

Thursday, May 17, 2018

FX Themes/Strategy/Trading Ideas

- Rising back-end UST yields continue to provide support for the broad USD against the likes of EUR, GBP and JPY. Stronger-than-expected US industrial production data for April, and positive revisions for March also helped. These factors allowed the DXY hit to a year-to-date high of 93.63 before fading off. Meanwhile, cyclical currencies outperformed as risk sentiments improved.
- The **FXSI (FX Sentiment Index)** dipped lower within the **Risk-Neutral** territory on the back of a positive lead from US/EZ/EM equities. EM FX also firmed against the USD overnight.
- The EUR got favours from neither ECB appearances nor in-line CPI data-prints overnight. Note that markets continue to be edgy over the Italian political situation. The populist coalition of Five Star / Northern League may request for a write-down on Italian debt held by the ECB once they form government, though subsequent reports proved to be conflicting.
- Moving forward, the broad USD may retain a slight upper hand into the end of the week. Long-end yield differentials continue to move deeper in favour of the broad USD. This should keep any retracement in the DXY relatively shallow.
- Comments from Fed's Bostic (supports 3 rate hikes in 2018) put him on the neutral-to-dovish camp amongst the voting FOMC members. Kashkari (1445 GMT) and Kaplan (1730 GMT) also scheduled to speak today. ECB's Constancio (1030 GMT, 1200 GMT) and BOE's Haldane (1600 GMT) complete the G10 central banks line-up today.

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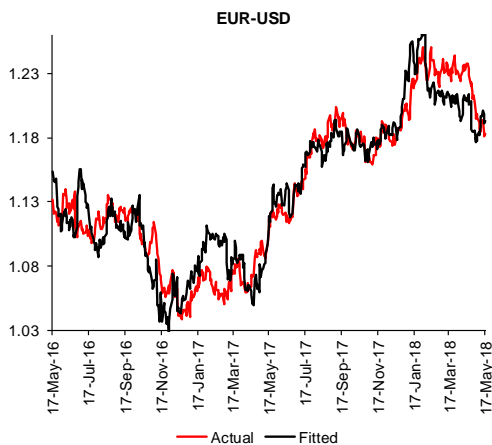
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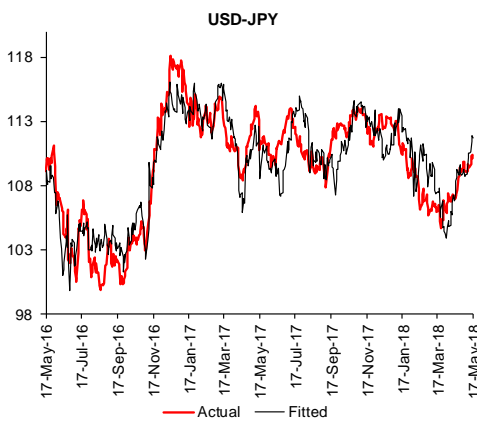
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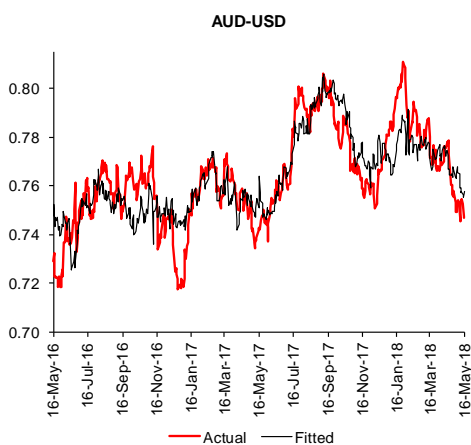
- **EUR-USD** EZ CPI releases yesterday were in-line with expectations. Focus on the Italian political situation may continue to weigh, and keep any bounce on the pair limited. Prefer to sell on rallies. The 1.1800 handle should continue to attract.

