

Tuesday, May 15, 2018

FX Themes/Strategy/Trading Ideas

- The dollar managed to recover from intra-day losses to end marginally higher (DXY re-took 92.60) on the day as the US curve lifted from the back-end (10y UST yield back above 3.00%). The Fed's Mester meanwhile reiterated the Fed's gradualist stance for rate hikes.
- Despite the slight overhang from the Italian political situation, the EUR-USD found intra-day support as the ECB's Villeroy, Lautenschlaeger, and Praet did not waver from their prior prognosis. Villeroy in fact indicated that the ECB may provide additional guidance on interest rates as the end of the asset purchase program draws to a close.
- Positive US equities aided the **FXSI (FX Sentiment Index)** lower again within **Risk-Neutral** territory on Monday.
- Today, look to the Fed's Kaplan (1200 GMT) and Williams (1700 GMT), with Fed nominees Clarida and Bowman are due before the Senate Banking Committee for their confirmation hearings (1400 GMT).
- Look also to RBA meeting minutes (0130 GMT) and the RBA's Debelle again (0140 GMT). Note that late Monday, Debelle's comments did not indicate any implicit urgency to hike rates. In Asia, China's April data stream is expected at 0200 GMT and may not elicit much market reaction.
- Going ahead, the extension of near term bullishness in the dollar will continued to be pondered by investors, although we note that rate differential arguments are once again in favor of the USD. In addition, the bar we think is now higher for the other major central banks to elicit dollar negativity at this juncture.

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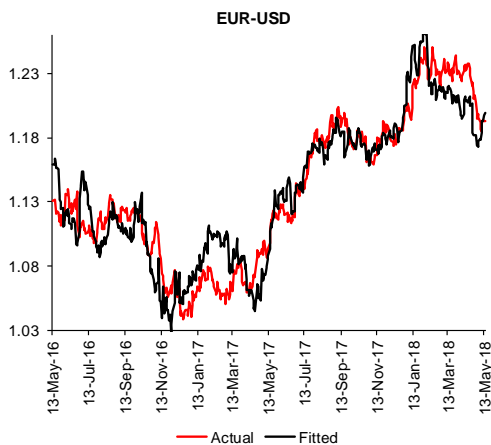
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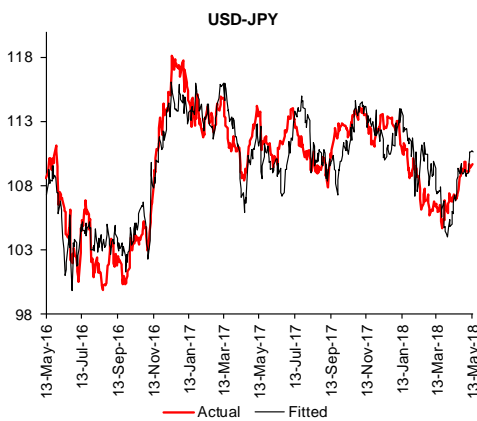
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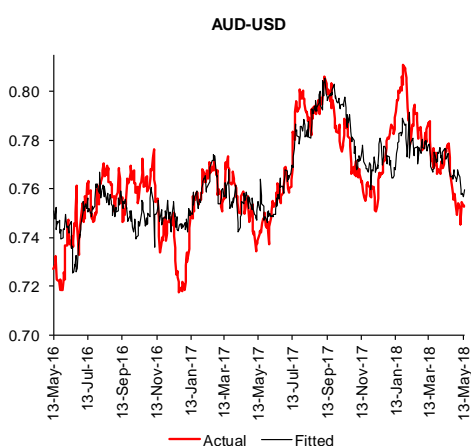
- **EUR-USD** EZ 1Q GDP and German May ZEW (both at 0900 GMT) are on tap today, with de Galhau’s comments from yesterday offering little lasting support for the common unit. However, short term implied valuations are still attempting to rebound, clouding the near term outlook. Preference to sell rallies instead with the boundaries of the 200-day MA (1.2021) and 1.1820.

