

Monday, July 09, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- Despite the US non-farm payrolls coming in above expectations on Friday, the focus was on the misses in the average hourly earnings and unemployment rate. The DXY slipped below the recent range low of 94.20 on Friday, to settle near the 94.00 level.
- This week, keep an eye on the trade front. At this juncture, **we expect further exchange of barbs, but concrete moves to expand the tariffs beyond the initial US\$50bn (tariffs imposed on the first US\$34bn) worth of imports are not in our base case.** We note that Trump may already be seeing a domestic push-back regarding the tariffs. This may put a cap on the trade tensions in the near-term.
- The second area worth noting is the returning USD weakness. **The positive momentum for the USD afforded by the post the June Fed and ECB meetings is finally exhausted,** and we expect the DXY index to move lower this week. **We prefer to express the USD weakness through a long EUR-USD,** noting that market focus has shifted from political issues in Europe, and recent economic outcomes are showing improvement, and not supportive of excessive EUR weakness.
- The AUD and NZD outperformed on Friday, as risk sentiments picked up when trade tariffs were imposed without further complications. We urge caution in being long AUD and NZD against the USD as they remain more exposed to trade headlines. Moreover, RBA and RBNZ remain relative laggards in the policy normalization within the G7 central banks.
- Meanwhile, the USD-JPY may stay trapped within the 109.50 to 111.00 range. Alleviation in trade tensions this week may take haven demand for the JPY off the table, pulling in the opposite direction from the potentially weakening broad USD. **Nevertheless, keeping a short USD-JPY position may be valuable as a hedge towards any potential worsening of trade tensions.**
- The central bank highlights this week include the ECB's Draghi (1300 GMT today and Wed), Praet and Mersch (both Wed), and the BOE's Carney (Wed). On the Fed front, watch Williams (Wed) and the Monetary Policy Report to Congress (Fri). Bank of Canada rate decision on Wednesday as well.
- Meanwhile, highlights on the data front include German ZEW (Tue), Eurozone industrial production and US CPI (both Fri)

