

Friday, July 13, 2018

FX Themes/Strategy/Trading Ideas

- A risk positive tone returned as trade tensions eased due to a perceived moderate response from China in the face of the potential threat of additional tariffs. Commodity currencies outperformed, while JPY and CHF weakened the most against the USD.
- Comments from Fed's Powell overnight noted a "rising level of concern" over the trade tensions, and signaled the possibility of the Fed facing a period of rising price pressures amid slowing growth due to trade. Note that this is the opposite problem compared to the previous years, which saw rising growth but stagnant inflation. **At this juncture, we still expect the US rate hike path to be on track for a September hike, allowing for the optionality for a fourth hike in December.** The Monetary Policy Report to Congress later today, and the testimonies by Powell early next week should be closely watched to glean Fed intentions, especially in response to trade issues.
- In-line to weaker-than-expected economic prints in the Eurozone this week, and in comparison to firmer US prints, continued to douse any attempts by the EUR to generate upside momentum. Nevertheless, this has not dampened the improvement in our EU Macro Surprise Index (MSI) on a 3M basis. This should keep dips in the EUR relatively shallow from current levels.
- Despite not acting like a haven when risk-off sentiments hit, the revival of risk appetite lifted the USD-JPY and JPY-crosses, taking out shorts placed earlier in the week. It bears the question of why this atypical, one-directional relationship to risk. One view suggests that it is difficult to buy the JPY against the USD on a secular basis due to the wide yield differentials. We have our reservations on this view, noting that the yield gap is on a downtrend alongside lower UST yields, and that the USD-JPY has previously been seen dipping amidst rising yield gaps. **At this stage, prefer to be patient on the USD-JPY as it approaches its year-to-date highs, pending further assessment.**
- **Overall, expect the risk-on/risk-off dynamic to dominate into the end of the week, as we await further directional cues on the broad USD.**
- On the central bank front, watch comments for Fed's Bostic (1630 GMT), a voter on the FOMC this year who previously mentioned that he is leaning towards three hikes in 2018.

Treasury Research &
Strategy

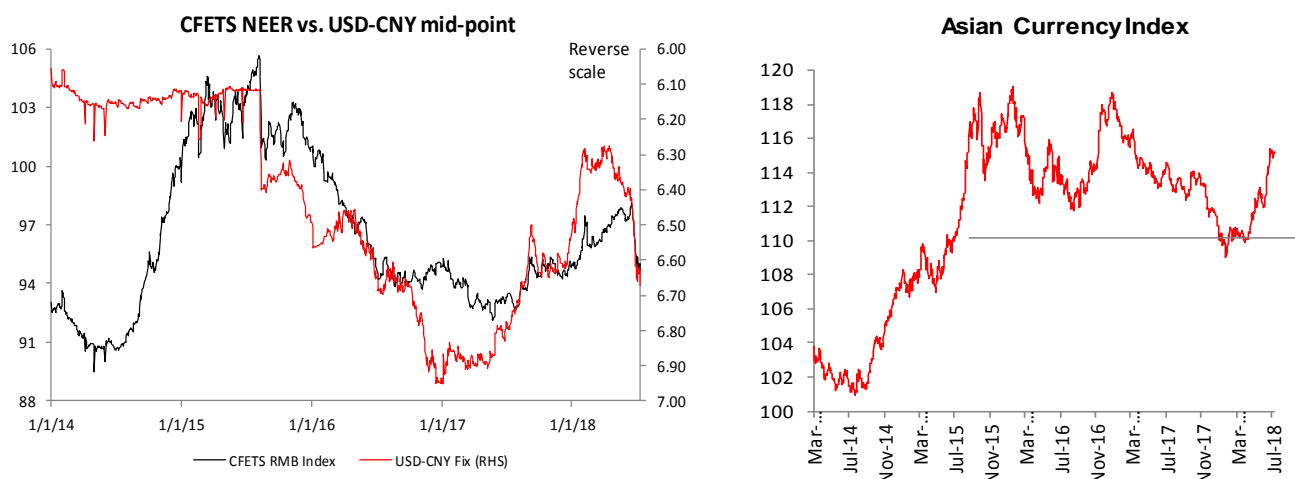
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Asian FX

