USGG10	-0.834	1.000	-0.722	-0.277	0.741	0.814	0.816	0.769	-0.376	-0.855	-0.524	0.823
AUD	-0.932	0.768	-0.864	0.011	0.784	0.828	0.441	0.715	-0.602	-0.845	-0.828	0.930
GBP	-0.961	0.836	-0.869	-0.432	0.784	0.803	0.594	0.818	-0.209	-0.913	-0.718	0.959
NZD	-0.973	0.836	-0.840	-0.308	0.737	0.815	0.565	0.800	-0.331	-0.896	-0.759	0.972
EUR	-0.996	0.823	-0.903	-0.293	0.818	0.830	0.510	0.772	-0.359	-0.911	-0.817	1.000

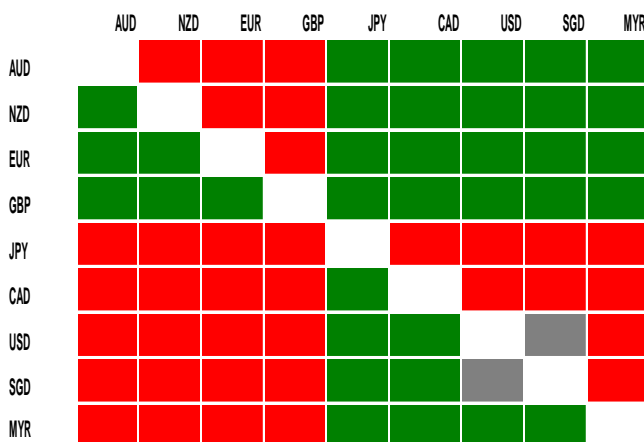
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1304	1.1500	1.1521	1.1600	1.1614
GBP-USD	1.2662	1.2800	1.2825	1.2900	1.3088
AUD-USD	0.7229	0.7300	0.7352	0.7388	0.7400
NZD-USD	0.6545	0.6600	0.6655	0.6700	0.6777
USD-CAD	1.2962	1.3000	1.3029	1.3100	1.3136
USD-JPY	109.86	110.00	110.05	110.10	111.00
USD-SGD	1.3600	1.3636	1.3671	1.3700	1.3798
EUR-SGD	1.5609	1.5700	1.5752	1.5800	1.5836
JPY-SGD	1.2283	1.2400	1.2422	1.2492	1.2500
GBP-SGD	1.7455	1.7500	1.7533	1.7600	1.7845
AUD-SGD	0.9970	1.0000	1.0051	1.0073	1.0100
Gold	1161.40	1173.07	1186.80	1200.00	1237.78
Silver	14.50	14.70	14.78	14.80	15.72
Crude	66.00	66.30	66.60	68.91	70.59

