

Tuesday, August 07, 2018

FX Themes/Strategy/Trading Ideas

- The USD remained on the upper hand in Monday's session, as idiosyncratic continue to pressure other G7 currencies. The DXY index edged close to recent range highs before easing to end the session.
- The GBP was the underperformer overnight. With the Bank of England (BOE) rate hike distraction out of the way, we had mentioned in this space that the 1.3000 handle on the GBP-USD may be vulnerable. Indeed, the pair remains negatively pressured on Brexit headlines after hitting a low of 1.2920. The International Trade Secretary placed a "no-deal" Brexit at 60%, although PM May expectedly played down such suggestions. **At this juncture, continued attention on Brexit will do the GBP no favours.**
- Meanwhile, weaker-than-expected German factory orders and on-going Italian budget concerned weighed on the EUR. Nevertheless, we think the 1.1500 handle remains a firm support for the common currency
- A report on Reuters labelled the recent Bank of Japan (BOJ) policy tweak as a precursor towards policy normalization, citing the preference of the BOJ Board to tighten by the end of this year. **At this juncture, we think any concrete policy move from the BOJ remains unlikely this year. However, we concur that the new flexibility surrounding the "around 0%" yield target lowers the barriers for the BOJ to shift its stance, either stealthily or officially, when the economic conditions turn supportive.**
- **Overall, at current levels, we may want to practice caution in chasing the USD higher. Any reasons to sell the USD may be picked up and gain traction quickly in the immediate horizon.**
- The **Reserve Bank of Australia** (RBA) policy decision is scheduled later today (0430 GMT). We expect them to hold rates unchanged, and also expect few material changes to the statement.
- Apart from the RBA, watch for BOJ Summary of Opinions (2350 GMT) in the central bank calendar. On the data front, watch for German IP (0600 GMT) and UK house prices (0730 GMT).

