

Thursday, August 16, 2018

FX Themes/Strategy/Trading Ideas

- The USD continued to be well-supported overnight, hitting a high of 96.99 before easing to close just below 96.70. The EUR was steady overall, after holding at the 1.1300 handle. The JPY outperformed on a return of risk aversion.
- Note some positive headlines from Turkey, with Qatar making a new US\$15b investment and other regulatory changes. The USD-TRY eased to levels below 6.00 on the news. Nevertheless, other EM currencies, led by the ZAR, RUB and MXN continued to weaken against the USD. **At this juncture, we may see the centre of EM jitters shift away from Turkey to other points of weakness.**
- Nevertheless, risk sentiments continue to be edgy overnight, being pressured by negative US/EU equities and higher EM FX vols. Our **FXSI (FX Sentiment Index)** has fluctuated just off the outright Risk-Off threshold since the start of the week.
- Into the end of the week, watch for possible headline-driven volatility in the GBP in view of the new round of Brexit negotiations scheduled. This round will be crucial as it is taking place after the exit of a number of pro-Brexit ministers, and aims to set the stage for a comprehensive deal by October. We continue to caution against Brexit optimism at this stage, and **reiterate that a significant shift in Brexit outlook (which does not appear immediately forthcoming for now) is required to reverse the downtrend in the GBP.**
- **At this juncture, we think the USD upside may see a temporary pause as markets contemplate the viability of USD strength at levels beyond 97.00 on the DXY index. Nevertheless, continued EM jitters and risk aversion should continue to benefit the USD in the near term.** In addition, we think the EUR downtrend remains intact for now, unless it can stage a broader rebound towards the 1.1400/20 region.
- On the data front, watch for UK retail sales (0830 GMT), US initial jobless claims and housing starts (1230 GMT). On the central bank calendar today, watch for RBA governor Lowe's testimony (2330 GMT) to the parliament. We think any AUD rebound on his comments may be short-lived, as global drivers continue to pressure against the cyclical.

Treasury Research &
Strategy

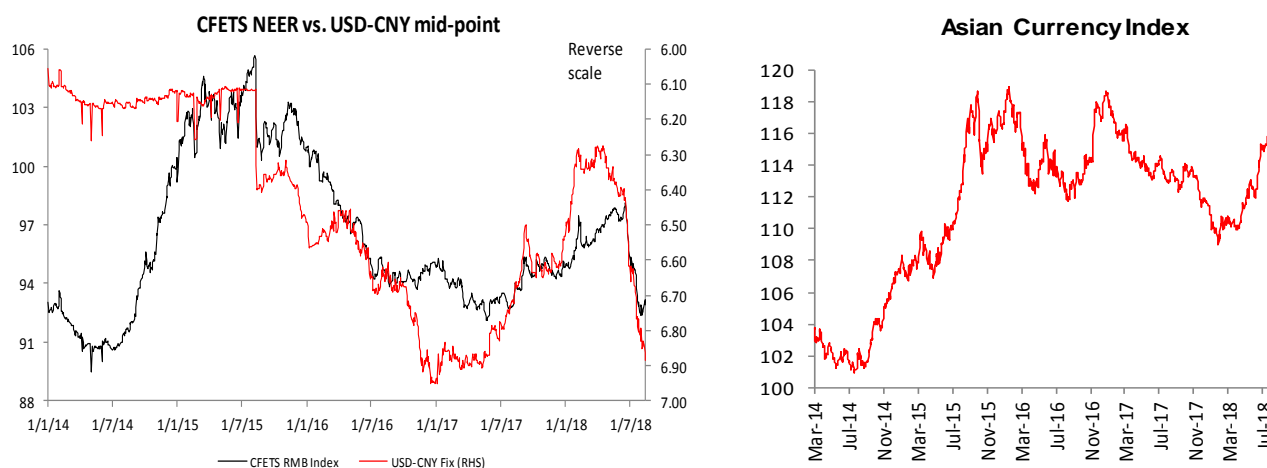
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Asian FX

