

Tuesday, June 12, 2018

FX Themes/Strategy/Trading Ideas

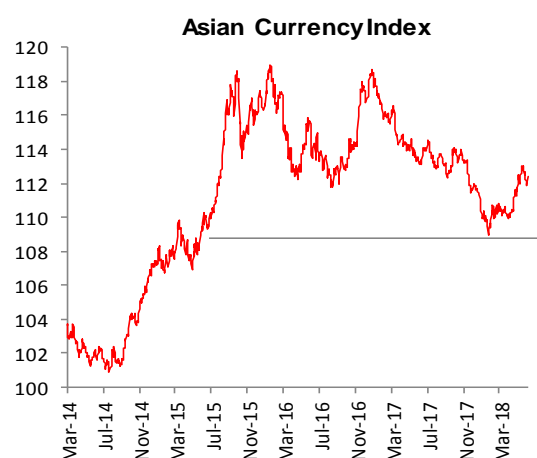
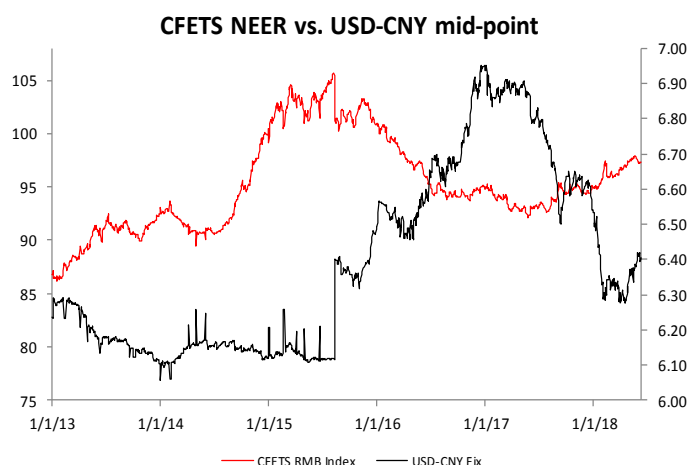
- Risk sentiments tilted towards the positive on Monday, as G7 trade issues were cast aside, perhaps too easily, in favour of optimism on the Trump-Kim summit. Overall trading was somewhat subdued, with the JPY and CAD underperforming on risk sentiments and being at the centre-stage of G7 trade issues respectively.
- G7 trade issues have been (temporarily, we think) swept under the carpet, although attention may be cast on it again soon. Note that Merkel and Lagarde had issued warnings over the trade issue. A re-ignition of these tensions will likely be marginally USD-positive.
- Market attention naturally tuned into the ongoing Trump-Kim summit, which appears to have enjoyed a positive start. The key question is whether this summit will lead to a lasting, materially positive outcome. From an international relations perspective, this appears unlikely. What is perhaps more likely, is a positive opening act in a long drawn drama.
- Expect a positive risk environment to persist if the summit can conclude without hiccups, with the North Asian currencies perhaps benefitting the most. Meanwhile, the markets may be reduced to headline watching. **Given the current sentiments, however, the downside risk due to the summit underperforming expectations may be higher than the upside risk from a significant deal.**
- Elsewhere, note that UK data-prints were weaker than expected on Monday, heaping further negative pressure on the GBP. The European Union (Withdrawal) Bill will be returned to the House of Commons later today. Expect some volatility on the GBP on political developments. Note that our implied valuations for the GBP have firmed alongside recent price movements, and the GBP is essentially at the middle of the confidence interval. Overall, sellers may still have the upper hand marginally, with May low at 1.3249 attracting.
- Meanwhile, the EUR remains capped under the 1.1850 level, although a re-test of this level may be on hand as EUR shorts are unwound ahead of the ECB meeting.
- On the data front, watch for US CPI (1230 GMT) and hourly earnings (1230 GMT) and German ZEW survey (0900 GMT).

