

Thursday, June 28, 2018

**FX Themes/Strategy/Trading Ideas**

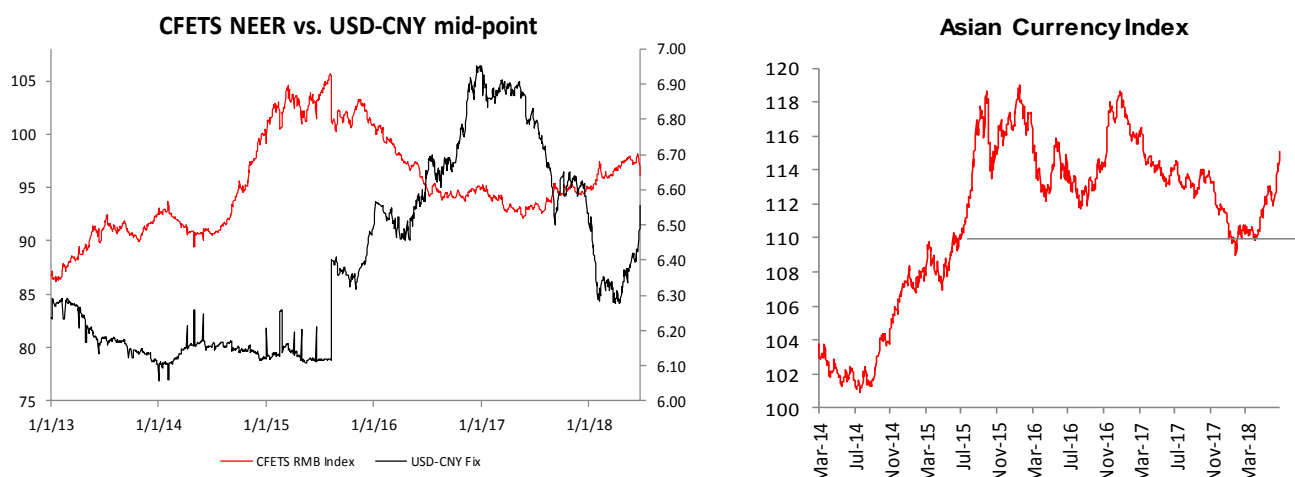
- The USD stepped higher overnight, with the DXY index pushing close to 95.50, before easing to close at 95.29. Risk-off tone continues to dominate trading, with antipodeans underperforming and 10y UST yields falling towards the 2.80% level. The EUR and GBP also took a hit on political concerns.
- Broad USD prospects over the near term continue to be driven by the EUR. Shorts flushed out in the EUR's run to 1.1700 appeared to re-engage, emboldened by unresolved tensions over immigration within Merkel's coalition. Next discussions scheduled on Sunday, and further failure may set a negative tone for the EUR early next week.
- Of more immediate concern is the ECB minutes (0800 GMT) and German CPI prints (1200 GMT) today, before the French and aggregate CPI prints tomorrow. This coincides with US GDP (1230 GMT) today and PCE inflation tomorrow. **Disappointment relative to the US data-prints today may pressure the EUR to retest the 1.1509 lows**
- Trade issues cloud central banks' appetite for more policy normalization. Note Bank of Canada's (BOC) Poloz sounding cautious over the trade issues. He is expected to factor its impacts into the next policy decision. This dampened rate hike expectations at the BOC. Note that market implied odds for a rate hike fell to evens, from above 60% before the speech and close to 80% after the last policy meeting.
- The **Reserve Bank of New Zealand** (RBNZ) held rates unchanged, essentially delivering a dovish hold. Rate cut risks remains very real at RBNZ, perhaps the most dovish in the G10 space apart from the Bank of Japan.
- Elsewhere in the central bank space, watch BOE's Haldane (1330 GMT) and Fed's Bullard (1445 GMT). Note that Haldane's switch to voting for a rate hike inspired expectations for the BOE to hike in August, and provided tailwind for the GBP (although dissipated by now). Watch for further clarification from him, with the GBP perhaps seeing a temporary lift if he comes out hawkish.
- On the data front, watch also for US initial jobless claims and continuing claims (1230 GMT).