- While eyes were on Turkey and other EM stress points, the USD-CNH and USD-CNY pushed above 6.9000 handle, and the CFETS RMB index slipped below 92.50 ahead of the morning USD-CNY midpoint fix. Note also that the Chinese Vice Commerce Minister is scheduled to visit the US for trade talks later this month.
- **This puts the 7.0000 level in focus once again.** CNH vols are more contained compared to the last time when the RMB complex is at current levels in early August, a reflection of less panic in the market and the view that recent declines in the RMB complex is driven by broader USD strength. **At this juncture, we may need to contemplate the weight of the 7.0000 “psychological level” amidst continued broad USD strength.**
- The lower-than-expected morning fix at 6.8946 (consensus estimate: 6.9041; our estimate: 6.9005) was perhaps telling of PBoC’s discomfort at current levels. This precipitated an easing of the USD-CNH and USD-CNY back closer to the 6.9000 handle. We think the 6.9600-7.0000 level may still be a bottom line for the PBoC for now.
- With a reprieve in the Turkish situation, we expect our **Asian Currency Index (ACI)** take a breather from its recent ascent. The pullback in USD-CNY post the morning fix should also provide some support for Asian FX intra-day.
- In terms of **Asian net portfolio flows**, we note equity outflows gripping South Asia, and also affecting Taiwan in the latest print. Nevertheless, this was balanced out by strong inflows into Thai bonds and South Korea.
- **Indonesia:** The Bank Indonesia (BI) surprised with a 25 bps hike on Wednesday, but we think it may do little in the way of supporting the IDR going forward. The BI may not be done with rate hikes as yet, especially with the Fed retaining its current hawkish path. EM jitters may also continue to negatively pressure the IDR, putting further impetus to hike in defence of the currency.
- **SGD NEER:** The SGD NEER firmed to +1.04% above its perceived parity level (1.3909) this morning. The NEER-implied USD-SGD thresholds eased marginally. The intra-day range may be limited by the +0.70% (1.3799) and +1.10% (1.3758) thresholds. At this juncture, the inability to sustain near the 1.3800 handle for the USD-SGD may signal a pause in the ascent.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, by less than expected, at 6.8946 compared to 6.8856 on Wednesday. The CFETS RMB Index edged lower to 92.80, from 92.92 previously.



