

Wednesday, May 30, 2018

FX Themes/Strategy/Trading Ideas

- A general risk-off tone took over the markets, with haven currencies like the JPY and CHF outperforming against the USD, and 10y UST yields slipping under 2.80%. With the Italian political situation in the spotlight, the EUR saw the largest decline yesterday, hitting near 1.1510 levels before rebounding.
- The trigger for this round of risk aversion appears to be the 10y Italian-German government bond yield spread, which widened to levels last seen in 2013. EUR 1-month implied volatility widened in response. **Note also that the 1-year implied volatility also jumped higher, indicating that the markets do not see a resolution in the Italian issues over the near term.** The EUR risk reversals continue to favour EUR puts at this juncture. Our implied valuation model also points to further downside for the EUR. Expect some near term support at 1.1500, although that looks increasingly shaky given the current climate.
- Apart from the Italian situation, the re-ignition of the Sino-US trade tensions will also dampen risk sentiments going forward. Trump's latest announcement to impose a 25% tariff on US\$50bn worth of Chinese imports may reverse any progress achieved over the past weeks. In this context, the **FXSI (FX Sentiment Index)** lurched into the Risk-off zone for the first time since early April. Expect risk aversion to take hold over the next couple of sessions, especially if trade rhetoric from Trump worsens further.
- Overall, broad USD directionality may be increasingly diffused going forward. The DXY index may still edge higher, but that is mechanical and due to the large weightage of EUR. **Yield differential arguments and other US-centric drivers may fall into the wayside, in favour of risk aversion and idiosyncratic political headlines in Europe.**
- On the central bank front, note that ECB's Lautenschlaeger voiced caution inflation running cooler than expected. Meanwhile, Fed's Bullard (non-voter) continued his dovish-leaning rhetoric, calling for a tempering of normalization. Watch for the **Bank of Canada's (BOC)** rate decision today, with a hold expected. Moving forward however, it remains to be seen if the BOC can keep a holding posture with the Fed going ahead with its rate hikes.

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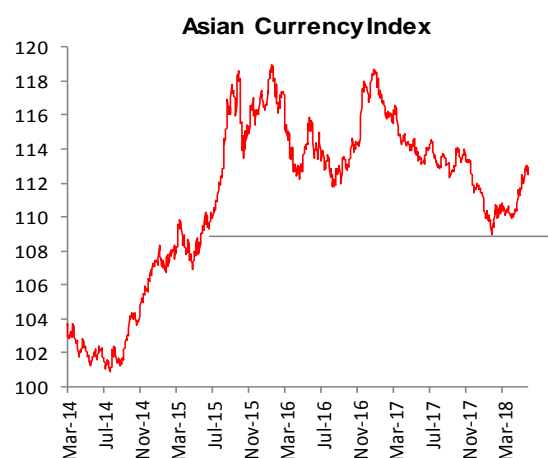
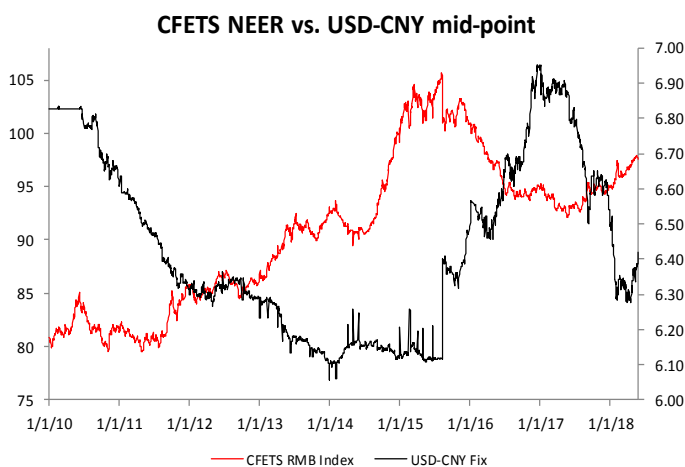
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Asian FX

