

Tuesday, August 28, 2018

## FX Themes/Strategy/Trading Ideas

- The USD continued to be on the back-foot in the London and NY sessions yesterday, after being firm in Asian hours. The CAD outperformed on positive trade headlines, while the EUR further extended its recovery.
- Supported by a trade deal between the US and Mexico, with Canada also expected to join in, overall risk sentiments were buoyant overnight. Positive EU/US equities and firmer EM FX also added to the overall positivity. Our **FX Sentiment Index (FXSI)** continued to move towards the Risk-On zone, while staying within the Risk-Neutral territory.
- **At this stage, almost any positive news in terms of US trade policy is negative the USD, with the resultant improvement in the risk sentiments leading to a sell-off in the USD. In essence, the USD has morphed into a haven currency in a typical risk-on / risk-off dynamic when it comes to the trade front.**
- The EUR has been one of the main beneficiaries of the recent bout of USD weakness. Position adjustment continues to power the EUR-USD after spot moved through topside resistances quickly. Momentum indicators and positive German data also favour further upside for the pair.
- Nevertheless, we express caution when chasing the pair higher, noting that the EUR is marginally overvalued against the USD in our implied valuation model. Furthermore, Italian-EU issues relating to illegal immigration and the EU Budget continue to simmer on. Note also, that the 10y Italian-German government bond yield gap remains stubbornly at elevated levels.
- **Overall, we expect the USD to remain on a weak posture this week. If the DXY fails to retake the 95.00 level today, we may see an extended decline with the 94.00 handle attracting in the interim. Later in the week, the release of the core PCE print (Thu) will provide another opportunity to re-assess near term USD prospects.**
- On the central bank calendar, expect to hear from ECB's Praet (1100 GMT). On the data front, watch for US wholesale inventories (1230 GMT) and consumer confidence (1400 GMT).

Treasury Research &  
Strategy

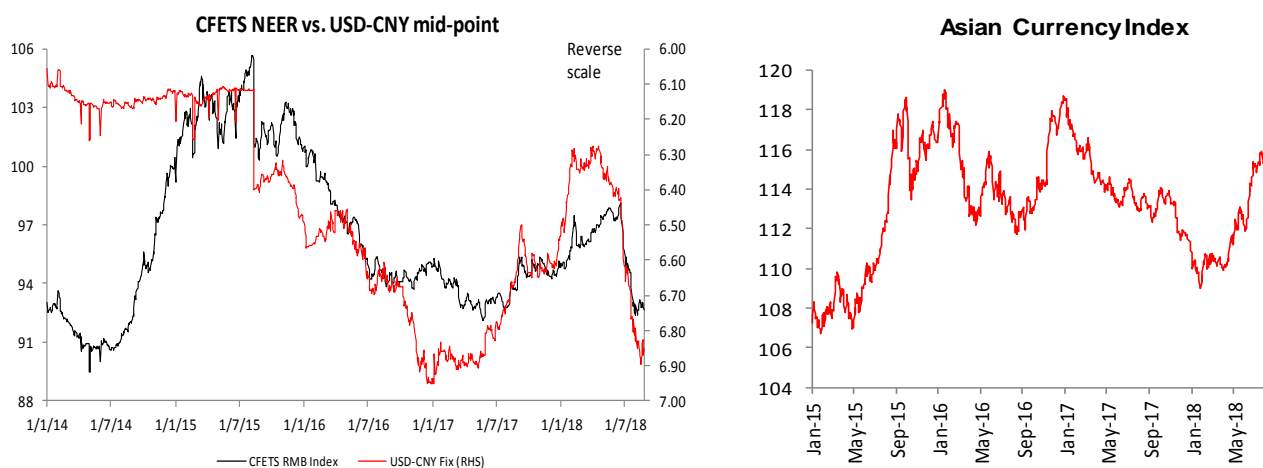
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## Asian FX

