

Thursday, July 12, 2018

FX Themes/Strategy/Trading Ideas

- **DXY**

Risk appetite took a plunge overnight and weighed heavily on the commodity currencies. The safe-haven demand combined with rosy economic data out of the US pushed the dollar index higher towards 95. US June PPI increased by 3.4% yoy, the strongest pace since Nov 2011. Despite the weaker-than-expected wage growth, the faster growth of PPI together with a tight labor market indicates that inflationary risk might have been piling up. As such, UST yield rebounded slightly from 2.83% to 2.85%. We will take a close look at US CPI later today. In the short term, the central bank dynamic and strong economic fundamentals may allow the USD to remain its broad strength.
- **USDCNH**

The USTR published a list of an additional US\$200b of Chinese imports that may face 10% tariffs after a public consultation period that will end on 30 Aug. The RMB tumbled sharply in the aftermath. Despite that, RMB's performance against its major trading partners remained steady and gained slightly year to date. This suggests the current RMB movement is still within PBOC's comfort zone. At this juncture, since the escalation of trade war has not yet materialized, the RMB may move along with the broad dollar. Should the broad dollar edge higher and push the RMB index down swiftly to below 94, we think China may re-launch its counter cyclical factor to slow down the pace of depreciation.
- **EURUSD**

EUR wiped out most of the gains against the greenback due to a slew of weak data prints. German ZEW survey expectations hit a five-year low and printed -24.7 in July. Besides, French industrial production and manufacturing production in May both marked a month-on-month decline, missing estimates. Market will keep a closer eye on German and French CPI prints today. Elsewhere, ECB policymakers split on the timing of rate hike with some believing that one rate hike is possible in July 2019 at the earliest. The EUR rallied briefly on this news and retreated soon amid broad dollar strength. We hold onto our view that before strong economic indicators alter market expectations for ECB's rate hike trajectory, the upside of the EUR should be limited.
- **GBPUSD**

With uncertainties looming over UK government as well as Brexit, the GBP retreated. Two key Brexit governors has resigned early this week, decrying the "softer stance" on Brexit proposal held by Prime Minister Theresa May. Nevertheless, UK's first monthly GDP estimate printed at 0.3% mom in May.

This suggested that the UK economy is coming back from a lackluster 1Q18 and may provide fodder for BOE to hike in August. This helps to allow some floor for GBP's weakness. Still, Brexit uncertainties and high probability of a one-and-done rate hike in August may cap the upside of the GBP.

- **USDJPY**

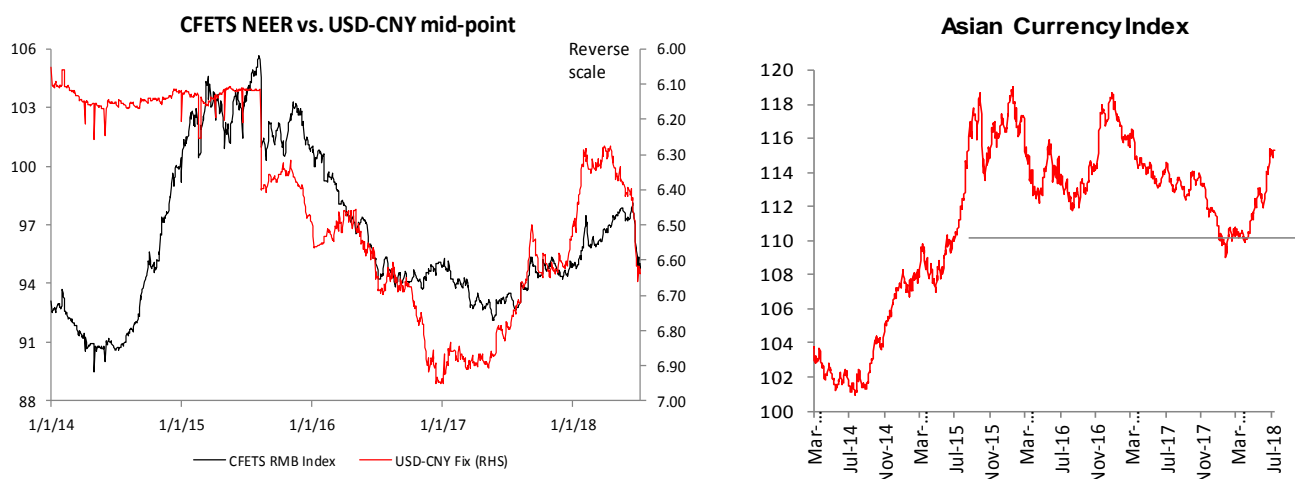
Despite the souring risk sentiments, the JPY tumbled amid the broad dollar strength and then its weakness was exacerbated by the unwinding of short USDJPY positioning. In the short to medium term, the movement of the JPY may be driven mainly by risk appetite and yield differential argument. We expect USD-JPY to keep trading in a range between 110.2 and 113.

