

Friday, August 24, 2018

FX Themes/Strategy/Trading Ideas

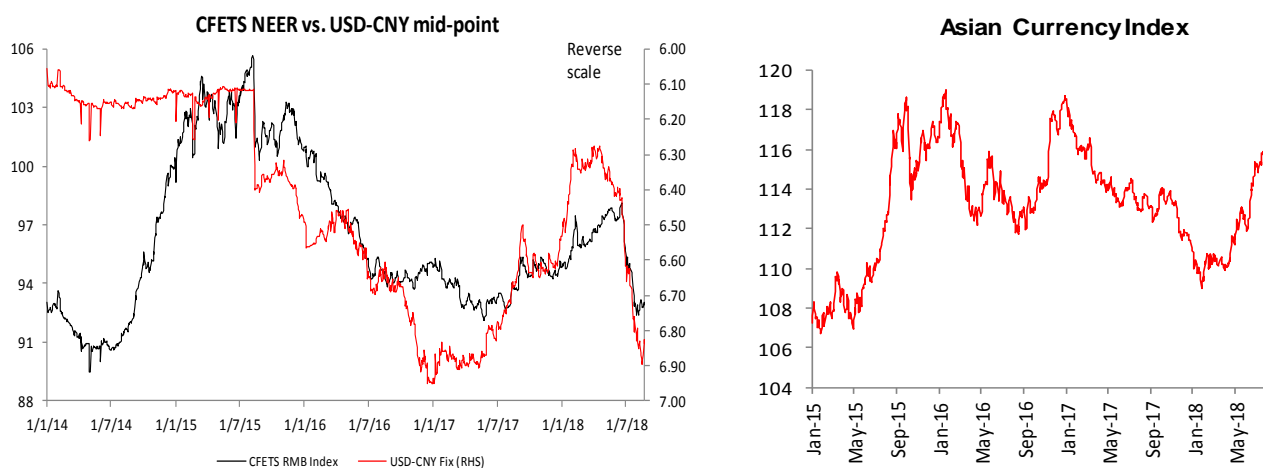
- The broad USD regained its mojo after six consecutive days of declines. The AUD continued to underperform the G7 currencies on political uncertainty. Meanwhile, the discussion on no-Brexit scenarios also did the GBP no favours.
- Expect political uncertainty to weigh on the AUD intra-day, with a new leadership ballot expected later. With an election due in 1H2019, and none of Turnbull's challengers particularly popular within the party and the public, we can expect further political drama down the road. Immediate support level to watch will be 0.7203 (15 Aug low).
- The overnight USD strength has been largely attributed to shifts in market positioning in expectation for a hawkish tone at Powell's address at Jackson Hole (1400 GMT). We also think that there were some follow-through effects from the FOMC minutes, where we saw an optimistic tone that was broadly supportive of the USD.
- For Powell, the base case is for him to reiterate the familiar hawkish message and to push back attempted intervention on Fed policy by Trump. This should keep the broad USD on a general uptrend on a structural basis.
- **At this juncture, it may be difficult for Powell to surprise further on the hawkish side. Any surprise is (marginally) more likely to be on the dovish side, although we do not see significant evidence to suggest this as well. We watch out for any mention on the potential yield curve inversion. This may be the genesis for a shift away from the hawkish stance.** Expect any new information from him to set the tone for trading early next week.
- Apart from Powell, BOC's Poloz is also expected to make an appearance (2015 GMT). Expect him to potentially lay the groundwork for a rate hike in their 5 September meeting, matching the Fed's expected hike.
- On the data front, Eurozone preliminary PMIs were largely mixed, while US PMIs were weaker than expected. For today, watch for German final 2Q GDP and trade data (0600 GMT) and US durable goods orders (1230 GMT).

