

Tuesday, September 04, 2018

FX Themes/Strategy/Trading Ideas – Revised FX forecasts

- The USD saw some mixed action amid light trading with the US off on holiday. The GBP and CAD underperformed on their respective idiosyncratic headlines.
- Near term directionality may still be headline-driven for now. In the UK, we continue to see no material improvement in the Brexit outlook. Thus, we remain negative on the GBP on a structural basis. Expect another test of the 1.2840/50 level, which coincides with the 20-day MA and the previous trough. Breaking through that level may see the GBP back on the downtrend.
- In Eurozone, the aggregate manufacturing PMI measure came in in-line with expectations yesterday, but digging deeper reveals the German and French prints coming in weaker than expected. The UK prints were similarly weak. Asia fared better, but the Caixin China PMI surprised on the downside. **The PMI prints reflect a difficult macro picture of the global economies. In this respect, we continue to be negative on the cyclicals, especially the AUD.**
- Watch for the US PMI print later today (1345 GMT). **If we get a further confirmation of US economic outperformance, we may see further tailwind for the USD going forward.**
- In the near term, the overall risk-off trading tone should still persist, sustained by a negative outlook on global risk events. In this context, we continue to be positive on the USD in the near term, and negative on the JPY-crosses.
- The Reserve Bank of Australia (RBA) policy meeting is scheduled (0430 GMT) today. We expect them to hold policy rate unchanged. Governor Lowe's comments to follow (0930 GMT).
- Elsewhere on the calendar, watch for Carney's testimony (1215 GMT) and US ISM manufacturing prints (1400 GMT).

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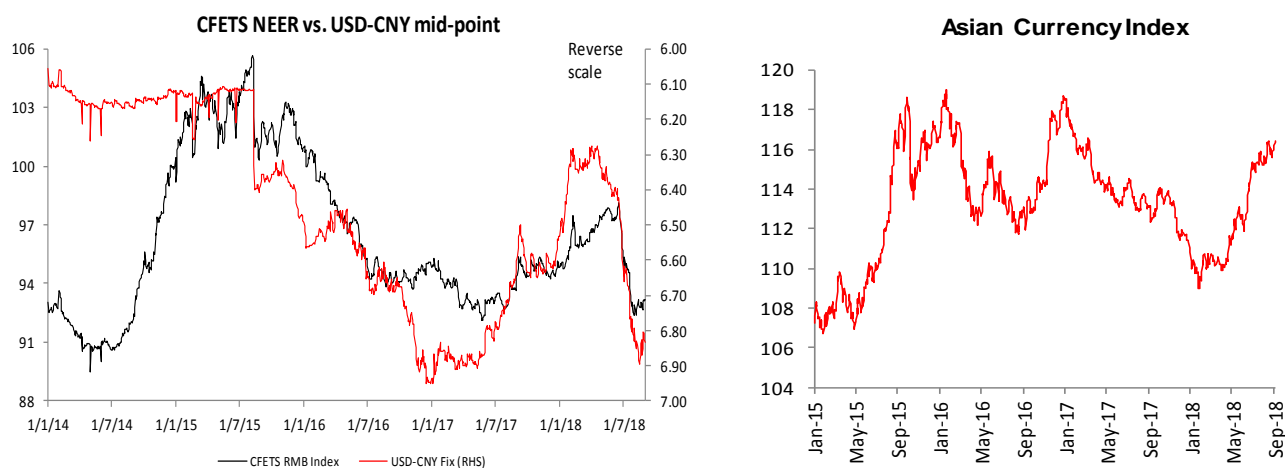
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Asian FX

