

Monday, May 28, 2018

FX Themes/Strategy/Trading Ideas

- The broad USD moved firmer on Friday, with the DXY closing at a high of 94.25, even though long-end UST yields were softer on the day. Meanwhile, the 10y UST yield continued to fade, closing at 2.93% on Friday. The EUR and GBP underperformed on idiosyncratic political concerns.
- The broad USD has regained traction with yield differentials in its move higher since mid-April, after effectively being disengaged from it since 4Q17. This correlation should continue to sustain, although the broad USD may see limited support from yield differentials at this juncture. **Note that yield differential arguments are less favourable to the USD compared to a week ago.**
- In terms of USD positioning, we continue to see non-commercial and asset manager accounts reducing their implied net USD shorts in the latest week. However, the pace of reduction has halved compared to the previous week. Despite some positioning shift since mid-April, note that asset manager accounts continue to sit on significant net implied USD shorts.
- Leveraged accounts, on the other hand, increased their implied net USD longs significantly in the latest week. Short bets on the EUR and AUD continued to pile up, while the NZD positioning flipped into a net short as well. Watch whether leveraged accounts will continue build implied USD longs going forward, especially with the recent decline in long-end UST yields.
- **Overall, we urge caution in chasing the USD higher from here. With long-end yields on a slippery footing, we might see the broad USD undergoing a consolidative phase, with the markets contemplating the longevity of this round of USD strength.**
- A heavy schedule of central bank speakers is planned for this week. ECB speakers will be on tap early week, with Visco, Mersch, Lautenschlaeger, Villeroy and Coeure all scheduled on Tuesday. Fed-speak will feature Bullard (Tuesday and Thursday), Bostic, Brainard (both Thursday), Kaplan and Kashkari (both Friday). Watch also for BOJ's Kuroda (Wednesday), and **Bank of Canada's** rate decision on Wednesday.
- Global PMIs at the end of the week will headline the data calendar. Watch also for a slew of GDP, CPI and retail sales data from Europe. In the US, watch for GDP, PCE inflation and nonfarm payrolls (Wednesday through Friday).

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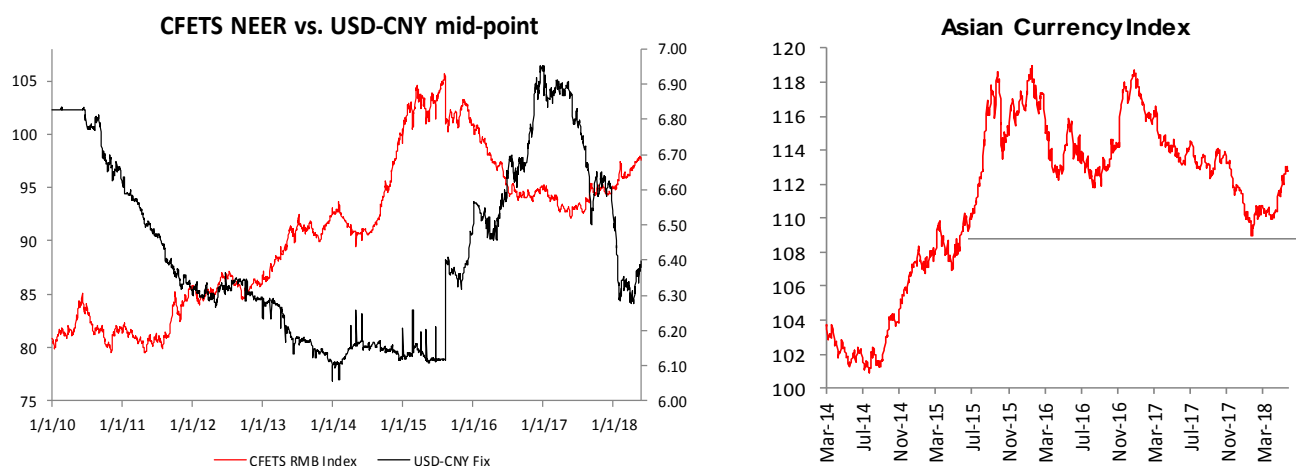
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Asian FX

