

Thursday, August 23, 2018

## FX Themes/Strategy/Trading Ideas

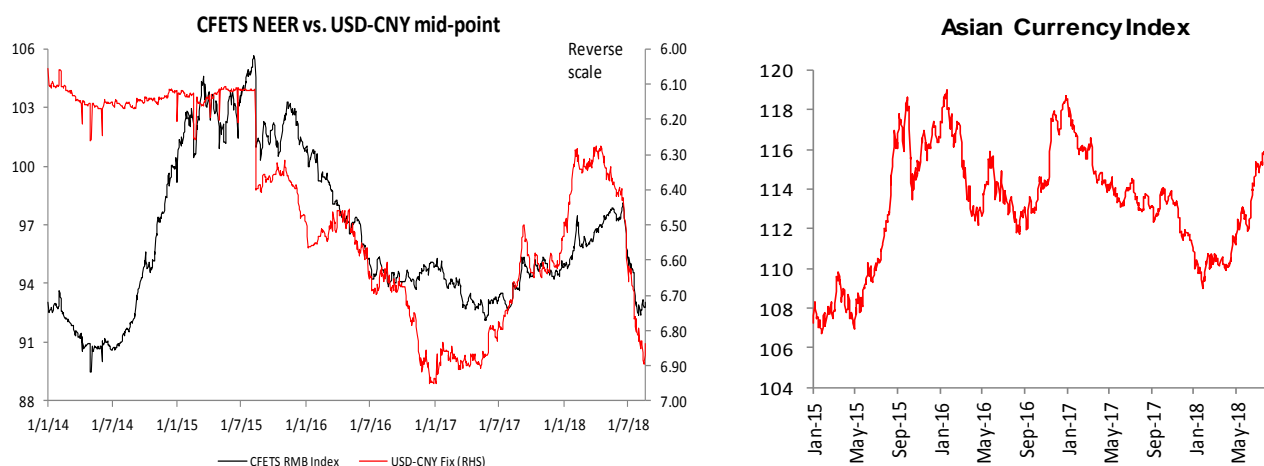
- The USD closed in the red against all G7 currencies overnight, except the AUD and JPY. The DXY index tested waters below 95.00 before closing above.
- New political developments in Washington threaten to implicate President Trump. **A question to contemplate is whether we need to attach a political risk premium to the USD going forward. We think that is not necessary yet, but the risk is for such political issues to shave away the positive USD story bit by bit.** For now, we think it is still a distraction, though it will keep potential USD buyers side-lined for a while.
- The FOMC minutes was broadly USD-supportive, though market focus was still on Cohen and the response was largely muted. **A rate hike in the September FOMC is almost a done deal, with a tweak in rhetoric to remove the “accommodative” adjective also likely.** The committee remains split over the issue of potential yield curve inversion. Nevertheless, the committee also expressed caution over the aggressive trade policy, which presents a “potentially consequential” downside risk and may make monetary policy formulation difficult.
- Meanwhile, the EUR has all but recovered its Turkey-related declines. Resistance levels north of the 1.1600 handle and other indications suggest that the EUR advances may be halted for now. New drivers may be needed to push the EUR beyond 1.1600 on a sustained basis.
- **Overall, expect some consolidation and cautious trading in the USD ahead of Powell’s speech at Jackson Hole.**
- Separately, a deepening political crisis Down Under may continue to weigh on the AUD. This adds another negative onto a series of AUD-negative factors on the structural horizon. A saving grace, for now, may be the easing sense of risk aversion and potential for positive news on the Sino-US trade front.
- On the central bank calendar, expect comments from Weidmann (0730 GMT) and the release of the ECB “minutes” (1130 GMT). On the data front, watch for preliminary PMIs across Europe (0715 GMT onwards) and US (1345 GMT), NZ trade (2245 GMT) and Japan inflation (2330 GMT).