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## Asian FX

- The White House continues to flip-flop on trade issues. Early signs were positive as Trump decided against using emergency powers to curb Chinese investment. Instead, he favoured the expansion of investigative powers of a Congress-based committee on tech investments. Legislation to put this in action will take months to get through Congress, and we think this may no longer be an issue in the near term.
- However, Kudlow later came out claiming that Trump will not retreat on China. At this stage, the 6 July deadline for tariff imposition is barely one week away, and there are no signs of ongoing negotiation (at least not to public knowledge). We think there is a real chance that the first round of tariffs on US\$34bn worth on imports will be imposed.
- Comments from Kudlow, together with broad-based EM FX weakness, soured risk appetite overnight. Our **FX Sentiment Index (FXSI)** marched again towards the Risk-Off zone, but still staying below that level.
- **Expect risk sentiments to remain edgy into the end of the week, and throughout next week till 6 July. Expect the Asian Currency Index (ACI) to buoyant into the end of the week.**
- In terms of **Asian portfolio flows**, the country-specific picture remains similar to recent sessions, with heaviest outflows centred on Taiwan equities. Note however, aggregated equity outflows on a rolling 60D basis are at historically stretched levels. Further equity outflows from current levels may be limited, with a turn in fortunes perhaps close by. Aggregated bond flows remain in inflow territory, well within historical confines.
- **SGD NEER:** The SGD NEER held approximately constant this morning, standing around +0.17% above its perceived parity level (1.3693). The NEER-implied USD-SGD thresholds were firmer as the broad USD pushed to year-to-date highs. Continue to expect the pair to fluctuate within the corridor set by the -0.10% (1.3706) and +0.30% (1.3652) thresholds intra-day.
- **Singapore:** The USD-SGD is pushing against long term technical levels at 200 week-MA (1.3645) and 100 week-MA (1.3685). Expect some resistance around these levels, ahead of 1.3700 and 1.3714.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, by less than expected, at 6.5960 compared to 6.5569 on Wednesday. The CFETS RMB Index weakened marginally to 95.84, compared to 96.15 previously.
- **China:** Note that the midpoint is fixed lower than market consensus for the third consecutive session. While the PBoC may be seeking to curtail the pace of depreciation, we think efforts on this front will be half-hearted at best for now. Note that the RMB is still firmer year-to-date on a basket basis. Serious considerations to rein in on the pace of depreciation may not be forthcoming until the CFETS RMB Index edges close to 95.00. Today's fix appears to be an attempt to keep to long-held daily percentage deviation thresholds, in order to limit volatility on the spot.