- Weak closing for US/EU equities on Friday contributed to overall risk sentiments worsening, while staying within Risk Neutral territory. Note that our **FXSI (FX Sentiment Index)** is grinding higher towards the Risk-off zone, even without a headline risk event. The seeming rapprochement between Trump and Kim may, however, lead to better risk sentiments this week. Nevertheless, we continue urge caution with background trade and geopolitical issues still evolving.
- **Net portfolio flows** into Asia continue to show a distinct North-South divide. Inflows into South Korea continued to build, with improvements seen in both equity and bond flows. Outflow compression continues apace in Taiwan, and we should be near neutral position by the end of the week should this momentum persists. Meanwhile, Indonesia continues to see persistent equity and bond outflows, although marginal improvements were seen late last week. India, Thailand and Malaysia continue to experience persistent outflows on a rolling 20D basis.
- As such, the **ACI (Asian Currency Index)** may continue to be led by broad USD directionality at the start of the week. Note that net portfolio flows still provide limited support. Risk sentiments appear to be improving following Trump-Kim ties, but remain cautious due to the fluid nature of events. **A pause in broad USD momentum may induce a dip in the ACI, but we think any such movement will remain shallow at this juncture.**
- **India:** A short squeeze was seen on Friday, spurred by a plunge in crude oil prices and selling of USD by state-owned banks. The INR and govies were pushed higher after recent declines. At this juncture, we still see this as a short term relief, rather than a turn in INR directionality.
- **Indonesia:** The Bank Indonesia (BI) governor, Perry Warjiyo, has called for an unscheduled policy meeting on Wednesday. Market expectations are for another rate hike following the increase on 17 May. Note that the IDR has reacted positively, gaining 0.85% against the USD to 14000 this morning. Expect the BI to put IDR stability over macroeconomic outcomes in formulating monetary policy over the near term. This puts another rate hike on Wednesday firmly into view.
- **SGD NEER:** The SGD NEER is firmer this morning, standing at around +0.54% above its perceived parity (1.3467). NEER-implied USD-SGD thresholds are slower to start the week. A range between +0.40% (1.3413) to +0.70% (1.3373) should continue to bookend intra-day. Without significant releases this week, expect the SGD to be driven mainly by USD directionality. Watch for downside support at the 200-day MA (1.3369), with topside potentially capped near 1.3470.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within expectations, at 6.3962 this morning from 6.3867 on Friday. The CFETS RMB Index is correspondingly lower at 97.57, compared to 97.63 previously.