- **USDCAD**

The BoC hiked the bench market rate by 25bps to 1.5% as widely expected. According to the statement, the central bank expects that "higher interest rates will be warranted to keep inflation near target." The hawkish tone, however, only lent brief support to the CAD. With the intensification of risk aversion and the prospects of oil oversupply in 2019, crude oil prices tumbled sharply overnight. This in turn pressured the CAD. We expect risk-off sentiment to keep the CAD under pressure into the coming session but rate hike expectations may allow the USD-CAD to find some resistance around 1.3300.

- **AUDUSD**

With the escalation of US-China trade war, risk-off sentiment weighed heavily on the commodity currencies. We expect risk sentiments to sink into the end of the week and in turn pressure the AUD lower against the greenback. The downside support for the AUD-USD is around 0.7330.



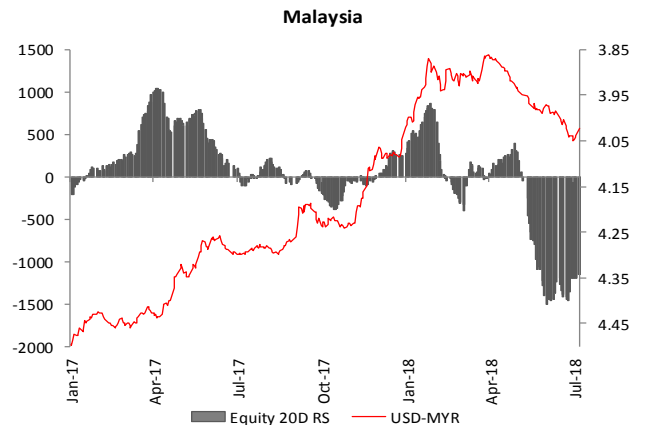
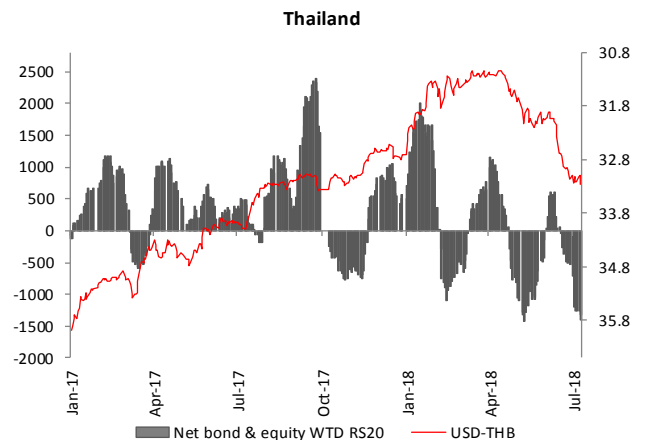
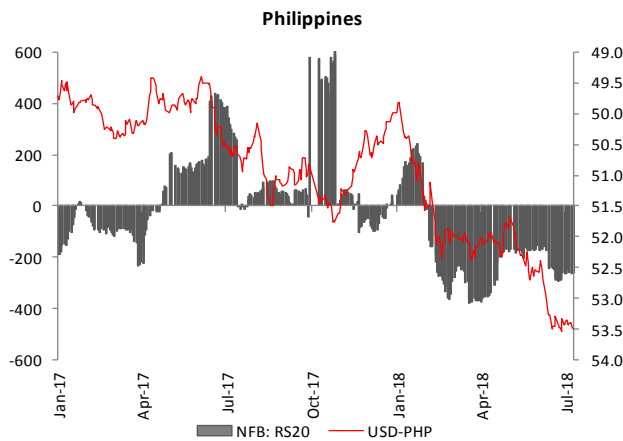
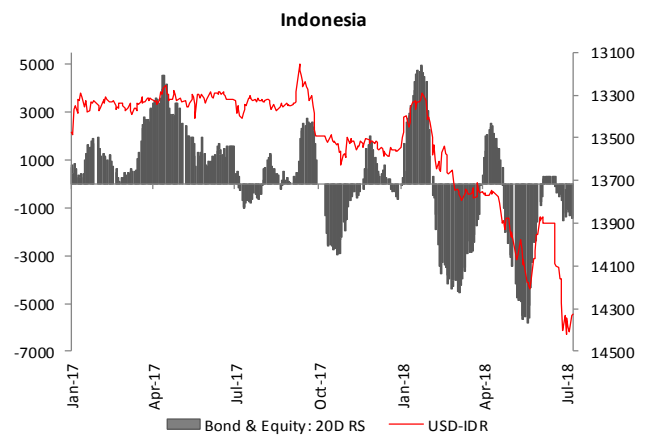
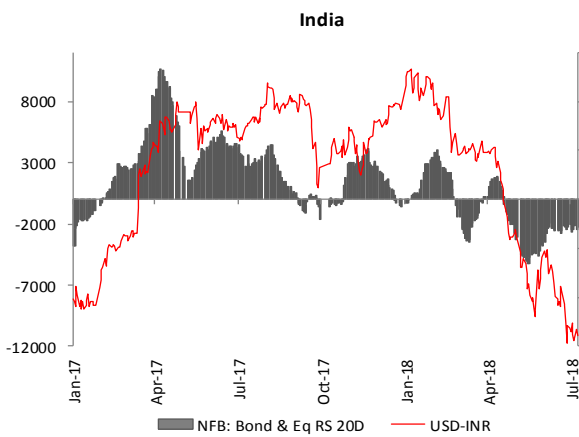
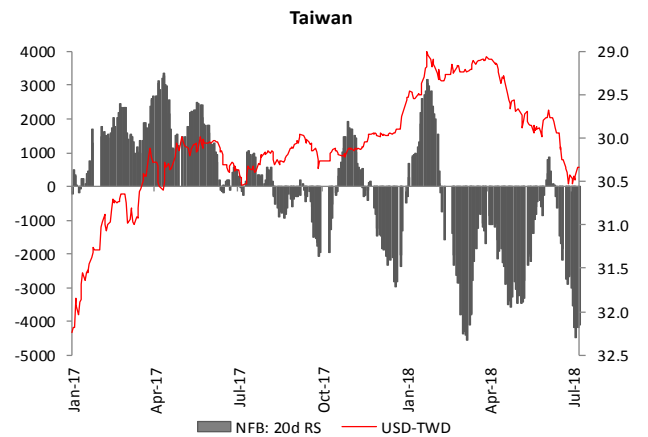
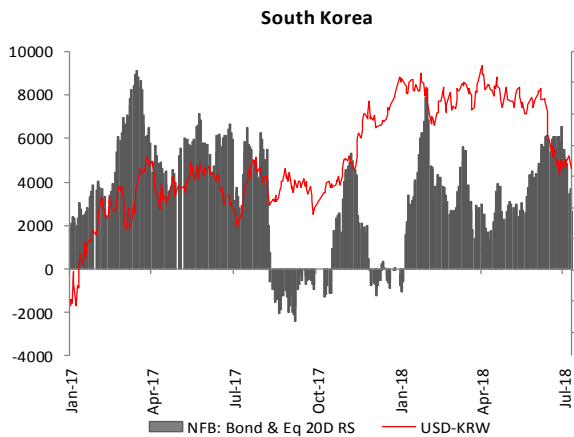
Source: OCBC Bank, Bloomberg

Short term Asian FX views

| Currency | Bias | Rationale |
|----------|------|--|
| USD-CNH | ↔/↑ | Renewed trade tensions may re-ignite upside move for the USD-CNH and USD-CNY; the CFETS RMB Index around 94.00 may attract stronger attention from the PBoC, but not exactly a line in the sand. |
| 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 | ↔/↑ | Policy rate unchanged in the latest BNM meeting; structurally overvalued compared to Asian peers based on foreign reserves and current account metrics |
| 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 |

