

Thursday, June 07, 2018

FX Themes/Strategy/Trading Ideas

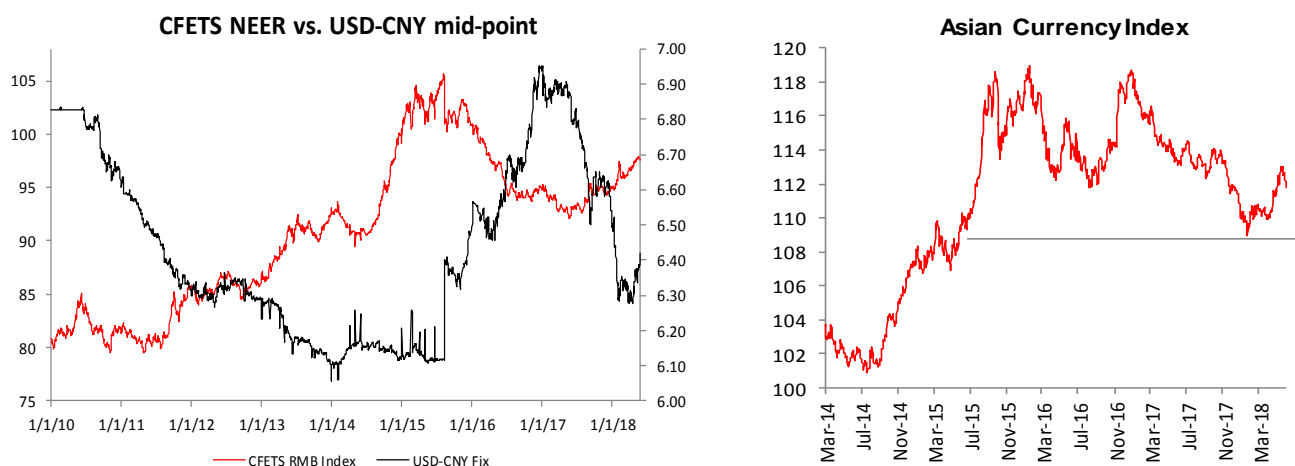
- Risk positive sentiments continued to buoy the market, this time sparked by upbeat comments from the **European Central Bank** (ECB). The USD weakened against all G10 peers, with the exception of the havens, JPY and CHF. The AUD was further buoyed by a strong-than-expected 1Q GDP print. The EUR was the other significant mover, closing in on 1.1800 before closing near 1.1780.
- Upbeat comments from Weidmann and Praet did nothing to dispel unconfirmed reports that the ECB will start discussions on the taper next week. **Growing expectations for a less accommodative ECB statement, and the unwinding of EUR shorts should support the common currency at least until the policy meeting next week.**
- Note that this round of hawkish ECB comments came at a time when the Fed is in its blackout period. Recall that Fed speakers were less-than-hawkish, and effectively non-committal towards a potential fourth rate hike in 2018. Essentially, we are seeing a shift in the pace of normalization from the ECB (note that market expectations for the taper discussion may have been pushed back as a result of the slowdown in economic momentum in 1Q2018), at a time when the Fed expectations are largely static.
- This reminds us of the situation at the start of the year, when the Fed is thought to be static on its rate hike path compared to other central banks picking up the pace of normalization. Recall that this is the foundation of the USD-weakness thesis then. We think the ball is now firmly in the Fed's court. If it continues to waver in terms of its rate hike path, the broad USD may be pressured negatively over the near term.
- Central bank speak will wind down until next week as the ECB also enters its blackout period. **With sentiments still buoyant, expect risk-on-risk-off dynamics to drive markets into the end of the week. Stay constructive on the EUR on a tactical perspective.**

