

Thursday, June 21, 2018

FX Themes/Strategy/Trading Ideas

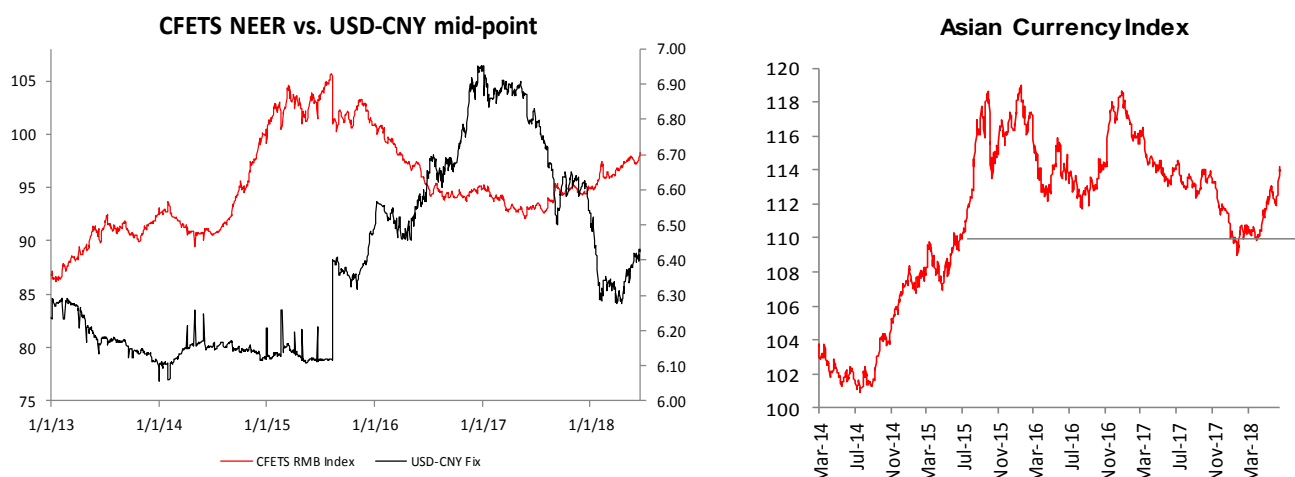
- A firmer 10y UST yield boosted the broad USD overnight, as the DXY index held above the 95.00 while fluctuating in a narrow range. As mentioned previously, markets will be headline watching on the trade front, and new headlines were not forthcoming yesterday.
- Risk sentiments eased somewhat amidst the lull in trade tensions. This led to a consolidation in the G10 currencies after some volatile movements earlier in the week. Nevertheless, it remains to be seen how long this lull will last. **Expect the risk-on / risk-off dynamic to still persist into the end of the week.**
- Comments from Villeroy and Nowotny continued to toe the dovish line set by the ECB last week, putting negative pressure on the EUR. At this juncture, the continued focus on the ECB's interest rate trajectory in 2019 is doing the EUR no favours. **Retain a bias to fade any rallies on the EUR. We refrain from being constructive on the EUR until we see firmer data-prints or a shift in market attention away from the interest rate trajectory in 2019.**
- The picture forwarded by the central bank heads in Sintra remains a consistent one, with cautious optimism on growth, slight improvement in inflation and trade uncertainty. **However, underlying this consistency are the central banks at very different stages of their normalization process. We continue to expect this to be a medium-term driver in the FX market.**
- At this juncture, the Fed is viewed as slightly hawkish (by the markets, at least) and extending its lead in the path towards normalization. The ECB is actually on track on normalization this year, but the focus has moved on to the dovish rate hike trajectory. The RBA and BOJ are even further back in the pack.
- We will hear from the **Bank of England** (BOE) today (1100 GMT), with Carney following up with a speech later (2015 GMT). An outright hawkish tilt is not expected from the BOE. Instead, watch if it will set the stage for the August meeting to be live. The GBP may see some support if this comes to pass.
- The Sintra Conference ended yesterday, but ECB-speak continues to be heavy. Expect Villeroy (0700 GMT), Weidmann (0945 GMT), Nowotny and Reinesch (both 1330 GMT) to be on tap. Fed's Kashkari (1300 GMT) also scheduled. On the data front, look for US initial jobless claims (1230 GMT).