Source: OCBC Bank



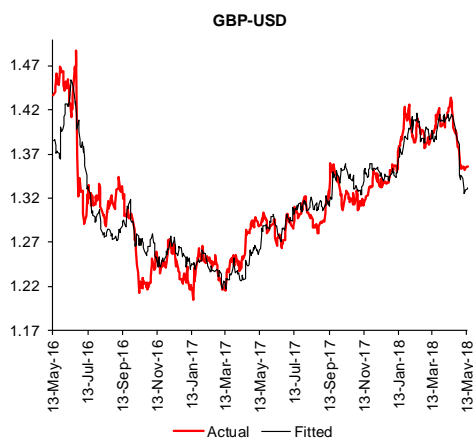
- **USD-JPY** Apart from Fed-speak, US April retail sales (1230 GMT) data today may provide headline risks. Look to collect on dips for the pair within 108.65 and the 200-day MA (110.18). Meanwhile, short term implied valuations remain underpinned for the pair.

Source: OCBC Bank

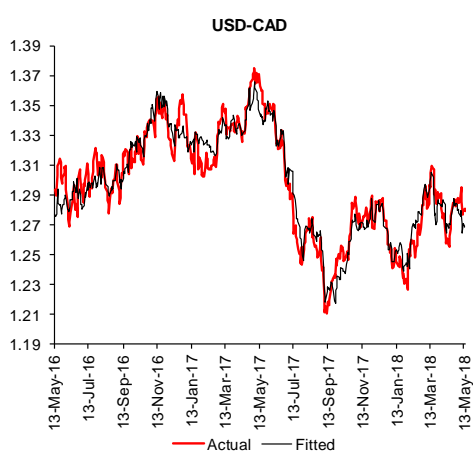


- **AUD-USD** The AUD-USD may remain tensioned by firmer USD dynamics and improving risk appetite levels, trapping the pair in a range in the interim. Note however that short term implied valuations remain under negative pressure on a multi-session horizon. Risk-reward may therefore favor a heavy tone within 0.7410-0.7565.

Source: OCBC Bank



- **GBP-USD** March/April labor market numbers today may be closely scrutinized intra-day with short term implied valuations attempting to stabilize and the GBP-USD may continue to hug its 200-day MA (1.3555).



- **USD-CAD** Market positioning of the pair remains mixed at this juncture but we note that short term implied valuations remain top heavy nonetheless. Preference to fade rallies for the pair with 1.2730 on the downside expected to cushion, while the 55-day MA (1.2834) may continue to shelter.

