

Friday, August 10, 2018

### FX Themes/Strategy/Trading Ideas

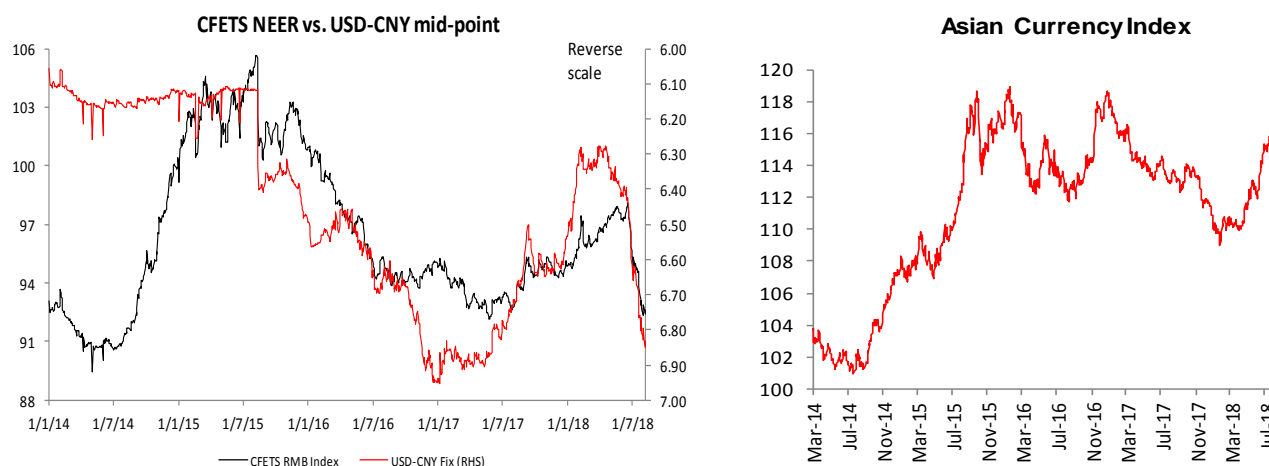
- Despite soft PPI data and lower 10y UST yields, the USD traded on a bid tone yesterday, especially in the NY session. The DXY index is once again on the cusp of a range break, reaching highs above 95.60.
- Note the 95.00 base for the DXY this week, and a quick re-test of range highs after a failure earlier. **At this juncture, a weekly close at or above current levels today may provide sufficient confidence to push for a definitive range break early next week.**
- A number of developments on the central bank front have broadly favoured the USD. The **Reserve Bank of New Zealand (RBNZ)** sounded explicitly dovish in its latest policy decision. The deputy governor commented that they have moved closer to a rate cut, and any hint of a rate hike was pushed to late-2020. This puts the RBNZ at the end of the pack in terms of policy normalization. As such, expect the NZD to stay depressed on a structural basis.
- Hawkish comments from Fed's Barkin (voter) and Evans (non-voter) continue to reflect a bullish Fed. Of note was the shift in stance for Evans, who had been a consistent dove within the FOMC. We think this reflects some shifting sands within the FOMC, with a bifurcation into members focused on the macroeconomic indicators and those focused on the flattening yield curve. With the 2y-10y and 5y-30y yield gaps holding up in the past 1-2 weeks, more hawkish members may be getting an upper hand for now.
- Overall, **relative central bank dynamics still favours the USD, with the Fed head and shoulders ahead of the rest of the G7 central banks in terms of policy normalization.** Apart from the Fed, only the Bank of Japan (BOJ) appears to be moving in the right direction in terms of normalization, with the latest policy tweak representing a first baby step away from excessive accommodation. **With the BOJ just initiating the normalization cycle, we expect the JPY to be responsive to this front. Look for the JPY-crosses (with USD-JPY itself less sensitive) to be pressed lower going forward.**
- On the calendar today, watch for French industrial production (0645 GMT) and US CPI (1230 GMT). Expect also some volatility on the GBP today, with a series of key data releases in the UK today, including the industrial production, manufacturing production and GDP prints (all 0830 GMT).

