

Tuesday, May 22, 2018

FX Themes/Strategy/Trading Ideas

- After an early day high, the broad dollar subsequently capitulated lower by late NY with the cyclicals boosted (and the JPY weighed upon) across the board on improved risk appetite levels. Overall, the DXY still managed to hold above 93.50 by end Monday.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** still ticked higher within Risk-Neutral territory despite positive global equities/commodities on Monday. To this end, note that the option markets have been spotted hedging potential tail risks, indicating that investors remain less than complacent despite the initial euphoria at the onset of the week.
- The EUR continued to be dogged by Italian political uncertainty (note spike in Italian bond yields) and this may continue to keep the common unit relatively more vulnerable to the USD (as well as across the crosses) in the near term. GBP underperformed across G10 space ahead of expected headline risks today and any non-hawkish cues from BOE-speak today may further impair the pound.
- Going ahead, rate differential arguments remain supportive of the greenback (potentially keeping USD-JPY supported despite valuation concerns, with Kuroda sufficiently dovish early morning on Tuesday) but dollar bulls may have to contend with the perceived improvement in risk appetite levels, especially in relation to the cyclical currencies.
- In the interim, note that short term implied valuations for the EUR-USD remain suppressed, decidedly bearish for the GBP-USD, consolidative for the USD-JPY. Similarly, short term implied valuations for the AUD-USD are attempting to find a bottom, valuations for USD-CAD continue to remain slippery.
- On the calendar, look to the ECB's Liikanen (0900 GMT) for EUR cues. Meanwhile, expect potential GBP volatility amidst the bevy of BOE speakers (including Carney) appearing before the Treasury Committee hearing (0815 GMT) on the latest Inflation Report.

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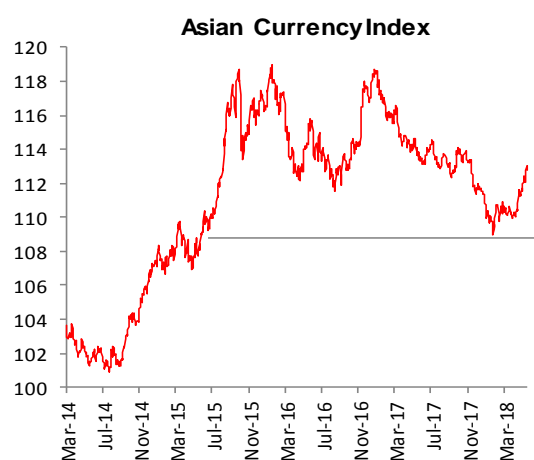
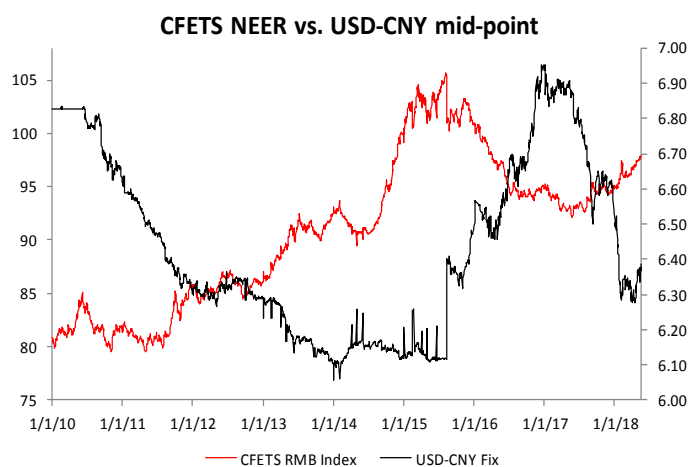
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Asian FX

- Given the interim hiatus for the broad dollar, expect the **ACI (Asian Currency Index)** to top out intra-day pending further external cues. Meanwhile, Asian net portfolio flows still denote steady inflows for South Korea and a significant compression in net outflows for Taiwan. Elsewhere, net outflows for India are also attempting to moderate, although expect investors to remain watchful given the prevailing net outflow pressure for **Indonesia** and **Thailand**.
- Indonesia:** BI remains on hand to temper volatility, with three planned swap auctions scheduled for this week.
- SGD NEER:** The SGD NEER's relative valuation rose on Monday with the basket at around +0.59% above its perceived parity (1.3476). NEER-implied USD-SGD thresholds are softer on the day and the basket is expected to trawl a +0.40% (1.3423) to +0.70% (1.3383) range in the interim. Technically, expect support to emerge in the vicinity of the 200-day MA (1.3374) barring a meltdown in the broad dollar.
- CFETS RMB Index:** The USD-CNY mid-point fell (less than expected) to 6.3799 from 6.3852 on Monday. This resulted in the CFETS RMB Index declining slightly to 97.82 from 97.87 yesterday.



