

Thursday, August 02, 2018

FX Themes/Strategy/Trading Ideas

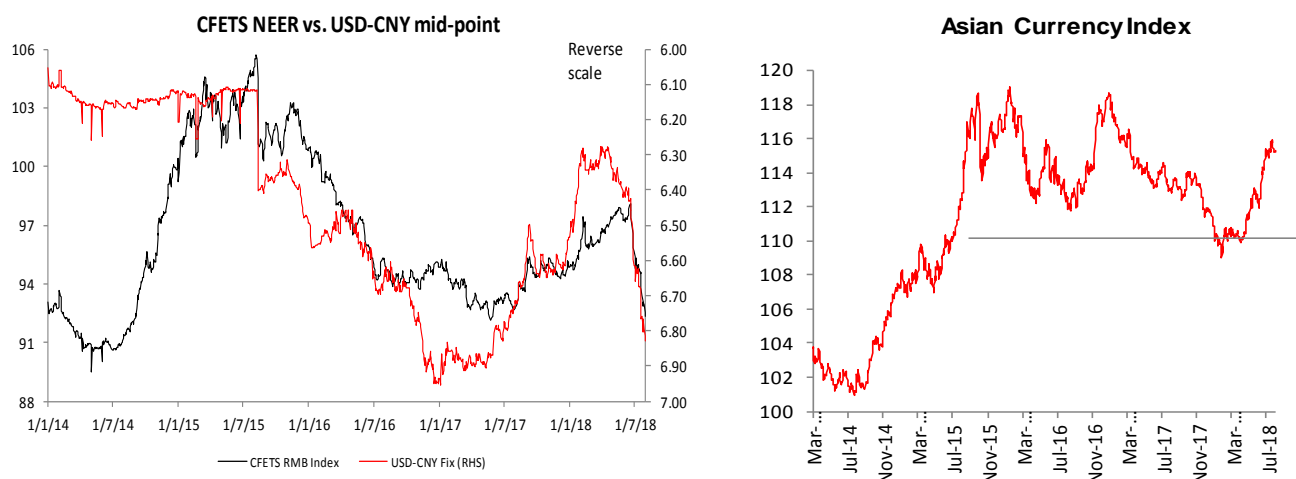
- The broad USD responded in a muted fashion to the August FOMC statement, moving within a narrow range. The JPY outperformed, after slipping post-BOJ, on a potential worsening of trade tensions between the US and China.
- The FOMC statement can in largely as expected, with minor tweaks serving to emphasize the firm underlying economy. “Further gradual increases” in the policy rate is expected, although there was no shift in the statement to account for Powell’s “for now” comment in the congressional testimonies.
- Expectations for a September rate hike emerged unscathed. The bigger question is the potential December hike. We think the discussion on the flattening yield curve will be informative on this front. **As such, we think the FOMC minutes (to be released) will be more interesting than the statement itself.**
- The Bank of England (BOE) (1100 GMT) will be up next, with a rate hike baked in. A hold by the BOE will come as a massive surprise. However, with Brexit uncertainties in the horizon and UK economic prints firm but not firing in all cylinders, we expect Carney to sound next-to-dovish in his press conference (1130 GMT), likely signaling that future rate hikes will be done in a glacial pace.
- **With three of four major central bank meetings out of the way, we still have very little directional drivers to chew on. We are left to grapple with idiosyncratic distractions that are insufficient to cause a range break. We continue to expect major pairs to be range-bound going forward.**
- Meanwhile, the Bank of Japan’s (BOJ) shift in interpretation of the “around 0%” comment caused the 10y JGB yield move higher as the market searched for a confirmation of the new tolerance range. G7 yields largely moved higher in line, with the 10y UST yield closing above the 3.00% mark. Nevertheless, note that the correlation between long end yield differentials and FX has essentially broken down. We do not expect higher long end UST yields to emerge as a USD driver at this point.
- Apart from the BOE MPS highlighted above, watch for the UK inflation report (1100 GMT), US jobless claims (1230 GMT) and factory orders (1400 GMT).