Treasury Research &  
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## Asian FX

- The sell-off in EMEA and Latam FX against the USD overnight may hit sentiments today, but we think it is a reflection of idiosyncratic factors within each region and country, and not broader EM weakness. Thus, the likelihood of contagion spreading to EM Asia FX is limited at this juncture.
- Overall risk sentiments remained broadly supported. Our **FX Sentiment Index (FXSI)** continued to fluctuate within the Risk-Neutral zone, staying closer to the Risk-On threshold, than the Risk-Off.
- In **Asian net portfolio flows**, strong bond inflows into South Korea were offset by larger outflows on the equity front. Meanwhile, India continues to experience strong inflows on both the bond and equity fronts. Note that inflow momentum on a rolling 20D basis for India has been building up quickly in past week. **Expect better flow dynamics to be supportive of the INR going forward, especially since it is relatively more sheltered from any CNY gyrations.**
- **Expect some spillover USD strength and concerns over EM FX to keep the Asian Currency Index (ACI) buoyant intra-day. Nevertheless, we think the TRY and RUB weakness will be contained, with the likelihood of contagion into EM Asian FX to be limited.**
- **Thailand:** The Bank of Thailand (BOT) kept interest rates unchanged at 1.50%, with one dissenter in favour of a rate hike. The rhetoric that followed reflected a decreased need for policy accommodation as GDP growth continued to pick up and the inflation print re-entered the BOT's tolerance band. We expect a 25 bps rate hike from the BOT before the year's end.
- **Philippines:** The Bangko Sentral ng Pilipinas (BSP) raised its policy rate by 50 bps on Thursday. The outlook remains hawkish, with the BSP standing ready to hike further if the inflation rate remains out of control.
- **SGD NEER:** The SGD NEER softened marginally to +1.11% above its perceived parity level (1.3820) this morning, with the NEER-implied USD-SGD thresholds firmer. Expect the +0.90% (1.3697) and +1.30% (1.3643) thresholds to mark extremes in the intra-day range. Note that the SGD NEER has been broadly stable within the +1.00% to +1.20% above parity range.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within expectations, at 6.8395 compared to 6.8317 on Thursday. The CFETS RMB Index firmed to 92.91, compared to 92.64 previously.



