

Tuesday, July 17, 2018

FX Themes/Strategy/Trading Ideas

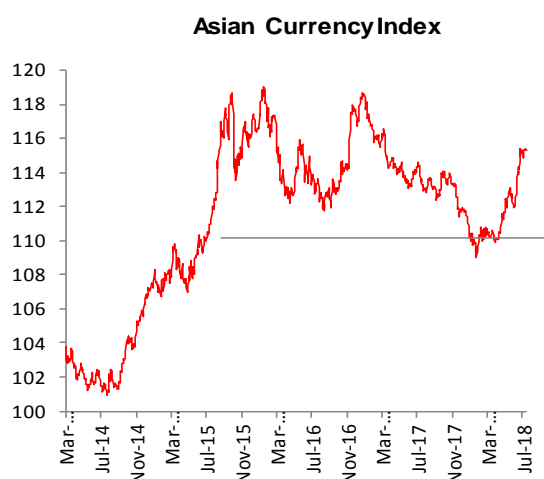
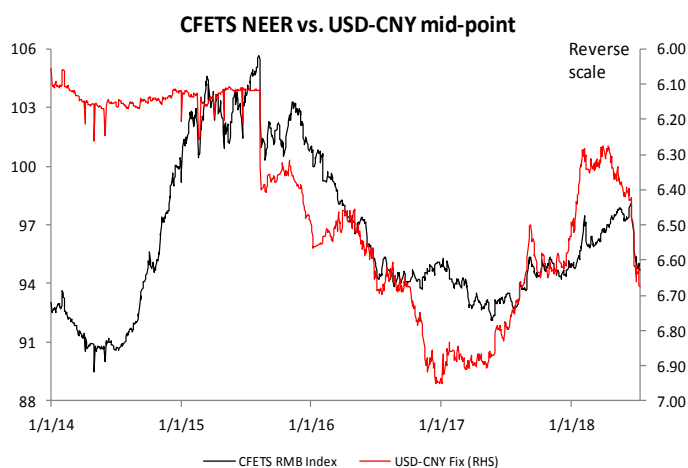
- Firm US retail sales and higher 10y UST yields did not provide support for the USD overnight, as it weakened against G7 counterparts, with the exception of the AUD. We think this move is likely on the back of a position-lightening move ahead of Powell's testimony to Senate (1400 GMT).
- **We look for Powell's testimony to potentially give a new catalyst for broad USD directionality. Overall, we expect him reiterate the recent "gradual further increases" rhetoric amid strong growth, low unemployment and an uptick in inflation. There appears to be limited justification for him to project a more hawkish picture than this. Thus, the balance of risks may be for him to under-deliver on market expectations, especially in light of the impact of trade tensions and the flattening yield curve.**
- Note that Kashkari (non-voter) is the latest to raise concerns about the flattening yield curve. He joins the list that includes Bostic (voter), Bullard and Kaplan (both non-voters). A growing number Fed officials becoming concerned may eventually shift the discussion dynamics within the FOMC. At this stage, we may not be at the stage whereby yield curve discussions seriously impinge on the rate hike path, but this has definitely emerged as a potential risk event to the current rate hike expectations at the Fed.
- Elsewhere on the G7 space, note also that the New Zealand CPI print missed expectations, raising questions of a possible rate cut in the **Reserve Bank of New Zealand's** (RBNZ) next policy move. Meanwhile, the latest RBA minutes show that the central bank is largely on a holding stance. At this juncture, we continue to view the RBNZ and RBA as relative laggards in the normalization path, potentially impinging on NZD and AUD prospects in the structural horizon.
- On the central bank calendar, watch also for comments from the BOE's Carney (0800 GMT). On the data front, watch for US industrial production (1315 GMT) and UK unemployment rate (0830 GMT).

