

Thursday, July 05, 2018

FX Themes/Strategy/Trading Ideas**US Dollar Index**

- The dollar index hovered below 95, mainly due to stronger Euro and the decline of US treasury yield. On the one hand, Euro rebounded due to easing German political uncertainties and talks some unnamed ECB members are uneasy that a rate hike in September or October 2019 is underpriced. On the other hand, the broad dollar has pulled back amid the retreat of US treasury yield on trade war concerns. Meanwhile, the pause of RMB depreciation also capped the upside for the dollar index. The progress of US-China trade war as well as June's non-farm payroll reports, due tomorrow, will be closely monitored.

USD-CNH

- RMB recouped some losses on the back of comments from PBoC officials. The PBOC Governor Yi Gang has stated that the recent volatility of FX market has mainly been driven by broad dollar strength and external uncertainties. The USDCNY may find strong resistance at 6.7 in the coming sessions. However, PBoC is likely to be less interventionist though it will continue to keep excessive volatility in check. The lack of urgency for excessive intervention indicates the near-term outlook of RMB will still depend on the US dollar movement as well as progress of US-China trade war. Should both sides cool down, the pressure for RMB to weaken may be alleviated. Market shall also closely monitor the movement of RMB index. Should RMB index fall to 94 level from today's 95.34 in the near term, we think China may re-launch its counter cyclical factor to slow down the pace of depreciation.

EUR-USD

- The easing political uncertainty in Germany has fueled the rally of the EUR. Besides, Eurozone's CPI rose 2% yoy in June, the strongest since Feb 2017. May PPI also beat market expectations and was up 3% yoy. Furthermore, some unnamed ECB members are reported to be reluctant to leave a rate hike till end-19 and are instead eyeing September or October 2019. As such, the EUR erased losses against the USD. However, until we see firmer data-prints or a shift in market attention away from the interest rate trajectory in 2019, any upside for the EUR would be limited.

GBP-USD

- MPC member Saunders' hawkish statement lent some support to the Pound. UK composite PMI and services PMI rose to 55.2 and 55.1 respectively, the highest since last October. Rosy data also buoyed the Pound. Nevertheless, given deceleration of UK CPI growth, the BOE is expected to deliver only one rate hike this year. This may cap the upside for the Pound. Elsewhere, it is reported that a formal Brexit policy proposal will be released next week. However, any news related to Brexit appeared to have very short-lived impact on the Pound.

USD-JPY

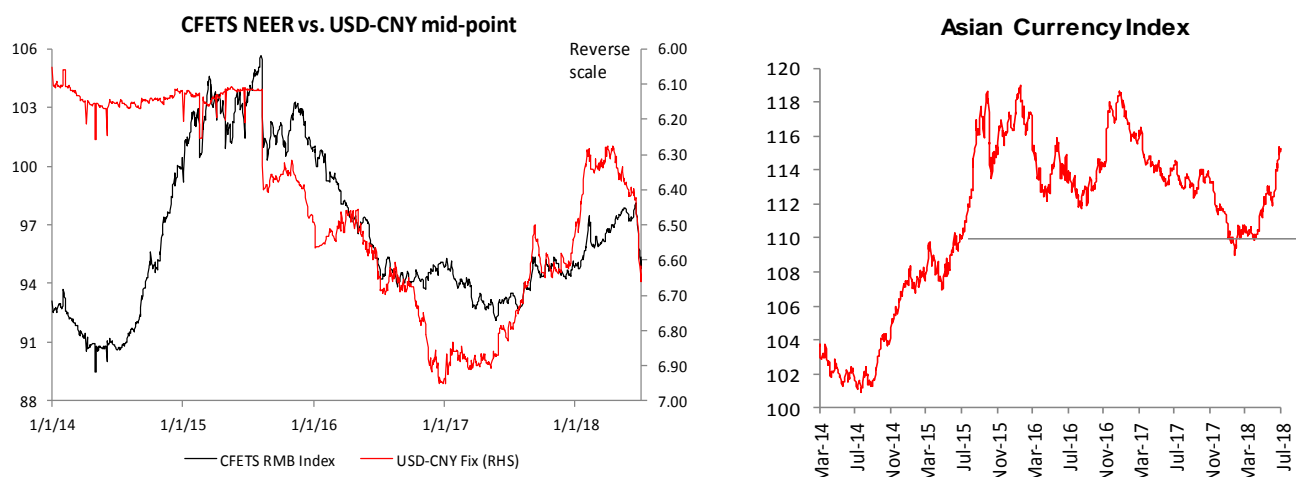
- The JPY has been trading in a tight range amid the safe-haven demand and yield differential argument. As US-China trade conflict has not yet eased, risk-off sentiment has supported the JPY. Nevertheless, the upside for the JPY may be capped due to a widening policy divergence between the hawkish FED and the dovish BOJ. Watch out for the progress of US-China trade war.

