

FX – Stepping into 2018, with a pinch of salt

Emmanuel Ng

Treasury Research & Strategy

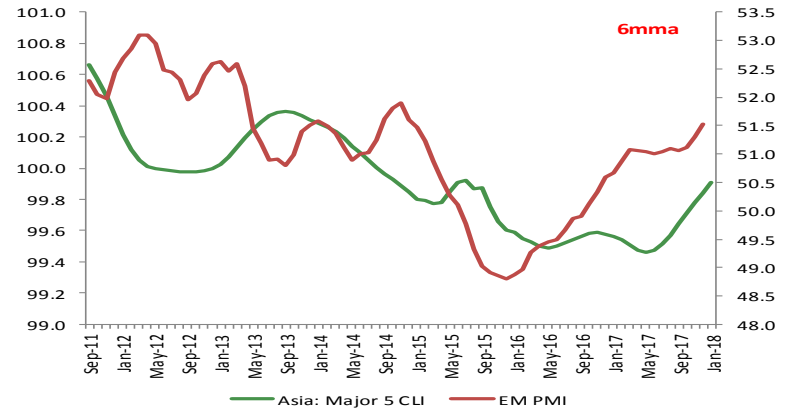
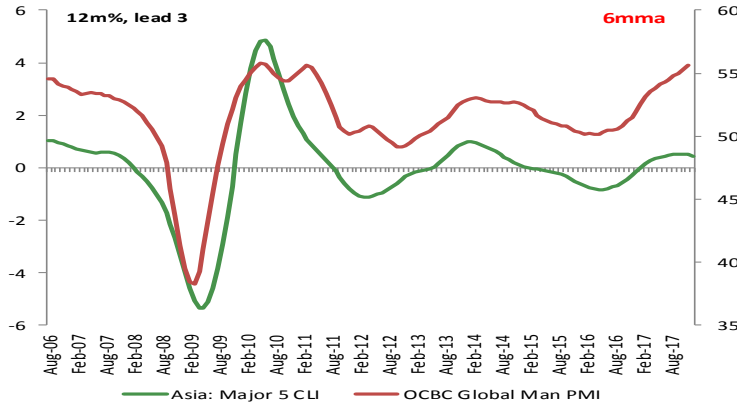
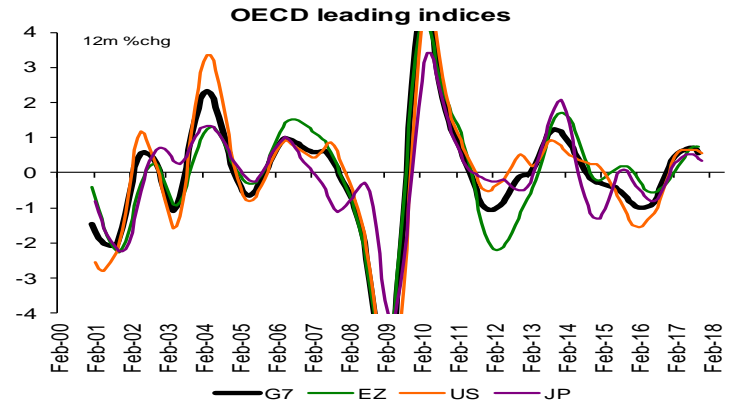
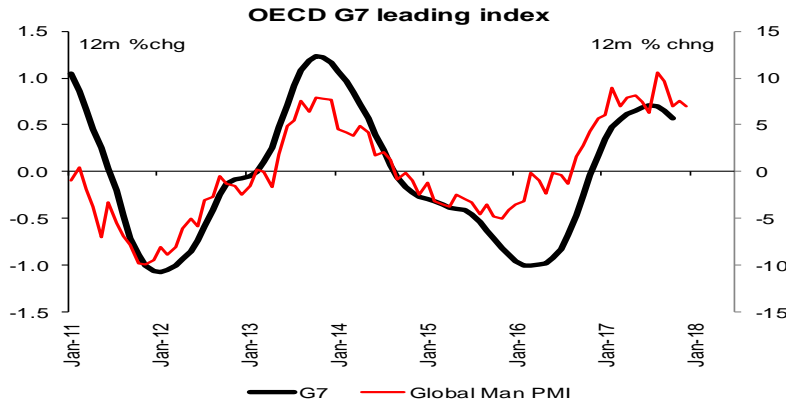
Global Treasury, OCBC Bank

12 January 2018



Global macro outlook

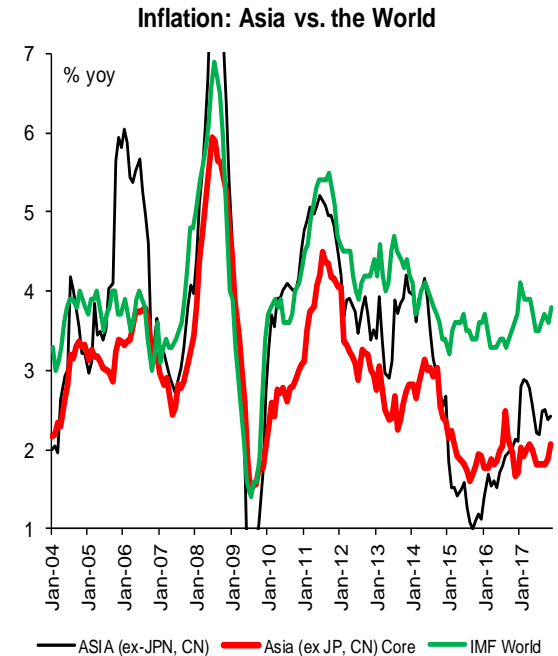
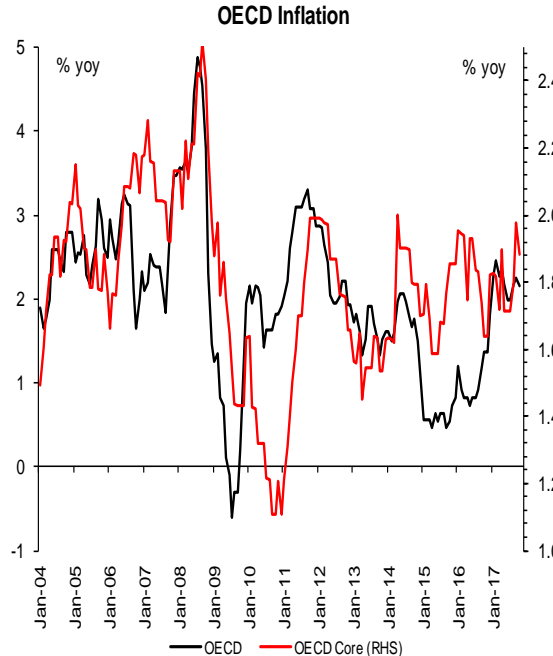
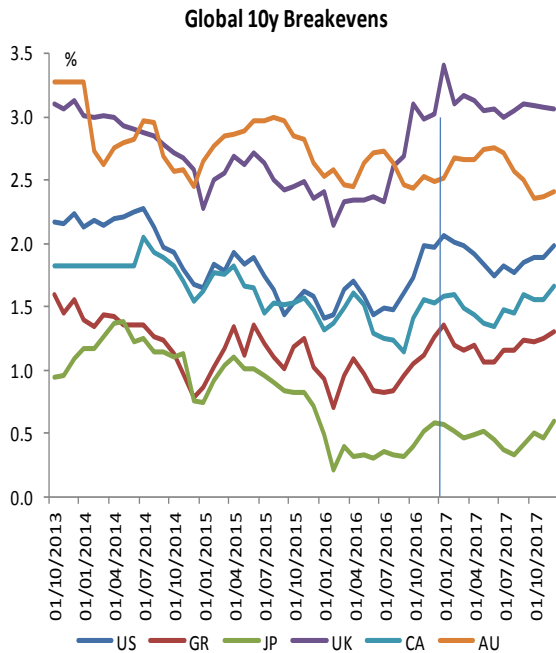
- In the near term, markets may continue to bask in relatively positive global economic prints, content in the near term to disregard nascent signs of a moderating global economy deeper into 2018.