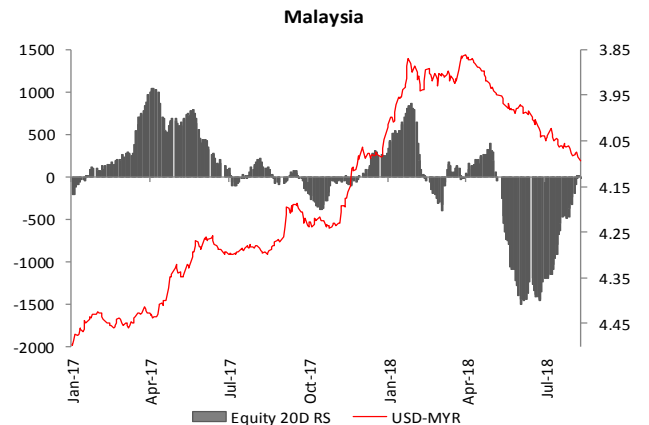
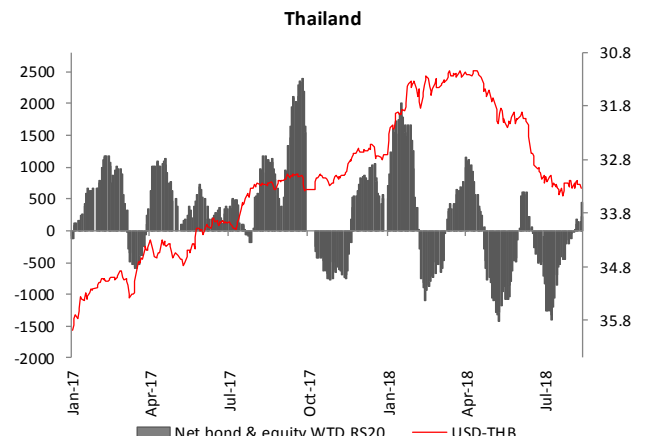
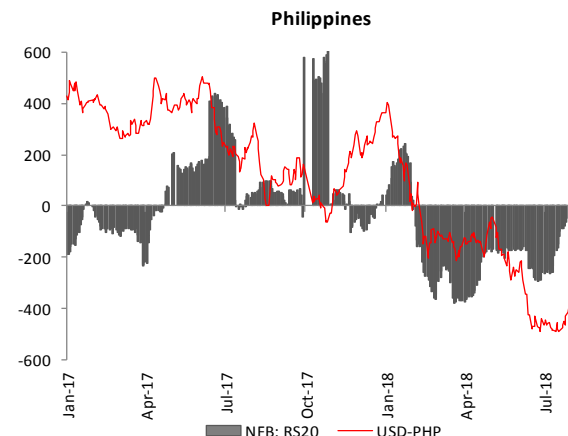
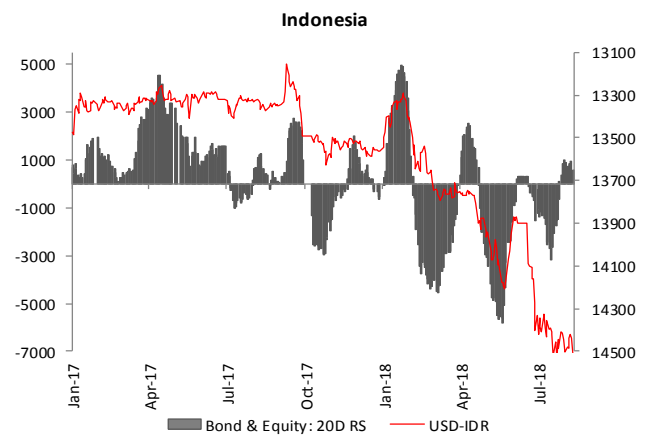
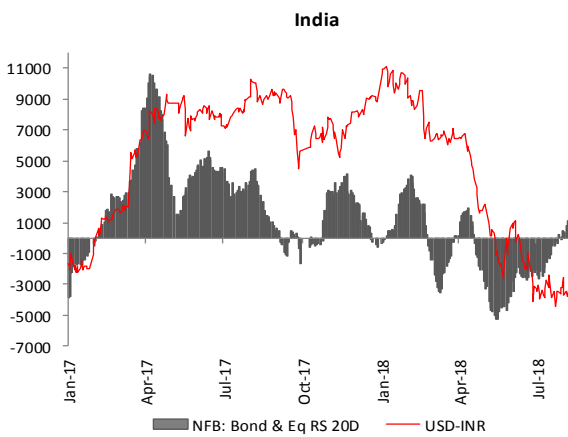
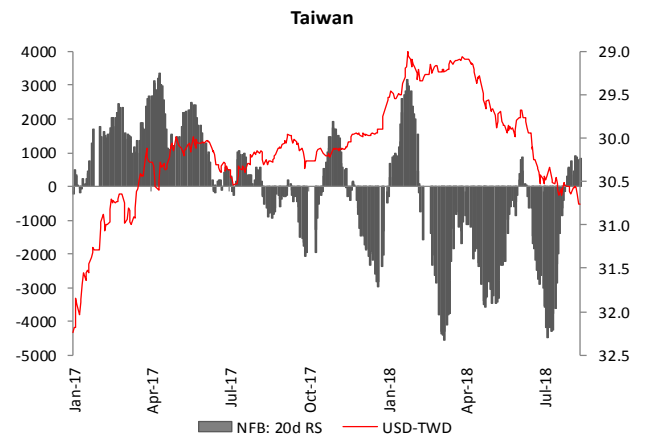
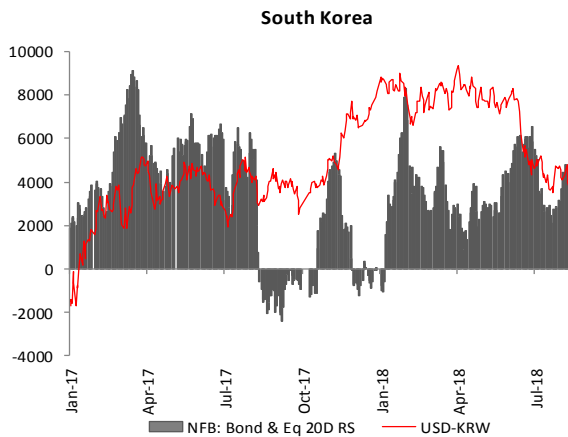
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔/↑	May consolidate north of the 6.9000 handle, with the latest ascent more due to broad USD strength, rather than RMB-centred concerns; PBoC may still be uncomfortable with levels near 6.9500; weaker than expected industrial production may weigh on the RMB complex
USD-KRW	↔/↑	Finance Minister signals possible intervention if volatility in the KRW spikes; portfolio inflows turning higher again; BOK governor signalling the need to review the accommodative policy
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; Fin Min possibly in favour of more OMO purchases to provide liquidity
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 hiked 25 bps, but the move did little to support spot IDR; President Jokowi called for further building of foreign reserves; IDR may be more exposed to Turkish issue due to widening CA deficit and high percentage of foreign ownership in government 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

