

Monday, August 06, 2018

FX Themes/Strategy/Trading Ideas

- The miss on the July non-farm payrolls did little to dampen the spirits for the USD on Friday, with the DXY index holding near the top of the recent range.
- The upward revision in June NFP softened the impact of the July print's miss. The labour market still looks sanguine overall. **Two implications of this – first, the Fed will be reasonably comfortable to press on with its current rate hike guidance, and second, Trump will continue to apply pressure on China on trade as the negative impact has yet to be reflected in the economic outcomes.**
- The implied long USD positions within the investment community eased in the latest **CFTC** reading. The leveraged accounts reduced their implied long USD positions for the first time in seven weeks, while the asset managers again increased their net short USD positions. Overall, the implied long USD positioning remains stretched within the short term players, the question is whether this week marks the start of the unwinding.
- The antipodean central banks are scheduled to announce their policy decisions this week, starting from the **Reserve Bank of Australia** (RBA) on Tuesday, then the **Reserve Bank of New Zealand** (RBNZ) on Wednesday. We expect both central banks to be on hold, with the RBNZ perhaps the more dovish of the two.
- **The differing stance between the RBA and the Fed becomes starker with every Fed rate hike. Overlay this with the worsening Sino-US trade tensions, we continue to be pessimistic on the AUD on a structural basis.**
- Apart from the policy meetings, we are also expecting to hear from RBNZ's Orr (Wed and Thu), and RBA's Lowe (Wed). Elsewhere, we will hear from Barkin (Wed) and Evans (Thu), the first Fed speakers since the Aug FOMC. Watch also for the ECB "minutes" (Thu), and the RBA Statement of Monetary Policy (Fri).
- The economic calendar this week is headlined by the German IP (Wed) and the US CPI (Fri).

Treasury Research &
Strategy

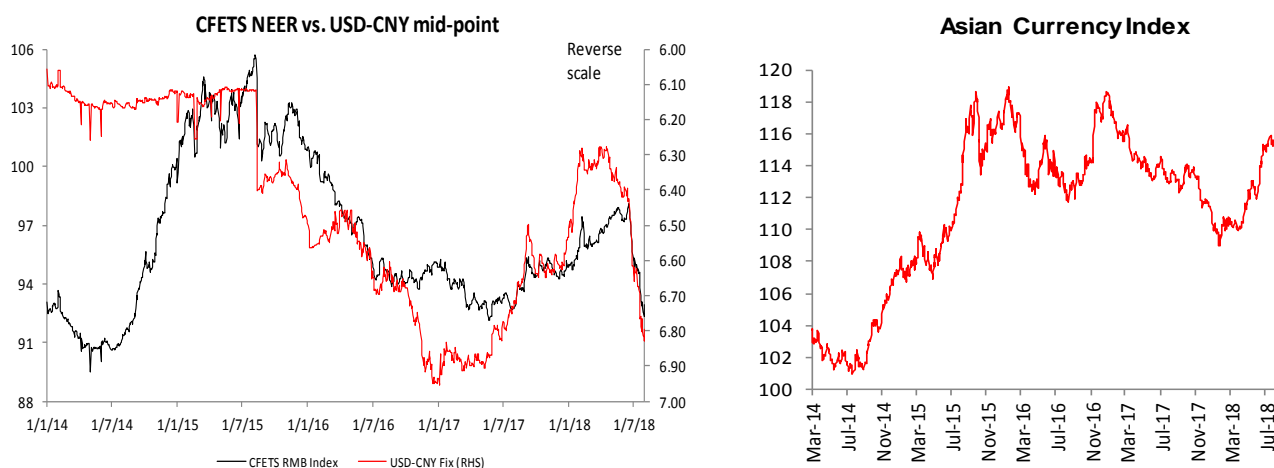
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Asian FX