Source: OCBC Bank, Bloomberg

Global inflation landscape

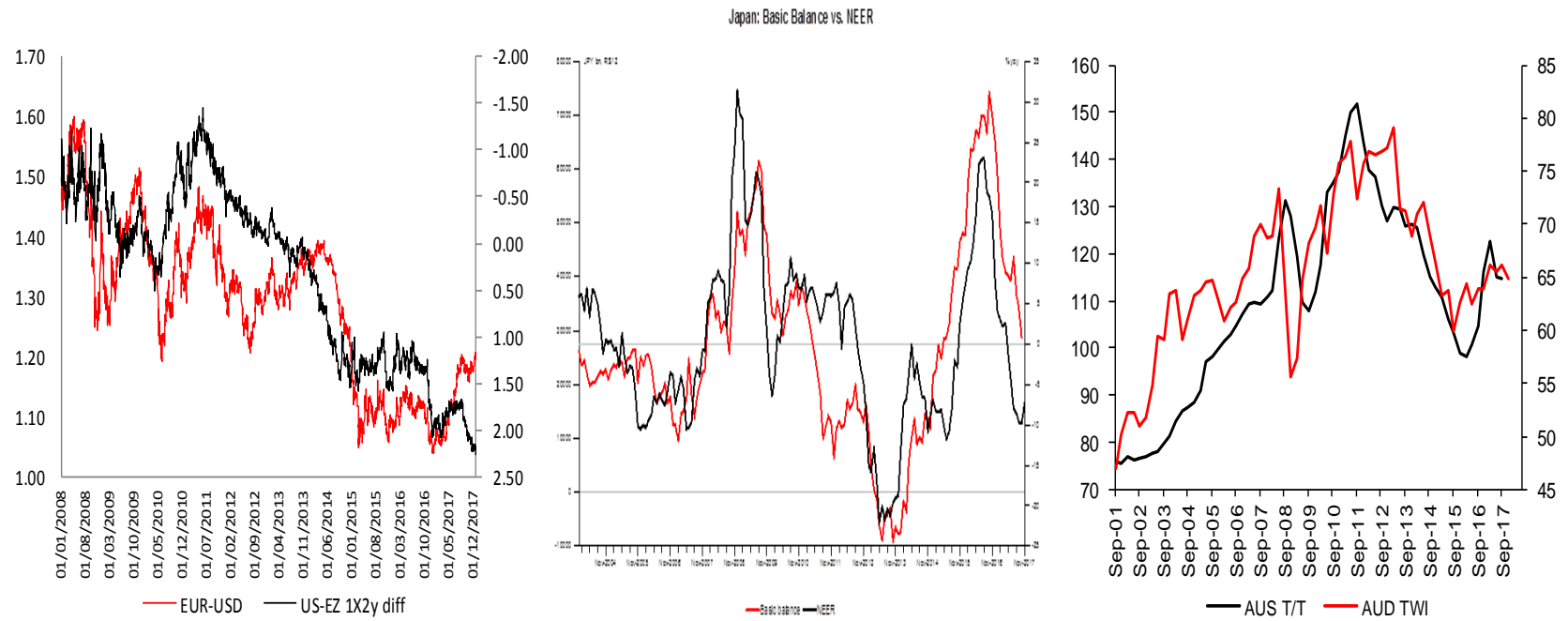
- The consensus narrative favours a potentially softer USD profile into 2018 as global central banks join the Fed in tightening monetary conditions – remember, countercyclical characteristics of the USD.
- This presumption is however not fool proof, i.e., counterpart central banks would have to behave as expected in 2018 by engaging a more hawkish tilt.



