

Wednesday, June 13, 2018

FX Themes/Strategy/Trading Ideas

- The USD firmed against most G10 currencies on Tuesday, as attention shifted quickly away from the Trump-Kim summit to the upcoming FOMC and ECB meetings, and the relative central bank dynamics within the G10 countries.
- The EUR slipped ahead of the ECB meeting on Thu on weaker than expected German ZEW survey. The EUR entered a consolidation phase after the reversal in late May. **We remain constructive on the EUR in the near term, with the recent high at 1.1840 an interim target.** Note also the volatility surrounding the GBP, with gains from a Brexit-related compromise within the Tory party dissipating quickly.
- For the FOMC later in the global day, note that a rate hike is already baked in. Market implied odds for four rate hikes in 2018 edged higher towards 40%. **Greater interest should be on the dot plot, where we will be looking for any signs of a quickening pace of rate hikes.**
- Note Brainard's comments on the "medium term neutral rate" being possibly higher than the longer term neutral rate. The question is where this "medium term neutral rate" appears on the dot plot. We think this likely refers to the 2019 or 2020 dots. At this juncture, the 2019 dots are broadly in line with the long run neutral rate, and the 2020 dots are about 50 bps higher. There is a chance of us seeing the median level of the 2019 dots edge higher in the upcoming dot plot, perhaps reflecting four hikes in 2019, as opposed to the current three.
- Such a move would represent a less-than-dovish tilt from the Fed. If this comes to pass, the next question is whether it is sufficient to precipitate a swing higher in the 10y UST yield above the 3.00% handle and keeping it above that level in a sustained fashion. If so, this should be USD-positive in the near term. Otherwise, **if the general outline of the dots remains static compared to March, we may expect further negative pressure on the USD**, unless the ECB disappoints.
- On the data front, note that US CPI prints were largely in line with expectations.

Treasury Research &
Strategy

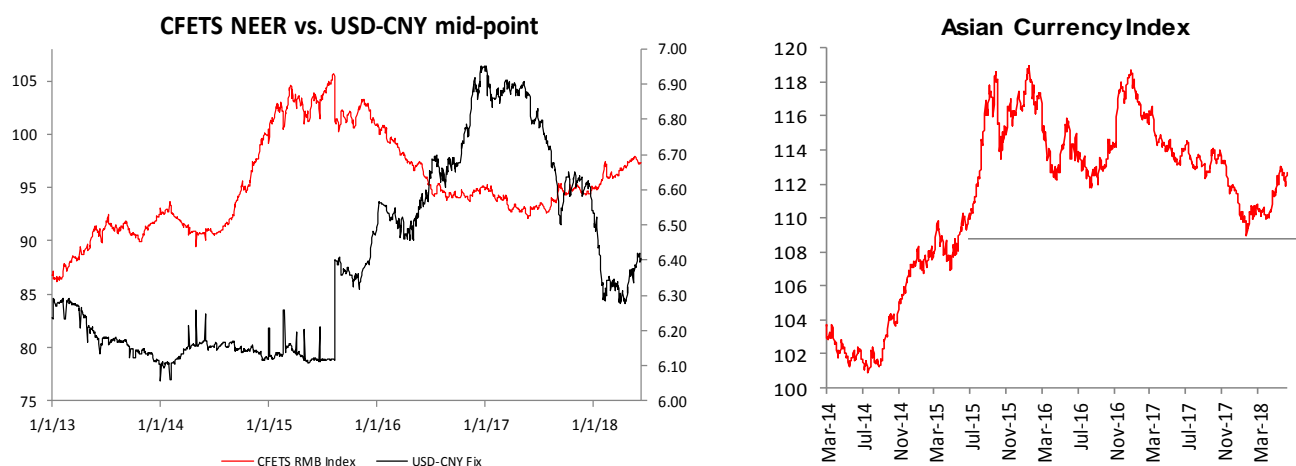
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Asian FX