Source: OCBC Bank



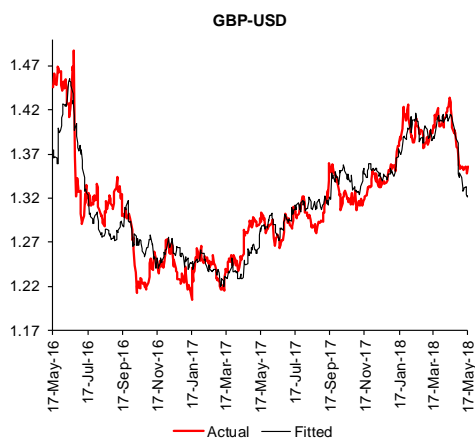
- **USD-JPY** Short term implied valuations continues to point higher, and may pull the pair along in the coming sessions. The 200-day MA (110.19) should provide downside support as it looks towards 110.48.

Source: OCBC Bank

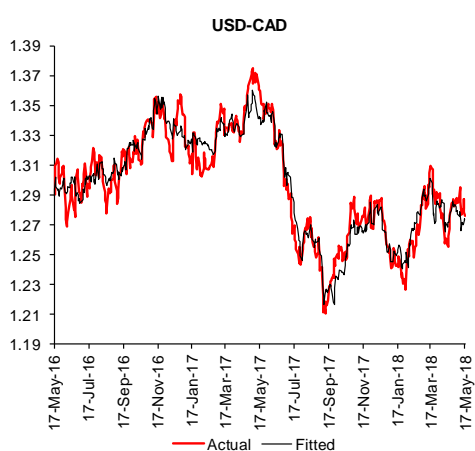


- **AUD-USD** The pair staged a bounce overnight as risk sentiments recovered. Nevertheless, note that the short-term implied valuations continue to point lower. 0.7570 may cap any rebound in the near term.

Source: OCBC Bank



- **GBP-USD** The pair bounced higher on early Asian trade on positive Brexit headlines. Note that short term implied valuations for the pair continued to sink. A range between 1.3460 and 1.3600 should book-end the pair heading into the end of the week.



- **USD-CAD** The pair dipped lower following a good showing from cyclical currencies overnight. Expect the pair to fluctuate within the 1.2730 and 1.2830 channel in the near term.

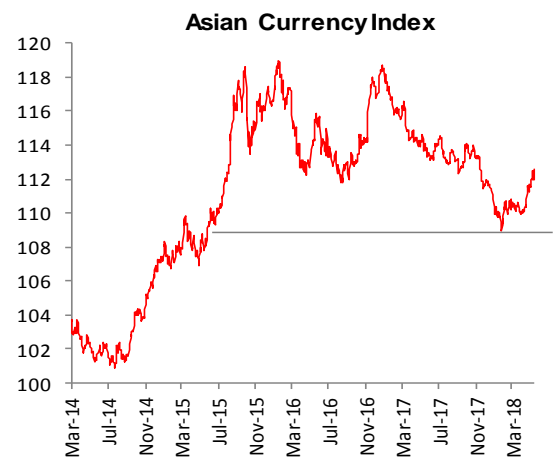
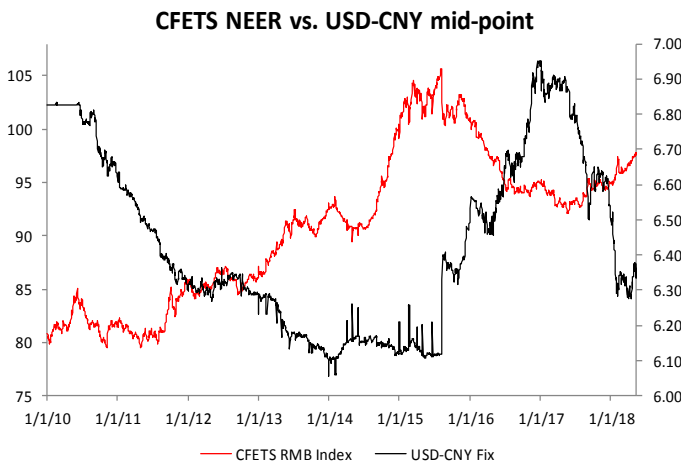
Source: OCBC Bank