Treasury Research &
Strategy

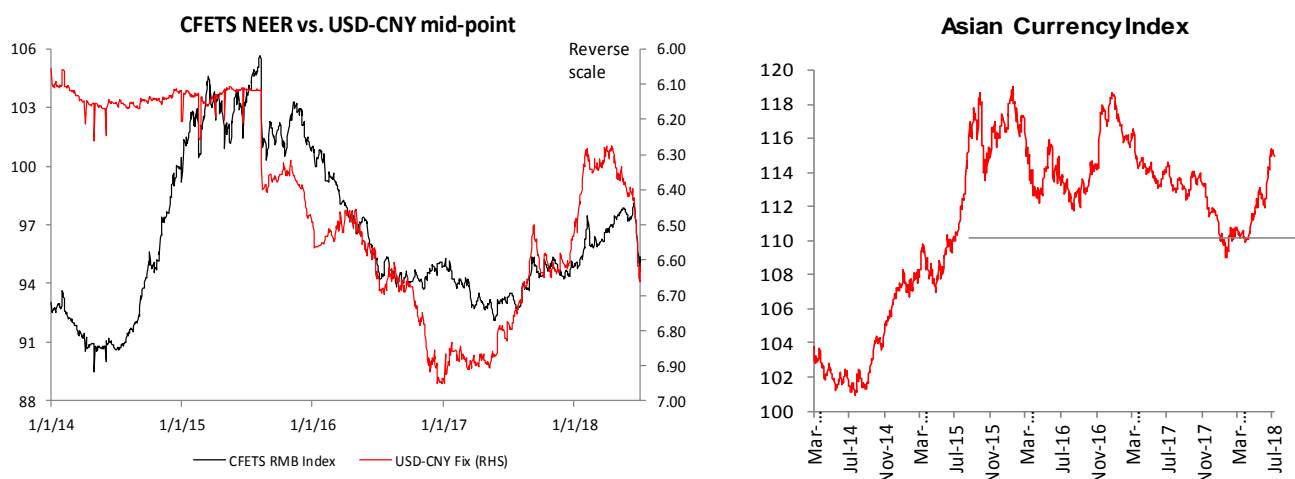
Terence Wu

+65 6530 4367

TerenceWu@ocbc.com

Asian FX

- The expected imposition of tariffs by the US on Friday, and the retaliatory response by China, came to past without further provocations from either side. The recovering equity complex and firmer EM FX also support risk sentiments. Our **FX Sentiment Index (FXSI)** stepped away from the Risk-Off threshold to start the week. If both sides continue to hold their fire, do expect the FXSI to inch towards neutral levels in the coming sessions.
- **The USD weakness on Friday may spill over to Asian currencies today. The buy-on-fact dynamic should also support the Asian currencies early week. Without further trade provocations, expect the Asian Currency Index (ACI) to drift lower early week.**
- Nevertheless, any gains from the easing of trade issues may be short-lived as the difficult picture on the structural horizon for Asia remains intact. In terms of **Asian portfolio flows**, the first significant equity outflows continue to be sighted across Asia, with South Korea and Taiwan the heaviest hit in the latest reading. Summing across bond and equity flows, outflow momentum continues to build for Thailand and Indonesia (albeit to a smaller extent). Outflow momentum in India and Philippines is not extending, but nevertheless continues to persist near the recent pace.
- For the Asian central banks, the BNM and BOK rate decisions are scheduled for Wed and Thu respectively.
- **SGD NEER:** The SGD NEER started the week firmer, standing at around +0.67% above its perceived parity level (1.3654). The NEER-implied USD-SGD thresholds were lower alongside the weaker USD on Friday. Expect the +0.50% (1.3586) and +0.90% (1.3532) thresholds to book-end the pair intraday.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within expectations, at 6.6393 compared to 6.6336 on Friday. The CFETS RMB Index weakened to 94.74, compared to 95.06 previously. At this juncture, note that the vol curve for the USD-CNH is starting to normalize as the stability returns, and risk-reversals are also portending a lower USD-CNH. Nevertheless, further downside may be capped when the CFETS RMB Index nears 95.00. Note that Chinese FX reserves for June came in marginally stronger than expected, and also higher than the May print.



