

Wednesday, July 11, 2018

## FX Themes/Strategy/Trading Ideas

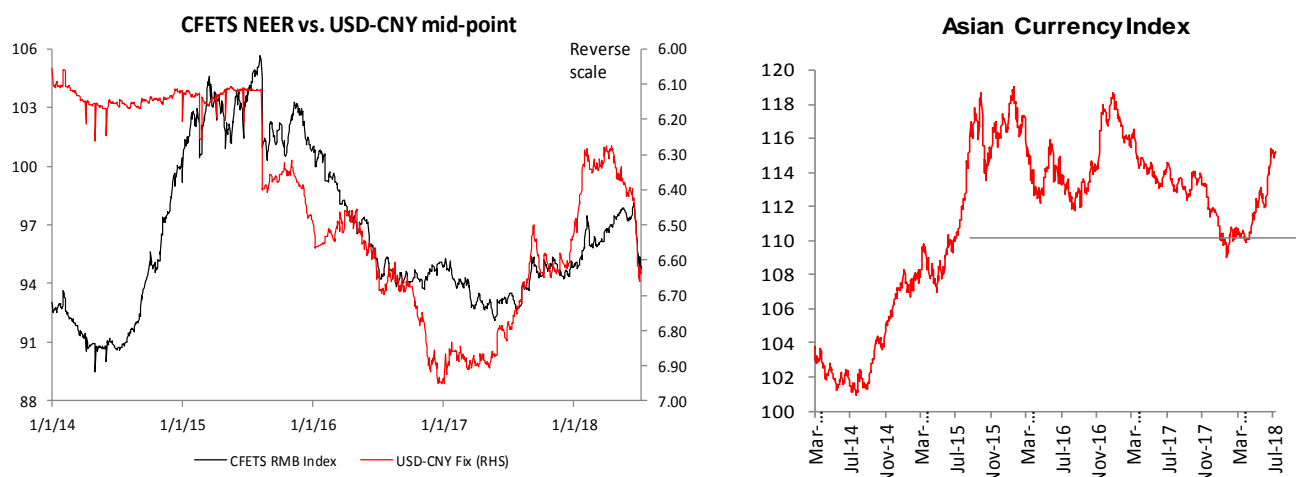
- The USD was firmer against most G7 counterparts overnight, as downside momentum on the broad USD looked to have stalled amid a series of disappointing Eurozone data. The announcement early in the Asian morning of an expanded list of Chinese goods, totaling US\$200bn, which may potentially be subjected to a new round of import tariffs should apply downside pressure on risk assets.
- Following the time-line of the first round of tariffs, the latest round may come online around mid to late September, cutting it close to the US mid-term elections in early November. This still leaves plenty of time for negotiations and deals to be reached. At this juncture, we should not immediately assume the next round of tariffs will be imposed.
- Nevertheless, expect risk sentiments to sink into the end of the week. **Expect the JPY-crosses, AUD and NZD to be pressured lower.** The downside support for the USD-JPY around the 110.20 to 110.40 region looks strong, though we expect it to be tested in the coming sessions if trade tensions persist.
- The EUR took a hit yesterday as a whole slew of economic indicators came in weaker-than-expected. EUR bulls may nevertheless take heart from the fact that it was unable to sustain below the 1.1700 level for long. With the calendar relatively light in Europe (save for a potential risk event in today's NATO summit) until German and French CPI prints tomorrow, **expect the EUR to be on a consolidative mode within the 1.1720 to 1.1750 range** intra-day, although we retain a bias for it to drift higher on a multi-session horizon.
- **Overall, we may see further side-ways movement for the broad USD as the new developments on the trade front are being digested. Keep a close watch also on upcoming Eurozone data performance as an indicator for the EUR.**
- On the central bank front, the consensus is for a **Bank of Canada (BOC)** rate hike (1400 GMT), although we think the subsequent press conference (1515 GMT) by Poloz should sound sufficiently cautious amid trade issues. Elsewhere, expect comments from the ECB's Draghi (0700 GMT), Praet (0730 GMT), Mersch (1200 GMT) and Nouy (1530 GMT), BOE's Carney (1535 GMT), and Fed's Williams (2030 GMT). On the data front, watch for US PPI data (1230 GMT)

