

Wednesday, June 06, 2018

## FX Themes/Strategy/Trading Ideas

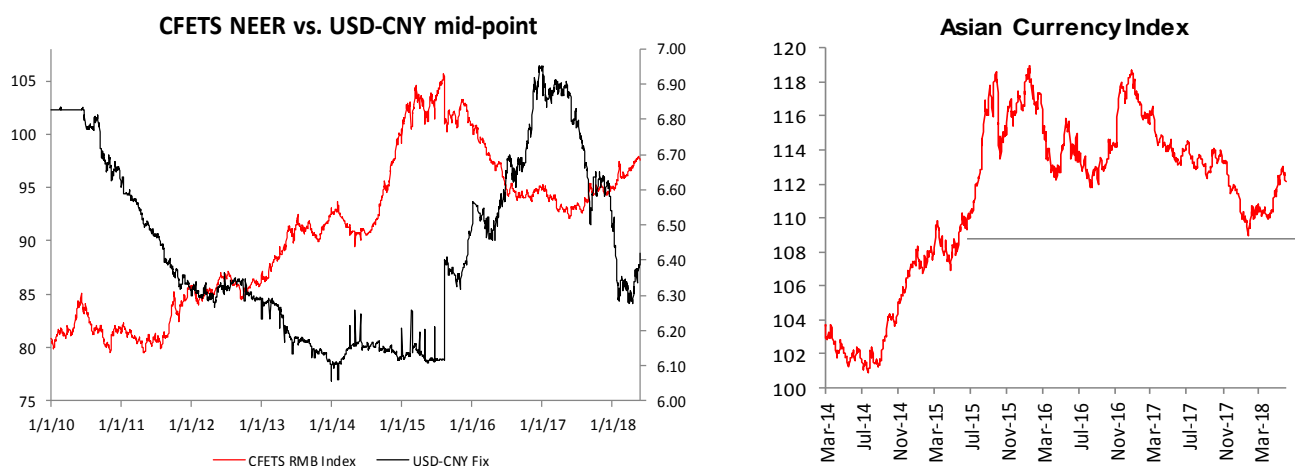
- The DXY hit a high of 94.32 early NY, before retracing to close just below the 94.00 handle. The reverse was precipitated largely by headlines from Europe, and a turn in commodity prices.
- The first speech by Italian PM Conte put the EUR under some early pressure, but the key news was from the **European Central Bank** (ECB). It now appears that the ECB is ready to initiate discussion on the taper in next week's meeting, before using the subsequent statement and Draghi's press conference to set the stage for a formal announcement after the July ECB meeting. Note that this is the original timeline set at the start of the year, before a slowdown in economic momentum led to expectations for the taper discussion to be pushed to July. Watch for further cues from Praet (0700 GMT).
- The dichotomy between the Fed and the ECB in their successive meetings next week should be closely watched. Recall that the ECB is, and will still be, the main flag-bearer for the relative central bank dynamics thesis that portended our weak USD view over a 6- to 12-month horizon. **A cautious FOMC, with a static path of three hikes in 2018, coupled with a definitive move by the ECB towards tapering, may finally draw a close to the USD's run since mid-April.** Until then, expect the DXY index to consolidate near current levels as investors stay on the sidelines, pending the emergence of new drivers.
- Elsewhere, the **Reserve Bank of Australia** (RBA) kept policy rates unchanged at 1.50% yesterday, without any material shift in statement rhetoric either. Market implied odds for the next rate hike also did not see significant shifts. The RBA continue to be one of the more accommodative of central banks within the G10 space. Do expect some negative pressure on the AUD if the Fed and ECB signal a faster pace of normalization next week.
- On the data front, note that a slew of European services and composite PMIs came in mixed, while the US prints were firmer than expected. Meanwhile, services and composite PMIs in the UK also beat expectations comprehensively, providing a boost to the GBP.

