

Wednesday, July 04, 2018

FX Themes/Strategy/Trading Ideas

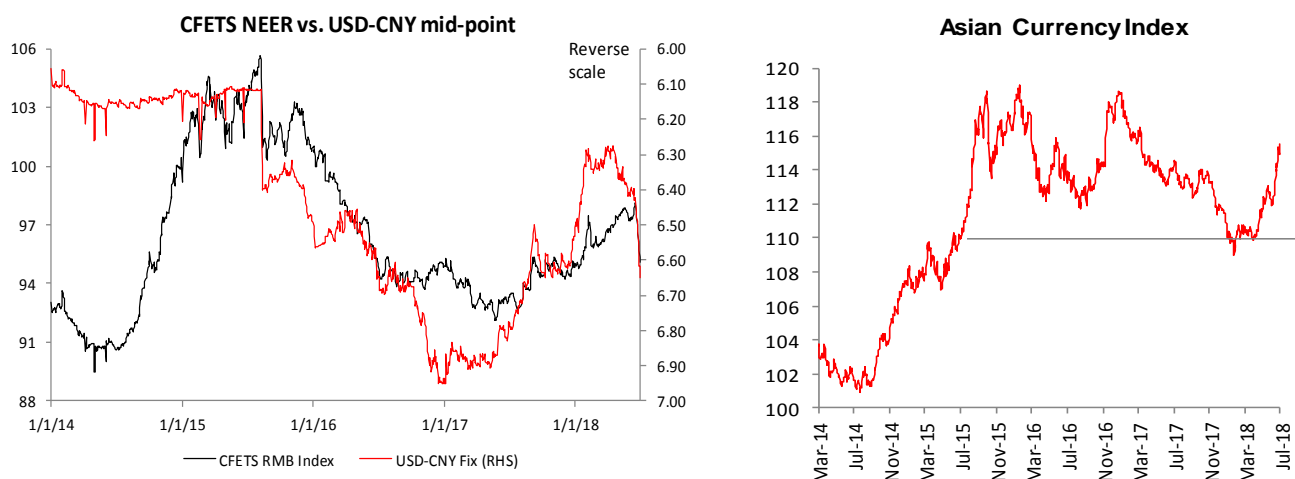
- Despite firmer than expected factory orders, the USD slipped against all G7 currencies. Risks appear to be taken off the table ahead of the Independence Day, with the 10y UST yield slipping around 5 bps during the NY session. Note also, that the 30y UST yield is testing recent lows for the third time, and also running against its 200-day MA.
- The de-risking move also led some USD-JPY longs to be closed. Expect the USD-JPY and JPY-crosses on ongoing trade issues.
- Overall risk sentiments though appeared to ease somewhat on the back of positive EU/EM equities and a firmer EM FX. Our **FX Sentiment Index (FXSI)** inched away from the Risk-Off zone.
- On the EUR front, some political uncertainties were eased after the resolution of the migration issue within the CDU/CSU union. A more difficult discussion is set for Thursday, with the SPD. **Until market attention moves on from this, we refrain from being outright constructive on the EUR, at least until the release of the FOMC minutes on Thursday.**
- The GBP also caught a tailwind on hawkish comments by BOE's Saunders, hitting above 1.3200 against the USD this morning. Elsewhere, note that the Reserve Bank of Australia (RBA) refrained from tilting too far into the dovish bracket in the latest policy decision, even as it held rates unchanged.
- **With political issues not completely cleared in Germany, we think the G7 currencies should still be in a lockdown mode within established ranges, at least until the FOMC minutes. A dovish message from the FOMC minutes may spur a positioning shift away from the broad USD, in favour of the EUR.**
- With the US away, the data calendar is focused on Europe. Watch for a series of services and composite PMIs from Europe (0715 GMT onwards).