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## Asian FX

- Asian currencies looks set to be pressured lower again if risk-off sentiments take hold as expected. The latest salvo drew the usual denouncement from the Chinese Commerce Ministry, but the response is still comparative muted. The Our **FX Sentiment Index (FXSI)** still showed a move deeper into the Risk-Neutral zone, but this would not have taken into account the latest developments.
- The USD-CNH and USD-CNY both hit above 6.6800 on the news of the new round of potential tariffs. At those levels, the CFETS RMB Index would be closer to the 94.30 region. It remains to be seen if the PBoC is comfortable with the index near the 94.00 zone, which previously was a no-fly zone. Expect USD-Asia, especially the USD-North Asia, to take cues from the RMB complex.
- The selective improvement in the **Asian portfolio flow** situation continues to be seen in the latest reading. Nevertheless, the re-ignition of trade tensions should put pat to this nascent recovery. In the latest reading, we note equity and bond inflows for South Korea, while the Taiwan equities and Indonesian bonds saw a second consecutive day of inflow. Outflow momentum, meanwhile, remained heavy for India and Thailand. Going forward, expect portfolio outflows from Asia to persist.
- **Overall, with the risk sentiments souring, the Asian Currency Index (ACI) should bounce higher intra-day. Nevertheless, keep tabs on the RMB complex. Stability on that front should limit the topside in the ACI.**
- **SGD NEER:** The SGD NEER is holding stable again this morning, standing at around +0.72% above its perceived parity level (1.3688), on firmer NEER-implied USD-SGD thresholds. Pending further developments on the trade front, expect the corridor set by the +0.50% (1.3620) and +0.90% (1.3566) thresholds to hold intra-day.
- **CFETS RMB Index:** The USD-CNY mid-point was set lower than expected at 6.6234 compared to 6.6259 on Tuesday. The CFETS RMB Index firmed to 95.01, compared to 94.92 previously.