Treasury Research &
Strategy

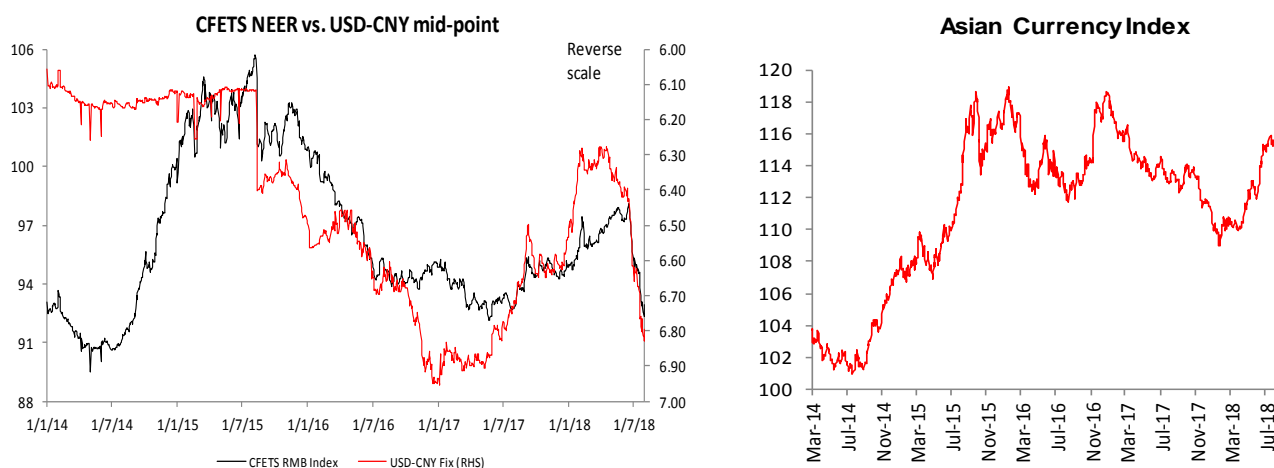
Terence Wu

+65 6530 4367

TerenceWu@ocbc.com

Asian FX

- Firmer US equities and a positive start to Asian markets this morning provided support for risk sentiments. Our **FX Sentiment Index (FXSI)** remains comfortably within the Risk-Neutral zone, while staying closer to the Risk-On threshold rather than the Risk-Off area.
- Note that a senior advisor to the PBoC called the USD-CNY at 7 as a hard to break “psychological barrier”. Couple this with the surprise PBoC measure on Friday, **the case for aggressively adding to USD-CNY longs is growing weaker in the immediate horizon. We continue to expect some consolidation in the RMB complex in the near term, with CNY bears perhaps better off waiting for better entry points.** Longer term moves will still depend on the state of the domestic economy and the Sino-US trade situation.
- In terms of **Asian net portfolio flows**, we continue to see improvement on both aggregate and country-specific terms. Taiwan, India and Indonesia now stand at a small net inflow position on rolling 20D terms, after spending the majority of the year in net outflow territory. The Philippines and Thailand are also effectively on neutral terms. In South Korea, where sustained inflows have been noted throughout this year, we saw inflow momentum rebuild towards higher levels. Only Malaysia remains in noticeable outflow territory, although the moderation of outflows has been a clear trend in the past weeks.
- Overall, **we expect the Asian Currency Index (ACI) to mirror the USD-CNY going forward, especially for the North Asian currencies. Nevertheless, a pause in the up-move in the USD-CNY may give the Asian currencies to strengthen in-line with the improvement in portfolio flow dynamics.**
- Watch for Taiwanese inflation and trade data (0800 GMT) today, and foreign reserves number across a number of Asian economies.
- **SGD NEER:** The SGD NEER eased slightly to +1.06% above its perceived parity level (1.3828) this morning, with the NEER-implied USD-SGD thresholds marginally firmer alongside the broad USD. Intra-day range continues to be bookended by the +0.80% (1.3718) and +1.20% (1.3664) thresholds.
- **CFETS RMB Index:** The USD-CNY mid-point was set lower, within expectations, at 6.8431 compared to 6.8513 on Monday. The CFETS RMB Index firmed marginally to 92.60, compared to 92.39 previously.