USD-CAD

- Rate hike expectations and oil price rally have underpinned the CAD. Firstly, Canada's GDP grew at a faster pace than expected in April. Given rosy economic data and the relatively hawkish tone of the BOC's Governor, market has been pricing in over 80% probability of rate hike in July. We will keep a closer eye on the BOC policy meeting on July 11. Secondly, though market fret that Saudi Arabia will increase oil supply, the reduced oil inventory in the US allowed WTI to consolidate above USD70/barrel. This also supports the CAD. Nevertheless, with uncertainty looming over US-Canada trade relationship, upside for the CAD may be limited in the near term.

AUD-USD

- As the RBA is no longer concerned that "strong AUD will drag on economic growth", AUD rebounded. Also, sharp rebound in the RMB rendered support to the AUD. Nevertheless, the RBA remained on a neutral stance, citing that "further progress in reducing unemployment and having inflation return to target is expected, although this progress is likely to be gradual". This indicates any upside for the AUD could be capped by central bank dynamic. Elsewhere, US-China trade conflicts could also weigh on the AUD given Australian economy's high reliance on exports to China.



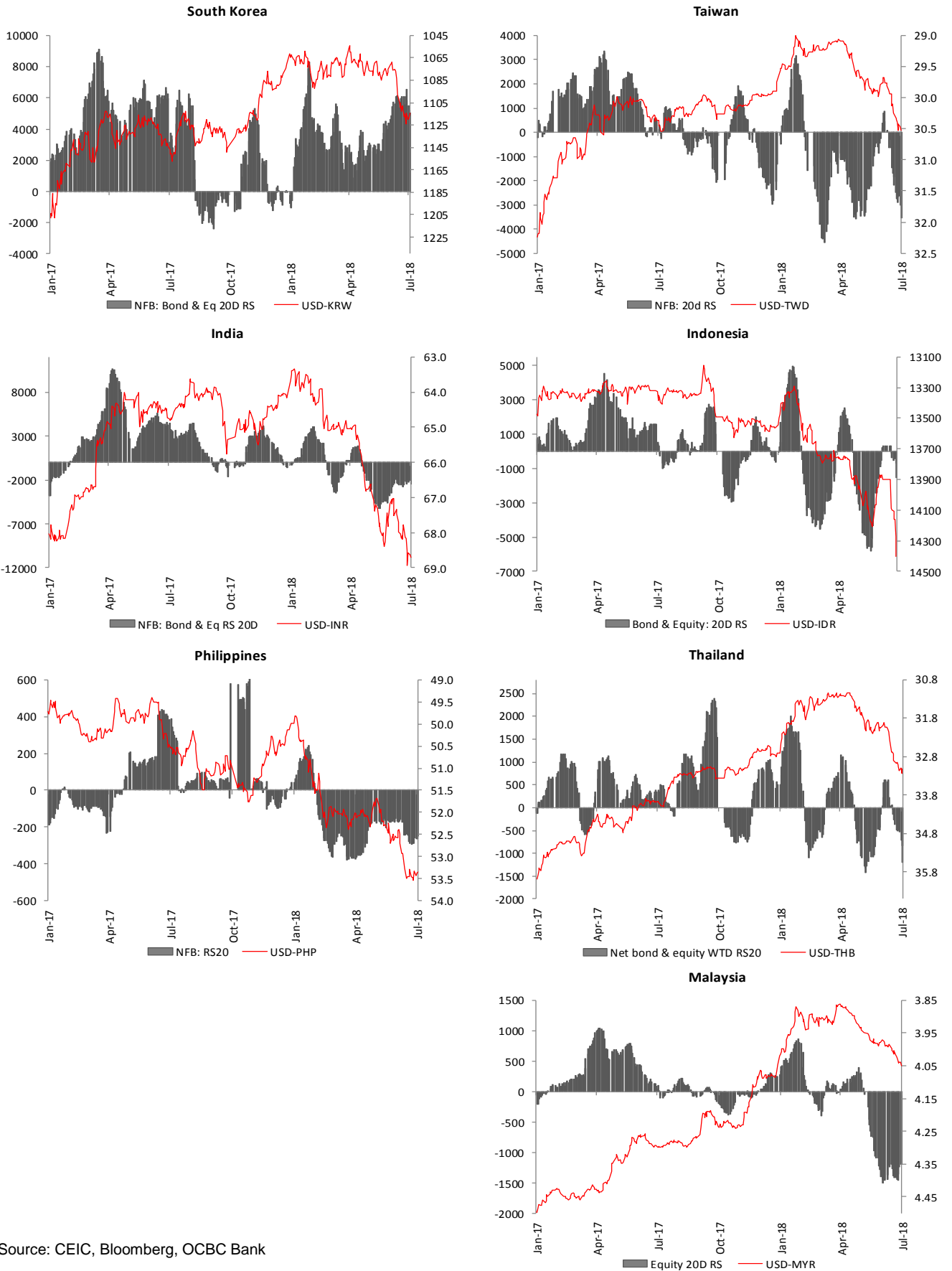
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔/↑	Pace of depreciation of the RMB basket may be more controlled; Sino-US trade tensions reigniting; USD-CNY midpoints reverted to being consistent with unbiased models
