

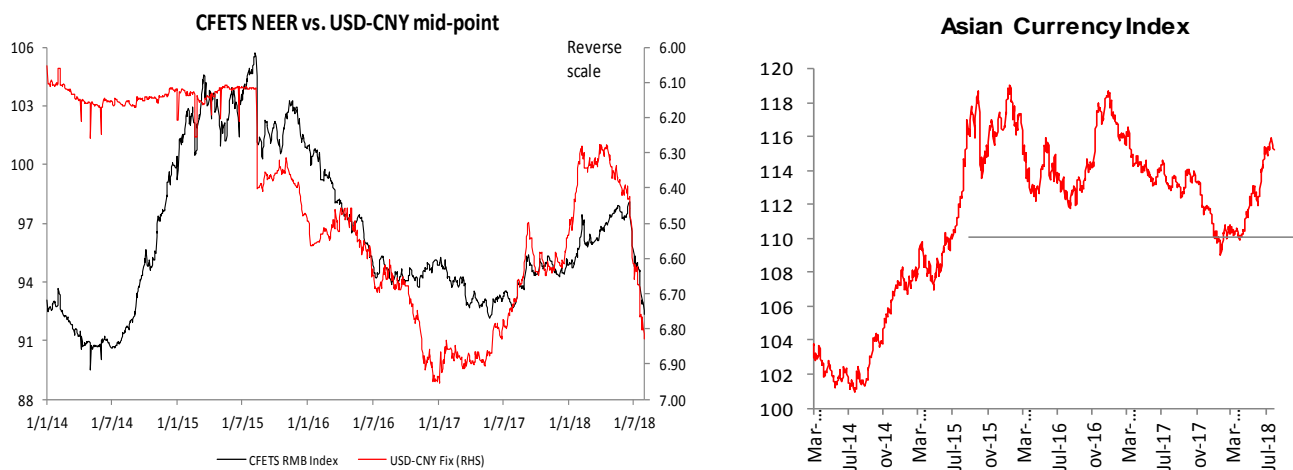
Wednesday, August 01, 2018

FX Themes/Strategy/Trading Ideas

- Despite the dovish tone from the Bank of Japan, positive economic indicators out of the US (core PCE deflator rose 2.2% yoy in June) and resilient 10y UST yield (above 2.95%) allowed the dollar index to rebound to above 94.5. Ahead of FOMC meeting on 2 August, the dollar index remains relatively strong. Nevertheless, we think the FOMC should be a relative non-event. In the near term, firm US economic prints and the yield differential story may support the dollar index to oscillate in the range of 94-95 in the near term. Watch out for the progress of US-China trade war.
- Weaker manufacturing PMI (51.2 in July) raised market's expectations that the PBoC may further ease the monetary policy. This pushed down onshore interest rates, in turn weighing down the RMB. Moving ahead, the RMB prospect will remain driven by policy changes, broad dollar movement and the progress of US-China trade war. Latest news surrounding US-China trade war is mixed. It is reported that US and China are attempting to restart trade negotiations whereas Trump administration is supposedly proposing to ratchet up the planned 10% tariffs on US\$200b of Chinese imports to 25% in coming days. We will continue to monitor the progress of the trade war. Also, we will watch out for whether the PBoC will launch the counter cyclical factor if the RMB index (92.36) falls below 92.
- Eurozone's GDP grew at the slowest pace in two years by 0.3% qoq in 2Q18. This reinforces market's expectations that European Central Bank will remain cautious about altering its policy stance. On a positive note, recent economic indicators including July's manufacturing PMI and CPI growth indicate that Eurozone's economic growth start to stabilize. This may help to cap the downside of the EUR. Nevertheless, unless any firmer data prints out of the Eurozone change market expectations of the ECB's rate hike trajectory, we expect the EUR to keep trading in a tight range and show limited upside.
- In the aftermath of Bank of Japan's (BOJ) meeting, market shifts the focus to the meetings of FOMC and the Bank of England (BOE) on 2 August. As market has priced in a more than 90% of chance of a 25bps rate hike by the BOE this week, the rate hike itself is unlikely to provide much impetus for the GBP. Similar to the BOJ, the BOE's tightening decisions may be constrained by the muted inflation. Therefore, we do not expect the BOE to surprise on the hawkish end. In the case, the GBP will likely remain range bound unless there is any positive news related to the Brexit.
- As the Bank of Japan (BOJ) failed to surprise the market, the JPY pared some previous gains. Still, there are some tweaks to the policy statement.