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## Asian FX

- Despite a mixed outing for US/EZ equities, risk sentiments continue to simmer down, with the **FX Sentiment Index (FXSI)** falling for the fifth consecutive session within the **Risk Neutral** zone.
- Further concessions on the Chinese side regarding imports from the US may relegate trade issues further down the list of concerns over the near term. The G7 summit on Friday, however, may still be a key event risk on the trade front going forward.
- The **net portfolio flow** environment continued to improve in Asia. Inflows into Taiwan and Thailand picked up further, after both countries turned net positive yesterday. Bond inflows into Indonesia also continued to recover, and is essentially at neutral levels on a rolling 20-day basis. Further moderation in outflows was also noted in India.
- With risk sentiments still improving, and portfolio flow environment starting to turn positive, the Asian currencies have quite a bit going for them in recent sessions. **With the broad USD on a consolidative mode, we expect the Asian Currency Index (ACI) to edge lower on the intra-day basis.**
- **India:** Watch for the RBI's decision later today. With higher crude oil prices complicating matters somewhat, the decision may be too close to call. We retain a slight bias for a hike. Even if the hike fails to materialize, we do expect the rhetoric to be reasonably hawkish, perhaps paving the way for a rate hike in the next meeting.
- **Indonesia:** The USD-IDR remained within a narrow range of 13850-13900 since the unscheduled rate hike on 30 May. Bond inflows since were also IDR-supportive. Expect the 14000 level to become a near-term cap.
- **SGD NEER:** Firmer PMI prints may have provided some tailwind for the SGD. The SGD NEER stands at around +0.78% above its perceived parity (1.3434). Overall, the NEER-implied USD-SGD thresholds softened further. We continue to expect the USD-SGD to ply the +0.60% (1.3355) and the +0.90% (1.3315) thresholds intra-day. On a multi-session horizon, expect support at 1.3300, before 1.3282.
- **CFETS RMB Index:** The USD-CNY mid-point was set lower again this morning, as expected, at 6.4040 compared to 6.4157 on Tuesday. As a result, the CFETS RMB Index was stronger at 97.34, compared to 97.17 previously.