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Asian FX

- Despite the political headlines and potentially cautious risk sentiments surrounding them, our **FX Sentiment Index (FXSI)** still appears well-contained near current levels within the Risk-Neutral zone.
- Sino-US trade talks ended without anything more than kind words and a pledge for further communications. Additional tariffs on US\$16bn of Chinese goods, and reciprocal measures on the Chinese side, came online yesterday as well.
- With Trump's position somewhat shaky due to domestic developments, the fear for Asia is that he may push a harder line on China regarding trade issues as a form of distraction. Meanwhile, the Chinese stance also appeared to have firmed over the past couple of weeks.
- **Thus, it might be difficult to obtain a positive resolution on Sino-US trade issues in the near term. Any further worsening from here should further favour the USD against the EM Asian currencies. In the immediate horizon, a still-ascendant USD ahead of Jackson Hole should keep our Asian Currency Index (ACI) buoyant for now.**
- In terms of **Asian net portfolio flows**, some improvements were noted in the latest reading after the holidays in South Asia. We noted equity inflows in all tracked countries, while inflows into South Korea continue to be strong on both the bond and equity fronts. While the overall flow momentum in Asia is damaged by the persistent equity outflows since the Turkish issue hit, the impact has been largely moderate. This reinforces the view that EM Asia is relatively insulated from the global EM jitters.
- **SGD NEER:** The SGD NEER firmed to +1.05% above its perceived parity level (1.3869) this morning. The NEER-implied USD-SGD thresholds continued to firm alongside the broad USD. Expect the +0.80% (1.3759) and +1.20% (1.3704) thresholds to bookend intra-day movements. Singapore core CPI print came in at 1.90% yoy yesterday, closing in on top end of the MAS's forecast range. **This print will do little to dissuade speculation for further policy tightening in the MAS October MPS. At this juncture, we do not rule out that possibility.** Watch for industrial production prints later (0500 GMT).
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, as expected, at 6.8710 compared to 6.8367 on Thursday. The CFETS RMB Index edged lower to 92.77, from 92.89 previously.