Treasury Research &
Strategy

Terence Wu
+65 6530 4367
TerenceWu@ocbc.com

Asian FX

- With the market committed to focusing on the positives, risk sentiments should continue to be buoyant into the end of the week. In this context, our **FX Sentiment Index (FXSI)** ticked lower within the Risk Neutral zone. Note upcoming G7 meeting as a risk event on the trade front.
- With the exception of the BRL, EM FX was largely firmer against the USD overnight. A positive session for US/EZ equities, and a good start for Asian bourses also portend well for the Asian currencies. In this context, the **Asian Currency Index (ACI)** should remain flat to heavy into the end of the week.
- In terms of **Asian net portfolio flows**, we continue to see improvements in most Asian countries. Inflow momentum into Taiwan and Thailand picked up further, supported by equity and bond inflows respectively. Consistent compression of outflows continues to be the trend in India.
- **India:** The Reserve Bank of India (RBI) raised its policy rates by 25 bps to 6.25% in a unanimous decision. It appears that the higher inflation prints were at (or at least near) the top of the policymakers' minds. It is unlikely that this will be a "one and done" hike, and another hike in the near term may be possible, depending on upcoming inflation prints. Despite an official neutral stance, we expect the RBI to adopt a slightly hawkish tilt going forward. In this context, expect government bonds to be negatively pressured.
- **Indonesia:** The BI governor reiterated IDR stability as the policy priority, and his view that the IDR can continue to appreciate on the back of improving fund inflows. He further signaled that more hikes may be in store.
- **SGD NEER:** The SGD NEER stands at around +0.84% above its perceived parity (1.3428). The NEER-implied USD-SGD thresholds were lower. Expect the USD-SGD to ply the +0.60% (1.3348) and the +0.90% (1.3308) thresholds intra-day. Expect the pair to be heavy amidst broad USD weakness, watch support levels at 1.3300, before 1.3280.
- **CFETS RMB Index:** The USD-CNY mid-point was set lower again this morning, within expectations, at 6.3919 compared to 6.4040 on Wednesday. As a result, the CFETS RMB Index was slightly firmer at 97.37, compared to 97.34 previously.