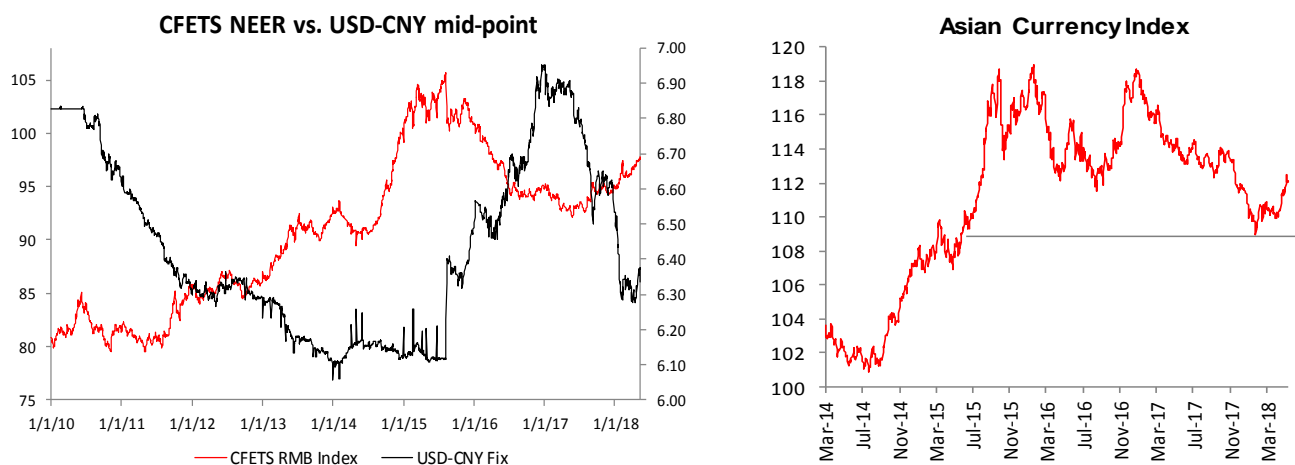
Source: OCBC Bank

Asian FX

- Somewhat positive global equity vibes and sentiment friendly headlines from the US-Sino trade tension front may aid investor appetite in Asia on Tuesday. Broader dollar cues may however still dominate, with the **ACI (Asian Currency Index)** still seen ticking higher instead.
- Asian net portfolio inflows meanwhile indicate still some moderation in net inflows for South Korea and a compression in net outflows for Taiwan. India is still experiencing a deepening (gradual leak) of overall outflows while Thailand's net outflows are attempting to stabilize.
- **India:** The higher than expected April CPI reading of +4.58% may continue to underpin expectations of an impending RBI hike in June.
- **SGD NEER:** The SGD NEER is relatively softer at +0.37% above its perceived parity this morning with NEER-implied USD-SGD thresholds unchanged on the day. Range for the day is expected within +0.20% (1.3376) and +0.60% (1.3323). As note previously, the 200-day MA (1.3379) is still seen under threat

in the current environment.

- CFETS RMB Index:** The USD-CNY mid-point rose slightly more than expected to 6.3486 from 6.3345 on Monday. This took the CFETS RMB Index lower to 97.71 from 97.77.



