

Thursday, June 14, 2018

**FX Themes/Strategy/Trading Ideas**

- The FOMC raised interest rates by 25 bps as broadly expected, although the subsequent press conference dampened broad USD prospects. The DXY Index bounced above 94.00 upon the release of the statement, before giving up gains to close at 93.54. 10y UST yields was also momentarily above 3.00%, before closing at 2.97%.
- The FOMC statement itself sounded optimistic, with economic growth now expected to grow at a “solid” rate, instead of “moderate”, and with further gradual “increases” are now expected instead of “adjustments”. GDP growth, unemployment and inflation forecasts were also upgraded. The dot plot now shows a total of four hikes in 2018, as opposed to the previous plot’s three. Another key point was the confirmation that a press conference will follow every FOMC decision next year. This gave the impression that every meeting will be “live”, and therefore, an outside chance of a faster rate hike path.
- On the surface, initial impressions suggest a less-than-dovish bias. Optically, the shift in the dot plot to show two further hikes in 2018 appears hawkish, but we note that there is no widespread shift in sentiment within the FOMC. The shift in the median dot was attributed to only one member shifting his/her stance. A shift in sentiment was more noticeable in 2019, where two members raised their interest rate expectations.
- Remnant USD bulls were then further disappointed by Powell’s performance in the press conference, which came across as quite dovish. He reiterated that he would be “very, very careful not to tighten too quickly”, and having a press conference after every FOMC decision “means nothing”. Note that this follows an established pattern – where the statement and projections look hawkish, but the subsequent press conference dovish.
- **Overall, we think the FOMC has engineered another dovish hike. It is perhaps telling that the DXY and 10y UST yield did not manage to sustain their gains. This may not be sufficient, in itself, to reignite broad USD strength.**
- Attention will now shift to the ECB policy decision (1145 GMT) and Draghi’s press conference (1230 GMT). Expectations are for the ECB to sound optimistic, and initiate discussion to end its asset purchase programme. The stage may also be set for a formal announcement after the July meeting. A hawkish tilt for the ECB is expected. However, do note that the room for disappointment is also correspondingly higher.

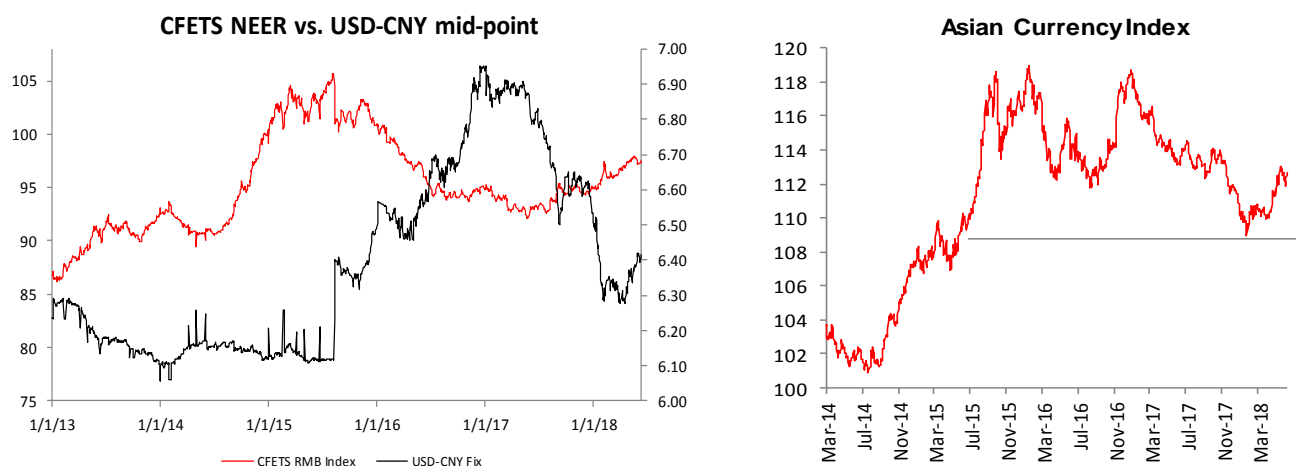
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- On the data front, note German and French CPI (0600 GMT, 0645 GMT) prints ahead of the ECB meeting, and also US retail sales (1230 GMT).

