

Thursday, May 24, 2018

FX Themes/Strategy/Trading Ideas

- Despite less than aggressive FOMC minutes (and a softer UST curve), the dollar managed to hold minor gains on the majors, with the DXY ending near the 94.00 handle (albeit off intra-day highs pre-FOMC minutes).
- Meanwhile, already weighed by Italian political uncertainty, the EUR was undermined by softer than expected May PMIs while the GBP was also sabotaged by slightly soft April CPI readings.
- Meanwhile, negative Asian/EZ equities kept the JPY underpinned across the board (including against the USD). To this end, note that the **FXSI (FX Sentiment Index)** ticked higher again within Risk-Neutral territory, indicating slightly **waning optimism**. In addition, Trump's latest comments on auto imports (exploring new tariffs) and the need for a "new structure" for US-China trade relations may also see sentiment take a hit in early Asia (but paradoxically impinging the USD within G10 space).
- Overall, the FOMC minutes left little clues with regards to prospects for a 4th hike for 2018, although expectations for the next hike were cemented further ("soon be appropriate"). Into the June meeting (and the highly anticipated rate hike), expect investors to continue to mull over the Fed's "symmetric" risks (not exactly dollar positive).
- Rate differential developments in aggregate have softened slightly since the onset of the week and investors may instead to relative vulnerabilities in the majors instead. To this end, the EUR-USD (and the EUR-cyclical crosses) we think remains distinctly slippery. Intra-day, any further deterioration in generalized risk appetite levels may also see the USD benefitting.
- For today, look to the Fed's Dudley (0815 GMT), Bostic (1435 GMT), and Harker (1800 GMT) for further US-centric cues. Meanwhile, ECB meeting minutes (1130 GMT) may present headline risks, with the ECB's Praet (0830 GMT, 1030 GMT) also on tap. Elsewhere, the BOE's Carney is due at 1700 GMT.

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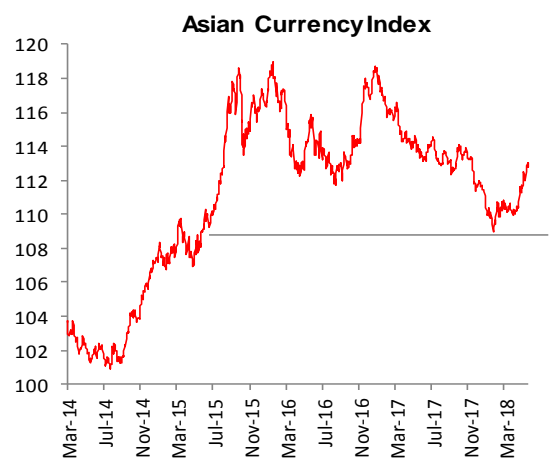
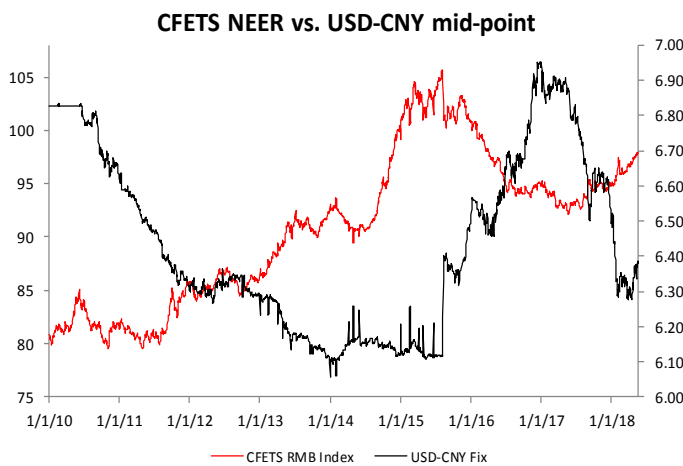
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Asian FX

