

Monday, August 13, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

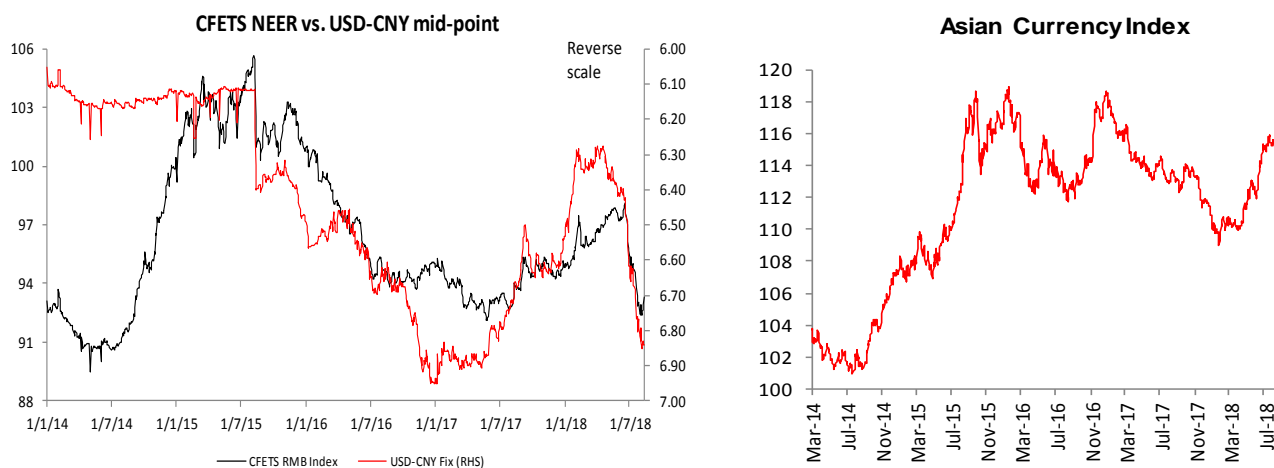
- Turkish concerns gripped the market on Friday, spurring safe haven flows that benefited the USD, JPY and CHF. The DXY index sailed through recent range highs on Friday, hitting a high of 96.45. The EUR suffered over the concerns of contagion risk that the Turkey may have on the European banking sector.
- **At this juncture, expect the EUR to stay depressed intraday, with rebounds capped near 1.1430. Risk reversals for the EUR-USD and EUR-JPY pairs continue to move in favour of EUR puts.** Nevertheless, note that the fears over the European banking system are still not properly substantiated. Watch 1.1367 (200-week MA) on the EUR-USD as an immediate technical support. Beyond that, the next major technical waypoint may come in at the 1.1180-1.12 area.
- Also keep an eye on the bund yield as a reflection of fears on the European banking sector. If bund yields find a bottom, expect the EUR to bottom out near current levels as well.
- In the meantime, continue to watch headlines on the TRY and a possible contagion into other EM currencies (ZAR, RUB comes to mind) as a gauge on risk sentiments. In addition, expect the EUR to be sensitive to any further substantiation (or rejection) of concerns on the European banking system.
- **Beyond the immediate horizon, with the DXY index breaking through the recent range on the topside, we expect the broad USD to remain supported going forward. Retain our preference to be long USD and short JPY crosses.**
- In terms of **CFTC** data, the latest prints show a revision back to the pro-USD stance after a blip in the previous week. The leveraged accounts further increased their implied USD positions from already extended levels. In the latest week, short positions on the EUR, NZD and GBP built significantly within the short term players. The GBP short position more than doubled from the previous week. Asset managers also reduced their implied USD shorts.
- This week, the US data calendar is relatively light with retail sales and manufacturing data (Wed) being the main highlight. More excitement in Europe perhaps, with aggregate and country-level GDP and CPI releases throughout the week. Meanwhile, Brexit negotiations restart on Thursday, although we may be hard-pressed to expect any significant progress in this round of talks. The central bank front is quiet, with only RBA's Lowe and Ellis scheduled.

