

Friday, June 08, 2018

FX Themes/Strategy/Trading Ideas

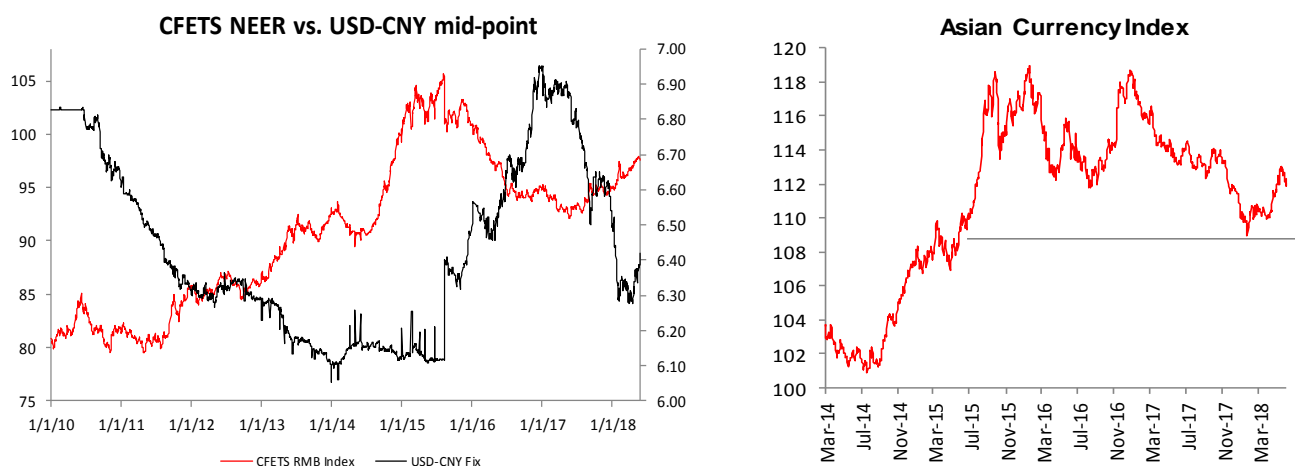
- Slight caution appears to be creeping back into markets late London and into the NY session. Cyclical underperformance amid the risk-off climate. The EUR was dragged lower towards the 1.1800 handle, after hitting a high of 1.1840. Meanwhile, the DXY index bounced at 93.20, before closing at 93.42.
- Some unease emerged over the EM FX space, led by sharp declines in the ZAR and BRL overnight. Some consolidation, though, was seen in the TRY. Nevertheless, some near-term contagion effects may be detected, with implied vols for G10 and Asian pairs moving higher.
- The upcoming G7 summit has been cited previously as a risk event on the trade front, and the markets appear to be (finally) taking notice. Note that the signs heading into the summit are less than positive, with Trump unlikely to make concessions on trade, and the European leaders considering reciprocal actions.
- **If trade tensions escalate over the weekend, expect the markets to revert to a risk-off mood next week, perhaps leading to some support to the JPY, CHF and USD. On the other hand, if trade issues are averted, the markets may continue to ponder over the relative stances of the Fed and the ECB, and therefore, remain nimble pending further clarity from the meetings.**
- For the AUD-USD, note that our implied valuations for the pair have remained essentially static over the recent run-up from 0.7500 to 0.7650. As such, the pair is pushing the top end of the confidence interval in the implied valuations. Note also, that the **Reserve Bank of Australia (RBA)** is a relative laggard in the path towards normalization amongst the G10 central banks. **Remain cautious, as the AUD-USD may be hit if risk sentiments sink next week.**
- The data calendar is light in the US, but watch for industrial production prints in Germany (0600 GMT) and France (0645 GMT). **Bank of England's (BOE)** Ramsden noted early signs of a recovery in 2Q, after the 1Q slowdown proved to be temporary. Going forward, expect the BOE to remain static in June, although the August meeting may increasingly be live again.

