

Tuesday, June 05, 2018

FX Themes/Strategy/Trading Ideas

- Markets traded on a risk positive tone overnight, as geopolitical tensions continued to ease globally. Stronger non-farm payrolls and rebounding US/EZ equity markets also added to the overall sentiment. The DXY index struggled to hold on to the 94.00 handle, as the cyclicals outperformed. Short-covering was also seen in the JPY-crosses and other risk-off trades.
- Our **FX Sentiment Index (FXSI)** fell for the fourth consecutive session, retreating back into the **Risk Neutral** zone. We continue to preach caution against this exuberance, as trade tensions continue to swirl in the background, with a potential of a showdown in the G7 summit starting Friday.
- Note that long-end UST yields are on the rise again, although more so due to improving risk sentiments than the recognition of growth momentum. However, the correlation between the yield differential arguments and the DXY index has faded off somewhat due to markets focusing on idiosyncratic factors in the past week. Do look for a re-engagement of this dynamic as markets refocus on US-centric cues.
- In the option space, note that 2-week EUR and JPY vols (covering the FOMC, ECB and BOJ policy meetings) remain elevated compared to their 1-week counterparts, possibly suggesting some edginess over the upcoming central bank meetings. On this front, **Bank of England's** Teneyro did not signal any urgency for rate hikes. Look for the **Reserve Bank of Australia's** (RBA) policy decision later today. While a change in policy decision is not expected, watch for a potential shift in statement rhetoric. Comments by ECB's Nowotny (0930 GMT), Weidmann (1730 GMT) and BOE's Cunliffe (1000 GMT) is also expected.
- On the data front, watch for services and composite PMIs from Europe and US today.

Treasury Research &
Strategy

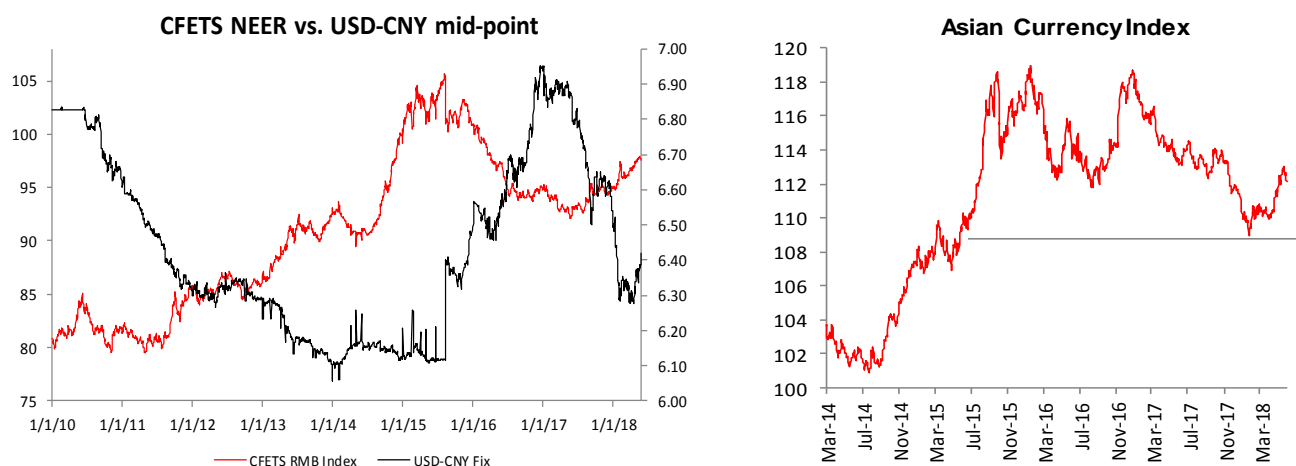
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Asian FX