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Asian FX

- A mixed to weaker showing from US/EU/EM equities overnight did little to sap risk appetite. Overall risk sentiments still appear sanguine, with our **FX Sentiment Index (FXSI)** remaining essentially static in the middle of the Risk-Neutral zone.
- **With no further developments on the trade front, continue to watch the broad USD and the RMB complex as a guide for Asian FX. With the broad USD under some pressure ahead of the Powell testimony, expect the Asian Currency Index to stay flat to lower intra-day.**
- In terms of **Asian portfolio flows**, note that a decline in bond inflow momentum has crimped overall inflow momentum in South Korea, although an increase in equity inflows negated the effect somewhat. Equity outflow momentum from Taiwan is also seen turning from extended levels, although it is still too early to call a bottom for now. Meanwhile, in South Asia, both bond and equity outflows from India are compressing. In Thailand, we note that the worsening in bond outflow momentum outweighed the recent improvement in equity flows.
- **SGD NEER:** The SGD NEER is again firmer this morning, standing at around +0.81% above its perceived parity level (1.3727). The NEER-implied USD-SGD thresholds were weaker on USD weakness overnight. Intra-day, expect the pair to consolidate within the +0.50% (1.3659) and +0.90% (1.3605) thresholds. Retain a preference to sell on rallies at this stage. Singapore NODX printed weaker than expectations this morning, with electronics exports being the main drag. Expect NODX momentum to ease into 3Q18 as the electronics sector remain lackluster.
- **CFETS RMB Index:** The USD-CNY mid-point was set higher than our expectations at 6.6821 compared to 6.6758 on Monday. The CFETS RMB Index eased to 94.54, compared to 94.67 previously.



