

Tuesday, July 03, 2018

FX Themes/Strategy/Trading Ideas – FX forecast refresh

- The USD saw gains against all G7 and Asian currencies overnight, although gains were pared during the NY session. US PMI and ISM manufacturing prints came in above expectations. Note some risk-on/risk-off dynamic in play, with stabilizing US equities and positive political news from Germany causing an easing of risk sentiments, and a consequent sell-off in the broad USD during the NY session.
- Continue to expect risk sentiments to muddle along in a state of worry, but not boil over into panic mode. Our **FX Sentiment Index (FXSI)** inched higher towards the Risk-Off zone, but stayed outside that level for the tenth consecutive session.
- Note that much of the risk plays in the past week is centred on long-end US Treasuries, rather than usual suspects like the USD-JPY. The 10y and 30y UST yields have nudged lower, while the USD-JPY headed in the opposite direction. **With the USD-JPY trending higher, selling the JPY-crosses may be a better way to reflect the still-dominant risk-off tone.**
- The GBP remains pressured on the lack of positive Brexit-related headlines. At this juncture, **we still prefer to sell the GBP-USD and EUR-USD on rallies, at least until the FOMC minutes on Thursday.**
- The Reserve Bank of Australia (RBA) policy decision is scheduled today (0430 GMT). We expect it to hold rates unchanged at 1.50%. We reiterate that we think the RBA is one of the relative laggards (together with RBNZ and BOJ) in the pace of policy normalization within the G7 central banks. **We do not expect the AUD to be given a sustained boost by the RBA today.**
- Apart from the RBA, the central bank calendar is light today with only ECB's Praet scheduled at (1600 GMT). On the data front, watch for Eurozone retail sales (0900 GMT) and US factory orders (1400 GMT).

Treasury Research &
Strategy

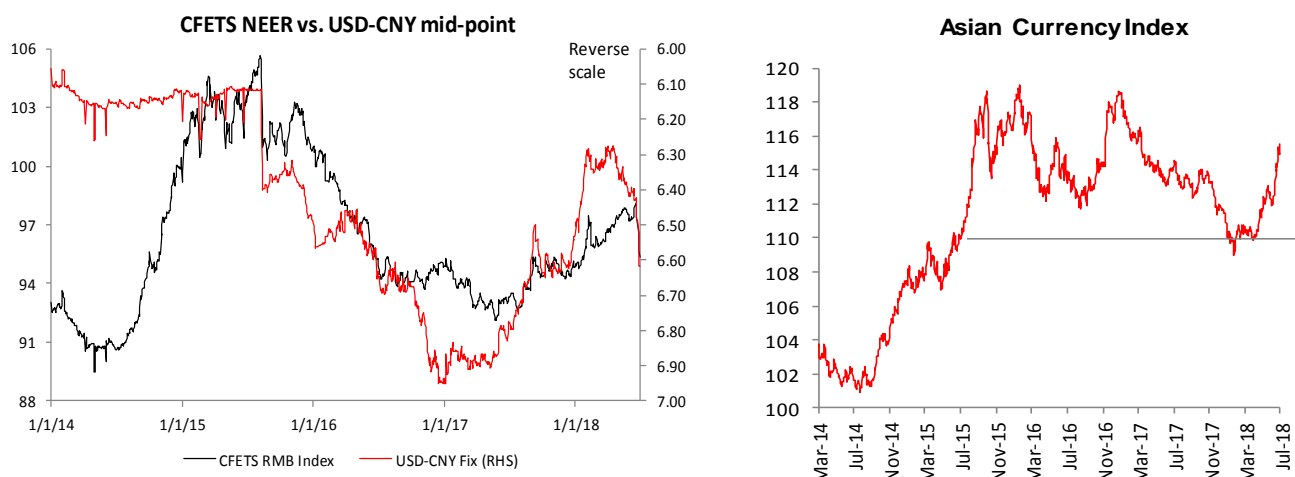
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Asian FX