## Asian FX

- In the midst of the FOMC developments, note that Trump has raised trade tensions up a notch by announcing that he will confront China “very strongly” in the coming weeks. The final list of imports that will be taxed may be announced tomorrow, with actual tariffs to be imposed by next month. We continue to urge caution on the trade front.
- Despite Trump’s latest comments, and the weak showing in US/EZ equities overnight, overall risk sentiments remain supported. Our **FX Sentiment Index (FXSI)** continued to drift lower towards to Risk-on zone, while staying within the **Risk Neutral** territory. Note that risk sentiments have remained relatively buoyant throughout the G7-related trade episode. However, we think the FXSI will be more sensitive towards Sino-US trade tensions. Further escalation on this front may see the FXSI spike higher again.
- **If the market catches on Trump’s latest salvo on China, we may see the Asian Currency Index (ACI) edge higher intra-day. On a multi-session horizon, a steeper trajectory of Fed rate hikes may precipitate outflows from Asia, putting an upward pressure on the ACI. However, given the Fed’s overall still-accommodative stance, we think this dynamic should not be overplayed in the near term.**
- In terms of **Asian net portfolio flows**, the latest reading showed an increase in outflow momentum for India. Inflow momentum for Thailand also moderated slightly.
- **SGD NEER:** The SGD NEER is softer this morning, hovering at +0.77% above its perceived parity (1.3473), with the NEER-implied USD-SGD thresholds lower. Continue to expect an intra-day range between +0.60% (1.3393) and +0.90% (1.3353). Note that in the latest MAS Survey, consensus estimate for GDP growth remains unchanged at 3.2%, while the estimate for headline inflation eased to 0.8% from 1.0%. On a multi-session horizon, we continue to see no macro impetus for the SGD NEER to populate the +1.00% above parity zone in a sustained fashion.
- **CFETS RMB Index:** The USD-CNY mid-point was set lower, as expected, at 6.3962 compared to 6.4156 on Wednesday. The CFETS RMB Index strengthened to 93.72, compared to 97.50 previously. Note that we may see some discretionary pressure to push the CFETS RMB Index lower as it approaches the 98.00 level.