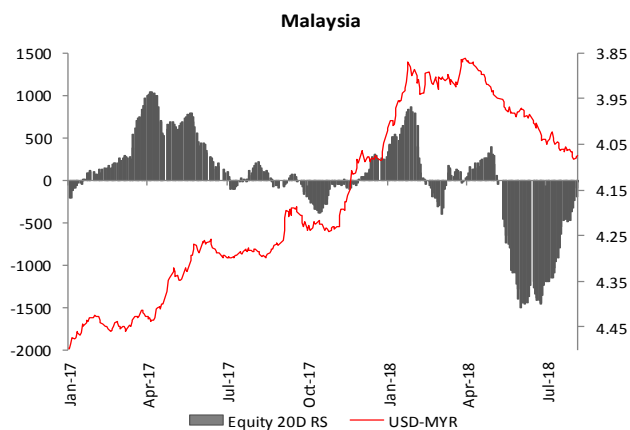
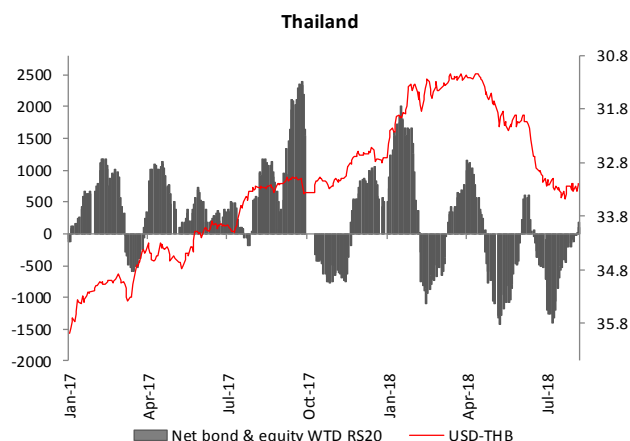
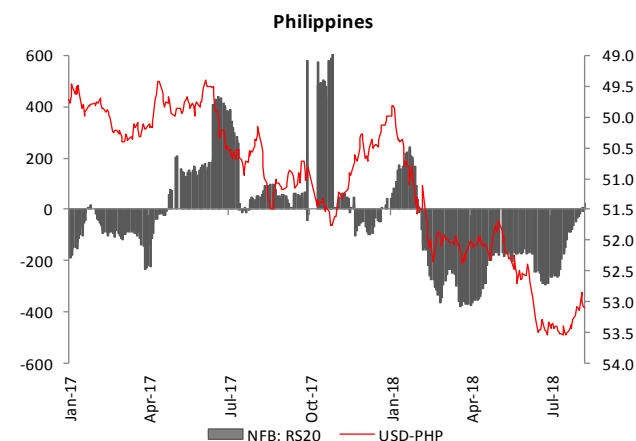
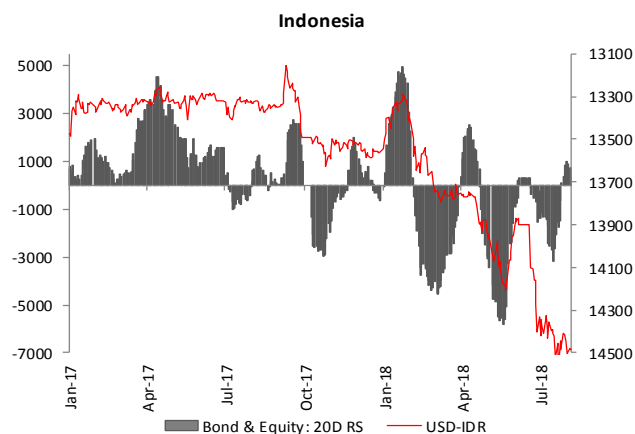
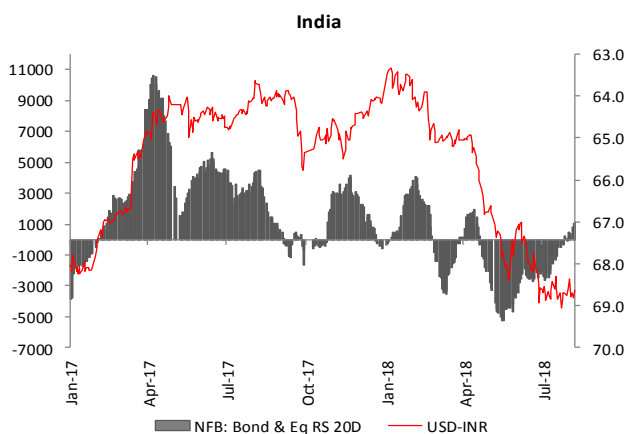
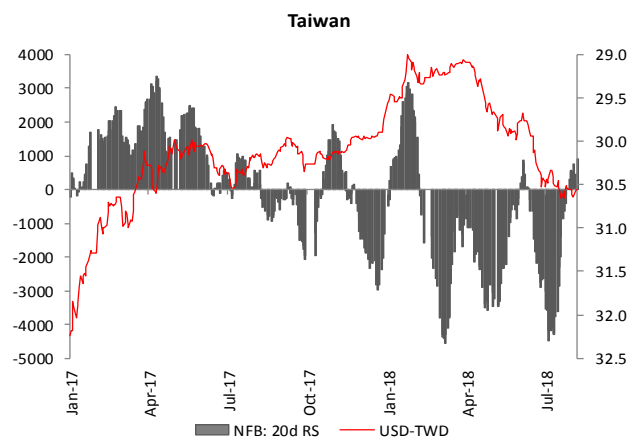
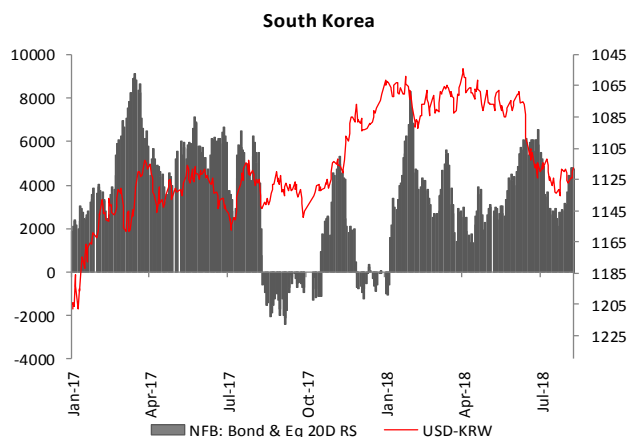
Source: OCBC Bank, Bloomberg