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Asian FX

- A positive session in US/EZ equities added to the positivity in the air, as risk appetite increased ahead of the Trump-Kim summit. Our **FX Sentiment Index (FXSI)** edged lower towards to Risk-on zone, while staying within the **Risk Neutral** territory.
- Expect risk sentiments to drive the **Asian Currency Index (ACI)** intra-day. If the summit progresses as smoothly as it has started, the ACI should edge lower. At this stage, trade issues are being downplayed, though one should not forget that it is fundamentally the bigger issue. We keep a cautious eye on any further escalation on the trade front.
- In terms of **Asian net portfolio flows**, outflow momentum for India continues to moderate. Note that improvements were seen on both the bond and equity fronts, although both remains in net outflow territory on the 20-day basis. Meanwhile, inflows into Thailand and Taiwan moderated over the past two sessions, with Taiwan taking the more significant hit. For Thailand, equity outflows continue unabated, although bond inflows eased the pressure.
- **South Korea:** Trump-Kim summit holds the attention of the world. A lasting, materially positive outcome from the summit will lead the USD-KRW lower on a structural perspective as markets re-price the risk premium around the pair.
- **India:** Watch CPI data prints (1200 GMT) for May later today. Another hotter than expected print will reaffirm our view that the Reserve Bank of India's (RBI) remains on a hawkish tilt.
- **SGD NEER:** The SGD NEER is unchanged at +0.81% above its perceived parity (1.3468), with the NEER-implied USD-SGD thresholds firmer on the day. The +0.60% (1.3388) and the +0.90% (1.3348) thresholds should bookend the pair intraday.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, somewhat less than expected, at 6.4121 compared to 6.4064 on Monday. However, the CFETS RMB Index still strengthened to 93.42, compared to 97.30 previously.