Treasury Research &
Strategy

Terence Wu
+65 6530 4367
TerenceWu@ocbc.com

Asian FX

- Asian currencies, as a whole (North Asians in particular), took a breather yesterday, as the heat surrounding the trade tensions eased off somewhat. Some stabilizing influence from China also helped. **Nevertheless, overall sentiments remain jittery in Asia, with the USD-Asia looking ready to revert to its climb when the trade tensions resume.**
- A largely positive lead from the US/EZ/EM equities, firmer EM FX, and a sell-off in front end FX vols all contributed to the improved sentiments. Our **FX Sentiment Index (FXSI)** edged away from the Risk-Off zone, while still staying an overall Risk Neutral territory.
- In terms of **Asian portfolio flow environment**, the story remains consistent with the past few sessions. Equity and bond inflows are seen in South Korea, while the equity outflows from Taiwan continued to deepen. Equity and bond outflows are still noted in Thailand. The first prints from Indonesia post the Hari Raya holidays showed equity outflows persisting, although we still lack visibility on the bond front.
- **Philippines:** The Bangko Sentral ng Pilipinas (BSP) hiked rates by 25 bps to 3.50% yesterday. Its emphasis on inflation expectations and second-round impacts of inflation suggests that price pressures are still very much in their minds. As such, we think that the BSP may retain a tightening bias going forward. Nevertheless, with persistent outflows from the Philippines (largely driven by global cues) the positive impact of the rate hike on PHP may be limited.
- **Thailand:** The Bank of Thailand (BOT) held rates unchanged yesterday at 1.50%, unperturbed by its hawkish peers in the region. Note that Thailand has held up reasonably when against EM upheavals year-to-date. The portfolio flow environment, although seeing some pressure lately, has been healthy compared to other Asian countries (save South Korea) on a year-to-date basis.
- **SGD NEER:** The SGD NEER is softer this morning, hovering at +0.10% above its perceived parity (1.3616), with the NEER-implied USD-SGD thresholds firmer. Expect the pair to move within the parity (1.3616) and +0.30% (1.3575) thresholds intra-day. A close above the 1.3600 handle should open the way towards 1.3660.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within our expectations, at 6.4706 compared to 6.4586 on Wednesday. The CFETS RMB Index weakened marginally to 97.63, compared to 97.64 previously.