### Short term Asian FX views

| Currency | Bias | Rationale   |
|----------|------|---|
| USD-CNH  | ↔    | PBoC continues to take steps to contain near term depreciation of the RMB complex; PBoC senior advisor labelled the 7 handle as a hard to break "psychological barrier" for the RMB; latest trade data shows allays any immediate concern of the trade war on the Chinese economy |
| USD-KRW  | ↔    | Latest economic prints show lost of positive momentum; portfolio inflows turning higher again; 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; stronger than expected inflation print offset by weaker export growth   |
| USD-INR  | ↔    | Net inflow momentum in a rolling 20D basis building quickly; worst of government bond selloff may be over; recent decline in oil prices may provide some relief   |
| USD-SGD  | ↔    | Range between 1.3600 and 1.3700 continues to hold, pending further directionality from the broad USD; Consolidation of the SGD NEER above the +1.00% above parity level and firm prints on core inflation may further fuel suspicions of a tightening move by the MAS in October  |
| USD-MYR  | ↔/↑  | BNM expected to be on hold until 2019; equity outflows easing; expect some consolidation around key waypoints at 4.08 and 4.10.   |
| USD-IDR  | ↔/↑  | BI kept the policy rate unchanged in the latest meeting, although the rhetoric remains hawkish; strong inflow momentum into bonds   |
| USD-THB  | ↔/↑  | Case for rate hike continues to build in the latest policy meeting, but the BOT still expected to be a laggard among the Asian central banks; inflation back within BOT's target range  |
| USD-PHP  | ↔/↓  | BSP rate hiked 50 bps, as expected by some quarters; BSP retains a hawkish stance, ready to hike further if inflation remains out of control; expect some near term consolidation in the PHP  |

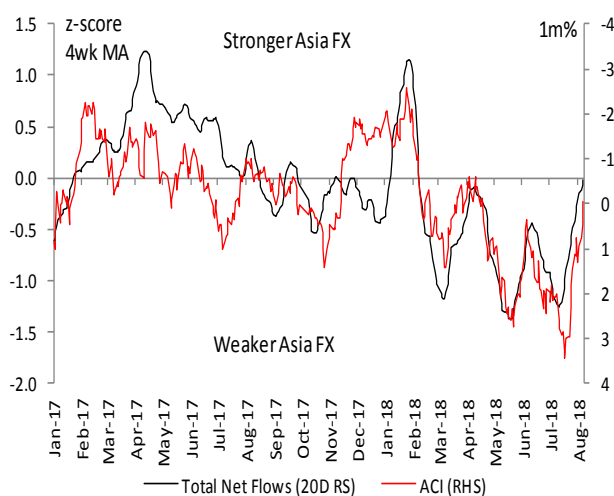
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows