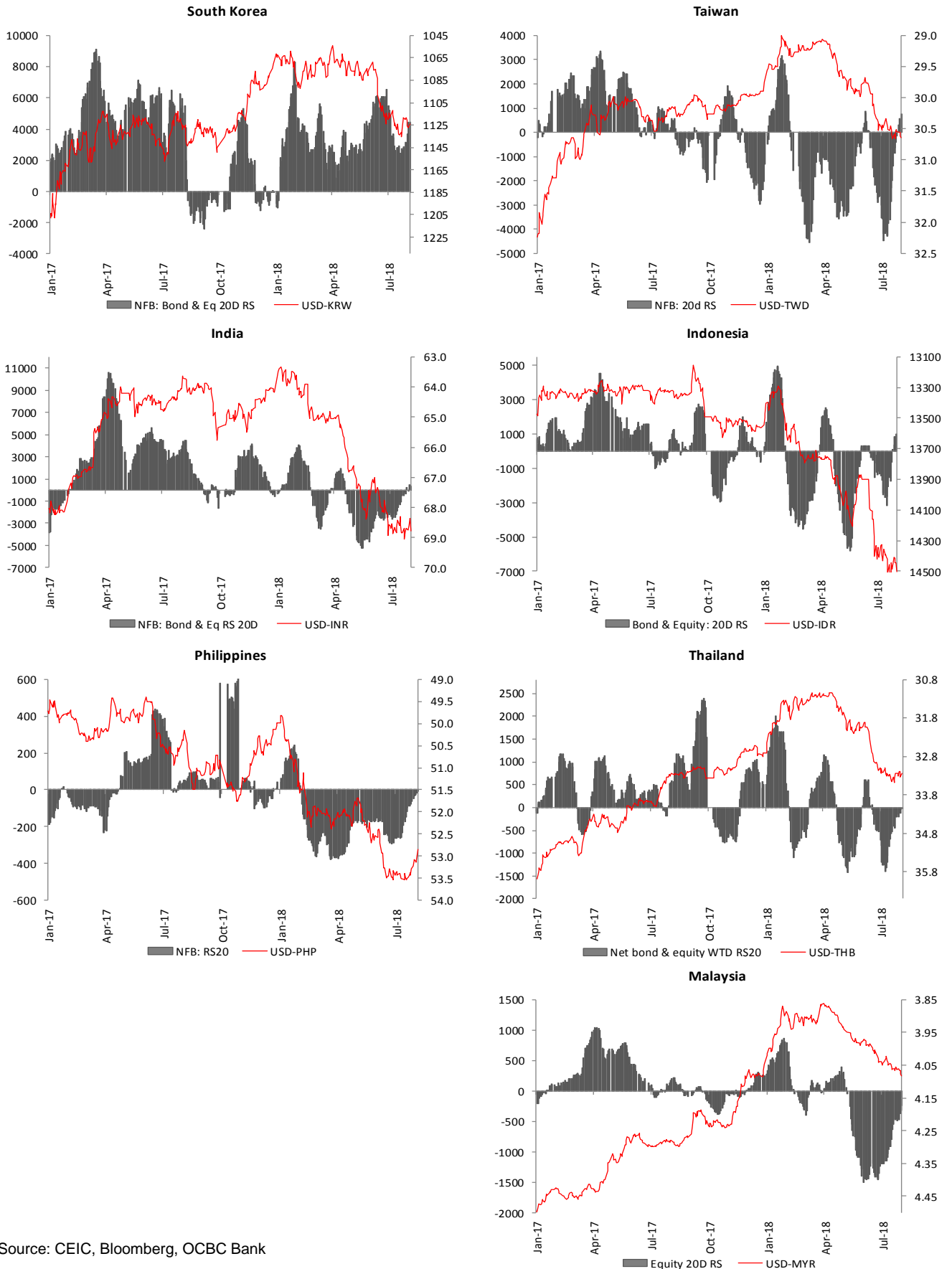
Source: OCBC Bank, Bloomberg

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; PBoC senior advisor labelled the 7 handle as a hard to break "psychological barrier" for the RMB.
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 matrices; 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	↔	Inflation accelerated further; BSP rate hike this week expected, with some expectation for a 50 bps move; Moody's maintain IG rating

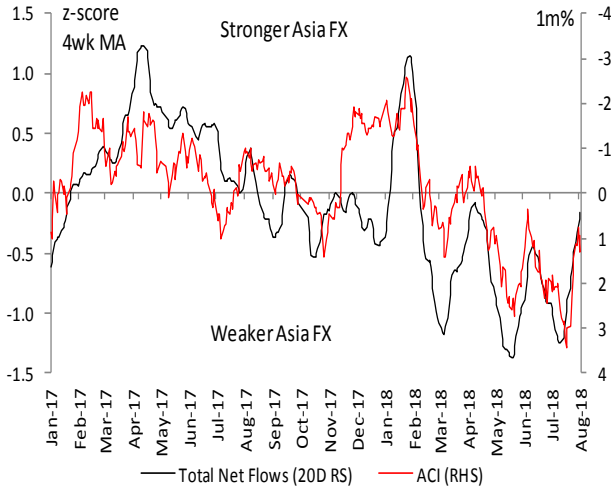
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