- Market attention will be on China this week, after the PBoC imposed a 20% reserve requirement for long USD forward positions. We think this highlights official discomfort over the pace of CNY depreciation. Note that the new regulation was imposed as the CFETS RMB Index tested the 92.00 threshold.
- However, similar measures in 2015 had limited effect on the CNY trend. We think this move may be the first of several going forward. **In particular, we continue to look for the re-implementation of the counter-cyclical factor in the USD-CNY midpoint fix. We think this will be clearest sign for a change in stance for the PBoC.**
- **In the near term, expect some consolidation for the USD-CNY between 6.80 and 6.85, and the CFETS RMB Index between 92.50 and 93.00.** Over the structural horizon, however, the performance of the domestic economy and the Sino-US trade relations will continue to dictate the RMB complex. On the trade front, at least, we note that the signs are ominous. Both sides appear to be digging in on their relative positions. China is preparing for a tiered tariff structure on US\$60bn worth of imports from the US. Meanwhile, Kudlow suggested that the EU and the US may present a united front against China on trade issues.
- Despite the latest developments, risk sentiments remain rather sanguine. Our **FX Sentiment Index (FXSI)** continues to fluctuate within the Risk-Neutral zone, staying closer to the Risk-On threshold rather than the Risk-Off area.
- **Expect the Asian Currency Index (ACI) to move lower early week as the USD-CNY enters a consolidation phase.** The depth of the decline in the ACI will, nevertheless, be dependent on the willingness of the PBoC to follow up with more measures going forward.
- The Asian calendar is headlined by the BOT (Wed) and BSP (Thu) policy meetings. Watch also for Taiwan and Philippines trade and CPI data on Tuesday and Wednesday.
- **SGD NEER:** The SGD NEER stands at around +1.10% above its perceived parity level (1.3810) this morning, with the NEER-implied USD-SGD thresholds marginally softer. We expect an intra-day range between the +0.80% (1.3700) and +1.20% (1.3646) thresholds to hold, with some downside pressure afforded by the consolidating USD-CNY.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within expectations, at 6.8513 compared to 6.8322 on Friday. The CFETS RMB Index firmed marginally to 92.39, compared to 92.69 previously.
- The Chinese data calendar is also heavy this week, with the BOP data expected today, and the FX reserves (Tue) and trade data (Wed) later this week. Watch the FX reserves print to glean information on how the PBoC has been managing the CNY depreciation thus far, and the trade data for any initial impacts of the first round of US tariffs on US\$34bn of imports from China.