- The RMB complex is expected to be the centre of attention today, with the USD-CNY midpoint fix continued to be lower than consensus. The PBoC may have dodged a bullet by implementing the counter-cyclical factor at a time of USD weakness, allowing the USD-CNY to slip lower without the additional resistance of broad USD strength. The key level to watch is now the 6.8000 handle. At this juncture, a break lower from that level may give RMB bulls greater confidence to push the spot levels down further.
- Near term factors have switched quickly to favour the EM Asian currencies this week, with improving risk sentiments being added to the list of USD weakness and RMB stability. The broader climate has not been this helpful for EM Asian currencies for some time, so expect the market to test the lower boundaries for USD-Asia pairs.
- **A shift in near-term global cues compared to last week has benefited the EM Asian currencies. Pending renewed trade concerns with China, we expect this new dynamic to be sustained in the immediate horizon. Therefore, with the USD remaining slippery and the RMB complex holding its gains, we expect our Asian Currency Index (ACI) to be dip further.**
- In terms of **Asian net portfolio flows**, South Korea and Taiwan saw strong inflows into their equity markets on Monday, while Indonesia also saw equity inflows after a run of outflows. Meanwhile, Thai bond inflows continue to be robust. On aggregate terms, we continue to see a general stabilization in flow dynamics in Asia after some slight declines due to the EM jitters.
- **SGD NEER:** The SGD NEER continued to stay at elevated levels, with the reading standing at +1.22% above its perceived parity level (1.3794) this morning. The NEER-implied USD-SGD thresholds continued to ease alongside the broad USD weakness. Expect the +1.00% (1.3658) and +1.30% (1.3617) thresholds to bound intraday movements
- **CFETS RMB Index:** The USD-CNY mid-point was set lower, within expectations, at 6.8052 compared to 6.8508 on Monday. Note that the daily deviation on the midpoint fix is higher than the usual accepted daily limits. This perhaps highlights the PBoC's resolve in containing the USD-CNY spot levels. The CFETS RMB Index edged lower to 93.13, from 92.65 previously.