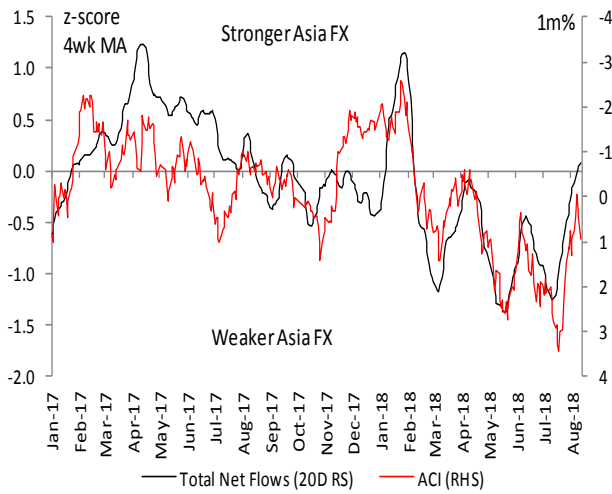
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



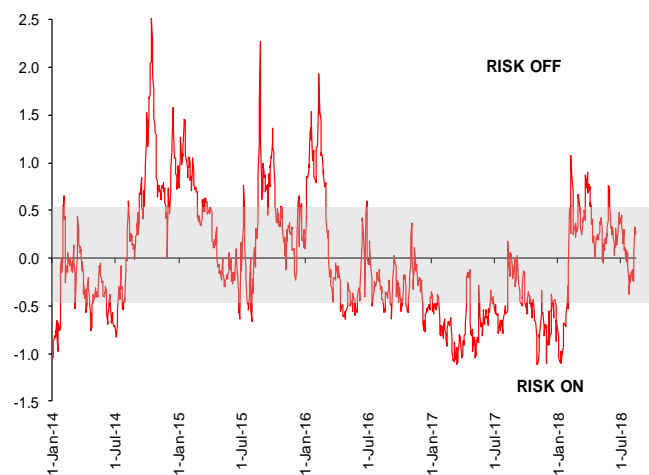
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXXK	CNH	EUR
DXY	1.000	-0.611	0.686	0.250	-0.750	-0.737	-0.377	-0.766	0.327	0.867	0.787	-0.989
SGD	0.960	-0.673	0.655	0.045	-0.839	-0.799	-0.320	-0.719	0.435	0.889	0.790	-0.937
MYR	0.873	-0.227	0.915	0.357	-0.695	-0.560	-0.566	-0.652	0.301	0.802	0.924	-0.914
CNH	0.787	-0.145	0.965	0.272	-0.556	-0.412	-0.702	-0.661	0.386	0.617	1.000	-0.848
TWD	0.706	-0.317	0.753	0.010	-0.669	-0.617	-0.557	-0.507	0.547	0.807	0.766	-0.726
INR	0.695	-0.404	0.545	0.033	-0.583	-0.501	-0.343	-0.302	0.506	0.745	0.555	-0.673
CNY	0.686	0.056	1.000	0.313	-0.499	-0.361	-0.721	-0.584	0.380	0.598	0.965	-0.762
IDR	0.643	-0.266	0.700	0.016	-0.664	-0.563	-0.514	-0.441	0.506	0.727	0.717	-0.656
KRW	0.346	-0.603	-0.126	-0.355	-0.519	-0.516	0.018	-0.132	0.283	0.561	0.128	-0.265
CHF	0.214	-0.512	-0.339	0.082	-0.354	-0.330	0.614	0.001	-0.359	0.164	-0.238	-0.123
CAD	0.205	-0.770	-0.353	-0.541	-0.695	-0.478	0.316	-0.109	0.278	0.297	-0.173	-0.083
PHP	0.009	-0.513	-0.313	-0.583	-0.157	-0.380	0.197	0.024	0.451	0.143	-0.247	0.072
THB	-0.161	-0.241	-0.154	-0.459	-0.230	-0.027	0.000	0.302	0.219	0.146	-0.083	0.194
JPY	-0.377	-0.177	-0.721	-0.393	-0.034	-0.059	1.000	0.403	-0.256	-0.266	-0.702	0.470
USGG10	-0.611	1.000	0.056	0.304	0.552	0.689	-0.177	0.383	-0.316	-0.638	-0.145	0.511
AUD	-0.931	0.610	-0.658	0.057	0.738	0.764	0.373	0.715	-0.595	-0.802	-0.793	0.921
GBP	-0.959	0.509	-0.747	-0.412	0.648	0.625	0.488	0.778	-0.190	-0.836	-0.807	0.961
NZD	-0.969	0.554	-0.715	-0.299	0.634	0.682	0.487	0.783	-0.314	-0.834	-0.804	0.971
EUR	-0.989	0.511	-0.762	-0.316	0.712	0.678	0.470	0.778	-0.326	-0.829	-0.848	1.000

