

Friday, July 06, 2018

## FX Themes/Strategy/Trading Ideas

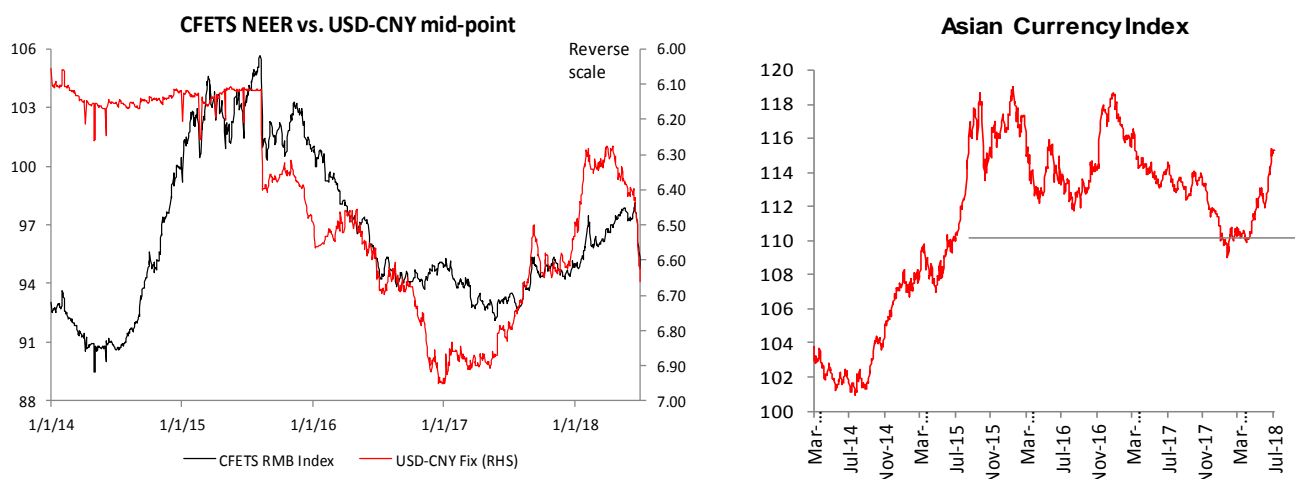
- The broad USD skipped past the a potential stumbling block in the form of the June FOMC minutes overnight, with the DXY index rebounding after touching its recent lows of near 94.20. Likewise, the EUR turned after hitting the recent highs near 1.1720.
- The FOMC minutes provided sufficient evidence for the market to retain the view that the Fed is on a hawkish tilt (if only slightly). Note that front end USTs were sold off on the news, pushing the 2-10 spread below 30 bps. **At this stage, we think the recent lows on the DXY index will be held as we head towards non-farm payrolls (1230 GMT, mkt consensus @ 195k). An in-line print should allow the 94.20 bottom on the DXY index (and by extension the 1.1720 top for the EUR) to hold into the weekend.**
- However, we may close to the point to seriously ponder the next move for the EUR. Recent political issues over migration has been allayed (at least temporarily), and ECB officials appear willing to pull market expectations of the first ECB rate hike forward to the Sep-Oct 2019 period, as opposed to Dec. Recent data-prints have been broadly neutral, and perhaps not supportive of sustained EUR pessimism. **As attention shifts away from the political uncertainties, the EUR may be poised to break through the 1.1720 top next week.**
- Comparative to the EUR, the political overhang is heavier for the GBP, and is showing no signs of resolution. Periodic boosts may be had from bullish BOE rhetoric ahead of the live August MPC, but we think any bounce higher will be short-lived.
- **Overall, we expect the recent ranges to hold into the end of the week, and therefore, still prefer to fade intra-day rallies on the EUR and GBP. Nevertheless, a re-assessment (especially on the EUR) may be due early next week.**
- The data calendar is focused on US NFP and hourly wages (1230 GMT), German industrial production (0600 GMT). Central bank is light, with only ECB's Nouy (0700 GMT) scheduled.