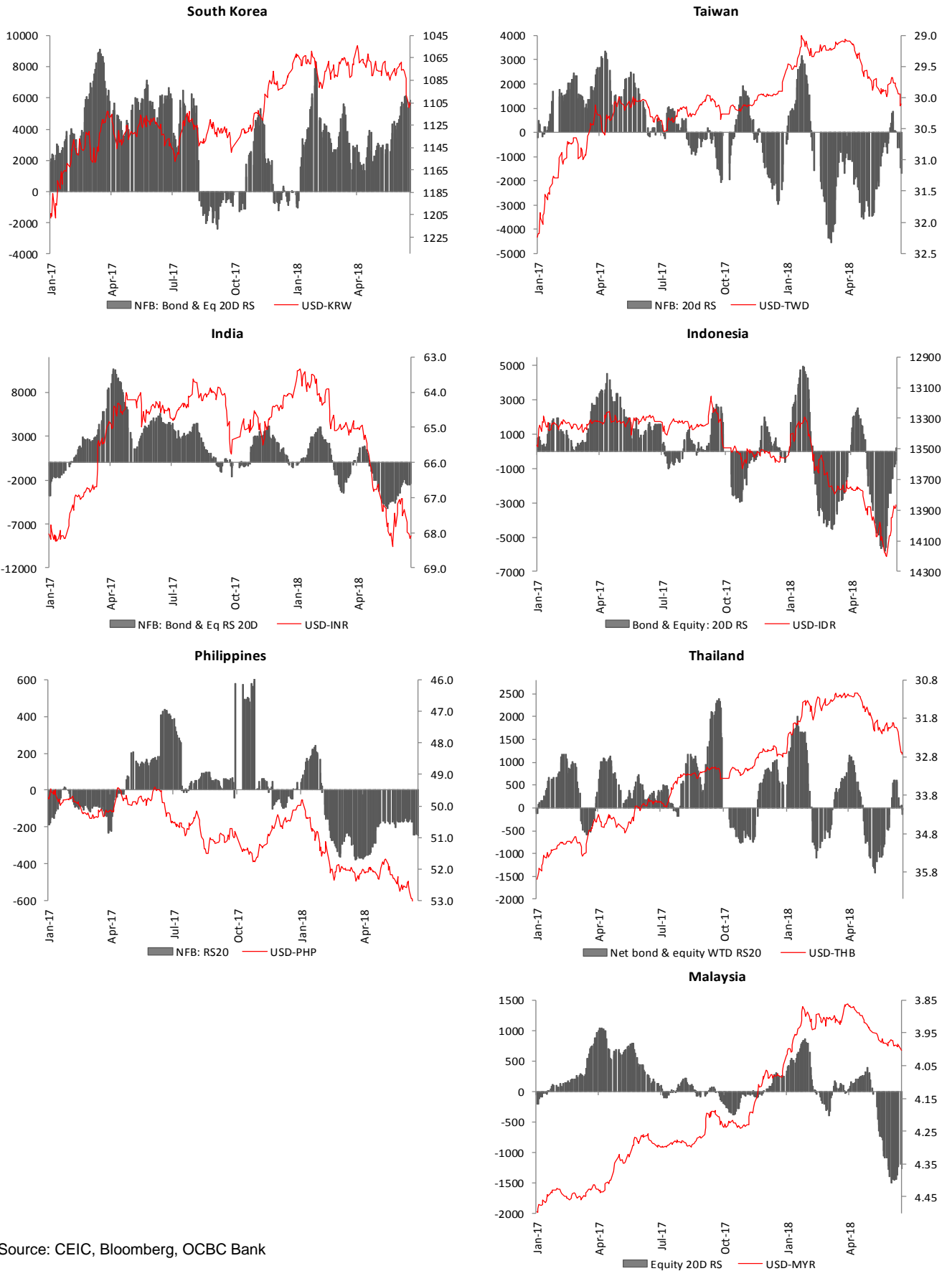
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔/↑	Pace of depreciation of the RMB basket may be more controlled; Sino-US trade tensions reigniting; USD-CNY midpoints reverted to being consistent with unbiased models
USD-KRW	↔/↑	Net portfolio inflows remain at healthy levels; may suffer significant collateral damage if Sino-US trade war escalates; minutes of the 24 May BOK meeting reveal discussion towards reducing policy accommodation
USD-TWD	↔/↑	Equity outflows re-asserting after short reprieve; pair led higher by the weakening RMB complex
USD-INR	↔/↑	May inflation prints in line, but continue to show accelerating price pressures; current account deficit widened more than expected; the RBI may be biased for further hikes in the upcoming meetings; RBI ease foreign ownership caps on government bonds
USD-SGD	↔/↑	Latest MAS Survey reflects an easing of inflation projections; SGD NEER should be capped below +1.00% above parity; 1Q GDP prints in line, but CPI missed expectations; pair responsive to broad USD movements
USD-MYR	↑	Shifts in policy direction under PH government may spur re-assessment of asset markets; sustained net equity outflows following election outcome
USD-IDR	↔/↑	IDR stability the main objective for monetary policy for now; further rate hikes possible; inflation came in softer than expected again, though it may not have significant impact on monetary policy
USD-THB	↔/↑	BOT remains a laggard among the Asian central banks, keeping rates unchanged in the latest meeting; bond outflows re-asserting after a short reprieve
USD-PHP	↑	BSP hiked rates in the latest meeting, signaling further rate hikes to come; PHP remains pressured due to intensifying outflows