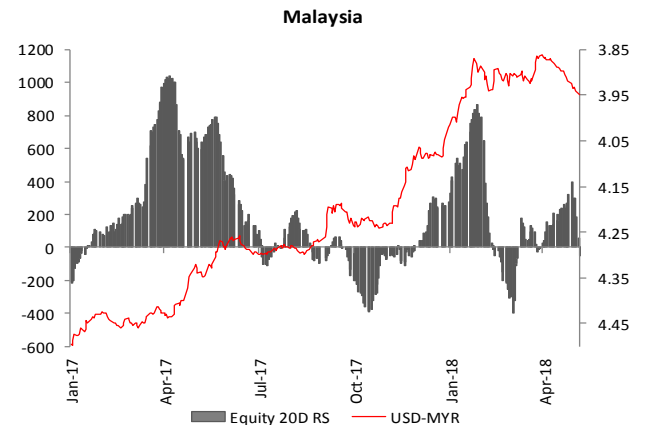
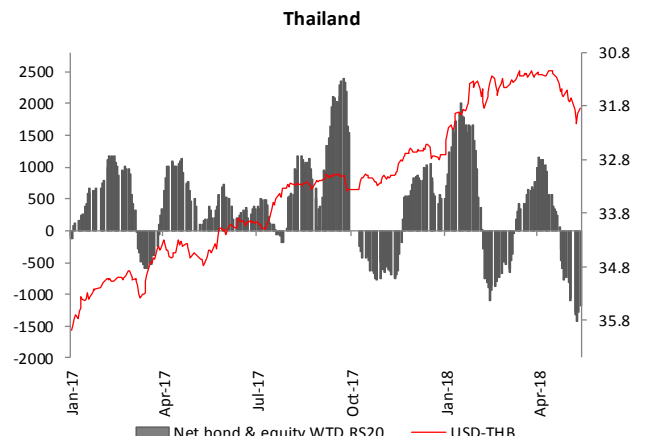
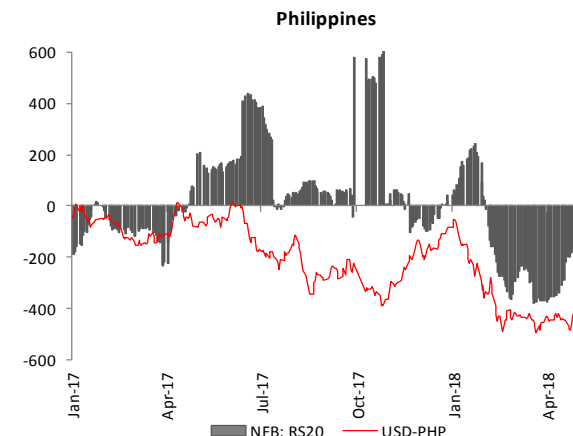
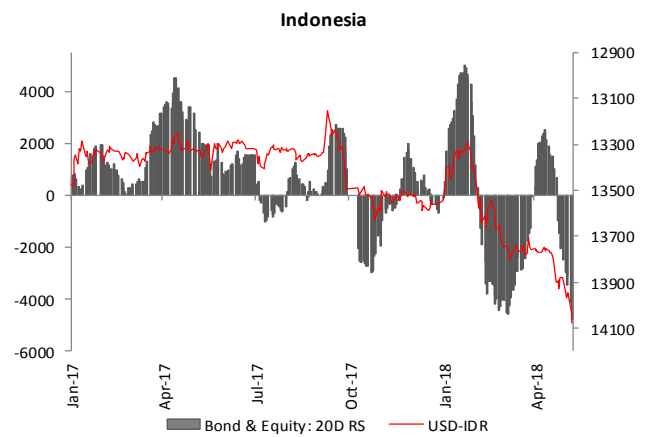
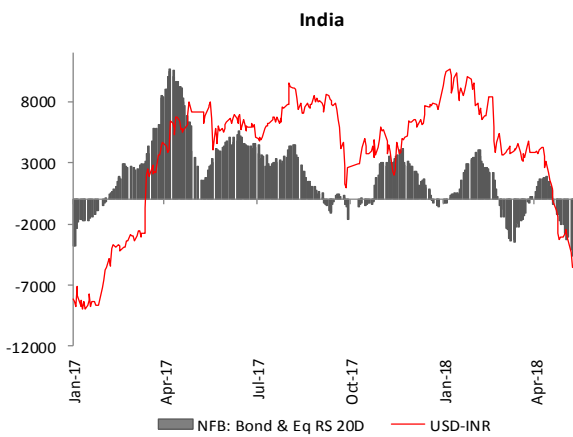
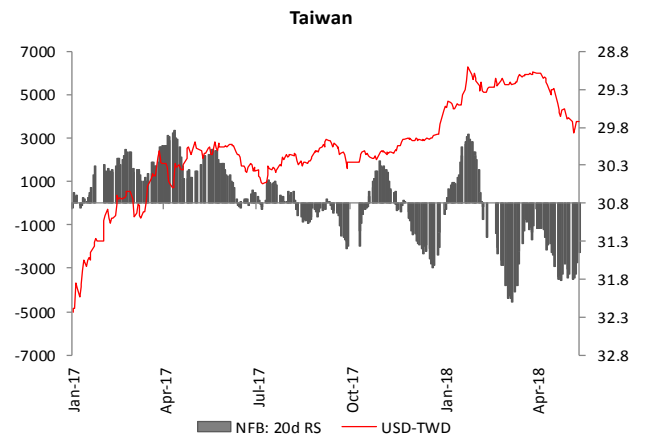
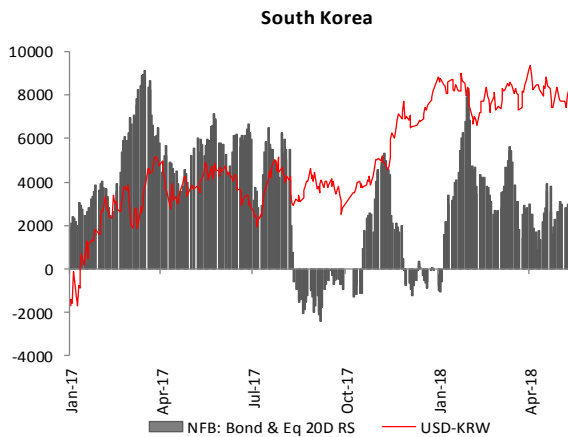
Source: OCBC Bank, Bloomberg