Source: OCBC Bank, Bloomberg

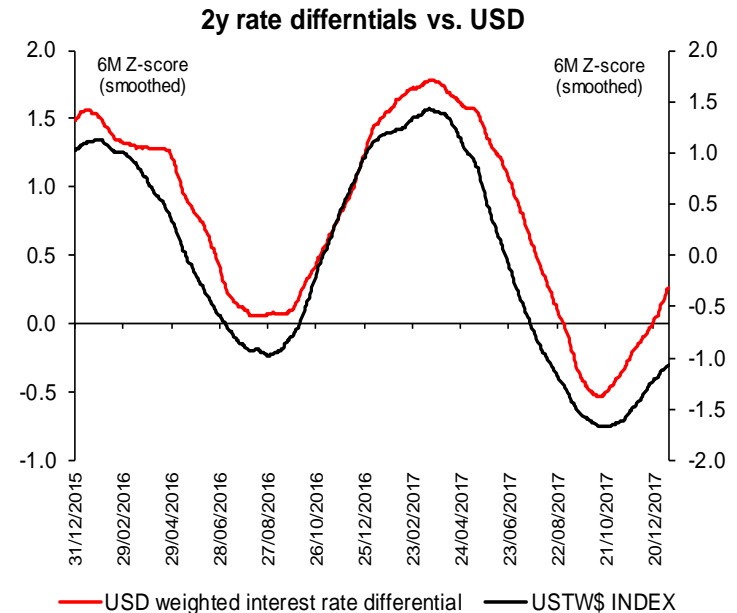
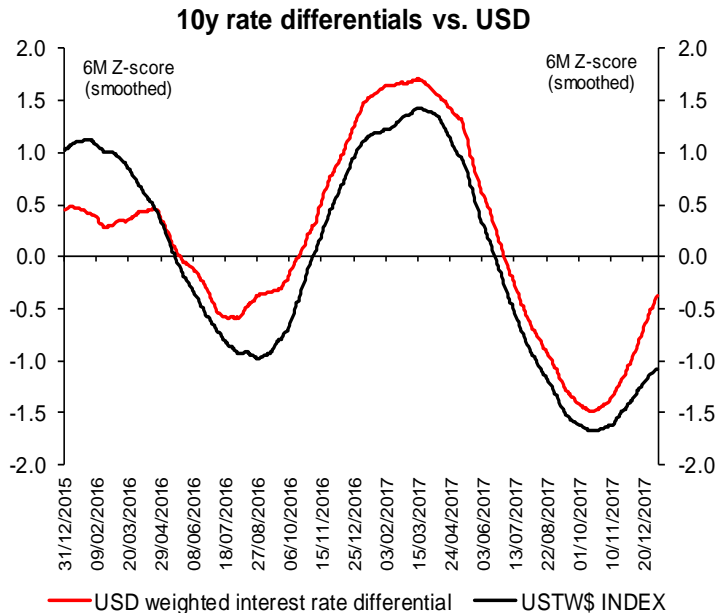
Fragmentation?

- Outside of the USD sphere, the narrative is expected to be increasingly disparate as we head deeper into 2018, especially 2H 18.
- The BOJ is expected to remain entrenched in an accommodative stance.
- The ECB is tapering its QE and markets may continue to impute increasingly hawkish intentions. Risk of disappointment if the ECB fails to deliver on this front.
- “Containment” in China and a moderation in terms of trade impacts may imply that AUD prospects will increasingly hinge on perceived RBA hawkishness.



Broadly speaking

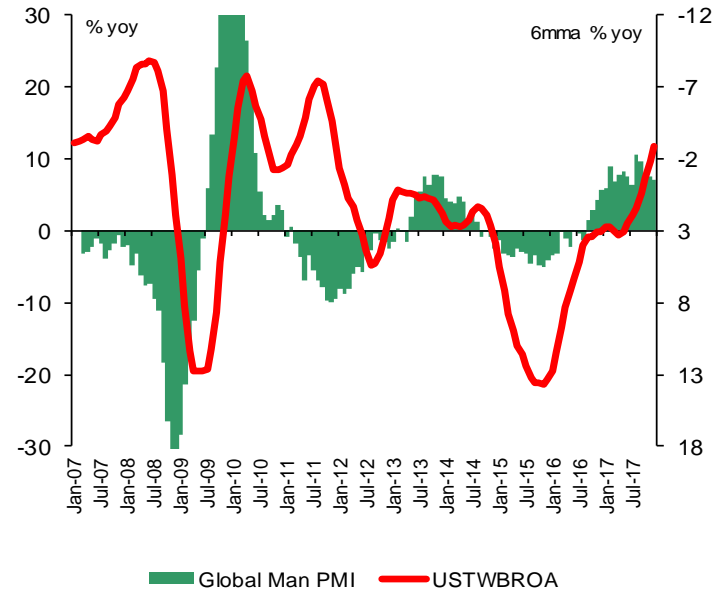
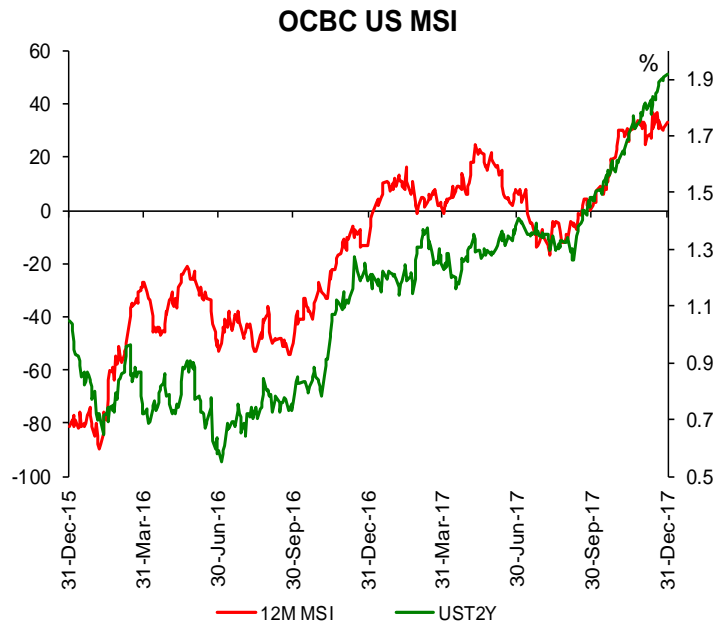
- Broad dollar underperformance may continue to moderate into 1Q 18, especially if rate differentials continue to prove supportive and generate intrinsic lift for the greenback.
- Front-end curve dynamics may be expected to dominate, with global central banks still ruminating about the absence of structural inflation.
- Expected structural dollar vulnerability may eventually manifest if aggregate differentials finally turn against the greenback.



Source: OCBC Bank, Bloomberg

Outside the dollar sphere

- With the Fed's normalization well underway, expect the front-end to remain responsive to macroeconomic fluctuations.
- Barring further disappointments from the Fed/Trump, classic counter-cyclical characteristics of the USD may continue to retain traction – synchronized global growth undermines the USD.