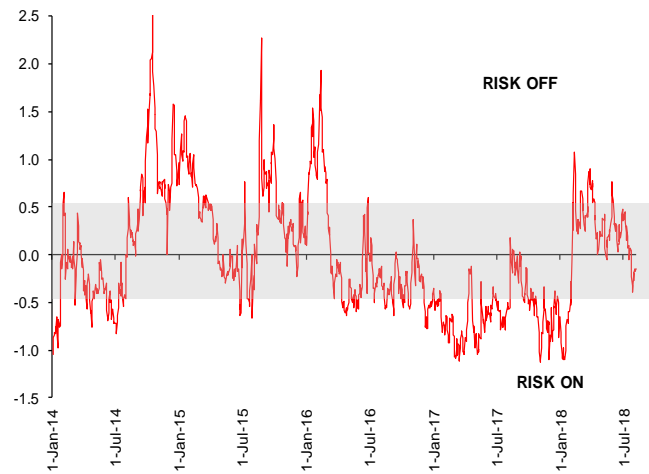
Source: CEIC, Bloomberg, OCBC Bank

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	0.071	0.449	0.437	-0.591	-0.615	0.410	-0.535	-0.526	-0.047	0.587	-0.939
SGD	0.909	-0.007	0.442	0.267	-0.580	-0.675	0.433	-0.506	-0.356	0.002	0.576	-0.790
MYR	0.631	0.670	0.937	0.747	-0.045	-0.446	-0.090	-0.699	-0.333	-0.526	0.941	-0.729
CNH	0.587	0.780	0.982	0.693	0.044	-0.346	-0.246	-0.658	-0.144	-0.594	1.000	-0.709
CHF	0.574	-0.598	-0.321	-0.067	-0.442	-0.467	0.773	-0.135	-0.429	0.284	-0.203	-0.365
CNY	0.449	0.828	1.000	0.714	0.144	-0.308	-0.274	-0.670	-0.120	-0.648	0.982	-0.594
TWD	0.416	0.564	0.812	0.585	0.031	-0.533	-0.073	-0.693	-0.184	-0.471	0.806	-0.439
IDR	0.413	0.592	0.790	0.638	-0.009	-0.349	-0.269	-0.542	-0.290	-0.359	0.802	-0.465
JPY	0.410	-0.556	-0.274	-0.252	-0.421	-0.669	1.000	-0.289	-0.116	0.158	-0.246	-0.129
KRW	0.391	-0.047	0.258	0.204	-0.269	-0.694	0.339	-0.515	-0.239	-0.030	0.285	-0.203
THB	0.351	0.109	0.402	0.256	-0.126	-0.439	0.053	-0.420	-0.266	-0.123	0.442	-0.238
USGG10	0.071	1.000	0.828	0.657	0.417	0.009	-0.556	-0.495	0.002	-0.707	0.780	-0.299
INR	0.018	-0.053	0.127	0.048	-0.150	0.131	-0.358	0.204	-0.014	0.253	0.144	0.027
CAD	-0.071	-0.749	-0.559	-0.598	-0.287	-0.318	0.556	0.162	0.149	0.437	-0.541	0.371
PHP	-0.331	-0.653	-0.676	-0.583	0.044	-0.072	0.303	0.289	0.232	0.293	-0.639	0.572
AUD	-0.766	-0.149	-0.465	-0.130	0.438	0.635	-0.364	0.553	0.020	0.140	-0.591	0.675
GBP	-0.855	-0.433	-0.789	-0.658	0.345	0.441	-0.007	0.563	0.421	0.298	-0.835	0.888
NZD	-0.880	0.068	-0.310	-0.220	0.618	0.580	-0.353	0.423	0.390	-0.115	-0.470	0.838
EUR	-0.939	-0.299	-0.594	-0.598	0.485	0.418	-0.129	0.495	0.542	0.145	-0.709	1.000

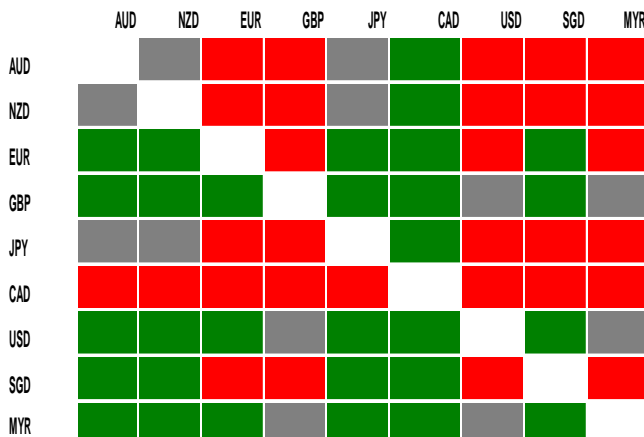
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1527	1.1553	1.1557	1.1600	1.1670
GBP-USD	1.2920	1.2938	1.2941	1.3000	1.3206
AUD-USD	0.7311	0.7353	0.7392	0.7400	0.7446
NZD-USD	0.6700	0.6720	0.6727	0.6800	0.6839
USD-CAD	1.2933	1.2968	1.2994	1.3000	1.3108
USD-JPY	110.81	111.00	111.33	112.00	112.97
USD-SGD	1.3584	1.3600	1.3682	1.3700	1.3702
EUR-SGD	1.5800	1.5801	1.5813	1.5829	1.5900
JPY-SGD	1.2200	1.2242	1.2290	1.2300	1.2340
GBP-SGD	1.7695	1.7700	1.7707	1.7800	1.7911
AUD-SGD	1.0098	1.0100	1.0113	1.0139	1.0156
Gold	1204.15	1205.10	1207.80	1247.64	1256.60
Silver	15.22	15.30	15.34	15.40	15.81
Crude	68.82	69.00	69.08	69.10	70.97