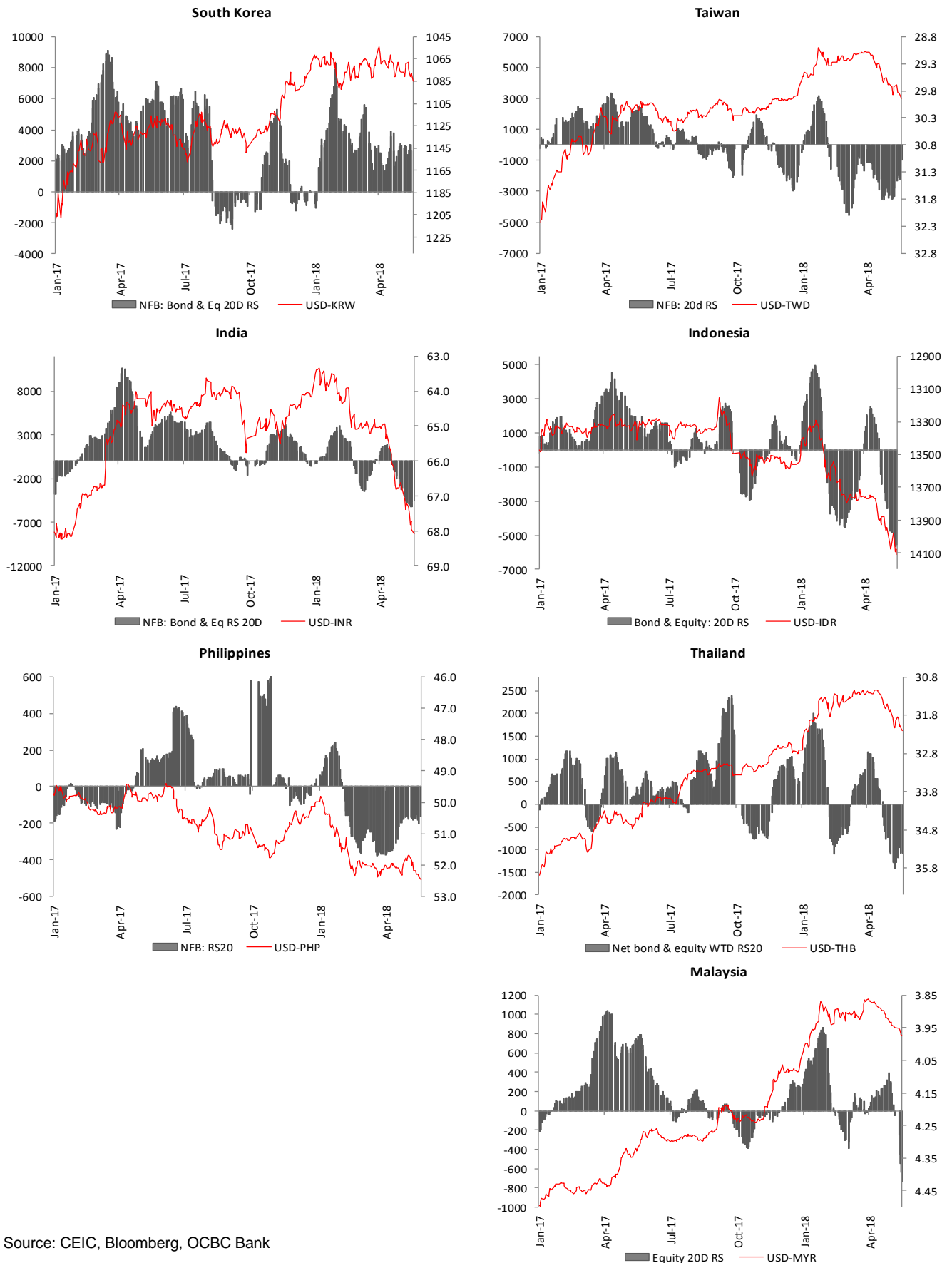
Source: OCBC Bank, Bloomberg

Short term Asian FX views

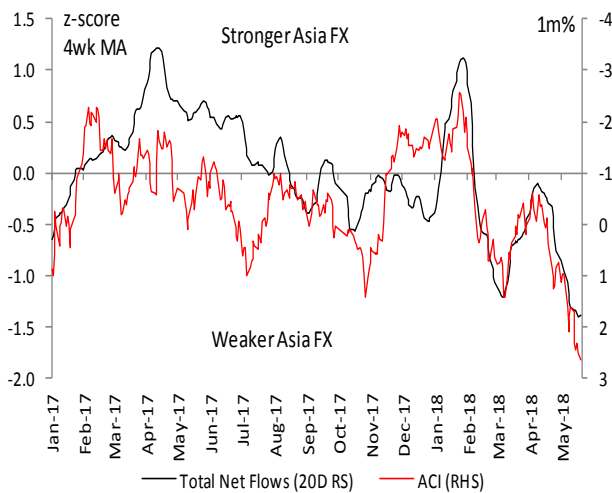
Currency	Bias	Rationale
USD-CNH	↑	RRR cut, relative stability of RMB Index, RMB to shoulder potential volatility instead, near term truce in US-Sino trade tensions following Liu He's visit to the US, USD-CNY midpoints still habitually above neutral models
USD-KRW	↔/↑	Tensions with the North may reassert; net portfolio inflows remain at healthy levels; inflation/current account surplus projection downgraded; BOK expected to remain neutral
USD-TWD	↑	Net equity outflows compressing significantly, 1Q current account surplus shrinks
USD-INR	↑	Firmer than expected WPI and CPI data puts pressure on RBI to hike early; net portfolio outflows attempting to moderate; higher crude imposing drag on INR and govies, risk premia from negative political developments in Karnataka