- Sino-US trade tensions threaten to rear its head again, with Trump backtracking regarding tariffs on Chinese imports. Trump's latest announcement gives USTR Wilbur Ross's upcoming visit to China an inauspicious start. Together with the sinking risk sentiments, this should keep the **ACI (Asian Currency Index)** buoyant intra-day.
- The **net portfolio flow environment** in Asia remains largely similar compared to the past week. Slight decline in inflows is noted in South Korea, but the overall picture looks healthy. Note however, that the USD-KRW and USD-TWD are essentially not responding to the better flow environment in North Asia.
- **Indonesia:** The market is positioned for another rate hike from the unscheduled Bank Indonesia (BI) meeting later today. Recent rhetoric has essentially stonewalled the BI into a near-term hawkish posture. Any disappointment today would put significant negative pressure on the IDR and govies. Note that Indonesia has faced heavy net portfolio outflows year-to-date, with the magnitude close to that under the 2013 taper tantrum.
- **SGD NEER:** The SGD NEER is firmer this morning at around +0.45% above its perceived parity (1.3520). NEER-implied USD-SGD thresholds are higher on the back of a firmer USD. Expect the USD-SGD to fluctuate between the +0.20% (1.3493) to +0.60% (1.3439) thresholds intra-day. Into the end of the week, a close above 1.3460 should pave the way to a test of 1.3500 levels.
- **CFETS RMB Index:** The USD-CNY mid-point was set lower, within expectations, at 6.4207 this morning from 6.4021 on Tuesday. Nevertheless, the CFETS RMB Index is still lower at 97.50, compared to 97.54 previously. With USD-CNY breaking through the 6.4000 resistance, we expect this level to turn into a strong support, with investors looking to buy on dips near that level. Meanwhile, expect the CFETS RMB index to ease away from the 98.00 cap.