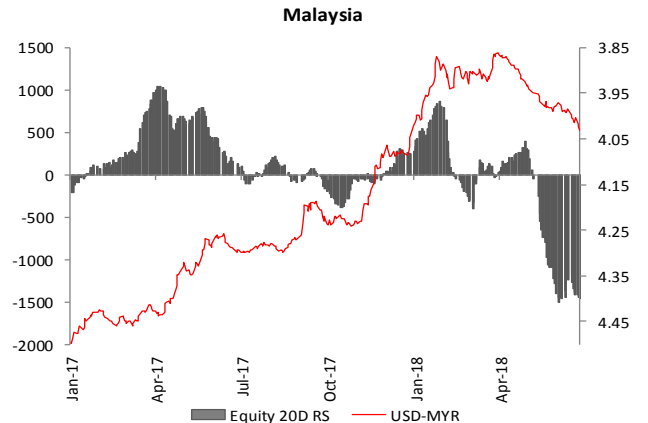
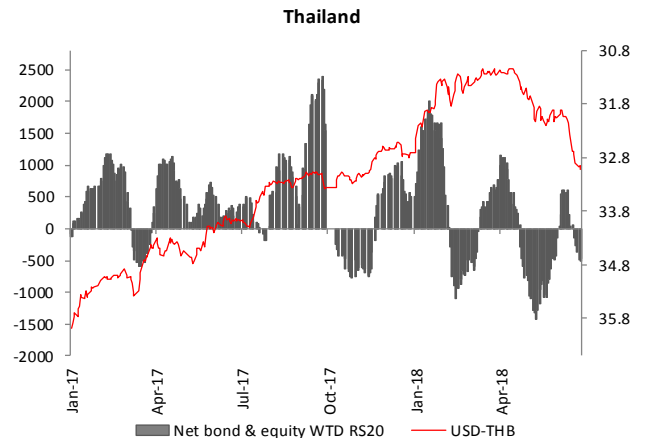
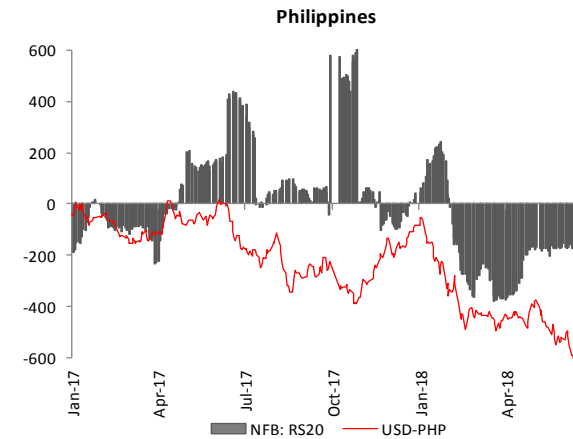
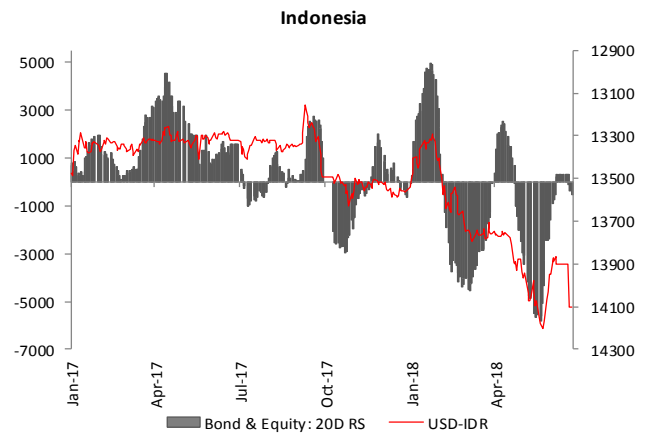
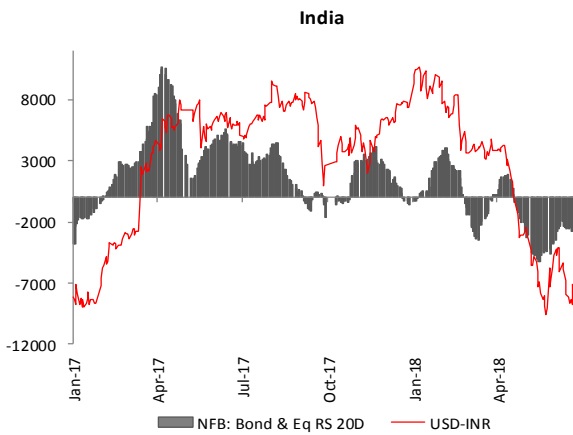
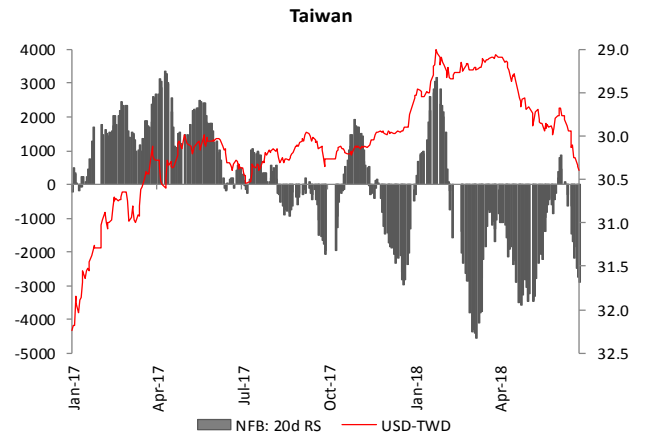
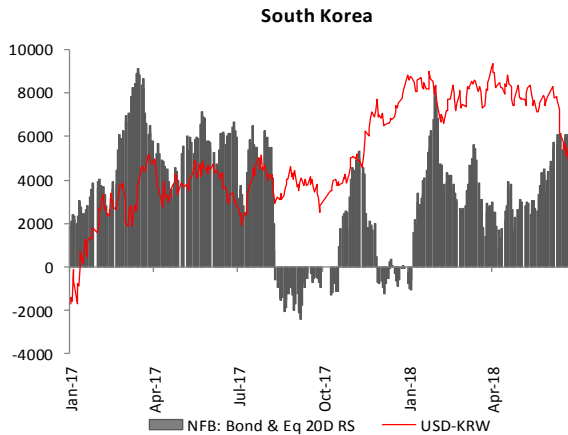
Source: OCBC Bank, Bloomberg

### Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↑	Sino-US trade tensions becoming base case, 6 July is the key date; rapid depreciation of the RMB complex putting upward pressure on USD-Asia as a whole; USD-CNY midpoint fix coming in lower than consensus, perhaps reflecting some intention to hold back the pace of RMB depreciation.
USD-KRW	↑	Net portfolio inflows remain at healthy levels; may suffer significant collateral damage if Sino-US trade war escalates; minutes of the 24 May BOK meeting reveal discussion towards reducing policy accommodation
USD-TWD	↑	Equity outflows re-asserting after short reprieve; pair led higher by the weakening RMB complex
USD-INR	↔/↑	May inflation prints in line, but continue to show accelerating price pressures; current account deficit widened more than expected; RBI ease foreign ownership caps on government bonds while using OMO to support the local bond market
USD-SGD	↑	Latest MAS Survey reflects an easing of inflation projections; SGD NEER near parity, but watch economic prints for any deterioration; pair responsive to broad USD movements
USD-MYR	↑	Shifts in policy direction under PH government may spur re-assessment of asset markets; sustained net equity outflows following election outcome
USD-IDR	↑	Coordinated effort by the government and BI may limit USD-IDR gains, but will not fundamentally reverse the trend; further rate hike expected this week; wider than expected trade balance negative for IDR
USD-THB	↑	BOT remains a laggard among the Asian central banks, keeping rates unchanged in the latest meeting; note official tolerance over weakening THB; bond outflows re-asserting after a short reprieve
USD-PHP	↑	BSP hiked rates in the latest meeting, signaling further rate hikes to come; PHP remains pressured due to intensifying outflows

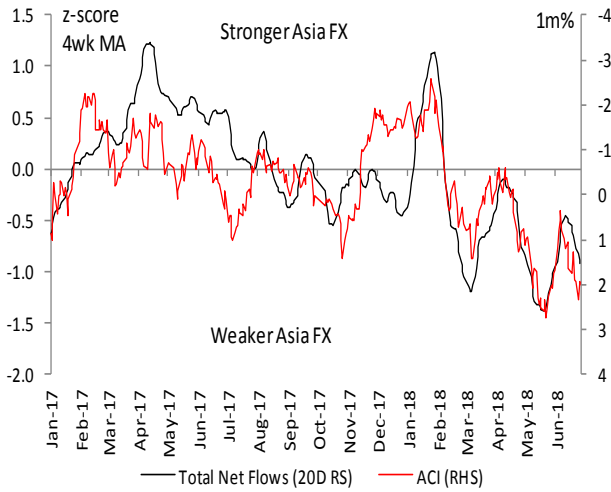
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows



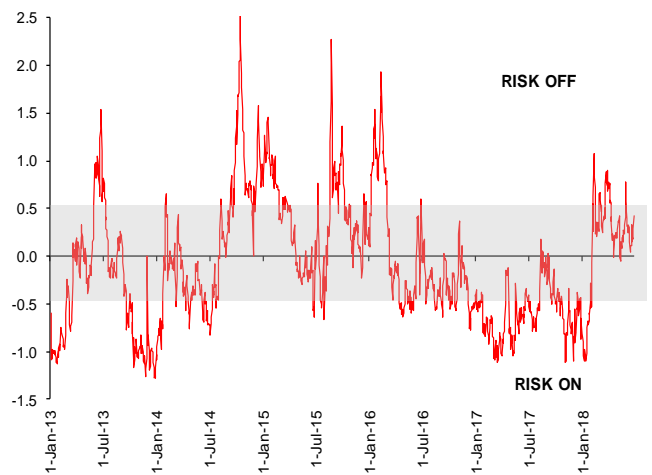
Source: CEIC, Bloomberg, OCBC Bank

**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	-0.553	0.647	-0.308	-0.713	-0.528	0.279	0.466	0.422	0.209	0.723	-0.959
USGG10	0.915	-0.320	0.442	-0.056	-0.514	-0.481	0.421	0.341	0.181	-0.002	0.536	-0.886
CNY	0.857	-0.533	0.926	-0.349	-0.900	-0.662	0.311	0.647	0.582	0.497	0.940	-0.715
SPX	0.820	-0.554	0.935	-0.428	-0.922	-0.616	0.241	0.758	0.777	0.718	0.930	-0.653
MSELCPAF	0.803	-0.341	0.862	-0.129	-0.777	-0.807	0.496	0.505	0.393	0.372	0.878	-0.619
CRY	0.786	-0.463	0.829	-0.259	-0.802	-0.592	0.316	0.551	0.544	0.540	0.837	-0.638
JPY	0.755	-0.372	0.918	-0.181	-0.863	-0.737	0.468	0.581	0.462	0.450	0.914	-0.551
CL1	0.751	-0.519	0.922	-0.326	-0.859	-0.733	0.344	0.527	0.599	0.567	0.919	-0.595
VIX	0.725	-0.554	0.944	-0.496	-0.963	-0.517	0.119	0.707	0.733	0.643	0.945	-0.583
ITRXXK	0.723	-0.563	0.994	-0.452	-0.919	-0.519	0.275	0.814	0.679	0.626	1.000	-0.562
CNH	0.720	-0.636	0.924	-0.387	-0.868	-0.567	0.348	0.773	0.721	0.766	0.943	-0.575
EUR	0.670	-0.117	0.762	0.063	-0.698	-0.737	0.629	0.426	0.292	0.342	0.762	-0.460
DXY	0.647	-0.490	1.000	-0.476	-0.930	-0.516	0.215	0.757	0.696	0.648	0.994	-0.472
USGG10	0.279	0.475	0.215	0.666	-0.015	-0.621	1.000	0.024	-0.449	-0.317	0.275	-0.084
CNY	-0.553	1.000	-0.490	0.890	0.628	-0.189	0.475	-0.625	-0.861	-0.674	-0.563	0.619
SPX	-0.886	0.657	-0.876	0.485	0.881	0.514	-0.185	-0.714	-0.680	-0.577	-0.918	0.787
MSELCPAF	-0.900	0.492	-0.832	0.239	0.832	0.673	-0.368	-0.555	-0.482	-0.419	-0.859	0.771
CRY	-0.945	0.628	-0.753	0.429	0.839	0.460	-0.197	-0.617	-0.564	-0.373	-0.815	0.875
JPY	-0.959	0.619	-0.472	0.398	0.608	0.320	-0.084	-0.390	-0.432	-0.161	-0.562	1.000

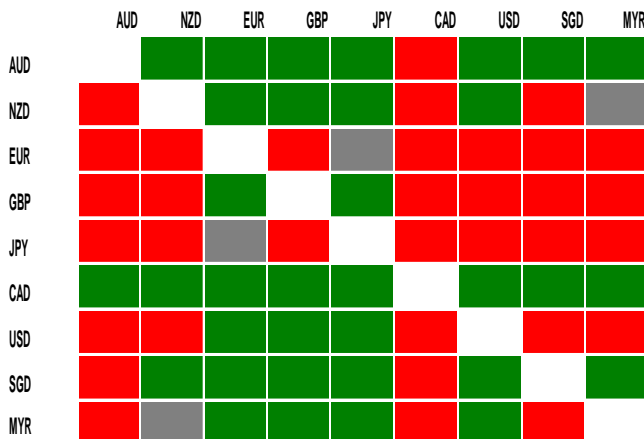
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1507	1.1509	1.1570	1.1600	1.1806
GBP-USD	1.3100	1.3102	1.3117	1.3200	1.3454
AUD-USD	0.7300	0.7324	0.7359	0.7400	0.7523
NZD-USD	0.6700	0.6769	0.6780	0.6787	0.6800
USD-CAD	1.2969	1.3300	1.3333	1.3386	1.3400
USD-JPY	109.75	110.00	110.16	110.20	110.74
USD-SGD	1.3407	1.3600	1.3670	1.3685	1.3700
EUR-SGD	1.5556	1.5800	1.5816	1.5827	1.5900
JPY-SGD	1.2216	1.2400	1.2409	1.2464	1.2478
GBP-SGD	1.7773	1.7900	1.7931	1.8000	1.8035
AUD-SGD	0.9981	1.0000	1.0059	1.0085	1.0100
Gold	1248.07	1252.30	1254.10	1298.77	1300.00
Silver	15.95	16.00	16.09	16.10	16.51
Crude	71.62	72.50	72.56	72.60	73.06