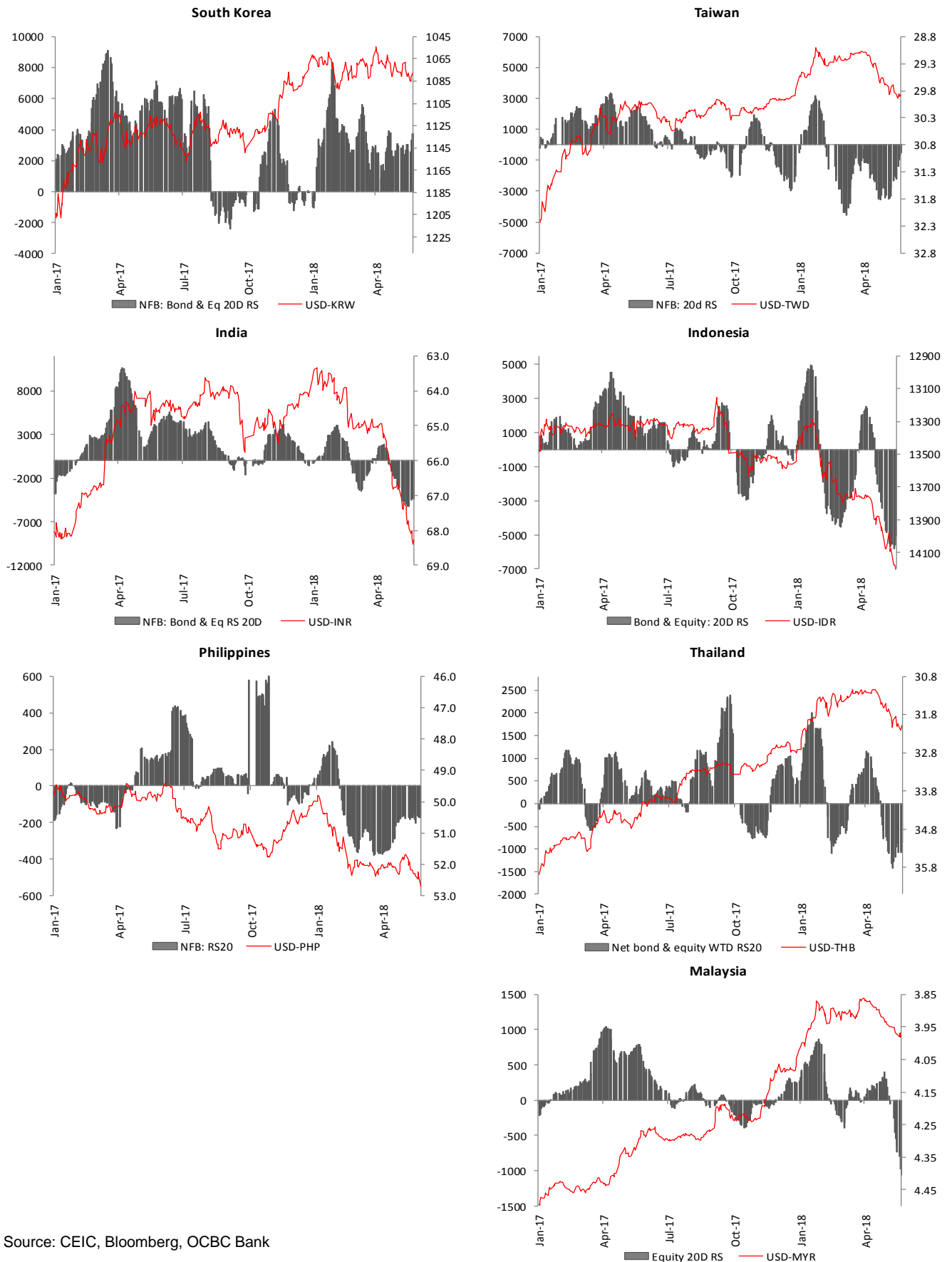
Source: OCBC Bank, Bloomberg

Short term Asian FX views

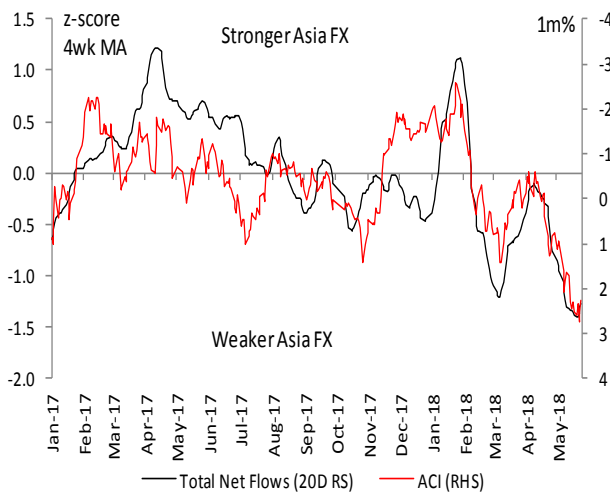
Currency	Bias	Rationale
USD-CNH	↑	RRR cut, relative stability of RMB Index, RMB to shoulder potential volatility instead, near term truce in Sino-US trade tensions following Liu He's visit to the US, USD-CNY midpoints still habitually above neutral models
USD-KRW	↔/↑	Evolving state of affairs over the Korean peninsula; 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	↔/↑	Net portfolio outflows deepening, carry strategy under reassessment; BI hiked in the 17 May meeting, unscheduled meeting called for on 30 May, with market expectations for a second hike
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

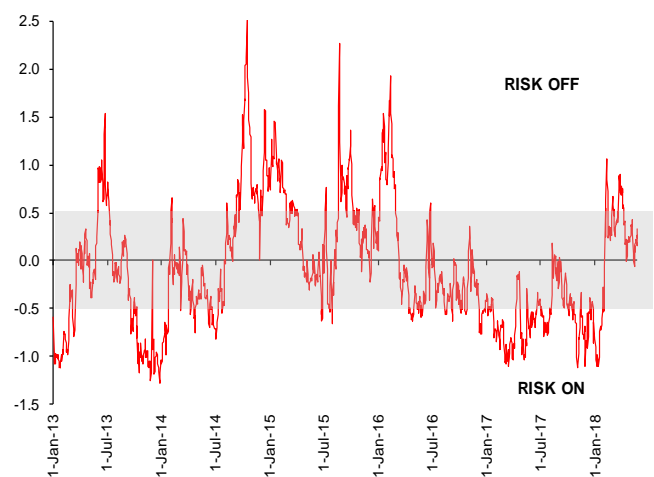
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