- Measured moves in the global equity space did little to support risk sentiments as the environment remains pressured by potential negative developments. Our **FX Sentiment Index (FXSI)** again moved higher within the Risk-Neutral territory, moving towards to the Risk-Off zone.
- We expect EM Asia to remain negatively pressured on the worsening risk sentiments. **Nevertheless, we may be seeing a tear in fortunes amongst the currencies, with the fundamentally stronger KRW, TWD, SGD and THB expected to outperform relative to the weaker South Asian counterparts, in particular the INR and IDR.** The USD-CNY remaining contained under the 6.8500 handle should provide support for the North Asian currencies. Overall, expect our Asian Currency Index (ACI) to ascent further.
- In terms of **Asian net portfolio flows**, the expected equity outflows are starting to emerge. With the exception of India, the extent equity outflows remain moderate in the latest reading. They were also offset by the bond inflows into Thailand and Indonesia. We note that the flow picture has been deteriorating quickly for India over the last three sessions, with inflow momentum essentially evaporating. Philippines also continue to see a build-up in outflow momentum.
- **Malaysia:** The Bank Negara Malaysia (BNM) policy meeting is scheduled today (0700 GMT). We think the weak economic prints recently can be attributed largely to once-off supply disruptions. Thus, we think they will hold rates unchanged pending further assessment.
- **SGD NEER:** The SGD NEER eased to +0.86% above its perceived parity level (1.3855) this morning. The NEER-implied USD-SGD thresholds were marginally higher. Expect the +0.70% (1.3759) and +1.00% (1.3718) thresholds to limit the intra-day moves in the USD-SGD.
- **CFETS RMB Index:** The USD-CNY mid-point was set lower, within of our expectations, at 6.8183 compared to 6.8347 on Monday. The CFETS RMB Index rose to 93.40, from 93.15 previously.



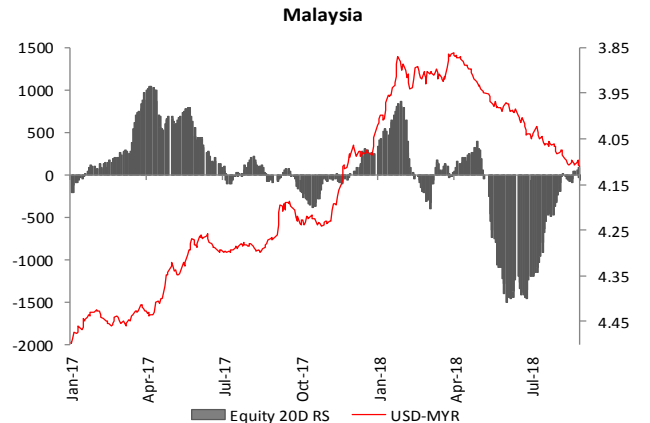
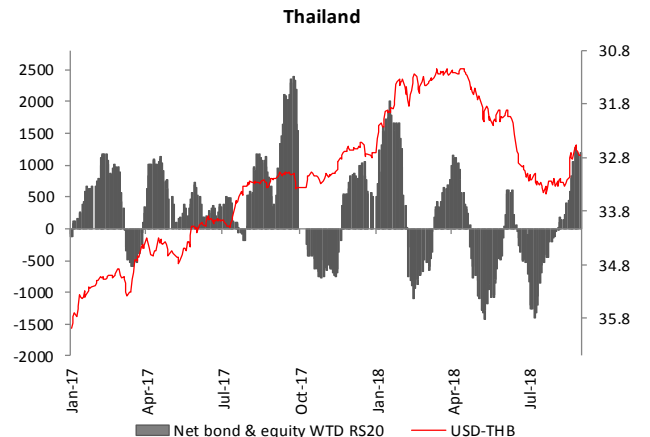
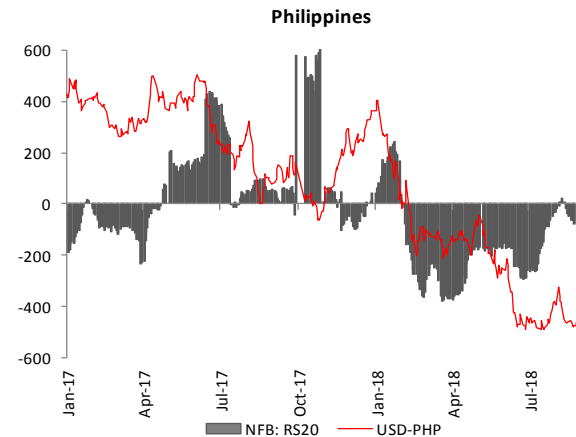
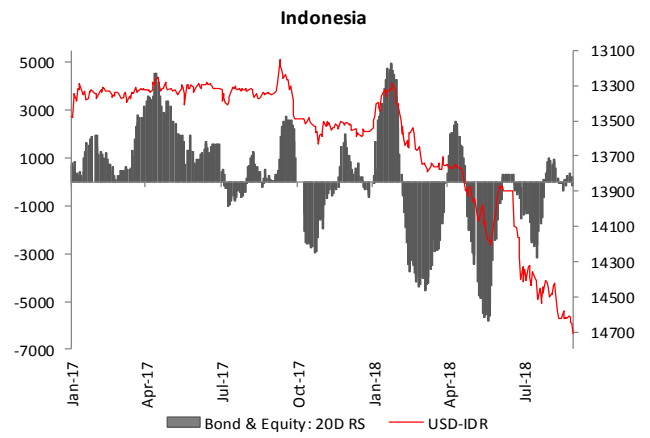
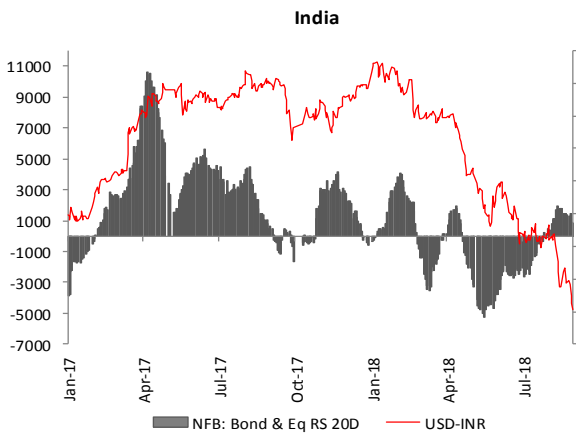
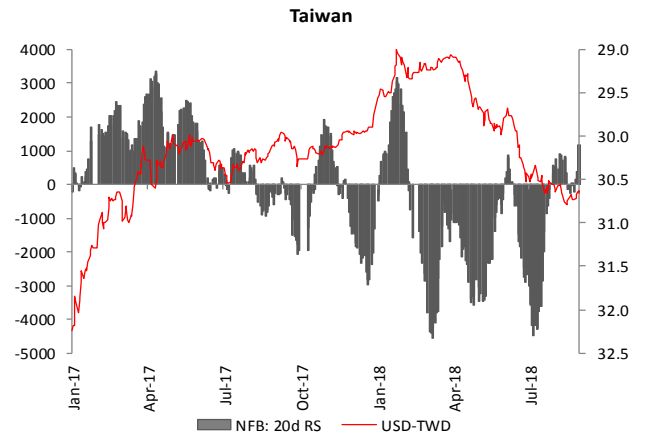
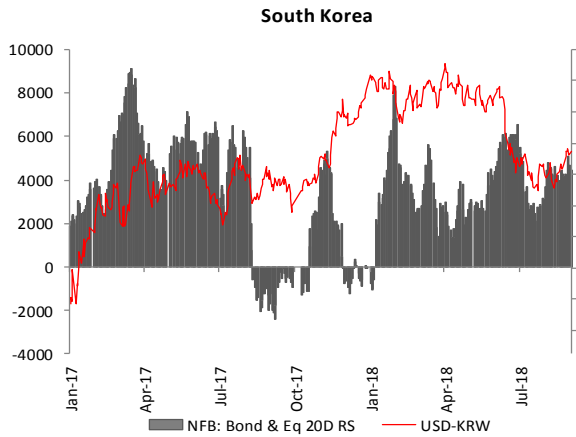
Source: OCBC Bank, Bloomberg