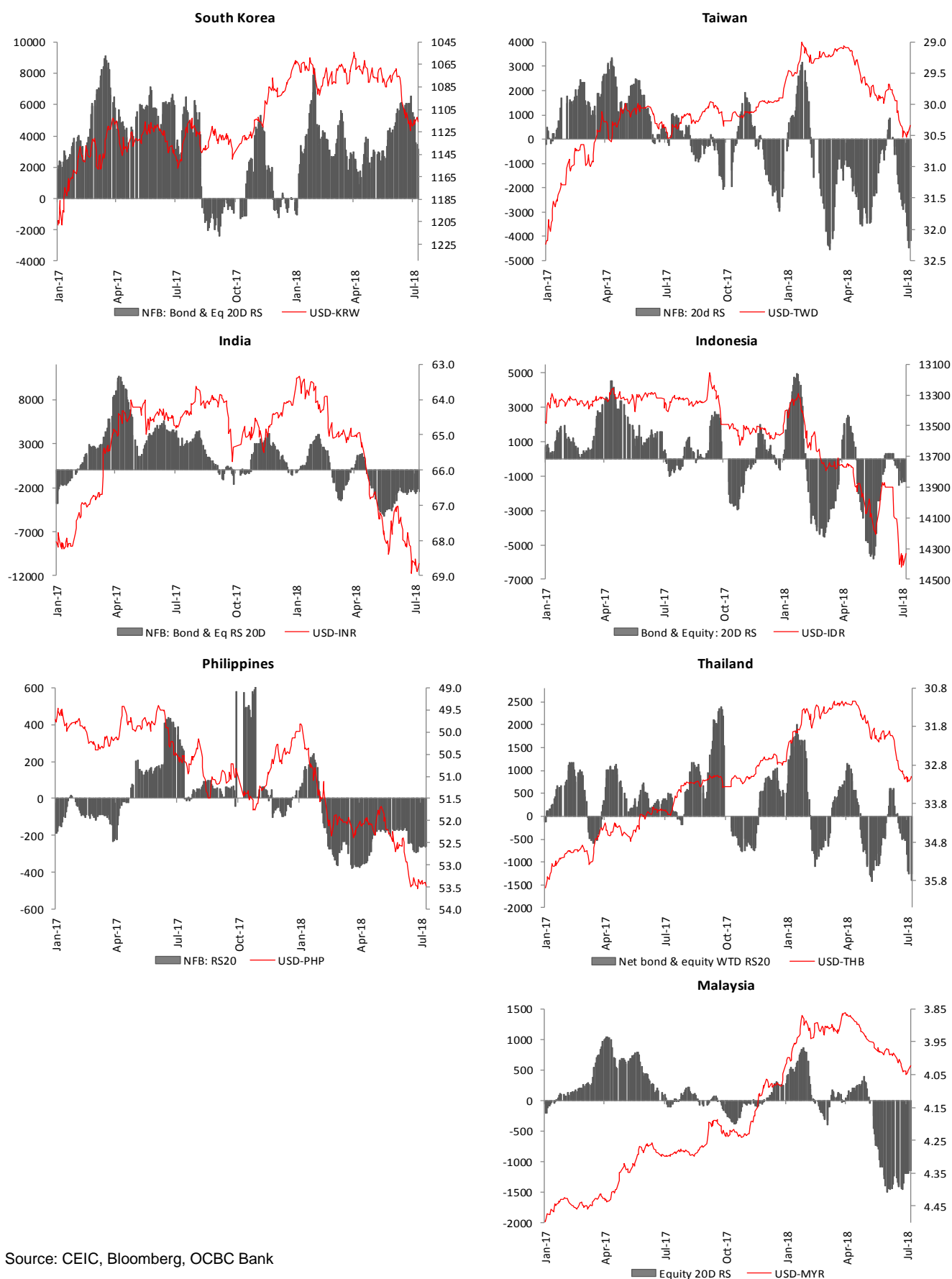
Source: OCBC Bank, Bloomberg

### Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔	A near term top may have been established in the USD-CNH and USD-CNY; the CFETS RMB Index around the 95.00 handle may be a better guide for the RMB complex in the near term, with the USD-CNH and USD-CNY allowed to fluctuate alongside broad USD directionality.
USD-KRW	↔	Net portfolio inflows remain at healthy levels; may suffer significant collateral damage if Sino-US trade war escalates; BOK may lag in term of policy normalization compared to other Asian central banks
USD-TWD	↔	Equity outflows intensifying; June export print weaker than expected; 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 1.3700 and support near 1.3500
USD-MYR	↔/↑	Easing political tensions as new government settles into the role; structurally overvalued compared to Asian peers based on foreign reserves and current account matrices
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

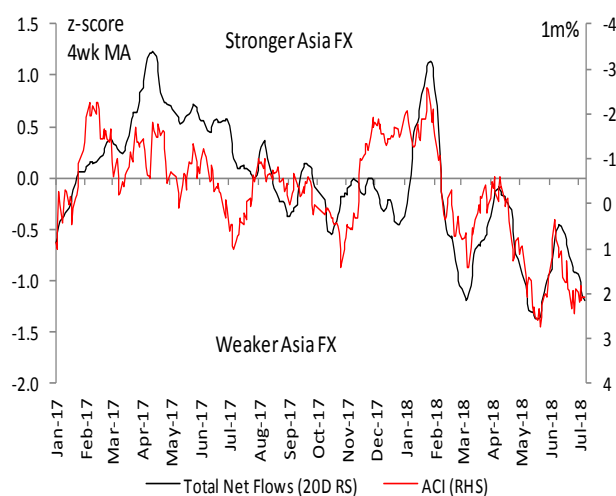
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows