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Asian FX

- The focus in Asia remains on the RMB complex. As we mentioned, the first key waypoints (USD-CNY above 6.70, CFETS RMB Index at 95) for potentially heavier PBoC intervention were hit early yesterday. Indeed, we saw the governor, Yi Gang, enter the fray to jawbone the USD-CNY lower, and to “keep the RMB exchange rate basically stable at reasonable and balanced level”. Heavy USD selling was also noted from the state banks.
- **With the signaling strong from the PBoC, we think the USD-CNY may have seen a near-term top ahead of the impending imposition of the tariffs. At this juncture, we do not rule out a move towards 6.6000 levels if onshore USD selling spreads from the state banks to corporates. The movement of the CFETS RMB Index around the 95.00 region will also be key.**
- Renewed sense of stability coming from the RMB complex should support Asian currencies. Expect the **Asian Currency Index (ACI)** to dip lower intra-day. Nevertheless, the impending trade war should continue to cast a pall. Remain cautious in chasing USD-Asia lower, unless the reversal in the RMB complex deepens.
- In terms of **Asian portfolio flows**, note that equity outflows from Taiwan has neared depressed levels by recent standards, and the momentum still shows no signs of slowing. Outflow momentum is also building in Thailand, while staying near elevated levels for India.
- **SGD NEER:** The SGD NEER firmer this morning, standing at around +0.40% above its perceived parity level (1.3687). The NEER-implied USD-SGD thresholds were lower alongside the weaker USD overnight. Expect the pair to move within the +0.20% (1.3660) and +0.50% (1.3619) thresholds intra-day. Note the quick reversal back below the 1.3700 handle after the initial spike yesterday. We continue to expect the 1.3700 handle to be a firm resistance going forward, and for the USD-SGD to consolidate between the 1.3630 to 1.3680 levels.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within expectations, at 6.6595 compared to 6.6497 on Tuesday. The CFETS RMB Index weakened to 94.79, compared to 95.10 previously.



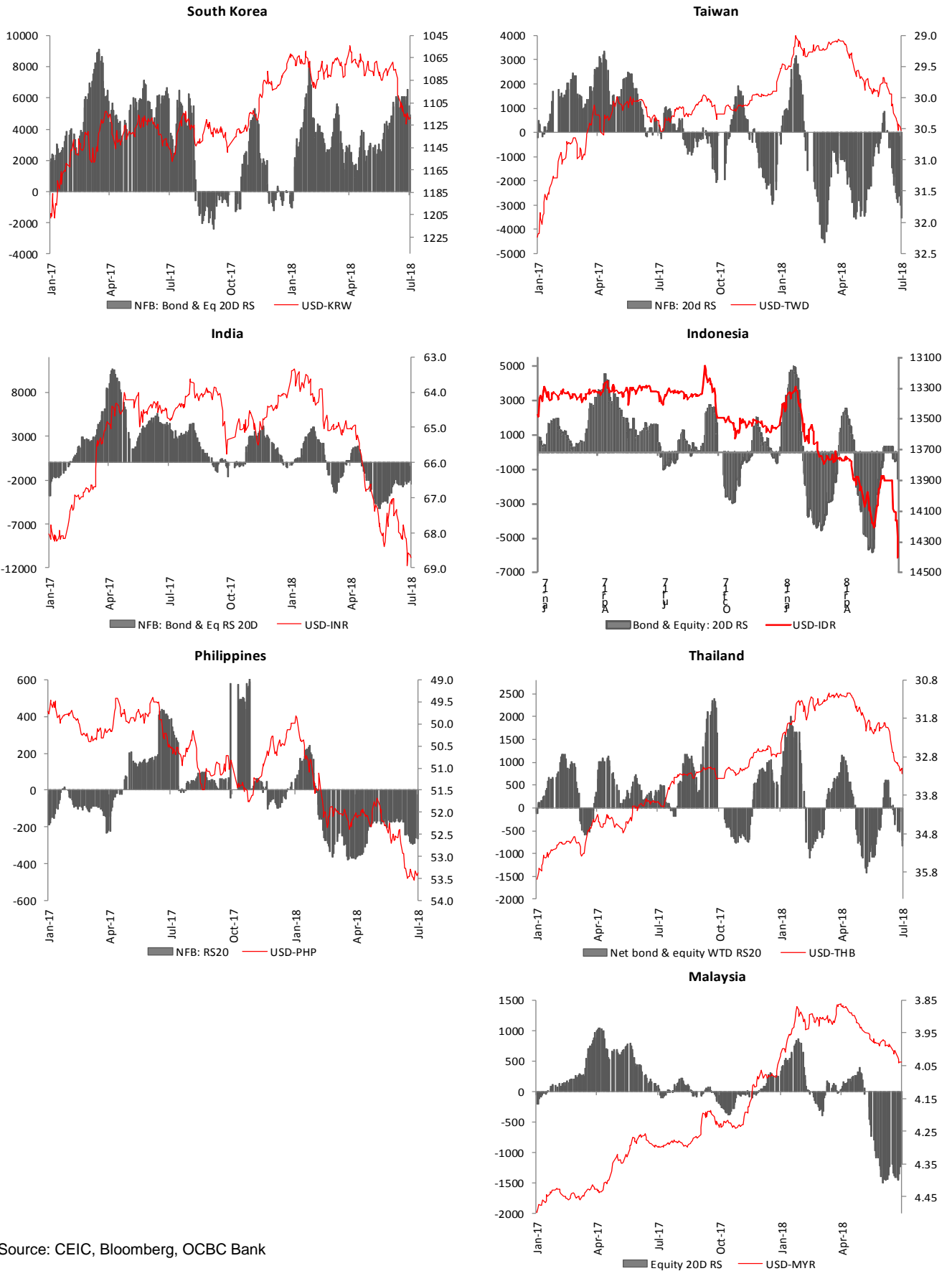
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔/↑	Sino-US trade tensions becoming base case, 6 July is the key date; we have hit the first key waypoints (RMB index at 95, USD-CNY at 6.70) for possible intervention on RMB depreciation, and the response was swift; a near term top may have been established
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 comfortable again within the +0.20% to +0.60% above parity zone; pair responsive to broad USD movements; expect resistance around the 1.3700 handle
USD-MYR	↑	Pair may grind towards 4.10 after moving clear of 4.00 on the back of USD strength; easing political tensions as new government settles into the role
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