Asian FX

- The Asian currencies may see some support from improving risk sentiments and a positive lead from equities. However, any dips in the **ACI (Asian Currency Index)** should be shallow as nominal long-end yields and yield differential arguments continue to favour the broad USD.
- **Actual net portfolio flows** into Asia continue to point to stronger inflows into South Korea, and outflow compression in Taiwan. Note also that the outflows in Thailand are also undergoing moderation. However, outflows from India continued to worsen. The first data-prints since the election also show some equity outflows from Malaysia.
- **India:** Investors continue to look towards the Reserve Bank of India's (RBI) open-market operations to provide excess demand for government bonds. The RBI may buy up to INR 1tn worth of govies, and this may cap yields going forward.
- **South Korea:** The Bank of Korea (BOK) will be releasing its FX intervention data from March 2019 onwards. This may cause some upward pressure on the

KRW on the structural horizon as interventions to limit its depreciation may have to be reconsidered. However, near-term implications on the KRW may be limited. Meanwhile, a less-than-optimistic outlook from the BOK governor also spurred buying demand for Korean govies.

- The **Bank of Thailand (BOT)** held the policy rate unchanged at 1.5% in a unanimous decision yesterday. More excitement may come from the **Bank Indonesia (BI)** policy decision expected later today. On a fundamental basis, the case for a rate hike is somewhat weak. However, recent rhetoric by the outgoing governor appears to suggest that they are ready to hike rates preemptively to support the IDR.
- **SGD NEER:** Stronger than expected NODX data pulled the SGD NEER higher this morning, to +0.47% above its perceived parity (1.3438). The NEER-implied USD-SGD thresholds were again lower. Expect the USD-SGD to ply the +0.70% (1.3345) and +0.40% (1.3398) range intra-day. Into the end of the week, the USD-SGD may be range-bound between 1.3350 and 1.3480 amidst a firmer USD environment.
- **CFETS RMB Index:** The USD-CNY mid-point fell, within expectations, to 6.3679 from 6.3745 on Wednesday. Nevertheless, the CFETS RMB Index dipped slightly to 97.78, from 97.81.