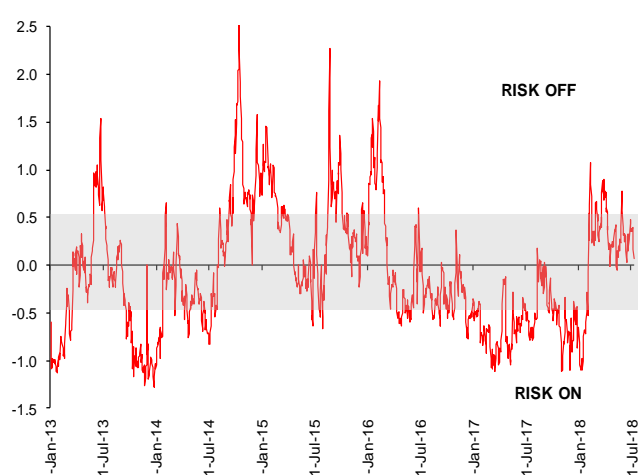
Source: CEIC, Bloomberg, OCBC Bank

### ACI VS. Net Capital Flows



Source: OCBC Bank

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.281	0.242	-0.471	-0.345	-0.449	0.004	0.024	0.402	0.272	0.216	-0.973
CHF	0.873	-0.280	0.235	-0.183	-0.286	-0.340	0.348	0.072	0.114	0.057	0.202	-0.833
CAD	0.804	-0.276	0.229	-0.538	-0.364	-0.651	-0.397	-0.069	0.523	0.232	0.170	-0.752
SGD	0.633	-0.834	0.847	-0.761	-0.907	-0.351	0.150	0.630	0.739	0.726	0.822	-0.461
PHP	0.631	-0.510	0.571	-0.366	-0.591	-0.475	0.165	0.281	0.390	0.286	0.488	-0.515
KRW	0.403	-0.848	0.874	-0.662	-0.908	-0.280	0.159	0.657	0.676	0.660	0.847	-0.207
TWD	0.385	-0.935	0.957	-0.722	-0.978	-0.168	0.245	0.822	0.725	0.793	0.953	-0.213
THB	0.349	-0.900	0.930	-0.592	-0.944	-0.285	0.228	0.750	0.601	0.656	0.918	-0.168
INR	0.292	-0.917	0.940	-0.463	-0.932	-0.120	0.486	0.830	0.476	0.608	0.935	-0.110
MYR	0.254	-0.916	0.953	-0.685	-0.947	-0.028	0.392	0.877	0.677	0.829	0.955	-0.092
CNY	0.242	-0.939	1.000	-0.594	-0.960	-0.018	0.433	0.924	0.608	0.758	0.998	-0.053
CNH	0.216	-0.938	0.998	-0.596	-0.958	0.028	0.473	0.937	0.610	0.764	1.000	0.019
JPY	0.004	-0.286	0.433	0.195	-0.248	0.340	1.000	0.575	-0.210	0.097	0.473	0.127
IDR	-0.063	-0.865	0.968	0.000	-0.884	0.549	0.847	0.930	-0.045	0.428	0.971	0.212
USGG10	-0.281	1.000	-0.939	0.619	0.965	0.048	-0.286	-0.849	-0.635	-0.682	-0.938	0.128
NZD	-0.455	0.880	-0.940	0.697	0.935	0.085	-0.414	-0.830	-0.676	-0.820	-0.934	0.257
AUD	-0.827	0.665	-0.667	0.688	0.752	0.517	-0.093	-0.389	-0.631	-0.571	-0.632	0.695
GBP	-0.877	0.592	-0.598	0.669	0.672	0.283	-0.144	-0.407	-0.620	-0.607	-0.547	0.760
EUR	-0.973	0.128	-0.053	0.375	0.179	0.438	0.127	0.186	-0.290	-0.134	0.019	1.000

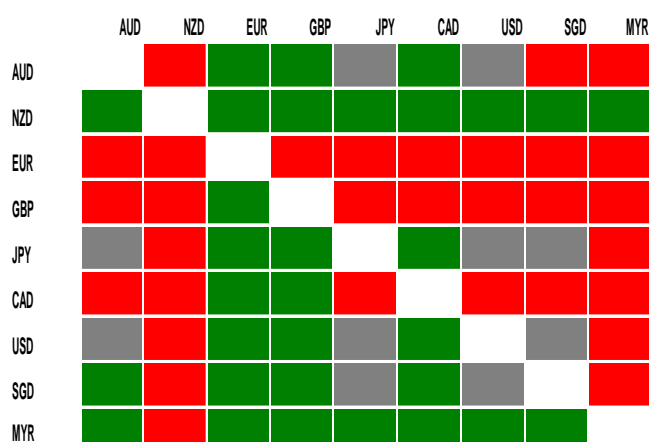
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1700	1.1730	1.1731	1.1774	1.1800
GBP-USD	1.3106	1.3200	1.3262	1.3300	1.3334
AUD-USD	0.7326	0.7400	0.7415	0.7483	0.7494
NZD-USD	0.6699	0.6800	0.6814	0.6900	0.6919
USD-CAD	1.3035	1.3100	1.3137	1.3200	1.3370
USD-JPY	110.13	111.00	111.07	111.19	111.35
USD-SGD	1.3479	1.3500	1.3595	1.3600	1.3719
EUR-SGD	1.5800	1.5900	1.5948	1.5981	1.6000
JPY-SGD	1.2150	1.2200	1.2241	1.2300	1.2449
GBP-SGD	1.7974	1.8000	1.8031	1.8100	1.8107
AUD-SGD	1.0000	1.0002	1.0081	1.0094	1.0100
Gold	1234.40	1238.80	1251.80	1286.98	1294.62
Silver	15.73	16.00	16.00	16.10	16.40
Crude	69.39	73.50	73.52	73.60	75.27