- The Trump-Kim summit did not quite deliver a lasting, materially positive outcome. Nevertheless, they did just sufficient to avert disappointment by the markets, and perhaps deliver a good start to a long drawn process of reconciliation on the Korean peninsula. Note that the USD-KRW was notably unfazed by the outcome, and we may see the pair drift higher towards the top end of its recent range near 1083
- Note that the Trump-Kim summit outcome is sufficient to sustain a broadly risk positive tone, with our **FX Sentiment Index (FXSI)** edging lower again towards to Risk-on zone, while staying within the **Risk Neutral** territory. With the broad USD in the ascendant heading into the FOMC, expect the **Asian Currency Index (ACI)** to drift higher intra-day.
- In terms of **Asian net portfolio flows**, inflow momentum in South Korea continues improve, with momentum in the bond front being particularly strong. Meanwhile, bond inflow momentum in Thailand remains on the uptrend, but the overall picture is dragged down by equity outflows. Note that we will not be having data from Indonesia until after the Hari Raya festivities.
- **India:** CPI prints for May are broadly in line with expectations, but reflected accelerating price pressure compared to April. We think this reaffirms our view that the Reserve Bank of India's (RBI) may be biased towards more hikes in the upcoming meetings. Expect government bonds to remain under pressure, with the attractiveness of elevated yields eroded by the higher inflation.
- **SGD NEER:** The SGD NEER is firmer again this morning at +0.89% above its perceived parity (1.3483), with the NEER-implied USD-SGD thresholds firmer alongside the broad USD. The +0.70% (1.3390) and +1.0% (1.3350) thresholds should bookend the pair intraday.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within expectation, at 6.4156 compared to 6.4121 on Tuesday. The CFETS RMB Index still strengthened to 93.50, compared to 97.42 previously. Note that the CFETS RMB Index is trending higher alongside the broad USD after the hitting a low of 97.17. Expect the CFETS RMB Index to stay within the 97.00 - 98.00 range going forward.