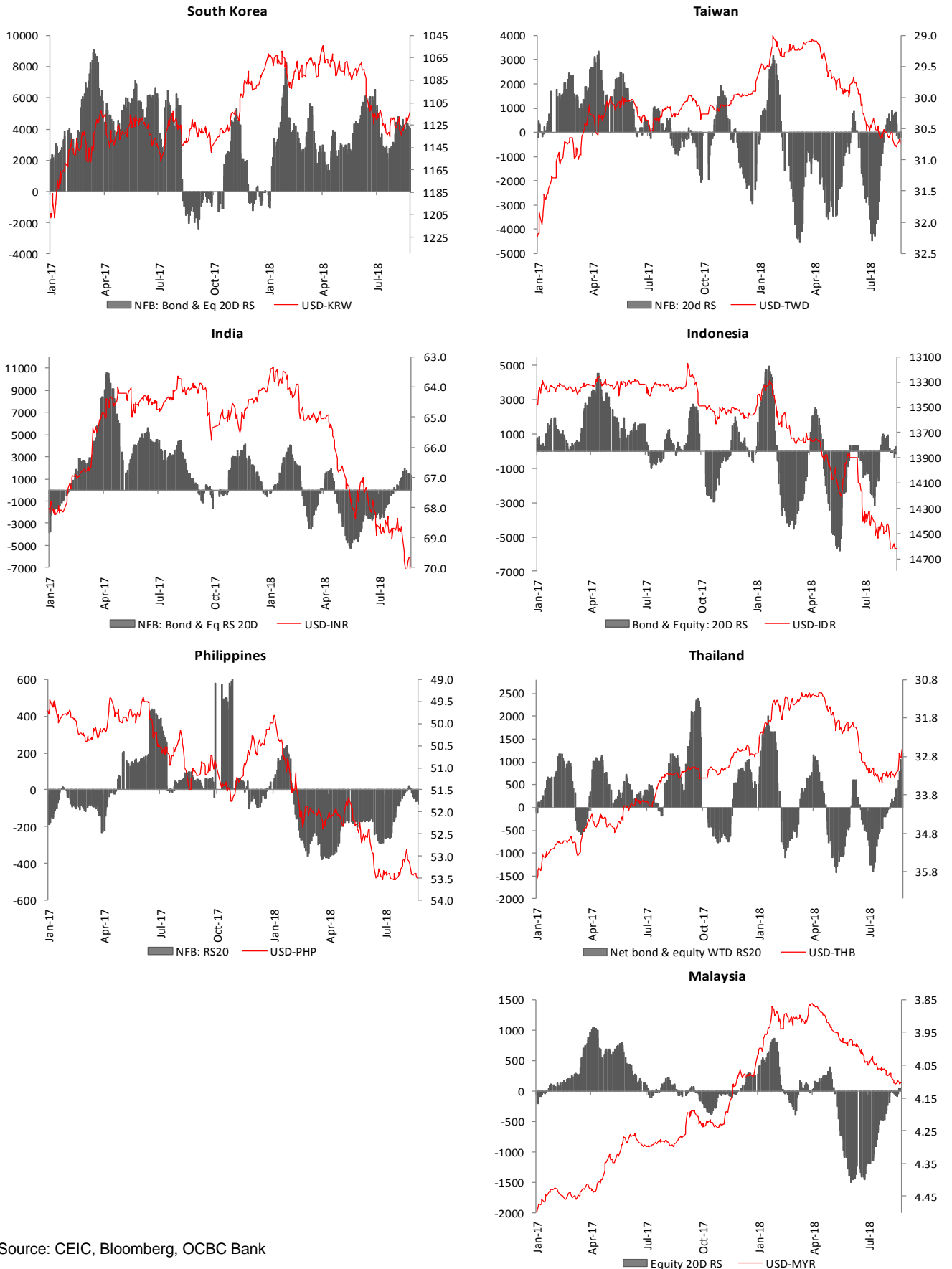
Source: OCBC Bank, Bloomberg

### Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔/↓	Re-instatement of the counter-cyclical factor should give a clear directionality in the short term; a break of the 6.8000 level may lead to further extension on the downside
USD-KRW	↔/↓	Expect to track RMB movements; weaker than expected unemployment print may douse rate hike expectations; BOK meeting in focus, but also expect greater fiscal support for the economy next year
USD-TWD	↔/↓	Expect to track RMB movements; flow dynamics still fluid with no clear directionality
USD-INR	↔/↓	Net inflow momentum in a rolling 20D basis starting to moderate; the air seems thin at altitudes higher than 70.00
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; govt looking to reduce foreign ownership of bonds to around 20% from almost 40% now; renewed efforts to contain trade and CA deficit
USD-THB	↔/↓	2Q GDP firmer than expected; Bank of Thailand striking a new hawkish tone should provide support; inflow momentum still strong
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

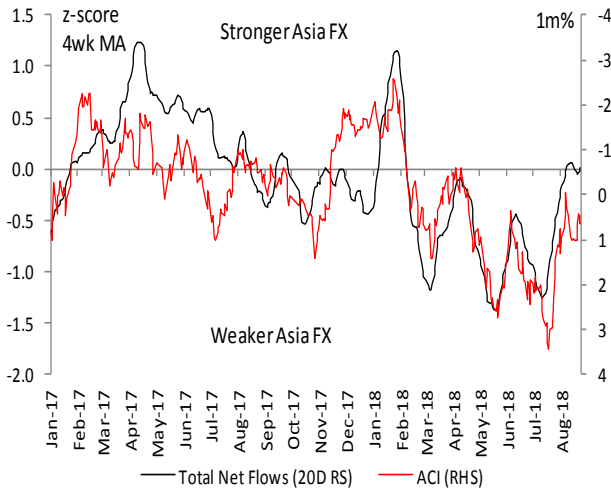
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**



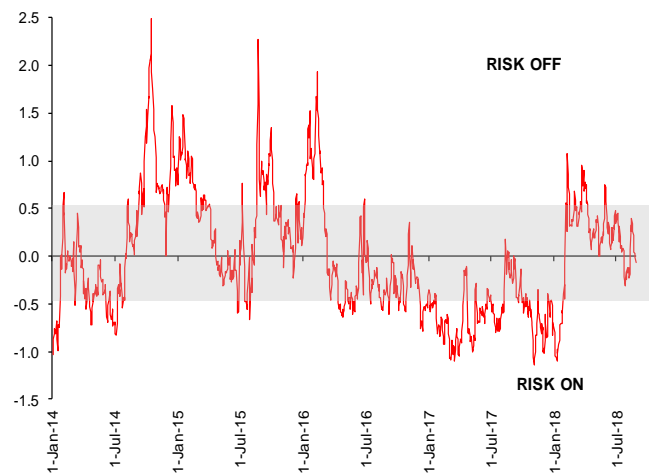
Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**