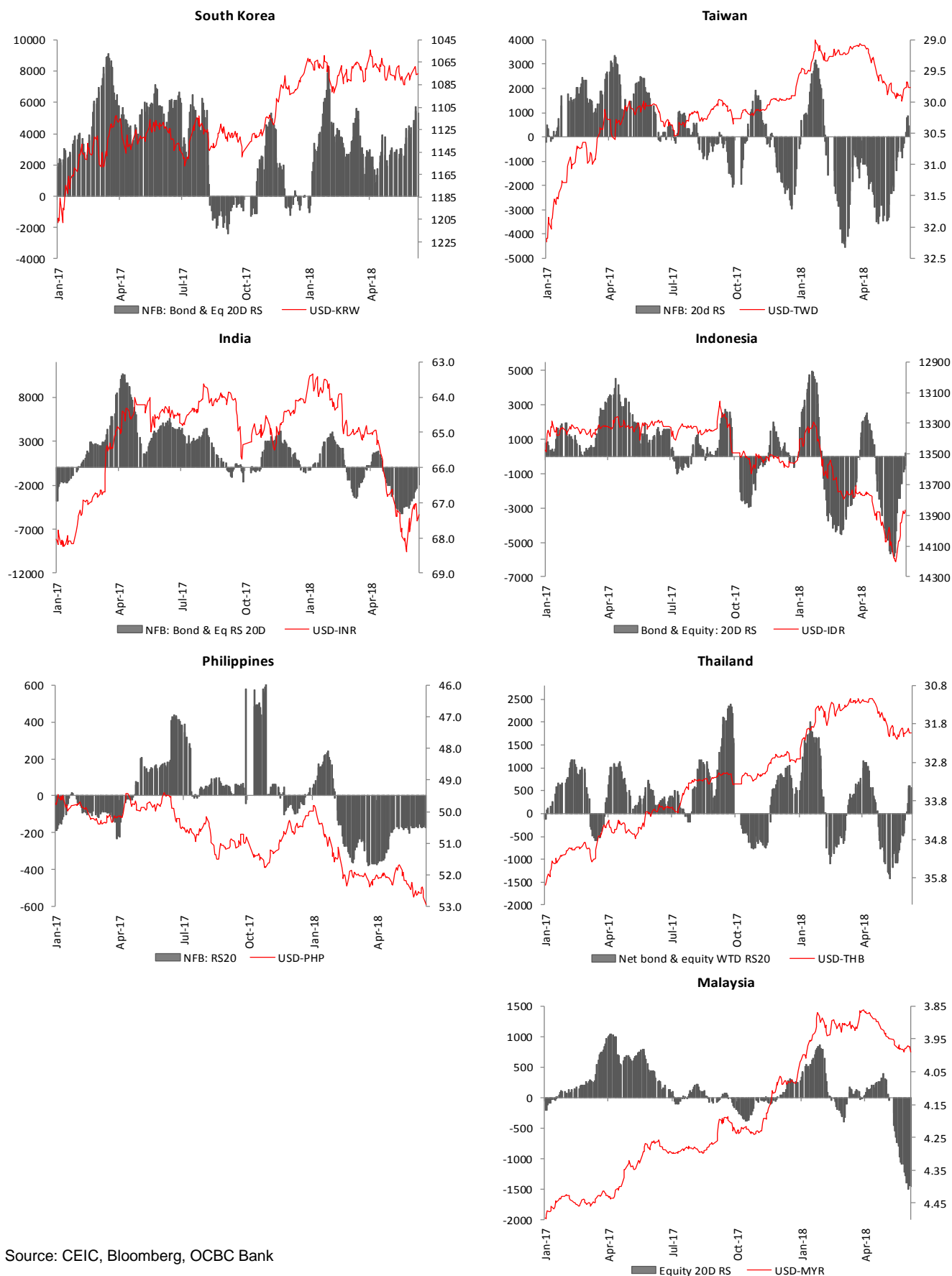
Source: OCBC Bank, Bloomberg

Short term Asian FX views

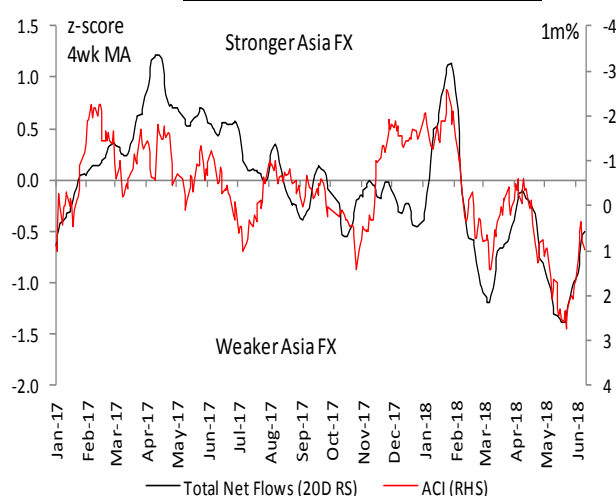
Currency	Bias	Rationale
USD-CNH	↔	Pace of depreciation of the RMB basket may be more controlled; Sino-US trade tensions reigniting; USD-CNY midpoints reverted to being consistent with unbiased models.
USD-KRW	↔	A lasting and materially positive outcome from Trump-Kim talks may spark a re-pricing in the risk premium surrounding the KRW; net portfolio inflows remain at healthy levels; 1Q GDP growth and CPI data prints missed expectations; BOK reaffirms accommodative stance in latest comments
USD-TWD	↔/↓	Equity flows flipped into a net inflow situation; 1Q current account surplus shrinks
USD-INR	↔	RBI hiked rates by 25 bps in its June meeting as expected, regulatory changes by the RBI may exacerbate the demand-supply mismatch in government bonds; net portfolio outflows moderating; lower crude price may provide some reprieve
USD-SGD	↔/↓	SGD NEER should be capped below +1.00% above parity; 1Q GDP prints in line, but CPI missed expectations; pair responsive to broad USD movements
USD-MYR	↑	Shifts in policy direction under PH government may spur re-assessment of asset markets; sustained net equity outflows following election outcome
USD-IDR	↔	IDR stability the main objective for monetary policy for now amidst two quick-fire rate hikes, with 14000 potentially becoming a level to defend again; inflation came in softer than expected again, though it may not have significant impact on monetary policy; net portfolio flows flipped into a net inflow situation.
USD-THB	↔	BOT remains accommodative, keeping rates unchanged in the latest meeting; net portfolio flows flipped into a net inflow situation;
USD-PHP	↔/↑	April trade data is worse than expected, with exports growth continuing to underperform; BSP governor appear comfortable with recent weakening of the PHP