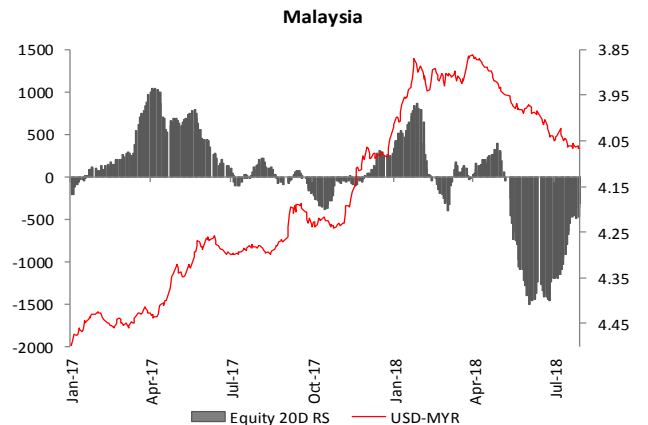
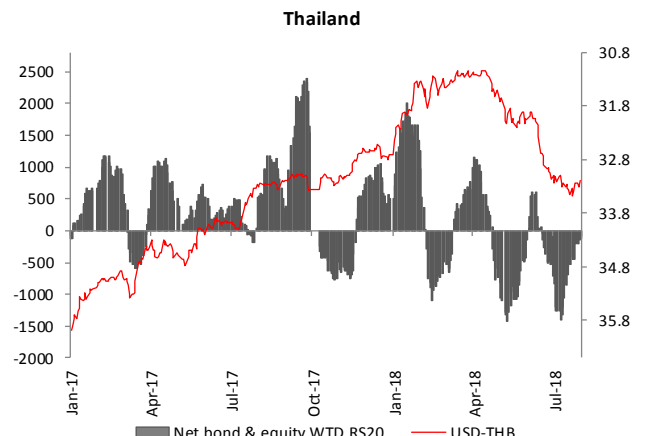
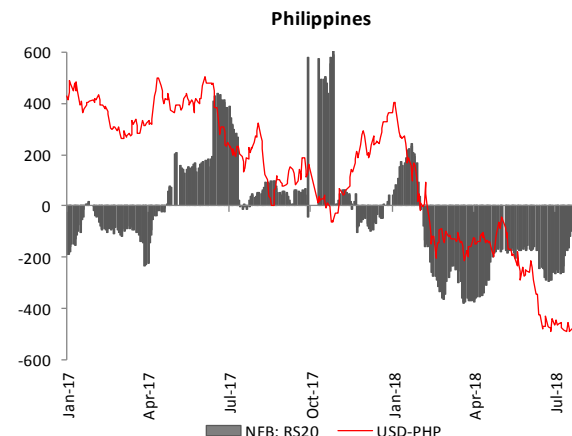
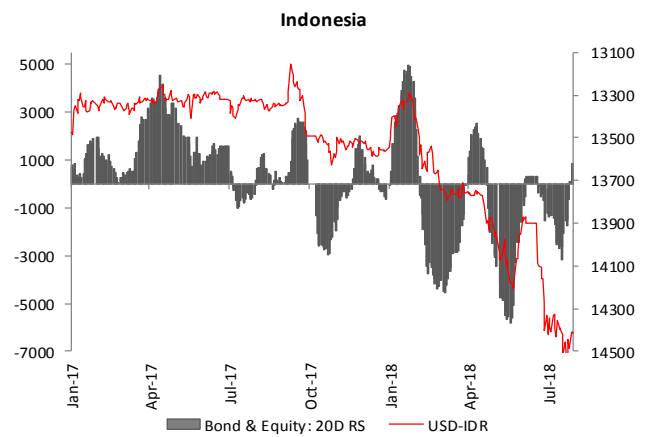
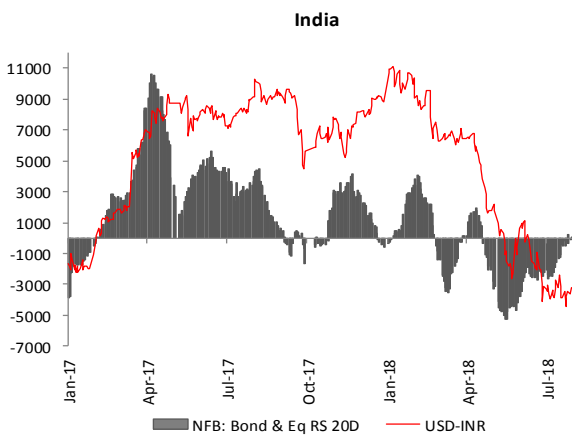
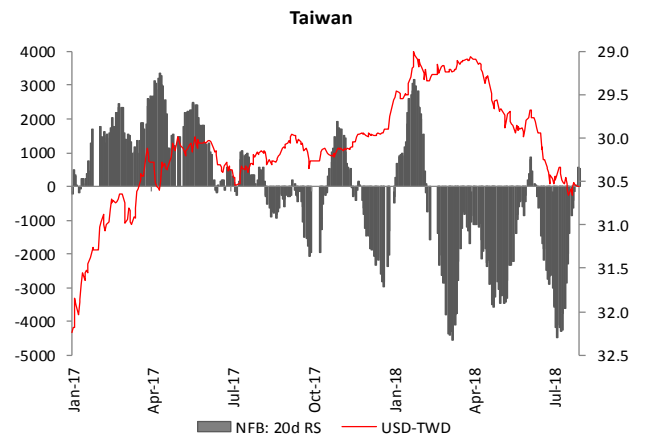
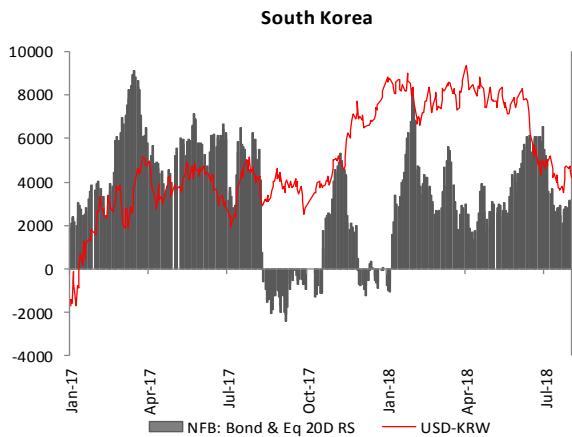
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔	Expansionary fiscal policy to complement monetary loosening to support the Chinese economy; new regulations by the PBoC may lead to some near term consolidation in the RMB complex
USD-KRW	↔	Latest economic prints show lost of positive momentum; portfolio inflows stabilizing; BOK governor signalling the need to review the accommodative policy; whipsawed by Sino-US trade developments
USD-TWD	↔	Equity outflow situation flipped into net inflow territory; decreased sensitivity to the RMB complex in recent sessions; stronger than expected growth in domestic demand in 1H
USD-INR	↔	RBI hiked 25 bps as expected, making it two hikes in consecutive meetings; persistent outflow momentum flipped into a net inflow situation in a rolling 20D basis; recent decline in oil prices may provide some relief
USD-SGD	↔	Expect resistance around 1.3700 and support near 1.3600; headline and core inflation prints in-line to stronger than expected, core inflation may hit 2.0% yoy before the MAS Oct MPS. Consolidation of the SGD NEER above the +1.00% above parity level may further fuel suspicions of a tightening move
USD-MYR	↔/↑	BNM expected to be on hold until 2019; structurally overvalued compared to Asian peers based on foreign reserves and current account metrics; equity outflows easing
USD-IDR	↔/↑	BI kept the policy rate unchanged in the latest meeting, although the rhetoric remains hawkish; BI committed to defend the currency, although the pair may now settle north of 14,450
USD-THB	↔/↑	Case for rate hike builds, but the BOT still expected to be a laggard among the Asian central banks; current account for June stronger than expected
USD-PHP	↔/↑	BSP rate hike this week expected; Moody's maintain IG rating