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Asian FX

- Asia will be contemplating the impact of the latest developments in the Sino-US trade front. While there were signs that a new round of negotiations between the parties may be at hand, the latest salvo from Trump threatened to raise the tariffs on US\$200bn of Chinese goods from 10% to 25%.
- Meanwhile, our **FX Sentiment Index (FXSI)** continued to fluctuate within the Risk-Neutral zone, while staying close to the Risk-On threshold.
- In terms of **Asia net portfolio flows**, we continue to see improvements across the tracked countries. The situation in Taiwan, India and Indonesia has effectively flipped into a net inflow situation on the rolling 20D basis, after spending most of this year in net outflow territory. Outflow momentum in Thailand and Philippines has also been curtailed to near neutral levels. In South Korea, inflow momentum stabilized, although it remained below the levels reached earlier in the year. **In this context, note that the recent resilience exhibited by the EM Asian (ex. CN) currencies relative the RMB complex is in line with fundamentals.**
- **Overall, we think the Asian currencies should remain pressured today given the latest exchange in the Sino-US trade front. Look for the Asian Currency Index (ACI) to reestablish connection with the USD-CNY going forward.**
- **India:** The Reserve Bank of India (RBI) hiked rates by 25 bps as expected. Nevertheless, the overall tone was somewhat soft, with inflation forecasts marginally downgraded and concerns over tariff and currency wars peppering the press conference.
- After the RBI, attention will shift next to the Bank of Thailand (BOT) and the Bangko Sentral ng Pilipinas (BSP) next week. The BOT's stance will be interesting to watch as it appears to be behind the rest of the Asian central banks in terms of rate hike cycle. Watch for any shift in that front. Meanwhile, the BSP looks set to hike.
- **SGD NEER:** The SGD NEER is marginally weaker at +1.13% above its perceived parity level (1.3779) this morning. The NEER-implied USD-SGD thresholds remained relatively static. We expect an intra-day range between the +0.90% (1.3657) and +1.30% (1.3603) thresholds to hold.
- **CFETS RMB Index:** The USD-CNY mid-point was set lower than expected at 6.7942 compared to 6.8293 on Wednesday. The CFETS RMB Index firmed marginally to 92.90, compared to 92.36 previously. Note that yesterday's USD-CNY 4.30pm closing price was significantly lower than current levels, and may have biased the fix lower. With the pressure still on China on the domestic and external fronts, we think the USD-CNY may still be on the uptrend. Any dip below the 6.8000 handle may be a good entry position to long USD from a tactical perspective.