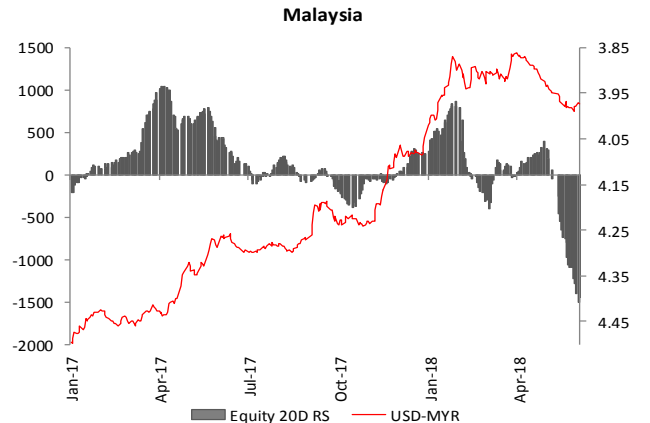
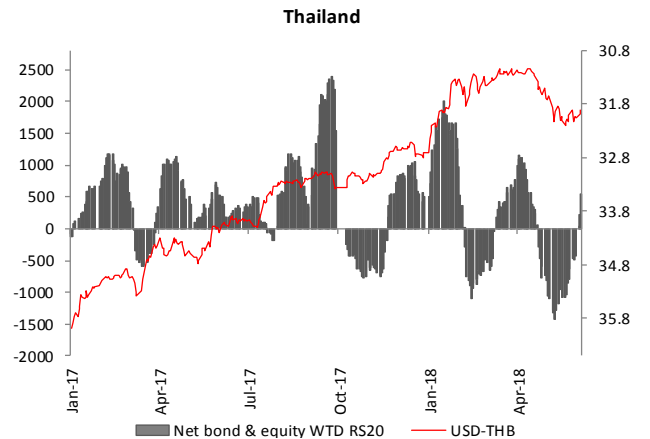
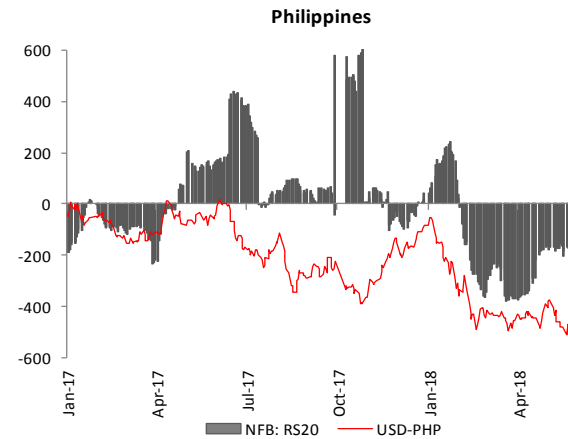
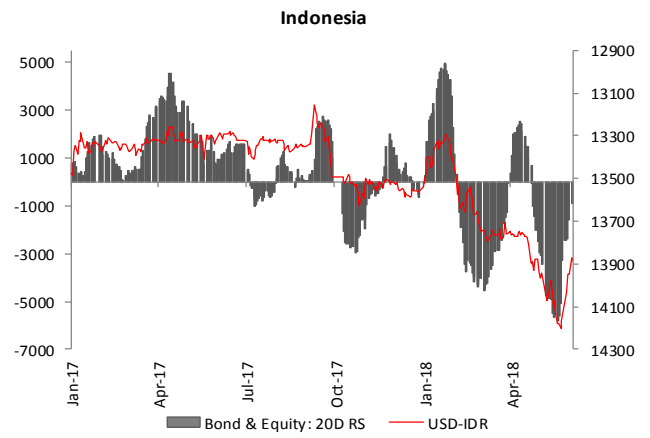
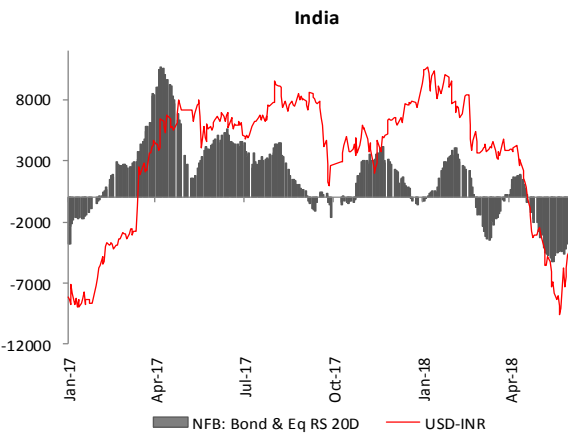
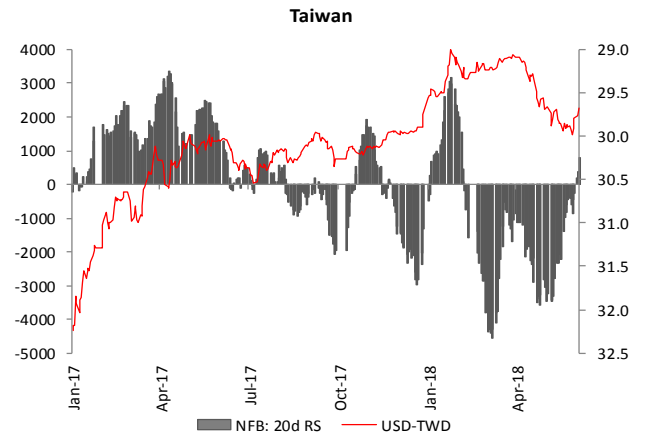
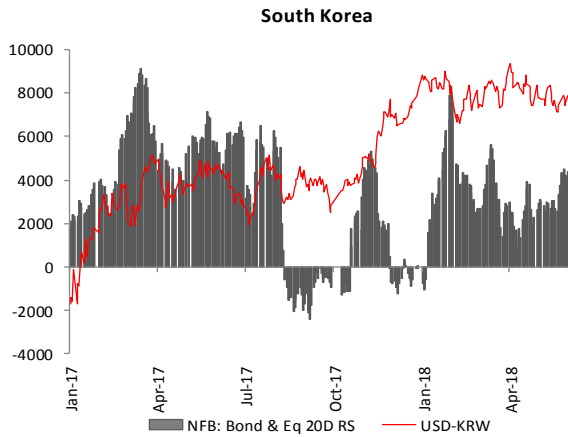
Source: OCBC Bank, Bloomberg

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	↔	RBI hiked rates by 25 bps in its June meeting as expected; net portfolio outflows moderating; lower crude price may provide some reprieve;
USD-SGD	↔	SGD NEER should be capped below +1.00% 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 flipped into a net inflow situation;
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