USD-SGD	↔/↑	NEER hovering around parity; MAS steepens NEER slope in April; pair responsive to firmer DXY
USD-MYR	↑	Surprise defeat for the ruling BN coalition; neutral to rich valuation compared to peers on foreign reserves and current account measures, significant net equity outflows
USD-IDR	↑	Unexpectedly wide trade deficit piles further pressure; short term vol premium widening; net portfolio outflows deepening, carry strategy under reassessment; BI rate hike providing limited support for the IDR despite promise of further tightening
USD-THB	↔/↑	BOT remains accommodative, keeping rates unchanged in the latest meeting; net portfolio outflows still significant; unexpectedly strong 1Q18 GDP underpins back-end in govie yields
USD-PHP	↔/↑	Net equity outflows moderating; BSP hiked policy rates as expected while signalling the possibility of further hikes

Source: OCBC Bank

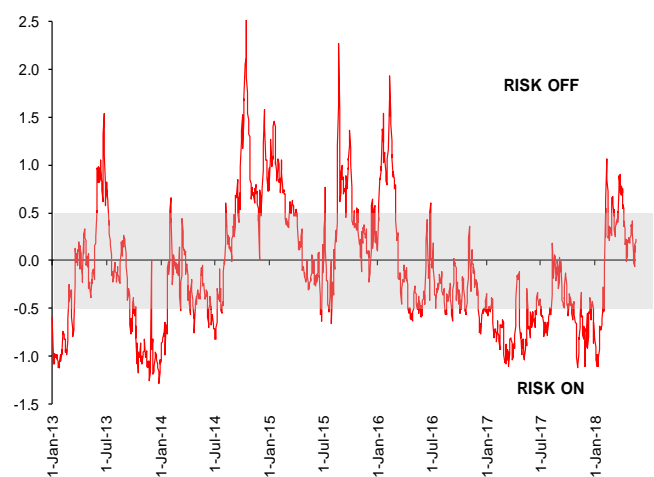
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