Specifically, the BoJ introduced forward guidance in the form of its commitment to keep rates for an extended period of time and allowed for more flexibility (+/- 20bps) for its current 10y JGB target of around 0%. In the medium term, the BoJ is unlikely to have a concrete policy change as the inflation remains far away from the target. As such, US-Japan yield differential could continue to reduce the upside risks for the JPY.

- The CAD remained elevated against the greenback due to two main factors. First, market increasingly speculates that the Bank of Canada will raise rate once more in the rest of 2018, given strong GDP growth (+5% mom in May) and rising inflation. Second, positive NAFTA headlines continued to lend some support to the CAD. These two factors may allow the CAD to sustain its strength in the coming session. However, crude oil rally remains fragile due to higher US oil stockpiles and the rapid rise in Saudi Arabia's oil production in June. This may ease some upside risks for the CAD.
- The AUD remained under pressure due to muted economic indicators and central bank dynamic. Firstly, Australia's AiG Performance of Manufacturing Index fell from 57.4 in May to 52 in June. Secondly, given the policy divergence between the Reserve Bank of Australia and the Federal Reserve, the wide US-Australia yield differential continued to weigh down AUD prospect. News surrounding US-China trade tensions is mixed, which may keep the volatility of AUD high in the coming sessions.



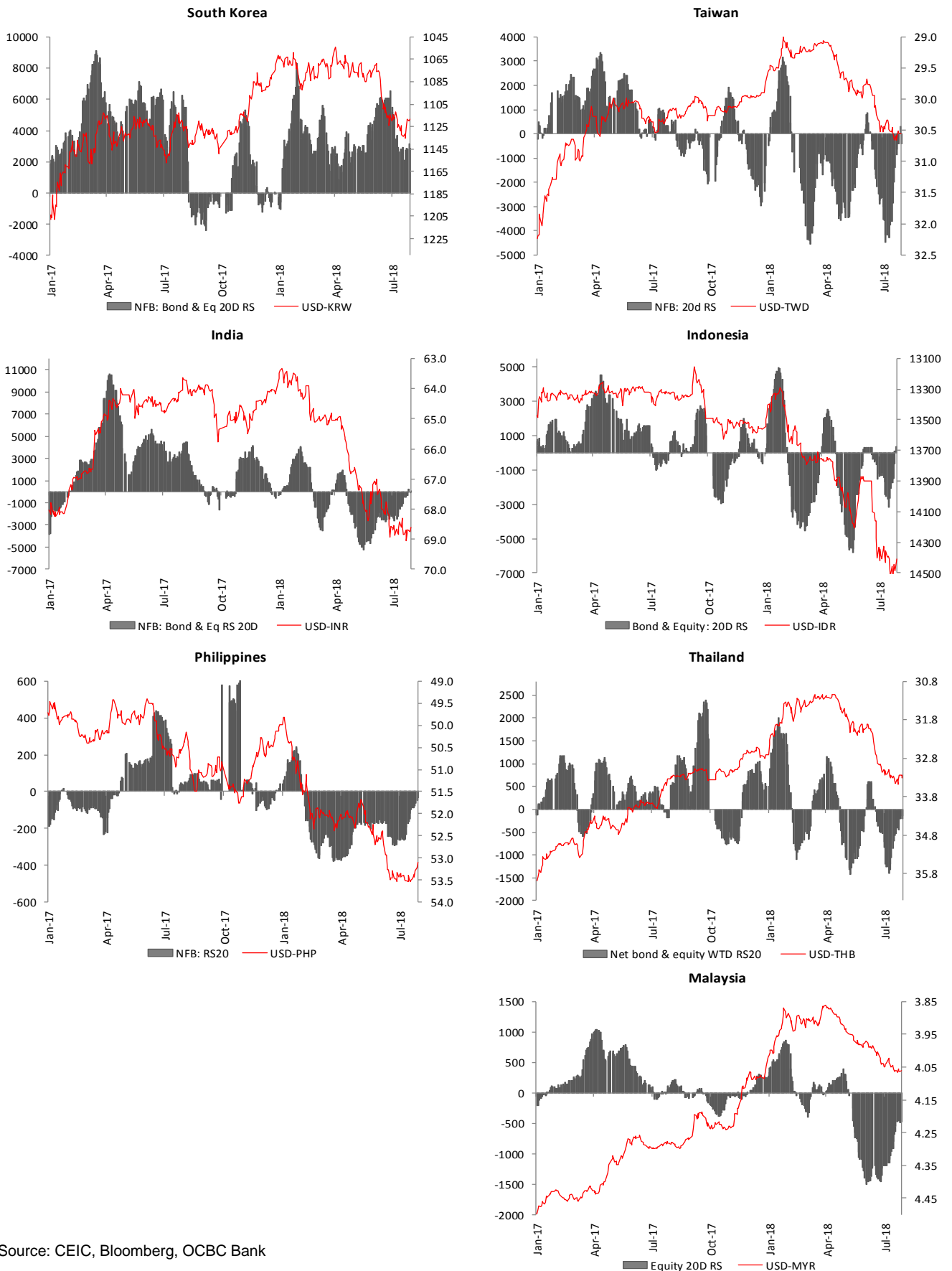
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔/↑	Expansionary fiscal policy to complement monetary loosening to support the Chinese economy; potential for Sino-US trade situation to worsen; the USD-CNH back above the 6.8000 handle; watch the index at 92.00 (2017 low) as the next waypoint
USD-KRW	↔/↑	Latest 2Q GDP in line with expectations; portfolio inflows compressing; govt downgrades inflation forecasts and growth outlook for 2018
USD-TWD	↔/↑	Equity outflows compressing, with the pace decreasing to half the highest level seen over the past month; pair led by the RMB complex
USD-INR	↔	Persistent outflow momentum has been curtailed, now reaching effectively neutral levels; recent decline in oil prices may provide some relief
USD-SGD	↔	Pair responsive to broad USD movements; expect resistance around 1.3700 and support near 1.3600; headline and core inflation prints in-line to stronger than expected, core inflation may hit 2.0% yoy before the MAS Oct MPS. Further policy tightening in the Oct MPS cannot be discounted.
USD-MYR	↔/↑	BNM expected to be on hold until 2019; structurally overvalued compared to Asian peers based on foreign reserves and current account matrices; equity outflows easing
USD-IDR	↔/↑	BI kept the policy rate unchanged in the latest meeting, although the rhetoric remains hawkish; BI committed to defend the currency, although the pair may now settle north of 14,450.
USD-THB	↑	Case for rate hike builds, but the BOT still expected to be a laggard among the Asian central banks; bond outflows re-asserting
USD-PHP	↔/↑	Calls for further BSP rate hikes intensifying; Moody's maintain IG rating

