

Friday, May 11, 2018

FX Themes/Strategy/Trading Ideas

- Softer than expected CPI print overnight may have put paid to the latest upswing in the 10y UST yield. The broad USD momentum also stalled for the second consecutive session, as the **DXY** lost the 93.00 handle to settle near 92.70.
- Despite the USD softness, the NZD and GBP managed to underperform the USD on the back of perceived dovishness from their central banks. The BOE MPS produced a dovish hold, keeping the Official Bank Rate at 0.5%. Carney still expects the BOE to put in a hike by year-end, though market conviction of that has consistently slipped over the last month. Much will depend on how the soft patch in economic data develops over the coming months. Consensus suggests that it will be temporary. However, any sustained deterioration of economic momentum would likely extinguish rate hike prospects for this year.
- Into the end of the week, the broad USD may continue to lose momentum, amidst long-end yield differentials losing traction and profit-taking from the recent run. Note however, short-end yield differentials continue to widen in favour of the broad USD. Meanwhile, attention shifts towards Bullard (1230 GMT) and Draghi (1315 GMT) as investors continue to play central bank rhetoric against the Fed benchmark.
- On the risk appetite front, positive US/EZ/Latam equity markets provided some support for sentiments. The confirmation of Trump-Kim talks also added to overall positivity. The **FXSI (FX Sentiment Index)** slipped of the second consecutive session within **Risk-Neutral** territory.
- The data calendar will be relatively light, watch for China M2 prints and US UMich consumer sentiments (1400 GMT).

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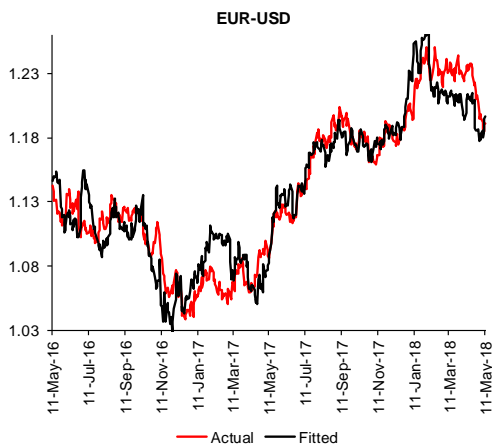
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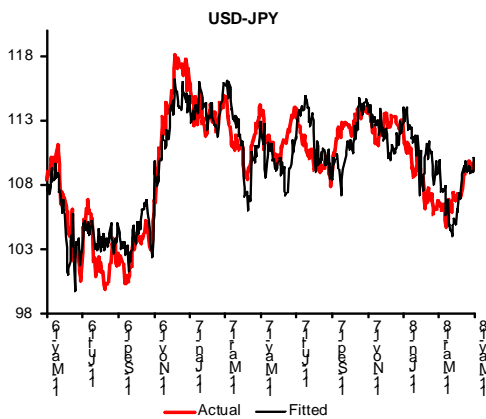
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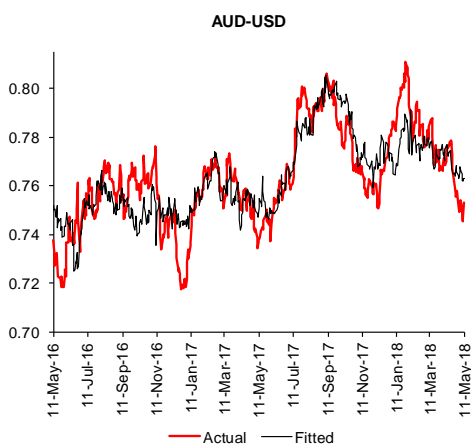
- **EUR-USD** The EUR-USD may ply a narrow range ahead of Draghi’s comments later today. Technicals may still favour a move lower in the coming sessions despite consolidation in the short term implied valuations.