- Expect the USD to remain underpinned in Asia amid a slight wavering in risk appetite levels and with global data readings not running too hot of late. As such, expect the **ACI (Asian Currency Index)** to stay flat to higher intra-day, especially if risk appetite curdles further.
- On the net portfolio flow front, we are still seeing a stabilization of net inflows for South Korea and continued compression in net equity outflows for Taiwan. Net outflows for India continue to moderate (although negative pressure on govies remains) but net outflows for Thailand are persisting. The IDR and domestic govies meanwhile may remain pressured if net bond outflow momentum persists. Net equity outflows for Malaysia meanwhile remain palpable.
- **South Korea:** The **Bank of Korea (BOK)** remained static at 1.50% as widely expected this morning with the central bank sounding more cautious than optimistic with respect to the prognosis.
- **SGD NEER:** April CPI readings (headline and core) came in softer than expected on Wednesday and early Thursday, 1Q GDP numbers were pretty much in line (or a tick better than) with expectations. With little in the way of macro underpinnings, the SGD NEER is markedly softer on the day at around +0.32% above its perceived parity (1.3489). Look for nexus within +0.20% (1.3463) to +0.50% (1.3423) for the basket. Technically, investors may continue to bounce any dips towards the 200-day MA (1.3372) for 1.3500.
- **CFETS RMB Index:** The USD-CNY mid-point rose (largely in line with unbiased models) to 6.3816 on Thursday from 6.3773 yesterday. This saw the CFETS RMB Index softening to 97.75 from 97.79 on Wednesday.



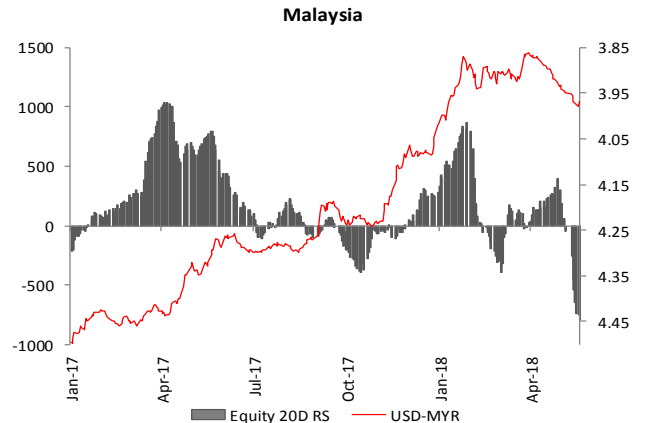
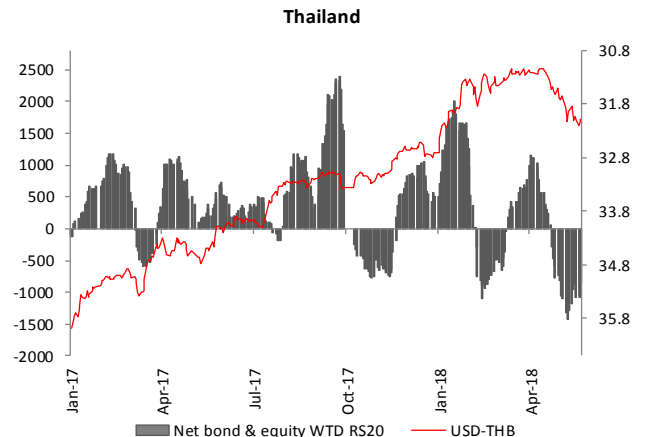
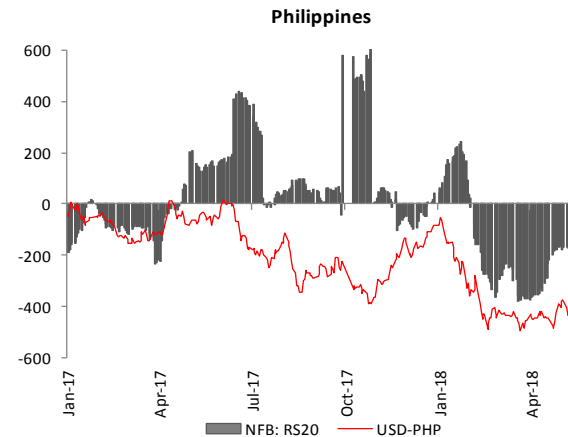
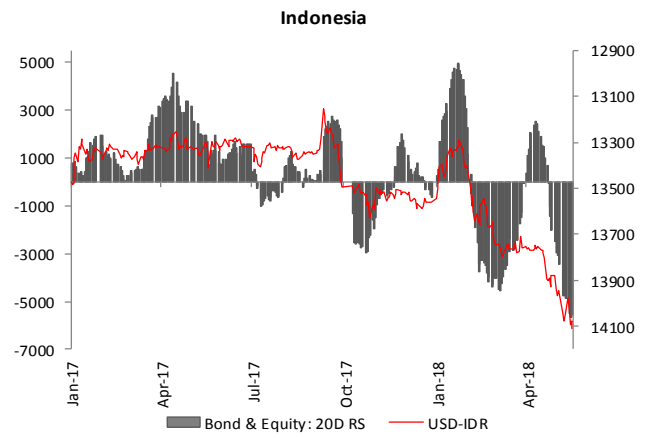
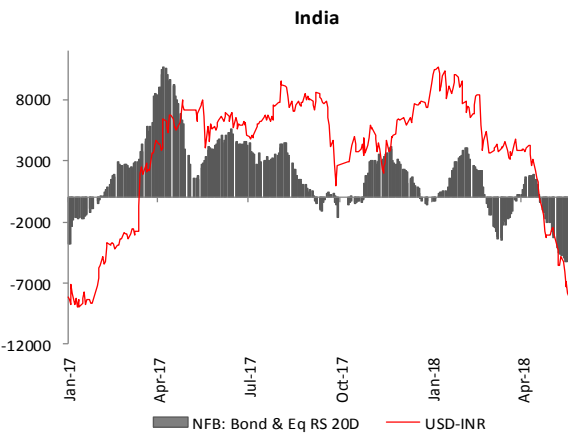
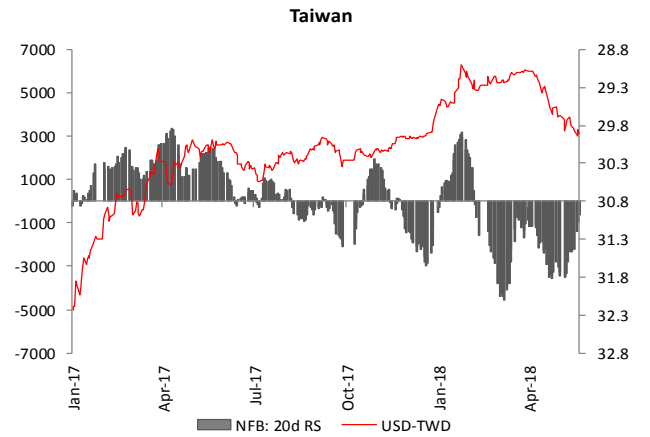
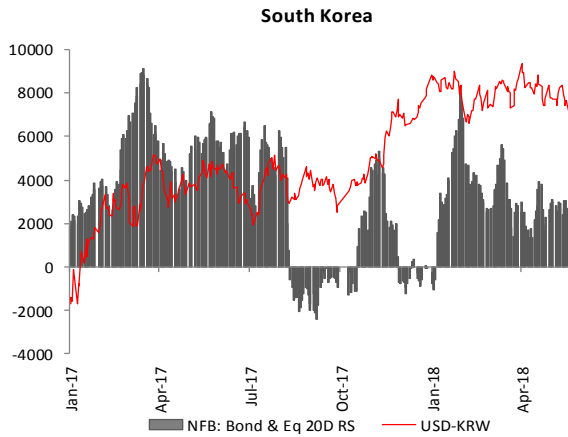
Source: OCBC Bank, Bloomberg