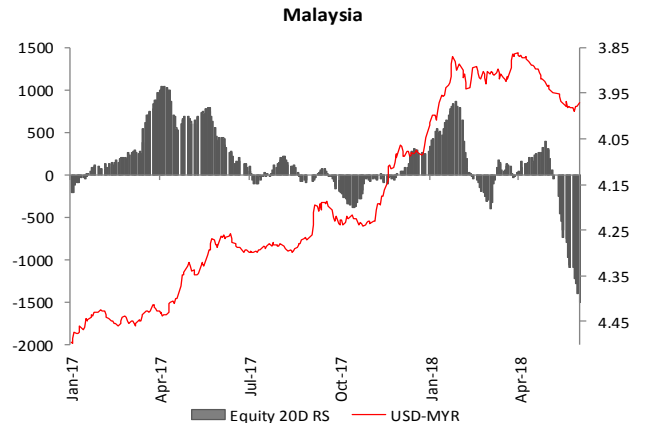
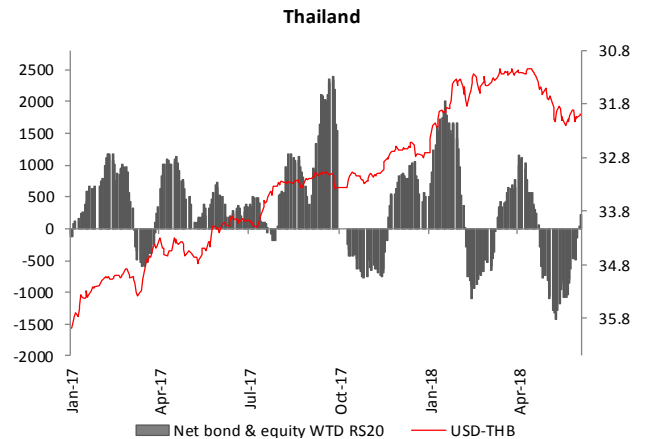
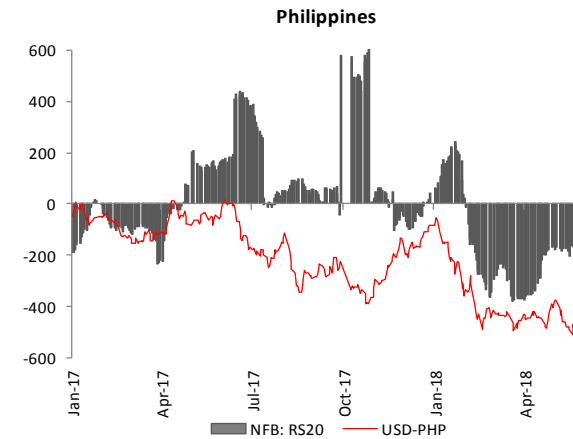
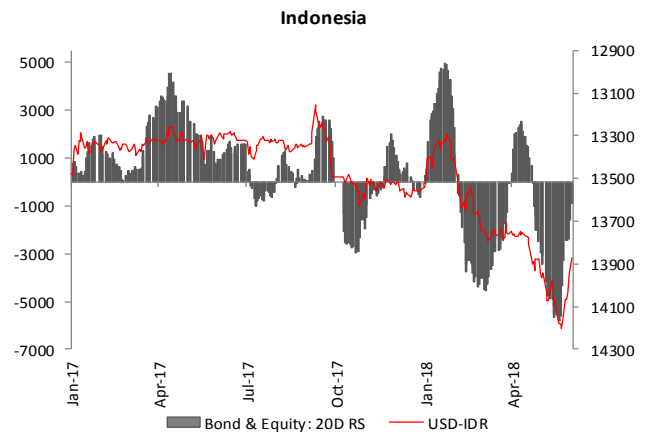
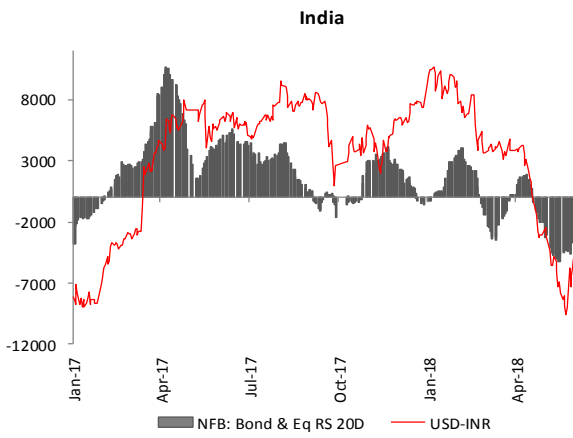
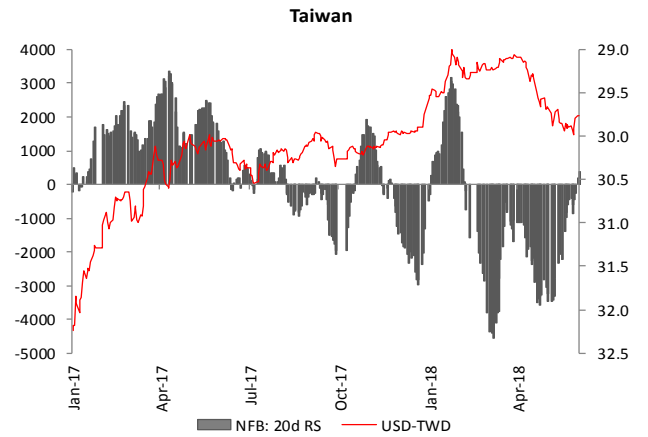
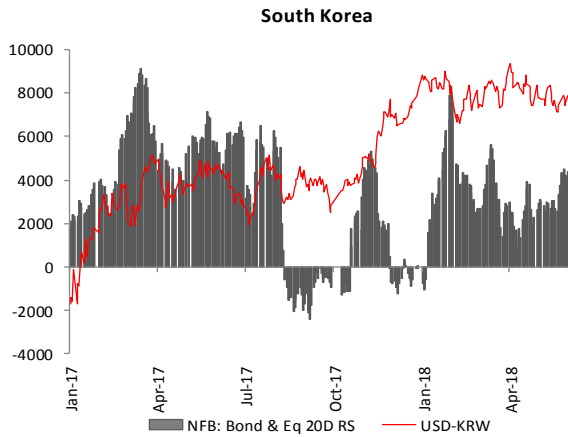
Source: OCBC Bank, Bloomberg