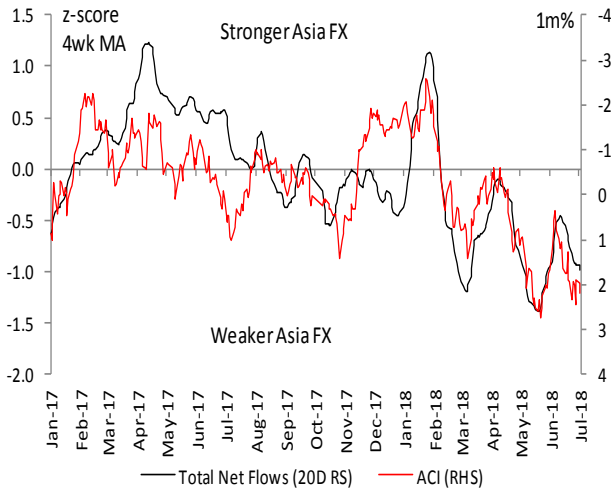
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



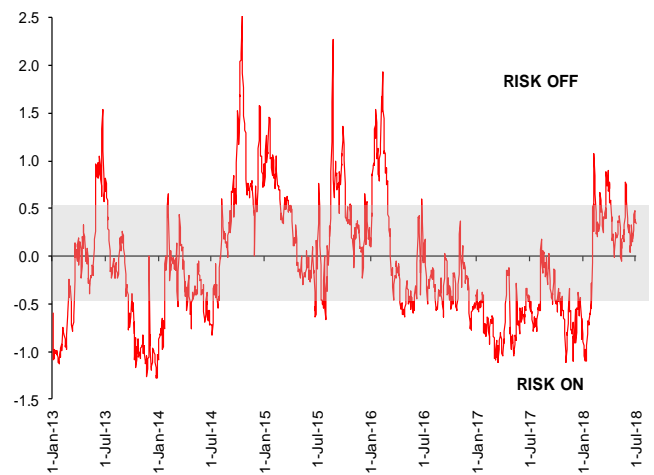
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXXK	CNH	EUR
DXY	1.000	-0.669	0.666	-0.482	-0.761	-0.574	0.515	0.457	0.534	0.370	0.659	-0.980
CHF	0.930	-0.490	0.522	-0.275	-0.601	-0.476	0.652	0.343	0.345	0.233	0.497	-0.933
CAD	0.862	-0.662	0.655	-0.512	-0.771	-0.713	0.263	0.367	0.635	0.426	0.602	-0.803
SGD	0.848	-0.874	0.923	-0.758	-0.965	-0.492	0.464	0.756	0.828	0.734	0.918	-0.734
IDR	0.843	-0.937	0.989	-0.848	-0.972	-0.240	0.817	0.950	0.890	0.937	0.990	-0.741
PHP	0.809	-0.615	0.710	-0.435	-0.784	-0.535	0.552	0.525	0.636	0.533	0.682	-0.730
INR	0.798	-0.843	0.910	-0.679	-0.931	-0.372	0.564	0.781	0.787	0.777	0.904	-0.684
KRW	0.792	-0.831	0.901	-0.705	-0.944	-0.493	0.484	0.688	0.804	0.719	0.881	-0.661
THB	0.767	-0.861	0.926	-0.748	-0.955	-0.487	0.417	0.745	0.828	0.765	0.916	-0.650
TWD	0.749	-0.912	0.966	-0.840	-0.988	-0.364	0.453	0.846	0.904	0.840	0.965	-0.629
CNY	0.666	-0.920	1.000	-0.879	-0.967	-0.221	0.488	0.921	0.898	0.902	0.998	-0.532
MYR	0.661	-0.877	0.961	-0.790	-0.948	-0.242	0.558	0.896	0.876	0.918	0.964	-0.528
CNH	0.659	-0.917	0.998	-0.865	-0.964	-0.193	0.499	0.937	0.886	0.895	1.000	-0.508
JPY	0.515	-0.296	0.488	-0.145	-0.407	-0.009	1.000	0.524	0.199	0.345	0.499	-0.459
USGG10	-0.669	1.000	-0.920	0.890	0.928	0.216	-0.236	-0.839	-0.893	-0.803	-0.917	0.571
NZD	-0.757	0.890	-0.972	0.792	0.958	0.289	-0.576	-0.887	-0.825	-0.845	-0.979	0.616
AUD	-0.907	0.782	-0.828	0.594	0.888	0.583	-0.520	-0.634	-0.706	-0.616	-0.816	0.819
GBP	-0.939	0.796	-0.834	0.658	0.894	0.440	-0.551	-0.677	-0.708	-0.607	-0.824	0.863
EUR	-0.980	0.571	-0.532	0.375	0.650	0.563	-0.459	-0.318	-0.412	-0.218	-0.508	1.000