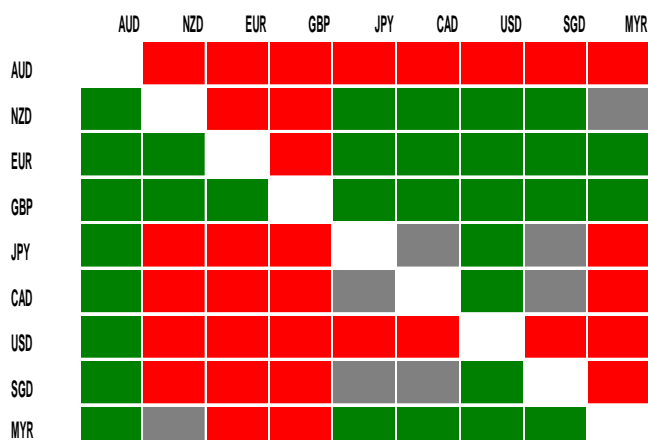
	DX	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DX	1.000	0.455	0.882	0.675	0.257	0.700	0.491	0.329	-0.692	0.749	0.819	-0.994
MYR	0.972	0.496	0.820	0.865	0.447	0.802	0.588	0.648	-0.904	0.694	0.685	-0.970
IDR	0.928	0.489	0.814	0.713	0.266	0.803	0.627	0.638	-0.723	0.667	0.656	-0.913
TWD	0.919	0.513	0.757	0.724	0.325	0.749	0.630	0.629	-0.742	0.604	0.665	-0.919
CNY	0.882	0.290	1.000	0.264	-0.062	0.445	0.435	0.222	-0.244	0.727	0.872	-0.850
INR	0.839	0.566	0.650	0.840	0.484	0.826	0.628	0.704	-0.772	0.516	0.432	-0.843
SGD	0.827	0.540	0.690	0.625	0.387	0.556	0.526	0.500	-0.639	0.350	0.742	-0.840
PHP	0.821	0.431	0.623	0.828	0.535	0.619	0.521	0.421	-0.762	0.715	0.528	-0.828
CNH	0.819	0.150	0.872	0.244	-0.086	0.357	0.194	0.020	-0.311	0.662	1.000	-0.821
THB	0.807	0.649	0.608	0.766	0.392	0.748	0.687	0.799	-0.774	0.353	0.487	-0.803
KRW	0.599	0.357	0.655	0.197	-0.340	0.418	0.463	0.283	-0.243	0.544	0.591	-0.553
JPY	0.491	0.876	0.435	0.490	0.476	0.461	1.000	0.569	-0.369	0.110	0.194	-0.449
USGG10	0.455	1.000	0.290	0.532	0.506	0.398	0.876	0.688	-0.391	-0.074	0.150	-0.430
CAD	0.370	-0.355	0.463	-0.287	-0.332	-0.300	-0.301	-0.578	0.245	0.466	0.659	-0.368
AUD	0.161	-0.095	-0.039	0.329	-0.100	0.492	0.036	0.092	-0.334	0.437	-0.095	-0.154
CHF	-0.040	0.270	-0.103	0.084	0.246	0.028	0.113	0.447	-0.128	-0.498	0.035	0.025
NZD	-0.776	-0.716	-0.537	-0.770	-0.676	-0.563	-0.632	-0.516	0.677	-0.291	-0.524	0.792
GBP	-0.949	-0.273	-0.800	-0.666	-0.239	-0.741	-0.336	-0.271	0.722	-0.739	-0.807	0.954
EUR	-0.994	-0.430	-0.850	-0.704	-0.287	-0.712	-0.449	-0.339	0.730	-0.741	-0.821	1.000