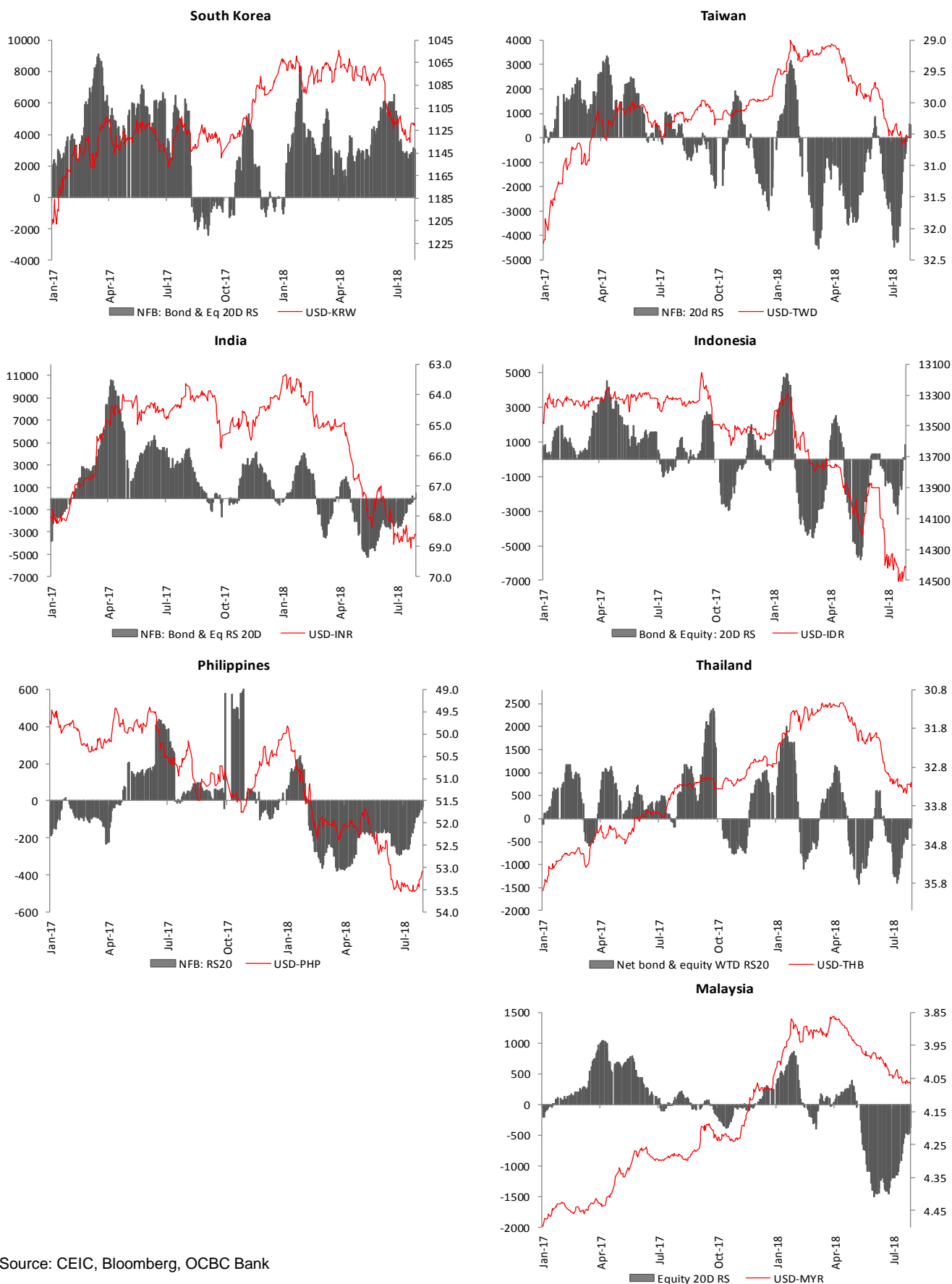
Source: OCBC Bank, Bloomberg

Short term Asian FX views

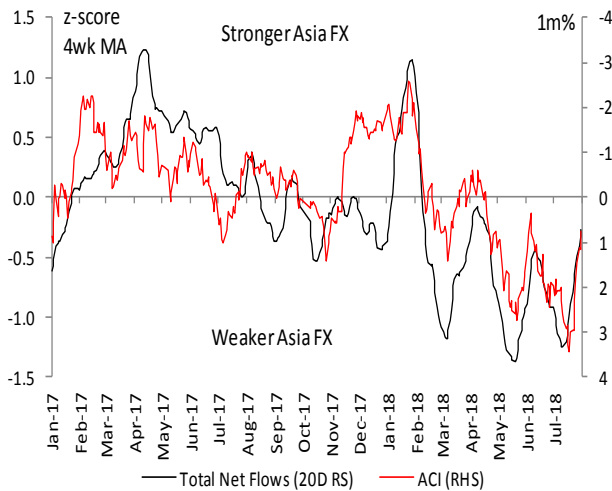
Currency	Bias	Rationale
USD-CNH	↔/↑	Expansionary fiscal policy to complement monetary loosening to support the Chinese economy; 6.8000 handle should turn into a support going forward; watch the index at 92.00 (2017 low) as the next waypoint
USD-KRW	↔/↑	Latest economic prints show lost of positive momentum; portfolio inflows stabilizing; BOK governor signalling the need to review the accommodative policy
USD-TWD	↔/↑	Equity outflow situation flipped into net inflow territory; decreased sensitivity to the RMB complex in recent sessions; stronger than expected growth in domestic demand in 1H
USD-INR	↔	RBI hiked 25 bps as expected, making it two hikes in consecutive meetings; persistent outflow momentum flipped into a net inflow situation in a rolling 20D basis; 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