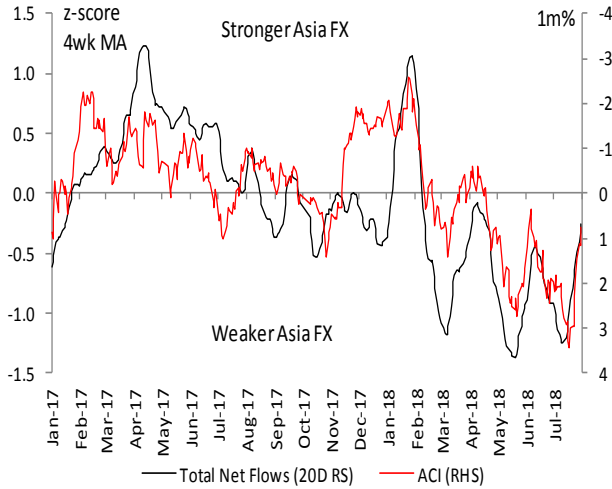
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



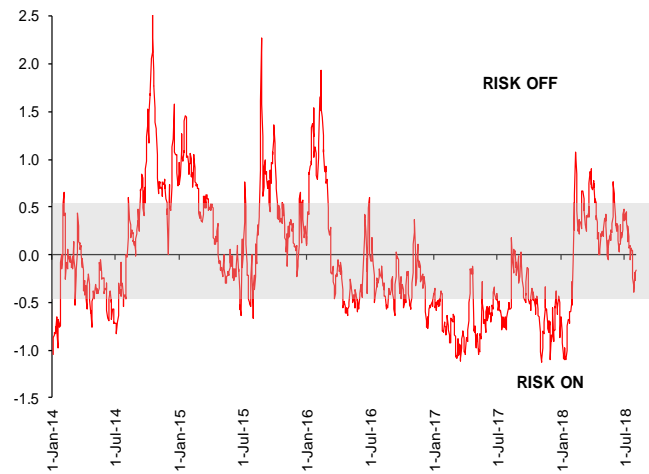
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	0.133	0.458	0.467	-0.293	-0.753	0.568	-0.651	-0.472	-0.295	0.583	-0.926
SGD	0.901	0.035	0.450	0.296	-0.358	-0.752	0.558	-0.581	-0.319	-0.182	0.568	-0.771
MYR	0.599	0.698	0.930	0.703	0.127	-0.524	0.032	-0.722	-0.256	-0.628	0.934	-0.705
CHF	0.594	-0.480	-0.246	0.046	-0.260	-0.541	0.831	-0.240	-0.463	0.085	-0.164	-0.360
CNH	0.583	0.819	0.982	0.695	0.238	-0.459	-0.081	-0.717	-0.087	-0.710	1.000	-0.691
JPY	0.568	-0.360	-0.097	0.020	-0.253	-0.723	1.000	-0.412	-0.265	-0.040	-0.081	-0.272
KRW	0.524	0.047	0.349	0.349	-0.144	-0.724	0.416	-0.574	-0.338	-0.159	0.374	-0.324
CNY	0.458	0.858	1.000	0.717	0.338	-0.429	-0.097	-0.724	-0.062	-0.762	0.982	-0.582
TWD	0.458	0.586	0.832	0.615	0.133	-0.567	0.024	-0.696	-0.203	-0.522	0.826	-0.486
THB	0.450	0.197	0.464	0.372	0.040	-0.522	0.191	-0.500	-0.361	-0.268	0.499	-0.311
IDR	0.422	0.615	0.792	0.636	0.131	-0.420	-0.140	-0.572	-0.270	-0.450	0.804	-0.466
USGG10	0.133	1.000	0.858	0.718	0.524	-0.130	-0.360	-0.554	-0.030	-0.758	0.819	-0.344
CAD	0.080	-0.697	-0.459	-0.421	-0.333	-0.323	0.541	0.107	-0.004	0.402	-0.442	0.248
PHP	-0.127	-0.717	-0.625	-0.409	-0.150	-0.032	0.256	0.294	-0.037	0.430	-0.583	0.395
INR	-0.202	-0.154	-0.037	-0.197	-0.173	0.218	-0.405	0.317	0.183	0.314	-0.017	0.253
AUD	-0.755	-0.168	-0.471	-0.150	0.319	0.647	-0.421	0.556	-0.008	0.218	-0.586	0.675
GBP	-0.844	-0.506	-0.796	-0.644	0.082	0.599	-0.195	0.682	0.326	0.514	-0.841	0.860
NZD	-0.859	0.068	-0.286	-0.190	0.417	0.677	-0.487	0.500	0.310	0.065	-0.437	0.812
EUR	-0.926	-0.344	-0.582	-0.557	0.256	0.566	-0.272	0.588	0.454	0.350	-0.691	1.000