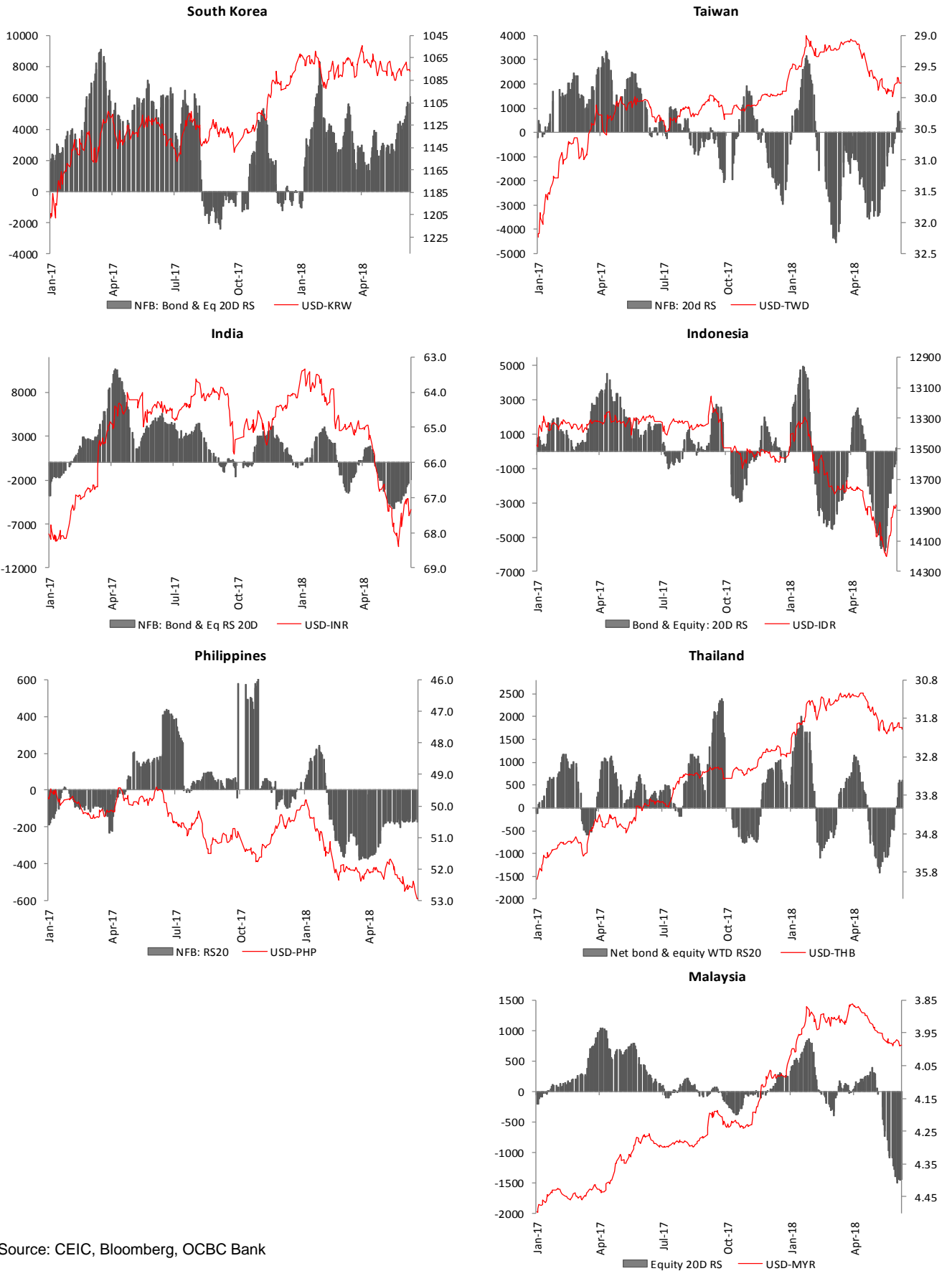
Source: OCBC Bank, Bloomberg

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	↔	Outcome of Trump-Kim talks just sufficient to avoid disappointment; 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	↔	May inflation prints in line, but continues to show accelerating price pressures; the RBI may be biased for further hikes in the upcoming meetings; regulatory changes by the RBI may exacerbate the demand-supply mismatch in government bonds; net portfolio outflows moderating
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

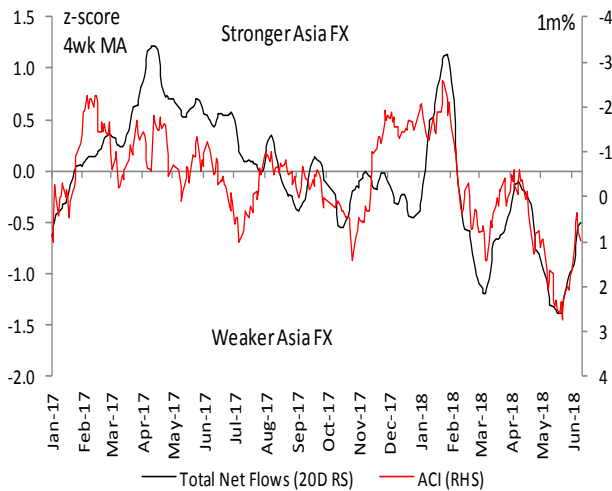
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