Short term Asian FX views

| Currency | Bias | Rationale |
|----------|------|--|
| USD-CNH | ↔/↑ | RRR cut, relative stability of RMB Index, RMB to shoulder potential volatility instead, watch US-Sino tensions |
| USD-KRW | ↔/↓ | Easing tensions with the North, net portfolio inflow momentum recovering, inflation/current account surplus projection downgraded, BOK expected to remain neutral |
| USD-TWD | ↔/↓ | Net equity outflows attempting to compress; new CBC governor non-hawkish |
| USD-INR | ↑ | Firmer than expected WPI and CPI data puts pressure on RBI to hike early; net portfolio outflows worsening; higher crude imposing drag on INR and govies |
| USD-SGD | ↔/↑ | NEER hovering around parity; MAS steepens NEER slope in April, pair buffeted by global trade tension headlines, responding to firmer DXY |
| USD-MYR | ↑ | Surprise defeat for the ruling BN coalition; neutral to rich valuation compared to peers on foreign reserves and current account measures, note calm response from financial markets after re-opening |
| USD-IDR | ↔/↑ | Disappointing GDP numbers; short term vol premium widening, fundamentals intact, net portfolio outflows deepening, carry strategy under reassessment; BI appears to be positioning for rate hike next week |
| USD-THB | ↔/↑ | BOT remains accommodative; net portfolio outflow balance; inflation inching higher back into BOT's target range. |
| USD-PHP | ↔/↑ | Net equity outflows moderating; BSP hiked policy rates as expected while signalling the possibility of further hikes. |

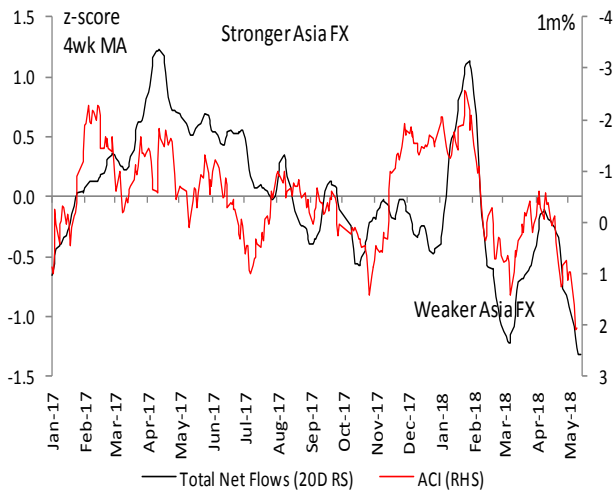
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