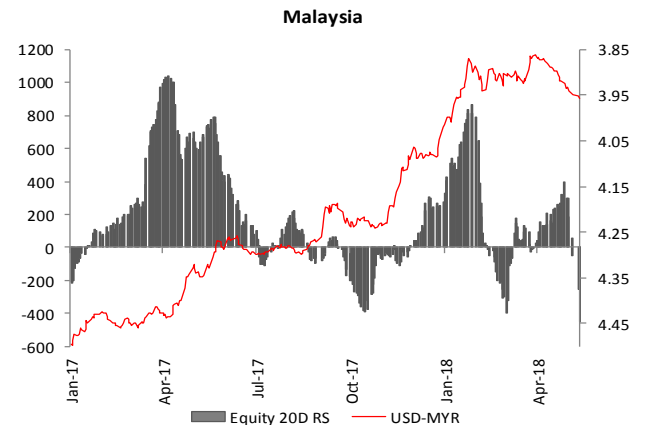
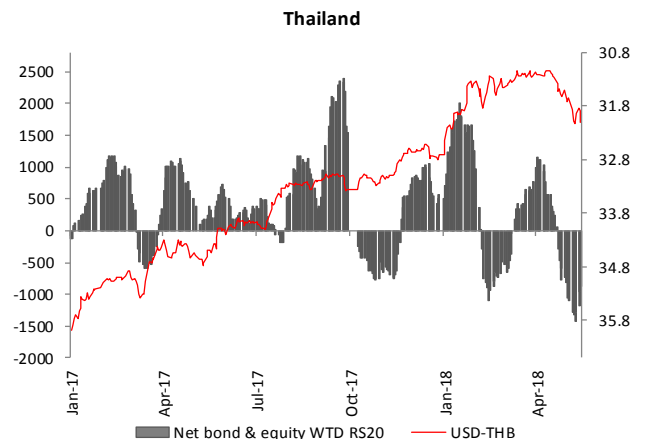
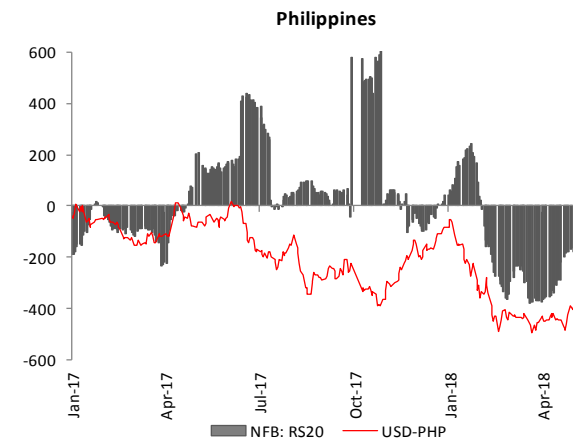
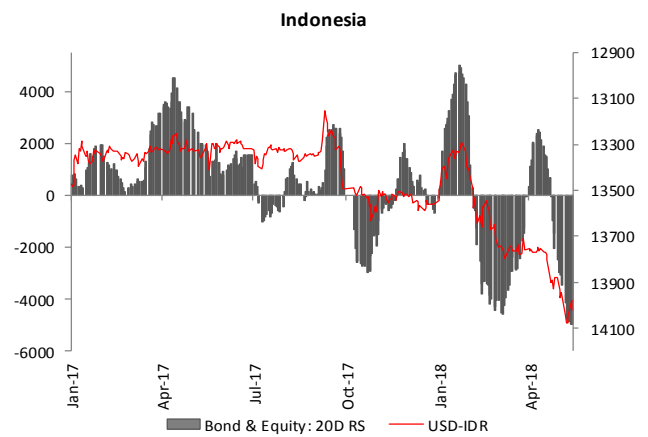
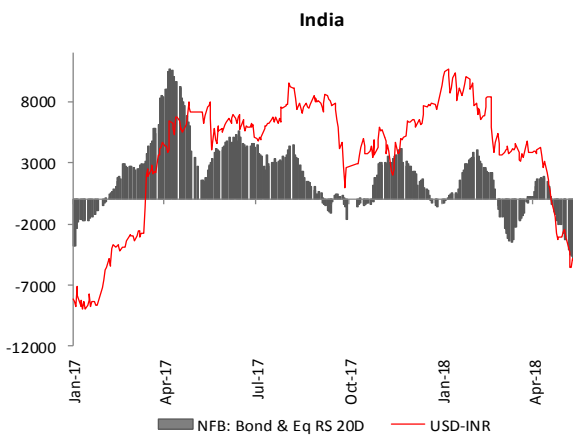
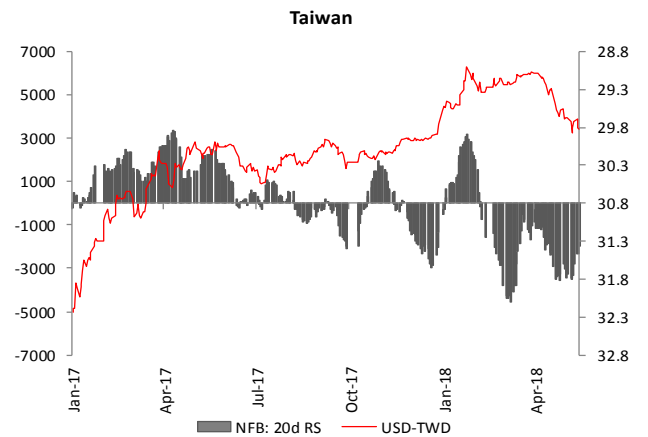
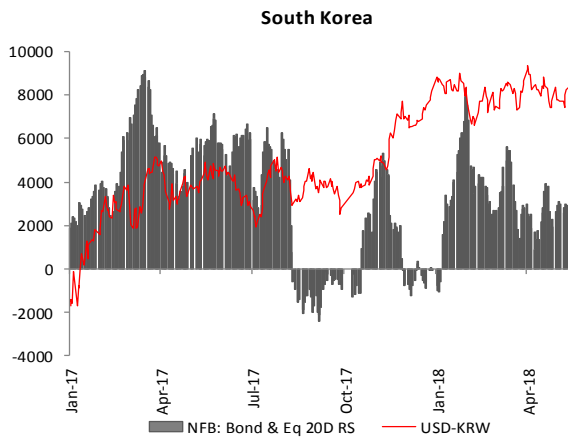
Source: OCBC Bank, Bloomberg

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	↔/↓	Tensions with the North may reassert; net portfolio inflows remain at healthy levels; 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 responsive 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	↔/↑	Unexpectedly wide trade deficit piles further pressure; short term vol premium widening; net portfolio outflows deepening, carry strategy under reassessment; BI appears to be positioning for rate hike today
USD-THB	↔/↑	BOT remains accommodative, keeping rates unchanged in the latest meeting; 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.