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Asian FX

- The ongoing sell-off in the TRY, and the contagion to the ZAR early morning, will cast a shadow on EM Asian FX early week. Issues in the RMB complex, in comparison, may take a backseat somewhat.
- Expectedly, risk sentiments took a hit on Friday, and opened the week on a tentative mode. Higher FX vols in both the EM and G10 space, and gyrations in the EM bond market contributed most to the weaker sentiments. Our **FX Sentiment Index (FXSI)** made a jump towards the Risk-Off threshold, but nevertheless stayed within the Risk-Neutral zone.
- Overall, we think the impact of the TRY jitters on EM Asian FX will work indirectly through broad USD strength and shaky risk sentiments. **At this juncture, we do not expect the de-risking across global EM to hit EM Asian assets in an outsized way.** Nevertheless, expect the Asian Currency Index (ACI) to push higher early week, although to a more moderated extent compared to other EM currencies.
- In terms of **Asian net portfolio flows**, we continue to see strong inflows on both the bond and equity fronts into India in the latest print. Meanwhile, outflows were noted in South Korean and Taiwanese equities, and also on the Indonesian bond and equities. Note that these prints pre-date the TRY crisis. We continue to keep a close watch on whether de-risking due to global EM jitters will hit EM Asian assets.
- On the Asian data front this week, watch for Indian CPI (1200 GMT) today, China retail sales and industrial production (Tue), Malaysian GDP and BOP (Thu) and Thai GDP (Fri). Bank Indonesia (BI) policy decision is also scheduled for Wednesday.
- **SGD NEER:** The SGD NEER softened to +0.95% above its perceived parity level (1.3881) this morning, with the NEER-implied USD-SGD thresholds significantly higher after the broad USD broke through recent highs on Friday. Expect intraday range between the +0.80% (1.3771) and +1.20% (1.3717) thresholds. **If the broad USD remains on the ascendant, expect the 1.3800 levels to be tested in the coming sessions.**
- **Singapore:** 2Q GDP growth revised to 3.90% yoy this morning, but nevertheless missed market expectations. At this juncture, we do not think this print will significantly factor into the MAS's October decision. Continue to watch the core CPI print on this front.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, below expectations, at 6.8395 compared to 6.8629 on Friday. The CFETS RMB Index firmed to 93.18, compared to 92.91 previously.