Source: Bloomberg

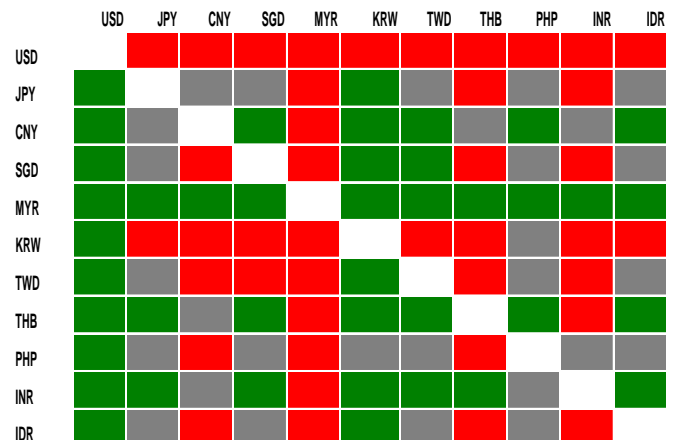
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1646	1.1700	1.1708	1.1800	1.2020
GBP-USD	1.3300	1.3312	1.3319	1.3400	1.3576
AUD-USD	0.7452	0.7500	0.7566	0.7599	0.7600
NZD-USD	0.6853	0.6900	0.6941	0.7000	0.7048
USD-CAD	1.2900	1.2974	1.2986	1.2998	1.3000
USD-JPY	108.57	109.00	109.46	110.00	110.21
USD-SGD	1.3313	1.3369	1.3396	1.3400	1.3467
EUR-SGD	1.5622	1.5643	1.5685	1.5700	1.6042
JPY-SGD	1.2133	1.2200	1.2239	1.2245	1.2300
GBP-SGD	1.7800	1.7833	1.7843	1.7855	1.7900
AUD-SGD	1.0096	1.0100	1.0136	1.0182	1.0200
Gold	1281.20	1281.39	1297.20	1300.00	1306.48
Silver	16.11	16.40	16.48	16.49	16.50
Crude	65.56	66.30	66.33	66.40	66.77