Treasury Research &  
Strategy

**Terence Wu**  
+65 6530 4367  
[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)

## Asian FX

- The first round of tariffs on US\$34bn worth of Chinese imports is expected to hit later in the global day. Trump ratcheted up the rhetoric early in the Asian session, calling for tariffs on another US\$500bn worth of Chinese imports. Market reaction to that was decidedly muted, likely due to the unrealistic nature of the headline number.
- Expect Asian currencies to remain edgy intra-day towards trade-related headlines, especially towards any Chinese response to Trump's latest rhetoric. Nevertheless, overall risk sentiments still appear subdued. Our **FX Sentiment Index (FXSI)** is held at levels just below the outright Risk-Off zone for the 2-3 weeks, highlighting a persistent state of worry that is not quite sufficient to nudge into panic mode. We expect China to retaliate once the first round of tariffs is imposed. The key is whether there will be further escalation from there.
- Recent developments in the RMB complex provided some much needed stability to the Asian currencies, with the North Asians benefitting more. Overall, any dips in the Asian Currency Index (ACI) remained shallow over the past three sessions. **We expect the Asian Currency Index (ACI) to be in a holding pattern intra-day, pending further developments (or the lack of) on the trade front.**
- In terms of **Asian portfolio flows**, still no reprieve for equity outflows from Taiwan, with outflow momentum still building. Bond outflows are also intensifying for Thailand on the rolling 20-day basis, with overall outflow momentum nearing recent highs as well. With the exception of South Korea, all other Asian countries are still experiencing outflows. At this juncture, we think the push to de-risk is still strong, and that is fundamentally negative for the EM Asian assets. Barring an abrupt turn in risk sentiments, it is difficult to see the persistent outflows from Asia coming to an end anytime soon.
- **SGD NEER:** The SGD NEER slightly weaker this morning, standing at around +0.36% above its perceived parity level (1.3705). The NEER-implied USD-SGD thresholds were lower alongside the weaker USD overnight. Expect the pair to move within the +0.20% (1.3678) and +0.50% (1.3637) thresholds intra-day.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within expectations, at 6.6336 compared to 6.6180 on Thursday. The CFETS RMB Index weakened to 95.06, compared to 95.34 previously.