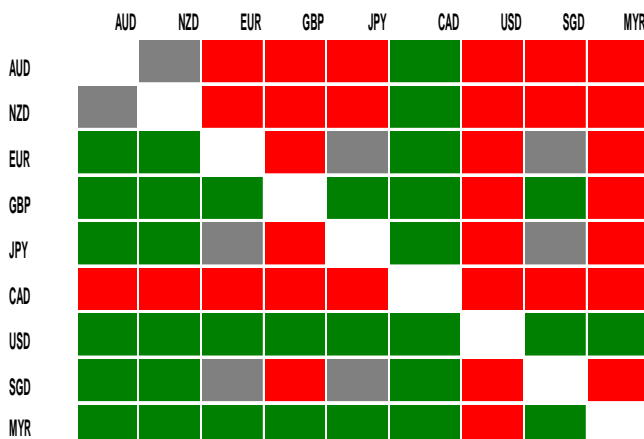
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1500	1.1527	1.1563	1.1569	1.1600
GBP-USD	1.2958	1.2970	1.2997	1.3000	1.3213
AUD-USD	0.7311	0.7350	0.7392	0.7400	0.7448
NZD-USD	0.6700	0.6727	0.6745	0.6800	0.6844
USD-CAD	1.2945	1.2968	1.2999	1.3000	1.3109
USD-JPY	110.76	111.00	111.32	112.00	112.98
USD-SGD	1.3575	1.3600	1.3659	1.3699	1.3700
EUR-SGD	1.5700	1.5786	1.5795	1.5800	1.5812
JPY-SGD	1.2200	1.2243	1.2270	1.2300	1.2330
GBP-SGD	1.7730	1.7744	1.7752	1.7800	1.7914
AUD-SGD	1.0023	1.0051	1.0097	1.0098	1.0100
Gold	1205.10	1205.30	1214.20	1256.35	1260.44
Silver	15.21	15.40	15.47	15.50	15.90
Crude	66.92	68.70	68.76	68.79	68.80