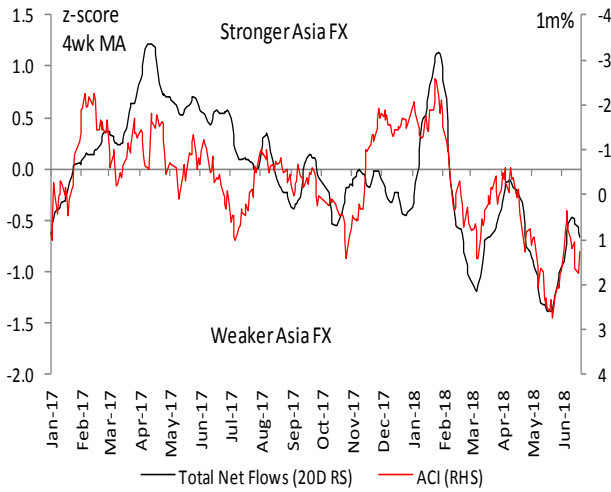
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



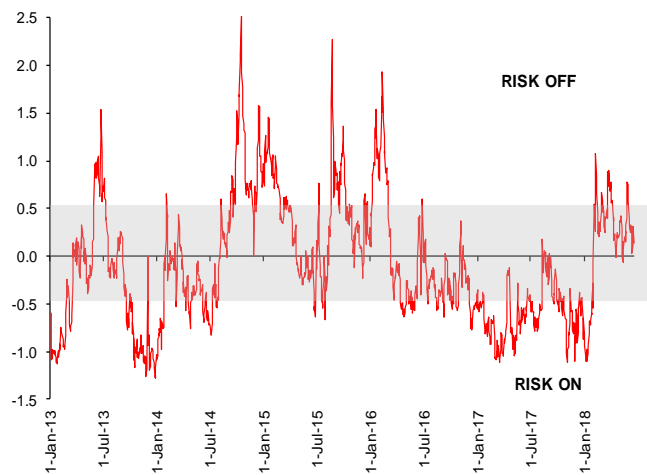
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXXK	CNH	EUR
DXY	1.000	-0.477	0.742	-0.013	-0.707	-0.539	0.029	-0.277	0.230	0.185	0.823	-0.961
SGD	0.902	-0.222	0.773	0.044	-0.751	-0.484	0.254	-0.129	0.107	0.023	0.834	-0.805
CNH	0.823	-0.549	0.963	0.273	-0.628	-0.822	0.052	-0.600	0.095	0.471	1.000	-0.754
CAD	0.789	-0.386	0.860	0.451	-0.459	-0.885	0.227	-0.609	-0.111	0.383	0.947	-0.688
CNY	0.742	-0.490	1.000	0.191	-0.698	-0.773	-0.047	-0.536	0.160	0.439	0.963	-0.636
TWD	0.738	-0.219	0.658	-0.270	-0.901	-0.151	0.013	0.212	0.413	0.016	0.595	-0.666
THB	0.729	-0.112	0.830	0.305	-0.649	-0.607	0.416	-0.142	-0.035	0.082	0.804	-0.560
KRW	0.723	0.008	0.803	0.280	-0.677	-0.585	0.489	-0.106	-0.111	-0.040	0.777	-0.529
CHF	0.681	0.183	0.270	-0.073	-0.545	-0.032	0.449	0.327	-0.005	-0.439	0.371	-0.622
PHP	0.642	-0.204	0.713	0.531	-0.475	-0.732	0.296	-0.395	-0.128	0.300	0.795	-0.484
MYR	0.597	-0.331	0.763	0.448	-0.550	-0.601	0.112	-0.284	0.033	0.491	0.785	-0.482
INR	0.390	0.232	0.191	-0.166	-0.491	0.139	0.291	0.567	0.073	-0.387	0.194	-0.301
IDR	0.146	0.611	-0.614	-0.515	-0.338	0.927	0.383	0.936	0.070	-0.716	-0.679	-0.075
JPY	0.029	0.717	-0.047	0.576	0.197	-0.210	1.000	0.140	-0.635	-0.542	0.052	0.147
USGG10	-0.477	1.000	-0.490	0.273	0.409	0.335	0.717	0.549	-0.642	-0.797	-0.549	0.610
NZD	-0.670	0.044	-0.343	0.391	0.642	-0.064	-0.115	-0.316	-0.297	0.240	-0.466	0.675
AUD	-0.886	0.266	-0.776	-0.125	0.728	0.524	-0.264	0.171	-0.107	-0.124	-0.854	0.790
GBP	-0.934	0.584	-0.830	0.040	0.806	0.563	0.065	0.368	-0.332	-0.345	-0.902	0.905
EUR	-0.961	0.610	-0.636	0.185	0.703	0.397	0.147	0.282	-0.380	-0.253	-0.754	1.000