- A positive lead from US/EZ equities overnight and improving geopolitical climate may boost investor sentiments around the Asian currencies today. As such, the **Asian Currency Index (ACI)** may continue to edge lower amidst the risk positive climate.
- In terms of Asian **net portfolio flows**, note that we are seeing a generalized improvement in the flow environment across most tracked countries. Inflow momentum into South Korea has picked up again from already healthy levels. Taiwan nudged into a small net inflow balance after four weeks of slow, but consistent compression in outflows. In the South, Thailand also saw a small net inflow balance on a rolling 20D basis after a recovery in bond flows. Similarly for Indonesia, where a moderation in bond outflow momentum over the last week has improved the overall picture. Heavy outflows are still noted in India, although a slow moderation is also underway.
- Overall, the improving portfolio flow environment provides some source of comfort for the Asian currencies. Nevertheless, the sustainability of this recovery is still open to question. At this juncture, we still retain the view that flows do not yet portend outright strength in Asian currencies.
- **South Korea:** The USD-KRW continues to be pressured lower on news that the Trump-Kim summit is officially back on.
- **SGD NEER:** The SGD NEER stands at around +0.75% above its perceived parity (1.3457), as NEER-implied USD-SGD thresholds continue to soften. Expect the USD-SGD to ply the +0.60% (1.3377) and the +0.90% (1.3337) thresholds intra-day as the pair fluctuates near its 200-day MA (1.3363).
- **CFETS RMB Index:** The USD-CNY mid-point was set lower this morning, as expected, at 6.4157 compared to 6.4208 on Monday. The CFETS RMB Index was weaker marginally at 97.17, compared to 97.21 previously. Moving forward, expect the depreciation of the CFETS RMB Index to slow down as it approaches the 97.00 handle. USD-CNY midpoints may also become more aligned with the unbiased estimates.