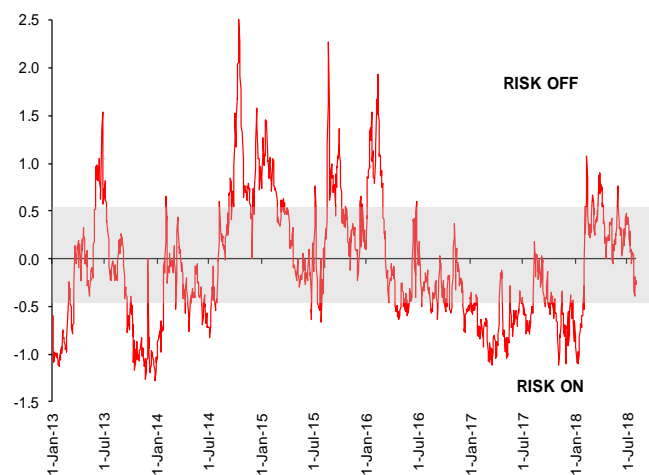
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

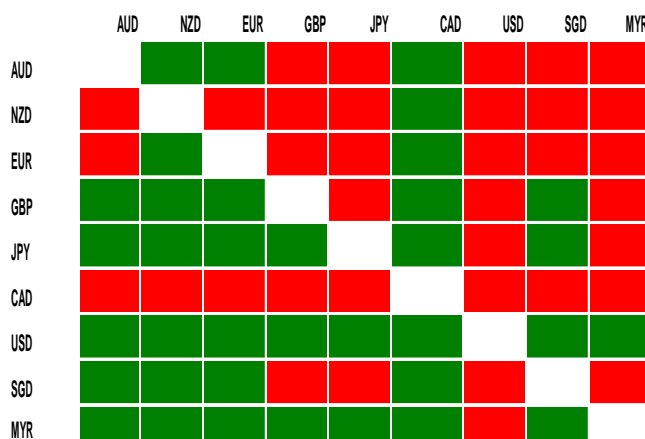
	DX	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DX	1.000	0.029	0.328	0.263	0.000	-0.757	0.748	-0.592	-0.233	-0.272	0.402	-0.879
SGD	0.824	-0.211	0.163	-0.061	-0.326	-0.623	0.461	-0.355	0.070	0.077	0.217	-0.761
JPY	0.748	-0.077	0.183	0.364	0.099	-0.780	1.000	-0.565	-0.515	-0.390	0.228	-0.422
CHF	0.709	-0.422	-0.164	0.138	-0.120	-0.549	0.787	-0.241	-0.388	-0.061	-0.128	-0.478
KRW	0.511	0.097	0.438	0.382	0.160	-0.737	0.522	-0.542	-0.361	-0.358	0.420	-0.188
MYR	0.469	0.694	0.876	0.474	0.468	-0.541	0.168	-0.716	-0.112	-0.582	0.881	-0.514
CAD	0.457	-0.690	-0.345	-0.228	-0.558	-0.370	0.383	0.104	-0.078	0.361	-0.336	-0.204
THB	0.415	0.284	0.541	0.407	0.335	-0.562	0.371	-0.535	-0.370	-0.446	0.592	-0.124
CNH	0.402	0.845	0.987	0.670	0.698	-0.531	0.228	-0.786	-0.264	-0.816	1.000	-0.382
TWD	0.336	0.529	0.750	0.339	0.374	-0.527	0.121	-0.600	-0.024	-0.438	0.746	-0.271
CNY	0.328	0.868	1.000	0.692	0.732	-0.499	0.183	-0.772	-0.274	-0.831	0.987	-0.284
IDR	0.305	0.622	0.782	0.508	0.455	-0.448	0.065	-0.571	-0.244	-0.532	0.799	-0.204
PHP	0.185	-0.600	-0.432	-0.132	-0.366	-0.129	0.251	0.189	-0.212	0.274	-0.349	0.054
USGG10	0.029	1.000	0.868	0.666	0.805	-0.203	-0.077	-0.632	-0.226	-0.770	0.845	-0.126
INR	-0.215	-0.165	-0.056	-0.127	-0.272	0.191	-0.394	0.263	0.087	0.229	-0.037	0.269
NZD	-0.709	0.331	0.072	0.239	0.393	0.507	-0.383	0.227	-0.192	-0.241	-0.008	0.744
AUD	-0.713	0.046	-0.196	0.160	0.354	0.490	-0.253	0.342	-0.271	-0.092	-0.290	0.799
GBP	-0.751	-0.492	-0.764	-0.476	-0.339	0.646	-0.445	0.695	0.213	0.572	-0.791	0.661
EUR	-0.879	-0.126	-0.284	-0.124	0.058	0.555	-0.422	0.506	-0.020	0.126	-0.382	1.000