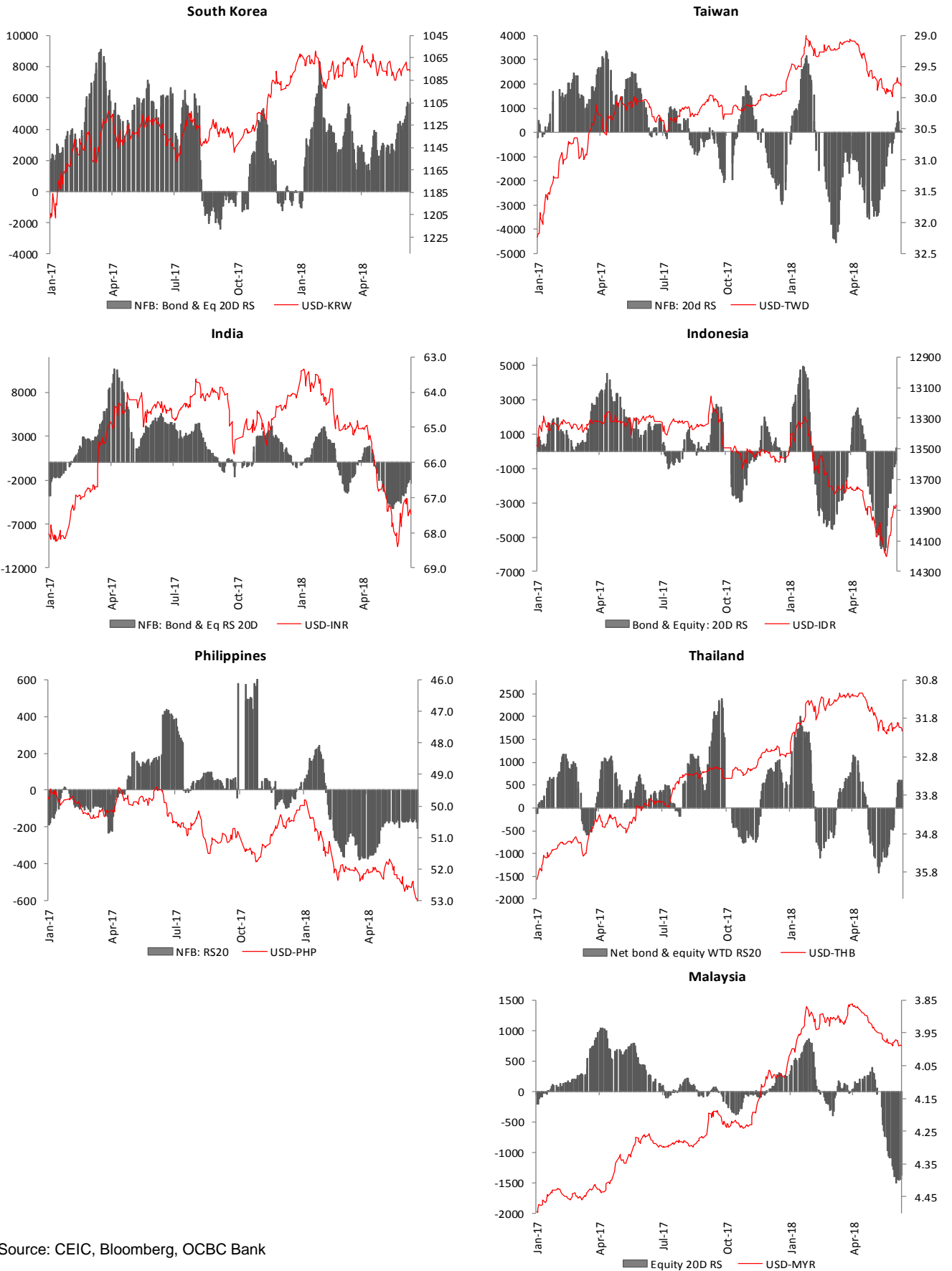
Source: OCBC Bank, Bloomberg

### 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	↔/↓	Latest MAS Survey reflects an easing of inflation projections; 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

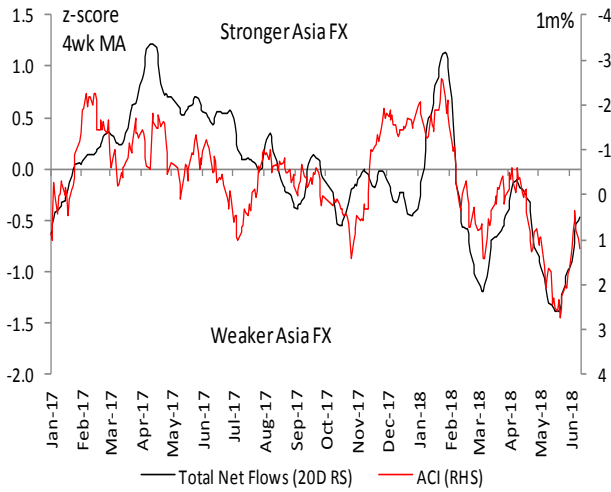
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows