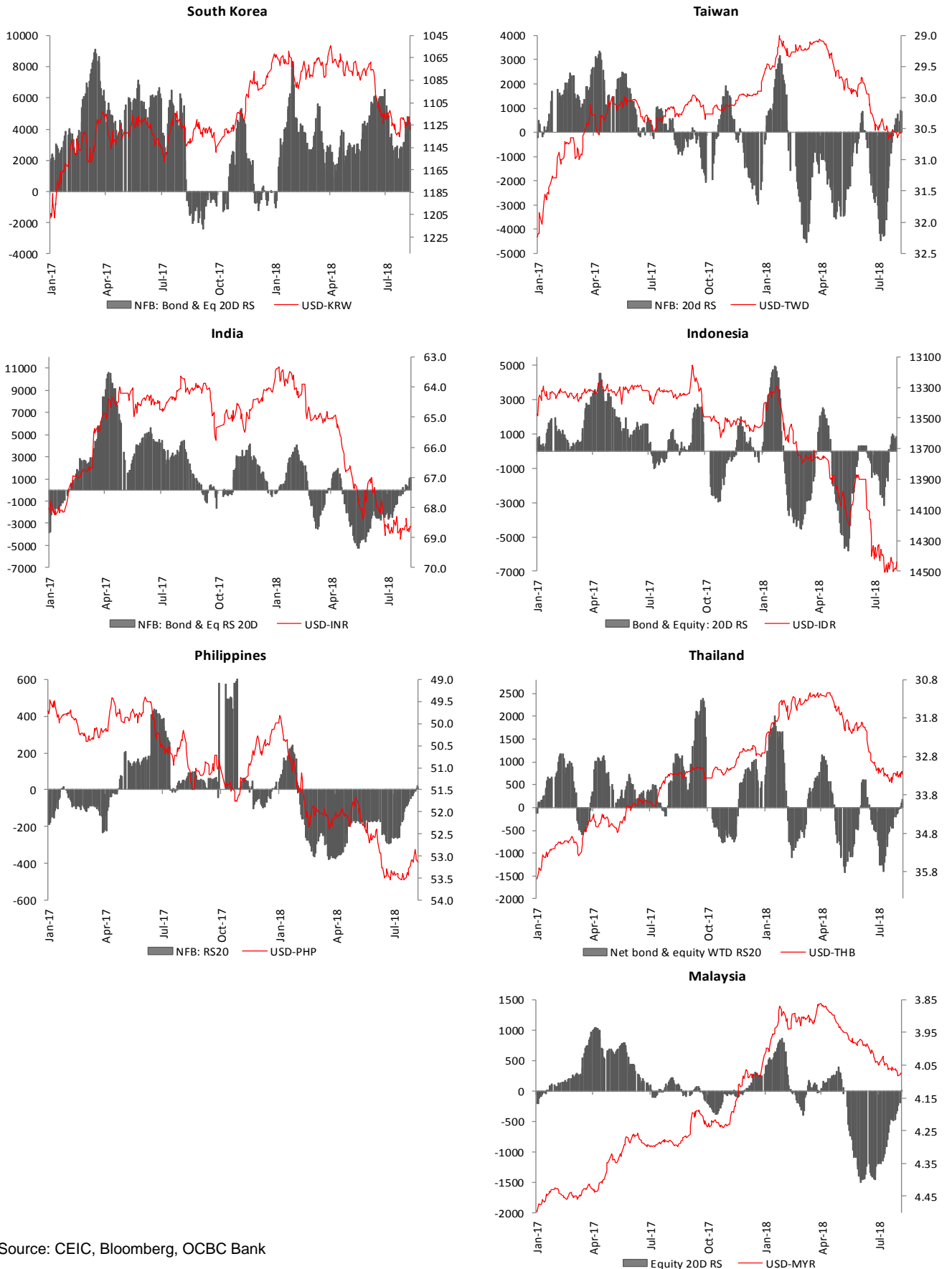
Source: OCBC Bank, Bloomberg

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	↔/↑	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; 2Q GDP print below expectations
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

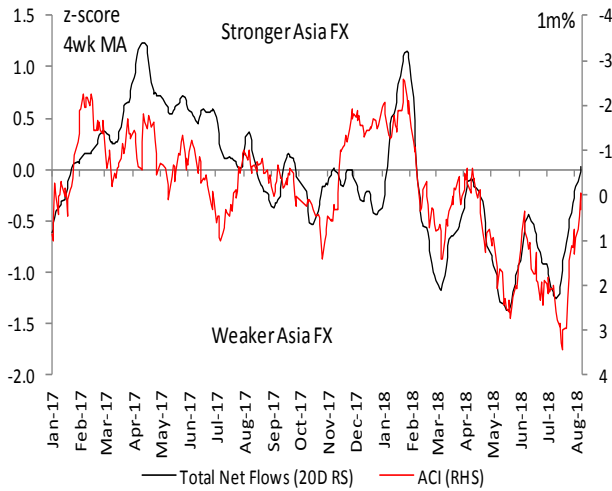
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



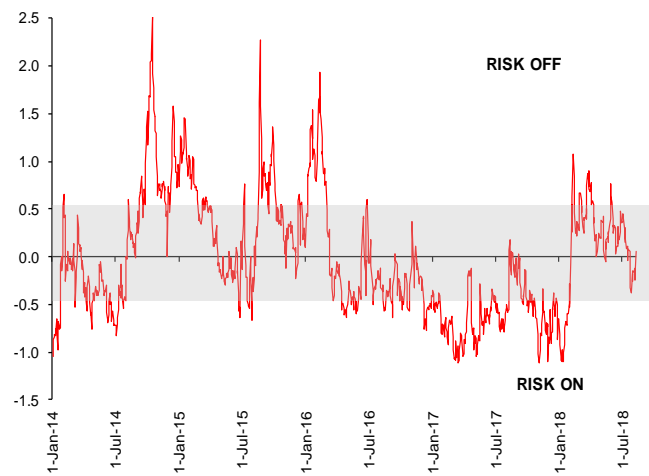
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DX	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DX	1.000	-0.422	0.387	0.446	-0.418	-0.359	-0.233	-0.452	-0.356	0.664	0.557	-0.977
SGD	0.914	-0.523	0.282	0.141	-0.603	-0.462	-0.091	-0.275	-0.167	0.705	0.520	-0.856
MYR	0.698	0.296	0.872	0.636	-0.244	0.142	-0.538	-0.215	-0.380	0.466	0.888	-0.794
CNH	0.557	0.391	0.952	0.504	-0.044	0.348	-0.682	-0.136	-0.151	0.160	1.000	-0.673
CNY	0.387	0.623	1.000	0.559	0.064	0.451	-0.716	-0.109	-0.177	0.114	0.952	-0.542
CHF	0.379	-0.637	-0.438	0.009	-0.600	-0.614	0.630	-0.134	-0.375	0.342	-0.303	-0.243
TWD	0.237	0.118	0.489	0.112	-0.184	0.004	-0.504	0.083	0.044	0.475	0.524	-0.288
INR	0.165	-0.221	0.193	0.013	-0.135	0.052	-0.255	0.323	0.042	0.403	0.240	-0.101
CAD	0.154	-0.786	-0.622	-0.541	-0.229	-0.582	0.437	0.056	0.235	0.303	-0.447	0.029
KRW	0.132	-0.550	-0.392	-0.399	-0.471	-0.467	0.208	0.194	0.137	0.508	-0.222	-0.014
IDR	0.120	0.257	0.487	0.175	-0.176	0.143	-0.455	0.199	-0.070	0.261	0.526	-0.159
JPY	-0.233	-0.441	-0.716	-0.511	-0.481	-0.598	1.000	0.103	0.043	0.040	-0.682	0.380
THB	-0.270	-0.200	-0.202	-0.397	-0.279	0.071	0.015	0.504	0.214	0.165	-0.121	0.318
USGG10	-0.422	1.000	0.623	0.394	0.399	0.675	-0.441	0.092	-0.094	-0.503	0.391	0.263
PHP	-0.429	-0.506	-0.784	-0.655	0.080	-0.313	0.404	0.280	0.393	-0.152	-0.700	0.571
AUD	-0.844	0.445	-0.249	0.052	0.329	0.383	0.175	0.255	-0.157	-0.436	-0.516	0.815
GBP	-0.924	0.213	-0.601	-0.640	0.245	0.125	0.424	0.481	0.473	-0.619	-0.676	0.931
NZD	-0.938	0.381	-0.393	-0.457	0.221	0.327	0.365	0.545	0.314	-0.617	-0.551	0.940
EUR	-0.977	0.263	-0.542	-0.557	0.314	0.197	0.380	0.461	0.361	-0.563	-0.673	1.000