- Positive US/EU equities and EM FX supported risk sentiments overnight. Our **FX Sentiment Index (FXSI)** dipped again towards the Risk-Neutral zone. Overall, negative market reaction towards the latest round of tariff threats appears relatively short-lived.
- We continue to note a selective improvement in the **Asian portfolio flow** situation this week, although it is as yet insufficient to turn the overall outflow momentum. Outflow momentum from Taiwan has started to exhibit some consolidation, after hitting historically elevated levels. The latest reading saw equity and bond inflows into both India and Indonesia, although it is still early days before we can see a material compression of outflow momentum in these countries. However, note that inflow momentum in South Korea has been compressing this week.
- **The impact, thus far, of the latest round of trade provocations on the Asian Currency Index (ACI) is relatively muted. The RMB complex looking contained in the near term after a knee-jerk lower perhaps imparted some stability to the Asian currencies. Expect the ACI to edge lower to end the week.**
- **Thailand:** The Bank of Thailand stepped in to limit declines in the THB after the currency hit nine-month lows. Thai officials had previously sounded comfortable with THB declines. Expect the pace of decline in the THB to ease going forward.
- **South Korea:** The Bank of Korea (BOK) held rates unchanged in the latest policy meeting, although there is one dissenter in favour of a rate hike. The governor also looked comfortable with the depreciating KRW, with limited evidence of support seen from the BOK. Overall, we think the presence of one dissenter possibly highlights a shift in sentiment in that direction within the committee.
- **SGD NEER:** The SGD NEER is holding stable this morning, standing at around +0.72% above its perceived parity level (1.3733), on firmer NEER-implied USD-SGD thresholds. Intra-day, the +0.50% (1.3665) and +0.90% (1.3610) thresholds should continue to hold. Singapore 2Q GDP came in weaker than expected at 3.8% yoy.
- **CFETS RMB Index:** The USD-CNY mid-point was set marginally higher at 6.6727 compared to 6.6726 on Wednesday. The CFETS RMB Index firmed to 94.78, compared to 94.67 previously. At this stage, the 94.00 level on the index should limit any near term decline in the RMB complex.