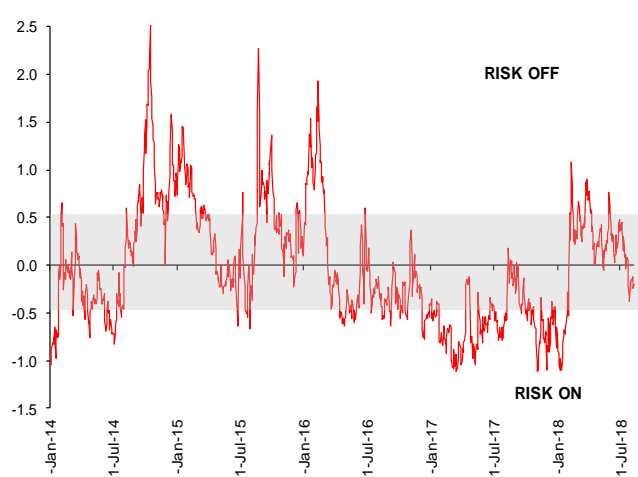
Source: CEIC, Bloomberg, OCBC Bank

### ACI VS. Net Capital Flows



Source: OCBC Bank

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

|        | DX     | USGG10 | CNY    | SPX    | MSELCAFF | CRY    | JPY    | CL1    | VIX    | ITRXX  | CNH    | EUR    |
|--------|--------|--------|--------|--------|----------|--------|--------|--------|--------|--------|--------|--------|
| DX     | 1.000  | 0.045  | 0.423  | 0.541  | -0.466   | -0.456 | 0.183  | -0.517 | -0.669 | 0.149  | 0.504  | -0.943 |
| SGD    | 0.828  | -0.133 | 0.315  | 0.188  | -0.577   | -0.576 | 0.285  | -0.412 | -0.344 | 0.202  | 0.464  | -0.722 |
| MYR    | 0.628  | 0.670  | 0.932  | 0.754  | -0.010   | -0.266 | -0.336 | -0.649 | -0.500 | -0.369 | 0.928  | -0.720 |
| CNH    | 0.504  | 0.795  | 0.974  | 0.656  | 0.079    | -0.131 | -0.505 | -0.599 | -0.286 | -0.460 | 1.000  | -0.666 |
| CNY    | 0.423  | 0.841  | 1.000  | 0.706  | 0.175    | -0.089 | -0.532 | -0.599 | -0.310 | -0.513 | 0.974  | -0.574 |
| CHF    | 0.421  | -0.670 | -0.472 | -0.167 | -0.467   | -0.399 | 0.767  | 0.062  | -0.264 | 0.386  | -0.404 | -0.164 |
| TWD    | 0.276  | 0.541  | 0.742  | 0.458  | 0.034    | -0.356 | -0.289 | -0.540 | -0.210 | -0.340 | 0.736  | -0.323 |
| IDR    | 0.192  | 0.546  | 0.670  | 0.413  | -0.045   | -0.131 | -0.417 | -0.304 | -0.201 | -0.236 | 0.687  | -0.250 |
| JPY    | 0.183  | -0.664 | -0.532 | -0.482 | -0.464   | -0.564 | 1.000  | 0.056  | 0.129  | 0.257  | -0.505 | 0.148  |
| USGG10 | 0.045  | 1.000  | 0.841  | 0.620  | 0.407    | 0.157  | -0.664 | -0.452 | -0.148 | -0.647 | 0.795  | -0.272 |
| KRW    | 0.043  | -0.201 | -0.043 | -0.141 | -0.354   | -0.514 | 0.331  | -0.128 | 0.012  | 0.132  | -0.021 | 0.142  |
| INR    | -0.007 | -0.066 | 0.115  | -0.007 | -0.155   | 0.140  | -0.315 | 0.243  | 0.045  | 0.255  | 0.147  | 0.050  |
| CAD    | -0.102 | -0.778 | -0.659 | -0.643 | -0.304   | -0.345 | 0.618  | 0.287  | 0.291  | 0.427  | -0.614 | 0.399  |
| THB    | -0.112 | -0.090 | 0.036  | -0.197 | -0.225   | -0.201 | 0.078  | 0.021  | 0.159  | 0.031  | 0.090  | 0.188  |
| PHP    | -0.484 | -0.670 | -0.766 | -0.710 | -0.011   | -0.109 | 0.422  | 0.410  | 0.467  | 0.215  | -0.720 | 0.665  |
| AUD    | -0.602 | 0.016  | -0.249 | 0.073  | 0.430    | 0.516  | -0.225 | 0.384  | -0.070 | -0.035 | -0.441 | 0.571  |
| NZD    | -0.835 | 0.038  | -0.305 | -0.442 | 0.258    | 0.368  | 0.104  | 0.537  | 0.559  | -0.231 | -0.423 | 0.859  |
| GBP    | -0.843 | -0.401 | -0.729 | -0.775 | 0.140    | 0.259  | 0.306  | 0.662  | 0.681  | 0.075  | -0.741 | 0.898  |
| EUR    | -0.943 | -0.272 | -0.574 | -0.669 | 0.330    | 0.275  | 0.148  | 0.579  | 0.670  | -0.031 | -0.666 | 1.000  |