### 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 near +0.80% 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 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	↔/↑	Rate hike expectations at the BSP continues to build, with inflationary pressures seen to be widening; BSP governor appear comfortable with recent weakening of the PHP

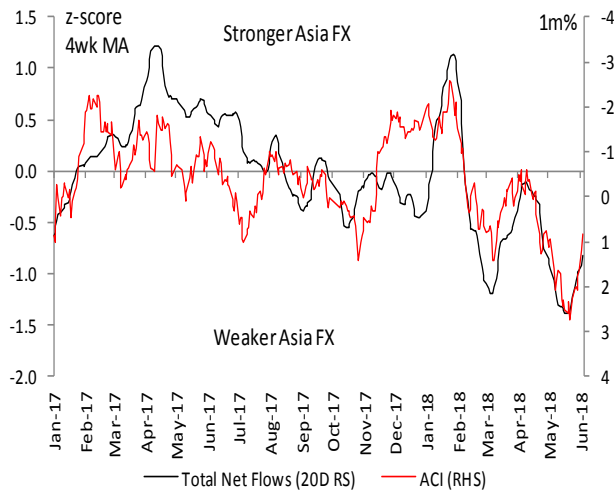
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**



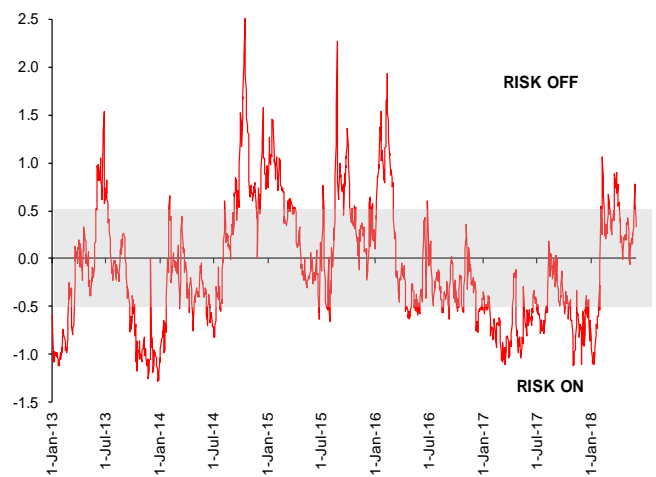
Source: CEIC, Bloomberg, OCBC Bank

### 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	-0.495	0.893	0.200	-0.401	-0.256	-0.121	-0.575	0.294	0.874	0.874	-0.992
MYR	0.907	-0.349	0.713	0.604	-0.339	0.095	-0.025	-0.263	-0.242	0.763	0.615	-0.908
CNY	0.893	-0.601	1.000	0.137	-0.567	-0.461	-0.259	-0.738	0.384	0.895	0.953	-0.891
CNH	0.874	-0.716	0.953	0.035	-0.537	-0.545	-0.411	-0.816	0.437	0.913	1.000	-0.890
PHP	0.866	-0.387	0.753	0.526	-0.150	-0.162	-0.063	-0.488	0.037	0.762	0.718	-0.866
CAD	0.687	-0.690	0.724	-0.236	-0.359	-0.646	-0.509	-0.823	0.474	0.729	0.853	-0.700
TWD	0.664	-0.217	0.540	0.073	-0.536	0.331	0.041	0.020	0.289	0.594	0.436	-0.664
AUD	0.404	-0.281	0.438	0.749	0.005	-0.236	0.039	-0.528	-0.411	0.428	0.384	-0.398
THB	0.339	0.352	0.232	0.205	-0.202	0.390	0.551	0.328	-0.123	0.090	0.030	-0.299
KRW	0.328	0.177	0.255	-0.227	-0.564	0.505	0.284	0.320	0.165	0.161	0.133	-0.285