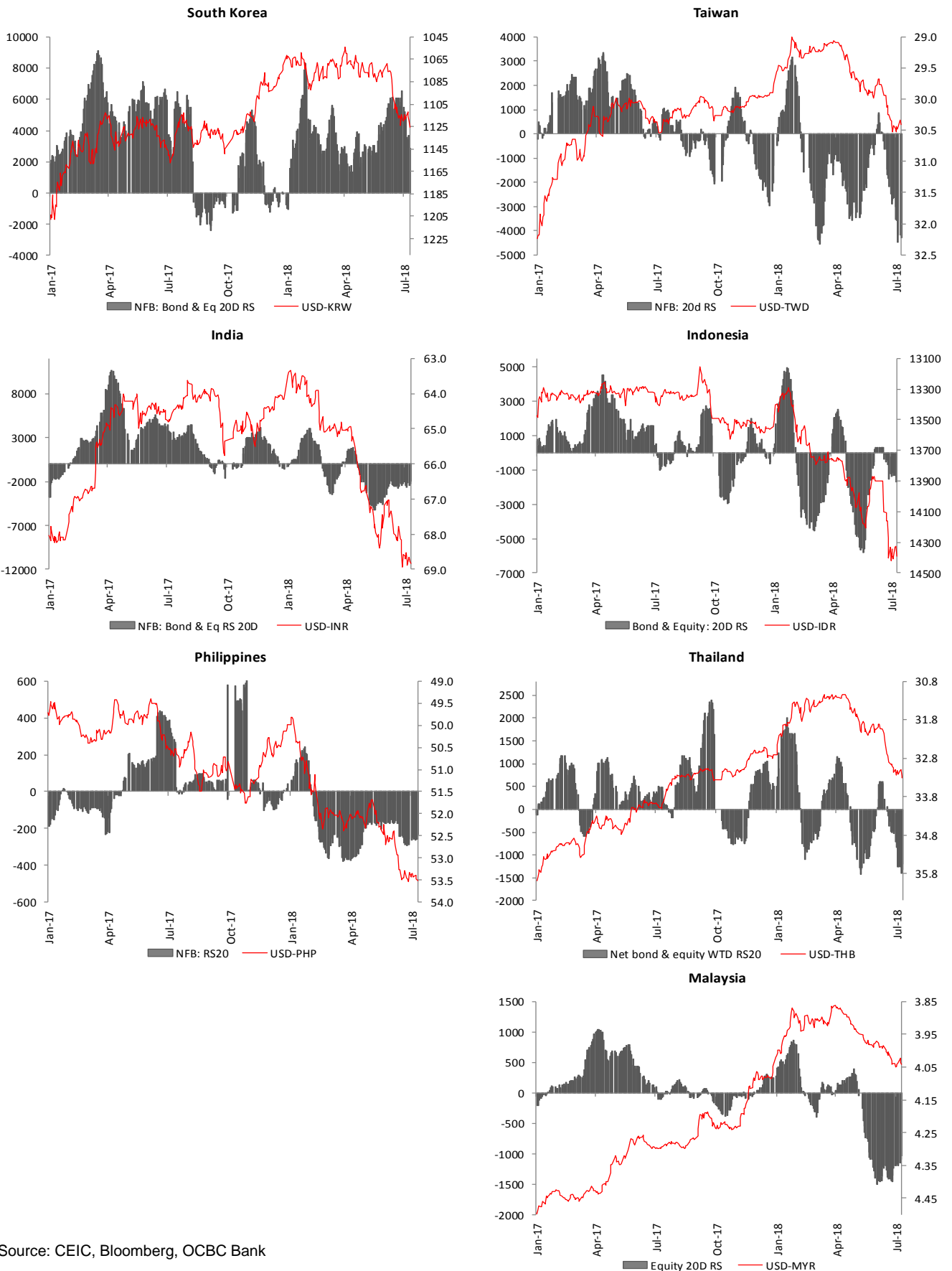
Source: OCBC Bank, Bloomberg

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 at 94.00 may limit declines in the RMB complex in the near term
USD-KRW	↔	Net portfolio inflows remain at healthy levels; may suffer significant collateral damage if Sino-US trade war escalates; growth outlook downgraded in the latest policy meeting, although the presence of one dissenter in favour of rate hikes may signal a shift in that direction.
USD-TWD	↔	Equity outflows intensifying; June export print weaker than expected; pair led by the RMB complex
USD-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 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; bond outflows re-asserting; intervention by the BOT to limit declines in the THB
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

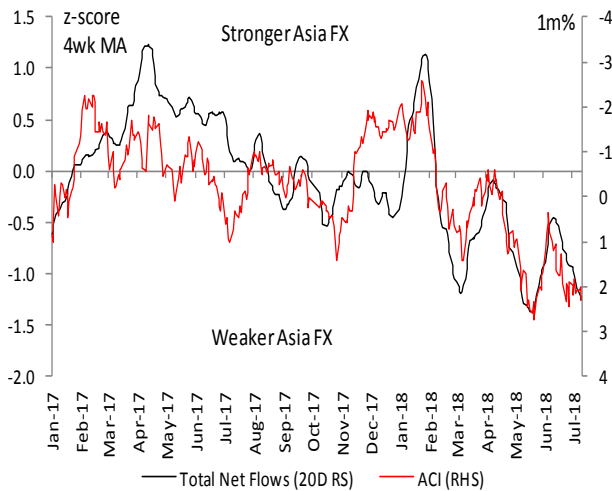
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