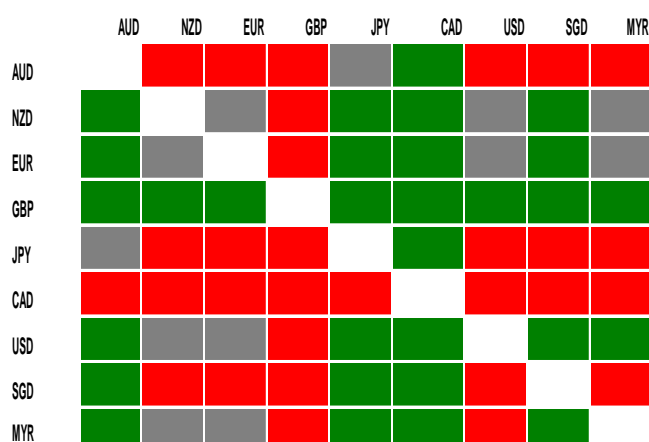
Source: Bloomberg

### Technical support and resistance levels

|         | S2      | S1      | Current | R1      | R2      |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1517  | 1.1518  | 1.1533  | 1.1600  | 1.1664  |
| GBP-USD | 1.2819  | 1.2826  | 1.2833  | 1.2900  | 1.3178  |
| AUD-USD | 0.7311  | 0.7351  | 0.7371  | 0.7400  | 0.7436  |
| NZD-USD | 0.6594  | 0.6600  | 0.6613  | 0.6648  | 0.6700  |
| USD-CAD | 1.2962  | 1.3000  | 1.3045  | 1.3100  | 1.3116  |
| USD-JPY | 110.28  | 110.34  | 110.88  | 110.92  | 111.00  |
| USD-SGD | 1.3585  | 1.3600  | 1.3666  | 1.3700  | 1.3702  |
| EUR-SGD | 1.5730  | 1.5753  | 1.5761  | 1.5800  | 1.5839  |
| JPY-SGD | 1.2243  | 1.2300  | 1.2323  | 1.2362  | 1.2400  |
| GBP-SGD | 1.7500  | 1.7512  | 1.7537  | 1.7538  | 1.7600  |
| AUD-SGD | 1.0026  | 1.0056  | 1.0073  | 1.0096  | 1.0100  |
| Gold    | 1204.36 | 1205.10 | 1212.10 | 1238.05 | 1251.36 |
| Silver  | 15.29   | 15.40   | 15.43   | 15.50   | 15.64   |
| Crude   | 66.59   | 66.80   | 66.82   | 66.90   | 68.80   |