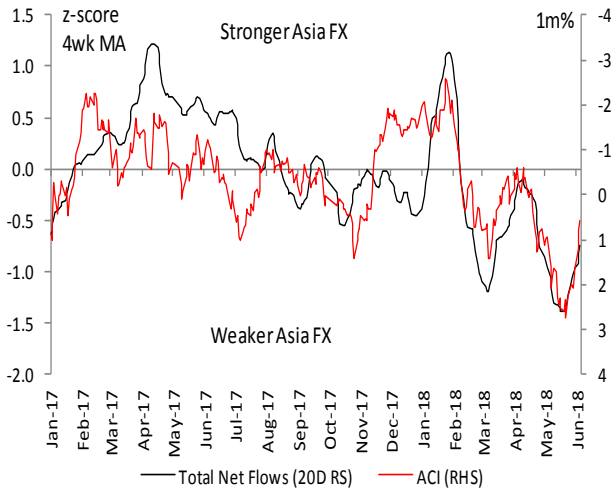
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



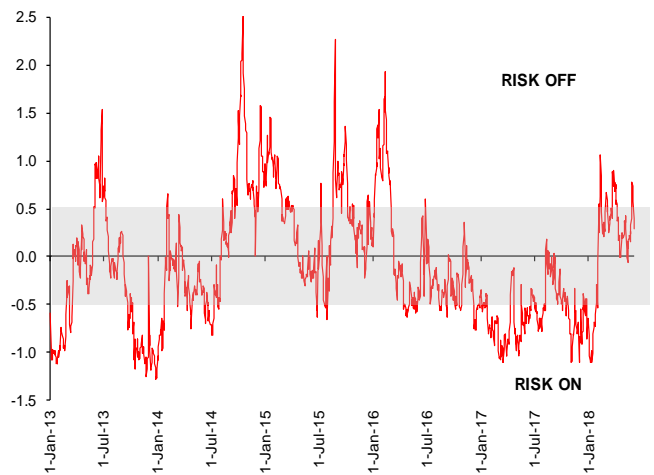
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXXE	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

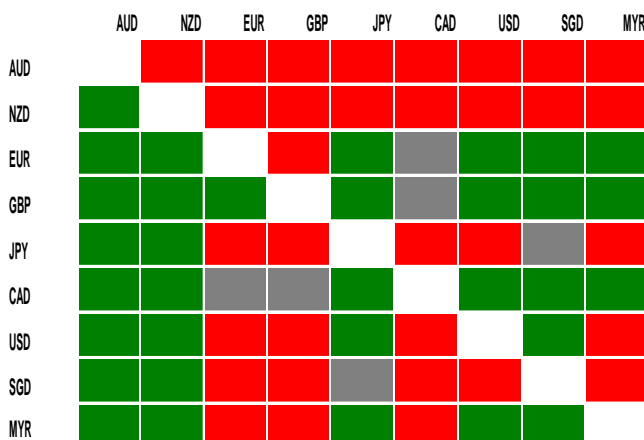
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1554	1.1700	1.1792	1.1800	1.1935
GBP-USD	1.3222	1.3400	1.3428	1.3500	1.3579
AUD-USD	0.7600	0.7606	0.7652	0.7665	0.7677
NZD-USD	0.6851	0.7000	0.7043	0.7057	0.7087
USD-CAD	1.2819	1.2900	1.2947	1.3000	1.3039
USD-JPY	108.78	109.00	109.94	110.00	110.21
USD-SGD	1.3285	1.3300	1.3317	1.3318	1.3361
EUR-SGD	1.5502	1.5700	1.5703	1.5800	1.5950
JPY-SGD	1.2047	1.2100	1.2113	1.2126	1.2200
GBP-SGD	1.7750	1.7800	1.7881	1.7900	1.8157
AUD-SGD	1.0100	1.0104	1.0190	1.0200	1.0226
Gold	1279.23	1281.20	1297.10	1300.00	1306.93
Silver	16.52	16.60	16.69	16.70	16.75
Crude	64.22	65.00	65.03	65.10	67.75