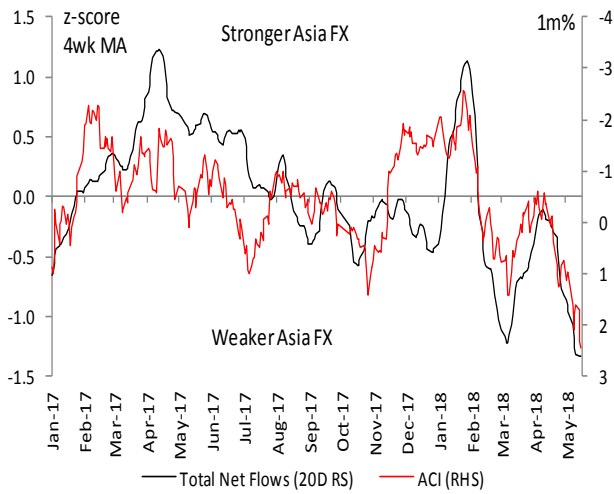
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



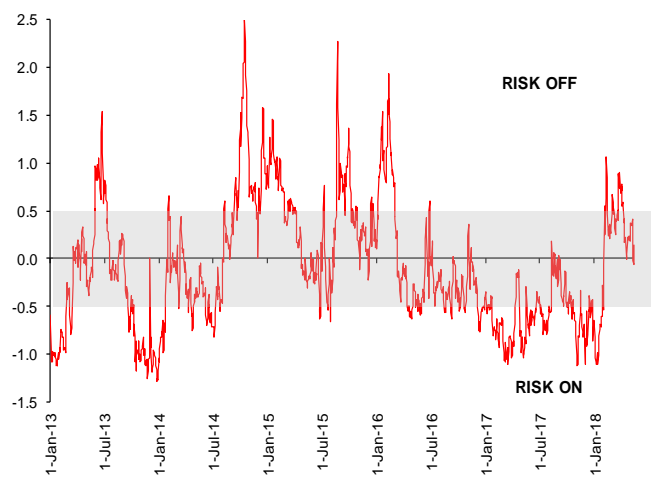
Source: CEIC, Bloomberg, OCBC Bank

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	0.687	0.968	0.109	0.545	0.629	0.903	0.714	-0.597	-0.203	0.934	-0.995
CHF	0.981	0.581	0.942	0.113	0.537	0.672	0.858	0.703	-0.627	-0.258	0.925	-0.976
MYR	0.972	0.728	0.931	0.176	0.599	0.691	0.867	0.832	-0.676	-0.243	0.881	-0.985
CNY	0.968	0.646	1.000	-0.032	0.352	0.531	0.887	0.638	-0.457	-0.090	0.973	-0.952
SGD	0.968	0.712	0.941	0.140	0.504	0.588	0.901	0.720	-0.570	-0.156	0.933	-0.972
TWD	0.952	0.705	0.927	0.122	0.441	0.592	0.920	0.729	-0.548	-0.141	0.894	-0.955
THB	0.950	0.666	0.896	0.318	0.566	0.721	0.843	0.847	-0.705	-0.218	0.852	-0.964
IDR	0.938	0.780	0.905	0.130	0.487	0.612	0.854	0.781	-0.529	-0.008	0.863	-0.943
CNH	0.934	0.569	0.973	-0.056	0.349	0.467	0.837	0.547	-0.452	-0.119	1.000	-0.929
INR	0.911	0.818	0.855	0.318	0.598	0.648	0.918	0.836	-0.594	-0.221	0.794	-0.915
JPY	0.903	0.834	0.887	-0.033	0.453	0.416	1.000	0.581	-0.360	-0.068	0.837	-0.888
CAD	0.690	0.552	0.784	-0.435	0.078	0.174	0.709	0.237	0.011	0.285	0.738	-0.635
USGG10	0.687	1.000	0.646	0.053	0.370	0.343	0.834	0.621	-0.161	0.243	0.569	-0.685
KRW	0.553	0.548	0.655	-0.358	-0.272	0.031	0.642	0.199	0.059	0.365	0.640	-0.538
PHP	-0.241	0.428	-0.292	0.310	0.014	-0.214	0.033	0.051	0.177	0.264	-0.291	0.220
AUD	-0.935	-0.670	-0.950	0.138	-0.389	-0.408	-0.912	-0.511	0.361	0.034	-0.916	0.910
NZD	-0.961	-0.794	-0.913	-0.122	-0.584	-0.584	-0.955	-0.712	0.524	0.193	-0.865	0.954
GBP	-0.976	-0.608	-0.929	-0.111	-0.593	-0.683	-0.851	-0.708	0.617	0.245	-0.901	0.965
EUR	-0.995	-0.685	-0.958	-0.178	-0.573	-0.660	-0.888	-0.751	0.645	0.244	-0.929	1.000