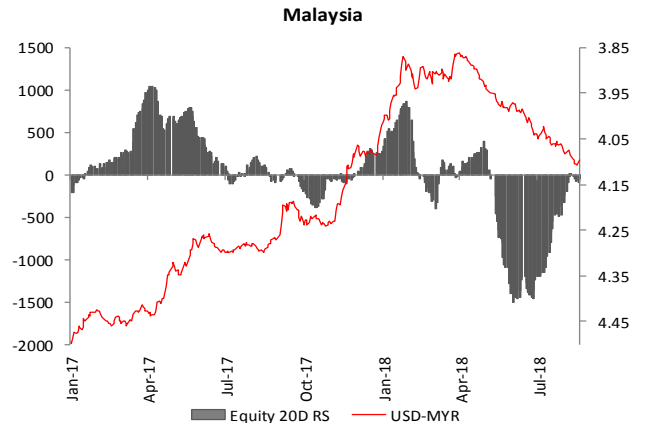
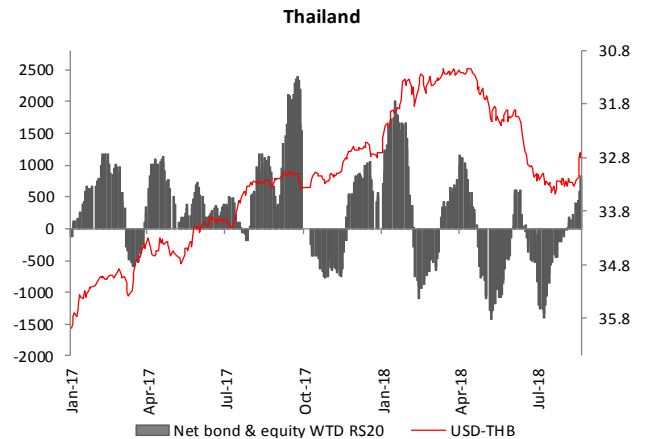
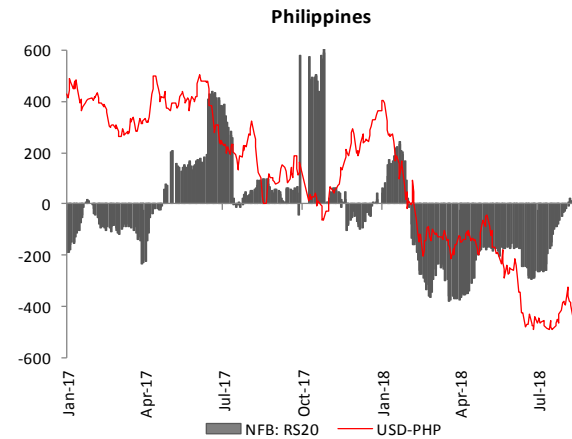
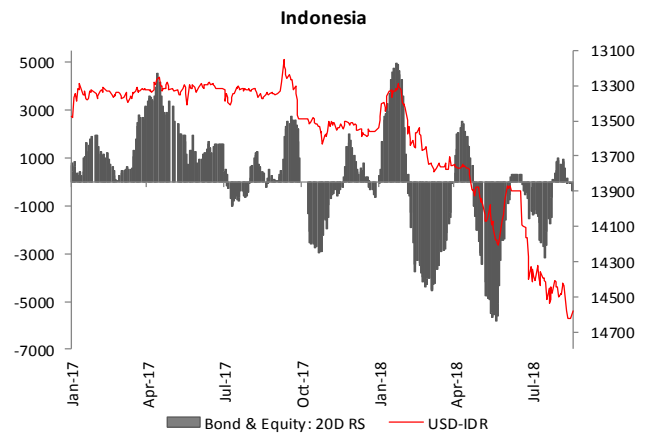
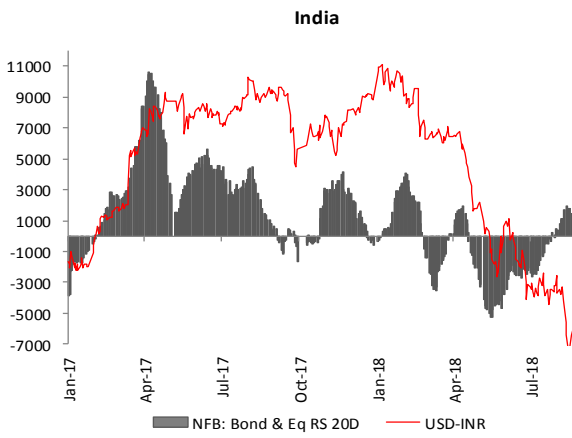
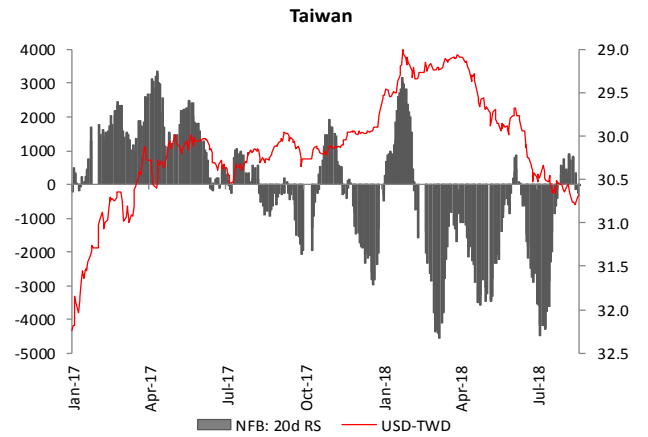
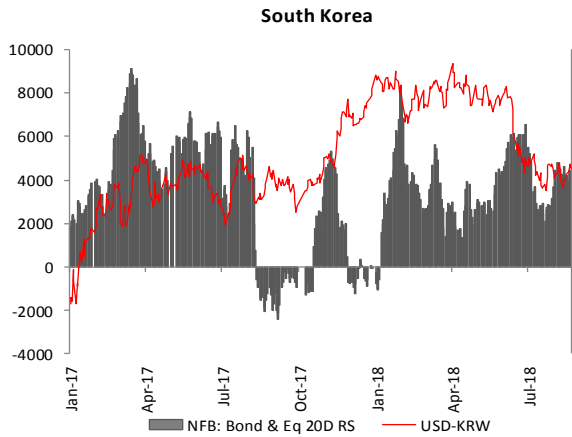
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔	Pair continues to test higher, especially if the broad USD continues to push higher; near term cap may be at 6.96-7.00; restart of Sino-US trade talks may be a positive sign, but no material progress expected.
USD-KRW	↔	Finance Minister signals possible intervention if volatility in the KRW spikes; weaker than expected unemployment print may douse rate hike expectations; BOK meeting in focus; pair may search higher again on Sino-US trade tensions
USD-TWD	↔	Inflow situation reversed again; stronger than expected inflation print offset by weaker export growth; pair may search higher again on Sino-US trade tensions
USD-INR	↔	Net inflow momentum in a rolling 20D basis starting to moderate; RBI intervention on the pair seemed to ease at levels north of 70, signaling greater official tolerance in the currency
USD-SGD	↔	Pause in broad USD momentum cap near term advances in the pair; another firm core inflation print to fuel speculation for a tightening move by the MAS in October, do not rule out this possibility yet
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	↔/↑	IDR may be more exposed to EM jitters due to widening CA deficit and high percentage of foreign ownership in government bonds; asymmetric reaction to broad USD movements; govt looking to reduce foreign ownership of bonds to around 20% from almost 40% now
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