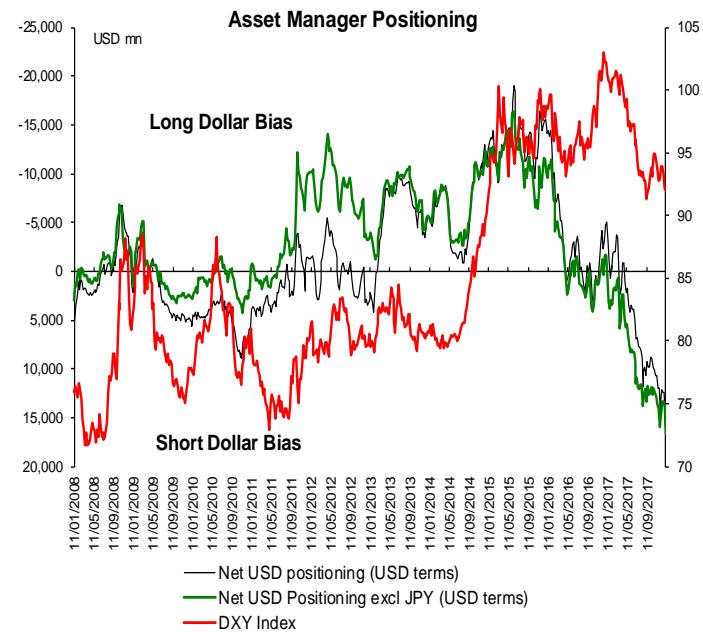
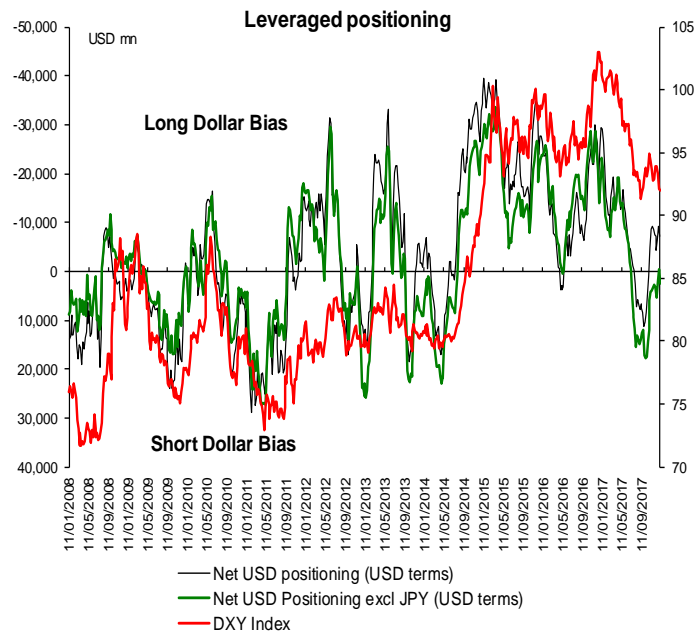


Source: OCBC Bank, Bloomberg




Positioning

- Net of JPY positioning, leveraged accounts remain essentially neutral on the broad dollar in aggregate.
- Demonstrating the inherent perceived vulnerability for the JPY, leveraged shorts on the JPY remain significant, albeit at slightly elevated levels.
- Asset manager positioning had been consistently (and correctly) short the USD in aggregate in 2017 and into 2018.



Source: OCBC Bank, Bloomberg

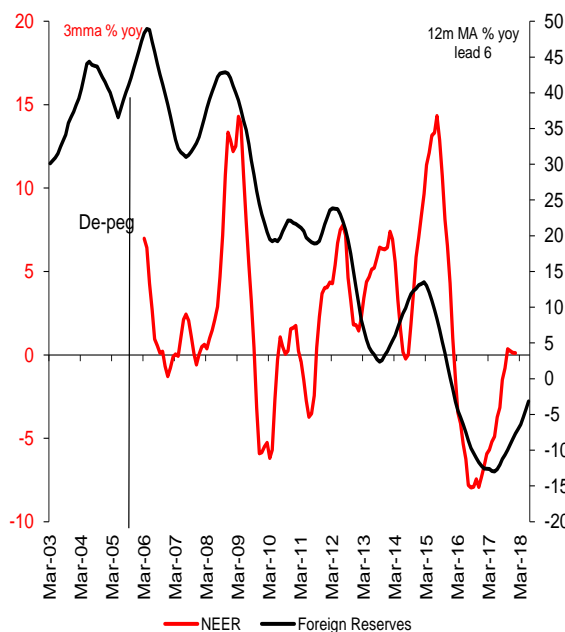




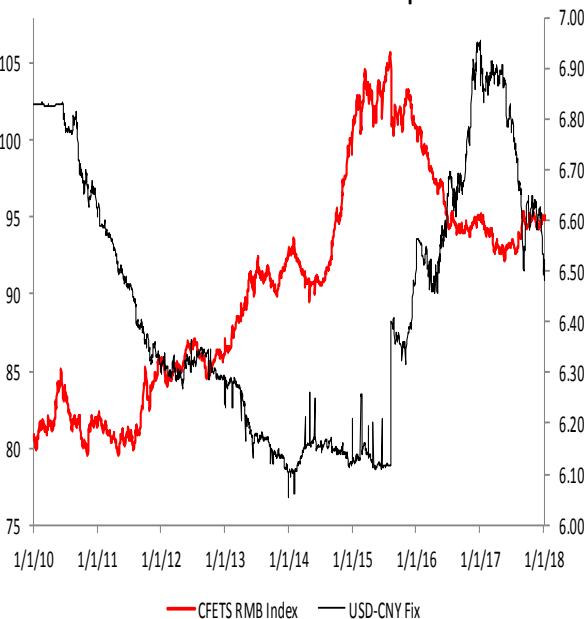
Asian Outlook

China – Stability remains the operative phrase

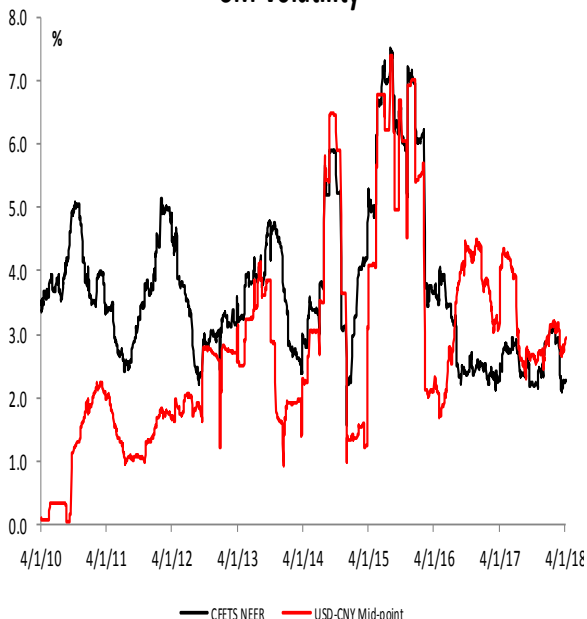
- Despite a still constructive external payments picture, expect relative stability of the CFETS RMB Index.
- Domestically, de-leveraging and containment of financial sector risks remain policy objectives for 2018.