Short term Asian FX views

| Currency | Bias | Rationale |
|----------|------|--|
| USD-CNH | ↔ | Inability to break through the 6.8000 level may set the stage for a range-bound trading between 6.80-6.90; no signs of immediate progress in Sino-US trade talks with the public comment period for the proposal to implement tariffs on US\$200bn worth of imports to end on 5 Sep, new round of tariffs may hit by end-Sep |
| USD-KRW | ↔ | Expect to track RMB movements; weaker than expected unemployment print may douse rate hike expectations; BOK held rates unchanged with subsequent rhetoric sounding dovish again. Expectations for a rate hike by BOK before year-end may have to be trimmed |
| USD-TWD | ↔ | Expect to track RMB movements; flow dynamics still fluid with no clear directionality |
| USD-INR | ↑ | Net inflow momentum in a rolling 20D basis starting to moderate; hit by renewed EM jitters led by Argentina; limited RBI offers north of 71.00 |
| USD-SGD | ↔ | Pause in broad USD momentum cap near term advances in the pair; another firm core inflation print to fuel speculation for a tightening move by the MAS in October, do not rule out this possibility yet |
| USD-MYR | ↑ | Economic indicators pointing south; BNM expected to be on hold until 2019; with 4.08 and 4.10 resistances quickly broken, there appears to be little catalyst for MYR strengthening; equity outflows eased |
| USD-IDR | ↑ | IDR may be more exposed to EM jitters due to widening CA deficit and high percentage of foreign ownership in government bonds; attempts by BI to support IDR slowing down the ascent, but insufficient to turn the tide |
| USD-THB | ↔/↓ | 2Q GDP firmer than expected; Bank of Thailand striking a new hawkish tone should provide support, top aide to Thai PM also signalled possible rate hike before year-end; inflow momentum still strong |
| USD-PHP | ↑ | BSP rate hiked 50 bps, as expected by some quarters; BSP retains a hawkish stance, ready to hike further if inflation remains out of control |