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 Sino-US 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 unchanged at 1.50% in May
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 with possible implications on fiscal stance going forward
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, sustained net equity outflows following election outcome
USD-IDR	↑	Unexpectedly wide trade deficit piles further pressure; short term vol premium widening; net portfolio outflows deepening, carry strategy under reassessment; BI hikes in May, remains uncomfortable towards IDR/bond weakness
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

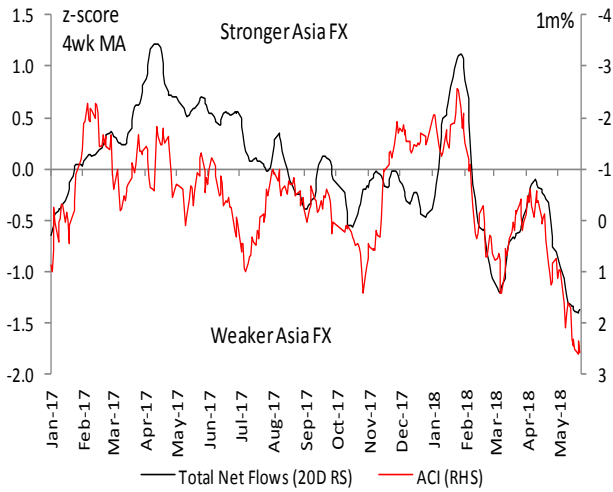
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