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Asian FX

- A mixed session in US/EZ equities, and EM FX weakness overnight cast a dreary tone over risk sentiments. However, our **FX Sentiment Index (FXSI)** continued to edge lower within the **Risk Neutral** zone. Eyes will be on the G7 summit later today. Any re-emergence of trade tensions to the forefront of attention may impinge on risk sentiments next week.
- Short-end EM Asia FX vols are easing off relative to the G7 counterparts, after spiking higher in relative terms in the middle of May. This corresponds to the period where risk events shifted towards Europe and other DM countries. Moving forward however, watch for EM Asia vols to pick up again if trade issues re-assert.
- **Asian net portfolio flows** continues to improve overall. Latest data prints show an uptick in inflow momentum into South Korea, with improvements seen in both the equity and bond space. Equity inflow momentum also picked up in Taiwan. In South Asia, compression of outflows continues apace for India and Indonesia.
- With risk sentiments consolidating, expect the **Asian Currency Index (ACI)** may be pressured higher. However, improving flow environment may cap the altitude of near term up moves.
- **India:** Benchmark 10y government bond yield reached levels just shy of 8.00%. Note that regulatory changes by the Reserve Bank of India (RBI) may further reduce demand for government bonds, further exacerbating the demand-supply mismatch. With the RBI likely to be on a new rate hike cycle, govies may continue to be pressured lower.
- **SGD NEER:** The SGD NEER is softer this morning at +0.78% above its perceived parity (1.3448). The NEER-implied USD-SGD thresholds are firmer, following the retracement of the broad USD higher. We continue to expect an intra-day range between the +0.60% (1.3368) and the +0.90% (1.3328) thresholds.
- **CFETS RMB Index:** The USD-CNY mid-point was set at 6.4003 compared to 6.3919 on Thursday, rising more than expected. The CFETS RMB Index was slightly weaker at 97.30, compared to 97.37 previously. Note that the mid-point fixing has appeared to revert back to the unbiased model.