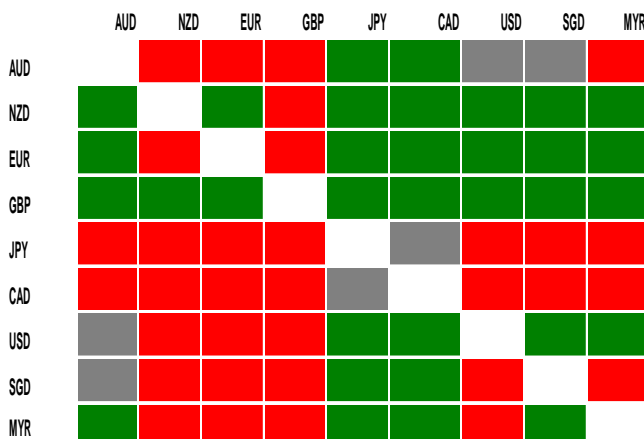
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1368	1.1381	1.1400	1.1435
GBP-USD	1.2700	1.2723	1.2757	1.2766	1.2800
AUD-USD	0.7200	0.7251	0.7271	0.7300	0.7306
NZD-USD	0.6500	0.6557	0.6584	0.6600	0.6608
USD-CAD	1.3100	1.3123	1.3160	1.3200	1.3244
USD-JPY	110.13	110.14	110.19	110.93	111.00
USD-SGD	1.3700	1.3739	1.3761	1.3800	1.3850
EUR-SGD	1.5600	1.5611	1.5661	1.5692	1.5700
JPY-SGD	1.2400	1.2424	1.2489	1.2490	1.2500
GBP-SGD	1.7500	1.7512	1.7554	1.7600	1.7889
AUD-SGD	0.9957	1.0000	1.0006	1.0028	1.0091
Gold	1204.20	1205.10	1211.10	1238.12	1251.34
Silver	15.14	15.20	15.27	15.27	15.30
Crude	66.68	67.50	67.58	67.60	68.85