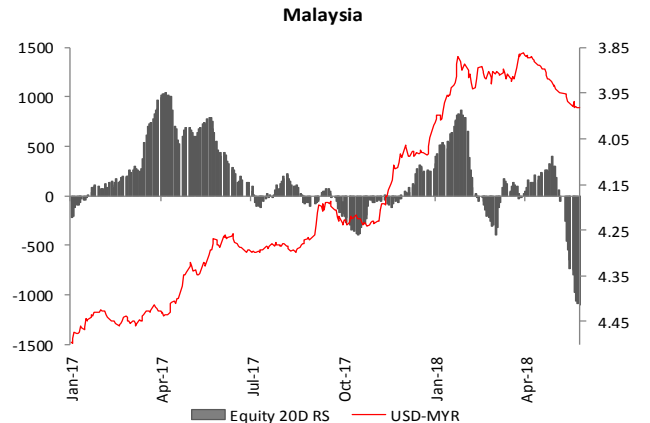
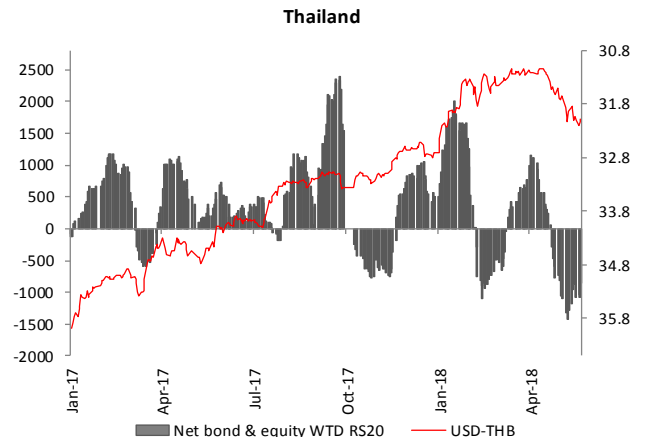
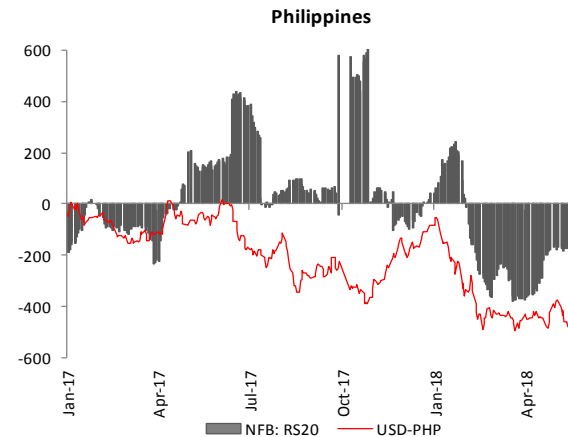
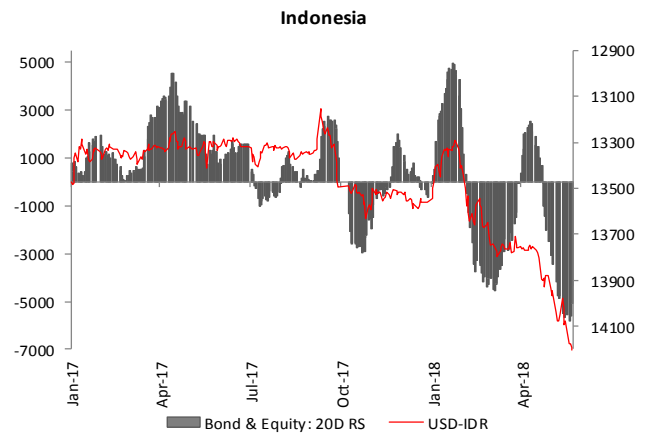
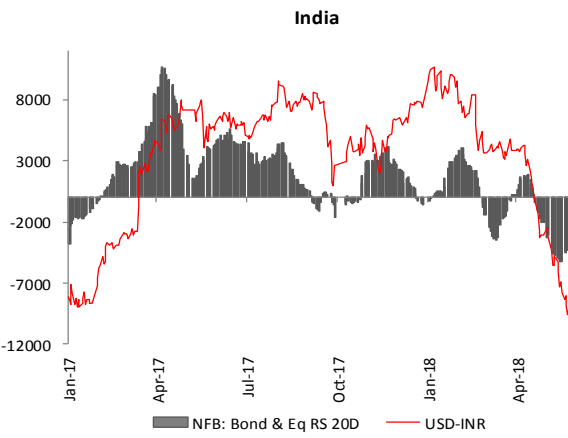
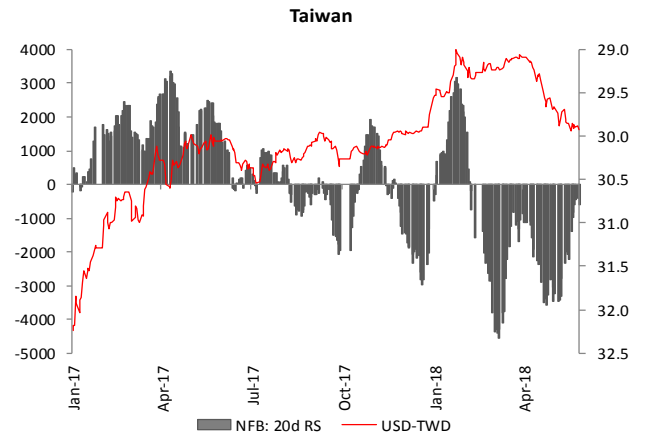
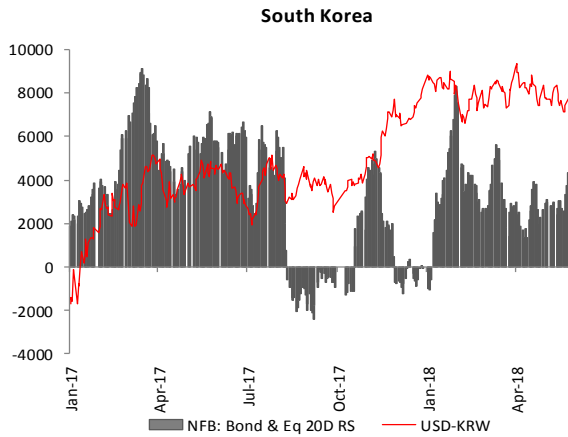
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↑	RMB Index should be capped at 98.00, RMB to shoulder potential volatility instead; Sino-US trade tensions reigniting; 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	↔/↑	BSP hiked policy rates as expected while signalling the possibility of further hikes; BSP governor appear comfortable with recent weakening of the PHP