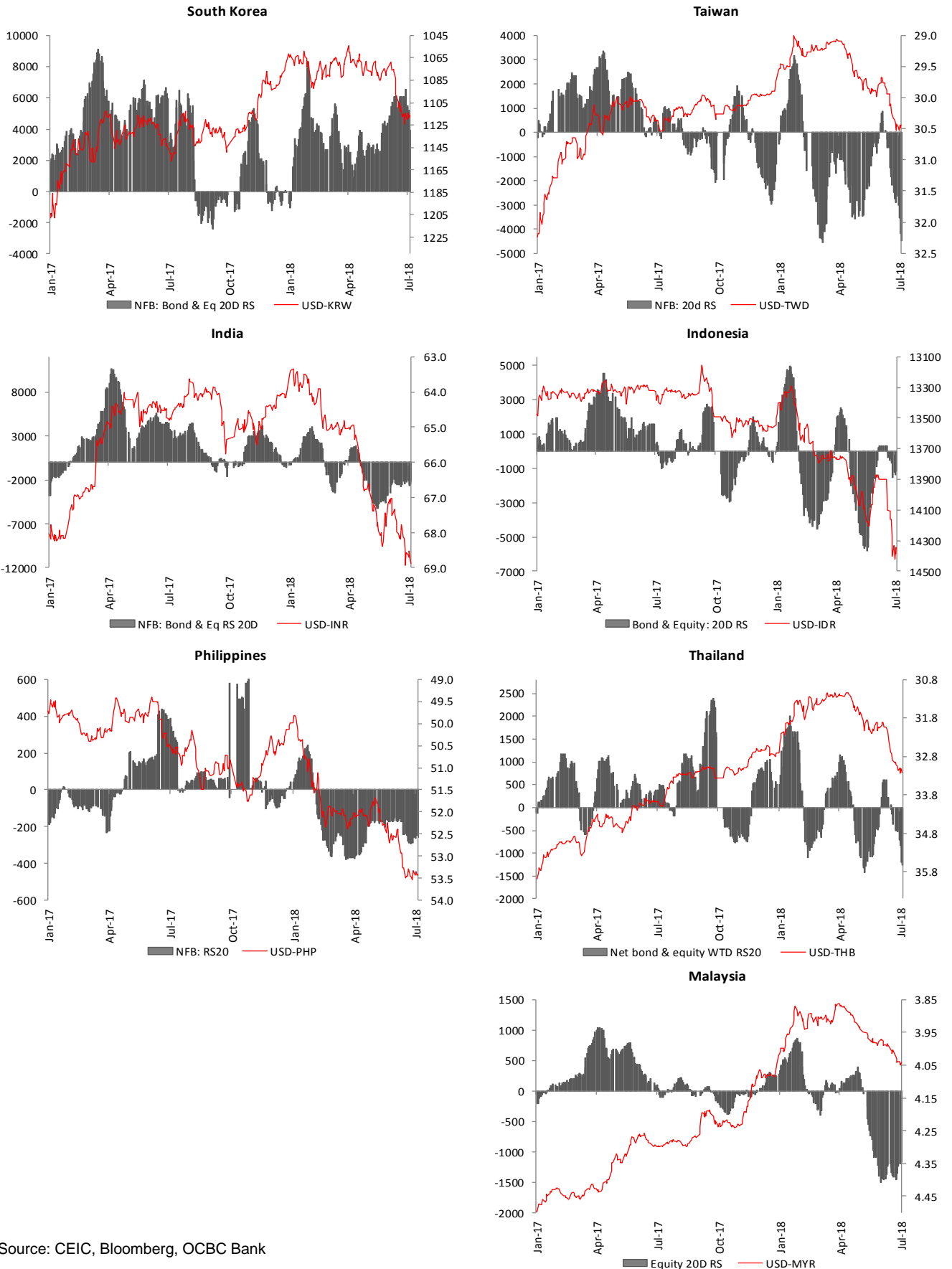
Source: OCBC Bank, Bloomberg

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; inflation print below expectations; pair led by the RMB complex
USD-INR	↑	Heavy data week ahead with inflation, industrial production and trade data on tap to influence demand for govies and INR; 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	↔/↑	June inflation print exceeded expectations, surprising even the BSP; rate hike pace may accelerate with inflation still not within control; PHP remains pressured due to intensifying outflows

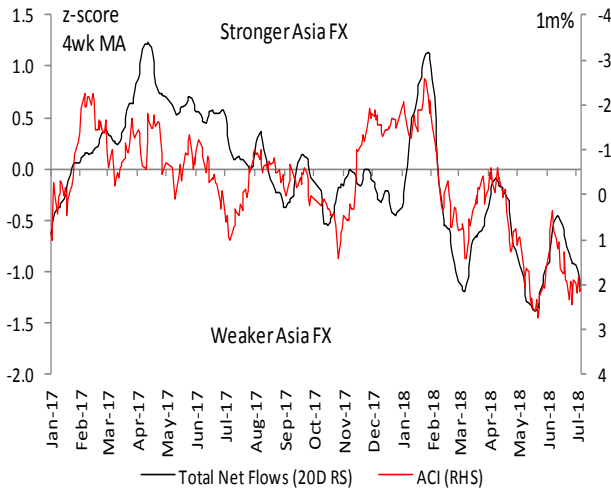
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