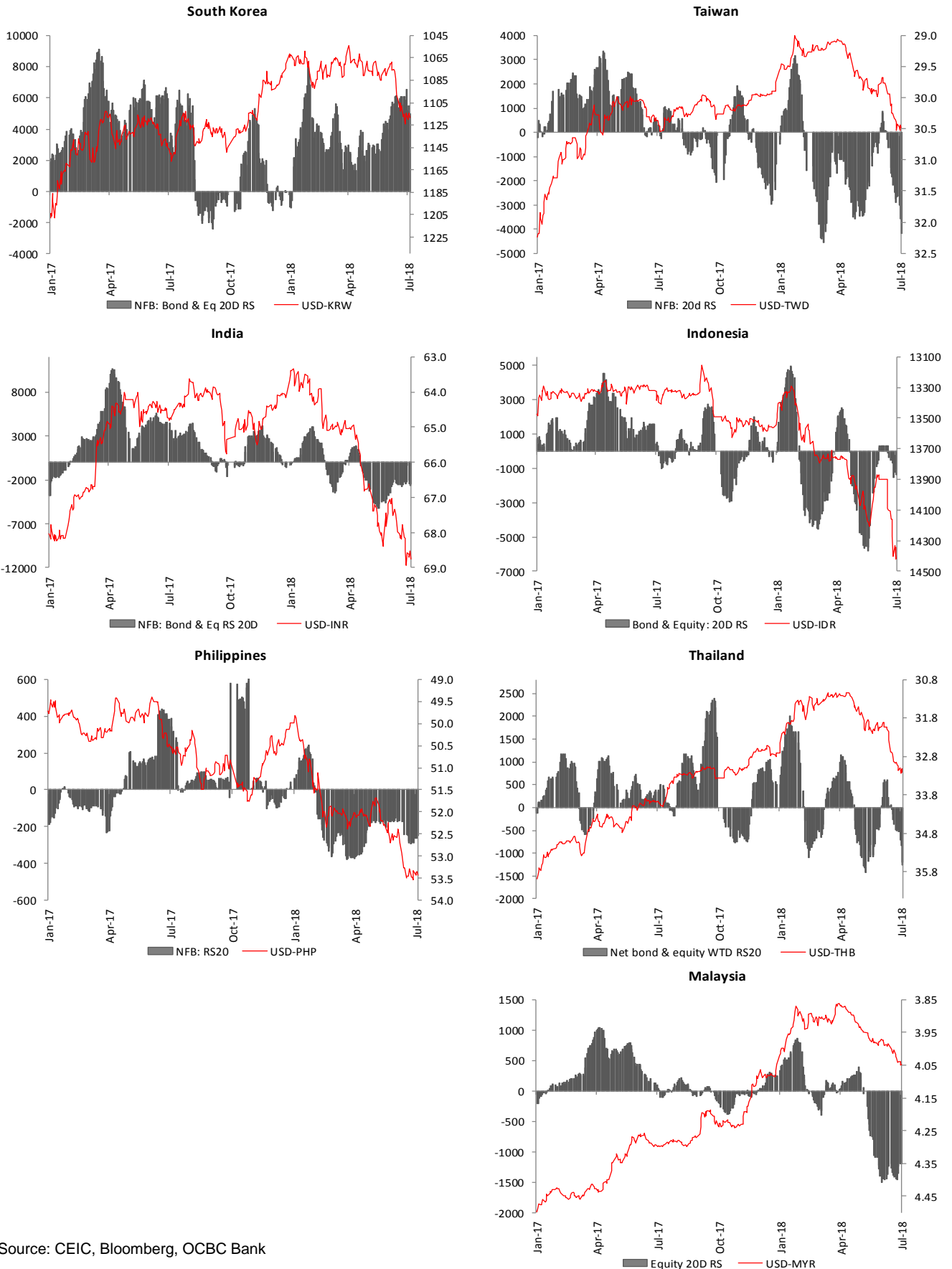
Source: OCBC Bank, Bloomberg

### 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	↑	Case for rate hike builds, but the BOT still expected to be a laggard among the Asian central banks; 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

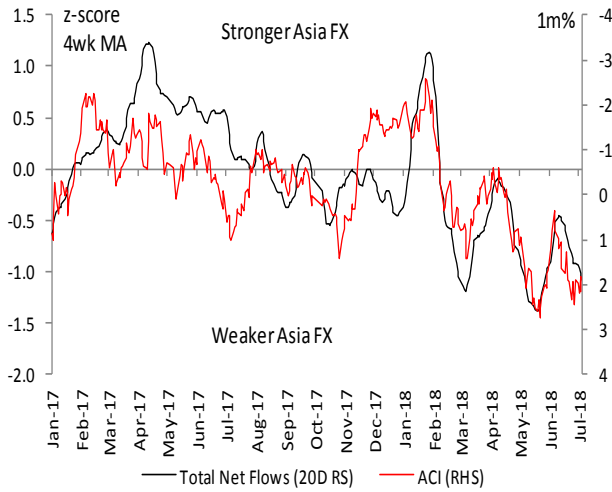
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows



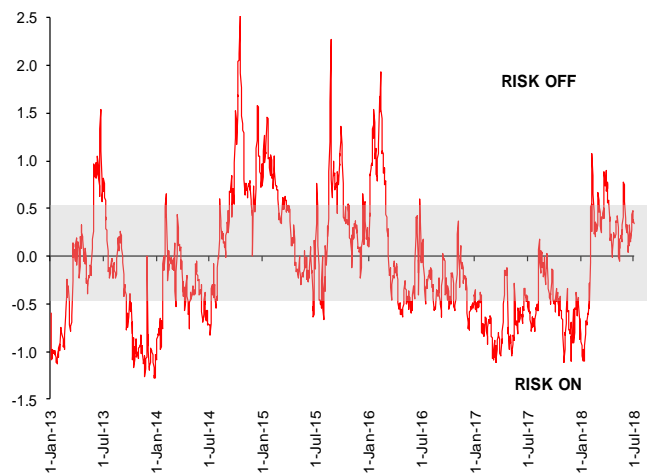
Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**