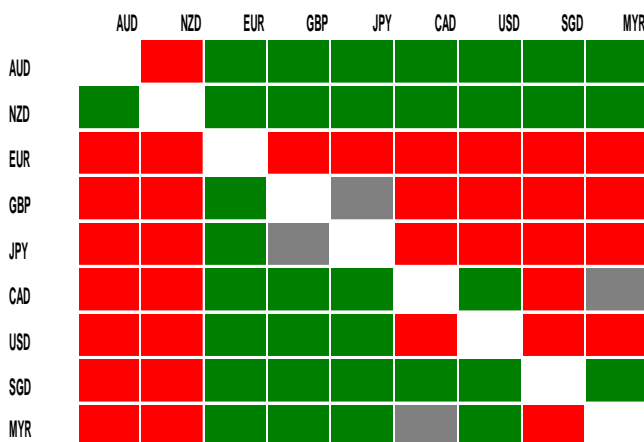
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1509	1.1600	1.1666	1.1700	1.1762
GBP-USD	1.3060	1.3200	1.3205	1.3300	1.3391
AUD-USD	0.7311	0.7400	0.7403	0.7500	0.7505
NZD-USD	0.6689	0.6700	0.6770	0.6800	0.6940
USD-CAD	1.2993	1.3100	1.3128	1.3200	1.3386
USD-JPY	110.00	110.17	110.44	111.00	111.60
USD-SGD	1.3441	1.3600	1.3634	1.3700	1.3746
EUR-SGD	1.5807	1.5900	1.5906	1.5976	1.5989
JPY-SGD	1.2228	1.2300	1.2347	1.2400	1.2478
GBP-SGD	1.7996	1.8000	1.8004	1.8076	1.8100
AUD-SGD	1.0000	1.0086	1.0094	1.0100	1.0172
Gold	1234.94	1238.80	1258.30	1292.12	1300.00
Silver	15.73	16.00	16.08	16.10	16.43
Crude	68.98	74.50	74.59	74.60	75.27