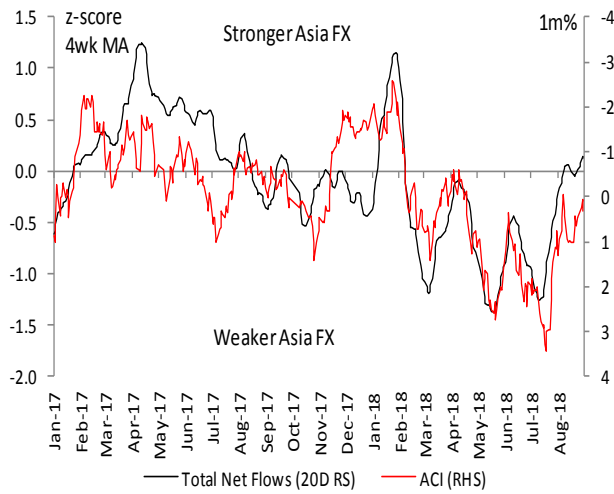
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



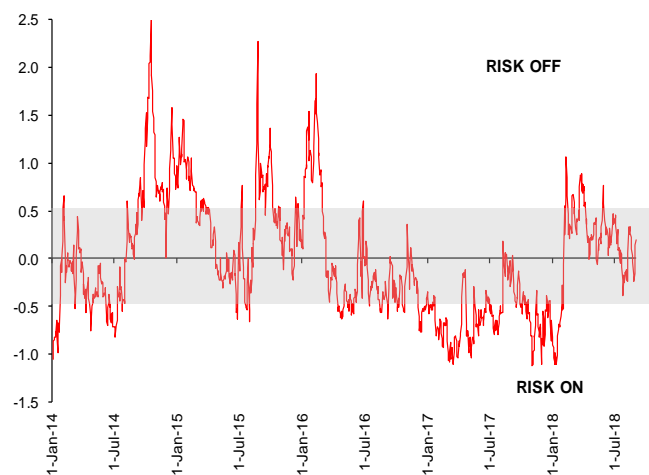
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