Source: Bloomberg

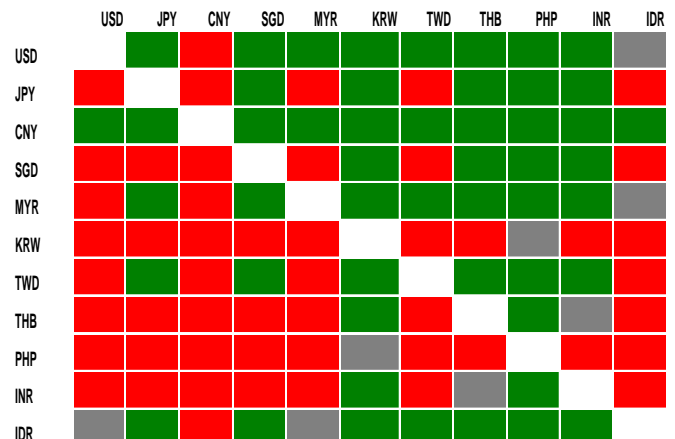
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1600	1.1618	1.1654	1.1674	1.1700
GBP-USD	1.3016	1.3100	1.3108	1.3200	1.3227
AUD-USD	0.7311	0.7353	0.7392	0.7400	0.7455
NZD-USD	0.6700	0.6742	0.6785	0.6800	0.6850
USD-CAD	1.2976	1.3000	1.3007	1.3100	1.3108
USD-JPY	110.68	111.00	111.62	112.00	113.06
USD-SGD	1.3561	1.3600	1.3647	1.3692	1.3700
EUR-SGD	1.5868	1.5900	1.5904	1.5985	1.6000
JPY-SGD	1.2151	1.2200	1.2226	1.2242	1.2300
GBP-SGD	1.7784	1.7800	1.7889	1.7900	1.7920
AUD-SGD	1.0016	1.0051	1.0087	1.0099	1.0100
Gold	1207.95	1210.70	1218.80	1258.68	1262.11
Silver	15.18	15.40	15.43	15.50	16.04
Crude	65.93	67.90	67.95	68.00	68.88