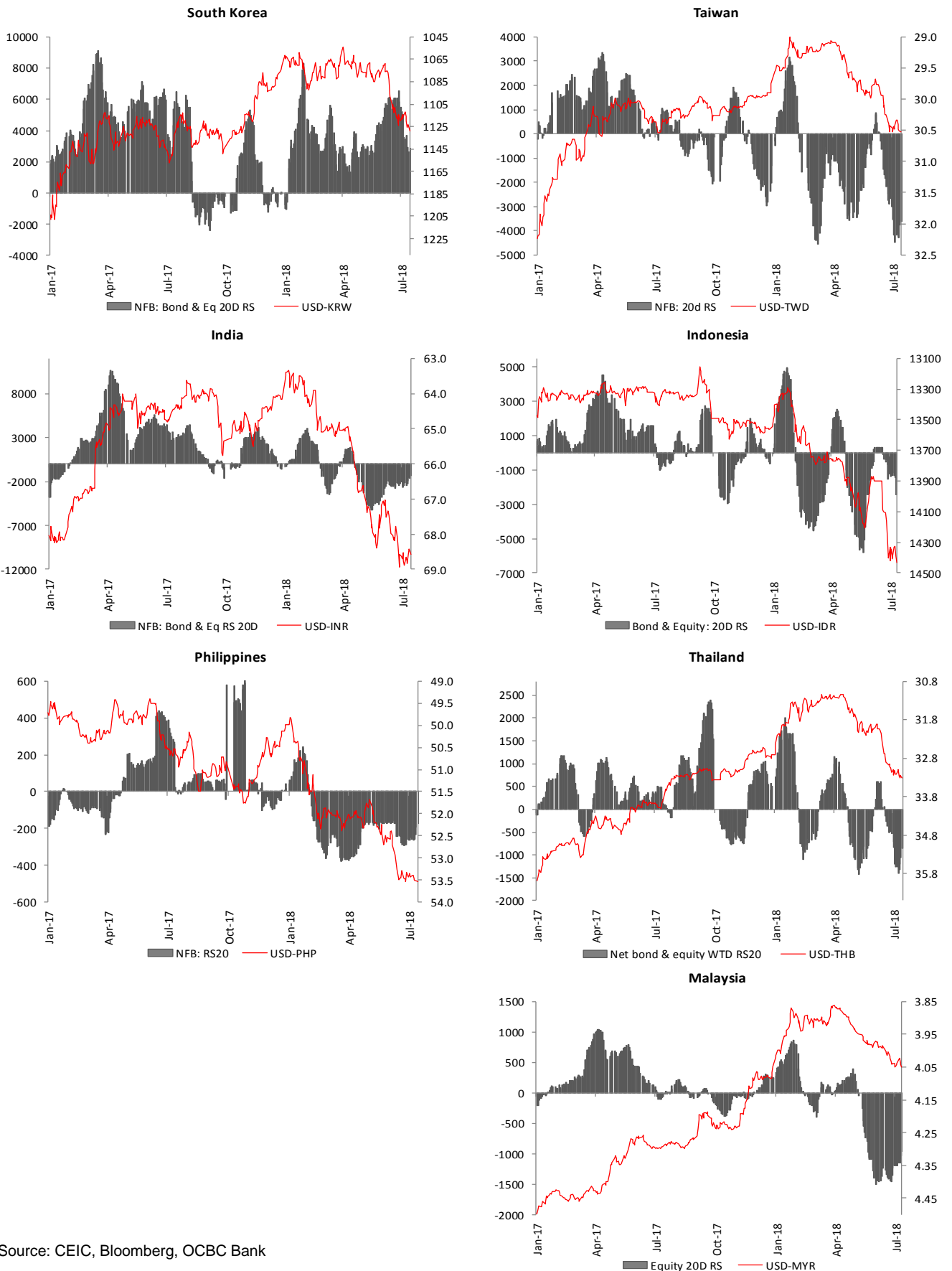
Source: OCBC Bank, Bloomberg

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 | ↔/↑ | Portfolio inflows compressing; 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; pair led by the RMB complex; impending TSMC dividend payment may drive the pair higher |
| USD-INR | ↑ | Slower-than-expected inflation may relieve pressure on the RBI to hike; RBI ease foreign ownership caps on government bonds while using OMO to support the local bond market |
| USD-SGD | ↔ | 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 | ↔/↑ | BI policy decision in focus this week, recent rhetoric suggest a continuation of hawkish trajectory; efforts by the government and BI will limit USD-IDR gains, but will not reverse the trend; USD-IDR settling within 14,300-14,450 range. |
| 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 |

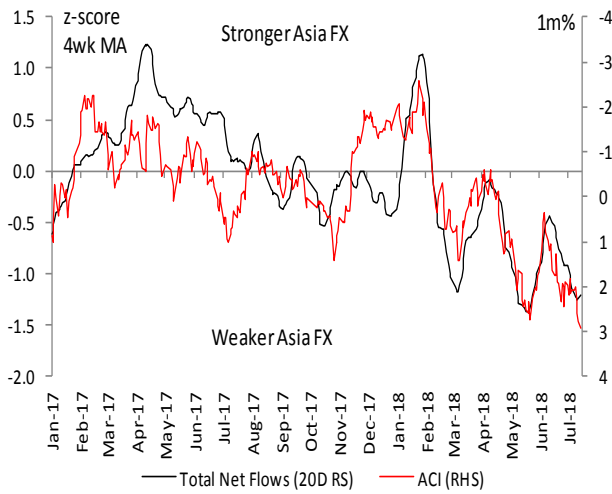
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