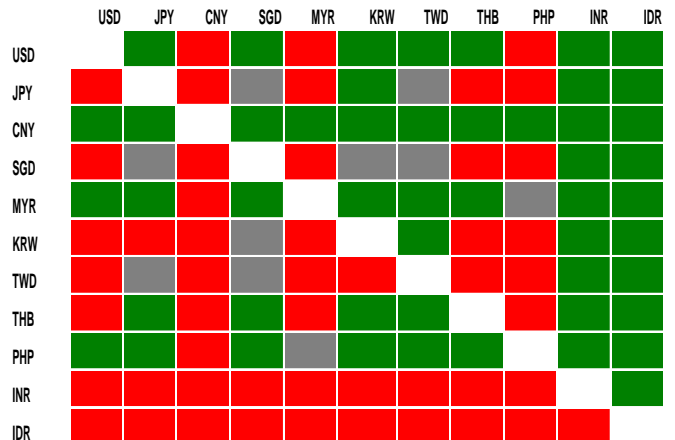
Source: OCBC Bank

G10 FX Heat Map



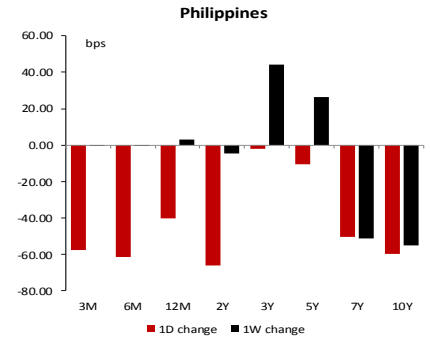
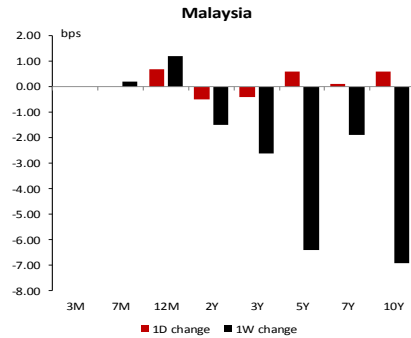
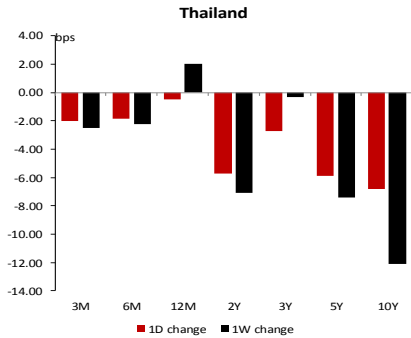
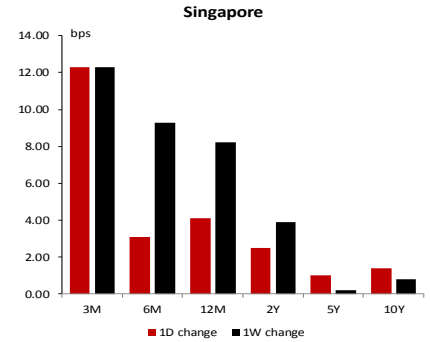
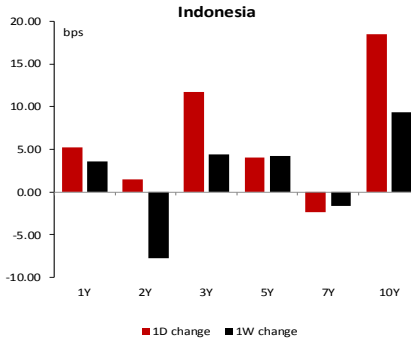
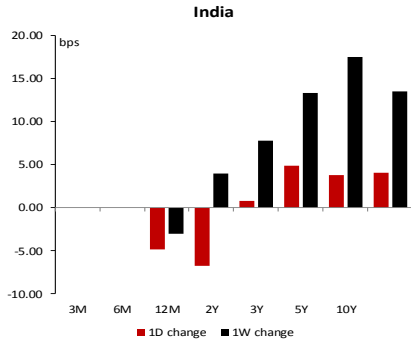
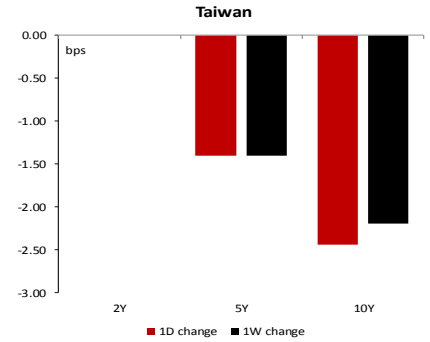