Source: OCBC Bank



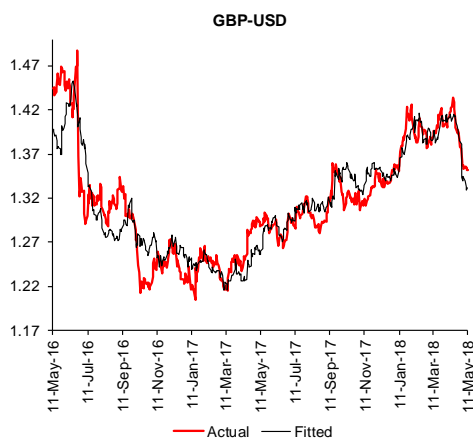
- **USD-JPY** The USD-JPY turned lower after another failure to breach the 110.00 resistance. Short term implied valuations for the pair also turned lower. Expect the 109.00-110.00 range to continue to book-end.

Source: OCBC Bank

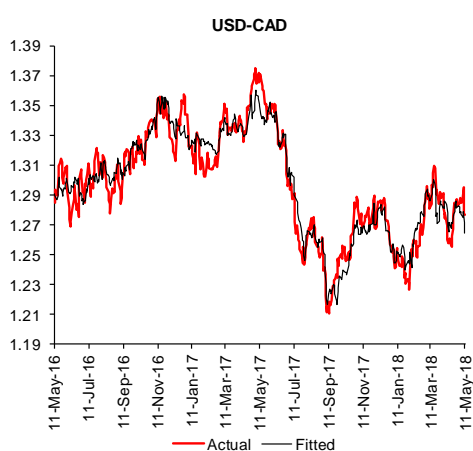


- **AUD-USD** A strong rebound yesterday allowed the pair to surface above the 0.7500 handle. Pending another bout of USD strength, this pair may seek to consolidation above the 0.7500 mark.

Source: OCBC Bank



- **GBP-USD** A dovish hold by the BOE may force the GBP-USD lower today as the pair seeks to break meaningfully away from its 200-day MA support (1.3549). Short term implied valuations continue to point lower as well.



- **USD-CAD** Crude prices sustaining at current levels, and a breach of the 55-day MA (1.2831) yesterday point to a top heavy posture for the pair. Next level of support levels may be near 1.2700.

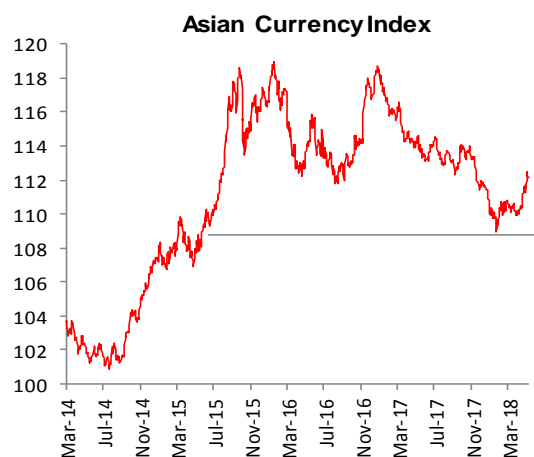
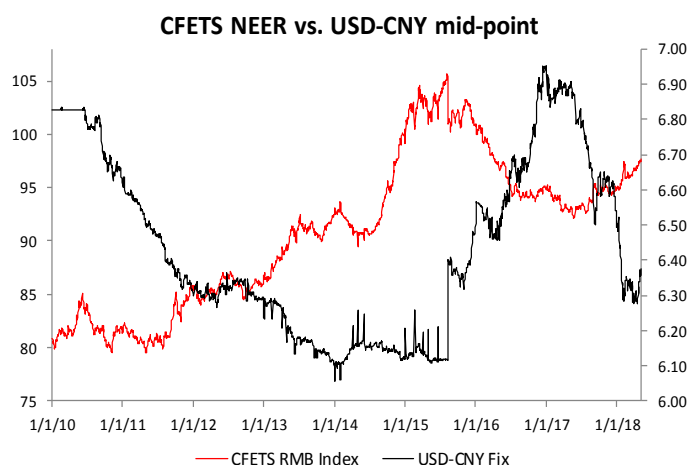
Source: OCBC Bank