USD-KRW	↔/↑	Outcome of Trump-Kim talks just sufficient to avoid disappointment; net portfolio inflows remain at healthy levels; 1Q GDP growth and CPI data prints missed expectations; minutes of the 24 May BOK meeting reveal some discussion towards reducing policy accommodation.
USD-TWD	↔/↑	Equity outflows re-asserting after short reprieve; 1Q current account surplus shrinks
USD-INR	↔/↑	May inflation prints in line, but continue to show accelerating price pressures; current account deficit widened more than expected; the RBI may be biased for further hikes in the upcoming meetings; RBI ease foreign ownership caps on government bonds
USD-SGD	↔/↑	Latest MAS Survey reflects an easing of inflation projections; SGD NEER should be capped below +1.00% above parity; 1Q GDP prints in line, but CPI missed expectations; pair responsive to broad USD movements
USD-MYR	↑	Shifts in policy direction under PH government may spur re-assessment of asset markets; sustained net equity outflows following election outcome
USD-IDR	↔/↑	IDR stability the main objective for monetary policy for now; further rate hikes possible; inflation came in softer than expected again, though it may not have significant impact on monetary policy
USD-THB	↔/↑	BOT remains accommodative, keeping rates unchanged in the latest meeting; bond outflows re-asserting after a short reprieve
USD-PHP	↑	May BOP deficit wider than expected, despite stronger than expected remittances; BSP governor appear comfortable with recent weakening of the PHP