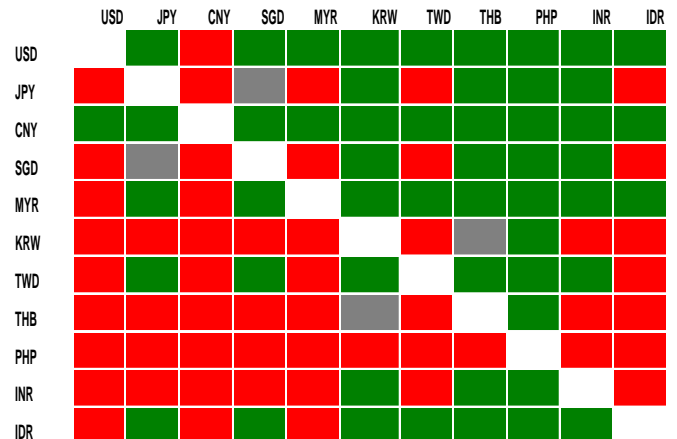
Source: OCBC Bank

G10 FX Heat Map



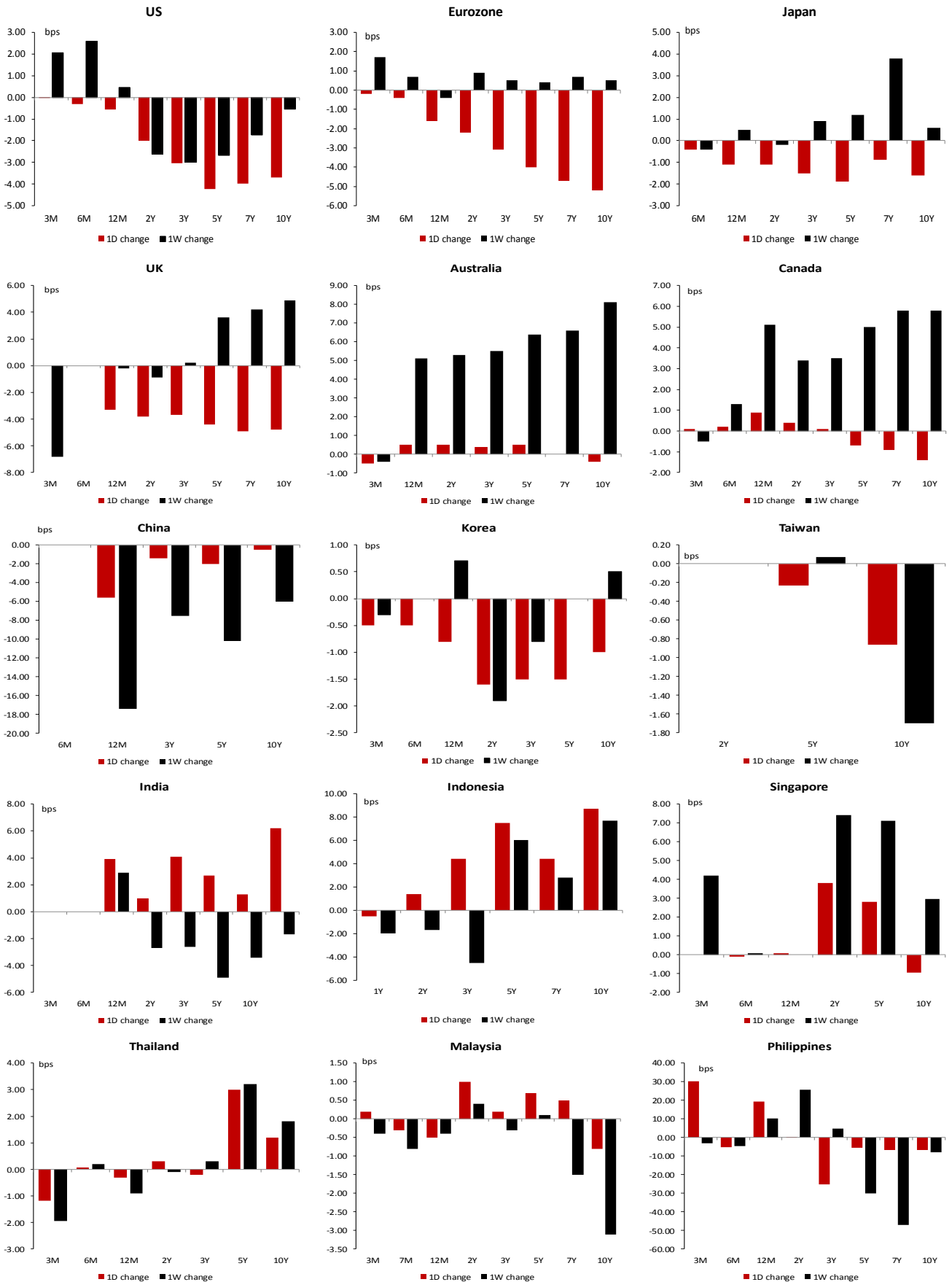
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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