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## Asian FX

- With EM FX showing stability and vols easing, overall risk appetite continued to improve. Our **FX Sentiment Index (FXSI)** moved back into the middle of the Risk-Neutral zone. Expect improving risk sentiments to provide some background support for Asian currencies, with Sino-US trade headlines and broad USD movements still at the forefront.
- An additional set of tariffs on US\$16bn of Chinese goods is set to become active later today, as trade talks between the US and China continues. At this juncture, there appears to be some expectation for positive trade headlines. We remain skeptical that any material progress will be achieved, and caution that any semblance of progress may be over-interpreted in the near term.
- Structurally, the FOMC minutes show that the Fed's hawkish stance continues to be in place. This should weigh on Asian currencies going forward.
- **With the recent USD decline pausing early in the Asian morning, and the RMB complex reacting lower, we think the decline in our Asian Currency Index (ACI) may be done for now. Expect USD-Asia to drift higher intra-day, pending further directionality potentially arising from the Jackson Hole get-together.**
- In terms of **Asian net portfolio flows**, a slow-burn in equity outflows in South Asia in the past couple of weeks has turned the overall flow momentum in Asia. With the exception of South Korea and Thailand, inflow momentum across Asia has started to weaken, or flip back into net outflows. In the latest reading, note that strong inflows continue to be registered in South Korea (equity and bonds) and Thailand (bonds).
- **SGD NEER:** The SGD NEER eased to +0.99% above its perceived parity level (1.3845) this morning. The NEER-implied USD-SGD thresholds arrested its recent slide. Expect the +0.80% (1.3735) and +1.10% (1.3695) thresholds to limit intra-day movements. Near term bounce should be capped at 1.3720/30 levels. Singapore CPI numbers on tap later. Market expectations for further policy tightening in the MAS October MPS may be picking up. We do not rule out that possibility at this juncture. Keep a close watch on the core inflation print. Another firmer than expected release may add fuel to the speculation.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, as expected, at 6.8367 compared to 6.8271 on Wednesday. The CFETS RMB Index edged lower to 92.89, from 92.98 previously.