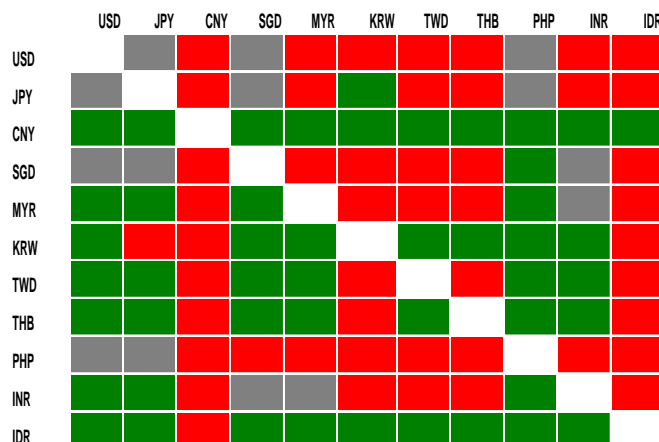
Source: OCBC Bank

### G10 FX Heat Map



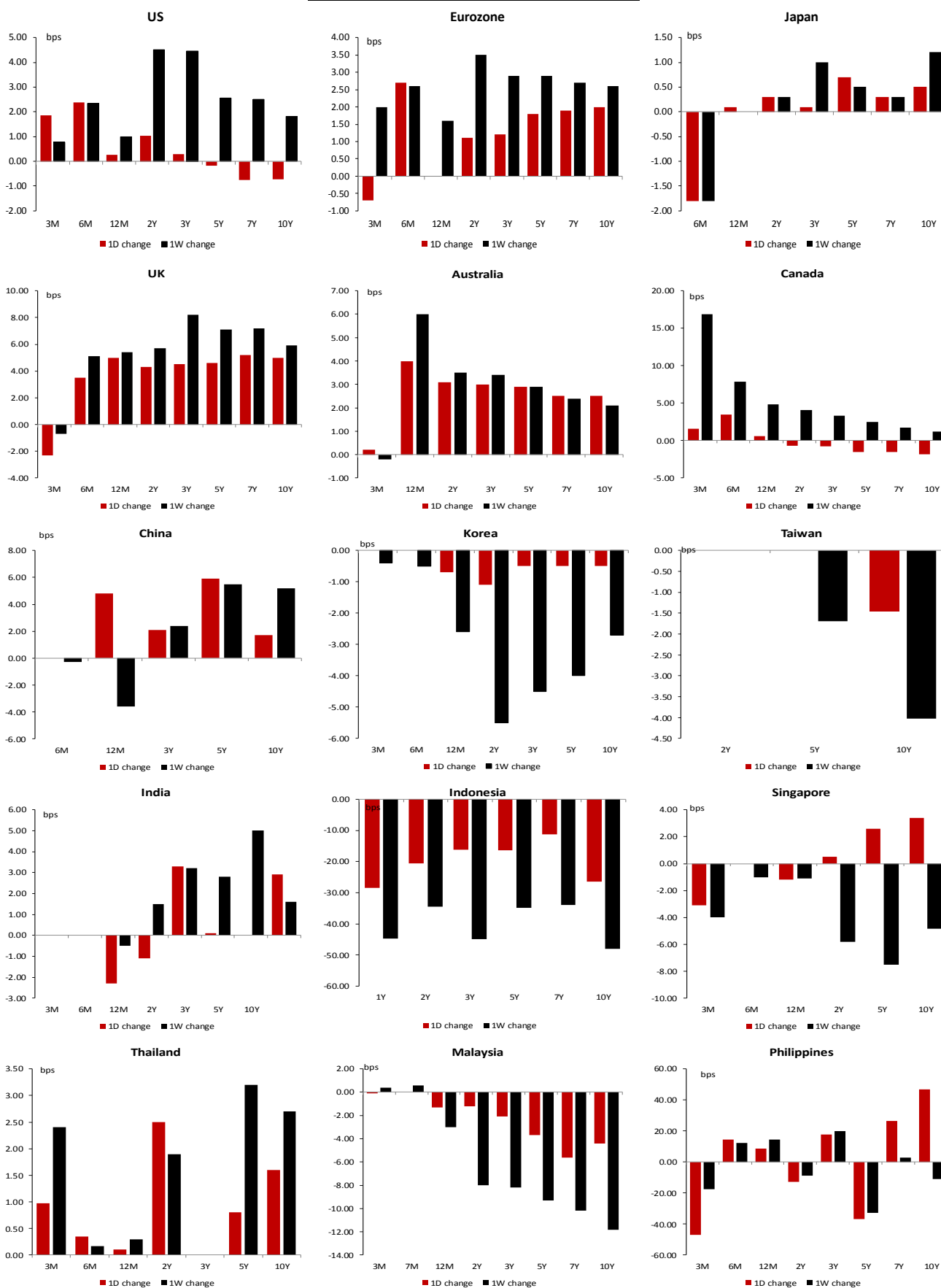
Source: OCBC Bank

### Asia FX Heat Map



Source: OCBC Bank

## Government bond yield changes



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