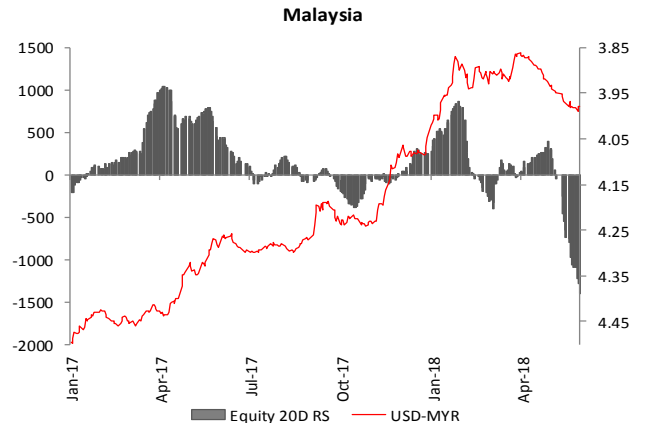
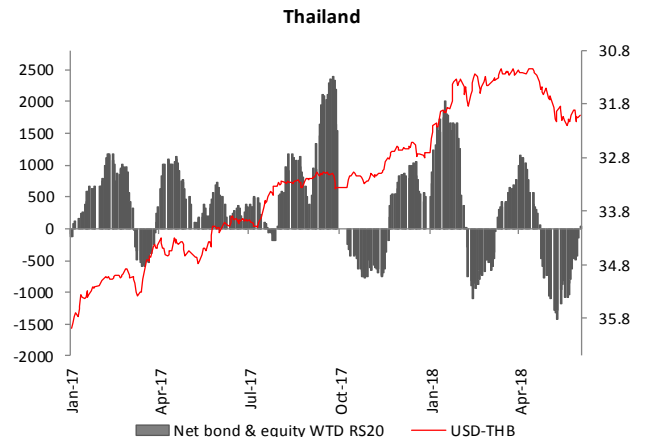
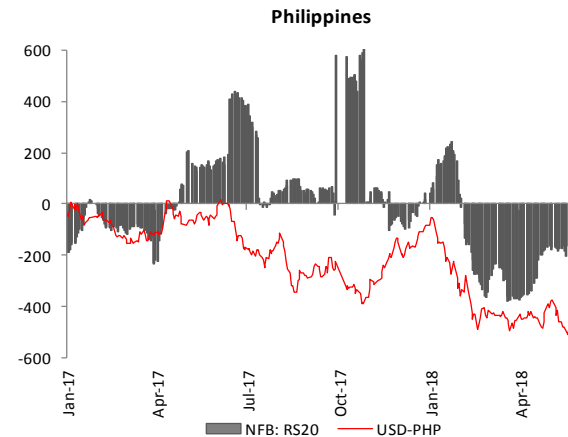
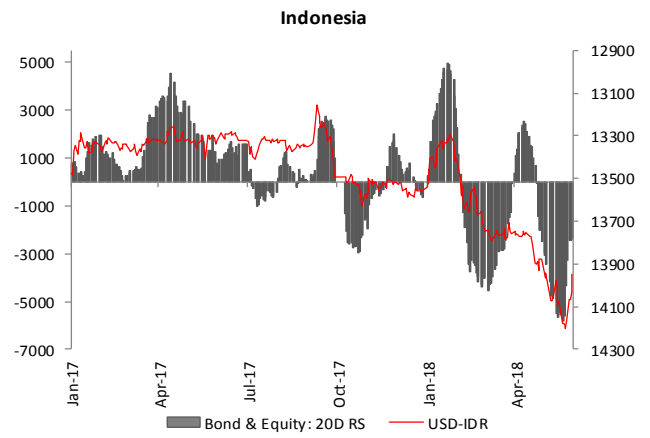
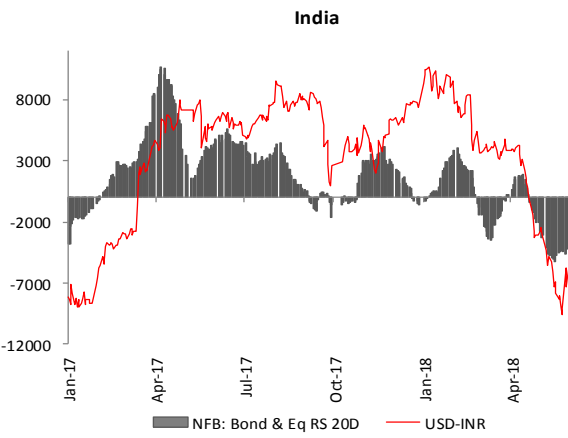
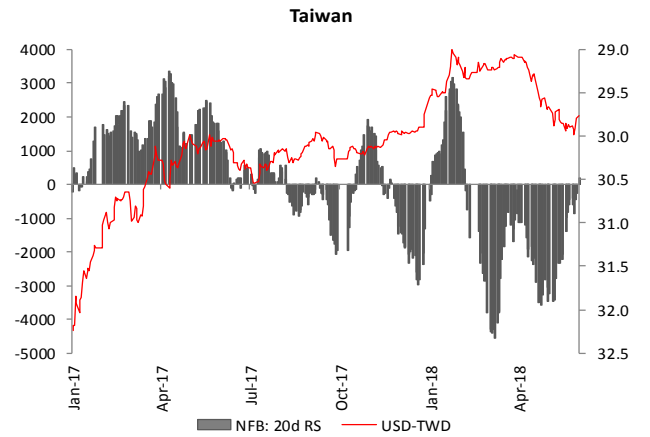
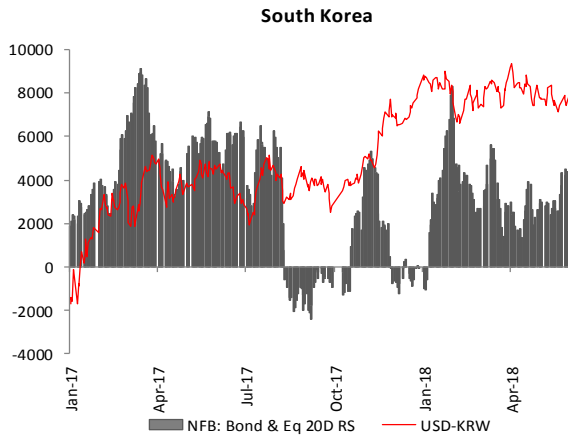
Source: OCBC Bank, Bloomberg