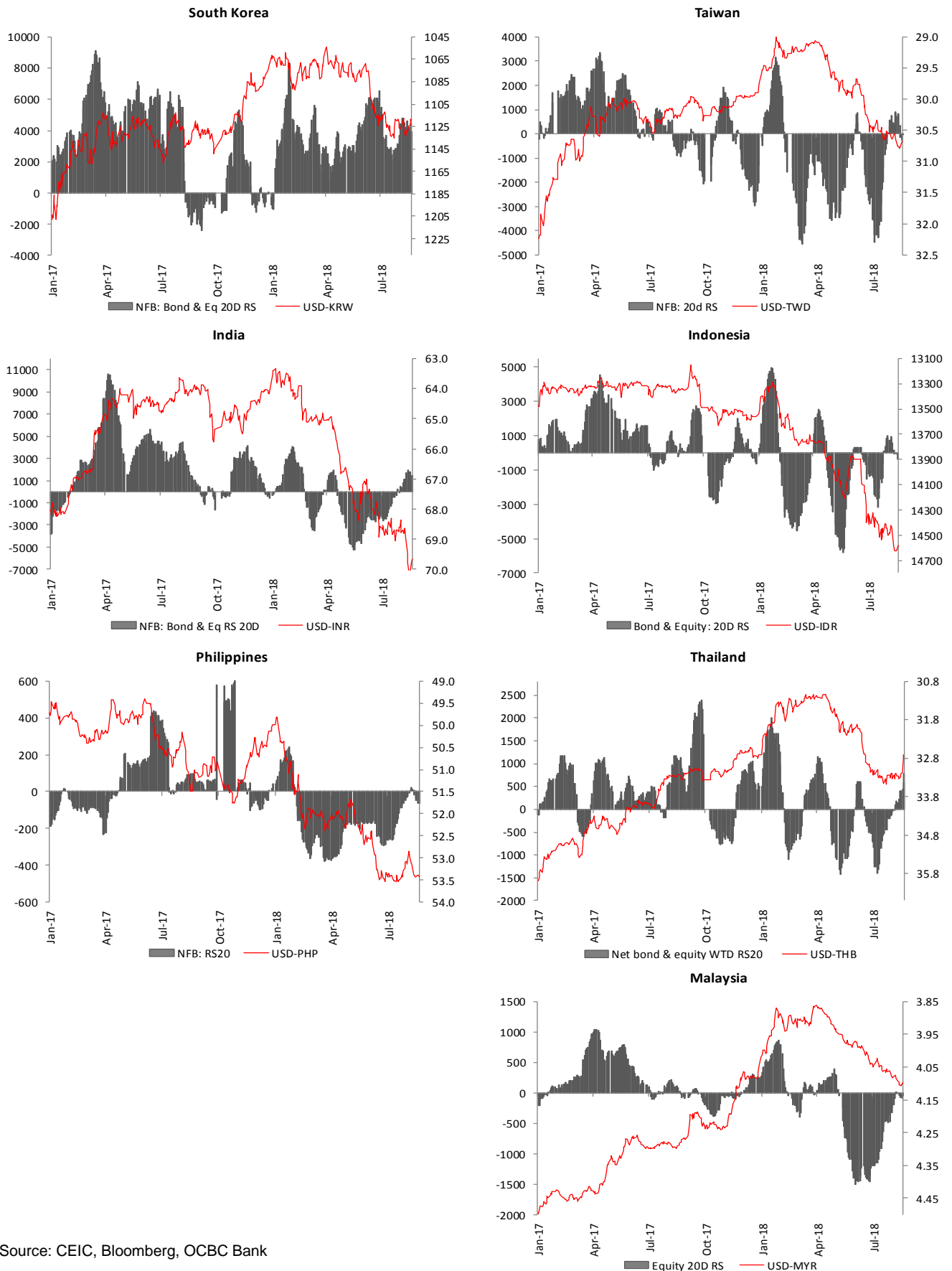
Source: OCBC Bank, Bloomberg

### Short term Asian FX views

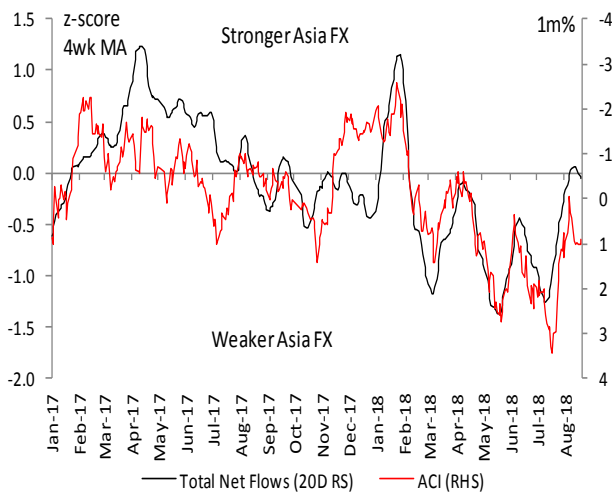
Currency	Bias	Rationale
USD-CNH	↔	New signals by the PBoC reflects discomfort with USD-CNH level near 6.9500; may continue to test higher, especially if the broad USD continues to push higher; near term cap may be at 6.96-7.00.
USD-KRW	↔	Finance Minister signals possible intervention if volatility in 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

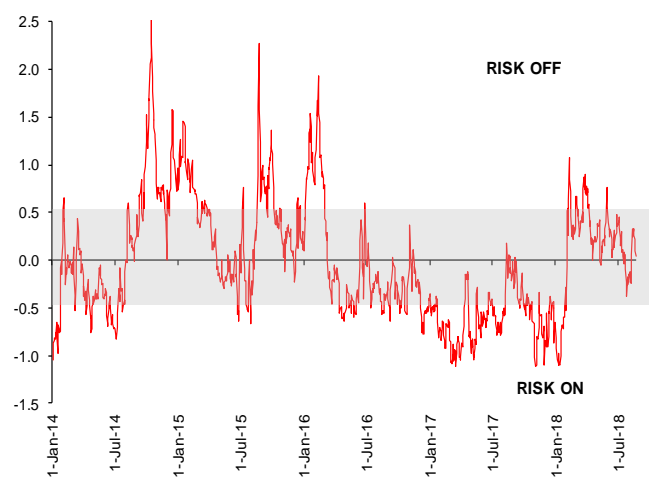
### USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**