| | DXY | USGG10 | CNY | SPX | MSELCAPF | CRY | JPY | CL1 | VIX | ITRXX | CNH | EUR |
|--------|--------|--------|--------|--------|----------|--------|--------|--------|--------|--------|--------|--------|
| DXY | 1.000 | -0.020 | 0.834 | -0.869 | -0.737 | -0.724 | -0.382 | -0.770 | 0.575 | 0.880 | 0.731 | -0.994 |
| KRW | 0.876 | 0.163 | 0.767 | -0.943 | -0.633 | -0.475 | -0.306 | -0.685 | 0.301 | 0.703 | 0.560 | -0.878 |
| SGD | 0.835 | -0.157 | 0.829 | -0.664 | -0.625 | -0.672 | -0.191 | -0.471 | 0.743 | 0.837 | 0.857 | -0.820 |
| CNY | 0.834 | -0.086 | 1.000 | -0.748 | -0.759 | -0.762 | -0.364 | -0.678 | 0.637 | 0.815 | 0.874 | -0.841 |
| CAD | 0.791 | -0.045 | 0.672 | -0.850 | -0.618 | -0.581 | -0.341 | -0.555 | 0.489 | 0.784 | 0.609 | -0.777 |
| THB | 0.752 | 0.531 | 0.611 | -0.835 | -0.431 | -0.272 | -0.112 | -0.610 | 0.003 | 0.684 | 0.520 | -0.783 |
| CNH | 0.731 | -0.004 | 0.874 | -0.667 | -0.463 | -0.520 | -0.136 | -0.431 | 0.653 | 0.677 | 1.000 | -0.739 |
| CHF | 0.697 | 0.367 | 0.532 | -0.889 | -0.499 | -0.345 | -0.263 | -0.744 | -0.053 | 0.498 | 0.354 | -0.721 |
| TWD | 0.609 | -0.631 | 0.632 | -0.317 | -0.752 | -0.818 | -0.340 | -0.509 | 0.768 | 0.535 | 0.435 | -0.560 |
| PHP | 0.115 | -0.805 | 0.239 | 0.200 | -0.375 | -0.578 | -0.242 | -0.131 | 0.618 | 0.173 | 0.181 | -0.066 |
| USGG10 | -0.020 | 1.000 | -0.086 | -0.150 | -0.367 | 0.499 | 0.452 | 0.045 | -0.452 | -0.019 | -0.004 | -0.013 |
| MYR | -0.027 | -0.739 | 0.098 | 0.279 | -0.339 | -0.527 | -0.108 | -0.032 | 0.570 | 0.108 | 0.034 | 0.078 |
| IDR | -0.194 | -0.661 | -0.043 | 0.492 | -0.148 | -0.256 | -0.007 | 0.289 | 0.537 | 0.015 | -0.022 | 0.243 |
| INR | -0.222 | -0.633 | -0.036 | 0.588 | -0.110 | -0.267 | 0.010 | 0.346 | 0.582 | 0.010 | -0.013 | 0.272 |
| AUD | -0.293 | 0.449 | -0.398 | 0.040 | 0.300 | 0.450 | -0.016 | -0.060 | -0.767 | -0.446 | -0.472 | 0.253 |
| JPY | -0.382 | 0.452 | -0.364 | 0.383 | 0.518 | 0.637 | 1.000 | 0.551 | -0.372 | -0.515 | -0.136 | 0.414 |
| NZD | -0.730 | 0.319 | -0.602 | 0.551 | 0.501 | 0.671 | 0.298 | 0.438 | -0.766 | -0.750 | -0.645 | 0.709 |
| GBP | -0.896 | 0.142 | -0.671 | 0.797 | 0.716 | 0.777 | 0.408 | 0.825 | -0.471 | -0.713 | -0.522 | 0.872 |
| EUR | -0.994 | -0.013 | -0.841 | 0.884 | 0.730 | 0.713 | 0.414 | 0.779 | -0.550 | -0.893 | -0.739 | 1.000 |

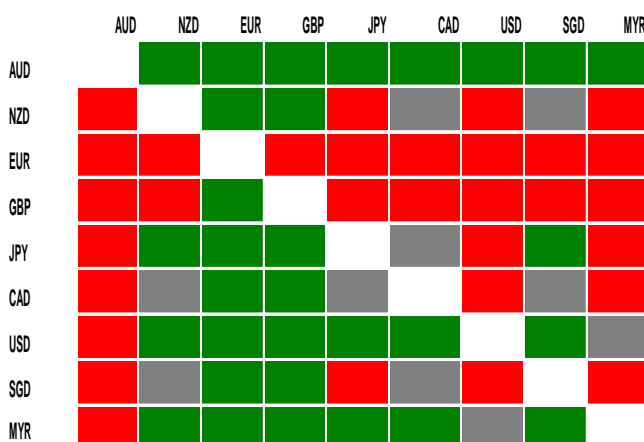
Source: Bloomberg

Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1311 | 1.1500 | 1.1598 | 1.1600 | 1.1614 |
| GBP-USD | 1.2662 | 1.2800 | 1.2857 | 1.2900 | 1.3020 |
| AUD-USD | 0.7166 | 0.7169 | 0.7190 | 0.7200 | 0.7358 |
| NZD-USD | 0.6535 | 0.6545 | 0.6591 | 0.6600 | 0.6725 |
| USD-CAD | 1.3094 | 1.3100 | 1.3116 | 1.3177 | 1.3186 |
| USD-JPY | 110.21 | 111.00 | 111.13 | 111.20 | 111.64 |
| USD-SGD | 1.3664 | 1.3700 | 1.3741 | 1.3800 | 1.3801 |
| EUR-SGD | 1.5869 | 1.5900 | 1.5937 | 1.5995 | 1.5998 |
| JPY-SGD | 1.2288 | 1.2300 | 1.2365 | 1.2400 | 1.2477 |
| GBP-SGD | 1.7455 | 1.7600 | 1.7666 | 1.7700 | 1.7782 |
| AUD-SGD | 0.9839 | 0.9866 | 0.9880 | 0.9900 | 1.0053 |
| Gold | 1174.12 | 1200.00 | 1201.90 | 1221.19 | 1221.37 |
| Silver | 14.32 | 14.40 | 14.44 | 14.50 | 15.36 |
| Crude | 69.43 | 70.00 | 70.05 | 70.10 | 70.50 |