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 still habitually above neutral models
USD-KRW	↔/↑	1Q GDP growth and CPI data prints missed expectations; positive sentiments after Trump-Kim talks confirmed for 12 June; net portfolio inflows remain at healthy levels; BOK to remain accommodative in the near term.
USD-TWD	↔	Equity flows flipped into a net inflow situation; 1Q current account surplus shrinks
USD-INR	↔	Firmer than expected 1Q GDP, WPI and CPI prints put pressure on RBI to hike in its June meeting; net portfolio outflows attempting to moderate; lower crude price may provide some reprieve; risk premia from negative political developments in Karnataka with possible implications on fiscal stance going forward
USD-SGD	↔/↑	SGD NEER should be capped at +0.80% above parity; 1Q GDP prints in line, but CPI missed expectations; pair responsive to firmer DXY
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 amidst two quick-fire rate hikes, with 14000 potentially becoming a level to defend again; inflation came in softer than expected again, though it may not have significant impact on monetary policy; net portfolio outflow momentum moderating significantly
USD-THB	↔/↑	BOT remains accommodative, keeping rates unchanged in the latest meeting; net portfolio flows into a net inflow situation; large miss on the current account balance may negatively pressure the THB in the near term
USD-PHP	↔/↑	BSP hiked policy rates as expected while signalling the possibility of further hikes; BSP governor appear comfortable with recent weakening of the PHP

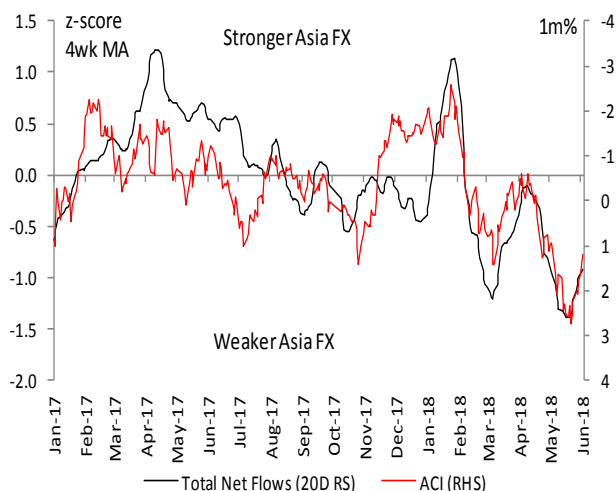
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



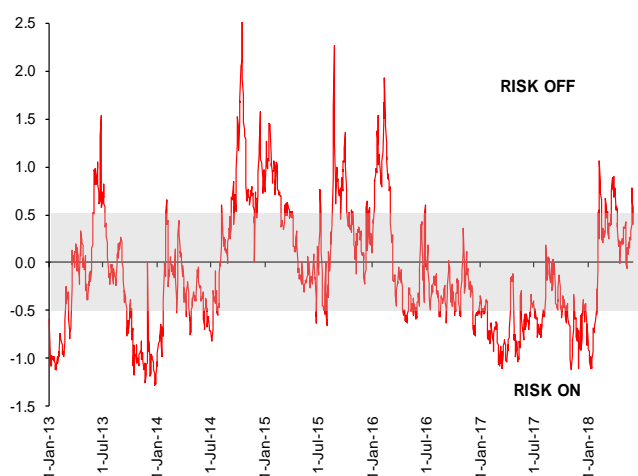
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXX	CNH	EUR
DXY	1.000	-0.493	0.897	0.171	-0.432	-0.228	-0.119	-0.599	0.337	0.873	0.877	-0.992
MYR	0.905	-0.355	0.715	0.625	-0.358	0.144	-0.024	-0.278	-0.238	0.767	0.616	-0.907
CNY	0.897	-0.596	1.000	0.067	-0.637	-0.414	-0.250	-0.745	0.467	0.895	0.954	-0.894
CNH	0.877	-0.705	0.954	-0.036	-0.598	-0.524	-0.410	-0.832	0.515	0.912	1.000	-0.891
PHP	0.870	-0.395	0.772	0.543	-0.167	-0.157	-0.055	-0.537	0.053	0.763	0.735	-0.869
CAD	0.696	-0.685	0.717	-0.372	-0.435	-0.604	-0.536	-0.789	0.592	0.724	0.847	-0.708
TWD	0.610	-0.206	0.486	0.154	-0.516	0.272	0.032	0.071	0.251	0.642	0.379	-0.615
AUD	0.424	-0.251	0.455	0.715	-0.072	-0.075	0.037	-0.489	-0.355	0.409	0.384	-0.410
SGD	0.354	0.103	0.165	-0.199	-0.100	0.105	0.197	0.238	0.257	0.173	0.184	-0.351
THB	0.339	0.343	0.241	0.271	-0.180	0.375	0.552	0.303	-0.173	0.118	0.037	-0.302
KRW	0.276	0.174	0.203	-0.129	-0.539	0.427	0.260	0.362	0.096	0.209	0.080	-0.241
INR	0.254	0.373	-0.003	0.274	0.165	0.672	0.498	0.505	-0.175	-0.044	-0.094	-0.223
IDR	0.045	0.553	-0.230	0.066	0.016	0.762	0.517	0.739	-0.383	-0.259	-0.389	-0.001
NZD	-0.005	-0.478	0.271	-0.111	-0.434	-0.393	-0.430	-0.564	0.037	0.216	0.304	-0.002
JPY	-0.119	0.853	-0.250	0.390	0.486	0.385	1.000	0.511	-0.492	-0.504	-0.410	0.203
USGG10	-0.493	1.000	-0.596	0.203	0.575	0.438	0.853	0.725	-0.580	-0.804	-0.705	0.557
CHF	-0.793	0.608	-0.816	-0.361	0.422	0.296	0.277	0.749	-0.173	-0.851	-0.814	0.804
GBP	-0.931	0.655	-0.889	-0.291	0.465	0.238	0.295	0.694	-0.297	-0.934	-0.874	0.944
EUR	-0.992	0.557	-0.894	-0.174	0.455	0.243	0.203	0.624	-0.354	-0.903	-0.891	1.000