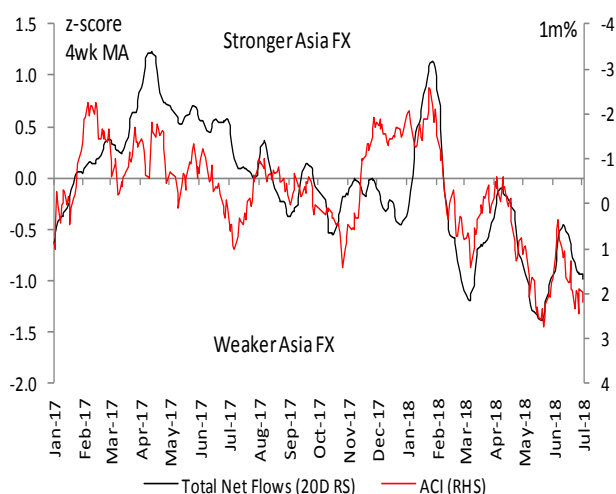
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



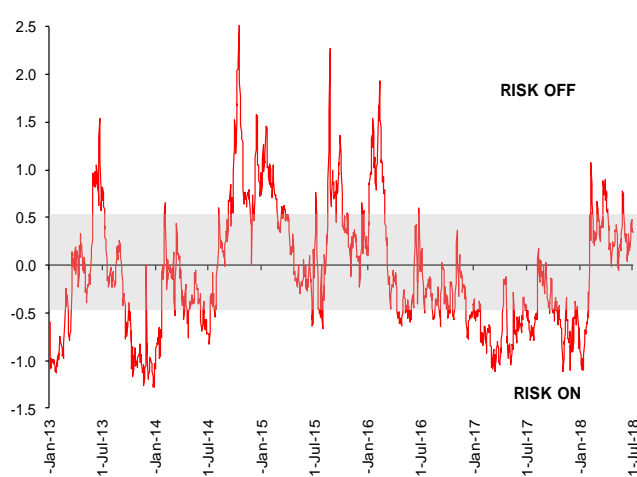
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXXE	CNH	EUR
DXY	1.000	-0.626	0.649	-0.482	-0.731	-0.574	0.513	0.439	0.534	0.371	0.626	-0.980
CHF	0.928	-0.492	0.527	-0.275	-0.597	-0.476	0.656	0.352	0.345	0.247	0.513	-0.931
CAD	0.861	-0.601	0.627	-0.512	-0.728	-0.713	0.258	0.368	0.635	0.418	0.589	-0.803
IDR	0.830	-0.941	0.990	-0.848	-0.974	-0.240	0.827	0.950	0.890	0.930	0.991	-0.737
SGD	0.823	-0.882	0.925	-0.758	-0.961	-0.492	0.488	0.758	0.828	0.746	0.925	-0.724
PHP	0.808	-0.611	0.709	-0.435	-0.771	-0.535	0.559	0.525	0.636	0.541	0.680	-0.729
INR	0.773	-0.858	0.919	-0.679	-0.937	-0.372	0.578	0.781	0.787	0.787	0.912	-0.663
KRW	0.772	-0.830	0.899	-0.705	-0.934	-0.493	0.513	0.698	0.804	0.728	0.881	-0.643
THB	0.753	-0.868	0.930	-0.748	-0.955	-0.487	0.437	0.745	0.828	0.776	0.921	-0.638
TWD	0.736	-0.915	0.967	-0.840	-0.985	-0.364	0.474	0.846	0.904	0.847	0.967	-0.619
CNY	0.649	-0.928	1.000	-0.879	-0.969	-0.221	0.509	0.921	0.898	0.903	0.998	-0.519
MYR	0.637	-0.891	0.954	-0.790	-0.954	-0.242	0.575	0.896	0.876	0.913	0.966	-0.511
CNH	0.626	-0.930	0.998	-0.865	-0.967	-0.193	0.528	0.933	0.886	0.897	1.000	-0.505
JPY	0.513	-0.358	0.509	-0.145	-0.430	-0.009	1.000	0.543	0.199	0.365	0.528	-0.456
USGG10	-0.626	1.000	-0.928	0.890	0.936	0.216	-0.358	-0.855	-0.893	-0.808	-0.930	0.535
NZD	-0.715	0.907	-0.975	0.792	0.961	0.289	-0.600	-0.886	-0.825	-0.850	-0.981	0.604
AUD	-0.892	0.786	-0.829	0.594	0.880	0.583	-0.537	-0.636	-0.706	-0.629	-0.823	0.814
GBP	-0.938	0.764	-0.818	0.658	0.866	0.440	-0.551	-0.660	-0.708	-0.609	-0.805	0.867
EUR	-0.980	0.535	-0.519	0.375	0.624	0.563	-0.456	-0.320	-0.412	-0.220	-0.505	1.000