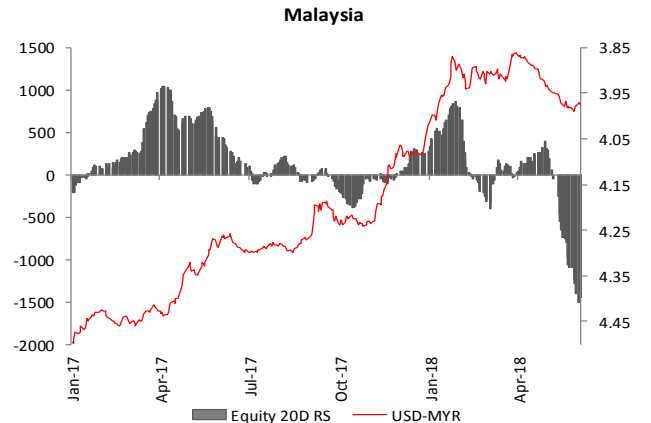
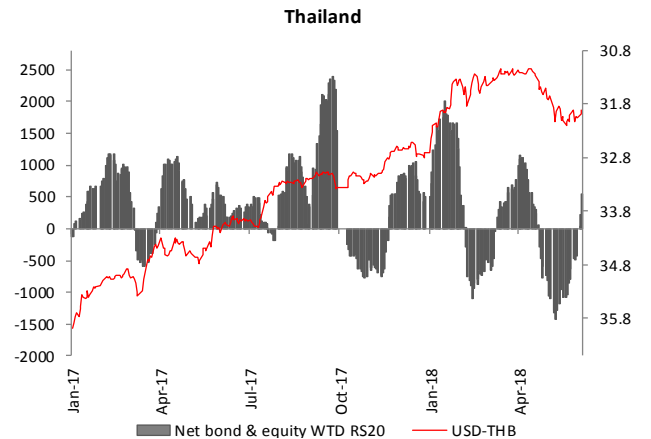
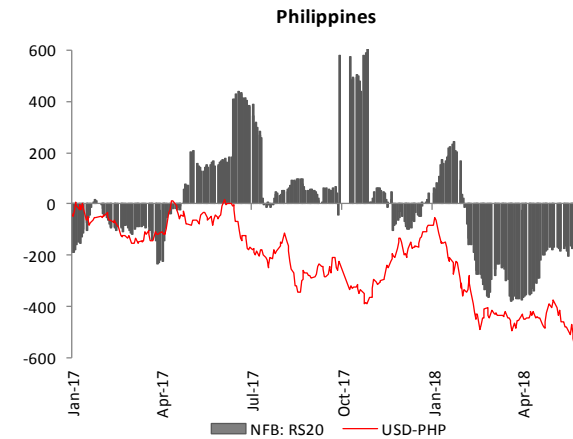
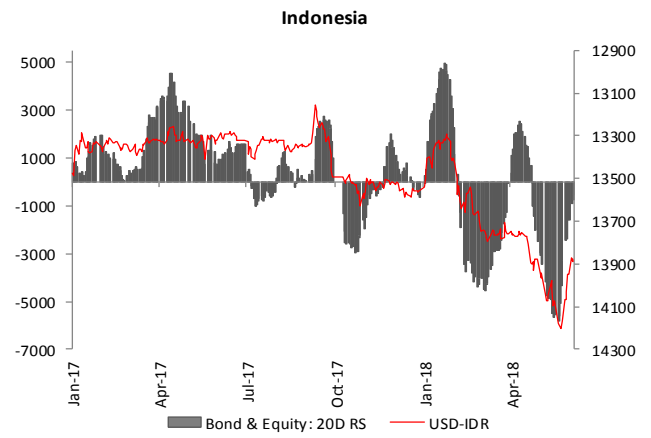
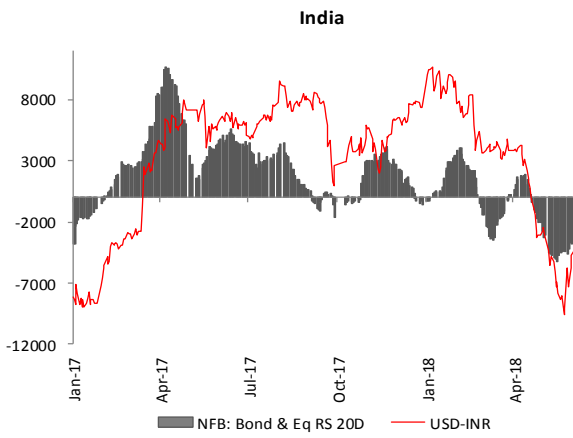
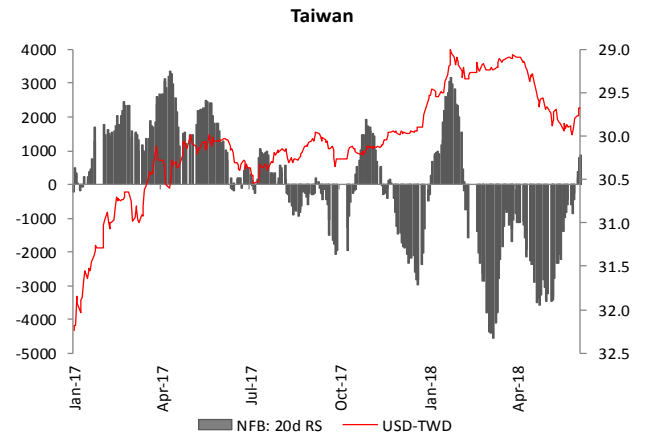
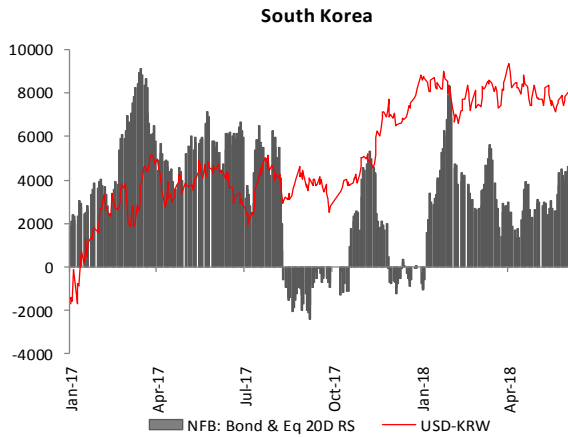
Source: OCBC Bank, Bloomberg

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 reverted to being consistent with unbiased 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 |