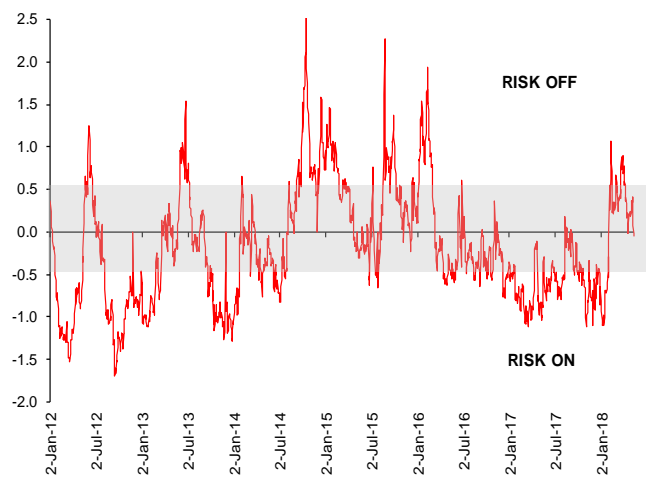
Source: CEIC, Bloomberg, OCBC Bank

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 | 0.677 | 0.969 | -0.048 | 0.448 | 0.641 | 0.900 | 0.694 | -0.573 | -0.165 | 0.944 | -0.995 |
| SGD | 0.992 | 0.671 | 0.951 | 0.006 | 0.462 | 0.704 | 0.889 | 0.739 | -0.609 | -0.208 | 0.929 | -0.989 |
| CHF | 0.971 | 0.724 | 0.941 | -0.006 | 0.408 | 0.601 | 0.903 | 0.706 | -0.561 | -0.100 | 0.935 | -0.977 |
| CNY | 0.969 | 0.634 | 1.000 | -0.194 | 0.242 | 0.544 | 0.884 | 0.622 | -0.439 | -0.028 | 0.979 | -0.957 |
| MYR | 0.966 | 0.587 | 0.936 | -0.167 | 0.247 | 0.645 | 0.829 | 0.777 | -0.586 | -0.187 | 0.897 | -0.978 |
| TWD | 0.945 | 0.685 | 0.922 | -0.022 | 0.343 | 0.588 | 0.913 | 0.708 | -0.525 | -0.110 | 0.897 | -0.951 |
| THB | 0.944 | 0.560 | 0.886 | 0.186 | 0.467 | 0.684 | 0.810 | 0.812 | -0.673 | -0.231 | 0.856 | -0.960 |
| CNH | 0.944 | 0.607 | 0.979 | -0.183 | 0.281 | 0.498 | 0.851 | 0.545 | -0.449 | -0.064 | 1.000 | -0.941 |
| IDR | 0.938 | 0.740 | 0.908 | -0.099 | 0.334 | 0.598 | 0.839 | 0.749 | -0.475 | 0.045 | 0.890 | -0.940 |
| INR | 0.927 | 0.786 | 0.857 | 0.136 | 0.369 | 0.675 | 0.916 | 0.825 | -0.596 | -0.148 | 0.823 | -0.924 |
| JPY | 0.900 | 0.827 | 0.884 | -0.231 | 0.298 | 0.427 | 1.000 | 0.535 | -0.323 | -0.018 | 0.851 | -0.877 |
| CAD | 0.802 | 0.839 | 0.850 | -0.442 | 0.109 | 0.322 | 0.841 | 0.396 | -0.076 | 0.306 | 0.806 | -0.754 |
| USGG10 | 0.677 | 1.000 | 0.634 | -0.242 | 0.098 | 0.349 | 0.827 | 0.532 | -0.071 | 0.345 | 0.607 | -0.642 |
| KRW | 0.420 | 0.408 | 0.616 | -0.460 | -0.313 | -0.041 | 0.515 | 0.001 | 0.129 | 0.369 | 0.547 | -0.413 |
| PHP | -0.506 | 0.127 | -0.556 | 0.163 | -0.267 | -0.427 | -0.245 | -0.242 | 0.372 | 0.362 | -0.499 | 0.502 |
| NZD | -0.958 | -0.806 | -0.908 | 0.054 | -0.415 | -0.605 | -0.952 | -0.703 | 0.500 | 0.133 | -0.866 | 0.946 |
| AUD | -0.958 | -0.790 | -0.960 | 0.237 | -0.336 | -0.468 | -0.950 | -0.554 | 0.369 | -0.016 | -0.924 | 0.938 |
| GBP | -0.982 | -0.666 | -0.932 | 0.018 | -0.513 | -0.705 | -0.870 | -0.727 | 0.594 | 0.198 | -0.906 | 0.972 |
| EUR | -0.995 | -0.642 | -0.957 | -0.018 | -0.467 | -0.664 | -0.877 | -0.720 | 0.625 | 0.213 | -0.941 | 1.000 |