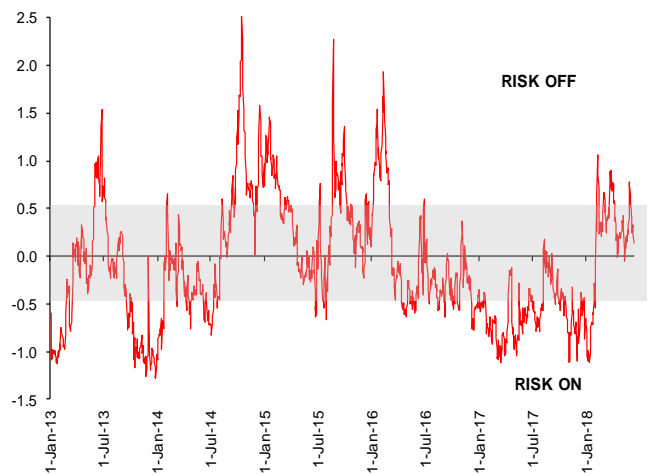
Source: CEIC, Bloomberg, OCBC Bank

**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	ITRXXK	CNH	EUR
DXY	1.000	-0.654	0.749	-0.261	-0.610	-0.076	-0.489	-0.363	0.453	0.596	0.742	-0.986
CNY	0.749	-0.773	1.000	0.175	-0.467	-0.510	-0.532	-0.724	0.264	0.842	0.948	-0.743
CNH	0.742	-0.858	0.948	0.191	-0.359	-0.578	-0.643	-0.794	0.269	0.879	1.000	-0.738
MYR	0.603	-0.531	0.724	0.520	-0.322	-0.283	-0.249	-0.455	-0.158	0.794	0.684	-0.566
TWD	0.578	-0.159	0.262	-0.604	-0.841	0.606	-0.172	0.403	0.629	0.083	0.144	-0.568
CAD	0.527	-0.728	0.699	0.387	0.042	-0.741	-0.469	-0.853	0.055	0.800	0.828	-0.482
SGD	0.392	0.128	-0.066	-0.783	-0.505	0.644	-0.015	0.605	0.633	-0.304	-0.087	-0.418
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
PHP	0.189	-0.466	0.510	0.474	-0.036	-0.421	-0.317	-0.503	-0.036	0.608	0.529	-0.174
THB	0.170	0.318	0.128	-0.014	-0.311	0.318	0.470	0.356	0.084	-0.041	-0.077	-0.076
NZD	0.079	-0.468	0.569	0.766	0.192	-0.764	-0.178	-0.829	-0.428	0.678	0.543	-0.018
AUD	0.065	-0.288	0.359	0.689	0.242	-0.570	-0.073	-0.649	-0.597	0.461	0.324	-0.027
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	-0.044	0.430	-0.420	-0.473	-0.232	0.826	0.289	0.820	0.216	-0.492	-0.449	0.059
CHF	-0.317	0.676	-0.690	-0.605	-0.047	0.708	0.383	0.864	0.237	-0.834	-0.715	0.266
JPY	-0.489	0.864	-0.532	0.196	0.447	0.199	1.000	0.460	-0.435	-0.622	-0.643	0.608
USGG10	-0.654	1.000	-0.773	-0.018	0.388	0.422	0.864	0.701	-0.393	-0.862	-0.858	0.712
GBP	-0.896	0.828	-0.837	0.047	0.592	0.212	0.656	0.538	-0.365	-0.776	-0.847	0.885
EUR	-0.986	0.712	-0.743	0.311	0.655	0.061	0.608	0.341	-0.497	-0.607	-0.738	1.000

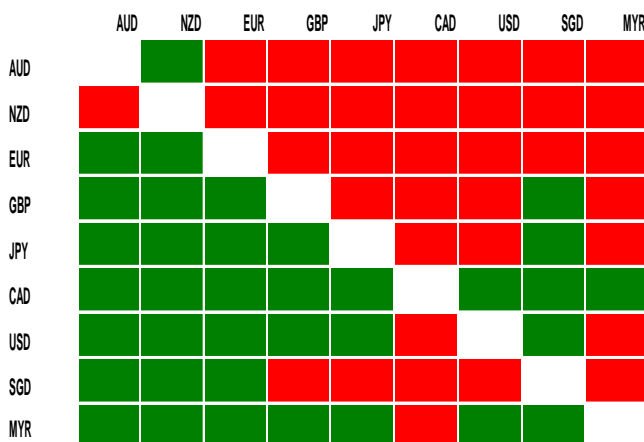
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1587	1.1700	1.1799	1.1800	1.1860
GBP-USD	1.3254	1.3300	1.3385	1.3400	1.3477
AUD-USD	0.7500	0.7501	0.7557	0.7595	0.7600
NZD-USD	0.6884	0.7000	0.7020	0.7060	0.7063
USD-CAD	1.2835	1.2900	1.2985	1.3000	1.3063
USD-JPY	109.13	110.00	110.22	110.23	111.00
USD-SGD	1.3314	1.3356	1.3366	1.3400	1.3455
EUR-SGD	1.5546	1.5700	1.5772	1.5800	1.5836
JPY-SGD	1.2100	1.2121	1.2127	1.2196	1.2200
GBP-SGD	1.7750	1.7800	1.7891	1.7900	1.8031
AUD-SGD	1.0078	1.0100	1.0101	1.0108	1.0200
Gold	1281.20	1287.90	1297.30	1300.00	1305.04
Silver	16.70	16.80	17.00	17.04	17.15
Crude	64.22	66.60	66.66	66.70	68.02