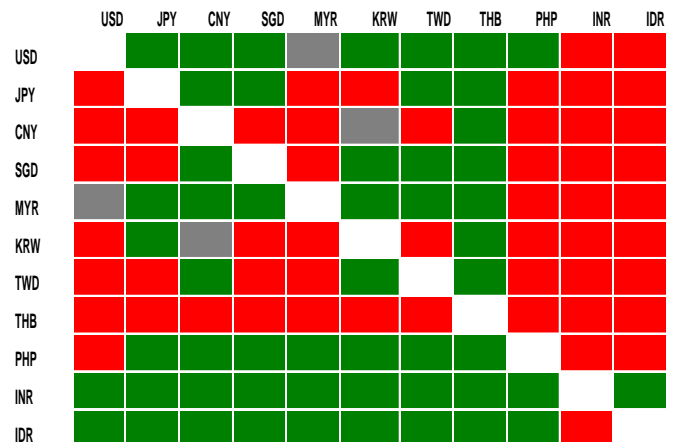
Source: OCBC Bank

G10 FX Heat Map



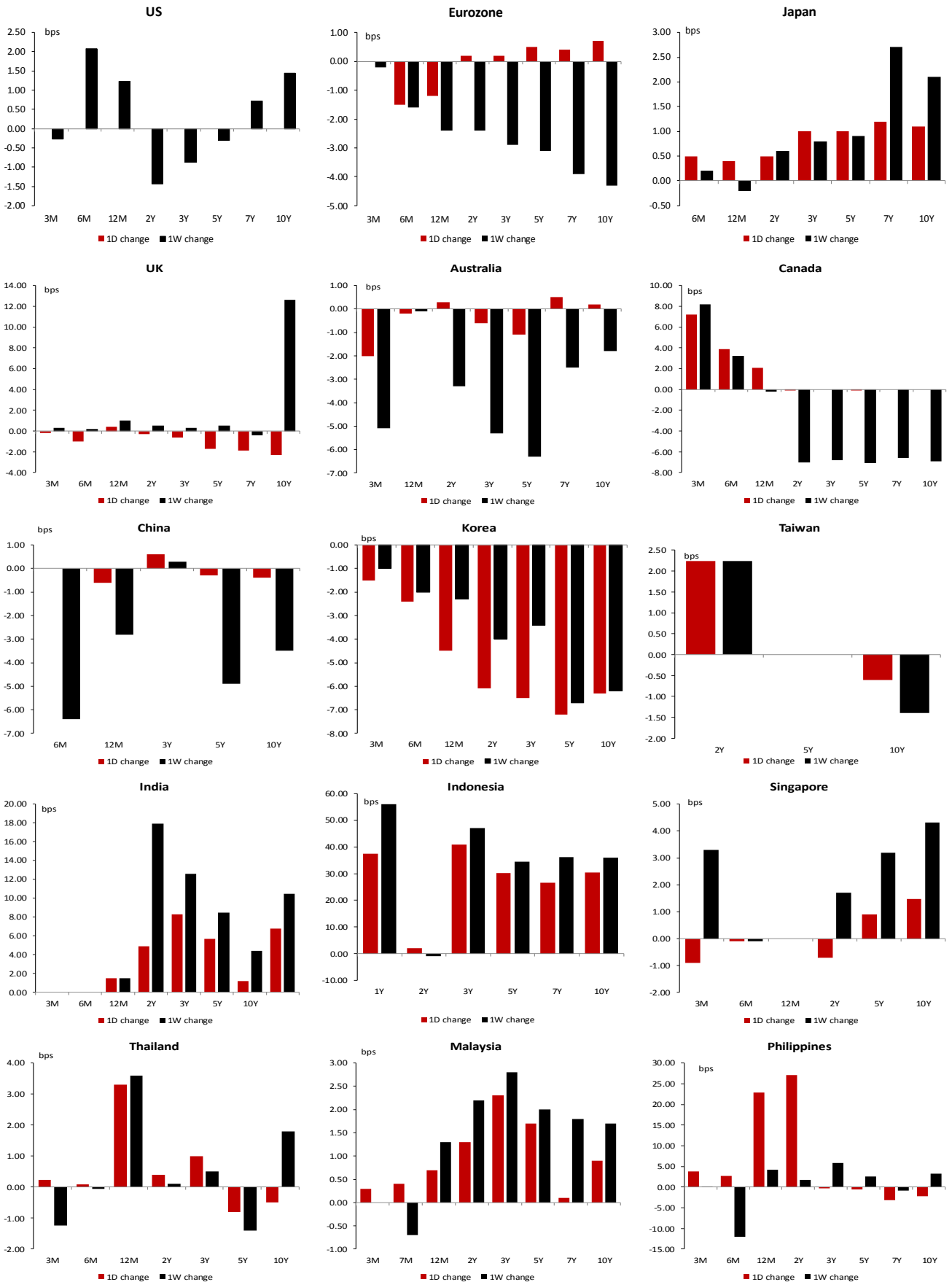
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