SGD	0.315	0.148	0.164	-0.298	-0.165	0.264	0.174	0.337	0.323	0.109	0.127	-0.305
INR	0.222	0.389	-0.054	0.166	0.108	0.688	0.481	0.547	-0.102	-0.075	-0.135	-0.191
IDR	0.071	0.561	-0.218	-0.088	-0.063	0.804	0.522	0.742	-0.215	-0.311	-0.370	-0.022
NZD	-0.010	-0.497	0.250	0.020	-0.328	-0.492	-0.411	-0.599	-0.054	0.248	0.309	-0.004
JPY	-0.121	0.842	-0.259	0.369	0.478	0.330	1.000	0.485	-0.478	-0.497	-0.411	0.204
USGG10	-0.495	1.000	-0.601	0.146	0.534	0.442	0.842	0.731	-0.524	-0.807	-0.716	0.560
CHF	-0.735	0.600	-0.804	-0.447	0.299	0.435	0.238	0.797	-0.052	-0.828	-0.788	0.749
GBP	-0.930	0.654	-0.874	-0.300	0.441	0.246	0.309	0.622	-0.266	-0.932	-0.857	0.945
EUR	-0.992	0.560	-0.891	-0.203	0.423	0.268	0.204	0.605	-0.310	-0.904	-0.890	1.000

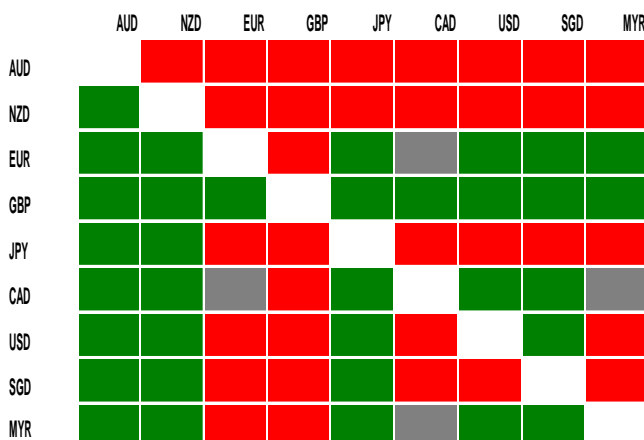
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1544	1.1700	1.1721	1.1800	1.1952
GBP-USD	1.3219	1.3400	1.3406	1.3500	1.3590
AUD-USD	0.7606	0.7648	0.7656	0.7666	0.7700
NZD-USD	0.6851	0.7000	0.7041	0.7046	0.7091
USD-CAD	1.2818	1.2900	1.2940	1.3000	1.3037
USD-JPY	108.70	109.00	109.86	110.00	110.21
USD-SGD	1.3281	1.3300	1.3329	1.3330	1.3362
EUR-SGD	1.5502	1.5600	1.5623	1.5700	1.5957
JPY-SGD	1.2100	1.2127	1.2133	1.2200	1.2219
GBP-SGD	1.7750	1.7800	1.7869	1.7900	1.8155
AUD-SGD	1.0101	1.0200	1.0205	1.0216	1.0231
Gold	1279.21	1281.20	1296.80	1300.00	1306.93
Silver	16.50	16.51	16.53	16.60	16.71
Crude	64.31	65.60	65.64	65.70	67.78