- Asian currencies were led lower this morning by the depreciating RMB complex. This came despite the PBoC fixing the USD-CNY midpoint below the market consensus (although within our expectations). At this stage, there is a concern that the rapid, one-way depreciation in the RMB complex may be picked up by the White House as an unfair trade practice. This may open up the currency front in the trade war, just as we head into the imposition of import tariffs.
- **Note that we have hit the first key waypoints (USD-CNY above 6.70, CFETS RMB Index at 95) that we think will stir a more concerted intervention by the PBoC in reducing the pace of depreciation. Keep a close watch on this front to decipher RMB movements going forward.**
- In terms of **Asian portfolio flows**, equity outflows returned to most tracked economies in the latest reading. Taiwan continues to be the most negatively affected on this front, with outflows still accelerating. Note that the USD-TWD has risen in tandem to the outflows. Outflows also continued to pick up in Thailand, although in a less intense pace compared to Taiwan. Bond outflows also intensified in Indonesia in the latest reading, with the rapid rate hikes by Bank Indonesia (BI) doing little to support foreign bond demand. Bond inflows into South Korea continues to be the only bright spot.
- **EPFR** data shows a doubling of the pace of implied bond outflows in the latest week. Implied equity outflows eased compared to the previous week, but remain at elevated levels.
- Overall, the RMB depreciation is still showing no signs of exhaustion, and is casting a drag on Asian currencies as a whole. **We see continued upside pressure on the Asian Currency Index (ACI) in this context.**
- **SGD NEER:** The SGD NEER is standing around +0.20% above its perceived parity level (1.3743) this morning. The NEER-implied USD-SGD thresholds were higher after a recovery in broad USD on Monday. The parity (1.3743) and +0.40% (1.3688) thresholds should limit the pair's movement intra-day. Note that the 1.3700 handle was broken this morning on the back of an abrupt move in USD-CNY. If there is no action by the PBoC to limit the pace of depreciation, we may see the USD-SGD sustain over 1.3700.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within expectations, at 6.6497 compared to 6.6157 on Monday. The CFETS RMB Index weakened to 95.10, compared to 95.35 previously.