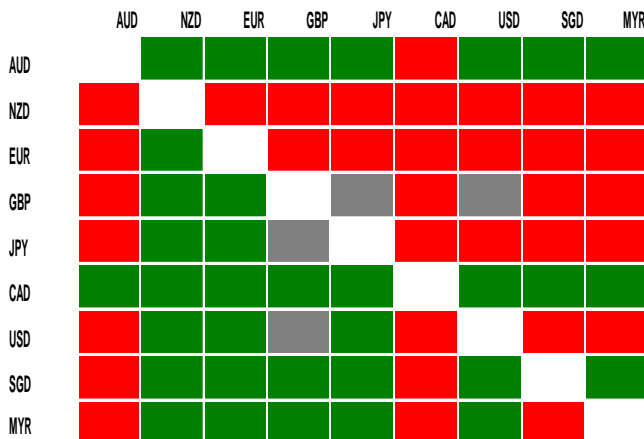
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1505	1.1510	1.1559	1.1600	1.1838
GBP-USD	1.3148	1.3149	1.3157	1.3200	1.3467
AUD-USD	0.7347	0.7349	0.7356	0.7400	0.7560
NZD-USD	0.6800	0.6832	0.6836	0.6855	0.6900
USD-CAD	1.3300	1.3314	1.3319	1.3321	1.3400
USD-JPY	110.00	110.25	110.54	111.00	111.05
USD-SGD	1.3600	1.3601	1.3622	1.3623	1.3700
EUR-SGD	1.5545	1.5700	1.5746	1.5795	1.5800
JPY-SGD	1.2199	1.2300	1.2325	1.2384	1.2400
GBP-SGD	1.7787	1.7900	1.7923	1.7945	1.8000
AUD-SGD	0.9990	1.0000	1.0021	1.0096	1.0100
Gold	1200.00	1269.90	1271.20	1273.10	1300.00
Silver	16.17	16.20	16.24	16.30	16.56
Crude	63.64	65.60	65.64	65.70	68.15