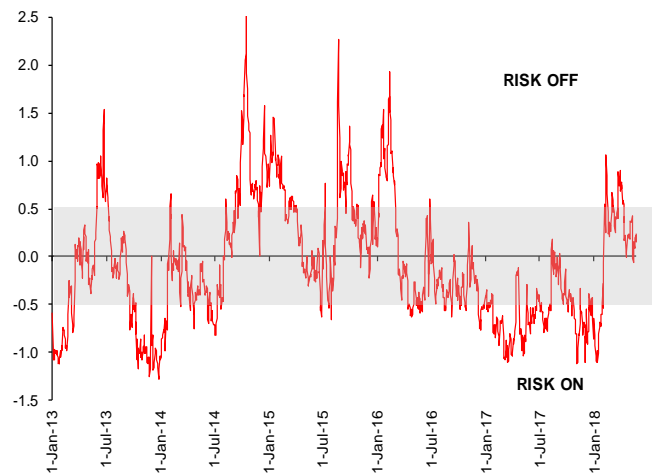
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXXK	CNH	EUR
DXY	1.000	0.533	0.929	0.682	0.682	0.838	0.791	0.791	-0.824	0.033	0.843	-0.996
MYR	0.979	0.659	0.898	0.802	0.758	0.893	0.863	0.898	-0.904	0.097	0.778	-0.980
THB	0.930	0.599	0.825	0.800	0.670	0.858	0.786	0.904	-0.858	0.097	0.710	-0.940
CNY	0.929	0.434	1.000	0.444	0.467	0.699	0.712	0.662	-0.608	0.099	0.924	-0.912
TWD	0.913	0.620	0.831	0.716	0.599	0.831	0.828	0.844	-0.768	0.163	0.735	-0.924
SGD	0.910	0.547	0.845	0.670	0.646	0.727	0.698	0.766	-0.764	-0.050	0.855	-0.926
IDR	0.896	0.683	0.821	0.714	0.586	0.830	0.849	0.853	-0.732	0.385	0.688	-0.896
INR	0.850	0.754	0.728	0.850	0.733	0.843	0.885	0.911	-0.767	0.099	0.556	-0.858
CNH	0.843	0.322	0.924	0.327	0.391	0.553	0.561	0.504	-0.536	0.004	1.000	-0.829
CHF	0.812	0.133	0.758	0.496	0.626	0.642	0.340	0.538	-0.747	-0.422	0.784	-0.769
JPY	0.791	0.816	0.712	0.638	0.581	0.686	1.000	0.703	-0.589	0.316	0.561	-0.803
USGG10	0.533	1.000	0.434	0.595	0.401	0.443	0.816	0.613	-0.374	0.373	0.322	-0.555
KRW	0.287	0.438	0.396	-0.005	-0.297	0.148	0.454	0.134	0.028	0.701	0.367	-0.273
PHP	0.118	0.770	-0.040	0.510	0.213	0.174	0.552	0.378	-0.140	0.487	-0.094	-0.139
CAD	-0.049	-0.246	0.175	-0.486	-0.357	-0.400	-0.267	-0.402	0.372	0.044	0.326	0.088
AUD	-0.544	-0.060	-0.621	-0.096	-0.398	-0.150	-0.115	-0.086	0.321	0.438	-0.680	0.468
NZD	-0.891	-0.659	-0.767	-0.751	-0.810	-0.738	-0.788	-0.774	0.782	0.187	-0.704	0.907
GBP	-0.952	-0.338	-0.863	-0.640	-0.730	-0.844	-0.679	-0.763	0.845	0.131	-0.802	0.948
EUR	-0.996	-0.555	-0.912	-0.711	-0.697	-0.845	-0.803	-0.830	0.839	-0.011	-0.829	1.000

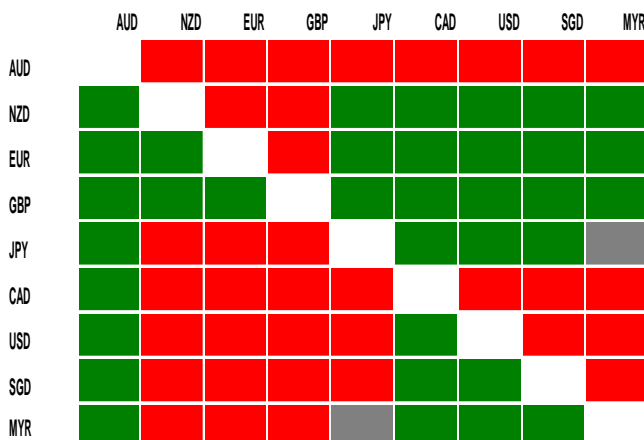
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1656	1.1676	1.1697	1.1700	1.2019
GBP-USD	1.3306	1.3316	1.3355	1.3400	1.3566
AUD-USD	0.7447	0.7500	0.7556	0.7593	0.7600
NZD-USD	0.6851	0.6900	0.6916	0.7000	0.7074
USD-CAD	1.2800	1.2815	1.2856	1.2900	1.2922
USD-JPY	108.53	109.00	109.56	110.00	110.19
USD-SGD	1.3363	1.3400	1.3438	1.3487	1.3490
EUR-SGD	1.5700	1.5708	1.5721	1.5800	1.6055
JPY-SGD	1.2200	1.2245	1.2266	1.2292	1.2300
GBP-SGD	1.7904	1.7908	1.7948	1.8000	1.8125
AUD-SGD	1.0089	1.0100	1.0153	1.0162	1.0200
Gold	1280.40	1281.20	1293.80	1300.00	1312.35
Silver	16.12	16.30	16.34	16.40	16.50
Crude	67.45	71.60	71.66	71.70	72.90