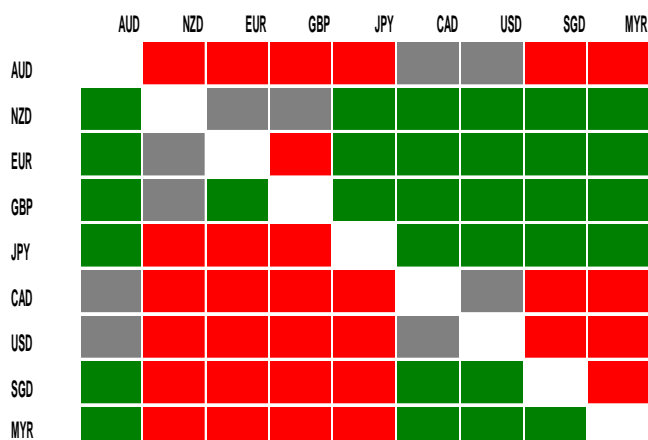
	DXY	USGG10	CNY	SPX	MSEL	CAFP	CRY	JPY	CL1	VIX	ITR	REX	CNH	EUR
DXY	1.000	0.466	0.944	0.573	0.652	0.760	0.831	0.750	-0.804	-0.384	0.892	-0.996		
MYR	0.978	0.617	0.903	0.699	0.728	0.861	0.842	0.859	-0.888	-0.372	0.829	-0.984		
SGD	0.944	0.520	0.888	0.598	0.617	0.724	0.811	0.766	-0.762	-0.317	0.891	-0.957		
CNY	0.944	0.395	1.000	0.351	0.439	0.637	0.767	0.621	-0.609	-0.248	0.956	-0.929		
THB	0.935	0.549	0.838	0.724	0.651	0.827	0.790	0.877	-0.853	-0.297	0.768	-0.950		
TWD	0.922	0.541	0.860	0.578	0.555	0.712	0.848	0.763	-0.740	-0.285	0.825	-0.933		
CHF	0.904	0.210	0.867	0.509	0.631	0.787	0.621	0.662	-0.805	-0.555	0.860	-0.904		
CNH	0.892	0.318	0.956	0.273	0.390	0.541	0.713	0.522	-0.562	-0.235	1.000	-0.884		
IDR	0.883	0.647	0.819	0.627	0.583	0.734	0.766	0.811	-0.719	-0.078	0.749	-0.898		
INR	0.853	0.712	0.751	0.780	0.723	0.757	0.867	0.875	-0.764	-0.382	0.654	-0.868		
JPY	0.831	0.735	0.767	0.481	0.554	0.471	1.000	0.600	-0.561	-0.196	0.713	-0.829		
USGG10	0.466	1.000	0.395	0.531	0.372	0.309	0.735	0.552	-0.317	0.158	0.318	-0.496		
KRW	0.326	0.406	0.445	-0.133	-0.325	-0.051	0.457	0.037	0.039	0.457	0.470	-0.319		
CAD	0.311	-0.073	0.471	-0.351	-0.217	-0.225	0.232	-0.128	0.152	0.203	0.564	-0.278		
PHP	-0.050	0.732	-0.184	0.414	0.116	-0.086	0.350	0.235	0.001	0.338	-0.166	0.012		
AUD	-0.828	-0.267	-0.894	-0.259	-0.501	-0.465	-0.663	-0.406	0.546	0.352	-0.885	0.815		
NZD	-0.927	-0.622	-0.828	-0.671	-0.760	-0.728	-0.880	-0.761	0.777	0.472	-0.784	0.934		
GBP	-0.953	-0.280	-0.879	-0.553	-0.708	-0.812	-0.696	-0.719	0.834	0.532	-0.853	0.947		
EUR	-0.996	-0.496	-0.929	-0.616	-0.671	-0.790	-0.829	-0.786	0.823	0.383	-0.884	1.000		

Source: Bloomberg

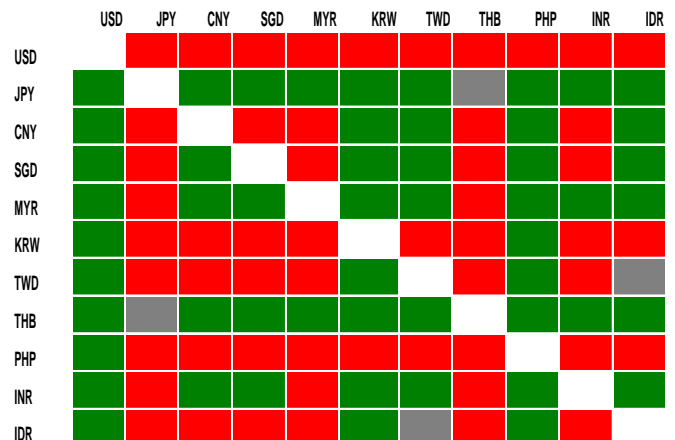
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1700	1.1717	1.1784	1.1800	1.2019
GBP-USD	1.3391	1.3400	1.3422	1.3500	1.3561
AUD-USD	0.7446	0.7500	0.7582	0.7596	0.7600
NZD-USD	0.6851	0.6900	0.6945	0.7000	0.7100
USD-CAD	1.2700	1.2749	1.2777	1.2800	1.2821
USD-JPY	110.00	110.19	110.89	111.00	111.09
USD-SGD	1.3300	1.3366	1.3397	1.3400	1.3477
EUR-SGD	1.5742	1.5782	1.5788	1.5800	1.6060
JPY-SGD	1.2053	1.2064	1.2081	1.2100	1.2132
GBP-SGD	1.7900	1.7978	1.7981	1.8000	1.8122
AUD-SGD	1.0100	1.0137	1.0158	1.0200	1.0240
Gold	1281.20	1283.42	1290.30	1300.00	1312.14
Silver	16.11	16.40	16.45	16.50	16.50
Crude	66.96	72.40	72.44	72.50	72.59