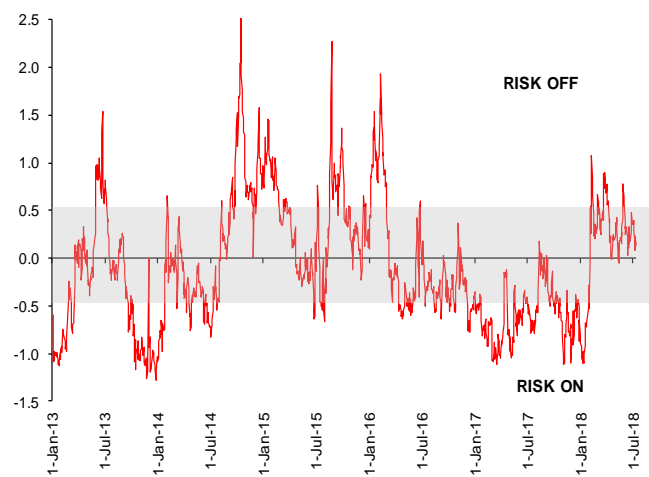
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXX	CNH	EUR
DXY	1.000	-0.210	0.163	-0.345	-0.244	-0.400	0.126	-0.065	0.313	0.186	0.166	-0.937
CHF	0.758	-0.272	0.268	0.106	-0.219	-0.435	0.660	0.010	-0.083	-0.121	0.317	-0.592
CAD	0.736	-0.155	0.097	-0.482	-0.245	-0.519	-0.280	-0.166	0.484	0.180	0.052	-0.710
SGD	0.565	-0.827	0.824	-0.625	-0.896	-0.348	0.208	0.608	0.669	0.671	0.815	-0.348
PHP	0.524	-0.409	0.524	-0.086	-0.438	-0.568	0.266	0.107	0.200	0.089	0.423	-0.316
TWD	0.280	-0.933	0.947	-0.539	-0.970	-0.204	0.281	0.798	0.613	0.699	0.934	-0.051
KRW	0.243	-0.834	0.871	-0.446	-0.884	-0.310	0.349	0.609	0.550	0.550	0.849	0.069
THB	0.239	-0.894	0.930	-0.385	-0.932	-0.349	0.330	0.715	0.471	0.543	0.918	0.010
MYR	0.191	-0.906	0.942	-0.472	-0.938	-0.122	0.431	0.818	0.539	0.706	0.942	0.052
INR	0.179	-0.909	0.924	-0.304	-0.924	-0.166	0.393	0.811	0.372	0.524	0.915	0.055
CNH	0.166	-0.911	0.997	-0.333	-0.934	-0.159	0.545	0.840	0.437	0.593	1.000	0.120
CNY	0.163	-0.921	1.000	-0.341	-0.942	-0.175	0.495	0.856	0.436	0.592	0.997	0.097
JPY	0.126	-0.303	0.495	0.434	-0.250	-0.277	1.000	0.256	-0.312	-0.153	0.545	0.143
IDR	0.018	-0.858	0.959	0.168	-0.860	0.146	0.654	0.802	-0.171	0.226	0.948	0.203
USGG10	-0.210	1.000	-0.921	0.453	0.962	0.109	-0.303	-0.823	-0.535	-0.596	-0.911	-0.006
NZD	-0.389	0.870	-0.936	0.496	0.925	0.176	-0.432	-0.784	-0.553	-0.715	-0.939	0.135
AUD	-0.780	0.622	-0.616	0.588	0.713	0.491	-0.080	-0.329	-0.576	-0.525	-0.585	0.636
GBP	-0.858	0.550	-0.535	0.562	0.619	0.241	-0.188	-0.386	-0.557	-0.554	-0.534	0.699
EUR	-0.937	-0.006	0.097	0.322	0.032	0.289	0.143	0.256	-0.237	-0.085	0.120	1.000

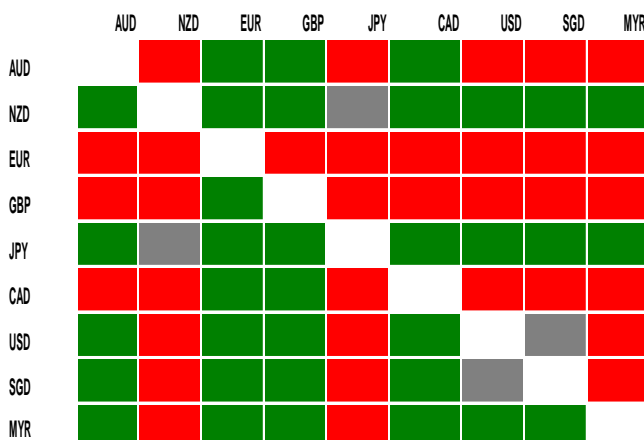
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1542	1.1600	1.1663	1.1700	1.1716
GBP-USD	1.3100	1.3102	1.3179	1.3200	1.3317
AUD-USD	0.7327	0.7400	0.7414	0.7467	0.7489
NZD-USD	0.6696	0.6700	0.6775	0.6800	0.6907
USD-CAD	1.3046	1.3100	1.3164	1.3200	1.3368
USD-JPY	112.00	112.29	112.66	112.77	113.00
USD-SGD	1.3528	1.3600	1.3639	1.3700	1.3705
EUR-SGD	1.5798	1.5900	1.5907	1.5981	1.6000
JPY-SGD	1.2075	1.2100	1.2106	1.2125	1.2139
GBP-SGD	1.7900	1.7971	1.7975	1.8000	1.8105
AUD-SGD	1.0096	1.0100	1.0112	1.0143	1.0200
Gold	1238.00	1238.80	1246.40	1279.49	1284.44
Silver	15.73	15.80	15.90	15.90	16.38
Crude	69.44	70.20	70.26	70.30	75.27