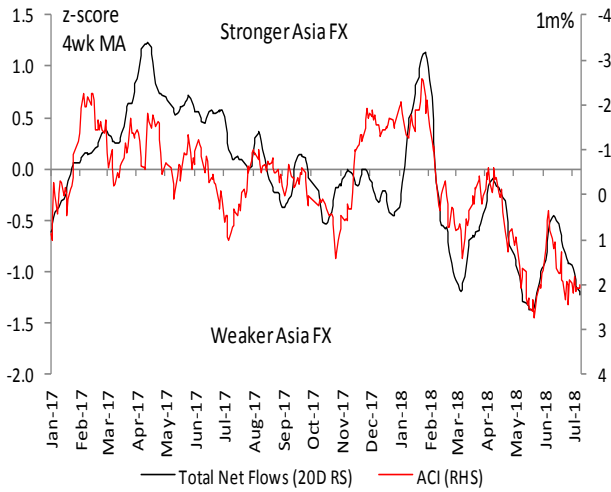
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



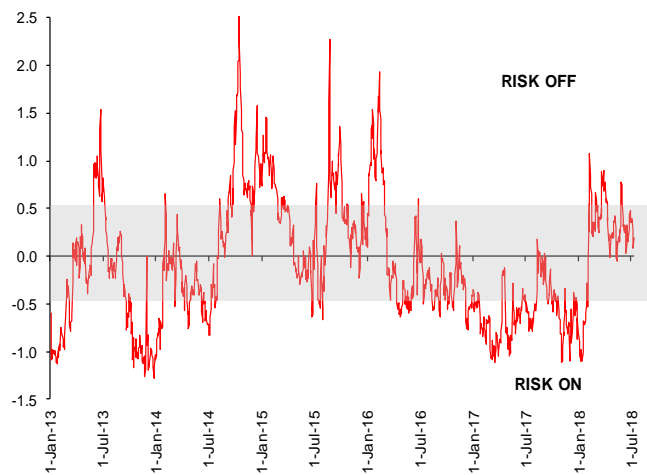
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

| | DXY | USGG10 | CNY | SPX | MSELCPAF | CRY | JPY | CL1 | VIX | ITRXXK | CNH | EUR |
|--------|--------|--------|--------|--------|----------|--------|--------|--------|--------|--------|--------|--------|
| DXY | 1.000 | -0.290 | 0.256 | -0.451 | -0.353 | -0.433 | 0.090 | 0.031 | 0.395 | 0.262 | 0.241 | -0.962 |
| CAD | 0.866 | -0.302 | 0.282 | -0.145 | -0.313 | -0.389 | 0.413 | 0.080 | 0.098 | 0.037 | 0.291 | -0.810 |
| CHF | 0.805 | -0.282 | 0.237 | -0.521 | -0.368 | -0.600 | -0.163 | -0.051 | 0.517 | 0.224 | 0.211 | -0.748 |
| SGD | 0.638 | -0.838 | 0.844 | -0.715 | -0.909 | -0.383 | 0.252 | 0.631 | 0.716 | 0.699 | 0.830 | -0.459 |
| PHP | 0.632 | -0.523 | 0.595 | -0.316 | -0.605 | -0.500 | 0.252 | 0.279 | 0.363 | 0.256 | 0.516 | -0.497 |
| KRW | 0.408 | -0.852 | 0.874 | -0.611 | -0.911 | -0.331 | 0.238 | 0.651 | 0.649 | 0.627 | 0.844 | -0.194 |
| TWD | 0.393 | -0.936 | 0.949 | -0.675 | -0.978 | -0.224 | 0.277 | 0.815 | 0.701 | 0.763 | 0.938 | -0.206 |
| THB | 0.357 | -0.901 | 0.933 | -0.529 | -0.945 | -0.360 | 0.323 | 0.736 | 0.566 | 0.613 | 0.920 | -0.156 |
| INR | 0.302 | -0.918 | 0.939 | -0.411 | -0.934 | -0.209 | 0.482 | 0.817 | 0.449 | 0.572 | 0.931 | -0.100 |
| MYR | 0.264 | -0.918 | 0.948 | -0.627 | -0.948 | -0.122 | 0.398 | 0.864 | 0.644 | 0.790 | 0.945 | -0.086 |
| CNY | 0.256 | -0.931 | 1.000 | -0.505 | -0.956 | -0.165 | 0.500 | 0.887 | 0.552 | 0.688 | 0.997 | -0.043 |
| CNH | 0.241 | -0.925 | 0.997 | -0.496 | -0.949 | -0.145 | 0.585 | 0.856 | 0.547 | 0.685 | 1.000 | -0.009 |
| JPY | 0.090 | -0.309 | 0.500 | 0.246 | -0.305 | -0.130 | 1.000 | 0.369 | -0.193 | 0.002 | 0.585 | 0.086 |
| IDR | -0.028 | -0.859 | 0.958 | 0.075 | -0.886 | 0.261 | 0.718 | 0.861 | -0.098 | 0.335 | 0.947 | 0.208 |
| USGG10 | -0.290 | 1.000 | -0.931 | 0.575 | 0.966 | 0.124 | -0.309 | -0.843 | -0.613 | -0.657 | -0.925 | 0.121 |
| NZD | -0.462 | 0.881 | -0.943 | 0.624 | 0.936 | 0.196 | -0.489 | -0.796 | -0.634 | -0.770 | -0.945 | 0.254 |
| AUD | -0.824 | 0.674 | -0.679 | 0.640 | 0.760 | 0.534 | -0.242 | -0.392 | -0.607 | -0.543 | -0.668 | 0.683 |
| GBP | -0.879 | 0.597 | -0.597 | 0.643 | 0.675 | 0.293 | -0.198 | -0.437 | -0.610 | -0.593 | -0.576 | 0.751 |
| EUR | -0.962 | 0.121 | -0.043 | 0.375 | 0.170 | 0.370 | 0.086 | 0.151 | -0.291 | -0.136 | -0.009 | 1.000 |