Asian FX

- Recovering risk sentiments, easing off of crude prices and the broad USD losing traction over the near term – factors that may lend Asian currencies some support are in place. Therefore, we expect the **ACI (Asian Currency Index)** to stay flat or drift lower to end the week.
- In terms of net portfolio flows, there is still no sign of respite for South Asia, as net outflow momentum continues to build for India, Thailand and Indonesia. Note that Malaysia also dipped into a net equity outflow situation on a rolling basis just ahead of the elections. South Korea remains the only brighter spot, as inflows remain supported.
- **Indonesia:** BI continued its rhetoric about policy options to stabilize the forex and bond markets in a statement early Friday. Interestingly, the governor noted that policy responses will be implemented “consistently and pre-emptively”. We think the BI may be laying the ground for a rate hike next week.
- **SGD NEER:** The SGD NEER opened softer this morning, after firming throughout yesterday’s session. It currently stands at around 0.22% above its perceived parity (1.3407). NEER-implied USD-SGD thresholds are softer.

Expect the USD-SGD to ply the range between parity (1.3407) and +0.40% (1.3354) intra-day. Near term upward momentum in the USD-SGD may have been arrested after yesterday's session, as the pair fluctuates near its 200-DMA level (1.3382).

- CFETS RMB Index:** This morning, the USD-CNY mid-point printed at a largely expected 6.3524 from 6.3768 on Thursday. Nevertheless, the CFETS RMB Index softened to 97.59 from 97.67.