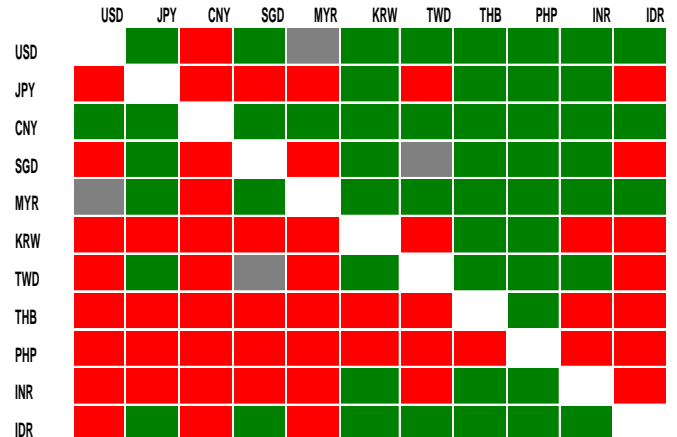
Source: OCBC Bank

G10 FX Heat Map



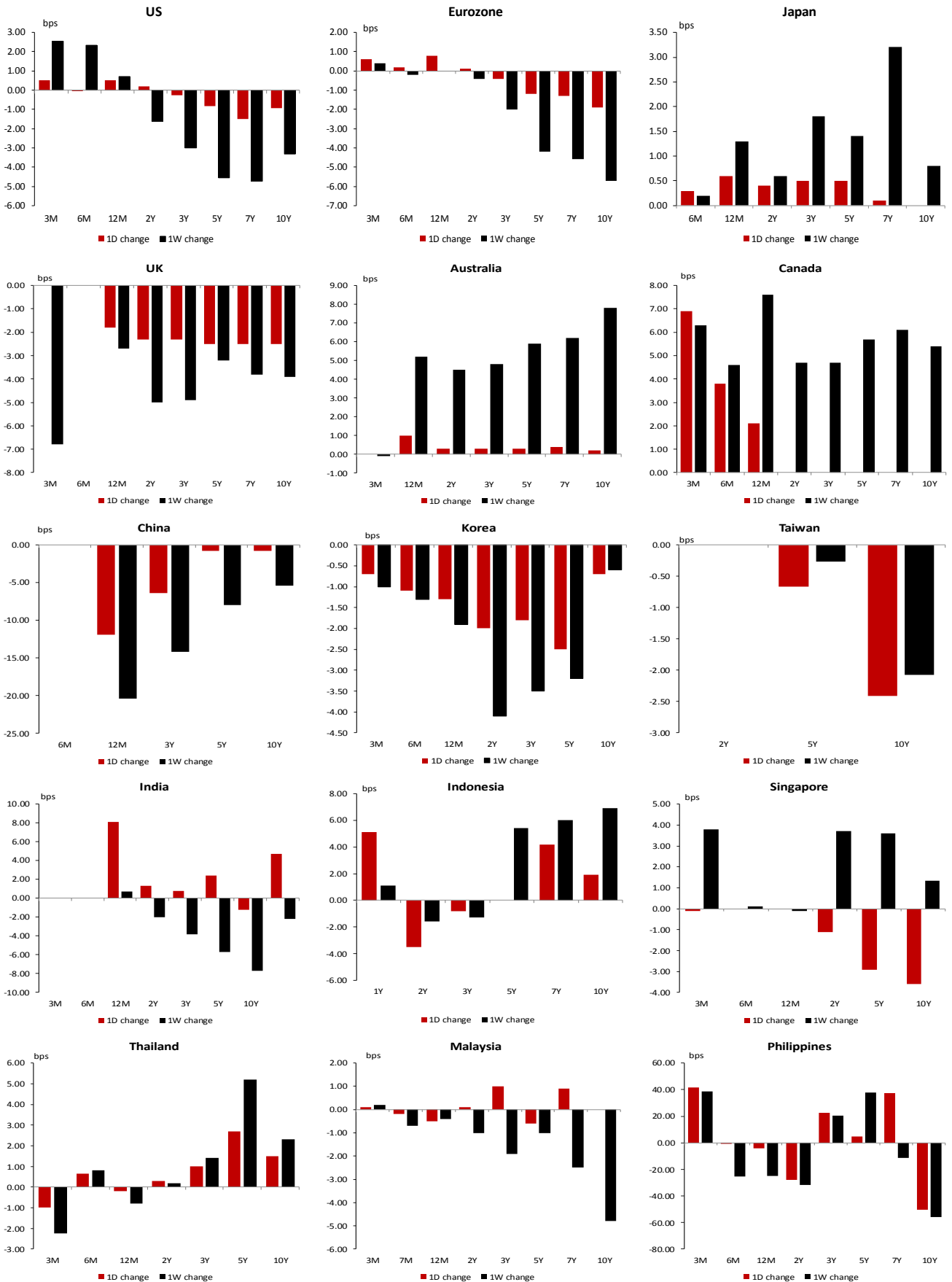
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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