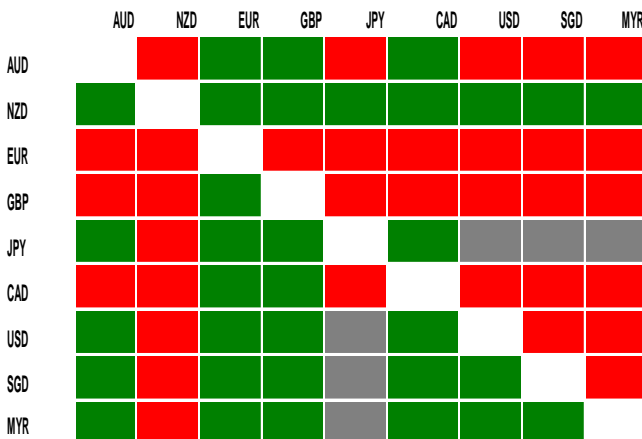
Source: Bloomberg

Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1538 | 1.1600 | 1.1675 | 1.1700 | 1.1722 |
| GBP-USD | 1.3104 | 1.3200 | 1.3207 | 1.3300 | 1.3325 |
| AUD-USD | 0.7311 | 0.7323 | 0.7365 | 0.7400 | 0.7470 |
| NZD-USD | 0.6691 | 0.6700 | 0.6755 | 0.6800 | 0.6912 |
| USD-CAD | 1.3053 | 1.3200 | 1.3208 | 1.3300 | 1.3369 |
| USD-JPY | 111.00 | 111.72 | 111.95 | 112.00 | 112.17 |
| USD-SGD | 1.3511 | 1.3600 | 1.3642 | 1.3700 | 1.3711 |
| EUR-SGD | 1.5799 | 1.5900 | 1.5927 | 1.5981 | 1.6000 |
| JPY-SGD | 1.2139 | 1.2166 | 1.2186 | 1.2200 | 1.2239 |
| GBP-SGD | 1.7973 | 1.8000 | 1.8017 | 1.8100 | 1.8106 |
| AUD-SGD | 0.9999 | 1.0000 | 1.0047 | 1.0094 | 1.0100 |
| Gold | 1233.12 | 1238.80 | 1242.80 | 1285.55 | 1289.75 |
| Silver | 15.70 | 15.73 | 15.73 | 15.80 | 16.39 |
| Crude | 69.40 | 70.50 | 70.59 | 70.60 | 75.27 |