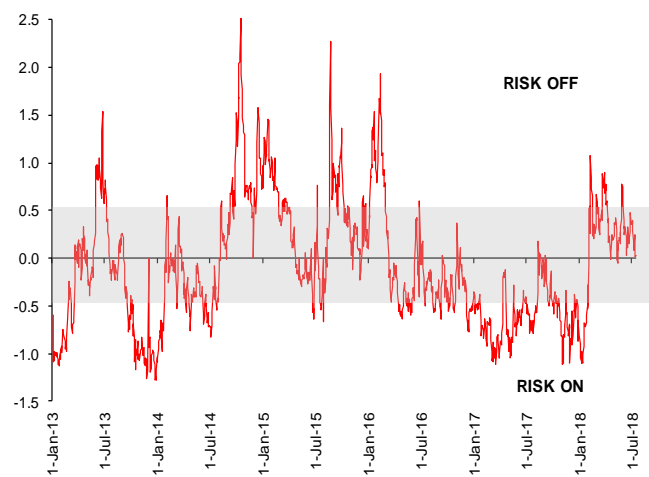
Source: CEIC, Bloomberg, OCBC Bank

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 | ITRXXK | CNH | EUR |
|--------|--------|--------|--------|--------|----------|--------|--------|--------|--------|--------|--------|--------|
| DXY | 1.000 | 0.290 | -0.269 | -0.215 | 0.223 | -0.158 | -0.001 | -0.362 | 0.194 | 0.079 | -0.249 | -0.920 |
| CAD | 0.590 | 0.326 | -0.355 | -0.422 | 0.182 | -0.289 | -0.464 | -0.467 | 0.438 | 0.112 | -0.381 | -0.596 |
| CHF | 0.580 | -0.010 | 0.095 | 0.418 | 0.135 | -0.357 | 0.730 | -0.145 | -0.347 | -0.357 | 0.182 | -0.352 |
| PHP | 0.323 | -0.236 | 0.412 | 0.102 | -0.224 | -0.523 | 0.336 | -0.028 | 0.049 | -0.088 | 0.298 | -0.066 |
| USGG10 | 0.290 | 1.000 | -0.893 | 0.245 | 0.918 | -0.132 | -0.356 | -0.826 | -0.392 | -0.503 | -0.891 | -0.482 |
| SGD | 0.150 | -0.718 | 0.772 | -0.539 | -0.832 | -0.065 | 0.257 | 0.599 | 0.665 | 0.729 | 0.781 | 0.120 |
| IDR | 0.034 | -0.860 | 0.949 | 0.230 | -0.811 | 0.062 | 0.646 | 0.773 | -0.228 | 0.119 | 0.942 | 0.210 |
| JPY | -0.001 | -0.356 | 0.569 | 0.576 | -0.201 | -0.364 | 1.000 | 0.240 | -0.428 | -0.296 | 0.621 | 0.304 |
| NZD | -0.012 | 0.810 | -0.913 | 0.298 | 0.866 | -0.033 | -0.497 | -0.769 | -0.415 | -0.639 | -0.922 | -0.272 |
| KRW | -0.091 | -0.799 | 0.869 | -0.268 | -0.823 | -0.190 | 0.374 | 0.614 | 0.446 | 0.514 | 0.847 | 0.390 |
| MYR | -0.184 | -0.898 | 0.930 | -0.230 | -0.901 | 0.007 | 0.466 | 0.780 | 0.345 | 0.545 | 0.930 | 0.410 |
| TWD | -0.203 | -0.893 | 0.930 | -0.355 | -0.928 | 0.049 | 0.327 | 0.791 | 0.491 | 0.641 | 0.913 | 0.441 |
| CNH | -0.249 | -0.891 | 0.996 | -0.107 | -0.884 | -0.005 | 0.621 | 0.810 | 0.267 | 0.462 | 1.000 | 0.545 |
| INR | -0.253 | -0.856 | 0.868 | -0.144 | -0.888 | 0.085 | 0.367 | 0.807 | 0.252 | 0.478 | 0.866 | 0.473 |
| CNY | -0.269 | -0.893 | 1.000 | -0.094 | -0.885 | -0.008 | 0.569 | 0.822 | 0.241 | 0.444 | 0.996 | 0.543 |
| THB | -0.299 | -0.839 | 0.918 | -0.153 | -0.864 | -0.148 | 0.410 | 0.701 | 0.315 | 0.458 | 0.909 | 0.566 |
| AUD | -0.597 | 0.256 | -0.299 | 0.617 | 0.468 | 0.193 | 0.112 | -0.129 | -0.628 | -0.631 | -0.276 | 0.452 |
| GBP | -0.757 | 0.238 | -0.262 | 0.491 | 0.373 | -0.077 | -0.026 | -0.252 | -0.513 | -0.557 | -0.253 | 0.577 |
| EUR | -0.920 | -0.482 | 0.543 | 0.251 | -0.412 | 0.027 | 0.304 | 0.516 | -0.156 | -0.020 | 0.545 | 1.000 |