Source: OCBC Bank

**FX Sentiment Index**



Source: OCBC Bank

**1M Correlation Matrix**

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	-0.605	0.622	-0.478	-0.691	-0.564	0.501	0.435	0.531	0.367	0.609	-0.979
CHF	0.924	-0.494	0.533	-0.284	-0.594	-0.484	0.661	0.372	0.353	0.257	0.520	-0.908
CAD	0.861	-0.587	0.599	-0.507	-0.686	-0.699	0.246	0.356	0.630	0.413	0.554	-0.801
SGD	0.816	-0.878	0.926	-0.760	-0.956	-0.512	0.512	0.770	0.827	0.750	0.922	-0.681
IDR	0.799	-0.946	0.991	-0.816	-0.976	-0.314	0.843	0.953	0.860	0.906	0.991	-0.692
PHP	0.799	-0.618	0.715	-0.443	-0.768	-0.547	0.571	0.539	0.640	0.548	0.684	-0.713
KRW	0.759	-0.830	0.902	-0.707	-0.931	-0.511	0.520	0.706	0.803	0.732	0.882	-0.617
INR	0.726	-0.874	0.925	-0.672	-0.944	-0.406	0.605	0.803	0.770	0.778	0.921	-0.605
THB	0.725	-0.878	0.935	-0.746	-0.957	-0.510	0.470	0.766	0.822	0.777	0.926	-0.600
TWD	0.712	-0.920	0.969	-0.833	-0.984	-0.396	0.505	0.858	0.893	0.844	0.968	-0.585
CNY	0.622	-0.934	1.000	-0.865	-0.972	-0.267	0.541	0.928	0.882	0.894	0.998	-0.482
MYR	0.610	-0.901	0.967	-0.780	-0.958	-0.286	0.603	0.905	0.860	0.903	0.969	-0.474
CNH	0.609	-0.932	0.998	-0.850	-0.970	-0.238	0.562	0.939	0.869	0.887	1.000	-0.437
JPY	0.501	-0.374	0.541	-0.168	-0.468	-0.051	1.000	0.575	0.219	0.382	0.562	-0.413
USGG10	-0.605	1.000	-0.934	0.868	0.943	0.263	-0.374	-0.854	-0.869	-0.800	-0.932	0.499
NZD	-0.713	0.904	-0.975	0.790	0.960	0.321	-0.620	-0.888	-0.822	-0.850	-0.976	0.564
AUD	-0.889	0.780	-0.829	0.601	0.874	0.595	-0.550	-0.645	-0.710	-0.636	-0.817	0.782
GBP	-0.934	0.758	-0.807	0.662	0.848	0.449	-0.556	-0.667	-0.711	-0.613	-0.791	0.847
EUR	-0.979	0.499	-0.482	0.366	0.572	0.544	-0.413	-0.270	-0.403	-0.211	-0.437	1.000

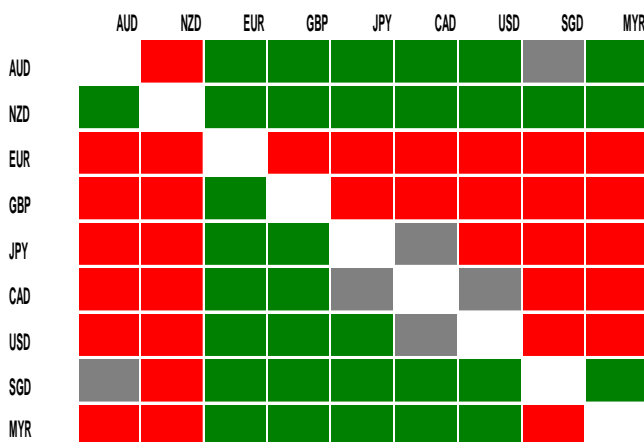
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1517	1.1600	1.1687	1.1700	1.1744
GBP-USD	1.3076	1.3200	1.3216	1.3300	1.3366
AUD-USD	0.7300	0.7311	0.7383	0.7400	0.7497
NZD-USD	0.6688	0.6700	0.6795	0.6800	0.6929
USD-CAD	1.3005	1.3100	1.3147	1.3200	1.3386
USD-JPY	110.00	110.16	110.68	110.99	111.00
USD-SGD	1.3457	1.3600	1.3661	1.3700	1.3746
EUR-SGD	1.5803	1.5900	1.5966	1.5976	1.6000
JPY-SGD	1.2236	1.2300	1.2343	1.2400	1.2478
GBP-SGD	1.7985	1.8000	1.8054	1.8100	1.8107
AUD-SGD	0.9996	1.0000	1.0086	1.0087	1.0100
Gold	1233.90	1238.80	1254.30	1290.79	1300.00
Silver	15.73	15.90	15.95	16.00	16.42
Crude	69.04	72.80	72.82	72.90	75.27