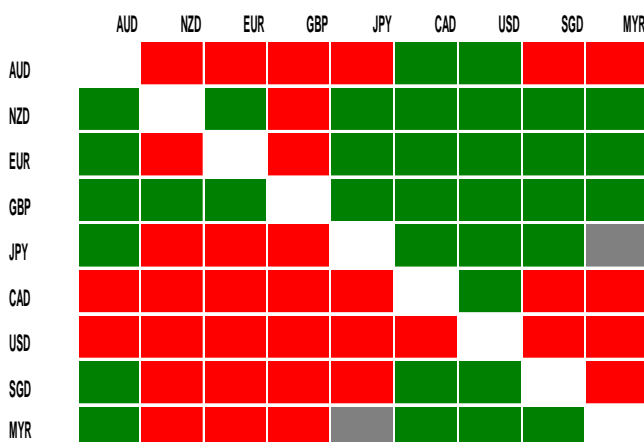
Source: Bloomberg

Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1823 | 1.1900 | 1.1935 | 1.2000 | 1.2021 |
| GBP-USD | 1.3500 | 1.3555 | 1.3563 | 1.3600 | 1.3935 |
| AUD-USD | 0.7412 | 0.7500 | 0.7533 | 0.7600 | 0.7671 |
| NZD-USD | 0.6900 | 0.6903 | 0.6914 | 0.7000 | 0.7150 |
| USD-CAD | 1.2680 | 1.2700 | 1.2796 | 1.2800 | 1.2830 |
| USD-JPY | 107.54 | 109.00 | 109.72 | 110.00 | 110.04 |
| USD-SGD | 1.3197 | 1.3300 | 1.3356 | 1.3379 | 1.3400 |
| EUR-SGD | 1.5876 | 1.5900 | 1.5940 | 1.6000 | 1.6077 |
| JPY-SGD | 1.2106 | 1.2145 | 1.2173 | 1.2200 | 1.2278 |
| GBP-SGD | 1.8015 | 1.8100 | 1.8115 | 1.8126 | 1.8200 |
| AUD-SGD | 0.9966 | 1.0000 | 1.0060 | 1.0100 | 1.0123 |
| Gold | 1302.30 | 1305.39 | 1313.90 | 1327.77 | 1344.62 |
| Silver | 16.50 | 16.50 | 16.57 | 16.60 | 16.78 |
| Crude | 66.53 | 70.90 | 70.98 | 71.00 | 71.74 |