CFETS NEER vs. USD-CNY mid-point

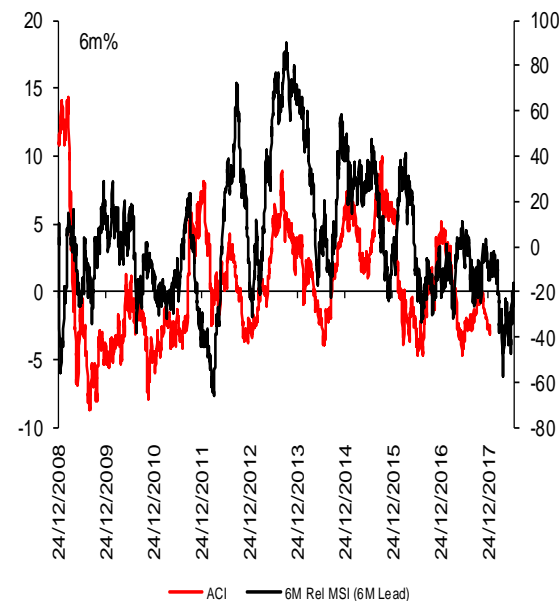
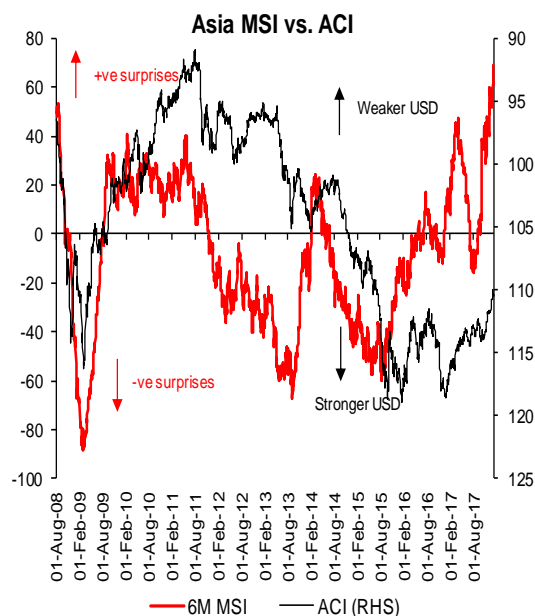
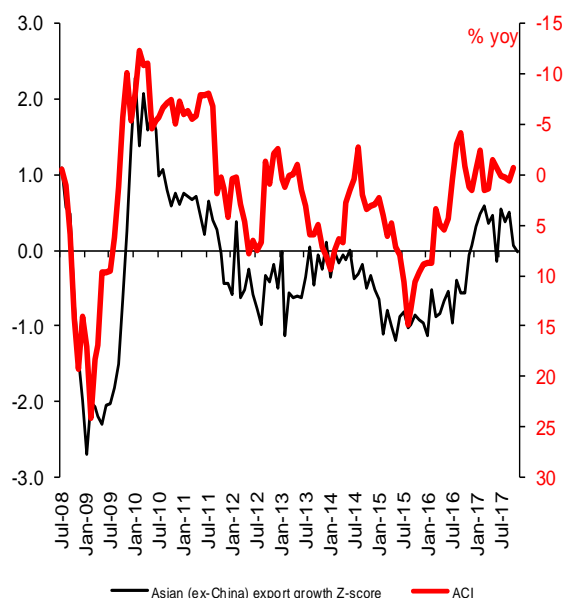


3M Volatility



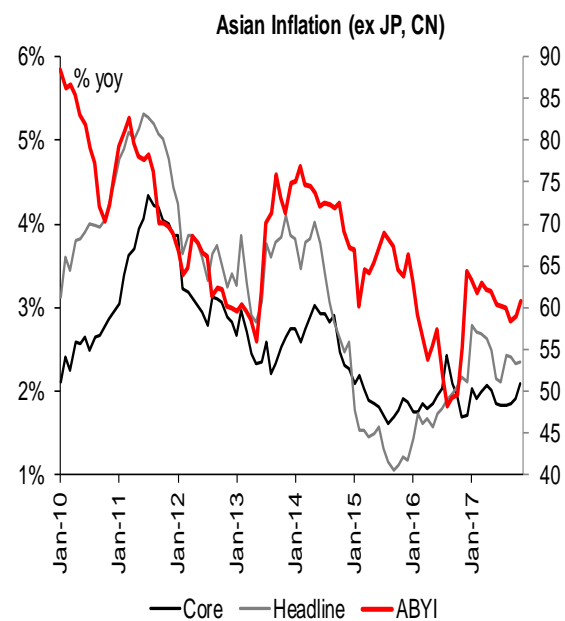
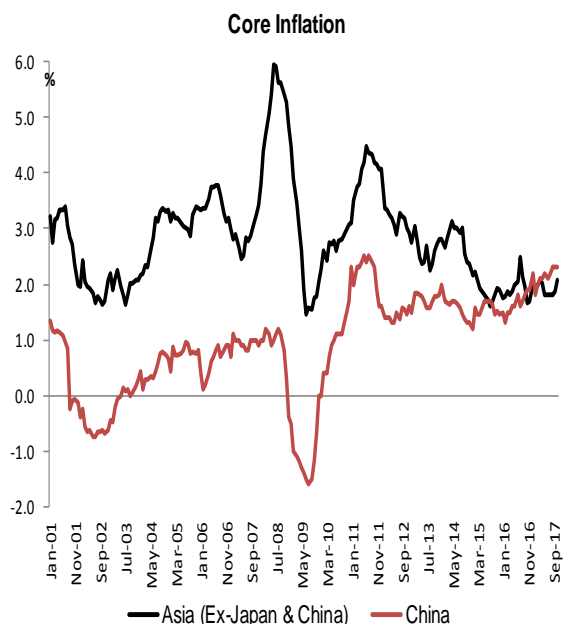
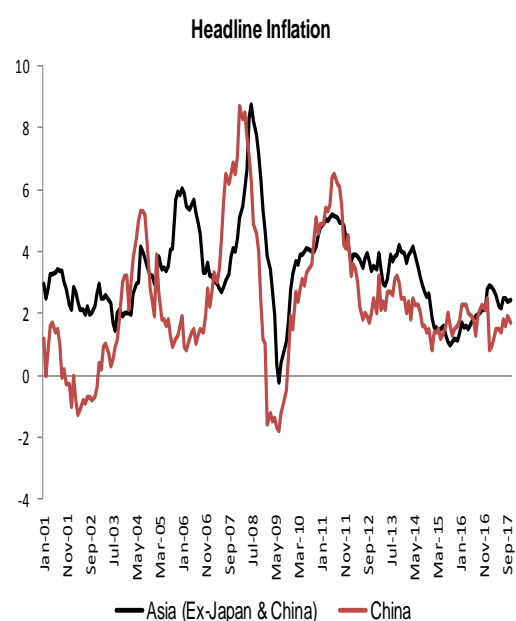
Asian growth underpinnings