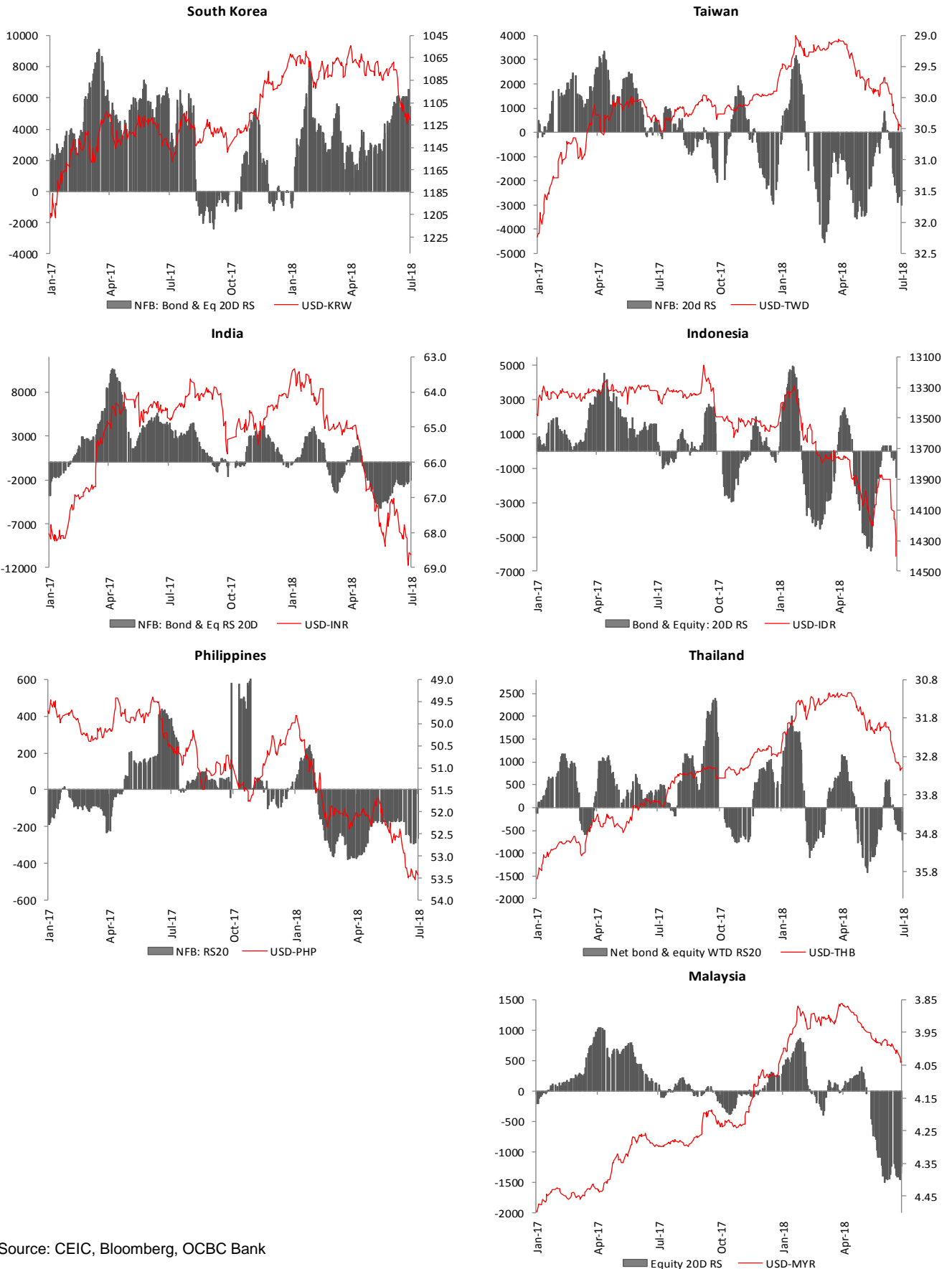
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↑	Sino-US trade tensions becoming base case, 6 July is the key date; rapid depreciation of the RMB complex putting upward pressure on USD-Asia as a whole; we have hit the first key waypoints (RMB index at 95, USD-CNY at 6.70) for possible intervention, watch to see if there are firmer actions by the PBoC
USD-KRW	↑	Net portfolio inflows remain at healthy levels; may suffer significant collateral damage if Sino-US trade war escalates; headline economic prints, latest being PMI and inflation, still weak for South Korea
USD-TWD	↑	Equity outflows intensifying; pair led higher by the weakening RMB complex
USD-INR	↔/↑	Higher oil prices continue to pressure; RBI ease foreign ownership caps on government bonds while using OMO to support the local bond market
USD-SGD	↑	SGD NEER supported near parity, unlikely to sustain under parity; pair responsive to broad USD movements
USD-MYR	↑	Shifts in policy direction under PH government may spur re-assessment of asset markets; pair may grind towards 4.10 after moving clear of 4.00
USD-IDR	↑	Surprise 50 bps hike; coordinated effort by the government and BI may limit USD-IDR gains, but will not fundamentally reverse the trend; latest inflation prints mixed, near bottom end of BI tolerance band
USD-THB	↑	BOT remains a laggard among the Asian central banks, keeping rates unchanged in the latest meeting; note official tolerance over weakening THB; bond outflows re-asserting; latest inflation prints mixed
USD-PHP	↑	BSP hiked rates in the latest meeting, signaling further rate hikes to come; PHP remains pressured due to intensifying outflows

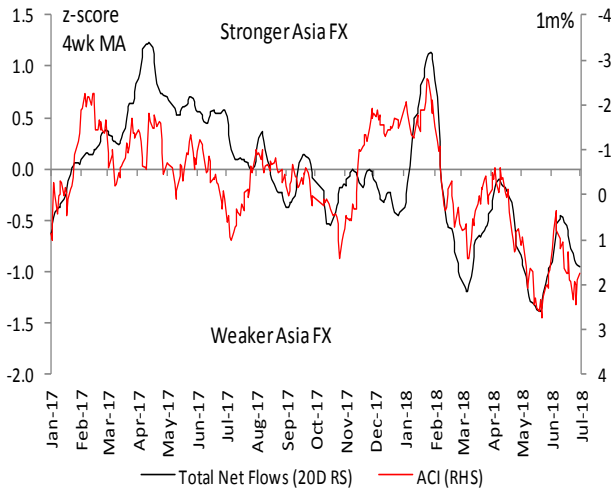
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