Source: OCBC Bank

**G10 FX Heat Map**



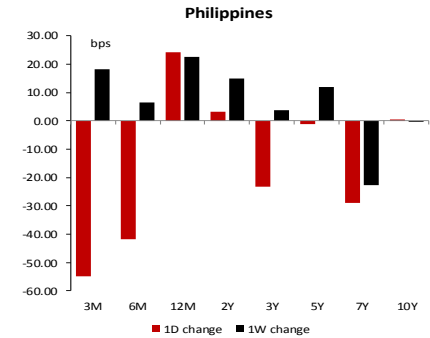
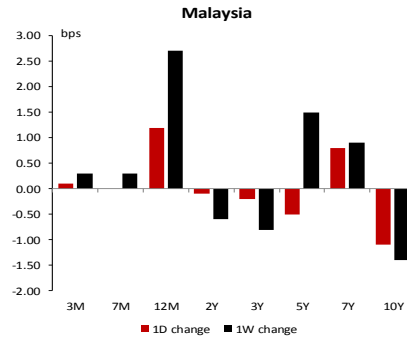
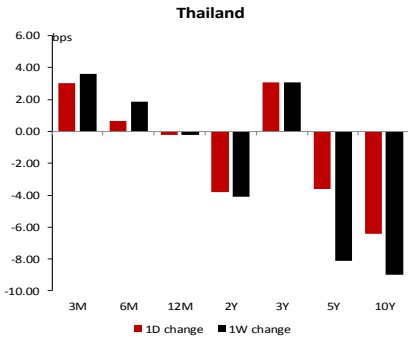
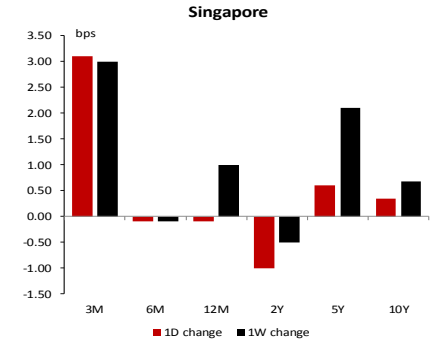
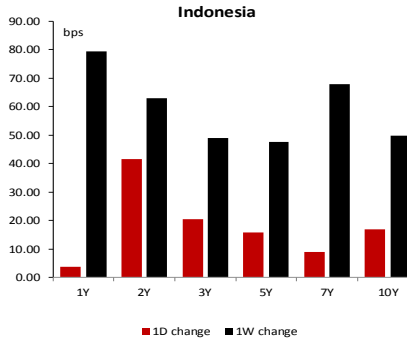
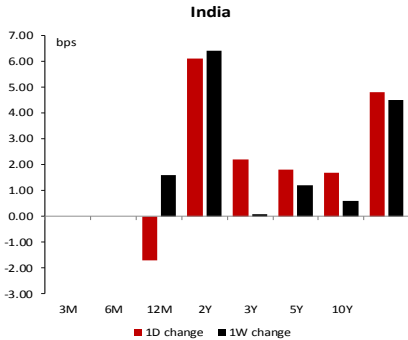
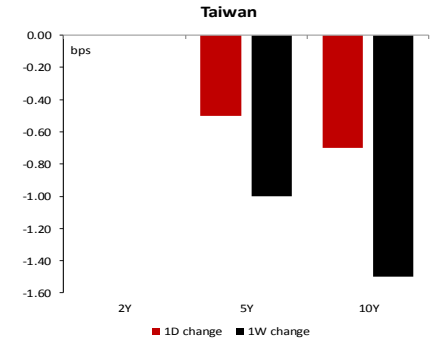
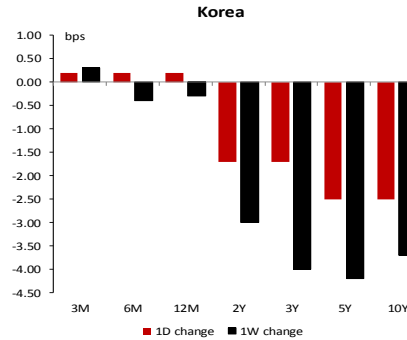
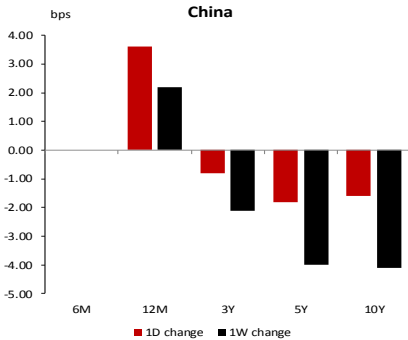