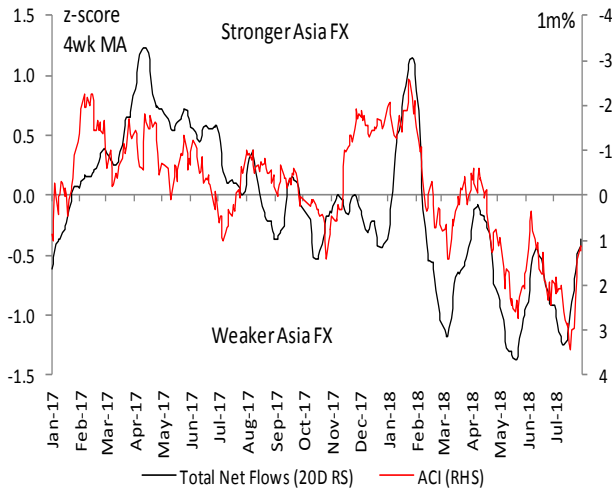
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



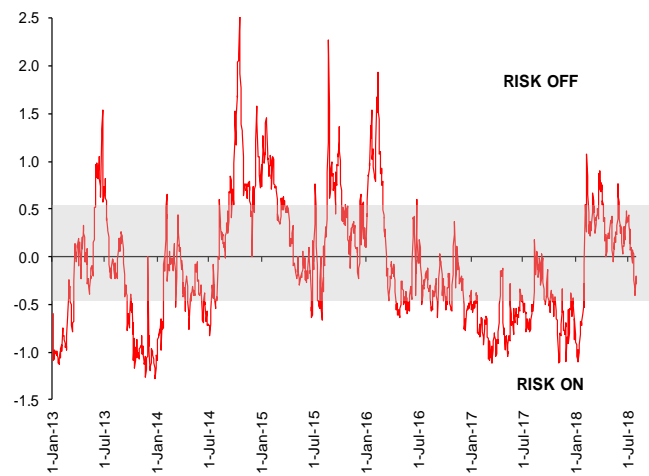
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DX	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DX	1.000	-0.035	0.282	0.135	-0.035	-0.661	0.682	-0.470	-0.102	-0.132	0.338	-0.889
SGD	0.834	-0.220	0.118	-0.218	-0.339	-0.471	0.356	-0.197	0.247	0.232	0.157	-0.820
CHF	0.701	-0.423	-0.125	0.161	-0.094	-0.593	0.771	-0.270	-0.363	-0.099	-0.112	-0.496
JPY	0.682	-0.096	0.193	0.400	0.107	-0.799	1.000	-0.604	-0.534	-0.412	0.250	-0.343
CAD	0.575	-0.610	-0.279	-0.264	-0.553	-0.435	0.384	0.053	0.033	0.364	-0.274	-0.401
KRW	0.487	0.126	0.493	0.405	0.186	-0.784	0.504	-0.554	-0.369	-0.381	0.423	-0.185
MYR	0.412	0.633	0.870	0.495	0.458	-0.536	0.179	-0.690	-0.203	-0.577	0.865	-0.387
THB	0.355	0.523	0.768	0.579	0.456	-0.769	0.448	-0.767	-0.494	-0.641	0.802	-0.081
CNH	0.338	0.830	0.986	0.666	0.693	-0.519	0.250	-0.769	-0.327	-0.776	1.000	-0.252
TWD	0.299	0.529	0.756	0.347	0.370	-0.527	0.131	-0.595	-0.082	-0.425	0.750	-0.209
CNY	0.282	0.853	1.000	0.689	0.730	-0.484	0.193	-0.756	-0.339	-0.792	0.986	-0.188
IDR	0.269	0.635	0.792	0.503	0.452	-0.452	0.075	-0.571	-0.277	-0.510	0.806	-0.146