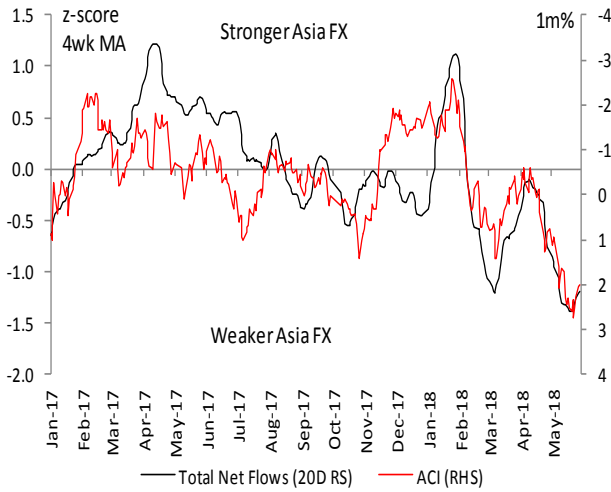
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



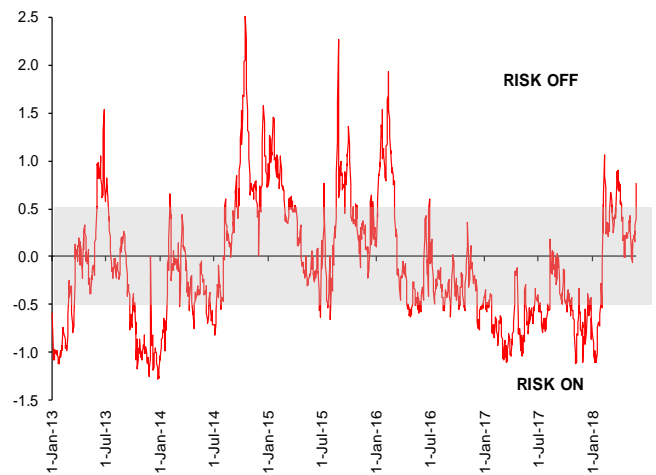
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXX	CNH	EUR
DXY	1.000	-0.128	0.910	0.554	0.036	0.395	0.156	0.092	-0.231	0.843	0.847	-0.994
MYR	0.964	0.332	0.769	0.891	0.347	0.766	0.457	0.586	-0.908	0.706	0.642	-0.960
CNY	0.910	-0.321	1.000	0.089	-0.267	0.034	0.011	-0.298	0.283	0.860	0.910	-0.889
PHP	0.894	0.012	0.712	0.750	0.459	0.445	0.289	0.145	-0.420	0.691	0.636	-0.896
TWD	0.884	0.100	0.724	0.662	0.158	0.540	0.395	0.298	-0.412	0.605	0.644	-0.880
CNH	0.847	-0.406	0.910	0.114	-0.260	0.016	-0.318	-0.413	0.168	0.845	1.000	-0.882
SGD	0.796	0.136	0.659	0.594	0.190	0.347	0.148	0.152	-0.344	0.474	0.735	-0.824
IDR	0.768	0.475	0.606	0.705	0.144	0.772	0.598	0.583	-0.693	0.422	0.451	-0.747
THB	0.714	0.598	0.462	0.763	0.295	0.705	0.644	0.767	-0.750	0.288	0.365	-0.707
INR	0.674	0.309	0.487	0.812	0.377	0.701	0.504	0.473	-0.523	0.338	0.269	-0.667
CAD	0.555	-0.625	0.706	-0.280	-0.332	-0.432	-0.560	-0.722	0.490	0.746	0.840	-0.646
KRW	0.510	0.270	0.482	0.202	-0.364	0.427	0.453	0.254	-0.209	0.254	0.442	-0.463
AUD	0.250	0.019	0.075	0.420	0.045	0.676	0.207	0.354	-0.456	0.244	-0.119	-0.140
JPY	0.156	0.843	0.011	0.456	0.431	0.465	1.000	0.680	-0.434	-0.259	-0.318	0.080
USGG10	-0.128	1.000	-0.321	0.421	0.430	0.444	0.843	0.754	-0.568	-0.593	-0.406	0.163
CHF	-0.429	0.408	-0.631	0.016	0.110	-0.051	0.226	0.486	-0.174	-0.660	-0.445	0.495
NZD	-0.673	-0.380	-0.405	-0.764	-0.568	-0.402	-0.346	-0.267	0.444	-0.314	-0.467	0.702
GBP	-0.952	0.238	-0.852	-0.564	-0.008	-0.451	0.125	0.102	0.279	-0.834	-0.855	0.963
EUR	-0.994	0.163	-0.889	-0.572	-0.060	-0.392	0.080	0.110	0.245	-0.849	-0.882	1.000