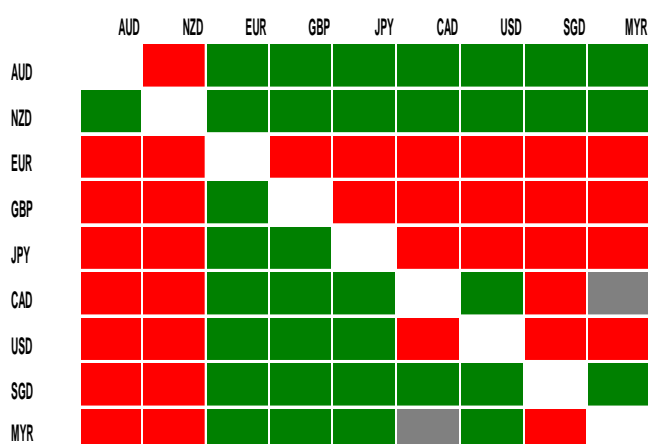
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1511	1.1600	1.1661	1.1700	1.1753
GBP-USD	1.3069	1.3200	1.3225	1.3300	1.3377
AUD-USD	0.7300	0.7311	0.7378	0.7400	0.7501
NZD-USD	0.6688	0.6700	0.6772	0.6800	0.6934
USD-CAD	1.2999	1.3100	1.3149	1.3200	1.3386
USD-JPY	110.00	110.16	110.34	110.98	111.00
USD-SGD	1.3449	1.3600	1.3661	1.3700	1.3746
EUR-SGD	1.5805	1.5900	1.5930	1.5976	1.6000
JPY-SGD	1.2233	1.2300	1.2381	1.2400	1.2478
GBP-SGD	1.7989	1.8000	1.8067	1.8100	1.8103
AUD-SGD	0.9992	1.0000	1.0079	1.0086	1.0100
Gold	1234.80	1238.80	1257.20	1292.10	1300.00
Silver	15.73	15.90	15.98	16.00	16.43
Crude	68.96	73.80	73.83	73.90	75.27