PHP	0.265	-0.491	-0.333	-0.081	-0.333	-0.313	0.336	0.048	-0.200	0.189	-0.245	-0.057
USGG10	-0.035	1.000	0.853	0.640	0.819	-0.131	-0.096	-0.572	-0.259	-0.705	0.830	0.012
INR	-0.181	-0.018	0.048	-0.126	-0.238	0.134	-0.409	0.203	0.140	0.197	0.059	0.183
NZD	-0.705	0.381	0.145	0.416	0.404	0.278	-0.238	-0.007	-0.393	-0.424	0.093	0.775
AUD	-0.715	0.119	-0.104	0.337	0.377	0.291	-0.137	0.108	-0.433	-0.290	-0.160	0.822
GBP	-0.737	-0.482	-0.742	-0.385	-0.311	0.590	-0.427	0.629	0.154	0.456	-0.772	0.630
EUR	-0.889	0.012	-0.188	0.048	0.120	0.400	-0.343	0.301	-0.162	-0.058	-0.252	1.000

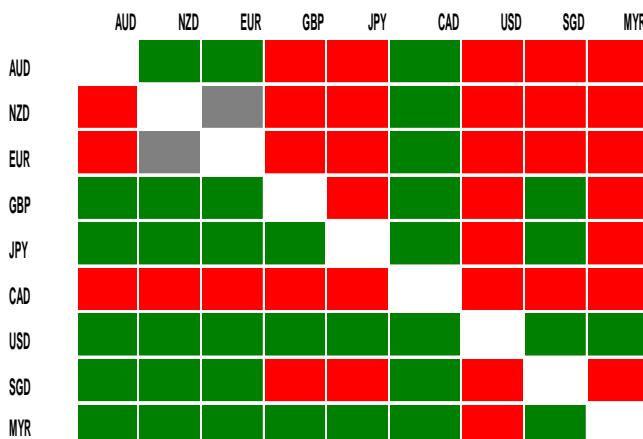
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1621	1.1676	1.1685	1.1700	1.1759
GBP-USD	1.3025	1.3100	1.3110	1.3200	1.3237
AUD-USD	0.7351	0.7400	0.7417	0.7462	0.7467
NZD-USD	0.6851	0.6873	0.6800	0.6851	0.6873
USD-CAD	1.3000	1.3002	1.3015	1.3100	1.3102
USD-JPY	110.60	111.00	111.88	112.00	113.09
USD-SGD	1.3561	1.3600	1.3617	1.3694	1.3700
EUR-SGD	1.5875	1.5900	1.5912	1.5985	1.6000
JPY-SGD	1.2100	1.2149	1.2171	1.2200	1.2243
GBP-SGD	1.7787	1.7800	1.7853	1.7900	1.7922
AUD-SGD	1.0001	1.0051	1.0099	1.0100	1.0102
Gold	1209.24	1210.70	1221.90	1261.79	1265.03
Silver	15.19	15.50	15.51	15.60	16.10
Crude	66.16	68.30	68.37	68.40	69.06