Source: OCBC Bank

**FX Sentiment Index**



Source: OCBC Bank

**1M Correlation Matrix**

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXXK	CNH	EUR
DXY	1.000	-0.439	0.852	-0.066	-0.732	-0.778	-0.457	-0.762	0.403	0.934	0.738	-0.992
SGD	0.956	-0.414	0.907	-0.162	-0.728	-0.753	-0.341	-0.686	0.483	0.861	0.886	-0.953
CNY	0.852	-0.359	1.000	-0.221	-0.772	-0.801	-0.403	-0.727	0.539	0.857	0.852	-0.855
CAD	0.813	-0.277	0.728	-0.333	-0.489	-0.602	-0.338	-0.634	0.574	0.752	0.688	-0.810
TWD	0.749	-0.753	0.725	0.203	-0.848	-0.829	-0.499	-0.613	0.485	0.687	0.504	-0.706
CNH	0.738	-0.129	0.852	-0.392	-0.517	-0.548	-0.143	-0.502	0.481	0.667	1.000	-0.779
KRW	0.723	0.070	0.698	-0.449	-0.509	-0.352	-0.107	-0.313	0.425	0.746	0.722	-0.750
MYR	0.648	-0.904	0.581	0.513	-0.812	-0.779	-0.568	-0.559	0.189	0.583	0.302	-0.589
INR	0.523	-0.871	0.560	0.505	-0.707	-0.708	-0.515	-0.401	0.327	0.460	0.223	-0.446
PHP	0.520	-0.806	0.548	0.156	-0.684	-0.733	-0.557	-0.520	0.517	0.444	0.356	-0.481
IDR	0.519	-0.866	0.521	0.442	-0.765	-0.702	-0.458	-0.399	0.315	0.453	0.296	-0.451
CHF	0.465	0.493	0.374	-0.487	-0.203	-0.105	0.089	-0.375	-0.003	0.520	0.492	-0.568
THB	0.362	0.637	0.309	-0.734	-0.088	0.034	0.276	-0.234	0.081	0.419	0.408	-0.431
USGG10	-0.439	1.000	-0.359	-0.553	0.573	0.632	0.690	0.407	-0.184	-0.371	-0.129	0.377
JPY	-0.457	0.690	-0.403	-0.277	0.498	0.608	1.000	0.548	-0.246	-0.602	-0.143	0.454
AUD	-0.845	0.627	-0.804	0.004	0.712	0.776	0.356	0.578	-0.564	-0.697	-0.691	0.778
GBP	-0.899	0.671	-0.715	-0.315	0.690	0.764	0.593	0.734	-0.190	-0.815	-0.513	0.835
NZD	-0.918	0.648	-0.719	-0.185	0.642	0.779	0.548	0.721	-0.335	-0.810	-0.601	0.871
EUR	-0.992	0.377	-0.855	0.132	0.723	0.768	0.454	0.779	-0.413	-0.949	-0.779	1.000

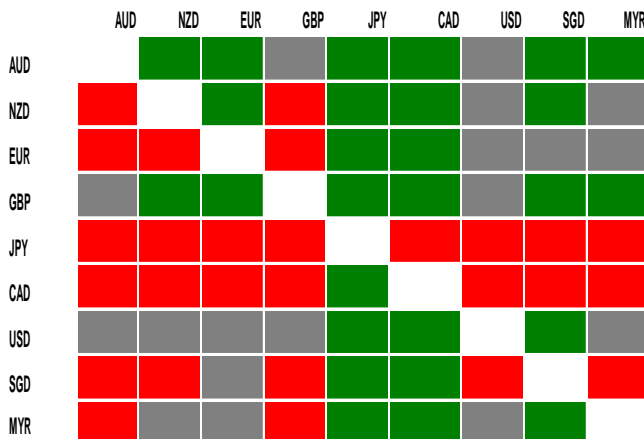
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1600	1.1614	1.1672	1.1700	1.1740
GBP-USD	1.2662	1.2800	1.2873	1.2900	1.3049
AUD-USD	0.7219	0.7300	0.7332	0.7374	0.7400
NZD-USD	0.6545	0.6600	0.6689	0.6700	0.6749
USD-CAD	1.2938	1.2950	1.2975	1.3000	1.3122
USD-JPY	111.00	111.09	111.35	111.86	112.00
USD-SGD	1.3585	1.3600	1.3643	1.3654	1.3700
EUR-SGD	1.5856	1.5900	1.5924	1.5963	1.5998
JPY-SGD	1.2183	1.2200	1.2252	1.2292	1.2300
GBP-SGD	1.7455	1.7500	1.7562	1.7600	1.7816
AUD-SGD	0.9945	1.0000	1.0003	1.0068	1.0100
Gold	1172.14	1200.00	1209.00	1228.21	1229.13
Silver	14.32	14.80	14.81	14.90	15.51
Crude	65.16	68.80	68.84	68.90	69.16