Source: OCBC Bank

G10 FX Heat Map



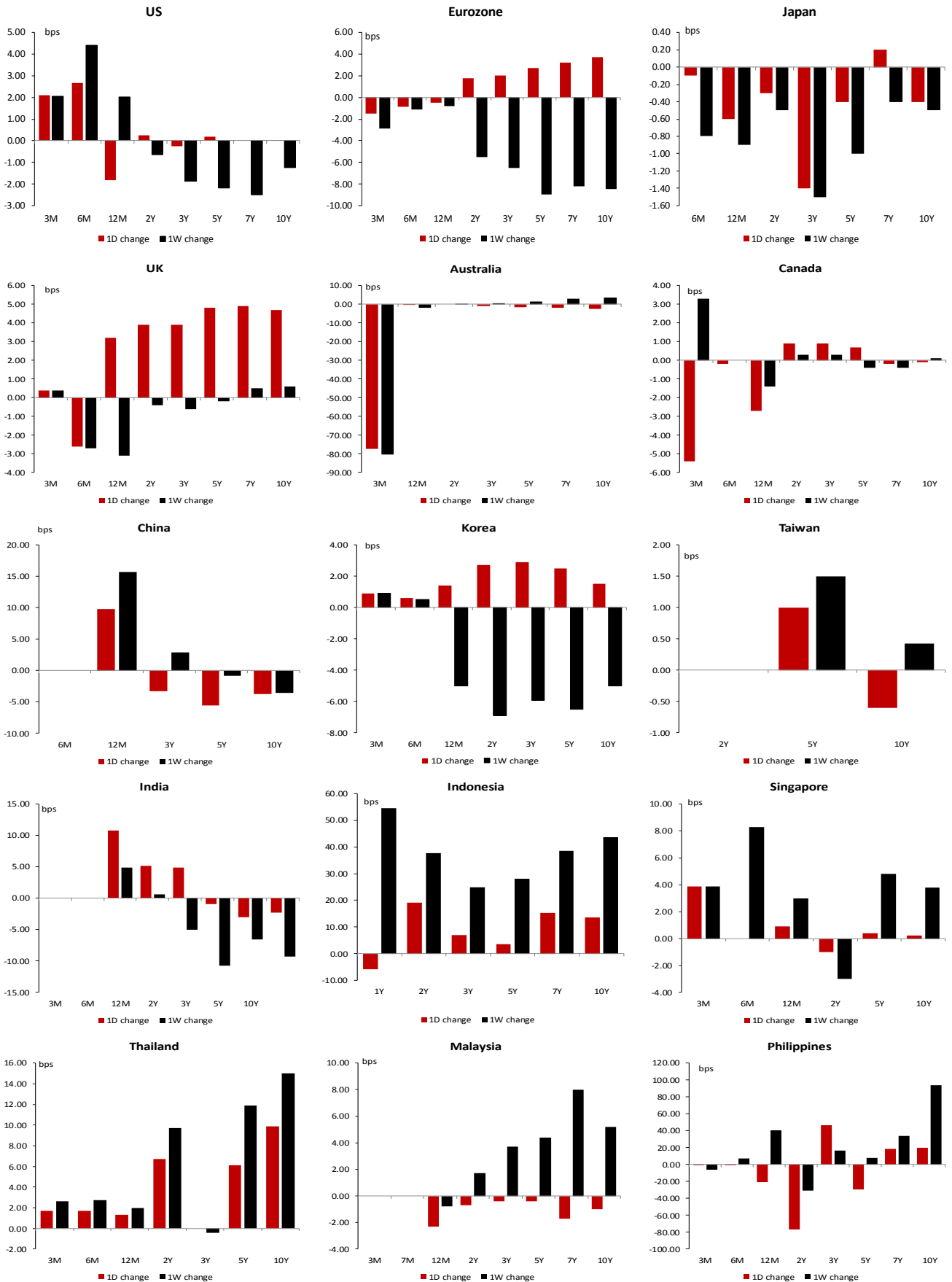
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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