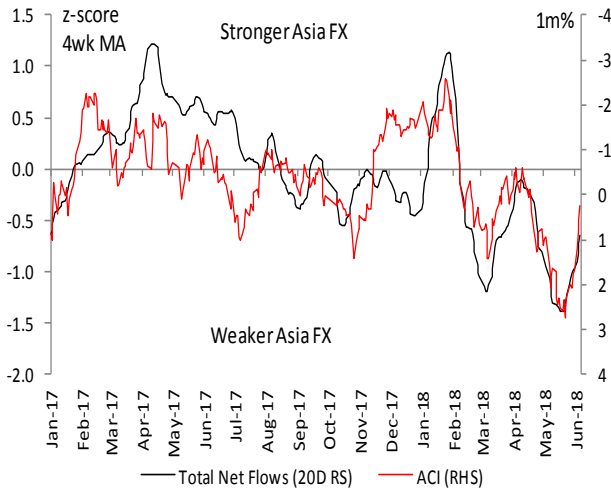
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



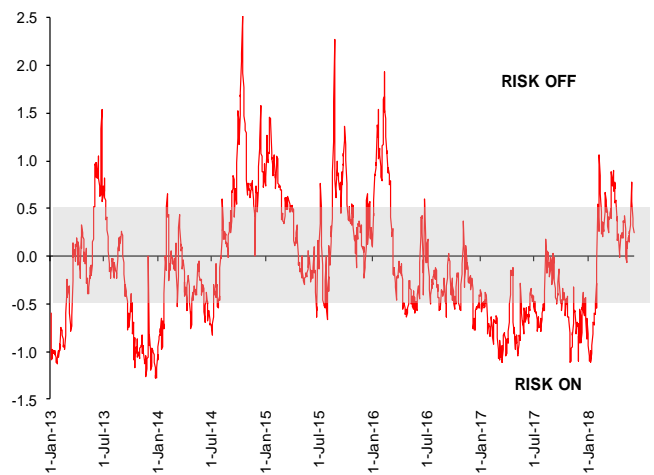
Source: CEIC, Bloomberg, OCBC Bank

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 | -0.520 | 0.890 | 0.022 | -0.494 | -0.199 | -0.199 | -0.496 | 0.359 | 0.792 | 0.869 | -0.991 |
| CNY | 0.890 | -0.620 | 1.000 | 0.124 | -0.507 | -0.438 | -0.290 | -0.687 | 0.345 | 0.862 | 0.952 | -0.887 |
| CNH | 0.869 | -0.729 | 0.952 | 0.053 | -0.463 | -0.512 | -0.455 | -0.766 | 0.384 | 0.884 | 1.000 | -0.868 |
| MYR | 0.850 | -0.481 | 0.716 | 0.397 | -0.458 | 0.048 | -0.192 | -0.256 | -0.138 | 0.737 | 0.621 | -0.849 |
| PHP | 0.826 | -0.459 | 0.760 | 0.369 | -0.203 | -0.185 | -0.166 | -0.467 | 0.083 | 0.741 | 0.734 | -0.823 |
| CAD | 0.670 | -0.684 | 0.723 | 0.015 | -0.165 | -0.684 | -0.492 | -0.841 | 0.285 | 0.765 | 0.843 | -0.643 |
| TWD | 0.561 | -0.165 | 0.406 | -0.414 | -0.783 | 0.541 | -0.066 | 0.287 | 0.521 | 0.277 | 0.310 | -0.570 |
| KRW | 0.332 | 0.210 | 0.213 | -0.365 | -0.627 | 0.575 | 0.269 | 0.394 | 0.247 | 0.040 | 0.086 | -0.296 |
| AUD | 0.302 | -0.265 | 0.400 | 0.861 | 0.236 | -0.458 | 0.043 | -0.618 | -0.533 | 0.507 | 0.351 | -0.256 |
| SGD | 0.274 | 0.134 | 0.060 | -0.707 | -0.476 | 0.502 | 0.080 | 0.515 | 0.549 | -0.148 | 0.045 | -0.285 |
| THB | 0.258 | 0.355 | 0.165 | -0.158 | 0.165 | -0.158 | 0.474 | 0.453 | 0.122 | -0.076 | -0.037 | -0.216 |
| INR | 0.164 | 0.383 | -0.116 | -0.228 | -0.160 | 0.771 | 0.377 | 0.671 | 0.129 | -0.241 | -0.188 | -0.141 |
| IDR | 0.052 | 0.559 | -0.268 | -0.458 | -0.324 | 0.864 | 0.424 | 0.824 | 0.111 | -0.482 | -0.407 | -0.018 |
| NZD | 0.032 | -0.477 | 0.315 | 0.461 | 0.048 | -0.652 | -0.318 | -0.721 | -0.308 | 0.438 | 0.356 | -0.016 |
| JPY | -0.199 | 0.848 | -0.290 | 0.273 | 0.406 | 0.252 | 1.000 | 0.456 | -0.439 | -0.498 | -0.455 | 0.291 |
| USGG10 | -0.520 | 1.000 | -0.620 | 0.026 | 0.403 | 0.427 | 0.848 | 0.700 | -0.428 | -0.813 | -0.729 | 0.589 |
| CHF | -0.605 | 0.607 | -0.734 | -0.571 | 0.044 | 0.581 | 0.264 | 0.814 | 0.112 | -0.843 | -0.726 | 0.536 |
| GBP | -0.923 | 0.696 | -0.875 | -0.155 | 0.217 | 0.391 | 0.563 | -0.307 | -0.871 | -0.856 | 0.936 | |
| EUR | -0.991 | 0.589 | -0.887 | -0.002 | 0.532 | 0.196 | 0.291 | 0.484 | -0.390 | -0.814 | -0.868 | 1.000 |