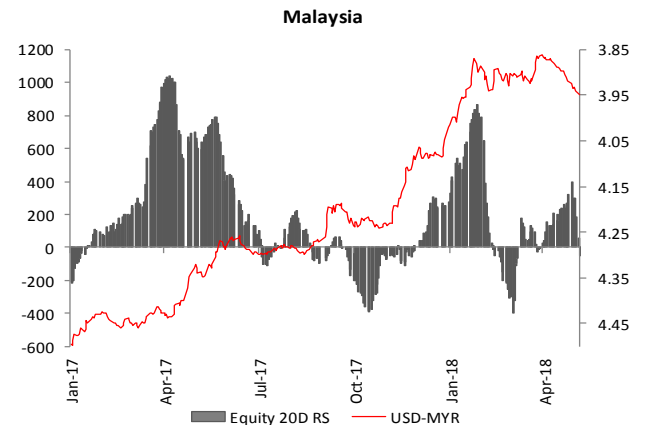
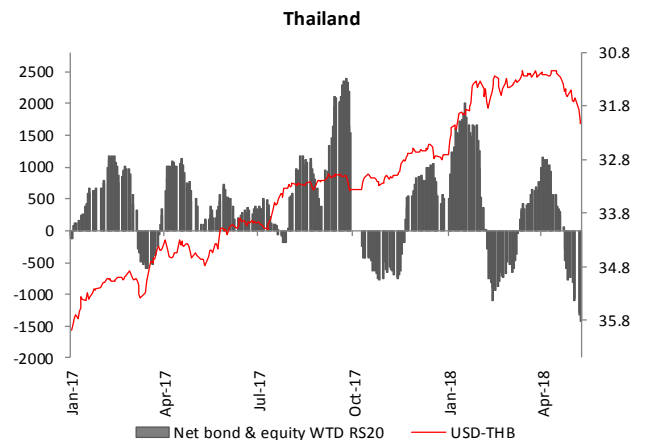
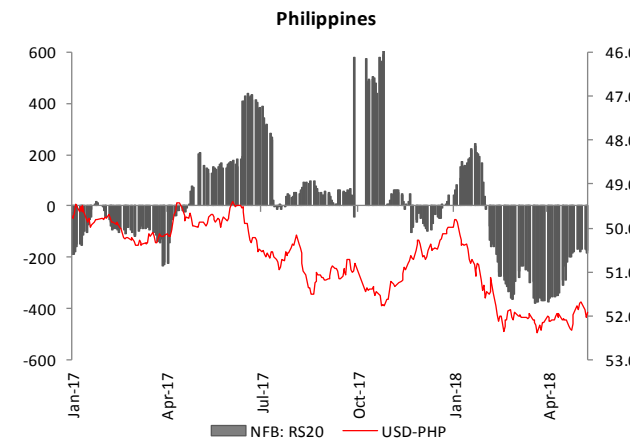
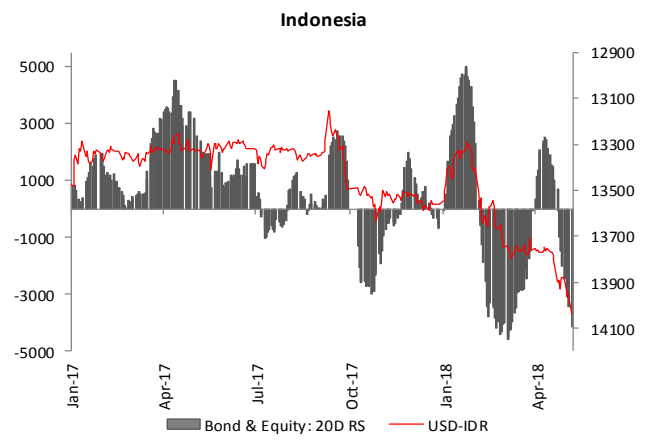
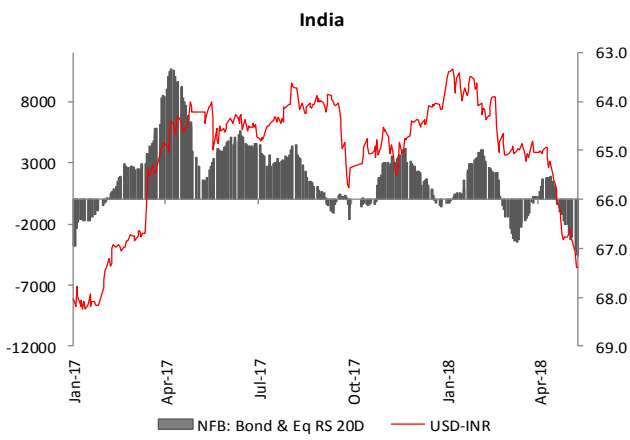
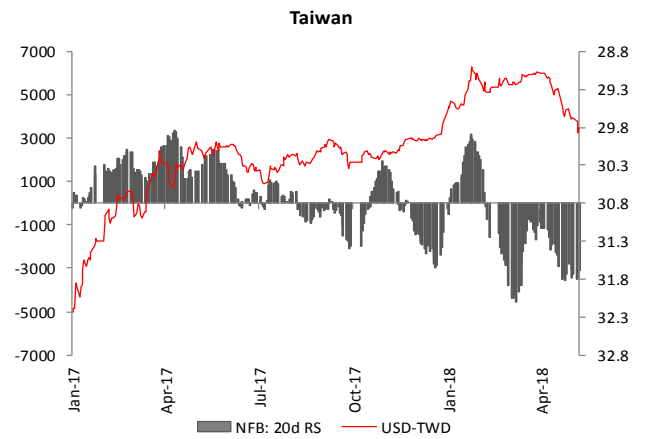
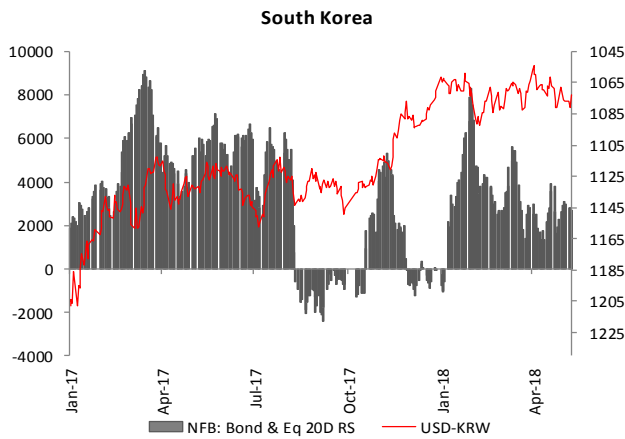
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↑	RRR cut, relative stability of RMB Index, RMB to shoulder potential volatility instead, watch US-Sino tensions
USD-KRW	↔/↑	Easing tensions with the North, net portfolio inflow momentum recovering, inflation/current account surplus projection downgraded, BOK expected to remain neutral
USD-TWD	↑	Net equity outflows attempting to compress; new CBC governor non-hawkish
USD-INR	↑	RBI minutes more hawkish than expected; net portfolio outflows worsening; market expectation for further OMO purchases by the RBI to support govies; higher crude imposing drag on INR and govies
USD-SGD	↑	NEER hovering around parity; MAS steepens NEER slope in April, pair buffeted by global trade tension headlines, responding to firmer DXY
USD-MYR	↑	Surprise defeat for the ruling BN coalition; neutral to rich valuation compared to peers on foreign reserves and current account measures, note initial market-implied caution towards election results
USD-IDR	↑	Disappointing GDP numbers; short term vol premium widening, fundamentals intact, net portfolio outflows deepening, carry strategy under reassessment; BI appears to be positioning for rate hike next week
USD-THB	↑	BOT remains accommodative; net portfolio outflow balance; inflation inching higher back into BOT's target range.
USD-PHP	↔	Net equity outflows moderating; BSP hiked policy rates as expected while signalling the possibility of further hikes.