Source: OCBC Bank

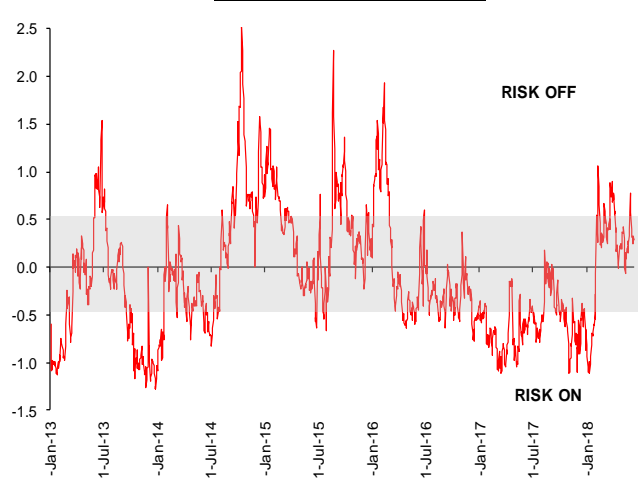
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.658	0.765	-0.288	-0.629	-0.091	-0.491	-0.370	0.464	0.633	0.743	-0.986
CNY	0.765	-0.778	1.000	0.121	-0.518	-0.496	-0.580	-0.717	0.298	0.843	0.950	-0.768
CNH	0.743	-0.873	0.950	0.107	-0.428	-0.561	-0.668	-0.799	0.321	0.878	1.000	-0.755
MYR	0.704	-0.570	0.746	0.374	-0.472	-0.172	-0.394	-0.403	-0.102	0.778	0.685	-0.692
TWD	0.586	-0.161	0.274	-0.675	-0.851	0.624	-0.167	0.405	0.630	0.100	0.163	-0.576
CAD	0.562	-0.777	0.705	0.234	-0.046	-0.715	-0.565	-0.857	0.139	0.785	0.846	-0.564
PHP	0.422	-0.644	0.657	0.350	-0.152	-0.390	-0.589	-0.564	0.020	0.696	0.697	-0.424
SGD	0.388	0.128	-0.038	-0.799	-0.489	0.620	0.026	0.590	0.628	-0.260	-0.080	-0.391
KRW	0.287	0.211	0.072	-0.345	-0.599	0.652	0.240	0.496	0.222	-0.065	-0.110	-0.237
THB	0.202	0.349	0.096	-0.170	-0.377	0.432	0.445	0.447	0.120	-0.128	-0.130	-0.117
NZD	0.094	-0.485	0.562	0.754	0.145	-0.743	-0.238	-0.825	-0.408	0.655	0.555	-0.073
AUD	0.063	-0.288	0.357	0.772	0.240	-0.582	-0.057	-0.671	-0.602	0.465	0.345	-0.021
IDR	0.053	0.568	-0.412	-0.547	-0.305	0.894	0.468	0.861	0.121	-0.569	-0.535	-0.001
INR	-0.042	0.430	-0.417	-0.514	-0.224	0.849	0.307	0.830	0.208	-0.497	-0.446	0.060
CHF	-0.336	0.697	-0.687	-0.572	0.006	0.685	0.453	0.861	0.207	-0.824	-0.731	0.334
JPY	-0.491	0.889	-0.580	0.110	0.423	0.277	1.000	0.501	-0.416	-0.718	-0.668	0.605
USGG10	-0.658	1.000	-0.778	-0.005	0.404	0.434	0.889	0.714	-0.405	-0.887	-0.873	0.720
GBP	-0.903	0.829	-0.837	0.103	0.625	0.197	0.674	0.537	-0.387	-0.787	-0.849	0.907
EUR	-0.986	0.720	-0.768	0.318	0.666	0.091	0.605	0.378	-0.502	-0.660	-0.755	1.000

Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1586	1.1700	1.1774	1.1800	1.1865
GBP-USD	1.3240	1.3300	1.3373	1.3400	1.3516
AUD-USD	0.7600	0.7601	0.7605	0.7664	0.7677
NZD-USD	0.6860	0.7000	0.7016	0.7060	0.7073
USD-CAD	1.2825	1.2900	1.2988	1.3000	1.3057
USD-JPY	110.00	110.21	110.39	111.00	111.23
USD-SGD	1.3319	1.3358	1.3360	1.3400	1.3460
EUR-SGD	1.5537	1.5700	1.5730	1.5800	1.5861
JPY-SGD	1.2047	1.2100	1.2101	1.2123	1.2200
GBP-SGD	1.7750	1.7800	1.7866	1.7900	1.8104
AUD-SGD	1.0100	1.0109	1.0160	1.0200	1.0218
Gold	1281.20	1283.64	1298.90	1300.00	1307.09
Silver	16.75	16.90	16.93	16.93	16.98
Crude	64.22	66.10	66.17	66.20	67.88