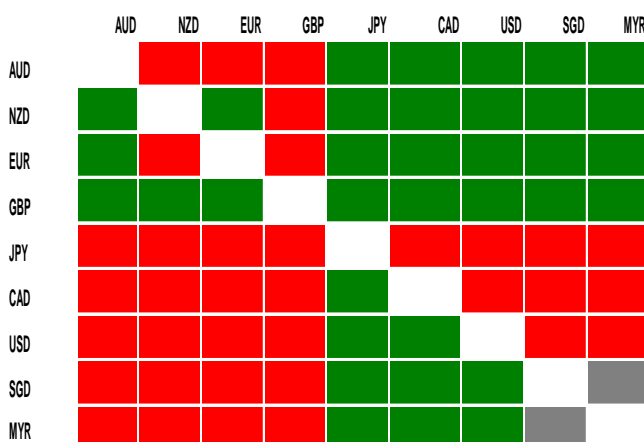
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1301	1.1319	1.1369	1.1400	1.1631
GBP-USD	1.2662	1.2700	1.2713	1.2800	1.3124
AUD-USD	0.7203	0.7236	0.7253	0.7300	0.7403
NZD-USD	0.6529	0.6545	0.6572	0.6600	0.6799
USD-CAD	1.3100	1.3131	1.3137	1.3189	1.3200
USD-JPY	110.11	110.56	110.78	111.00	111.50
USD-SGD	1.3616	1.3700	1.3768	1.3795	1.3800
EUR-SGD	1.5580	1.5609	1.5652	1.5700	1.5836
JPY-SGD	1.2267	1.2400	1.2427	1.2453	1.2500
GBP-SGD	1.7459	1.7500	1.7502	1.7600	1.7867
AUD-SGD	0.9945	0.9977	0.9986	1.0000	1.0079
Gold	1100.00	1161.40	1171.90	1179.33	1200.00
Silver	14.31	14.40	14.45	14.50	14.67
Crude	64.43	64.90	64.94	65.00	65.21