Source: OCBC Bank

**FX Sentiment Index**

Source: OCBC Bank

**1M Correlation Matrix**

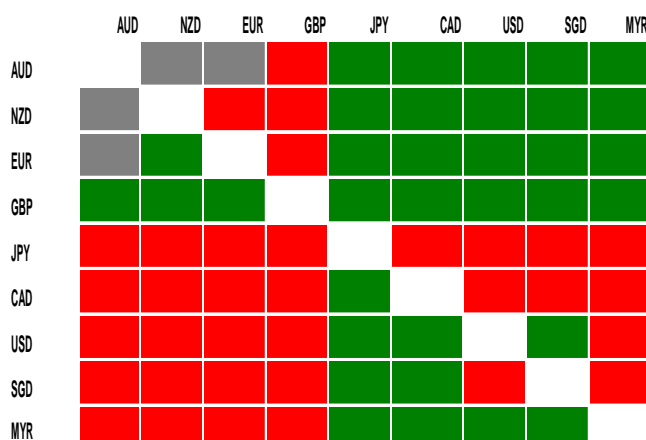
	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.674	0.893	0.233	-0.798	-0.804	-0.452	-0.773	0.360	0.919	0.808	-0.996
SGD	0.963	-0.616	0.896	0.066	-0.798	-0.790	-0.350	-0.719	0.451	0.900	0.892	-0.960
MYR	0.898	-0.869	0.890	0.408	-0.932	-0.894	-0.629	-0.810	0.285	0.915	0.669	-0.899
CNY	0.893	-0.636	1.000	0.122	-0.855	-0.820	-0.404	-0.750	0.459	0.875	0.871	-0.897
TWD	0.838	-0.754	0.819	0.121	-0.891	-0.892	-0.549	-0.772	0.514	0.890	0.664	-0.830
CNH	0.808	-0.424	0.871	-0.053	-0.650	-0.614	-0.176	-0.523	0.437	0.707	1.000	-0.821
INR	0.741	-0.837	0.730	0.281	-0.816	-0.827	-0.661	-0.661	0.462	0.807	0.481	-0.724
IDR	0.721	-0.788	0.693	0.147	-0.866	-0.843	-0.591	-0.669	0.468	0.810	0.549	-0.706
CAD	0.394	-0.225	0.219	-0.355	-0.219	-0.369	-0.150	-0.373	0.457	0.425	0.230	-0.350
KRW	0.360	-0.075	0.210	-0.277	-0.341	-0.272	-0.001	-0.166	0.303	0.497	0.273	-0.325
CHF	0.346	0.298	0.184	-0.080	-0.131	-0.022	0.358	-0.127	-0.159	0.249	0.197	-0.322
PHP	0.232	-0.471	0.153	-0.165	-0.328	-0.468	-0.528	-0.368	0.511	0.267	0.080	-0.215
THB	-0.002	0.564	-0.109	-0.602	0.138	0.259	0.541	0.139	0.015	0.009	0.057	0.009
JPY	-0.452	0.848	-0.404	-0.474	0.484	0.596	1.000	0.510	-0.236	-0.535	-0.176	0.435
USGG10	-0.674	1.000	-0.636	-0.443	0.707	0.779	0.848	0.676	-0.304	-0.701	-0.424	0.664
AUD	-0.926	0.664	-0.862	0.001	0.774	0.809	0.427	0.706	-0.594	-0.834	-0.834	0.917
GBP	-0.955	0.744	-0.869	-0.417	0.782	0.797	0.564	0.809	-0.207	-0.904	-0.731	0.947
NZD	-0.966	0.745	-0.841	-0.308	0.737	0.810	0.539	0.794	-0.329	-0.889	-0.767	0.962
EUR	-0.996	0.664	-0.897	-0.236	0.795	0.799	0.435	0.764	-0.361	-0.909	-0.821	1.000

Source: Bloomberg

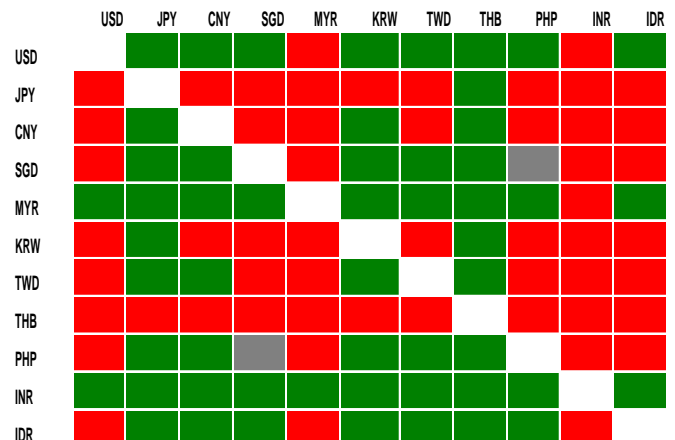
**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1314	1.1500	1.1553	1.1600	1.1611
GBP-USD	1.2662	1.2800	1.2867	1.2900	1.3072
AUD-USD	0.7203	0.7226	0.7290	0.7300	0.7380
NZD-USD	0.6545	0.6600	0.6669	0.6700	0.6765
USD-CAD	1.2962	1.3000	1.3040	1.3100	1.3135
USD-JPY	110.00	110.09	110.79	111.00	111.03
USD-SGD	1.3647	1.3700	1.3713	1.3797	1.3800
EUR-SGD	1.5609	1.5800	1.5842	1.5845	1.5900
JPY-SGD	1.2292	1.2300	1.2377	1.2400	1.2494
GBP-SGD	1.7455	1.7600	1.7644	1.7700	1.7839
AUD-SGD	0.9945	0.9963	0.9996	1.0000	1.0071
Gold	1161.40	1172.09	1196.30	1200.00	1233.68
Silver	14.20	14.40	14.60	15.63	15.86
Crude	65.04	67.90	67.91	68.00	68.98