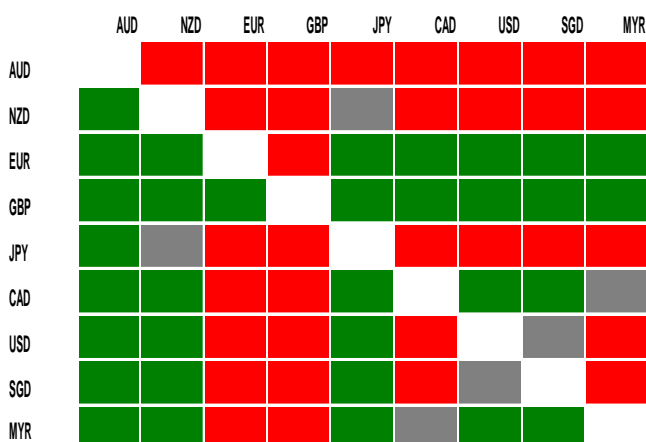
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1543	1.1600	1.1694	1.1700	1.1963
GBP-USD	1.3207	1.3300	1.3314	1.3400	1.3590
AUD-USD	0.7600	0.7607	0.7636	0.7639	0.7666
NZD-USD	0.6851	0.7000	0.7031	0.7038	0.7095
USD-CAD	1.2817	1.2900	1.2929	1.3000	1.3025
USD-JPY	108.64	109.00	109.85	110.00	110.21
USD-SGD	1.3300	1.3340	1.3352	1.3363	1.3400
EUR-SGD	1.5502	1.5600	1.5614	1.5700	1.5967
JPY-SGD	1.2100	1.2128	1.2155	1.2200	1.2222
GBP-SGD	1.7700	1.7750	1.7776	1.7800	1.8153
AUD-SGD	1.0099	1.0100	1.0196	1.0200	1.0212
Gold	1278.57	1281.20	1291.00	1300.00	1306.84
Silver	16.21	16.40	16.42	16.50	16.51
Crude	64.68	65.10	65.11	65.20	67.77