Source: OCBC Bank

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD									
NZD									
EUR									
GBP									
JPY									
CAD									
USD									
SGD									
MYR									

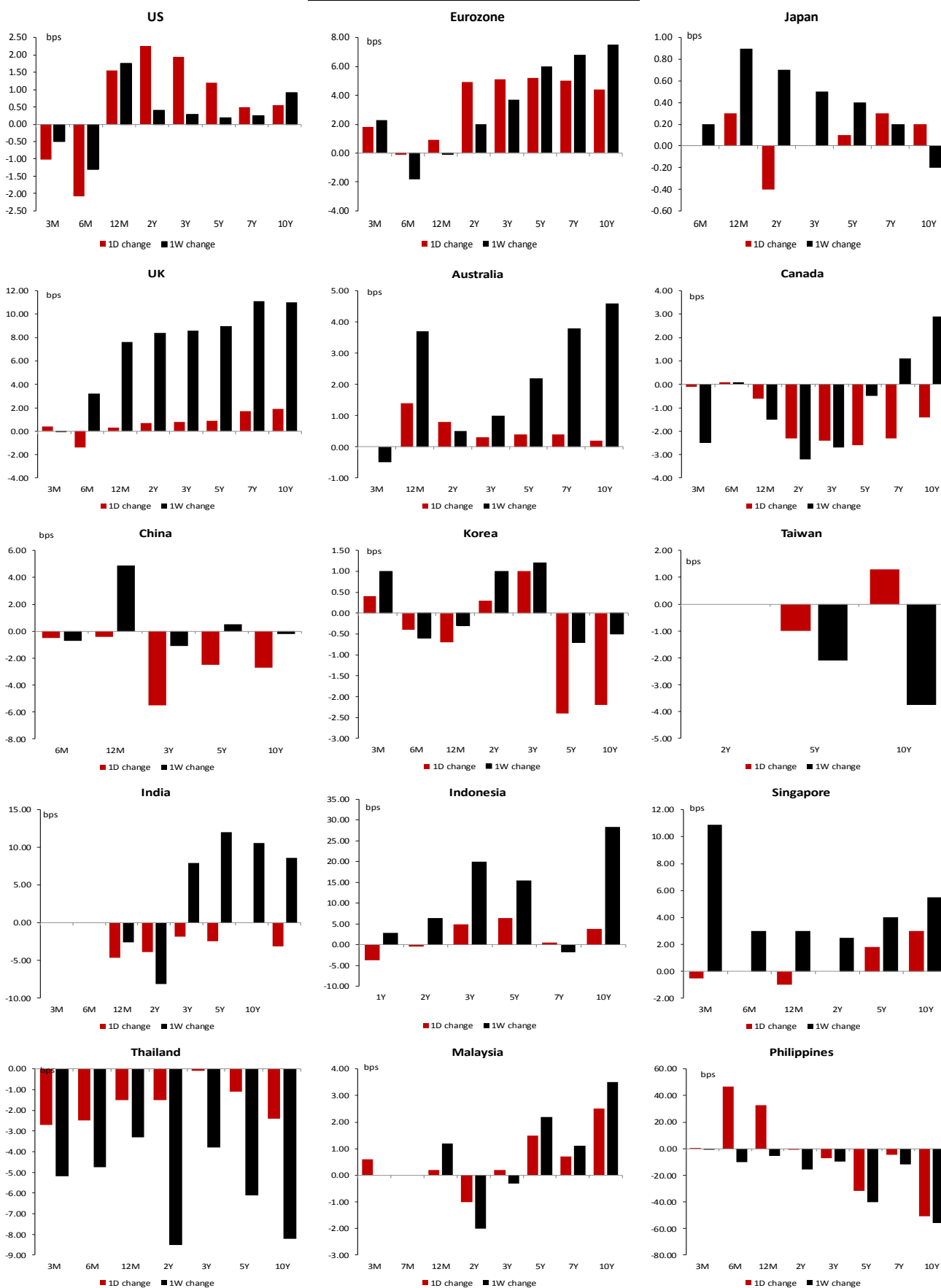
Source: OCBC Bank

Asia FX Heat Map

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

Source: OCBC Bank

Government bond yield changes



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