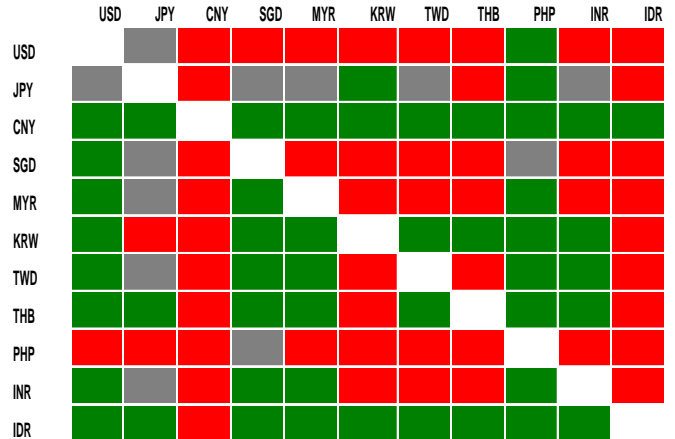
Source: OCBC Bank

G10 FX Heat Map



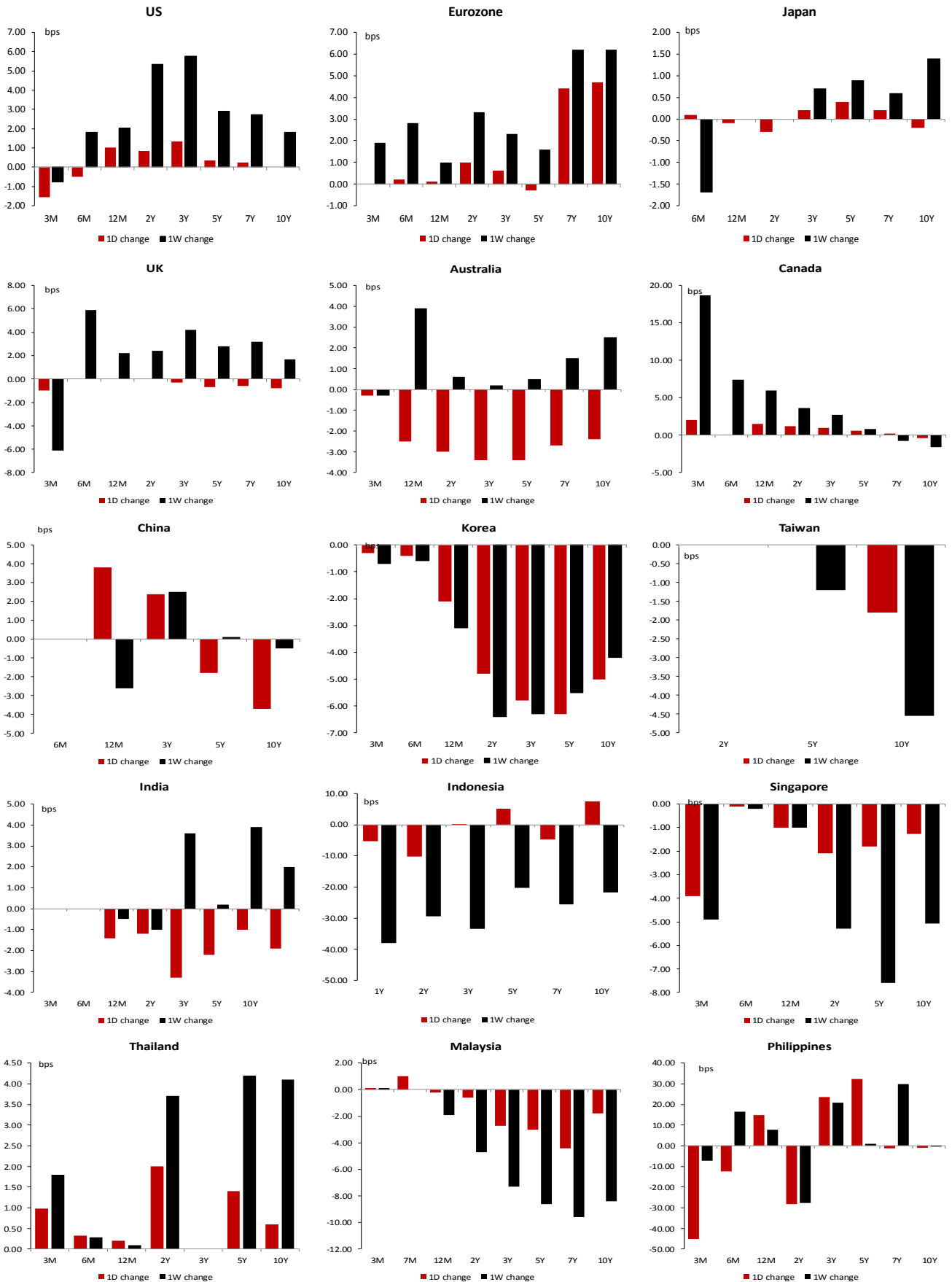
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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