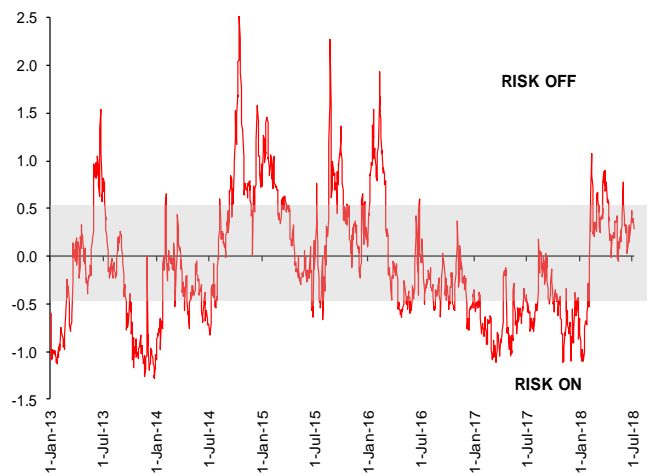
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.438	0.478	-0.484	-0.556	-0.528	0.413	0.204	0.466	0.250	0.392	-0.980
CHF	0.916	-0.373	0.418	-0.291	-0.484	-0.442	0.594	0.190	0.272	0.105	0.352	-0.915
CAD	0.853	-0.423	0.445	-0.564	-0.550	-0.695	0.082	0.134	0.575	0.221	0.373	-0.807
PHP	0.782	-0.508	0.647	-0.514	-0.714	-0.543	0.559	0.406	0.549	0.291	0.598	-0.708
SGD	0.737	-0.839	0.897	-0.834	-0.935	-0.463	0.422	0.687	0.796	0.685	0.872	-0.616
KRW	0.673	-0.823	0.893	-0.795	-0.928	-0.455	0.428	0.678	0.775	0.639	0.869	-0.536
IDR	0.633	-0.925	0.986	-0.701	-0.963	-0.126	0.918	0.936	0.644	0.770	0.988	-0.525
THB	0.604	-0.874	0.933	-0.802	-0.957	-0.445	0.391	0.742	0.761	0.696	0.921	-0.475
TWD	0.594	-0.911	0.966	-0.866	-0.982	-0.323	0.451	0.841	0.833	0.792	0.963	-0.462
INR	0.573	-0.885	0.939	-0.719	-0.954	-0.309	0.565	0.805	0.678	0.682	0.933	-0.446
CNY	0.478	-0.933	1.000	-0.848	-0.969	-0.181	0.500	0.924	0.793	0.853	0.998	-0.334
MYR	0.463	-0.908	0.975	-0.830	-0.959	-0.184	0.555	0.905	0.788	0.842	0.976	-0.329
JPY	0.413	-0.336	0.500	-0.180	-0.413	0.033	1.000	0.509	0.132	0.250	0.493	-0.350
CNH	0.392	-0.932	0.998	-0.837	-0.966	-0.142	0.493	0.937	0.780	0.843	1.000	-0.241
USGG10	-0.438	1.000	-0.933	0.826	0.941	0.171	-0.336	-0.854	-0.765	-0.752	-0.932	0.323
NZD	-0.594	0.881	-0.961	0.834	0.946	0.242	-0.563	-0.849	-0.775	-0.815	-0.954	0.456
AUD	-0.866	0.718	-0.787	0.702	0.843	0.585	-0.472	-0.525	-0.671	-0.509	-0.748	0.771
GBP	-0.918	0.661	-0.729	0.699	0.778	0.402	-0.497	-0.520	-0.669	-0.553	-0.667	0.834
EUR	-0.980	0.323	-0.334	0.353	0.432	0.512	-0.350	-0.058	-0.340	-0.106	-0.241	1.000

Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1700	1.1739	1.1757	1.1789	1.1800
GBP-USD	1.3085	1.3200	1.3289	1.3300	1.3358
AUD-USD	0.7311	0.7400	0.7455	0.7496	0.7500
NZD-USD	0.6688	0.6800	0.6837	0.6900	0.6926
USD-CAD	1.3000	1.3009	1.3086	1.3100	1.3386
USD-JPY	110.00	110.14	110.47	110.97	111.00
USD-SGD	1.3461	1.3500	1.3564	1.3600	1.3746
EUR-SGD	1.5802	1.5900	1.5948	1.5981	1.6000
JPY-SGD	1.2200	1.2238	1.2278	1.2300	1.2350
GBP-SGD	1.7980	1.8000	1.8026	1.8100	1.8107
AUD-SGD	1.0090	1.0100	1.0112	1.0138	1.0200
Gold	1234.13	1238.80	1259.70	1289.69	1300.00
Silver	15.73	15.90	15.98	16.00	16.42
Crude	69.18	74.00	74.06	74.10	75.27

Source: OCBC Bank

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD		2	2	2	1	1	1	9	9
NZD	2		2	2	1	1	1	1	1
EUR	2	2		2	2	2	2	2	2
GBP	2	2	2		2	2	2	2	2
JPY	1	1	2	2		9	1	2	2
CAD	1	1	2	2	9		1	2	2
USD	1	1	2	2	1	1		2	2
SGD	9	1	2	2	2	2	2		9
MYR	9	1	2	2	2	2	2	9	