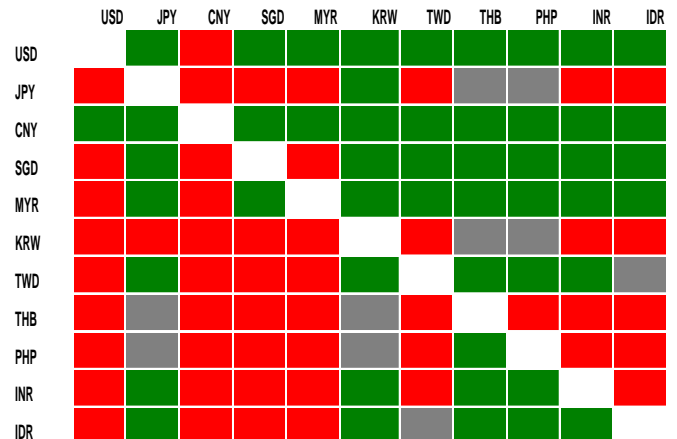
Source: OCBC Bank

G10 FX Heat Map



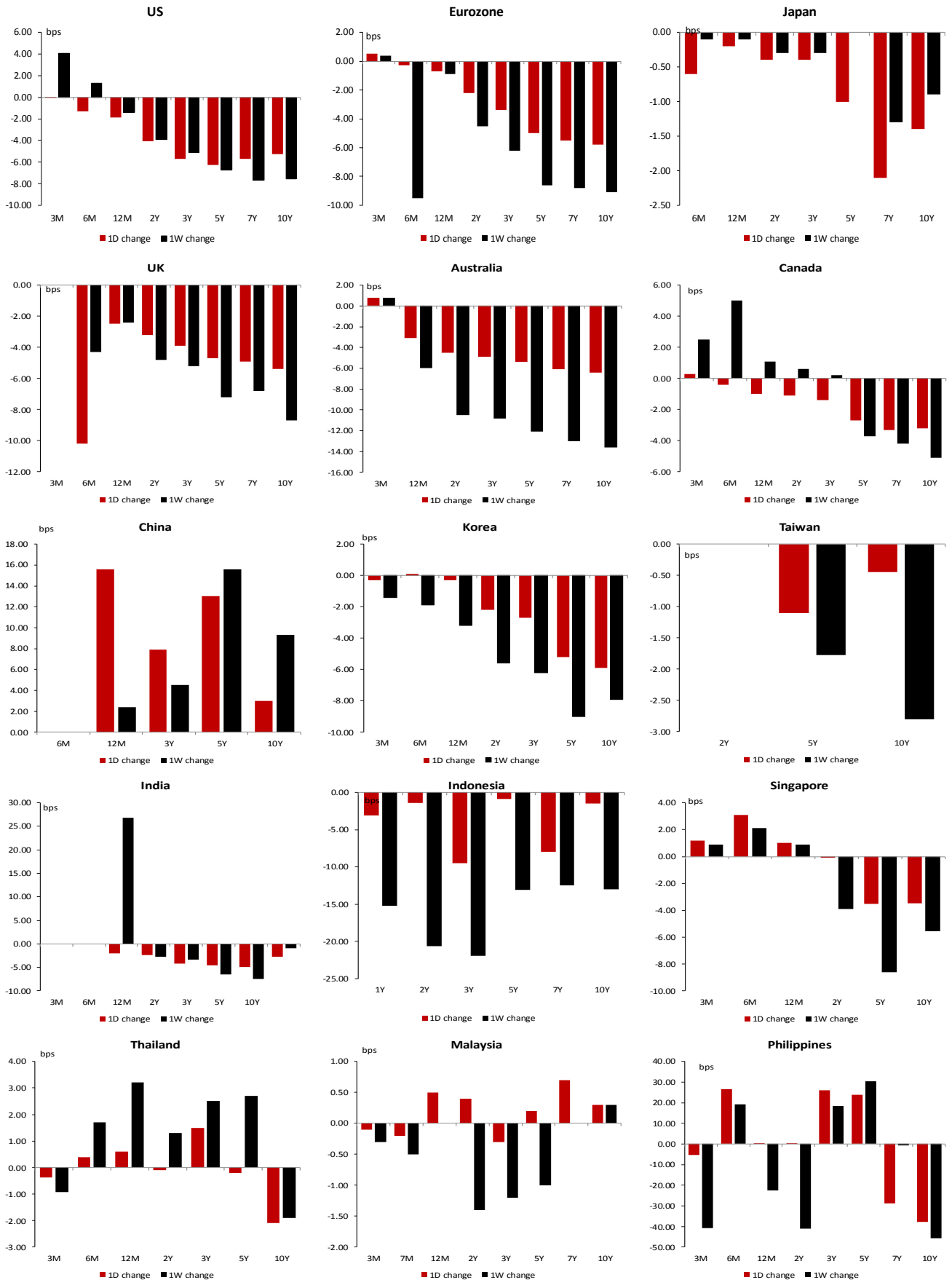
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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