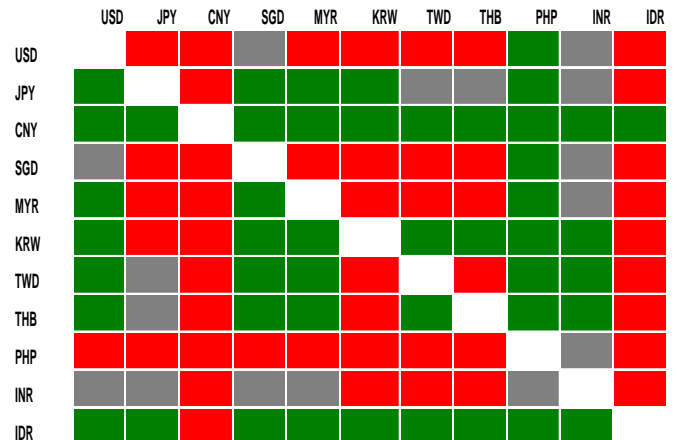
Source: OCBC Bank

G10 FX Heat Map



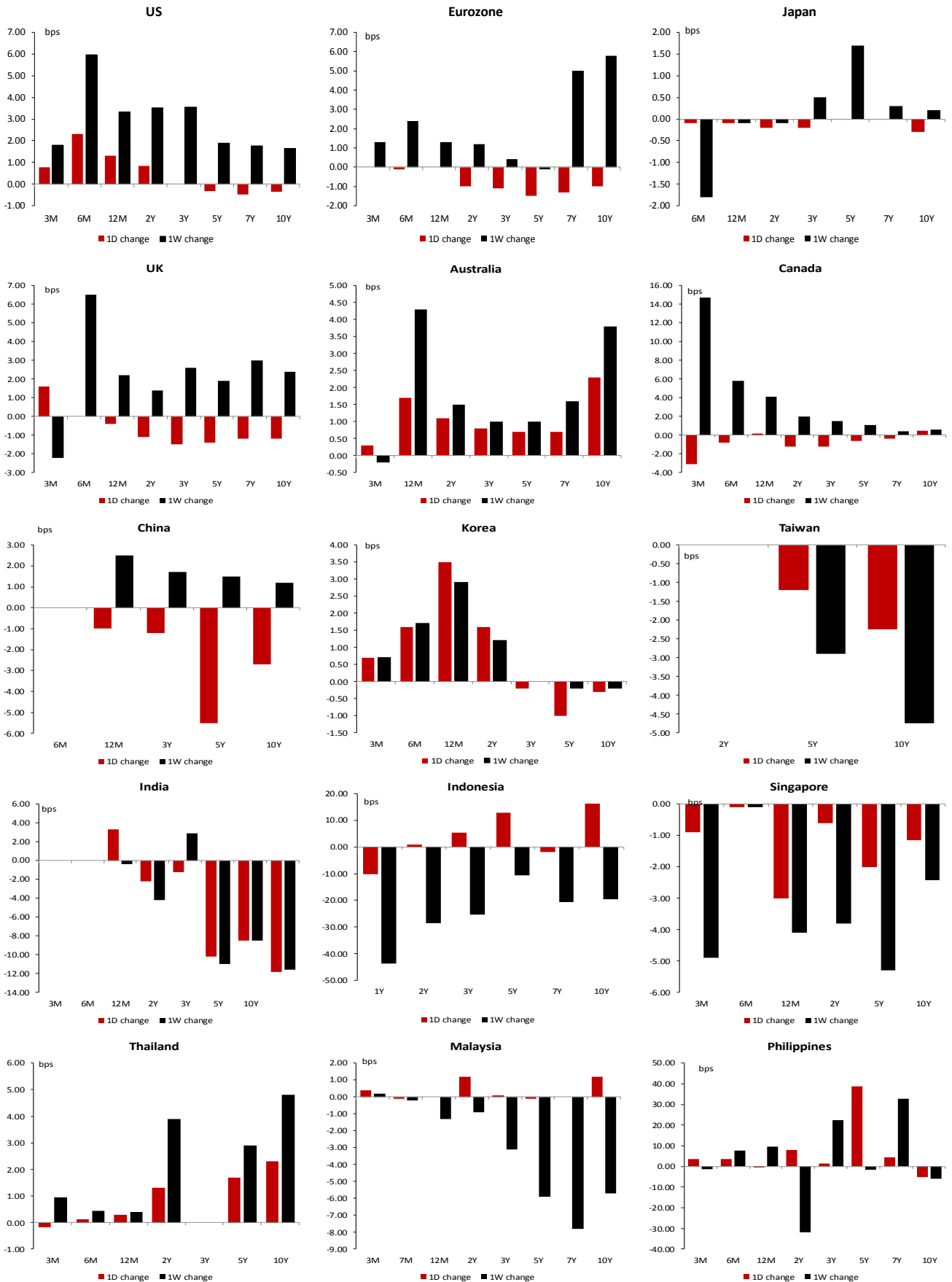
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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