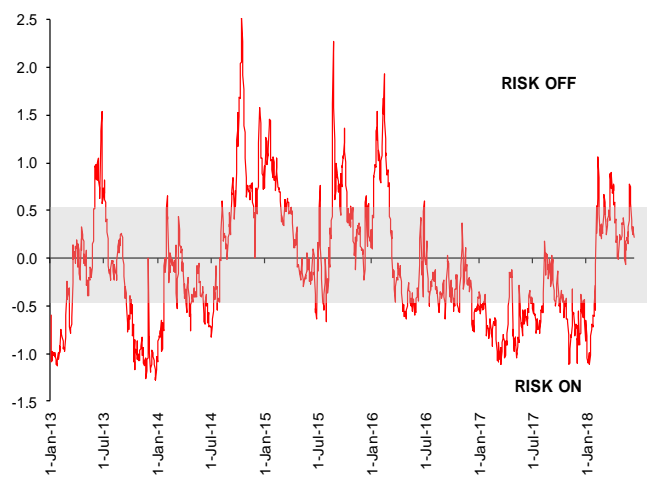
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.658	0.762	-0.244	-0.608	-0.098	-0.470	-0.383	0.450	0.624	0.740	-0.985
CNY	0.762	-0.774	1.000	0.162	-0.474	-0.508	-0.548	-0.723	0.270	0.844	0.948	-0.760
CNH	0.740	-0.859	0.948	0.184	-0.363	-0.580	-0.602	-0.807	0.273	0.884	1.000	-0.746
MYR	0.684	-0.556	0.745	0.461	-0.368	-0.229	-0.321	-0.435	-0.155	0.793	0.707	-0.659
TWD	0.583	-0.159	0.262	-0.640	-0.844	0.624	-0.176	0.410	0.631	0.082	0.144	-0.575
CAD	0.549	-0.744	0.702	0.342	0.028	-0.729	-0.459	-0.853	0.071	0.795	0.851	-0.538
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	0.375	0.130	-0.054	-0.773	-0.503	0.629	0.017	0.590	0.635	-0.281	-0.095	-0.380
KRW	0.287	0.210	0.077	-0.287	-0.568	0.623	0.244	0.478	0.209	-0.054	-0.098	-0.235
THB	0.206	0.341	0.110	-0.107	-0.342	0.397	0.454	0.418	0.098	-0.098	-0.099	-0.118
NZD	0.111	-0.480	0.571	0.750	0.181	-0.753	-0.212	-0.829	-0.427	0.668	0.569	-0.086
AUD	0.072	-0.288	0.357	0.709	0.240	-0.574	-0.076	-0.646	-0.596	0.460	0.321	-0.036
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	-0.043	0.431	-0.422	-0.496	-0.233	0.844	0.290	0.829	0.217	-0.499	-0.450	0.059
CHF	-0.348	0.690	-0.692	-0.583	-0.033	0.695	0.419	0.863	0.230	-0.830	-0.739	0.342
JPY	-0.470	0.874	-0.548	0.164	0.443	0.234	1.000	0.455	-0.431	-0.659	-0.602	0.590
USGG10	-0.658	1.000	-0.774	-0.015	0.389	0.429	0.874	0.707	-0.394	-0.872	-0.859	0.719
GBP	-0.906	0.829	-0.837	0.066	0.597	0.206	0.655	0.538	-0.369	-0.780	-0.837	0.912
EUR	-0.985	0.719	-0.760	0.289	0.653	0.089	0.590	0.385	-0.495	-0.642	-0.746	1.000

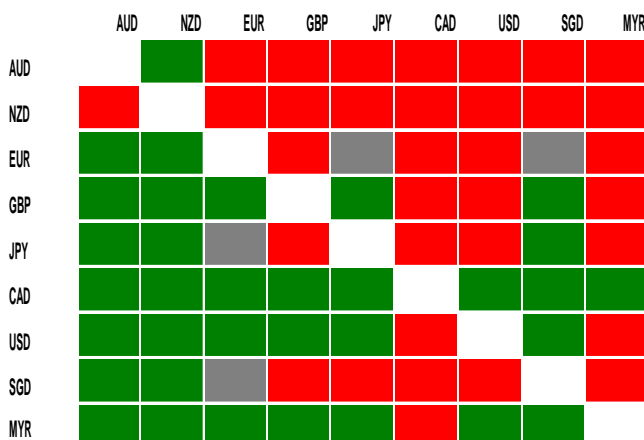
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1588	1.1700	1.1745	1.1800	1.1854
GBP-USD	1.3243	1.3300	1.3363	1.3400	1.3501
AUD-USD	0.7493	0.7500	0.7566	0.7598	0.7600
NZD-USD	0.6869	0.7000	0.7005	0.7060	0.7068
USD-CAD	1.2831	1.3000	1.3022	1.3067	1.3069
USD-JPY	110.00	110.22	110.65	111.00	111.26
USD-SGD	1.3318	1.3357	1.3368	1.3400	1.3459
EUR-SGD	1.5540	1.5700	1.5704	1.5800	1.5843
JPY-SGD	1.2015	1.2047	1.2082	1.2100	1.2122
GBP-SGD	1.7750	1.7800	1.7866	1.7900	1.8080
AUD-SGD	1.0100	1.0108	1.0114	1.0200	1.0212
Gold	1281.20	1287.18	1294.10	1300.00	1304.90
Silver	16.75	16.80	16.85	16.90	16.95
Crude	64.22	65.90	65.98	66.00	67.94