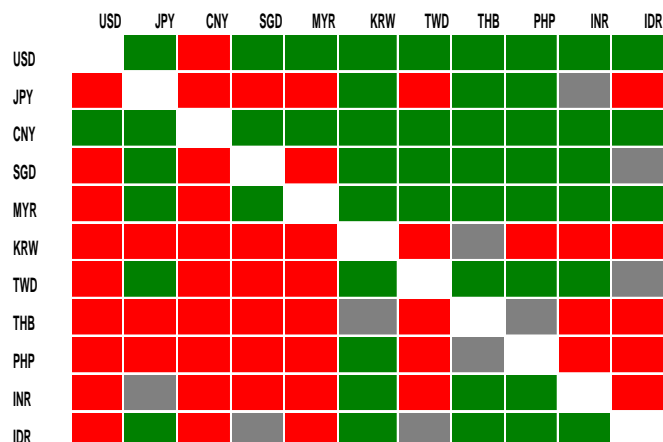
Source: OCBC Bank

### G10 FX Heat Map



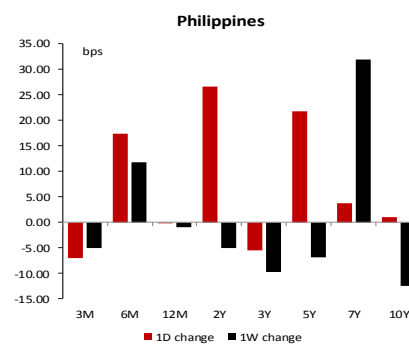
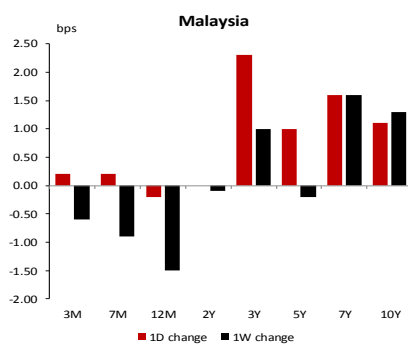
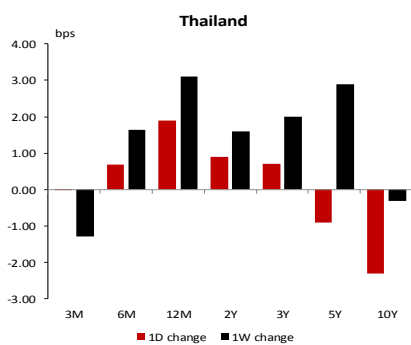
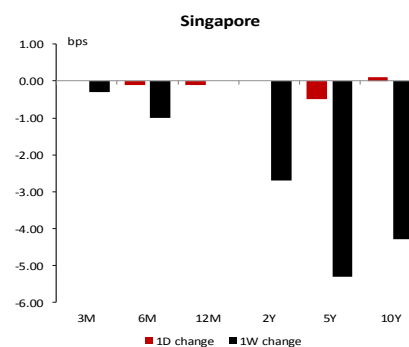
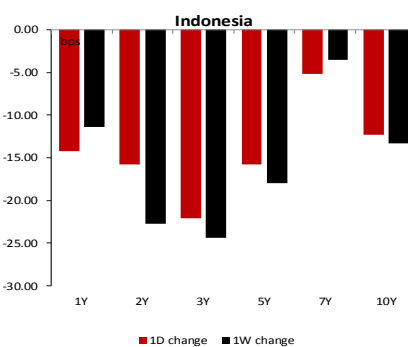
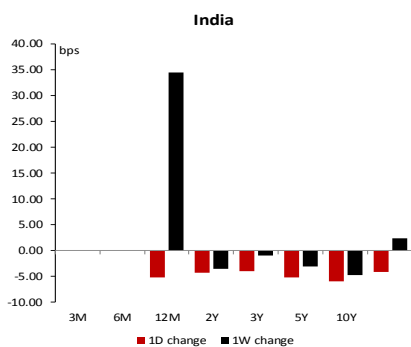
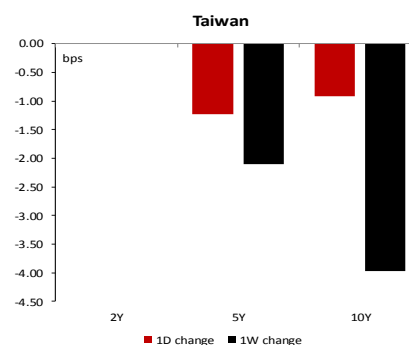
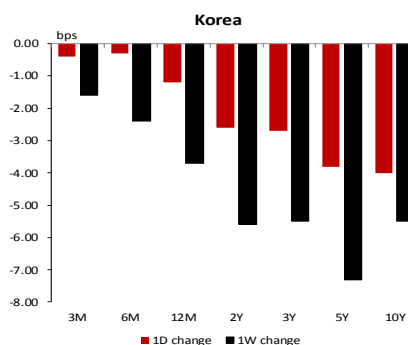