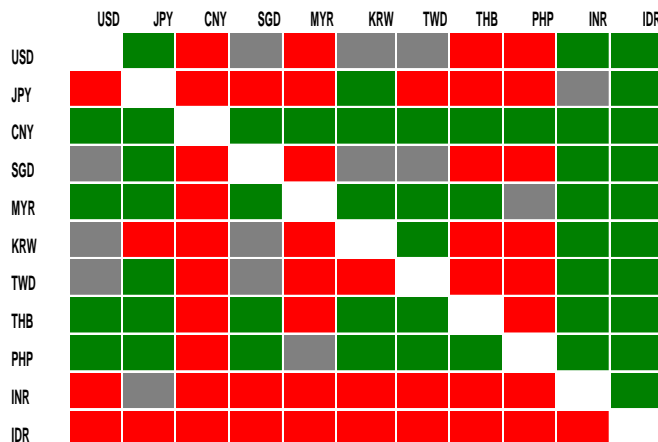
Source: OCBC Bank

G10 FX Heat Map



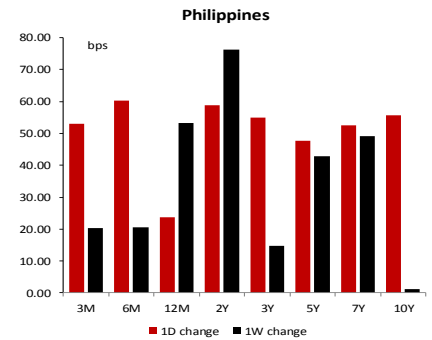
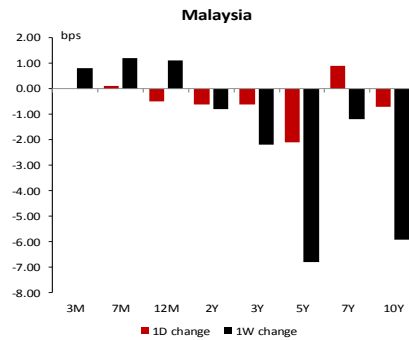
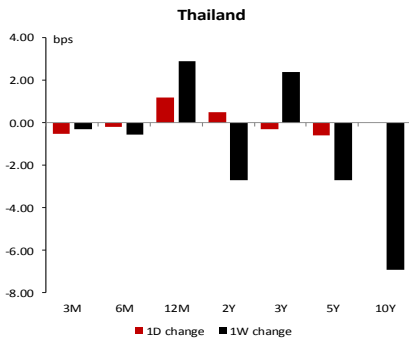
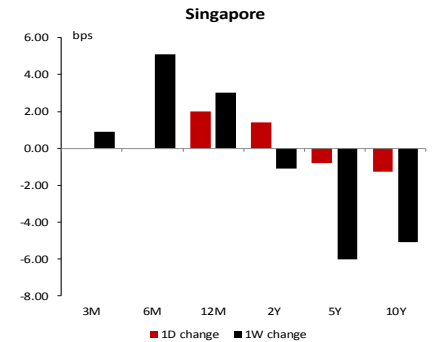
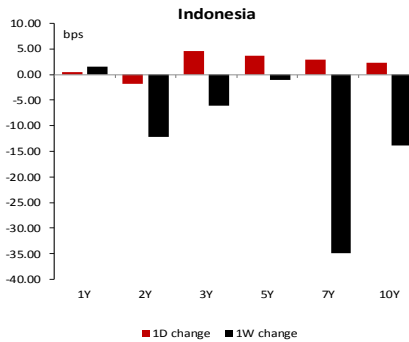
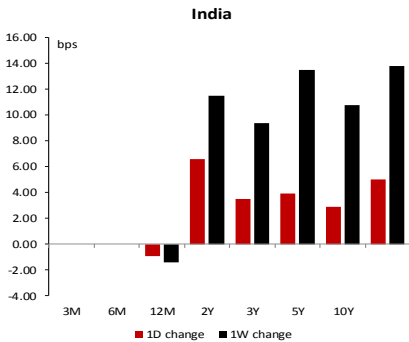
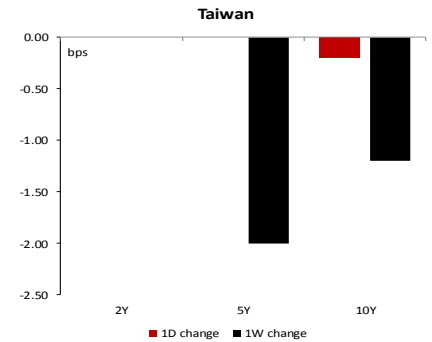
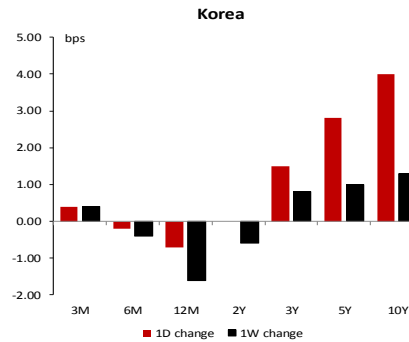