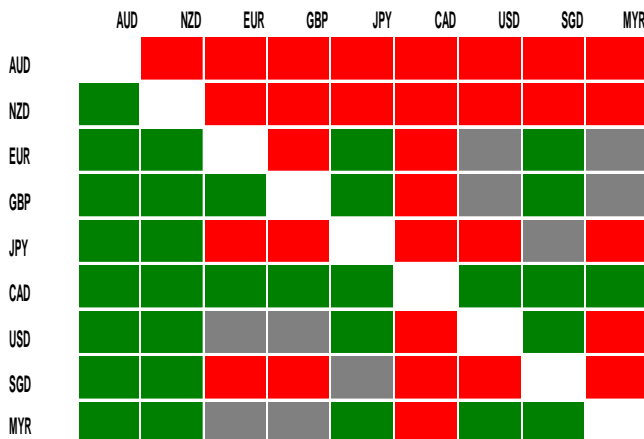
Source: Bloomberg

Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1567 | 1.1700 | 1.1794 | 1.1800 | 1.1907 |
| GBP-USD | 1.3227 | 1.3400 | 1.3419 | 1.3500 | 1.3560 |
| AUD-USD | 0.7600 | 0.7604 | 0.7616 | 0.7665 | 0.7677 |
| NZD-USD | 0.6851 | 0.7000 | 0.7019 | 0.7060 | 0.7082 |
| USD-CAD | 1.2822 | 1.2900 | 1.2978 | 1.3000 | 1.3049 |
| USD-JPY | 108.84 | 109.00 | 109.69 | 110.00 | 110.20 |
| USD-SGD | 1.3300 | 1.3319 | 1.3344 | 1.3360 | 1.3400 |
| EUR-SGD | 1.5508 | 1.5700 | 1.5738 | 1.5800 | 1.5931 |
| JPY-SGD | 1.2100 | 1.2126 | 1.2165 | 1.2200 | 1.2211 |
| GBP-SGD | 1.7750 | 1.7900 | 1.7906 | 1.8000 | 1.8158 |
| AUD-SGD | 1.0100 | 1.0105 | 1.0162 | 1.0200 | 1.0225 |
| Gold | 1279.39 | 1281.20 | 1298.70 | 1300.00 | 1306.97 |
| Silver | 16.53 | 16.70 | 16.75 | 16.75 | 16.80 |
| Crude | 64.22 | 66.10 | 66.15 | 66.20 | 67.81 |

