

Friday, August 03, 2018

FX Themes/Strategy/Trading Ideas

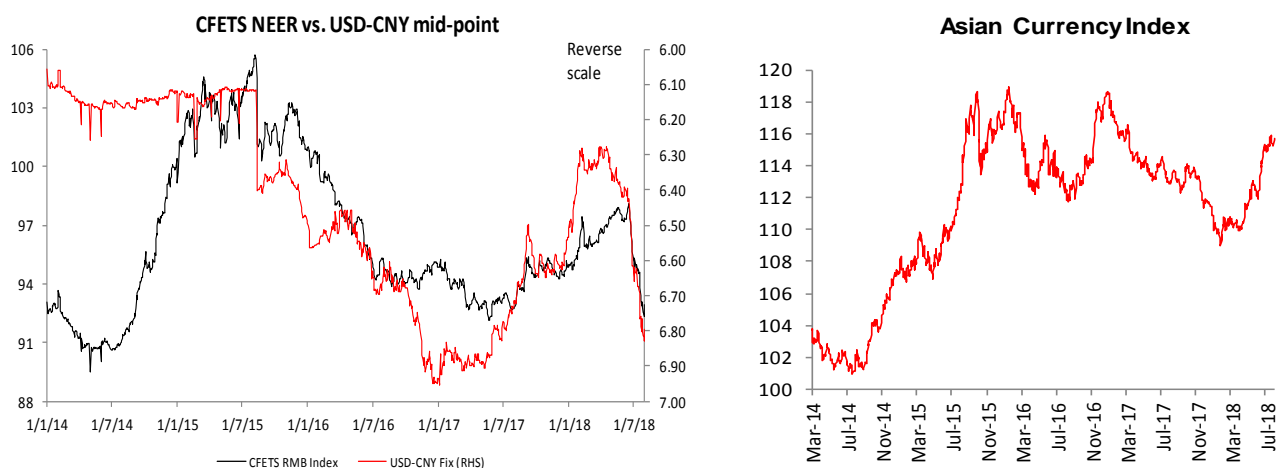
- The USD traded with wind behind the sales yesterday, with the DXY index rising above the 95.00 handle. **There appears to be not much in terms of a strong USD-centric driver, but rather a combination of idiosyncratic factors hitting the other G7 currencies providing a net USD-positive impact.**
- The Bank of England (BOE) hike rates as expected, with future rate hikes expected to be “at a gradual pace and to a limited extent”. Although Carney did not rule out another hike before June 2019, we think the overall message is largely neutral as much is conditional on Brexit outcomes. However, we also think it may be difficult to imagine another hike before June 2019, especially given the current state of negotiations over Brexit. Nevertheless, the BOE’s assumption appears to be for a smooth Brexit.
- Market attention should now revert to Brexit developments. At this juncture, the 1.3000 handle for the GBP looks vulnerable. **A significant shift in Brexit outlook will be needed to re-ignite GBP uptrend.**
- The EUR took a hit on renewed Italian concerns, as the 10y BTP yield hit a near-term high. At current levels, the EUR is in line with our short term implied valuation model.
- Elsewhere, the Bank of Japan (BOJ) surprised bond traders with an unscheduled operation offering to purchase JPY400bn worth of bonds in the 5-10y tenure on Thursday. The regular bond purchase scheduled this morning also saw an offer to buy JPY400bn in 5-10y debt, unchanged from previous regular operations. The move in the 10y JGB yield to 14.5 bps, with bond traders testing the upper tolerance level, may be too rapid for comfort. The JPY pared gains as a result.
- We may see a shift back to US-centric FX drivers again later today, with a whole slew of labour market data scheduled, headlined by the non-farm payrolls and unemployment rate (both 1230 GMT). Watch also for Eurozone services and composite PMIs (from 0715 GMT), and retail sales (0900 GMT).