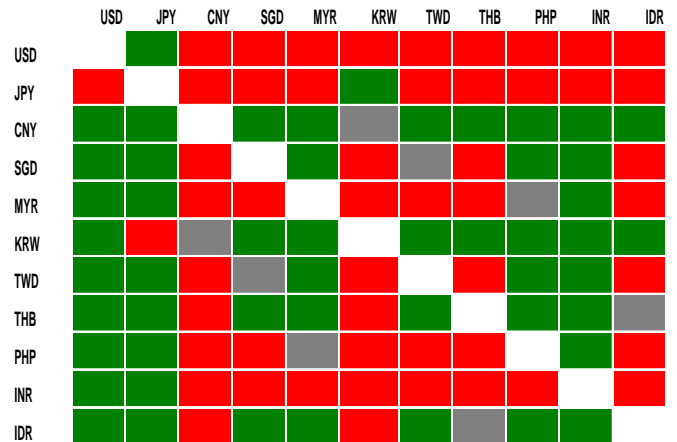
Source: OCBC Bank

G10 FX Heat Map



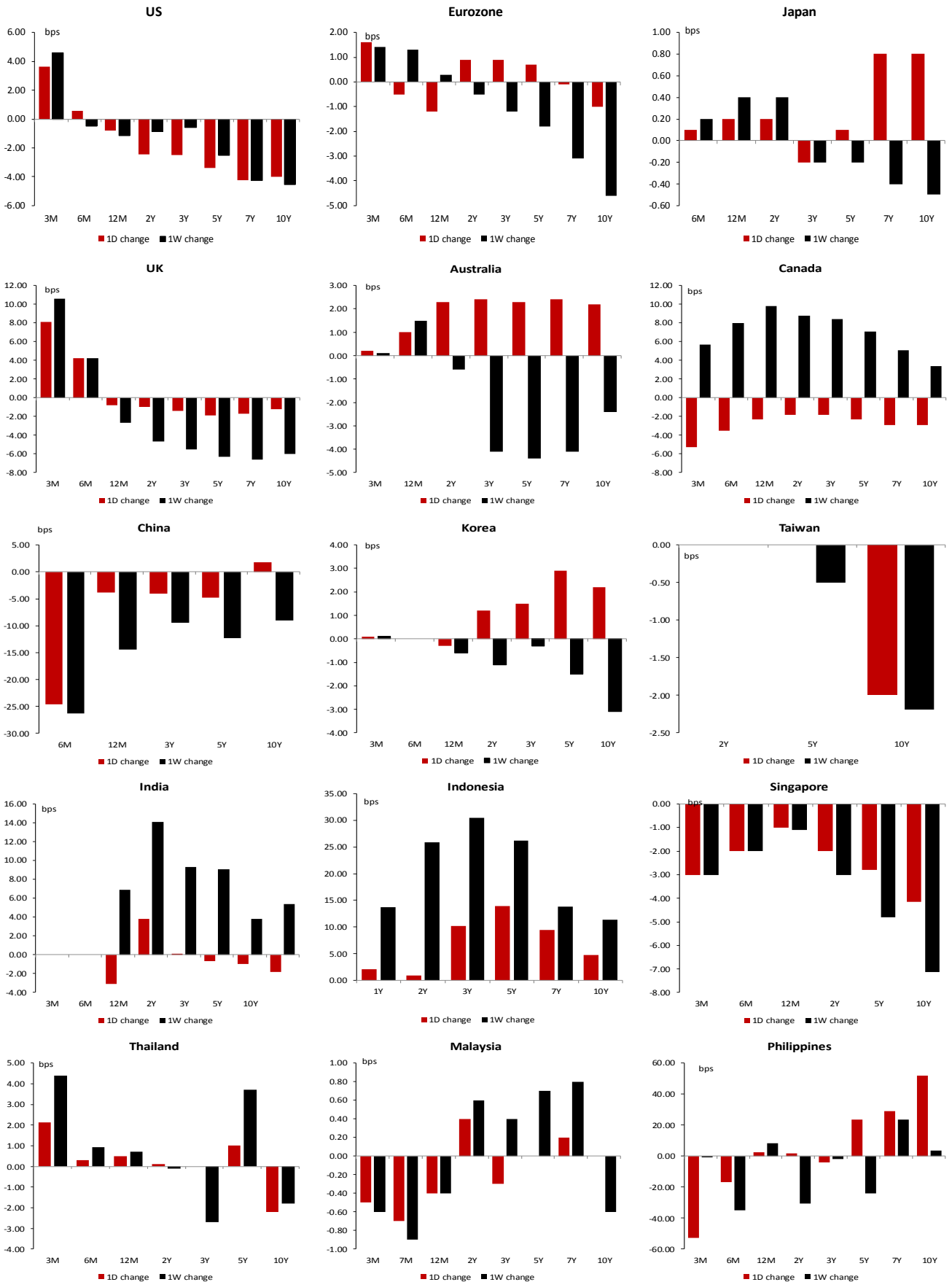
Source: OCBC Bank

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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