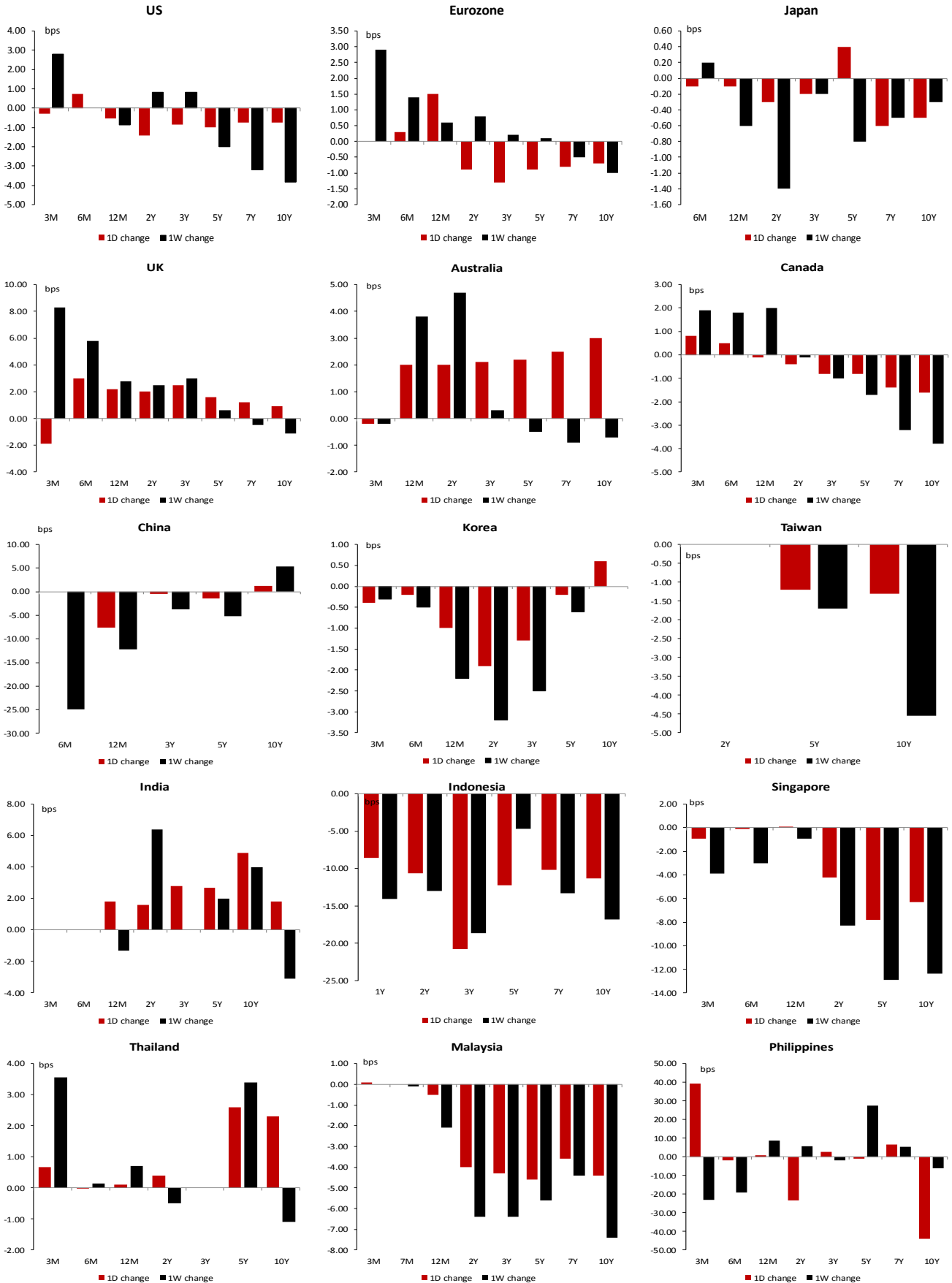
Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD		1	2	2	2	2	2	2	2	2	2
JPY	1		1	2	2	2	1	2	2	2	2
CNY	2	1		2	2	1	1	1	1	1	1
SGD	2	2	2		9	2	2	2	1	1	2
MYR	2	2	2	9		2	2	2	1	1	2
KRW	2	2	1	2	2		2	2	2	2	9
TWD	2	1	1	2	2	2		2	1	1	2
THB	2	2	1	2	2	2	2		1	1	2
PHP	2	2	1	1	1	2	1	1		2	2
INR	2	2	1	1	1	2	1	1	2		2
IDR	2	2	1	2	2	9	2	2	2	2	

Source: OCBC Bank

Government bond yield changes



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