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Asian FX

- New round of verbal sparring took place between US Commerce Secretary Ross and the Chinese Ministry of Commerce put Sino-US trade relations back to the centre stage in Asia. **We note that anti-China rhetoric has picked up significantly since the US reached a trade deal with the EU, perhaps confirming the view that the US now has more room to push China harder after the compromise with EU.**
- However, overall risk sentiments saw a muted response to the latest trade salvos. The **FX Sentiment Index (FXSI)** remains rooted within the Risk-Neutral zone, although it made a shift nearer to the Risk-Off area.
- Nevertheless, the pace of decline in the RMB complex has picked up again in the past two sessions. Weaker than expected manufacturing PMIs earlier this week, and another soft print in the services PMI this morning did the RMB complex no favours.
- The USD-CNH and USD-CNY are both pushing the 6.9000 levels. At this juncture, we may see another pause just south of the 6.9000 handle. Note that we are now near 92.20 on the CFETS RMB Index, and **we still think the 92.00 level is the key waypoint to watch for any potential shift in PBOC's position. If instead there is a clean break of the 92.00 handle, we may see the market placing more emphasis on actual USD-CNH and USD-CNY levels.**
- **Expect the Asian currencies to remain under pressure given the USD-CNY move this morning, with the correlation between the Asian Currency Index (ACI) and the USD-CNY picking up again.** Even though the Asian fundamentals saw improvement, we think the overall climate will still be determined by trade tensions. The risk-reward still favours a higher USD-Asia at this point.
- **SGD NEER:** The SGD NEER stands at +1.10% above its perceived parity level (1.3836) this morning. USD strength overnight lifted the NEER-implied USD-SGD thresholds. With the USD still looking supported, we expect an intra-day range between the +0.90% (1.3713) and +1.30% (1.3659) thresholds to hold.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within expectations, at 6.8322 compared to 6.7942 on Thursday. The CFETS RMB Index firmed marginally to 92.69, compared to 92.90 previously.