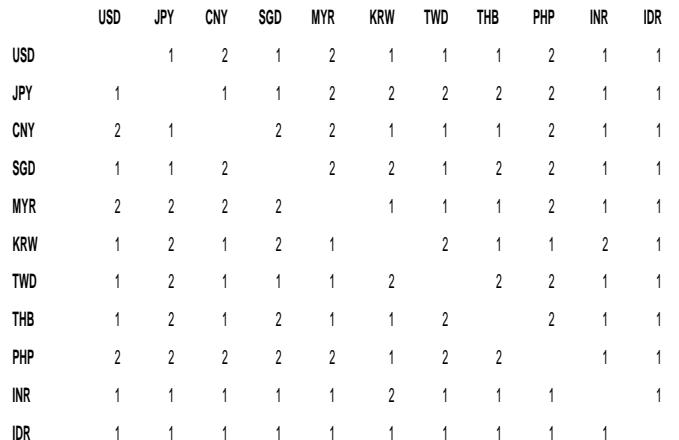
Source: OCBC Bank

G10 FX Heat Map



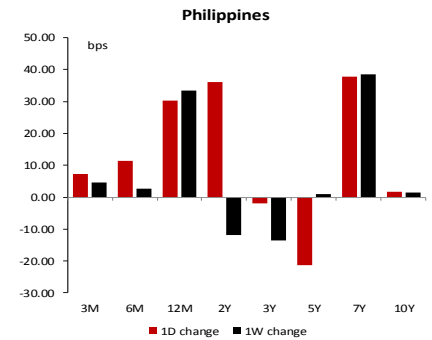
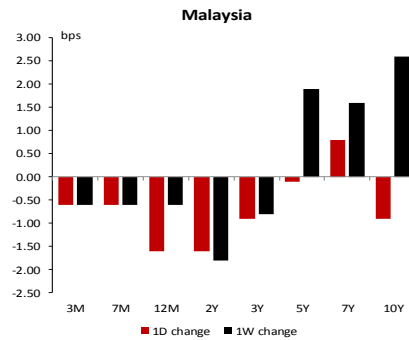
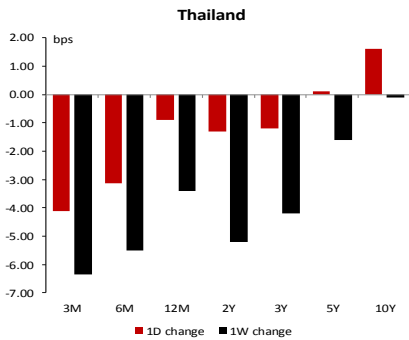
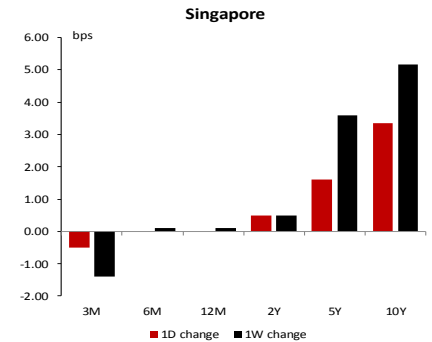
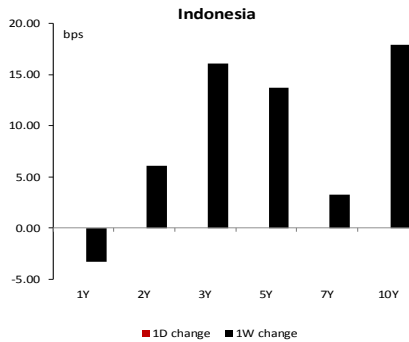
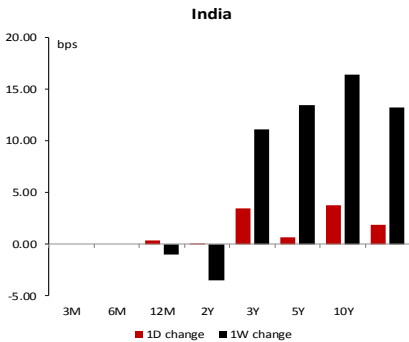
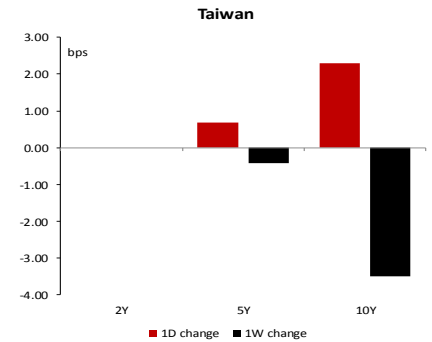
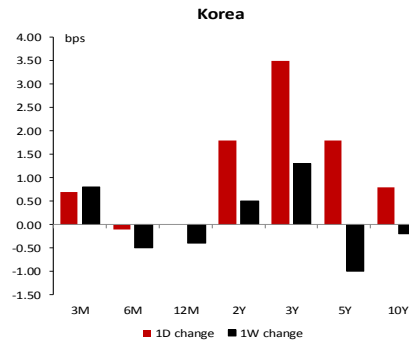