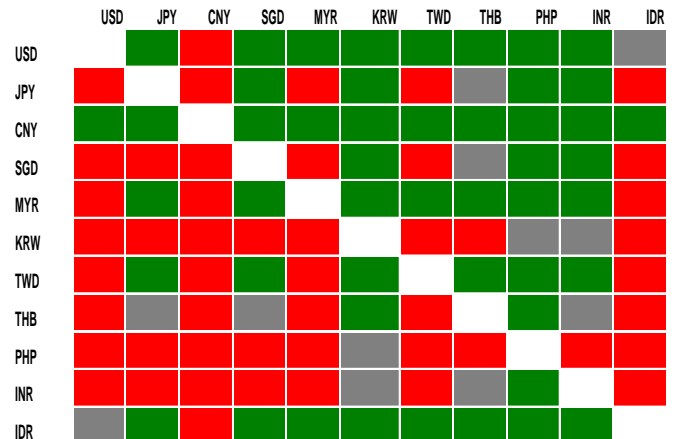
Source: OCBC Bank

G10 FX Heat Map



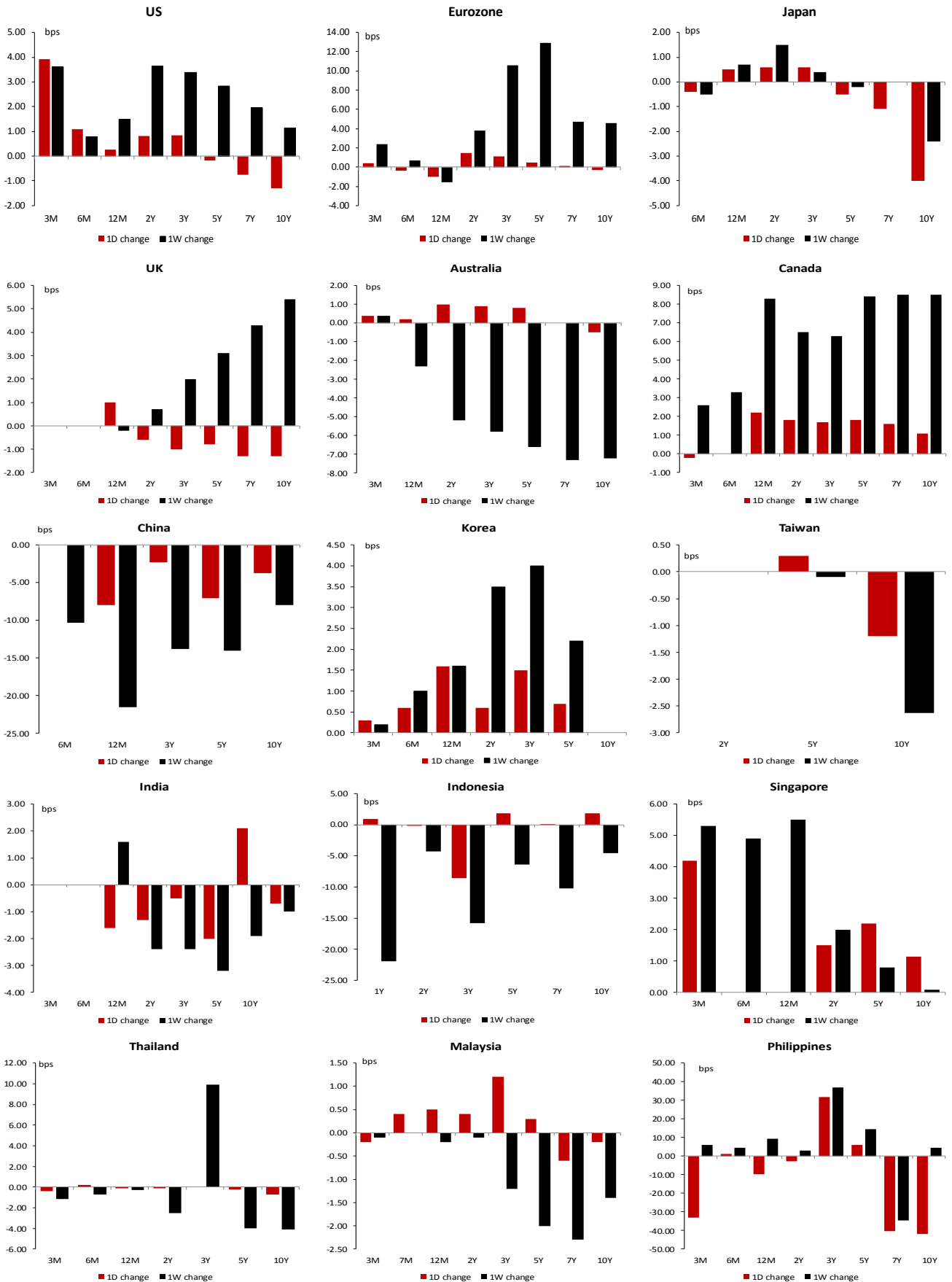
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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