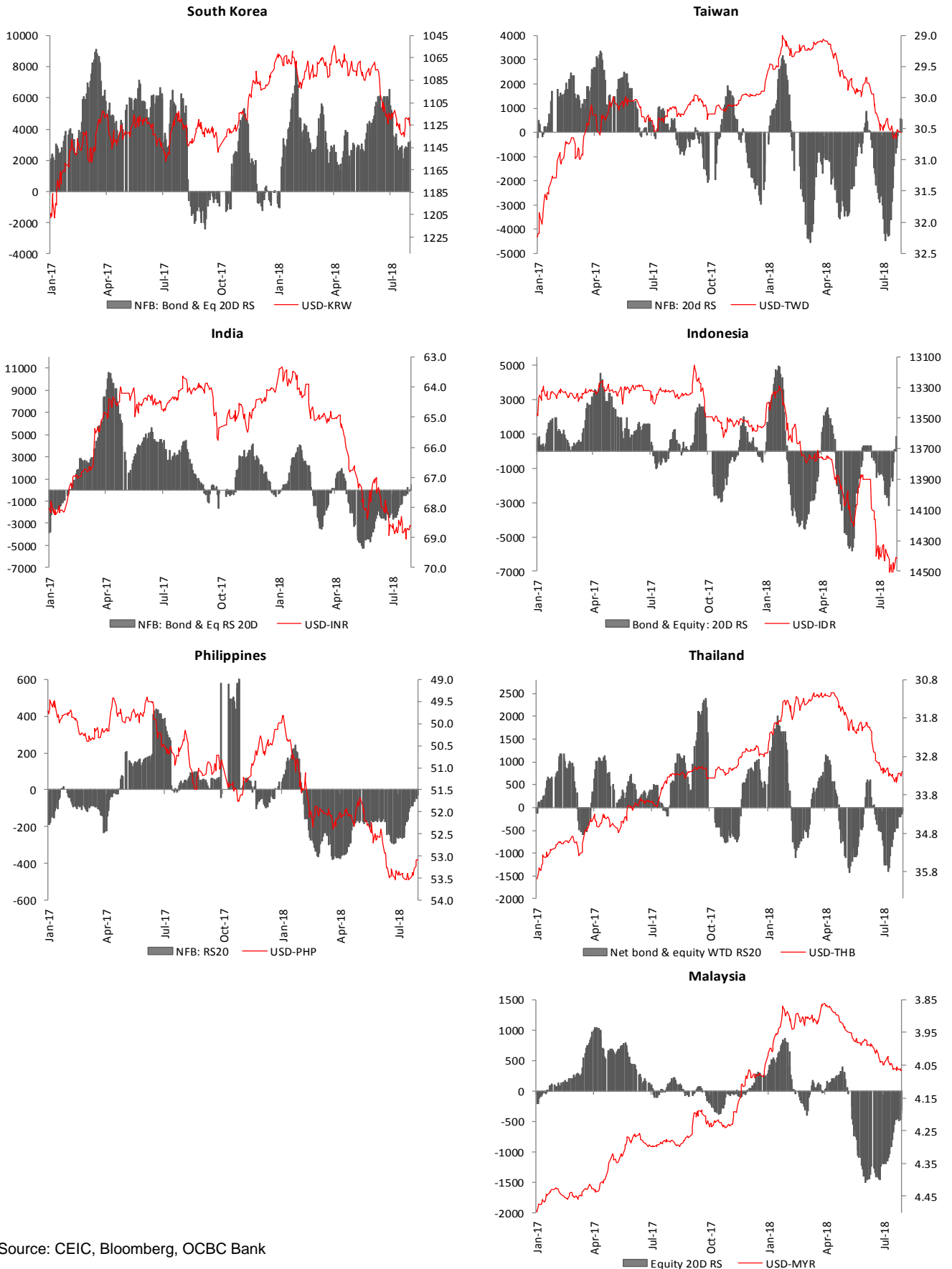
Source: OCBC Bank, Bloomberg

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, with spot pushing 6.9000; 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; whipsawed by Sino-US trade developments
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	↔	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. Consolidation of the SGD NEER above the +1.00% above parity level may further fuel suspicions of a tightening move
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; current account for June stronger than expected
USD-PHP	↔/↑	Calls for further BSP rate hikes intensifying; Moody's maintain IG rating

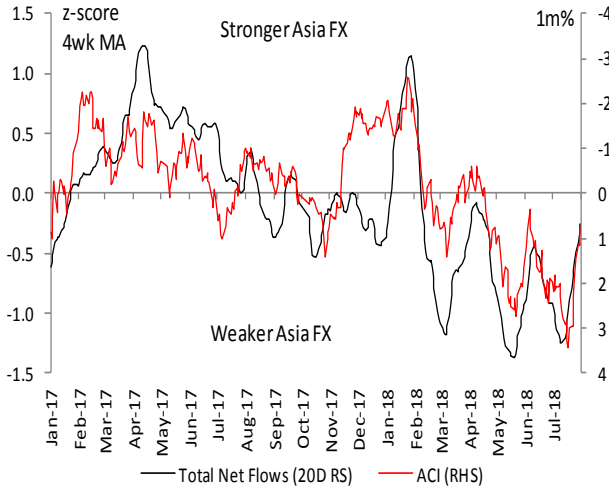
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



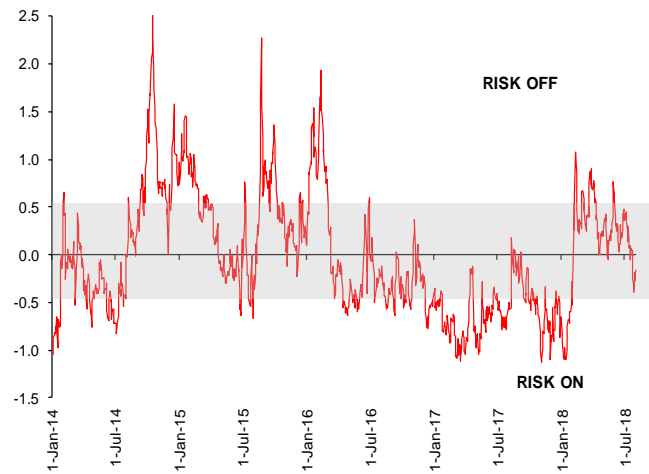
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	0.219	0.423	0.396	-0.090	-0.784	0.698	-0.644	-0.384	-0.328	0.567	-0.913
SGD	0.874	0.045	0.299	0.116	-0.364	-0.702	0.483	-0.490	-0.116	-0.020	0.453	-0.824
JPY	0.698	-0.126	0.128	0.241	0.027	-0.753	1.000	-0.520	-0.450	-0.309	0.177	-0.406
CHF	0.668	-0.367	-0.173	0.097	-0.157	-0.546	0.805	-0.268	-0.440	-0.013	-0.067	-0.457
MYR	0.615	0.741	0.909	0.609	0.333	-0.562	0.166	-0.714	-0.192	-0.637	0.918	-0.679
CNH	0.567	0.855	0.984	0.688	0.505	-0.496	0.177	-0.725	-0.186	-0.792	1.000	-0.610
KRW	0.532	0.174	0.424	0.370	0.104	-0.734	0.517	-0.593	-0.357	-0.338	0.467	-0.287
CNY	0.423	0.875	1.000	0.713	0.576	-0.467	0.128	-0.745	-0.178	-0.822	0.984	-0.453
THB	0.419	0.275	0.511	0.352	0.266	-0.532	0.337	-0.503	-0.312	-0.413	0.532	-0.208
TWD	0.406	0.593	0.809	0.506	0.305	-0.581	0.144	-0.679	-0.134	-0.542	0.801	-0.367
IDR	0.371	0.639	0.794	0.557	0.353	-0.441	0.036	-0.570	-0.230	-0.542	0.805	-0.325
USGG10	0.219	1.000	0.875	0.706	0.660	-0.173	-0.126	-0.587	-0.148	-0.771	0.855	-0.359
CAD	0.205	-0.707	-0.407	-0.296	-0.448	-0.348	0.399	0.067	-0.095	0.393	-0.408	0.076
PHP	-0.022	-0.673	-0.538	-0.296	-0.230	-0.040	0.204	0.264	-0.108	0.353	-0.490	0.279
INR	-0.205	-0.207	-0.106	-0.311	-0.322	0.266	-0.467	0.373	0.307	0.382	-0.083	0.211
AUD	-0.785	-0.165	-0.333	-0.022	0.382	0.589	-0.301	0.478	-0.118	0.020	-0.497	0.834
NZD	-0.798	0.055	-0.098	-0.014	0.394	0.667	-0.461	0.427	0.098	-0.086	-0.300	0.801
GBP	-0.821	-0.586	-0.798	-0.572	-0.193	0.644	-0.401	0.688	0.273	0.597	-0.852	0.786
EUR	-0.913	-0.359	-0.453	-0.387	0.141	0.621	-0.406	0.574	0.255	0.262	-0.610	1.000