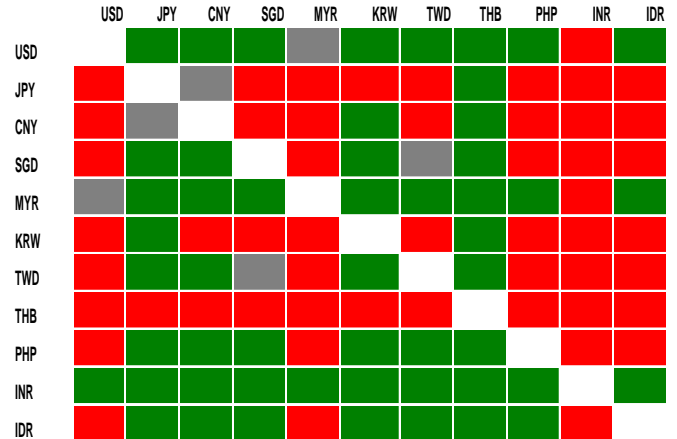
Source: OCBC Bank

**G10 FX Heat Map**



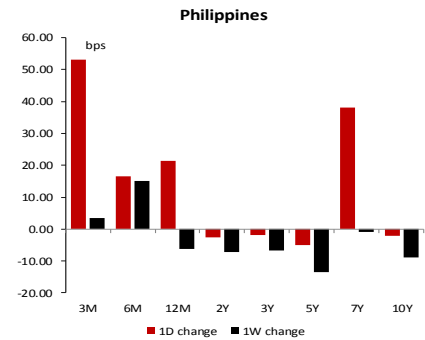
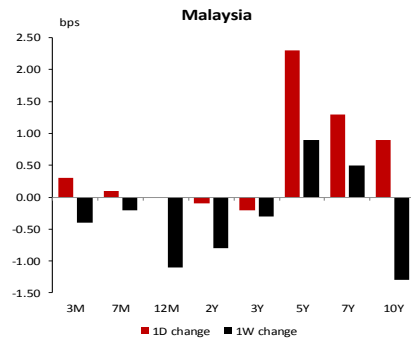
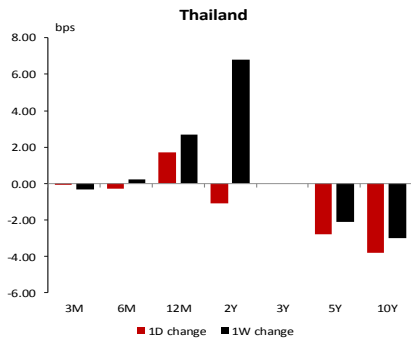
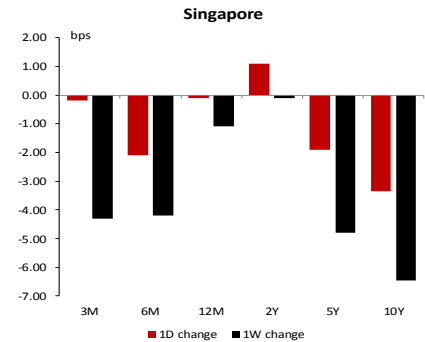
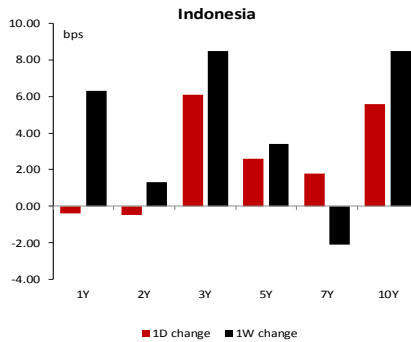
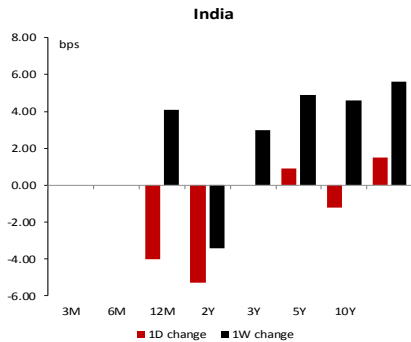
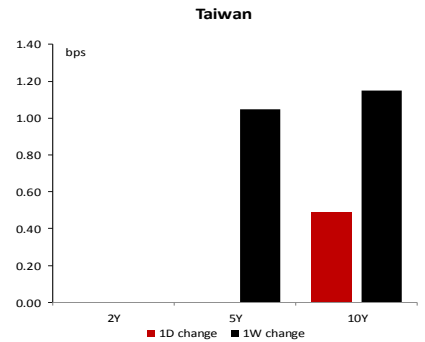
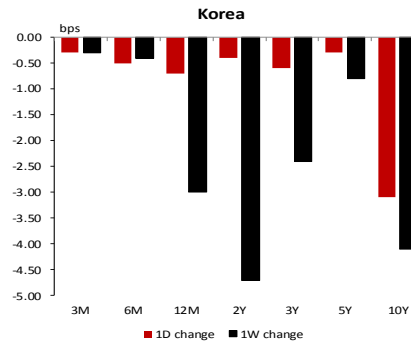