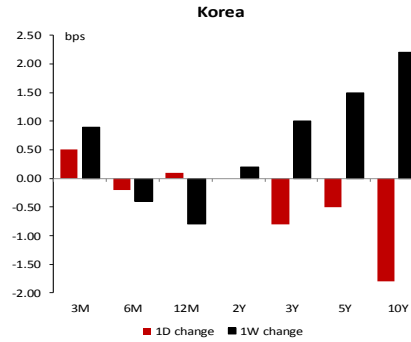
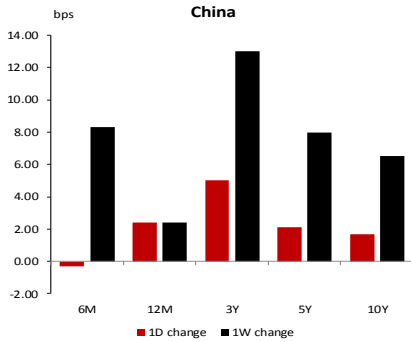
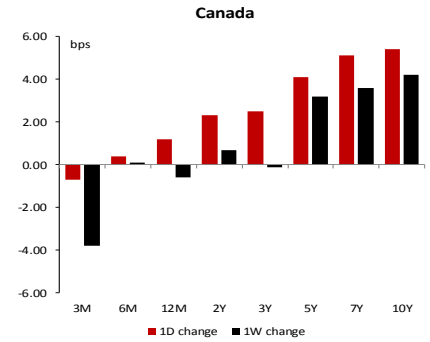
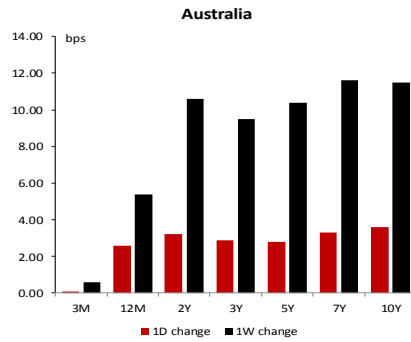
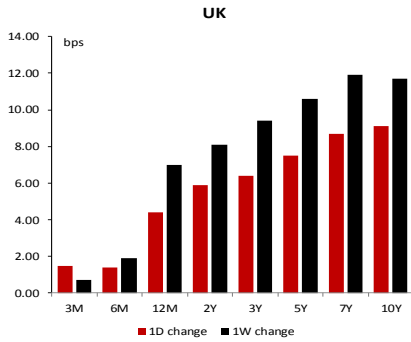
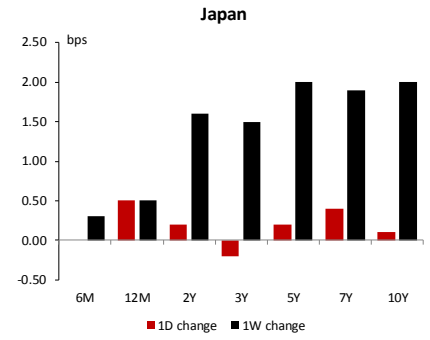
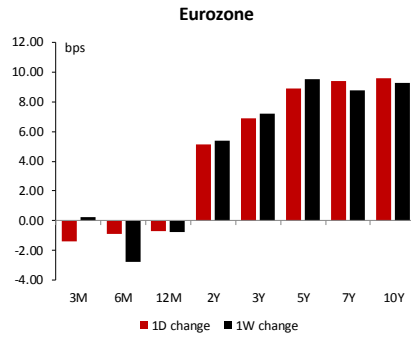
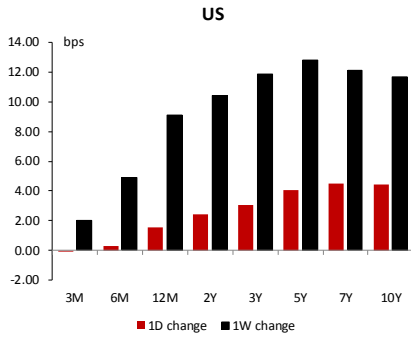
Source: OCBC Bank

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).