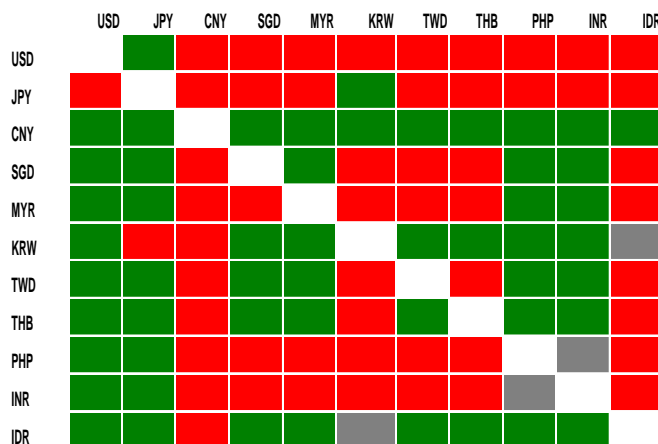
Source: OCBC Bank

G10 FX Heat Map



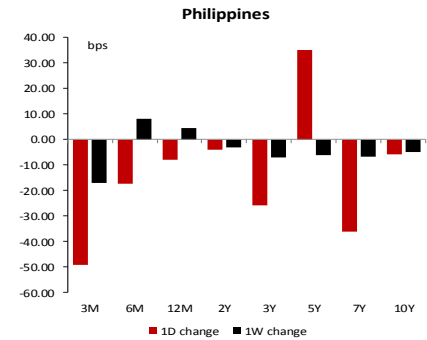
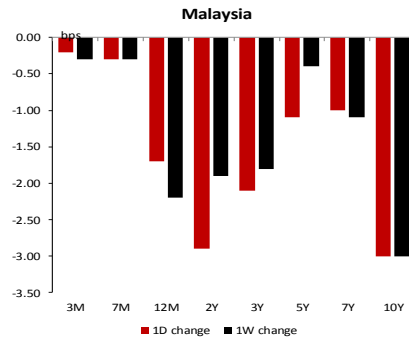
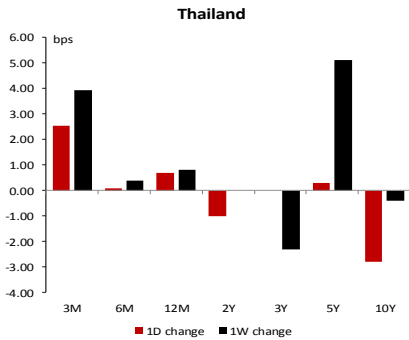
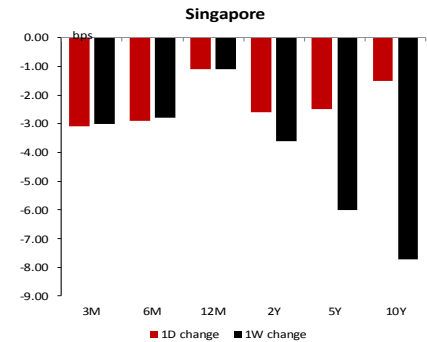
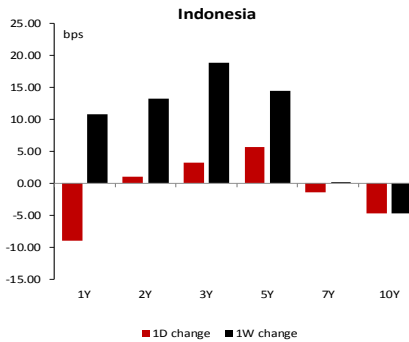
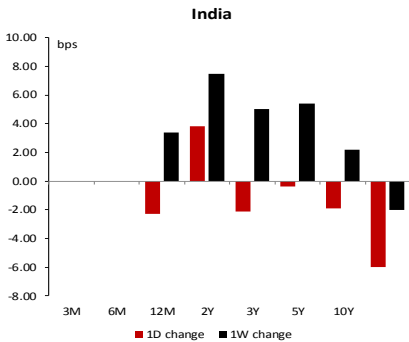
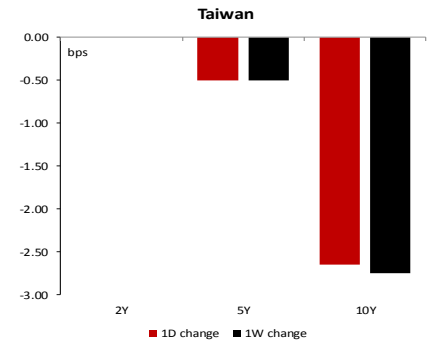