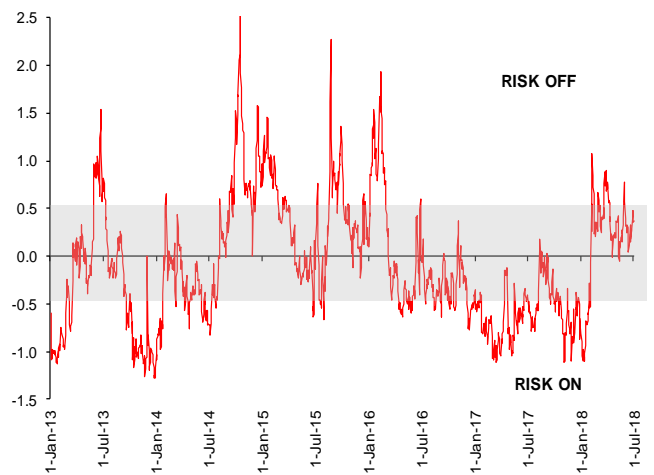
Source: CEIC, Bloomberg, OCBC Bank

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	-0.692	0.689	-0.466	-0.785	-0.560	0.508	0.475	0.537	0.377	0.688	-0.974
CHF	0.930	-0.491	0.531	-0.244	-0.612	-0.474	0.638	0.369	0.338	0.231	0.525	-0.925
IDR	0.862	-0.928	0.988	-0.825	-0.968	-0.217	0.792	0.942	0.887	0.930	0.988	-0.757
SGD	0.856	-0.853	0.926	-0.695	-0.962	-0.516	0.505	0.763	0.811	0.724	0.928	-0.729
CAD	0.852	-0.681	0.706	-0.474	-0.802	-0.736	0.342	0.438	0.642	0.474	0.667	-0.769
KRW	0.803	-0.794	0.901	-0.616	-0.931	-0.547	0.505	0.676	0.778	0.711	0.884	-0.654
INR	0.795	-0.780	0.899	-0.567	-0.901	-0.442	0.587	0.762	0.746	0.763	0.895	-0.658
PHP	0.793	-0.580	0.723	-0.354	-0.778	-0.589	0.594	0.538	0.615	0.550	0.702	-0.685
THB	0.778	-0.813	0.919	-0.659	-0.938	-0.533	0.427	0.722	0.801	0.750	0.911	-0.642
TWD	0.770	-0.876	0.962	-0.771	-0.980	-0.402	0.441	0.828	0.891	0.826	0.962	-0.635
MYR	0.692	-0.820	0.956	-0.703	-0.934	-0.300	0.553	0.876	0.865	0.911	0.957	-0.537
CNY	0.689	-0.890	1.000	-0.824	-0.960	-0.252	0.464	0.911	0.891	0.892	0.998	-0.542
CNH	0.688	-0.884	0.998	-0.805	-0.957	-0.230	0.544	0.929	0.877	0.884	1.000	-0.529
JPY	0.508	-0.201	0.464	-0.020	-0.361	-0.134	1.000	0.561	0.155	0.331	0.544	-0.420
USGG10	-0.692	1.000	-0.890	0.874	0.914	0.181	-0.201	-0.796	-0.888	-0.755	-0.884	0.606
NZD	-0.784	0.861	-0.969	0.733	0.951	0.312	-0.608	-0.881	-0.811	-0.828	-0.979	0.628
AUD	-0.909	0.767	-0.835	0.535	0.889	0.596	-0.555	-0.653	-0.690	-0.612	-0.837	0.806
GBP	-0.942	0.787	-0.843	0.608	0.898	0.458	-0.580	-0.707	-0.695	-0.603	-0.853	0.847
EUR	-0.974	0.606	-0.542	0.384	0.672	0.509	-0.420	-0.341	-0.416	-0.210	-0.529	1.000