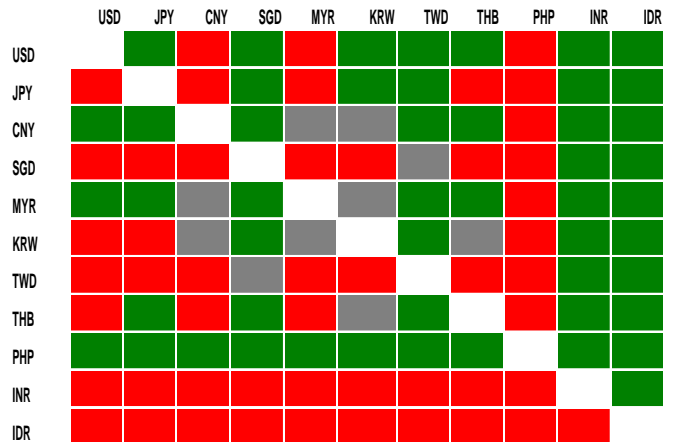
Source: OCBC Bank

**G10 FX Heat Map**



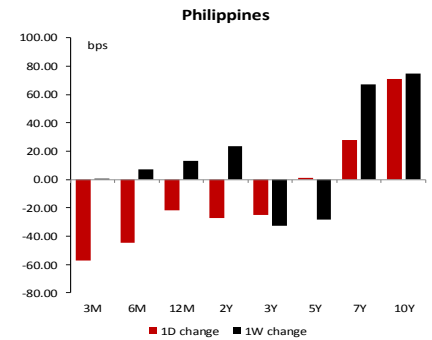
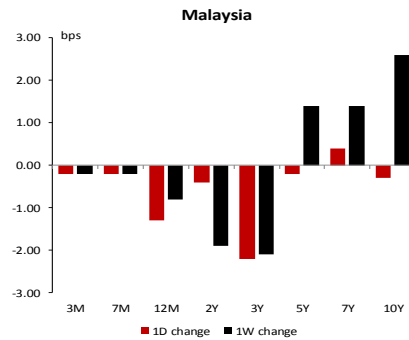
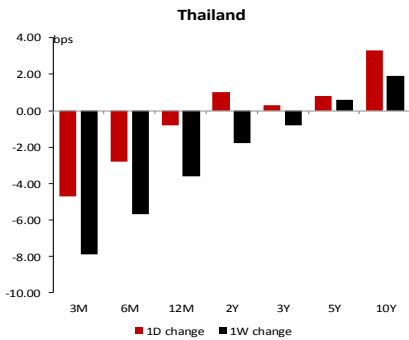
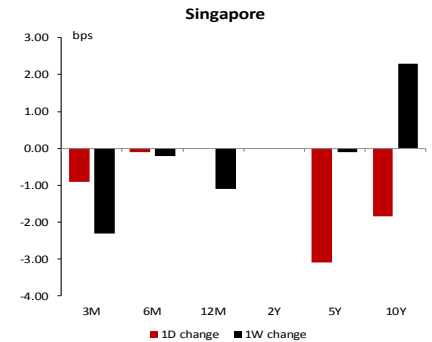
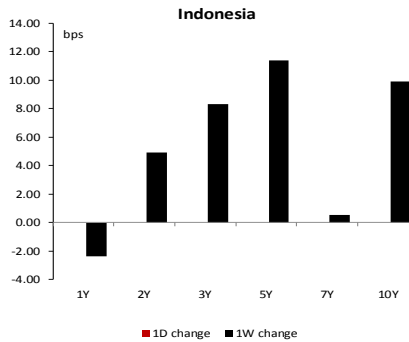
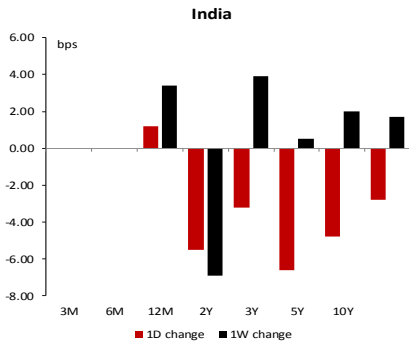
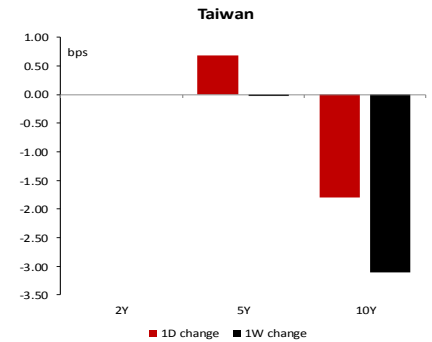
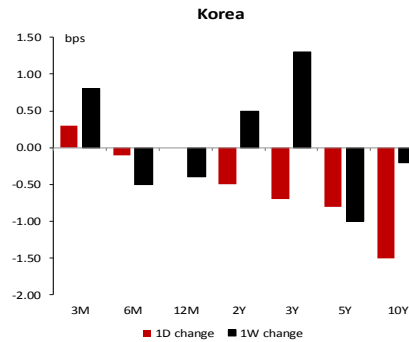