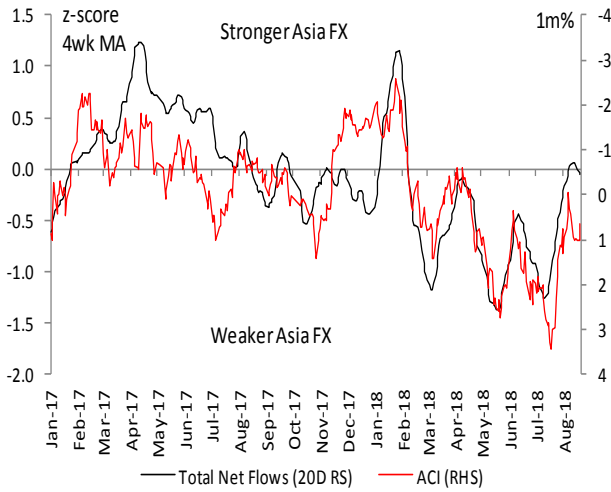
USD-Asia VS. Net Capital Flows



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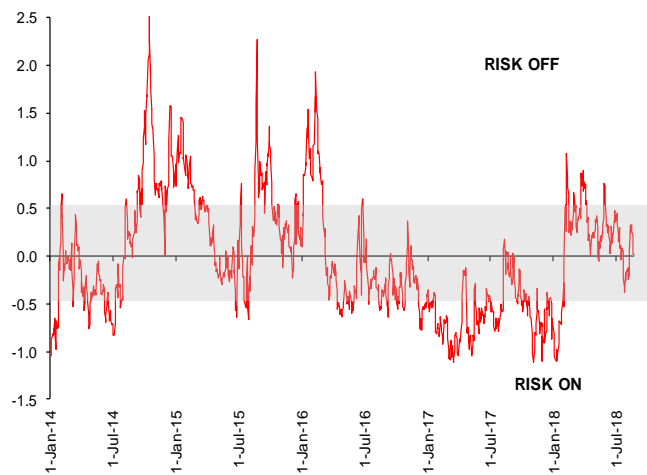
Source: CEIC, Bloomberg, OCBC Bank