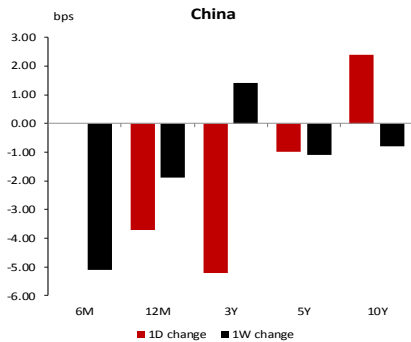
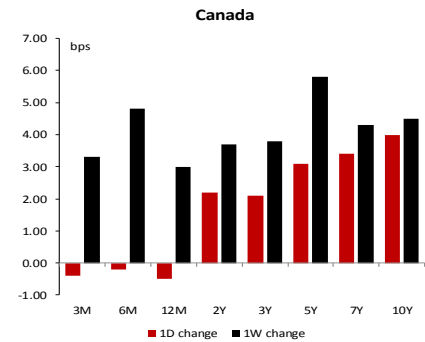
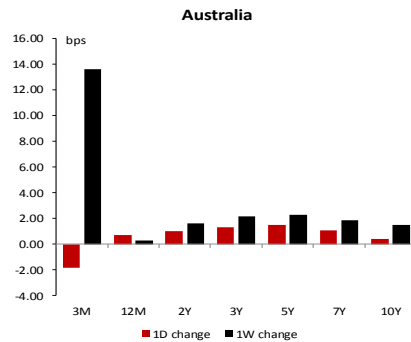
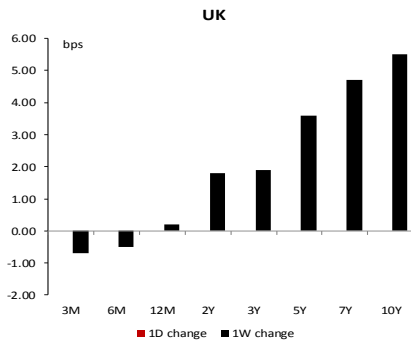
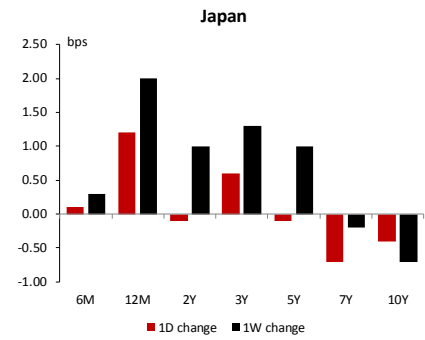
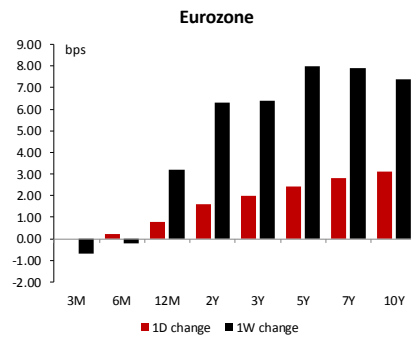
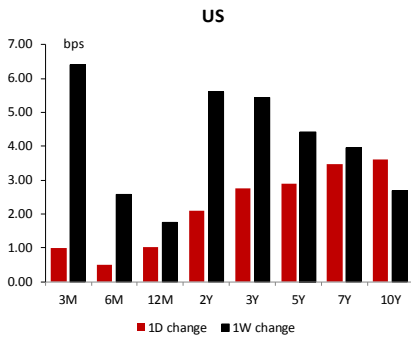
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

**Government bond yield changes**



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