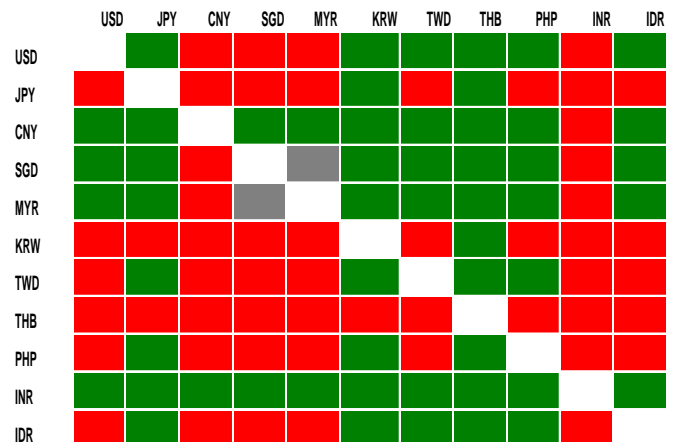
Source: OCBC Bank

G10 FX Heat Map



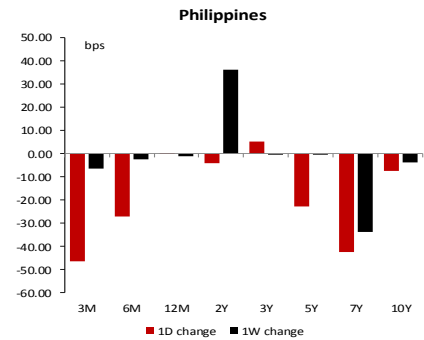
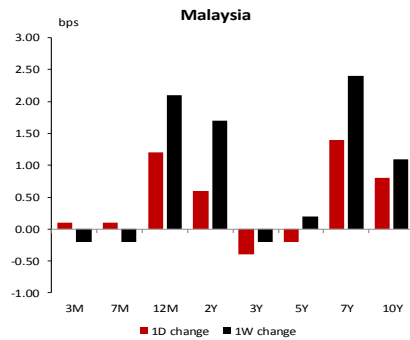
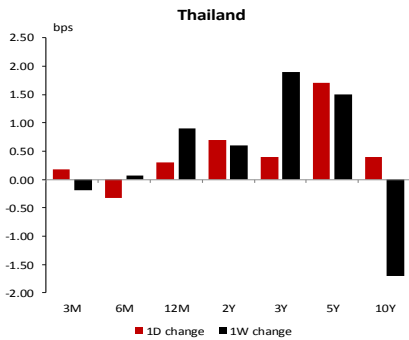
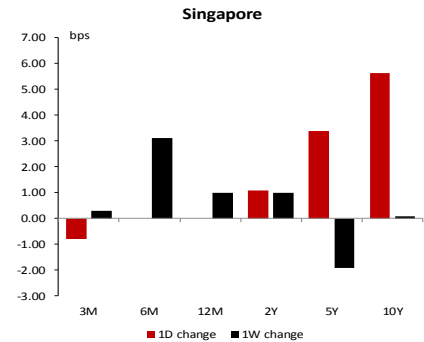
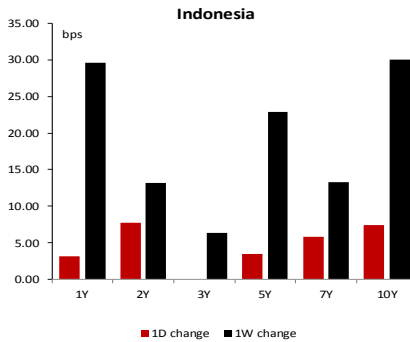
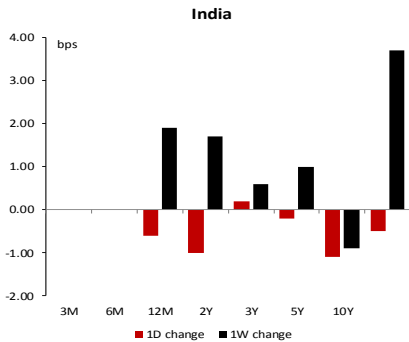
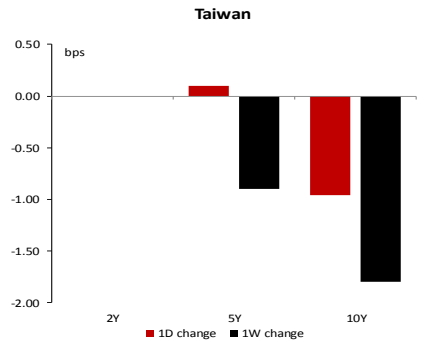
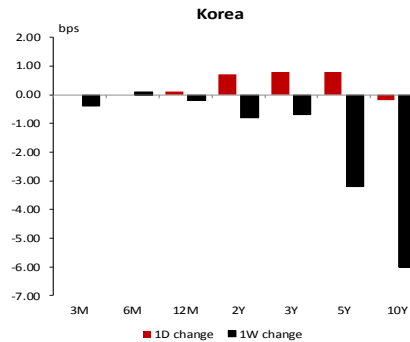