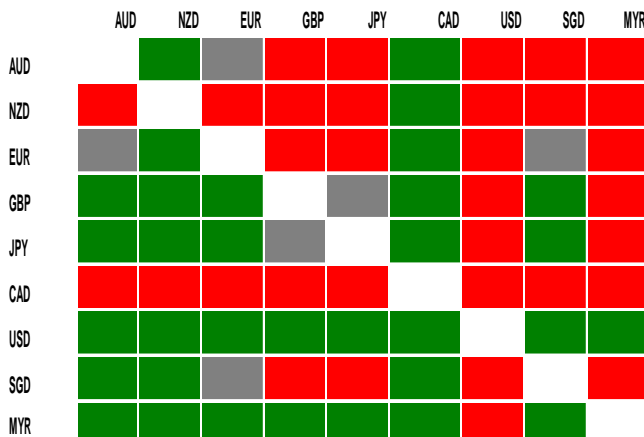
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1527	1.1590	1.1592	1.1600	1.1672
GBP-USD	1.2989	1.3000	1.3022	1.3100	1.3220
AUD-USD	0.7311	0.7344	0.7369	0.7400	0.7451
NZD-USD	0.6700	0.6728	0.6732	0.6800	0.6851
USD-CAD	1.2976	1.3000	1.3011	1.3100	1.3109
USD-JPY	110.73	111.00	111.65	112.00	113.01
USD-SGD	1.3562	1.3600	1.3687	1.3700	1.3705
EUR-SGD	1.5821	1.5851	1.5867	1.5900	1.5988
JPY-SGD	1.2200	1.2243	1.2259	1.2300	1.2322
GBP-SGD	1.7781	1.7800	1.7823	1.7900	1.7918
AUD-SGD	1.0023	1.0049	1.0087	1.0098	1.0100
Gold	1203.74	1205.10	1206.60	1257.15	1260.29
Silver	15.16	15.30	15.31	15.40	16.00
Crude	68.00	68.50	69.10	73.06	75.27