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	-0.636	0.876	0.149	-0.797	-0.815	-0.398	-0.782	0.362	0.917	0.771	-0.995
SGD	0.951	-0.649	0.914	0.054	-0.792	-0.791	-0.257	-0.681	0.432	0.853	0.905	-0.939
CNY	0.876	-0.646	1.000	0.028	-0.862	-0.847	-0.339	-0.756	0.461	0.851	0.867	-0.869
TWD	0.863	-0.774	0.879	0.144	-0.915	-0.906	-0.504	-0.769	0.498	0.864	0.700	-0.855
MYR	0.837	-0.898	0.883	0.379	-0.927	-0.905	-0.460	-0.745	0.260	0.848	0.688	-0.810
CNH	0.771	-0.485	0.867	-0.118	-0.641	-0.624	-0.050	-0.489	0.420	0.654	1.000	-0.765
IDR	0.749	-0.839	0.786	0.265	-0.878	-0.846	-0.515	-0.637	0.419	0.730	0.633	-0.730
INR	0.728	-0.863	0.790	0.346	-0.810	-0.828	-0.559	-0.624	0.412	0.705	0.553	-0.702
CAD	0.697	-0.433	0.549	-0.149	-0.388	-0.519	-0.291	-0.495	0.561	0.581	0.530	-0.668
KRW	0.633	-0.167	0.501	-0.111	-0.516	-0.359	-0.091	-0.251	0.372	0.690	0.477	-0.634
PHP	0.375	-0.609	0.356	0.041	-0.425	-0.547	-0.565	-0.404	0.519	0.285	0.259	-0.364
CHF	0.274	0.446	0.107	-0.166	-0.094	0.027	0.168	-0.126	-0.129	0.279	0.041	-0.313
THB	0.105	0.604	-0.056	-0.544	0.092	0.256	0.409	0.072	0.000	0.133	0.042	-0.143
JPY	-0.398	0.656	-0.339	-0.405	0.458	0.567	1.000	0.514	-0.239	-0.539	-0.050	0.412
USGG10	-0.636	1.000	-0.646	-0.457	0.694	0.774	0.656	0.606	-0.273	-0.624	-0.485	0.602
AUD	-0.860	0.725	-0.865	-0.009	0.746	0.798	0.254	0.618	-0.545	-0.735	-0.853	0.833
GBP	-0.946	0.749	-0.854	-0.357	0.784	0.820	0.482	0.813	-0.198	-0.891	-0.720	0.928
NZD	-0.955	0.747	-0.829	-0.251	0.732	0.824	0.455	0.784	-0.323	-0.867	-0.761	0.942
EUR	-0.995	0.601	-0.869	-0.124	0.796	0.812	0.412	0.784	-0.371	-0.923	-0.765	1.000

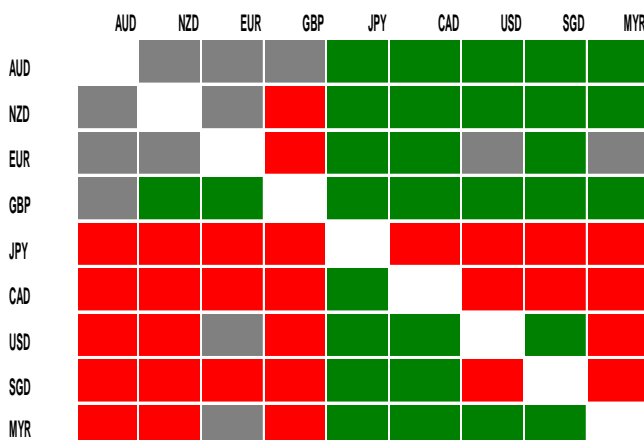
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1315	1.1500	1.1550	1.1600	1.1609
GBP-USD	1.2662	1.2800	1.2812	1.2900	1.3062
AUD-USD	0.7203	0.7211	0.7275	0.7300	0.7376
NZD-USD	0.6545	0.6600	0.6636	0.6700	0.6758
USD-CAD	1.2962	1.3000	1.3093	1.3100	1.3134
USD-JPY	111.00	111.05	111.41	111.97	112.00
USD-SGD	1.3652	1.3700	1.3731	1.3800	1.3802
EUR-SGD	1.5800	1.5848	1.5860	1.5900	1.5965
JPY-SGD	1.2294	1.2300	1.2325	1.2400	1.2492
GBP-SGD	1.7455	1.7500	1.7592	1.7600	1.7831
AUD-SGD	0.9945	0.9946	0.9990	1.0000	1.0069
Gold	1161.40	1169.89	1185.80	1200.00	1229.12
Silver	14.32	14.50	14.51	14.60	15.57
Crude	67.80	68.00	68.20	69.01	70.14