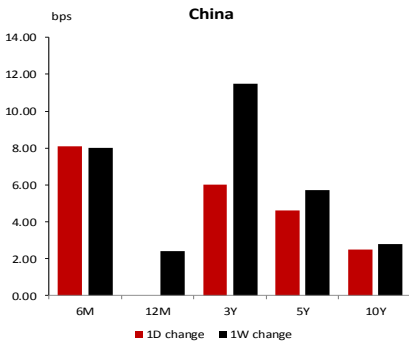
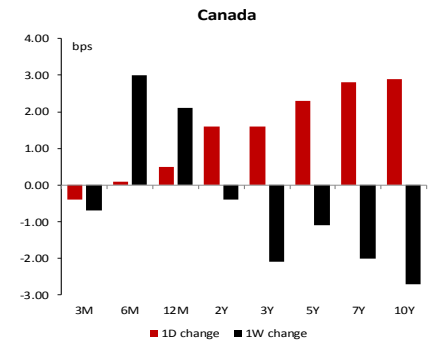
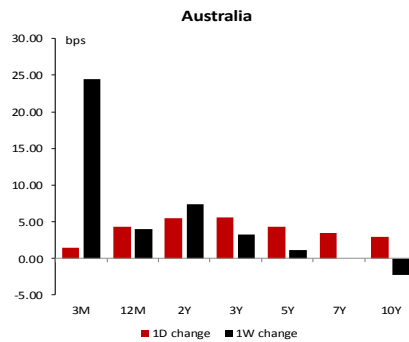
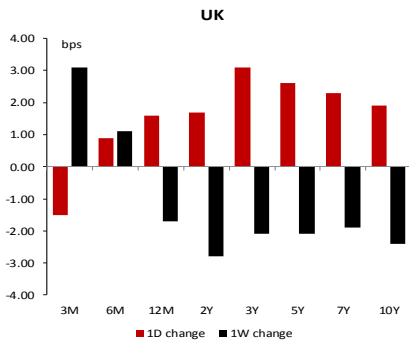
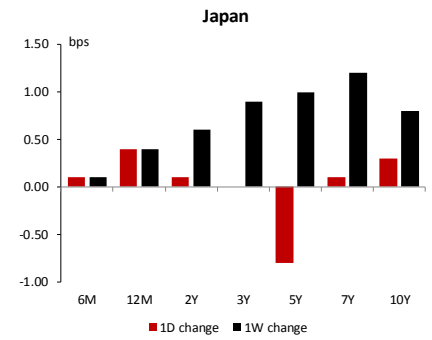
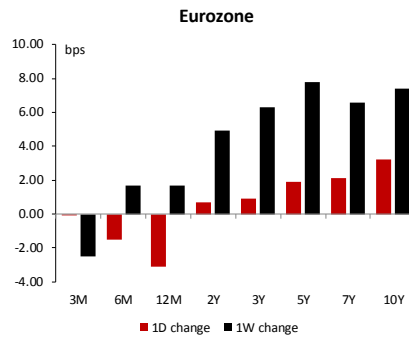
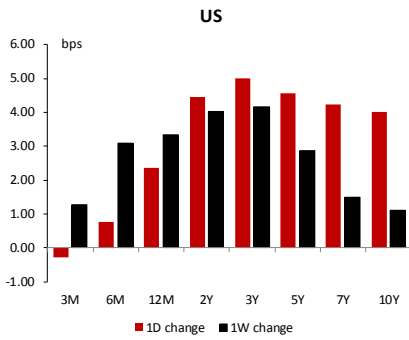
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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