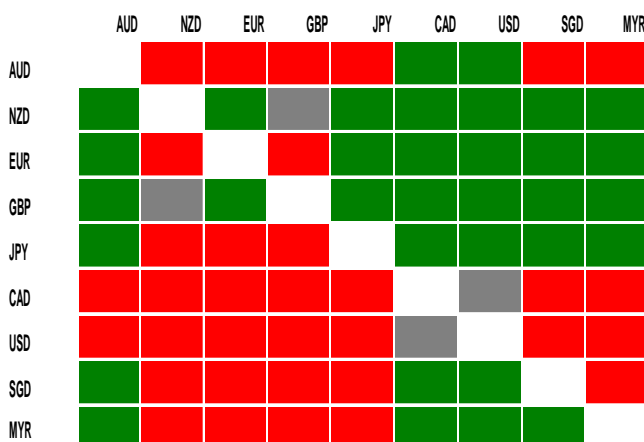
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1764	1.1800	1.1824	1.1900	1.2021
GBP-USD	1.3451	1.3500	1.3554	1.3560	1.3600
AUD-USD	0.7435	0.7500	0.7542	0.7600	0.7639
NZD-USD	0.6851	0.6900	0.6916	0.7000	0.7146
USD-CAD	1.2700	1.2746	1.2760	1.2800	1.2826
USD-JPY	110.00	110.19	110.22	110.45	110.60
USD-SGD	1.3300	1.3377	1.3390	1.3400	1.3481
EUR-SGD	1.5799	1.5800	1.5832	1.5900	1.6075
JPY-SGD	1.2100	1.2142	1.2148	1.2200	1.2270
GBP-SGD	1.8100	1.8130	1.8149	1.8200	1.8383
AUD-SGD	0.9980	1.0000	1.0099	1.0100	1.0112
Gold	1285.70	1290.31	1291.80	1300.00	1305.49
Silver	16.01	16.30	16.32	16.40	16.49
Crude	66.50	71.70	71.75	71.80	71.92