Revised FX Forecasts (correct as at 03 Sep 2018)

| | Spot | Sep-18 | Dec-18 | Mar-19 | Jun-19 |
|----------------|-------------|---------------|---------------|---------------|---------------|
| USD-JPY | 110.90 | 111.39 | 112.24 | 112.70 | 112.93 |
| EUR-USD | 1.1610 | 1.1523 | 1.1480 | 1.1660 | 1.1849 |
| GBP-USD | 1.2931 | 1.2738 | 1.2555 | 1.2524 | 1.2612 |
| AUD-USD | 0.7195 | 0.7119 | 0.7042 | 0.6988 | 0.6942 |
| NZD-USD | 0.6611 | 0.6542 | 0.6459 | 0.6389 | 0.6317 |
| USD-CAD | 1.3056 | 1.2935 | 1.3055 | 1.3175 | 1.3295 |
| USD-CHF | 0.9694 | 0.9766 | 0.9824 | 0.9763 | 0.9593 |
| USD-SGD | 1.3700 | 1.3781 | 1.3828 | 1.3862 | 1.3910 |
| USD-CNY | 6.8353 | 6.8592 | 6.8710 | 6.8195 | 6.8111 |
| USD-THB | 32.70 | 32.87 | 33.14 | 33.33 | 33.50 |
| USD-IDR | 14782 | 14850 | 14913 | 14964 | 15016 |
| USD-MYR | 4.1235 | 4.1415 | 4.1689 | 4.1806 | 4.1922 |
| USD-KRW | 1110.35 | 1102.30 | 1121.11 | 1128.94 | 1136.78 |
| USD-TWD | 30.706 | 30.620 | 30.820 | 30.950 | 31.103 |
| USD-HKD | 7.8496 | 7.8500 | 7.8494 | 7.8478 | 7.8461 |
| USD-PHP | 53.49 | 53.67 | 53.90 | 54.12 | 54.35 |
| USD-INR | 70.78 | 71.30 | 71.87 | 72.16 | 72.45 |
| EUR-JPY | 128.76 | 128.35 | 128.85 | 131.41 | 133.81 |
| EUR-GBP | 0.8979 | 0.9046 | 0.9144 | 0.9310 | 0.9395 |
| EUR-CHF | 1.1256 | 1.1253 | 1.1278 | 1.1384 | 1.1367 |
| EUR-SGD | 1.5906 | 1.5880 | 1.5874 | 1.6163 | 1.6482 |
| GBP-SGD | 1.7716 | 1.7554 | 1.7360 | 1.7361 | 1.7543 |
| AUD-SGD | 0.9858 | 0.9811 | 0.9737 | 0.9687 | 0.9656 |
| NZD-SGD | 0.9057 | 0.9016 | 0.8931 | 0.8856 | 0.8787 |
| CHF-SGD | 1.4132 | 1.4111 | 1.4075 | 1.4198 | 1.4500 |
| JPY-SGD | 1.2353 | 1.2372 | 1.2320 | 1.2300 | 1.2317 |
| SGD-MYR | 3.0102 | 3.0052 | 3.0149 | 3.0158 | 3.0138 |
| SGD-CNY | 4.9889 | 4.9773 | 4.9690 | 4.9195 | 4.8965 |

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