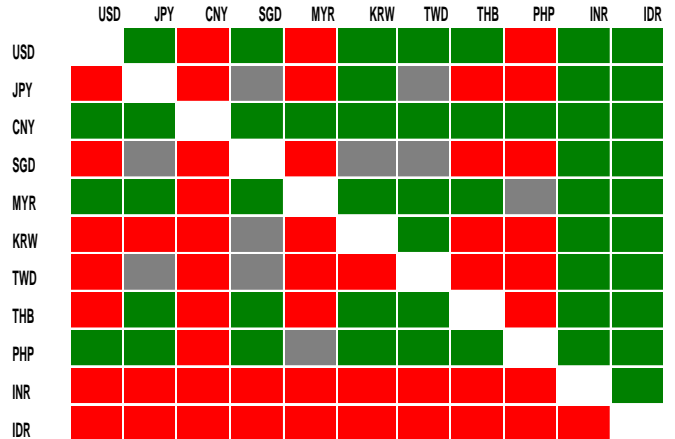
Source: OCBC Bank

G10 FX Heat Map



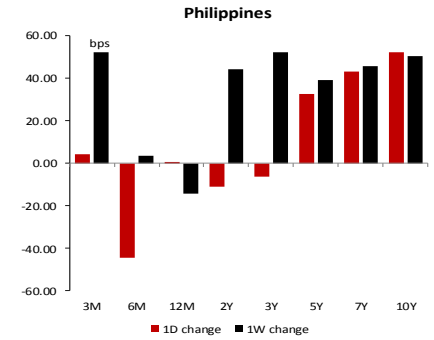
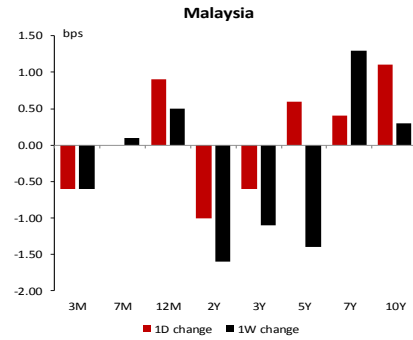
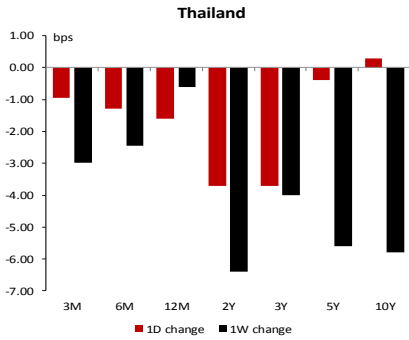
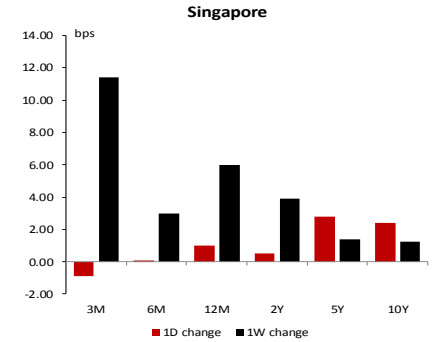
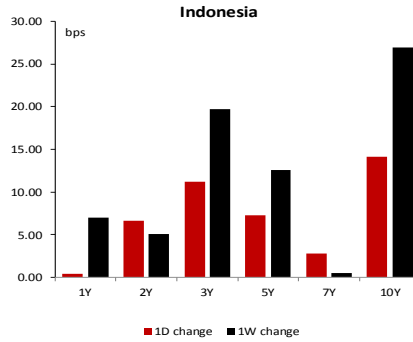
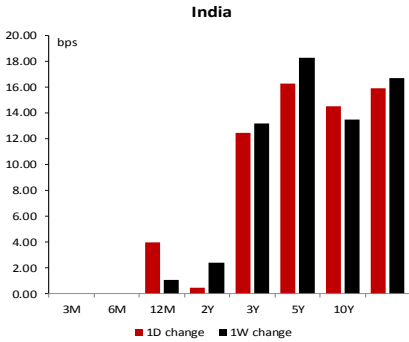
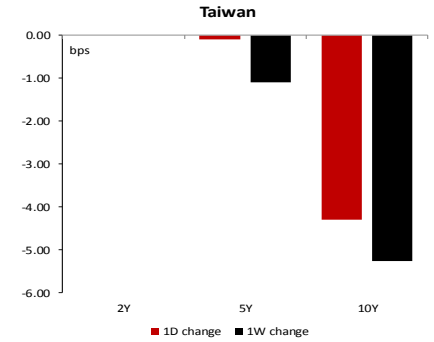
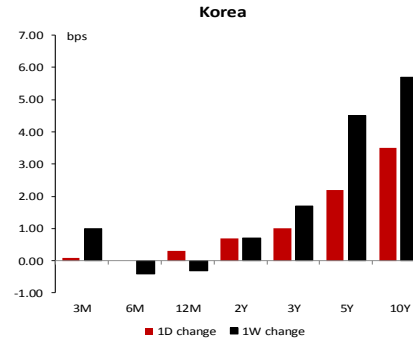