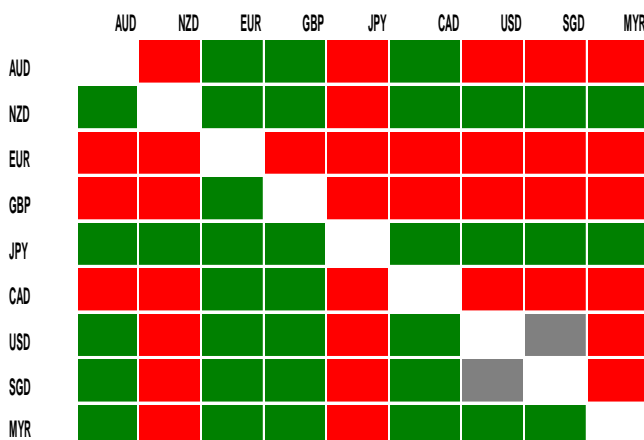
Source: Bloomberg

Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1554 | 1.1700 | 1.1708 | 1.1709 | 1.1778 |
| GBP-USD | 1.3109 | 1.3200 | 1.3235 | 1.3300 | 1.3317 |
| AUD-USD | 0.7329 | 0.7400 | 0.7414 | 0.7469 | 0.7486 |
| NZD-USD | 0.6698 | 0.6700 | 0.6783 | 0.6800 | 0.6898 |
| USD-CAD | 1.3042 | 1.3100 | 1.3138 | 1.3200 | 1.3358 |
| USD-JPY | 110.33 | 112.00 | 112.37 | 112.66 | 112.80 |
| USD-SGD | 1.3554 | 1.3600 | 1.3620 | 1.3698 | 1.3700 |
| EUR-SGD | 1.5800 | 1.5900 | 1.5947 | 1.5983 | 1.6000 |
| JPY-SGD | 1.2092 | 1.2100 | 1.2120 | 1.2140 | 1.2200 |
| GBP-SGD | 1.7969 | 1.8000 | 1.8026 | 1.8100 | 1.8106 |
| AUD-SGD | 1.0000 | 1.0014 | 1.0098 | 1.0100 | 1.0150 |
| Gold | 1234.16 | 1236.20 | 1240.40 | 1275.74 | 1281.39 |
| Silver | 15.70 | 15.71 | 15.74 | 15.80 | 16.37 |
| Crude | 65.00 | 67.00 | 67.99 | 68.00 | 69.41 |