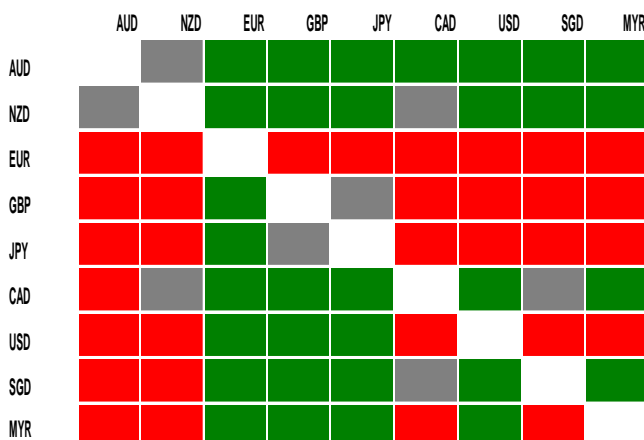
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1509	1.1600	1.1631	1.1700	1.1771
GBP-USD	1.3051	1.3100	1.3130	1.3200	1.3404
AUD-USD	0.7300	0.7311	0.7338	0.7400	0.7507
NZD-USD	0.6691	0.6700	0.6707	0.6800	0.6945
USD-CAD	1.2989	1.3100	1.3199	1.3200	1.3386
USD-JPY	110.00	110.19	110.87	111.00	111.03
USD-SGD	1.3435	1.3700	1.3723	1.3746	1.3791
EUR-SGD	1.5813	1.5900	1.5961	1.5976	1.5985
JPY-SGD	1.2225	1.2300	1.2378	1.2400	1.2478
GBP-SGD	1.8000	1.8006	1.8018	1.8071	1.8100
AUD-SGD	0.9981	1.0000	1.0068	1.0085	1.0100
Gold	1233.47	1238.80	1239.70	1293.31	1300.00
Silver	15.70	15.73	15.78	15.80	16.44
Crude	68.85	74.50	74.54	74.60	74.82