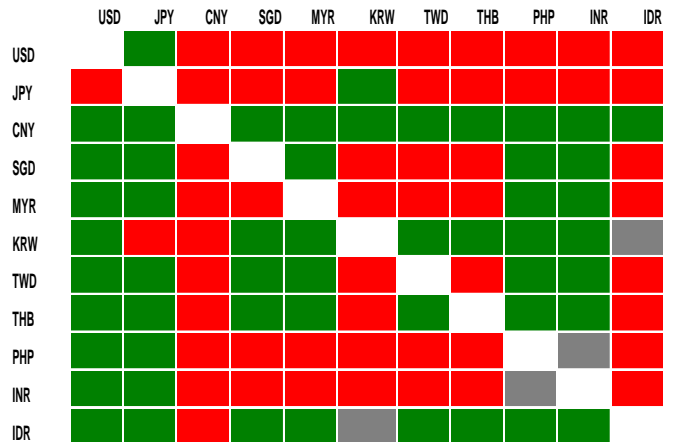
Source: OCBC Bank

**G10 FX Heat Map**



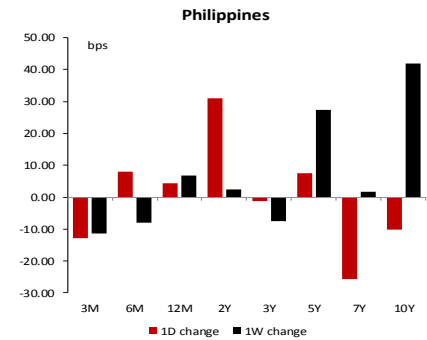
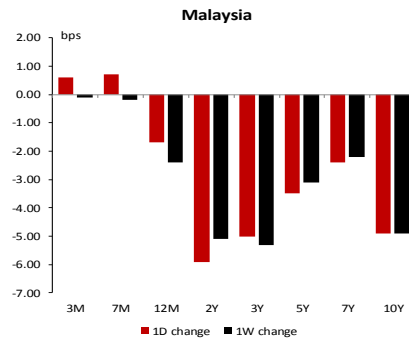
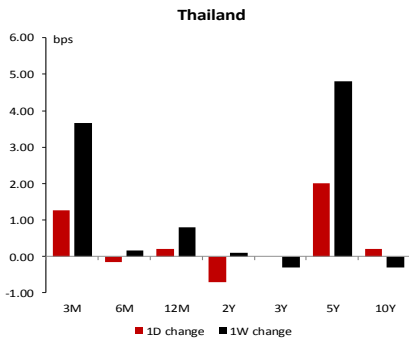
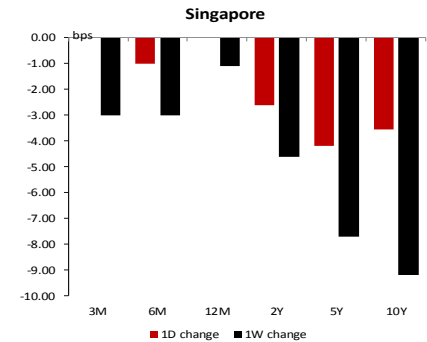
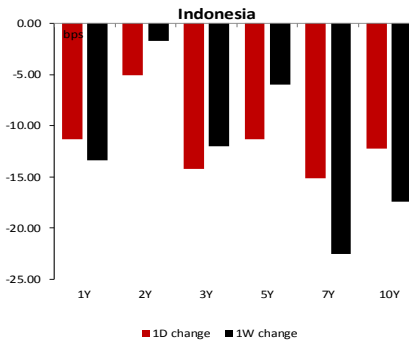
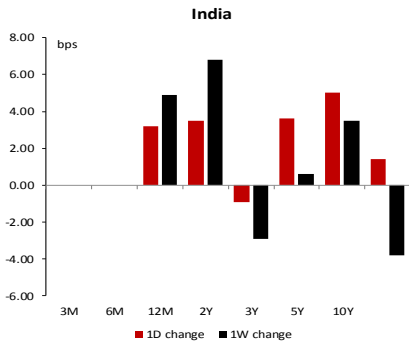
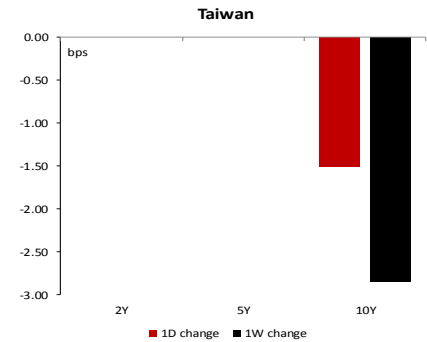