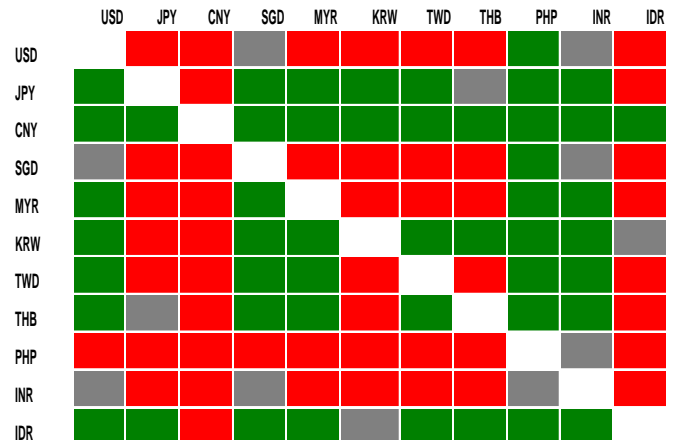
Source: OCBC Bank

G10 FX Heat Map



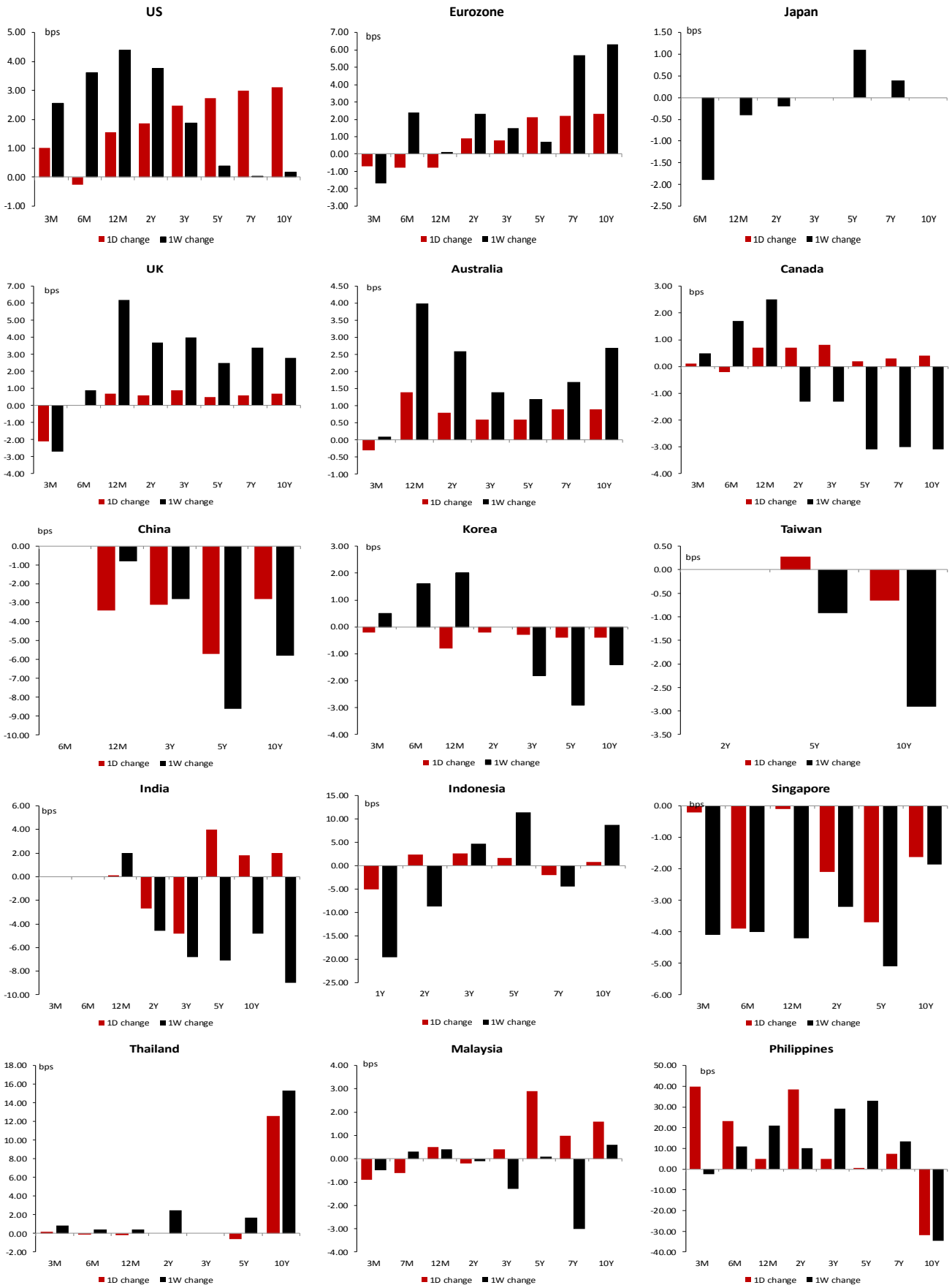
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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