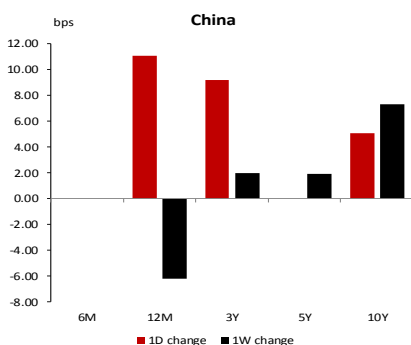
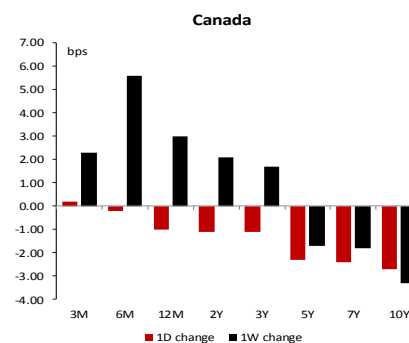
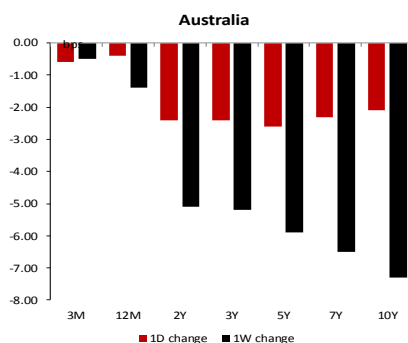
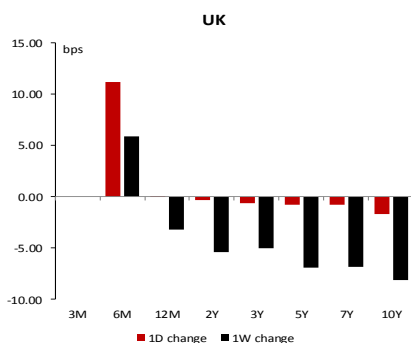
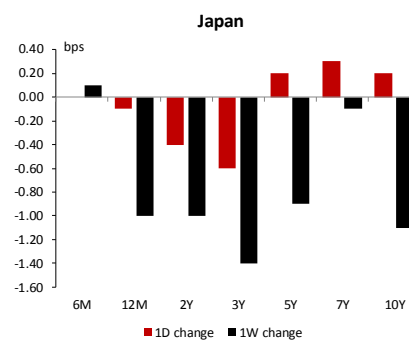
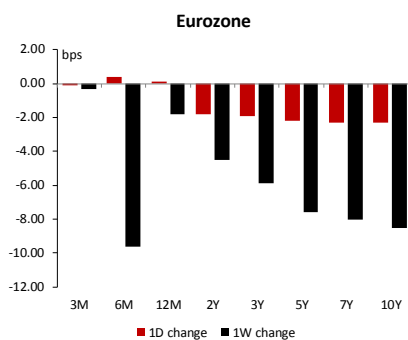
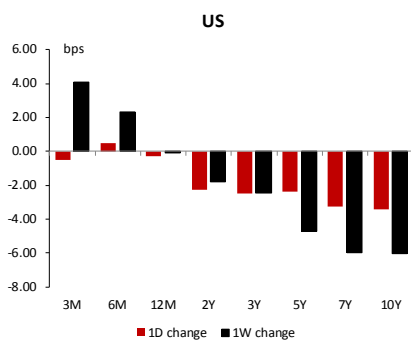
Source: OCBC Bank

### Asia FX Heat Map



Source: OCBC Bank

### Government bond yield changes



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