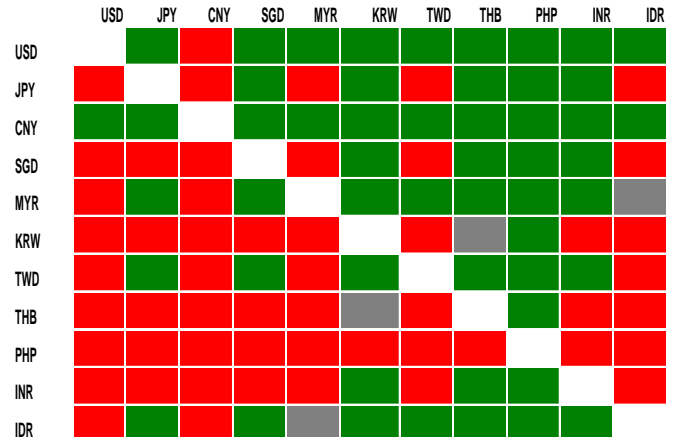
Source: OCBC Bank

G10 FX Heat Map



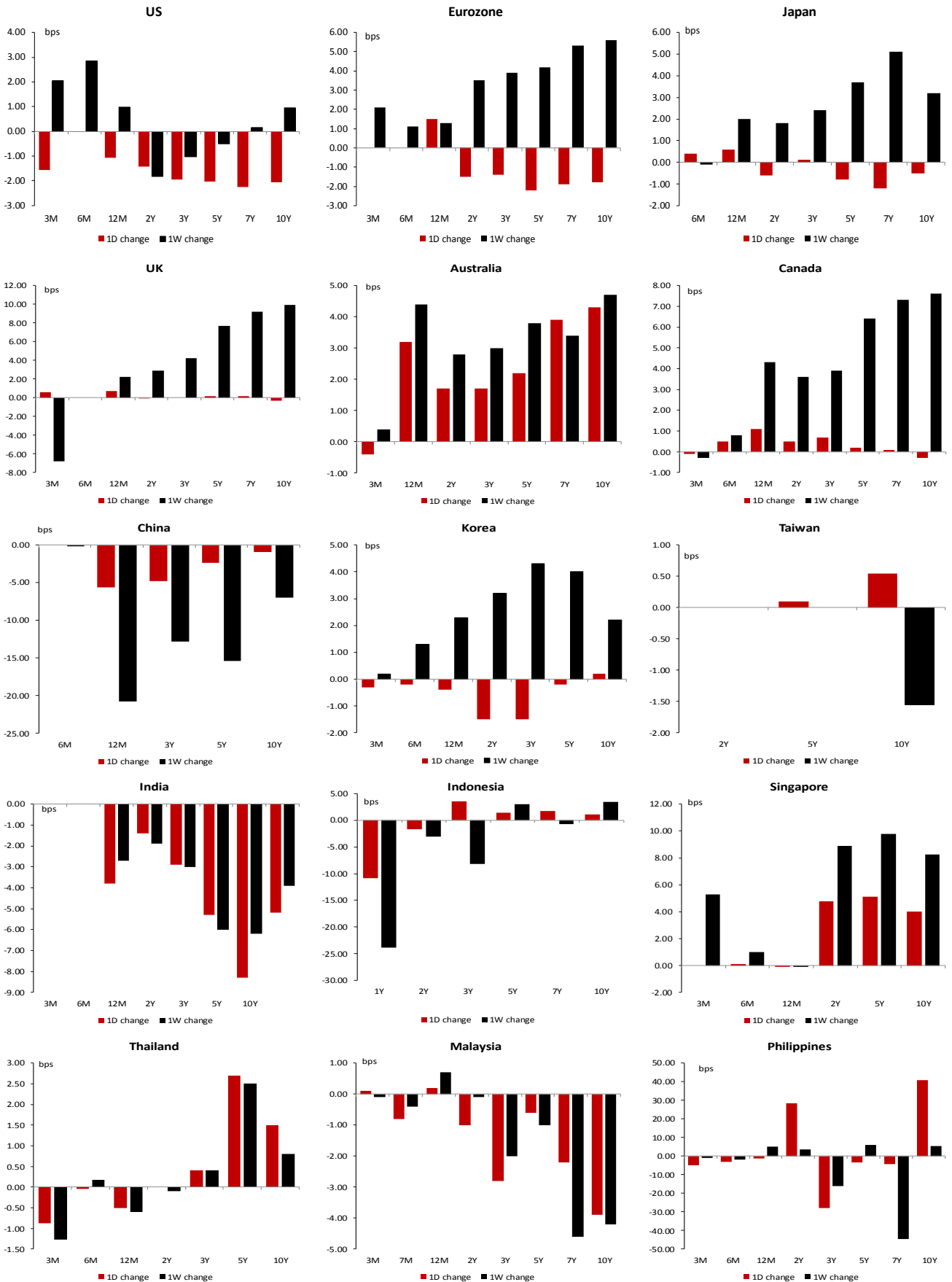
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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