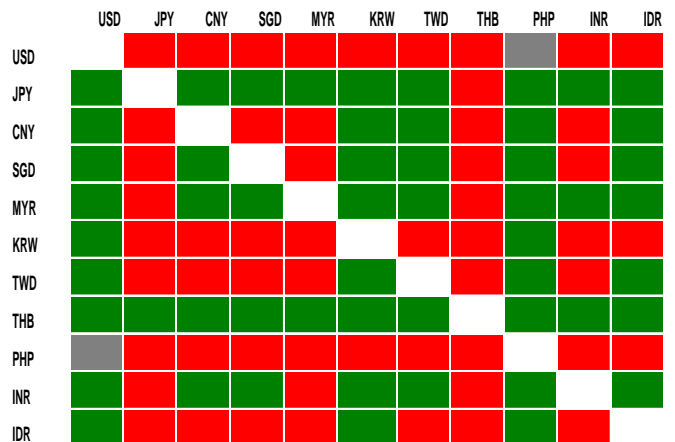
Source: OCBC Bank

G10 FX Heat Map



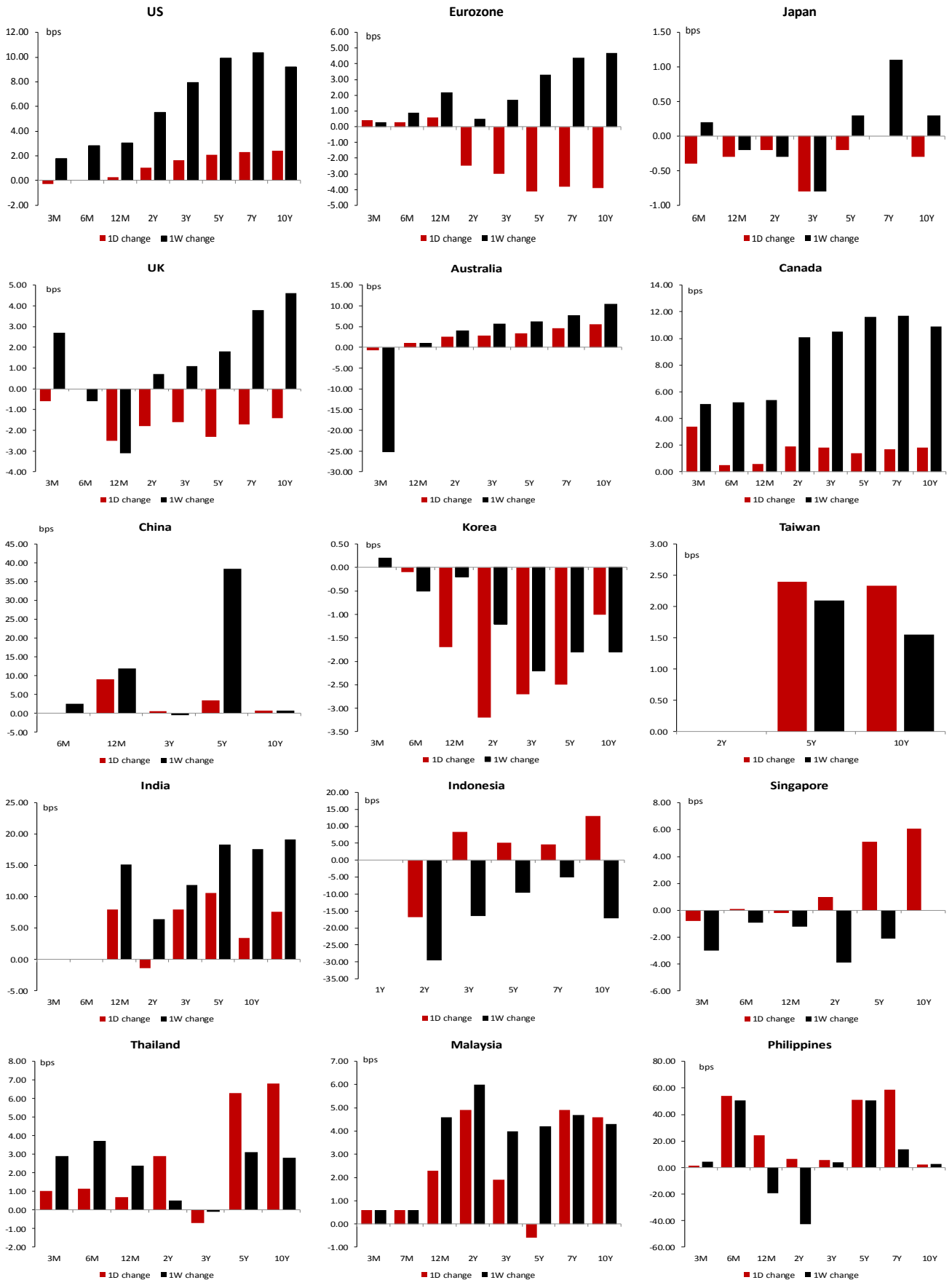
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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