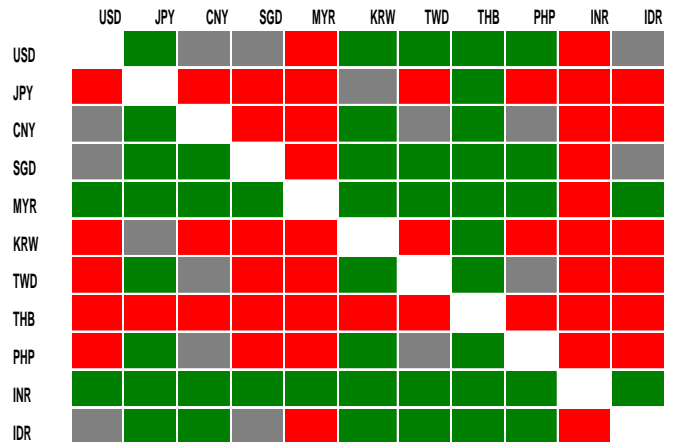
Source: OCBC Bank

**G10 FX Heat Map**



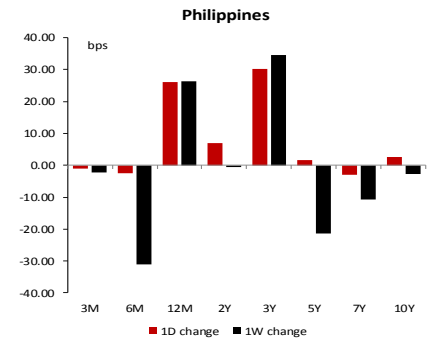
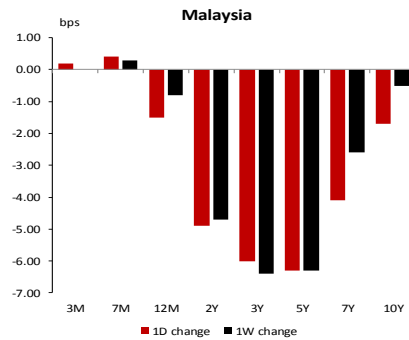
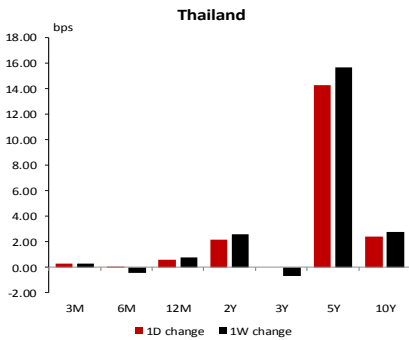
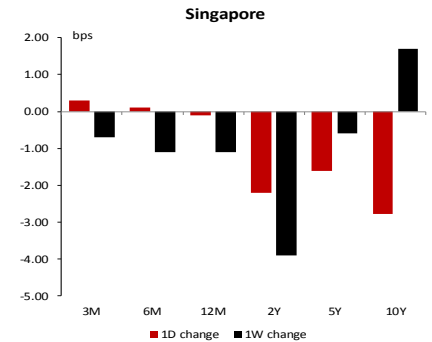
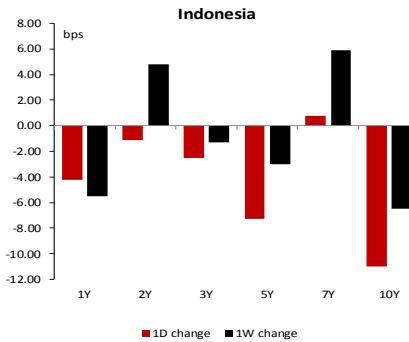
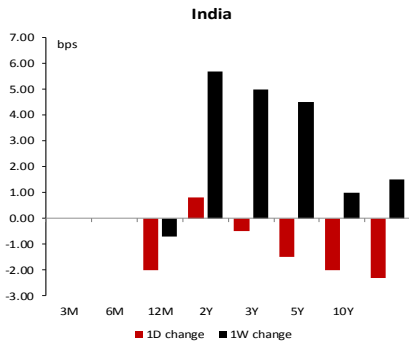
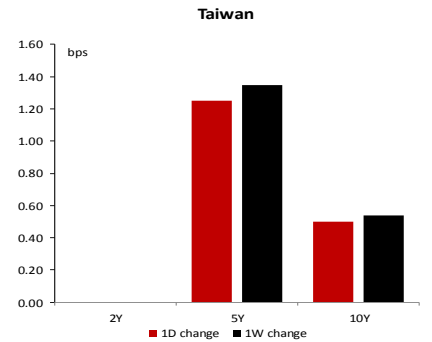
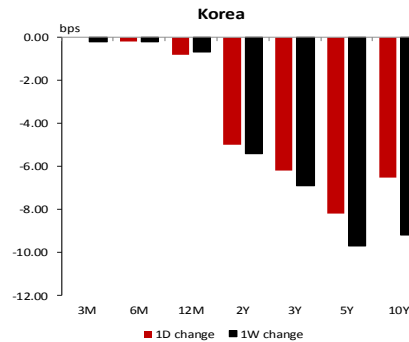
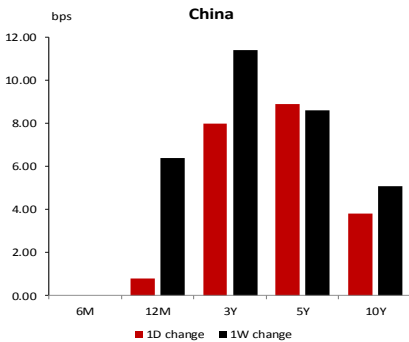
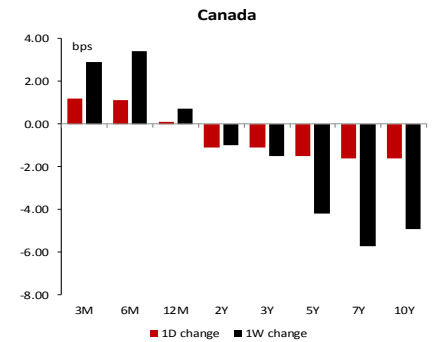
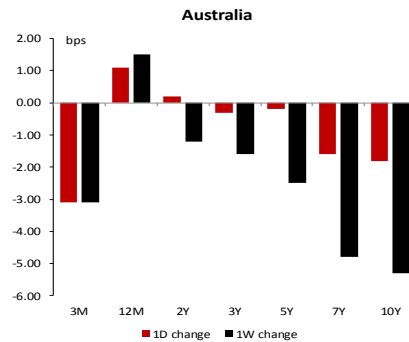
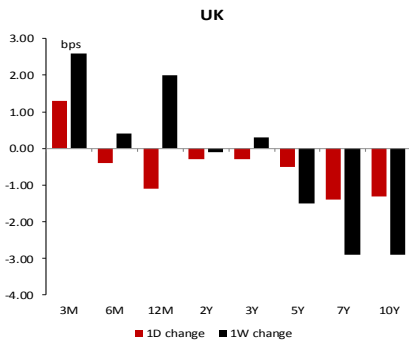
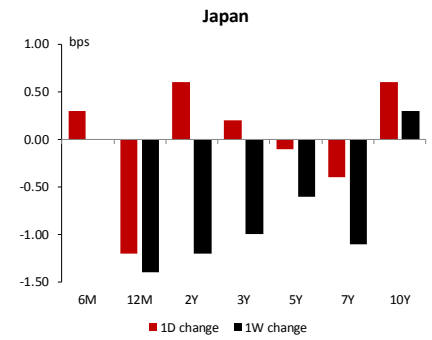
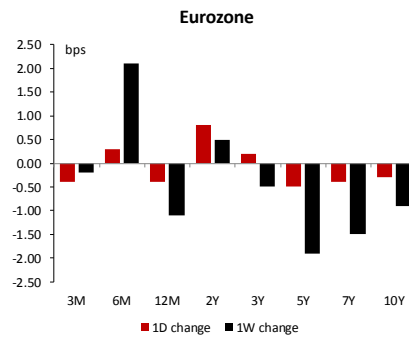
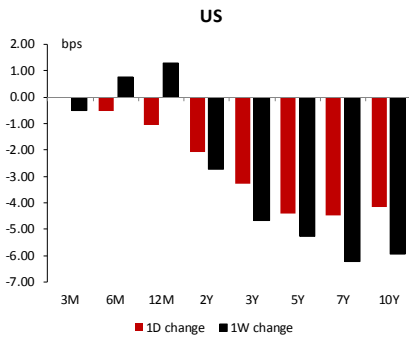
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

**Government bond yield changes**



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