Source: OCBC Bank

### G10 FX Heat Map



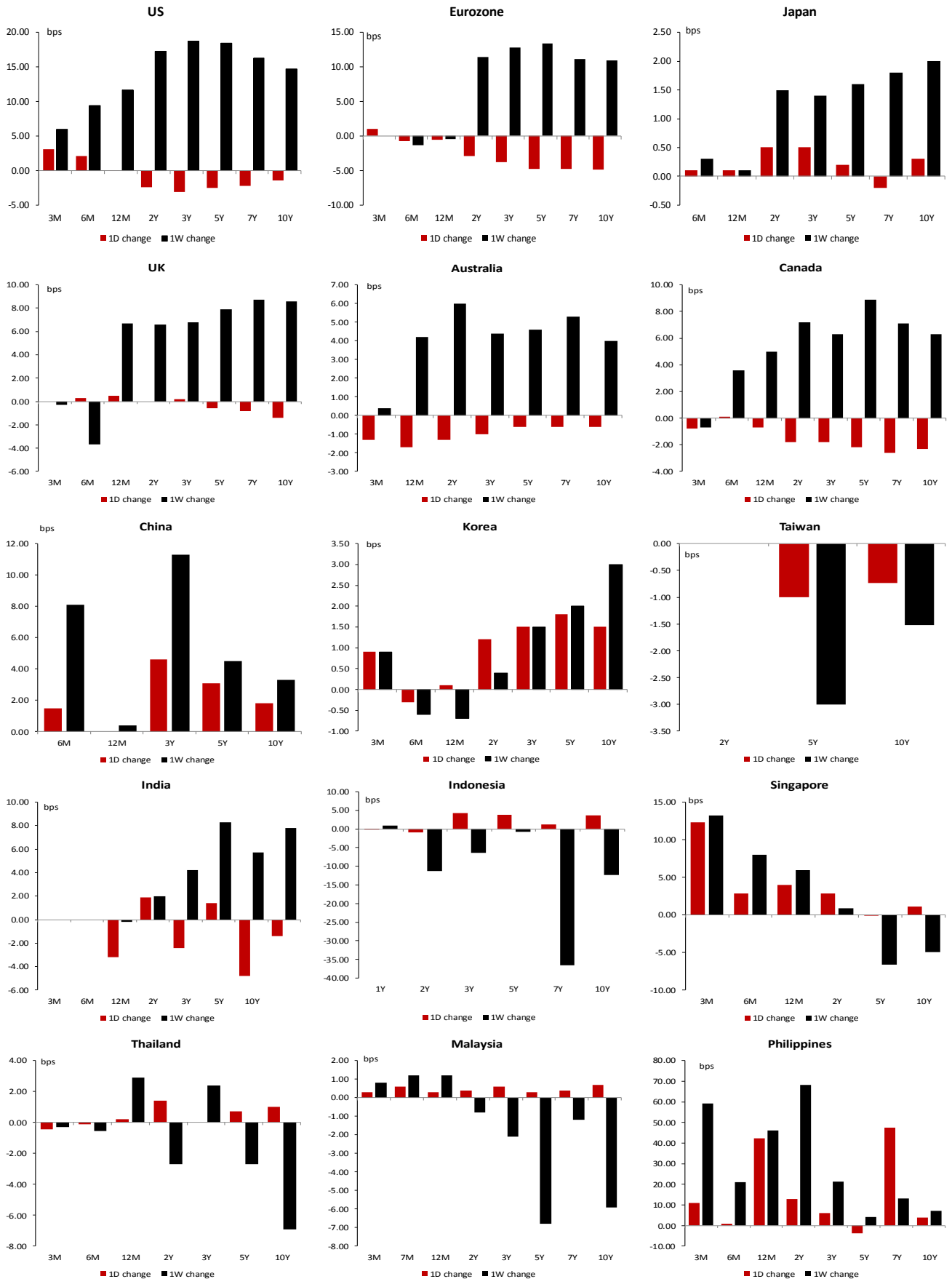
Source: OCBC Bank

### Asia FX Heat Map



Source: OCBC Bank

### Government bond yield changes



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