- Barring a deterioration of regional export performance, structural macro underpinnings remain supportive of regional currencies at this juncture.



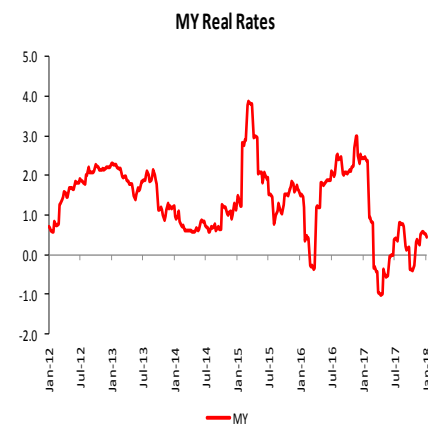
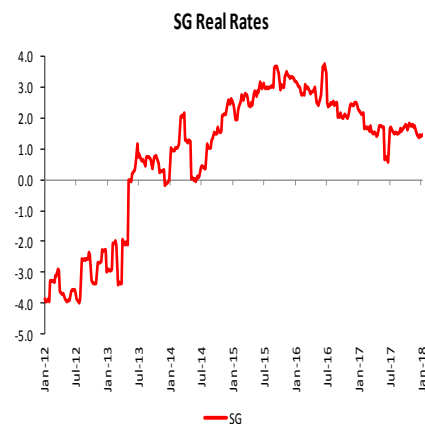
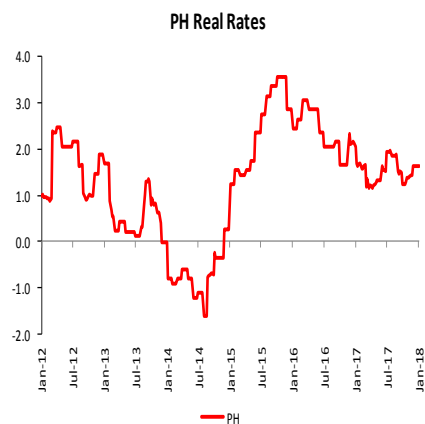
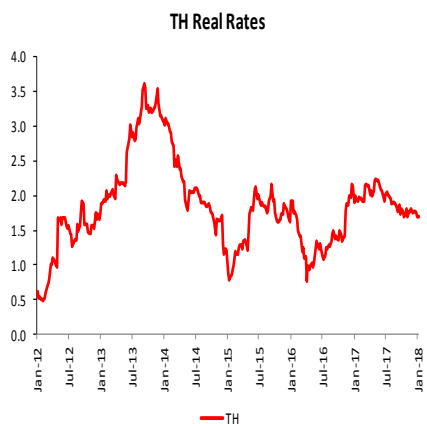
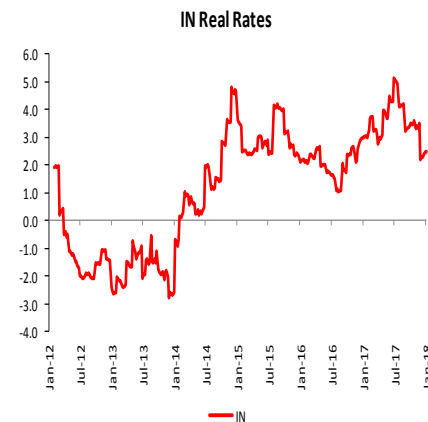
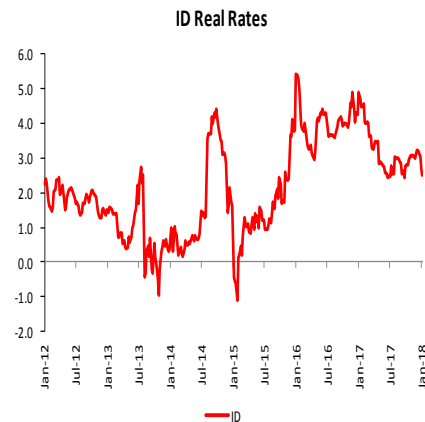
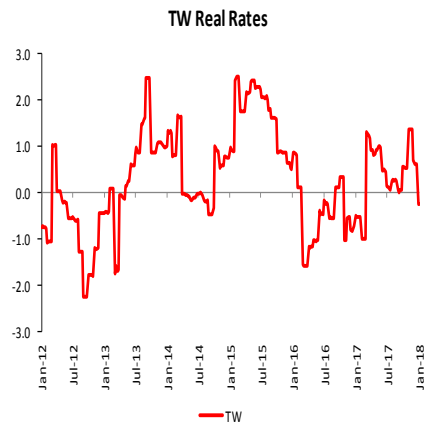
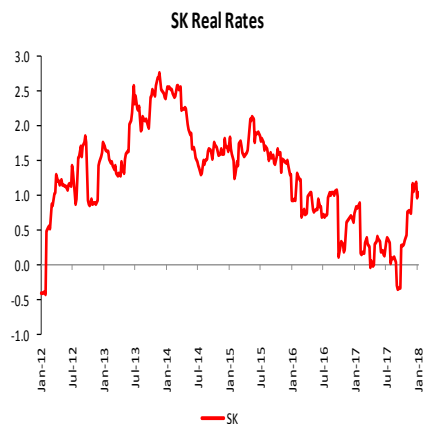
Asian inflation outlook

- Global inflation has bottomed but this has not translated into uniform nor acute price pressures in Asia.
- Asian headline and core inflation developments are still heterogeneous (and even divergent) across the region.
- The ABYI (Asian 10y bond yield index) may thus have little urgency to rise abruptly in the near term.