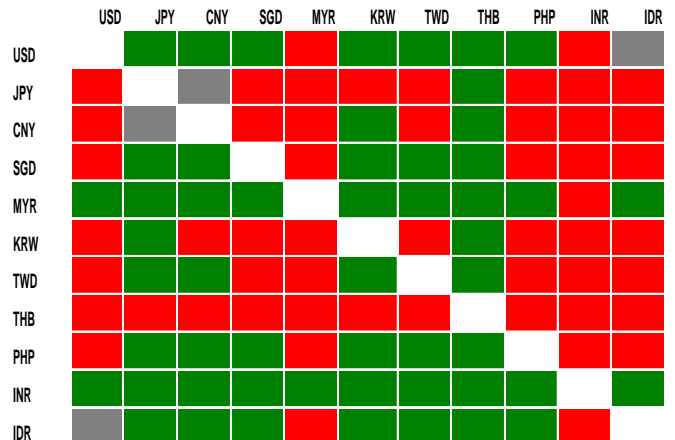
Source: OCBC Bank

G10 FX Heat Map



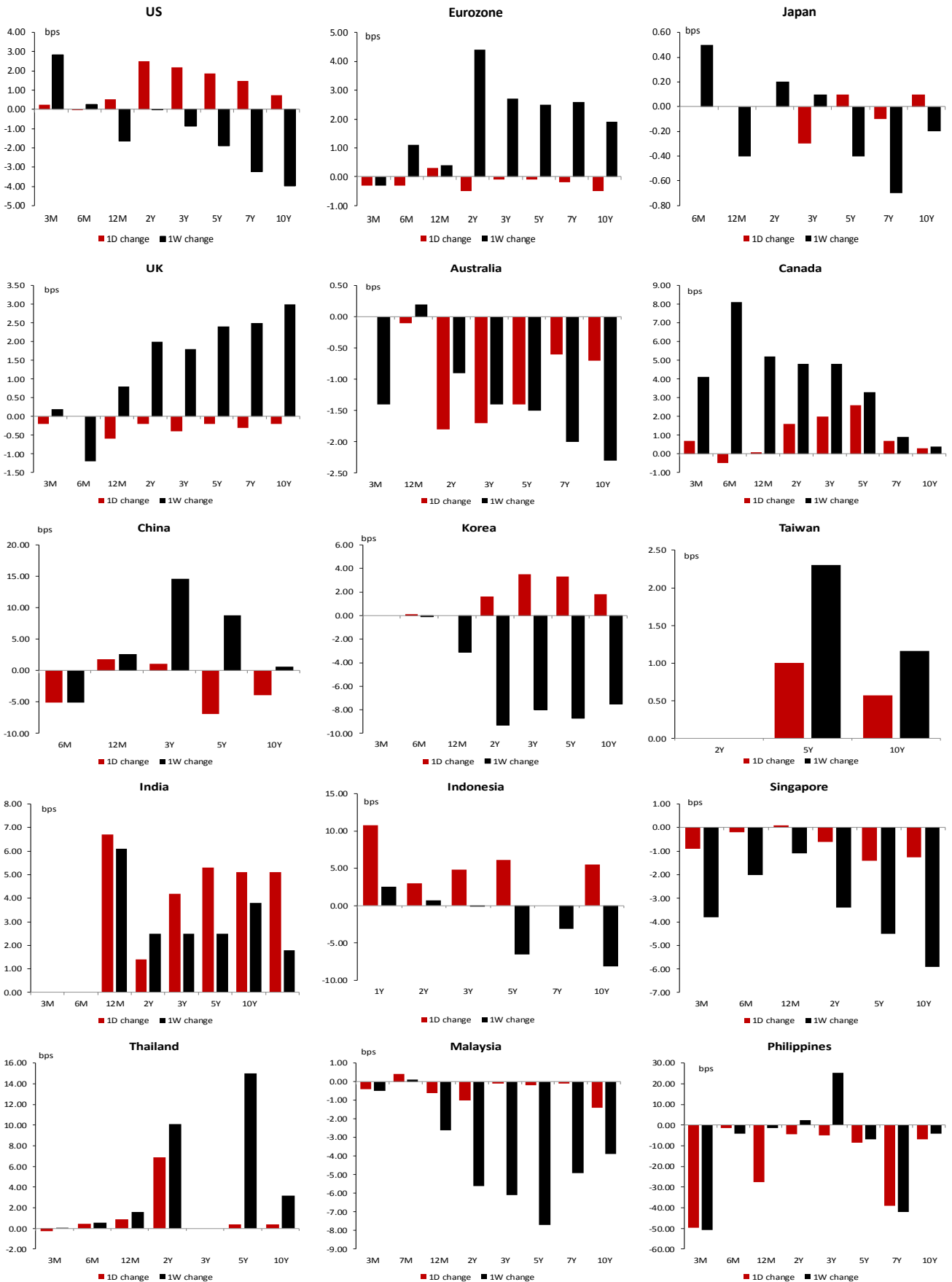
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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