Source: OCBC Bank

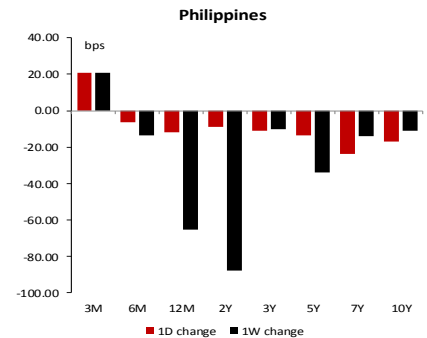
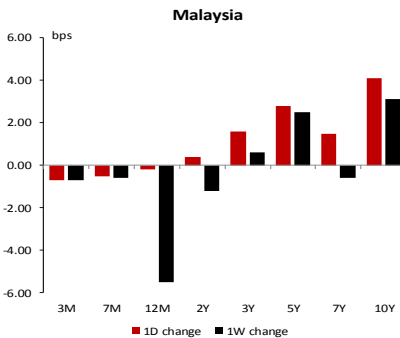
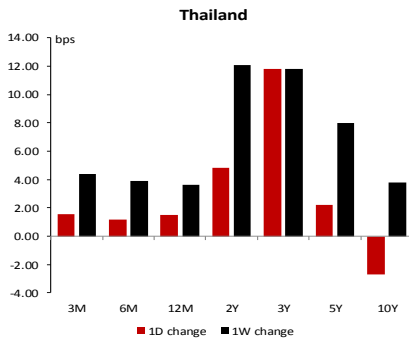
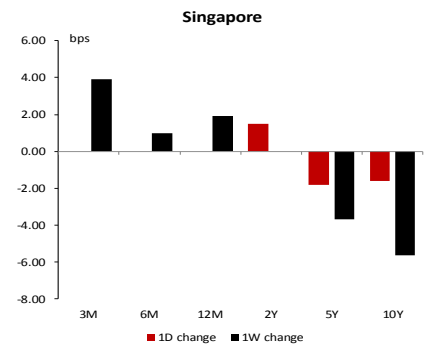
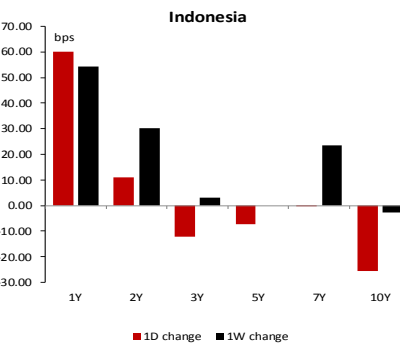
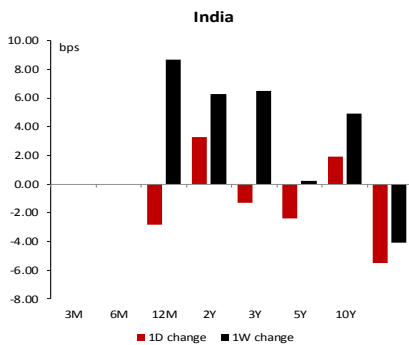
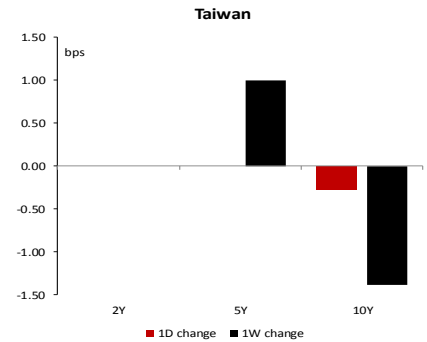
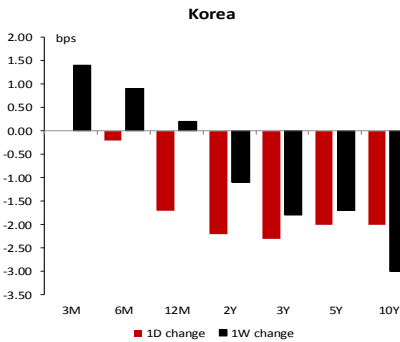
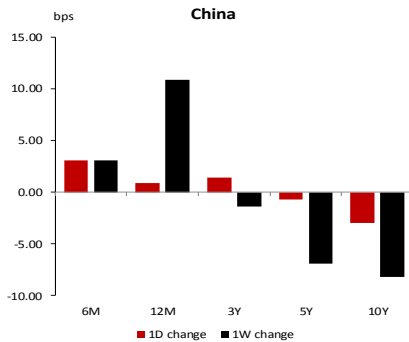
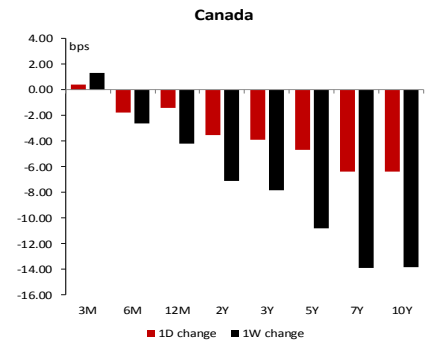
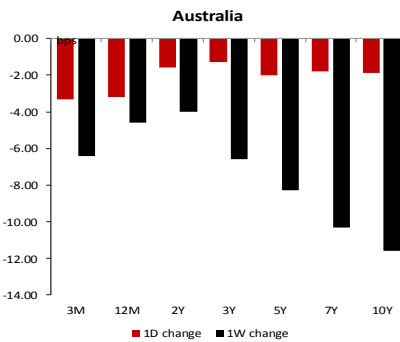
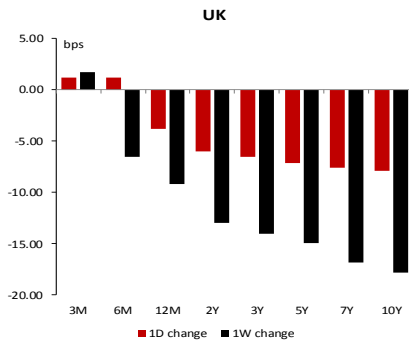
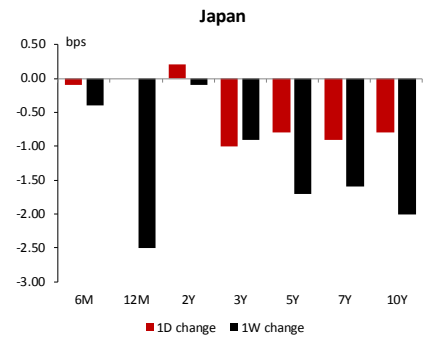
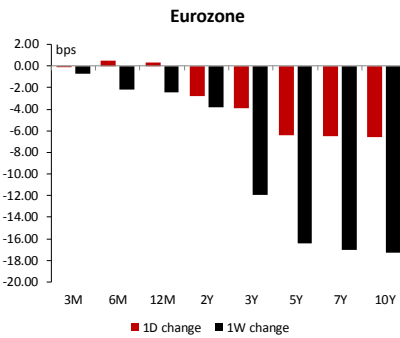
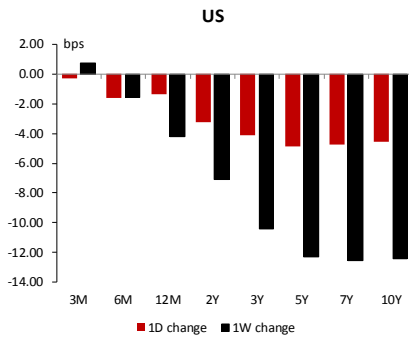
G10 FX Heat Map

Source: OCBC Bank

Asia FX Heat Map

Source: OCBC Bank

Government bond yield changes



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