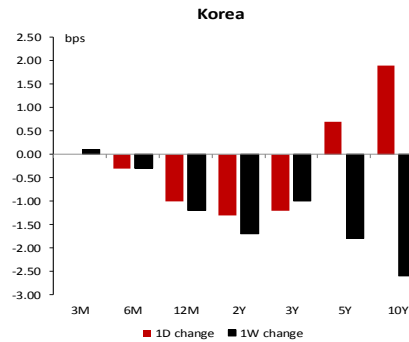
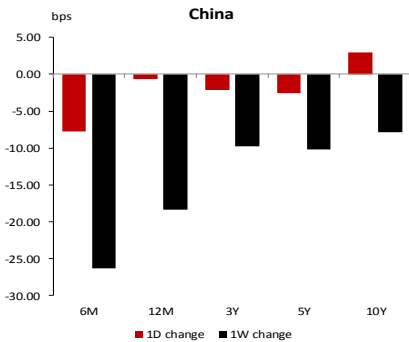
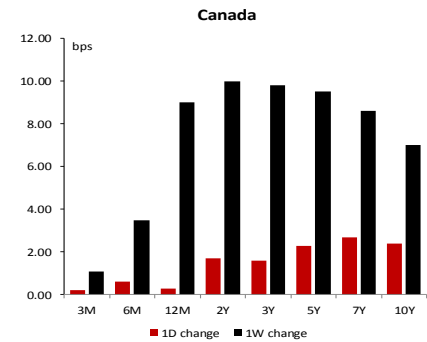
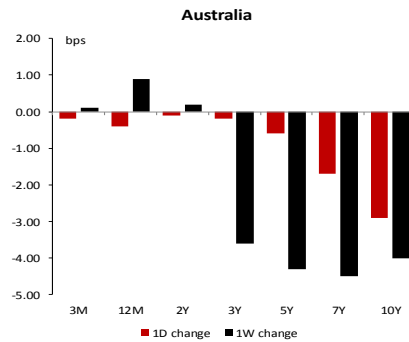
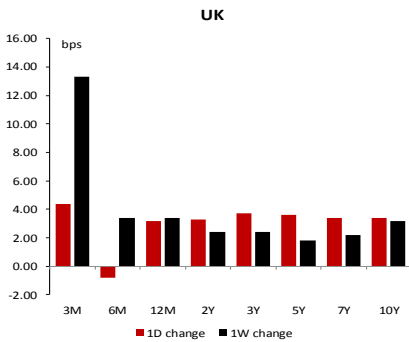
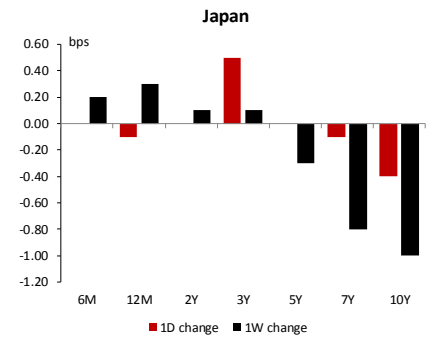
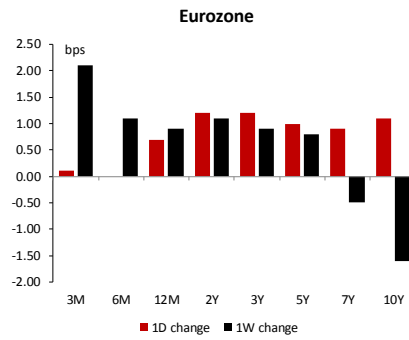
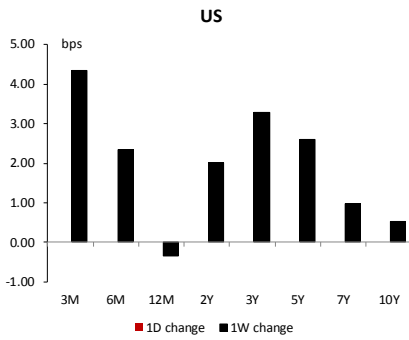
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).