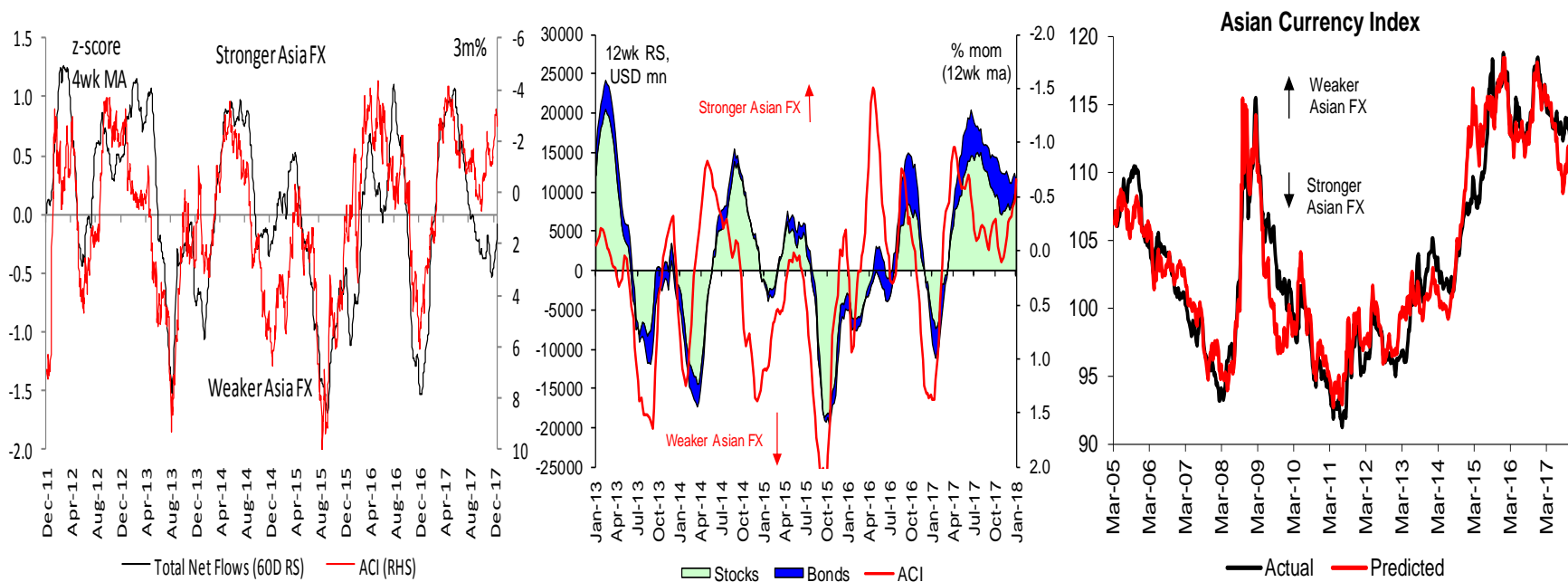
Asian central banks may remain hesitant

- Asian central banks in aggregate may be in no hurry to tighten as yet, imparting little urgent impetus on term premiums. Note also potentially tighter monetary conditions via the exchange rate.



Net inflows into Asia

- Actual bond and equity inflows began the year on a positive footing while implied capital flows are also attempting to bottom out after a tepid end to 2017.
- This may continue to provide a tail wind for Asian FX and also, on a selective basis, put a lid on bond yields.

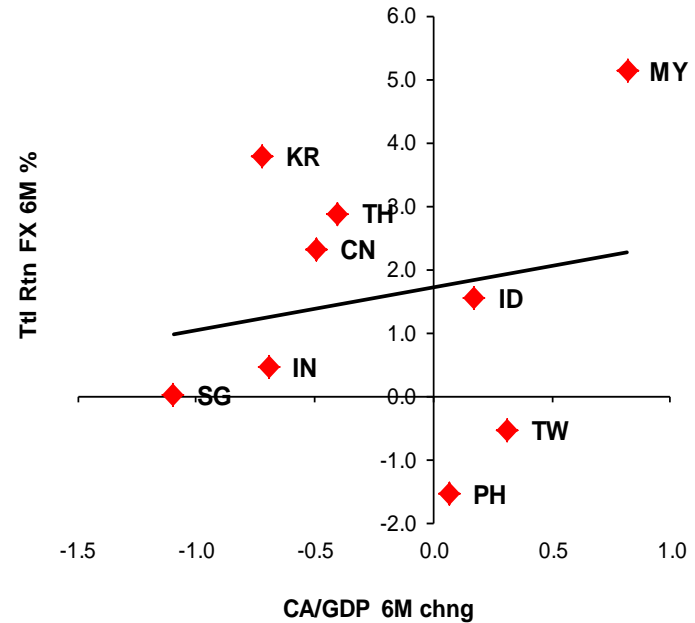
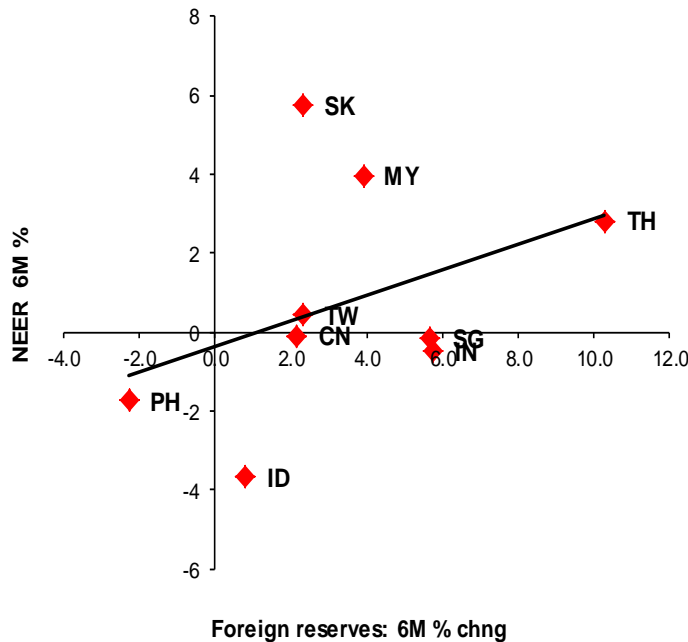