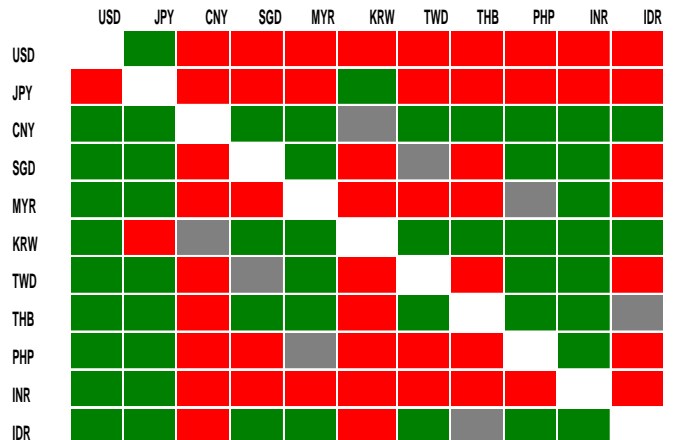
Source: OCBC Bank

G10 FX Heat Map



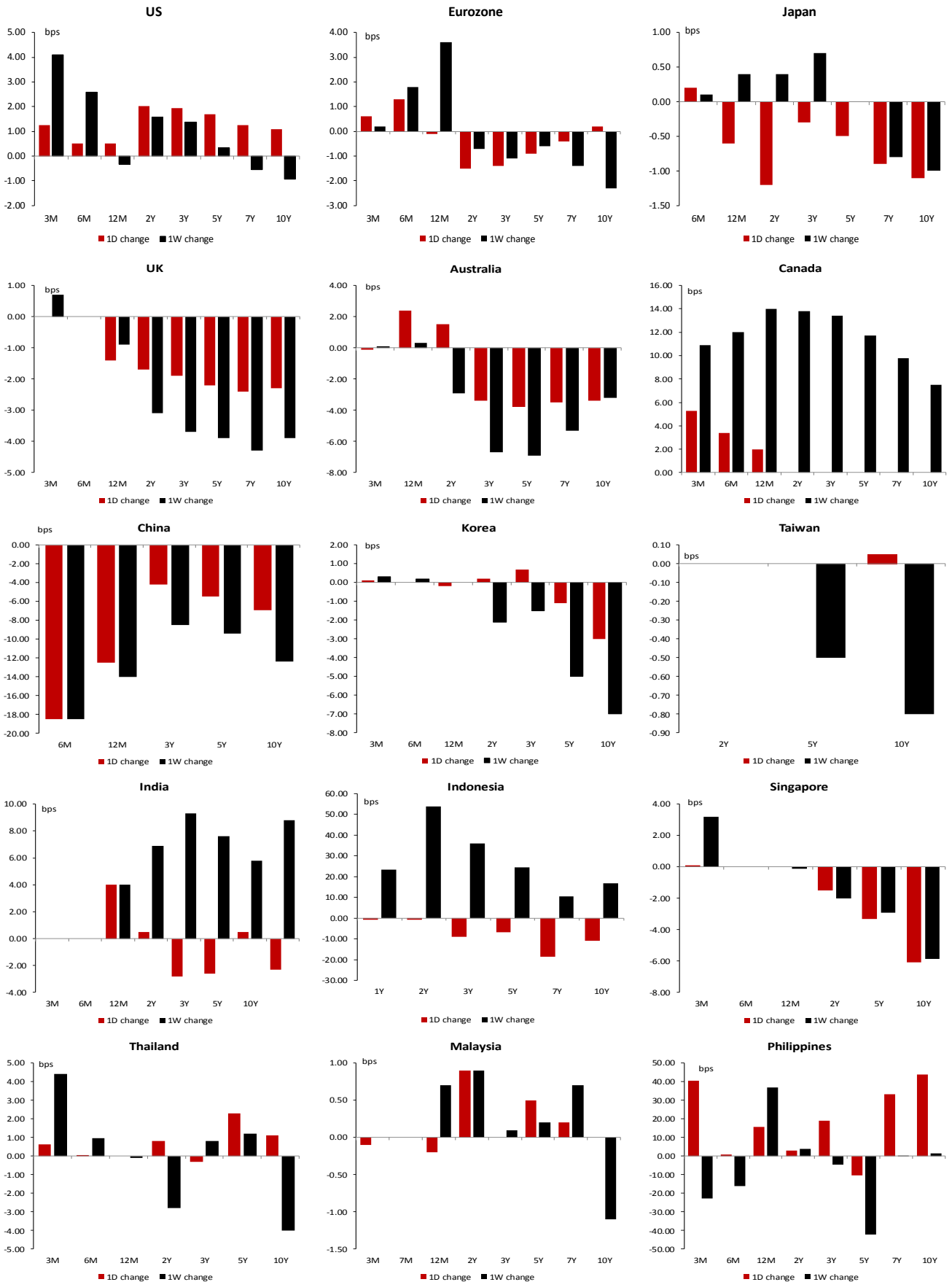
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



FX Forecasts

	Spot	Jul-18	Sep-18	Dec-18	Mar-19
USD-JPY	110.89	111.45	112.31	112.95	113.42
EUR-USD	1.1655	1.1558	1.1456	1.1655	1.1908
GBP-USD	1.3177	1.3067	1.2981	1.3207	1.3395
AUD-USD	0.7379	0.7282	0.7230	0.7355	0.7472
NZD-USD	0.6770	0.6640	0.6576	0.6734	0.6892
USD-CAD	1.3168	1.3293	1.3391	1.3059	1.2848
USD-CHF	0.9918	0.9969	1.0020	0.9889	0.9735
USD-SGD	1.3646	1.3718	1.3776	1.3797	1.3596
USD-CNY	6.6351	6.6836	6.7135	6.6884	6.6353
USD-THB	33.13	33.40	33.54	33.48	32.87
USD-IDR	14355	14488	14547	14533	14508
USD-MYR	4.0398	4.0557	4.0831	4.0723	3.9971
USD-KRW	1118.15	1131.87	1140.20	1147.65	1133.30
USD-TWD	30.456	30.680	30.836	30.943	30.550
USD-HKD	7.8458	7.8474	7.8486	7.8465	7.8430
USD-PHP	53.39	53.74	53.93	53.65	53.27
USD-INR	68.44	69.12	69.59	69.99	69.57

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