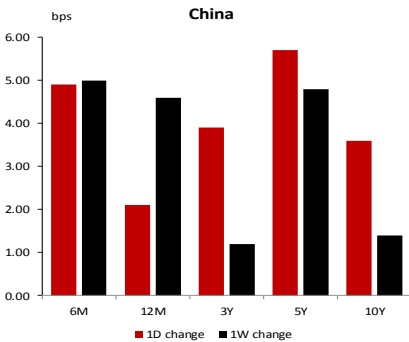
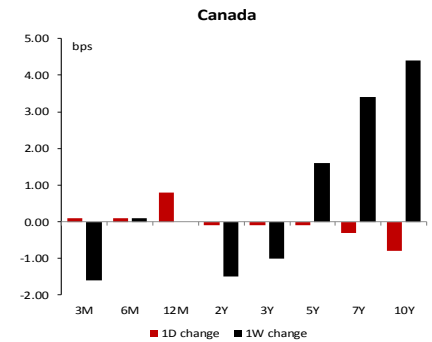
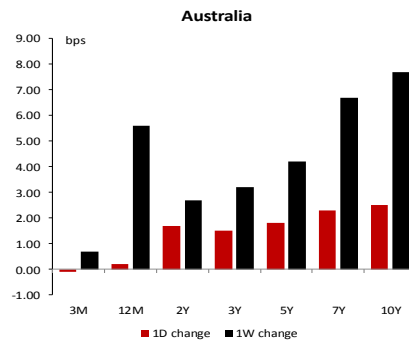
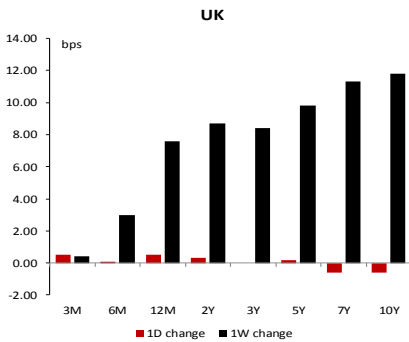
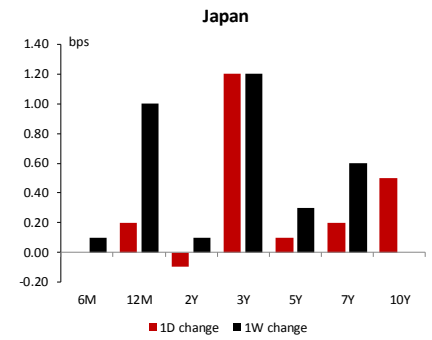
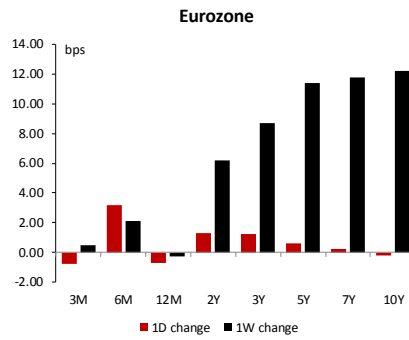
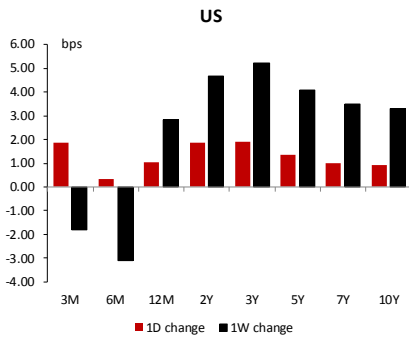
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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