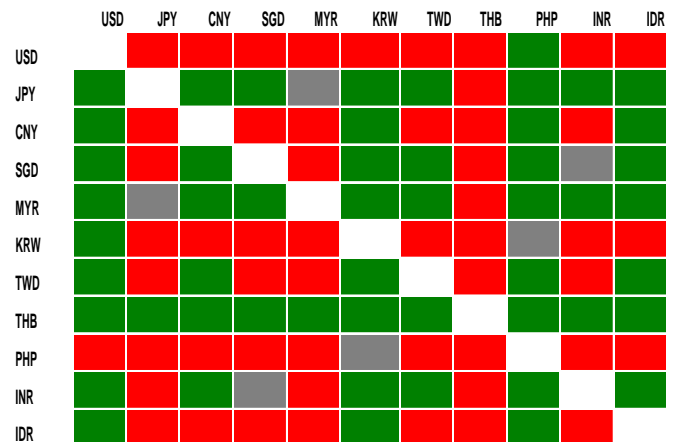
Source: OCBC Bank

G10 FX Heat Map



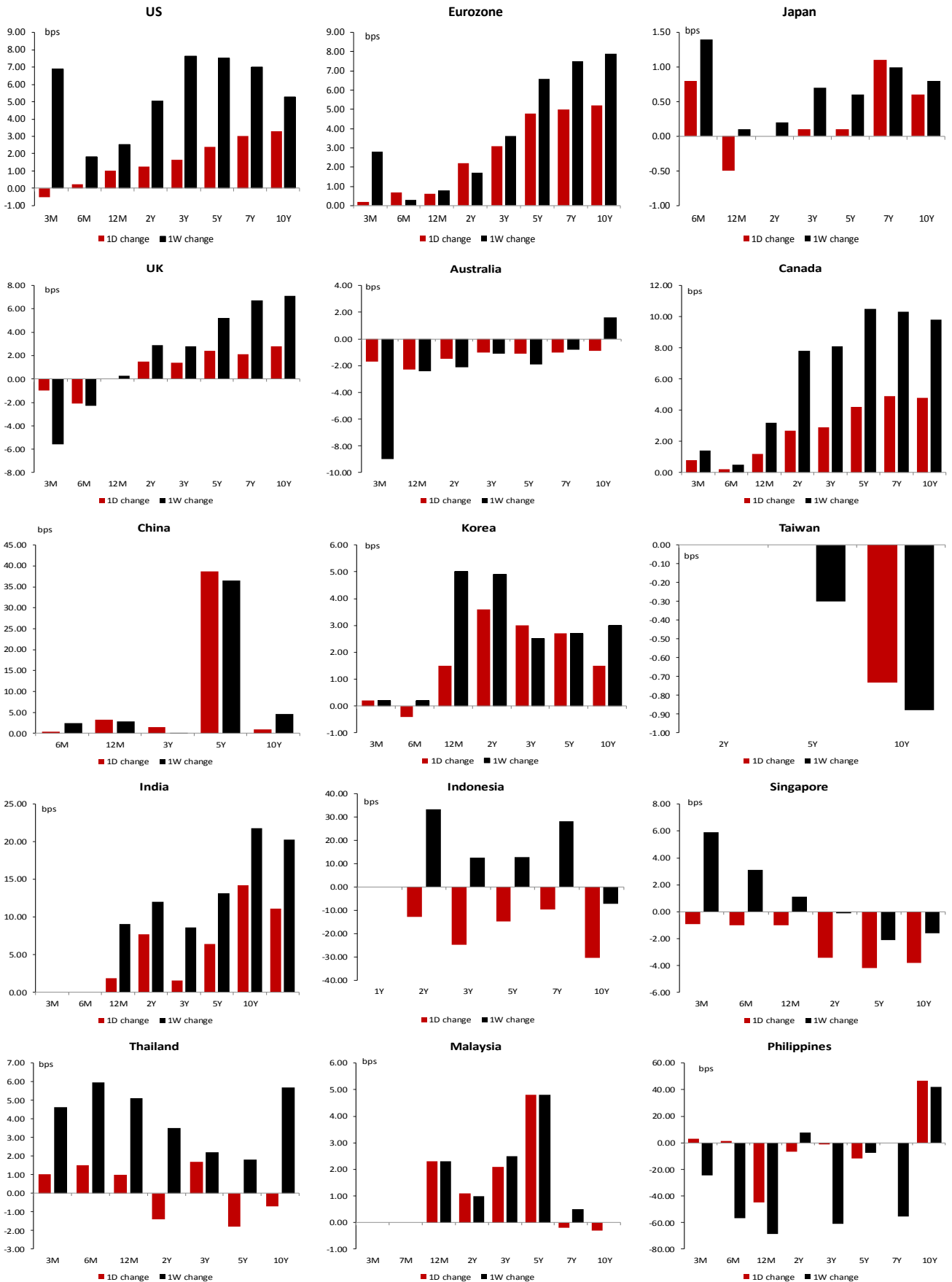
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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