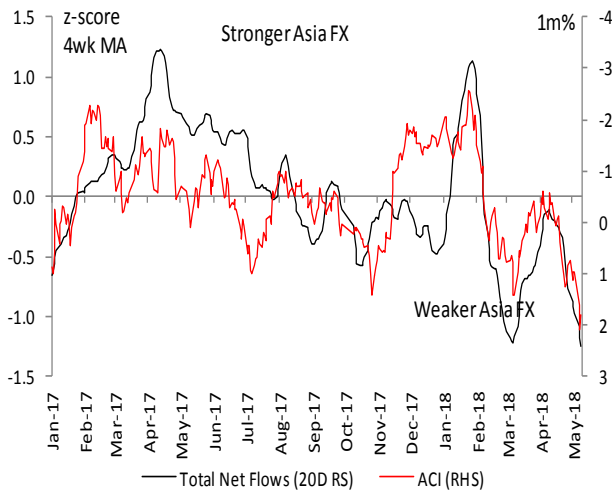
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



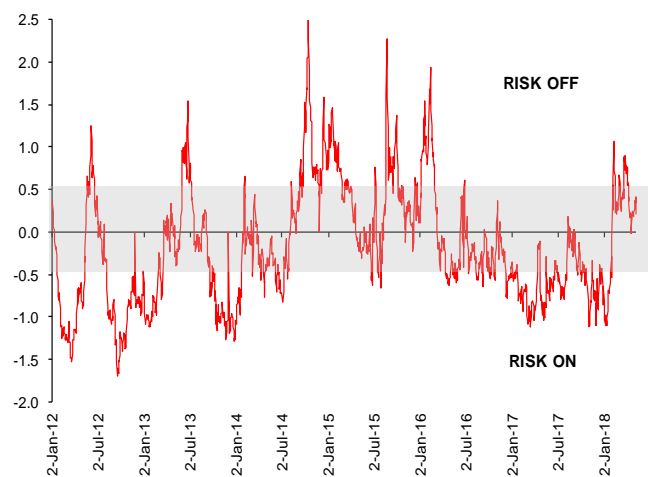
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXXK	CNH	EUR
DXY	1.000	0.764	0.988	-0.230	0.196	0.701	0.923	0.753	-0.649	-0.386	0.975	-0.995
CNY	0.988	0.742	1.000	-0.214	0.014	0.662	0.921	0.729	-0.616	-0.343	0.984	-0.984
CHF	0.985	0.813	0.972	-0.147	0.134	0.784	0.924	0.787	-0.730	-0.495	0.959	-0.973
CNH	0.975	0.714	0.984	-0.224	0.142	0.642	0.897	0.713	-0.615	-0.357	1.000	-0.981
MYR	0.972	0.738	0.959	-0.227	-0.021	0.761	0.866	0.777	-0.717	-0.513	0.941	-0.965
SGD	0.971	0.790	0.967	-0.185	0.129	0.673	0.921	0.787	-0.647	-0.353	0.965	-0.977
THB	0.967	0.711	0.950	-0.064	0.102	0.687	0.866	0.808	-0.696	-0.408	0.947	-0.974
IDR	0.952	0.820	0.931	-0.116	0.102	0.717	0.882	0.819	-0.647	-0.339	0.914	-0.950
TWD	0.939	0.845	0.933	-0.132	-0.066	0.725	0.937	0.762	-0.711	-0.494	0.918	-0.929
JPY	0.923	0.876	0.921	-0.358	0.052	0.583	1.000	0.629	-0.532	-0.365	0.897	-0.901
INR	0.921	0.902	0.913	-0.089	-0.159	0.758	0.928	0.813	-0.687	-0.433	0.888	-0.895
CAD	0.898	0.917	0.900	-0.319	0.005	0.647	0.926	0.655	-0.526	-0.320	0.854	-0.861
USGG10	0.764	1.000	0.742	-0.190	-0.132	0.651	0.876	0.663	-0.536	-0.354	0.714	-0.722
KRW	0.726	0.664	0.769	-0.268	-0.361	0.375	0.789	0.522	-0.376	-0.197	0.743	-0.734
PHP	-0.444	0.142	-0.412	0.167	-0.467	-0.313	-0.178	-0.235	0.285	0.225	-0.422	0.464
NZD	-0.966	-0.882	-0.955	0.277	-0.077	-0.692	-0.967	-0.721	0.614	0.417	-0.932	0.943
AUD	-0.976	-0.848	-0.968	0.310	-0.140	-0.630	-0.966	-0.693	0.574	0.345	-0.945	0.961
GBP	-0.983	-0.746	-0.965	0.265	-0.248	-0.711	-0.895	-0.734	0.607	0.354	-0.955	0.970
EUR	-0.995	-0.722	-0.984	0.207	-0.216	-0.684	-0.901	-0.758	0.645	0.365	-0.981	1.000

Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1800	1.1823	1.1865	1.1900	1.2019
GBP-USD	1.3500	1.3547	1.3568	1.3600	1.3953
AUD-USD	0.7400	0.7412	0.7469	0.7500	0.7685
NZD-USD	0.6900	0.6917	0.6923	0.7000	0.7157
USD-CAD	1.2644	1.2800	1.2832	1.2837	1.2900
USD-JPY	107.27	109.00	109.70	110.00	110.04
USD-SGD	1.3383	1.3400	1.3442	1.3487	1.3490
EUR-SGD	1.5876	1.5900	1.5948	1.6000	1.6079
JPY-SGD	1.2147	1.2200	1.2253	1.2294	1.2295
GBP-SGD	1.8121	1.8200	1.8238	1.8300	1.8399
AUD-SGD	0.9966	1.0000	1.0039	1.0100	1.0134
Gold	1302.30	1304.47	1313.70	1327.51	1354.61
Silver	16.00	16.40	16.46	16.49	16.50
Crude	71.27	71.70	71.73	71.75	71.80