Source: OCBC Bank

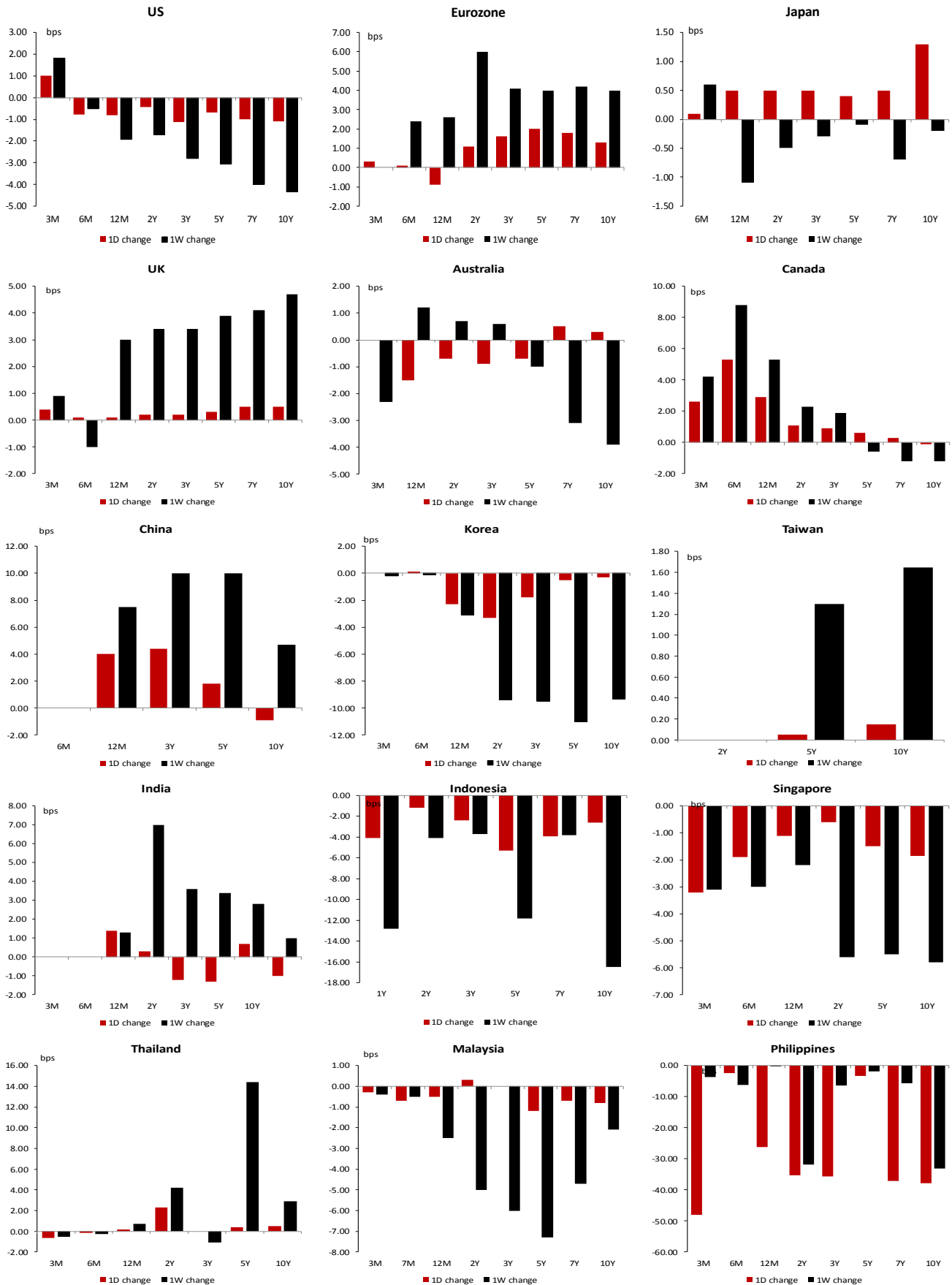
**G10 FX Heat Map**

Source: OCBC Bank

**Asia FX Heat Map**

Source: OCBC Bank

### Government bond yield changes



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