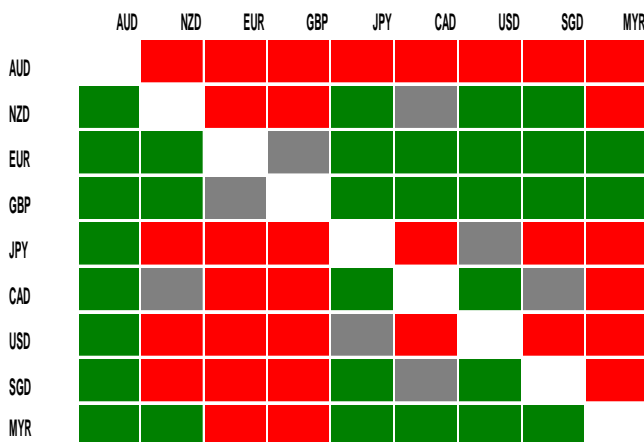
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1510	1.1535	1.1537	1.1600	1.2017
GBP-USD	1.3205	1.3243	1.3255	1.3300	1.3581
AUD-USD	0.7412	0.7455	0.7497	0.7500	0.7595
NZD-USD	0.6851	0.6900	0.6910	0.7000	0.7035
USD-CAD	1.2816	1.3000	1.3027	1.3028	1.3047
USD-JPY	108.00	108.29	108.67	109.00	110.21
USD-SGD	1.3368	1.3400	1.3446	1.3482	1.3490
EUR-SGD	1.5500	1.5502	1.5513	1.5522	1.5600
JPY-SGD	1.2245	1.2300	1.2374	1.2376	1.2400
GBP-SGD	1.7796	1.7800	1.7824	1.7900	1.8146
AUD-SGD	0.9994	1.0000	1.0081	1.0093	1.0100
Gold	1281.07	1281.20	1298.60	1300.00	1306.54
Silver	16.18	16.30	16.39	16.40	16.50
Crude	65.80	66.50	66.56	66.60	66.71