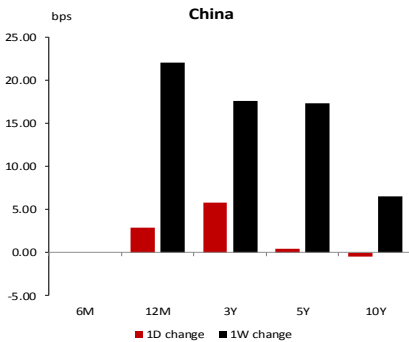
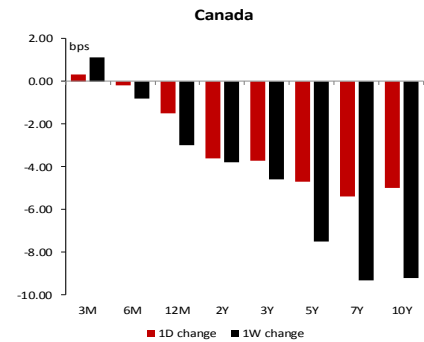
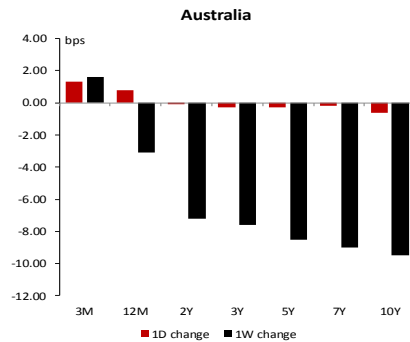
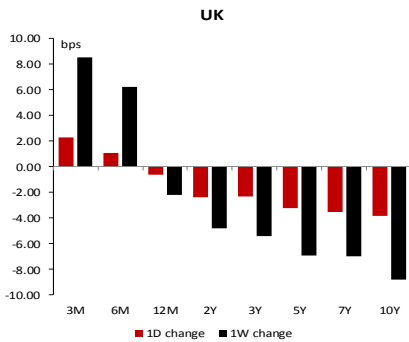
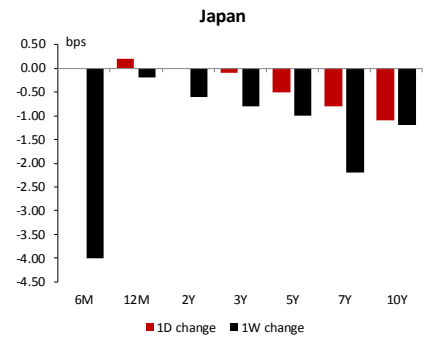
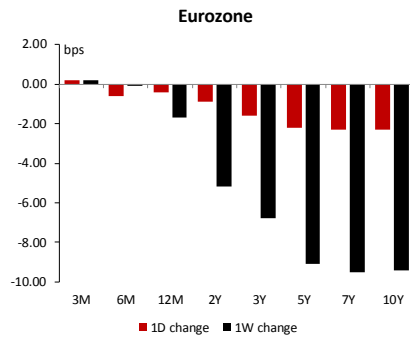
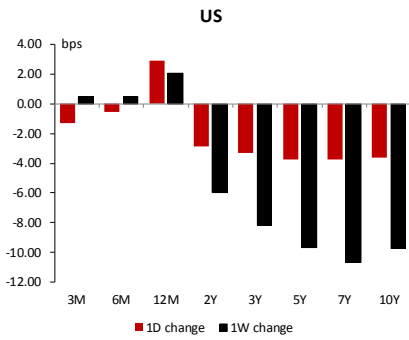
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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