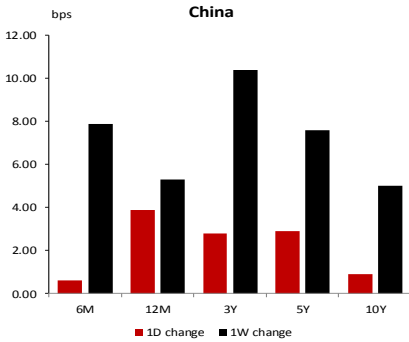
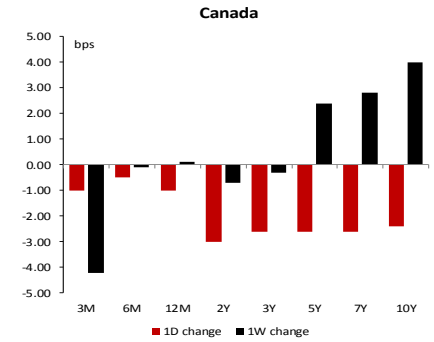
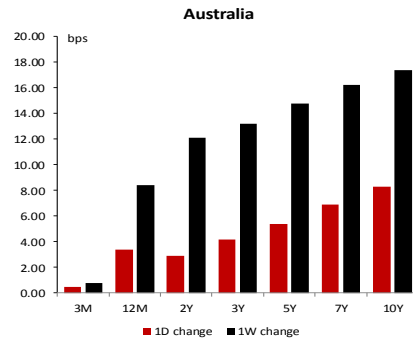
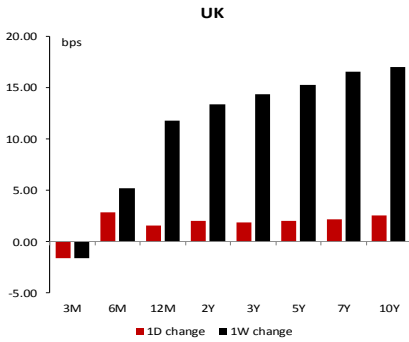
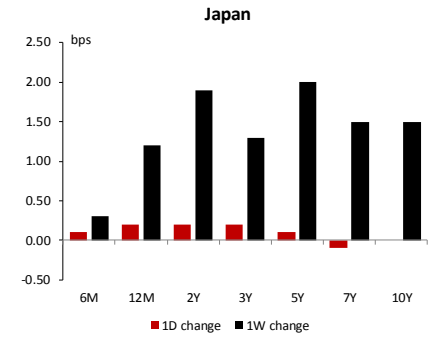
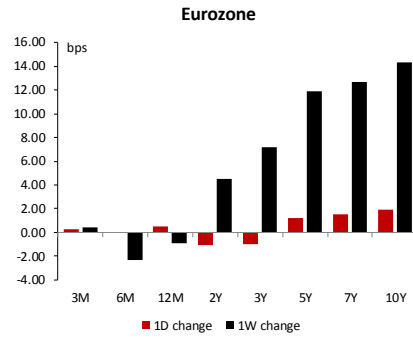
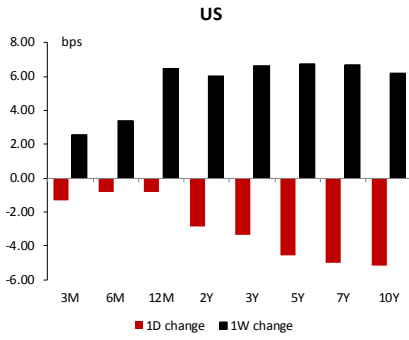
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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