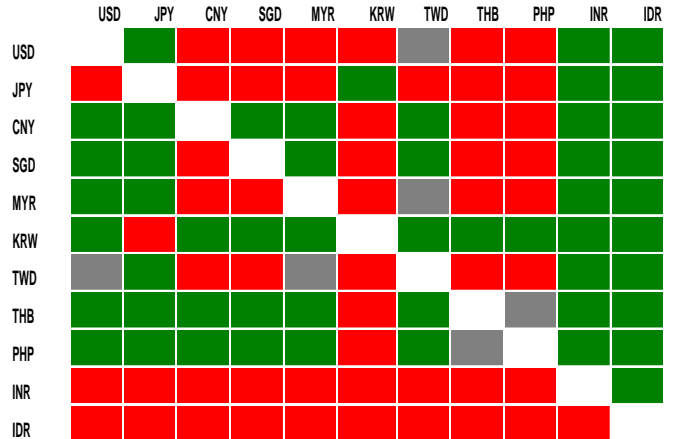
Source: OCBC Bank

G10 FX Heat Map



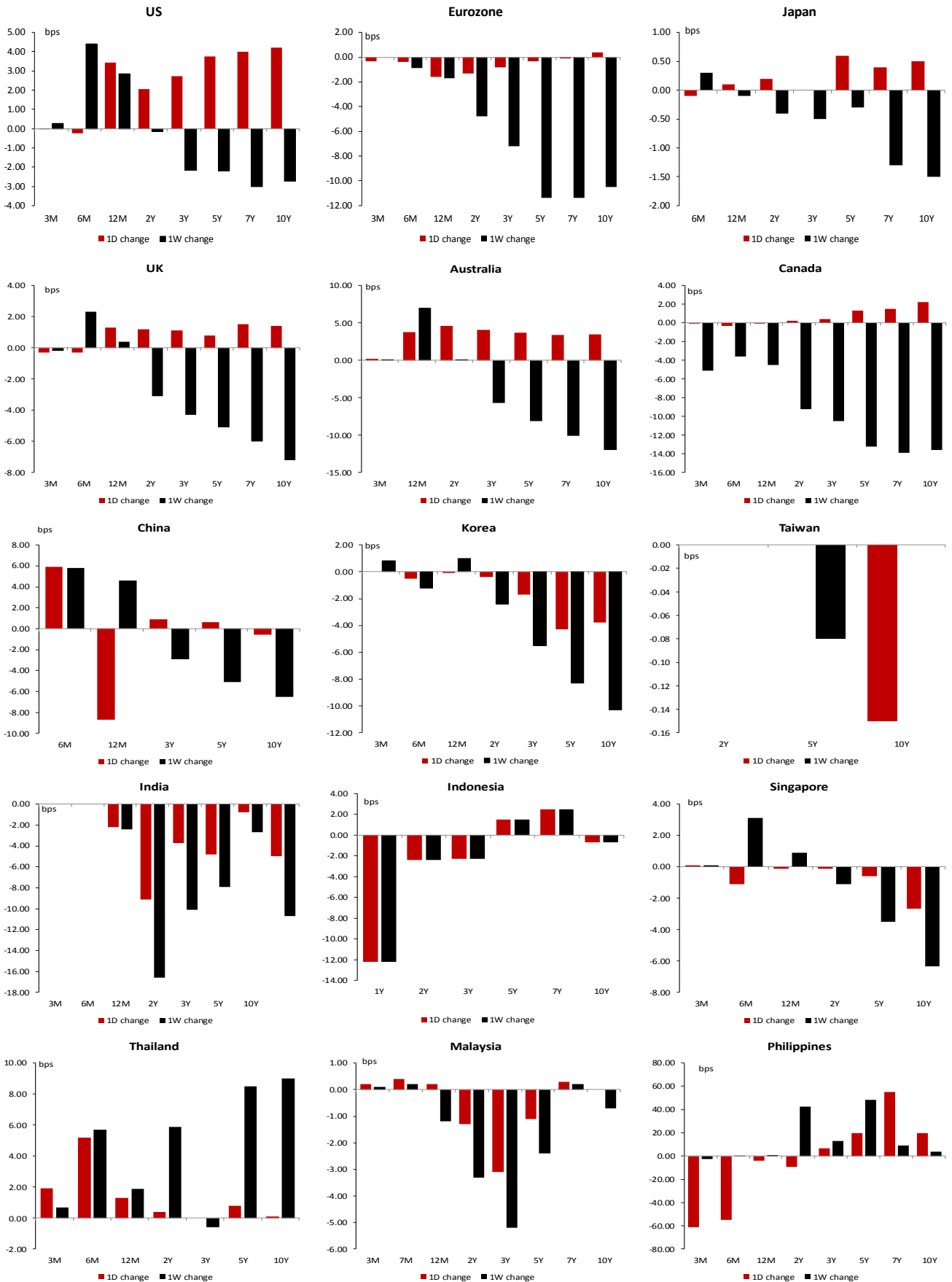
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).