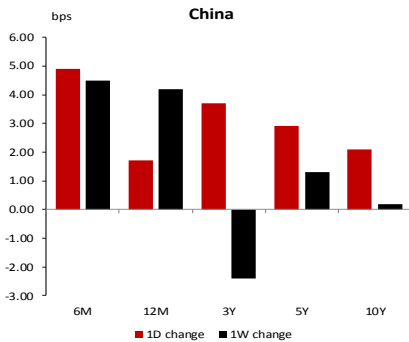
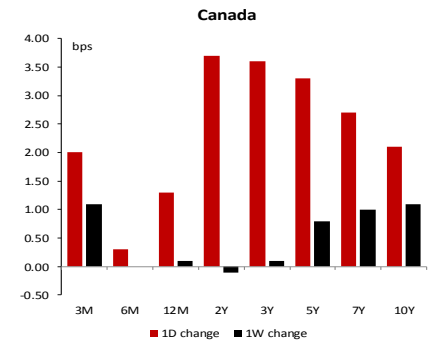
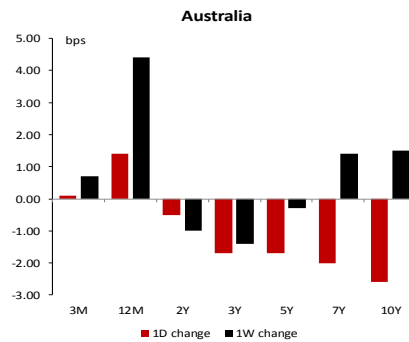
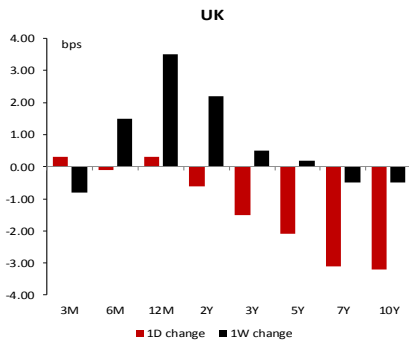
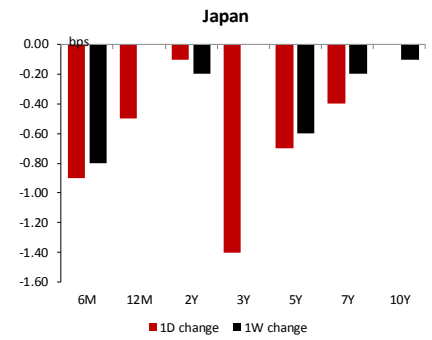
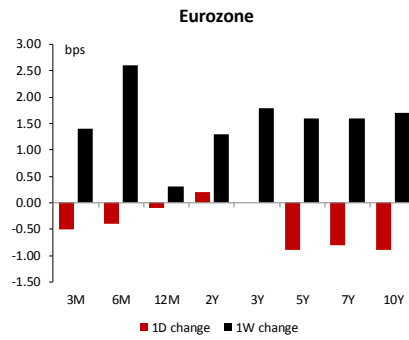
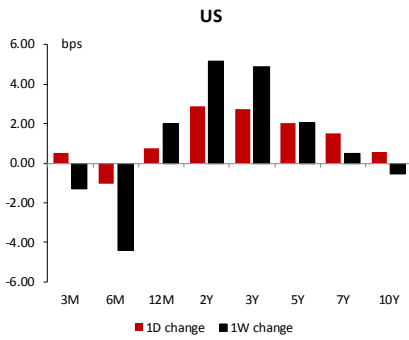
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

### Government bond yield changes



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