Source: OCBC Bank

G10 FX Heat Map

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

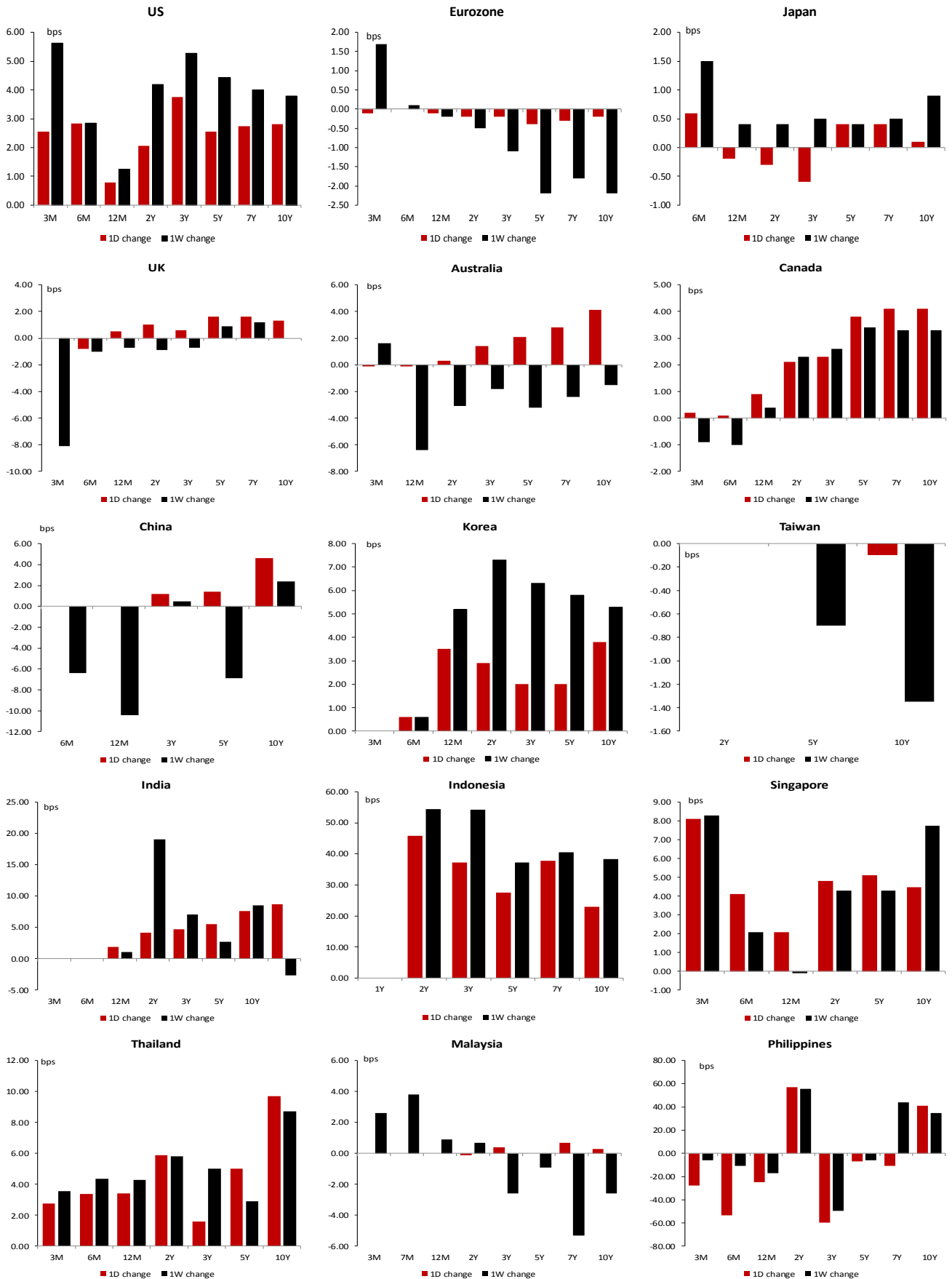
Source: OCBC Bank

Asia FX Heat Map

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

Source: OCBC Bank

Government bond yield changes



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