Source: OCBC Bank, Bloomberg



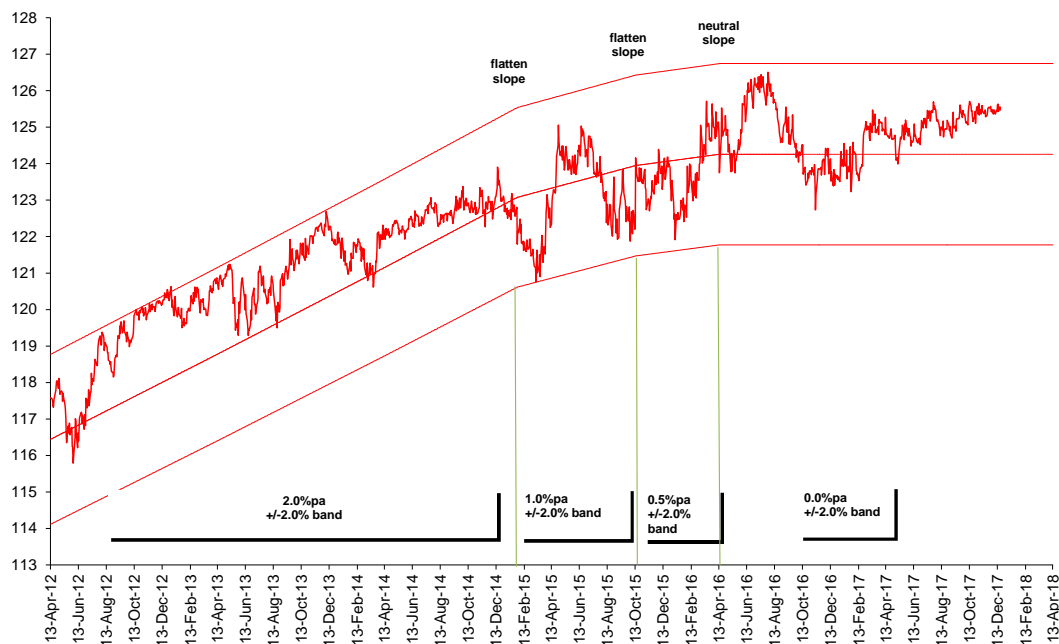
External payments environment

- Overall, the external payments environment remains constructive thus far.
- Relative valuations persist while a maturing economic recovery may imply lessened scope for current account induced FX underpinnings.



SGD Outlook

- Little urgency to resume a gradual and modest appreciation policy at this juncture given the growth/inflation outlook.
- Note that NEER resilience in 2017 had been on the back of significant USD underperformance.
- Continue to watch for a gradual and sustained drift of the SGD NEER above +1.00% in 1Q 18 as a potential indicator of a shift in policy intentions.



Source: OCBC Bank, Bloomberg

Central tendency forecasts*

	Spot	Mar-18	Jun-18	Sep-18	Dec-18
USD-JPY	112.28	112.00	113.00	114.00	115.00
EUR-USD	1.2058	1.2154	1.2303	1.2451	1.2600
GBP-USD	1.3607	1.3635	1.3757	1.3878	1.4000
AUD-USD	0.7822	0.7882	0.7955	0.8027	0.8100
NZD-USD	0.7098	0.7169	0.7239	0.7310	0.7380
USD-CAD	1.2511	1.2453	1.2336	1.2218	1.2100
USD-CHF	0.9716	0.9682	0.9622	0.9561	0.9500
USD-SGD	1.329	1.3283	1.3205	1.3128	1.3050
USD-CNY	6.5044	6.4715	6.4466	6.3881	6.3635
USD-THB	32.428	32.31	32.04	31.77	31.50
USD-IDR	13479	13491	13428	13364	13300
USD-MYR	4.0232	4.0074	3.9683	3.9291	3.8900
USD-KRW	1064.98	1056.80	1046.20	1035.60	1025.00
USD-TWD	29.571	29.550	29.367	29.183	29.000
USD-HKD	7.8174	7.8142	7.8195	7.8247	7.8300
USD-PHP	49.858	49.64	49.43	49.21	49.00
USD-INR	63.49	63.40	62.94	62.47	62.00
EUR-JPY	135.39	136.12	139.02	141.94	144.90
EUR-GBP	0.8862	0.8914	0.8943	0.8972	0.9000
EUR-CHF	1.1716	1.1768	1.1837	1.1904	1.1970
EUR-SGD	1.6025	1.6143	1.6245	1.6345	1.6443
GBP-SGD	1.8084	1.8110	1.8165	1.8219	1.8270
AUD-SGD	1.0395	1.0469	1.0504	1.0538	1.0571
NZD-SGD	0.9433	0.9522	0.9559	0.9596	0.9631
CHF-SGD	1.3678	1.3718	1.3724	1.3731	1.3737
JPY-SG	1.1836	1.1859	1.1686	1.1515	1.1348
SGD-MYR	3.0272	3.0170	3.0051	2.9930	2.9808
SGD-CNY	4.8942	4.8722	4.8819	4.8662	4.8763

*as at 03 January 2018

Disclaimer

Treasury Market Research & Strategy

Selena Ling (LingSSSelena@ocbc.com)

Emmanuel Ng (NgCYEmmanuel@ocbc.com)

Tommy Xie Dongming (XieD@ocbc.com)

Barnabas Gan (BarnabasGan@ocbc.com)

Terence Wu (TerenceWu@ocbc.com)

OCBC Credit Research

Andrew Wong (WongVKAM@ocbc.com)

Wong Liang Mian (NickWong@ocbc.com)

Ezien Hoo (EzienHoo@ocbc.com)

Wong Hong Wei (WongHongWei@ocbc.com)

Tel : (65) 6530 4887

Tel : (65) 6530 4073

Tel : (65) 6530 7256

Tel : (65) 6530 1778

Tel : (65) 6530 4367

Tel : (65) 6530 4736

Tel : (65) 6530 7348

Tel : (65) 6722 2215

Tel : (65) 6722 2533

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

Co.Reg.no.:193200032W