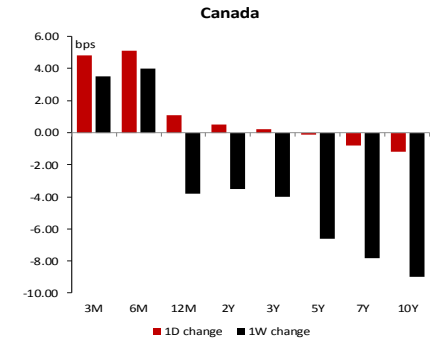
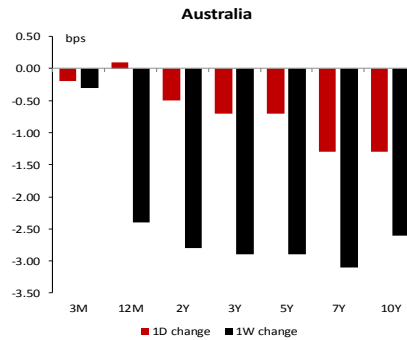
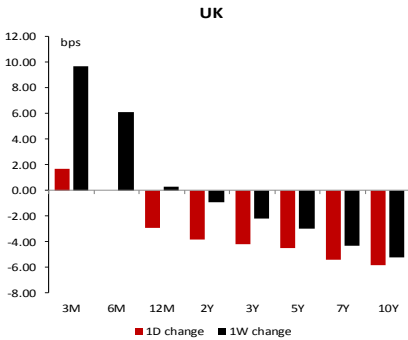
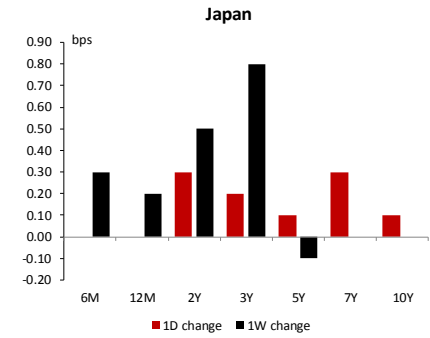
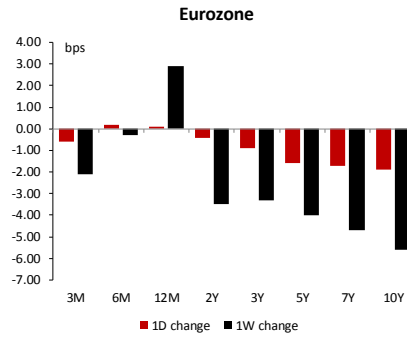
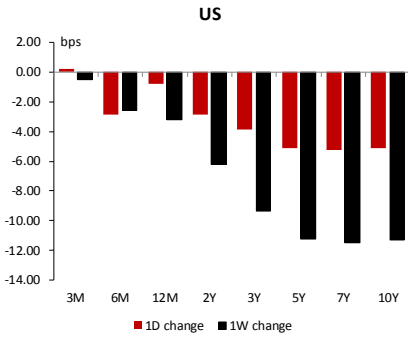
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

**Government bond yield changes**



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