Source: OCBC Bank

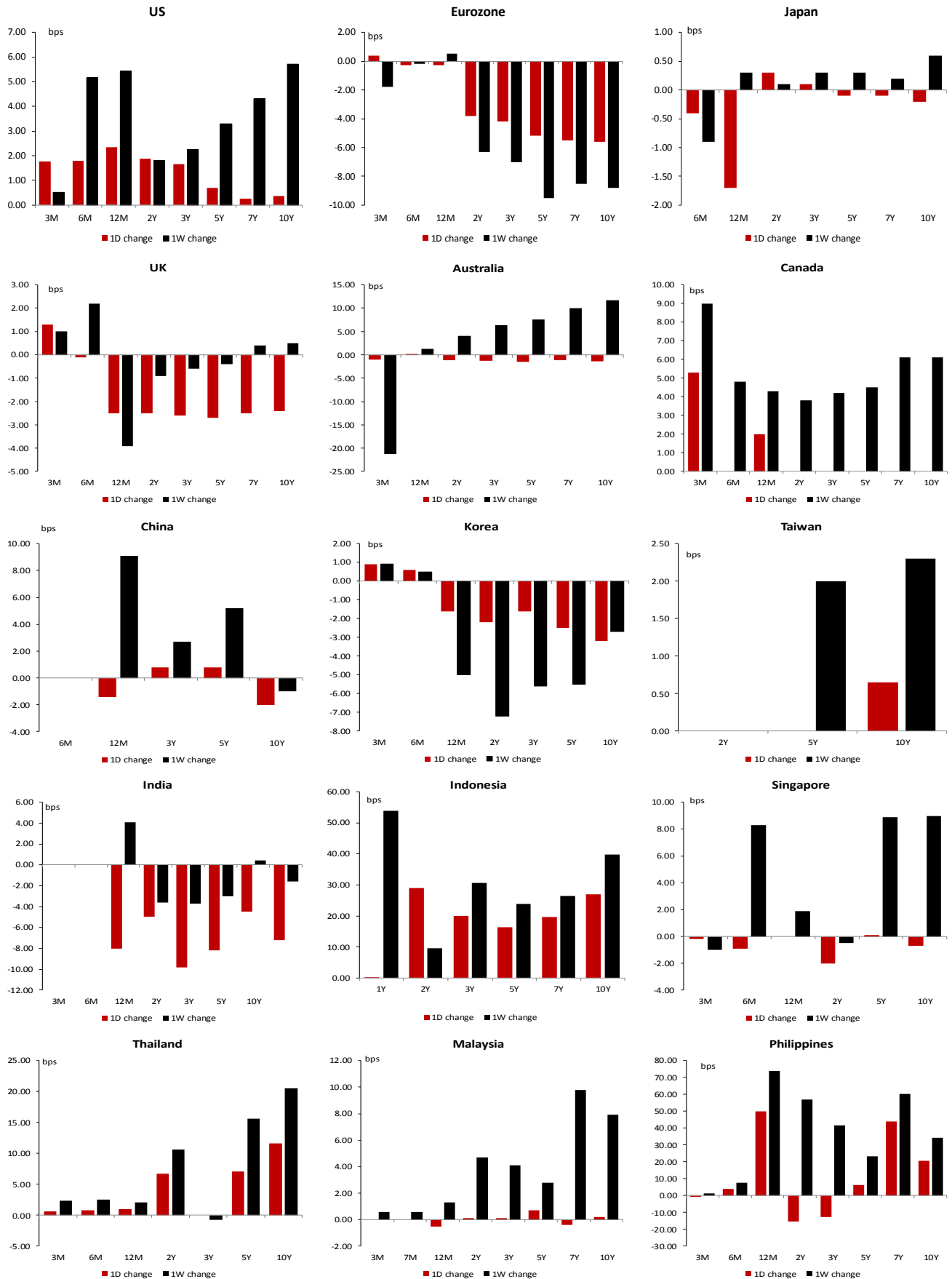
G10 FX Heat Map

Source: OCBC Bank

Asia FX Heat Map

Source: OCBC Bank

Government bond yield changes



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