Source: OCBC Bank

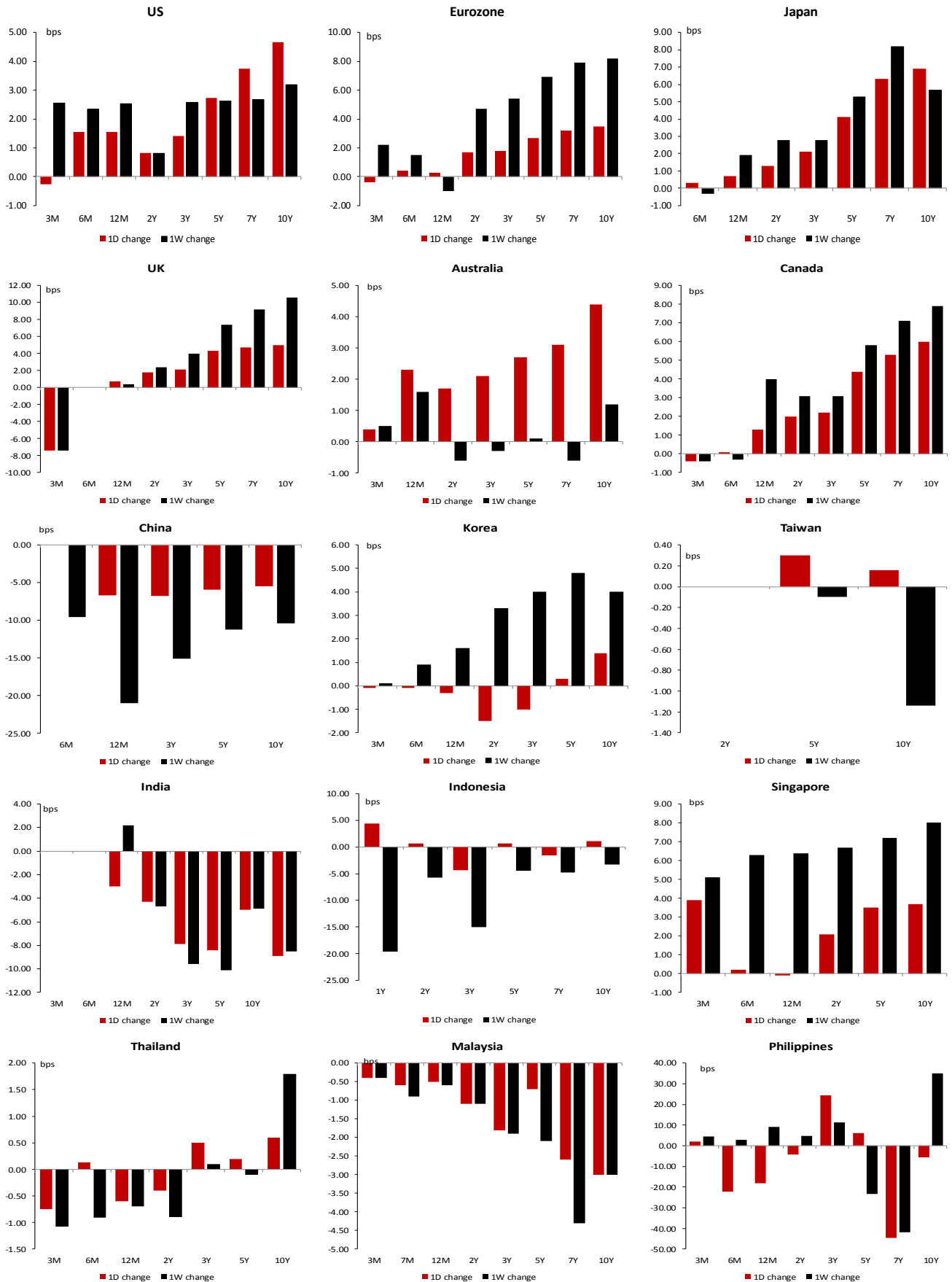
G10 FX Heat Map

Source: OCBC Bank

Asia FX Heat Map

Source: OCBC Bank

Government bond yield changes



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