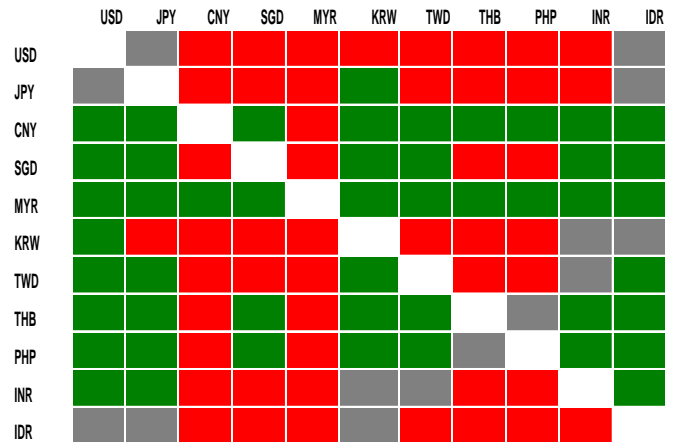
Source: OCBC Bank

G10 FX Heat Map



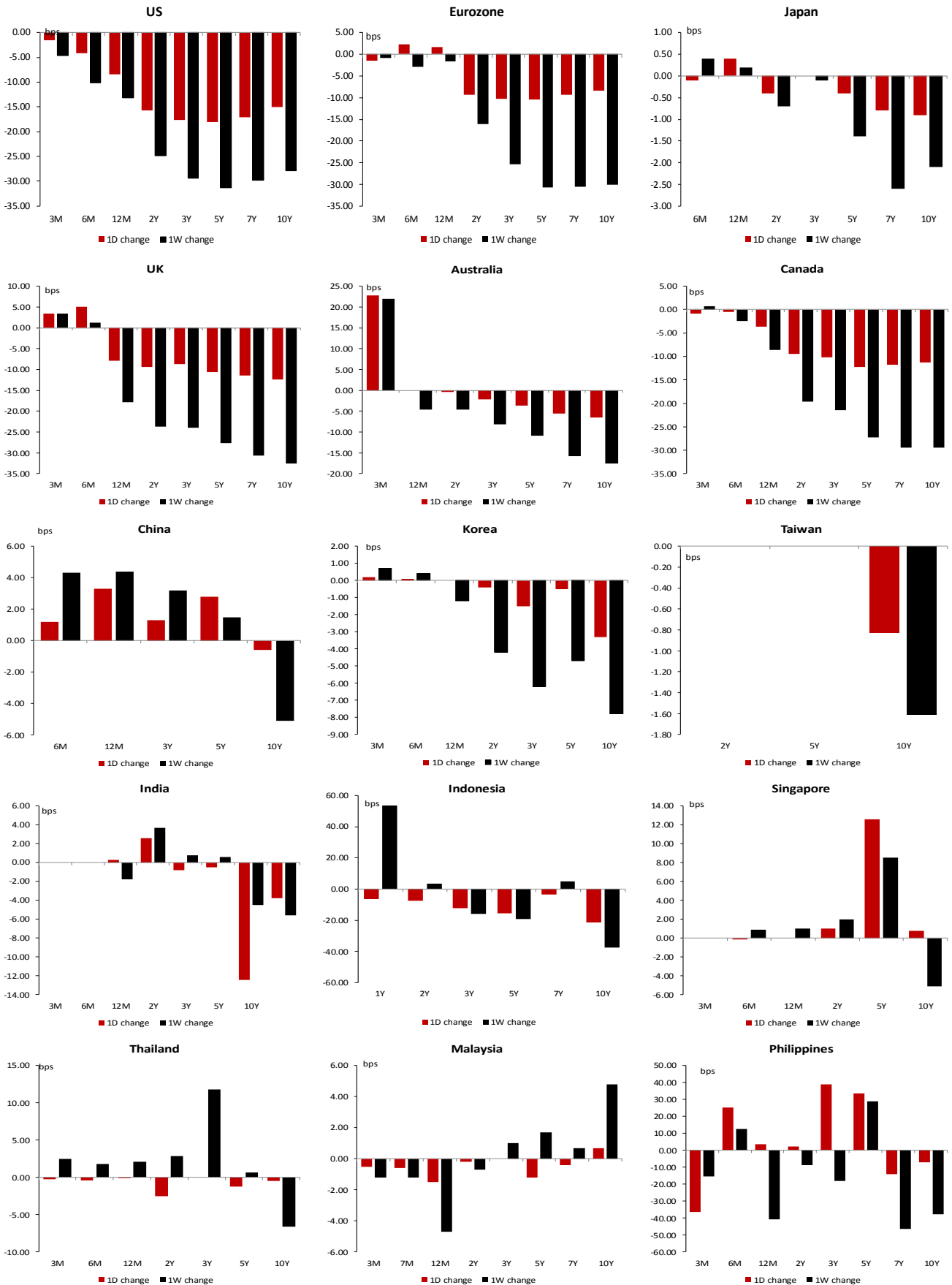
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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