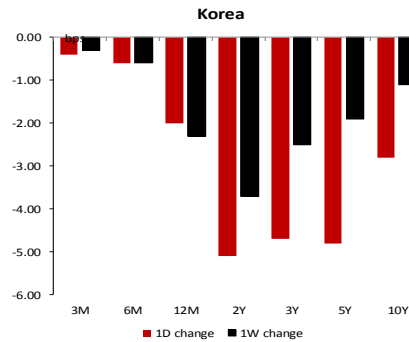
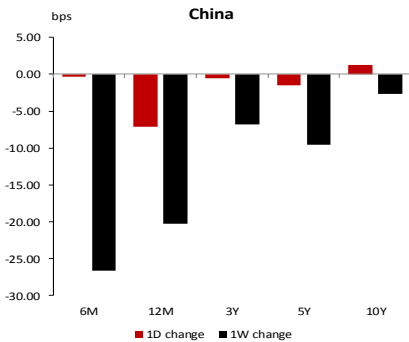
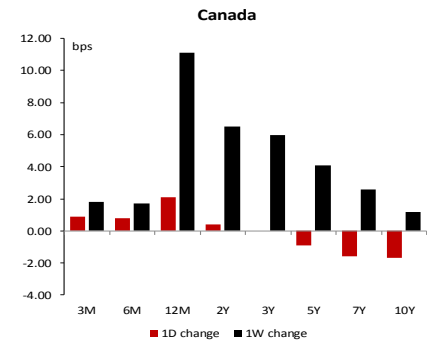
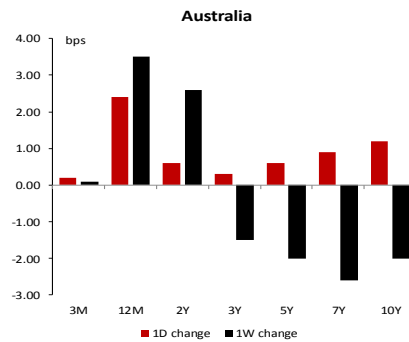
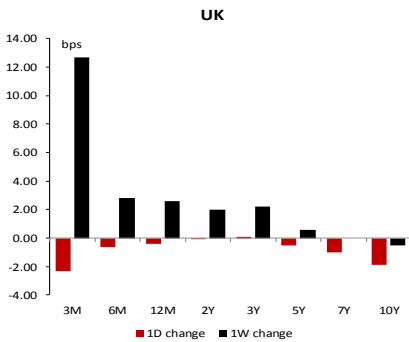
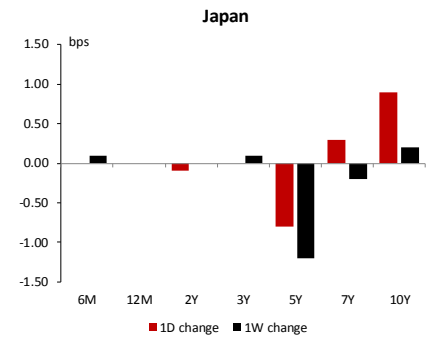
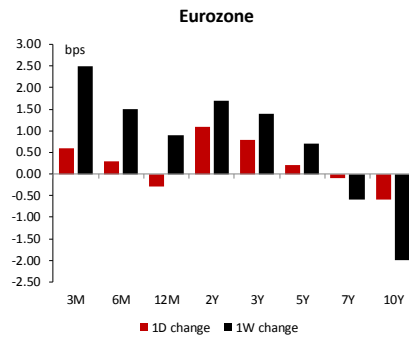
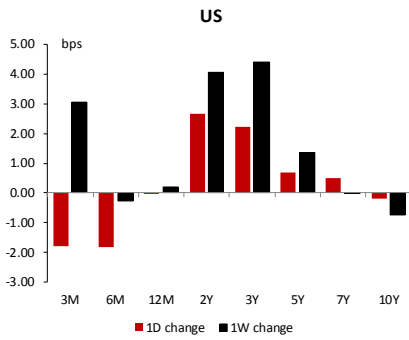
Source: OCBC Bank

**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).

---